



# **Making Fairer Places: A Think Piece on Land Values.**

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The following Think Piece has been submitted to the UK 2070 Commission in response to its Call for Evidence. The views expressed are those of the author, and not the Commission.

## MAKING FAIRER PLACES: A think piece on land values

*'Increases in the value of land arising from the granting of planning permission and the provision of new infrastructure are largely created by the state. It is fair, therefore, that a significant proportion of this uplift be available to national and local government to invest in new infrastructure and public services.*

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This paper is a contribution to thinking how the UK overcomes spatial inequalities by applying what works elsewhere (and has worked here in the past), and has three main aims:

1. To explain why harnessing land values is crucial to creating a more effective, equitable and efficient UK, and rebalancing our cities
2. To show how places can be transformed by applying best practice in other comparable countries (and indeed what has worked well in the past here)
3. And to propose how progress could be achieved in stages, starting where it will be easiest before making more fundamental changes that may take longer.

### 1 REBALANCING OUR TOWNS AND CITIES

The excessive inequalities in the UK, which have been documented by experts such as Tony Atkinson and Thomas Piketty, and in *The Spirit Level*, are rooted in spatial inequalities and prevailing cultural values. Not only are there huge imbalances between the capital city of London and the provinces, but also wide disparities within towns and cities, which surface occasionally when there is another riot or television documentary. They are blamed for low aspirations, but also for locking too many people in places that appear to have failed. They are the other side of a coin of huge capital gains made by those fortunate enough to inherit property and get on the 'housing ladder' early enough.

While the problems of spatial and social polarisation often appear too complex and deep-seated to resolve, in fact over time transformations can be achieved. When I left McKinsey and Company almost five decades ago, London's economy seemed doomed. A vicious circle had left our inner cities with economic decline, physical decay and social polarisation. The ex-dockers I surveyed in Rotherhithe for my doctoral thesis said they felt like the American Indians when the buffaloes had all been killed, and most wanted to leave (and without their neighbours!). Today the docklands area has undergone a renaissance, as the dereliction has been cleared away, old buildings repurposed, and new housing built alongside the upgraded services on the London Overground. A similar picture can be seen in other inner-city areas, and it is the state of the suburbs, not the inner cities, planners are worrying about. Our cities are in danger of becoming fat with holes for car parks when they need to be fit or compact.

Real change occurs when sufficient people adopt a new perspective, and see former constraints as opportunities. This happened, for example, after the Second World War when Britain built New Towns at the same time as creating Comprehensive Development Areas for war damaged land, and greenbelts round many of our cities. While revolutions may be only happen once a century, paradigm shifts are more common. A good example is the idea of *One*

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<sup>1</sup> House of Commons Land Value Capture Inquiry, MCHLG October 2018

*Planet Living* that came from seeing our green planet covered in water from Outer Space. Turning the tides of spatial inequality requires a similar vision that can be widely shared. So at present with the failed optimism of the free market and the disillusionment with state socialism, can we find and articulate a new set of common values that will support concerted action?

The answers lie in addressing three fundamental challenges simultaneously (or at least incrementally). First are the UK's failing relationships with the global economy. A declining manufacturing base does not release the resources for services to take its place. Nor does Brexit open up new markets for our businesses. Instead we have to find products and services we can profitably export, that is a new economic role. The second challenge is the social malaise and discontent, which are said to have caused a small majority to favour Brexit in the very places that had often benefitted most from the European Union, but which felt ignored. It is not enough to preach the idea of education or better social services in places that have lost hope. We need a more cooperative social model. Finally we must tackle the capital shortages that result in a weak national Exchequer and an electorate reluctant to pay more taxes without seeing direct benefits. We have to find a new source of wealth to fund the infrastructure needed to support more sustainable lifestyles.

There is enough work to be done in our worn-out towns and cities to employ everyone, but a real problem of resourcing the shift that is needed. Much of what is needed only pays off over the longer term, and so fails to attract private enterprise. District councils are generally too small now to employ the range of expertise required, and have to go cap in hand for all their resources to government. Metropolitan cities should be large enough, but the most dynamic enterprises and people typically are located elsewhere, in smaller towns in the country. While the 'urban exodus' of half a century ago may have halted, our house building rate is half what is needed. So we need to grow places that have a leading university at their heart, as well as finding new uses for land and buildings that are being abandoned.

Even if travel and work patterns change radically over the next fifty year as they have looking back, it will still be important to improve communications in natural labour market areas. The challenges start with improving access to good jobs, and that support the clusters of activity that support innovation. Though we cannot predict what skills will be needed, we can recognise where they will be required. The greenbelt has distorted and probably impaired growth, for example by cramping businesses with growth potential. While most German cities have been shrinking, as the more prosperous leave for smaller towns, the exceptions are cities with over 500,000 populations, such as Munich, and university towns, such as Freiburg. The same pattern would probably apply here if the green belts drawn up after the Second World War did not get in the way, or were flexed a little.

Once the American pattern of suburban sprawl and abandoned downtowns is seen to be both unsustainable and unappealing, people will want to rediscover the appeals of European culture, and the 'art of urbanism.' We will also want to decentralise power and provide stronger local authorities with the means of implementing ambitious spatial development plans. As well as the old, many of whom already indulge in City Breaks, effective demand will come from the young, who are much more multi-national than their parents. The results of

using the housing deficit to rebalance our towns and cities will more than repay the efforts by:

- Saving natural resources, and thus creating more value over time
- Connecting up disadvantaged or neglected places, and thus improving social equality
- Making the most of any economic assets and opportunities, and avoiding wasteful mistakes such as ‘bridges to nowhere’ and large capital projects that only fulfil a single aim, like many of the big road schemes.

