Capital cities

How the planning system creates housing shortages and drives wealth inequality

Anthony Breach
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Executive summary

The housing shortage in our cities, the North-South divide, and rising wealth inequality are three of the greatest challenges facing Britain today. Public debate has until now thought about these problems as separate issues. But addressing them requires understanding the connections between all three, and how political choices are deepening these inequalities.

As the housing crisis in Britain's most prosperous cities has grown, so has the wealth of their homeowners. While local demand for housing is driven by the strength of the local economy, supply, in contrast, does not respond to demand or economic performance. The housing shortages caused by these planning failures push up house prices in growing cities. This drives housing equity growth for a few existing homeowners, fuels increasing housing costs for renters and first-time buyers, widens regional inequality, and destabilises the national economy and the financial system.

This report explores the relationship between urban economies and housing wealth in England and Wales, and finds that:

- **Homeowners in cities in the Greater South East have seen much larger gains in housing wealth than other homeowners.** While average housing equity per house in cities in the rest of England and Wales has increased by £23,000 from 2013 to 2018, in the urban Greater South East it grew by £103,000. In Burnley, average housing equity increased by £5,000, compared to £122,000 in London. Total housing equity across the rest of England and Wales increased by £374 billion from 2013 to 2018, while in the Greater South East it increased by £842 billion.

- **As housing wealth for homeowners in the Greater South East grows, so do rents for private renters.** The inability of housing supply to respond to demand in prosperous cities drives their increasing house prices, and makes homeowners wealthier at the expense of renters. Homeowners in cities in the Greater South East are pulling away not just from homeowners in the rest of the country but also from their neighbours in private renting. As a result, cities with higher average housing wealth have lower rates of home ownership.

- **The planning system makes inequality worse and threatens financial stability.** While demand for housing and mortgage lending are linked to the strength of the local economy, the supply of new homes is not. Our planning system's rationing of land creates housing shortages in these cities with the strongest economies. This political choice inflates the value of houses and so gifts increases in housing wealth to these cities' homeowners, deepens inequality and the North-South divide, and means that looser monetary policy struggles to finance the supply of new homes when lending becomes cheaper.

Addressing Britain's growing housing wealth inequality therefore requires:

- **Planning reform to allow housing supply to respond to local demand and end housing shortages in cities.** The planning system should shift from a discretionary, permission-based system towards a flexible zoning system that allows most development by right, as in Japan or parts of the USA. In principle, once a local plan is in place, the planning system should allow people to build new homes unless the local authority explicitly says 'no', rather than forbidding any development until the local authority grants permission. By linking the supply of new homes to local demand, growth in housing wealth would stabilise over the longer term. Allowing more development by right would also reduce the ability of 'Nimby' campaigns to block new homes and increase the wealth of local homeowners.

- **Government promotion of housing wealth should cease, and increases to housing wealth should be taxed.** Decades of policies that have aimed to increase home ownership have failed on their own terms. As a share of private housing, home ownership fell in every city in England and Wales from 1981 to 2011. Policies such as Help to Buy, or allowing millennials to dip into their pension pots to put down a deposit, do not increase home ownership because they do not reconnect local housing supply with housing demand. Instead, they subsidise homeowners by pumping up demand. Government should end these programmes and more effectively tax increases in housing wealth to reduce inequality. This would include abolishing Help to Buy, reforming council tax from its current 1991 valuations in England, abolishing the exemption for private residences in capital gains tax, and reforming stamp duty.

- **Government should explore policies to encourage saving in other asset classes.** If inequality in housing wealth is successfully reduced by supplying more homes in cities with high demand, this will require growth in housing wealth in these cities to slow and for their appeal as an investment to decline. At the macroeconomic level, planning reform may also require a shift in saving behaviour by households from residential real estate to other types of assets, such as equities, bonds, or pensions. This would ensure saving by households generates more equal returns across the country than the current approach of unequal house price growth.

01

Introduction

The housing crisis cannot be understood without considering the economic role of cities. Housing affordability varies dramatically across cities, and is most unaffordable in cities with successful economies. For instance, the average house in Brighton costs 14 times the average annual income, while houses in Doncaster cost on average only five times the average income.

Centre for Cities has previously shown that increasing housing costs and housing shortages cause problems for cities' economic growth and the living standards of their residents.[1] However, if successful economies are seeing rising housing prices, then this suggests that not only are housing costs growing for some residents, but that housing wealth is increasing for others.

Over the course of any real estate business cycle, cheaper credit will mean that house prices increase as the supply financed by new credit lags behind demand, due to factors such as construction, the time it takes to identify and assemble land for development, and the length of the planning process. In a real estate bubble, prices can increase far above long-term demand, and price corrections can be sharp and contribute to wider financial instability.[2]

However, if successful urban economies experience local housing shortages as previous Centre for Cities research has established, then it means housing affordability issues are distinct from, and more structural than, those that emerge during an ordinary business cycle. Rather than adjusting to the cyclical performance of the economy, rents and house prices in high-demand cities with housing shortages would instead permanently increase over the long term. This would imply that local housing shortages have negative consequences for inequality as well as economic stability and growth.

Economic geography is also relevant to our understanding of wealth inequality more broadly. Concern is growing that economic inequalities have become a major social, political, and economic challenge, with the launch of the Deaton

1 Clarke E., Nohrová N. and Thomas E., 2014 *Delivering Change: building homes where we need them*, London, Centre for Cities

2 Emmons W., Kent A. and Ricketts L., 2018, *Mortgaging Household and Global Financial Stability: To What End?*, St. Louis, Center for Household Financial Stability, Federal Reserve Bank of St. Louis

Review earlier this year.[3] Experimental analysis by the ONS has established that property wealth is more unequally distributed across the regions than private pensions and physical wealth, and has a similar geographic distribution to financial wealth, which is much more liquid.[4] Housing wealth has displaced other forms of capital in a number of developed economies since 1948 and has contributed to growing wealth inequality.[5]

This report will set out the geographic patterns of housing equity in England and Wales, explain the relationship between local economies and housing wealth, show how housing shortages shape wealth inequality for people across cities for people, address the role of political choices in the planning and financial systems in amplifying the inequality that results, and conclude with a mixture of recommendations and reflections for policymakers and commentators.

3 Deaton A., 2019 *Inequality and the future of capitalism*, London, IFS

4 ONS 2018, Wealth estimates by region July 2014 to June: 2016 https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/adhocs/008129wealthestimatesbyregionjuly2014tojune2016

5 Rognlie M., 2015 *Deciphering the fall and rise in the net capital share*, Washington DC, Brookings

02

How does housing wealth vary in cities across England and Wales?

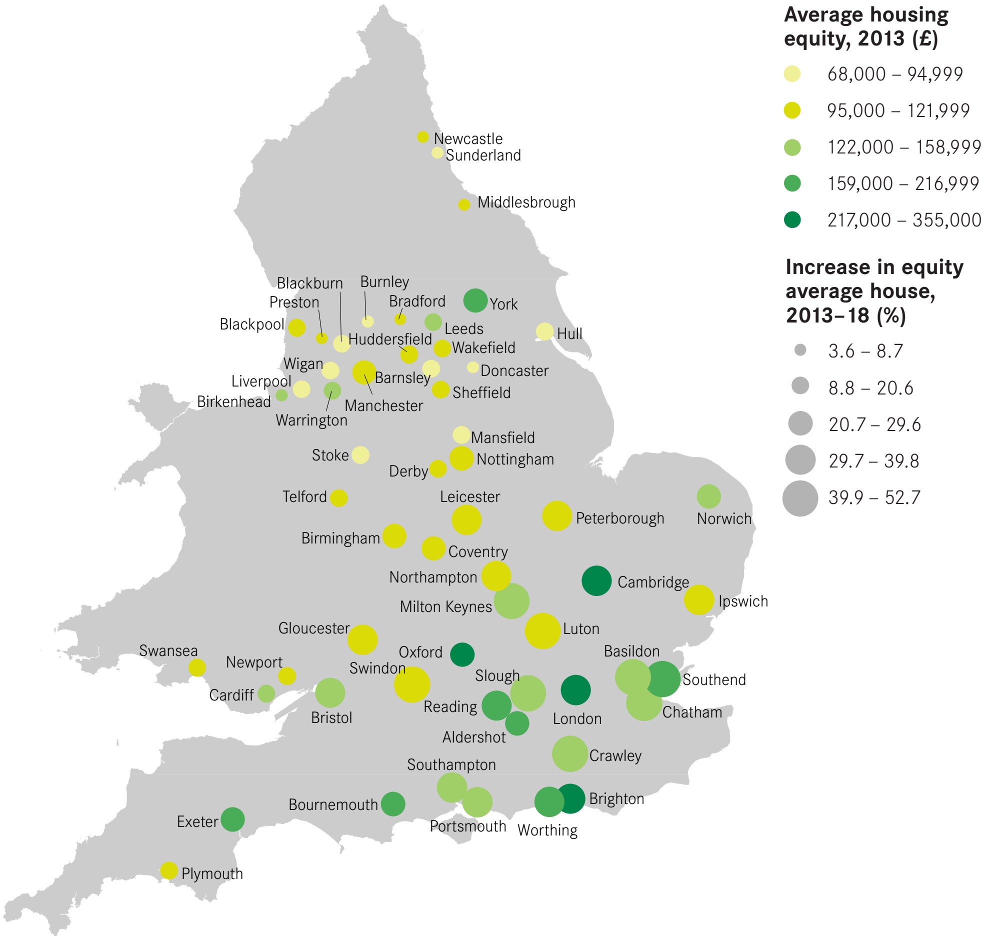
Home ownership is not the same thing as housing wealth. As house prices have such a large range between different cities, the wealth associated with owning a house differs substantially across the country. But to calculate housing wealth and how it has changed in recent years, both prices and mortgage lending by city are needed in order to estimate average equity.

