

# The Speculative Element in the Value of Land

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## THE SPECULATIVE ELEMENT IN THE VALUE OF LAND.

ONE of the most difficult problems discussed by the Liberal delegates at Kingsway Hall last year was that of dealing with land the value of which is forced up to an abnormal level by speculation. It involves an important question of principle, against which appeals for mere party unity could not succeed in the minds of those who were convinced of the soundness of that principle. Thus it happened that the difference inevitably arising had, temporarily, to be bridged by a compromise, entirely satisfactory to neither side. Those who believe in the application of the principle of land value rating to *all land*—as repeatedly endorsed and incorporated in Liberal programmes throughout this century—carried their point at the Kingsway Hall in part only. Those who supported the rating of urban land values, but feared to apply it to agricultural land, had to be placated by the adoption of a rather indefinite phrase relating to a rural rating reform designed to prevent the penalising of improvements. Professor Ramsay Muir, in an article which appeared in *THE CONTEMPORARY REVIEW* at the time, earned our gratitude by disclosing the reason which led him—and doubtless many others—to fear the proposal to rate agricultural land on its unimproved value. From a life-long experience in the valuation of all categories of land I am enabled to say that the fear referred to is groundless, and I will now endeavour to support that view by argument.

Professor Ramsay Muir began by stating that there is no "world-market-price for land." As land cannot be transported from one country or place to another, all must agree. He went on to say that land value varies according to purposes for which it is to be used. This must also be admitted, but with the enlargement that the use-purpose is only the measure—not the cause—of land value. The cause is the demand for land, which depends on the needs and activities of the whole population of the country. Land, in the economic sense, cannot be divided into classes according to the purpose for which any particular would-be purchaser intends it. Land is often suitable for more than one purpose. This is the reason that renders the attempted distinction between "soil" and "site" abortive: it is uncertain, changeable and temporary. Whatever use any piece of land may be put to (or may be intended for) by a would-be purchaser, the value of the land is determined by the strength of the demand for it. If there is no such demand it might be the most fertile soil imaginable, or it might provide the most attractive site for a mansion—but it would have no value: it could command no price.

Professional valuers find no difficulty in estimating the value of any land, because it is their business to keep a finger on the pulse of demand, to study the land market and make themselves acquainted with the most probable and profitable uses to which land can be put. The "unpredictable factor"—the use to which land will be put when sold—does not trouble them, because they know what it is most suitable for and what classes of buyers are likely to bid for it. These, however, are minor points. Professor Ramsay Muir reached the root of the difficulty when he asked whether, in rural areas, the speculative element is to be included in the assessment, and pointed out that, if so, the owner and occupier may be taxed (or rated) on values from which at present they can get no return. This speculative element enters into the unimproved value of land in a good many cases, and it is necessary to consider the most important of these cases in some detail in order to show how the speculative element affects the question of value.

The most important instance is, of course, that of land on the outskirts of a growing town. Surveyors call it "land ripening for building." Such land is used for agricultural and other purposes for many years after it has become evident that it will ultimately become building land. It cannot be properly farmed, or utilised in any way requiring continued occupation for a considerable period, since the owner does not know when he may be able to realise the coveted building price or ground rent. Thus it often lies vacant or is used for playing-fields or some other temporary purpose. During that time it is either much under-assessed (or not assessed at all) either to local rates or property tax. Immediately the question arises why, if that land has a greater value for building, should it continue to be used for a less profitable purpose? Why should so long a period as twenty or thirty years be needed for the stage of transition from agricultural to building use? Urban land is put to many different uses, but the transition from one to the other occupies far less time. When a row of houses in a main thoroughfare becomes suitable for business, shop fronts are put in without any such delay. Even when old houses have to be demolished to make room for warehouses, offices or factories, the only interval is that required to carry out the necessary building operations.

The answer to the question in the case of rural land is that the singular phenomenon of long delay in the transition from agricultural to building use is due entirely to our bad rating system, which rates improvements up to the hilt, but lets unused land (and unused buildings also) go free. It also differentiates between agricultural land and all other land, and this fact plays a part in producing the long delay in the development of land for

building. While land continues to be used agriculturally it is only rated on that basis. But the charge is very limited and the greater part of the rates on agricultural property is now borne by State funds. Immediately such land is built on, it will be assessed on its full value as building land plus the value of the buildings; and the occupier has to bear the whole of the rates so calculated. No prudent land-developer will attempt to offer, and no prudent builder will take, such land for building purposes until the ordinary rate of building profit can be obtained. On the one hand the exemption of unoccupied property from rates is an encouragement to owners to leave land vacant, while on the other hand the assessment to full rates on the aggregate value of occupied land and buildings furnishes a strong deterrent to the enterprising builder. He knows that, before his enterprise can be made profitable, it must yield:

- (a) Ground Rent (or interest on purchase-price).
- (b) Rates and Taxes.
- (c) Expenses of maintenance, repairs and insurance.
- (d) A fair interest on the cost of building.

Until he is satisfied that all these will be met out of the rents likely to be obtained from the houses, it would be imprudent to embark on the project. Consequently he waits until the growth of the town creates enough demand for houses to enable him to obtain rents sufficient to meet all these charges. In this way the very prosperity and growth of the town is used to raise the level of house-rent and add enormously to the difficulties of the housing problem; while, during the long period when the land is said to be "ripening for building," the community is losing the benefits that would accrue from putting the land to its best use.

