

Planning for Housing: Market Signals – Summary of Research

Introduction

1. Following recommendations in the Barker review of housing supply¹, which proposed that local and regional planning should be more responsive to market signals in allocating and releasing land for housing, Communities and Local Government commissioned research as input into the developing thinking.
2. The research was taken forward in two stages. The first stage was a review of a policy proposal developed by Communities and Local Government, while the second looked at some of the issues raised in the first stage in more detail.
3. The purpose of this note is to summarise the results of the research.

¹ Barker review of housing supply, HM Treasury, March 2004 – http://www.hm-treasury.gov.uk/consultations_and_legislation/barker/consult_barker_index.cfm

PART ONE – REVIEW OF EMERGING PLANNING FOR HOUSING POLICY PROPOSAL

AIMS AND OBJECTIVES

4. The policy proposal, based on existing mechanisms for the allocation and release of land for housing, consisted of the following steps:
 - The regional spatial strategy would allocate housing numbers to local authorities for the plan period and set out an overall framework to help guide the development of local policies;
 - Local planning authorities would be required to demonstrate how they would respond to pressure in the housing market and how they could provide enough land to deliver the housing targets over ten years. At least five years worth of land supply would be specified sites, with the rest being windfall sites;
 - Local planning authorities would set phases for land release in their local development framework, ensuring a more systematic way of bringing forward housing land;
 - To improve responsiveness and flexibility, local planning authorities would be required to bring forward, or hold back, the phased release of sites in response to predetermined changes in market signals;
 - In extreme cases, market pressures could signal a full review of land allocation.

METHOD

5. The first stage of the research was a review of these steps by groups of researchers (details at Annex A). They considered whether the options:
 - **Were consistent with the plan-led approach** – how far would any change be consistent with the plan-led system and the principles of sustainable development?

- **Were suitable for all areas** – how far could the new approach take account of different types of housing markets, ie not be focussed solely on high demand areas?
- **Identified the appropriate level of intervention** – what is the most appropriate level at which to respond to changes in market conditions?
- **Would be sufficiently responsive to short-term changes** – how far could, or should, land use planning respond to short-term changes in prices?
- **Provided suitable incentives** – what are the incentives in the new approach for local authorities to respond to changes in the housing market?
- **Would provide suitable infrastructure** – what would be the implications of the approach on the provision of infrastructure?

RESULTS

6. Five common themes emerged from this stage of the research:

Level of intervention

7. It was generally recognised that the local planning authority level may not be the most appropriate for assessing housing markets. Any assessment of the housing market would need to take account of the wider housing market at the regional level. However, administrative boundaries play a key role in shaping policy, suggesting that a balance would need to be found between the two.

Choice of market signals

8. All the researchers recognised the possible limitations of a single indicator. Whilst recognising that it gives an immediate and easily understandable picture, they also recognised that the details offered by a wider assessment of the housing market can be useful. As a compromise, some of the researchers put forward the idea of a composite measure, taking into account different aspects of the market.

9. The research recognised difficulties caused by the lag between market signals and housing delivery, brought about by the time needed to collect and analyse house price data, decide planning applications (including negotiating S106 agreements), ensure necessary infrastructure is in place and actually deliver the housing. Hence, a simple response to changes in market signals may not be appropriate. It may be more useful to use leading indicators or look at changes over the longer-term.

Land availability/release

10. The research confirmed the importance of a certainty of land availability as a key element in housing delivery. This requires local authorities to be realistic over the viability and availability of sites. In particular, remediation costs and availability of infrastructure were identified as potential constraints to development.
11. The research explored how land supply affects housing delivery. It highlighted that the allocation of land tends to increase housing delivery, but that not all land that is allocated, or given planning permission, is developed.
12. The research identified that land release may have a regenerative effect and hence increasing the supply of land could lead to house prices rising more quickly.
13. Credible mechanisms for accelerated land release might have a dampening effect on house price expectations. Purchasers and sellers would adjust downwards their expectations of future capital gains, producing less house price volatility.

