

Review of European Planning Systems

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Executive Summary

Background

De Montfort University, Leicester and Delft University of Technology were commissioned by the National Housing and Planning Advice Unit (NHPAU) to review European planning systems. In the light of a low elasticity of housing supply in England, NHPAU wished to understand the role of planning systems in facilitating and constraining housing production in other European Union countries.

In order to consider countries with a variety of planning systems and a range of recent housing production levels this study has examined planning and housing supply in France, Germany, Ireland, the Netherlands and Spain. The research has addressed questions about how planning systems respond to changing market conditions; the costs and benefits for local authorities and developers in increasing residential development; land supply restraints and their impact on land and housing markets; payments for infrastructure; and factors other than planning that influence house building. An underlying purpose of the research was to gain insights from other countries that can inform policy and practice in England.

There are two central research questions implicit in the brief which have guided the analysis:

- What explanations are available for variations in housing output between countries?; and
- How do variations in planning systems influence housing production?

The method applied had three stages: (1) Data Review; (2) Country Reports; and (3) Synthesis of Findings.

A wide range of sources were used to consider housing production levels since 1990 in their economic and demographic contexts. Planning and housebuilding in the selected countries were examined with the help of an expert from each country. The evidence assembled is summarised in this report. Some of the data, because of the availability of comparative statistics, is for the UK whilst the conclusions as a whole focus on the relative position of England.

Housebuilding

The UK stands out as a country with very high real rates of growth of house prices and low rates of housebuilding. Housebuilding levels compared with population levels and housing investment as a proportion of Gross Domestic Product have been relatively low in the UK. The countries with the highest rates of housebuilding (Ireland and Spain) have also had the largest rates of demographic growth. The variations between the countries in the rates of increase in house prices and housebuilding are large. The Netherlands, like the UK, has experienced a combination of a large rate of house price inflation and a relatively low rate of housebuilding. Considering all six countries, there is the lack of a simple relationship between changes in house prices and changes in levels of housebuilding. This is not surprising given the varying contexts and the many factors influencing both prices and output.

Planning systems

Planning systems are typically driven by national policies. However, detailed land use decisions are implemented at a local level. Local decision making and local plans are thus important. In England the plans are made by much larger local planning authorities; they are less certain and not legally binding, allowing for more negotiation before planning permission is given. The flexibility and the discretionary nature of English land use planning contrasts with the certainty provided through legally binding land use plans in other countries. The degree of negotiation over planning permission in England contrasts with decisions based more strictly on compliance (or lack of compliance) with local plans elsewhere.

There is a degree of negotiation in all the planning systems considered but the English system allows for considerable negotiation late in the process, after plans have been made. In other systems the emphasis is on greater negotiation before plans are in place. The potential for negotiation late in the planning process, as in England, can provide benefits of flexibility. However, it can also increase the uncertainty faced by developers. Measures to reduce developer risks and uncertainty are likely to reduce costs and increase development.

The evidence from other countries does not suggest that a more relaxed planning system on its own necessarily delivers higher levels of house building. It suggests, rather, that planning systems together with a variety of processes, including those determining land supply and housing demand, influence the volume and type of housing constructed. Thus planning reforms should not be considered in isolation from wider land market and housing market issues.

Development promotion

Planning systems in some other countries tend to have more significant development promotion functions. Land supply for residential use is actively promoted in such cases through land policies and processes in ways that are not found in England. Proactive policy-driven land assembly and land supply processes in the Netherlands, Germany and France contrast with a more passive and reactive approach in England.

The supply of land for housing development in all the countries studied is influenced greatly by public policy but this is about more than planning. It concerns the ways in which policy influences infrastructure provision and the availability of serviced land at locations where the market is willing and able to respond. In some cases, the Netherlands for example, local authorities are actively involved in trading in the land market and in supplying land that is ready for development. In Germany local authorities are active in acquiring land and making it available for development and they are able to facilitate social supply by selling land cheaply for social production.

Production has also been influenced by policy towards the provision of social housing, including in the case of Germany, significant use of the private sector to supply new social dwellings. In both Spain and France there are targets for proportions of social housing at a local level. These are linked to financial incentives and penalties for the locality that work towards both increasing the supply of social housing and promoting more mixed communities. These approaches are more certain in their outcomes than negotiated Section 106 arrangements in England.

Responsiveness of planning

Responding to demand is not a key objective of planning systems. They are typically driven by social and environmental objectives that require a balance between development and constraint. The system in Ireland is arguably more responsive than in the other countries whilst the Netherlands is least responsive to market pressures. There are recent measures to speed up processes, in particular in France and Germany. In Spain liberalisation (a relaxation of controls), in an attempt to respond to demand, became associated with speculation and land price increases.

Planning house building and house price relationships vary from country to country. In some countries, the Netherlands for example, housing supply has stagnated despite rising prices and many of the concerns about an inelastic supply side response are similar to that in England whereas more liberal planning regimes have helped to promote high rates of housing production in Spain and Ireland. However, two points about these two countries should be noted: (1) rising rates of house building were stimulated by increases in demand linked to high rates of economic and demographic growth and to liberal credit regimes; and (2) high rates of house building have led to pressures on infrastructure, too many dwellings compared to demand in some locations and consequently high vacancy rates in some areas.

The impact of planning restraints

In all the countries considered there are restraints on the development of housing in specific locations. Estimating the impact of planning constraints on housing markets is complex given the many demand as well as supply side factors at work in both land and housing markets.

Given the estimation difficulties, it is not surprising that the impact of planning restraints on land values and house prices is the subject of mixed evidence. Where detailed econometric studies have been carried out, in the Netherlands, for example, there are strong claims that planning has contributed to a low price elasticity of supply. In Spain there are claims that a lack of restrictions on development led to speculation and fuelled land and house price inflation until curbs were introduced to address rising land prices.

There has been a tendency in other countries to promote development at desired locations as well as restraining it at others. This counterbalancing of the promotion of development is less apparent in England. Given the lack of incentives for development at desired locations compared to the degree of constraint, the impact of restraint may be greater in England than in the other countries. Restraints appear to be stronger in England than the other countries, with the possible exception of the Netherlands, but the government here has supported development to the extent that it has been argued that there is a sufficient supply of developable land.

Incentives for residential development

Currently, there are few financial incentives for councils in England to promote housing development whilst the extra costs can be large. Housebuilding may result in increased revenue costs (through staffing) and infrastructure provision. In other countries, more development can, in important ways, increase the funding available to local communities.

In England the costs of residential development are often emphasised in terms of the adverse impacts on local communities. Such communities in some other countries are able to benefit directly from additional development to an extent that is not always apparent in England. These benefits can arise from enhanced local authority funding, a share in the local land value enhancement, or betterment from local development and, particularly in the case of smaller communities, improved social and economic viability. These benefits tend to be more certain and transparent than community benefits in England. Incentives can make it more apparent to local populations that there are important benefits, as well as costs, from additional development.

The significantly smaller local authorities, where detailed land use decisions are made, in other countries arguably makes land use decisions more politically accountable. In smaller localities residents can be more aware of the impacts (positive and negative) of residential development. Any future planning reforms in England should be considered alongside changes to the size of local authorities and the distribution of power and decision making at different levels of government.

Paying for infrastructure

Infrastructure provision is in each of the countries seen to be a major factor that either facilitates or constrains housing production. Infrastructure costs are increasingly in all the countries being shifted onto the development process and private sector developers are typically expected to at least contribute to, if not bear the major part of, infrastructure costs. However, the facilitating role of the state in planning infrastructure provision is clear in all the countries.

The means of recovering costs include charges on developers related to transparent costing systems, planning agreements (similar to English Section 106 arrangements) and forms of betterment. The cost of the provision of infrastructure is closely tied to recouping betterment. This is sometimes achieved by public activity in the development process (the buying and selling of land) or through tax. The cross-subsidisation funds in the Netherlands provide an example of betterment being used to help pay for infrastructure costs and thus support socially desirable but commercially unviable development.

Planning and other factors influencing housebuilding

A full explanation for current levels of house building cannot be found for any of the countries considered by simply examining planning constraints. In all countries many factors influence the housing market and planning comprises just one set of factors. It is clear that other supply side constraints such as inadequate infrastructure and a lack of private and public sector capacity are important.

It is also the case that demographic and macroeconomic factors including credit availability are a significant part of the explanation. Taxation and subsidies that support both private and social development have important impacts on house building levels.

Where development has been facilitated by government in other countries it has often involved an amalgam of actions similar to those obtainable in England through local delivery vehicles (LDVs) that can enable and facilitate specific schemes. These include urban development corporations and local development companies. LDVs are an example of a development facilitation and promotion mechanism that can provide a counterbalance to planning restraints. They can thus form a positive development promotion function similar to that found within the planning policy and land supply systems in some other countries. The Government's Housing Green Paper (Communities and Local Government, 2007) in July 2007 also paid particular attention to smaller local delivery vehicles such as community land trusts and local housing companies. Although these are primarily focussed on affordable housing provision, schemes are likely to include some market provision.

The growing role of LDVs to implement and facilitate new building, together with the spatial planning system and the new incentivised policy making and performance management system, provides a potential basis to increase housebuilding. If this is to be achieved the spatial planning system must be implemented more quickly at a local level; financial incentives for councils to encourage housebuilding should be significantly increased; and even greater use should be made of LDVs.

An examination of approaches in other countries suggests that policies that focus on dealing with constraints on the availability of suitable land by facilitating site assembly, infrastructure provision and the associated provision of services to support housing can have positive effects on the volume, quality and demand for the finished dwellings.

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Acronyms and Abbreviations

AHI	Ireland	Affordable Housing Initiative
AHP	Ireland	Affordable Homes Partnership
APCE	Spain	Association of Developers and Builders
ATLAS	England	Planning Advisory Service Team for Large Applications
BauGB	Germany	Baugesetzbuch <i>Federal building code</i>
BauNVO	Germany	Baunutzungsverordnung <i>land use ordinance</i>
CIL	England	Community Infrastructure Levies
DDE	France	Direction Departementale D'equipement <i>State planning office at 'regional' level</i>
DoEHLG	Ireland	Department of the Environment, Heritage and Local Government
ESIOP	Ireland	Economic and Social Infrastructure Operational Programme
EU		European Union
GDP		Gross Domestic Product
GFCF		Gross Fixed Capital Formation
HLM	France	habitation à loyer modéré <i>social housing associations</i>
IDCDC	Ireland	Inter-Departmental Committee on Development Contributions
LBO	Germany	Landesbauordnung(en) <i>State building regulations</i>
LDV	England	Local Delivery Vehicle
LEG	Germany	Landesentwicklungsgesellschaft <i>State development company</i>
LTV		Loan-to-Value
NDP	Ireland	National Development Plan
NHPAU	England	National Housing and Planning Advice Unit
NSS	Ireland	National Spatial Strategy
PDU	France	Plan Deplacements Urbaines <i>Local mobility plan</i>
PLH	France	Plan Local de Herbergement <i>Local Housing Plan</i>
PLU	France	Plan Local d'Urbanisme <i>Local Urban Plan</i>

PPS		Purchasing Power Standards
PPS1	England	Planning Policy Statement One
ROG	Germany	Raumordnungsgesetz <i>federal spatial planning act</i>
SCOT	France	Schema de Coherence Territoriale <i>Intercommunity PLU</i>
SDZ	Ireland	Special Development Zone
SRU	France	la loi relative à la solidarité et au renouvellement urbains <i>Solidarity and Urban Renewal Law</i>
UK		United Kingdom
VAT	England	Value Added Tax
VINEX	Netherlands	Fourth Policy Document on Spatial Planning Extra
ZAC	France	Zone de l'aménagement concerté <i>urban development plan</i>

1. Introduction

Project brief

De Montfort University, Leicester and Delft University of Technology were commissioned by the National Housing and Planning Advice Unit (NHPAU) to review European planning systems. This was in the light of The Barker Review of Housing Supply (Barker, 2004) which reported that the UK housing market has performed poorly in comparison with the European Union (EU), with high real house price growth but significantly lower levels of housebuilding than some other countries. It also raised a number of issues regarding the inadequate supply response to increased housing demand and market changes, which have helped to contribute to higher house prices. The Barker Review of Planning has subsequently argued for a more flexible planning system in England that is expected to deliver greater volumes of residential development (Barker, 2006a and 2006b). NHPAU sought to identify how planning systems in other European countries operate, how they facilitate new development, and how responsive they are to changes in demand.

In order to consider countries with a variety of planning systems and a range of recent housing production levels we choose to investigate planning and housing supply in France, Germany, Ireland, the Netherlands and Spain. The choice of these countries was based on the contrasts in planning systems between these countries and between all of these countries and England. They were also selected on the basis of the contrasting levels of housebuilding in recent years. Together the five countries provide examples of a range of approaches to planning, land supply and housebuilding that are different from approaches in England. We sought to make comparisons with England and to address the following aims and research questions posed by NHPAU:

- To provide an overview of the planning system in the respective countries.
- How responsive are the planning systems to changing market conditions and increases in demand?
- What costs/benefits are there for local authorities and developers in increasing residential development?
- To what degree are restraints placed on the amount / location of land allocated for residential development?
- What impact do these restraints have on land values, housing supply and house prices?
- Who pays for infrastructure and development costs? What is the impact of these charges?
- What other relevant features affect the deliverability of new housing supply, such as consumer and business behaviour?
- What other relevant factors might explain the high levels of housebuilding in Europe?

There are two central research questions implicit in the brief which have guided our analysis:

- What explanations are available for variations in housing output between countries?; and
- How do variations in planning systems influence housing production?

Overview of the issues

Land use planning in England has several features that distinguish it from systems operating in continental Europe. The contrast has been typified in terms of a difference between on the one hand legal and administrative structures that provide certainty through legally binding land use zoning and on the other a high degree of administrative discretion via less rigid plans in the English system (Davis et al, 1989). This approach contrasts the point in time at which key decisions are made; when the plan is drawn up or when planning permission is given, the former the more important in some countries, the latter more important in England. Nadin and Stead (2008) point out the over-emphasis this puts on the formal system as opposed to its operation in practice and argue that some European systems in reality involve negotiation and flexibility in the context of formally binding local plans. An EU study of comparative planning systems and policies (CEC, 1997) suggests that planning systems are embedded in historical traditions and the distributions of powers and responsibilities between different levels of government. With this approach a land use planning tradition that in narrow terms regulates land use change contrasts with a comprehensive integrated system that seeks to provide horizontal and vertical integration of policies across sectors and jurisdictions. These traditions help to define ideal types. England and Ireland correspond more to the former type and Germany, the Netherlands, and to a lesser extent France and Spain, the latter. A regional economic tradition mediates the approach in the last two countries.

It is, in addition, vital to distinguish between planning policies and systems. The former refers to the principles underpinning the operation of planning, while the latter relates to the planning process. In relation to the former, in each of our case studies (including England), planning policies have a wider remit than just providing land for house building. For example, there is a strong emphasis in all the countries on environmental considerations such as protecting the countryside. The planning process includes the role of land use plans and the approval process for individual schemes.

Method

The method applied has three stages; a review of the data, a compilation of country reports and lastly a synthesis of findings.

Reports were prepared for each country and followed the structure of the research questions. They were based on a rapid review of published evidence using books, academic journals and official reports from national and local governments and the European Union. A country expert acted as an advisor for each country. They suggested source material and commented on the draft report. A seminar that brought together the authors of the country reports provided the basis for a synthesis of the material. The work was carried out in the first four months of 2009.

Structure of report

- This report reviews the evidence for each research issue in turn. It comments on the main differences between the six countries studied and suggest, on the basis of the evidence available, the principal reasons for the differences in house building levels between the countries and the role of planning systems and development processes in explaining these differences. It also draws out some contrasts with the planning and housebuilding processes and outcomes in England. Some conclusions on the relationships between housebuilding and planning are then presented.

2. Overview of the planning systems

Key points

- The flexibility and the discretionary nature of English land use planning contrasts with the certainty provided through legally binding land use plans in other countries.
- In England there are overlapping planning and policy systems involving different aims and processes.
- The degree of negotiation over planning permission in England contrasts with decisions based more strictly on compliance (or lack of compliance) with local plans elsewhere.
- All the countries have a hierarchy of planning powers with policies set at a national level handed down, often via a regional or provincial plan, to be interpreted in detail at a local authority level.
- Proactive policy-driven land assembly and land supply processes in the Netherlands, Germany and France contrast with a more passive and reactive approach in England.
- There is the potential to incentivise higher levels of house building in England especially if the planning system is aligned with a more effective use of local delivery vehicles.

