

**UK COMMERCIAL PROPERTY MARKETS IN THE CONTEXT OF
THATCHERISM: 1979 - 1990**

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THESES

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UK COMMERCIAL PROPERTY MARKETS IN THE CONTEXT OF THATCHERISM: 1979 - 1990

This work investigates the UK commercial property markets in terms of their response to the macroeconomic and supply side policies of the Thatcher Government. The work is structured around three elements: Thatcherism, the macroeconomy and the commercial property markets. These three elements form the basis for a three stage assessment of the economy and commercial property markets from 1979 - 1990.

The first stage comprises an assessment of Thatcherism. The discussion establishes the origins of Thatcherism, the main tenets of the ideology of Thatcherism and the policies which were implemented. This allows an informed discussion of the political strategy from which the policies implemented by this government arose. This forms the foundation for the investigation which follows.

The discussion of Thatcherism leads into the second stage of the assessment, an investigation of the impact of the political strategy of Thatcherism on the macroeconomy. A framework drawing on long term and short term cyclical patterns within the UK economy is established. Economic time series data is then used to establish the major changes in the macroeconomy over this period. These are analysed in the light of the preceding discussion of policy.

The third stage within this work is a two - fold study of the commercial property markets. The impact on the commercial property markets of changes in the macroeconomy brought about by the Thatcher Government's economic policies is explored. This leads to an investigation of the impact on the commercial property markets of the Thatcher Government's supply side policies.

Conclusions are drawn in two areas, changes within the performance and structure of the commercial property markets arising from

i) the Thatcher Government's policy response to long term economic change and

ii) the Thatcher Government's policies aiming to create short term economic change.

This culminates in an increase in the understanding of the impact of government policy on commercial property markets and of the impact of changes in the performance of the commercial property markets in the rest of the economy.

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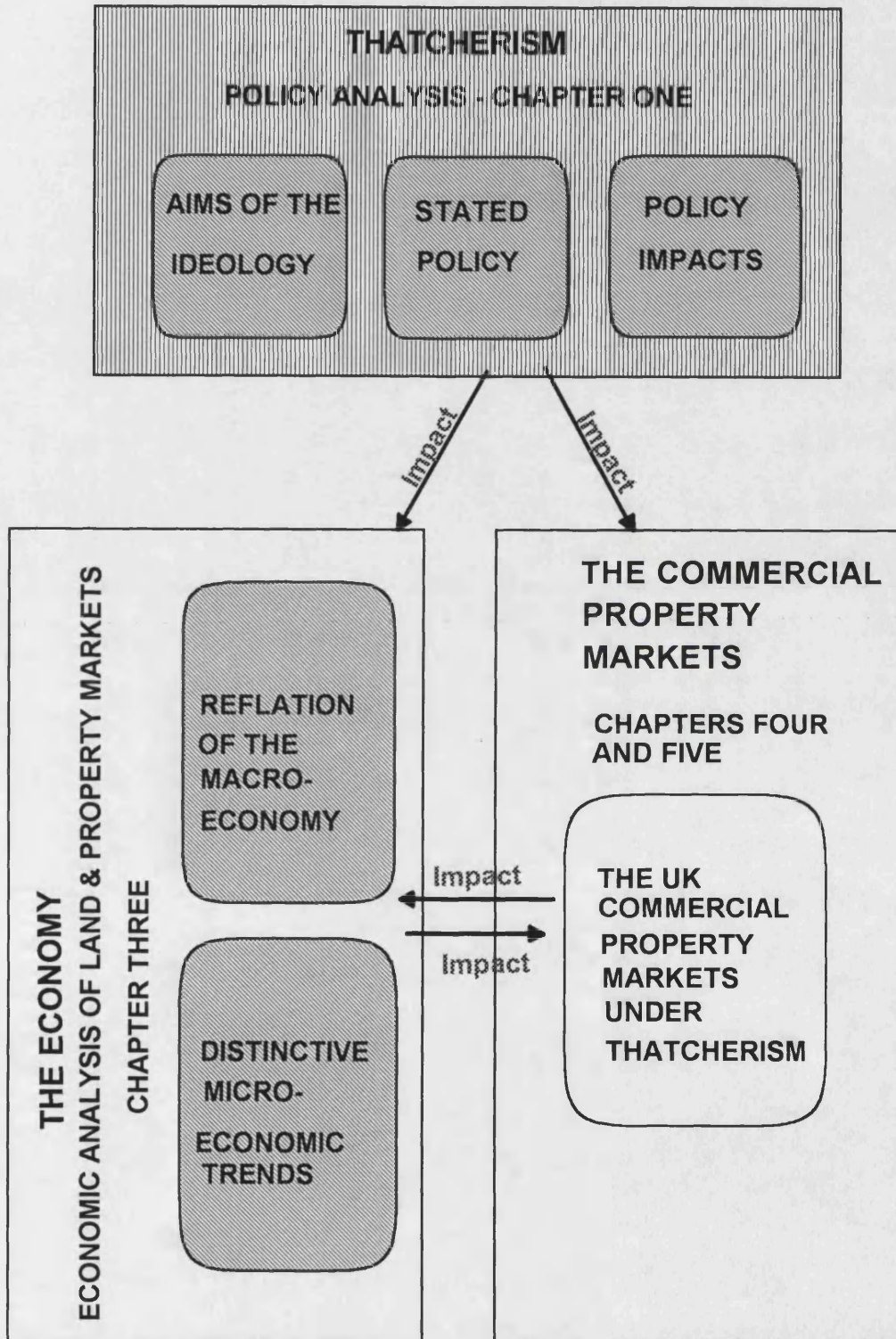
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THESIS STRUCTURE



CHAPTER ONE

THATCHERISM - IDEOLOGY, POLITICS AND POLICIES

The Thatcher Government is associated with an elevation of the importance of land and buildings (property) as a component of the nation's wealth. This shift in the role of property affected both the residential and domestic property sectors and continues to be acknowledged in the formation and implementation of economic policy some five years after Thatcher's term of office ended. That having been said, there has been no investigation of the process through which this increase in the importance of property manifested itself. There is no study of how the policies of the Thatcher Government brought about this change in the role of property.

This work focuses on the commercial property markets and is concerned with this association between the policies of the Thatcher Government and movements within the property markets. An exploration of the ideology behind what has come to be termed Thatcherism leads to a discussion of the macroeconomic and supply side policies which were actually implemented between 1979 and 1990. This provides the background from which an analysis is made of the impact these policies had on the commercial property markets.

The analysis of Thatcherism within this work is made in three stages. Initially an investigation is made of what the originators of Thatcherism said Thatcherism was about. The ideology behind Thatcherism is explored along with the changing climate of opinion through which its popular appeal developed, and the objectives of Thatcherism as a governing force are identified.

The second stage of the analysis concentrates more specifically on the detail of stated policy, moving from a consideration of the ideology of Thatcherism to a consideration of Thatcherism as a political strategy. This provides an ordered and critical review of the literature of Thatcherism which, whilst

establishing the main economic policy instruments of this period of Government, allows contradictions between the political strategy and the ideology to be identified. These first two elements of this three stage analysis are contained within Chapter One of this work.

The analysis of the impact of Thatcherism is undertaken throughout the remainder of the work. Chapter Two draws on the literature relating to property and investment cycles and explores the longer term cyclical trends which have affected industrialised economies over the post-war period. This provides a methodological foundation for the analysis of the impact of policies on the commercial property markets through the interpretation of time series data in Chapters Three and Four. Through this investigation of the UK commercial property markets within the context of Thatcherism as a political ideology, political strategy and range of policies, a greater appreciation of the way in which the commercial property markets respond to changes within the wider economy can be established. The diagram on page 8 provides a schematic representation of this structure.

i) The development of Thatcherism as an ideology

Establishing an approach

The complexity of Thatcherism makes it necessary to identify a single, consistent approach to the subject which is appropriate to the work in hand. In their assessment of Thatcherism Jessop et al. (1988) suggest six different approaches for a study of Thatcherism. These are used here to establish an approach which will facilitate a clear and focused discussion. The six approaches are outlined below.

1. Ignore Thatcherism.

Adopting this approach would make it possible to study specific themes, political acts or decisions made over this period of Conservative Government independent of the rhetoric of the party at that time. As Jessop et al. (1988) comment, this may be a very useful exercise in providing a contrast to those studies of the political acts and decisions of that time within the context,

specifically, of the party leadership and its influences. Such an exercise may highlight the impact, or lack of it, that her leadership had and expose deep contradictions within the perceived ideology of Thatcherism. Whilst such an approach would provide a thorough analysis of the legislation of the time it would not provide the necessary discussion of the impact of the ideology and political strategy that comprised Thatcherism.

2. Make a study of uses of the word itself.

This may provide an insight into the different responses brought about by the different interpretations of the concept of Thatcherism. For instance East European countries see Thatcherism very differently from the way the British trades unions see it and from the way the British political parties see it. Such a study in itself would be enormously interesting but would not contribute to the analysis of the policy of the Thatcher Government which is so central to this work.

3. Study the personal qualities of Thatcher.

This assumes that she is a very special person and that Thatcherism is about her personality rather than her government and derives from her ideas of morality, her personal beliefs and political philosophy, her personal ideology. The lack of self-consciousness and distance with which Thatcher discusses Thatcherism belies this interpretation. She may well have given her name to it but it is more than a personal philosophy and to limit a study of it to a study of the personality of the woman, although fascinating, would be inappropriate within the context of this work. As Holmes (1989) states so categorically "It is as facile to argue that Thatcherism is what Mrs Thatcher does as it is to argue the socialism is what a Labour Government does". (Holmes, 1989:9)

This is not to suggest that Thatcher herself is irrelevant to a discussion of Thatcherism as a concept. As a strong and confident leader of the Conservative party and the government, the impact of her personality on the

emergence of the political ideology behind Thatcherism and the objectives and actions of her government require consideration and are addressed.

4. A consideration of Thatcherism as a style of political leadership.

This is obviously related to the third idea but goes slightly further in that it embraces the idea that Thatcher's brand of politics is intrinsically linked with her personality and that her personality has a direct impact on the politics of the period. It is clear that one can identify phrases and descriptions which are repeatedly applied to her; 'conviction politics', 'governess style', 'overbearing manner' etc. To study Thatcherism at this level alone would be to reduce it simply to a discussion of personality issues. In order to look at the effects and consequences of Thatcherism itself an approach with greater political depth is required.

5. Study Thatcherism as the Conservative party under her leadership.

There are certain common elements to the policies of the party under Thatcher's leadership which are often referred to. Stated aims such as reduction of the public sector borrowing requirement and removing restrictions within the labour market are two examples. If however, one defines Thatcherism as the Conservative Party under her leadership one has to be convinced that this period of Conservative government is distinct in terms of its policies from any preceding period of Conservative government, that the policies were consistent and evolved in a progressive manner forming no distinct changes within the framework of policy from 1979 until the end of her period of office.

The following of a continuous and coherent set of structured policies based upon an identifiable political ideology may or may not have been the original intention but it was not the reality. Not only did policies change they frequently contradicted stated policy objectives and the political ideology behind these objectives. A less rigid definition of Thatcherism is required if a

thorough exploration of the ideology, the political strategy and the impacts of the policies is to be achieved.

6. Look at the strategy which emerged over the years of her leadership and was followed by her and her political allies.

By identifying the existence of a strategy this approach makes it possible to explore: the ideology upon which the strategy was based, the strategy itself and policy objectives and effects which may deviate from or conform to both the ideology and the strategy. This approach has been adopted in this instance as a framework for the analysis of Thatcherism as it pertains to the commercial property markets during the 1979 -1990 period. The approach does not assume that a single strategy was formed and then followed. The idea that certain policy objectives were identified prior to the 1979 election and a strategy was formed as a means of achieving these objectives can be developed. However, the approach avoids the rigidity of analysing Thatcherism as a cohesive and identifiable set of policies and objectives. It allows the exploration of inconsistencies between the ideology, the political strategy, the policies which were actually implemented and the impacts of those policies.

Having established an approach to Thatcherism which is appropriate to the objectives of this work, the following section begins the analysis by exploring the ideology of Thatcherism. This forms the first stage in the three stage analysis of Thatcherism contained within this work as identified in the introduction above.

The formation of the ideology of Thatcherism

The climate of opinion within the Conservative Party changed in the mid 1970's as a re-evaluation of existing policy assumptions began. Keith Joseph's famous speech at Preston in which he attacked the so called 'middle ground' which the Conservative Party occupied, particularly on economic policies, introduced the idea of monetarism as an antidote to the

decline of the UK economy. The response to this speech was mixed, particularly as it indicated a major difference of opinion between senior figures of the Conservative Party regarding fundamental policy objectives shortly before the Labour Party was expected to call a general election. However, Joseph's speech marked his personal break from the traditional policies of the Conservative party and the post war consensus. It also had the important effect of forcing a re-evaluation of existing policies and policy objectives through the ensuing debate. Margaret Thatcher has frequently discussed how impressed she was by Joseph's frank reappraisal of his own political standpoint:

"Keith Joseph made a remark which reverberated powerfully in my mind. 'I have only recently become a Conservative,' he said,... I had always been an instinctive Conservative, but I had failed to develop these instincts either into a coherent framework of ideas or into a set of practical policies for government." (Thatcher, 1993:14).

Both Joseph and Thatcher were important political actors within the process of developing an ideology from which a new political strategy would emerge. Joseph established the Centre for Policy Studies (CPS) in 1974 with Thatcher as its president. Unsurprisingly the work of this body can be identified in policies implemented under her leadership. Other groups involved in the formation of policy ideas and objectives from the mid 1970's onwards included: the Institute for Economic Affairs; Adam Smith Institute; Aims of Industry and Institute of Directors.

These groups were impressed by ideas emanating from the USA such as the encouragement of free enterprise, small businesses and free market policies in welfare and education. F. A. Hayek was Chairman of the Board of the Adam Smith Institute (ASI). His ideas were popularised by the ASI and other groups and permeate the arguments for major policy changes made by Thatcher and Joseph. Ideas attributable to Hayek which recur as themes within the ideology of Thatcherism include: the dangers and economic inefficiencies of centralised economic planning by government; that granting

too many discretionary powers leads to a reduction in group and individual liberties, weakening of the role of Parliament and undermining of the 'Rule of Law'; and the virtue of the market in the efficient encouragement and use of entrepreneurial talents and skills. Hayek saw the role of the markets as fundamental within an economy. This idea of the prime importance of markets particularly as the most efficient system of resource allocation is a strong feature of the ideology of Thatcherism.

Another major influence on what was to become the ideology of Thatcherism was Milton Friedman who was a supporter of and spokesman for monetarism (Kavanagh, 1987). He emphasised the importance of the supply of money in causing inflation. Other important themes within his ideas also became familiar: the inefficiencies of government; the benefits of lower taxation; the need to deregulate and denationalise industries and services; the idea that markets disperse power where politics concentrate it and the abolition of protective legislation such as rent controls, minimum wages and regional and industrial subsidies all of which restrict the operation of the market as a regulator of the allocation of resources. Friedman saw freedom for the individual as the freedom to make choices without coercion. Thatcher reflects this notion in what she saw as the role of government;

"It was the job of government to establish a framework of stability - whether constitutional stability, the rule of law or the economic stability provided by sound money - within which individual families and businesses were free to pursue their own dreams and ambitions." (Thatcher, 1993:14).

The ideology of Thatcherism emerged from these bodies of new right thinking and reflected many of their ideas. Sullivan (1989) describes the ideology developed by Thatcher and Joseph as favouring industrial self reliance and thrift and aiming for welfare provision not to burden the private sector. Thatcherism sought to provide the economic circumstances within which private enterprise could flourish and saw the private sector as the

fundamental element within this process. The dominant themes that can be identified within the ideology of Thatcherism became:

- ◆ the promotion of an individual's freedom and responsibility through the promotion of their economic freedom;
- ◆ the promotion of economic and social development as a product of this;
- ◆ the reduction of the role of government within the life of the individual embodied in the desire to 'roll back the state';
- ◆ the promotion of the entrepreneurial talents of the British public;
- ◆ the promotion of the role of the market as the most efficient system of resource allocation;
- ◆ the upholding of law and order and,
- ◆ the importance of the family.

In order for the tenets of this ideology to be put into effect its exponents had to garner the support of both the Conservative Party and the electorate. This process of popularising the ideas was undertaken by Joseph and his supporters. They were helped in their task by Labour winning both general elections in 1974. If Joseph's speech at Preston crystallised a desire for change within some sections of the Conservative Party, losing the second 1974 general election reinforced the validity of this exercise within the remainder of the party (Kavanagh, 1987) making them much more receptive to new ideas.

The popularising of the ideology of Thatcherism

Jessop et al. (1988) in their assessment of the rise of Thatcherism, refer to the importance within its formation, of the recent (at the time) failures of both Enoch Powell and Edward Heath in their separate attempts to provide an alternative to the post war consensus. Having been the main voice for the neo-liberal element of the Conservative Party in the 1960's, Powell had promoted individualism and the virtues of the free market and competition as such an alternative (Kavanagh, 1987). His racism and 'little Englandist'

attitude had, however, failed to win him popular support. Elements of the arguments being made by Powell could nonetheless later be identified, albeit perhaps in more developed form, in Joseph's speeches.

The ideas being expressed by Joseph were not new but had been detached from the unpopular racist sentiments attached to Powell. The alternative to the post war consensus attempted by Heath had comprised a combination of Keynesian demand management and elements of monetarism. Heath had been forced to back away from monetarist policy once the effects on employment became clear. His policies had not formed any substantial alternative to the post war settlement and gave way to a new Labour government.

These events signalled clearly to the Conservative Party and to the research and policy groups that the Keynesian demand management policies and Fordist principles common to the post war consensus were no longer appropriate to the UK economy or convincing to the electorate. Changes in the domestic and international economies demanded a new political strategy such as that which was germinating within the research and policy groups of the new right.

These events also signalled to the Conservative Party the requirement for a new leader. According to Kavanagh (1987) many senior Conservative politicians of the time who may have been a more obvious choice than Thatcher for party leader did not stand against Heath either out of loyalty to him or out of a feeling of responsibility for their involvement with the policies of the last Conservative Government. Joseph's decision not to stand against Heath made Thatcher consider standing and his support for her in the contest was a major contribution to her becoming leader.

This drive for change within the Conservative party reflected a desire for change which was developing within the electorate. Jessop et al. (1988)

make reference to a climate of discontent amongst the electorate displayed through the setting up of various groups particularly in the 1970's. Groups emerged which were concerned with the moral issues of the day such as the National Viewers and Listeners Association, or with the difficulties suffered by businessmen under existing government policies such as the National Federation of the Self Employed, the Independent Business Persons Association. Some groups had a more radical flavour such as the National Association of Freedom. These groups were a manifestation of the 'mood' of the period, as referred to by Kavanagh (1987) which it was essential for Thatcherism to respond to. They illustrate a discontent with the political and economic situation as it existed.

The issues these groups focused on are reflected in the overriding themes of Thatcherism such as the concern with the freedom of the individual, law and order, the promotion of the entrepreneurial spirit of the British people and the importance of the family. The first two of these themes contradict each other in many ways but they were concerns of the electorate and were therefore pertinent to the 'rise of Thatcherism as a social movement' described by Jessop et al. (1988).

The concerns of the electorate were captured by some of the policies of Thatcherism where they had not been acknowledged by Heath or the existing Labour government. Thatcherism began to form into a movement which could capitalise on much of the support these groups had. Leys (1989) in his discussion of Thatcher's strategy refers to the importance of its populist appeal. A link is identifiable between the groups emanating from this dissatisfaction within the electorate in the late 1960's and 1970's, the 'rise of Thatcherism as a social movement', as described by Jessop et al., the new right policy groups and a political strategy which seemed to be offering an alternative to the post war consensus and acknowledging the issues troubling the electorate. The policies which were ultimately implemented were in no way unique to Thatcher's period of leadership but they were successful in

catching the mood of the period, as described by Kavanagh (1987) and offering an alternative to the post war consensus which was couched in accessible language and responded to the desire for change.

The subject of the post war consensus, whether or not it existed and whether or not the Thatcher Government made a distinct break from it is far too large to be addressed fully here. Jessop et al. (1988) feel that a complete break was not made and that patterns can be identified post 1979 which were relevant pre 1979. In contrast to this Vane (1992) uses the phrase "a radical change in both economic and political philosophy" (Vane, 1992:28) to describe what happened after the 1979 election. It seems fair to say, however, that Thatcher abandoned certain ideas and objectives which played a dominant role within the governing of the UK during the post war period and that enough of a change, whether radical or not, can be identified to allow a consideration of government objectives post 1979 independent of a full discussion of the arguments surrounding the existence of a post war consensus.

ii) The development of Thatcherism as a political strategy

Opportunity for change

Kavanagh (1987) in his discussion of the contribution made by Thatcherism to change within British politics makes the following point:

"Radical governments depend in large measure on opportunities - for example an inept opposition or a crisis - and have to catch a mood. In due course they will suffer from the mood of 'time for change' either to consolidate or review policies or from the rise of new issues." (Kavanagh, 1987:318)

Any radical change attributed to Thatcherism has to acknowledge the importance of the opportunity that was embodied within the crisis of the winter of discontent and other events leading up to the 1979 election. Crucial to the establishment of electoral support for the 'radical' policies of the Conservative Party were:

- ◆ The failure of the 'social contract' to control wages inflation, which in 1975 reached 26.9% over only 11 months;
- ◆ the inflation rate seeming out of control throughout large periods of the 1974-79 Labour government and being accompanied by rising unemployment;
- ◆ the apparent inability of Keynesian demand management policies to control either inflation or unemployment any longer;
- ◆ a world wide recession which had been in effect since the 1973-74 oil crisis;
- ◆ the IMF dictating specific economic policies to the government in 1976 and these being policies of monetary and spending control;
- ◆ the much publicised and emotive issue of the 'Winter of Discontent'.

At the time of the 1979 General Election the electorate was thus concerned with: the power of the unions, the Labour Party's reputation as the Party that could negotiate with and control the unions now lying in tatters; unemployment (ironically given what was to follow) and inflation.

The discussion so far has considered what Thatcherism was said to be about by its supporters. The following section of this chapter looks at the policies which were implemented by the Thatcher Government in response to the problems identified above. The discussion is concerned with the political strategy which was implemented under Thatcherism and the conflicts between policy and ideology.

The policies which embodied the political strategy of the Thatcher Government

The Conservative election manifesto of 1979 gives the following five headings to its proposals;

1. The control of inflation and trade union power.
2. The restoration of incentives.
3. Upholding Parliament and the Rule of Law.

4. Supporting family life by a more efficient provision of Welfare services.
5. Strengthening defence

The 1987 Election Manifesto also refers to the control of inflation, reduction in taxation, encouragement of home ownership and deregulation. Clearly certain objectives consistent with the ideology of Thatcherism remained common to the political strategy and stated policy objectives of the Thatcher Government throughout this period. However, in spite of this apparent consistency in policy, contradictions can be identified between the economic policies imposed in the first year of the Thatcher administration and the stated objectives of her government.

In the period immediately following the 1979 general election Thatcher's position in the Cabinet was relatively weak (Jessop et al., 1988). There was an identified need to reward sections of the electorate for their support and this led to contradictions between the ideology of Thatcherism and the policies which were implemented in these early stages of the Thatcher Government. The commitment to reduce inflation was undermined by the pay settlements which were made, particularly the public sector pay settlements which took account of recommendations made by the Clegg Commission on Pay and Comparability that pay reviews be in line with inflation. It was undermined further by the reduction in direct taxation both through the reduction of the basic and marginal income tax rates and the increase of the tax threshold by more than inflation. These policies stem from the requirement to reward the support of the electorate, as identified earlier, and to honour commitments made during the election campaign. The additional impact on inflation of the increase in VAT which represented the transfer from direct to indirect taxation can be differentiated as a 'one off' effect as, in Thatcher words;

"This would be a once and for all addition to prices (and so it would not be 'inflationary' in the correct sense of the term which means a continuing rise in prices)."
(Thatcher, 1993:43)

By the end of 1980 Thatcher had consolidated her support in Cabinet giving her much greater freedom to implement policies more in line with the themes of the ideology that had been developed. Jessop et al. label this period of government as "the period when Thatcherism was consolidated" (p.59).

In his discussion of Thatcherism, Vane (1992) outlines three major changes which were made in the conduct of economic policy at this time:

- i) The change in emphasis from the maintenance of high and stable levels of employment to the control of inflation and the freeing up of the labour markets to work more 'efficiently' through trade union reform and providing help for the unemployed.
- ii) macro-economic policy was to be used to control inflation, the idea that inflation could be controlled by controlling the money supply was wholeheartedly adopted;
- iii) the 'supply side strategy' was adopted as the government's method of stimulating economic growth. The objective behind this was that the government should strive to provide the right economic conditions and the right stimuli for growth but the market through private enterprise should provide the breeding ground for that economic growth.

The change in policy emphasis, abandoning the prime objective of full employment in favour of control of inflation, reflects quite directly Joseph's speech at Preston in 1974 and many of his subsequent publications (e.g. 'Monetarism is not Enough' CPS, 1977). The control of inflation became a theme and objective of Conservative Party policy from 1979 onwards and remains a stated objective today. It was implemented initially through the Medium Term Financial Strategy (MTFS) introduced in the 1980 Budget by Geoffrey Howe as Chancellor of the Exchequer. This established more firmly the government's commitment to the ideology of Thatcherism and to the implementation of the political strategy which had been developed and of which the MTFS formed part. It was through the policies and targets

contained within the political strategy that the Thatcher administration proposed to bring about a new period of growth within the UK economy.

Following the introduction of the MTFFS and the re-emphasis in 1981 of the objectives it contained the consolidation of Thatcher's power within the cabinet became crucial to the avoidance of a 'u' turn similar to that made by the Heath Government during the 1970 - 1974 administration. Once the consequences of monetary policy aiming to reduce inflation rather than maintain full employment began to emerge, the rapidly increasing unemployment and personal hardships which emanated from the resulting acceleration of the process of deindustrialisation brought fierce criticism. This came from within the Conservative Party and even the Cabinet itself, from the electorate, from industry and from the newly established Social Democrat Party (Jessop et al., 1988:63). The policies were maintained in spite of this opposition as a result of, amongst other things, the power Thatcher had consolidated in the Cabinet and the weakening of these opposing forces through divisions within the Labour Party, the disorganising of labour power through employment legislation and mass unemployment and the continued support of the Thatcherite press.

The medium term financial strategy

The government based its monetary policy on the assumption that if inflation was controlled, i.e. stable and either low or zero, productivity and employment would follow. In order to control inflation the money supply had to be controlled by reducing both credit and the amount of money circulating in the private economy. The methods by which inflation was to be controlled were embodied within the MTFFS.

The main tenets of MTFFS were;

i) control of the money supply, defined initially as sterling M_3 ^{1,2}.

¹ This is based on the statement $MV=PT$ where M is the money supply, V is the velocity of circulation, P is the level of prices and T the number of transactions. The statement is one of truth, not an idea. The policy was to control the level of M thereby encouraging the level of P to fall in order for the two sides of the statement to remain balanced.

ii) reduction in the public sector borrowing requirement.

i) Control of the money supply

The government proceeded to set target rates for the growth of the money supply and in doing so demonstrated an acceptance of the monetarist view that inflation can be controlled in this way. This can not necessarily be relied upon as an unassailable truth. Nonetheless targets were set for levels of growth in sterling M_3 . Interest rates were kept high in order to discourage the creation of credit. The targets were not met and other government policies, such as the removal of the restrictions on bank lending imposed by the supplementary special deposit scheme, deregulation of the financial markets and the promotion of competition between banks and building societies, worked against the government in its attempts to control growth in M_3 . Subsequently sterling M_0 , or narrow money, was also adopted as an indicator as it was said by the government to be a fairer reflection of growth in the money supply.

The abandonment of M_3 in favour of M_0 as an indicator and the effective disregarding of the targets set in 1980 once they had not been met³, in practice amounted to the abandonment of monetarist policy by the Thatcher Government in the form it had been adopted. In his 1986 Mansion House speech Nigel Lawson officially abandoned both M_3 and M_0 and adopted inflation itself as the most important indicator for the economy, it was referred to as "judge and jury". This represented a very late official abandonment of a monetarist strategy that had been abandoned in terms of policy implementation as early as 1982.

ii) Public Sector Borrowing

Setting targets for the Public Sector Borrowing Requirement (PSBR) expressed a belief in the existence of a direct relationship between the size of the PSBR and the level of monetary growth. Vane (1992) cites Milton

² Sterling M_3 = currency + private sector sight and time deposits + public sector time and sight deposits

³ New targets were set but they incorporated the higher level of M_3 so after 1980/81 no real reduction in M_3 was actually targeted.

Friedman as a leading orthodox monetarist, influential in the development of the ideology of Thatcherism, who denies the existence of such a link.

However, the Thatcher Government was not unique in its adoption of this policy of public expenditure cuts. In many ways they were continuing policies which had been used by the Callaghan Government following Healey's insistence that "you can't spend your way out of a recession" at the Labour Party Conference in 1976.

Public sector spending controls were implemented by the Thatcher Government to supplement the restrictive monetary policy in achieving monetary growth targets. Naturally one of the main targets for the government in its reduction of the PSBR was spending on welfare in the form of the national health service (NHS), social security and related benefits and state pensions. Promises made during the election campaign to maintain the NHS in particular, restricted the government's options within this cost cutting exercise. Pledges to increase defence and maintain law and order created further contradictions between the implementation of the monetary policy objectives of the political strategy and other aspects of the ideology of Thatcherism as discussed above.

Government proposals for restructuring the welfare state were not enforced in great measure, whilst less radical changes were made and efficiency improved. Proposals to encourage the use of private health insurance through tax incentives for the elderly were brought in but did little to reduce the cost of the NHS at a time when increasing unemployment was adding to its burden.

Proposals to abolish the State Earnings Related Pension Scheme (SERPS) met with extreme political and public opposition. They were replaced by a gradual phasing out of the government's responsibilities under the scheme initiated by encouraging workers to opt out of it in return for lower national insurance payments. The introduction of tax incentives for the purchase of

'Personal Equity Plans' accompanied these proposals as the government attempted to encourage the public to provide for their own old age through the private sector. These policies conform to the ideology of Thatcherism in that they have the potential to reduce an individual's reliance on the state. Furthermore, they may be of benefit to a future government when today's working population retires and relies less heavily on the state for support and medical help. However, it was of little assistance to the Thatcher Government in achieving the targets established in the MTFSS and reducing the level of public expenditure.

Further problems, and possibly the most damaging problems, were faced with the rising cost of social security payments. The dramatic and sharp rise in unemployment which followed the 1979 election had the expected double blow effect on the PSBR by increasing the level of social security payments whilst at the same time reducing contributions to the treasury in the form of tax receipts. Reforms were made to the system of payments such as the linking in 1980 of increases in long term benefits to price rises rather than the higher of price or wage rises, the abolition of earnings related sickness and unemployment supplements in 1982. Increases in benefits were kept to a bare minimum over the period of the Thatcher administration and remain that way today. This was in part an attempt to control the social security budget but also conforms to the policy of increasing the incentive to work and reducing the effects of the poverty trap. The poverty trap was felt at the time to be discouraging people from seeking employment by placing them in the incongruous position of being better off unemployed than employed⁴.

The pressures on public expenditure combined with extended spending in areas such as defence and law and order forced the government to abandon the target of real reductions in public spending. A levelling off in the proportion of GDP represented by public spending became the objective as a

⁴ The poverty trap is clearly as easily created by low wages and a relatively high incidence of tax for the low paid as by over generous state benefits.

means of supporting monetary policy in controlling inflation. By 1988-89, including revenue from privatization, public spending represented 39.5% of GDP as compared to 43.2% in the last year of Labour government (Riddell, 1987:34).

The interest rate remained high over the early period of the Thatcher Government in their efforts to control inflation and the money supply. Interest rates were brought down in 1981, but to accommodate this relaxation of monetary control and the tax reductions that the government required, a more restrictive fiscal policy had to be implemented. This was an unusual decision in the face of rising unemployment and elicited substantial criticism from many economists. Nonetheless, many point to 1981 as the turning point for the Thatcher administration and clearly it represented a change in government policy in response to events within the domestic economy.

The manufacturing sector was worst affected by the policies adopted which increased the recession, unemployment and public discontent. It was at this point that a repeat of the 'U' turn which so undermined the Heath Government was expected in the face of strong opposition from within the Party as well as from other quarters as discussed earlier. Thatcher's strength within the Cabinet and the disorganisation of the opposition allowed her to avoid the retreat with memorable party conference statements. The policies thus continued through 1982 until the objective of deflating the economy had been achieved and the economic cycle was moving into an upswing.

Jessop et al. (1988) describe the period from 1982 onwards as "consolidated Thatcherism" (p.59). They refer to the themes and strategies of the Government as drifting during this period as the Conservative politicians supporting further consolidation were gradually defeated by those in support of more radical policies. Monetarism gave way to a greater emphasis on supply side policies and the programme of deregulation within the land, capital and labour markets. The development of an entrepreneurial society

and popular capitalism emerged at this time and were to be achieved primarily through supply side policies. It is this aspect of the Thatcher Government's political strategy which we turn to next.

The Supply Side Strategy

The supply side policies introduced by the Thatcher Government aimed to provide the economic conditions within which private enterprise could flourish by removing any identifiable constraints to the supply of resources. The labour market was deregulated through trade union reform, the capital markets were deregulated both through financial deregulation and the removal of restrictive practices within trade in the City, the market for development land was deregulated through changes to the development control system.

The removal of supply side constraints from the markets for these three resources formed the basis of the supply side strategy. In addition to these overriding themes the government introduced further measures to improve the efficiency of the economy and tap the entrepreneurial spirit of the British people. At all levels of the economy competition was encouraged and what became commonly referred to as the 'enterprise culture' was introduced during this period through these supply side policies. The overriding themes were of increased competition, deregulation and the encouragement of entrepreneurial activity in pursuit of the accumulation of capital.

In order to provide a coherent overview of the supply side policies this discussion is divided into five sections. It begins by focusing on the policies relating to taxation and privatization and ends with the deregulation of the labour, capital and land markets. The identification of policies as they relate to the three major resources in the latter part of the discussion is a theme which recurs throughout the remainder of this work.

i) Taxation policies

The government's stated commitment to reductions in direct taxation was a major part of the supply side strategy, high income tax rates being seen as a disincentive to work. In 1979 the highest marginal rate of tax on earned income was cut from 83% to 60% and on income from investments the rate was reduced from 98% to 75%. By 1988 the earned income tax rate had been reduced to 40% where it remains today. Simultaneously the lower, 'basic' income tax rate was reduced from 33% to 27% in 1987 and subsequently to 25%. Personal allowances and income thresholds at which the higher rates became applicable were increased in real terms over this period to consolidate these reductions.

The tax reductions favoured higher income earners and looked at in combination with increases in VAT and national insurance contributions, the incidence of taxation as a proportion of GDP actually rose during this period of government. According to Riddell (1989) it rose from approximately 34% of GDP in 1978-79 to 39% in the mid 1980's followed by a fall to 38% in 1988-89.

The VAT increases represented a change in the way revenue was raised by government which conforms with the political strategy of Thatcherism regarding choice for the individual. A shift was brought about from direct to indirect taxation much as was expressed as desirable by Heath in 1970. Such a shift was seen as increasing choice and freedom for the individual in spending income which would be denied through increasing tax at source.

The assertion that lower levels of direct taxation improve the incentive to work is by no means a proven rule. Arguments against this abound and studies have been carried out to show that the effects differ between sectors of society and not everyone will work harder in a response to a potential increase in the gains to be made. Reductions in direct taxation make less work necessary in order to achieve the same real income. Furthermore, tax

reductions which favour the higher income levels will have less effect on aggregate demand than reductions affecting the lower income levels as the marginal propensity to spend is lower in the upper income brackets than in the lower income brackets.

Other anomalies exist within the Thatcher Government's policies regarding taxation. One of the major contradictions relates to the policy on tax relief for mortgages. Although the limits for this tax relief were reduced over the 1980's, most noticeably in 1988, the subsidy was in fact expanded in 1983 from applying to the first £25,000 of a mortgage to the first £30,000. As a policy it contradicts the anti government-subsidy ideology of this government, being a measure through which the government subsidises home ownership. The government had given strong encouragement to home ownership through right-to-buy legislation and by introducing greater competition between mortgage lenders through the deregulation of the financial services sector. This complicated the position the government could take on mortgage tax relief. Home ownership having become a responsibility held by approximately 67% of households by 1986 (Finer, 1987) the government would have made itself extremely unpopular if it had removed this subsidy.

ii) Privatisation policies

The main objectives of the privatization programme as listed by the Treasury in 1985 were: greater efficiency; reduction in the role of the public sector; provision of substantial sales receipts; changing attitudes in industrial relations by selling to the employees a direct stake in the company and promotion of wider share ownership. The policy appeared to conform to three of the government's stated objectives:

- ◆ increased competition in industry;
- ◆ reduction in the PSBR - increased government investment in these industries in the run up to privatization was justified through the ultimate removal of this burden from the public sector and the contribution to the reduction in the PSBR made by proceeds of the floatation;

- ◆ reducing the role of the government within the economy or 'rolling back the state'.

Inherent within the privatization programme is the belief that the private sector, in itself, is more efficient than the public sector in organising economic activity. However, given that it is clearly not simply ownership which dictates the level of competitiveness within an industry, strong arguments can be made against this. Transferring ownership of previously state run industries to the private sector directly benefited those people who bought shares, especially as the share floatation price was relatively low in some cases. It was also said to have benefited the tax payer by removing the state subsidy of these industries from the public purse and removing some 600,000 employees from the public sector. This point is also arguable however, given the increase in government investment required prior to the privatization of an industry and the ultimate loss to government revenue of the profits made by industries such as British Airways.

Where the consumer has no alternative supplier of the service provided, as was the case with most of the flotation's, the objective of increased competition was also not clearly achieved. The consumer was no better off in terms of choice and, given the new priority of the privately run monopolies, to provide a dividend for the share holders, there is every chance that the consumer could get a worse and more expensive service than before.

The privatization programme increased the number of individual share owners in the UK. According to a National Opinion Poll survey the number increased from 3 million to 9 million between 1979 and 1989 (Riddell, 1989). The long term pattern of share ownership did not change substantially with those people who became share owners through the privatization issues either selling relatively quickly afterwards or retaining a relatively small number of shares. Existing shareholders tended to increase the number of shares they held in the long term.

It has been suggested that by popularising share ownership, particularly through privatization, a larger proportion of the population had an interest in retaining a Conservative government for as long as the Labour party policy remained to re-nationalise these industries (Finer, 1987). However, Labour policy relating to renationalisation changed relatively quickly and the short period of time for which many of the new shareholders retained their shares limited the effectiveness of privatization in these terms.

The increase in the number of share holders, even if ownership was only short term, increased trading activity on the stock exchange. Once combined with the deregulation of the financial services sector and the removal of restrictive trading practices within the London stock exchange a larger volume of trading would be being conducted by a larger number of traders substantially increasing the profits to be made by this area of the financial services sector:

iii) Deregulation of the labour market

The target of increased competitiveness as the route to greater efficiency in the allocation of scarce resources is clearly identifiable in the trade union reforms aimed at improving the efficiency of the labour markets. It was commonly felt by the government that the British workforce was pricing itself too highly and only by moving towards individual wage negotiations and greater flexibility in working practices was this going to change. The Thatcher Government's trades union reforms were rooted not only in a distrust and dislike of bureaucracy but, on a more economic level, in the aim to improve the efficiency of this market. The objective was to encourage the demand for labour by increasing the flexibility and lowering the price of supply.

Government attitude towards the trades unions changed completely in 1979. Rather than seek the co-operation of the trades union congress (TUC) the government sought to reduce the significance of the trades unions in the political arena. The government tried to convey the message that industrial

relations, where they took the form of disputes, were the province of the relevant workforce and its management, and were not something which the government should, or would, willingly become involved in (Thatcher, 1993). Thus, in a relatively short space of time, the situation changed from one where concern was voiced as to the ability of any political party to govern the country effectively in the face of trade union power, to one where that power was first to be ignored, later to be challenged and finally to be defeated.