What could be called Integrated Spatial Planning should start with people’s priorities. Businesses can only grow if they can attract good staff, and this means providing a choice of affordable homes within easy range. At present too many people waste several stressful hours a day commuting to work or driving their children to school. Individual houses close to good schools still attract aspirational families. Access to green (and blue) space is also vital, which could provide a lot of satisfying new jobs, linked to the provision of cleaner air and water. The growing number of people who adopt urban lifestyles want living streets with good shops and places to eat, not dead shopping malls associated with the poorest class. Ebenezer Howard’s vision of combining the best of town and country is more relevant than ever, but we need to look beyond the UK to find out what works and why.

## 2. LEARNING FROM WHAT WORKS

Where ‘free market’ ideology led a new British government to close down what had begun to work, European cities have persisted in enabling places with growth potential to expand, and in regenerating areas that have lost their economic roles. Some of the most inspiring case studies have been documented in the Academy of Urbanism (AoU) Great European City Awards. They include not only German speaking cities such as Aspern Seestadt in Vienna or Rieselfeld in Freiburg with their fine tramways, or Scandinavian cities such as Copenhagen, where over a third cycle to work, but also the hundred or so urban extensions developed in the Dutch VINEX programme such as in Eindhoven (the site of the 2019 AoU Congress). Then there are the Southern French ‘stars’ such as Montpellier or Bordeaux, and the extraordinary regeneration successes of the old industrial areas in the Basque cities of Bilbao and San Sebastian in Northern Spain. There are even some US cities such as Portland Oregon or Pittsburgh Pennsylvania which have adopted a similar approach.

Making housing affordable again requires action on many fronts. Probably the most cost-effective is securing the better utilisation of existing housing, for example by cutting energy costs, and making it easier to move to somewhere more manageable, as experts like Professor Danny Dorling have argued.<sup>2</sup> But this cannot be achieved if people are stuck where they are for lack of anywhere better. If the UK is to double housing output, we have to mobilise much more land and ‘go to scale’. We also have to accept that renting a home can provide a good way of life. My reviews of European models for Shelter and the Greater London Authority have identified a range of good examples for building affordable homes in sustainable neighbourhoods:<sup>3</sup> The research also indicated the much larger role that professionally managed rented housing plays. Above all it showed how taking control of land on the edge of

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<sup>2</sup> Danny Dorling, All that Is Solid: the great housing disaster, 2014

<sup>3</sup> Nicholas Falk and Jonah Rudlin, International Examples of Affordable Housing, URBED for Shelter, 2018

towns and cities can help us conserve the past while creating places that are ‘future-proofed’, that is hold their value over time.

### Home ownership in 2016 (Eurostat)

Switzerland	42.5%
Germany	51.7%
Austria	55.0%
Denmark	61.7%
Great Britain	63.4%
France	64.5%
Sweden	65.3%
Netherlands	69.5%

The complex set of obstacles to making housing affordable in the UK means there is no simple solution. This short paper uses a range of examples from the rest of Europe to show what could be done here, given the political will (see Appendix). It deals in turn with six key levers for developing new housing: assembling land, financing infrastructure, building at scale, managing a range of tenures, and maintaining communities for all before showing how the UK might change direction in the final section.

The best examples have been documented in previous research including *Beyond Eco-towns: Applying the lessons from Europe* in 2008, *Good Cities: Better Lives: how Europe discovered the lost art of urbanism*, with Sir Peter Hall, which focused on Dutch housing policies, and most recently *Capital Gains: a new model for land assembly in London* for the Greater London Authority. Pamphlets and chapters for The Smith Institute on different aspects of housing finance and the suburbs go in to more detail, as does the Appendix. My blog *Postcardfromthefuture* contains write-ups and photographs of cities from which lessons can be learned. Here therefore are some quick illustrations.

#### 1. Locating new housing

To be truly affordable housing needs to be well connected to jobs and services. European countries generally use **positive strategic planning** to decide where housing should or should not go.

- The Dutch **VINEX** housing policy produced a hundred new urban extensions in a country a quarter of the size of the UK. The country’s housing stock was increased by 7.6% in ten years. Local authorities were encouraged to come up with plans for expanding towns with over 100,000 populations in locations accessible by public transport. The average new settlement was around 2,000 homes with a few as large as 10,000. Land was developed around the edge of the Randstad, or the Green Heart that lies between the main cities such as Amsterdam and Utrecht.
- The French are masters at joining up development with new transport infrastructure through their planning system. Good examples are the redevelopment of land over the railways that run into Gare de l’Austerlitz in Paris, or the expansion of Montpellier, France’s fastest growing city in the South. Subsidiary companies owned by the local

authority, or some form of partnership provide the necessary expertise and continuity over many years.

- While all countries seek to conserve good land and views, only the UK uses crude and inflexible green belts. In Copenhagen, for example, the original *Finger Plan* has led to the development of the new town of Orestad on a new metro line to the airport. This was largely funded out of land value uplift by redeveloping a former barracks.

## 2. Assembling land

Acquiring land from different owners can be expensive and time-consuming, so mechanisms are needed to take over ‘poorly and underused land’. Local councils generally have greater authority, with both the powers and resources to prepare land for development, and to charge private developers for the costs of installing local infrastructure:

- German Councils use powers for land pooling and readjustment called *Umlegung*. The uplift in value is shared proportionately amongst the original landowners after repaying the municipality for any necessary infrastructure provision. The municipality retains land equal to the increase in value subject to a cap of 30% on greenfield land and 10% on inner city land.
- Dutch Councils, under what is known as the *Building Rights* or *First Choice* model, are able to transfer property rights to a public development agency, and the original owners subsequently receive serviced plots back.

