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Policy Exchange is an independent research institute whose purpose is to contribute to public understanding of and stimulate wider debate on a broad range of social, economic and political questions. Using an evidence-based approach to policy development, Policy Exchange aims to generate fresh ideas in support of strong communities in a free society.



About Localis

Localis is an independent research organisation which was set up to develop new ideas for local government. It organises seminars and commissions research relating to all aspects of local government.

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Bigger Better Faster More

Why some countries plan better than others

Alan W. Evans
and **Oliver Marc Hartwich**



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Foreword

Professor Sir Peter Hall, Bartlett Professor of Planning, University College London

In this report Alan Evans and Oliver Marc Hartwich have performed a hugely useful service: they have followed up their previous research, which rightly attracted publicity for its demonstration that the UK now has some of the least adequate housing in Europe, with this study which seeks to discover how other countries seem to do better. To this end, they have deliberately sought case studies from places that can reasonably be regarded as comparable with us: Germany, Switzerland, Ireland and Australia. These are not places where some Texan-style free-for-all prevails in the land and housing markets: all are advanced economies with well-developed planning systems. And yet, as the authors show, they consistently deliver more housing, of higher quality, than we do.

Coincidentally, it happens that I have just finished directing a comparative planning study which includes the three European countries in their comparison - and the German study involves the very same area, North Rhine Westphalia. So I can confirm the veracity of their conclusions. Our study showed that in all three countries, weak central coordination of planning results in individual towns and cities competing for development. That competition is especially fierce where development directly brings local tax values with it, as in Switzerland, or in regions desperately seeking an economic shot in the arm, like the German Ruhr area. In Ireland, perhaps the country with the most directly comparable planning structure to the UK, a laxer system has produced much

more new housing than we have managed but has also irretrievably wrecked huge tracts of precious countryside, as any holiday visitor immediately notices.

The real question is how to do better without throwing the baby out with the bathwater. It should not be difficult. Though Professor Evans and Dr Hartwich probably disagree with me here, since (despite half-hearted attempts at devolution) we have a centralised government rather than the federal systems that prevail in Germany, Switzerland and Australia, Whitehall has to assert itself to lay down higher levels of house building. And it would do no harm at all if local authorities were to receive tax sweeteners to make them more amenable to development, as in Switzerland.

The Government must be given credit for recognising the extent of the housing problem in the UK and for pursuing solutions to tackle the mounting crisis. But the unholy alliance of Tory shires, bent on pulling up the drawbridge, and Labour cities, equally hell-bent on keeping their populations packed into substandard housing at high densities, continues to frustrate efforts as it has for half a century.

There is a way out. The clue – with which I suspect Evans and Hartwich will have great sympathy – is to use the tax system to incentivise local authorities. If this is achieved even NIMBY authorities will respond in traditional Pavlovian fashion, and at last we can start to develop a house-building regime at least as sane as those of our neighbours.

Executive summary

In our earlier report *Unaffordable Housing* we showed that Britain’s centralised system of planning restricts the supply of housing. As a result, Britain has some of the oldest, pokiest and most expensive homes in the world. Our search for better alternatives took us to four countries with similar demand side pressures to find out how their planning systems succeed (and fail) to provide high quality, spacious homes at affordable prices. Our experiences in Germany, Switzerland, Ireland and Australia are revealed in Policy Exchange’s latest publication *Bigger Better Faster More*.

Key statistics

All five countries show similarities in the factors affecting the demand side of the housing market, such as growing populations, smaller households and increases in wealth.

But while demand factors are not too dissimilar, housing outcomes and prices are:

- *Age of dwelling stock* – 38.5 per cent of homes in the UK were built before 1945, compared with just 27.2 per cent in Germany and 17.9 per cent in Ireland.
- *Average new dwelling size* – the UK and Ireland are building small new homes at just 76 m² and 87.7 m² respectively, compared to 109 m² in Germany and 205.7 m² in Australia.
- *House prices* – over a period of more than three decades, real house prices in Ireland, Australia and the UK went up by around 3 per cent per annum while they remained stable in Germany and Switzerland.

We investigated why some countries were able to combine these upward demand pressures with stable house prices and spacious housing, while others were not.

Figure 1: Housing statistics compared

	GER	SUI	IRL	AUS	UK
Average annual population growth 1970-2005	0.16%	0.45%	0.98%	1.32%	0.24%
Decline in average household size 1980-2003 (persons)	-0.3	-0.27	-0.7	-0.4	-0.3
Persons per km ²	230.9	181.4	57.1	2.6	246.9
Average annual growth of GDP per capita 1970-2003	1.4%	0.9%	4.4%	2.0%	2.1%
Age distribution of dwelling stock – pre 1945	27.2%	n/a	17.9%	n/a	38.5%
Age distribution of dwelling stock – post 1945	72.7%	n/a	82.0%	n/a	61.5%
Average size newly-built dwellings (m ²)	109.2	n/a	87.7	205.7	76.0
Average annual real house price growth 1970-2003	0.05%	0.22%	3.32%	2.89%	3.87%

Findings

Green and Pleasant Cities:

Germany's Localised Planning System

- Central government grants are linked to population and tax revenues, so local politicians compete to make their cities attractive – both in the sense of pleasant places to live and places that draw more inhabitants.
- The right to develop property you own, subject to conditions developed by all the federal tiers of government, is enshrined in the constitution.
- The main responsibility for planning lies with local planners and politicians, so plans are responsive to local needs and the environment. Plans are binding and subject to judicial review.
- Germany's planning system has delivered house price stability, spacious homes and green cities despite a similar population density to the UK.

Competing for Taxpayers:

Why Swiss Planners Build What People Want

- Switzerland's political structure is highly devolved. It allows the cantonal and sub-cantonal tiers of government to determine local tax rates.
- Tax autonomy leads to tax competition between councils and cantons. Providing inadequate land for housing means councils risk losing inhabitants – and therefore tax income – to neighbouring areas. On the other hand, council areas attracting new inhabitants are able to lower their tax rates or improve services.
- There has been virtually no real house price inflation in Switzerland for more than three decades, while at the same time Swiss houses have become bigger and better, allowing more and more Swiss to live in the houses they desire.

Housing the Celtic Tiger:

Ireland's Short-sighted Construction Boom

- Ireland's housing boom has led to impressive increases in house building, but these came too little and too late to prevent rampant house price inflation.

- Ireland's unresponsive, centrally planned system of development failed to react to the demand pressures of the economic boom. This resulted in a 'quick fix', with large numbers of small, often low-quality houses on monotonous estates added to the bottom segment of the market.
- However, the lack of additional housing at the top end of the market means that, as first-time buyers seek to trade up, they find themselves unable to afford better homes for their families.

Death of a Dream:

Planners versus the Traditional Australian Home

- The Australian desire to create a home away from 'home' (their European roots) has led to a strong cultural preference for spacious houses with big gardens – 'the Great Australian Dream'.
- Various Australian (state) governments have threatened this dream by reducing the quantity of land released for housing and by levying homebuyers to provide infrastructure. Both policies have had a strong upward impact on Australian house prices.
- In Sydney, 78 per cent of the purchasing price is typically paid for the land, not for the house itself. So land-use planning has actually created a shortage of land – in a country with a population density of only 2 persons per square kilometre.

Conclusions

In Ireland and Australia, with planning systems derived from the UK's, restrictions on the supply of land, densification policies and central planning fail to provide the kind of homes people want, and lead to high real house price inflation. Successful planning systems, as found in Germany and Switzerland, leave planning decisions to local planners and politicians while ensuring that they face the full costs and benefits of their decisions. In our final report we will apply these lessons to the UK and produce a set of reforms aimed at giving Britain the housing it deserves.

1. Introduction

In our first report we set out the various problems arising from the British system of town planning. The most important of these was signalled in its title *Unaffordable Housing*. The system has led to homes in Britain being both small and expensive, demonstrably so in that new dwellings in England are significantly smaller than those built anywhere in the rest of Western Europe.

But if British housing is worse than elsewhere, how do other countries plan the provision of their housing? Can we learn anything from them? In this second report we look at systems operating in four different countries, Germany, Switzerland, Ireland, and Australia.

The first virtually selected itself. The Federal Republic of Germany is slightly larger than the UK, both in population and in area, which means that the average population density in both countries is more or less the same. Despite being as crowded, or as uncrowded, as the UK, new houses in Germany are more than forty per cent larger than in Britain, 109.2 m² against 76 m².¹ It also has an enviable record of price stability; house prices have increased little in real terms over the past 40 years whilst house prices in the UK, in real terms, have more than doubled.

The second country, Switzerland, was chosen partly because it was not in the European Union, partly because, given its mountainous terrain, it could be regarded as relatively crowded, unlike, for example, France. Nor, certainly, does it suffer from the plague of illegal building which afflicts Italy.

The next two were chosen because they had planning systems which derived from the British system, but subject, of course, to different influences. We deliberately chose not to look at the US system, in part because much has been published on the American zoning system, but also in part to avoid the British tendency to always make comparisons with the USA. So it seemed to us, in this case, more useful and interesting to look at the system in the UK's closest neighbour, the Republic of Ireland, and, in addition, its antipodes, Australia, this latter having more or less the same spatial extent as the USA.

Bill Fischel, the leading American economist studying planning has said that to understand the zoning system in any American town or city you not only need to read the regulations, you also need to know how they actually operate in practice. The same zoning ordinance may bar an activity in different towns, but in one there may be no demand, in another the ordinance may be easily varied, whilst in a third it is rigidly enforced, in contrast to a fourth where it is not enforced.²

Now if it is necessary for an American to have some personal knowledge to understand the planning systems in different US cities, it is still more necessary for us in understanding the systems in different countries. So it has to be admitted that, at least in part, our choice of countries was limited to those in which we had personal contacts, countries where we could meet people who would be able to help us understand their country's planning system. And certainly these contacts, whose

assistance we gratefully acknowledge, helped us to an understanding far greater than could be obtained in reading the latest government publication setting out each country's undoubtedly exemplary system.

And this in turn dictates the manner in which this is written, as four accounts of journeys of discovery. How do other countries plan? And what can we in Britain learn from them?

2. Green and Pleasant Cities

Germany's Localised Planning System

Germany is a complicated country and its federal and legal complexity is legendary. German land-use planning is no exception to this rule. Surprisingly, however, the Germans have managed to build enough houses to avoid price pressures, and at the same time managed to build decent homes in green cities. The key to understanding this puzzle is the incentives that face those who have to make decisions about planning.

Planning in Germany: A bird's eye perspective

Flying from London-Heathrow to Düsseldorf airport in the west of Germany only takes about an hour, but during the flight one can see how settlement patterns change. Whereas English cities look dense and compact, surrounded by large areas of green and agricultural lands, German cities have a distinctly different appearance. On days when planes land in an east-west direction in Düsseldorf, the flight will take you over an area that is arguably Germany's biggest conurbation: the Ruhr Area. Actually consisting of 53 independent local councils, the region is one of the five largest conurbations in Europe and has a population of 5.3 million³ – more inhabitants than Scotland, Denmark or Israel. Yet flying in from London, a British visitor would probably not conclude from what he sees from his plane window that it is a major conurbation. Of course, the traveller will see houses, some high rise buildings, railways, roads and factories, but in between



Flying over Germany's Ruhr Area: *"More than just the occasional green park".*

these there is more than just the occasional green park he would see in British cities. In fact, more than 60 per cent of the Ruhr Area is made up of fields, forests, parks, gardens, rivers and lakes.⁴ Germany's biggest conurbation looks quite different from Britain's metropolis.

The differences between British and German settlement patterns can thus quite literally be detected on the surface, but they do not end there. On the contrary, the impression one gets when comparing the UK and Germany with respect to housing and land-use planning is that there could hardly be two countries much further apart. This can easily be confirmed by figures:

- Whereas the British seem to love old houses (almost 40 per cent of the dwelling stock was built before 1945), West Germany's houses are relatively young. The share of houses built after World War II is 72 per cent, which is

probably less surprising taking into account the vast destruction in German cities as a consequence of the war.⁵

- In England, 3.4 per cent of the dwelling stock is empty. Germany's vacancy rate currently stands at 8.2 per cent.⁶
- 69 per cent of British dwellings are owner-occupied compared to a modest 42 per cent share in Germany.⁷
- EU data show that the average newly built dwelling in England has a total floor space of 76.0 m². Germany's newly built dwellings are larger on average by a third at 109.2 m². Within these buildings, the average room size is 15.8 m² in England (the second lowest in Western Europe), whereas Germany's rooms measure 21.4 m² on average.⁸
- The rise in house prices in the UK is well known and documented. The average annual increase, in real terms, according to OECD statistics was almost 4 per cent in the period from 1971 to 2002. By way of contrast, Germany's house prices have been virtually stable over the same period and even fell between 1995 and 2002. Since the early 1980s, German house prices have risen less than GDP per capita, thus making housing more affordable. In the UK over the same period, the opposite has been the case.⁹
- Not only have house prices risen faster in the UK than in Germany, but the house price cycles have also been more marked in Britain. The standard deviation of annual percentage changes in house prices was about three times higher in the UK than in Germany.¹⁰
- According to OECD data, changes in house prices had a three times larger impact on private consumption in Britain than in Germany.¹¹
- The supply of housing is much more price elastic in Germany than in the UK. Whereas a 1 per cent increase in house prices in Germany triggers off a reaction of housing supply by more than 2 per cent, the British supply price elasticity is close to zero.¹² This is why changes in demand do not automatically lead to big price changes in Germany – a phenomenon completely unknown in Britain.
- Over the past two decades, the number of completed dwellings per capita has always been higher in Germany than in the UK. In the mid-nineties it was

more than twice as high, and even in Germany's recession in 2002 it was still 16 per cent higher while at the same time Britain still enjoyed economic growth rates that were considerably higher.¹³

The impression that there must be quite a substantial difference between housing and planning policies in these two countries is thus confirmed by the data. Something that cannot be read from data, however, is the public attitude towards these issues. But if coverage of house prices in the media is taken as an indicator, then the picture is clear. Whereas Britain seems to be fixated with house prices, and follows the ups and downs in the property market almost like the weather report or the latest football results, it rarely happens that German house prices make the news, let alone the front pages.

Part of the differences between the UK and Germany may be due to genuine differences in mentality, but a far more important aspect is the role which the planning system plays and the circumstances in which it operates. It is therefore worthwhile looking at Germany's land-use planning system to see how it works in theory and in practice. We will first summarise the framework for planning in Germany and then have a look at the practical effects of this system in the Ruhr Area.

Institutional and legislative background to land-use planning in Germany

Because of its federal structure, political and legal issues in Germany can be quite complex and hard to understand for a foreign observer. Planning is not an exception to this rule. The basic hierarchical structure of plans is shown in Figure 1. It will be evident that land-use planning in Germany is a multi-layered process. Those readers interested in the details of the planning system can find a more technical description of its workings in the box below. Other readers should keep in mind Germany has quite a complex planning system with a hierarchy of different plans from the federal to the municipal level of government.

Figure 1: Levels of land-use planning in Germany

Government tier	Plan	Function
Federal level	Guidelines and principles	Coordination between national and <i>Länder</i> planning
<i>Länder</i>	State development plan	Establishing principles for planning within the <i>Land</i>
Regional (e.g. Government districts)	Regional development plan	Coordination of and establishing principles for planning within the region
Municipal	Preparatory land-use plan	Binding future municipal development planning
Municipal	Development plan	Planning smaller-scale developments in detail

Land-use planning is an issue for all tiers of government from the national to the local level, although not all planning done on each of these layers is legally binding. For example, there exists an authority called the “Federal Office for Building and Regional Planning” (*Bundesamt für Bauwesen und Raumordnung*), which is a superior federal authority within the portfolio of the Federal Ministry of Transport, Building and Housing. However, despite the impressive title, the competences of this authority are somewhat limited. Its operations are based on an Act of Parliament (the Federal Spatial Planning Act – *Raumordnungsgesetz*), but this Act mainly states some principles and goals of planning and sketches rough guidelines on issues such as sustainable development. It also binds the next tier, the *Länder* (federal states) to establish comprehensive planning programmes for their territories. The contents of these plans is entirely left to them. Between the national and the state level, Sec. 19 (4) of the Federal Spatial Planning Act establishes a standing conference of the federal minister and the sixteen state ministers for spatial planning. However, although it has an organisation of its own within the Federal Ministry of Transport, Building and Housing, the conference is entirely informal and only meant to coordinate planning between the federal and the state level.

So if planning does not really happen at a national level, does it then happen at a state level as suggested by the Federal Regional Planning Act? Again, the answer is difficult. If we take the state of North-Rhine Westphalia (which incorporates the Ruhr Area) as an example, there exists a state ministry responsible for spatial planning and this ministry operates under a State Planning Act (*Landesplanungsgesetz*). Yet, the result of this is the State Development Plan (*Landesentwicklungsplan*), which in itself only summarizes the situation of the state and gives guidance on planning that has to be done at the local level. Thus the North-

Rhine Westphalian State Development Plan states quite clearly: “Releasing residential building land is first and foremost the task of local authorities as part of their self-government.”

So is it the local councils that are responsible for drafting land-use plans? Once again, the answer is yes and no. Between the councils and the state there is yet another tier of government (at least in some of the *Länder*), the so-called Government Districts (*Regierungsbezirke*). For North-Rhine Westphalia, with a population of about 18 million, there are five of these Government Districts. There, regional planning committees make plans for a sub-state but supra-council level. These are known as regional development plans (*Gebietsentwicklungspläne*) and are intended to coordinate planning carried out at the local level. It can of course be problematic that a big conurbation like the Ruhr Area is actually not a Government District in itself, but split between three districts (Münster, Düsseldorf and Arnsberg). The cities forming the Ruhr have tried to overcome these planning and coordination difficulties by forming yet another organisation, the *Regionalverband Ruhr* (Regional Federation Ruhr).

As we approach the bottom of the federal land-use planning hierarchy we come to the municipalities. They are indeed responsible for land-use planning, but their sovereignty is actually based not just on an Act of Parliament, but derives straight from Article 28 of the Basic Law, Germany’s federal constitution. This states: “Municipalities must be guaranteed the right to regulate all local affairs on their own responsibility, within the limits prescribed by the laws.” It is surprising, even ironic, that the tier of government at the bottom of the federal planning hierarchy is actually the only tier with a clear constitutional responsibility for planning.

Planning in Germany is thus mainly a task of local governments, but still local planning is divided into two separate plans.

The first plan is called preparatory land-use plan (*Flächennutzungsplan*) and demarcates the zones for future land use. As such, it is of a rather general nature. As section 5 of the Building Act (*Baugesetzbuch*) explains: “The preparatory land-use plan shall represent in basic form the type of land uses arising for the entire municipal territory in accordance with the intended urban development which is proposed to correspond to the anticipated needs of the municipality.” Under the same section it is then explained which zones can be established. These are areas where development will be permitted, but also traffic areas, parks or community institutions such as cultural centres, schools, churches, cemeteries or sports grounds. The exercise of drawing up such a plan is almost entirely preparatory as there are no legal consequences attached to this plan, the only exception being that the council has to develop another, legally binding plan out of the non-binding preparatory plan. So the only entity bound by the preparatory land-use plan is the council that drew it up in the first place.

The plan developed from the preparatory land-use plan is called development plan (*Bebauungsplan*). Here we find the core of planning. Development plans are plans that are made for just a part of the entire municipality, and the area covered can range from an entire suburb to just a single plot. The plan is legally binding, that means it has to be observed for every single building application. Its possible contents are limited by section 9 of the Building Act as well as the Federal Land Utilisation Ordinance (*Baunutzungsverordnung*), a federal by-

law relating to the possible uses of building land. These regulations give the councils the legal power to determine a number of building characteristics. Section 9 of the Building Act alone lists 26 different categories that can become parts of a development plan such as the type and degree of building and land use, minimum dimensions for the size, width and depth of building plots, spaces for common facilities or sports and play areas, or the highest permitted number of dwellings in residential buildings. The Federal Land Utilisation Ordinance defines ten possible characters of development areas within the development plans ranging from “small settlement areas” and “pure residential areas” to “core areas”, “industrial estates” and “industrial areas”. The councils are bound to use these characters and apply them to areas dealt with in their development plans. Last but not least, it should be noted that there are two types of legally binding development plans depending on the level of detail. In a comprehensive plan many possible details are determined, whereas in a so-called simple plan the main criterion for the permissibility is whether a development project fits into the character of the area (*Gebietscharakter*).

Once an area has been assigned one of the ten possible development characters, there are certain building regulations that have to be observed. Roughly speaking, these regulations make it impossible to build skyscrapers in a village environment, however the detailed regulations are highly complex and technical.

Incentives for development

These layers of planning suggest that planning is both complex and comprehensive. Nevertheless it must be stated that, beyond and behind this complexity of planning within a federal structure, there are three factors that work in favour of development. The first one is a principle which derives from Article 14 (Guarantee of Property) of the Basic Law and is called *Baufreiheit* (the freedom to build). The Basic Law states that “Property and the right of inheritance shall be guaranteed,” but adds to these wide-ranging rights that “their content and limits shall be defined by the laws”. For the sake of planning and building law this means that everyone is entitled to a permission to build on his or her property as long as there

is no explicit legal rule against it. Although this may sound restrictive given the complexity and depth of planning as described above, it also means that once an area has been assigned a certain planning character (e. g. “residential area”) the question whether a permission to build will be granted is not a matter of discretion any more. On the contrary, if the proposed building fits into the plan, permission has to be granted and if the local authorities deny it then a court will enforce it. As Professor Michael Hauth, an expert on planning and construction law, puts it: “The freedom to build is a part of the constitutionally guaranteed definition of property and ensures the right to build on one’s plot of land and to use or realise it. The right to build is therefore not

assigned or granted to the property owner by the public law.”¹⁴ It may be surprising to a Briton that the position of the individual property owner against the state is much stronger in Germany than in the UK. There can be little doubt that a land-use planning system like the 1947 Town and Country Planning Act would be considered unconstitutional and struck down by the German Federal Constitutional Court.

To illustrate the principle of the freedom to build just consider the following typical example, a real case that was decided by the administrative tribunal of Regensburg in 1988: The plaintiff owned a plot of land for which existed a simple development plan that only attributed to it the character of a “mixed-use zone” according to the Federal Land Utilisation Ordinance. When the plaintiff wanted to build a small supermarket, the local planning authority did not grant it and so he sued the municipality. The court held that as supermarkets may be built in mixed-use zones and the development did not change the character of the area the building permission had to be granted.¹⁵

The second factor in favour of building is the enumeration of criteria that have to be taken into consideration when setting up a development plan. As a consequence of the constitutional principle of the rule of law and the principle of proportionality included therein, the planning authority is bound to weigh certain factors before it decides on a land-use plan. Section 1 (5) of the Building Act lists a catalogue of ten guiding principles which must be considered and between which a just and fair balance has to be struck. The subsection is pivotal to all local planning activities and its significance should not be underestimated. It reads as follows:

“Land-use plans shall safeguard sustainable urban development and a socially just utilisation of land for the public good of the community, and shall contribute to securing a humane environment and to protecting and developing the basic conditions for natural life. In the preparation of land-use

plans, attention shall be paid in particular to the following:

1. The general requirement for living and working conditions which are conducive to good health, and the safety of the population at home and at work,
2. The housing requirements of the population whilst avoiding unbalanced population structures, increasing property ownership among broader sections of the population, especially by supporting economical housing, and population development,
3. The social and cultural needs of the population, in particular those of families, the young and the elderly and those with handicaps, as well as to the requirements of the education system and the need for sports, leisure and recreational facilities,
4. The preservation, renewal and development of existing local centres and to the shaping of the town- and landscape,
5. The requirements relating to the preservation and maintenance of historic monuments and to local centres, streets and public spaces of historical, artistic or architectural importance which warrant preservation,
6. The requirements of Churches and religious organisations under public law for worship and pastoral care,
7. The requirements of environmental protection pursuant to section 1a and through the use of renewable energy sources, nature protection and the preservation of the countryside, in particular of the ecological balance in nature, and of water, the air, the ground including its mineral deposits, and the climate,

8. Economic requirements, including maintaining the structural role of medium-sized companies, in the interests of local, close-to-the-consumer supply to the population, the requirements of agriculture and forestry, of transport including local public transport, of the postal and telecommunications services, public utilities – in particular power supply and water, waste disposal and sewerage, and the protection of natural resources and the preservation, protection and creation of employment,
9. Defence and civil defence requirements,
10. The results of other urban planning measures adopted by the municipality.”

