

BRITAIN'S builders are horrified at the prices being charged for land.

They have now assembled evidence to show that the land market is having serious effects on both consumption and construction.

- With house prices escalating at 20-30%, employers are unable to attract new employees from areas of high unemployment.

- Up to 35% of households in work cannot afford to buy their own home in parts of the South-East, according to a study by the Conservative-controlled Association of District Councils.

- Planning authorities have seriously underestimated the amount of land that will be required to provide new homes up to the year 2,000.

"People are being priced out of housing in areas where they were brought up and have jobs," warns Alan Cherry, President of the House Builders Federation, who was a member of the Duke of Edinburgh's inquiry into housing and was a member of the Inner Cities Commission.

"The price of housing land has risen over 25% in each of the last three years, and is claiming an

## Way - out land prices prompt builders' alert

### INSITE analysis

ever rising proportion of the final sale price of the house. This is leaving more and more people behind, with no hope of ownership or even renting a home," he reports.

But government ministers, he revealed, were "frightened" at the prospect of tackling the problem on the right scale, for the electorate intuitively believed that Britain had enough houses already.

Among local authorities, "inertia and administrative incompetence" was obstructing the development of many sites,

especially in the prosperous South-East.

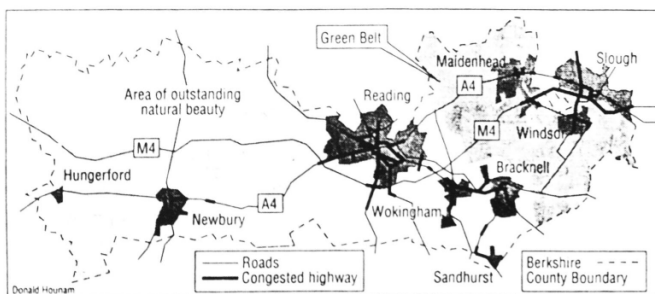
DESPITE this evidence, Mr Cherry shares the general view among builders that the land market, and prices charged by property owners, cannot cause a general business recession.

Land prices, in their view, merely reflect a growth in incomes, as well as unreasonableness on the part of planners.

So although Mr Cherry predicts a possible weakening in the building industry in mid-1989, this has more to do with the market's response to decisions being made in Washington than to the land market in the UK.

He characterised the present

## TAX ON LAND VALUE GIVEN VETO



A BRITISH county's back-door bid to levy a tax on land values has been vetoed by government minister Nicholas Ridley. Berkshire Council wanted to force landowners to pay for roads, amenities and services before granting planning permission. The money would have come out of the increase in the value of farm land - now running at £450,000 an acre - once permission to build houses had been granted.

But the move has been blocked by Mr Ridley, the Environ-

ment Minister, even though this strategy is now endorsed by builders. And to rub salt into Berkshire's wounds, Mr Ridley has forced the county authorities to agree to a more intensive construction programme than they wanted. Berkshire, west of London along the M4 corridor, is one of the South-East's boom areas. But residents claim that there should be severe limits on new construction, for fear of ruining too much of the remaining countryside.



## GAIN POINT

LOCAL governments should blackmail landowners into funding "environmental gains" out of the increased prices they can charge for their sites. That is the view of Alan Cherry, the new President of Britain's House-Builders Federation.

Builders, he says, could provide communities with new commons, woodlands or landscaping – providing these were financed out of land values.

This randomly levied tax on landowners, to fund what is called "planning gain", has been severely criticised. But Mr Cherry thinks that it is an attractive way of persuading citizens to accept more construction in their communities.

He cites an example involving his own company, Countryside Properties plc, which is participating in a development where £10 m is being spent on socially useful projects. This includes £3.5 m spent on new roads that are not directly related to the new housing projects.

That kind of money, says Mr Cherry, can be squeezed out of landowners. Referring to the three failed attempts by postwar Labour Governments to collect the increased value of land for the benefit of the State, Mr Cherry said that "we have seen the beginnings of a new approach – the gains are being enjoyed locally" through the voluntary agreement to fund planning gain out of increased land prices.

"People trade for planning permissions, entering into voluntary agreements." Farmland in the South-East is worth between £2,000 and £3,000 an acre; with planning permission for housing, it can leap to £1 m an acre.

Out of that increased value, he points out that a voluntary donation of £30-40,000 an acre for public sector housing or landscaping is a small price to pay to override what he calls the "blatant political obstruction" to new developments from existing homeowners.

But are the deals really voluntary? Mr Cherry acknowledges that they can only be made with landowners "providing the arrangement has been negotiated before planning permission has been granted".

• An example of the seemingly magical effect of planning permission is illustrated by a row in Liverpool, where the council has sold a 24-acre cabbage patch for £278,000.

Angry Opposition councillors called in the police to investigate the deal; they said that, if permission is granted to develop, the site would be worth over £8m – which the council has now lost to the new owners, who were represented by Derek Hatton, a former left-wing deputy-leader of the council.

• ALAN CHERRY: "I do not want to pretend that we can solve all housing problems or meet all needs on our own. We cannot, because we have to make a profit. Providing housing for people in the most acute need, as a result of other problems due to family breakdown, poverty or low wages, is not something that can be done profitably."

boom in land prices as "one of the pains of success of a buoyant economy". According to his reasoning, "land prices won't cause a downturn in construction, because there's always someone who can afford the prices".

This reveals a shallow analysis of the underlying factors that determine the continued growth of the construction industry. For example, Mr Cherry frankly admits that some of his colleagues are paying uneconomic prices for land: "I cannot make any sense of some of the prices being paid lately."

If the land is being traded at unaffordable prices, this must mean an exacerbation of trends monitored over the last three years: fewer people will be able to buy houses.

Demand will continue to outstrip supply at market-clearing prices, which in time will push bricklayers and electricians onto the dole queues.

The labour market will sink deeper into crisis (employers in the buoyant parts of the economy are now reporting high wage settlements based on the shortage of skills – although there are 3m people unemployed in Britain).

So British-made goods will become increasingly uncompetitive in world markets.

And if people have to pay higher proportions of their wages and salaries to live in houses, shop-keepers will begin to feel the pinch – which works its way back into the factories.

NONE of this reasoning is used by the house-builders in their economic analysis of the economy.

They seem content with last year's record level of housing starts (200,000 per annum).

Which means the builders are not using the most effective political weapon at their disposal to generate action that would moderate land prices: the imminence of a recession which has its roots in Britain, not Washington.

The lessons of the 1974 crash have been lost on the builders. Well, not all of them. On that occasion, British builders flew to the United States "to see how they coped with downturns in the housing markets". They found that "a lot of money was being spent on landscaping and preserving natural features of a site. Many UK companies are now paying attention to this."