## 3. Financing infrastructure

Much of the cost (and delays) in building new homes is accounted for by the provision of infrastructure, such as roads, utilities, and health and education facilities. Almost all European countries have state investment banks that provide municipalities with low-cost long-term loans for development, and have the capacity to assess both the borrowers and the projects.

- In the Netherlands BNG, which was set up by municipalities and utilities, plays a key role in getting complex projects going, and by providing long-term loans at lower rates of interest than commercial banks, helps to make new settlements viable.
- In Germany KfW and the Sparkassen (the equivalent of what our building societies used to be) support municipalities and local entrepreneurs.
- In France the Caisse des Dépôts not only help in the early stages, but also provides confidence to private investors that the project is worth backing. The ‘bank’ is also a major source of funding for housing associations, and has been used to implement government initiatives such as EcoTowns.

## 4. Building at scale

The slow rate of delivery when house builders rely largely on private sales is very inefficient, and helps explain the low levels of productivity in the UK. Reducing building costs without sacrificing quality or environmental standards requires Modern Methods of Construction. Labour productivity is at least 20% lower than in France or Germany. While some problems lie in our financial and education systems, they are also bound up with the way land is supplied for development, as Sir John Callcutt’s review pointed out a decade ago.<sup>4</sup>

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<sup>4</sup> The Callcutt Review of Housebuilding Delivery 2007

The construction industry has one of the lowest levels of research, and is too fragmented and volatile for any one firm to take a lead (unlike the motor industry, for example). Most profit is made by obtaining planning permission rather than by building efficiently. The supply of sites is effectively monopolised resulting in a lack of choice, low construction rates, and high prices, an analysis largely accepted by the Letwin Review for the current Chancellor of the Exchequer, who recommends learning from the Continent.<sup>5</sup>

New methods of land assembly and finance could transform our outmoded construction industry, and help tackle inequalities:

- In Sweden, houses have been assembled for decades out of elements made in modern factories, and four out of five detached homes are prefabricated. This has been helped by local authorities having a responsibility to provide plots for self-builders, and therefore acquiring land on the periphery years in advance of it being developed. (Such a provision has been introduced here recently)
- The multiplicity of house builders who take over serviced plots in the Netherlands ensure that new housing is much more attractive than what already exists, and therefore sells rapidly. Half the housing has been built by housing associations. In Almere Poort, a new town similar in size to Milton Keynes, plots are sold to self-builders with '*plot passports*' that specify the basic rules. (Something similar is being attempted in Bicester.)

## **5.Managing a wider range of tenures**

Though large peripheral Council estates have ended up stigmatized in France, and in some parts of Sweden, on the whole a greater balance seems to have been secured in most Continental cities. This is possibly because less stress is placed on home ownership, and more on living in pleasant neighbourhoods or communities. In Germany, where it much more usual to rent your main home, professional as well as not-for-profit landlords predominate.

- Vienna has kept housing affordable for a century though the city owning much of the land, and using municipal developments to keep the costs of renting down. The ongoing development of the former airfield at Aspern Seestadt is exemplary along with housing on former railway yards in the centre of the City. High density blocks are developed for a mix of tenures, with good landscaping between them.
- Dutch developments, such as Vathorst in Amersfoort, ensure that around a third of the housing goes to the municipality. Some two-thirds are then sold at a discount to those on low incomes with the provision that when they are resold, the local authority or housing association receives a proportion of the uplift.
- Switzerland has one of the highest proportions of people renting housing, which may be linked to people investing in businesses instead. In Zurich a quarter of the homes are run by coops and there is a commitment to increase the proportion to a third. The cooperative development of 380 apartments by a group called More Than Housing in Zurich is particularly innovative, with for example little space for cars, but lots for communal enterprises.
- In Paris, though there is an acute shortage of affordable housing, since 2000 each municipality has been required to ensure that at least a quarter of the housing stock

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<sup>5</sup> Sir Oliver Letwin, Independent Review of Build-Out, [www.gov.uk](http://www.gov.uk), October 2018

is affordable or intermediate, and social housing has grown from 13 to 20% in the last two decades.

## 6. Maintaining communities

The key to developing successful high density housing schemes is ensuring that the common parts are properly managed and maintained in perpetuity. Though this can raise problems when people with different values and incomes are mixed, the problems can be solved through good design and stewardship.

- The building groups (*baugruppen*) pioneered in Freiburg and Tübingen are being copied in other cities. In these residents not only commission their housing together, but also take on responsibility for designing the communal areas.
- In Denmark, the idea of '*cohousing*' is used to allow groups of people to own their individual homes but share common facilities, and is particularly attractive to both older people and also families with young children. There is growing interest now in the UK, but obtaining land in competition with others remains the main obstacle, and the pioneers have been forced to waste years bidding for sites. An exception, such as Marmalade Lane in Cambridge's Orchard Park was only possible because Cambridge City Council gave the developer Town preference.

## Political and cultural obstacles

We often think that Britain has uniquely suffered from economic decline, but all the above examples have had to reinvent themselves. For example people forget that Copenhagen lost industry and suffered high unemployment before a far-sighted municipal engineer started to take space away from cars, and restore civic pride. Where now over a third of people cycle to work, people are not only happier and healthier, but they save money too. As Britain starts to rethink its role in the world economy, the above models of **Smarter Urbanisation** could hold the key to reshaping both our towns and cities and our economy, that is by providing more homes in locations that are well-served by infrastructure, as has been the case in Dutch, German and Danish towns and cities.

