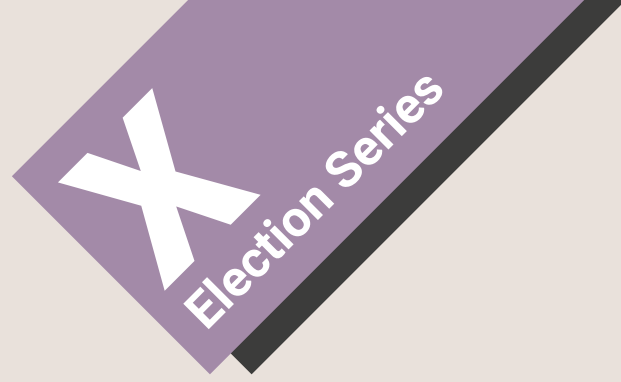




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Housing and planning

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CEP Election Analysis 2024: Housing and planning

Paul Cheshire and Christian A.L. Hilber¹

- In the 30 years from 1989, 3 million fewer houses were built than in the previous 30 years, despite a strong increase in demand.
- This mismatch between supply and demand has contributed to the affordability crisis. In 1997 the ratio of median house price to median income across England and Wales was 3.6 and in London it was 4.0. By 2023 the median house in London cost 12 times the median earnings and even in the least unaffordable region, north-east England, the ratio was 5.0.
- This rise means only younger people whose parents – even grandparents – were homeowners can now be reasonably optimistic of being able to buy.
- As the fundamental cause of our housing crisis is not building enough houses, supply side reform is the only effective solution.
- Only the Labour Party have substantive proposals for reform that could improve housing supply.
- These include restoring mandatory housing targets for local authorities, forcing local authorities to have up-to-date local plans embodying housing targets and having a strategic review of the green belt.
- These are still not radical in that they attempt only to improve a dysfunctional status quo and are unlikely to get 300,000 houses (the target of successive governments) built in any year before 2030. They ignore a range of more effective reforms most of which would boost growth and some of which could directly raise resources, such as moving to a rules-based planning system or at least trialling it in a big city region, reviewing and relaxing height restrictions and view corridors unless real social value can be demonstrated, abolishing Town Centre First policy, adjusting preservation policies to enable energy efficiency improvements in old buildings, and, implementing a strategic review and subsequent reform of property taxes and the system of local government finance.

¹ The authors would like to thank Shaonlee Patranabis for her work generating Figures 1 and 2.

Introduction

In an election briefing issued in November 2019 (Cheshire and Hilber, 2019) we argued that the fundamental problem with the British housing market was the very long-term failure of the supply side: in the 30 years from 1989 more than 3 million fewer houses were built in England than in the previous 30 years but demand increased almost year-by-year as real incomes and population increased and, for a long period from 2008 to 2020, mortgage rates fell. The ensuing crisis in affordability drives a wedge into the fabric of society, as housing wealth is redistributed towards older homeowners, while younger renters and would-be-buyers are confronted with ever rising housing costs and deposit constraints. Only younger people whose parents – even grandparents – were homeowners can now be reasonably optimistic of being able to buy.

Since 2010, except for a brief but aborted effort to reform planning in 2020², the government's approach to addressing housing affordability has been to engage in symbolic, futile and wasteful policies boosting demand for first time buyers. This, as shown by Carozzi *et al* (2024) only increases house prices further in areas with tight constraints where affordability is worst. Britain's supply problem derives from our dysfunctional planning system, reinforced by the way we finance local government. Local Authorities (LA) are in effect fined if they permit houses to be built because they are legally required to provide services for the additional residents but get no appreciable boost to their longer-term finances.

Post-2022, the Conservatives have been in terror of their Home Counties home-owning electorate and, while maintaining the rhetoric of wanting more houses built, have, in effect, abandoned all attempts to build them. By allowing its "target" of 300,000 new houses a year, and its local implementation, to become effectively voluntary, the government has not just licensed Not in My Back Yard (NIMBY) LAs to become even more restrictive but encouraged them to abandon the need to have a valid local plan at all. As recently as 2021, 45% of LAs had an approved plan (House of Lords, 2022). By autumn 2023 that was down to 33% and is projected to fall to 25% by 2025 (Lichfield, 2023).

