

Distortion by speculation

HOUSE builders continue to blame planners for the shortage of land at affordable prices, writes Ian Barron.

Or they blame local authorities for not selling off enough publicly owned land. Never do they boldly identify private landowners in the role of land-hoarding speculators, against whom appropriate remedial measures ought to be taken.

It is true that, since the 1950s, town halls HAVE been guilty of hoarding land which they did not have the money to put to good use. Even so, councillors have had a thing or two to learn from the private sector when it comes to distorting the land market.

Historically, downturns in construction invariably occurred in periods when the speculator was

HOUSING CONSTRUCTION:
S-E England (outside London)

	Estimated no. of dwellings granted permission	Dwellings completed
1970	54,000	43,600
1971	63,000	46,300
1972	81,000	44,700
1973	94,000	38,700
1974	59,000	32,700



at his most active. Take, for example, the collapse in the economy in late 1973. Private-sector housing building began to slow up over 12 months before the OPEC oil price hike — yet there was no

shortage of land apparently available with planning permission (see table).

The problem, of course, was that the builders were scared off by the price tags on the parcels of land! Many of them — those that did not go bust — resorted to trading in land rather than building houses.

The same thing happened in 1977-78; and it is happening again today. On each occasion, the price was paid in jobs — because consumers had to cut back on spending and pay more for their homes.

The planners, while they do add friction to the economic system, do not have the power to clog up the works as effectively as the speculators.

LAND MARKET IS GUILTY

ECONOMISTS in Britain have been puzzled by the size of wage settlements, in the face of unemployment that is now around 3.5m (counting the people whose exclusion from the labour market has been concealed by government adjustments to the statistics).

But an advance in theoretical analysis can now be expected, following some remarkable research at Nuffield College, Oxford, which has concluded that the housing market is "centrally implicated" in the wage bargaining process.¹ John Muellbauer concludes that wage settlements take into account the fact that house prices are a part of the cost of living for those buying a house, "even if this is not reflected in the Retail Price Index". Furthermore, house prices act as a barrier to labour mobility.

This analysis verifies a comparative study of the housing market, spotlighting in particular the USA, Japan and Australia as well as Britain². Muellbauer's work, however, focuses on house prices, whereas a more accurate picture of the

underlying mechanism emerges once the price of land is disaggregated from house prices in general.

In recent years, however, there have been difficulties in demonstrating the land market's impact on the economy. There is no shortage of data on the price of building land, of course. Prices of well over £1m an acre were being reported in London early last year — leading housebuilders to describe the south-east as experiencing a "banana republic land inflation"³.

The House-Builders' Federation, unfortunately, had dropped a key question from the quarterly survey of its members. This was criticised by *Land and Liberty*⁴, and the Federation reintroduced the question for its State of Trade Enquiry last July. Builders are asked to identify the constraints on future sales. The results are disclosed in the table.

	DEGREE OF CONSTRAINT: %		
	Major	Minor	No current problem
Mortgage availability	2	8	91
Labour availability	8	34	58
Materials availability	1	24	75
Lack of purchaser confidence	7	28	64
Delays/chains "down the line"	33	53	13
Inadequate supply of land	59	23	13
Purchasers' inability to pay house prices	14	51	35

[* Percentage figures may not add due to rounding]

This identified the critical problem with the supply of new housing (the scale of the prob-

BUILDERS EYE FARMLAND

BRITAIN'S house-builders have a plan for the 3.5m acres of land which would be withdrawn from agriculture, if the EEC's food subsidies are scrapped. Mr Graham Pye, past-president of the House-Builders Federation says its commercial development should take place at the rate of 10,000 acres a year. The money they earned from the sale of this land would compensate the farmers for loss of income, says Mr Pye. The policy would also help to conserve land on the rural margins.



Royal remonstrance

● Prince Charles — an emotional intervention that will provoke a considerable debate.

PRINCE Charles has launched a scathing attack on the building industry, writes Peter Poole. In passionate terms he drew attention to inner city decay, and declared: "Despite the obvious need to tackle this problem, it always seems to me crazy that the building industry spends a great deal of energy in trying to secure greenfield sites."

The prince was impressed by a Scottish project in which the local authority — lacking the resources to demolish or rehabilitate a terrace of houses — handed the properties over to local people to renovate.

"I see the potential whenever I go to these areas

and it drives me mad that others seem blind to the immense possibilities that are there," he told the National Housing Building Council's 50th anniversary conference in London on Oct. 28.

He criticised builders for concentrating their activities on greenfield sites, leaving the inner city to "fester" in an ever-increasing spiral of decay. And he said he was not impressed by the "short-sighted economic argument" that there was little point in pouring money into the inner city because there was no effective demand there.

The prince's emotional intervention, while not based on a sound analysis, will nonetheless provoke a controversial political debate. This could provide others with the opportunity to identify the heart of the problem, which is the failure of landowners — public and private — to offer their valuable sites for use at realistic prices.

OVER WAGES

lem can be judged by the fact that planners predict a shortage of at least 122,000 homes in the south-east by 1991: the inadequate supply of land. The next two major problems stem directly from the rate of increase in the price of houses, which are exclusively the result of the cost of land.

Then, in September, Britain's biggest house-builder, George Wimpey, suspended its purchases of land in the south-east (the economy's major economic growth region). Land prices were now constituting half of the cost of houses.

Public policy is in part to blame for the problem. Prince Philip — who chaired an investigation into housing — wrote a critical article in *The Times* on October 7, in which he said that home-buyers benefited from the tax-break on interest they paid on mortgages to the tune of £4.75bn a year. The Royal Institution of Chartered Surveyors explained:

"For new houses this has the effect of driving up land prices and thus reducing the amount of land which it is economic to allow each house."

More — and smaller — houses are, in fact, now being squeezed onto plots of land. The housing crisis deepens; and the unemployment queues lengthen.

REFERENCES

1. J. Muellbauer, "How house prices fuel wage rises", *Financial Times*, 23 Oct., 1986.
2. Fred Harrison, *The Power in the Land*, London: Shephard-Walwyn, 1983.
3. Robert Warren, *Evening Standard*, 10 April, 1986.
4. *Land and Liberty*, March-April, 1985, p. 31.
5. *Housing: The Next Decade*, London: RICS, Sept. 1985, p. 27.

Jobless and taxpayers

exploited to make fortunes for landlords

BRITAIN'S recession is providing landlords with scope to make large unearned fortunes, says David Alton, MP. The Liberal MP has alerted the government to the way in which landlords are buying empty buildings in Liverpool and inviting unemployed people to occupy their bed-sitters at rents which are set at two to three times the market rates. Taxpayers then pick up the tab, because unemployed people can claim housing benefits to cover their rents.

ROCK OF GOLD

FACT: The Domesday Book — commissioned by William the Conqueror, who wanted a record of the taxable value of property in the British Isles — placed a value on England of £700,000. Nine hundred years later the Isle of Jethou, a speck of infertile rock in the channel was sold for £500,000!

RENT RUMBLES

THE SHETLAND Islands' Council, in the North Sea, is demanding £97m. a year ground rent for the Sullom Voe oil terminal. BP, acting as spokesman for the consortium of 31 oil companies, says the £300,000 they have offered is "a perfectly reasonable rent" for what is 1,000 acres of bare hillside. The council bought the site from a bankrupt firm of land developers for £2.1m.