# *Multi-Occupied Houses and High Rise Flats—Apportioning the Rates*

**(Answer to an enquiry)**

IN the Jan./Feb. issue of LAND & LIBERTY, with its notes on the comparative Whitstable surveys of 1963 and 1973, I can find no answer to two particular objections:

1. In areas such as Southall, even within the Council's upper limit of heads per house/toilet, considerable variations will occur in the numbers from house to house in an absolutely comparable series of house-sites. It is unclear to most people how site-value rating would be any fairer than the present system; rather they consider that rating should take numbers of occupants (and therefore users of council facilities) into account, not just the value of the site or the rentable value of the house. Two houses with the same rentable value might have three to seven occupants respectively. Why should they pay the same rates?

2. The same principle or problem arises with blocks of flats, especially high-rise blocks. The ground area rateable under site-value rating would have to be at the rate of adjacent housing of the two-storeyed type and would give the owners a vast bonus, compared with the owners of such houses. For the ground area of two houses they might be drawing rents from twenty families.

Perhaps I have not correctly understood the detail of the SVR proposals but I find no answer to this point in the Jan./Feb. issue.

*Taking the two points raised in turn*:

1. Site-value rating in no way conflicts with the principle that individuals should pay equally for local services received — provided one accepts the equally valid principle that the value of land is brought about, sustained and increased by the presence, activities and enterprise of the community generally and by the expenditure of public money on roads, highways and other public services. Remove all the foregoing and you have a virtual desert with no land value at all.

Since land value is a public value (buildings are a private value) it seems only proper that the value attaching to land or sites should be shared equally among the community who create and maintain it. Rather than make an actual distribution of this land value, what better way than to use it as revenue to pay for local services that will be equally (or fairly equally) enjoyed?

The site-value rate, it must be remembered, is not merely *based upon* site value, it falls upon the *owner of the site*, in proportion to his landholding or his interest in landholding. Non-landowners are exempt.

2. It is correct that two adjoining sites of equal value would attract the same site value irrespective of how they were developed — provided the owner of the site with the smallest development had planning permission to develop to the extent that his neighbour had, e.g. to put a block of flats on his cottage site. If no permission were forthcoming then the *existing site use* would be the basis of the valuation for a site-value tax.

If planning permission were given, then it would be up to the owner to take the fullest advantage of his opportunities — as he almost certainly would do today without a site-value rate, unless he was holding off in anticipation of selling at a high price.

There is another point. Under site-value rating the developer of the high rise block of flats, knowing that the site-value rate would be shared among the flat owners and would for each be relatively less than for a house, would include this "bonus" in his price. Putting it another way, the flat developer would say to the tenant or prospective purchaser, this is a very modern flat, it has lifts, it has refrigerators built in, etc. and then he would add to the advantages he was enumerating the fact that it attracted a very low site-value rate. In short a flat dweller, although paying a lower rate, would have paid a higher price for his flat or would be paying a higher rent for his flat as the case may be. Then of course it must be remembered that the site value which comes to the landlord via his rent would be paid over in part in his site-value rate liability.

## LARGEST LAND LEASE

R. Gary Barth, — *Real Estate Review*
New York University.

IN A NEGOTIATION which took eight months to consummate and was preceded by several years of technical preparation, Columbia University, the landowner, and Rockefeller Centre, Inc. (owned by trusts set up for the Rockefeller family), the tenant, reached agreement in late October 1973 on the renewal of the ground lease on the 11.7 acre land tract in midtown Manhattan which is the site of the world-famous building complex. The agreement resulted in the first substantial change in the $3.8 million annual ground rent since John D. Rockefeller Jr. and Columbia entered into the lease in 1928.

