Affordable Land

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“If I had only an hour to save the world, I would spend fifty-five minutes defining the problem and only five solving it.”

– Attr. Albert Einstein
Affordable Land

The key to transforming the UK economy may lie in the land beneath our feet. Over recent decades, the UK has experienced massive land price inflation. Though once thought of as an engine for growth and regeneration, we are now realising that the opposite is true. High land prices put a cost burden on the real economy, stifle investment and block the construction of the homes we need.

The problem is, they are incredibly hard to climb down from.

**Affordable Land** (or ‘Community Land’) is an innovative form of leasehold that precludes speculation, and so allows councils to make land available as a low-cost platform for society and the economy. It requires no government borrowing, no new legislation and it can exist alongside the existing property market. Its effect would be to create a new, parallel land market, unlocking growth by liberating citizens, communities and businesses from the burden of economic rent.
What is land?

The answer to the question ‘what is land?’ is, in a sense, so obvious that we rarely ask it. Land is the 242,495 km² of rock and mud beneath our feet.

The real answer is more interesting. When we use the word ‘land’, usually we are referring not to the mud itself, but to a system of social contracts, legal and market frameworks that confer usefulness – or rights of use – onto a piece of that mud: title, tenancy, planning consents, bylaws, rights of way, the judicial system, infrastructure, military protection and so on. Mud is a natural structure. Land is a social structure.

As a society, there are two ways that we can view the land beneath our feet.

The first is as an investment asset; a commodity that grants its owner monopoly over a particular plot, including the right to use it or to charge economic rent for its use. As the economy grows, people can afford to pay or borrow more, so rents and land sale values increase. Through this lens, rising land prices mean rising national wealth. A good investment.

The second is to view land as a platform: the infrastructure on which our economy runs, rather like language, roads or the World Wide Web. Through this lens, rising land prices mean a rising cost burden on the economy and on society as whole. The higher the cost of land, the more of our hard-earned monthly pay cheque goes straight into the pockets of landlords or mortgage lenders instead of being spent or invested in the real economy (that is, productive enterprises providing goods and services). Higher rents and mortgages also mean longer commutes, less time to care for each other, fewer new businesses, more people stuck in cramped homes or bad relationships, or entirely homeless. Put simply, the more money we have to spend on the cost of land, the less we have to spend on the buildings and activities that happen on top of it. If our objective is to create a high-productivity, low-cost, high-wellbeing economy with good quality buildings, then high land prices represent a kind of private sector tax. A drain on the economy.

So which view is true? The answer is: they both are. Yet clearly, these two truths fundamentally contradict one another. Policy cannot pursue both.
Affordable Homes

In recent decades governments have tried to square this circle through what can essentially be described as a ‘compensation’ strategy. It works like this. Investors are encouraged to treat land entirely as a monopoly asset. Land is released to them through the planning system and public land sales in the hope that a percentage of their efforts (or profits) can be clawed back afterwards in the form of ‘Affordable Homes’, ‘Affordable Workspaces’ or community assets through negotiated ‘Section 106’ agreements or ‘Community Infrastructure Levy’ (CIL) payments.

Despite the lack of irony with which politicians have often used it, the term ‘Affordable Homes’ was always an ironic piece of doublespeak in that, by definition, the term only existed because most housing was becoming systemically unaffordable in the first place.

Governments are now realising that this mechanism simply doesn’t work.

The problem with Affordable Homes

The most obvious failure is unaffordability. The ‘Affordable Homes’ mechanism was based on the assumption that the price of land as a commodity would be limited by what people can afford to pay for it, and that, in turn, would be limited by what families earn. So the middle class majority would be catered for by the mainstream market, only the poorest would need ‘Affordable Homes’.

That assumption turned out to be wrong. Since 1971, house prices in the UK have inflated by 3878%¹, far outstripping incomes.

The most common explanation for this market failure is that we didn’t build enough new homes to keep up with demand, but the reality is a bit more complicated than that. Although undersupply was a factor, it alone cannot account for such an exponential rise. In truth, the primary driver was not the undersupply of new homes, but rather the oversupply of cheap mortgage credit; new money created by banks in the form of loans. Because families could borrow more, they had more to spend, so prices began to inflate. The banks counted this increased land value as security to lend against, and so created even more, even cheaper debt, lending even to those with little chance of ever repaying the loans. They bundled these debts, and traded them as ‘mortgage-backed securities’.

¹ Nationwide UK House prices since 1952
Thus began a vicious cycle of land inflation and rising household debt.

