

State of the Nations

Yolande Barnes

Turn and face the strange

This morning, I have a modest ambition. I want to set the scene for you not only for the rest of this conference but also for years and maybe even decades ahead using some of the facts and findings I have acquired over the last 30 years studying global trends in real estate and the built environment. All in 25 minutes.

So, I will outline a few of the global megatrends that I see will make a difference to us; what their impacts have been and might be in future on global markets and UK markets; and finally I will suggest what sort of responses are needed from the real estate industry and, particularly in the field of planning and law.

To do this, I want to outline the way cities are evolving in response to new global conditions, set them in the global context from which they arise before going on to look at how they may impact the UK generally and at a local level. I will then outline how I think these global trends are going to influence your profession, your business, your working practices, organisations and UK planning generally. This conference can then consider some of the appropriate policy, business and professional responses to all this over the next two days.

The period over which I have been preparing this paper on “the state of the nation” has been one of extraordinary change, not only for this nation but for many others too. The global risk environment has altered dramatically as the geopolitical, economic, trade and security environments shift on what seem like a daily basis.

Living with change

On 23 June, the British electorate stuck an Agincourt-like two fingers up to the establishment and voted to leave the EU. But the anti-globalist, anti-capitalist, anti-establishment, even xenophobic, rhetoric that was heard during the Brexit campaign is not just confined to the UK. It appears to be just one of the many ways that the political fallout of the 2008 global financial crisis is being felt across the globe. Large groups of people in the West feel they have been left out of the economic recovery and asset price inflation engineered by the central banks through quantitative easing after the crash.

The political fallout of 2008

Extremist and populist political parties, and even presidential candidates, are enjoying a popularity unseen in the western world since the 1930s. We have not yet seen the end of the economic or political post GFC fallout, and may not do so for decades.

Think globally, act locally, panic internally

What, you may now be asking, does all this have to do with planning and planning law? Well, it illustrates I think just one element of the accelerating rate of change that we will all have to deal with in coming years.

Change is occurring:

1. Environmentally, with global warming and all its knock-on effects.

2. Economically, as the digital age dawns.
3. Socially as new generations arise with different expectations, behaviour and values.

Global megatrends will impact planners

My speciality may be looking at markets and values but this means trying to understand the forces and factors behind them. Real estate values, particularly residential ones, can be a very good indicator of social and environmental sustainability as well as economic success as people vote with their feet, and their wallets, for the best places. I want to show you something of how the worlds of finance, policy, society, economics and nature have interacted and changed over time to impact the built environment globally and how they will continue to do so. By understanding this, I think we can better understand, adapt to, and plan for changes at home.

People of the world

Looking at the global picture, we can see that the number of people in the world is still increasing but the rate of growth in the global population is slowing. It is not the sheer number of people on this planet which is driving the needs of the built environment but who they are and what they are doing. So I want to look at demand for buildings not in terms of numbers but in terms of the quality and type of whole place that will be needed to meet future population needs.

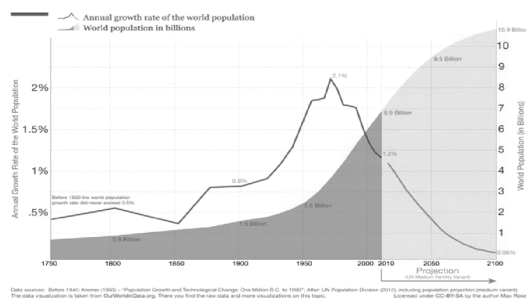


Figure 1: World population growth

Millennials!

In the developed world and China, the distribution of different age groups is changing. What is important for change in the world is the rise of the dominant generation: the “Millennials” or “Generation Y”. These are people born after 1980, at the start of the digital age, who came of age around the millennium and who now make up the largest age group in the world population.

