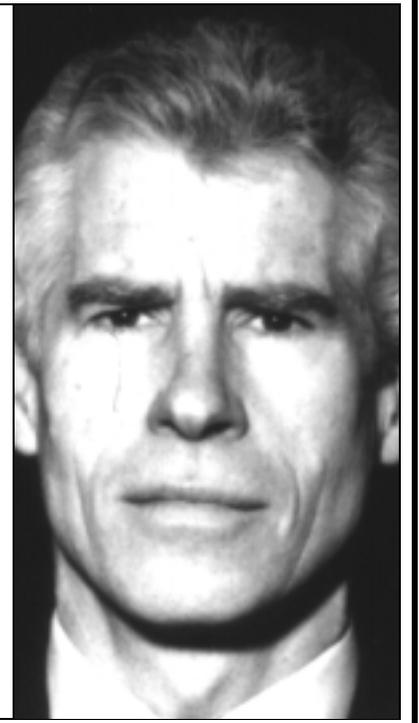


KIWI PROPERTY DEVELOPER IN LONDON:

WHY THE GOVERNMENT SHOULD GET OUT OF HOUSING

DON RILEY



My net worth in 1966, after four years in Britain, was the same as when I arrived, about a hundred pounds. That year I persuaded the owner of a flat in Earls Court, with twelve years left from a long lease, to lend me the money to buy the fag end of the lease and all the furniture in the flat. I continued to live in a shared flat and rented my new flat out. I continued to work in computer applications full time until 1979, but my blooding in property investment, restoration and letting had taken place. From 6,000 square feet in 1980, I now own and let about 80,000 square feet of commercial property at London Bridge. I have some domestic property, part of which is let. This article is based on my practical experience in the property business.

A MARKET MADE SAFE ONLY FOR EXPERTS

Due to governmental interference since the war, the private property market is now only a sham and a scam. Because of ignorant interference by our legislators, the market now consists of numerous segments, each requiring detailed and expert knowledge. This legislation, mostly passed off as "protection for the occupier", has divided the market pie into small slices, full of gravy for the professionals, their advisers, the building societies, the employees of Housing Associations, solicitors, banks, estate agents, architects, planning consultants, tax spe-

cialists, council employees, the suppliers of services such as gas and water, and, by no means last, builders.

Therefore a potential private owner must either (if he has the mental equipment) learn to play the game like an expert, or else pay the professionals and pray that the experience (like getting PEP or pension or other financial advice) does not impoverish him years later after the professionals have taken their cut and gone.

THE COMMERCIAL MARKET STILL WORKS

The private house or flat owner will be aware that British private property values are now (spring 1996), on average throughout the country, perhaps twenty per cent below their peak (say 1989) values. There are wide regional fluctuations and even some areas such as Fulham or South Kensington in London where prices have gone up. However these same owners will be only vaguely aware, perhaps by remembering the Reichman Bros receivership at Canary Wharf, that *commercial* property suffered a *halving* of values during this period! Many of the reasons for the falls are common to both sectors, such as overvaluation for loans and then the effect of higher interest rates. And there are additional factors with commercial properties to be considered such as high annual taxes, like business rates which are based on 1990 estimated values.

But the point I wish to make is that, although there has been some special pleading to the government on behalf of the commercial sector, this has been as nothing compared to the chorus to the government to "do something" for the domestic sector.

Very little has been done or needs to be done for the commercial property sector, since by and large the market here works as well as it does for cars, or holidays or machine tools or any other normal product. There have been squeals of pain. There have been bankruptcies and repossessions of premises and guarantor's houses. Nevertheless the owners of commercial premises — shops, offices, pubs, Tesco stores, high street banks, factories, warehouses — have all had to swallow the nasty medicine of the past five years.

If a company such as Tesco owns all its stores, the property manager could have sold them all at the height of a boom and leased them back. Some astute retail chains did just that, or



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Don Riley arrived in London in May 1962 from New Zealand, after gaining an MSc in mathematics and having two months earlier competed in the New Zealand rowing trials for the Empire Games in Perth. He abandoned rowing in 1966, after some success in Europe with the British squad, after the National Coach, Jumbo Edwards, fell asleep whilst waiting for the start of the British eights race in Lyon. At first he worked in computers, and then became a property developer.

