Land value tax – a true incentive for New York

● The familiar view of New York – and the grim reality of some of the city's neighborhoods.

FOR $24 and a handshake, Manhattan Island was transferred to the Dutch, thus beginning a remarkable transformation. During the following 360 years, the island blossomed into a great commercial, banking and manufacturing center. It now stands as a tribute to man's ability to create a metropolis that is stubbornly diverse in population, cultural activity, business opportunity and architecture.

Yet, during much of this development, business and industry received scant encouragement to call New York their home.

It became a mecca of opportunity because it offered the basic ingredients which nourish development – transportation, access to waterways and a viable work force. But these attributes, coupled with high taxes and labor costs, aren't enough anymore.

New York is now having to fight hard to lure businesses and spur development.

DURING the 1970s, the Big Apple became enmeshed in a sea of financial difficulties, the result of years of decline.

● Population slipped from eight million to slightly more than seven million.

● Big chunks of the middle-class took to the suburbs, replaced largely by unskilled, low-income residents.

● Manufacturing, once a prime employer, lost more than 250,000 jobs.

● The famed New York garment industry and a vital printing trade were also in decline.

● And the trend continued, forcing the city to explore the need to foster employment and development.

The boom which followed the initial attempts to attract business was limited almost exclusively to the area of Manhattan between the Battery and 59th Street. Out of this effort a disturbing picture emerged.

Official policies were creating two New Yorks – one prosperous, growing out of the ashes of the '70s, the other poverty-wracked, populated by thousands of jobless and homeless.

How the city resolves this schizophrenia may well determine its future economic health.

NEW YORK'S irrepressible mayor, Edward I. Koch, is fond of taking credit for restoring the city to financial viability. Recognizing seven years ago that jobs and development were vital to this task, he launched a program that would encourage, on a selective basis, the growth of the business community.

"Economic development," he said, "is essential to encourage the growth of jobs and to maintain our position as a financial and industrial capitol."

Further refinement of the Koch philosophy was the job of Kenneth Lipper, deputy mayor for finance and economic development.

"We will define which out-of-state corporations would benefit from a presence in New York City," Lipper explained, unveiling a new agency. "Mayor Koch and I, along with leaders of the business community, will collectively review the city's efforts to identify and persuade businesses from elsewhere to relocate in New York."

The result was called the Industrial and Commercial Incentive Board. Created in 1977, the ICIB was designed to selectively offer companies incentives and rewards to do business in the city. It encouraged expansion, new construction and the renovation of substandard and underutilized commercial properties within the city's five boroughs.

Revised in 1982, the board turned its attention toward selected areas of Manhattan, ignoring the outer four.

Unlike other agencies, which focused on obtaining federal grants, providing financial aid and financing

Report by Stan Rubenstein

through the use of tax-exempt bonds, the board encouraged development through property tax abatements and exemptions. These were based on a differential – the added increase due to construction – from the original assessment.

In other words, a business enterprise received an exemption based upon the increased assessment.

Incentives varied based upon the type of construction; new commercial construction receiving a 50% exemption of the increased assessed value of

the property, decreasing 10% each year for a period of five years. A comparable formula applied to commercial reconstruction.

Since halting a decline in manufacturing jobs was an important objective, industrial construction or reconstruction received better inducements – 95% exemption of the increased assessed value of the property, with a decrease of 5% each year for nineteen years.

ANY PROGRAM that becomes selective in its implementation is bound to meet criticism – the incentive program of ICIB being no exception. When the findings of the city's Department of Investigation were released, it started a chain of negative public reaction.

Recognizing the importance of the property tax as a tool to encourage, the report stated: "Property taxes play a role, and in a particular instance can play a determining role, in management decisions to locate, relocate or invest in New York. New York continues to need a property tax incentive program as part of its integrated efforts to encourage industrial and commercial development".

The report concluded, however, that the Board was not accomplishing its purpose and called for wider opportunities for incentives.