Introduction

In this chapter the principal features of land use planning systems in England are set out and then contrasted with systems in the other five countries. There are comments on different types of planning system and different processes as well as the varying degrees of certainty attached to local plans. A contrast is made between planning systems and land supply systems.

No one country is seen as corresponding totally to any ideal type and changes are seen to be in progress that are leading to some convergence of systems, led by competitive pressures and the impact of the European Union (Nadin and Stead, 2008). The distinguishing features of the English system (identified by Nadin and Stead, 2008) include a pragmatic approach to governance, a consistent and firm application of urban containment policy and a formal system with an emphasis on “land use management”. Of this system it is argued, “Although formally described as plan-led, there is much negotiation around decisions of any significance and the system offers considerable discretion; decisions on development are made on their merits with no binding zoning instruments” (Nadin and Stead, 2008, p.41).

In each of the countries studied there is a hierarchical relationship with central government at the top setting the overall policy and providing the basic legislation. At the other end are the local authorities or municipalities who have the responsibility for developing the detailed land use plans.

In between these two levels there is a middle tier. This sets guidance and provides some planning principles for the region/province. In Germany, it is additionally rather more than this, as this tier (the individual states or Lander within the federal state) set their own spatial planning legislation (under guidance from central government). In Spain there are two significant layers of government between the central state and the municipalities. These are the autonomous communities who provide planning legislation and the provinces who then provide general spatial frameworks within this legislation. Table 1 provides a brief overview of the various government tiers and responsibilities.

Table 1: Government tiers and planning functions

Government Tier		England	France	Germany	Ireland	The Netherlands	Spain
Central/Federal government	Plan	Set policies and guidance.	Sets national codes, which provides the basis for local regulation.	Guidelines and principles.	Sets policies and guidance. Sets National Spatial Strategy.	Policies and guidelines.	Provides general framework for the planning system.
	Function	Sets policies that are to be implemented by lower tiers of government. Coordination between national and regional planning.	Sets policies that are to be implemented by lower tiers of government. Coordination between national and regional planning.	Sets policies that are to be implemented by lower tiers of government. Coordination between national and regional planning.	Sets policies that are to be implemented by lower tiers of government. Coordination between national and regional planning.	Sets policies that are to be implemented by lower tiers of government. Coordination between national and regional planning.	Sets policies that are to be implemented by lower tiers of government.
Autonomous communities	Plan						Provides policies and guidelines
	Function						Implements the basic urban planning and housing policies. Develops own planning legislation.
Region	Plan	Regional Spatial Strategies	The SCOT	Regional development plan	Regional Planning Guidelines	Regional plans	Regional plans
	Function	Provides a spatial vision for the region. Outlines housing figures for district and unitary authorities to take forward in their Local Development Frameworks.	Covers several communes and ties together low-cost housing, infrastructure and environmental protection policies.	Establishing principles for planning within the region. Develops own planning legislation.	Requires regions to follow the provisions set out in the NSS.	Regulate spatial planning. Regional plans are developed from the national spatial plan.	Establish the framework for the spatial organisation of land uses and activities.
Local	Size – average population	119,000	1,550	5,000	40,000	23,000	4,800
	Plan	Local Development Framework.	The PLU.	Preparatory land use.	Development plan.	Land use plan.	Master Plans.
	Function	Outlines how planning will be managed in the local area.	Decisive legal document which provides the development plan for the local authority or groups of authorities. Establishes planning zones.	Binding future municipal development planning.	Sets out the local authority's policies for land use control and development.	Must fit with the regional plan. Regulate the use of land within the municipality as well as maximum height and width of buildings and constructions.	Define the distribution of different types of land (zoning) inside their jurisdiction. Plans also have detailed provisions for aspects such as density and building typologies.

England

House Building and House Prices

There is conclusive evidence (Wilcox, 2008) that private sector house building rates have not kept pace with house prices since 1990:

- House prices have risen nearly fourfold in 18 years;
- Private sector starts increased from 110,000 per year in the early 1990s to 150,000 per year in 2007; and
- Private sector completions have only risen from 130,000 to 160,000 over the same time period.

In the 1970s, overall house building rates were of the order of 200,000 to nearly 300,000 units per year, with councils regularly building over 100,000 properties year. The private sector was building approximately 150,000 units per year (DCLG, 2009).

The Government has set an ambitious overall target of 240,000 new homes per year by 2016 (Communities and Local Government, 2007). The National Housing and Planning Advice Unit has suggested that between 2008 and 2020, there should be a net addition to the housing stock of between 2.96m to 3.5m units (NHPAU, 2009).

Measures that have been put in place to achieve this ambitious target include enhanced targets for speeding up decision making on applications, review of planning development grant and capacity building such as the setting up of the Planning Advisory Service Team for Large Applications (ATLAS).

In addition, the National Audit Office (2008) made a set of recommendations on how to speed up planning applications for major housing developments. These included a more consistent approach over the use of pre-application discussions and greater emphasis on online consultations. It is unclear, however, at present the extent to which these practical initiatives will increase the scale of house building. These points have been reiterated by the House of Commons Public Accounts Select Committee (2009) in its report on 'speeding up the planning system for major housing developments in England'.

In order to improve the efficiency of the planning system, the Government commissioned a study on the development control system that was published in 2008 – the Killian Pretty Review (2008). It made 17 recommendations, including reducing the number of minor applications that require full planning permissions so that there is a focus on major proposals. The Government response, which was made available in spring 2009, supported many of these recommendations and it is intending to publish a consultation paper later in 2009.

House Building and Planning

The Barker Review in 2004 and the Callcutt Review in 2007 concluded that the planning system has not been responsive to market signals such as rising house and land prices. House price data

has been highlighted in the previous paragraph, while according to Wilcox (2008), the average valuation of residential building land with outline planning permission increased from £0.73m per hectare in 1994 to £3.8m per hectare in 2007. It is often suggested, therefore, that the planning system has operated as a regulatory mechanism and has hindered housing provision.

Planning Policies and Systems

It is, however, important to clarify what is the role and nature of planning. It is vital to distinguish between planning policies and systems. The former refers to the principles underpinning the operation of planning, while the latter relates to the planning process.

Frequently in reviews of house building and planning, there is an implicit assumption that the role of the latter is to facilitate and support house building. It is, however, clear from Government guidance (for example, Planning Policy Statement One – PPS1) that the role is to promote sustainable communities. This involves balancing a range of competing requirements, including housing provision, protecting and enhancing the environment, supporting economic development, facilitating regeneration and empowering local communities.

The planning system or planning process is top-down, hierarchical, complex and is subject to frequent change. Currently there are three overlapping systems:

- Traditional land use planning system that was developed in the 1980s and early 1990s and essentially relies on the private sector to implement proposals in approved plans;
- Spatial planning system introduced through the Planning and Compulsory Purchase Act, 2004, with an emphasis on facilitating and co-ordinating the delivery of sustainable communities; and
- Emerging policy making and performance management system based on local sustainable community strategies, local area agreements, national indicators and local delivery vehicles (LDVs).

As Marshall (2009) indicates, the planning process, the planning system and governance are also currently affected by a number of ‘external’ changes. These include, firstly, governance with an emphasis on collaborative arrangements between groups of councils through city regions and multi area agreements. Secondly, there is the changing landscape of regional policy making (see below). Finally, there is the on-going debate on the balance between central and local policies. For example, are national and regional house building targets to be imposed top down or is there now relatively greater local flexibility as part of the devolution agenda?

Nevertheless, the emerging policy making and performance management system has the potential through the use of reward grants to financially encourage councils to facilitate new housing development. However, the Government announced in May 2009 that it was proposing to reduce the amount of money available for housing and planning delivery grant from 2010/11.

There is also a significant time delay in implementing changes to the planning system. As has already been pointed out, the new spatial planning system was formally introduced in 2004. But it is unlikely that these changes will be fully implemented at a local authority level until the middle of the next decade. Yet the new system was introduced, in part, to modernise the planning process and facilitate new development as a key element of sustainable communities.

However, changes to the spatial planning system are being made before it is fully operational. For example, the Local Democracy, Economic Development and Construction Bill proposes the replacement of regional spatial strategies with a single integrated policy.

Costs and Benefits for Councils and Developers of Increasing the Scale of Residential Development

Currently, there are few financial incentives for councils to promote housing development. Indeed, facilitating new house building may result in increased revenue costs (through staffing) and infrastructure provision. There are, however, pressures from the external regulatory system run by the Audit Commission to meet housing need and demand and achieve a more balanced housing market. The new policy making framework and its links to the comprehensive area assessment system will heighten this requirement.

As the Barker Review (2004) on housing supply notes, the house building industry derives most of its profit from land. A consequence of this is relatively poor quality developments as customer requirements and design are marginalised. It is noteworthy that in spring 2009, the National Housing Federation highlighted that its housing association members were reluctant to buy empty new private property despite funding being available from the Homes and Communities Agency. Nevertheless, the Home Builders Federation pointed out that market research frequently reiterates that customers are happy with new housing built by its members. The current situation is that the Homes and Communities Agency provided funding of £350m in 2008/09 for the purchase of 9,600 unsold units. This exceeded the initial £200m announced by the Government.

More importantly, the focus is on acquiring suitable land cheaply and subsequently gaining planning permission. There is thus a strong case for providing greater certainty over land supply and planning permission, as this would focus greater attention on the scale and quality of development.

Infrastructure Provision

It is important to distinguish between 'macro' and 'micro' infrastructure. The former refers to major schemes such as new rail links, major roads and hospital provision. The Government, partly in response to the Barker Review, has introduced and enhanced strategic infrastructure provision through, for example, funding for growth areas and growth points.

Micro-scale infrastructure relates to site and off-site local provision. An especially contentious issue is the planning agreement system that centres on negotiations between planning authorities, infrastructure agencies, house builders and developers. Councils set out in their planning policies the community benefits that they seek to obtain through this system. The nature of these benefits are broad and wide ranging and extend to affordable housing provision. In essence, this is a form

of development land taxation. There are currently a number of issues with this system and they are:

- Planning agreements are time-consuming and resource intensive, i.e. there are high transaction costs;
- House builders may have purchased land (or obtained an option to purchase on a false assumption) about the level of community benefits – this will affect the viability of a scheme; and
- Developers and house builders are seeking to renegotiate (or even abandon) planning agreements because of the recession.

There is, thus, a strong case for a more straightforward and transparent approach on community benefits. The Government has recognised this issue since the end of the 1990s and various proposals have been put forward. This culminated in the inclusion of community infrastructure levies (CILs) in planning legislation in 2008. This would take form of a sum of money per property. The detailed mechanisms of its operation remain to be resolved. It is also clear that the vast majority of councils feel unable to implement this scheme during the recession. Indeed, the Government announced in its April 2009 Budget that the CIL would not be introduced until at least 2010.

Delivering New Housing Supply – The Role of Local Delivery Vehicles (LDVs)

As has already been pointed out, the Government is committed to a substantial increase in the scale of housing provision over the next decade. Much of this new provision will take place in four growth areas and a large number of smaller growth points. In addition, there has been a focus on developing a number of ecotowns – though the nature and timing of specific proposals is uncertain.

The delivery of these area-based initiatives relies principally on local delivery vehicles to enable and facilitate specific schemes. These include urban development corporations and local development companies.

At the same time, the Government's Housing Green Paper in July 2007 paid particular attention to smaller local delivery vehicles such as community land trusts and local housing companies. Although these are primarily focussed on affordable housing provision, schemes are likely to include some market provision.

These LDVs represent an interesting and important facilitating mechanism that brings together land, funding (including finance for infrastructure) and development expertise through partnership and collaboration between public and private sector agencies. In some cases, these LDVs have planning powers.

France

France is a unitary state, which over recent years has made considerable efforts to devolve competences and strengthen capacity at the regional level. It has a very different legal system to the UK, with for example national codes which provide the basis for much local regulation. The state still has a very important role, through the regional Prefect, in mediating conflicting interests in environmental planning and management. A large social sector has contributed significantly with the aid of direct subsidies to housing investment and production levels.

A common feature of the planning systems examined is the hierarchical relationship between the various tiers of government. For example, the planning system in France is characterised by planning powers at each of the three levels of the government: the National State, the regions and the local authorities. The more centralised model in France has been said to distinguish it from less centralisation in England (Newman and Thornley, 1996). The 2003 Urban Renewal and Solidarity Act makes use of planning instruments to implement a 20 per cent affordable housing norm for both new and existing areas, accompanied by a fine/reward system for local authorities that is dependent on their compliance with the Act. There has been a focus on collaboration between local authorities on strategic issues. A planning instrument that covers several communes, the SCOT, is intended to give strategic guidance to development and ensure a balance between development and the protection of the environment. It ties together urban policies in such areas as low income housing, transportation and infrastructure provision. It is a product of intercommunal cooperation. The binding and formerly dominant local plans (PLU) now need to respond to the strategic goals set out in SCOT.

Local authorities are responsible for the decisive legal document, the PLU. However, in practice many smaller communities depend on semi-private consultancies for the development of plans or the DDE/Agences d'urbanisme which originally provided mainly services connected with checking local plans against the law. Officially, the state still authorises the final decision, and delegates this to the local authorities. They also provide the mandatory 'diagnosis' document that needs to accompany each plan or proposal. In practice, the plans often come before diagnosis.

The PLU effectively provides the development plan for a local authority (commune) or group of authorities and the general planning rules that will apply to the locality as a whole and to particular sites. The PLU establishes planning zones that divide a locality in principle into: zones where new construction is permitted, which are likely to be where there is already some development as well as infrastructure in place; future development areas where infrastructure is either available or will be available; agricultural areas where only agriculture related development may occur; and protected areas where no new construction is allowed because of the historic, ecological or environmental value of the location.

The implementation of development and land use plans depends largely on the land tenure. Local Communities have the 'droit de preemption' (preferential purchase or expropriation) to promote development if necessary. Besides PLU, both a housing (PLH, Plan Local de Herbergement) and a transport plan (PDU, Plan Déplacements Urbaines) are mandatory for local authorities.

Developers (both social and private) make detailed proposals for housing projects in a ZAC (Zone de l'aménagement concerté, this is an *urban development plan* – plan for specific zones that have been identified on the PLU). ZAC's contain the plans for urbanisation, lotification (division into individual plots for eventual use) provision of specific facilities, architectural and technical specifications, and form the basis for applications for building permission. They also need to define the requirements for public consultation and the financing of the development. ZAC's have to comply with the PLU, which prescribes the public space, densities and general typologies. If they are to divert from the PLU framework, there is a procedure for negotiation, which can only be successful if the ZAC fits the strategic guidelines of the SCOT.

Before development can begin a permit is required that is at a broad level similar to the English requirement for planning permission. It lays down in detail all the conditions surrounding the development and it will be granted if the development is in line with the ZAC and the PLU.

Germany

The German planning system is a mixture of a plan and development-led approaches. It is characterised by hierarchical planning powers among the three levels of the government: the federal state (Bund), the local states (Länder) and the local municipalities (Gemeinde). The principles of 'subsidiarity', 'municipal planning autonomy', and 'mutual influence' are the bases on which the government acts more as 'enabler' than 'provider' in housing construction. Germany has a strong ethos of environmental management and mechanisms for integrating environmental concerns into decision making such as the long standing 'landscape plans' which provide, in effect, strategic environmental assessment of other plans and programmes, and regional resource management. Federal spatial planning in Germany is limited essentially to the development of guiding principles which provide the legal basis for state spatial planning and specifications for sectoral planning. The task of federal spatial planning is to focus sectoral planning and public investment from the point of view of regional and national structural policy.

The key decisions are usually taken at the lowest political level, and a higher political level should intervene only if the subject cannot be handled or organised by the lower one. The position of local municipalities (Gemeinde), where the main spatial planning competence is located, is strong and municipal autonomy is constitutionally guaranteed. Moreover, there is a collaborative mechanism in the German planning system. On the one hand, the planning strategies from a lower planning tier have to be taken into account when devising plans and principles at a higher level, especially in planning infrastructure. On the other hand, each lower level is obliged to consider the guidelines and principles of the higher level.

