

Impact case study (REF3)

Institution: London School of Economics and Political Science		
Unit of Assessment: 14 - Geography and Environmental Studies		
Title of case study: Supporting planning and housing policy reform around the world		
Period when the underpinning research was undertaken: 2002-2020		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s):	Role(s) (e.g. job title):	Period(s) employed by submitting HEI:
Paul Cheshire Christian Hilber	Professor of Economic Geography (now Emeritus) Professor of Economic Geography	1996 to present 2003 to present
Period when the claimed impact occurred: 2013-2020		
Is this case study continued from a case study submitted in 2014? No		
1. Summary of the impact (indicative maximum 100 words)		
<p>Housing affordability presents an urgent problem in many countries, especially for younger households in larger cities. LSE research underpins policy reforms aimed at improving land and housing market efficiency and affordability. It has fed into policy debates and informed public discussions in countries including Australia, New Zealand, and the UK. In the USA, Belgium, and Canada it has directly informed policy reforms, including of the Mortgage Interest Deduction in the USA (2017), the mortgage interest and capital deduction in Flanders (2015) and Brussels (2017), and the Ontario Housing Supply Action Plan (2019). Across these three countries, reforms influenced by the research are relevant to some 137 million households; they directly affect around 54 million home-owning households with mortgages in the USA and Belgium.</p>		
2. Underpinning research (indicative maximum 500 words)		
<p>LSE research was the first to recognise and rigorously estimate the impact of planning policies on the price, quality, and affordability of property, primarily through the (intentional) constraint that these policies exerted on the supply of land for development. Initial work focusing on the UK was later extended to explore related constraints on the supply of housing elsewhere in the world. Key strands of this body of research are outlined here.</p> <p>The effects of planning policies on house prices in the UK: early work by Cheshire in 2002 shed new light on the impact of planning land supply restrictions on the price of internal space in houses and external space in gardens. The analysis considered price both in financial terms and in terms of economic welfare, measured as equivalent income together with the value of planning-produced amenities. This allowed an estimate of the net welfare impact of planning policies in different city contexts (see, for example, [1]). The work provided the basis for Cheshire's development of a model to estimate the change in the real price of housing resulting from any given decision on the supply of land, both by region and for England as a whole. Insights generated by this model supported the publication of specific policy recommendations for reform of the planning system, intended to reduce its economic costs while (as far as possible) retaining the value of the amenities it generated (see [2]). This work was conducted with Stephen Sheppard (now Williams College; previously visiting Senior Research Fellow, then Research Affiliate in the UoA).</p> <p>Hilber and Wouter Vermeulen (formerly CPB Netherlands Bureau for Economic Policy Analysis and VU Amsterdam, now SEO Amsterdam Economics) extended this research to provide powerful evidence for the causal role of more restrictive local planning policies in raising local housing costs [3].</p> <p>The effects of tax incentives on acceptability of development: local tax revenues can provide an important incentive for local authorities (LAs) to permit new residential or commercial development. In joint work on planning policies and the supply of office space, Cheshire and Hilber showed that the move to the Uniform Business Rate in 1989 effectively removed any incentive for LAs to permit commercial development and that, as a result, they became significantly more restrictive [4]. The subsequent reduction in the supply of office space cost businesses more than any feasible Business Rate could ever have done.</p>		

The effects of planning policies on UK productivity: Cheshire and Hilber have continued to develop their research on the impacts of planning policies on productivity and commercial space costs. Between 2008 and 2015, ESRC funding supported the continuation of their research in the LSE Spatial Economics Research Centre (SERC) and, since 2015, within the Urban Programme of the LSE Centre for Economic Performance. This ongoing research first explored and quantified the costs of restrictions on the supply of office space in London, comparing these to other major office locations [4]. It was further extended to explore the effects of the Town Centre First (TCF) policy on the supermarket sector, finding a very substantial (32%) loss in Total Factor Productivity stemming directly from the application of TCF [5] [6]. In research published in 2017 [7], Hilber and SERC Research Officer Lyytikäinen also provided strong evidence that the UK Stamp Duty Land Tax (SDLT) significantly reduces short-distance and housing-related moves but not long-distance moves or moves related to jobs. It further aggravates the housing affordability crisis by discouraging downsizing and impeding growing families from expanding housing consumption.

