

Time for a Land Policy Supremo?

MOST POLICIES administered across all government departments exercise a direct or indirect impact on the price, supply and use of land. Yet this impact is largely unmonitored: there is limited co-ordinated oversight over a nation's precious natural resources. The result is multiple covert disturbances - pebbles scattered across a pool, sending ripples in all directions from all points. These then provoke piecemeal responses.

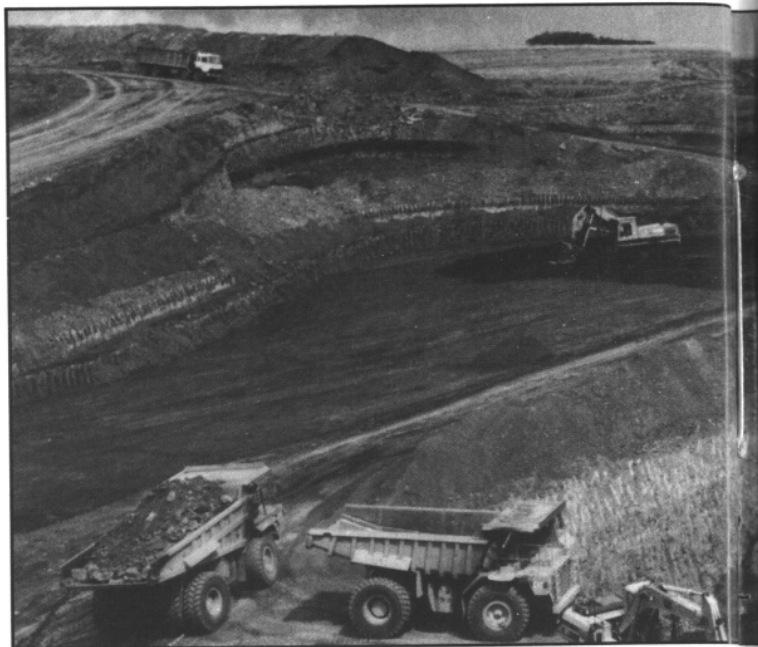
If governments knew that the land market generates negative as well as positive feedbacks, would they pay greater attention to the potential impact of their decisions? Should governments appoint cabinet-rank ministers to monitor legislation and administrative decisions for their consequences on land? The British government's dilemmas over land-related problems illustrates the need for a more purposeful scrutiny of official action.

◆ **Macro-economics.** Last year New Labour was given an overwhelming mandate by the electorate, partly because it promised to abolish booms and busts. This year, growth in the manufacturing sector is rapidly grinding to a halt, with practically every forecaster bewailing the prospect of recession.

There is a theory that attributes recessions to stresses caused by the land market. Have land prices contributed to the gloom gathering around Britain's shores? Many families might think so. The repossession of homes of people defaulting on their mortgages is on the rise again. Repossessions peaked in 1991, when 76,000 families had their homes taken back by the finance houses. The UK crashed into the depths of the slump in 1992.

The Blair government has not acknowledged a connection between the land market and the economy, yet. Instead, it echoes its Tory predecessors in admonishing employees who bargain for wage increases above the rate of inflation. The government remains silent about the disturbing trends in residential building land prices. These have grown by 101% in little more than five years, compared to an increase in house prices of 25%, according to London property consultants FPDSavills (see graph below).

Historically, the affordability of houses has offered early warning of bad news. The FPDSavills Affordability Indicator suggests that houses are still a "good buy": in real terms, prices are well below the 1988 peak. The rapid deterioration in this index always precedes a severe economic downturn. This is not the situation today, which means that really bad news for the UK is still a little way over the horizon.