Using mortgage data by postcode from UK Finance, it is possible to look at growth in housing equity per house by city in England and Wales from 2013 to 2018.[6] Figure 1 shows that housing wealth has increased the most since 2013 in cities in the Greater South East.[7] While average housing equity per house grew in real terms by £23,000 (21 per cent) in cities in the rest of England and Wales between 2013 and 2018, in cities in the Greater South East average housing wealth grew by £103,000 (35 per cent). In London, average housing wealth grew by £122,000 (34 per cent).

6 https://www.ukfinance.org.uk/data-and-research/data/mortgages/mortgage-lending-within-uk-postcodes

7 London, the South East of England, and the East of England

Figure 1: Average housing equity 2013 and growth to average equity 2013-18



Source: UK Finance; Dwelling Stock Estimates, ONS; Dwelling Stock Estimates, Welsh Government; Land Registry

This growth in housing wealth is fastest and greatest in cities which already had the highest housing equity. For instance, in Brighton, average equity per house stood at £217,000 in 2013, and has increased by £83,000 in real terms through to 2018, or by 38 per cent. In contrast, in Burnley, average housing equity stood at £68,000, and has grown in real terms by £5,000, or by 7 per cent.

Box 1: Housing equity and methodology

- Housing wealth is measured in this report using equity. For example, if a household owns a house valued at £500,000 and has a mortgage of £400,000 outstanding, then they have accumulated housing equity of £100,000.
- Using total net mortgage data by postcode from UK Finance from Q2 2013 to Q2 2018, which includes 68 to 73 per cent of all mortgage lending in the UK, an estimate for net mortgage lending by Primary Urban Area across England and Wales can be produced. Combining this with mean house price data and total private dwelling stock by each city makes it possible to produce estimates for total equity across the city and average equity per private dwelling.
- This data is not broken down by mortgaged and outright owners, or by looking at homeowners who own more than one residential property. Instead, it considers the amount of housing wealth associated with the average house. Owners who own outright and landlords will, as a result, have higher wealth than this average.
- All prices in this report are in real terms and have been deflated by CPIH in Q2 2013.
- Social housing has been omitted as this report is focused on the accumulation of wealth in the private sector.

Looking at growth in total housing equity city by city in Table 1 reveals stark inequalities. Total housing wealth in London alone increased in real terms by £450 billion, more than every other city combined. In Chatham, total housing wealth increased by a total of £6.4 billion compared to £600 million in Sunderland, a city of a similar size. In 2013 average equity in Slough and in Birkenhead was £147,000 and £122,000 respectively, but by 2018 homeowners in Slough had seen their housing wealth grow by on average £73,000 (50 per cent), while those in Birkenhead had seen growth of just £7,000 (5 per cent).

Table 1: Summary of changes in housing wealth across England and Wales, 2013-18[8]

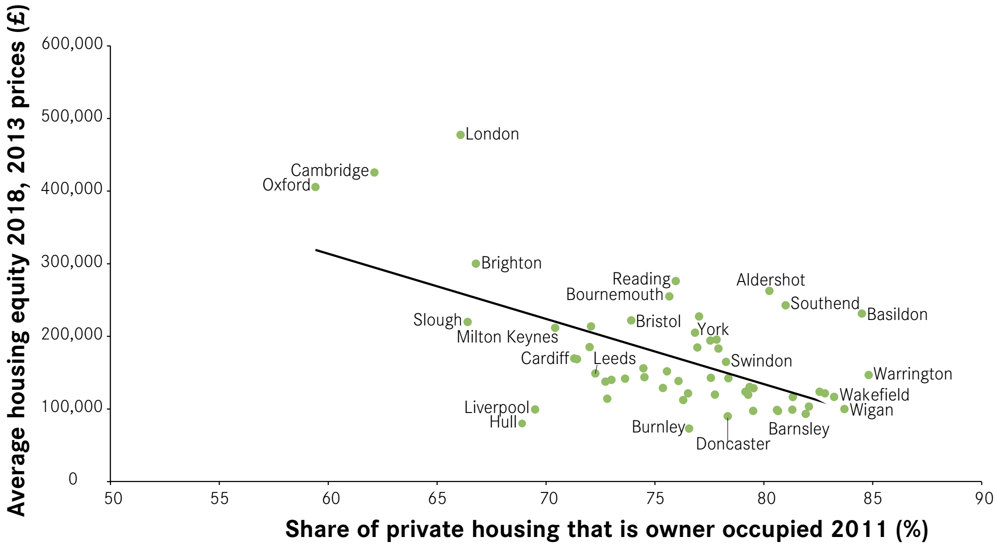
	City	Average housing equity 2018 (£)	Increase in average housing equity 2013-18 (£)	Growth in housing equity 2013-18 (%)
1	London	477,000	122,000	34%
2	Cambridge	426,000	121,000	40%
3	Oxford	406,000	89,000	28%
4	Brighton	300,000	83,000	38%
5	Southend	243,000	76,000	46%
6	Reading	276,000	76,000	38%
53	Bradford	112,000	8,000	8%
54	Birkenhead	129,000	7,000	5%
56	Doncaster	97,000	5,000	5%
55	Burnley	73,000	5,000	7%
57	Middlesbrough	99,000	3,000	4%
58	Sunderland	93,000	3,000	4%
	England & Wales	228,000	49,000	28%

8 A full list of changes in housing equity in cities across England and Wales can be found in the appendix

These differences in wealth between cities are not driven by increases in the number of houses, but by increases in cities' house prices. As a comparison, house prices in Middlesbrough rose in real terms from 2013 to 2018 by 1 per cent and average equity grew by 4 per cent, while in Southend house prices rose by 36 per cent and average equity by 46 per cent.

However, not everyone in expensive cities has benefited from this growth in housing wealth. As Figure 2 shows, in the cities with the highest average housing wealth, and by extension the fastest growth in housing wealth, home ownership is a much less common way to consume housing in the private sector. Private renting is more common in expensive cities like Brighton and Oxford than in cities with lower average housing equity, like Wakefield or Wigan.

Figure 2: Average equity in 2018 versus owner occupation as a share of private housing in 2011



Source: Census 2011, UK Finance; Dwelling Stock Estimates, ONS; Dwelling Stock Estimates, Welsh Government; Land Registry

That home ownership is more common where it is cheaper may seem intuitive, but it means housing wealth and home ownership push in different directions. Not only is the wealth associated with owning a house greater in Cambridge than in Swansea, it is also much less common for households to own this wealth in Cambridge.

03

What has driven growth in housing wealth across city economies?

