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London planning and the coming crisis

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scope

1. about the crisis
2. problems in London planning*
3. foreseeable impacts of the crisis
4. action/discussion points

*'planning' used in broad sense, not just the Town and Country Planning Acts: policy bearing on the urban.

To start, it helps me if I think about what has been happening in the world

briefly...

- It's been a very good decade for profitability of capital - owners getting hold of the world's surplus product:

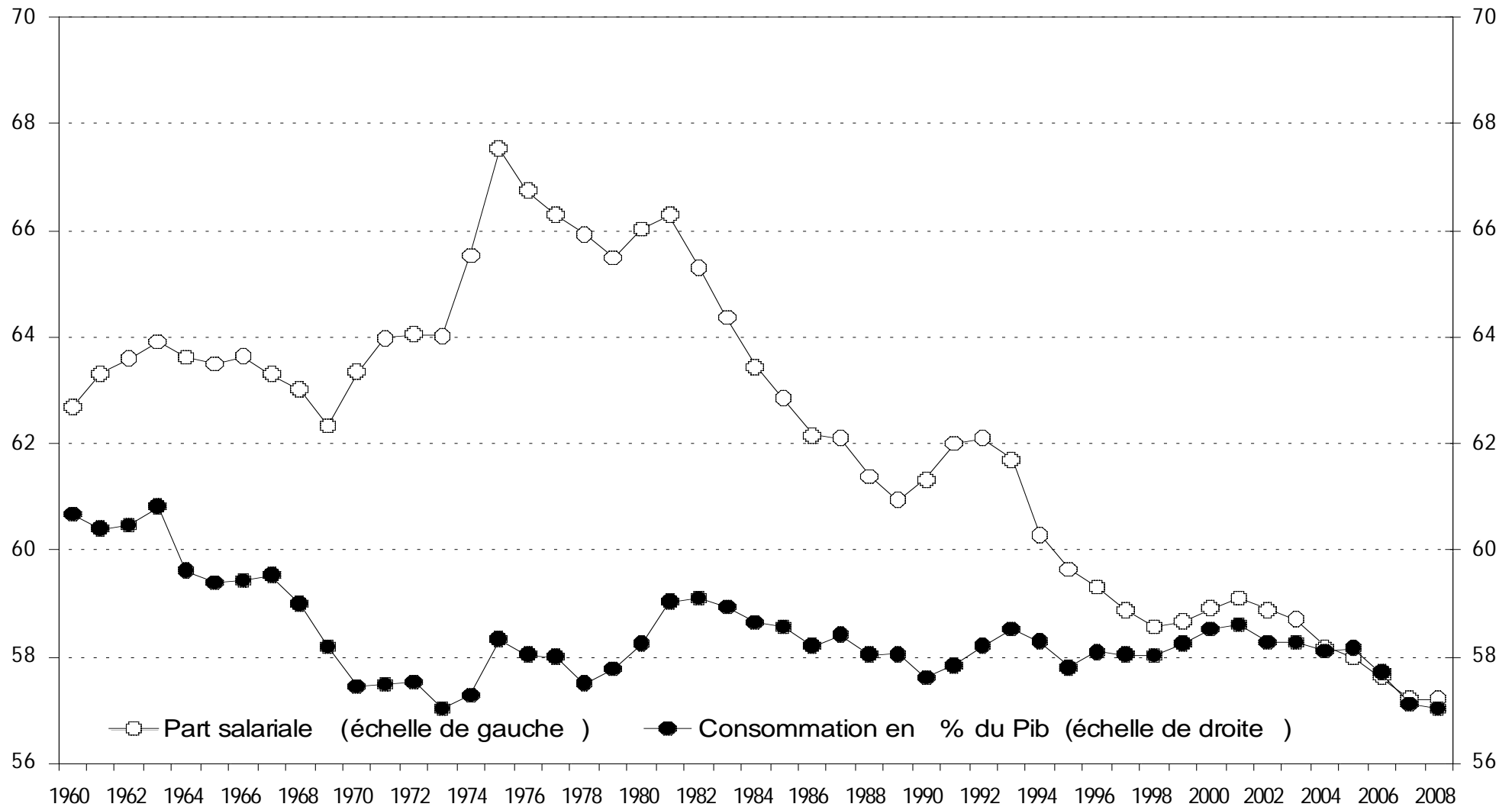
Main trends vary from place to place

- extracting rent out of **primary products**: energy, raw materials
Australia, Russia, Middle east and parts of Africa and Latin America
- extracting profits out of **manufacturing** production where either wages are low or education is good or governments are authoritarian (or >1 of these)
China, far east, parts of former-communist world
- extracting rent out of the **growth of asset values**, land, property development and some company shares, intellectual property, utilities and consumer credit
Western Europe, North America

Financial or economic crisis in Europe and North America? **it is profoundly economic/political**

- **1945-70s:** real income growth in developed countries for most workers, as productivity rose
- ...which fuelled growing consumption
- **late 1970s >> now:** stable or declining real incomes for middle- and low-income workers (tho' real growth for others)
- continuing consumption growth only feasible through expansion of credit
- provision of credit was both a profitable business (for banks) and a support for sales and prices (for producers)
 - Andrew Glyn (2006) *Capitalism Unleashed: Finance, Globalization, and Welfare*, OUP

