

Planning for intergenerational unfairness

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Executive summary

Background

Across a wide range of metrics, life in Britain has improved markedly in recent decades. Young people benefit from a wide range of products and services that have become much more affordable or, in some cases, simply did not exist in the recent past. Medicine has improved with dramatic effects. In 1966, the number of deaths of under-18s was 5,541. In 1976, it was 4,154, in 1986 it was 2,884 and just 1,954 in 1996.¹ That's a lot of young adults who are alive today because of the advantages that weren't available to older generations. With the number having fallen further to 1,157 in 2016, this most important of aspects continues to improve. Few young adults in the 1970s or 1980s had access to mobile telephones or internet access, and the world wide web and smart phones hadn't been invented.

Ultimately, young people today enjoy many advantages that older generations never had at their age. Nonetheless, the weight of some policy failures is carried more by the young than by older people, and more by the young of today than in the past. In no area of policy is this discrepancy more acute than housing. This situation is deeply unfair and this report demonstrates how, why, and what to do about it.

1. The housing crisis is the single most important problem for intergenerational fairness

The scale of the impact the housing crisis has on the whole economy is enormous. Economists have estimated that the restrictiveness of the planning restrictions which cause it could be **responsible for preventing GDP from growing by as much as half its current size.**² This alone makes reform one of the most pressing imperatives for any government serious about improving living standards and productivity. But **its impact is felt most by younger generations** due to its spatial and tenure characteristics, which makes it all the more pressing.

2. There is a shortage of housing even though average floor space per person is at a record high

The latest data, from 2012, indicates that national floor space per person was at an all-time high but **the national picture masks rapidly falling floor space per person in the locations near highly paid jobs** where people want to live. Additionally, floor space per person in the tenure most dominated by younger generations, private rented tenancy, has fallen sharply. The situation has almost certainly deteriorated further since 2012.

3. Why planning restrictions cause the housing shortage and how to fix it

Homes are most expensive mainly in the areas where job prospects are strongest and the evidence shows that **planning system restrictiveness causes the shortage**, which drives up housing costs. We should **grant property owners substantially more freedom to build** homes where they're needed so that housing costs can fall and more of us, particularly younger people who are more able to move, can afford to take up better jobs while reducing the cost of living for everyone else.

¹ ONS, *Mortality rates (qx), England and Wales 1841 to 2016*, 6 June 2018, www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/lifeexpectancies/adhocs/008538mortalityratesqxenglandandwales1841to2016, (accessed 8 January 2019).

² TaxPayers' Alliance, *Planning restrictions and the housing crisis*, 2018, www.taxpayersalliance.com/1_planning_restrictions, (accessed 21 December 2018).

The housing crisis is the single most important problem for intergenerational fairness

The housing crisis harms everyone except two groups. First, landlords, who benefit from inflated rental incomes and asset wealth. Second, those owner-occupiers who will never increase their housing consumption. They do not suffer from the high cost of housing yet may benefit from the inflated asset wealth should they wish to trade down at some point in future.

Tenures

Owner-occupiers who would increase their quality of housing if it were cheaper (such as those living in cramped conditions or too far from their place of employment), and those who intend to increase their housing consumption in future (such as people hoping to move to a larger home to accommodate a larger family) suffer. This group has a bigger hurdle to jump, which must be funded through income. In Great Britain, 63 per cent of people lived in owner-occupied housing in 2016.³

Social housing tenants, 17 per cent of the population in Great Britain in 2016, are largely insulated from the crisis as far as their existing tenancies are concerned, but inflated housing costs make it harder for them to leave the public sector⁴ while the shortage reduces their ability to increase their housing consumption when their needs grow.

Worst affected of all, however, are private sector tenants, who represent 20 per cent of the population in Great Britain in 2016. Market rents are set by normal market mechanisms so they bear the full brunt of the shortage of supply relative to demand. Moreover, if and when the relative shortage intensifies, their rents will inflate further to reflect deteriorating imbalance between supply and demand.

The intergenerational consequences are clear when we consider the differences in tenure by age. In 2016-17, 9 per cent of 16-24 year olds were owner-occupiers, against 37 per cent of those aged 25-34, 52 per cent of those aged 35-44 and 78 per cent of those aged 65-74.⁵ In other words, older people are much more likely (and younger people much less likely) to enjoy the housing tenure which most insulates people from the effects of the housing crisis. These numbers are reflected in the statistics for private rental tenure.

Among those aged 22-29 in 2011, 39 per cent lived in private rented accommodation, compared to 19 per cent of those in their 30s, 11 per cent of 40-somethings, 7 per cent of 50-somethings and 5 per cent of people over 60. Younger people are much more likely to be in the housing tenure which is most exposed to the effects of the housing crisis.