The Federal Spatial Planning Act, (Raumordnungsgesetz: ROG 1965) provided a framework for the Länder to develop their own spatial planning laws to provide details at a local level. The act also provides the regulations for planning at the municipal level. Spatial plans can be prepared by the Länder and the Gemeinde. In spite of the autonomy of the Gemeinde, the Bund and Länder both guide and support specific development activities at the municipal level via financial programmes. Moreover, the Bund and Länder initiate and support discussions about spatial strategies through innovative programmes and pilot projects.

The federal state (Bund) is responsible for establishing comprehensive frameworks for spatial development of the whole country, taking account of the general conditions for different policies, for example, housing policy and subsidy systems, but it has no direct planning competences.

The local states (Länder) are responsible for spatial planning at the state and regional level, which are regulated by their own laws, including spatial development plans, design guidance and building codes (according to the regulations and frameworks of the national level). The Länder are also responsible for defining regional policies and programmes, for example, housing programmes.

The local municipalities (Gemeinde) is the main body in the planning process and follows the principles and guidelines from higher planning tiers, in combination with implementing policies (for example, housing policies) of the Bund and Länder. It prepares the local land use plans designating building land, including land for housing, and provides infrastructure for the construction.

Ireland

The Irish planning system is hierarchical and centralised. The Department of the Environment, Heritage and Local Government (DoEHLG) is responsible for planning legislation and policy guidance. A unique feature (within Europe) is the independent third party planning appeals system operated by An Bord Pleanála (the Planning Appeals Board). Since 1993 the Environmental Protection Agency has been responsible for decisions on major environmental issues. This means that the planning system is essentially restricted to land use functions (Bartley, 2007).

The rapid economic growth of the 1990s took place in the context of a lack of appropriate infrastructure, an absence of a national strategic spatial framework and a limited institutional and governance capacity to guide and coordinate the development. The style of spatial planning in Ireland is similar to that of the England in that it has evolved from common law and the principle of precedent. A key distinction between the English/Irish system and the rest of Europe relates to the powers given to local government: the administrative system in Ireland has a dual nature in which central government sets legal and functional constraints for local authorities and then plays a supervisory role.

There are no statutory allocations of housing units or targets. Instead there is a requirement for all Regional Planning Guidelines to follow the provisions of central government's National Spatial Strategy (NSS). In turn, each county and city development plan must have regard to the guidelines in place for the relevant region. The Development Plan sets out the local authority's policies for land use control and development. It shows the expected sole or primary use for particular areas. There is a requirement for public participation in these plans which must be renewed every six years. Local authorities in Ireland take account of housing demand and plan for appropriate provision that is in line with national policy and regional guidance.

The current system, which was initially based heavily on the English planning system, dates from the Local Government (Planning and Development) Act, 1963, in which local authorities were designated as planning authorities but also charged with the responsibility for facilitating development. The large body of legislation since 1963 was consolidated and updated in the Planning and Development Act, 2000. This confirms the hierarchical system within the context of the NSS and regional planning. The NSS, which was set out in 2002, is the responsibility of central government (the DoEHLG); regional guidelines are prepared by the eight regional authorities and development plans and local plans are prepared by the eighty-eight local authorities. In Ireland the local authority functions are separated into reserved (political policy) and executive (management functions). Reserved functions are the responsibility of elected representatives and executive functions are performed by the City or County Manager. The adoption of a Development Plan is a reserved function but decisions on individual applications are an executive function.

The Development Plan sets out the local authority's policies for land use control and development. It shows the expected sole or primary use for particular areas. Local Area Plans have been a statutory requirement since 2000 and set out detailed policies, which must be consistent with the Development Plan, for specific localities. All development proposals require planning permission which means they will be vetted to ensure that they are consistent with the Development Plan. This development control function is exercised by local authorities who also have a duty of enforcement. They therefore have to police development to ensure that actions are in accord with permissions and they have to take actions against those who do not observe planning requirements.

It has been argued that local authorities can be active entrepreneurial agents with a strong emphasis on development. Most local authorities in Ireland now have separate development departments, which operate alongside and often in conflict with the planning department (Bartley, 2007).

There are two other notable elements of the planning system:

- one is the potential to designate Strategic Development Zones (SDZ). Planning applications in SDZ cases are quite straightforward once a master plan has been formally approved. The most famous of these is the Adamstown SDZ, a new settlement close to Dublin in which large scale residential development, with mixes of densities and tenures, was carried out on a phased basis, timed to the delivery of services such as a rail station, schools and other services.
- another is the Dublin Docklands Development Authority Act, 1997 which allows for simplified planning processes for delivery of commercial (mainly), housing and other development in the designated Dublin Docklands areas.

The Netherlands

The Netherlands is a decentralised unitary state with a well integrated environmental planning system with a strong ethos of environmental protection and land conservation. Of particular interest are the mechanisms of vertical and horizontal integration amongst jurisdictions and 'planning sectors'. Recent developments suggest that tensions are growing amongst the sectors, especially environment, land use planning and economic development with each national ministry preparing their own plans. There is also a slight weakening of the dominance of the public sector in determining spatial development patterns and more market oriented approaches.

Dutch land use planning has been top down with central government setting policy that is to be implemented by lower tiers of government. Policy has been highly prescriptive as to where development should occur. Preventing development in rural areas has been central to spatial planning policy and the preservation of open space is assumed to be a measure of the effectiveness of the Dutch planning system. The key legal document in the land use planning process is the land use plan (bestemmingsplan) that is produced by the municipalities. A building permit (bouwvergunning) may only be granted for proposed development that conforms to the plan.

There have been strong links between planning and housing policies. National spatial policy is to be interpreted and implemented by provincial and municipal authorities. Every few years there is a new 'Spatial Memorandum' that sets out the national policy. After the Second World War the

government opted for strong spatial planning supported and reinforced by a comprehensive housing policy with one ministry responsible for both housing policy and spatial planning (Priemus, 1998). The alliance between planning and housing policies became extremely close and by subsidising most housing projects, the national government in the past exerted a strong influence over the production and location of dwellings (Faludi and van der Valk, 1994). It has been estimated that about 95 per cent of housing production was subsidised in the 1950s (van der Schaar, 1987).

In the 1950s and 1960s preventing development in rural areas was central to spatial planning policy and it continues to be the case that, “The preservation of open space is seen as a kind of litmus test for the effectiveness of the Dutch planning system in general” and there are tight restrictions on the urbanisation of the countryside (Zonneveld, 2007, p658). Planning is still strongly influenced by The First Spatial Planning Report of 1960 which set out the concept of concentrating development in the Randstad, the ring of towns that includes Amsterdam, The Hague, Rotterdam and Utrecht, with green buffer zones between the cities and an open ‘Green Heart’ (Groene Haart policy) in the centre of the ring where development would be avoided. In the 1970s growth centres to promote ‘concentrated deconcentration’ were established.

It is clear that “land use regulation has always been restrictive, at least at certain locations, while showing a tendency to direct people towards other locations, deemed more desirable from a social point of view” (Vermeulen and Rouwendal, 2007, p.20). A key measure was the Spatial Planning Act of 1965 which remains, with various amendments, the cornerstone of the planning system. Through this legislation provinces and municipal authorities were expected to take account of national spatial policy and although central government has strong powers of enforcement, lower tiers of government were granted a degree of autonomy in interpreting national policy principles. The national government provides rough guidelines, which are translated to a lower scale at the provincial level, and finalised by municipalities. Municipal zoning plans determine in detail the use for each plot (Vermeulen and Rouwendal, 2007).

The relationships between the powers and responsibilities of the various tiers of government have changed since June 2008.

Before June 2008

- Provinces had to approve land use plans (bestemmingsplannen);
- Municipalities had the power to produce land use plans; and
- There were different strategic (non-binding) policy documents at the different levels of government (national government (*planologische kernbeslissing*), province (*streekplan*) and municipality (*structuurplan*)).

Since June 2008

- Provinces do not approve land use plans, but provinces and the national government are entitled to give directions to municipalities;

- National government and provinces are also entitled to produce land use plans (when they consider themselves responsible for the development of an area); and
- The strategic (non-binding) policy documents at the different levels are replaced by the so-called 'structuurvisie'. The 'structuurvisie' is the basis for the land use plans.

Spain

Two main principles underpin the planning system in Spain. The first and foremost is the right to housing. The constitution states that all Spaniards have the right to enjoy decent and adequate housing and public authorities have to promote the necessary conditions and establish appropriate standards in order to make this right effective, regulating land use in accordance with the general interest in order to prevent speculation. The second fundamental principle is equity in the distribution of benefits and costs resulting from development activities. The Constitution states that the community shall have a share (from 5 per cent to 15 per cent depending on the detailed circumstances) of the benefits accruing from town-planning.

The Spanish State is divided into three lower levels of government: Autonomous Communities; provinces; and municipalities. Urban planning is a competence of Autonomous Communities and local governments. The State provides the general framework for the planning system. Autonomous Communities may pass their own legislation within this framework, while local governments produce the detailed local plans. State agencies prepare sector-related plans on, for example, roads, ports, agriculture, and water. Regional plans establish the framework for the spatial organisation of land uses and activities; while the municipal plans make decisions on more detailed aspects of urban development (Franchini, 2008).

Planning follows a hierarchical structure of successive plans. Land classification is the main planning technique. Land is divided into three types: urban, developable, and rural (non-developable) land. Local authorities are in charge of this zoning process. Autonomous Communities are in charge of implementing the basic urban planning and housing policies, and should incorporate the contents of the State's sectoral laws and regulations into their own policies, financing schemes and regulations. Most planning decisions are made at the local level, following the policy guidelines established at State and regional level.

Local governments elaborate and adopt Master Plans, which define the distribution of different types of land (zoning) inside their jurisdiction. These plans also have detailed provisions for aspects such as density, building typologies, environmental protection, sustainability and historic conservation. Besides the control of urban development and granting planning and building permits, local authorities can also promote social housing in their locality, allocate funds for the promotion of rental housing and encourage the renovation of housing in old historical centres.

Land use planning systems and land supply systems

Land use planning systems are not the same as land supply systems. It is important to note that in contrast to England, in the Netherlands, Germany, France and to a lesser extent, Spain, it is possible to discern a land supply system that is driven by public policy. In each country local authorities play important roles in either assembling land for development or promoting schemes that support the supply of serviced land for residential development.

It has been argued that in contrast to other countries the planning system in England cannot make land available, it can only allocate land. This is true despite the requirement, reinforced by Planning Policy Statement 3 in 2006, that English authorities ensure that an adequate supply of land for housing has been identified (Barker, 2008). The important distinctions here are between identification, allocation and actual supply. The latter means that the land is ready to be part of the development process and developers are ready to develop that land. An important aspect of this is land assembly.

The land assembly and land supply processes in the Netherlands, Germany and France are very different from the English approach in the ways that they deliver land to the market. Under the traditional land development process in the Netherlands the municipality takes responsibility for acquiring land, putting the infrastructure in place and supplying it to the house builder. In Germany municipalities have played important roles in land assembly, particularly in cases of multiple ownership where a form of pooling of development rights has been important in facilitating development on complex brownfield sites (Oxley, 2004). In both the Netherlands and Germany local government are expected to ensure sufficient supplies of land for development (Cheshire, 2008). In France the municipality has taken a strong role in promoting land supply and development in urban areas through its participation in the detail of ZAC arrangements (see above). In other locations, especially the urban fringe, the process of *lotissement* has been important. This is a means of providing serviced building plots to private households or developers for individual development. This process is responsible for around a quarter of all housing plots each year. The lotissement is promoted by specialist private, but regulated, companies. They are short term holders of land who are in effect intermediaries between the initial owners and the developers and final users of the land (Golland and Oxley, 2004). In Spain, as stated above, private developers have to give five to fifteen per cent of their land when it is rezoned for development to the municipality. The municipality can then supply this at sub-market prices for subsidised housing development (Ball, 2009).

Proactive land supply policies are particularly important in Germany and some further comments on the system here demonstrate the significance of the distinction between land use planning and land supply mechanisms. Most Länder have established a semi-public development agency, a LEG (Landesentwick-Lungsgesellschaft: state development company), which is a major actor in urban redevelopment and renewal. It is owned by the state, but operates independently on a commercial basis as a developer. It works in close cooperation with the local authorities by acquiring land, planning and providing infrastructure, developing schemes for housing, managing the completed developments and selling the developed land or completed buildings to investors.

Some local authorities (Gemeinden) leave land policy entirely to market forces, while others operate a policy of long-term land banking to maintain land supply for commercial and industrial uses. However, many Gemeinden operate housing programmes on municipally-owned sites to provide reasonable-cost housing, because of the high cost of land in urban areas. The Gemeinde can formally designate urban development zones, usually greenfield sites or large derelict sites, to develop areas of land for housing. The Gemeinde are then able to purchase all plots of land included for new development and for promotion of social housing on building land at relatively low prices. Compulsory purchase will be used if necessary. The landowners who guarantee to

implement new development may retain their plots, but may be liable for betterment charges. This means capture of the added value of land that was created by the Gemeinden in acquiring and converting the land to building land. It is used to finance the costs of infrastructure.

The size of local planning authorities

The information on the six countries shows that the local authority or municipality is an essential component of the planning system in each country. It is the local authority that prepares the local plan which determines what is developed on individual sites. The size of these local authorities that have these important planning powers varies a great deal between countries and is on average much larger in England than in the other countries. Data for 1997 suggests that an average population of 119,000 (in the U.K.) contrasts with 1,550 in France; 4,800 in Spain; 5,000 in Germany, 23,000 in the Netherlands and 40,000 in Ireland (Enemark, 2006). On the basis of such information it is apparent that detailed planning decisions are much more decentralised in other countries than in England. Enemark (2006) argues that more decentralised decision making promotes greater participation, increased popular consent and more responsive government.

Conclusions

Hierarchical planning systems with key decisions made at the local level within a nationally determined policy framework are the norm in all the countries examined. Local decision making and local plans are thus important. There are some significant differences in local plans in England compared with the other countries. In England the plans are made by much larger local planning authorities, they are less certain and not legally binding, allowing for more negotiation before planning permission is given. Planning systems in the other countries also tend to have more significant development promotion functions. Land supply for residential use is actively promoted through land policies and processes in some other countries in ways that are not found in England.

In England the role of planning policies is not to prioritise house building over other sustainable community issues. The planning system is complex and takes many years to change. It is affected by broader external changes in governance; and the spatial planning system and the new policy making and performance management system have the potential to help facilitate and incentivise higher levels of house building in the longer term. LDVs are an example of a development facilitation and promotion mechanism that can provide a counterbalance to planning restraints. They can thus form a positive development promotion function similar to that found within the planning policy and land supply systems in some other countries. The growing role of LDVs to implement and facilitate new building together with the spatial planning system and the new incentivised policy making and performance management system provides a potential basis to increase house building. If this is to be achieved:

- The spatial planning system must be implemented more quickly at a local level;
- Financial incentives for councils to encourage house building should be significantly increased; and
- Even greater use should be made of LDVs.

3. How responsive are the planning systems to changing market conditions and increases in demand?

Key points

- Planning systems are not typically demand led; they tend rather to be driven by the aim of balancing demand with constraint.
- Irish and Spanish planning systems have facilitated increased development in response to large increases in residential demand and appear less constraining than systems in the other countries.

Introduction

This chapter examines the capacity of planning systems to respond to increased levels of residential demand. It identifies some differences between countries in response to changing market conditions and suggests that the balance between constraint and development facilitation is an important consideration in judging the effectiveness of planning systems.

Comparative cases demonstrate the complex and indeterminate relationship between demand, supply and the planning system. Demand for new homes is strongly influenced by changing social aspirations and lifestyle affecting demands for types of tenure and space (Germany and Spain), and increasing availability of credit in formerly more constrained markets (for example, Ireland and Spain). Demand for housing has been significantly 'distorted' in some countries because of the potential for quick profits from speculation (Spain and Ireland).

An absence of demand-led planning

Planning systems in the countries considered are not in principle demand led. This means that planning permission is not first and foremost governed by the level of demand for development. Planning systems can respond to demand but responding to demand is not seen to be a key objective of planning systems. It is rather to achieve social and environmental objectives that require balances between development and constraint. However, the systems in Ireland and Spain have arguably been more responsive than in the other countries whilst the Dutch system is least responsive to market pressures. In France and Germany, in particular, there have been recent attempts to speed up planning processes. In Spain liberalisation in an attempt to respond to demand became associated with speculation and land price increases.

