

The relationship between land supply and housing production

The relationship between planning policies and the housing market is very complex, making it difficult for supply to respond to sudden changes in demand, according to a new study. The research team - Alastair Jackson, Sarah Monk, Caroline Royce and Jessica Dunn at the Property Research Unit, University of Cambridge - looked at the relationship between the availability of land and the development process in three districts in Cambridgeshire and Hertfordshire with differing approaches to the release of land. They found that:

- f** Housing output was below or equal to county-wide structure plan requirements in the two districts where land release was more constrained but was significantly in excess of these requirements in the least constrained district.
- f** The release of land for housing envisaged by the structure plan did not match the pattern or timing of market demand for housing land.
- f** Developers tended not to challenge existing planning policies and procedures because of the costs of negotiation and appeal.
- f** In areas of constrained land supply, the level of house-building activity fluctuated much less than housing and housing land prices.
- f** Areas of relatively low constraint saw the proportionally greatest increases in land prices during the boom, as prices were initially low compared with more constrained districts. Even in the subsequent slump, prices in these areas remained higher than at the start of the decade.
- f** House price changes followed a uniform pattern across all areas and types of dwelling.
- f** The larger, more up-market houses tended to be built in areas of greater constraint. Especially during the boom, the smaller, cheaper units were 'pushed out' to areas of lower constraint.
- f** Densities varied more according to planning policy than in response to market conditions or levels of planning constraint.
- f** The researchers conclude that the release of housing land in one area cannot fully substitute for constraint in another, neither can the planning system as a whole absorb sudden changes in demand.

Objectives

The amount and distribution of land available for house-building is determined by the planning system. This system includes formal statements of policy, such as structure and local plans, as well as negotiation between the local authority (responsible for implementing planning policies) and development and conservation interests.

Planning documents often try to balance a constraint on land release in one area by allocating more land for development elsewhere. This assumes that demand for housing land in a constrained area will transfer to other areas where land is made available. If this transfer is not complete, it is possible that constraint on land release will not only change the distribution of house-building activity and the type and timing of housing development but will also increase house prices in all areas. In this context, the project aimed to assess the nature and extent of planning constraint and the outcome of different levels of constraint on housing development at the local level.

The study examined the development process in Fenland, South Cambridgeshire and North Hertfordshire between 1981 and 1991. Fenland and South Cambridgeshire represented low and high planning constraint respectively within the same structure plan area. The structure plan catered for both natural population growth and some people moving into the area. North Hertfordshire was chosen to assess the impact of different structure plan policies, with Hertfordshire County effectively catering only for natural growth in its existing population.

Planning policies and outcomes

Both Cambridgeshire and Hertfordshire County Structure Plans sought to constrain the amount of house-building activity. In Hertfordshire land release was limited to 'spare capacity' in the physical infrastructure. Cambridgeshire adopted a 'jobs-related growth' policy combined with dispersal of activity

away from Cambridge City and the south of the county. Both counties concentrated development on existing, larger settlements.

Interpretation of structure plan policies at district level varied. In Fenland, projections of dwelling requirements exceeded those of the structure plan and large sites were released in small villages. The stock of sites with planning permission grew rapidly and the number of dwellings built exceeded the provisions of the structure plan.

South Cambridgeshire adopted a stricter interpretation of structure plan policies on land release, only making exceptions where other considerations (for example, redevelopment of a derelict site or development of local authority housing) took priority. A five-year supply of land was maintained throughout the decade, although the stock of sites with planning permission fell and targets for the construction of dwellings throughout the district were not always reached.

Similarly, North Hertfordshire followed structure plan policies closely, with completions over the decade very slightly in excess of structure plan targets. Stocks of planning permissions remained fairly constant throughout the decade.

Fenland showed the most obvious peak in dwelling completions during the 1988-89 boom, with a noticeable increase also taking place in South Cambridgeshire. Completions in North Hertfordshire remained remarkably constant over the decade.