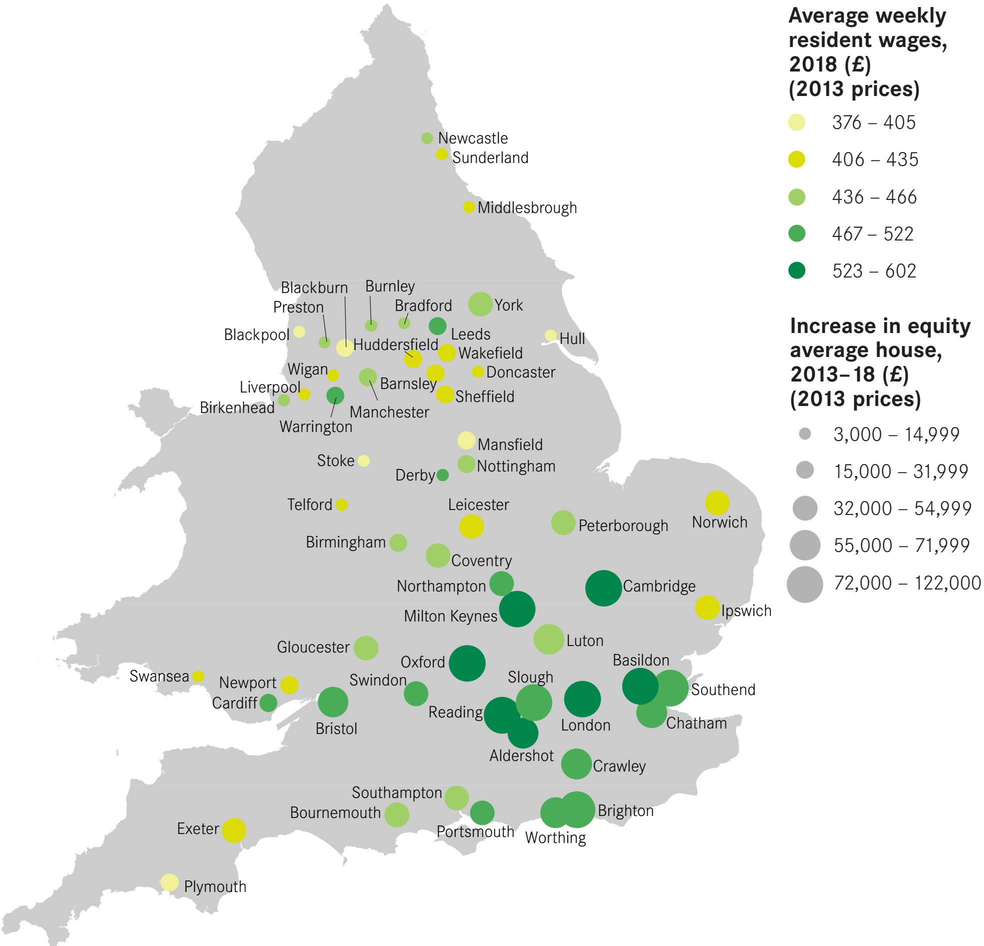
Housing wealth is shaped by not just the high and growing demand for housing in some cities with strong economies, but also the insufficient supply of new homes in these places. And, as this section shows, this divergence in wealth has not resulted directly from cheap lending or monetary policy, but rather from the inability of finance to increase supply in cities with successful economies and high demand for housing.

Housing equity has increased the most where demand has been stoked by strong economies

The economic performance of cities varies across the country. The capacity of cities to provide high wages, highly-productive work, and knowledge shapes the decisions people and firms make about where to locate, and are traded off against costs such as housing and commute times. This economic geography helps determine demand for housing, and thereby where housing wealth grows and who acquires it.

Cities' ability to offer high wages is closely related to their growth in housing equity. This can be seen in Figure 3 as cities which have higher average wages for their residents have seen the greatest increases in housing wealth. For instance, average housing wealth in Oxford grew by £89,000 from 2013 to 2018, and residents' wages in 2018 were £523 a week on average. In Doncaster, average equity grew by £5,000, while weekly resident's wages were £413 on average.

Figure 3: Growth in housing equity and resident wages, 2018



Source: UK Finance; Dwelling Stock Estimates and Labour Force Survey ONS; Dwelling Stock Estimates, Welsh Government; Land Registry

Demand for housing is not the same everywhere. Cities with high resident wages give workers access to many high-paying jobs, which in turn drives demand from people for housing. The characteristics of these cities are not temporary, but are instead caused by longer-term factors such as the skills available in their labour market, their size, and how knowledge intensive their exporting firms are.[9]

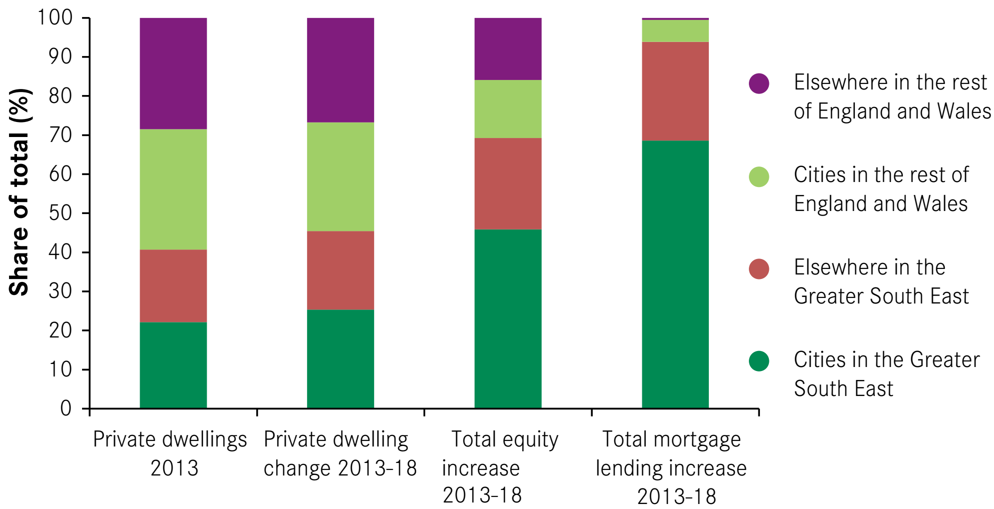
The supply of new homes is not linked to cities' demand for housing

When demand to live in a city grows, in the short term house prices will increase and, by extension, so will housing equity for local homeowners. Stabilising local prices and reducing housing wealth inequality over the longer term requires supply to respond and increase in certain cities as their demand and prices grow.

9 Exporting, or 'tradable' sectors in this definition are those firms which sell to markets in other parts of the country and the world, such as manufacturing or software firms, as opposed to 'local services' which sell to large nearby markets, such as cafes or dentists. The ability of cities to provide and attract in more skilled and more knowledge intensive exporting work is important for determining local economic performance and wages. See: Clayton N, 2017 Trading Places 2 London, Centre for Cities

Although demand for housing varies considerably across the country, the supply of new homes does not. It can be seen in Figure 4 that new housing from 2013 to 2018 has largely replicated the existing distribution of housing – 40 per cent of existing homes in 2013 were in the Greater South East, as were 45 per cent of all new homes from 2013 to 2018. But the Greater South East has seen 69 per cent of all of the growth in housing wealth in England and Wales since 2013, or £842 billion, because demand to live in the Greater South East is much higher than this supply.

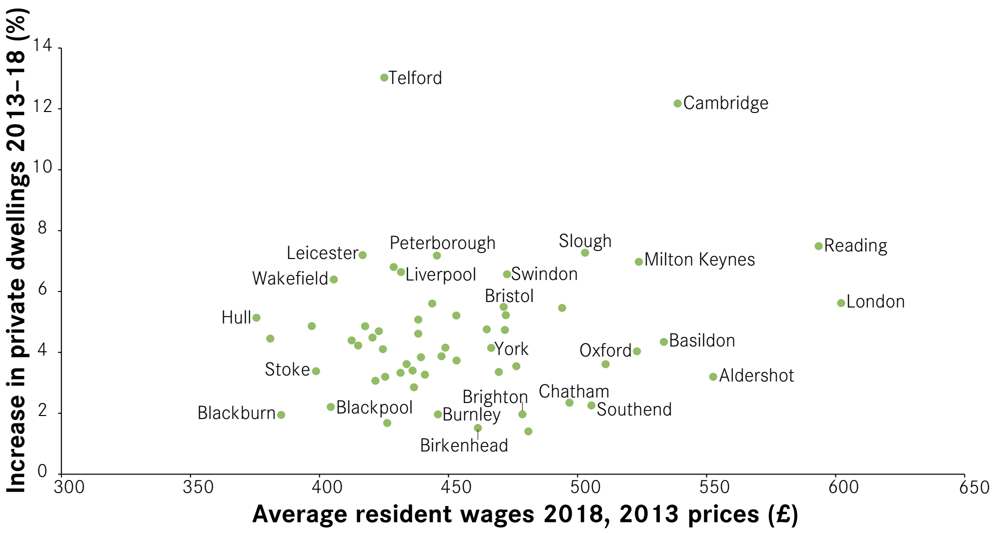
Figure 4: The housing market in England and Wales



Source: UK Finance; Dwelling Stock Estimates, ONS; Dwelling Stock Estimates, Welsh Government; Land Registry

The reason homeowners in the Greater South East capture this wealth is that, while demand is shaped by the performance of urban economies, the supply of new homes is not. Looking at Figure 5, it is clear that the strength of the local labour market bears no relationship to the amount of new homes that cities build. While cities with high wages and equity, like Cambridge and Milton Keynes, are building lots of new homes, others like Southend, Aldershot, and Brighton build far fewer than cities with lower resident wages like Wakefield or Telford.

