

Chancellor wakes up to land profiteering

THE EUPHORIA that surrounded the creation of Britain's eleven Enterprise Zones is gone.

The Government now concedes – albeit reluctantly and privately – that its operation to transform thousands of acres of derelict land into bustling, wealth-creating “little Hong Kongs” has begun to backfire.

Senior Whitehall officials have confirmed that the Chancellor, Sir Geoffrey Howe, is now deeply embarrassed by the way –

- Landowners – far from releasing sites for speedy development – are holding back in the sure knowledge that they will make a bigger killing from rocketing land values;
- Rents are rising well above the levels for equivalent sites just outside the zones.

At the heart of Sir Geoffrey's anxiety is a Catch 22 dilemma which threatens to make a mockery of the Government's strategy for boosting output and job opportunities. It is this:

As soon as derelict land is designated an Enterprise Zone, it becomes more expensive – soaring, all-too-often, beyond the reach of firms which might otherwise be tempted to move in and open up new businesses.

What is not clear, however, is whether the Chancellor – who has staked his reputation on Enterprise Zones – will summon the courage to admit, publicly, that landowners and developers are making a fortune out of his experiment . . . at the taxpayers' expense.

The signs are not reassuring – especially since the Government is now committed to creating another eleven zones.

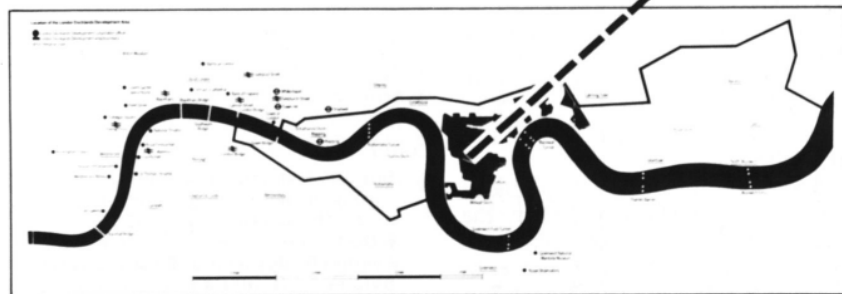
Furthermore, INSITE has established that Sir Geoffrey's Cabinet colleague, Environment Secretary Michael Heseltine, has decided to abandon existing Whitehall scrutiny of Enterprise Zone activity.

A guidance note sent out by Mr. Heseltine's officials to all local authorities bidding for one of the second batch of zones states quite clearly:

“It is not envisaged that the existing monitoring arrangements, using private consultants, will be extended to the new zones.”

Instead, local authorities – often the owners of land – will be expected to liaise with the Dept. of the Environment to establish “a more informal monitoring system.”

An INSITE investigation



Scrutiny is being relaxed – presumably as part of Mr. Heseltine's cost-cutting exercise – just when it should be tightened.

INSITE has studied two of the existing zones, Dudley in the hard-pressed West Midlands and the Isle of Dogs in London's Dockland. The results underline cause for Whitehall's concern.

But first, the background.

On June 26, 1978, Sir Geoffrey, then Shadow Chancellor, told the Conservative Party's Bow Group that something had to be done about Britain's worst-afflicted areas.

“Some might argue that they are beyond help and would abandon them as inner city ghost towns – a doleful monument to our collective incompetence. That would be a reckless and inhumane conclusion,” he said.

Enterprise Zones, he added, would help “prime the pump of prosperity.”

In his March 1980 budget, Sir Geoffrey turned rhetoric into action

when he outlined plans for eleven zones – eight in England and one each in Scotland, Wales and Northern Ireland.

Firms moving into the zones would benefit from not having to pay rates; they would enjoy 100 per cent capital allowance on all commercial and industrial property; there would be no Development Land Tax and a minimum of red tape.

Here, then, lay the basis for creating spontaneous economic activity inside the zones. But critics warned, from the outset, that companies located just outside the “privileged” areas would resent them as symbols of Government subsidy, a waste of taxpayers' money and the cause of gross distortion in the value of land.

