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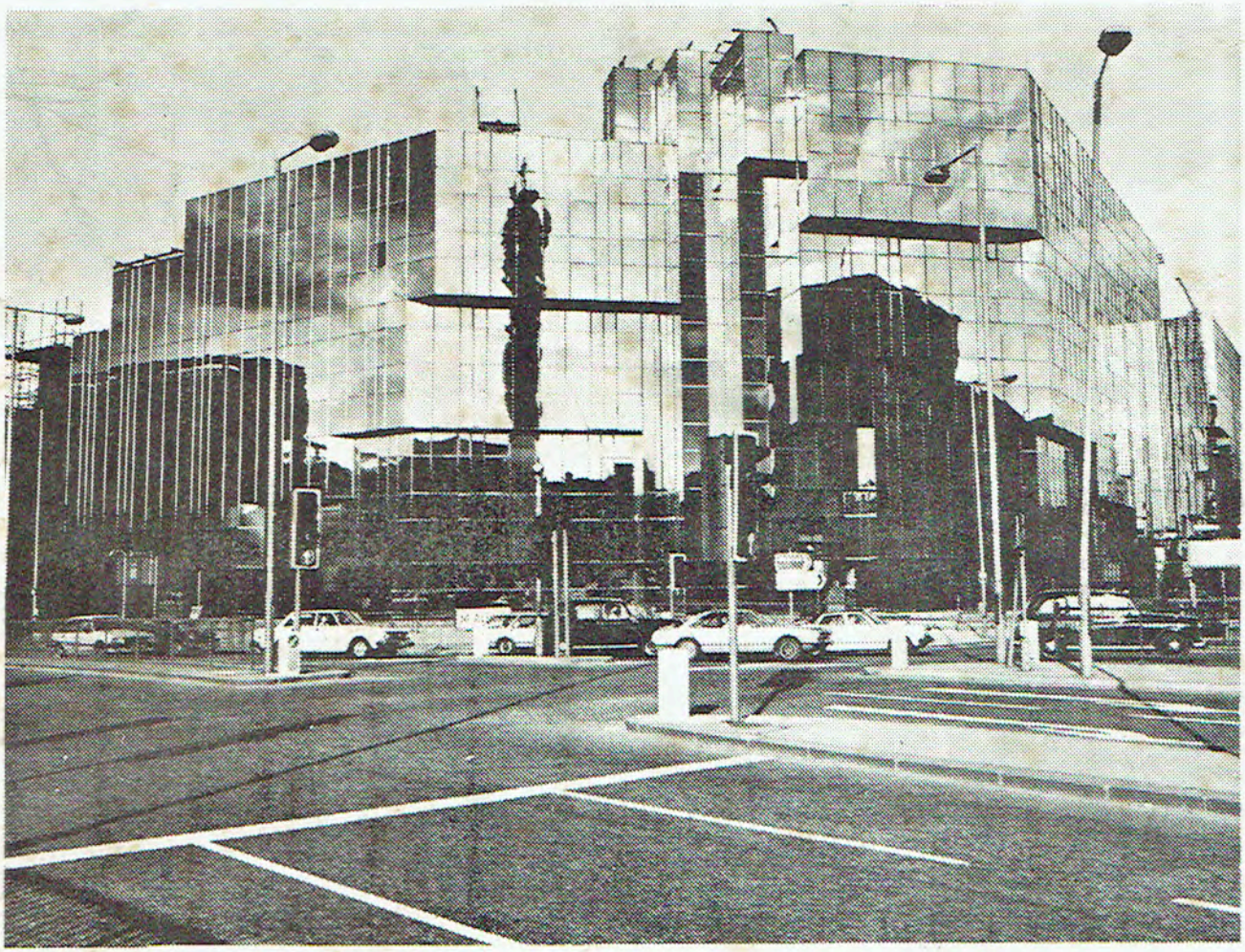

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JAMIE GOUGH

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1. INTRODUCTION

In early 1981, a 200,000 square foot office block will be completed by McAlpines at the corner of the Euston Road and the Hampstead Road on the edge of London's West End, and handed over to its first tenants, Davey International Engineering Group. On the face of it, this is not a particularly exceptional occurrence. The office block, built on the site of the former Tolmers Square, will fill up one of the few remaining 'gaps' in the line of pre- and post-war offices along the Euston Road. The offices will be much less spectacular than the Euston Centre tower block over the road. The site appears a 'natural' one for offices, at a corner of the West End, well served by tube, bus and Euston Station.

Yet this development is very far from being the product of a smoothly operating and 'natural' market. The time of completion of the scheme - over 20 years after plans were first put forward for it - and the form and functions of the building are the result of a crisis-prone development process and of important political battles.

The process of commercial building development under capitalist organisation involves a series of major contradications. The most obvious manifestation of these is the strongly cyclical pattern of the property market, which, as we shall see, has played a crucial role in the (non-) planning of Tolmers Square. But property development, in common with other operations of individual capitals, also continually encounters a contradiction between its own drive to accumulate capital and the need to maintain the general conditions for the valorisation of that capital. The latter, which are above all the responsibility of the state, comprise firstly the production of commodities and the commissioning of

infrastructure not undertaken by individual capitals; and secondly a role in the reproduction of labour power.[1].

In meeting the needs of property capital and of capital in general, the state has to both collaborate with and oppose the operations of individual capitals ('many capitals'). This is part of the basis for the long history of conflict and co-operation between property interests and the local authorities at Tolmers Square. The Tolmers story is particularly interesting in that it was not just the infrastructure provision 'functions' of the local authority that were relevant to the commercial development. The council's role as provider of housing was also intimately bound up with the history of the development, and came into conflict both with the interests of the property capital involved and with its own role in infrastructure provision.

Spanning both types of local authority role has been the issue of public land ownership at Tolmers Square. The longstanding controversy over the existence of a contradication between landed interests and the rest of capital[2]. is relevant to understanding what happened at Tolmers Square; and the particular contradications, related to this, of state ownership of land, have become evident in the way that the development has turned out.

These various abstract contradications have played an essential role in the history of Tolmers Square; but they themselves do not make office blocks! They have provided the substance and the conditions for the various battles and bargaining that have taken place around the development, between developers, council, central government and local business and residents. It is the acuteness of the contradications involved that allowed the development to become an important local and, at times, a national political issue. But the outcome was determined not only by the general social-economic conditions, but also by the political decisions of the participants.

These are the general themes of the story presented in this paper. Approached in this way, rather than as a

banal story of 'conflicting interest groups', I think the story is of more than anecdotal interest, and throws light on several politically important debates in the field of urban development.

