Planning, Public Policy & Property Markets

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Preface

In the mass media, the ‘property market’ is where houses are bought and sold and ‘planning’ is all about the decisions of local authorities to approve or refuse permission for their construction or subsequent modification. The concept that some form of public policy may exist to link these aspects of the economic and political life, directly or indirectly, often escapes the notice of even experienced commentators. Academics, while well aware that the commercial property market is as important as the residential one and that planning is a much broader activity than that of simply reacting to applications submitted from the private sector, have tended to concentrate on either state or market activity and pay scant attention to the richness of state–market interconnections.

This book reflects an increased realisation among academics and practitioners that, in an era where development is intended to be sustainable and where environmental protection needs to be matched by urban, rural and regional regeneration, effective state–market relations in land and property are critical to a prosperous economy and a robust democracy. This emphasis on theoretical integration and ‘joined-up’ practical application was central to the mission of the Department of Land Economy at the University of Aberdeen, in which we all worked during the period when this book was in preparation. Among many other projects, it encouraged a successful collaborative submission from Aberdeen, Cardiff, Sheffield and Ulster Universities for a new ESRC Seminar Series on Planning and Development.

The first seminar of that new series was held at the Department of Land Economy in September 2003 and attracted some thirty prominent academics and practitioners to debate some of the latest research under the theme of planning, public policy and property markets. Along with some later invited contributions, this book has emerged from the papers originally presented at that seminar.

The book is intended to spark the growing interest in the nature of state–market relations in land and property both by filling an obvious gap in the academic literature and by providing a launchpad for broader debate and a more pluralist property research agenda. Although the book focuses on the impact of planning, housing, land, regeneration and transport policies on land and property markets, the applied studies included are intended to
exemplify current methodological debates and research techniques rather than to provide comprehensive coverage of the many ways in which policies and markets interact. Crucially, the various contributions are concerned not only with the direct impact of policy on market supply, demand and pricing but also with the role of institutions, information and actors in shaping policy and market outcomes.

As editors, we hope that this book will encourage all those in property research who strive for theoretical and practical connectivity and whose work seeks to demonstrate that just as property market operations cannot be analysed without a sophisticated understanding of state processes, policy decisions impacting the market cannot be taken without an appreciation of how the market operates.

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Craig Watkins, University of Sheffield
Michael White, University of Aberdeen

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The contents of Chapter 5 are based on a contribution to the project on ‘Secondary Analysis of Housing Market Data Sets’ supported by the Joseph Rowntree Foundation in 2002–3. The authors are indebted to the foundation (and Theresa McDonagh, in particular) for supporting this exploratory work and for organising a series of workshops with other participants in the programme. Findings from this project were presented to members of the Foundation’s Housing & Neighbourhoods Committee and Board in February 2003, and have influenced the subsequent evolution of the foundation’s research programmes in this area.

More specifically, Chapter 5 draws on an analysis of data derived essentially from administrative data systems and official statistics. The main dataset was originally constructed by Glen Bramley along with colleagues from the Universities of Newcastle and Leeds, as part of a DTLR/ODPM-funded project on ‘The Development of a Migration Model’ (University of Newcastle-upon-Tyne et al. 2002). This dataset was then substantially enhanced by the addition of further data, mainly relating to planning and land and also obtained from the ODPM. The authors gratefully acknowledge the assistance of colleagues at the Universities of Newcastle and Leeds and at the ODPM in accessing these data.

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Abbreviations

2SLS Two stage least squares
3SLS Three stage least squares
CBD Central business district
CMDC Central Manchester Development Corporation
DETR Department of the Environment, Transport and the Regions
DINKYs Younger single households and couples
DTLR Department of Transport, Local Government and the Regions
ESRC Economic and Social Research Council
Higher SEG As middle SEG but more single person households and larger proportion of professional occupations
HIP Housing Investment Programme
HMA Housing market area
IPD Investment Property Databank
JLL Jones Lang LaSalle
LPA Local planning authority
MCC Manchester City Council
Middle SEG Slightly older buyers over half of whom have children
MIGMOD Migration model for England and Wales
MML Manchester Millennium Task Force
MNL Multinomial Logit
MoD Ministry of Defence
Neo-DINKYs As DINKYs but more couples and non-professional occupations
NIE New institutional economics
ODPM Office of the Deputy Prime Minister
OLS Ordinary least squares
PEI Political economy of institutionalism
R&D Research and development
RCEP Royal Commission on Environmental Pollution
REIT Real Estate Investment Trust
RICS Royal Institution of Chartered Surveyors
RSL Registered social landlord
SACTRA Standing Advisory Committee on Trunk Road Assessment
SHG Social Housing Grant
SME Small and medium-sized enterprises
SPN Scottish Property Network
Part 1

INTRODUCTION
Examining Public Policy and Property Markets

David Adams, Craig Watkins and Michael White

Introduction

It is widely accepted that the performance of housing and commercial property markets has a profound impact on the social and economic well-being of our towns and cities. Property markets perform an important role as mediators of urban economic change (Gibb et al. 2002). The location of property development can enhance or inhibit the competitiveness of cities and regions (Begg 2002a). In addition, through its influence on the locational pattern of homes, employment opportunities, factors of production and the urban asset base, property plays an important role in the spatial distribution of social justice (Gibb & Hoesli 2003).

