

# PLANNING & BUILDING CONTROL TODAY

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## IN THIS ISSUE

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## Verification of BIM Level 2 capability

Training solutions that help underpin the BIM curve



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# Introduction

Welcome to the July 2016 edition of PBC Today. As I write this, we are just one week on from a referendum result that has plunged the country into political turmoil. Right at this moment, the Tories and Labour are in political meltdown as they try to adjust to the new landscape in which the UK now lies – a UK that is to leave the EU – whatever that may mean.

For the construction industry, there are positives and negatives, and a whole lot of uncertainty. We may see more UK construction firms investing in British products and the real estate market in central London is also expected to see the benefits of an exit. However, we have already seen a skills shortage in the sector, so now there is even greater concern that we could see a more damaging shortfall in workers as our migrant workforce is under threat. Brian Berry of the FMB has urged the government to “ensure that the free-flowing tap of migrant workers from Europe is not turned off”.

For now, we are still part of the EU, and the construction sector needs to show resilience to the inevitable changes in the face of existing challenges, including those currently affecting the lack of housing.

We open this edition with the first of a two-part article from Dr Christian Hilber, Associate Professor of Economic Geography at the London School of

Economics discussing the UK’s serious housing affordability crisis. He argues that the UK planning system has serious flaws and delivers benefits only at excessively high costs which mainly hurt the young. He provides evidence to support the argument, and will provide three proposals for reform and provide a glimmer of hope for the UK planning system in our next edition in October.

I would also like to draw your attention to an article from David Edwards, Director at Place-Make, who provides his thoughts on DCLG’s second wave of garden settlements. He believes that it hits the right notes but still falls short on specifics that will guide and inform stakeholders to deliver proposals that will adhere to DCLG’s vision of a garden village or a garden town. It’s certainly an interesting read.

Further on in this edition, we again have a wealth of articles from our experts that examine the successful implementation of BIM, the latest in some of the issues affecting the building control sector, and how energy efficiency is being addressed in our buildings. As is always the case, there is too much to highlight here, so please do read on and respond with any comments you may have. ■



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# The UK planning system – fit for purpose?

**In the first of a two-part article discussing the British planning system, Christian Hilber, Associate Professor of Economic Geography at the London School of Economics, argues that the UK planning system has serious flaws and delivers benefits only at excessively high costs, mainly hurting the young...**

There is no denial: the UK faces a serious housing affordability crisis. This crisis is not a short-term phenomenon, nor the result of a financial bubble. The crisis has been brewing for several decades. Over the last 45 years, house price growth in the UK has been faster in real terms than in any other OECD country and has far outstripped earnings growth. Normally when demand is rising, construction booms as well and that eases price growth. This has not happened in the UK; construction of new housing has been decreasing more or less steadily since the late 1960s from 353k units in 1968 to 118k units in 2014, leading to a very substantial and ever-growing housing shortfall. Not only that; newly built homes are also about 40 percent smaller than in similarly densely populated European countries.

In the Greater London Area (GLA) the problem is particularly acute. To illustrate this, the average house price in the GLA has gone up by £65.2k year-on-year since March 2015. The latest average household income estimate for the capital for 2013 is £51.8k. Put differently, last year, the average London homeowner earned more from capital gains than a renter from working all year long. It is, therefore, no surprise that young adults without wealthy parents are increasingly priced out from getting onto the owner-occupied housing ladder. Renting in the private sector is similarly unaffordable, so the young – even the highly skilled – increasingly have no other option but to stay at their parents' home longer or leave the city. Consistent with this, the share of those employed in inner London working in professional scientific, research, engineering and technology jobs has fallen since 2011, hurting the capital's productivity<sup>1</sup>. The housing affordability crisis is an economic as well as a social problem.



**Christian Hilber,  
Associate Professor of  
Economic Geography**

## **Tight local planning constraints push up house prices**

Longstanding UK evidence, summarised in the Barker Review (2003)<sup>2</sup>, demonstrates that housing supply is extremely unresponsive to changes in demand. That is if real earnings and population grow over time, construction hardly responds, causing house prices to rise markedly in order for the housing market to clear. Long-run supply constraints are the only plausible explanation, but what kind of constraints? Barker suggested that the rigid planning regime may be a likely candidate. Others hypothesised that geographical and physical constraints are to blame.

In a recent study – published in the March 2016 issue of the Economic Journal<sup>3</sup> – my co-author, Wouter Vermeulen and I rigorously tested these conflicting hypotheses. Employing methods that allow us to establish causal effects rather than just correlations, we explored the impact on house prices of three different types of local supply constraints: (i) planning induced constraints, (ii) scarcity of developable land and (iii) topographical constraints.

