Urban Land Institute Presentation, Milwaukee
By Dr. Mason Gaffney

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C O N F E R E N C E

U R B A N L A N D I N S T I T U T E

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Milwaukee Club
706 North Jefferson Street
Milwaukee, Wisconsin
Thursday, November 21, 1963

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PRESENT:

Jerome P. Pichard
M. Mason Gaffney
Paul B. Downing
Howard J. Tobin
William Ardern
Norman N. Gill
William Crouch
William Wiesler
Louis DeCoriolis
Arch. M. Woodruff
Herbert B. Dorau
Max S. Wehrly
Boyd T. Barnard
Warren L. Morris
David C. Lincoln
Newton C. Farr
Raymond E. Moley
Graham Aldis

* * *

P R O C E E D I N G S

(Introduction by Mr. Pichard).

MR. GAFFNEY: Thank you, Jerry. We have so much talent here, so many brains, so much experience in this field, that this is not going to be a highly structured conference. I haven't written any elaborate set of notes. We do have an enormous reservoir of data, a lot of information we need to have evaluated, and I hope that you gentlemen will help us in that process.

I would like to -- well, first of all, I would like to meet Mr. Crouch. I don't think we have met. Glad to have you with us.

MR. PICHARD: I have an idea that we might go around and introduce everybody if they haven't met. I would like to introduce the members of the U.L.I. Research Committee, Mr. Barnard at the head of the table. Mr. Morris, Co-Chairman. And, please stand, if you can.

Mr. Farr. Dr. Dorau, who is a member of the Technical Advisory Panel in New York City. Mr. Woodruff. Mr. Tobin, everybody has met you.

Will the rest of you introduce yourselves. Mr. Lincoln, President of the Lincoln Foundation. Dr. Moley, Advisor, and Mr. Aldis. Mr. Louis DeCoriolis. Bill Wiesler with the City of Milwaukee's Tax Commissioner's Office, and

Mr. Ardern, Tax Assessor in Shorewood. Bill Crouch, American Appraisal Company and also with the Research Division of the American Institute of Real Estate Appraisers. Paul Downing, Dr. Gaffney's Research Assistant.

MR. GAFFNEY: Well, I would like to ~~seek~~ speak, first of all, to Mr. Tobin's remarks -- first of all I should apologize to Mr. Tobin. There is in the City of Milwaukee the Twelfth Street Rag which came out a year ago or thereabouts with an analyses on real estate conditions around U.W.M. where I am employed, and I was rather interested in it. So, I sent them a little note saying please send me a subscription; so the next issue came out with an attack on the Gas Company in this area and my letter. Please accept my apologies, Mr. Tobin. It was not intended with any malice or aforethought on my part.

I would like to say to Mr. Tobin's remark about this being a good city to conduct research, the only way it's not a good city for the purposes of site value taxation is that they have annexed all that northwest area which is giving me a headache in figuring out, because if you put it on the books at its present value and taxed it according to its present market value and forced it into what seems to be its highest and best use at the same time you are trying to do the same thing with the rest of the city you would get quite a problem because you pull the rug out from under it by redeveloping.

St. Louis or Boston might be a better city to start off on that respect. We can get into that a little bit more later on.

In terms of local help with research data, we have been extremely fortunate here. We have in town the Citizens' Governmental Research Bureau, Mr. Norman M. Gill, the Director, will be here in a little while, which is composed basically of governmental units, taxes and related matters and has been extremely helpful.

We have the Southeast Wisconsin Regional Planning Commission which has supplied us with a good deal of information on utilities, transportation and also provided us with the aerial photographs of the whole county.

We have received excellent support, the Tax Commissioner of the City of Milwaukee who is represented by Mr. Wiesler, and in particular it was Mr. Wiesler who was in charge of the job of pulling together some information which we have found just absolutely priceless for the purpose of this study and which is shown on this map with the multi-colored pins. These are all the sales of "A", vacant land from '58 to '61 in the City of Milwaukee or "B", sales in anticipation of demolition, sales on the eve of demolition; is that right, Mr. Wiesler?

MR. WIESLER: Yes.

MR. GAFFNEY: We have taken roughly equivalence

to sales of vacant lands; presumably the buyer is buying the site not interested in the building which he can demolish. So, we have put those on the map together.

We have also received excellent cooperation from the assessors in many of the suburbs. Mr. Downing has been out and visited many of them, and that is why we have the pins in some of the suburbs and that is why we do not have pins in certain suburbs. One or two because we haven't gotten around to visiting them and one or two because we couldn't contact the assessor. In general we have received excellent cooperation there.

We have had good cooperation from the Expressway Commission which permitted us to look at their appraisals for expressay condemnations. That is this bunch here. After we got on that many, we decided that really their appraisals were not comparable to out other data, and we didn't want to mix them; so, we didn't put any more on. We didn't want to mix them in with the other pins.

So, in terms of getting necessary data for a study of this kind, we have been extremely fortunate here in Milwaukee County. Now, in terms of elementary but sometimes lacking things such as simple honesty on the part of public officials and that sort of thing, we are also in very good shape.

Now, I would like to say a few words about the

stages of this study. I am here not to educate but to be educated in considerable measure. We have a good deal of information to offer you, but primarily we are interested in your evaluation of it and the help that you can give us in interpreting it. I will tell you how I interpret it, and I would like to get you to jump all over me and tell me how you would interpret it. There is no doubt in my mind that you will not hesitate to do that.

The first stage of three stages, of any new idea it's too ridiculous to consider at all. And in the second stage, it threatens to undermine the foundation and in stage three it's something that everyone has always known was true. This particular study is in four stages.

The first stage was a conceptual stage, and this many of you have been exposed to, those of you who were at our first conference. And one of the reactions that we got at that conference was that this was to theoretical and we needed to back it up with more data from a particular study area. So, that's what we have tried to do in stage two of this study. We have pulled together as much material as we could with the resources at our disposal on Milwaukee County.

The third stage of this study, using the information that we have got here, we are trying to reformulate some of the ideas that were spelled out rather awkwardly and overly academicly at the first conference.

And the fourth stage is organizational and hopefully terminal. And we are now right in between stages three and four. Well, let's take a little time, then, to take a look at the pattern of land values that we have unearthed in Milwaukee County with the data that we have and look at the nature of the reason.

Jerry, did you pass around the major outline?

MR. PICHARD: Yes.

MR. GAFFNEY: Now, the twelve pages of written text which you have received comprise the introduction and Part 1-A of this outline. So, you can see we have a long way to go. But that much at least was more or less completed in time for this meeting.

Then I put together for your orientation and major outline of what I hope we can accomplish at this study.

Well, let's begin, then, with this land value pattern. Before I go into the ring pattern which emerges here, I have asked Mr. Downing to prepare a few remarks on how he got this data, what it means, so that you will have a pretty good idea of just what these pins represent. Paul, do you want to take over for a few minutes and discuss that.

MR. DOWNING: First of all we have to tell you what the map is, and this is the map we are referring to, and it's a big map supplied by the City of Milwaukee City Engineers. It shows, actually, the land value per square foot. That is,

the -- what we have got is actually sales in the City of Milwaukee from Mr. Wiesler and outside the city from the various assessors of land or vacant land or land where the buildings were torn down. And this we figured out on a basis of value per square foot, the idea of square foot rather than front footage which is what most people use.

I felt, at least I think I have convinced Dr. Gaffney that the value per square foot is what you are buying. You are not buying front feet but buying also a lot of depth. So, that is basically what it is, value per square foot.

Each individual pin represents an individual sale except, of course, for expressway stuff, but we will get to that in a minute.

The method of collection for the City of Milwaukee, Mr. Wiesler did the collecting for us. We took four years of data, '58, '59, '60 and '61. Understand he has '62 available which we will endeavor to add to this as quickly as we can. He has along with the assessors for the different tax books has found, determined the sales and has decided whether they are vacant land sales or whether they are land sales ~~and~~ on which condemnation has occurred or is going to occur in the near future. And he had those all classified by the type of property, mercantile, that is, zoning; we haven't included the zoning in here, but in drawing up the map which I will show you in a minute we have tried at least partially.

For the suburbs, such suburbs as Bayside way up in the northeast corner for those of you which aren't familiar with which is which, I have gotten most of the sales for two years, '60 and '61. In Fox Point just a little bit -- next one south, I have gotten just representative sales for those years, and in Cudahy and South Milwaukee those are representative sales and Wauwatosa is a representative sale.

In other words, they aren't all the sales that occurred during the three or four years. In most cases I think I took '60 and '61 and some '62 data when it was available. In the City of Milwaukee, these are all the sales at least all those sales that are known to Mr. Wiesler in his files.

Some of the other suburbs we weren't able to get to as yet due to lack of time and resources; but hopefully, talking to the assessors and from talking to various other people including Mr. Steffeniak who has not yet arrived, so, he is otherwise occupied, but we have tried to fill in the gaps of the actual data with knowledge of people concerned with the different areas.

On the expressway data which is this data here as you can see, pretty evident it runs in a straight line. These are -- this is the south expressway and the north part of the expressway. Those are appraisals by two or three appraisers per property; and we have representative appraisals,

not all of them, about two for every block. And it was the appraisal of the land only, and we found, actually, that they seemed to appraise a little bit lower than what the people around them as you can see here, these appraisals, the red dots which mean they are twenty-five to fifty cents a square foot.

The actual sales which are around them from Mr. Wiesler are around two or $3.00 per square foot. You see, you get quite a difference in actual value there, and we suspect it's because there is a little bit difference in concept of land value between our concept or the sale concept and the appraiser's concept.

And that explains those two -- these two sketches which are quite a bit different from the other.

MR. GAFFNEY: I would like to break in at this point and discuss this question for just a moment. Arch Woodruff has something to say about this, and I would like to get Mr. Crouch's opinion.

