

Institution: University of Reading
Unit of Assessment: 17b Geography
Title of case study: Supporting the analysis and development of housing policy to increase affordability
<p>1. Summary of the impact</p> <p>University of Reading research led to the development of one of the key tools for housing policy analysis used within the Department of Communities and Local Government (DCLG) and related bodies between 2005 and 2013. In particular, the project, which produced 14 publications and reports, has had a major impact on the analysis of policy and subsequent policy decisions concerning housing supply and land-use planning, housing tenure, international migration and the effects of the credit crunch.</p>
<p>2. Underpinning research</p> <p>In 2003, University of Reading Professors Alan Evans and Geoff Meen were heavily involved in the Barker Review of Housing Supply, which had been set up by the Government to examine how improvements to housing supply could help overcome problems of affordability caused by the UK's rapidly spiralling house prices. Over the previous 30 years, house prices in the UK had grown more than twice as fast as the European average, making housing relatively unaffordable. The Review recommended changes to planning regulations, which (in a different form) remain central to the Coalition Government's housing policy today. It also recommended the introduction of housing construction targets, which would be responsive to market price signals.</p> <p>In order to implement the proposals, a formal modelling framework was required to show how markets would respond to changes in housing supply and, in particular, the effects on affordability. This was a major challenge, since not only are the <i>direct</i> effects of construction on affordability important, but also the <i>indirect</i> effects through changes in migration (domestic and international) and changes in household formation and tenure.</p> <p>Following the Barker Review, the Government commissioned the University of Reading to construct an econometric model to examine the policy options. In the first stage, in a contract worth c.£200,000, Meen led a team of 15 researchers from nine institutions examining the impact of changes to housing supply on affordability, both nationally and regionally. In 2005, this culminated in the development of the 'Reading Housing Affordability Model' - the only model capable of analysing the affordability consequences of housing policies at the regional level.</p> <p>The contract was subsequently extended, through a Framework Agreement with the University, for the period 2006-2010 (£600,000). This second research phase had a much wider focus, covering issues such as housing tenure problems (notably how to raise home-ownership rates among young households), the effects of the credit crunch on housing markets and the impact of international migration on house prices.</p>
<p>3. References to the research</p> <p>The research has spawned 14 academic and policy papers, of which six are outlined below. These papers are all published in internationally respected, peer-reviewed journals and are, therefore, at least 2* in quality.</p>

Impact case study (REF3b)

1. Meen G (2011), "A Long-Run Model of Housing Affordability", *Housing Studies*, 26(07-08): 1-23; DOI: 10.1080/02673037.2011.609327
2. Meen G and C Nygaard (2011), "Local Housing Supply and the Impact of History and Geography", *Urban Studies*, 48(14): 3107-3124; DOI: 10.1177/0042098010394689
3. Meen, G. (2011), "The Economic Consequences of Mortgage Debt". *Journal of Housing and the Built Environment*, 26(3): 263-276; DOI: 10.1007/s10901-011-9225-x
4. Nygaard C.A.B. (2011), "International Migration, Housing Demand and Access to Home Ownership", *Urban Studies*. 48(11): 2211-2230; DOI: 10.1177/0042098010388952
5. Ball M, Meen G, and C Nygaard (2010), "Housing Supply Revisited: Evidence from International, National and Company Data". *Journal of Housing Economics*, 19: 255-268; URL: <http://www.communities.gov.uk/archived/general-content/corporate/researcharchive/volume3/>
6. Meen G., and M. Andrew (2008), "Planning for Housing in the Post-Barker Era: Affordability, Household Formation and Tenure Choice", *Oxford Review of Economic Policy*, 24(1): 79-98; URL: <http://www.henley.ac.uk/web/FILES/business/ICHUE08.pdf>

Grants awarded to Geoff Meen

November 04 – April 05: £195,000.

Affordability Targets Methodology: Implications for Housing Supply. Awarded by DCLG.

July 2006-June 2010: £603,000.

Framework Agreement: Maintenance, Validation and Development of DCLG's Affordability Model. Awarded by DCLG.

4. Details of the impact

As the only simulation model capable of analysing the affordability consequences of housing policies at the regional level, the Reading Housing Affordability Model has had a major impact. Since 2005, it has been heavily used for in-house policy analysis by economists within the DCLG and by related organisations; has had a major effect on policy decisions concerning housing supply; and has acted as a template for subsequent modeling work carried out by others (including the Scottish Government). Most recently, in 2013, the model has been used to inform policy decisions concerning the Government's Right to Buy programme.

The reach of the project has been outstanding. Housing affordability and associated issues of planning are now seen as highly significant for the performance of the economy and the research has therefore contributed to public policy change and debate. The proposals to raise construction targets, arising from the model, have been of considerable importance to the house-building industry, and, consequentially, for the environment. Furthermore, its findings on the prospects for owner-occupation, notably that government aspirations were unlikely to be met, has major consequences regarding the distribution of wealth between owners and renters and between younger and older households.

