

The Prospect for Commercial Real Estate Under Land Value Taxation

By STEVEN CORD

I

THE GREAT MAJORITY of homeowners would benefit from adjusting the present local real estate tax so as to switch the burden of taxation from improvements to land values. This is so because the average home owner has much more invested in his home than in the land under it. Thus, increasing the tax rate on the land and reducing it on improvements would result in a smaller annual tax payment for the average home owner. Most voters are home owners.

But a difficulty arises. How would a heavier land value tax affect commercial property owners; owners, that is, of store, office, apartment and factory buildings?

Stated briefly, shifting the tax from buildings to land would immediately benefit those land owners whose improvement-to-land-value ratio exceeds that of the city as a whole. For example, if, in a given city, improvements are double land values, then any land owner in that city whose improvement is more than double his land value would benefit if taxes were shifted from improvements to land values. (It is for this reason that such a tax is often referred to by urban renewal experts as an "incentive tax".)

Let's see how this principle would apply to apartment buildings. Because the improvement-to-land-value ratio of such property is generally quite high, there can be no doubt that most such landowners would receive an initial benefit in that their real estate taxes would be substantially reduced. But within a short time, the tenants in such apartment houses would also benefit: their rents could be expected to decrease markedly.

Why? Because the tax on improvements is passed on to apartment house tenants in the form of higher house rents. If this tax were reduced, so eventually would their rents be reduced. As for the increased tax on the land value, for once there is unanimity among economists: such a tax cannot be passed on to the tenant but must be paid by the land owner (their reasoning is that the price of land can be increased only if demand increases or the supply decreases—just as with anything else—but a tax on land cannot of itself increase demand or decrease supply).

One result of initial tax reductions to apartment house owners and even-

tual rent reductions to tenants will inevitably be a boom in new apartment house construction, a most desirable alleviation of the housing problem. It may not be possible for private enterprise to build low-rent apartment houses, but if the supply of apartment houses increases, there will be more older buildings for our poorer citizens to choose from, and hence they will be able to upgrade their housing accommodations.

Land value taxation would affect office buildings and factories in much the same way. In these cases, too, the improvement-to-land-value ratio is high, usually considerably higher than the city average, so the owners would receive initial tax reductions and the tenants would eventually receive rent reductions. If owner and tenant are one and the same (as is usually the case with factories), then the owner-user would receive both benefits. If a city is looking to attract new industry, what a wonderful inducement land value taxation would be! Potential industrial prospects could be promised lower taxes on the buildings they build or rent in town. Yet there would be no loss of revenue to the city treasury!

II

IN THE DOWNTOWN retail areas, where location is best (and therefore land values and the taxes on them are highest), only the best developed retail properties will show immediate tax savings over the present tax system. But this is exactly where L.V.T. is needed the most, here in the usually blighted downtown areas where fabulous locations are poorly developed. With L.V.T., there would be no building tax to pass on to downtown merchants in the form of higher rents for their premises. *Nation's Cities* cites research showing that "untaxing improvements would make a much higher intensity of use profitable in the heart of the central business district. This would probably check the developing trend to central-business-district fragmentation and it might well double the profit potential in renewing old downtown neighborhoods and replacing, enlarging or modernizing buildings that are too old or too small for the valuable land they pre-empt."

Wouldn't downtown retailers benefit by having their customers living and working nearer them? Especially if their customers had some extra money to spend because their house taxes were lower? *In the long run, wouldn't the downtown land owners benefit also?* If urban blight is eating away at the core of our cities, it is because we penalize development there by taxing improvements and subsidize do-nothingism by low land taxes.

This question arises: "If the same amount of revenue is to be ob-

tained by a shift of taxation from building to land, then some people will benefit by paying lower taxes and others will suffer by having to pay higher taxes. So why bother? The tax losses counter the tax gains; where is the net benefit?" A searching question, but note that under L.V.T., tax reductions are geared to enterprise. The more a land owner improves his land, the greater will be his tax saving compared to the present real estate tax. The more he beautifies the city by improving his property and the more he benefits the city by providing much-needed housing, the more his tax saving would be. Instead of taxing office and factory buildings, L.V.T. would untax them, thus creating new jobs and opportunities. Is there any wonder, then, that this tax is called the "incentive tax"? Instead of hindering incentive, it harnesses it!

And there are other benefits. By imposing a penalty on the under-use of land, by increasing the tax burden on those land owners who have insufficiently improved their land, we force land to be efficiently used. Who could keep land out of use or in only partial use, if his land were taxed according to its value? Should not our tax system reward efficiency and penalize inefficiency? If it doesn't do that, we shouldn't be surprised that slums and other urban evils abound; slums, the worst of which are overcrowded inadequate improvements on valuable central-city land. L.V.T. would force these owners to improve their valuable land (or sell out to someone who would) by taxing the land more heavily, while at the same time it would make it easier for them to do by untaxing the improvements they make. Certainly there is a difference between a tax that encourages incentive and one that allows inefficiency.

Impose a heavy but well-balanced load on a camel and he will manage well enough. But take the same load and put it too much on one side or the other, and the camel will barely be able to crawl along.

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