The response to demand for housing in France and Germany is linked to regional policy; that is the commitment for 'balanced development' across regions. Accordingly, significant efforts are made to strengthen economies and reduce out-migration from 'lagging regions'. A combination of strong competences, financial incentives and in some cases powers to subsidise housing and/or provide infrastructure has encouraged local authorities (lowest tier of government) to allocate land for housing.

There are indications that much new housing allowed by municipalities (for example, Germany and France) is, in comparison to England, allocated on relatively small plots, in more dispersed locations and developed by relatively small developers or even self-build. This contrasts with relatively large scale speculative development in England. It may be an important factor in providing for a more flexible and politically acceptable response to local demands. There has been more certainty of the implementation of housing development on allocated land in some countries (for example, Germany and the Netherlands) which may reflect the existence of incentives and more local influence in the development process.

In Spain and Ireland, the allocation of sites for new housing through the planning system has led to considerable oversupply of sites (overzoning) and development proceeding ahead of infrastructure provision, environmental damage, less influence over the location of new development and a large proportion of empty properties.

Planning procedures have been adjusted in a number of countries to speed up decision making. One common feature of reform has been to introduce more flexibility in the rigid system of zoning where binding regulations have been difficult to change because they are part of the law. New procedures have been introduced to allow for decisions that are contrary to the plan to be made more quickly.

Responding to housing demand

In Germany, the reactions to increasing housing demand at the beginning of the 1990s were positive. However, land supply increases were sometimes an over-reaction and resulted in an excess supply of housing. Reunification of the former East and West Germany in 1989 has brought great challenges to housing supply, such as the shortage of housing for middle to low-income groups and modernisation of the large pre-fabricated housing stock. Promotion of social housing construction was the first reaction to increasing housing demand. This resulted in a housing construction peak in the middle of the 1990s. There has also been a shift from rented to owner-occupation production generally associated with single-family housing. Involvement of private owners and housing companies in housing construction contributed greatly to the plentiful supply of rental as well as owner-occupied housing. Relaxed procedures for granting building permission have sped up the process of building construction and this has helped small development companies.

The planning system in Ireland requires that local authorities take account of housing demand and plan for appropriate provision that is in line with national policy and regional guidance. When housing demand has increased quickly, as it has in recent years, supply has increased quickly. Norris and Shiels (2007, p52) suggest that “private housing output in Ireland has historically been more responsive to changes in demand than the UK, which indicates that the more liberal planning system employed in the former country has not produced the housing supply and affordability problems evident in the latter.” Part V of the Planning and Development Act, 2000 obliges local authorities to amend their development plans to incorporate housing strategies which detail how future local housing demand will be met. These strategies must estimate the need for social rented housing, and for ‘affordable housing’ which, in the Irish context, refers specifically to dwellings for sale at below market value to low-income households.

The Dutch planning system has not been very responsive to market conditions. Land supply is largely a function of government policy without any explicit reference to current market conditions. Empirical analysis provides evidence that housing supply is not very responsive to prices and this is linked to an inelastic supply of residential building land. Central government has attempted to incentivise development at its desired locations. The supply of land for residential development is strongly influenced by the activities of the public sector. But this is not simply the consequences of the planning system. It is more importantly a function of the State's central responsibility for infrastructure provision that makes land available for development.

In Spain the liberalisation of the planning system played an important role in the unprecedented levels of housing construction that characterised the 1996 to 2007 period. To address increasing housing demand, led by demographic trends and low levels of social and rented housing, both the private sector and local authorities received great freedom to expand residential development. Local administrations released land for urban development at unprecedented levels, ensuring vast cash flows from developers in return.

Conclusions

In all the countries considered, planning systems are designed to balance the demand for development with the social and environmental benefits of constraints. In this respect, the underlying principle of planning in England is no different to that in other countries. However, the greater ability of the systems in Spain and Ireland, in particular, to facilitate additional development as a reaction to increased demand helps, alongside important demand side factors considered in other chapters, to explain the high levels of residential construction in these countries.

4. What costs/benefits are there for local authorities and developers in increasing residential development?

Key points

- Local communities in some other countries are able to benefit directly from additional development to an extent that is not always apparent in England.
- More development can enhance the funding available to local communities from higher tiers of government and increase the local taxation base.
- In the smaller local authorities in other countries additional housing can have important positive consequences for the viability of the community.

Introduction

This chapter considers the costs and benefits associated with more residential development. It points to the funding, taxation, and social viability benefits to local communities which can be relatively more important in other countries than in England. It also demonstrates the ways in which local government and local communities can benefit from a share of the land value enhancement from development in other countries in ways that are not apparent in England.

Local funding benefits

In some countries there is a major incentive for the lowest tier of government (local authorities) to accept and even encourage new housing because they can benefit financially in the short and longer term through tax income and local spending.

It is important to recognise that 'local authorities', municipalities or communes are much smaller in the research countries (see chapter 2). This has two possible effects. First small authorities find it difficult to provide services and usually have to collaborate with others. More housing results in more income and possibly more viable local services. Second, the allocation of sites, the control of the development, the development process (i.e. development and building companies) and the allocation of any benefits are more likely to be dealt with at a much more local level than in England.

Development can mean more revenue for local authorities (for example, Spain and Germany) as well as more profits for developers. But in the longer run there are the costs of providing for an increased population. Fiscal incentives can be important in encouraging development (for example, Germany and Ireland).

In France, legislation enacted in 2000 requires that all local authorities (communes) with more than 3,500 inhabitants (or 1,500 in the Paris area) have at least 20 per cent of the housing stock devoted to HLM (social rented) dwellings. The principal aim is increased social mix (Schaefer, 2008). Central government imposes financial penalties on communes that are below the target.

German cities are grant funded from the state in relation to the total number of their residents, therefore local municipalities have an incentive to support new housing development to attract people. However, increasing the amount of land for settlement and transport-related uses in a time of population stagnation may mean a higher cost per citizen for essential technical and social infrastructure. For private developers, benefits in increasing residential development mainly lie in high levels of subsidisation for the construction of social housing, which however has been reduced since 2006. Taxation and rent setting legislation encourage investment in housing construction by private owners.

In Ireland, where more residential development is an expectation of national policy and regional guidance, local authorities are required to facilitate that development and developers are likely to respond positively as long as any infrastructure constraints are resolved. Local authorities can benefit from the development contributions that new housing can bring. They may charge developers for infrastructure that is directly related to the development and they may make charges, as a condition of planning permission, for projects that benefit the wider community. Local authorities are therefore able to raise funds from new development and so they might welcome additional housing projects as a source of income and, especially in rural areas, as a means to increase the economic and social viability of their communities. Political pressure from land owners may encourage local authorities to increase the amount of land zoned for housing. Some authorities have been found to have allocated too much land to housing development. This 'over zoning' suggests that some authorities want more residential development than national and regional strategies allow.

Private developers whilst having to make contributions to the costs of infrastructure and to social housing provision can expect to make profits from additional residential development. The costs to be shouldered by developers are arguably higher since the post-2000 requirements for contributions in kind or (post 2003) cash for social/affordable provision and for payments towards infrastructure as a condition of planning permission.

Land value benefits

In the Netherlands if there is sufficient demand, the principal benefits for developers arise from the profits of residential development. Local authorities have been able to make gains from dealing in the land market but these have helped to pay for infrastructure and to cross-subsidise less profitable development. Central government has attempted to incentivise development at its desired locations.

From the private developer's viewpoint the main benefit of more development comes through profits. In the past these have been enhanced through direct subsidies to promote the provision of social housing. New social sector development in the Netherlands is now expected to be funded commercially with market orientated housing associations applying their own strong asset base to assist funding. Developers may be expected to bear some of the costs of infrastructure provision. There was a major change in Dutch housing policy at the beginning of the 1990s, when most subsidies for construction were ended, and housing associations were liberalised. The responsibility for new housing supply and the associated local public goods, such as parks, roads and social housing, was shifted from government to commercial developers and the commercially

orientated housing associations (Vermeulen and Rouwendal, 2007) Modifications to land policy instruments during the 1990s were designed to enhance local authorities' ability to acquire land, and to increase their powers to recoup the costs of public amenities by charging private developers who would benefit from the profits of increased sales.

The benefits for local authorities are related to the type of land policy they adopt. *A Land Policy Memorandum* of 2001 uses the terms 'active' and 'facilitatory' land policy. In active land policy, the local authority is responsible for site acquisition, site servicing and plot allocation. In facilitatory land policy the local authority delegates these activities to the private sector and restricts its role to the creation of a framework and preconditions. Although many authorities now adopt a facilitatory role, most local authorities have retained an active role. With an active role, acquisitions at one price and disposal at another allows local authorities to benefit financially, after infrastructure costs have been covered, from enhanced land values. With a facilitatory policy in which private developers take a more entrepreneurial role in the development process, the benefit of that enhancement will rest more with the market sector. Korthals Altes (2009) argues, however, that a combination of high agricultural values and high infrastructure costs has, in some cases, kept the land value increment due to residential development low.

Ball (2008) notes that the housing ministry has recently entered into development agreements with local authorities and public-private partnerships are being encouraged in order to speed up housing delivery and to diversify its form. He argues that the emphasis remains with the state as initiator and planner of new housing development but the private sector has to respond to the government's initiatives if the required levels of housebuilding are to be achieved.

Municipal gains and developer profits

High levels of housebuilding in Spain have been related to the short term benefits local authorities received from releasing land for residential development, as well as the huge profit margins that developers received in the process of urban development. Deregulatory instruments passed during the Aznar administration (1996 to 2004), provided the legal framework for the massive land release allowed by local governments, as well as the freedom of developers to engage in speculation.

New legislation in 2007, however, has abolished most of the measures that allowed the huge benefits that fed the bubble. It has also stipulated higher levels of social housing construction, consequently decreasing the profitability of commercial development. The reduced development margins, however, were introduced in a time (July 2008) when the international financial crisis was in any case making the Spanish real-estate bubble burst.

Until June 2008, when the new legislation was effective, local planning decisions were basically geared towards increasing the financial means of the municipality by releasing land for new developments. This was possible thanks to '*la liberalización urbanística*' (urban planning liberalisation): the ample planning powers granted to local authorities by higher-level regulations. Even though the latter provided the legal framework for planning, municipalities had the opportunity to sign special agreements with developers. In many cases, councillors or mayors are alleged to have received bribes and personal profits for land reclassification or the selling of land reserved for the municipality. These cases, known as '*la corrupción urbanística*' (the urban planning corruption), were an important topic of political debates.

The compulsory transfer of five to fifteen per cent of land to local governments is seen as a way of capturing betterment. Local governments reclassified huge amounts of rural land as developable which was later sold or auctioned (OECD, 2005), gaining significant revenue for it. Local authorities also benefited greatly from the stipulations of the 1998 *Ley de Suelo*, which stated that land would be valued according to expectations of its future value instead of its 'current use value'. Land use planning then became a tool to increase the value of municipal land to be sold at increasingly higher prices.

New developments also impose costs on local authorities. Catalonia's planning system, for example, allows two possibilities when the development project is finished: that the council immediately takes over the management and maintenance of public space or developers retain the management of the project for a period of time (approximately five years). After this time, the municipality takes over the management and maintenance of the public space of the project. Once the project is taken over by the municipality, the costs of the maintenance of public space – and some services – are financed by different municipal taxes such as those coming from home-ownership, and from the commercial functions located on the ground floors of buildings.

Conclusions

In England the costs of residential development are often emphasised in terms of the adverse impacts on local communities. A consideration of practice in other countries has shown a variety of ways in which communities can benefit directly from residential development. These benefits can arise from enhanced local authority funding, a share in the local land value enhancement, or betterment from local development and, particularly in the case of smaller communities, improved social and economic viability. These benefits tend to be more explicit and transparent to local communities than are community benefits extracted through section 106 agreements in England. They do, furthermore, rely less on negotiation, and thus have more certainty attached.

5. To what degree are restraints placed on the amount/location of land allocated for residential development?

Key points

- In all the countries considered there are restraints on the development of housing in specific locations. The effect of these restraints on the total volume of land available for residential development is unclear.
- There has been a tendency in other countries to promote development at desired locations as well as restraining it at others. This counterbalancing of the promotion of development is less apparent in England.

Introduction

In this chapter restraints on development are considered. The use of planning to limit development is arguably strong in all countries but can be balanced by policy driven incentives. This restraint/incentive relationship is a point of contrast with England.

Constraints and green space

All the countries place significant restraints on the location of land for housing to protect sensitive sites, heritage and environmental assets. The density of these assets has a major effect on the land available for housing. Proposals to develop housing in sensitive locations generate great controversy even in countries which have had liberal regimes for housing land (Spain and Ireland). The amount of restraint varies considerably across regions within a country. Metropolitan regions and coastal areas are particularly affected by constraints on developable land in France. Constraints on the location of new housing land tend to be increasing because of the disbenefits of unrestricted fragmented development and urban sprawl have become more widely recognised (in France, Ireland, Germany, Spain and the Netherlands). Restraints involve not just the amount of land but the type of housing. A significant difference between England and the other countries is the emphasis on restraint in England is not counterbalanced by the promotion of development that exists elsewhere.

In Germany, increasing concerns about sustaining extensive green space in highly urbanised regions are common among regional planning authorities. In some locations, regional and/or local government are reluctant to allocate land in land use plans for owner-occupied housing, and set more planning constraints on suburban expansion, especially in areas of high demand. However, exceptions to the type of land use permitted (under the BauNVO) may be allowed when processing the application for building if it is in the public interest. Many local authorities operate housing programmes on municipally-owned sites to provide reasonable-cost housing. Planning instruments that prevent the loss of housing from land use changes are in use, mostly in inner-city locations.

Lax constraints

In Spain, a system with a lack of constraint changed markedly after the Zapatero government came to power in 2004. New regulations to limit the profit margins of developers, to increase the levels of social and rental housing, increase government control over urban development were approved. Housebuilding began to slow down in 2007, as a consequence of the international crisis, and virtually stopped in September 2008, after the onset of the credit crunch. The future is uncertain, in the context of the world economic crisis, the new regulations, and a surplus of one million dwellings which are still unaffordable for most Spaniards.

In Ireland, it appears that in total sufficient land has, in recent years, been available for residential development and in aggregate the planning system has not imposed heavy constraints. However, it has been argued that the distribution of available land has been unbalanced with too little available in the city of Dublin and too much outside. A more important constraint than planning has been the viability of suitable infrastructure and thus a deficit of appropriate serviced land at the right locations at the right times to meet demand.

There has been a tendency for individual counties to over-zone or over-supply in their development plans (when measured against the regional guidelines) and the Minister has 'called in' some plans that have not conformed to the regional figures. This has been noticeable particularly in the greater Dublin area where the National Spatial Strategy (NSS) has sought to restrict sprawl in the counties surrounding the capital.

In 2006, in a high profile 'over-zoning' case, the Minister directed that the Laois County Development Plan be amended to conform to the regional planning guidelines for the greater Dublin area. The Minister stated that the total quantity of land zoned as residential was unwarranted, was not in accord with population projections as set out in the regional strategy for the location and would create a dispersed pattern of settlement that would be expensive to service. The NSS published in 2002, covering the period 2002 to 2020, aims to achieve balanced regional development by designating a number of cities and towns as 'gateways' (engines of regional and national growth), toward which investment infrastructure, services and amenities is to be directed.

The NSS is to be delivered by means of regional planning guidelines prepared by the eight regional authorities. However, these have been largely ignored in the development plans published by local authorities in the greater Dublin area, which have rezoned land for housing far in excess of the guidelines' recommendations. In September 2007, the Government published revised population figures for each of the regions, thereby updating the NSS figures. It included an across-the-board 'uplift' that was made up more of 'targets' than 'projections' with the likely knock on effect that even more housing land would be provided for in development plans.

Strong constraints

The Dutch planning system has exercised strong controls over the location of development. Government has also, however, supported development in desired locations. It might thus be argued that it is the availability of land at particular locations rather than the total supply of land that has been restrained. The supply of land for residential development in the Netherlands is strongly influenced by the activities of the public sector. But this is not simply the consequences of the planning system. It is more important that for land to be suitable for development, large infrastructure costs have to be incurred whether the land is greenfield or brownfield. This is a function of very high site preparation costs in a country where much of the land surface is below sea level. The state has inevitably taken a major role in the planning and provision of infrastructure.