Housing land and house prices

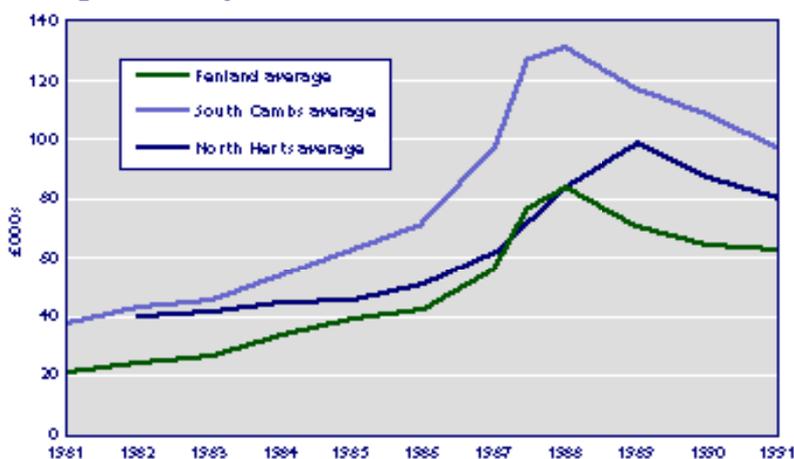
The study period included the housing market boom between 1986 and 1989. Analysis of price trends for housing and housing land throughout the decade demonstrated differences in the levels of constraint on the supply of land and dwellings.

House prices

House prices in South Cambridgeshire and Fenland followed similar trends (Figure 1). Both showed a

steady increase in prices to 1987, a sharp rise in 1987-88 reaching a peak in 1989, followed by a steep decline in 1990-91. At the peak, prices were some three and a half times their 1981 levels. House prices in North Hertfordshire rose more steadily and earlier - from 1986 - and again peaked in 1989 at just under three times their 1981 levels. The drop in prices after the boom was equally rapid. Prices for different types of housing moved very much together over the decade.

Figure 1: House prices



Land prices

At the start of the decade, the price of housing land in Fenland was twice that of agricultural land, suggesting relatively low constraint on supply. In contrast, prices in South Cambridgeshire and North Hertfordshire were approximately twenty times those of agricultural land.

Differences in prices between the areas increased during the boom, suggesting that increases in demand were concentrated on the already constrained areas (Figure 2). At their peak in South Cambridgeshire, housing land prices were around 150 times those for agricultural land and in North Hertfordshire, over 200 times. Even in Fenland, housing land prices were some sixty times agricultural prices. Although land release increased rapidly in Fenland, it was not enough to prevent demand outstripping supply. After the boom, land prices fell back sharply but remained well above their 1981 levels. This suggests that, even in Fenland, developers believed that land supply would continue to be constrained in the longer term.

Developers' strategies contributed to the increase in land prices. During the boom, land was bought for immediate development at a price which assumed that demand for housing would continue to rise. Larger developers purchased sites in Fenland for the first time as development opportunities elsewhere became limited.

In North Hertfordshire land prices began to rise before house prices, whilst in South Cambridgeshire they rose at roughly the same time and in Fenland they lagged some way behind.

Many sites acquired in Fenland during the boom remained unfinished or undeveloped in the subsequent slump. In South Cambridgeshire and North Hertfordshire, where demand conditions were less volatile and planning more constrained, the vast majority of schemes were completed.

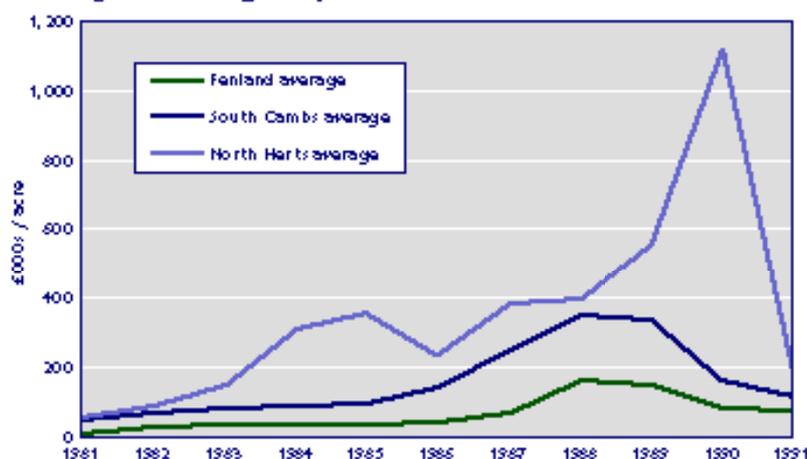
Housing types and densities

Planning policies in all districts emphasised the need to provide a range of dwelling sizes. Only in North Hertfordshire were dwellings of all sizes built throughout the decade, although here the quality was high and prices excluded lower income households.

In Fenland one- and two-bedroom dwellings constituted almost three-quarters of the total output, compared to less than half in South Cambridgeshire. Four-bedroom dwellings accounted for less than a tenth and one quarter respectively.

The contrast in dwelling size between Fenland and

Figure 1: Housing land prices



South Cambridgeshire suggests that purchasers at the bottom end of the market were being 'pushed out' as land and house prices rose.