It's been our impression that the appraisers in interpreting the kind of data that we have on the map which are demolitions will take an attitude something like this: This is an exceptional case. There was an unusually eager buyer who paid an unusually high price. Now, our -- I say our, I sound like an editor. My feeling about that is that actually what you have here is an unusually eager buyer but

you also have an unusually willing seller, and that's what makes the market. So that these demolition figures are actually what we should put on as land value, and we should not downgrade them at all on the theory that this was an unusually eager buyer.

Arch tells me that this is the bracket of value concept and that he even has a lecture that he gives on the subject which he will be glad to give part of afterwhile. I would be interested to get your reactions to that.

MR. CROUCH: I think the appraiser is going beyond his limits if he makes an assumption just because there is a building on the property that the buyer in buying a property with a building on it is eager. We are trying to buy some land down in the lower Third Ward for parking; parking lots are going to be taken for the expressway. Our parking is going to be taken for the expressway. We have got to buy land with buildings; sure, we are eager and so is everybody else buying land there.

I have heard the expression that somebody is eager and paid too much. Well, I could never quite go along with the idea that somebody paid too much because he was eager. He was buying in a normal market with a normal supply.

Northwestern bought the property they are building on. The IBM Building, they had to tear down buildings.

They are eager. But there is no cut and dried piece of land available of that size for that -- in that area upon which you could build new buildings.

In fact, we will go so far as to add the cost of demolition to the price paid, because that's all part of the land when you get through and get a clear piece of land and adding up all the costs, your demolition is very much a part of the land.

MR. GAFFNEY: Well, we have run into some fascinating problems of this kind. One example is around the University of Wisconsin, Milwaukee. Why? Because it's our home base; we have done a little extra looking.

We just bought this forty acre tract here for about $6.00 a square foot which is about perhaps a little bit more than we would have had to pay to tear down old buildings around about us.

Now, within some zone and I don't know just how wide a zone, before we made that purchase, I think it would have been fair to say that most of the value in real estate in the immediate environment of our standing university was land value -- at least in the expense, we find it here, because that was what UWM was willing to pay for vacant land. Now, I am overstating this because there was some buildings on that forty acres that we bought.

Columbia Hospital has torn down a half block as

you probably know right next to us in order to get the land.

MR. FARR: You have mentioned a certain group of parcels bought with the intention of wrecking the buildings. Did you give any value to the buildings that were in the process of being wrecked, or was your land value the total cost including the buildings?

MR. GAFFNEY: No, this is precisely the difference between our figures and the figures here on the expressway. They gave a value to the buildings and our interpretation is that if the buyer is going to wreck the buildings, he is not buying the buildings; he is buying the site. If it were vacant, he would have paid just as much or a little more, in fact, for it.

Now, we didn't go so far as to say that the expressway was a normal buyer. That I think would be going a little too far although that's a tough one to interpret, too.

MR. WIESLER: I think that perhaps to study further, the expressway has a bought a lot of residential land and perhaps you would have a very small sample of residential land sales in the adjoining area.

MR. GAFFNEY: That is a very good point, that is one of the big problems in using this data that most of these take place on arteries. Every once in awhile we get a low value in between. Paul has put together this contour map

in which he has tried to interpret this.

MR. BARNARD: Certainly it would not interpret the land value in a condemnation area as being the same whether it's vacant or as improved. I bought land in certain areas at a dollar a square foot for the vacant and $6.00 a square foot for some of the highly improved properties. What is the value of land?

The value of the land is our interpretation was the average cost for an area which we had to acquire.

MR. GAFFNEY: You tear down the buildings?

MR. BARNARD: Right. Up to as high as $6.00 a square foot, for an adjoining parcel with improvements. What is the value of the land?

MR. GAFFNEY: All you got was a vacant lot after you tore down the buildings.

MR. BARNARD: That is correct.

MR. GAFFNEY: Well, as you may remember from our previous conference, the definition of land value that I adopted was what the buyer is willing to pay for the site alone, if that's all he is buying. And if there is a building on it and he tears it down, that's all he is buying.

MR. BARNARD: Marketed transactions in each case or are some of them transactions contemplating for actual condemnation?

MR. GAFFNEY: These are marketed transactions

involving demolition. You said condemnation.

MR. BARNARD: Condemnation so far has not been brought into this subject at all; is that right?

MR. GAFFNEY: Well, except in these expressway things.

MR. BARNARD: Now, in expressway things, does that account for the difference between the fifty cents per square foot and the appraised value of $2.00 per square foot that you talked about?

I talked about fifty cents per square foot in the northern section there, but in studying the appraisals available you thought that the land value was something like $2.00 per square foot; is that wrong?

MR. GAFFNEY: I think it was the other way around.

MR. DOWNING: The appraisals are about fifty cents per square foot in here south of Capitol Drive. This new expressway just opened up; the land value of sales right near there are two or $3.00 per square foot, private sales for demolition.

MR. GAFFNEY: It's when they crossed North Avenue here that we got suspicious and stopped sticking pins in the map, because there is such a difference between the value there and the demolition paid for private purchases.

MR. ALDIS: This is a very interesting discussion of appraisal techniques but may get up on this subject because of the appraisal here. But you better --

MR. GAFFNEY: Very good. We will drop this.

MR. DE CORIOLIS: You mentioned twenty-five cents as being a low figure. Do you have an average figure for those expressway appraisal values on the land? Was it fifty cents?

MR. DOWNING: No. As a matter of fact, each one of these pins represents a separate appraisal.

MR. DE CORIOLIS: And the red are twenty-five to fifty?

MR. DOWNING: Twenty-five to fifty.

MR. DE CORIOLIS: And the light green are fifty to seventy-five? It became lower south?

MR. DOWNING: It became lower south.

MR. DE CORIOLIS: The blue pins are what value?

MR. DOWNING: You get anywhere from $1.00 to $3.00 in the blue area. This is a key up just above there; it's too tall for you to see.

MR. MORRIS: Wasn't there a variation in intensity of coverage in different sections of this that would --

MR. DOWNING: Certainly that would be. On the appraisals there would be variations of intensity and improvement, but the appraisals were just on the land value. We just

took the land value appraisal, and that's what this data is, what the expressway data is. The other data is just sales with demolition, and if we disregarded any intensity of improvement whatever because whatever the intensity was they were demolishing that intensity for a new use anyway.

MR. DE CORIOLIS: It was determined that these buildings were subsequently demolished?

MR. DOWNING: Mr. Wiesler and his men followed that up, and in most cases they were.

You buy a lot for $10,000 and it costs you 500 maybe at the most to have it demolished for not too large a building. We didn't figure that this was a real large percentage of the total. We more or less neglected that.

MR. PICHARD: Did we understand that most of these lots in the city are along commercial streets or areas which have something other than plain single family or two family residential use; is that correct?

MR. WOODRUFF: I think you have got two subjects going somewhat crossing purposes here. One is the appraisal of land and only one aspect of that, namely the land. The other is a recording of data on land values all over the city. And I think following this gentleman's suggestion those of us who are or in any case purport to be appraisers, we do have a very entertaining afternoon; but we will get more from Mr. Gaffney, if we leave this subject aside

at least for the moment and concentrate on the more basic data.

MR. GAFFNEY: Paul, please excuse me. Let's go ahead with your presentation.

MR. DOWNING: All right. Well, this presents two conclusions. Of course, there are many conclusions but two very evident ones. As you might notice up in the north here, the Village of River Hills, you will notice that River Hills is not very densely built up. That is because they have five acre zoning. We have an aerial photo here, a map, which I will show you as soon as I can find it which demonstrates the difference in densities.

And, of course, with the differences in density there is going to be a difference in land value. If somebody can use a site more densely, then, of course, they can also afford to pay more for it if the land value to them is greater.

Here we have the western part of River Hills where you can see one, two, three, four -- very scattered buildings on five acre minimum lot size. And over here this is the Village of Brown Deer to the west which has -- this has a land value or -- according to sales that we have gotten, representative sales from River Hills at about six to ten cents a square foot.

Now, this stuff over here sells for about th[illegible] five cents per square foot, and the value of services is

approximately the same. So that the difference in value we might attribute almost wholly to the difference in the density allowed.

We find that zoning does affect the density -- value of land, because it allows different densities. We found that also in differences between apartment density and nearby single or two-family residential values where you also get a difference in land value. I hope you can distinguish here the difference -- I think it's pretty obvious the difference in density.

Then having gone over that, I think we can go over my contribution, this map is a contour map of land values in this county. Based on that data, and, of course, first of all, the reason why we can use or the reason we felt we could use a contour map of land values is that land values as opposed to building values do not fluctuate as readily.

In other words, you might have three or four blocks or at least one block of land where the value is just about the same throughout the entire block whereas a building value, the improvement values would vary quite a bit.

So, we can generally gloss over a small variation in land value and get a general picture of land value which we can subsequently plot in terms of contours or equal values which you could not do with buildings because there is

too much variety.

Even here there is variety, but some of these we had to more or less gloss over and it is not the finished product as any of this stuff is not finished. But this is a first approximation, and any comments would be welcome.

I have got contours -- they aren't all equal distance in value one from the next; they start from zero to five cents per square foot and then six to fifteen, sixteen to twenty-five, twenty-five to fifty cents per square foot, fifty to seventy-five cents per square foot, seventy-five to a dollar and it goes from a dollar to a dollar and a half, dollar and a half to two, three, four, five and so on.

The only places we found ten to fifteen and over fifteen is in the central business district which is expected, and I think the highest sales that we had was somewhere around $56 per square foot. Most of those were around eighteen or twenty of the gold or the highest value. In other words, they weren't very much higher than the others.

I heard from various people that some of the other central business districts more centrally oriented have been quite a bit higher than that according to the data we have so far; anyway, this is what we have gotten. In the process of drawing this up, we find that there is sort of a division of the city in land values which is divided just south of Wisconsin Avenue in the central business district

here divided into two sections, by the railroad -- good deal of railroad development and shipping canals here and the valley there; most of you are familiar with the city.

