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# Speculation, Urban Renewal and Land-Value Taxes

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by  
MARY RAWSON

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ALL human communities assert a public interest in land, but in varying degrees, on different theoretical grounds, and by different methods.

State ownership is the method of complete assertion and control. State regulations that govern methods of land transfer between private owners can be regarded as a minimum control. Between these extremes are state claims on revenue from, or value of, land; state requirements for land donation under certain circumstances; state regulations governing the private use of land (zoning); the right of the state to expropriate; and state regulations governing land registration and land subdivision.

Outright and complete ownership of land, as in the USSR, implies the right of the state to impose any revenue claim, to direct the land to any use, and to say who shall use it. In such circumstances the problem of speculation in land disappears and annual land rentals automatically flow to the public treasury. These desirable features of outright public ownership are, however, accompan-

ied by serious mis-allocation of land and greatly reduced freedom of choice of individuals.

At the other end of the scale one must imagine a country in which land is completely in private ownership and where there is no governmental regulation, taxation or control of land, or any publicly-owned sites. In such a system, whether land ownership is widely dispersed or whether it is concentrated in a few hands will directly affect the efficiency of the land market and the freedom of choice of individuals.

Absolute private ownership of land concentrated in a few hands means freedom of choice only for those few; it means a highly monopolistic market and inefficient land allocation. That is, it results in the same serious deficiencies as complete state ownership, with the added drawback that annual land rentals flow into private hands instead of into the public treasury. Countries where the land system is close to that described include Venezuela (3 per cent. of the landholders own 90 per cent. of the land) and Chile (2 per cent. own 52 per cent.).

The land systems in effect in North America lie between the two extremes. There is a greater degree of dispersion of private land ownership than in South America, and the public interest in land is asserted in many ways.

In Canada, for example, the land system in Quebec is based on the principle of absolute private ownership in land, while the land system in other Provinces is based on the principle of common rights to land. Nevertheless, through supplemental laws and usage, we find a set of practices in all Provinces that produce very similar results. There is in every Province some outright public ownership of land; there are taxes on land; there are zoning and use by-laws; there are regulations governing land description, land transfer, and land parcelling. At the same time, it is left largely to the market mechanism to allocate land between competing users.

Theoretically, that is, under conditions of perfect competition, the market would allocate land in the most efficient manner between private users. Land uses of a similar or complementary character would naturally group themselves with maximum benefit to the users and to the community. Natural zoning would result. We are able to see, even under conditions of an imperfect market, that land

uses do tend to group themselves—the commercial uses in one place, industrial uses in another, and residential uses in another. We also see groupings of specialized uses, for example, financial institutions, apartments, clothing manufacturers and used car dealers.

It is clear, however, from the land mix and land waste in and around our cities that the land market is far from perfect. It is also clear that no matter how close it came to perfection, the market would not allocate sites for public use. These are two fundamental reasons for the practice of town planning.

Perhaps it is necessary to state that a completely free market economy is an unobtainable “ideal,” just as a completely state-directed economy is an unobtainable “ideal.” These dogmas must be put aside if a practical and acceptable set of proposals governing land use is to be found. Nevertheless, we are certain to retain a very large measure of private land ownership, and it would be useful to obtain the allocation benefits of the market system as far as possible.

One problem that confronts a liberal, or reform, government is how to assert the public interest in land more effectively than at present and at the same time avoid a general diminution of freedom for the individual. Two avenues of approach, and these are not mutually exclusive, are (1) to take a more clear-cut line in the field of direct public action and control or (2) to eliminate institutional and other factors (*e.g.*, rewards for land speculation) that exaggerate the imperfections of the land market to the detriment both of private and public users of land.

#### *Policies of Taxation*

It is appropriate at this point to comment specifically on the use of taxation as a means of asserting the public interest in land.

Without in any way belittling the value of other devices such as homologation, zoning, and public acquisition through expropriation, it is my belief that policies of assessment and taxation have a stronger and more prevailing influence on the quality of urban growth, and that at present they are in no way directed to the achievement of sound communities.

To put tax policies in perspective. The network of public land

uses and utilities provides a physical skeleton within which private persons use, or do not use, the land in a community. Municipal plans, buttressed by zoning and other regulations, issue a series of negative commands: "thou shalt not place a single-family dwelling in this area," "thou shalt not build higher than eight storeys" and so on. But the positive decisions as to what *shall* be built, and where, and when—the decisions that put flesh on the skeleton—are made by the thousands of individual land owners. Thus it is largely true that, under our system, it is not town planners and policy makers who decide land use, but individual land owners. The reactions of these men and institutions to changing economic and social conditions are crucial. Herein lies the strength of the claim that taxation has a powerful effect on urban growth.