The catalogue of criteria is not only long, but also sometimes rather vague. What does a “socially just utilisation of land for the public good of the community” mean? What are “unbalanced population structures”? Moreover, some of the criteria are openly contradictory – is building a power plant on green field land next to a residential area a good thing or not? It may be good for the economic development of the power supply and the development of the economy, but is the land use sustainable? It may fulfil the general requirement for working conditions, but does it also meet the requirements for living conditions? In the end, it often comes down to a matter of principle in the clash between two constitutional provisions: the right of the municipality to regulate its local affairs (Art. 28 of the Basic Law) and the right of the landowner to dispose freely of his property (Art. 14 of the Basic Law). The legislator was aware of these conflicts and inserted subsection (6) after the enumeration of criteria: “In preparing land-use plans, public and private interests are to be duly weighed.”

Now, such an elastic clause will hardly be sufficient to establish clarity in planning law, but the German administrative courts have made it very clear that the constitutional guarantee of property is of a special impor-

tance and cannot be ignored. Apart from that, they take the view that it is ultimately up to them to decide whether the planning authorities have duly weighed the factors. So a municipality may indeed decide in favour of development and against the protection of the environment, but in the decision-making process it must have analysed the situation comprehensively and come to a reasoned decision based on this analysis. If it proceeds this way, the court must accept it. If, however, the court comes to the conclusion that certain aspects were not fully and appropriately considered, it will void the development plan. Thus German courts will for example be ready to declare void any development plan that does not take into consideration the housing needs of the population or completely ignores the rights of property owners.

A third factor in favour of building is not found in planning and building law, but in the structure of the federal system of taxation. German taxation is far too complex to be summarised briefly. Experts estimate that more than 60 per cent of the world’s literature on taxation law deal with German tax law.¹⁶ The complexities are again partially due to the fact that Germany is a federal state with three tiers of government, which has caused a muddle of accountabilities and interdependencies. The weakest position within this system is that of the municipalities, which bear the greatest responsibility for planning. To be precise, if mainly for historical reasons and a lack of clarification in the Basic Law, the municipalities are not actually seen as a part of the state but as creatures of the Länder. So while Art. 28 (2) of the Basic Law says about the municipalities that their “guarantee of self-government shall extend to the bases of financial autonomy,” this sounds better in theory than it works in practice. In reality, their ability to raise taxes and to have an autonomous tax base is severely limited. As a consequence of this, the revenue of municipalities consists of some smaller rates and duties, a trade tax, a tiny 2.2 per cent share of VAT, but also a 15 per cent share of the income tax (the residual 85 per cent are shared by the federal and the state level) and grants received from the

Länder governments.¹⁷ Both the local income tax share and the state government grants are directly linked to the local income tax revenue and the number of inhabitants respectively. To illustrate the outcome of this complex system of local government finance with an example, let us look at the 2005 budget of the city of Dortmund. The whole revenue side of the budget was estimated to be 1.651 billion Euro, of which roughly 144 million Euro came from the council's income tax share and 343 million Euro from a Land government grant. Another 192 million Euro was revenue from the trade tax.¹⁸ This means that more than 40 per cent of the budget consisted of sources of revenue that depend on either the local economy's performance or the number of inhabitants and the income tax they pay.

Although there are scores of problems concerning the system of local government finance in Germany, and the debate about a reform of the system is probably as old as the system itself, it must be stated that it works well in favour of development. Because the municipalities have limited constitutional powers to develop new sources of revenue, they have to make the most out of their existing ones. This means that any council would be ill-advised to follow policies that discourage economic growth and settlement. On the contrary, for local politicians who are interested in increasing their budget, a proactive settlement and business policy is often the only way to proceed.¹⁹ In the end, the planning system may be complex, but the incentives that politicians face are even greater. It is also worth noting that the incomes of the top public servants at the local level are linked to the number of inhabitants.

The incentives for local politicians to allow development have led to competition between neighbouring municipalities, especially in big conurbations. Municipalities at the fringe can often release land for development which will be substantially cheaper than land in the core areas. This will attract new inhabitants from the core area, often young families buying their first homes. For the local politicians at the fringe this promises

a good deal. While their new inhabitants will probably continue to use a part of the infrastructure of the core area (which means it will not have to be provided by the fringe council), they will only contribute to the fringe council's budget. For the new homeowners, the calculation is positive, too. Not only that they will be able to build their house on a cheaper plot of land, but they will also get a tax subsidy for house building. Apart from that they will even be allowed to deduct travelling expenses between their home and their working place from their income tax bill. And as a non-pecuniary incentive, they will be able to leave the core cities behind and enjoy living in a green, low-density environment. The problem with this approach is, of course, that these incentives encourage conurbational growth at the expense of the core cities, which in turn indirectly sponsor their neighbouring municipalities – a phenomenon that regional economists call “negative regional externalities”.

As a result of these incentives Germany has managed to provide more, modern and affordable housing space for its inhabitants. This explains at least in part the statistical differences between the British and the German housing market. Land-release in Germany is flexible, cities are able to grow and the competition between municipalities helps to restrain both the level and volatility of house prices. On the other hand, this also means a higher consumption of land, but the preference of the people for this kind of lifestyle is clear.

Competition in planning at work – planning the Ruhr Area

We now turn our focus to how planning works in practice in Germany's biggest conurbation, the Ruhr Area. It may be worth having a brief look at the history of the region to help understand the current state of the region.

For centuries, the Ruhr Area was predominantly agricultural with little but a number of small villages and market towns. Nobody at that time would have talked about the Ruhr as a unit or a region. In the early 19th

century the population was only around 274,000 people. Everything changed with the Industrial Revolution, which made it possible to exploit the huge amounts of coal in the Ruhr Valley. Population growth was rapid. By 1885 1.3 million people lived in the region, and 40 years later this figure reached 4.1 million. The population peaked in the early 1960s at more than 5.6 million when infrastructure plans still expected a further expansion for up to 8 million inhabitants. Current population figures, following the decline of the coal and steel industries, stand at roughly 5.2 million.²⁰ With the demise of these old industries, the region went through an often painful process of re-inventing itself as a centre of services, culture and higher education. The structural change is not yet completed, as can be seen from the higher than average (for West Germany) unemployment statistics. On the other hand, the inhabitants seem to be very satisfied with the region they live in: A 2002 survey asked a representative sample whether they would consider leaving the region, e.g. for a job offer. Only 15 per cent replied they would like to leave whereas a majority of 85 per cent either said they would not be willing to leave under normal circumstances or would stay even if that meant declining a good job offer.²¹ Another anecdote may also be telling. When Jürgen Flimm, a leading theatre director, had an offer to leave Salzburg (Austria) for a job in the Ruhr, he tried to convince his secretary to go with him. She was extremely reluctant – after all she thought of the Ruhr as an unattractive and grey industrial zone. Nevertheless, she moved with Mr Flimm. Only weeks later, Mr Flimm said, she thanked him for taking her with him. The actual quality of life in the Ruhr was beyond all her expectations.

The rapid industrialisation led to the urbanisation and growth of the formerly rural townships, and it was especially difficult to accommodate the influx of new workers that arrived from all parts of Germany and also Poland. The local councils were unable to deal with this problem, and so it was often the mining companies that provided housing for their workers. Ebenezer Howard's

idea of a “garden city” was very influential in the Ruhr, and examples of this kind of housing can still be found in Essen's Margaretenhöhe or Duisburg's Krupp-Gartenstadt. To deal with the problems of urban growth and to coordinate planning for the region, the local councils founded the Ruhr Coal Region Settlement Association (*Siedlungsverband Ruhrkohlenbezirk*) in 1920, the first German regional planning association and predecessor to the Regional Federation Ruhr. Its first director general, Robert Schmidt, was also inspired by the garden city ideal and worked to preserve green spots within the conurbation. Today, about two thirds of the area are forests, agricultural lands or green fields, not mentioning the 4,200 parks of various sizes. This mixture of a high degree of urbanisation interwoven with green fields is a characteristic of the Ruhr and a source of quality of life.²²

Today's challenges for planning in the Ruhr are three-fold. First, planners and politicians have to deal with competition for inhabitants from their neighbouring cities – building land is often cheaper the further you move from the core of the Ruhr Area. Their aim is to stop the process of suburbanisation. Secondly, older settlement areas do not always meet the expectations of prospective tenants or homeowners. This means that whole suburbs need to be modernised, and the same applies to former industrial sites. Thirdly, the Ruhr is experiencing radical demographic change involving declining population and household sizes combined with an ageing population. This translates into demand for a kind of housing that is different from that of the past. Planners and developers alike have to find solutions to all of these challenges.

A tale of two cities – Essen and Dortmund

We will now see how they are dealing with them within the framework that the German land-use planning system offers to them. As mentioned already, planning in Germany is an activity that mainly happens at the local

level. Although the Ruhr has some particular characteristics, circumstances and problems that are not typical for the rest of Germany, it is nevertheless a good case study of the effects of a decentralised planning system. This is because it displays some of the features of a big conurbation, or even a metropolitan region, while at the same time being split into dozens of towns and cities. For decades now debate has raged as to whether an alternative political structure would not be more appropriate to govern the Ruhr, be it a separate government district for all the councils comprising the Ruhr, a higher degree of cooperation between the cities, the institution of a “First Mayor” for the “Greater Ruhr Area” or even a super-merger of all the councils into one big Ruhrstadt (Ruhr City). However, none of these ideas was appealing enough to change the existing decentralised structure of administration and decision-making. Therefore, there is no central planning for the whole region, but there are as many separate planning departments as there are separate councils. Consequently, the approaches and philosophies behind planning vary with the geographical situation of each council, but also with the character and quality of the planners and politicians. The result is a variety of, and competition between, planning policies. Nothing exemplifies this better than the relationship between the cities of Essen and Dortmund, the two biggest cities in the Ruhr.

The general relationship between the two cities has never been without tensions or frictions. The rivalry can perhaps be explained by two facts. First, Essen has historically been stronger both in terms of population figures and economic power. This still translates into a much higher purchasing power per capita in Essen than in Dortmund, and it is perhaps telling that Essen has chosen to call itself ‘The Shopping City’. Dortmund, on the other hand, could not, for a long time, keep up with Essen’s economic dominance. Secondly, Essen has not only been the strongest and most important city in the Ruhr, it is also strategically located at the geographic centre of the region, whereas Dortmund is on the fringe of the Ruhr

with closer links to the neighbouring regions. For these two reasons, a rivalry is built into the relationship between these two cities.

The population of Essen has fallen by about a quarter over the past four decades while Dortmund has remained broadly stable or even grown. Given the intense competition, they now compete for the title of the biggest city in the Ruhr, but much more interesting than counting heads is the question why this development has taken place at all. As we will see, it has to do with competition in planning, and where there is competition there can be winners and losers.



Essen planner Hans-Jürgen Best: “Who is shopping at our shops?”

Hans-Jürgen Best is head of the planning department in Essen. On the wall of his office one can see the results of his work, huge maps of Essen showing the zoning of the city. Yet Mr Best admits that he is not happy with the way that planning had been dealt with in the past.²³ “For decades we had not built enough in Essen,” he says. “Planners and local politicians alike thought that people would move away from the city to the greener fringes of the Ruhr anyway, and therefore Essen could easily accommodate the remaining population without having to build much more. But that was a mistake.” Indeed, many young families left Essen in the past, and neighbouring councils were more than happy to make plans and build houses for them. But one of the reasons for leaving was

the lack of appropriate accommodation for these groups of people. Where they were looking for attractive properties, Essen could mainly offer small flats for rent. The mass exodus of families was thus something that could have been addressed if planning had made these people better offers. “Rethinking the way we do planning is quite a recent phenomenon,” explains Mr Best. “But it had to happen because we saw that we couldn’t afford our infrastructure with an ever-declining population.” He estimates that with every leaving inhabitant, the council loses about 1,500 Euros in state government grants. But even worse than that, Mr Best adds, is the loss in net purchasing power: 18,000 Euros per capita on average. “Who is shopping at our shops if we don’t provide housing?” he asks and pleads for attempts to increase supply. In his view, supply should go up even if the population remains stable. The reason behind this seeming paradox: smaller average household sizes and thus a higher number of households for the same number of inhabitants. “Look at Cologne, for example,” he says. “In the 1990s they gained 16,000 inhabitants, but to reach this growth they had to build 45,000 dwellings.”



Heinz-Jürgen Hacks: “Essen slept for decades.”

It took a long time until Essen realised why its planning strategy did not work. Heinz-Jürgen Hacks of Essen’s chamber of commerce explains²⁴: “In Essen, we used to take things for granted and slept for decades. At the same time however, other cities in the federal state were more alert and attracted new inhabitants. The result was that Essen’s budgetary situation steadily deteriorated.” The chamber of commerce was among the first to draw attention to this problem with a number of reports and publications. This changed the attitude towards planning for development. The calls of the chamber of commerce for providing more inner city land for redevelopment were heard. Through a mixture of re-zoning and renewal activities, Essen has now started to use its real potential, to keep old and attract new inhabitants and to accept the challenge from other councils.

Dortmund poses such a challenge to Essen. We met Ullrich Sierau at Dortmund’s town hall.²⁵ Mr Sierau is a councillor and head of town planning. But judging from the way he presents himself, he could also be the marketing and PR director of Dortmund Ltd. His whole appearance oozes the spirit of competition, an attitude of ‘Dortmund first’ and ‘everything for Dortmund’. He is proud of the things he has achieved for his city and enjoys talking about them. Dortmund used to be a city of coal, steel and beer. While these old industries experienced a decline, the city managed to attract new business. In order to offer people working there an attractive environment, the city’s zoning policy aims at providing enough land to build houses and acquire residential property. It is an additional goal to make the planning process as transparent as possible and ensure a maximum of public participation. This resolves possible conflicts before they arise. The council also tries to speed up the application process: For a zoned area, the target is to grant permission within three months. The council has also developed a sophisticated monitoring system for the housing market which should ensure that it reacts promptly to changing market conditions or ideally anticipates them in its planning policies. Asked why Dortmund is focused so

much on providing an adequate supply of housing, Mr Sierau explains: “Because we are fighting for every inhabitant”, only to admit quite frankly, “first and foremost, planning is one way of implementing the council’s fiscal policy.” In other words, planning helps local politicians to increase their budgets which also makes it possible to provide more and better public services to the population.

The real role of the federal planning system

But how do we reconcile this with the very complex planning structure we analysed earlier? What is the real role of federal coordination? Unsurprisingly, the role of planning above the local and regional level is limited. Mr Sierau boldly declares: “We are doing our own thing and do not need upper tiers of government to tell us what to do.” So there is a big discrepancy between theory and practice. Hans-Jürgen Best, for example, says that he is by law required to consider the state development plans for his local planning, only to admit “I have completely forgotten what some of them actually say.” And Heinz-Jürgen Hacks estimates that “99, if not 100 per cent of relevant planning is done by local planners and politicians” with almost no role for either the state or the federation to play.

Cooperative planning and legal certainty

It should have become apparent by now that German planning is a process that is dominated by local decision-making and that local politicians have strong incentives to support development. How does this affect actual development projects? In Gelsenkirchen’s *Nordsternpark* the Treuhandstelle (THS), a housing association and developer, has its headquarter in the spectacular buildings of the former coal mine Nordstern, a modern glass-and-steel office construction. The combination of old and new can be interpreted as a symbol of the THS’s business.

They manage a dwelling stock of more than 60,000 units in the Ruhr alone, many of which used to be miners’ houses. But the THS is also engaged in converting houses and developing new residential areas. Asked about the cooperation of those responsible for local planning, Gisbert Schwarzhoff, an architect and THS marketing executive, explains²⁶: “The THS has a reputation as a reliable partner with a long term strategy and commitment. Local politicians appreciate this and support us in our activities.” So how long does it take to get planning permission for a new big residential project if the THS already owns the land? “One year if everything goes fine, and maybe five years if there are severe problems. But in the long run,” Mr Schwarzhoff says, “if we own the land there is no doubt we will be able to develop it.”



Treuhandstelle Headquarters Nordsternpark: “Combination of old and new”

The THS could be an exception because of its size, but what about smaller developers? Do they also enjoy friendly treatment by local planners? Marco Boksteen runs a small building agency with his brother and is also the spokesperson of the Essen branch of the German

Association of Real Estate Agents. He confirms the THS experience of the cooperative nature of planning²⁷: “As long as you are working hand in hand with the local planners when developing a project, the chances you will be granted permission to build are very good. And if a development plan already exists, you can be sure that you will be able to build what this plan allows.” His conclusion: “In the Ruhr, there is no such thing as a supply problem. Quite on the contrary, especially the cities at the fringe are readily providing building land.” Asked for his explanation of this phenomenon, he explains why the structure of incentives favours development: “On the one hand, you will always find farmers who are willing to sell their agricultural land if it will be zoned as building land. On the other hand, local politicians want to attract new income tax payers and are ready to re-zone this land.”

The challenge for the core cities

The German planning system as it works in the Ruhr achieves a very flexible housing supply because cities compete with each other on a regional level, but it should not be denied that there are some drawbacks arising from this system. As we have seen, it is easier for fringe councils to zone for new residential areas because they have more land available which could easily be used for building. In addition, these greener areas are also cheaper than land in the core cities, and it is precisely this green and less urban lifestyle that many young families seem to prefer. But what does this mean for the core cities? Of course, it creates a number of problems. People moving away from the core are still likely to keep working there. So in order to get to work, they will have to commute. In the Ruhr, the greener fringe areas are either in the south or in the north as the Ruhr stretches from the west (Duisburg) to the east (Dortmund). Commuting happens in a north-south direction, and this can actually be seen on every given morning on roads like the B224, which is Essen’s most important north-south axis. The traffic jam is legendary, and if you want to use this road in the early mornings or

late afternoons you need a lot of time. Also, these commuters will continue to use some of the core’s infrastructure. Essen, for example, is proud of its internationally acclaimed and state-funded Aalto Opera, but if you park in its subterranean garage you will see on the cars’ number plates where these friends of the opera live (German number plates are issued by local authorities), and this includes cities far away from Essen.

The *Regionalverband Ruhr*, the association of local councils in the region, has long pointed out the dangers of a regional migration that draws young families to the fringes and causes problems such as the ones described above. Two years ago it commissioned a study that analysed the motives of those leaving the core cities, and the results were rather surprising:²⁸ 63 per cent of those that left the core did not buy or build a house, but actually decided to rent. And those that decided to buy property often bought old houses instead of buying or building new ones. The cliché that only young families building new houses leave the cities does not hold any more, and the actual pattern of migration is a very complex one. Furthermore, comparing the housing situation before and after the move, the general trend was that people had more floor space after their move and the areas they were moving to were less dense than those they had left.

Thus it is a flexible system of land supply that creates migration to the fringes, but also a dissatisfaction with the environment of a particular suburb or the lack of the desired kind of (spacious) housing. Carsten Tum is head of the *Regionalverband*’s planning department and in this function he has long been arguing against migration to the fringes.²⁹ Mr Tum indeed practices what he preaches. He still lives with his family in Duisburg-Marxloh, a place that belongs to those euphemistically labelled “suburbs with renewal needs”. Mr Tum is frank enough to admit that it would be better for his children to move away and go to school in another, perhaps greener and more socially stable, environment. The challenge for the core, he explains, is to meet the needs of the people living in them so that they will not prefer to leave. This includes

providing attractive housing, tackling crime and social problems as well as demolishing or converting flats that do not meet current requirements. This is exactly the kind of strategy that the Essen chamber of commerce had called for and that planners from the core cities like Essen's Hans-Jürgen Best are following.

To Mr Tum, there is a balance to be struck between cooperation and competition in the region of cities. Where it makes sense, cities should cooperate and learn from each other. This would, for example, make the case for a joint regional marketing – something that businesses like THS would also like to see. On the other hand, competition in providing the best solutions to their respective inhabitants can also be positive, and as such not even the *Regionalverband* doubts that localised and decentralised planning has an important role to play.

Urban renewal

How such a policy of urban renewal can work can be seen in Gelsenkirchen. Wolfram Schneider of the local planning department is involved in one of the city's most problematic suburbs, Bismarck.³⁰ The suburb that bears the name of the first German chancellor is an old industrial area that lost out with the decline of coal and steel in the region. Today it has a high level of unemployment (around 30 per cent), a large share of inhabitants living on benefits and a large immigrant community. It is probably not the suburb one would expect to provide the conditions that young families look for when they are considering to buy their first home. But Gelsenkirchen did not accept this view and actively tried to make the suburb a more attractive environment. The old industrial site of the Consolidation coal mine was transformed into a large park and new attractive and innovative housing schemes were established. In one of these colonies 28 houses were built under the slogan "Building it simply yourself" ("Einfach und selber bauen") where the new homeowners were physically involved in the construction process of their new homes. This had two effects – houses

were cheaper than they would have been otherwise (through a so-called "muscle mortgage") and, because the new inhabitants were involved in the building process, the identification with their new environment was strengthened. Next to these houses, there is just another innovative project. 72 "solar houses" were built, homes fitted with solar panels to collect energy. In between these colonies, there is yet another spectacular project, a comprehensive school that is run by the protestant church (but also provides religious education for the community of Muslim migrants) and considers itself as a school for and within the suburb of Bismarck. There is no fence around the school, and its architecture is as unusual and friendly as the design of the surrounding housing schemes. Mr Schneider explains that it is projects like these that help the core cities deal with the problem of regional migration. It should also be noted that although there was support for the renewal of Bismarck from the state government, the planning and realisation of the project was within the responsibility of local planners and politicians. So the German planning system not only creates the potential for urban growth, but also allows for the creation of local solutions for problematic suburbs, and new uses for brownfields can be found.



