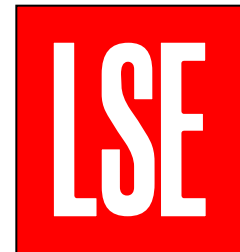


# IFS: How can policy boost productivity growth?

## Housing

**Paul Cheshire: LSE & CEP**

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# Purposes and main points

- Policy for productivity growth tends to focus on wrong sectors and ignores location.
- Housing crisis focus – affordability; inequity; homelessness.
- Not just long term failure to build enough houses: 30 years to 2020 built more than 3m. fewer than previous 30 years.
- Building them in the wrong places: 40 years to 2018 built
  - 2.5 houses for every extra person in Barnsley+Doncaster;
  - 0.31 of a house in Oxford+Cambridge.
  - It matters where houses are built.
- Vital message: houses complex goods – varying attributes;
- Of those, **location** most important of all. House in Burnley or St Helens **NOT** substitutes for those in Oxford or St Albans;
- Build them where excess demand greatest - most unaffordable.
  - But not just for equity - also for economic growth.
  - Unaffordability signals potential  $\Delta$  productivity &  $\Delta$  welfare.

# Promote success, recognise role of location

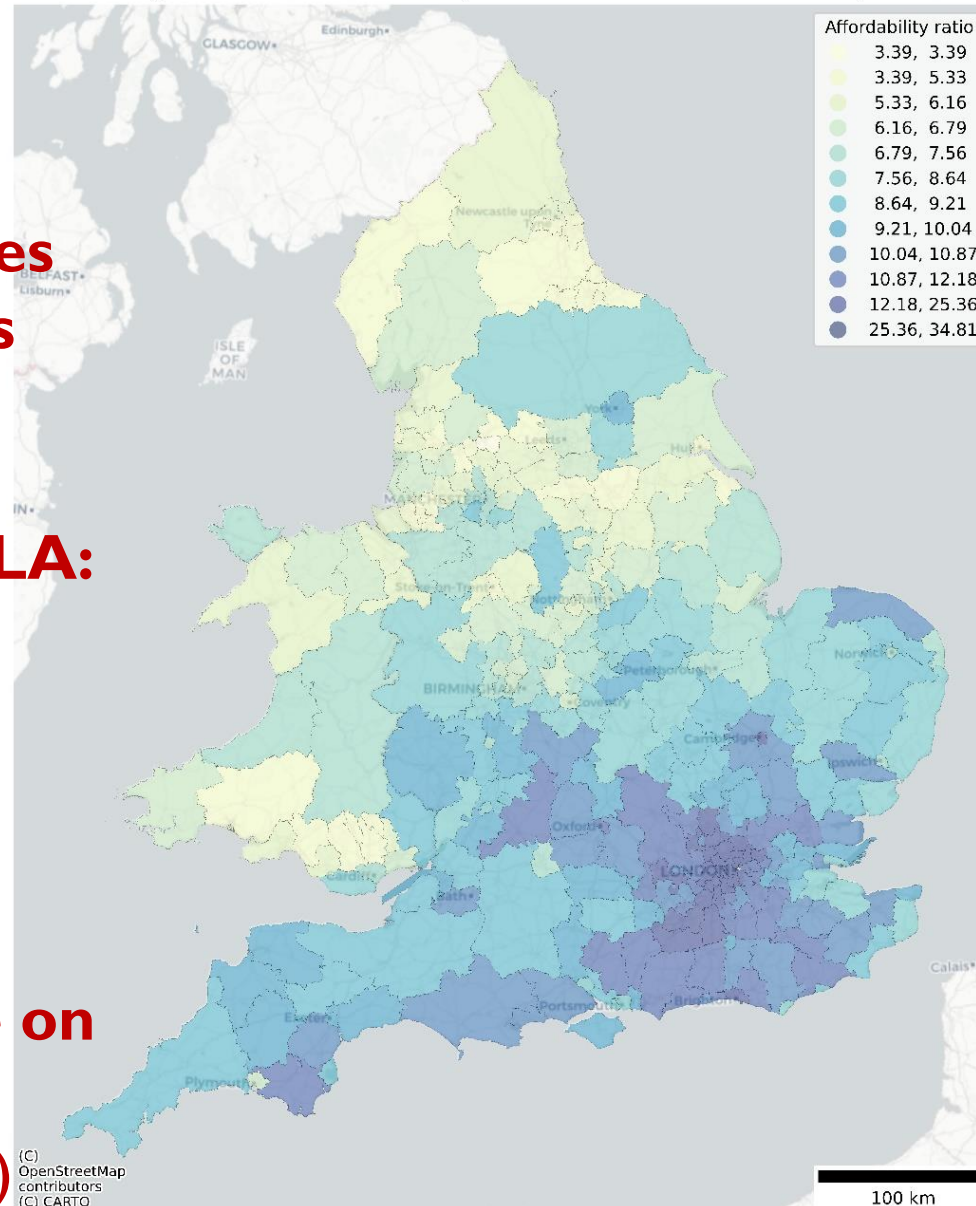
- Government(s) get hung up on agriculture... 0.58% of GDP.
- Focuses on goods/industry: manufacturing 17.5% of GDP.
- UK's successful sectors – world competitive – traded services:
  - Higher education; Research; Premier league; cultural industries.
  - Maybe the only activity where UK is truly the world leader – live theatre.
- GVA in Creative, arts and entertainment activities 2/3s that of Motor Vehicles in UK: but in London 11 times greater.
- Two points:
  1. Creative arts are a major industry comparable to Vehicles:
  2. Subject to very strong agglomeration economies: think of West End theatre.