The transaction was unique in many respects. It

was undoubtedly the largest transaction of its type in history. The complex agreement which emerged calls for a rental of $9 million in the first year increasing annually by $200,000 so that the average annual rental during the twenty-one year renewal period is $11 million. Since the original lease provided that the rent be set at six per cent of appraised land value, the value imputed by these rentals ranges, over the renewal period, from $150 million, or $294 a square foot, to $217 million, or $425 a square foot. . . . When it became apparent that a flat rental agreement could not be reached, it was decided that an attempt would be made to devise a solution that did not necessarily conform to the original lease provision for a flat rental. Mr. White for Rockefeller Centre particularly requested his negotiating counterpart to consider the need to recast the lease completely, i.e. to produce a modern ground lease that reflected current conditions, terms, and composition of ownership. Mr. Helmsley, on the other hand, stressed the need to protect Columbia against the erosive effects of inflation.

The ultimate agreement was complex. In addition to the $9 million rental, which was to graduate at the rate of $200,000 annually, Rockefeller Centre agreed to pay a lump sum of $4 million to Columbia on the execution of the recast lease. In return, Columbia agreed to sweeping revisions in the ground lease which offered the Centre the opportunity to mortgage, sublease, or sell the leasehold with minimal restrictions.

The principle of protecting a fee owner against inflation has been firmly established by this negotiation. The $200,000 graduation was structured to represent approximately one-half of the average expected rate of inflation over the twenty-one-year period. The 50 per cent compromise rate reflected an appreciation of the lessee's problems.

It is clear that sharp increases in ground rent tend to place the lessee at a competitive disadvantage, even if such agreed increases fairly reflect the increasing value of the land, and total rent remains at approximately six per cent of land value. There is no assurance that net rent increases for space in aging office buildings will be equal to the increases called for in renewals of ground leases. Further, as the buildings age, capital improvement programmes must be instituted to maintain competitive parity. At the same time, higher operating costs, particularly for repairs and maintenance, are required by aging buildings. This cash demand, plus the increasing ground rent, significantly and adversely affect cash flow for the lessee. An inevitable squeeze results, usually at the ground lessee's expense. One can truly question the prudence of a leasehold investment beyond, say, a sixty-year period when land value is to be estimated on the assumption that it is vacant, unimproved, and unrestricted by a lease. Landowners must recognise that harsh treatment of leasehold building tenants in the negotiations may boomerang by reducing the capacity of the lessee to pay the market rent.

Said Mr. White: "It was a great moment of pride for us to be involved in the settlement of the rent and terms of the ground lease on the most valuable tract of urban land in the world."

## Pace-maker for Prices and Incomes

B.W.B.

TIME was when the study of inflation was a nationally mystifying whodunnit. Like the successive victims in Agatha Christie's *Ten Little Niggers* we were baffled by the whole sordid business and were liable to lunge out wildly at every possible suspect (except of course the right one) in an effort to unmask the villains responsible.

It is true that during this time we were regaled with a most interesting parade of red-herring suspects. Inevitably we had the trade unions (who were said to cause 'cost-push inflation'), the "greed" of the British people (demand-pull), the avarice of employers (price inflation), the rapacity of speculators (fast buck) and the unfriendliness of the foreigner ("world prices have moved against us") as well as the general excuse of governments who lose control of affairs ("blown off course").

But times change, and just as in the theatre the whodunnit has tended to give way to the "whydidhedunnit" and the "willhegetaway withit", so the study of inflation is turning to why governments do it, whether they are right to do it, how successful they are in what they are doing it for and, perhaps, whether they might as well give over and try something different.

For there can surely be no doubt now, after the academic crusading of Milton Friedman and the Chicago School and the more colloquial, but no less effective, persistence of Enoch Powell, that the real villains have been unmasked. Now we all know that governments are responsible for inflation and that, just as they would (perhaps justifiably) take the credit for any achievement of monetary stability, so they, and they alone, must take the blame for monetary mismanagement.

In confirming this analysis in his new booklet*, Professor Walters, Cassel Professor of Economics at the London School, performs an excellent service to the general reader. Small in size (read it in half an hour) but thorough in its