After the Second World War, both the Netherlands and Germany were demoralised by wartime losses, and had little capital to invest. Their cities were in ruins. As David Edgerton points out in a recent book on Britain's decline as a nation, '*the average rate of growth in the economy was higher and steadier in the years 1948-79 than between 1979 and 2000*'.<sup>6</sup> This was the period when Britain built new towns, and when growing firms moved to them.

The UK (apart from London) has generally fallen behind in the last 40 years, as can visibly be seen by comparing cities with similar sizes and functions, for example Leipzig and Eindhoven with Manchester or Blackburn. Whereas Britain with its much more centralised state and financial system has tended to have low savings rates and to export capital, on the Continent, where power is spread more widely, provincial cities have largely rebuilt themselves with regional and local support. As a result most people spend much less time commuting or working, and thus have more control over their own lives. They also have more money to spend, as housing costs have not increased in the way they have in the UK.

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<sup>6</sup> David Edgerton, *The Rise and Fall of the British Nation*, Allen Lane, 2018

Dutch and German cities face very different geographic challenges, despite sharing some borders, and have very different policies for providing social housing, that is housing allocated according to need rather than through the market or effective demand.<sup>7</sup> In the case of the Netherlands, the main threat is keeping water out of a predominantly flat country with a very dense population. In cities such as Amsterdam and Rotterdam, half the housing is social rented, mainly in apartments, whereas elsewhere it is dominated by single family houses, often terraced. In the case of Germany, which is much hillier, the country was split into East and West, and state owned housing in the East was sold off after reunification. The cities are further apart and most people in them live in walk-up apartments. But many others live in smaller towns, which have been growing fastest. Dutch housing associations play a key role in building affordable new homes (accounting for 32% of the housing stock, while in Germany social housing is relatively unimportant, and provided by private landlords through state subsidy).

But in both cases, the cities use their powers and resources to provide high quality infrastructure which open up plots or sites for a greater diversity of builders and lifestyles. The outcome is more mixed or balanced and possibly happier communities than depending on the housing market (as the UK has come to do). The Dutch pioneered ‘choice-based lettings’, while the Germans are using cooperatives or ‘*baugruppen*’ to enable more people to design and manage where they live. In both cases new developments are quite mixed.

### 3. CHANGING DIRECTION

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So how can those with an interest in narrowing inequalities influence or add weight to changes that may already be underway? How do we produce the necessary step change, and progressively over time as cities, like good food, take time to cook. Here are eight ideas proposals in summary that progressive local authorities should be able to apply, some of which depend on legislative changes:

- a. **Spatial Growth Plans:** Combined Authorities negotiating for increased public funds, for example through City Deals, should map out social disparities and under-used or poorly performing property, and set out the action required to create a society that works for all. This could include measures to improve local infrastructure, such as improving public transport and insulating leaky homes, as well as initiatives for raising capabilities as well as ambitions through technical education. Development Frameworks rather than masterplans should specify the amounts and types of land uses, while leaving developers (and their professionals) with more freedom to innovate on how the aims are achieved.

Areas would be designated as Growth or Regeneration Areas depending on housing demand and prevailing property values, which would affect the amount of affordable and social housing to be provided. Surveys of ‘under-used and poorly used land’, as in Germany, would highlight opportunities for development. So too would studies for extending ‘blue and green

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<sup>7</sup> This definition comes from ed. Kathleen Scanlon et al, Social Housing in Europe,, RICS Research/John Wiley, 2014

infrastructure', which might then be traded against reductions or relocations of areas of Green Belt near to stations. Resistance would be overcome by taking careful bites not nibbles and ensuring that areas of major new housing also contributed to improving the environment through a 'green web.'

- b. **A better model for land assembly:** to rebalance our economy as well as to reshape our towns and cities, investment has to be directed towards wealth creation, not speculation. Fortunately housing values in much of the South of England are high enough to support redeveloping fringe areas that can make the most of existing infrastructure, such as under-used railway lines. By adopting the basic recommendations in the Greater London Authority's research report *Capital Gains* along with other measures to rebuild local capacity, enough funds could be raised to turn the vision of doubling housing output or creating a low energy economy, into a reality, with a valuable boost to the real economy.
- c. **Growth bonds:** As public funds will always be limited, with priorities to meet social needs rather than development, more funds need to be raised from private investors if plans are to be fulfilled rapidly. If the cost of capital can be reduced by taking out many of the risks, then the results will be both better and more affordable, and lower profit rates will be required. As in North America local authorities should take the lead in issuing 'infrastructure growth bonds', underpinned by the prospective uplift in land values arising from development.

This use of bonds will only be feasible on a large scale when local authorities not only have more discretion over capital budgets, but can also vary tax rates to ensure they meet future obligations when raising private finance. Hence the use of growth bonds and changes to the property tax system are inter-linked. Security for investors can be achieved by enabling local authorities to assemble land without having to pay 'hope value' through greater freedom to use Compulsory Purchase Powers, as set out in the GLA's *Capital Gains* report.

- d. **Community Development Corporations:** Where major development is expected, measured by house building or private investment targets, Mayors or Combined Authorities should establish agencies with updated New Town Development Corporation powers to assemble land, package long-term funding for local infrastructure, and engage with local communities, as the TCPA has long advocated.<sup>8</sup> The necessary expertise is scarce, and so needs to be used carefully to achieve Infrastructure Led Development.