# Promote success, recognise role of location

- Agglomeration economies in macro terms: workers, firms more productive in larger cities: larger the city the more productive workers are: **all else equal**.
- Double city size productivity increases 3% to 10%.
- But varies by sector: now several studies: far more important in traded service, R & D and public admin.
- Using location of e.g. BBC, Channel 4, R&D, ENO, public agencies – as ‘regional policy’: not very effective; & real productivity costs – not just for re-located entity.
- In many of these sectors *micro* location important too:
  - e.g. research-intensive sectors, theatre, retail...
- Cheshire *et al.*, 2014 found Town Centre First policy reduced TFP in supermarkets by 32%!
  - Stores were smaller & forced onto less productive sites.

# Housing Affordability Ratio: 2023

Affordability ratio: ratio of median house prices to median resident's incomes by LA -2023



**Affordability varies  
widely across LAs  
and regions;**

**Worst non-GLA LA:  
St Albans 17.61**

**Best:  
Burnley 3.73**

**Reflects evidence on  
supply elasticity  
(Drayton *et al* 2025)**

# Building Houses: Three routes to growth/welfare

- I. Direct impact of increased house building: say + 100,000 houses a year -  $\Delta$  wages;  $\Delta$  inputs (high domestic content – multiplier effect).
2. Induced effects via:
  - I. Exploitation of agglomeration economies (city size + ‘vertical agglomeration’ gains), reduced commuting times/costs; more work in offices;
  - II. Positive marginal productivity of ‘space’ in houses – and in retail, warehouses, offices, laboratories, R & D;
  - III. Productivity gains from unconstrained locational choice - ‘macro’ & ‘micro’ (e.g. Town Centre First policy, BBC to Salford); plus -
3. Real income & welfare gains from cheaper, bigger houses.

