

LAND - the most critical problem

By special permission of the editor we present condensed extracts from the profusely illustrated special survey in the August 1960 issue of HOUSE & HOME. The survey was "written in collaboration with America's No. 1 housing economist, Miles L. Colean, and two of America's foremost land economists — Professor Ernest M. Fisher of Columbia University and Professor M. Mason Gaffney of the University of Missouri. Much of the field research was done Grady Clay." House & Home is published monthly by Time Inc. of New York to serve every section of the American construction industry. Copyright, all rights reserved.

Inflated land costs threaten to price good housing clear out of the market

IN THE SUBURBS sky-high land prices in good locations are driving homebuilding further and further out to find land cheap enough to build on profitably. This further-out land costs twice as much to buy as land close in cost just a few years ago. It costs twice as much to connect to existing streets, sewers, and utilities. It takes a much bigger slice of the homebuilding dollar—19% today for far-out land 12% for close-in land in 1950. The high cost of getting home to this further-out land is a big new factor in housing expense—a bigger factor than mortgage interest for some new houses — and this in turn is driving many families who would like new houses to move to apartments or stay where they are.

So sky-high land prices are the No. 1 reason houses are harder to sell this year, the No. 1 reason merchant builders are finding it harder to offer good enough values in good enough locations to tempt second-time buyers out of their present homes.

Home-buyers balk at paying \$15,000 today for a house little better than the houses they could have bought five years ago for \$12,000 . . .

IN BIG CITIES high land prices are also the No. 1 reason private enterprise cannot build good new housing for middle-income families, so high land prices are the No. 1 excuse for subsidised public housing (in which the supposedly poorer families are housed largely at tax payers' expense in apartments costing up to \$17,500 per unit), and high land prices are the No. 1 justification for asking federal tax payers to subsidise slum clearance by buying out the slumlords at up to three times the re-use value of their land.

Any apartment builder who pays too much for his land has to pay too much for his building too, for (1) he has to build high-rise to spread his land costs over enough units and, (2) building high-rise costs much more per square foot than building low-rise . . .

Since 1950, building material prices have climbed 24%; building trades wages have risen 60%, but since 1950 land prices for homebuilding have soared anywhere from 100% to 3,760%.

(Examples of recent rapid increases right across the U.S.A. are given. An aerial panoramic view of a section of Orange Grove, California, shows how acreage prices have climbed from \$2,000 1952 to \$16,000 today. Builders are warned not to bank on land prices continuing to rise.

IT'S SMART to buy ahead at the bottom of the market, before prices start up. But it is not smart to buy ahead at the top of the market, just before prices start tumbling down again. Suburban land is over-priced today . . . The 100-year graph shows that land prices don't always go up; land prices also fall down . . . They are now overdue for a fall . . . And the longer the price break is delayed, the more serious it will be . . . Already farm prices outside the suburbs have levelled off and started to fall. And don't forget that land prices in most central cities are lower today than they were in 1929! . . .

TODAY'S sky-high suburban land prices are predicated on an artificial and temporary scarcity — a scarcity created in the midst of plenty by holding off the market vastly under-estimated miles and miles of land in anticipation that vastly over-estimated future demands will drive prices still higher. Today's fancy land prices can be kept high only as long as the illusion of scarcity can be preserved, as long as each buyer thinks the land he pays too much for today would cost more — and sell for more — tomorrow. But what will happen when the inevitable day comes when land prices can go no higher and speculators try to cash in on their paper profits? What will happen and who will get hurt when this land-price boom collapses — as every other land-price boom has collapsed?

(Seven big practical reasons are given to show why "most of the land shortage talk you hear is nonsense". Six pages of aerial photographs are presented to show that "from coast to coast the picture around every city is almost the same — there is plenty of vacant land for many times as many people, if only the land could be bought." They show "the tragic land waste, dollar waste, and time waste of the checkerboard pattern of suburban sprawl." The cause and effect of this phenomenon is examined in detail. Extracts follow.)