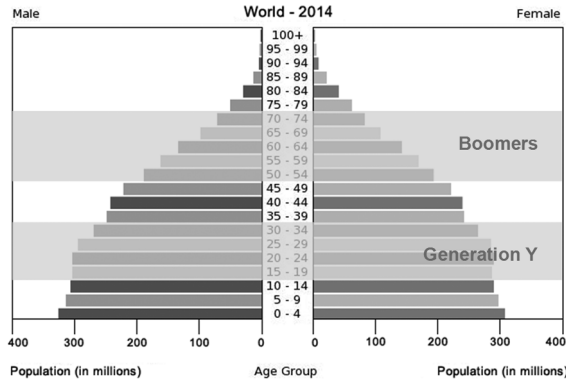


Figure 2: World age distribution

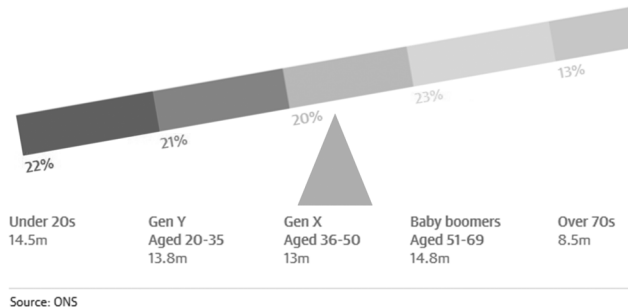
This generation is important because, by 2025, when the last of the post war ‘baby boomer generation will mostly have reached retirement age, Millennials will make up 75% of the (tax-paying) workforce. It is this generation that we are building for now (and who will be paying for most of our pensions in future).

75% of workforce by 2025

Already, the wartime generation represent the merest smidgeon of the workforce so all the values, concerns and vision of that generation have disappeared from the workplace and the productive economy (though they still influence politics). And the baby boomers are a fading force. Those born after the war but before the widespread use of birth control have already been retiring and will have all but disappeared from the workforce by 2030. It is generation X that are now in the senior positions of power within the workforce. They now have to manage the transition between the generation who were educated before the first home computers existed and those who have known nothing else but the digital age.

Already 1/3rd in UK

In Britain, Millennials already make up about a third of the workforce. Although much of the demographic discussion has been on the aging of the post-war baby boomers and how to house this increasingly dependent generation, it will be the Millennial taxpayers who will largely determine the result of these deliberations. The balance of power is tipping to younger generations.

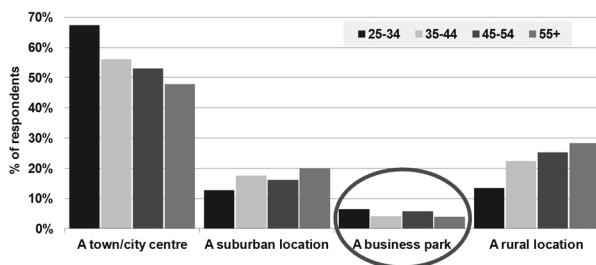


Figures 3: The population balance of the UK tilts toward Millennials

What does this mean for the built environment?

The needs, wants, hopes and desires of this generation will be the one that shapes our built environment and will determine the success and competitiveness of cities and countries. Are the built environments that the baby boomers and generation X created for them over the last 50 years up to the task?

A variety of evidence suggests that they are not. To take just one example, the out-of town single use “big box” building is becoming less popular. A recent YouGov/Savills/BCO survey of where people want to work in the UK revealed a huge preference for real cities and towns over purpose-built business parks, among all age groups. I think this is symptomatic of a wide range of attitudes toward the post-war, single use, single building environments of the 20th century.



Figures 4: Savills' What Workers Want Survey

Unfit for purpose?

The evidence is mounting that the places we have been busy building in the years since 1945 are not fit for 21st century purpose. We are starting to see some distinct winners and losers in the place race around the globe and this is having a major impact on the economy and productivity.

We can easily see the winners and losers in Britain too. The urban hubs of the growth economy stand in sharp contrast to those that still struggle economically, socially and environmentally. This shows up clearly in all sorts of measures but can be illustrated here by contrasting levels of house prices which effectively reflects the economy (wages and wealth), social desirability and environmental quality (people want to move there).

House price map of UK

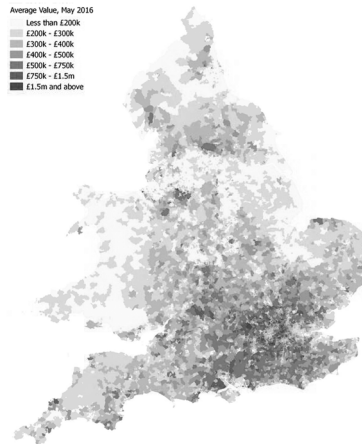


Figure 5: Average house prices

Urban Buzz

What we see at the moment is that the fastest appreciating housing markets have been high quality urban ones and this reflects a global trend in which younger generations want to live work and play in an urban environment, but this tends to be an urban environment of traditional streets rather than the type of places that have been built over the latter half of the 20th century and into the first decades of the new millennium.