Collective responsibility for the high price and wages inflation and the rising level of unemployment experienced during the 1970's was largely attributed by the electorate to the trades unions as the embodiment of a powerful labour movement. This afforded the Thatcher administration the opportunity it required to realise the stated objective of union reform. Whilst deflating the economy through the MTFs the government implemented new policies regarding trades unions which ultimately brought about a significant restructuring of the labour market as a whole.

Legislation was brought in which aimed to reduce the number of strikes called by requiring the use of secret ballots, restricting picketing and restricting secondary industrial activity. Greater flexibility in working practices was promoted through the restrictions on 'closed shop' practices particularly through support given to workers not involved in such practices in industries where they existed, and to conscientious objectors to union membership.

The power of the trade unions was further weakened by the severity of the recession of the early 1980's. It has been suggested (Biddis and Minogue, 1989) that the rise in unemployment in this country in the 1980's did more to reduce the power of the unions than government legislation. Thus unemployment could be said to have had a positive political function in furthering the Thatcher Government's political strategy by encouraging more flexibility within the labour market as a whole.

The government's continued successes against the unions during the 1980's served to further weaken these organisations both in terms of credibility and resources. The large scale redundancies in the manufacturing sector, traditionally an area of union support, the impact of employment legislation and the revival of management confidence which accompanied the government's policies all contributed to the removal of the trade unions from the political debate at this time.

Unfortunately the trades union reforms failed simultaneously to reduce the level of unemployment, particularly within the unskilled labour force which had been worst affected by the large scale redundancies in the manufacturing and extractive industries. The expanding service industry, by the very nature of the processes involved, demanded skilled labour on flexible employment terms and conditions. This did nothing to alleviate the large levels of unemployment within the unskilled sectors but it placed pressure on the supply of skilled labour where a shortage became apparent in the late 1980's.

One of the criticisms made of the Thatcher Government is that it failed to educate the work force (Kavanagh, 1989). Education initiatives were introduced such as technical and vocational programmes for 14 - 18 year olds, two year youth training schemes and the encouragement of links between industry and schools. These were supplemented by training initiatives such as the community programme and enterprise allowance but this combination of education and work based training schemes formed a piece meal approach and provided little in the way of useful qualifications. The aim within all these initiatives seemed to concentrate on reducing the unemployment figures rather than improving the skills level of the workforce.

Self employment was actively encouraged by the Thatcher Government and expanded dramatically over the 1980's rising by approximately 1 million to 3 million over the 1980's to 1988 (Riddell, 1989:75). This represented 11% of

the workforce. In conjunction with this the number of small businesses operating expanded very dramatically during this period; an expansion rate of 500 per week is suggested by the VAT statistics (Riddell, 1989:75).

The government failed to accept the complex nature of the labour force and the complexity and imperfections of the labour market which limit its suitability for deregulation. The lower limit to the wage level provided by the unemployment benefit system prevents the market responding with complete flexibility during periods of over supply. Trades union representation although weakened continued to slow the response of the labour market to changes in demand and supply. It also helps to maintain relatively high wage levels for those remaining in employment and to secure redundancy packages for its members.

Furthermore, the labour force itself is not uniform, labour skills are spread unevenly across the country. Areas previously dominated by manufacturing industries have persistently high numbers of unskilled unemployed. These problems are exacerbated by the traditional immobility of the British workforce and the tendency for companies to locate close to pools of skilled labour. Imperfections within the market are created by the varying levels of skills and training which can provide shortages in particular types of labour whilst an excess level of supply is affecting the market as a whole.

A shortage in skilled labour demanded by the service sector industries in the mid to late 1980's produced high wages inflation during a period of excess overall supply within the labour market. Increased per capita production levels over this period added to the high wage levels as managers rewarded those who were in employment for their increased efficiency and production. Companies were being inhibited in their productivity by the lack of skills within the workforce (Riddell, 1989).

The government relied substantially on the 'stick' of unemployment to force people into low paid work and the 'carrot' of lower marginal tax rates to increase the productivity of higher paid skilled workers who were in short supply. The overall level of skills within the workforce was allowed to deteriorate rather than improve with no organised system of training and retraining. Consequently the skills of the workforce failed to keep pace with the requirements of the new growth industries the government was so committed to encouraging. This inhibited their growth and created strong wage inflation as firms raised salaries in order to retain qualified staff. In the longer term having an under-trained workforce, particularly in comparison with other EC countries reduces the competitiveness of the UK as an economy (Riddell, 1989).

Government objectives regarding training initiatives were less successfully achieved than those relating to trade union reform. The labour market has become more flexible and increased competition has reduced the level of wages in some sectors of this market, particularly for unskilled labour but high unemployment is still a feature of the UK economy which in itself represents wasted resources. Furthermore the high wages inflation within the skilled labour market is also indicative of inefficient resource allocation given the oversupply in the labour market at that time. The large numbers of unskilled manual workers who were no longer required by the manufacturing sector industries were not effectively retrained and remained a burden to the welfare system and a wasted resource.

iv) Deregulation of the capital markets

The deregulation of the capital markets essentially began in 1979 with the removal of restrictions on overseas investment. The supplementary special deposit scheme which had been introduced to control the expansion of credit was also removed as it formed a restriction to supply. This was counter to the government's attempts to control the money supply, as has been discussed above, but complied with supply side policy.

These initiatives were supplemented by the introduction of greater competition to the domestic lending markets in 1986. Banks and building societies were encouraged to compete with each other for business, particularly lending, and the sources from which building societies could obtain funds were increased. Restrictions on the accounts they could offer and the types and level of lending they could offer were removed. This coincided with the government's encouragement of home ownership. Rising mortgage demand was therefore met with increased supply of mortgage funds and more competitive interest rates.

In order to compete effectively and retain a level of profit the banks and building societies had to increase the number of borrowers they had by becoming more competitive. This necessitated accepting greater levels of risk in the loans they made and increasing the size of the loans they were willing to offer relative to income and security. The supply of domestic credit thus expanded sharply and, simultaneously, the risk inherent within the debt held by the private sector also increased.

The deregulation of the financial service sector also increased the supply of funds for commercial loans and similar changes were made to the level of risk lenders were prepared to accept. By increasing the level of competition within the market a greater volume of business had to be made for profit margins to be maintained and market operators again had to become more competitive. The operators within the market had to be willing to take on more risk in order to do this. Thus within the commercial sector too there was an increase in the level of risk inherent within the debt being held (Ball, 1994).

The significance of this increase in competitiveness is remarked upon by Pratten (1987). He suggests that lack of competitiveness not lack of competition was the problem facing the UK economy. The removal of restrictions to competition was addressed by the Thatcher Government but

the problem of competitiveness was not. By increasing the level of competition in the capital markets the operators were forced to become more competitive but had limited means by which to achieve this. The resulting increase in the level of risk accepted by the financial services sector has implications which will be explored in later chapters but is important to note here.

The removal of restrictive trading practices in the City of London in 1986 clearly affected the capital markets. The changes expanded the number of companies eligible to make share flotation's and increased the number of organisations eligible to trade in shares. This represented an expansion in the supply of shares and in the volume of transactions. It also opened new avenues of finance to companies within the development sector which had previously found it difficult to comply with the regulations for making share flotation's. Again, the consequences these changes had for the commercial property market will be considered in more detail later but it is important to highlight the extent of the changes which were made to the capital markets and the apparent lack of attention paid to the possible responses from those operating within these markets. The full implications of such an increase in competition do not seem to have been addressed.

v) Deregulation of the land market

In 1979 concern was expressed by both the government and the property industry over restrictions on the development of land. A memorandum sent by the Royal Institution of Chartered Surveyors (RICS) to the Property Advisory Group (PAG) in February 1979 outlined what they felt were disincentives to property development and investment. These included:

- i) planning and other delays;
- ii) office development permits (ODP's) and industrial development certificates (IDC's);
- iii) the Community Land Act 1975 ;
- iv) Development Land Tax.

Each of these disincentives placed a restriction on supply, according to the Thatcher Government, and each was addressed over the 1979 - 1990 period. The government objective of deregulation of the land markets was to be brought about by the removal of direct restrictions on supply and the restructuring of the development control system. The supply of land for development was felt to have been restricted in the years preceding the Thatcher Government, by the discouraging effects of Development Land Tax⁵ (DLT) and the Community Land Act, which effectively forced the local authorities to take land suitable for development into public ownership (Simmie, 1993).

These measures were a direct contradiction of the policies of the Thatcher Government. In theory, they reduced the supply of land for commercial development by discouraging any land owner from obtaining planning permission; any profit made from a subsequent sale of the land would be taxed and the land was at risk of being taken into public ownership. In practice local authorities were reluctant to implement the measures contained within the Community Land Act, so very little development land was taken into public ownership. Development Land Tax was also largely avoidable and was removed altogether by 1985. Nonetheless, the possibility of development land being taken into public ownership would have a negative effect on the supply of development land and the Community Land Act was repealed in August 1979.

The development control system was made more efficient with the introduction of time limits for development control decisions. Local

⁵ Development Land Tax as a tax on the 'windfall' profits accruing to property developers following the granting of planning permission, had affected the development of residential property more than it had affected the development of commercial property which had been the intended target. The commercial property developers tended to purchase land for development which already had the benefit of planning permission. Thus the tax was 'invisible' in the price of the land and would ultimately be passed on to the purchaser.

The effect the tax had in restricting supply in the residential market may, however, have been reflected in the dramatic demand for residential mortgage finance which refused to be abated by increasing interest rates in the mid 1980's and contributed to the expansion of the money supply which the government was trying to control at that time.

authorities were encouraged to sell under-used and vacant land in their ownership through the setting up of Land Registers. The development control system was made more responsive to market forces with government circulars which emphasised a presumption in favour of planning permission being granted and alterations to the General Development Order (GDO) and Use Class Order (UCO) to increase flexibility within land use. The presumption in favour of planning permission was reinforced through the appeal process as the government stated clearly that the advice of its circulars would be taken into account by the secretary of state.

Changes were made to the use of planning conditions within development control. Emphasis was placed on the role of planning conditions as a system whereby a planning application that would otherwise be turned down could be transformed into one which would be approved. The role of planning conditions as a system for improving upon a development proposal which could be approved in its original form was reduced. This clearly reduced the powers of the local planning authority in terms of placing obligations on developers. It also increased the opportunities open to developers to obtain planning permissions for sites by encouraging the use of planning conditions as a system for improving unacceptable development proposals.

The system whereby local authorities exact planning gain from developers was also changed. Emphasis was placed on the importance of a clear connection between the gain and the development proposal and on the gain being 'reasonable'. This change also favoured the developer and reduced opportunities for local authorities to exercise control over local development.

The development control functions of the local authorities were further reduced in areas of the country in need of regeneration, particularly in inner city areas. The government set up Urban Development Corporations (UDC) which had their own development control powers, to generate growth within local economies. These were supplemented by Enterprise Zones (EZ's) set

up to encourage employment generating businesses to locate in specific areas. Incentives were offered in the form of tax relief and rates 'holidays'. In addition to the tax subsidies within the EZ's, which were available to everyone investing in the designated area a range of grants was introduced to tackle specific urban regeneration problems. Derelict Land Grants (DLG's), Urban Development Grants (UDG's) and, later City Grants were available for qualifying sites and projects.

These measures were aimed at increasing the supply of development land which conformed to the areas of Thatcherism which sought freedom from constraints on supply in order to provide conditions suitable for economic growth. However, they also contradicted the areas of Thatcherism which call for a reduction in the role of central government. Development control powers were removed from the local level and placed more firmly with central government or non elected bodies by almost all of the measures mentioned above.

The land related supply side measures implemented by the Thatcher Government are clearly fundamental to this work. The deregulation of the land markets facilitated the increase in development activity during the 1980's which is to be explored within the context of changes within the commercial property markets as a whole in the next two chapters. The land related supply side policies and the implications they had for the commercial property markets will be explored fully in Chapter Four where the discussion will be supported by the analysis of commercial property market data.

Conclusion

The deregulation of the markets for the three major resources conformed to the government's supply side policies and to some of the overriding themes of Thatcherism. A major restructuring of the UK economy took place in the early 1980's and was consolidated through the policies contained within the supply side strategy. By removing any identifiable constraints to supply wherever possible, market forces were given more freedom to govern the allocation of these resources. The supply of labour, capital and land were increased and the economy expanded very rapidly during the upswing of the latter half of the 1980's. The reflationary monetary policy particularly of the 1988 and 1989 Budgets, reinforced the economic growth experienced during this period but ultimately at the expense of a deep recession in the early 1990's.

As established in the introduction, this work is concerned with the response of the commercial property markets to the policies of the Thatcher Government. The context set by Thatcherism in terms of the political strategy this came to represent and the accelerated restructuring process which it encouraged is essential to a deeper discussion of the changes which occurred within the commercial property markets. By establishing the ideology behind the political strategy which was developed by the Thatcher Government it has been possible to explore the aims and objectives of the policies that were implemented within the context of that ideology.

Having established the political context represented by Thatcherism this work now goes on to look in more detail at the policies which were implemented and to focus on the response of the commercial land and property markets to those policies. In order to facilitate an ordered and critical analysis of these markets the operation of cycles within the economy and the commercial property markets is discussed in Chapter Two. This discussion focuses on the literature relating to long term and short term cycles which affect the commercial property markets. This provides a foundation from which the

impact government policies had on these markets can be investigated in Chapters Three and Four.

CHAPTER TWO

ANALYSING CHANGE IN COMMERCIAL PROPERTY MARKETS

Introduction

Chapter One identified the concept of Thatcherism, its ideology, political strategy and policies, and its significance within the context of this work. Chapter Two provides a methodological foundation for the analysis of property market data which is the major source material for this work. These two chapters together establish the methodology through which the response of the commercial property markets to government policy are to be analysed.

This chapter draws upon two areas of work in providing a foundation for the data analysis. The literature relating to commercial property market cycles is discussed to establish some criteria against which movements within the commercial property markets can be assessed. These cycles are then placed within the context of a longer time frame through a discussion of the literature relating to longer term economic development cycles and the process of deindustrialisation.

Cycles Within The Commercial Property Markets: 1977 - 1990

Cyclical fluctuations in building activity are well established (see Kuznets, 1930, Long 1940, Isard 1942, Parry-Lewis 1965, Ricardson and Aldcroft 1968). Rising user demand encourages increased development activity which brings the market to the point of over supply, discouraging development activity to the point of insufficient supply. The time lags within the development process make supply relatively inelastic in the short term reinforcing this cyclical pattern. This can be identified as a recurring pattern as far back as 1865 (Barras and Ferguson, 1985). The impact is felt within the rest of the economy because the scale of the investment during periods of increasing development activity is so large. This also means that these cycles can affect and will be affected by public policy.

Studies have been made of various aspects of commercial property cycles and three types have been commonly identified (see Barras 1983, 1984, 1987, Barras and Ferguson, 1985 and 1987, Case 1991, Key, 1994). Barras and Ferguson, (1985), report on the first phase of an examination of "the incidence and causes of building cycles in Britain" (p.1369). They identify long swings or urban development cycles, of approximately 19 years duration for non-dwelling construction. Dates are provided for five long swings, starting in 1856 and ending with the last downswing at the time of this work as 1973 - 1981. This implies an upswing ending in the early 1990's which coincides with the evidence produced here in Chapters Three and Four. These long swings are related to growth cycles in the whole of the economy and it is possible to identify each one with a major wave of urban development (Barras and Ferguson, 1985:1389).

A short cycle of approximately four years duration is identified that "can be associated with the influence of the 18 quarter business cycle, which produces demand-side fluctuations in private sector building" (Barras and Ferguson, 1985:1389). The relationship between the building cycle and demand is complicated by demand for buildings emanating from two sources; investors and occupiers. Demand from occupiers is dependent upon their economic activity and the price of the building (rent). Demand from investors will depend upon the level of return achieved on other investments compared with property. Thus, although the building cycle will be affected by the business cycle the affects may be muted by changing conditions in the two separate sources of building demand. Such circumstances were in evidence in the late 1970's and early 1980's when investor demand maintained a low yield level in the office sector in spite of weak demand from occupiers during much of the period.

A cycle of approximately nine years is identified in the same paper by Barras and Ferguson and is described as being "associated with supply-side production lags in construction" (p.1389, see also Schumpeter, 1930 and Hanson,1964). These cycles particularly affect commercial and industrial

property development and contribute to this particular analysis of market trends and movements. The following section therefore looks more closely at the characteristics of the nine year cycle described by Barras.

The Nine Year Cycle

Barras (1983), sets up a simple theoretical model of the office development cycle focusing on the nine year cycle. The causal factors of these cycles have been identified as "exogenous to the development process itself" (Barras, 1983:1383). Barras feels that this interpretation neglects the importance of the development lag, inherent within the development process, as a causal factor. The time lag between order and completion of a building, sometimes as long as 4-5 years, places a restriction on supply, making it more price inelastic in the short term, leading to an increase in price which encourages more development. Thus the time lag becomes at least a contributing factor, if not an essential factor, within the cycle. Barras in no way dismisses the importance of exogenous factors. The point to focus on particularly in terms of this analysis is that both the development lag and the exogenous factors contribute to the cycle;

"It is recognised that exogenously determined economic factors such as the variation in user activity, construction costs, or the terms and availability of credit, plus public policy instruments such as planning and building controls, will act upon this inherent cyclical tendency, either reinforcing or dampening the cycles according to circumstances." (Barras, 1983:1383)

Three parameters are determined as being crucial to the characteristics of the nine year cycle (Barras, 1983). These are;

the length of delay between order and completion (this averages 2 years in the UK).

the adjustment rate, i.e. the responsiveness of supply to demand, a parameter of unity would equate to supply increasing exactly to match rising user demand;

the depreciation rate of buildings (based on a building life of 50-100 years and 1-2 year development lag)

The price inelasticity brought about by the development lag gives rise to fluctuations in the level of supply both above and below market demand. A change in the average length of the development lag will exacerbate this tendency in the short term. Furthermore, the cycle is described by Barras as being capable of 'explosive' fluctuations if the adjustment rate greatly exceeds the depreciation rate. This tendency is muted by the short term capacity of the construction industry to restrict the adjustment rate, and the inability to 'disinvest' from this type of asset which provides a 'floor' to the cycle. It is not possible to massively under produce buildings as once they have been developed the investment can not be readily 'disinvested' or undone.

The shortest cycle identified by Barras, the four year demand cycle, is described as forming enough of a disturbance, transmitted through user demand, to trigger and sustain a cycle of development activity. Thus alternate business cycle peaks reinforce the corresponding peak in development activity. A secondary wave of development activity should then be observed mid way through the nine year cycle.

Four complete nine year development cycles are identified up to 1980, with peaks occurring in 1963, 1969, 1973 and 1979, the 1963 and 1973 peaks being reinforced by peaks in the business cycle (Barras, 1983:1390). The ending of a nine year development cycle in 1979 implies that the property markets should have experienced some oversupply in the market as the economy moved into recession in 1979 and 1980. Construction orders would be discouraged as demand fell and capital values fell. This would be followed by a rise in building activity in the early 1980's as the economy began to expand again. The peak in the four year business cycle in 1982/3 would encourage development activity through real rental growth and rising capital values. The development lag would increase pressure on supply during the early to mid 1980's and user demand would encourage further development activity in the next peak in the business cycle in 1986/7. This would add to supply in the mid to late 1980's, the cycle reaching another peak in development activity in approximately 1988.

One element of the argument being made here is that government policy impacted upon the property markets in such a way as to exaggerate the nine year development cycle and make the cycle an explosive one. Barras identifies a similar, although less exaggerated, situation in his paper;

"Furthermore, special circumstances can arise under which there is a particularly strong development response to increases in user demand for floorspace (as in the office boom of the early 1970's)" (Barras, 1983:1388).

Part of the analysis of the commercial property markets' response to changes in Government policy will be made through a consideration of the impact on the parameters identified by Barras.

The cycles discussed by Barras are essentially short term cycles. For the purposes of this work the analysis of the commercial property markets' response to government policy benefits from being placed within the context of longer term cycles particularly within investment and construction. Harvey (1985) identifies a 15 to 25 year building cycle or 'Kuznets cycle' being formed by the rhythmic fluctuations in investment. He also identifies "a strong relationship between these long cycles and fluctuations in the money supply and in the structure of capital markets." (Harvey, 1985:22). It is important to make clear that he is discussing an investment cycle as opposed to the building and demand cycles which were discussed in Barras' work.

Harvey bases his discussion on what he describes as circuits of capital. The primary and secondary circuits of capital he identifies are pertinent to this discussion and can be described as follows:

- i) the primary circuit - production processes using labour power to create surplus value in exchange for wages in order to produce consumption goods.
- ii) the secondary circuit - surplus value created in the primary circuit of capital is transferred into the secondary circuit to create fixed capital: producer durables, consumer durables and the built environment.

The flow of capital into and out of fixed investment is one of the main issues being investigated here. The flow between Harvey's primary and secondary circuits of capital clearly influences supply and demand within the commercial property markets through the activities of investors. Investment in fixed capital only takes place if a surplus of capital and labour exists within the primary circuit of capital. The capitalist system of capital accumulation gives rise to such surpluses of capital through the constant pressure for more efficient exploitation of resources. This ultimately results in crises of capital which tend to take the form of over accumulation (Harvey, 1985). This is exacerbated by the flow between the circuits of capital being extremely difficult to balance.

The transfer of capital from the primary to the secondary circuit requires over production to be turned into a capital flow, i.e. into money or credit. The efficiency with which this can be carried out depends upon "the existence of a functioning capital market" (Harvey, 1985:7). It is difficult for individual investors to transfer funds from the production of consumer goods to capital investment without the assistance of a capital market to provide a system of credit creation. Whichever institution controls this financial system will have the means by which to affect flows of capital between the production of goods and services and fixed capital formation.

"An alteration in these mediating structures can therefore affect both the volume and the direction of capital flows by constricting movement down some channels and opening up conduits elsewhere." (Harvey, 1985:7)

The Thatcher Government made some fundamental changes to this system through supply side policies, all of which will have affected the flow of funds between these capital circuits and, therefore, the amount of capital available for investment in the built environment. The impact of supply side policies on the commercial property markets will be assessed in Chapter Four by looking, amongst other things, at their impact on these flows of capital.

Harvey uses the early 1970's as an example of over accumulation within the primary circuit of capital leading to over investment in the built environment as an alternative productive form of employment for surplus capital. The late 1980's illustrates the same process only with exaggerated swings to the cycle. Productive capacity had been reached in terms of goods and services, as evidenced by the rising inflation rate and increasing level of imports. Surplus capital was attracted towards the built environment as a productive form of employment.

The major difference from the early 1970's was the changes which had been made to the capital markets and financial services sector, increasing the efficiency of the mechanism for switching capital between the primary and secondary circuits, thus increasing the supply of capital to the built environment. The resulting over-investment, although very similar to that which occurred in the early 1970's, was much more exaggerated. Chronic overproduction was the predictable outcome which led to the "devaluation of fixed capital" (Harvey, 1985:12).

This devaluation is in financial terms, not in terms of use. The situation or 'crisis' may produce financial difficulties for the institutions and individuals involved but the fixed capital structures left behind can provide the foundations for future growth or, as Harvey expresses it;

"This physical resource can now be used as "devalued capital," and as such it functions as a free good that can help to re-establish the basis for renewed accumulation."
(Harvey, 1985:16)

Whereas this particular aspect of Harvey's work is concerned with longer term investment cycles, Ball (1994) is concerned more specifically with long run building investment patterns. Aspects of Ball's work are used here to allow changes in the characteristics of building patterns within the UK commercial property markets to be considered within the context of this work. Ball identifies three long run characteristics within building investment:

- i) building investment has become increasingly expensive over time;
- ii) building investment is of far greater importance in terms of economic life now than it was in the nineteenth century;
- iii) building investment is subject to long waves which exceed the normal business cycle. (Ball, 1994:2).

Ball identifies two building cycles:

1955 - 1982, peak in 1970;

1983 - 1994, peak in 1990.

He suggests that the relative autonomy of the building cycle from economic fluctuations is one of its most fundamental features. Depending upon what stage the building cycle has reached it will either protect an economy from recession or exaggerate the affects of recession.

The building cycle reached a trough in 1982, allowing the subsequent upturn in building activity to lessen the impact of the early 1980's recession in some regions. However, this must be considered in the context of the rapid restructuring of manufacturing industry which took place during this period. In order to have been protected from the affects of the decline of the manufacturing sector, investment in built structures in these areas would have had to increase in the 1980's. Whereas such investment did increase in areas of the south east and London in particular, the more regional inner city areas were disadvantaged by the rising cost of investment in built structures and their inability to offer locational and cultural advantages as a form of compensation or added value. Thus, whereas London was relatively protected from the restructuring of the manufacturing sector in the early 1980's by the increased building activity which commenced as the building cycle entered an upswing in 1983, many regional cities suffered substantial inner city decline, not simply as a result of government policy but because of the combination of government policy and the long term increase in the cost of building investment.

The increase in the cost of building investment is largely attributed to the slower increase in productivity in this sector relative to other sectors in the

economy, particularly manufacturing. Given that wage levels are set within the rest of the economy, the cost of construction labour increases. This cost is passed on in higher building prices. These costs exclude land values, once land values are added in it becomes clear that, in the main, areas in which land is scarce will be more disadvantaged by these rising costs. The trend towards suburbanisation will be encouraged by these trends given the greater availability of land outside cities.

Three factors are identified in Ball's discussion of long term investment patterns, each of which feature within the period being studied. Changes in demand for space form part of a longer term pattern described as 'catch-up', a continuing process through which technological change alters the pattern of building. Technological developments and advances made within one economy require other economies to 'catch-up' through the adoption of these new technologies in order to remain competitive and continue to expand. The 'catch-up' process leads to changes in patterns of demand for buildings as the functions and activities of occupiers change.

An interesting feature of the 'catch-up' process discussed by Ball is its application to consumer demand. According to Ball, periods arrive during which wage increases, economic and political changes and changes in the terms and conditions of credit availability augment the satisfaction of consumer demand. During these periods the consumer is able to 'catch-up' with the new technologies and designs which have become available through technological developments. One argument explored within this work suggests that such a period of prosperity was provided through the changes the Thatcher Government brought about in the capital markets, particularly in relation to the creation of consumer credit. Within the context of this argument the consumer boom of the 1980's is seen as a manifestation of the catch-up process operating within consumer demand. The increased consumer demand could be identified as a response to supply side policies which improved the terms and conditions of credit availability after a period of

restricted consumer expenditure in the 1970's and early 1980's largely attributable to high inflation and high interest rates.

The technological changes which drive the catch-up process have to be accommodated within building design. This is encouraged by the second factor Ball suggests as being important within the development of building cycles, innovation and uncertainty. Within the context of this work, innovation and uncertainty relate not simply to physical building design but also to other elements of the building process such as funding. The point to be explored here is that new building designs are initiated and, in this instance, new funding techniques are developed and adopted through innovation and the willingness of entrepreneurs to suffer uncertainty in the form of risk.

The final factor within the building cycle explored by Ball is what he describes as 'hysteresis' "whereby the trajectory of city development is knocked onto a new course in the aftermath of a property boom." (Ball, 1994:18). The over supply of office buildings in many regions unsuited to office occupiers, can not easily be removed. The site clearance problems this creates increases the cost of developing buildings more appropriate for other types of occupier and simultaneously the investment of capital funds in built structures is discouraged by the reduced value of these capital assets.

This concept of oversupply affecting investment patterns relates to the ideas presented by Harvey (1985) regarding the difficulty of dis-investing in buildings once development had taken place and the resulting de-valuation of the asset which becomes inevitable once such excessive over supply is experienced. Whereas Ball highlights the discouragement of investment funds it is Harvey's point that the crisis of capital which culminates in this over-accumulation leaves these devalued capital assets "littering the landscape" (Harvey, 1985:23) and available to form the basis for further development of capital in the future.

The three areas of cyclical analysis I have outlined are not adopted in a formal manner for the interpretation of the markets being studied here. The

aspects of each which have been described, however, provide very pertinent and appropriate mechanisms through which changes and trends in government policy can be related to movements and trends in the UK commercial property markets and have been adopted for this purpose. Barras' discussion of the nine year building cycle provides a point of reference from which the building cycle of the period in question can be studied. The longer term cycles identified by Harvey and Ball are used simply as a means of identifying changes and developments in the characteristics of the investment, development and occupier markets for commercial property.

The next stage in this discussion identifies the importance of longer term cycles within the commercial property markets. It is not possible to study changes in the commercial property markets without having reference to these longer term cycles of industrial development as they provide the broader context within which the markets operate and government policy objectives and instruments are formulated.

The Context of Deindustrialisation

A period of industrial decline was affecting the UK economy (and others) before, during and after the period being studied. If this change within the structure of the UK economy, often described as deindustrialisation, is taken to be represented by the decline in importance of manufacturing in terms of relative employment levels, it can be identified within the UK economy as far back as the 1950's (Massey, 1988). According to Massey a more extreme period of deindustrialisation within the UK economy was signalled by the combined effects of absolute decline in manufacturing employment levels which began in 1966 and organisational problems surrounding Fordism as the main system of capital accumulation in the UK's manufacturing sector .

Marshall (1987) attributes this economic decline partially to changes in the international economy. He cites: the emergence of Japan as a major exporter with a relatively protected import market, the decline in the importance of the USA manufacturing sector within the world market, the rise in the price of oil

and the increasing instability of international banking systems, as examples of major international economic changes which had repercussions within the UK economy as well as most other industrialised economies.

In addition to these international factors, however, British industry had suffered from little capital investment over the 1950's and 1960's (see Harvey, 1985, for a discussion of the capitalist tendency to under-invest), and from sterling remaining strong enough to discourage the development of international export markets for manufactured goods.

"The combination of these factors meant that during the 1950's and 1960's British industry suffered relatively low rates of investment, a falling share of world trade in manufactured goods, declining rates of profit and a relatively high share of wages costs in the value of manufacturing output." (Marshall, 1987:203)

A substantial restructuring of the manufacturing sector was inevitable if the progress of the UK economy away from being dominated by secondary industries towards becoming an economy dominated by tertiary industries was to continue. Martin describes this shift as moving into a new "phase of socio-economic development" (Martin, 1988:202). He makes the point that economic development is continuous, we have simply been experiencing a more fundamental change and an accelerating change. The areas which formerly generated growth and capital accumulation no longer do so. New technologies, industries and processes have led to traditional industrial regions falling into decline as their roles are taken over by other areas.

Fothergill, et al. (1988) consider, specifically, the impact of the policies of the Thatcher government on the economic developments which were taking place. The abandonment of the objectives of full employment, the struggle to reduce the strength of organised labour, the commitment to a reduction in the role of the state within the life of the individual and to a change in the role of the state in terms of the maintenance of aggregate demand went a long way in accelerating the process of deindustrialisation and the shift to service

sector industries as the dominant employment sector. Without abandoning the commitment to full employment it would have been more difficult to deflate the economy in the early 1980's allowing manufacturing decline with little or no substantial government intervention to alleviate the unemployment problem this created.

Deindustrialisation in the UK therefore took the form of a shift away from a labour and land intensive system of capital accumulation based on the specialised production processes of the manufacturing sector, towards skill and capital intensive industries. This naturally led to a shedding of workforce numbers within the industrial sector and a reduction, in the short term, in demand for existing industrial land and buildings, as work forces and plant sizes became smaller and increases in efficiency within the industrial sector were sought. Martin, (1986), refers to this as the 'slim down' and 'shake out' in British manufacturing over the early part of the Thatcher government;

"The reality of 'slim down' and 'shake out' has consisted mainly in the reduction of labour costs by cutting jobs and closing down productive capacity. For many firms, extensive cost cutting has not been possible or has proved insufficient to prevent bankruptcy, with the result that the numbers of company liquidations in manufacturing has reached an all-time high..." (p.31)

Once manufacturing declined, alternative avenues for the productive employment of surplus capital and labour were required and were found in the service sector industries. The pace of the restructuring process was increased by both the monetary and fiscal policy adopted by the Thatcher Government between 1979 and 1990 which will be explored in Chapter Three. The government saw no reason to prolong the existence through government subsidy of a manufacturing sector which could not realistically compete with expanding manufacturing sectors in newly industrialising countries. By allowing this sector to wind down quickly with little regard for the cost in human terms through long term mass unemployment, investment

capital could be more quickly transferred to the more profitable, expanding tertiary sectors of the economy.

The changing status of the UK economy from secondary to tertiary necessitated structural changes in the organisation of labour as part of the cycles of technological and economic change through which industrialised economies progress. The patterns of demand for capital, labour and land were radically altered. The move away from large workforces centred in one industrial plant which can be identified as deindustrialisation progressed is symptomatic of a more wide ranging trend within the economy identified by Lash and Urry (1987) as 'disorganised capitalism'. Many of the characteristics of this phenomenon as described by Lash and Urry can be identified within the accelerated deindustrialisation process effected by the Thatcher administration. Some of the most easily recognisable characteristics include:

- ◆ Decline in the absolute and relative size of the core working class, that is of manual workers in manufacturing industry, as economies are deindustrialised;
- ◆ Decline in the importance and effectiveness of national-level collective bargaining procedures in industrial relations and the growth of company and plant level bargaining.
- ◆ Decline in the absolute and relative numbers employed in extractive/manufacturing industry and in the significance of those sectors for the organisation of modern capitalist societies.
- ◆ Increased importance of service industries for the restructuring of social relations (smaller plant sizes, a more flexible labour process, increased feminization, a higher 'mental' component etc.;
- ◆ Decline in average plant size because of shifts in industrial structure substantial labour saving capital investment, the hiving off of various sub-contracted activities, the export of labour intensive activities to

'world market factories' in the third world and to rural sites in the first world, etc.

◆the decline of industrial cities both in terms of size and in their domination of regions. This is reflected in the industrial and population collapse of the so-called 'inner cities', the increase in population of smaller towns and more generally of semi-rural areas, the movement away from older industrial areas etc. The cities also become less centrally implicated in the circuits of capital and become progressively reduced to the status of alternative pools of labour.

These are only some of the points highlighted by Lash and Urry but they are easily identifiable as long term trends which were affecting UK manufacturing industry between 1979 and 1990. Linked to this change has been the shift in the labour markets brought about by the cheaper labour being offered by newly industrialised countries as well as by the changes in domestic labour relations policies. As multinational companies were attracted to cheaper international labour markets the traditional industrial areas of the UK declined, not simply in a response to a recession but to a loss of their position within a more competitive world market. The implications these changes hold for demand and supply within the commercial property markets are explored in Chapters Three and Four.

The commercial property markets can not be considered in isolation from both long term and short term trends within the economy. The continual development of industrialised economies through technological advances provides the long term context within which all other cycles and trends exist. These technical advances change the operation of the economy and the activities of operators within that economy. Such developments are transmitted to the commercial property markets through changes in the characteristics of occupier, developer and investor demand.

Chapter Three draws on the background provided here in an analysis of commercial property market data. The short term building, demand and

investment cycles are used to identify changes within the commercial property markets in response to changes within the macroeconomy brought about by changing government policy. Through this analysis government supply side policies are identified which affect the commercial property markets but are more microeconomic in nature being focused more specifically on the land, capital and labour markets. The impact of these policies on the commercial property markets is explored in Chapter Four.

CHAPTER THREE

MACROECONOMIC POLICY AND COMMERCIAL PROPERTY MARKETS

Introduction

The approach described in Chapter One identified the requirement within this work for an economic analysis of the land and property markets over the period under study. This chapter undertakes to provide such an analysis. The industrial, office and retail sectors are studied individually and the distinctive characteristics of each market in terms of their responses to macroeconomic policy are discussed. Within this discussion distinctive microeconomic trends are identified which are explored in greater depth in Chapter Four.

Although this work is concerned specifically with the period 1979 - 1990, the discussion of policy begins as far back as 1977. The intention is to clarify the extent to which changes in the macroeconomy, as distinct from macroeconomic policy, occurred following the Conservative general election victory in 1979.

The Macroeconomy 1977 - 1990

Government macroeconomic policy over the period 1979 - 1990 did not change significantly from that which was being followed by the previous Labour Government in the last three years of office (see Vane, 1992, Thompson, 1993, Thompson 1986, Maynard, 1988, Riddell, 1989 for discussion of this point). Concern with inflation and the decline of manufacturing industry within the UK had been identified long before the 1979 General Election. The presentation of policy may have changed and the rhetoric and stance of the policy decision makers was, undoubtedly, different post 1979. However, the overall macroeconomic policy themes remained predictable responses to what have come to be the dominant concerns of macroeconomic policy within the post war period: unemployment,

the balance of payments and the exchange rate, the price level and the rate of growth of the economy (Tomlinson, 1985).

i) 1977 - 1979

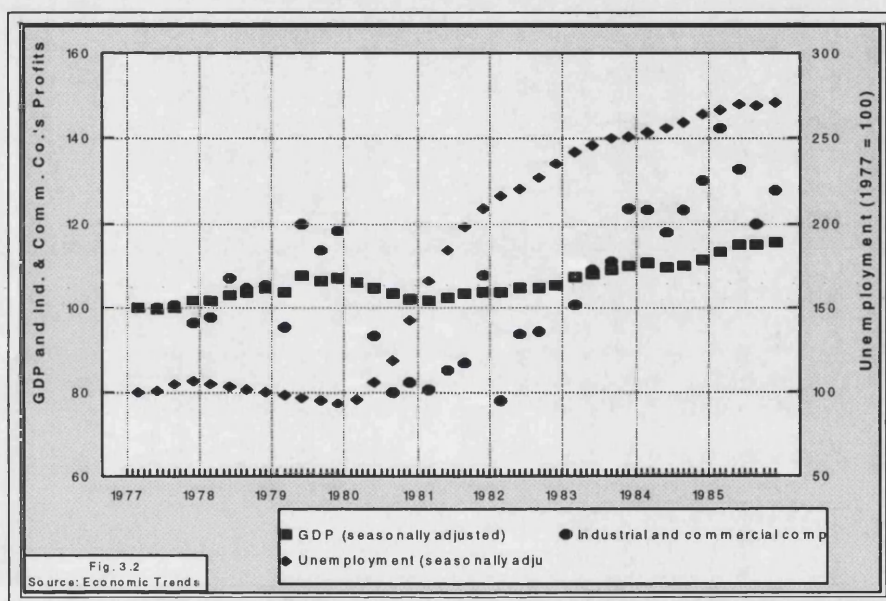
The level of inflation and the debate surrounding the imposition of high interest rates to combat inflation were the dominant themes within the macroeconomic policy of the Labour Government over the 1977 - 1979 period. The annual change in the retail price index (RPI) peaked at 17.7% in 1977 (see fig. 3.1) but began to respond to the relatively restrictive monetary policy being adopted and fell to below 8% in 1978. Interest rates were reduced in response, reaching a low point of 5.5% in 1977 but were raised again in 1978 as higher inflation began to show signs of re-emerging towards the end of the year.

RPI - Annual % Change			Base Lending Rate %		
1977	1978	1979	1977	1978	1979
16.6	9.9	9.3	14.5	7	12.5
16.2	9.5	9.6	13	7	13.5
16.7	9.1	9.8	11.5	7	13
17.5	7.9	10.1	9.5	7.5	12
17.1	7.7	10.3	8.5	8.5	12
17.7	7.4	11.4	8	10	13
17.6	7.8	15.6	8	10.5	14
16.5	8	15.8	7.5	10	14.5
15.6	7.8	16.5	6.5	9.5	14.5
14.1	7.8	17.2	6	10	14.5
13	8.1	17.4	5.5	1.5	14.5
12.1	8.4	17.2	6.5	12.5	14.5

Source: Economic Trends
Fig. 3.1

What is important to recognise is the anti-inflationary stance which had been adopted by this Labour Government in its macroeconomic policy. The success of the policy was so far limited, unsurprisingly given the strength of wage bargaining at the time and the fact that although nominal interest rates had been increased, real interest rates remained negative for the greater part of this period because inflation was so high. Nonetheless, monetary tools had been adopted to fight the battle with inflation.

Other economic indicators for 1977 - 1979 illustrate a generally healthy economy which was recovering from the recessionary period of the early 1970's. Gross Domestic Product (GDP) was rising, unemployment was stable, gross trading profits of UK commercial and industrial companies were steady and any fall in profits, such as would have been expected as a result of industrial unrest during the Winter of 1978/1979, was followed by strong and rapid recovery (see fig. 3.2). The fall in inflation and the easing of the terms upon which credit was available as interest rates fell in response, encouraged a rise in real consumer expenditure.