EU: Wage share and share of private consumption in GDP

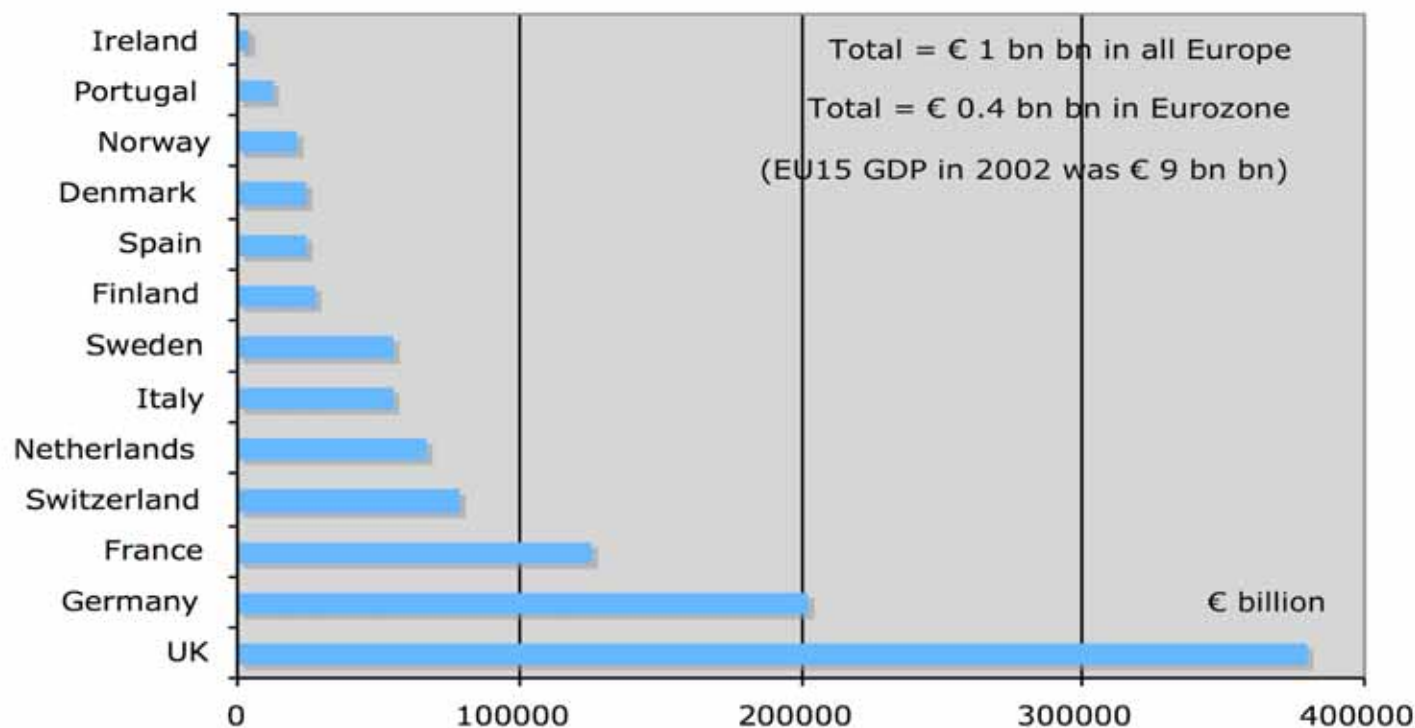


Sources et données des graphiques : <http://hussonet.free.fr/toxicap.xls> Thanks to Christian Zeller for this link/data



- green=bank deposits per person
- blue=mortgage debt per person
- The Guardian Oct 08

IPD estimates of property investment market 2004



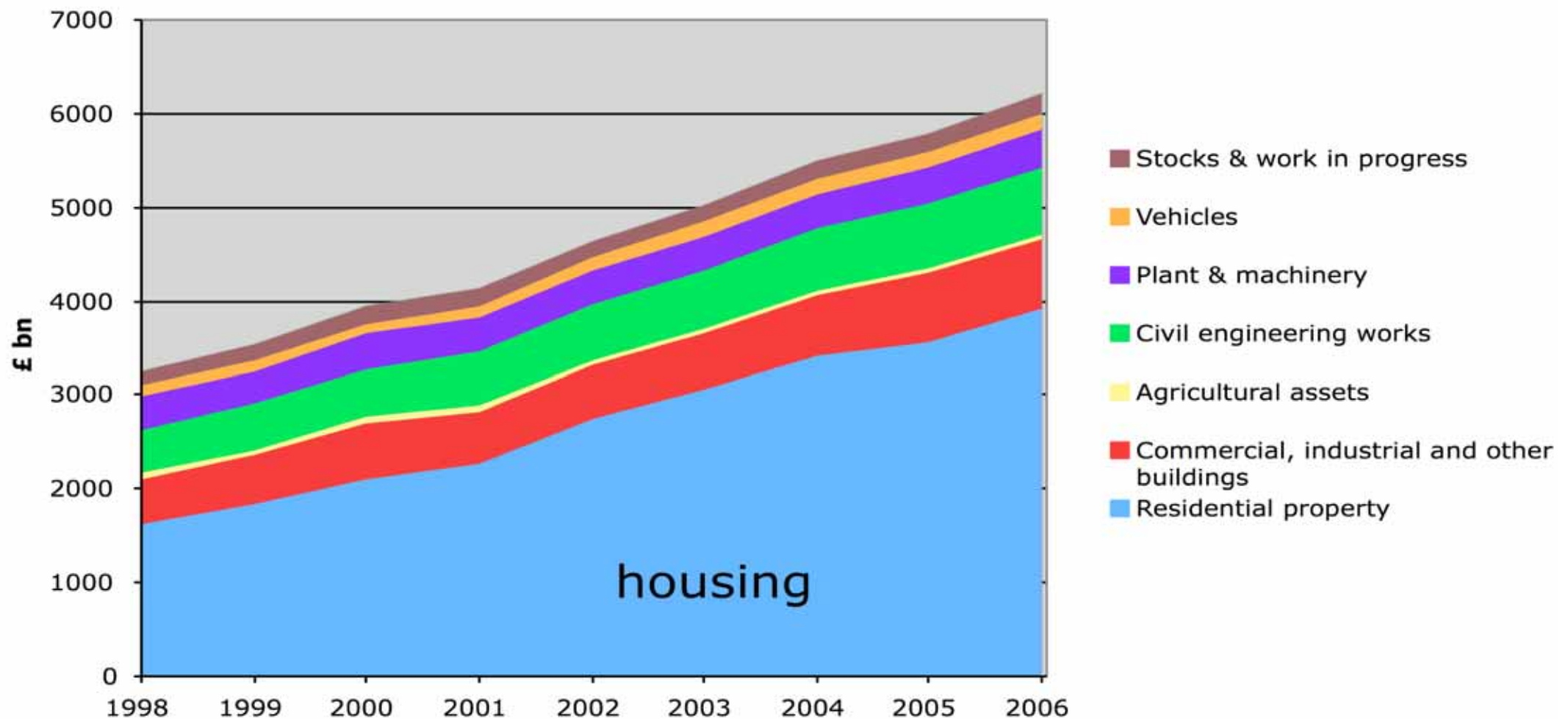
investment property market
= rented out to other firms or
people

Note: mostly NOT housing

In UK we have a strong property investment sector which recently expanded into housing

- (bn bn = 10^{12} 000 000 000 000)

Market value of assets in UK 1998-2006



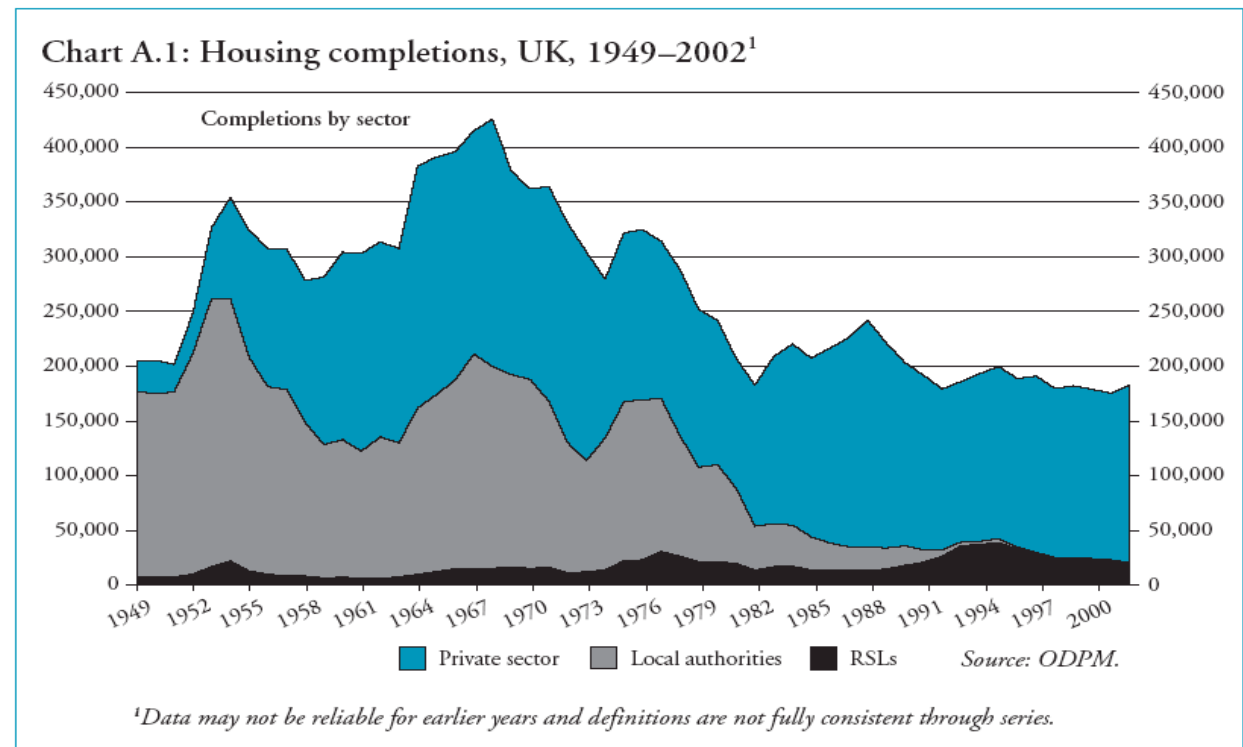
- Fixed tangible assets; RICS 2008 from ONS 2007

