

Why is housing in the UK so expensive and what can be done about it?

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Keynote lecture, Institute for Fiscal Studies (IFS), One Great George Street, London SW1P 3AA, 15th of April 2026



A tale of two countries: UK vs. Switzerland

*Two countries with (historically) very different institutions –
and very different housing policies & problems...*

The problem in the UK (for decades): Housing affordability



FINANCIAL TIMES
The housing crisis sits at the centre of Britain's ills

FINANCIAL TIMES ▶ Statistics

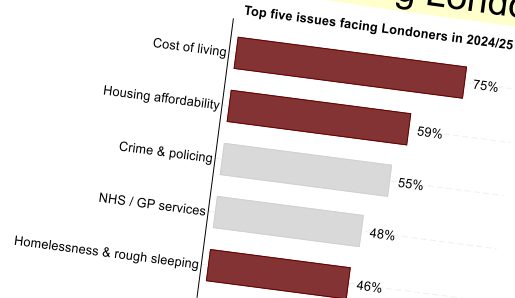
Britain has by far the highest rate of homelessness in the developed world
Rate of homelessness per 10,000 people (2023 or latest year)
■ Sleeping on the street ■ In temporary accommodation



Evening Standard
London is 'epicentre' of housing crisis as 250,000 Londoners await council homes

The Guardian
How Lake District holiday homeowners are pushing out local residents

Housing problems are the most pressing issues facing Londoners...



97% of MPs and 72% of the public agree there is a national housing crisis!

Source: Ipsos, 3.2.2025; Ipsos, Jan 2025

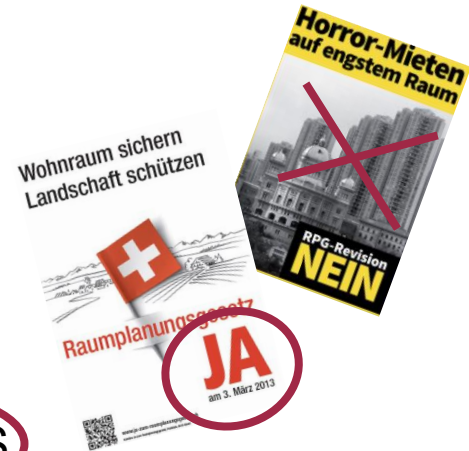
HOUSING

High rent is forcing young people to live with their parents for longer

A study has found a lack of social housing was also to blame for half of 23-year-olds still living at home



The problem (until the 2010s) in Switzerland: **Urban sprawl**



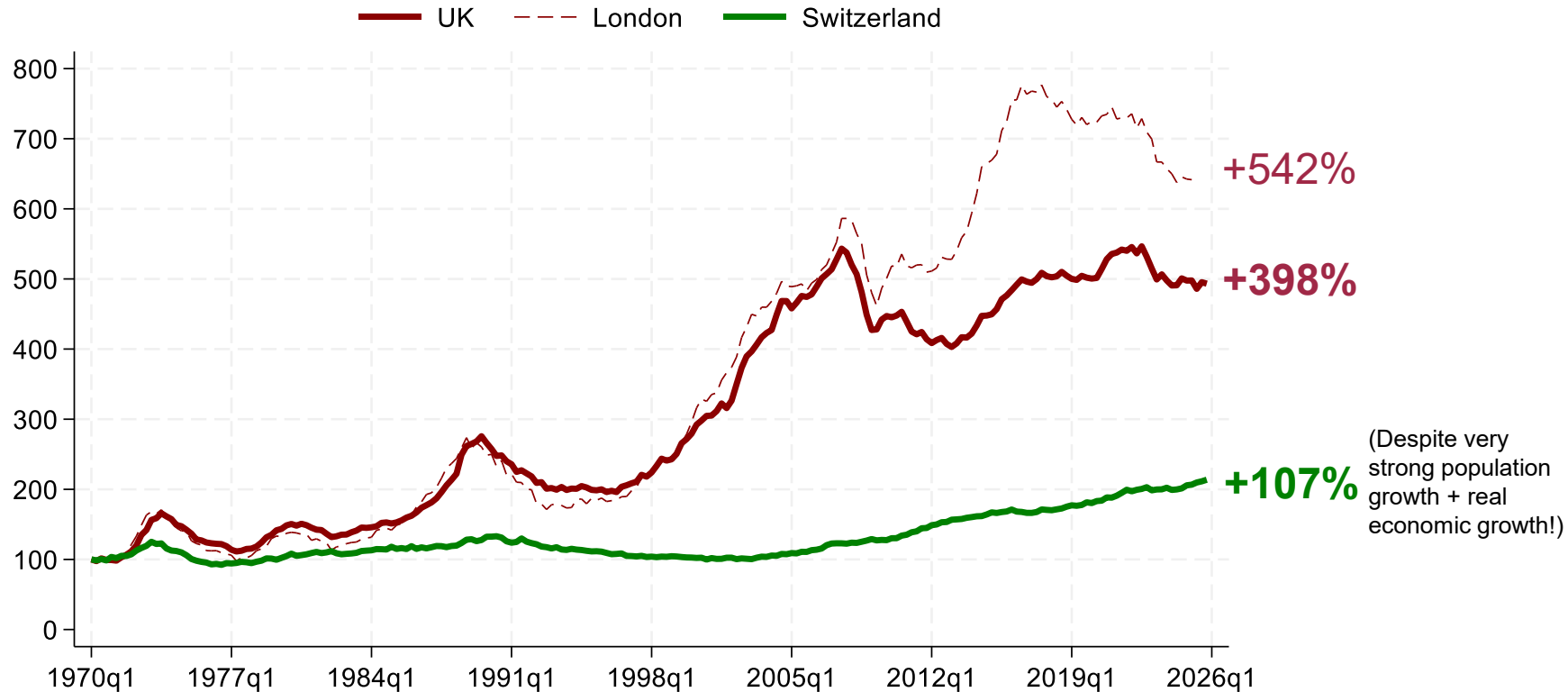
⇒ 2012: YES to the **Second Homes Initiative**: **50.6% YES**

