

Beyond Location

A study into the links between specific components of the built environment and value

Summary

This is a study into what we mean by the **economics or value of a place**. It uses a ground-breaking 'big-data' analysis of British cities to show how the value of a place is influenced by a wider range of factors than economists and planners have typically realised. These factors vary but are predictable. In contrast to most conventional economic models or urbanists' assumptions, beauty, a sense of locational memory and the urban quality of a place matters sometimes as much and sometimes more than connectivity, space and proximity to a place of work. Our own, we believe uniquely wide ranging, analysis of 160,000 data points for six British cities shows that, when you 'pan the camera out', some elements of the urban environment (above all the presence of greenery) are not as simplistically positive as is normally assumed. We argue that improving our empirical understanding of place value will help designers and developers, policy-makers and the wider public support the creation of better places in which more people lead healthier and happier lives.

Of course, value is a fraught term. Understood purely economically, extra value is not always a good thing – certainly not for everyone. In globally successful cities, spiralling house prices 'forcing out' existing communities is emerging as one of the most potent political forces around. The ultimate aim of this study therefore is not just to help developers to build and planners to permit better places by better understanding consumer preferences. It is also to encourage developers and planners to understand and measure how cities need a *range* of uses, forms and scales in order to function and maintain their value for the humans who must live, love and work in them. To maximise economic value in every single spare inch of available land is rarely to maximise overall economic value – something that individual landowners often find hard to achieve. Sometimes the monster can eat its own tail.

PART ONE: BEYOND LOCATION

- The economics of place has been side-lined by many economists. And what writing there has been has focused too simplistically on a few variables. Economists have overly focused on accessibility. Urbanist studies have tended to focus on greenery and walkability.
- In the last 30 years a minor revolution in the way academics understand and analyse the drivers of property values (technically known as hedonic modelling) has permitted an ever more sophisticated understanding of what actually drives value. This has been improved in the last ten years by the 'big data' revolution and the explosion of ready access to neighbourhood-level data.
- However, crucial areas of research remain under-explored and not enough of this research is properly influencing design, policy or planning decision-making which remain too often non-empirical in its approach. Until recently, many planning systems evolved with no real account being taken of price information or other economic indicators.

- Too many designers and planners deny the importance of value as a way of understanding the town or city. Extra value is not *always* a good thing. And value is not the *only* prism for understanding preferences but it is a very important one.
- Recent improved research has led some economists to evolve ever more complicated 'models' for understanding city economics. Despite their labyrinthine formulas, such models have been little better able to predict city economics than their simpler predecessors.
- This report takes a different approach. We don't think that place value across multiple cities and years can be modelled in advance. We instead set out a new, we hope usable, framework for understanding what we mean by the value of place and for setting out the drivers of place value in a given location.
- We believe that this framework sets out empirically and useably what types of places tend to work for humans and investors in the long term. It also shows how to 'fit' thinking about place value within the wider framework of education levels, economic growth, regulation, supply and the demand for space which necessarily drives regional value.
- We have called this framework **Beyond location** because it shows how place value is driven not just by supply and demand and by access to income-creating jobs but *also* by the inherent qualities of a place.
- Our **Beyond Location** framework has two components (see Figure 1):
 - The **Place Value Circle** sets out the different ways in which Place Value can be understood (i) the *Market price today* (ii) *Investor value* or free cash flow (iii) *Gross Value Added* of a location either to the economy or a local or national government (iv) *Social Value* - a location's propensity to encourage high wellbeing, strong community, and to foster high levels of interconnectedness on which all towns and cities ultimately flourish; and
 - The **Place Value Pyramid** sets out the drivers you need to understand if you are