The Government, however, pressed on regardless, with still more rhetoric from Sir Geoffrey. He declared, when he opened the Isle of Dogs zone on May 21 this year: “It isn't enough to be winning against inflation. We need other policies to bring life back into the economy, to improve the prospects for more jobs. And Enterprise Zones are just one of those policies.”

As testimony of his conviction, Sir Geoffrey announced in July that eleven more zones would be created – seven in England, two in Scotland and one each in Wales and Northern Ireland.

"The zones selected would be expected to be situated in areas of physical and economic decline and where ownership arrangements and infrastructure and servicing conditions do not prohibit rapid development of a significant proportion of the land," said the Dept. of the Environment.¹

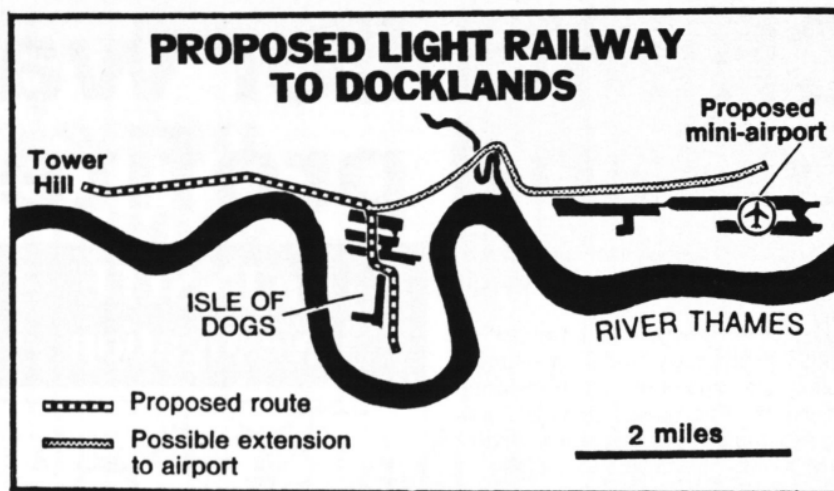
The word *rapid* is crucial, for the speed with which land was to be transformed into something useful – when, for years, owners had allowed it to lie idle – was central to Government strategy.

It is worth noting that Mr. Heseltine's guidance to local authorities re-asserts the so-called "spirit of Enterprise Zones."

He warns: "The Government will be looking for an indication that major landowners would be prepared to develop or market their land quickly."

IN PRACTICE, this was not to be. In a revealing study of the London Docklands Development Corporation (LDDC), which is charged with responsibility for the Isle of Dogs venture, *The Economist* says of this particular zone:

"Incredibly, land is also a problem. Most of it is publicly owned by the local authorities, the port authority, the gas board, rail board and electricity board. It is not worth a lot. But if the area takes off and the City expands east, it could be worth a lot.



● A plan that will boost land values from £100,000 to £1,000,000 an acre.

These public sector giants are sitting on the land in the hope that it will – thereby thwarting any chance of growth."²

The Isle of Dogs zone comprises 482 acres, including 120 acres of water. The LDDC owns the biggest share, 37 per cent; the next-biggest owner is the Port of London Authority, with 33 per cent.

So two public bodies together own 70 per cent of the area.

Derek Hemingway is the LDDC's industrial adviser, who insists that the corporation is not hoarding land for profit. "It isn't happening here," he told INSITE.

But Mr. Hemingway confirmed a distortion in land values. The price per acre, throughout the LDDC's total 5,000 acres, which stretch from London Bridge east to Beckton, varies between £70,000 and £100,000. But inside the zone, land which, until recently, was neglected, is now worth £150,000.

"That's because land has been made available for development – it's an inevitable consequence. We're putting the whole area to work again", insisted Mr. Hemingway, who added: "We are not here to make a profit – we are here to do a job."