⇒ 2013: YES to the **Revision of the Spatial Planning Act**: **62.9% YES**
(Main purpose: To contain urban sprawl)



Why are the perceived problems so different?

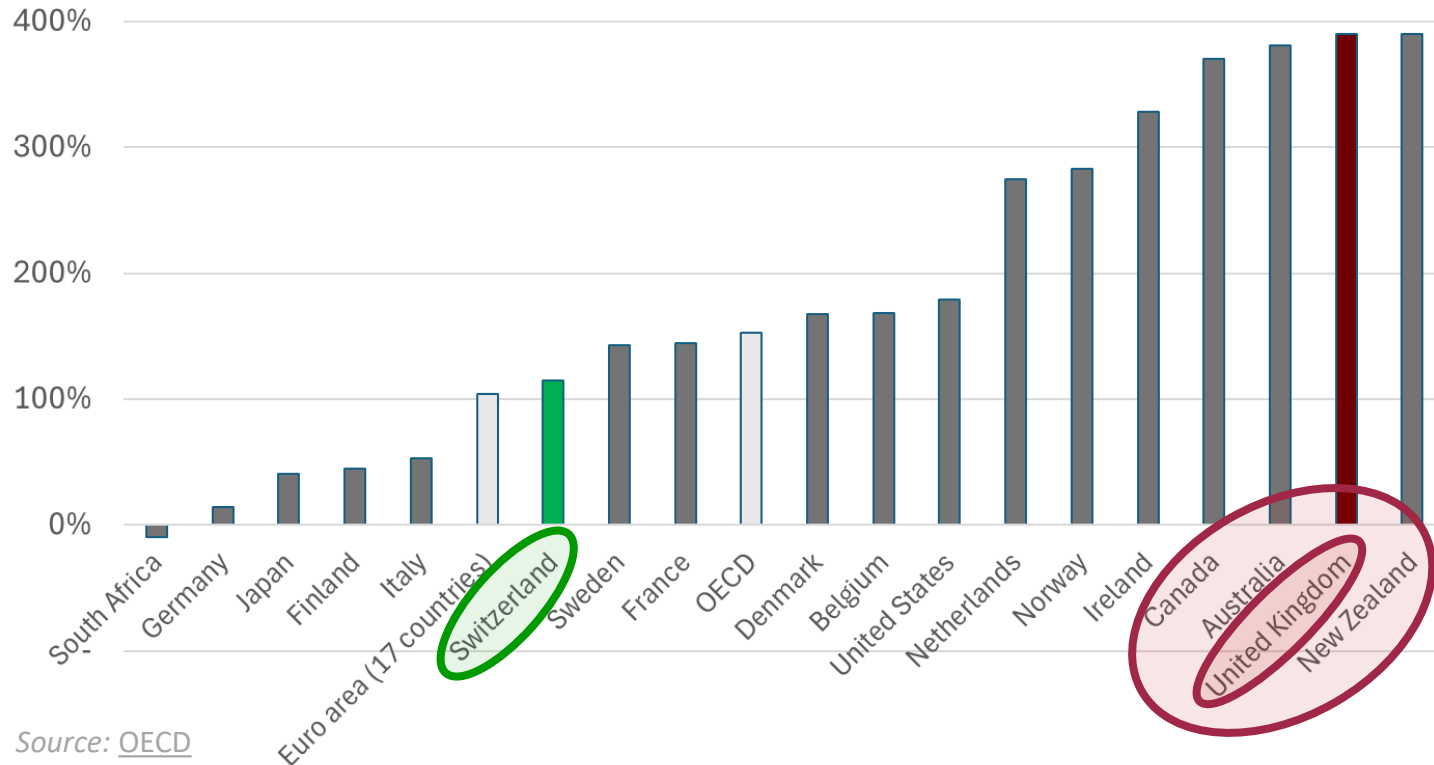
Trends in Real House Prices: UK vs. Switzerland (1970=100, 1970-2025)



