

How to Bring

THE COST OF HOUSING

Back within Reach of

All American Families

Introduction

by Dr. C. Lowell Harriss
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Excerpt from the Final Report of the Task
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From a report by the Subcommittee on the City
of the House Committee on Banking, Finance, and
Urban Affairs of the U.S. House of Representatives
Rep. Henry S. Reuss, Wisconsin, Chairman

INTRODUCTION

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The number of Americans who lack adequate housing is much too high. While both opportunity and promise lie in the long-established principle of providing satisfactory shelter for everyone, many are still not well housed. Population grows, and the existing stock of housing grows older. For years to come, much new construction, expansion, and modernization will be needed.

Rapidly rising costs, however, present formidable obstacles. One of the heaviest costs is one which also rises most rapidly. And it is the cost of something created not by sweat and thrift, but by nature.

It is land.

The rising prices paid for land itself must be distinguished from the portion of the price of a building site which represents cost of preparation for use. The land elements alone go up and up in price. But land price increases do not change the quantity of land in existence. Here is a rising price which does not add to supply.

Land is different.

In these three articles on land value taxation, the first, "Land Supply Constraints in the United States," points out that the sharp rises in land prices result in part from man-made factors. Arbitrary, artificial, and unconstructive restrictions on land supply boost prices and threaten our housing future. New building will therefore be kept below levels which unfettered economic conditions would otherwise achieve. But tax policy which would encourage use, rather than underuse and withholding, of land can increase the effective supply. Need more be said?

Yes. And in the second selection, "The High Price of Land," Mr. Prentice says more. He points to many avenues by which the harmful effects of restricted land supply spread through the economy. Developers and builders, laborers, suppliers, subcontractors, and others all suffer. They have less work, operate under conditions of disadvantage, and receive poorer rewards because of essentially needless obstructions to the optimum use of land. The full and true price of land includes burdens above and beyond the dollar prices of building lots. We shoulder burdens of lost opportunity of many kinds. They are largely hidden but indeed real. The quality of too much new construction deteriorates instead of improving as an advancing society should expect. And, to repeat, the tragedy is that the rising prices for land do not create any more surface on the earth.

What to do? The third article, "Modernize, Don't Abolish, The Property Tax," points to the reform outlined generations ago but here presented in modern form: reduce the property tax burdens on structures and make up the revenue by higher tax rates on land value.

The benefits from relying more fully on taxation of land values, rather than taxation of buildings, would include greater pressure on landowners to put land to better use. Withholding land—which reduces the current effective supply—would become more costly if land value taxes were higher. Thus some land formerly held for speculation would be sold, and new building would be encouraged on the increased supply of land.

A careful study of probable results in Washington, D.C., showed, among other things, that taxes on present homeowners would generally fall. But this result is not the one which most justifies support for reform. More significant and constructive would be a combination of forces producing incentives for better land use. Upgrading of housing in older urban centers would be expected. Positive incentives at many points would contribute to improving America's housing.

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Land Supply Constraints in the United States

An excerpt from the Final Report of the Task Force on Housing Costs, William J. White, chairman, presented to Patricia Roberts Harris, U.S. Secretary of Housing and Urban Development, on May 25, 1978:

I

THE HIGH COST of housing is now a major problem for millions of American families. Costs of acquiring or occupying decent housing have increased dramatically in recent years. While it is true that many owners of existing homes have benefited from inflation and have moved on to improved housing without major financial strain, others have not been so fortunate. They include the young couple of limited means buying its first home, the lower-income family, the elderly on fixed incomes, and many Americans with special housing needs.

For these households the high cost of shelter is not merely serious, it is too often an insurmountable crisis.

The housing cost problem is nationwide. It is not limited to a few cities or regions. When so many families cannot afford to fulfill so basic a human need as shelter, it is clear that the country has failed them. All Americans are entitled to enjoy housing that is decent, sanitary, and safe—and affordable—as a matter of right.

Bluntly, the Nation is morally obliged to take concerted action to reduce housing costs for all of its citizens. This national imperative for action requires dynamic and cooperative leadership from all elements of government, the business community, and the general public. . . .

The underlying costs of producing, financing, and operating housing have all risen more rapidly in recent years than in the 1960s. Residential construction costs grew at a rate of 8 percent per year between

1972 and 1976, compared to slightly more than 6 percent between 1963 and 1972. The cost of improved lots increased at almost 13 percent per year during the most recent period. . . . In some areas developed lots are not available at any price, while in others, site availability is not as crucial an issue as access to financing or to skilled labor and needed materials. . . .

