

GEONOMICS: RECOVERY OF SITE-RENTS FOR URBAN DENSITY

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Around the world, a few dozen cities collect ground rents - some of the money that people spend or are willing to spend on a location - rather than tax buildings and other economic goods. Besides raising public revenue more efficiently, these places also motivate efficient use of urban land. No longer taxed for improving their property, while prodded by a rent levy to make improvements, owners who had been speculating or procrastinating get busy and put their once under-utilized land to better use. Overall, better land use raises density in particular and livability in general - goals that other jurisdictions still long for.

Where jurisdictions did shift the property tax landward, owners built structures of higher quality, letting design express needs other than frugality. Their "re-filling" of the city shrinks distances, enabling more pedestrian transit while providing more riders for mass transit. Less driving of private cars cuts congestion, noise, and smog, improving everyone's health.

Erecting new buildings includes new homes, lowering their cost. The "land dues" themselves lower the price of land, together improving housing affordability. Lower-priced land draws in more developers and buyers, shrinking the political leverage of any one player. Yet soon, making the city more livable draws in more people, driving up site values. By tapping these rising values, a locality can operate in the black and can afford to rebate a rent dividend to residents from the surplus. Yielding these benefits, recovering rents while not taxing goods is a tool that makes the job of planning easier.

Organic Density

Around the world, a few dozen cities and larger jurisdictions utilize an aspect of "geonomics": they collect ground rents - some of the money that people spend or are willing to spend on a location - rather than tax buildings or other economic goods, a reform advocated by Frank Lloyd Wright. Besides raising public revenue more efficiently, these places also motivate efficient use of urban land. No longer taxed for improving their property, while prodded by a rent levy to make improvements, owners who had been speculating or procrastinating get busy and put their once under-utilized land to better use. Overall, better land use raises density in particular and livability in general - goals that other (continued on page 14)

Jurisdictions still long for. Thus recovering rents while not taxing goods can be a tool that makes attaining these goals by planning easier.

To recover ground rent, a public authority could levy a site-value tax, shift its property tax off buildings, onto locations, charge a land-use fee, or raise the deed fee to full-market value of the location then annualize it. By whatever method, government could raise enough revenue to forgo taxing buildings (and possibly sales and incomes). Both parts of geonomic revenue reform - (a) having owners pay their community a site rent while (b) exempting their improvements from taxation - spin off benefits, raising the quality of design, the livability of the city, and the health of the environment.

Design Quality by the Pacific Ocean

Where jurisdictions did shift the property tax landward, owners built structures of higher quality, letting design express needs other than frugality. In Hawaii, Honolulu raised its rate on land, not buildings, to spur construction along Waikiki Beach. Thanks to the tax shift, developers erected new hotels about 25% more valuable than they otherwise would have. The resultant rise in land values proved too tempting to land speculators who persuaded Honolulu to abandon the land tax after it had done its work. Today, in a state where land is scarce (it's an island, after all) and pricey, only the County of Hawaii still levies a land tax.

For decades in Australia and New Zealand, more towns taxed land alone, not buildings at all, and left an impressive legacy. While Sydney still taxes only land (albeit lowly), Canberra, the capital, which once existed entirely on public land, still leases commercial sites to building owners but is now selling residential ones to homeowners. Until the late 1990s around Melbourne in the state of Victoria, about half the towns taxed land, half taxed both land and buildings. In the former, owners built structures that totaled 50% more built value per acre than structures in towns wielding the conventional property tax. During the last recession (mid '70s), while the state overall suffered a bankruptcy rate of 20% among manufacturers, in the land-taxing towns, the number of factories actually increased by 10%. Resiliency to recessions keeps the planning profession resilient, too.

Re-fill in Pennsylvania

While the density of towns taxing land has not been compared to that of towns taxing buildings, too, their building starts have been. Places that issue more building permits indicate more in-fill than their neighbors, and in-fill raises density. In Pennsylvania, about 20 jurisdictions levy a rate on land higher than their rate on improvements, and all issue more building permits than their neighbors. Their greater construction generates more economic activity, even in the midst of Appalachia; compared to their neighbors, the output of towns recovering more site rent is 16%

greater each year. Better economic health grants planners more resources for renovating cities.

The biggest of the geonomic cities was Pittsburgh. For over 20 years, Pittsburgh levied a rate of 6:1 (land to improvement), which helped keep land prices low and enabled new construction. The city renewed its urban core without massive federal subsidy but by attracting private investment, and converted its most valuable location - where the three rivers meet - into a park without a grassroots effort to overcome developer resistance. Outside downtown, the new construction augmented the housing stock. Among major metro areas, Pittsburgh enjoyed the most affordable housing, which in turn yielded stable neighborhoods and low crime rates, also the best in the nation. Citing these factors, Rand-McNally named the Steel City "America's Most Livable" for two years, 1985 and 1986. In 2000, the real estate lobby persuaded the city to revert to the conventional property tax. While construction starts have fallen across the state by about a percent, in Pittsburgh they've fallen almost 40%.