Why has crisis developed so fast?

- Accelerator effect: firms' **investment** decisions respond to changed expectations
 - buildings
 - plant and equipment
 - planes, ships, trucks etc
- Multiplier effects: as the total mass of wages falls, demand for consumption goods falls again, and spirals down
- Corporate decision-making now quicker, now more risk-averse (like a hyper-sensitive alarm)
- UK very corporate, so more of the economy is like this
- Gearing (high debt:value ratio) makes firms hyper-sensitive to borrowing conditions.

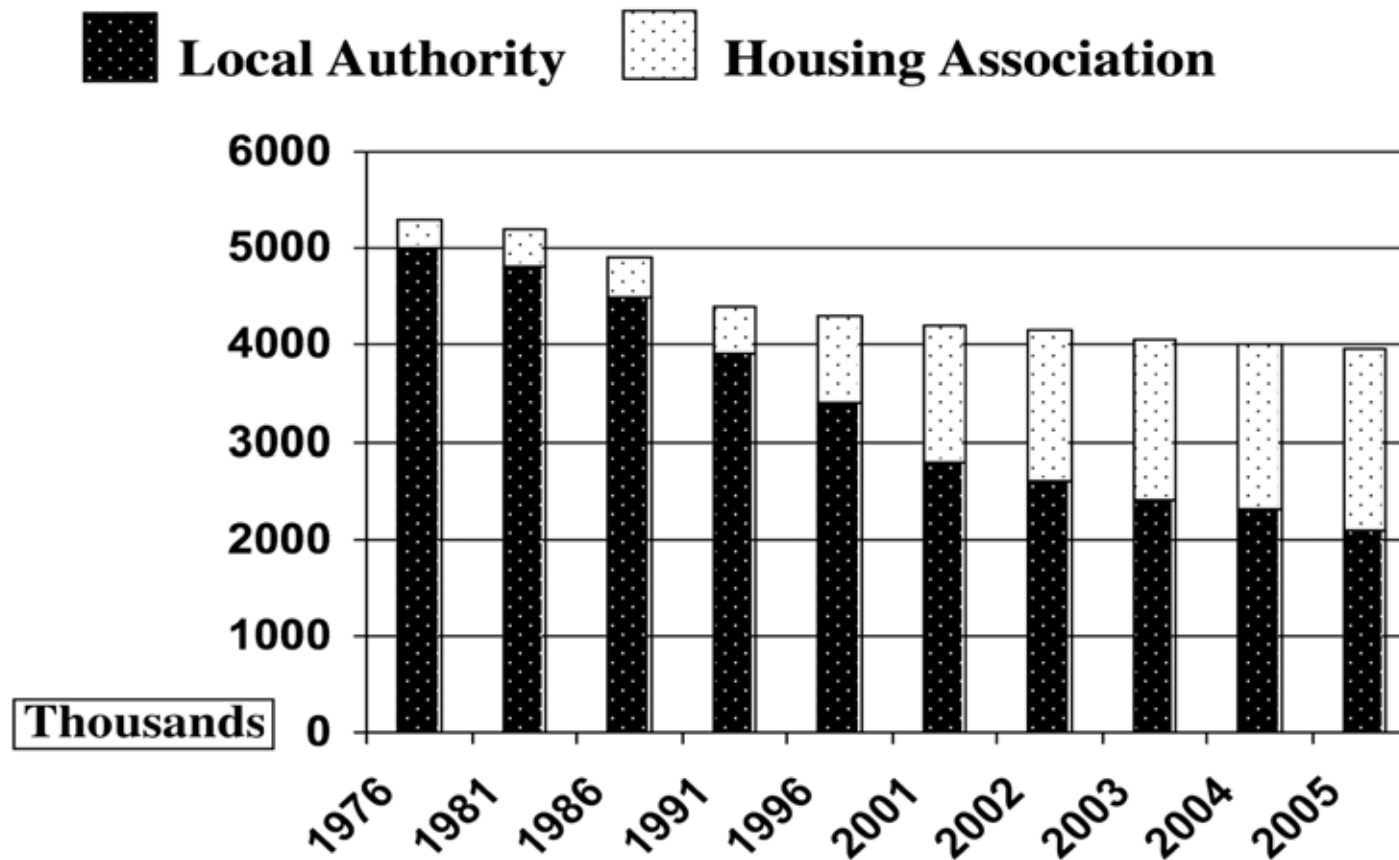
UK housing and property

- Investment has been pouring in to housing, property and credit-supply
- ...but not much of that was going into **new production** of housing; most into acquisition, chasing up the prices of the stock
- = a practical dilemma for management of the economy:
high interest needed to deter credit growth and housing price inflation; but low interest needed for the productive economy. **Stability often appeared unattainable.**
- = an intellectual dilemma for neo-liberal economics
 - rising (house) prices do NOT produce the expected surge in output so the problem gets worse, not better
 - The market we have is now discredited as a way to solve housing problems



UK - Decline in stock of social rented housing: sales and other losses out-strip new building

(needs updating - total social stock grew slightly in 2007 according to Margaret Beckett)



