PRACTICAL POLITICS

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SEE THE TOWERS, ADMIRABLE OR FAULTY – but look too to the land they stand on!

The present planning and taxation system (if system be the right word for such a stew) leads simultaneously to both under-development and over-development. Because there is no "carrying charge" on vacant or derelict land and because present taxes are on composite assessments of land + buildings "as found", it is possible without penalty to hold land out of use or to use it poorly. Under-use and mis-use of land raise the cost of land which does become available. This in turn obliges developers to maximise the ratio of usable floor space to land area by what amounts to over-development, building office tower blocks to otherwise uneconomic heights (it is expensive to pump water up to the 32nd. floor!) and cramming housing estates with smaller and smaller homes set in minuscule gardens.

It so happens that the Deputy Prime Minister, supporting the Mayor of London in opposition to a decision by a London borough, has recently given approval to the construction on the Chelsea Embankment of two residential towers, one 37 storeys high, in an act described by one observer as "a rerun of the 1960s urban disaster, but with the poor man's tower block replaced by the rich man's skyscraper, and with the developer replacing the local authority" (Stephen Gardiner, "The Times", 20th. February). A contrary view would be that the protesters are just the usual N-I-M-B-Y warriors, this time the established rich entrenching to keep out the new rich.

Political and social points scoring are beside the point. The landholding and taxation systems are against good economic and social decision-making. As it is, the developer has no choice but to seek to build high. He is, after all, risking his own money, not the public's. It is the landowner who so effortlessly rakes it in. When the Chelsea mob (Embankment, not Stamford Bridge) rolls up in its Rolls Royces to lobby the House of Commons ("What do we want?" "LVT!" "When do we want it?" "Now!"), then shall we be making progress.

Land values reflect public policy decisions – not just on new buildings but on historic sites, conservation areas, and the like. Parks and public places are under no threat from LVT. The land values of districts surrounding London's great parks are in no small measure dependent on propinquity to so much accessible greenery. Allowing development there (objections of vandalism apart) would destroy as much land value as it released.

PROBLEM, PERPLEXITY, DILEMMA

(i) "My firm and the Central London Partnership, a body that builds links between the public and private sectors, recently assembled some key public and private sector figures to consider the lack of funding available for our public spaces – a vital ingredient of good-quality urban living" (Susan Freeman, "Property Week", 20th. January). "Why not…adopt a more creative approach to public finance for local projects, including…forward-funding by councils based on increased local taxes from anticipated rises in land values?" All public debt already is 'secured' against future tax receipts, and the Chancellor of the Exchequer inevitably has to keep his eye on local authority debt as part of his policy of national debt management, if only because H.M. Treasury has to act as guarantor of last resort: to let a local authority go bust is just not on the cards. However, as we have argued on our front page, and as we showed in the piece on Auckland, New Zealand, in our Issue No. 49, parks and public places can pay their way *if LVT is in operation*: their value is captured indirectly via the land value of neighbouring property. The problem, the perplexity, the dilemma will not go away whilst land ownership retains its privileges and present taxation remains in place.

(ii) "The financial benefits of any commercial development through the National Non-Domestic Rate flow to central government and future council tax income through complex equalisation measures is unlikely to benefit the local authority" (Chris Nicholson, "The Times", 14th. February). That clears that up! Then come the sticky bits. "Up-front investment in transport and social infrastructure to promote commercial and residential development can be funded by borrowing against the future taxes arising from those developments." Funded by whom? Not, if one believes the first statement, by the local authority. There is more.

"Unless the landowner owns most of the area that will benefit from the improvements, much of the property value enhancement will flow to others who are not required to contribute." Let us look at this further. First, the value of buildings and other man-made developments is unlikely to go up. The value of land (the site, the location) does generally rise, of course, so that it is the owner of the land who pockets the bulk of the benefits. As far as public revenue is concerned, only the land component of the UBR and the council tax will be affected in any way. Secondly, the ripples from infrastructural and consequent investment will spread their effect beyond any conceivable catchment area, and are impossible to disaggregate from effects deriving from other causes. The problem, the perplexity, the dilemma are of the writer's own making, or rather of the mode of thinking within which he, like so many others, allows himself to be confined. He must seek to escape from the constraints of the present chaotic 'system', and find a new, holistic approach.

