TAX and USA
REAL ESTATE

# Distortion!

**● CONGRESSIONAL plans to eliminate tax breaks have finally compelled economists to acknowledge that the US real estate market has been seriously distorted by postwar fiscal policy. Analytical articles in the *Wall Street Journal,* have revealed how land prices have been forced up by the tax breaks, which were originally intended to help income earners, not property owners!**

**● Supply-sider George Gilder, whose books have provided the economic rationalisation for President Reagan's economic strategy, noted that one of the key virtues of tax reforms had gone largely unrecognised: they would drive down the price of land.**

**● His analysis was followed up by Michael Kinsley on June 5, in which he declared: "As the late Henry George famously pointed out, wealth accruing in land operates like a tax on the productive factors in the economy, labor and**

By Walter Rybeck

HOUSING is a major expense of most people, older folks and young families, middle-income as well as the poor. Beneath the house is the land cost which is typically hidden from public discussion. Even developers and bankers must consider this cost.

ITEM. Women fight for work equality but lack basic protection for maternity leave and child care and often lose their jobs after they have babies, writes Sylvia Ann Hewlett in *A Lesser Life – The Myth of Women's Liberation in America*.

Society, she says, suffers by failing to provide adequate parental contact for babies "in the first few weeks of life."

Granting that women's horizons have been unfairly constricted, some old-fashioned queries: Why only weeks instead of years of parental contact? Why are a couple's savings before babies come along, plus a husband's earnings, not sufficient in most cases?

Some modern replies: Who saves? What husbands?

ITEM. A 68-year-old man's rent increase from $400 to $725 for his Alexandria, Virginia, apartment. He finds nothing suitable he can afford in his community. His displacement is not an isolated case.

The National Low Income Housing Coalition reports that in 1970, when 8.4 million families earned less than $5,000 a year, there were 14.9 million housing units renting at $135 a month or less, considered "affordable" at 32 per cent of annual income.

Latest Census figures show that 6.3 million households still earn less than $5,000 a year, while the supply of $135-a-month apartments has been whittled down to 2.7 million.

ITEM. Landowners are still grumbling over last year's U.S. Supreme Court ruling in the Tennessee case, *Williamson County Regional Planning Commission vs. Hamilton Bank of Johnson City*.

The bank alleged that planners, by tightening land-use rules, prevented it from earning at least $1 million – which constituted a "taking" of property for which it should be reimbursed.

The Supreme Court dodged the central issue, ruling against the bank because it had not exhausted local rezoning remedies.

Developer-landlord interests want the court to clarify this "muddled, gray area" of the law. If they ever succeed in proving they are due a refund when public action *reduces* their land value, will they then insist that they must repay society when public action *adds* to the value of their lands?

LAND price inflation in the United States is still outpacing general inflation, according to a sampling of 30 metropolitan areas by the Urban Land Institute in Washington.

The ULI data refer to bare land designated for single-family homes. "Raw" land is defined as plots of 20 to 100 acres without

## 'GOOD LIFE'

**HOME ownership is at the top of the list when Americans are asked about what is necessary for a "good life." Nearly two-thirds of all American families own their homes, and this proportion has remained stable despite the fact that the median price of housing continues to rise, now costing over $80,000.**

**Affordability, of course, rests on much more than just the price of a house. There is the ability to repay a long-term mortgage loan, which depends on family income and on the cost of borrowed money.**

**An $80,000 house would require around $13,000 as a cash contribution (for downpayment, loan fees and other closing costs). Thus, borrowing $72,000 at, say, a 10.5% annual rate of interest, will cost a homebuyer $750 a month in principal, interest, taxes and insurance.**

**Mortgage lenders generally feel a borrower should not allocate more than 25% of total monthly income to housing. Accordingly, the above payment requires that the family earn $3,000 per month, or $36,000 annually.**

**That, plus the availability of $13,000 in savings, a clean credit history and steady employment will get the family into a new home.**

**Since only about 30% of families have incomes of $35,000 or more, and just over 60% fall below $30,000, one might expect to see a drop in the demand for higher priced housing. In fact, this has not been the case. A number of factors are responsible.**