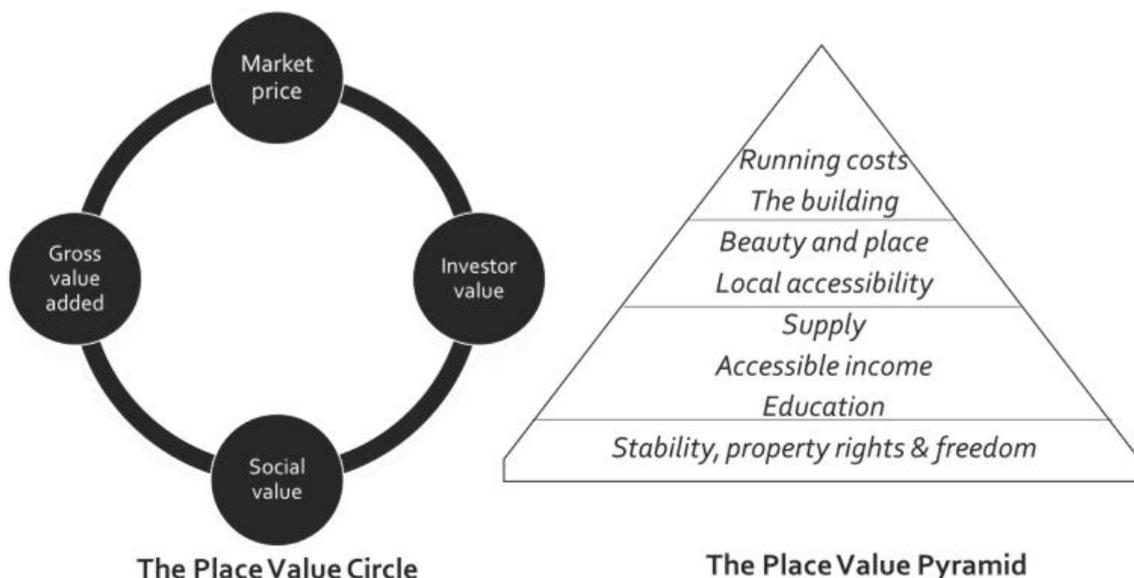


Figure 1 – Beyond Location framework.

to understand the value of a given building. These are (i) the rule of law, *stability, property rights and freedom* (economic and more broadly) at the national level (ii) *education* levels as the best predictor of long term income at a city level (iii)

accessible income levels as the easiest way to understand demand (iv) *supply* of new homes (the regulatory suppression of which accentuate all prices but above all the prices of the more desirable homes) (v) local *accessibility* (vi) the nature, *beauty, sense of place* and scale of a home's immediate surrounding as well as the popularity of its design (vii) the physical attributes of the *home* itself and their fit for local demand and (viii) its *running costs*. The main focus of this work is layers (v) and (vi).

PART TWO: PLACE VALUE, BEAUTY AND MEMORY IN THE HUMAN CITY

Our literature review of 90 studies (and of other literature reviews exploring another 150) leads to ten key findings about what elements of place normally create value:

- Most people will pay more for a well-connected property away from too much noise, pollution and one way-streets and within walking distance of greenery and other local amenities.
- Retail stores with ready pedestrian access add value. So do good schools – sometimes astonishingly so.
- In the right market luxury towers can add value, sometimes huge value, within this framework. However, they can also be unpopular and reduce liveability. Their economics are normally not sustainable outside expensive developments with very high land values and rents or cross-subsidy.
- Locally-referenced vernacular architecture certainly can and, at any rate based on the studies to date, probably normally does add real value. This value uplift can be very significant and, in the limited research to date, can be a more significant than views over water. Living in an environment they aesthetically like contributes to many people's enjoyment of life.
- Flats or terraced houses on what might be termed conventional blocks with clear fronts and clear backs in a legible street network with better organised movement tend to be more popular and spatially efficient with better functioning private and public spaces. They are also safer from property crime. Entrances and windows facing the street provide natural surveillance and also help to keep the streets safe. Less crime, above all less violent crime, in turn increases prices.
- A conventional grid framework of streets does not always but seems often to add value as opposed to a more twentieth century suburban distributor road and cul-de-sac urban land pattern. This is probably increasingly the case but it is important to stress that there remains a very substantial market for suburban living patterns. Quieter residential streets *do* have value.
- Older neighbourhoods are nearly always worth more in richer societies particularly when their future preservation is guaranteed. They also go up in value at an above average rate. The value premium of an historic neighbourhood is greater than that of a new build and more sustained. Old buildings often attract more profitable businesses.

- When you 'put it all together' and compare 'new urbanist' developments with traditional street patterns to lower density suburban ones, they are nearly always, worth more on a per unit basis and a per hectare basis.
- Most of the time wealthy purchasers are far better able than others to monetise their preference for the best neighbourhood features and urban form. With a limited supply of 'good places' in many modern cities this creates particularly sharp 'sorting effects' with the more prosperous monopolising many of the better places. This creates many policy and equity challenges.
- Obviously, there are very many differences of emphasis and degree between different cities, cultures and dates. Nevertheless, we judge that the same basic and very human needs, preferences and desires emerge reasonably consistently from the research and from the wider work correlating urban form and wellbeing.

