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# The Value of Planning

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# THE VALUE OF PLANNING

## Executive Summary

### Introduction

Much recent planning policy and reform has been informed by the view that planning inhibits economic growth. This report, based on research conducted for the RTPI by Professor David Adams, The University of Glasgow, and Professor Craig Watkins, The University of Sheffield, examines the value of planning, focusing primarily on economic and financial value, while recognising the importance of broader social and environmental value. Remarkably, given the debates around planning reform in the UK, it represents the only recent and wide-ranging review of research regarding the economic value of planning. In conducting this review, the researchers have drawn on UK and international evidence and examples.

### Who should read this?

This report should be of interest to policy-makers, decision-makers and practitioners in planning in the UK and internationally, and researchers and commentators interested in planning and growth. The report adopts an inclusive understanding of planning, and so is applicable across the whole of the UK (and indeed internationally) despite the increasing divergence between statutory planning processes in the different nations within the UK. Where the argument specifically refers to one part of the UK, this is made explicit.

### Key messages for policy and practice

1. Any assessment of the economic value of planning needs to be clear about what is meant by 'planning' and 'value'. Planning is a much broader activity than the narrow regulatory role to which it is relegated by many economists and some politicians. Planning helps to create the kinds of places where people want to live, work, relax and invest – often termed 'shaping places'. Planning is about improving places by helping them to function better economically as well as socially and environmentally. Planning is then about *outcomes*, not just *processes*. This broad definition means that infrastructure provision and town centre management are as much part of planning as development plans and development management. It follows that planning is not always done by people called 'planners'. In terms of 'place promotion', for example, it could be a local authority but equally a public sector development agency, a public-private development partnership, a private sector consortium or even an individual entrepreneur. More broadly, government at various levels or other agencies may be responsible for aspects of planning.
2. In order to achieve this, planning can be conceptualised as the deployment of various policy instruments intended to *shape, regulate* and *stimulate* the behaviour of 'market actors' and to *build their capacity* to do so (these market actors may be in the public as well as private sector). The four sets of policy instruments that comprise planning are described below.
3. *Shaping markets* – An important way to think about 'shaping places' is that it involves shaping markets. Planning provides an important context for the individual decisions taken by other market actors, including landowners, developers and investors. It is as much about opening up opportunities as closing them down. Shaping markets includes the preparation of planning strategies, visions and policies, the reform of certain property rights, and what

can be called 'strategic market transformation'. Plans can ensure that individual developments are planned as part of a broader picture rather than in isolation from each other. Plans can encourage the provision of 'collective goods', such as better connectivity and improved public realms. 'Strategic market transformation' involves creating wholly new real estate markets, or in the case of regeneration areas reinvigorating markets that are not working well.

4. Shaping markets can play a crucial role in breeding confidence, reducing risk and transforming developers' attitudes and behaviour. It can encourage market actors to see benefit for themselves in meeting wider policy objectives; it becomes 'worth it' for them to produce more sustainable developments since this creates added value for the actors as well as the wider community. This means that the overall value of what is created for both the local community and developers exceeds what would otherwise have been the sum of its individual components. As a result, shaping markets – for example by resolving collective action problems – is not just about containing social costs and exploiting social benefits. Crucially, it can also *enhance private benefits* and *reduce private costs* both for individual actors and the private sector as a whole.
5. *Regulating markets* – Planning as regulation is common throughout the world; however there is a distinct difference between regulatory systems that consider each case on its merits and those that require all cases to meet some pre-defined standards or norms. The first approach is evident in the discretionary development control systems operated in the UK and Ireland, while the second is seen in the regulatory standards that control development in most of Western Europe and North America.
6. *Market stimulus* – This is about nurturing, encouraging and stimulating development activity, especially in thin or fragile markets. Examples include land assembly, town centre management, information provision and public-private development partnerships. Such actions contribute to economic growth and, when successful, improve the prosperity of the places where they are implemented.
7. *Capacity building* – Capacity building enables market actors to work more effectively. The research on which this briefing is based includes examples from the UK and internationally that illustrate these forms of planning in practice. However these broader forms of planning are far from universal in practice. What is needed is not for planners to become market actors, but rather to recognise that they are already market actors, intricately involved in market shaping and stimulus as well as regulation. As a result, planners need to develop their capacity and confidence to act accordingly, in four key respects:
  - culture and mind-sets – for example, planners seeing themselves as active participants in development;
  - information and knowledge – for example, about local real estate markets;
  - networks – for example, with developers;
  - skills and capabilities – for example, a substantial knowledge of development economics.
8. Further, different stakeholders in planning may often have different expectations of what they see as its 'added value'. Housebuilders are keen to see a well-managed, but not excessive, land supply since their profits normally depend more on margin than volume. Landowners still have considerable power to shape development by the extent and speed of land release. Commercial developer-investors tend to be strongly supportive of 'town centre first' policies, as they often hold substantial office and retail investment portfolios in central

areas. Investor strategies tend to privilege London over other regional markets. Flows of finance capital can be just as important as planning in determining what does and does not get built. Local politicians still keenly guard their control over planning decisions and do not always accept the recommendations of planning professionals. The strategies, interests and actions of these various stakeholders can be just as important as planning in explaining development outcomes and it can be hard analytically to separate them out.

9. Understood in this way, planning has a clear role in supporting growth. Whenever planning adds value to development activity, the benefits will be reflected in stronger economic growth and enhanced development viability. Conversely, areas that are poorly planned and where 'negative externalities' (such as congestion, overcrowding or pollution) threaten long-term investment value, can create significant costs for society and individuals.
10. This understanding of planning suggests two key weaknesses in a number of studies that are critical of some aspects of planning (including those that have been cited in UK Government policy documents), that they neglect the full breadth of planning, and fail to employ a variety of economic analyses that might reflect this breadth. In particular, many of these studies typically:
  - focus on the 'costs' of development management rather than the value of planning much more broadly;
  - are based on an abstract and artificial view of markets, and one that often fails to take account of industry structure in sectors such as housebuilding and the impact this can have on supply.

As a result of the breadth and variety of planning, understanding its contribution to value requires many methodologies drawing on various branches of economics, including but not limited to neo-classical economics. Where this broader understanding of planning is adopted, the benefits of planning can be better appreciated. Indeed, there are many impressive case studies of the benefits and impact of planning from the UK and internationally. However, many of the most critical studies of planning neglect how different branches of economics might be used to understand and capture the value of planning in a much broader sense. Consequently, such studies not only fail to assess the 'costs' of planning reliably; they also neglect its benefits. As a result of these limitations, these studies do not provide a sound basis for policy-making, including for planning policy and reform.

11. To maximise the value of planning and its role in helping to create places where people want to live, work, relax and invest, we need to:
  - recognise the full breadth of planning, including the range of 'policy instruments' that contribute to successful places;
  - generate and share evidence relating to this range of instruments that is useful to policy-makers and practitioners; and
  - develop the policy and practice that helps to deliver the greatest value from planning.
12. Policy should focus on helping to maximise the value of planning in practice. Policy-makers should focus not simply on making regulatory planning 'more efficient', but rather on making a much broader planning agenda *more effective* in adding value to development activity, economically as well as socially and environmentally. Policy should be developed on the basis of the best available evidence.

13. Planners need to recognise their role as market actors, intricately involved in framing property markets. As a result, we need to consider the extent to which planners have the capacity and confidence to transform development activities and markets, and strengthen their ability to deliver the value of planning in practice by investing in their skills, capabilities, capacity and confidence to add value to development activity. Organisations such as the RTPI have an important role to play in this regard, in setting an agenda for the education and professional development of planners. Further, the ability of planning to deliver outcomes also depends on the capacity of planning agencies and authorities, and the extent to which they have the necessary powers, resources and expertise.
14. The relationship between planning and economic growth is necessarily complex. We need to move beyond simplistic economic conclusions and 'headline numbers' to understand the value of planning. A comprehensive rather than selective assessment of the economic value of planning is now essential. Although neo-classical economic analysis can be valuable, it is too abstract in its treatment of both planning and the market to be able to offer definitive conclusions about the value of planning. Instead, we need a substantive, pluralist, wide-ranging but coordinated research programme into the value of planning, which focuses on directly helping policy-makers and practitioners maximise the value of planning in practice. This programme would need to be pluralist, employing a variety of economic analyses that better reflect the breadth of planning, and examine the positive as well as negative impacts of planning on value. Policy-makers and practitioners should then have a significant role in shaping this research agenda.
15. Different economic perspectives can therefore be deployed to ask different questions about planning. Specifically:
  - drawing on neo-classical economics, we might ask how far planning directly affects the overall quantity of market supply and demand;
  - drawing on welfare economics, we might ask how far planning can overcome market failure;
  - drawing on new institutional economics, we might ask how far planning reduces, or indeed increases, market transaction costs;
  - drawing on behavioural economics, we might ask how far planning can nudge markets towards more beneficial outcomes;
  - drawing on the social construction of markets, we might ask how far planning can transform market cultures and practices.
16. This research programme should also include analyses at various spatial scales:
  - macroeconomic – at which the aggregate positive and negative impacts of planning could be partially assessed;
  - meso-level – where the differential impacts between neighbourhoods, settlements, districts and regions could be assessed;
  - micro-level – at which it is possible to explore the influence of planning on individual, business and policy choices.
17. The report sets out brief descriptions of research projects that could comprise this programme of research. Research funding bodies, government, professional institutes such as the RTPI, sector associations, developers and other stakeholders in planning should consider how they might develop, support and coordinate this programme of research, which could also have an international dimension.

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## 1. INTRODUCTION

- 1.1 This report examines the impact of planning on economic values. It explores how planning can help create places that function better economically, socially and environmentally. Whenever planning adds value to development activity, the benefits will be reflected in stronger economic growth and enhanced viability. Conversely, areas that are poorly planned and where negative externalities threaten long-term investment value, can create significant costs for society as well as for individuals. As this suggests, in assessing the real value of planning, it is important to undertake a broader and indeed longer-term analysis of its costs and benefits than offered in some recent contributions, irrespective of their immediate political appeal.
- 1.2 One of the key themes of this report is that the huge potential of planning to add value is not always realised in practice. There is considerable variation between places where planning works very well and makes an enormous difference to local prosperity and those where it does not. But we do not always know why, nor do we necessarily find the answers in the polemics of think tanks or some recent academic research (as explored later in this report). This is why the report concludes with a call to reinvigorate planning research, and encourages governments, research funders, professional bodies, trade associations and others to commission a substantive research programme to discover how in today's world, planning can best add value through consistently delivering benefits to development activity and communities.
- 1.3 Of course, in seeking to enlighten debate and generate a research agenda around the value of planning, it is important to be clear what we mean by the words 'planning' and 'value'. The first part of the report focuses on the question of 'what is planning?' Suffice it to say at this point that planning is a much broader activity than the narrow regulatory role to which it is relegated by many economists and a good number of politicians. As far as value is concerned, the report recognises the multi-faceted nature of this concept, and the important implications of this for planning debates, but is focused primarily on economic and financial value. Even so, value is not some entirely abstract concept, but can, and is, captured by different interest groups for their own particular ends. Each of these stakeholders may well have different expectations of what makes an effective planning system and different perspectives on how it might be reformed to suit their own particular advantage. That is why Section 3 concentrates explicitly on stakeholder groups and seeks to identify how their varying strategies, interests and actions may colour their views of planning.
- 1.4 The middle part of the report focuses strongly on the relationship between planning and the markets that it aims to influence. Here, Sections 4 to 7 explain exactly how planning can add value to economic activities through the way in which it seeks to shape, regulate and stimulate markets and build the capacity to do so. These sections again draw on international as well as UK examples to establish both the potential of planning and the circumstances in which this can best be realised.
- 1.5 The second part of the report then moves on to provide a more rounded economic analysis of planning than offered in some recent high-profile contributions to the debate. The review warns against simplistic economic conclusions and highlights the need for those studying planning from different perspectives to be more open in learning from one another. Section 8 provides an entry point that is both theoretical and methodological. Significantly, it shows how the discipline of economics is both richer and broader than acknowledged by some



recent critics. This approach is developed in Sections 9 to 11 which are essentially concerned with the value of planning at different spatial scales. Section 9 takes a macroeconomic perspective and looks at how planning affects economic outcomes at the aggregate level. Section 10 is focused on the economic value of planning at the urban and regional levels. Section 11 drills down to the individual, project and firm level and looks at the microeconomic impacts of planning.

- 1.6 Section 12 then summarises the key issues in the report and sets out a potential framework for a reinvigorated planning research programme. For while the report is intended to sketch out 'the state of the art' as it currently appears, it is clear that without a much stronger evidence base, claims and counter-claims on the value of planning will continue to suffer from a lack of reliable and up-to-date research.

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## PART I: WHAT IS PLANNING?

### 2. THE SCOPE OF PLANNING

*What is 'planning'?*

- 2.1 Those who wish to assess the value of planning face a crucial challenge: what exactly is meant by 'planning'? A simple answer might be to focus on actions covered by whatever legislation in that particular jurisdiction includes the word 'planning' in its title. Yet, this is problematic, primarily because what might reasonably be considered 'planning actions' often take place under legislative powers that do not include the word 'planning' in their title. So an alternative approach might be to create a list of all potential 'planning actions' starting perhaps with what are known in the UK as statutory development planning and development management, but including related activities in master planning, transport, housing, infrastructure, economic development and so on. Although lists such as these can provide a more helpful indication of the breadth of potential planning activities, they can also create fierce and often unproductive debate on what should and should not be included. This section proposes a more conceptual definition based on what planning seeks to achieve ('changing outcomes') and on how it goes about this ('influencing or intervening in the processes that produce those outcomes it is desired to change').
- 2.2 A useful way to understand planning is to start by thinking about its broad purposes, in other words, to concentrate first on its ends rather than its means. At a high level, planning can be seen as helping to create the kind of places where people want to live, work, relax and invest, while acknowledging that different people will interpret concepts of place differently according to their own particular interests and experiences. Nevertheless, "There are stories from across the world of people mobilising to improve and protect the qualities of the places they live in, work in and care about" (Healey, 2010: 1). In this sense, planning is a collective endeavour that is about more than the mere sum of individual interests. It may be championed by private- and voluntary-sector actors, as well as those based in the public sector.
- 2.3 Concern over place represents the origin of what Healey describes as the 'planning project', which during the twentieth century "moved from the advocacy and experimentation of activists into a significant activity of formal government" (Healey, 2010: 10). In free societies, planning has become a democratic expression of a deliberate public purpose to change outcomes that would otherwise occur in its absence. So while the planning project takes many different forms and relies on varied types of legislation across the world, "The focus of this broad field of ideas and practices is on deliberate, collective attempts to improve place qualities, as a contribution to the management and development of places" (Healey, 2010: 8). The American Planning Association, for example, thus sees planners as promoting "collective action" to "enrich people's lives" and help officials, leaders and citizens "create communities" (quoted in Farrell, 2014a: 72). Such attempts can be conducted across large or small geographical areas – hence 'planning' may be prefaced by terms such as regional, urban, local or neighbourhood.
- 2.4 Alongside the 'making of place', planning is equally concerned with the 'mediation of space', recognising that different groups in society may make competing claims on the same area of land. These concerns come together to create a focus on what is increasingly called 'spatial' or, in some contexts, 'integrated' planning (RTPI, 2001). Although the term 'spatial planning' has been in common parlance for only about 20 years, the concept is not new, for as Healey

(2007: 14) comments: “The history of spatial planning in the twentieth century can be read as a repeated cycle.” In this context, Healey sees constant friction behind who wish to narrow the place agenda and box it up within a localised focus around the right to develop land and property and those who want to break out of this box with place-focused strategic energy. According to the RTPI (2003: 3), the essential idea around spatial planning is that of “critical thinking about space and place as the basis for action or intervention.” Adams and Tiesdell (2013) suggest that spatial planning has four crucial attributes which help distinguish it from traditional land use zoning or regulation: it is meant to be visionary, integrative, inclusive and action-orientated.

- 2.5 According to the Planners Network UK (2012), ‘good planning’ is grounded in strong democratic values, seeks to achieve collective control over how places change, makes places more just and environmentally sustainable and is essential to create new types of economic activity. Yet, only rarely in democratic countries do governments wholly control and direct place production. The UK new town experience, for example, thus represents the exception rather than the rule. Instead, most towns and cities gradually evolve through a continuous process of change and development, which occurs irrespective of whether spatial planning exists or not. If governments wish to see more successful and sustainable places created, they must find ways to influence and modify the behaviour of important development actors, such as landowners, developers and investors. In practice, since the state cannot “enforce its will on the others over the long run ... public managers must learn how to create incentives for the outcomes they desire from actors over whom they have only imperfect control” (Salamon, 2002: 15).
- 2.6 State-market relations are thus central to understanding places, with governments seeking to achieve their policies by modifying what might be termed ‘the decision environment’ or ‘room for manoeuvre’ of key development actors. As a means of intervention in the real estate development process, spatial planning makes an important contribution to this (see Section 11). It can be particularly effective when linked to other development roles that governments can adopt, such as using public land to participate directly in development. Indeed, ‘shaping places’ goes well beyond what has often been characterised as regulatory planning and often requires the combined deployment of different policy instruments.
- 2.7 Many classifications of policy instruments or actions start with government actions and work ‘outwards’ and ‘downwards’. In other words, they begin with the actions, choices or resources are available to governments to address policy problems. In the planning field, previous classifications by Lichfield and Darin-Drabkin (1980), Healey *et al.* (1988) and Vigar *et al.* (2000) follow this approach by concentrating on how particular forms of government intervention seek to address market failure. However, as an alternative to this ‘forward-mapping’ exercise which starts with government actions, Elmore (1987) suggests a ‘backward-mapping’ approach, which starts at the policy problem, considers the actors closest to that problem and then asks what policy instruments are available to shape, compel, constrain or incite their behaviour, choices and actions.
- 2.8 Applying Elmore’s (1987) ‘backward-mapping’ approach to place-making highlights the importance of classifying policy instruments by their impact on the decision environment of development actors, and specifically on the extent to which they open up or close down opportunities for autonomous action. For example, it is helpful to ask whether particular instruments operate by ensuring actors *have* to provide better quality development, *want* to do so, or calculate that it is *worth* doing so. As this suggests, while some policy instruments

may seek to change behaviour by coercive means, others may operate more subtly through persuasion or remuneration. So within an effective policy armoury, ‘sticks’ may need to be supplemented by ‘sermons’ and ‘carrots’ (Bememans-Videc, 2007; Vedung, 2007). It is in this context that a conceptual framework has been developed and refined over the past decade or so by Adams and Tiesdell (2010; 2013 and elsewhere), sometimes working together and sometimes with other colleagues (see, for example Tiesdell & Allmendinger, 2005), which classifies policy instruments into four types, according to how they each impact on the decision environments of market actors. This framework essentially defines ‘planning’ as the deployment of policy instruments intended to shape, regulate or stimulate the behaviour of market actors or build capacity to do so (see Table 1).

<b>Table 1: Four types of planning instrument</b>		
Type of instrument	Mode of operation	Typical examples
<i>Market shaping</i> (see Section 4)	To shape the decision environment of individual development actors by setting broad context for market actions and transactions	<ul style="list-style-type: none"> <li>• Plans, strategies, visions</li> <li>• Property rights reform</li> <li>• Strategic market transformation</li> </ul>
<i>Market regulation</i> (see Section 5)	To constrain the decision environment of individual development actors by regulating or controlling market actions and transactions	<ul style="list-style-type: none"> <li>• Development regulation</li> <li>• Planning obligations</li> <li>• Design codes</li> </ul>
<i>Market stimulus</i> (see Section 6)	To expand the decision environment of individual development actors by facilitating market actions and transactions	<ul style="list-style-type: none"> <li>• Land assembly and disposal</li> <li>• Town centre management</li> <li>• Public-private development partnerships</li> </ul>
<i>Capacity building</i> (see Section 7)	To enable development actors to operate more effectively within their decision environments and so facilitate the operation of the other instruments	<ul style="list-style-type: none"> <li>• Transforming cultures, mindsets and ideas</li> <li>• Building networks</li> <li>• Enhancing knowledge and information</li> <li>• Developing skills and capabilities</li> </ul>

2.9 In summary, planning must be seen as an activity of some considerable breadth, both in theory and practice. Any serious analysis of its effects must not therefore depend on a narrow conception of planning as mere regulation of land use. Instead, planning is defined in this report as the combined use of four types of policy instruments intended to deliver more successful and sustainable places through shaping, regulating and stimulating market behaviour and building the capacity to do so. Conceptually and practically, this approach means that infrastructure provision, town centre management and compulsory purchase of fragmented development sites, for instance, can be just as much part of ‘planning’ as development plans and development management and that any serious attempts to assess the value of planning thus needs to be undertaken in the round. Sections 4 to 7 therefore explain how each of these four types of instrument contributes to the breadth of activity that should rightly be included within the definition of planning.

2.10 This approach to understanding planning is applicable across the whole of the UK (and indeed internationally) despite the increasing divergence between statutory planning processes in the different nations within the UK. Consequently, most of the analysis in this

report has broad geographical applicability, at least across the UK. Where the argument specifically refers to one part of the UK, this is made explicit.

*What is 'value'?*

- 2.11 It is important to acknowledge that 'value' has different meanings for different people. Drawing on Macmillan (2006), there are six different types of value that can be enhanced by planning:
- *Exchange value*, revealed by the price at which buildings are traded.
  - *Use value*, evident in appeal of places to occupiers, reflected in their contribution to productivity, profitability and competitiveness.
  - *Social value*, reflecting the extent to which places help connect people, enhance social interaction, reinforce civic pride, encourage social inclusion and promote neighbourly behaviour, while reducing vandalism and crime.
  - *Environmental value*, shown by the degree of adaptability, flexibility and robustness and reflecting concern for intergenerational equity and biodiversity.
  - *Image value*, demonstrated in the contribution places make to corporate identity, prestige, vision and reputation.
  - *Cultural value*, apparent in the relationship of a place to location and context, and its contribution to the rich tapestry and broader patterns of historical development of the town or city in which it is situated.
- 2.12 While the first two of these – use and exchange value – reflect economic and financial value, the concern of planning is with value in the broader sense. So, in seeking to promote sustainable development, planning is meant to place equal weight on economic, social and environmental outcomes, and emphasise a 'triple bottom line' than a single financial bottom line. Protecting urban green space, for example, may therefore be justifiable because of its social, environmental and health benefits, irrespective of the economic benefits that it also produces (Swanwick *et al.* 2003).
- 2.13 Nevertheless, some economists have criticised what they consider the reluctance of planners to embrace economic analysis. Evans (1985: 207), for example, comments that "It is as though welfare economics and planning are unrelated – out of joint. Seen from a distance the planner and the economist look to be on the same track heading for the same destination. A closer approach reveals that though they are both heading in the same direction, they are in fact on different tracks and these tracks are some distance apart so that communication between them is difficult and only occasionally possible by shouting very loudly."
- 2.14 Although economic analysis has long played an important role in retail impact assessments and many other strategic planning activities, there is certainly potential to enhance the economic content of planning in other areas. It is equally essential if the conceptual tracks are ever to converge that economists understand the importance of other value judgements to planning decisions. One economist to recognise this clearly was Kate Barker (2006b: 4) who emphasised "the importance of public participation and democratic accountability within the system; (and) the principle that economic objectives should not be pursued above other sustainable development goals."
- 2.15 The focus of this report on economic and financial value is thus not intended to diminish the other types of value which planning seeks to achieve. Rather, it is to suggest that as well as

producing social, environmental, cultural, and image value, planning is equally capable of enhancing use and exchange value, and indeed economic value more generally, as well as redistributing such values between different social groups. Economic and financial values often reflect, and incorporate, broader types of value, rather than stand in opposition to them. Indeed, as Barker (2006b: 132) argued: “Planning plays a crucial role in the design, performance and appearance of cities, towns and villages. Good design in planning attracts people, investment and activity to places. Many spillovers associated with new development, such as local traffic disruption, may prove relatively short-lived, but the costs of poor design are felt for the lifetime of the building: poorly designed housing estates or office blocks impose costs on very large numbers of people.”

