PRACTICAL POLITICS

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FROM KING'S CROSS TO ABERDEEN

"King's Cross, one of the most neglected and rundown parts of the capital, will have a £2bn overhaul after years of wrangling" (Jim Pickard, "Financial Times", 11th. March). The scheme, "on a 67-acre plot to the north of the station…on land owned by Excel and London & Continental Railways", will deliver new offices, flats, and other facilities over the next 15 years. "The station is set to house the new Channel tunnel rail link". According to the developer, "At the moment this land is a semi-derelict, semi-vacant area of industrial warehouses…but he predicted that the scheme could have a huge effect on the wider area, a byword for inner city decay." We for our part predict that other people's investments and efforts will have a huge effect on all those landowners' bank balances too. For doing what, pray?

Meanwhile, "Aberdeen's industrial sector has benefited from growth in the oil sector. A shortage of ready-to-go land, however, is set to rocket land values northwards" (Adrian Morrison, "Estates Gazette", 25th. February). "The benchmark for industrial land is around £200,000 an acre" but one local businessman/landowner has land on the market for well over twice that figure. "The commitment of public funds to the Western Peripheral Route near [his] site, may have influenced the asking price. And the returns achieved by developers who have gained residential consent on industrial land nearby have had an effect." Oil men, road makers, housebuilders, industrialists looking to expand or get established, may put their minds and bodies to the task of wealth creation, but the landowner just sits and takes.

LVT IS THE ONLY FAIR WAY TO GO [letter heading, "RICS Business", January 2006]

"No property owner is going to let his property sit empty if he has to pay a tax on the rental income that is potentially available, based upon the value of the land" (letter, "RICS Business", November/December 2005).

"Land value taxation basically means charging a fee for the use of a site for its relative advantages of access to surrounding labour and public or natural services. It is the only fair method of dealing with the issue of betterment and public investment in a way that does not reduce incentives to produce" (another letter, "RICS Business", January 2006).

Another reason for LVT TO BE BASED ON ANNUAL RENTAL VALUE, and why capital value (buying/selling price) is mistaken

There are some who profess to believe that the planning system in the United Kingdom is unique and makes the application of LVT (a national land-rent charge) impossible, even although it can demonstrably operate elsewhere. The simple answer is to change the planning system, but we need not urge that course unless there are other reasons to do so (as we may indeed suspect there are). Other régimes, it is argued, distinguish land with planning permission from land without it, whereas we have (i) land with no permission at all, (ii) land with full planning permission, and, somewhere in the middle, (iii) land that is zoned for future development or has outline planning permission. Land with no permission at all will usually sell for its agricultural value or lower. Land clearly tagged as having development potential (being zoned or having an outline consent) immediately and on that account fetches a higher, often a much higher, price, depending on how the seller and would-be purchaser view the prospects – how long the wait and the exact form of the final approval. It is a haggle over division of the spoils. Land with full planning permission has total administrative clearance, with all details of the development approved; and of course it commands top price.

The position regarding land without any form of planning consent is obvious: its value can be assessed and LVT can reasonably and fairly be levied on it. The same is true of land with full, detailed planning consent. The use value of both can be determined, and the value realised. Intermediate land (zoned or with only outline consent) has a market price way above its scrub value, but, without full planning permission, that value cannot lawfully be realised in use. Speculative, “hope” value has entered into price calculations (and how!) but can not be justified by either the potential seller or the would-be buyer on the basis of its highest permitted current use. The value is admittedly there but is mostly unrealisable. To levy a duty on it would not therefore be right. It is on these grounds that some property professionals argue that the British system would make LVT unfair and unworkable. This fear is pure scare-mongering.

We have argued consistently (since our Issue No. 4 and most recently in No. 129) against the use of capital value, and have cited numerous good reasons in favour of annual rental value. The only realistic value is the rent, what a willing lessee will pay a willing lessor for a perpetually renewable annual lease. LVT collects the annual site value of land on the basis of current optimum permitted use. By definition, this cuts out all the alleged problem associated with zoning and outline consent. It also removes from consideration a lot of other needless complexities. Capital value may be used as evidence in LVT assessments, certainly; but it is not what LVT is all about!