Solar development Gelsenkirchen-Bismarck: "Local solutions for problematic suburbs"

Perverse incentives

So while there are lots of things that are positive about the German planning system, such as its ability to find local solutions to local problems, confronting local planners with the costs and benefits of their own actions, encouraging a competition for best solutions on a regional level and creating a culture of legal certainty for the planning process, it should not be denied that there are some problems in German planning that should be avoided. Dr Rüdiger Wink is a professor of economics at Bochum's Ruhr University and an expert on the regional economy and development of the Ruhr.³¹ He agrees that planning should be a decentralised process whether it is dealing with greenfields or brownfields, and that the current system works well in respect of keeping house prices low through regional competition. However, Professor Wink also knows that competition alone is not enough if it happens within a structure of questionable incentives. He mentions the attempts of local councils to attract businesses by promising them subsidies or tax relief. In a competitive system, this could lead to companies playing off one council against the other. Such cases, he says, are far from being examples of "reasonable competition". However, such behaviour can be observed in Germany. In the case of planning for housing, he believes that the most "perverse incentives" derive from the German income tax law, under which commuters can deduct their travelling expenses from their taxable income, and also the special tax rebate for buying property. Such interventions, he explains, cause distortions in the market, i.e. people who would not have considered moving away from their places of work or buying property otherwise will actually be encouraged to do so. This places a burden on core cities and distorts the competition between them and their less urban neighbours. It will also create problems of "regional externalities", i.e. core cities will provide infrastructure for the inhabitants of neighbouring cities who do not pay for it – just remember Essen's Aalto Opera. However, Professor Wink also stresses that at least a part

of such regional externalities are based on the provision of the wrong kinds of services: "Councils should provide services that have a direct impact on the environment of their cities and increase the quality of life within them. These activities could include projects to tackle social problems in suburbs or providing parks and playgrounds. That is the right task for the cities, and if they are engaging in such activities it is very unlikely that regional externalities will occur. If councils do their jobs properly and the tax system refrains from setting perverse incentives, a competitive and decentralised planning system works well." But what about fears that competition in planning can also mean that some cities will lose out to others? "To be effective," Professor Wink maintains, "competition must also be a deterrent. If you know that whatever your actions, someone will bail you out in the end, you will not strive hard. But this is not competition then. Competition needs to provide the promise of reward for success and of punishment for failure." He thinks that the current German system does in fact provide the incentives necessary to reward and punish through the system of local government finance, although he thinks that even more competition in local taxation through competing tax rates on the local level would be possible and desirable.

German planning – the main findings

We began by stating that Germany and the UK seem to be quite the opposite of each other when it comes to their housing markets and that the differences in land-use patterns are easy to detect with the naked eye. These differences are not accidental but result from their differing planning structures. In the case of Germany, the main characteristics of this structure are the following:

- The German system is a hierarchical one that matches the political structure of Germany as a federation. However, the local level is the only tier of government with a constitutional right to engage in planning, and

councils are therefore the key players in the planning process.

- The councils are not only allowed to engage in planning, they also do it according to their own interests. They have very clear incentives to provide land for residential and commercial uses as they receive state grants based on the number of inhabitants and are required to finance their local infrastructure with tax revenue created at the local level and.
- The zoning system has created a great degree of legal certainty. Developers and building societies know what these are and know that they will have their permissions granted if they cooperate with the local authorities. This is far away from the culture of case-by-case decision-making under the British system.
- The agglomeration of the Ruhr has been able to grow, thus taking pressure off house prices in the region. The core cities have accepted that they can only compete with neighbouring councils if they manage to create attractive environments to live and work for their inhabitants.
- Urban renewal and re-use of brownfields can successfully be managed on the local level, as the case of Gelsenkirchen-Bismarck shows. A competitive planning system makes it both possible for regions to

grow on the outside as well as providing the right incentives to renew problematic urban areas on the inside.

- Where regional externalities seem to be a problem, they are often just an indicator of the provision of the wrong kinds of public services. Apart from that, tax incentives that encourage commuting and the purchase of property distort the desirable competition between councils and can create a kind of “sprawl” that does not adequately reflect the natural growth and changing housing needs of a region. This aspect of the German system is clearly the least positive.

In summary, a localised system of land-use planning with equally localised incentives seems to make it possible to keep house prices in check and to find local solutions to local problems. Not one of the German experts that were interviewed in the course of our research thought that a highly centralised system of planning with national targets and strategies could work. Although, because of all its complexity and the fact that it reflects a structure of federal government, it may not be a complete blueprint for Britain, Germany has some important lessons for the British planning system.

3. Competing for Taxpayers

Why Swiss Planners Build What People Want

There is probably no other country in the world that is as decentralised and devolved as Switzerland. Even taxes are determined and raised at the local and the regional level. This has an important effect on the Swiss house market. Councils trying to attract new inhabitants – and expand their tax base – have to make sure they provide the right kind of housing. As a result, Switzerland has managed to build bigger and better homes while keeping house prices stable.

Switzerland – rural myths and urban realities

Even to the unprejudiced, there are certain clichés and stereotypes that will enter the mind when it comes to Switzerland. To most foreigners, whether they have been there or not, Switzerland is a country with a seeming picture postcard-like idyll, and what else would one expect to be depicted on such postcards but mountains, valleys, cheese, chocolate, cuckoo clocks and pocket knives (numbered bank accounts are harder to photograph). The image is thus one of a decent, but quiet and rather rural country, which is possibly a little bit ‘backwoods’. Lord Brougham (1778-1868) once summed up this view in the least diplomatic way: “A country to be in for two hours, to two and a half if the weather is fine, and no more. Ennui comes in the third hour, and suicide attacks you before the night.” To state the common preju-

dice a little less polemically than Lord Brougham, Switzerland is sometimes seen as a country of dull respectability. The predominant image is static and rural, but not dynamic and urban, let alone vibrant and metropolitan.

Although prejudices are usually wrong, they often have a grain of truth to them. Switzerland is probably not an exception to this rule. It is a country of outstanding natural beauty that produces world-renowned goods and has a highly efficient and notably discreet banking and insurance sector. But is it also a rural and static country? The definite answer to this question must be “no”. Today, around three quarters of the Swiss live in urban areas, especially in one of the three metropolitan areas of Zurich, Geneva/Lausanne and Basle. According to the 2000 Swiss census, only 23.9 per cent of all first homes are situated in rural areas.³² In the cities, the standard of living and productivity are high. In the Mercer World-Wide Quality of Life Survey, Zurich has been ranking as the world’s best place to live for the past four years³³, while the Swiss GDP per capita at purchasing power parity is roughly 33,000 US\$, the eighth-highest in the world.³⁴ These data hardly suggest that we are talking about a rural and less dynamic country; therefore much of the picture-postcard image of Switzerland is a myth. It may have been closer to the truth in Lord Brougham’s times, but it has certainly ceased to be an apt characterization of the current state of the Confoederatio Helvetica, as the Swiss federation is officially called.

Nevertheless, the myth is alive, and it lives on not only in the minds of ignorant foreign observers, but also as an ideal self-image that seems to be to a greater or lesser extent engraved in the Swiss national character. And indeed, the political and administrative structure of Switzerland still reflects this ancient self-image. Switzerland covers an area of roughly 41,000 km² (that is about 17 per cent of the UK's area) and has a population of 7.3 million (12.3 per cent of the UK's population). Yet, when it comes to the number of political institutions, Switzerland eclipses Britain by far. There is a national Parliament consisting of two chambers, a national government and a federal president. Below this level there are no less than 26 sovereign cantons (federal states) that again comprise of 2,902 largely autonomous municipalities – high numbers given the size of Switzerland. Such an extreme kind of federalism is unique even on an international comparison. A Swiss canton is on average only one third the size of a French *département*, thirty times smaller than an Austrian *Bundesland*, seventy times smaller than an Italian *regione* and eighty times smaller than a German *Land*. The Swiss particularism originated in times when Switzerland was a rural country, but for decades the Swiss themselves have now been debating whether their self-image and the complex federalist structure reflect and fit the real state of their country today. This would not necessarily imply that changing the structure of the country itself was necessary, but unifying standards and laws where regional differences cause higher coordination costs could be. Nevertheless, discussing possible pathways to a reform of the federal structure still comes close to a political sacrilege as “Avenir Suisse”, a political think tank based in Zurich, recently experienced. The publication of its highly critical “state of the nation” book *Baustelle Föderalismus* (best translated as “The building site that is federalism”) provoked a very mixed and sometimes harsh echo in politics and the media. This may be because it is precisely this extreme Swiss federalism with its competing local and regional units

that helped to prevent the growth of the state and kept taxation at a low level.

Swiss land-use planning and urban development policies have to be considered against this complex federalist background. A city like Lugano exemplifies this well. Lugano today has 52,000 inhabitants, but only after it was merged in 2004 with eight of its neighbouring municipalities that used to be autonomous. The regional externalities, which we have already seen at the example of Germany's Ruhr Area, can in principle appear at a smaller scale if a core city cannot effectively compete with its neighbours. In the case of Switzerland, the problem could in theory be aggravated by the degree of autonomy enjoyed by the municipalities as competition and externalities will affect a number of interrelated levels (housing, planning, taxation, infrastructure, etc.), but we will examine later to what extent this extremely decentralised political system does indeed create problems or whether it actually solves more problems than it creates.

The Swiss housing market

Switzerland's property market seems to be rather similar to the German one. Swiss house prices have shown a virtually identical growth trend over the past three decades compared with the country's northern neighbour. There was almost no real average house price increase between 1971 and 2002 according to OECD data and, just as in Germany, prices fell between 1995 and 2002. However, the standard deviation of house price growth rates was more than twice the German figure (which could be explained by Switzerland's very low share of empty dwellings which directly translates market swings into price changes), but it was still about 40 per cent less than Britain's volatility.³⁵ This means that house price swings were less marked in Switzerland than in the UK, but more so than in Germany. The Swiss share of owner-occupied housing is even lower than Germany's (according to a recent Credit Suisse study the rate is currently at around 36 per cent³⁶).

House building in the booming Swiss economy of the 1980s saw annual completions of around 40,000, a figure that even peaked at almost 50,000 in the early 1990s. With higher interest rates, a decline in international inward net-migration and a cooling economy, completions reached a low point in 2002 of just 31,000 units. However, building has recently gained momentum with annual completions soaring up to roughly 48,000.³⁷ To be able to assess these numbers, it is probably helpful to draw a comparison with British figures by adjusting the Swiss data for differences in population. Had Britain built at the same intensity per capita as Switzerland, the annual completions in the UK would have been between 250,000 and 400,000 dwellings. In fact, however, over the past two decades they have never been higher than 242,000 and are now at less than 190,000. Switzerland, it should have become clear, is building relatively more than Britain, and maybe this helps to explain why Swiss house prices have remained stable.

It is also worth having a look at the size of Swiss dwellings. The last census showed that there is a trend towards more rooms and more floor space. Between 1990 and 2000 the number of dwellings (excluding second homes) with four rooms went up by 12.6 per cent, there were 22.7 more dwellings with five rooms and still 9.6 per cent more dwellings with six rooms or more. During the same period, the number of one room dwellings actually fell by 15.4 per cent. It was not only the number of rooms that went up, but also the floor space of these dwellings. The Swiss census does not provide data for average sizes as it only groups dwellings in different categories by size. However, two facts are standing out: 61.9 per cent of first homes had a floor space of at least 80 m² (which is about the average size of Britain's newly built dwellings), and the number of first homes with a floor space of more than 160 m² went up by 38.7 per cent within a single decade.

In any case, Switzerland seems to be an interesting comparison for anyone interested in the effects of different planning systems. We now look more closely at the legal and political framework of Swiss land-use

planning and then deal with the current state of housing and urban development in the Zurich region.

Legal and political planning environment

The Swiss planning system follows the structure of the political system of the Swiss federation. This means that planning is a process that works on all tiers of Government, at the federal level, at the level of the cantons and at the bottom of the hierarchy at the municipal level. Just as the German planning system starts with some rather general statements of aims and principles at the national level and then passes them down to the lower tiers where they will be put into a more concrete form, so does the Swiss land-use planning system proceed.

Professor Alexander Ruch teaches planning law at the Swiss Federal Institute of Technology in Zurich.³⁸ “Historically,” Professor Ruch explains, “the ability to plan land-use rested with the local councils for many centuries, and then from the middle of the 19th century the cantons started to pass some cantonal building regulations. But in 1979 the system was changed.” What he refers to can now be found in Art. 75 of the Federal Constitution (Bundesverfassung). It states:

“Land use planning

1. The Federation lays down the principles of land-use planning which is the responsibility of the cantons and serves the expedient and economical use of land and the ordered settlement of the country.
2. The Federation supports and coordinates the efforts of the cantons and work together with the cantons.
3. The Federation and the cantons have to take into consideration the requirements of land-use planning as far as the fulfilment of their tasks is concerned.”

So while the constitutional power to engage in land-use planning rests with the cantons, the Federation's task is to state the principles of planning. It has done so in the Federal Land-Use Planning Act (*Bundesgesetz über die Raumplanung*). It lists the basic procedural requirements of land-use planning and enumerates goals that should be achieved through this system. Art. 1 of this Federal Land-Use Planning Act presents the general aim of the Act. Its first subsection reads: "The Federation, cantons and municipalities ensure that land will be used in an economical way. They coordinate their land-use planning activities with each other and realize an order of settlement which supports the desirable development of the country. They pay attention to the natural environment and the needs of the population and the economy." Thus what the Act calls for is a balanced way of development in which the environment and the needs of the population as well as those of the economy are to be taken into consideration. In the following articles of the Federal land-use Planning Act we then find rules that require all tiers and branches of government to cooperate in planning.

The role of the national level according to the constitution and the Federal-Land Use Planning Act is that of a coordinator and possibly mediator for land-use planning, which in the end has to be done at the cantonal and municipal level. The Federation itself has only the rather limited means of concepts and special affairs plans (*Konzepte und Sachpläne*) at hand (Art. 13), but these only have a special relevance as far as the Federation has the constitutional power to deal with certain issues. An example for a special affairs plan is the *Sachplan Militärflugplätze* that deals with the location of military airports. As the Federation is responsible for defence, it plays a role in the planning processes connected with it.

The basic responsibility, as already laid down in the constitution, rests with the cantons. Their tasks are listed in Art. 6 of the Federal Land-Use Planning Act:

"1. By drawing up guiding plans the cantons determine the principles according to which their area shall develop.

2. They determine which areas
 - a) are suitable for agriculture;
 - b) are particularly beautiful or suitable as areas of recreation or important as a natural base of life;
 - c) are threatened by natural disasters or detrimental influences.
3. They give information on the state of the targeted development
 - a) of settlement;
 - b) of traffic, the utilities and public buildings and facilities.
4. They consider the concepts and special affairs plans of the Federation, the guiding plans of the neighbouring cantons as well as regional development concepts and plans."

The central tool for planners at the cantonal level is the guiding plan (*Richtplan*) which should be revised every ten years (Art. 9 Federal Land-Use Planning Act). This plan looks similar to the German state development plan as it deals with planning questions of a rather general nature and serves as a guidance and coordination for development at the cantonal level. It is legally binding only for public authorities that have to accept this guiding plan as a given for their own planning-related activities. Whether the guiding plan is the only preparatory plan differs from canton to canton – six out of the twenty-six cantons do not have any further guiding plans so that the cantonal plan is the only guiding plan.

Below the cantonal level, there exist local guidance plans in most of the Swiss cantons. Local statutes define how such a plan can come into existence, but this varies in the municipalities. In some of them a local council will decide on it, in others the population will be called to vote on it in a local referendum. In any case, these local guidance plans are subject to the approval of the canton. As is the case in all federal systems, local plans cannot

overturn decisions of the cantonal plans but only elaborate on them to make them more precise.



Professor Alexander Ruch: *“The position of the municipalities has been traditionally strong”*

At a level below the guiding plans – whether they are cantonal, regional or local – there are more detailed plans to be drafted. They are called use plans (*Nutzungspläne*) and, as Professor Ruch explains, these are still the most important plans as they are not preparatory in character and deal with single plots of land. He is convinced that it is no coincidence that these plans are drawn up at the local level: “In Switzerland, the position of the municipalities has been traditionally strong, and although the federal constitution and the jurisdiction of the Federal Court has shifted power slowly towards centralisation, there is still an important role for the local communities to play.” Such local plans dealing with single plots are legally binding not only for the purpose of public administration, but also for every private landowner. “To the Swiss,” Professor Ruch says, “it is absolutely clear that the use plans must be binding. After all, the landowner is the direct addressee of this plan and must not be left in doubt as to what he may build on his land and what not. And besides, property enjoys a constitutional protection in this country and thus the state cannot deal with it as it wishes” (compare this with the situation of British landowners who depend on local planning authorities).

As for the relationship between the use plan and the preceding guiding plan it is clear that in general the guiding plan will have to be considered when a use plan is drawn up. On the other hand, deviations from the guiding plan in the use plan may indicate that the guiding plan needs to be changed in its next revision.

Use plans are defined in Art. 14 of the Federal Land-Use Planning Act, which also requires these plans to classify the land as either building land, agricultural land or as a protected area. A typical kind of a use plan is the zone plan (*Zonenplan*) which divides the entire area of a municipality into zones for different uses. A building zone is defined in Art. 15 as an area on which building has taken place already or is likely to take place in the next 15 years. Art. 16 defines agricultural areas as green fields reserved for agriculture or preserved for environmental or recreational reasons. Lastly, protected areas as defined in Art. 17 are rivers and lakes, areas of particular natural or cultural value, historical sites and conservation areas for endangered species. These three types are main categories which may be further differentiated (but not mixed) at the local level. For example, a municipality could invent the category of a sports zone as a subcategory of building land, but it could not do so as a mixture of building and agricultural land.

The effect of this zoning system is broadly comparable to the German model. Again, if a proposed building fits into the legally binding use plan a permit to build (*Baubewilligung*) has to be granted – at least as long as there are no legal rules preventing the building. It should be noted, however, that the authorities do have some scope for their decisions whether to grant or to deny a permit. This means that the factual requirements for obtaining a permit cannot solely be found in written legal rules, and thus the permit to build takes at least in some respects the character of a planning permission. The reason for this legal uncertainty can be found in some building related legal rules that are too vague to be applied directly.

Whereas this planning system certainly looks complex, there are some factors at work that favour building. The first

one is the so-called militia principle (*Milizprinzip*). This principle has nothing to do with defence issues, but means that the vast majority of politicians at the local and cantonal level are not doing their political work on a full-time basis, but also have a bread-winning job. This principle made it possible that in many local and cantonal governments there will be politicians who are also professionally working in the building and construction sector. Robert Nef, head of the think tank *Liberales Institut* called this a “local, institutionalized and democratically confirmed lobby for building”³⁹ Although this may sound like the building lobby ‘capturing’ the political process, in effect it only ensures that building practitioners have some representation in the planning process from the beginning, along with other groups. Another factor is submission rules for public projects that often give an advantage to local developers. This will make it advantageous for developers to have close ties to local decision makers. In sum, one could call this a symbiotic relationship of developers and local and regional politicians which works in favour of development.

Looking at the fiscal environment of planning, it should be noted that Swiss taxes for inhabitants and business alike are amongst the lowest in Europe and the OECD, with a fiscal share of the GDP of around 31 per cent (OECD average: 36.6 per cent).⁴⁰ What is further unusual on an international comparison is the low share of national income tax. The cantons and municipalities, largely autonomous in shaping their tax systems, raise the lion’s share of taxes (together they receive more than two thirds of the total sum of Swiss taxes and social security contributions). The result is twofold. First, there is a wide variety of tax systems with different tax rates and tax reliefs in the twenty-six Swiss cantons and even within these cantons from municipality to municipality. Secondly, cantons and municipalities can and do compete with each other for taxpayers. As taxes have to be paid to the municipality of residence, it is often enough to move just a few kilometres to get a different tax rate.

We can illustrate this with two examples taken from a brochure titled *Vorzüge des Schweizerischen Steuersystems*

(The advantages of the Swiss system of taxation) published by the Swiss association of tax authorities⁴¹. It takes about half an hour to drive from Zug to Zurich, but for a manager who works in Zurich it can be well worth living in Zug. Assuming he has an annual income of 500,000 Swiss francs, he would have to pay 113,479 SFr in income tax in Zurich, but only 57,575 SFr in Zug. Or to take another example: even at a moderate income of 80,000 SFr, what lies between living in St. Gallen and Appenzell is a road of 18 km and a tax saving of 2,147 SFr if you happen to live in Appenzell (all data are based on the year 2000). The tax differences between the cantons are increasing with income, so the higher the income, the more the absolute and relative income tax burden will vary between the cantons. Such a tax system clearly encourages the inhabitants to vote with their feet by moving away from the core cities (which tend to have the highest tax rates) and settling somewhere at the fringes of a conurbation where land is also cheaper and houses can be built in a more generous way – an effect that coincides with the general preference for more floor space. This phenomenon can be observed between neighbouring cantons, but also within a single canton. According to census data, the canton of Zurich had a population of 1,122,839 in 1980. Although twenty years later this number had risen to 1,247,906, the canton’s capital, the city of Zurich, had actually lost 31,093 inhabitants. Going back to the year 1960 the picture is even clearer. While the losses of the city of Zurich since 1960 accumulate to almost 100,000 inhabitants, the canton of Zurich grew steadily.⁴² However, over a longer period persisting differences in tax rates tend to be internalised in the prices of building land.

The implications of the taxation system for local planners and politicians are equally clear. As local communities typically raise half of their budgets through taxes of which more than 90 per cent are taxes on income, profits and property, it is not hard to guess which incentives local decision makers face when it comes to planning.⁴³ They will try to provide enough space for

existing and potential inhabitants while at the same time trying to keep their tax rates attractive.

Although the Swiss and many economists rightly praise this tax system for having kept taxes low in Switzerland compared with the excesses of taxation in some other developed countries, it must nevertheless be stated that this system is not without problems, either. It has contributed to turning the core cities of the Swiss agglomerations into something that regional economist René L. Frey of Basle University once labelled *A-Städte* (A-cities). The ‘A’, however, does not stand for a good mark, but for an alliteration of their possible inhabitants: *Alte* (elderly), *Arme* (poor), *Alleinstehende* (singles), *Alleinerziehende* (single parents), *Abhängige* (addicts), *Auszubildende* (trainees), *Arbeitslose* (unemployed), *Ausgesteuerte* (outsiders), *Ausländer* (foreigners) and *Aussteiger* (dropouts). The reason why these groups of people are often concentrated in the core cities is simply because young and affluent families often prefer to live in the agglomeration belt where land prices and taxes are lower and life is greener and more pleasant. This process can actually become a vicious circle: The people remaining in the core cities are likely to be those paying less taxes but demanding more public services whereas the agglomeration fringes will have a population that is wealthier, in need of less services and still using public goods provided by the core cities. Swiss planners and politicians (especially at the federal level) have recognized this problem and are trying to reverse the suburbanization process by urbanizing existing agglomerations and “develop them on the inside”. However, the problem of regional externalities in public services would most certainly disappear if some of the services provided were to be provided privately, as Robert Nef argues: “It is not only a question of the level at which services should be provided, but also a question which services need to be provided in the first place.”⁴⁴ Nevertheless, the process of strengthening the urban centres is also supported by a number of people rediscovering life in the city as a fashionable lifestyle. Therefore, revitalising the city is a process that is both intended by planners to deal with externalities and

use existing infrastructure as well as preferred by a growing number of people who would like to enjoy an urban lifestyle.

Summing it up what has been said so far, it is impossible to analyse land-use planning issues separately. On the contrary, they have to be discussed in the wider context of the political and fiscal system of Swiss federalism. We will now look at how the system works in practice and what results it has produced.

