A Land Value Tax for London?

Summary

This paper proposes a short rapporteur review to look at the potential role of introducing a Land Value Tax in London to encourage landowners to release more sites for housing development. The aim of the tax would be to reduce the amount of land in ‘sub-optimal’ uses, such as vacant or underused sites, or land being held back speculatively in the hope of increased land values.

Encouraging more land to come forward would meet London’s housing need in terms of numbers and have an impact on affordability.

The review would aim to provide the new Mayor with a balanced assessment of the potential contribution of a Land Value Tax to accommodate growth and a significant contribution to the Mayor’s evidence base in future discussions with Government on further devolution of powers to London, as recommended by the London Finance Commission.

The housing challenge

London’s overriding priority is housing. The shortage and affordability of new homes will feature at the top of the next Mayor’s policy agenda and will likely dominate the election.

London is expected to grow by a further million over the coming ten years and is predicted to grow by a further 500,000 in the decade after. The implications of this growth on the demand for new housing are significant:

- London will require between approximately 49,000 (2015-2036) and 62,000 (2015-2026) more homes a year – but;

- London only has capacity for around 42,000 additional homes per annum (2015-2025).

London’s ability to meet this demand is limited by a number of factors, one of which is the shortage of housing land.

The current approach adopted by the London Plan is to bridge this gap (between demand and capacity to supply) by increasing housing densities beyond those set out in the Sustainable Residential Quality Matrix in Opportunity Areas and Town Centres.

A different, and complementary approach, would be to increase the amount of potential housing land coming forward for development.
Increasing housing land supply

A recent report considering global housing affordability issues concludes that “unlocking land supply at the right location is the most critical step in providing affordable housing”. The report estimates that unlocking land supply in the world’s least affordable cities could help to reduce the cost of housing by between 31 and 47 per cent.

There are many reasons why potential housing sites do not come forward for development; these may include complexities in ownership or constraints caused by the need for de-contamination or poor access. However there is also the fact that some property owners hold back perfectly suitable potential housing sites in the hope that land values will increase. There is a direct correlation between high land values and reduced housing output.

Potential housing land in other uses

The Strategic Housing Land Availability Assessment (2013) that underpins the London Plan housing targets notes that “potential housing sites, often currently in a different use, play an important role in boroughs housing land supply” and the SHLAA “allows boroughs to take into account with confidence the theoretical potential of sites currently in different uses to contribute to future housing provision”.

The location of these sites, however, are not identified on the basis that publishing this information may lead to speculative disposals and purchases of those sites thereby compromising wider planning objectives.

Land Value Tax

A Land Value Tax (LVT) is an annual levy on the ownership of land. LVT in its classic form is a tax on the annual ‘rental value’ of all land, ignoring buildings and other developments.

Land has a value for locational reasons and the use to which it may be put as set out by planning policy. It is the combination of these factors that result in varying land values across London.

Values depend on location and use. The Valuation Office Agency values properties for the purpose of Council Tax and for non-domestic rates in England and Wales. The car park in the former St Olave’s Grammar School on Tooley Street behind City Hall had a rateable value in 2008 at £8,400, whereas the pub opposite was rated as £51,000. City Hall’s valuation was nearly £5 million.

The idea of Land Value Taxation has been around for more than 150 years, and advocates of this approach have come from all political parties.

1 A blueprint for addressing the global affordable housing challenge, McKinsey Global Institute, 2014
2 Stephen Hill, C20 Future Planners, Planning Committee 16 July 2015
Current property taxes depend on the use to which the land is being put. Only businesses and residential property pay property tax (business rates and council tax), rural land is exempt as are some categories of industrial and derelict or vacant land.

Sir James Mirrlees, the economist and winner of the 1996 Nobel Prize in Economic Sciences, led a review of the UK tax system for the Institute for Fiscal Studies. “Tax by Design” (2011), the final report from the review, set out a picture of coherent tax reform with the aim of identifying the characteristics of a good tax system for any developed economy and recommended how the UK tax system might realistically be reformed in that direction.