Soon, capital began to ride the wave by speculating on land and property, pushing prices higher still. During the 2000s, many homes regularly out-earned their occupants, so for investors or families with savings it became a no-brainer: why bother investing in risky productive enterprises, when you can just buy property and watch it inflate? This pattern of divestment from productive industry and investment into speculation and financialisation is a story that – as William Lazonic\(^2\), Mariana Mazzucato\(^3\) and others have pointed out – runs deep through 21st century capitalism. But perhaps nowhere is it more obvious or significant than in housing and land. From individual families treating their homes as retirement funds to offshore investors, parking their capital in UK property on a buy-to-let or even buy-to-leave basis, everyone was encouraged to get in on the game. The result is that, today, the inflated value of land alone makes up more than half of the UK’s net wealth\(^4\).

Through the first lens of land as an asset, this makes the UK an incredibly wealthy nation. Yet much of this wealth comprises household debt and stagnant savings. From the perspective of real growth, it’s a disaster.

It also comes at a huge cost. The most visible cost is the literal price
that citizens have to pay just to have a roof over their heads. Today, the average house costs £225,000 – the median annual income is around £27,000. At current typical mortgage rates, that means 53% of your monthly pay goes straight into the cost of housing. 58% if you include the cost of energy. That’s far higher than the widely-recognised benchmark for affordability, 35%.

As house prices have inflated, a growing percentage of the population find themselves left behind: too poor to buy, but too well-off to be eligible for social housing (‘intermediates’ or ‘generation rent’). They are a captive market, stuck paying exorbitant rents, often to live in crumbling properties with little security of tenure, exposed to exploitative or prejudiced landlords.

Further down the income spectrum, rising rents mean rising demand for social housing and more homelessness, pushing Councils into a permanent state of emergency.

The cost also falls back onto central government. In 2018–19, the UK housing benefit bill will rise to £23.4bn. For perspective, that’s more than we spend on police, roads and military equipment put together. Much of this (about £9bn) is paid straight on to wealthy private landlords, inflating rents even higher.
A man-made housing crisis

The ‘Affordable Homes’ strategy also has another profoundly damaging cost, one that is fairly obvious but not widely understood. As we know, under the Section 106 model, all potential development land is allowed to inflate to its maximum value. This creates a market for a class of companies whose business model consists of buying land, getting planning permission, building homes on it and selling the property into the secondhand homes market, capturing the uplift as profit. We call these companies ‘developers’ or ‘housebuilders’ – but in truth building homes is only incidental to their business. In reality they are speculative land traders. Sometimes they don’t even build out sites themselves, but just sell them on.

These land-trading intermediaries lock out the land market, since they are the only players who have cash in their pocket to outbid other potential buyers.

This is a big problem, for four reasons.

1. Developers will never, ever build a sufficient number of homes to meet demand. If they did, they would exceed the ‘absorption rate’ of local markets (the number of new homes that can be added without prices falling) and incur a loss. Instead, they deliberately withhold development and trickle properties onto the market to keep prices high. This has now been clearly articulated by the Letwin Review.[11]

2. Speculators only really build when and where land values are rising. Land value is determined by ‘residual value’ (the amount developers can just afford to pay, assuming the minimum development cost and profit). In areas without rising prices, or with small sites, it makes sense to sit on land and wait. The value uplift that their business model is predicated on capturing just isn’t there.

3. The short-term nature of developers’ business model means that they take no financial interest in the performance of the homes and neighbourhoods they create as places to live. In fact, they have a structural incentive to build the smallest, cheapest, least energy-efficient homes that they can; all crammed into barren dormitory neighbourhoods.

This is the great open secret of our current housing system. Almost everyone agrees on what we want from new housing in the 21st century: high quality, low-carbon, low-energy, beauty, affordability,
adaptability to people’s diverse needs, walkable streets, local businesses and strong, resilient communities and local economies. And yet, we have outsourced the production of our homes to a market that is designed to deliver the exact opposite. It sees these things not as investments, but as costs. This is not because developers are somehow ‘greedy’ – they are good people running a bad business model.

For economic growth, these ‘dormitory town’ commuter neighbourhoods are a self-fulfilling failure. Instead of seeding future regional growth by creating neighbourhoods where you can start or sustain small businesses, they reinforce the North–South divide and the dependency on transportation infrastructure that new development should be easing.

4. The land lock-out means local councils are dependent on speculators to deliver public goods. This puts the planning system into a kind of Faustian Pact with the land trading market, with the consequence that it becomes almost impossible for any other kind of group or organisation to buy and develop land for themselves. Local communities are ‘consulted’, but essentially ignored.