The history of the Tolmers Square area, including both the housing and the commercial development, from the 1950's up to 1977, is given in Nick Wates's book "The Battle of Tolmers Square".[3] In this paper, I have aimed to give a social and political interpretation of the commercial development, bringing the story up to the completion of the development arrangements (summer 1980). I have not given an account of the geographical area or of the associated housing development, nor a detailed account of the participants in and political battles over the development, since these are well documented in Wates's book. I have used the latter as a source for many of the facts and figures cited in the discussion of the earlier part of the development's history.

Before embarking on the history, a brief preamble is needed on some particularly relevant aspects of property development.[4]

2. SOME BACKGROUND ON PROPERTY DEVELOPMENT

2.1. The sharp property cycle

The cycle of the development of commercial property, which tends to follow the pattern of the overall business cycle, is particularly sharp, involving sudden slumps in values and almost complete stoppages of new development, followed eventually by equally sharp recoveries. Several factors are involved in this. To the extent that properties are sold to their users, demand varies sharply through the cycle like other major capital goods. To the (more important) extent that properties are leased to their users, new lettings are also sensitive to the cycle, with firms unwilling to incur the expense of a move and, most likely, of a higher rent during a downturn. The downturn, in depressing average profit levels, also cuts the monopoly and differential ground rent elements in rent (this element is particularly large in London - see below). The drop in new rentals because of the long building period of major developments; the market thus becomes overburdened, leading to further weakening of rents.

The other side of this is the variation in yields. In the downturn, yields tend to rise in anticipation of slower rent inflation. In Britain, there has also typically been further upward pressure on yields coming from a rising interest rate resulting from a government squeeze designed to correct inflationary and/or balance of payment problems of the boom. The boom periods relevant to the history of the Tolmers Square development were the successive upturns with their peaks in 1959, 1965, 1973 and 1979. The famous property boom of 1972-3 was based on very low interest rate levels and easy credit (intended by the government to stimulate productive investment), giving low required yields and high

capital values. The highly inflationary boom that followed was damped down by a doubling of interest rates in Autumn 1973, and in the next year rents fell around 35%. This combination led to the notorious property market collapse of 1974. The revival of the property market in 1977-79 was much more cautious, partly because of the weak recovery in the economy generally (and, therefore, in rents), partly because, with the turn to more or less monetarist policies, interest rates have been consistently high.

2.2. London property values

Both the length of time taken to develop the site and the political sharpness of the struggles around Tolmers Square were underpinned by the enormous potential property values involved, associated with its central London location. These high values rest, firstly, on the low yields accepted on prime property in Britain; and secondly, on London's high rents. The low yields derive ultimately from the long term low (and declining) average rate of profit in Britain; the low profit rates obtainable in industrial investments mean a heavy flow of funds, in spite of the sharp investment cycle, is relatively safe in the medium to long term. Connected to the low rate of profit have been rates of interest which have been low or even negative in real terms, again making property attractive in comparison with e.g. gilts.

London office rents have for many years been the highest of any major commercial centre in the world. They are also several times higher than rents in other major office centres in Britain. To indicate orders of magnitude, an

office building let in central Leeds in 1979 might command a rent of £3 per sq.ft., while the same building in the City could be let for £20 per sq. ft. Since the Leeds building would have been a profitable venture, the difference in rents represents almost entirely surplus profit in the form of ground rent. These rent differentials are caused by two principal features: (i) Internationally, the attraction of London for financial firms has been bouyed up, despite the decline of the importance of sterling, by wage rates for office staff which are low by comparison with rival financial centres, and, despite a certain amount of decentralisation over the last ten years, there is still a strong demand from Britain-located head office functions for a central London location. (ii) This strong demand would not, of itself, lead to such high rents were it not for the tight restriction in office development in London since the mid-sixties. We hypothesise that this restriction has arisen fundamentally from the unwillingness of the state to finance infrastructure in London on a scale that would have enabled supply to have met the demand for offices at their price of production. To have done so would have required the expansion of public transport facilities, not only to the central area, but also to expand the catchment areas for suburban centres, and also needed provision for a larger population in London and the south-east than has been the case. Infrastructure spending on this scale, while it might have been in the interests of some sections of capital, would have needed an enormous drain of surplus value into state revenues. The absence of such expenditure has manifested itself as a shortage of suitable sites for office construction as well as in higher travel to work costs and higher wages for

office workers. Since 1965, it has manifested itself as the ODP policy, which has served to prevent the complete congestion of the transport and other infrastructure in the absence of 'sufficient' investment in it.

High London office rents thus represent a rather classic instance of combined and uneven development: the traditional strength of British capital and of the City in financial operations, together with the weakness of British capital as a whole and the consequent restrictions on state expenditure.

2.3. The forms of contract between local authority landlords and developers

In the form in which it is now being constructed, the Tolmers Square development is being built by developers on land leased to them by the local authority, Camden Borough Council. In order to understand the significance of the contract under which this is being done, it is helpful to look briefly at the history of such arrangements. For a fuller account, see Gough, 1976.[5].

Since the time of post-World War II reconstruction, local authorities have assembled central area sites under their own ownership and leased them to developers for commercial buildings. The financial arrangements under which these have been done have varied enormously depending on the expected profitability of the investment, the strength of the capitals involved in the development, and the political sympathies of, and pressures on, the local authority. However, there have been several basic changes in the form of such arrangements over time, reflecting partly the increasing rate of inflation and partly the 'maturing' of the property development

industry as a distinct sector of the economy.

In the fifties, the land was leased to the developers on long leases for a simple ground rent (GR) to the local authority (LA); eventually, most of these agreements allowed for rent reviews (GR a function of time, GR(t)). As the enormous profitability of many of these developments became evident, the LAs began to require a more sustantial slice of the surplus profits. To allow for the uncertainties in future rent revenues, the 'equity sharing' schemes that then emerged took the following form. Rent revenue from the scheme in any particular year would be divided into three successive slices:

(i) a developer's return (DR), fixed in money terms, calculated as a certain rate of return on developer's capital; this would cover the loan repayments of the developer to the funding institution, with an extra percent or two going to the developer;

(ii) a ground rent to the LA, with reviews, GR(t);

(iii) the remaining surplus profit, P(t), to be divided in some fixed proportion between the developer and the LA.

The profitability of schemes of this sort that were developed in the sixties, and the form of contract under which they were done, have undoubtedly benefited many LAs in the long term as inflation has boosted the share P(t). The benefits to the LA were, however, in most cases, either small or negative in the short and medium term, since most of the land leased had to be purchased from existing land owners, at prices that reflected the large surplus profits now being achieved. Thus for the LAs, the equity sharing form of contract

did not appear principally as a way of making long term profits, but rather as a way of partially covering and compensating (financially and politically) the high cost of land.

The high land prices were frequently used politically by the LA to argue for the need to allow large, profitable and often destructive developments. This kind of reasoning was also to be used at Tolmers Square, and it is important to remember that in reality land has no value: land price is not a 'cost' that requires a highly priced development but rather a claim on the surplus profit enabled by a highly priced development. Land price is a 'cost' only from the fetishistic viewpoint of an individual capital - a category which here includes state-owned land capital. The high cost of land to the LA merely meant that, in most of the cases of development on LA owned land, the surplus profits represented by the land price accrued in the short and medium term to private land owners rather than the LA.

