

**F**LORIDA is the state where dealers turned speculation in worthless swampland into an art.

Innocent investors throughout the United States have lost millions in the everglades and coastal swamps, as they mistimed the investment of their savings into real estate in the hope of making quick fortunes.

The most notorious of the land booms, which took place in the mid-20s just before the 1929 slump, still figures prominently in the memories of Floridians.

**B**UT BAD memories evaporate quickly in the face of renewed prospects of fortunes to be made on the infirm foundations of new property developments.

And so it is that the dollars continue to pour into the Sunshine State. And this spring a party of British investors are flying out under the supervision of the authors of a guide published in London for people seeking tips on land speculation. John Diamond, editor of *The Property Letter*, informed his readers:

*"The Florida property market is booming. There are parts of Orlando, for instance, which are showing higher rates of industrial investment than any other part of the US."*

But the unwary can sink their hard-earned cash into deals as firm as the swamps that dissect the state. As Diamond noted: "There are mistakes to be made, and already there are investors who are returning with their fingers burnt for reasons other than staying in the hot southern sun for too long!"<sup>2</sup>

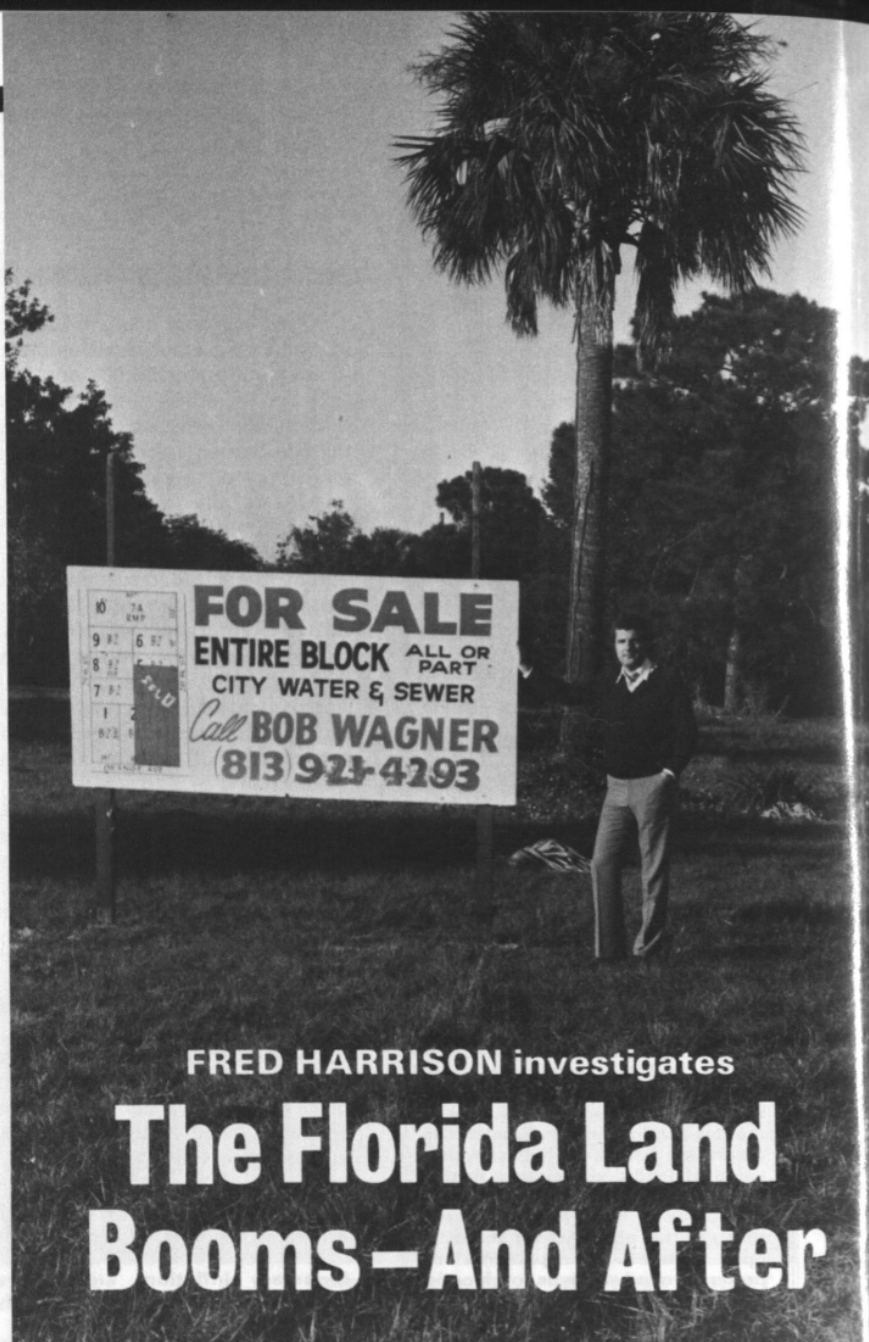
**S**PECULATION in Florida is a state-wide activity. As *The Property Letter* says: "Land speculation in Florida is a perfectly respectable activity. Even nice people do it!"

