



what works centre for
local economic growth

Briefing

Public Realm

November 2014

Introduction

Public realm interventions are popular with policymakers, politicians and citizens alike. These interventions can be important in their own right, and might improve wellbeing for existing residents through creating more pleasant and functional public spaces, but it is also often claimed that they may have wider benefits for the local economy. However, there is a lack of evidence around the cause and effect of public realm interventions of all types on local economic growth.

This briefing digs deeper into the conventional wisdom that underpins public realm interventions and provides a more complete picture of the likely effects of public realm interventions on the local economy. It draws on available empirical evidence and urban economic theory.

Key reflections

The evidence available suggests a possible chain of events as a result of public realm interventions which go beyond what conventional logic on the impact of public realm often assumes:

1. Public realm interventions may help create more attractive places to live, but this might lead to higher housing costs and displace existing residents.
2. Large-scale public realm interventions may help attract new residents and create mixed communities. But it is unclear that mixed communities deliver significant economic benefits to existing residents.
3. Smaller-scale public realm interventions that aim to modestly improve the wellbeing of existing residents are likely to have fewer undesirable or unintended consequences than large-scale, radical transformations.
4. Public realm improvements in commercial areas might boost overall business activity but will not necessarily increase jobs or firm profits in the long term, and might also displace existing businesses.

