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**From:** Ian Mulheirn [REDACTED]  
**To:** Housebuilding  
**Subject:** Planning working paper comments

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Hello

I would make a few observations about your very interesting report today - the Housebuilding Market Study planning working paper.

First, on whether there is an 'under-supply' the report points only to the 'assessed level of need expressed in government targets'. A government target surely should not be taken by the CMA as sufficient evidence that there is actually an under-supply. 300,000 is a political target without a firm evidence base and until recently various academic studies put the need at between 240,000 and 250,000 for England (e.g. see [Alan Holmans](#) and the [Lyons Housing Review](#)). Moreover as ONS data shows, household formation has consistently been well below these rates - for example over the past decade in England *and* Wales just 140,000 households have formed each year according to [census](#). Net additions to dwellings in England meanwhile averaged 195,000 per year over the same decade. In any discussion of undersupply these basic figures surely need to feature, even if the authors see some reason why they are not the whole story. I would encourage you to add this analysis to your final report.

Second the summary appears to make some theoretical errors, which I fear are connected with the assumption on undersupply. It says "In a well-functioning market, a situation of under-supply accompanied by fast-rising prices would typically be at most a temporary situation, as the increasing prices would attract entry and expansion into the market, particularly by small and medium sized housebuilders, which in turn would dampen (and potentially reverse) price increases". Economic theory tells us we should distinguish between the market for housing assets (equilibrated by house prices) and the market for housing services (equilibrated by rents). If there has been persistent undersupply that should be accompanied by fast-rising rents. In practice rents have [lagged](#) wage growth since at least 2005 (this is inconsistent with the assertion of undersupply) - on a point of economic theory this should be pointed out as the appropriate 'price' indicator of supply adequacy. Meanwhile theory also tells us that asset prices (especially land which makes up the bulk of house prices) are highly sensitive to interest rates. So fast-rising house prices are certainly not on their own and indicator of supply adequacy because they are influenced by things other than the demand/supply of housing services.

More importantly, the piece does not explain the thinking behind the assertion that rising land prices 'should cause more houses to be built'. It is important to explain why this might be the case. I don't think it is. Land is an input to the house building process because developers don't make it, so it is unclear why an increase in the price of land would cause developers to buy more of it and build more houses. This theoretical question goes to the heart of a project trying to work out whether the housebuilding market is competitive. It will reach the wrong conclusion if it assumes that high land asset prices are an incentive to build houses when they aren't. I would encourage the authors to set out their reasoning in the final report or invite some debate about the underlying theory.

Finally the reporting of planning permissions granted seems to assume its own conclusion. The report says "The number of new planning permissions exceeded 300,000 per year in the mid-2010s and has remained between 300,000 and 330,000 since then." but then goes on to say "In England, the number of planning permissions granted since the Great Financial crash has not been at the level required to deliver the target of 300,000 new homes per year." The second statement may be strictly true but it seems to be stretching reality to rely on the post financial crisis slump to make a point that hasn't been the case for almost a decade now. Surely the fair-minded conclusion

from your analysis is: 'since the mid-2010s, new permissions *have* been at a rate sufficient to meet the government's target.'?

Best wishes

Ian