
Comment Centered on Land Valuation

Arthur D. Lynn, Jr.: There was one discussion in Mary Teachout's paper where I sensed as an academic observer that those people who tend to deal with reality had a slight difference of opinion.

Ronald B. Welch: I would like to add something to what I said this morning to prove I have two arms. Teachout pointed out afterwards in our discussion that there is a difference, perhaps a material difference, between a review of a land value tax base and a general property tax value review. The land value tax base is established with the use of street values, land value maps, and so on, and that perhaps the room for maneuver isn't as great with the land tax base as it is with the general tax base. I admitted that I was thinking in terms of the general property tax, but it needs some better thinking than I had brought to it at the spur of the moment.

Lynn: Are there any further comments on this?

Mary Teachout: I think another reason is that under our proposal the assessors would be subject to a high level of public exposure on the work they were doing. The land value map is going to be posted in every bus stop and post office; there is going to be an incentive within the assessment department to be accountable to the public. The assessment decisions they reached will be something that they must live with. Having them posted in each and every bus stop assures that.

Another matter is, as Ken Back pointed out, if you have an outside assessment agency, it may be very hard to find local personnel who can act as hearing officers. Not many will have the requisite knowledge and expertise on assessing matters.

William S. Vickrey: An outside review agency?

Teachout: Right, an outside review agency may be needed.

Lynn: Other comments?

Vickrey: In a sense, the technique of publishing the maps and the values would be available also with the general property tax, where you have more or less identical houses, such as in many suburban communities. There you may have two lots cheek by jowl similar in every respect but with quite different buildings on them; and land value produces an immediate and almost glaring opportunity for objection to improper assessment. However, if the assessments are equal and proper, but different on the houses, it is not easy for the taxpayer to protest or to realize that he should protest.

Teachout: It is much easier for the taxpayer to figure out the amount he should pay in the case of land valuations only.

H. Clyde Reeves: I think indeed anybody considering this problem gets two-handed very readily because there are advantages and disadvantages to either side. In making a choice, I think it is well to bear in mind that traditionally and historically the independent review agency operated in a simplistic way. It was a committee that reviewed the property and co-exercised a kind of overseerage. They were appointed because they were nice people. They had good sense. They were good businessmen. They were not tax professionals in any sense of the word.

Now there is a tendency, I think, in this country, even at the state level, to appoint those same kind of people to independent review agencies and the problem is not that simplistic. I would say that the principal thing to do if you are going to have an independent review agency, is to try to establish safeguards to professionalize it, so that it can confront the problem where the problem is.

Teachout: Are you talking about establishing professional qualifications?

Reeves: Yes.

Vickrey: I was wondering in the earlier presentation this morning, what does your ceiling really amount to?

Teachout: What we have actually done with the site value concept is to try to use it as a legal definition for taxable land value for assessment purposes. We thought from a legal point of view we couldn't define it accurately enough i.e., we couldn't achieve an acceptable level of legal definition for site value.

I think the same problem would exist if you put 70 percent site value as

a ceiling, because you are taking a percentage of what we can't define for legal purposes. So what happens is that we use current market value and the legal standard for taxable value, but we use the site value concept basically as a tool in constructing the assessment. We are imposing a ceiling only to the extent that the value of building improvements and value of submineral rights are excluded from taxable value.

Then we go further in the law to say that the value of subsurface mineral rights and the existence of mineral improvements are specifically excluded from land value. However, our legal definitions for taxable value would not purport to include all the things that our site value includes, meaning permanent improvements to the land.

Vickrey: It is a little reminiscent of the old fable about the farmer who made a pact with the devil. The devil could have everything below the ground and the farmer took everything above the ground. The farmer planted corn. The next year the devil took everything above the ground and the farmer had everything below. So the farmer planted potatoes.

Your definition includes some of this type of thinking. Everything that goes above the ground is building or structure and everything that goes below is land.

Teachout: That is the way it seems. I don't think we want to come out that way necessarily. At the moment, our definition for site value is concerned with the value of the land for land use purposes rather than the value of the land to the owner. Value of the land to the owner may include mineral rights which he can process to his benefit, in addition to the surface use of the land.

Matthew Edel: Rather than talking about site value, it might be simpler to say that if the current improvements have a negative value to the land, they get excluded.

Teachout: You would suggest excluding those demolition costs from taxable value?

Edel: Yes.