LITTLE BITS

(i) A renovated Victorian house, standing on a “tip-top Cornish cliff top… on the headland at **Portmellon**, six miles from St. Austell”, is on offer at £785,000 (up from £650,000 in 2003). Never mind the plot it stands on, “The exceptional sea views are worth about £50,000-£100,000” (“Sunday Times”, 15th. January). Public good? No – private appropriation of the Divinity’s work.

(ii) A piece, “Sleazy Does It”, in our Issue No. 48 (November 1994) cited a three-page feature in the “Evening Standard” in recording how Ebbsfleet (Kent) came to be selected ahead of Stratford (London, E.15) as the site of a major international station on the **Channel Tunnel high-speed Rail Link**. The project to build the 68-mile link from the tunnel to St. Pancras is “due to complete in 2007”. London and Continental Railways, owner of the rail link, “is no ordinary private company”. It “went bust” and “only exists because the taxpayer stands behind its £5.8 billion debts, including £3.75 billion of guaranteed bonds” (Business Comment, “Daily Telegraph”, 17th. February). “LCR’s shareholders have the development rights to some juicy property. LCR owns vast tracts of land around King’s Cross and Stratford, home of the 2012 Olympics and the Government only has a clawback on half the development profits”. LCR’s trains will not so much run as slither.

(iii) We have in the past noted that being sited in the catchment area of a good school adds significantly to the value put on a home (most recently in Issue No. 143, for instance). Sadly, education does not always have such a positive effect. “Communities spiral into decline as rowdy undergraduates drive out families with late-night drinking and parties” (Laura Clark, “Daily Mail”, 24th. January). A report commissioned and funded by the Department for Education, published by Universities UK, “highlights Leeds, Nottingham, Loughborough, and Belfast as having the worst problems”. What the report calls ‘**studentification**’, depresses sought-after areas “as properties become ‘unkempt’ and streets are blighted with ‘to let’ boards”. There goes the neighbourhood! It all comes back to land values in the end.

(iv) **Zimbabwe** seems finally to have admitted that its programme to confiscate and re-distribute land has failed, as we consistently predicted that it would. “At least one third of the land given away is now lying idle” (“Daily Telegraph”, 9th. January). Surprisingly, **South Africa** continues to toy with the same ‘solution’, with the announcement that the minister of agriculture and land affairs “would this year review…[the] ‘willing-buyer’, ‘willing-seller’ policy” (John Reed, “Financial Times”, 4th. February). Both these countries are overlooking the option to redevelop and enhance the site value rating apparatus inherited from colonial and dominion administrations. The Mother Country could even now call basic Commonwealth experience in aid.

BIG CITY, BIG YEN, SMALL PLOT

“For individually designed homes in Tokyo, where property values are among the highest in the world, just finding an affordable plot can be a challenge” (Naomi Pollock, “Financial Times” magazine, 11th. February). “Awkward or tiny plots are often by-products of properties being divided and sold off by developers looking for ways to cram more buildings on to less land…Japanese houses today tend to be family domains where outsiders rarely venture beyond the entry hall. Entertaining usually takes place at restaurants and other public venues so most people have no need – and no place – for separate living and dining rooms.” If there is little private space within the home, there is little outside either. In dense urban areas, “while many traditional buildings were buffered from the street by a wall and a small garden, few homeowners today have that kind of space.”

Japan is different only in degree from other ‘advanced’ economies. Has no one thought to inquire into why, universally, great riches go to landowners at the expense of the toilers, who stoically make do with just enough to keep them from contemplation of rebellion? Apart from anything else, private appropriation of the income stream from land, is immoral, unethical, wrong.

TAX SHELTER 'NEATH THE BOUGHS

Forestry investment provides a range of tax shelters. After two years, “if you own the plot outright or have shares in a collective forestry portfolio, you qualify for a business property relief exemption which means it falls outside your estate for inheritance tax purposes” (Ellen Kelleher, “Financial Times”, 18th. February). Neither income tax nor corporation tax is payable on the sale of timber, and “you are exempt from paying capital gains tax on the increase in value of the trees. However, any increase in the value of the land is subject to capital gains tax.” We looked at tax and forestry in our Issue No. 98. Present tax treatment of the forestry and timber business accepts both the principle and the practice of the taxation of land value, albeit under the blemished, indeed unsatisfactory, guise of a form of CGT. It captures only part of an incremental value, but it does distinguish land from man-made products and it does mean separate assessment of land. It makes for an interesting precedent that should be worked up to full nationwide LVT.

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