Property markets and the production of inequality
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Introduction
The purpose of this chapter is to survey the way we analyse a number of familiar urban issues and to propose that a focus on the mediating rôle of land and property markets can offer an essential tool, both for better theorisation (and linking) of urban issues and for considering the scope for action.

Modern western societies are often described as ‘market’ economies as though their defining characteristic is that exchange takes place in markets (rather than by gift or by barter). However this is simply untrue: market exchange was important in pre-capitalist societies and in the so-called ‘communist’ countries and will no doubt have a role in any future society.

The central feature of modern societies is capitalism, and specifically the extension of market exchange to include labour power: it is the labour market which has been the defining feature of the modern world. Struggles about wages and conditions of work have been central to modern history and the exploitation of differences in wages are a driving force in globalisation today. It is interesting to note that, since the collapse of the Soviet Union, the word ‘capitalism’ has come to be used quite widely again to characterise the world system, even by those who — during the cold war — would have distinguished the western economies as ‘free-market’ or ‘market’ or even as ‘democratic’. Within capitalism the central issue to be understood has always been the relationship between capital and labour, even though this relationship is inter-woven with other kinds of relationship — gender, ethnicity or local identity.

Markets are crucial within capitalism as key mechanisms through which social relations are implemented, enforced and transmitted across boundaries. We keep seeing clear examples like the recent closure of a micro-chip factory in northern England because the far eastern economic crisis cheapened imports and meant that the English product could no longer compete in the European market. In the USA such episodes are frequent as the market competition from cheaper labour in NAFTA (the North American Free Trade Area) intensifies and factories in the north close down.

While market relationships like this are often brutally clear, they also often misleading, essentially because an agreement between two people — to buy and to sell — has the superficial appearance of a voluntary and free exchange. As Adam Smith pointed out, the hidden hand of the market operates through individuals pursuing their own interests and making
bargains which leave both parties better off. However this view of market exchange ignores the balance of power between buyer and seller (which can make the exchange anything but fair) and it ignores whatever determines the ruling market price: the overall balance of power between buyers and sellers. The worker has little choice about accepting a badly-paid job if low wages are the only wages on offer. The farmer has to accept the market price for his animals if that is all the supermarket chains are offering.

Thus social relations operating through markets are often obscured - in the sense that market prices and market practices seem so ‘natural’ and market exchanges, as instances of mutual consent, seem so ‘free’ of coercion. The extension of market relations into ever more areas of urban life extends this obscuring of the underlying relationships: when the city council allocated housing sites the issues were clearly political; now that market criteria rule, the issues are the de-politicised ones of ‘viability’ and ‘financial feasibility’ and who are we to challenge these? The decision-making techniques for ‘feasibility testing’ are now taught to students of planning as part of ‘technical’ courses as though they were as value-neutral as forecasting heat loss through a wall.

The analysis of markets is subject to a major pitfall: bad abstraction. Conventional economics approaches markets from the starting point of an idealised abstraction: the textbook model of the perfect market is defined by its numerous assumptions about perfect competition, perfect information, divisibility, lack of externality and so on. This idealised abstract market is constituted in the mind, as is the global harmony to which markets and free trade should lead us. All actual markets — and especially the real estate markets — are such a disappointment when you come at them in this way: the ‘imperfections’ swamp the few elements which conform to the abstract model. Great effort and ingenuity are then required to adapt the model so it can be used: welfare and environmental economics, institutional economics and so on (Dobb 1969; Pearce and Markandya 1991; Ive 1998).