North of that we have the C.B.D., and this high value area is going into Prospect Avenue where the apartments are being built. You might compare them to Chicago's Gold Coast. And then west of there we have an interesting situation which is along the arterials where we have most of our demolition data from Mr. Wiesler. We have high values, two or three dollars per square foot. But in between in the residential areas, you might call them slum residential areas, the value is down to about a dollar or seventy-five cents per square foot. In other words, where all these are collecting together, there is radials coming in here and here and here like this where they all seem to be concentrating all towards the central business district. They are all very valuable because of the through traffic for commercial purposes, but just off of them the residential land is not worth as much because people can readily get out of it to the outskirts where they don't have to contend with the densities and difficulties of the central core. This is the core area.

As you move north you run into Capitol Drive which is the most heavily travelled street in the city, east-west street, and there seems to be a cluster of value around Capitol Drive, also, especially around these western areas

where they are drawing in commercial -- again this is commercial mostly. But they are drawing in commercial sales from these rapidly expanding areas from the northwest.

Beyond that you get pretty well a circular flow, and you can see down in the south we get pretty well a circular flow where you have got rings or the ring value, land value concept, but it's somehow confused in the central part. On the south we have somewhat the same situation only not quite as aggravated and that some of the residential land in between the major radials coming in, the major streets coming in, are lower but not -- apparently not as much as up in the central core area.

Here you see the effect of zoning, as I was explaining, trying to explain, at least, by the land value up there in the aerial photos here; and I have tried to depict here by showing sort of more or less ringing River Hills so that River Hills has a low value and Bayside, Fox Point, Glendale and Brown Deer all around it have a fairly high value in comparison, because their densities are quite a bit higher.

The largest lot in Fox Point, for instance, is one acre. The smallest lot here -- there are a few two-acre lots in River Hills. Most of them are five acres. Dr. Gaffney will have more to say on that.

On the south again we have generally the circle effect. However, it seems to come up and be effected by Cudahy

and South Milwaukee, and also the land values down here don't seem to be as strong as the northland values perhaps because the principal movement has been northwest. More of the population in the county is up in this direction, in this area, rather than down in this area which is fairly sparsely populated.

MR. ARDERN: Where is Wisconsin Avenue on that map?

MR. DOWNING: This is the central business district and goes all the way west to Highway 100. It's right there.

MR. ARDERN: Did you consider soil conditions in relation to this market information?

MR. DOWNING: No. All we took is what the market gave us as sales.

MR. ARDERN: You didn't look into soil conditions at all?

MR. DOWNING: No. We tried to go to land use at least partially in zoning, but first of all this map is a small scale and it's almost impossible to get a great deal of accuracy.

MR. BARNARD: Do you think you should have taken it into consideration?

MR. DOWNING: I would think that soil values would be considered in part of the sales value. A person is

not going to buy a land and then find out what the soil conditions are.

MR. TOBIN: I think that's true.

MR. BARNARD: I would agree with him. I don't think you could make a separate study of soil conditions.

MR. TOBIN: It's really evident in an area south of Wisconsin Avenue where there was a redevelopment for the commercial use and the City offered the property at $2.00 to $3.00 a square foot, and the cost of piling ran about four to $6.00 a square foot.

Now, that established or helped establish the fact as long as it was. I think that market really carries that as a part of the consideration of price.

MR. GAFFNEY: The Regional Planning Commission which does not have an economist on its staff is doing a big soil study of the seven county area which seems a little funny to us. It's being done by the Soil Conversation Service on an agricultural concept, and, of course, soil is, of course, one factor in land value but it's one of many. And we felt this was a more direct approach to the thing we were looking for.

MR. DOWNING: Any other further comments before I have --

MR. FARR: Will you spot on there your lowest landvalues; where do they lie?

MR. DOWNING: Yes. There is a small ring of the

up here in River Hills, very minor, and then there is a small ring of them down in Franklin where actually this is all agricultural land down here. It is not used for residential at all. It has not been subdivided.

MR. FARR: Didn't you find some urban land near downtown that was lower in value than that farther out?

MR. DOWNING: Yes. As a matter of fact, here we have some values that are around seventy-five cents and some are actually -- the Plymouth Hill project which was the project where the City bought -- along with federal funds bought and cleared the land and then let it out for sale to a private contractor. They only paid fifty-six cents a square foot, and that's in this area right here.

And that would compare rather favorably with Fox Point which is, of course, a very high income area; but you see they can use quite a bit more density down here than up there.

MR. GAFFNEY: That's one thing that surprised us. This area here is the negro ghetto and because of that fact I suspect as much as anything that we see probably more publicity and have a greater impact on thinking than is warranted by its size.

This is an area of depressed values. But it's not as extensive and aren't as depressed as much as we thought just from hearing people talk.

MR. DE CORIOLIS: The lowest value in River Hills, what is that value there?

MR. DOWNING: Five cents a square foot.

MR. GAFFNEY: Five cents.

MR. CROUCH: When River Hills is one of the most exclusive and sought after in Milwaukee County, how did you arrive at your sales price when the sales would normally include a very elaborate mansion or a big house; how did you segregate the price of the house from the sales price of these sales?

MR. DOWNING: These represent vacant lot sales, vacant land sales.

MR. CROUCH: All vacant?

MR. DOWNING: All vacant.

MR. GAFFNEY: Part of the answer as to this is a surplus of land -- the low density type of residents with the high income, there is a lack, and the small number of school children.

Charles Ball who used to be with Nelson, Nelson, Ball and Associates, made a study of this about four years ago. One of his major conclusions was that we have no shortage of land in Milwaukee County, but we do have a shortage that is zoned within the range of the greatest demand, the high density, low income type of demand.

We have a couple of maps here that throw a little more light on this question. These were supplied to us by Bill Goodwin of the Department of Geography and they aren't quite completed but they do show a picture. This is a map showing income per family. Again, it's a contour map. And, incidentally, I question the validity of the use of a contour map for this sort of thing, but that's what he did, and it is useful in this context. This shows that the highest income area is out here in Fox Point, and the grading of change is extremely steep as you move west.

I think he loused up River Hills, incidentally. It should go up again when you go there. This map here by way of contrast shows income per acre.

MR. ALDIS: Personal income?

MR. GAFFNEY: Yes, because income is so much higher than it is here. The income per acre is distributed very differently from income per family. The low density high income per family doesn't apply much potential purchasing power for shopping centers and that sort of thing, and it is this kind of thing rather than this kind of thing which tend to be reflected in the planned value map. That is to say income per acre where you have high density more than offsetting low income per family.

MR. PICHARD: May I raise a question about the land value map. Just with the local Milwaukee people, it seems

at looking at that pattern of land values that the northside of the city has the unusual high development of land values along the lake frontage and the extraordinary softness in the core area, and the southside is smoother in land values. There seems to be a peak out there which I don't know what that is.

I wonder if there is some reason for that; how would you explain this much greater variability on the northside than on the southside?

MR. GAFFNEY: There is a very simple zoning factor here on the northside. When you get north of the area where the zoning permits high rise apartments on the lake front, you get lower values on the lake front rather than higher values. This surprised me.

Here the unit values are extremely low, and I have a picture here that I will show you of the area just around the University of Wisconsin Milwaukee where as soon as you get east of Lake Drive the value per square foot goes way down. And, incidentally, Mr. Ardern, I would be interested to get your comments on that pattern in Shorewood, if that goes --

MR. ARDERN: This is a matter of zoning.

MR. GAFFNEY: Matter of zoning, right.

MR. DE CORIOLIS: East of what?

MR. GAFFNEY: East of Lake Drive.

MR. ARDERN: Eastside.

MR. GAFFNEY: Old obsolete buildings, and this case, mansions, but nobody wants to buy them at any sort of a price. Well, excuse me, Jerry.

MR. ARDERN: One of the things that you find is that there is a certain amount of social status in being on the North Shore suburbs, and you will find that this has its effect.

MR. GAFFNEY: This is a very striking finding in our study. And along the southside, there is no premium whatsoever in being on the lake.

MR. ARDERN: One thing is whether the airport has its effect. And one reason I brought up soil conditions is that I think the soil conditions around the airport leave a lot to be desired.

MR. DOWNING: All these greenpins are all -- almost all, at least, residential, and some of them are black which is zero to five cents per square foot.

This is the airport right here. These values are just about comparable with the very high income area of River Hills. This is in the City of Milwaukee, has city water and all the city services and you would think just by thinking about it that this value -- that this land value here would be higher than River Hills -- less than River Hills. But, as a matter of fact, they are about the same.

Some of this I have heard people say, some of

the people just don;t want to live there because of the airport because of the airplanes flying over pretty low.

MR. GAFFNEY: This is an area directly west of the airport. This is the area that is reserved by Mitchell Field for a flyway, and it's a very interesting picture.

MR. FARR: Is 41 to the east of there?

MR. GAFFNEY: Yes, Route 41.

MR. DE CORIOLIS: Would you point out there Edgewood for the people out of town so they get the picture.

MR. DOWNING: That's the first dark line on this large map; and I think that's Edgewood, isn't it, beginning of Shorewood, just south of there, beginning there. In fact, actually, beginning at North Avenue you might say all the way up -- the County Line up north for a fair distance is a homogeneous or gradually getting younger in age, residential area, with very little industrial influence and commercial except the business areas. And this is certainly unusual for the City of Milwaukee.

It's the only area of its type, and this explains your residential situation. Now, you don't have any other large areas in the county that come anywhere near that except on the lake, and it's a little built up all the ways up through Fox Point. There is very little land left, and the only -- in Bayside where you can see where your pins are that you don't have many sales except Bayside and north. And

then, of course, the southern segment of the county, everything south of the valley particularly over towards the lake area is heavily -- a lot of industrial, a lot of railroads and residential and mixed areas.

MR. DORAU: Isn't it true that the preferences are for north and northwest barring some exceptional historic circumstances that there is a drift stronger north and northwest Wisconsin, Madison?

I think there is a basic drift at least in favor of north and northwest in this general geographic placement.

MR. DOWNING: In Madison this seemed to be going south, southwest, mainly because the lake is blocking them on the northwest. But that's, of course, beside the point.