In the seventies, there was a further change in the typical contract. The institutional investors by now had a lot of experience in the property field and were no longer satisfied with a return fixed in money terms, especially given the increasing inflation rate. They, therefore, increasingly either purchased developments (or their leases) outright on completion, or else sought a better share of surplus profits in the initial arrangement. In the latter case, the equity sharing form described above was amended so that the developer's return also increased over time, DR(t). This would usually be done by making the three successive divisions of revenue in the first year of rental, and then taking the proportions between the three as

fixed for all time, so that DR(t), GR(t) and P(t) all increased at the same rate as total rent revenue. As we shall see, the final arrangement at Tolmers Square represents a further, new twist to this form of contract.

To an extent, then, the contracts between LAs and developers simply represent the changing conditions in the market, and resemble those that might be entered into between private land capital and a developer. However, our interest here is rather in the extent to which contracts are politically constructed, the ramifications that this form of contract has for LA capital and revenue accounts, and hence in what we can learn about the relations between the local state and property capital.

3. THE HISTORY OF THE TOLMERS SQUARE OFFICE DEVELOPMENT

3.1. The trade-off takes shape

The Tolmers Square site first attracted attention from property interests in 1959, in the middle of an upturn of the business cycle. At that time, the site, which extended back from a 200 yard frontage on the Euston Road, was covered by semi-derelict factory and workshop space, plus the residential Tolmers Square itself. The Euston Road frontage buildings had been demolished to make way for the Euston underpass - a development which enabled Stock Conversion property company to level planning permission for the massive Euston Centre office development, which in 1959 was in the process of construction across the Hampstead Road.

The first application for planning permission was for 178,000 sq. ft. of offices; this was unsuccessful, but various further projects were lodged in the same year. But from 1960, the Labour controlled London County Council became interested in redevelopment of the adjacent land for council housing. The land in question, together with the office development site, comprised a distinct triangular-shaped neighbourhood of about 8 acres. This 'Tolmers triangle' had a classic composition for the CBD fringe of run-down factory, commercial, shop and residential buildings.[7] The London County Council wanted to clear the area and build new housing blocks.

At this stage, the basic form of the local authorities' involvement in the TS development emerged. The LCC wanted to do a housing development for which the land would be particularly expensive due to its speculative value. To subsidise this development, they would attempt to get part of the profit of the office development. There were two levers that the local authority had over the

property developers, planning permission and land assembly. Any property developer would require the assistance of the local authority in assembling the site, using compulsory powers or the threat of them, because of the highly fragmented ownership structure of the site. At first sight, it might appear that these two roles of the local authority would give it tremendous leverage over the property company and enable it to extract a very large slice of the prospective profit. It is true that, in the case of planning permission, the company could have recourse to central government, via appeal if permission were refused. However, as we shall see, there were even more substantial restrictions than this on the local authority's power.

It is interesting to look a little more closely at the nature of these elements constructing the local authority's role in the development and the ideology that is involved in this type of 'planning gain' bargaining. Land use planning controls and the powers of compulsory purchase of land both arise from the contradiction between private property in land and the increasingly social nature of production. The latter manifests itself in two ways in this case: first, in the large size of the firms (concentration of capital) involved in the building, development, and use of the offices (requiring the compulsory land assembly); secondly, in the enormous infrastructure necessary to enable these large capitals to operate (requiring local authority infrastructures and planning controls, both those pertaining to the site itself, and those applied throughout the city region). In these activities, then, the local authority is acting in the interests of capital in general. Yet the powers appear to be <u>against</u> capital since they are exercised against individual capitals. Compulsory

acquisition is exercised against existing land owners (usually small capitals) to prevent them extracting a vast monopoly price from the would-be developer. Planning permission is exercised against the developer, as constraints on the building constructed. And, in this case, the threat to withhold co-operation on land acquisition is used against the developer to extract 'planning gain'. For this reason, there is a tendency for the agents within the local authorities (officers, councillors) to see these powers as being exercised 'against' the market, in the interests of the 'common good' or 'good planning'.

The other element of the situation, the housing development, represents both the interest of capital in the reproduction of labour power, and the interest of the working class in better housing. The latter aspect allows the local authority to present its activity in this areas as in the interests of the general welfare.

In this situation, then, there are two quite different types of activity of the local authority involved. They have a similarity, but only in the last level of abstraction, as attempts to resolve certain contradictions of capitalist accumulation in the interests of capital. But in a more concrete sense, they are related antagonistically. Subsidised housing provision is financed by a levy on total social surplus value which necessarily involves an imposition on capital. In this case, the local state attempts to make part of this imposition on a particular capital (the property company) because it is also performing certain services for this capital.

Thus, both the apparent nature of the local authority functions involved, and their apparent relation, tend to present the process of development ideologically as "local authority <u>versus</u> private capital". The stage is set for a <u>battle</u> which is to be played as

'local authority interested in housing welfare versus the market', or simply 'housing versus offices'. But this is also to appear as the striking of a 'reasonable bargain' between two agents, each of whom has something to 'sell' to the other (profits, planning permission, etc.), and whose collaboration is necessary in order that the naturally ordained product (offices, housing) is to be produced.

Both of these appearances are mystifying. The conflict view is mystified because it ignores the way in which the role of the local authority, both in land activities and housing, is fundamentally conditioned by the interests and power of the capital to which it is supposed to be opposed. The market-bargain view is mystified because the two participants do not bargain even on the basis of limited equality of being two capitals, let alone on the basis of being two of the mythical 'individuals' of bourgeois economic theory. The powers and aims with which the local authority approaches the bargaining table are quite different from those of the property company involved. Yet, as always, these appearances are plausible precisely because they are not merely appearances: as we have seen, they have a limited reality.

The "housing gain from offices" approach to the development was first outlined explicitly in the 1965 borough plan of the new Camden Borough. This proposal was no doubt encouraged by the review of the property market after a downturn in the early 60s. Central government policy was tightening in response to the increasing congestion of the capital's infrastructure, and, with the ODP policy introduced in 1965, was tending towards an almost complete ban on new office construction in London. The borough plan, in line with this, envisaged 'ideally' no more than 8,000 sq.ft. of offices on

the Tolmers Square site. However, the plan also envisaged Camden buying the whole Tolmers Square triangle and leasing off the office site to a developer. The average price of the 8 acres would, at that time, have been about £420-450,000 per acre, and Camden calculated that, in order to subsidise the housing land down to a 'normal' price, it would actually be necessary to allow 100,000 sq.ft. of offices to be built.