The origins of property markets
A much more constructive alternative is to approach the conceptualisation and analysis of markets with more historical and material reality from the outset. This is especially true in the study of urban societies. Issues of location, competition for scarce locations and payments made to occupy space are all central issues and all of them involve analysis of the power relations among those involved. The necessary focus on the analysis of relationships in the production and use of the built environment is evident in the monumental work of Chambert (Chambert 1997) and of others who have applied his ideas (Page 1996; de Magalhães 1998). In the background is a theoretical debate on theories of rent (Haila 1989; Haila 1990).
One important starting point is to acknowledge that markets don’t just arise ‘naturally’ but are actively constituted by those involved, and often with the state and the law actively involved in defining what is to be traded, the units of exchange, the terms of contract, the enforcement of conditions and so on. In the case of modern land and property markets, this history is often on record if we look for it: it took a great struggle by capital to create a market in land in England, against the tenacity of the old landed interests represented in the House of Lords (McMahon 1985). The fraught power relations between landlords and tenants, owners and occupiers, remain everywhere uneasy and subject to the state as referee. A case in point is the recent success of major British retailers (who are ‘tenants’ in this context) in securing changes which reduce the bias in their leases which have always strongly favoured their landlords — typically insurance companies and pension funds — by insisting that rents could only be revised upwards and that tenants would remain liable to pay rent even if they had passed on their liability to a new tenant who then defaulted. The privileged power position of the landed interest in the UK property markets (which probably explains why property investment here has been so strong) is now a little bit weakened.

The characteristics of markets are also often influenced by the producers, merchants, professionals, credit-providers and others who take part: in our case by the valuers, mortgage lenders, lawyers and so on. Examples of these influences operating internationally from the UK and USA to Brazil have been documented (de Magalhães, 1999) and a lot of western consultants are busy advising on how property markets should now be reconstituted in the former communist countries.

In the many countries which now have some sort of land use planning system, the provisions, standards, codes and zoning rules of the plan are important in constituting markets and power relations in a number of ways. Planning defines permitted categories of activity, called ‘use classes’ in the UK system and equivalents elsewhere. These definitions tend to constitute sub-markets — for agricultural land, for housing land, for offices and so on — because the zoning injects some uniformity into what would otherwise be a market of totally unique and assorted plots of land. The standardisation of zoning in the USA earlier this century was a key factor enabling a sustained boom in housing production to take place (McMahon 1986). Zoning systems designed to exclude poor residents (and thus blacks from white areas) then became a common feature (Plotkin 1988). Zoning rules can enforce inequality in more subtle ways too. The labour government of the City of São Paulo recently noted that much higher densities of construction (and thus higher profits) were permitted on larger sites than on individual plots of land — which strongly favoured large developers over individual families — and in their new plan they set a uniform density for all sites to redress the balance.

Planning also regulates infrastructure production and it links areas for permitted building production to the availability of infrastructure. That at
least was the post-war norm in north west Europe. In southern Europe, Latin America and elsewhere the infrastructure sometimes followed rather than led, and we have had a recent taste of this sequence at Canary Wharf in London Docklands where key infrastructure is being fitted in after the commercial building it is designed to valorise. It was the developers of this rather inaccessible office complex who insisted that Mrs Thatcher’s government go ahead with the very costly underground railway and highway schemes which would guarantee their success. But whether the infrastructure comes first or later, it is typically financed or underwritten by the central or local state and generates major shifts and concentrations of realisable value, which are then commonly the subject of private appropriation. The biggest European instance is probably the French state investment (in roads, regional and high speed trains, urban infrastructure and cheap loans) which under-pinned the Eurodisney theme park at Marne-la-Valée (Balducci 1992). But every town has its examples: shopping malls beside the motorway intersections, office parks beside the airport, shops and offices at railway interchanges and so on (Bertolini and Spit 1998).

Nodes in the transport system thus focus and concentrate the possibilities of making money through real estate: the owners of land in such places can lay hands on a share of the national product and most recent European examples are ones where private owners are the main beneficiaries. But there are cases across Europe where some of the profits from collective investment in infrastructure has returned to the collective purse: in the original British new towns, in a few of the French developments such as La Défense and in the Netherlands.

We can, in other words, view the production of infrastructure and buildings as being — among other things — a means for investors to lay hands on some of society’s total profitability. The buildings are analogous to the sponge or tissue with which we mop water from the floor. This, of course, affects architecture profoundly since the role of the architect is to produce the best sponges. For many architects, this rôle is incompatible with the creativity and the commitment to social and environmental needs in which they have been trained. Often they find themselves subordinated to project managers who are better at keeping costs down and to property consultants who are experts in maximising the finished value of buildings. In these conditions architecture can be reduced to a cosmetic function (Ive 1995), the property development industry is seen as lacking in social or environmental awareness (by Prince Charles, for example) and is viewed by sophisticated people as essentially philistine.

