

# 3 Economic competitiveness

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- 3.1 This chapter examines the evidence that the natural environment can enhance the economic competitiveness of a particular region. Economic competitiveness refers to the ability of a particular region to attract businesses and investment, and therefore encourage economic activity.
- 3.2 There are several ways this could occur. On a very local scale, the natural environment in an area may increase employee productivity. Consumers in greener areas may spend more locally. Tourists may be drawn to the area and spend money on accommodation and other activities.
- 3.3 If households or businesses would prefer to be located in greener areas, this is likely to show up in the amounts they pay to purchase or rent in the area. This chapter therefore includes a section on house prices, and also on regional investment (which includes investment in office buildings).

## 3b House prices

House prices are influenced by a wide range of factors. Evidence suggests that the natural environment nearby may be one of these.

### Introduction

- 3.10 People value both proximity to, and views of, the natural environment. For this reason they may be willing to spend more on properties that afford them this benefit, and the evidence for this is reviewed in this section. However, before presenting the evidence it is helpful to position it clearly in economic theory. Whereas an investment in a new technology can increase the efficiency with which goods are produced and therefore increase the size of the economy, property is not a productive asset. This means that property price increases are ***not an economic benefit*** in themselves. Increases in property prices merely transfer wealth from those buying property to those selling it, and can lead to poorer members of society being priced out of neighbourhoods in greener areas. Therefore increasing property prices does not make sense as a goal of economic or social policy.
- 3.11 There are however two reasons why increasing house prices might be good news. Firstly, it might be an ***indicator*** of increasing strength in the local economy (alternatively it might be part of a boom driven by unsustainable credit!) Secondly, if your concern is about the regeneration of a deprived area, rather than economic growth per se, you will be pleased that increasing prices show a relative improvement of your target area, relative to other localities. Improvements in property prices may be welcomed by Local Authorities if they increase the overall tax base, and by developers if they improve the retail price of their units.
- 3.12 This means that rather than a focus on economic IMPACT, property prices are of most interest as an indicator of economic VALUE. The fact that people are willing to pay more for properties with a view of, or close to, a natural environment is important evidence that they value it. This evidence might even have the potential to shed light on which types of natural environment people value most. It is difficult to be entirely sure which of the many benefits of the natural environment are captured by property prices, but it is likely that it is predominantly aesthetic and recreation benefits, as opposed to less obvious things such as flood control. Hence, the focus of much of the literature is on 'greenspaces', which often refer to parks and gardens managed for recreational use.

### Theory of change



### Can the benefit be quantified?

- 3.13 Quasi-experimental attempts to quantify the relationship between property prices and greenspace have been carried out and provide useful evidence, however it is very difficult to control for all the other factors that may impact on house prices. These include general movement in the property market or economy, other regeneration improvements to the area which are often made at the same time, new transport links, et cetera. This makes it difficult to identify whether a change in the quality or quantity of the environment in an area will directly result in a change in property prices. Proximity to greenspace is just one of several issues people take into account when purchasing property, with travel to work and the social make-up of the area a stronger influence (GLA Economics 2003).

## How strong is the evidence?

3.14 Definitive evidence on the link between the natural environment and property prices is difficult to obtain, however the combination of both qualitative and quantitative evidence makes for a strong case. The strongest pieces of evidence come from hedonic pricing studies which look for statistically significant relationships between proximity to greenspace and property prices. In general terms, these provide strong evidence that there is a price premium for houses closer to greenspace and with a higher amount of greenspace nearby.

## Evidence

- A hedonic pricing study conducted for the UK National Ecosystem Assessment found that on average, a one percent increase in the amount of greenspace in a ward was responsible for £2,020 (approximately one per cent) of the value of a house in England (Mourato, Atkinson et al. 2010)<sup>6</sup>.
- A study of house prices in Aberdeen showed that 'relative to a property located 450 metres away from a park, a property located on the edge of a park could potentially attract a premium of between 0.44% and 19%', depending on house and park type (Dunse, White et al. 2007)<sup>7</sup>.
- Similarly, a study of house prices in London found that 'on average a 1 per cent increase in the amount of greenspace in a ward can be associated with a 0.3 to 0.5 per cent increase in average house price (GLA Economics 2003)<sup>8</sup>.
- Interviews with property professionals show they expect higher prices for properties with park views, and near the park, in case studies of 8 significant English park redevelopment projects (CABE Space 2005)<sup>9</sup>.
- Physical and social context is important. Parks can be the focus of anti-social behaviour, and this is often associated with parks being poorly maintained and unsafe places to play. Where this is the case (Dunse, White et al. 2007), or this is perceived to be the case (CABE Space 2005), this will have a negative effect on property values, particularly on those immediately adjacent to the park, which may more than counteract any positive benefits.
- Troy and Grove (2012) find that in Baltimore, USA, there is a positive association between urban parks and property prices when crime rates are low, however in areas where the crime rate is 4 to 5 times higher than average, the association becomes negative (i.e. proximity to parks reduces property value)<sup>10</sup>.
- The sort of views which increase property prices are also quite specific – Garrod and Willis found that marshland and dense forest may reduce property prices (Garrod and Willis 1992). The actual impact will depend on numerous contextual factors including the size and quality of the greenspace, the local property market and economy.

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<sup>6</sup> Due to the large scale of the study, it was unable to control for differences in greenspace quality.

<sup>7</sup> This study is useful because it includes smaller parks and uses Geographic Information systems to consider distance from the park. The large range of premiums for park edge properties is thought by the authors to be due to concern by house-purchasers about negative impacts of anti-social behaviour.

<sup>8</sup> This result was produced by a statistical analysis of London's wards which compared house prices with a number of relevant variables (known as a hedonic pricing method). It concluded that the percentage of strategic greenspace (space bigger than urban parks, private gardens and common spaces) was the 5<sup>th</sup> most important variable after the number of people on income support, travel time to central London, NO<sub>2</sub> average concentrations, and density of properties.

<sup>9</sup> Case studies are Mesnes Park - Merseyside, Queen Square - Bristol, Boston Square Sensory Park - Hunston, Hulme Park - Manchester, Mowbray Park - Sunderland, Mile End Park - London, King George Recreation Ground - Bushey, Lister Park – Bradford.

<sup>10</sup> They also note that there is anecdotal evidence that more expensive neighbourhoods tend to invest more in their parks, so there may be a 'virtuous circle' where better kept parks reduce crime and maintain higher property prices.

- There is case study evidence which suggests that improvement in greenspace acts powerfully to alter the perceptions of an area, which can therefore support property prices and regeneration (CABE Space 2005).
- The development of a community woodland on the former Bold Colliery site in St Helen's is estimated to have directly and uniquely enhanced existing property values in the surrounding area by £15 million (Forestry Commission 2005)<sup>11</sup>.

## References

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<sup>11</sup> This estimate is based on a district valuer's report which values indicator properties at various times and makes judgments as to the appropriate adjustment to allow for property alterations, the development of the M62 link road, new development and accessibility to adjacent localities. It is the view of a property professional, rather than a repeatable experiment (which is not possible for case studies like this). The strongest evidence that something special is going on is that house prices in St Helen's over the period under review grew slower than the national average, but in the vicinity of Bold Colliery they grew faster.