These figures give an indication of what the bargaining between the local authority and property interests consists of. The surplus profits to be made by property capital in the office development became a direct pressure on the borough in the form of the high land price. This pressure compelled the local authority to make concessions to property capital. These concessions contradict the best interests of capital as a whole in respect of limitation of congestion and/or infrastructure spending; but the GLC and central government, not Camden, are responsible for these infrastructures, and so this consideration had less weight for the Borough.

Significantly, Whitehall refused Camden loan sanction to purchase the site. It is possible that central government was concerned about the speculative nature of the expected subsidy to the housing land price: having bought the land, the price obtainable for the lease of the office site might well have fallen. It is likely, though, that a more important factor was precisely the sensitivity of central government to the infrastructure implications of another major office development in central London. The disagreement of the local authority and central government about the proposed plan did not represent a divergence of interests between these two arms of the state, but simply that the two bureaucracies are constructed to respond to different partial needs of capital

which are themselves contradictory (in this case; central government to the limitation of state revenues, the local authority to housing provision).

3.2. Stock Conversion enters

In 1967, Camden proposed another scheme which did not, however, radically disengage itself from the problems of the previous one, and which was equally unsuccessful. Camden was approached by Stock Conversion property company, who had been the developers of the adjacent Euston Centre. Stock Conversion (SC) had been using the same technique on the Tolmers Square site as they had on the Euston Centre: buying up small units of the site as they came on the market, using a considerable number of intermediary estate agents and companies so as not to alert the sellers to the speculative value of their holdings. By 1967, Stock Conversion had assembled a large fraction of the south-western half of the Tolmers Square triangle, and were in a position to start negotiating with Camden. As the principal landowner in the area, Stock Conversion now held an important position. While the local authority would still be necessary to SC to assemble the whole site, and while in principle CPO powers could be used by the local authority to buy the site on behalf of any property company, the rights of existing owners still weigh heavily in compulsory purchase, via appeal to central government.

Camden's new plan was to buy only the housing land, reckoned then to cost about £350,000 per acre. It would not enter into a speculation on the office site, but simply try to extract 'planning gain' from the development by SC, to offset the high cost of the land. It was reckoned that, in order to give SC their required profit, plus the cost of the planning gain, 200,000 sq.ft. of offices would now be needed; the doubling of the 1965 figure was due to the down-turn of the economy (the devaluation squeeze).

Although the planning gain element was rather less speculative than in the previous scheme, in other respects this plan was even less appealing to central government, and loan sanction was again refused.

3.3. The 'Levy deal'

The depressed state of the market meant that SC were in no particular hurry to come up with new proposals. However, in 1970, SC (who had been continuing their acquisitions in the meantime) put forward another proposal to the borough, whose form was to become known as the 'Levy deal' (after the principal shareholder in SC, Joe Levy). This planned 250,000 sq.ft. of offices, due to the still depressed state of the market; this had an icing of 120,000 sq.ft. of commercial space - down from 600,000 sq.ft. in the 1965 plan.

While the ownership plan was the same, the bait for Camden was a much more substantial subsidy than in the 1967 scheme. This was to have two parts. First, a share in the surplus profit of the scheme, as if Camden were the owner of the site (though the Borough would not receive any normal 'ground rent' element). Secondly, a direct subsidy to Camden for it to buy all the housing land at a price for which it could hope to get loan sanction.

The surplus profit sharing was to be on the following basis:

(i) first slice of income in year 1: a return of capital to SC of 10%;

(ii) remaining income = surplus profit, of which Camden to get -
- 20% of first 2% return on capital
- 30% of further return on capital

(iii) first year's proportions of income to SC and Camden to continue forever.

The crucial figure here in practice was the developer's return of 10%: this was high enough to guarantee virtually all the revenue income to SC, at the same time as SC was set to make an enormous capital gain. (Note in passing that the 10% is lower than the rate of return of the project for capital as a whole, since it is calculated partly on the 'fictitious capital' of the land price.) In 1972, estimates of the scheme's finances showed a return in the first year of 8.9% [8]. which would have meant Camden receiving nothing from the profits. Yet the MLR at the time was around 5% and SC would have been able to borrow at only a point or two above this. Moreover, yields on prime property at this time were no more than 5%, so the capital gain was enormous: (8.9-5.0)/5 of the capital advanced of £15m, or about £12m. Two years later, at the height of the property boom, the projected return on capital had risen to 11.8%. But even this would have given Camden only a very small revenue from the scheme - 3% of rent income, or £55,000 in the first year. SC's capital profit on the scheme would have been about £20m, or more than twice the capital advanced.

The second element of the gain to Camden, the subsidy on the housing land, was more substantial. SC was to pay subsidy sufficient to reduce the price to £200,000 an acre; with a market rate at that time of around £450,000 an acre, this represented a payment of £2.1m. While this was a large sum, it was only about 10% of SC's expected profit in 1973, a fact that became the centre of the subsequent political debate.

What determined the size of this 'tax' on SC's project by Camden? Firstly, the ability to raise any lump sum tax at all on the project was rather exceptional, and due to its enormous profitability arising from its central London

location. In provincial town centre developments, involving the local authority, the local authority typically contributes part of the capital for the scheme, as land purchase price, and in many cases does not receive any return at all on this capital for many years.[9] This is not a completely gratuitous subsidy from the local authority to the developer, but is necessary for the scheme to go ahead, given present institutional structures, the revenue from the scheme in the early years is insufficient to cover loan charges on the total capital cost. At Tolmers Square, however, rent revenue would certainly have been sufficient for this. Moreover, SC, already an enormously successful property company, would have no difficulty in finding an extra few million pounds, in addition to its normal capital costs.

The minimum payment Camden had to push for in the deal was that sufficient to enable them to carry out the housing development. A maximum was set, in an immediate sense, by the ability of SC to appeal against refusal of planning permission, and thus to have central government arbitrate on the deal. It is fairly evident that such an arbitration, whether under Tory or Labour government, would not have allowed Camden to extract any more than the topping-up subsidy that appeared in the actual deal. On the one hand, the redevelopment or rehabilitation of the housing in the triangle was becoming extremely urgent after decades of neglect (and sabotage[10.]). The inflation of the housing land price by its speculative commercial value was so obviously connected with the actual proposed commercial development that to make one offset the other was quite acceptable without grossly violating bourgeois notions of equal exchange. On the other hand, for Camden to have extracted more than this would have been for it to have levied a direct

and 'arbitrary' tax on development gain. While the new Labour government in 1974 was to introduce a Development Land Tax, its parameters and most of its revenue were to be firmly under the control of central government. This government would have been as unhappy as its predessor with LAs'taking the law into own hands' against property companies. But this consideration was less important than the simple power of SC to refuse to develop if it found Camden's demand excessive. It was already over a decade since the development had first been seriously planned. Any further delay would mean further deterioration in the housing situation, a loss of rates revenue and the danger, on the political front, that Camden could be accused of being 'flagrantly anti-business'. SC could convincingly threaten to delay the scheme indefinitely, since the overall profitability of the company meant that they were under no pressure to develop quickly.