Teachout: We really haven't looked carefully at that problem. That is one of the next steps that we must examine, but I do not think our tentative solution lies in that direction.

Edel: I can see conflicts both ways on that.

Vickrey: In line with your exemptions, you might, say, assess at the net value of the property after deducting the demolition costs; then after the house is demolished you would exempt for ten years the improvements that result from demolishing the building.

Teachout: I think that is a possibility. This is one of the reasons we have attempted to move to a site value concept that is not specific but can vary from one jurisdiction to another.

C. Lowell Harriss: The study is obviously quite interesting; I would certainly like to give my moral support to further research. As a practical matter I would also suggest that if you have only limited resources, they might better be directed into the excise tax aspect of the problem. This seems more desirable because any future change in the United States will not likely be a change on a national scale but rather within particular communities or on a statewide basis. Therefore, methodology for examining potential effects in limited areas might be more generally useful than the broader nationwide aggregate action.

I would like to go back to Mary Teachout's presentation to underscore the desirability of establishing procedures for public education and information. I know that there are people here who know a good deal more about the need for this than I do. However, my general impression from Taiwan, where there is public participation in the land value assessment, is that the public over the years has gotten an education. The interested parties know what is involved so that they can participate, if not happily, at least to allay fears to their own satisfaction. My general impression in the United States is that we have become so accustomed to poor valuation that getting our mind straightened out on full value of property would take quite a bit of education. Yet I think it could be done if we spend a little time on it, rather than on whatever else we spend our time.

You probably know that at one time New York City published tax maps; you could buy the map of your part of town for 25 cents. However, that was abandoned in the 1930s, I believe.

Philip Finkelstein: The excuse Mayor LaGuardia gave was that they were saving paper for the war effort.

Welch: I had some concern about the appeal procedure that Mary spoke about. I got the impression that an assessment and an appeal were both handled by the same agency. I would be the first to admit that having separate agencies doesn't produce good results, but I think it is preferable to having the same agency handle both procedures. To have the assessors handle the appeals is dangerous for the assessing agency, and I don't think it is desirable for the taxpayer.

On the latter point, the taxpayer who has an independent agency to which to appeal thinks he has an appeal even though he might not. I think the public relations aspects are sufficiently great to justify a separate appeals agency. From the standpoint of the assessing agency, I think it is destructive to morale to have the heads of the assessment agency overruling their technical staff, since the supervisors frequently are not technically qualified. On the other hand, a staff could survive an outside agency doing it. Their response would be "Well, they didn't know what they were doing, but that is the way it goes."

Teachout: I appreciate those comments. I think the particular structure of the public appeals is something we must examine more carefully. This very situation has been a problem in many areas where we have an agency administering and hearing appeals on the same matters. One of the things that we have to develop in the future is a different type of agency, in order to find the best possible workable model for separating out the people who do technical work in the first place, and people who hear the appeals and make decisions on them.

My own question is as follows: Do you feel the alternative of having taxpayers appeal directly to the courts is preferable?

Welch: No, I agree with your concept there. That is, unless you want to define courts in a somewhat different manner. Under your procedure you have a specialized court. It is called a court, but in this context it is really equivalent to an administrative agency. I think the specialized court can handle the appeal satisfactorily, or at least as well as any other government agency. But I don't think the general courts are qualified to operate in this field, and I would particularly dislike having the New York system imposed upon other states. Pennsylvania is another one that has the same sort of system as New York State. I think the results of those experiences speak for themselves.

Vickrey: Of course the moment you call it an open court you tend to cause the courts to be formal.

Welch: The best example of tax courts is in Oregon, and I don't think the courts there have suffered the fate of being too formal. But it is a possibility.

Reeves: I want to make one point here. When you have an appeal to a court or board, and you have a decision appeal procedure, the agency as well as the taxpayer should have the right to appeal.

Kenneth C. Back: I have been through both sides of this issue, i.e., the assessment and appeals function in the department, but we have now gone to an outside appeal agency. Unfortunately, they have done a poor job in my opinion. We do not have the right to appeal their decision to the courts, so we must do something about that. I also agree that you get a much better job done if the appeal is not heard by the individual assessor who made the assessment; however, the appeal still should be heard in the office of the assessor.

What you encounter with an outside agency is that they are not staffed and therefore become basically political appointments. Conscientious as they might try to be, the agencies are not prepared to do a job on an appeal on a large valuation of millions of dollars. They have no appraisal staff.

