

SOLVING THE HOUSING PROBLEM IN NEW YORK

New Houses Exempt from Taxation

By JOHN J. MURPHY

[Last month we were able to announce that the Legislature of the State of New York had passed an Enabling Act authorizing the exemption of new houses from taxation. New York City, by Ordinance No. 112 of 1921, has taken advantage of the Enabling Act, and it is now provided that new buildings planned for dwelling purposes exclusively (except hotels), completed before a given date and not exceeding \$5,000 of building value of living rooms for each separate house or separate family apartment, shall be exempt from local taxation until 1st January, 1932. The exemption from taxation does not apply to the sites on which the houses stand. The texts of the Act and the Ordinance are printed in this issue, and we comment further on them elsewhere.—Editor LAND & LIBERTY.]

The solution of the problem of housing is of such world-wide importance that the new departure recently taken by the City of New York has some interest for those living without its boundaries. In order to make it intelligible to persons not familiar with the local situation a brief survey of precedent conditions is necessary. Compared with most cities of metropolitan size, New York had maintained up to the war-time a fairly adequate supply of housing, without any governmental interference. The city regulates the construction and maintenance of tenement dwellings, but has done nothing directly to stimulate their production, nor has it engaged in housing enterprises on its own account. Private initiative has been adequate to supply its needs. It is true that many old buildings below proper sanitary standards, legacies from past generations, were permitted to be occupied at very low rentals, but before the War a great many of these failed to find tenants, and their owners were forced to consider their demolition.

The fundamental cause lying behind this general state of affairs was the fact that from 1902 onward the policy of the city, compelled by steadily increasing budgets, had been to assess land with the improvements (if any) thereon at nearly one hundred per cent. of its actual selling value; and to tax on that value whether the land was improved or unimproved, and whether it was occupied or not. Such a policy, with a rising tax rate, naturally stimulated owners of vacant land to utilize their property to the full. Indeed, its effect was such that for several years land agents and owners considered the city "overbuilt." Taking good and bad housing together, the city for a number of years had enough housing to accommodate 250,000 people more than the population; this excess was equal to about 5 per cent. of the actual population, and was enough to make relations between landlords and tenants easy. The landlords could not compel the tenants to tolerate very bad conditions, but, on the other hand, tenants had to pay fair rentals. Of course, landlords complained that they could not make adequate profits, but the fact that building continued showed that reasonable returns were forthcoming for fairly good premises.

This condition prevailed up to the time when the War started, and for a short time thereafter. The phenomenon of tenants, under the stimulus of higher wages, seeking more costly apartments at higher rents was common.

Capital, building materials and labour, skilled and unskilled, were directly commandeered by the Federal Government immediately after we entered the War, and so the natural machinery of house production which had grown up in several generations was disorganized and to some extent scrapped. The production of new buildings for dwelling purposes ceased. The normal growth of the city continued, except that immigration diminished, and finally emigration began to take its place. Still, the city grew 85,000 people annually in the decade 1910-1920.

The real shortage declared itself about two years ago. Rents rose violently. Prices of coal, building materials,

and labour were so high that building could not be undertaken profitably, even to get the high rents offered. A large number of landlords acted decently, only demanding rent increases which were generally regarded as fair. But others strove to raise figures even beyond that elusive standard "All the traffic will bear." A hundred thousand families were threatened with eviction. Riots and disorders menaced the public peace. In the crisis the Legislature intervened and passed a rent restriction act, which made the actual rent being paid a sort of standard, and abolished the right of summary dispossession which up till that time the landlords had enjoyed since about 1840.

It was seen, however, that while this policy might mitigate the immediate hardship, it would ultimately check construction of houses for rent. More houses were needed to meet the growing demand. Many contended that the remedy lay in direct or subsidized construction by Government to tide over the crisis. An insuperable obstacle stood in the way. The Constitution of the State prohibits the use of public money except for a public use. The courts have never construed the producing of houses for occupancy by solvent people as a public use. Hence it was held that the State Constitution would have to be amended to permit the use of Government funds for direct housing or for loans to builders. Even without opposition the amendment would take three years. Everyone felt that this would be postponing the solution too long. So the State was saved from a very dubious experiment in State Socialism.

