PRACTICAL POLITICS

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ROAMING AROUND: a collection of reports, reviews, and thoughts

(i) "Investors, including Irish and European buyers, poured into the [U.K.] shopping centre market before the recession, driving the value of secondary centres close to modern, regionally dominant schemes". Now many of these **secondary malls** are slipping into distress and breaching debt covenants, whilst "banks such as Lloyds and RBS push on with their efforts to offload distressed shopping centres from their balance sheets" [a]. Landlords need to "recognise that, and reduce rents, or agree to share the risk with retailers" [b]. Government, we say, could resolve the matter once and for all, at root, by introducing LVT.

(ii) The U.K. has found **a bank small enough to let fail**. "The Bank of England and Financial Services Authority put Southsea Mortgages into administration after deeming the bank no longer to be a going concern" [c].

(iii) Britain's biggest care home operator, **Southern Cross Healthcare**, which looks after 31,000 elderly people in 750 homes, is close to collapse. "Even a reduction in its rental bill by 30pc…which it has requested, may not be enough". Revenues are falling at a time when local authorities are cutting costs by reducing admissions in favour of cheaper nursing homes, meaning that "Southern Cross is now in a critical financial position and cannot afford to meet its future rent obligations in full" [a]. Southern Cross faces "total rental liabilities across the life of its leases of £5.8bn. The rents are subject to fixed annual uplifts and cannot be broken" [d]. 80 landlords are involved. They have recently agreed a four-month transition period to allow for setting up a long-term plan for the restructuring of the company. The proposal is that "the company will retain 400 homes…Many of the [rest] will be taken over by other landlords. However, dozens of the homes are likely to close down" [e]. How did all this come about? In the boom years, backed by "private equity firm Blackstone, the nursing home operator embarked on an acquisition spree, buying up packages of nursing homes, selling on the freehold property and locking in cheap financing to pay the rent. With the property sales proceeds more often than not covering the cost of buying the whole business, Southern Cross effectively got the operating company for 'free'. Blackstone offloaded the company on to the stock market (banking £1bn profit in the process)…The rents Southern Cross agreed…rise, on average, 2.5pc every year" [b]. Blackstone has long since walked off, liability free. The firm simply played the system that the lawmakers had put in place. One commentator has suggested a means that could block sponsoring companies "from engaging in financial engineering likely to increase the risks of insolvency among private sector providers of social care" [f], but, we say again, Government could resolve the matter once and for all, at root, by introducing LVT. Buildings require maintenance and repair and usually lose their value over time (in real terms, net of inflation). As in this case, the object of speculation is the land value. LVT, fully and properly applied, collects the annual rental value of land, effectively leaving nothing that can be capitalised in a selling price. So, no more speculation in land, then.

(iv) "In **China** there are ghost towns built in backwater areas in the expectation of economic migration and in downtown Derry, **Northern Ireland**, prices remain at near their post-crash bottom. Swathes of the **US** regional market are dominated by having too much residential property in the wrong locations, an overhang expected to be aggravated as banks and other distressed sellers offload more homes" [g]. These can be the results of mistaken forecasts by promoters and/or straightforward mis-readings of the land market and how it operates in a boom/slump cycle. Unfortunately our masters feign not knowing too, which is why the trade cycle goes on and on.

(v) **Hong Kong** has a system of auctioning land on leases (all of which now draw to a close in 2037). This has meant that ownership reverts to the polity at intervals and that land values form the basis of public revenues. However, it allows land value increases during the period of a lease to be enjoyed by the leaseholder. It happens that the Hong Kong dollar has been depreciating over the last decade whilst the Chinese renminbi has recorded a 22% gain. Mainland Chinese thus see an apartment in Hong Kong as "a hedge against instability – safely away from the long arm of Beijing, yet still close to home" [h]. The leading index of Hong Kong residential prices keeps rising, enriching those beneficial landholders.

(vi) "In mainland **China**, property values have risen eightfold in just three years and, with sterling down by almost 40% from its peak, hotspots outside London have been identified by savvy Chinese investors looking for bargains". Peel Holdings has plans for an International Trade Centre on the Wirral, part of its aim "to turn the Wirral docklands into a major European showcase for 'Made in China' manufacturing", to accommodate the wave of unprecedented Chinese investment targeting the North West of **England**. "A Chinese investment firm will fund half of the first phase of the proposed centre. The cash will buy the investor a half-share in Peel's four 500,000 sq ft trade hubs, the first of which will be occupied by up to 1,000 Chinese companies". Moreover, "in Manchester and Liverpool, SouFun, China's largest internet property firm, has paid FreshStart Living £2.5m for a portfolio of flats" [j]. The development aspect is welcome, but it does make one think why the Chinese, the English, or anyone else needs to *own* land as distinct from having exclusive use of it (subject only to payment of the appropriate land-rent charge – with the wonderful bonus of its replacing current taxes).