Sources: [BIS](#) (real HP UK & CH, with CPI), [Land Registry](#) (nominal HP London), [FRED](#) (CPI for London, UK)

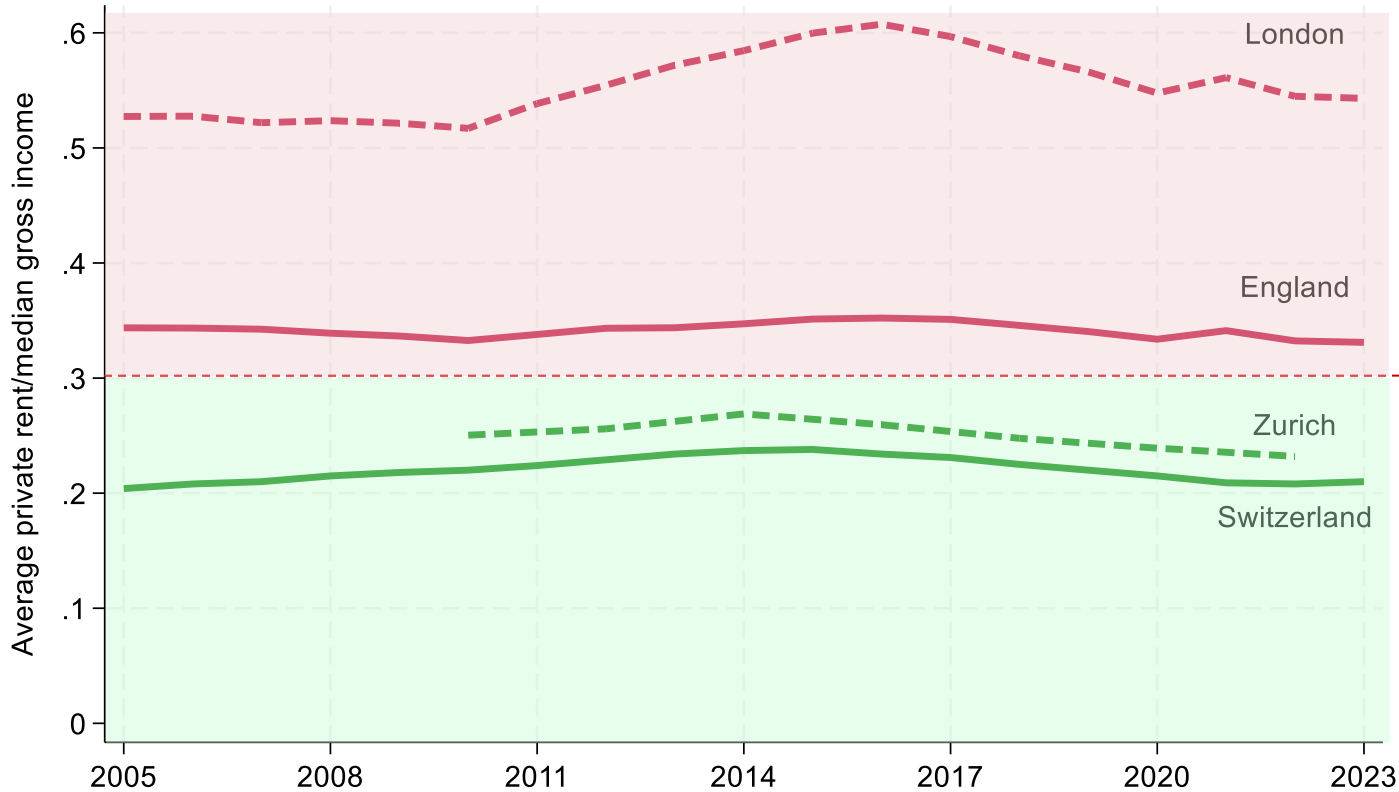
In an international comparison (OECD countries)