Londoners' incomes are polarised:

figure 1.11 Equivalised income distribution (after housing costs) 1999/00

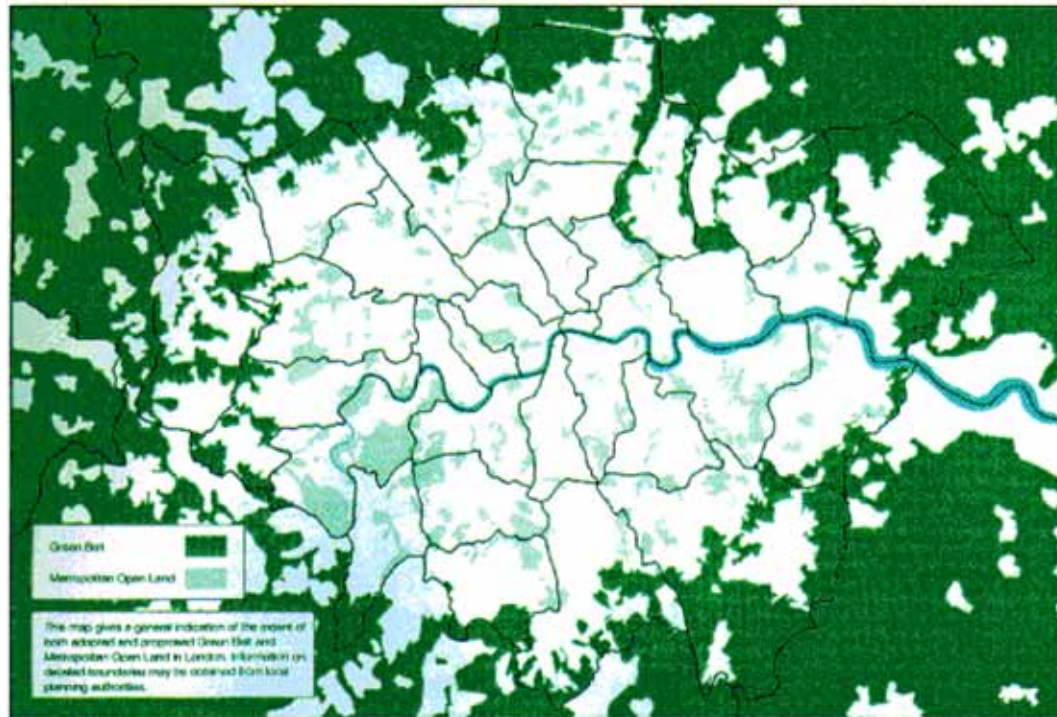


London has
more poor

London has
more rich

source

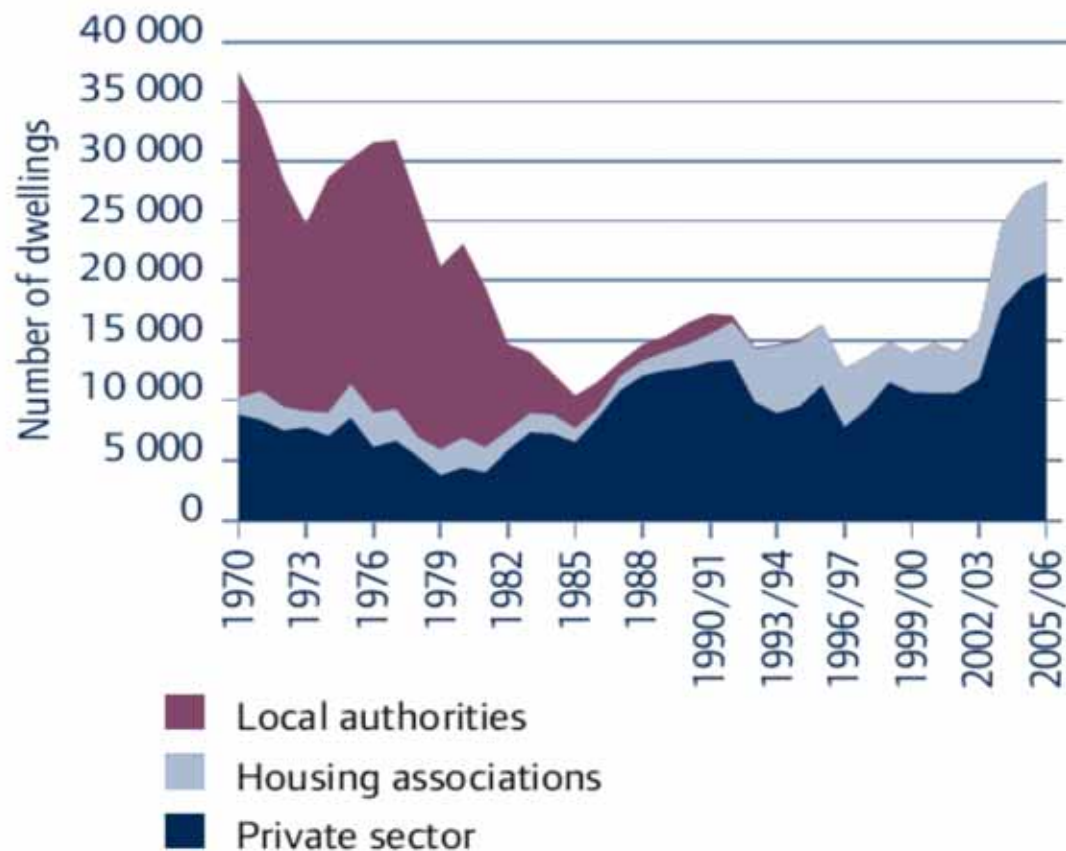
UK's distinctive planning and land policy - protecting green space



- The Green Belt round London, and other protections of green areas, have been operating since 1947 and lead to strong shortage of land.
- Land for farming may have a value of £0.5 per m²; for house building £500 - 700 / m²

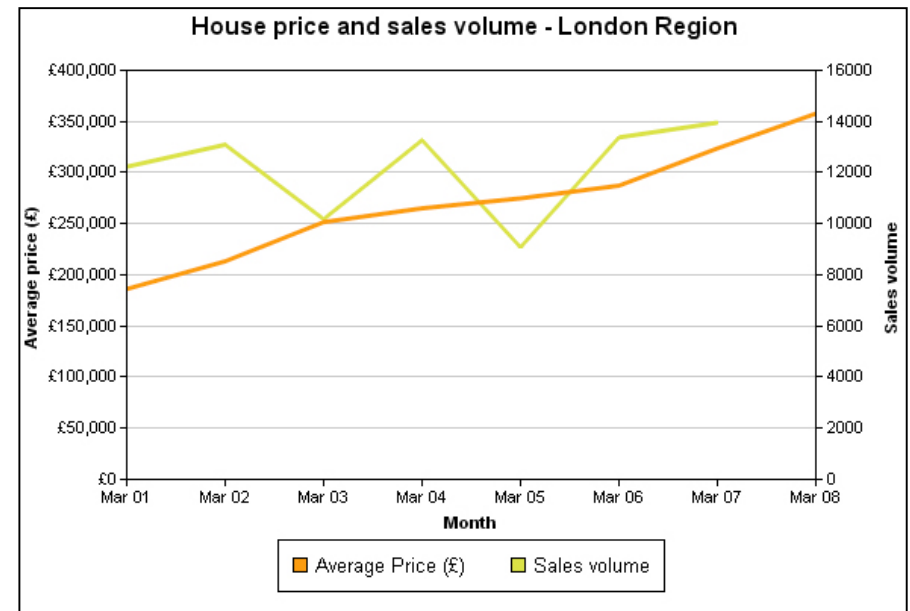
London's housing production 1970-2006

Chart 1 Housing supply in London by tenure since 1970



- Housing developers make their profits by skilled management of land stocks and sales, NOT by satisfying the scale of mass demand
- The extra output in 2005/6 was exceptional and partly a result of higher densities and smaller dwellings