A dearth of developable sites is a major factor in increasing housing costs. The problem is not so much a shortage of raw land but a shortage of serviced sites. Inadequate facilities, particularly for water and sewer, seriously restrict land supply. Land-use, environmental, no-growth and exclusionary zoning regulations have also constrained land supply severely, particularly for low- and moderate-income housing. These are regional problems and appear to be most severe now in high growth areas. But because of local slow growth measures and difficulties in funding infrastructure costs, constrained land supply will become a nationwide problem unless these problems and concerns are addressed now. . . .

Much of the increase in housing costs is directly attributable to a steady rise in the cost of the serviced site. A survey by the Urban Land Institute of developer members in seven metropolitan areas found an average increase in urban land prices between 1970 and the Spring of 1974 of 100 percent. This is an average annual rate of increase of 20–30 percent for the period, compared to an increase of 8–10 percent between 1958 and 1970. The Department of Agriculture found that the average value per acre of farmland—a prime source of developable lots—had almost tripled between 1967 and 1977. Nationally, the developed lot now accounts for about 20 percent of the cost of a typical single family house with Federal Housing Administration mortgage insurance, compared to about 15 percent in 1960. In areas with stringent land use regulations, ratios of 30 percent are not uncommon for conventionally financed development.

Discounting inflation, consumers are getting less housing for their dollar because they are paying proportionately more for the site. There are three major reasons for this increase in the cost of sites: Constraints in supply of developable land; high site development costs; and procedural delays. . . .

II

WHEN AN ITEM is in scarce supply in relation to demand, sellers will tend to ask higher prices. This law of the market is driving up land

prices in many areas of the country. A recent report by Advance Mortgage Corporation notes that one-third of the major metropolitan markets in the United States will suffer a severe shortage of developable lots in 1978. In the Chicago area, it is predicted that a dearth of improved lots will raise the price of developable sites by 20 percent this year alone. Constrictions in the supply of developable land may result from a complex interaction of factors. For example, natural features of the terrain and concentration of ownership both limit the supply of potential building parcels.

But it is governmental action—through regulation and investment decisions—which, more than any other factor, has constrained land supply. Limitations in the capacity of infrastructure, such as sewers and roads, can preclude development in certain areas. Supply can also be limited by zoning or other special ordinances which effectively prohibit development in designated areas. In addition, property tax practices, either by design or inadvertence, sometimes work to keep raw land off the market.

This problem is likely to get worse, not better. Fiscal problems of local government as well as higher environmental standards will continue to restrain the expansion of sewage treatment capacity and other infrastructure vital for opening up developing sites. Local governments are dependent on federal matching funds for the construction of sewage treatment facilities, but the source of such moneys is finite and the need is great. Furthermore, the Environmental Protection Agency (EPA) is placing restrictions on the extent to which the federal government will fund sewage treatment capacity beyond existing needs, a factor which could further inhibit supply. Moratoria on new sewer connections put a premium on lots with hookups. In Montgomery County, Maryland, where a moratorium covering large areas of the county existed for several years, a quarter-acre lot with a hookup would sell today for more than \$40,000. In the early seventies, before the moratorium, it would have brought \$10,000–\$12,000.

In addition to the problem of the overall supply of developable land, there is the specific problem of finding desirable sites for higher density housing which could be developed for families of low, moderate and middle income.

Many local zoning ordinances severely restrict the variety of housing within their community's boundaries. A recent report by an American Bar Association commission notes that in the New York

metropolitan area 99.2 percent of the undeveloped land zoned for residential use is restricted to single-family housing. In Connecticut, the ABA report observes, more than half of all vacant land zoned for residential use is for minimum lots of one to two acres. Such restrictions make the development of housing for low and moderate-income families very difficult if not prohibitive and also contribute to excess costs for middle-income residents.

In addition to outright restrictions on the use of sites, the process of administering zoning itself has had a constraining effect and has contributed to cost increases. In theory, local governments are supposed to maintain sufficient amounts of suitable land in zoning districts for various uses and densities to accommodate development needs at any time. In practice, however, many local governments have not been able to do this. Suburban jurisdictions often have a scarcity of small-lot and multifamily zoning; older cities often have an excess of high density zoning. Thus, there is a mismatch between the demand and the availability of sites zoned at various densities. As a result, the zoning process is usually dominated by a series of rezoning actions in which developers, not the planning authorities, request amendments to the zoning map. Many communities have zoned their residential land for large-lot, single-family detached homes, assuring that the cost of the houses will be relatively high. The rezoning process is often made sufficiently difficult to discourage or deny the availability of adequate amounts of land at higher density.

It is generally acknowledged that vacant land in growing areas is often underassessed for property tax purposes. This reduces the owner's cost of holding the land in an undeveloped state in the hope of receiving a larger capital gain on the parcel at a later time. From the perspective of government, the underassessment of vacant land does tend to retain sites for temporary open space but is a deterrent to its use for housing.