In sharp contrast, the LDDC's chairman, Nigel Broackes, presents the profit motive as a positive virtue.

INSITE has obtained a copy of a letter Mr. Broackes wrote to Mr. Heseltine in June, in which he argued the need for a £65m railway link (see diagram) from Tower Hill to Dockland.

Such a link, insisted Mr. Broackes, would help develop the area – and create still more jobs.

He wrote: "There is, for me, another compelling reason: that is, the direct return on the investment of the £65m involved... the impact on land values, though impossible to quantify,

Enterprising plan for U.S.



● Mari Fitz

CREATIVE ideas for sharing out the benefits of Enterprise Zones are being produced by the Sabre Foundation, a Washington-based research organisation that has taken a strong interest in the proposal since it was imported from Britain in 1979.

Mark Frazier, the Foundation's Director, is well aware that, to be successful, a formula has to be found for capturing the increases in land values.

Values in inner cities are depressed for a variety of reasons. Crime, for example, has a measurable impact on values. One U.S. study showed that for every one per cent of residential units that have been burgled, the average value of an owner occupied residence fell about \$330.¹

Thus, if there is regeneration of these

rundown areas, values will soar. Who should benefit?

The Foundation has proposed that local residents should combine themselves into neighbourhood associations, which could acquire an equity interest in publicly owned land within areas designated as Enterprise Zones.

The land could be leased to the associations at nominal rates, which would then be subleased to entrepreneurs who were attracted into the zones by the tax benefits.

Some states – including Kentucky and Missouri – have already passed laws which make it possible to establish these equity sharing associations.

If the Enterprise Zones take off – and they will, if President Reagan has his way – then "rents will double, triple and quadruple," according to Miss Mari Fitz, a 29 year old urban planner with the Sabre Foundation.

She told *Land & Liberty* how rising land values could be shared out among local residents.

If people had a stake in local property, they would have a direct interest in raising the quality of the environment. For example, they would set up patrols of residents who would try to prevent

will, in my judgement, be considerable, providing benefit to the Treasury on our own land and enhanced land values generally to private land owners."

Mr. Broackes may have had difficulty predicting the impact on land values, but Michael Baily, Transport Editor of *The Times*, is more helpful.

"In the case of the dockland scheme, commercial sites at present worth around £100,000 an acre without a railway would probably be worth £1m an acre with it."³

The Government subsequently approved the scheme, with Mr. Heseltine announcing the decision on October 8.

The inevitable consequence is that landowners will benefit handsomely – and only the richest firms, not the new or struggling companies Sir Geoffrey Howe had in mind, will consider operating in the area.

IN DUDLEY, the story is equally disturbing.

The evidence points clearly to landowners assuming that, because firms are relieved of the burden of rates, they can be penalised by higher-than-average rents.

Dudley is in the heart of the Black Country, an unemployment blackspot where economic recovery is well overdue.

Land in the Dudley zone, which was opened in July 1981, is exclusively privately owned. *And the Chancellor is known to be especially concerned about the premium rents being charged.*

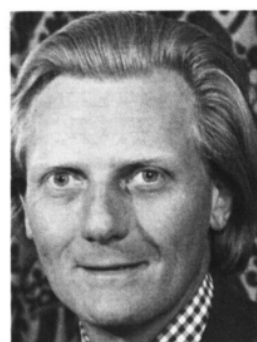
Admittedly, development costs have been relatively high in a former



● Sir Geoffrey Howe



● Nigel Broackes



● Michael Heseltine

coal mining area, as Frank Duesbury, Dudley's Industrial Information Officer, pointed out. But Dudley Council officials have confirmed that firms who have shown an interest in the 540-acre zone – only 250 acres are currently occupied – have complained about the level of rents.

Mr. Duesbury told INSITE: "We can intervene if it's a case of land not being developed. But on rents, there's nothing we can do. It's a case of private enterprise doing its own thing. I suppose the Government might see rents being charged over-the-odds as an unacceptable side of the experiment, but that's for them to judge."

