

THE EFFECT OF LAND SPECULATION  
ON THE DEVELOPMENT OF EDMONTON

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from an address to the  
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The School of Economic Science  
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A man considered by many to be one of the greatest authorities on the City as a social creation of man, Lewis Mumford, wrote a magnificent study of urban life called "The City in History."

In this classic examination Mumford said: "The chief function of the city is to convert power into form, energy into culture, dead matter into living symbols of art, and biological reproduction into social creativity. The positive functions of the city cannot be performed without creating new institutional arrangements, capable of coping with the vast energies man now commands...."

In this regard, how does Edmonton Measure up? More specifically, has speculation in real estate in Edmonton interfered with these goals set out as the ideal ones for a modern city?

Edmonton first started to outgrow its original confines as a farming and trading ourpost, in the 1880's. It spread gradually from its original towns of Edmonton on the north side and Strathcona on the south side without planning other than to lay out the streets on the grid system typical of prairie settlements at that time. Already land promoters and speculators had

moved in to compete with the two major landholders of the time, the Canadian Pacific Railway and the Hudson's Bay Company.

The Hudson's Bay Company at that time held a large tract of land west of 101 Street, a portion of which to this day is known as the Hudson's Bay Reserve. The Hudson's Bay joined in the great speculation in land and set prices of residential lots so high that other promoters built a street railway line along Kingsway to 124 Street, to bypass the Hudson's Bay's land holdings and to increase the saleability of their own subdivision in the 124 Street/ 118 Avenue areas.

This great speculation resulted in high price levels for land not to be equalled again until after World War II. It also resulted in such scattered residential development that large areas of vacant land remained unused until as late as 1946.

Only one residential district stood out as a well-conceived and planned area. It was created in Edmonton's West End at the turn of the century by a man named Carruthers as a preserve for the well-to-do, and is regarded to this day as one of the city's most attractive subdivisions. This is the district known as Old Glenora.

This past land speculation created difficulties in providing transportation, schools and utilities, which were not to be even partially overcome until the 1940's.

The next big wave of real estate speculation came in the post-war years. It was helped enormously by the changed situation in the local economy resulting from the blowing-in of the first oil well at Leduc, the post-war population boom and by easy availability of

mortgage funds, especially through NHA. The big population boom increased the need for office buildings and retail developments in the city's downtown core. However, little speculation in land has taken place downtown, possibly due to the larger investment required and to the fact that quicker profits could be made in the suburbs.

Perhaps if Edmonton were in California, things would be different. California is noted for its many brand-new, far-out religious sects which often appear on the scene virtually overnight. One promoter down there bought a piece of land and built a church purely on speculation in the hope that one of the new religions would come along and buy it!

Speculation of a type has occurred downtown among smaller properties, occupying perhaps one or two lots, especially along Jasper Avenue west of 101 St. Because individual owners have frequently held out for excessively high prices, major developments have been constructed at other locations, leaving otherwise good sites undeveloped.

In one well-known instance an individual was paid in excess of \$1 million for a single lot when developers decided to proceed with a multi-million dollar project despite the high price for the particular parcel. Future tenants will eventually pay the high land cost through higher rentals.

Several large Canadian companies specializing in parking lot operations hold a number of vacant properties in downtown Edmonton, with a view to eventual disposal at greatly appreciated prices in the future. This, too, is a form of speculation.

One major investor has made a practice of purchas-

ing underdeveloped sites, and establishing profitable business enterprises on them, so that original capital invested in the land is returned within a relatively short time. The businesses are then moved to less costly sites, and the properties either redeveloped by the owner to a higher density, or sold.

An interesting example of another type of speculation occurred in an Alberta city in recent years. This one involved a major office building. An Eastern group purchased the property, and immediately sold the land alone to a life insurance company, taking back a 99 year land lease at a rental based at 6-3/4%. They then increased the existing relatively low mortgage to a maximum amount on the leasehold interest only, that is, on the building alone. As a mortgage company, on such a substantial property, will give financing on a leasehold interest only, in an amount nearly equal to the financing ordinarily given for land and building together, by this stage, the eastern group had already recouped its original cash investment and had obtained cash to boot. They now sold off a 49% interest in the building alone to two other investors. When they were through, of course, they not only no longer had a cent of their own invested in the property but now owned 51% of the net income flow for the next 99 years and had sufficient funds to move on to attack the next property coming their way and repeat the process.

In Edmonton's downtown core we see certain parcels of prime land on which dilapidated structures sit idle or near idle. As the recent Hellyer Report states, this and I quote -

"form of land speculation noted by the Task Force is much more subtle if equally costly to a municipality and its residents. It involves not a lack of use of land, but its serious and purposeful under-use for speculative

purposes . . . . . It reaps its socially created value increment when governments expropriate it or private developers pay a large price for it to put the land to the kind of positive use its position within the community demands."

