

PROPERTY TAX REFORM TO CURE
BOOM OR BUST

A Talk by Perry Prentice

For The

BREVARD COUNTY CIVIC ORGANIZATIONS

MELBOURNE, FLORIDA

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I've come here to talk to you about a multibillion dollar Florida problem that almost nobody in Florida seems to understand and almost nobody in Florida seems to want to think about, let alone talk about or listen to somebody else talk about.

So I'm surprised, flattered, pleased, and encouraged that so many of you have come here to listen to me this evening.

I've come here to ask you to give a lot more thought to the multibillion dollar question of how much longer Florida people can afford to put up with the waste and cost of living in the kind of boom-and-bust economy for which Florida has become so famous. I've come to ask you how much longer Florida can afford to be the happiest hunting ground for land speculators who are smart enough to pocket their land boom profits and get out before those profits get wiped out in the land bust that has followed every boom - wiped out along with a lot of other people's savings, like my boy's Florida mother-in-law whose General Development stock has collapsed in the bust from \$28 to \$1.50 a share, or my own widowed mother-in-law whose husband left too much of his estate invested in Florida REITS that have gone down with the bust. I'm here to ask how much longer you think the voters of Florida can wait for the tax reforms needed to keep land speculators from scalping developers, scalping homebuyers, and scalping other investors. I've come to talk to you about making Florida a less expensive and therefore a more attractive state in which to buy a nice home and be happy in it.

Perhaps I should try to get my-not-too-happy talk off to a happy start in reminding you how lucky you are to be living in Melbourne and Brevard County instead of living in Miami or Fort Lauderdale or Orlando or around Tampa where the bottom has really dropped out of the

boom. This may well be the only area in Florida that is looking forward to more new construction this year than last.

But for most of your state, says the New York Times, (quote) "Florida's bust has become as spectacular as its boom." More than a quarter of the whole nation-wide fall-off in home building has been concentrated in this one state. The bust in condominium sales has been twelve times as bad in Florida as in the rest of the country and twenty four times as bad in the Miami-Fort Lauderdale area, where one out of every three projects faces bankruptcy or deep debt and the Times says 30,000 unsold condominiums are hanging over the market!

Two years ago the head of the Florida land sales and land development subsidiary of a big insurance company up north told me frankly that "I don't see how builders can hope to make out building homes on land they buy from us at the prices they are paying us for it." Now he knows the answer: the answer is that they just plain couldn't make out, so they've been defaulting on their purchases, and that's why his own land company that turned in a juicy profit of \$6 million two years ago was lucky to squeakby with a \$200,000 gain in 1974, and that's why I'm told the insurance company directors are now in as big a rush to get out of Florida land speculation as they were in swivet to get into it deeper two years ago.

I'm sure you all know that boom and bust is an old story for Florida. I'm old enough to remember how excited every one in my own home town was back in 1925 when our fellow townsman Newton B.T. Roney made \$7 million in a single day on a Miami land auction, but I also remember all too well that after the Florida bust that people hopefully

blamed on the big Miami hurricane a friend of mine who had moved to Florida to get rich quick was so broke that could not support his family, so I had to take his son off his hands, give him a home, and put him through college. And perhaps some of you have read about the first big Florida land boom ninety years ago when Hamilton Disston, the grandfather of another friend of mine, parlayed a million dollars he did not have into owning 6250 square miles of Florida land - and I mean square miles, not acres - approximately a tenth of the state of Florida. That boom ended with a real bang when tight money caught up with him in the Nineties. He came home from a big party in Philadelphia, took off his white tie evening clothes, drew a hot tub, climbed in and shot himself!

The boom that has just gone bust was the biggest ever or perhaps I should say the highest-priced ever. I see by the Miami Herald that by next Summer mortgage defaults are expected to cross the billion-dollar line. I read that already the selling price of Florida bank stocks has fallen 55% because so many loans have been defaulted. I read that whereas two years ago land speculation was growing new millionaires at the rate of one a day, one-third of these new millionaires are already broke with nothing left of their millions but a lot of worthless purchase-money mortgages. And I'm shocked and a bit frightened by the eight column headline across the front page of the Herald's annual business review and forecast - (quote) "The Worst is Yet to Come".

