Monday, 16 December 2013

Land Prices: the dog that’s lost its bark

Posted by Paul Cheshire, SERC

It does not take great economic insight to realise that Britain, especially south east England and above all London, faces a crisis of housing affordability; a crisis that threatens to turn into a wider financial crisis up the line as loan to value ratios increase, with house prices already accelerating ahead of incomes and rising interest rates waiting to jump out of the bushes in maybe less than a year.

The underlying problem - as several SERC researchers have argued over the years - is the restriction on the supply of land our planning system imposes, which has led to a progressively more pathetic rate of house construction, with supply becoming less and less responsive to price changes. For at least 10 years we have known that we need to build about 250,000 homes a year - of the type people want to buy and in locations where people want to live. We have not approached that number since the 1960s and have been averaging about 100,000 a year for the last several years. This rate is the lowest since before WWII.

A reason why our planning system has not responded to the growing crisis of land supply - evident since the 1970s - is that it has not just ignored the impact of land supply on prices and affordability, but until 2010 it was legally obliged to do so. Under the 1947 Town and Country Planning Act and its successors prices were not a ‘material consideration’.

The National Planning Policy Framework (NPPF) of 2012 changed this situation by suggesting that when allocating land, local planners should pay attention to price signals in the market. Prices are an immensely efficient signal of complex information on both demand and supply. Where we observe discontinuities in land prices at the boundary of one permitted use and another, markets are trying to tell us that the higher priced land is in relatively short supply. We should not always obey such signals because there may be social, environmental or amenity benefits in preventing a change of use. Public policy protects National or Urban Parks and Sites of Special Scientific Interest for good social and environmental reasons. But when we observe intensively farmed land fetching £10,000 per ha whereas if it could be used for building houses on its value would jump to £8,000,000 a ha, prices are not just signalling a shortage; they are screaming a shortage. There needs to be a very strong reason indeed in terms of environmental or social benefit to justify policy preventing the change of use.

This simple insight underlay the proposal Steve Sheppard and I made in our 2005 paper arguing for using price signals to help with land allocation decisions. So it was great delight to read the newly issued guidance in relation to the NPPF:

"Land values are determined by the demand for land in particular uses, relative to the supply of land in those uses. The allocation of land supply designated for each different use, independently of price, can result in substantial price discontinuities for adjoining parcels of land (or land with otherwise similar characteristics). Price premiums provide direct information on the shortage of land in any locality for any particular use."

Except; except that government has stopped publishing any data on land prices! The price dog has been silenced just when called on by government to bark. The Valuation Office Agency (which still collects the data) used to publish the Property Market Report with estimated land prices for different use categories for all the regions of Britain and many local authority areas too. With a bit of persuasion one was able to get them to let one have the values for all English LAs. The data may not have been perfect but it was broadly comparable across space and over time.

Splicing the VOA data together with earlier academic studies one could construct a series going back to 1892. This revealed the incredible impact of the Town and Country Planning Act of 1947. In real terms there was no trend increase in land prices at all until the mid-1950s; since then a 15-fold increase. House prices over the same period rose in real terms but only about a quarter as much. It is always possible to substitute land out of house construction and it is land our planning system has been restricting the supply of. So as land prices have risen in real terms over time it has been possible to substitute land out of house production by making houses smaller. We used this data as a part of the evidence drawn on in our 2009 SERC Policy Paper. A version of that Figure is shown below.

Equally the VOA data let us see how the relative price of housing land varied across the whole country from one local authority to another. Again here a map using the most recent data available:

http://spatial-economics.blogspot.co.uk/2013/12/land-prices-dog-thats-lost-its-bark.html
Having no public data on land prices is a real problem if we are to make sensible decisions about land release or scarcity. So a number of people – I am one – have got together to try to persuade government to revive the VOA series. Below is a copy of the letter we have just sent to the Chancellor and the Secretary of State.

In an ideal world we would like more than just the revival of the old data series. The Land Registry now provides researchers with access to data for individual house sales. This is an invaluable tool for all kinds of spatial research. It is not obvious why transactions in land should not also be open access data. If it was then there are really interesting things that could be done. We could estimate the value the community placed on transport improvements more accurately. We could even peep into the black box that is the compliance costs of our planning system and the costs of planning obligations. To do that one would need to combine information on sales prices of land parcels with details of planning obligations, its designated use or other data on location, the condition of the land and its accessibility. From that one could potentially learn a great deal to help us plan better and with less economic cost.

11th December 2013

Dear Chancellor, Dear Secretary of State,

The land market is of vital importance to the economic and social health of the UK. Yet we now have no publicly available and impartial data on UK land market prices. This is a direct result of the decision of the Valuation Office Agency (VOA) to cease to collect and publish its land price indices in 2011. Understanding land prices is critical to assessing a range of policy questions, from the efficiency of planning reform to the economics of housing development. Terminating the publication of this data makes it much harder for government to understand the consequences of current policy interventions or to assess the case for future reform. As researchers, academics and policy makers we find this situation deeply concerning.

This change also goes directly against developments in nearly all other asset markets. Trillions of dollars of complex and untraded assets are valued every day and there are now strong regulatory obligations for data transparency and disclosure through the new European Market Infrastructure Regulation (EMIR) and the second phase of the Markets in Financial Instruments Directive (MIFID).

While we fully recognise current financial constraints on government, the cost of collecting land price data was small, at approximately £40,000 annual. The benefits in terms of our understanding of this vital market are considerable. For example, as reflected in recently released National Planning Practice Guidance, knowledge of land prices is useful in assessing local housing needs and will help Local Government accurately assess the value of their own land holdings, which is likely to lead to significantly enhanced value for money for the tax payer.

If the government believes that there are better ways to obtain land price data, we would support this. Similarly, simply publishing the data online via the Land Registry would be acceptable. What is important is that reliable and good quality data is in the public domain. The Coalition has pledged an open-data government, and argued that the benefits to such data being available are critical to the modern economy.

We therefore urge the government to set out proposals to publish land values broken down at a regional and sub-regional level from 2014 onwards. This is not an expensive operation to undertake and it would be disproportionately beneficial for understanding this key part of our economy.

Yours sincerely

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Posted by Stephen Gibbons on Monday, December 16, 2013

2 comments:

Bryan Kavanagh said...
Not just a shortage of supply, folks, that's always the economist answer. Try the real estate valuer's answer: Land price is the private capitalisation of a piece of land's net rent. Ergo, greater public capture of the rent leaves less to be privately capitalised. Simple; yet you didn't mention land value capture?
18 December 2013 at 22:29

Physiocrat said...
Yet there is still an overhang of consents that result in no building taking place. I know of prime sites in the centre of Brighton which have been vacant for over 25 years WITH planning consent. A figure of 300,000 homes consents has been given.

But even if planning controls were entirely abolished, there would still be shortages in the places where people want to live, which is where there is work available, and that excludes two-thirds of the land area of Britain.

So part of the solution is to reverse the grotesque concentration of people and economic activity in the bottom right-hand corner. This is so some extent inevitable but the situation is made worse by a tax system which ignores the fact that ability to pay tax depends to a large extent on where you are doing your business. Even a busker knows that they will take more money at the bottom of the escalators at Victoria than at a station in the outer suburbs.
23 December 2013 at 07:26