London's housing prices

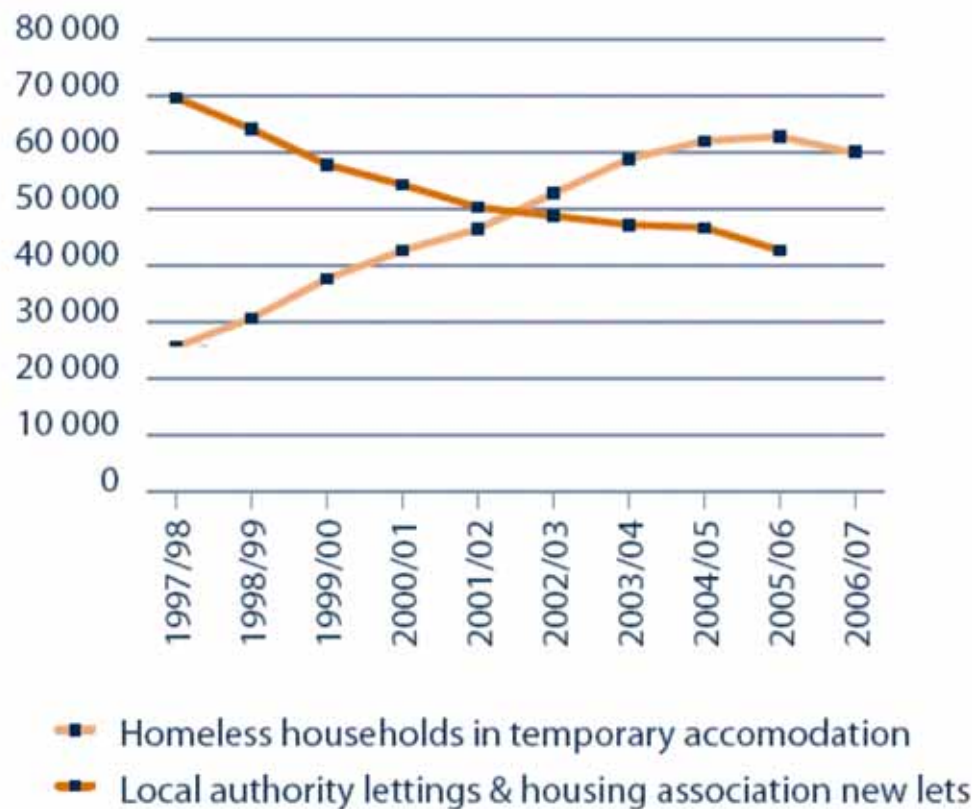


Graph: Judith Allen
Text: Mayor's Draft
Housing Strategy
2007

- 95 The house price boom of recent years has created windfall gains for home owners. The value of London's private residential stock has risen from £188 billion in 1996 to £649 billion in 2006 - a rise of 245 per cent⁶⁸. But as a result the affordability of home ownership is a serious problem, especially for first time buyers. In 1997 average lowest quartile house prices in London were four times average lowest quartile incomes, but by 2006 this multiple (the affordability ratio) had risen to 8.64, making London the least affordable region in England⁶⁹. As first time buyers have struggled to keep up, mortgage debt has soared. In 2005 the average mortgage advance to first time buyers was over £215,000, up from under £70,000 in 1995⁷⁰.

London's social housing supply / demand

Chart 6 Supply of and demand for social housing in London, 1997/98 to 2006/07



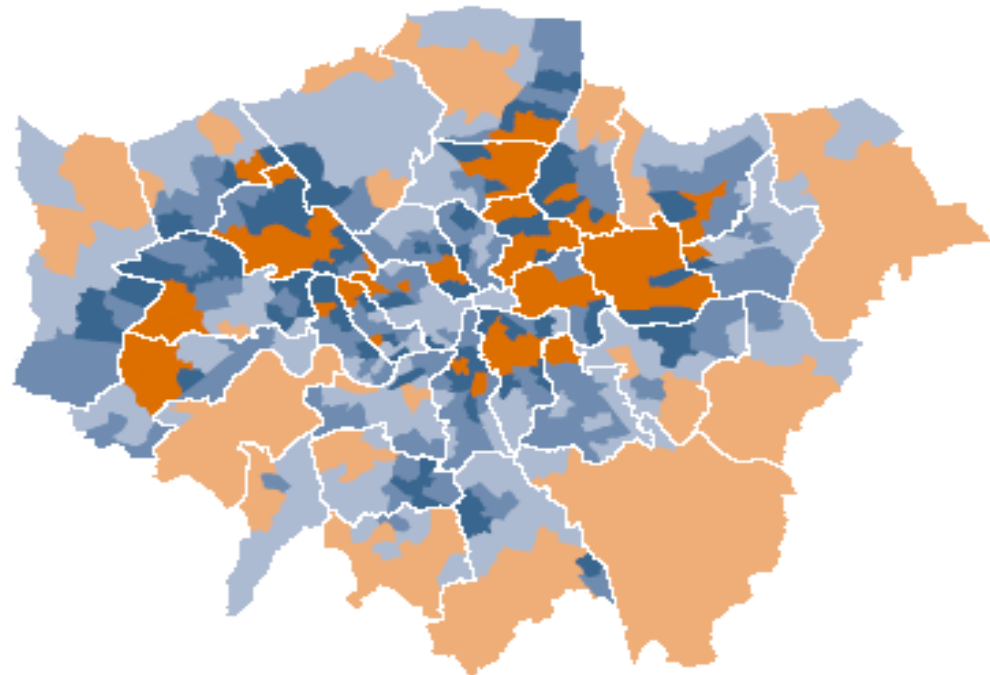
This was all incredibly fragile:

- Boom is self-fulfilling so long as everyone believes it will continue. Self-destroying if expectations reverse
- Heavy borrowing by households while credit is easy / cheap - makes them very vulnerable when interest rises or loans dry up
- Banks borrowing short-term and lending long-term to households are super-vulnerable when they can't replace this borrowing (+other problems in derivatives markets) (Northern Rock in UK)
- Lending to poor families (then disguising bad loans as good ones) was just one more hazard - and seems to have been even more crucial in USA.

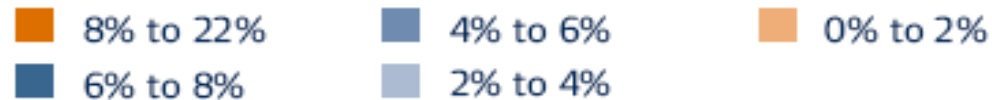
Housing policy changes:

- Change since 1980: de-regulation in key areas
 - ending security and rent control for tenants
 - privatising social housing: the stock continues to get smaller
 - weakening local planning and democracy
 - de-regulating banks, assimilating specialist and localised 'building societies' into the general banking system; strong concentration
- Change since 2000: a re-regulation in London
 - huge increase in permitted densities, which houses more people but can lower quality and increases displacement by making a high proportion of existing building worth demolishing and replacing
- No change in other respects:
 - the state remains the guarantee of limited land supply, big social differences between neighbourhoods and schools, and (now) a guarantee of lenders' risks

Map 4 Overcrowding in London by ward, 2001



Percentage of households overcrowded



Overcrowding in London is growing rapidly and has re-emerged as one of the capital's most pressing problems.