Figure 1: Conventional logic: desired impact of public realm intervention

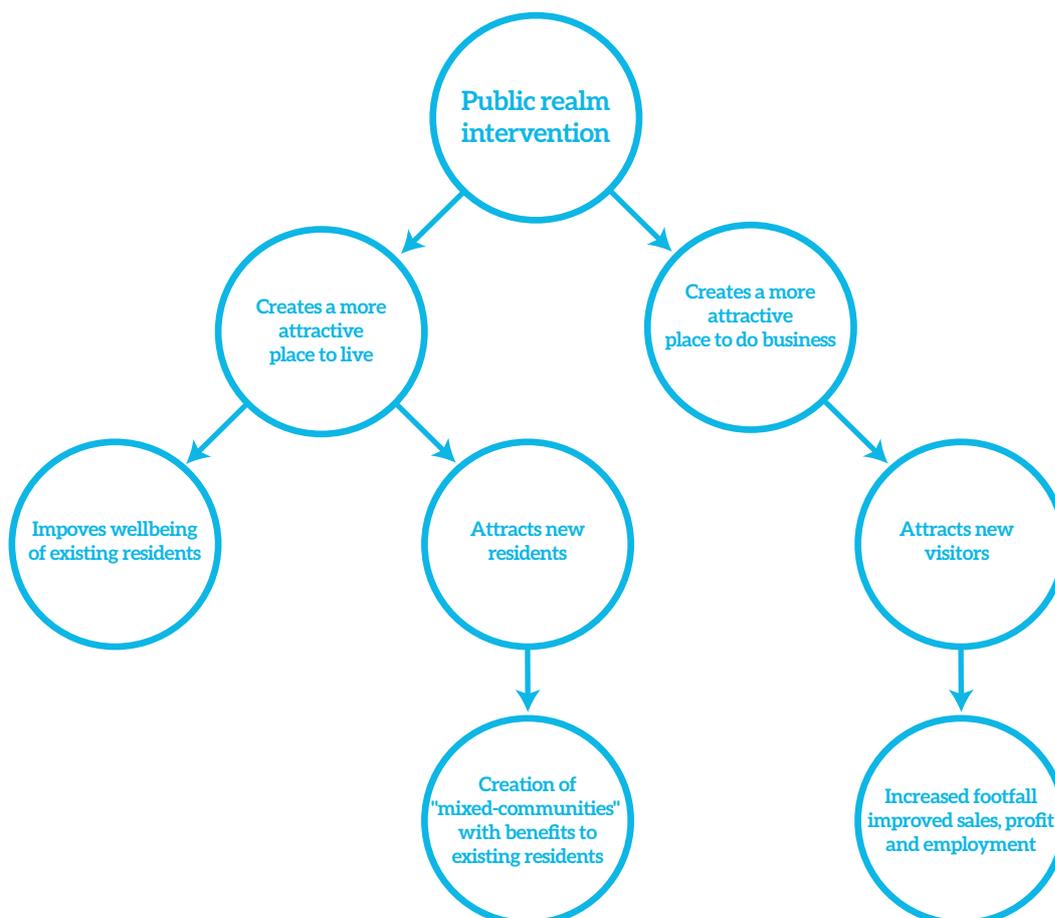
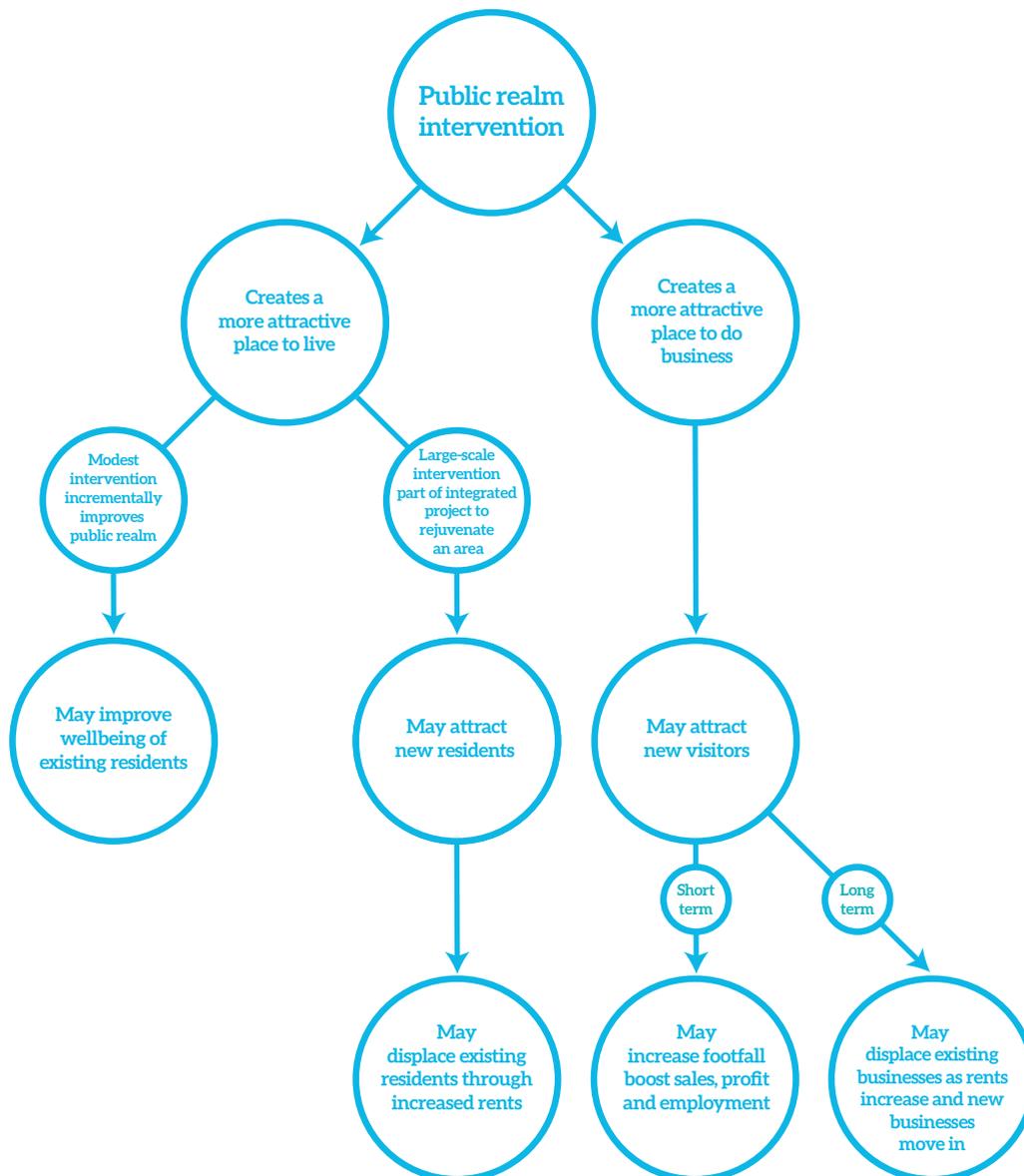