The adoption of more restrictive monetary policy as an anti-inflationary stance by the 1974 - 1979 government did not impact adversely on the other economic indicators. The recovery from the early seventies recession continued, but the problem of inflation, although recognised, had clearly not been entirely solved.

ii) 1979 - 1984/5

A change can be identified in all the indicators in 1979. The new Conservative Government formed in the spring also adopted anti-inflationary economic policies but were much more vocal about them. Inflation was itemised again and again as the main source of the problems of the UK economy. The monetary policy adopted was, to begin with, more restrictive

than that of the previous government. Interest rates were raised by 2 percentage points to 14% within a month of the incoming government taking office.

Control of the money supply became the policy through which inflation would be reduced. This monetarist stance became the cornerstone of government economic policy for the first half of the 1980's. Although the economic policy followed was not truly monetarist in nature and was criticised in some respects by Friedman, (Tomlinson, 1985:192), monetary aggregate targets were, nonetheless, set for maximum growth in the monetary base. These targets were reinforced in the Medium Term Financial Strategy (MTFS) that was introduced in the 1980 Budget (see fig. 3.3).

Sterling M3 Target Growth Rates %					
	1980	1981	1982	1983	1984
'80/'81	7-11				
'81/'82	6-10	6-10			
'82/'83	5-9	5-9	8-12		
'83/'84	4-8	4-8	7-11	7-11	
'84/'85			6-10	6-10	6-10
'85/'86			5-9	5-9	5-9

Fig. 3.3 MTFS Targets 1980 - 1984
 Source: Vane, 1992:29

Adherence to these money supply targets proved to be an elusive objective during most of the period over which they were operated. Given the new government's commitments to reducing the level of taxation while maintaining law and order, social services, defence and education, control of the money supply could not be engineered through fiscal policies. The only traditional, monetary tool which remained available was the interest rate. Thus we entered a period of government during which the level of the interest rate dominated macroeconomic policy decision making and became quite volatile. It was during this period that the government came to be accused of having just 'one club' through which to effect their macroeconomic policy.

Following the initial increase in the interest rate in the spring of 1979 it remained at or above 14% until the second quarter of 1981, peaking at a high point of 17% during the first two quarters of 1980 in response to rapidly rising inflation. In spite of the high interest rate, growth in sterling M_3 averaged 4.45¹% and 4.25% *per quarter* in 1980 and 1981 respectively, exceeding the 7-11% growth target set in the MTFS. The monetary growth figures remained similarly disappointing right up until the point at which the targets were all but abandoned in 1984.

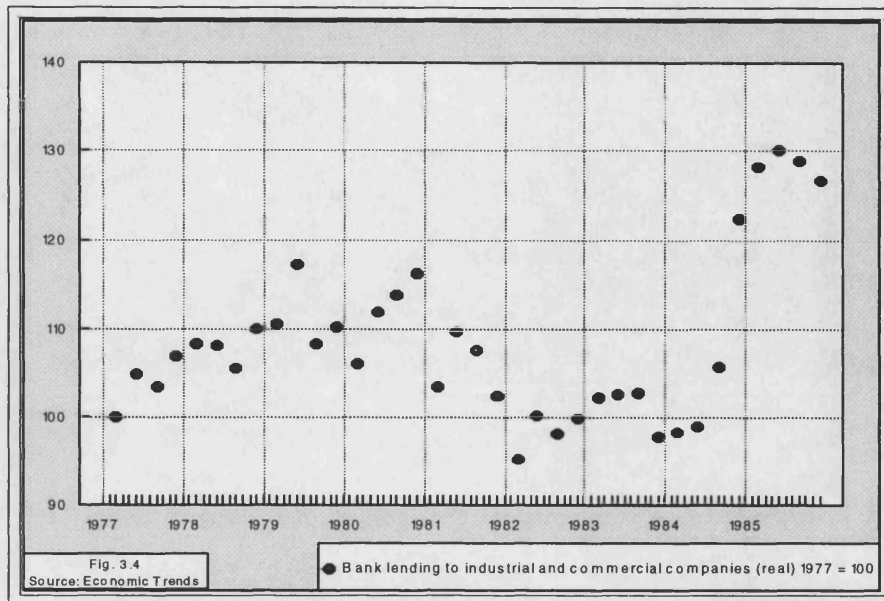
The prescience of trying to enforce such targets on money supply is not under consideration here. The more relevant discussion is of the response of the rest of the economy to the high interest rates being imposed to try to achieve the targets and the government's response to the economy breaching those money supply targets. The setting of a new target each year, 'rebased' to the new level of money supply resulted in the cornerstone of the Thatcher Government's 'restrictive' monetary policy being less restrictive than the government's rhetoric suggested.

The use of high interest rates as the instrument for achieving these targets had more immediate and obvious effects on other areas of the economy. Sterling, which was already trading strongly on the foreign exchange markets, increased in strength. This had a short term deflationary effect as imports became cheaper but UK exports simultaneously became less competitive in the world market. The manufacturing sector was badly affected, both in terms of operating costs and export market share, by exercising anti-inflationary policy through interest rates in this way. Gross trading profits fell and bank lending to industrial and commercial companies rose as companies tried to remain in business (see figs. 3.2 and 3.4). This increase in what can be termed 'distress borrowing' was relatively short lived. By the beginning of 1981 the indicator dips and levels out, not showing any further signs of increase until the end of 1984. Very little expansionary investment was being

¹

Bank of England Quarterly Review: various dates

undertaken over the 1981 - 1984 period within these sectors.



The point to establish here is that whatever the intended outcome of the imposition of high interest rates on the UK economy at this time, this policy pushed the manufacturing sector into an accelerated decline. The fall in bank lending is commented upon by the Bank of England (BoE) as being "...concentrated in lending to industrial and commercial companies: the rate of lending to financial companies picked up slightly..." (BoE, 1982:345). This comment takes the implications of manufacturing decline one stage further by highlighting growth in the financial services sector, pre-empting the importance this sector was to have within the economy over the middle and latter part of the decade.

As would be expected given the restrictive interest rates and high exchange rate under which the economy was operating, GDP embarked on a sharply downward trend in 1979 which continued until 1981 (see fig. 3.2). This was mirrored by steadily rising unemployment. Inflation, which would have been expected to be controlled to some extent by the high interest rates and falling real disposable income, showed no sign of falling and in fact peaked at 21.9% in May 1980, having risen steadily since December 1978 (see fig. 3.5).

Finance House Base Lending Rate (%) and Retail Price Index - Annual % Change 1979 - 1984

1979			1980			1981			1982			1983			1984		
Int. Rate	RPI	Real IntRte	Int. Rate	RPI	Real Int Rte	Int. Rate	RPI	Real Int Rt	Int. Rate	RPI	Real Int	Int. Rate	RPI	Real IntRte	Int. Rate	RPI	Real IntrRte
12.5	9.3	3.2	17	18.4	-1.4	15.5	13	2.5	15.5	12	3.5	10.5	4.9	5.6	9.5	5.1	4.4
12.5	9.6	2.9	17	19.1	-2.1	15	12.5	2.5	15.5	11	4.5	11	5.3	5.7	9.5	5.1	4.4
13.5	9.8	3.7	17	19.8	-2.8	14	12.6	1.4	15	10.4	4.6	11.5	4.6	6.9	9.5	5.2	4.3
13	10.1	2.9	18	21.8	-3.8	13	12	1	14.5	9.4	5.1	11.5	4	7.5	9.5	5.2	4.3
12	10.3	1.7	18	21.9	-3.9	13	11.7	1.3	14	9.5	4.5	11	3.7	7.3	9	5.1	3.9
12	11.4	0.6	17.5	21	-3.5	12.5	11.3	1.2	14	9.2	4.8	10.5	3.7	6.8	9.5	5.1	4.4
13	15.6	-2.6	17	16.9	0.1	13	10.9	2.1	14	8.7	5.3	10.5	4.2	6.3	9.5	4.5	5
14	15.8	-1.8	16.5	16.3	0.2	13.5	11.5	2	13	8	5	10.5	4.6	5.9	10.5	5	5.5
14.5	16.5	-2	16.5	15.9	0.6	14.5	11.4	3.1	12	7.3	4.7	10	5.1	4.9	11.5	4.7	6.8
14.5	17.2	-2.7	16.5	15.4	1.1	14.5	11.7	2.8	11.5	6.8	4.7	10	5	5	11	5	6
14.5	17.4	-2.9	16.5	15.3	1.2	16	12	4	10.5	6.3	4.2	10	4.8	5.2	10.5	4.9	5.6
14.5	17.2	-2.7	16	15.1	0.9	16	12	4	10	5.4	4.6	9.5	5.3	4.2	10.5	4.6	5.9

Fig. 3.5 Retail Price Index

Source: Economic Trends

Inflation's resistance to the deflationary effects of the policies being imposed can be linked to other policies introduced by the government at this time. The blanket increase in VAT and the high wage settlements made in 1979 and 1980, could not help but promote this increase in inflation in the short term. This highlights the existence of contradictions between government policy objectives and policy effects which was touched on in Chapter One. The government was vocal in its determination to reduce inflation but was simultaneously introducing policies which were not restrictive in themselves and would fuel inflation in the short term at least.

Figure 3.5 shows RPI, the interest rate and the real interest rate with the rate of inflation subtracted. This gives a much clearer indication of the times at which interest rate policy was most restrictive in real terms. It is difficult to impose the most restrictive interest rate policy whilst inflation is at a peak simply because the level of inflation automatically undermines the restrictiveness of the interest rate. The more important point arising from this is the fact that interest rates remained restrictive during times of relatively low inflation. This implies that high interest rates were effectively achieving an

objective other than lower inflation, such as accelerating the decline in the manufacturing sector.

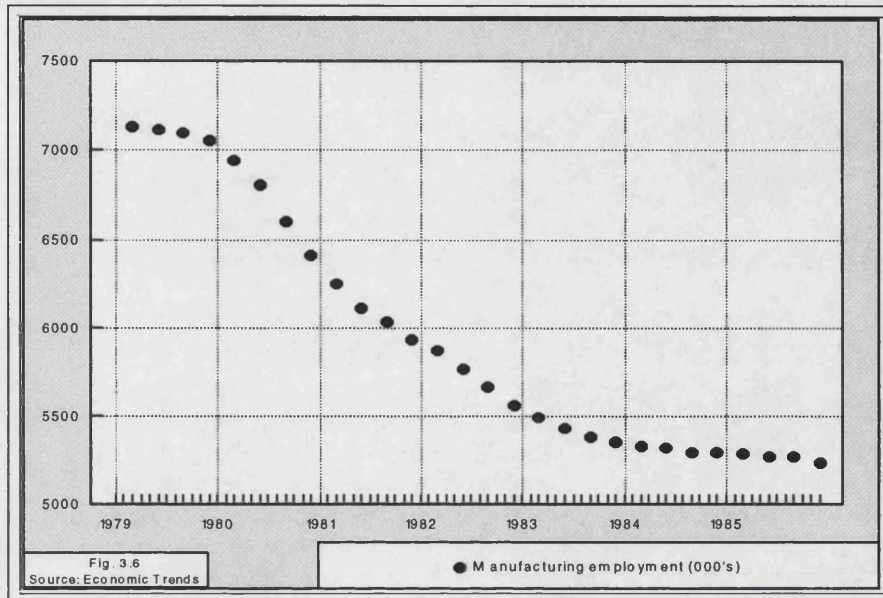
Inflation at last began to fall quite steadily from 1980 onwards, reaching a low point of 3.7% in 1983. This resulted in monetary policy, as far as it can be represented by interest rate policy, being more restrictive at this point than it had been when inflation was at its highest. The real interest rate remained as high as 7.5% and 8%. This is commented upon by the Bank of England;

"This general reduction in nominal interest rates followed a fall in the rate of inflation and did not imply a corresponding reduction in real interest rates or in the anti-inflationary stance of monetary policy. Indeed, real interest rates at mid-August though lower than for about a year, were nevertheless probably higher than in late 1980 and early 1981." (BoE, 1982:343)

Two points can be made here. The first is that an interest rate policy which was becoming more restrictive as time progressed would have a detrimental effect on the recovery in any sector of the economy at this time. The combination of high interest rates and sterling being so strong would be particularly harmful to any sector which relied upon export markets, such as the manufacturing sector. The second point to note is the distinct lack of long term success this policy had in restraining inflation. A low point of 3.7% was achieved in May and June of 1983 but from this point onwards the overall trend is upwards again until 1986.

The clearest illustration of the recessionary conditions of the economy at this time was the rise in unemployment (see fig. 3.2). A low point of 1.025m unemployed was reached in December 1979 marking the turning point in a period of falling unemployment which had begun at the end of 1977. The rate of increase from December 1979 onwards is rapid, reaching 3 million unemployed by June 1985. This level of unemployment would be expected to coincide with a reduction in inflation as real disposable income dropped and demand within the economy fell. This view is supported by the figures

from 1980 until 1983. It is not supported by the figures from 1983 - 1987. For the greater part of this period unemployment and inflation were rising simultaneously.



A number of conclusions can be drawn from this evidence. The decline of the manufacturing sector left a high level of semi-skilled or unskilled labour unemployed (see fig. 3.6). Only recovery driven from a sector which would make intensive use of this type of labour would reverse these unemployment figures in the short term. Given that GDP began to rise in 1981 simultaneously with the sharp rise in unemployment, it would seem clear that whichever sector economic recovery was being generated from it was not one which made intensive use of unskilled or semi-skilled manufacturing labour. Couched in the simplest terms, in order for inflation (as measured by the retail price index) to rise whilst unemployment is rising the remaining work force must generate demand for goods and services in excess of that which existing production can satisfy. This suggests that from 1983 onwards those in work were earning enough money and had enough confidence in this flow of funds continuing, to counteract the deflationary impact of an unemployment level of 3 million and rising.

The level of employment within the economy had changed. Labour intensive manufacturing industries were being replaced by more skills orientated industries. Skilled labour was not in such excess supply as unskilled and semi-skilled labour so the price of skilled labour was not depressed to the same extent. This buoyant sector within the labour market helped sustain demand within the economy whilst the general level of unemployment continued to climb.

iii) 1984/5 - 1990

A change within the priority and emphasis of macro-economic policy themes and objectives occurred in the second half of the 1980's. This was a much more reflationary period characterised by reductions in taxation and an expansion in the availability of credit.

The expansion of credit was fundamental to the changes which took place within the macroeconomy over this period. The deregulation of the financial services sector in 1985 encouraged competition between the various suppliers of credit and fostered the development of new ways of creating debt. This credit expansion financed much of the growth of the service industries within the UK economy, having a double impact on the financial services sector.

The increase in bank lending to commercial and industrial companies which began towards the end of 1984 (see fig. 3.4) can be differentiated from the distress borrowing identified in the 1979 - 1984 period by the expansion in the economy which accompanied it and the lower nominal interest rates. In addition to this, the economy had moved out of the period of very high inflation it experienced in the early 1980's. Although this may have restored some confidence into the economy generally, the level of inflation was still difficult to control and real interest rates remained relatively high during 1984 and 1985 as the government continued with its restrictive monetary policy.

The real interest rate fell to 3.9% in 1984 at which time inflation was falling consistently. Nominal interest rates began to rise again in February 1985 as soon as inflation started to increase and the overall lower level of inflation makes the real interest rate at this time relatively restrictive. Any relaxation of interest rate policy initiated an increase in inflation again. Concern was such that the government felt it necessary to reinforce their anti-inflationary stance in the 1985 Budget. This still failed to bring inflation under control and, although the rate of price increases was much slower than it had at the beginning of the 1980's the overall trend was upwards for most of the remainder of the 1980's (see fig. 3.7).

Finance House Base Lending Rate (%) and Retail Price Index - Annual % Change 1979 - 1984																	
1985			1986			1987			1988			1989			1990		
Int	RPI	Real	Int.	RPI	Real	Int.	RPI	Real	Int.	RPI	Real	Int.	RPI	Real	Int.	RPI	Real
Rate	Int Rte	Rate	Rate	IntRte	Rate	Rate	IntRte	Rate	Rate	IntRte	Rate	Rate	IntRt	Rate	Rate	Int Rte	Rate
10	5	5	12.5	5.5	7	11.5	3.9	7.6	9.5	3.3	6.2	13	7.5	5.5	15.5	7.7	7.8
10.5	5.4	5.1	12.5	5.1	7.4	11.5	3.9	7.6	9	3.3	5.7	13.5	7.8	5.7	15.5	7.5	8
12.5	6.1	6.4	13	4.2	8.8	11	4	7	9.5	3.5	6	13.5	7.9	5.6	15.5	8.1	7.4
14	6.9	7.1	12.5	3	9.5	11	4.2	6.8	9.5	3.9	5.6	13.5	8	5.5	15.5	9.4	6.1
13.5	7	6.5	11.5	2.8	8.7	10	4.1	5.9	9	4.2	4.8	13.5	8.3	5.2	15.5	9.7	5.8
13.5	7	6.5	10.5	2.5	8	9.5	4.2	5.3	8.5	4.6	3.9	13.5	8.3	5.2	15.5	9.8	5.7
13	6.9	6.1	10	2.4	7.6	9	4.4	4.6	8.5	4.8	3.7	14	8.2	5.8	15.5	9.8	5.7
12.5	6.2	6.3	10	2.4	7.6	9.5	4.4	5.1	10	5.7	4.3	14.5	7.3	7.2	15.5	10.6	4.9
12	5.9	6.1	10	3	7	10	4.2	5.8	11	5.9	5.1	14	7.6	6.4	15.5	10.9	4.6
12	5.4	6.6	10	3	7	10.5	4.5	6	12	6.4	5.6	14	7.3	6.7	15	10.9	4.1
12	5.5	6.5	11	3.5	7.5	10.5	4.1	6.4	12.5	6.4	6.1	15	7.7	7.3			
12	5.7	6.3	11	3.7	7.3	9.5	3.7	5.8	12.5	6.8	5.7	15.5	7.7	7.8			

Fig. 3.7

Source: Economic Trends

There are two points to make here. The first is that inflation was proving very hard to control to the extent that the government wished, i.e. to the point of extinction. The second point is that although inflation was rising overall, the annual rate fluctuated around 5% from 1984 until the last two quarters of 1989. This was considerably lower than the levels experienced in the previous period and was more conducive to encouraging both consumer spending and business expansion. Furthermore, in spite of these inflationary pressures, nominal interest rates fell from 1985 onwards.

Combined with the lower inflation rate this brought about a reduction in real interest rates to the lowest level since the beginning of the decade by 1987. This directly contradicts, in practice, the reinforcement of the government's anti-inflationary stance witnessed in the budget speech in 1985. The terms under which credit was available became more attractive and the response to this can be seen in the expansion of credit which took place over this period.

Monetary aggregate targets were officially abandoned in the 1985 Budget as an effective method of controlling inflation. They were replaced by the adoption of a trading range for sterling linked to the value of the German Mark (DM). This represented a complete reversal of the macroeconomic policy instruments adopted between 1979 and 1984 and restricted the use of interest rates as a monetary tool.

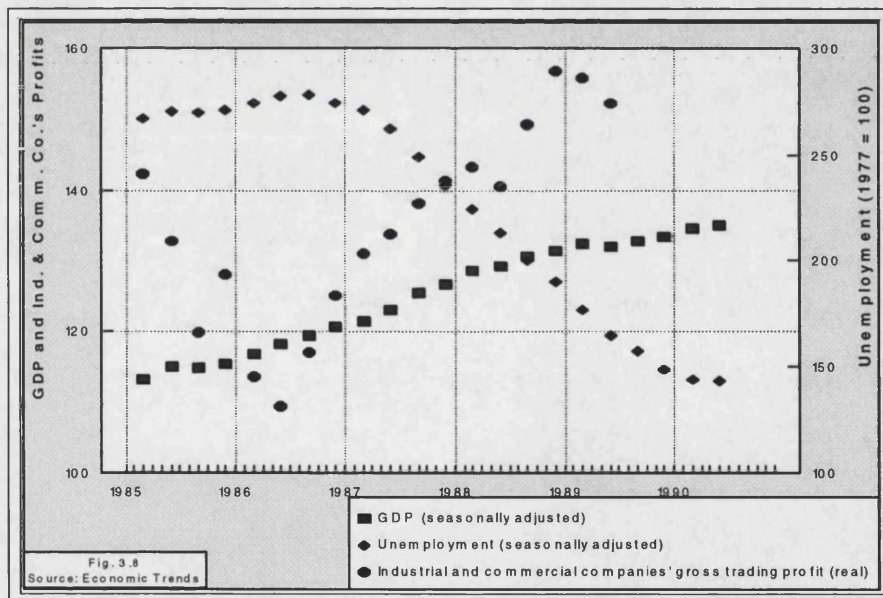


Figure 3.8 gives an overall view of changes in some of the economic indicators over the period 1984 - 1990. The more expansionary macroeconomic policy gave rise to a sharp increase in GDP in 1985. GDP had started to rise again in 1981 (see fig. 3.2) but growth becomes more consistent and faster from 1985 onward. The recovery in the GDP figures was not reflected in the unemployment figures; there was no significant fall in unemployment until the end of 1986. Growth was clearly occurring in capital, rather than labour intensive industries, confirming a decline in the

manufacturing sector and a rise in the service and electronics industries. This was a response to the expansion in the availability of credit and the restructuring of the labour market, as manufacturing failed to recover from the damage done by high inflation, high interest rates and the strength of sterling in the early 1980's. This accelerated restructuring of the UK economy was a direct result of the macroeconomic policies which had been adopted by the Thatcher Government.

The Stock Market crash of October 1987 led the government to be concerned that a 1930's style depression would follow and severe deflationary effects would be felt. Supply side policies and the deregulation of the City had encouraged greater share ownership amongst the population at large. However, the main impact of these policies had been to increase the number of shares owned by existing share owners rather than the number of share owners. In the 1988 Budget measures were taken to counteract any deflationary effect the crash might have had on the economy. The substantial reductions made in the incidence of personal taxation, particularly amongst the higher income brackets, would expand demand within the economy although less effectively than if it had been concentrated amongst lower income groups who have a higher marginal propensity to consume. The Economist describes the Budget in uncompromising terms as "...quite deliberately, a Budget for the rich and high earners" (The Economist, 1988:13). Nevertheless, inflation started to rise sharply from March 1988 onwards as existing capacity within the economy failed to satisfy the sudden rise in demand.

The traditional tool of interest rates was not used to counteract this increase in inflation as this would have increased the value of sterling, pushing it through the ceiling of the trading range which had been adopted with the DM. Interest rates continued to fall in 1988 after the Budget. No increase in the nominal rate was made until August 1988 when it was increased to 10%. Rising inflation meant that the real rate was falling and had fallen to 4% by

the summer of 1988 (see fig. 3.7). Although the over expansion and 'overheating' of the economy had begun to cause the government some concern, a reduction in GDP was expected in 1989. This did not materialise and the economy experienced a growth rate of over 4% (see fig. 3.8).

The increases in the nominal rate from this point onwards were quite sharp, reaching a peak of 15.5% in December 1989. No reduction was seen for the following 9 months. Inflation did not fall immediately but the expansion of credit within the economy over the 1980's resulted in the impact of increased interest rates on demand eventually being strong and lasting.

iv) 1990 Onwards

The main period under discussion in this work ends in 1990 but it is useful to give some indication of the situation within the macroeconomy in that year. With the abandonment of the trading range between sterling and the DM and the increase in interest rates the government's policies once again changed. The expansionary monetary policy of the latter half of the 1980's was exchanged for a more restrictive policy and the recession of the early 1990's emerged quickly. Inflation continued to rise, reaching 10.6% in August 1990 and rising further. Interest rates remained restrictively high to combat this problem and output declined in response.

The service industries which had generated the boom of the 1980's as they replaced manufacturing as the dominant source of growth within the economy, began to contract. Having experienced an accelerated transition away from the secondary sector towards tertiary industries the UK economy was for the first time experiencing a recession that affected the tertiary sector and created widescale job losses in white collar service sector employment. The Thatcher Government's macroeconomic policy succeeded in deflating the economy in the early 1980's sufficiently to accelerate the process of deindustrialisation. This process formed part of a long term cyclical pattern of economic development which the government did not orchestrate or

control but responded to. The following section explores the commercial property markets' behaviour within the context of this accelerated decline and the reflation of the economy which followed.

Commercial Property Market Trends and Cycles 1977 - 1990

What follows is a discussion of movements and trends within the industrial, office and retail property markets over the 1977 - 1990 period. The discussion adopts a sector by sector approach, i.e. industrial, office and retail, in order to highlight the important differences in the reactions of each sector to changes in the economy. The discussion is based mainly on data for the UK as a whole and is not consistently disaggregated either in terms of region or occupier activity beyond the broad categories already provided.

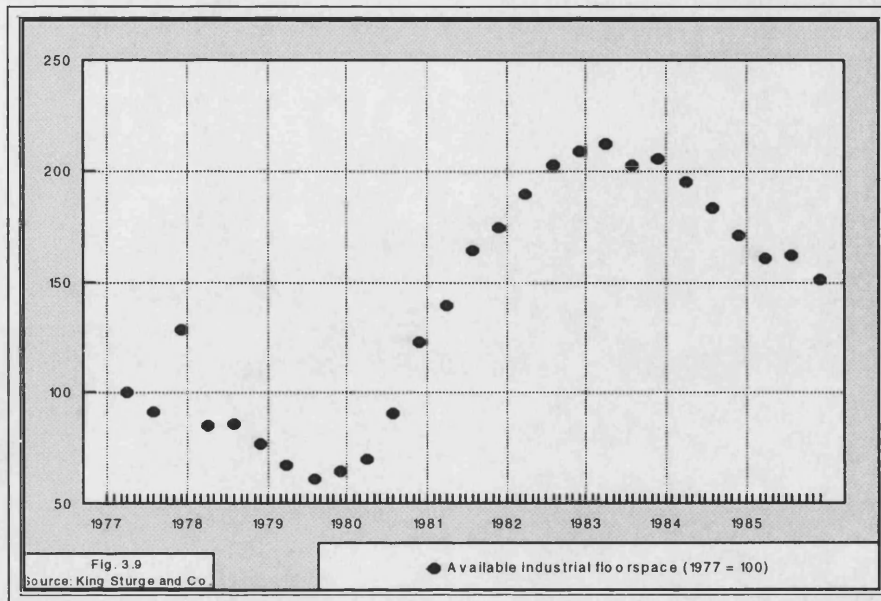
This is in part determined by the availability of rigorous and consistent data but also by the fact that the argument being made relates to the UK commercial property markets as a whole and not to just one particular sector. Some disaggregation of the markets has been used, both on a regional level and in terms of occupier type and activity, where it is felt to illustrate the more spatial aspects of the argument and where data has been available, but the overriding discussion remains UK wide.

The Industrial Property Market

i) 1977 - 1979

Barras identifies 1979 as the peak of a nine year development cycle after which excess supply begins to emerge as the economy moves into the recession of the early 1980's. This is supported by the industrial floorspace figures (see fig. 3.9) which show falling supply from 1977 until the last half of 1979, with the exception of one large increase in floorspace during the winter of 1977/78. This falling supply indicates growth in user demand and

encouraged further new construction.



The construction order figures for private industrial buildings increased from 1977 - 1979 in response (see fig. 3.10) but the time lag between initiation and completion resulted in these developments being completed to meet a market with falling user demand. The rent index (see fig. 3.11) provides evidence of the decline in user demand from 1979 onwards and the supply data indicates rising excess supply within the industrial market in the beginning of the 1980's (see fig. 3.9). This situation is typical of the nine year development cycle.

ii) 1979 - 1984

In his model, Barras (1983) found a clearly identifiable relationship between demand for industrial space and manufacturing output. He identified, through cross-correlation;

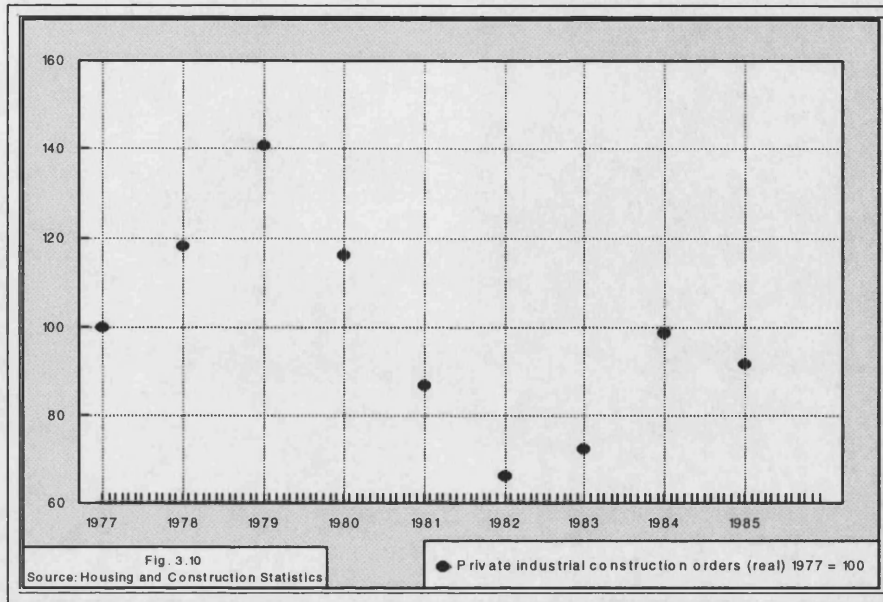
"a significant and positive simultaneous relationship between industrial building new orders and manufacturing output, which reflects the dominant influence of user demand on levels of new building in the industrial sector." (Barras and Ferguson, 1987:508)

The fall in construction orders coincides with the high interest rate policy and high exchange rates of the early 1980's, both of which served to undermine UK manufacturing industry.

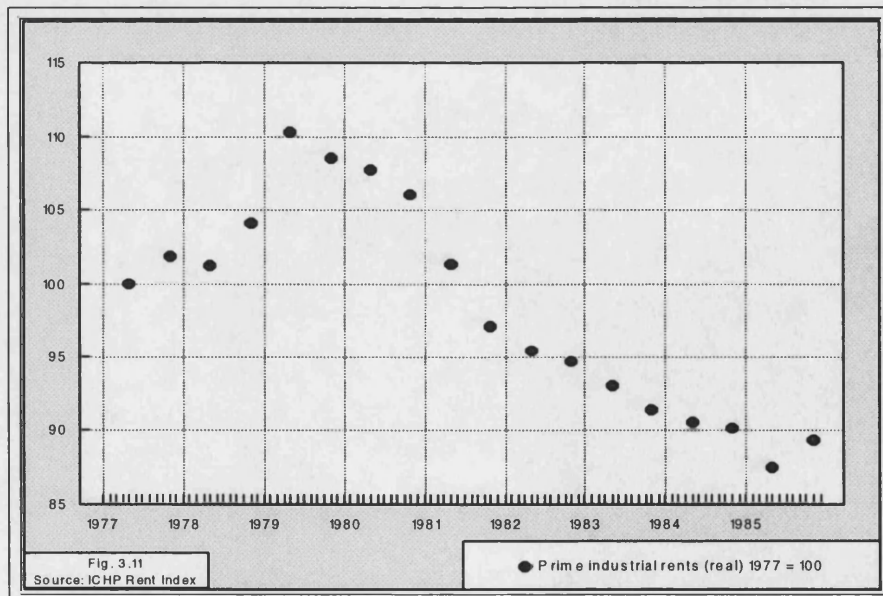
Manufacturing output continued to decline within the UK for the whole of this period. The decline reached a trough in 1984 but remained at that level for the rest of the decade thus reducing the importance of the manufacturing sector as a source of user demand for industrial buildings. Private industrial construction orders fell from 1979 until 1983/4, after which a period of growth emerges. This produces an apparent contradiction in the data. Construction orders began to rise whilst supply was still rising and prime rents still falling. This contradiction can only be reconciled if a change in the nature of demand within the industrial sector is identified.

In their discussion of the US industrial market Wheaton and Torto (1990) highlight the importance of scrappage within the supply of industrial property. The three main sources of scrappage of industrial property are physical decay, transfer of land to more profitable uses and the functional and locational obsolescence of buildings. Initially the impact of the recession on UK manufacturing resulted in the release of many large manufacturing and industrial buildings on to the market. This depressed rents in the sector and discouraged private construction orders in the short term as illustrated by

figures 3.10 & 3.11.



By 1982, the previous 3 years of falling construction manifested itself in the market place as a shortage of new industrial buildings. Although supply was still rising as the manufacturing sector continued to shrink, the buildings this released onto the market were effectively functionally and locationally obsolete. Their design and location simply did not satisfy new user demand.



The importance of this is the change it pinpoints in the types of industry beginning to emerge as the source of growth within the UK economy. It illustrates quite clearly the acceleration of the move away from manufacturing

and towards the service sector as the driving force behind economic growth. This is further supported by the rise in GDP which emerges in 1981, coinciding with a sharp decline in manufacturing output. The new growth areas of the economy: technology, consumer and producer services, research and development, required smaller, more flexible space located close to their customers or, at least, close to fast communication networks. This type of space was in short supply and the upturn in construction orders seen in 1983 and 1984 would not begin to supply the market until 1984 at the earliest (see fig. 3.10).

By 1984 available industrial floorspace began to decline. The large, manufacturing and industrial buildings that had been depressing the market had clearly not been taken up by manufacturing industry; manufacturing output was still declining at this time. The cause of the drop in the flow of supply had to lie elsewhere. Physical decay may have been affecting some of the older available industrial buildings and a certain amount of demolition took place. According to the total rateable value figures the stock of factories and mills is the only industrial property type to suffer a decline over this period². In some areas alternative, more profitable uses were found for some buildings and land. The three elements of scrappage discussed by Wheaton and Torto were all affecting the industrial sector by 1984 and the supply of industrial floorspace was falling.

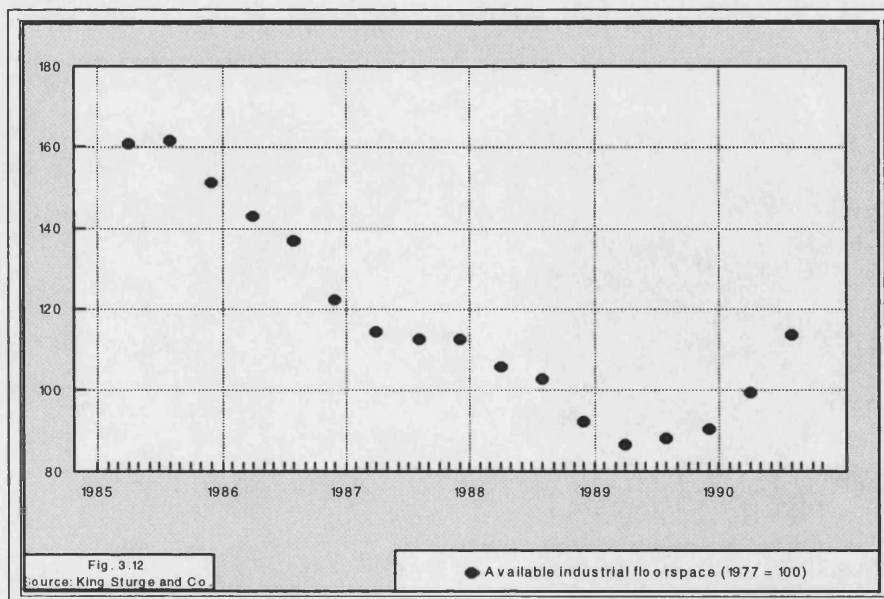
User demand for industrial buildings within the emerging growth sector was not being met by existing supply, and the decline in new private industrial construction orders between 1979 and 1983 exacerbated this problem by restricting the amount of new supply coming on to the market between 1983 and 1985. An article in The Director (December 1984) identifies this situation;

² Source: Inland Revenue Statistics. The figures are all based on the 1973 rating list, eliminating the affects of inflation from the values.

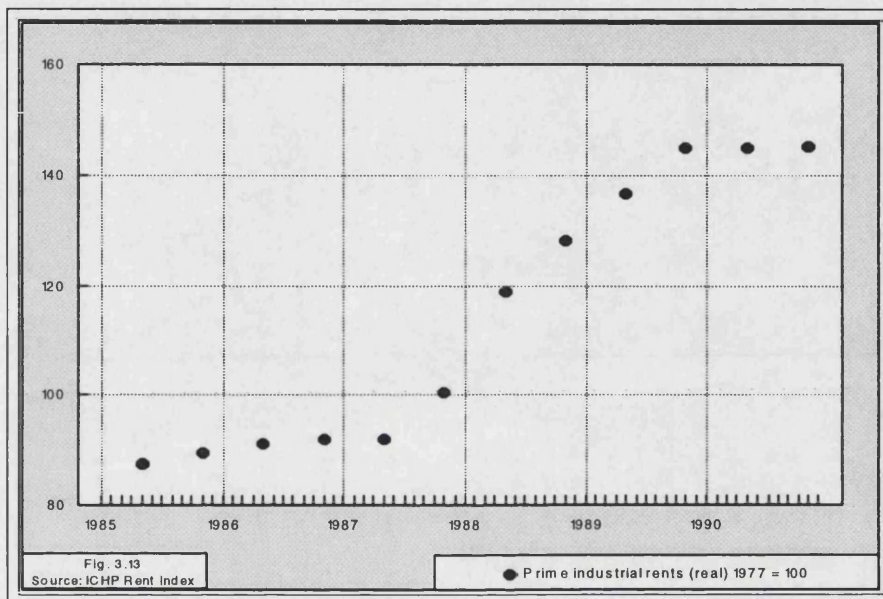
"Since last April, the amount of industrial building available for letting or sale declined by more than 10m square feet...The amount of new buildings under construction has continued to fall and the current total of 8.995m sq.ft is just over half the amount recorded in September 1980." (The Director, 1984:30)

The cycle of redevelopment, which would have been expected to emerge from approximately 1982 onwards, did not occur within this sector. Falling demand within the manufacturing industry kept rents low across the sector as a whole as high interest rates, high inflation and the strong sterling exchange rate forced the sector to contract, discouraging new construction orders.

The Conservative Government's macroeconomic policy extended the period of recession in the industrial property market until 1983/84. This exaggeration of the expected cyclical pattern led to an extreme shortage of new industrial buildings in the mid 1980's. The accelerated decline in the manufacturing sector simultaneously led to a change in the type of buildings being demanded by industrial occupiers. Thus the shortage became most significant in the emerging service and technology sectors for which the existing industrial buildings were particularly locationally and functionally unsuitable.



The shift away from manufacturing towards services undermines the relationship which Barras identified between manufacturing output and industrial construction orders. Even though manufacturing as an industrial sector continues to decline throughout the remainder of the 1980's, user demand for industrial space re-emerged. Manufacturing output can not be used as a reliable indicator of user demand for industrial space after the early 1980's.



iii) 1984 - 1990

During the latter half of the 1980's the emergence of the service sector industries, particularly the technology based industries, dominated user demand for industrial buildings. Figures 3.12 and 3.13 show falling available industrial floorspace and rising real, national industrial rents in the mid to late 1980's. Manufacturing output did not stop falling until 1985 so demand was clearly emerging from a different sector of the economy. The government's response to the resulting change in the type of buildings which were in demand, was to introduce greater flexibility into the industrial market by making changes to the Use Classes Order. The introduction of Use Class B1 in 1987 allowed buildings classified as light industrial to be used as offices. It was envisaged that this would cater for, and encourage, companies within the growing service sectors which required an element of light industrial space but also required an increasingly high proportion of office space.

Addendum

1. To be inserted on page 80 after paragraph 1

A further factor undermining the effectiveness of manufacturing output as an indicator of industrial demand for rented property is the high proportion of owner occupation within the sector. Many of the large industrial buildings had been designed and built to the specification of occupiers to house particular manufacturing processes and functions. These buildings fell vacant as the manufacturing sector contracted thereby increasing the supply of functionally and locationally obsolete buildings within the industrial market.

Expansion within the manufacturing sector would not have directly affected the industrial rental indicator. Demand would have emerged again within the owner occupier market for specifically designed buildings, again undermining the validity of industrial rents as an indicator of demand. Private sector construction orders are a more accurate reflection of rising demand for new industrial buildings from this point onwards given that they reflect both rented and owner occupied demand for new industrial buildings. The increase in this indicator could be attributed to an increase in demand from the manufacturing sector however, the continuous decline in manufacturing output from 1979 until 1987 clearly illustrates that the source of the increase in industrial construction orders between 1982 and 1985 lay elsewhere.