LITTLE BITS

Here is an illustration of how landowners benefit from factors they do not and can not control; another of how social factors can hold down a rise in value; and a third of how some parents elect to react to high land values.

(i) "Waterfront residential development, **Mevagissey**, **Cornwall**. Harbour and sea views. Planning consent for 12 units. Picturesque location. Guide price: £1.6 million" (advertisement, "Estates Gazette", 25th. February). That is a site value of £133,500 per unit – whatever a unit is in this instance!

(ii) "An infamous landmark can create a very negative effect" (estate agent, cited by Jessie Hewitson, "The Observer", 19th. March). The headline reads, "Hamza factor still driving down prices". A house in St. Thomas Road near the **Finsbury Park** mosque in London, "spacious" and "in good repair", went recently for £450,000: "a similar-sized house in nearby Stroud Green would cost £550,000."

(iii) "Soaring school fees are forcing an increasing number of British parents to send their children to **France** to be educated – and save up to £15,000 a year" (Glen Owen, "Mail On Sunday", 5th. March). A private school in **Nantes** charges £8,950 a year for tuition and board, "compared with £24,000 in Britain". The Principal "said he can afford to charge less because land and property costs were lower in France."

BIG MAC AND FRIENDS

"McDonald's is not only one of the world's largest restaurant groups, but also one of the world's largest property companies" Samantha McClary, "Estates Gazette", 11th. March). Its owns "more than £1bn" of property in the U.K. "The rental income comes mainly from franchises". Pithily, "the business is making more money from property than fast food" (editorial, *op. cit.*).

Likewise, it seems, the big supermarkets "have got big because they have put more money into land" (a former head of the Office of Fair Trading, cited by Harry Wallop, "Daily Telegraph", 10th. March). At least one, Morrisons, "is trading below the value of its freehold property assets" (Ben Harrington and Harry Wallop, "Daily Telegraph", 3rd. April). "In its most recent annual report the value of its property totals £6.75bn" but at the end of March "the shares closed at 190p, valuing the company at £5.07bn."

Remove taxes from production, trade, wages, and investment in capital goods, and collect land (location) value instead, say we.

MORE LITTLE BITS

(i) A study on the feasibility of land value taxation for local government funding in a corner of **Oxfordshire** "involved a trained valuer and the district council's head of GIS [geographic information systems], neither of whom was expert in or partial towards LVT...They concluded that 'valuations based on the undeveloped land value present no special problems [and] would be no more expensive than the planned revaluation of council tax'" (Tony Vickers and Munir Morad, "Regeneration and Renewal", 20th. January). The government has, of course, subsequently deferred that planned revaluation.

(ii) North of **Nottingham**, where "land supply remains a major issue" for industry and distribution, Harworth Estates, UK Coal's property arm, "is considering the development of a 300-acre former colliery site" (Ian Halstead, "Estates Gazette", 25th. February). A senior surveyor "believes occupiers will be attracted by both the proximity of the A1, and the presence of a rail line to the south of the site."

(iii) Morrison Street Goods Yard, "a prime 4-acre site in **Edinburgh** city centre" ("Estates Gazette", 25th. February) is to be sold "for £23m." The site has detailed consent for offices, retail, and leisure, and outline consent for further comparable development. The sale is to help the city council "fund liabilities resulting from a £33m equal pay claim…Further sites owned by the council's development subsidiary, EDI Group" will be brought to the market later. This really does look like selling off the citizenry's silver.

(iv) "Getting allocated land developed is not about forcing the developer to develop, but about forcing the landowners to sell" (Steve Salloway, property consultant, quoted by Halstead, *op. cit.*). No! It is more practical, and more just, to collect land value from all landholders, whilst concurrently replacing existing taxes, instead of selective resort to the cost of compulsory purchase.

(v) Is this Gordon Brown who is now to introduce a retrospective tax on two types of family trust (with perhaps wider implications) the same Gordon Brown who sold half the nation's gold reserves at the bottom of the market (average $285 an ounce)? The closing price on 5th. April was $586.60.

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