It was essentially for these reasons, rather than any commercial ineptness, that Camden was unable to extract any better agreement from SC.

3.4. The Levy Scheme is dropped

After years of negotiation, the council backed out of the 'Levy deal' at the council meeting that was to have finally ratified it. This outcome was apparently brought about by a year's campaign by an essentially middle class coalition against the scheme. The campaign was initiated by two freelance journalists, Benny Grey and Christopher Booker, in 1973, at the time that the terms of the Levy deal were first made public. Their interest in exposing the deal sprang from the general middle class unease at the time about the spectacular super-profits being made by the property companies (a feeling to which Heath was responding in his 'unacceptable face' speech); and partly from a more run-of-the-mill concern to expose councils (and

Labour councils in particular) as "commercially inept" and "wasteful of the rate payers' money" (Booker and Grey subsequently made a speciality of attacking Camden for its supposedly "extravagant" house building programme).

Booker and Grey published articles about the deal in the national and London liberal press (Sunday Times, Evening Standard) and circulated a very successful petition against the scheme in Hampstead. As a propaganda weapon, they proposed an 'alternative' scheme to Camden, the Cladius scheme. This involved a company that would be owned by councillors to carry out the development, raising the necessary finance in the City; the entire £20m profit would then be given to the borough. Booker and Grey claimed to have actually lined up finance in the City that would have been willing to enter into such a scheme.[11.] However, the proposal in itself was not particularly interesting as it was more or less inconceivable that such a scheme would have taken place within a capitalist society: the apparent technical difficulties of the scheme were in fact political impossibilities. In the first place, it would have been impossible to 'gratuitiously' CPO the land off SC in order for the state to realise the entire profit of the scheme, without making nonsense of the claims of private property. Secondly, it would be impossible to vest such property with elected councillors without turning Camden borough into a sort of banana republic; and the property could not be owned directly by the local authority without very considerably expanding the powers of local government.

The campaign was taken up locally by the Tolmers Village Association, and group based on local shopkeepers and small business and on the squatters, mostly students, who had recently moved into the large amount of empty housing within the triangle. The former were not affected by the office development proposals as such, but linked their

campaign against the clearance of the remaining part of the triangle to the campaign against SC.

While the campaign was responsible for effectively publicising the deal at a local and national level, it was not the social weight of the forces actually involved in the campaign that led to the defeat of the Levy scheme. Rather, this was due to a general orientation of the Labour Party nationally around this time. The miners' strike, the three day week and the election of the new Labour government posed a problem for social democracy. The Labour leadership could not in any serious way lend its support to the mass struggle against Tory austerity when it was itself about to reimpose austerity by new means. It did, however, have to distinguish itself from the Tories and give itself some anti-capitalist clothes. It did this, first, with much rhetoric against property speculation and, once in government, with the creation of the Development Land Tax and the Community Land Act;[12] and secondly, with the repeal of the Housing Finance Act. It is no coincidence that both these areas concern transfer of revenues (from capital to the state, from the state to local authority tenants) in areas where there is little or no mass struggle - something which largely accounted for the fact that the Labour government subsequently made no progress whatever in either of the two areas. If one sees the action of the Labour council in Camden in dropping the Levy scheme as a part of this process, then one can understand the paradox that this scheme, in which the council leadership had invested considerable political credibility, was dropped without substantial direct pressure from the base of the local

labour movement.

3.5. Camden buys the land

In the aftermath of the deal with SC, Camden achieved their ambition set out in the initial Borough Development Plan, by buying, by agreement, all SC's land in the Tolmers triangle, including the office development site. This was done after the election of the new government, but well before the enactment of the Community Land Act that gave councils new powers of compulsory acquisition. SC's willingness to sell was principally due to the collapse of the property market in the first half of 1974; they would not expect to want to develop the land for another 2 or 3 years. Even then, there would clearly have been considerable political problems in arranging a new deal with Camden. The imminent CLA would also mean that Camden might be able to compulsorily acquire the site. In addition, SC was having problems obtaining an ODP.[13].

On the other hand, Camden had good reasons for wanting to buy SC's holding. Within the national context of Labour's crusade against property speculation, this would start with a bang the process of profitable development land acquisition that the new government was expected to carry out. Equally importantly, Camden hoped that with the land in their ownership, the development could be arranged in minimum time, and the delay occasioned by the recession shortened, perhaps by granting a particularly favourable lease to the developer. In this way, the ever-growing political embarrassment of the delayed development (and its consequences for the housing programme) could be minimised. Thus, there arose another instance - albeit in unusual circumstances - of a common occurrence: the local authority acquires and holds commercial development land which, while potentially yielding a profit, is for the moment unattractive to capital.[14].

Two features of the land purchase are particularly interesting: the price paid, and the method by which Camden financed the acquisition. Camden paid £4m for the 6.1 acres. It was claimed that this represented the price that would have obtained under the CLA: Camden presented the sale as literally an anticipation of the Act. The claim is, in fact, probably justified, but not in quite the way sometimes supposed. The Act when it was passed, allowed for two bases of valuation for local authority purchases. The first was the value of the site at existing use, excluding speculative value: this was the core of the Act. The second valuation provided for was the cost historically paid for the land by the displaced landowner, with interest. The actual price to be paid was the larger of these two. It is evident that the £4m paid at Tolmers Square did not represent the value of the land at the existing use, i.e. predominantly housing with some commercial space. On the other hand, one can estimate that the historic cost formula would yield something close to £4m; my own estimate in Appendix 1 gives a value of £3.8m. This sum would have been considerably higher had it not been for the fact that, as already noted, SC bought the land very cheaply. Even so, it seems likely that the figure was scarcely any less than the full price of the site on the open market, given that it had been valued at £7m in 1971, and there had been a collapse of values in 1974. Thus, Camden's ability to buy the site under CLA terms had a lot to do with the fact that the price paid was similar to open market value, and, in any case, was such that SC received their purchasing cost plus approaching £2m of interest for their involvement in the area. This was hardly the elimination of speculative values that the CLA was claimed to achieve.

Camden applied to central government for loan sanction to borrow funds for the land purchase, but was refused it. In fact, the new government was not at all happy about the scheme. It was all very well to publicise the government's intended land reforms through the now nationally famous Tolmers Square site. But the government was not at all willing to devote substantial (borrowed) funds to this area, as the subsequent history of the CLA made clear. This was particularly true given the state of the property market. In the event, Camden obtained loan sanction for £1m of the cost. The remaining £3m was obtained from a City merchant bank, Morgan Grenfell (MG) in a sale-and-lease-back arrangement; MG actually bought the freehold of the land off SC, and Camden leased it from them, in this way side stepping any Whitehall control. This type of arrangement has a long history within the property sector, particularly where development companies have leased back property they have developed from institutions (in place of loans from the institutions). In the seventies, leasing became increasingly popular as a substitute for capital expenditure on machinery and vehicles for both private companies and local authorities. The capital cost of the purchase to the leaser, usually merchant or clearing bank, could be offset against profits for Corporation Tax purposes. This makes the arrangement particularly advantageous for local authorities who do not, of course, pay Corporation Tax. A lease-back arrangement for commercial development land of the type made at Tolmers Square is not unprededented,[15] but it is probably the largest to date.