In neighbourhoods with marked social disadvantages, a prime objective should be narrowing disparities with public funding allocated to skills development and capacity building, and to designating Enterprise Zones that help smaller

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<sup>8</sup> New Towns Act 2015, TCPA 2014

businesses to grow. The corporations would have boards with elected local politicians, but also others who can help provide leadership and make the most of local management expertise. Plenty of lessons can be drawn from the last generation of new towns and garden cities.<sup>9</sup> Indeed such a policy could win support from both the left and the right, as a report from the Policy Exchange on Garden Villages suggests:

*'The proposed revision of the New Towns Act would give local authorities (not central government) the Act's powers to create a new community to meet local needs. This would enable them to capture the majority of land value uplift to put in place the necessary physical and social infrastructure, as well as ensure the homes are more affordable. By empowering local authorities to establish new communities to meet local housing need, it would allow unwelcome and inappropriate development around existing communities to be firmly ruled out by the local authority'<sup>10</sup>*

- e. **Community Land Trusts:** The term 'community' is much misused, and it is the neighbourhood that should form the focus for improvement. However there is a groundswell of interest in cooperative principles, and in separating the ownership of land from equity in the home. Where property values are relatively low, open space and surplus public buildings should be used to rekindle 'pride of place' through their transfer to environmental trusts, such as Groundwork, that are geared to providing local employment and training.<sup>11</sup> Importantly these should also have access to long-term sources of revenue funding, for example through establishing Town or Parish Councils that can add a supplementary levy to Council Tax or use rentals from property endowments.

In Growth Areas where land values are high, use should be made of Community Land Trust powers to hold on to freeholds, and therefore shape future letting policies and practices, including keeping rents affordable, and making 'rent to buy' possible. Other sources of funds, such as the RSA's Catalyst grants could be helpful in supplementing funding for the Community Housing sector to support further innovation, for example through cooperative building groups. There is growing evidence that Social Media can be used to bring affinity groups together, and help raise funds for their projects.

- f. **Local Infrastructure Finance Trusts (LIFT):** Where major investments in local infrastructure are required, including energy, transport and social housing, funding should be pooled, initially using the Community Infrastructure Levy, to plan how these can best be joined up. To raise more funds, tax payers need to be convinced that they will be used for purposes they support. These could be set up as adjuncts to Development Corporations or by a local authority or even

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<sup>9</sup> New Towns and Garden Cities: lessons for tomorrow Stage 2: lessons for delivering a new generation of garden cities, TCPA 2015

<sup>10</sup> Matthew Taylor and Christopher Walker, Garden Villages: Empowering localism to solve the housing crisis, Policy Exchange, 2015

<sup>11</sup> [www.locality.org.uk](http://www.locality.org.uk) and [www.communitylandtrusts.org.uk](http://www.communitylandtrusts.org.uk)

a major landowner willing to take the lead. They would prepare budgets showing the costs and returns from investment in local infrastructure (i.e. not part of national systems).

By starting with projects that have greatest priority, it should be easier to overcome resistance. Nothing succeeds like success. Some lessons can be drawn from the Development Commissions used in North American cities such as Portland Oregon and Toronto Canada, where Tax Increment Finance has become a fine art.<sup>12</sup> It is possible that some of the Local Enterprise Partnerships, who already are trusted by government to handle finance for infrastructure, could develop this role.

- g. **Ground Value Rating:** Tax reform is always controversial, as it leads to eloquent opposition from all who expect to pay more. In areas where major development is planned, and hence land values are likely to be boosted, local authorities should be granted the powers to introduce a levy or charge on land values, starting with land that has been assembled for strategic developments, and passed through public ownership. The *Capital Gains* report explains how in both Germany and the Netherlands the local authorities are able to charge the costs of improving local infrastructure against the uplift in value, and in Germany land values are ‘frozen’ in such areas. Such a change, which would require legislation, would enable a much fairer division of the uplift in land values over time than the current system, which is biased in favour of historic land owners.

The proceeds from an additional Land Charge or tax would be allocated to Local Infrastructure Finance Trusts operating on a sub-regional or County/LEP wide basis. Hence it would not be seen as a ‘stealth tax’, but a fairer means of securing ‘smarter urbanisation’, that is growth that strengthens the whole town or city without adding to the Public Sector Deficit. The RSA’s excellent work on mapping heritage assets could readily be reinforced by adding information on property values. This is a measure that requires all party support if is to have lasting value.

- h. **Municipal Investment Corporation:** The proposal is aimed at providing an incentive for local authorities to play a more proactive role. Raising the level of investment as proposed cannot be achieved without increasing capacity, including the ability to turn down well-intentioned but misguided projects. An investigation therefore needs to be commissioned into the value of local authorities and utilities working together to make better long-term investment decisions in local infrastructure and strategic housing, drawing on lessons from other parts of Europe.<sup>13</sup> At present there is no agency with the necessary expertise and experience to evaluate projects that have multiple benefits. A

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<sup>12</sup> Nicholas Falk, Capital Gains: a better land assembly model for London, Greater London Authority, 2018

<sup>13</sup> Nicholas Falk, Funding Housing and Local Growth: how a British investment bank can help, The Smith Institute, June 2014

good starting point the National Infrastructure Commission's proposals in their National Infrastructure Assessment. The Public Works Loan Board may provide some of the expertise needed, and some of the capital could come from pooling property assets owned by the public sector, as has been done in Hamburg and Copenhagen, for example.

But wider skills are also required. More weight needs to be given to projects that tackle social exclusion, especially in regeneration areas where land values are low. Here instead of large subsidies going into unviable housing or employment projects, efforts should go into improving connectivity and transforming confidence in the landscape. Public investment decisions could be greatly improved through some form of Multi-Criteria Analysis that values the impact of investments on equity and environmental indicators, and not just economic criteria.<sup>14</sup> This could be applied by a state investment bank or development agency on the lines of the German KfW, the Dutch BNG or the French Caisse des Dépôts and would help fill the role played by the European Investment Bank. This would not be imposed but would be there to help city regions and combined authorities that want to secure inclusive growth through greater investment in local infrastructure. Significantly during the great financial crash of 2008, though regional banks ran into problem in Spain, while Irish developers had to be bailed out by the government, the German financial system was largely unaffected.