With no other means of getting affordable homes built, councils are in a weak negotiating position. Developers negotiate down their contributions on a plea of ‘viability’ (profitability). Councils become habituated to a kind of tacit corruption, whereby schemes that manifestly do not meet planning policies are nonetheless granted planning permission because councils are so desperate for what few Section 106 ‘mitigations’ they can get.

Local communities are not fools. They can see this corruption. They can see that the only kind of development on offer is poor quality, and will come at their cost, contributing very little community benefit whilst the developers extract significant profits. This has had the effect of eroding public trust in development and planning, creating an adversarial planning process, making it politically almost impossible to bring new land into use.

All of these factors compound each other, amounting to a vast financial burden on government and a chokehold on the economy overall. But behind these visible costs are the vast, invisible ones; costs that are much harder to measure. The psychological costs of depression and stress, the cost on families when parents have to commute for hours a day. The cost on businesses of an inflexible labour force. The health costs of cold, dark, damp homes, or poor diets. The cost of loneliness. The cost to a community’s pride of watching their high
street in terminal decline. The cost borne by immigrants when they become victims of discrimination or abuse.

In practical terms, the inflated price of land is a form of wealth that impoverishes us.

**Government’s dilemma**

For many today, the term ‘Affordable Housing’ has become a cruel joke. Yet political leaders continue to use it, seemingly for lack of other ideas. Instead of addressing the roots of our broken land market, they repeat the same myths, and make the same simplistic, easy promises to ‘build more Affordable Homes’, even as the words ring ever more hollow with the electorate.

In fact, in recent years most government housing policies have been designed not to reduce land prices, but to actively prop up and inflate them by subsidising land traders; from Help to Buy (public sector sub-prime debt to replace absent private sector lending) to Housing Benefit, to high speed railways.

There is a reason for this. What government is confronting is the unsolvable contradiction between land as an asset and land as a platform.

Whoever is in government today faces an impossible choice. On one hand, they know they cannot allow land prices to continue to rise. Our economy – and our society – cannot bear the burden.

But what is the alternative? The conventional fiscal response to land price speculation and inflation would be the introduction of a Land Value Tax (LVT). But even aside from the enormous political difficulty of selling such a measure to the electorate, implementing it within the current environment would risk triggering capital flight and a banking collapse. Any significant fall in land values would wipe trillions off the UK’s balance sheet overnight, freeze all current housebuilding, throw millions of middle class families into negative equity, and destroy the retirement savings of millions of others. No one wants to be in the driving seat when that happens.

So there’s no way out. All moves lose.

In order to find a sideways route out of this dilemma, we need to go
back to the bottom of the stack, and answer a very strange question: who makes land?

**Who creates land value?**

The writer Mark Twain is credited with the adage “Buy land, they’re not making it anymore.”

What’s fascinating about this comment is that it is astute, witty and completely wrong. Actually we make land all the time.

To understand how, let’s go back to the question of value. Why is it that one piece of land is worth more than another? The mud in Westminster is no better for building on than the mud in Warwickshire, but it is worth millions more.

That additional value comes not from the land itself, but from the location it gives the owner access to, and their right to use it. Before a piece of land has planning permission for homes, and before it is near any jobs or connected to infrastructure (roads, schools and so on), its value is very low. Typically a few thousand pounds per hectare; the equivalent to a few hundred pounds per home. There’s plenty of this land available in the UK (homes currently take up only 1.1% of the land area of the UK – less than the area covered by golf courses\(^\text{12}\)).

The moment a local authority gives planning permission for homes on a site, or builds new infrastructure connecting to it, its value leaps upwards, usually to many millions of pounds per hectare; equivalent to something like £80,000 or £100,000 per home. When they do this they are, in effect, creating new land.

As many throughout history, from Adam Smith\(^\text{13}\) and Henry George\(^\text{14}\) to Winston Churchill\(^\text{15}\) have pointed out, that increase in land value isn’t created by the landowner. It is created by us, the community, through our common consent for ‘new’ land to be made available for development, and by the public sector through its investment into community infrastructure, and their management of the growth of the local economy. However, at present we allow landowners to capture that value. All they have to do – as Churchill put it – is “sit still”. This is the most absurd, wrongheaded aspect of the Section 106 mindset. We, the community, create 100% of that value uplift, and yet we have been getting only a small percentage (about 27\(^\text{16}\)) of it back.

We have been begging for crumbs under our own table.
This raises a logical question: instead of allowing land prices to inflate and then trying to claw back a handful of ‘Affordable Homes’, why not prevent the land becoming unaffordable in the first place? This is precisely the thinking behind the growing cross-party consensus proposing to restore to councils the power of compulsory purchase at Use Value. It would allow councils to purchase land at its original low price before it has planning permission. It can then be sold on at full market rate, or used for social housing. This allows councils to capture the value that they create, and use that money to invest in the community.