MR. BERNARD: Is this pertinent? It seems to me we have taken care of that.

MR. GAFFNEY: Okay. Paul, did you have some more?

MR. DOWNING: Not -- I think unless you had a specific question.

MR. PICHARD: I have a question about your lowland values on the south. Now, River Hills might be an exception, but how would those compare with equivalent zoning lot sizes on the northwest side the same distance from the

center, I gather from what you said, where you had equivalent development; you might have a significantly higher sales price to the northwest than you have it to the south.

MR. DOWNING: Well, if I am not wrong, I think I am correct here, this distance here would be approximately the same as this up here. And the yellow up there is seventy-five cents to a dollar per square foot where this is about six cents, six to fifteen per square foot. So, there would be about three times -- at least three times, maybe four or five times as much land value up there.

However, this isn't developed, and that is, that has been developed for awhile or at least quite a bit of it has. This has not -- this is just in the process of being developed.

MR. WOODRUFF: Brother Gaffney has got some highly interesting point to make. What we are doing is to chip at him all the way along in a fascinating fashion not giving him a chance to get to his major point. I think if he does, then we can go back and chip.

MR. GAFFNEY: I don't feel imposed upon. In fact, I invited this group to chip at me. If you are through, Paul, we can move on a little bit.

One of the reasons that we emphasize zoning so much in our findings is that when you start thinking about taxing site values you are going to be taxing zoning to a

considerable extent, because zoning is a paramount influence on the value of land whereas it is not such a paramount influence on the value of the package.

MR. DORAU: Would you consider zoning as a form of taxing?

MR. GAFFNEY: No.

MR. DORAU: In effect --

MR. GAFFNEY: We do find an interesting contrast between what you might call over-zoning in the central city and underzoning in the suburbs. By and large in the city the process of aldermanic log rolling has ruled out anyone getting a surplus of high density zoning whereas in the suburbs generally it's the opposite, that is, a shortage of land zoned for high density use which makes quite an interesting contrast.

So, my statement that taxing site values is taxing zoning would hold true in the suburbs but not so much in the central city because where you have overzoning it is no longer of any particular value.

MR. BARNARD: If you are going to proceed, are you going to follow the outline; and, if so, where are you going to start on this outline?

MR. GAFFNEY: I haven't gotten to the outline yet.

MR. BARNARD: All right. You let us know when you do.

MR. GAFFNEY: I will.

MR. BARNARD: All right.

MR. GAFFNEY: Now, in the nature of what we have in terms of land values is essentially a ring pattern rather than a sector pattern although there are sector patterns in terms of neighborhoods. But our land values follow the ring sector segment theses quite closely. And even in neighborhoods that differ in character as extremely as this splotchy, almost slummy area down here, and then River Hills where you have the highest income people living, you have considerable land values. There is a tendency for them to decline from the central peak in all directions with distance from the center in a surprisingly classical and uniform sort of pattern with some of the exceptions that we have noted.

There is the exception along the lake shore where you have a high gradient of decline from the high rise apartment area into a cheap roominghouse industrial area along the river.

There is the southern end of the negro ghetto, the older part of the negro ghetto. It's now moved considerably northward in which you have an extremely complex pattern with high values along the radials until they finally converge on the central business district where they are high with low values in between, low at least for that area.

Aside from those, we have basically sort of a ring pattern. This is -- this ring pattern is punctuated by

linear patterns. This one is found lakewise, the most conspicuous one, and Capitol Drive where they intersect; you have the major or secondary center, Capitol Court. Here you have Greenfield sticking out quite prominently and probably if we carried this down to a finer point you would have several more that don't show up because of the large scale of the map. So, you have rings intersected by a linear pattern.

The importance of zoning, as I mentioned, is paramount in the suburb areas. The importance of density is paramount as opposed to income. The density seems to be the greater factor on land values.

Putting it another way, ten low income families can outbid one high income family for living space in the central area.

Now, finally a fifth pattern an extremely important one is the pattern of the floating value or sprawling value. Let's take the apartment areas, for example; this area is a very active demolition and reconstruction area, and these areas are areas in which low rise residential use is giving way to apartments. And in each case there is a tendency to cluster around the best location, but there is a sprawl and a stagger of this conversion of land to a higher use. It was extremely large when interpreted in terms of total land requirements of this particular land use.

MR. BARNARD: Where is Wisconsin Avenue on that

map?

MR. GAFFNEY: Where the gold is, gold and silver. The 100 percent location used to be here at Third and Wisconsin. Now the best drifted a little bit eastward not too far from where we are now, down the street there a little ways.

MR. FARR: What about the development to the west out near the new Hilton Hotel?

MR. GAFFNEY: Well, now, that's part of this -- I am speaking of apartments. We have also got what we might call central business district sprawl or scatter. The older part of the C.B.D. I have a photo of that which I will show you in a few minutes.

Now, this results in a diffusion of high density values over a much greater area than there would be demand for. Now, we hear a lot about this in suburb areas. We hear a lot about urban sprawl in the outlying string areas, but we have an inner frontier where the same process seemed to be occurring, two or three inner frontiers.

In the inner frontier its' worse in relevant terms than it is in the outer frontier for the reason that land use conversion here involves subdivisions. Land use conversions here involve assembly. Here you take quarter sections and turn them into subdivisions which is a division that

can be made by one farmer. In here you take thirty or thirty-five front lots and convert them into apartments which is a division that involves one developer coming in, terms with five or six widows, landladies, estates, scattered owners of various kinds which is a much more difficult process.

And so we have scattering of apartment dwellings to the extreme, to the extreme in fact that you have demand for apartment dwellings way up there at 91st and Mill in the corner of the pins up there. You have demand for apartments out here in Shorewood. You have it in Whitefish Bay. You even have it in Bayside, and in these aerial photographs you will see apartments scattered all over Milwaukee County.

Well, those are some of the major patterns of land values. Now, another sort of pattern that we are discovering is a pattern of unevenness of land value development. I want to show you an aerial photograph. The point on this photograph is this factory here, and that's the American Motors Body Plant.

The American Motors Body Plant is a five-story structure which occupies about four blocks or about twenty acres counting out to the middle of the street on each side and employs about 11,500 men.

MR. FARR: Would that be on the major map here?

MR. GAFFNEY: It's right there.

MR. FARR: Thank you.

MR. GAFFNEY: There is nothing especially fancy about the land values there. Although it is on Capitol Drive, they are a little above average but no expense commensurably with the importance of this plant.

Now, making a few rough calculations, if you had a square mile and apply men at that density, you would have 386,000 industrial jobs in that square mile. Now, a very large share of the employment is supplied by an extremely tiny, even insignificant, faction of it. A very large share of the taxes are paid by land which is used at a high density. In between an oasis of this kind in desert of low density, I couldn't say which pays less in taxes. One of the big problems in Milwaukee County currently is the loss of the industrial base, failure of the industrial base to grow commensurate with the population. Without much question one of the effects of site value taxation would be to then encourage intensive industrial employment of this kind.

Now, one other aerial, number six, here is another one of our big industrial plants, Allen-Bradley Company down on South 1st Street, and that's particularly easy to see on this map because this company has been expanding and its expansion has buoyed up land values in the surrounding area and caused a lot of transactions to take place at quite high values.

Once again you have large numbers of people employed on a very small area of land and not particularly good land at that, fairly run of the mill site. It's not on the right side of the Menomonee Valley; it;s not on water transportation and so on and so forth.

By way of contrast, the area that one might generally regard as the industrial ~~access~~ axis of Milwaukee is Menomonee Valley itself is something of an industrial slump. Many of these lands are vacant. Much of the land is derelict. Some of the buildings are in the process of being demolished. Some of them are in good shape, but relatively speaking you have industrial scatter, industrial sprawl in addition to C.B.D. sprawl, urban sprawl, apartment sprawl. You have a rather serious decentralized fragmented or disintegrated city and a corresponding set of land values.

MR. DORAU: Where could you go to find this?

MR. GAFFNEY: Allen-Bradley are staying right where they are.

MR. DORAU: They only had to buy out small homes. You go to Menomonee Valley, you have to buy out an industrialist; you want to expand, and he doesn't want to sell.

MR. CROUCH: The industrial slum, what do you mean? There is a General Electric Plant there, Northwestern-Hanna Fuel Company which has to be there because of zoning and water transportation, Milwaukee Stockyards, Cutler-Hammer, all

of which because of your zoning have to be in that area. What do you mean by slum as applied to the industrial use of that land?

MR. GAFFNEY: Well, I don't mean this strip over here that you are talking about.

MR. CROUCH: Menomonee Valley extends from 6th Street to West 36th Street, and all these plants I mentioned are all in the Menomonee Valley.

MR. GAFFNEY: Right. It's a little too dark here to see all the details here, but in the first place there is a lot of vacant land down here.

MR. CROUCH: In the Menomonee Valley?

MR. GAFFNEY: Right. Well, this looks like a pretty big piece here. The ownership might be in little pieces. There is certainly an assembly problem. One of these is the Plankinton Packinghouse which is closed now.

MR. CROUCH: That's all with buildings. Cutler-Hammer is claiming they are going to have to leave because there is not enough land to replace the land taken by the expressway, and I am just wondering where all this vacant land is you are talking about.

MR. GAFFNEY: Well, the existence of vacant land and the availability of land are sometimes two different things. That might be the answer. It might be that it's there but not for sale. The aerial photograph --

MR. CROUCH: Your term slum, I am just trying to clarify in my own mind what you are reflecting when you call it an industrial slum.

MR. GAFFNEY: Well, what I mean is that buildings are very, very old and many of them to the casual observer seem to be overdue for replacement. This is a strong impression that I have gotten by walking around in that area.

MR. BARNARD: You are contrasting that with a new modern plant, industrial plant; is that right?

MR. GAFFNEY: This would be the most extreme contrast.

MR. BARNARD: And then because of the extreme difference, you are choosing to use the word industrial slum?

MR. GAFFNEY: Yes.

MR. BARNARD: But it doesn't physically denote the same thing as a residential slum would; is that right?