Korthals Altes (2009, p235) claims that, "The Netherlands has long been considered a textbook example of the combination of strong urban planning controls and an ample supply of developable land". A highly regulated planning system, it is suggested, has been able to provide fully serviced plots on tap because of a balance between restriction and the encouragement of development on sites that were in line with planning policies. However, this has changed and fully serviced housing plots are no longer easily available for a cost-related price. Developers now expect to pay current market prices and there is much more uncertainty as regards selling the product and greater complexity in terms of production (Korthals Altes and Groetelaers, 2007). There are strong arguments that the availability of development land has not kept up with demand and this has had adverse consequences for housebuilding levels.

Conclusions

The effect of constraints on the location of development is much easier to estimate than the effect on the total volume of development. Given the lack of incentives for development at desired locations compared to the degree of constraint, the impact of restraint may be greater in England than in the other countries. Restraints appear to be stronger in England than the other countries with the possible exception of the Netherlands but the government here has supported development to the extent that it has been argued that there is a sufficient supply of developable land.

6. What impact do these restraints have on land values, housing supply and house prices?

Key points

- Without further detailed empirical analysis it is difficult to isolate precisely the impact of planning restraints on land values, housing supply and house prices.
- Clearly in all countries many factors influence the housing market and planning comprises just one set of factors.

Introduction

This chapter examines the information on the impact of planning restraints on land and housing markets. The empirical evidence is limited and ideally requires dedicated comparative analysis that applies models of the determinants of land values and house prices in the different countries.

Isolating the impact of constraints

Land and house prices can increase rapidly where there is very little restraint because of potential gains through speculation and, as was the case in Spain, demand is boosted by a rapid rise in prosperity. Alternatively land prices can remain relatively stable where there is very careful control over the allocation of land for housing, for example, the Netherlands.

The process of development control has a much greater potential impact on land values in England than it does in countries where more prescriptive development plans bind land owners and developers to specific uses. In the Netherlands, Germany and France this is especially the case for the detailed plans that are more 'local', and are prepared for a smaller areas, than in England (Golland and Oxley, 2004).

The French system imposes limits on developable land supply and thus is likely to impact on prices. There are, however long standing arguments that suggest that the impacts vary considerably with locality, with some areas showing a more flexible response to supply than others, and thus reducing the price impacts. In addition the lower level of speculative development and the more significant regulation of house prices (through price limits for dwellings for lower income households) are claimed to have held down inflation in earlier periods compared with England (Barlow, 1993).

In Germany, constraints have influenced the distribution of different types of housing. The share of owner-occupation varies throughout the country; most urbanised parts tend to have the lowest shares, while areas with larger rural populations or more scattered urban development have higher ownership rates. Local authorities (Gemeinde) can encourage and enable investment in low-cost housing by selling land cheaply. Moreover, to promote the affordability of owner-occupied housing, especially in large urban areas building cooperatives are becoming more important in Germany.

Sufficient supply: few constraints

The evidence suggests that Ireland's planning has not constrained housebuilding in most parts of the country and supply has responded to rising demand. The outcomes have however been different in Dublin. Here delays and constraints have impeded output and arguably contributed to house price inflation in the city. Commenting on house price inflation in Ireland, Norris and Shiels (2007, p52) suggest that "the available evidence does not indicate that new housebuilding and, by extension, the planning system, is a significant contributory factor". Rising house prices, it is argued, are a consequence of demand side factors including the demand for "dwellings not intended for use as primary residences", in other words second homes and buy to let properties. This helps to explain why housing output exceeded new household formation by 50 per cent between 1998 and 2003.

However, there is evidence that suggests that the planning system has contributed to the wrong types of dwellings being constructed in the wrong locations. Fitz Gerald *et al* (2003) claim that one-third of dwellings built in Ireland between 2000 and 2003 were left vacant. They point to the construction of holiday homes and excess output of private rented accommodation (boosted by fiscal incentives) in small towns and rural areas where rental demand is low. Norris and Shiels (2007, p53) refer to arguments "that the liberal planning regime has sacrificed housing quality in the interests of quantity ... residential development has consisted largely of low-density, monotonous housing estates ... on the peripheries of towns and cities and ... that liberal planning has resulted in a surfeit of unsustainable and unsightly single-family houses in the open countryside". Meanwhile it is suggested that there has been under supply in Dublin. It is argued that research shows that "the planning system is an important (but not the sole) contributor to this regional supply imbalance" (Norris and Shiels, 2007, p54).

This claim, as Norris and Shiels (2007) state, is supported by research (Williams *et al*, 2002) that shows that six aspects of the planning system have contributed to the imbalance:

1. Shortage of suitably qualified planning staff in Dublin, because of the high cost of living.
2. The highly centralised funding system for local authorities. Bacon and Associates (1998) identified inadequate water, sewerage and road infrastructure as key impediments to realising housing output on zoned land in Dublin, and since central government at this time met most land servicing costs, recommended it should substantially increase its funding to rectify this.
3. The predominance of low density housing development in Dublin until the late 1990s: more dwellings could have been built at higher densities.
4. "Pressure on local authority councillors from residents' associations, landowners and the development industry, regarding zoning decisions was identified by many interviewees as critical in the planning process. In existing urban areas, this pressure usually restricts housing supply (as the wishes of existing residents are the key political consideration); whilst in peripheral areas (where landowners are more influential) it often facilitates the zoning of land for development" (Norris and Shiels, 2007, p54).

5. An average two-year time lag between the granting of planning permissions by Dublin local authorities, and the commencement of construction.
6. “The paucity of regional and national land-use planning, and absence of political will to implement the plans which have been formulated, has created a number of problems. A regional housing strategy for the greater Dublin area would probably have identified the previously mentioned infrastructural barriers to housebuilding at an earlier stage” (Norris and Shiels, 2007, p54).

Reforms promoted by housing market analyses by Bacon and Associates (1998, 1999, 2000) helped to increase housing supply in Dublin after 2000. These involved increased funding for infrastructure and guidelines that encouraged higher densities. In addition, extra resources were provided to enable An Bord Pleanála to employ additional staff in order to process planning appeals more swiftly and to allow planning schools to increase their student numbers. As a result graduate output has grown significantly (Norris and Shiels, 2007).

Norris and Shiels (2007, p59) conclude that, Ireland’s relatively permissive planning arrangements have not constrained output in most parts of the country and there has been an elastic supply response to rising demand. However, the planning system has had a different impact in Dublin. Here “delays associated with the capacity of this system and the influence of local politics have impeded output and have contributed to high house price inflation in the city” (ibid, p56).

The Policy Exchange think tank has argued that the Irish planning system creates too many ‘starter homes’, of often mediocre quality on monotonous estates, and allows insufficient quantities of larger, better quality properties. The lack of better properties is fuelling house price inflation, it argues, so that the high headline housebuilding figures give a misleading picture of the true supply situation (Policy Exchange, 2005).

Land supply and public policy

The Netherlands is said to provide an example of a housing market where rising prices go hand-in-hand with stagnating housing production in a highly regulated system of land use planning (Korthals Altes and Groetelaers, 2007). Falls in production between 2000 and 2004, have been blamed on attempts by the Dutch central government to combine market-oriented housing production with strong environmental constraints and to concentrate house building in urban areas (Boelhouver *et al*, 2006).

Land prices are certainly influenced by public policy but it is a more specific land pricing policy rather than planning restrictions that is relevant here. House prices may have been boosted by supply-side restrictions but more importantly there has been a significant demand-side stimulus that has raised demand and house prices. Vermeulen and Rouwendal (2007, pp. 7 – 8) argue, that intervention in land and housing markets has contributed significantly to rising house prices and they suggest they may have caused increased volatility in markets.

Ball (2008, p58) suggests that land supply in the Netherlands is influenced by a rigorous planning regime and by the need for local authorities to become involved in the provision of greenfield and brownfield sites. This is a function of the high cost of site infrastructure provision in a country where such costs are high. An inappropriate mix of residential development has, it is argued, resulted partly because of the delays in production but also because municipalities sometimes have a very long-term vision of what housing should be built, whereas developers take a shorter term view and want to build for immediate effective demand.

Development benefits and constraints

In Spain, developers pay for the costs of land development and the related infrastructure before the delivery of the project to the municipality. These costs are then passed on to the home buyers through house prices. However, during the housing boom, the liberalisation of the housebuilding process allowed private developers to raise the prices of new housing without restraint. Cost variables (labour, building materials, land and development costs) and tax benefits for developers were not the leading determinants of prices. In view of the level of demand, developers fixed prices according to the ability to pay of prospective home buyers (Pareja, 2005), which had been greatly increased by the credit system.

The low correlation between housing costs and prices has been verified by research on the determinants of new housing investment in Spain (Sawaya, 2005). This found that until 1993, the main factor leading to new construction was the price expectation, although this effect was partially counterbalanced by the highly negative impact of cost variables. After that date, a period which coincided with a cycle of economic crisis, the primary leading factor changed to the cost variables. In the second half of the 1990s, however, the period of economic recovery and the beginning of real-estate overproduction, cost factors had a smaller negative impact in the profitability of projects, generating a greater incentive to new production.

In Spain, the restraints introduced by the new *Ley de Suelo* of 2007 mean that the huge benefits that local authorities, developers, builders and financiers received from the process of residential development have been lowered. Not surprisingly, the president of the Association of Developers and Builders (APCE) revealed in 2006 that if the proposed law was approved (as happened later), it would bring about a deceleration of housebuilding levels, and less employment in the construction sector, which would affect the whole economy (APCE, 2006).

The new legal framework, however, was approved in July 2007 and was effective from July 2008 – when Spanish real-estate business was in a clear downturn. It is, therefore, too early to evaluate the impacts of the recent legal restrictions. It will, however, be difficult to separate the effects of these changes from the consequences of the current recession.

The cases of Spain and Ireland raise questions about the relationships between large volumes of housing production and large increases in house prices. Rising demand in both countries have clearly led to house price inflation and, thanks in a part to a lack of strong restraints on land supply, increases in private sector housebuilding. An unanswered question is whether the volume of housebuilding if it had continued would have eventually had the effect of dampening house prices increases. The price falls that have happened recently are more related to falls in demand related to recession and especially the supply of credit. At a minimum the countries provide evidence of the need for policy makers to have regard for both the demand and supply sides of the market in seeking to influence house prices and housing production.

Conclusions

Estimating the impact of planning constraints on housing markets is complex given the many demand as well as supply side factors at work in both land and housing markets. This point applies to all the countries considered. Evidence from Ireland and the Netherlands in particular points to locational impacts and in the case of the Netherlands there are also claims that planning has restricted overall supply and pushed up house prices. In both Spain and Ireland, where arguably, planning constraints have been less stringent than in other countries, rising housing demand has been associated with both rising house prices and increases in house building. More recent slow-downs in each of these countries appear to be primarily a consequence of falling demand.

7. Who pays for infrastructure and development costs? What is the impact of these charges?

Key points

- In all the countries considered infrastructure costs are shared between the public and private sectors.
- A variety of means are in place across the countries to charge a proportion of infrastructure costs to developers.

Introduction

This chapter considers the range of means by which the costs of infrastructure are paid for by the government and the developers. It shows that the public sector costs of infrastructure are increasingly being recovered from private developers through charges and forms of betterment levies.

France

In France, investments in major infrastructure during the 1990s led to increases in housing supply outside the central region (Paris). Extensive consultations over building permissions, provided within the planning system, have made private investors reluctant to enter the housing market. Measures to speed up processes have, as a consequence, been introduced.

Any party, institution or individual in France can propose an urbanisation plan; it needs to comply with national, regional and local policies and it also needs to comprise an outline of the financial structure. Hence, the payment for infrastructure can be included in the costs for the project developer, who will then include it in the price of the lots or dwellings. Alternatively infrastructure is paid for initially by the public sector and the costs are, at least in part, recovered from the private sector.

Infrastructure costs within 80 metres of the dwelling are charged to the owner; outside this limit the costs are a public expense and legally local communities have the final responsibility. Before the SRU law (la loi relative à la solidarité et au renouvellement urbains) only the principal developers could be charged for infrastructure costs with a maximum charge proportional to their share of the development. SRU allows for variations that spread costs over a consortia of developers and is also designed for existing urban areas which, in the case of renewal, need infrastructure improvements.

Germany

In Germany the provision of local infrastructure is the sole responsibility of the local authority (Gemeinde) who can use grants from the state, and/or charges on landowners to recover the costs. Landowners pay a maximum of 90 per cent (for instance if the site is to be developed for the first time) and the local authority pays a minimum of 10 per cent. Special local laws are used

by local authorities to vary the level of charges for landowners. Landowners cannot legally require an authority to provide local infrastructure. Instead, they can offer to do it by making a legal agreement with the authority, which authorises the developer to provide the local infrastructure. In this case the landowner/developer finances the full cost of the infrastructure (which a developer passes to the tenants and owners). Planning instruments have also been introduced to deal specifically with the provision of infrastructure, such as contracts linked to project and infrastructure plans.

Ireland

In Ireland, the absence of adequate infrastructure had been an important constraint on housebuilding in some locations. The state had played a major role in financing infrastructure in order to make land available for residential development viable in desired locations. There has, however, been an increasing tendency to impose charges on private developers who are able to meet these costs out of enhanced land values.

The National Development Plan, 2000-2006 (NDP) planned for major infrastructure improvements to sustain economic growth and enable housing development. The government acknowledged that Ireland had a significant infrastructure deficit. Investment in infrastructure is delivered primarily via ESIF (Economic and Social Infrastructure Operational Programme). This is an infrastructure programme, which covers investment by the Irish Government, assisted by the European Commission, in housing, transport, environmental services (for example, wastewater and water supply projects), health and sustainable energy.

Whilst the public sector has borne the majority of infrastructure costs over the long run, the flexibility afforded to planning authorities to collect 'development contributions' as a condition of planning has increased greatly since 2002. This means that the development contribution mechanisms have become a very significant income stream for planning authorities. The additional revenue has been used to fund the roads, sewers, etc that are necessary for all housing and commercial construction and for community benefits such as recreational areas and parks (IDCDC, 2007).

The development contribution scheme is intended to introduce transparency into the way in which development contributions are levied and applied. Planning authorities must ensure that when a prospective developer examines a scheme they have clarity about the level of contribution they are expected to pay, as well as the basis for levying the contribution. Therefore a development contribution scheme must state clearly the level of contributions to be payable under the scheme, including any different levels of contributions in respect of different classes or descriptions of developments.

The details of the charging are determined by the local authority but are typically a given amount per dwelling or per square metre of usable space. The rates charged can vary with location within the authority areas and for example might be more on greenfield than brownfield sites (Circular Letter PD 4/2003, 27 June, 2003). Public private partnerships are an important route to facilitating development where there are significant infrastructure constraints.

The arrangements in Part V of the Planning and Development Act 2000, whereby private sector developers are required to cross subsidise affordable housing as a condition of planning permission, attracted considerable opposition from the Irish Home Builders Association. They argued that costs would reduce housing supply and increase prices. Some research evidence concludes, however, that Part V was necessary to ensure an adequate supply of social and affordable housing in urban areas, where land prices are highest and affordability problems greatest, and the mixed tenure provisions were required to prevent more large-scale concentrations of social housing in urban areas: “The research also concludes that, to date, Part V has had limited impact on total housing output” (Norris and Shiels, 2007, p57-8).

The Netherlands

In the Netherlands, infrastructure and development costs have been borne by both the public sector and by developers. The specifics of the cost sharing depend on the model of land development that is used. There are new measures in place to increase the possibilities of infrastructure cost recovery from the private sector. Municipalities have traditionally acquired land, serviced it and sold it to developers with the necessary infrastructure to commence building. Since the 1990s, private developers have started to acquire land and develop it themselves. But a significant volume of development still follows the traditional model where municipalities sell serviced land to developers. Under this system the costs of construction are subtracted from the potential sales revenues to give a residual land value that is used to finance the acquisition and conversion of land, and the provision of local public goods. This system thus levies an (implicit) development tax on residential land for private construction (Vermeulen and Rouwendal, 2007).

Research in 2000 concluded that two thirds of dwellings were built with the traditional model (Groetelaers and Korthals Altes, 2004), but this proportion is decreasing. The alternative models are:

- building claims;
- joint development (public private partnerships); and
- private development.

