

# An Inferior Solution

PETER HUDSON

WITH INCREASES in land prices reaching unprecedented levels (up 17 per cent in the first six months of 1972 in South-east England) it is hardly surprising that more attention is being given to the subject. Whether this attention will result in firm positive action being taken in the right direction is another matter altogether. According to one source, average plot values for a southern counties house in 1971 were £5,416 within twenty miles of London, £4,178 within the twenty to forty mile commuter belt and about £2,907 in Sussex. In fact the Nationwide Building Society reported an average house price increase in South-east England between 1970 and 1971 of 48 per cent from £6,541 to £9,644. Although there is some doubt as to whether this trend will continue with the same vigour, there is no doubt that it is most unlikely that the upward drift will stop. How have such astronomical increases come about? Obviously general inflation has played a part but there must be more to it than that.

In a recent article in *Built Environment*, Anthony Bowhill made the point that it is the demand for owner-occupied housing that has driven up land prices. More specifically it has been the increase in disposable income that has been the major factor at work. In the light of the figures quoted above, it is very significant that during 1970 average earning increased by about 13½ per cent as compared with averages of between 3 and 8½ per cent in the preceding eight years. Although house prices had risen generally in line with the rise in incomes (and sometimes slightly higher) in the sixties, prices showed a dramatic increase following the 1970 pay awards. This of course is a perfect demonstration of pure Ricardian theory that "corn is not high because a rent (of land) is paid, but rent is paid because corn is high." For corn read houses and for rent read price.

There have also been other influences at work although the information concerning these is less tangible. For example many people, like Neil Wates, have been inclined to blame the planning authorities for making the situation worse by being tardy in granting planning permissions. And yet, according to the Standing Conference on London and South East Regional Planning, at the end of 1971 there were planning per-



missions not acted upon for about 153,500 new homes and there was land in the South East outside Greater London, publicly identified by local planning authorities as suitable for residential development, sufficient for upwards of 400,000 new homes. More paradoxically, builders are still claiming that there is an acute land shortage and that their current stocks are almost depleted. But the fact remains - the land is there. It cannot run away.

Anthony Bowhill explains this thus: "If the landowner is being seriously affected by a secondary market either for investment or quantitative purposes, then this may prevent builders from purchasing land at prices which *they think realistic, having regard to the level at which they expect to sell houses.*" (Bowhill's italics). In less polite terms, land speculators are making things difficult for builders and home buyers.

Another analysis of the land availability situation, however, this time by the private planning consultants Shankland/Cox & Associates, who have studied future population projections and the time it takes to prepare plans and sites and to build new homes, reveals that permissions are still not being issued fast enough. If these consultants are right and it is necessary for permissions to be available at a rate of six or seven times greater than the building rate then clearly the local planning authorities need to increase their through-put of applications. But that is only half the problem.

Even if permissions were granted at whatever the experts determined to be the "correct" rate, the issue of ensuring that the land earmarked for development actually gets into the hands of a developer who will use it rather than sit on it has to be faced. Supposing the rate of permissions was seven times the annual need, would not most land owners who are not developers rather wait as long as possible before selling when they know only too well that the longer they wait the more they are going to make? No doubt some of them would even be prepared to await the expiry of the validity of the permission and then apply again for another one. Few people realise that a land sale will generally take place only when the owner feels that he dare not wait any longer for fear of fall

in price or where his own financial circumstances dictate that he must dispose of his asset.



In the face of limited land availability under town planning control and an increasing population within a given geographical area (not to mention monetary inflation), the incentives to sell are not very great. It is not surprising, as Mr. Bowhill points out, that some people would favour a return of the Land Commission. Unfortunately, as we know too well, a new Land Commission would have no impact on house prices worth mentioning and any minimal advantages could easily be cancelled out by counteracting forces.

Anthony Bowhill sees the problem in two parts: he believes that it should be tackled on the house-price demand side and on the land supply side. His proposals for the former amount to an advocacy of re-introducing the old Schedule "A" tax on owner occupiers and the limitation of second-time house purchasers to only 50 or 60 per cent loans from building societies. These measures, he believes, would put a great burden on existing purchasers and discourage them from "trading-up" in the housing market thus giving the newcomers a greater opportunity to bid for recently constructed homes. As an afterthought, he concedes that such measures might discourage "cheaper" housing from reaching the bottom of the market!

On the land supply side, Mr. Bowhill does in fact favour some form of acquiring commission or commissions. These he suggests might be charged with the responsibility of acquiring land at something less than market value and preparing it with roads, sewers and other utilities while at the same time earmarking sites for public facilities, schools, parks etc. Eventually the commissions would dispose of the land to developers and return any profits *pro rata* to the former owners!

In fairness to Mr. Bowhill, there is no doubt that his proposals could be made to work after a fashion but only at an unnecessary price and with detailed controls which many people would find intolerable. There is of course a far superior solution. A system of *ad valorem* land taxation would deliver the goods with many added bonuses. These would have deep and lasting consequences on both the land supply side and the house-price demand side which are of so much concern.

At once, the land-value tax would be far superior to the old Schedule "A". Not only would it charge the

current owner of any site (occupied or unoccupied, used or unused) a fee for the right of tenure related to imputed value received, but it would also increase the rate of supply and decrease the market price of undeveloped land. In fact, it would decrease the price of all property. And what is more, it would raise the demand for structures, which is the best way of increasing their supply in the long run. After all, to dampen down demand is to admit defeat.

A land tax would increase the effective purchasing power of the first time buyers, decrease their borrowing requirements and decrease the amount they have to pay in interest. In effect they would be able to buy more house with their limited income and we would begin to see higher standards of design and construction as a consequence. Finally, but most important of all, those outstanding permissions would be acted on far more quickly as the land market received the really fundamental shake-up it so drastically needs. What a turnaround it would be for land agents to be offered commission not to search out land for development but to market it in large acreages!