

WHY THIS COTTAGE DID NOT SCRAPE THE SKY ..

THE AMERICANS have a word for it: hold-out.

But a more precise term would be – hold-up!

This describes what happens when landowners refuse to develop their sites to uses that are appropriate to the needs of the local community.

Thus, in New York, two-storey buildings squat between cloud-hugging structures – their owners waiting for the day when they think they will make the maximum profit out of their speculative venture.

The tale of the cottage pictured right illustrates how the property tax is at the heart of the problem.

Once upon a time, it used to be a humble fisherman's cottage, on the beachside in Fuengirola, on the Spanish Costa del Sol.

Then the tourist boom began, and developers bought up the prime sand-side sites to erect apartment blocks. Thus, the land was being put to its highest and best use. The local economy benefited from the influx of holiday-makers from Germany and Sweden, and everyone was happy.

Rationally, the fisherman's cottage – now owned by a millionaire – ought to have been demolished in favour of an eight-storey apartment block. Instead, the owner chose to hold out for a better price than was on offer.

Result: the ageing building squats between the new structures, the sandy sidewalk in front of it a testimony to the recalcitrance of its owner.

The owner chose to retain his property in what is an economically inappropriate use, rather than allow the site to be incorporated into a rational development that favoured the tourist industry.

He could do this, because the property tax that he pays is so low that there is no incentive to make the site



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available for a more appropriate use.

Arguably, of course, the owner should be free to do what he wants with his property. And he could point out that the property tax would penalise him if he built apartments on the site, because capital improvements would expose him to higher taxation.

There is some merit in this argument. But what of the community's interest in the

site? It could be equally well argued that the piece of land on which the cottage stands is a heritage of the community, and that it – or at least, its economic value – ought to be enjoyed by the whole community.

This could be achieved by simply removing the tax from capital improvements on the land, and recovering the revenue by raising the tax on the market value of the site. If, then, the owner was rich enough to pay the community its due while enjoying the private benefits of the cottage, everyone is a winner!