

THE SURVEYORS' INSTITUTION AND THE L.C.C. BILL

DURING FEBRUARY the Chartered Surveyors' Institution issued a Memorandum on the L.C.C. Bill for Rating of Site Values part of which we reproduce below. Although we do not agree with all its conclusions we welcome this as an endeavour to make an objective study of the proposal.

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EXTRACTS FROM THE MEMORANDUM

1. SCHEME OF THE BILL

The general scheme of the Bill is to raise a rate by a levy of two shillings in the £ upon the estimated annual site value of every "land unit" within the various rating areas of the Administrative County of London, subject in general to such exemptions from rates as are now obtainable. It would appear, however, that agricultural land in the County of London is not to be exempt from the site value rate. The proceeds of the proposed site value rate are intended ostensibly to diminish the amount which the London County Council would require to raise on the present basis of rating by means of the County Rate.

In considering the Bill generally, it should not be overlooked that the rateable value of any hereditament on which rates are at present levied includes the present annual value of the site as well as of the buildings upon it.

2. THE EFFECT ON RATES IN LONDON

The imposition of the proposed site value rate would not in itself necessarily increase the burden of rates upon the various hereditaments in the County of London, taken as a whole. The product of the proposed levy will be used to reduce, *pro tanto*, the amount of rates leviable over the same total area. If the present rateable value of the County of London be taken roughly at £65,000,000, and the present annual site value at £30,000,000 (which figures are roughly those on which the London County Council estimates of the proceeds of the site value rate are based), the result would be a reduction in the County Rate of about one shilling in the £. If, therefore, owners and occupiers of property are taken as a whole, the burden of rates will not be increased. The main effect will be that some of that class who do not now bear part of that burden directly, will in future bear part of the £3,000,000 which the site value rate is expected to raise, while those who pay the county rate will be relieved to that extent; and the distribution of the burden will be changed according to the proportion which the annual value of the site bears to the rateable value of the site and buildings. The Bill is apparently designed to place a heavier burden upon owners and occupiers in areas where land values are high as compared with those where land values are low.

It has been roughly estimated that, under the scheme of the Bill, a site value rate of 2s. in the £ will relieve the County Rate in London to the extent of 1s. in the £, taking all the rateable hereditaments in London as a whole. If the figures of £65,000,000 and £30,000,000 be accepted, the annual site value of London is something less than 50 per cent of the rateable value. As between one Metropolitan Borough and another, however, that proportion varies; in the City of London it is estimated at about 85 per cent as against about 25 per cent in Poplar and 30 per cent in Lewisham. Consequently, while as a result of the

site value rate Poplar and Lewisham might benefit to the extent of £23,500 and £39,000 respectively from the relief afforded to the county rate, the City of London might lose to the extent of about £320,000 owing to its high land values.

In this connection a statement made by Mr H. Weber Brown, C.C. (reported in the *City Press* of 6th January, 1939), is of interest. In the City of London, he states, land and buildings are assessed at £12,117 rateable value to the acre as compared with £4,297 in Westminster, £4,066 in Holborn and £2,397 in St Marylebone. At the other end of the scale the comparable figures are Poplar £327, Lewisham £260, Greenwich £256 and Woolwich £145. The rateable value per acre of land and buildings of the whole of the administrative County of London (including the City) is £823.

3. THE EFFECTS OF AN ARBITRARY BOUNDARY

The new basis of rating introduced by the Bill will clearly disturb capital values as between properties which are inside or outside the administrative county and as between properties which are situated in areas of lower and higher land value within the county. The extent of the disturbance is difficult to foresee.

In the same connection, if it is an object of the Bill to compel the owner of values whose interests have benefited from public expenditure to contribute further and directly towards that expenditure, it is unfair that an owner who is outside an arbitrary boundary should escape his contribution though his interest may have benefited as much as or more than that of another owner who happens to be inside. The benefits which flow from London's rate-borne expenditure are not confined to sites within the administrative county, but extend to all land in Greater London.