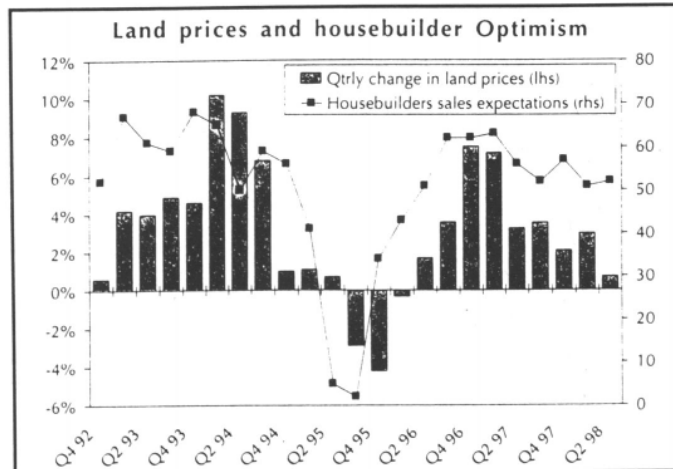
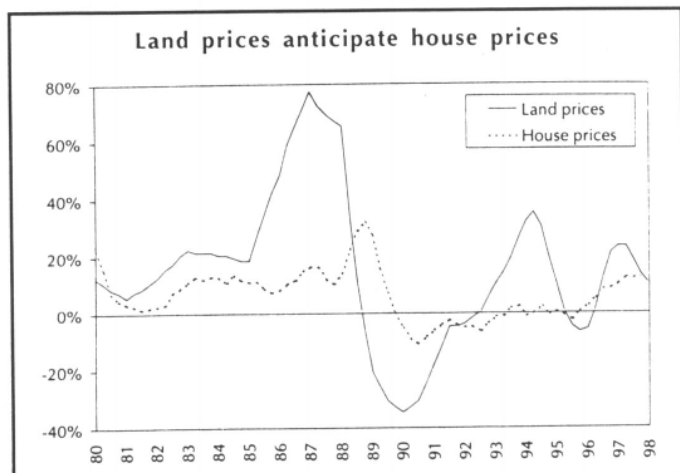
SITE FOR SORE EYES. Government plans are bedevilled by conflicting demands for a Leicestershire village which is mentioned in the Domesday Book, the ground is being tempted by the soaring rental value of holes needed for dumping waste.

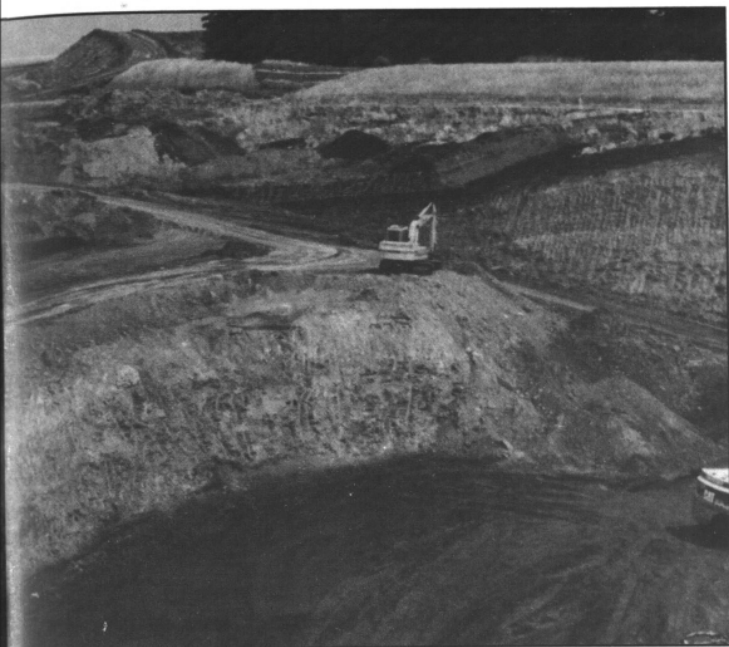
But the danger signals are in the air. FPDSavills notes that the price of new homes continues to grow faster than second-hand houses "and house builders currently appear relatively confident about future sales levels. Regardless of whether this optimism is realistic or not, it means they will require more land to build ... Given the inelasticity of supply, this demand is likely to keep some upward pressure on land prices" (see graph below).

Questions for a Minister of Land: What kinds of changes in land price and supply will terminate growth in construction? How will land prices affect government goals?

◆ **Housing.** The government has to oversee the provision of land for 4.4m houses over the next 18 years. This volume of need will seriously affect land prices. Prices are volatile - and are prone to very large increases, which in the up-trend encourages people to borrow and embark on spending sprees, causing an "overheated" economy.

According to FPDSavills (Residential Research Bulletin Number 26, Summer 1998): "Although land price growth has come off a low base, the figures highlight the greater price volatility of land which is a limited resource in short supply. Any increase in demand for land therefore exerts disproportionate upward price pressure. Demand for house building land does not derive directly from the housing market itself but from house builders and their anticipation of future house building and housing market conditions. There is therefore an inbuilt speculative element in land market activity which, again, adds to the volatility of house prices. This means that land prices can fall, as well as rise, dramatically. In the late 1980s





green fields. This hole in the ground brings mixed blessings. For the families in of a nearby field has damaged the value of their homes. The site owner was

Stalking the lairds: should they pay a Property Tax?