Also, in response to taxpayer complaints, some state governments are placing arbitrary restrictions on the growth of local property tax levies. Unless this is done very skillfully, it can drastically reduce local capacity to meet capital and operating needs (including the construction of facilities needed to support new or revitalized neighborhoods), and it can cause inequities in assessments among existing and new properties.

Most of this discussion has focused on issues most commonly found

in suburban areas. Considerable land exists within our cities and older suburbs which has not been developed or which could be re-developed. Most of these properties are already provided with the costly public investments to support residential development—sewer, water, roads and often community facilities.

In the urban core the problem is often that the areas available for redevelopment are considered unattractive for residential use or are difficult to develop. The urban centers and older suburban areas often share another problem which stymies development. The owners of vacant or undeveloped land are unable or unwilling to develop or sell the property. Thus, the land remains unavailable even though it is designated for residential use and large sums of public funds have been spent on its development. The result is to restrict housing opportunities in the urban core and to push development further out into suburban areas. . . .

The Task Force finds that in many market areas the supply of developable land for a range of housing types and densities is being constrained by governmental policies. As a result, land costs are being driven up.

We recognize that efforts of local governments to control the timing, location and character of development often derive from such worthy goals as fiscal responsibility and environmental protection. Clearly, the challenge is to strike a reasonable balance between these valid community objectives and the provision of enough opportunities for housing development.

Property Tax Reform as an Economic Catalyst

THE HENRY GEORGE FOUNDATION of America in Pennsylvania has marked the centenary of the publication of *Progress and Poverty* in a very fitting way. It has collected 101 editorials on property tax reform by Professor Steven Cord, its president, and published them in an attractive 130-page book. The work has been aptly titled *Catalyst!* for this is the theme of Professor Cord's studies, that property tax reform by increasing the tax on land values and, correspondingly, reducing the tax on improvements in and on the land can act as an economic catalyst, helping to revitalize American cities and to counter inflation and recession.

The Indiana University of Pennsylvania specialist in social philosophy explains how the land value tax would benefit homeowner-voters, politicians, downtown retailers, factory owners and even farmers.

The book is available from the Henry George Foundation of America, 580 North Sixth Street, Indiana, Pa. 15701 for \$5.00 postpaid. Dr. Cord and David M. Ross, who designed the layout, as well as their collaborators in the work of the Pennsylvania foundation, are to be congratulated for a valuable addition to the literature of the movement for ethical democracy.

The High Price of Land

THE HIGH PRICE of land which has been so profitable for land speculators is bad for land developers (1). The developers are, in fact, its first victims, and often its biggest losers, for the more they have to pay for raw acreage the bigger their risk, the bigger their cost for interest paid or interest foregone, the less money they have left to pay their development costs, and the less their chances of making a good profit on their investments.

The high price of land is bad for architects because the more money their clients must pay for the site the less they have left for creative quality design, quality features, and quality construction. Today's land costs are the No. 1 reason we could afford a far richer architecture when America was much poorer than we can afford now that America is so much richer.

The high price of land that has been so good for acreage owners is bad for homebuilders because the more the builder has to pay for his lots the less money he has left to build more sales appeal into his houses, the greater his risk of having to price his product out of the market, and the less his chance of selling his houses at a good rate of return.

The high price of land has been equally bad for subcontractors, building material dealers, and building product manufacturers. When a builder has had to pay thousands of dollars too much for his land he has to take that money out of his houses somewhere or go broke, so he passes the squeeze on to his subs, to his dealers (or tries to eliminate the dealer and the dealer's mark-up entirely), and to the building products manufacturer, too often by buying the cheapest products he thinks he can get by with.

The high price of land that has been so good for acreage owners is bad for mortgage lenders and mortgage holders, because the more water there is in the land price the less real value the mortgage will represent and the less the mortgage holder's security. As for home buyers and the building industry's other customers, they are the final victims of the high price of land, for they end up paying the entire bill. They are also the first victims of the way the product they bought from the building industry is now overtaxed.

P. I. PRENTICE

1. From an address by the chairman of the National Council for Property Tax Reform at the Housing Industry Presidents' Conference, Lyford Cay, the Bahamas, December, 1978.

Modernize, Don't Abolish the Property Tax

From a report by the Subcommittee on the City (Representative Henry S. Reuss, Wisconsin, Chairman), of the House Committee on Banking, Finance and Urban Affairs (95th Congress, 2d Session, December, 1978):

A NUMBER OF REFORMS of the property tax which have been presented over the years to the Committee by Dr. C. Lowell Harriss, Dr. Arthur Becker and other economists bear further scrutiny by state and local governments.

