



An Unconvincing Case

Land in the Market by Dr. D. R. Denman, Hobart
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Reviewed by P. R. HUDSON

DR. DENMAN notes that between 1939 and 1959 the price of building sites ripe for development and priced by the acre rose by 692 per cent. He makes no attempt to compare this increase with average income. Nevertheless he claims that the land element cost as a percentage of total cost for new dwellings has tended to remain constant during the same period. However, dwellings are getting smaller and densities are rising. The conclusion to draw from this is that while house prices may have maintained a constant relationship with land prices, unit for unit, people are paying proportionately more for less amenity than before the war. It would be hard to deny this. Dr. P. A. Stone has shown that an increase in density of five dwellings per acre may even reduce the land cost per dwelling by £50 to £100 but would also benefit the land owner to the extent of £2,000 to £3,000 per site acre, or more on very large sites.

Turning to town planning and zoning restrictions and their effect on the price of land, Dr. Denman points out that if the rights of use are limited the limitations will be reflected in the price. While it is true that town planning policies influence the price of such land that comes on to the market, it is not valid to assume that if the controls were lifted the price would immediately fall. It must not be forgotten that the land market is a monopoly market and not a competitive one. Land will change hands and change to more intensive uses only where the owner of the land is willing for this to happen, i.e. when the price offered is such that he can no longer resist entering into an agreement or where his personal financial circumstances dictate the release of land.

Dr. Denman, however, does not believe that all land owners are cornering a "bull" market. By drawing attention to the valuable service that property investors and developers perform in seeking out sites, unifying interests and holding them until required, he tries to show that "speculators" are largely mythical. He asserts that if large quantities of land were being held from the market deliberately this would be reflected by unemployment in the building industry. In an effort to avoid looking closer at this question and having to suggest that if more land was available at a lower cost the building industry would expand to meet the new demands that would be made on it, the author concedes that some land may, in fact, be held in this way at the present time. This, he asserts, would account for the small percentage

of slack in the industry. Nevertheless, in his view, some of this slack is attributable to the maldistribution of labour.

Looking at the specific case of betterment bounties enjoyed by some land owners on account of sudden rezonings of land and the completion of public works that enhance land values, Dr. Denman questions the claim for restoration of value created, made in the name of the community. He argues that as far as improvements are concerned the community reaps the reward from its improvements to roads and amenities by way of enjoyment of the improvements. "In what then have the community been deprived?" he asks, overlooking the fact that the community pays twice, once in taxation to pay for the improvements and again for the privilege of using surrounding land enhanced by the improvements.

Taking this further, the author points out that the community does not seek to reclaim the rewards made by some people as a result of protective tariffs and duties. Surely Dr. Denman does not believe that two wrongs make a right? Even if expediency is taken into account it does not necessarily follow that what is expedient in one case is equally expedient in another. To have the case for the private appropriation of land rent justified because of the existence of protective tariffs (another legally supported privilege) is strange reasoning indeed.

Examining the case for local authorities to acquire land under compulsory powers to unify interests for comprehensive renewal, Dr. Denman is of the opinion that it would be technically feasible, given suitable legislation, for private developers to do this themselves, sharing the costs between them, and receiving returns by way of a share in the finished scheme issued in proportion to their share of value in the old pattern of development. He does not support the social arguments used to justify municipal participation in order to secure some of the profits from land development.

In spite of his efforts to defend the private appropriation of economic rent, Dr. Denman concedes that it could be proved that land prices could affect the distribution of wealth in the future. To suggest that this is possible without considering what effect the private appropriation of economic rent has had in the past and is having today on the distribution of wealth is surely a glaring omission. Any redistribution of wealth that may be necessary due

to imbalances resulting from land ownership patterns could, he suggests, be tackled by way of adjustments in the taxation of wealth generally.

But to abolish the inequity in the distribution of wealth, the cause must be traced to its source and tackled there. We have had a surfeit of palliatives and we are still trying them.

