

Problem

Brian Chance considers a possible solution



THERE IS GENERAL agreement that more new homes should be built, but there is no general agreement about what prevents it. It is often suggested that planning problems delay the building of homes but evidence suggests that the major property developers could immediately start building much more quickly on the large number of sites with planning consent that are already held in their land banks.

It is also suggested that the real reason for limiting the number of houses built is to maintain and if possible increase the level of house prices. This policy is generally believed to be both desirable and necessary. It certainly appears to be current public policy. The 'Help to Buy' scheme has helped to increase prices.

Building enough new homes to force a reduction in selling prices would inevitably result in a general reduction of house prices as well. In a free market it is not possible to achieve both objectives at the same time.

Building costs are efficiently controlled and changes in house prices are predominately changes in the value of the land on which they are built. For a development project the land value is calculated as a residual amount by deducting construction costs, interest and profit from the expected minimum selling price of the houses

to be built on it. The desirability of the location governs the price of the houses and therefore determines the value of the land. A forced reduction in the selling price of the houses must therefore reduce the value of the land and make the landowner reluctant to sell. Compulsion or subsidy would be needed to make sufficient land available.

Location governs price

To solve the housing problem it is the treatment of land value that needs radical reform. The value of land, expressed as the desirability of its location, is a social surplus generated entirely by the presence and work of society as a whole. At present, the owner of land used for building is able to capture in the selling price the full capitalised value of this social surplus.

The alternative treatment of land value is for the social surplus to be paid as land value tax (LVT) to the exchequer by the owners of the new houses, as annual compensation to the community for exclusive use of the plot. By returning the

land value to the community, to whom it rightfully belongs, the housing problem could be solved.

A simple solution

Prices for new houses, excluding roads drainage and other common services would be reduced to the cost of building the house. The greatly reduced purchase price would be more readily financed because it would be more easily repaid. LVT would be offset against an equivalent saving in direct and indirect taxation on earnings.

Property developers would use their expertise to build profitably the homes that purchasers were seeking. Land cost would be nominal and there would be no Community Infrastructure Levy (section 106 payments). Affordability would be determined solely by location, which would determine the LVT payable, and there would be progressively less need for the socially divisive policy of providing subsidised "affordable" housing.

Normalising supply and demand

Planning procedures would include weighing objections to change of land use against the need for revenue. This would be particularly relevant to proposals for building on green belt land. Location values and the consequent LVT assessments would be determined as a condition of the planning approval and subsequently revised annually in the light of current conditions. Freely negotiated location values would ensure an adequate supply of land. Normal laws of supply and demand would ensure that homes were available for all.

As with any radical reform, there would be losers, and justice would require a long and gradual introduction, to include comparable payments on homes already built.

The time for objection is past. We cannot go on as we are. It is in everybody's interest to correct this great wrong in an orderly way before those with nothing to

lose adopt more forceful tactics. The just and equitable long term housing policy must be for each to compensate society for the exclusive possession of land and for the revenue to be used to reduce taxation on earnings. This policy would provide affordable homes for all and solve the housing problem