In the building claim model private developers who have bought land from the original owners sell this land to the municipality in exchange for the right to buy serviced plots on which they can build houses. Depending on the agreement, the developer may have either a right or a duty to buy the plots. The municipality carries less risk in the later case and this will influence the price at which the land changes hands.

In joint developments or public/private partnerships both the municipality and private developers acquire land from the original land owners. The joint development company is responsible for servicing the land and selling the building plots. The private developer participating in the development can also be the builder/buyer of the serviced land. Because both the municipality and the private developer(s) participate in the development company there is no such thing as a ‘municipal’ land price. With private development, private developers are in control of servicing the land and selling it to builders (Groetelaers, 2008).

It has been the case that an application for a building permit which is in line with the land use plan, must be granted. It had not been possible to attach conditions such as the developer must pay for infrastructure. Municipalities, however, want to be able to require a financial contribution towards such costs and to allow for cross-subsidisation within a plan area, with a contribution from areas with high value uses to the costs of land or infrastructure in other areas. Previous legislation had been inadequate in this respect. “Until about 10 years ago, such limitations did not attract much attention. The reason is that it was common and uncontested practice for municipalities to supply the serviced land on which developers would build” (Needham, 2005, p334).

New legislation effective from 2008 (The Land Development Act), gives the public authorities new powers to recover from developers infrastructure costs that have been incurred by the public sector. The financial contribution required is based on recovering the costs of public facilities. In allocating these costs, the initial value of the plot (for example, the standardised costs of land acquisition) and the future value (based on the possible use of the serviced building plot) are taken into account. Therefore, the land development plan contains an estimation of costs and profits of the development of the area (de Wolff, 2007).

It is possible for a municipality to make, in connection with a land use plan, a land-servicing plan (exploitatieplan). This plan shows the servicing and infrastructure works and also the public open spaces, and includes rules for who shall pay for these and the phasing and sequence of the servicing works. If the municipality draws up such a plan, it can make the issuing of a building permit (bouwvergunning) conditional on the applicant contributing to the land-servicing costs, in conformity with the land servicing plan. It is not obligatory that a municipality makes a land-servicing plan when development is proposed for which the municipality will have to make a financial contribution. The municipality can forego the possibility of recouping those costs. “More likely is that municipalities will continue the time-honoured practice of making financial deals with the developers behind closed doors” (Needham, 2005, p335).

There is a significant use of ‘trade offs’ whereby more profitable land uses cross subsidise less profitable uses. This effectively means that the creation of land value increments, or planning gain, at one location is explicitly linked to the funding of developments at another location (de Jong and Spaans, 2009). Cross subsidisation means that high infrastructure costs can sometimes be part funded, at least, from other profitable developments. Dutch local authorities usually have land development departments that cross-subsidise investments using the profits they have made from specific sites. The cross-subsidisation fund of the city council of Amsterdam now amounts to 1,045 million and is made up of profits from previous land development activities (Korthals Altes, 2009).

Spain

In Spain an important feature of the period of rising housebuilding was the high level of investment in infrastructure. After the inclusion of Spain in the European Union, the country underwent a remarkable process of modernisation and expansion of its infrastructure. Large infrastructure works have included, in particular, improvements to transport networks. The most salient are the toll highways that have been built linking major urban nodes and the high-speed train links.

At a more site specific level developers have to pay for the costs of land development and the related infrastructure. This includes basic services such as water supply and purification. Spatial and urban planning regulations may also include a requirement for developers to pay for public transport infrastructure required for sustainable mobility.

Conclusions

The means of recovering costs include charges on developers related to transparent costing systems, planning agreements (similar to English Section 106 arrangements) and forms of betterment. There is a general tendency for more of the costs of infrastructure to be met by the development itself. The cost of the provision of infrastructure is closely tied to the problem of recouping betterment. This is sometimes done by public activity in the development process (the buying and selling of land) or through tax. The cross-subsidisation funds in the Netherlands provide a pertinent example of betterment being used to support socially desirable but commercially unviable development. Infrastructure provision is in each of the countries seen to be a major factor that either facilitates or constrains housing production.

8. Other factors affecting new housing supply

Key points

- Demand side factors, including demographic growth and credit availability, have had important impacts on levels of house building in each of the countries.
- Taxation and subsidies that support both private and social development have been major influences on house building levels.
- Capacity constraints in private house building sectors and local authorities have been cited as constraints on residential development in some countries.

Introduction

This chapter considers the impact of affordable housing support and taxation, subsidy and credit availability issues on housing production. It also points to supply side constraints such as the capacity of house building industries and municipalities.

Taxation and subsidies

Tax and subsidisation measures in Germany are used as the main economic instruments to support housing construction. Subsidisation for target groups was used to guarantee the delivery of social housing to the people whose housing supply cannot be assured by the housing market. The private sector has been used extensively to deliver social housing in Germany. However, due to long standing fiscal pressure, expensive public programmes aimed at supporting the rental sectors and their underlying institutions have been reduced. Additionally, the housing market in Germany is characterised by a relatively low level of owner-occupation, compared to other European countries, but the promotion of owner-occupation has become a central element of housing policy. The privatisation process was also promoted by tax incentives and limited interest relief for purchasing and construction of new housing for ownership.

Affordable housing support

In Ireland, the large number of schemes for delivering affordable housing and the lack of a common understanding of the schemes has been seen to be a constraint on affordable provision (AHP, 2007).

Each supply mechanism has a different history and a different procurement route. The products also differ for the consumer in terms of costs, eligibility and/or funding. Each was intended to increase supply. An appraisal of these schemes has suggested there appears to be enough land potentially available although the process of bringing this land forward is proving to be long and complicated and the greatest difficulties arise from processes associated with the planning system (AHP, 2007).

Thus, land supply is not seen as a major problem but rather the processes associated with delivery are seen as restraints. The AHP (2007) study also suggests that affordable supply could be increased by streamlining the approach to delivery through one combined scheme that offered a standard affordable housing product rather than the current multifaceted approach which is seen to be confusing.

In the Netherlands, the mismatch between rising house prices and stagnation in housing production has been a cause for concern. Although planning restrictions have been blamed in part for this situation, the capacity of municipalities and the development industry have also been cited as contributory factors on the supply side. Rising demand fuelled by generous lending criteria by financial institutions and tax concessions by government are seen to have contributed significantly to increases in house prices.

It has been suggested that, the government has stimulated the demand side through subsidies and caused the prices of existing homes to rise whilst housing production has been impeded by spatial planning policy and the building regulations. This meant that housing production stagnated at the same time as house prices increased significantly. The stagnation is also seen to be related to the capacity of municipalities and the housebuilding industry, specifically personnel and skills shortages (Boelhouwer *et al*, 2006).

Demographics and the macroeconomy

Both demographics and macroeconomics offer explanations for the very high rates of housebuilding in Ireland and Spain. The rate of housebuilding in Ireland in recent years has been fuelled by rising in-migration, reversing trends of emigration, a healthy economy, the need for renewal of older housing stock, a household size that has been declining faster than anticipated and fiscal concessions. Generous taxation incentives on holiday homes, urban renewal schemes student accommodation and other forms of accommodation will also have raised housing completion figures. A healthy second homes market has been a factor. Houses in the countryside (on un-serviced, unzoned land) remain a significant proportion of housing completions. These homes do not generally attract economically significant development contributions and do not include any social and affordable housing 'penalty' such as that on zoned land.

In Spain, at a local level, a powerful partnership between the main stakeholders – local politicians, developers and credit providers – made the housebuilding business thrive (Reid, 2008). Developers obtained huge margins from housebuilding. The money from the land development process provided politicians with resources to execute public works that were politically popular.

At a national level, the combined actions of the same stakeholders provided the conditions to increase affordability. The financial system facilitated access to mortgage credits, while the planning system provided fiscal incentives to home-ownership. The improvement of the mortgage conditions, low interest rates and tax exemptions made the deals affordable despite the increasing prices.

The search for a better climate from retired households from Northern Europe also fuelled the housing demand. Second homes acquired a great significance for housebuilding in those Autonomous Communities with a Mediterranean Coast. The region with the highest level of housebuilding has been Andalucia, the sunniest region, followed by Murcia. Second homes at the coast or in the country also became very popular for middle-class Spanish households. Over a fifth of Spanish households have a second home (Ball, 2008).

Fiscal policies and credit availability

In Germany fiscal policies have had a significant impact on housebuilding levels. Taxation and subsidies have influenced the volume and the type of dwelling production. A major building boom occurred in the mid-1990s. This was stimulated by the post-reunification experience. As a result of temporary accommodation shortages, new housing production subsidies and tax concessions were provided and, the government provided low interest loans for housing investment in the East. Ball (2009) claims that the German government over-reacted to a perceived shortage and promoted over production.

In the Netherlands, rising house prices and a lack of a proportionate supply response have also been related to demand side price stimulation provided by policies towards mortgage finance. Mortgage interest tax relief is available to owner-occupiers. In addition, the capital gains from rising house prices are not taxed. In 2005 62 per cent of new mortgage loans had loan-to-value ratios (LTV) of over 100 per cent. At the end of 2006 the average LTV ratio on new first-time buyer loans was 114 per cent and in 2007 was 117 per cent. A National Mortgage Guarantee ('Nationale Hypotheek Garantie') was set up by the government in the mid-1990s to encourage lower-income homeownership (before this there were separate Municipal Mortgage Guarantees). Homebuyers may insure their risk of default by paying a small insurance premium (0.15 per cent of the mortgage loan until recently) when taking out a mortgage and receive a discount on their lending rate in return (of 0.2 to 0.5 per cent), because they then pose no default risk to the lender. About a third of mortgages are guaranteed in this way. "The existence of such a guarantee must contribute to lenders' willingness to lend large sums" (Ball, 2008, p81).

In France government policies to promote social housing and to provide cheap mortgages have strong influences on housebuilding. Here it is claimed "more, housing policy is deliberately used in a Keynesian way to manage demand in the economy. The aim is a stated goal of housing policy in a way rare elsewhere" (Ball, 2009, p35). Policy has influenced the level of housebuilding, the tenure composition and the balance between types of houses: "The surge in housebuilding after 2003 was particularly marked with regard to the building of blocks of apartments, both in the private sector and especially for much revived social housebuilding. Previously, the output of apartments had actually fallen from mid-1990s levels, so the turnaround was all the more noticeable. This change in the composition of output reflected public intervention rather than market forces: particularly government social housing initiatives and affordable housing programmes for first-time buyers, and other purchasers" (Ball, 2009, p39).

It is possible to argue that the details of macroeconomic management, infrastructure arrangements and land supply constraints interact in different ways to influence housing production in different countries (Fortune and Moohan, 2008). There is no doubt that an understanding of planning and land supply systems has to be combined with analysis of tax systems, the operation of local government and the macro economy to develop a complete picture of housing production variations between countries (Muellbauer and Murphy, 2008).

Conclusions

A complete explanation for levels of house building cannot be found by simply examining planning constraints. This point applies to England and to the other countries considered. It is clear that other supply side constraints such as inadequate infrastructure and a lack of private and public sector capacity are important. It is also the case that demographic and macroeconomic factors including credit availability are a significant part of the explanation.

9. Conclusions

The evidence examined has shown a variety of relationships in the different countries between planning, housing building and house prices. In this chapter the evidence is summarised and some implications for policy and planning in England are set out.

Planning systems and constraints

Planning systems are typically driven by national policies and through a hierarchy of plans land use decisions are implemented at a local level. The planning systems in the countries examined are not demand led. Planning in each country examined has an important development facilitation function but also an important role in preserving green space and enhancing the local environment. The local land use plan is usually the key legal document giving some certainty to the use of individual plots. Development can mean more revenue for local authorities through a share of the uplift in land values, as has for example been the case in Spain and the Netherlands and through revenue flows from higher authorities, as for example in Germany.

The extent to which planning constrains the overall supply of developable land varies considerably. Arguably there are strong constraints in the Netherlands but equally government has provided strong incentives for development in those locations where more housing is considered socially desirable. In Ireland, too much land allocated for housing has been an issue in localities that central government has concluded lack the infrastructure and the demand to support the additional dwellings.

The impact of planning restraints on land values and house prices is the subject of mixed evidence. Where detailed econometric studies have been carried out, in the Netherlands, for example, there are strong claims that planning has contributed to a low price elasticity of supply. In Spain there are claims that a lack of restrictions on development led to speculation and fuelled land and house price inflation until curbs were introduced to address a rising land market.

Increasingly, infrastructure costs in each of the countries being shifted onto the development process and private sector developers are typically expected to at least contribute to infrastructure costs. However, the facilitating role of the state in planning infrastructure provision is clear in all the countries.

Planning and housebuilding levels

It is wrong to conclude that more liberal planning regimes have facilitated more demand-responsive housebuilding and higher levels of housing production throughout Europe. In some countries, the Netherlands for example, housing supply has stagnated despite rising prices and many of the concerns about an inelastic supply side response are similar to that in England. More liberal planning regimes have helped to promote high rates of housing production in Spain and Ireland. However, two points about these countries should be noted; firstly, rising rates of housebuilding were stimulated by increases in demand linked to high rates of economic and demographic growth and to liberal credit regimes; and secondly high rates of housebuilding in each country have led to problems including pressures on infrastructure, too many dwellings compared to demand in some locations and consequently high vacancy rates in some areas.

It is clear that the supply of land for housing development in all the countries studies is influenced greatly by public policy but this is about more than planning. It concerns the ways in which policy influences infrastructure provision and the viability of serviced land at locations where the market is willing and able to respond. Production has also been influenced by policy towards the provision of social housing, including in the case of Germany, significant use of the private sector to supply new social dwellings. In both Spain and France targets for proportions of social housing at a local level linked to financial incentives and penalties for the locality work towards both increasing the supply of social housing and promoting more mixed communities.

Broad policy and practice considerations

It is important to understand the place of land development policies and processes as well as the planning process as influences on the supply of land for residential development. In some cases, the Netherlands for example, local authorities are actively involved in trading in the land market and in supplying land that is ready for development. In Germany local authorities are able to facilitate social supply by selling land cheaply for social production.

Policies that focus on dealing with constraints on the availability of suitable land by facilitating site assembly, infrastructure provision and the associated provision of services to support housing can have positive effects on the volume, quality, and demand for the finished dwellings.

Variations in housing output between countries depend on much more than planning systems. A large part of the variations between the countries examined are likely to be a function of demand side factors, especially differences in economic and demographic growth and the availability of credit. Supply to replace demolished stock also varies considerably between countries. Planning can facilitate large increases in supply but over supply in the wrong locations can also be a feature of high housebuilding levels.

Implications for planning in England

There are no solutions to planning and house building problems that can be easily transferred from other countries. There are, however, some observations that can help to inform policy and practice in England. These observations relate to:

- the relationships between planning and housing development;
- the purpose of planning;
- the incentives for land supply and housing development;
- the degree of developer risk and uncertainty imposed by the planning system;
- the benefits of an approach to development that links land supply, infrastructure provision, finance and house building.

The evidence from other countries does not suggest that a more relaxed planning system on its own necessarily delivers higher levels of house building. It suggests, rather, that planning systems together with a variety of systems, including those determining land supply and housing demand, influence the volume and type of housing constructed. Thus planning reforms should not be considered in isolation from wider land market and housing market issues.

The incentives for local communities to accept increased development need to be examined. There are significant benefits to local communities from more development in some countries to an extent that is not apparent in England. These include grants and tax receipts for local authorities and the apportioning of a share of betterment (enhanced land values) to the local community. Such incentives can make it more apparent to local populations that there are important benefits, as well as costs, from additional development.

Any future planning reforms should be considered alongside changes to the size of local authorities and the distribution of power and decision making at different levels of government. The significantly smaller local authorities, where detailed land use decisions are made in other countries, arguably makes land use decisions more politically accountable and allows local costs and benefits to be more explicit.

There is a degree of public participation and negotiation in all the planning systems considered. There is however an argument that the English system allows for too much negotiation late in the process, after plans have been made. In other systems the emphasis is on more negotiation before plans are in place. The potential for negotiation late in the planning process, as in England, can provide benefits of flexibility. It can, however, also increase the uncertainty faced by developers. Measures to reduce developer risks and uncertainty are likely to reduce costs and increase development.

There are a variety of means that at a local level, link planning, infrastructure finance and provision, land supply and housing development in the other countries. The connected and collaborative approach that is provided through such means is in some measure apparent in Local Delivery Vehicles in England.

