Planning for growth: – What can we learn from Europe?

ESPON - Interstrat Conference
30 September 2011

Paul Cheshire: LSE & SERC

30th Sept 2011

SERC
Spatial Economics Research Centre

Planning from an Economic Perspective

- Economist: but seriously concerned about environment
- Land markets have endemic problems of ***market failure***
- For economists: defines one of primary functions of planning – offsetting for failures of markets to safeguard environment; amenity; public goods; co-ordinate land uses.
- But in Britain planning has failed to deliver
- It has not understood the role of (unintentional) incentives or how markets do work
- It has allocated land for all categories of use
  - Deliberately constrained supply: unintentionally imposed significant costs
  - In context of fiscal system which fines LA allowing development

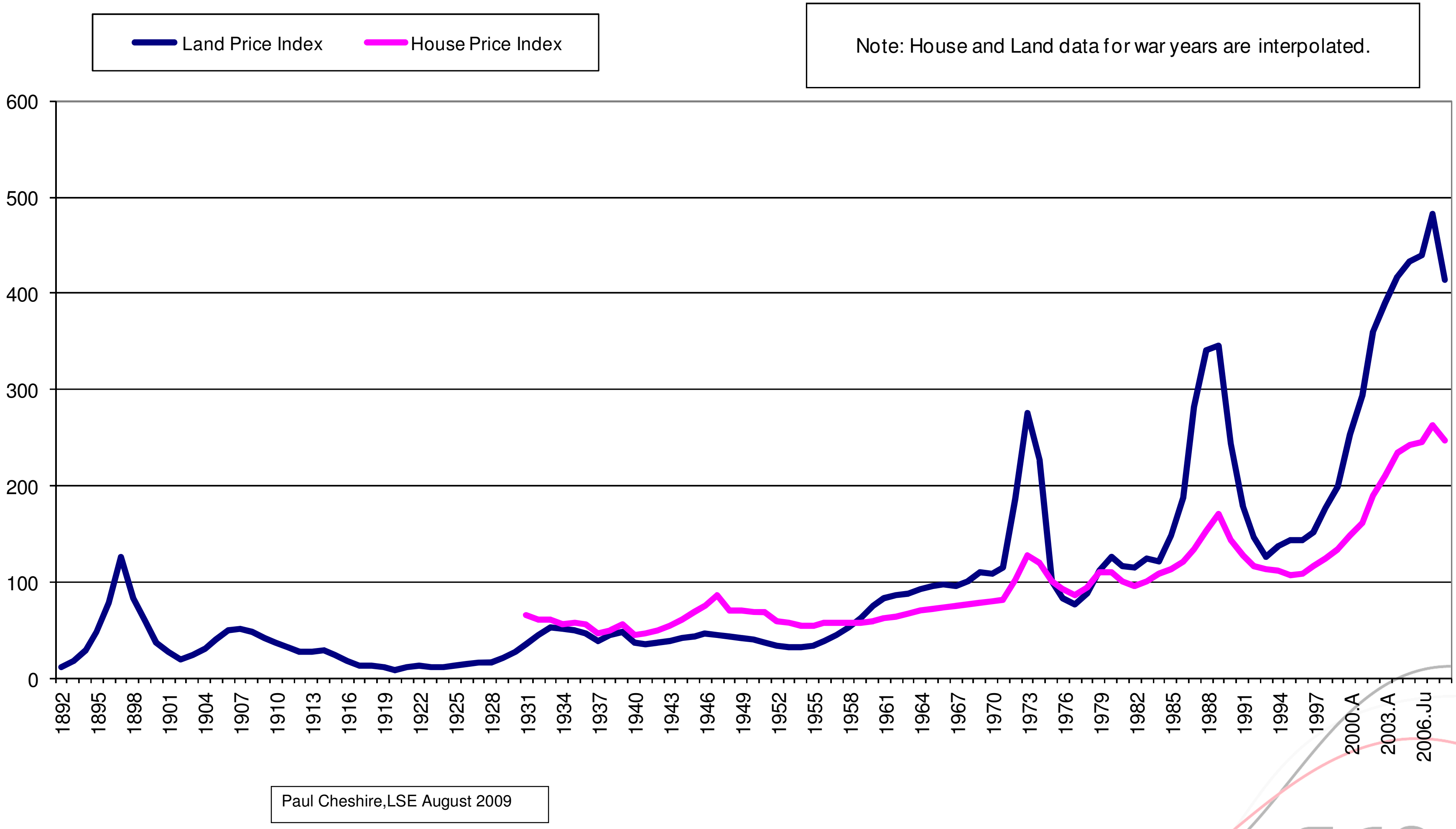
SERC
Spatial Economics Research Centre

We need better planning

- So planning determined what could be built, where:
    - But **markets** set prices
- Result? Driven up land/space prices for all uses
- House prices ever less affordable; markets more volatile; houses less affordable, smaller, in the wrong place and lower quality
- Space an **inpu**t into production process: offices; shops, etc
    - Business costs increased with consequent loss of productivity & jobs & higher prices
- Perhaps most sadly – largely failed to safeguard environment – either natural or built.

SERC
Spatial Economics Research Centre

Very Long Run Real Land and House Prices: 1975=100



SERC
Spatial Economics Research Centre

Housing affordability worsens:

Lower quartile affordability ratio: 1997 to 2008

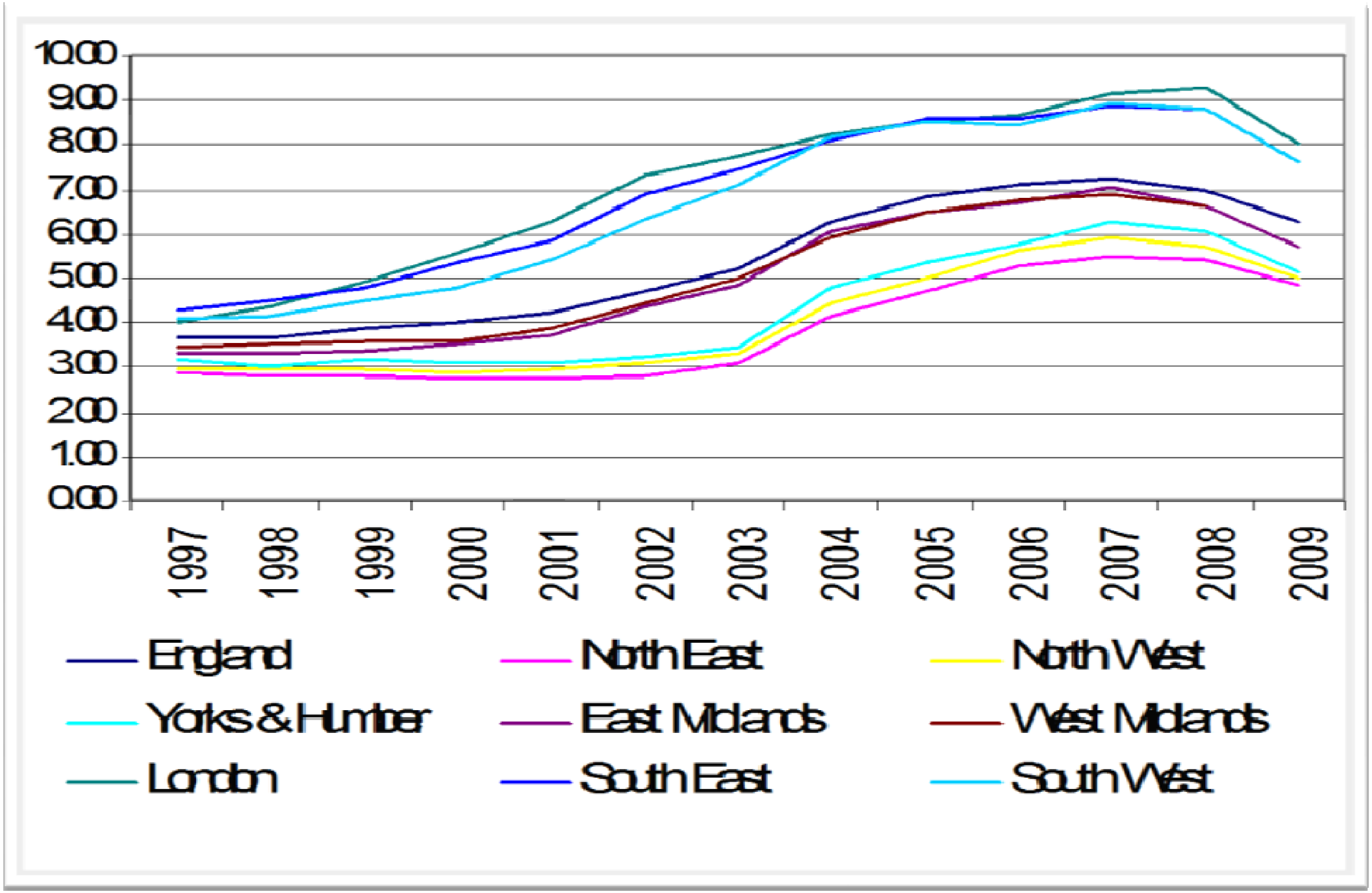
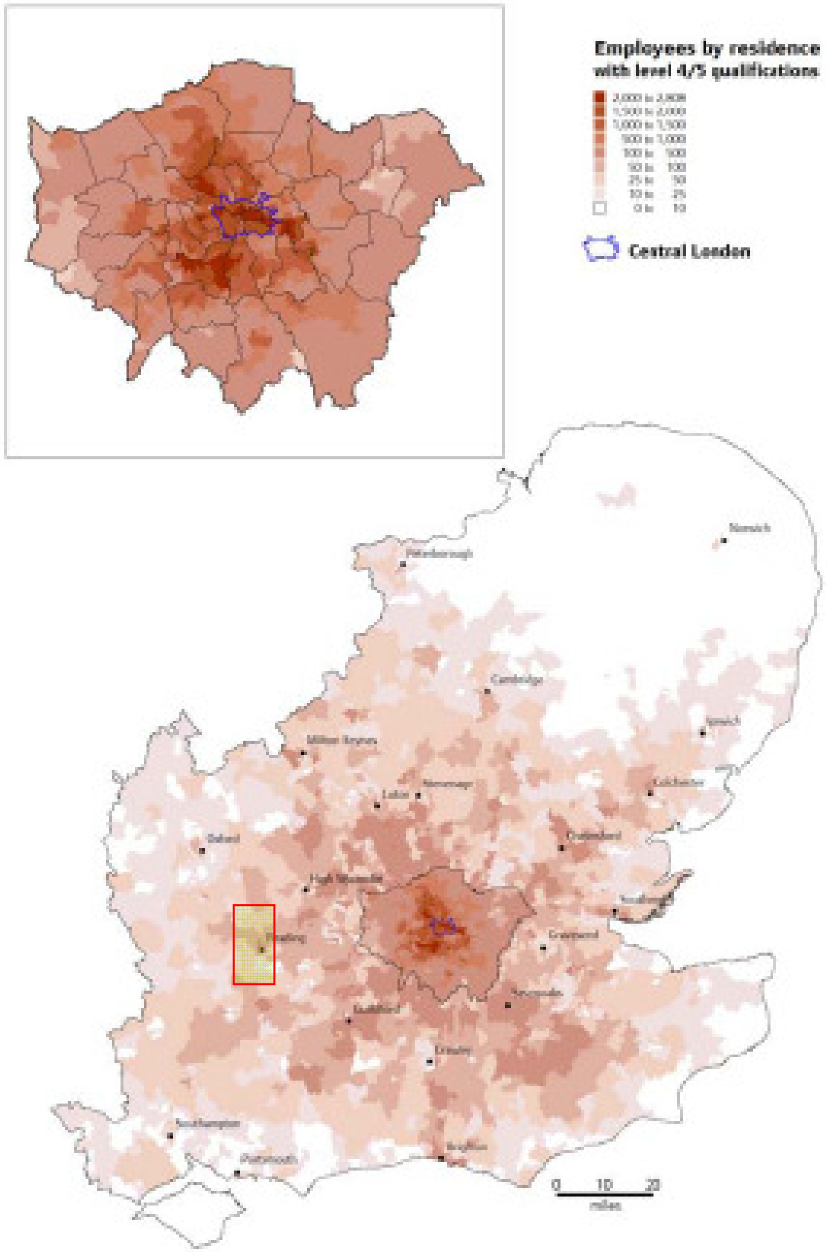