Restoring this key principle of the planning system will unlock billions of pounds for public investment. So effective is it that in the Netherlands it has been used to pay not just for infrastructure but even to literally create new land by reclaiming it from the sea. However, what it will not do is improve the quality, supply or affordability of the homes themselves. Even if the land were used directly to build social rented homes, we can’t house the entire middle class in social rented homes. Even if we did, it is unlikely they would be successful neighbourhoods, or that such development would be popular with local communities. Government-made mass housing has a pretty poor record when it comes to growing prosperous, resilient neighbourhoods.

But what if there was a simple way to keep the land affordable and release (or ‘license’) it to local citizens, businesses and organisations to develop for themselves?

**Affordable Land**

The basic idea behind Affordable Land (which in practice would probably be called “Community Land”) is that as an alternative to selling land or developing it themselves, councils can lease plots of land to individuals or organisations at a fixed, low price. Written into the terms of the lease are some key covenants. They are:

1. **The leasehold can only be sold for the same amount that it was purchased for, plus the base rate of interest.**

   This means you can still buy and sell the land, and you will get your money back, but you will neither gain nor lose financially. The deal is that you get to own your home, and you can sell it anytime, but you don’t get to capture any uplift if the land beneath it increases in value.
2. Any time the leasehold is offered for sale, the landlord gets first right of refusal to buy it back

This gives the homeowner security of tenure, but allows the council to retain control of the land in future if they want to, and to update the original lease.

3. If the site is not under development within 1 year, and under occupation within 2, the lease is repurchased automatically.

4. No home or workspace on the site can be let for more than 50% of market rent, except by prior agreement with the Landlord.

5. If the tenant is a private individual, they cannot own another property elsewhere, either for their own use or as a rental property.

6. If the tenant is a company, no person of significant control in the company may live at the property.

7. The tenant has the right to construct or modify buildings on the site without the freeholder’s permission

Other specific limitations on the use of the land would be agreed as part of the lease.

How would Affordable Land be priced?

Affordable Land leaseholds would be much cheaper than open market purchase of the same site. However, they are intended to be low cost, not no cost. There would be both an initial purchase price and a ground rent.

The initial purchase price would be sufficient to cover only the original land purchase price, plus any administrative or physical costs incurred by the council in bringing the land forward.

A typical ground rent might be 2% of the local median wage (nationally this would average at around £500 for a home), but it could be much more. It may even allow the council to recoup what would have been the full sale price of the land over a deferred period. This would make Affordable Land favourable to Councils as an alternative to selling the land. It would also fund future community investment. Reasonable ground rents are not a problem from an affordability point of view,
since for most people the main barrier to home ownership is not revenue, but up-front capital, and their inability to participate in a bidding war.

This is why Affordable Land is priced not through the market, but for a fixed, transparent figure.

How would Affordable Land be allocated?

This raises a question: when a council release a batch of sites, how should they decide who gets them? As with any public good, this should be decided on the basis of community benefit. But how should this be assessed? Currently, Affordable Housing is allocated on the basis of individual need. Aside from the danger of fostering resentment among those left behind on waiting lists (resentments that are often exploited by racist groups), there are several practical reasons why this approach wouldn’t work for Affordable Land.

Instead, the principle should be that plots are allocated on the basis of the scheme being proposed, not on who is proposing it. Available plots would be listed on a web portal, along with a transparent scoring system. Points would be assigned to social rented homes, keyworker homes, first-time homes, older people’s homes, accommodation for homeless people and so on. Points could also be scored on environmental or ecological performance, or contributing
community amenities or workspace. The council can set the weighting of the scoring system, allowing them to prioritise a particular policy outcome for a particular site, but anyone can then bid on any plot by proposing how they would use it.

This would create a kind of ‘race to the top’; a free, fair and transparent market competing not on highest price, but on providing the greatest value to society. The more demand there is for a site, the higher the bar will be, so a plot of affordable land in central London is unlikely to be won by a scheme proposing only private dwellings. Councils can use the number of unsuccessful bids as evidence of demand, validating the release of more Affordable Land in future. In this way, Affordable Land is likely to reverse NIMBYism, as communities begin to lobby for more land to be made available.

**What about resale of buildings on Affordable Land?**

There are a number of implementation questions that the idea raises, not all of which can be addressed in this paper. Perhaps the most immediate is the question of how properties on Affordable Land are re-sold.

