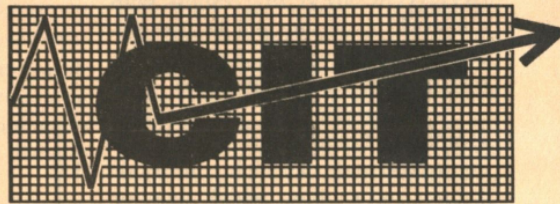


# ECONOMIC INTELLIGENCE



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CENTRE FOR INCENTIVE TAXATION

## UK LAND PRICES THREAT TO RECOVERY

PREMIER John Major claims that the UK economy is recovering from recession. His Chancellor, Kenneth Clarke, told *The Sunday Times* (April 3): "I cannot see what is going to stop the recovery being sustained".

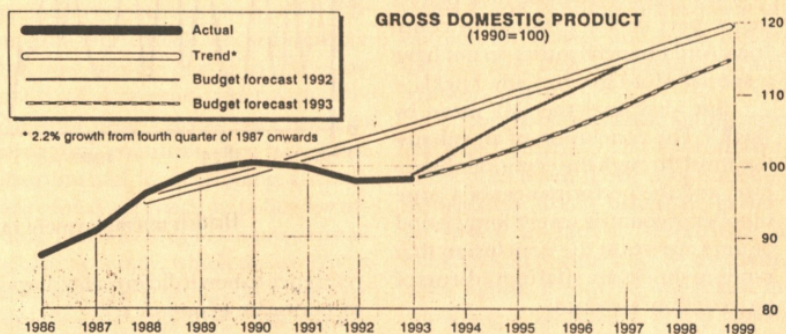
Flittering upturns in some of the indicators encourages the government's complacency. For example: unemployment is supposed to be coming down. Jobs are being created. Fine, if you fall into the part-time, unskilled, female category. Tough, if you are a male worker seeking a full-time salary.

Parts of the economy are struggling to shake-off the depression, but commentators remain sceptical. Particularly embarrassing are the observations of those like Anatole Kaletsky in *The Times*, and Peter Jay of the BBC, who point out that the £30 billion gap in output is not being closed (see graph); and won't be for a long time. On present trends, manufacturing output won't achieve pre-recession levels until the next century.

The nightmare scenario of a protracted slump, however, is coming true.

- An increase in the tax burden in April is encouraging consumers to postpone High Street purchases. That will feed through to a cutback in orders from manufacturers. The Treasury-led deflation will give Kenneth Clarke what he wants: low inflation. That prize has a price: a curb on job-creating activity, and high tax rates for the remainder of the 1990s.

- A leap in land prices will continue to deprive Britain of the benefits of growth from the leading sector - the construction industry. Already, building bosses have warned that land prices are rising too fast. David Wilson, chairman of Wilson Bowden, one of the most profitable builders, says that



prices for well-located sites have risen by an average of 20% in the past year; and by as much as 50% in the south-east. House Builders Federation director Roger Humber warns, "We could have a rerun of the late 1980s if house prices start to chase up land costs."

The problem is an acute one. The economy relies to a critical extent on families' willingness to buy and sell their homes. Without a buoyant housing market, business is bad for the manufacturers of household goods.

But builders are also now facing a dilemma. They need land on which to carry on constructing houses, but they face a profits crisis if house prices rise more slowly than land costs - and that is now happening. Countryside Properties reports that land prices have risen from £300,000-350,000 an acre to £450,000-500,000 an acre around London. And house prices are rising at a fraction of the rate of increase in land prices.

Builders that have not suffered from recession, like Redrow, were acute enough to run down land banks in 1988 - at the top of the land price cycle. They started buying land several years ago when prices hit rock bottom.

To remain in business, builders now have no option but to start buying land. They are spending large sums

on sites, which is good news for the speculators who have managed to hang onto their sites. Taylor Woodrow is paying over £30m to acquire 1,100 housing sites and almost 200 partially-completed homes owned by Heron International, the property and trading company that is loaded with debts. But the buying spree is helping to force up prices: bad news for firms that need to increase their profit margins to remain in business.

AS USUAL, the policy debate is clouded by a failure to understand the impact of land prices.

- The private sector blames planners for failing to allocate sufficient land for housing: in fact, there is as much land available as anyone could want - at the "right price". Government, and the construction industry, still fails to recognise the impact of the speculative motive on land prices.

- Manufacturers want interest rates to be lowered: but a reduction in interest rates raises the selling price of land, which creates the fundamental obstacle over which the economy needs to jump, if it is to launch itself on a sustainable path of growth!

Result: confused policy and a protracted slump. And no-one's telling the Chancellor of the Exchequer.