I would like to go back and comment on what I think Mary Teachout

was saying. By the way, I don't understand why market value isn't enough for assessing purposes and why you worry about it. Once the system is established and you went through the pains and tortures of getting your first land values set, you are ready for the main job — assessing properties. The main job on land valuation will be the easiest part of the assessor's job, if he knows how to go about it.

I can assure you that people in towns know the value on a bulding separate from the land if you talk to them. You have to know the right people, those who know what the values are, and you must separate them because they will talk about each other when they are separated. Land values can be found; that has been my experience in the District of Columbia.

What bothers me in these discussions is some idea on land use comes out from the concept of site value, but I don't know what that is. Vickrey has been trying to tell me for years. I think it is too late now for you to teach me.

Dick Netzer: Vickrey, you once worked in New York City and I live there now. New York is now a single tax city. All future new investments in buildings are tax exempt. Somebody might speculate on what that is going to do.

Vickrey: Is this assured or just unofficial?

Netzer: No, there is no new construction that isn't included.

Finkelstein: This is the expectation.

Netzer: Yes, 90 percent of tax is abated the first year.

Vickrey: How long does the abatement continue?

Finkelstein: In ten years, the structure is supposed to be fully on the tax rolls.

Netzer: And if it is housing?

Vickrey: Only if it is middle income housing.

Netzer: No, I believe it applies to anything new.

Weld S. Carter: That is a complete abatement. It is not just for other improvements.

Netzer: Basically, what you start with is a freeze of existing taxes, then the taxes on the further investment are abated. It is in the direction of single tax.

Vickrey: Well, it saved New York.

Richard W. Lindholm: Becker, do you have any comment on how you think Proposition 13 is going to work out in California?

Arthur P. Becker: In connection with the question of inflation, it seems to me there ought to be a drastic increase in realty values in California as a result of reducing the property tax from \$14 billion down

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to \$7 billion. Although this might increase the income tax collections by \$1.5 to \$2 billion, there still is a net gain to property owners of about \$5 billion. If you capitalize that at 10 percent you have a \$50 billion sudden increase in realty values, or at least the possibility of values going that high. That amount, plus all the foreign money coming in, will create all kinds of special situations that will add to the inflation.

Roy W. Bahl: I don't know anything about Proposition 13, but when you were talking about that, it seemed to me that the expenditure base of local government would decline. The decline in expenditures and government benefits available would work in the other direction and property values would decline.

Becker: I am not sure that expenditures are going to drop rapidly in California. We need several more years.

Vickrey: Well, if you couple Proposition 13 limits on local revenues together with state funds that are running out, this certainly means fewer employees and fewer services.

Bahl: Which could be capitalized.

Becker: Well, service charges are being established here and there. That would offset it a little bit, I suppose. The income tax has been slashed, what is it, by \$1 billion, so people will have a little extra money to spend on other things, maybe buy services from private individuals, i.e., use private sector garbage firms.

Vickrey: They will have another confrontation on local regulation of generalized service charges.

Reeves: The assessed value of property when sold would be increased; therefore it would pay more taxes than if it wasn't sold. This occurs if you have increased property values by virtue of Proposition 13. All the more reason for adding the land value tax.

Karl Falk: Speculating now not in land but in ideas, if some of the provisions that H. Clyde Reeves has talked about in Proposition 13 stick, I wonder to what extent ownership of property may change? You might find a lot of people leasing in order to avoid the new higher assessment and the new higher tax.

Welch: The legislature understood the leasing possibilities and therefore passed a law that, I think, treats a lease of ten years or more as a sale and invokes the new value. I am not sure that it will hold up in court and I am not quite certain about the number of years, but shorter term leases certainly could be employed.

Another thing that is going to happen in all probability is an owner sells a property that is decreasing in value rather than rising; then the new owner can take advantage of the new value that comes from the sale. All kinds of crazy things may happen.

I would like to ask about the incidence of taxation. In the event of a sale, the Property tax will rise rather considerably in many instances, at least after a few more years, but we already have a 1975 base so there is considerable capital gain that can be realized by sale. Will the higher tax to which the new buyer is subject be capitalized in the form of a lower purchase price or not? I think the experts in incidence will come up with an immediate answer.