³ Ministry of Housing, Communities and Local Government, *Live tables on dwelling stocks*, Table 102, 20 November 2018, www.gov.uk/government/statistical-data-sets/live-tables-on-dwelling-stock-including-vacants, (accessed 17 December 2018).

⁴ Meakin, R., *Flexible right to buy*, Adam Smith Institute, 2018, www.adamsmith.org/research/flexible-right-to-buy, (accessed 21 December 2018).

⁵ Ministry of Housing, Communities and Local Government, *English Housing Survey 2016-17*, 2018, www.gov.uk/government/statistics/english-housing-survey-2016-to-2017-home-ownership (accessed 21 December 2018).

Housing costs

Housing costs an average of 36 per cent of the income of private renters.⁶ That contrasts with 30 per cent for local authority tenants, 12 per cent for owner-occupiers with mortgages and 5 per cent for owner-occupiers without mortgages.

This pattern of higher expenditure on housing and lower owner-occupancy rates might simply be a function of younger people being at an earlier stage in their careers, earning less and having had less time to amass housing assets. But instead the data shows that the problem is as much specific to today's younger people as a generic characteristic of age itself.

Owner-occupancy rates at the age of 30 were 41 per cent for those born in the 1980s, compared to 56 per cent for those born in the 1970s, 60 per cent among those born in the 1960s and 62 per cent among those born in the 1950s.

Productivity and incomes

As if the differing impact on housing costs and the consequent ability to save weren't already enough, the housing crisis also affects younger generations disproportionately in terms of income. One of the most powerful mechanisms through which the shortage of housing in high-demand areas affects income levels and productivity is the impact on access to the most dynamic labour markets. Why move to take up a better-paid job if (artificially) inflated housing costs consume much or all of the differential?

The most obvious aspect of this is the way young people are dissuaded (by high housing costs) from moving to or remaining in London. But the phenomenon affects most areas where employment prospects are strong but housing supply growth is constrained, such as Bath, Bromsgrove, York, Oxford and Cambridge.

Median net household equivalised income at the age of 28, adjusted for inflation at 2014-15 prices, was £14,900 for those born in the 1950s, £20,700 for those born in the 1960s and £28,100 for those born in the 1970s. That strong growth enjoyed by older generations has reversed, however. Despite their higher housing costs, the income figure for those born in the early 1980s fell to £27,300.⁷

Wealth

This combination of higher housing costs and lower incomes for younger generations compared to what older generations enjoyed at the same age has had predictably catastrophic effects on wealth levels for the young. At the age of 31, net household wealth including property and pensions was £53,500 for people born in the 1970s, compared to £27,500 for those born in the 1980s.⁸

Summary

The scale of the impact the housing crisis has on the whole economy is enormous. Economists have estimated that the restrictiveness of the planning restrictions which cause it could be **responsible for preventing GDP from growing by as much as half its current size.**⁹

⁶ Corlett, A. & Judge, L., *Home Affront: housing across the generations*, Resolution Foundation, 2017, p. 30, www.resolutionfoundation.org/app/uploads/2017/09/Home-Affront.pdf, (accessed 21 December 2018).

⁷ Hood, A., *Seven reasons it helps to have rich parents*, BBC, 23 April 2017, www.bbc.co.uk/news/uk-39519844, (accessed 21 December 2018).

⁸ *Ibid.*

⁹ TaxPayers' Alliance, *Planning restrictions and the housing crisis*, 2018, www.taxpayersalliance.com/1_planning_restrictions, (accessed 21 December 2018).

This alone makes reform one of the most pressing imperatives for any government serious about improving living standards and productivity. But **its impact is felt most by younger generations** due to its spatial and tenure characteristics makes it all the more pressing.

There is a shortage of housing even though average floor space per person is at a record high

There is more residential floor space per person than ever before. But two further aspects must be considered: expectations and distribution.

Expectations

According to Institute for Fiscal Studies research, mean floor space per person in England rose from 35.0 square metres in 1996 to 36.4 square metres in 2012. However, one factor driving the increase in floor space per person has been the fall in average family sizes. During the 1980s, the average size fell by 7.9 per cent. But in the 2000s, it fell by just 0.7 per cent.¹⁰ And since 2012, the decline in average household sizes has reversed slightly, increasing from 2.36 to 2.39 in 2017.¹¹

The important thing about the relationship between household and family sizes to floor space per person is that they are negatively correlated to requirements for space per person. Twice as many people in a single home do not require twice as much space for kitchens, bathrooms and living rooms as one person.