Real house price growth (in %), 1970 to 2025



Source: [OECD](#)

Housing Affordability: England vs. Switzerland



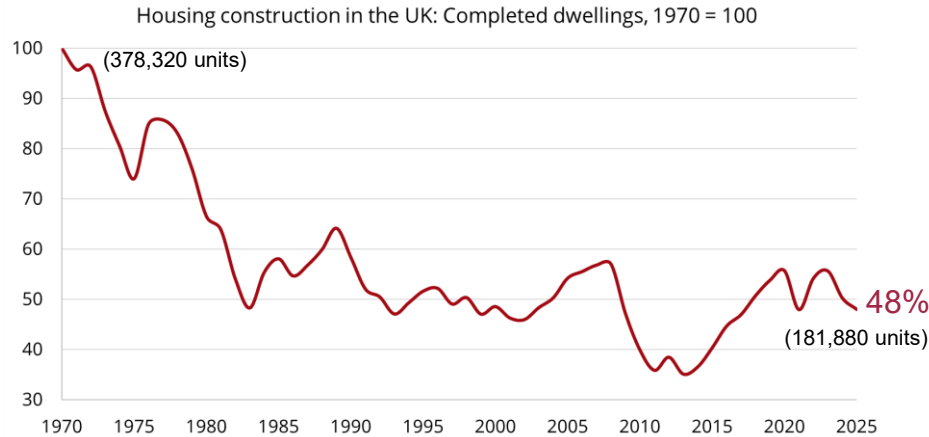
Britain has by far the highest rate of homelessness in the developed world
 Rate of homelessers over 25,000 people (2023 or latest year)



Affordability-threshold

Sources: Switzerland: SNB: rent indices, BFS: average rent CH, Ct. ZH/BFS: average rent ZH, BFS: wage index CH, BFS: gross wage CH+ZH; England: ONS: rent indices, VOA: average rents England & London, NOMIS/Annual Survey of Hours and Earnings: wage data England & London

Housing construction: UK vs. Switzerland



Sources: [ONS](#)

- The **UK builds roughly half as much today as it did in 1970**
- In the 2010s, Switzerland built roughly three times as many units per capita (and larger ones)

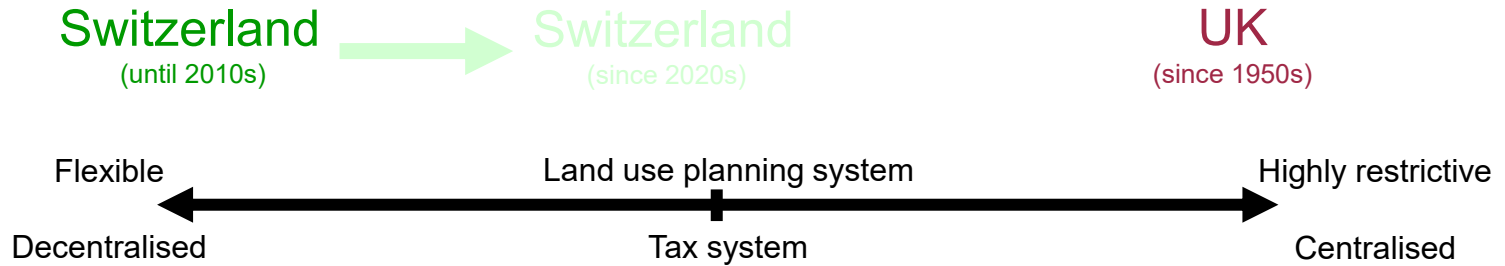
⇒ **Strongly suggestive of a UK supply-side problem**

	Population in 2010	Housing completions in 2010	Ratio in % in 2010	Ratio in % in 2015	Ratio in % in 2020
Switzerland	7.825 M.	50,166	0.66%	0.68%	0.63%
UK	62.77 M.	137,260	0.22%	0.21%	0.29%

Sources: Housing completions: [BfS](#) (CH: newly constructed dwellings), [ONS](#) (UK: "Dwellings completed", Table 2a); population CH & UK: [World Bank](#) (World Bank Open Data based on BfS & UK Census)

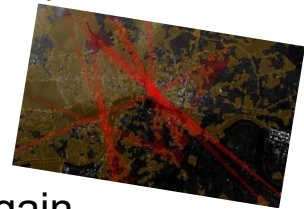
How can we explain these stark differences?