To examine why this is, we have to start by recognising that the characteristics of the built environment of the late 20th century differ from the urban environments of previous centuries, (or even previous millennia), everywhere.

Tech neighbourhoods

At a global level, we have identified a significant link between the most successful Tech cities and the preference for tech talent in that city to not only work but live and play in real, urban, street based neighbourhoods. From Australia to America, Asia to Europe, the millennial generation are conducting their lives in an urban landscape of narrow streets filled with a huge variety of restaurants, shops, workspaces, galleries, bars and bicycles. Not since the days of Lloyds of London has the coffee shop been quite so seminal in facilitating human interaction: the exchange of ideas and business transactions. In the knowledge economy, it is the opportunity for human interaction that becomes the most valuable form of exchange, and human beings interact on streets in populated neighbourhoods, not in disconnected, car-reliant sparsely populated, single-use business parks.

Creative class

Creative hubs too are overwhelmingly located in traditional streetscapes, not purpose built and disconnected single use “cities”. We notice, for example, that in Dubai the purpose-built “design district” works less well for some creative companies than the old traditional streets of the Creek district or the new streets of the low-rise City Walk development or even the pastiche souk-like new developments of downtown.

The most productive and fast-growing sectors in cities globally at present are in the creative and tech sectors so this link between the built environment and this sector is very important. In the UK, creative hubs are an important component of the economy too. It is inescapable that the cities and neighbourhoods

hosting the most creative jobs might be described (like it or not) as having an “atavistic urbanism”. They are characterised by traditional streetscapes (but they do not always contain traditional buildings though). So this creative clustering is not about architecture, pastiche or otherwise, so much as about the urban geography and urbanism of places. This urbanism seems to facilitate the sort of environment where creative enterprises of many different types thrive.

Figure 6: Creative urbanism in the UK

	Top 20 UK creative clusters		Numbers of creative businesses	Creative businesses (% of total)	Creative jobs (% of total)
1	Reading	South East	4,842	15.4	10.7
2	Brighton	South East	2,956	16.2	10.5
3	London	London	95,804	15.3	9.9
4	Bath	South West	1,127	12.9	9.8
5	High Wycombe	South East	3,262	12.9	9.5
6	Oxford	South East	3,061	11.1	9.5
7	Guildford	South East	5,120	13.2	9.4
8	Basingstoke	South East	1,946	14.2	8.9
9	Newbury	South East	1,014	11.9	8.7
10	Cambridge	East of England	3,919	10.7	8.5
11	Leamington Spa	West Midlands	1,504	9.6	8.5
12	Bristol	South West	4,074	11.2	8.1
13	Cheltenham	South West	1,027	10.7	7.5
14	Luton	East of England	4,565	12.6	7.2
15	Edinburgh	Scotland	3,215	12.2	6.7
16	Norwich	East of England	1,345	7.2	6.6
17	Milton Keynes	South East	2,697	13.4	6.4
18	Exeter	South West	1,145	5.9	6.3
19	Portsmouth	South East	1,522	8.1	6.2
20	Bournemouth	South West	1,285	8.8	6.1

This is evidence not for a particular type of period, pastiche architecture, this is an argument for a particular type of geography. Traditional urbanism works better for the 21st century economy than the automobile-orientated design and planning of the late 20th century.

Human habitat

This is because the type of cities that people have built for themselves, collectively, across continents and through Millennia, are the best for fostering and accommodating human interaction.

Human interaction is important now because in the creative economy, including the tech sector, the fostering and growth of knowledge, ideas and innovation is enabled by human interaction, not vehicle movement, transportation of goods or proximity to raw materials. In other words, the location considerations (and hence the planning considerations which governed planning in the recent past) are not those that will determine successful cities in future.

Street Tech

I argue that with the dawning of the digital age, we are entering the fifth age of the city. The built environment of this age could look much more like the first than the fourth. Let me explain what I mean.

Consider that the first cities not only facilitated civilisation but were civilisation. “Civitas” gives us the concept of human civilisation. Pre-industrial cities are, by definition humanistic cities, facilitating all the human activities that take place when people gather together in a civilised manner. It turns out that human beings are remarkably similar across the globe in that they organise their urban habitat in remarkably similar ways. You don’t have to have been born in a place or speak the local language to understand the urban language of the streets in a Brazillian Favella, a Beijing Hutong, Dharvi slum or even an ancient city like Pompei, for example.