While MG formally owned the freehold, all associated risks lay with Camden. The 'tenancy' agreement was such as to resemble as closely as possible a normal financial loan. Camden paid a 'rent' adjusted

monthly to be equal to the MLR + 3% - a high rate of interest for a local authority to pay, quite apart from the tax benefits to MG. MG also received all rents from the property, amounting to around another 1½% additional return. The arrangement ran for 5 years only; Camden expected to be able to buy back the land within that time with funds that would become available under the CLA. Camden had to buy back one twentieth of the property every year, though they could buy it back faster if they wanted; and, at the end of the five years, MG could force Camden to buy back the remainder of the property, or could then dispose of it as they wished. All MG's expenses for these transactions were to be borne by the Borough, who also had complete responsibility for managing the property (e.g. evicting squatters).

In the event, Camden bought back the land considerably faster than they were obliged to do. This was not, however, done with the CLA funds, principally because very little money was available for local authorities to implement the Act, and most of the money that was made available was for quick unproblematic housing schemes on green field sites. The Act was so carefully constructed so as not to seriously attack City interests,[16] that it was impossible for a government intent on public expenditure cuts to implement it. The money actually used by Camden to buy the land off Morgan Grenfell came from three sources:

(i) the cost of the part of the land used for housing was transferred to the housing account;

(ii) Camden was able to obtain a lump sum payment for the lease of the commercial site to the developer, as described below;

(iii) the remainder was made up from discretionary sources of finance, the Capital Fund and Section 137 rates.

We shall see below how this left the Borough financially.

3.6. The offices finally go up

In September 1974, when they were in the process of buying the site off SC, Camden said that they would build much less office space than had been proposed under the 'Levy deal' - 85,000 sq.ft. rather than 250,000 sq. ft. This was in line with the radical stance that they were taking over the property issue at that time. In 1975, however, with the initial euphoria of this campaign beginning to wane, the council announced that it would be necessary to put up 300,000 sq.ft. of offices in order to cover the cost of the land that they have purchased from SC! The figure of 85,000 sq.ft. had evidently been based on pre-recession values compared with the post-recession purchase price of the land. The jump in space 'required' was thus analagous to that we saw take place between the peak year 1965 and the recession in 1967. The fact that 300,000 sq.ft. would have been necessary to cover the land purchase corroborates what I have already argued, that the price paid was actually the market value of the land in 1974-5. Camden's proposal to build more offices than had been planned under SC's ownership not surprisingly induced considerable cynicism about the value of Labour's land municipalisation programme.

But the collapse of the property market meant that property capital was simply not interested in building at this time. It was not until 1978 that Camden was able to reach an agreement with a development company for the construction of the offices. In the meantime, the Borough was saddled with interest payments to MG of around £0.5m p.a.

Camden received five offers to develop the land - including one from SC - from which they chose as developers Greycoats Estates in conjunction with the Legal and General (L&G). Greycoats had a considerable edge over their rivals due to their close contacts with Renton Howard Wood, the architects employed by Camden for the housing construction and overall plan of the triangle. The form of agreement between Greycoats, the L&G and the Borough differs in interesting ways from the typical agreement outlined in section 2. In a normal agreement, Camden would have been expected to bear the capital cost of the land (or, normally, the loan repayments on it); to have guaranteed the developer its 'developer's return' in the first few years of the scheme; and possibly to have provided part of the building finance if the building costs rose above the fund's limits. 'In return', it would receive ground rent and, eventually, a share of the surplus profit. At TS, however, Camden was compelled to take a more modest role. It needed to find the money to repay MG in full by 1980. And, as the government instituted its cuts in local authority spending, it became increasingly important to avoid any liability for short term revenue losses on the scheme.

Camden, therefore, had two requirements for an agreement with the developer. First, that it should receive a lump sum payment for the lease sufficient, taken together with funds from other sources, to pay off MG. Secondly, that the developers should have full responsibility for funding the whole building work and for meeting any shortfall in return in the early years. The Borough was, in fact, successful in meeting these objectives. In this sense, the agreement reached was unusually favourable for the local authority, due essentially to the enormous profitability of

the site. However, as we shall see, this did not prevent the Borough from making a large to medium term loss on the scheme.

Another novel feature of the agreement was the respective roles of the developing company and the funding institution. For the first time ever on a major scheme, the development company, Greycoats, arranged to put no capital whatever into the scheme, while the institution, the L&G, agreed to open-ended financing, whereby they would supply any necessary finance to finish the scheme, regardless of cost inflation (instead of merely providing a loan of an agreed sum). Moreover, the L&G would not require Greycoats and/or the Borough to guarantee it any particular return in the early years. This agreement marks yet another increase in the tendency I have already noted towards the direct involvement of the institutions in the process of property development. The institution, to most intents and purposes, is the developer here; the development company is reduced to the role of an adviser and broker. That institutional involvement has progressed too far in this direction is due less to any long term tendency for the institutions to become fused with the operations they fund (the development of a new 'finance capital' in Lenin's sense), than simply to the monopolisation and large super-profits associated with the development of commercial buildings on prime sites.

The agreement reached was for the construction of 150,000 sq.ft. of office space - half Camden's estimate of what was 'necessary' three years before, due to the picking up of the market. Also included in the building was some shopping space, a cinema, gynasium and a pub; these would, however, only make a small contribution to the total rent revenue.

The details of the agreement reached in June 1973 were as follows:-

Capital Contributions

L&G : all, estimated in August 1979 as £22.15m of which £2.25m to be paid immediately to Camden for the land.

Greycoats : O

Camden : O

Revenue Shares

Revenue shares to be fixed forever from those obtaining in the first year, calculated as (expressed in the categories set out in section (2.3)):-

Successive slices of rental income:

(i) Developer's return : 6%, all to the L&G
(ii) Ground rent : O
(iii) Surplus Profit : to be divided 50% to Camden, 50% to Greycoats.

Camden grants the developers a 125 year lease.

Note that Greycoats receives no share of the 'developer's return'. The return assigned to the L&G, 6%, compares with yields at the time of 4 to 4½% on fully let prime property, Thus, through its more 'adventurous' role, the L&G has secured a very much larger return - for 125 years. If the first year rental income were to fall below 6% return, the L&G would receive a lower initial return, while Greycoats and the Borough would never receive any income from the scheme.