PART THREE: A TALE OF SIX CITIES

- We have conducted a uniquely wide and data-rich analysis on information to do with market value, social value and urban form in six British cities (London, Birmingham, Manchester, Leeds, Liverpool and Newcastle). This has used the widest accessible dataset of basic urban characteristics.
- These datasets relate everything from street network connectivity to the presence of historic buildings and from the amount of green space to overall accessibility.
- In total, we have considered around 160,000 data points. The point of the analysis is not to investigate them *separately* but *together*. And to permit city-wide conclusions and inter-city comparisons.
- We think that the findings (part predictable, part surprising) tell us much about the state of Britain as well as of our cities. One thing they do show beyond, we believe, any reasonable doubt. For investors and for those making choices about where to live and why and how if they wish to flourish, urban form really does matter. **Our models for urban form or morphology can predict up to 74 per cent of the Index of Multiple Deprivation (IMD) and up to 54 per cent of sales values.**
- Our key findings include that:
 - **More greenery is *not* always a good thing.** The focus by some on the presence of greenery to the exclusion of other issues in urban form and fabric is misplaced. The immediate presence of attractive greenery can add huge value in many situations, as can the presence of high quality parks. However, at the city-wide level, the presence of more greenery can be associated with *lower* value as well as higher value. *What* it is and *how* it is managed really matters. For example, in London, a home closer than average to a high quality park costs, on average, 10.6 per cent (or £51,000) more than one that is not holding everything else equal. This corresponds to an average premium of £29.83 per metre. However, in Liverpool, a home located closer than average to a high quality park is worth, on average, 7.2 per cent (or £7,760) less; a decrease of £3.31 per metre;
 - **Land use and form does matter.** There are discoverable relationships at the city-wide level between urban form and deprivation and value. Areas of high population and high areas of unbuilt land are less valuable and often associated with more deprived communities. This might be partly due to the history of post-

war building but, after thirty years of right to buy, most people who can afford to choose, continue to avoid this type of urban pattern. Given the wider evidence on urban form and wellbeing, such preferences appear rational;

- **The heritage premium is more important than the new build premium.** In every city studied, proximity to a listed building was associated with more additional value than the premium associated with a newly built home. A home closer than average to a listed building in London is worth 10.3 per cent (or £49,770) more than one that isn't holding everything else equal. This is equivalent to £141.83 of additional value per metre. The equivalent new build premium is only £8,795. Beauty, a sense of place and the confidence that it will not be destroyed bring real and predictable value;
- **Economists are right to focus on jobs. The economic context is crucial and London is different.** The clear difference between London and all of our other cities, shows you how accessible income is driving an urban renaissance in London out of all proportion to that visible elsewhere in the UK. Walkable, well-connected street-based networks or older properties have a value premium over other neighbourhoods which far exceeds that yet visible in other cities. Proximity to a listed building is associated with nearly seven times as much value premium in London as in the other cities studied. As in the wider literature survey, it is far easier for the more prosperous to monetise their preferences;
- **The suburbs are not dead yet.** The millennial generation may have different habits to their parents, but the corollary of the point above is that the merits of the suburban life are clearly still visible and valuable to very many millions. These include amenities and services at walking distance, easy access to the wider transport network, medium densities, but also insulation from traffic and personal green space in a form that brings clear personal wellbeing benefits;
- **You can value diversity.** Successful cities are defined by their diversity in form, use and transport. And this diversity has value. Areas with more diversity of house types suffer from less deprivation. Areas with greater transport and amenity value are normally worth more other things being equal. Above average amenity diversity is associated with additional value in all cities studied (from £4,000 in Birmingham to £17,550 in London) and with greater value in five of the six cities (from £675 in London to £5,890 in Leeds); and
- **Gentrification is about place as well as location.** In London, the areas which are gentrifying are typified by their high proportion of pre-1900 homes, dense urban fabric, and their offerings of transport connections as well as by their centrality.

CONCLUSION – THE VIRTUOUS CIRCLE OF VALUE

We conclude by asking what are the implications of this study for developers, communities, residents, planning authorities and politicians.

- **For developers.** You need to understand value more widely and more generously. Your quite simple cashflow model isn't modelling value in the city as well as you might think it is. It is probably telling you about 'unit value' not 'place value.' The intangible things that don't 'fit' into it (diversity, sense of place, beauty, local heritage, a bicycle repair shop) may not actually diminish value in the way your spreadsheet tells you that they do.
- **For investors.** Be very wary of paying a new build premium. It doesn't always last. The premium associated with more 'old-fashioned' patterns of urban settlement and more beautiful buildings is greater and longer lasting – particularly in higher income regions.
- **For communities and residents.** Trust your instincts. What makes a place home to you and your neighbours may well add value to the clients for whom a developer is building homes or offices. They just may not understand it yet. In fact, they probably understand a little less than they realise. Encourage planning authorities to enforce local rules with as much certainty and simplicity as possible.
- **For planning authorities.** Don't dismiss an economic understanding of place. In fact, embrace it and use it to understand what people like and want. Similarly, when you are trying to make judgments on issues that are clearly important but which are hard to monetise derive it from as empirical an understanding as you can of the links between development with wellbeing and popularity. Use data and be very careful of imposing your own value judgements on the wider community.
- **For free market politicians.** Don't dismiss other perspectives on value beyond market price. Ultimately, the 'soft things' that the market finds hard to value are well linked to market value. Don't dismiss or be afraid to talk about beauty or happiness in the town or city.

For more interventionist politicians. It isn't true that only the prosperous care about beauty and a sense of place. The more prosperous can simply afford to pay more for it and don't need to worry about basic affordability with anything like the same urgency. But less well-off residents do care. Ask yourself how to meet their need for more affordable homes without sacrificing the quality of where they live. Planning systems should be simple, predictable and rational.