Conservation Areas: Prisoners’ Dilemmas and Gilded Cages

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What’s heritage worth? Valuing such intangible cultural goods is challenging. It is similarly challenging to evaluate policies like Conservation Areas, which aim to preserve historic and architectural local character in England.

In a recent report commissioned by English Heritage, my colleagues Nancy Holman, Nicolai Wendland and I try to unpick the economics of Conservation Areas using a combination of quantitative and qualitative techniques. (See here for some FT coverage.)

Over 9,800 Conservation Areas have been designated in England since the 1960s. For economists, the challenge in assessing such policies is that most of what they deliver to their surroundings – and society as a whole – is not directly traded on the market. And since there are no directly observable prices, it is difficult to put a number on people’s willingness to pay for their effects.

We therefore looked at observable market outcomes – as reflected in more than 1m property transactions across England since 1995. Exploring more than 8000 conservation areas, we found that property prices are generally higher inside conservation areas – about 9% controlling for other factors – and also tend to increase with the density of historic buildings.

We also conducted 111 in-depth residential interviews with residents living in 10 Conservation Areas. Here, we found that the premium people pay for living in conservation areas rises with a neighbourhood’s aesthetic quality, as ranked by local residents.

All this is compelling evidence that there is a willingness to pay for the aesthetic quality and the historic character of the neighbourhood, at least by those living in these areas.

Are there any downsides? For homeowners, Conservation Areas pretty significantly constrain the degree to which properties can be altered. We might expect these constraints to cause property values to decline following a designation. However, looking at over 900 recent designations across England, we couldn’t find any significant effect on prices. Owners we interviewed also generally express positive attitudes towards the planning constraints that come with designation, and the planning system more generally.

This is good news for policymakers, since it suggests Conservation Areas secure local social benefits without costs to individual homeowners. Rather, designation captures externalities that are then capitalised into house prices. In doing so, Conservation Areas solve a form of prisoners’ dilemma. If all local homeowners look after their historic houses, everyone is better off. But individual homeowners might be tempted to let their properties go to seed, while free-riding off nearby properties’ ‘character’. A regulation that ensures collective action makes such free-riding much harder to do.

It’s harder to say whether more conservation area designations are in the interest of society as a whole. For instance, we don’t know if Conservation Area designations limit the supply of new housing in some regions, or the country as a whole. If they do, too many designations may create gilded cages – beautiful towns in which living space becomes unaffordable for the average household. More work needs to be done to answer this question.

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