There has been a 20 per cent increase since 1991, reversing many decades of decline, so that over 150,000 households (five per cent of the total) are overcrowded and 61,000 are severely overcrowded.

Fastest growth of crowding is in social housing.

Over a quarter of a million children in London live in overcrowded homes.

(Mayor's Draft Housing Strategy 2008 §3.1.2)

Summarising what had happened

- ₺ housing prices and rents are high compared with other UK areas
- ₺ incomes are highly unequal with nearly half the population unable to afford good housing
- ₺ many factors have boosted demand for housing: income growth for some, multiple-homes, inward migration, falling household size, pension anxiety, quest for asset-value growth, fiscal incentives, some subsidies to buyers
- ₺ tight planning in the UK, especially the London region, constrain supply and mean that demand growth mainly fuels price rises
- ₺ important historic stock of social housing has been eroded by sales
- ₺ highly differentiated local environments, schools and services increase price differences
- ₺ long commuter journeys increase price differences
- ₺ housing development industry's most profitable strategy has been to keep output at low level, not gear up to meet the demand surge
- ₺ Very easy supply of credit both for owner-occupiers and for buy-to-let has fuelled prices and exposed our weakly-regulated banks to high risks. (Note banking regulation more cautious in many other countries.)

What did the Mayor try to do?

1. Pressure private developers to make 50% of units built “affordable”

35% as social renting

15% as “intermediate” (part buy, part rent)

- much of the “intermediate” still too expensive - need £3000-£4000 / month salary
- only feasible while profits are very high
- targets never achieved, even in boom period



2. Increase density

in places like the 2 left pictures..... build like the 2 right pictures

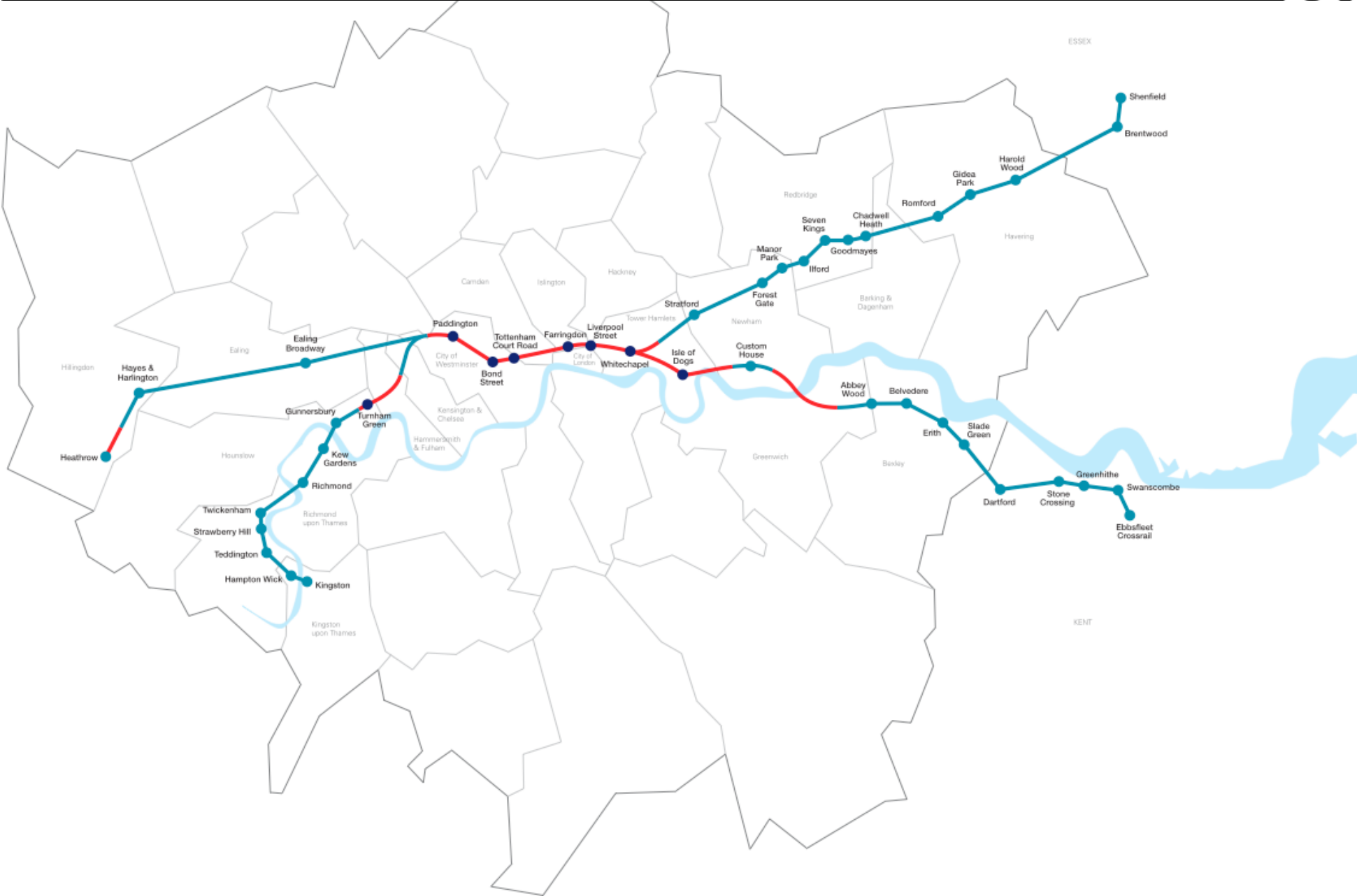
positive and negative outcomes when it happens;

strong political resistance, probably a factor in Ken Livingstone’s defeat by outer suburban votes in 2008

Non-housing problems in London planning

- All eggs in the FBS basket: refusal to nurture other sectors
- Subservience to property investment market in policies for...
- ...ever larger CAZ
- ...and the obverse in the suburbs
- ...and determining transport strategy (Crossrail; airports)

problems in London planning



Housing, prices, rents

- Falling prices reduce costs of ownership (but, so long as lenders demand big deposits only for incumbents)
- Low interest rates have a good income effect (but proportional to size of debt, so regressive)
- Private renting should get cheaper as demand falls
- S106 and 'partnership' schemes for social housing no longer viable on a significant scale
- Some housing associations disabled by their earlier involvement in speculative market
- Price falls more likely to be interpreted as a prelude to the next boom than as an enduring warning...
- The good news: LHAs to be enabled to build, to borrow from HCA, retain capital receipts (but not yet HRA surpluses) (Beckett)

probable impacts...