The Task Force, and I quote further,

"is concerned . . . . with evidence of some cases where owners of urban land appear to be holding back its maximum development even where a market exists in the apparent hope of an even larger speculative gain in the future."

The Hellyer Report further states:

"Such practices draw their strength from municipal property assessment procedures based more on what is on the land than the land itself. Thus taxes on downtown parking lots are only a fraction of those charged against the high-rise office beside them. And it is much cheaper tax-wise for the owner of a slum property than for one who himself erases blight from his property and replaces it with a modern development. As land becomes even more scarce within our major urban areas the Task Force feels that municipalities in their own interest cannot permit and even encourage such under-utilization of such a valuable asset."

The Report continues - "Members were attracted in principle to the concept of "site value taxation" outlined to them by the Canadian Research Committee on Taxation. This proposal would sharply reverse the present assessment, basing property taxes on the publicly-created value of land rather than the privately created value of buildings on it. In essence, the owner of a piece of urban land would be taxed on what he could do with the property."

The speculators don't always win out. We have the recent situation in Edmonton respecting the Omniplex site, which a number of local speculators were certain would be located on Jasper Avenue east of 100 Street. Much optioning, selling and reselling of property took place in the area. The City quietly proceeded with plans for another location at 97 Street on 103rd Avenue, leaving the speculators with excess property on their hands.

On the eastern fringe of the downtown core is a depressed residential and commercial area. Some speculation is occurring here in view of announced urban renewal plans but most properties are held by individual owner-residents living in the district. Unfortunately, in the removal of such depressed housing, the action of market forces alone is related not so much to physical or economic depreciation as to alternative uses of the land, particularly commercial as opposed to residential uses. This will of course affect the future of Edmonton's Chinatown as a unique cultural and social entity within the city.

What about speculation in residential land in Edmonton today? It is here that possibly the greatest speculative profits have been made and the effects are both more immediate and far-reaching. Certainly there have been a number of factors other than speculation influencing high land costs, including increased servicing costs and inflation itself. But as the Hellyer Report emphatically stated, and I quote:

"One of these factors clearly involves the speculative element which surrounds much of Canadian land development. Undue speculation is a charge easy to level but often difficult to prove. But one can hardly deny that it exists in the Canadian land market and in some cases, to an alarming degree."

On the periphery of Edmonton, speculators hold most of the land onto which the city must expand. It is common practice for a speculator to offer a farmer a higher price than prevails at the time, optioning the property for a lengthy period into the future for a minimum option consideration, and relying on both demand and inflation to appreciate the property to a higher future value. This pits the speculator's knowledge and sophistication against ignorance of the market and naivete on the part of the farmer. Hellyer comments: "there are fewer and fewer farmers around and more and more land speculators in overalls"

The Task Force seriously questioned whether the rights of ownership of land "can be stretched to encompass situations where the owners of land reap gigantic financial benefit not from improving or working it, but merely by allowing it to lie fallow or in admitted under-use while the efforts of the community around it make such land an ever increasing valuable asset. . . . . The Task Force believes the present system is heavily overweighted in favour of the speculator". . . . . "The Speculator, whose only cost has been the marginal taxes charged against the 'farm land', sells out to a developer and enjoys a sunny winter in the south. The developer is left to service the land, build on it -- and pass his inflated land costs to the eventual purchasers of his houses."

It has been asked what is the difference between a farmer purchasing at \$50 per acre fifty years ago and selling at, say \$6000. per acre today, and a speculator buying at \$3000. per acre four years ago and selling at \$6000. today. Shouldn't the speculator be justified in his activities? It's a matter of the creation of social wealth - the farmer has added to

the wealth of the country over the years and the speculator, with little risk or management on his part, has doubled his money in a brief period without adding to the economy whatsoever.

High land cost and market conditions have been responsible for the square miles of Edmonton houses of the type so aptly described by Pete Seeger as "little boxes all made of 'ticky tacky' " or as we popularly call them, "crackerboxes" all gift wrapped in their bands of five or six rows of coloured wood siding.

In the field of high-rise apartment sites, there has been a great deal of speculation, mostly on the part of the original individual owners of lots comprising each parcel. As a result of the individuals holding out for high prices the bigger apartment developers have recently been turning to Calgary and other centres where land costs are lower. The recent rental increases are in part due to these high land costs and are meeting tenant resistance for the first time, - witness the rental-payment strike against a particular Edmonton developer several weeks ago.

Increased land costs for high-rise construction have created pressure by developers on City authorities to increase the present density limitation of 300 persons per acre. This could in certain instances lead to congestion and less open spaces around apartment buildings and eventually, to a lessening of human values.