4. ANNUAL SITE VALUE

The Bill defines annual site value as the annual rent which the land unit, divested of buildings, might be expected to realise if demised with vacant possession in the open market by a willing lessor upon a perpetually renewable tenure.

A large part of London was developed under the leasehold system some seventy or eighty years ago; some thousands of acres were developed over a hundred and fifty years ago, and are still used for their original purpose. In large numbers of cases, if the tenants could be displaced and the old houses demolished the value of the cleared site would be greater than the value of the site with the present buildings upon it.

The basis of valuation assumes a rent which may not be obtainable at the time the valuation is made. The land unit may be subject to a lease or statutory restrictions which prevent the taking of possession. The market rent will not be obtainable until the land unit is cleared of buildings and available for redevelopment.

5. PLANNING RESTRICTIONS

The value of a site vacant and available for rebuilding cannot be estimated without knowing, with some degree of certainty, how it will be effected by restrictions upon use, height of the building and the proportion of the site which may be covered by the building. Until the town-planning schemes for London, now in course of preparation, have reached their final and approved shape, any general valuation of sites in London will be a most complex matter. . . .

6. THE UNIT OF VALUATION

The land unit which must be valued for the purposes of the rate is, broadly speaking, the unit of occupation. The unit of occupation, however, may not be, and often is not, the unit which would be considered for the purposes of redevelopment. An estimate of annual site value would therefore have to be based on what might be an obsolete and short-lived arrangement of occupations.

If, for example, two sites in the same ownership but in different occupations were taken, the annual value of both land units valued as a single site, might be £3,000. Valued as separate units, the sum of the two valuations would certainly not be £3,000, and might not be much more than half that figure.

The further example may be taken of a row of working-class cottages on a long narrow site. The site value of the unit of occupation is negligible when considered as such.

If the present unit of occupation be taken as a basis for ascertaining annual site value, it is clear that there will be inequality in valuation as between owner and owner, merely owing to the fortuitous circumstance of the present arrangement of occupations; and the valuation would be largely hypothetical in that it could not take into account the potentialities of the particular site when considered with those adjoining for the purposes of future development.

7. INCIDENCE OF THE SITE VALUE RATE

It is claimed that the site value rate will transfer part of the rate burden to the site owner. Temporarily it may do so; but when an existing lease or agreement expires the higgling of the market will enable the site owner to use the expected relief in rates on existing rateable values as a bargaining factor to negotiate a higher rent. The mind of an occupier, when agreeing to a rent, is affected by the amount which he will have to pay not merely by way of rent, but by way of rates as well as rent.

8. EFFECT ON INVESTMENTS AND MORTGAGES

It is probably true that the security for mortgages on suburban residential property built for occupying ownership since the war may to some extent be improved by the imposition of a site value rate. With this class of property the rate burden is on the whole likely to be lightened rather than increased.

On the other hand, the provisions in the Bill for a redistribution of the present incidence of the rate burden cast upon the lessor a burden which the lessee freely assumed when entering into his lease—a startling example of legislative interference with existing contracts. Large sums of money have been invested in the purchase or in loans upon the security of interests in land subject to long leases at fixed rents. Under the provisions which enable the occupier who pays the site value rate in the first instance to deduct up to two shillings in the pound on the rent which he pays to his immediate lessor, the lessor will suffer a reduction of 10 per cent in his income. It follows that the capital values of property investments which are affected by this deduction will be reduced by at least that amount; and where mortgages have been granted on the security of rents fixed for periods, the value of the security will be diminished by at least, if not more than, the capitalized amount of the deduction.

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The Memorandum admits that the object of the Bill is not to raise more revenue but to raise the revenue required in a different manner, relieving the existing

rates by the amount of the produce of the site value rate.

