

Positive Policies for Land Use

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THIS is a subject on which I should be able to speak with authority; after all I have spent most of my working life developing land for other people to use. But the more I see of it, the more confused I become. There are so many irreconcilables. On the one hand powerful lobbies want to protect our environment; on the other people are suffering very real privation for lack of a decent home. In the worst cases their families are breaking up. Planning authorities maintain stoutly that there is plenty of land for development for the next six or seven years; but the builders say there is a real shortage and their behaviour in the auction room gives ground for believing them to be right. Some people say that to relax the Green Belt policies means development from the cities to the coast; others maintain that only a little relaxation would cure the problem once and for all — to release one quarter of a mile round our cities would be enough. On the one hand builders complain about rocketing prices; on the other they report record profits. Planners say their influence on the quality of plans has protected the environment; others say their contribution is negative and only frustrates orderly development. Some go further and say that the whole system is on the verge of breakdown. Some people, including the Government and Local Authorities, accuse land owners of hoarding land for bigger profit; other, objective reports, find that the main hoarders are the Government and the Local Authorities. When one looks at the fiscal measures affecting land there seems a whole edifice designed to distort the market, inhibit sale and to frustrate the very objects which they were designed to promote.

I want to look more closely at three aspects. They are:-

- First* How does our planning machinery work?
- Second* What effect do fiscal measures have on land supply?
- Third* How far is land a residual, that is the money left after deducting the cost of building from the maximum the market can bear: and could this be changed?

I think it is true to say that the British planning system is essentially negative. That is, the elected representatives and their officials decide where and when development should take place. They take into account, or should take into account, the likely pressure of public demand, the needs to conserve the environment, and the need to use properly, public investment in the infrastructure.

But largely planners have no power to make sure that the land is used for the purposes they have laid down. The initiative lies in the hands of the land-owners except in those very rare cases where the public interests demand the use of compulsory purchase orders. There are a host of reasons why owners do not want their land developed. Some are personal — such as old ladies living in large houses in large grounds. Some are fiscal. Nor can planning authorities as such do much about the sewers, the schools, the roads, the shops, the bus services, the health centres, the hospitals, the midwives, the industry that makes development possible. All these services depend on other agencies, some public, some private, dependent on Government policies and the general availability of money and its cost.

As Sir Geoffrey Mitchell of Wimpey's once said, "it's no use looking to planning officers to find land. They are paid to keep people out, not let them in."

Now let me turn to another side of the land problem — the effect of financial and fiscal measures.

At present there are two types of subsidy, first a general subsidy to assist people to pay rent where they cannot afford the so-called fair rent and secondly a subsidy to build a new house, part coming from the Government and the major part coming from the surplus generated by the increase in rents generally. The subsidy to build a new council house from both sources is now about £750 a year against the tax relief on a similar private house of between £200 and £250. So we are likely to see this encouragement of home ownership continuing under any Government.

At the other end of the scale there are the land owners, many of them farmers. It is a fact that in-

vestment in agricultural land over the past forty years has consistently been better than investment in ordinary industrial shares. The figures are remarkable. £100 invested in farmland in 1945 would now be

worth £1,500. A similar investment in ordinary shares would be worth less than £400. And the investor in land enjoys several advantages over an investor in shares. He can roll over his capital gains tax on sale until he retires. Or better still until he dies, when it is cancelled entirely. And he can enjoy a 45 per cent reduction in estate duty. Meanwhile he pays no rates. There are therefore powerful forces inhibiting the sale of land for development — or indeed for any purpose. Less than two per cent of agricultural land changes hands in Britain any year.

It may be that this thin market in land and the rather negative bureaucratic planning process in conjunction are the two underlying reasons that so much land is allocated and so little developed.

This leads me to the third side of the problem and this might be the most fascinating of all. It is generally accepted that land prices are a residual, that is, they represent what is left over after the cost of building and marketing are taken from the price that the public will bear. One of the characteristics of the housing market is its volatility. For some reason which I have never been able to understand, people's interest in houses varies tremendously — even from week to week. It is almost as if there were an efficient underground communication system that says this weekend is the time to buy. Of course one can speculate on the reasons. Good weather can bring the family out to look round; too good weather and they go to the seaside. Building Society policy on the status of home buyers tends to shift imperceptibly and this can have a tremendous effect. Another factor, not often realised, is that the new house market is only part of the whole. Almost alone amongst consumer durables a house has a life of fifty years or so. During any one year about 15 per cent of the private housing stock changes hands — 750,000 houses in total. So a shift of 10 per cent in the total demand up or down means an increase or decrease of about 75,000 houses a year. This fluctuation falls directly on the new house market and particularly heavily on the more expensive end of that market. It is by any standards a massive alteration of demand approximating to 30 to 40 per cent of new house output.

By contrast the actual process of getting planning permission for and building, a new house is one of great inertia — a time-consuming process of getting land from zoning to being developable — at least two years under favourable conditions. The actual construction of the house is much quicker, but some firms become so attuned to the delays in planning that they lack a sense of urgency in building. The whole process involves heavy capitalisation. The developer is caught between these two forces. On the one hand a rapidly fluctuating demand decided by factors outside his control. On the other a lethargic and sluggish process for making land available.

So when economic conditions changed from restricted credit and a relatively low level of inflation, as they did in 1970, to one of increasing inflation, easy credit and rapidly rising personal incomes, the immediate effect is a rapid increase in house prices accompanied by a similar rapid increase in land prices. By contrast when demand falls output falls, but not immediately. During the first three months of this year when demand was tailing off, 34 per cent more houses were started than in the same three months of 1972. Since then starts have fallen off by about 20 per cent, again compared with the previous year — a swing altogether of about 50 per cent which occurred between Easter and Whitsun. At the same time the number of houses under construction has risen very considerably indeed.

In any other market the natural reaction to an increase of demand is an increase in production. But builders have had their fingers burnt badly in the past and once destroyed their confidence takes a long time to return. One aspect of the developer's expertise that I think is totally underestimated by the public, by the planning people and indeed by some building contractors, is the very tight discipline with which the work has to be controlled.

Generally in Britain houses take about one year to contract from start to finish. In good times this is acceptable; in bad dangerous. In my own company, and in other companies with a professional approach, we consistently build any one house in three months or less for the very simple reason that we cannot afford to tie up capital in too much work-in-progress,

nor can we afford the extra capital to finish off large numbers of houses which may not accurately reflect the market tastes. When the market booms prices