Compare two couples sharing a property against them each living in accommodation with half the floor space. The floor space per person is the same, but the standard of accommodation, disregarding the value of more exclusive use, is likely to be higher for the sharers. Of course, people trade off exclusivity with access to otherwise better accommodation, typically accepting smaller rooms in exchange for being able to live without having to share (except for partners and children).

The implication is that the slowdown and slight reversal in the average size of households may have been a result of a shortage of floor space. Some types of people may be sharing more than they used to because, for them, floor space is less available and they are responding to that by sacrificing privacy for larger (but shared) rooms. One indicator of this is the share of those aged between 20 and 34 living with their parents, which has steadily climbed since 1999, from 20 per cent to 26 per cent in 2017.¹²

Across the whole housing market the total floor space per person may be rising but if that increase is concentrated among only some groups then other groups might still find their floor space per person unchanged or reducing. If the improvement is enjoyed by groups who are largely already living only with partners then their improvement may have little impact on the average number of people per dwelling. But if the deterioration is experienced by groups who were already at the margin of a trade-off between exclusivity and other factors, they may respond to the deterioration by sharing more, including by living with parents for longer.

¹⁰ Table 3.1 in Belfield, C., Chandler, D. & Joyce, R., *Housing: Trends in Prices, Costs and Tenure*, Institute for Fiscal Studies, 2015, www.ifs.org.uk/uploads/publications/bns/BN161.pdf, (accessed 21 December 2018).

¹¹ Table 1.3 in Mayor of London, *Housing in London 2018 tables*, 2018, data.london.gov.uk/dataset/housing-london, (accessed 21 December 2018).

¹² Figures are an average of the three years up to the stated year, from table 2.4, Mayor of London, *Housing in London 2018 tables*, 2018, data.london.gov.uk/dataset/housing-london, (accessed 21 December 2018).

In a successful economy where incomes are growing, we would expect space per person to rise as people spend their increased incomes on more private accommodation, being more selective about who they share with. But the trend of falling average household sizes has slowed down, stopped and then reversed as the proportion of younger adults living with their parents has steadily crept up.

Distribution

The national picture relating to floor space per person, household sizes and living with parents has been more pronounced in London. Instead of rising as in the rest of England, the average floor space in London has shrunk from 31.7 square metres in 1996 to 30.3 square metres in 2012.¹³ Similarly, the proportion of younger adults living with their parents has risen more rapidly, growing by 41 per cent compared to 32 per cent nationwide.

In the 1980s and 1990s, the average number of people per dwelling was lower in London than England as a whole while both were falling. But in 1995 it stopped falling in London. By 1999 the London and England rates had equalised as London's rose to match the then still-falling rate in England. It took until 2011 for the rate to start rising across England, although the East and South East regions had already begun to grow a few years earlier.

Nonetheless, numbers for the South West, the North West, the North East and Yorkshire and the Humber have continued to fall and are now at record lows. This reflects the spatial nature of the housing crisis, which is concentrated on places with good access to well-paid employment. The fact that floor space per person is at a record high is not much use when it's increasingly scarce near where the jobs are. Access to employment opportunities matters a lot to younger generations but less so to retirees.

Tenure matters, too. Space per person may have risen overall but this improvement has only been enjoyed by owner-occupiers, a tenure increasingly represented among older age groups. Even in London, people who own their own home have enjoyed an increase in average floor space from 34.3 square metres per person in 1996 to 37.1 square metres in 2012, while in the rest of England it rose from 37.5 to 41.1 square metres. Average floor space for people in the private rented sector however has collapsed, from 36.0 square metres per person in 1996 to 30.4 square metres per person in 2012 outside London. Within London, the numbers fell by 25 per cent, from 31.0 to 23.1 square metres per person.

Summary

The latest data, from 2012, indicates that national floor space per person was at an all-time high but **the national picture masks rapidly falling floor space per person in the locations near highly paid jobs** where people want to live. Additionally, floor space per person in the tenure most dominated by younger generations, private rented tenancy, has fallen sharply. The situation has almost certainly deteriorated further since 2012.

Why planning restrictions cause the housing shortage and how to fix it

Planning law requires approval from the local authority to carry out most significant structural or external works to a property. Authorities publish local plans and other documents which set out the restrictions they impose on development in their areas. If they judge an application for planning permission to contravene their policies, they may refuse

¹³ Table 3.1 in Belfield, C., Chandler, D. & Joyce, R., *Housing: Trends in Prices, Costs and Tenure*, Institute for Fiscal Studies, 2015, www.ifs.org.uk/uploads/publications/bns/BN161.pdf, (accessed 21 December 2018).

consent. These restrictions are set on a wide range of criteria to enhance or protect aspects of local areas and home life deemed to be important.

