

• *THE CRASH in Britain's property market has not eased the pressure on commercial tenants, reports HENRY LAW*

SPECULATION is a major factor in the problem of vacant land in Britain. The private sector land market, far from acting as a dynamic and efficient allocator of resources, presents a picture of sloth.

This is one of the conclusions of a study of vacant urban land\* carried out by Arup Economic Consultants (AEC) for the Department of the Environment, with the aim of evaluating government policy instruments designed to speed the development of urban land.

The survey investigated over 900 vacant sites in 20 local authority areas in England. The sites were grouped into two samples, of 706 sites which had been vacant in 1979, and 249 sites which had become vacant between 1979 and 1984. Many of the government policy instruments worked well, when applied to individual sites. But, the report continues: "Closer inspection of the sites which remain vacant from the two national samples revealed a number of reasons for continued vacancy.

"Only a relatively small proportion of sites, 34.1% of the 1979 sample and 39.8% of the 1984 sample, remained vacant because of physical constraints of the kind that typically are addressed by many of the policy instruments, particularly grants.

"It was found that 32.2% of the 1979 sample and 39.8% of the 1984 sample of sites which remained vacant did so because of the owners' intentions to keep them vacant for a variety of reasons, such as holding them vacant for an improved market.

"About 18.6% of the 1979 sample and 25.0% of the 1984 sample were vacant because of an apparently poor demand. However, in the judgement of the research team, there were very few of these vacant sites that were incapable of beneficial use."

The report observes that there

## 'Holding' tax would end land market slothfulness

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was little that existing policy instruments could do to bring these sites forward for development and it is difficult to envisage what else could be done. In conclusion, the authors of the report suggest that: "Delays due to owners' intentions to keep land vacant could be reduced by the introduction of incentives and/or penalties...

"One difficulty is that two-thirds of sites in this category are in private ownership and Government has expressed a desire to maintain an arm's length relation with the private sector land market. However, it might be possible to consider some form of vacant land tax to help speed up their development."

WITHIN its terms of reference, this study is a useful contribution to the rather limited fund of information on the land market.

Unfortunately, to maintain comparability with previous statistics, sites of under 0.2 hectares were excluded from the survey. This must lead to a systematic under-reporting of

*\*Tracking Vacant Land, Arup Economic Consultants, £13.75, London HMSO.*

small town-centre sites, and these would generally be in private ownership.

A site of 0.2 ha is not negligible if developed to inner urban densities, it could accommodate eight houses or five small industrial units, to provide jobs for 20 people; the development potential of city centre sites of this size is considerably more.

Rather than set the cut-off point in site area, it would have been more useful to fix the cut-off in terms of site value, as value is a much better indicator than area of the economic potential of the land, and the loss of productive capacity resulting from its continuing lack of use.

Vacant land is, however, only one aspect of a larger problem, but the authors' suggestion of a tax on vacant land indicates that they may not be altogether aware of this. Vacant sites stand at one end of a spectrum which includes under-used land and vacant and under-used premises; the boarded up shops at present lining so many of Britain's high streets are probably of greater significance for the economy than the acres of dereliction on the urban fringe.

Thus, a tax on vacant land would only deal with part of the problem, and, moreover, it would be subject to legal argu-

ments over definition, since vacant sites could easily be put into low-grade use to enable owners to avoid the tax.

What we are really dealing with here is the chronic sluggishness of the property market as a whole. If one believes that the market is the most efficient mechanism for the allocation of resources, then it is vital that the property market should be sensitive to variations in supply and demand.

It is evident that the land market does not function in the same way as other markets, with surplus supplies causing prices to fall to market-clearing levels, and high prices calling for increases in supply.

What happens in reality is precisely the opposite; when demand is slack, land is held off the market in the hope of increased demand, and when prices are rising, there is a scramble to get on the bandwagon, and price rises accelerate. Large vacant sites are only the most obvious examples of this breakdown in the market mechanism.

THIS MARKET breakdown has been little recognised by economists and politicians, although there are signs of a change. Vanessa Houlder, writing in the *Financial Times* on August 9 1991, reported the views expressed by Mike Ruddell, in charge of property at Boots, the UK chain of chemists.

Attacking the system of 25-year leases with upwards-only rent reviews, Ruddell points out that these take little account of trading profitability, and he proposes a shift in the landlord/tenant relationship, suggesting that it should more closely resemble the supplier/customer relationship that is prevalent elsewhere in the retailing industry.

"Retailers and suppliers

should have a co-operative relationship, with give and take on both sides, even to the point where contracts are set aside if one party encounters difficulties there is no real incentive for the landlord to do anything", he says, alluding to an empty warehouse for which the rent has just doubled even though it has been empty for five years.

"I think the upward only review is every unfortunate. It avoids bringing down property to clearing price" - a highly pertinent remark in view of the very high commercial vacancy rates which have prevailed throughout 1991; there are almost 13 million square feet of unoccupied offices in the City of London, almost 18% of the total, according to Debenham Tewson Research.

### The recession

The theme cropped up again in the *Financial Times* on August 13. Chris Batchelor gave an account of protests against rent rises in the fashionable Covent Garden shopping district in Central London. He observed: "The recession, the effect of the Gulf War on tourism and sharply higher business rates have all affected John Shuttleworth's Covent Garden restaurant.

"In addition to these problems, Shuttleworth's landlord, Prudential Assurance, has proposed increasing his annual rent from £45,000 to £210,000 - a more than four-fold rise. Nor is the Pru alone in attempting to jack up rents, despite the proliferation of To Let signs now sprouting in central London and many other cities.

"Imagine the effect that will have on my business," says Shuttleworth. "I can't put my prices up by that amount." He has spent the past 14 months trying to negotiate a lower increase. The Prudential responds that it is merely seeking a fair rent

based on what its advisers say are comparable properties.

Shuttleworth believes his dilemma is the result of what many tenants and even some property professionals see as Britain's outdated system of commercial property leases.

"The system is grossly unfair," comments Sydney Burnstein, who owns several fashion shops in another high-class central London shopping parade, South Molton Street. "It leads to a bad mix of shops. Leases are totally weighted on the side of the landlord."

Among the causes of complaint are:

- Unrealistic expectations as landlords base leases on rents set at the height of the boom and do not take account of the subsequent recession;

- Confidentiality clauses which prevent the dissemination of market information which might bring a downward pressure on rents;

- Upwards only revision clauses;

- Onerous assignment clauses; and

- An arbitration system which smaller tenants believe is weighted against them.

Legislating against some of these practices would, to some extent, help to even up the bargaining position of tenants, but the solution really lies in imposing, through the tax system, a substantial holding cost on land regardless of whether it was developed or in use, or not. Were such a tax in place, landlords could no longer risk squeezing their tenants to the point where they were left with vacant premises on their hands.

The property market would then be subject to the normal market mechanism, with supply and demand in balance and rents maintaining themselves at around market-clearing levels.