

Land Value and Its Relationship to Government Contracts

To understand the value of land, one must understand how money is directed to businesses through the placement of government contracts, and how employment opportunities on a grand scale are created.

The area that is the most concrete for most people is Real Estate. Real Estate is an excellent metaphor through which value can be understood. Real Estate are the homes people live in, the factories that produce our goods, office buildings, shopping centers, farms, mineral rich deposits, land rich in forests, and undeveloped land. The bottom line of Real Estate is its value; what it sells for. The starting point for the valuation of Real Estate is the land itself. A piece of land can have value with nothing on it, like an empty lot, just because of its location. Besides location it may have value for what it earns as should it have timberland, mineral deposits, a farm or ranch, or commercial buildings. In the case that we will explore we will take a large tract of land and track its increase in value over a long period of time as it is developed.

Let us say I am having a vivid dream and in it I come into ownership of 10,000 acres, and the year is 1928. The land is undeveloped, which means it is covered with nature's abundance. There are hills, valleys, flat lands, and riverbed. There are trees, grassy lands, a pond or two, and there are herds of wild animals, and flocks of birds. There are no roads, but it is accessible by horse. At the northern edge of the property, there is a dirt road that ends, and this road leads to a town fifty miles further on. The current value of my land is \$100 an acre, or \$1,000,000. I have set this price, and should anyone want it, I would sell it for that amount.

After having the land for a while, a man approaches me and wants to run a herd of cattle on it. He has 1,000 cows. He is willing to pay me 10 dollars an acre per year for this right, or \$200,000 a year. The man wants to use the land for some time, and he wants to control his right, so that tomorrow he won't have to move his herd should someone come along and offer me more. Because of the long term of the ground lease he would like to build a ranch house for his employees, which would revert back to the owner at the end of the lease. A lease is written, for fifty years, with the lease being set at a value of \$10,000,000 over 50 years, which is 50 years at \$200,000.

What then is the value of my land? If I found a buyer in today's market as it is, it is worth \$1,000,000. But now that I have signed a lease, which gives its use to someone else, it is no longer worth only \$1,000,000. No, now the value is in the value of the lease that guarantees \$10,000,000 over 50 years. If I want to sell the property, I would now do it on the value of the lease. What I am selling is the revenue over 50 years. There are wealthy people who want a long-term investment for a set amount of money that is secure. Within a short time frame the owner is referred to an individual who seeks exactly such an investment. They start to negotiate. The owner thinks that certainly he can't sell it for \$10,000,000 for that is its worth over 50 years, but with the lease in place he feels that he can sell the investment for more than the \$1,000,000 that was its original land value. He decides that he must agree to take less than \$10,000,000, but more than \$1,000,000. The investor and he eventually negotiate a 70:30 split of value and he sells the property and its lease for \$3,000,000. The owner gets \$3,000,000 today, and the investor will make a profit of \$7,000,000 over the fifty years.

Time passes and after 45 years the investor's grandson now has inherited the property. It has been good for the family. In 45 years, the town that was far to the north has grown considerably and now is just twenty miles from the border of the ranch. The city is still too far away to make it developable for residential use. People don't want to live so far away from the

town where there is work and entertainment. What can the grandson do? He can seek to obtain a renewal of the lease with the cattleman's grandson, hopefully at a much higher lease rate. The cattleman's grandson doesn't want to lose the land, but recognizes that in five years that's exactly what will happen with the termination of the 50-year land lease. He has hopes of obtaining an extension to the lease if the owner can be reasonable. It seems that it could be a deal in the making. But is there?