So, while supply side reform is the only effective solution to our housing supply crisis, the changes introduced post-2022 have only made it worse. Given this, it is unsurprising that reforming our planning system has come to the fore in this election. The Labour Party has proposals for reform more radical than any seen in 50 years. Unfortunately, while if implemented with real vigour, they could improve the current situation, they will unlikely be enough to get 300,000 houses built in any year soon.

² The August 2020 Planning for the Future white paper had some quite radical proposals which would have moved the planning system towards being "rule-based" (Cheshire, 2020). This effort was abandoned following the Liberal Democrat win in the Chesham and Amersham by election, fought largely on defending the NIMBY status quo.

Here we provide an overview of the key issues and the underlying causes. We discuss the merits and demerits of key policies. We conclude with a discussion of those reforms that ought to be on the policy agenda but have not been proposed.

The problem

The extreme damage caused by unaffordable housing is well documented. It is not just that it restricts access to decent housing, or housing at all³, but it has adverse effects on equality, social cohesion, retirement planning⁴, productivity and economic growth. The average private rent in London is significantly more than half of the median gross earnings for full-time workers in the capital.⁵ The poorest 25% spent 3.5 times more on housing as a fraction of their income than the richest 25% (Cribb et al, 2023)⁶ so rising housing costs over the past 20 years have hit the poorest hardest. The unaffordability of housing redistributes wealth to existing owners, especially to those who have paid off their mortgages, generating a generational divide.

The Barker inquiry was set up in 2003 to investigate the causes of the then unacceptable level of affordability (Barker 2004): at that date, the median house price to median income ratio – by which affordability is most usually judged – had, in England and Wales, increased from 3.6 in 1997 to 5.9⁷ By 2023 it had increased to 8.1. In the least affordable region, London, the ratio had tripled from 4.0 in 1997 to 12.0 in 2023. Londoners may be the richest Britons, but their housing is the most unaffordable. Even in the least unaffordable region, north-east England, the ratio of 5.0 in 2023 was, by accepted international standards, “unaffordable” and nearly “severely unaffordable”⁸. It is only Londoners who are part of the professional or super-skilled elite who have a real advantage in terms of disposable incomes.

Figure 1a and 1b show the latest data (2023) for the affordability ratio by LA, for all of England and Greater London respectively. It is obvious how the affordability crisis is concentrated in London and the surrounding area with a stretch along the south coast as far as Devon and a Y-shaped swathe of unaffordability with a branch leading north-west to and beyond Oxford, and another to the north-east to Cambridge. There is also another low point for affordability around York. As was shown in Cheshire (2018), York has been one of the

³ Britain has by far the highest rate of homelessness in the developed world (Burn-Murdoch, 2024).

⁴ Ultra-long mortgages are clearly on the rise: The proportion of mortgages arranged to last into retirement increased from 31% in 2021 to 42% in 2023 (Osborne, 2024).

⁵ See the VOA (2023) for the average rent level in London between April 2018 and March 2019, the ONS (2024a) for the index of private housing rental prices in London (to calculate rent levels for 2023) and the Annual Survey of Hours and Earnings (accessed through NOMIS; last accessed 19/6/24) for the median gross pay of full time workers.

⁶ <https://ifs.org.uk/news/housing-costs-take-three-and-half-times-much-budgets-poor-rich-significant-implications-their>

⁷ See ONS (2024b).

⁸ [A ratio is usually judged as ‘affordable’ if it is at 3 or below. Markets with multiples of 5.1 and above are considered ‘severely unaffordable’ \(Demographia 2018\).](#)

fastest growing commuter stations for London workers leaping across the green belt to find more affordable housing space and urban amenities.

