E4 = M4/4 or why it's time for sustainable land markets in the public interest

Stephenhill@futureplanners.net

In the autumn last year[1], the English Housing Minister, Grant Shapps, did something very odd. Asking *"What would an intelligent housing market look like?"* he proposed it should be"*boring… really quite predictable."* He asserted that *"we've all forgotten what our housing market is actually for… to provide a home. Buying a home shouldn't be like playing the lottery"* and that *"Britain would be a better place if house prices did not rise in nominal terms during this parliament."*

Politicians normally avoid commenting on how property markets should behave, or on what values should be; but these are exceptional economic times. Shapps was also voicing the now commonly expressed concern in the UK housing industry about land price; that the expectations of landowners are damaging our attempts to build enough homes for the still growing population needed for an economically successful and socially and environmentally sustainable country. He has opened the way for a more sensible debate that goes beyond assertions that politicians can end 'boom and bust', with more intelligent insights into the purposes and uses of land, and thus what values should be.

To understand why this debate is so important now, it is worth looking at the first effects of the credit and asset bubbles that have followed the deregulation of financial markets in the early 1980s. A comparative study[2] examined two similar areas with high development pressures, the E4 Motorway corridor between Uppsala and Stockholm, and the M4 corridor in Berkshire between 1980 and 1988. The E4 Corridor performed better: 20% more efficient land utilisation, 65% of housing affordable to people on average local incomes against 15%, and nearly 50% of what we would call 'affordable housing' occupied by people in managerial and professional jobs, compared with 2%. The most telling difference, however, was that Swedish land values rose about 5% against 436% in England, representing about 10% and 60% Gross Development Value [GDV] respectively. E4 land ended up as one quarter the price of M4 land.

The period 2000-08 covered the second wave of credit driven asset price inflation and speculation, with many similar characteristics; this time fuelled by the growing weight of global capital seeking short term gains on assets and commodities in uniquely short supply. Housing and indeed all land in the UK was a ready target. Population and economic growth pressures were restricted by over complex planning and regulation, under-investment in infrastructure, as well as increasing anti-development sentiment; especially the benign sounding NIMBY'ism[3], but more accurately the selfishness of the already housed at the expense of the unhoused.

At the 2007/8 peak, development ready housing sites were commonly selling at 30-40% GDV. Exceptionally sites sold at 60% of GDV, in the expectation that there would be a significant and essentially speculative rise in sales values over the development period to cover such basics as half the normal build cost, let alone a sensible profit; a measure of the collective madness in which the market had ceased to behave rationally.

Meanwhile, we pretended that average house prices, costing between 5 and 9 times average incomes across the regions, were affordable and sustainable: that rapidly rising house (and land)

---

[1] Speeches at the Housing Market Intelligence Conference, London October 2010 and Centre Forum at the Liberal Democrat Party Conference, September 2010, Birmingham

[2] ESRC funded research carried out by the Centre for Urban and Regional Studies, University of Sussex and the University of Örebro. Written up in Ambrose, P. (1994) Urban Process and Power, Routledge

3 NIMBY or Not in my backyard' was popularised by Nicholas Ridley as Secretary of State for the Environment in 1987-9

prices were a 'good thing'. Yet in 2007, Martin Weale, Director of the National Institute of Economic and Social Research, and now on the Bank of England's Monetary Policy Committee, estimated that annual house price increases were equivalent to a government current account deficit of 4.4% of GDP, or £50bn a year[4]: a significant drag on economic performance, and a huge opportunity cost. How much more greening of the economy could have been afforded with that £50bn a year?

Yet, despite the extraordinary wealth to be found in allocated land, the housing industry was and is unable to afford the real costs of sustainable development, and appeals to government to reduce the burden of regulation and standards of sustainable development to get development moving again. Ill-conceived mechanisms for capturing value uplift through planning yield pitiful and unpredictable resources to pay for public goods. Planning cannot deliver the certainty needed for sensible and sustainable investment. No one seems to be able or willing to pay the costs of new and sustainable infrastructure. House builders are prisoners of a production system in which they must pay what landowners expect, often advised by property advisers whose approach might be crudely characterised as 'promise as little as possible, get planning permission and sell client's land'. The system seeks to externalise social, environmental and economic costs, and detach them as far as possible from any understanding and theory of asset value.

Why is this important to professionals, and the values of professionalism? The RICS is a public interest body, with a global remit. Probably the most important of the professional activities listed in its 1881 Royal Charter, is *"…securing the optimal use of land and its associated resources to meet social and economic needs"*. Yes, that's 'social **and**'… and not 'social-**if**-there's-anything-left-over-after-economic-needs-have-been-met'. Adding 'environmental needs' would bring the Charter in line with a modern understanding of sustainability, although they are already implicit in the meaning of 'social and economic'.

