

Hitting Hard at Assessments

by BENJAMIN F. SMITH

WE have been redeemed in a sense by various articles in national magazines that have corroborated as prophetic, the Georgist point of view. Thus the field of ridicule has shifted somewhat.

False assumptions always hinder the solving of any problem, and a false assumption is common among assessors regarding land. When we divide property into two categories, with land on one hand, buildings and goods on the other, we find that taxes on the two have opposite effects. Taxes on buildings and goods are depressants because the value of buildings and goods depend on individuals. Land taxes on the other hand are incentives which compel improvements, since land values are made by society.

Land measurement is a consideration too, for land is as important as capital. In a typical American city an analysis and measurement of values for capital, wealth and land, corrected from the assessor's low appraisal, put land at one-half billion dollars, wealth slightly below that, and capital slightly above.

In Los Angeles, a larger city, the assessor finds land value to be one-third of the combined value of real and personal property.

Too-low measurement of land values does not show land's relative importance. An assessor himself puts land in a neglected position by non-feasance, and by incorrect and illegal procedures. In fact, land is illegally assessed all over the nation. In California, simply by obeying the law, the tax base could be raised by more than 11 billion dollars. In New York State, by cracking down on vacant land alone, the tax take in Nassau County was increased by 20 million dollars and in Suffolk County by 5 million.

In sparsely populated Nevada much land is so high that young persons seldom become ranch owners. Old timers, whose ranches are close to the thriving commercial areas, successfully won land tax reductions however, pleading that as land prices were too high for them to buy elsewhere their holdings should be appraised as farm property. They do not know perhaps that land taxes reduce the selling price of land.

Assessments in Grand Rapids are supposed to be 34 per cent of actual value. Until it was corrected recently a commercially zoned piece of land which was leasing for \$3,600 a year was assessed at \$436. The value of this property was over \$60,000. The assessor also throws away his books when appraising land used as a shopping center at \$6,260 an acre, while adjacent and more valuable land (not used) is tagged at \$2,600.

In other cases of commercial property he was assessing at 8.8 per cent and 5.2 per cent — these figures too, have been corrected. In 13 commercial properties the average assessment comes out to 15.8 per cent, compared to 34 per cent equalization. The corrections made by assessors prove our point.

Our local assessor, like others in the United States, has developed no new methods. Consequently the only place where he is at all accurate is at the periphery of the city, where land sales are frequent. Here he is generally close to the real value (except on vacant land). Moving inward toward the center, land values rise, but in some cases assessment-to-actual-land-value ratios drop below 34 per cent. Infrequent transfers at the core tempt the appraiser to assess very inaccurately and

much too low, but here he is in a dilemma.

In Grand Rapids we have need for 4,000 to 8,000 additional parking spaces. At present parking lots occupy 15 per cent of the area of the central city, mostly adjacent to old dilapidated buildings. Parking lot income is nearly all land rent. Capital and labor factors are easily separated from the total take. The assessor tried making this distinction on one lot but got such a high land value after capitalizing land rent that he was afraid to publish it.

A surface parking lot is the best indicator of land values in the central city. The *Encyclopedia of Real Estate Appraising* (Prentice-Hall, 1963), notes, the "income approach or capital value estimate" is the method on which chief reliance must be placed in estimating the value of such a lot. Excellent methods and formulae are given, but, as in the above case, most assessors are afraid to use them.

This habit of winking at the illegal, non-uniform assessment of land follows a national pattern. The Advisory Commission on Intergovernmental Relations in 1963 stated, "a somewhat exclusive characteristic of property tax administration is that few officials feel under obligation to enforce the law as written. In some states compliance with the constitution would be the cause of widespread consternation." Michigan is no exception.

Assessors tend to disregard their own state assessors' manuals which contain such proven rules and principles as those originated by John A. Zangerle of Cleveland. Very little use is made of the income method even in areas where income goes on and on in multiple cases and where there are few sales.