Flexibility

14. One clear theme emerging from the research was the need to develop a flexible approach that could be applied to different market situations – ie low demand, urban/rural.

Housing mix

15. The research found that housing mix has an important bearing on how house price changes should be interpreted. For instance, an increase in the number of four bed detached houses, relative to two bed flats, may result in an increase in house prices.

PART TWO – DETAILED REVIEW OF KEY ISSUES

AIMS AND OBJECTIVES

16. Based on the results of the policy review, the second stage of the work aimed to provide more detail on particular issues:

- How far can housing market areas be defined?
- How should housing market indicators be used?
- How should plans take account of the viability of sites for housing?
- How does increasing land supply affect the rate of housing delivery?

METHOD

How far can housing market areas be defined?

17. The following questions were considered:

- Who should define housing market areas, ie should they be defined at the national, regional or local level?
- How far can housing market areas be defined along administrative boundaries, what are the advantages and disadvantages of doing so?
- What are the advantages and disadvantages of monitoring the housing market at a local level, as opposed to a regional level?
- How often should housing market areas be revised?

How should housing market indicators be used?

18. The following questions were considered:

- Should indicators cover short or long term trends?
- Given the lag between land release and house building, how far is it possible or desirable to respond to short term fluctuations in price?

- How far is it possible to use the same indicator for different types of housing market, ie low demand?
- What does the empirical analysis of historic data tell us?
- What level of complexity should market signals aim to identify?
- Who monitors and responds to the signals?

How should plans take account of the viability of sites for housing?

19. The following questions were considered:

- What are the difficulties of releasing extra land for development without the requisite infrastructure in place?
- Can the market signals be designed to take account of this, ie by assessing viability?
- How should the local plan process determine which land is most viable?

How does increasing land supply affect the rate of housing delivery?

20. The following questions were considered

- Would developers withhold some existing sites to trigger the release of others, or offer up more sites to reduce the chance of extra land being released and therefore forestall their competitors' access to land?
- How far does the competitiveness of local housing markets affect delivery?
- Is there a strong case for an assessment of the competitiveness of the industry as part of the policy, in order to ensure that strategic behaviour by developers is not a significant problem?
- How far might the development control process delay development, even with more land allocated in the plan?
- What are the options for providing local authorities with incentives to speed up the decision-making process and deliver more housing?

- How feasible and desirable is it to make market signals a material consideration in the planning process?

RESULTS

How far can housing market areas be defined?

21. The key findings were that:

- Administrative boundaries could be used to define housing market areas;
- Housing market areas should be defined at the regional level, in consultation with the districts;
- Housing market areas should be reviewed every five years.

How should housing market indicators be used?

22. The key findings were that:

- The role of market information should be to inform planners about potential mismatches between demand and supply of housing;
- It is not possible to use a single indicator, a wider market assessment is needed;
- It is important to understand the context of house price changes to ensure that they are interpreted correctly;
- Market information should be introduced as a material consideration in the planning system.

How should plans take account of the viability of sites for housing?

23. The key findings were that:

- Planning obligations (S106 agreements) do not necessarily affect commercial viability for developers;
- Developers may become less able to fund remediation costs from development gain, as accelerated land release leads to an increase in housing delivery, which may cause house prices to fall and lead to lower development gain;
- House builders do not consider deficiencies in infrastructure to be a significant constraint on the viability of development sites;

- Commercial viability needs to be balanced against wider planning principles, such as sustainable communities.

How does increasing land supply affect the rate of housing delivery?

24. The key findings were that:

- There is a positive relationship between land supply and the rate of housing delivery;
- The relationship between land supply and housing delivery could be made more positive by removing the constraints introduced by the following:
 - brownfield targets
 - planning obligations
 - development control systems
- There is an ‘implementation gap’ between regional plans and actual development;
- Allocating more land in regional plans will have less effect than allocating more land in local development plans;
- There is a need to provide local planning authorities with incentives in order to bridge this implementation gap;
- The market context is an important influence on the rate of housing delivery;
- The ratio of land planned for development, against land actually developed, should be used as a policy monitoring tool.

Details of the research are available by contacting:

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Annex A

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