2. to be inserted on page 136 after paragraph 2

The increased competition between providers of short term development funding heightened the pressure to increase market share within this sector (which was enjoying high returns) in order to retain profitability. This forced market operators to reconsider the level of risk they were prepared to accept within a project and encouraged innovation (and the uncertainty which accompanies it) to be applied to financing tools. This led to the development of the very complex financing packages referred to by Key, et al., (1990) and, in combination with the deregulation of the stock market, also led to development companies financing their own new developments on the basis of the value of completed developments they retained. This gave them maximum exposure to both the investment and development sector with little or no diversification.

The long term funding markets had similarly changed, through the deregulation of the capital markets in the UK and the removal of overseas trading restrictions. The increase in overseas investment within the commercial property sector which sprang from these changes is illustrated in figure 4.13. The development market reacted to this increase in the supply of capital by initiating developments to a value exceeding even the increased level of long term funding.

Although the nature of short term and long term funding within the UK commercial property markets had changed the response of the developers and short term lenders indicates a misconception of the nature of the changes that had taken place. The markets supplying short term and long term funding had expanded and become more efficient but the commercial property market itself remained relatively inefficient particularly in terms of its response to reductions in occupier and investor demand.

3. To be inserted on page 149 after paragraph 1

The three parameters identified by Barras (1983) and discussed in chapters two and three also provide the transmission mechanism between the Thatcher government's supply side policies and the commercial property markets. Neither the development lag nor the depreciation rate of buildings changed significantly over the period in question. The major conductor for change within the commercial property markets in response to government policy was Barras' adjustment rate. The deregulation of the land and capital markets had the most significant impact on the adjustment rate by increasing the efficiency with which the development sector could react to increased demand from occupiers and investors.

The deregulation of the land markets increased the supply of land with planning permission. The length of delay between order and completion (the development lag) will be little affected by this change but a perceived obstacle or uncertainty within the development process is removed, making the process of responding to an increase in demand for new development more efficient. This equates to an increase in Barras' adjustment rate.

The supply side policies affecting the operation of the capital markets had a similar impact upon the development process. The deregulation of the long term funding markets to allow greater overseas investment expanded the market by increasing the number of sources from which this type of funding was available. The falling yields experienced in the office retail and industrial markets from 1986 until 1989 can be attributed, in part, to rising demand from the investment market. This rising investor demand led to an increase in capital values. The higher capital values increased the level of residual profit generated within development schemes thereby encouraging further new development activity.

Given that the initiation of a speculative development scheme will depend upon evidence of the availability of long term finance the expansion of the supply of such funds eased another area of uncertainty within the development process, leading to an increase in the number of development schemes initiated. This again equated to an increase in Barras' adjustment rate. The supply of new development would be able to expand more quickly in response to increased demand.

In the long term funding market evidence of increased investment funds and rising investor demand may be enough to trigger an increase in development activity. In the short term funding market, funds have to be readily available before a development project can begin. The deregulation of the short term funding market increased competition by increasing the number of market operators. This increased the availability of such short term funds as lenders competed for short term lending business. The resulting expansion in the supply of funds equated to another increase in the speed with which developers could respond to expanding demand for new development by increasing the availability of a vital component of the development process. Barras' adjustment rate was once again increased.

Whilst the Thatcher government's policies generally increased the supply of capital and development land available within the economy, the operation of the commercial property market changed very little. The rate at which the supply of new buildings could increase in response to rising occupier and/or investor demand accelerated as scarce resources were made more readily available. This increased

rate of expansion in supply formed a stark contrast to the inherently slow supply side response to any fall in demand which is so characteristic of the commercial property markets. The time lag within the development process did not shrink and the markets inability to 'disinvest' once an oversupply of buildings has been reached remained unchanged. These market characteristics were not changed by the Thatcher government's supply side policies.

4. Typographical errors

page 29 - paragraph 3 line 5 "seem" should read "seen"

page 42 - paragraph 3 line 4 "an critical" should read "and critical"

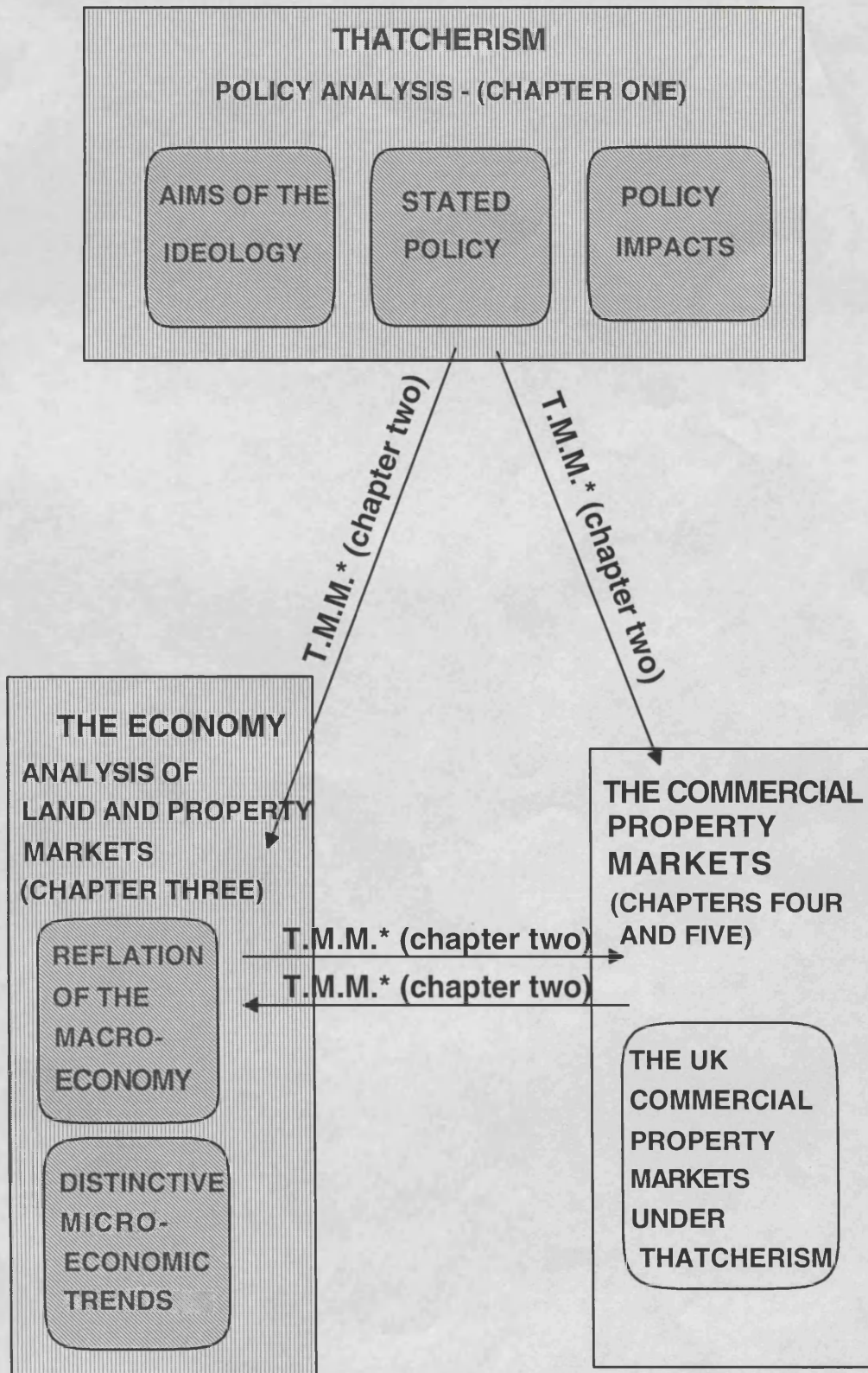
page 85 - paragraph 1 line 2 "asset" should read "asset"

page 128 - paragraph 2 lines - 5 should read "Efficiency and profit margins could not be increased through generating economies of scale and price cutting alternatives were limited..."

page 130 - paragraph 1 line 3 "finds" should read "funds"

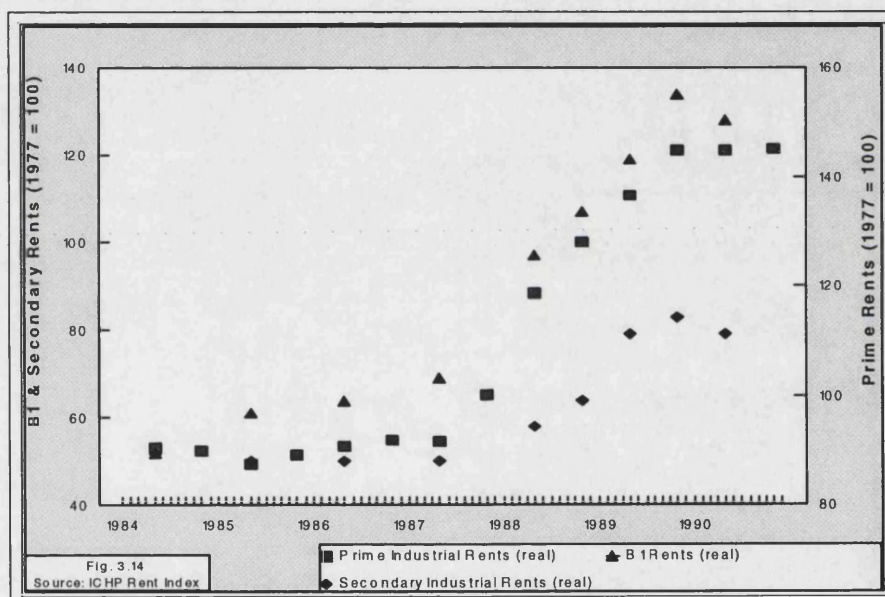
page 151 - paragraph 1 line 7 "occupier demand" should read "developer demand".

THESIS STRUCTURE



*T.M.M.= Transmission mechanism model, see chapter two

Figure 3.14 shows cautious growth in prime industrial and B1 rents between 1985 and 1987 as the economy moved into an upswing, consistent with the nine year development cycle and the effects of rising user demand within a market experiencing restricted supply. Construction orders rose in 1983 and 1984 (see fig. 3.10). These developments would have added to market supply in 1985 and 1986, reducing the restriction on supply and allowing rental growth to remain quite conservative. This discouraged further increases in development activity and construction orders fell again until developers responded to the opportunities made available to them following the change to the Use Classes Order in 1987.



The sustained increase in private construction orders between 1986 and 1988 was a response to more than the steady fall in available floorspace. Developers were encouraged into the market by increased capital values and strong rental growth emanating from economic recovery as the Thatcher Government's economic policy became more expansionary. The opportunity to develop light industrial space which had a major office component granted by the change to the UCO in 1987 increased the capital value of light industrial space and maintained the high level of construction orders until 1989. These new developments would add to available space towards the end of the 1980's. By 1990 falling occupier demand and excess supply in the

industrial markets discouraged development as the building cycle reached its peak.

It is important to differentiate between the effect of the change in the UCO on the industrial market and the effect on the office market. Industrial construction orders rose as the incorporation of more flexibility within the use class definitions increased the capital value of industrial buildings making them available to a wider variety of users. The extreme rise in B1 rents from early 1987 to late 1988 is a response to rising office demand in excess of supply. Land which had been classified as light industrial could now be valued as being suitable for office development. This increased the value of light industrial land and forced traditional light industrial users into direct competition with office users who, traditionally, can pay higher rents. Whilst demand in the office market remained in excess of supply some office users would be willing to occupy B1 space and could outbid traditional light industrial users. This encouraged development of B1 space that was often inappropriately designed for light industrial users but in areas traditionally dominated by this type of occupier. Once office demand declined, an excess supply of B1 space quickly emerged.

Summary

Two points are being made here. The policies of the Thatcher Government exaggerated the cycles within the property market over the 1980's, resulting alternately in periods of prolonged under-supply and extreme over-supply. Secondly, the industrial property market underwent fundamental changes over this period as a direct result of government policies aimed at restructuring the economy by accelerating the decline in the manufacturing sector and encouraging the expansion of the service sector. This led to the requirements of the market changing, making existing buildings obsolete.

The extreme rental growth which emerged in response to expansionary economic policies and prolonged under-supply of space combined with the

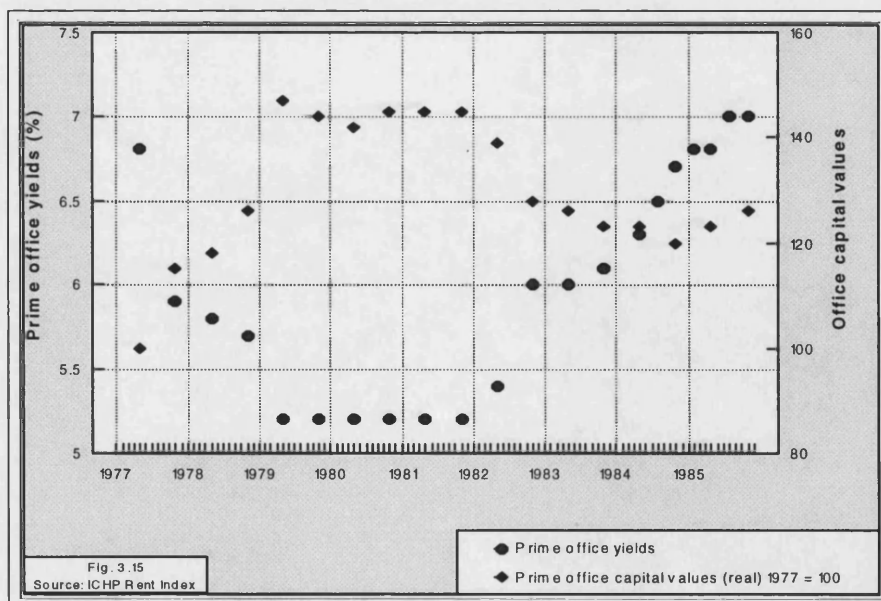
Thatcher Government's supply side policies to encourage widescale development of new space. The resulting over-supply of industrial space which emerged in 1989 and 1990 gave way to declining real rental values and capital values in the 1990's and little new development activity. The significance of the supply side policies to these exaggerated supply and demand cycles will be explored specifically in Chapter Four.

The Office Property Market

The office sector is complicated by the different roles played within the economy by occupiers of the same type of building. Office occupiers can be broadly divided into two categories; dependent and independent. The dependent occupiers are those which serve a company or institution whose primary function is based within another sector, such as a manufacturing company or a public service. Independent occupiers are those whose primary function is carried on within the offices they occupy. This sector is dominated by the service industries particularly finance, insurance and professional services. The importance of this lies in the differing reactions of each type of occupier to changing economic and market factors.

i) 1977 - 1979

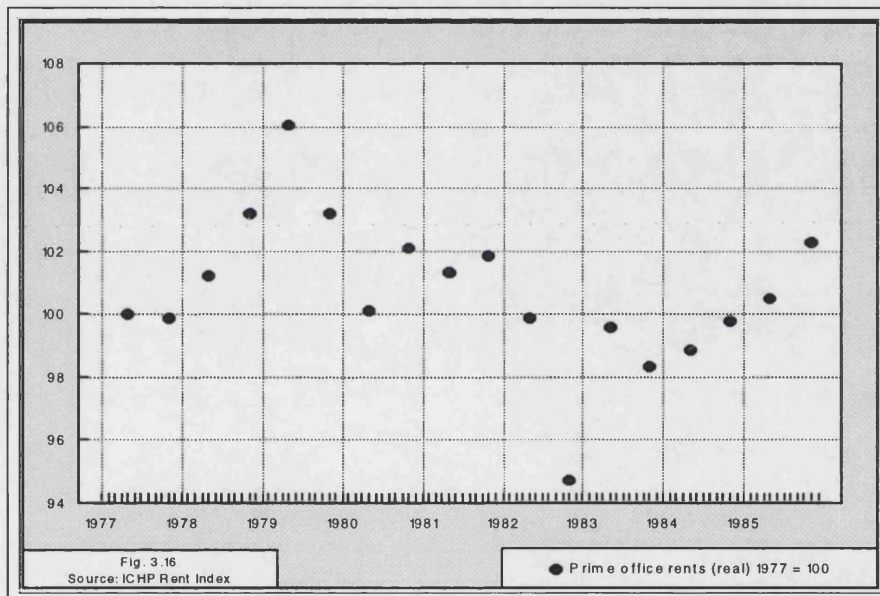
During the latter half of the 1970's and the beginning of the 1980's investor demand for property (predominantly prime office buildings) had been sustained as the institutions followed a policy of increasing the proportion of property within their portfolios (Fraser, 1993). This had a self fulfilling effect on the returns obtained from property held as an investment as investor demand kept yields low and capital values remained high (see fig. 3.15).



Institutional policy was not the only reason for continuing investor demand for property over this period. The high level of inflation and negative real

interest rates in the 1970's had increased the attraction of property as an asset, particularly when compared to gilts and equities. Capital values in the office sector experienced real growth from 1977 until 1979 and the 1979 level was sustained until 1982 in spite of recessionary conditions. The attraction of property as an asset class to institutional investors is understandable even if an element of the returns were generated by their own demand.

Over the 1977 - 1979 period the office sector experienced real rental growth (see fig. 3.16). This occurs simultaneously with the fall in interest rates and inflation but is not sustained as the economy moves into recession in 1979.

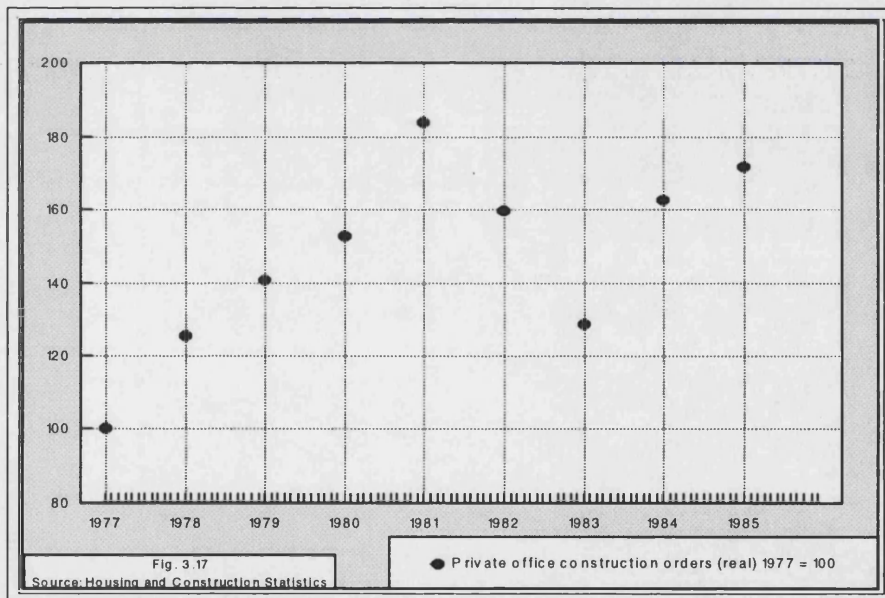


ii) 1979 -1984

GDP entered a period of decline in 1979 which lasted until 1981. Although Barras (1983) describes the link between GDP and office occupier demand as relatively weak, this nonetheless indicates that occupier demand could be expected to fall in the office sector over this period. As the manufacturing sector declined office buildings previously required for the administrative and managerial functions relating to the manufacturing sector became vacant. Even where companies did not close, any spare capacity within the office accommodation they used was cut back as the sector responded to high interest rates and to the strength of sterling reducing their international

competitiveness. The expansion of the service sector as an alternative engine of growth was not advanced enough at this time to counteract the contraction of the manufacturing sector.

In direct contrast to this weak demand, investment yields in the office sector remained stable at approximately 5% from 1979 until 1982 (see fig. 3.15). This resulted in high capital values in the sector in spite of the lack of real rental growth as has been discussed above. Capital values have been identified as having the strongest influence on construction starts and construction orders increased from 1977 - 1981/2 in response (see fig. 3.17). The sharpest increase in 1980/81 coincides with the fall in interest rates and would have been further encouraged by the expectation of economic expansion as the business cycle reached its peak.



The supply of office accommodation thus increased. Some of this accommodation was new and built to the specifications of speculative office developers and institutional investors but an increasingly large proportion of supply was the direct result of manufacturing decline as companies closed and cut back. Both types of accommodation quickly became locationally and functionally obsolete, although the second hand space was clearly the worst and most quickly affected by this. Without any recovery expected in the manufacturing sector or even in the regions which had been dominated by

this sector, demand for the excess supply coming into the market from this source was unlikely to emerge.

The requirements of office occupiers changed at the beginning of the 1980's. New technology had to be accommodated within building design as did more efficient building services and occupiers were making greater use of the improved transport infrastructure. This resulted in even the newer speculatively developed office buildings being unable to fulfil the requirements of demand that began to emerge from the new growth sectors of the economy. Locational and functional obsolescence was affecting the office building stock by the mid 1980's just as it had affected the industrial sector.

The recovery of GDP in 1981 may have been expected to herald some recovery in occupier demand for office space. According to the cycle identified by Barras an upswing was expected in the beginning of the 1980's which should have been encouraged by a simultaneous peak in the business cycle. The drop in interest rates, from the high point of 17% in 1980 to 12% in 1981, combined with the steady fall in the retail price index from 1980 onwards, encouraged the economy to expand. Evidence of this expansion can be seen in the increase in bank lending to industrial and commercial companies (see fig. 3.4). The recovery was short lived. Interest rates were increased again in 1981 as money supply failed to meet MTFs targets and RPI remained high. This had a more lasting impact on the economy than the interest rate rises of 1979 -1980. A sharp reduction in short term demand for office space can clearly be seen in figure 3.16 as capacity was further reduced.

The point to identify here is that government policy served to extend the period of the recession which had begun in 1979. The restrictive monetary policy imposed accelerated the decline in manufacturing. This exaggerated the early 1980's recession to the extent that Barras identifies the upswing in

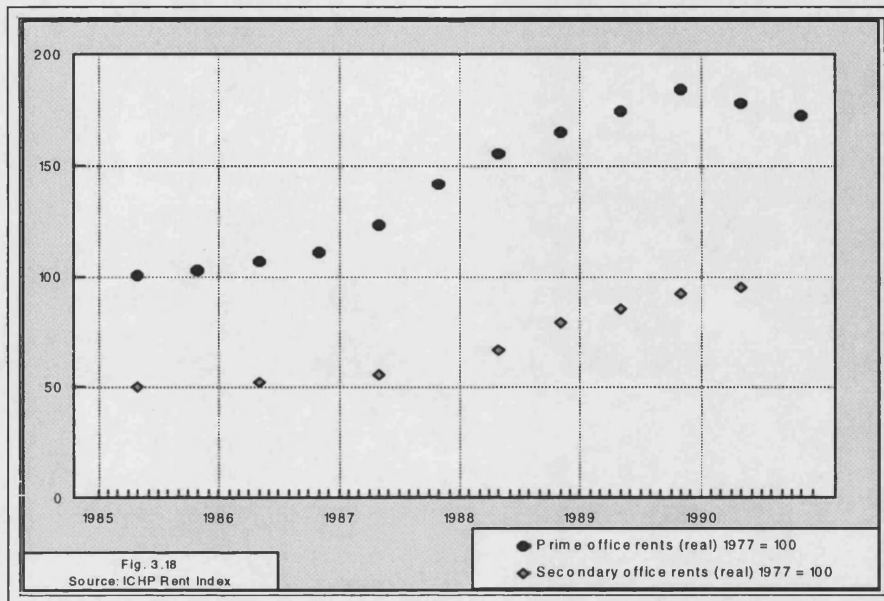
1983/4 as the only one which was not accompanied by a real increase in rents (Barras, 1983:1390). This he links to the severity of that particular recession.

Between 1981 and 1984, office sector rents declined in real terms and falling investment demand allowed yields to rise and capital values to fall. Construction orders fell from 1980 until 1984 as the development sector responded to falling profit levels (see fig. 3.17). The patterns of the nine year development cycle are identifiable in this fall in construction and ultimately a rent rise would be expected to trigger new construction when demand began to expand again. A complicating factor however, was the type of buildings which were in excess supply. As has been discussed above, these were not buildings which would conform to the requirements of the new service sector which was beginning to take over from manufacturing.

This led to the market experiencing very restricted supply of the type of buildings for which demand emerged over the latter half of the 1980's but excess supply within the office sector as a whole. Locationally and functionally obsolete space began to be reclassified as secondary, illustrated by the secondary office rent index taking longer than the prime index to experience any real rental growth (see fig. 3.18). In the short term new construction activity was discouraged and office construction orders did not rise until 1984.

The government responded with a policy of encouraging development of new types of space, increasing the supply of land to be developed for service related uses and encouraging flexibility within the use of commercial buildings through the development control system. This is the sort of public policy which Barras (1983) identifies as having a counter-cyclical effect on the property markets, encouraging development during upturns in the market which then adds to excess supply during the period of downturn exacerbating the market conditions created by the development cycle rather than relieving

them.



iii) 1984/5 - 1990

The latter half of the 1980's was a period of rapid economic expansion driven mainly by the service sector. The supply side policies of the government encouraged expansion through the extensive programme of deregulation which was in progress at this time and the expansion of the availability of credit. The resulting rise in demand for new office space exceeded supply, the level of construction orders having fallen between 1981 and 1984. The market continued to experience an over-supply of second hand and speculatively built office space from the beginning of the decade but this space did not meet the requirements of new demand. Tollast and Damesick (1990) point out the shortage of certain types of building;

"A low level of construction in the first half of the 1980's meant that there was a limited supply of new space, particularly buildings with large floor plates suitable for the new financial conglomerates" (Tollast and Damesick, 1990:6)

As figure 3.18 shows, this shortage of supply of particular types of office building lead to real growth in prime office rents from 1985 onwards. The new demand for office space was generated in part by the deregulation of the

financial services sector in 1985 and the expansion of professional services which this encouraged. The impact this element of the government's deregulation policy had on the property market was felt in two ways;

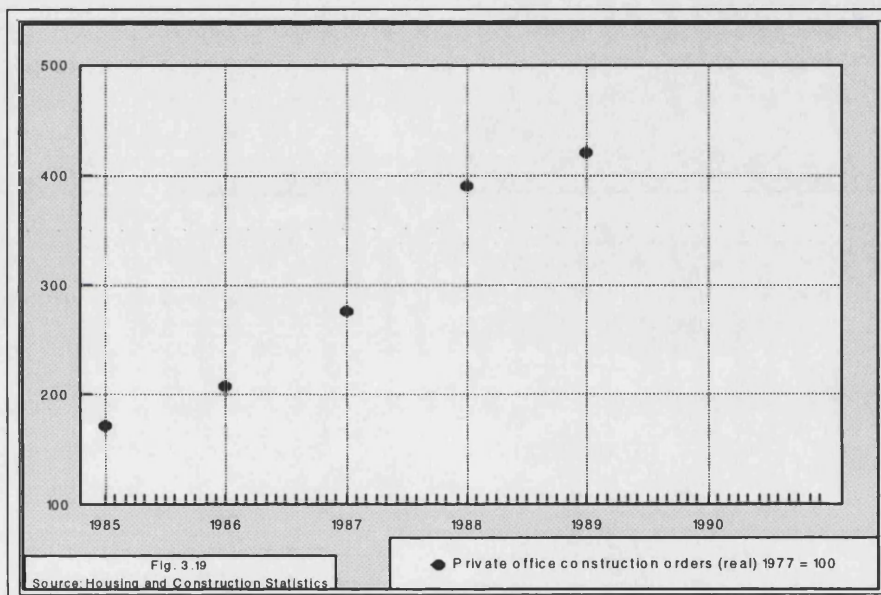
- i) the deregulation of the capital markets lead to an explosion in the availability of debt financing. This made new funds available for the development of property and lenders were now under much greater pressure to compete with each other for business;
- ii) the increase in both the creation of credit and in the range of financial services which could be offered by financial services companies, boosted the profits being made by existing companies and encouraged new participants into the market. This would clearly increase occupier demand for office space, particularly in areas dominated by financial service organisations such as the City of London.

Leyshon, et al. (1987) provides a full account of the impact of financial deregulation on the City of London. Between 1968 and 1986 foreign banks and securities houses represented in London increased from 135 to 447 with related employment in the area rising by almost 500%. This gives some indication of the increase in demand for office space from the finance sector.

The increase in the availability of credit and the reduction in interest rates which was taking place over this period encouraged development. Barras (1983) in establishing his theoretical model of the office development cycle identified circumstances under which an 'explosive' nine year cycle could be produced. Capital values are established as the most important factor in encouraging development starts, but interest rates and construction costs are also important and serve to affect the adjustment rate established in the model. Barras uses the Barber boom to illustrate the effects which can be produced;

"The ready supply of low interest, short-term credit was one of the main reasons why the property sector overreacted so strongly to shortages of space during that property boom"
(Barras, 1983:1393)

A similar set of circumstances arose in the 1985 - 1990 period. Rising demand from the expanding service sector industries was encountering restricted supply. Real rents began to increase in 1985 and, although investment yields did not begin to fall until 1987, capital values rose throughout the period, encouraging development. These circumstances were exacerbated in areas such as the City of London by increases in user demand stemming from the deregulation of the stock market and by the increase in the supply of land for office development through the government's relaxation of development control. The resulting increase in private office construction orders is clearly illustrated in figure 3.19.



The value of construction orders rises most dramatically simultaneously with the lowest level of interest rates. It must be emphasised though, that the new construction this represents would not be adding to supply within the market until, on average, two years later. Thus the highest level of new orders in 1988 would increase supply in the market in 1990.

This increase in supply was not confined to the prime office sector. Rental values were rising in both the prime and secondary office sectors and the supply of sites for secondary office development was particularly affected by the government's introduction of greater flexibility into the Use Class Order. This flexibility, discussed above in relation to the industrial sector, allowed

light industrial buildings to be used as office space and vice versa. The distinction between office and light industrial however, became more and more blurred as the demand for office accommodation increased and developer demand for land continued to rise.

In the short term, high office occupier demand maintained high rental levels for B1 space. Once this began to contract, the B1 space that had been conceived at office rents, was found to have been developed in the wrong locations and to the wrong specifications for the office tenants that remained in the market. By the end of the decade the over-supply of secondary office space in the market was even more dramatic than the over-supply in the primary sector.

Between 1987 and 1989, the office market experienced rapid real rental growth as the economy expanded. The expansionary Budget of 1988, further encouraged office occupier demand. Take-up of space in the City, West End and Holborn fell slightly from nearly 14 million square feet in 1987 to a little over 12 million square feet in 1988.¹ This still represented demand healthy enough to set new record rents in these areas. Although the rental figures are lower, the other metropolitan areas of the UK also seemed to be sustaining office rental growth during 1988.

This situation continued into 1989 and figure 3.16 shows the office rent peak as occurring in the first half of 1989 in spite of interest rates rising quite rapidly from 1988 onwards. Office yields were not performing so well and also began to rise in 1989 as investors began to expect a reduced level of rental growth from the sector. Capital values fell as a result and the value of private office construction orders fell slightly although it still represented a large level of construction. Any new construction begun in 1989 would not enter the market until approximately 1991, by which time the situation within the economy as a whole had changed quite dramatically.

¹ Source: DTZ Debenham Thorpe

The nine year development cycle is identifiable in these market trends. However the cycle was exaggerated by the government's expansionary monetary and fiscal policies in the latter half of the 1980's. The overreaction this stimulated within the development sector lead to an exaggeration of the down swing of the cycle in the early 1990's.

Summary

One argument being made here is that existing cycles within the property markets were exaggerated by government policy over the period of the 1980's. The office market displays characteristic four year demand cycles and nine year development cycles, patterns to which the extreme rental growth and increased development activity over this time period, conform. However, the government's policies served to bring about the circumstances which, according to Barras' model (Barras, 1983), would cause an 'explosive' cycle.

In the early part of the decade, the extreme recessionary conditions reduced development activity to such an extent that new supply failed to satisfy rising occupier demand until 1989 and 1990. This problem was exacerbated by the lag inherent within the development process delaying new supply from reaching the market. Short term finance became readily available at low interest rates and the government's relaxation of development control policies increased the supply of land suitable for office development. These factors combined to increase development activity at a rate above and beyond that which was necessary to alleviate the pressure on demand. This overreaction lead to enormous over-supply within all sectors of the office market, making the downswing that followed as exaggerated as the upswing which preceded it.

The Retail Property Market

The supply cycle within the retail sector is affected by the lag within the development process and conforms to the nine year pattern identified by Barras. Similarly the four year demand cycle is related to the business cycle and affected by retailing profits. The importance of the relationship between profits and retailing user demand is stressed by Schiller;

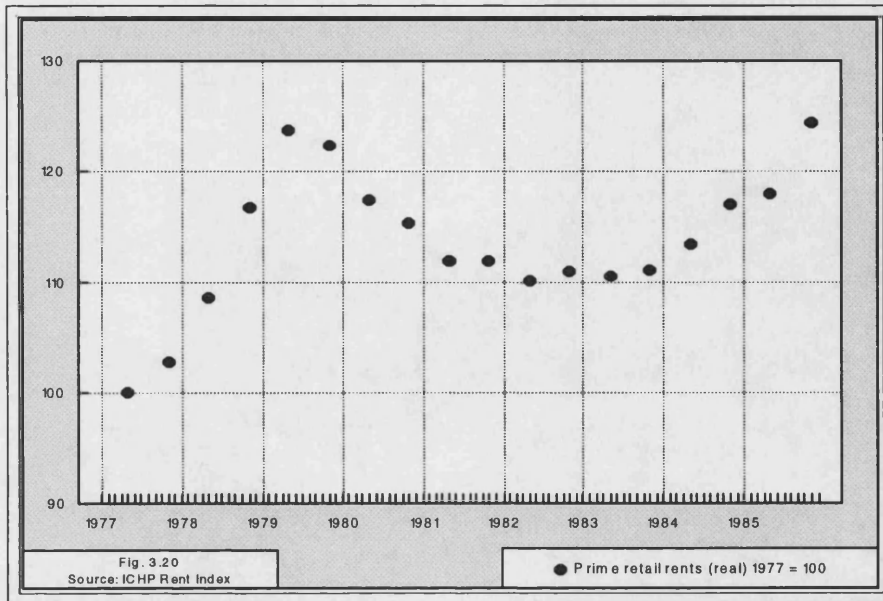
"There is a close relationship between the movement of shop rents and the volume of retail sales, and an even closer relationship between rent and retailers' profits."
(Schiller, 1982:86)

Any government policy which affects consumers' propensity to spend will affect retail profits and, therefore, user demand for retail space. In establishing the argument here, it is proposed that the macroeconomic policies of the Thatcher Government over the early 1980's served to reduce consumer expenditure dramatically. This exaggerated the trough of the retail occupier demand cycle. Similarly, the macroeconomic policies of the Thatcher Government over the late 1980's, served to increase consumer expenditure to such a high level that retailing profits were massively increased during a period when the supply of retail property was still restricted by lack of construction in the early 1980's. This gave rise to an exaggeration in the peak of the demand cycle which transformed the peak of the supply cycle into the over-supply of retail space experienced in the early 1990's.

i) 1977 - 1979

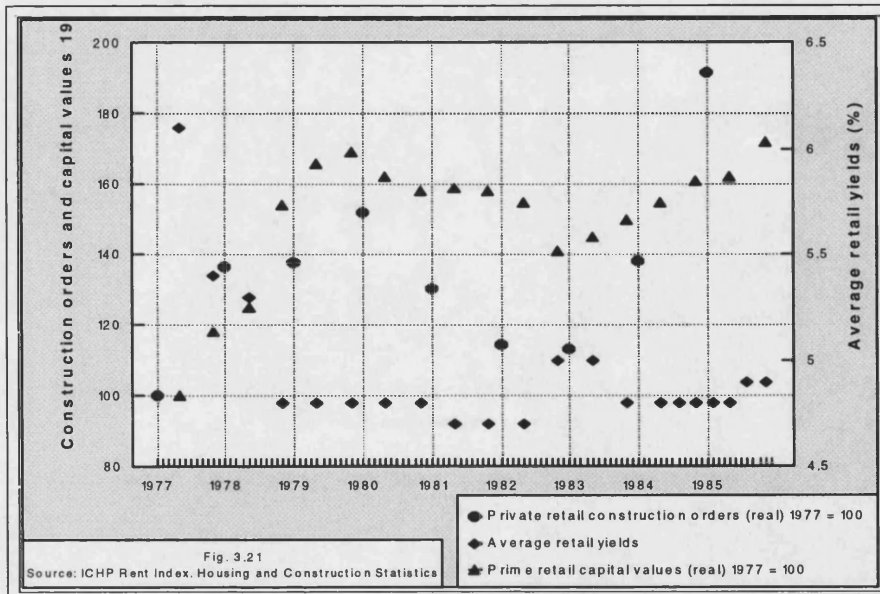
The demand cycle, having peaked in 1973/74 peaked again in 1977/78 and a downswing followed. Retail rents rose between 1977 and 1979, user demand being encouraged by rising consumer expenditure as consumers reacted to falling inflation and interest rates (see fig. 3.20). A natural response to this was steadily increasing private construction orders. The supply these construction orders would create came onto the market between 1979 and

1982, at which time the economy had moved into recession.



ii) 1979 - 1985

Private retail construction orders peaked in 1979 and fell sharply as capital values were reduced by falling user demand (see figs. 3.20 & 3.21). Consumer expenditure was immediately affected by the more restrictive monetary policy adopted by the new Conservative Government in 1979. The increase in interest rates worsened the terms upon which credit was available and the high inflation in 1979 and 1980 discouraged purchasers.



According to the four year business cycle, expansion should have taken place in 1980 and 1981. The reduction in prime retail yields which occurred in 1981 may have been the response of investors to an expected upturn in the market (see fig. 3.21). Nonetheless, user demand continued to be so low in the retail sector that this reduction in yields had a negligible effect on capital values which continued to fall sharply until 1983, discouraging new construction orders from 1979 until 1984.

An important factor in the drop in consumer expenditure in the early 1980's was the massive increase in unemployment. Although the government's macroeconomic policies were not aimed at restructuring the retail sector in the same way that the industrial sector had been restructured, the restructuring of the labour market, which clearly was a government objective, had an enormous impact on the demand for retail space. The mass unemployment it created reduced real personal disposable income which as was established earlier would reduce retail occupier demand.

An apparent contradiction in the data occurs in the latter half of 1982 when real consumer expenditure began to recover whilst unemployment continued to increase. The economy was expanding whilst sustaining an unemployment level of 3 million. Interest rates fell in 1982 but this did not make government policy any less restrictive at this time. Real interest rates remained high, but the economic expansion did signal the expectation of some level of recovery and a more confident tone was heard in the property press;

"On the generally accepted basis that the UK is going to see the beginning of an economic recovery towards the end of 1982, this should produce an increase in sales volume and hence retailers' profits, and cause shop rents to rise ahead of inflation in 1983" (Schiller, 1982:86).

The retail sector was cautious in its response to this increase in consumer expenditure. Demand for retail space, as indicated by the retail rent index, (see fig. 3.20) experienced no real rental growth until the beginning of 1985.

Any increase in user demand for retail space prior to this would have been catered for by existing supply.

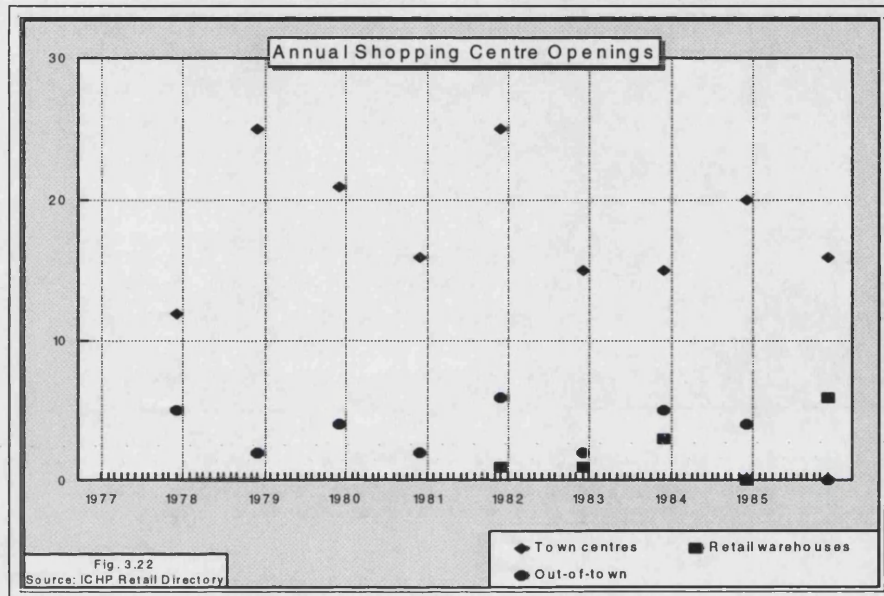
Supply within the retail sector did not suffer from functional obsolescence in the early to mid 1980's in the same way as the industrial and office sectors did. An increase in demand for retail space could be fulfilled by existing supply. This capability within the market was reinforced by the high level of construction orders reached in 1978, incorporating both town centre and out-of-town shopping centres, which would have been completed in 1981 and 1982, increasing the supply of relatively new retail space available within the market. The first retail warehouse park also opened in 1981, according to Hillier Parker Research, (1994) adding a further 108,000 sq.ft to supply, although this type of accommodation is by no means suitable for all occupiers.