An urban and regional planning regime sustained over a period of time can play a central rôle in reducing the overall supply of urban space. This limits competition between investors and owners and thus underwrites their profitability and/or land values. In Britain we have seen this in the protection of town centre shopping against the threat from out-of-town malls until the 1970s, in the rationing of sites for out-of-town centres in
much of the subsequent period, in the maintenance of scarcity in the central London office market up to 1985, when the Thatcher government de-regulated it, and in many other spheres. While it was always in the interests of the individual investor to secure exceptions and departures from restrictive plans, it was in the collective interests of the owners of landed assets to retain this restrictive and predictable form of planning — thus the calls for a return to ‘plan-led’ development control in the UK after 1989.

Social polarisation and segregation
The neo-liberal strategy of lowering labour costs through wage reduction, labour market ‘flexibility’ and the opening up of developed markets to low-wage production from poorer countries has of course led to the well-documented growth of poverty in ‘developed’ countries — countries previously characterised by relatively egalitarian distributions of income and wealth. The strongest form of this impoverishment in ‘western’ countries is clearly in the USA (Brenner 1998) but it is emerging in various forms throughout western Europe and is well-summarised by the French urbanist Alain Lipietz who outlines the trend towards what he calls an ‘hour-glass’ society: more people in the top and at the bottom of the income distribution, fewer in the middle (Lipietz 1992; Lipietz 1996; Dunford 1997).

These changes in the living standards of labour (and of the reserve army of labour — people surplus to the requirements of the labour market) are, of course, implemented in actual places in direct and indirect ways. Falling money wages and high unemployment are the most obvious direct forms of impoverishment. Indirectly people can be made worse off by reductions in the social wage (education, health and other public services) or through increases in living costs - especially housing expenses. There are local arguments about whether the changes in income distribution constitute relative or absolute ‘polarisation’, or should better be seen (at least in the London case (Hamnett 1994)) as professionalisation. For New York, attention has focused on how the high salaries in the finance sector lead to housing being no longer affordable by poor and middle groups (Fitch 1993). The ubiquitous experience, however, is of poor people (and in high-cost cities like London, middle-income people too) competing on worsening terms for housing space.

The social sifting and sorting of people is, of course, highly complex, affected by the full range of national practices on social housing, rent control, tenant security, divisibility of dwellings and so on. But in all cases it is the markets for housing which convert the employment inequalities into concrete housing experiences (and Vol 20 of the journal Built Environment presents a useful series of city-level studies and the Open University has just produced an invaluable survey (Pile, Brook et al. 1999)). The most ambitious analysis of the cumulative process through which social classes get re-sorted, services shift, property values adjust, and classes shift again is still the comprehensive study of Paris (Preteceille and
Terrail 1985; Pinçon-Charlot and Preteceille 1986). Some of the work of Harloe on London and of Fainstein and Marcuse on US cities explores these themes (Fainstein, 1992; Marcuse, 1999). We could say that the housing market operates partly as a means by which people ‘buy’ access to good public and private services, high environmental quality and other things they want. This can be seen as individualistic behaviour by people pursuing their preferences in the light of what they can afford and what the market offers, as for example in the unique study of the English town of Reading (Cheshire and Sheppard 1995). The broader way in which class segregation would result was clearly apparent in the 70s (Harvey and Chatterjee 1974; Stretton 1976; Hirsch 1977) and 80s (Hooper 1985) and becomes even stronger today (Harvey 1996; Massey, Allen et al. 1999).