Proposition:



Institutional setting of the UK

- Extremely **restrictive land use planning system**
 - Main aim: “Development control”
 - Idiosyncratic & caters to NIMBY-‘homevoters’
 - Supply constraints in all directions (horizontal, vertical, redev.)
- Councils have **no fiscal incentives** to permit development ($C \gg B$)
 - Councils face most of the costs (infrastructure, services, ‘political’)
 - But: Reap few of the benefits (council tax revenue)
 - Moreover, any additional council tax revenue is redistributed away again in medium term through central government grant system



⇒ **Double whammy for affordability!**

Institutional setting of Switzerland

- **Flexible rule-based zoning system**
 - Until mid-2010s: Local municipalities had complete autonomy to zone residential land
 - Majority of residents are private renters \Rightarrow NIMBY forces are weaker
- Municipalities have very **strong fiscal incentives** to zone land for residential purposes ($B > C$)
 - Municipalities keep local income tax revenue
 - Compete for tax-payers: Try to attract high-income tax-payers
 - Strong incentives to zone large parcels at edge

\Rightarrow **Housing until 2010s fairly affordable but at cost of sprawl!**



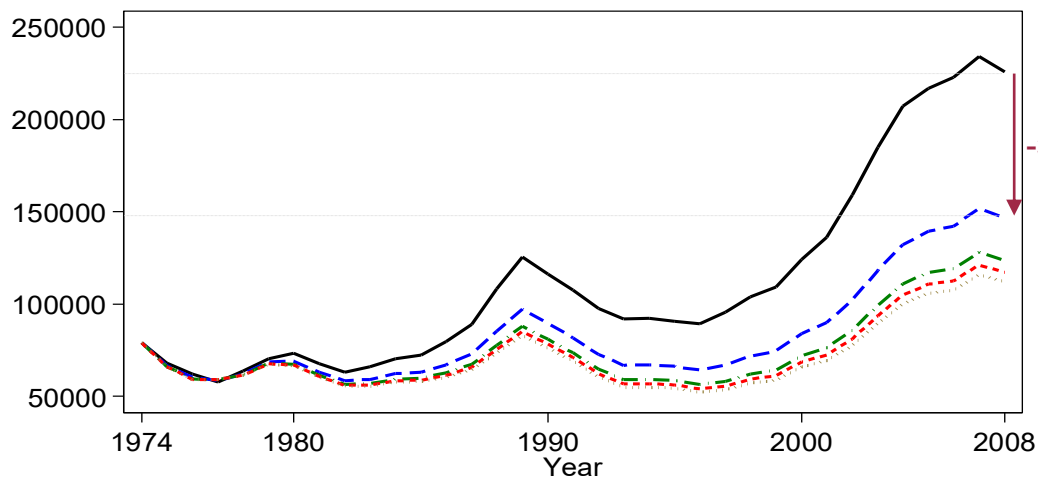


What does the empirical evidence tell us?

Evidence from econometric analysis

Hilber & Vermeulen (2016, *Economic J.*)

- What would house prices in an average English “Local Authority” be ...



- Predicted real house prices in average English LPA
- - - Prediction with refusal rate set to zero
- . - . - and share developed set to zero
- . - . - and elevation range set to zero
- . - . - and earnings assumed constant

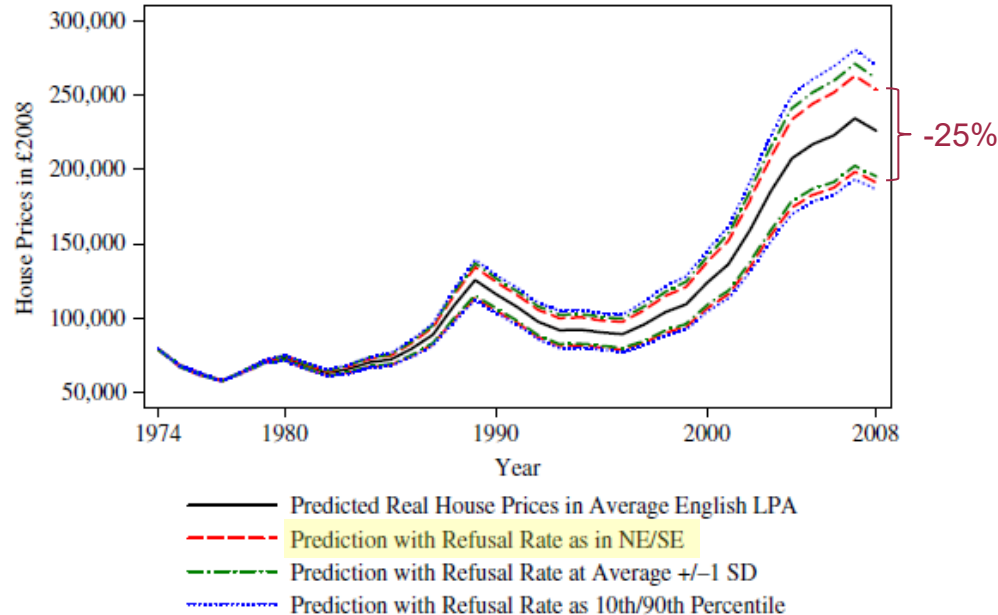
- Without regulatory supply constraints: **-35%***
- Without physical supply constraints: **-10% (total: -45%)**
- Without topographical supply constraints: **-3% (total: -48%)**