### *Planning and economic growth*

- 2.16 Even economic and financial value are multi-dimensional in nature, obscuring potential trade-offs, for instance between economic growth and economic resilience, and between economic efficiency and economic equity. In England, a central feature of the most recent reforms to the planning system has been the desire of the Coalition Government to actively use planning to promote economic growth. To some extent, this represents the continuation of a series of changes that have been designed to encourage a more market-led approach to planning over the last two decades. Specifically, the National Planning Policy Framework (NPPF) creates a presumption in favour of sustainable development in England and represents a significant attempt to reduce bureaucracy to speed up planning decisions and, in so doing, to assist local economic growth (DCLG, 2012). The key question however is: what does it mean to assist economic growth?
- 2.17 In the simplest terms, economic growth is the positive change in the value of gross domestic product, once adjusted for inflationary effects. In policy and public debate, the term ‘growth’ tends to be used as shorthand to refer to an expansion of the economy. It is associated with wider social benefits because growth provides jobs and income. In the context of a society that has unlimited wants but finite resources, privileging growth makes sense as means of improving prosperity, wellbeing and choice. Growth can, at least in principle, be consistent with sustainable development. Increases in GDP can be driven by higher value production rather than higher quantities. Assuming that the economy is not working optimally, growth can be delivered through more efficient use of resources, including those secured by technological advancements.
- 2.18 Nevertheless, the argument that growth should be privileged is often contested. This is particularly evident in thinking how pro-growth policies might be implemented in different contexts. Privileging growth can, and often does, make some individuals and groups better off, whilst impacting negatively on the wellbeing of others. These negative impacts can also reduce environmental sustainability. There is no doubt that the expansion of Heathrow Airport supports growth but it has also been offered as an explanation of the low levels of wellbeing in neighbouring areas (Wheeler, 2014). Inevitably, the planning system and planners are central to resolving these conflicts. They are charged with the task of weighing the costs and benefits of growth locally.
- 2.19 Longlands (2013: 898) provides interesting case study evidence of how these tensions play out in practice. Her in-depth interviews with a variety of stakeholders in Blackburn and Cambridge underscore some of the issues when they say: “one person’s busy street full of vitality becomes another person’s congestion”; and “the jobs come but where are people going to live?” As another participant commented: “If you say growth, people would have a

very negative image – more housing we don't want in a very congested area, more traffic generation and so on." Other interviewees made negative comments about the likely impact of new development on open space, neighbourhood quality and on the 'quality' of the jobs and housing.

- 2.20 At the aggregate level, these tensions have led political economists to ask questions about the way 'growth' is measured. There is a clear sense that the way we measure outcomes influences the direction of the debate. Hay and Payne (2013), for instance, suggest that new indicators of economic success are needed. They argue that, alongside GDP, a composite or suite of indicators should be published to measure change in societal equality, carbon emissions, and educational attainment. This chimes with debates, energised prominently by David Cameron before he came to office, that suggested that GDP was limited as an indicator of local or national 'prosperity' and that an alternative (such as a measure of General Well Being, or 'happiness') able to provide greater insight into understand how economic performance impacted on society would be beneficial.
- 2.21 What is at the heart of these debates, of course, is a concern that when left to pursue a narrow conception of economic growth, market processes might generate unintended and/or unwelcome outcomes. The long-standing economic rationale for planning is a direct response to such concerns. As Klosterman (1985) points out in a classic (but often forgotten) paper, there are strong economic arguments for planning that stem from a need to: (i) ensure that public goods are secured (including the infrastructure required to underpin economic growth and activity); (ii) deal with the negative externalities that can be associated with development and which can act as a drag on the economy; (iii) solve the prisoners' dilemma problem, where individuals' pursuit of self-interest may not accord with the interests of society as a whole; and (iv) mitigate the potentially adverse distributional affects which may result from developments that make some individuals or groups better off and others worse off. It is no surprise, given this rationale, that planning has been traditionally viewed as working in the public interest (Klosterman, 1985). What is extraordinary, however, that the sound economic basis for this is often forgotten, along with the contribution of planning to the delivery of local and national infrastructure, which has a very clear pro-growth element.
- 2.22 It is difficult not to be seduced by the narrative that growth, particularly when viewed at the aggregate level, is broadly a good thing. But what is equally clear is that the very real tensions between growth and environmental or social equity should not be ignored and that the way in which outcomes are measured (narrow versus broad measure of economic performance) can limit the debate. 'Negative' market outcomes are inevitable in a market economy and, in this context there is a strong economic rationale for addressing these through policy interventions. The planning system is therefore crucial to the wider societal (public) and economic interests.
- 2.23 The (theoretical) economic rationale for planning would imply that policy must to seek to constrain market externalities and promote sustainable growth, even if that restricts particular development opportunities (at least in the short term). However, it should also support the business economy by ensuring that crucial local and national infrastructure, which would not otherwise be brought forward by the market, is both delivered and maintained. The value of planning in economic terms is thus about much more than resolving externalities. It is also concerned with a broader set of economic outcomes than growth alone, and with stretching economic horizons beyond the short-term, to ensure their

achievement. Successful planning thus provides an important platform for long-term sustainable economic growth.

### *Conclusions*

- 2.24 As this section has argued, planning is an activity of some considerable breadth. It behoves all of those who wish accurately to analyse its economic value to recognise this breadth and not diminish their analysis by portraying planning as mere development regulation. Although this report concentrates on the economic and financial value of planning, it is essential to appreciate that value is a multi-dimensional concept and that other types of value affect, and are affected by, economic and financial value. While the concept of economic growth is not necessarily as straightforward as it might first appear, planning has much to contribute to its achievement through deployment of the four policy instruments reviewed in Sections 4 to 7. Before then, however, the report explores the varying strategies, interests and actions of the different stakeholder groups concerned with planning.



### 3 STAKEHOLDERS IN PLANNING

3.1 It is important to acknowledge that different stakeholders may experience different costs and benefits in planning and that their particular strategies, interests and actions will thus colour what they see as its 'added value'. The purpose of this section is to identify the main stakeholder groups involved in planning and development and explore their expectations of what planning should achieve and how it can best do so. The indicative role-based model, presented in Figure 1, provides a framework for this. It shows eight different stakeholder groups with interests in the outcome of the development process and thus in the ways in which it is influenced by planning. This section considers these various groups in turn (apart from product suppliers, whose expectations of planning are either minor or are reflected in those of other groups).

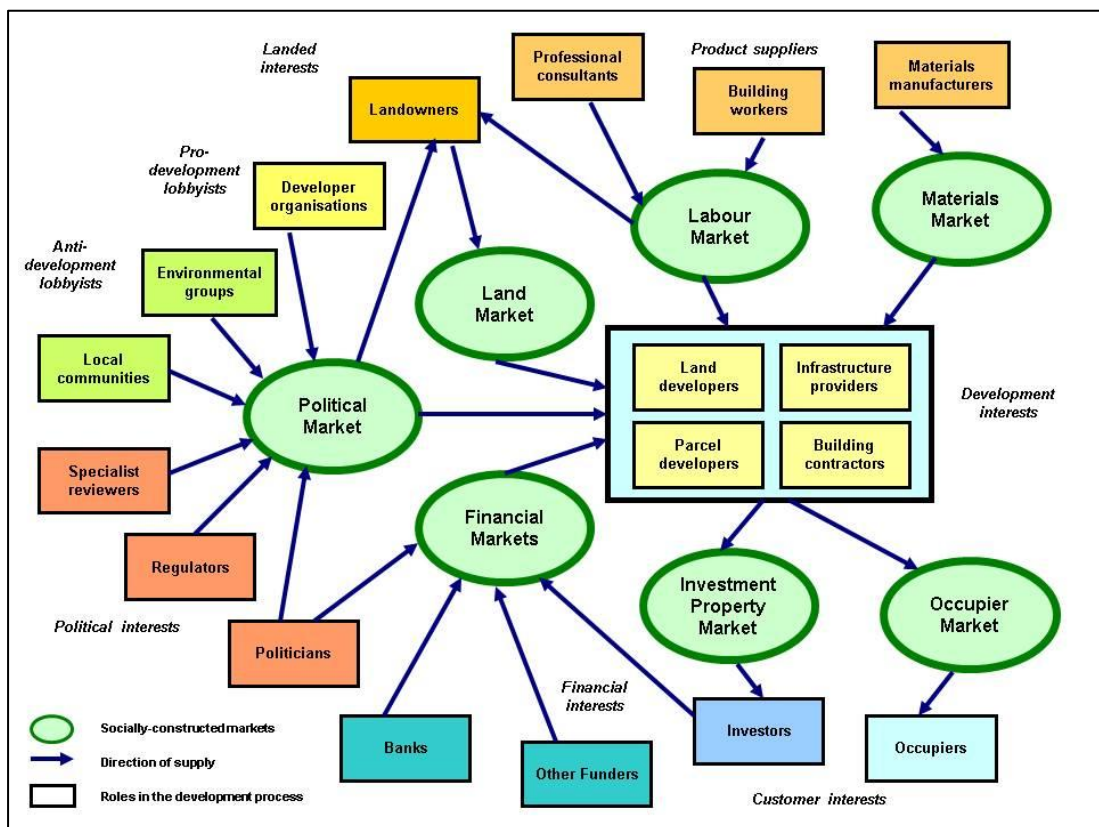


Figure 1: A role-based model of the development process (Source Adams & Tiesdell, 2013).

#### Developers

3.2 Four types of development interest are shown in Figure 1. The land developer (often called the master developer) operates at a strategic level to masterplan and then to subdivide a development area into smaller parcels, each of which may be assigned to different parcel developers. The infrastructure provider is responsible for provision of roads, sewers and other major investment requirements across the area as a whole, while the building contractor constructs the actual houses, shops, offices etc. These four development roles are not necessarily undertaken by four different actors. For example, speculative housebuilders in the UK usually integrate all four roles within a single company.

- 3.3 The UK speculative housebuilding is disproportionately concentrated into a small number of very large companies. Although there are about 18,000 housebuilders registered with the National House Building Council (NHBC), speculative production of new homes is dominated by only a few major companies, each with an annual output of 500 units or more. In 2000, for example, 71 per cent of all newly-completed private homes across the UK were built by only 43 'major builders', each with an annual output of 500 or more units (Wellings, 2001). By 2006, the ten largest companies, each producing 2,000 or more units annually and classed as 'volume builders', were responsible for 58 per cent of output (Calcutt, 2007).
- 3.4 As explored in more detail in Section 11, there are genuine concerns over whether the UK housebuilding industry, as currently structured, has either the capacity or the willingness significantly to increase the supply of new homes, even if much greater quantities of land were released for development. According to the BSHF (2013: 13), example, "The current trader model used by the housebuilding industry is based on margins rather than volumes, making it more viable to build a smaller number of homes for a greater profit than a larger number of homes for a smaller profit". In this context, Adams *et al.* (2009) show how the typical response of UK housebuilders to increased demand is to increase price, not output, and contend that even if the substantially more land were to be released, it would take some time before the industry, as currently structured, chose to build any faster.
- 3.5 Although Havard (2008) argues that the recent trend towards city centre living has helped break down some of the barriers between commercial and residential developers, he still maintains the importance of the distinction. Genuine and experienced mixed-use developers remain relatively rare in the UK making genuine mixed-use development hard to achieve. The commercial sector is divided between companies who are essentially dealers or traders (and who are usually of more recent origin) and those who combine development with investment (and who usually are longer established). Trader developers generally have a transient interest in place-making, since they move from one scheme to the next, reinvesting the profits to produce rapid expansion. Developer/investors concentrate on prime property built to the highest quality design and specification and are often more concerned with long-term investment value than short-term development profit. Such companies tend to be strongly supportive of 'town centre first' policies, as over the years they have accumulated strong office and retail investment portfolios in central areas, the value of which could be threatened by too much out-of-centre development. Nevertheless, when it comes to stimulating development in unfashionable regeneration areas, the interests of planners tend to be aligned more with trader developers than developer-investors.

#### *Landowners*

- 3.6 A widespread misconception exists that planning has diminished the role of the landowner. In some countries, for example, the State allocates land for development in a plan, acquires the land from the owner and undertakes the development itself. This has never been the case in the UK (or indeed in most other countries) except in very special circumstances, such as the development of new towns or the reconstruction of obsolete or war damaged city centres. Although the allocation of land is a public decision taken by planning authorities, the release of land to implement that allocation is normally a private decision left to landowners and developers.
- 3.7 Landowners can thus frustrate or facilitate the supply of what is often the most problematic of development inputs - land itself. They have considerable power to shape places by the extent and speed of land release and by any conditions they attach to land transfers. That power is at

its most intense where pressures for urbanisation, or for the densification of existing urban areas, ensure that the demand for development land significantly outstrips its supply. Active landowners as those who develop their own land, enter into joint venture development or make their land available for others to develop. Passive owners contribute little to the development process, and nothing at all, if they refuse to sell land that has development potential. As Adams *et al.* (2002) show, even though passive landowners are usually very much in the minority, they can still hold up important development projects, especially in regeneration areas. Section 11 thus examines evidence of the impact of ownership behaviour on planning and development activity.

*Politicians, communities and other interest groups*

- 3.8 Political interests include elected politicians who may delegate the role of regulator to appointed officials. Specialist (and usually independent) reviewers may also have significant influence on decisions supplied by the political market. These may include design review panels, normally established on a permanent basis to offer some external expertise on design quality (Punter, 2011) and major national policy reviews, such as the Barker Review of Housing Supply (2004) (England only) which resulted in fundamental change in the political market for new housing in England.
- 3.9 Encouraging greater participation and involvement by local communities, environmental groups and others is an important end as well as a means in planning. In this context, Barker (2006a) argues that democratic participation that enhances public understanding and acceptance of controversial development projects is a more effective way to secure the legitimacy and acceptance of long-term investment decisions than resort to the courts.
- 3.10 There is a distinguished theoretical tradition known as public choice theory that seeks to apply economic analysis to political decisions through a focus on how incentives motivate politically-engaged behaviour (see Pennington, 2000, for a review of this tradition and a provocative application to the planning system in the UK). It suggests that planning, whatever its precise form, is readily subverted by powerful interest groups and that these groups may be just as skilled in politics as elected politicians.
- 3.11 Pennington (2000) identifies four main interest or lobby groups that he thinks have benefited most from the planning process, primarily by exploiting public consultation opportunities for their own ends. These are the housebuilding lobby, the agricultural lobby, the local amenity/environmental lobby and the professions that service the system. Controversially, he suggests that other interest groups 'suffer into silence', including home buyers and those crammed into tightly-developed urban areas. Others identify different winners and losers, with Healey (2010: 15) acknowledging that the planning system is often seen as "little more than a creature of business elites driven by capitalist profit making rather than concern for the wider collective interest."
- 3.12 Since planning is centrally concerned with the distribution and re-distribution of value, whether conceived in narrow financial or broader environmental terms, it is prone to controversy and political calculation. Despite attempts to introduce greater certainty into planning, such as through the adoption of the NPPF in England, local politicians still keenly guard their control over planning decisions. Indeed, politicians do not always accept the recommendations of planning professionals. Bramley (2013) argues that local politicians are more concerned with short-term electoral advantage than long-term forecasts of housing affordability. Professionals who base their advice to politicians on what may seem to them

rational expert analysis know that such advice can be ignored and that political ideology or short-term electoral advantage can drive planning decisions.

- 3.13 However, some attribute negative political reactions to increased development pressure to the limited ability of local politicians to shape that development for the benefit of their local communities. Falk (2014) sees the answer in a resurgence of local place leadership, which reflects Michael Heseltine's (2012) report 'No Stone Unturned'. Such themes have been well rehearsed beforehand. As Lyons (2007: 177) argues, for example, "Leadership of place is an inherently political role, involving the setting of clear priorities and making difficult choices, resolving conflict and balancing differing demands and views." He sees "place-shaping as capturing the central role and purpose of local government, defining it as the creative use of powers and influence to promote the general wellbeing of a community and its citizens" (Lyons, 2007: 174). This would suggest that it is erroneous simply to blame local politicians for opposing development without taking a fundamental look at the responsibilities with which they are entrusted to shape development.

*Banks, investors and occupiers*

- 3.14 Developers depend extensively on the financial markets to provide both debt and equity capital for development. Finance does not flow evenly into real estate, but rather is concentrated at particular times and in particular locations. As Jane Jacobs (1961) argued, gradual and close-grained urban change requires a gradual but constant flow of money. Instead, however, "Cataclysmic money pours into an area in concentrated form, producing drastic changes" (Jacobs, 1961: 383). Indeed, the temporal volatility and instability in development production is exacerbated by sharp fluctuations in financial flows, which, according to Edwards (1990), help make the development process boom-prone and crisis-prone.
- 3.15 Flows of finance capital can thus be just as important as planning in determining what does and does not get built. For example, Leyshon and French (2009) show how the buy-to-let apartment boom in the early 2000s was initially driven by the liberal lending approaches of medium-sized and specialist financial services firms who had struggled to compete with global banks operating in the mainstream financial markets. In due course, however, these larger banks entered the buy-to-let market themselves, fuelling an even greater wave of speculative apartment building. How far this boom reflected a growing preference for city-centre living or was mainly aggravated by high-density planning policies has become the cause of fierce academic debate (See Evans and Unsworth, 2012 and 2103; Goodchild, 2013). Nevertheless, when the buy-to-let bubble eventually burst in 2007, it led to significant collapse in the price of newly-built flats and consequent high vacancy rates.
- 3.16 The customers of the development industry who occupy and/or invest in newly completed building comprise the final set of interests shown in the model. Accessibility and location are critical to almost all users. Major insurance companies and pension funds (known as the main 'financial institutions') dominate property investment. In the UK, Guy and Henneberry (2000) argue that investor strategies privilege London over other regional markets since they perceive that investment in the capital is less risky and more liquid than elsewhere (see Section 11 for further discussion). Adair *et al.* (2009) suggest that investors unfamiliar with the UK are even more likely to confine their activities to perceived prime assets and locations. In the residential market, those who purchase their own homes are both occupiers and investors. Once they have done so, they will have no wish to see house prices fall.

### *Conclusions*

- 3.17 In a democratic society, considerable political risk is attached to major development projects, over which professional planners may have only limited influence. According to Albrechts (2003) planners must be shrewd strategic actors, understanding the dynamics of the wider strategic context. Seeking to maximise public benefit can often mean preventing the most powerful winning the game. To do this effectively requires planners to act not as neutral referees of the processes of urban change and development, but as active participants within them. As Healey (2010: 15) thus suggests, an important issue in thinking about the institutional design of any planning system is to ask: “How can governance practices and cultures develop with the capacity to prevent such subversion?”

## 4 PLANNING AS SHAPING MARKETS

- 4.1 Planning provides an important context for decisions taken by other market actors. These include landowners, developers, investors and others involved in making places change. Shaping markets sets the context for the individual decisions of market actors and helps establish their room for manoeuvre. It is as much about opening up opportunities as closing them down. Indeed, shaping markets works best when it encourages market actors to see benefit for themselves in meeting policy objectives. In successful ‘plan-shaped markets’, it thus becomes ‘worth it’ to produce more sustainable forms of development since markets shaped by planning create added value for market actors as well as for the wider community. The term ‘plan-shaped markets’ is thus used as shorthand for land and property markets that operate more efficiently and equitably, precisely because the individual decisions of market actors are influenced by the planning context set by government.
- 4.2 This section first explains what constitutes this added value. It then turns to consider the three main instruments through which it can be achieved, namely the range of planning strategies, visions and policies which the report thereafter simply refers to as ‘plans’, the reform of certain property rights, and significantly what can be called strategic market transformation. This leads on an analysis of what most influences the likely success of efforts to shape markets through planning. Echoing the recent call of the Farrell Review (2014b) for more proactive planning, the section draws attention to recent European experience which suggests that the UK could benefit more from ‘plan-shaped markets’ than from ‘market-led planning’. This section is thus as much about what a greater emphasis on market shaping could (and should achieve) in the UK context as on what it is actually achieving at the present time.

### *Adding value through shaping markets*

- 4.3 It is widely recognised that “Place is becoming increasingly important in a globalising world of mobile investment and people, where business is increasingly locating functions in the place where they can be done best” (DCLG, 2007: 25). Creating places of real quality is a key economic challenge if the UK is to compete successfully for global business as well as meet the aspirations of its own people for a higher quality of life. As the Brookings Institution (2006) argued in its report on ‘Charting Maine’s Future’, investing in quality of place is critical to future economic success and requires effective urban and regional planning. Yet, private-sector developers may not be immediately concerned with broader place quality, but will focus on their own immediate developments. So, as one influential and independent group of economists concluded in Scotland, for example, much of what has recently been built, “is a missed opportunity and of mediocre or indifferent quality. There are a few examples of new or regenerated places which are well thought out, some fine new buildings and smaller projects that are to be welcomed but they are the exception rather than the rule” (Scottish Government’s Council of Economic Advisers, 2008: 44). Much the same could be said of other parts of the UK. In Scotland, place quality is now seen as essential to the achievement of sustainable economic growth, and both have been equally prioritised in the Scottish Government’s planning reforms.
- 4.4 At the heart of market shaping is the conviction that the whole is potentially greater than the sum of the parts. When markets are successfully shaped through planning, value can be added in both the *process* of development and its *outcomes*. This happens by making the development process more integrated, and thus improving on the outcomes otherwise

produced by real estate markets when left to their own devices. The importance of process and outcomes are now discussed in turn.

- 4.5 In process terms, market shaping is fundamentally concerned with joining up or integrating different decisions taken about the future of places across time and space. For even if individual developers recognise that mounting urban congestion eventually reduces opportunities for profitable development, they may have little interest in whether their own developments contribute further to that congestion, unless required to do so. Similarly, two developers of neighbouring sites may know they could reduce their costs, and perhaps even increase their revenues, by working co-operatively rather than in competition, but without a reliable institutional framework to promote integration, they may well default to the speedy option of developing their sites in isolation. It is the responsibility primarily of governments to create an institutional framework that encourages and rewards integration within the process of development, and deters disintegrated behaviour.
- 4.6 There are five main, and potentially costly, failures of integration that planning seeks to overcome through market shaping. These arise:
- Between one development site and the next, since in the short term, it is often cheaper and quicker to develop sites in isolation.
  - Between the public and private realms, since no direct financial benefit may be thought to accrue from investing in the immediate vicinity of the development, compared to spending the same amount on additional floorspace.
  - Between use, investment and development value, since unless the developer intends to retain ownership in the long-term, there may be little point incurring expense that fails to produce an immediate return.
  - Between the additional infrastructure requirements (roads, sewerage systems, schools, hospitals etc) generated by development and their provision, owing to the temptation to 'free ride' on whatever infrastructure already exists or is due to be built by the public sector.
  - Between the present and the future, since discounted cash flow analysis prioritises present returns over future ones (especially at high interest rates), making developers wary of any features that do not produce immediate benefit.
- 4.7 As Bowles (2012: 2) thus notes: "Coordination failures occur when the independent actions of agents lead to outcomes less desirable for some, and not better for anyone than could have been achieved in the presence of coordinated action." These failures lead to an over-provision of social costs and an under-provision of social benefits. They reflect what is known as the 'collective action problem'. Collective goods, such as better connectivity, enhanced spatial efficiency, improved urban design and so on, are characterised by unclear property rights which makes them neither wholly public nor wholly private. Without specific institutional arrangements, developers find it hard to charge consumers for their consumption (Webster and Lai, 2003). As a result, consumers and other producers will be tempted to 'free ride' on any collective goods available, making developers reluctant to further supply the market.
- 4.8 Resolving collective action problems is not just about containing social costs and exploiting social benefits. Crucially, it can also enhance private benefits and reduce private costs both for individual market actors and the private sector as a whole. This is why, in principle, most market actors support rather than oppose government action to shape markets through planning. As one interviewee in Sheffield put it "Developers and investors like to know what

the picture is and what is happening in the long term and [whether] a place [has] got its act together” (quoted in Bell, 2005: 91). Developers welcome the stability that government intervention can bring to real estate markets, even if they may express concern about particular types of intervention that impact on their individual plans. Indeed, one of the key conclusions in Kate Barker’s (2006a) ‘Interim Review of Land Use Planning’ (England only) was that plans and planning decisions that provide investors with greater certainty about the likely shape of future development can have positive economic outcomes.