The major change in the nature of demand within the retail sector sprang from the shift towards out-of-town shopping². The average size of town centre developments fell from 233,741 sq.ft in 1976 to 136,500 sq.ft in 1980. Simultaneously out-of-town centres began to increase in number, rising from zero in 1975 to 18 in 1980 (Hillier Parker Research, 1993). Out-of-town centres are on average (excluding the large regional centres) 25% smaller than town centre developments so this increase in supply of out of town shopping centres would not replace the declining size and number of town centre developments. It would however, satisfy any increase in demand for retail space encouraged by an emerging, consumer led recovery in the early 1980's.

The expansion in demand was not strong enough to bring about any real increase in retail rents until 1984 and 1985. This extended delay to any

² The factors behind this shift have been discussed at length elsewhere and are not particularly vital to the argument being made here.

upswing in the retail rental cycle discouraged the initiation of new retail developments. 1984 and 1985 experienced unusually low shopping centre development completions across all three types, town centre, out of town and retail warehousing. No new retail warehouse parks were opened in 1984, no new out-of-town centres were opened in 1985 and town centre development produced the lowest level of additional floorspace since 1966 (see fig. 3.22).



High interest rates increased construction costs and risk. Low consumer expenditure reduced demand and rental values thus keeping capital values low. Pressure on supply in 1984 began to improve capital values and at this point, a sharp increase in private retail construction orders occurs (see fig. 3.21). These initial developments would not be completed until approximately two years later by which time the government's macroeconomic policy had brought about a sharp expansion of the economy and more intense pressure on retail supply.

iii) 1985 - 1990

The deregulation of the financial services sector in 1985, substantially increased the availability of consumer credit. Consumer expenditure expanded in response from 1985 until the end of the decade (see fig. 3.23). Figure 3.24 shows the increase in demand for retail property which sprang from this. The increase in demand created by the small economic recovery

which had begun to take place between 1983 and 1985 had been enough only to stem the real decline of retail rents. The expansion of the economy between 1985 and 1990 was strong enough to bring about record increases in retail rents as existing supply finally failed to fulfil the pressure of new demand.

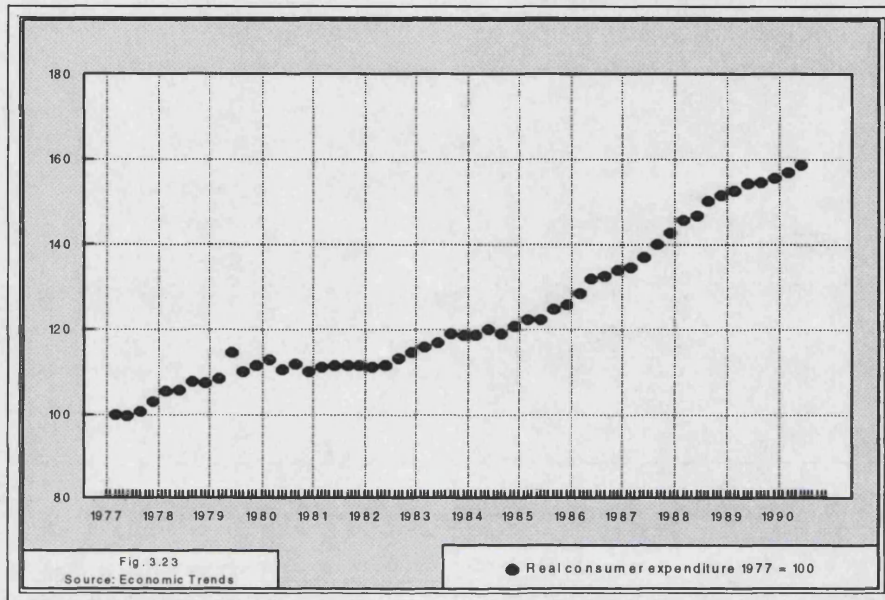
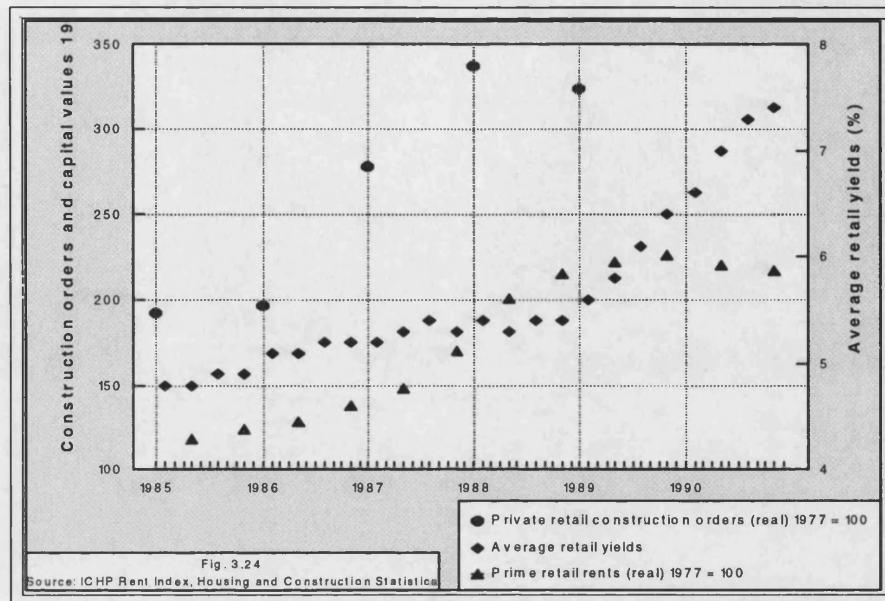


Figure 3.24 charts some of the responses of the retail sector to the restricted level of supply coming into the market in the face of rising demand. Retail investment yields continued to rise from 1985 until 1987. Investors clearly expected little significant rental growth in the retail sector. Given the slow pace of the recovery in this sector and the continuing high real interest rates being imposed by the government the position was a logical one. This had the effect of maintaining low capital values in the retail sector throughout 1985 and 1986 in spite of real rental growth being experienced from 1985 onwards. Consequently private construction orders in the retail sector did not

experience any major increase until 1986.



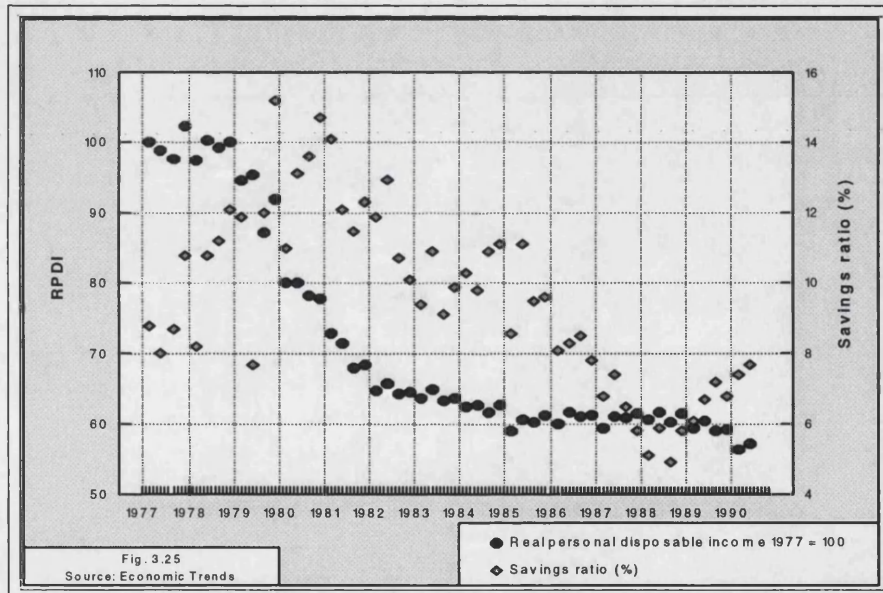
This lengthening of the trough of the supply cycle lead to an overreaction in the market once the level of retail demand became clear. Real rental growth combined with falling yields to increase the capital value of completed retail developments. Falling real interest rates and the expansion of the availability of credit combined with these market factors to generate a sharp increase in the level of construction orders in 1986 (see fig 3.24). The relaxation of development control policy since 1984 would have further contributed to this massive expansion of supply in the late 1980's and early 1990's had it not been for the reluctance of many local authorities to allow massive retail developments (Rydin et al. 1990), particularly in out of town locations. The trend towards developing this type of scheme, although not the only type of retail development being undertaken, nonetheless created an explosion in the amount of retail space due to come onto the market from 1986 onwards;

"The amount of out-of-town retail space, either under construction by March this year or with planning consent, was up by over 300 per cent on the same period last year" (CSW, 1986:15)

The extent of the increase in development which took place over this short period of time is indicated in a Hillier Parker report;

"A reduction in the number of developments being proposed at this time would not bring about any decline in the level of supply until the end of the decade. Many of the proposed shopping centres failed to receive planning permission but this did not alter the fact that some 107.8 million square feet of retail space was in the pipeline in June 1987." (Hillier Parker, 1987:8)

The important point to note here is that this massive level of new retail development was encouraged by the ready availability of relatively cheap development finance, combined with the sustained increase in consumer expenditure. These factors were reinforced by the government's more expansionary macroeconomic and fiscal policies introduced in the latter half of the 1980's.



The extent to which this increase in consumer expenditure was supported by the expansion of credit is made clear in figure 3.25. Real personal disposable income fluctuates quite dramatically over this period but the overall trend is clearly downwards from 1986. The increase in consumer expenditure was therefore not being financed by an increase in disposable income. The level of the savings ratio also fell sharply from 1985 until 1989. Clearly much of the expansion in consumer credit was occurring at the expense of savings. In the absence of any growth in real personal disposable income, the expansion in the retail sector was thus dependent

upon increasing the availability and attractiveness of credit and discouraging the propensity to save. Both of these contributory factors are very sensitive to increases in interest rates.

Real interest rates peaked at 9.5 % in April 1986. Overall for the next two years nominal interest rates fell and inflation rose, effectively producing a consistent drop in real interest rates. These factors clearly discourage any form of saving and encourage consumer expenditure. The increase in nominal interest rates in 1988 had little impact on the level of real interest rates because inflation was still rising. This situation changed in 1989 by which time the increases nominal interest rates were large enough to outweigh rising inflation and create an increase in real interest rates. This coincided with an increase in the savings ratio as saving became more attractive. Real personal disposable income declined sharply between 1989 and 1990 and a reduction in the level of demand for retail property can be seen in the falling prime real retail rent indicator.

Just as the trough in the retail supply cycle was exaggerated by the economic policies of the early 1980's so the peak of the same supply cycle was exaggerated by economic policies of the late 1980's. This subsequently led to the retail property recession of the early 1990's being exaggerated by the over-supply of property within the market and the reduction in consumer expenditure generated by the high level of personal debt and unemployment.

Summary

The retail market was not the primary subject of any major restructuring engineered through economic policy over the 1980's. Demand for retail property is linked to the economic welfare of consumers within the economy rather than producers. In furthering the argument being made here, the retail market provides evidence to show that all sectors of the economy were affected by the policies of the Thatcher Government, not just those sectors highlighted for restructuring and accelerated change.

The retail sector responded more slowly than the industrial and office sectors to increases in user demand in the mid 1980's. The fundamental changes in the types of property demanded by the other two sectors created functional and locational obsolescence which did not affect the retail sector, allowing increasing demand to be catered for by existing supply. This did not however, prevent the retail market from experiencing record rental growth levels once existing supply had been taken up. As it became clear that pipeline supply was low the level of retail construction starts increased. The development lag, a lower level of depreciation than that experienced by the other two sectors and a high adjustment rate encouraged a higher level of new development than was required to fulfil demand and brought about explosive cyclical conditions as identified by Barras (1983). These conditions were further encouraged by the expansion of the availability of credit and low interest rates until over-supply and worsening economic conditions created the exaggerated retail property market recession of the early 1990's.

The deflation of the economy in the early 1980's extended the trough in the building cycle reducing the level of new supply in the market for all three sectors. The reflation of the economy in the latter half of the decade placed pressure on supply encouraging new development as would be expected within the nine year building cycle. The exaggeration of the upswing in the building cycle was not simply a response to reflation through more expansionary macroeconomic policy but to supply side policies aimed at encouraging growth in specific sectors of the economy. Some of these supply side policies have been identified through the discussion in Chapter Three. Chapter Four develops this argument concentrating specifically on the supply side policies of the Thatcher Government and their impact on the commercial property markets.

CHAPTER FOUR

SUPPLY SIDE POLICY AND THE COMMERCIAL PROPERTY MARKETS

Introduction

The previous chapters have explored the political and macroeconomic setting within which the commercial property markets operated during the 1980's and their response to it. Through that process the supply side policies which formed part of the Thatcher Government's political strategy have emerged as a significant factor in the behaviour of the commercial property markets. Chapter Four therefore focuses on the impact of this government's supply side policies as part of the overall investigation of the commercial property markets in the context of Thatcherism.

The importance accorded to supply side policies by the Thatcher Government in the achievement of its objectives is perhaps the most fundamental change to have taken place within UK government policy at this time. The significance of this as a clear indicator of the move away from Keynesian demand management policies following the 1979 election, is explored in Chapter One. This change in policy emphasis is central to any discussion of the impact of supply side policies during this period.

Before continuing, two points must be reiterated; this work contends that:

- i) macroeconomic policy post 1979 was not as ground-breaking as the government suggested but, importantly, this did not detract from or mute the impact it had on the commercial property markets;
- ii) supply side policies did change after 1979, both in terms of the importance accorded to them and in their objectives. The impact that these new policies had on the commercial property markets is just as important as the impact of macroeconomic policy.

A major, stated objective of the Thatcher Government was the provision of economic conditions within which private enterprise could flourish fostering

economic growth. Chisholm (1987) characterises the importance of supply side policies to the new government in establishing these conditions:

"In practice, supply-side economists are interested in the whole range of supply constraints and what might be done to ease bottlenecks - by deregulation in labour markets, land markets etc." (Chisholm, 1987:211)

To ensure a plentiful supply of land, capital and labour allocation of which would be governed by market forces the government implemented a programme of deregulation within the land, capital and labour markets. Being directly linked to these markets the commercial property markets were affected by the supply side policies through which the deregulation programme was implemented. This chapter studies the response within the commercial property markets to these supply side policies. The discussion is divided into the three sub-sections land, capital and labour for clarity and to allow the complexity of the relationship between these resources and the commercial property markets to be explored.

One of the arguments being presented here focuses on the supply side policies of the Thatcher Government encouraging the over accumulation and consequent over investment in the built environment which is inherent within developed capitalist systems (Harvey, 1985). By the 1970's the obsolescence of Fordism once maximum productive capacity had been reached, closed an area within which capital could be productively employed. The supply side policies of the government provided new avenues of employment for capital by expanding the financial services sector and increasing the efficiency of the mechanism by which capital could be transferred from the primary circuit of capital to the secondary circuit, as identified by Harvey (1985) and discussed in Chapter Two.

This resulted in a shift in investment away from the production of goods and services towards the production of fixed capital assets. It also allowed investment to flow more freely between different countries and brought a strong influx of investment from overseas into the UK at different times within

the cycle. These structural changes in the capital markets, wrought through the supply side policies of the Thatcher Government, reinforced the exaggeration of demand and supply cycles within the commercial property markets.

Land

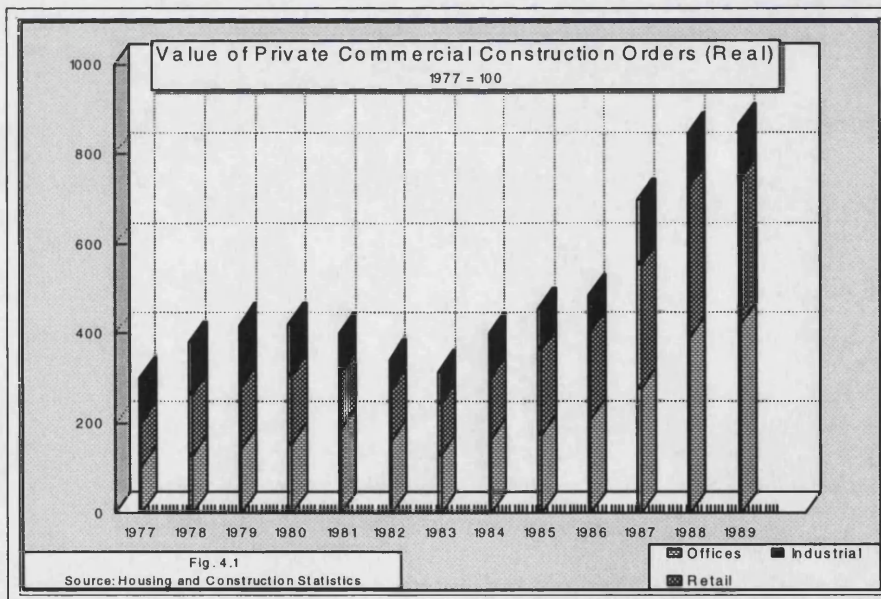
The supply side measures introduced to deregulate the land markets will be discussed below but it is important to establish here the argument being made with respect to this particular resource. The land related supply side measures introduced by the Thatcher Government were intended to increase the supply of development land and the supply of built space. The policies had a variety of effects the combined impact of them being to increase the rate of adjustment of supply both of development land and commercial buildings, to rising demand. (Barras' discussion of this (Barras, 1983) is explored in Chapter Two).

If the rate of adjustment increases to the extent that it exceeds the rate of depreciation by more than unity, an "explosive cycle" (Barras, 1983:1388) will result. It is the contention of this work that the Thatcher Government's supply side policies relating to land contributed to the creation of such circumstances.

In 1979 the Royal Institute of Chartered Surveyors identified restrictions to the supply of development land (see Chapter One) and the government implemented measures to remove these restrictions. The obligation for local authorities to take development land into public ownership under the Community Land Act was removed shortly after the 1979 general election and changes which would lead to the eventual removal of Development Land Tax were being considered by the Summer of 1980. In August 1980 IDC's were made generally available for the development of rented factories of up to 50,000 sq.ft. on industrial estates. IDC's were suspended altogether by

the end of 1981 removing another perceived restriction on this type of development.

A smaller initiative which took place in 1980 was the setting up of Land Registers. These were aimed at bringing under-used and vacant, publicly owned land to the attention of private developers in order to attract private investment. All local authorities were required to provide registers. Some of the land was in the inner cities but the nature of the sites was such that only 4% of land registered was disposed of in the first 2 years of the scheme. Developers showed a reluctance to take on inner city sites, many of which were contaminated and costly to develop. The scheme continued throughout the 1980's and when pressure was being placed on the supply of development land by remarkably strong demand in 1986, the DoE instructed 16 local authorities to dispose of any unused public land they held thus increasing supply further.



As Figure 4.1 shows, the construction industry failed to respond to these policies in the short term. Increased development within the office sector between 1979 and 1981 was encouraged by investor demand as the investing institutions increased the proportion of property within portfolios. This demand was not sustained beyond 1981. The retail and industrial

sectors displayed little evidence of a response to the government's attempts to encourage supply. Further supply side measures were implemented.

The maximum levy for rates on empty commercial property was reduced from 100% to 50% in April 1981 and was further reduced to 0% in April 1984. The government's intention was to encourage development activity thereby increasing the supply of built space suitable for occupation by expanding sectors of the economy. The effect was to reduce the risk involved in speculative development of commercial buildings with little regard for occupiers' requirements. The reduction to 0% levy for empty rates in 1984 coincided with a shortage of new commercial space and the building cycle moving into a period of upswing. (See Fig. 4.1).

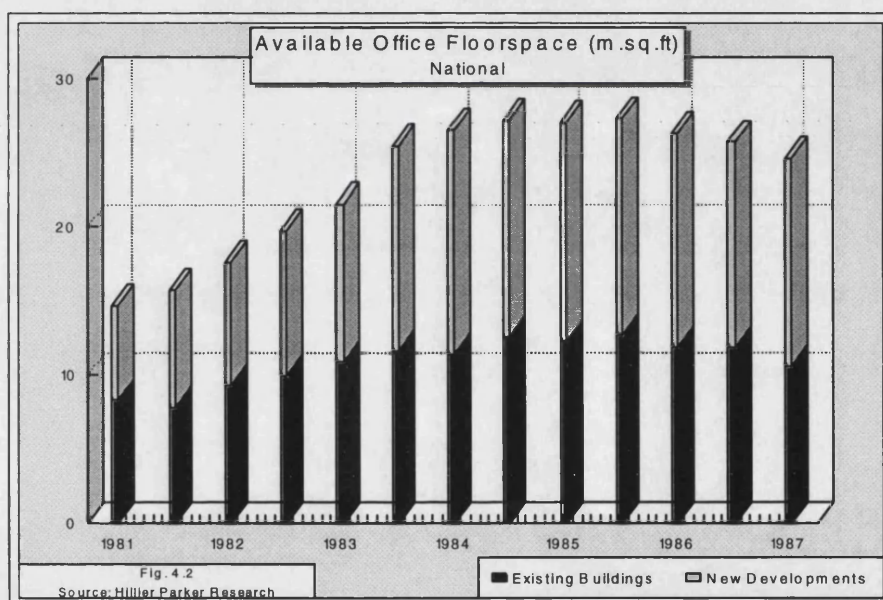
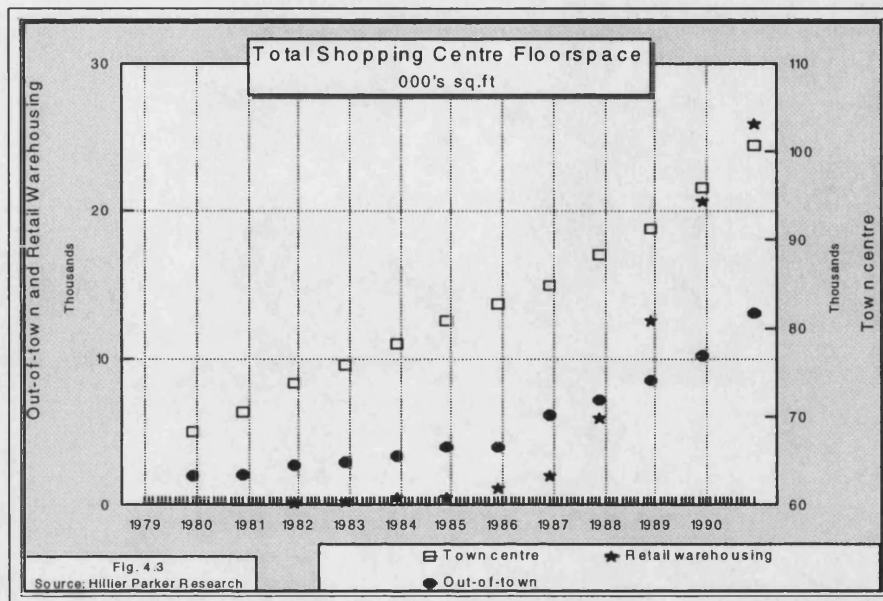


Figure 4.2 shows the amount of newly developed office floorspace available in the market rising quite sharply to exceed the level of existing floorspace for the first time in this decade in 1984. Similar evidence is shown for the retail sector in figure 4.3. Town centre, out-of-town and retail warehousing all experience increases in the number of centre openings from 1985 onwards as the rise in construction orders which began in 1984, started to come onto the market. This demonstrates both the low level of development activity in the first quarter of the 1980s and the rapid response of the development

industry once demand began to improve in the mid 1980's.



The reduction in empty rates liability was not the only tax subsidy offered in return for investment in land and buildings. Limited levels of private investment in the property sector were able to benefit from a tax relief instrument with the introduction of the Business Expansion Scheme in 1983. The scheme was introduced to encourage investment by individuals in unquoted UK trading companies by offering tax relief at the highest rate of income tax paid by the individual on investment of up to £40,000 in any one year. Although this was intended to increase investment in UK industry generally, up to 50% of a company's net assets could be in the form of land and buildings before any restriction on relief applied. Companies dealing in land were excluded from the scheme but property development companies were included during the first year of the scheme's operation.

With a top marginal tax rate of 60%, private investment in land and buildings was receiving government subsidy at the beginning of an upturn in the building cycle. Restrictions were placed on the eligibility of property development companies in 1986, and the level of tax relief obtainable was eventually restricted to the basic tax rate but not until after the period being studied here. This represented a significant government incentive to

investment, up to half of which could be in built space, at a time of rising occupier demand and falling supply.

In terms of development control, the most influential measure to be introduced by the government in its first term of office was Department of Environment (DoE) Circular 22/80. This aimed to speed up the planning process and to make it more responsive to the market. It highlighted the importance of market factors within the decision making process, particularly in relation to aesthetic control. That the developer would have to sell the development was seen as the most suitable control for the acceptability of design¹. This Circular and DoE Circular 14/85 "Development and Employment" established "a presumption in favour of planning permission being granted unless planning objections could be sustained." (Rydin. 1993:62). This was supplemented by Circular 16/84, "Industrial Development" giving priority to industrial development which should always be allowed unless demonstrable harm would be done to a valuable feature of the locality.

Although the local authority was not forced to follow the advice of these circulars, it was emphasised that it would be taken into account by the Secretary of State in the appeal process. This had a number of effects on the development control process which were explored by Rydin et al, (1990) in a report to the Association of District Councils. In their analysis of national level data they noted that "The number of planning decisions rose to a peak of over half a million in 1988/9"(p.6). The material provided shows that the number of decisions began to rise in 1986/87 which would coincide with a response to Circular 14/85, allowing a period for site identification and preliminary preparations prior to planning applications being submitted.

This increase in applications would also have been encouraged by the increased availability of capital funding and short term credit, the tax

¹

This was reiterated in Circular 31/85.

incentives applied to the development of buildings, the removal of development land tax and the perception by the market that development control policy had been relaxed. The increase in the number of applications is indicative of the increased activity of property traders creating surplus value by obtaining planning permission for sites and then selling them on. The value of land would be so enhanced by obtaining planning permission for a commercial development on it that enough profit could be made from selling the land on, not to have to embark upon the actual development. Thus the risk and high costs involved in actual development work could be avoided by the party obtaining planning permission, and the risk of not obtaining the required planning permission and incurring delays in the development process could be avoided by the developer.

Obtaining planning permissions and trading in land required lower levels of capital investment than development and a shorter time span. The absence of any obligation to act upon a successful planning application and the high profit levels involved in this trading process effectively encouraged land traders to make far more planning applications than developers would be likely to act upon within the lifetime of this upturn in the building cycle. This effect was reinforced by the relaxation of development control policy and the elevated importance of the role of the market within the development control system. The profits to be made from obtaining planning permissions and trading in land increased demand for sites with development potential once the low level of supply became evident in the mid 1980's. This pushed up land values, a price increase that would ultimately be passed on to the occupier, from the mid 1980's onwards.

Rydin et al.'s analysis of the data goes on to identify a fall in the success rate of applications;

"the percentage of applications approved has fallen from peak figures of 87.6% in 1983/4 to just over 80% in 1988/9"(Rydin et al., 1990:6).

This has implications for the success of the Thatcher Government's development control policies. In spite of the government's efforts to relax planning control policy and the positive presumption within Circular 14/85, the decline in the proportion of successful applications indicates a tightening of development control policy at local planning authority level. Whilst the increase in the number of applications made led to an increase in the number of permissions granted, in spite of the application success rate falling, the evidence suggests that the government was unsuccessful in relaxing local authority development control policy.

An equally significant finding within this report concerned the number of planning permissions granted on appeal.

"Major industrial, major retail, and all office development stand the highest chance of winning planning permission on appeal, with percentages allowed of over 50%."
(Rydin et al., 1990:7).

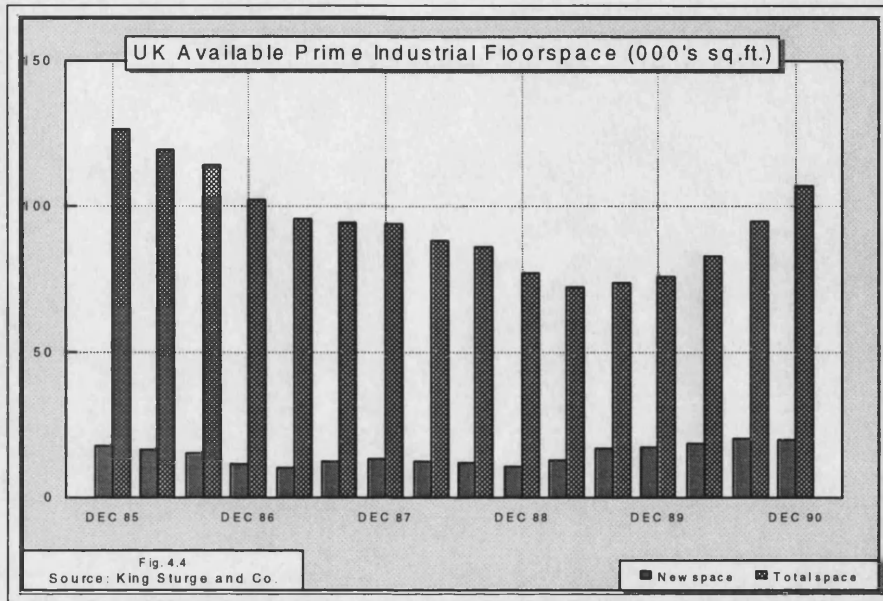
Part of the increase in planning permissions granted thus clearly stems from action by central government and is evidence of greater central government participation in the development control process. This is an example of the effects of a policy directly contradicting other stated government policy objectives. The development control powers of the local authority were clearly undermined whilst central government involvement in the system increased in an effort to reinforce the policy of expanding supply. One of the government's frequently stated policy objectives was the reduction of the role of the state, but such centralisation of power forms a common theme within many of the urban policy initiatives adopted by the Thatcher Government (see Coulson, 1993, Lawless, 1991, Healey, 1990).

The government's intention was to boost activity within the development industry simultaneously providing an ample supply of suitable space for economic expansion. The effect was rather different:

- i) the removal of DLT allowed profits to be made from trading in land for which planning permission had been obtained, an activity which increased the supply of land with planning permission without necessarily increasing the supply of built commercial space. The activity also had the tendency to inflate the price of development land.
- ii) Development activity did increase but developers were often unaware of occupiers requirements resulting in the development of space which was not necessarily suitable for economic expansion.

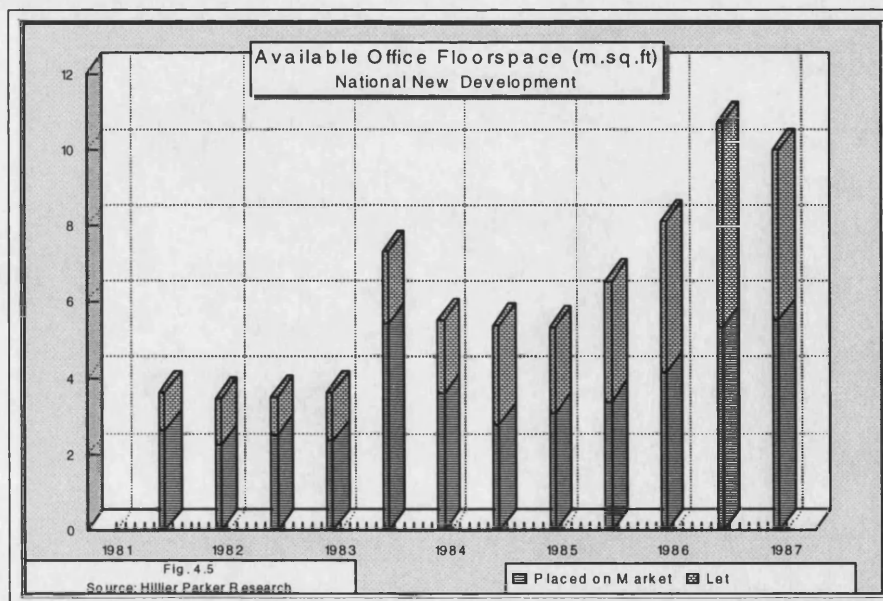
The important point to note is the impact the increase in supply of development land would have as the building cycle moved into an upwards trend again. Expressed in the terms used by Barras (1983) as discussed in Chapters Two and Three, the adjustment rate, the rate at which supply responded to demand, would increase giving rise to the possibility of an "explosive" market cycle. The building cycle has been identified as reaching a peak in 1979 which was followed by a decline in development as the economy moved into recession (see Fig. 4.1). Any increase in supply of development land in the early 1980's would have contributed to a market already in a state of oversupply, with the effect of further reducing the price (value) of the asset at that particular time. The recession of the early 1980's was long but the recovery from 1983 onwards made use of a plentiful supply of relatively cheap development land and what was perceived to be an

increasingly relaxed development control policy.



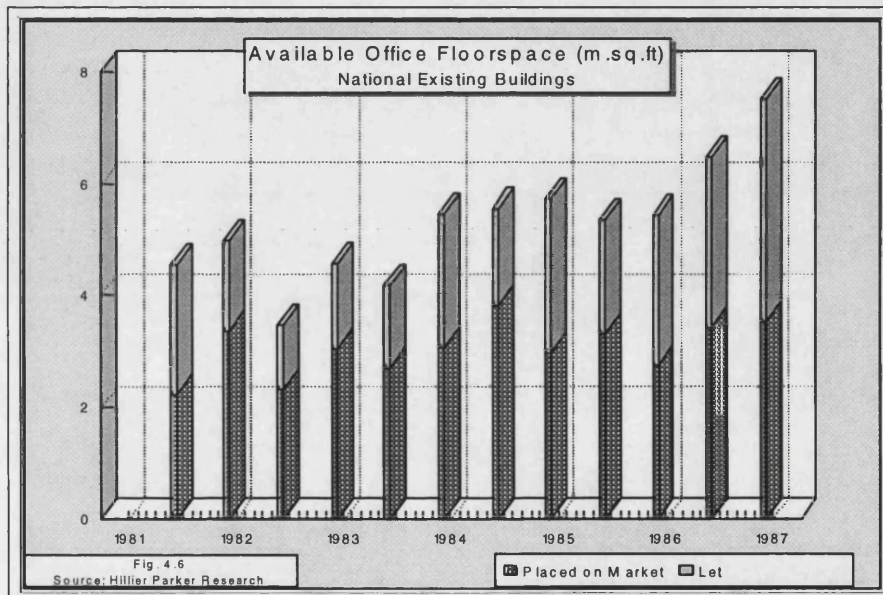
Pressure on supply is evident in figures 4.4, 4.5 and 4.6. The level of private industrial construction orders rose from 1984 onwards (see Fig. 4.1).

According to figure 4.4 total available prime industrial floorspace fell from 1985 until 1988 indicating a take-up rate exceeding the rate of increase in supply. Similarly by the end of 1986 take up of office space through lettings virtually equates to supply coming on to the market for second hand buildings and new developments.



Private office construction orders had been rising since 1983, prime rental values rose from 1984 until 1989 but secondary office rents did not rise until 1986. This suggests that:

- i) new supply of both industrial and office space entering the market between 1984 and 1988 was immediately being taken up through strong occupier demand;
- ii) some second hand supply was being taken up and
- iii) some second hand office space was being reclassified as secondary and therefore no longer featuring in the prime data figures but preventing secondary rents from rising in the short term.



The strength of this demand encouraged widescale development activity, facilitated by the increase in availability of development land and the changes in development control policy discussed above. Nonetheless, the government became concerned that local authorities were using planning conditions to restrict development. This was dealt with swiftly by the government in Circular 1/85, "The Use of Conditions in Planning Permissions", which established that such conditions must be "precise, relevant to planning and to the particular development proposed" (HMSO, 1985). They could only be used to turn a proposal which would be turned down into one which could be granted permission, not for improving already

adequate proposals. Furthermore, they should not be too onerous, i.e. to the detriment of the sale of the building or the operation of the business.

Similar attention was paid to the system of planning gain whereby local authorities sought agreements with developers to incorporate some form of community benefit or 'gain' within a development. The government felt that this system might be being used as an alternative to planning conditions. Circular 22/83 therefore established guidelines to ensure that the demands of the local authority were reasonable and pertained to the development in question.

The use of the planning gain system, or Section 106 Agreements under the Town and Country Planning Act 1990, (formerly section 52 agreements), gives greater opportunity for the consideration of proposals in areas where demand for space is high and building already dense. Simmie, 1993, makes this point in relation to urban regeneration;

"...local authorities can usually only acquire [planning gain] in circumstances where economic development and growth are already taking place. It is very difficult to negotiate any planning gains in places where economic decline has set in." (Simmie, 1993:136)

Where the surplus value created by development is high, i.e. where occupier and investor demand is strong, the developer can often afford to provide some infrastructure or other improvement which would make an otherwise untenable application more acceptable. This has the effect of encouraging further development in already over-developed urban areas, these generally having the highest values. Such increases in development activity in already highly developed areas, particularly the City of London simply added to the unevenness of the distribution of development opportunities and investment which became so apparent in the increased regional divides of the 1980's.

The changes made are important because they once again establish the overriding importance of the private sector, particularly the developer, in the eyes of the government. The private sector was encouraged wherever possible and if an opportunity was being used to control the activities of the developer against their wishes it would be removed. Thus the government's efforts in striving to achieve the objective of increasing the resources available for economic growth, had the effect of again expanding the opportunities available for the development of land. The path for continued development activity and the creation of more built space was once again smoothed.

The publication of the White Paper "Lifting the Burden", in 1985 recognised the new space requirements of the expanding group of high-tech occupiers. The paper recommended flexibility in the approach of planners and acceptance of the view that offices, warehousing, manufacturing and research and development space may all be needed by the same company in the same building. This rapid change in space requirements ultimately led to the review of the Use Classes Order (UCO) and the General Development Order (GDO). The GDO was relaxed in an effort to give business greater freedom to expand, literally. The size of an extension to an industrial or warehouse building, for which specific planning was not required, was increased.

The review of the UCO sought to extend the deregulation begun with the GDO, by introducing more flexible Use Class definitions. Permission no longer had to be sought to switch to and from certain types of office use, light industrial use and research and development. The objective was to allow the growing high-tech manufacturing sector the flexibility it required in occupying commercial space, and to allow the different specialisms within this industry to congregate close to one another. The improvements made to the national transport infrastructure and the technological advances being made in terms of data storage and retrieval, encouraged decentralisation within the office sector. The incorporation of office and light industrial uses into one Use

Class allowed the development of business parks which would cater for either type of occupier. (See Henneberry, 1988 for a discussion of the reality of high-tech and office user space requirements).

The intention with this policy was to increase the supply of space available for a growing sector of occupiers within the economy. The effect was to create the opportunity for developers to build new office space in previously light industrial locations. This policy also prevented local authorities implementing their own industrial policies through planning. It was no longer possible for them to encourage light industry as an employment generating sector by providing light industrial space at the expense of office space. This complied with the government's view that the high-tech and professional service industries, predominantly office users who required flexible commercial space, were employment-generating uses.

The review of the UCO resulted in the conversion of light industrial buildings to a higher value office use, particularly on the outskirts of densely populated central business districts such as the City of London. It also increased the value of what had been industrial property within investment portfolios. Low development activity in the early 1980's had given rise to a shortage of quality prime office space in popular office districts and rising office rents. This further encouraged this type of development by increasing the capital gains to be made by developers. Henneberry comments that;

"The amalgamation of classes II and III in the new Business Use Class has, therefore, primarily benefited the property development and investment industry" (Henneberry, 1988:259).