The generalization that a heavy tax stifles enterprise is untrue. As Mason Gaffney says: "What stifles enterprise is how the tax varies when the taxpayer acts enterprising."

Let us suppose that municipal (and school) taxes were removed altogether from land and that the necessary revenue was obtained entirely from a tax on buildings. There would be no carrying charge at all on vacant land; it would cost nothing to hold it idle, and more people would turn to it as an investment. At the same time the heavier tax on buildings would decrease the incentive to invest in buildings; there would be fewer built, and there would be less money spent on maintenance. Urban blight, the shortage of housing, and the dispersal of urban development would become more pronounced.

Now take the reverse. Remove taxes altogether from buildings and increase them on land. Land would become a less attractive investment and it would cost more to hold it idle. There would be no less land available for use and it would not deteriorate with time as buildings do, but the cost of holding it would rise. Also there would be no tax increase if the land were built upon. This has an obvious bearing on the urban renewal problem.

These opposing propositions throw both the faults and virtues of the real estate tax into sharp relief. In its present form and in relation to sound urban growth, the real estate tax gives both positive and negative directives to the private property owner. It would be very simple to harness municipal tax pressures wholly to town planning ends by removing various types of taxes on buildings and increasing tax rates on land.

To recapitulate: businessmen, investors and builders make decisions on the basis of data. Some of the data is provided by governments, *e.g.* the real estate tax, and this leads to certain results. If different results are desired, the government must change the data.

At the municipal level, to remove all taxes from buildings and to increase taxes on land heavily would have a profound effect on the decisions of businessmen who build the city—in my opinion a totally constructive and ameliorating effect in harmony with the aims and efforts of conscious town planning.

In Canada a land tax annually collected is also in order at the Provincial level, partly to bring to non-municipal areas the salutary effects of land taxes, and partly in connection with the need to establish good assessments throughout each Province. (Improvement of assessment is discussed later).

Similarly, at the Federal level it is clear that the system of personal and corporate income tax results in a host of complicated decisions by investors that adversely affect the pattern of land ownership and land use, and inflate land prices. Two examples are the tax free status of “windfall” income, which is often income from a land sale, and the practice of allowing income-producing ventures to be set off against income-losing ventures. This provision tempts high-income groups to buy property, *e.g.* farms, bidding up the price of farmland beyond that which a working farmer can afford to pay.

#### *Policies of Assessment*

In describing the effects of *ad valorem* taxes on real estate it was assumed, for the moment, that assessments fully and fairly reflect market values. Where assessments are not fair as between properties the tax burden is shifted from under-assessed to over-assessed properties. Undervaluation is inequitable valuation. Whether intention, or not, it means an inequity between properties is built into the very tax base that no amount of juggling with the mill rate or system of exemptions will correct.

The quality of assessment in Canada varies from city to city, from Province to Province, from good to deplorable. The types of inequities that one generally finds are undervaluation of more valuable properties, both land and buildings, relative to less valuable properties; undervaluation of vacant land relative to improved land; undervaluation of urban lands relative to farm lands; great dis-

parities of valuation between similar types and uses of land similarly situated.

The establishment of a fair assessment based on market value would in itself accomplish a desirable redistribution of tax pressures since it would result in generally heavier taxes on urban and on vacant lands and a slight tax decrease on buildings.

In order to obtain a high standard of assessment—an end that is desirable in the interest both of equity and sound development—certain measures appear to be necessary. The main one is that responsibility for assessing within a Province must lie with an office of the Provincial Government, preferably an office subordinate to a Department of Town and Regional Planning. This office would employ a team of highly qualified personnel to establish base values in various sectors of the Province. Local assessors would be obliged to use these values as a point of reference for more detailed valuations.

The central office should instal mechanical data processing equipment for processing sales data and local assessment figures, and in this way constantly improve the base valuations and check the valuations of local assessors.

The basis of assessment should be full market value\* (that is value in exchange) *not* value in use. Separate assessments of land and buildings are necessary. Tax maps as well as tax rolls should be used.

Finally, and this might have a most salutary effect, the Assessment Appeal Board should double as the appeal board in expropriation cases. Since both assessments and expropriation payments ought to be based on market value, the effect would be to reduce the amount of special pleading and to improve valuations.

#### *Zoning for Open Space on Private Land*

While insisting on market value rather than use value assessment, I recognize that there may be instances when the community wants to reduce, not increase, tax pressures on land, *e.g.* when it wants to retain open-space types of uses on privately-owned land, such as golf courses and farms. This aim may be achieved by combining open-space zoning with a system of deferred tax payments.

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\*The reasons for insisting of full value assessments based on assessment methods that rely primarily on evidence of market prices are thoroughly discussed in the literature of assessment and municipal finance and are backed up by the judgements of the courts.

