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Spatial Economics Research Centre

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Relaxing Planning Laws

Lots of discussion this morning about whether [relaxing planning laws](#) will help kick start construction. My feeling is that they'll help a little but not necessarily a lot.

Temporarily removing the need to reach agreement on section 106, e.g. to provide affordable housing, will lower the cost of development. To the extent this raises profitability some currently marginal sites may end up getting developed. The fact that the lifting of restrictions is temporary may also have some effect in shifting forward projects that would otherwise have occurred later.

In the short run, however, critics are surely right that the effects are likely to be limited if problems are more to do with demand conditions and the availability of financing.

That said, I find myself increasingly irritated by people pointing to the number of sites with permissions (enough for 400,000 homes we are told) as if that somehow proves that the planning system is not part of the longer term problem. First, many of these sites will be in areas that always had low demand. Remember, the UK planning system is incredibly unresponsive to price signals. So no surprise that these sites aren't being developed now demand has tanked. Second, when those sites are in relatively high demand areas, developers still have strong incentives to hold on to sites, because they know that the long term trajectory of house (and hence land) prices in those areas is upwards. In other words, holding sites becomes more sensible as the gap between current price and future expected price increases. And why do developers expect prices to increase more in the long run? Partly because demand will recover, but partly because the planning system continues to restrict the supply of land in places where demand is highest.

So critics are right that these reforms may do little in the short run. But they are wrong to suggest that the availability of sites with planning permissions somehow suggests that supply is no longer the major issue in the medium to long term.

Posted by [Prof Henry G. Overman](#) on [Thursday, September 06, 2012](#)

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