Figure 1a: Housing affordability across England, 2023

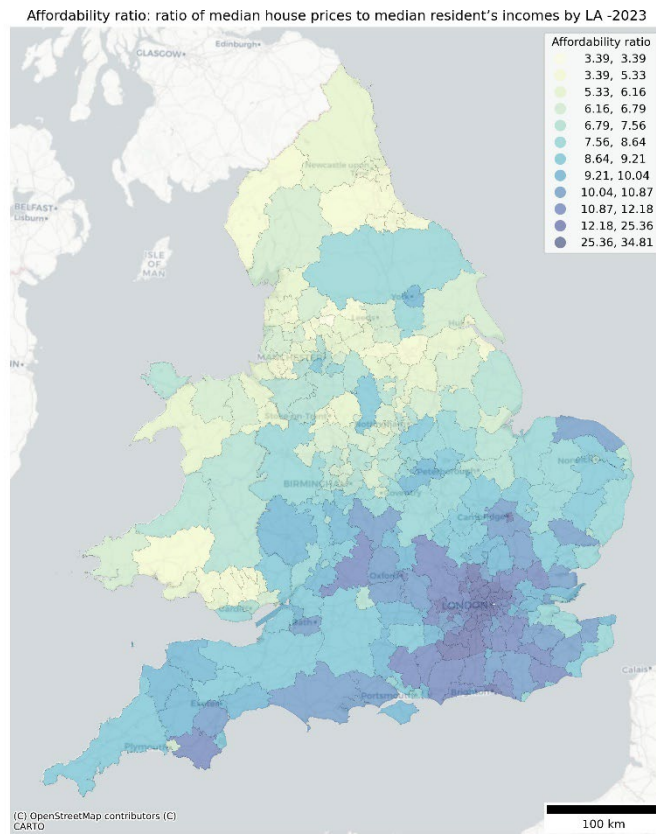


Figure 1b: Housing affordability across Greater London, 2023

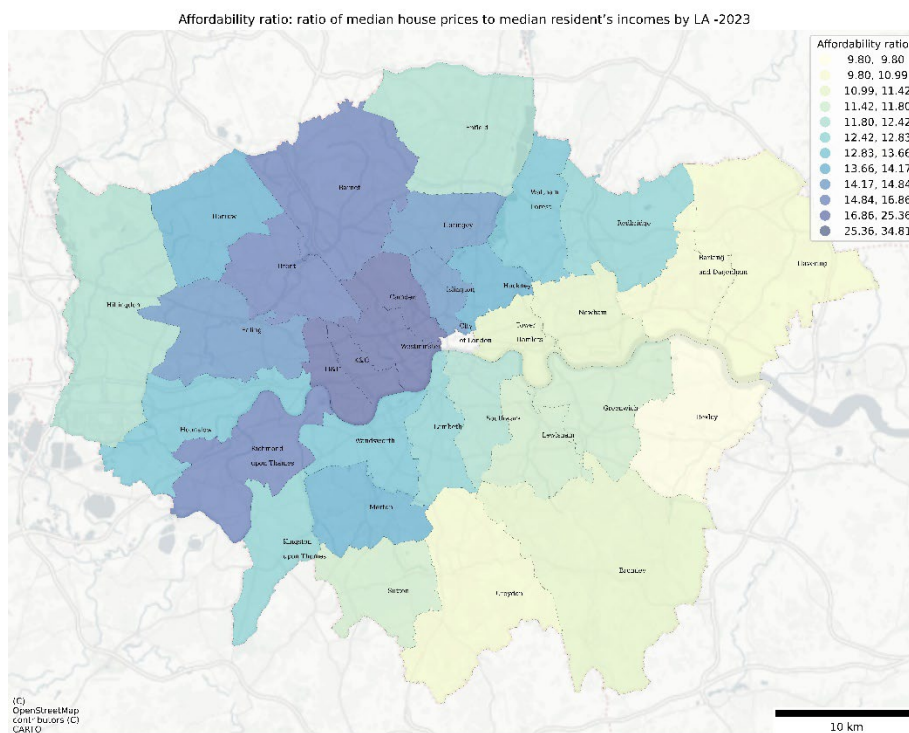
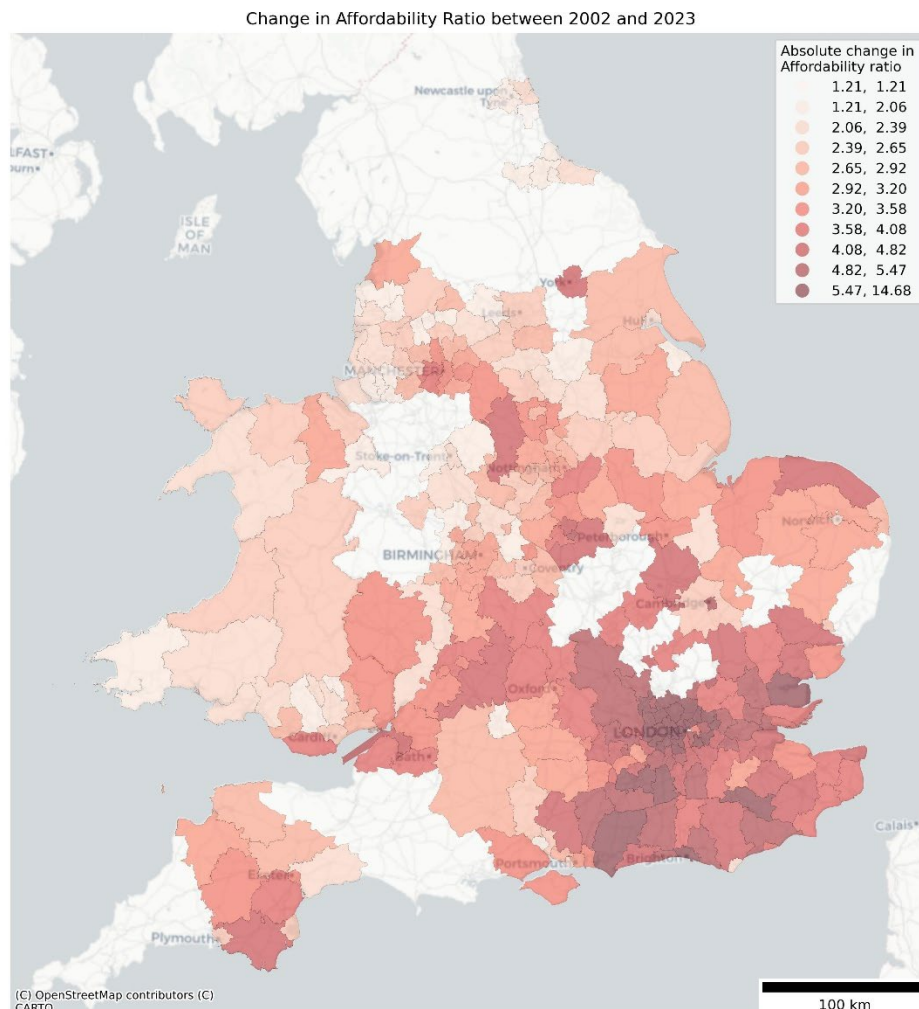


Figure 2 shows how the affordability of housing worsened from 2002 to 2023. London and its wider region are the focus of the crisis, but affordability has also deteriorated in big city regions like Manchester and, to a lesser extent, Birmingham and in coastal areas from north Norfolk to coastal South Wales.

Figure 2: Change in housing affordability across England, 2002 to 2023



Researchers, and now politicians, increasingly understand that the housing market crisis itself – for reasons discussed below – has damaging effects on the economy and on growth.

The fundamental cause of our housing crisis is not building enough houses (and not building in the right locations): this is not just a problem of the recent governments – it is an accumulated deficit of house building going back to at least 1955 – more than two generations. Had Britain built at a rate comparable to that of similar European countries then we would have built an additional 4.3 million houses since 1945 (Watling and Breach, 2023).