Most famously, green belts around many cities prohibit development on 'greenfield' land to preserve its existing rural, undeveloped character. But restrictions limiting buildings' height and bulkiness also prevent, for example, a home owner replacing a detached bungalow on a road of similar detached bungalows with a much taller mansion block of flats set closer to the road and extending further back. The objectives would be to preserve the existing character of the street, prevent over-looking and loss of light, and prevent congestion on matters such as local roads and parking facilities. On a much smaller scale, it is usually possible to secure local authority consent to add space with a rear loft conversion but not possible to secure consent for a similar loft extension at the front.

The downside of such restrictions is that they substantially limit the ability of housing markets to respond to changes in demand, such as the growth in population in general and the particularly strong employment growth in London and other fast-growing cities.

Gross value added, a measure of productivity, is 14 per cent higher in inner west London than the London average, and 43 per cent higher than in outer south London. Housing is, infamously, also much more expensive in inner west London boroughs such as Kensington and Chelsea. The picture is similar in many other employment hotspots, such as Cambridge and Bristol.

High housing costs in the areas where we need to live is pricing people out of living near the most productive jobs, limiting the ability of growing firms to expand. As with all things, high prices are just a reflection of a relative shortage of supply.

Economists looking at the impact of US housing shortages estimate that their shortage has reduced GDP by between 9.5 per cent and 13.5 per cent. However, the value of land under housing in the UK is approximately 40 per cent of net wealth rather than the US 12.5 per cent figure.¹⁴ Consequently, scaling up the numbers to account for this gives us an equivalent reduction in GDP of between approximately 30 per cent and 43 per cent.

Academics from the London School of Economics (LSE) found that merely removing the *additional* planning restrictiveness imposed between 1974 and 2008 would lower house prices by 35 per cent.¹⁵ The planning system is "the main cause of the affordability crisis, especially in London and the South East", and evidence points to the planning system as "an important causal factor behind the crisis", concludes an LSE analysis of economic research.¹⁶

¹⁴ London YIMBY, The UK's hidden handcuffs, 12 December 2016, <https://www.londonyimby.org/blog/2016/12/10/the-uks-hidden-handcuffs>, (accessed 19 April 2018). The researchers have updated their research and find that constraints have "lowered aggregate US growth by more than 50 per cent from 1964 to 2009". See: Hsieh, C. & Morretti, E., *Housing Constraints and Spatial Misallocation*, NBER Working Papers 21154, 2017, National Bureau of Economic Research, Inc.

¹⁵ Hilber, CAL. & Vermeulen W. *The Impact of Supply Constraints on House Prices in England*, the Economic Journal, 22 April 2014, http://personal.lse.ac.uk/hilber/hilber_wp/hilber_vermeulen_ej_forthcoming.pdf, (accessed 16 April 2018).

¹⁶ Hilber, C. *UK Housing and Planning Policies: The evidence from economic research*, Centre for Economic Performance, 2015, <http://cep.lse.ac.uk/pubs/download/ea033.pdf>, (accessed 16 April 2018).

How to fix the shortage

- Declassify green belt status within 1.6km of a railway station, releasing over 63,800 hectares for development.¹⁷ Leave 'areas of outstanding natural beauty' and 'sites of special scientific interest' in place to protect especially beautiful or noteworthy areas.
- Allow owners permitted development rights to extend upwards to two floors higher than the local prevailing building height, subject to conforming to a design code if the local authority has one in place which accommodates this. Breaching existing prevailing heights is crucial if this policy is to make a meaningful difference.
- Allow streets to vote to allow themselves to build up to six storeys, or ten in inner London.¹⁸

Summary

Homes are most expensive mainly in the areas where job prospects are strongest and the evidence shows that **planning system restrictiveness causes the shortage**, which drives up housing costs. We should **grant property owners substantially more freedom to build** homes where they're needed so that housing costs can fall and more of us, particularly younger people who are more able to move, can afford to take up better jobs while reducing the cost of living for everyone else.

¹⁷ AECOM, Big Bold Global Connected London 2065: A Manifesto for Long Term Growth of the London City Region, 2018, <http://commonfuturesnetwork.org/?mdocs-file=179>, (accessed 9 January 2019).

¹⁸ Myers, J. *Yes In My Backyard: How To End The Housing Crisis, Boost The Economy And Win More Votes*, ASI (Research) Ltd, 2017, static1.squarespace.com/static/56eddde762cd9413e151ac92/t/598c03c5be6594815d7741c5/1502348236073/John+Myers+-+YIMBY+-+Final.pdf, (accessed 17 April 2018).