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FOR LIFE, LIBERTY AND PROPERTY

even sold their entire businesses only to buy them back again more recently at greatly reduced prices. Others, who had seen the Barber U-turn in 1971 or the other low ten years later, had built up “vulture” funds for the recent crash and have bought heavily during the past three years at bargain prices. It is not the purpose of this article to explain how well the commercial property market works, but those are a few examples.

BUT THE HOUSING MARKET IS DISTORTED BY GOVERNMENT INTERVENTION

But in the housing market things have been completely different. With every piece of “consumer protection” legislation the government complicates this market yet more, and hands over yet more of its profits to the professionals who alone can keep up with all the new legislation.

The housing market is thus increasingly similar to the shares or antiques market. “Insider” knowledge gives an edge, and each market consists of numerous specialities. But whereas the share or antique market is, if rigged, at least rigged by the professionals who operate within it, it is government intervention that dominates the housing market and increasingly loads the dice in favour of the professionals.

A private owner who buys wisely and holds will be housed and secure, just as sound shares or antiques will hold their value. But it is the dealers who make the money. A new purchaser had better have some expert knowledge, and good timing, if he wants both to possess and to make money from his possession!

From time to time people say to me: I have a £10,000 or £20,000 deposit and a £60,000 or £90,000 loan facility. What do you recommend?

My answer is always the same. Approach a purchase just as you would any other business investment. Get books and read. Study. (This article is not an introduction to a book on private property investment, or any sort of alternative to such reading.) Make friends with the owners in streets of interest. Understand which bit of the pie you can slice into. Comprehend the state of prices in relation to previous busts and booms. Do DIY for other people and try to earn money from it, and so know the various building trades. Read the property sections of the Saturday and Sunday papers. Most of all, understand the distortions in the market caused by government intervention and understand the benefits and risks which the professionals have caught on to. Understand leases. Forget “An Englishman’s Home is his castle”. Learn about the twenty or so government bodies that can enter a dwelling without the owner’s permission!

After all, the government will take thirty to forty per cent of your income through various taxes, so if your property adventure absorbs the next forty per cent (not untypical early on) this will for many years leave you only twenty to thirty per cent of your income to live on. Investment is not about matching pink cushions and rugs, or about a latest fashion kitchen which is “included in the price”; it is above all a risky, difficult business decision with consequences which will last for years. Thousands of business people lease property rather than buy freeholds and they are not fools. They understand how much capital and energy can be thrown away if they buy unwisely.

MERE SPENDING EQUATED WITH “INVESTMENT”

This leads me to say how idiotic it is for the private sector of the market to be separated in peoples’ minds from property investment as a whole. The market should be seen as a seamless entirety. People frequently begin their own businesses with overdrafts as low as £5,000, but with years of experience in the field they are entering. All the more reason, before borrowing £50,000 or £100,000 or more over twenty years to buy a home,

to spend an equal amount of time beforehand, gaining relevant knowledge and experience. Of course, a new business person is still coaxed by a good bank to prepare forecasts on spread sheets and demonstrate competence. But the local building society has no sign over the entrance saying “beware loan shark”. On the contrary, every effort is made to equate the mere spending of a sum of money three times the size of your income to a successful property deal, and gullible mortgage seekers are further reassured by the lender’s own surveyor that they are making a sound “investment”.

Some first timers are blessed with dads or mums who intervene, and have the competence to show their youngsters how to size up a property correctly and with a proper financial analysis, but this is rare. Lending — which earns so many commissions via the sale, via the lending itself, via the insurances, via some HP and perhaps via a top up additional loan — is very lucrative for the professionals. These lenders are well practised at charming the buyers, and at providing buckets of reassurance and even “incentives” (most, such as fixed interest rates for two years, barely relevant to the broader financial risk). What they won’t talk about is the dangers.

WORKING AT HOME

I want to reinforce this point about how the home is an economic investment like any other. In rural areas of Britain it is still possible to see the home as also being the centre of a business. Such domestically based businesses include farms, plant nurseries, back yard car repairers, building and agricultural contractors, wineries, bakeries, tearooms, bed and breakfasts, and so on. Some of these businesses serve local needs; others such as potters, computer services or investment advisers, serve more remote markets.