The Affordable Land mechanism separates buildings from the land they sit on. This is a form of accounting that is more in line with reality. The building is treated as a consumer durable – like a car – with a given life. If not maintained or replaced, it will crumble. One of the flaws in our current property system is that landlords have little incentive to invest in maintaining properties, so buildings tend to fall into a state of neglect.

However, separating the building from the land in this way does create an issue. Does the owner sell the building along with the plot? If so, this cannot be done through bidding, because the cost would simply inflate again, acting as a proxy for inflated land value. There are two ways this can be done, and tenants and lenders will be free to choose:

One is that the home can be relocated, as you would with a car or a boat. With the advent of off-site manufacturing, it will become increasingly viable to disassemble or relocate buildings in this way. In most cases however buildings will not be relocatable. They would be sold along with the land, but with the price controlled by the terms of the lease. The value of the building is written-off over the course of its life (typically 60 years). So, if I spend £100,000 building a new home,
and sell it after ten years, I would recover £83,333, which is the value left in it. The same principle would apply to money spent on repairs. Where previously this kind of accounting required a professional accountant, today, digital platforms can make it relatively simple, with irregularities spotted automatically.

An Affordable Land web portal would act as a live register of all properties on affordable land, and all sales would be listed through that platform. The seller would not be able to choose which buyer is successful, in order to prevent bribes.

What would be the impact for the UK economy?

Affordable Land would, in effect, create a parallel land market – a new form of home ownership. Crucially, it doesn’t require any new legislation. Like Creative Commons licences, it is a kind of ‘opt-in’ reform; an additional tool.

Unlike a universal LVT, it can exist alongside the current land market without causing a crash. This can be achieved by councils controlling the rate at which they release Affordable Land. This would allow them to meet demand, maintain local land values, but also boost growth in the real economy, allowing it to ‘catch up’ over time.

This strategy of organic growth may be incremental, but it is also highly scalable. Given its likely popularity, there is no reason why, within decades, Affordable Land should not represent a significant proportion of UK land.

More new homes
The most obvious result of councils releasing Affordable Land would be hundreds of thousands of new, genuinely affordable homes. Unlike speculators, citizens and community enterprises will always build as many homes as they can, as soon as they can (given access to land and finance), and their projects are much more popular with communities.

We estimate that, nationwide, Affordable Land could easily unlock the development of over 100,000 additional new homes every year. That would allow the UK to meet its housing needs, and offer practical hope and choice for the millions of people currently priced out of home ownership or stuck in unsuitable housing.
Better homes and neighbourhoods
The only people with a direct incentive to invest in putting more insulation into the walls, bringing more daylight into their homes, creating car-free neighbourhoods, building resilient communities (i.e. to do all the things that we all agree we should be doing in the 21st century) are the people who will live in them, maintain them, raise their children in them, start businesses in them and pay the heating bills. That means citizens and community organisations.

Affordable land creates a dedicated, scaleable pipeline of land for them to build the high-quality places they want, with huge benefits to wellbeing.

A platform for local enterprise
Affordable Land allows councils to make land available as a platform for all kinds of uses, not just homes. This could include education space, or affordable workspace for small businesses or social enterprises providing education, care, refuge or rehabilitation services. This could be used, for example, to revive high streets in the age of online retail.

Boosting local economies
Affordable Land is essentially an exercise in market creation. This in itself would serve as a driver of growth and employment, unleashing a new, innovative housebuilding industry. Analysis by DemoDev of data on small, public-owned sites in the West Midlands found immediate...
capacity for over 13,000 homes. Unlocking these sites as Affordable Land tomorrow would create an estimated £650m boost to the region’s economy, without requiring any government spending.

Unlocking saving and investment
By freeing incomes from mortgages and rent, Affordable Land will increase the amount of money families have to spend and save. A pilot of a similar mechanism in Canberra, Australia has saved 3000 households around £39m in housing costs since 2008. This would sit well alongside a revival of peer-to-peer finance models akin to the traditional building society, as exemplified by platforms such as Abundance, allowing families to invest the money they save.

Easing inequality
Land is the single largest channel through which wealth transfers from the poor to the rich. Self-evidently, every plot of Affordable Land disrupts this flow.

Seeding economic resilience
Affordable Land would reverse the cycle of economically barren dormitory neighbourhoods. A recent survey of a 1990s custom-build neighbourhood in Amsterdam found hundreds of registered small businesses within just a few streets.

Perhaps the most important aspect of the Affordable Land proposal is that it can be done with little or no government spending. Its power comes not from the brute force of capital or political upheaval, but the recognition that value is a function of common consent. We, as a democracy, already have the power to shape the markets we want, and unlock the kind of growth we want.

We just have to decide to use it.