MR. FARR: Because of its physical condition?

MR. BARNARD: Its age, condition. It might be usable and completely economic. Both of these things still exist under your definition.

MR. GAFFNEY: Both of what things?

MR. BARNARD: Completely economic and industrial areas.

MR. GAFFNEY: In terms of basic locations, it seems to me, at least, and you know, I am an outlander here,

but it seems to me that is the best industrial location in Milwaukee. It's right in the middle, it's flat, it has water and rail, best water and rail.

MR. BARNARD: I think we are talking -- I think that -- if I may, this is not important. He used a term which you do not understand the same way that he does as to what an industrial slum is. I think we understand what you mean by -- in your analyses of this particular industrial neighborhood, and I don't care what you call it myself.

MR. GAFFNEY: We went through there incidentally, and he spent some time pointing out buildings to me and estimating the age at which they were constructed or the time of construction, and they are old, very old.

MR. BARNARD: It's an age factor you are talking about.

MR. PICHARD: I suggest now according to your schedule we -- we completed essentially a presentation of the analyses of the land market in Milwaukee County, and I think the next topic for our consideration is to relate this to assessment and taxation and tax problems and how these are affecting the land market as taxation now exists under the tax system. I am talking about Section 2 under your outline.

MR. GAFFNEY: Now, I was going to run through these aerial photos; do you think that would be a good idea?

MR. MORRIS: This major outline, is that in the

form of a general -- I am just trying to get the interrelationships here.

MR. GAFFNEY: This major outline is the outline of the monograph that I am trying to write for the Urban Land Institute.

MR. TOBIN: Are you prepared to discuss it, because I think -- I think time is somewhat limited for some of us.

MR. GAFFNEY: Okay. Why don't we do that. We could run through this outline and outline form. I feel a sense of deep frustration about not being able to show you all of the aerial photographs.

MR. BARNARD: If you feel that way, I think you should have your way about it.

MR. GAFFNEY: I will go through this pretty fast then. This is an area of fringe sprawl; this is out in this part of the city of Greenfield, and it includes this little tail-end of the City of Milwaukee. I put this in because first of all the sprawl I think is worth noting. Tremendously high costs of running public service utilities out to all these scattered dwellings is a considerable expense.

All contrast in density. Here you have some multiple family dwellings out here on the west end of town. Back in the center of town you will see areas where apartments have not as yet been able to acquire the land they need in an

area where high density is more appropriate.

This one here is one we have already looked at and discussed. It's the area just west of the airport again showing the weak development of the southside, the miscellaneous character of the area plus again apartment sprawl way out here by the airport over in this corner of the section surrounded by a good deal of vacant land and with a good deal of vacant land closer to the center of town.

This is up towards the northwest corner. It's up about as high as Paul can reach there, just to the right of Timmerman Field. This is 91st. This is Mill way out here in the northwest. Again, you find apartments here, they are here, here, they are along Mill; some of those are eight-family apartments, some are four.

MR. DOWNING: Some of the sales up there are fifty, seventy-five cents, and some of the single family sales around there are as low as fifteen cents a square foot.

MR. ARDERN: The multiple families up in that area have been in trouble the last few years. They are improving, but there has been a bad situation. They are down below ten percent now.

MR. PICHARD: Were the rents any lower out there than in closer?

MR. DE CORIOLIS: They became lower.

MR. FARR: May of those were four-apartment

units.

MR. DE CORIOLIS: Fours, eights, yes.

MR. ARDERN: Predominantly fours, though.

MR. DE CORIOLIS: Yes.

MR. GAFFNEY: Now, the significance of this is that when we get into this area which is close to the lake, close to the C.B.D., you will find a lot of vacant land among the high rise apartments and back in here. And all up through there you have demand for apartments which is partly frustrated by the land assembly problem and part by the tax problem although here you have the same tax jurisdiction as you do there.

It's interesting to note how much land cemeteries take up. It's interesting to notice the large amount of vacant industrial land along the railroad here. It's being proposed seriously in Milwaukee to set up a land bank in order to acquire land for industrial purposes, and the feeling is that a shortage of industrial sites is blocking industrial expansion. This would suggest, and there is more of the same in other of these aerial photographs, that there is a lot of vacant land there.

There are three or four problems. One is, it's being invaded by residential use, and it's ironic that residential is being able to outbid industrial; this is partly because of taxes, partly for a variety of other reasons. There

is at any rate still available -- physically available industrial land in the city.

MR. CROUCH: In that corner, in the upper left, we just paid $25,000 per acre for four acres of industrial land and paid $7,000 an acre for twelve acres of rear industrial land. The over-all was $10,000 an acre right up there where you say there is a lot of industrial land.

You see that intersection of 91st and Fond du Lac right there, right to your left? That corner, which is an over-all average of -- well, it's 75 cents a square foot on the street frontage and ten cents a square foot or $5,000 an acre on the rear. That's the market for that kind of land. I don't know what your dots will show or your colors, but that's what we just paid for some up there.

MR. FARR: And you are not going to get very much more at those figures.

MR. CROUCH: There is only one or two twenty-acre parcels in the whole bunch. The rest are all small pieces, aren't big enough for any development other than small industry.

That Mill Road site is all five and six and four and three acre parcels; is that not right, Bill?

MR. WIESLER: Between 76th and --

MR. CROUCH: Along Mill Road. It's the one you have your aerial photograph of between West 76th and 64th

Street there; it's all in narrow strips.

MR. DOWNING: This yellow, that's 50 -- that's seventy-five to a dollar per square foot, and the green just to the other side of it are fifty to seventy-five cents a square foot.

MR. FARR: Is that industrial?

MR. DOWNING: That's residential. Some of these lighter -- dark ones here are probably industrial. See, we had no distinction here to -- there is nothing to tell where there is industrial land or non-industrial.

MR. GAFFNEY: This North Teutonia, apartments way out and farmland; that's northwest, north and west. This is within the City of Glendale with a very low tax rate.

This is Milwaukee with a high tax rate. Glendale has not proven yet that a low tax rate will attract development.

MR. BARNARD: Does zoning have anything to do with it?

MR. GAFFNEY: This is way out west of Wauwatosa. This is the County Line at Burleigh. Industrial sprawl in this case, this is also interesting, because Frank Lloyd Wright even looks different from the area. Right across from it we again have apartments on 91st Street.

Now, in way of contrast, this area where all those blue pins are, this is North Prospect Drive here where

our high rise apartment boom is underway. Notice that this boom which is directly referred to as the Prospect Avenue development naturally is on a good deal more than Prospect Avenue. In fact, according to our pins, most of them are on Farwell and even farther to the west.

We find three big clusters of development that are actually on the lakefront. In between them we have very old buildings, in some cases with very low site coverage which are pretty far from the highest and best use of the site.

We have a considerable sprawl evident here; these are new apartments way back toward the river and scattered around in there over a considerable area and they also go way up north. You have demolitions taking place throughout this area and apartments replacing residential structures at four or five, six dollars a square foot.

Here we have the near westside west of the central business district with the fragment of the central business district evident over a wide area, once again scattered among the Ma Schultz places that cannot be assembled.

Here we have the Miller Brewery, another very large employer with a very high density operation quite far removed from the central business district.

MR. FARR: What is the grade of that section there?

MR. GAFFNEY: That's the east-west expressway, and this is the northwest.

MR. FARR: East of 27th Street?

MR. DOWNING: West of 27th Street. Centrally this is 43rd.

MR. GAFFNEY: Here is one we have looked at before, the Menomonee Valley, the central business district, the district moving westward along West Wisconsin in leaps and bounds, Allen-Bradley over here, high density.

Among other problems that we have, the central business district is growin in -- this is spoken of sometimes as the revival of the central business district. It is in effect more accurately described, I think as disintegration of the central business district. Growing east, growing here, civic centers here, a lot on West Wisconsin, but nothing in the middle.

MR. DOWNING: This is the Marine Plaza. It's growing in this direction and growing out here, but in the center there is no -- there doesn't seem to be anything in the way of sales.

As a matter of fact, on 4th and Wisconsin right here, there is a big open lot where they saw fit to tear down the building and haven't seen fit to build anything else.

MR. GAFFNEY: This is the most complicated. It's the area where all these lines are here.

MR. MORRIS: The negro area?

MR. GAFFNEY: Yes. At least a large part of it is. The negro area begins about here, goes out to 20th, goes about this far west and then has never gotten east of Humboldt which is right here.

This is the expressway coming in where you see all those pins on the map. This is the public housing -- this is the urban renewal area that sold for fifty-six cents a square foot.

MR. DOWNING: Just north of that is Lapham Park where the Housing Authority is building their own housing project.

MR. GAFFNEY: Here along Winnebago we have five dollars a square foot and five blocks away fifty-two cents a square foot. Over here again around the Schlitz Brewery we have much higher values. So, we have extremely high changes and a very difficult pattern to interpret right in there.

MR. FARR: You don't think the price paid to the urban Redevelopment Committee is an indication of value, do you?

MR. GAFFNEY: Well, it's rather a special thing, but it was a sale. How would you interpret it?

MR. FARR: I wouldn't interpret it as having any reference to the value of the property.

MR. GAFFNEY: Well, I am here to be educated. Could I ask why not?

MR. FARR: It probably was a desire to get somebody to bid on it, to bid a price for the property. They had to get a buyer, no doubt.

MR. DE CORIOLIS: Only bidder, one bidder.

MR. FARR: I don't think it's an indication of value.

MR. DOWNING: We do have other individual land sales in the area of this. You see, here is the area that we are speaking about, and there are a few other individual sales of residential areas around there which seems to be about the same value. So, I still don't know if that's exact or not.

MR. BARNARD: If it would stand up under that test, I think you could use it. I don't know why not.

MR. GAFFNEY: Your thought is that an individual sale of a small lot is a true indicater of value but the sale of a large parcel is not?

MR. FARR: A re-use sale under urban renewal is not a test in value in my opinion.

