



# Spatial Economics Research Centre

Monday, 19 September 2011

## Evidence on planning

A group of leading businessmen have written to the Times supporting government reforms to the planning system.

The National Trust respond with their concerns about concrete, but the Council for the Protection of Rural England focus on the economic arguments. According to the Times, the CPRE claim there is no evidence planning undermines productivity and no evidence that planning system's default answer was "No" because the vast majority of planning applications are approved. One of these statements is wrong, the other is misleading.

### Evidence that planning reduces productivity.

On the first of these (productivity) CPRE is simply wrong. In a recent SERC report [we provided evidence that planning reduced productivity in a leading supermarket chain by 20%](#).

### Evidence that planning could hurt investment.

In a paper published in the Economic Journal in 2008, my colleagues Paul Cheshire and Christian Hilber carefully document how planning restrictions England impose a 'tax' on office developments that varies from around 250% (of development costs) in Birmingham, to 400-800% in London. New York imposes a 'tax' of around 0-50%, central Paris around 300%.

### Approval rates are misleading

[As I have explained in more detail before](#): approval rates tell us *nothing* about whether planning holds back development because the rules affect *both* the submission and approval rates. If planning rules are so draconian that no one applies to build houses, approval rates would run at 100%. Would that mean planning was not a problem?

### Planning increases house prices (substantially)

OK, CPRE don't mention house prices, but planning matters there too. [SERC research](#) suggests that an area moving from have an average level of restrictiveness to having the lowest level of housing restrictiveness would see house prices fall by around 30%. This is an underestimate because it *ignores* the effect on UK house prices overall, as well as any effects on the composition of housing (i.e. houses are smaller).

### Planning may increase house price volatility

At least until this last recession, [average volatility in the UK housing market was higher than volatility in the most volatile market in the US \(LA\)](#). When house prices fall, supply is fixed in both the UK and US (unless you destroy houses). However when, as in the UK, housing supply is very unresponsive to increased demand, booms drive up prices rather than leading to more building. That means the UK sees more volatility on the up-side of the market and leads to move volatility overall.

### The costs of planning

So, there is evidence that the planning system:

- Lowers retail productivity
- Increases office rents
- Increases house prices and housing market volatility

Campaigners are perfectly entitled to argue that these are prices worth paying to 'protect the countryside'. But I strongly object to arguments that prete that these costs do not exist.

Posted by [Prof Henry G. Overman](#) on [Monday, September 19, 2011](#)

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