**The underlying cause of homes being unaffordable and its solution**

The Labour Land Campaign’s research and work focuses on a fundamental economic problem that is ignored by so many offering a solution to the “housing problem” – monopoly ownership of land and land wealth is a root cause of UK housing problems as well as an inefficient and unfair economy. Land value is generated by the whole of society as taxpayers, consumers and investors including tenants and other non-property owners.

**It is unfair that freeholders see their asset rise in value as the national or local economy grows whilst tenants see rises in their rents.**

The value of a home has two parts – the building value and the land (location) value. Buildings deteriorate in value as they get older and need repairing etc and even when value is added to a home by refurbishing it, those improvements immediately start to deteriorate in value in the same way as any second-hand good does. The value of similar buildings around the UK are roughly the same whereas land value will vary according to planning consent of a site, access to public transport, good schools, health care services, jobs, shops, leisure facilities etc. The land value is not created by the homeowner but by the public and private investments that benefit that area and these are paid for by the whole of society as taxpayers and consumers.

* Over 40% of adults are NOT homeowners they are tenants, lodgers and, in growing numbers, living with family because they can’t afford to rent let alone buy a home.
* The number of homeless individuals and families is rising because they can’t afford to rent or buy and because so few council homes are being built.
* Increasingly, expensive stand empty in areas with high property prices because they have been bought as an “investment” by UK and overseas speculators who are expecting the value of their home to rise. This denies families a real home but those speculators enjoy uplift in the value of their property through no effort on their part.
* Similarly, the demand for second homes and homes bought for holiday lets are pushing prices up and therefore pushing younger people out of the villages and other places of beauty their families have lived in for generations.
* No home can be built without access to land
* The rental or buying price of a home has two elements – (a) the value of the building (which like any used commodity reduces in value and bears the cost of maintenance) and (b) the value of the land it sits on
* Land is a free gift of nature with no cost of production
* Land wealth is created from our collective demand for land for homes, production, services, raw materials, food, leisure etc – ie not any land owner
* The cost of a home to rent or buy reflects the economic benefit current public services bring to that area including public transport, schools, roads, health care and leisure paid for through local and national taxes
* Public and private investments maintain underlying land value and generate increases in land value and are paid for by all of us as taxpayers and consumers – ie not any land owner
* Non-homeowners (over 40% of the adult population in the UK and growing) also pay taxes that pay for these services but get no windfall income in underlying or increased land values that are generated from public and private investments
* Land wealth currently goes to owners of land as their unearned income
* Because land value and taxes are inversely related, any reduction in current taxes capitalise into land prices and go to land owners. Similarly, subsidies for mortgages increase the price of homes and do not benefit those on lower or middle incomes but do benefit current owners of properties in areas of high demand.
* Rampant speculation in rising land prices forces up the price of land above its true economic value creating land bubbles, usually referred to as housing or property bubbles, thus encouraging homelessness; rogue landlords; empty homes; idle development sites that have planning permission for homes and other buildings; unaffordable homes for many all over the UK; the North-South divide with under investment in many deprived areas and a skewed economy

The solution to the problems above can only be resolved by a shift in taxation off earned incomes on wages and production and onto the annual rental value of land.

It is overpriced land that causes homes to be unaffordable for a growing number of people all over the UK. By taxing the annual rental value of every site according to its optimum permitted use, idle development sites will be brought into their permitted use and empty homes will be used and other commercial buildings will either be used as permitted or for another use as the local economy requires including housing. This action will effectively increase the housing and land supply for new homes and will deflate land prices making it more affordable for local authorities, housing co-operatives, Community Land Trusts, Housing Associations and private developers to purchase for new homes.

It should be noted that with a big enough shift in taxation off production, new and expanding businesses will be encouraged to invest in currently under deprived areas which in turn will increase the value of the land in those areas which will result in an increase of the land value captured to maintain and develop public services in such areas. Currently empty homes will be lived in again and idle development sites will be brought into full use.

Speculation in rising land prices will cease and land prices will reflect its true economic value and those property “investors” will seek worthwhile projects to invest in.

Land speculation and land hoarding are encouraged by the current tax system but an annual Land Value Tax, together with good planning, will force land to be used efficiently and sparingly with the demand to build on urban green spaces and rural green land greatly reduced.

**Economic and social gains from Land Value Tax replacing distortive taxes**

This brief paper argues that the collection of natural resource rent, particularly land value, through a fundamentally reformed tax system would raise the revenue needed to maintain and develop all public services provided locally and nationally throughout the UK. This gives the opportunity to rid our society of inequality – individual and regional. The paper focuses on land (location) value but supports the collection of the economic rent of all of the UK’s natural resources including oil, minerals, aggregates, airwaves, airport landing slots, fishing rights etc.

**What is land value?** The economic value of land arises from society’s **combined** demand for its use for homes, businesses, leisure etc. The value of a site will vary according to its optimum permitted use; its closeness to public transport, roads, schools, health care services, parks, places of beauty etc, its natural fertility and local climate for agriculture and the level of income people and businesses have available to rent or borrow to buy a property. Economic value of a site is measured as “Economic Rent” which Classical Economists defined as: the surplus income that arises from a site compared to a similar marginal site [i.e. a site of the same size, same planning consent and with the same inputs of labour and capital but on which the income only covers costs including a reasonable profit (say around 5 to 10% income after payment is made for labour and capital)].