Monitoring the Swiss real estate market



Real estate consultant Dr Urs Hausmann: “A clear preference for spacious living”

Dr Urs Hausmann is a partner at Wüest & Partner which is a major Swiss real estate consultancy based in Zurich.⁴⁵ His company regularly publishes so-called *Immo-Monitoring* reports (short for *Immobilien-Monitoring*, *Immobilien* being

the German word for real estate). In these reports, Wüest & Partner document and analyse trends in the Swiss real estate market. To a British visitor they must sound like reports from a far-away planet because what is described in them does not at all correspond to anything he would have experienced in Britain. For example, the question is asked whether a surplus supply for large rental flats could have built up because prices are stagnating in this segment. It further states that freehold flats should have at least 4 to 4.5 rooms (note that the Swiss and the Germans count rooms, not bedrooms; however, kitchen and bathrooms are not counted, and very small rooms are counted as half rooms), freehold houses 5 to 6.5 rooms because otherwise there would hardly be a demand for them. And where the report discusses pressure on house prices as a threat, what is meant is not the danger of ever-rising prices but precisely the opposite: prices being pushed down from their current level by increased supply, especially for rental flats and freehold houses. There only seems to be one segment in the market which shows some price increases, and these are freehold flats. However, even these price increases would be considered relative price stability in Britain: An annual price increase between 3.5 and 4.5 per cent in this segment was seen as “substantial” as the *Immo-Monitoring* report put it⁴⁶ (at the same time when British commentators talk about a property crash with house price inflation above 5 per cent).

What the Swiss want

Wüest & Partner does not only analyse the hard facts of the Swiss real estate market, but they also try to find out what the Swiss really want when it comes to finding a place to live. Together with the *Neue Zürcher Zeitung*, Switzerland’s leading quality daily newspaper, they regularly commission opinion polls which ask about the importance of certain criteria for renting or buying property. The scale starts at 1 for ‘negligible’ and ends at 10 for ‘crucial’. The results for 31 different criteria were then separated for owner-occupiers and tenants although these two groups hardly differed much in their responses.

So what is at the bottom of the list? ‘Being close to work’ is in 21st position, ‘original architecture’ ranks as priority number 26, ‘leisure activities’ and ‘cultural institutions close by’ are number 29 and 30 respectively, and the possibility of keeping pets is number 31. All of these criteria scored between a mere 3.5 and 5.5 on the scale. In other words, what planners often propagate – high-density settlement close to work and social institutions – does not reflect the preferences of the people. The real preferences of the Swiss are these: ‘Light and sun’ is the number one priority, followed by ‘low rent or mortgage payments’, ‘space and roominess’, ‘terrace or balcony’, ‘noise protection’ and ‘a quiet environment’, with the scores of these criteria ranging from 7.5 to 8.0. It should not be difficult to translate these preferences into a preferred settlement pattern, and that would probably be called low-density sprawl or at least spacious, modern inner-city living.

What the Swiss get – prices

It is of course one question what the population wants and another question what they actually get. The link between the two questions is the planning system – does it provide the kind of housing for which there is a preference? At least for the second most important criterion ‘low rent or mortgage payments’ the answer can be given by having a look at the data. In our previous report *Unaffordable Housing* we presented a diagram based on data from the Bank for International Settlements. This showed how the inflation-adjusted real house price index for Switzerland began at a level of 100 in 1970, peaked 158 in 1989, but fell back to 107 in 2003. In contrast to that, UK house prices have risen from 100 in 1970 to 350 in 2003. This means that over the long period of more than three decades Swiss house prices have more or less moved in line with the general level of inflation, whereas in Britain they have virtually gone through the roof.

Some may object to this that rents and house prices may nevertheless look rather high in Switzerland if one compares them with, say, German house prices, which

generally tend to be even lower than in Switzerland. However, the nominal price itself can be misleading if the general income level is not taken into consideration. What matters more is the purchasing power, i.e. how much housing your income can buy. In terms of this, Swiss rents and house prices are much more affordable than their British equivalents. In 2001 the average Swiss household had a monthly income of 8,797 SFr⁴⁷ which is more than £3,800. In the official Swiss price index statistic, the share of housing is 20 per cent⁴⁸ which means that 20 per cent of the money that an average household spends will be spent on housing. Considering the fact that households do not only consume but also save (in recent years between 15 and 19 per cent of household income⁴⁹), this means that the average household will spend about 16 to 18 per cent of its income on housing, as a very rough approximation. This is about 1,500 SFr or £650. These are of course no precise figures but they definitely give a first impression of how much the Swiss have to pay for their housing. This impression is further confirmed by the Swiss Federal Office of Statistics, which estimated the average rent as 1,116 SFr in 2003 (the difference between this figure and our estimate can be explained by higher payments on mortgages).⁵⁰ To put this into perspective, the British Retail Price Index puts a weight of 22.4 per cent on housing⁵¹, but the British savings rate is much lower (around 6 per cent⁵²). This means that the British spend considerably more on housing than the Swiss as a percentage of their income, and the Swiss seem to get the comparatively affordable and spacious housing for which they have a clear preference. So although the Swiss may now and then complain about their high rents and house prices their position is actually not too bad. But then again, it is an old saying that the Swiss always look worried so that no-one would actually see how well-off they really are – a Swiss kind of understatement, if you will.

What the Swiss get – houses

The next question to answer is whether the Swiss get the housing that meets their qualitative desires. Dr Urs

Hausmann of Wüest & Partner is optimistic that this is the case: “I would estimate that the average newly built freehold flat has a floor space of around 111 m², newly built freehold houses would probably be around 170 m².” Asked whether there are any new dwellings of only 76 m² – the British average – Dr Hausmann smiles: “Well, hardly any, but maybe you would find some holiday flats of that size.” On average, he estimates, there are 400 m² of settlement area per inhabitant (this figure includes roads and infrastructure) of which more than 50 m² are useful floor space, “and this figure is going up as people have shown a clear preference for spacious living,” he adds.

Dr Hausmann’s observations are confirmed by the Economic Research Department of Credit Suisse. Pascal Roth, one of the real estate experts of the bank, says that supply in the Swiss housing market is very flexible and reacts to changes in demand⁵³: “Take the demand for spacious freehold flats in the cities. This is a rather recent phenomenon, but in the past few years we have observed a trend towards a kind of reurbanisation.” He points out that in all Swiss major cities with the exception of Geneva the rental prices per m² are now declining from the city centre towards the suburbs. Geneva, however, is a special case because the most attractive locations are along the Lake Geneva. But in general, there is a new segment in the market for high-quality, spacious inner-city living to which the market has responded.

Developing the Greater Zurich area

When someone says the word “Zurich” you do not immediately know what this person is talking about. Zurich, on the one hand, is the name of a city. This city is situated in North Switzerland where the river *Limmat* leaves the lake *Zürichsee*, and has a population of roughly 370,000 inhabitants. But “Zurich” could also mean the agglomeration whose centre is the city of Zurich. The agglomeration, however, has about 1.1 million inhabitants and comprises a total of 132 municipalities. The agglomeration should not be confused

with the canton of Zurich. Zurich is the Swiss canton with the highest number of inhabitants – 1.247 million people spread over 12 districts that again comprise of 172 municipalities. It is perhaps confusing that the agglomeration of Zurich does not stop at the borders of the canton of Zurich. In fact, the agglomeration reaches into the neighbouring cantons of Aargau and Schwyz. Above even this level there is what might be described as the Greater Zurich area. The total population of this metropolitan area is 1.65 million people. More importantly, and less technically, it is the dominant economic centre of Switzerland.



City of Zurich: *“The dominant economic centre of Switzerland”*

We wanted to find out how housing is provided in the Greater Zurich area, with a special focus on the city of Zurich’s neighbouring cantons. Two things were of special interest to us. First, how is the relationship between the cantons? Do they compete for inhabitants? Do they cooperate when it comes to the provision of infrastructure? Second, how does planning work within the cantons? On what basis do they release land for development? What is the position of local communities within the cantons when it comes to planning? To understand more about these issues we met with the heads of the cantonal planning departments in the cantons of Schwyz and Zug. To find out more about the city of Zurich’s changing face, we got information from the city

of Zurich’s planning department and talked to representatives of the local Chamber of Commerce.

The city of Zurich – fewer people, more space needed

As we said earlier, the city of Zurich has experienced a loss of about 100,000 inhabitants since the early 1960s. The city currently has a population of 366,000. This means that it lost roughly a quarter of its population. However, does this mean that it is easy to find flats, houses and space for inner-city development projects? After all, if so many people have turned their backs on Zurich, one could assume that whenever an inhabitant leaves, there will be a chance to use the space that he previously occupied. Unfortunately, though, this is not true. On the contrary, there is a lack of space in the city of Zurich and this is due to the fact that since the 1960s household formation patterns as well the demand for floor space have changed. Dr Beat Zimmermann, Senior Vice President of Zurich’s Chamber of Commerce, explains that over time people have demanded ever bigger flats and houses even though household sizes have declined.⁵⁴ “This means that the same space is needed today for fewer inhabitants and this, of course, does not make planning easier.” His observations are confirmed by Alex Martinovits of Zurich’s local planning department:⁵⁵ “In the core urban area of the city of Zurich there are hardly any land reserves left and the option to use brownfields for new dwellings will only be viable for another few years.” The city’s strategy to tackle this problem is to make more people live on the same space: “The authorities of the city of Zurich are trying systematically to find out where densification is possible,” Mr Martinovits states. “We are cooperating with developers, homeowners and the council’s land bank to identify areas in which densification policies are possible and reasonable. In some areas, we are explicitly supporting the replacement of existing buildings which can provide twice or three times the original floor space.”



Dr Beat Zimmermann: “Following people’s preferences”

The question for Zurich will be whether these measures alone will make it possible to deal with the demand for housing. Even Mr Martinovits admits that further land release for housing would only be possible in the Greater Zurich agglomeration, and Dr Zimmermann of the Chamber of Commerce confirms this: “Following people’s preferences means releasing more land in the Greater Zurich region. There is a link between building the spacious housing that people want and the use of greenfields for development. You cannot have one without the other, and in the case of Zurich you can see that the metropolitan area was able to grow because land was provided at the fringes.” In Switzerland, too, there are sometimes voices to be heard that warn of a *Zersiedelung der Landschaft*, which best translates as “destruction of landscape by settlement”, i.e. urban sprawl. But there is an even greater consensus on the fact that it was precisely the option of settlement outside existing areas that has taken the pressure off rents and house prices. As Pascal Roth of Credit Suisse’s research department put it: “Planning for housing never reached boundaries. Where there was demand, land would have been supplied, too.” This development has been economically beneficial. Dr Hausmann of Wüest & Partner says: “There is no doubt that prices in Zurich would be much higher today than they are now if the

city had not been able to grow in its hinterland. But this comes at the cost of development on greenfields.”

Planning for a little paradise – Zug

If Zurich already looks like a wealthy city, the impression of affluence can be increased by taking the half-hour train ride from Zurich central station to Zug. Zug is both a city and the capital of the Swiss canton of the same name. Two things stand out about the canton. First, the canton of Zug has the highest per capita income in Switzerland. In 2002 it was 159 per cent of the national average at more than 77,000 SFr per head. Second, Zug also boasts the lowest rates of income taxation in Switzerland. In no other canton do people pay less income tax than there, whether they are on lower or higher incomes. But of course the absolute tax saving will be much greater for high-income earners.⁵⁶ The comparatively high wealth of Zug means that the canton has to pay 120 million SFr into a federal compensation scheme for poorer cantons, and apart from that there is a long tradition of voluntary contributions for Zurich’s cultural institutions which the inhabitants of Zug also use.



City of Zug: “Impression of affluence”

While all of this sounds very technical, a walk through the picturesque Old Town of Zug will create a clear impression of wealth, affluence and quality of life. The city, situated at the banks of the Lake of Zug, oozes with

charm, and for its small size it looks surprisingly busy. We met René Hutter, the head of the canton's planning department, to ask him about his experiences with planning the little paradise that Zug seems to be.⁵⁷

“To make a few things very clear first,” he says, “we do understand ourselves as a part of the metropolitan region of Zurich, but mentally we also belong to the *Innerschweiz* (central Switzerland), which implies a certain regional and cultural orientation.” Zug is a small canton, consisting only of 11 municipalities, ranging from the village-like Neuheim with its just about 2,000 inhabitants to the capital of Zug with a population of about 23,000. René Hutter sees this as a clear advantage: “With such a small number of municipalities, it is possible to engage in a very cooperative planning discussion with the local communities. We in the canton's planning department are never remote, but on the contrary, in many ways Zug is a canton of fast access routes.”



Zug's cantonal planner René Hutter: *“A clear sense of local identity and belonging”*

So what is the relation between the cantons of Zug and Zurich? Regarding employment, it is a situation of give and take – while there are 6,500 people commuting from Zug to Zurich every day, 5,000 people commute in the other direction. “But these are different segments of people, and this again has to do with the tax differential between the cantons.” Asked whether it is true that it pays for high-income earners to work in Zurich while living in

Zug, Mr Hutter says: “Well, in theory it does pay to live in Zug because the tax burden is considerably lower. In practice, such differences in tax are reflected in higher land prices in Zug than in the canton of Zurich. The choice that high-income earners often face is paying your money to the state as income taxes in Zurich or paying it to the bank for a higher mortgage because of higher land prices in Zug. But one also should not forget that there are regional identities which would keep people from moving between cantons. The Swiss have a clear sense of local identity and belonging.”

How does the cantonal planning department deal with the question of land supply? How does it assess the demand for land? Mr Hutter explains that two trends could be observed over the past decades. First, the number of inhabitants increased from a mere 52,500 in 1960 to 99,400 in the year 2000. It is further expected to rise to 127,000 in 2020. Second, the demand for floor space per person has also been on the rise. In 1980 each person had about 35 m² on average, in the late 1990s this had already risen to 45 m², and in 2020 the planners are expecting an average of 50 to 55 m². This is because of an increase in single-person households, but it also reflects the growing expectations about the housing environment generally. What this means is that even at constant population figures new dwellings are needed. “Take the city of Zug as a case in point,” Mr Hutter says. “The population has been more or less constant over the past twenty years, but we nevertheless developed a further 40 hectares.” “What about densification strategies and the use of brownfields?” we ask him. After all these seem to be the preferred strategies of many planners worldwide. Mr Hutter points at the last cantonal Richtplan: “This is certainly not our strategy in Zug as you will see in our plan. On the one hand, you cannot densify much because the dwelling stock is comparatively young. As a matter of fact, there is no legal requirement for us to engage in densification policies. And rezoning industrial or commercial zones does not make much sense either because these zones are currently in locations that are

optimal for this kind of use, but not for housing.” What Zug is thus trying is an extension of existing settlements by releasing more land suitable for residential development. In doing so they are basing their land release areas on their expectations of growth for the next 15 to 20 years, but the canton also leaves scope for the municipalities to adjust it to their own specific needs.

Asked whether it is a problem to acquire agricultural land for development, Mr Hutter is sure that this is not the case. “We have a rural land law in Switzerland that only allows farmers to buy agricultural land. This limits land speculation. But if you are a farmer, you would never sell your land if it is next to a zoned residential area as you can reasonably expect some nice profits once the canton and the municipality use your land for an extension of existing settlements.” It is no surprise, therefore, that farmers who own such land will be among the most ardent supporters of new development.

Talking to René Hutter, one would hardly get the impression that he is a ‘typical’ (i.e. British-style) planner who likes densification strategies, limiting ‘urban sprawl’ and the like. On the contrary, he complains that one of the problems of planning Switzerland is that the country is still thinking too much in rural terms when it should be building cities. “Everybody has farmers in his family, at least one or two generations ago. Therefore, we are often having a hard time when we are planning for what are now urban areas because many people will still have a picture of rural Switzerland in the backs of their heads.” But there is also another feature that is striking about Mr Hutter. He does not just think in planning dimensions, but actually in terms of what is best for the canton fiscally. As was mentioned earlier, there is fiscal competition between and within Swiss cantons. For Mr Hutter this clearly means that as a planner he has to engage in cost-benefit calculations. This has consequences for his attitude towards densification strategies: “Everybody was always telling us that we should make people live at higher densities because allegedly that would be cheaper for the cantons and the municipalities. They would not have to

provide much more infrastructure, but generate more tax revenue on the same space. But our planning department could demonstrate that this was not true.” His colleague Bettina Weber had published a study comparing local expenditure and local income tax revenue in different parts of the city of Zug.⁵⁸ The result was that from a purely fiscal point of view low-density areas created less expenditure and more tax revenue than high-density areas. This was simply because lower densities were preferred by the more well-off who in return needed less public expenditure as measured per square metre. Ms Weber’s conclusion was that, thinking purely in terms of what is best for the council’s budget, the city should mainly provide lower density residential zones. Of course, one could argue that it is not the only factor that a city should consider when drawing up plans, as Ms Weber actually admits, but the main conclusion for him, Mr Hutter says, is that the argument for densification strategies should not be presented in too simplistic a form.

In summary, Zug is a canton that has not only accepted the challenge of regional competition, but it is in fact actively competing with its neighbours. In this process, planning for development and growth plays a key role. The canton has accepted the housing preferences of its inhabitants and attempts to meet their demands. All this has to be seen against the background of a strategic cantonal fiscal policy.

Developing lower taxes – the canton of Schwyz

As the bird flies, about twenty kilometres south of Zug and forty kilometres from Zurich (a 50 minutes train ride), there is the city of Schwyz which is also, confusingly again, the capital of the canton of Schwyz. Schwyz resembles the postcard image of the whole of Switzerland, with huge snow-covered mountains, fresh air, clean streets, wide green valleys, and – last but not least – friendly people living and working there. One of them is Dr Robert von Rotz, the canton’s chief planner.⁵⁹ His first

question when we wanted to interview him about planning in Schwyz was whether we really wanted to find out something about his canton. Schwyz and *Schweiz* (German for Switzerland) look and sound so similar that in this rather rural, not to say provincial, area the cantonal government often gets international requests from people who simply mistake it for Switzerland's central government. Even the canton's flag looks similar to that of the country. But we really wanted to talk about Schwyz, and not about Switzerland in general, precisely because Schwyz is a rural canton, of outstanding scenic beauty, but nevertheless not too far away from the financial and commercial centre of Zurich. We wanted to see how this affects planning. After all, Zurich is for Switzerland what London is for the United Kingdom. Had Switzerland ever introduced a kind of green belt legislation, there is no doubt that Schwyz would have been affected by it. Therefore Schwyz is interesting as it shows how the hinterland of a metropolitan region can be developed.



Schwyz cantonal planners Dr Robert von Rotz, Thomas Schmid: *"A pragmatic bunch of people"*

The northern part of the canton of Schwyz is actually situated at the Lake of Zurich, and from there it is just a stone's throw from the centre of Zurich. Schwyz as a whole is as much a part of the metropolitan region of Zurich as is Zug, and just like Zug it is also a part of Innerschweiz, which for example means that this is quite

a Catholic area whereas other parts of Switzerland are predominantly Protestant. "For centuries," Dr von Rotz explains, "the canton of Schwyz has been a rather poor canton. But this has started to change some decades ago when the canton absorbed some of the growth of the agglomeration of Zurich." And this growth of the agglomeration is still going strong. "We expect a population growth of around 25 per cent in the next decades, or between 1 and 3 per cent per year in each of our municipalities" Dr von Rotz says. The economic development of Schwyz was indeed a result of Zurich's vibrant economy, which made it possible for Schwyz to catch up with the Swiss average behind which it had been lagging for a long time. But there has been another factor that should not be underestimated. Schwyz actively engaged in a low-tax policy for the past three decades. This was possible because the population of Schwyz had resisted giving their government much funding and the respective governments engaged in conservative fiscal policies. This is how the canton became more and more attractive as a tax haven in the close vicinity of ever more affluent Zurich. The more wealthy people from Zurich decided to move to Schwyz, the more the canton and the municipalities could lower their tax rates. And because this connection was too obvious to be overlooked, the inhabitants of Schwyz realised over time that development for new housing had clear advantages for them: They could lower their taxes – between 1982 and 1995 alone this happened six times.⁶⁰ It is therefore less surprising perhaps when Dr von Rotz sums up the role of planning in Schwyz: "Planning serves the general fiscal policy of the canton and of the municipalities, and this is the top priority. Taxes shall be kept low, and planning must help to achieve that aim." One side effect of this policy of low taxation was that it took some of the pressure off the Zurich house market. Thus low taxation and keeping housing affordable went hand in hand.

To a British observer, all this sounds rather strange, so we asked again: "What happens if you, as the canton's chief planner, approach a local community and ask them to

extend their existing residential settlement. Will you meet much resistance or what we in Britain would call Nimbyism – the ‘Not-In-My-Backyard’ rejection of development?” “Not at all,” Dr von Rotz answers. “To be fair, there are some environmentalist groups in Switzerland that are campaigning against development. But the actual residents are often in favour of it.” “How is that?” we wanted to know. “That is because the inhabitants are doing a simple calculation of costs and benefits. How much does it cost to extend the settlement? How much new infrastructure would have to be provided? How much do we value a possible loss of amenity? But then they will also ask themselves this question: How much can we gain by allowing development? If we make more people live here, that means that we would probably be able to lower our tax rates in the end because more people would pay for our current expenditure.”

After all that has been said, it should not come as a surprise that Dr von Rotz is highly critical of attempts of the Swiss Federation, the central government, to engage more in planning. He mainly sees it as a political manoeuvre to achieve a shift of power away from the cantons to central government: “Federal politicians and planners are using their agglomeration policies to eliminate the cantons when our daily experience shows that these problems can be dealt with very well at a cantonal or local level. After all, the Swiss are a pragmatic bunch of people.” “But what about the arguments of *Avenir Suisse* that Switzerland’s extreme federalism cannot cope with today’s problems and should be reformed?” Dr von Rotz smiles: “If you ask me, that’s poppycock,” he says, walks over to his book shelves and takes out a big volume. “Do you see this book? This argues along the same lines, that Swiss federalism is too small, that we need to merge our cantons into bigger units, that the current system is not able to deal with the challenges of the future such as spatial planning. Now, this was published in 1943 and today, more than 60 years later, Swiss federalism is still alive and kicking. The whole *Avenir Suisse* discussion only shows one thing: ideas don’t die, only the people uttering them.”

How could one contradict Dr von Rotz when it is clear

that he is right? Yes, Schwyz is a tiny political unit of 136,500 inhabitants, but indeed it is working. Building permits are currently dealt with within two and four months (and the canton is aiming to reduce this time to just one month), the quality of the housing stock is good, the settlements match the rural character of the region, the inhabitants get the big dwellings (often more than 200 m² of floor space) they desire, taxes are low, Zurich’s inhabitants have found new places to live and the cost of housing in the Zurich region is lower than in, say, London. Apart from that, there are worlds between Switzerland’s modern and spacious houses and England’s old ‘rabbit hutches on postage stamps.’⁶¹ It is hard to imagine how a restructuring of the Swiss cantons or a federal, i.e. central, planning policy could improve things. Actually, having heard about our previous publication, *Unaffordable Housing – Fables and Myths*, Dr von Rotz says that the British experience should serve the Swiss proponents of more central planning for agglomerations as a warning. To him, the convinced Swiss federalist, there is no doubt that local and regional problems can only be tackled locally or regionally.

The Swiss experience – a summary

When discussing possible pathways to a reform of the British planning system, it is worth having a look at the Swiss experience. There one can see how a system of decentralized planning, local and regional cost-benefit analyses, competition between political units and a formalised system creating legal certainty are able to provide the housing that people want.

We have no doubt that a great deal can be learnt from the Swiss, not least how entrepreneurially thinking types of planners like René Hutter and Dr Robert von Rotz can make a big difference. If planning is not primarily seen as a necessary evil to control, and often prevent, development but as a tool to develop a region strategically for the benefit of its current and future inhabitants (provided there are the right incentives to follow such an approach), planning will be able to deliver better results.

4. Housing the Celtic Tiger

Ireland's Short-sighted Construction Boom

Ireland has experienced a long economic boom over the past two decades, which has had a profound impact on its demographics. But while Ireland attracted people and businesses from all over the world, it realised too late that these people also needed houses to live in. Rising demand pressures were eventually dealt with by building large numbers of standardised, small, poor-quality homes. This has had the paradoxical effect of providing unpopular housing at fast-rising prices.