And so, despite the recession that has struck the nation, the boom in Florida, the land of the succulent oranges, continues unabated.

Most of the money goes into "investment acreage"—\$65 m in the third quarter of 1980 alone in Palm Beach.

In Wakulla County, a real estate company is making a virtue of selling undeveloped acres by announcing that it is "Selling Florida's Last Frontier"—much to the anger of environmentalists.

But you don't have to go into the far-flung swamps to create opportunities. Owners of Art Deco hotel properties in Miami Beach want



## FRED HARRISON investigates **The Florida Land Booms—And After**

the district rezoned for commercial use.

In Boca Raton, land worth \$800-900 an acre a decade ago is now selling for \$300,000-400,000.

But, despite the optimism of dealers, the peak in land values may be rapidly approaching.

Most analysts do not recognise the link between the health of the general economy, and the causal influences of the land market. There are exceptions. Columnist Larry Birger, for example, has drawn the connection between trends in Florida's real estate market and the recession in the mid-70s.<sup>2</sup>

For the most part, however, businessmen continue to predict a buoyant economy for Dade, the county that includes Miami. Even the Florida Home Builders Association fails to link the price of land with the slump in construction; blame is almost exclusively placed on the high level of interest rates!

**T**HE HIGH SOCIAL costs of rental levels that are out of reach for many families are still being counted.

The Miami TV station, in reporting the emergency draft of State troopers into Dade to help police with a major

SOME RECENT SOUTH FLORIDA LAND DEALS: \$m.

	ACRES	BOUGHT	SOLD: Dec. '80
Biscayne Blvd.	1.0	July '79: \$1.2m	\$2.1m
N. Kendall Drive	2.3	Jan. '80: \$0.25m	\$0.5m
NW 25th St./ 96th Ave.	30.0	Jan. '80: \$1.5m	\$2.6m
Ocean Drive, Key Biscayne	6.0	Oct. '77: \$1.0m	\$5.7m

SOURCE: Charles Kimball, *The Miami Herald*, 28.12.80.

**PALM BEACH SALES**

PROPERTY	SALES*	\$m
Investment acreage	24	65.187
Apartment buildings	14	17.402
Apartment sites	20	30.677
Commercial sites	16	15.122
Plants, warehouses	3	2.015
Homebuilding land	12	8.969
Motels, hotels	2	1.600
Stores, offices	11	7.740
Miscellaneous	4	1.462
<b>TOTALS</b>	<b>106</b>	<b>150.164</b>

\*Third quarter 1980; only deals over \$300,000 are listed.



● Weeds flourish on a valuable site on Biscayne Boulevard

crime wave, identified the high cost of apartments as a major cause of socio-economic tensions.

For analysts wishing to avoid penetrating too deeply into the sociological problems, the influx of refugees from Cuba and Haiti into Southern Florida have been very convenient—they are blamed for the alarming rise in robberies, muggings and murders.

But while many of the refugees may be unemployed, even people with jobs are having a tough time.

Efrain Lopez, 58, discovered that the rent on his apartment jumped from \$310 last December to \$435.60 in January.

"How do you live?" he asked. "And how do you eat? There's no justice for those who work..."<sup>3</sup>

The demand for homes is there: but builders are unable to provide them at a reasonable price.

And the problem originates with the land market—the rate at which land flows into the hands of builders, and the prices that have to be paid.

Because low-income families cannot afford to buy or rent their own homes, they are pressuring the public sector.

Key West, for example, has now applied for a \$3m grant from the federal Department of Housing to buy land for new homes. Black leaders in this southernmost tip of the state say that rents have risen to such heights that only the rich can afford to live there.

**The English play ...**

**IT IS A new technique in land speculation that had to be invented in Florida! But it's only a variation of the old English ploy of "having your cake and eating it"!**

The Maxwell family have owned vacant plots of land at SE First Avenue and Third Street in downtown Miami for over 40 years.

That has been ample time for them to learn that land keeps appreciating in value. But that once you've sold the land, someone else starts to cash-in.

Messrs. R. D. Maxwell Jr. and Jerry M. Chafin have just sold half-an-acre of that land to Devon Industries Ltd. for \$1.55m.

Not a bad price, you might think. But the Maxwells are not content with cash-in-pocket. So they came up with a shrewd contractual clause: if the new owners sell the land, they are entitled to a share of the extra profit!

The Maxwells may have given up the title to the land, but they are determined not to lose out on profits from a quick speculative resale!

**N**OT SURPRISINGLY the failure to identify the source of the problem has led to demands for rent controls.

The political pressures are mounting. For in 1980, rents in Dade County jumped an unprecedented 24%. In Broward County, the average climbed from \$314 a month to \$360. The Palm Beach County average leapt from \$314 to \$367.

