

THE NEW MONOPOLISTS

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JUST AS, at the turn of the century, in an age of rapid urban and industrial expansion, the larger landowners made their thousands of pounds from profitable development, so their modern counterparts, the property investment companies are today making millions out of the development and ownership of specific commercial sites in city central areas.

To finance current programmes, Land Securities have sold developed properties realising £38 million since March 1969. Dares Estates, a residential specialist company, realised £85,000 for land sales in 1968 (though later lost on house building as did other property companies when the market for housing took a down turn). This gain, however, is modest compared with the Hammerson directors' estimate of value appreciation of the Woolgate House development in the City of London which now stands at £25 million compared with an initial cost of £8 million a few years ago. The present total valuation of the Hammerson portfolio stands at £101 million, and a recent reappraisal of £29 million for certain selected holdings shows a doubling of values over costs. Westminster Trust is another company with office investments. This company's assets are reckoned to be worth 33 per cent more than their modest book value of £14 million. The holdings of Brixton Estates, with more than a quarter of its assets in offices, have a book value of £10 million which is also thought to be well undervalued.

These few examples of development assets underline the rise in commercial land values which has taken place in recent years. No doubt part of the value increases are attributable to general inflation. But there is little doubt that the rising demand for centrally situated offices in a context of planning and office Development Permit control has given rise to considerable land value increases. The large development companies are reaping a bonanza or at least stand to do so on sale or re-negotiation of leases. This is all very well for the shareholders who must stand to benefit from past investment. What is wrong, however, is not that they are making money (as indeed are many others) but that part of their return is pure unearned increment.

Of course it can be argued that property companies are no different from any other type of business concern. Their purpose is to meet a need by providing good accommodation for willing tenants. This they do with greater or less efficiency according to their management skills. Many investors, particularly the institutions of insurance, banking and pension funds are eager clients for the shares. The property companies usually offer a steady rate of return with considerable prospects of capital appreciation. The companies themselves are subject to usual taxation, including capital gains tax. The unfortunate thing, however, is that the taxation system hinders their further expansion. True development companies are in business to provide floor space for potential users and the current tax policies do nothing to make their contribution to society more effective.

But if taxation were to be based on the site rental values of land it would be a different story.

First, it would not be profitable for the owners of high value sites to maintain poor structures on them. This would loosen the market and present more development opportunities. Secondly, the development companies would be constantly reminded to keep a close watch on their own assets. Thirdly, there would be greater mobility and greater choice for office users. Fourthly, the companies would be obliged to concentrate on

providing new buildings rather than living on the gains of earlier years.

The replacement of the former landlords with faceless, giant corporations is a sign of the times. In no way, however, does this apparently democratic spread of equity ownership detract from the arguments for property tax reform. On the contrary, the trend now established helps to focus attention on the vast potential of land rent which is to be found in all the major cities. Nor are these values confined to commercial property. Recent Ministry of Housing and Local Government figures give the average cost of land acquired for housing in inner London as £71,000 per acre. Outer London land stands at £52,000 per acre, while the average for the country as a whole is a mere £7,000 per acre. Although averages can be misleading (also acquisition costs include more than pure land value), these figures illustrate the wealth of urban location values which could beneficially be tapped by the community as a whole.