The rent for the zone's smaller units, measuring 1,500-2,000 sq. ft., is about £2.50 per sq. ft. Equivalent modern units outside the zone are priced at £1.75; older properties are cheaper, at £1.

Even starker evidence: one local firm has moved from inside to just outside the zone, and is now busily selling off plots of land it had previously occupied in the Pedmore Road, Brierly Hill area for a considerable profit. Dudley Council

officials again confirmed that they have received protests about the prices being asked.

THE TREASURY admits that landowners are "overcharging" – their word. "It's something we are keeping an eye on," a spokesman said.

"With any well-intentioned legislation, people take advantage. Without doubt, there has been a tendency for people to try to make what they can out of Enterprise Zones."

What classic understatement! But even this admission confirms a shift in the Government's attitude since June 1980, when Nigel Lawson, then Financial Secretary to the Treasury and now Energy Secretary, told Parliament:

"Once an area has been designated an Enterprise Zone, it is likely that land values will then rise. But that is not the end of the world..."⁴

The Chancellor is finally coming to terms with the fact that all is not well with his experiment.

It would be too much to ask of any politician – let alone a Government Minister faced with a General Election and three and a quarter million unemployed – to admit that he was wrong.

In the long run, a land value tax is needed to force owners to put their assets to good use.

But in the short term, Sir Geoffrey could intervene to ensure a speedier development and disposal of Enterprise Zone sites. He could publicly condemn rent profiteers frustrating the whole exercise; and he could reverse Mr. Heseltine's decision to end independent – and therefore impartial – monitoring of areas like Dudley, the Isle of Dogs... and the eleven new zones announced by the Government.

REFERENCES:

- ¹ Dept. of Environment statement: "More Enterprise Zones announced." July 27, 1982.
- ² "Can there be life after death?" *The Economist*, July 31, 1982.
- ³ "Dockland may get privately built rail link, *The Times*, August 13, 1982.
- ⁴ *Hansard*, June 4, 1980. Col. 1516. Debate on Finance (No. 2) Bill.

crime. And there would be an incentive to eliminate rubbish, and improve the general appearance of the neighbourhood.

In return, they would receive a share of rising land values, which would be paid by local businesses to the neighbourhood association.

The present system, notes Miss Fitz, penalises such cooperative enterprise "by rewarding free riders."

SABRE'S equity sharing concept is undoubtedly sound, but the forms being proposed at present are unrealistic.

● They depend on transferring city or state owned land to a minority of citizens in a particular neighbourhood. If successful, envy would be aroused among those citizens who were denied a share in the benefits.

● Private owners of land within the zones would not be obliged to share the benefits of rising values with their neighbours. Miss Fitz suggests that private owners might be encouraged to share out the benefits by coming to contractual agreement with a neighbourhood association, if they were given tax incentives; this appears to place too much faith in the altruism of landowners.

But to criticise too heavily the detail of Sabre's various options would be churlish, because the Foundation has proved itself enlightened when it comes to identifying the central problem; the need to combine economic efficiency with social justice.

Congress is busily studying the legal implications of Enterprise Zones. The lawmakers like the idea that they might generate new jobs by removing some of the obstacles to wealth creation.

Those lawmakers, however, tend to overlook the connection between prosperity and poverty. The Sabre Foundation, however, has discovered the connection, and is busily publicising it.²

Public debate, therefore, can now be channelled into discussing the alternative mechanisms for sharing out increasing land values (which are the capitalisation of benefits accruing under the Enterprise Zone legislation) among society generally.

REFERENCES

- ¹ Charles M. Gray and Mitchell R. Joelson, "Neighbourhood Crime and the Demand of Central City Housing", *The Costs of Crime*, Charles M. Gray (editor), Beverly Hills: Sage Publications, 1979, p.53.
- ² *Sourcebook on Enterprise Zones*, Mark Frazier (editor), Washington, DC: Sabre Foundation.