

SUBMISSION TO THE CMA ON PROPOSAL TO MAKE A MARKET INVESTIGATION REFERENCE ON THE TOPIC OF LAND BANKS HELD BY DEVELOPERS.

Professor Thiemo Fetzer, University of Warwick & University of Bonn, Fellow at NIESR and Affiliate at CEPR, European Research Council Grantee

Introduction

Para 3.30 of the [Housebuilding Market Study Update Report](#) (25 August 2023) invites submissions covering “*alternative possible solutions, drawing out, if appropriate, long-term solutions and measures to mitigate the issues the CMA has identified in the short-term*” to the competition challenges presented by the accumulation of large holdings of undeveloped land by UK housebuilders.

The potential negative impact of land banks on the housebuilding market identified by the CMA are summarised in the Update Report at para 2.26 – in brief, that a landbank held by a large housebuilder could limit the land available to other housebuilders, particularly SMEs, and that this could limit or slow down supply; and that if a housebuilder holds a lot of land in a local area, either through one or more large sites or several smaller sites, this could give them the ability to “drip” houses onto the market in that area more slowly than necessary, thereby allowing them to limit supply in the area.

This submission describes an alternative approach to the acquisition and holding of land, as practiced in the German city of Ulm, and recommends it to the panel for consideration as a model which could solve some of the issues in the UK.

It then briefly covers a proposal for a “white lands tax” as a means to discourage long-term holding of large amounts of land without development.

I. The city as land bank – the example of Ulm.

Ulm's Land Acquisition Policy: An Overview

Ulm, a city in southern Germany, has developed a unique and successful land acquisition policy and planning model that has led to low land acquisition costs, a break in the cycle of property speculation, and relatively low construction costs. This summary outlines the key features of Ulm's approach and discusses its potential adaptation in the UK.

With over 125,000 inhabitants, Ulm has seen rapid population growth in recent years, prompting a focus on apartment building. But the city does not have the same crisis of living space facing other major German cities such as Berlin, Frankfurt or Munich. In large part this is because of an unusual and pragmatic approach to land acquisition and development.

The city has pursued a proactive policy for around 130 years, strategically purchasing land in potential future development areas and introducing development plans only when the city owns the requisite land.

This is possible because the city has the right of first refusal when a plot of land is put up for sale; and the purchase price is set by regulations linked to the land use. For example, if the plot is agricultural land, the valuation will be for agricultural land use, and that will be the level of compensation that the farmer would typically get.

There are certain exemptions to this right of first purchase, for example sale of land within a family, which would help farmers consolidate their holdings.

This ensures that any capital gains that realise from re-designation of land to development use is captured by the community, not the individual land holder or the developer. This benefits the community because it means that the community, through its elected representatives, can steer the development process of cities in a highly directed fashion – housing developments can be integrated with necessary infrastructure such as schools, access roads, health care, district heating, in a much more holistic way than is possible in the UK.

This policy enables the city to essentially become a public land bank, and to actively steer the development process of urban centres. The city also is required to offset land which is developed with an equivalent or greater area of undeveloped land to protect the environment.

When the city identifies a need for new development it first creates a plan, including necessary infrastructure such as kindergartens, district heating with solar panels, and then sells plots to private individuals who are responsible for the design and construction of their home – they engage an architect and a construction company. This is a big contrast to the UK. The benefit of the German approach is that it creates strong local economic linkages with tradespeople, and also with service sector producers, such as the architects, albeit there are some drawbacks such as inefficiencies in engaging small firms.

The system is not without problems – there is a potential for conflicts of interests around the choice of location for development, and perhaps some disincentive to sell land to the city. Increasing transparency, low cost data access, public visibility and the scrutiny of decision makers through healthy local journalism is vital. But overall Ulm has created a cohesive community without the crisis of living space seen in other German and European cities.

Ulm's policy aims to regulate land prices and promote interior development. By owning around one-third of the entire urban area (approximately 4,500 hectares), the city can offer building plots at comparatively low costs, mitigating price surges seen in other regions. The city also influences prices by determining fixed prices for land sales and targeting specific buyer groups: families, companies, and those involved in social housing.

This approach grants the city a potent tool for directing settlement development and controlling land prices. It also prevents developers from buying plots and leaving them undeveloped while benefitting from the rise in land prices.