The Mirrlees Review noted the ‘perverse’ incentives provided by the current system that can encourage demolition or vacancy when reduced rates or zero rates are applied to empty or derelict land. “If property is subject to tax and land is not, then, if the property is not being used, a tax incentive for demolition is created. If empty or unused property is taxed at a lower rate than property being used, then a tax disincentive to use it is created. A LVT avoids these problems.”

“Land lying idle will no longer be profitable to leave idle. LVT will encourage new capital investment rather than land speculation. Empty property will be brought into use at its true economic value. The housing market will, over time, stabilise and housing (both rented and owned) will become more affordable, thus liberating consumer spending that currently services private debt and enabling it to be used for more economically productive purposes.”

The Mirrlees Review concluded: “The economic case for a land value tax is simple, and almost undeniable. Why, then, do we not have one already? Why, indeed, is the possibility of such a tax barely part of the mainstream political debate, with proponents considered marginal and unconventional?”

**Drawbacks of the existing property taxation system**

The existing approach in London relies on three principal sources of property taxation: council tax, business rates and stamp duty. The first two taxes are imposed on occupied and developed land which may have the effect of discouraging development. The third – stamp duty – is levied on most residential transactions which can have the effect of lowering mobility and reducing liquidity.

Another disadvantage of the existing system was pointed out by Winston Churchill more than a hundred years ago, who argued landowners should be taxed on the benefits they accrue from external developments, because these have been provided by the labour, investment and tax payments of others – often through public investment.

Crossrail illustrates this. Crossrail will cost £16 billion, the majority of it funded by the taxpayer. Recent reports suggest that the impact of this investment on property prices has been significant: “Property values around some Crossrail stations have surged since the east-west

---

4 A Land Value Tax for England, Andy Wightman, March 2013
London line got the green light in 2008, with the fastest-rising jumping 82 per cent. However, under the current system, little of this uplift in value will be returned to the taxpayer.

There have been numerous proposals for ways to capture this value for public benefit over the last 100 years. These have included proposals for betterment taxes, development land taxes, and planning gain supplements. Land Value Taxation differs from these approaches.

**Implementation of LVT**

Three key tasks are required to form the basis of a LVT:

- Local authorities would survey land uses and identify the optimal use of each site in the area.
- Landownership must be established, as LVT is levied on land owners, not occupiers.
- Valuation of land is made on the basis of its current permitted use in most cases – but for some land, such as vacant or underused land, a local authority will apply a use such as residential, commercial or social as the most optimal use for the site.

The challenges of these tasks must be acknowledged in terms of their resource implications and the need to ensure a local authority’s decision on optimal land use can be legally defended.

**LVT in practice**

Some authorities in the UK are attracted to the prospect of a Land Value Tax. Glasgow City Council has examined its role where officers “considered the practical implications of LVT in principle and no insurmountable issues have yet been identified”. In 2005 the Vale of White Horse District Council published the Oxfordshire Land Value Tax Study and concluded a LVT was feasible. In 2004 Liverpool City Council asked Government to trial Site Value Rating (a taxation system related to establishing a LVT).

LVT is currently in operation in a number of countries including Australia, New Zealand, Denmark, Estonia and parts of the USA.

In 2003, the Barker review noted: “Since 1924 Denmark has levied a land value tax based on the market price of land, revalued every two years… giving an effective tax rate of 0.6 – 2.4 per cent of the land’s estimated market value. Such a tax raises the cost of holding developable land when demand, as expressed through rising market prices, increases.”

---

5 Outside central London, Acton has seen the largest increase, 77% over the last six years, a third more than the average for the area. In central London, Farringdon and Paddington have both outperformed the local area by approximately 24%. Shenfield, at the easternmost end of the Crossrail line, has outperformed the local market by nearly 12%. http://www.theguardian.com/uk-news/2015/mar/18/house-prices-surge-near-crossrail-stations-by-up-to-82


7 http://www.andywightman.com/docs/Glasgow_LVT.pdf

8 http://www.andywightman.com/docs/oxfordshire_study.pdf
Why is this important for London?