4.9 According to Hopkins (2001), the ‘logic of making plans’ thus derives from the valuable information they convey about interdependent decisions. Significantly, he suggests that the information contained within plans serves as an essential collective good helping real estate markets to achieve better outcomes. On this basis, “Plans are not inherently about government, collective choice or centralized control” (Hopkins, 2001: 6) but are necessary to address uncertainty and manage complexity in real estate development. Hopkins (2001) contends that plans have potential to improve spatial outcomes in four circumstances, which he terms the *Four I’s*:

- Where decisions are *interdependent*, such as where the value of land depends on road access, or vice-versa.
- Where decisions are *indivisible*, such as in road construction, where there is little point building half a road to link two locations – it must either be built in full, or not at all.
- Where decisions are *irreversible*, so that once a road is built, for example, it cannot be relocated or re-sized without cost.
- Where decisions involve *imperfect foresight*, such where the likely numbers and type of future road users remain uncertain.

4.10 In outcome terms, there are eight main ways in which ‘plan-shaped’ markets can add value by improving on the outcomes that would otherwise produced by real estate markets left to their own devices:

- By altering development *locations*, to promote more compact development.
- By modifying development *products*, to achieve more varied places.
- By transforming development *quality*, to produce environments that last longer.
- By promoting developments that sustain *places*, rather than exhaust them prior to moving on elsewhere.
- By enhancing development *efficiency*, through reducing demands on non-renewable resources.
- By stretching development *horizons*, to take more account of the long term.
- By broadening the notion of development *consumers*, to encompass local communities as well as those who purchase the products of development.
- By increasing development *production*, to reduce shortages of built space.

4.11 When successful, market shaping can thus play a crucial role in breeding confidence, reducing risk and transforming developer attitudes and behaviour towards place-making. It has the potential to ensure that individual developments come to be planned as part of a broader picture, rather than in isolation from each other. This means that the overall value of what is created, to both the local community and developers, exceeds what would otherwise have been the sum of its individual components. By helping to manage the complexity of real estate development while reducing its uncertainties, shaping markets has considerable capacity to produce all-round gains. Areas that are well planned thus enhance private as well as social benefits and reduce private as well as social costs. If there is indeed



such added value to be delivered from shaping markets, it is important to consider how this can best be done. To enable us to do so, the section next outlines the three main types of place-shaping instrument.

#### *Shaping markets through plans*

- 4.12 Governments, particularly at the local level, regularly articulate what they think should happen to places by publishing spatial plans, strategies, visions, frameworks, policies, briefs, guidance and advice etc. The word 'plan' is here used to include all such documents for they have a common purpose: to make clear how the 'plan-maker' thinks places should change over time. Only in exceptional circumstances, however, is such change entirely driven and implemented by plan-makers. Instead, normally plans work by persuading other parties to share and help implement the plan-maker's vision. Those parties may include other agencies or parts of government, as well as developers, landowners, funders and investors in the private sector.
- 4.13 Why are some plans more effective than others in shaping decisions made by market actors? We suggest that plans that influence markets successfully will usually:
- *Take advantage of market information.* If plans are to shape markets, they need to understand how markets work and how far they can be modified by planning actions. This means collecting information on how rents, prices, yields and other market variables are driven locally and evaluating how they might be affected by different planning options. This kind of argument worries some planners, who fear that close engagement with such information would result in market-led planning. This misses the point about plan-shaped markets, which are symbolised not by planning simply responding to market information, but plans and markets interacting dynamically, influencing each other. For example, in North Northamptonshire, local housing markets were transformed by plans which demonstrated how new housing would be linked to new retail, leisure and employment opportunities (Cowans *et al.* 2007).
  - *Encourage involvement by market actors.* The involvement of developers, landowners and other market actors in plan preparation needs to be handled with care, precisely because they may have a direct financial interest in the outcome of the planning process and can thus afford the best professional advice to advance their cause (Adams and May, 1992). It is better to acknowledge this openly and establish different rules to handle engagement by market actors compared to that by local communities, statutory agencies and infrastructure providers.
  - *Deliberately seek to change market behaviour.* By specifying the criteria by which planning authorities will respond to any development applications, plans convey important messages that influence how market actors determine their own strategies. When more demanding design standards were adopted in Chelmsford in the late 1990s, for example, they played a key role in subsequently raising the quality of designs submitted by private developers (Hall, 2011).
  - *Resolve the tension between certainty and flexibility.* Barker (2006c) argued that the British plan-led system provides an effective balance between flexibility and certainty (though the Barker Review covered only England). However, flexibility is a double-edged sword for market actors. While many owners may wish to retain maximum flexibility on their own land, they would often wish to see maximum certainty on adjoining land so as to reduce the likelihood of negative externalities.
  - *Think explicitly about implications for land value.* While plans must take account of historic patterns of value, they help determine future patterns of value. For example, if

agricultural land is reallocated for residential development, provided demand exists, it will immediately be traded at residential rather than agricultural land prices. Where plans propose or facilitate major infrastructure provision, this too will have important implications for future patterns of value. Planners need to think critically about the market impact of land allocations and public investment decisions, both distributionally, and in relation to the varied demands for land at different point in development cycles.

- *Connect with other policy instruments.* In stronger markets, as the Chelmsford example illustrates, plans can require and achieve high design quality on individual or incremental developments, provided the plan is supported by effective regulatory power. However, in weaker markets, where plans try to achieve outcomes with which the market is reluctant to engage, even to produce incremental change they may need to be matched by policy instruments that stimulate demand.

#### *Shaping markets through property rights reform*

- 4.14 Political, social, economic and legal institutions, for example, all structure how new development happens. Over time, as these institutions evolve, the balance of risk and reward in development may alter. Shaping markets in this sense simply means that society pays more explicit attention to how markets are constructed, rather than entrusting this to informal change. As a result, decisive and deliberate institutional reform of property rights can have a significant effect on developer behaviour and development opportunities.
- 4.15 As an example, in Hong Kong, the Land (Compulsory Sale for Redevelopment) Ordinance was passed in 1999 to enable private developers who had acquired 90 per cent of the property rights in any redevelopment project to apply to the Lands Tribunal to force the sale of the remaining 10 per cent of property rights (Hastings and Adams, 2005). This removes the advantage of holding out to the very end, and so encourages all owners to settle by negotiation. This privatised form of compulsory purchase provides an interesting example of how markets can potentially be re-shaped to achieve desired policy ends (in this case, speeding up urban redevelopment) by making minor adjustments to property rights.
- 4.16 In the United States, where the courts are more protective of private property rights than in the UK, the concept of graduated density has similar intentions (Shroup, 2008). This permits higher densities on larger sites, so rewarding developers who undertake land assembly. It has now been applied in several parts of the US to provide an economic imperative to promote redevelopment through the private exchange of property rights. Similarly, in New York, public space, historic buildings and other uses of collective value are often protected from development by allowing the transfer to their development rights to nearby commercial or residential developments, which then benefit from greater height or higher density (Hack and Sagalyn, 2011). Again, this illustrates how what is seen as a valuable property right in a particular institutional environment can be restructured to modify developer behaviour in support of broader policy intentions. Nevertheless, tradeable development rights raise serious questions about equity and efficiency, which are addressed by Renard (2007), drawing on case studies from North America and France.

#### *Shaping markets through strategic market transformation*

- 4.17 Strategic market transformation is intended to deliver development of a scale beyond that attainable by any single market actor or indeed any informal combination of actors. It can be deployed to create entirely new places or rescue places that have fallen into decline. These typically include significant urban expansions, major regeneration projects and

comprehensive city centre improvements, although its principles are more widely applicable. Strategic market transformation involves a deliberate ‘place production process’ that aims to generate and capture the added value that comes from comprehensive, well-planned and integrated approaches to development, compared to those where the future of individual plots is each determined separately.

- 4.18 In value terms, strategic market transformation makes sustainable development financially attractive since the greater initial investment required in place-making creates the basis for higher long-term investment returns. In short, it seeks to resolve collective action problems by devising institutional arrangements that are able to fund collective goods from the added value of integrated development, while still leaving individual market actors with the incentive to deliver individual development components. This often includes major infrastructure investment, such as provision of a new tramline, road network, or strategic green space. Crucially, it requires someone to take on the important role of ‘place promoter’.
- 4.19 There are five main types of people or organisations who can play the role of place promoter:
- A local authority. This is common across much of Europe, where municipalities often see place promotion as an integral part of their civic mission. Examples include Hammarby-Sjöstad in Stockholm and IJburg in Amsterdam.
  - A public-sector development agency, normally accountable to central government. This is common in England where new town development corporations, and subsequently urban development corporations, have been centrally involved in strategic transformation. Allerton-Bywater in Yorkshire and Upton in Northamptonshire are two more recent examples promoted by English Partnerships (now part of the Homes and Communities Agency).
  - A public-private development partnership, common in many parts of the world. Examples include Adamstown near Dublin and Vathorst in the Netherlands.
  - A single entrepreneur or ‘town founder’. Although this is relatively rare in practice, examples include Robert S. Davis at Seaside in Florida, John ‘Kiki’ Wallace at Prospect, Colorado, and Jon and William Moen at Newhall in England.
  - An entrepreneurial club, which is essentially a device to organise the production and consumption of collective goods among a variety of private sector interests on the basis of membership contributions or fees (Webster and Lai, 2003). The example of Fairfield Park in England (Adams *et al.* 2011a) illustrates how it is possible to achieve strategic market transformation in this way.
- 4.20 Although entrepreneurial clubs, and to a lesser extent single entrepreneurs, are not unusual as a means to overcome collective action problems at greenfield sites, they rarely take on the risk of really large-scale developments. In most cases, strategic market transformations, especially at brownfield locations, are led by the public sector. Figure 2 shows conceptually what is involved in planning strategic urban transformations and is equally applicable to those led by the public or private sectors.

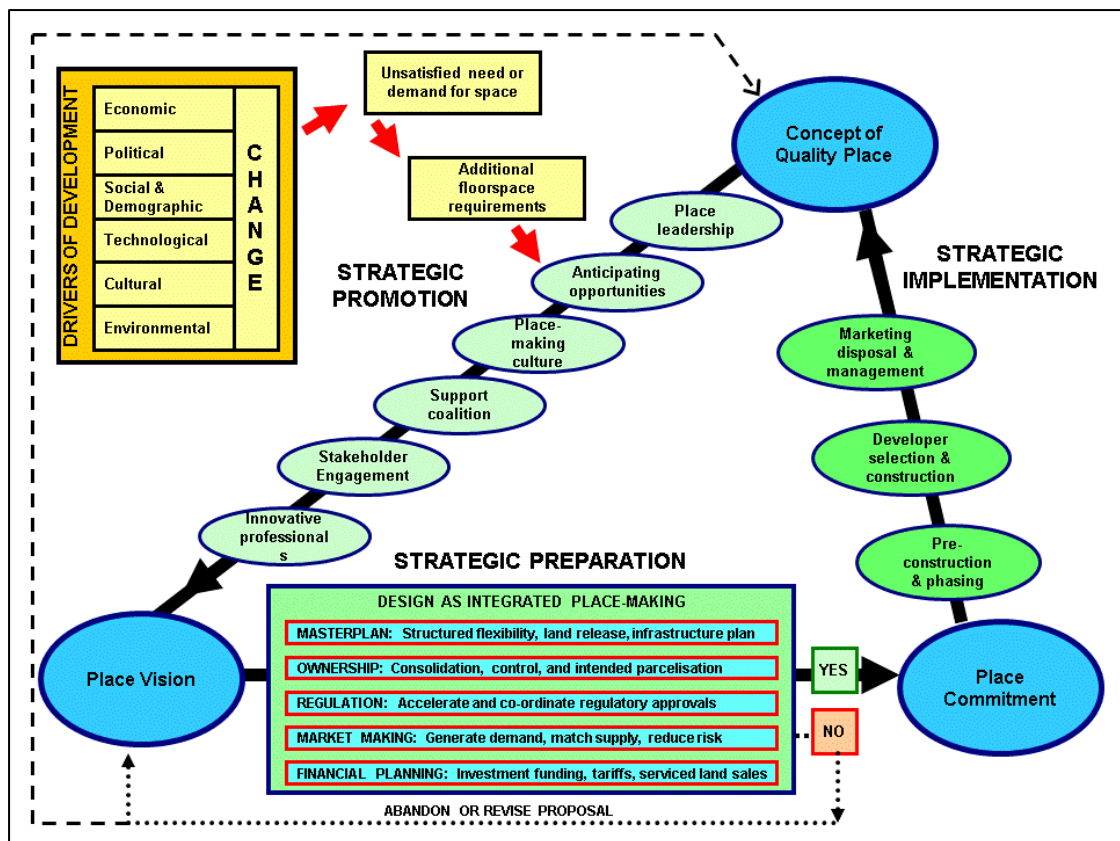


Figure 2. The Place Production Process (Source: Adams & Tiesdell, 2013).

- 4.21 As the figure here suggests, on the first side of the model, the place promoter builds a broad coalition of support behind the vision of creating somewhere that functions as a sustainable, integrated and high-quality place, rather than a series of separate development projects. On the second side, all the necessary preparations are undertaken to enable the project to proceed. On the third side, the implementation process is carefully managed by the place promoter to ensure quality, distinctiveness and sustainability in all that is built.
- 4.22 ‘Strategic market transformation’ involves creating wholly new real estate markets or, in the case of regeneration areas, reinvigorating of markets that are not working at all well. Two main tasks are necessary to make this happen. The first is to generate demand (which is one reason why place quality is so important) while at the same time matching supply flows to that demand to ensure price projections can be achieved. The second is to create confidence and reduce risk, especially for those who are the first arrivals or development pioneers. In most cases, however, strategic market transformation will initially be more costly than disintegrated forms of development, which is precisely why it remains the exception rather than the rule. Yet, over time, strategic transformation offers much better value for money as quality places mature, while delivering more sustainable forms of development.
- 4.23 An outstanding example of this is at IJburg in the Netherlands, where the market as well as the place was created from scratch by public sector action and investment led by Amsterdam City Council. Built on a series of artificial islands, IJburg is a meticulously planned and executed sustainable urban extension to the east of Amsterdam, aiming to create the character, feel and amenity of the city’s more established neighbourhoods. First mooted in 1965, the development was approved in principle in 1994, with island construction commencing in 1999, and roads and building starting two years later. By 2009, almost 7,000

homes had been completed. This rapid pace of development has been crucial to covering infrastructure costs. When finished, IJburg will provide 18,000 new homes for around 45,000 people along with schools, libraries, parks, sports facilities etc. The strategic planning context which selected IJburg as a major growth area, with extensive transport infrastructure then installed by the municipality, enabled developers to have confidence in the likely level of demand. This ensured a clear and consistent development programme which intriguingly tied developers in at an early stage through a partnership that required the private sector to buy land in advance at an agreed price.

- 4.24 In contrast, large development sites in the UK are usually subdivided between several housebuilders, each of whom acts as master and parcel developer on their own site, with the result that no-one takes overall responsibility for the production of the place as a whole. This can result in poorly-co-ordinated development and the late or under-provision of essential infrastructure. Strategic market transformation is quite different for it is driven forward and co-ordinated by a place promoter with a clear vision for creating somewhere that functions as a well-integrated and quality place.

*The effectiveness of market shaping*

- 4.25 As this section has shown, successful planning has the potential to create markets in which decisions are more integrated and better co-ordinated. This produces real benefits from what transcends individual developments by way of better transport connections, more efficient spatial arrangements, improved public realm and so on. Why is planning not always successful in shaping markets in this way? Effective market shaping depends not merely on the substance or validity of the plan itself, but also on the authority, resources and support vested in the plan-maker. These factors determine what can be called the ‘persuasiveness’ of plans to influence market actors beyond their immediate control. Table 2 explains each of these factors in more detail, breaking them down into nine specific variables. When planning in practice is less successful than it might be, the reasons can usually be traced to problems with one or more of these variables. This means that comparing how well planning works under different institutional arrangements must be a key research challenge.

<b>Table 2: Nine key variables that determine the potential persuasiveness of plans</b>		
More persuasive	Key variable	Less persuasive
<b>SUBSTANCE</b>		
Plans that derive from substantive analysis of socio-economic trends, including those affecting real estate markets are more likely to include realistic proposals	<b>Clear and apparent evidence base</b>	Plans that emerge rapidly without substantive analysis may not be taken seriously
Where a plan’s rationale derives from substantive understanding of how markets operate and can be shaped by public policy, its content is more likely to generate confidence	<b>Plan’s persuasive logic and rationale</b>	Where a plan’s rationale demonstrates misunderstanding of how markets operate and can be shaped by public policy, its content is more likely to provoke criticism
<b>AUTHORITY</b>		
If the plan-maker is a government body with statutory powers, it is well placed to convince market actors of serious intent	<b>Identity of plan-maker</b>	If the plan-maker is an entrepreneur or voluntary body, doubts may exist about long-term commitment to delivery
Plans that are championed by	<b>Charismatic,</b>	Plans that have no serious political

successful political leaders may be taken more seriously	<b>persuasive advocates</b>	advocate may be considered of less significance
Where plans are endorsed by higher levels of government, there is likely to be greater confidence in their survival	<b>Endorsement by higher level actors</b>	Where plans fail to be endorsed by higher levels of government, there will be doubts on how long they may last
<b>RESOURCES</b>		
Plan-makers who can call upon significant resources to support implementation are likely to be held in high regard	<b>Plan-maker's capacity to marshal wider resources</b>	Plan-makers who have access to few resources to support implementation may command little attention
<b>SUPPORT</b>		
Plans that are communicated attractively are more likely to be noticed by key actors	<b>Attractive communication and presentation</b>	Plans produced as official document that are hard to read may tend to be left on the shelf
The more plans engage relevant external stakeholders, the better their chances of implementation	<b>Stakeholder engagement</b>	Plans prepared without serious stakeholder engagement may prove unrealistic, especially if significant capital investment needed
Plans that reflect community aspirations are more likely to be achieved without significant local conflict	<b>Community support</b>	Plans that conflict with community aspirations may encounter significant local conflict

4.26 In this context, much recent research has explored how European countries, such as France, Germany, the Netherlands and Sweden, appear to produce better development than in much of the UK, both quantitatively and qualitatively, and to do so faster (see, for example, Adams *et al.* 2011b; Falk, 2008, 2011 and 2014; Hall, 2014; Oxley *et al.* 2010). These studies seem to reach a broad and important consensus about the limitations of UK planning compared to continental systems. In the past, strategic planning in the UK was strongly connected to direct participation by public authorities in urban land markets and infrastructure provision, as shown in the New Towns Programme and the extensive construction of local authority housing estates. Recent decades have seen a retreat to more regulatory forms of planning in much of the UK, in which the ability of planning authorities to shape markets is constrained by the limited capacity of landowners and developers to act as the main delivery agents. It can thus be argued that the much of the UK is largely left with half a planning system, still able to restrict development, but with only limited power to initiate development. Here, the 'desperate need' identified by the Farrell Review (2014b) for more proactive and visionary planning as the only way to resolve current housing shortages and flooding crises, is especially pertinent.

4.27 Falk (2014: 5) suggest that the "The position in the UK is in stark contrast with Germany or the Netherlands, both of which have far stronger planning systems but much lower house prices, and build much bigger homes, with a higher quality of infrastructure." Alongside differences in tenure, Falk highlights the greater supply of serviced and approved sites in continental Europe in locations close to motorways, railway stations and rapid transit corridors. Oxley *et al.* (2008), who were specifically commissioned by the National Housing and Planning Advice Unit (NHPAU) to investigate the impact of European planning systems on their housing markets, emphasise the key role of public land management and active development promotion in making sure that enough serviced land is made available to developers at strategic locations. They contrast what they see as an essentially passive and

reactive planning system in England with the proactive policy-driven land assembly and land supply processes in France, Germany and the Netherlands. As an aside, Oxley *et al.* (2008) criticise the more liberal planning regimes in Spain and Ireland, where deregulation led to over-production in places, with high vacancies of new dwellings and unnecessary infrastructure pressures.

- 4.28 Hall's (2014) most recent book (written with contributions from Nicholas Falk) sets out to explain how cities across France, Germany, the Netherlands and Scandinavia have built "the best places in Europe to live in and work in. They had created good jobs, built superb housing in fine natural settings, and generated rich urban lives. But not only that: simultaneously, these cities had become models of sustainable urban life, minimising energy needs, recycling wastes and reducing emissions" (Hall, 2014: ix). At the end of the book, he highlights as his most important single conclusion the need for "Strong city planning departments (or city agencies) with real planning powers and a willingness to take a positive lead in developing overall master plans as a framework for development or regeneration of specific areas. Planners equipped with real competence across all aspects of their profession. Willingness, even eagerness, on the part of these departments or agencies to engage with the private sector, or with citizen groups, in the subsequent detailed development process. But they do so from a position of strength from their control of the master planning process" (Hall, 2014: 305).

#### *Conclusions*

- 4.29 In conclusion, shaping places and shaping markets are two sides of the same coin and both are essential components of effective planning. In many parts of the UK, planning has become more reactive and less proactive in recent decades, as regulatory approaches have become ever more dominant. But in much of continental Europe, the reverse seems to have happened. Could this have anything to do with the better functioning housing markets found in those countries, as Oxley *et al.* (2008) suggested? In other words, perhaps the UK needs not less planning, but a *different type* of planning. This is indeed an important question worthy of further research, to which the report later returns.

## 5 PLANNING AS REGULATING MARKETS

- 5.1 Regulatory instruments are those that seek to compel, manage or eradicate certain activities or aspects of those activities, so limiting actors' scope for autonomous action. Regulation of development is common throughout the world, but it takes many different forms, which vary according to the matter regulated and the institutional circumstances in which regulation takes place. In the UK, development management is the best known regulatory instrument affecting the use and development of land, but there are other important ones too, such as road construction consents. To ensure their intentions are achieved, regulatory instruments need to be supported by effective enforcement procedures.
- 5.2 Economists often conflate regulation with intervention and so include activities that are regarded here as market shaping, stimulus and capacity-building within their definition of regulation or ignore them altogether (see Section 9). This report takes a more precise public policy approach, seeing regulation as those actions that restrict the choices available to certain actors and which thus limit their scope for autonomous action (while acknowledging that regulatory actions may also open up choices for other actors). This section focuses on the costs and benefits of development regulation, but sets that within the context of some of the key regulatory choices open to policy-makers. These choices concern the degree of flexibility bestowed on regulators, the extent of integration between different regulatory regimes governing the same activity, and the relative balance between private and public regulation. The section then moves on to acknowledge the complexity that has been added to planning regulation in recent debates by increased use of planning obligations. In conclusion, the section points out how successive government reviews of planning regulation have focused rather narrowly on trying to make the current system more efficient and calls for more fundamental research into the costs and benefits of alternative regulatory systems.