The changes made to the development control system led to an increase in the adjustment rate of commercial property development. As demand for space from occupiers and investors began to grow in the mid to late 1980's, supply increased at a pace which exceeded the rise in demand. As established by Barras, 1983, and noted earlier, if the rate of increase in

supply exceeded the depreciation rate by more than unity, the conditions required for an 'explosive' nine year cycle would exist.

This increase in development activity and land values was unevenly distributed and the Thatcher Government found it necessary to introduce specific policies to tackle the problems surrounding the decline of the inner city areas. The traditional view of inner city decline saw private disinvestment as the root cause and public sector led regeneration as the solution. The Thatcher Government saw the public sector as the root cause of the problem, through profligate expenditure, land ownership and burdensome planning, and the private sector as the remedy (Parkinson, 1989). This led to the adoption of a system of leverage planning which used the investment of public funds as an incentive to encourage or 'lever' private investment into an area (Brindley, et al., 1989).

The Thatcher Government's leverage planning policies were property led regeneration initiatives. They took the form of Urban Development Corporations (UDC's) and Enterprise Zones (EZ's) introduced in the Local Government Planning and Land Act, 1980. UDC's were initially set up in Merseyside and London's Docklands. These single body organisations, potentially covering more than one local authority area, were equipped with the powers and resources required to bring about regeneration within each location. They could buy and sell land, prepare sites for development, provide infrastructure, give loans and grants for building work and environmental improvements and they provided all development control functions for the area. (See Imrie and Thomas, 1993, for a full discussion of the powers and implications of UDC's.)

The emphasis placed upon property development was an important aspect of these regeneration policies. Parkinson, 1989, comments;

"The UDC's adopted a different redevelopment strategy from local government, emphasising a property-led form of urban regeneration which diluted wider social goals of urban policy" (Parkinson, 1989:436)

"In keeping with the property led model of regeneration, heavy emphasis was placed upon immediate action and visible results, often prestige 'flagship' development projects, which were intended to improve the environment and image of an area and generate the confidence needed to attract private sector investment" (Parkinson, 1989:436)

By the end of the decade some 11 UDC's had been designated in the UK and their principle objective was the regeneration of an area through the development of land, buildings, industry and commerce. This increased the adjustment rate of supply in particular areas, in response to rising occupier demand.

The UDC's were supplemented by the introduction of Enterprise Zones (EZ's). The emphasis within both initiatives was on freedom for different types of development to take place through the removal of the constraint of local authority development control. The philosophy behind this was that reducing government intervention (rolling back the state) "would facilitate the growth of companies" (Livesey 1989, p192).

In addition to the automatic granting of permission for specified types of development within the area, the EZ's had further incentives to offer. Capital allowances of 100% on new commercial and industrial property developed in an EZ were offered, 100% relief from rates was granted on all industrial and commercial buildings for 10 years and relief from DLT was granted. This clearly reduced the cost of developing and occupying property within EZ's and made it very difficult for surrounding areas to compete for developer interest, investment and occupier demand. Private investment was drawn

away from inner city areas which were not part of a UDC but were located close to one. The combination of EZ and UDC in London's Docklands led to a high level of development activity in the area and concerns that demand from prestige office occupiers would be drawn away from the City by incentives with which the City could not compete. This eventually led to badly timed counter measures which had further repercussions for the supply of buildings.

These policies formed a stark contradiction to the government's restrictive monetary policy and anti-subsidy stance and are another example of one policy initiative contradicting another. The government expenditure was justified as it formed an incentive for a proportionately larger quantity of private investment. Ambrose (1994), in his discussion of development for investment, also points out the contradiction this formed to Conservative Government policy at that time. The government was opposed to government subsidy and in favour of market forces in its rhetoric but this particular piece of extensive subsidy had far reaching affects precisely because it distorted the market.

The LDDC was by far the most successful UDC/EZ combination, but was sustained and encouraged by the buoyancy of the local property market. The LDDC also received the largest amount of public funding of all the UDC's; £400m up to 1988. By 1988 the LDDC area had 4.9m sq. ft of available office space. This had risen to 6.2m sq.ft. by June 1989 in spite of over 1m sq.ft. being taken up in the year to June 1989 (Healey and Baker Research, 1989 and 1990) but in 1989 42% of office space in the LDDC area was unlet (Brownill, 1993). This level of development activity was not matched by the other UDC's but provides a vivid illustration of the scale of development activity which was being encouraged by the range of land related supply side policies.

A range of urban related grants were introduced in the 1980's to tackle specific regeneration issues. Derelict Land Grants (DLG's), Urban Development Grants (UDG's), Urban Regeneration Grants and City Grants were all introduced during this period with the objective of strengthening the local economy and bringing land and buildings back into use. The government expenditure was again justified in terms of the amount of private investment levered into the area.

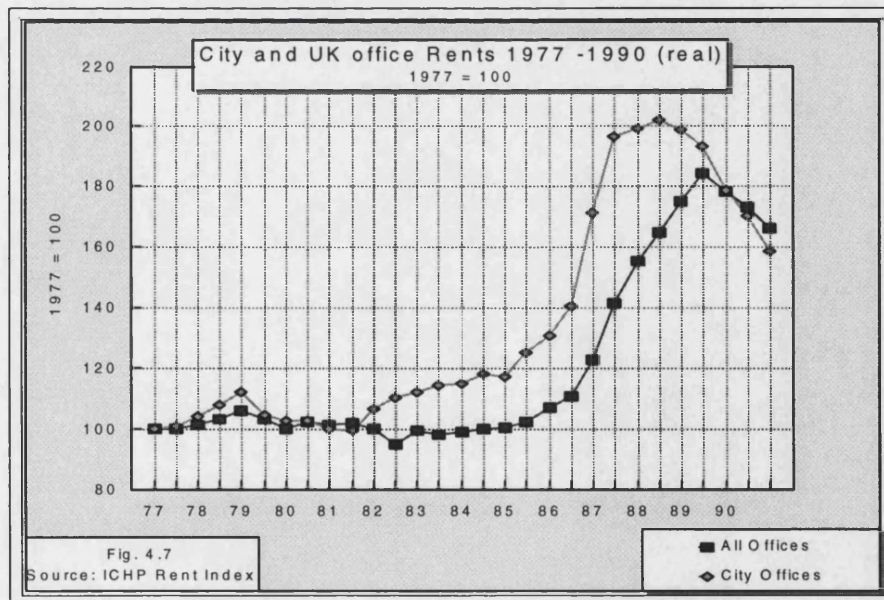
UDG's were introduced in 1982 to encourage private investment to fund the economic and physical regeneration of run-down urban areas. Between 1983 and 1988 £120m of public money was approved for spending on 239 UDG projects. This was expected to generate £489m of private investment in both commercial and residential property development representing a leverage ratio of a little over 4:1.

A report by the Department of Environment in 1988 suggests that some of the schemes which won assistance under the UDG scheme could have been funded without government assistance. These tended to be schemes which had 'levered in' a high proportion of private investment and hence lifted the private/public investment ratio. If these schemes are taken out of the analysis the ratio falls to 3.4:1 (DoE, 1988). This weakens the government's justification for this area of expenditure but also draws attention to the importance placed upon development related regeneration initiatives all of which were increasing the rate at which supply could rise in response to demand.

Urban Regeneration Grants (URG's) were introduced in 1987 to combat the problems created in urban areas by industrial change. They sought to encourage private investment specifically for large sites and buildings which had formerly housed complex manufacturing processes and machinery. UDG'S, URG's and DLG's were replaced by City Grant in 1988. The grant in this case made up any shortfall between the cost of a project and its ultimate

value, allowing the developer a reasonable profit. The completed value of the project had to be over £200 000 for it to be eligible and it had to provide either new jobs or private housing. The re-use of empty buildings and derelict land was particularly encouraged with this grant. City Grant was the only initiative with a specific provision for job creation and this was in addition to a strong property development provision. The combination of government subsidy and almost automatic granting of planning permission naturally encouraged the development of new space.

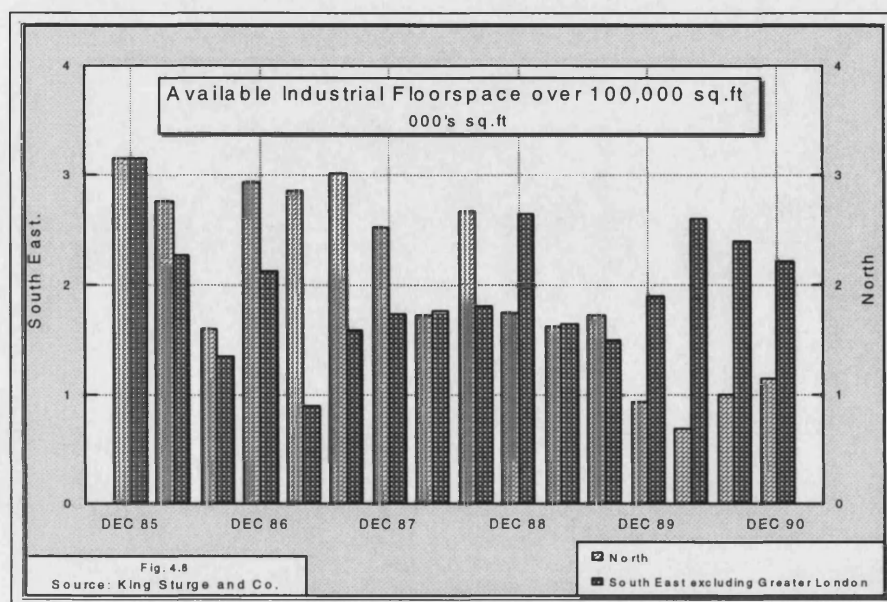
The regional response of the development sector to these measures illustrates the difficulty the government had in achieving urban regeneration objectives. The stated objective had been to liberate the markets in order to encourage economic growth, particularly in areas of urban decline. The effect was to increase the rate at which supply increased in response to rising demand, Barras' adjustment rate, particularly in those areas which were already popular business locations i.e. not in areas of urban decline. The government was clearly failing in its stated objective of encouraging redevelopment in the declining regions, in the industrial sector at least.



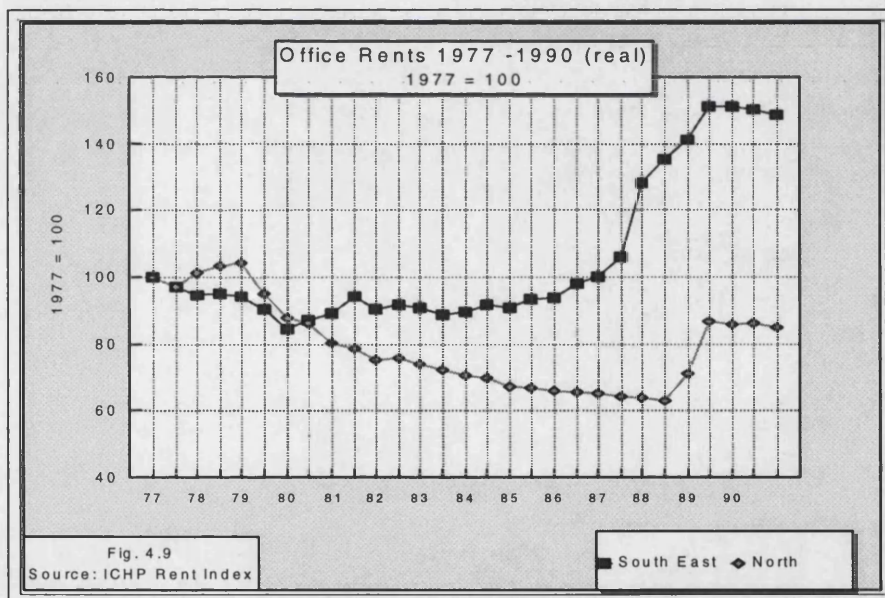
In the South East, particularly London, the supply side policies were encouraging wide scale development. This development activity was justified in the mid 1980's by strong demand. According to Hillier Parker Research

"Over 10m sq.ft. of floorspace was placed on the market during 1986 - the first time that level has been passed - ... This was almost matched by the record 9.9m sq. ft. (up 39% in 1985) let." (Hillier Parker Research, 1986:5)

Nowhere were the effects more obvious than in the City of London. Figure 4.7 illustrates the consistently above average rental values in this area between 1982 and 1989 and the extent of the exaggeration in rental levels over this period. Concern amongst the City planners relating to the unfair competition formed by the LDDC has been discussed above. The response to this problem was contained within the new draft plan for the City of London published in March 1986. Michael Cassidy, City of London Planning Committee Chairman, commented on the positive attitude the City's planners were going to take regarding the development of offices. He was keen to promote the familiarity of the City planners with the effects of the deregulation of the London stock exchange on the City office market. There could be no doubting the presumption in favour of planning permission for the development of offices within the City of London and development activity demonstrated a net increase in response with office supply rising accordingly.

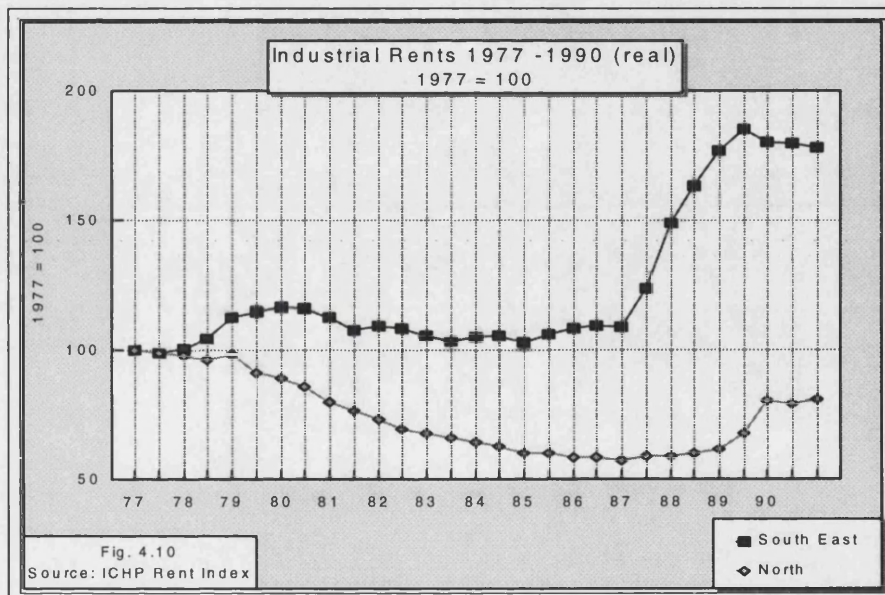


The sharp increase in the adjustment rate experienced in the City of London and the South East was not a nation-wide phenomena. The government's supply side policies impacted on other regions of the UK by reducing the level of investment as capital sought greater returns in the more economically attractive areas. Figures 4.8, 4.9 and 4.10 show the sharp contrast in the experiences of the office and industrial markets of the South East of England and the North of England. The government's supply side policies were remarkably unsuccessful in encouraging growth in the areas which had been affected most severely by the industrial decline and least by service sector growth. In the North of England limited industrial development took place and rental levels in both the industrial and office sectors declined whilst boom conditions were experienced in the South East. The recovery, once it reached the North was very short.



If one considers that with respect to the office market in 1986 "Central London accounted for nearly 50% of the turnover (placings and lettings) in Great Britain" (Hillier Parker Research, 1987:9), the impact on the whole market of an increase in the adjustment rate of supply to demand in this area is clear. Furthermore, the impact of any increase in the adjustment rate would have a much more fundamental effect on supply in the office market in the south east of the UK than any other region.

The land related supply side policies formed only one area within the wider deregulation programme. The supply side policies implemented by the Thatcher Government to deregulate the capital markets will be explored below using aspects of Harvey's Marxist framework of circuits of capital and capital switching mechanisms, as discussed in Chapter Two. This highlights the importance of the deregulation of the capital markets both in terms of the increase in the volume of capital funding available and the increased efficiency with which capital can be switched from the primary to the secondary circuit. The impact of these policies on the supply of commercial property will, again, be the focus of the discussion.



Capital

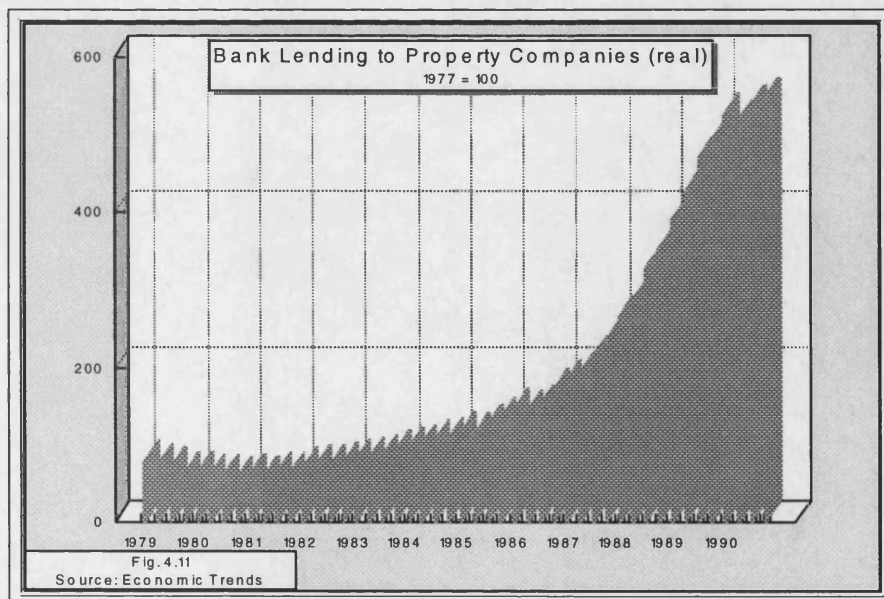
Any restriction on capital or change in the terms under which financing is available will affect the supply of new buildings. The influence of capital funding arrangements takes two forms within the commercial property markets:

- i) the availability of short term funding significantly influences development activity; Barras identifies the availability of cheap short term funding as one of the key factors in the office boom of the early 1970's (Barras, 1983);

ii) the availability of long term investment funding for the purchase of completed developments. Unless capital funds are available to purchase completed developments there is no incentive for developer activity.

Deregulation of the capital markets increased the supply of capital for investment in commercial property and the supply of finance for developers. Not only was the quantity of supply increased but the range of instruments through which finance could be arranged expanded and competition between market operators for customers (borrowers) seeking short term loan finance increased.

The argument being made here with respect to capital draws from the frameworks of both Barras (1983) and Harvey (1985) as discussed at the beginning of Chapter Two. The increase in the supply of both essential forms of funding increased the adjustment rate of the supply of built space to rising demand. The sources from which funding was available were expanded and the efficiency of the system for switching an over accumulation of capital from the primary to the secondary circuit of capital, improved. According to Harvey's framework such an increase in the efficiency of the capital switching system would lead to an increase in the supply of buildings as they form the dominant capital asset produced within the secondary circuit of capital.



The increased availability of short term development finance sprang largely from the banking sector which was forced into more open competition with other high street lenders by deregulation of the financial services sector. Figure 4.11 shows the rapid increase in bank lending to property companies as the measures contained within the Financial Services Act, 1985 and the Building Societies Act, 1986 were felt within a market which was experiencing a shortage in the supply of new commercial property and rising occupier demand. This increased competition between building societies and banks for private sector business conformed to the government's deregulation policy objectives and effectively changed the terms under which short term finance was available. Combined with the lowering of real interest rates in 1983 and 1984 this served to increase the supply of relatively cheap short term finance for development activity.

Ball (1994) points out the inevitable reactions of market operators to the increased competition introduced into the lending market. Being unable to increase efficiency and profit margins could not be increased through generating economies of scale and price cutting alternatives were limited through the setting of the base rate by the Bank of England and the Treasury. Operators within the lending market could only increase their competitive advantage by increasing their market share. In order to increase market share substantially, much greater levels of risk had to be endured in terms of the credit-worthiness of customers, both in the long term mortgage market and in the short term commercial finance market;

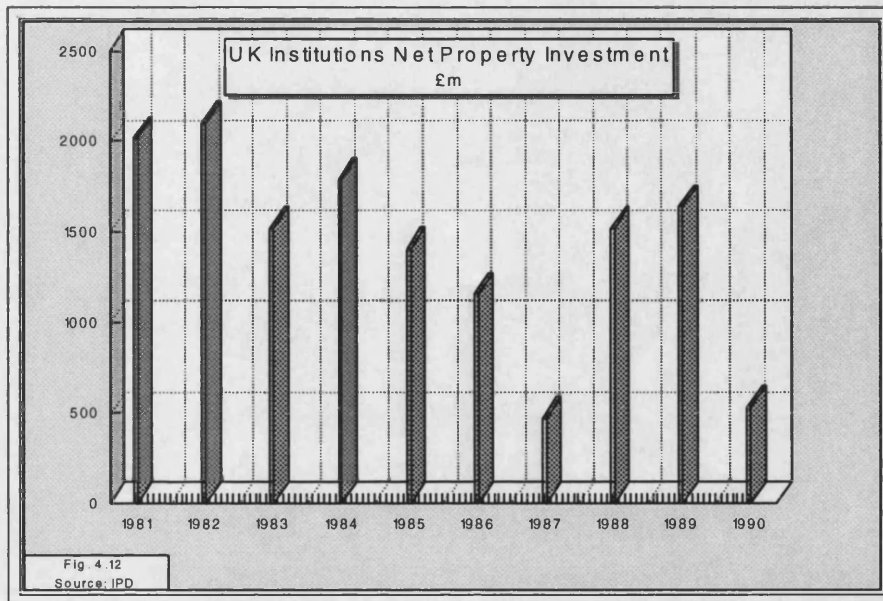
"In temporarily relaxing lending criteria, retail financial institutions may have been aiming to protect their market position (and their longer term profitability) in the face of greatly expanded financial services capacity and technical change. But they did so at the expense of higher risk (and by implication lower actual short-term profits)." (Ball, 1994:688)

Such removal of restrictions to the supply of capital increased the level of aggregate demand within the economy by increasing both consumer

spending power and the level of business investment. Both factors would increase occupier demand for built space. The lower short term interest rates and more freely available financing reduced construction costs and opened opportunities for new operators to enter both the commercial and residential development markets thereby increasing the supply of built space. This coincided with the low level of supply resulting from little development between 1979 and 1984. The rising commercial rental levels this produced formed a further incentive for operators to enter the market.

Investor demand for commercial property has been described as rising over the period of the 1980's but the sources of this long term funding changed during this period. The UK investment institutions remained a dominant investment force within UK commercial property but were not seeking to increase their property investment holdings. UK investor demand became more at liberty to seek overseas investment opportunities following the removal of exchange controls in the first year of the Thatcher Government. This policy also granted overseas investors greater freedom to invest in the UK.

This freeing of the capital markets created an exodus of capital from the UK in the early 1980's as overseas investment opportunities were more attractive to domestic investment capital. According to Maynard (1988) capital outflows aggregated to over £8bn between 1979 and 1981 whilst inflows aggregated to approximately £3bn. This initial reduction in the availability of long term funding reduced capital values and the returns to be made by developers. Only the most traditional property investments, such as City offices, retained investor demand in the early 1980's.

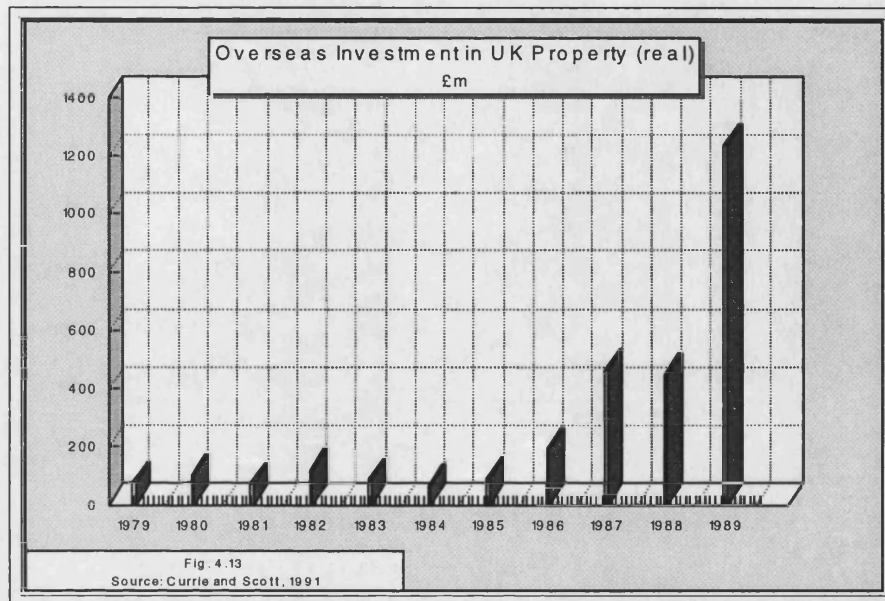


The quantity of investment capital was no longer restricted to UK based investment institutions and banks. Overseas investors became a significant source of investment funds, particularly for the commercial property sector. Nabarro comments upon the importance of both overseas investment and the expanded banking sector;

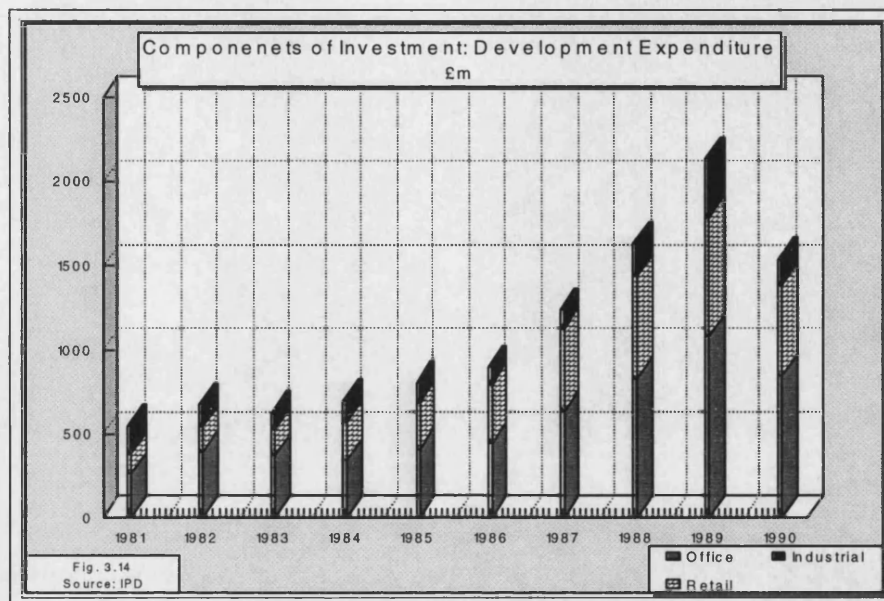
"...much of the increase in bank debt to property has come from new entrants to the UK market, primarily UK and Japanese banks" (Nabarro, 1990:53)

Figure 4.12 shows a net disinvestment in UK commercial property by UK institutions from 1982 until the investment sector responded to the high level of rental growth experienced in 1987 and 1988. In spite of increasing the supply of long term funding the deregulation of the capital markets did not increase UK institutional investor demand for commercial property until the market became much more attractive. Figure 4.13 shows the increase in other sources of investment funding in UK commercial property in the 1980's

which supported developer activity.



In spite of the trend being towards disinvestment within property for UK investing institutions during much of the decade, the proportion of investment expenditure spent on development increased consistently within all three commercial property types over the 1980's (see fig. 4.14). This illustrates the increasing involvement of investment institutions in the development process over this period rather than simply in long term funding of developments. By becoming developers these investment institutions increase the speed and efficiency of the switching process for transferring funds from the primary circuit of capital to the secondary circuit of capital thereby increasing the speed with which the development process can respond to market demand by expanding supply.



The increase in institutional investor demand has implications for the physical characteristics of commercial buildings. The market led objectives of the investors produce a requirement for commercial buildings which conform to specific established characteristics. Henneberry, 1988, describes these characteristics in relation to industrial buildings;

"Developers and funders design buildings which minimise initial cost and are appropriate to as wide a market as possible: both warehousing and manufacturing. Low first cost maximises initial rates of return on the investment. Designing for a wide market increased the likelihood of a quick letting and minimises the chances of voids occurring...units are not necessarily designed to minimum standards but are built to a perceived average... an 'institutional specification' has evolved in the market which covers most of the detailed aspects of building construction..." (Henneberry, 1988:243-244)

This uniformity of development is described as providing predominantly warehouse type accommodation which does not easily accommodate manufacturing occupiers.

The strong influence of investor demand also results in only specific sectors such as modern office buildings, in specific locations, such as central

business districts, benefiting from increases in the availability of long term capital financing. Thus new buildings will be developed in areas which are already economically active and for which investor and occupier demand is perceived by investors and developers as being strong. This leads ultimately to an increase in the unevenness of economic growth between regions.

Such uneven development is also affected by the increased globalisation of capital. This deregulation of the markets increased the mobility of capital allowing rapid withdrawals of funds from regions of the country and sectors of the economy which failed to provide sufficient returns. The government's objective was to increase the supply of capital for investment wherever the best returns could be realised. It was their intention that through the expansion of all forms of supply, economic recovery would ensure that the best returns were to be found within the UK. By expanding the availability of both long term and short term funding the commercial property market would provide space within which growth in the emerging sectors of the economy could take place.

Demand for office space and related commercial service accommodation increased in certain areas of the country. The City of London and the South East of England experienced steadily rising rental levels over the latter half of the 1980's in response to this increase in demand. Other regions did not benefit from the deregulation of this sector to quite the same extent. Figures 4.7, 4.8, 4.9 and 4.10 show the disparity between the responses of the developers and occupiers of the south east of England and the north of England to these deregulation policies.

The deregulation of the stock exchange, marked by 'Big Bang' which took place on 27 October 1986 also formed a major part of the government's overall policy of deregulation. Incentives to increase share ownership were brought in for the first time, Personal Equity Plans with tax incentives were introduced, stamp duty on share dealing was reduced, fixed charges on

share dealing were abolished and restrictive practices within the operation of the London Stock Exchange were removed.

These measures increased the supply of funds flowing into investment institutions in the UK thus increasing investor demand for all investment media. The commercial property markets did not benefit from increased UK investor demand until 1987 and 1988. At this point a period of strong, demand led rental growth coupled with the uncertain interest rates and rising inflation which characterises the latter half of the 1980's, increased the popularity of property as an investment, particularly City office buildings. The result is a startling increase in net investment in commercial property by UK investment institutions between 1987 and 1988 (see Fig. 4.12).

The deregulation of the stock market encouraged property companies to raise finance through share issues (see Fig. 4.15).

Property Companies Capital Issues	
Year	£m
1986	1,490
1987	2,455
1988	796
1989	1,573
1990	322
Fig. 4.15 Source: IPD	

This clearly opened a new avenue of development funding, both short and long term, for property companies, and represented an increase in the efficiency with which primary circuit capital could be turned into secondary circuit capital. It also illustrates the extent to which development companies were taking on the role of the investor in the development process and retaining completed developments. This affected supply in the same way as

investors becoming more heavily involved in development affected supply. By expanding their role the property companies increased their own ability to respond to increases in occupier demand thus increasing the adjustment rate of supply to demand.

By 1985 real interest rates were rising again but this factor was clearly outweighed by others in determining demand for short term funding. The changes made to the financial services sector and the capital markets increased the availability of both long term and short term funding arrangements and created greater flexibility within the roles of the different operators within the commercial development sector. Barras' adjustment rate was increased as the increasing involvement of investors in the development process increased the number of buildings being developed in response to rising occupier demand. Harvey's capital switching mechanism became more efficient as competition between lenders of short term finance increased and the capital markets reaped the operational benefits of deregulation. The importance of the increased availability of funding is remarked upon by Key et al., (1990);

"The development boom has been floated on a tide of loan financing, important elements of it from overseas banks, and much of it based on instruments of financial complexity defying classification as simple loan or equity funding. In real terms, the level of lending to the property industry now stands massively above that of the 1970's property boom. The second leg of development finance has been the stock market, as property companies took quick advantage of the rise in the market to issue new stock or to float new firms." (Key, et al., 1990:29)

The increased speed with which supply could be expanded led to high levels of development activity in the mid 1980's (see Fig. 4.1). However, investor demand did not increase at the same pace as development and the value of development in progress ultimately exceeded the amount of institutional money available to purchase completed projects;

"Furthermore, the recent scale of institutional investment is nothing like sufficient to buy out present development projects, leaving the intriguing prospect of where the longer-term finance for these schemes is to come from."
(Nabarro, 1990:59)

The role of the supply side policies combined with expansionary monetary policy in the late 1980's encouraged this over expansion of development activity within the commercial property in this period and the resulting exaggeration of the commercial property market cycles. The easing of 'bottlenecks' and supply constraints within the development finance process encouraged the exaggeration of the upswing in building and investment cycles within the commercial property markets and in the process fundamentally changed the nature of both short term and long term development funding in the UK.

The inadequacy of the commercial property markets in responding to a reduction in occupier demand for space due to the restricted availability of information, the unevenness or 'lumpiness' of capital investment in projects and the time lag inherent within the development process, was not changed. All the factors affecting supply contributed only to an increase in the efficiency with which supply could be increased leading to an inevitable exaggeration of the downswing in development activity in the early 1990's as the market mechanism responds to the excess supply.

The final section of this chapter looks at the third basic resource, labour. The impact on the commercial property markets of the government's restructuring of the labour market through supply side policies is discussed.

Labour

The Thatcher Government undertook to restructure the labour market just as the land and capital markets were restructured. It was felt that labour legislation, the strength of the trade unions and the high level of personal direct taxation were restricting the supply of labour within the market, and increasing labour costs. Some of the restructuring which took place within this market was a direct result of the removal of supply constraints but by far the most significant factor within this particular area of deregulation, from the point of view of the property market, was the decline of the manufacturing sector as a mass employer. The impact this had on the commercial property market cycles was twofold:

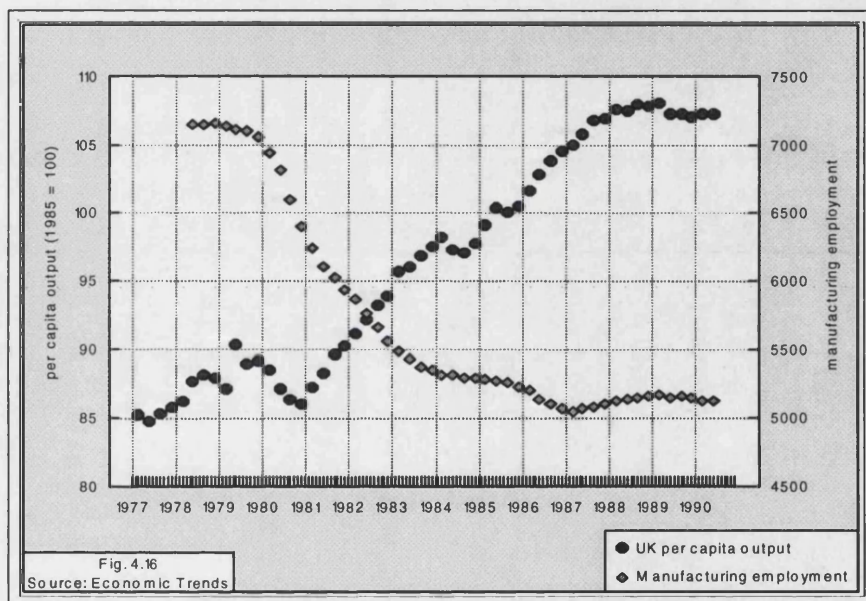
- i) a reduction in space requirements of all types in the early 1980's and
- ii) significant changes in space requirements that emerged once the service sector began to generate economic growth in the mid 1980's.

The argument being advanced here is that the move away from manufacturing towards the service sector led to important changes in the specification and location of space required by the commercial sector. Supply side policies aimed at increasing flexibility within the labour force, both in terms of location and skills, inevitably led to changes in the pattern of occupier demand. Existing buildings did not cater for the new occupier requirements and speculative commercial development proved to be insensitive to newly emerging occupier needs in the first half of the decade. New development would often fail to provide suitable buildings particularly in terms of the accommodation of new technology and building services.

In accelerating decline in the manufacturing sector the Thatcher Government reduced the level of demand for commercial floorspace in the early 1980's. Industrial space that had accommodated large manufacturing plants and office space that had housed the administrative functions of the manufacturing industry were no longer required. In the short term this increased the available supply of office and industrial space as companies within the manufacturing sector were closed. Martin refers to this as the 'slim

down' and 'shake out' in British manufacturing over the early part of the Thatcher Government;

"The reality of 'slim down' and 'shake out' has consisted mainly in the reduction of labour costs by cutting jobs and closing down productive capacity. For many firms, extensive cost cutting has not been possible or has proved insufficient to prevent bankruptcy, with the result that the numbers of company liquidations in manufacturing has reached an all-time high..." (Martin, 1986:31)



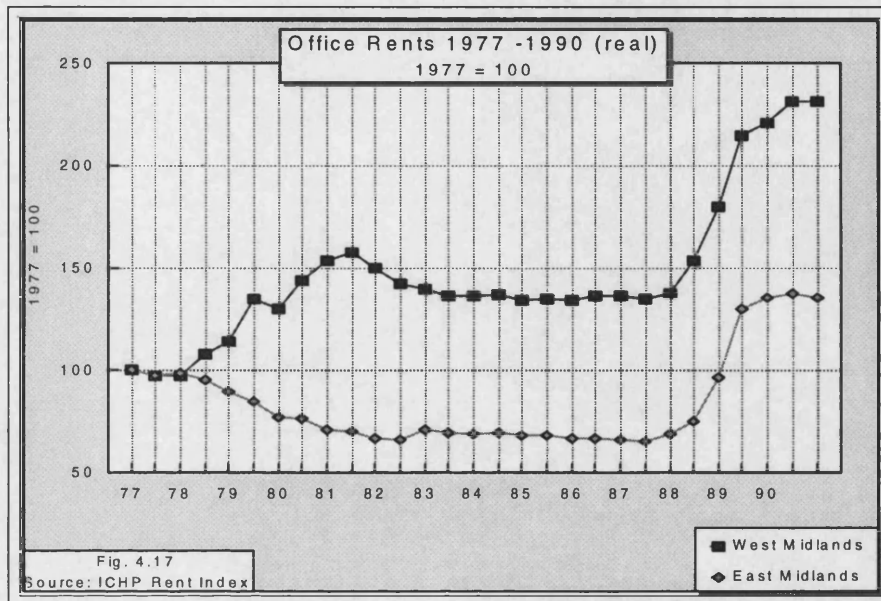
The natural progress of the UK economy led to changes in the pattern of employment. Employment in manufacturing fell from 7,129,000 in March 1979 to 5,169,000 in March 1989 (see fig. 4.16). The restructuring of the labour market allowed the economy to move relatively quickly from manufacturing to services. The reduction of trade union power and collective bargaining encouraged short term contracts, contracting out of work and the widespread use of casual labour. This increased flexibility was reflected in changes in the location and form of buildings required by occupiers. Large buildings designed to house a specific production process were no longer appropriate as workforces became smaller but, equally as importantly, very flexible both in size and in their functions. The expansion of service sector companies increased demand for office space but also increased demand for

more flexible space which could accommodate office, research and development, storage and distribution functions.

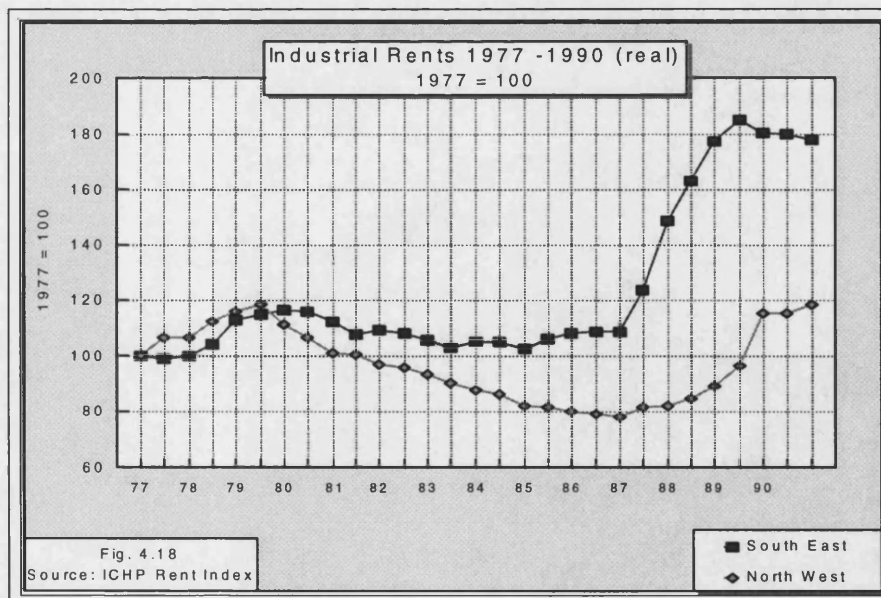
A shortage existed in the supply of appropriate space and the rental value of specific types of buildings began to rise encouraging new construction orders to be placed. This change in the type of space demanded highlighted a shortfall in the availability of suitable accommodation. The resulting pressure of demand increased rents and encouraged new development in new locations.