Figure 5: Housing supply and city economies



Source: Dwelling Stock Estimates, Labour Force Survey ONS; Dwelling Stock Estimates, Welsh Government

Rather than being shaped by the factors that influence demand for housing, the supply of new homes in cities is unpredictable. The consequence of this is that supply struggles to adjust house prices downwards in these cities when demand grows. As a result, housing wealth in these cities with high resident wages grows far faster than in other cities, not just because of the strength of the local economy but also due to the scarcity of new homes.

Finance has not driven these divergences in housing wealth

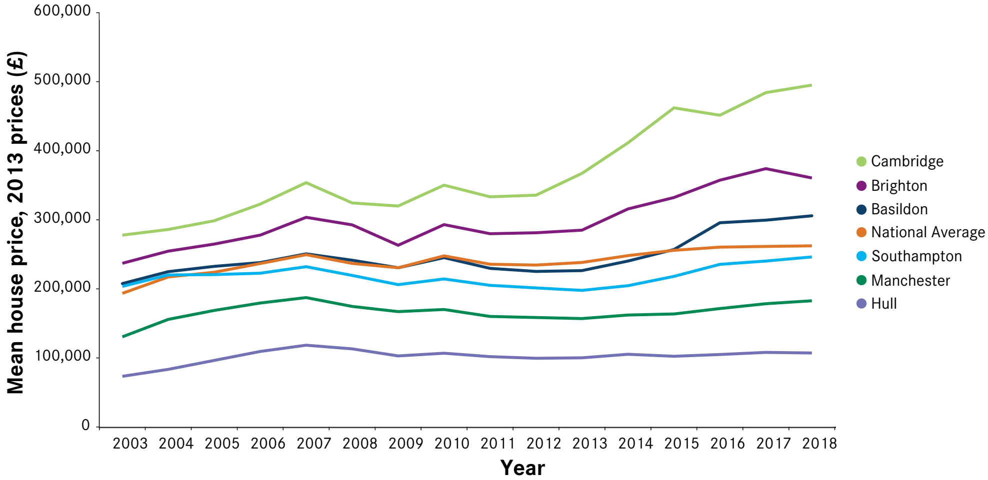
A commonly heard explanation for the current state of housing affordability is that cheap finance and 'speculation' artificially boost demand.[10] The role of city economies in these arguments is typically overlooked.

If cheaper lending were the sole cause of increasingly-expensive housing then, as credit becomes cheaper nationally and globally due to British and US monetary policy, we would expect to see house prices and housing wealth grow everywhere in the UK at a similar rate.

Although this may have been the case before the global financial crisis in 2008-9, it has not been the case since. Prior to that crisis, Figure 6 shows that real house prices varied between cities, but that the rate of increase was roughly similar in cities across England and Wales. Since the global financial crisis, we have seen far more divergence. While cities with struggling economies like Hull have barely seen a recovery in real prices since 2009, cities with high resident wages like Brighton and Cambridge have experienced large increases to house prices and thereby housing wealth.

10 For instance, see Blakeley, G. 2018, *On Borrowed Time: Finance and the UK's current account deficit*, London, IPPR; and Mulheirn, I. 2017 Is there really a housing shortage? Parts I-III, London, Medium.com

Figure 6: House prices across selected cities since 2003

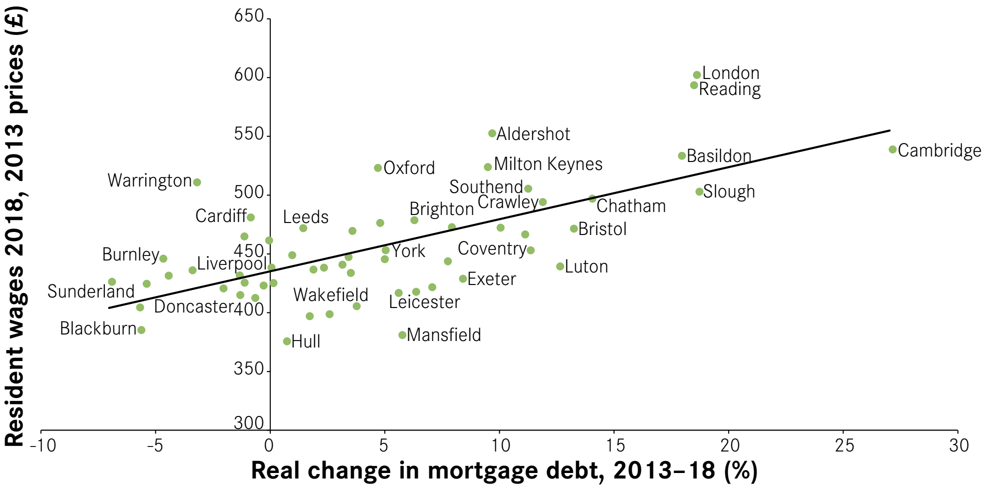


Source: Land Registry

This does not mean that house prices will rise forever in cities with high wages, as cyclical effects on prices still matter. In some expensive cities, it can be seen in Figure 6 that house price growth in real terms has stagnated or started to fall in the period from 2016 to 2018. But the large price increases seen in these cities cannot be solely cyclical, because they have diverged from other cities which have experienced similar cyclical conditions.

Rather than increasing demand across the entire economy, contemporary finance flows to cities with high housing demand. Figure 7 indicates that real net mortgage lending has increased the most from 2013 to 2018 in cities that have high resident wages, and therefore higher demand for housing.

Figure 7: Mortgage lending's association with the local economy



Source: UK Finance; Labour Force Survey, ONS

Cheaper credit does play a role in increasing high house prices, and thereby housing wealth, in the short term as it can quickly increase demand while supply lags behind. But cities like Basildon, London, Reading and Slough, which have seen some of the largest increases in mortgage lending, also have some of the highest resident wages in the country and therefore high demand.

In contrast, some cities with weaker economies and small increases in housing equity, such as Sunderland and Doncaster (£3,000 and £5,000 respectively), have seen their total mortgage lending fall. Housing wealth is not growing in these cities because demand is high, but partly because homeowners are paying down outstanding mortgage debt. In effect, these cities are still deleveraging from the global financial crisis.

City economies drive geographic patterns in mortgage lending and thereby credit's impact on house prices and wealth. Mortgage lending's association with resident wages means finance is amplifying housing demand specifically in cities with successful economies. But housing supply in these cities is unresponsive to changes in demand or prices. This increases the volatility of finance's influence on their house prices in the short term due to their exposure to sudden changes in the availability of lending. Cheaper lending then struggles to finance new supply and thereby reduce house prices and housing wealth in these cities in the longer term.

As the supply of housing in cities has no relationship to economic geography, this means that supply cannot respond to local demand for housing, even when lending becomes cheaper. This creates structural housing shortages in cities with high wages, with negative consequences for housing costs, financial stability, and wealth inequality.

04

How do housing shortages drive inequality between and within cities?

The outcomes above have distributional impacts. Specifically, they redirect wealth to the owners of homes in high-demand cities. This not only increases inequality between homeowners in different cities, but it also increases housing costs for renters in those expensive cities.

Housing shortages in expensive cities worsen inequality between homeowners in the North and South

Provided they are not in negative equity, homeowners all possess some housing wealth. For example, homeowners in Brighton and Hull each have considerable housing wealth – on average £300,000 and £73,000 per house in 2018 respectively. This wealth can grow in two ways. Either mortgaged households can pay off their mortgage, or the price of their house can increase.