Clearly if I can take a book from the public library which has on its jacket “One hundred businesses to start from home” there ought to be many more business opportunities for a city dweller, in somewhere like Peckham, than in remote Norfolk.

The point I am making is that home purchase should never be thought of as exclusively that. Quite apart from the awfulness of the thought of paying eighty per cent of his earnings to the Halifax or Nat West for twenty years, the would-be homeowner should ask: what will I do if I lose my job or have to move house with my job, or if my wife gets pregnant and needs to be at home for the next three years?

Yet planning laws concentrate on isolating homes from business as if England was still the workshop of the world and as if allowing work to be done at home would mean a foundry or metal basher in every district. There are more than sufficient laws in place to protect residential units from business nuisance, but often inadequate protection for quiet enjoyment of one’s home from neighbouring dogs, noisy parties or cars and people arriving and departing during unsocial hours. It always amazes me that a flat owner can keep as many rotweilers as he likes at home but is not allowed to keep goods and resell them or, if there is space, keep a few laying hens. Twenty years ago in Victoria I ran a wholesale wine resale business from my ground floor mansion flat. The stock was delivered after dark by vans which backed up so we could unload the cases direct into the lounge through a window. I would buy several hundred cases at a time from auctions and resell mixed cases with a twenty per cent mark up. Nobody minded. Nobody interfered. *The laws on use of residential accommodation for business purposes should be loosened.*

At the same time income tax relief for domestic mortgages should be removed. Mortgage interest could be set against any business income in the normal way.

THE HOUSING ASSOCIATIONS AND THE HOUSING CORPORATION

I recall reading about ten years ago that Lambeth Council was “losing” two million bricks each year. If five thousand bricks will build a two room rear addition, such theft could be resulting in about four hundred house extensions *per annum*.

I half welcomed this energetic conversion at the time, as being a cheap subsidy for house improvements. But then I reckoned it might not be cheap after all, particularly if the home improvements were not built after hours but during council time. A better solution would have been for the council to sack its direct labour force, abolish its building department, and simply use its superior purchasing clout to place large stocks of bricks, blocks and sand in convenient locations, free to locals.

Instead the Conservatives created the Housing Associations, with around forty thousand full time staff, supported by the biggest QUANGO yet, the Housing Corporation. Over one million houses and flats are now subsidized twice over by the taxpayer, once to build, and second to pay the rents and other outgoings (since the tenants are rarely self-sufficient). Where I live, in Victoria, the Vauxhall Bridge Road contains no less than three Housing Associations building yet more units to subsidize our home grown, still-to-arrive-from-the-European-Union, proud owners of the future, in our booming dependency culture. Sixty thousand new units are now being built each year, and the ambition is to increase that to a hundred thousand a year! In Vauxhall Bridge Road, an office building which once provided commercial rate income and work places for firms will become forty units for dependents. Adjoining buildings are automatically blighted — just as they are in Docklands, for example, where private flat owners in new developments discover that a Housing Association has bought the remaining fifty houses. These new urban gypsies then show their appreciation for the estate by dumping cars and rubbish everywhere, and quickly make the genuine homes unsaleable except at a substantial loss, to the Housing Association!

BUILDERS TRAINED BY THE STATE TO FIDDLE

As a taxpayer I will, as I say, pay the capital and running costs of such housing. Worse for me personally is that, as a restorer of large old industrial buildings in London, I have to work with a pool of builders whose standards have been debased by working for Housing Associations. In Housing Association work, no anxious home owner checks continuously to see if two coats of plaster or three coats of paint or two coats of asphalt have been correctly applied.

Compare this to my project, which requires refurbishment of a hundred-year-old building with good original features. I want to do a job that will last for about another fifty years, except for routine maintenance such as painting.

A conscientious home owner, who may wish to do up only one residential building in his lifetime, is in an even worse position than me. I know this business. I can tell if a team of “subbies” has been spoilt by Housing Association work. But I pity the once-in-a-lifetime home owner. How can he foretell that his glib, charming “builder” has spent years being trained by the state to fiddle? An extension or reroof job has ample scope for extras and for low quality or filched materials, not forgetting that a number of the workers will be off fortnightly to sign on as unemployed.

The British house building, conversion and restoration game is just that, a *game*. It is now as much a refuge for fiddle, theft, inefficiency and roguery as were the docks before containerization eliminated pilfering, or as was the motor car industry before foreigners took over our over-manned junk-producing plants.