Neighbourhoods and Monuments

In these places, streets and simple dwellings-cum-workspaces dominate. In pre-industrial cities, there has always been a place for the architect, as a commissioned designer and builder of monuments, for pharaoh, emperor, aristocrat or government. And a place for the civil engineer bringing water, sanitation, defence and environmental protection. But these functions were always separate from the job of building workplaces and homes. When people do this for themselves, you get high density, complex, mixed content, in simple buildings on streets. This is why informal settlement in modern day Sao Paulo is virtually indistinguishable in street form, and even building form, from medieval Florence.

Back to the Future

Of course, the industrial age and technology changed a lot of this. But I would argue that the digital age is actually taking us back to the humanistic city because now the economy and certainly the workplace is more about the attraction and retention of human capital, rather than financial capital.

In an age when everyone has access to “everything everywhere” through an electronic device in their back pocket (or leather handmade satchel) the physical proximity of anything, other than other human beings, ceases to matter so much.

Generation Y have access to everything everywhere

So if the first age of the city was about proximity to other humans and all the economic, social, political and cultural consequences of that, what have the subsequent ages been? The second age of cities was about proximity to materials as the early industrial revolution drove changes in locational considerations. As trade and markets developed, proximity to markets and ports started to matter too in the mercantile and port cities and the 3rd age. The third age overlaps with the fourth which was about proximity to capital and the concentration of financial capital in certain cities. This is the post war 20th century city, which coincides with the age of the internal combustion engine and private transport. Cities in this age are characterised by roads carrying vehicles between the concentrations of capital, not just in cities but in individual, single use buildings.

Figure 7:: The five ages of cities

	1.Agrarian	2.Early industrial	3.Marcantile	4.Capital	5.Digital
Built environment	Small villages and towns; one regional capital city	Proximity to materials; Factory cities	Proximity to markets; Rail towns, ports and model cities	Proximity to capital; Urban renaissance	Proximity of human capital; Urban dispersal?
Economy	Subsistence	Take-off	Growth	Maturity	Ultra-maturity?

	1.Agrarian	2.Early industrial	3.Marcantile	4.Capital	5.Digital
Poverty	Rural house	Old rural house	Inner city apartment	Old suburban house	Failing suburb?
Wealth	Big country house	New inner city	New suburban house	Big country house or inner city apartment	Townhouse and workspace in a small city

I think we are now entering the 5th age of the city where the purpose of the successful city is to attract people, not traffic, to facilitate the flow of ideas, not just money and to nurture human capital, not financial capital.

The Impact of Capital

Before we look at how cities are evolving and might evolve in future, I think it is worth examining what the impact of 20th century finance has been and what the effects are of concentrating it on particular cities and particular locations. In a recent talk at the Venice biennale, Saskia Sassen the academic and author of the term “global city” asserted that increasing density can de-urbanise cities “if it is a large corporate complex that erases streets and squares and more with a large footprint”.

This begs the question as to why and how construction happens in this way. I think a large part of the answer lies in how institutional capital has been deployed in recent decades. An understanding of financial structures is a useful tool for a city planner who wishes to understand the wider forces and factors which are brought to bear on the built environment.

There is a strong link between the nature of finance and investment and the resulting built environment. The diagram below attempts to show in simplified form the relationship between “big capital” deployed by large investors and other types of “bottom up” smaller-scale funding coupled with long-term land ownership and stewardship.

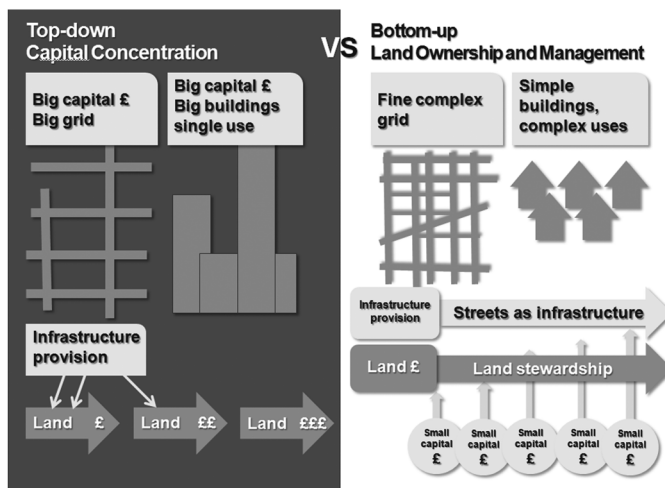


Figure 8:: The impact of “big capital” on the built environment

The role of institutions in planning

In the post-war years, pensions and insurance companies took deposits and savings from young baby boomers investing for retirement. The aim of these institutions has been to grow these funds over the

savers' working lives in order to fund retirement. The name of the game was therefore to deploy capital in large quantities to grow in value, be sold and redeployed.