Figure 2: Beyond conventional logic: likely impact of public realm intervention



1. Definition – what is a public realm intervention?

Public realm interventions cover a broad range of activities, from landscaping an existing park or public garden to cleaning up undesired graffiti and street rubbish, or erecting statues and improving pedestrian access to improve a town centre shopping district. Many of these interventions have intrinsic value and non-economic benefits, such as making streets more appealing to walk through, or giving people something pleasant and interesting to look at.

Policy-makers intervene in the public realm either directly by undertaking projects themselves, or indirectly by requiring private sector partners to contribute to public realm improvement when they undertake development. Maintaining and providing parks and public squares, for example, are a core task of local government, while through section 106 requirements in the planning system, local government might require developers to invest in a public space adjacent to a development site. Broadly speaking, **public realm interventions aim to create better places to live, or better places to do business.** Most types of intervention fall into one of two broad categories:

- Small-scale and isolated projects to improve the visual appearance and functionality of a local public space, such as rehabilitating a local park. These are most likely to be undertaken by the public sector alone.
- Larger-scale interventions which form part of integrated projects of redevelopment and regeneration, such as rejuvenating a previously unattractive central square to reflect and support investment into residential development or transport improvements in the area. These are most likely to be undertaken jointly by the public and private sector, as a requirement on the private sector as part of a development deal, or by the private sector alone as a public realm intervention might add value to a residential or commercial development.

2. Conventional wisdom – why do we do public realm interventions?

In undertaking public realm interventions, whether directly or indirectly, policy makers typically hope they will achieve a combination of outcomes through direct and indirect effects.

The direct impact that many policy makers wish to achieve through improvements to the public realm is relatively self-evident: **creating better public space to improve the wellbeing of existing residents**. Policy-makers in local government have a mandate to provide clean, safe and functional public spaces for residents across all neighbourhoods. In more disadvantaged areas, incremental improvements to general wellbeing, such as improving public health or community relations, may have proportionately stronger effects. These direct effects of public realm improvements are important, but they are not the focus of this briefing.

Policy-makers may also wish to see indirect, and often more radical, changes as a result of public realm interventions by **creating better public space that will attract new people to an area**, boosting the local economy or economic outcomes of individual communities and residents. These indirect effects are the focus of this briefing.

Interventions to improve public realm of this type are generally focused on rejuvenating residential or commercial areas:

- If public realm improvements succeed in attracting more visitors to a previously less attractive high street or shopping centre, for example, increased footfall will boost sales and in turn, existing businesses will benefit and new firms might be attracted to the area. This might even boost local jobs as increased economic activity creates demand for employment.
- Meanwhile, the goal of attracting new residents is often driven by beliefs about the benefits of mixed communities and the positive impact that relatively better off and better educated households can have on more disadvantaged groups when living in the same area.

Interventions of this type are typically part of the larger-scale interventions discussed above, and often associated with other types of redevelopment and amenity improvements in the area.

3. The evidence – what do we have and what does it tell us?

Conventional wisdom within much of the policy making community would support the idea that public realm interventions achieve these various aims. The ‘logic chain’ for these interventions is outlined in Figure 1. However, in practice there is little robust evaluation evidence available to support the argument either way. A search for evaluations of the economic impact of public realm improvements yields relatively few results (compared to other topics of inquiry undertaken by the What Works Centre for Local Economic Growth). And where impact evaluations were found, they were not sufficiently robust analyses to support any firm conclusions.¹ The next section provides a brief summary of some of the robust findings available in the wider literature (i.e. beyond impact evaluations) that can help bridge the evidence gap and provide insights into the impact and utility of public realm interventions. **The evidence suggests a possible chain of events as a result of public realm interventions which go beyond what conventional logic on the impact of public realm often assumes.** This alternative logic chain is outlined in Figure 2.