In exploring the implications of this increase in demand from the service sector in terms of space requirements, it is useful to establish a definition of the term 'services'. If Marshall and Wood's (1992) working definition of services as "activities relatively detached from material production" (Marshall and Wood, 1992:1255) is adopted it is possible to identify some characteristics which would apply to the locational requirements of space required by this sector. Services are more closely tied to markets than to raw materials; they display agglomeration tendencies which lead to locational shifts resulting in changes to the patterns of development within regions. Flexible accommodation for small, skilled and semi-skilled labour forces was now required in locations close to transport networks and developing markets. The shortage in the supply of this type of space in such areas in the mid 1980's, following the paucity of development activity during the

recessionary early 1980's, gave rise to upwards pressure on rental values.



Figures 4.17 and 4.18 illustrate such regional differences in demand for both office and industrial space. The East Midlands and the North West could not compete with the West Midlands and the South East in terms of occupier demand as expressed by rental growth, following the decline in the manufacturing sector.



Marshall and Wood (1992) emphasise the importance of the impact of contracting out on space requirements and its impact in terms of agglomeration economies. Service sector firms, particularly financial and producer service firms, tend to form spatial clusters by locating in proximity to

the head quarters or divisional head quarters of firms from all sectors. This clearly encourages producer services, (the sector seen to be filling the void left by the manufacturing sector in the mid to late 1980's), to locate close to metropolitan centres. A region which attracts an expanding sector will also be attractive as a location to the companies providing contracted out services thereby exacerbating the unequal spread of economic growth, particularly through employment opportunities, between regions.

The factors discussed above relate to the location of space demanded by occupiers following the restructuring of the labour markets. It is equally as important to consider the impact of these changes in terms of the type of accommodation for which demand would be rising as the service sector sought suitable space within which to expand.

Marshall, et al. (1987) utilise the minimum list headings of the various categories of service sector employment in their efforts to establish a definition for the service sector. They accept that a core group emerges from the wide ranging classifications, which seem to feature regularly in work in this area. These include: market research, professional and scientific services, advertising and research and development.

Although this is by no means suggested as a definitive list, it provides some guidance as to the type of occupier demand which would have risen over the mid to late 1980's. The rise in available industrial floorspace which resulted from the decline of the manufacturing sector would not provide suitable accommodation for these expanding areas of employment. The requirement was for space that could accommodate some level of research and development, storage facilities, office facilities and, often, studio space. A great deal of this flexibility could have been accommodated within the existing use class definitions and GDO but it was felt that the introduction of a new business use class B1 would more effectively expand supply of this type of space. (The introduction of Use Class B1 has already been discussed in relation to its impact on the supply of developed space.)

In their discussion of the location of producer services Marshall et al. (1987) find, unsurprisingly, that the south eastern region of the UK has a larger than average share of service related employment, compared to other UK regions. What is perhaps more interesting here, is that they find the distribution of 'independent' producer service industry employment largely responsible for the uneven spread. The contracted out producer services were accounting for a significant proportion of employment and, therefore, a significant level of demand.

Both these factors point to an increase in demand for business space to accommodate the labour force of the new expanding sectors of the economy. The inner city locations of the traditional industries were vacated by business occupiers as improved technology and transport links allowed a level of decentralisation by these types of occupier. Demand for business space in rural locations within the south east and west of London expanded ahead of supply as the service sector expanded from the mid 1980's onwards. The shortfall in supply of this type of space gave rise to real rental growth occurring almost simultaneously with relaxations in development control and an increase in the supply of capital funding. Thus the changes in occupier demand arising from economic restructuring provided the increased demand which triggered the exaggerated levels of rental growth in the late 1980's in response to low levels of supply. The increased rate of adjustment of supply in response to an increase in demand, led to the development industry's reaction also becoming exaggerated and construction far in excess of that required to fulfil demand being initiated.

The mass unemployment which accompanied the decline of the manufacturing sector reduced the level of real disposable income within the economy and in doing so reduced demand for retail accommodation. Recovery in this sector was rather more cautious than recovery in the industrial and office sectors but reflects the changes in occupier requirements in the office and industrial sectors which did not affect the retail market in the same way. Development activity in the retail sector was equally as low as in the office and industrial sector in the early 1980's but existing supply was able

to satisfy initial rising demand levels in the mid 1980's. It is not until the late 1980's that the restricted supply of retail property leads to strong upwards pressure on rents and a sharp rise in retail development activity.

Slow development during the deep recession of the early 1980's restricted the level of supply within all commercial property sectors by the mid to late 1980's. The expansion in the supply of development land and capital funding identified in the previous two sections encouraged an exaggerated response from the development industry to this pressure on supply. These factors culminated in the 'explosive' peak to the development cycle which can be seen in 1988 and 1989, leading to the over supply of all types of commercial space which created such a deep recession within the property industry in the early 1990's.

CHAPTER FIVE

CONCLUSIONS

Introduction

This work concentrates quite specifically on a particular period of time and is concerned primarily with the government policies and issues of that period. This final chapter begins by summarising the main arguments of the thesis before drawing conclusions.

The argument presented throughout this thesis has been twofold:

i) That the macroeconomic and supply side policies introduced by the Thatcher Government served to exaggerate existing cycles and trends within the UK commercial property markets. The influence of these policies was felt through changes in the demand for buildings, both in terms of volume and type, and through changes in the supply of buildings.

ii) That the macroeconomic policies implemented by the Thatcher Government represent a response to the inevitable long term restructuring taking place within the economy and that the supply side policies were aimed at capitalising on the accelerated restructuring brought about by the macroeconomic policies.

This final section clarifies the many strands contained within the argument and identifies some of the questions the work raises.

Conclusions

The existence of cycles within the commercial property markets is well established and provides some common ground for the exploration of relationships between these markets and the economy. The timing of these cycles is predictable to a limited extent and should therefore be acknowledged in the formulation of government policy. The cycles studied in this (and other) work display characteristics that are regularly identifiable and which can be listed as follows:

- ◆the building cycle is relatively autonomous from the economy. This is born out by the evidence provided by the market and supported by its nine year duration.
- ◆the building cycle tends to either amplify or mute periods of economic recession and expansion. This is also born out by the evidence.
- ◆The demand cycle within the commercial property markets is less autonomous and will be initiated by the four year (or eighteen quarter) business cycle.
- ◆The amplification of the demand cycle will be dependent upon the position of the building cycle as demand rises or falls.
- ◆Both the building and demand cycles are affected by the investment cycle which is linked to longer term trends of economic development. The increasing efficiency of the economy and technological progress allow the investment cycle to retain an upwards trajectory around which the investment cycle fluctuates and which triggers both building activity and occupier demand.

This work argues that these cycles are affected by the imperfections of the commercial property markets and by government policy. Some aspects of government policy during the 1979 - 1990 period were significantly different to policy followed over the preceding post-war period. The importance of supply side policies increased within this government's programme and, although the nature of macroeconomic policy did not change significantly, the order of priority within the major macroeconomic themes did change.

The Thatcher Government's deflationary policies were not tempered by a commitment to maintain full employment and so went much further than previous government initiatives of a similar nature had been able. The strong opposition these policies faced from both politicians and economists in 1981 tends to support the argument that the strength of the government's commitment to these economic changes and the longevity of the deflationary

policies was unexpected. These unusually strong deflationary measures extended the economic recession of the early 1980's and the concurrent trough in developer activity. This led to a shortage of in the supply of new buildings which provided the foundations for the exaggeration of the upswing, both in the economy and the commercial property markets in the late 1980's.

The extended recessionary period also saw technological developments being more widely adopted within the economy. This is a phenomenon commonly associated with periods of economic decline as firms seek to become more efficient and economise in order to retain a competitive advantage and a profit margin. This changed the nature of demand for buildings quite substantially, resulting in occupier demand in the mid 1980's being unsatisfied by the buildings designed and developed prior to this much wider utilisation of technological equipment and facilities.

The government's reflationary economic policies in the latter half of the decade actively encouraged economic growth through increasing the capacity and efficiency of the economy. In particular the service sector industries were provided with the resources for technological change and expansion through supply side initiatives. Thus in the latter half of the decade demand from occupiers and investors increased rapidly as capital and labour resources became increasingly accessible. The removal of restrictions to trading on the London stock market and the expansion of credit availability through the removal of restrictions on the activities of building societies and banks substantially changed and extended the supply of capital as a resource. The increased developer activity these factors encouraged was facilitated by changes in planning policy and the development control system.

The building cycle reached a peak in 1990. The volume of construction began to fall, coinciding with the beginning of an economic recession. The severity of the 1990's recession illustrates the building cycle exaggerating the impact of a recession rather than protecting an economy from it. The oversupply of built structures which became so evident from 1990 onwards

significantly reduced the level of development activity, adding to the effects of the economic recession. In his assessment of building patterns in London Ball (1994) emphasises the importance of the autonomy of the building cycle within the economy. His suggestion is that;

"Building could be said to have protected London from the worst of the early 1980's recession but exaggerated the slump of the early 1990's." (Ball, 1994:15)

The evidence produced here conforms to this view.

The ease with which the commercial development market can be entered and exited must be taken into account in the study of any policy aimed at expanding development and increasing investment. In an economic climate of expanding capital funding sources and increased competition between lenders for customers few restrictions exist to entry into the development market. The imperfections of this market make supply slow to respond to the pressures of demand in the short term mainly because of the development lag. However, in the medium term the supply of new buildings can increase very suddenly when a bulge in the level of new building starts driven by an expansion of the number of operators in the market, becomes a bulge in the level of completions.

Encouraging developers into the market would have had less effect without the support of the simultaneous deregulation of the development control system. The government's determination to remove what it saw as restrictive practices within this system effectively increased the supply of land with planning permission. This increase in supply was also due in some part to the expansion of the entrepreneurial role of trading in land for which planning permission had been obtained, facilitated by the removal of DLT and the 1975 Community Land Act.

These arguments focus on the impact the monetary and supply side policies of the Thatcher Government had on cycles which exist within the UK

commercial property markets. However, it is important to draw conclusions which reflect the broader economic circumstances within which these government initiatives and policy implementations took place. The changes in the property markets which have been identified occurred within the context of major changes within the economy as a whole as identified in Chapter Two. Some of this economic upheaval arose from continuing cycles of technological change and development which particularly affect industrialised economies. The important point to establish here is that the government macroeconomic policy represented a response to the changing economic circumstances created by the longer term cyclical changes within the economy which by the 1970's and 1980's were affecting the UK manufacturing sector.

If one acknowledges that the economic and political environment which maintained Fordism as a system of capital accumulation underwent a period of change over the 1970's and effectively ended with the incoming Conservative Government in 1979, it is unsurprising that the economic indicators show signs of uncertainty and change over this period. What is more important in the context of this work is the extremity of the change in the indicators.

Two separate points need to be identified here. The Thatcher Government's macroeconomic policies served to accelerate the process of deindustrialisation which was restructuring the UK economy. These policies were causal, but it is important to be clear that they caused an acceleration of an inevitable process, not the restructuring itself. The second point which arises from this is that the Thatcher Government's supply side policies represent a set of reactions to the accelerated restructuring process. Through these supply side policies the government sought to provide the correct environment for the excess capital and labour capacity brought about by the process of industrial restructuring, to be re-employed by the tertiary sector of the economy.

The supply side policies were formed and implemented as a means of responding to and benefiting from some of the effects of accelerating this long term process of deindustrialisation within the UK economy. Without the introduction of quite substantial supply side incentives the service sector would have been unable to capitalise upon the decline of the manufacturing sector and flourish as it did in the latter half of the 1980's. The removal of restrictions to the flow of capital, labour and land was crucial to the speedy transfer of the UK economy from the secondary to the tertiary sector.

The arguments made within this work have not sought to establish or identify any formal relationship between the markets under scrutiny and government policy. The definition of such a relationship would be fraught with difficulty and detract from the true objective of the task in hand. The difficulties which surround the identification or definition of a relationship between the property markets and the economy should not, however, preclude investigation of the evidence provided by the markets. By identifying the overriding economic developments of the period and studying the position of the property markets within the context of these developments it is possible to gain a clearer understanding of how the commercial property markets respond to the wider economy within which they exist. Through developing a greater understanding of this it should be possible to identify some of the implications economic changes have for the commercial property markets. This should allow more accurate anticipation of the effects building and investment cycles will have on the economy even if it is not possible, through this type of work, to quantify or measure those effects.

This work has tackled a relatively broad subject base in that it addresses three commercial property markets and a ten year time span. Its value lies within this broad base through the identification and interpretation of patterns and cycles within the markets being investigated. These can be explored within the context of the wider economy and a specific and identifiable political strategy without a specific or quantifiable relationship of cause and effect necessarily being defined. Arguments have been established which

draw on other more specific areas of research in an effort to identify characteristics within the commercial property markets which might have a predictable response to government policy.

The overall process of deindustrialisation forms a stage in the development of the UK economy. It was a period of transference from domination by secondary industries to domination by tertiary industries which was independent of the policies of any government. Similar processes were affecting many industrialised economies at around the same time. The new policies brought in by the Conservative Government in 1979 did not bring about these changes but accelerated the overall process of deindustrialisation which had so clearly already begun to affect the UK economy.

The changes in demand for space which emerged from this restructuring process form part of the longer pattern of 'catch-up' described by Ball (1994). Ball relates the process of 'catch-up' to office development in the City of London. He uses the changes in the level of building activity in response to changes in the activities and requirements of City based occupiers as an example, but it also applies to the changes in the patterns of demand for industrial buildings and the changes in retail development patterns. As the electronics industry flourished through the developments made in micro-processor technology the requirements of industrial space changed. UK industry sought to 'catch-up' with these developments and in the process changed the pattern of demand for industrial buildings in this country. Innovations were made in the design of shopping centres in the USA and were developed to take advantage of changes in shopping patterns. UK developers and retailers later sought to 'catch-up' with these advances and the pattern of retail development in the UK changed, particularly in the 1960's and 1970's (although the demand for retail space was not altered as radically as that for office and industrial space).

If these changes are considered in the context of the effects of the building cycle described above, predictable responses within the economy can be identified. The changes in demand placed pressure on supply. Pipeline supply was low following the downswing in the building cycle which had been reinforced by the discouraging economic policies of the first half of the decade. The increase in occupier demand increased rental levels thereby increasing investor and occupier demand for land and buildings. The predictable response of a rise in price following rising demand and restricted supply coincided with the upswing in the building cycle and amplified the strength of the upswing by creating further encouragement for developer activity.

The changing space requirements also reflected the UK economy 'catching up' with the technological advancements that had been made. The short term increase in the demand for space which had been a response to the initial adoption of modern technologies by companies was gradually transforming into a longer term reduction in space requirements as functions were more efficiently automated. The amount of floorspace required per worker tended to increase through these advancements whilst the number of workers fell leading to an overall long term reduction in demand for space, and the characteristics of the space required also changed as has been discussed above.

The demand for semi-skilled and skilled labour increased as the economy became more and more dominated by the tertiary sector. A new set of locational priorities was becoming established as companies no longer sought economies of scale through maintaining a large workforce on a single inner city site, close to a supply of labour and raw materials. The new locational priorities were proximity to a market, a more skilled workforce, access to Europe and high quality transport and data communication links.

The evidence produced here, and elsewhere, highlights changes in the patterns of occupier and investor demand. The trend towards

decentralisation and the resulting problems of inner city decline have been identified by governments but solutions have been implemented which pay little attention to the economic forces generating the trend. Policies which seek to regenerate inner city areas by supplying high quality space with introductory low prices fail to acknowledge the importance of the changing criteria upon which location decisions are being made. Physical and cultural infrastructure, communication facilities and proximity to markets are demanded by the producer and consumer services industries. Technological advances are making geographical factors less important in location criteria.

Economic development necessitates the regeneration of urban areas as their function within the economy changes. Public works are required in order to facilitate the physical and economic restructuring of regions which are experiencing radical change. The development of the motorway network in the 1970's and the regeneration of dockland areas in the 1980's are examples of such public works. The deindustrialisation process described above, fundamentally changed the function of many regions, particularly inner city areas, leading to a requirement for substantial economic regeneration. The efficacy of property led urban regeneration as the solution to these problems is becoming less certain in light of the changing locational criteria, particularly as the environmental and physical constraints of the regional inner cities are becoming increasingly problematic.

The availability of a pool of labour also moved down the list of criteria in making a locational decision. The restructuring of the labour market, the decline of traditional manufacturing industry and the improved transport infrastructure has removed the link between a company or industry and a resident local workforce. The proximity of similar companies or industries which will provide markets has increased in importance. This has further implications for property led urban regeneration. The cities most in need of regeneration are those worst affected by the manufacturing and industrial decline brought about by economic restructuring. These areas are characterised by high levels of unskilled unemployed and little existing

industry. The development of flagship buildings does not change these characteristics and will therefore do little to create long term economic growth particularly if building completion coincides with the peak in the building cycles and an economic downswing.

The increased flexibility which has been introduced to the labour market, particularly in white collar sector employment, is simultaneously forcing changes in the perception of credit worthiness. It is also bringing about changes in the traditional concept of employment being based on the purchase of a workers time. The increasing use of services on a subcontracted or consultative basis is bringing increasing flexibility into working hours, working locations and working practices. This is being aided by rapid advances in communication and information technology which make the physical presence of a person in a particular location unnecessary. This has far reaching implications for the demand for commercial space.

Locational priorities in occupier demand are changing as it becomes less essential to be situated in city centres and central business districts and more important to locate in an acceptable social, cultural and physical environment. The volume of space demanded will fall as fewer people have to be accommodated in an office environment, particularly on a full time basis. As the economies of all industrialised and industrialising countries continue to progress it is important that the implications for the development, investment and occupation markets of the commercial property sector are specifically identified and catered for. This is particularly important given the large allocation of capital resources buildings demand and that they are becoming increasingly expensive to develop and maintain.

The impact of the restructuring of the capital markets over the 1980's was seen within the stock market crash much earlier than the property market crash. Certain similarities can be identified between the rising equities markets of 1985 - 1987 and rising rental values of 1986 - 1990. The increase in the level of stock market trading arose as a result of the deregulation of the stock exchange and the financial markets. The increase

in developer activity and resulting over supply of development space was a result of the deregulation of the planning system and the funding markets.

Policies were implemented in the 1988 and 1989 Budgets in response to the stock market crash which failed to acknowledge the importance of the relationship between the commercial property markets and the level of aggregate demand within the economy. The government's fear of the crash producing a 1930's style economic depression led them to implement strong reflationary economic policies with little regard for the consequences in other areas of the economy particularly the short term commercial property cycles. The UK government was not alone in it's fears following the crash, nor in the policies implemented, a broadly similar response can be identified in the USA which also suffered over expansion in the commercial property development sector.

These policies also failed to acknowledge the existence of a relatively predictable and autonomous building cycle which was due to peak in or around 1990. The reflationary policies, particularly in combination with the freeing up of land, labour and capital markets through the deregulation programme, encouraged developer activity at an expansionary point in the cycle leading to the exaggeration of the peak of the building cycle in 1990. This apparent lack of understanding of certain characteristics of the commercial property markets encouraged an increase in development activity which has had more lasting effects in terms of infrastructure and investment than could have been expected.

The size of the projects which can be involved both in financial and physical terms, sets the commercial property sector apart from other sectors of the economy in terms of the impact over supply can have on the rest of the economy. This increases the importance of accurate forecasting of the level of pipeline supply and forthcoming demand particularly as oversupply will result in a devaluation of substantial capital assets, discouraging further

investment. The evidence produced by this work suggests that too little attention has been paid to this aspect of the commercial property markets.

Improving knowledge and understanding of the commercial property markets requires consistent commercial property market data of a type which is not currently available. Consistent and rigorous rental data is provided by the industry on a relatively ad hoc but nonetheless useful basis but there exists a great paucity of information relating to supply, particularly of commercial buildings. This lack of information contributed to the extent of the overreaction of the markets to strong occupier demand in 1987, 1988 and 1989.

The increasingly widespread recognition of this problem has led to it being addressed with great vigour in terms of rental data for investment buildings. Although this is clearly the market which has the most accessible data sources it is not necessarily the most important in increasing the efficiency with which the commercial property markets operate. The most damaging deficiency lies within market-wide data relating particularly to forthcoming supply and completion dates. More consistent data would enable more accurate forecasting of the level of forthcoming supply and would also enable clearer conclusions to be drawn regarding the transfer of space from primary to secondary markets and from one use class to another. Without a significant improvement in the availability and consistency of this type of data these markets will become less efficient in comparison to other markets.

This work has argued that government policy over the 1979 - 1990 period served to exaggerate existing trends within the building and demand cycles of the commercial property markets. Whereas Ball (1994) argues that the building cycle is independent of the economic cycle and can protect an economy from recession, this work argues that government policy can serve to exaggerate the building cycle itself. Four possible results will be produced. An upswing in the building cycle will either exaggerate an economic upswing or protect an economy from the worst effects of an economic downswing. A downswing in the building cycle will exaggerate any economic downswing it

coincides with and mute an economic recovery. These patterns will be exacerbated by government policy which encourages or reduces the level of development activity at any point in the development cycle.

Evidence of these tendencies can be seen throughout the decade being studied here. The low level of building activity in the early 1980's contributed to the depth of that recession and slowed economic recovery. The upswing in the building cycle in the latter half of the decade reinforced the effects of other economic factors to contribute to the over expansion of supply of commercial space. The rapid increase in building activity between 1983 and 1988 which has been identified and discussed in this work, has not been attributed simply to the building cycle. The building cycle, government policy and changes in the demand for space which have emerged from economic restructuring and technological change have all been identified as important factors.

Clearly links exist between conditions within the economy as a whole and the processes of development, investment and occupation of commercial buildings. Long term changes were occurring within the economy through the restructuring process but, importantly, more immediate changes were effected by the government's policies, aimed at hastening the restructuring process. The policies affected occupier, investor and developer demand for land in the short term thereby exaggerating short term cycles within these markets.

The long term changes in themselves can be attributed to economic development and progress. The speed with which the service sector expanded once it took over from manufacturing and the acceptance of the resulting mass unemployment of unskilled workers, particularly in the industrial regions of the country, can be attributed to the policies of the Thatcher Government. The two factors occurring simultaneously led to rapid growth in demand for skilled and semi-skilled labour in areas of the country which were becoming dominated by consumer and producer service

industries and oversupply of unskilled labour in areas of the country traditionally dominated by industrial and manufacturing sectors.

In implementing the programme of deregulation the Thatcher Government paid little attention to the likely responses of market operators to increases in competition within the markets for the three major resources. The overriding objective of an expansion in the supply of these resources to encourage economic growth was achieved but the longer term implications of the ways in which participants within these markets were likely to react to increased competition seems to have been side stepped. The resulting changes in the operation of these markets through the removal of perceived restrictions to supply go much further than simply increasing the availability of capital funding, labour and land. In combination with changing technology they increased the speed with which the development market could respond to increased demand whilst also fundamentally changing the nature of demand.

No similar change was made to the limited scope the commercial property markets have to respond to a reduction in demand or to over supply. The most important imperfections within the commercial property markets in the context of these market changes are the time lag between increases in supply being initiated and supply within the market actually expanding and the lack of reliable and universally available data about the market. Both factors directly contributed to the over supply of built space these markets are still experiencing.

The imperfections of the property market which make the collation and publication of data difficult also render it slow to respond to increased pressures of demand encouraging rapid inflation of rental levels. The reduction in pipeline supply has already been identified as providing a foundation for the exaggeration of the upswing in the commercial property markets in the 1980's. Following the foregoing discussion of industrial restructuring, this assertion can be refined to the argument that the reduction in pipeline supply resulting from macroeconomic policies was a symptom of

cyclical changes taking place within the wider economy. These changes and, importantly, the government's policy response to them formed a foundation for the exaggeration of the upswing in the short term commercial property cycles.

The scale of the commercial property boom of the 1980's was unusual in intensity for the UK. It is too simplistic to attribute responsibility for it solely to the policies of the Thatcher Government particularly as booms of similar intensity were experienced in other industrialised economies. Furthermore, given that the commercial property markets do not operate within a political and economic vacuum it would be illogical to suggest that they are not affected by the economic situation within which they are operating. Thus it seems that the most logical conclusion is that these markets are affected by economic changes brought about both by government policy and through the evolutionary process affecting the industrialised economy. Ball suggests that, "Systematic forces linking property markets to broader economic development can more convincingly explain what happened." (Ball, 1994:671). This work suggests that it is not simply the broader economic development but a combination of that and government policy which best explains the exaggeration of these cycles. Furthermore I would go on to clarify this further by suggesting that a differentiation can and should be made between the government's macroeconomic policy response to longer term economic development, and its supply side policy response to the accelerated changes within the economy which were brought about. The reactive supply side policy initiatives allowed the economy to capitalise in the short term upon the accelerated longer term changes brought about by the government's macroeconomic policy.

APPENDICES

Money Supply

Appendix A: Time Series Data

			GDP@FAC	GDP@FACTOR	MONEY GDP @	MONEY GDP @	
Date		RPI ICHP	COST(S/A)	COST(S/A)	MARKET PRICES	MARKET PRICES	PSBR
		('77=100)	'85PRICES	('77=100)	(S/A)	(S/A)1977=100	(£B)
1977	January						
	February						
	March		66916	100	34623	100	1.001
	April						
	May	100.00					
	June		66616	99.551676729	35889	103.656528897	2.08
	July						
	August						
	September		66958	100.06276526	37026	106.940473096	0.94
	October						
	November	103.13					
	December		67920	101.50038855	38528	111.278629813	1.96
1978	January						
	February						
	March		68088	101.75144958	39988	115.495479883	0.599
	April						
	May	107.71					
	June		68842	102.8782354	41655	120.310198423	2.218
	July						
	August						
	September		69329	103.60601351	42777	123.55081882	2.297
	October						
	November	111.44					
	December		70038	104.66555084	44114	127.412413713	3.243
1979	January						
	February						
	March		69255	103.4954271	45216	130.595269041	1.473
	April						
	May	118.82					
	June		72023	107.63195648	48601	140.372007047	3.385
	July						
	August						
	September		71184	106.37814573	51029	147.38468648	3.795
	October						
	November	130.81					
	December		71595	106.99234862	53416	154.27894752	3.995
1980	January						
	February						
	March		70846	105.87303485	55598	160.581116599	0.746
	April						
	May	144.85					
	June		70044	104.67451731	57079	164.858619992	3.88
	July						
	August						
	September		69208	103.42518979	58896	170.106576553	4.11
	October						
	November	150.85					
	December		68179	101.88744097	60279	174.101031106	3.07
1981	January						
	February						
	March		68076	101.73351665	61544	177.75467175	1.84
	April						
	May	161.85					
	June		68554	102.44784506	62693	181.073274991	6.25
	July						
	August						
	September		69119	103.29218722	64507	186.312566791	3.01
	October						
	November	168.89					
	December		69324	103.59854145	66190	191.173497386	-0.529

Money Supply

Appendix A: Time Series Data

			GDP@FAC	GDP@FACTOR	MONEY GDP @	MONEY GDP @	
Date	RPI ICHP	COST(S/A)	COST(S/A)	MARKET PRICES	MARKET PRICES	PSBR	
	('77=100)	'85PRICES	('77=100)	(S/A)	(S/A)1977=100	(£B)	
1982	January						
	February						
	March		69303	103.56715883	67560	195.130404644	0.016
	April						
	May	177.20					
	June		70087	104.73877697	69028	199.370360743	1.64
	July						
	August						
	September		70072	104.71636081	70313	203.081766456	1.74
	October						
	November	179.46					
	December		70382	105.17962819	72073	208.165092569	1.56
1983	January						
	February						
	March		71774	107.25984817	74277	214.530803223	4.34
	April						
	May	183.76					
	June		72316	108.06981888	74852	216.19154897	1.79
	July						
	August						
	September		72833	108.84242931	76651	221.387516968	2.78
	October						
	November	188.17					
	December		73491	109.82575169	78668	227.213124224	2.67
1984	January						
	February						
	March		74114	110.75676968	79617	229.95407677	2.01
	April						
	May	193.16					
	June		73408	109.70171558	80662	232.972301649	3.31
	July						
	August						
	September		73614	110.00956423	81426	235.178927303	2.8
	October						
	November	197.46					
	December		74462	111.27682468	83561	241.345348468	2.7
1985	January						
	February						
	March		75742	113.18967063	86224	249.036767467	-0.1
	April						
	May	206.93					
	June		76972	115.02779604	88614	255.939693267	2.6
	July						
	August						
	September		76884	114.89628788	89880	259.596222164	2.9
	October						
	November	208.25					
	December		77251	115.44473668	91498	264.269416284	2
1986	January						
	February						
	March		78175	116.82557236	93065	268.795309476	-1.9
	April						
	May	212.44					
	June		79154	118.28860063	94846	273.939288912	2.5
	July						
	August						
	September		79914	119.42435292	96410	278.456517344	3.6
	October						
	November	215.57					
	December		80744	120.66471397	98833	285.454755509	-1.7

Money Supply

Date	RPI ICHP ('77=100)	GDP@FAC COST(S/A) '85PRICES	GDP@FACTOR COST(S/A) (77=100)	MONEY GDP @ MARKET PRICES (S/A)	MONEY GDP @ MARKET PRICES (S/A)1977=100	PSBR (£B)
1987						
January						
February						
March		81211	121.36260386	100718	290.899113306	-0.8
April						
May	221.23					
June		82297	122.9855341	103521	298.994887791	1.4
July						
August						
September		83842	125.29439895	107041	309.161540017	0.5
October						
November	224.49					
December		84683	126.55119852	109880	317.361291627	-2.5
1988						
January						
February						
March		85980	128.48944946	112440	324.755220518	-2.9
April						
May	230.57					
June		86416	129.14101261	115778	334.396210611	-1.5
July						
August						
September		87410	130.62645705	119173	344.201831153	-2.1
October						
November	238.82					
December		87889	131.34227987	122726	354.463795743	-5
1989						
January						
February						
March		88534	132.30617491	125218	361.661323398	-5.7
April						
May	249.67					
June		88287	131.93705541	127545	368.38228923	0.1
July						
August						
September		88866	132.80231933	128720	371.775987061	-0.6
October						
November	257.27					
December		89204	133.30743021	131759	380.553389365	
1990						
January						
February						
March		89987	134.47755395	134994	389.896889351	
April						
May	273.99					
June		90290	134.93036045	137127	396.057534009	
July						
August	278.12					
September						
October						
November	282.24					
December						

Money Supply

Appendix A: Time Series Data

Date	BALANCE OF PAYMENTS (£m) (crnt.acc)	BALANCE OF PAYMENTS 1977=100	M3:AMNT £M OUTSTANDING YEAR END (S)	M3:AMNT QUARTERLY	M3 AMNT O/S INDEX 1977=100	M3 AMNT O/ REAL 1977=100
1977						
January						
February						
March				40760	100	100
April						
May						
June				41750	102.428852	102.42885
July						
August						
September				42830	105.078508	101.89297
October						
November						
December				44650	109.54367	106.22277
1978						
January						
February						
March				46880	115.01472	106.78448
April						
May						
June				48200	118.253189	109.79121
July						
August						
September				49400	121.197252	108.75405
October						
November						
December	1123	100	50137	51440	126.202159	113.24511
1979						
January						
February						
March				52390	128.532875	108.17146
April						
May						
June				54310	133.243376	112.13576
July						
August						
September				55950	137.266928	104.938
October						
November						
December	-453	-40.33838	56658	58030	142.369971	108.83918
1980						
January						
February						
March				59570	146.148184	100.89307
April						
May						
June				62860	154.219823	106.4653
July						
August						
September				65790	161.408243	107.00149
October						
November						
December	2843	253.16118	67202	69100	169.52895	112.38491
1981						
January						
February						
March				70250	172.350343	106.485
April						
May						
June				73310	179.857704	111.12335
July						
August						
September				76600	187.929342	111.27427
October						
November						
December	6748	600.89047	84014	86332	211.805692	125.41162

Money Supply

Appendix A: Time Series Data

Date	BALANCE OF PAYMENTS (£m (crnt.acc)	BALANCE O PAYMENTS 1977=100	M3:AMNT £M OUTSTANDIN YEAR END (S	M3:AMNT OUTSTANDI QUARTERLY	M3 AMNT O/S INDEX 1977=100	M3 AMNT O/ REAL 1977=100
1982						
January						
February						
March				85948	210.863592	118.99506
April						
May						
June				89153	218.726693	123.43239
July						
August						
September				90550	222.154073	123.78922
October						
November						
December	4649	413.98041	91491	94312	231.38371	128.93218
1983						
January						
February						
March				96062	235.677134	128.25247
April						
May						
June				98025	240.493131	130.87327
July						
August						
September				99124	243.189401	129.24084
October						
November						
December	3787	337.22173	101659	102291	250.959274	133.37007
1984						
January						
February						
March				102396	251.216879	130.05563
April						
May						
June				105926	259.877331	134.53917
July						
August						
September				108238	265.549558	134.48282
October						
November						
December	1832	163.13446	111956	112543	276.111384	139.83167
1985						
January						
February						
March				114613	281.189892	135.88927
April						
May						
June				118444	289.877631	140.08775
July						
August						
September				123494	302.97841	145.48776
October						
November						
December	3750	333.92698	126974	127622	313.105986	150.35094
1986						
January						
February						
March				134011	328.780667	154.7638
April						
May						
June				140790	345.412169	162.59259
July						
August						
September				146979	360.596173	167.27827
October						
November						
December	-24	-2.137133	151147	151704	372.18842	172.65584

Money Supply

Appendix A: Time Series Data

Date	BALANCE OF PAYMENTS (£m (crnt.acc)	BALANCE O PAYMENTS 1977=100	M3:AMNT £M OUTSTANDIN YEAR END (S	M3:AMNT OUTSTANDI QUARTERLY	M3 AMNT O/S INDEX 1977=100	M3 AMNT O/ REAL 1977=100
1987						
January						
February						
March				160082	392.742885	177.52441
April						
May						
June				168374	413.086359	186.7199
July						
August						
September				176473	432.95633	192.86237
October						
November						
December	-4182	-372.3954	185623	186111	456.602061	203.39546
1988						
January						
February						
March				193127	473.815015	205.4983
April						
May						
June				202205	496.08685	215.15782
July						
August						
September				215817	529.482336	221.70869
October						
November						
December	-15151	-1349.154	223674	223449	548.206575	229.54904
1989						
January						
February						
March						
April						
May						
June						
July						
August						
September						
October						
November						
December						
1990						
January						
February						
March						
April						
May						
June						
July						
August						
September						
October						
November						
December						

Consumer Expenditure

Appendix A: Time Series Data

		M3:CHANGES	REAL CONS	REAL CON	PERSONAL	PERSONAL	
		MONEY STOCK	EXP.(£M)	EXPEND	DISPOSABL	DISP.INCOM	RPDI
Date		QUARTERLY	1985PRICE	1977=100	INCOME	1977=100	1977=100
1977	January						
	February						
	March	256	44013	100	48255	100	100
	April						
	May						
	June	1097	43802	99.5206	47640	98.725521	98.7255
	July						
	August						
	September	807	44309	100.6725	48564	100.64035	97.5894
	October						
	November						
	December	1956	45359	103.0582	50874	105.42742	102.231
1978	January						
	February						
	March	2059	46407	105.4393	50591	104.84095	97.3387
	April						
	May						
	June	1322	46454	105.5461	52079	107.92457	100.202
	July						
	August						
	September	1245	47397	107.6886	53407	110.67661	99.3136
	October						
	November						
	December	2138	47252	107.3592	53767	111.42265	99.983
1979	January						
	February						
	March	1002	47747	108.4839	54239	112.40079	94.5949
	April						
	May						
	June	2013	50423	114.5639	54723	113.40379	95.439
	July						
	August						
	September	1891	48398	109.963	55085	114.15397	87.2686
	October						
	November						
	December	1709	49096	111.5489	57974	120.14092	91.8455
1980	January						
	February						
	March	1537	49708	112.9394	55900	115.84292	79.9719
	April						
	May						
	June	3350	48576	110.3674	55944	115.9341	80.0348
	July						
	August						
	September	2800	49163	111.7011	56916	117.9484	78.1909
	October						
	November						
	December	3210	48378	109.9175	56699	117.4987	77.8928
1981	January						
	February						
	March	1131	48919	111.1467	56918	117.95254	72.8758
	April						
	May						
	June	3055	49053	111.4512	55792	115.61911	71.4342
	July						
	August						
	September	3296	49062	111.4716	55443	114.89587	68.0306
	October						
	November						
	December	1748	48977	111.2785	55835	115.70822	68.5116

Consumer Expenditure

Appendix A: Time Series Data

Date	M3:CHANGES	REAL CONS	REAL CON	TOTAL PER	TOTAL PERSONAL		
	MONEY STOCK	EXP.(£M)	EXPEND	DISP.INCOM	DISP.INCOM	RPDI	
	QUARTERLY	1985PRICE	1977=100		1977=100	1977=100	
1982	January						
	February						
	March	1638	48808	110.8945	55420	114.8482	64.8114
	April						
	May						
	June	2097	49046	111.4353	56323	116.71951	65.8674
	July						
	August						
	September	1641	49812	113.1757	55750	115.53207	64.3771
	October						
	November						
	December	2266	50314	114.3162	55969	115.98591	64.6299
1983	January						
	February						
	March	3702	51024	115.9294	56535	117.15884	63.7563
	April						
	May						
	June	2945	51406	116.7973	57684	119.53994	65.0521
	July						
	August						
	September	452	52256	118.7286	57478	119.11305	63.3016
	October						
	November						
	December	2474	52240	118.6922	57951	120.09325	63.8225
1984	January						
	February						
	March	102	52239	118.6899	58215	120.64035	62.4558
	April						
	May						
	June	3522	52728	119.801	58475	121.17915	62.7348
	July						
	August						
	September	2325	52371	118.9898	58763	121.77598	61.6713
	October						
	November						
	December	3898	53134	120.7234	59747	123.81515	62.704
1985	January						
	February						
	March	2059	53852	122.3548	58903	122.06611	58.9903
	April						
	May						
	June	3831	53844	122.3366	60554	125.48751	60.6437
	July						
	August						
	September	5036	54888	124.7086	60642	125.66988	60.3456
	October						
	November						
	December	4132	55357	125.7742	61623	127.70283	61.3219
1986	January						
	February						
	March	6120	56547	128.4779	61574	127.60128	60.0645
	April						
	May						
	June	6782	57997	131.7724	63259	131.09315	61.7082
	July						
	August						
	September	6378	58254	132.3563	63633	131.8682	61.1728
	October						
	November						
	December	3736	58845	133.6991	63820	132.25572	61.3526

Consumer Expenditure

		M3:CHANGES	REAL CONS	REAL CON	TOTAL PER	TOTAL PERSONAL	
Date		MONEY STOCK	EXP.(£M)	EXPEND	DISP.INCOM	DISP.INCOM	RPDI
		QUARTERLY	1985PRICE	1977=100		1977=100	1977=100
1987	January						
	February						
	March	8489	59223	134.558	63537	131.66926	59.5161
	April						
	May						
	June	8291	60330	137.0731	65151	135.01399	61.0279
	July						
	August						
	September	8157	61668	140.1131	65918	136.60346	60.8506
	October						
	November						
	December	9638	62803	142.6919	66695	138.21366	61.5679
1988	January						
	February						
	March	7284	64174	145.8069	67630	140.15128	60.785
	April						
	May						
	June	9124	64644	146.8748	68712	142.39353	61.7575
	July						
	August						
	September	13771	66027	150.017	69475	143.97472	60.2861
	October						
	November						
	December	7841	66735	151.6257	70829	146.78064	61.4611
1989	January						
	February						
	March	10157	67216	152.7185	71599	148.37633	59.4279
	April						
	May						
	June	12306	67944	154.3726	72853	150.97503	60.4688
	July						
	August						
	September		67993	154.4839	73297	151.89514	59.0404
	October						
	November						
	December		68554	155.7585	73535	152.38835	59.2321
1990	January						
	February						
	March		69105	157.0104	74622	154.64097	56.4403
	April						
	May						
	June		69791	158.5691	75646	156.76303	57.2148
	July						
	August						
	September						
	October						
	November						
	December						