Mortgage Interest Deduction (MID) in the USA: the growing affordability crisis has led to a decline since the early 2000s in owner occupation as a tenure in both the US and the UK. One popular policy response is to boost aspirant homeowners' purchasing power (demand) by making mortgage interest tax-deductible. A central finding of Cheshire and Hilber's UK research, however, had been the critical role of the supply side of this equation. Previous US research had already shown that a subsidy to mortgages favoured higher-income homeowners. In work with Tracy Turner (Iowa State University), Hilber explored spatial variation in the unintended effects of the MID on US housing. Exploiting variation in the subsidy (arising from changes in the MID within and across US states over time) and employing a panel fixed effects approach, their study [8] yielded two novel insights. First, the net effect of the policy on individual homeownership turned out to be essentially zero. Second, the impact was shown to vary enormously across space. In locations with flexible land use regulation and responsive housing supply, the MID has little effect on house prices and so has the desired positive effect on homeownership. However, in locations with tight control and unresponsive supply, the MID lowers homeownership. Hilber and Turner therefore concluded that the MID is an ineffective policy to promote homeownership and improve social welfare.

3. References to the research (indicative maximum of six references)

- [1] Cheshire, P. and Sheppard, S. (2002). The welfare economics of land use planning. *Journal of Urban Economics*, 52(2), pp. 242-269. DOI: 10.1016/S0094-1190(02)00003-7.
- [2] Cheshire, P. and Sheppard, S. (2005). The Introduction of Price Signals into Land Use Planning Decision-making: A Proposal. *Urban Studies*, 42(4), pp. 647-663. DOI: 10.1080/00420980500060210.
- [3] Hilber, C. A. L. and Vermeulen, W. (2016). The Impact of Supply Constraints on House Prices in England. *Economic Journal*, 126(591), pp. 358-405. DOI: 10.1111/eoj.12213. Previously published as report for the DCLG: Hilber, C. A. L. and Vermeulen, W. (2010). *The Impacts of Restricting Housing Supply on House Prices and Affordability*. CPB Discussion Paper 219. ISBN: 9781409826248.
- [4] Cheshire, P. and Hilber, C. A. L. (2008). Office space supply restrictions in Britain: the political economy of market revenge. *Economic Journal*, 118(529), F185-F221. DOI: 10.1111/j.1468-0297.2008.02149.x.
- [5] Cheshire, P., Hilber, C. A. L., and Kaplanis, I. (2015). Land use regulation and productivity - land matters: evidence from a UK supermarket chain. *Journal of Economic Geography*, 15(1), pp. 43-73. DOI: 10.1093/jeg/lbu007.
- [6] Cheshire, P., Nathan, M. A., and Overman, H.G. (2014). *Urban Economics and Urban Policy: Challenging conventional policy wisdom*. Edward Elgar. ISBN: 9781781952511.
- [7] Hilber, C. A. L. and Lyytikäinen, T. (2017). Transfer taxes and household mobility: Distortion on the housing or labor market? *Journal of Urban Economics*, 101, pp. 57-73. DOI: 10.1016/j.jue.2017.06.002.

[8] Hilber, C. A. L. and Turner, T. M. (2014). The Mortgage Interest Deduction and its Impact on Homeownership Decisions. *Review of Economics and Statistics*, 96(4), pp. 618-637. DOI: 10.1162/REST_a_00427.

Evidence of quality: [3], [4], and [8] are published in highly-ranked, peer-reviewed general interest economics journals. Other papers are published in the top journals in their fields. According to [Oswald's \(2009\) analysis](#), [1] was one of only 45 “truly world-leading” articles published by British economists during the 2001-08 RAE period.

4. Details of the impact (indicative maximum 750 words)

Insights from the research outlined here have stimulated wide-ranging policy debates amongst both practitioners and policymakers. Aspects of the work have also directly informed specific changes to housing policies in the UK and internationally.

Informing UK housing and planning policy

Catalysing and informing public policy campaigns: UK impacts have been achieved, in part, through meetings with ministers and presentations of the research, including at: the Prime Minister's Implementation Unit; the Department for Communities and Local Government (now the Ministry of Housing, Communities & Local Government (MHCLG)); Her Majesty's Treasury (HMT); the National Audit Office; and the Bank of England, as well as for government economists. Cheshire and Hilber have also submitted expert evidence to various Parliamentary Select Committees. They have further maximised engagement with their work by publishing on blogs for non-academic audiences. In a 2014 SERC blog post, "[Building on Greenbelt land: so where?](#)", Cheshire set out proposals to permit development on Green Belt land near to stations, giving access to London Zone 1 within 45 minutes. The post catalysed the "[London's Non-Green Belt](#)" campaign, started by Labour MP Siobhain McDonagh in May 2018 with [support](#) from the Centre for Cities and others. This generated substantial national media coverage, (re-)igniting public debate about the use of Green Belt land [A]. The proposal to build on such land close to stations was included in the original (2017) draft Housing White Paper. While deleted from the final version, it remains in the policy debate.