There are thus three influences at work to retard, and add to the cost of, the provision of new houses. First the difference in rating between agricultural and all other land; secondly the total exemption of unused land from rates; and thirdly the immediate increase in rates following the making of improvements—especially buildings. All three depressing influences have their roots in the present system of rating. And their baneful effects are not limited to the inequalities in rating they produce. The devotion of land to a less profitable use than it is fit for (or leaving it altogether unused) for such lengthy periods is a very serious loss to the community. And the consequent raising of the rent-level of houses is probably the worst evil of all; for it is not confined to new houses built on the fringe of a town. The long and needless delay in bringing land into building use of course increases competition for existing houses, and so the rent-level is raised all round. Little wonder that the housing problem is so acute.

What would be the result of at once levying all rates upon the

unimproved value of land? (Not that I would propose such a drastic step: I merely use this hypothesis to simplify the argument.) In the first place the rating differentiation between agricultural and all other land would disappear. Secondly, all unused land would be assessed to rates. And, thirdly, neither the erection of a house nor the making of any other improvement would add a farthing to the rate-assessment. The value of a site would generally be about the same, in the year after a house was built on it, as it was in the year before. The erection of the house would create an additional value, but it would be improvement value, not land value. Increase of the latter would depend on the prosperity and growth of the town; and the effect of the erection of a single house in this respect is negligible. And as, under the land value rating system, the demand for houses would be supplied as fast as it arose, there could be no long waiting period during which land values were being increased by a speculative element. In short, speculation, the evil which Professor Ramsay Muir fears, would be entirely eliminated and could not, therefore, be included in any assessment to rates.

It may not be out of place to refer here to the effect of the rating of land values upon the very serious coal difficulty. Coal mines are rated, under the existing law, on an arbitrary proportion of the net profits earned, called "the landlord's share." Railways, tramways, gas, water and electric undertakings are assessed by a similar method. In each case the cost of the service rendered to the nation is unduly increased, because such an abnormal basis of assessment is generally very much higher than true net annual value. But when coal mines are not working no rates are payable. If rates were confined to the basis of unimproved land value, not only would the coal industry be relieved of a large part of its present rate-burden but there would be created an additional incentive to keep coal mines working, since rates on land value would be payable whether the coal is mined or not. Further, by eliminating speculation, it would at once bring into working many valuable coal-seams unused at present because no rates or taxes are levied in respect of them, except on the death of the owner; and then only Estate Duty is chargeable.

The change in the rating basis would necessarily be made by stages over a considerable period. But the first step—however small the first rate levied on land value—would bring into the market the bulk of the land at present unused, excluding of course that which has no value. The advent of such a large addition into the land market would lower values all round; and the element of speculative value would be the first to disappear. Speculative values only arise when land is held up, for high prices or other

reasons, and so kept out of use. This practice is encouraged by the complete exemption of such land under our present system of rating. The maintenance of that system produces the very difficulty which Professor Ramsay Muir found himself unable to overcome. But that difficulty will disappear immediately a moderate rate or tax is levied upon all land according to its value, for it would at once become unprofitable to keep unused any land which has value. On the other hand the suggested exclusion from present assessment of the speculative element in the value of land would only encourage speculation, and so increase the difficulty which it is Professor Muir's object to avoid.

I have not addressed myself, in the first place, to the class of case upon which Professor Ramsay Muir founds the question which goes to the root of the difficulty. He asks: "Is the value for rating in rural areas to include the speculative element or not?" Now there is often in purely rural areas a land value over and above the value for agricultural purposes; but I should not describe it as a speculative value. When a rich man purchases a rural estate, he buys not only the farms from which he expects agricultural rents. In addition to the mansion and park—which do not affect this question—he also acquires territorial dignity, a footing in "county society" and large opportunities for sport. He can obtain rent for the latter, if he chooses to let the sporting rights; but from the former he derives neither rent nor any other pecuniary profits. He simply has the enjoyment of the advantages they bring, and no doubt a part of the purchase price is due to them—often a very considerable part. But they offer no "speculative" advantage whatever. (At the present time, it is unlikely that such a purchaser, if he bought before the war, could obtain nearly as much for the estate to-day as he then paid for it.) This special value should equitably be included in the assessment of the mansion, park and sporting rights; but under the present rating practice it never is. It would, however, form part of any assessment of unimproved land value; but as it does not attach to the farms, the farmers would not be assessed to a land value rate upon anything more than the agricultural use-value of the farm, exclusive of all improvements (i.e., not only buildings, but drainage, roads, fences, hedges, ditches, manures, laying down to pasture, cultivation, seeds, crops, etc.). Nor must it be forgotten that the exercise of sporting rights depreciates, to a certain extent, the agricultural value of the farm. Thus the owner can, if he chooses, increase his income from farm-rents by abandoning such sports as interfere with farming. The plain fact is that, under present conditions, farming is not—and cannot be—carried on as a business. Indeed, this is the root of many of our agricultural difficulties. I am here, of course,

dealing with purely rural land. When growing towns begin to influence the value of land, a different aspect of the problem comes into view. This is dealt with in an earlier part of this article.

I desire particularly to associate myself with Professor Ramsay Muir's object of eliminating speculative value. In that respect, indeed, I go beyond him. I would eliminate speculative values not only from rating-assessments, but from rents and prices as well. Difficulty may arise upon the first land valuation for rating, since it must be made while unused land is still exempt from rates. As "market value" is the only reasonable basis, it is probable that this first valuation would include some speculative values. This result would, however, be quite ephemeral; and would no doubt be easily corrected on the first revision of the valuation.

But it is impossible to eliminate speculative value, either from prices or valuations, until all land which has a value is rated or taxed according to that value. If such rate or tax is limited to urban areas, nothing can prevent the growth of speculative values outside them.