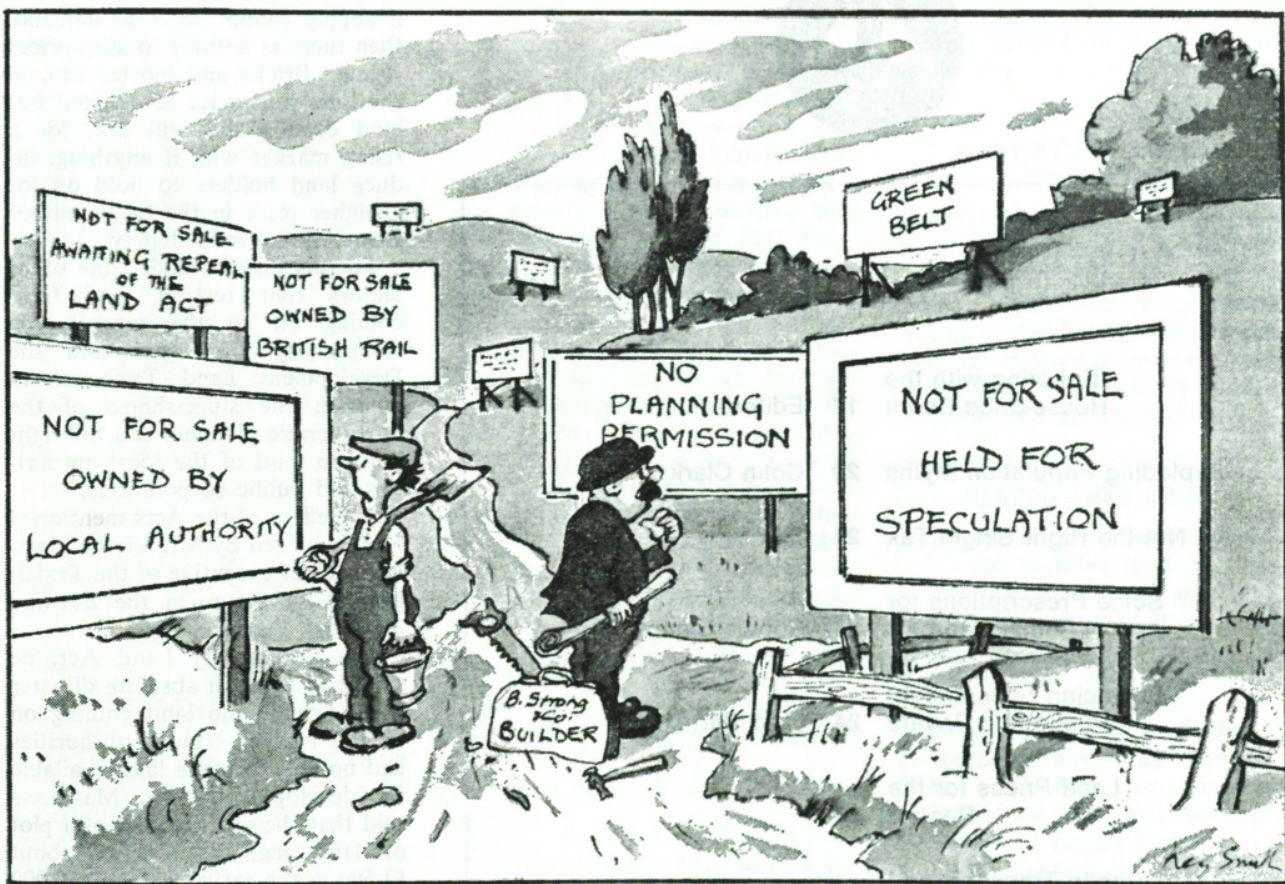


LAND & LIBERTY

MARCH & APRIL, 1978



Tinkering with the House-price Boom

HOUSE prices are again in the news. The prices are, of course, going up. But then, house prices seldom if ever go down. On March 1, house prices were reported to have increased by 10 per cent over the previous three months, despite, says the *Daily Telegraph*, "the efforts of building

societies to curtail the upward spiral by the introduction of a quota system for loans."

So demand is pushing up prices. Builders, ready enough to sell completed houses at low profit margins when demand was low are now raising prices to realistic levels. However, this is not so

much a cause as an effect.

With a rising market in houses, "gazumping" has inevitably raised its ugly head. To gazump is to renege on a non-contractual agreement to sell, in order to get a higher price from another buyer.

Much has been written about the ethics, or rather the lack of

Land & Liberty

JOURNAL OF THE UNITED COMMITTEE FOR THE
TAXATION OF LAND VALUES LTD.
177 VAUXHALL BRIDGE ROAD, LONDON. S.W.1
TELEPHONE 01 834 4266

MARCH & APRIL, 1978
Established: JUNE, 1894
Nos. 1,006 & 1,007
VOL. LXXXV
Managing Editor
V. H. BLUNDELL

ISS No. 0023-7574
Annual Subscription:
U.K. and Sterling Area: £4.00
U.S.A. and Canada: \$7.50
Editor
R. B. LINLEY



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them, in gazumping and a variety of solutions have been proposed to deal with this practice, but the real problem is the unstable market for houses which arises from a combination of artificial and natural factors. Suffice to say, gazumping is also a symptom not a cause.

