

Housing Supply, Affordability and Land Use Regulation and Planning: Lessons From the United Kingdom

Discussions With Kate Barker, Former External Member of the Monetary Policy Committee of the Bank of England

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What does the developing world have to learn from the United Kingdom about housing and planning? Plenty as it turns out—particularly about the unintended consequences of well intentioned policies.

The recent World Urban Forum in Rio de Janeiro abounded with sessions on basic services in slums, the right to housing and sustainable environments in cities all over the developing world. As the developing world's economic powerhouses look at decoupling following the global economic crisis, proliferation of slums and affordable housing policy remain stubborn perennials in otherwise dynamic and fast growing economies. Governments quite rightly consider how to design programs to clean up slums and meet the housing needs of the lower income groups who seek economic opportunity in their fast growing cities. Often neglected however, is the impact of public policies governing land use planning, development rights and property taxation. All of these can have a dramatic impact on the cost of housing and thus raise the bar for households wishing to join the ranks of homeowners in the formal housing market. While more and better planning—if it were just done right—is often touted as the cure for slums and environmental woes of cities, the experience of the U.K. offers a cautionary tale of planning with substantial, if oftentimes hidden costs.

Following the Second World War, the Atlee government in the U.K. undertook a number of sweeping nationalizations, including one that is still in place today—government control of urban land development permissions. Among others, a goal of this policy was to ensure access to land for affordable housing—a matter of notable concern in the post-war reconstruction.

While the Thatcher government of the 1980s discarded many of these policies, and privatized much of the stock of public housing, tight government control of the planning process remained in place. As the economy grew through the 1990s and early 2000s, this constraint on supply took its toll. For 30 years, the price of housing grew by 2.4 percent per annum in real terms, three times the rate of France. Predictably housing affordability eroded. In 2002, only 37 percent of new households could afford to buy a property compared to 46 percent in the late 1980s. In 2002, as prices rose rapidly in the face of a negligible supply response, the U.K. Treasury took notice and mandated Kate Barker, at the time External Member of the Monetary Policy Committee of the Bank of England, to undertake an independent review of land use regulation and planning.

The Making Cities work for Growth Project of the Wolfensohn Center for Development at Brookings sponsored a series of lectures in India given by Kate Barker in February of 2010¹. The U.K. experience is relevant for fast-growing developing countries for several unexpected reasons.

The review found that even with all the planning and technical capacity available in the U.K., planning constraints that proceed on the basis of long-term population projections can still get it seriously wrong. National projections often have to be revised by 30-50 percent. It is even more difficult to calibrate regional population projections that must feed into local plans. Taking roughly 10 years to produce, the plans could not be revised rapidly enough to avoid acute price pressures in booming local economies. While existing homeowners may feel they benefit from rapid price run-ups, new households and migrants are penalized. If this is an issue in the U.K., it can be a very serious one in developing countries like India whose cities are growing faster, and whose technical capacities and information base for fine-tuning tight planning systems are far less.

The Barker review observed that the planning system produced beneficiaries, local governments, existing landowners, and to some extent well-established developers who understand how to operate in the complex planning system. The benefits to them are plain. The costs to the losers, those households who cannot afford to buy into the system and must pay more for their housing, are far less transparent, yet just as real and can be more substantial². In places like Mumbai, where nearly 60 percent of the city population is living in slums and limitation, the suitability of land use regulations, among the most draconian in the world, can certainly be questioned. They make land scarce and expensive, and this inevitably drives a large part of the population to seek shelter in slums. Before seeking to build its way out of its slum problems, any government should consider a Barker-type review of how they already affect the price of housing, and what they can do to make it easier for the private sector to supply affordable shelter. This will not put government out of a job, but it offers the hope of paring down government's residual task to help the neediest to a manageable size.

[Kate Barker's final report, learn more »](#)

[Kate Barker's interim report, learn more »](#)

¹ The events were organized in conjunction with a number of partner institutions, including Bombay First, the Ahmedabad Management Association, the Environmental Planning Collaborative, the India Habitat Centre, the National Housing Bank, and the National Institute of Urban Affairs.

² Paul Chesire and Steven Sheppard in *The Welfare Economics of Land Use Planning*. *Journal of Urban Economics* Volume 52, Issue 2, September 2002, Pages 242-269 show that the costs of land regulation, if tight enough, can outweigh the benefits.