Evidence on the impact of amenity improvements on property values

Despite a lack of evaluations on the impact of public realm interventions, there *is* good evidence on the impact of amenity improvements more generally on local areas. Amenities are a broad term that can include transport, schools and environmental factors, to name but a few. Public realm improvements, such as the landscaping of a park, could be included in this but are difficult to isolate, because, as explained above, public realm improvements often occur as part of a broader project of redevelopment or regeneration.

A substantial body of empirical evidence suggests a positive relationship between amenity improvements and property prices. As a result of competition in housing markets, neighbourhoods with lots of good amenities will be more expensive, both in terms of house prices and rents. This has been demonstrated in the case of the Jubilee Line extension in London, where better access to the new line resulted in higher house prices.² Other studies³ have also shown causal links between better air quality and an increase in property prices;⁴ reduced property value as a result of crime⁵; and the presence of good schools increasing house prices.⁶ This evidence can be used, cautiously, as a proxy for the likely effects of certain types of public realm improvements – especially those on the larger scale. In short, **if public realm improvements help create more attractive places to live, the available evidence suggest that this is likely to lead to higher housing costs.**

Evidence on the benefits of mixed communities

If public realm improvements create more attractive places to live, it is possible that this will attract new higher income residents and create mixed communities. It is often argued that such mixed-income communities serve the interests of the relatively worse off in that community, through various effects such as social networks.⁷

There is insufficient evidence to suggest that public realm improvements alone attract new households to an area. However, larger-scale integrated regeneration projects that include new housing, schools and a

1. By ‘robust’ we mean using methods that score a level ‘3’ or higher on the Maryland Scientific Methods Scale (SMS). For instance, a 2012 study by Faye and Le Fur finds that as long as the public realm interventions limit traffic and increase tourism, housing prices will go up. However, this study uses a hedonic method without an attempt to construct a control group, and for this reason, falls below our standards of evidence for systematic reviews. See our web page for more explanation of the way in which we score evaluations and conduct our reviews.

2. Gibbons, S. & Machin, S. (2005). Valuing Rail Access Using Transport Innovations, *Journal of Urban Economics*, 57: 148-169

3. Using robust empirical methods (SMS3+) outlined in footnote above.

4. Chay, K. & Greenstone, M. (2005). Does Air Quality Matter? Evidence from the Housing Market. *Journal of Political Economy*, 376-42.

5. Linden, L. & Rockoff, J. (2008). Estimates of the Impact of Crime Risk on Property Values from Megan's Laws. *American Economic Review*, 1103-1127.

6. Black, S. (1998). Do Better Schools Matter? Parental Valuation of Elementary Education. *Quarterly Journal of Economics*, 577-599.

7. Buck, N. (2001). Neighbourhood Effects and Social Capital Formation. ISER Working Papers.

public realm component often do attract new families to previously less attractive areas, and the widely held view is that this will improve the outcomes of existing (and implied, poorer) residents.

However, with some exceptions⁸, most studies that try to identify the *causal* impact of mixed communities on economic indicators find limited effects. Studies have looked at the impact on poor families of moving to wealthier areas and shown that children and adults did not perform better educationally or economically than peers who did not move.⁹ Other studies have analysed households assigned to live in areas of high-density housing (generally associated with higher levels of crime) and low-density housing and found no significant difference on outcomes.¹⁰ Interestingly however, it has been shown that poor families who move into wealthier areas experience positive mental health effects.¹¹ In short, **it is unclear that mixed communities deliver significant economic benefits to poorer residents.**

Evidence on the impact of business-focused amenity improvements

There is also good evidence that the impact on property prices discussed above also applies in commercial areas. For instance, studies have shown that commercial property values tend to be higher in Enterprise Zones, suggesting that the advantages of these zones (lower business tax, better infrastructure, etc.) are offset in part through higher prices.¹² Similarly in Business Improvement Districts, where businesses pay a levy for local improvements, property prices are seen to go up.¹³ This evidence points to the likely positive impact that a public realm improvement may have on commercial rents, if the intervention is transformative, or successful, enough to make a business environment more attractive to new and existing businesses, that would justify higher costs. In short, **if public realm improvements help create more attractive places, the available evidence suggest that this is likely to lead to higher commercial rents.**