Homeowners experience a 'forced saving' effect when they consume housing by paying off their mortgage as they are building up their housing equity.[11] And owning a house acts as a savings vehicle. This applies to all mortgaged homeowners who are not on an interest-only mortgage (with the size of this forced saving being larger in places where housing is more expensive).

In contrast, homeowners in successful city economies are not just experiencing the forced saving effect by paying down their mortgages, they are also seeing the price of their house increase because housing supply in expensive cities bears no relationship to local demand. This scarcity is inflating the value of their asset, gifting them an increase in wealth.

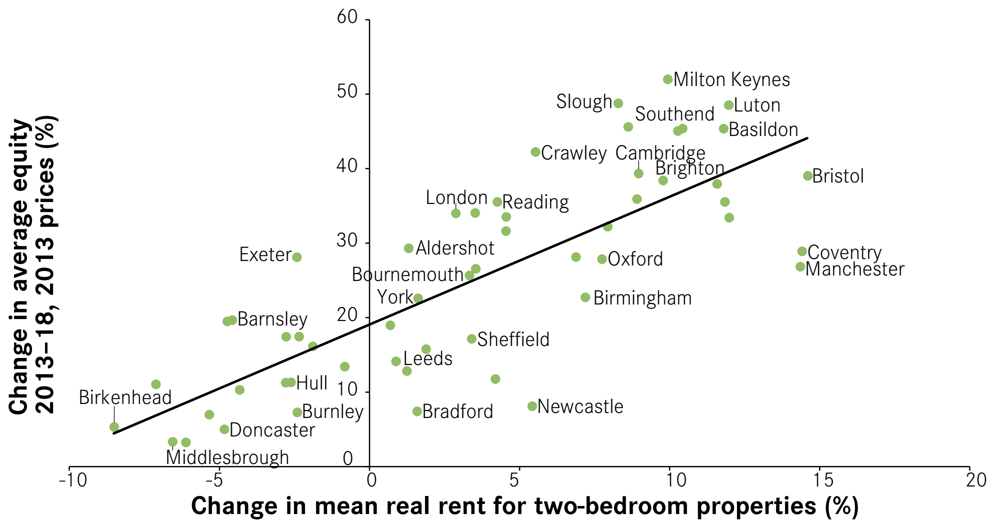
As a result, housing shortages in the Greater South East make regional inequality between homeowners worse. If supply was able to respond to price signals and increases in expensive cities, then housing wealth for homeowners in expensive cities would stabilise. Slower price growth in expensive cities would reduce growing inequality between homeowners in these cities and the rest of the country.

11 Schuetz, J. 2019, *Renting the American Dream: Why home ownership shouldn't be a prerequisite for middle-class financial security,* Washington D.C., Brookings

Housing shortages sharpen inequality for renters, who tend to be younger

Growth in homeowners' wealth is linked with rising rents. Figure 8 shows that growth in average housing wealth in cities is associated with growth in cities' rents. This means that renters in cities with rapid rent growth are not just becoming poorer relative to their landlords, but that they are becoming poorer relative to their homeowning neighbours. Not only do these homeowners have a hedge against the increasing housing costs that renters are facing in the city, but they are also pulling away from renters thanks to the rapid growth in their housing equity.

Figure 8: Rents' relationship to housing wealth



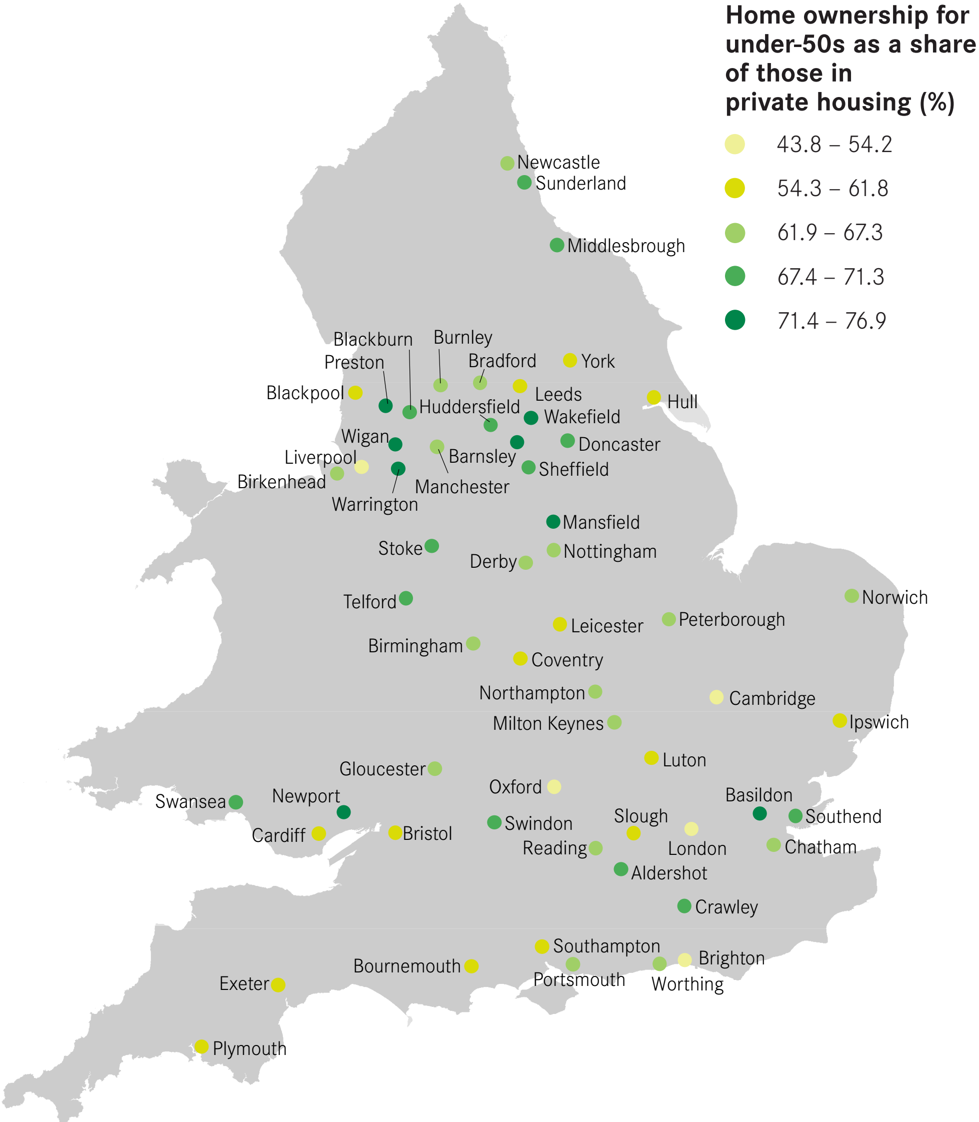
Source: UK Finance; Rents ONS; Land Registry

Due to the connections between high housing wealth, rents, and wages, renters face a dilemma. Either they can earn high wages but pay higher rents and face expensive home ownership in productive cities, or they can experience lower rents and cheaper home ownership in return for lower wages in cities with weaker economies and slower housing equity growth. Regardless of what they choose, renters in 2019 find it difficult to build wealth due to rising rents, even if they try to invest in an alternative asset class like equities or bonds.

These costs of higher rents and decreased housing affordability in high-income cities fall mostly on younger households. Figure 9 shows how the differences in home ownership across England and Wales are driven by the under-50s, with more expensive and higher-wage cities in the Greater South East tending to have lower home ownership for such households. In contrast, there is no relationship between local economies and home ownership for people aged 50 or older, as they are likely to own a home wherever they live.[12]

12 At the time of the Census in 2011

Figure 9: Home ownership for under-50s as a share of those in private housing, 2011



Source: ONS Census 2011

Across all cities, home ownership as a share of private housing is higher for people aged 50 or over than it is for those who are younger. While the highest home ownership rate in private housing for under-50s in 2011 was 77 per cent in Basildon, the lowest home ownership rate for 50+ households was 84 per cent in Blackpool. This is not an effect driven by ageing alone so much as a difference in home ownership between generational cohorts.[13]

As a result, Britain's use of housing to build wealth drives inequality across the generations. Even though housing wealth is driven primarily by a local economy's ability to provide high-paid work, the economic benefits of cities with high wages

13 Corlett A. and Judge L., 2017, *Home Affront: housing across the generations,* London, Resolution Foundation

are not being fully retained by renting households in work. Rather, they are flowing to homeowners, many of whom are retired and outside the labour market. For these renters to see more of the benefits of their cities' high average wages, the city's supply of housing would need to be more sensitive to demand, and equity growth for homeowners would need to slow.

