



Paradise for Land Speculators

By PETER RHODES

THE COUNTRY which gave Henry George his birth-place still stands as the best example of the system he argued and fought against. More than any other country in the western world, the United States remains a land owners' paradise. Stories of profits made from real estate transactions are almost legendary, and there are plenty more which have yet to be told.

A recent survey conducted by *Fortune* magazine pinpoints the trends and effects of rising land prices and provides an "at a glance" guide to the American land problem.

- * Houston, 1951—twenty-one acres of undeveloped land bought at \$1,750 per acre. 1960, some of the holding sold at \$12,500 per acre. 1962, remainder sold at \$17,000 per acre. 1963, just six months later, four acres of the same land fetch \$40,000 per acre.
- * Pennsylvania, 1953—cornfield land around a key intersection on a major road sold at \$500 per acre. 1963, same land selling at more than \$20,000.
- * Florida—site sold three times in three years at \$500, \$1,250 and \$1,850 per acre at each transaction.

How is it that such fortunes are made? As the writers of the article state: "Limited supply plus growing demand equals the monopolist's dream of ever higher prices."

What are the major factors which give rise to such increases in land values? Here are just a few:

- * Expanding population—the country is on the eve of its fastest family-formation period through earlier marriages.
- * Two homes, one family—people are retiring earlier with bigger pensions and are investing in "a place in the country." Shorter working hours lead to more leisure—a weekend home to escape congested urban living.
- * Government and industrial expansion—defence and space project spending leads to the creation of whole new communities.
- * Public programmes—\$102 billion on housing, grants and subsidy contracts plus the greatest highways expansion programme in the country's history.
- * Population movement—the trend to live in towns (70 per cent of the total population, compared with 50 per cent in 1921; expected to rise to 80 per cent by 1980) and the movement towards the open spaces and temperate climate of the South and West.
- * Agricultural support system—investment is encouraged in "hobby farms" and ranches to off-set tax payment.

* Favourable U.S. tax laws—the main burden of real estate taxation falls on buildings.

The above factors are also becoming apparent in Britain, albeit to a lesser degree. We are already familiar with "executives anticipating the pleasant combination of a country home and hobby with tax cutting losses and depreciation, followed by ultimate capital gains." In the U.S. it is estimated that one-third of all farmlands purchased in recent years were acquired by non-farmers. The picture of fringe land on the borders of expanding towns being owned by farmers (both working and gentlemen) who are speculators—in the broad sense of the term to cover people who are holding land off the market for an expected future killing—is not strange to us. Neither is the knowledge that they are sitting pretty.

The article points out that most land purchase is financed with high interest loans but that this in itself will not promote cut-price selling as long as land increases in value without the lift of the owner's finger. Nevertheless, not all land transactions are immediately profitable for there are areas of declining popularity in the U.S. just as there are in this country.

From the point of view of prospective investment there are four kinds of urban land value combinations in America.

1. Fast growing areas where price increases are now slackening off to the point of stagnation.
2. Long-established industrial areas where there is some doubt about the immediate future and prices are fluctuating.
3. Long-established areas with a regular increase in growth where prices are rising steadily but slowly.
4. Fast growth areas with booming conditions, rising values and an apparently insatiable demand for land.

Again there is an unmistakable similarity to conditions in Britain.

A recent report of the City Planning Department of Albuquerque (a fast growth area forced into being by the establishment of two military bases, electrical manufacturing industry and an atomic weapons complex), throws more light on the effect of land values on the form of urban development. Without the strength of town planning legislation on the British scale, rising land values have led to speculative leap-frogging. Developers have jumped over seventeen square miles of idle land to acquire cheaper land at one-third the price. This has

BRITISH TAXPAYERS' SUBSIDY TO PRIVATE INDUSTRY

Industry or Scheme	1962/63	1963/64
	Actual	Estimate
£s million		
<i>Above-the-line</i>		
Agriculture	355.3	363.2
Horticulture	0.7	0.8
Fisheries	8.7	7.7
Forestry	1.3	1.3
Textiles	3.5	4.6
Aircraft	12.2	17.8
Local Employment	41.1	24.6
Other	3.7	3.9
Total	426.5	423.9
<i>Below-the-line</i>		
Steel	12.5	2.5
Housing Associations	0.5	6.2
Total Govt. Assistance	439.5	432.6

—From *Barclays Bank Review*

meant that the cost of community services has risen as the vacant land has been crossed. The result is a shocking example of urban sprawl and the occupation of an area twice as large as the population really needs in terms of a healthy environment and economic efficiency.

One thing appears to surprise the economists: land prices in general, whatever the area, remain so high that they are stalling the normal market pressure. Orthodox experience as interpreted by students of U.S. land booms suggests that prices should have fallen long before they reached their present height. There is little doubt, however, that while government investment continues at its present level, while industrial expansion increases, and while the population trend reaches ever greater heights, hopes and prices will continue to soar. "Land prices are not made by people who sell their land but by the people who won't sell. Actual land scarcity is a myth. But there are always land owners who think they will get a higher price if they wait a while. Usually it's the highest price they've heard of in the neighbourhood, plus ten per cent. It's this expectation of a future killing that produces the artificial scarcity." These words spoken by James Downs of the Real Estate Research Corporation give the story in a nutshell. For years the standard cost of an American housing plot was about ten per cent of the total cost of a home. Today the average is 20 per cent, with 50 per cent not uncommon. Since wages and salaries have not kept pace with land prices more and more Americans are paying more and more

of their incomes for the privilege of living on earth.

Perhaps the most important point to come out of *Fortune's* survey, says the article, is that in many metropolitan areas there is a growing demand for higher taxes on land. As the writers point out, in a country with anti-trust laws and anti-monopoly legislation it is high time the fundamental monopoly was tackled. With this we would all agree.

LUCKY LEASEHOLDERS

IN SPITE OF figures showing a theoretical financial advantage of £275 per annum per employee (savings on rent, rates and wages) to firms moving out of London, the Location of Offices Bureau seems to have met with little success in its efforts to persuade businessmen to leave the capital. Indeed, it is estimated by the Standing Conference on London Regional Planning that the number of daily commuters into the capital will rise from the present 200,000 to 500,000 by 1971.

It may have been as a result of its experience that the Bureau commissioned The Economist Intelligence Unit to find out why businessmen were so reluctant to leave London. The answer is simple: the majority of businesses are paying nowhere near an economic rent. One-quarter of the firms investigated were paying less than the provincial rents quoted by the Offices Bureau as an inducement to decentralisation! The majority of the firms were paying between 20s. and 29s. per square foot per annum for their office space, against the Bureau's estimated figure of 45s. Thirty-two per cent of the firms involved had freehold premises and 39 per cent had leases with at least twenty years to run.

In the light of such facts it is not really surprising that firms prefer to remain in London.

ECONOMIC JARGON

THE INSTITUTE OF ECONOMIC AFFAIRS has published the following "Everyman's Guide to Contemporary Economic Jargon."

Affluence: an immoral development that is in danger of superseding honest poverty; see consumption.

Competition: excellent in principle, deplorable in practice; see law of jungle.

Conservative Economic Policy: see Liberal economic policy.

Consumption: a regrettable indulgence, the enjoyment of goods and services by the people who produced them; see status symbol.

Devaluation: a smart way of paying your way abroad by defaulting on repayment of debts to mere foreigners.

(To be Continued)