

BUY LAND — AND HOLD IT

Extracts from an article by James A. Kern in *Real Estate Review*, Winter, 1974.

INVESTING in unimproved land seems to be the easiest way to acquire wealth in this country today. It presents minor investment shortcomings, but they are far outweighed by the advantages. The investor in vacant land has no employees problems, no maintenance or repair problems, no accounting or inventory problems. Of increasing importance, he is not required by the government to report his business activity in minute detail on dozens of different forms. There is no reason for the land investor to ever become personally restricted by his investments. He can leave town any time and take vacations for as long as he likes. Yet, vacant land, when paid for in full, is one of the most secure investments in the world.

According to *Fortune* magazine, land values have risen 7 per cent a year over the last fifteen years. If this increment is satisfactory, you can buy land just about anywhere and profit. If not, you must be more selective, and the first question to ask is "What is going to happen here?"

When brokers show property, they are fond of using a comparison approach: "The parcel to the north sold for \$5,000 per acre; the parcel to the south sold for \$5,500 per acre; so this property is a steal at \$4,500 per acre." What difference do these sales make if there will be no changes in the area for the next five years? If a new highway is coming through, how important do these sales become? Perhaps the land is a steal at \$6,000 per acre.

New Highways

Let's say you open the paper tomorrow morning and read that a large new highway will be built around the outskirts of your city. Your musing might go something like this: "The people that own land in the area are going to make a fortune. It's too bad I don't own land there. I could buy land now, but everyone else is reading this article. The news is out and the land prices have already shot up." So you put the paper down and do nothing.

Yes, the prices went up that morning, but only a fraction of what they should have. The truth is that people do not believe what they hear until it actually happens. This is as true of wars, old age, and hurricanes as it is of highways.

How should you react to those morning headlines? First, call the state's highway department to check the newspaper story's facts. Once you have determined that the highway is actually going to be built, you are ready to go shopping.

Land-Use Conversions

New roads have the greatest impact on land prices, but land-use conversions that accompany growth invariably raise values. Whenever farmland is converted to single-family home sites, or zoning is changed to permit multiple-family housing, or an avenue of large old homes on oversized lots sees the construction of office buildings, land values experience

dramatic upward changes. And even though many of us regret some of these changes and may fight them, once higher-density land-use patterns are approved, money will be made on the resale of land.

A man who paid \$1,200 for 80 acres of land — "for his cows" — on the outskirts of Miami in 1946 sold it for \$565,000 in 1962. The same land sold for over \$3 million in 1972. Industrial plants and apartment buildings are rising on it today.

I recommend land for the long pull. The general tendency of people holding land, particularly those who have been active in the stock market, is to sell too soon. But once you have found and purchased a well-located parcel, why let it go? Short of detrimentally changing use patterns, the parcel's value should improve with time.

THE RIGHT WAY TO TAX LAND

From an article by Christopher Booker in
the Daily Telegraph, April 13.

AT THE ROOT of our anxiety over land is this. Is it right that a comparatively small part of the community should make huge, unearned profits out of a finite commodity — land — the values of which are ultimately created by the community as a whole?

In recent months, this anxiety has been chiefly focussed on the windfall gains which are created by the community in the form of planning permission.

Clearly the inequity of this is no longer even a matter for political argument. It was Mr. Barber who introduced a development tax on windfall gains last December — and Mr. Healey who confirmed it.

But the Labour party also rightly recognises that this is only a preliminary scratch at the problem. And it is here that a horrendous prospect arises.

For the centrepiece of their land policy is the nationalisation of all development land. And it is quite clear from such evidence as is available — chiefly that of a lecture given by Mr. Anthony Crosland in February — that they have not really begun to consider what this hugely expensive and laborious proposal would involve.

It is quite tragic that, at a time when public opinion is more than ever before geared to accept a thorough-going attack on the land problem, the Labour party should once again be coming up with another ill-thought-out bureaucratic device, which will assuredly end up on the same slagheap of history as the Land Commission, the Development Charge and the rest.

It is even more tragic that the Labour party should blunder back into these obscure doctrinaire blind alleys when a far simpler and more effective solution to the land problem is staring them in the face.

The only conceivable, practical method of putting an end to the gigantic social problems which arise from the distorted way in which the benefits from land are at present distributed is simply to impose a tax on the value of land itself.

This would not be a tax on the property developer (or even necessarily the land reclaimer), for the work he does in putting up buildings or improving the land. It would be a tax merely on that part of the value of any property which is represented by the value of the land on which it sits.