05

How have political choices deepened wealth inequality across cities?

Although policies such as social housing and housing benefit mitigate the costs of housing shortages to low-income households across cities, other government policies contribute to, and deepen, inequality. These policies do not currently take into account the role of urban economies and shortages in shaping housing wealth, and, as such, struggle to achieve the competing objectives of both inexpensive housing costs and growing housing wealth for homeowners.

The planning system creates housing shortages

The housing shortages shown above are ultimately caused by how the English and Welsh planning systems ration land for development in and around cities.[14] Measures such as the green belt, conservation areas, sightlines and height limits in cities, and the control of development through the planning permission system all decouple the supply of housing from local demand and its price signals, as evidenced earlier in Figure 4 and Figure 5.

The result is predictable in that the point of these policies is to reduce development, but the effect is to make the future supply of housing unpredictable and unresponsive to demand for new housing. Requiring every development to receive an explicit 'yes' from the local authority through planning permission means supply is capped at the rate at which the local authority grants permissions.

The objective of the planning system should be to provide public goods and reduce negative externalities, not to reduce development. Enhancing urban mobility as cities grow, connecting new homes and employment spaces with existing infrastructure, and identifying changing demand for public services are all some of the crucial responsibilities planning has within local economies. These can all be achieved under a planning system in which the supply of housing is more responsive to local demand.

14 The UK is unusually restrictive in how it regulates land use compared to other countries. See e.g. Hilber C. and Vermeulen W., 2012, *The Impact of Supply Constraints on House Prices in England*, London SERC LSE

When controls on development have been reduced, supply has been driven by demand. The 2013 introduction of Permitted Development Rights (PDR) to allow offices to be converted into housing without local authority planning permission saw housing supply increase in expensive cities.

From 2015 to 2017, 48 per cent of all new housing in Crawley was delivered through PDR office conversions, as was 35 per cent in Basildon and 34 per cent in Slough. In contrast, in much more affordable cities like Wigan, Liverpool, Blackburn, and Hull, zero homes were supplied through PDR.[15]

Relaxing the requirements for planning permission allowed new supply in PDR to be driven by local demand, which ensured new homes were concentrated in the cities where they were needed most. But because PDR conversions are limited to a narrow set of circumstances, supply remains decoupled from demand for every other kind of development. Aspects of PDR, including its use of office stock, the size and quality of the new homes permitted, have been controversial.[16] These issues with PDR relate to the building regulations linked to this specific policy. Existing building regulations could be retained even as the planning system's rationing of land use is reformed.

The combination of severe rationing of new supply with private home ownership and free-flowing capital is costly. State controls on private development means we have all of the volatility of capitalism without its productive potential. In cities with successful economies, due to controls on new supply, planning policy gives large increases in housing wealth to homeowners.

Policy supports homeowners, not home ownership

Another factor shaping housing wealth is the strong preference in the UK for home ownership over private renting, increasing demand for housing as an asset and therefore for housing wealth. Some reasons for this are perhaps cultural, but increasing home ownership is a widely-shared political objective. A number of government policies, therefore, privilege home ownership as a way to consume housing.

These include flagship policies such as Right to Buy and Help to Buy. Others that have received less attention include the stamp duty exemption for first time buyers; the exemption for capital gains tax on domiciled properties; and council tax valuations remaining at 1991 levels in England are all ways in which home ownership is subsidised by the state. These policies have been justified by successive governments partly because home ownership is seen as a pathway to wealth.

Not only does housing wealth accumulate in ways that sharpen inequality, these subsidies for homeowners have also failed to increase home ownership. Despite the introduction of these policies since the Thatcher government, home ownership as a share of private housing has fallen in every city in England and Wales since 1981, as Figure 10 shows. Similar patterns have also been observed in the US.[17]

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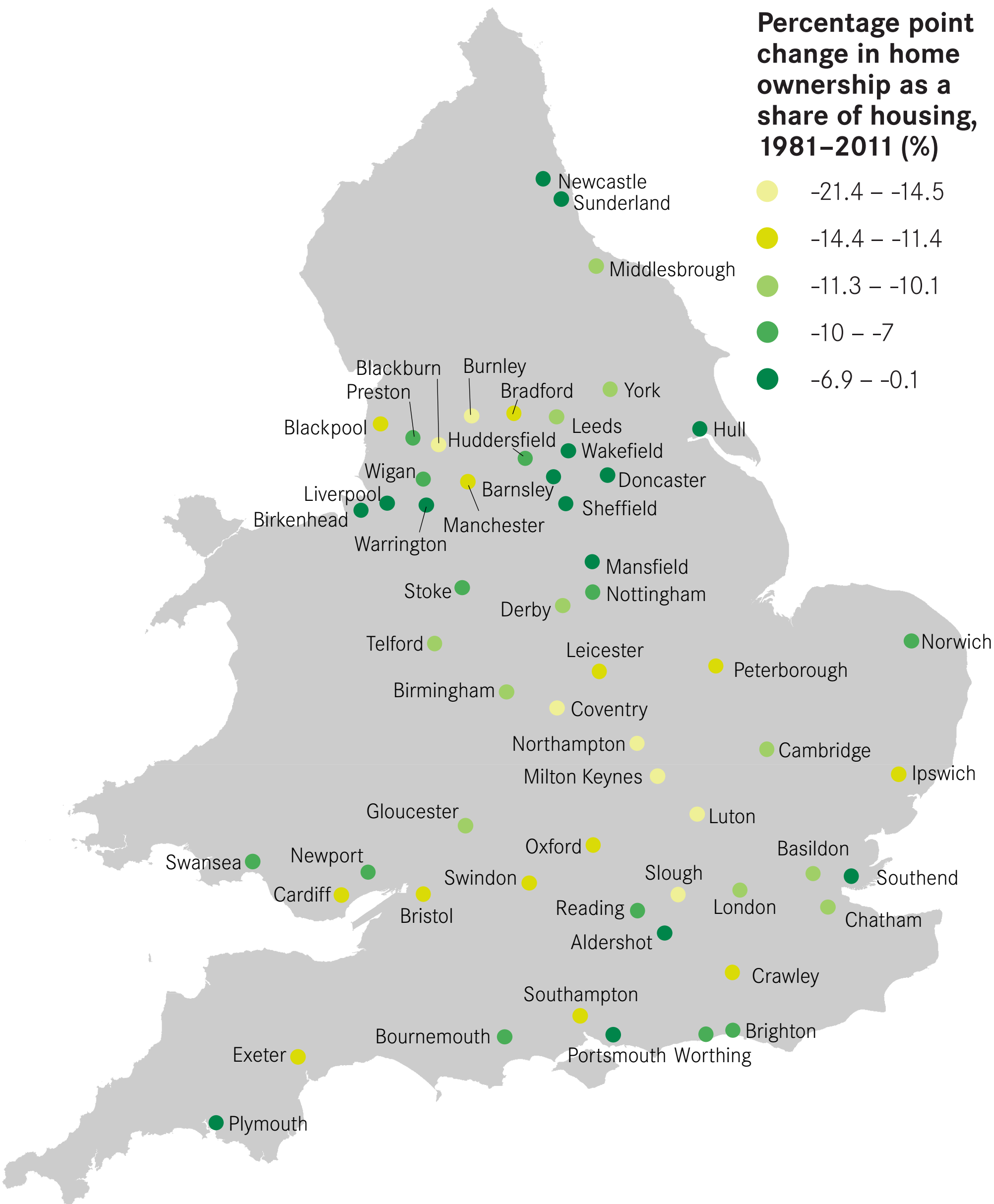
15 McDonald R. and Bessis H., 2018 *City Space Race,* London, Centre for Cities

16 McDonald R. and Bessis H., 2018 *City Space Race,* London, Centre for Cities

17 Emmons W., Kent A. and Ricketts L., 2018

Figure 10: Change in home ownership as a share of private housing, 1981 to 2011



Source: ONS Census 1981, 2011

Falling home ownership is not necessarily a bad thing. Households will always want varying amounts of flexibility and control when deciding whether to rent or buy but falling home ownership means Government policies to support home ownership are not achieving their objective.