It brings out very clearly one of the main results of the change which would be effected. The burden of rates would be redistributed throughout the area. It is assumed that a rate of two shillings in the pound on annual site value would relieve the ordinary rates by one shilling in the pound. If this is correct for London, then the total amount of rates (site value rate and ordinary rate) payable in respect of any property would be the same as under the existing system if the annual site value was equal to half the rateable value. If the ratio of site value to rateable value was higher the total payable in respect of any property would be greater, and if the ratio were lower the total would be less. (We neglect for the moment whether the rates would be paid by the same persons or not.)

The Surveyors' Institution estimates that in the City of London the ratio would be as high as 85 per cent, while it would be 25 per cent in Poplar and 30 per cent in Lewisham. The result is that in total the rates payable in respect of properties in the City would be increased, according to the Institution's estimate by £320,000, while the total rates of Poplar and Lewisham would be reduced by £23,500 and £39,000 respectively. It does not follow, of course, that there might not be individual properties in the City where the rates would be reduced, nor that there would be no individual properties in Poplar or Lewisham where they would not be increased. That depends upon the individual ratio relating to each property.

In addition to the redistribution as between property and property there is a change of incidence as between the persons interested in any property. On this point the Surveyors' Memorandum is much less clear. In Section 3 it argues that it is unfair that an owner of land should be rated in London, but not outside, thereby implying that the rate will remain incident on the owner. In Section 7 it argues that the rate will be shifted on to the tenant. In Section 8 it admits that the burden of rates on the suburban owner-occupier will be reduced. The second of these statements is inconsistent with the others, and is incorrect.

The amount of rent which a tenant will pay depends upon the state of demand and supply. In order that there should be an increase of rents, there must be a diminution of supply. The rating of site values will not tend to diminish the supply of accommodation. On the contrary by inducing owners of undeveloped and badly developed land to use such land adequately it will increase the supply of accommodation. Rents will, therefore, tend to fall rather than to rise.

The Memorandum also indicates an opinion that there will be difficulties in valuation, especially in the period before the London Town Planning Schemes become final. Nevertheless land in London is now being bought or leased day after day, and therefore the essential data for making a valuation exists. Neither is it an objection to the proposed valuation that it will be of the site, as a site, disregarding the buildings and improvements upon it. On the contrary, this is of the essence of the proposal, and it will tend to secure that the use made of sites corresponds to their value, instead of being as imperfect as it now often is. It is also incorrect to say that there is bound to be a great disparity between the valuation of a series of plots in different occupations as compared with an equal and similar area in one occupation. One of the factors which affects the mind of a prospective purchaser or lessee is the possibility of uniting a site with an adjoining site in order to get an area better suited for development. Divergences of value under such

circumstances need not be of a large order. In the operation of the system readjustments of a desirable character would undoubtedly take place which would even out any slight inequalities.

Objection is taken to the provisions for ensuring that receivers of ground rents shall bear their proper share of the site value rate. This is of the essence of the plan. One of the complaints against the present system is that those who benefit by a publicly created value make no

contribution towards local expenditure. Once it is agreed that they should contribute, it follows that private arrangements made between individuals must not be allowed to override the intentions of the legislature. Any other method of dealing with the matter would have the entirely unjust result of exempting some receivers of site values, and of compelling others to bear site value rate on values which they do not enjoy but pay over to their lessors.

PAST ACCUMULATIONS AND PRESENT RENTS

We give below the interesting and instructive correspondence that has passed between Mr Charles E. Berry, retired Land Surveyor, of Torquay, and Mr C. V. Brayne, C.M.G., ex-Land Commissioner of Ceylon, and now member of the Leatherhead Urban District Council. The discussion between them recalls the passage in Henry George's book, *The Condition of Labour*: "We do not seek to despoil the Egyptians. We do not ask that what has been unjustly taken from labourers shall be restored. We are willing that by-gones should be by-gones and to leave dead wrongs to bury their dead. We propose to let those who, by the past appropriations of land-value, have taken the fruits of labour, retain what they have thus got. We merely propose that for the future such robbery of labour shall cease—that for the future, not for the past, landholders shall pay the community the rent that to the community is justly due."