The reason for the bust is right out in the open for anyone to see. Says the Herald: "In just two years from 1972 to 1974 the price of used homes in South Florida shot up from \$34,562 to \$44,141 and the Herald adds quote "An identical house could have been bought in 1965

for \$16,218", which is hardly a third as much. I also read that in those same ten years the asking price of new homes has soared from just over \$20,000 to \$48,694 - and that explains the Herald's headline that said in so many words that (quote) "Soaring Home Prices Send Home Sales Plunging". "Despite the recession more visitors than ever before are flocking to Florida this Winter to enjoy your wonderful climate, but in the face of these three-times-as-high prices hardly half as many of them have been willing to buy and make their home here."

Builders everywhere try to blame labor for the too-high price of the houses they want to sell, but a study for the Conference Board (better known by its old name of the National Industrial Conference Board) found land prices responsible for 25% of the cost of a home vs. 32% for construction materials and, you may be surprised to hear, only 15% for labor.

This land price inflation is a critical problem all over our country, but it is worst of all in Florida.

Nearly two hundred years ago Benjamin Franklin told everybody that (quote) "Cheap land is America's greatest asset." Today, alas, I have to tell you that overpriced land is Florida's liability.

The problem of overpriced land is doubly critical in this land of boom and bust, but it is an urgent problem all over the country. It was second only to tight money as a major cause of the 60% cut-back in housing that did so much to precipitate the recession (or depression) that may lead the federal government into a very dangerously inflationary deficit of over \$70 billion. It is the biggest single reason so many of our urban centers are disintegrating in sprawl, for it is forcing developers and homebuilders to leap frog far out into the boondocks of premature subdivision to find land they can afford

to buy and thereby urbanizing millions of acres that should be left open country for years to come. So the senseless and needless inflation in land prices is the No. 1 cause of the multibillion dollar energy waste and cost of making millions of people drive trillions of needless miles in more and more cars burning more and more gas getting to and from where they need to go, the multibillion dollar air pollution cost that follows in the wake of each car and truck, the multibillion dollar increased local tax cost of providing municipal services over the added distances of sprawl, the multibillion dollar land waste cost of leaving so many millions of close-in acres unused, misused, or underused as development leapfrogs over them, and the multibillion dollars "throw away cities" cost of leaving so many already-paid-for municipal facilities underused as we duplicate them at much higher prices further out.

Sprawl is a nationwide problem and a nationwide cost, but is at least as bad in Florida as everywhere else. One Florida development for which I was once a consultant advertised its land as (quote) "The last bit of gold on the Gold Coast", but it wasn't on the Gold Coast at all. On the contrary, it was out on the coast of the everglades swamp. And another project with which I was associated was so far out that you had to spend forty minutes driving out past thousands of vacant acres to get there!

Land owners try to blame the high prices they are exacting to sell their land on (quote) "accelerating demand for a fixed amount of land" (end quote) but that is just self-seeking nonsense. Says famed land economist Roy Wenzlick: "You just look out the airplane window and see for yourself that there is no shortage of land ripe for development or redevelopment in and around any American city". Said a United

Nations research report (quote): "The U.S. has land enough within sight of the Pacific Ocean to house its entire population at single family density" (end quote) and presumably give all the rest of it back to the Indians. Milwaukee thinks it has such a land shortage that the Mayor said (quote): "Whole miles of people should be moved out of town", but Dr. Gaffney's Milwaukee study, instigated by the Urban Land Institute, found 40% of all the land within the city's limits either vacant or given over to one-level parking, which is about the same thing. St. Louis thinks it has a land shortage, but a minute's arithmetic will show that there is land enough within the area over which the homebuilders are already sprawling their developments to house the entire population of the whole state of Missouri at single family density and still have 250,000 acres left over for shopping centers, industrial parks, airports, golf courses, fox hunting, and quite a bit of just plain wilderness. And I'm sure it would take only a few more minutes for you Floridians to figure out that there is many times more buildable land in south Florida than you'll need to develop for many years to come.