* Note: These are conservative estimates (“lower bound estimates”). See article for details.

Evidence from econometric analysis (cont.)

Hilber & Vermeulen (2016, *Economic J.*)

- What would house prices in the South East of England be if it had the regulatory restrictiveness of the North East of England?



- Had the SE restrictiveness of NE, house prices would be around **25%** lower!
 - Effects can be interpreted as **causal**
 - NE is still tightly regulated in international context
 - Likely underestimate

What about the role of fiscal incentives?

Cheshire & Hilber (2008, *Economic J.*)

- What is the impact of the 1990 reform that nationalised the commercial property tax ('business rate')?
 - Reform **removed any fiscal incentives** at local level to permit commercial development
- Two key findings:
 1. UK office markets have highest 'regulatory tax' (RT) in Europe
 - In London's West End, RT exceeds 8× marginal construction costs
 2. Reform-induced increase in '**regulatory tax**' significantly **exceeded revenue generated by the property tax**

Note: * Regulatory tax = markup of marginal construction costs caused by binding land use regulations.

What to do?

What to do: Tackle the root causes!

1. Reform the planning system

- Move to – or at least experiment with – **rule-based zoning system**
- **Remove uncertainties** created by planning system (e.g., associated with S106)
- **Assess** regulations based on **total benefits & costs to society** (e.g., CAs, view corridors)

2. Reform the tax system

- Create fiscal incentives at local level to permit development **or** move planning decisions to higher level (idea: **circumvent NIMBY-problem**)
- Replace SDLT with an annual, locally set, proportional property tax ([Cheshire & Hilber 2021](#))
- Help people, not places (targeted housing vouchers > place-based grants) ([Hilber *et al.* 2011](#))
- Tax vacant homes ([Segú 2020](#))

- ## 3. Persuade ‘homevoters’: the status quo means you pay more to live worse
- and your children will be priced out!



Thank you!

Q & A

References

- Carozzi, F., C.A.L. Hilber & X. Yu. 2024. “On the Economic Impacts of Mortgage Credit Expansion Policies: Evidence from Help to Buy,” Journal of Urban Economics, Vol. 139, #103611.
- Cheshire, P. & C.A.L. Hilber. 2008. “Office Space Supply Restrictions in Britain: The Political Economy of Market Revenge,” Economic Journal, Vol. 118, Issue 529, F185-F221.
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- Hilber, C.A.L. & W. Vermeulen. 2016. “The Impact of Supply Constraints on House Prices in England,” Economic Journal, Vol. 126, No. 591, 358-405.
- Hilber, C.A.L. & A. Mense. 2025. “The Rise and Fall of the Price-to-Rent Ratio: Why Are Superstar Cities Different?,” Forthcoming Economic Journal.
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- Segú, M. 2020. “The Impact of Taxing Vacancy on Housing Markets: Evidence from France,” Journal of Public Economics, Vol. 185, #104079.