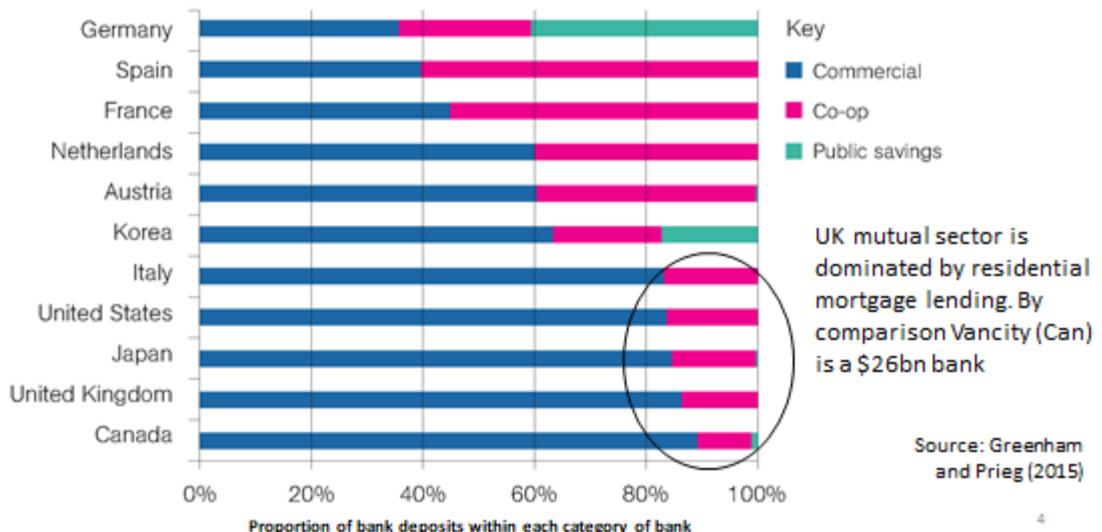
### **i. Community or cooperative banks**

One of the main obstacles to reshaping Britain is the dominance of the City of London, which together with the government at Westminster has made Britain one of the most centralised countries in the world. Not only does that make it harder to take a longer-term perspective or join up investment in infrastructure and development, but it has also sapped local pride and identity. The pursuit of Brexit and 'sovereignty' in a global economy is just one perverse outcome. A better model is some form of community bank that could support cooperative forms of organisation, as has been the case not just in Germany but in most other European countries. This could be owned by its customers or by a charity, so that it is not answerable to shareholders. An analysis by Tony Greenham at the RSA shows that the UK is quite unusual in the dominance of commercial banks, which no longer have any local or regional connections.<sup>15</sup>

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<sup>14</sup> Harry Demetriou et al, *The Design and Delivery of Major Projects*, Omega Centre UCL for ICE, 2010

<sup>15</sup> The chart comes from a presentation by Tony Greenham, who is setting up one of the first mutual banks in the UK in Cornwall



The German Sparkassen, or Savings Banks, are a particularly good model because of their commitment to '*support the sustainable development of the total economy within their defined geographic business areas.*'<sup>16</sup> With over 400 members and 245,000 employees they are a major force for change, and provide 43% of the finance for businesses of all sizes, but particularly SMEs and the self-employed. The Sparkassen are supported in turn by KfW, the German state development bank in providing guarantees for start-ups. In both cases there are separate bodies in each state or Lande, and most large cities. There is consequently a closer relationship between government, businesses and development than in the UK.

Simpson's pamphlet provides a valuable case study of how a Sparkasse evaluates a loan request from a company. Instead of concentrating on the value of the applicant's house or property, the bank assesses the company's financial position against a set of 32 ratios for eight main parameters, which are then compared with the respective sector, some 75 ranging from water treatment to dental services. Just as important is the qualitative rating score of the management which are then combined in a benchmarking report. A restructuring of the banking system along regional or local lines would be a crucial ingredient in enabling SME's to grow in all sectors.

## Conclusion

This paper was written for UK2070 to show how to mobilise private as well as public investment in tackling spatial inequalities. The huge unfilled gaps in the provision of affordable housing, or transport and energy infrastructure, along with the economic downturn that may follow Brexit, provide the rationale for long overdue reforms in the way land is valued and taxed. An excellent first step in implementing the proposals set out above would be to review the property tax system, as is already happening in Scotland, with the aim

<sup>16</sup> Christopher Simpson, The German Sparkassen (Savings Banks): a commentary and a case study, Civitas, 2013

of implementing a new system on the 30<sup>th</sup> anniversary of the last revaluation of the domestic rates, which would be 2021. This could be justified not just as a means of reducing inter-generational inequities, and giving young people more of a stake in society, but also as the most practical mechanism for boosting housing availability and restoring local democracy. There are enough reports, including the House of Commons Committee on Land Value Capture, to suggest the time is ripe for some fundamental changes that could win all party support.

While there are many difficult questions to be resolved, there are enough examples in both Europe and the British Commonwealth to suggest that answers can be found, if the will is there. If every measure is taken that has been proposed without tackling the fundamental issue of land, no real change will be achieved. Implementation will prove too complex in the face of inertia and opposition from all who do well under the current system. Yet if the British land issue can be addressed in the simple ways proposed, most other measures will prove much easier, along with measures to heal the North South divide and resurrect the idea of hope for all. Indeed our towns and cities might even become a little more like the ones we enjoy on holiday in the rest of Europe!