Harrisburg still levies a higher rate on land. After its shift of the property tax, the state capital went from being the second most distressed city in America (199th out of 200) to being a geonomic success story; it attracted millions of new investment dollars, converted abandoned buildings from being the targets of arsonists to being renovated homes, and generated thousands of new jobs filled by residents. The mayor, Steve Reed, gives credit to the city recovering rent; Harrisburg has since been named an "All-American City" twice. Allentown, whose plight crooner Billy Joel made famous in a pop hit song, in the mid '90s voted in a higher rate on land twice (after the first vote, the real estate lobby tried to rescind it) and also generated much new construction. For making itself more attractive to young entrepreneurs, Allentown earned a citation in the book, "The Rise of the Creative Class," by Dr. Richard Florida.

Transit in Hong Kong, Environment everywhere

The "re-filling" (in-fill and redevelopment) of a city places buildings side-by-side, cutting heat loss and energy bills, mitigating one set of environmental problems. Meeting the demand for new shelter (while liberalizing zoning constraints if need be) lets neighborhoods integrate all urban functions - business and pleasure, shopping and learning - shrinking distances, enabling more pedestrian transit while providing more riders for mass transit, mitigating another assault on the environment; less driving of private cars cuts congestion, noise, smog, and oily runoff, improving everyone's health. To date, none of these factors - nor the number of cars entering the town daily, cars per residents, parking spaces per resident, etc - for towns taxing land have (continued on page 15)

been compared to those of towns taxing buildings, too.

One of the few mass transit systems to operate without a penny of subsidy is Hong Kong's. Once the best example of geonomics, Hong Kong, existing on public land, leases plots to building owners and collects an immense amount of rent, enough to keep taxes on merchandise and incomes quite low. Before it reverted to mainland communist control, Fortune Magazine routinely named Hong Kong "the world's best city for business" while Libertarians named it the freest jurisdiction on the planet (both neglected to mention the high site-rent payments). Although a very populous city, Hong Kong is so dense that it raises most of its own food in its suburbs.

As cities densify, they leave less demand unmet to become sprawling development. A computer model of Boston showed the city's periphery rolling back toward the center following a shift of the property tax from buildings to land. Another way to show densification from shifting the property tax landward may be to compare building starts or farmland conversion around cities taxing land vs around cities taxing both site and improvement.

Lower entry fees

While developers may long to build on central urban land - an action that would densify the city - the cost of those prime locations is perhaps the biggest obstacle to their building. A sure way to lower land price is to raise "land dues"; as the community collects more site rent, that leaves less for the owner to try to capitalize into price. Lower-priced land in high-demand cities could quickly sprout new construction. Johannesburg, South Africa, when it taxed land more than buildings, had the fastest site-recycling rate in the world; almost every site was put to a more intensive use about every 22 years.

Making urban land more affordable lowers the "entry fee", drawing in more developers and buyers. With more players on the stage, any major owner of local real estate or a small cadre of investors (often outsiders not even living in the area) who had enjoyed a special relationship with local government would face more competition in both the political and economic arenas. If that major player or cadre had been opposed to density or car-free, carefree pedestrian malls, or pocket parks on corners, or day-lighting streams, having those parties wield less clout permits more progress. Since such urban amenities benefit most residents, democratizing urban land use decisions - by empowering a greater number of smaller builders, re-modelers, and owners - may help improve the urban environment.

Erecting new buildings includes new homes; adding to the housing stock lowers the cost of housing. Meanwhile, raising the tax rate on land lowers the price of land. Together, less costly land and less costly buildings greatly improve housing affordability. When New York City used this tax reform in the 1920s, it more than tripled new construction while in other ma-

ior cities it barely doubled. Not only did the increase in supply make housing more affordable, but also the new construction provided workers with more income for affording it (as working in Ford's factory enabled a worker to buy a Ford). The expiration of that property tax reform was why the city economy imploded even before the impact of the stock market crash could be felt.

Rent Dividends

Since density correlates closely with land values, raising density - whether by planning or by shifting the property tax - raises urban site values, making urban living less affordable for many residents. So that they can stay residents in their hometowns, it'd help to augment their incomes. Shifting taxes off wages and businesses, onto locations, increases workers' income.

Plus, with rent-recovery in place, localities could afford to rebate a rent dividend to residents, the key feature of geonomics. As civic improvements draw in more people, driving up site values, city governments could collect these site rental values, including from the steeply upwardly inclined downtowns. Enjoying a surplus, localities could pay residents dividends, similar to how Alaska pays residents a dividend from oil rents.

Whenever land values rise, so would one's rent dividend, so residents would be secure in their homes. This positive feedback loop of rent-recovery, re-fill, higher density, and magnified land values, makes cities, their economies, and their politics sustainable indefinitely. Even after population growth levels off, efficient land use coupled with untaxed income will keep up site values, land dues, and rent dividends.

Geonomics spreads

With rent recovery in lieu of taxes on efforts, the urban economy automatically generates higher quality design, affordable housing, stable and safe neighborhoods, density, compact settlement, riders for mass transit, and low entry costs for would-be builders. To capture these benefits and others, more jurisdictions turn to the property tax shift. Philadelphia debates the shift while both Mexicali and Estonia recently made the shift. Winning these benefits also make the job of planners easier.

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