MR. WOODRUFF: That is a sale from the Urban Renewal Authority; I agree with you.

MR. BARNARD: I think it should be weighed with consideration to all of the factors involved in a re-use sale by the authority, and certainly some of the most important

things to consider would be the standard of what pattern of standards and controls there is set up on that land.

MR. FARR: That's very important.

MR. DORAU: You could make it worth only five cents. You could even recover what you paid for it if you relaxed some of these limitations.

MR. GAFFNEY: One of the big problems in this area was finding re-use area values. This is the area --

MR. FARR: You will find a great difference between the re-use value and the acquisition value.

MR. GAFFNEY: Indeed. We have problems in this area. They are not quite as extensive as we thought as indicated on this map, and it is an area in which along the radials you have got a definite re-use value and you have got some industrial potential.

You have got a shoe company in there, scattered industrial fragments down here, Third Street commercial district coming up here but we have got problems in there. This one we have seen before.

Again, this is Shorewood. This is the American Motors Plant that we mentioned. This is the University of Wisconsin Milwaukee. This is -- it's not a cemetery; it's forty acres -- has 160 girls on it. The Milwaukee Downer College for a period of several years, those 160 girls held down that forty acres tax exempt. They finally sold it to the

State for ten million dollars.

MR. PICHARD: I am going to suggest that we spend the next forty-five minutes on Section 2 which is the real estate tax particularly in view of the fact that a couple of our tax people are not going to be with us for supper and we want to make the fullest use of their knowledge of the tax picture here.

MR. GAFFNEY: Okay. I will show you one more. Large lot zoning in Fox Point, this is where they found that zoning corresponded most exactly with land use, and this is why we found lower unit values over by the lake with the high income people and unit values getting higher as you got away from the lake and got into lower income residential use, something that was of considerable surprise to us when we discovered it.

Now, in response to popular demand, we will proceed with Roman Numeral II, the real estate tax as to overall quality of assessment.

We have found Milwaukee County to compare very favorably with other areas, and that seems to be a general opinion. Generally speaking, it is good compared with the national average. We do have some studies which I will cite of assessment discrimination, but none of these studies touched upon the matter of the greater interest in this pre-study which is the discrimination between land and buildings; and

that is something we have had to look into independently.

Now, it is the rule that land and buildings must be assessed separately and the taxpayer can go to Court over either assessment. But inspite of that fact, we have found that there is little tendency in the city to make this distinction very carefully.

Now, the city is currently aware of this and is undertaking to rectify it. And for that fact, we have used Mr. Wiesler's data.

When the building had no value and the value represents the total value of the parcel, the assessor usually has the building on the roll at as much as or more than the land. So, in terms of our definition, and I make that clarification because he may not be marching to the same drum that we are, but in terms of our definition, there is assessment discrimination in which buildings are valued at too much and land valued at too little.

In some of the newer areas that is conspicuously true in the suburban sprawl here where evaluation hasn't been brought up since an examination took place.

Mr. Wiesler, do you want to add anything to that or perhaps subtract something from it?

MR. WIESLER: I think I could just say that what you said is correct, that there has been a lag to bring land values up to date whereas building values have either

been sustained in spite of heavy depreciation or in view of their current costs whereas land values don't reflect this current market situation.

MR. ARDERN: In the case of Shorewood, for instance, we have been vitally concerned with the total relationship of sale price to assessment, and we have not been vitally concerned with the arbitrary breakdown between land and improvement.

In other words, the emphasis has been put on the total package, because in a built-up area this business of what the land is worth becomes somewhat academic. It's important to be able to establish the relationship of market value of the total package to the assessment as it compares to other properties.

MR. FARR: You need to have uniformity, basically.

MR. ARDERN: Yes, but you can't come in and complain about your land being off base if the total package, land and improvements, does make sense in terms of uniformity; whereas, if you had a vacant lot, you could come in and complain with good argument that the land was not properly assessed. But where you have 100 percent build-up, this is where you get into some discrepancies in terms of your relationship of land to buildings.

Of course, we run into an entirely new picture,

now, and that is your changing your zoning; your land values change materially.

MR. GAFFNEY: I was going to ask you what you have done there. For those that aren't familiar with the situation, Mr. Ardern, Assessor, Village of Shorewood has just taken four blocks here at the corner of Capitol Drive and Oakland and zoned them for high rise apartments. That was previously residential, single-family dwellings.

MR. ARDERN: I can tell you what happened, and that's under the circumstances of this development of theirs. There wasn't a complete rezoning job done, just a partial rezoning with an indication that ultimately they were going to do the whole area.

So, they are doing virtually spot zoning. There is a mall involved and they are requiring that the developers of the building acquire the mall and whatever prices they can get it at. Our land values are selling for the land and improvements plus, oh, as much as 20 percent the minute that the zoning is changed.

Actually, what it's working out to is about $1500 per apartment for land value, and we have gone into a high rise; we are up to eight and are talking fourteen.

MR. GAFFNEY: Do you reflect that in your assessment?

MR. ARDERN: Yes.

MR. GAFFNEY: Before the apartment is built?

MR. ARDERN: No, because the zoning just took place. The first year for the effect of the zoning will be this coming year.

MR. FARR: How often do you assess?

MR. ARDERN: We watch the assessments every year, and everybody that is out of line is brought into line.

MR. FARR: That is new buildings?

MR. ARDERN: New and old.

MR. FARR: Don't you change your land uniformly for a certain area, don't you change it for a certain area?

MR. ARDERN: Yes.

MR. FARR: But, for instance, this re-zoned area for high rise apartments, you change the zoning on that land but not the -- I mean, the assessed value on that land but not the assessed value on adjacent land at the same time?

MR. ARDERN: No, because the zoning hasn't been changed.

MR. FARR: Has there been any change in value in that adjacent land? How long since it has been assessed?

MR. ARDERN: Well, you see, this is all real new; this is all -- it's in the transitional state right at this moment.

MR. GAFFNEY: You have changed the zoning and told them they can buy the land for the best price they could

get, and the seller is under no pressure to sell; his assessment remains the same?

MR. ARDERN: Well, that's the question that we are still wrestling with. We are facing it for the first time this coming year.

MR. GAFFNEY: Our impression is what the various studies in the city and county -- this pretty much conforms with the conclusion here at the end of this -- on Page 1, Item C-6, that the real estate tax as currently administered is largely a tax on buildings. The law makes, of course, a tax on land and buildings, but the increase in the taxes usually weighs upon an improvement for a building or a new building or something of that sort.

MR. ARDERN: That isn't necessarily so in the suburbs, because we have areas, for instance, that -- for no good reason have gone up way up above the other comparables in the community, and the assessments have been changed.

MR. FARR: You wouldn't assess the land individually then; you would on the individual property in the city.

MR. ARDERN: If the zoning were the same.

MR. FARR: If there was one block with single-family dwellings and then one tall apartment building, would you assess the land under the apartment building differently than under the single-family dwelling if the entire block were

zoned under one category?

MR. ARDERN: That's the decision we are facing right now.

MR. FARR: We would resist that in Chicago strenuously, but there are individual taxpayers that feel the opposite. We would resist any lack of uniformity in assessed values in a given block in assessed land values.

MR. BARNARD: On the subject of discrimination between land and buildings that we are discussing, I am either confused or troubled and maybe both. In the statement made by the assessor, the statement by you in connection with property sales where they buildings were later demolished, now, your contention, apparently, is that I believe that the buildings must have been assessed too high as evidenced by the fact that they were demolished as evidenced by the fact that they did not have value; is that right?

MR. GAFFNEY: That's right.

MR. BARNARD: I don't think that's true, necessarily. I think it's perfectly possible for a better use to be found for an individual lot or an area that would justify the demolishing the building in order to acquire and obtain that better use of that land.

But until that actually happens, I cannot be convinced that the building is not producing an economic benefit to that particular parcel under the use with which it

is at that time and before it is demolished and joined.

MR. GAFFNEY: Well, this is partly a matter of definition, but I --

MR. WOODRUFF: I don't think it is a matter of definition.

MR. GAFFNEY: If you have a building on a piece of land which is producing an income but which is preempting that piece of land and keeping it from earning a higher income, then I would say that building has a negative value.

MR. BARNARD: No, I wouldn't say that, because you are not necessarily preempting that, because you do not know until the building is demolished that there is a use for that land higher than its present use. You know that after another building has been put there, but you don't know it until that time. And until the time it takes place, that building is making a contribution to the total value of that property.

MR. FARR: Of course you will find that many older buildings are destroyed because they have so many violations that the city, government body, will force the demolition in spite of the fact that the property is producing revenue.

MR. DE CORIOLIS: I know what you are talking about right in this area, particular this negro ghetto area

as you call it, inner core area as it is known, where he says that the building that is there, let's say it's a residential building of some kind, multiple family, hold two or three families, which may be producing income and at a certain level, but then many of this size are being bought for filling stations and they are buying two, three, four, half dozen on a corner. This has happened in a number of cases in the last few years.

I don't happen to know, but undoubtedly you do, what the income value is of those re-used sites. But apparently it was worth their paying substantial prices for them more than they would have paid if they were going to continue to use them as residential units. That's my impression, anyway.

MR. BARNARD: That is factual. Those things happen. Does that prove that the operator -- that because a filling station came in and occupied this property that before the filling station took over that whatever building was there made no contribution to the total value of that property?

MR. DE CORIOLIS: No, it doesn't.

MR. BARNARD: No, it does not.

MR. WOODRUFF: I would like to try a point on you which is a complicated one. Ninety percent of the sales in Milwaukee are not represented on that map, your sales of land and buildings. They were sold for about the same use that they had before the sale took place.

Now, it is an interesting thing, every sale that's on there, it's a transitional sale representing a change of use of it from something to some other use. And the only ones that aren't very old, you can almost count them on your fingers, land sales that are out of the cluster, where you presume the sale was for some similar use or expectation of similar use.