In so far as our planning system now allocates land for housing at all, it does so on the basis of housing “need” – primarily determined by projected growth in household numbers. These are assumed to be exogenously determined by population growth despite the fact

that both household formation and migration are functions of the real price of houses in a local housing market.⁹ Prices, and so affordability, are determined by demand relative to supply, however, and demand is largely determined by incomes – rather than numbers of people (see Cheshire, 2018; Muellbauer. 2018). Moreover, the evidence is that the demand for houses is not just driven by incomes but that there is a separate demand for space both in and around houses. That is – as people get richer, they not only demand more houses, they demand more space in their houses and bigger gardens. All this implies a strongly rising demand for housing space as incomes grow (Cheshire and Sheppard, 1998).

So, the housing crisis is caused not just by not building enough houses over two generations but from not having supplied enough land on which to build them. While in most rich countries, houses per 1,000 population increased substantially between 1990 and 2020 (in Japan, Germany, Italy and France by between 15% and 29%, for example) in Britain the increase was less than 4% and, from 2000, there was no increase at all. Equally, in all countries other than the UK the amount of urban space per capita increased steadily from 1975 to 2014 while in the UK there has been no increase since 1990 and if anything, a fall during the 21st century. By 2014, there was only just over 200m² of built-up land per person in the UK compared with close to 400m² in France and close to 300m² in the Netherlands and Germany.¹⁰

It is reasonable to take 1955 as the start of our failure of housing supply because that is the year in which the Metropolitan Green Belt was launched. This was quickly followed by other green belts around almost all English cities. By 1973 they covered 1,681,000 hectares of England which is, for practical purposes, the same area as today. In 1955 the only purpose of the new Metropolitan Green Belt was to prevent development – in a great swathe of land stretching from the North Sea to the edge of Aylesbury. There was, and is, no recreational or environmental purpose of green belt designation. As the NPPF (DLUHC, 2023) has confirmed, preventing development remains their sole purpose.

Incomes and so demand for housing space in Britain rose steadily from after second world war until at least the Great Financial Crisis in 2007/08. If the supply of something – land in this case – is frozen then its price rises. In 1955, eggs cost about 28p a dozen. If their price had risen at the same rate as the price of housing land, they would have cost £91.28 by 2008 – the most recent year for which there is comparable data (Cheshire, 2023).

What is on offer in this election?

As explained in the opening paragraph, the housing crisis is essentially a crisis of supply – a multigenerational paralysis building new homes. There has been a government target of building 300,000 new homes a year for 15 years, but this target has never been met and the

⁹ Indeed, it is the unaffordable housing that partly explains the increase in young adults living with their parents.

¹⁰See Resolution Foundation & Centre for Economic Performance (2023): Figures 38 and 49.

latest data show building falling even further back.¹¹ Given the increasing shortfall in construction under the Conservatives, it is obvious, radically new, more effective policies are essential. Yet the Conservatives propose no measures that could address this crisis of supply. Indeed, after their Conference in October 2023, the specialist publication *Inside Housing* concluded the Conservatives had “essentially nothing to say about housing”.¹² Their manifesto merely reiterates the aspiration of building 300,000 homes a year by abolishing the “legacy EU ‘nutrient neutrality’ rules” and relieving developers or water companies of the requirement to ensure sewage treatment is available; delivering record numbers of new homes on Brownfield land – something that since 1996 various parties at various times have claimed was a panacea – a claim dismissed by objective observers such as HoL (2022); ‘raising densities in Inner London to those of Paris or Barcelona’ – again an ancient aspiration but with no mechanisms to achieve it; and unlocking ‘urban regeneration’ citing the aspirations for Cambridge announced in 2023 but if this is ever to be implemented then not until 2050. Liberal Democrat proposals are, if anything, even more aspirational: they want to raise the house-building target to 380,000 a year but again with no mechanisms - except rhetoric - to achieve it.

There is therefore little point evaluating the policy offer of either the Conservatives or Liberal Democrats. The Labour Party, in contrast, has made housing and planning reform one of the key issues in its manifesto so we focus on these proposals.