The Irish economic 'miracle'

Much has been said and written about Ireland, the "Celtic Tiger", Europe's most impressive economic success story of the past two decades. Ireland has successfully managed to transform itself from a poor exporter of people into a vibrant and truly globalized economy. With the exception of an economic growth of 'only' 2.2 per cent in 2003 (at a time when European heavyweights like Germany, Italy and France hardly grew at all), the country has seen annual growth rates between 6 and 10 per cent since the early 1990s – that is, three to four times the European average.

There are plenty of indicators for Ireland's amazing economic performance:

- The country's per capita GDP at purchasing power parity is over \$40,000. That is more than the UK's

(\$30,309), Switzerland's (\$33,168) or Australia's (\$31,020).⁶²

- Ireland's purchasing power per capita is currently about 80 per cent higher than the EU average.
- General government gross financial liabilities as a percentage of GDP have fallen from 111.7 per cent in 1987 to only 29.9 per cent in 2005.⁶³ Whereas between 1974 and 1986 the budget deficit was more than 10 per cent of GDP in all but two years, deficits have turned into surpluses in a number of recent years.⁶⁴
- Unemployment rates have fallen from 15.8 per cent in 1993 to 4.4 per cent in 2004.⁶⁵

Asking what is driving this Irish boom, the answer one often hears is that the EU subsidies from the Cohesion Fund boosted the economy. It is true that since its introduction in 1993 Ireland has been one of the main recipients of payments out of this fund. These subsidies undoubtedly helped to improve Ireland's transport infrastructure in particular. However, it would be wrong to reduce Ireland's rags-to-riches story to this inflow of money from Brussels. On the contrary, Ireland's success is also – if not mainly – due to good economic policy.

To put the Irish economic 'miracle' into a historic perspective, it has to be stated that Ireland's economy was a shambles for the first decades after independence in 1921. First it was the civil war that hampered economic development; afterwards it was the completely misguided policies of protectionism and import substitution of the

de Valera government from 1932 on. This period of “closed door economics” crippled the economy and lasted until the late 1950s, when attempts were made to open up the Irish economy, especially to foreign investors. Taxes for them were slashed to zero. Opening up the economy created the first economic boom with growth rates around 4 per cent – not spectacular growth, but much more than the country had experienced before.

The oil crisis of the early 1970s abruptly ended the Irish recovery, and governments tried to cure the economy through increased spending, thus incurring huge budget deficits. However, these policies turned out to be disastrous. They led to an enormous increase in the public debt, higher taxes, high interest rates, growing government spending, spiralling wages, and in the end even a contracting economy. It was apparent that Keynesian deficit, tax and spend policies were leading Ireland to a dead end.⁶⁶

It was in this dire economic situation that Ireland laid the foundation for what was to become the “Celtic Tiger”. Taxes were cut, government spending was slashed, an agreement with the trade unions helped to curb wage rises. All of this went along with a decidedly open trade policy. To sum up, Ireland’s supply side economics outshone the UK’s Thatcherism and US Reaganomics. The Fraser Institute’s Economic Freedom Index has a scale from 0 to 10, 10 being complete economic freedom. For Ireland, the index improved from a meagre 6.7 in 1990 to 8.2 in 1995, making Ireland the fifth most liberal economy in the world (five years earlier it was ranking only as the world’s number 20).⁶⁷

Ireland’s economic recovery was not, in other words, an economic miracle. We are not talking about an irrational exuberance of markets or an EU-subsidized economic upswing, but about the results of fundamentally sound political and economic decisions.

Irish housing and land-use planning policies cannot be analysed outside this context. The consequences of such outstanding economic growth are at least twofold when it comes to building and construction. On the one hand,

construction benefits from the supply side policies like the rest of the economy. Fiscal stability and predictability, low taxes and interest rates improve business conditions for all sectors. On the other hand, the economic boom increases incomes and purchasing power, which leads to increased demand for housing. In Ireland, the effect was even greater, because the boom reversed traditional net emigration, further boosting numbers in need of new dwellings. Last but not least, the Irish economy’s rapid transformation affected household formation, i.e. the process of declining average household sizes observable in developed countries around the world. Indeed, since Ireland’s economic turnaround is still a rather recent phenomenon, one can expect this drop in household size to happen even faster there than elsewhere.

What would an economist expect to happen in a situation characterized by Ireland’s economic performance? He would probably predict housing supply to respond to increased demand, but also forecast some rise in the price of housing. These two things did actually happen over the past one and a half decades, as we can see by looking at some key figures from the Irish housing market:

- Housing supply has indeed gone up since the early 1990s. Whereas in 1992 only 22,464 dwellings were completed in Ireland, only eleven years later, in 2003, completions totalled 68,819 dwellings according to the Central Statistics Office Ireland.⁶⁸ For 2004, the Construction Industry Federation estimates the number of completions at around 76,000.⁶⁹
- The largest part of this increase was due to private-sector building. Although social housing also went up – from 1,482 units in 1992 to 6,133 units in 2003 – the private sector managed to increase its output by 41,704 dwellings according to CSO figures.
- Irish house prices have skyrocketed. According to the Permanent TSB house price index the average Irish house sold for a mere 84,800 Euro in March 1997, but by March 2005 that had risen to 256,700 Euro. If we look only at the Greater Dublin area – which is not

only the nation's capital but also its social and economic centre, with about a third of the population residing and an even greater share of GDP created there – we see an even greater rise in average house prices, from 92,342 Euro in 1996 to 334,822 Euro in 2004. Looking at all other Irish regions, not a single one has experienced an increase in prices of less than 5 per cent annually. Last year's growth rates ranged from 5 per cent in Longford to 16 per cent in Donegal and Cork.⁷⁰

Apart from prices and quantities, some other data are also interesting to look at:

- Although Irish houses are rather small compared to other Western European countries, they are still larger than houses in the UK. The average newly built dwelling has a floor area of 88.4 m² whereas the figure for the UK is only 76.0.⁷¹
- In 2002, 45.6 per cent of all Irish dwellings were built after 1980. This is more than twice the share of UK dwellings built after 1980 (in 2001 the share was 18.5 per cent).⁷²
- Ireland has a very low dwelling stock per capita: There are only 341 dwellings per 1,000 inhabitants, compared to 430 in the UK. Part of that phenomenon can be explained through Ireland's extraordinarily high average household sizes: 2.9 persons per household, compared to 2.3 in the UK.⁷³ This can probably be traced back to the fact that Catholic belief had a formative influence on Irish family structures for decades – an influence that is now strongly declining. The figure also reflects larger households in rural parts of the country.
- However, Ireland is catching up with the number of dwellings per 1,000 inhabitants: In 2002, 14.7 new dwellings were completed per 1,000 inhabitants (3.1 in the UK).⁷⁴
- The share of owner-occupied dwellings (78 per cent) is even higher than in the UK (69 per cent).⁷⁵

What all these figures suggest is that the Irish economy, far from entering a steady-state growth path, is still in a period of economic upheaval that will continue to challenge and change the planning system and building industry. Rapid economic growth had to be accommodated for in the housing sector, and planning had to support this process if it did not want to be the bottleneck of the building process and risk even further increases in prices. Later we will try to answer the question whether planning was successful in achieving these goals, but before we do this we need to have a look at the basic structures of the planning system in Ireland.

Principles of the Irish planning system

For the first part of the 20th century, Ireland was a very rural country that did not have any planning legislation. After independence, there were other more urgent and pressing problems than planning, and so it took until the mid-1930s before Ireland got its first Town and Country Planning Act. However, the fact that it was based on the English Town and Country Planning Act of 1932 did not contribute to its popularity, and it was effectively never implemented. Although amendments were made to this Act in 1939, the actual history of modern planning begins as late as 1963.

As noted above, Ireland had opened its economy in the late 1950s and was trying to attract foreign investors. It was understood that a comprehensive planning system was needed to support the country's economic growth and provide necessary infrastructure. After consultation with international planning experts, the 1963 Local Government (Planning and Development) Act was introduced. Under this Act, planning was to be done at county level or at the level of larger cities and towns respectively. To get a better understanding of how many public bodies are involved, the number of such institutions currently stands at 88, and they consist of 29 County Councils, 5 County Borough Corporations, 5 Borough Corporations and 49 Town Councils.

All such planning units were required to prepare five-year development plans within three years, that later had to be renewed at least every six years (originally every five years after the 1963 Act). These plans are meant to give guidance for land-use zoning, traffic, urban renewal and amenity preservation. Although this sounds like a strategic and localized approach to planning, in practice it turned out to be a tool that was used to control rather than to foster development.

On the basis of the 1963 Act, there have been numerous additions and regulations to the Irish planning system, partially to incorporate concerns about environmental impacts, partially to accommodate membership of the European Union, with the result that the system has become complex over time. In 2000, the Planning and Development Act consolidated much of the legislation into one single Act.

Ireland operates a zoning system. The zones are defined in the development plans. This means that the area for which a planning unit holds responsibility will be split into areas for residential, commercial, industrial, agricultural or other purposes. All planning applications for development in these areas are expected to fit into this plan. On the other hand, zoning also indicates the likelihood that planning permission will be obtained if the development fits into the character of the area as defined in the development plan. It should be noted, however, that there is not that high degree of legal certainty under a zoning plan that we find in other countries with zoning systems such as Germany and Switzerland.

In 2002, the Irish government launched the “National Spatial Strategy” (NSS). This strategy is meant to guide planning for the whole of Ireland for the next 20 years. It describes itself as follows: “It’s about people, places and potential. Making the most of our cities, towns and rural places to bring a better spread of opportunities, better quality of life and better places to live in. Key to the strategy is the concept of balanced regional development. The NSS will sustain Dublin’s role as the engine of the economy while strengthening the drawing power of other

areas, bringing people, employment and services closer together. It will mean better quality of life – less congestion, less long distance commuting, more regard to the quality of the environment and increased access to services like health, education and leisure. By making the most of our cities, towns and rural places, we will get the growth and development to reach our potential.”⁷⁶ But to achieve these very general goals, the NSS has limited resources and powers. It is not too much of an exaggeration to describe it as a toothless tiger.

The demographics behind the Irish construction boom

One of the driving factors behind the Irish construction boom is the continuous change in the size and composition of the Irish population. Historically, birth rates (i.e. the number of births per 1,000 of population) have always been much higher than death rates. In 1950, for example, there were 21.4 births per 1,000 of population compared to only 12.7 deaths. This relation remained virtually stable until the early 1980s. Since then, birth rates have fallen to a level of around 15 per 1,000, while death rates have also fallen, to 7-8 per 1,000, leaving a continuing large surplus of births over deaths. This means that even without migration, the population of Ireland would grow just because more people are born each year than die.

These birth rates meant that even with sizeable net emigration, the population grew through the second half of the 20th century, by 565,126, or 19 per cent,⁷⁷ from 1951 to 1991. In the 1990s, with Ireland’s economy booming, the migration trend reversed: the net exporter of people became an immigration country. Not only did those young Irish who two decades before would have likely emigrated now prefer to stay at home, but Ireland also became an attractive place to work for immigrants from within and outside the EU – among them many Irish returning to their native country. In 1987, for example, Ireland lost more than 20,000 people through migration, but in 2004 this had completely turned around

and the country gained 31,600 people due to a surplus of immigration over emigration.⁷⁸

Between 1991 and 2002 the population grew by 391,484 people, an increase of 11 per cent.⁷⁹ Such strong population growth was the direct consequence of Ireland's economic development, and all these people had to be accommodated.

Impressive as it is, population growth does not explain all the new demand for housing. Another factor is at least as important, and that is the average size of the households that these people live in. In 1981, the average number of persons per household stood at 3.66 in Ireland. About twenty years later, in 2002, the average household size had fallen to 2.94.⁸⁰ Tony Vincent is a consultant and market researcher who specialises in Irish demographics.⁸¹ He explains that there are at least three factors that are causing this change. First, there is quite a large generation of "empty nesters" – people whose children have moved out and who are now living with their partner or alone. Secondly, family formation takes place at a later time in life. Whereas in former times families were formed in the early to mid-twenties, this now often takes place in the early to mid-thirties. This means that many people in their twenties live alone or with a partner, but not with children. Thirdly, some immigrants do not arrive with partners or family but alone. A possible fourth factor is 1995's legalisation, for the first time, of divorce. According to Mr Vincent, all these factors mean that Irish households will continue to shrink for some time: "It would be reasonable to estimate that this trend will continue for at least another 10 or 15 years."

Summing up what population growth and declining household sizes mean for the demand side of the Irish housing market, one can probably best understand the effects by using the data from the 1981 to 2002 period:

- Firstly, if population had grown by 473,798 (as it actually did), but household averages had remained stable at 3.6 (and not 2.9 as was the case in reality), there would have been a demand for an additional 129,500 dwellings.
- Secondly, had the population remained stable at 3,443,405 (in reality it was 3,917,203 in 2002), the drop in average household sizes would have caused an additional demand of 304,500 dwellings.

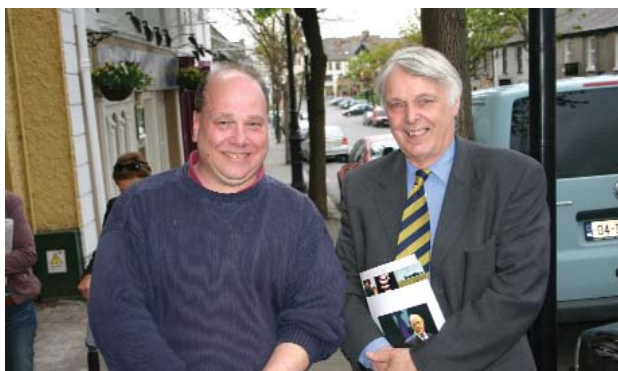
With a drop in average household sizes from 3.66 to 2.9 over two decades, it means that one would need to increase the existing dwelling stock by 26 per cent before one could accommodate the first additional person. Add to this the demand due to population growth, and you get a good idea of what pressure results from Ireland's demographic change.

A self-fulfilling demand prophecy?

As well as population growth and shrinking household sizes, two other factors contribute to rising demand. Imagine you are living in a country in which house prices continuously rise over a long period because of high pressures from the demand side such as the ones described above. Now imagine further that a long economic boom has increased the overall level of income and wealth to levels not previously experienced in the country's history. Imagine also that this country has joined a multinational currency whose interest rates do not depend so much on your own circumstances but on some rather stagnant economic heavyweights. What would your reactions be to all this?

Ireland is precisely such a country. In the course of the 'Celtic Tiger' boom years many people have seen their incomes and wealth rise dramatically: in the words of Tánaiste Mary Harney, Ireland's Deputy Prime Minister, the country is "awash with money". Since Ireland joined the Euro zone, control over Irish interest rates effectively lies with the European Central Bank in Frankfurt. But the ECB's decisions do not really reflect Ireland's economic situation because other Euro zone members like France, Germany and Italy are far larger economies than Ireland – and performing far less well. So the ECB has to keep interest rates low if it does not want to jeopardize conti-

mental Europe's growth, but for Ireland that means that these low interest rates add even more fuel to the fire of exploding house prices. In turn, rising house prices make investment in the property market look even more attractive. As Mr Vincent puts it: "The current circumstances make everybody who still rents his flat or house look like an idiot." Liam O'Donnell, Chief Executive at the Institute of Professional Auctioneers and Valuers in Dublin, says he detects "a certain element of panic among first-time buyers"⁸², who fear that if they are unable to get on the property ladder now they will never be able to do so.



Housing and demographic experts James Young and Tony Vincent: *"It is possible to discuss the ups and downs in the real estate market with every Dublin taxi driver"*

Real estate has thus become the dominant investment strategy for most of the Irish. Dr Simon Stevenson, Director at the Centre for Real Estate Research at the Graduate School of Business/University College Dublin, goes so far as to say that "in effect, the Irish don't seem to know any other investment strategies."⁸³ James Young, a real estate consultant and senior fellow at Ireland's Open Republic Institute, adds: "Bonds or shares receive almost no attention, but at the same time it is possible to discuss the ups and downs in the real estate market with every Dublin taxi driver."⁸⁴ While it is of course most welcome if ordinary people take an interest in investing their capital, in the Irish case the investment is concentrated almost entirely in the real estate market and driven by

expectations of future price rises based on past experience. A reasonable and balanced investment strategy would probably look different.

The problem thus seems to be one of genuine demand pressures arising from demographic change, added to further demand pressure arising from cheap money and speculative and unbalanced investment strategies, all of which adds up to something resembling a housing bubble. Nevertheless, it is clear for all the reasons given above that there is a genuine need to build more houses to accommodate Ireland's inhabitants.

Trying to catch up with demand – Irish housing policies

Given this constellation on the demand side of the housing market, the Irish completion figures do not look that spectacular any more. Indeed, in the long run the Irish would have had to build more so as not to endanger the growth of their economy. The choices are actually quite simple: If you encourage big international companies like Intel, IBM, Sandoz, Hewlett Packard or Compaq to move parts of their activities to your country, you have to make sure you can provide the housing needed by the people employed by them. The same logic applies to all those people who you would like to see living and working in Ireland rather than emigrating abroad. If you want to keep them in the country, you have to make it possible for them to find places to live. It is as simple as that: Economic and population growth and the transformation of a whole economy cannot be achieved without the support of an adequate supply of housing. You cannot have one without the other – in for a penny, in for a pound.

So the important questions are: Did Irish developers, planners and politicians appreciate this connection soon enough, and did they find the right solutions? According to Dr Stevenson of UCD Dublin, development for new housing actually took off much too late. "In the early years of the boom, we did not see much building in

Ireland.” He explains that this was not primarily due to restrictions under the planning system, but to the fact that large developers expected house prices to rise even higher and thus did not develop the land that they owned. The calculation behind that was simple: If it was developed later, the price would even be higher. Put more technically: The opportunity cost of banking land seemed justifiable given the prospect of much higher land and house prices at a later day. On the other hand, they could only expect house prices to rise because they knew that planning would not deliver enough additional housing on time. Thus the expectation of rising house prices was also an expectation of a slow planning system.



Real estate expert Dr Simon Stevenson: *“Local councils totally dependent on grants”*

Around the turn of the millennium, however, two things happened. House prices had already risen so far that even the developers thought they had begun to peak, and were happy to increase their output. At the same time, central government realised the dangers of a supply shortage in the housing market and did whatever it could to encourage the construction of new dwellings. Dr

Stevenson explains that “in Ireland local councils are totally dependent on grants from the central government, therefore any pressure exerted from central government on the councils will have an effect”. However, this is not so much of a formal process of putting pressure on local councils, but a more informal way of influencing decisions – a very Irish solution, if you like. This may also be regarded as the main difference between the Irish and the English system of land-use planning. Dr Brendan Williams, a Research Associate at the Centre for Urban and Regional Studies at Dublin’s Trinity College, says “the Irish system is still based on the English system and looks very similar on paper, but through the very different implementation it actually is not”⁸⁵

The result of the government’s realisation that an increased supply was desperately needed to catch up with demand was the big increase in the number of completions that Ireland has experienced since. As mentioned above, numbers of completions tripled in just a decade. This was possible without any great changes to the planning laws, but simply through changes in government policy and rather informal arrangements with all those involved in the planning process. “Where the government wanted to be flexible”, as Dr Stevenson puts it, “they got things through.” In other words, the question of how flexible housing supply should be was treated less as a legal question, and more as a political one. This is confirmed by Mr Vincent, in the paradoxical statement that “Irish planning is a very informal process that can be made as formal as planners and politicians want it to be.”

The wrong kind of housing

Despite the impressive increase in housing supply, there are more and more voices questioning the assumption that a successful housing supply policy consists of delivering numbers only. Dr Stevenson is highly critical of what Irish planning and development have achieved over recent years. He points out that because supply was late to meet demand, by the time construction activity actually

took off it was too late to deal with the backlog in a reasonable way. All that planners and developers could do was try to satisfy the huge pent-up demand quickly. The result was a quick fix, not a thoroughly reasoned solution.



Real estate agent Ronan O'Driscoll: *"People simply cannot find, let alone afford, the houses they prefer"*

What did this quick fix solution look like? It basically consisted of delivering large numbers of units in a very short time. First, large numbers of flats – something the Irish were not used to – went up, in the form of large apartment-blocks. Second, whole new housing colonies were built, often consisting of hundreds of virtually identical semi-detached or terraced houses lacking any individual character. However, these were often far away from existing amenities, hardly provided any amenities themselves, were poorly built, and served as dormitory towns for existing cities (mainly Dublin). They were also much smaller than comparable houses built twenty or thirty years ago. Dr Stevenson says: "You may call these houses two or three bedroom houses, but they have little in common with those two or three bedroom houses that were built in the past. Their useful floor space is smaller today, they are narrower with no garages and smaller

gardens." His observation is confirmed by Ronan O'Driscoll, the Director of the Dublin new homes division of Hamilton Osborne King, Ireland's market leader in real estate.⁸⁶ He remembers that when he started to work in the real estate business some fifteen years ago, around 45 per cent of new houses were 'family houses', i.e. houses with a floor space of around 125 m². This proportion has now fallen to less than 5 per cent. Liam O'Donnell from the Institute of Professional Auctioneers and Valuers adds: "Spacious three bedroom houses of good quality are currently not being built in the Greater Dublin area." To sum up, in the words of Dr Brendan Williams: "The quantity of our supply is very, very good. The quality leaves a lot to be desired."

One could argue that it does not really matter how small and poorly-constructed such units are if the primary target is simply to house a growing population. Such a view is, however, very short-sighted since it ignores the long-term effects of such a policy on the housing market. First of all, it must be stated that the Irish, like many other nations, have a preference for large houses with gardens. This preference becomes clear by having a look at the kind of houses that Ireland built before the beginning of the economic boom, and it should be borne in mind that this was a time of less affluence and overall purchasing power than today. Large houses with gardens continue to be more sought-after: the bigger and the more detached the better and the more expensive. Small terrace houses and flats are certainly not the ideal way to live for most of the Irish. To first-time buyers, such accommodation may be acceptable or even desirable for some time, but sooner or later, with rising incomes and accumulated capital, they will wish to trade up. It should hardly need stating that nobody wants to live in a badly-built house, where for example the walls are so thin that you can more or less take part in your neighbours' lives.

It is thus quite clear what will happen to these large numbers of mainly first-time buyers currently occupying the units that Ireland's construction boom has delivered

over the past few years: They will want to trade up and move to bigger, more traditional family houses with nice gardens, situated in an environment with neighbourhood shops, schools, cafes, clinics and so on. It is quite unlikely that they will want to stay in their existing houses for decades, as their parents' generation did when they bought their first homes thirty years ago. The whole strategy of quickly delivering large numbers of small houses and apartments for first-time buyers is therefore problematic. Dr Stevenson is right to ask: "In twenty years time, who will still want to live in these apartments and small houses?"



Real estate expert Liam O'Donnell: *"Spacious three bedroom houses of good quality are currently not being built in the Greater Dublin area"*

There are, of course, economic implications to this very one-sided supply: If increasing demand at the bottom end of the market is (more or less) well served, prices for this kind of housing are likely to stabilise. This is what is actually happening. According to Ronan O'Driscoll of Hamilton Osborne King, prices for this kind of housing are rising only in line with overall inflation. At the same time, people trying to trade up are experiencing increasing difficulty in doing so because a) there are many more people in a similar situation and b) the kind of housing they are looking for has not been built for many years. What will happen in such circumstances is predictable: The price of older, more spacious houses will rise strongly. Again, this is already happening in the

Dublin, where prices in this segment of the market are increasing by up to 15 per cent per annum. So while the price of small houses is stable, bigger ones are getting more and more out of reach of the ordinary second-home buyer wishing to trade up from his tiny first home. "The gap between small new and large old houses is widening," says Mr O'Driscoll. "The prices for old spacious houses are getting through the roof and we increasingly observe that people simply cannot find, let alone afford the houses they prefer."