OWNING RATHER THAN RENTING

Over the last six years over a million families have been caught in the negative equity trap, that is, they have found themselves living in homes worth less than the value of their mortgages. Yet, despite the obvious advantages of sharing rented accommodation between singles, couples or even families so that costs are kept low, the British idea of tolerance does not seem to extend to tolerating communal living.

What are the causes that perpetuate a state of affairs in which individuals or couples end up putting into flats or houses up to seventy per cent or even more of their annual earnings for twenty years or more?

There are many reasons why people “invest” in their own home and why their naivety leads them into debt, disaster and divorce.

Some experts say that we in Britain have a national obsession with owning rather than renting, and that in the 1980s money was lent freely to create a “property owning democracy”. It could be put more simply that experience with inflation since World War II has told everyone to mistrust the government and to place their trust in bricks and mortar. Such an investment strategy is especially attractive if mortgage loans attract income tax relief and if capital gains are untaxed.

Much rented accommodation is tied to Councils and Housing Associations, who rent only to families (including single parent families). So perhaps youngsters from these backgrounds imagine that they can only rent a flat by getting the girlfriend pregnant or something similar.

Capital gains tax should not be allowed to distort the housing market. Capital gains tax relief on home owner sales should continue only in the sense that capital gains tax should be *abolished altogether*. It raises little for the government and avoidance measures or relief reinforce silly investment strategies which often punish the investor at a later date. This would at least level the investor playing field and make home owning on a par with other more interesting and rewarding investments such as building up a small business.

The owner of a house or flat or apartment should not have money lent to him only on the rule that he lives there! For my first purchase, the owner lent me the sum he required and I only paid the first twenty per cent. I paid the balance off over five years and never lived in the flat. I couldn't afford to. I was twenty five and I continued to share a flat with other fellows, whilst renting out my flat and taking the first steps to gain experience as a landlord. And what excellent experience it was! The agent, who thought I was abroad, often held back rent and made frequent deductions for additional services. All absolutely legal, but it was my enrichment scheme, not his.

This took place in the middle 1960s, before tenants had many of today's idiotic “rights”, so at least I was spared the perils of a squat, or occupiers seeking rent subsidies or council tax rebates.

OWNERS SHOULD BE ENCOURAGED TO RENT

Quite apart from buying to get a foothold in the private property sector, as I did, a prospective owner should have other ways of keeping his property as an asset rather than seeing it become a liability if his life circumstances change. If tax and repayments are seventy per cent of income you do not have to be a genius at maths to work out that a missed month's payments takes about six months to catch up on, even if half of the thirty per cent left for living on is devoted to the task. Owners should be encouraged to make their assets — their homes — work for a living like any other capital items. Owners should feel free to act in advance of any crisis in their personal cir-

cumstances, uninhibited by obsolete planning laws or tenant protection or other constraints. If an owner sees that a bed and breakfast let to visiting summer students, whilst the owner sleeps in the kitchen, will bring home the bacon, then let it happen. Selling a short lease — for, say, three, five, seven, fourteen years — used to be easy, and that way a crisis could be overcome without the whole property being lost.

THE BEST TENANT PROTECTION IS LOTS OF RENTED ACCOMODATION

The laws which make a bog for the unwary owner with regard to worthless, deliberately defaulting and dishonest tenants, need scrapping. *The best protection for genuine tenants is a healthy oversupply of for-rent properties of all types.*

MIDDLE MEN TO GET OWNERS OUT OF TROUBLE

Or consider another owner's nightmare. Many former council flats are now liabilities for the owners now stuck in them. There are middlemen around who would rent them to, say, eight students, *if they were allowed to*. A middle man knows the business and could perhaps handle all the spare flats in one block. This service would please everyone except the council housing administrators, who will be shown up by such arrangements. Under the pretext of health or fire protection or some such reason they will scare the poor owner into staying put and suffering. Yet middlemen, if allowed to, could take over entire floors of some council buildings, and pay rent and council taxes which the council would otherwise never receive.

The general point is that *the free market can help to unshackle owners from their follies and give them a fresh start*. A healthy, vast and various rental property sector will prevent catastrophe for many people, who buy in haste and then need time to disentangle themselves.