Rent controls, however, are not the answer. As worldwide experience has shown, they merely aggravate the problem. As the rate of return on investments declines so there is a cut-back in the flow of resources into the housing sector. And that intensifies the problem of shortages!

In Miami, developers are trying to counter the threat of rent control by proposing a trade-off. They have suggested that, if new apartments could be exempted from property taxes, the city would receive a share of rent receipts instead.<sup>4</sup>

But this is merely a convoluted way of reforming property taxes. The answer, surely, is to:

● **REDUCE** taxes on capital improvements: this would encourage investments to new levels, and balance the supply with the demand for homes;

● **RAISE** taxes on the annual value of land: this would minimise or eliminate the damage done by speculation—people would be less inclined to hold land off the market in expectation of even higher profits in the future.

**L**ANDOWNERS, however, are not interested in a rational reform of property taxes, which at present work to their advantage.

Real estate deals are a lucrative way of minimising taxes, for example. A current case in point is the 78-square-mile expanse along the eastern boundary of Everglades National Park.

The Aerojet General Corp. has agreed to sell the tract—largely swampland—to the Trust for Public Land for \$17.3m. But only 17,280 acres are actually being sold. The rest is being given as a gift—thereby making Aerojet's parent company, the General Tyre and Rubber Co. of Ohio, eligible for an income tax break.

Homeowners also have benefitted from the way the property tax is administered—especially as a result of under-valuation. Just how serious the undervaluation is can be illustrated from the recent sale of a home in Bontona Avenue, Fort Lauderdale. The property was assessed—for tax purposes—at

\$562,730. It was sold last December for nearly double that sum: \$1,080,200.

But attempts to enforce registration of 100% values is calculated to cause a revolt, as is currently happening in Monroe County where the 1979 tax roll of \$1.1bn has just been increased to \$1.6bn.

Shrewd politicians, however, have a knack of inventing devices to minimise the financial effects of enforcing tax laws. For example, when Florida's governor, Bob Graham, pushed for higher assessments, he was left in no doubt that homeowners would take compensating action. And on two separate occasions last year, voters approved constitutional

amendments that significantly increased the value of tax exemptions on their properties!

*US property taxes may be riddled with anomalies, but the last place to look for a reform of the system's underlying philosophy is Florida!*

#### REFERENCES

1. *The Property Letter*, London, No. 304, December 1980.
2. Larry Birger, 'S. Florida's economy likely to cool in 1981', *The Miami Herald*, 29.12.80.
3. Gary Moore, 'Strapped Hialeah Renters Vow to Live in Streets', *The Miami Herald*, 21.12.80.
4. Wayne Markham, 'Builders: Trade Taxes for Cheap Rentals', *The Miami Herald*, 21.12.80.



## Landowners fight life-or-death road plans

NEW ROADS mean higher values for owners of adjoining land.

So who should pay for the provision and maintenance highways?

This is a critical question—indeed, a matter of life or death—in Florida, where the costs of a poor network are high:

- Bumpy, pitted roads cost the average motorist an extra \$200 a year in wasted petrol and car repairs; Floridians are throwing away \$1bn a year in wasted fuel!

- Bad roads cause 219 accidents every day; they are the second leading cause of accidents, costing Floridians over \$1bn in hospital fees, property damage and insurance claims, according to the Road Information Program in Washington.

**WHY HASN'T** something been done? According to Miami lawyer Kenneth Myers, who headed the Senate's Transportation Committee in 1979—he retired from the Florida

Legislature in 1980 after 16 years service—the state just does not have the money.

The petrol tax is a flat eight cents a gallon, which does not bring in enough to finance a programme that would provide the state with a network of highways to meet the demands of the economy.

"We desperately need to revise the entire method of financing Florida's transportation system," insists Myers. "It is not an understatement to say that the future destiny of Florida is at stake. Transportation is the backbone of our economy."<sup>1</sup>

A TAX on land values would be the answer. The major beneficiaries would finance the highway system, and this would relieve the lawmakers from imposing other kinds of taxes that reduce living standards and retard the process of wealth-creation.

Yet Florida's landowners oppose the idea that they should pay for the

roads that push up the value of their properties.

In Palm Beach, for example, some developers are campaigning against the country's land-use plan which says that roads must be adequate before developments are built and people move in to use them.

*The developers want to argue about road costs after they have cashed-in!*

And the law-makers seem to be on the side of the landowners. Instead of making—and enforcing—sensible tax laws, they are employing what *The Miami Herald* called "delaying tactics"<sup>2</sup>.

While the delays continue, the landowners are making fortunes and the motorists are dying on the roads.

1. Kenneth M. Myers, 'Down the Road to Ruin', *The Miami Herald*, 21.12.80.
2. 'Officials should face road question', *The Miami Herald*, 28.12.80.