The motivations behind providing the wrong supply

Since it was obvious that quick-fix filling of the supply gap for first-home buyers would store up problems for the future, one might ask why these developments went ahead. Four main reasons can be identified: build-up of backlog demand pressure; pressure on local planners and politicians to deliver new housing quickly; lack of existing amenities and public services; and the pecuniary incentives to developers.

As we noted earlier, the Irish planning system is not too dissimilar from the English system, but it operates in a more informal way. We have also seen that planning is mainly done at a local level, but that the councils are financially even less independent than their English counterparts. Therefore, the incentives to develop new housing in order to attract new inhabitants from which tax revenue could be generated are nil. There is no competition between councils when it comes to the provision of new land for housing – indeed, quite the opposite. As one of our interviewees told us off the record, some councils would probably prefer to shut their borders to new inhabitants if they could get away with it. So the stimuli for development have to come from central government, and indeed this was what actually triggered off the Irish construction boom. So though the system is not, formally speaking, centrally-planned, in practice it is one in which central government plays an important role.

As much as central government was successful in “turning on the supply tap” (Ronan O’Driscoll) in the late 1990s, much of the hasty development that Ireland has seen over the past few years could have been avoided if supply had reacted earlier and in a more flexible way to rising demand. But in the early years of the boom, central government had still not realised how important it was to encourage housing development, and local councils, left alone without an independent tax base and lacking the incentives as well as the means to engage in proactive planning, did not plan for enough new houses.

Then, when it was almost too late and prices had already skyrocketed, the government realised the dangers of this situation and encouraged building. But, as Ronan O’Driscoll put it, “the government only thinks in numbers and units” – thus failing to understand that good, flexible and strong supply means more than just “throwing in a few hundred two-storey, three bedrooms semis” (Liam O’Donnell). And this “thinking in numbers” was passed down from central government to local planners, who could basically declare that they had done their jobs properly if they could only show that their numbers had gone up. The quality of these developments does not appear in the statistics and is hard to quantify anyway.

In addition, local planners had suddenly to deal with a vastly increased work-load, and to do so, tended to favour projects that could be processed via a kind of assembly-line production. Which is not to say that it is local planners who are wholly to blame for poor housing – they simply did what they could under the given system and political pressures. To blame, rather is the fact that central government has a predominant role in both local planning and local finance. As a direct consequence of this arrangement, planning first did not deliver enough, and when it eventually delivered, it was the wrong kind of housing. As Dr Simon Stevenson remarked, this was “central planning failing all over again”.

The developers, too, have responsibility for what has been built. Their excuse is, of course, that they were

operating under a system and incentives that were given to them by the political institutions, so that although one may deplore the results, the developers were only behaving rationally. And although this may be true, it is nevertheless interesting to understand their behaviour and then try to understand what conclusions can be drawn from them for the planning process.

First and foremost, developers and landowners benefited from the fact that planning was not flexible enough to react to increases in demand as soon as they occurred. As we have seen, the political pressure to zone more land and enable more development only followed huge increases in house prices in the wake of the “Celtic Tiger” years. Had the planning system delivered a higher number of completions before backlog built up, this would have taken off some of the pressure on house prices. But in the event, things could not have been better for developers offering new houses in the late 1990s: huge demand combined with house prices not previously experienced and a planning process that invited them to deliver as many units as possible in a short time. The whole situation could rightly have been interpreted as an invitation to make a lot of money quickly. And that is precisely what they did.



Dublin planner Dick Gleeson: *“Focus on stimulating development”*

In fact, the developers did not have to bother too much to provide good quality construction work, interesting architecture, or special design features. In many cases where there were large developments, “they did not even have to

set up show houses,” Liam O’Donnell remembers. James Young says that when they were setting up new colonies in the first years of the construction boom, buyers were even camping on the site for a week to have the best chance to sign a contract. On one occasion he recalls, more than one hundred houses were sold in just a couple of hours. Demand was gigantic, and most money could be made by providing high-density housing. Of course, the demand for larger houses in a lower density environment was also big, but these lower densities would have also meant less units per acre. Given high land prices, it would have paid less to build them. “The price difference was not big enough to make lower densities more profitable to the developers,” explains Ronan O’Driscoll.

To sum up, the best strategy for developers was to develop large numbers of low-quality, standardised, high-density housing – which was exactly the type of housing that planners and politicians preferred as this was the easiest option to provide the completion numbers that central government wanted to see. Another factor in favour of such developments was shortage of infrastructure. Infrastructure was one of the bottlenecks of the “Celtic Tiger” boom. Dick Gleeson of Dublin’s planning department explains that in this respect Ireland is the opposite of many continental European countries:⁸⁷ “Whereas for example in Germany you have a stagnating economy with a fully established infrastructure, in Ireland we have a vibrant and dynamic economy in which the infrastructure is still building up.”

Now, planning and building an infrastructure of roads and sewerage, gas and electricity, schools and hospitals, shopping and recreation facilities obviously takes a lot of time. In Ireland, however, time was so short that planners and developers concentrated new building in areas where some basic infrastructure at least already existed. This too worked in favour of high-density settlements. “During the boom,” Dick Gleeson admits, “the focus was more on stimulating development and less on managing this development. With all the pressure to build more and more units, the building of real communities was sometimes neglected.”

The planners, it should be noted, were and are doing the best they can to provide the right balance of quantity and quality and make speedy development possible, but under the current system they are confronted with lots of obstacles themselves. On the one hand, they are often understaffed. On the other hand, the national planning law requires them to review planning applications within eight weeks. It is thus understandable that Mr Gleeson is angry about complaints frequently heard from the building industry that planning is too complex and takes too long: “How can anyone say that planners are failing to work properly if they have managed to increase the supply to about 80,000 units in Ireland last year?” he asks.



Planning expert Dr Brendan Williams: *“It is the system that is the problem”*

Dr Brendan Williams points out that planners often have to deal with multiple applications for the same site, plus revisions and amendments. Nevertheless, he concedes that “on balance, bureaucracy and red tape have contributed a lot to the delays in the planning system. But it is the system that is the problem, and not the failure of those working in it.”

Learning from Ireland – avoiding mistakes

There is a lot other countries can learn from Ireland’s remarkable economic achievements. It has created one of Europe’s most vibrant economies out of a rural backwater

by implementing a set of decidedly liberal economic policies. That said, in the field of housing there is much that other countries should clearly avoid.

Ireland shows two things quite clearly:

First, it is preferable to deal with rising demand promptly, before little choice is left but to build large numbers of units quickly. Otherwise, house and land prices rise steeply until construction finally gets going, and once it gets going, it is hard to deliver reasoned, balanced, and well-built developments. “Sustainable communities” (environmentally as well as socially) are unlikely to arise if political pressure is simply to increase output of units.

Second, a system that only becomes flexible once actors at the political centre have felt demand pressure rising is unable to deliver local solutions to local problems as soon as they arise. Ireland could probably have avoided some of its current problems if local politicians and planners had had the power and the fiscal incentives to deal with rising demand for housing in their areas earlier. Instead they were dependent on grants from the central government and thus could only be pushed to provide more housing when central government realised how dangerous to the overall economic development of the country the housing situation had become.

A system that does not provide local incentives and ultimately has to rely on central government to push through large-scale housing developments will never be flexible enough to deal with demand at an early stage, and is more likely to fail to deliver the kind of housing that people actually want. A flexible housing supply and a healthy housing market are much easier to realise in a system in which planning is not only a formally decentralised system, but also a system in which the costs and benefits of planning are considered at the same level.

Ireland should also serve as a warning to those opposing more house-building in England. In our previous publication *Unaffordable housing – Myths and Fables* we pointed out that there are some pressures from declining household sizes and population growth in England as well. There is a real and not too remote danger that if we are not dealing with these pressures now, they will eventually form a backlog not too dissimilar to Ireland’s. It therefore makes sense to tackle this problem now, while there is still some time to develop strategies as to how to deal with it rather than postponing it to some day in the future when the only available option will be to produce numbers – uniform housing colonies lacking any form of community life or local character.

5. Death of a Dream

Planners Versus the Traditional Australian Home

Australians have long had a love affair with their homes, and to have one's own detached house on a quarter-acre block became known as 'the Great Australian Dream'. In recent years, however, it has become more and more difficult for young Australians to live this dream and follow in their parents' footsteps. Government strategies of densification and infrastructure funding are leading to fewer and smaller plots as well as more expensive homes, despite Australia's vast supply of land.

A vast and compact country

The Economist recently began an article about the Australian economy with the statement that most people know only a little about Australia, and the little that they think they know is wrong.⁸⁸ One of the myths, *The Economist* said, is that Australia is a vast country when in fact it is "a highly urbanised and even compact country, with over half of its population living in just five cities, and almost 85 per cent living in towns."

It is true that the vast majority of Australians today live in towns and cities, especially in one of the five state capitals of Sydney, Melbourne, Brisbane, Adelaide and Perth. And perhaps surprisingly, this has always been a fact of (white) Australian history. Although the Australians love to celebrate their 'bush culture' in their folk songs ('Waltzing Matilda' being the unofficial

national anthem), its European settlers were never concerned with establishing a colony of bush rangers, but quite the opposite. As the Australian social commentator Hugh Mackay recently put it: "This whole idea that somehow we came out of the bush and then settled in the cities is a contradiction of our history. We began in these coastal towns and settlements, which became cities, and some intrepid pioneers moved out into the rural areas. It's true that in the past the rural population has been somewhat higher than it is now, there's a trickle back to the city. But we've never been a rural people."⁸⁹

On the other hand, calling Australia a "compact country" conjures up an image of an over-crowded place, struggling to cope with a shortage of land, such as Hong Kong or Singapore. It is true that in Australia large areas of land are virtually uninhabitable: the eleven largest deserts cover about twenty per cent of the continent's land-mass, and more than a third is desert-like due to low rainfall.⁹⁰ But even if one subtracts these large uninhabitable areas from the total, the inhabitable areas of Australia are still fifteen times larger than the United Kingdom. Yet the number of inhabitants is only little more than twenty million. In other words, Australia is a vast continent with no shortage of land.

Anyone who has ever visited Australia will not be startled by this. Travelling from Sydney via Canberra to Melbourne, or driving along the Great Ocean Road from Melbourne to Adelaide one sees huge areas which could be used for settlement. But here comes yet another

contradiction: While these areas could in theory provide land for new towns and cities, in practice the number of big Australian cities has not changed much in 150 years. In the middle of the 19th century, the Australians lived in the same cities that they live in today. But over this time, their populations have increased several times, so that Sydney for example has stretched out to cover more and more land and today two thirds of the population of New South Wales live in the capital while most of the rest of the state (which is four times larger than the UK) is hardly populated.⁹¹ The reason Australian cities spread out so much is because of the way they were built. Very much unlike European cities, they consist of an inner-city business district and lots of sprawling low-density suburbs, made up of big houses on comparatively generous plots of land – the egg yolk effect, as it is called in Australia.

All this makes it difficult to come to a judgement on whether Australia is a vast or a crowded, an open or a compact country. There are good reasons to argue either way. In recent years, however, Australian planners, academics and politicians have given an often one-sided account. According to them, Australians are using too much land for settlement, and their land-use patterns are uneconomical, unsustainable and unreasonable. The traditional Australian suburb with its large houses built on quarter-acre blocks came more and more under attack. What was proposed instead was a different kind of urbanisation, with higher densities in more compact cities, flats in high-rise inner-city buildings instead of detached houses and bungalows on the fringes of cities.

The assault on the Australian suburb is reflected in Hugh Mackay's novel *Winter Close*, in which one of the characters, Maddie, who has recently moved into an inner-city apartment, tries to convince her friend Tom who is still living in the suburbs to follow her example. Tom reflects on his friend's campaign for inner-city living: "Maddie has joined the trendy chorus of people who believe that suburban equals sub-human. The suburbs get a bad rap, which is unfair to the teeming

millions of Australians who live in them and who are constantly being told their lives would be richer if only they lived somewhere else. Move into the central business district, get an inner city terrace, give up your garden, better still go bush, get onto acres somewhere and grow something worthwhile, canola maybe or garlic or grapes, anything but the suburbs. People never seem to think of the suburbs as the best of both worlds, only the worst."

Dealing with Australian residential patterns and its land-use planning system, it is necessary to understand two things. First, one has to see how and why the traditional Australian preference for large houses in the suburbs historically developed. Second, it is then worth trying to find the reasons behind the assault on the Australian suburb. It will then be possible to evaluate the current planning policies and analyse their economic and social consequences.

"I still call Australia home . . ." – Australians and their houses

Australian English may not only sound different from the language of the mother country, it also contains a few words that will take a slightly different meaning when used in an Australian context. The word 'home' is an example of that.

'Home' means something different to the Australian than to the Englishman, and the difference can be explained by going back to the early stages of British settlement on Australian soil. The first Europeans in Australia, whether soldiers, sailors, convicts, adventurers or settlers, all had one thing in common: They found themselves in an unfamiliar, often hostile environment, far away from their native countries. 'Home' to these first white inhabitants was therefore a mixture of memory and an ideal, a kind of longing for their European origins and culture. As was noted by James Backhouse in 1839, "almost everybody in this land calls Great Britain home."

This feeling of being stranded in a big, vast land may have contributed to the wish to make oneself comfortable

at least, to find one's home far away from home. And thus, about one hundred years later, in 1937, a British visitor to Australia noted "They call houses homes in this country."⁹² To explain this psychologically one should perhaps think of the way that expats, even today, try to make themselves "at home" in their new countries.



Australian property magazines: "Not just four walls with a roof on top"

Today, another 70 years later, the connotations of the word 'home' may have changed again. For example, singer-songwriter Peter Allan has written a very popular song titled 'I Still Call Australia Home', thus underlining the fact that the Australians have over time developed a distinctly Australian identity and no longer consider themselves as Britons living under different stars. But what has remained is a very emotional approach to the word 'home'. Home is not just four walls with a roof on top, but stands for the Australian way of life, a sense of belonging, of shelter, and it serves also, and certainly not least, as a sign of wealth and affluence. If there is anything that reflects on the Australian mentality, it is most certainly the concept of the Australian home.

How did the Australian home develop? What were the historical factors shaping Australian cities? Professor Patrick Troy⁹³, with a publication record of fourteen books on Australian cities, is one of the leading experts in this field. He explains that two things were especially important in the early days of white settlement in Australia: "You have to keep in mind that these people

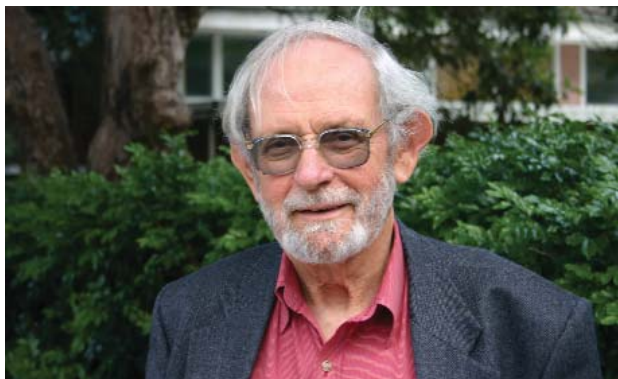
arriving here could not rely on an established agricultural sector for their food, simply because there was none. So there had to be a high level of domestic production. People had to grow their own vegetables, and many kept chickens and ducks as well. And another thing was also important: There was no public sewerage or waste-disposal system, so the settlers had to deal with their own sewage and waste. But if you want to do that, you need a lot big enough to exfiltrate your sewage."

According to Professor Troy, it was mainly this necessity to be self-sufficient that drove the early suburban development of Australian cities, and it may even have contributed to the high living standards Australians enjoyed in the 19th and early 20th century. At some stage in the 19th century, the ideal was to have a lot of at least 1,000 m², the now almost proverbial Australian quarter-acre block, which even made it possible to keep goats and cows. In addition, "the cities were often regarded as unhealthy places where diseases could spread easily. And in dry periods, there also was a fire hazard originating from densely inhabited places. If you wanted to avoid this, you had to move away from the centres. It also helped that land prices outside the towns were low while rents in the cities were relatively high."

So there were quite a number of factors at work that put the Australian cities on a track that would lead them to urban growth, big houses with gardens and, consequentially also, high home-ownership rates. Besides, one should not forget the psychological desire to make oneself at home in a new, vast and remote country. That this was possible to achieve was of course also due to the fact that the Australians of the day enjoyed high disposable incomes, in fact the highest in the world. That alone would not have been sufficient if they had not had the preference to actually spend this income on housing. But this was precisely what they did. Frost and Dingle cite evidence that in Adelaide in the mid 1870s the rent of an average sized four-room cottage cost twenty per cent of a skilled builder's weekly wage, and in Melbourne unskilled workers paid thirty per cent of their income to rent four-

room cottages. At the same time, however, back in Britain “only slum dwellers whose incomes were low spent such a high proportion of income on rent. Skilled workers normally spent around ten per cent of income on rent.”⁹⁴ Australians’ willingness and ability to spend more on their homes meant that by the end of the 19th century approximately fifty per cent were owner-occupiers, compared to a mere ten per cent in the United Kingdom.⁹⁵

Obviously, the practical reasons for building on big lots gradually disappeared towards the turn of the century. Once new methods of transport, refrigeration, waste collection and public sewerage systems had been introduced and general standards of living had further improved, nobody still needed to live on a big plot of land in order to be self-sufficient (although according to Professor Troy, even today fifteen per cent of the salads consumed in Melbourne are home produced).



Professor Patrick Troy: *“The suburban house provided a healthy comfortable environment”*

But by this time, the Australians had not only become used to living in big suburban houses, they had actually started to develop a strong affection for them. The wish to live in one’s own big house had entered the Australian psyche as “The Great Australian Dream”, and living the dream was made easier with the arrival of public transport. As Richard Twopeny wrote of Melbourne in 1883: “Nearly everyone who can lives in the suburbs, and the excellence of the railway system enables them to extend

much farther away from the city than in Sydney or Adelaide [...] almost every class of house is detached and stands in its own garden.”⁹⁶ Patrick Troy once described what kept drawing people to the suburbs: “The attraction of the suburbs was the appeal of the idea of a ‘green and secluded neighbourhood’, one where families could enjoy ‘fresh air, a pleasant view and a shady garden.’

By the beginning of the 20th century, the philosophy of the garden-city gained currency, reinforcing earlier habits.⁹⁷ This national aspiration to own one’s own detached house continues to be well reflected in the structure of Australian dwelling stock today: 78.1 per cent of all dwellings are detached houses, semi-detached and terrace houses account for 9.9 per cent and flats for 11.3 per cent.⁹⁸ The detached house is still by far the most popular type of house in Australia.

“The Great Australian Dream”, the almost mythical concept of “The Australian Home” – these were concepts that politicians knew to integrate into their political agendas. After World War II it was Prime Minister Sir Robert Menzies, a Liberal (in British terms, Conservative), who promised a national housing programme to deal with the war-time backlog in construction and to build homes for the great number of migrants arriving in Australia. By various means, the home-ownership rate was increased to a level of seventy per cent in 1961, which is where it has remained ever since.

Interestingly, Prime Minister Menzies had thought that a nation of home-owners would also be a more conservative population, but his plans were equally supported by the political left who saw home-ownership as a means of empowering the working classes and as a step towards an egalitarian society. This bipartisan backing for home-ownership still exists today, and it is quite remarkable to see how on both ends of the political spectrum it is possible to find supporters of the traditional Australian suburb with big houses, large gardens and high ownership rates.

Patrick Troy, for example, is someone who would rather be located on the political left, and this is how he

praises the concept of the Australian suburb: “The suburban house provided a healthy, comfortable environment and one that enabled family-centred activities ranging from cricket in the backyard to Christmas barbecues. [...] In short, the suburban house and its garden provided the stage on which most Australians lived their easygoing lives of comfort in reasonable balance with nature. The advertising images of Australia’s attractions and the suggestion that visitors would be welcomed by putting another prawn on the ‘barbie’ projected the notion of a free and open society in a free and open built environment.”⁹⁹

Compare this with what Bob Day, a rather conservative or libertarian representative of the Australian housing industry, who writes: “When [people] own their home they express their values with it; they improve it; and they instil a respect for property to their families which permeates the whole of society. The family home becomes the symbol of family life from one generation to the next. Our homes are our best schools and our most efficient hospitals. They give people a sense of belonging, of security and of having a real stake in our democracy.”¹⁰⁰

There is hardly a better sign of success for an idea than being shared by people of utterly different political convictions – even if that is happening for slightly different reasons. Be it as a reflection of Patrick Troy’s egalitarianism or Bob Day’s respect for family values, the “Great Australian Dream” was and is still being shared by people of very different political creeds.

Town planning – the end of “The Great Australian Dream”?

In the past three decades, however, the grown institution of the Australian suburb has come under attack from many sides. For once, house prices have risen to such heights that it is now getting increasingly difficult, especially for first-time buyers, to buy the kind of house their parents bought when they were their age. Secondly, most Australian planners and politicians have been

propagating the virtues of high-density inner-city living. Thirdly, land release has not kept up with the demand for new housing. Of course, all three aspects are closely inter-related. In the following paragraphs we will try to show what happened to the Great Australian Dream and understand why it happened.

In the first six or seven decades of the 20th century, Australian governments of all parties were never reluctant to plan and deliver major infrastructure projects. Roads, bridges, dams, ports, schools, universities, and even a new capital, Canberra, were constructed – and financed – by various governments. But in the 1970s, the Australian economy experienced severe problems. After having been sheltered from international competition by high tariff walls and heavy domestic regulations for almost a century, it had become uncompetitive. This resulted in double-digit inflation, stagnating economic growth and unemployment. Of course, it also put a strain on public finances with growing public deficits.¹⁰¹ Federal and state governments were forced to cut back on infrastructure spending, simply because at the time of the economic crisis of the mid-1970s to the early 1980s they could not afford it any longer.

When the Australian economy was liberalised under the Hawke/Keating (Labor) governments in the 1980s and 1990s, it made a remarkable economic recovery with impressive growth rates, falling unemployment and improving public finances. But by then, the pendulum had swung the other way: Whereas until the 1970s it was the accepted wisdom that government could solve all the world’s problems by spending more and more, even if that spending was financed on an ever-growing public debt, in the 1990s all Australian governments seemed to have abandoned their willingness to spend and went in the opposite direction: Most important to them now were budget surpluses and Triple A ratings from international rating agencies like Moody’s and Standard & Poor’s. In the Australian political debate this was quickly labelled “debt phobia”. In fact, the federal government is proud that it will have repaid all of its debt by the end of 2005.

Whether thanks to earlier inability to spend more on infrastructure or later unwillingness to do so, Australian governments spent less and less on it. One case in point to demonstrate what this means is Sydney's water supply: The city council is now rationing water and prohibits Sydneysiders from washing their cars in the street or hosing their gardens because since the last dam was built in 1978 the city has grown by more than a million inhabitants. The situation does not look much better for transport or electricity either.