No - the high price of land that is disintegrating our cities and burdening everybody with the multibillion dollar costs of sprawl can't be blamed on any shortage of land. It is caused, says FORTUNE, "by tax treatment so extremely favorable that it exempts land from the normal working of the law of supply and demand". It is caused by tax treatment that lets landowners, in the words of the late great urbanologist Charles Abrams (quote): "Hold their land for ransom" before they release it for development. It is caused, says America's No. 1 land economist, Dr. Mason Gaffney, by the way our tax system makes it easy

for landowners to hold vastly underestimated millions of acres off the market in anticipation of vastly overestimated future demand.

That's why Dr. Lowell Harriss, the economist for the Tax Foundation and 1974 president of the National Tax Association, says (quote): "Practically all competent economists who have studied the problem are agreed that land should be taxed much more and improvements should be taxed much less if at all."

That's why the executive director of the Federal Advisory Commission on Intergovernmental Relations went on the record that (quote) "Our staff is agreed that today's property tax with its emphasis on improvements discourages new construction and impedes the rehabilitation and maintenance of existing buildings; it constitutes a force to promote urban sprawl and leapfrogging development and fosters speculative land holding. A change-over to site value taxation should give private enterprise an incentive to improve and build and make fuller use of the land" (end quote). And that's why Carl H. Madden, Chief Economist of the United States Chamber of Commerce said (quote): "A powerful tool for rebuilding urban centers through private initiative lies in reforming the property tax. Higher taxation of location values and lower taxation of improvements would help push land into more effective use." (end quote). The Congressional Research Service 1971 Report said: (quote) "Higher taxes on land and lower taxation of improvements would help stimulate development and redevelopment".

Perhaps the quickest way for me to help you see what is so wrong with today's misapplication of the property tax would be for me to read to you a few paragraphs from the consensus of a panel of urban experts

at a round table conference on Urban Finance, whose sponsors included the Council of State Governments, the Conference of Mayors, the National League of Cities, the National Governors Council, and the National Association of Counties. Said these experts: (quote)

"By definition, the value of unimproved urban and suburban land is created not by anything the owners have done to improve it, but by an enormous investment of other peoples' money to build the community around it and an enormous investment of other taxpayers' money to provide the infrastructure of roads, schools, water systems, sewage systems, mass transit facilities, parks, pollution controls, police facilities, fire protection, etc., etc., etc., needed to make the location easily reachable, pleasantly livable, and richly saleable.

"The enormity of this other-taxpayer investment is suggested by a Regional Plan Association report indicating that around New York it is averaging well over \$16,850 per lot in single-family locations, many times \$16,850 in multi-family locations. This \$16,850 figure is confirmed and given broader significance by studies for the Southern California Research Council that come within about a thousand dollars of the same figure for Los Angeles.

"The practice of public improvements for private profit gives land speculation an enormous hidden subsidy, a hidden subsidy so big that it may actually be bigger than all the farm subsidies plus foreign aid combined. And this is perhaps the biggest reason why building-site prices have been going up much faster than the prices of everything else. The Douglas Commission found that from 1955 to 1965 land prices climbed six times as fast as the index of wholesale commodity prices.

"The smaller the land tax the bigger the land subsidy and the higher the land price can go. So we are shocked but hardly surprised to hear the Tax Foundation report that most of the federal urban redevelopment subsidies have gone to enrich the owners of slum property by raising the price of slum land (\$484,000 per average acre for the slum properties bought for demolition by the New York Public Housing Authority) and have done little to help the poor people living in the slums (just as the federal Report on the Causes of Rural Poverty found that the federal farm subsidies 'have created a class of wealthy rural landowners but done little to improve the condition of the rural poor').

"Here are a few of the many reasons why most of us believe the unimproved location value of urban and suburban land should be taxed much more heavily:

- Quite simply, to help pay the cost of local government, including the cost of all the tax-paid improvements that make the location valuable
- To offset the cost of untaxing improvements. Local governments depend on property taxation for nearly 87 per cent of their local revenue, so the only way they can afford to tax improvements less is to tax unimproved land values more.
- To slow down the pace of land price inflation.
- To exert heavy pressure on the owners of underused and misused land (including most specifically slums) to put it to better use now instead of waiting for further subsidies and further investments of other peoples' money to raise its price still higher (land speculators call this 'waiting for it to ripen'). With land prices for building soaring

8 to 15 per cent a year, millions of idle acres are now so underassessed and undertaxed that the owner can hold \$1 million worth off the market for a property tax cost of as low as \$5,000 a year, with up to 77 per cent of that \$5,000 deductible from his federal income tax.