Various possible outcomes of this arrangement are shown in Table 1. At the time of the agreement, the worst expected outcome was for the initial return to be 7.7%, the best for it to be 10.2%; these would have given Greycoats and Camden each respectively 11% and 21% of the rental income. Revised projections in May 1980 indicate a likely outcome of 17% of income each for the developer

and the Borough. The scheme is due to be finished for letting in Spring 1981.

Some other features of the development are worth commenting on. The first is that Greycoats has gained more from the scheme than would appear at first sight. Greycoats is closely allied with McAlpines, the builders. McAlpines secured the contract for the building, worth around £20m. They are also the builders of the housing scheme adjacent to the commercial development (between it and Drummond Street); awarding this contract in this way was considered necessary by Camden "to avoid poaching of labour between the two construction sites". Since Greycoats' interest was rather ambivalent in the matter, the job of vetting McAlpines' costs has been assigned to the Borough, rather than, as is normal, to the developer.

The bridging finance (i.e. the finance for the building up to the first letting) is being provided by the L&G, rather than by a bank, as is usual. This is partly due to a reduction in lending for property development by the banks following their over-exposure in the 1974 slump (bank lending in this area fell from 10% to 5% of their total lending between 1975 and 1979). Partly it is due to the very high MLR in 1978 which made this an attractive investment for the L&G. But the main factor is, again, the further extension of the funds' activities into parts of the development process formerly considered 'entrepreneurial'.

The L&G's confidence in the scheme has evidently not been misplaced. Soon after the agreement was reached for the development in 1978, the entire office building was pre-let to Davey International, the mechanical engineering firm as head offices. For the promise to let on completion, the initial rent is to be 10% below market rents prevailing at the time.

The tax implications of the scheme are very complex because of the local authority freehold. It is thought likely that the development will not be liable for Development Land Tax, presumably on the grounds that the local authority is considered to have reaped the full development gain on the land - a somewhat ironic assumption, as we shall see. (If DLT is payable, it will be paid by Greycoats.) Although Camden now has the freehold, Greycoats may be able to claim a capital allowance against tax for the leasehold. If it does so, it has agreed to pay Camden 50% of the proceeds, in line with the sharing of the surplus profits.

A footnote: For their advisers in the negotiations with Greycoats and the L&G, Camden took on Morgan Grenfell, who are now considered experts in the area of local authority involvement in property development.

3.7. Camden's financial balance sheet

How did all this leave Camden financially? It is difficult to arrive at exact figures from the published sources, but the general position that emerges is fairly clear. To fit the published figures, I take as a unit the 'island site', which includes the one acre commercial site plus about 4 acres of mainly housing land. Camden's total costs for the purchase of this, consolidated to September 1979 when the last of the MG land was bought back, were:

Purchase of SC's land, 1974	£4.0m
Purchase of remaining freeholds	£1.0m
Interest paid to MG (my estimate)	£2.1m
	£6.1m

Receipts from outside of the planning and related accounts were:

From housing Account, for 4.3 acres at £175,000	£0.75m
From sale of existing office block in North Gower Street	£0.30m
From sale of lease to developers	£2.25m
	£3.30m

The sum paid for the housing land was determined by the maximum that could be charged given the controls on local authority housing expenditure. There was thus a deficit of approximately £3.8m on the development of the island site. This was funded in some proportion from the general fund for capital projects (accummulated from residuals in the funding of previous projects), and from the rates.

Against this should be offset the office rental income. One way of comparing deficit with the projected income is to assume that the £3.8m had been borrowed on the market, as would be normal for capital projects; in 1979-80 this would have been at a rate of interest around 18% giving loan charges of £800,000 pa, from mid-1981 (assuming interest consolidated only over the minimum period from June 1980). The income from the development estimated in May 1980, £380,000, falls far below this; and at an inflation rate of 12% would not cover the notional loan for another 6-7 years.

Another way of looking at the balance sheet is to assume that Camden sold its share of the rental income on the market for a capital sum - something it is at liberty to do at any time - at the first letting in mid-1981. Assuming a yield of 5% and the same estimate of rental income, this would fetch £7.5m. Bearing in mind that this is a highly speculative figure, this would represent a big capital gain over the 'cost' of £4.5m (deficit

plus minimum consolidated interest). This appears to put Camden's finances on the scheme in a much more favourable light.

The apparent contradiction of this with the large short-medium term losses sited above arises simply from the fact that the Borough has become involved in the scheme as if it were a speculative developer. It accepted a lump sum for the lease, quite insufficient to cover its costs on the land acquisition; if one regards the £7.5m valuation of its revenue share as the full land price on the market, then it is apparent that Camden got a payment from the developers well below market value. In exchange, it receives a probably substantial but certainly highly speculative income. But this must be reckoned as a short-medium term revenue loss to the Borough, because of the effects of inflation. The 'cost of capital' to local authorities (as to development companies and industrial capital) is at fixed rates of interest, whereas valuations of land and other forms of 'fictitious capital' are made in terms of real rates of interest (actual rate less inflation rate). This kind of involvement by local authorities thus can easily lead to short-medium term losses.[17.]

Why did Camden accept this form of involvement. I would argue that it was <u>imposed on</u> the Borough by the developers. By passing over to Camden most of the cost of the development site, in exchange for a share of the long term income, the L&G divested itself precisely of the most risky slice of the scheme. The surplus profit represents the risk element of the expected income; the land valuation is based on surplus profit in the broadest sense, and its speculative size corresponds in part to this risky element of income. The L&G thus, to a large extent, avoided having to invest in the land for the scheme. Camden has fulfilled here one of central roles assigned to the state in late capitalism, that of taking over necessary investments for capital that

capital itself regards as too risky.

The only alternative explanation is that Camden, acting as a capitalist, actually sought a speculative outlet for around £3m of capital that it had managed to accumulate from various sources. But a 'state capitalist' or 'state monopoly capitalist' explanation of this type flounders on the question: Why then did Camden not enter into the development on the same basis as the L&G, or even Greycoats, and thus secure itself a much less risky 'investment' of the type one might expect of a 'large capital'? We must conclude that the Borough's role as owner of the land in no way turned it into a simple property capital in the context of the scheme; rather, it played an essentially subservient role vis a vis the actual property capital involved.

4. POLITICAL CONCLUSIONS

Finally, I would like to develop some general points that have arisen in the discussion.

4.1. Property capital and the local authorities

In what way does property capital bring pressure to bear on local authorities to agree to its plans for a particular area? This question is often approached as an essentially sociological one: an investigation of the social ties between councillors and officers on the one hand and business on the other. This is the approach of much academic work[18] and also of the perennial exposure by the press of corruption in local government. While these ties may play an important role in particular cases of development, they cannot be regarded as the most general underpinnings of the compliance of local authorities with property capital. To suggest that they are is to trivialise the problem into one of contingent

features of social life, or worse, one of individual corruption. (This is not to say that the phenomenon involved here may not be significant areas for political struggle: e.g. the issue of corruption in the Labour Party in North East England in the T. Dan Smith period.)

