

FT Series **UK infrastructure: Falling short****UK infrastructure****Major land reform urged to fix UK housing crisis**

Campaigners say councils must gain right to buy land cheaply for affordable homes



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YESTERDAY by: Judith Evans

The village of Poundbury in south-west England, built on land owned by the Prince of Wales, is best known for its architecture: a pastiche of various historical styles that has divided opinion since the plans were drawn up almost 30 years ago.

But the village on the outskirts of Dorchester is now attracting attention for another reason: it is an example of an unusual development structure that is generating funds for affordable homes.

Campaigners say if changes were made to the law that allowed the public sector — notably local authorities — to pursue a similar approach to development, it could play a big role in solving the UK's housing crisis.

Prince Charles, the heir to the British monarch and a large landowner in his own right, was able to start his [development at Poundbury](#) by investing heavily upfront in infrastructure such as transport links and community buildings.

The early spending meant the Poundbury land was worth £1m per hectare more than that in comparable areas, according to a [report](#) by the Prince's Foundation, while estate agency Savills found that house prices in the village were 29 per cent higher than elsewhere. This in turn

meant sales of land parcels and homes in the Dorset village could help pay for higher levels of affordable housing in the later phases of construction at the 160 hectare site.



Queen Mother square in Poundbury © Graham Hunt/Alamy

Private landowners like the prince can take advantage of rises in land prices associated with infrastructure investment and planning permission for housing — a benefit known in the property industry as land value capture — to finance the construction of affordable homes, although many simply choose to take the uplift as profits.

The public sector cannot harness the same increase in land prices. However, through changes to existing legislation, local authorities and other public bodies could be given the right to buy land at lower prices than they currently can, in a move that would enable them to take a similar approach to Prince Charles at Poundbury — and thereby fund more housebuilding.

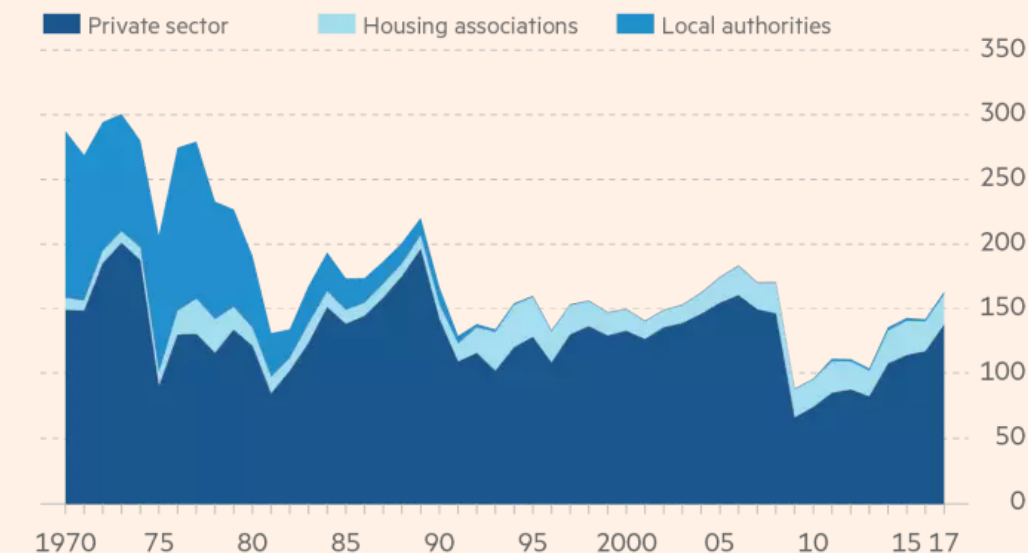
This idea is being promoted by groups as diverse as the housing charity Shelter and the free market think-tank the Adam Smith Institute.

“We think [land value capture is] really essential to solving the housing crisis,” says Rose Grayston, senior policy officer at Shelter. “This is the way you could build urban extensions and new towns on the scale needed to solve it.”

Britain has an acute shortage of affordable homes. Annual construction in England, mainly done by the private sector, stood at 189,000 homes in the 2015-16, some 50,000 to 100,000 short of the numbers that experts say are needed.

UK housebuilding is in long-term decline

Homes completed ('000)



Source: DCLG
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Shelter, in research done with the think-tank the Centre for Progressive Capitalism, estimates that £87bn could be ploughed into housebuilding and other infrastructure by local authorities during this parliament if they could take full advantage of land value capture.

This sum could be enough to ensure that Britain deals with its housing shortfall, but it is contingent on reform of a little known piece of legislation passed more than 50 years ago.

Currently, when local authorities buy land — for example for regeneration projects — they must pay prices that take into account potential planning permissions and infrastructure developments, rather than just the value of the land at its current use. This means councils therefore usually pay inflated prices.