SCOTLAND'S lairds oppose a property tax on their sporting estates. They claim that their deer stalking and salmon fishing land has no alternative use, and rates (the property tax) would drive some of them out of business. They claim that jobs would be lost and rural communities penalised.

But the proposal appears to be politically popular. Landowners claim that rates would add to their costs and damage rural communities. The Scottish Conservative's land reform spokesman, Murdo Fraser, claims: "Taxing sporting rights may well fit in with some sort of class war, anti-landlord agenda of the land reform extremists. The consequences will, however, be the loss of jobs in rural Scotland".

Reformers challenge these claims. They say that sporting estates refuse to release land for residential development or community uses. Says Peter Gibb of Land Reform Scotland: "Owners discourage these developments because they do not want people roaming the district and getting in the way of people with guns shooting deer or grouse".

Controversy over the land is curious. Owners have no doubts about the prices people are willing to pay. These were illustrated in an article in the *Financial Times* by its property correspondent, Gerald Cadogan, on Aug. 15. His by-line paradoxically was linked with this startling claim: "There is no money to be made from a Scottish (sporting) estate". Mr. Cadogan reviewed the political climate in Scotland:

"The Nationalist campaign against absentee landlords frightens English owners. They perceive themselves as being discriminated against, while Dutch, German and US buyers and owners seem to be acceptable. With almost all of Scotland expecting the Scottish Nationalist party to control the new Scottish parliament, English landowners dread that it will create a land reform commission to parcel up the large estates - as happened in Ireland earlier in the century".

Mr Cadogan supports the myth that these estates make no money, and have little value apart from shooting deer and fishing for salmon. But he listed the asking prices for some properties on the market.

Estate	Acreage	Asking Price: £m
Laudale	12,900	1.6
Benmore	21,000	2.025
Inchmarnock	660	0.8
Glencassley	10,000	1.2
Glenrossal	2,500	1.475
Gledfield	5,200	1.75
Newmiln	709	2.0

A property tax would be discounted by prospective buyers and would therefore not negatively affect current land uses or employment, or the total cost of acquiring and using the land.

Much of the land is under-used. A realistic charge on the value of land would encourage owners to develop additional uses, or release the land to others. This would foster new jobs and enrich local communities.

The re-introduction of rates, especially if they were associated with the detaxation of wages, would reverse the de-population which began when the chiefs cleared the highlands. They abandoned the welfare of their people: they placed greater importance on the profits and power that came with the monopoly control over land. The English crown and aristocracy encouraged the clearances, but landowners now deny that they exercise influence over government. "If this was the case surely land reform would simply not need to be on our agenda?" says Andrew Dingwall-Fordyce, of the Scottish Landowners' Federation (*Glasgow Herald*, Aug.14).

the annual rate of land price growth fell from +65% to -21% in the space of a year between June 1988 and June 1989".

Question for the Minister of Land: Will similarly violent changes in prices over the next two decades affect the supply of affordable houses?

◆ Conservation. The government places a high premium on its green credentials. The competition to build on either green field or urban "brownfield" sites is presenting a dilemma.

House builders are said to prefer rural acres because of the costs of removing industrial wastes. So convinced is the Royal Institute of British Architects that developers are biased against urban land, that it proposes the creation of an agency charged with making urban land fit for development.

The minister with the greatest direct influence over land use is deputy prime minister John Prescott, the supremo at the Environment Department. He wants only 40% of new homes to be built on green fields. Some conservationists are sceptical that this split in favour of recycled sites can be achieved without a tax on developments on green fields.

Fairview Homes, one of the most successful developers in Greater London, is not impressed with these arguments. It has a vigorous programme to the east of the City where heavily polluted sites have to be reclaimed. But the company points out that this is not an obstacle: the cost of making sites useable is set against the price they pay for land.

THE DISORDERLY approach to land use exacts a heavy price in economic inefficiency, to say nothing of the damage to political "capital" as the government finds its aspirations thwarted by the "hand" which it does not make visible.

History affirms that ad hoc responses do not achieve the desired results. For example, the Blair government has appointed a "czar" to address homelessness. But in 18 years time, the spectacle of people living in the streets of inner cities will still be with us. Cities will sprawl into the countryside, and the economy will have struggled through at least two recessions in part caused by volatility in the land market.

Gains from a conscious assessment of policies could be enormous. An effective government needs the services of a Land Supremo to help develop effective policies and coherently orchestrate its plans.