The density of new development in Fenland and South Cambridgeshire was controlled by a specific planning policy and remained constant throughout the decade. Planners in North Hertfordshire were more flexible in their approach, placing emphasis on how well the proposed development fitted in with the surroundings rather than on specific density figures. Consequently, densities varied considerably over space and time.

Developments in South Cambridgeshire and Fenland used a limited range of dwelling types and site layout designs, the main differences between the two areas being in the standard of external finish and interior fittings. In North Hertfordshire developments were tailored to each specific site.

Interaction between developers and planners

Developers viewed planning regulations as almost equivalent to physical constraints on their development options. Developers only sought to challenge the planning system where the chance of success was high enough to justify the costs and delays entailed. This tended to give planners the advantage if they were determined to enforce planning regulations. In all districts, controls imposed by 'external' authorities, such as the highways authority, were viewed as serious constraints and could determine the feasibility of a development proposal.

In South Cambridgeshire and North Hertfordshire agents and trade groups made some attempt at the plan-making stage to influence the amount and location of land released for development. However, once in the plan, allocations were considered to be fixed. Site-by-site negotiation only took place on questions of layout, the precise number of dwellings to be built, or 'development contribution' in the form of other amenities which the site could yield.

In Fenland, on the other hand, local planning

documents were revised more frequently, allowing developers to lobby for the release of individual sites.

Appeals in South Cambridgeshire were almost invariably unsuccessful. In North Hertfordshire, some appeals succeeded where refusal of permission had been against the recommendation of planning officers. There were very few planning appeals in Fenland.

In North Hertfordshire there was more negotiation both before and after the submission of an application. The planners' approach (of emphasising the way in which a development fitted in with its surroundings) generated agreement about the best scheme for the area and therefore there were few attempts formally to challenge the planners' recommendations.

The most frequent criticism of the planning system, particularly in Cambridgeshire, concerned its uncertainty, reflected in the rejection of proposals without clear indications of reasons, differences between planning officer recommendations and committee decisions and delays involved in negotiation and appeal.

Conclusions

In boom times, house prices rise fairly consistently across the whole market but investment is concentrated in the relatively unconstrained areas. Demand appears to be displaced more at the bottom end of the market than in the middle or at the top.

In terms of output, constraint in North Hertfordshire appeared to 'iron out' some of the boom-slump variations in completions and outstanding permissions observed elsewhere. South Cambridgeshire reacted more to changing market conditions. But it was in Fenland, the least constrained area, that dramatic changes could be seen, with both output and prices rising rapidly in the boom only to be followed by an equally rapid decline.

Even in Fenland there was evidence of constraint, arising perhaps from the location, size and type of sites available as well as from owners' and developers' assessment of land availability. Moreover, developers appeared to be guided by experience elsewhere rather than by local conditions. As a result, the gap between housing and agricultural land prices was far greater in 1991 than a decade earlier in 1981.

Whilst the planning system creates rent-seeking incentives for developers, their response is limited by risks of planning delay and changing market conditions. Developers were actively involved in a

process of negotiation in Fenland where the release of land was periodically reviewed. In South Cambridgeshire and North Hertfordshire planning policies were considered to place an almost absolute constraint on the development of non-conforming sites.

Within these constraints, the relatively flexible approach taken by planners in North Hertfordshire appeared to be as successful at securing development as the more formal strategies adopted in Fenland and South Cambridgeshire. The emphasis on evaluating the scheme within its local context seems to ensure greater compatibility between the planners' ideal and the more market-led views of the developer.

The researchers conclude that the release of housing land in one area cannot fully substitute for constraint in another. Neither can the planning system as a whole absorb sudden changes in demand. For policy makers, perhaps the most important finding is that the relationships between planning policies and their effect on market outcomes is very complex.

About the study

The study analysed land and house price data in the study areas, as well as examining general planning policies. Detailed case studies of specific sites in each of the districts were also completed. Interviews with planners, developers and estate agents supplemented the information.

Further information

More detailed results of the study are contained in a Property Research Unit Discussion Paper **Land Supply and Housing: a case study** by Alastair Jackson, Sarah Monk, Caroline Royce and Jessica Dunn, available from The Publications Secretary, Department of Land Economy, University of Cambridge, 19 Silver Street, Cambridge CB3 9EP (price £15.00 plus £1.95 postage and packing).

Related *Findings*

The following *Housing Findings* look at related issues:

- 110** New arrangements for land release and affordable housing (March 94).
- 114** Implementing affordable housing policies: the financial mechanisms (June 94).

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Published by the
Joseph Rowntree Foundation
The Homestead, 40 Water End
York YO3 6LP
Tel: 0904 629241 Fax: 0904 620072
ISSN 0958-3084

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