Having said this, two things should be noted: First, not all infrastructure has to be provided by the state and secondly, fiscal policies that aim to avoid deficits are to be welcomed from an economist's point of view. However, under a system that currently relies on publicly-provided infrastructure, it may be unreasonable to cut back government spending on infrastructure projects if that endangers future economic growth.



NSW Shadow Treasurer Peta Seaton MP: *“The traditional family home with a backyard has become an endangered species”*

This fiscal background is important to understand why the “traditional family home with a backyard has become an endangered species”, as Peta Seaton MP, now Liberal shadow treasurer in the New South Wales state Parliament and formerly her party's long-time spokesperson on planning, once put it.¹⁰² We met her at Parliament House in Sydney.¹⁰³ She tells us what she thinks went wrong in NSW planning. “You have to realize first,” she says, “that Sydney is still literally an attractive

place, i.e. it currently attracts about 1,000 new inhabitants each week of whom 600 will stay permanently. But land supply has not kept up with this huge demand. Ten years ago, we were still providing up to ten thousand new allotments per year, but now this has dropped to less than four thousand.”

Behind this reduction in land-supply is the goal to cut infrastructure spending by making people live at higher densities in areas that are already developed, she explains. This way – at least that is what the calculation of the government was – the cost of providing new infrastructure could be avoided or at least postponed. And for those areas that were to be developed on newly released land, the government introduced development levies to cover the cost of infrastructure. “These levies can amount to up to 100,000 Australian dollars for an average family home, and that has to be paid before the family has even bought the land, let alone the first brick,” Ms Seaton reports. “It is a double injustice: First of all, previous generations did not have to pay such levies when they built their houses but their infrastructure was financed through debt which their children are currently repaying. But their children also have to cope with the infrastructure costs of their own homes. And apart from that, there is a big injustice because if you happen to buy a used home you would get all the infrastructure provided free of charge, whereas buying in a new land release area the government expects you to pay for exactly the same public services. This cannot be just.”

Her anger about the justice aspect of development levies is great. But apart from this moral question, what about the economic implications of development levies? What have they done to house prices? Professor Peter Saunders, a British sociologist and director at the Centre for Independent Studies in Sydney, has done a lot of research on housing issues both in Britain and in Australia¹⁰⁴: “There can be no doubt”, he says, “that these developer levies have had an impact on house prices. Of course, one might argue that in the long run the infrastructure would have to be paid for anyway. But see it this

way: With these levies you are capitalising these costs into a single, one-off, upfront payment that has to be paid by the person who first buys the house. The effect is especially severe for those people on lower incomes as it is getting increasingly difficult for them to get a mortgage to make this crucial first step on the property ladder.” In other words, the government has made it more difficult for people to buy their first home? “Absolutely,” Professor Saunders says. “And it’s not just the levies: If you are building your house now, there are more and more building regulations to comply with, all of which add costs to your new home. And then there is the big problem of land supply. If the supply of land goes down while the demand for land stays the same or even increases, then the price of land will go up. And with it, the prices of houses will also rise. It is as simple as that.”



CIS Director Professor Peter Saunders: “The big problem is land supply”

Peter Saunders’s and Peta Seaton’s core argument is that it is high Australian land prices that drive house price infla-

Figure 1: Land prices as a share of house prices in Australia’s five biggest cities, 1973-2003¹⁰⁵

		1973	1983 (in 1973\$)	1993 (in 1973\$)	2003 (in 1973\$)	Increase 1973–2003
Sydney	Land	\$9,100	\$8,910	\$18,581	\$60,953	570%
	House	\$18,900	\$13,092	\$21,079	\$16,972	-10%
	Total price	\$28,000	\$22,002	\$39,660	\$77,924	178%
	Share of land	32.5%	40.5%	46.9%	78.2%	
Melbourne	Land	\$6,900	\$4,788	\$8,501	\$14,160	105%
	House	\$14,000	\$10,607	\$13,012	\$14,821	6%
	Total price	\$20,900	\$15,395	\$21,513	\$28,981	39%
	Share of land	33.0%	31.1%	39.5%	48.9%	
Brisbane	Land	\$7,000	\$8,183	\$10,410	\$17,865	155%
	House	\$16,000	\$11,213	\$12,144	\$14,821	-7%
	Total price	\$23,000	\$19,396	\$22,554	\$32,686	42%
	Share of land	30.4%	42.2%	46.2%	54.7%	
Perth	Land	\$6,500	\$5,243	\$14,048	\$15,126	133%
	House	\$12,000	\$8,486	\$10,410	\$12,969	8%
	Total price	\$18,500	\$13,728	\$24,458	\$28,094	52%
	Share of land	35.1%	38.2%	57.4%	53.8%	
Adelaide	Land	\$2,000	\$3,637	\$6,072	\$18,527	826%
	House	\$12,000	\$6,061	\$6,940	\$11,910	-1%
	Total price	\$14,000	\$9,698	\$13,012	\$30,437	117%
	Share of land	14.3%	37.5%	46.7%	60.9%	

tion more than anything else, and that land is so expensive not because Australia has too little of it, but because too little of it is released as governments try to limit their infrastructure spending. To find out if one can trace this causality in the data, we tracked two prices – the price of a standard house with floor space of 135 m² (without the land on which it is built), and the price for a 700 m² land block (without a house) – in Melbourne, Sydney, Perth, Adelaide and Brisbane from 1973 to 2003. We then adjusted these prices for inflation by deflating them with the Consumer Price Index that the Reserve Bank of Australia uses. The results can be seen in Figure 1.

There are some remarkable things about these statistics: First, the prices of the actual houses, the bricks and mortar if you like, have remained virtually stable, i.e. they roughly increased with the general level of inflation or even fell. It cost \$18,900 in 1973 to build a 135 m² home in Sydney. Thirty years later, you would have had to pay ten per cent less to build it (in 1973 money). Considering that over this thirty year period incomes also rose, it is fair to say that the actual building of a house has never been more affordable than today.

Nevertheless, house prices have risen considerably. In Melbourne, Brisbane and Perth they rose between 39 and 52 per cent after adjusting for general inflation. In Adelaide the increase was 117 per cent, and in Sydney the overall house price increased by a staggering 178 per cent.

If building got cheaper but house prices went up nevertheless, the reason has to be found in land prices. These have exploded in all five cities, from an increase of ‘only’ 105 per cent in Melbourne to an increase of 826 per cent in Adelaide.

All of this means that thirty years ago land made up between 14 and 35 per cent of the total selling price of a house, whereas the figure today is between 48 and 78 per cent. It sounds incredible, but if you are buying a house in Sydney, almost four fifths of the price you pay is paid for the land, not for the actual house.

What is driving up land prices? According to the proponents of ‘urban consolidation’ strategies, i.e. densi-

fication policies, people are happy to live in smaller units, consuming less land than before for their housing. However, if that had been the case one could have hardly expected such enormous rises in the price for land. Therefore it actually looks as if the opposite had been true: Planning has over time provided smaller and fewer lots, thus encouraging people to live at higher densities, while the housing preference of these people is still for the traditional spacious type of housing which used to be so typical of Australia.

What data support this claim? There are two kinds of data one could have a look at. Firstly, one could analyse the average size of new allotments. Secondly, one could then see what happened to the average useful floor space of new dwellings over time. The result of this comparison is interesting. The Australian Bureau of Statistics has analysed the average block sizes for new houses in the Australian capital cities for the period of 1993/94 to 2003/04. In 1993/94 it was already far below the traditional quarter-acre block (which is roughly 1,000 m²) at only 802 m². However, within the ten years analysed this figure fell to only 735 m². But one should not think that this would have convinced the Australians to build smaller dwellings on these smaller blocks. On the contrary, over the same period the average floor area of newly built dwellings increased from 196 m² in 1993/94 to 235 m² in 2002/2003.¹⁰⁶ Going back further in time (and looking at the whole Australian continent, not just at the capital cities), the floor area increases look even more dramatic (Figure 2).

Figure 2: Size of Australian newly-built residential dwellings¹⁰⁷

	1984/85 (sq metres)	2002/03 (sq metres)	Increase
New houses	162.2	227.6	40.3%
New other residential buildings	99.2	134.0	35.2%
All new residential buildings	149.7	205.7	37.4%

These figures are not difficult to interpret. They demonstrate that the Australians have a clear preference for ever more spacious housing, whether they live in houses or flats. The average floor area of both kinds of housing has grown by more than a third in a period of less than twenty years. The result is big houses on small lots. Labelled “McMansions” in Australia, they have become the dominant style of housing in new land-release areas on the fringes of the cities.

Apparently then, there is a paradox between what planning presumes people want and what people actually try to get. While there are smaller and fewer allotments, the houses built on them are getting bigger, and house prices are on the rise because land is getting more expensive. Rising house prices are therefore a direct consequence of an artificial shortage of land supply, and this is pretty basic economics. It is indeed “as simple as that” as Professor Saunders says.

What urban consolidation strategies have created has been described as “inverse doughnut cities”¹⁰⁸: A gentrified, densified city centre with apartments, often in multi-storey buildings; around that the traditional low-density Australian suburb where one still finds the iconic quarter-acre blocks, spacious gardens and ‘typical’ Australian way of life, and around that in the new land-release areas the new so-called McMansions, high-density settlements consisting of enormous houses built on small patches of land, often between 300 and 500 m² only. We do not want to argue that it is impossible to build communities in McMansions suburbs, nor that the inhabitants of these suburbs dislike living there. But one thing is clear: If they had had the choice of getting a traditional Australian home with a garden on a larger allotment, many of them would have opted for that. But current house prices are an effective deterrent.

The McMansions suburbs can actually be described as constituting a new kind of suburbia without any of the benefits to be found in traditional suburbia such as open space, trees and – last but not least – privacy. In a Sydney magazine article leading architect Andrew Andersons was

quoted: “Big houses on small blocks, with narrow footpaths and narrow roads, allow little space to plant trees, as branches will hit houses, roots get into drains, and leaves drop on manicured lawns. Houses are so close that you must keep windows shut, have tinted glass, or blinds and curtains drawn, and the air-conditioning on, to get visual and acoustic privacy.” And the article goes on to describe the environmental and social effects of building on smaller allotments: “The traditional backyard has gone, along with its trees, garden, veggie patch, often pool, washing line and shed, where children could let their bodies and imaginations run free and build tree houses, cubbyhouses, billycarts, dig in the dirt and invent games. Now it’s indoor computer games, and, given there’s no room for a decent run-up in most McMansion courtyards, children are driven to sport and formally organised activities most days of the week.”¹⁰⁹

It is ironic that this settlement pattern seems to achieve quite the opposite of what the proponents of densification strategies wish to achieve. Professor Troy points out that from an environmental point of view, the traditional suburb was far superior to the new McMansions: “First of all, our traditional houses were built mainly using renewable materials which has changed with the newer, high-density forms of housing. Secondly, the garden space was bigger which positively affected the microclimate. Thirdly, the houses had large verandas and bigger roofs, thus helping to keep the house cool in the summer. Nowadays, houses are built in a way that makes it impossible not to have air-conditioning which in turn means that these houses are high-energy consumers.” “But do densification strategies in existing settlement areas at least have the desired effects of saving infrastructure costs? “Not necessarily,” he says. “In many cases it comes down to a question of accounting. Of course, if you increase densities in existing residential areas, you do not have to provide new infrastructure somewhere else, so that saves costs. At the same time, however, you often have to upgrade the existing infrastructure to make it possible to serve a larger number of inhabitants. But these costs are

labelled ‘maintenance’ costs, not ‘investment’ costs. So planners fool themselves into believing they have saved costs by densifying residential areas when in fact they have only incurred different costs.”

If the results of low land-supply policies are so dubious, one might wonder why – apart from the argument that some infrastructure cost might have been saved – they have been followed by the Australian states.

Bob Day is the Managing Director of Home Australia, one of Australia’s leading homebuilding companies, but he is also involved in charity work and is the National President of the Housing Industry Association, for all of which he was made an Officer of the Order of Australia and awarded the Centenary of Federation medal, two of the highest honours of Australia. His explanation of the land-supply problem may sound like a conspiracy theory at first, but thinking about it, certainly does not lack logical rigour.¹¹⁰ “What happened in the 1960s,” Mr Day says, “was that state governments across Australia bought up much of the land, often through compulsory purchase. This way – at least that was the official justification – they could keep land affordable by releasing it in a controlled way.”



HIA president Bob Day: “Governments have lined their own pockets”

He quotes from the charter of the South Australian Urban Land Trust (SAULT), the state of South Australia’s land management corporation which recently changed its name to Land Management Corporation (LMC). In this charter it was written that SAULT’s objective was “to provide an adequate supply of land” and “maintain land affordability”. But in effect, what state land banks like SAULT became were true monopolists of land. Economic theory teaches a lot about monopolistic behaviour, but this certainly does not include keeping the monopolised commodity affordable. On the contrary, monopolists are feared for attempting to reap monopoly profits by artificially restricting supply. Why should it have been any different with these state land banks? By releasing only little land they eventually increased land prices. Mr Day asks whether it is not telling that the new South Australian LMC has eliminated the former SAULT’s official goal of maintaining land affordability and replaced it by “maximising financial returns to Government”¹¹¹ as its goal – *honi soit qui mal y pense*. His conclusion: “Governments have lined their own pockets, instead of meeting the needs of people seeking to buy a home. The Government’s approach to land management has been a disaster.”¹¹² “Add to that the state governments’ ability to limit the supply of land for housing through zoning and other urban planning policies”, he says, “and their control of the supply side is complete.”

Bob Day also agrees with Professor Troy’s view that infrastructure costs will not be saved by densifying existing settlements. In one of his recent publications Mr Day wrote: “Furthermore, brand new, state-of-the-art infrastructure is far better equipped to accommodate larger populations than the ageing and sometimes decrepit, infrastructure of our inner cities. A Parliamentary Report a few years ago found that “... the cost to the community of urban consolidation could actually be greater than fringe expansion because the cost of upgrading services in the inner suburbs is higher than building them new on the fringe.” In other words, replacing or upgrading old water and sewer pipes and old

electrical cables originally designed to accommodate ‘x’ number of people per square kilometre, to now cater for twice that number, is more problematic and expensive than building brand new services on the fringe.”¹¹³

Practical experiences – differing views

So is it justified to blame Australian house price inflation on government interventions, be they densification strategies or land-banking? At the NSW Department of Infrastructure, Planning and Natural Resources we met Peter Hamilton and Patrick Fensham, who are involved in Sydney’s Metropolitan Strategy as Principal Policy Advisor and Director of Strategic Development respectively.¹¹⁴ Unsurprisingly, they both argue that Patrick Troy’s critique of densification policies goes too far, and that densifying existing residential areas can and does indeed save infrastructure costs. Surprisingly, however, they also admit that past policies were not successful on all accounts. For example, Mr Fensham says that Professor Troy is right when he criticises high-density dwellings for being big energy consumers. He also agrees that in the traditional 1960s suburbs one would find more vegetation because the lots were bigger and the houses smaller. Mr Hamilton admits that reductions in the supply of new lots “surely contribute to higher land prices, especially because the Australians still have a preference for large houses”, to which Mr Fensham adds that “loading all infrastructure costs upfront is creating further affordability problems”. On the other hand, both Mr Fensham and Mr Hamilton maintain that the infrastructure needed to house Sydney’s continuing inflow of inhabitants would probably cost around eight billion Australian dollars – money that needs to be raised somehow after all.

So both Mr Fensham and Mr Hamilton argue that there was a “huge case for betterment levies” which should aim at recovering part or all of the so-called ‘windfall’ increases in land values that may accrue to property owners when an area is ‘up-zoned’. At the same

time they warn that any scheme to finance new infrastructure risks endangering the overall affordability of housing. Indeed making any payments upfront without affecting the price of the houses built is as difficult as the proverbial squaring of the circle. Might debt-financed infrastructure be the solution? “It would be difficult because Australian governments are currently putting a lot of emphasis on the fact that they are actually repaying their debts and not incurring new deficits.”

Another point Mr Hamilton mentions is the problem of artificially increased demand for housing. The tax system currently rewards people for buying houses



NSW planners Patrick Fensham and Peter Hamilton: *“Huge case for betterment levies”*

through so-called negative gearing. Under this arrangement property investors can set net losses against the income they earn from other sources, thus reducing their tax liability. “Interventions like this,” Mr Hamilton says, “have boosted demand, pushed up prices and negatively affected affordability in consequence. The supply of land and developer levies are therefore not the only factors determining house prices.” While this is certainly true – and indeed Peter Saunders has argued likewise in a recent paper¹¹⁵ – one might ask why it provides a justification for decreasing supply. It seems to us, however, that the NSW Department of Planning, Infrastructure and Natural Resources is rethinking its policies, with people like Peter Hamilton and Patrick Fensham being sensitive to negative affordability effects arising from upfront infra-

structure payments. However, just a day after this interview, the state government's planning minister stated at a conference that "The alternative to developer levies for development is not having development at all." It will be interesting to see which strategy prevails in the end.

To get the academic viewpoint, we interviewed two professors at Adelaide's Flinders University. Clive Forster is an Associate Professor and Director of Geography Studies in the University's School of Geography, Population and Environmental Management. His book *Australian Cities – Continuity and Change* has become one of the standard textbooks on the development of Australia's urban environment. His colleague Andrew Beer is also an Associate Professor at the School who has a long record of publications on Australian planning and is frequently consulting on urban affairs issues.¹¹⁶ Our first question was what they made of Patrick Troy's claim that densification strategies often fail to save costs. "There is of course some truth to that," Professor Forster says. "Sometimes it will not be possible to serve new inhabitants on an existing infrastructure which then needs to be upgraded. But I do not think one can generalise this. There may well be cases where densification does indeed save costs. The only way to assess that would be on a case by case basis." "You have to see," Professor Beer adds, "that Patrick Troy stands for a specific approach to housing issues. One could perhaps call this the strategy of the old left that aimed at providing better access to cheap housing through cheap land." And today's consolidation strategies go in exactly the opposite direction? "That is certainly true," says Professor Forster. "Perth, Adelaide and Melbourne have all introduced urban growth boundaries to consolidate their cities, but if you ask me I do not think that such a clumsy policy can be the answer to environmental challenges. After all, what can arise then is what we would call leapfrog developments, i.e. new housing just outside the protected areas."

Where does the enthusiasm for densification strategies come from? "I think that the original thrust came from the idea that you could really save on infrastructure

spending by engaging in densification strategies," Professor Beer says, and his colleague Clive Forster adds: "But some arguments about sustainability and the environment as well as talking about social equity were added later. Nevertheless, the original aim was quite clearly to save costs. These further points merely helped to make the whole idea of urban consolidation sound nicer and sell it to the public."



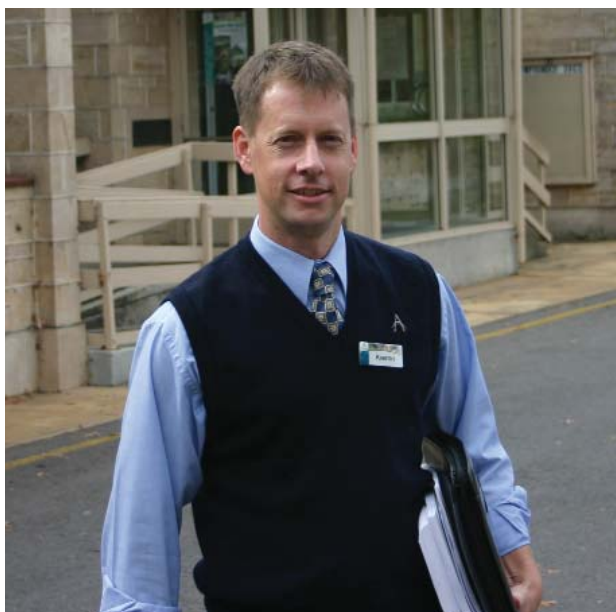
Professors Clive Forster and Andrew Beer: *"Save on infrastructure spending by engaging in densification strategies"*

So when it comes to providing infrastructure, who should pay? "In the states which have introduced developer levies, these levies clearly had a considerable effect on affordability," says Professor Beer. "And if you think about it, they are actually a subsidy for older, established households who got their infrastructure provided and paid for out of the general budget." So what might work better? "Think about a system of local taxation which for example gives a certain share of value added tax to the councils. Such taxes and the current rates system, broadly comparable with the British council tax, can also be a way to deal with local infrastructure costs."

What do they think of Bob Day's claim that it is the monopolistic behaviour of the state land trusts that is to blame for rising land prices? "I do not think they are stockpiling to keep prices high," Professor Forster says. "And if you would ask them, they would probably tell you that it was the private developers buying and banking.

Actually, I guess there are some other demand factors at work that also account for some of the price increases. The Australians just love their big houses, but they also use them as a way of saving for their retirement. So whenever the Australians are saving more, these savings get converted into bigger houses, and on top of that this makes sense for tax reasons, too. This has also driven up prices.”

Talking to Professors Forster and Beer, it becomes clear that there are no easy, monocausal explanations for Australia’s rising house prices. Indeed, the house market is as much affected by supply factors as it is by demand factors. The problem only seems to be that the state somehow interferes with both sides of the equation. But have those involved in planning realised the effect their actions have on house prices? Professor Beer does not think so: “It may sound strange, but until very recently the question whether there is a link between planning and house prices would have hardly been debated in Australia. Most people involved in these issues would have simply ignored this connection.”



Adelaide Hills planner Kieron Barnes: *“Difficult for planners not to behave hypocritically”*

To investigate how planning issues play out beyond the two still dominant cities of Sydney and Melbourne, we visited Adelaide, which has followed similar densification policies to its larger brethren. In the words of Kieron Barnes, senior planning officer at Adelaide Hills council, “The South Australia Labor government created an urban growth boundary around Adelaide three years ago with the intention to stop the sprawl and to consolidate the city. But you could have guessed what happened then: People decided to move behind the growth boundary to places like Mt Barker from which they then commute to work in Adelaide. I was actually lucky to have bought my house there just before the growth boundary was put in place because after it was introduced land prices in Mt Barker soared.” How did the state planners respond? “Well, now they have created more growth boundaries around the smaller cities as well to stop this kind of leapfrogging.”

Talking about his own personal house preference, he admits that he likes having a large house and does not mind commuting to work by car. Asked whether that was not actually contradicting planners’ beliefs in consolidation and promoting public transport, he smiles: “It’s difficult for planners not to behave hypocritically when it comes to personal choices. Many I know live in big houses on large parcels of land with two cars that are not necessarily environmentally or economically efficient.”

Unsurprisingly, Adelaide’s Lord Mayor, Michael Harbison, defends government-led densification. “Our goal is to stop the sprawling of Adelaide and to consolidate the city while creating sustainable communities. And the reasons for this are clear: Firstly, we want to make better use of our existing urban infrastructure. Secondly, our city should be a modern, vibrant place. But in order to reach this goal it is necessary to have a city centre where people actually live. Currently there are only five or six thousand inhabitants in this area. By all international standards and especially in comparison with European cities this figure is extremely low. Thirdly, we think that it is possible to create vibrant inner-city communities and

avoid the social problems that we see in ‘rural slums’ one would sometimes find at the fringes. You have to understand that Adelaide has historically grown to the North and the South and that enabled us to enjoy the luxury of suburbanisation for a long time, but now it is time to consolidate the city.”



Adelaide’s Lord Mayor Michael Harbison meeting Oliver Marc Hartwich: *“Time to consolidate the city”*

But is this really the kind of city the people of Adelaide want? “Yes, I believe that people’s preferences are more and more going the way of the planners. But we have to keep on convincing the people of the benefits of our vision. Right now, there are still people who would not use public transport even if you gave each of them a bus of his own.”

