



## **No Urban Renewal Subsidy at all Should Be Needed if the Property Tax Were Shifted to Land Alone**

By Dr. Mason Gaffney

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**COMPACT CITIES: A NEGLECTED WAY  
OF CONSERVING ENERGY**

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**JOINT HEARINGS**  
BEFORE THE  
**SUBCOMMITTEE ON THE CITY**  
OF THE  
**COMMITTEE ON**  
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AND THE  
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OF THE  
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**INTERSTATE AND FOREIGN COMMERCE**  
**U.S. HOUSE OF REPRESENTATIVES**  
**NINETY-SIXTH CONGRESS**  
**FIRST SESSION**

DECEMBER 11 AND 12, 1979

**Serial No. 96-42**

(Committee on Banking, Finance and Urban Affairs)

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(From Nations Cities magazine of March 1969)

financing  
our urban  
needs

## No urban renewal subsidy at all should be needed if the property tax were shifted to land alone

This is just one of the many significant findings of the Urban Land Institute Study—specifically for Milwaukee, but by implication for almost any other central city facing problems of blight, obsolescence, slums and decay (as all big cities do).

This four-year sampling of more than 2,500 separate land parcels—property-by-property, district-by-district—was conducted with the cooperation of the Milwaukee Tax Commissioner. It provides the first comprehensive analysis anywhere of just what could be expected if a city were to (1) stop collecting any property tax at all on improvements, (2) assess all land as if the owner was putting it to a use commensurate with its market price, whether he was or was not, and (3) raise the tax rate on location values high enough to make up for the revenue loss from untaxing improvements. At long last, this study (of which we were given the first preview) provides a factual basis showing that in Milwaukee and any similar city that now collects roughly two-thirds of the property levy from improvements and one-third from location values . . .

### I

The shift would roughly triple the tax take from idle land, parking lots, gas stations, slums, and other decaying, obsolescent, or ill-advised buildings that add little (and sometimes less than nothing) to the value of the land they preempt. Actually it might do much more than triple their tax, because Milwaukee assessors, like all other assessors, tend to confuse the property tax with an income tax and therefore grossly under-assess underused land that is not bringing in enough income to pay the full tax on its market value.

So the shift would make it almost prohibitively unprofitable to keep close-in land idle or misused.

### II

The shift would add roughly 50 per cent to the tax take from properties whose improvement value approximates the location value, and it would make no change in the tax take from properties whose improvement-to-land ratio is close to the city average of two to one.

But on good homes, good apartments, good office buildings, and good commercial and industrial structures whose improvement value is likely to run at least four times their location value, the shift would cut the tax take by 40 to 75 per cent.

### III

The prospect of much lower taxation of good new buildings would jump the market price of close-in locations ripe for rebuilding at the same time that increased site value taxation would be putting heavy tax pressure on the owners of underused land to put it to more productive and more profitable use.

So the shift would so change the arithmetic of property ownership that no subsidy at all should be needed to make it profitable for the owners of almost all the parking lots and obsolete decaying or inadequate buildings that now preempt nearly three-quarters of the valuable land near the heart of Milwaukee (and most other big cities) to replace them with new buildings that would put the site to its "highest and best" use. This might be new offices, or new stores, or new low-cost housing, or new parking garages, or new high-rise apartments, or new garden apartments, or new single-family homes, or what have you.

### IV

The shift should not only end the need of any subsidy for urban renewal; it should provide such a stimulant to new construction and rede-

velopment that it could create just the opposite problem. The old problem has been how to end the construction stagnation that results in slums and decay; the new problem would be how to control a building boom that could wildly over-tax the construction labor and construction financing resources of the city as thousands of property owners rush to take advantage of the tax shift.

The shift would, in fact, be such strong medicine for what ails our cities that it would have to be given in small doses spread over a period of perhaps 10 years (as was done 50 years ago when Pittsburgh and Scranton shifted to the graded tax plan making the city tax on land twice as heavy as the tax on improvements).

### V

The shift would make good city planning at once much more necessary and more effective.

City planning is a negative power; it can keep property owners from doing what they ought not to do, but in a free economy it cannot compel them to do what they ought to do. Says the Douglas Commission in a fine understatement: "Regulations do not build cities;" and again: "Regulations seldom effect significant upgrading of deteriorating areas;" and again: "Regulations seldom effectively encourage imaginative urban design and too many times effectively discourage it."

Under the present property tax system that discourages new construction by heavy taxation and encourages obsolescence and decay by undertaxation, most of Milwaukee has passively defied effective city planning.

But when, as, and if a tax shift off improvements to land starts an all-out building boom, the planners would at last have a chance to prove their worth by directing its course to create a better city.