It is thus no surprise that policy makers place particular importance on seeking to influence the performance of markets. Examples of governance strategies include the regulation of markets through the planning system, direct development channelled through land policy and regeneration initiatives, and indirect influences on the behaviour of property institutions through taxation and fiscal mechanisms. Although more difficult to detect, public sector decisions on transport infrastructure, public service provision, education and crime also influence the structure of the property markets. Household and business location decisions, and property development and investment strategies will all be shaped directly or indirectly by a myriad of policy initiatives.
There are currently numerous highly topical policy issues occupying the minds of the general public and the property community. The recent Barker review, for instance, has focused on the role of government policy, especially planning polices, in tackling rapid price appreciation and volatility in the housing market (Barker 2003, 2004). Interestingly, the review was the responsibility of both the Treasury and the Office of the Deputy Prime Minister (which has general responsibility for housing and planning). This reflected the fact that it was a fundamental premise of the review that the instability of property markets in the UK has important macroeconomic consequences. As expected, Barker’s policy prescriptions highlight the need to reform the planning system. In addition, however, it is proposed that policy makers might consider alterations to the role of taxation mechanisms, the provision of infrastructure incentives, and reform of the construction industry. While these policy recommendations have received mixed reviews, the report ably demonstrates the difficulty associated with analysing the impact of public policies on the performance of property markets.

These are not the only property-related policy areas subject to debate at present. Elsewhere, the property market impacts of congestion charging have been contested. Others have debated the likely property market ramifications of investment in the public transport system, especially the £10 billion east–west London Crossrail initiative (RICS & ODPM 2002). There has also been speculation about the likely impact of proposals to provide tax incentives for the formation of Property Investment Funds (HM Treasury 2004). The simple message from this brief review is that, for a variety of economic and social reasons, the relationship between public policy and the structure and operation of property markets is important.

Unfortunately, however, these relationships are not well understood. While some policy issues have been subject to rigorous analysis, the extent to which initiatives and interventions in property markets have been informed by evidence is fairly limited. As we argue later in the book, this is somewhat disappointing given the considerable developments, both in terms of quality and quantity, in the property research agenda.

Nevertheless, there are grounds for optimism. In recent years, it has become evident that policy makers see a much closer relationship emerging between public policy, including the planning system, and property development, in which they are regarded less as working in opposite directions but more in synergy with each other. In this context, this book is intended to provide an introduction to ‘state of the art’ research on the
relationship between planning, public policy and property markets. Importantly, the contributors to the volume recognise that policy makers cannot rely on either the state or market alone to deliver policy objectives. Nor are they faced with straightforward choices between resolving government failure or market failure. Rather, successful public policy requires an appreciation of the role of the state as a participant in the market (Oxley 2004). Thus, although the book focuses on the impact of planning, housing, land, regeneration and transport polices on land and property markets, it begins to explore not just the direct impacts of policy on supply, demand and market pricing but also examines the role of market information, institutions and actors in meeting policy objectives.

The scope of the book

This book is concerned with the relationship between planning, public policy and structure and operation of property markets and is relatively broad in scope. Our interest in property markets covers all sectors (residential, office, retail and industrial) as well as the structures, institutions and processes that characterise the market and shape market outcomes. The analysis contained in the book explores the role of policy in the determination of property values, investment returns and levels of development activity. It also considers the behaviour of and interaction between a variety of actors including public agencies, planners, developers, investors and property users.

Our use of the term planning in the title is reflective of the relatively high profile of current controversies associated with the relationship between planning and property markets. In the context of this text, ‘planning’ is thought of in much broader terms that its statutory functions. Indeed, following Adams et al. (2003), the conception of planning relates to the intentional interventions in market processes, usually (but not exclusively) by local government, in the pursuit of societal objectives. In this sense, the scope of the book is broader than that of many economic analyses where the focus has tended to be on land use regulation (see Evans 2003). This broad definition of ‘planning’ is indicative of an interest in public policy more generally and thus includes all land, land use planning, housing, transport and regeneration policies that are likely to have clear impacts on the use, investment and development of land and property. It is also consistent with the government view of the function of planning which highlights the role of the planning system in maintaining economic growth and in providing investment and jobs as well as homes and buildings.
Clearly, given the breadth of the subject matter, it is difficult to cover all relevant current and recent research on the topic comprehensively. Instead, the treatment of policy debates and market sectors is necessarily selective. We do not attempt to tackle all policy issues, nor do we seek to explore all sectors of the property market in equal depth. There are thus some obvious gaps in coverage. For instance, none of our chapters is concerned with the private rented housing market, even though buy-to-let policies and proposals for Real Estate Investment Trust (REIT)-style vehicles are having important impacts on market performance. Nor do we focus explicitly on prominent housing policy issues such as ‘Right to Buy’. Instead our intention is to provide a flavour of contemporary issues in property research rather than an exhaustive treatment of all important topics.