The assessor would enter two columns of valuation for the land—(1) value in use; (2) value in exchange (market value). Where these values differed, as in the case of a farm or golf course close to an urban area, the annual tax would be paid on the valuation in column (1) and the additional tax, which would be due on the basis of column (2), would be deferred. As the urban area grew the valuation in column (1) would rise slightly while the valuation in column (2) would rise steeply. If the community decided that the land should be used for urban purposes, it would cancel the conditional zoning, and the deferred taxes (with interest) would become payable. If the community decided that the land was needed for permanent public open space, it would purchase at the assessed market value (minus deferred taxes).

#### *Public Ownership*

The need to expedite public ownership of sites needed for roads and other public uses is clear. In Quebec the principle of homologation or “designation” is established. It has been proposed in some of the other Provinces, but I do not think it has been written into the law.

Even in Quebec homologation could be made more effective by expanding its application to all sites needed for public use (e.g. hospitals, schools, and parks) and by tying the homologation price to the market price as of the date of homologation. Here again an up-to-date documented assessment roll and tax maps will prove their value. The homologation law might also provide that the property owner be relieved of taxes levied after the date of homologation, otherwise hardship might ensue.

Various writers on the problems have also suggested the institution of “first refusal” rights in specially defined planning areas. This is a reasonable proposal where the government wants to protect a large private development from the results of speculative activity. In such a case, as in any case where the government expropriates partially for the benefit of a private owner, it would seem imperative, on equity grounds, that the government retain the land rather than sell it to the said private owner. Instead, when needed for development, the expropriated land could be put up for *lease* to the highest bidder. Presumably the highest bidder would be the owner of the large development.

### *Regional Planning*

Criteria establishing a need for and boundaries of Regional Planning areas in the Provinces are beyond the scope of this paper. It is assumed that large regional units covering the whole of the Province are desirable, and that they will be drawn on the basis of geography and urban activity.

In an earlier section it was suggested that Provincial Offices of Assessment be set up in conjunction with and subordinate to Departments of Town and Regional Planning. This may seem a bizarre suggestion, since valuation is traditionally a separate department and valuations are looked upon solely as a source of revenue. The traditional view is too limited.

A detailed and continuing record of property values is vitally important for town planning purposes, as a basis for taxing community-created values; as a basis for expropriation and homologation prices; as a reference for planning public improvements; and as a reference for measuring the success of plans.

Furthermore, since it is clear that real estate taxes affect land use, it is desirable to make valuation (and taxation) jurisdictions coincident with planning jurisdictions. Higher or lower rates of Provincial tax could easily be levied on the basis of planning jurisdictions.

Finally, the use of machines for processing the necessary sales and assessment data would make it possible to correlate land use, parcel size, ownership characteristics and other information which would be invaluable for planning research.

### *Concluding Note*

Town planners everywhere are agreed that the first concern of their profession is "the public interest." That the public interest in land is the core of this concern is not so completely grasped. The nature and extent of the public interest in land is, I fear, even less well-appreciated—among town planners in Canada at any rate.

I think it is desirable and possible to assert the public interest in land through a number of laws and devices, and that an appropriate place to co-ordinate them is under the umbrella of Town Planning legislation.

A desirable Town Planning Act would, in my view, include provisions to:

1. establish the definite superiority of common rights in land over individual rights;
2. expedite outright public land ownership in certain spheres, namely, land used for community purposes and unique natural resource sites;
3. retain the allocating function of the market mechanism in respect to private land use;
4. introduce measures to loosen the "stickiness" of the land market;
5. remove, in the interests of economy and social well-being, rewards for speculating in land;
6. secure for the community land values that are created by the community;
7. co-ordinate regulatory and tax measures to achieve more positive results from planning efforts;
8. maintain security of tenure for the individual land user.

If these proposals make anyone's hair stand on end because of the underlying ethical position, they are invited to challenge that position and not the fact that there is one. Recommendations for regulation of economic activity always contain ethical judgements, candidly stated or not. Was it not Edward Bellamy who said that economics is ethics in practice?

#### LESSONS IN LAND VALUES

##### *Montreal Area*

Same-day transactions:

1. 16 May 1963: bought for \$2,500; sold for \$3000. Registration Nos. 1674441 and 1674442.
2. 3 December 1962: bought for \$12,825; sold for \$16,500. Registration Nos. 1641403 and 1641404.
3. 28 November 1961: bought for \$138,000; sold for \$173,000. Registration Nos. 1573253 and 1573814.

Foreknowledge?

4. In June 1962 the City of Cote St. Luc paid \$444,370.50 for a site for a civic garage. Four months previously the CPR had sold the site for \$154,048.44.

5. On 31 October 1958, three days after a school board's decision to purchase a certain site in St. Laurent, Twin Development Corporation bought the site at \$0.70/square foot. It sold to the Board a month later (5 December 1958) at \$1.19/square foot. The profit to Twin Development Corporation was \$171,600.