These policies have struggled to increase home ownership because they do not address the primary barrier to housing affordability – a shortage of housing in cities with high wages. Rather than supporting home ownership, these policies mostly increase housing wealth by further inflating demand.

Policy should aim to treat private renting and home ownership neutrally. Policy support for private renters appears to be improving - the Government has abolished tenant fees and announced that Section 21 'no-fault' evictions will be repealed. This should be matched with reform to the existing range of subsidies for homeowners to reduce inequality in housing wealth.

Homeowners use the planning system to block new homes and make inequality worse

An important feature of the planning system is the power it grants existing residents to influence housing supply through consultations into local plans and individual developments. Since the Skeffington Report in 1969, the planning system has increasingly tried to build support for new homes by providing more opportunities for public comment on services, infrastructure and design. These reforms, most recently in the Localism Act, have tried to build legitimacy for the planning system and reduce local opposition to new homes.

Unfortunately, these reforms have made wealth inequality worse by separating the supply of new homes from demand and contributing to housing shortages. By having consultations at every stage of the process, from the local plan through to the granting of individual permissions, the planning system gives existing homeowners the ability to protect their housing equity by campaigning against new homes.

When successful, these Nimby campaigns to reduce local housing supply increase the wealth of existing homes. Campaigners put pressure on local politicians and planners to build as little housing nearby as possible. By preventing new homes in areas of high demand, the value of their existing homes rises due to their scarcity. Local and national media then frequently report on these campaigns to reduce the supply of new homes without considering their impact on inequality.[18]

Sometimes the objections to new homes from Nimby campaigns stress issues such as congestion, public services, and the character of the local neighbourhood. But wealth inequality grows regardless of the stated aims of activists. While there may be issues with infrastructure and services that are associated with new supply, they are usually surmountable and can be resolved with good urban and transport planning.

The core problem is that although the planning system goes to great lengths to incorporate the views of existing residents, who generally want housing supply to fall, the interests of future residents and renters are under-represented in the planning process. British homeowners are more likely to oppose new homes in their neighbourhood, and evidence from the US suggests those who attend planning meetings are more likely to be homeowners and have unrepresentative ,

18 For instance, see: Collier Row residents 'disgusted' at proposal to build new homes at the back of their flats being granted https://www.romfordrecorder.co.uk/news/collier-row-residents-disgusted-at-proposal-to-build-new-homes-at-the-back-of-their-flats-being-granted-1-4948638; Residents in Appleton step up opposition to homes in Plough pub garden https://www.oxfordtimes.co.uk/news/17253502.residents-in-appleton-step-up-opposition-to-homes-in-plough-pub-garden/ Horrified residents set out raft of reasons why new homes should not be built in Bebside https://www.chroniclelive.co.uk/news/north-east-news/horrified-residents-set-out-raft-15997176; Mongewell expansion plans opposed https://www.bbc.co.uk/news/uk-england-oxfordshire-19068879

minority objections towards new supply.[19] Importantly, this is not just a selection problem and would not be solved by "juries" of local residents.[20]

Rather, the issue is that allowing considerable and continuous input from existing residents disconnects housing supply from demand by ratcheting down the number of new homes that are built. For the planning system to represent the interests of people who do not currently reside in a community but who would if more homes were built, existing homeowners' power to depress the supply of new homes at the local level must be reduced.

This would require a greater role for national government in representing the interests of future residents of places within the planning system. The input of current residents clearly has a place in the planning system but it should be in the creation of the initial plan, rather than with every single development that is proposed.

Higher rates of 'affordable housing' cannot address wealth inequality because their objective is not to slow growth in housing wealth

The political debate on housing and redistribution focuses frequently on how to redistribute new supply, whether through social- or cross-subsidised 'affordable' housing. The reality is that new supply is currently a very small amount of all homes. All of the housing added in cities from 2013 to 2018 amounts to just 4.4 per cent of 2018's urban stock. It is not plausible to achieve significant reductions in wealth inequality across all of society by redistributing a fraction of a fraction of existing stock alone.

Furthermore, the objective of social housing and affordable housing is to make housing cheaper for the people who live in them, not to address housing wealth inequality as a whole. Both policy ideas would encounter problems if they tried to build sufficent numbers of new homes to address local housing shortages and cause growth in housing wealth to slow.

Cross-subsidy from private development for affordable housing requires private developers to make a profit for the subsidy to exist. If enough affordable housing was built such that development was no longer profitable, private developers would no longer build and create the subsidy. Similar issues face social housing, and it is not clear that the Government could build so much housing that the value of its own newly-built assets falls.

The priority for any agenda to mitigate wealth inequality should be ending local housing shortages. The central political choice of housing redistribution is not how to make a small fraction of new supply cheaper, but how to reduce controls on development in high-demand cities to make all housing cheaper.

19 MCHLG 2018, 'Public attitudes to house building: Findings from the 2017 British Social Attitudes survey', London; and Einstein K.L., Palmer M. and Glick D., 'Who Participates in Local Government? Evidence from Meeting Minutes' Perspectives on Politics 17(1) pp. 28-46

20 Monbiot G. et al, 2019, Land for the Many London, the Labour Party

Monetary policy choices are not responsible for housing wealth inequality, but housing shortages increase structural risk in finance

Cyclically cheaper credit has always increased demand for housing and increased house prices. The structural problem the UK and other countries with urban housing shortages face is that historically cheap finance has been unable to increase the supply of housing in cities where demand is high because of the rationing of land through the planning system.

This exacerbates housing bubbles in the short term.[21] It also means that the ability of temporary investment bubbles in real estate to permanently increase the amount of housing and in the long run reduce house price growth in expensive cities is limited.[22]

This reinforces patterns of wealth inequality across the country and disrupts the financial system and the wider economy. For example, homeowners in expensive cities like London use borrowing to maximise their exposure to risk to try to capture as much of the equity gain from shortages as possible, regardless of when they buy in the real estate business cycle.[23] Evidence also suggests that, during downturns in weaker local economies, inequality in housing equity reduces the positive impact of a reduction in interest rates by a central bank.[24]

Housing shortages in cities means policy has traded away cyclical risk in real estate for structural risk. Rather than having cyclical and local booms and busts in real estate, where risk falls upon developers and house buyers, the inability of cheaper credit to increase local supply when demand is high encourages aggressive approaches to risk by households and widens wealth divides across the country. In the event of a severe property downturn, highly-leveraged households lose out, but prices would not correct fully across cities because not enough housing will have been built in the cities with high wages and the greatest prices increases. This is exactly what was seen in London and other high demand cities after the house price crash of 2007 – as Figure 6 showed, house prices in the capital are way above their pre-recession peak.

Financial regulation and monetary policy cannot be subordinate to housing policy, especially as financial conditions are increasingly determined by globalised financial flows. To be blunt, the US Federal Reserve is not going to effectively set global monetary policy to correct for the failures of UK housing policy. Instead, to reduce volatility and inequality, housing supply has to be responsive to these global conditions.

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21 Glaeser E., Gyourko J. and Saiz A., 2008 Housing supply and housing bubbles Harvard University, Journal of Urban Economics

22 On how investment bubbles permanently increase the capital stock, see: Miao J. and Wang P., 2018 Asset Bubbles and Credit Constraints, Pittsburgh PA, American Economic Review, 108 (9): 2590-2628. For an application of this approach to real estate see: Emmons, W., Kent, A., Ricketts, L, 2018

23 Benetton M., Bracke P., Cocco J. and Garbarino N., 2019 Housing consumption and investment: evidence from shared equity mortgages, London, Bank of England. For a brief discussion see: Bentley D., 2019 Homebuyers have an aversion to equity loans – which might worry us all London, Civitas

24 Beraja M., Fuster A., Hurst E. and Vavra J., 2018 Regional Heterogeneity and Monetary Policy, Cambridge MA, NBER

Crucially, this means that work to reform finance and reduce systemic risk will not be complete unless it considers how residential lending should link with economic geography. Reducing volatility in the financial system and reducing wealth inequality requires the planning system to be able to supply new housing in cities with high demand for housing.