The issues to address

The long-term failure to build enough houses results from the combined effects of:

1. Restrictions on the supply of land for housing and, more widely, on the supply of housing space. It is not just green belts preventing building on 12.4% of England’s land, but binding height restrictions that cover almost all of Britain, and 10.7% of dwellings are subject to preservation policies (Hilber *et al*, 2019), mostly in high-demand areas, impeding renovations and densification.
2. Restrictive development decisions¹³ – the council says “no”.
3. The additional uncertainty, and so risk, that our discretionary system generates.
4. The lack of fiscal incentives for local communities to accommodate new development.

The problems with housing do not just damage the welfare of house buyers and renters and generate serious inequality, they damage productivity and growth. Less affordable housing discourages skilled workers from moving to our most productive economies and also increases commuting distances (and commuting costs) – and correspondingly pollution – as

¹¹ Detailed Planning permissions in Q1 2024 were at their lowest level since 2016 and half the level of Q1 2019 (HBF, 2024): house completions in 2023 were 158,200 – again the lowest in recent history (ONS Live Table 253a).

¹² <https://www.insidehousing.co.uk/comment/housing-was-missing-from-the-conservative-conference-83439>

¹³ Hilber and Vermeulen (2016) estimate that had local authorities in the south east of England been as relatively flexible as those in the north east, house prices in the south east would have been 25% lower – and that is just for the period from 1974 to 2008.

people leapfrog green belts to find affordable housing space or just fail to find suitable housing in more restrictive LAs (Cheshire *et al*, 2018). There has been no work done in the UK to quantify the total value of this loss but in the United States – where restrictions are more recent and less binding – Hsieh and Moretti (2019) simulated the impact of a relaxation of land use restriction in just the New York and Bay Areas to the national median. Over the period 1964 to 2009 they estimated this would have boosted average annual earnings of all workers by \$3,685. A more recent study by Duranton and Puga (2023) concluded that relaxing regulation in seven tightly regulated large US cities would increase aggregate output by 7.95% and consumption of newcomers in these cities by 6.6%, while very moderately lowering consumption of the incumbents (between nil and 0.05%). While rigorously based on microeconomic foundations their estimates are likely a lower bound. Ahlfeldt and Barr (2022) estimate a 10-floor height restriction imposed in Houston, Texas, would have an effect equivalent to a 5.8% reduction in the city’s gross domestic product.

Less obviously, our desperate housing market distorts incentives and almost certainly damages our real economy in subtle ways by diverting both investment and entrepreneurial talent into playing it, rather than towards productive investment or skills. The German or the Swiss do not put energy into trying to gain money from housing, they put it into real investment and skills.

These are indirect negative effects on the real economy, but research has shown substantial direct damage too. In the supermarket sector, estimates show a loss of total factor productivity as a result of Town Centre First policy for new stores of 32% (Cheshire *et al*, 2015). The costs of office space are increased very substantially also. Cheshire and Hilber (2008) estimated that a combination of height restrictions and more generalised restrictions on development, created the equivalent of a tax on office construction costs of up to 800% (in London’s West End) or nearly 500% in the City of London. This burden on office costs was not confined to London. The pure construction cost of a square metre of office space in Birmingham in 2004 was only half of that in Manhattan, the price per square metre that the occupier had to pay was 44% more (Cheshire and Hilber, 2008).

Labour’s proposals for reform

Judged against the severity of the problems and the need for really radical reform of not just how we plan, but how we finance local government, Labour’s proposals fall short.

What Labour is proposing, if vigorously implemented, is the most substantive set of reforms since our very odd planning system was set up in 1947. If implemented with vigour and a willingness to ignore the powerful vested interests that this system has created (big developers like it – they have learnt to manipulate it and its cost squeezes out competitors), these would improve the situation. But they still fall well short of the radical reforms needed to strike a proper balance between local and wider social or national interests. And they do not move away from our unpredictable, discretionary system, to a “rules-based” system, similar to that in continental Europe, that would make lobbying or gaming redundant and

eliminate a significant source of development risk. It is in the social interest that public policy should minimise risk, not increase it, since mitigating risk consumes real resources and ensures fewer houses or commercial premises are built. At the same time higher risk favours the larger developers over the small and medium-sized building firms.