While it must be admitted that Dr. Denman has made some valid points in his short booklet, including a well-reasoned case for a new Domesday Survey of land ownership, his findings are dominated by his strong defence of private land rights. In his criticism of the socialist inspired controls that have been tried and are being advocated today, he evokes much sympathy, but he has refrained from more than a superficial examination of George's fundamental reform or the versions of it current today. It is to be regretted that he has not examined such positive measures, for to the uninitiated it would appear that while the present situation gives rise to much dissatisfaction, in Doctor Denman's view there is little that can or should be done about it!

LESSONS FROM HONG KONG

LAND is the base of all human activity and the source of all wealth; it supplies the raw materials, the soil, water, minerals, animal resources and other attributes of nature that are essential to man's development and well-being. In an expanding community land is in ever increasing demand for the construction of new towns, of schools, hospitals, universities and clinics, for factories, roads and reservoirs, for parks, playgrounds, shops and houses, for harbours, piers and ports. The importance of land makes the policy adopted for its administration the concern of all."

These words appear in the first section of the opening chapter of *Hong Kong 1963* — an official survey of the Colony. The officials who compiled the document were obviously well aware of the importance of land in the Colony's economy.

From the beginning the land of Hong Kong has been recognised as belonging to the Crown and this is still the position today. All land in private hands is held on lease and an annual rent is paid to the Crown.

It was laid down in 1843 that these leases were to be obtained at public auctions, the bidding turning upon the annual ground rent. In 1851, however, the principle was changed: a nominal crown rent was specified and the bidding turned upon the premium offered for a given lot. This has continued to the present day.

The standard lease issued was for seventy-five years, some with option of renewal, some not. At the expiry of a renewable lease no further premium can be charged, nor any change made in the terms, but the rent for the renewal period is re-assessed at current market values. Non-renewable leases are re-granted on the payment of a

premium at an increased (but still below market value) crown rent.

Where a lease is due for renewal but the increase from the nominal crown rent of seventy-five years ago to the current market rent is too great for the state of development of the site the old lease can be surrendered and a new lease taken out, restricting development to that existing, with a crown rent based on the existing-use value of the land. The redevelopment restrictions may be lifted at any time thereafter on payment of a premium representing the increase in land value brought about by the removal of the restrictions.

Similarly, restrictive covenants on development in existing leases may be waived on payment of a premium, again based on the resulting increase of land value.

Because land is relatively scarce in Hong Kong, its use is carefully safeguarded and planned. Land for new development is first laid out by the Government and provided with service roads, sewers etc. In certain circumstances plans for construction have to be approved at the time of granting the lease. Residential densities of 2,000 people to the acre are common and before recent changes in the planning regulations take effect densities of 10,000 people to the acre are theoretically possible. The problems of providing public services, particularly water and sewerage, at such densities are enormous, particularly since the country's water supply has to be collected mainly in a short five-month period and stored for the rest of the year.

What are the main lessons to be learned from Hong Kong's land tenure system? In the first place the system of leasing at fixed rents has led to great anomalies. Large areas of the Colony are subject to "zoned rents" that have no relation to market rental values. Ground rent provided about 50 per cent of government income in 1847; it now provides less than one third of one per cent. Nevertheless the Government enjoys income from premium payments for new leases and from variation of conditions in existing leases, and this totals about 20 per cent of total revenue. Land values have soared in recent years and have risen by about thirty times since 1947. Stamp duties, rates and revenue taxes have helped to put some of this increment in the public purse but the greater part has remained in private hands.

From these facts emerges an object lesson for those unfortunates whose task it will be to draw up legislation for the proposed Crown Land Commission in Great Britain. It is plain that unless the State Leases that may well be negotiated in the not-too-distant future by the present Government contain provision for regular rent revision much of the subsequent rise in land values that may be confidently expected with our rising population will remain still in private hands.

In spite of the fact that this has happened to a large extent in Hong Kong the system of land tenure there has had a profound effect on the Colony's economic progress. One of the outstanding features of the Hong Kong system is its comprehensive records library. All land transactions are carefully recorded for