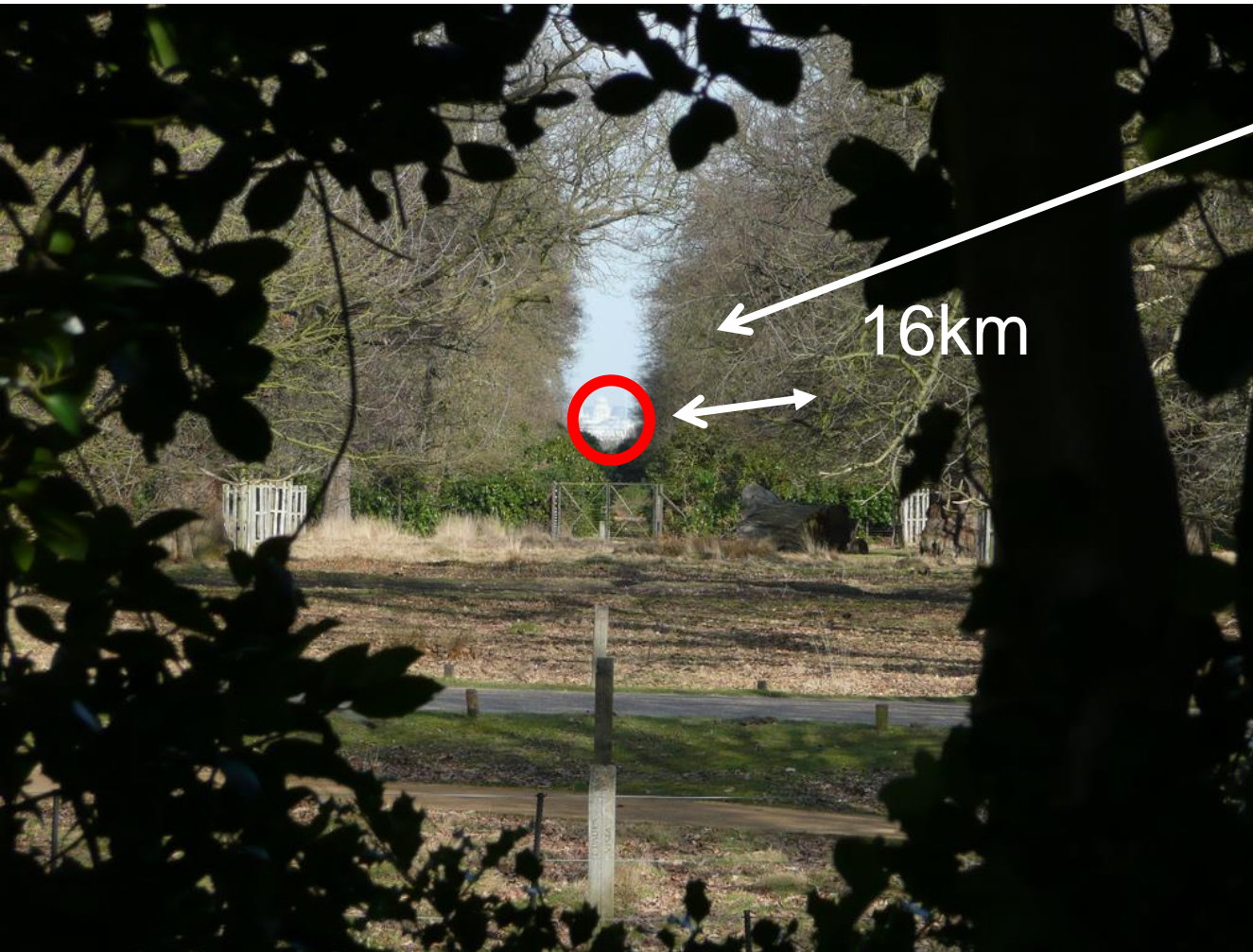


# Not out, not up: Height restrictions e.g. London



Source: Cheshire and Derricks (2020)