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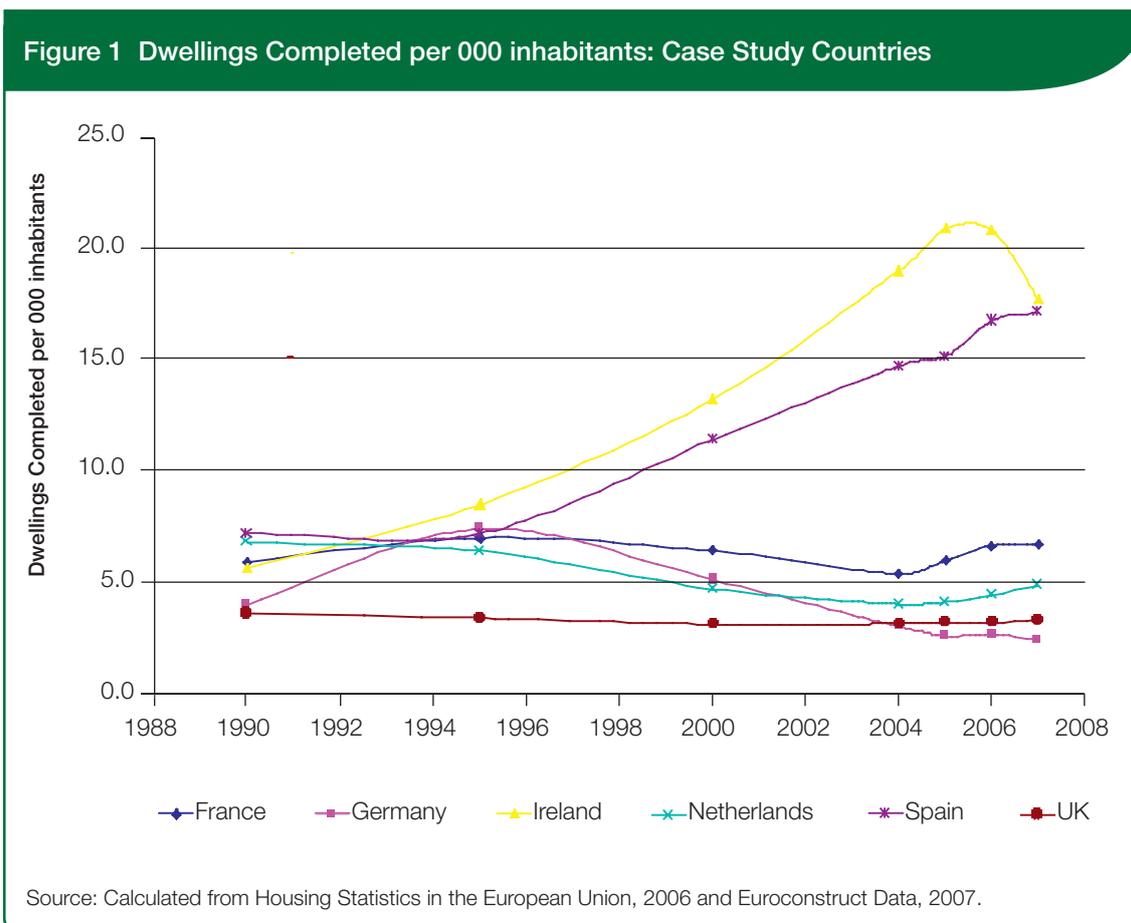
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11. Appendix A: Dwelling production comparisons

In the discussion that follows, the availability of comparable data means that the comments are for the UK rather than England.



Housebuilding levels compared with population levels have been relatively low in the UK. Indeed in most years production has been lower than each of the other five countries. The only exception is Germany, where recent falls in housebuilding levels have brought production below the levels in the UK. Housebuilding levels in Ireland and Spain have been significantly above the other countries and have risen dramatically since the 1990s to become the highest per capita housebuilding rates in Europe. Housing production compared to population in Ireland has been higher than any other country in Europe; the level of production rose several times over from 1990 to 2006 but is now falling (Fig. 1). More broadly, housing production compared with population has been lower over many years than most other countries in Europe (Appendix 2, Table 1.1). Recent data suggests falls in 2008 in all the countries considered as recession has curtailed demand (Ball, 2008).

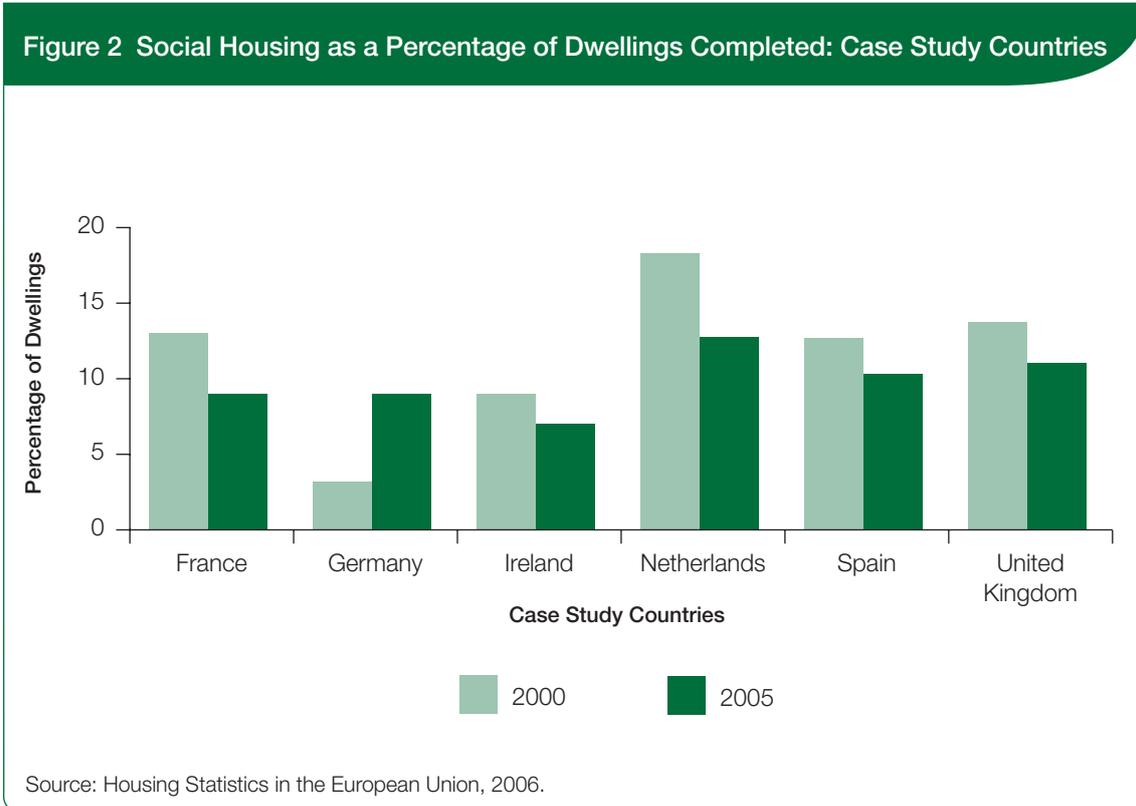
Housing production in France has been assisted by the counter cyclical effect of social housebuilding. Fiscal incentives boosted starts from 2003 to 2007 to over 400,000 per annum, 30 per cent higher than the average of the previous three years but by 2008 there was a 20 per cent fall in starts (Ball, 2008, p38-39).

The level of housebuilding in Germany has been heavily influenced by subsidy and taxation policy, rising sharply after 1990 as post-unification production subsidies and tax brakes addressed perceived shortages. In the mid-1990s, housing completions reached their peak of 600,000 housing units at the federal level. The figure declined to 290,000 by 2002. The sharpest decline took place in multi-storey residential reconstruction, which dominated from the beginning of 1990s to 1997. Single and two-family houses became the main product in the 2000s and accounted for about two thirds of all dwellings completed. Subsequently subsidy reductions, rising vacancy rates and falling demand contributed to falls in completions. In 2007 VAT was increased by 3 per cent to 19 per cent and the standard rate of VAT is charged on new housing. Falling house prices and economic recession have contributed further to a reduction in housebuilding. (Ball, 2008).

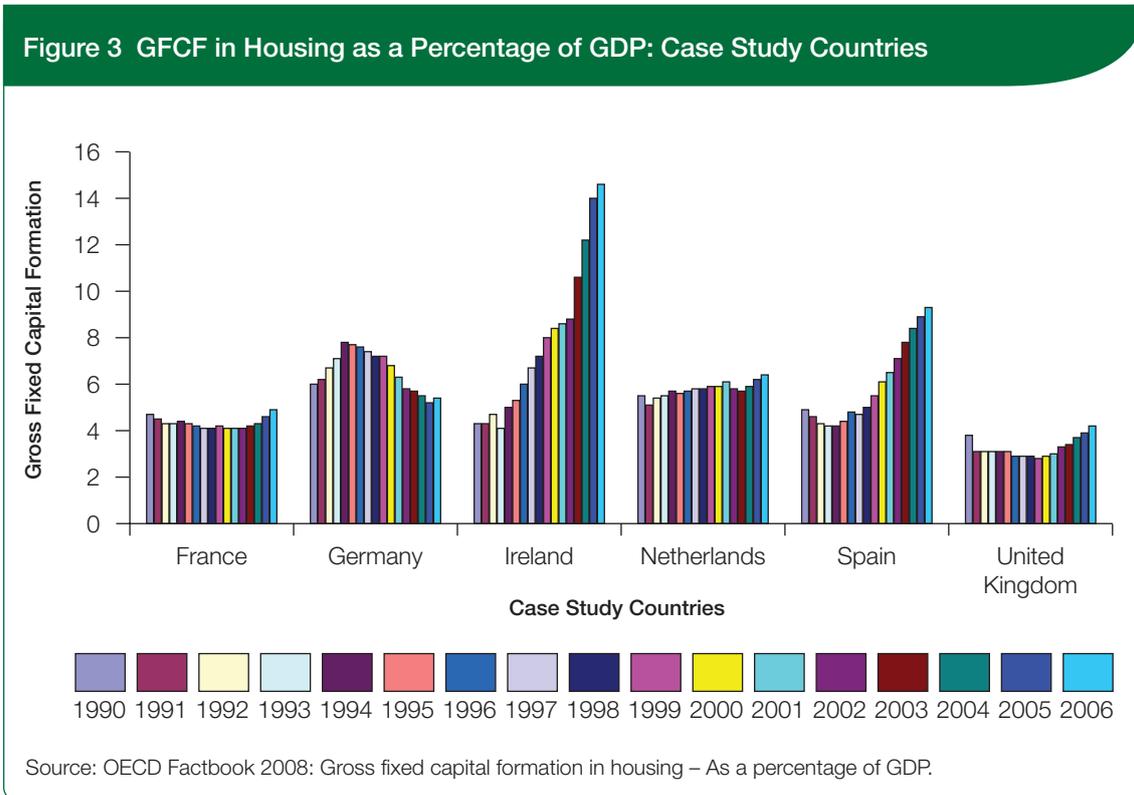
Housebuilding grew rapidly in Ireland in the 1990s. Total completions in 2006 were almost three times the 1995 level and compared to population the highest level of housebuilding in Europe. Market sector output in this period grew from 87 per cent to 95 per cent of the total. Output has fallen since 2006 with completions in the third quarter of 2008 down 46 per cent on the same period in 2006.

In the Netherlands around 60,000 new private dwellings and 25,000 social dwellings are built each year. Output declined from 1990 to 2003 despite steep increases in prices. In the following years, partly as a result of policies that encouraged non-profit housing associations to build both rented and home-ownership dwellings, output rose. Starts are however now down significantly as demand has fallen in the uncertainty created by the recession.

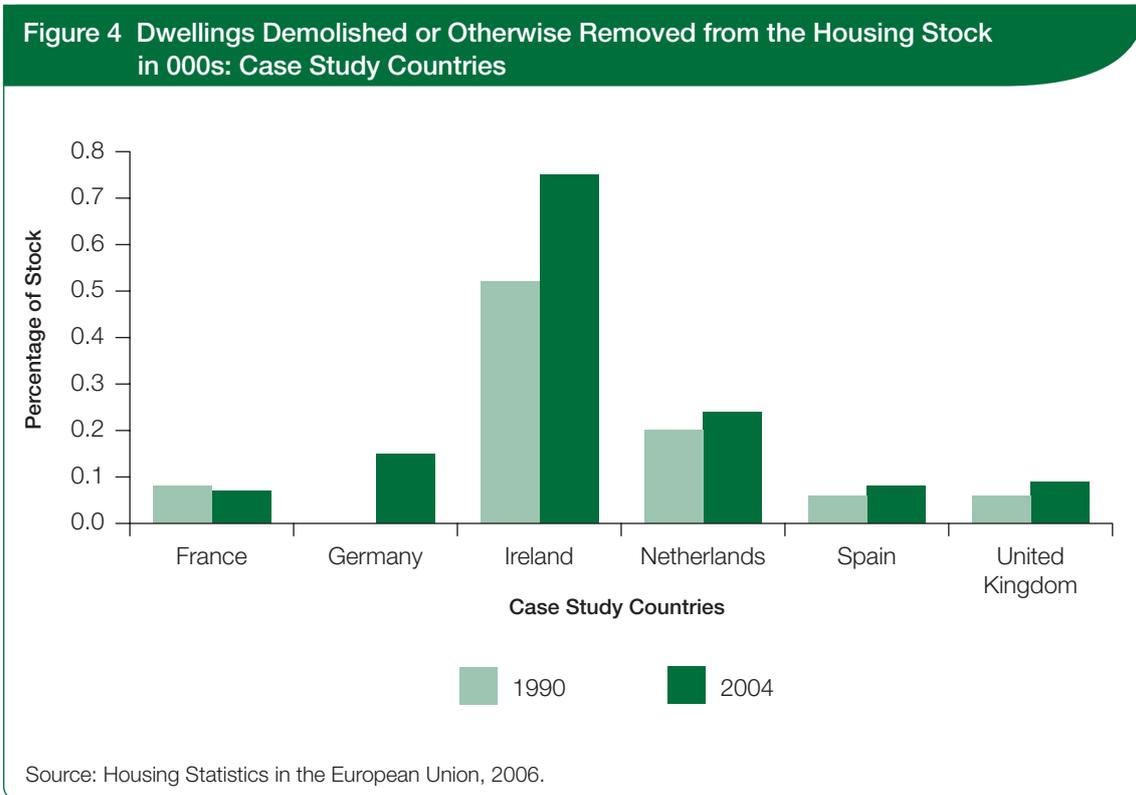
Housebuilding levels in Spain trebled from around 200,000 to 600,000 from 1990 to 2006. Much of this growth was from housing for home-ownership including around 60,000 a year directly subsidised dwellings for low income home-ownership. The housing boom was fed by rapid economic and demographic growth. In the last two years output has fallen dramatically with June 2008 starts down by around a half compared with the previous year (Ball, 2008).