SUBURBAN SPRAWL —

—IS what happens when land developers cannot assemble at a profitable price the tracts they would like to buy first, so they have to leap-frog out to find land cheap enough to build on . . .

—is what happens when estate owners hold out for capital gains of 1,000% to 10,000% above what their acres cost to buy in horse-and-carriage days . . . Millionaires pay almost no taxes to hold on to their estates; they can deduct up to 91.72% of the local levies from their state and federal taxes.

—negates, and frustrates the purpose of cities which is to let more people live and work close together and so utilise and enjoy the maximum efficiency of community facilities and community enterprises, with easy access and cheap distribution . . .

—penalises farmers who want to farm instead of speculate. It excites speculative hopes that inflate land prices far above the level farming can support. It discourages farm improvement, for who knows how soon the orchards may be pulled, the barns levelled, the machinery auctioned? . . . Open fields, cow pastures, private golf links, and millionaire estates are fine, but it is much better to drive out five miles beyond your home to enjoy seeing them when you want to see them than to have to drive five miles past their "No Trespassing" signs when all you want is to get home.

—defies good local planning and mocks good local land planners . . . What chance do far-sighted planners have against the profit motive working full blast in reverse and offering quick profits on bad land use? . . .

—is why almost every city is surrounded by a blight belt of by-passed land whose owners held out for too high a price and did not sell . . .

SPECULATION

(Of the five main reasons for the present apparent land shortage the first is land speculation).

COUNTLESS ACRES are being held in "cold storage" by land speculators hoping for still higher prices tomorrow than their land would fetch today. (Some of these speculators are syndicates formed for the express purpose of land speculation; others are estate owners sitting tight for still bigger capital gains on their property, or farmers more interested in land prices than in crop yields.) This speculation is the No. 1 reason for expecting that great quantities of land will come on the market when the speculators decide prices can go no higher, so it is the No. 1 reason you can be sure supply will eventually overtake demand and bring prices down . . . "

[Other reasons cited are time ("land development takes so long that the supply of land for home building responds slowly to the stimulus of high prices"), overzoning, fragmentation, and misinformation —

"buyer and seller must grope to decisions by hunch and guess . . . scarcity is exaggerated and prices are inflated by professional optimists . . ."]

Unless land inflation is corrected soon, the consequences could be very serious

PAPER PRICES for land now total close to half a trillion dollars — nearly twice the national debt, more than six times the federal tax revenue, nearly twice today's price of all listed stocks, more than twice the resources of all our commercial banks. If this bubble can be deflated quickly and now, little harm will be done. The speculators will lose their unearned paper profits, but that is about all.

But if we postpone the correction until much more of the land has been sold and covered with buildings mortgaged at prices that cannot be sustained, the credit structure of the country will be deeply involved, as it was before 1932. So it is high time everyone recognised the need of thinking out coherent land policies that will put a firm land price foundation under our prosperity. No economy can be sound and stable as long as its biggest asset is careening up and down on a \$500-billion roller coaster.

Today the misuse and overpricing of land add up to a national problem and a national danger of the utmost seriousness, but nobody is talking about it, nobody is thinking about it, nobody is worrying about it, and nobody is looking for even a short-term answer, let alone a long-term solution. In fact, to quote the report of the *House & Home Round Table on money and inflation* (H. & H. Jan.), nobody even seems to know the problem exists except the homebuilders it is helping to price out of the market.

Letting this land-price inflation price America's biggest industry out of the market is bad enough by itself, for a cutback in homebuilding throws more men out of work than a like cutback in autos, or steel, or oil. But . . .

How can we reform any sound national policies without giving thought to a policy for land?

HOW CAN WE HAVE a sound, sense-making-anti-inflation policy without paying careful heed to the most runaway inflation of all?

How can we have sense-making tax policies — local, state, and national — without collecting enough taxes on our principal form of wealth — the only form of wealth whose use would be stimulated by higher taxes instead of curtailed? There would be little need or pressure for federal grants-in-aid for education, medical care, slum clearance, public housing, etc., if local governments were making better use of their exclusive power to tax land.