# Protected view from King Henry VIII Mound (Richmond Park)



**Good  
(economic)  
reasons to  
protect  
townscape:  
but consider  
costs as well  
as benefits!**

***This sight line  
also 'protects'  
backdrop:***

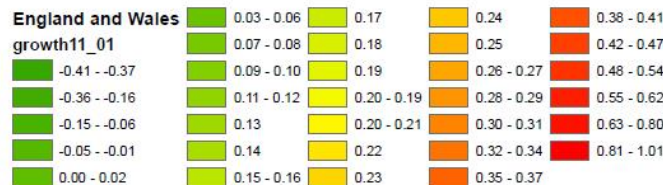
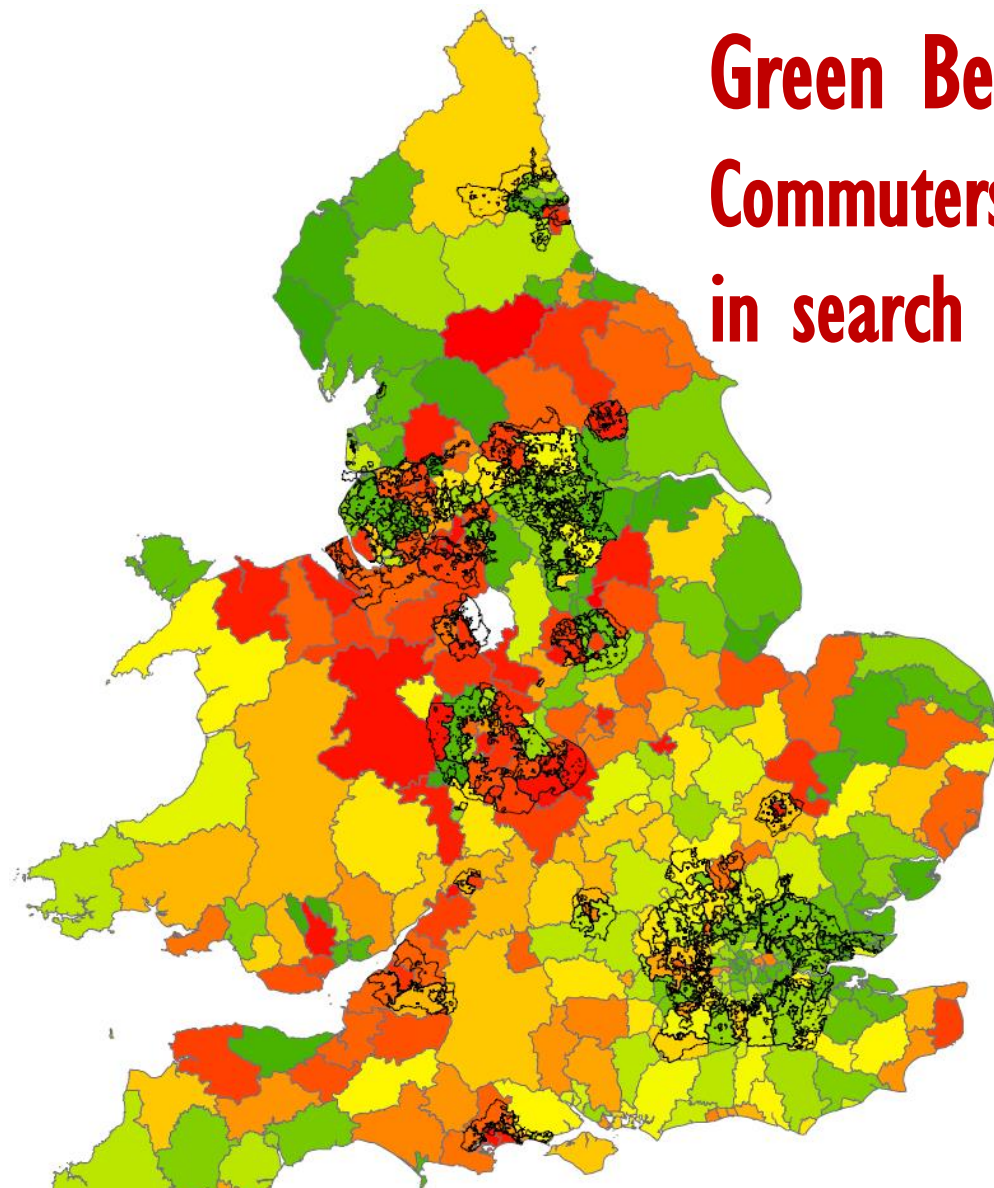
- Liverpool  
St. Station  
area**
- Stratford**





# Green Belts not just about supply: Commuters jump the Green Belt in search of affordable space

Change in proportion  
of resident working  
population commuting  
to jobs in Inner London  
2001 to 2011:  
Local Authority  
level data.