I have developed new methods pertaining to parking lots and rural slums, which, if they were adapted to mass appraisals, would greatly reduce the

assessor's task. But there must be many others, and we should search for them.*

My studies indicate that availability of water, shelter, and various facilities are more important than floor space in poor neighborhoods. The first principle to be agreed on in assessing a rural slum is that the difference of total rents of identical properties (land and improvements) in two different locations, is a difference in land rent. Land values can be known in rural areas because there is vacant land, and the improvement rent can be figured by subtracting the rural land rent. Subtraction of the rural "improvement only" rent out of the identical urban total rent, leaves the urban land rent.

What I call the *recapture* method is in reality an orthodox one described in most appraisers' handbooks. It is used sometimes for newer buildings but probably never on slum properties, for it gives a realistically high value to the land. In this method the value is figured from the income capitalized. Some assessors would apply the same capitalization rate to old buildings as to new. Thus the portion of slum property is continually under-assessed.

Most assessors don't know that a tax on land values cannot be passed on in higher rents or in higher prices, and don't care. But this explains how slum reclamation is possible by means of increased land assessments. Rents will be reduced, not increased, by a higher tax — contrary to opinions generally held by assessors.

A typical situation in an industrial

* The population density method developed by Mr. Smith, an engineer in Grand Rapids, Michigan, was described and illustrated with charts, in an article entitled "Assessing for Progress" in HGN, September, 1963. This article is an abridgement of Mr. Smith's address at the Henry George School Conference in Pacific Grove, California, in July.

city would be a vacant lot with a building on one side which has been without tenants for several years, and on the other a very old one which is rented out as a retail store. An increase in land assessments and consequent taxes has occurred all over the city. The store owner goes to his tenant and asks for an increase in rent. The tenant, who has already been approached by the prospective new builder on the vacant lot, and by the owner of the old building, is in a position to demand and get either a reduction in rent or more improvements for the same rent. Prices cannot be raised in the face of new competition.

Here in Grand Rapids there would be a very noticeable effect if the assessor were to assess land uniformly with other properties, according to law. Land prices would fall, slums would improve, and economic pressure and incentive would fall on every landowner to use or sell vacant land and to use other land better. Old buildings would be modernized, new building would result, and rents would drop. If land taxes were increased by a state law, and taxes on improvements

were reduced, further progress would be compelled.

My conclusion is that we should hit the assessor hard where he has disregarded the law and has been pressured by outside influence to the point where he has to rationalize his irrational behavior. While he does not believe that "philosophy" has any part in his profession he nevertheless operates a "kindness," the third charity, to the slum owners. He actually follows Marxism and defends it by assessing, not property, but the ability to pay. The assessor who disregards the textbook should be made to prove his defection. He and his superiors are ignorant of a natural law — that a tax on land values cannot be passed on.

You can catch more flies with honey than with vinegar. People have been telling me that for years; but we're trying to catch the human conscience — and it gets sick on honey — it requires truth. We think land value taxation will solve many of today's problems. Let us gather truth as factual information and give it out, regardless of personalities or politics, for this is what the human conscience demands.

LAND SPECULATORS OR GEORGISTS.

Any value justly belongs to him who created it and to none other. There are values created by individuals and values created by society as a whole. Any value created by the individual is justly the possession of the individual. Any value created by society is justly the possession of society.

A growing community, by increasing the demand for land in a given area, increases the value of that land. This is an example of a value created by society. But this value is not recovered by society. It is allowed to go into the pockets of a privileged few — those who hold title to that land. Then the community, to raise funds, taxes privately created values: the incomes, possessions and business dealings of its members. In short, it taxes almost every productive activity. Why does not the community recover what it has earned instead of confiscating the earnings of its members? Why does not the community levy a tax on land value? It has created this value and has the right to recover it. A tax on land value would make it possible to leave the earnings of individuals in the hands of individuals. But the community refuses to recover the value it has created and, instead, taxes the productive efforts of its members.

Those who understand how this works become either land speculators or Georgists.

—Kate deFremery

Written at the annual conference of the Henry George School at Pacific Grove, California, July 1965. Kate is the daughter of Robert deFremery of San Francisco.