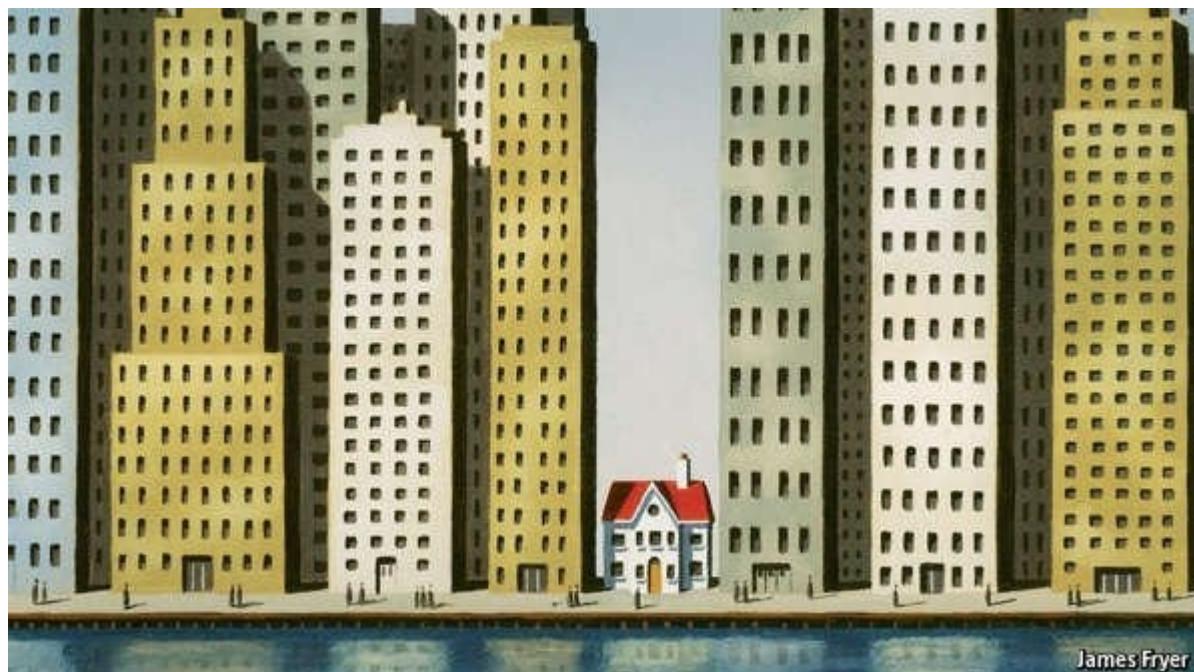


Space and the city

Apr 4th 2015

Urban land Space and the city

Poor land use in the world's greatest cities carries a huge cost



BUY land, advised Mark Twain; they're not making it any more. In fact, land is not really scarce: the entire population of America could fit into Texas with more than an acre for each household to enjoy. What drives prices skyward is a collision between rampant demand and limited supply in the great metropolises like London, Mumbai and New York. In the past ten years real prices in Hong Kong have risen by 150%. Residential property in Mayfair, in central London, can go for as much as £55,000 (\$82,000) per square metre. A square mile of Manhattan residential property costs \$16.5 billion.

Even in these great cities the scarcity is artificial. Regulatory limits on the height and density of buildings constrain supply and inflate prices. A recent analysis by academics at the London School of Economics estimates that land-use regulations in the West End of London inflate the price of office space by about 800%; in Milan and Paris the rules push up prices by around 300%. Most of the enormous value captured by landowners exists because it is well-nigh impossible to build new offices to compete those profits away.

The costs of this misfiring property market are huge, mainly because of their effects on individuals. High housing prices force workers towards cheaper but less productive places. According to one study, employment in the Bay Area around San Francisco would be about five times larger than it is but for tight limits on construction. Tot up these costs in lost earnings and unrealised human potential, and the figures become dizzying. Lifting all the barriers to urban

growth in America could raise the country's GDP by between 6.5% and 13.5%, or by about \$1 trillion-2 trillion. It is difficult to think of many other policies that would yield anything like that.

Metro stops

Two long-run trends have led to this fractured market. One is the revival of the city as the central cog in the global economic machine (see [article](#)). In the 20th century, tumbling transport costs weakened the gravitational pull of the city; in the 21st, the digital revolution has restored it. Knowledge-intensive industries such as technology and finance thrive on the clustering of workers who share ideas and expertise. The economies and populations of metropolises like London, New York and San Francisco have rebounded as a result.

What those cities have not regained is their historical ability to stretch in order to accommodate all those who want to come. There is a good reason for that: unconstrained urban growth in the late 19th century fostered crime and disease. Hence the second trend, the proliferation of green belts and rules on zoning. Over the course of the past century land-use rules have piled up so plentifully that getting planning permission is harder than hailing a cab on a wet afternoon. London has strict rules preventing new structures blocking certain views of St Paul's Cathedral. Google's plans to build housing on its Mountain View campus in Silicon Valley are being resisted on the ground that residents might keep pets, which could harm the local owl population. Nimbyish residents of low-density districts can exploit planning rules on everything from light levels to parking spaces to block plans for construction.



Why land has returned as a constraint on growth

A good thing, too, say many. The roads and rails criss-crossing big cities already creak under the pressure of growing populations. Dampening property prices hurts one of the few routes to wealth-accumulation still available to the middle classes. A cautious approach to development is the surest way to preserve public spaces and a city's heritage: give economists their way, and they would quickly pave over Central Park.

However well these arguments go down in local planning meetings, they wilt on closer scrutiny. Home ownership is not especially egalitarian. Many households are priced out of more vibrant places. It is no coincidence that the home-ownership rate in the metropolitan area of downtrodden Detroit, at 71%, is well above the 55% in booming San Francisco. You do not need to build a forest of skyscrapers for a lot more people to make their home in big cities. San Francisco could squeeze in twice as many and remain half as dense as Manhattan.

Property wrongs

Zoning codes were conceived as a way to balance the social good of a growing, productive city and the private costs that growth sometimes imposes. But land-use rules have evolved into something more pernicious: a mechanism through which landowners are handed both unwarranted windfalls and the means to prevent others from exercising control over their property. Even small steps to restore a healthier balance between private and public good would yield handsome returns. Policymakers should focus on two things.

First, they should ensure that city-planning decisions are made from the top down. When decisions are taken at local level, land-use rules tend to be stricter. Individual districts receive fewer of the benefits of a larger metropolitan population (jobs and taxes) than their costs (blocked views and congested streets). Moving housing-supply decisions to city level should mean that due weight is put on the benefits of growth. Any restrictions on building won by one district should be offset by increases elsewhere, so the city as a whole keeps to its development budget.



US property: Interactive county map & guide

Second, governments should impose higher taxes on the value of land. In most rich countries, land-value taxes account for a small share of total revenues. Land taxes are efficient. They are difficult to dodge; you cannot stuff land into a bank-vault in Luxembourg. Whereas a high tax on property can discourage investment, a high tax on land creates an incentive to develop unused sites. Land-value taxes can also help cater for newcomers. New infrastructure raises the value of nearby land, automatically feeding through into revenues—which helps to pay for the improvements.

Neither better zoning nor land taxes are easy to impose. There are logistical hurdles, such as assessing the value of land with the property stripped out. The politics is harder still. But politically tricky problems are ten-a-penny. Few offer the people who solve them a trillion-dollar reward.

This article appeared in the Leaders section of the print edition under the headline "Space and the city"