Source: Census

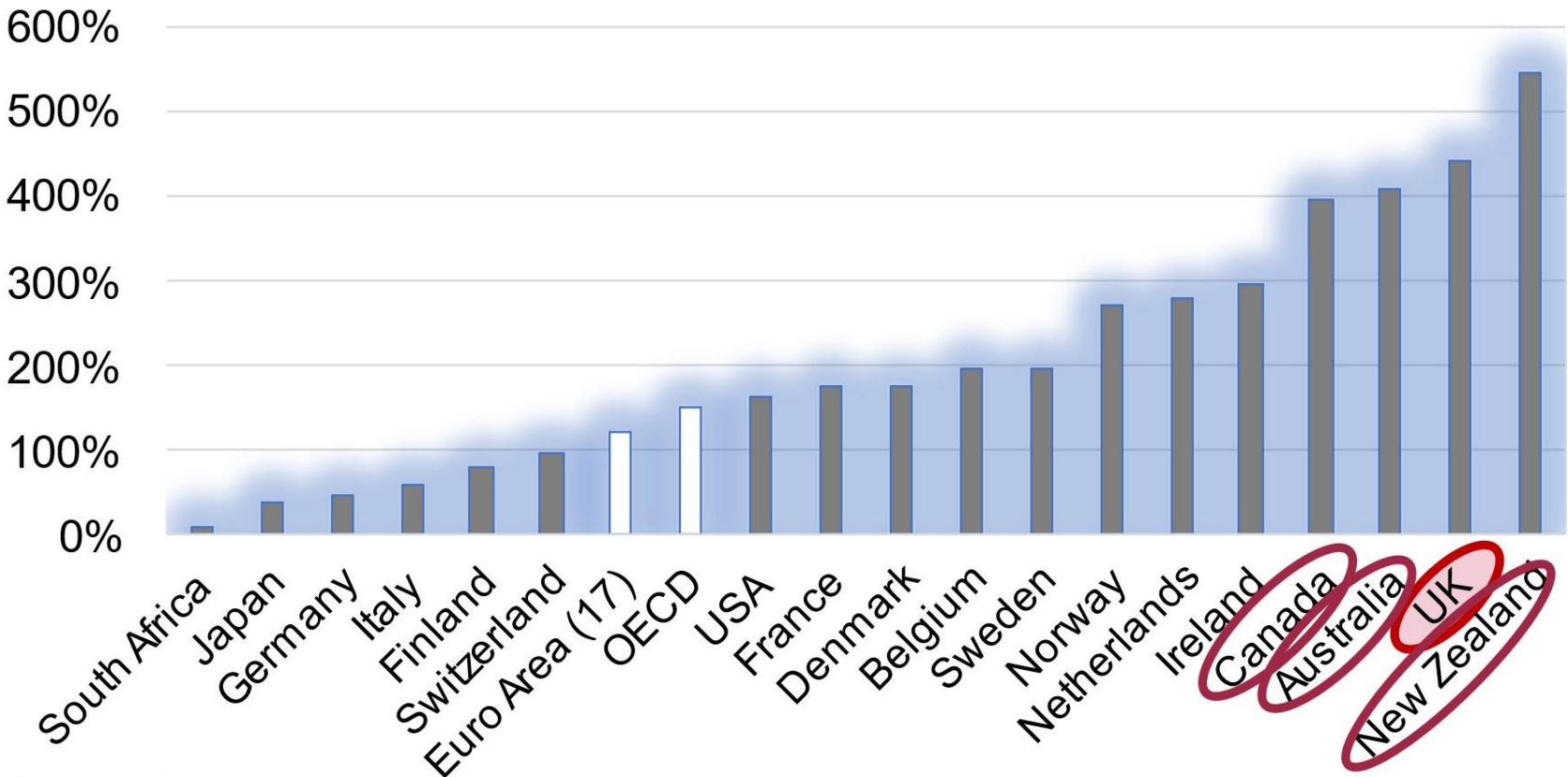
# Restrictiveness and Green Belts extend commutes

- Jumping Green Belts obvious: increases supply price of labour in larger, most productive cities so restricts gains from agglomeration economies; and
- Commuting a real resource cost.
- But more planning restrictive local authorities also increase housing vacancies and commute lengths for local workers.
- Cheshire *et al* (J. Pub F.. 2018) using 30 year panel for 350 LAs & offsetting for reverse causation & endogeneity showed:
- One S.D. increase in planning restrictiveness caused:
  1. Local housing vacancy rate to increase 23%;
  2. Commute distance to increase by 6.1%; plus
  3. Increase in homelessness.
- Mechanism? Impedes housing stock adjustment to dynamic changes in demand for housing characteristics, location.

