

in brief...

# Empty homes, longer commutes

In areas of Britain where there are empty houses, planners typically allocate less land for development and make it more difficult to build or adapt houses. Research by **Paul Cheshire, Christian Hilber and Hans Koster** exposes the unintended and undesirable consequences of additional local restrictions, including more, not fewer, empty homes and longer commutes.

We have long argued that the fundamental problem with housing in Britain is a lack of supply: the country has been under-building for two generations. Updating the simple estimate one of us made four years ago (Cheshire, 2014), the housing shortfall in England just since 1994 has risen from about two million homes to two and a half million. And we go on building the wrong sort of houses in the wrong places: we built more than twice as many per person in low-demand areas like Doncaster and Barnsley over the past 15 years than in Oxford and Cambridge.

In pursuit of 'urban density', 'building on brownfields' and the 'compact city', we build too many cramped flats and maisonettes in less attractive cities or city neighbourhoods but almost no family-friendly homes with gardens within reach of high-paid jobs. We are spending £18 billion on Crossrail but once it gets over the 'green belt' boundary, we can build no new houses.

There is a price to pay for building on brownfields and not allocating enough land: a crisis of affordability and a hugely inequitable transfer of housing assets to the rich and the old. Our housing crisis is a long-term crisis of supply: an endemic lack of supply interacting with rising demand.

One of the many arguments used for allocating less land for housing is 'all those vacant homes'. Even one of the least restrictive English regions, the East Midlands, argued in their 'regional spatial strategy' that they could allocate less land because they assumed they would reduce housing vacancies by 0.5 percentage points (that is, by about 12.5% of the long-term average). And Islington Council moved to use the planning system to tackle the 'scandal of empty homes' in 2014.

A logically equivalent assertion has been made by Lord Rogers, an advocate of urban density, in arguing against allowing offices to be converted to housing to help

with London's housing supply: '... why should we rush to convert office blocks when we already have three-quarters of a million homes in England lying empty...?'

The trouble with interventions in the housing market is that however well intentioned, they often generate all sorts of unintended consequences. Markets respond by generating new and sometimes perverse incentives. Reflecting this, one of our most recent research findings is that more restrictive local planning actually has the net effect of increasing the proportion of vacant homes (Cheshire et al, 2018).

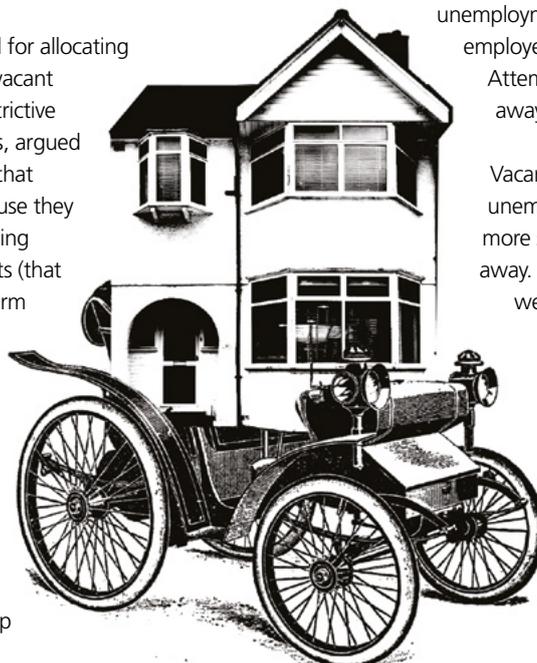
Having fewer empty houses is in itself a good thing. We have a shortage of houses and using the stock more intensively is a way of increasing efficiency. That is just how cut-price airlines operate: they keep their seats full and their aircraft in the air. But they do not just assume planes will spend more of their lives in the air and seats will be fuller. They have an analysis of how to achieve this.

Unless we understand why houses are vacant, we cannot hope to reduce the numbers that are empty just by being more restrictive. It would come as no surprise to economists to observe that in well-functioning labour markets, there was

unemployment. Workers search for jobs and employers seek (better) qualified workers.

Attempting to regulate unemployment away makes no sense.