6. In January 1956 the Grey Nuns sold the whole of St. Paul Island for \$1,300,000 (Registration No. 1183864). In September 1958 the Crown paid \$1,000,000 for a strip of only 4½ acres for the right-of-way for Champlain Bridge across the east end of the Island (Registration No. 1583845). This was a clear case of a hold-up of the public.

Subway pays for itself.

7. The site at the N/E corner of Dorchester and Guy was purchased for \$437,500 (Registration No. 1364614) in October 1958. The building was demolished and within a year the site was sold for \$703,470 (Registration No. 1388589). The site was two blocks from the projected Guy-Burnside subway station.

8. Part of Atwater Park at the N/W corner of Atwater and St. Catherine (a vacant site) was purchased in September 1959 for \$30,000 or \$3.35/square foot. (Registration No. 1434588). It was sold again in January 1961 for \$44,500 or \$5.00/square foot. (Registration No. 1516398), and again on 19 June 1964 for \$100,000 or \$11.19/square foot. (Registration No. 1760717). The projected Atwater terminus of the subway is just north of this site.

9. In December 1955 an acreage site at St. Catherine and Clarke was purchased from the Grey Nuns at \$1.50/square foot (Registration No. 1179310). An interest in a part of the site was resold at a value equal to \$2.45/square foot in June 1964 (Registration No. 1755645.)

#### *British Columbia*

##### *“Buy the by-pass”*

1. Public action may enhance the value of land tremendously. The example of British Pacific Properties, Westmount Estates Ltd. and Vancouver Mortgage versus the Department of Highways is a case in point\*.

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\*Arbitration Award of 25 June 1958 given under the Highway Act R.S.B.C. 1948, Chapter 144, and the Department of Highways Act, B.C. Statutes 1955, Chapter 33. Also the related Supreme Court of Canada judgement pronounced 11 April, 1960.

Much of the affected property was quite isolated and away from Marine Drive, the main artery of the community. Property in the general area prior to the gazetting of the Upper Levels Highway was worth from \$300 to \$500 per acre. When the Highway was gazetted, prices increased to \$2,000 per acre. The Highways Department still had not acquired the land for its right-of-way.

In the case cited, the Department of Highways offered \$19,000 for the properties (less than fifteen acres was to be taken). Negotiations failed and the case went to arbitration. A price of \$38,300 was decided upon, not including damages. The decision was appealed to the Supreme Court, specifically on the basis of injurious affection to the severed lands. The Court ruled that damages of \$48,000 be paid due to severance. All this on land which was worth \$300 to \$500 an acre prior to the talk about highways.

In March 1961 the Highway was opened for traffic. Meanwhile a portion of the subject property had been zoned for commercial use. A gas station was built on a portion of the property (.42 acres), for which a major oil company paid \$3,000 per annum ground rent. That would mean at 6 per cent. a site value of \$50,000, or over \$100,000 an acre.

“Overnight” Increases

2. The Turcott Estate, 303 acres of land near Kamloops at the junction of the Trans-Canada and Merritt Highways, was sold for \$200,000 in 1966. Some of the land was subdivided into sites for commercial and industrial use. Gas station sites less than an acre in area were sold for \$60,000 to \$80,000 an acre, and industrial sites for \$35,000 an acre. These prices represented an “overnight” increase of forty-fold to almost one-hundred-fold.

(From a speech by Robert Williams, M.L.A., during the Budget Debate, 14 February 1968.)

Along the Highways and Byways with B. and W.\*

3. At one of B.C.’s key road travel centres, Cache Creek, B. and W. bought in 1964, 4.11 acres of land bordering the highway just south of the intersection with the Cariboo route. The market value was declared to be \$25,000.

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\*The above transactions dealing with the activities of B. and W. Developments Ltd. and Savemore Investment Associates were selected from a number described in a series of copyrighted articles in the *Vancouver Sun* 15-17 February 1968.

Within three months of the date of sale, according to the deed, the land was split into two lots and resold for a total of \$76,000.

4. At Chase, also on the Trans-Canada Highway, land registry records indicate B. and W. carried out an even faster transaction. One deed, dated 19 October 1963, conveyed two adjoining lots at the intersection of the bypass section of the highway and the Chase access road to B. and W. for \$11,500.

A second deed, dated 1 November, 1963, conveyed the two lots to Vampire Oil from B. and W. for \$21,800.

5. Savemore Investment Associates in 1966 bought two lots just across the highway from the B. and W. purchase in Cache Creek. Its market value was declared on 22 December 1966 as \$30,000.

On 3 January 1967 one of the lots, of .58 acres, was sold to Union Oil. The market value of this lot alone was then declared as \$50,000. This was \$20,000 more than the value of both lots together two weeks earlier.