The Ratio of Building Value to Land Value: (1) for Homes; (2) for Commercial Buildings.

1. Private Residence Properties.

Builders and architects generally agree that a proper economic ratio of building value to land value for a home is five to one; that is, a piece of ground worth $1,000 is adequately improved by a building worth $5,000. This ratio is borne out by statistics. A study of the tax records of Queens County, which has 175,000 homes, indicates that on the average the value of buildings is five times the site value. In the 1934 report of the State Board of Housing, the average cost of land per square foot for eleven completed projects under the State Housing Law was $2.89, and the average cost of land per room was $229.96. The average construction cost per room was $1,137.50, which makes construction cost approximately five times the site value.

We therefore accept the ratio of $5.00 of building value to $1.00 of land value for the normal average adequate development of a private residence property.

2. Commercial properties.

We find here a different ratio. Builders and architects generally say that an adequate development of a commercial property is at the ratio of one or one and a half to one: that is, on a commercial site worth $100,000, it will pay to erect a building at a cost of $100,000 to $150,000. A study of statistics shows that a ratio of 1 to 1 may be accepted as

the average for commercial buildings. An analysis of 296 of the largest and most modern commercial buildings in Manhattan, including 111 office buildings, 63 apartments, 49 hotels, 29 theaters, 18 clubs, 15 department stores, and one power plant, shows a total land value of $667,065,000 and total building value of $800,580,000, which indicates a ratio of 1 to 1.2. The above list includes the Empire State Building, with an improvement value of $18,500,000 against a land value of $11,500,000; the Woolworth Building, improvement value $6,000,000 against land value of $5,000,000; Rockefeller Centre, improvement value $21,000,000 against a land value of $5,000,000; Lincoln Building, improvement value $12,000,000 against land value $4,000,000. These developments are generally considered to be out of line and economically unsound. Eliminating such exceptional cases, it is fair to say that an adequate use of a business site involves a building cost equal to the land value, or a ratio of 1 to 1.

The reason why a greater proportion of building value as compared with land value is required for a private residence than for a commercial site is apparent upon a consideration of the conditions. It is due to the greater concentration of activities on a commercial site than for a residence. The same amount of space that a family of five would use for its home would take care of five times as many people in a store or office. The adequate utilization of site depends upon the concentration of activities at that point.

Applying the above to taxation, it becomes apparent that when the home site is taxed on land and building, it pays a tax, on the average, three times greater than is paid on commercial sites when both sites are adequately improved and utilized. To be equal, the tax should bear upon each class of property in proportion to its potential utility or usefulness. In order, therefore, to distribute the real estate tax burden equally over the city, the ratio of taxation should be adjusted to the average of 1 to 1.

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