● Turn to P.53

★ ★ ★ NEW YORK

Boom! Now it's the countdown to bust

By Michael Gavaghen

APPROACHING New York Harbor in the early evening – orange tinted, glowing with thousands of lights, framed by the endlessly-graceful slope of the Verrazano Bridge – potential descends like summer smog. To those native New Yorkers not completely jaded by the underside of city life, the skyline at twilight conjures a sense of what must have lured thousands of newcomers: even the sky seemed a surmountable limit.

These days, the skyline is dotted with another kind of light. Naked bulbs hang starkly within the frames of future buildings. Construction sites spring up in the space of several weeks; ironworkers walk steel beams instead of unemployment lines.

New York is once again in the midst of a construction boom. Like most which have come before, it is a selective boom at best – certain areas reap the benefits, others wait unnoticed.

And the countdown to the inevitable bust has already begun.

NOWHERE in this selective upsurge more evident than along the waters of the East River, the Hudson River and the Atlantic Ocean.

The twin towers of Manhattan's World Trade Center have served as, among other things, a journalistic cliché. For years city editors beefed up slow-news days by writing about how many of the center's 10 million square feet of rentable office space remained vacant.

The phenomenon was not without irony: office space downtown has always been astronomically priced. The Trade Center vacancies were the result of rents which even that market couldn't bear.

But this has changed. Today, all but a piddling 20,000 square feet of Trade Center office space is rented. And the demand is such that the state government recently vacated three floors which were immediately snapped up by private companies for more than $25 per square yard.

The primacy of downtown commercial space has spurred American Express to launch a world headquarters across the street from the twin towers – a skyscraper planned to open in 1985. Rising alongside, also slated for 1985 occupancy, is Battery Park City, soon to be *the* place to live in lower Manhattan.

These projects, among a dozen now underway, represent the current "boom". Among those benefitting are the members of the local ironworkers union. And among the members is Gerry Kenny, a 30-year veteran of the building cycle.

"It's feast or famine," he says. "It's been that way for the past ten years. I'll work seven-day weeks for six months, then lay off for six months. I don't know how to figure it out anymore."

The boom-and-bust cycle affects more than just the men who walk on high steel. Those who pay them are equally perplexed.

"Who's to say when the time is ripe?" asks an executive from Helmsley Spear, Inc., one of New York's major developers, who also asks to remain anonymous. "What are the growth factors, the interest rates, the tax picture? Developers have to have good answers to all these questions before they'll even consider building.

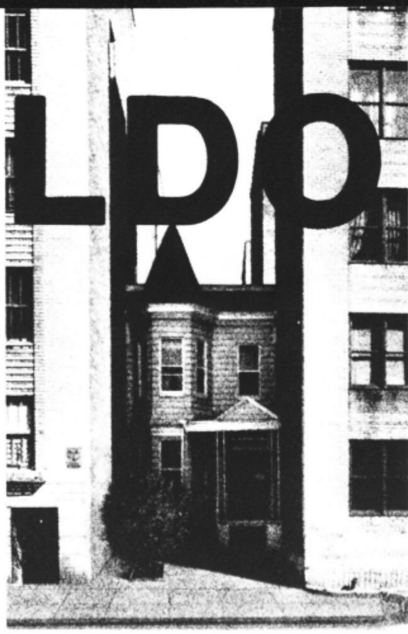
"When you look at the big picture, the cyclical nature of the industry is easily explained."

Perhaps – but it is not easily accepted.

● Turn to P.52

● Coney Island – "turned off by crime and decay, tourists stayed away".

HOLDOUT!



● A holdout – wedged in.

AS ONE WALKS along the streets of New York, one can easily be unmindful of a continual drama going on . . . the arduous and competitive struggle to assemble plots of land in order to erect a large building, whether commercial or residential.

A developer usually proceeds with great secrecy because of the potential threat of "holdouts".

The process is impressively investigated in a book* by Andrew Alpern and Seymour Durst, and the situation is outlined by former New York mayor John V. Lindsay in a foreword to the book:

"On one side of the conflicts described in these pages is a developer who's gained possession of a plot of land almost large enough to be the site of an office tower or apartment house he wants to build; on the other side is the owner of the remaining parcel of property the developer needs to complete his planned project's site assemblage. The property owner who, for whatever reason, does not sell that remaining parcel is known in the real estate business as a 'holdout'."