- huge unemployment, probably in all income groups, with all the consequences. Uncertainty only on London's exact exposure
- fiscal stress for local authorities (see LGA/Centre for Cities)
- ¿out-migration, domestic and international
- ¿take the heat off non-residential use of land in suburbs
- ¿will the shake-out in retail work through to cheap space or will the British Institutional Lease prevent it?
- ¿take the heat off many gentrification pressures
- empty sites; abandoned schemes, estates half decanted, tinned-up... Woodberry Down, Kidbrooke etc...
- ¿last hope of avoiding Crossrail / re-directing to suburban orbital improvements etc, and to radial schemes with better B:C ratio.
- ¿major slowing of air travel? Tho' crisis offset by cheap fuel

a central London example - site of former Middlesex Hospital



- 1.1 ha (11,000m²)
- sold by Hospital Trust (public health service) to developer Candy £175m
- Developer partnering with Icelandic bank Kaupthing - now failed: 273 apartments + 32,000m² offices abandoned.
- site now clear; said to be 'worth' only £75m now
- Candy reported to have given their rights to Kaupthing in exchange for K's rights in another joint project in Beverly Hills, USA
- Curious that private fictitious capital has been destroyed; the public sector gained. But let's not be too cheery about this: the public health authority still has to pay £46m per year for PFI. Their windfall pays 2 years rent.

a suburban example - Woodberry Down estate, Manor House, Hackney

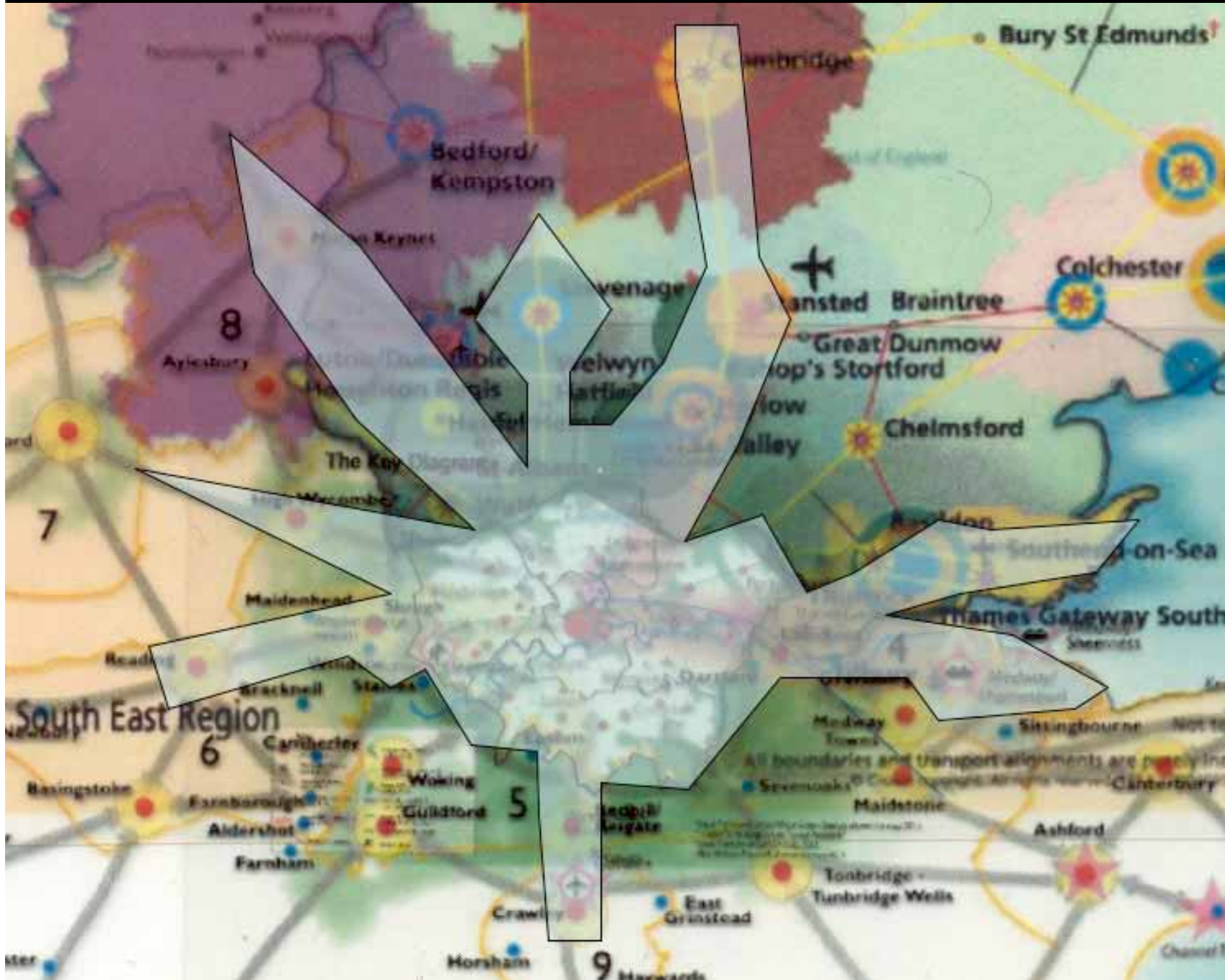


- plan to demolish 100% of an estate: 2500 flats; build 5000 new ones, of which 60% for open market 40% 'affordable'.
- 10,000 people in place of 5000 now/before (approx).
- some demolition complete; many other blocks partly tinned-up.
- Developer Berkeley Homes now 're-negotiating'. There are many such projects in London, including the Ferrier Estate in Greenwich (also Berkeley), also stopped.

what can we do? - on housing

- Government(s) determined to get back to 'normal'
 - we must resist that: 'normal' does not work
- Push for alternatives, especially
 - land supply, not land speculation; public purchase of housebuilders' land, not rescue of those dysfunctional companies
 - learn from Netherlands, France Germany (what they did in former times)
 - learn from Zürich and elsewhere on housing cooperative forms
 - learn from our own UK experience of new towns
 - stop privatisation of any more dwellings
 - stabilise house prices in long term - ¿ a new job for central banks
 - **maintain a permanent public/collective equity share in developments**
 - Fiscal measures to make other investments more attractive than land and property. Limit on inheritance tax exemption. Limit REITs to new-build only.

Duncan Bowie's 2008 Compass pamphlet on Social Housing is excellent, recommended



• Maybe a different kind of plan?

• The future will have to be different!
Drummond Robson image

Built environment to the rescue?

- Major 'new deal' of urban development
- Mix of large and small development entities
- Huge retro-fit for energy saving in standing stock

- We are the same people as 2 years ago, with the same needs and the same productive capacities. Only the breakdown of social relations now makes so many of us unemployed.

