To What Extent Can Planning and Land Regulation Be Blamed for the Fact that, as a Young Person with a Modest Income, You Are Unlikely to Be Able to Afford to Buy a Home in Many Advanced Economies? Discuss with Reference to the Relationship Between the Supply and Demand of Housing, and House Prices

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Abstract. This essay seeks to make the case that, while the planning process and land use restrictions may have an impact on housing costs and affordability, they are not the main issue. As the volatility of housing prices mostly depends on the balance of supply and demand, it will first discuss how much the planning system could affect housing prices from both the supply and demand sides. Then it will argue that financial deregulation is likely to have more significant impact on housing prices.

Keywords: Housing affordability · housing prices · planning system · land regulation

1 Introduction

Housing affordability has started to dramatically drop during the 1990s in economically developed nations like the UK and Australia. The young individuals of the millennial generation are among the most impacted. For instance, only a quarter of middle-class 25 to 35-year-olds in the UK bought a home in 2016, down from two-thirds in 1996. Since 2000, there has also been hardly any improvement in housing affordability [16]. The ratio of house price to average income is a good measure of affordability, as people will not be able to afford to buy a house when house prices are rising steeply and incomes are not increasing significantly. Although there are many factors that affect housing prices, supply and demand ultimately determines the majority of them [11]. When there is a shortage of housing, prices rise and vice versa. Governments have historically made

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efforts to increase housing affordability, such as the UK's introduction of social housing for individuals who cannot afford property or rent. However, the rising house prices and falling affordability have made these efforts marginal.

2 Factors Affecting Housing Demand

Taxation, regulation, welfare subsidies and the allocation of resources established by the government's planning system and land policies can have a direct impact on housing demand [9] The planning system is in place in the UK, for instance, to review and adapt to changes in housing demand, starting with blueprint planning, a physical planning framework that can be constructed in accordance with a given area's population densities, building planning regulations, and standards [16]. Due to the global economic downturn brought on by the pandemic in 2020, there is a significant decrease in the demand for new homes. The UK government routinely enacts new land and housing regulations to boost demand for homes. On August 6, 2020, the Planning Authority announced a new reform in response to the reduction in stamp duty [12].In the latest 2020 Planning for the Future white paper, the reforms include a first home welfare offer for local residents, aimed to provide a 30% discount for first time buyers and local residents working in key sectors. The Secretary of State for Housing, Communities and Local Government stated that the reform will save eligible first time buyers around £100,000 and the cost of this reform will be borne by the developer. Additionally, the subsidy will be linked to the property rather than the buyer, so that the subsequent buyer will also get a 30 percent discount when homeowners resell the property [5]. This most recent change in housing policy could increase demand for homes during an economic recovery, adding to the growing body of research showing how directly the planning system and land management can affect housing demand. While when demand far exceeds supply, house prices rise and people's affordability of housing falls.

The demand for housing is influenced by a number of important factors, not just the planning system and land policy. Demand for housing is also influenced by variables including population increase, alterations in household composition, and changing views. First of all, as the world population continues to migrate and grow quickly, so does the demand for housing. Data from Worldometer [3] shows that the world's total population is growing at a rate of 1.05% in 2020, with the urban population following the same trend with a growth rate of 0.5%. In this situation, the limited supply of land and the housing construction lag lead the urban housing supply is not able to meet the demand, and it is inevitable that house prices will increase. Second, alterations in the makeup of households and the age structure can have an impact on housing demand [10]. According to the Office for National Statistics [3], the UK birth rate, for instance, drops throughout 2020 but subsequently rises to greater levels than in prior years in 2021, despite the pandemic's effects. In comparison to 1.58 in 2020, the average fertility rate in 2021 is 1.61 children per woman. Concerns over home ownership and children's education are expected to arise if families begin to have new generations. Should children go to good schools? How long should they spend travelling to school? The financial and time costs involved in such issues can directly affect the demand for housing. As a result, parental demand for government-allocated quality education resources will translate into demand for surrounding housing, and house prices with close proximity to school locations will be able to grow. In addition, a shift in perception is also responsible for the increase in demand. Home ownership is no longer seen to be an ordinary good due to stagnant salaries, diminishing pensions, and elimination of national benefits, as it is today. Instead, it is perceived as an investment opportunity that can always ensure financial security and accumulation [8].