Netzer: This is a perfect case in which it has to be capitalized. You are dealing with a marginal situation, truly marginal transaction at the margin. Of course it will be capitalized. The sale price will still be higher than it would have been before Proposition 13, because of the other part of it which is the tax limit. Nothing is going to vitiate that benefit.

Welch: I would like to have your immediate response to another point. Suppose there had been no reduction in the tax rate, but only the requirement that the tax or the value remain constant until a sale occurs. Under those circumstances would the higher price that the buyer would pay then be fully or substantially fully capitalized?

Netzer: We're talking about a case in which nothing else has happened except that the system is altered, so that (1) if you didn't sell the property, you had a freeze in valuation and (2) if you sold the property, it was valued at the market rate. If this was the only differentiation, then present owners would get all the windfall gains or losses associated with the change.

Vickrey: I think you have to examine the motives behind the buyer and the seller. If you are thinking of sellers who are selling in one location because their family is growing or declining and they want a larger or smaller house in another location, then the tax freeze is going to inhibit strongly their desire to place their property on the market. Therefore, the supply of properties for sale is going to go down. I think you start with that.

What does it do on the demand side? Well, there are also properties, of course, that go on the market because the owner dies or they are moving out of the jurisdiction entirely for some good reason. Unless they are going to convert the sale into a lease to get around the restrictions the legislature placed on them, they are going to have to sell anyway. I don't really see that it changes things all that much.

You still have people who want to buy property. To the extent that property values are rising, the fact that they can have assessments frozen at whatever level they buy in at means that it is more important for them to get a lower price, since that will reduce their taxes. If they take that into account, they probably won't buy. On the whole, I think the buyers are likely to be more eager to buy because of the tax freeze.

Vickrey: If people are moving, this demand will shift, and there will be further transactions but at the same price.

Netzer: As far as single family houses are concerned, the largest number of transactions are the ones involving people moving from one house to another in the same general area, upgrading the family composition, something of that sort. In those transactions you have fewer of them, but nothing else will change.

Daniel M. Holland: Do I hear three possible answers developing? I think I did. The answers seemed to be that the price may go up, the price may go down, and the higher value may be borne by the owner, and it may be borne by the buyer.

Vickrey: We have the three-handed economist.

Holland: We also have to remind ourselves that the meaning of inflation is comparative rather than absolute. When you ask about the effect of the land inflation on tax, you also have to ask: Comparable to what? Comparable to another tax which is widely available, such as the income tax for example, or to some other revenue source. I believe the effect of inflation has been much less decimating to the income tax than to the property tax.

Alan R. Prest: That is because the property tax is not progressive.

Vickrey: On the other hand, if you do the accounting rigorously, inflation produces an income tax base that is a real net income plus a percentage of net worth. For some purposes that is a better tax base than the traditional income base.

Holland: Yes, for the purposes of abstract values such as equity and others, but not for the retention of the original intent of the legislated tax and rates.

If you do the accounting correctly, many people on net balance will have no spurious capital gains but real capital gains and the debt burden will have declined, so on net balance you will be better off. The implication of spurious capital gains is an inaccurate assessment of many situations.

Vickrey: If someone borrows to invest in stocks that show a capital gain and then he is excused from paying the tax on the capital gains on the grounds that it is spurious gain in terms of inflation, he probably won't be denied the deduction for the interest that he paid in order to carry these securities.

Prest: That is really saying you can't index the income tax without changing many other basic provisions in the tax law.

Vickrey: Exactly.

Holland: At least to our satisfaction, but Congress seems to be happy.

Vickrey: Anything that produces a correction also creates new oppor-

tunities to reduce taxes. Every loophole is subject to leverage. That is, it is one thing to say you will index capital gains if you have in mind a person whose assets are purely in capital assets without liabilities. The problem is that the moment you allow him to do this with his assets, he will borrow in order to take advantage of this and you will have the phenomenon of a person who borrows to carry tax-exempt bonds.

Lindholm: Well, the IRS has a provision regarding that.

Vickrey: Yes. I wonder if anybody knows how long it has been since that provision was actually invoked.

Lindholm: I don't know, but it is the law.

Netzer: It is invoked if you put it down on the return.

Prest: How many do put it on the return?

Holland: Evidently no one here.