- To let cities expand in an orderly manner instead of disintegrating in suburban sprawl and premature subdivision, with millions of close-in acres held off the market for speculation, thereby forcing homebuilders to leapfrog further and further out into the countryside to get land they can afford to build on and forcing industry to move further and further away from urban employment (and unemployment) centers to find enough land they can afford on which to build new plants.

- To save the tax waste of sprawl, which multiplies the cost of roads to reach sprawl-scattered homes, multiplies the cost of water distribution, multiplies the cost of sewage collection, multiplies the cost of mass transportation, inflates the cost of police and fire protection, and doubles the cost of getting children to and from school.

- To stop and perhaps reverse the futile spiral in which the multi-billion-dollar urban renewal subsidies are being capitalized into higher urban renewal land costs calling for bigger urban renewal subsidies that will in turn be capitalized into higher land costs requiring still bigger subsidies (land write-down subsidies, below-market-interest subsidies, tax exemption subsidies, or perhaps some new kind of subsidy).

"Wisely applied, the property tax on which local governments depend for 87 per cent of their tax revenue could be one of the wisest and fairest of all taxes; but as most cities apply it today it may well be the very worst--a weird combination of overtaxation and undertaxation, an incentive tax for what we don't want and a disincentive tax for what we do want. It harnesses the profit motive backward instead of forward to

both urban renewal and urban development. Too often it makes it more profitable to misuse and underuse land than to use it wisely and fully, more profitable to let buildings decay than to improve them or replace them.

"Too few tax levyers seem to understand that the property tax is not just one tax; on the contrary, it combines and confuses on one tax bill two completely opposite and conflicting taxes, and it would be hard to imagine two taxes whose consequences for urban renewal and urban development would be more different.

"One of the two conflicting taxes fused and confused in the property tax is the tax on improvement--the tax on what past, present, and future owners of the property have spent or will spend to improve it. And it must be obvious to anyone that heavy taxes on improvements are bound to discourage, inhibit, and often prevent improvements.

"The other levy confused in the property tax is the land tax--the tax on the location value of the site, the tax on what the property would be worth if the owners had never done anything or spent anything to improve it, the tax on the value that derives mostly from the enormous investment of other peoples' money and other taxpayers' money to create the community around it and make the location accessible, livable, and richly saleable. And it must be obvious to anyone that heavy taxes on the location cannot discourage or inhibit improvements; on the contrary, heavy taxes on location could put effective pressure on the owners to put their sites to better use so as to bring in enough income to earn a good profit after paying the heavier tax.

"All this is so obvious that you would think every city would try to tax land heavily and tax improvements lightly if at all; but just the opposite is the case. Almost every city collects two or three times as much money from taxes on improvements as from taxes on land. In fact, many combined local, state, and federal taxes on any other product of American industry except hard liquor, cigarettes, and perhaps gasoline.

"A 3-per-cent-a-year tax on improvements may not sound big compared with an income tax averaging, say, 30 per cent, but it sounds small only because it is expressed as a percentage of capital, whereas the income tax, as its name makes clear, is expressed as a percentage of income. The enormity of improvement tax becomes self-evident when we restate it in income tax, in sales tax, and in consumer tax terms:

"First in tax terms:

"A 3-per-cent-of-true-value tax on improvements is apt to tax away 75 per cent of the net income a new building would otherwise earn.

"And now in sales tax terms:

"A 3-per-cent-of-true-value tax on improvements is the instalment plan equivalent of a 52 per cent sales tax; i.e., it will cost the improver as much as a 52 per cent lump sum sales tax would cost him if he could finance it at 5 per cent interest over the 60-year life of the improvement.

"And finally in consumer tax terms:

"A 3-per-cent-of-true-value tax on improvements will cost the consumer more than a 25 per cent consumption tax; i.e., it will add more than 25 per cent to the rent a tenant must pay or more than 25 per cent to the carrying costs an owner must meet."

Cities should help themselves by taxing land heavily instead of, as now, subsidizing land price inflation.

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