

Research impact: making a difference

Recognising the true economic effects of land-use planning

LSE research has transformed our understanding of land-use planning by revealing its substantial economic impacts

What was the problem?

Land-use planning has traditionally focused on design, physical measures and narrowly defined environmental effects. But the decisions that planners make have an economic impact too — on the supply and affordability of houses and offices, for instance, and on the productivity of economic users of space, such as supermarkets.

The challenge is to design planning policies that are better in terms of economic efficiency but deliver as good or better environmental impacts.

What did we do?

LSE research was the first to recognise and investigate the impact of British planning policies on the price, quality and affordability of property through the deliberate constraints these policies exerted on the supply of land for development.

The research was conducted in two phases. The first phase, begun in 1995, focused on housing and the second phase, partially funded by the Treasury, extended the analysis to the economic impacts of planning policies on the costs of office space and retail productivity.

The findings were startling. LSE researchers revealed that England's planning policies added 35 per cent to the cost of housing, imposed a 'tax' of up to 800 per cent on the cost of building new office space, and since 1996 had reduced the productivity of a representative new English supermarket by 32 per cent.

LSE Professor of Economic Geography Paul Cheshire and Professor Stephen Sheppard (Williams College) developed their ideas on housing in a study commissioned by the then Department of the Environment, Transport and the Regions in 1997. They produced a model capable of estimating the change in the real price of housing resulting from any given decision on the supply of land, by region and for England as a whole. Their forecast was that the then current policy of forcing 60% of new housing to be built on 'brownfield' sites would increase the real price of housing by 132% by 2016 compared to 1996. The researchers developed their ideas to formulate proposals for reforming the planning system to reduce its economic costs while retaining the benefits of the wider amenities it generates.

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Since 2008, the research has been supported within LSE's Spatial Economics Research Centre. Researchers have evaluated the impacts of planning policies on retail productivity; tested the causal relationship between planning restrictions at the local level and house prices; and contributed to a study exploring the claimed benefits of 'Town Centre First' policies for retail outlets, which forced new retail development to planner-selected town centre sites in preference to out-of-town developments.

What happened?

LSE research into the wider costs of land-use planning has both changed the terms of the debate about the impact of planning and influenced specific government policies across a range of housing and planning issues.

LSE's contribution to government thinking on this issue began following the results of their 1997 study for the Department of the Environment, Transport and the Regions.

Their dramatic finding with respect to the impact of planning policies on the price of housing was a factor in the decision of the Chancellor and the Deputy Prime Minister to commission economist Kate Barker to review housing supply in the UK and the interaction between the housing market and the planning system. This was followed by a second 'Barker Review' of the planning system in England. Barker's two reports referred extensively to LSE research, particularly its proposals on using price signals generated by land markets and its findings on the impact of planning restrictions on office costs.

Although a change of government in May 2010 swept away many of the planning institutions set up after the Barker Reviews, the underlying principles inspired by LSE research live on. For instance, while the new government abolished the Infrastructure Planning Commission, its core principle, that nationally significant infrastructure should not be subject to local development control, was retained.

The incoming government also retained the Community Infrastructure Levy, introduced in 2008 as a form of impact fees, which Cheshire had proposed to Barker and the Treasury as a way of offsetting the costs imposed by development on a community.

The influence of Cheshire and his colleagues on the government's National Planning Policy Framework can be seen in many of its recommendations —on the use of market signals, for instance, and on the need for planning policies to reflect the economic gains of development. Cheshire gave written and oral evidence to the House of Commons Select Committee on the Environment when it scrutinised the draft Framework. Ministerial statements continue to reflect

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his contributions to the Committee, such as Planning Minister Nick Boles's call to permit new building on 'greenfield' sites.

LSE research on office costs and supermarket productivity has convinced the government that land-use planning can handicap the supply side of the British economy. This has fed into policy documents from the Treasury and the Department of Business, Innovation and Skills, in particular proposals to introduce financial incentives for local authorities to encourage house building and 'pro-growth' economic development. Work on office costs by Cheshire and LSE Associate Professor Christian Hilber influenced the government scheme allowing local authorities to keep a proportion of revenue from Business Rates (i.e. property tax).

Cheshire and his LSE colleagues have also influenced the wider policy-making process. Following the 2010 general election, Cheshire was appointed to the Department for Communities and Local Government's Planning Sounding Board, set up to engage the development industry with planning reform. With LSE Professor Henry Overman he briefed incoming ministers and the Secretary of State for Business, Innovation and Skills on planning issues.

As well as presenting aspects of his work to seminars and workshops convened by the Government Economic Service, the Cabinet Office, the Treasury and other government departments, Cheshire has contributed to the Bank of England Residential Property Forum, given evidence to the OECD and the IMF and advised the New Zealand Treasury on reforming planning policy.

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What's happened since?

LSE research has continued with new findings on the impact of more restrictive planning on housing vacancies and Town Centre First policies on the length of shopping trips. The group has also shown that the uncertainties of decision making within the planning system allow famous architects to 'game' the process to get far more space in a typical office development – an extra 19 stories! Cheshire gave a plenary lecture to the annual House Builders conference and co-chaired and gave a plenary to the National Planning Summit. He also gave a lecture to the Department of Communities and Local Government and wrote an article in the spring issue of LSE's CentrePiece "Don't blame the foreigners: it's we Brits who turned houses into gold". This received extensive coverage in the media and led to an interview on the BBC's World at One and his being a member of the panel of a Radio 4 special on the housing crisis.

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Professor Paul Cheshire, an economist by training, has a strong interest in policy analysis and policy related fields, and was recently named one of the Planning industry's most influential people. He has spent time as an advisor and as a consultant for the European Commission, the World Bank, the OECD, the UN and other international organisations as well as the UK government, including being a member of the Expert Panel for the Barker Review of the Planning system, and an Academic Friend of the Eddington Transport Study. He was a Board member of the National Housing and Planning Advice Unit and a member of two of the Department of Communities and Local Government's Expert Panels. He is a member of the International Scientific Committee of Nicis and of the conseil scientifique du Grand Paris.

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