Apart from some minor playing to the gallery such as “planning passports for urban brownfield land” (there is not remotely enough fallow urban brownfield land to begin to address our housing crisis and what there is, is disproportionately where housing is least unaffordable); increasing stamp duty (which should in fact be abolished – see Cheshire and Hilber, 2022) on overseas house buyers with the proceeds earmarked to increase the funding of the planning system (while the planning system needs more resourcing, there are far too few overseas buyers to make any material difference); and giving “first dibs” to first time buyers (more or less meaningless), Labour has four substantial proposals:

1. Retain the 300,000 a year housebuilding target and restore mandatory housing targets for LAs.
2. Force LAs to have up-to-date local plans embodying housing targets compatible with meeting “housing need”.
3. Have a strategic review of the green belt.
4. Build a new generation of New Towns.

Assuming – as Labour do – we stick to our existing system, if it is to work, LAs need a plan which incorporates both housing targets and identifies the land on which to build the houses and, as noted in the introduction, LAs with a valid plan are in a rapidly falling minority. The Labour Party’s proposals have quite a cunning solution. An incoming Labour minister will immediately instruct all chief planning officers to accept proposals to build if their LA does not have a valid plan and is not meeting key housing targets. Housing targets for LAs would be reinstated. Labour would also introduce an enforceable “presumption in favour” where development proposals conform to the local plan and – more effective probably – empower the Planning Inspectorate to draw up local plans where these are “significantly and egregiously delayed”.

None of this would make much difference unless vigorously and rapidly followed through but the threat of automatic approval if there was no plan and of the Planning Inspectorate drawing up local plans if the LA failed to do so, should concentrate even the most NIMBY minds, whether they are residents or the politicians who represent them, into producing local plans that realistically could deliver their housing targets. All that does presume, not just more determination than politicians have historically been willing to deploy but also significantly more resources for seriously under-resourced LA planning departments and the Planning Inspectorate.

In a speech to the Fabian Society in October 2023, Matthew Pennycook, the shadow minister for housing and planning, went further than Keir Starmer’s rhetorical “build on the grey belt”. He admitted housing needs could not be met by building on brownfield land alone, but parts of the green belt had to be released and argued this had to be done in a

“strategic way” and Labour would “bite the bullet”. If carried through, this really could make a difference since a strategic review of the extent and social and environmental value of the green belt would surely conclude that releasing small areas with no environmental or amenity value near to commuter stations – perhaps any stations – would not only have negligible welfare cost but, unlike New Towns, could support rail-oriented development for several million new homes (see Cheshire and Buyuklieva, 2019).

Nevertheless, the fourth substantial proposal Labour has come up with is a “new generation of New Towns”. The criteria set out to pinpoint sites for these – near transport hubs in areas of significant “housing need” where there are no negative environmental or amenity concerns – make sense, as does their idea of creating “heat maps” of these factors to come up with suitable locations and setting a six-month deadline for the selection process. Less convincing is the hope that the LAs concerned will bid for them – or even co-operate. Making the whole proposal inoperable, however, is the idea of setting up New Town Corporations with planning powers and powers to compulsorily purchase land with limited “hope” value – that is the hoped-for value of the land if it got planning permission. Labour has made three separate attempts since the second world war to capture land value uplift or establish bodies to buy development land at existing use value, each using compulsory purchase powers (see Cheshire *et al*, 2014, Ch. 6). All have failed because “hope” value was not extinguished. So first, landowners sat on land expecting the compulsory purchase threat to go away; and second, when it came to it, the costs of planning consultants, valuers and lawyers arguing about what the “existing use” value was and what the land’s “hope” value would be, exhausted any development value the land might have had. It all went to the professionals.

Unless Labour can come up with a more radical instrument for acquiring the land for New Towns and a willingness to decide at a national level where they should be located and then impose the decision, the proposal is likely to dribble away into the dust as did the eco-towns launched by Gordon Brown in 2007.