Figure 41: Number of ward residents with Level 4/5 qualifications working in Central London

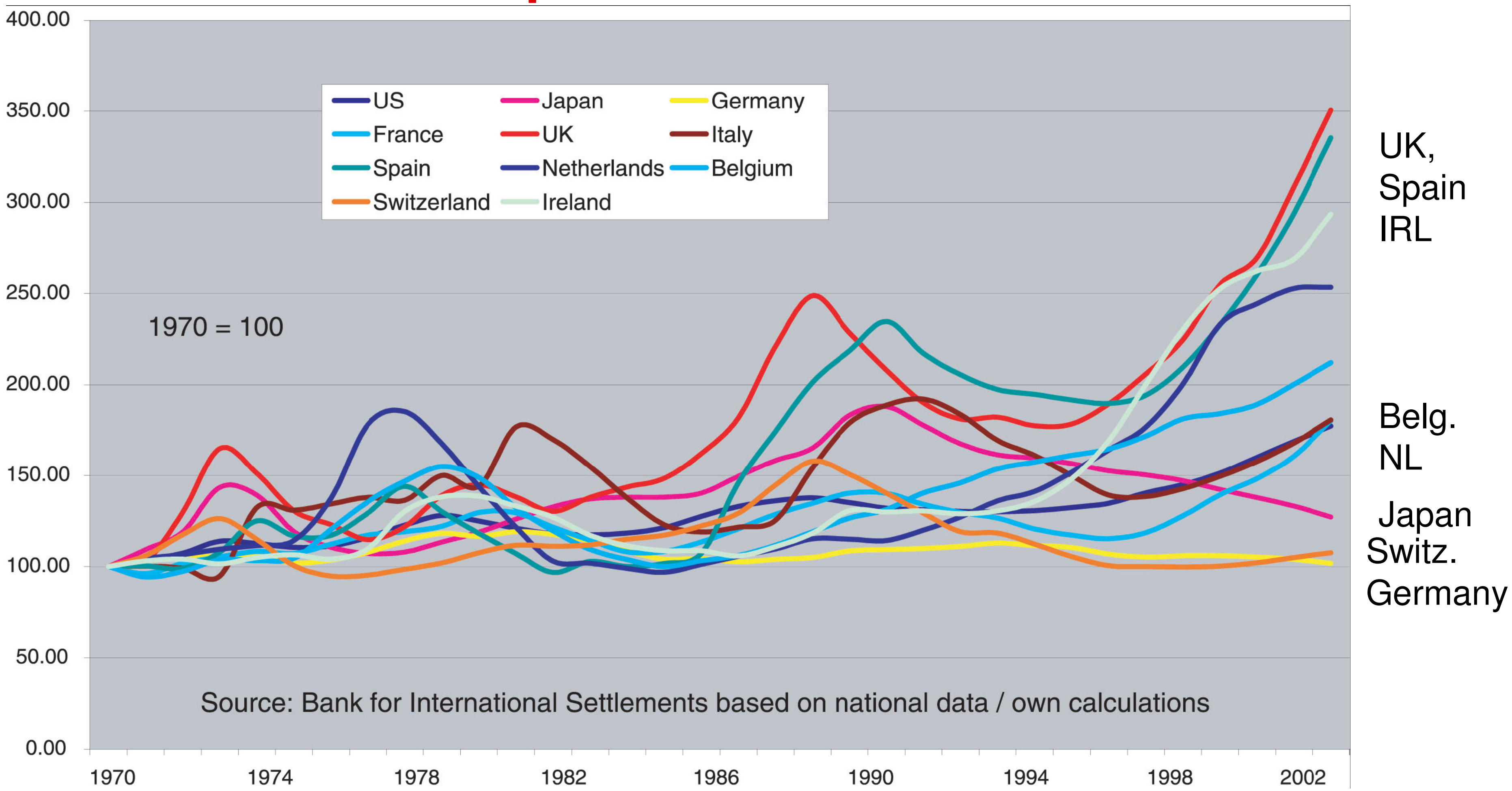


Source: *2001 Census*

We planned to 'contain' but people *chose* to behave in unintended ways

Highly skilled re-locate
beyond the Greenbelt
and commute from all over
Southern England:
Oxford, Cambridge act as
high income 'dormitories'