Building land is fast increasing in value. Is this a cause or an effect of higher house prices? The economist, following Ricardo, explains that house prices are not high because land prices are high, but land prices are high because house prices are high.

This appears to be borne out in a number of ways. Supply and demand are interacting factors and if supply cannot react to demand, then there is nothing to stop prices rising. Bricks and mortar can, in the long run, react to demand but land cannot and will not, for a rising market will, if anything, induce land holders to hold on for a higher price in the future rather than respond immediately.

To this may be added the other factors that restrict land from coming on to the market—the Community Land Act and the Development Land Tax, not to mention the sluggishness of the bureaucratic planners and the tight hold on land of the local authorities and public corporations.

The effect of the Acts mentioned was described by Mr. Victor Matthews, chief executive of the Trafalgar House group, in the *Evening Standard*, February 16.

The Community Land Act, he said, had been an absolute disaster with virtually no land coming on to the market. Local authorities had no will to make land available for development. Mr. Matthews said that the average cost of a plot of land had risen from about £1,500 in the early 1970s to £10,000



now. Land costs now represented a third of the price of the house.

Mr. Ian Deslandes, director of the House-Builders' Federation,

which represents the majority of builders, adds his voice. In the *Daily Telegraph*, February 27, he is reported as saying that the inability of house builders to acquire land in the open market is the biggest problem facing the industry today. "The inevitable result will be fewer homes and higher prices." Builders, he said, were not pre-



pared to pay "silly prices" for land—like for instance £90,000 an acre for land at Kingswinford west of Birmingham.

The builders complain of small profit margins. And of course landowners, scenting an increasing demand for their non-reproducible "commodity", ask tomorrow's price from today's buyers. Small wonder that builders are aggrieved and are reluctant to be led into the arena of speculation themselves, gambling on the price rising between the time they build and the time they sell. They have been up that road before.

As for planning permissions, the latest figures show that the amount of land with planning permission is smaller than at any time during the last three years and planners are taking up to three or four years to deal with them. Owners of land are not likely to step up the applications by releasing their land on to the market. Why should they when the Government takes 80 per cent of their "profits" and when there is a prospect that a Conservative government will repeal the Development Land Tax or at least reduce it very substantially?

What has the Government to offer? Contradictory plans. One to ease the house-price spiral at the demand end (instead of at the supply end) by "persuading" the building societies to restrict their lending, and the other, to increase demand for housing by promising, for electoral purposes via the Home Purchase Assistance Bill, a subsidy for first-time house buyers.

And what of the Conservatives

if they are returned to power? Their plans are also designed to send up house prices. First they intend to give cash subsidies to first-time house buyers together with interest free loans for five years, and secondly to abolish rates on domestic properties, which, by cheapening the cost of occupying land, will send up its price.

To this economic folly can be added the idea now being mooted among Conservatives of subsidising commuters' fares via tax relief, the inevitable result of which will be higher prices for houses in the commuter belts.

So there we have it. Bricks and mortar can respond to the market. Land cannot or will not. So as the demand for houses increases, up goes the price of land.

The politicians' answer is to deal with the demand end and thus cut out the hopes of many who are waiting to buy their homes, notwithstanding their ability to pay the prices asked, just because the less financially well-off find they cannot. Then from cynicism or sheer economic ignorance, they propose to boost demand with housing subsidies and rate relief. Need we spell it out just how to deal with the supply end of the land market? That is, apart from abolishing the obnoxious Land Acts, and clobbering the planners? The taxation of land values is the greatest disincentive to land holding that could ever be devised in accordance with justice. Succinctly put it makes land dearer to hold and cheaper to buy. And it should be rigorously applied to local authorities and public corporations as well as to private owners of land.

* * *

THE New South Wales Government is to sell 9,000 house sites on the outskirts of Sydney for between \$10,000 and \$12,000 each, one-third less than the current market price.

They will be for sale to anybody, private buyers being restricted to one site each and approved project builders will be able to buy more only on strict guidelines. Private buyers must build their home within three years and will not be able to sell within that time without the Government's consent, while the limit for project builders

is one year.

New South Wales Review, January, reports that the Premier, Mr. Wran, said, "We are encouraging people to buy land-home packages but any builder that tries to swindle anyone will be in trouble—we are the biggest real estate agents in the state.

"The commission's land is in areas popular with people for home development and our prices will force private developers to drop theirs."

Mr. Wran has clearly fallen into the error of assuming that land price affects house price instead of the reverse. The new houses will sell at whatever the market price happens to be at the time of sale. The vendors, who bought their sites at lower-than-market prices, will enjoy an extra land-value bonus.

A STEP IN THE RIGHT DIRECTION

REPORTING in *Conservation News*, February/April, the Economics Working Party of the Conservation Society advocates "rating of derelict land at a special level to encourage redevelopment of derelict and inner-city land in preference to agricultural land."

RECORD LAND PRICE

A record price for residential building land in the West Midlands was paid at a fiercely contested auction in January.

The land—3.66 acres with planning permission for thirty-nine houses in Dudley, Worcestershire—was bought for £325,000, or nearly £90,000 an acre, by a leading builder of luxury homes.

Commenting on the price paid, auctioneer, Peter Sellers, of Chartered Surveyors, Allsop Sellers said, "It is a delayed result of the Community Land Act which has kept land off the market. Now that builders have used up their stocks of land, and with the demand for housing starting to rise, they must replenish their land banks if they are to remain in business."