### VI

Contrary to common belief, tripling the tax on land would not be bad for landowners if at the same time the tax is taken off improvements. A three-times-as-heavy tax on land would indeed be almost confiscatory if the owner of unused or underused land persisted in leaving it that way, but untaxing improvements would enable him to triple his profits if he improved his property and put his land to its highest and best use. (See III above.) This smaller tax on the improved package would be capitalized into a higher price for the land, so the landowner would find himself better off instead of worse.

Perhaps surprisingly, first to benefit from the

shift might be the owners of valuable idle land, for they could be first to take advantage of the tax exemption on improvements.

The only landowners who would stand to lose by the tax shift are the owners of fringe land that now derives a fictitious value because the owners of so much closer-in land can now afford to hold it off the market waiting for still higher prices.

### VII

The shift would stimulate much more intensive use of valuable close-in land near the center of the city. In conjunction with heavier tax pressure on the owners of underused outlying land this would have important side effects:

- People who prefer low-density living should be able to find land they could afford roughly half as far out as now, for more intensive land use downtown would siphon off much of the demand that is now proliferating sprawl.

- Inner city and slum unemployment problems should be eased, because factories and other blue-collar employers could likewise find land they could afford closer to where poor people live. (Nationally, says the Department of Labor, 62 per cent of all new factories from 1960 to 1965 were built outside the central cities, i.e., remote from where unemployment is concentrated and more jobs are needed most.)

- More intensive use of downtown should, perhaps surprisingly, lessen downtown traffic congestion, because more people could walk, escalate, or use public transportation instead of driving to where they want to go. Says Professor Gaffney: "Sprawl is not a flight from congestion; it is a major cause of congestion by making more people use more cars to travel more miles to downtown."

- More intensive use of downtown should result in substantial savings on city costs, most of which are magnified by distance.

### VIII

How big a tax rate increase the shift would require to make up for untaxing improvements would depend on whether the assessors assign to the taxable land or the tax-exempt improvement the big increase in the value of fully improved property that would result from reducing the tax on it by more than 40 per cent.

If assessors follow their present practice of assessing the building first at cost-less-deprecia-

tion and assign all the big increase in residual value to the land, then the tax rate increase required by the tax shift could be small. If, on the other hand, they assess the land first and assign all the big increase in residual value to the improvement, then the tax rate on land alone would have to be at least tripled.

Serious doubts as to the correctness and soundness of today's practice of assessing the building first are raised by the Milwaukee sampling, which showed nearly a fifth of the properties on which the assessors assigned a substantial value to the improvement would have sold for as much or more if the land had been bare.

## IX

Assessment would be much easier and could be kept more accurate and closer to the present market if the assessors were relieved of the almost impossible task of assessing every improvement separately. Land only could then be assessed quite quickly from cadastral maps kept current by recording on them the market price shown by each sale in the area.

In Milwaukee today the assessors must spend 80 per cent of their time on improvements, only 20 per cent on land values.

## X

First step in the tax shift could be taken by just reversing the present practice of assessing underused land at a much smaller percentage of market value than fully improved properties, a practice that is somewhat less notorious in Milwaukee than elsewhere. But a complete shift in Wisconsin (as in every other state except Hawaii) would of course require the repeal of state restrictions requiring that the tax rate on land and improvements must be the same.

## XI

The shift should be popular with most voters because it would reduce the taxes on most owner-occupied homes (since their improvement-to-land value ratio is well above the city-wide average).

Taxes on slum property would be doubled or tripled but this would not affect many voters living in the slums, since most slum dwellers are renters and (as any good economist can demonstrate) taxes on land cannot be passed on, but must be paid out of the owner's own pocket (except under rent control).

The only voters hit hard by the tax shift would be the land speculators who are now making such a good thing out of today's property tax practice. (Unfortunately, they are by far the most powerful and effective pressure group in local politics.)

## XII

Last, but not least, the tax shift would make the financial plight of the local government easier. Instead of depending on a tax base subject to accelerating erosion as the older close-in buildings deteriorate without replacement and as industry and upper-income families move to the suburbs, the city would find its tax base growing and the flight to the suburbs checked by the tax-shift-induced construction boom close-in.

The 40-per-cent-or-more property tax saving that the shift would assure new offices and new industrial plants would make the city a more profitable place to do business in, and could therefore be expected to attract more business and industry, thereby further strengthening the tax base.

\* \* \*

Findings of the study in Milwaukee are already getting confirmation from the actual experience of Southfield, Mich., which almost overnight became the boomingest city in the state after a 1962 reassessment by outside assessors doubled the assessment (and therefore the tax) on land, thereby permitting a substantial reduction in the tax on improvements. Since then Southfield has recorded more new office building construction than 30-times-as-big Detroit next door; land values have continued to soar, until some acreage that was assessed at \$2,400 in 1961 is now assessed at \$100,000; and grateful voters have three times re-elected the mayor who instigated the tax shift.