4. Implications for public realm interventions

- **Public realm interventions may help create more attractive places to live and might lead to increased property values, but this may displace existing residents through higher housing costs.**

The evidence on the impact of amenity improvements on house prices suggests that a public realm improvement which succeeds in making a place more attractive might result in higher house prices. This may represent a positive outcome if the objective of the public realm intervention was to boost the economy of an area, and it would benefit existing home owners as the value of their property increased. But it might also have negative effects, such as the displacement of existing residents: households in the private rented sector would be likely to see rents rise, and would effectively be paying for local public realm improvements through higher housing costs. Low-income households in these areas might no longer be able to afford their rent and might be displaced. This effect would be less direct in areas with a high proportion of households in social housing, or paying social rents, as prices would not reflect local property market conditions as closely.

8. There are some exceptions to the general trend of lack of support for neighbourhood effects. A randomized control study published in 2014 by Damm and Dustmann shows that asylum-seekers that were randomly assigned to more crime-ridden areas were more likely to commit crimes themselves. But it is, unlikely that refugees are representative of the overall population.

9. Ludwig, J., Duncan, G., Gennetian, L., Katz, L., Kessler, R., Kling, J., Sanbonmatsu, L. (2013). Long-Term Effects on Low-Income Families: Evidence from Moving to Opportunity. *American Economic Review*, 226-231.

10. Oreopolous, P. (2003). The Long Run Consequences of Living in a Poor Neighborhood. *Quarterly Journal of Economics*, 1533-1575.

11. Ludwig, J., Duncan, G., Gennetian, L., Katz, L., Kessler, R., Kling, J., Sanbonmatsu, L. (2013). Long-Term Effects on Low-Income Families: Evidence from Moving to Opportunity. *American Economic Review*, 226-231.

12. Landers, J. (2006). Why Don't Enterprise Zones Work? Estimates of the Extent that EZ Benefits Are Capitalized into Property Prices. *The Journal of Regional Analysis and Policy*, 15-30.

13. Ellen, I., Schwartz, A., Voicu, I. (2007). The Impact of Business Improvement Districts on Property Values: Evidence from New York City. *Brookings-Wharton Papers on Urban Affairs*, 1-31.

- **Large-scale public realm interventions may help attract new residents and create mixed communities. But it is unclear that mixed communities deliver significant economic benefits to existing residents.**

If public realm interventions do attract new residents (something that has not been widely studied in the impact evaluation literature) the findings on mixed communities suggest that outcomes for low-income households may not be substantially improved by being in the same neighbourhood as wealthier households. They may even be negatively affected by the change in amenity mix, or variety of shops and restaurants in the area, if the tastes of the new wealthier residents displace old shops that were valued by the original residents¹⁴. These effects can be reinforcing, since neighbourhood composition is itself an amenity - a mixed community will be more attractive to higher income households than a deprived neighbourhood. This is likely to lead to further gentrification, cost of living increases and displacement.

It is worth noting that the studies on neighbourhood effects tend to focus on the impact of poorer families moving into wealthy neighbourhoods rather than the effect of wealthier families moving into poor neighbourhoods, and it can be argued that these represent entirely distinct phenomena. That said, it is important for practitioners to realise that the evidence on the *causal* effect of neighbourhood mixing is limited and the findings are much more mixed than conventional wisdom suggests

- **Smaller-scale public realm interventions that aim to modestly improve the wellbeing of existing residents, are likely to have fewer undesirable or unintended consequences than large-scale radical transformations.**

The potential house cost increase and displacement effects described above depend on the ability of public realm improvements to significantly alter the attractiveness of an area. Clearly, large-scale projects are more likely to achieve these effects than small-scale projects. In this case, public realm interventions may improve the liveability of the area for its existing residents, without causing property prices to rise, or displacing any of them through increased rents. For existing residents, this is arguably a good outcome. And depending on the context, such 'small scale projects' may still deliver important amenity improvements. For example, evidence on the impact of hazardous waste clean-up suggests little or no impact on economic indicators for individuals but do not appear to be significant enough to attract new residents and visitors to the areas either. Unfortunately, the threshold at which these housing costs and displacement effects occur are likely to be highly context specific and it is difficult to determine the optimal scale of an intervention beyond which a public realm intervention would or would not result in the unintended consequences discussed.