Now, as long as there is an expectation of similar use, probably most of the value is represented by the building. I argued this with a lot of people, and we have been in meetings before where we have been on this kick. But where there is a change of use, then the value of the building merges into the value of the total, and the land becomes worth more for other uses and the combined total of the land and building for any use at which the building could be put, at this point the building disappears and becomes a value attributable only to the land.

In other words, when the change of use happens, there is kind of an individual situation here, and the building slides out of the picture and the land takes over. The reason this is so apparent in this data I think is because all he has got platted there are changed use sales. I will retreat before I complicate the situation further.

MR. GAFFNEY: All right. Some of these are the same use but a new building replaces an old one.

MR. PICHARD: If the import of what you said in your original statement relates to unassessed land, then we should find vacant land or urban fringe land unassessed in view of some of the pieces of land we looked at in the field. Would you say this is generally true?

For instance, you remember the particular large parcel in Bayside or the land out -- where was that other piece of land you referred, to the farmland in the northwest corner of the city?

Of course, that is a special situation because that was being assessed as farmland. But is this a general pattern for land that is not in use to be assessed on a different basis from the land in use?

MR. GAFFNEY: Yes.

MR. ARDERN: Of course, you have a transition; you have a period of time when the land is changing use, and as a tax official you can't be jumping on them in theory that the land is worth more.

You have got to have some evidence to support the fact that this land is worth more. And until you get sufficient sales evidence, you can't develop your position.

In the best administered tax districts, you will find a certain amount of lag until you have sufficient evidence to support a value. I can illustrate that very well where the Channel 6 tower is on Capitol Drive. It took a

period of ten years to come to its fullest bloom, and nobody could anticipate what it was going to sell for until you got some sales evidence.

No competent public official can take that piece of property before something is done to it and say this is worth $200,000. You can't anticipate. You get yourself in all kinds of trouble if you do.

All assessors have to defend their position in the courts and they can't go in and say I think this is what it's worth and not have evidence to support it.

MR. FARR: When you have adjacent sales, then you can do it and it's a question as to whether you are working a hardship on some of the people.

MR. ARDERN: Of course, you can't consider the hardship aspect of it; you have to consider what's the market value of it.

MR. BARNARD: It has to be on the basis of what has happened and not what may happen.

MR. GAFFNEY: But there is a question of how much. Wouldn't be proper for the assessor to move in this area and say this is for a higher and better use. But he could act like the Federal Reserve Board and -- on one hand we are just following the market, and on the other we are just establishing. Perhaps the truth is he is following the market.

MR. ARDERN: He is following the market; has to.

MR. FARR: One problem is that the men in Milwaukee here have is that if they are assessing the property from year to year or as these developments occur, it's harder to pinpoint just the year in which that change has occurred; whereas if you some regular period of assessment, then the changes catch up with you a little bit better and you are on a more stable basis to be uniform within a given area.

MR. ARDERN: I wouldn't agree with you, because you may have a five-year lag on some parcels and a one-year lag on others.

MR. FARR: That can happen. I wouldn't debate it with you.

MR. DE CORIOLIS: You are speaking of the lag between the assessment level and the market; is that lag the same going up as it is coming down?

In other words, are the assessment officials more ready to increase assessments than they are to decrease them as the market goes in reverse?

Obviously in the older areas you found that the lag is developing greater in the market when the market is going down. There is reluctance to erode that tax base until it's replaced with something else.

MR. GAFFNEY: That's what worries me about the

philosophy that the assessor will simply follow the market. To a certain extent, he has to follow the market.

MR. ALDIS: This is the law of the state.

MR. GAFFNEY: The market is a slow moving thing. When land use changes and it's thirty years later before the land assessment catches up.

MR. ARDERN: And you are on top of that transition period; you are talking a matter of three years at the outside.

MR. GAFFNEY: That kind of a lag I could stand. You have got troubles with a twenty-year lag, because by the time the assessor catches up with the market, the market is going to sink. If he is twenty years more catching up with it, a lot of land is going to go for taxes which is one of the big nightmares; that's important to avoid especially in a concept like this which is why I emphasize here the importance of starting in the middle and taking a little chunk and proceeding outwards in applying the concept of this kind which really is playing with dynamite rather than taking the whole county as might be proposed and applying the concept to the whole county at once which would force everything up to its highest and best use as of the present value which would very well result in throwing a lot of the stuff on the market depressing values just after assessments have gone up and we would be in a hell of a mess which you could get into if you

lagged the market too much.

MR. ARDERN: The zoning makes the market, and if you have good zoning that's compatible with the development of the community, you are in good shape. If you don't, you are not.

MR. GAFFNEY: In Shorewood you have got an easy problem because of that fact. You have got nice tight zoning out there, if you get something zoned for and there is not much question but what the value is enhanced.

MR. ARDERN: There are occasions when a drastic increase in the tax bill which is reflected not only on the basis of the assessed value but the tax rate as well, there has been a drastic decrease in the fair market value of the property. That's a tough one that you boys have to face. In the case of income property, it's very important.

MR. FARR: It is particularly in the case with the smaller apartment building, old apartment building.

MR. GAFFNEY: I am going to jump ahead here to Point C to subdivision and assessment. By and large I think it's fair to say that the real estate tax is to a considerable extent a tax on subdivision; in an acreage not brought up by land, it is brought up when it is subdivided especially if it's built upon. If it's built upon, not only is the building put on the tax rolls but the land underneath it is put on at a higher value than it was before.

MR. ARDERN: Hasn't that land value changed by virtue of the new use?

MR. GAFFNEY: Well, again, this is a matter of definition. I would be inclined to distinguish between environmental factors and factors within the control of the individual. As the environment around him changes, yes, it goes up. As he puts a building on his own site that is better, he doesn't change the value significantly of the land that is underneath his own building. That's the distinction that it's implicit in this concept.

MR. WIESLER: You are speaking of the assessment on lands that are undeveloped, undeveloped acreage to the assessment on lands that have been platted and developed and may be partially sold?

MR. GAFFNEY: Yes.

MR. WIESLER: There is -- in the City of Milwaukee at least there is a very definite increment of value at the time the land is platted. Now, this may -- this surprised me when I studied this, because I also thought the value improved like when all the improvements were in; but it doesn't. The added value accrues at the time it is platted.

Up until the time it is platted, there is no use for that land. I mean, the use is flexible to a certain extent. You may say it's in a single family zoning area; they do allow some to be placed in a larger area. There are

exceptions. The use is more flexible where there is no plat.

But as soon as there is a plat, then the use is fixed and it is even more fixed in cases then where they place a private encumbrance on the land with certain restrictions. But this --

At the time of platting then, in sales that have occurred before platting and sales after platting, it's become 100 percent from one value to the other accruing at the time of platting.

MR. WOODRUFF: Be it said as an observed fact, and I think my two colleagues down there in the appraisal business will bear me out on this, I think we have all hit it. Frequently you will run into a large tract of vacant land somewhere that is being acquired for an airport or ammunition depot or something that has been beautifully platted and all the lines that you can draw in all directions add exactly nothing to the value of this piece of land.

I had a Federal Court case back in the '40's on this where I was able to sustain the fact that the fact that it was platted meant nothing. I know you have had some, Boyd. I believe I read some cases of yours.

MR. FARR: We have some subdivisions in Chicago dating back to 1890 which have never been used.

MR. BARNARD: They have added nothing to the value. They have handicapped the value, as a matter of fact.

MR. WOODRUFF: Yes. So, both observations are correct. I am not challenging this gentleman's statement as to Milwaukee, but I warn, this is not a statement upon which we can generalize to an unlimited extent.

MR. WIESLER: The plat is duly recorded and --

MR. WOODRUFF: That doesn't make any difference, either.

MR. DE CORIOLIS: As to your assessment discrimination between areas and relationship to land to buildings, I think that your assessors have not operated in a political vacuum; the fact that one high tax official in Milwaukee when we went into this whole thing said, "Well, after all, let's remember we are not operating in a political vacuum. Maybe they are supposed to be, but these are the facts of life," and it's evident.

For instance, you mentioned the farmland that immediately becomes assessed at a higher figure when it's subdivided. The farmer may be on a Town Board or in some other position that would -- and his friends about him are maybe influenced. But the developer buys it. He may not have as much influence although it may be the policy to increase the value when it's subdivided. However, there is the fact.

MR. GAFFNEY: On this Point 3, that plottage and assessment, I have seen little evidence that plotting is

reflected in the assessment process. Over this wide area where land has been subdivided into units for their highest and best use today, I don't know of any instance -- maybe you do, Bill, where the land in a small parcel is assessed at the value that it would have been if it were assembled in a larger parcel.

And according to the weight of evidence at our last meeting or weight of opinion at our last meeting, it shouldn't be.

MR. WIESLER: I think this plottage factor has two elements also. The plottage over a wide area influences the values in that area, and plottage may also affect the value of a single parcel.

Now, one -- we mentioned why is the southside value here so much less than comparable distances to the northside. Well, I think one of the factors is the way this southside plan was laid out originally. Most of it is in strips 150 feet wide by 1320 feet long. With a single strip nobody can do anything with it.

On the northside you have lots of quarter sections, and I think that the plottage in the north area there has been an enhancement to development whereas on this side of town it's been a hindrance.

MR. GAFFNEY: This is one of the most controversial areas in site value taxation. What do you do with

plottage because a significant percentage of all land that we are concerned with is affected with this factor, and if the assessment process ignores it, if you only assess the man on the highest and best use that is conceivable within the boundaries that exist and could not consider the fact that the boundaries might be changed, then you have a much lower land value represented than you would if you made the other assumption, and you are going to have a tax system which has much less effect in remedying the problems of sprawl and scatter that we were looking at than you would otherwise.

MR. FARR: You must never get away from uniformity when it comes to assessment of land; you can't assess individual parcels on a different unit basis.

MR. ALDIS: You can extend corner influence. If there is a 50-foot ownership, you can extend it to that point. If there is a hundred foot in the same ownership, you can extend, and the assessor in Chicago does extend corner influence to the inside 50 feet if it's in the same ownership.

MR. FARR: So long as it's a uniform rule which is applied on nearby property.