# Costs of gameable planning system?

- In Master Planning or Zoning systems (in principle) outcomes are certain – ‘Rules-Based’;
- Read the plan, the ‘rules’, and if project conforms – go ahead.
- NOT in Britain (or many other ex-British colonies).
- In GB discretionary: there may be a local plan (not often – 25%) – but guidance only – decisions made by local politicians;
- Uncertainty has substantial costs - because of added risk;
- Also supply is constrained so development has a ‘rent’ coming with it: that induces lobbying or gaming.
- Such ‘*rent seeking behaviour*’ is a deadweight resource loss:
- Generates no welfare enhancing production – only money gains for successful renter seekers.

# Association - discretionary planning systems & rising real house prices: 1970 - 2021



Source: OECD

Just a correlation... so investigate...case of London Offices

# London's Height Office Space Constraints Generate 'Rents' for those who can get more space on any site

*[the Minister]... "will only approve skyscrapers of exceptional design. For a building of this size to be acceptable, the quality of its design is critical... the proposed tower is of highest architectural quality"*  
*decision from SoS on Shard appeal 2003*

- Incidence of skyscrapers (100m +) across world's cities varies remarkably: In 2010 HK had 8 times as many per person as NY; Brisbane 6 times Paris; Paris 8 times as many as London;
- But London tops the world league of % skyscrapers designed by 'Trophy Architects' (TAs) – architects who have won one of the three big life time achievement awards.
- In London 25% designed by TAs; Chicago 3%; Brussels 0%.
- Why? because employing a TA successfully games the system;
- In London TA buildings 14 stories taller; representative site value +152%;
- Capture £148m 'economic rents' **per site**  $\approx$  costs of rent seeking (Cheshire & Dericks, 2020).



# Some easy(ish) Gains - I

## Strategic review of Green Belt + legally watertight definition of Grey Belt:

- Cheshire & Buyuklieva (2019) showed:
- Avoiding all amenity or environmentally sensitive land and reserving 10% of land for accessible green space within 800 m of 'commuter' stations 45 mins from centre:
- For 5 major cities – London, Birmingham, Bristol, Manchester & Newcastle – land for 2m houses - current new build densities.
- And +4,700 ha of extra accessible green space (about 15 Hampstead Heaths)
- Allow co-ordinated rail based development, take less than 2% of Green Belt & land value capture could generate £116bn revenues.
  - Any strategic Green Belt review surely would conclude 'release some land'.

# Some easy (or easier) Gains - 2

## Strategic review of 'Sight lines', Listing and Conservation Areas (CAs) – extent and rules:

- More than 10% of all dwellings in England are preserved
  - At present, **social costs/benefits of preservation ignored** in designation decisions; and CA designation politicised.
  - Rules substantially **reduce building heights**, so supply of space;
  - **Hinder or prevent** improving energy efficiency (e.g., prevent double-glazing, insulation, solar panels);
  - So, what would be some easy gains to consider? Review:
    1. Sight lines to account for benefits & costs;
    2. Preservation to permit (1) **double glazing**, (2) **solar panels** not visible from front or ground level or (3) **heat pumps**.
    3. **Extent** of CAs.
- Yield more space where most productive.

# Some easy (or easier) Gains - 3

## **Trial a Master Planning system in GLA & Manchester and/or Birmingham:**

- Big gains of moving to a 'rules-based' system;
- But would take time, need skills and investment in new plan-making and learning to work the system;
- But feasible to pilot in a couple of big city-regions- especially London.
- GLA + Boroughs already have most of the 'plan-making' capacity.
- Manchester (or Birmingham) might like to join trial.
- On basis of pilot evaluate: decide whether to adopt nation-wide in medium term given necessary investment in planning system.
- Suspect would be a major improvement not least because current system not only injects uncertainty and rent seeking but acts as barrier to entry, so stifles competition.

# Conclusions

- Conventional modern economics fails to take account of critical importance of location, site characteristics & size to:
  - Value and welfare derived from houses;
  - Productivity of a wide range of economic activity –
    - illustrated with retail but also ‘clusters’ media & cultural services; business & financial services, R&D, higher education - i.e. the sectors in which British economy enjoys competitiveness.
- Space also influences productivity;
  - Office space in Birmingham in 2004 cost half as much per m<sup>2</sup> to build but cost 44% more to rent than in Manhattan.
- And evidence of vertical agglomeration economies.
- Serious-minded reform of planning not just to alleviate housing crisis: boost productivity and growth.

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