We have yet to start the analysis of how the privatisation of transport and other infrastructure and of public services may affect these mechanisms in Britain. By gearing more forms of consumption (education, health, transport) to markets and thus to income, these changes can be expected to reinforce local inequalities in property prices, rents and thus class segregation. The relationship, though, may not be a simple one. If a service is provided free then users enjoy it as an ‘externality’ - a benefit not charged for - and may be willing to pay high rent to live where they can enjoy it. If the service is privatised and users have to pay charges then they probably would not be willing to pay so much rent (in addition to these charges). Thus rent differentials in such areas might become less strong. On the other hand, the rising public transport prices which come with privatisation reduce accessibility and will thus tend to make these rent differentials stronger. It should be no surprise that contradictory tendencies are at work, making it difficult for empirical social science to sort out what is happening. Contradictions are an inherent feature of capitalist urban life (Berman 1982).

**Containment of urban growth**
In south east England we have an acute form of the familiar metropolitan problem of inadequate land supply, massively reinforced in our case by urban and regional planning. It can be characterised as a systematic structural barrier to fixed capital formation on most of the land in the region and it gives us...

(i) a severely limited supply of development land which, ...

(ii) ...combined with real growth of incomes (from earnings, profits and rents) for perhaps half the population,...

(iii) ...combined with the income elasticity of demand for housing (meaning that as people’s incomes grow their demand for housing grows even faster)...

(iv) ...creates a tendency towards relative retail and other price inflation in our region; living standards are thus depressed and/or salaries pushed up, reducing the competitiveness of employers in a wide belt around London.
especially in the west. By the same logic it also increases the volatility of prices because fluctuations in demand can’t be met by quick adjustments of supply and must be soaked up mainly by price changes.

(v) Combined further with relative (and perhaps absolute) impoverishment of a large part of the population, the market price of housing will exclude a growing proportion of the population or force them into less space or worse conditions.

(vi) There is a powerful distortion whereby actual investment (in new construction, repair and maintenance) is lower than it would be in conditions of easier land supply. For example
• For households there is the familiar experience that you pay so much to service your mortgage that you can’t afford to maintain or extend your dwelling;
• Developers spend so much on sites that they are constrained to skimp on floorspace, garden space and building quality. (Cheshire, Sheppard et al. 1985; Evans 1988). Cullen (Cullen 1982) and the early work of Ball (Ball 1983) was very effective in explaining the configuration of social forces which generated this characteristic form of speculative housing. This very low standard of development may nowadays gain some legitimacy where it is built at high density but in most cases any ‘sustainability’ benefits must be outweighed by the car-dependency of these developments and their sheer low quality.

(vii) Structurally, it means that our regional decentralisation has been over long distances to towns (or non-town locations) where car-dependence for trips within and between settlements is strong (Ota 1995).

(viii) Within the towns, especially London, this mechanism produces pressure for densification of suburbs and in-filling everywhere - often at the expense of the environmental qualities and other use-values enjoyed by established residents. This is politically very tense, and the contradictions emerge in the NIMBY politics of the region very strongly.

(ix) So far as the house building industry is concerned, does this configuration of forces help to explain the declining role of the volume speculative house builders in generating additions to housing supply?

(x) The need for social housing becomes ever greater in these conditions because low- and middle-income people cannot afford what the market offers. In the UK, social housing is hardly produced any more except by non-profit, semi autonomous, Housing Associations. For this housing association sector, the combination of
• high land prices,
• falling Housing Association Grant from government (HAG),
• rising proportions of open market borrowing
means that...
• space and quality standards are under intense pressure;
rents have to be high and rising;
You can afford a housing association dwelling only if you are prosperous enough, or if you are poor enough to get housing benefit (HB). This is a problem for those excluded, for the occupiers, for management and for the social composition of schemes.
only HB underwrites the market risk for lenders - a weird paradox where bankers have to defend the welfare system.

But these are details: the essence of the point is that truly massive transfers of income and wealth take place, the inequality of living conditions is exacerbated, technologies we need for housing and transport are never developed or optimised and moves towards real environmental sustainability are ruled out of consideration.