### *Discretionary and pre-defined regulation*

- 5.3 There is a distinct difference between regulatory approaches that consider each case on its merits and those that require all cases to meet some pre-defined standards or norms. The first approach is evident in the discretionary development control systems operated in Britain and Ireland, while the second is seen in the regulatory standards that control development in most of Western Europe and North America (Booth, 1995; Punter, 2007).
- 5.4 Although discretionary approaches may publish in advance what will be expected in individual cases (through a plan or other policy document), crucially, other relevant factors (known as 'material considerations' in the UK) may be brought into play when planning applications are submitted. This means that any plan is not considered comprehensive or binding, even if it is accorded some priority, as in the UK. Discretionary approaches to regulation are therefore pragmatic and enable flexibility, as circumstances change. However, they can also be resource-intensive since case-by-case decision-making requires considerable professional expertise, supported as necessary by political oversight and judgement.
- 5.5 Pre-defined approaches publish comprehensive standards, norms, zoning regulations and so on, which set out in advance what is permissible. Developments that fully conform to what is expected do not require any further approval. This makes pre-defined approaches less resource-intensive and less open to political manipulation than discretionary ones, although significant resources and political input are likely to be needed to establish standards in the



first place. Pre-defined approaches create greater certainty for all parties since they deliver “clear development rights and floor space limits and often building envelope controls” (Punter, 2007: 167). Only non-conforming developments require individual applications.

- 5.6 The increased use of design codes reflects a convergence between discretionary and pre-defined regulation, at least in design matters (Punter, 2007). A design code is a set of rules specifying the three-dimensional form of a development, which provide a means to ensure that each plot or sub-division contributes to the intended vision for the broader place. Design codes can facilitate the regulation of development either by a landowner or planning authority (Carmona *et al.* 2006). At Newhall in Essex, for example, a design code was prepared on behalf of the landowner to ensure overall place quality. It then formed part of the land sale contracts. At Fairfield Park in Bedfordshire, the development consortium took responsibility for preparing the design code as a condition of outline planning approval. It was then used as a benchmark in more detailed applications for reserved matters approvals.
- 5.7 Economists tend to prefer pre-defined to discretionary forms of regulation. In a theoretical paper, Mayo and Sheppard (2001), for example, highlight what they see as the negative impact of ‘stochastic’ development control, by which they refer to the unpredictability or randomness of a regulatory system that is inherently flexible. In this context, Cheshire (2014a) suggests that some local authorities could be asked to experiment for at least ten years with a more ‘rules-based’ regulatory system, which would then be rigorously evaluated to assess its impact. Oxley *et al.* (2008: 8) consider “that the English system allows for too much negotiation late in the process, after plans have been made. In other systems, the emphasis is on more negotiation before plans are in place.” But they also point out the benefits to developers of flexibility, while acknowledging that it can serve to increase development costs and uncertainty.
- 5.8 An important dimension that deserves greater attention within this debate is the extent of public confidence in alternative regulatory regimes. There may be some merit, for example, in moving to more pre-defined forms of regulation if this enhances public trust and involvement in plan-making by virtue of eliminating opportunities to unpick the contents of the plan before the next formal review. Further research into the relative merits of pre-defined to discretionary forms of regulation is an important priority and is proposed in Section 12.

#### *Sequential and integrated regulation*

- 5.9 A single activity may be regulated in different ways, usually by different agencies of the State. In development terms, planning consent is often the most important form of state regulation, but it is by no means the only one. Environment assessment and alterations to historic buildings, for example, may have separate regulatory procedures, even if closely tied to planning consent. Other consents may be handled by different agencies and different procedures. For example, construction standards and energy efficiency may be covered by separate building regulations, road design by highway consent, fire safety by a fire certificate and the use of premises for public entertainment by a council licence.
- 5.10 In some cases, some of these separate agencies may be consulted by the planning authority when a planning application is under consideration, but at this stage, attention may focus on the principle of development, rather than the detailed design. In due course, developers may discover that what had been agreed for planning approval needs to be amended in the light of subsequent requirements from other statutory bodies. This inevitably adds costs,

causes delay and deters innovation. To resolve conflict between regulatory requirements, it can be helpful to replace sequential and separate regulation by single and integrated regulation. In this context, the 'Development Consent Order' for major infrastructure, introduced in England by the Planning Act 2008, may well prove a forerunner of more radical reforms to integrate currently separate, but related, regulatory regimes.

*Regulation by statute or contract*

- 5.11 There is a long tradition of private regulation of property matters by contract. This can be considered a voluntary rather than coercive form of regulation, since it is entered into freely on terms that can be a matter of negotiation. Such contracts are able to control the form in which land is developed and the way in which that development is subsequently managed. For example, an owner may wish to subdivide land into development plots, while imposing some order on how development takes place, perhaps restricting uses and specifying building heights, footprints and even materials. This can be achieved by conditions or covenants in the sale or lease contracts. On a housing estate or in an apartment block, sale or lease contracts may create mutually-enforceable covenants between each and every purchaser or tenant. So any purchasers who decided to breed pigs in their garden, for instance, may find themselves taken to court by their neighbours. The extent to which regulation imposed by contract can be enforced will depend on the legal systems of each country governing such matters as how far restrictive covenants are enforceable against subsequent purchasers, as well as against the original purchaser.
- 5.12 Although regulation by statute and contract are conceptually different, this does not mean that state regulation is limited to that undertaken by statute. In some jurisdictions such as Hong Kong, where freehold land is almost wholly owned by the state and those in possession occupy property by virtue of leases granted by the state, lease conditions provide a means to achieve public policy objectives. The same principle applies elsewhere to land owned by the state, even in countries where most freeholds are in private ownership. So if a local authority in the UK, for example, wishes to sell or lease land for industrial development, but restrict hours of operation because the intended factories are close to dwellings, it will often impose a condition to that effect in the sale or lease contract. A similar condition may also be imposed on any planning consent but, crucially, the contractual relationship between the two parties established through the land sale or lease may well prove easier and faster to enforce through the courts than the planning consent.
- 5.13 This logic raises the issue of whether and how far statutory regulation of real estate could be replaced by contractual regulation, by encouraging either more widespread contracts between private owners or greater use of land ownership power by the state. This is discussed in detail by Lai (1998 and 2005) and Pennington (2002). There can be high transaction costs for individuals seeking to enforce contractual regulation, which is why some form of collective owners' organisation is often seen as essential to effective contractual regulation across a wider area. There is, of course, a strong linkage here between what Webster (2002) calls 'proprietary communities' and the privatisation of public space, whether that involves gates and barriers or not.
- 5.14 It is often thought that Houston, Texas is a prime example of a city where development is controlled by private covenants rather than planning, but as Evans (2003) points out, some parts of the city are in fact zoned, while others are neither zoned nor subject to covenants, but remain unplanned. Here, Evans highlights the interesting work of Speyrer (1989) who revealed how the price of otherwise similar housing was lowest in the unplanned areas. As

Evans concludes (2003: 202), “it seemed that people were willing to pay a premium to live in a planned area, whether the planning was through covenants or zoning ordinances.”

### *Planning gain*

- 5.15 Planning gain is a term commonly applied to the provision by a developer of some additional benefit, not necessarily located on the development site, which is offered to, or more usually requested by the planning authority as an incentive or requirement for regulatory approval. While other popular names include community benefits and developers' contributions (Healey *et al.* 1992c), UK legislation formally refers to ‘planning obligations’ contained within a ‘planning agreement’, rather than to planning gain.
- 5.16 In England, planning obligations can be used to prescribe the nature of a development (for example, by specifying what proportion of the dwellings should be affordable), secure compensation for any consequent loss or damage (such as that of open space) or mitigate a development's impact (for example, by enhancing public transport provision) (ODPM, 2005). Crucially, they are “intended to make acceptable development which would otherwise be unacceptable in planning terms” (ODPM, 2005: 9). This emphasises that, despite its financial characteristics, planning gain is an inherently regulatory instrument since it constrains development proposals at particular locations. In this case, market regulation ensures that the private sector takes more responsibility for the social and infrastructure costs of development, rather than leaving these to be picked up entirely by the public purse.
- 5.17 Since the late 1980s, there has been a rapid growth in their use to the extent that by 2007-08, almost all planning approvals for 50 or more dwellings in England and Scotland were accompanied by planning agreements (DCLG, 2010; McMaster *et al.*, 2008). This growth occurred for three main reasons. First, the multiplier between agricultural and residential land values, which in parts of south-east England has risen significantly in recent years, created ever greater opportunities for planning gain. Secondly, tighter control of local authority capital expenditure coupled with the privatisation of most UK infrastructure providers from the mid-1980s, meant that private developers were increasingly expected to pay the costs of physical and social infrastructure that in earlier decades had been met from the public purse. By making planners act increasingly as financial collecting agents for transport and education authorities, for example, public expenditure reductions have added costs and uncertainty to planning regulations, for which planners, not the infrastructure authorities tend to be blamed. Thirdly, from the late 1990s, central government gave ever stronger encouragement to local authorities to demand affordable housing provision, in particular, through planning agreements.
- 5.18 By 2004-05, almost 55 per cent of the 33,000 new affordable homes built in England were delivered through planning agreements (Crook *et al.* 2006). The value of all planning obligations secured in England was estimated to have risen from about £2 billion in 2003-04 to about £4 billion in 2005-06 and about £5 billion in 2007-08 (DCLG, 2010). In Wales, Planning obligations were worth £31 million by 2008, while in Scotland they were worth almost £160 million by 2007 (see Rowley *et al.*, 2008, and McMaster *et al.*, 2008 respectively). Almost half of the £5 billion raised in England was for affordable housing, with important contributions also made to transport, education, open space, and community and leisure facilities. The scale of planning gain has turned the regulation of real estate markets in the UK, at least for major developments, into a more negotiated process in which regulators and regulated enter into a contractual bargain to determine what is actually built. This represents a significant shift from statutory regulation, as originally envisaged in UK planning

legislation. Real estate developers consequently complain about protracted negotiations around planning obligations, along with unpredictability and lack of transparency.

- 5.19 The Community Infrastructure Levy, enacted in 2008, is moving area infrastructure funding in England towards a more standardised system, even though it will still leave site-specific planning gain to be negotiated on an individual basis. Some might see this as a return towards the three attempts made in the UK in the mid twentieth century to capture increases in development value for the state through some form of betterment levy or development charge. Evans (2004a) argues that, contrary to classical economic theories, it is possible for such taxes both to reduce the supply of land and be passed on in higher prices, and suggests this happened in the late 1940s and early 1950s. It remains unclear whether the Community Infrastructure Levy will have this effect on the supply of land in particular locations or whether it should still be regarded as a regulatory rather than taxation measure, since it is based on the form of development proposed on the site, rather than on some proportion of estimated land value uplift.

*Assessing the costs and benefits of planning regulation*

- 5.20 Regulation is clearly intended to make an impact on what is developed through changing the decision-making process by which it comes about. Table 3 summarises potential costs and benefits for both the processes and product of development regulation, which are then discussed in turn.

<b>Table 3: The potential costs and benefits of development regulation</b>		
	Potential costs	Potential benefits
Processes of regulation	Regulatory applications consume significant resources from both applicant and regulatory authority. Decision-making can become unduly long and complex. Costs of regulation passed on to final consumer	Efficient regulatory processes can ensure more integrated decision-making during development process, so enabling potential problems to be spotted and resolved earlier, with resultant cost savings
Products of regulation	Regulations provide no incentives for applicants to do better than the regulatory minimum. If regulators adopt 'tick box' mentality or engage in 'design by committee', quality of the final product may be impaired rather than enhanced. What is eventually built may merely reflect whichever vested interest has 'captured' the regulatory process.	The ever-present threat of regulatory refusal makes applicants unwilling to take chances. To save time and money, they at least set out to meet minimum regulatory standards

- 5.21 The *process costs* of development regulation tend to attract most attraction. Regulation is often portrayed as costly and inefficient means to control development, since regulators have little incentive either to reduce their information demands on applicants or accelerate their decision-making time (Allmendinger and Ball, 2006; Allmendinger, 2010; Ball, 2008 and 2010). Ball (2010) estimated the transaction costs of development control in England to be around £3 billion per annum for major housing development, of which £2 billion is evidently attributable to the direct costs of the system to both the public sector and applicants and £1 billion to the additional finance costs for applicants of holding land while applications are under consideration. Ball's (2010) paper has been much criticised, both methodologically (Edwards, 2010) and for over-dependence on outdated data (Brownhill *et al.* 2011), but it

seems to have been influential in policy circles. Certainly, the limited disaggregation of £3 billion figure in Ball's (2010) report makes it hard to verify, and, as has been long accepted, some delay is necessary and inevitable in evaluating development proposals (Keogh and Evans, 1992) making the real challenge that of distinguishing between reasonable and avoidable delay (Barker, 2006a).

- 5.22 This was not the aim of Ball's (2010) paper and, while it offers some useful insights into the local operation of the development control process, much care is needed in interpreting its results. Moreover, seeking to calculate the overall costs of the development control system at a single point in time, and then split them into those deemed necessary and those deemed excessive would be a major research challenge and one unlikely to have any lasting validity. Asking how development regulation can be made more efficient is probably a more productive research question than one that seeks to update, extend or verify Ball's (2010) calculation.
- 5.23 In this context, government-sponsored reports over the years have regularly returned to the inherent delays of development regulation in England, with varying recommendations made for better management (see, for example, Dobry, 1975; Audit Commission, 2006; Barker, 2006b; Killian Pretty, 2008). The most recent of these reviews (undertaken jointly by two former chief executives from local government and a national housebuilder) was pretty adamant that regulatory processes needed to be simplified, culture changed, policy and legislative requirements made more proportionate and stakeholder engagement improved (Killian Pretty, 2008).
- 5.24 As recent University of Cambridge research confirms, reliance on artificial performance targets to achieve this can be counter-productive (CCHPR, 2014). The report instead pointed to the importance of positive attitudes and cultures, and to the importance of essential skills and resources, all of which are further discussed in Section 7. Indeed, it needs to be acknowledged that protracted bureaucratic procedures can often be aggravated by staff shortages and political indecisiveness. As already intimated, research into more radical approaches such as moving towards a European system where a legally binding plan automatically bestows approval on compatible development (Allmendinger and Ball, 2006) would be worthwhile.
- 5.25 Much less study has been undertaken into the potential *process benefits* from development regulation, partly because these are far harder to establish. However, if regulation works well, it should spot potential difficulties at an early stage and avoid subsequent resource wastage. As an example, effective integration between planning and highway authorities during regulatory analysis might identify the need for highway improvements to prevent local congestion occurring from a particular development. This is the kind of problem that is much cheaper and easier to resolve before development has taken place than afterwards. Yet, there is little evidence so far on how far integrated regulatory processes can and do reduce long-term costs either to the developer or the public sector, primarily because such benefits tend to remain hidden within normal working practices.
- 5.26 The *product costs* of regulation reflect its prime concern with the attainment of minimum product standards. Even where regulation defines a variety of performance levels, as with the *Code for Sustainable Homes* in England (DCLG, 2006b), performance above the minimum is a matter for voluntary compliance. If regulatory processes are seen as burdensome, applicants may concentrate their energies on at least achieving the minimal standard, rather than thinking how they might do much better. Regulations may also take some time to catch

up with improved practices, which itself can act as a deterrent to innovation. Regulators who adopt a standard checklist approach, ticking off various elements of a development, may fail to spot whether the development works as a whole, and may even refuse to approval a proposal of undoubted overall quality because it fails one or two minor tests.

- 5.27 The potential *product benefits* of development regulation are again hard to assess, primarily because they again tend to remain hidden within regulatory processes. But it can be argued that the ever-present threat of refusal makes applicants invest more in the quality or design of projects to secure approval, especially where there is much at stake financially. In other words, taking a strong regulatory stand can lead to different development outcomes in qualitative as well as quantitative terms. This is evident in the increasing use of globally known 'starchitects' to secure approval major office for major office developments in London. However, Evans (2004b), who calls this type of behaviour 'premium-seeking expenditure', suggests that it may have deadweight losses for the economy as a whole, even if it produces specific benefits for local authorities, landowners, developers and consultants.

### *Conclusions*

- 5.28 Regulation of development is one of four matching policy instruments and is best deployed alongside market shaping, market stimulus or capacity building. It may therefore be difficult to separate the outcomes of regulation from those of these other policy instruments. Nevertheless, the focus of market regulation is on compelling, managing or eradicating certain activities or aspects of those activities. It thus limits individual actors' scope for autonomous action on the basis that collective gains more than outweigh any individual losses.
- 5.29 The form regulation takes in any particular context is highly contingent on the prevalent institutional circumstances of that context. Explicit choices can be made in the design of regulatory systems to the extent that radical change could be introduced to the way development is regulated in the UK, without fundamentally undermining the principles of regulation. It would thus be possible to move more in the directions of contract regulation or more towards a pre-defined system.
- 5.30 Surprisingly, debates around 'planning reform' in the UK tend not to ask these fundamental questions but concentrate simply on how the development control system put in place in 1947 can be made to work more effectively. Yet, the British approach to development control, while pioneering in its time, now stands as one of several possible methods to regulate real estate development. Whenever planning reform is on the political agenda in the future, it should start by thinking from first principles about key regulatory choices. Even if this were to confirm the validity of all aspects of inherited regulatory systems, it is likely to be a more fruitful exercise than taking existing systems for granted and limiting discussion to how they might be speeded up.

## 6 PLANNING AS MARKET STIMULUS

- 6.1 Planning is often portrayed as entirely a regulatory activity, which controls and limits what people can do with their land. As the previous section showed, regulation is an important and indeed essential part of any planning system for it would be hard to enforce public policies for land development in its absence. But planning is about much more than regulation. It is about setting a context for development through market shaping, which opens up as well as closes down opportunities. Crucially, it is also about helping to make development happen. For away from growth ‘hotspots’, which can be small or large and are defined as much in time as by space, the prime task of planners is often to nurture, encourage and stimulate development activity. By definition ‘planning as market stimulus’ contributes to economic growth on both the demand-side and the supply-side and, when successful, creates added value both directly within real estate markets and indirectly in improving the prosperity of the places where it is focused.
- 6.2 As a policy instrument, market stimulus facilitates the individual decisions of market actors by expanding their room for manoeuvre. It directly impacts on financial appraisals by making some actions more (and some less) rewarding for particular actors. In statute, market stimulus is usually specified as a discretionary rather than mandatory activity for planning authorities, but its legislative framework can be found as much in planning law (for example, in relation to compulsory purchase) as in other types of legislation. Although those who are trained or employed as planners are often at the forefront of market stimulus, conceptually, it does not matter whether stimulus activities are driven forward by organisations with ‘planning’ embedded in their title or not. That said, in practical terms, there are important unanswered questions on how best to organise the breadth of activities that should be included with the definition of planning. These are explored further in setting the research agenda in the final section.
- 6.3 This section outlines four main types of action that can be taken to stimulate development. This first involves *direct state actions* to kick-start the development process, for example by resolving physical, infrastructural or ownership constraints. The other three are more indirect and seek to change the pattern of incentives influencing whether market actors decide to undertake development at all, and, if so, the criteria by which they choose between potential alternative developments that may differ according to location, type or timing. These can be labelled respectively as *price-adjusting actions*, *risk-reducing actions* and *capital-raising actions*.

### *Direct state actions*

- 6.4 It is well known that the allocation of land for development does not necessarily make it readily available as an opportunity for developers. Physical, infrastructural or ownership constraints can present significant barriers to development, especially at brownfield locations but sometimes also at greenfield locations (see, for example, Adams *et al.* 2001; English Partnerships, 2003; Dixon *et al.* 2011). Making sure brownfield land is developed, wherever appropriate, remains a key policy challenge, and one that cannot simply be left to market forces. As a strategic example, in England the National Coalfields Programme, established by the UK Government in 1996, had by 2010 spent £521 million on the physical regeneration of 107 coalfield sites, leveraging in a further £1 billion of private investment in England (Homes and Communities Agency, 2011). This stimulus helped reclaim 2,700 hectares of brownfield land, and generated around 2,700 new homes and over 1 million m<sup>2</sup> of new employment floorspace.

- 6.5 The task of coalfield regeneration demanded national action to reclaim derelict and contaminated land, undertake environmental improvement, provide access roads, drains and sewers, and make serviced plots available to private developers at prices that reflect the future potential of the land, rather than its past history. Although few forms of direct State action match the scale and ambition of the National Coalfields Programme, the principle of bringing land up to a point at which the private sector will invest, by undertaking advance reclamation, landscaping and infrastructure provision, is widely applicable and, indeed, has been into practice by many different government bodies, both large and small. In such cases, planning takes on an important economic development function, which can be critical in 'thin' or 'fragile' markets. Here, the task may well be that of 'creating markets' (Healey, 1992b) through reinforcing a strategic development or regeneration framework by more direct forms of intervention that breed confidence among private landowners and developers.
- 6.6 Proactively making suitable land available for development in the face of market failure is an important stimulus action, whether or not linked to reclamation work and infrastructure provision. Some countries, such as the Netherlands, have long experience in direct State management of overall land supply. As the Dutch case highlights, where development land would otherwise be in short supply, the State can play an important role in stimulating markets by purchasing land for subsequent onward sale to developers. But even when deployed in a more targeted way, ownership power can be fundamental to achieving the purposes of planning, especially in achieving more sustainable forms of development.
- 6.7 Nevertheless, local authorities do not always see their landholdings as a significant resource that can be deployed creatively to shape the places for the better. Indeed, financial deficits and audit requirements mean that authorities are often under great pressure to rationalise their land and property holdings, maximising sales to cover short-term revenue gaps. A typical manual written to help English local authorities realise latent value from their property holdings recommends that they should "rationalise the asset base, release capital and reduce revenue" (4ps and Deloitte, 2008: 5) but, regrettably, makes no attempt to explore how surplus public land can be used strategically to help enhance place quality.
- 6.8 One way to stimulate better quality development is to release surplus public land on a competitive basis in which financial return and design quality are seen as equally important determinants of the competition (Tolson, 2011). This requires the design merit of competition entries to be evaluated separately from the financial bid and for an explicitly weighted formula to be used to derive an overall assessment of each bid.
- 6.9 Where development is constrained by passive landowners or by multiple or fragmented land ownership (Adams *et al.* 2001), the chances of any development happening may depend wholly on the willingness of the planning authority to take compulsory purchase action. Multiple ownership of even small sites can be endemic in urban areas, proving highly problematic to development. Without planning intervention, development cannot proceed unless agreement is reached with each owner. In a private market, the last owner to settle is thus in the strongest position to drive a hard bargain with any developer who has already bought out all other owners.
- 6.10 In such circumstances, Kate Barker (2006a) sees the planning system as providing a counter-balance to the power of monopoly landowners, who would otherwise significantly increase the cost of development and regeneration, while also severely delaying its progress. Such owners



can include housebuilders holding on to development land. She comments that even if the power of compulsory purchase order (CPO) is used infrequently, its existence can have persuasive power in bringing otherwise reluctant parties to negotiation. Dixon and Marston (2003) who highlight what they see as the strong economic benefits that mixed use major regeneration schemes can produce to local and national economies, identify the use of compulsory purchase powers for land assembly as an important factor in the successful implementation of Birmingham's City Centre Strategy during the late 1980s and 1990s.