Vacant houses are analogous to unemployed workers, so it makes no more sense to try to 'regulate' vacancies away. That does not, of course, mean that we should not have policies to try to minimise their number.



The net effect of more local planning restrictions is to increase the proportion of empty homes substantially

What really happens if a local housing authority makes housing even scarcer by tightening planning restrictiveness (saying no to more development proposals)? On the one hand, it will make housing in the area more expensive (Hilber and Vermeulen, 2016). This will increase the incentives to occupy housing and so reduce vacancies.

Unfortunately, planning that restricts the modification of existing homes or the allocation of land for new homes also makes it harder to adapt the characteristics of the housing stock to the constantly changing patterns of demand. Jobs grow in a locality, so demand for houses increases. The local school gets better so the demand for family-sized homes increases; people buy a car, so they want parking; they have fewer children or separate, so they want smaller homes – the list is potentially endless.

The result of this is that in more restrictive locations, people wanting a home find it more difficult to match their preferences to what is available. So they have to search longer or further afield. The result is that there are more empty houses in the more tightly regulated places and more people living and commuting from the less regulated places further afield. Both these effects work at the same time but in opposite directions. So which one dominates is an empirical question.

Our recent study goes to great lengths to deal with problems of reverse causation and endogeneity. We have 30 years of data for 350 English local authorities, and our results show with substantial reliability that the net effect of more local restrictiveness is not just to increase the proportion of empty homes but to increase it substantially. A one standard deviation increase in local restrictiveness causes the local vacancy rate to increase by nearly a quarter.

What's more, because local restrictiveness makes finding a suitable house locally more difficult, it also increases the average distance people have to travel to work. The same increase in local restrictiveness causes a 6.1% rise in commuting distances.

So attempting to regulate housing vacancies away by allocating less land or being more restrictive with respect to new building or adaptation of existing houses, in fact increases the proportion of local homes that are empty as well as making people who work in the area commute further. This is the absolute opposite of what advocates of the planning policy want to achieve.

It is the mismatch between the preferences of households and the housing stock on offer that leads, other things equal, to higher vacancy rates in the more regulated – typically more desirable – places. Such constraints will likely cause a significant welfare loss. This is because too much housing stays empty in the most regulated, most desirable and, by implication, most productive places with the strongest demand and highest valuations for living space.

## Aiming for a 'compact city' makes planning policy more restrictive, with unintended consequences that include raising average commuting distances

So people are induced to commute further, while living in the 'wrong' places.

The policy lesson is that planners should not allocate less land for development on the grounds that there are empty houses; nor should they make it more difficult to build or adapt houses. Rather they should encourage more flexibility with the number, location and type of houses.

There is moreover a nice irony for advocates of the 'compact city'. The most common policy to attempt to implement this ideal is to impose growth boundaries (make land scarcer) and be more restrictive with respect to adaptations of the existing stock. Aiming for a compact city, in other words, makes planning policy more restrictive.

Our results show that this will have exactly the opposite to the intended effect because average commuting distances will lengthen as residents search further afield for housing that they can afford and which more closely matches their preferences.

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## Further reading

Paul Cheshire (2014) 'Turning Houses into Gold: The Failure of British Planning', *CentrePiece* 19(1): 14-18 (<http://cep.lse.ac.uk/pubs/download/cp421.pdf>).

Paul Cheshire, Christian Hilber and Hans Koster (2018) 'Empty Homes, Longer Commutes: The Unintended Consequences of More Restrictive Local Planning', *Journal of Public Economics* 158: 126-51 (earlier version available as Urban and Spatial Programme Discussion Paper No. 181: <http://www.spatial-economics.ac.uk/textonly/serc/publications/download/sercdp0181.pdf>).

Christian Hilber and Wouter Vermeulen (2016) 'The Impact of Supply Constraints on House Prices in England', *Economic Journal* 126(591): 358-405 (earlier version available as Urban and Spatial Programme Discussion Paper No. 119: <http://www.spatial-economics.ac.uk/textonly/serc/publications/download/sercdp0119.pdf>).