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Spatial Economics Research Centre

Wednesday, 11 January 2012

Skyscrapers and financial crashes

I see that the Barclay's Capital Report suggesting that [skyscrapers are linked with financial crashes](#) has attracted a lot of coverage. Just as with [city rankings](#) it's a little hard to know what to make of these type of reports. Being generous, they at least provide food for thought.

Conceptually, it seems quite possible that there is something in this for the simple reason that most financial crashes follow booms and booms are generally associated with over investment in capital assets - factories, inventories, housing, so why not building height? That said, if someone wanted to seriously assess this claim, they could do worse than start with [this wikipedia list of the worlds 250 tallest buildings](#). The correlation with financial crash was far less obvious to me as I looked down that list.

Even if there tall building booms do precede financial crashes, it's important to remember that serious research tells us they play an important economic role - in helping make [the best use of a scarce resource \(land\)](#) and in [generating agglomeration economies](#) which help make firms more productive. These longer term benefits are likely to outweigh any short run effects so I remain convinced that UK cities (and London especially) could do with more tall buildings not less.

Posted by [Prof Henry G. Overman](#) on [Wednesday, January 11, 2012](#)

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yvesT said...

One shouldn't forget a very important thing : The fact that skyscrapers would be "good generic shapes" to increase density at the scale of a city is simply a false myth, that is a lie (and especially true for housing, less for offices).

This was "formalized"(even if in a too simplified way at the time, basic results still stand) in the sixties by Leslie Martin and Lionel March in Cambridge, that is if you compare generic urbanism made of towers, slabs or courtyard buildings, using the same natural light constraints and with varying number of floors, it is false that the tower shape provides the best results, and all this is asymptotic anyway.

Or in other words, skyscrapers only "make sense" as a singularity, and the "increasing density mantra, the higher the better" is simply a "false moral excuse" in order to build them.

So wouldn't be surprised at all of this synchronicity between building some and financial crisis.

for details check two articles linked below(in english as pdf):
<http://iiscn.wordpress.com/2011/05/15/densite-etages-lumiere/>

[11 January 2012 at 15:14](#)**Anonymous** said...

This is fascinating information, given that I am about to publish a journal article that provides a theory related to this phenomenon.

The kind of tenants that occupy skyscrapers, are the extremely high rent-paying ones that are supported by flows of international capital. So of course these tenants are at the very apex of the international pyramid of participants in bubbles and busts.

MOST classes of CBD rental tenants in most cities in the world actually could not possibly pay the rents required to occupy a skyscraper. Robert Fishman pointed out in "Megalopolis Unbound" (1990) that even then, the less-lucrative businesses occupying office space were being forced out of Manhattan. So Manhattan's boom since then, had to be at least partly based on the greatly increased flows of commissions etc from property-bubble-related trading as well as other significant international capital flows, much of which is speculative.

Furthermore, Manhattan has increasingly become a favoured location for "homes" for very wealthy persons who own homes in many cities around the world; which has also tended to supplant "back office" type business that used to occupy a significant part of Manhattan's rental space.

Ed Glaeser points out in his latest book "Triumph of the City", that 20% of Manhattan's population was not there 5 years ago. So a high rate of "churn" is also evident.

So it does not surprise me at all that the economic vitality of the "skyscraper tenant" category is closely connected to bubbles and busts.

- Philip G Hayward, Lower Hutt, New Zealand

(I have had occasional correspondence with Paul Cheshire, whom I greatly respect).

[12 January 2012 at 08:11](#)**Anonymous** said...

I have now discovered a very good comprehensive essay by Mark Thornton on the Austrian Economics Von Mises site. "Skyscrapers and Business Cycles".

<http://mises.org/daily/3038>

Oh, and is there anything NOT on Wikipedia?

http://en.wikipedia.org/wiki/Skyscraper_Index

Phil Hayward

5 March 2012 at 02:35

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