**Dr Nicholas Falk**  
**February 20th 2019**

## APPENDIX

### Case studies of integrated planning and land value capture

The following case studies brings out a number of common themes: collaborative planning between authorities to set priorities; regenerating declining industrial areas through country parks; financing local infrastructure through local savings; preparing land for development through local partnerships; building houses through cooperatives; and managing rental housing through housing associations or professional landlords. As demand or developemt values make all the difference, the examples can be grouped into **regeneration** projects, in areas where housing demand and land values are generally low, and **growth** projects, in areas where demand is high, and private investment is therefore more profitable and less risky.

#### ***Regeneration projects***

***Changing the image of old steel works and coal mines: Emscher Park, Dortmund*** The Ruhrgebiet is a polycentric area a little like Sheffield or Rotherham or South Wales, but on a very much larger scale. Collaboration is impressive. Eleven districts in North Rhine Westphalia embracing 53 towns with a combined population of 5.1 million and an area larger than Greater London have worked together over a thirty-year period to transform an old industrial area into an attractive place to live and visit. The project started with the International Building Exhibition in 1989 with six themes. One was Emscher Park '*nature for the people... to turn the backyard into the front garden*'; another was to build 7,500 homes on brownfield sites to show how energy can be saved. With no new money, the project started with a hundred projects selected by the seventeen cities who came together. They established a state owned private agency with a staff of around 30, many of whom were skilled in public relations to coordinate projects and promote a new image for the whole area.

50 different housing schemes have used solar power to achieve *PassivHaus* standards, often supported by the state investment bank KfW. In West Dortmund an initiative of the Mayor has replaced the old Phoenix Ironworks with a vast lake covering a quarter of the 99 hectare site. He persuaded the regional development corporation to back it, and the local saving banks (*sparkassen*) have also been key to its success. Most of the new homes are built by local builders or people commissioning their own homes, and the development is helping to rebalance a city that was once shrinking.

***Restoring a 'shrinking city': Plagwitz, Leipzig*** Leipzig in the former German Democratic Republic has gone from being one of the richest cities in Germany in 1900 to one of the poorest after reunification in 1989, when it lost 90% of its manufacturing jobs. The 'Leipzig model of *Integrated Urban Development*', which has been supported by the European Union in a project with which Kirklees collaborated, is based on '*consensual decision making and cross-cutting political leadership*'. The city showed the fastest rise in population of any of the post-industrial towns studied by Anne Power and her colleagues in their book *Phoenix Cities*<sup>17</sup>,

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<sup>17</sup> Anne Power, Jorg Ploger, and Astrid Winkler, *Phoenix Cities: The fall and rise of great industrial cities*, Bristol University Press, 2010

demonstrating that secondary cities can stage a come-back when actions are combined in the same area on a number of fronts. The process of regeneration started with workshops and dialogue involving some 300 people. These established the main concerns as integration, mobility and balance, and led on to an overarching set of goals of equity, diversity, health and a smart city. The economy has been reinvented through a focus on five clusters.

At a neighbourhood level the city has responded to the challenges of economic decline and depopulation in a way that empowered citizens and maximised scant resources. In the neighbourhood of Plagwitz this approach had been so successful that few derelict buildings remain, rents are now rising and land formerly used for gardens and social infrastructure is being reclaimed for development. The key has been enabling individuals to take over vacant buildings and open spaces as ‘guardians’ through 5 or 10 year contracts with the City. Investment has also been attracted through tax incentives. The Mayor, who is from the Social Democratic Party, has been in post since 2006.

**Fostering creative living, Eindhoven** The previous Mayor of this industrial city, Rob Van Gisel, came from a national political career to lead the city in 2008. His book *The City that Creates the Future* stresses the importance of experimentation and collaboration, a process which he believes grew naturally out of being a poor agricultural area where cooperation was essential for survival. When the electrical giant Phillips closed its factories, the Mayor succeeded in getting all the surrounding towns and cities to work together. Housing played a key role in the city’s renaissance. Strijp S is one of the huge old Philips factories that has been turned into a creative hub. A roof garden on top, over loft apartments, with shops and business units on the ground floor, the development has been led by TRUDO, a local housing association ([www.klokgebouw.nl](http://www.klokgebouw.nl)), which has developed some 5,000 units there.

Housing associations took up opportunities that conventional developers would ignore, and are involved in providing discounted housing for sale –smart housing – as well as renting to a much wider range of people than in the UK. Because housing is affordable, young people stay and go on to bring up families in the city. This is because of much better access to both land and finance, and while Eindhoven promotes itself as the Garden City because it has so much green space, it is in the form of green fingers, not a green belt.

The proximity of other creative people, some 2,500 designers for example, enables the inter-trading that enables new businesses to take off so readily, and to survive the birth pains. So too does the easy availability of a wide choice of housing, with some 20,000 now living in the centre, ten times the number of a few decades ago. Eindhoven is in the forefront of innovations to make healthier living easier, and is collaborating with Manchester on a programme to promote mobility. In an innovative project to regenerate a run-down housing estate, students were offered flats at a discount of a hundred euros a month in return for spending 10 hours a week helping children with their homework. In his book Rob van Gijsel asks ‘*why not use all that power to combat European disintegration? Why don’t we create a framework which enables urban areas in Europe to interconnect, interactively and intensively, in schemes and substantive alliances which focus on tomorrow’s challenges?*’

**Reuniting a port city: Kop van Zuid, Rotterdam** The gigantic port of Rotterdam has suffered in the past from a poor image and a declining population, especially in the Southern area known as Kop Van Zuid. In the 1980s initial plans to build social housing were replaced by a bolder vision for a new mixed-use quarter to help change the whole city's appeal. The project started with building the iconic Erasmus Bridge, a new metro station and an extension to the city's tram system, while the railway lines that used to cut the area off were put underground.