In the development of new buildings, this institutional capital would often be deployed sequentially, first as an infrastructure investment, a by-pass for example, which makes a return on that particular risk. It can then also be deployed in strategic land purchase and land promotion with all the planning risk that entails, again, usually in order to be sold on to the next investor on grant of outline permission. All of this will be done on a large scale because of the large sums of money involved.

The land will tend to be plotted at large scale too because it has to accommodate large, single buildings where again large amounts of capital can be deployed in one go and these buildings have tended to be one of the main commercial asset classes: Offices, Industrial, Retail, "Multi Family Housing" (apartments for rent in the USA) and "hospitality" (hotels). It is notable that these asset classes often correspond closely to planning use classes.

Mixed use and small scale development has been rare in the mainstream. The segregation of uses has extended to housing estates and the recently emerged sectors of student housing and out of town retail warehouses, for example.

The post-war model of institutional capital deployment has resulted in serial land ownership for capital gain, the segregation of infrastructure, land promotion, land development, construction and ongoing ownership into different risk categories and stand-alone investments. It has tended to result in big buildings, often with 20–30 year life spans in single-use asset classes.

Aging Boomers

But all this could be about to change. The institutions who were busy taking savings from baby boomers and deploying it in large quantities for capital growth in the 20th century are now having to pay pensions and need to deploy the full-grown funds to create income in the 21st century.

This has the strong potential to change the nature of real estate investment. The value of buildings will derive from the rental income they will be able to generate, not just whether they will be saleable to another institution. With investors concentrating on net income streams (and with yields/cap rates currently at all-time lows and with little or no scope to move in further) it will be the rental growth of a building and its occupancy levels that will increasingly determine capital value growth. This means that occupiers and their needs, wants and desires should increasingly come into focus.

Visionary Investors

When consistent, after-cost income streams become important to investors, the world changes. Long-term ownership, control and stewardship of land containing complete neighbourhoods rather than single-use buildings becomes attractive. Popular and successful urbanism, the fine-grain grid becomes investable and simple, low-cost flexible buildings, able to adapt to a wide variety of occupier needs and wants, takes on a particular value to investors.

The most visionary of the institutions are looking at this but they run into a construction, planning and development industry that is geared up to the 20th century way of doing things. Providing the environment that generation Y want and which we all need means changing the finance and business models behind the built environment as well as design, build and planning practices.

Urban dispersal

Back to the five ages of cities, evidence is emerging that the 5th age involves "urban dispersal" and that the "idea of the city" may be more important than the geopolitical boundaries of the administrative area.

Throughout the world, we have been observing the emerging importance of towns and cities linked to but not part of the main city. If the people of the city are dispersing to other urban centres (often as a result of high real estate prices in the centre city) then city clusters start to emerge. This means planning for the big city has to involve taking on the role of these dispersed urban centres as well. This crosses political, and sometimes even national boundaries.

The implications for planners

So, if we look at how the 21st century is panning out, I would suggest that the concept of planning is looking out-dated and in danger of damaging future potential and performance in the western world. We can see that the very concept, method and indeed law of planning is based in the second half of the 20th century and reacts to the problems of the 2nd and 3rd age cities rather than the challenges of the fifth age.

I argue that it has been designed for a set of circumstances that no longer exist. The result, has been the production of sub-urban, single-use, inflexible and short-lived buildings within a road vehicle network rather than the enduring, flexible, complex, mixed use, urban neighbourhoods linked by a street network. In the digital age people need the latter.

This is supremely important in an age when people will vote with their feet, on a global basis, for the environments that best suit them.

We have to move from financially-friendly buildings to people-friendly places if we are going to attract and accommodate the human talent that will drive the economy of the 21st century. In short, if we are trying to attract human capital rather than financial capital to our towns and cities, we have to truly put people at the heart of the built environment.