The authors are knowledgeable on the subject. Mr. Alpern is an architect and Mr. Durst a real estate developer.

They had originally intended to research the problem throughout the U.S., but found so many examples in New York that it deserved a book by itself – and there is indeed a bookful of cases here.

Varieties of holdouts are cited by the authors.

● The "frightened holdout has lived in one place for many years and panics at the idea of being uprooted; but he can be managed "with tact, imagination and persistence."

● The "foolish holdout" refuses to sell just for spite and hurts himself as well as the builder and the city.

● More typical, the "greedy holdout" thinks no price is too high for his small property and frequently kills the project.

● The "professional holdout" purchases property where development may take place, especially corner properties, and then sits back to wait for a developer. He will sell usually at double the going rate, which of course increases the cost of the development.

This is why developers have to

By Bob Clancy
in New York

proceed with great caution in putting together a block of small properties. But word leaks out and typically the last holdout demands a fantastic price. If his price is too unrealistic, as it often is, either the project is abandoned or revised to build around the holdout property.

Plenty of examples can be seen around the city and this volume is profusely illustrated with them. A famous example is Macy's Department Store at one corner of which is a one-storey fast-food shop – a holdout from the time Macy's was first built.

BESIDES resulting in many cases of blight and inefficiency, the holdout problem is a serious obstacle to the provision of living space, working space and jobs in the city.

One sorry illustration of its effects is in the Times Square area. The old Astor Hotel was a handsome, solid building that merited preservation. But a developer seeking to build a large office building in the area found it easier to buy the hotel property which was on a large piece of land, then tear it down and build anew, rather than go through the awesome ordeal of approaching small properties round about – ugly little monuments to greed which are still standing on underutilized land, while a beautiful large building is gone.

But we had better go easy on "greed" knowing that it is only human to seek the best possible deal.

What is wrong is a system that permits this kind of obstruction to progress. As long as we allow landowners to privately appropriate the rent of land, we cannot blame them for trying to reap all they can.

One proposed remedy is condemnation – a cumbersome and uncertain proceeding. The city of Yonkers, just north of New York, has adopted this and the only big case it was applied to is still being dragged through the courts after much litigation.

The only sensible remedy is to increase the tax on land values and reduce – better, abolish – the tax on buildings. In this way, holdouts will no longer be profitable – the profit will be in building.

And in that activity, let there be profit!

**Holdouts!* McGraw-Hill Book Co., 1984.

● INCENTIVE

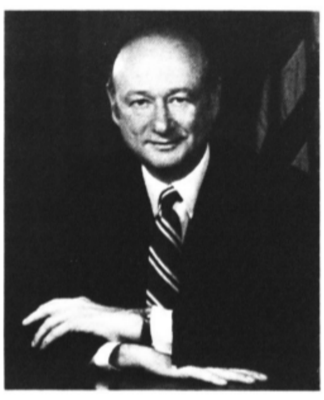
From P.51

Because of the report, and the public criticism which followed, the Administration changed its position. It admitted that there was little evidence to corroborate the city's growth with its tax incentives and no evidence to indicate how many jobs were created as a result of this multi-million dollar program.

Espousing a revised philosophy in late 1983, after abolishing the Incentive Board, Mayor Koch commented: "Now everybody who is going to build is going to get the same exempt treatment. There should be equal treatment."

Almost a complete turnabout for the city.

TO ENCOURAGE the building industry after World War I, a law was passed exempting all new construction from the payment of property taxes for a period of ten years.



● Mayor Koch

New York witnessed one of its greatest building splurges in history, with every borough sharing the rewards. Not selective, it did not create an unmanageable bureaucracy, doomed to failure. The market place became the vehicle to determine what was needed and avoided the pitfalls of many incentives – to react and not act.

How less cumbersome an incentive program would be if we accepted the wisdom gained from the 1920s and added this missing piece of the puzzle – picking up the revenue lost from exempting all buildings from taxation by placing it on the one factor that cannot inhibit growth: a tax on land values.