#### *Price-adjusting actions*

- 6.11 Price-adjusting actions are those that impact on projected costs and revenues in a development appraisal. They take three main forms: development grants, tax incentives and project bonuses. Development grants provide a direct public subsidy to encourage private-sector development either in particular locations, such as regeneration areas or declining regions, or of particular types, such as affordable housing or small industrial units. Preferably, they should provide the minimum additional sum needed to turn financially unattractive, but desirable, developments into attractive ones. While grants are individually negotiated and approved development by development, taxation incentives are applicable to all developments of the class to which they apply. Project bonuses provide a development stimulus by waiving specific regulatory restrictions in exchange for higher quality development or other community benefits. In part of Hong Kong, for example, a two-tier plot ratio system has been operated in which more floorspace than normal is allowed on larger sites with better ancillary servicing facilities (Tang and Tang, 1999).
- 6.12 In the UK, grants were long made available by central government to subsidise specifically approved developments in regeneration areas. However, this tradition was largely brought to an end by the European Commission in 1999, which ruled that such grants amounted to illegal State aid to individual companies. This coincided with the desire among relevant government agencies to switch development support from a subsidy to investment model. It reflected concerns that grant subsidy may simply redistribute development that may otherwise have been undertaken elsewhere and/or by other developers. In the US, bidding wars between cities to attract apparently mobile capital investments have been mercilessly exploited by site consultants who act as brokers playing one city off against another to extract the most advantageous subsidy packages for their clients. Markusen (2007) calls for substantial reform of such practices in order to 'rein in the competition for capital' between American cities and ensure that whatever public costs are incurred are clearly outweighed by public benefits.

#### *Risk-reducing actions*

- 6.13 As a general principle of development appraisal, the greater the perceived risk involved in a proposed development, the lower the projected capital value. Actions that reduce perceived risks in regeneration areas can thus provide an important development stimulus. Four types of confidence-building measure relevant here are:
- Providing accurate market information. The benefit of such information is shown by the IPD Regeneration Index (originally developed by academics, industry and government and then taken forward with English Partnerships – see Adair *et al.* 2004) which has revealed that that regeneration areas offer lucrative opportunities for real estate investors, especially if property is acquired early enough in the regeneration process to take advantage of the financial uplift as the area matures.

- Ensuring policy certainty and stability. A feasible masterplan or development framework creates confidence about what is likely to happen at particular sites and, crucially, at adjoining sites.
- Demonstration projects and environmental improvements. Strategic landscaping, environment improvement and public realm investment can also generate confidence in the determination of the public sector to achieve substantial regeneration.
- Holistic place management, such as Town Centre Management and Business Improvement Districts can reduce development and investment risk through collective commitment to the effective management and enhancement of an area as a whole. Making such places more attractive, accessible, cleaner, lively and safe helps them compete more effectively with out-of-town centres, which are usually owned and well-managed by a single landlord.

#### *Capital-raising actions*

- 6.14 Capital-raising actions are those that provide or facilitate access to development finance, where private sector capital is either not available or needs to be reinforced in some way. At a simple level, loan guarantees may be provided by the State to enable market actors to borrow from the banks for projects that might otherwise be considered to carry a high level of risk, and thus a high interest rate even if funding were available at all.
- 6.15 Although locally important, these capital-raising actions are small-scale compared to the potential of public-private development partnerships, in which the development agencies and local authorities move beyond general promotion of development and enters into specific contractual arrangements with one or more private-sector partners, agreeing to share risks and rewards of development. The most common contribution of public authorities to public-private partnerships comes from landholdings or other fixed assets. These can then be used as a capital-raising instrument to provide security for debt finance raised a joint-venture vehicle formally established to pursue the development partnership. Importantly, such arrangements provide the public sector with the opportunity to invest in regeneration, rather than merely subsidise it.

#### *Conclusions*

- 6.16 Local authorities in areas where little development is taking place can experience a strong temptation to press the stimulus button. But not all the stimulus instruments are equally effective, economically or socially. Indeed, some can have significant unintended consequences, such as displacing activity elsewhere, which raise important questions about whether they provide value for money or are socially just. The particular choice of stimulus instrument therefore needs to be made with care. For example, policy certainty and accurate market information may be just as effective as grant subsidies in attracting development, but less likely to catch the local headline.
- 6.17 In this context, ownership of land bestows considerable power and enables the holder significantly to influence the development outcome. It is well known that the use of compulsory purchase powers under planning legislation can be a really strong stimulant to development activity and local economic prosperity. Indeed, deploying public land ownership as an investment within some form of development partnership holds real prospects of securing value for public money as well as making sure that developments meets the needs of a broad range of social groups and not just the urban rich.

6.18 But remarkably less is known about what discourages planning authorities from using this powerful instrument or indeed what most determines success when it is used. Public agencies and local authorities might also better exploit their ownership power by resisting the temptation to sell off landholdings for immediate capital gain and instead using them strategically and with ingenuity to help create better places in less prosperous areas as much as in buoyant ones. Again, however, more need to be understood about how planning can, and in some places does, exploit the potential of public landholdings for wider benefit. These are matters which inform the research agenda at the end of the report.

## 7 PLANNING AS CAPACITY BUILDING

- 7.1 Capacity building enables actors to operate more effectively within their own opportunity space, and to negotiate more effectively with other actors. Many speculative housebuilders, for instance, may well have much to learn about how creating integrated places rather than simply building housing estates can be deployed to add financial, as well as environmental and social value, to their developments. Capacity-building is deliberately identified here as a separate policy instrument, even though it is intended to support market shaping, regulation and stimulus. Although this section focuses on what might be done to enhance the effectiveness of planners, its main principles could be applied across the development spectrum.
- 7.2 An essential challenge for planners is to help create places that better meet people's needs and aspirations. What is needed to achieve this is not for planners to *become* market actors, but rather to *realise* that they already are market actors, intricately involved in market construction and reconstruction, and to develop their capacity and confidence to act accordingly. This section therefore identifies four crucial areas in which it is important to build planners' capacity: market-shaping cultures, mindsets and ideas; market-rich information and knowledge; market-rooted networks; and market-relevant skills and capabilities. It then moves on to consider the delivery capacity of planning agencies and authorities, where emphasis is placed on the need to enhance their powers, resources and expertise. Since market shaping, market regulation and market stimulus are only as effective as the individuals and organisations charged with their delivery, the section concludes that capacity-building requires careful thought and explicit attention, and will demand time and resources.

### *Market-shaping cultures, mindsets and ideas*

- 7.3 Planners who wish to build their capacity as market actors and place-makers must often start by looking afresh at their own cultural perspectives, mindsets, or ways of thinking. Shifts in mindsets can challenge and change the cultural perspectives of decision-makers and so enhance their receptivity to new ideas. Civic leaders, for example, may come to see a new tram line as a place-shaping opportunity, rather than merely a means of transport, and thus strive to exploit its potential accordingly.
- 7.4 Capacity building helps planners visualise that their task is one of making places rather than simply plans, and of achieving desirable change as well as resisting undesirable change. For planners working in the public sector, an important cultural shift is to see themselves as active participants in development, communicating vision and championing innovation, rather than external controllers of development. So, for example, creating an 'ideas bank' about successful practices and places, which demonstrates what is achievable in particular circumstances, could encourage such a shift among developers and funding agencies as well as among professional advisers.

### *Market-rich information and knowledge*

- 7.5 To create better places requires information and knowledge about place quality and about how it can be influenced through market and development processes. This involves background knowledge of 'the rules of the game' by which such processes function and can include better understanding of the motives and behaviour of private-sector

implementation agents in order to recognise which landowners, developers and investors are most likely to share policy agendas.

- 7.6 Planners have traditionally been strong in collecting information on people and place (for example, from the census and local surveys) but weaker in obtaining that for real estate markets. There has indeed been some suspicion about whether prices, values and ownership are proper planning matters, reflecting the fear that too close a knowledge of such information would result in a market-led style of planning. Better market information can enable planners to understand more clearly how ‘windows of development opportunity’ open and close unevenly between places and create the confidence to take advantage of this. Such knowledge can also help planners play an important role in reducing development risk. This requires a rounded appreciation of risk and of how risk reduction can be achieved through better integrated development.
- 7.7 A wide range of statistical time series on the performance of property markets at the national, regional and, increasingly, local level is now available to be accessed from private-sector sources. Alongside more qualitative market reports published by most leading property agents, such sources can provide planners with a rich information base about market performance. However, it is unfortunate in this context that the Valuation Office Agency ceased to publish regular Property Market Reports in 2011, as since then, no independent national statistics have been available to act as a cross-check for private-sector sources. There is a strong case for the Office of National Statistics creating a new property market statistical series, one use of which might be to facilitate more rigorous planning analysis at the local level.

#### *Market-rooted networks*

- 7.8 Plan-shaped markets emerge from the close engagement of planners with other market actors – presenting, hearing, arguing, and exchanging views about how places should develop in future. This is why, according to Hopkins (2001: 38), a planning vision represents “a normative forecast: a desired future that can work if people can be persuaded that it can and will come true.” Capacity building is thus about enhancing relations across the development spectrum so that planners working for public agencies are well connected with other professionals and with those working within the development industry.
- 7.9 For example, in Scotland, planners are encouraged to work “in partnership, with developers, and across agencies and departments to support and influence good development in the right places” as an important contribution to the delivery of sustainable economic growth (Scottish Government, 2012: 2). Such connections need to be characterised by mutual respect rather than domination by one side or another. While it remains essential to maintain the probity of government decision-making, it is also important to promote mutual learning and sharing of experience between the public, private and voluntary sectors so as to break down barriers between them.
- 7.10 Overcoming potential distrust between public and private sectors is an important aspect of this type of capacity building. This challenge is well illustrated by Tait’s (2009) analysis of a particular development dispute between local planners and a housebuilder. In this case, he attributed the breakdown of trust to the housebuilder’s perception of planners as unreliable and incompetent and to the planners’ view of the housebuilder as aggressive, prone to cutting corners and unconcerned for wider values. In both cases, distrust was based not

merely on previous, direct experience of the other party, but also on perceptions of what they represented.

- 7.11 More widely, Höppner (2009) explored the extent of trust in the institution of regulatory planning by looking at whether participants in the planning process trust planning committees. This, she found, to be dependent on the extent to which participants believed members of the planning committee to be competent, honest, open, fair, reliable, reciprocating, respectful and committed. Trust is built when these qualities are central to behaviour and decision-making.

#### *Market-relevant skills and capabilities*

- 7.12 Developing human capital involves enhancing the skills and abilities of key individuals and organisations. In this context, organisations such as the RTPI can play an important role in identifying certain areas of knowledge and capabilities as expected learning outcomes from professional education. For example, one important area of practical knowledge that is increasingly seen as central to planning education is (what is perhaps mistakenly called) 'development economics'. Although development viability assessments have recently become an important part of the planning framework in England, it needs to be recognised that such 'calculative practices' have significant methodological limitations, and should be interpreted with great care (McAllister *et al.* 2013).
- 7.13 In this context, it can be 'a dangerous thing' if planners gain only limited awareness of development economics, since this may merely reinforce acceptance of market-led planning, in which planners develop a more sympathetic understanding of developers' calculations but do not have the expertise to challenge them fundamentally. This danger has been reinforced by what Colenutt *et al.* (2013) describe as the 'culture of secrecy' that has emerged around development viability assessments and by the shortage of economics and valuation expertise among local authority planning staff, which makes it difficult for them to challenge such assessments. As effective market actors, planners need the confidence to be able to negotiate financially on level terms with developers and this requires substantial knowledge not shallow awareness of development economics. At a strategic level, there may also be a need to rebuild expertise in social cost and benefit analysis to help planners understand the complex economic trade-offs from different potential development patterns.

#### *The delivery capacity of planning agencies and authorities*


- 7.14 Powers, resources and expertise are all essential to the delivery capacity of planning agencies and authorities. In political analysis, power is often seen as "the ability to influence the behaviour of others in a manner not of their own choosing" (Heywood 2000: 35). In his seminal study of the Aalborg Project (a planning agenda initiated in 1977 by high-level officials in the Danish city), Flyvbjerg (1998) argues that it is essential to investigate how power is exercised, rather than simply identify who holds power, and why they do so. Power cannot therefore be reduced to a matter of political supremacy or legislative authority, important as they might be. The enlightened governance of place depends on the creative and combined exercise of different sources of power to persuade, cajole and require development actors to participate in collective action.
- 7.15 Resources are an essential power support. Aligning resources to priorities and focusing on the really important activities is a key management challenge if planning is to contribute effectively to sustainable economic growth (Scottish Government, 2012). While financial

resources are often necessary to reinforce place-making ambitions, this does not imply mere subsidy of private sector development. In most cases, public finance can play an important investment role, for example in infrastructure provision, but the opportunity for an investment return depends on the effectiveness of institutional arrangements to recoup consequential land value increases.

- 7.16 Expertise refers to creative professional knowledge and sound political judgement. Crucially, in shaping places, these must interact at a high enough level to ensure that the exercise of political power is linked to well-specified forms of intervention. In some cases, appropriate professional expertise can be externally sourced on a contractual basis, but even so, its recommendations usually need to be mediated by some high-level in-house specialist advice. Relegating skilled professionals to a lower tier is not conducive to developing strong place-making capacity.
- 7.17 In many parts of Europe, municipalities retain the necessary technical and financial capacity to enable them to play a powerful delivery role in place-making (Adams *et al.* 2011b). One explanation of the UK's limited achievements in place-making, compared to its management of development, is the lack of democratic capacity and commitment at the local level to ensure better places are delivered on a consistent long-term basis. In this context, Falk (2010: 39), comments that "Over the last ten or fifteen years, where the British have produced policies, plans and public inquiries, our European rivals have invested in transforming their cities". Enhanced governance capacity may well be essential in the UK to ensure a proactive rather than reactive relationship with private development actors.
- 7.18 In this context, it is important to recall that one of the main recommendations from Kate Barker's (2006b: 13) 'Review of Land Use Planning' (England only) was that "the status and professionalism of Chief Planners should be raised to put a confident and properly resourced planning department at the heart of each local authority with the right links to key related functions." There is huge variation (and often considerable turbulence) in way in which planning is now organised as a local government function in the UK, and it remains unclear which particular approach or approach is best suited to enable professional planning staff add value to local development activity. A key research challenge discussed later concerns the organisation, deployment and renewal of planning expertise at the local level.

### *Conclusions*

- 7.19 At the end of its inquiry into 'Planning, Competitiveness and Productivity' in England, the then House of Commons Office of the Deputy Prime Minister: Housing, Planning, Local Government and the Regions (ODPM) Committee (2003: 2) concluded that: "Improving the planning system is a matter of better resourcing, better focusing of effort, and implanting more understanding attitudes amongst staff and councillors. It is not about changing the rules." Place-making calls for planners see their role and function differently, and consider themselves as active participants in development, rather than external controllers of development. This requires them to invest in both informal networks and formal organisations to help them build trust between varied stakeholders and facilitate their connections to different forms of development expertise.
- 7.20 Significantly, fresh mindsets and broader networks need to be reinforced by more varied information than traditionally collected by planners, especially in relation to how market trends can be influenced by planning action. Moreover, if planners are to make a central contribution to sustainable place-making, and on occasions take a leading or co-ordinating



role, then much greater emphasis could be placed on developing their broader skills and capabilities. Building capacity for planning also means that planning agencies and authorities are well equipped with the necessary powers, resources and expertise to focus as much on the making on places as the production or regulation of plans. All this points to the need for substantive research on whether planning's potential to add value to places is currently impeded by significant capacity constraints.




## PART II: CAPTURING THE VALUE OF PLANNING

### 8. ECONOMIC ANALYSIS OF THE IMPACT AND VALUE OF PLANNING

- 8.1 As the previous four sections have shown, planning is an activity of considerable breadth and indeed complexity which cannot readily be reduced merely to development regulation. How far is the true extent of planning reflected in economic analysis of its impact and value? This is no easy question since economics as well as planning is broader than many people imagine. Indeed, economics is increasingly understood as a pluralist discipline. This section introduces some of the diversity that characterises economics today and explains why this matters in undertaking any economic appraisal of planning.
- 8.2 Economists have employed a great many different methodological approaches to study resource allocation problems. Since the 1960s, however, neo-classical economics has been the dominant methodological approach. This approach is characterised by an atomistic ontological position; in other words, it assumes that individuals (akin to atoms) make rational decisions that approximate to those informed by cost-benefit calculations. This world-view enables probabilities to be assigned to particular decision-making outcomes. Analysts can predict individual choices and these can be aggregated to help develop general conclusions. These behavioural, micro-foundations mean that it is possible to apply sophisticated statistical (econometric) methods to the analysis of economic problems. Specifically, in this context, economists of this persuasion have sought to explore the impact of planning on key market outcomes such as house prices, business rents, and development activity through using quantitative methods.
- 8.3 Alternative modes of economic analysis (including institutionalist and behavioural economists) depart from the neo-classical model by varying degrees (see Adams *et al.* 2005a and 2005b for a discussion of different methodological traditions). Many of these alternative modes of analysis, including the behaviouralism associated with Herbert Simon as well as 'old' institutional analysis (see, for example, Samuels, 1995; Hodgson, 1998) reject the notion that individuals might resemble atoms. These theoretical perspectives tend to adopt a social ontology and strongly emphasise the social and cultural embeddedness of decision-making.
- 8.4 This alternative world-view implies that markets are socially constructed and that decisions cannot be assumed to be rational. Instead, they will be shaped by culture, norms and habits and may be guided by rules of thumb rather than a rational calculation. This renders individual and collective behaviour far less easy to predict and, of course, doubts the extent to which probabilities can be meaningfully assigned to decision-making outcomes at individual or aggregate levels. It also calls into question the ability of quantitative (econometric) model-building to shed light on complex economic problems.
- 8.5 These distinctions provide a backdrop to the discussion that follows. The very different ways of viewing the world have led to a methodological debate within economics that has been characterised by a tendency for the protagonists to talk past each other. General critiques of mainstream analysis have often been rejected on the basis that the model subject to attack is little more than a 'straw man' that fails to capture the latest developments in the field (see Ball, 2002; Guy and Henneberry, 2002). There has been little in the way of mutual learning or intellectual innovation resulting from these encounters. The protagonists often seem to see the world so differently that they reject entirely the concepts employed by their opponents and refuse to offer any legitimacy to the findings of their research.

- 8.6 This is worth noting because, as discussed below, the economic analysis of planning has also been dominated by neo-classical analysis. Much of the debate that has ensued has involved advocates of different methodological approaches talking past each other. This report represents an attempt to avoid this. An informed debate requires that differences in world-view must not act as a barrier to critical engagement or to the advancement of knowledge. Thus, although the debate about the relationship between planning and economic performance has been dominated by neo-classical economists and has been heavily influenced by the evidence generated through the application of quantitative analysis, it is important that the evidence is considered on its own terms. It is also important that the insights developed by those applying different methodologies are subject to scrutiny.
- 8.7 The next three sections of the report examine this evidence base critically. To avoid the pitfalls discussed above, the critical review will focus on specific applications of economic analysis rather than general critiques. Even though the arguments developed here are influenced by a belief that a variety of different modes of economic analysis can help shed light on the impact of planning, there is no desire to suggest that neo-classical economic analysis – or any other mode of analysis for that matter – is invalid or unhelpful. Rather the discussion that follows seeks to reflect on what existing studies reliably tells us about the relationship between planning and economic performance and what they do not. The discussion seeks to identify both points of agreement and areas for further investigation.
- 8.8 This review will suggest that, while the ability to develop what might appear to be precise measures of the ‘economic costs’ of planning is highly seductive, this apparent precision should not be mistaken for truth. The discussion will demonstrate that there are several limitations associated with neo-classical economic analysis. These limitations stem from:
- what is being measured and what is not;
  - the theoretical basis for the analysis;
  - the statistical methods applied;
  - the nature of the data used as ‘proxy’ measures for key market drivers; and
  - the perfunctory attempts to disentangle the complex ways in which policy interventions impact on market processes and outcomes.
- 8.9 Thus, it is argued that, although neo-classical economic analysis can be valuable, it is too abstract in its treatment of both planning and the market to be able to offer definitive conclusions about the value of planning. It is important to understand the limits of this analysis and to undertake further research that can help to challenge, refine and reinforce quantitative models. Rather than reject neo-classical analysis, this report calls for a pluralist research agenda. In doing so, it also reveals the thinness of the research base through applying different modes of economic analysis.
- 8.10 The argument for greater pluralism is developed in the next three sections of the report and brought together in Section 12. This seeks to frame the examination of the impact of planning at three different scales: the macro (or aggregate) level; the meso (neighbourhood, settlement, district and regional level); and the micro (decision environment) level. The critical evaluation of the neo-classical economic models that dominate the evidence-base about the costs of planning (Section 9), review of evidence about the differential spatial impacts (Section 10), and exploration of the impact of planning on decision environments (Section 11), all serve to illustrate that a pluralist approach can assist in the development of



both a more sophisticated analytical framework and a greater depth of understanding of the value of planning.

## 9 REVIEWING THE CONTRIBUTION OF MAINSTREAM MACROECONOMIC ANALYSIS

9.1 Although there are also several studies of the impact of planning on business rents, real estate yields and commercial development activity, the applied economics literature largely focuses on the impact of planning on the housing market (see Adams and Watkins, 2002; White and Allmendinger, 2005; Bramley, 2013 for extensive reviews of the UK and international evidence). These studies, as the reviews reveal, have been conducted in different time periods; explore different parts of the country; employ a range of spatial 'building blocks'; use many alternative data sources; measure a broad array of explanatory variables; conceptualise planning interventions in different ways; employ a range of alternative modelling frameworks; and use a variety of methods of estimation to calibrate the models. Not surprisingly there is little consistency in terms of what is measured or the insights generated and conclusions drawn.

9.2 The housing literature shows that planning reduces the price elasticity of supply, which is a key measure of the extent to which supply is responsive to changes in house prices. However, the estimates of price elasticity (in the short run) in the UK vary between 0.4 and 0.9 in different studies (the demand for a good is typically said to be inelastic or relatively inelastic when this figure is less than one, that is, changes in price have a relatively small effect on the quantity of the good demanded). They also offer different explanations for the lack of responsiveness. The variations in approach used in applied macroeconomic studies of the impact of planning means that it is important to think carefully about how to interpret econometric results.

9.3 As we will explain below, there are several standard criticisms that might be levelled at this mode of analysis. The areas of concern include:

- The underlying theory (based on perfect competition) bears little relationship to the structure of the markets being modelled. There has been no attempt, for example, to build models that recognise that developers operate under monopolistic competition, even though this is the classic example of an alternative model structure used in introductory level Economics courses. Furthermore, the behavioural underpinnings of the models are under-developed. It is widely recognised within the property profession that the inability to capture 'mood' or 'sentiment' (and the tendency for markets actors to 'herd' together) is a major weakness in econometric studies and key source of predictive failure (Watkins *et al.* 2012).
- The data used is often limited and the models often incorporate variables that are relatively poor proxies for key market drivers.
- The models are often under-specified with many of the important influences on the market unmeasured. More specifically, supply-side equations often fail to capture the constraints introduced by skills and capacity constraints in the housebuilding industry. This might lead to the impacts that appear to be associated with planning measures also absorbing the influence of forces that should be picked up by omitted variables. This is likely to mean that the apparently precise model outputs are likely to be statistically biased and unreliable.