Dogs that don’t bark – policies that should be there but are not

The following policies seem missing from any party’s proposals. A common feature is that none of them would cost a significant amount of public money – indeed the final suggestion here would increase net tax revenues:

1. There is no consideration of the costs of having a planning system that not only has vanishingly few plans but in which all plans are discretionary – so no one knows what the outcome of their development proposals might be. Why not move to a “rules-based” system as in most of continental Europe; or at least trial it in a big city region, such as Manchester? As the Conservatives found in 2020, there might be short term political stress, especially from professional NIMBYs and local councillors who enjoy the power a discretionary system gives them, but this would pass and the whole planning system would become an order of magnitude less divisive and economically damaging.

2. There is no mention of the costs of inflexible height restrictions or view corridors. These restrict housing supply in the largest cities but perhaps more importantly, as applied to commercial buildings, increase the costs of space, and restrict agglomeration economies. They restrict the density of employment in the business hubs but, also, lead to the suppression of a potential productivity gain. Urban economists have an increasing understanding that people working in taller buildings are – all else given – more productive (Ahlfeldt and Barr, 2022). The implication is – let developers build taller buildings. An intelligent review could easily identify sensible changes to make our current system less costly while avoiding damage to city views of real social value.
3. There is no mention of damage done by Town Centre First policy. This, in effect, prevented retailers from choosing the most productive sites and, as a result, had an extraordinarily damaging effect on total factor productivity in the sector (see Cheshire *et al*, 2015). That might possibly be acceptable if there had been tangible gains. But research has conclusively shown that, in fact, this policy to “protect town centres” directly led to a reduction in town centre retail employment (Haskel and Sadun, 2012; Sadun, 2015) and did not increase shopper footfall (Cheshire *et al*, 2023) – even if it did help the chains take over the high street.
4. Labour’s commitment to green growth proved expensive but a change that could have a transformative impact on the carbon footprint of the residential sector is obvious, completely free and probably has even no significant political cost. There are 1.5 million homes in Conservation Areas, and it is all but impossible to install double glazing or solar panels on any of them. It is also much more difficult and costly to install insulation or heat pumps. Over the past 30 years the contribution of the residential sector to the UK’s total CO2 emissions has swollen from 13% to 18.5% (DESNZ, 2023). Hilber *et al* (2019) estimated that preservation policies increase the private energy cost and the social cost of carbon per dwelling by £11,600 and £2,400, respectively.¹⁴ All that is needed is a review of Conservation Area and Listing regulations to find ways to make investment in energy saving viable without sacrificing any significant part of their contribution to the preservation of our historic townscapes. Given that houses in Conservation Areas are old and leaky they certainly account for a very much higher proportion of CO2 emissions than they do of the housing stock.
5. A final change would be a strategic review and subsequent reform of property taxes and the system of local government finance. Our current property taxes are regressive and a tax on mobility (Hilber and Lytikäinen, 2017). Their structure also means the extraordinary capital gains accrued to housing have to a good extent slipped through the tax net. Here, while reform would require analysis and political courage, it could not just improve outcomes and boost growth but add to net tax

¹⁴ See also Fetzer (2023) for more recent evidence.

revenues. Simultaneous reforms to local government finance to generate revenue incentives for local communities to permit development would significantly soften NIMBY pressures (Burge and Ihlanfeldt, 2006; Cheshire and Hilber, 2008; Cheshire and Hilber, 2021).

Conclusions

Real reform requires both a rules-based system of planning and a system that embodies a proper understanding of basic economic analysis. That land in the green belt in a north London borough with planning permission but no planning obligations costs more than £30mn a hectare¹⁵ while adjoining land without permission costs perhaps £30,000 a hectare tells one something very powerful about the misallocation of resources our current system generates. No party is offering reform at anything like the scale needed but the Labour Party has the most substantive proposals on offer at the forthcoming election.

¹⁵ <https://www.zoopla.co.uk/for-sale/farms-land/barnet/>

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