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LOOKING UP - MAY 2011

COMMENT AND ANALYSIS FROM JULIAN DOBSON

THIS MONTH: HAVE WE REACHED PEAK PROPERTY?

A BROKEN REGENERATION MODEL

DEVELOPMENT IN THE DOLDRUMS

HOW TO BUILD FOR THE FUTURE

Urban Pollinators - 3 Silver Birch Avenue, Sheffield S10 3TA
telephone: 0114 229 5726 • mobile: 07545 874556 • www.urbanpollinators.co.uk
urban pollinators: a practical think tank • director: Julian Dobson

WELCOME

Urban Pollinators is a consultancy and practical think tank founded by Julian Dobson, commentator on regeneration, placemaking and community issues. This newsletter is part of a series of regular commentaries on topical subjects. We hope you find it useful and informative; please pass it on to anyone you think will be interested.

This month we ask whether the UK has reached 'peak property' and argue that we need a different kind of development industry to create a sustainable future.

HAVE WE REACHED PEAK PROPERTY?

'Buy land: they're not making it any more'.

The famous quote from Mark Twain says it all. If you can control a finite resource, you have wealth. That premise has fuelled human dreams of advancement for centuries and has underpinned the hopes of the modern economy and society, from Margaret Thatcher's famous sale of council houses to the US sub-prime mortgage market.

The idea that property assets could only ever rise in value, making money for lenders and borrowers alike, underpinned much that passed for regeneration in the UK in the last 20 years. Whether you were talking about town centres or housing developments, the same rationale held good: speculative development could realise profits that were generous enough to finance regeneration activity, be it investment in the public realm or the provision of affordable housing.

For nearly three years that model hasn't worked. The credit crunch and subsequent recession stemmed from a belief that loans would never go bad – that rising incomes and property values would somehow bridge the gap sufficiently to allow our poorest citizens to share at least a smidgeon of the wealth created by speculation, easy credit and generous public investment.

So far, so obvious. What hasn't really sunk in is that we're not going back to those days anytime soon, if at all. We all know about peak oil – the theory that a point arrives when oil becomes prohibitively expensive as a foundation for our economy. Some are talking about peak soil and peak water too – the constrained environmental resources that cannot support exponential growth of consumption and population. To this mountain range we may soon have to add peak property: the knowledge that the equations that in theory allowed everyone to benefit from rising land values no longer hold good.

A broken model

'Peak property' hasn't entered the lexicon yet, either among developers or regeneration practitioners, but it should soon. If values stop rising in real terms then those who invest in real estate will need to think very differently about how they make their money. And that will affect many a masterplan that is predicated on skimming off surplus value from development to provide public benefits.

Eighteen months ago, in the depths of the recession, we researched the possibilities for providing public benefits from the sale of Ministry of Defence land, in a project for the Bill Sargent Trust[1]. It was clear then that many of the most successful developments on former military land had worked because of rising land values, and we questioned whether such an approach would hold good in the future.

Since then the much-vaunted recovery has failed to materialise, and realisation is dawning that we cannot put the revitalisation of our towns and neighbourhoods on hold until it arrives.

Earlier this year the Scottish Government became the first UK government body to publicly acknowledge this, asserting in its regeneration discussion paper, *Building a Sustainable Future*, that the model of the last decade or so was broken[2].

Urban Pollinators recently provided evidence to the House of Commons communities and local government committee on the future of regeneration, and we picked up on this theme, questioning whether we could any longer expect the markets to revive the places the markets have failed[3].

A trawl through the evidence supplied by others suggests we're not alone. The British Property Federation, hardly known for an anti-development stance, says this: 'Current economic circumstances mean that the regeneration template of the last fifteen years is no longer viable. Very little development of any kind is now taking place outside prime areas in Central London. As regeneration is by its nature on the margins of viability then it is affected even more severely than more standard types of development. Paradoxically, however, the need for an active regeneration agenda is more important than ever...'[4]

The federation calls for regeneration to be rethought, with emphasis shifting from the worst-off places to backing winners where developers can still make money. We disagree - it is property development that has to be rethought.

Development in the doldrums

It is instructive to observe what is happening in the property market in the UK. If you want an investment with a good return, your best bet is either homes worth more than £10m in central London, or English farmland. It is hard to see regeneration benefits accruing from speculation in either of these sectors.