9.4 These issues can be usefully illustrated with reference to an extensive body of work undertaken by a team of researchers based from the Spatial Economics Research Centre (SERC) at the London School of Economics (LSE). This body of research exemplifies best practice in applied (mainstream) econometric analysis. The papers developed by the team have been subject to peer review and have been published in the very best journals in the

fields of real estate economics and economic geography. Members of the research community have independently and anonymously subjected these papers to intense scrutiny and have taken the view that they exhibit high degrees of scientific rigour, both in terms of the theoretical consistency of the argumentation and in the application of cutting-edge econometric techniques. The limitations that remain are worth highlighting because they represent weaknesses that are accepted by those operating within the field and therefore can be found to greater or lesser degrees throughout the literature.

9.5 The most accessible summary of the work of the LSE group can be found in Cheshire *et al.* (2012a). This particular paper draws selectively on research discussed more fully in several other draft papers and related publications (for example, Cheshire and Sheppard, 2002 and 2005; Cheshire and Hilber, 2008; Hilber and Vermeulen, 2012; Gibbons *et al.* 2011; Nathan and Overman, 2011; Cheshire *et al.* 2012b). The findings of these contributions were synthesised as an evidence note submitted to the LSE Growth Commission, established internally, and were framed as exploring “the links between planning and economic performance”. The note states that: “...there is evidence that the UK Planning System [sic]:

- Increases house prices and reduces housing quality (with a regressive impact on low to middle income families).
- Increases housing market volatility.
- Increases office rents.
- Lowers retail productivity.
- Lowers employment in small independent retailers.
- May not properly assess the true social costs of brownfield versus greenfield development.” (Cheshire *et al.* 2012a, abstract)

9.6 The key message is that, as a result of planning interventions, “most of the more productive land for both housing and commercial development is simply off-limits” (Cheshire *et al.* 2012a: 3). The authors suggest that while the UK Government’s current reforms to the planning system in England attempt to address these costs, it is unclear whether they will be successful. They argue that further reforms are likely to be required to mitigate or avoid these costs.

9.7 The intention here is not to explore each of these findings in turn or to critique each individual paper in detail. Rather, the discussion briefly explores three of the key contributions in an attempt to draw out general observations about what conclusions might reliably be drawn from studies of this type and to offer reflections on what questions remain in need of further investigation. Specifically, the discussion focuses on the impact of planning on the housing market set out in Hilber and Vermeulen (2012); the impact on office rents explored in Cheshire and Hilber (2008); and the discussion about retail sector impacts contained in Cheshire *et al.* (2012b).

#### *Aggregate analysis of the impact of planning on housing markets*

9.8 Hilber and Vermeulen (2012) argue that, were we able to reduce planning restrictions in the most constrained areas to the levels observed in the least constrained areas, house prices would be around 30 per cent lower than they are now. The paper is based on a panel model that covers 353 local planning authorities in England from 1974 to 2008. The paper seeks, in particular, to disentangle the effects of planning restrictions from the influence of scarcity of developable land and physical (geographical) constraints. There are several features of the analysis that merit further examination.

- 9.9 First, despite the desire to isolate the supply-side impacts on price changes, when compared with other studies in the field, the possible determinants of supply are not comprehensively assessed. As is standard in much of the literature, the authors include DCLG data on planning applications, approvals and decisions times. To this, they add fairly crude proxies to measure land use and topographical (specifically the prevalence of steep slopes) restrictions. This is relatively innovative, although Bramley arguably developed a more effective suite of physical constraint measures in the past by both using data generated from a survey of local authorities and constructing composite measures of different dimensions of planning through combining a wide range of secondary datasets (Bramley and Watkins, 1996; Bramley 1999).
- 9.10 Significantly, the SERC model ignores evidence produced elsewhere about the microeconomic (or firm level) influences on housing supply. Ball *et al.* (2010) recently undertook a detailed analysis of firm level data from the UK housebuilding industry and showed that responsiveness varies with firm size. They note that the process of mergers and acquisitions in the industry has increased firm size and that this is likely to have altered the price elasticity of supply in the recent past. This would suggest that, to be consistent with neo-classical micro-economic foundations, aggregate models of housing supply ought to include proxies for industry structure.
- 9.11 Second, there is an arguably bigger challenge that requires that more depth of thought about how best to deal with the structure of the market in any analysis. It is widely accepted that the housebuilding industry does not resemble the perfectly competitive market assumed in this modelling framework. Thus, while it might be argued that the increasing size of volume builders has, in fact, been caused by the distortions that the planning system introduces to the land market, these effects need to be considered alongside a variety of other factors that influence the business models developed by developers.
- 9.12 It would seem important, for instance, to explore the extent to which the spatiality of the market allows scope for builders to influence product prices within local markets (see Section 10 for a more detailed discussion). In this sort of market, where monopolistic competition is a better approximation than perfect competition, the builder can influence price. In practice, this may partly be a result of the regulatory framework but it is also a reflection of the spatial structure of the market and, as institutional analysis reveals, it is clearly a result of the strategies that developers have established to minimize price competition within local (urban and regional level) markets. This includes using networks to find mutually beneficial ways of avoiding spatial competition (Adams *et al.* 2012) and is also consistent with the factors that limit build out rates on large sites (Adams *et al.* 2009). These behavioural responses would not be possible in a perfectly competitive market.
- 9.13 Does it matter that the conventional model assumes that each firm is a price taker when, in fact, they most probably are not? Institutional analysts would argue that it does and that the conceptual weakness of the mainstream model should be a source of considerable concern. Crucially, it is questionable to assume that builders would actually profit from an increase in the quantity of new housing. While rejecting the mainstream model may be an extreme response, it could be argued that at the very least conventional economic models of this sort need to better accommodate behavioural influences on supply responses. Hilber and Vermeulen (2012) do recognise that there is a relationship between developer behaviour and planning applications. However, like the majority of studies in this tradition, they do not fully accommodate the range of factors that might shape that relationship.

- 9.14 Third, the way in which planning has been conceptualised and measured is highly simplistic. Technically Hilber and Vermeulen do not explore the impact of the planning system as a whole. They merely seek to explore the impact of the development control system. This may seem pedantic but conceptual clarity is important. As discussed above, planning comprises a wide array of policy interventions. This has been recognised within the applied economics literature where, for example, Bramley (1993 and 1998) developed a set of measures of planning stance that reflect the complex nature of planning interventions. Bramley is unusual in acknowledging that planning decisions are shaped variously by law and policy, by local plans and by the way these factors impact on individual decisions. His models are indeed novel in that they typically employ a range of ways of recognizing the complex impacts planning has on market outcomes.
- 9.15 What is striking about Bramley's work is that he identifies a sizeable implementation gap between the allocation of more land for housing and development activity (Bramley and Watkins, 1996). The LSE work does not make any attempt to build on these insights nor does it offer clarity about what is actually being assessed. This is an unfortunate limitation and is almost certainly a major source of the striking differences in the magnitude of the costs observed by the LSE team, when compared with those identified by Bramley and others.
- 9.16 In conclusion, although Cheshire et al. (2012a: 4) claim that Hilber and Vermeulen's work "is a considerable underestimate of the true costs", we would contend that the LSE's core evidence on the impact of planning appears likely to be overstating the scale of the cost for at least three reasons. First, the focus is on development control (regulation), rather than planning more broadly, eliminates some of the interventions that reduce aggregate costs. Second, the model fails to build on evidence from micro-econometric analysis that illustrates the impact of industry structure on housing supply. Third, the model fails to accommodate the insights from behavioural analysis of the building industry and specifically does not account for the way builders' business models and practices might impact on the rate and level of development activity. This leaves aside broader concerns around Hilber and Vermeulen's unspoken assumptions about the competitive nature of the market. What should be clear is that, despite the apparent precision, the estimates offered in their work are unlikely to accurately reflect the 'true costs' of planning. There is still much work to be done to draw together best practice from conventional studies and further intellectual effort required to begin to address some significant conceptual limitations.

#### *The impact of planning on office rents*

- 9.17 The core LSE evidence on the impact of planning on the rents paid by office occupiers is set out in Cheshire and Hilber (2008). The paper seeks to model the impact on office (business) rents using panel data for 14 office locations/submarkets for a period between 1961 and 2005. It compares UK data with that from European markets. The market is viewed as being perfectly competitive and planning is conceptualised as a 'regulatory tax'. The theoretical arguments are illustrated using conventional 'marginal' economic analysis. In short, it is suggested that "in a competitive world", where developers have free entry to and exit from the market, price will equal average costs and 'normal' profits will be secured. They suggest (Cheshire and Hilber, 2008: 8) that: "any gap between the observed market price and the marginal cost of construction *can be interpreted* ...as a regulatory tax [emphasis added]". Conceptualising planning as a regulatory tax is argued to be a novel and effective way to approach the measurement of the impact of planning. The results are said to suggest that

business users have paid increasing 'regulatory taxes' that far outweigh those in continental Europe and the US. There are several interesting aspects of the analysis.

- 9.18 First, the conceptual model represents an extreme abstraction of the nature of the market. It may be that, in the absence of planning, the outcomes observed will look 'as if' perfect competition prevails but this is deemed unlikely by most commentators. Surprisingly, given the claims made about conceptual innovation, there is no critical reflection about the validity of the central theoretical assumptions. The interpretation of the results rests heavily on the difference between reality and the theoretical 'competitive world' employed as the baseline. It ignores the fact there is a possibility that, even in this counter-factual world without planning, there may not be a complete absence of barriers to entry to the market stemming for example from restricted access to finance, or skills and materials shortages in the construction industry (Adams and Watkins, 2002). Nevertheless, the results are powerful. But the paper ignores the extensive literature on the non-rational behaviour of developers and investors (see, for instance, Guy and Henneberry, 2002; Henneberry and Roberts, 2008). At worst, these insights invalidate the framework. At best, they point to the possibility that not all of the sources of difference between the outcomes predicted by marginal analysis and observed prices can be attributed to the 'regulatory tax' imposed by the planning system.
- 9.19 Second, as discussed earlier in this report, there is much more to planning than 'regulation'. The theoretical model is based on an extreme and rather narrow conception of planning. The paper ignores the effects that infrastructure planning, place management policy and other public policy interventions might have on the demand-side of the market. The analysis here might possibly be claimed to capture the impact of development control. It does not comprehensively assess the impact of planning.
- 9.20 Third, the operational model developed is dominated by demand-side variables. There is no attempt to measure the impact of physical constraints on supply or to apply any of the standards measures of supply-side change widely adopted in the literature in the last two decades (see Tsolacos *et al.* 1998; Nanthakumaran *et al.* 1999). This extensive literature shows that the volatility of development activity is not caused exclusively by the planning system. The flow of supply is also influenced by changes in the finance and funding arrangements (Barras, 1994 and 2009). This would indicate that several of the major drivers of the supply-side influences on values remain unmeasured by Cheshire and Hilber (2008). The failure to isolate the full range of supply-side variables is likely to significantly limit the degree to which the difference between the 'ideal' and the observed can be attributed to planning.
- 9.21 Fourth, the data used by Cheshire and Hilber (2008) are problematic. The market data comes from varied industry sources, with considerable effort expended in combining datasets of different lengths and with different definitional and informational bases. There is also, by necessity, a need to 'impute' missing data for a number of different variables (including yields), for several markets and for numerous years (mainly 1965 to 1972). The authors (Cheshire and Hilber, 2008: 14) are "confident...that while the need to impute values for such data is not entirely satisfactory, the additional margin of error it may introduce is small in relative terms." It is not clear what impact the cumulative effects of imputing data for multiple variable, different locations and several years might have on the precision of the estimates. To compound this uncertainty about possible margins of error, it is difficult to fully assess the robustness of the models presented. The standard battery of diagnostic tests



that might allow the reader to assess the statistical validity of the results are not included in the paper.

- 9.22 Even if we accept that the conceptual model is relevant, and that the margins of error from imputing data are small, it is hard not to speculate about the cumulative effects of the decisions about research design might be. Arguably, the estimates have been made on the basis of an inadequately theorised system, a series of panel estimates of unknown statistical robustness and a limited dataset of questionable accuracy. The cumulative effects might explain why there is a striking difference in the magnitude of the 'costs' attributed to planning when compared with those inferred from other contributions to the literature.
- 9.23 The earliest study of the impact of planning on business rents was conducted by Henneberry *et al.* (2003) in a research project commissioned by the then Office of the Deputy Prime Minister. Henneberry's team developed a multi-equation model of the office market that also employed data from industry. Severe data limitations meant that the analysis was limited to an examination of 49 markets and was restricted to a single cross-section (1998-2000) with only limited lagged variables included to capture temporal dynamics. Interestingly, this study developed a more highly specified supply-side to the modelling framework. This sought to capture differences in the likelihood of flows between market sectors, the influence of development cost, the impact of physical constraints and as well as the role of the planning regime as derived from data on planning applications, permissions and approvals. The team developed separate equations for agglomeration effects, space utilization (that is the intensity with which space is used), the local supply of space, planning permissions and planning applications. They estimated that a 10 per cent increase in planning permissions might results in a 1.5 per cent increase in economic growth. Henneberry *et al.* (2005: 122) note that: "[o]ur findings need much qualification. This was an initial analysis constrained by significant data limitations". They also explain that the planning equations are less convincing than other elements of the framework.
- 9.24 Overall, it is evident that macro-econometric estimates of the cost of planning are sensitive to the specifics of the conceptual model and how this shapes what is and what is not included, to the methods of estimation employed, and to the quality of the data used. As it stands, although influential, the widely cited LSE estimates of costs are based on a modelling framework that adopts a limited view of planning, and does not fully reflect established theoretical models of, or stylised facts about, the operation of the real estate market. Crucially perhaps, they under-estimate the influence of institutional investors' motives and the non-rational nature of developer behaviour, while suffering from the paucity of data that has long undermined econometric analysis of the real estate sector (Ball and Tsolacos, 2006). The innovations do help address some of the weaknesses in earlier studies but, as with the work of Henneberry *et al.* (2005), the results need much qualification. There is undoubtedly considerable potential to develop the analysis of these economic relationships. As an initial step, it would be instructive to draw together best practice in the field and to test the sensitivity of the estimates generated to variations in research design.

#### *The impact of planning on the retail sector*

- 9.25 The LSE Growth Commission's central estimates about the impact of planning on the retail sector are found in Cheshire *et al.* (2012b). The research is rather more narrowly cast than the title of the publications, the summary in the Growth Commission submission or the claims made based on the findings, might suggest. The paper uses store level data, from a single supermarket chain, to explore three planning impacts: (i) the restriction of land

available for retailing; (ii) the influence on store size; and (iii) the influence on retail location. The authors employ a novel concept, Total Factor Productivity (TFP) for the retailing industry, at the heart of the analysis. TFP represents an attempt to apply what economists refer to as a Cobb-Douglas production function. The Cobb-Douglas framework is generally used to examine economic output, but is employed here to provide a theoretical framework from which to explore changes in sales levels. Within this framework, production (or more precisely, the retail sales level) is determined by the way the key factors of production (capital, labour and land, measured in terms of floorspace) are combined. The main objective in this study is to isolate the impact of floorspace and to consider the effect that a particular set of planning policies might have had on the size and location of the particular supermarket stores.

- 9.26 Thus, the impact of planning on TFP is assessed via a 'quasi natural experiment' that explores the variation in planning policies in England, Wales, Scotland and Northern Ireland in attempt to isolate the impact of 'town centre first policies'. The main measures of planning constraints are refusal (the ratio of applications declined to total applications submitted) and delay (applications that take more than 13 weeks to process) rates. The authors acknowledge that interpretation of these variables is made difficult as they are not independent from developer behaviour. As a result, they use a series of four instrumental variables including political control (to reflect the fact that Labour councils are often thought to be less restrictive) and unemployment rate (which is thought to be a proxy for the level of employment-based incentive to allow development) in an attempt to deal with the endogeneity.
- 9.27 The key findings are that TFP rises with store size and that, as planning policy reduces size and forces retailing on to less productive sites, planning policy has reduced productivity by 25 per cent since the 1980s. The influence of store location is not measured directly. This impact is inferred from the finding that older stores were more profitable. This is attributed to planning influencing store location rather than the possibility that more profitable sites had been saturated or that the effects of increasing competition might be biting. The productivity gap is computed by projecting forward the rate of growth between 1966 and 1986 (this period is viewed as the counter-factual as it pre-dates 'town centre first policies') for the period between 1986 and 2006. It is suggested that this is likely to be a 'lower bound estimate' because (i) evidence from the US shows that productivity rates may have been higher than average in the latter period and (ii) it does not account for the higher logistics costs associated with stores in more congested urban locations.
- 9.28 This partial analysis of the impact of planning offers a promising route forward. It would, however, be interesting to expand the scope of the research beyond both the single retailer who provided data and the narrow concerns with supermarket sector. This would open up two interesting issues. First, it might help isolate the impact that competitors might be having on both sales levels and the location of stores. Second, it would allow us to consider the extent to which supermarkets' business models impact on other retailers and business users. Clearly, the distributional impacts need to be assessed more fully in order to have a better sense of the net impacts of policy interventions. In this context, it is interesting to contrast the LSE assertions about the costs of planning with conventional economic studies that seek to explore the impact of policy on a broader range of classes of retail space.
- 9.29 Jackson and Watkins (2007), for example, develop a framework that recognises that the operation of the commercial real estate market differs greatly from housing markets because use and ownership is separate. Like the work of Henneberry *et al.* (2003 and 2005)

discussed above, they develop an analytical framework that models the determination of rents in the user market, explores the determination of yields and capital values in the investment market, and recognises that signals flow between the two submarkets. They undertook a survey of local planning authorities to develop measures of the extent to which development was constrained by physical factors and to understand the influence of multiple policy interventions, including Town Centre Management policies, local planning stance, regeneration initiatives and local economic development policies. The analysis covers 30 markets for the period between 1998 and 2003.

- 9.30 Following Tiesdell and Allmendinger (2005), they constructed a set of variables that allowed the impact of planning regulation to be isolated from capacity building and market stimulus policies. Uniquely, they recognise that stimulus policies might also impact on price by raising demand *ceteris paribus*. Overall, the results suggested that planning impacts are highly complex and do not simply act as a regulatory drag on the flow of supply. Perhaps, surprisingly the strongest planning impacts were observed where proactive planning policies appeared to be stimulating investment (rather than business user) demand. The supply-side impacts are less pronounced than might be expected. The limitations of this study include the limited treatment of temporal dynamics.
- 9.31 Again, however, the possibilities of developing a model that combines a broader conception of planning within a modelling framework enhanced by several of the innovations developed at LSE and by Henneberry's team is attractive.

#### *Conclusions*

- 9.32 What can we learn from the macro-level analysis of the impact of planning on the performance of different sectors of the economy? As Malpezzi (1996: 210) states "no-one would be, or should be, surprised that regulations raise housing prices.....What is at issue is how much they raise prices, compared with any benefits they confer".
- 9.33 What are the precise costs? The LSE estimates of the costs of planning appear to be high across the board. They tend to be higher than estimates generated by other studies. This reflects the choices made by the researchers in relation to theory; about what to measure and what to leave out; the way planning is conceptualised (as a regulatory tax and/or narrowly in terms of development control); the way it enters the model (for example, ignoring demand-side stimulation); the data used to proxy market drivers and/or physical constraints, and so on. Different choices would certainly alter the estimates of the scale of the impacts. A different approach would probably lead to lower estimates of the costs of planning.
- 9.34 While the evidence on the impact on office and retail markets is more limited than that on housing, it also varies in terms of the scale of the estimated costs. It is interesting to note the varying degrees to which researchers have sought to account for institutional arrangements, social relationship or politics within an econometric framework. It seems clear that, despite the claims made for, and weight placed on, some of the evidence produced as part of the LSE Growth Commission, that we remain some way from being able to reliably assess the true costs of planning within econometric studies.
- 9.35 What is missing from the analysis? The LSE team has put considerable effort into measuring the costs of planning. Yet even if we were to accept that the estimates of the magnitude of social and economic costs were correct, the failure to explore the social and economic

benefits of planning makes it impossible to assess whether these exceed the positive impacts. They state that the “benefits claimed for the current system have been well-discussed in popular debate” (Cheshire *et al.* 2012a: 1) but this is to ignore the fact that a proper analysis of the links between planning and economic performance requires some attempt to measure the balance between costs and benefits with equal rigour. Despite the impressive programme of work that has been undertaken, the LSE researchers have not developed a systematic body of evidence about the links between planning and economic performance. Rather, to use their own term, they have been providing “plenty of ‘anecdotal’” (Cheshire *et al.* 2012a: 4). They appear to be arguing that the price of planning is too high without telling us what benefits we have been purchasing.

- 9.36 To some extent, research on this topic is not much further forward than when the then House of Commons, ODPM: Housing, Planning, Local Government and the Regions Committee (2003) rebutted claims made by McKinsey Global Institute (1998) that productivity deficiencies in the UK could be attributed to excessively restrictive land use regulation. The Committee’s report (2003: 13) stated that these claims “seem to have been made without evidence. The ‘cost/benefit’ approach to planning has ....tended to focus on the easier to measure costs but has...failed to produce definitive answers...” (also quoted in Henneberry *et al.* 2005: 106).
- 9.37 Much of the existing literature on the impact of planning of economic performance on planning is built on a highly abstract view of the nature of markets and an extremely narrow conception of planning. Economic models, such as those developed at LSE, that have been widely used to highlight the ‘negative’ influence on planning on markets (and by extension on the wider economy) have internal weaknesses. There is much work to be done to: i) enrich the microeconomic foundations of macro models and to enhance the theoretical framework for such studies; and ii) to improve the data and reduce the influence on unmeasured factors including, specifically, a wider range of factors that shape the flow and level of new development activity.
- 9.38 Thus, although the analyses explored seem to agree that ‘planning’ has social and economic costs – for example by increasing property values, restricting the level of development, influencing its location and timing, and increasing development densities – they fail to assess these costs reliably. Further, they fail to examine the social and economic benefits of planning, making any balanced judgment impossible. As discussed below, they also fail to offer much insight into the differential impacts on different groups or different localities. There is considerable research effort required to address these weaknesses. The answers will not be found by adopting a single conceptual or analytical approach. This is a challenging intellectual problem that requires innovative, cross fertilisation of ideas and evidence generated by applying different theoretical perspectives and employing a wide range of social science research methods.