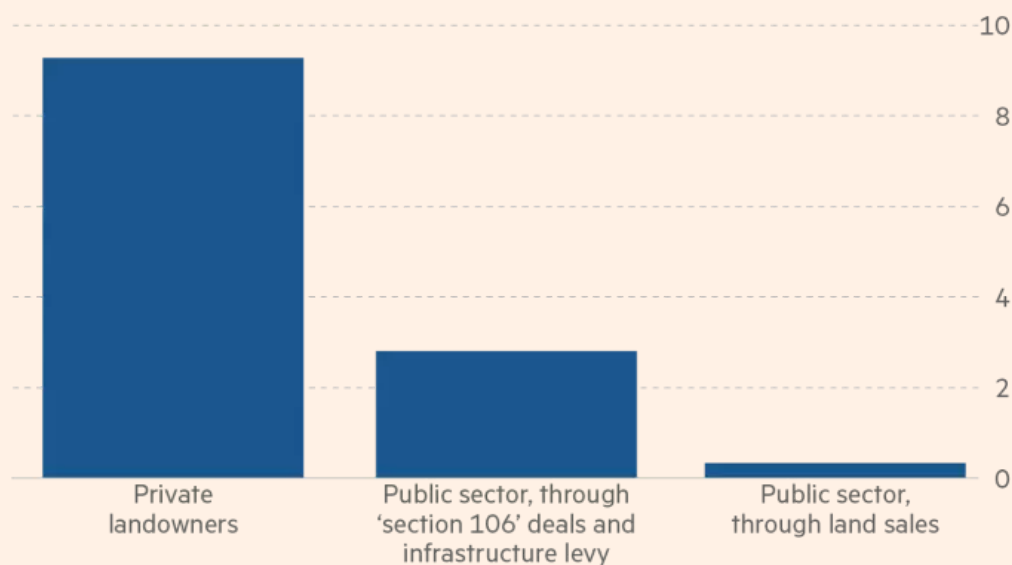
The 1961 Land Compensation Act should be amended to enable local authorities to buy land at current use value, according to the Centre for Progressive Capitalism and the Adam Smith Institute.

This would put councils in a position of being able to subsequently grant planning permission for housing on the purchased land, and then sell it on at higher prices. They could also enter into joint ventures with developers to build housing on the land, and then sell the homes.

Either way, the local authorities could reap the benefit of the uplift to land prices, and use this to fund affordable housing.

Who gains from increases in UK land prices?

England, new homes, 2015 (£bn)



Source: Centre for Progressive Capitalism
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Under the Shelter proposals, councils would finance the initial acquisitions of land by issuing low interest, long term bonds.

Shelter estimates as much as £87bn could be raised from capital markets, and the bonds would be repaid through councils' sales of land with planning permission, or sales of housing, or both.

Councils do harness a small amount of land value capture via so-called [section 106](#) deals, in which developers fund affordable homes in exchange for planning permission, but these tend to fall far short of local needs.

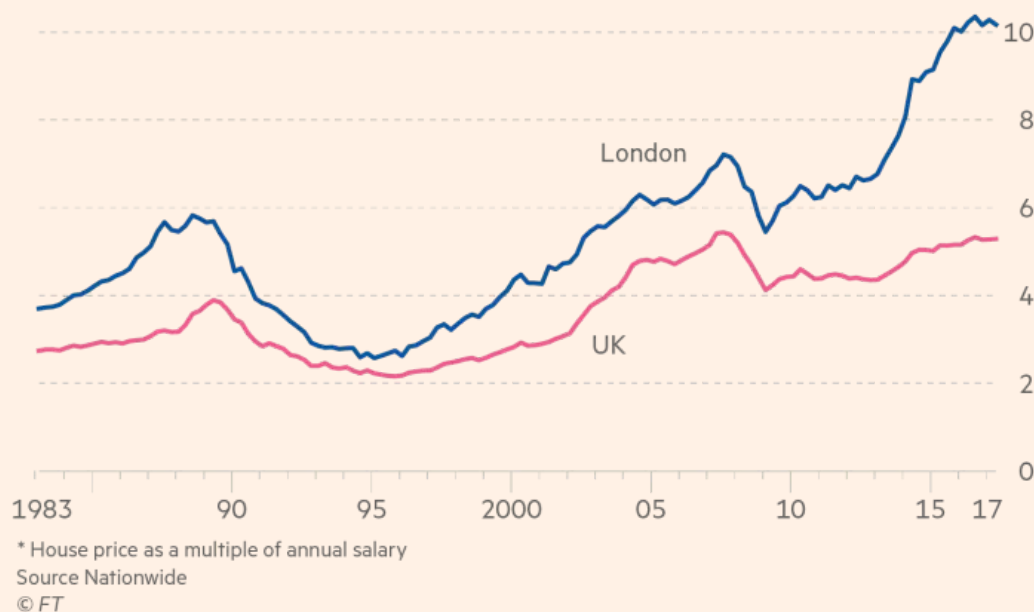
The broader proposals by Shelter and others for councils to take full advantage of land value capture have caught the attention of politicians, in an indication of how policymakers are searching for far-reaching solutions to the crisis.

The Conservative party said in the run-up to the June general election that it wanted to look to land value capture as a way to finance large-scale housebuilding while limiting the burden on the public purse. Labour said it would explore the related idea of a land value tax.

Thomas Aubrey, director at the Centre for Progressive Capitalism, says the changes to the Land Compensation Act would bring the UK land market more into line with European countries such as [Germany](#) and the Netherlands. "There is no benefit to holding on to land there," he adds.

UK housing is becoming increasingly unaffordable

First-time buyer, house price to earnings ratio*



The question is whether the Conservatives would be prepared to upset landowners — some of their core supporters — by embarking on reform that would result in potentially sharp falls in land prices.

Sam Bowman, executive director of the Adam Smith Institute, argues that such fundamental change is badly needed. “I’d like to think it would bring about sweeping changes to land pricing,” he says. “The whole objective would be to reduce the price of developable land.”

Ms Grayston says a less ambitious reform could involve exceptions being made to the Land Compensation Act for specific sites, so new towns could be built using land value capture, as [Letchworth](#) and Welwyn Garden City were before the legislation was passed.

There are other sweeping changes that would create the potential for more housing development, but each comes with a significant downside. Opening up greenbelt land for housing would entail a loss of countryside and is viewed as politically difficult. Increased direct investment by the government in housebuilding is current Labour policy, but would involve a big rise in public borrowing.

However, momentum is building around the idea that a long-term fix to the housing crisis should involve far-reaching changes to the UK’s land market. “Right now we are seeing a failed market . . . an inefficient land market filled with perverse incentives,” says Mr Aubrey.

This is the third part of a series about UK infrastructure.