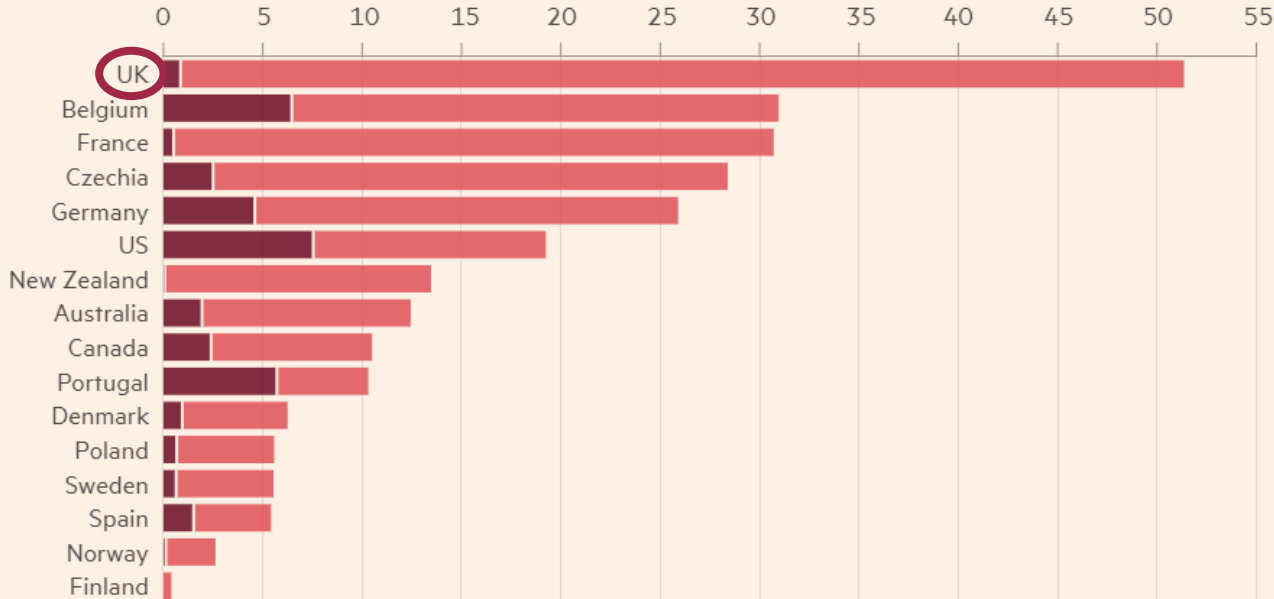
Appendix: Additional slides (with links)

Homelessness is nowhere higher than in the United Kingdom

Britain has by far the highest rate of homelessness in the developed world

Rate of homelessness per 10,000 people (2023 or latest year)

■ Sleeping on the street ■ In temporary accommodation



FINANCIAL TIMES

Sources: [OECD](#), National statistics agencies of England, Wales, Scotland and Northern Ireland



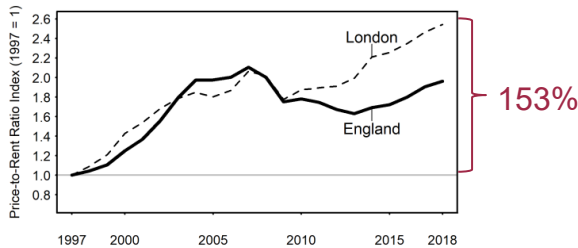
The housebuilding crisis: The UK's 4 million missing homes
centreforcities.org/housing/



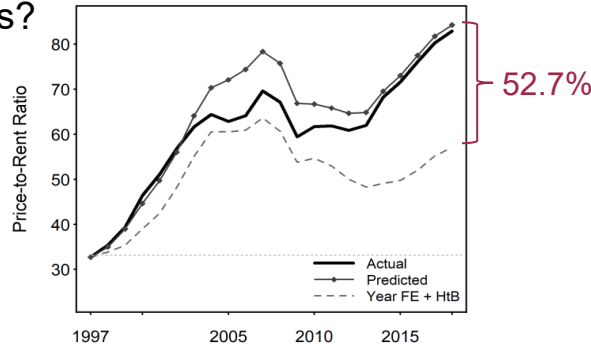
Impact of supply constraints

Hilber & Mense (2025, *Economic J.*)

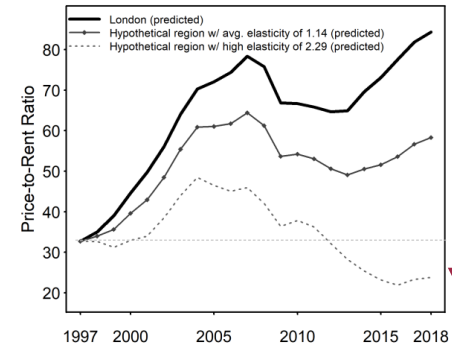
- Explore factors behind dramatic rise in the **price-to-rent ratio** during 2000s & 2010



- Is it all just driven by falling long-term real interest rates?