Winston Churchill would have been familiar with these words when writing and speaking two decades later, as a Liberal MP, preceding the 1906 election campaign and the 1909 People's Budget. He argued that the strength of the economy and the welfare of all citizens depended on stable and fair land markets, and that inequitable wealth creation though inflation and speculation in land prices undermined basic freedoms: *"The best way to make private property secure and respected is to bring the processes by which it is gained into harmony with the general interests of the public."* [5] The Liberal government's answer was to tax the 'scarcity rent', or unearned income from inflationary and speculative land value increase, proposed by the 19th century economist, Henry George, ie. An annual tax on the value of the assumed optimal use of land.

Then, as now, vested land owning interests have mostly successfully resisted the tax, despite its successful application to rescue failing markets and tackle social and economic dysfunction across the globe. Today, however, there is renewed interest in annual land value taxation; what has been described as *"so simple, so fundamental and so easy to carry into effect that I have no doubt that it will be about the last land reform the world will ever get."*[6]. The RICS will shortly publish their research on all forms of existing UK property taxation, and possible improvements and alternatives.

4 Weale. M 'Commentary: House Price Worries' (National Institute Economic Review April 2007)

5 Churchill W.S., 'The People's Land' 1909

6 Clarence Darrow (1859-1938) was an attorney in the United States, who made his reputation, in part, by his defense of a schoolteacher who dared to teach the scientific basis for evolution to students in a Southern school.

However, Georgist principles are now understood more broadly as central to the debate about the value of not just land but all those resources of nature, that were traditionally viewed by neo-classical economists as 'not scarce' but which now clearly are. Land and natural resources are now essential parts of the production processes that underpin the performance of a nation's GDP, and any attempt to meet the 80% reduction in CO_2 emissions needed by 2050, but, curiously, are still considered off-limits for political action and intervention.

In a speech to the World Bank in 2002, Herman Daly[7], Professor of Economics at the University of Maryland proposed taxing *"the resources and services of nature and to use these funds for fighting poverty and for financing public goods… In fact, failing to tax away the scarcity rents to nature and letting them accrue as unearned income to favored individuals has long been a primary source of resentment and social conflict."* He was imagining a situation that feels uncomfortably like now; a time when there is greatly increased resentment at the social, economic and environmental disparities that have grown up over a generation, and which have been exposed by the current economic crisis.

Mr. Shapps was right to start this debate, despite the alleged spluttering over the Policy Exchange claret reported in the press at the time[8]. He rightly acknowledged that *"market conditions don't exactly match this picture at the moment. The economic legacy has made things very difficult... and will do for sometime"*. Let's hope that he understands the true nature of this legacy. He could do no better than listen to former Prime Minister, Harold Macmillan, in a private letter to Margaret Thatcher in 1980: *"Any attempt to force money onto unbound borrowers will lead to disaster."*[9]

The Lady was not for turning, and we are now a nation awash in debt, much of it property related. Public debt of £0.9trn at 67% of GDP is a concern, of course, but it is dwarfed by private debt of £6.4trn at 477% GDP, nearly half of which is housing and commercial property debt; (and not to mention £5.5trn of derivatives allegedly matched by asset values.) According to John Hawksworth, Chief Economist at PwC: *"Sooner or later, this will have to be addressed, (but) deleveraging…goes well beyond the immediate challenge of getting the public finances under control. "*[10]

The debate that Mr. Shapps now needs to lead is about the very nature of investment in land and property, and the balance to be struck between debt and equity, between long and short term returns, between stewardship and speculation, between genuine risk and reward, between public and private interests, and between the local and the national interest. We need a new professional understanding of value that reflects the necessary balance between all these things and both social and economic need. If Shapps and the professions can do that, we might truly look forward to an economic legacy of more intelligent and sustainable markets operating for the benefit of all.

---

[7] Formerly Senior Economist in the Environment Department of the World Bank, where he helped to develop policy guidelines related to sustainable development

[8] Inside Housing 22 October 2010 'Must do better' Comment by Tim Leunig Reader, Department of Economic History, LSE http://www.insidehousing.co.uk/analysis/opinion/must-do-better/6512180.article

[9] From Cabinet papers just released under the 30 year rule,

[10] John Hawksworth, Chief Economist in http://www.pwc.co.uk/eng/publications/ukeo_complete.html 'Economic Outlook' PwC (November 2010)