Welch: One of the effects of inflation in the property tax field, as I am sure you are aware, is the shifting away from tax rate restriction to restriction on the levy. I think you are going to see a large number of such shifts. A major reason California has Proposition 13 is that they had a dual limitation. They had a tax rate limit and a levy limit, and you could take the larger of the two. With inflation the tax rate limit becomes much less oppressive as a budget limitation than does the levy limitation. I think California will soon have only a levy limitation. Even though California has a tax rate limitation, I think it is going to be wiped out, in effect, by a supplementary levy limit. It will be eliminated by something more restrictive than the one percent rate limit and it will be applied to all levels of government.

Edel: I am trying to relate some of this up-to-date practical discussion to the things Henry George had in mind. We should remember that even before George, one of the major arguments for the land tax was that it would discourage speculation, and that land speculation was seen as a major cause for depressions. Current land speculation, may the land price increases by two-tiered, many tiered, or affecting all levels, is in fact interrupting the more normal economic relationships. This effect exists in the capital sector and market sector in terms of supplying one of the major consumer goods to the work force, that is, housing. The evidence is not in yet whether inflation will reduce housing. I think, however, that this possibility has to be kept well in mind. It is not just the question of the effect of inflation on the ease or difficulty of collecting taxes, it is how inflation is affecting the functioning of the economy.

Vickrey: I am no longer convinced I want site values. Operationally what I want is assessment independent of what the man does with the property; that can be a figure that is produced by some complicated formula that includes, say, distance from the CBD, or accessibility, and so

on. You mix this together into one formula and, since there is nothing in the formula that relates to how the property is actually being used, you have the property value that you are seeking in the site value tax.

If I want to get 100 percent, or nearly that, of the site value rents for public purposes, then I must have a formula that tracts site values quite closely. However, as long as I am only taking 50 percent of the site rental value for public purposes, the problems of setting value are negligible. The closer you get to the ideal, the greater the difficulty.

Mason F. Gaffney: I must have been wool gathering. I heard you say we had to abandon intercounty equalization, but I didn't catch the reason why.

Welch: Because we don't have any acceptable tests for assessment level anymore. Sales are not meaningful. Capitalizing income is not meaningful. The best you can do is have a state agency to second guess the assessment; and I don't think that is worth much. Nobody knows what the valuation is, so why second guess?

Gaffney: I missed the reason why sales are no longer meaningful.

Welch: Because you don't have enough of them to do you any good. You have a few, but some of these are suspect in themselves. You may have a few good sales of totally depreciated or totally unappreciated property, but not enough to provide you with a land assessment level to use, in my judgement.

Gaffney: Well, the first reason you gave why the sales weren't valid was because the property might have a lease and it seems to me that is more likely to be a case with improved land than vacant land.

Welch: That is true, but you do have these cases, which have been quite common in California recently, where a person subdivides property and he has a planned unit development. He agrees to put in a golf course, a clubhouse, and so on, and the price includes these future property ownership benefits. Value is not just in the property you are buying, and at least for a time you are going to have to adjust for that. I am sure there are many other illustrations.

Gaffney: Back to your original point where you say there are not enough sales. You must have in mind a small county; if, for example, you are comparing Los Angeles and San Bernardino County, you would have a lot of sales.

Welch: Of course, sales are always a poor test of the proper assessment level because they are not randomly distributed over your universe. However, when you are confined to bare land sales, I think you become even less representative of the assessment role. Again, I have no data with which to support my assertion.

Gaffney: Thank you.

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Finkelstein: I tried to understand the objection to the use of sales data. If sales data are not reliable, the paucity of them is not a defect.

Prest: Would you get along without anything?

Finkelstein: That is the point.

Welch: Exactly. I am sure I made that clear in my statement. I am the last one to renounce the use of sales, since they are the test of value, but unfortunately in this instance we have fewer of them than we want. We don't have them distributed randomly over the universe we want — I am going back to assessment levels for a moment — but I think we have a real problem; we have to recognize that we are going to have a less equalized property tax base if we are using land value rather than total property value. I don't think that is included in my remarks. However, that is not a reason why we can't move to a site value tax, because there are a good many pluses in site value taxation.

Harriss: There is no virtue in repeating what was said, except that other people won't remember it was said before. Yet, it has always seemed to me that the higher the tax rate applicable to land or site value, that is, to the absolute rate, the greater the need for quality assessment. Therefore, the strains on the assessment process will be greater. This I think is one of the real problems of a shift to site value taxation. There will be larger disputes over the value of land as a portion of the value of the total property.

