



# Spatial Economics Research Centre

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## What is good architecture worth?

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Economists, [unlike cynics](#), do not know the price of everything – not by a long way. Certainly we do not know the price of good architecture. Apart from anything else identifying 'good architecture' is highly subjective. So to measure its price you have to make some brave assumptions about what it is and where to find it. And from an economic perspective the price is not the interesting issue. The interesting issue is: left to their own devices, would markets under or over provide 'good architecture'? In the jargon, is there a problem of market failure?

For sure, public policy in this area implicitly assumes that there is market failure, and that markets alone will not provide enough good architecture. For example, policymakers intervene to control the design of new buildings, and to stop private owners from altering or replacing existing ones. E this has costs: both directly in administration and compliance, and indirectly through impacts on energy costs, on usable space in cities and on economic outcomes. A series of papers from SERC researchers explores these economic effects in detail.

Regulation for good design may lead to rent-seeking behaviour: [Cheshire and Derricks](#) find evidence that developers use 'Trophy Architects' to game the planning system, as a way to get more space on a given site. This study – like [some others](#) – identifies 'good architecture' by classifying buildings as high quality if they are designed by architects who had already won a major lifetime achievement award: 'Trophy Architects' or 'Starchitects'. Such awards go back a long way, so there are 19<sup>th</sup> Century buildings in London which qualify.

Cheshire and Derricks find that for commercial buildings, a Trophy Architect (TA) adds no premium at all to the price of buildings. But it does add both the design and construction costs: with TA design, the cost per m<sup>2</sup> for a 25-floor building is 10 to 17.5% higher. TA design also seems to make buildings slower to let out, which suggests there could be a rental premium, even though there is no increase in a building's selling price.

There is a puzzle here. TA design adds nothing to a building's selling price, implying no productivity benefit from starchitecture. So why do developers pay a premium for construction? The answer appears to be that using a Trophy Architect helps game the regulatory system. Control for other factors, in London such buildings were an astonishing 19 floors higher than buildings on similar sites designed by ordinary architects.

An economist would say that the developers were using design to generate 'rents'. In a city with tight planning rules and development controls, the extra rentable space in these big buildings implies a 130% increase in the value of a typical site on which there was a possibility of building tall. The problem is that these rents become a deadweight loss as the extra cost of using a trophy architect, the extra time through the planning system, and the extra risk of eventually not being successful absorb potential gains.

In London, some 25% of skyscrapers are TA designed compared to only 3% in Chicago – a city which is not just less regulated than London (so office space is cheaper) but regulation is less gameable because Chicago is a rule-based [zoning system](#), rather than the more political [development control process](#) we use in Britain.

The deadweight loss associated with this way of gaming the planning system may be fully or partially offset because 'Trophy Architecture' generates welfare for residents and tourists; or even for the occupants of other commercial buildings. In both London and Berlin, for example, this kind of architecture generates a lot more visual interest, [as measured by photos shared on sites like Flickr and Picasia](#). The effects are even large for contemporary buildings like the [Gherkin](#) than for historic signature buildings. So the benefits of good modern design may go some way to offset the calculated use of design by developers to build bigger buildings.

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For houses the story seems somewhat more straightforward. People do pay for better design, so good architecture seems to provide direct utility otherwise the best known architects would not be able to charge a premium for their services. This is a private benefit and wouldn't seem to raise issues of market failure or a case for subsidising design.

However, there is quite persuasive evidence, from a series of SERC studies, that there are external economic benefits from high quality or historic residential buildings. [Property prices inside conservation areas](#) are about 5% higher than just outside conservation areas. Given that conservation area boundaries can be quite arbitrary, and regulatory constraints inside conservation areas are costly, this effect is likely attributable to the special design character in these areas. This jump in prices at the boundary is particularly large [where residents report the architectural quality of the area is large relative to nearby areas](#). On a four-step scale (from 'not at all distinctive' to 'very distinctive'), a one-step increase is associated with an increase in prices of up to 25%.

Interestingly, this research also finds a positive price effect for conservation area properties that have modern (post-WWII) design, and even for properties outside conservation areas with a view onto buildings inside a conservation area. This is consistent with [other SERC research](#) showing price increases in nearby areas after a conservation area has been designated.

to 10% in nearby areas with a view.

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Let's sum up. Policymakers intervene in property markets to protect historic buildings, and to promote 'good' modern architecture and design quality. From an efficiency point of view, the justification for these policies is that markets may undervalue good architecture, because such features of buildings and neighbourhoods represent external benefits or a form of public good.

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In the UK, regulations for historic districts or Listed Buildings can be very tight and costly: they may control the colour of paintwork and protect internal details of layout and design making it difficult to adapt such buildings for modern use or improve energy efficiency to modern standards. Even where less extreme, the cost of redevelopment behind facades is very high.

So far the evidence suggests that there are external benefits associated with high quality residential buildings and neighbourhoods: but the evidence is much weaker when it comes to commercial buildings, especially given the peculiar British practice of using expensive TAs to game the system to get more space on a given site. So where does this leave policy?

On balance the most plausible position is that there is a welfare economics case for public policy to support some good design and heritage neighbourhoods, and that this case is stronger in the context of residential than commercial buildings. But as with any policy and regulation there are costs, here in the form of restricted supply and affordability and rent-seeking behaviour. Most notably, these costs are particularly high in a context where a planning system – as in Britain – [makes living and working space notoriously scarce](#) and leaves many planning decisions the outcome of a quasi-political and bargaining approach. If there was sufficient space for development, the external cost of preserving relatively low density heritage areas would be less. And if decision making was rule-governed there would be far less incentive to employ Trophy Architects just to game the system to get more space on a given site – as opposed to improving design quality.

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