## **10 MESO-LEVEL ANALYSIS OF THE RELATIONSHIP BETWEEN PLANNING AND ECONOMIC PERFORMANCE**

- 10.1 The task of understanding the relationship between planning and economic outcomes is an extremely demanding intellectual exercise. As discussed above, it is complicated by the scope and complexity of the activities that constitute planning, their inherently spatial nature, and the fact that it takes time for the impact of policy interventions to emerge. The macro-econometric studies reviewed in Section 9 offer one approach to isolating the impacts of planning from other economic drivers and usefully they explore the cumulative impacts over time. However, the extent to which these studies can shed light on impacts at different spatial scales is very limited. This section of the report examines the way in which differential impacts might be detected at what we call the meso-level or, in other words, at and between the neighbourhood, urban and regional levels.
- 10.2 Much of the debate around the impact of planning on urban land markets has been conducted in relative terms, with the mistaken presumption made that, while planning policy may redistribute value around the city, its overall impact is neutral. This approach can be traced back to the Uthwatt Report (1942), which developed the concepts of floating and shifting values. Applying these concepts, Uthwatt believed that if a steadily expanding city is surrounded on all sides by agricultural land, all owners within the surrounding area will hope one day to be able to sell their land for development at a price higher than its value in agricultural use. In practice, only a small proportion of owners would actually find their land in demand for development, even if no planning system existed. Development value thus 'floats' over an extensive area, but eventually settles on only part of it.
- 10.3 When urban planning is introduced, planning permission will be granted in some locations but refused at others. As a result, any potential development value lost on land refused planning permission is considered to 'shift' to land granted permission. However, since the collective expectations of all owners in the wider area had been unduly raised by floating value, the value gained on sites granted permission is felt to be outweighed by that perceived to have been lost by owners of sites refused permission. Uthwatt (1942) argued that the actual rather than the perceived gains and losses cancel each other out and that planning intervention has a neutral market impact. This conclusion was significant because it led in the UK to successive statutory attempts in 1947, 1965 and 1974 to appropriate development value for the community, none of which lasted for any time.
- 10.4 Uthwatt's theory has since been much criticised, owing to its unrealistic assumptions and static, rather than dynamic, understanding of land price determination. Planning in practice does not simply shift values around a city but critically affects the utility or profitability of the uses from which the demand for land is derived. Indeed, if 'bad' planning produces a less efficient allocation of land uses by making users locate sub-optimally, thus reducing utility and profitability, users will lower bidding prices for land and value will be lost and not merely shifted. In contrast, if 'good' planning produces a more efficient arrangement of land uses, improving accessibility within a city, it will increase utility and profitability and enable users to make higher bids. Furthermore, if planning overcomes market failure by regulating negative externalities, encouraging the smooth provision of public goods and opening up opportunities that would otherwise be lost, resources will again be allocated more efficiently. Urban planning can thus cause higher or lower bidding prices to be made for land, depending on whether it increases or decreases overall welfare.

- 10.5 Planning policies clearly influence the spatial pattern of property values in complex ways, making it difficult to discern the net impacts. But what evidence do we actually have about the spatial impacts of planning? Monk and Whitehead (1999) offer important evidence of the spatial dynamics of planning interventions. They undertook an examination of land supply in South Cambridgeshire and the Fenlands. The study sought to examine the differential effects of planning constraints at the local level, and to consider the extent to which land allocated in one area might act as a substitute for land in a nearby area where tighter constraints have been imposed. The study identifies significant cross-boundary effects. Despite this important finding, and the long-standing conceptual debates dating back to Uthwatt, there has been no real concerted effort to explore the influence of planning on spatial economic structures at local authority or regional level.
- 10.6 The impact on intra-urban values has, however, been the subject of a little more scrutiny and debate. The debate has largely been based on the inferences made from attempts to systematically explore local differences in land and property values. Cheshire and Sheppard (2005) make a particularly interesting contribution to this literature. They argue strongly that differences in local price structures are attributable to planning constraints on market supply. They go on to suggest that price inflation should be viewed as a 'signal' that more land should be released for development. This analysis influenced Kate Barker's suggestion that English local authorities ought to allocate a buffer of land that could be brought forward when price signals began to indicate that local market disequilibrium exists (Barker, 2004). The proposal, which was subsequently explored in detail by the ODPM, ultimately proved impossible to operationalise reliably for a variety of conceptual and practical reasons (see Jones and Watkins, 2009 for a discussion). For instance, the model ignores the fact that local markets are 'thin' and that widely available raw price data are unreliable.
- 10.7 Some aspects of the complexities of the debate about the measurement and explanation for local price differences illustrate the general difficulties associated with making inferences from patterns of local property values. To some extent, Cheshire and Sheppard's argument represented a stripped down version of earlier contributions by Maclennan (1986) and others (Maclennan *et al.* 1998; Jones and Watkins, 1999). Maclennan suggested that local markets should be conceptualised as a set of inter-related submarkets. He argued that these submarkets would arise as a result of the interaction between highly segmented demand, reflecting difference in tastes, preferences and income levels, and a heterogeneous housing stock. House prices are determined at the submarket level and thus the price differentials will result from the mismatch between demand for, and the supply of, dwellings of different types and in different localities. Changes in submarket-specific prices can thus help to reveal pressure points within the market. The subtle distinction between Maclennan's framework and the Cheshire and Sheppard analysis is that the former allows for multiple explanations of the drivers of localised price changes. Price changes might be about low demand as much as constrained supply.
- 10.8 The interpretation of, and explanation for, local price changes is explored in detail in a series of linked studies of the Glasgow housing market (Jones *et al.* 2004 and 2005). These studies look at local price trends together alongside data on migration flows, stock changes and information on urban policy interventions. The analysis demonstrates that changes in house prices at neighbourhood level can be the product of quite different processes. In some instances, demand is driven by policy interventions that change the character of the neighbourhood or affect the level of amenities and quality of the local infrastructure.

- 10.9 It is also shown to be possible that, even over a considerable period of time, neighbourhoods with the highest levels of new development can exhibit the most rapid rates of house price appreciation. Thus, supply does not always hold prices down when it occurs in the context of neighbourhood change. This suggests that the interpretation of price changes can be very sensitive to the scale of analysis and the impacts of how policy interventions can shape consumer preferences and investment motives on the demand side as well as the location and flow of new supply. In this context, it is too simplistic to assume that intra-urban price variations are a simple reflection of differential planning constraints (Watkins, 2008). It is argued that sensible conclusions about the impact of planning on intra-urban house price differentials require a comprehensive assessment of the role of all of the possible drivers of change.
- 10.10 There is also a need to explore the links between spatial scales. Bramley *et al.* (2008) offer an interesting route forward. They apply multi-level modelling methods to data on house price changes at the local authority level. The multi-level analysis allows them to disentangle neighbourhood level influences from those operating at broader local authority and regional scales. This research shows clearly that increasing supply will reduce average prices when viewed at the housing market area level but will have ambiguous and uneven effects at the neighbourhood level. This poses interesting questions about which neighbourhoods win and which lose as a result of policy intervention. It also points to the difficulty involved in assessing what the net welfare effects might be from different spatial interventions.
- 10.11 Another specific aspect of meso-level analysis relates to the impact of green belts. Jones and Watkins (2009) explore theoretical implications of green belt policies. They start with the basic, and highly reductionist, microeconomic model associated with New Urban Economics (derived from Muth, 1969; Evans, 1973 etc). This shows that, under certain simplifying assumptions including perfect information and a featureless urban plane, land values will tend to decline with distance from the urban core. They show that green belts will alter patterns of demand, and by redirecting consumer to localities that are perceived to be close substitutes for those subject to restrictions, relative prices will be much higher in close proximity to the green belt boundary. Jones and Watkins (2009: 47) note that “the real world is less straightforward” and that there are many discontinuities in the market, including those introduced by social housing provision, topographic factors, and other (non-planning) public policy interventions that inevitably contribute to the complex and irregular mosaic of property values.
- 10.12 Researchers have not, to date, directly sought to explore the impact of the green belt. However, research undertaken at the LSE has explored the amenity value of natural resources (Gibbons *et al.* 2011) and been used as a basis to draw conclusions about the influence of green belts on welfare and house prices (see Gibbons *et al.* 2011 for the original analysis; and Cheshire, 2014b for further discussion). The initial research uses a hedonic modelling framework that makes it possible to isolate the contribution made to the value of an individual property by each of its physical characteristics, the quality of the neighbourhood within which it is located, and the access it allows to local amenities including green space. The study employed data derived from around one million housing transactions in the UK between 1996 and 2008. The dataset includes information about land use in the census area within which each property is located, including the proportion of green belt land. The authors suggest (Gibbons *et al.* 2011: 14) that: “neither the green belt nor national park designation shows a strong statistical association with prices”. They also note that there is more work to be done before it is possible to disentangle the influence of neighbourhood change on the spatial patterns of prices. Despite these caveats, Cheshire

(2014b) argues that these results show that the main beneficiaries are (as neo-classical economic theory would imply) those who own properties close to the green belt boundaries. He goes on to argue that welfare benefits from green belts are not generally transmitted very far.

- 10.13 Evidence of the local or regional impacts of planning on sectors other than the housing market is even more limited. It is quite evident that the economic structure of cities has changed dramatically in the last three decades. The nature, location and concentration of employment have altered considerably. Urban office, retailing and manufacturing centres have been radically reconfigured (Jones and Orr, 1999; Dunse and Jones, 2005). Most commentators recognise that these changes reflect the inter-play between business users, the changing motives and preferences of investors and developers, infrastructure investment decisions and policy interventions. There has, however, been little or no attempt to disentangle these drivers at the urban and regional scales or to explore the interactions between spatial scales.
- 10.14 As with the macro-scale, the analysis and discussion of the wider benefits of planning has been even more limited than that of the costs. CPRE/Vivid Economics (2012) argue that planning can reduce the negative externalities associated with agglomeration, helping to raise the overall benefits people and businesses receive from locating near one another. This potential contribution, however, is under-theorised and has not been the subject of any meaningful empirical scrutiny.
- 10.15 In conclusion, the attempts to assess the impact of planning at neighbourhood, urban and regional scales have been limited. There has been some attempt to infer costs from differences in land and property values but the extent to which the impact of planning has been disentangled from other influences is both limited and thin. This means that any conclusions must be highly qualified. There has been virtually no attempt to consider the spatial distribution of benefits from planning. Taken together, there is little scope to comment meaningfully on either the magnitude of the net impacts of planning or on their distribution. There are extremely important questions about the impact of planning on urban segregation that remain under-explored.



## 11 MICRO-LEVEL ANALYSIS OF THE INFLUENCE OF PLANNING

- 11.1 This section focuses on the way in which planning influences decision-making environments and outcomes at what we label the micro economic level. In other words, it explores the impact of planning on the behaviour of individuals and organisations. These decisions, as noted above, provide the micro (behavioural) foundations for the outcomes observed at the meso and macro levels. It is interesting to note that research at this scale tends to draw on a much wider variety of different modes of economic analysis than aggregate studies. Neo-classical economic analysis is relatively rare. One of the consequences of the application of a variety of alternative (non-mainstream) theoretical perspectives is that the insights generated have had little impact on the neo-classical macro-economic studies described in Section 9. Inevitably, given space constraints, the discussion can only offer a snapshot of the insights available at the micro-level.
- 11.2 The discussion focuses on four strands of literature. The first is concerned with economic analysis of housebuilder behaviour and considers the extent to which issues such as the structure of the industry ought to be examined in any comprehensive assessment of the impact of planning. The second explores calculative practices within the commercial development sector and highlights evidence that explains that private sector cultures and practices can have quite profound impacts on spatial economic outcomes. The third reflects on the extent to which planning decisions consistent with conventional economic thought might be possible. It highlights the extent to which the role of the planner as an intermediary operating at some distance from community and business interests that have a stake in decision-making outcomes might be important and also reflects on the challenges of working under conditions of considerable uncertainty and where imperfect information is the norm. The fourth examines the decision environment of landowners.

### *Understanding housebuilder behaviour*

- 11.3 The housebuilding industry in the UK has a peculiar structure. As we noted above, as many as 18,000 individual builders are registered as members of the National House Builders Council (NHBC). Although such numbers might imply a highly competitive market, there is a high degree of heterogeneity in terms of the size and a scale of activity of these builders. In fact, a very small minority of these firms build most of the new homes in the UK in any year. In 2006, the three largest firms built one third of all new homes (Wellings, 2006). The level of concentration has increased since the most recent recession. A recent Housing Forum (2014) report suggests that the top 10 Housebuilders (by volume) account for 55 per cent of new supply annually. The large majority of registered housebuilders actually build very few homes.
- 11.4 The heterogeneity within the sector means that there are a number of different business models in existence. This has implications for the way in which builder behaviour is influenced by the planning system. There is evidence therefore that understanding the structure of the industry, including the differences in the motives and practices of different firms, is essential if we are to know how planning impacts on the market and how we might seek to alter the impact of planning in the future. Crucially, it is very evident, as noted above, that housebuilders are not operating in a market that in a way resembles perfect competition. As Jones and Watkins (2009: 30) argue “the dominance of a small number of developers and the nature of the business activity means that the industry does not embody the dynamic features associated with competitive markets...”

- 11.5 Builders are often characterised as being conservative and lacking in entrepreneurialism (Barlow, 1999). As Sir John Egan, who led the Government’s Construction Task Force, explained to a (England-only) Select Committee (House of Commons Environmental Audit Committee, 2005: 56): “[builders] have pared themselves down to a relatively comfortable life but that is not the way you stimulate innovation. These are comfortable doing a comfortable job”. This was attributed to some extent to a lack of local competitive pressure. It also means that builders have few incentives to increase building volumes, particularly if this collective endeavour had the effect of dampening down house price. As the House of Commons Select Committee on Affordability and Housing Supply (2007: 21) note: “there is no clear reason why housebuilders would be committed to increasing housing supply to such an extent as to compromise their profit margins”. This comment was based on evidence from builders who stated explicitly that they would not “chase volumes” (p. 20).
- 11.6 The lack of competition is thought to be in part attributable to the development control system. As Kate Barker (2004: 106) explains “when land is in relatively scarce supply, fewer permitted sites mean that there will be fewer competing housebuilders. This can reduce consumer choice. In such circumstances, competition focuses on land. Once land is secured, competitive pressures are reduced: to a large extent housebuilders can ‘sell anything’.” Unlike most industries, builders find themselves operating in a dual market – the land market and the housing market – and their profits and competitive advantage are in the main more highly dependent on their land buying and land assembly strategies than their ability to market the final product. This, of course, explains why developers are in the practice of assembling land banks.
- 11.7 The causes and consequences of land banking are a source of considerable debate. There are two good reasons to assemble land banks: the first is to mitigate against delays incurred in seeking planning permission and the second is as a potential source of profits. Profitability and viability depend on finding land at the right price. Land banks often contain ‘short term land’ that is immediately available and ‘strategic land’ that might take years to come to fruition. A standard criticism of land banking is that the size of land banks is too large to be justifiable and that if developers were really interested in expanding building rates, they would bring more land forward from their stock. In a robust defence of this practice, Chris Walker, head of housing and planning at Policy Exchange, was recently quoted in the press as saying: “The planning system is still the primary reason why we aren’t building the homes we need. It is undoubtedly the case that developers do have a financial incentive to landbank in a rising housing market – every 1 per cent rise in house prices implies a 2 or 3 per cent rise in land prices. However, land-hoarding is rather a symptom of the problem rather than a primary cause of the housing shortage. The problem rests firmly with the planning system” (Sharman, 2014). Planning has influenced these business practices to a degree but this is not the whole story. As we state above, the lack of competition is only partly attributable to regulation within the land market.
- 11.8 In a recent discussion about the utility of economic analysis, Whitehead (2014: 20) observes: “once we allow for location, there is no such thing as perfect competition – at best there is monopolistic competition”. This means that, even in a world without planning, the inherent spatiality of the housing market means that builders would not immediately be faced with the need to develop new structure or business models. Some of the features of their current operation would remain and several of these would continue to act as a break on housing supply. Thus, the way in which the industry is structured to deal with this spatiality is very important too.

- 11.9 The nature of production in the industry is dispersed and localised. As the extensive literature on submarkets shows, the housing market is highly segmented spatially (Watkins, 2001). Many volume builders have developed organisational structures that devolve large degrees of decision-making autonomy to local and regional managers. Divisional offices have stocks of land of varying sizes and of different geographical compositions. In the mid 2000s, those operating in buoyant markets reported that they easily met output and profit margins and had little reason to increase volumes (Jones and Watkins, 2009). The uneven distribution of developable land means that, in some instances, there is often a significant mismatch between those holding land and those who might have the capacity to build (Adams *et al.* 2005a). This is a problem exacerbated by the inefficiencies of the land market. Such inefficiencies partly reflect the asymmetries in knowledge in local markets and the importance of networks of local contacts as a means of overcoming land ownership constraints that are characteristic of a market where ownership is fragmented (Adams *et al.* 2012).
- 11.10 The importance of controlling land is, of course, one of the reasons that mergers and acquisitions have been pervasive features in the industry's turbulent corporate structure. This has contributed to the increasing importance of a small number of volume builders. Ball *et al.* (2010) show that firm structure is important in explaining the capacity of the industry to respond to changing market conditions. Using firm-level accounts data from 1989-2006, they reveal that despite the foregoing discussion large firms are more responsive than the industry average. This is likely to reflect the economies of scale that help larger firms to overcome land ownership constraints, to understand and navigate the planning system, to be able access to finance, and to be able to draw on the skills and materials to expand output.
- 11.11 Taken together, the analysis of several of the many behavioural influences on housing market outcomes, while undoubtedly partial, does offer evidence about and explanations of outcomes that in some cases complement and in others challenge the arguments made on the basis of macro-level analyses of the impact of planning. At this level, it remains very difficult to establish a counter-factual position. It is clear, however, that given the spatial nature of the housing system, even in the absence of planning, builders will still operate in geographically segmented markets. Under these conditions, they are able to influence price. Furthermore, the extent to which they might be motivated to increase supply remains unclear. The structure of the industry means that there are significant benefits for developers who seek to control their exposure to price competition, market risk and uncertainty by managing their relationships with other actors including local owners and other developers. There is considerable potential to exploit the informational inefficiencies that characterise a complex and spatially segmented market. Many of the business practices pervasive within the development sector have been shaped by the geographic and competitive structure of the industry rather than solely by the regulatory framework, although the latter is undoubtedly significant. The research community has not been able to effectively disentangle these overlapping and inter-related influences.

*Understanding the behaviour of commercial investors and developers*

- 11.12 Although there is less evidence on the subject, there has been several attempts to explore explain the spatial unevenness of commercial development by exploring firm level decisions within the development and investment sectors. As in the housing context, the spatiality of the real estate market has had a clear impact on the business practices that have evolved in the UK. These, in turn, impact on observable economic outcomes.

- 11.13 There is growing body of research that suggests that geographical unevenness of development to a large degree reflects the calculative practices used within the real estate profession. Henneberry and Roberts (2008) show that the actual patterns of investment in office markets differ significantly from the patterns that might be predicted by conventional economic analysis. They apply a cultural economy – or social constructionist perspective – to this conundrum and show that the apparently non-rational decisions made are a product of the calculative practices used and, more specifically, the way in which performance assessment against a benchmark leads to convergence in decision-making, even if this requires that empirical evidence be downgraded in the process. They observe that because benchmarking – measuring performance against the industry average – is a self-referential process, it acts as a barrier to geographic diversification. Investors persist with a preference for London and the South East of England, irrespective of performance, and despite the attempts of policy-makers to exert an influence on development patterns.
- 11.14 Jackson and Watkins (2011) apply a similar model to the retail property sector. They extend Henneberry and Roberts’ analysis by focusing directly on the way in which planning considerations, broadly defined, enter into the investment decision process. They seek to determine the relative weight afforded to differences in local policy stances. They show that the local policy environment is relatively unimportant when acquisitions are being considered. Far greater emphasis is placed on local economic and market conditions. Real estate investors become much more exercised about planning policies post acquisition. Senior investment managers highlight the importance of managing relationships with local authorities as part of an asset management strategy. There are two distinct benefits to this: first, place management strategies can help add value to investment, and second, the regulatory framework can help maintain a competitive edge within a local market.
- 11.15 The planning system has also had an impact on the decision-making behaviour of developers at site/scheme level. The Scottish Government’s (2009) guide to development viability, expressly prepared to inform the work of local planning authorities, highlights the financial impact of regulatory delays, uncertainties and additional planning requirements. In the case of three hypothetical residential examples, which illustrate specific planning requirements for lower density, better materials, community benefits, development profits are shown to be reduced by up to 31 per cent. This comes on top of the £400,000 considered as a typical sum needed to prepare a planning application for 100 new homes, once account is taken of all necessary professional and technical work.
- 11.16 These transaction costs are balanced against less readily measurable benefits. Here, much depends on the extent to which planning acts as a risk-reduction or risk-intensification measure through making the future more or less certain. As Adair *et al.* (1998: 16) comment in relation to urban regeneration, “Reduction of risk is a key issue with the result that private sector investment depends on the facilitating role of the public sector”. As yet, there is little substantive research to enable the risk implications of planning intervention to be evaluated at a microeconomic level, so it is perhaps not surprising that risk reduction is rarely seen as an explicit purpose of planners.
- 11.17 Yet in principle, better design and successful planning have considerable potential to enhance the financial viability of real estate development. These include:
- Making more efficient use of the site, by enabling development to take place at higher density or simply by achieving a higher proportion of net marketable floorspace within a

given development. At one example at Portishead near Bristol, the developer was more than able to offset a 10-20 per cent increase in build costs at a mixed-use development by using external architects to produce a high-quality and higher density scheme (English Partnerships, 2007b).

- Fashioning a design image to bestow a competitive marketing advantage. The major Brindley Place development near the centre of Birmingham provides a good example of this. Here, the developer saw quality design as an important factor in attracting good tenants (English Partnerships, 2007b).
- Exploiting the financial potential of the site, by designing any development to take full advantage of any distant or immediate features or views. Luttick (2000) found that proximity to parks or stretches of water can increase house prices by 6-11 per cent while Dunse *et al.* (2007) suggested that the price premium for close access to a park can be as much as 20 per cent depending on house and park type.
- Protecting the financial potential of the site, by designing any development to reduce the negative impact of any bad neighbours.
- Creating bespoke solutions for problematic sites to open up new markets and/or facilitate access to grant funding. For example “High quality design is proving instrumental in the regeneration of East Manchester, where a major regeneration initiative is transforming the urban landscape ...Doing ‘ordinary’ development in New East Manchester seems not to have been an option. There has been a recognition that new development in East Manchester needs to be that much better to attract people back to the area and choose to live there” (NWRA and RENEW Northwest, 2007: 54-55).
- Offering potential occupants greater scope to adapt the development in future and reduce long-term expenditure on energy, management and maintenance.

#### *Understanding planners’ decision-making processes*

- 11.18 Ferrari *et al.* (2011) explore the implications of applying behavioural theories to the understanding of the way in which plans are made and also as a means of explaining and understanding decisions about individual planning applications. They contrast these insights with the outcomes that neo-classical economic analysis might predict. Neo-classical analysis would imply that decisions would be governed by rationality and that planners would weigh the social costs and social benefits associated with different courses of action.
- 11.19 The behavioural approach would reject the notion that decisions are akin to consumer choices. Rather, planners exercise professional expertise in acting as intermediaries who are charged with making decisions at some distance from the communities and business interests who have a stake in the outcomes of the process. The role of intermediary in a process that features a multiplicity of actors represents a significant challenge to neo-classical economic analysis. Indeed, models of rational decisions of have long been criticised for their inability to capture the complex factors that influence the formulation and implementation of plans (Blowers, 1980; Breheny and Hooper, 1985). The politicised nature of the process means that notions of ideology and values need to be accommodated (see Murdoch and Abram, 2002). Decisions are also characterised by high degrees of uncertainty and significant informational deficiencies. To understand the outcomes of such decision-making processes, analysts ought to reflect on the significance of rules of thumb and referents used to simplify processes, the importance of experiential learning, habits and cultural norms.
- 11.20 This analysis resonates with the insights from the planning research literature that has sought to explore the way that the activities and interests of a range of actors, and the

complex and often contradictory nature of the policy environment, come together to shape planning decisions and the nature and content of plans. Bottom-up studies of planning imply that 'strategic choice' offers a better explanation than 'rational choice' in that it is infused with an acceptance that outcomes are highly likely to deviate from those predicted by neo-classical economic analysis (see Ferrari *et al.* 2011 for a review).