One of the points involved, on which Back can speak, is the use for income tax purposes of property tax values. The owner is interested in making the relative value of buildings high so depreciation costs can be larger.

Vickrey: I always come back to land value tax in the first place. I raised the question that perhaps what we don't want is not literally land value tax, but a tax that is independent to the use of the property. If you are willing to take that definition of the objective, then it is of no consequence that multiple regression analysis doesn't reproduce market value. It seems to me that we may be after the wrong solution. It is wrong to judge the quality of an assessment system by how closely it tracts market value. It is more important that it provides a secure and certain system for raising revenues independent of what the taxpayer does with the property.

Now you do have questions of equity. All right, well, this again comes to the point of transition. We are at the point where we are going to have a transition from what we have to something else. In this transition there will be inequities in terms of upsetting what people have come to regard as legitimate expectations. However, I see no reason that the inequities of transition of land value tax should be any greater than the transition to

any other kind of arbitrary assessment that is independent of what the taxpayer does with the property.

In the long run, of course, if you have a set of prospective future tax payments that are well defined, this gets capitalized into values and the question of equity gradually washes out no matter how arbitrary or how capricious the assessment seems to be, as long as they are fixed and certain.

Becker: What about the inefficiency? When you have inefficiency, they won't wash out.

Vickrey: As long as there is no end abuse, you get efficiency. In two properties, if it is known for all time that one property costs \$1,000 in taxation and the other costs \$500 tax per year, and they are identical properties, you won't get inefficient use.

Lindholm: The market value of the identical property carrying the \$1,000 tax would be lower than the \$500 tax property. The difference in value given to identical properties is not important in the case of land because a reproduction cost or a depreciated value does not exist. There is, however, the point that the land with the higher tax can be more readily purchased by the less wealthy person because the capital cost would be less. The higher tax acts the same as the cost of additional borrowed funds that the less wealthy person may not be able to command.

Carter: Well, we have a very imperfect assessment situation at the present time; however, we have gotten along with that for a long time and it is theoretically based on market values. It seems to me that one consideration is the effect on the market for land if you institute a system of land value tax, in which the tax is removed from improvements. Would that improve the market process? Would there be more of a market for land or would there be less? Anything that would improve the market process should improve the assessment process. Even though we have had an imperfect assessment process, it has been viable; any improvements upon it should certainly result in a more viable system. If we institute a land value tax, we also lessen the complications of the assessment process by getting rid of the major job that the assessor now has to do. The system that results is a vastly improved and more accurate assessment procedure.

Gaffney: I would like to return to your comment on values of land in slum areas, Welch, although you didn't use that word. I forget how you described it, a rundown area. When we did our Milwaukee land value map, we got extremely low values for sales of vacant land in slum areas, but true to our principles we spread those around and put low values under the buildings throughout that area. I gather from what you say, however, that the common process is not to do that. I assume from this

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position of yours that the sale of vacant land is somehow not a true indicator of the worth of the land under a house in a slum area.

Welch: I don't know what the common practice is on that. It would be difficult to make an allocation on land out of the total value of the property. Back knows more about this than I do, although he doesn't have too many vacant lots to worry about.

Back: Yes, there are not very many vacant lots in Washington, D.C.

My experience mostly has been with urban built-up areas. Here we work with a group of people, including realtors, builders, and contractors. I can assure you that those people can tell you what every acre of land is worth in the city today and what they would pay for it if it were on the market. This is generally the way we go about collecting our land values. Certainly in doing the overall appraisal job I feel that most assessors devote less time to land than to buildings.

One point Welch made is the aim of going to property unit valuation. Assessors are getting away from separate assessments of land and improvements and are looking only at the total. Under current tax procedure there actually is no reason to take them apart. The only reason it is done now in Washington, D.C., is that the law requires it. When you begin to use unit value or Multiple Regression Analysis (MRA) or any approach in which you get total valuation, you don't need to break it down into land and improvements. At least in my city, you can't appeal only one; you must appeal the total.

What we are seeing now is that assessors are increasingly avoiding the traditional land value approach that you and I grew up with.

Welch: I agree that is the case, but I think if we put the tax solely on land, we have to go back to land value maps, similar to those used in the 1930s. Current assessors are getting away from them because they are using MRA and are not concerned about the land value portion, only the total value.

