

THE GOVERNMENT has embarked on consultations on its proposal to establish about half a dozen enterprise zones.

Sites could be defined in Tyne and Wear, near Sheffield, in Liverpool, Manchester, Salford, Bilston and three Inner London locations. Each will cover 500 acres.

According to the Chancellor of the Exchequer, Sir Geoffrey Howe: "There are some parts of our economy, most notably in the older urban areas, where more and more public authority involvement seems to have led to less and less fruitful activity. The planning process has all too often allowed, even caused, whole areas at the heart of some of our most populous cities to be laid to waste for years, even decades."

Following this attack on public policy planning, Sir Geoffrey went on to add: "And when private initiative might have been ready to stir, it has generally been stifled by rules and regulations and by a tax system which pays no regard to these special problems."

While the Chancellor must be given high marks for his partial diagnosis of factors which have no doubt contributed to inner city decline, he does not deserve 100% due to his failure to marshal all the evidence. A deeper study might have revealed other factors leading to urban decay, including over-optimistic assessments of development potential and hence land values by the owners of privately owned vacant sites and derelict or decaying buildings. On the other hand, perhaps this work has been done by his advisors but not mentioned for reasons of expediency!

What, then, are the Government's proposals? To provide a reasonable time-scale for developers and industrialists to make an impact on the problems, the Government takes the view that designation orders for enterprise zones should run for a period of ten years. The following concessions will apply:

- exemption from Development Land Tax;
- 100% capital allowances for commercial and industrial buildings;
- exemption from rates – the Government to reimburse local authorities for loss of income;
- simplification of planning procedures within the context of plans to be prepared by local authorities and approved, prior to designation, by

Enterprise Zones

The experiment in "enterprise zones" announced in the budget by Chancellor of the Exchequer Sir Geoffrey Howe has been described in these terms by property journalist Bruce Kinloch (*Estates Times*, 4.4.80): "The scheme appears to be a licence to print money for developers." In this article, PETER RHODES investigates the economic consequences of creating tax havens in Britain.

the Secretary of State;

- exemption from training board levies and the need to furnish information to Industrial Training Boards;
- speedy processing of applications for "customs warehousing";
- exemption from the need to apply for Industrial Development Certificates;
- fewer statistical returns.

The Government stresses that there will not be lowering of the standards needed to protect people's health and safety, or to control pollution.

PART OF London's derelict dockland is likely to be designated as an "enterprise zone".

The Joint Docklands Action Group, however, says that this would be "the wrong solution", for the tax advantages would not be diffused among many people. Two of their objections:

- Property owners would be the main beneficiaries; and
- Rents could soar as construction proceeds and other developments become less attractive, thereby distorting growth patterns.

The views of this body – a trade union and community based pressure group – are not likely to overshadow the opinion of Nigel Broackes, however.

Broackes is chairman-designate of the Docklands Urban Development Corporation; he welcomes the idea of turning the Isle of Dogs into an "enterprise zone". Which is not surprising, since he made his fortune out of land speculation.

But who stands to gain most? From simple economic analysis it is not difficult to forecast that the landowners with property in the selected areas will chuckle with joy once the boundaries have been announced.

In an excellent article¹ Richard Northedge has pointed out that "market economics mean that prices and rents in enterprise zones will be forced up ... this happened a decade ago when the Government gave grants to hotel developers ... the companies merely paid more for hotel sites." He concludes that the main beneficiaries of all the proposed concessions will not be the users of premises or employers but the developers of property and the "Mayfair landlords".

In similar vein, Bernard Thorpe and Partners, one of the country's largest estate agents have said that rising land values and rents caused by a surge in demand could cancel out the tax and rates concessions. Other inner urban areas could suffer at the expense of the zones.² It is

BROACKES is chairman of the £160m Trafalgar House group. Today, it owns the *Daily Express*, the QE2 and a whole range of industrial enterprises.

The empire was built on successful land deals, in the tradition of the industrial magnates of the last century. A valuable insight into how Broackes bought his first piece of land and never looked back is now provided by his biography, *A Growing Concern*.¹

One of his first lessons was that "The elementary and obvious objective of property development is to create something that is worth more than it has cost."

To accomplish this, however, it was necessary to pay scrupulous attention to detail – and even stooping to spying on the movements of junior employees in other companies, if that was the way to get his information necessary to pull off a good deal.

It was perseverance and shrewd judgment which attracted him to sites which were more valuable than the buildings which stood upon them.