Rather, the Tolmers Square case suggests two fundamental forces at work, and forces which are instances of the most general types of power exerted by capital over the state. The first is the power of property capital to refuse to develop until the conditions guaranteed by the state meet its requirements. As we have seen, this postponement can operate for very long periods. The conditions placed on the local authority, and thus the pattern of delays, is modulated by the business cycle as the conditions of profitability in the market vary. The power of this veto of property capital lies in its ability to paralyse all areas of social life associated with the site in question. Because of the way in which land enters into all social activity, this paralysis potentially affects both bourgeoisie and the working class, as well as the state itself. At Tolmers Square it resulted in a lack of opportunity for 'user' capitals to operate on the site (office users, shops, small industry, etc); a corresponding lack of jobs offered there; a drastic deterioration in the housing in the area; a degree of uncertainty which affected the investment by small business already in the area; a lack of rates revenues for the local authority; as well as the obvious environmental decay of the area. All these aspects are not of equal weight; but together they constitute an enormous pressure on the local authority to bow to the demands of the developer or land owner.

This kind of pressure operate in all types of commercial development. In the least profitable or more 'difficult' ones it may mean direct financial subventions by the local authority. In other cases, it may be more a matter of extracting planning permission for a

development that partially contradicts other aspects of the local authority plans. In the latter cases, the local authority may stand to gain financially from the development, even in the short term. Here, a different pressure comes to bear : the mobility of capital enables it to place conditions on the taxes that the state wishes to raise from it. The phenomenon is well known at the international level, where particular multi-national capitals or capital in general (often via the IMF) is able to dictate policies under the threat of withholding investment. This process can take place all the more easily between local authorities, due to greater mobility or capital within a particular state, and can, therefore, be exerted by smaller capital (medium to large capital in national terms). The bargaining counters are essentially the same in the local as in the national case: the ability to 'paralyse' social life, as already described, and the ability to plug sources of state revenues.

The "state revenues" in question in the case of commercial property developments may simply be the combination the development makes to rateable value. But where the local authority is able, and seeks, to obtain financial benefits in addition to this, the revenue is generally intended to directly finance a development with inflated costs adjacent to the commercial development. This may be infrastructural (as at Centre Point and the Euston Centre), or it may be housing, as at Tolmers Square. In the latter case, the role of the local authority as provider of 'means of reproduction' becomes enmeshed with its role in providing the direct conditions for profitable accumulation. These two activities involve different sets of class pressures - which accounts for the many political complexities that surround such developments.

4.2. Local Authority Land Ownership

The history of Tolmers Square illuminates some of the limitations on the progressive role of state land ownership in an advanced capitalist society. We have

seen some of the pressures that lead to local authorities taking ownership of commercial development land: pressure from property capital to assemble sites (and, in some cases, for the local authority to bear the short/medium term costs of this); pressure to intervene to expedite a development blocked by capital, sometimes linking with a pressure from working class organisations to take ownership of the land as a step towards generalised economic planning; and finally the hope of the local authorities of gaining a substantial source of revenue in the long term. All these were also elements in the Labour Party's widening of local authority land purchasing powers in the Community Land Act (though this measure also involved other issues related to other types of land).

The ability of local authorities to buy commercial development land is, however, severely limited by countervailing pressures. The most fundamental of these is the regard of bourgeois law for the prior rights of property owners, large and small. It is not surprising that, even within the Community Land Act, the landowner could not receive less for land than the costs actually incurred in buying it, even allowing interest as a 'cost'.[19] We have seen how, at Tolmers Square, this left the price of the land to the local authority still at a very high level, and at a level that still dictated the type of development that would take place on the land, and which left the local authority with a medium term deficit.

This price, in turn, places severe restraints on the ability or willingness of the local authority to make the purchase, given that the bourgeois state does not own capital (except immobile capital tied to limited, structurally and legally defined sectors of production), but must raise its revenue as deductions from wages and profits (or as loans whose charges may need to be funded from these sources). At Tolmers Square this

meant that for a long period the local authority was not allowed to purchase the site, and that when it finally did so, the financial pressure were intensified by the charges paid on the loan.

Both these factors - the rights of the owners of means of production, and the structural place of state revenue - are deeply embedded in 'normal' bourgeois relations. They are not immutable, but it would require a very strong movement to begin to shake them. Such a movement clearly was not present in the history of Tolmers Square. I have argued that the most significant 'radical' pressure was that of Labour Party policies, which reflected working class pressure only in a partial and highly mediated way. To go beyond the experience of Tolmers Square would require a far more direct and organised intervention by the labour movement.

NOTES AND REFERENCES

(1) See, e.g. J. O'Connor, The Fiscal Crisis of the State, St Martin's Press, 1973.

(2) See, e.g. K. Marx Capital, Vol.3; D. Harvey, Social Justice and the City, Arnold, 1973; D. Massey and A. Catelano, Capital and Land, Arnold, 1978; Robin Murray, Value and Theory of Rent, in Capital and Class, 3, 1977 and 4, 1978.

(3) N. Wates, The Battle for Tolmers Square, Routledge and Kegan Paul, 1976.

(4) For general accounts, see Massey and Catelano, op.cit. B. Colenutt and P. Ambrose, The Property Machine, Penguin, 1975. For an account of the role of local authorities in large commercial developments, see A.J. Gough, Town Centre Redevelopment and the Local Authorities, unpublished M.Phil thesis, University College, London, 1976.

(5) ibid. Ch. 2 (iii).

(6) See Wates, op.cit.

(7) ibid. Introduction.

(8) ibid. p.90.

(9) Gough, op.cit. Ch.6.

(10) Wates, op.cit. Ch.3.

(11) If true, this would largely have been due to rather exceptional features of the scheme; the exceptional profitability of the Tolmers Square site; and the fact that Grey himself is a successful property developer.

(12) This obviously is only one episode in a long history of Labour's concentration on, and failure with, land nationalisation. For the roots of this, see Murray, op.cit.

(13) First due to ODP restrictions introduced by the Tory Government at the end of the inflationary boom (December, 1973). A restrictive policy was continued by the Labour Government, but by that time the market had collapsed anyway.

(14) Gough, op.cit. Ch.6(ii).

(15) Bradford Council, for instance, used this arrangement in the early sixties, also to avoid loan sanction control.

(16) Land Campaign Working Party, Lie of the Land : the Community Land Act - Land Nationalisation Betrayed, 1976.

(17) Gough, op.cit. Ch.6.(i).

(18) For example, at the level of the state as a whole, R. Milliband, The State in Capitalist Society, Weidenfeld and Nicholson, 1969.

(19) I am leaving aside marginal differences in interests rates.