Influencing policy

The model has had most impact within the DCLG, where since 2005 it has been used to provide policy advice to Ministers and senior officials. It also became the main policy tool for the National Housing and Planning Advice Unit (NHPAU), established in 2007, but abolished in 2010. In addition, its results have been discussed by House of Commons Select Committees and the Scottish

Government.

The model's influence is evidenced in the following statements from the DCLG's Deputy Director of Analytical Services:

- i) *"The Framework Agreement with Reading has provided a very strong basis for our working together over the last few years. You have led an exceptionally strong team to produce top-class research that has been strongly influential in the policy process; and the relationship between you, your team and DCLG goes from strength to strength..."*
- ii) *"Our work with you, since the advent of the 'credit crunch', has moved us a long way in the right direction and has allowed us to provide a strong contribution to cross-Whitehall discussions on the relationship between financial markets, the housing market and wider economy."*

The DCLG has provided corroborative evidence of the importance of the model for policy decisions (see reference (v) below). To quote:

(a). "Model runs and associated analysis informed discussions with DCLG and HMT Ministers and led to the Government's decision to set an ambition to reach 200,000 annual net (housing) additions. It is fair to say that Ministers would not have been able to make decisions, or publicly defensible decisions, in response to the Barker Review recommendations, without the affordability model."

(b) "The NHPAU (National Housing and Planning Advice Unit) used the affordability model extensively to make the case for additional housing supply and to translate national housing requirements into regional housing targets. The evidence provided by NHPAU, on the basis of the Reading model, directly influenced decisions in the regional planning process."

(c). "In parallel, the model continued to be used by DCLG analysts to advise Ministers on a range of issues. Ministers would routinely ask for advice on the affordability and other implications associated with under-supply, in order to make the case for policy action. By quantifying the affordability and other impacts, the model provided a robust basis for DCLG Ministers to make the case for housing growth, within Government and with the public."

(d). "In the aftermath of the credit crunch, the model provided the basis for DCLG analysts to explain to Ministers the impact of mortgage constraints. There was strong interest from Ministers in the outlook for the housing market, so the model was used to run a number of scenarios related to economic variables, such as the expected path for mortgage lending and interest rates. The Crash prompted regulatory change and the Department was able, for example, to explain the potential impacts of mortgage market reforms and to engage and influence discussions with the FSA and Bank of England."

(e). "Under the previous Government, the model was used routinely to advise Ministers and to develop policies. Ministers were familiar with the model and took a strong interest in its development; their willingness to extend contracts with Reading provides some indication of the value they placed on it."

(f). "The change of Government has led to a change in emphasis ... but the model and associated

analysis and research continues to be highly valued by DCLG... More recently, the model has provided invaluable evidence for the development of the Department's flagship Right-to-Buy policy."

5. Sources to corroborate the impact

- (i) Meen G, (and seven others) (2008), *Recent Developments in the Communities and Local Government Affordability Model*. DCLG. London. ISBN 978 1 4098 0180 1.
- (ii) Meen G, and C. Nygaard (2010), *Housing and Regional Economic Disparities*. CLG Economics Paper 5. ISBN 978 1 4098 12074.
- (iii) Ball M, Meen G, Goody, J and C. Nygaard (2011), "Housing Supply Revisited: Evidence from International, National and Company Data". DCLG. ISBN 978-1-4098-2468-8.
- (iv) Cm 7619 (2009), *Government Response to the House of Commons Communities and Local Government Committee Report on the Department of Communities and Local Government Housing and the Credit Crunch*. TSO, Norwich.
- (v) Civil Service Corroborative Evidence for Research Submitted to the UK Research Excellence Framework. Provided to G. Meen by the Economic Advisor to the Neighbourhoods Analysis Division, DCLG. (2013) (Available upon request)

The National Housing and Planning Advice Unit used the model in most of its publications. Since 2008, these have included:

- (i) *Meeting the housing requirements of an aspiring and growing nation* (2008).
- (ii) *Housing requirements and the impact of recent economic and demographic change* (2009).
- (iii) *More homes for more people: building the right homes in the right places* (2009).
- (iv) *More homes for more people: advice to Ministers on housing levels to be considered in regional plans* (2009).

In addition, the Scottish Government commissioned related work in the light of the success of the model, as outlined in the following:

- (i) Leishman, C., Gibb, K., Meen, G., O'Sullivan, T., Young, G., Chen, Y., Orr, A., and R. Wright (2008), *Scottish Model of Housing Supply and Affordability: Final Report*. Scottish Government Social Research. Edinburgh.