Other countries have market sensitive planning + Incentives to Develop…= Stable Prices



NL is more densely populated: in 2005 new UK houses 40% smaller; UK households 10% bigger; & new build houses 45% more expensive per m^2**!**

Or Take Office Costs – Birmingham

- Birmingham – medium sized city (2.5m), declining industrial economy, situated on flat plain
- Construction costs for offices about 50% of costs in Manhattan – no surprise
- What fundamentals determine costs of space?
  - City size, income level, construction costs, growth, transport systems….
- In Birmingham office space costs 44% **more** than Manhattan (2004)
- Estimate the costs imposed by planning constraints on office space as a tax on marginal costs of construction...

SERC
Spatial Economics Research Centre

Office Market	Years with Available Data	Regulatory tax as %	
		Mean 1999-2005	2005
City of London	’61-’05	488	334
London West End	’61-’05	809	889
Canary Wharf	’*98*-’05	327	277
Manchester	’73-’05	230	250
Croydon	’65-’05	94	98
Newcastle on Tyne	’65-’05	97	119
Edinburgh	’65-’05	291	262
Glasgow	’65-’05	204	205
Reading	’65-’05	203	161
Bristol	’73-’05	157	196
Birmingham	’65-’05	250	268
Leeds	’73-’05	193	217

Source: adapted from Cheshire & Hilber, *Economic Journal*, 2008

Measuring the *Regulatory Tax* on Cost of Office Space

(as % mark up of price of space relative to marginal costs of construction).

Excludes cost of compliance.

NB: 1990 move to UBR increased costs more than any feasible business rate!

Office Market	Years with Available Data	Regulatory tax as %	
		Mean 1999-2005*	2005
City of London	’61-’05	488	334
Paris – City	’91-‘05	305	375
London West End	’61-’05	809	889
New York (Manhattan)	Range	1996-2000 0 to 50	
Amsterdam	’91-‘05	202	192
Paris – La Défense	’91-‘05	167	193
Canary Wharf	’*98*-’05	327	277

The *Regulatory Tax* on Cost of Office Space: UK locations compared to major office locations around the world

Our system systematically imposes higher costs

Source: adapted from Cheshire & Hilber, *Economic Journal*, 2008

The Draft National Planning Policy Framework

- Trying to free up the system: understand and recognise market signals
- Critics claim recipe for concreting over England:
  - can only assume have not read it!
- All land now protected by designation: continues to be protected:
- and looks a bit better for urban green spaces & gardens

Why the NPPF may not work – for me

- My worry the reverse: will fail to make system more flexible
- Many key concepts not clear: e.g.

1. 'presumption in favour of sustainable development'
   - How do you translate to proposals for parcels of land?
2. Requirement to co-operate across boundaries
   - good - but what boundaries?
3. Planning obligations must '...not impose conditions...undermine viability...'

- All a recipe for legal argument; delay; stasis
- And build even less for foreseeable future while lining lawyers' pockets

SERC
Spatial Economics Research Centre

Why the NPPF may not work – for me

- And in so far as does free up land supply: may be arbitrary
- There is a danger of decoupling market signals from environmental and amenity values
- We need to have a system that evaluates proposals on value of land – including environmental and amenity and social value – in current as compared to proposed use:
- So always a balance
- IF we continue to ration space - we EITHER need to 'ration' demand – personal space quotas
- OR
- We need to intelligently respond to price signals from land markets; to rely on true value of land not be mechanistically driven by designation

A balanced reform...

- We do need to allocate more land where the market is telling us – shouting at us –
- But subject to ensuring environmental and amenity values – ‘market failure’ – are fully taken into the balance (see Cheshire and Sheppard, Urban Studies, 2005)
- Probably urban extension not leapfrogging
- At the same time we also need appropriate and market responsive incentives to local communities; and accept there are losers from development – compensate them
  1. Proper impact fees to pay all the infrastructure & social costs of development; and get rid of CIL and S106
  2. A New Homes Bonus which is higher in Cambridge or Reading than Doncaster or Hartlepool
  3. Generous Business Rates retention

SERC
Spatial Economics Research Centre

Otherwise a passport to NIMBYism?