The City Council took responsibility for developing and delivering the regeneration strategy. This was under the Dutch Major Cities Policy (originally just for the four largest cities but expanded to involve 30 towns and cities, which was a precursor for the UK's City Deals). The City's Development Corporation managed the scheme, involving a whole range of private and public partners. The improved infrastructure and accessibility helped convince the private sector to invest. Significantly the City Council established a Mutual Benefit programme to spread the benefits to poorer areas nearby. A distinctive element was the *Opzoomeren* policy, which supports community initiatives in improving their street or block, starting with a street party..

### **Growth projects**

**Expanding a historic university city: Rieselfeld, Freiburg** This historic city in South West Germany is frequently quoted as a model for green development. The urban extension of Rieselfeld has become a destination for British planners and architects. Yet the centre has to be completely rebuilt after it was bombed in 1945 and people were left starving. The total investment in Rieselfeld was estimated in 2008 to be in the order of €500 million for a total of 4,200 dwellings. Land value works out at €430/m<sup>2</sup>, and is estimated at around 30% of the final sales value. Building costs are €3,300/m<sup>2</sup> on average but only €2000–2,400 for cooperatives, where both risks and profit margins can be lower. Infrastructure, including neighbourhood centre kindergartens and primary schools, came from the redevelopment fund of the Federal State of Baden Wurtemburg and from credits raised by the city of Freiburg. All credits had to be repaid through the selling of building plots. As a whole, the project received no further subsidies.

Plots for development are sold off at prices that the city specifies so that bids are judged in terms of the kind of scheme and quality. German cities are able to finance the improvement of land and infrastructure, as they can borrow from local savings banks or Sparkassen, as well as from the national equivalent of KfW, which has branches in each state. Much of the housing is rented, and it is common for financial institutions to own housing, which is rented out on short leases to individuals or groups of people.

Plots are sold off on a rolling programme, so loans can be serviced and repaid. Limits on the number of plots any one group can buy favour small builders. So in Vauban, a former military barracks, less than 30% was built by large investors and 70% of the plots were sold to private owners resulting in some 175 different projects. The finance is handled through a trust which is outside the city's budget, so there is continuity if there are changes in the political administration or spending priorities. There is a project team within the municipality with all the necessary professional expertise, but outside consultants are used for financial

assessments. Most of the construction is relatively simple to keep costs down, but very highly insulated, with many a '*passivhaus*' designed to generate more energy than it consumes. Later phases have attracted more conventional developers.

Some 25% of housing in Rieselfeld and its sister development of Vauban is social, which is allocated to those on lower incomes, but it is indistinguishable from the rest. Social facilities such as sports clubs are funded through associations, while churches are funded through a special local tax. The soft infrastructure of education and community facilities are seen as just as important as the hard infrastructure.

**Diversifying a new town: Almere Poort** Almere, a new town built on restored 'Polder' land, has gained a reputation for pioneering 'self-build' or 'custom-build' on a major scale. Almere was built on council owned land, which made the aim of providing affordable housing for low-income households of €20,000 (£14,500) a year far more feasible. The area was first master-planned by the local council and split up into different districts for different demographics (sustainable, terraced, lower-income for example).

The local authorities then installed the infrastructure and services, and each plot was sold at a fixed m<sup>2</sup> rate and came with a "passport" which contained a list of restrictions for the self-builders adhering to planning regulations. These regulations dictated building height, style, relation to surrounding plots, and materials, however a great deal of creativity and choice was still left to each resident allowing houses to be tailored to their specific needs and family size. This not only has the large benefit in delivering adaptable and diverse communities at lower costs that residents are proud of, it also creates a sense of community in the process. However there can be some pitfalls such as longer and more sporadic building times, and the local authority needs to underpin the investment.

**Creating sustainable suburbs: Vathorst Amersfoort** The local authority of Amersfoort is a prosperous Dutch town with a population of more than 140,000 and lies to the North East of the City of Utrecht on an important railway junction and at the crossing of two motorways. It is now regarded as one of the 'greenest' towns in the country, and the city council has promoted three urban extensions, two of which form part of the VINEX programme. The latest, Vathorst, consists of some 11,000 homes plus shopping facilities, business and community facilities.

In 1998, the municipality of Amersfoort and the Dutch government drew up an agreement on the size of the extension, the contribution they would make to reclaiming contaminated land, and how the settlement would be connected to the two motorways it adjoined. Political leadership was key to overcoming inertia and local criticisms for redeveloping land previously occupied by greenhouses.

The Vathorst Development Company (OBV) was set up as a 50:50 joint venture between the local authority and a consortium of five private landowners and developers. The private developers were willing to pool their land because finance would be cheaper, securing planning permission would be easier, and because they trusted those in charge. There was

also the incentive of the *Dutch Building Rights* law, which gives local authorities the ‘first choice’ in developing land identified for major housing. This model has become common within the Dutch development sector and reflects the culture of collaboration that exists in the Netherlands.

The company formally commissioned the masterplan with the City's planner working alongside a notable Dutch urban designer. All the partners were involved in the process. The masterplan provides for four separate districts in very different styles. For example, one contains a modern version of canal side housing, with 60 per cent of the homes having views of water, while another is designed to feel like living in the country. The development company, OBV, employs a small staff of fewer than 15 with a Chief Executive from the private sector and a Chairman appointed by the municipality, who was Tom de Mann, the Alderman who had promoted the project.

OBV is responsible for land-acquisition, urban planning, engineering, commissioning infrastructure, allocating sites and economic and cultural development. They are the portal to the political decision-making process during the process of planning and building, but the municipality (city council) is by law the body that gives permission.