

# The Positive and the Negative in City Planning

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**T**HE INTERRELATIONSHIP of zoning and property taxation is not entirely clear to me. I have approached it as I imagine most of you would do—hesitantly, and I hope modestly, in the spirit of the little old lady who, when asked if she had seen Halley's comet, replied, "Yes. But just from a distance."

The points I wish to follow through are these:

- \* The real property tax is incapable of being intelligently discussed unless it is considered as *two* taxes, taxes that have quite divergent effects on city building.
- \* One of the taxes—the tax on land—has positive and constructive effects; the other tax—the tax on buildings—has negative and destructive effects.
- \* Zoning, like all regulations, is essentially negative and restraining (though not necessarily destructive).
- \* The link between property taxation and zoning lies in value, specifically in land value.
- \* Does zoning affect land value? It appears to do so in some instances, but the basic causes of value lie elsewhere.
- \* Can zoning and taxation be made to work in greater harmony? I think so.

I would like to enlarge on each of these points a little.

## The Real Property Tax is Two Taxes

This is not the time to give lessons in elementary economics. There has been enough written in recent years to have made the point clear to anyone whose ears are not blocked by Ely wax. It has to be mentioned here by me, however, because if we insist on lumping together two such different taxes in one term we would do better to call it the mish-mash tax or the go-stop tax in order to convey its true character.

## Taxation of Land has Positive and Constructive Effects on City Development

A most useful effect, to my mind, is that taxation of land greases or loosens the notoriously "sticky" real estate market. It brings a number of other benefits too: it collects some of the values properly belonging to the community as a whole; it takes some of the cream, and therefore the drive, out of land speculation.

Its effect on the "sticky" market is relevant to zoning. It has been said that if the real estate market was a perfect market (in economists' terms) it would result in natural or perfect zoning, that is, in a perfect arrange-

ment of land development. The perfect market would presumably settle satisfactorily all conflicts as to types of uses, groups of uses, relationships of uses, densities of uses, and the like. The implication is that if the real estate market worked perfectly there would be no need for zoning.

This may be true, although some of us remain doubtful. I do think it is true that if the market worked more smoothly some of our zoning headaches would be relieved. Therefore, any measures that tend to make the market work better are worth taking, and the *ad valorem* land tax is such a measure.

Contrariwise, taxing buildings does not loosen the market. It simply makes the erection of buildings more expensive, restricts the supply of buildings and is otherwise accompanied by a plague of far-reaching and destructive effects. It is all bad.

## Zoning is Negative but Necessary

I have indicated that it was not my purpose to give zoning any kicks. Social or community controls *are* necessary, since men are not perfect.

## Value is the Link between Taxation and Zoning

The common touchstone of property taxation and zoning is value, more specifically land value. Taxes are levied after value arises. Where the value is high, the taxes will be high (or will be if assessments are fair). If zoning creates value, then taxes will immediately go up when zoning changes permit a more intensive use of land. Similarly, if land is "zoned back" from an intensive use category such as residential to a less intensive use category such as agricultural, then values will fall and so will taxes. This does not seem to be generally the case.

The truth is that value is created by effective demand, not by zoning. Acres of our cities are zoned for industrial and commercial use beyond any foreseeable need for industrial and commercial sites. All of us are familiar with the phenomenon of over-zoning that occurs even in the smallest towns. It is almost as if people really believe that wishes are horses: that if land is zoned for commerce, businesses will descend from the clouds; if land is zoned for industry, industries will troop in over the horizon. But anyone who knows anything about businesses and industries knows that zoning hardly counts at all.

Richard Babcock in his book *The Zoning Game*\* says: "The truth is that for the industrial buyer, whether promoter or a corporation looking for a branch plant site, the condition of the local industrial zoning is far down on the list of significant factors . . . Often this indifference to zoning on the part of the industrial buyer rests on nothing more than a far greater concern with other factors. The availability and adequacy of public utilities, transportation facilities, the local tax policies, the labour market and topography of the site, and even its cost are what count. Climate generally ranks ahead of satisfactory zoning regulations."

Zoning acts indirectly on values in that it seems to influence the hopes of those who own parcels of land. Thus we find people holding out for more money on the basis of existing zoning no matter how irrational the zoning is. In a municipality near Vancouver, still overwhelmingly in agricultural use, the first planner employed recommended "zoning back" about one thousand acres of land from residential to agricultural use. There were cries of anguish from certain owners that this re-zoning was destroying values. Destroying hopes, perhaps, but not destroying values. Zoning had given these people false notions of value. In a way, it had institutionalised their hopes.

#### Does Zoning Affect Value?

Having said that zoning is not the *cause* of value, I now wish to retract to a degree by citing cases where it is fair to say that zoning has *affected* value.

An administrative device that controls what use can be made of land must have some effect on the value of land. Where zoning appears to have some effect on values is not in established areas of use but in changing areas of use. What zoning may do is prevent development for which there is a demand, and in this case zoning *can* affect values.

One illustration of this is what happens to prices in an area where there is a demand for more intensive development. Prices in the one of two blocks of suburban Kerrisdale (Vancouver) zoned for apartments went from about \$300 ff to \$600 ff almost overnight. Not each property was affected in exactly the same way. For one thing not all lots were of a size that was suitable for the new use permitted. My point is that the new zoning did not create values; the old zoning prevented the value potential from being realised.

Another illustration of how zoning affects values negatively is in the very common practice of "options to purchase" *subject to re-zoning*. The judgment of the market is that the value is there; at least it is there until the public authority firmly, and possibly repeatedly, refuses permission to develop.

#### Zoning and Taxation Can Work in Greater Harmony

To sum up, I think that both zoning and the property tax can be improved and that they can be made to work in greater harmony.

First of all, people have to quit kidding themselves that zoning creates values. Zoning may help to maintain values in certain circumstances and for years at a time. But clear-eyed realisation of where and how value springs up will result in less over-zoning and that will be all to the good.

Secondly, the property tax must be reformed. If taxes on buildings are removed and taxes on land are correspondingly raised, a number of effects with a bearing on zoning problems can be expected. The stickiness of the market will be loosened, and with a more perfect market we can expect more natural zoning. Pressures for over-zoning will be reduced. The tendency to institutionalise errors in private market calculations will be reduced.

Creative planning, creative city building, it seems to me, will come about not chiefly through creativity in planners but through release of creativity in all the people—in builders, home owners and developers of all kinds. We need all the creativity and constructive effort we can get. This is where restraining regulation cannot help much and is not designed to help. This is where mish-mash, stop-go taxes are merely confusing. This is where positive property taxation, the *ad valorem* land tax, can play a useful part.

\*Reviewed in *LAND & LIBERTY*, June and July, 1967.

#### THE REAL DUTY OF GOVERNMENT

ALL COMMUNITIES are apt to look to government for too much. Even in our own country, where its powers and duties are so strictly limited, we are prone to do so, especially at periods of sudden embarrassment and distress.

But this ought not to be. The framers of our excellent Constitution, and the people who approved it with calm and sagacious deliberation, acted at the time on a sounder principle. They wisely judged that the less government interferes with private pursuits the better for the general prosperity. It is not its legitimate object to make men rich, or to repair by direct grants of money or legislation in favour of particular pursuits, losses not incurred in the public service. This would be substantially to use the property of some for the benefit of others. But its real duty—that duty the performance of which makes a good government the most precious of human blessings—is to enact and enforce a system of general laws commensurate with, but not exceeding, the objects of its establishment and to leave every citizen and every interest to reap under its benign protection the rewards of virtue, industry, and prudence.

—U.S. President Martin Van Buren, 1837