Interest and Exchange Rates

Appendix A: Time Series Data

Date	SAVINGS RATIO(%)	£/\$RATE	£/DMRATE	FINANCE HOUSING BASE RATE
1977				
January				
February				14.5
March	8.8	1.7138	4.107	13
April				11.5
May				9.5
June	8	1.719	4.059	8.5
July				8
August				8
September	8.7	1.7354	4.005	7.5
October				6.5
November				6
December	10.8	1.8134	4.033	5.5
1978				
January				6.5
February				7
March	8.2	1.9276	4	7
April				7
May				7.5
June	10.8	1.8354	3.813	8.5
July				10
August				10.5
September	11.2	1.9319	3.874	10
October				9.5
November				10
December	12.1	1.9838	3.717	11.5
1979				
January				12.5
February				12.5
March	11.9	2.016	3.74	13.5
April				13
May				12
June	7.7	2.0811	3.944	12
July				13
August				14
September	12	2.2338	4.058	14.5
October				14.5
November				14.5
December	15.2	2.1572	3.811	14.5
1980				
January				17
February				17
March	11	2.2542	3.995	17
April				18
May				18
June	13.1	2.2862	4.132	17.5
July				17
August				16.5
September	13.6	2.382	4.227	16.5
October				16.5
November				16.5
December	14.7	2.3872	4.55	16
1981				
January				15.5
February				15
March	14.1	2.3095	4.814	14
April				13
May				13
June	12.1	2.0771	4.728	12.5
July				13
August				13.5
September	11.5	1.8387	4.468	14.5
October				14.5
November				16
December	12.3	1.8833	4.226	16

Interest and Exchange Rates

Date	SAVINGS RATIO(%)	£/\$RATE	£/DMRATE	FINANCE HOI BASE RATE
1982				
January				15.5
February				15.5
March	11.9	1.8452	4.331	15
April				14.5
May				14
June	12.9	1.7792	4.232	14
July				14
August				13
September	10.7	1.7252	4.281	12
October				11.5
November				10.5
December	10.1	1.6495	4.13	10
1983				10.5
January				11
February				11.5
March	9.4	1.5303	3.684	11.5
April				11
May				11
June	10.9	1.5546	3.867	10.5
July				10.5
August				10.5
September	9.1	1.5091	3.989	10
October				10
November				10
December	9.9	1.4708	3.936	9.5
1984				9.5
January				9.5
February				9.5
March	10.3	1.4353	3.8775	9.5
April				9.5
May				9
June	9.8	1.396	3.784	9.5
July				9.5
August				10.5
September	10.9	1.2993	3.786	11.5
October				11
November				10.5
December	11.1	1.2178	3.716	10.5
1985				10
January				10.5
February				12.5
March	8.6	1.1155	3.628	14
April				13.5
May				13.5
June	11.1	1.2577	3.878	13
July				12.5
August				12
September	9.5	1.3758	3.92	12
October				12
November				12
December	9.6	1.4356	3.711	12
1986				12.5
January				12.5
February				13
March	8.1	1.4391	3.382	12.5
April				11.5
May				10.5
June	8.3	1.509	3.387	10
July				10
August				10
September	8.5	1.4891	3.109	10
October				10
November				11
December	7.8	1.4304	2.868	11

Interest and Exchange Rates

		SAVINGS	£/\$RATE	£/DMRATE	FINANCE HOI
Date		RATIO(%)			BASE RATE
1987	January				11.5
	February				11.5
	March	6.8	1.5431	2.837	11
	April				11
	May				10
	June	7.4	1.641	2.964	9.5
	July				9
	August				9.5
	September	6.5	1.6184	2.974	10
	October				10.5
	November				10.5
	December	5.8	1.7535	2.989	9.5
1988	January				9.5
	February				9
	March	5.1	1.7972	3.013	9.5
	April				9.5
	May				9
	June	5.9	1.839	3.142	8.5
	July				8.5
	August				10
	September	4.9	1.6951	3.165	11
	October				12
	November				12.5
	December	5.8	1.7915	3.175	12.5
1989	January				13
	February				13.5
	March	6.1	1.7477	3.233	13.5
	April				13.5
	May				13.5
	June	6.7	1.6259	3.14	13.5
	July				14
	August				14.5
	September	7.2	1.5971	3.071	14
	October				14
	November				15
	December	6.8	1.5849	2.876	15.5
1990	January				15.5
	February				15.5
	March	7.4	1.6565	2.8	15.5
	April				15.5
	May				15.5
	June	7.7	1.6761	2.812	15.5
	July				15.5
	August				15.5
	September				15.5
	October				15
	November				14
	December				14

Construction Orders

Appendix A: Time Series Data

		Construction: Value of new orders obtained by contractors: Private Sector.								
ISE Date		(£million) COMMERCIAL								
		Offices	real	shops	nom	real	Ind	nom	real	
1977	January	524	100	270	100	100	1187	100	100	
	February									
	March									
	April									
	May									
	June									
	July									
	August									
	September									
	October									
	November									
	December									
1978	January	678	125.47	380	140.74	136.47	1447	121.9	118.21	
	February									
	March									
	April									
	May									
	June									
	July									
	August									
	September									
	October									
	November									
	December									
1979	January	821	140.59	414	153.33	137.59	1864	157.03	140.91	
	February									
	March									
	April									
	May									
	June									
	July									
	August									
	September									
	October									
	November									
	December									
1980	January	1045	152.46	536	198.52	151.76	1803	151.9	116.12	
	February									
	March									
	April									
	May									
	June									
	July									
	August									
	September									
	October									
	November									
	December									
1981	January	1451	183.57	531	196.67	130.38	1554	130.92	86.789	
	February									
	March									
	April									
	May									
	June									
	July									
	August									
	September									
	October									
	November									
	December									

Construction Orders

Appendix A: Time Series Data

ISE Date	Construction: Value of new orders obtained by contractors: Private Sector (£million) COMMERCIAL								
	Offices	real	shops	nom	real	Ind	nom	real	
1982	January	1414	159.78	521	192.96	114.25	1327	111.79	66.194
	February								
	March								
	April								
	May								
	June								
	July								
	August								
	September								
	October								
	November								
	December								
1983	January	1209	128.57	549	203.33	113.3	1543	129.99	72.434
	February								
	March								
	April								
	May								
	June								
	July								
	August								
	September								
	October								
	November								
	December								
1984	January	1601	162.37	702	260	138.17	2203	185.59	98.632
	February								
	March								
	April								
	May								
	June								
	July								
	August								
	September								
	October								
	November								
	December								
1985	January	1775	171.55	1022	378.52	191.69	2149	181.04	91.687
	February								
	March								
	April								
	May								
	June								
	July								
	August								
	September								
	October								
	November								
	December								
1986	January	2256	206.74	1102	408.15	195.99	1993	167.9	80.625
	February								
	March								
	April								
	May								
	June								
	July								
	August								
	September								
	October								
	November								
	December								

Construction Orders

Appendix A: Time Series Data

ISE	Date	Construction: Value of new orders obtained by contractors: Private Sector (Emillion) COMMERCIAL							
		Offices	real	shops	nom	real	Ind	nom	real
1987	January	3110	275.33	1616	598.52	277.65	3660	308.34	143.04
	February								
	March								
	April								
	May								
	June								
	July								
	August								
	September								
	October								
	November								
	December								
1988	January	4585	389.77	2048	758.52	337.89	3128	263.52	117.39
	February								
	March								
	April								
	May								
	June								
	July								
	August								
	September								
	October								
	November								
	December								
1989	January	5271	421.2	2086	772.59	323.51	3377	284.5	119.13
	February								
	March								
	April								
	May								
	June								
	July								
	August								
	September								
	October								
	November								
	December								
1990	January								
	February								
	March								
	April								
	May								
	June								
	July								
	August								
	September								
	October								
	November								
	December								

Profits and Lending

Appendix A: Time Series Data

		Profit:UK	real	nominal	Bank lending	real	Lending to	real
		income total	1977=100	1977=100	(to Ind & Comm	1977 = 100	Property Co.'s	1977 = 100
Date		£M			Co's (sterling)		Amt.O/S	
					(£m)		(£M)	
1977	January							
	February							
	March	5270	100	100	18431	100		
	April							
	May							
	June	5270	100	100	19312	104.78		
	July							
	August							
	September	5477	100.78	103.93	19643	103.345		
	October							
	November						2524	96.96842
	December	5240	96.416	99.431	20295	106.775		
1978	January							
	February							
	March	5540	97.601	105.12	20582	108.285		
	April							
	May							
	June	6078	107.08	115.33	21438	107.992		
	July							
	August							
	September	6153	104.77	116.76	21666	105.483		
	October							
	November							
	December	6191	105.42	117.48	22584	109.952		
1979	January							
	February						2223	79.03197
	March	5965	95.257	113.19	24180	110.409		
	April							
	May						2234	74.48903
	June	7518	120.06	142.66	25643	117.09		
	July							
	August						2148	71.6215
	September	7826	113.53	148.5	26075	108.154		
	October							
	November						2113	63.99957
	December	8147	118.18	154.59	26556	110.149		
1980	January							
	February						2170	65.72601
	March	8091	105.99	153.53	28292	105.97		
	April							
	May						2253	61.62256
	June	7136	93.479	135.41	29850	111.806		
	July							
	August						2226	60.88407
	September	6353	79.916	120.55	31622	113.738		
	October							
	November						2240	58.83324
	December	6549	82.381	124.27	32265	116.05		
1981	January							
	February						2370	62.24767
	March	6886	80.73	130.66	30820	103.314		
	April							
	May						2425	59.36065
	June	7266	85.185	137.87	32696	109.603		
	July							
	August						2558	62.61631
	September	7753	87.108	147.12	33489	107.585		
	October							
	November						2710	63.57408
	December	9574	107.57	181.67	31889	102.445		

Profits and Lending

Date	Ind and comm co's			Bank lending		Lending to	
	Gross Trading			to Ind & Comm		Property Co.'s	
	Profit-UK	Increal	nominal	Co's (sterling)	real	Amt.O/S	real
	total(£m)	1977=100	1977=100	(£m)	1977 = 100	(£M)	1977 = 100
1982	January						
	February					3009	70.58834
	March	7300	78.17	138.52	31072	95.1366	
	April						
	May					3243	72.50784
	June	8734	93.525	165.73	32706	100.14	
	July						
	August					3307	73.93876
	September	8907	94.178	169.01	32426	98.0332	
	October						
	November					3523	77.77711
	December	9954	105.25	188.88	33006	99.7867	
1983	January						
	February					3683	81.30943
	March	9751	100.69	185.03	34637	102.268	
	April						
	May					3856	83.13731
	June	10546	108.9	200.11	34742	102.578	
	July						
	August					4067	87.68657
	September	11006	110.99	208.84	35644	102.776	
	October						
	November					4457	93.84441
	December	12248	123.51	232.41	33909	97.7735	
1984	January						
	February					4650	97.90813
	March	12539	123.18	237.93	34990	98.2823	
	April						
	May					4894	100.3818
	June	12006	117.94	227.82	35208	98.8947	
	July						
	August					5194	106.5352
	September	12832	123.31	243.49	38472	105.71	
	October						
	November					5420	108.7505
	December	13556	130.27	257.23	44547	122.403	
1985	January						
	February					5850	117.3783
	March	15527	142.38	294.63	48867	128.13	
	April						
	May					5938	113.6937
	June	14478	132.76	274.72	49619	130.102	
	July						
	August					6592	126.2157
	September	13153	119.85	249.58	49475	128.9	
	October						
	November					7111	135.287
	December	14047	127.99	266.55	48609	126.643	
1986	January						
	February					7676	146.0362
	March	12725	113.66	241.46	52876	135.043	
	April						
	May					7751	144.5545
	June	12261	109.52	232.66	53400	136.381	
	July						
	August					8138	151.7719
	September	13299	117.06	252.35	54261	136.571	
	October						
	November					9335	171.5708
	December	14207	125.06	269.58	56845	143.074	

Profits and Lending

Appendix A: Time Series Data

Date	Ind and comm co's			Bank lending		Lending to		
	Gross Trading			to Ind & Comm		Property Co.'s		
	Profit-UK	Inc real	nominal	Co's (sterling)	real	Amt.O/S	real	
	total(£m)	1977=100	1977=100	(£m)	1977 = 100	(£M)	1977 = 100	
1987	January							
	February					9983	183.4806	
	March	15277	131.03	289.89	60060	147.294		
	April							
	May						10865	194.5764
	June	15598	133.79	295.98	62313	152.82		
	July							
	August						11995	214.813
	September	16333	138.06	309.92	65706	158.803		
	October							
	November						13334	235.3285
	December	16713	141.27	317.13	69224	167.306		
1988	January							
	February					15144	267.2727	
	March	17409	143.27	330.34	75816	178.407		
	April							
	May					16665	286.362	
	June	17076	140.53	324.02	81767	192.41		
	July							
	August						19035	327.0867
	September	18802	149.39	356.77	86940	197.516		
	October							
	November						21287	353.1477
	December	19746	156.89	374.69	92224	209.52		
1989	January							
	February					23601	391.5365	
	March	20501	155.81	389.01	101078	219.651		
	April							
	May					26867	426.3398	
	June	20047	152.36	380.4	106686	231.838		
	July							
	August						29608	469.8355
	September				108267	228.325		
	October							
	November						31910	491.4089
	December				119006	250.972		
1990	January							
	February					34155	525.9816	
	March				121985	241.558		
	April							
	May					35760	517.0979	
	June				128645	254.747		
	July							
	August						37115	536.6915
	September				132245	254.221		
	October							
	November						38987	547.2819
	December				135692	260.847		

Employment

Appendix A: Time Series Data

		UNEMPLOYMENT	UNEMPLOYMENT	EMPLOYEES IN MANUFACT.		OUTPUT/PERSON EMPLOYED	MANUFACTURING OUTPUT
Date		(thous. s/a)	1977=100	000's S/A	1977 = 100	1985=100 (S/A)	1985 = 100(s/a)
						Whole Econ.	lab.force
1977	January						
	February						
	March	1121.7	100			85.2	133.5
	April						
	May						
	June	1128.5	100.6062			84.8	133.9
	July						
	August						
	September	1178.6	105.0727			85.3	134.2
	October						
	November						
	December	1199.5	106.9359			85.8	134.1
1978	January						
	February						
	March	1179.1	105.1172			86.2	133.4
	April						
	May						
	June	1159.5	103.3699	7143	100	87.7	133
	July						
	August						
	September	1146.1	102.1753	7146	100.042	88.2	133.2
	October						
	November						
	December	1126.1	100.3923	7156	100.182	88	133.5
1979	January						
	February						
	March	1100.7	98.12784	7129	99.804	87.2	133.1
	April						
	May						
	June	1087.6	96.95997	7113	99.58	90.4	132.7
	July						
	August						
	September	1064.6	94.90951	7095	99.328	89	132.6
	October						
	November						
	December	1052.5	93.83079	7053	98.74	89.2	131.8
1980	January						
	February						
	March	1072.5	95.6138	6941	97.1721	88.5	130.2
	April						
	May						
	June	1184.5	105.5986	6808	95.3101	87.2	127.9
	July						
	August						
	September	1341.2	119.5685	6599	92.3842	86.4	124.5
	October						
	November						
	December	1595.1	142.2038	6408	89.7102	86	120.9
1981	January						
	February						
	March	1859.8	165.8019	6243	87.4003	87.3	117.8
	April						
	May						
	June	2066.7	184.2471	6107	85.4963	88.3	115.2
	July						
	August						
	September	2225.4	198.3953	6027	84.3763	89.7	113.3
	October						
	November						
	December	2340.8	208.6832	5931	83.0323	90.2	111.8

Employment

Appendix A: Time Series Data

Date		UNEMPLOYMENT	UNEMPLOYMENT	EMPLOYEES IN	1977 = 100	OUTPUT/PERSON	manufacturing
		(thous. s/a)	1977=100	MANUFACT. 000's S/A		EMPLOYED 1985=100 (S/A)	Whole Econ.
1982	January						
	February						
	March	2424.2	216.1184	5864	82.0944	91.1	110.2
	April						
	May						
	June	2475.9	220.7275	5761	80.6524	92.2	108.6
	July						
	August						
	September	2551.6	227.4762	5659	79.2244	93.2	106.7
	October						
	November						
	December	2639.6	235.3214	5560	77.8384	93.9	104.9
1983	January						
	February						
	March	2715.9	242.1236	5486	76.8025	95.7	103.4
	April						
	May						
	June	2764.6	246.4652	5431	76.0325	96.1	102.3
	July						
	August						
	September	2807.8	250.3165	5378	75.2905	96.9	101.5
	October						
	November						
	December	2819.2	251.3328	5348	74.8705	97.5	100.9
1984	January						
	February						
	March	2850.4	254.1143	5322	74.5065	98.2	100.6
	April						
	May						
	June	2876.5	256.4411	5316	74.4225	97.3	100.5
	July						
	August						
	September	2913.1	259.704	5293	74.1005	97.1	100.7
	October						
	November						
	December	2965.3	264.3577	5292	74.0865	97.8	100.4
1985	January						
	February						
	March	2994.1	266.9252	5280	73.9185	99.1	100.3
	April						
	May						
	June	3031.5	270.2594	5269	73.7645	100.4	100.1
	July						
	August						
	September	3025	269.68	5263	73.6805	100.1	99.9
	October						
	November						
	December	3040.9	271.0974	5232	73.2465	100.5	99.7
1986	January						
	February						
	March	3076.2	274.2445	5198	72.7705	101.6	99.1
	April						
	May						
	June	3111.5	277.3915	5138	71.9306	102.8	98.2
	July						
	August						
	September	3124	278.5058	5097	71.3566	103.8	97.3
	October						
	November						
	December	3080.4	274.6189	5070	70.9786	104.5	97

Employment

Appendix A: Time Series Data

Date		UNEMPLOYMENT	UNEMPLOYMENT	EMPLOYEES IN	OUTPUT/PERSO	manufacturing
		(thous. s/a)	1977=100	MANUFACT. 1977 = 100 000's S/A	EMPLOYED 1985=100 (S/A)	output 1985 = 100(s/a)
					Whole Econ.	lab.force
1987	January					
	February					
	March	3042.6	271.249	5041	70.5726	105
	April					
	May					
	June	2944.3	262.4855	5064	70.8946	105.7
	July					
	August					
	September	2793.5	249.0416	5074	71.0346	106.8
	October					
	November					
	December	2641.9	235.5264	5096	71.3426	106.9
1988	January					
	February					
	March	2519.4	224.6055	5122	71.7066	107.6
	April					
	May					
	June	2390.4	213.1051	5131	71.8326	107.5
	July					
	August					
	September	2241.1	199.795	5148	72.0706	107.9
	October					
	November					
	December	2133	190.1578	5163	72.2806	107.8
1989	January					
	February					
	March	1981.6	176.6604	5169	72.3646	108
	April					
	May					
	June	1846.8	164.643	5152	72.1266	107.2
	July					
	August					
	September	1766.2	157.4574	5154	72.1546	107.2
	October					
	November					
	December	1670.4	148.9168	5144	72.0146	107
1990	January					
	February					
	March	1615.8	144.0492	5121	71.6926	107.2
	April					
	May					
	June	1607	143.2647	5118	71.6506	107.2
	July					
	August					
	September				0	
	October					
	November					
	December				0	

Prime and Secondary Rents

Appendix A: Time Series Data

ICHP PRIME AND SECONDARY REAL RENTAL INDICES								
Date		Offices	Industrial	Shops	Offices	B1	Shops	Industrial
		1977=100	1977=100	1977=100	1977=100	1977=100	1977=100	1977=100
1977	January							
	February							
	March							
	April							
	May	100	100	100				
	June							
	July							
	August							
	September							
	October							
	November	100	102	103				
	December							
1978	January							
	February							
	March							
	April							
	May	101	101	109				
	June							
	July							
	August							
	September							
	October							
	November	103	104	117				
	December							
1979	January							
	February							
	March							
	April							
	May	106	110	124				
	June							
	July							
	August							
	September							
	October							
	November	103	109	122				
	December							
1980	January							
	February							
	March							
	April							
	May	100	108	117	58		50	68
	June							
	July							
	August							
	September							
	October							
	November	102	106	115				
	December							
1981	January							
	February							
	March							
	April							
	May	101	101	112	57		49	62
	June							
	July							
	August							
	September							
	October							
	November	102	97	112				
	December							

Prime and Secondary Rents

Appendix A: Time Series Data

		ICHP PRIME AND SECONDARY REAL RENTAL INDICES						
Date		Offices	Industrial	Shops	Offices	B1	Shops	Industrial
		1977=100	1977=100	1977=100	1977=100	1977=100	1977=100	1977=100
1982	January							
	February							
	March							
	April							
	May	100	95	110	54		50	55
	June							
	July							
	August							
	September							
	October							
	November	95	95	111				
	December							
1983	January							
	February							
	March							
	April							
	May	100	93	110	53		50	54
	June							
	July							
	August							
	September							
	October							
	November	98	91	111				
	December							
1984	January							
	February							
	March							
	April							
	May	99	91	113	52	52	52	52
	June							
	July							
	August							
	September							
	October							
	November	100	90	117				
	December							
1985	January							
	February							
	March							
	April							
	May	101	87	118	50	61	56	50
	June							
	July							
	August							
	September							
	October							
	November	102	89	124				
	December							
1986	January							
	February							
	March							
	April							
	May	107	91	129	52	64	62	50
	June							
	July							
	August							
	September							
	October							
	November	111	92	138				
	December							

Prime and Secondary Rents

Appendix A: Time Series Data

		ICHP PRIME AND SECONDARY REAL RENTAL INDICES						
Date		Offices	Industrial	Shops	Offices	B1	Shops	Industrial
		1977=100	1977=100	1977=100	1977=100	1977=100	1977=100	1977=100
1987	January							
	February							
	March							
	April							
	May	123	92	148	56	69	70	50
	June							
	July							
	August							
	September							
	October							
	November	142	100	170				
	December							
1988	January							
	February							
	March							
	April							
	May	155	119	201	67	97	90	58
	June							
	July							
	August							
	September							
	October							
	November	165	128	215	79	107	96	64
	December							
1989	January							
	February							
	March							
	April							
	May	175	137	221	85	119	104	79
	June							
	July							
	August							
	September							
	October							
	November	184	145	226	92	134	108	83
	December							
1990	January							
	February							
	March							
	April							
	May	178	145	220	95	128	104	79
	June							
	July							
	August							
	September							
	October							
	November	173	145	217				
	December							

Commercial Property Yields and Capital Values

Appendix A: Time Series Data

		ICHP AVERAGE YIELDS (%)					ICHP CAPITAL VALUE INDEX REAL '1977 = 100		
Date		Offices	Shops	Industrial	Gilts	Equities	Offices	Shops	Industrial
1977	January								
	February								
	March								
	April								
	May	6.8	6.1	8.5	13.1	5.7	100	100	100
	June								
	July								
	August								
	September								
	October								
	November	5.9	5.4	7.4	11	5	115	118	118
	December								
1978	January								
	February								
	March								
	April								
	May	5.8	5.3	7.4	12.4	5.6	118	125	119
	June								
	July								
	August								
	September								
	October								
	November	5.7	4.8	7.4	12.9	5.7	126	154	124
	December								
1979	January								
	February								
	March								
	April								
	May	5.2	4.8	6.9	11.7	4.8	147	166	143
	June								
	July								
	August								
	September								
	October								
	November	5.2	4.8	6.9	13.5	6.5	144	169	142
	December								
1980	January								
	February								
	March								
	April								
	May	5.2	4.8	6.9	14.1	6.8	142	162	143
	June								
	July								
	August								
	September								
	October								
	November	5.2	4.8	6.9	13.2	5.8	145	158	143
	December								
1981	January								
	February								
	March								
	April								
	May	5.2	4.7	6.9	13.8	5.4	145	159	138
	June								
	July								
	August								
	September								
	October								
	November	5.2	4.7	7.1	15.8	6.4	145	158	132
	December								

Commercial Property Yields and Capital Values

Appendix A: Time Series Data

Date	ICHP AVERAGE YIELDS (%)					ICHP CAPITAL VALUE INDEX REAL 1977 =100			
	Offices	Shops	Industrial	Gilts	Equities	Offices	Shops	Industrial	
1982	January								
	February								
	March								
	April								
	May	5.4	4.7	7.2	13.8	5.9	139	155	133
	June								
	July								
	August								
	September								
	October								
	November	6	5	7.6	10.3	5.4	128	141	125
	December								
1983	January								
	February								
	March								
	April								
	May	6	5	8.1	10.5	4.7	126	145	117
	June								
	July								
	August								
	September								
	October								
	November	6.1	4.8	8.7	11.8	4.9	123	150	111
	December								
1984	January								
	February								
	March								
	April								
	May	6.3	4.8	9.2	10.3	4.3	123	155	106
	June								
	July								
	August	6.5	4.8	9.6	11.3	5.1			
	September								
	October								
	November	6.7	4.8	10.2	10.3	4.6	120	161	95
	December								
1985	January								
	February	6.8	4.8	10.2	10.8	4.3			
	March								
	April								
	May	6.8	4.8	10.2	10.6	4.5	123	162	93
	June								
	July								
	August	7	4.9	10.4	10.3	4.6			
	September								
	October								
	November	7	4.9	10.4	10.3	4.3	126	172	93
	December								
1986	January								
	February	7	5.1	10.6	10.8	4.3			
	March								
	April								
	May	7.4	5.1	10.6	8.9	3.8	127	169	99
	June								
	July								
	August	7.4	5.2	10.6	9.6	4.1			
	September								
	October								
	November	7.5	5.2	10.5	10.3	4	133	170	101
	December								

Commercial Property Yields and Capital Values

Appendix A: Time Series Data

Date	ICHP AVERAGE YIELDS (%)					ICHP CAPITAL VALUE INDEX REAL 1977 = 100		
	Offices	Shops	Industrial	Gilts	Equities	Offices	Shops	Industrial
1987								
January								
February	7.5	5.2	10.5	10	3.7			
March								
April								
May	7.6	5.3	10.5	8.9	3.3	151	183	104
June								
July								
August	7.6	5.4	10.1	9.7	3			
September								
October								
November	7.4	5.3	9.8	9.3	4.2	175	209	120
December								
1988								
January								
February	7.4	5.4	9.8	9.4	4.2			
March								
April								
May	7.2	5.3	9.6	9.3	4.2	198	248	148
June								
July								
August	7.1	5.4	9.3	9.4	4.2			
September								
October								
November	7.1	5.4	9.1	9.1	4.4	217	261	166
December								
1989								
January								
February	7	5.6	9	9.1	4.2			
March								
April								
May	6.9	5.8	8.8	9.4	4.2	238	248	185
June								
July								
August	6.8	6.1	8.8	9.6	4.3			
September								
October								
November	7.1	6.4	8.8	9.8	4.5	242	231	195
December								
1990								
January								
February	7.3	6.6	9.2	10.4	4.4			
March								
April								
May	8	7	10.1	12.3	5.2	214	197	173
June								
July								
August	8.4	7.3	10.3	11.1	4.8	201	187	169
September								
October								
November	8.7	7.4	10.9	11.3	5.7	187	182	159
December								

Available Floorspace

Appendix A: Time Series Data

X	Date	Available Ind. Space (millions of square feet)		Rateable Values - England £thousands			
			1977 = 100	Shops*	Offices*	Whses, Stores & Workshops	Factories, Mills etc
	1977						
	January						
	February						
	March						
	April	83.7	100	484741	553382	271521	730121
	May						
	June						
	July						
	August	76.3	91.1589008				
	September						
	October						
	November						
	December	107.2	128.076464				
	1978						
	January						
	February						
	March						
	April	70.95	84.7670251	488779	566231	283957	725407
	May						
	June						
	July						
	August	71.68	85.6391876				
	September						
	October						
	November						
	December	64.1	76.5830346				
	1979						
	January						
	February						
	March						
	April	56.32	67.2879331	494510	590315	297290	724625
	May						
	June						
	July						
	August	51.21	61.1827957				
	September						
	October						
	November						
	December	53.83	64.3130227				
	1980						
	January						
	February						
	March						
	April	58.29	69.6415771	502398	613623	312418	728013
	May						
	June						
	July						
	August	75.92	90.7048984				
	September						
	October						
	November						
	December	102.87	122.903226				
	1981						
	January						
	February						
	March						
	April	116.54	139.235364				
	May						
	June						
	July						
	August	137.58	164.37276				
	September						
	October						
	November						
	December	145.76	174.145759				

Available Floorspace

Appendix A: Time Series Data

X	Date	AVAILABLE IND. SPACE		Rateable Values - England £ thousands			
		(millions of square feet)		Shops*	Offices*	Whses, Stores & Workshops	Factories, Mills etc
1982	January						
	February						
	March						
	April	158.98	189.940263	519616	655029	351607	732456
	May						
	June						
	July						
	August	169.74	202.795699				
	September						
	October						
	November						
	December	175.07	209.16368				
1983	January						
	February						
	March						
	April	177.6	212.18638	526538	676260	371866	723311
	May						
	June						
	July						
	August	169.52	202.532855				
	September						
	October						
	November						
	December	171.67	205.101553				
1984	January						
	February						
	March						
	April	163.41	195.232975	534221	697115	390609	710626
	May						
	June						
	July						
	August	153.38	183.249701				
	September						
	October						
	November						
	December	143.13	171.003584				
1985	January						
	February						
	March						
	April	134.5	160.692951	540980	716314	407123	700693
	May						
	June						
	July						
	August	135.39	161.756272				
	September						
	October						
	November						
	December	126.54	151.182796				
1986	January						
	February						
	March						
	April	119.49	142.759857	546383	742072	424203	690905
	May						
	June						
	July						
	August	114.41	136.690562				
	September						
	October						
	November						
	December	102.28	122.198327				

Available Floorspace

Appendix A: Time Series Data

X	Date	AVAILABLE IND. SPACE		Rateable Values - England £thousands			
		(millions of square feet)		Shops*	Offices*	Whses, Stores & Workshops	Factories, Mills etc
1987	January						
	February						
	March						
	April	95.83	114.492234	553529	761637	437604	685455
	May						
	June						
	July						
	August	94.22	112.568698				
	September						
	October						
	November						
	December	94.05	112.365591				
1988	January						
	February						
	March						
	April	88.47	105.698925	558998	783269	452072	678874
	May						
	June						
	July						
	August	86.06	102.819594				
	September						
	October						
	November						
	December	77.27	92.3178017				
1989	January						
	February						
	March						
	April	72.48	86.5949821	567556	807824	464238	671929
	May						
	June						
	July						
	August	73.81	88.1839904				
	September						
	October						
	November						
	December	75.74	90.4898447				
1990	January						
	February						
	March						
	April	83.1	99.2831541				
	May						
	June						
	July						
	August	95.1	113.620072				
	September						
	October						
	November						
	December			0			

Available Floorspace

Appendix A: Time Series Data

Date		Available Office Floorspace		1981 - 87	existing build		new development	
		M. sq.ft. existing build	new dev's	Total	Placed on Market	Let	Placed on Market	let
1977	January							
	February							
	March							
	April							
	May							
	June							
	July							
	August							
	September							
	October							
	November							
	December							
1978	January							
	February							
	March							
	April							
	May							
	June							
	July							
	August							
	September							
	October							
	November							
	December							
1979	January							
	February							
	March							
	April							
	May							
	June							
	July							
	August							
	September							
	October							
	November							
	December							
1980	January							
	February							
	March							
	April							
	May							
	June							
	July							
	August							
	September							
	October							
	November							
	December							
1981	January	8.25	6.38	14.63				
	February							
	March							
	April							
	May							
	June				2.23	2.31	2.64	0.97
	July	7.8	7.91	15.71				
	August							
	September							
	October							
	November							
	December				3.38	1.6	2.22	1.25

Available Floorspace

Appendix A: Time Series Data

Date	Available Office Floorspace		1981 - 87 Total	existing build Placed on Market		new Development Placed on Market		let
	M. sq.ft. existing build	new dev's		Placed on Market	Let	Placed on Market	let	
1982	January	9.21	8.44	17.65				
	February							
	March							
	April							
	May							
	June				2.32	1.15	2.5	1
	July	9.84	9.85	19.69				
	August							
	September							
	October							
	November							
	December				3.06	1.52	2.34	1.27
1983	January	10.88	10.66	21.54				
	February							
	March							
	April							
	May							
	June				2.71	1.46	5.41	1.91
	July	11.58	13.9	25.48				
	August							
	September							
	October							
	November							
	December				3.07	2.39	3.58	1.95
1984	January	11.37	15.15	26.52				
	February							
	March							
	April							
	May							
	June				3.83	1.72	2.78	2.61
	July	12.58	14.57	27.15				
	August							
	September							
	October							
	November							
	December				2.97	2.75	3.09	2.23
1985	January	12.16	14.81	26.97				
	February							
	March							
	April							
	May							
	June				3.31	2.03	3.4	3.14
	July	12.64	14.63	27.27				
	August							
	September							
	October							
	November							
	December				2.75	2.67	4.14	3.98
1986	January	11.79	14.46	26.25				
	February							
	March							
	April							
	May							
	June				3.43	3.04	5.32	5.39
	July	11.81	13.88	25.69				
	August							
	September							
	October							
	November							
	December				3.53	3.98	5.53	4.47

Available Floorspace

Appendix A: Time Series Data

Date	Available Office Floorspace 1981 - 87			existing build		new Development	
	M. sq.ft. existing build	new dev's	Total	Placed on Market	Let	Placed on Market	let
1987	January	10.56	14.03	24.59			
	February						
	March						
	April						
	May						
	June						
	July						
	August						
	September						
	October						
	November						
	December						
1988	January						
	February						
	March						
	April						
	May						
	June						
	July						
	August						
	September						
	October						
	November						
	December						
1989	January						
	February						
	March						
	April						
	May						
	June						
	July						
	August						
	September						
	October						
	November						
	December						
1990	January						
	February						
	March						
	April						
	May						
	June						
	July						
	August						
	September						
	October						
	November						
	December						

Available Floorspace

Appendix A: Time Series Data

		Retail Floorspace: new development		retail warehouse parks			
		Town Centre	out-of-town				
Date		no. of annu openings	yr end total 000's sq.ft.	no. of annu openings	yr end total 000's sq.ft.	no. of annu openings	yr end total 000's sq.ft.
1977	January						
	February						
	March						
	April						
	May						
	June						
	July						
	August						
	September						
	October						
	November						
	December	12	61197	5	1405		
1978	January						
	February						
	March						
	April						
	May						
	June						
	July						
	August						
	September						
	October						
	November						
	December	25	64666	2	1719		
1979	January						
	February						
	March						
	April						
	May						
	June						
	July						
	August						
	September						
	October						
	November						
	December	21	68336	4	2009		
1980	January						
	February						
	March						
	April						
	May						
	June						
	July						
	August						
	September						
	October						
	November						
	December	16	70520	2	2119		
1981	January						
	February						
	March						
	April						
	May						
	June						
	July						
	August						
	September						
	October						
	November						
	December	25	73843	6	2698	1	108

Available Floorspace

Appendix A: Time Series Data

Date		Retail Floorspace: new development		retail warehouse parks			
		Town Centre		out-of-town			
		no. of annual openings	'000's sq.ft	no. of annual openings	'000's sq.ft	no. of annual openings	'000's sq.ft
1982	January						
	February						
	March						
	April						
	May						
	June						
	July						
	August						
	September						
	October						
	November						
	December	15	75914	2	2888	1	201
1983	January						
	February						
	March						
	April						
	May						
	June						
	July						
	August						
	September						
	October						
	November						
	December	15	78422	5	3329	3	507
1984	January						
	February						
	March						
	April						
	May						
	June						
	July						
	August						
	September						
	October						
	November						
	December	20	80959	4	3984	0	507
1985	January						
	February						
	March						
	April						
	May						
	June						
	July						
	August						
	September						
	October						
	November						
	December	16	82818	0	3984	6	1141
1986	January						
	February						
	March						
	April						
	May						
	June						
	July						
	August						
	September						
	October						
	November						
	December	25	84820	5	6100	8	2030

Available Floorspace

Appendix A: Time Series Data

Date	Retail Floorspace: new development		Town Centre		out-of-town		retail warehouse parks	
	no. of annu	yr end total	no. of annu	yr end total	no. of annu	yr end total	no. of annu	yr end total
	openings	'000's sq.ft	openings	'000's sq.ft	openings	'000's sq.ft	openings	'000's sq.ft
1987	January							
	February							
	March							
	April							
	May							
	June							
	July							
	August							
	September							
	October							
	November							
	December	25	88321	6	7186	28	5923	
1988	January							
	February							
	March							
	April							
	May							
	June							
	July							
	August							
	September							
	October							
	November							
	December	26	91263	8	8503	51	12542	
1989	January							
	February							
	March							
	April							
	May							
	June							
	July							
	August							
	September							
	October							
	November							
	December	30	95860	5	10207	69	20652	
1990	January							
	February							
	March							
	April							
	May							
	June							
	July							
	August							
	September							
	October							
	November							
	December	31	100691	5	13027	41	25919	

Institutional Investment

Appendix A: Time Series Data

		IPD Property Funding Flows				
		UK Institutions				Overseas inv
Date		Net Prop Inv	Dev Exp £m			in UK property
		£M	Office	Retail	Industrial	£M
1977	January					
	February					
	March					
	April					
	May					
	June					
	July					
	August					
	September					
	October					
	November					
	December					
1978	January					
	February					
	March					
	April					
	May					
	June					
	July					
	August					
	September					
	October					
	November					
	December					
1979	January					
	February					
	March					
	April					
	May					
	June					75
	July					
	August					
	September					
	October					
	November					
	December					
1980	January					
	February					
	March					
	April					
	May					
	June					100
	July					
	August					
	September					
	October					
	November					
	December					
1981	January					
	February					
	March					
	April					
	May					
	June					70
	July					
	August					
	September					
	October					
	November					
	December	2018	262.5	116.1	165.1	

Institutional Investment

Appendix A: Time Series Data

Date		IPD Property Funding Flows				Overseas inv in UK property £M
		UK Institutions	Dev Exp £m			
		Net Prop Inv £M	Office	Retail	Industrial	
1982	January					
	February					
	March					
	April					
	May					
	June					120
	July					
	August					
	September					
	October					
	November					
	December	2099	391.8	146.5	136.2	
1983	January					
	February					
	March					
	April					
	May					
	June					85
	July					
	August					
	September					
	October					
	November					
	December	1516	369.4	151.9	104.9	
1984	January					
	February					
	March					
	April					
	May					
	June					65
	July					
	August					
	September					
	October					
	November					
	December	1788	344.5	226.5	126.8	
1985	January					
	February					
	March					
	April					
	May					
	June					90
	July					
	August					
	September					
	October					
	November					
	December	1400	410.6	277.2	117.4	
1986	January					
	February					
	March					
	April					
	May					
	June					192
	July					
	August					
	September					
	October					
	November					
	December	1154	441.8	353.1	101.2	

Institutional Investment

Appendix A: Time Series Data

Date	IPD Property Funding Flows					Overseas inv in UK property £M
	UK Institutions	Dev Exp £m				
	Net Prop Inv £M	Office	Retail	Industrial		
1987	January					
	February					
	March					
	April					
	May					
	June					463
	July					
	August					
	September					
	October					
	November					
	December	467	627.3	499.2	109.2	
1988	January					
	February					
	March					
	April					
	May					
	June					446
	July					
	August					
	September					
	October					
	November					
	December	1513	832.2	602.2	197.4	
1989	January					
	February					
	March					
	April					
	May					
	June					1237
	July					
	August					
	September					
	October					
	November					
	December	1633	1080.7	708.7	343.1	
1990	January					
	February					
	March					
	April					
	May					
	June					
	July					
	August					
	September					
	October					
	November					
	December	528	842.2	544.3	151.1	

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