In terms of class politics the outcome is far from clear: there is absolutely no general appreciation of the real consequences of the containment policy. The rather small number of beneficiaries (institutional lenders, established owner-occupiers in the protected areas, some developers and land owners) have marshalled the support of all political parties from the Tory right through to the greens in support of the sacred green belt and ‘countryside’. Only a few economists (Evans and Cheshire referred to above) have noted the economic penalties and only a minority within the green movement have noticed some of the real social and environmental penalties (Fairlie and This Land is Ours 1996). Fairlie has pointed out that in much of southern England the poor and middle-earners are prevented from getting housing but required to use cars.

Centralisation tendencies in cities and countries
It is very evident that the operation of real-estate markets is a key mechanism in the over-concentration of investment in commercial building in the prime areas of European cities, and in the central cities within European countries.

Ever since Hotelling’s powerful modeling of the behaviour of ice cream sellers on a beach, it has been clear that competitive locational behaviour by retailers can produce over-concentration which is in no-one’s interests but their own. They protect themselves from competition by clustering together, although consumers would be better served by a spread distribution. When strong externalities begin to arise from co-location the effect is further reinforced (and extended to other functions) and the more so when we realise that investors in centralised concentrations can realise and appropriate value originating in earlier rounds of investment and in the state’s investment in radial transport.

On top of all this ‘rational’ behaviour by investors is the irrational tendency which Richard Barras has examined for central London offices where investors seem to go for the combination of low returns and high risk in their lemming-like enthusiasm. (His analysis is unpublished but the evidence is clear in the annual surveys of the Investment Property Databank.). Normally markets in investments show an inverse
relationship between risk and return: high risk often comes with high return, and the safest investments are usually less profitable. But for some reason the banks and other institutions active in British property markets compete so hard with each other to obtain properties in central London that the rate of return is driven down to a low level - much lower than would be expected for such volatile and risky investments.

Just as property investment tends to be too concentrated in prime cities and locations, it also tends to be under-represented in peripheral cities and locations - partly because investors are less informed about such places, partly perhaps because they expect high vacancy rates in such places. Certainly it appears that prospects of specially high returns are required to attract developers to provincial towns (Henneberry 1995).

Conclusions
I hope that this short sketch makes the point that real-estate markets are important elements in the operation of modern urban capitalism, more than just distributive mechanisms but part of the basic machinery which determines how economies work, what gets produced and how activity is generated, suppressed, displaced and its value realised. The approach taken here has been essentially a Marxist one — a perspective which increasingly seems powerful in this post-communist world (Harvey 1998) — and which is particularly useful in unraveling relationships which are at the same time social, economic and geographical.

Among the outcomes of property-market operations are some of the phenomena of social polarisation - ‘exclusion’ and so on - which are such important urban experiences. Other outcomes include the disparities between core and periphery at various geographic scales, the surges of investment into and out of the built environment and many of the influences acting on architecture.

What I am not trying to argue is that markets in general, or this market in particular, should be targeted as the culprit — as the sole object of attack — by those interested in social inclusion, equality or democracy. The forces acting behind and through the markets are the important objects of study and it is the social relationships there which ultimately prevent social change. But property markets can be the cog wheels through which the system works and better regulation of those markets can have profound effects.

The task, then, is primarily a task of analysis and clarification in which the research community should be unraveling the mechanisms in order to show just what the forces are behind the property markets: who benefits and who is loosing. One valuable result would be to cast light on some of the practical and legal issues in urban planning, design and management - on issues like whether broad or narrow definitions of use classes are to be preferred, what sort of reforms in lease structures would have progressive or regressive effects, how the benefits of transport infrastructure investment can best be captured to finance other services and so on. Not to
mention the issue of how to use the green belt. Unintended consequences of plans and policies abound — like the urban containment example sketched earlier in this chapter — so there is a lot to be done in the analysis of how planning interacts with markets.

The results are not obvious, and some of us as individuals will probably find ourselves in the winning camp on some issues and the loosing camp on others. But the winning camp is, in general, capital. Gone are the days when the ownership of land and property lay with a distinct ‘landed class’. Landed property is now just one the classes of capital assets owned by banks, companies, pensions funds, rich and middle-income households. Ownership of capital is still important and to be a non-owner is still the most basic ‘social exclusion’. Ownership of real estate is a distinctive form of capital ownership.

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