One proposal is the total or partial exemption of housing and other buildings from property taxation. This would shift tax burdens off improvements made by individuals or enterprises and on to land values created largely by the community.

Downtaxing buildings and uptaxing land can unleash potent forces for wholesome development. Beginnings are visible in scattered American jurisdictions. The Pennsylvania cities of Pittsburgh and Scranton in 1913 launched a "graded tax," gradually decreasing the tax rate on buildings while simultaneously increasing it on land values, until they achieved a tax rate twice as high on land as on buildings. Harrisburg, Pa., starting in 1974, also began to tax buildings less and land more. By 1977 its differential rates were \$1.60 per \$100 of assessed value on buildings and \$2.90 on land.

Federal legislation in 1974 gave the District of Columbia permission to tax land and buildings at different rates, but the City Council has not yet taken advantage of this enabling act. Proponents of uptaxing land and downtaxing buildings point to the following likely impacts:

Freeing housing from tax penalties.—Under the current operation of the property tax, the more one invests in a home, the higher the property tax. No matter that this investment puts people to work and improves the neighborhood. No matter that just about everybody wrestling with urban problems decries the loss of city jobs and the decay of neighborhoods. Those who act to improve their properties receive a stiff financial punishment for their good behavior. Commercial and industrial property improvements similarly are burdened with taxes in direct proportion to the social benefits they sow. In short, the better one uses property—the more people it houses or puts to work—the higher it is taxed. Abusing or wasting property are the occasion for lowering one's tax.

The amount of tax relief that would accrue to residences by untax-

ing buildings and shifting the tax to land values alone was analyzed for the District of Columbia during a 1972 computer simulation. Assuming that this form of tax would continue to produce the same total revenue, the researchers of the District of Columbia Department of Finance and Revenue found that for single-family homes, annual taxes would drop an average of 18 percent; elevator apartments, down 23 percent; semidetached dwellings (townhouses, duplexes, and the like), down 21 percent; and walk-up apartments, down 39 percent. Similar conclusions about the relief to residential properties from exempting the tax on housing have been reached in studies in Omaha, Milwaukee, and many other localities.

Taking the profit out of speculation and sprawl.—Howard Jarvis and his followers cite tax penalties on housing to discredit the entire property tax. They neglect the fact that the other part of the tax—the tax on land values—is one of the best in the arsenal of weapons for improving land use patterns. A high tax on buildings creates a bias against land use, as already pointed out. But a low land tax is the clincher. If land values are rising rapidly, or if landholders expect that they will, the low land tax encourages the waiting game. The owner figures the tax as a holding cost, one that is readily affordable if there is evidence that annual increases in land value substantially exceed the annual taxes on it. Some speculators cover the holding cost by what are known in the real estate fraternity as “taxpayers”—old stores leased to porno shops, ramshackle apartments, and most notoriously, surface parking lots.

A high land tax, geared to the market potential of sites, would have the contrary effect, according to Philip Finkelstein of the Center for Local Tax Research. It would make it costly to hold valuable land in cold storage. Owners would be inclined to put their sites into use or to sell out to others in the market. As intensive commercial and industrial users find access to central city land, areas less suited to these purposes will accommodate various types of housing, or the kind of convenience village shops that too often are missing from residential neighborhoods.

Conserving energy and tax resources.—A tax strategy that induces compact land use has important energy-saving implications. People will use existing infrastructure instead of duplicating existing schools, streets, utilities, firehouses and other public facilities.

More compact cities, as many planners have stressed, do not nec-

essarily mean endless canyons of highrise buildings. Most cities can accommodate extensive additions of low-rise buildings—if that is what people desire. And once speculative pricing is deflated by higher land taxes, public bodies can more easily afford the parks that should accompany the infilling process.

Sprawl is among the major impediments to good public transportation. Reasonable population density is needed to support transit lines between homes and workplaces and to offer service frequent, convenient, and economical enough to compete with private cars. Compact land use will help wean Americans from their autos—with attendant savings in fuel and reductions in pollution. The transit-land use relationship works both ways, so public transit is often cited as a device for achieving compact growth. But this goal is often frustrated when land speculation is allowed to occur in areas served by the transit lines.

Opening up city jobs.—The employment impacts of property tax reform need to be explored. The combined untaxing of buildings and uptaxing of land might generate new homes, businesses, and factories, and the repair of existing structures. Labor economists have devoted so little attention to the land-jobs equation that it is difficult to predict how big a dent property tax reform would make in jobless rates.

Taking responsibility for property tax reforms.—Because the property tax has been largely a state and local responsibility, these levels of government should take the initiative in its modernization. But if they need encouragement, the federal government has legitimate reasons for offering a helping hand. It has been suggested that incentives, via revenue sharing or other federal grant programs, be given to localities that modernize their property taxes in specified ways.