Work on the UK Stamp Duty Land Tax (SDLT) published in [7] has also had a significant impact on public and policy debate, and has ultimately led to a reduction in the taxes paid by first-time buyers. Hilber reported the findings of [7] in testimony to an HMT Select Committee in an Inquiry for the 2016 Budget [B]; he also cited it in written evidence to that committee. He reiterated the case for reform in evidence to the House of Lords (HoL) Select Committee on Intergenerational Fairness and Provision (6 November 2018). [7] was subsequently widely referenced as key evidence in favour of reform in a media campaign calling for changes to SDLT following the 2017 Autumn Budget. On 9 August 2017, for example, the top story on the front page of *The Telegraph* cited [7] as central evidence for its claim "[Stamp duty killing house sales](#)" [C]. The Budget that followed on 22 November 2017 announced that relief from SDLT would be granted to first-time buyers paying up to GBP500,000 in England, Wales, and Northern Ireland. The media campaign citing [7] played a vital role in securing the removal of SDLT for first-time buyers.

Increasing mortgage lending and delivering savings to first-time buyers: in 2018, following the announcement of the SDLT reform, the UK recorded its highest number of first-time buyers (FTBs) in 12 years, with mortgage providers advancing GBP62 billion to enable 370,000 newcomer mortgages to complete. The level of lending in 2018 was 4.9% higher than 2017, implying 18,130 additional FTBs [D]. It is not clear to what extent this increase is attributable to the SDLT reform as opposed, for example, to access to Help to Buy or to wider, macroeconomic factors. However, it seems reasonable to assume that the stamp duty relief contributed to this significant uptick in FTB mortgages. The change in stamp duty offers those FTBs important savings, up to a maximum reform-induced saving of GBP5,000. So, for the 370,000 FTBs recorded in 2018, it might have generated up to GBP1.85 billion in total savings. Given that most buyers outside London will save much less than GBP5,000, and the tax relief may be capitalised into higher prices (partially) offsetting the savings, a more realistic estimate

might be an average saving of GBP2,500 per FTB. This would still deliver total FTB savings of GBP925 million in 2018.

Improving assessment of housing and economic needs in the UK: ideas published by Cheshire in another SERC blog post, "[Land Prices: the dog that's lost its bark](#)" (December 2013), were instrumental in ensuring the reinstatement of the UK's series on land prices. Estimates of land prices, which are vital if price signals are to be used efficiently to inform planning land allocations, had previously been published by the Valuations Office Agency but were discontinued in 2010. The blog post was accompanied by a letter drafted by Cheshire to the then-Chancellor and Secretary of State of the DCLG, calling for the series to be re-instated. They duly were re-instated as "information" from 2014/15 [E]. The introduction of price signals into decision-making about land allocations, originally suggested in [2], was also discussed by the HoL Select Committee, which concluded that the government should investigate it. The revised National Planning Policy Framework (2019) guidance includes an explicit recommendation to use price signals to inform land allocations in the planning process [F]. An August 2020 White Paper, *Planning for the Future*, likewise recommended using price signals in land allocations [F]. The same paper echoes Cheshire and Hilber's recommendations to move to a "rules-based" planning system and replace negotiated developer contributions of "affordable housing" with a levy on the value of new housing.

Cheshire's contributions to UK housing and planning were acknowledged by his receipt of a CBE in the 2017 New Year's Honours list for services to economics and housing.

Reform of the USA Mortgage Interest Deduction (MID): the research published in [8] suggested that the MID (like the MICD, see below) is an expensive policy that does not always achieve its goal of increasing homeownership. In 2017, the USA passed the Tax Cuts and Jobs Act. This dramatically reduced the cost of the MID from USD60 billion in 2017 to USD25 billion in 2018. The motivation for this reform was "empirical evidence [that] indicates there is no significant positive effect of the MID on homeownership rates"; [8] is cited as a central piece of the supporting evidence for this [G]. A working paper version of [8] was also prominently quoted during the political debate that led to the reform, in hearings before the US Senate Committee on Finance and the US Senate Budget Committee.

Reform of the Mortgage Interest & Capital Deduction (MICD) in Flanders and Brussels: in 2014, the Belgian Government transferred the MICD from the federal to the regional level, allowing regions to reform it differently. In 2015, the region of Flanders all but abolished its MICD, using [8] as a blueprint: the paper was used extensively in a report commissioned by the Flemish Government to investigate the effectiveness of the MICD and suggest reforms [H]. One of the authors of that report confirms that: "*Hilber's work provided evidence...which was of vital importance for the policy reforms*" [J].

A subsequent independent review of the economic impact of the reform showed that, consistent with predictions in [8], the reduction of the MICD significantly lowered house prices and led to an increase in homeownership attainment [I]. According to the Flemish Government, the reform directly affected some 1.5 million people, a significant share of the region's taxpayers. Not only have homeowning taxpayers seen their subsidies fade out, the wider populace has also benefitted from increased tax revenue supporting better public services (or lower public debt). By making housing more affordable, the reform has delivered particular benefits for younger buyers. The Federal Government estimated the total MICD subsidy for the whole of Belgium prior to the reforms in the three regions was approximately EUR1.8 billion [J].