The challenges posed by London’s unprecedented recent growth are well known. London is expected to grow by a further million over the coming ten years (and a further 500,000 in the decade after).

The implications of this growth on the demand for new housing and the required supporting infrastructure are significant, not just in funding but also in terms of bringing forward enough land for development.

Land value tax is potentially an instrument that encourages the maximum and best use of land, imposing costs on holding undeveloped land and capturing for the public purse the benefits of public investment in infrastructure.

Potential terms of reference for this review

The review might centre on the following question:

- “What is the potential role of a Land Value Tax for London in encouraging more housing land to come forward for development?”

The review might seek to gather information on the following detail:

- What are the positive and negative features for London of the current system of property taxation?
- What are the cases for and against introducing a Land Value Tax in London?
- How might a future Mayor use a Land Value Tax to incentivise house building and raise funding for infrastructure?
- How would the implementation and proceeds of Land Value Tax be agreed between the GLA and London boroughs?
- How much land would a new Land Value Tax bring forward land for development?
- How might this encourage the “highest and best use” of land in London?

Sources of evidence

Desktop research would be supplemented by detailed interviews with experts from the following sectors:

- London Finance Commission
- GLA Devolution Working Group
- Academics and review authors
- Representatives of developers and land owners
- London boroughs

A more extensive list of sources is set out in Appendix 1.
Potential timeframe for the review

- 16 July – Planning Committee: agrees initial proposal seeking approval in principal for the review and authority to undertake further scoping work.
- August – further scoping and background research
- 17 September – Planning Committee approves scope of review and appoints Tom Copley as Rapporteur.
- 17 September – GLA Oversight Committee approves decision (made by Planning in the morning).
- September/October – a series of meetings held with expert witnesses
- October/November – report drafting and circulation of drafts and evidence received to Committee
- 17 November – Planning Committee approves final report
- 25 November - GLA Oversight Committee notes final report

Potential impact

The potential impacts of the work may be:

- **Influencing** – Providing the new Mayor with a further assessment of the property tax mechanisms, and a tool to use in future discussions with Government on further devolution of powers to London. Exploring what steps Government and the Mayor may need to take to implement the system.

- **Engaging** – Involving a large number of experts, through meetings and written submissions. Interest and coverage from national, local and trade media, bloggers and on social media in the potential for a brand new way of funding the development needed to support London’s growth.
Appendix 1: Land Value Tax Rapporteur Review – Potential Sources of Evidence

Strategic London issues
Professor Tony Travers, London Finance Commission
GLA Devolution Working Group
GLA Strategic Housing Land Availability Assessment
London Land Commission (David Lunts)

Academics
Professor Pat McAllister, University College London
Professor, Pete Wyatt, Henley Business School, University of Reading
Ronan Lyons, Trinity College Dublin
Professor Sir James Mirrlees, University of Cambridge

Review authors/writers/campaign groups
Andy Wightman (http://www.andywightman.com)
James Mirrlees review (Tax by Design http://www.ifs.org.uk/publications/5353)
Andy Hull, In Land Revenue: The case for a Land Value Tax in the UK
Michael Lyons, Inquiry into Local Government Finance
Land Value Taxation Campaign
Labour Land Campaign
Kate Barker, Review of Housing Land Supply
Treasury Committee - Principles of tax policy report

Professional bodies
RICS
Institute of Revenues, Rating and Valuation
Valuation Office Agency
Savills (property register for the London Land Commission)

Representatives of developers and land owners
British Property Federation
Home Builders Federation
Confederation of British Industry
London Chamber of Commerce and Industry
http://www.londonchamber.co.uk/DocImages/13496.pdf
Westminster Property Association
The Grosvenor Estate
The Cadogan Estate
The Portman Estate

**Overseas examples**
Australia (New South Wales, Queensland, Canberra)
Denmark
Estonia

**Local authorities**
Glasgow City Council, Local Taxation Working Group
Vale of White Horse (Oxfordshire) Land Value Tax Working Party
London Councils

**Current and past Members of Parliament**
Caroline Lucas
Nick Boles
Andy Burnham
Vince Cable