'A Licence to Print Money!'

refreshing to think that Sir Geoffrey may receive similar criticisms in response to his request for comments. But negative criticism is not enough: a positive response is required.

I believe that if these proposals are taken forward the Government should take a lesson from American legislation. The de-rating of buildings should be matched by a tax on the assessed annual value of sites. Sir Horace Cutler, Leader of the Greater London Council, recently went to the USA on a fact finding tour. I do not know what advice he received on urban renewal but I refer him and Sir Geoffrey to the enlightened legislation applicable to certain urban renewal projects in the State of Missouri. Under this law³ "urban redevelopment corporations" are exempt from property taxes for a ten year period *except* from taxes on the "assessed value of the land, exclusive of improvements."

This law also provides for the assessment (but not the rate of tax levied) to remain fixed for a ten year

period. So at least part of the land value is collected for the community. It can be argued, of course, that what is required is not a land tax experiment in the UK but a full bodied national land valuation and taxation system. I do not dissent from that view, but I would welcome a ten year experiment in the proposed enterprise zones to produce a worthwhile slice of cake rather than no cake at all!

EXPERIENCE from other countries confirms the superiority of the land or site value tax system in encouraging urban renewal and collecting enhanced site values.

Writing about redevelopment in Central Sydney (1957-1966), R. W. Archer pointed out that there were a number of factors which led to considerable commercial development during the study period. One of these was the impact of the site value rating system and the State land tax.

"This factor," he concluded, "was one which compounded the trend established by the others . . . increases in cash outgoings (arising from increased tax assessments following rises in land values) encourage the owner to redevelop the site or to sell it for redevelopment to a more intensive use."⁴

There is little doubt that tax havens in the right locations can attract investment. It is as certain as the continuance of the force of gravity that land values will rise with increased demand for sites. It is both economically unsound and morally unjust to permit increases in land value to accrue to a few fortunate owners who benefit from a government-granted package of concessions without making any positive contribution to productive output. Wake up, Sir Geoffrey! The opportunity for a really worthwhile experiment in incentive and equitable taxation is here!

REFERENCES

1. Richard Northedge, 'Who wins in paradise?' *Evening Standard*, 31.3.80.
2. 'Employment Zones', *The Guardian*, 28.3.80.
3. State of Missouri - *URBAN REDEVELOPMENT CORPORATIONS LAW*, Chapter 353, (110).
4. 'Market Factors in the Redevelopment of the Central Business Area of Sydney, 1957-1966, *The Valuer*, April 1968. Mr. Archer was then Principal Urban Economist, National Capital Development Commission, Canberra.



● NIGEL BROACKES

BUT Broackes is sensitive about his image.

When he took over some properties he realised that "the name Eastern International Property Investments conveyed more than one unhelpful connotation for landlord and tenant relationships" - which is why he settled on the name Trafalgar House.

And anyway, while land speculation was the way to make a million, "I knew perfectly well that single

schemes and one-off speculations were no substitute for the commercial life I wanted to build."

Slowly the process of diversifying his business interests began, and last year the property portfolio was down to £67.4m (after disposals during the year of £10.4m).²

The book, while candidly setting out personal relationships and business dealings with refreshing clarity, is more than a biography, however. It provides us with a useful understanding of how politicians determine the processes and structure of the economy through legislation.

For example, Broackes analyses the effects of the office building ban introduced by George Brown in 1964.

Wilson's Labour Government wanted to create more industrial employment, but the ban "contributed to the gradual doubling, or even trebling, of office rents that was to follow; and it created a scarcity which was the salvation of several developers who had over-committed themselves to poorly located office schemes."

Hardly the way to stimulate the creation of new business!

SO, FROM land speculator to Captain of Industry . . . to Public Servant.

In his role as chairman of the docklands board, Broackes will control a multi-million pound budget and legal powers to compulsorily acquire land for development.

Thousands of acres of dockland have been allowed to lie derelict, curbing the growth potential of the economy and forcing urban sprawl onto greenfield sites.

Broackes is charged by Mrs. Thatcher's Government with the task of reviving this part of London. One day we hope to read the inside story - penned by Broackes himself - of the trial and tribulations of a bureaucratic land dealer!

REFERENCES

1. Nigel Broackes, *A Growing Concern*, London: Weidenfeld & Nicolson, £8.50.
2. *Estates Gazette*, 12.1.80, p.114.

Fred Harrison