How to finance it

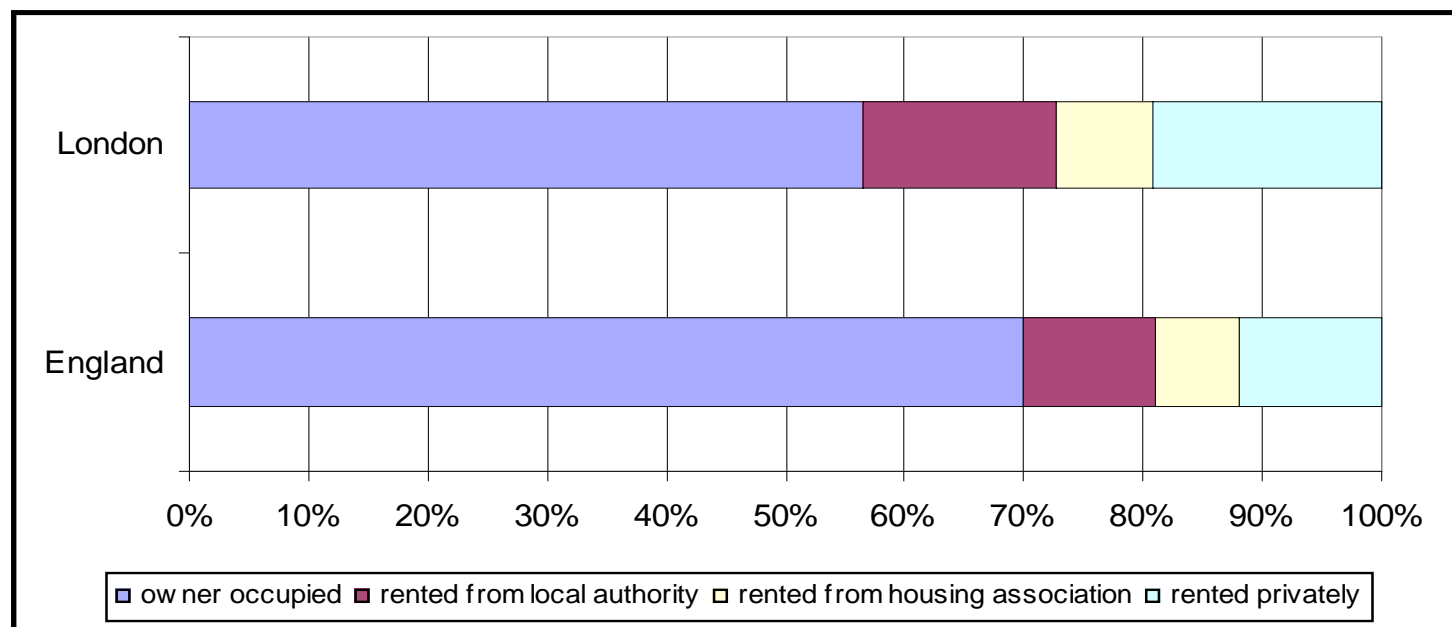
- Govt outright grant - e.g. London Docklands (!)
- Govt borrowing via Treasury - e.g. UK new towns
- Big private investor - e.g. US new towns, Bedford Estate
- Stock market - equity investments; Lechworth, Welwyn
- Bond market - e.g. local govt bonds
- Pension funds - e.g. USS at Stockley; BT at King's Cross

Further material

- The analysis of UK housing, and the alternative proposals, are expanded in a book about the Thames Gateway, but written before the crisis
- Edwards, M. (2008) 'Blue Sky over Bluewater?' in P. Cohen and M. Rustin. *London's Turning. Thames Gateway: prospects and legacies*. London: Ashgate. Download chapter here:
 - <http://eprints.ucl.ac.uk/5016>
 - Order book here:
 - <http://www.ashgate.com/isbn/9780754670636>
- Edwards, M (2004) 'Wealth creation and poverty creation: global-local interactions in the economy of London' in *The contested metropolis: six cities at the beginning of the 21st century* Ed. R. Paloscia for INURA. Basel, Birkhäuser, 3 7643 0086 8 3-7643-0086-8
www.inura.org
- More recent material is at
- <http://michaedwards.org.uk>
- m.edwards@ucl.ac.uk

Tenure in London and England 2006

Chart from Judith Allen



Housing: a new sector grows - buying to let

- Private renting had almost disappeared by 1970s
- Since 1980s it has grown fast
 - because security and rent control reduced
 - because credit is easy for landlords to buy
 - because demand is strong from people who cannot afford to buy their houses, from students, new migrants
- By 2007 was 60% of sales of new apartments in London; and nearly 20% of stock

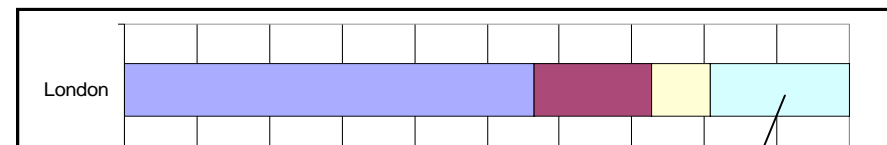
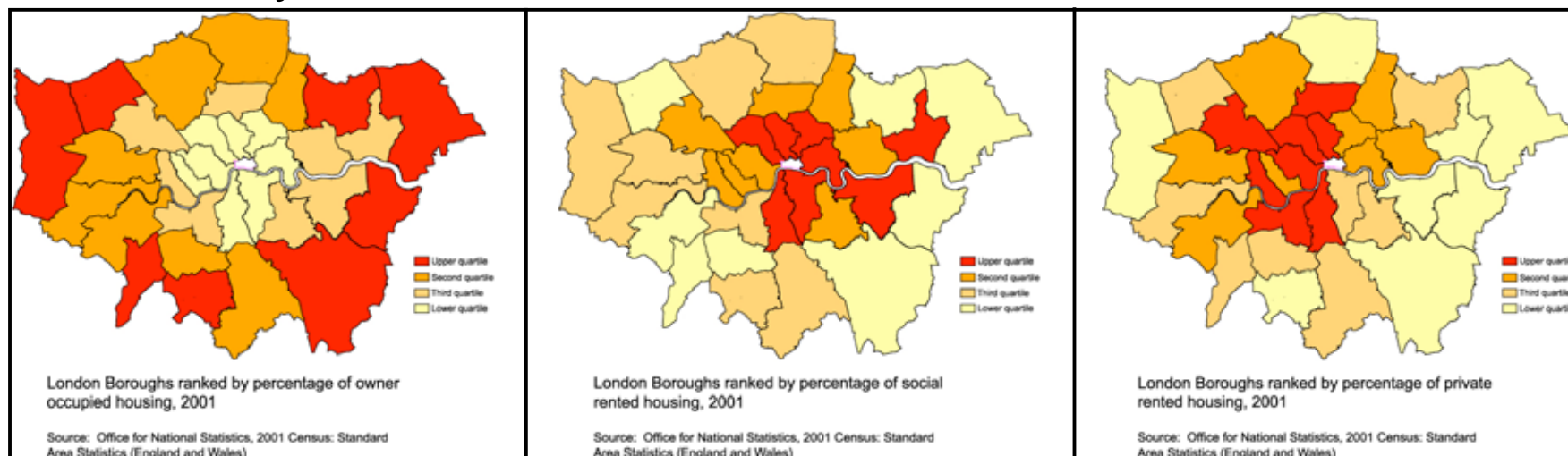


Chart: Allen from 2001 Census



Owning

Social Renting

Private renting

What is the current position in NW Europe?

Whitehead, C. and Scanlon, K., (eds) (2007) *Social housing in Europe*,
London: LSE London

(rather misleading handling of Germany where this 'private renting' is not private in the same sense as elsewhere.... indeed categories are famously tricky)

Post 2000	Owner Occupation (%)	Private Rental (%)	Social Rental (%)	Number of Social Units
Netherlands	54	11	35	2,400,000
Austria	55	20	25	800,000
Denmark	52	17	21	530,000
Sweden	59	21	20	780,000
England	70	11	18	3,983,000
France	56	20	17	4,230,000
Ireland	80	11	8	124,000
Germany	46	49	6	1,800,000
Hungary	92	4	4	167,000