In 2017, the Brussels-Capital region passed an even more far-reaching reform, completely eliminating the MICD for new mortgages. In so doing, the regional government was advised by academics from the Katholieke Universiteit Leuven. The consultation report commissioned from them by the Fiscal Authority of Brussels again refers prominently to [8] in justifying the reform [K, Section 1.2.1].

Supporting the development of Ontario's Housing Supply Action Plan: in October 2017, Cheshire and Hilber were contacted by a former student, then working as Associate Director of Research at Canadian think tank, The C. D. Howe Institute. He asked them to comment on

a draft report (subsequently published by the Institute in May 2018) which drew extensively on insights from [1], [3], [4], and [6] (see [L] and [M]). In particular, the Ontario-specific methodology followed the theoretical and empirical framework described in [3] [L, p.12, n.16]. The report provided a basis for new legislation passed by the Ontario Government in June 2019 to tackle the state's housing crisis. The Ontario Housing Supply Action Plan was the most ambitious set of policies ever passed by a government in Canada to promote the supply of housing. Its development was led by Cheshire and Hilber's former student in a new role as Director of Policy, Budget and Fiscal Planning for the Ontario Premier. Research published in [1], [3], [4], and [6] guided his diagnosis of the underlying causes of the housing crisis, including calculating the regulatory burden on housing prices in Toronto. It was also instrumental in designing new policies to increase housing supply [M]. A key aim of the new legislation is to stimulate the faster construction of new housing near transit. The reform's primary focus is on simplifying planning procedures, creating more incentives to build and allowing homeowners to create residential units above garages, in basements, and in laneways. Another focus of the reform is on development charges. The main aim is to better align costs and benefits of development and reduce uncertainty in the development process. The C. D. Howe Institute is now hoping to provide evidence for the British Columbia Government to devise and implement similar reforms aimed at increasing the supply of housing in Vancouver, where regulatory costs are even higher [M].

5. Sources to corroborate the impact (indicative maximum of 10 references)

[A] Examples of national media coverage citing Cheshire's work as the basis for the the "London's Non-Green Green Belt" campaign: [Financial Times](#), 10 April 2018; [The Times](#), 10 September 2018; [Daily Telegraph](#), 8 May 2018; [Evening Standard](#), 15 May 2018; [The Times](#), 10 May 2018; [City Monitor](#), 2 May 2018.

[B] Hilber's testimony to the HMT Select Committee ([Evidence Session on 'Housing Market Interventions'](#)) on 13 April 2016. Transcript also provided (Treasury Committee Oral evidence: Budget 2016, HC 929 Wednesday 13 April 2016).

[C] Examples of media use of [7] in calling for changes to SDLT: [Daily Telegraph](#), 8 August 2017; [Daily Telegraph](#), 9 August 2017; [Daily Express](#), 9 August 2017; [The Economist](#), 5 August 2017.

[D] "[Number of first-time buyers in UK hits 12-year high](#)", *Financial Times*, 22 February 2019.

[E] For the reinstated UK series on land prices see: Department for Communities and Local Government, "[Land value estimates for policy appraisal](#)", February 2015.

[F] For recommendation to use price signals to inform land allocations see: [2019 NPPF guidance](#) (notably Step 3 onwards) and August 2020 White Paper, [Planning for the Future](#).

[G] "[Evaluating the anticipated effects of changes to the Mortgage Interest Deduction](#)". Report of the Council of Economic Advisors, Executive Office of the President of the United States. November 2017. See pp. 1, 5, and 7.

[H] Goeyvaerts, G., Heylen, K. and Vastmans, F. (2014). *Onderzoek naar de woonfiscaliteit in Vlaanderen. Deel 3 Effectenmeting*. [8] is referenced frequently in Section 3, pp. 39-53.

[I] Damen, S. and Goeyvaerts, G. (2019). Housing market responses to the mortgage interest deduction. KU Leuven, mimeo, March 2019.

[J] Statement from researcher at KU Leuven and author of the consultation paper published by Housing Flanders to justify the reform. See also [details on the reform](#) (in Dutch).

[K] Vastmans, F. and Goeyvaerts, G. (2017). *Onderzoek naar de woonfiscaliteit in het Brussels Hoofdstedelijk Gewest. Deel 3: Voorstellen & aanbevelingen* (in Dutch).

[L] Dachis, B. and Thivierge, V. [Through the roof: The high cost of barriers to building new housing in Canadian municipalities](#). C.D. Howe Institute. Commentary No.513. May 2018.

[M] Statement from Director of Policy, Budget and Fiscal Planning, Office of the Premier of Ontario. See also the new legislation ([Bill 108, More Homes, More Choice Act, 2019](#)) and the [Ontario Housing Supply Plan](#).