- Key findings:
 - Supply constraints are important for explaining prices, rents & P-R-ratio
 - Over half (52.7%) of the 153% increase in P-R-ratio b/w 1997 & 2018 in London can be explained by inelastic supply** in conjunction with autocorrelated Δ demand
 - If London had very elastic supply (at 95th percentile) the price-to-rent ratio would have fallen

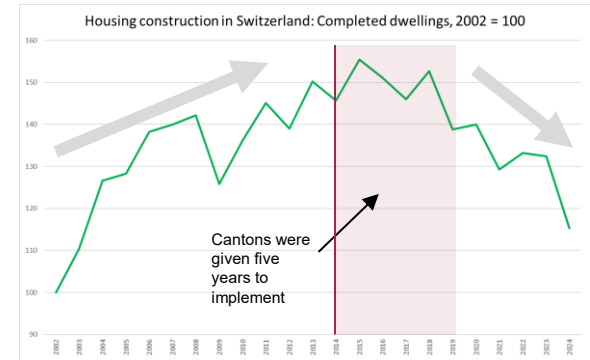


What happened in Switzerland after the planning reform?

- The #1 problem is no longer sprawl...



About 27% of Swiss residents are not citizens, according to government figures. The SVP, the country's largest political party, says the "population explosion" is inflating rents and straining public infrastructure and services to breaking point.



Switzerland has undergone a paradigm shift...

- Up to 2013
 - Spatial planning: A strongly **decentralised** approach with pronounced **municipal autonomy**
 - On the tax side, local income taxes create **strong fiscal incentives** to zone large plots at the edge of agglomerations for development → urban sprawl
- Since 2014
 - Increasingly **restrictive** spatial planning policy (**ban** on building new second homes, **downzoning** of existing residential zones, etc.)
 - Increasing **constraints on municipal autonomy** – increasing **centralisation**
 - Since a few years: Redevelopment in central areas means affordable housing stock is replaced with expensive new one + construction falling strongly!

What not to do...

1. Do **not** subsidise demand where supply is unresponsive
 - Example: Help to Buy
 - [Carozzi *et al.* \(2024\)](#): In London, HtB merely increased new-build prices & developer profits but did not trigger any additional construction
2. Do **not** discourage investment (in rental market) & construction
 - Developers, (foreign) investors, landlords & sharing platforms are convenient scapegoats – but not the (main) causes

Relevant Further Readings (1/2)

Peer-reviewed articles

- Ahlfeldt, G.M., K. Moeller, S. Waights & N. Wendland. 2017. "Game of Zones: The Political Economy of Conservation Areas," Economic J., Vol. 127, F421-F445.
- Cheshire, P., C.A.L. Hilber & I. Kaplanis. 2015. "Land Use Regulation and Productivity – Land Matters: Evidence from a UK supermarket chain," J. of Economic Geography, Vol. 15, No. 1, 43-73.
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- Hilber, C.A.L. & O. Schöni. 2022. "Housing Policy and Affordable Housing," Oxford Research Encyclopedia of Economics and Finance, Oxford University Press.
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Relevant Further Readings (2/2)

Edited journal special issues and handbooks

Cheshire, P. & C.A.L. Hilber. 2017. "The Economics of Land Markets and their Regulation," The International Library of Critical Writings in Economics series, No. 331, Cheltenham (UK): [Edward Elgar Publishing](#).

Cheshire, P. & C.A.L. Hilber. 2018. Special Issue on Housing in Europe," [J. of Housing Economics](#), Vol. 42, Amsterdam: Elsevier.

Impact case studies

Cheshire, P. & C.A.L. Hilber. 2022. "[Supporting planning and housing policy reform around the world](#)," [REF 2021 Impact Case Study](#), LSE, joint with Paul Cheshire, May.

Election analyses/policy briefing

Cheshire, P. & C.A.L. Hilber. 2019. "Housing", with Paul Cheshire, [CEP 2019 Election Analysis Series](#), Paper EA051.

Cheshire, P., C.A.L. Hilber & O. Schöni. 2021. "The Pandemic and the Housing Market: a British Story", with Paul Cheshire and Olivier Schöni, [CEP Covid-19 Analysis Series](#), Paper No. 20, March.

Hilber, C.A.L. 2015. "UK Housing and Planning Policies: The evidence from economic research", [CEP 2015 Election Analysis Series](#), Paper EA033.

Videos/films

Financial Times video on "[UK Property Crisis Scuppering Aspiration](#)" (June 2015)

LSE Inaugural Public Lecture on "[Britain's Housing Crisis: causes and cures](#)" (March 2017)

The Economist film on "[How the Obsession with Home Ownership Ruins the Economy](#)" or "[Is Renting better than Buying](#)" (January 2020)