- **Public realm improvements in commercial areas might boost overall business activity but will not necessarily increase jobs or firm profits in the long term, and could also displace existing businesses.**

The evidence shows that interventions that provide better amenities to existing businesses should result in increased commercial property values. This suggests that a public realm intervention might do the same if sufficiently large effects were observed as a result of the intervention. Existing businesses that see sales or business increase as a result of public improvements might see increased profits in the short-term, but over time their rents will also increase to reflect local economic conditions. So while the conventional logic model suggests a public realm improvement might boost the economy through increased demand for employees, if rents stabilised over time to respond to the change, businesses might not take on extra employees, at least in the longer term once rents have adjusted.

14. For further reading on residential sorting, see chapter 3, 'Residential Segregation and People Sorting Within Cities' in Cheshire, P., Nathan, M., Overman, H. (2014). *Urban Economics and Urban Policy*.

Of course, public realm improvements that are sufficient to improve the quality of a business district, increase footfall and rejuvenate an area might be desirable regardless of whether existing businesses benefit. As with public realm interventions in residential areas, policy-makers should be aware of the possible displacement effects to existing businesses if the intervention was such to radically improve the attractiveness of an area and caused business property prices to rise as a result. More broadly, the key question remains the extent to which public realm improvements can change the commercial attractiveness of an area.

Conclusion

Public realm interventions are important public goods. But the local *economic* impacts of these policies are poorly understood and may differ considerably to that suggested by conventional wisdom.

While robust evaluation evidence on the impact of public realm interventions on the local economy is lacking, economic theory, together with widely available evidence on the effects of amenity improvements, provides useful evidence that challenges some of the conventional wisdom. While the widely held logic is that public realm interventions should improve both the wellbeing of existing residents and make places more attractive to live in or do business, the chain of events identified by the analysis in this paper suggests other possibilities:

- Public realm interventions of a scale and impact sufficient to radically alter the attractiveness of an area might attract new residents and improve business conditions, eventually leading to higher property prices (whether this is considered a positive or negative impact will depend on the underlying rationale for undertaking the public realm improvement).
- But interventions that succeed in boosting the market and rising prices will in turn likely displace existing residents and businesses.
- Smaller scale interventions that have intrinsic value, but little economic impact, and aim primarily to improve the wellbeing of existing residents are likely to have the least unintended consequences

More rigorous evaluation evidence is needed to show how these policies play out in practice. How do public realm improvements affect residential and commercial rents? To what extent do improvements attract new residents and what are the economic impacts on existing residents? What are the impacts on the commercial attractiveness of an area and how do the effects differ across new entrants and existing businesses. Conventional wisdom currently assumes the answers to many of these questions. However, available evidence challenges many of these assumptions. Better evaluation is needed to help resolve these differences and to better inform future policy making in this area.

A note on this series of policy briefings

For a number of policies, the evidence reviews carried out by the What Works Centre for Local Economic Growth find little robust evaluation evidence. Despite this lack of evaluation evidence, these policies are often popular with practitioners and policymakers. The purpose of this series of policy briefings is to analyse the likely effects of these interventions, focusing on the local *economic* impacts and drawing on economic theory and the available empirical evidence, as well as any existing survey material.* In particular, when it is important to do so we focus on challenging some of the ‘conventional wisdom’ on the economic effects of these policies. Our aim in doing so is *not* to provide the final word on the economic effects of such policies, but instead to make the case for the importance of better evaluation in helping understand their local economic impact.

*For introductory reading on urban economic theory, see: Brueckner, J. (2011). Lectures on Urban Economics. MIT Press.

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