

Housing is expensive in Britain. This is because we have built too few houses for the number of new households – land auctions will help give us the homes we need

<http://blogs.lse.ac.uk/politicsandpolicy/2011/03/23/land-auctions-housing/?pfstyle=w p>

March 25, 2011



The budget today will almost certainly see the announcement of new plans for land auctions. [Tim Leunig](#) outlines how, if introduced, these ‘community land auctions’ will give councils an absolute right to decide on new development – and the ability to benefit far more greatly from new development than they do under the current system.

The New Homes Bonus and Community Infrastructure Levy increase incentives for councils to allow new housing, but appears too small to work. Councils, particularly in the south, say they will build less, not more.

As part of the growth review, the government is considering “Community Land Auctions”, [based on my CentreForum pamphlet “In my back yard”](#). Under this approach, local councils capture the rise in value when they rezone agricultural or industrial land for housing, creating a big incentive to support development.

It works like this. The council first asks all landowners to name the price at which they are willing to sell their land. By naming a price, the landowner gives the council the right to buy the land for 18 months at that price. The council then writes a development plan. As now, they will take into account the suitability of the land offered for development, but will also consider the price of the land, and the likely financial return to the council.

It is rather like buying a car. You know your preferences, and can choose the most suitable car. But you might buy a different one if it is much cheaper. That possibility means whoever makes the best car for you has to offer you a good price. It is how well-functioning markets work.



Credit: Paolo Margari (CC)

Having decided which land can be developed, the council auctions it to developers, keeping the difference between the price named by the original landowner, and that paid by the developer. There is no risk to the council – if no developer wants the land, there is no sale and the original landowner retains the land.

A typical 57 hectare farm in the south east – where housing is most needed – is worth around £1m as a farm, and over £100m for housing (even more in housing hotspots). Most farmers will sell their farm for five times fair value, and many for double fair value, which is, after all, a £1m windfall. (I will sell my house for £1m more than it is worth, if any reader wants to buy it!). The council therefore makes at least £95m per farm, which comes to at least £50,000 per house. That is far greater than the incentives currently proposed.

If Horsham DC allowed housing on one average



size farm, they could halve council tax for four years. That, surely, is a winning electoral prospect. More radically, were Cambridge to allow a million new houses near the city – like America’s Silicon Valley – it could give current adult residents around £700,000 each. Again,

that should be a vote winner.

Community land auctions respect property rights – everyone can offer their land, or not, and can name any price they like. But landowners have to compete against each other to be chosen, so keeping prices low.

Community land auctions give councils the absolute right to decide how much development to allow, if any. There would be no inspectors to vet local plans. Creating good incentives to allow development means that complete localism is compatible with delivering the houses that we need.

Press coverage suggests that the government may decide to pilot this approach. Kate Barker suggested doing so in her earlier Review of Land Use Planning and the idea was also endorsed by Michael Gove and Edward Davey when they were shadow Conservative and Liberal Democrat housing spokesmen.

I would be interested in hearing from councillors who would like to participate in such a pilot.

This article first appeared in the [Local Government Chronicle](#) on 11 March.