

# Alchemy of the Land Market

**EVIDENCE THAT** landowners are willing to devote part of their profits to paying for public services was presented to one of Russia's top economists when he visited Edinburgh in July.

Dr. Dmitry Lvov, the most senior academic economist who champions the policy of financing the public sector out of community-created rents, was taken on a tour of an old rail track that runs through the southern suburbs of Scotland's capital.

His two guides were George Hazel, a civil engineer and Visiting Professor of Transport Policy at Robert Gordon University (Aberdeen) and John McGregor, a chartered surveyor. They created E-rail a company that would restore the passenger service to the rail track by funding investments in buildings and equipment out of the increased land values that would be thrown up by the presence of stations.

The loop line was introduced to Dr. Lvov as an example of how the public and private sectors could work together to enhance the quality of the transport system while delivering profits to developers.

The genius behind the project was Mr. McGregor, who literally got on a bicycle and toured the vicinities of the freight track where he observed vacant sites and underused locations. He visu-



alised that there would be an explosion of development if the track could be used by passenger trains. He consulted Mr. Hazel, who had worked as head of planning and transport on Edinburgh council, and they developed an economic strategy.

The key was the increase in land values. They bought or took options out on key sites, and offered the increase in land values as their contribution to the new passenger service if planning permission was given to develop the land. The deal was struck, in which E-rail would receive planning permission for 12 sites that would enable them to put £15 million into the pot to provide the passenger service. The rest would come from a fund accessible to Edinburgh council.

Dr. Lvov was shown two sites where the value of land would register the presence of a passenger station.

A land locked site near a supermarket is currently worth a few pounds an acre as grazing land. With planning permission for a bridge and the re-development of the supermarket site, the land locked triangle would be worth £5 million.

In the second case (pictured above), a bank has agreed to sell its site next to

the railway track. Currently worth £700,000, E-rail offered to buy it for £1 million. With planning permission to develop the land besides and over the track, that site would be worth £2 million.

These additional values are earmarked to defray the cost of providing the new stations, signalling systems and other amenities to provide rapid railway access into the centre of Edinburgh. The total cost will be about £35 million. Mr. McGregor explained to Dr. Lvov that they could actually cover the whole of that cost if the council had been willing to give them planning permission to develop 60 more sites on which E-rail had options from landowners. But Edinburgh council has decided to apply to the government for the extra money to complete the new South Suburban Railway.

Dr. Lvov expressed his admiration for the way in which taxpayers would be relieved of the cost of providing the service. His questions focused on why landowners were willing to yield part of the land value for the benefit of the citizens of Edinburgh. Professor Hazel explained that they did so because under their public-private partnership, everybody gained.

## Idle Land

*Continued from previous page*

be seriously considered, for the alternative scenario is worse: more tinkering with land and house markets through benefits, subsidies and other palliative measures, all of which merely fuel land prices further and feed the north-south drift. All the tax anomalies listed above could be easily introduced and would significantly help bring more homes into use. Progressive reformers should support EHA's pressure on government to do so, while urging deeper reforms of a Georgist nature.

Governments should at the very least accept what the Urban Task Force recommended: that serious study of how to introduce LVT in a similar way to several other countries needs to be undertaken. Urban renewal, a defective housing market and the need to protect countryside from unnecessary sprawl are good enough reasons. There is increasing public understanding of and support for the ethical and environmental

benefits of LVT. We are left with an urgent need to study the practicalities: valuation, property law, effects on other taxes and the relationship with the planning system.

Somehow we must ensure that house price inflation no longer climbs faster than inflation generally, not to penalise home-owners but to protect us all from the catastrophic effect of a bursting land-price bubble. A gradual shift, nation-wide, of the tax burden from productive activity onto land-holding inactivity would boost the "real" economy (including house building) by releasing billions of wealth that is tied up in real estate. It need not harm mortgagees if managed carefully.

The EHA should not need to push uphill. Give them – and us – a land-value tax and the housing policy objectives of every government could be met. To say nothing of housing needs of people.