As if this all sounds a bit too much like central planning, at the end of the interview Lord Mayor Harbison lets us know that he is and has always been a conservative politician, so we should not get the wrong impression of him. But as a matter of fact, what is our impression? Lord Mayor Harbison seems to be passionately convinced that his strategy is not only right but necessary for the benefit of the city, which he wants to make even more attractive than it is already. We would

also agree with his goal of creating sustainable communities, but after all that we have learned about consolidation and densification strategies in the countries we have visited and analysed so far, we are still doubtful whether the economic consequences will actually be as positive as he wishes. Besides, we are not sure whether inner-city living in Adelaide really is gaining momentum. In 2003, the city council spent three million dollars on a project to build twenty city-centre apartments designed to be let at a 25 per cent discount to young people on low incomes.¹¹⁷ If such expensive measures are necessary to attract people to the centre, it is hard to see why the Lord Mayor is so optimistic that he can break the lure of the suburbs. It is perhaps too early to tell how successful the Lord Mayor’s strategies will be in creating the vibrant, high-density city he envisages. We wish him luck but remain sceptical.

Wollongong West Dapto project

Though so far we have criticised aspects of Australian planning and housing policy, we have also found projects which we think are exemplary and could serve as models for a re-orientation of planning and housing policies in the United Kingdom. Two of these should be outlined briefly: The West Dapto land release project in Wollongong and the affordable housing scheme run by City West Housing in Sydney.

Wollongong – or ‘The Gong’ as it is known – is located about eighty kilometres south of Sydney in the Illawarra region and currently has a population of around 195,000.¹¹⁸ Pressure for new housing development has been gradually building for two reasons. First, as part of the Sydney metropolitan region, the dynamic development of Sydney has had a knock-on effect on Wollongong. It is estimated that 15,000 people commute to Sydney every day, which is 10,000 more than twenty years ago. Secondly, changing demographics and household formation patterns mean that more dwellings are needed. As Peter Chrystal, one of

the senior planners involved with the project, explains, “We are expecting an additional 50,000 inhabitants by 2031, but over this time the average household size is likely to fall from its current level of 2.6 persons per household to only 2.1 persons. This means that there are two things we can do to cope with the additional demand: We can try to densify existing areas or we can release more land for development.”

This situation is the background to attempts by the city council to establish new towns and villages. The area in which this is going to happen is West Dapto, a very rural, scenic area of about 3,000 hectares (this is about twice the size of the London borough of Hammersmith and Fulham). Michael Malone, a senior planner, explains what is happening there: “The idea to use the West Dapto area for new housing dates back to the early 1980s, but it took a long time until we had come up with a comprehensive plan. That was first of all because of infrastructure problems and natural constraints that had to be tackled.” Indeed, a flooding zone, vegetation, power lines and the steep slopes of the Illawarra Escarpment made it impossible to use the area for one large urban settlement. “But although this does not make planning easier, it gives us the chance to come up with some interesting developments that fit into the natural character of the area,” says Mr Malone. “In the end we will have some towns and villages here, but not one big suburb.” The natural constraints could turn out to be a blessing in disguise.



Wollongong planners Peter Chrystal, Nina Kent, Clay Johnsen, Michael Tuffy, Michael Malone: *“Building communities in West Dapto”*

The first part of West Dapto had already been built in 1994, but the planners are less happy with it today. Horsley, a suburb with big houses lined up along a labyrinth of culs-de-sac, was completed earlier because there was water and sewerage capacity for the area, but not for the entire West Dapto project. Driving through Horsley with Nina Kent, a project assistant in the planning team, we can see why the planners do not want more Horsleys in the future: The suburb does not seem to have a centre or much in the way of urban amenities, but only a meander of curvy residential roads in which it is easy to get lost.

When it comes to building the new villages and towns of the West Dapto area, this kind of development will be avoided. Says Peter Chrystal: “We do not want to build another urban ghetto and not another dormitory town, either. We want to build communities, places where people really like to live, and we take some of our inspiration from the new urbanism concept. For example, this means that there shall be employment opportunities in these new development areas. We aim to have one job per dwelling. It also means having green patches in between buildings and green corridors between the new settlements, which also helps to blend these areas with the natural environment. It also means that there will be efficient public services like public transport. And last but not least, there will be a mix of different houses and densities, not a housing monoculture.” Michael Malone explains what kind of housing mix they envisage: “There will be some quarter-acre blocks for double income families at the fringes of these new towns and villages, but they will also have a denser residential pattern towards their centres. So what we are trying to achieve here is a version of the village concept.” Nina Kent, who is now planning for the West Dapto development, actually grew up in the region. She admits that it sometimes gives her a strange feeling to plan for development in this scenic environment that she loves, but then again she says: “I guess it completely depends on what you are building, whether it fits into the character of the area. If you are

doing it right, you will get a result you will be very satisfied with. And of course, this development is needed if we want to house the inhabitants of Wollongong in the future.”

Wollongong city council estimates that in the West Dapto study area of 3,000 hectares, 1,000 hectares will actually be used for development. This will provide space for roughly 15,000 dwellings accommodating around 35,000 people. The total cost of the infrastructure needed is likely to be in the region of 1.2 billion Australian dollars. A part of that will be paid through developer contributions in the form of one-off payments upfront, although this is not unproblematic. “There is a balance to be struck between these levies and affordability,” Peter Chrystal says. We are asking him what he would prefer if he had the choice – a one-off upfront developer contribution or a continuous stream of local taxation. “I would probably take the latter because that would give us some long-term funding security. But under the present system there is no such alternative.”

We were impressed by the Wollongong West Dapto project because it shows how in the most scenic of landscapes one can plan for development which will blend in with nature and create truly sustainable and diverse communities. If Britain wanted to learn how to deal with greenfield release areas, we would recommend having a closer look at Wollongong.

City West Housing project

But even if planning is flexible enough to create a responsive housing supply and low house prices, one might argue that there will still be a need for ‘affordable’ housing, i.e. housing for people who cannot afford it at current market prices. We found a project in Sydney that tries to provide such ‘affordable housing’, although through slightly different means than traditional public or social housing schemes.

City West Housing (CWH) was founded in 1994 with the original purpose of providing affordable housing for

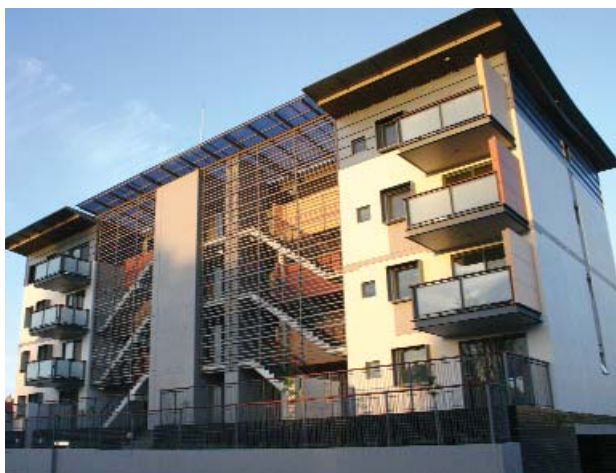
the inner-Sydney suburbs of Pyrmont and Ultimo, but the charter was changed in 2000 to make it possible for the company to operate in the whole of NSW. However, the main focus of its activities is still to be found in the original two suburbs which used to be an industrial area, close to the former inner-city cargo harbour.

The funding of CWH initially consisted of a fifty million dollar grant from the federal government. In addition to this, the company receives four per cent of the NSW government land sales in the area (7.3 million dollars from 1994 till 2003) and developer contributions for development in Ultimo and Pyrmont (roughly 14 million dollars over the same period). The company also generates a stream of rental income through its affordable housing scheme. CWH was set up with the goal of being independent of further direct government funding and should thus operate independently of government.

What CWH aims to achieve is to provide accommodation for people on very low, low and moderate incomes, i.e. up to a maximum income of around 67,000 dollars per year. Moderate incomes are defined as 80 – 120 per cent of Sydney’s median incomes, low incomes as 50 – 80 per cent, and very low below 50 per cent. The rents that these tenants have to pay are a percentage of their incomes – between 25 per cent for very low and 30 per cent for moderate incomes. One of the company’s main goals is to keep a diverse mix of tenants in each of its residential buildings: 30 per cent moderate incomes, 45 per cent low incomes, 25 per cent very low incomes. At the moment, CWH provides more than 360 units in Sydney, accommodating roughly 800 people.

We met Richard Perkins, CWH General Manager, and Will Roden, Principal Project Officer at the NSW Department of Housing.¹¹⁹ Will Roden explains what the state government wanted to achieve: “The City West Project represented a unique opportunity to trial a different approach to affordable housing – one that focussed on a broader target group than public housing and used that to create a financially viable organisation and a socially diverse communities.” In Richard Perkins’s

words: We have seen that there are some people who will always need some kind of support for their housing and others that will need it only temporarily. We want to provide an integrated solution for both of them.” What does this mean in practice? “It means that we are trying to build sustainable and balanced communities of tenants in our properties. For example, seventy per cent of our tenants will have an income from employment. We also encourage the formation of tenant groups for two reasons: To create communities for them and to have these groups as a kind of feedback mechanism for the CWH management.” Apparently, CWH has been successful with this strategy: “We regularly survey our tenants, and satisfaction levels are well over ninety per cent. But beyond these figures, there are the personal stories that show us what CWH has achieved for our tenants. I am always happy to see one of our tenants live in one of our units for a few years and then to hear that now his personal financial situation has improved so much that he can move out and go into the regular property market, often even become a property owner.”



City West project in Sydney: *“You would not guess that this is an affordable housing project, would you?”*

But there is more to CWH than this social interaction with its tenants. What differentiates CWH from other affordable housing schemes is the fact that CWH also

acts as a property developer. Mr Perkins tells us about their strategy: “Two things are important to us: Firstly, we are trying to achieve economies of scale by planning many units with similar, standardised features. For example, we often use a similar kitchen, similar tiles, carpets and so on, which in the end makes it possible for us to build at very low costs, even compared with buying dwellings from the private market. Secondly, we are at the same time committed to building good quality. Our developments aren’t distinguishable from other residential developments in the areas in which we operate. This way, we are achieving higher tenants’ satisfaction as well as a greater social acceptance of affordable housing as such.”

Mr Roden and Mr Perkins then take us to one of their new developments, a building with twelve residential units (one, two and three bedrooms) in the Sydney suburb of Ultimo. Indeed, the architecture is modern, the units are spacious and bright, and each even has its own underground parking. “You would not guess that this is an affordable housing project, would you?” Mr Perkins asks, and indeed we remember having seen private rental units back in the UK that did not even come close to the construction standard of this building.

Summing it up, CWH seems to have achieved something remarkable in the affordable housing sector: Attractive residential units, satisfied tenants, a financially self-sustaining model with no need for continuous government funding and, perhaps most importantly, an affordable housing scheme that blends in with the rest of the community. We think that if governments want to make provision for affordable housing, the CWH model would be well worth considering.

Summary

Australia remains a country with many contradictions in its planning and housing policies, and it is difficult to come to a conclusion that would do justice to all of these aspects. However, we think that many things can be learnt

from the Australian experience, and a few copied elsewhere:

- Australia has developed a mentality that favours building, be it for a conservative agenda of supporting families and social institutions or for a left-wing agenda of building an egalitarian society. The Australians have recognised and often celebrated the fact that building decent homes is an essential component of building a healthy society consisting of socially sustainable communities.
- Recent planning policies, however, have often been inadequate. They have created land shortages and rising house prices while endangering the social and often environmental advantages that characterised the traditional Australian suburb.
- Among planners and politicians there is a growing awareness of affordability problems that are created by imposing development levies on new housing.
- Wollongong's West Dapto project shows how a balanced greenfield release project can be planned to create vital and diverse communities.
- City West Housing in Sydney could be seen as a successful alternative approach to providing affordable housing that does not look like affordable housing.

6. Conclusions

From these accounts of the different systems, a number of themes emerge, themes which relate to the British experience and which will recur in our third and final publication.

The first is the relationship between central and local government. In Germany and Switzerland, central government has a relatively small role to play compared to those of the lowest levels of government. In Ireland the position is closer to that in the UK where central government tends to dictate to local government, in one way or another, how the local area should be planned. But as central government is less flexible, so it would appear that the responsiveness of the planning system in Ireland has been slower and less immediate than responses in Germany and Switzerland. Indeed, faced with rising demand for housing the Irish government appears to have only belatedly increased their assessment of what house building was necessary. The result has been a building boom in which the aim has been to construct as many dwellings as possible, as quickly as possible, to the extent that quality has taken priority over quantity with consequences for the built environment which will last for decades.

In Switzerland and Germany, on the other hand, not only have larger houses been built but prices have not significantly increased in real terms over the years, nor have prices been very volatile.

This brings us to a second theme, the attitude of the local authorities towards development, an attitude which seems to be related to changes in an authority's financial

position resulting from taxes paid consequent on development. In Germany and Switzerland the towns or countries gain a share of the taxes paid which increases as the population of the area increases. In Ireland and Australia this would appear not to be so.

Related to this is the question as to who pays for the infrastructure necessary to any development. It can be paid for through general taxes or charges, or, as in Australia, it is required to be paid as a development charge at the time the houses are constructed. This has the advantage that the charge is paid at the time the infrastructure has to be provided. Of course the money could be borrowed and the cost paid out of future taxation of the property and those resident in it. The cost to the owner should be the same. In economic jargon it is called Ricardian equivalence. Indeed when a development charge is paid and becomes part of the cost of the house, the owner then borrows an increased amount to finance infrastructure construction instead of the local authority or public utility doing so.

But as the Australian evidence shows, the situations are not equivalent – the development charges increase the price of the house. The same has been found with respect to the US equivalent, impact fees. The reason for this is that, in both countries, only the occupants of the newer houses have to pay out this capital sum. In the case of the older houses the infrastructure costs are being paid off as part of general taxation or utility charges. But the occupants of the newer houses have to pay these as well, they do not get a discount because of the development

charge they have paid. Thus they pay twice over. The development charge is in practice a tax.

A further theme is the attitude to densification. At one extreme is the German position. If the cost of the journey to work is tax deductible, then it is clearly not seen as important that people should live close to their work, and that such proximity should be encouraged. The prior aim is a pleasant living environment for the residents of an area.

The Australian attitude, on the other hand, has changed significantly over the past ten to fifteen years. Higher densities are encouraged, and house and land prices raised both because of development charges and also through the implementation of more restrictive land policies. But, to say the least, it is not obvious that the environmental changes have increased sustainability or reduced it, have improved the environment or worsened it.

All of these themes relate to the British experience. In Britain, central government exercises control, or guidance, and the local authorities have relatively little power. Most of their income, 85 per cent in fact, comes in the form of a grant from central government, little is within their control. With respect to development a system of charging has grown up, so called Section 106 agreements, and this is steadily being formalised into a system of development charges, the consequences of which have not yet properly been considered. And the aims of the British central government have certainly been to increase densification and, additionally, to stress the number of housing units built, not their quality or the quality of the environment in which people live. How the British system can be adapted to take on board the better examples of good practice elsewhere is our task in the next report.

Appendix A

Key Figures

	Germany	Switzerland	Ireland	Australia	UK	Sources
Population	82,431,390	7,489,370	4,015,676	20,090,437	60,441,457	1
Current population growth rate	0.00%	0.49%	1.16%	0.87%	0.28%	1
Average annual population growth 1970-2005	0.16%	0.45%	0.98%	1.32%	0.24%	6
Average household size 2003 (CH: 2000)	2.5	2.24	2.9	2.6	2.4	2, 10, own calculations
Decline in average household size 1980-2003 (persons)	-0.3	-0.27	-0.7	-0.4	-0.3	2, 8, 10
Area (sq km)	357,021	41,290	70,280	7,686,850	244,820	1
Land Use						
Arable Land and permanent crops (per cent)	34.17%	11.03%	15.23%	6.59%	23.67%	1
Other	65.56%	88.97%	84.77%	93.41%	76.33%	1
Population in urban areas	88.00%	67.00%	59.00%	85.00%	90.00%	7
Persons per sq km	230.9	181.4	57.1	2.6	246.9	calculated from 1
Annual growth of GDP per capita 1970-2003	1.4%	0.9%	4.4%	2.0%	2.1%	5
GDP per capita (PPP, 2005)	\$30,150	\$33,168	\$40,003	\$31,020	\$30,309	12
Private households (2003; 2002 for UK, 2005 for AUS)	38,944,000	3,288,000	1,382,000	7,638,200	24,346,000	2, 8, 10, own calculations
Age distribution of dwellings stock						
< 1919	14.6%	n/a	9.7%	n/a	20.8%	2
1919 – 1945	12.6%	n/a	8.2%	n/a	17.7%	2
1946 – 1980	58.1%	n/a	33.9%	n/a	43.0%	2
> 1981	14.6%	n/a	48.1%	n/a	18.5%	2
Dwellings per 1000 inhabitants (2000, AU: 2001)	467	404	371	398	430	2, 8, 10, own calculations
Completions (2003; CH: 2004)	268,100	48,000	68,800	131,300	189,900	2, 8, 11
Completions per 1000 inhabitants (2003)	3.25	6.41	17.13	6.54	3.14	calculated from 1 and 2
Average size newly-built dwellings (sq m)	109.2	n/a	87.7	205.7	76	3, 8
Average size dwelling stock (sq m)	86.7	101.2	88.3	n/a	85	3, 10, own calculations
Average number of rooms newly-built dwelling	5.1	n/a	5.2	n/a	4.8	3
Average number of rooms dwelling stock	4.4	n/a	5.3	3.0 (bedrooms)	5.2	3, 8
Vacancy rate	8.2%	0.9%	11.7%	9.2%	3.4%	2, 8, 11, own calculations
Home-ownership rate (latest available)	40.49%	34.60%	77.40%	68.00%	67.34%	9
Average annual real house price growth 1970-2003	0.05%	0.22%	3.32%	2.89%	3.87%	4

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Appendix B

Executive Summary for

Unaffordable Housing – Fables and Myths

The British Planning System

Although various attempts at controlling development in Britain had occurred earlier – the first ‘green belt’ was introduced in Elizabethan times – full control was only established by the nationalisation of development rights in the 1947 Town and Country Planning Act. The purpose of the Act was to allow the government to plan development in the same way that production was planned in many other industries at the time.

The development plans that resulted from this Act, which were based on predictions of need, also introduced Green Belts. These were not, as is now assumed, intended to constrain development, but instead intended to prevent the piecemeal ‘ribbon’ development that had occurred in the 1930s.

Inevitably these predictions of need proved wrong but, over time, they became regarded as production norms to be fulfilled by the planning system, regardless of other economic factors or indeed people’s actual housing desires. The level of development being politically controlled, the government became susceptible to the arguments of interest groups that wished to preserve their local environment by limiting the building of new houses – Not In My Back Yard (NIMBY).

What was intended to be a system where the state carried out development to ensure that the population were provided with a good standard of housing eventually became one in which the planning system was used to restrict development, particularly in rural areas. This resulted in higher prices as increasing demand was not met by increasing supply.

The Economics of Planning

People seem to believe that planning constraints are costless, but there are serious economic consequences to restricting development. By ignoring the role of supply in determining house prices, planners have created a system that has led not only to higher house prices but also a highly volatile housing market.

Our rigid and nationalised planning system is also delivering the wrong kind of housing. In a March 2005 MORI poll, 50 per cent of those questioned favoured a detached house and 22 per cent a bungalow. Just 2 per cent wanted a low rise flat and 1 per cent a flat in a high rise block. But houses and bungalows use more land, so while in 1990 about an eighth of newly built dwellings were apartments, by 2004 this had increased to just under a half.

Our housing compares poorly by international standards too. Britain has some of the smallest and oldest housing in Europe, and what is being built now is even smaller than the existing stock. Yet despite this, house prices in the UK have risen much more strongly than other developed countries, meaning that despite real growth in our incomes we are not able to afford more and better housing, in the way that we can afford better cars and food as we get wealthier.

The Myths of the Planning System

How has this situation come about? In a country that was among the first to roll back the government’s role in the

economy, why do we still plan our housing in the way we do? And why do we accept the outcomes of this system, which forces us to live in crowded, old, small and expensive housing of a type we do not want?

One reason is that the political alliance to save the countryside is very strong, but to be successful there have to be a number of arguments that resonate with voters. By analysing these arguments we discover that they are as much folk myths as the view that British housing is the best in Europe:

- *Britain is a small, overcrowded country* – in fact only around 8 per cent of land in Britain is urban, half the figure in the Netherlands and lower than Belgium, (West) Germany and Denmark. We are living in crowded and dense cities, not a crowded and urbanised country.
- *Southern England is especially crowded, so new development should take place in the North* – in fact the North West is the most urbanised region in England, and the South West and East Anglia are among the least urbanised.
- *But the South is full of towns...* – development is usually near major transport links, giving the impression of over-urbanisation. In addition, there is the psychological effect of travelling between cities – one travels slowly through urban areas but speeds through rural ones, giving a false impression as to the level of development.
- *We're all getting older and will want smaller houses* – in the last 32 years the number of households has risen by one-third, outstripping the growth of the housing stock. Besides, many older people do not want to move out of their houses, and nor should they be forced to.
- *We need agricultural land to be self-sufficient* – Britain has one of the highest proportions of land given over to agriculture in the world, and we produce agricultural surpluses. We are fully integrated in the world economy and rely on imports for almost everything, especially energy – being self-sufficient in food alone is pointless.

- *Cities are bad for environment* – interestingly, it seems that the kind of low rise, low density housing that planners and guardians of the countryside dislike is better for biodiversity than monocultural farmland.
- *We need to live at high densities to protect the global environment* – the planning system's emphasis on using brown field land often increases fuel use, as these sites are not always near existing development or people's work places. Taxation is a much more effective tool for reducing fuel usage.
- *Building on brown field sites is always better* – the number of brown field sites is heavily restricted, perhaps only 14 per cent of the houses we need could be built on them. If we are only going to use these sites then house prices will continue to rocket and we will be living in very dense, crowded, high rise accommodation – just what we do not want.
- *There are lots of empty buildings we could use* – our vacancy rate is very low internationally, and some vacancy rate is required for the market to be flexible. There is a strong argument for saying we would actually benefit from a higher vacancy rate.

Reasons for Change

Having dealt with the myths surrounding housing, we should look at the positive reasons for changing our planning system. Rising house prices only benefit a small minority of the population – older homeowners who are trading down. Younger generations are deprived of the opportunity to buy houses of a size that their parents bought.

Just as importantly, British cities are becoming increasingly unattractive because green fields outside those cities are saved at the expense of densifying existing settlements. Cities are becoming monotonous agglomerations of small, low-quality dwellings, increasingly provided in tower blocks.

Constraints on the supply of land have led to increases in house prices. This accentuates the instability of the

economy because people increase their spending as the value of their houses goes up (and decrease it as the value of their houses falls). The increase in land and house prices also makes it less attractive to work, live and do business in England. This has a long-term negative effect on growth.

Conclusions

Our planning system set out to predict and provide the housing we need, but as the flaws in the socialist model of provision became obvious it evolved to become a system

that constrained development in order to protect the countryside. This has significant costs – we now live in some of the oldest, pokiest and most expensive housing in the developed world. A number of arguments are presented to support this situation, but these can be shown to be false. Our next report will look at how other countries succeed, and fail, to provide better and more affordable housing. In our final report we will offer our recommendations for reform, which we hope will enable the British to at long last enjoy the quality of housing they desire.

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