THE FITTINGS TRAP

I did not put a modern kitchen into my house until I had lived in it for fifteen years. Suppose that a new kitchen has cost £10,000. Has this added £10,000 to the value of the house? When a purchaser buys a flat or a house, with pretty pictures of the fitted carpets and kitchen, for example, in the agent's or builder's brochure, the new owner is thrilled when friends come to the flat warming and offer congratulations.

What we have is an interesting ploy by the vendor, aided and abetted by the loan company. A house may well have land and a structure which is worth £85,000, but the £100,000 price includes fittings which will never last the twenty years of the mortgage. Probably the day the contract is signed, the fittings will have depreciated by say thirty per cent, and before five years are passed they will be fit only for the tip! The proud house owner at this point may replace many items, but will still hold fifteen years of debt on the original installations!

Some shrewd purchasers, like their business counterparts who require a business property, will not buy one with unnecessary fixtures. Instead they will live for many years with second hand furniture, fittings and office equipment — and of course factory machinery if they are manufacturers.

It is in the interests of all the professionals that “values” should be inflated by fixtures and fittings, since commissions and fees are “earned” on the total. Clearly the price of an unmodernised flat in essentially sound condition is nearer to its true capital value than one where all is glitter, new paint and up-to-the-minute fittings. It is easy to understand why the vendors and their agents or professional advisers like this situation. But why are buyers so naive and mostly, less interested in the old fashioned or unmodernised dwelling?

I believe that credulity is coupled with the desire to have it all, *now*. If people are too lazy to develop their own personal style and taste, which takes time and effort not to speak of resilience in the face of relentless peer and media pressure, then they will be suckers for the latest kitchen, “built in” wardrobes (chip-board or MDF) and all the other short life fashion accessories for the modern home. (Try getting residual value from a modern built in wardrobe and compare that to a well made older freestanding wardrobe.) So prospective buyers, egged on by the pros, get carried along by dreams of cooking in the dream kitchen or seductive evenings in a whirlpool bath. With cotton wool instead of brains in their heads, they lose track of financial reality.

LET EACH NATIONALITY LOOK AFTER ITS OWN

A national stupidity that has continued despite the Conservative Party knowledge of human gullibility is the idea that housing of some undefined standard is a *right*. So who will fulfill this right if a resident of Glasgow arrives in Southwark? Why, Southwark Council.

And why not — also under edict from Brussels or through our own misguided interpretation of the law or sense of fair play — insist on Southwark Council housing a family from Galway or Algeciras? If the “right to housing” means in Ireland or Spain a right to a communal flat with five other families, then why not try every other council in London, helped by free legal aid and other taxpayer-funded services, to get freely housed at a higher standard. This will then lead to access to further, better benefits paid for by the British taxpayer.

The Scots should also look after their own destitute in London, as should all of Britain's regional minorities

But if you have been to a reasonable school or college or you are a Kiwi in London, you use your network to find a place to live without ever becoming a “homeless” problem and often live ten or twelve to a flat until the right job, or travel, or other material improvement enables you move on.

The solution is clear. Whoever tripped over a homeless person who swore back or begged with a Kiwi or Aussie accent? Why are they able to look after each other ten thousand miles from home? They use their weekly newspapers, social networks and comprehension that they can live and travel at their own expense to live and learn about work, play, and survival not just in Britain but all over Europe.

At any time there are hundreds of thousands of Antipodeans in Europe. Amongst them must be thousands of misfits or miscreants who in Britain would deserve “help” or “counselling” from state taught and paid welfare advisers. No such departments exist at the NZ embassy and there are no handouts!

Any Scot (or Welshman, or Portuguese) found destitute in London should be looked after by a responsible national organisation, but whether it is the London Scottish Rugby Club or the Burns Committee or the London Pipe Bands Association is not important. They are their kinspeople to be looked after. Lack of education or health or common sense is a problem for the community that they come from, not for London or Bournemouth or wherever they end up.

Polish people look after each other in the same way as Aussies and New Zealanders do, so it is our daft laws which encourage immigration to our larger cities by “nationals” of other regions or countries. It is beyond a Pole's or Kiwi's comprehension then, that a locally born and educated Londoner needs a whole lot of “rights” and welfare assistance to live in his or her home town. Remove these and let the locals also look after each other, as they were used to doing before the professionals intervened.