3 Factors Affecting Housing Supply

The provision of housing is largely a government responsibility. Planning authorities can meet demand, according to Harris [10], by releasing land resources, altering planning laws and regulations, encouraging the building of new homes, rehabbing abandoned homes, and changing the usage of existing homes. For example, the latest housing planning reforms in the UK in 2020 have simplified the cumbersome planning approval process, completely removed red tape and allowing more residential land to be developed [12]. Changes in supply as a result of planning regulations can then have an impact on the overall price of homes[7]. Developers will spend a lot of money looking for constrained land supply, and these costs will be indirectly passed on to consumers by increasing housing prices, according to various planning and land rules.

However, Grigson [9] argues that although the planning system and land regulations can change the supply of land and housing, it cannot affect house prices. Since supply cannot be adjusted significantly and quickly in the short run, prices are largely dependent on demand. In the case of London, due to the uncertainty and the complexity of implementing affordable housing and S106 policy, the housing and land supply is often not able to meet the growing demand [10]. Therefore when governments deal with supply and demand imbalances and house price volatility, they prefer to stimulate demand to control the equilibrium than undertake immediate action in regards to housing supply [2]. In this way, Grigson's argument, in the short term the housing supply is inelastic and not able to adjust, can be supported, and the planning regulations will not impact housing prices. On the other hand, since housing development is delayed and planning regulations take longer to take effect, supply can be regulated over the long term through the planning system. House prices will be impacted because developers would be less sensitive to fluctuations in housing demand. While government planning systems and regulations are the dominant constraint on housing supply, they are not the only factor. Other factors such as the interest rate can also have an impact on the supply of housing and hence on house prices. In a study by Chorley and Liu[17], it was found that house prices in the UK are inversely related to interest rates. This is mainly due to the cost of finance, where a higher cost of finance would lead to a reduction in the supply of housing by developers, resulting in uncertainty in house prices.

4 Financial Deregulation and Housing Affordability

The planning system and land rules undoubtedly have a considerable impact on both sides of the housing supply and demand equation and can lead to variations in home prices, even though they are not the only ones. On the other hand, a decline in housing affordability may not be driven by a rise in home prices as a result of a supply and demand mismatch, but rather by a general increase in home prices brought on by financial system deregulation and an increase in mortgage lending. Evidence could be found in Collins, et al. [17]'s research, it shows the ratio of house prices to average incomes in the 17 developed economies since 1981, with a clear shift from the late 1990s to the 2000s. However, this shift cannot be explained by any population growth or planning restriction, as not all advanced economies suddenly became more restrictive in their planning regulations in the late 1990s, and even though the population increased, people did not stop building construction.

In addition, the average of 17 developed economies indicates that house price fluctuations are positively correlated with mortgage credit. In the UK, for example, both the 1970s and 1980s saw house prices soar, and this can be attributed to two mortgage deregulations in the UK during these two periods. In order to ensure that more people could afford housing, the government started to enable banks to lend more money in the 1970s as a result of the development of cheap housing and garden cities, which caused the government to run a significant deficit. Margarent Thatcher opted to de-regulate the banking industry in the 1980s in order to win more voters, which led to a rapid increase in mortgage loans. Yang and Barot [1]. These historical mortgage deregulations contributed to an increase in the average home price in the UK starting in the 1970s, further demonstrating that although the planning system and land regulations could fluctuate the housing price by adjusting demand and supply to some extent, the deregulation of the financial system could have a more direct impact on the housing price and the affordability of housing in advanced economies.

5 Conclusion

In conclusion, this essay has made the case that, from the perspectives of housing demand and supply, planning system and land rules are not the only factors that will affect housing prices. Population growth, changes in household structure, shifting views, and variations in interest rates all have an effect on the balance of supply and demand and cause volatility in house prices. When the demand for housing increase because of planning system, population growth, change of family structure and shifting views, housing prices will also raise. While from the supply side, the higher intreset rate will cause higher financial cost and less housing supply from developer, housing prices therefore will decrease. Moreover, other data also supported the idea that the financial deregulations may have had a greater impact on housing affordability and prices. As discussion in Sect. 4 showed, it is obvious that housing prices varied as mortgage credit from 1870 to 2010, when the credit go up house prices also increase and vice versa. Therefore, in industrialised economies, the deregulation of bank lending, rather than the planning system and land controls, is the primary cause of expensive housing and low afforbility.

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