How can we have a sense-making farm policy without first giving careful thought to the top-heavy capital cost of farm land and adopting a sound land policy for farms? At today's land prices it takes a \$20,000 investment to create one job on a good farm . . .

How can we have a sense-making urban renewal programme without first thinking through the problem of slum price inflation and adopting a sound land policy to rationalise urban land prices? Today most cities are subsidising slums by undertaxation and discouraging improvements by overtaxation; and the federal government is making things worse by (1) letting slumlords take big depreciation write-offs on buildings that cannot possibly depreciate any further and (2) putting up land-purchase subsidies for redevelopment that push slum land prices still higher . . .

How can we hope to have a scandal-free highway programme without giving thought to what land for the highway should cost and what the highway programme would do to land prices along the routes? Some highways are enriching landowners along the way with a windfall bigger than the whole cost of the road . . .

How for that matter, can we have a successful foreign policy until we recognise that on every continent except Australia the land problem is a critical issue ready-made for Communist exploitation — including, specifically, in Cuba, in Egypt, in Iran, in Iraq, in India, in black Africa, in much of South America?

Contrariwise, how can we have a realistic policy for the satellite states until we recognise that Communism is being entrenched in the rural districts of East Germany, Hungary, Poland, and Rumania by the confiscation of the great estates and the redistribution of the land among the peasants. It would be still more strongly entrenched if the Reds were not foolishly trying to force the new peasant owners to pool their new land holdings in big co-operatives.

Many great lawgivers and economists have said landed property is different

The misuse and underuse of land and the evils of uncontrolled land speculation are urgent problems all over the world... No one answer will avail alone. But HOUSE & HOME agrees with the rising chorus of expert opinion that the first point of attack should be to ease the too-heavy tax burden on houses and other improvements, multiply the too-easy tax load on unimproved land, and make the unearned increment in land prices provide much more of the tax money needed to provide the highways, streets, water, sewers and schools without which unimproved land would be neither livable nor saleable.

[An 18-page section surveys the land problem in U.S.A. and overseas and some suggested and applied solutions. Winston Churchill's classic Edinburgh 1909 speech — "land monopoly is the mother of all other

forms of monopoly" — is extensively quoted. Two pages survey the spread and operation of land-value rating in Australia. New Zealand and elsewhere as reported by the International Research Committee on Real Estate Taxation. Many great lawgivers and economists are cited to emphasise the essential difference between land and labour products. The distinction is further developed editorially.]

Unimproved land differs in three ways from any other kind of private property

1. Unimproved land is the only kind of private property that the owner did nothing to create. He just found it ready-made (or bought it from someone who found it ready-made).

2. Unimproved land is the only kind of private property whose value grows, not because of anything the owner does as owner, but because of what thousands of other people do. Said the great Victorian economist John Stuart Mill: "Landlords grow rich in their sleep." Suburban land would command only a small fraction of today's price if the city had grown up somewhere else.

3. Unimproved land is the only kind of property anyone can own for years without doing anything or assuming any responsibility to maintain and protect his investment (other than paying a tax which is usually small and is always deductible)...

The moral foundation for private property rests on our belief that in a free society every man owns himself and therefore is entitled to own whatever he himself creates. This foundation is very shaky indeed under the private ownership of unimproved land.

Land speculation gets a better tax break than any other kind of business activity

OURS is a tax-activated, tax-accelerated, tax-directed, tax-dominated economy. Every business decision must be checked and rechecked against its tax consequences... Many builders, alas!, find it much more important to get a good tax adviser than to get a good architect! Almost everything is overtaxed. Incomes are overtaxed beyond the point of diminishing return. Corporation profits are so overtaxed that small business is in big trouble and many a big business must depend on accelerated depreciation. Good homes are overtaxed. Homebuilding is overtaxed; nearly 600 hidden taxes inflate construction costs, and some tax experts say all these taxes add up to one-third the cost of building!