At this point a suggestion which had been urged for a long time on deaf ears was brought forward by a few people. It had little popular or political backing, and would have had no strength at all had any alternative been discoverable. The proposal was to exempt from taxes for a limited number of years all new buildings erected for dwellings, provided that they were commenced before April, 1922, and completed within two years thereafter.

As new buildings have to pay a tax of \$2.85 per \$100.00 annually, it will be seen that the remission of this sum offers a very considerable inducement, especially as existing buildings must continue to pay the normal tax. The policy cannot be defended on grounds of equity, but only as an emergency measure to meet a pressing need. It has the great advantage over a subsidy that it leaves private initiative free to use its brains to meet the public need instead of leaving the solution to the ponderous and bureaucratic methods of Government.

Naturally enough, the question with most people who are not concerned about theories is "Will it work?" Only ten days have elapsed since the city Government, acting under power conferred by the State Legislature, passed the Ordinance permitting the exemption. Already intense activity is reported by the agencies collecting data for building contractors. Even the papers which were cold to the proposal in its inception concede that it seems to be accomplishing its purpose.

Two unfavourable effects were expected; one, increased cost of building materials, because of increased demand; the other, a jump in the value of lots. Building materials have not advanced, because of the fact that the real cause of excessive prices was due to disorganized transportation conditions. Lots have increased in price slightly, but are not expected to go very far upward, due to the heavy tax-rate on land, which makes owners anxious to sell during the short period for which the exemption will last.

THE NEW SYSTEM AT WORK.

Mr. John J. Murphy has since sent us copy of the RECORD AND GUIDE (New York) of 12th March, which contains striking evidence of the encouragement to building given by the exemption from taxation. A survey made by the RECORD AND GUIDE shows that plans for a large number of moderate-priced apartment houses are under way, and the paper goes on to say:

"Immediate effects of the tax exemption ordinance

passed two weeks ago by the Board of Estimate, are already manifest in the number of plans being prepared for multi-family dwellings to be erected in Greater New York during the coming spring and summer. For the first time since the outbreak of the World War in 1914 every borough of this city will, during the current year, become the scene of activity for apartment house builders who are actively planning to resume operations on a large scale because of the favourable combination offered through the exemption from local taxation for ten years plus a decidedly favourable market for building materials and labour . . .

"As a considerable proportion of the proposed new apartment house construction is scheduled for erection in neighbourhoods where there is already a large number of multi-family dwellings, the owners of the older structures, who have in many instances taken advantage of their tenants as the steadily increasing scales of rentals will show, may have to drastically revise their rentals for next year or experience some costly vacancies. The new structures will be erected under greatly reduced construction costs and will have the further advantage of being tax exempt for the greater part of their assessed valuation, and the owners of the new apartments will be able to rent suites at prices much below the average now being obtained in the older structures and at the same time get an excellent return on their investments. . . .

"John W. Moore, Superintendent of the Queens Bureau of Buildings, stated this week that his borough is already receiving marked benefits from a revival of building activity. 'Up to March 5th,' Mr. Moore said, 'there were filed, since the tax exemption ordinance was passed, a total of 114 applications for dwellings, representing a total estimated cost of \$747,005. This is nearly one-third of the total estimated cost of all applications filed in the Queens Building Bureau during the month of February. . . .

"Although even the most optimistic cannot anticipate a complete solution of the local housing problem for some years to come, as this city is declared by experts in social economy to be at least five years under-built, the response to date to the tax exemption measure has been sufficient to warrant the prediction of very much less actual suffering because of the lack of available living accommodations. By next autumn the situation will be much easier and after that, experts agree, the final solution of New York's housing problem will be only a matter of money, men and materials."