In addition, it is possible that any solution to the housing shortage would require a change in macroeconomic policy to support a shift towards saving in other assets that do not give returns based on the performance of the local labour market.[25]

Some commentators and policymakers have suggested that monetary policy should be charged with controlling house price growth.[26] But this is too blunt an instrument, as it uses policy designed to stabilise the national economy to try to change local outcomes. Today's rises are much more shaped by local shortages across economic geography, and more or less expensive credit would not address the inequalities outlined in this report.

25 Caballero R., Farhi E. and Gourinchas P., 2017. The Safe Asset Shortage Conundrum. Journal of Economic Perspectives 31 (3): 29-46

26 For example, see Blakeley, G. 2018 On Borrowed Time: Finance and the UK's current account deficit, London, IPPR

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Conclusion and policy implications

Housing shortages in expensive cities exacerbate wealth inequality, both between homeowners in prosperous and underperforming places, and between homeowners and renters in expensive cities.

Planning often aims to redistribute wealth through measures like affordable housing. The redistribution it actually achieves, through rationing of supply in high-demand cities in the Greater South East, redistributes wealth from people in work and renters to homeowners. Addressing wealth inequality requires reconnecting the supply of new homes to housing demand in city economies, reducing the subsidies homeowners receive from the Government, and exploring how other asset classes could allow households to build wealth.

The planning system must be reformed to allow housing supply to respond to local demand and reduce inequality

National government should reform the planning system to shift towards a rules-based by-right system, where builders who want to develop land can do so automatically without needing planning permission, provided their proposal complies with building regulations and local plans.

As a principle, once a local plan is agreed, the planning system should allow new homes to be built unless the local authority explicitly says ‘no’, rather than forbidding any development until the local authority grants permission. The success of flexible zoning systems in delivering inexpensive housing in high-demand cities in Japan and parts of the US like Houston should be studied by government to inform future planning reform.

This would also entail national reform to the green belt to release land near train stations for development. On green belt around the 10 least affordable cities in England and Wales, within 25 minutes’ walk of train stations in it that there is room for 1.4 million houses.[27] National government should also require the rest of

27 On green belts see Clarke E., Nohrová N. and Thomas E., 2014 Delivering Change: building homes where we need them, London, Centre for Cities

the green belt to be graded by quality to better protect high-quality countryside, while ensuring land more suitable for development is gradually released for new homes.

Locally-set policies such as protected views, local heritage listing, and policies to maintain the local aesthetics of neighbourhoods such as conservation areas should not be able to reduce housing supply in cities. National government should develop a methodology to allow estimates of the impact of these local policies on housing supply, and require local authorities to strategically review them given their local housing shortages.

Homeowner tax breaks and subsidies should be reduced

Tax policy should aim to treat home ownership and private renting neutrally. Although the government is moving to improve the quality of private renting, homeowners still benefit from numerous subsidies that worsen inequality and fail to increase home ownership.

In practice, this would mean abolishing Help to Buy ISAs and loans; the capital gains tax exemption for domiciled residences; the stamp duty exemption for first time buyers; rebanding and annually revaluing council tax; and reforming Right to Buy.

This could either be done in a way that would raise more revenue from wealthy homeowners, or in a more fiscally neutral way with the abolition of stamp duty as recommended by the Mirrlees Review, and reductions in other taxes.[28]

Other policies along these lines, such as allowing young people to use their pensions as deposits for new homes, should be avoided because they do not link the supply of new homes to demand and thereby would not slow growth in housing wealth.[29]

Government should explore alternative wealth-building vehicles to housing

Finance and speculation do not cause price rises and inequality - a failure to build more housing in cities of high demand does. Cheap credit should function as a means of financing more supply, and if supply does not change in response to looser monetary policy this points to structural issues within the planning system.

However, if planning reform is successful and growth in housing wealth slows in expensive cities as local supply increases, it is possible that households will need alternative safe assets in which to save, such as equities, bonds, or pension vehicles. Government should investigate how policy would need to change to enable this, and what the benefits and costs of such a shift would entail.

Accumulating wealth in these instruments would be beneficial for three reasons. First, they would allow households to accumulate wealth without damaging urban economies through painful housing shortages. Second, they would reduce

28 Mirrlees J. et al, 2011, *Tax by design*, London, IFS

29 Barrat L.,2019, *Brokenshire: let young people use their pensions to buy homes,* London, Inside Housing

geographic inequality as the returns on investment in these assets would be unrelated to local resident wages, unlike housing wealth. And third, as this wealth would be more liquid, these instruments could then be used to finance new investments rather than being trapped in housing equity.

Nimby campaigns' influence in the planning process must be reduced because they deepen wealth inequality

The housing shortage has severe consequences for the unequal distribution of wealth in the UK and yet it remains politically sustainable. This is in large part due to anti-housing campaigns which pressure local government, MPs, and journalists to ensure as little housing is built as possible, at multiple stages during the planning process.

If there is a place for the input of local campaigners and activists into planning, it should be restricted to the creation of the local authority's plan. This would allow for the priorities of local residents to be heard and balanced against the interests of future residents. Allowing input into every stage of the planning process ratchets down the supply of housing, and empowers a vocal and unrepresentative minority who benefit from rising inequality.

National government has a special role in the planning system to represent the interests of people who do not currently reside in a community and are unheard by petitions and at meetings. Rather than expecting local authorities to take locally-unpopular decisions, national government must take the decision to reduce the influence of Nimby campaigns due to the national benefits to wealth inequality, housing affordability, and the national economy.

Appendix

	City	Average housing equity 2018 (£)	Increase in average housing equity 2013–18 (£)	Growth in housing equity 2013–18 (%)
1	London	477,000	122,000	34%
2	Cambridge	426,000	121,000	40%
3	Oxford	406,000	89,000	28%
4	Brighton	300,000	83,000	38%
5	Southend	243,000	76,000	46%
6	Reading	276,000	76,000	38%
7	Slough	220,000	73,000	50%
8	Milton Keynes	212,000	73,000	53%
9	Basildon	231,000	73,000	46%
10	Bristol	222,000	63,000	39%
11	Worthing	227,000	61,000	36%
12	Aldershot	262,000	60,000	30%
13	Crawley	194,000	58,000	43%
14	Chatham	183,000	58,000	46%
15	Luton	169,000	55,000	49%
16	Bournemouth	255,000	52,000	26%
17	Swindon	165,000	52,000	45%
18	Portsmouth	196,000	49,000	34%
19	Southampton	185,000	48,000	35%
20	Exeter	214,000	48,000	29%
21	Leicester	156,000	43,000	38%
22	Northampton	152,000	40,000	36%
23	Norwich	185,000	39,000	27%
24	York	205,000	38,000	23%
25	Ipswich	149,000	37,000	34%

26	Peterborough	142,000	35,000	33%
27	Gloucester	143,000	35,000	32%
28	Coventry	140,000	32,000	29%
29	Manchester	138,000	30,000	27%
30	Cardiff	169,000	29,000	21%
31	Nottingham	129,000	28,000	28%
32	Birmingham	142,000	27,000	23%
33	Plymouth	138,000	21,000	18%
34	Warrington	147,000	20,000	16%
35	Newport	124,000	20,000	19%
36	Sheffield	130,000	19,000	18%
37	Leeds	144,000	18,000	15%
38	Wakefield	117,000	18,000	18%
39	Mansfield	103,000	17,000	19%
40	Barnsley	99,000	17,000	20%
41	Huddersfield	124,000	15,000	14%
42	Blackburn	90,000	15,000	20%
43	Wigan	100,000	14,000	16%
44	Derby	121,000	13,000	12%
45	Telford	119,000	13,000	12%
46	Swansea	117,000	13,000	12%
47	Blackpool	114,000	12,000	11%
48	Stoke	97,000	11,000	13%
49	Liverpool	99,000	11,000	12%
50	Newcastle	120,000	10,000	9%
51	Hull	80,000	8,000	12%
52	Preston	121,000	8,000	7%
53	Bradford	112,000	8,000	8%
54	Birkenhead	129,000	7,000	5%

55	Burnley	73,000	5,000	7%
56	Doncaster	97,000	5,000	5%
57	Middlesbrough	99,000	3,000	4%
58	Sunderland	93,000	3,000	4%
	Cities in the Greater South East	396,000	103,000	35%
	Elsewhere in the Greater South East	265,000	62,000	31%
	Cities in the rest of England and Wales	136,000	23,000	21%
	Elsewhere in England and Wales	173,000	26,000	18%
	All cities	245,000	57,000	31%
	National Average	228,000	49,000	28%

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