What's more, we can expect values to stagnate or decline outside the more febrile markets of London and southeast England. Agents Knight Frank paint a bleak picture of the commercial market in their most recent market outlook: 'We expect a strong drive to clear-up loan books in the next 24 months, with implications for

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1 *In the public interest? Achieving community benefits from Ministry of Defence land disposals*. Available at http://urbanpollinators.co.uk/?page_id=95

2 The Scottish Government paper is at http://www.scotland.gov.uk/Publications/2011/02/07095554/2 See our March newsletter for more on this - download from http://urbanpollinators.co.uk/?page_id=92

3 See http://www.scribd.com/full/52580239?access_key=key-2f6k9yc15sb1077qemxz

4 See http://www.publications.parliament.uk/pa/cm201011/cmselect/cmcomloc/writev/regeneration/m21.htm

corporate recovery. This is consistent with evidence that secondary pricing outside of London is softening again. The market has to get a bit worse in order to get better. However, the pain this time will be localised to lesser quality stock in certain parts of the country, and not the general pain seen in 2008.' [5]

Here's a recent projection on residential values from Jones Lang LaSalle[6]: 'the two-tier market shows no sign of synchronising any time soon, with the dynamics and development of the markets remaining polarised.... expectations are for this north/south divide to widen next year.'

Affordable housing is also in the doldrums, as the Chartered Institute of Housing makes clear: 'Development viability remains a challenge to new supply, despite it being identified as an issue some time ago. Similarly, buy to let investment in the private rented sector remains subdued and institutional investment in private rent has not taken off.' [7]

A recent survey by *Inside Housing* magazine[8] revealed that England's largest housing associations had cut their development programmes by up to 50 per cent, despite government assertions that the 'affordable rent' programme, which raises rents to 80 per cent of open market levels, would provide a massive windfall for development.

Meanwhile the fall in public sector employment is likely to hit some regional cities very hard. Five cities, according to property agents CBRE[9], have more than 1m square feet of office space occupied by central government departments - Birmingham, Edinburgh, Glasgow, Leeds and Liverpool. In Liverpool government departments occupy 17 percent of all office space in the city. It will take quite a boom of private sector job creation to take up the slack, and no such boom is foreseeable.

Tinkering with TIFs

The reason this is particularly worrying is not just because the old model of regeneration is dead - that's probably no bad thing - but because the UK government is acting as if it is alive and kicking.

Two of the key policies that are central to its approach rely fundamentally on land value appreciation. The first is the new homes bonus, where local authorities are rewarded for giving planning permission to developers, and the second is tax increment financing (TIFs), a model pioneered in the US where towns and cities get to keep the extra taxation raised as commercial premises are developed and occupied.

It is no surprise that in Scotland, where TIFs are being pioneered, it is being done in Edinburgh, the city with the highest land values. Housing experts have widely criticised the new homes bonus because it favours the areas with the highest values and the strongest housing markets. It is as if the government is hoping to revive towns and cities in stressed and distressed areas by a kind of osmosis as development becomes concentrated in a shrinking corner of the country.

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[5] *UK Market Outlook - commercial property review*, April 2011, Knight Frank, http://www.knightfrank.com/

[6] *On.Point*, Jones Lang LaSalle, February 2011, www.joneslanglasalle.co.uk

[7] *The local authority role in housing markets*, Chartered Institute of Housing, April 2011. www.cih.org

[8] '*New build levels to plunge*', Inside Housing, 4 May 2011

[9] *UK Regional Offices ViewPoint*, CBRE, April 2011, www.cbre.eu/research

Building for the future

But there are stronger reasons still why we should not return to models based on speculative development.

The concentration of development in London and southeast England shows how markets fail to take long term considerations into account. These are the most environmentally stressed parts of Britain in terms of air quality, waste management and water and land resources.

But warnings about the likely effects of this concentration have been confined to the outer reaches of government and industry – the largely-overlooked Foresight report on future land use, for example[10], and the now-abolished Royal Commission on Environmental Pollution.

The Foresight report warns that the impact of climate change in the UK is likely to result in 'significant reductions in river flows and groundwater recharge' while without extra investment in flood defence, the number of existing homes at 'significant risk' of flooding could rise from half a million to 800,000 by 2035. Like all other aspects of public spending, flood defence is being cut.

The Royal Commission goes further, pointing out that as the UK population is expected to grow from 61.8m in 2009 to 71.3m in 2033, 'The demand for new housing and related development ... will increasingly come up against environmental constraints in some parts of the country. The constraints can be managed but at an economic and environmental cost. The government should compare these costs with the cost of incentives to encourage development in areas facing fewer constraints..' [11]

These costs are already beginning to mount. Last year Thames Water opened a £250m desalination plant in order to guarantee the capital's water supplies. It is a high cost, energy intensive solution.

The Royal Commission argued strongly that a regional economic strategy was required to support growth and employment in areas with existing infrastructure and more plentiful natural resources. But while the government talks of 'rebalancing' the economy, its development incentives work in the opposite direction.

Home, not hoard

Developers and housebuilders don't tend to see the big picture. Their business is to build, pocket the profit and move on. But if we have reached 'peak property' in many parts of the country, this needs to change.

In a small and unequal nation, we need a view of land that balances personal rights with a recognition that land is a resource for generations to come. Responsible and creative land use is to make places we can call home, not to hoard up individual or corporate wealth on a false assumption that everyone will one day benefit.