- 11.21 The complexity of the decision environment explains why different planning authorities that appear similar in terms of market and economic conditions often perform very differently when assessed against the targets set by government for speed of decisions, the proportion of applications accepted and level of new housing delivered. A recent study, by the Cambridge Centre for Housing and Planning Research (2014), illustrates that outcomes can also be influenced significantly, and in unintended ways, by the performance measurement regime. The study, which seeks to explore 'pinch points' in the planning process and the sources of delay, reveals that much of the important negotiation occurs at the pre-application stage. This allows time to be taken before an application formally becomes part of the monitoring regime. In this study, housebuilders argued that performance measurement had encouraged poor practice within local planning authorities. For instance, they suggested that quick, negative decisions were taken to meet the speed of delivery targets and in the hope of buying more time but inviting the application to be re-submitted as a new file. The influence of targets on practice was also recognised by planners who felt many were unrealistic and lacked any appreciation of the scale, complexity and diversity of case loads.

#### *Understanding landowners' decision-making processes*

- 11.22 Most commentators acknowledge that not all landowners are profit-maximising or even rational in their behaviour. Debate therefore concerns the extent to which landowners are motivated by non-market considerations, and are unresponsive to market signals and, consequently, whether this has any serious impact on the long-run supply of land. Although Ball *et al.* (1998: 68) argue that "the long-run land supply function should be expected to be more elastic, because, over the long run, more landowners are tempted to sell for development", they recognise that the long run is "essentially a heuristic device" which "enables temporal completeness of the system" (p. 35).
- 11.23 In neo-classical economics, work has centred on the extent to which the individual preferences of particular landowners can be accommodated in models of land supply. Evans (1983 and 1986), for example, argues that the reluctance of elderly couples to sell up and move at any price, or the high regard in which wealthy landowners may hold the amenity of their estates above any tempting offers received from developers, may be the kinds of exceptional cases, where individual preferences are more important than monetary considerations. Such personal preferences can be considered part of what Baum and Crosby (1988) call the 'psychic income' or positive feeling that land or property ownership may create. In neo-classical analysis, the impact of personal preferences can be represented by the concept of 'consumer surplus' or the amount above market value that would be required, as compensation, to tempt particular owners to sell (Evans, 1983). The apparent unwillingness of some owners to sell at any price suggests that their consumer surplus may be so high that no monetary figure could provide enough compensation for its loss.
- 11.24 In the behavioural literature, the strategies, interests and actions of landowners are widely acknowledged as important (Goodchild and Munton, 1985; Adams and May, 1991 and 1992; Adams *et al.* 2001 and 2002). Goodchild and Munton, for example, contend that individual

owners perceive land management and development in a way that relates significantly to their own particular characteristics or circumstances. Adams and May (1991) suggests that certain landowners pursue more active land management and development strategies than others. Passive owner behaviour should not, of course, be confused with irrational owner behaviour. Refusal to sell land with development potential may be perfectly rational for the individual owner if, for example, it helps to minimise tax liabilities or maximise future choice. Where suitable replacement land would be hard to find, if and when needed, the opportunity costs of land release may significantly outweigh the likely proceeds from sale.

- 11.25 Although the distinction between active and passive behaviour is useful, it cannot fully reflect the diversity of landowner strategies and actions. Passive owner behaviour, for example, may range from that which is merely responsive to interest from developers to that which is openly hostile. More recent research by Adams *et al.* (2002), which examined the strategies, interests and actions of those owning land and property within 80 substantial redevelopment sites in four British cities, sought to create a broader spectrum of owner behaviour. It found that just over half the owners investigated in the four cities research had encouraged or significantly encouraged redevelopment between 1991 and 1995. Another third had a neutral impact on redevelopment. Less than one fifth discouraged or significantly discouraged redevelopment. Nevertheless, even a single hostile owner can hold up development for some considerable time. Commercial developers seeking to promote urban redevelopment may take several years to assemble suitable sites and succeed only by operating covertly through third parties.

#### *Conclusions*

- 11.26 In summary, there is considerable evidence that the spatial economic outcomes that we observe are the product of the complex interaction between (what are often non-rational) business decisions, cultures and practices in the development and investment communities, and the multitude of policy initiatives that are implemented in different ways in different contexts and at different points in time. To date, there has been little or no attempt to draw together evidence generated by studies that operate at different scales and apply different modes of analysis. This has not been helped by the tendency for researchers who apply different approaches to talk past each other. What is required is a more concerted attempt to explore what we agree upon and to try to explore further some of the key areas of difference and disagreement.
- 11.27 The value of planning can truly be understood only by seeking to explore its role from a range of alternative conceptual and analytical perspectives. Understanding the value of planning requires a pluralist approach. Macro-econometric analysis should not be dismissed simply because it is built on unrealistic assumptions. Qualitative analysis should not be dismissed as context-specific or too descriptive, as is often the case. Rather the argument here is that alternative modes of economic analysis can be used to corroborate and challenge. It is possible to build better models by reflecting critically on the limitations of current approaches and seeking to enrich the extent to which they capture the complex interactions between planning and markets. This should be informed by micro-level analysis. These models can be more sophisticated in their treatment of space.

## 12 CONCLUSIONS AND NEXT STEPS

12.1 The relationship between planning and economic value is highly complex. Unravelling this relationship is a major intellectual task that has not yet received sufficient attention. Indeed, one of the main messages from this report is that we still have only limited knowledge of the economic impact of planning and that the claims those who suggest otherwise are often dependent on a narrow conception of planning, an artificial view of how markets really work, and an over-reliance on heroic methodological approaches. These weaknesses need to be addressed urgently. This section of the report has three goals. First, it seeks to outline the basic requirements that any analytical framework should possess in order to enlighten the field. Second, it calls for a pluralist approach to collecting and reconciling the empirical evidence and offers some thoughts on the different modes of analysis that might be applied to the problem. Third, it offers some initial thoughts on important gaps in our knowledge base.

### *Towards a framework for analysis*

12.2 As this report has argued, an appropriate analytical framework must be able to capture the broad set of activities that constitute planning and the complex ways that these influence economic values. Section 2 proposed that the breadth and complexity of planning can be captured via a four-part classification of policy instruments. These are:

- Shaping instruments – These shape decision environment of individual development actors by setting broad context for market actions and transactions (for example, development plans).
- Regulatory instruments – These constrain decision environment of individual development actors by regulating or controlling market actions and transactions (for example, development management).
- Stimulus instruments – These expand decision environment of individual development actors by facilitating market actions and transactions (for example, land assembly).
- Capacity building instruments – These enable development actors to operate more effectively within their decision environments and so facilitate the operation of other policy instruments (for example, improving information systems).

12.3 These instruments impact on economic value at a number of different scales. The report proposes that any systematic assessment of the impact of planning must take account of the sensitivity of results to choices about the level of analysis. Three levels of analysis are highlighted. These are:

- The macroeconomic scale at which the aggregate positive and negative impacts of planning can be partially assessed;
- The meso-level where the differential impacts between neighbourhoods, settlements, districts and regions should be assessed to ensure there is a detailed understanding of the distributional effects of planning, which is of course an inherently spatial activity;
- The micro-level at which it is possible to explore the influence of planning on the decisions environments within which individual, business and policy choices are made and at which it is possible to develop stronger behavioural foundations for meso and macro-level studies.



- 12.4 To complicate matters further, it is also vitally important that the inter-play between these scales of analysis is examined. Here, it is helpful to distinguish between five different economic perspectives on market operations that can help enlighten the economic value and impact of planning. Most criticisms of planning come from economists grounded in the first two of these perspectives, but as explained below, the alternative questions they each ask should be considered complementary in framing a planning research agenda.

*Perspectives from neo-classical economics*

- 12.5 Up to now, neo-classical economics has been the dominant mode of analysis. As discussed above, the way this mode of analysis has been operationalised to date has several limitations including those imposed by data constraints as well as the conceptual and practical challenges associated with reducing planning to a limited set of measurable dimensions. There are many different modes of analysis that can be applied to the understanding of economics problems. This report makes a plea for a more pluralist agenda that accepts that valuable insights and evidence will be generated by the application of different approaches outlined below.

*Perspectives from welfare economics*

- 12.6 Welfare economics is essentially concerned with resource efficiency and is regarded by many economists as a subset of the neo-classical approach. This is because it too presumes that individuals are narrowly self-interested and make rational choices. It thus conceptualises overall welfare not in relation to any external standard of social provision (such as quality healthcare or education, for example) but merely in terms of an economy's efficiency in satisfying individual preferences. Whether an economy considered efficient in this narrow sense produces outcomes that are unethical or inequitable is not an explicit concern of welfare economists.
- 12.7 Although neo-classical and welfare economics are both part of the 'economic mainstream' and share common methodological ground, the specific focus of welfare economics on market failure merits separate treatment in relation to real estate and planning. Market failure occurs as a result of distortions that arise *externally*. These can prevent even the perfectly competitive market invoked in theory from delivering resource-efficient allocations. Efficiency in this sense refers to the important concept within welfare economics of Pareto optimality, in which resources cannot be reallocated to make one person better off without making someone else worse off.
- 12.8 Certain types of markets are more prone to failure than others, with externalities, under-provision of public goods, and lost opportunities endemic within real estate markets. This means that creating better places may necessitate government intervention to make real estate markets more efficient (let alone more equitable or sustainable). Of course, government intervention carries the danger of government failure, so it becomes important to consider whether the outcome is better than that which would have been produced by market processes alone. Nevertheless, many economists see a strong rationale in welfare economics for government intervention to improve property market efficiency and enhance economic welfare (see Evans, 2004b; Cheshire, 2009). Welfare economics has thus been highly influential in planning thought and planning, especially through its application in urban and environmental economics (see, for example, Balchin *et al.* 1995; Garrod and Willis, 1999; Pavlov, 2004; Willis, 1980).

### *Perspectives from new institutional economics*

- 12.9 New institutional economics represents an important (relatively) recent addition (or enhancement) to the economic mainstream. It can be traced back to Coase's (1937) seminal paper on 'The Nature of the Firm' in which he first introduced the concept of transaction costs as a means to explain whether firms contracted work out or undertook it themselves with hired labour. Transaction costs include those of information search, contract bargaining and contract enforcement. Transactions require governance structures or 'rules of the game' (called 'institutions') to determine how they are organised, of which systems of property rights are among the most important. Over time, such institutions should evolve to help reduce transaction costs and minimise uncertainty in human interaction.
- 12.10 In a second seminal paper entitled 'The Problem of Social Cost', Coase (1960) challenged the implicit assumption in welfare economics that market failure should necessarily be addressed by government intervention. He argued that such failure could not be intrinsically ascribed to the existence of externalities but was due to high transaction costs that undermine attempts to allocate ownership over such externalities. In this case, governments may well be able to deal with market failure more effectively by creating a stronger system of private property rights that would enable externalities to be internalised. To work in practice, however, any externalities need to be concentrated on relatively few people, who might be willing to exercise their property rights, rather than spread over many individuals, none of whom might see enough personal benefit in negotiating an externality contract.
- 12.11 In recent years, there has been much interest among planning theorists in applying ideas from new institutional economics. Although the literature is limited in scope at this point, this theoretical perspective has been shown to add to understanding of the impact of planning, especially as a means of understanding development control decisions and the choices made about policy priorities. Alexander (2001) emphasises that, by assigning development rights, planning helps create a more stable institutional environment for real estate markets. In this context, Webster and Lai (2003) contrast markets as institutions that potentially reduce *individual* transaction costs with government policies and regulations that potentially reduce *collective* transaction costs. However, Dawkins (2000) highlights the increased transaction costs that private developers actually incur as a result of lengthy delays in planning approval.

### *Perspectives from behavioural economics*

- 12.12 Do market participants actually behave as neo-classical theory might expect – rationally thinking through all possible alternatives before deciding which is in their own best interest? To answer this, economists have increasingly looked to insights from psychology and have experimented to find out what financial decisions people actually take, when faced with particular choices. From this has blossomed the rapidly growing study of behavioural economics, whose often surprising insights are producing a drastic rethink of how markets operate in practice.
- 12.13 At the heart of behavioural economics is the concept of 'bounded rationality', which means that limits exist to the information people can access and take in before making any decision. Since the world is highly uncertain, people tend to resort to rules of thumb, habits of practice and even emotions in deciding what transactions to make. This introduces bias

into market decision-making and takes market operations well beyond the cool rationality presumed in original neo-classicalism.

- 12.14 Applying these ideas to public policy-making, Thaler and Sunstein (2008) argue for policy-makers to work with human nature to encourage behavioural change, for example, by making people fully aware of their daily energy use. To some, however, this particular interpretation of behavioural economics smacks of the efficiency-enhancing approach of mainstream economic theory and underplays important social and cultural factors that mould aspirations and frame choices (Watkins and McMaster, 2011). This resurgent interest in behavioural economic analysis, while revealing a bifurcation between methods that build on atomistic and social ontologies, has begun to offer new evidence about the impact of planning and has also brought to light a rich, but long forgotten, empirical base about the behaviour of land and housing market actors (see Ferrari *et al.* 2011 for a review).

#### *Perspectives on the social construction of markets*

- 12.15 A recent and more radical view of real estate markets views them as a “social construct... understood as part of the system of social relations” (De Magalhães, 2001: 106). This approach implies that people are strongly influenced in their economic decisions by their social context and by what others decide. It challenges the mainstream view that economic agents individually make self-interested decisions on the basis of rational choice. Instead, it holds that market transactions, like social interactions, are highly conditioned by humanly devised rules, norms and regulations, and reflect dominant powers and interests.
- 12.16 As Christie *et al.* (2008: 2291) emphasise, “markets are saturated with all kinds of emotions, sometimes calm and predictable, sometimes wild and out of control, sometimes dependent on aggressive behaviour, but also infused with humour, warmth, affection, even love.” This chimes with work on the York housing market, undertaken by Wallace (2008), who draws attention to the intuitive side of market-making, with many agents and developers repeatedly referring in interviews to their ‘gut feeling’ and their innate ability to just ‘know the market’.
- 12.17 These insights into market construction produce strongly disaggregated view of market structures, with each local market reflective of its own routines, procedures, distinctive relations, social culture and other institutions. Those who regard markets as socially constructed thus take a very different view of what drives market operations from that of neo-classical economists, reported earlier (see De Magalhaes, 2001; Henneberry and Roberts, 2008 for applied studies).

#### *Developing these analytical perspectives*

- 12.18 These five modes of economic analysis have considerable potential in shedding light on different aspects of the relationship between planning and the factors that shape economic values. Specifically:
- drawing on neo-classical economics, we might ask how far planning directly affects the overall quantity of market supply and demand;
  - drawing on welfare economics, we might ask how far planning can overcome market failure;
  - drawing on new institutional economics, we might ask how far planning reduces, or indeed increases, market transaction costs;

- drawing on behavioural economics, we might ask how far planning can nudge markets towards more beneficial outcomes;
- drawing on the social construction of markets, we might ask how far planning can transform market cultures and practices.

12.19 Reconciling evidence generated from research that applies different methodological perspectives is not an easy task. There are scholars who would caution against even attempting to this exercise given that different approaches have quite different ways of viewing the world. Whilst acknowledging the scale of the intellectual challenge, there is at least one way forward. In developing a case for philosophical pragmatism, Haack (2004) offers an appealing crossword analogy. This implies that the research community should draw together individual strands of evidence, each of which may have been unearthed using different methods, to cross-check and verify the answers to the other clues. Such an approach would invite debate not just about the impact of planning on economic values but also about the importance of institutional design, including governance and market structures, in shaping market performance and supporting economic growth.

*Towards a research agenda*

12.20 As this report highlights, the existing evidence base is narrow and shallow. There are many research questions that have still to be answered before it might be possible to provide a robust and systematic account of the impact of planning on economic values. It is now some time since any part of government or any funding body in the UK directed an integrated programme of planning research. As a result, policy-makers are reliant on a series of sporadic studies, which while interesting in themselves, do not provide a comprehensive understanding of the economic impact of planning. In this context, it is essential to reinvigorate planning research and for research funding bodies, government, professional institutes such as the RTPI, sector associations, developers and other stakeholders in planning to consider how they might develop, support and coordinate a substantive research programme to discover how in today's world, planning can best add value through consistently delivering benefits that more than outweigh its supposed costs. Among the projects that might be considered most urgent within such a programme are those identified immediately below.

Project 1: A systematic assessment of the impact of planning on values

12.21 The aim of this project would be to provide a more complete and balanced assessment of the impact of planning on market, social and environmental outcomes. This would revisit the conceptual and methodological contributions of welfare economic analysis that were prominent around two decades ago (see Evans, 2005 for a review). The project would aim to complement the existing body of work on the costs of planning by seeking rigorously to quantify the social, economic and environmental benefits at the macro scale. The modelling framework would attempt to account for a broader range of planning interventions than has typically been the case and would be designed to capture other significant constraints on supply, including the influence of industry structure and business practices.

12.22 Key research questions would include:

- What impact does planning, broadly conceived, have on economic values including land, housing and commercial real estate prices?

- Can the impact of planning be more effectively isolated from other constraints on development?
- Is it possible to measure the impact of planning instruments on market demand?
- What are the net impacts of planning?

Project 2: A meso-level analysis of the distributional impacts of planning

12.23 The aim of this project would be to explore the uneven spatial impacts of planning. It would seek to enhance understanding of the net impact of planning by developing clearer evidence of the way in which costs and benefits are distributed within settlements across neighbourhoods, and between settlements, districts and regions.

12.24 Key research questions would include:

- To what extent do planning instruments have differential impacts on different localities?
- Can we measure the spillover effects between planning authorities?
- How do differential positive and negative impacts map on to existing patterns of deprivation and/or wealth?
- Can a better understanding of spatial variations in the impacts of planning enhance our ability to measure the net effect on social welfare?
- Is it possible to measure the spatial transmission of positive and negative impacts between localities effectively enough to be able to simulate the impact of policy changes both within a locality and in neighbouring areas?

Project 3: Delivering strategic urban transformations – learning from Europe

12.25 The aim of this project would be to discover more from European experience about how value is added through collective action when strategic planning is linked to ownership control and infrastructure delivery. Alongside this, the project would investigate the extent to which strong democratic leadership of place transformation at the local level engenders positive attitudes to new development and helps with speedier delivery. The project would contribute to debate on whether future UK planning reform should focus on promoting different styles of planning, rather than simply ‘less’ planning.

12.26 Key research questions would include:

- How can the power of land ownership and land value best be harnessed to enable sustainable planning and development to be achieved? Specifically, how can land in public ownership, or which might be brought into public ownership, be used in this way?
- What can be learnt from the experience of other European countries in designing institutional mechanisms to enhance the quality and speed of development?
- What impact does the more integrated European model have on the supply of land for housing and industry, and on the organisation of the construction and development industries in those countries?
- What professional capacity and political will is needed to ensure successful public-led urban transformations?
- What dangers exist in taking a more proactive strategic approach to development and how can these best be minimised?

#### Project 4: The delivery of planning interventions at the local level

12.27 The aim of this project would be to investigate how well planning is integrated, organised and delivered in the UK to enable it to add value at the local level. It would therefore seek to map planning activities in selected case study areas against the ‘shaping, regulating, stimulus and capacity-building’ typology set out in this report. Four to six case studies might be chosen to reflect different economic challenges faced locally, from managing development in flourishing markets to nurturing development in thin markets.

12.28 Key research questions would include:

- To what extent does the formal organisation of planning services facilitate or frustrate integration between shaping, regulating, stimulus and capacity-building instruments? How do different institutional arrangements for the delivery of planning services affect planning outcomes?
- Who provides ‘place leadership’ and what form does it take?
- How influential are professional planners in the hierarchy of decision-making?
- What is the nature of the relationship between professional planners and elected politicians?
- To what extent does planning focus on the delivery of explicit outcomes, including added value, rather than merely on the efficient management of processes?
- What capacity constraints impede the effective delivery of outcomes?
- What economic information is collected and used in making planning decisions?
- What attempts are made to assess the comparative costs and benefits of alternative planning strategies?
- How far is a ‘culture of reflective learning’ at the core of planning activities?

#### Project 5: Alternative approaches to development regulation

12.29 The aim of this project would be to compare the benefits and costs of discretionary and pre-defined modes of development regulation, as found respectively in the UK and much of mainland Europe. It would also seek to identify what changes in law, practice and policy would be needed to introduce experimental forms of pre-defined regulation into the UK.

12.30 Key research questions would include:

- How would the introduction of pre-defined regulation change the nature of UK planning?
- What impact would it be likely to have on the quantity, quality and speed of development?
- What balance could it achieve between flexibility and certainty and to what extent would this appeal to the development community?
- What opportunities would it provide to integrate different forms of regulation into a single development consent?
- To what extent would it encourage greater public trust and involvement in the planning system?

#### Project 6: The use of market information in planning decisions

12.31 The aim of this project would be to discover what market information is currently used in UK planning decisions and to assess the potential for expanding the use of such information in

the future. It would interrogate key issues around the quality and accessibility of market information itself and around the availability of the skills necessary to make best use of such information.

12.32 Key research questions would include:

- What economic and property market information is currently accessible at the local level, and at what cost?
- What types of information are currently missing?
- What implications if any arise from over-reliance on private-sector information sources, when so little property market information comes in the form of official statistics?
- What approaches and methods are required to produce interpretations of such information that are sophisticated and dynamic, rather than simplistic and static?
- As a specific example, how can development viability modelling be improved?
- What are the constraints, both technical and political in making more use of market information in planning decisions?

Project 7: Development economics in planning education

12.33 The aim of this project would be to undertake a focused analysis of how 'development economics' is currently taught in accredited planning schools. This is essential to discover how well the next generation of planners will be able to engage with the kind of market-based issues that will probably become ever more important as their careers develop. An extension of the project would be to evaluate the extent to which planners already in practice have access to relevant opportunities to sharpen up their economic skills.

12.34 Key research questions would include:

- What concept of markets is presented to students and, specifically how are students taught about the role of planners within markets?
- To what extent is teaching on 'development economics' embedded within practical work rather than delivered simply in lectures?
- How far is teaching on 'development economics' connected to and integrated within other parts of the planning curriculum, rather than being treated as a stand-alone topic?
- What is the balance between knowledge and skill development in the teaching of 'development economics'?
- What might be considered 'best practice' in the teaching of 'development economics' and how can this best be disseminated?

Project 8: Planners as market actors – challenges for the profession

12.35 The aim of this project would be to discover the extent to which professional planners have the capacity and confidence to work as market actors in transforming development activities and market. The research would therefore investigate the knowledge, skills and values of planners in practice and the extent to which they feel comfortable working as market actors.

12.36 Key research questions would include:

- What are the values, beliefs and background of those professionals working in 'planning' at a local level, in both the public and private sectors?

- By what theoretical reference point(s), if any, do planners, and the organisations for which they work, seek to explain and justify their activities?
- How well do planners understand the development industry and its different components?
- How strong are the skills of planners in negotiation and persuasion?
- What additional skills and knowledge do planners require to enable them to operate more effectively as market actors?
- To what extent are 'planning' methods used in practice based on economic theory?



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## About the research

This report is based on research conducted for the RTPI by Professor David Adams, Ian Mactaggart Chair of Property and Urban Studies, The University of Glasgow, and Professor Craig Watkins, Professor in Town and Regional Planning, The University of Sheffield.

## Further information

The report is available on the RTPI website at: [www.rtpi.org.uk/valueofplanning](http://www.rtpi.org.uk/valueofplanning)

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