This is reflected in a much more pronounced concern with methodological debates and research methods that are relevant to the ways in which policy impacts on property. Analyses of particular policy initiatives and programmes are thus intended to be illustrative and are used to exemplify particular methodological and analytical approaches. Nevertheless, this approach enables the book to provide an overview of the available research evidence on a number of important policy questions.

**Property research and public policy**

One of the main aims of the book is to demonstrate that property research can make important contributions to understanding public policy and its influence on urban dynamics. We argue that the maturing property research community now produces high quality research based on sound theoretical foundations, useable models and diverse research methods. This reflects the evolution of an increasingly coherent research agenda that has been enhanced by improved communication across disciplines and specialisms.

Although the pioneers of classical and neo-classical economics often investigated land and housing market issues, it is only since the 1970s that a distinct property research community has emerged in the UK (O’Sullivan & Gibb 2003). This research drew initially on the traditional property-related disciplines of economics, law, human geography, urban planning, construction and valuation. More recently, research output has begun to mirror trends in the US by encompassing advancements in business studies and finance.

The diverse backgrounds of property researchers and practitioners have inevitably led to a fragmented research agenda characterised by a range of
quasi-independent specialisms in areas such as urban economics, housing economics, property investment and finance, property valuation, property and the macroeconomy, property and business economics, and planning and property development. Indeed, until relatively recently, there has been only limited cross-fertilisation between housing economics and commercial property market analysis and between economic analysis and planning research.

Within each of the relatively narrow specialisms that emerged, the focus of research has varied from individual actors, through groups of actors to the market in aggregate; from the local to the national to the global dimension; from the demand side to the supply side; from the public sector to the private sector; and across the residential, retail, office and industrial sectors. Furthermore, theoretical and empirical studies of property market phenomena have also varied in terms of the methodological and epistemological approaches adopted (Adair et al. 2003).

Encouragingly, however, there have been several initiatives, which have helped facilitate greater communication between property sub-specialisms. For instance, between 1998 and 2000, the ESRC funded a Property Economics and Finance Seminar Group. This group held four meetings on diverse themes including housing economics, urban regeneration, property investment and corporate real estate. Although the group helped establish links between housing and commercial property researchers, much of its activity focused on the role of property as a financial and corporate asset rather than as a mediator of urban economic and social change.

More recently, an ESRC funded Planning and Development seminar group has been established. This group has a more explicit interest in public policy issues and has sought to foster interaction between property, housing and planning researchers. The first meeting of the group, hosted in September 2003 by the Department of Land Economy at the University of Aberdeen, focused on the relationship between planning, public policy and property markets. The meeting built on growing interest in this topic and provided the impetus for this book.

In an interesting precursor to the establishment of the ESRC Planning and Development seminar series, Guy and Henneberry (2002a) edited a collection of papers on property development. The collection had been inspired by multi-disciplinary discussions of the development process at the annual Royal Institution of Chartered Surveyors (RICS) conferences in 1994 and 1998 and sought to demonstrate the heterogeneous nature of research on property development. The resulting book included contributions from a
variety of disciplines and the editors explicitly considered the ways in which different methodological perspectives on property have framed analyses of the development process. They suggest that the ‘interpretative flexibility’ relating to the built environment gives rise to the use of diverse theories (and associated research methods) when formal, analytical attempts are made to explain development. This diversity has generated considerable debate about the competing merits of alternative methodological approaches. It has also encouraged ongoing debate about the value of particular research methods.

Superficially, it may appear that this debate has been won by the mainstream. Recent analyses of leading property economics journals show that journal publications have been dominated by the quantitative model building (Newell et al. 2001; Ong et al. 2001). This is particularly evident in the major US academic journals, where housing and commercial property are primarily analysed within an asset market framework (Levy & Henry 2003). However, this masks some underlying concerns with mainstream economics. Schiller (2001, p. 4), for instance, notes that ‘economic man may still exist, minimising cost and maximising utility, but he gives only part of the picture’.

In the UK, the broader social science perspective adopted by several leading journals has allowed academics to continue to debate the merits of alternative approaches (see Guy & Henneberry 2000; Ball 2002, for instance). Furthermore, the case for considering alternative perspectives less as competitors and more as complements has received considerable support (Adams et al. 2003; Monk & Whitehead 1999; Lizieri 1995).

As Guy and Henneberry (2002b, p. 299) state ‘instead of trying to shoehorn property research into competing disciplinary models or prioritising methodological approaches, we might begin to take a more heterogeneous route (or routes) in the future. While this would not mean abandoning critical debate between analytical approaches . . . , it would mean adopting a more catholic community of property researchers with some parity of esteem. The effect of this would be to open property studies to a much wider world of analytical innovation.’

It is hoped that this book will make a further contribution to this progressive view of property research. Although the book is dominated by the work of property economists it is no less supportive of the need for pluralist approaches to property research. Indeed, methodological diversity is seen as an essential ingredient in the improved analysis of the influence of public policy on commercial and residential property markets.