From Mr C. E. Berry to Mr C. V. Brayne

I support Land Value Taxation, but am puzzled about past accumulations, represented by bonds, deeds, etc. I will explain and ask for your opinion.

Suppose the old School Board purchased a site for £20,000, financed, of course, by borrowed money. Suppose the vendor of the land to the School Board actually bought £20,000 of the bonds issued by the responsible authority to buy this site.

Thus: "A" sells site for £20,000. "B" lends School Board £20,000 and receives a bond or deed for £20,000 bearing 4 per cent interest.

"A" buys of "B" £20,000 Bonds. (Merely a coincidence.)

Forgive me for labouring the point, for to short-circuit the business "A" might just as well be given bonds direct or "A" might just as well have created a ground rent. (All this happened years ago.)

Here now is the crux of the matter: (1) As ground landlord, "A" would pay Land Value Tax. As bondholder, he escapes it.

You and I know that enormous accumulations have come from the land and are called capital, but they really originated as economic rent.

But Land Value Taxation alone will not satisfy unless past accumulations, now made a *permanent* charge like the School Board bonds, are levied upon by a heavy Income Tax, otherwise these escape.

The case of the School Board and the bonds is purely fictitious, and is given for illustration.

From Mr C. V. Brayne to Mr C. E. Berry

I sympathize with your point of view. Strict justice should not allow the landowner who has sold his land to get away with the unearned increment, whether he gets it in cash or securities. As a matter of practical politics, however, I think it would be extremely difficult to follow him once he had sold out, though, of course, any income he got from his new investments would be liable to be taxed in the ordinary way.

When we consider the economic effect of the first introduction of taxation or rating of land values, we shall see that, even if the initial tax or rate is only a light one, the anxiety of the landowner to save his skin, so to speak, is going to work for the benefit of the com-

munity. This anxiety will drive many to try to sell out before the price of land falls, and this impulse acting over a wide area is exactly what is going to bring down the price of land from its present speculative level nearly to the true economic value, that is, the value of land for actual use. In districts mainly agricultural this will be the value of land for agricultural purposes. The result will be of immense benefit to the whole community, will facilitate the provision of houses still badly wanted, will bring down rents, will stimulate industry of all kinds, and tend to raise wages and reduce unemployment.

If, according to the strict theory of justice, the State were able to follow the money or securities for which land was exchanged and put a special tax upon them, the motive for a quick sale by the holder would be gone and one of the beneficial economic results of the introduction of the tax or rate on land values would be lost.

We have to realize that the hundreds of millions which should in the past have gone to the community, but have gone instead into private pockets as unearned increment, have been irretrievably lost. It is no use crying over spilt milk. The important thing is to get taxation and rating of land values started so that from now onwards the rent of land and with it the benefits of any further increases in its value may gradually be diverted from private pockets and made available for the use of the Community.

Rates on land values should be used to wipe out a corresponding amount now collected on the old basis, and taxes similarly. The ear-marking of rates and taxes on land values for any special purpose would not in my opinion produce the best results.

The *Daily Telegraph*, 16th March, 1939, reported that Italy has decided to revise the assessment values of land and house property in town and country to enable the Government to raise the present taxes on all real estate.

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Friends and colleagues of the late R. L. Outhwaite will be especially grieved to learn of the death of his widow and devoted comrade in the great work he did for the Henry George Movement. She had not been in good health latterly, but ever since she lost her husband (in November, 1930), she had done all she could to make opinion for the principles of economic freedom for which he and she had striven together back to the time when "R.L.O." first campaigned in Australia and South Africa, coming to England in 1906 and later entering Parliament. Kathleen Outhwaite, deprived of her partner, carried on loyally with patience and perseverance, and persuaded and helped many by the force of her example. We pay tribute to her memory and extend to her son and daughter our sincere sympathy in their bereavement.