The paradox of space without room: Market failure or Policy failure?

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Land markets: endemic problems of market failure

1. Monopoly:
   - Land assembly, ‘hold-out’ $\Rightarrow$ compulsory purchase

2. Externalities:
   - Parcels have specific locations & value is a function of uses of adjoining parcels - ‘externalities’
     - The case for zoning – separate non-complementary uses

3. ‘Public goods’:
   - Open space – for amenity: urban parks; habitat; National Parks; wilderness areas; recreational areas;
   - Urban conservation;
   - Most important: transport routes/strategic infrastructure.
     - A compelling case for planning but....
Growing Population: Causes London’s Housing Crisis?

• We all know that?
  
  • GLA Area

• Period    % Change Pop    % Change Real House Prices
• 1981-2011  +20.5         227.6
• 1951-1981  -16.9         71.9
• 1951-2011  +0.1          +463.2

➤ No we do not! Price results from interaction of supply with demand;
➤ Population has some impact on demand: but far more important influence is real incomes
What happens to price if you restrict the supply of space?

- **Space is valued:** a strong income elasticity of demand:
  - Cheshire & Sheppard (1998) – about 2
  - Meen (2013) about 2.7 > than price elasticity of demand
  - [OBR 2014 – about 3];
- Policy has restricted the supply of space for housing in London (& elsewhere but most in London) since 1955
  - 1951 to 2011 population only increased by 0.1%
    Compare +50% 1871 to 1901: but
  - Real incomes up x 3
  - Car ownership up x 13
- Increases the price of land and housing; and increases price volatility.
What happens to price if you restrict the supply?

- Can identify Green Belt by land price....

But not just NOT out: NOT up!
Real Price of Housing Land and Houses:
England 1892-2007

Note: House and Land data for war years are interpolated.
London house building and housing targets 1871 to 2015

New Housing Completions

Housing Targets

Source: GLA, DCLG and Quod analysis
There is no space...

• Counting gardens, parks, woods, agricultural, water, etc. 64.9% of GLA area is ‘Green’
• Compares to 93.7% of South East – ‘Green’
• 22.1% of GLA is Green Belt
• Area of golf courses inside GLA Green Belt – twice that of Borough of Kensington & Chelsea!
• Nothing against golf - but grotesque undersupply of housing and over supply of golf courses in London area
• OR....
On the Central Line
On the Northern Line
Crossrail: £18bn but no houses allowed!
Policy addressing problems of market failure?

- To a degree – e.g. habitats; Parks; AONBs; Conservation; transport corridors…
- But does so without regard to impact on prices/cost;
- An ‘economic activity’ – allocates a scarce resource – urban space; but no notice of prices…
- Endemically undersupplies space – 5 years’ ‘household numbers’. And demand for houses where there are jobs. So supply **DOES NOT** respond to demand;
- Means prices do not just rise but rise at increasing rate.
- Do Greenbelts ‘solve’ any problem of market failure?
  - Redistribute to the rich: to housing-haves & richer ones;
  - And policy restricts competition; and monopolises development process.
London’s Housing Problem IS a Policy Failure

- A shortage of space: but only for housing (& economic uses)
- No physical shortage of space
- Judge policy by what it does: not what it intends
- A ‘policy constructed’ shortage of space
- And house prices will keep rising in real terms and faster than incomes
  - Forecast for London 2015 to 2030: Real house prices +137%. House price : Incomes 11.5 to 16.5
- Until policy changes; and it will. But when?? In time to forestall a catastrophic collapse?