**Who generates land value?** The **whole** of society generates this value as taxpayers - paying for our infrastructure and public services - and as consumers - who ultimately pay for all private investment in the production and delivery of private goods and services.

**Who receives the income from land value?** The owners of land enjoy the underlying value of land and all uplifts that arise from public investments (particularly in public transport investments such as motorways, Crossrail and high-speed railways). Through no effort or risk on their part, residential and business landlords also get increased rent from their tenants as land values rise and given those tenants also paid for the public investments, it is argued this is not only unfair but is immoral. Everyone generates land value whether they are property owners, tenants, lodgers or live with family (as an increasing number of younger adults are forced to do because they cannot afford to rent or buy their own home).

**Who should receive the income from land value?** This paper argues that because all of the UK’s population creates land value (and has done so for generations) it is they who should benefit from the economic rental value of land by replacing and reducing the taxes that distort our economy with an annual Land Value Tax.

**Inverse relationship between land value and taxes:** As taxes increase or reduce, so land values move in the opposite direction. Thus an increase in taxes reduces the surplus that a landowner can charge whereas a decrease in taxes increases the surplus and a landowner can charge more. This has been clearly observed – though largely ignored – when businesses have been given a Business Rate-free period and business taxes are reduced or increased. The reason is any change in the surplus income (Economic Rent) of a site will lead to the converse change in the market rent or selling price of a site.

**Subsidies and grants**: These capitalise into land value and this is recognised by economists worldwide. This is clearly seen with two big subsidies UK taxpayers give to land owners – over £9 billion Housing Benefit subsidy paid to private landlords for their tenants who qualify and the £3 billion from the EU’s Common Agricultural Policy subsidies that go to owners of farm land (who are the biggest owners not the smallest).

The UK tax system is inefficient and is avoided and evaded by many: Much has been written on tax avoidance and evasion showing how those who avoid and evade paying their share of taxes (as much as £100billion in the UK) and exploit the many loopholes loopholes thus leaving employees and the scrupulous paying more in tax than they need. Suffice to say our tax system has been designed by and in the interests of the wealthiest individuals and businesses and, in particular, owners of land and other natural resources.

**What is an annual Land Value Tax (LVT**)? LVT collects a proportion of the economic rent of land that only arises from our combined demand for its use. Because valuations are only on land for each property, LVT cannot be avoided (as can happen with Business Rates by making buildings uninhabitable or leaving development sites idle for years) and will bring empty commercial premises and idle development sites into their permitted use (or even reverted to its natural state if the local community does not need the site for homes or business any longer). Providing the LVT system has a proper redistributive mechanism, businesses and residents located in low value areas will get a fair share of the land value their taxes also generate in high value areas including London. For fairness and accountability, all valuations and the Land Registries must be publically accessible and an appeals system in place.

**How does it get collected?** All UK land registers need to be completed and then every parcel of land will be valued at its optimum permitted use value and then a percentage levy of that valuation will be applied to each site. Which taxes are replaced in full or in part will depend on the government of the day but the abolition of current property taxes is a good place to start because of the amount of data and expertise that already exists. However, for the greatest economic benefits, the more taxes shift onto land value (and other natural resource rents) and off earned incomes, the more fair our society will become.

**What are the main benefits of shifting to LVT?**

* LVT recognises that every individual helps create land values through their work, their community activities and their spending
* LVT means that the growing number of non-property owning adults also share in existing and future increases in land wealth rather than just freeholders and the big land owners.
* LVT recognises that every new investment – public and private – helps create land values, whether it is in public transport, businesses, leisure facilities, schools, colleges, hospitals, policing, airports, making neighbourhoods smarter and more pleasant, or in homes or jobs.
* LVT also recognises that **existing** services and businesses – public and private – have created underlying land values and continue to add to them.
* By including land that is currently kept idle, LVT encourages better use of land, particularly in towns and cities.
* By stopping land speculation, investors will seek worthwhile investments including in those areas that currently have high level of unemployment and deprivation thus redistributing wealth on a regional and individual basis fairly and encouraging investment in more jobs and businesses and more affordable homes.
* By encouraging the use of urban brownfield sites LVT actively contributes towards protecting the rural environment and will rid communities of derelict sites and buildings that encourage anti-social behaviour.
* LVT therefore helps to protect green land and minimise urban sprawl.
* Unlike other taxes, it is impossible for people and businesses to evade or avoid paying their share of LVT.
* LVT increases the funds available for public services, including public transport, health, education, leisure facilities, crime prevention, and social welfare.
* Land value and taxes are inversely related so as LVT is introduced land wealth, reflected in rent and capitalised value, transfers to the public purse and away from land owners.

***Heather Wetzel***

***Vice Chair Labour Land Campaign***

[***www.labourland.org***](http://www.labourland.org)

[***heather.wetzel@labourland.org***](mailto:heather.wetzel@labourland.org)