Our evidence is strongly supportive that the planning regime in England is the main cause of the excessively

**“The larger British cities are surrounded by enormous green belts that are effectively sacrosanct from residential development, thus preventing growth in a horizontal direction.”**



high house prices, particularly in the GLA and the south-east of the country. Our estimates imply that house prices in England would have increased by about 100% less in real terms between 1974 and 2008 if, hypothetically, all regulatory constraints were completely relaxed. More pragmatically, if the south-east (the most tightly regulated English region) had the regulatory restrictiveness of the north-east (less regulated but still restrictive by world standards) house prices in the south-east would have been roughly 25% lower in 2008 and perhaps 30% lower in 2015. Topographical constraints also matter in a statistical but not in a quantitative sense. Finally, the effects on house prices of constraints due to the scarcity of developable land are mainly confined to highly urbanised areas such as the GLA, but in these locations, they are economically important. In a nutshell, house prices in London would still be fairly high by world standards even if regulatory constraints were relaxed, but housing would be substantially less unaffordable than today.

Tight planning constraints do not only push up house prices. In conjunction with business cycles, they also amplify price volatility, thereby creating systemic risks. Moreover, regulatory constraints tend

to be tighter and more binding in more desirable places such as the GLA, Oxford or Cambridge, implying that housing is built in the ‘wrong’ places; far too little housing is produced in the most successful, most productive cities where demand is strongest. Evidence for the United States suggests that lowering regulatory constraints in high productivity cities like New York, San Francisco and San Jose to the level of the median US city would increase production by about 9.5%<sup>4</sup>. The ballpark figure may be similar for the UK.

### **Weighing the benefits and costs**

Planning induces both benefits and costs. There are considerable potential benefits in the form of correcting market failures such as monopoly power, externalities and lack of provision of public goods. For example, planning has the potential to solve the holdout problem in land assembly for transport infrastructure. It may prevent excesses of urban sprawl and may protect important views on landmarks and historic buildings. Planning also ensures the provision of public parks as well as the preservation of natural habitats and cultural heritage.

The trouble with the UK planning system is that it often prevents, contains, preserves and protects



even if no market failure is apparent, and with complete disregard to any costs that may outweigh the benefits of the intervention. One example to illustrate the point about market failure is London's green belt. The green belt contains areas of outstanding natural beauty that ought to be protected. However, it also contains heaps of intensive agricultural land with little environmental or amenity value near existing developments with transport infrastructure. There is a strong case to permit housing on such land.

An example to illustrate the point that the planning system disregards costs is the view corridor to St. Paul's Cathedral from King Henry the VIII's Mound in Richmond Park. This corridor was established in 1710 – when the St. Paul's Cathedral was by some margin the tallest building in the country and the economic costs of view corridors were negligible. The protected vista frames the cathedral through a special gap in a holly hedging from a distance of over 16 kilometres. While this view is certainly enjoyable for those living nearby or for hikers, it arguably imposes an astronomic and ever growing economic 'opportunity cost': the protected vista prevents the construction of any tall building throughout the corridor that would obstruct the view. Worse, it also prevents tall construction in the backdrop of the cathedral, limiting development around Liverpool Street Station, one of the most productive hotspots on earth. The protected vista, through limiting supply, raises housing costs of all Londoners and adversely affects the capital's productivity.

**“If desirable cities such as London cannot grow physically over a longer time period, and as long as demand – mainly real earnings – grows and expectations are positive, house prices must rise markedly.”**

#### **Key flaws in the current system**

More broadly, three key flaws can be identified in the UK's planning and tax systems. The first is the fact that the UK operates a so-called 'development control' system, which is inherently geared towards containing development. In contrast to a rule-based zoning system – in use throughout most of the rest of the developed world – the UK system stipulates that any change of 'use' of any parcel of land requires development control permission granted at the local

level. Permissions are granted by local planning authorities, which invoke a consultation process that gives significant weight to NIMBY pressures.

The trouble with the development control system is, apart from giving weight to NIMBYs, that it is complex, substantially increases the cost of the development process and creates a great degree of uncertainty during the planning stage. The lengthy and uncertain process delays and significantly reduces the viability of projects. The viability is further threatened by Section 106 agreements that require complicated negotiations between local authorities and developers and imply a further degree of uncertainty for the latter.