Netzer: I am struck by how radical this whole notion of Welch's remark on equilization and Vickrey's doomsday book concept are. We really live now with a property tax and a valuation system that does more than allot a portion of the tax burden within a given jurisdiction.

In the rest of the nation the task assigned to the evaluation system is not as simple as it is in the District of Columbia. All that is required there is an apportioning of the tax burden amongst taxpayers in a way that forms some generally accepted notions of personal equities and minimizes efficiency losses in land use decisions. To meet these needs there are a number of approaches, including Vickrey's approach, that are feasible, but they come up with a set of numbers that can be used only for the apportionment of taxes within that jurisdiction and no other purpose. They actually mean nothing for any other purpose.

This approach not only makes me uncomfortable professionally but it would have a major impact on the institutions of local and state government finance. In most states the valuation system is used as a measure for other purposes, i.e., tax limits, debt limits, and the like. In a real sense the approach makes a change over to site value taxation even more radical than many of us have believed. It makes sense to accept this radical solution but we should recognize just how much of a disturbance we are causing.

Holland: Why one base? Why not several bases each for a definite purpose?

Netzer: I agree, this is possible but you must realize you are talking about quite a broad range of institutional changes. If there are limitations on local taxes imposed by the state, you must determine a new way to do it because you will have numbers that are not commensurable from one place to another. You must find another system. The same would be true of debt limitations for the allocation of state aid money.

Vickrey: You would have comparable figures if you had the same MRA formula statewide.

Edel: That is incredible.

Vickrey: To carry forward in a sense what we are both saying, I think equalization has had its day. At one time the property tax was the best economic data available for various purposes including the assessment of state property taxes. But we have other sources of data now, and there is no reason that we should stick to this obsolete method of operation when we have all these other data sources available.

Becker: It disturbs me about Vickrey's point. It seems to me the tax on land ought to have some connection with the economic rent from land. You are completely at sea if this is not true.

Vickrey: Well, of course, but why do you want the value to be related to the economic rent of land?

Becker: I think there is some merit in taxing economic surplus.

Vickrey: You are clever enough to convince me about that, but you can't convince most tax people.

Netzer: I think the question is improperly put. The issue is not that you are not taxing economic rents of land but rather that you are taxing the economic rents of land under a system in which the tax rate is varied.

Netzer: As long as it is less than 100 percent.

Vickrey: As long as it is capitalized.

Welch: That brings up the transition problem.

Vickrey: We are going to have a transition problem anyway. Is some other transition system going to be more arbitrary?

Lindholm: The income tax has largely abandoned realistic economic definition of annual incomes, and therefore it has reduced this source of

useful economic data. Is this the situation to be expected also in property tax administrative data?

Back: Well, I think that land can be assessed separately from buildings with a reasonable degree of accuracy. However, it would require a much greater effort and degree of accuracy in land value determination than is practiced today in most jurisdictions of which I have knowledge. I can appreciate Break's position that it would be more difficult to explain land valuation alone to the taxpayer than it is to explain a total property valuation. How many people who own homes know what the land is worth under their homes? Very few, I would guess, since vacant land sales are not readily available to the average property owner. Accordingly it would seem that the best approach to informing the property owner would be to make land valuation maps available to the public, which show the pattern of land valuation by size of lot and other peculiar characteristics for comparative purposes.

Traditionally, vacant land has been underassessed more than any other type of property. This happens because with vacant land you don't really know what is its highest and best use until it is actually committed to be developed. Someone may be working on an assembly of land parcels and at the moment the land is cheap. Suddenly it blossoms and the land is worth ten times what you assessed it for and you look terrible. So you have problems with vacant land value determination.

Most of us know how to make a land residual computation to develop land values of improved properties. While this can be done, it takes more effort than most assessors now put into it, because a high degree of accuracy doesn't mean that much to them. The taxpayer is not going to argue too much with you about the allocation between land and improvements as long as the total value is acceptable, but he might and perhaps would argue if the tax is applied only to land. Of course, the commercial property owner always wants the allocation to be high for structures in order to support large depreciation costs.

Falk: I have a comment relative to what Prest mentioned this morning. From our own savings and loans experience with appraisers, not assessors, we are finding it harder and harder to appraise. I agree absolutely with Ken Back when he says you can find people who know the worth of every piece of property in town or out in the country. Our appraisers do what they have to do with the clipboard and tape measure, and then we ask them to step across the street and take a good look at the property to develop a general evaluation. If the estimate is still in the ballpark we start adding an increase factor of about one percent a month to account for inflation.