DEPRESSION

Greece – the eurozone – the EU. What a sad mess! The irresistible force and the immovable object are now in conflict. "Even though the original Greek bail-out has unambiguously failed, policymakers feel they have no option but to chuck good money after bad…If Greece goes, Ireland and Portugal wouldn't be far behind, requiring massive recapitalisation of the European banking system and the European Central Bank, which has taken vast quantities of eurozone debt as collateral against funding…the eventual costs [of which] are going to be ever more concentrated in the hands of the eurozone's more solvent states…By the time the losses are crystallised, virtually all the debt will be owned by the EFSM [European Financial Stability Mechanism] and the ECB. A massive fiscal transfer from Germany and its satellites to the periphery will have taken place" [f]. The eurozone will have become a transfer union, as its critics always said it would.

In **Greece**, "tax evasion is a way of life in an economy riddled with abuses, discrimination and corruption…Reducing the estimated €15bn that slips through the tax collection net each year is one of the conditions tied to a bail-out" [k]. Germany wanted a restructuring of Greek debt before the granting of further loans, which would mean that private creditors would take part in the losses in one way or another (the "haircut"), but the ECB is desperate to avoid what would be seen as a clear loan default, and is supported in this by France, whose banks have the greatest exposure to Greek bonds. Germany finally gave in, and now, instead of a full-scale debt exchange with extended maturities, there is talk of a voluntary rollover of bonds, involving, naturally, pressure on bondholders to volunteer. The European Commission, however, has suggested that "in a rollover of bonds, 'very much less than full renewal [of the €85bn] is to be expected from such a strictly voluntary operation' and in any case Greece must still pass new austerity measures" [m]. Is all this muddle, ignorance, self-delusion, or falsehood? It is certainly not getting anyone anywhere. "Markets…think some form of Greek default is inevitable …Pain is unavoidable; its severity will be determined by politicians" [n].

"The Greek two-year government bond yield briefly climbed above 30 per cent, before falling back to 28 per cent…Greek five-year credit default swaps, a gauge of the cost of insuring against a sovereign default, soared more than 400 basis points.. .briefly moving above 2000bp at one stage. Perhaps more worryingly, Spanish bond yields and CDS began to reflect increasing fears of contagion to **Spain**" [p], whose provisions against bad debts, at one time adequate, "are now roughly half the level" as a result of "the sharp increase in non-performing loans" [q]. Spain did clear a funding hurdle "as it auctioned off debt without disaster, but had to offer investors worryingly high returns to buy the bonds" [r]. "After enjoying a decade-long property-led economic boom, the economy is now wading in high levels of private sector debt as property prices have fallen sharply and unemployment has jumped" [s]. **Ireland**, **Portugal**, and, yes, the **U.K.** know that feeling too. In the U.K., "taxpayer-backed Lloyds Banking Group is sitting on a loss of almost £500m from its exposure to property group Targetfollow, despite selling off its most high-profile assets" [a].

It all began with land value. Land (the free gift of Nature) is not a product, not merchandise. It is fixed in quantity and in location. When, as in the good times, demand for it rises, all that can happen is that its cost rises too; but no more can be made, nor can it be moved around. As its price soars, landowners "pop" it at the bank as collateral for loans, and bankers snap at the opportunity to lend against such high-value, non-perishable, good-as-gold security. Both borrowers and lenders are deluded by artificial, speculative, phantom land values; politicians kid themselves that the country is on a roll and that this time nothing will spoil the good times; and most economists continue believing that land does not matter anymore and that its rôle may safely be ignored. Oddly, they never admit their mistake after the event, and so the mumbo jumbo just goes on and on. Sad, really.

ENVOI

"We are where we are because of the astounding arrogance and incompetence of the European political elite. They say that democratic electorates get the leaders they deserve. Heaven knows what the people of Europe have done to deserve this shower" [t].

[a] Graham Ruddick, "Daily Telegraph", 5th. May, 20th. May, 17th. June [b] Richard Fletcher, "Daily Telegraph", 19th. May, 20th. May [c] Harry Wilson, "Daily Telegraph", 17th. June [d] Jonathan Russell, "Daily Telegraph", 13th. June [e] Simon Mundy, "Financial Times", 18th. June [f] Jeremy Warner, "Daily Telegraph", 14th. June, 12th. May [g] Daniel Thomas, "Financial Times", 4th. June [h] Lex Column, "Financial Times", 18th. June [j] James Buckley, "Estates Gazette", 21st. May [k] Roland Gribben, "Daily Telegraph", 20th. June [m] Quentin Peel, Peter Spiegel, and Matt Steinglass, "Financial Times", 18th. June [n] John Authers, "Financial Times", 18th. June [p] Dave Shellock, "Financial Times", 18th. June [q] Philip Aldrick, "Daily Telegraph", 14th. June [r] Emma Rowley, "Daily Telegraph", 17th. June [s] Miles Johnson, "Financial Times", 30th. April [t] Roger Bootle (Managing Director of Capital Economics), "Daily Telegraph", 20th. June

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