The second key flaw – the lack of fiscal incentives at the local level to permit residential development – relates to the first one. Local authorities that grant development control permission retain little tax revenue. This is made worse because of the central government grant equalisation system, which in the medium-term more or less eliminates any revenue gain for local authorities that permit more development relative to those that are more restrictive. Any increase in the local tax base is effectively equalised away by the central government. In other words, local authorities derive few benefits from permitting development, yet they face the costs of additional infrastructure that development makes necessary – local roads, schools and the like. These costs are rarely met fully by the central government. Worse, local residents bear the main burden associated with increased local congestion or pressures on public services such as local schools. This increases local opposition often beyond those neighbours who are immediately adversely affected.

The third key flaw of the UK planning system is the fact that since the Town and Country Planning Act of 1947, residential development has increasingly been prevented 'in all directions'. The larger British cities are surrounded by enormous green belts that are effectively sacrosanct from residential development, thus preventing growth in a horizontal direction. (Moreover, green belts prevent the delivery of the type of housing – single-family owner-occupied homes – that is most desired by large fractions of the population, but is arguably in shortest supply.) Height restrictions and view corridors prevent physical development in a vertical direction. In fact even digging below ground is often not a viable option to

gain living space. Height restrictions constrain tall buildings in nearly all high-demand UK cities, particularly of course large parts of London. Also, protected view corridors prevent the construction of tall buildings in some of the most productive inner city areas. Lastly, preservation policies (e.g. Conservation Areas and Listed Building designations) limit redevelopment of existing structures at higher density or better adapted to current preferences. It is this combination of rigid policies ‘in all directions’ that explains why supply is so incredibly unresponsive in many British cities. If desirable cities such as London cannot grow physically over a longer time period, and as long as demand – mainly real earnings – grows and expectations are positive, house prices must rise markedly. (Brexit may change this. However, if house prices fall as a consequence of a fall in real earnings and an increase in unemployment, housing may not become more affordable.)

**Why Help to Buy does not actually help to buy**

The fact that housing supply in the UK is so extremely unresponsive also has important consequences for the effectiveness of housing policies, including the Government’s flagship policy Help to Buy (HtB). The various HtB schemes are intended to stimulate housing demand, and their aim is to generate new housing supply and higher homeownership attainment. However, in a setting where housing supply does not respond to demand-side stimuli, the only direct effect of the policy is to increase house prices.

The effect of HtB on house prices has not yet been rigorously quantified in academic research. However, house price and construction statistics seem strongly suggestive that HtB did not have the intended effects. According to Nationwide, following the announcement of the first HtB schemes, house prices in London shot up by 25.8% between 2013q2 and 2014q2. A residential building boom failed to emerge, and homeownership attainment continued to decline. The government may have been well intended in helping young households to get on the owner-occupied housing ladder, yet it has likely achieved the opposite. How is this possible? If the HtB subsidies indeed had the main effect of raising prices and through that the required mortgage deposits, this arguably made it even more difficult for young liquidity constrained households to afford a decent home, despite HtB. This proposition is consistent with evidence from the US, which reveals that the capitalisa-

tion of mortgage-related subsidies into house prices decreased homeownership attainment in tightly regulated cities<sup>5</sup>. To make things even worse, the HtB schemes may also have created a systemic risk in that the government (and indirectly the taxpayer) assumes most of the risks associated with the guarantee schemes, with the remaining risk being assumed by the marginal homebuyers – those who stretched themselves to obtain a loan and could not have obtained one in the absence of the scheme.

**“The trouble with the UK planning system is that it often prevents, contains, preserves and protects even if no market failure is apparent, and with complete disregard to any costs that may outweigh the benefits of the intervention.”**

In the next edition of PBC Today, Christian Hilber will offer three proposals for reform and provide a glimmer of hope for those interested in more affordable housing. ■

*This article builds on, and is in small parts, identical with my oral and written evidence to the Treasury Committee.*

- <sup>1</sup> The Economist (2016), Living in London – The grip tightens: Faulty land-use regulation is throttling the capital, 30th of April, pp. 27-28.
- <sup>2</sup> Barker, K. (2003) Barker Review of Housing Supply: Securing Our Future Housing Needs: Interim Report – Analysis, London: HMSO.
- <sup>3</sup> Hilber, C.A.L. and W. Vermeulen (2016) The Impact of Supply Constraints on House Prices in England, Economic Journal, Vol. 126, No. 591, pp. 358-405.
- <sup>4</sup> Hsieh, C.-T. and E. Moretti (2015). ‘Why Do Cities Matter? Local Growth and Aggregate Growth’, NBER Working Paper No. 21154.
- <sup>5</sup> Hilber, C. and T. Turner (2014) The Mortgage Interest Deduction and Its Impact on Homeownership Decisions, Review of Economics and Statistics, Vol. 96, No. 4, pp. 618-637.

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