Planning in the Digital Age

This means that the real impact and value of planning in the digital age is most likely to be felt in the areas of:

1. Digital infrastructure (provide wiring and logistics)
2. Governance (create the right conditions for entrepreneurs, creativity and change)
And
3. Human environment (make great streets)

Planning law

And for the lawyers among you, what should the 21st century mean for regulation and planning law?

The concentration of capital in cities is not just a macro phenomenon and confined to financial districts and creating the big global cities, it has also occurred at the micro level of individual buildings. Planning use classes are closely aligned to investment asset classes. Those institutional asset classes tend to produce “big-box”, single-use “monuments” (office towers, retail malls, apartment blocks) and the UK planning system is geared to producing these.

What the planning system hasn’t been able to facilitate at any scale, I argue is complex, fine grain mixed neighbourhoods, the “cake” of the city if you like rather than the monumental “currants” ...

This means that we need to change, or maybe even scrap, planning use classes; to legislate, regulate or plan for whole-place outcomes rather than the narrow role of individual buildings.

The Solution

I am not going to propose any kind of detail as to how the planning system needs to change in the 21st century. This gathering brings together more people far more qualified than I to make this happen but I do think that planning in the 21st century should probably be about making sure the processes are right rather than the rules are right. I do want to impress on this conference the need for some kind of recognition in the planning system for whole, modest neighbourhoods and the necessity to plan for, or perhaps preferably allow for, ‘the messy stuff in between the monuments’, the bit of the urban environment that makes every city work but which has been singularly lacking in the 20th century town and city.

21st century urbanism

I think that if we are to properly plan for this type of urbanism. We have to allow for three things:

1. The creation of street networks at a human scale which reflect the natural “desire lines” of people in the city and allow for the (pedestrian) movement and interaction vital in the digital age. (This would ideally be considered part of the city infrastructure and combine geography and road traffic engineering before getting too hung up about architecture.)
2. The distinction between “monumental” building and “neighbourhood” building and proper consideration of the mix of the two and which uses are most appropriate for each. (This will mean allowing for collective types of land-owning entities, like housing associations, landed estates, or community land trusts, for example, with whole place, rather than single-use, governance).
3. The creation of the “on-street building”, a truly flexible, mixed use building that can be used for most human activities, through time or simultaneously, and which is capable of maximising both density and the amenity of streets at low cost, both in terms of build and ongoing maintenance. (This may mean acknowledging that high-quality streetscapes and urban squares can have as much amenity value and health benefits as vast swathes of parkland.)

Planning for real

In my view, what this means for all of us here today is a fundamental move away from the empirical method of planning. Numerical targets for housing “units” and conventional, narrow, use classes corresponding to commercial asset classes, look particularly unhelpful. Sustainable development is about outcomes and these can be achieved in a wide variety and combination of ways. Some ways will be more appropriate to some local conditions and local aims and aspirations than others.

If we are to adapt to the new century, local needs and hopes, wishes, desires and dreams of ordinary people, this means a move away from target-oriented, top-down empirical planning. It means this profession turning itself inside out to achieve a real bottom-up humanistic form of community planning. In future, you might expect less time in adversarial negotiation and legalistic planning enquiries and more time in church halls and community centres doing charette’s or “planning for real” or “planning by design” (or whatever you want to call it) at the start of the development process rather than the end with real people in real communities creating and improving their own neighbourhoods. You may find that some theories, some models, some “isms” and other sacred cows that you hold dear may be slaughtered, or at least altered, in the process but, on the upside, you may well find yourself having a lot more fun!

What next?

As you listen to the papers and debates of the rest of this conference, I invite you to filter them in a certain way. Consider whether the arguments presented are there to further the 20th century age of capital concentration or to further the 21st century age of people in a digital age? Ask yourself are we planning for monuments here? or allowing for neighbourhoods? Are we doing enough of one or not enough of the other? Ask yourself how will the digitally-enabled Millennial live, work, play and visit here? and how will they raise their children, grandchildren and great-grandchildren in economic and business conditions we can't yet begin to imagine? If we ask these questions then, in my view, we can't fail to consider the ways in which human beings across the world have lived, loved and interacted across millennia, and will continue to do so.

What I hope to have shown you is that we are entering a new urban age in the 21st century. One that is not based on the drivers of location and built environment that we have experienced in the past but one orientated around people; an Anthropocene age of the built environment if you like.