But land as land is hardly taxed at all... The income tax has killed that great American dream that brought millions of eager workers to our shores and inspired the conquest of a continent. The harder a man works today the more of his earnings the Government takes. From the hardest and smartest workers the Government takes up to 91% of what they earn. But our tax system — local, state, and national — gives land speculation so

many special breaks that land speculation has been by far the easiest way to get rich. So since World War 2 land speculation has made more millionaires than any other form of business or investment.

Today's taxes harness the profit motive backwards; they abet speculation, but penalise development

TODAY'S TAXES often make it more profitable to misuse and underuse land than to develop it and use it properly. They penalise land development, land improvement, and homebuilding by (1) multiplying the local taxes the owner must pay as soon as new houses are built on his land or existing buildings are improved, and by (2) taxing away most of the profit from land development and homebuilding at ordinary income tax rates. But they subsidise land speculation by (1) under-taxing the land as long as it is left idle or underused, and (2) taxing the profits of land speculation less than half as heavily as the profits of land development and homebuilding are taxed.

[Professor John Henry Denton, in charge of real estate studies at the University of Arizona, is extensively quoted:]

"The only cure for land speculation is to eliminate the extraordinarily favourable tax treatment now accorded the land speculator. No justification for this can be found in economic theory. Unlike speculation in commodity futures or common stocks, land speculation does not support a market or provide a stimulus to production. In fact, it has just the opposite effect. It destroys the marketability of large areas of land by pricing them out of the reach of immediate users. It deprives our communities of many facilities needed for good living (such as parks and playgrounds) by driving the price of land beyond what communities can afford. It limits competition by holding a large part of the land supply off the current market. It channels capital funds away from productive investment into sterile adventures and may be responsible for the present day dearth of private risk capital . . ."

"The only way price inflation can be prevented, is to tax land more heavily"

SO SAID the consensus of topflight economists, mortgage lenders, realtors, homebuilders, and manufacturers at the *House & Home* Round Table on tight money and inflation (H & H, Jan.). And they went on to say :

"A substantial part of the local tax burden now carried by improvements (like houses) should be shifted to the land itself.

"Taxes are the only important costs a land speculator must pay, so taxes are the only brake on the price of land, which reflects the capitalised margin between the

rent the land can be expected to earn and the tax burden it can expect to carry. The bigger the land tax the smaller this margin will be and the less chance of big profits in land speculation.

"Taxing land more heavily would let homebuilders offer better homes for less money.

"Taxing land more heavily would reduce the taxes on good homes by increasing the taxes on vacant and underused land.

"And incidentally taxing land more heavily would cut the cost of highway extension by cutting the land costs for the right of way.

"The steepest price inflation of all has been the price inflation in land, but . . . We have no land policy designed to bring the land needed for our population growth on the market when it is needed. On the contrary, we make it easy (by undertaxation) for land speculators to hold their land off the market in anticipation of still higher prices later."

PLANNING AND LAND-VALUE TAXATION

To the Editor of *Land & Liberty*.

Sir,—In Denmark besides general restrictions on the use of land, there are special town-planning provisions in many towns and in other urban communities. They are of different character, some embodied in building by-laws, some given by special town-planning measures for particular areas. Additionally there is a special temporary zoning for the Copenhagen area and for some larger provincial towns together with their suburban areas.

If planning provisions and their bearing on different areas are definite and open to common knowledge they do not present special difficulties either to the determination of prices in the market or to the assessment of land values for taxation.

Exceptional dispensations do not influence prices and assessments before actually given.

Planning provisions that are temporary only and administered by casual permission of development, are tending to increase uncertainty and the risk to buyers of land for development. The resulting instability of the market means a corresponding difficulty to valuers. The practice has evolved that possibilities of development conditions by permission from a public authority shall not influence the assessment of land value before the permission is actually given.

Yours faithfully,
K. J. KRISTENSEN

Gentofte, Denmark.

[Until his retirement eight months ago, Mr. K. J. Kristensen was Chief of the Valuation Department of the Directorate of Assessments, Denmark. His letter bears on a remark by Mr. F. V. Corfield, M.P. (Conservative), that, so far as he knew, land value taxation had never been tried in conjunction with planning control. (*L & L*, Sept. p. 137)]