If you don't stay somewhere near current market values, it is going to be tougher and tougher to account for the inflation, especially in areas of

rapid growth and sometimes where one part of the city is growing more rapidly than others. Not only is there a time element involved but I still think it is not impossible to establish value. I still feel that a good place to base it is somewhere approaching the market value.

I also want to toss in the thought that perhaps inflation and rapidly changing values are scaring us off – making us believe that any kind of an accurate assessment is impossible, land or structure. Would you respond to this observation?

Welch: I would like to respond by saying I hope I didn't give anybody the impression that the market value is not a good basis or sales is a good basis to estimate market value. I just say they are not invaluable and I say the sale of an improved property gives you only a minor clue as to the value of the land portion of the improved property.

Arlo Woolery: To what extent are foreign investors, particularly those from West Germany and Japan, giving us a two-tier price structure for land in the United States, in that they are trading with a strong currency and a different attitude towards land. They are minority purchasers at the moment, but, to the point, do they contribute to higher prices being quoted to the buyer?

Falk: We have had some in our area, and they have been ready to pay inflated prices for farmland. In Southern California we also have people who sold their citrus groves to developers. These farmers came north and they didn't know what land was worth. They have just ruined the market completely. I think you are putting your finger on a very good thought – we are beginning to get a two-tiered market in real estate as well as in land value.

Finkelstein: An urban prospective would give a slightly different cast. There is no special two-tiered effect as a result of the foreign investments, but rather the foreign investments seem to be concentrated on the higher ranges of the market, that is, the most valuable and the most desirable properties. What is happening is that the gap between the most desirable parts of New York and the rest of the city is widening in prices, in values, and so forth, so that prices in midtown and downtown Manhattan have gone through anybody's roof. The rest of the city has not quite caught up and is probably falling behind, and I have a strong suspicion that the same is happening in other cities as well.

Prest: Roughly the same kind of thing is going on in England. St. John's Woods which is usually thought of as a prosperous area and also a Jewish area, now has signs for sale in Arabic.

Hartojo Wignjowijoto: Not only German and Japanese buyers but also OPEC residents are buying real estate for cash. The Americans, on the other hand, purchase on the installment plan. The news tells of large real estate purchases for cash by OPEC nationals. This is an important

topic to examine in relation to the declining dollar value and land prices. These people are using a lower valued dollar.

Carter: Isn't this a beneficial thing, Woolery, in terms of imbalance of trade figures? Isn't this our own money coming back and being spent in this country.

Woolery: I was thinking in terms of the tax administration. We talk about land value but to what extent is the assessor being misled or the public observer being fooled by what may be a two-tier market. Are we really using the correct yardstick when we make some of these comparisons?

Netzer: The other side really is that since heavy demand by foreign purchasers in some section of the market is the ingredient for rapid value increases, then the long-standing political difficulties in more adequately taxing land values should be less rather than more.

Woolery: I agree with that, but Proposition 13 runs counter to this because it increases the incentive to buy and hold.

Netzer: I think anybody could write a scenario on Proposition 13 if you had those actors in it. If you had those Los Angeles assessors and so forth, you could do that.

Reeves: I don't agree we are developing two tiers of land values. My perspective on foreign versus domestic is limited, but I do live in a community where OPEC, East Germans, and Japanese have all in the last few years made substantial investments, but, the highest bids by far on blue grass property are made with Texas money. So I question whether it is foreign-oriented. I don't question that there is a difference in the pure use of land as a tax haven, and its use as an escape from the losses of inflation.

Lindholm: Well, McGuire, you are our only international economist.

Carl W. McGuire: I wonder how large this is. This flow of funds doesn't show up as being sizeable in the balance of international indebtedness or through the balance of payments in a particular year. It must be having an effect in particular areas, but overall I wonder if it is changing the situation appreciably.

Reeves: The fact is, we don't know right now. I just gave Woolery the Yale report dated June 12, which is the latest and best statement made on the subject. All it says is that we don't know.

Lindholm: People from Europe, OPEC, and Japan find our land prices to be cheap, and the ownership protection to be good. These foreign owners will also be able to benefit in some cases from tax treaties that basically make capital gains exempt of U.S. income taxes. If the dollar strengthens as land prices increase, these foreign owners will experience a double gain.

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