**While newly-constructed, sub-**

# Dismay! Disaster!

**capital. His solution was to lower the value of land as close as possible to zero by taxing away all of the return, or monopoly rent, and using the money to reduce (or, in his ideal, eliminate) taxes on the productivity factors.**

**● "Our tax policy for the past few decades – and especially since 1981 – has been the exact opposite. Through a dozen tax breaks ranging from the home mortgage interest deduction through rapid depreciation for buildings, we have taxed the return on real estate far less than the returns on labor and on other forms of investment".**

**● *Land & Liberty* writers spotlight the problems of existing tax policies. WALT RYBECK, Director of the Washington-based Centre for Public Dialogue, examines the land market. ED DODSON explains how families must commit increasing proportions of income to house themselves.**

utilities: "improved" land refers to quarter-acre lots with sewer, water, electricity and telephone connections.

From 1975 to 1980 the consumer price index (CPI) rose 52% while the median value of housing sites rose 92.7% for raw land and 69% for improved land in the metropolitan areas tested.

From 1980 to 1985 the CPI rose 26% while the median value of raw land rose 38% and the median value of improved land rose 33.7%.

Raw land inflation in the 30 metropolitan areas varied from an increase of 213.7% in Raleigh, North Carolina to a decrease of 27.6% in Salt Lake City, Utah during the last five years. In the improved category, the five-year change ranged from an 89.5% increase in Boston to no change in Portland, Oregon.

Seeking to explain these differences, ULI charted population, employment and per capita incomes in the 30 areas. No clear patterns emerged. Hartford, Connecticut, for example, ranked third in raw land inflation, twenty-fourth in population growth, fifteenth in employment growth, and ninth in income growth.

Analysts found a closer correlation with public restrictions on the effective supply of housing sites such as limits on urbanization, large-lot zoning and shortages of sewer lines and other infrastructure.

Unfortunately, researchers did not examine the effect of local tax policies on land prices. In New Orleans, where property taxes are scandalously low, the median price of quarter-acre lots is $35,000, as contrasted with $16,000 in Atlanta and $20,000 in Pittsburgh, where land carries bigger tax obligations.

The United States is still a long way from a genuine land price index that it should have in order to track land market behaviour annually in all cities and states and for all land-use categories.

Meanwhile, ULI is to be thanked for hinting at why housing prices are out of reach for so many, why couples and mothers face economic distress, and why poverty continues to march in lock step with progress.

# AT A HIGH PRICE

**BY ED DODSON**

**urban or "gentrified" urban housing has rapidly increased in price, the cost of housing in many urban areas has been stable or declining. The older housing stock of cities has in recent years provided the opportunity for lower income families to gain a foothold in the housing market.**

**As a result, despite the climb in the median price of housing, the percentage of American families able to afford homes has remained rather constant. The difference is that the same home purchased in the early 1960s using 25% of the income of the primary earner (generally male) now requires 25% of the income of two individuals, both of whom are probably better educated and higher up in social status than their 1960s counterparts.**

**Another reason is that those same 1960s buyers have benefited by the rise in housing prices and by inflation in general. As their family income increased (in part because the spouse eventually went to work), their fixed rate mortgage payment was being repaid with cheaper and cheaper dollars. Not a bad deal really at the expense of the lenders.**

**Meanwhile, the market value of their homes kept growing. This equity, realized as they sold their homes, has been the primary source of savings for millions of American families in general and, in particular, its senior citizens. Their gains have, of course, been passed down as increased housing costs to younger people.**

**The good news (for some) is that pending tax reform may have the unexpected benefit of driving down the price of land and, consequently, of housing. As Michael Kinsley of *The Wall Street Journal* noted:**

> ***In general, generous tax breaks for rental and owner-occupied housing have not served to make housing more affordable or to increase the supply. Most of the value of these breaks has simply been capitalized into higher prices for land and existing structures.***

**His view that tax reform will bring "lower house prices" will only be tested in time. What can be applauded without reservation is his conclusion that "a fall in real estate prices, if it happened, would be a great thing for America."**