Key Features of Ulm's Model

- **Long-Term Approach:** Ulm acquires substantial land holdings over time and initiates planning only when it owns all relevant land parcels, curbing land speculation and price fluctuations.
- **Municipal Ownership:** Ulm's land acquisition policy centers around city ownership of significant land holdings. The city owns around a third of its entire urban area, which provides a powerful tool for controlling land development and pricing.
- **Right of First Refusal:** Ulm has established a right of first refusal, giving the city the pre-purchase right for land that is for sale. This prevents private speculators from capturing the increase in land value due to redesignation for development.
- **Price Regulation:** Land sale prices are fixed by the municipal council, preventing bidding wars and ensuring affordability.
- **Monopolization of Proceeds:** Proceeds or gains resulting from planning permission, which typically increase land value significantly, are captured by the local authority. This prevents speculative capture of gains and ensures that they are reinvested for the benefit of the community.
- **Offsetting and Sustainability:** Ulm requires that for each square meter of land converted for economic use, an equivalent area must be designated for natural habitat. This offsets urban growth, increases sustainability, and creates positive environmental amenities.
- **Support for Specific Demographics:** Ulm's policy targets families, companies, and social housing, enhancing housing accessibility and local economic growth. Naturally, this needs to comply with principles of non-discrimination.

Adaptation of Ulm's Model in the UK

Ulm's model presents valuable insights for addressing challenges in the UK related to land procurement, housing affordability, and sustainable urban development.

While direct transplantation requires adjustments due to contextual differences, the following elements could be adapted:

- **Gradual Land Acquisition:** UK local authorities could explore a phased land acquisition approach to control prices and ensure managed expansion.
- **Municipal Ownership and Pre-Purchase Right:** The UK could consider adopting a similar approach to city ownership of land, combined with a pre-purchase right. This would allow local authorities to control land development, capture value gains, and prevent speculation.

- **Monopolization of Gains:** Adopting a policy to capture gains from planning permission and reinvesting them in community infrastructure and development could help ensure that local communities benefit from increased land value.
- **Fixed Price Regulation:** Implementing fixed land sale prices established by local councils could contribute to stabilize property markets.
- **Targeted Support:** Prioritizing specific groups, such as families, businesses, and affordable housing initiatives, could help alleviate housing demands and stimulate local economies.
- **Offsetting and Sustainability:** Implementing offsetting requirements, similar to Ulm's approach, could encourage sustainable development and minimize the negative environmental impact of urban expansion.
- **Quality and Economic Linkages:** By implementing policies that promote local economic linkages and ensure higher-quality developments, the UK can enhance the functionality of new built environments and strengthen ties to SMEs.
- **Long-Term Strategy:** For a similar approach to succeed in the UK, a long-term perspective is crucial. City leaders must commit to building land reserves over time and develop strategies that balance immediate financial needs with the long-term benefits of controlled development.

II. White Lands Tax

This mechanism, used in other countries, could be adopted in the UK to prevent the long-term holding of 'developable' land.

In brief, if a developer has planning permission for land but is not building on it, this impacts the housing market by limiting supply. This is also the effect if land is bought and 'banked' without change of use or planning being applied for.

A tax on the notional value of the land once planning permission has been given – say 5% of the potential value of the land once has planning permission - would create a strong incentive for developers not to hoard land, by attaching an economic cost to it.

Conclusion

Ulm's historically grown land acquisition policy offers a potential model for addressing housing affordability, enhancing development quality, and fostering local economic growth.

The city's land acquisition policy and planning model has proven effective in controlling land costs, capturing value gains, promoting sustainable development, and enhancing local economic linkages.

While direct transplantation to the UK may require adjustments to fit local conditions and legal frameworks, adopting key principles such as city ownership, pre-purchase rights, and reinvestment of gains could contribute to addressing the challenges of land affordability and sustainable development in the UK.

If you couple a 'white lands tax' with a pre purchase right for local communities similar to that of Ulm, eventually, more and more land will trickle down to the to the land bank.

By considering these principles, the UK can strive to achieve more affordable housing, improved development quality, and stronger economic linkages.

REFERENCES

[German speculators profit from renters' woes – DW – 04/02/2018](#)

Ulrich Soldner may be available to give more extensive evidence on the model:

<https://www.housingrightswatch.org/sites/default/files/2.%20English%20-Bodenpolitik%20der%20Stadt%20Ulm%20-%20Ulrich%20Soldner.pdf>