Over the following months the investor's son has been contemplating if there isn't a way to increase the value of the land further than an extension of the lease. He is wealthy and has contributed to a particular political party, which is heavily oriented toward business and that is now in power in the state and the federal government. He also has many business and political associations that have a variety of backgrounds and interests. He tells a few of his associates of his desire to increase the value in his land and one of his associates comes up with an idea. This associate being a politician knows that there are a large number of defense contracts coming up in the next few years. He believes that with the contraction of the general budget for defense that defense contractors will be looking to tighten their belts and get out from leases in the cities that are too costly. The politician shares the thought with the grandson that if they could get one or more of these defense contractors to be enticed to lease buildings at lease rates that are significantly lower than the cost in the cities, that the ranch land would make an excellent location. The grandson is interested and of course controls the cost of the land, which would be his contribution to such an effort at a value yet to be negotiated. In thinking more deeply about this concept he begins to visualize that with industrial buildings on his ranch that would only require a certain percentage of the land that the immediately surrounding land could then be built out to supply the employees with housing, a mall, neighborhood shopping centers. With the influx of employees the necessary services will also have to be provided. To make this possible office building would also be built to house the accountants, lawyers, etc. He even imagines that a hospital would fit in nicely with medical buildings adjacent. As it turns out, one of his close associates is a Real Estate Developer and has the expertise to provide the "know-how" to bring this about.

The owner of the property can see a wave of prosperity beyond anything he could have imagined and so he offers to form a partnership with the politician and the Real Estate Developer. The politician knowing the principals of a number of companies that regularly bid on defense contracts invites them out to the ranch for a weekend get-together. At the end of the weekend, with the addition of the principals of the defense companies to the partnership, there is a general agreement as to the plan.

The partnership succeeds in its plan, and leases are drawn up for the industrial buildings to house the contractors. With the contracts in hand the partnership goes to the lending institutions, and based upon the value of the contracts, which are for fifteen years, with a value of one billion dollars, the partnership easily finances the cost of industrial parks, the residential communities, and the office and commercial buildings. They call their development a planned community with the concept of building it out in phases.

As this process takes place, the value of the 10,000 acres ranch skyrockets. On the day that the workers report to work, housed in new homes, shopping in new stores, serviced by lawyers, accountants, etc. in the new office buildings, the property is now worth 1 billion dollars. In this way, a relatively small group of people, knowing how to work the system, created incredible value. Surely, it is easy then to see how many communities that are built on "ranch"

land were created in Orange County, California, a partnership between business, government, and a certain political party.

Oh, but there is more value to be added. With this initial creation of value, it can be further increased by bringing in more contracts. More defense contractors seek to relocate to the ranch on land that has yet to be developed. With these contractors committing to leases the partnership commences Phase II. In Phase II given that there is less land available for development and the interest of a new wave of contractors the value of the remaining undeveloped land has increased. Along with these new companies moving in the need for the new workers will be met with more building of homes, more shopping centers, and offices. Along with the influx of workers comes an increase in the prices over that of Phase I. In the five years since the original phase in which houses were sold for \$100,000 they now could go for up to \$200,000. With more people more services need to be offered and the lease rates for those businesses will be higher than that was offered in Phase I. With the success of the blossoming economy on the ranch, which is now the size of a small city, more and more interest is being evidenced by the people in the large city to relocate to a more pleasant environment. Among these people are those with greater incomes and these affluent people seek a secluded neighborhood, a need that the partnership is happy to satisfy. Naturally, the more affluent people want a higher quality of services, and so the type of retailers become more high end, charging more, and of course having to pay more for the space they rent. This increase of cost increases the value of the property, and in this way value is further encouraged on its upward spiral. It is easy to see from the Real Estate Example, that value is created and manipulated, far beyond the imagination of most people.

In this story, we can now easily understand how value is a creation of people who have the minds capable of imagining and then the ability to bring this image into reality. These incredible people actually create a virtual economic reality that many of us live within. We live within their construct. First, they create demand for the houses, the office and retail buildings by creating jobs through government contracts in undeveloped areas and then they create the supply for these demands. They continue building the momentum in this process by fueling more demand into the existing facilities by the continued direction of government contracts into the industries that support the created economy. This is the ultimate planned economy. It is easy to create or deflate economies through the control of the disbursement of the government contracts. The control of the government contracts is hardly competitive. Who ever finances the politicians control their votes. The power of politics is to determine who wins the “competition” for government contracts. It’s the way of the world, isn’t it?