A marked trend toward partnership arrangements between developers and speculators on the one hand, and some of the largest financial mortgage institutions in the country on the other, should be noted. These major lenders are offering, in the current tight money market, to take equity participation in developments

in return for the placing of permanent financing. This involves these substantial corporations directly in equity investment and to a certain extent, speculation, at the local level, and could lead eventually to the lessening of competition and increased domination of the local real estate investment market by the giants in the field.

What will all this lead to? What does the future hold for Edmonton if we don't come to grips with the problems?

We are fortunate in having a reasonably good zoning control through Zoning By-law No. 2135 and the ensuing Land Use Classification Guide of 1964. It is certainly true, however, that this has led to a certain sterility in various districts of the City and a degree of sameness of architectural styling, and has not saved from destruction a number of historic structures such as the old Rutherford and Richard Secord mansions. Possibly the old Post Office clock tower may also be lost to future generations. The preservation of Chinatown, as an enclave where new immigrants from the Orient can become acclimatized and as an asset for all citizens should be a matter of concern.

But nevertheless, the present system of flexible yet reasonably rigid zoning has prevented the chaotic development seen in many other North American cities, and has created in the Civic Centre an unusually attractive cultural and administrative focal point for the city.

We need more foresight on the part of the City authorities to prevent the current lag between the supply of serviced land and housing demand, which at present opens the door to speculators.

Perhaps the City could set up a land bank, purchasing land ahead of needs and ahead of the speculator, as Saskatoon has done since the 1930's.

The City now permits developers to install services to their own land - a step Calgary took years ago. When developers have paid for servicing, they will develop and sell again as soon as possible to free capital. Lots in Calgary have been lower priced than Edmonton's.

The average two-year period from annexation to availability of lots should be shortened by cutting through red tape.

Provision should be made to provide for residential development somewhere between the present density of four single-family dwellings per acre and 17 family units per acre. With the exception of duplexes, no provision is made between the two extremes.

Property taxes should be set up on an incentive basis rather than acting as a deterrent to improved development, and in such a manner to discourage speculation.

Edmonton has the potential of becoming a particularly pleasant in which to live, where there will be lovely vistas for the eye, opportunities for its youth, and a rich cultural life for all its people.

In closing I would return once more to the words of Lewis Mumford: -"The final mission of the City is to further man's conscious participation in the cosmic and the historic process. Through its own complex and enduring structure, the City vastly augments man's ability to interpret these processes and take an active

formative part in them, so that every phase of the drama it stages shall have, to the highest degree possible, the illumination of consciousness, the stamp of purpose, the colour of love." (+)

May 7, 1969

Mr. Roy Farran, Alderman, Calgary

Dear Mr. Farran:

As it is impossible to conduct a sensible or lengthy conversation on the "Sound-Off" program, I should like to make a point and hope I may hear your opinion on this point, either by letter or as a topic on your morning program. We are constantly bombarded from politicians at all levels of government, but not once can I remember ANY politician coming up with a solution to the numerous social and financial problems that plague all of us. It seems to me, at least, that the majority of politicians engage in a game of character assassination and mud-slinging, rather than spending all that energy on studying solutions for the betterment of all of society.

Why can't politicians work on the premise of what is right, not who is right? There is a vast difference that most people overlook, in the bid for notoriety or popularity, and hence the ordinary man is pushed aside and ignored, his problems unsolved. If there are some politicians who take their jobs of work seriously but feel hampered by rules laid down by lawyers several decades ago, why not fight for a change or updating of these ancient laws that do not comply with today's way of living? They are man-made, they can be changed by man.

Why do we continually enforce laws that conflict with modern living, laws that we made to handle the

horse and buggy society? You may ask me if I have a solution to the problems of today and I can say yes, I have. But the land speculators, churches, unions and some charitable institutions would lobby against my solution - namely, LAND VALUE TAXATION AND FREE TRADE, as easy as that.

If these two solutions to the problem were implemented, society would be rid of slum landlords, land speculators and EVERYONE would be entitled to his birth-right of a place to stand and the fruits of his labor.

At least my solution beats Marxism, which is rapidly catching on right here in Canada. Which should we choose, land value taxation and free trade, or Socialism Communism? We do have a choice, if politicians start thinking of what is right rather than who is right!!

Yours sincerely,  
Marjorie Cowie.

Office of Alderman Farran, Calgary  
May 8, 1969

Dear Mrs. Cowie:

Taxation on site value has some advantages and some disadvantages. It is a proposal that has been studied by local governments through the ages and a modified form is actually used in a few states of the union.

Usually, as in California, it has been modified to include a form of property gains tax. For example, if you sell a piece of land for a much higher price than it has been assessed at for years, you are liable to repay immediately four years property tax based on the new market figure. The argument is that the change in valuation has only occurred because of the benefits derived by the city growing around your parcel (cont. on 33)