



Spatial Economics Research Centre

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Putting a price on starchitecture

Posted by Dr Gabriel Ahlfeldt, LSE and SERC

We know that good architecture plays a big role in the appeal of a neighbourhood, even if [we don't always agree on what good-looking buildings look like](#). What's even harder to test is how iconic buildings affect the value of other nearby buildings – architectural spillovers, if you like.

For economists this is an important question, as it raises a potential co-ordination problem. Individual developers will not take into account the un-price external effects that spending on the external appearance of their properties have on other properties. It is perfectly rational keep spending low (as the individual contribution to the overall appeal of the neighborhood is low) and wait for other developers to do the job. Planners would argue an intervention is required to escape this [\(prisoner's\) dilemma](#).

Measuring such spillovers empirically is tough for two reasons. First, since a certain architectural design or style may be liked by some and not by others it is difficult to determine explicitly what constitutes 'good' design. Second, many of the most significant architectural designs are found in public buildings such as [stadia](#) or [museums](#) and in these cases the benefit of the architectural element cannot be isolated from the use of the building.

[New SERC research](#) gets around both of these issues by focusing on residential properties designed by [Frank Lloyd Wright](#) – the "greatest American architect of all time" according to his peers in the American Institute of Architects.

We use [Oak Park, Illinois](#) as a case study. It's uniquely useful for empirical research, as Wright built 24 homes in the village between 1892 and 1914. The subject residential properties are privately owned and the only benefit to outsiders is their exterior appearance.

Our results show that a significant premium on the price paid per land unit – 8.5% for homes within 50m of a Wright home, and about 5% within 50-250m. Beyond this threshold evidence for positive effects is weak at best. Also interesting is that the 'iconic effect' seems to have emerged quite slowly. Land value assessments done after the last Wright buildings had been developed cannot account for the estimated contemporary premium. This phenomenon may be related to Lloyd Wright's growing reputation over time, or the general public's gradual acceptance of modernist stylings.

The existence of 'architectural spillovers' – at least for buildings designed by top-flight architects – opens the door for some intriguing policies. One could argue that if better architecture were achieved across the board, not only would liveable and enjoyable public spaces be created, but, due to externality effects, homeowners would also benefit from the increased value of their neighbourhoods and eventually their properties.

However, enforcing higher investment into architecture – via regulatory standards, for example – may increase construction costs and potentially discourage (re)development. An undesirable result would be property price increases that are supply- rather than demand-driven, with potentially negative welfare effects. Smart policies need to encourage the production of good architecture while ensuring design standards [don't prevent anything being built at all](#).

Posted by [Gabriel Ahlfeldt](#) on [Friday, July 08, 2011](#)



2 comments:

Alan Davies said...

Gabriel, is it the architecture per se that's driving the effect, or is it the reflected glory of fame? Maybe you'd get a similar effect within the same distance of equally famous movie stars' houses (although what movie star stands as high within the ranks of his/her peers as FLW does within his?)

Which brings up a related point. It's hard to generalise from FLW's works to architecture in general. FLW was a once-in-a-century phenomenon.

[19 July 2011 at 11:15](#)

Anonymous said...

Alain, I would argue it's more likely to be architecture than for most other uses, e.g. stadia, etc. But I agree we don't know how specific the findings are to FLW. I view the results as encouraging evidence that architecture may matter and as an opener to a new line of research. More research due and in progress.

Gabriel

[19 July 2011 at 19:43](#)

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