So how should we do that? First, we must value the urban fabric as an asset. The constant process of knocking down and rebuilding must be tempered by a recognition that much of our built environment can be repur-

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[10] *Land Use Futures: Making the most of land in the 21st century*, Government Office for Science, 2010

[11] *Demographic Change and the Environment*, Royal Commission on Environmental Pollution, February 2011. See http://webarchive.nationalarchives.gov.uk/20110311100922/http://www.rcep.org.uk/reports/29-demographics/29-demographics.htm

posed and contains memory and meaning for the people who live and work there. The roles of curation and restoration should be valued alongside the roles of design and development.

Where demolition is necessary – and the poor quality of much that was built in the last 50 years means it will be – there is an opportunity to rebalance land use and ownership, improving towns and cities by inserting green spaces, creating homes in town centres[12], and finding uses that will generate long term financial returns that can be shared between developer, occupier and municipality. Shared ownership or self-build housing, community land trusts owning economic and social assets such as workshops and playgrounds, neighbourhood trusts managing landmark buildings and green spaces, and co-operatively owned and managed work hubs should all be part of that mix.

Where expansion is required to meet the needs of a growing population, we need strategic partnerships between local government and developers where risks are shared (for example, through local asset-backed vehicles), returns are taken over time as a development becomes financially viable, and new neighbourhoods are co-produced with those who expect to live there. We can't afford to repeat the mistakes of the 1960s, where 'overspill' estates were built without shops, schools or services in a rush to shift people out of slums.

New developments must also bear the cost of externalities – the environmental, infrastructure and social costs associated with them – and do so over the lifetime of the development. This needs to happen because those costs will otherwise fall on those who don't benefit from the development. And in a country that has a wealth of serviceable buildings that are well over 100 years old, we need to routinely plan structures that will last a century or more. If a building is intended to last that long, there will be an inbuilt incentive to make it as energy efficient and adaptable as possible.

Work with the willing

Those who have done well out of development in the past may well not be interested in an approach that puts long term value above short-term gains. But there are plenty of imaginative and creative people who are in it for the long term and what to create places fit for the future, and these are the people central and local government should work with.

If government proposals on neighbourhood planning are to be of any value, they should encourage local authorities and neighbourhood planning forums to insist on such long term thinking and support designers and developers who can work with the grain of places, using local materials and vernacular styles as well as injecting new technologies and imaginative uses of space.

On top of that, we need to factor in the costs of doing nothing. Where commercial players are not interested in recreating a viable market, we need new partnerships between government and the public that will achieve this. The key will be to find ways of financing small-scale but strategic interventions to change blighted, neglected spaces into ones that work. It's what Nabeel Hamdi[13] describes as a 'trickle up' theory – 'a city plan made up of small, networked interventions'.

If we play it right, peak property could be the best thing to happen to urban development in the UK. It could replace a damaging reliance on capital gains and unsustainable spirals of price increases with an adaptable,

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[12] See our February newsletter for more - http://urbanpollinators.co.uk/?page_id=92

[13] Hamdi, N., 2010. *The Placemaker's Guide to Building Community*. London: Earthscan

resilient ecology of land use where the benefits are shared more equitably and development is done by and with local people, not for or despite them. Such an ecology needs the support of those who have financial resources and long term interests: the pension funds and insurance companies whose interventions in the market could make the difference between blight and rebirth.

IN OTHER NEWS...

Highlights of the last month include appearing at the House of Commons communities and local government select committee to give evidence on the government's regeneration strategy. You can find our written evidence here, and the oral evidence will be on the select committee's website shortly - follow this link for details.

We're also starting two new projects: one is to investigate the demand for a national network of local loyalty schemes to support local retailers and producers; the other is an evaluation of an estate regeneration initiative in Huddersfield. There'll be more on these in future newsletters, or check our website for updates.

This month also saw the fifth of the Joseph Rowntree Foundation's series of events on community assets. We've been producing reports and blogs from each of these events and together they contain important messages about the opportunities and risks of community asset management. You can find the reports, along with presentations from the events and background material, at the JRF website.

Meanwhile we've added more material to the resources page of our website, giving a flavour of some of the work we do and issues we're interested in. And don't forget we also write a regular 'inspiration of the week' highlighting a project or idea we think is worth celebrating – please let us have your own suggestions too.

• Our experience with the Bradford Regeneration Academy and links with a wide range of innovators means that we can facilitate workshops and discussions that draw on and apply new thinking in practical ways. If you would like us to work with you, please get in touch – just email julian@urbanpollinators.co.uk or call us on 0114 229 5726. We look forward to hearing from you.

WHAT DO YOU THINK?

We'd like your feedback. Was this newsletter interesting or useful? Are there topics you'd like us to look at in the future?

Please send your comments to Julian Dobson - email julian@urbanpollinators.co.uk - or find us on Twitter at @urbanpollinator. You can also find copies of previous newsletters on our website. Topics have included the future of public services, saving town centres, the future of regeneration and building resilient communities.

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