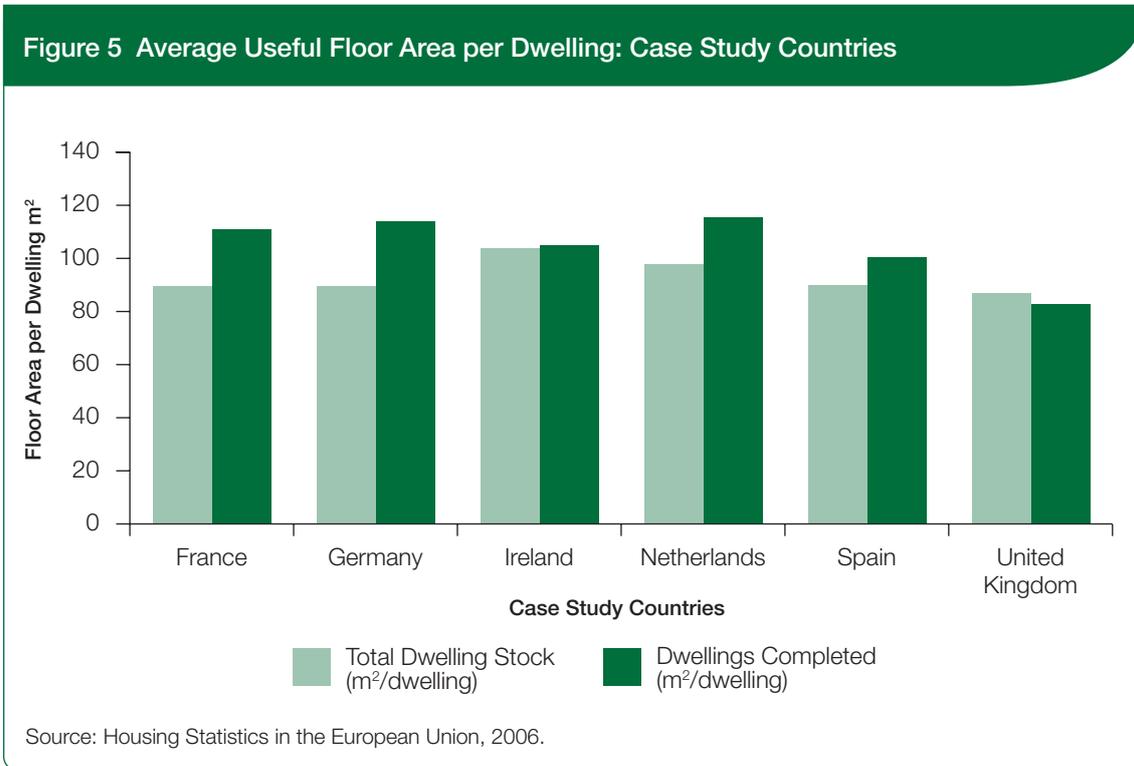
The vast majority of production has been in the private sector but in the Netherlands, France and the UK in particular a significant proportion of output has been for the social sector (mainly social rented housing managed by non-profit organisations). The proportion has fallen in recent years in most countries but has risen in Germany, where the private sector is used to produce and manage most social housing (Fig. 2).



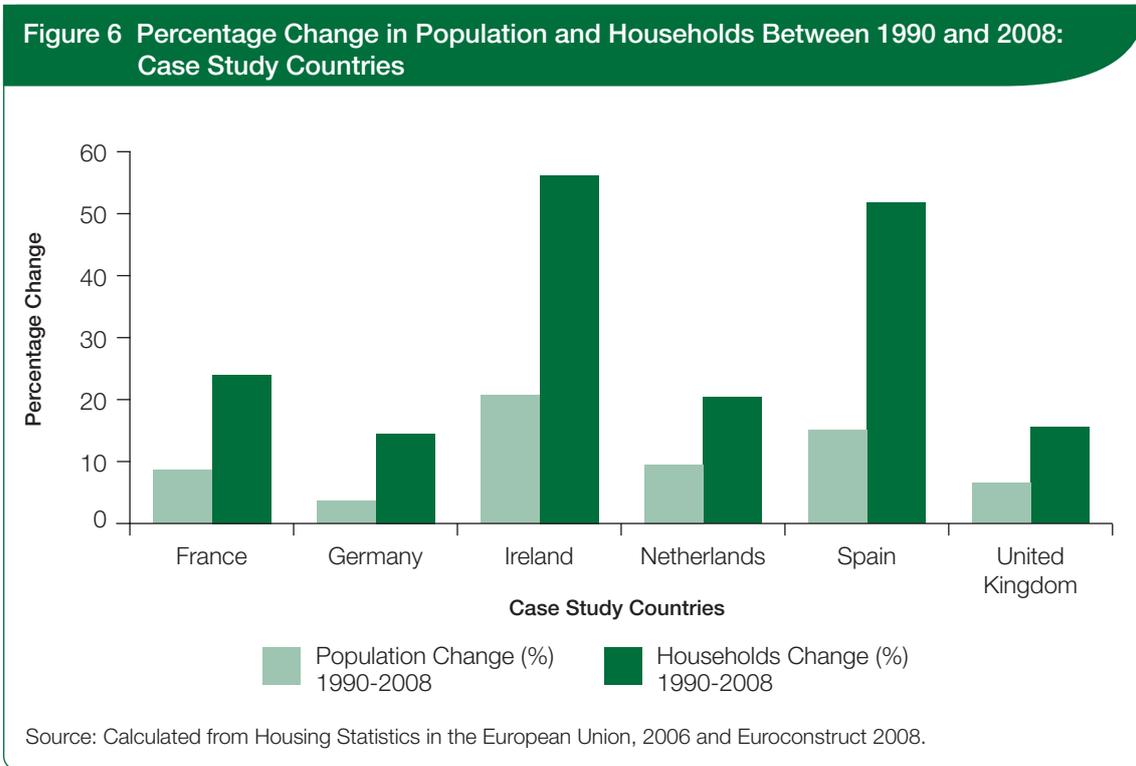
Gross Fixed Capital Formation (GFCF) in housing as a percentage of Gross Domestic Product (GDP) is a measure of overall investment in housing. It thus includes new building and major improvements to the existing stock. On this measure, the UK has had a lower level of housing investment than the other countries although it has increased in recent years (largely as a consequence of increased improvement expenditure on the social stock). Ireland and Spain have experienced large increases in housing investment, reflecting mainly their rising levels of housebuilding (Fig. 3).



A proportion of housebuilding replaces housing lost through demolition and conversions. These losses have been relatively small in the UK. However, in Ireland in particular (and to a lesser extent the Netherlands) high rates of demolition have, together with housebuilding, contributed to improvements in the overall quality of the stock (Fig. 4).

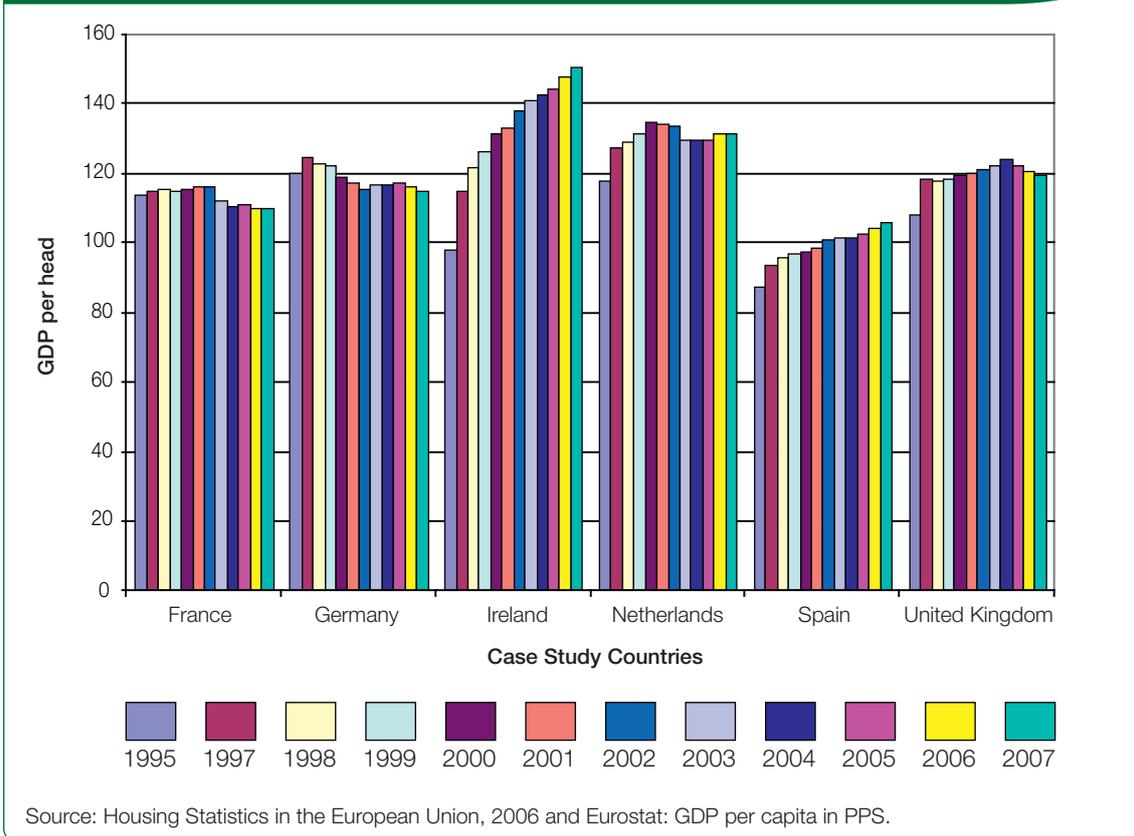


The UK not only builds relatively fewer dwellings than other countries, it also builds relatively small dwellings. The average size of new dwellings is lower in the UK than the other countries. The average size of dwellings in the existing stock is also a little smaller than in the other countries (Fig. 5).

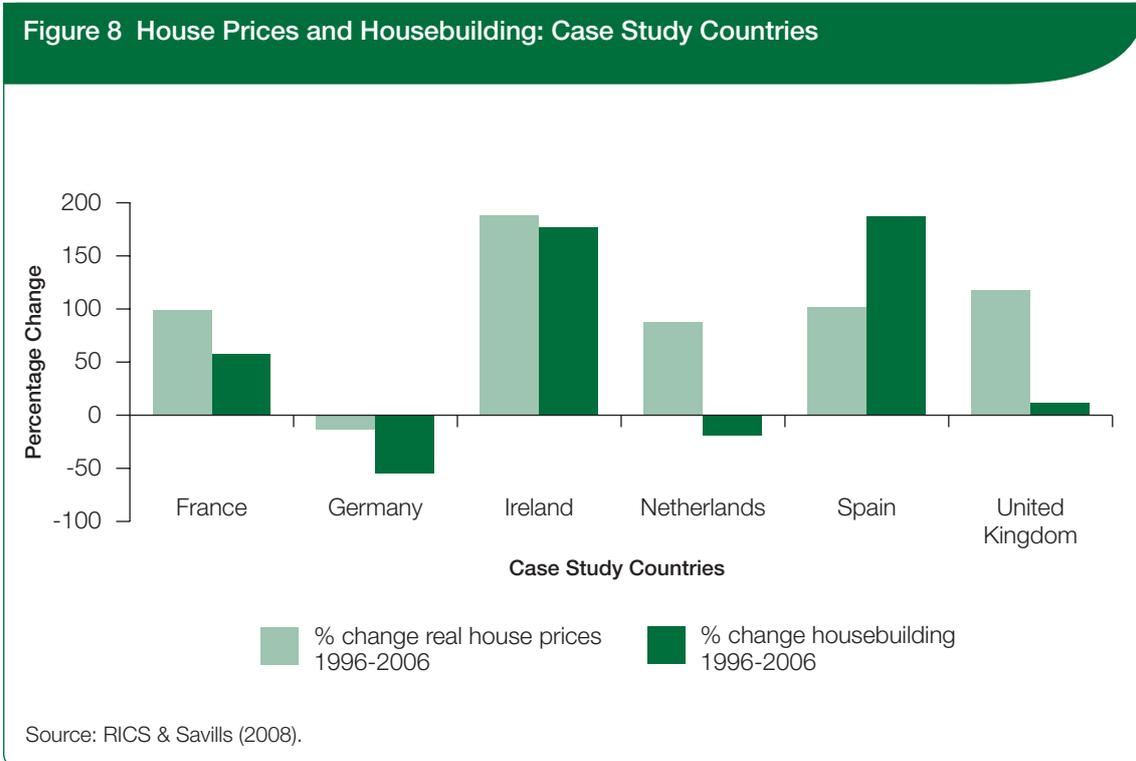


The countries with the highest rates of housebuilding (Ireland and Spain) have also had the largest rates of demographic growth. The proportionate increase in the number of households in these countries has, in recent years, been significantly greater than in the UK (Fig. 6).

Figure 7 GDP per Head in PPS: Case Study Countries



The use of Purchasing Power Standards (PPS) facilitates examinations of relative incomes per head in both cross sectional and time series comparisons between countries. The countries with the highest rates of housebuilding (Ireland and Spain) have experienced high rates of economic growth on this measure (Fig. 7).



The variations between the countries in the rates of increase in house prices and housebuilding are large. The UK stands out as a country with very high real rates of growth of house prices and low rates of increase in housebuilding, although the Netherlands has also experienced a combination of a large rate of house price inflation and a relatively low rate of housebuilding. The data for the six countries shows a variety of relationships between housebuilding and house prices. It would be wrong to draw any conclusions about cause and effect relationships between housebuilding and house prices on the basis of this data alone. A much more detailed examination of the relationships within the national contexts would be needed before any such relationships might be postulated (Fig. 8).

12. Appendix B: Data Sources

Ball, M. (2008) *European Housing Review 2008* (Brussels, RICS).

EUROCONSTRUCT (2007) *European Construction Market Trends to 2010: Investment & Business Opportunities in Future Markets Summary Report* (Vienna, WIFO – Austrian Institute of Economic Research PO).

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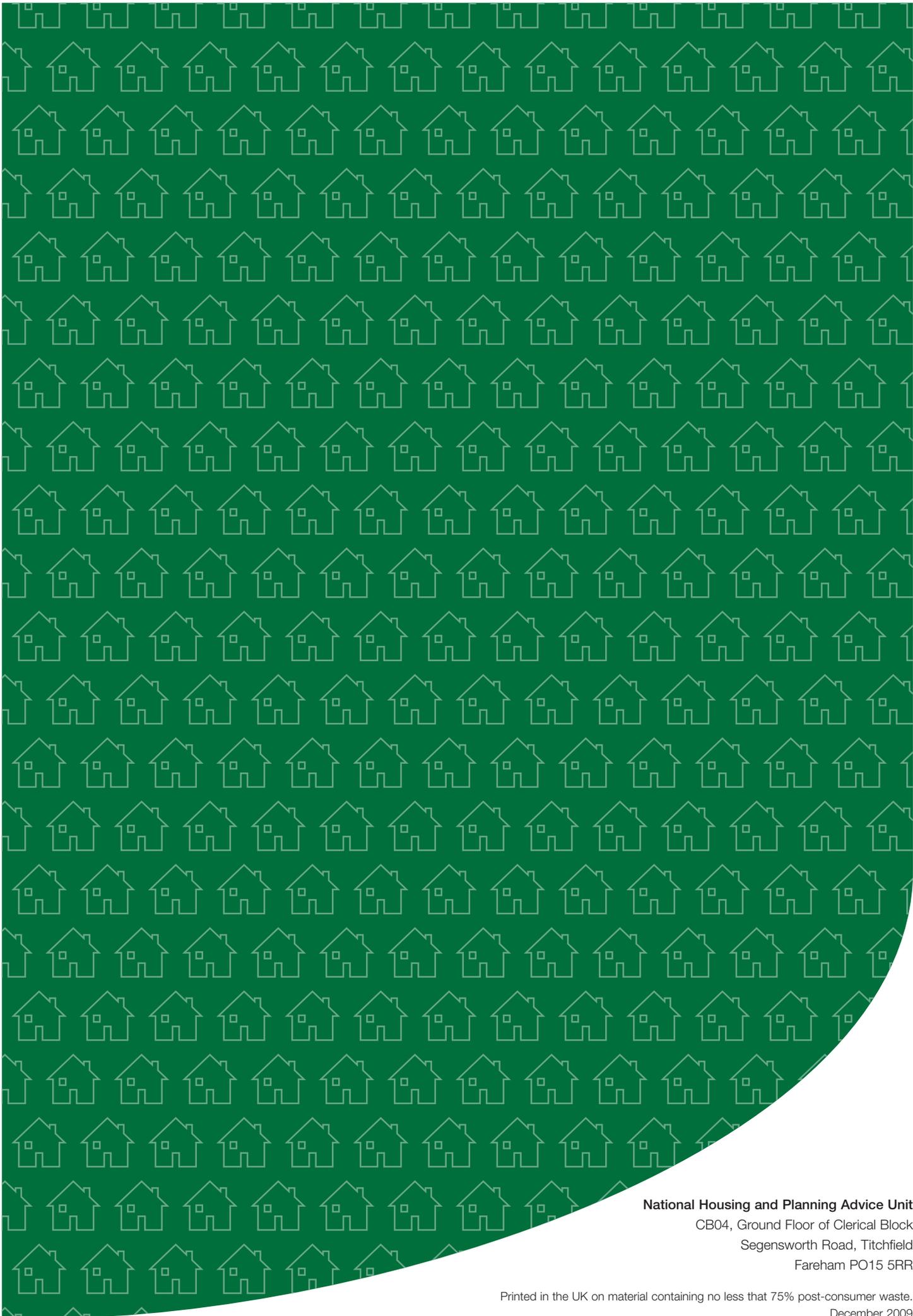
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