MR. BARNARD: You are saying that's not done in the City of Milwaukee.

MR. GAFFNEY: Not that I am aware of.

MR. WIESLER: I might add my observation on this, and that's that the assessor has to value the parcel

as it is owned.

In other words, he could take a piece of farmland and assume that it was a subdivision and value it as such, draw his own subdivision, but I don't think he is allowed to do this. He has to value it as it is owned.

If it's a single lot and it's too small to build a house on it if it were vacant, I think he has to recognize the depreciated value of that lot.

MR. FARR: We don't apply that rule in Cook County.

MR. WIESLER: Well, it doesn't apply too generally either here, but I mean, I am just trying to point out that the assessor can only consider the ownership as it exists, and he cannot impose something else on the ownership, if this were a bigger piece of land it would be worth more money.

MR. FARR: If he has to assess each individual parcel, he gets in a very confused position in my opinion.

MR. WOODRUFF: He's got to recognize the limitation of size, I think, and I agree completely with that.

MR. FARR: As long as you have a uniform formula to apply. Otherwise, you are on the spot.

MR. WOODRUFF: I agree with you.

MR. BARNARD: I think that's the answer, and I think that there should be in Milwaukee or anywhere else, some formula that takes into account the subject of plottage.

MR. DORAU: Twenty front feet is not necessarily worth half as much as forty otherwise comparable.

MR. FARR: The assessor in Chicago, he will assess a twenty-five foot lot on the same basis as the man who has two adjacent 25-foot lots or for the man who has four lots with a 100 feet of frontage which is usable, assessed on the same basis per lot as the man with a single 25-foot lot.

MR. GAFFNEY: If you have got quarter sections trading at $10,000 an acre even, though they are used for farming purposes, your assessment would recognize that, wouldn't it?

MR. WIESLER: Well, it should. You are asking, and I think I saw the question on your lips, is there such a thing as a formula in recognizing plottage?

In the City of Milwaukee, in the newer areas, at least, people don't buy front feet, in my opinion, if they are buying a site for a single-family home. They pay so much for a single-family home site, and the limits to this are rather different.

But just without accepting, we could go into say a neighborhood where the lots generally are 60 feet in width; and if we were to apply a front foot factor or unit to that? Say we would apply a unit of a hundred dollars a foot, this would be $6,000 for a 60-foot lot.

And in this area of 60-foot lots, there

happened to be a scattering of 80-foot lots. What would their value be in the market price? And we have found -- it's not proportionally; it's about 50 percent. The added 20 feet there would have a value of about $50 a foot stating it one way as compared to the original 60 feet having a value of $100 a foot for the 80-foot lot would be about the same as a 70-foot lot.

MR. GAFFNEY: There your lots are almost big enough.

MR. WIESLER: As you got to the smaller lots, maybe your unit goes up to $200 a foot.

MR. FARR: I would pretty careful with getting involved with that.

MR. GAFFNEY: You get small enough, though, the lot isn't worth anything.

MR. WIESLER: It's applied to the same use, single-family home site. Of course, if it's a lot that can be devoted to some other use, why then it's another question.

MR. BARNARD: Don't carry that downhill so fast and so far saying it has no value. At some price the man next door will buy it.

MR. GAFFNEY: Yes, but --

MR. WOODRUFF: If it isn't taxed too high.

MR. BARNARD: If it isn't taxed too high, that's right.

MR. GAFFNEY: As Weisler pointed out, you even have this problem out in the fringe areas where people before they subdivide, a lot of people will cut it up into a little bowling alley shaped lots, and the inner section can hardly be used.

MR. PICHARD: We have had a good discussion, though, to the point. And remember that it was discussed also at the first conference; and if you need further discussion, I would suggest that you would feel free to correspond with any of the individuals here. This is a very technical question I can see, but also a very important one.

MR. WOODRUFF: If I may delay this thing for thirty seconds, this is one way, by doing this on formula on the base of excess footage and simply establishing a rule for a declining value of excess value above the average in a subdivision, and the same formula works in reverse. This has been done in two assessment jobs that I know of, and I am sure it's been done in others.

I merely state this because this is a way out of this dilemma although it's a fairly complicated one.

MR. PICHARD: You are saying that an established optimum size or the established size for that area.

MR. WOODRUFF: There is a way out of this, and the technicians here could discuss it until we all went crazy.

MR. GAFFNEY: I hope our reporter has that in

the notes and attributes it to Mr. Woodruff.

I don't think there is any simple formula that can do it.

MR. PICHARD: I am going to ask you what you meant ~~in four?~~ before

MR. GAFFNEY: Let's take the bilateral monopoly situation. You have got a 30-foot lot, and it can only be sold to the neighbor. There is one buyer and one seller. Let's say it's on a corner. Otherwise it would have to be trilateral monopoly or some mouthful like that.

So that is a tough one in terms of land assessment. Now, that related to you maybe in a situation where the small -- is a lot greater than the average value per front foot of what you have already got or it might be smaller. That's what I mean by the marginal value. This I think is the situation Allen-Bradley is in down here where we have all these things in the map. They are willing to pay extremely high prices for expansion, and we now have the problem of deciding over how wide an area should we spread this value. You have got the same thing around every expanding institution.

MR. DE CORIOLIS: You mentioned something about relating that to a one-family structure --

That's about eight stories they go up, don't they, Allen-Bradley? See they are building up. It's very

untypical construction.

MR. WIESLER: This in effect is a change of use -- I was thinking of a change of use always to a higher value use. This is just a little bit in reverse.

I recall particularly I studies some land values along State Street which involve the Miller Brewery property, and they have added on piece by piece and paid good prices for it. But what they were doing was buying land with a high value, because it was used for light manufacturing and commercial in small pieces.

Well, now, if you want to attribute the prices they were paying for these small pieces to their total, you couldn't find any industrial sites to give you a comparative value at all. You are moving from a category of small commercial light manufacturing sites which have a definite value when you get your market comparatives for that type of use, and they were changing its use into a large tract, forty or forty-five acres, I don't know what they have; and you begin to look for comparables of value for that size of site, and you don't use the sales of these parcels that were used as commercial and light manufacturing to this large site.

So, you have a change in use to a lower value use, but -- like Allen-Bradley who is expanding is looking and what utility that added land has to their total operation.

MR. GAFFNEY: Yes.

MR. DORAU: This we will develop in the area of security valuation. By the way, what's the value of the fifty-first piece of stock which gives you the control? You say that this stock is worth the price you pay for this one extra percent. No, you consider the value spread over fifty-one.

MR. GAFFNEY: We have got a pretty good answer there. We take an average. I have got a problem that has worried me. Columbia Hospital is expanding, just bought the block to the west of them. UWM is expanding; we are ready to buy blocks all around this, and we are willing to pay for the land alone toward the present value of the land and the houses here.

Now, under site potential taxation, one conceivable interpretation would be that if there is an expanding institution then the blocks around it would be up-valued to the amount that this one buyer is willing to pay and thus in effect confiscate the house.

MR. MORRIS: That one buyer is a --

MR. GAFFNEY: In the case of UWM, it's non-taxpaying. In the case of Allen-Bradley, it is taxpaying.

MR. FARR: O'Hare Field in Chicago, when it was built, land was selling at around $3,000 an acre adjacent to the airport. There have been many sales of from twenty to $40,000 an acre as a result of being adjacent to it, being

adjacent to the O'Hare Airport.

MR. WOODRUFF: That's adjacent rather than the consequence of one sale. The generalization of what he said for the last hour is that both us as appraisers, we as appraisers and the assessor or assessors take a good deal of comfort in this. There are a lot of wild or apparently wild sales for which there are perfectly good explanations, and these are sales which we all have from our testimony either dropped out or explained away or hoped to dickens that the other side wouldn't bring in.

MR. FARR: We are talking about the houses adjacent to the University of Wisconsin Milwaukee, the effect of the University causing a greater demand on the part of the professors and employees; the University, to live nearby, that had an effect perhaps on market value, did it?

MR. GAFFNEY: That's true. But that's not -- that wasn't what I was talking about. That wasn't the problem I was talking about. It was rather the effect of the expansion of the University itself and its demand for land its extremely high value.

MR. BARNARD: Under your theory, then, when the University takes that land, that's evidence that the building had no value; is that right?

MR. GAFFNEY: That's right.

MR. BARNARD: It's not right; it's wrong.

MR. GAFFNEY: Well, it seems like a problem to me, you see; that's why I brought it up. This is one of my weakest points.

MR. FARR: We are buying for the University of Chicago, see. We are buying apartment buildings and tearing them down.

The University of California at Berkeley has a terrific problem, because everytime they expand they have to buy a building and tear it down.

MR. WOODRUFF: The seller sells a building, but the buyer buys land, and this comes back to that condemnation appraisal business that we got off on earlier in the afternoon. The condemnation, rather, was going at this more from the seller's point of view and putting on an additional value and value as it would exist in the mind of the seller, not as it would exist in the mind of the buyer.

There are two differences, what the buyer is buying and the seller is selling.

MR. BARNARD: Under a proper assessing system, should those buildings, then, not be assessed but all of the value be put on the land?

MR. WOODRUFF: Heavens, no.

MR. BARNARD: Okay.

MR. WOODRUFF: Every appraiser in the world would agree with that.

MR. GAFFNEY: Moving on to Point D --

MR. PICHARD: We will take a short recess for ten minutes.

(Ten-minute recess taken).

MR. BARNARD: Professor Gaffney, I think if we can get as promptly as possible into this item, Item 3, that that would be desirable.

MR. GAFFNEY: Okay.

MR. BARNARD: That probably would take us up to the next point of adjournment.

MR. GAFFNEY: Well, the rationale of tax site potential is something we have discussed before. I just put that in the outline because I thought I had better somewhere in this planograph say where we were proceeding to study the subject. In discussing the nagging little problems of ~~why~~ how you do it, you sometimes lose sight of why you are bothering to do it in the first place. The general idea, of course, is to nudge land in the direction of its highest and best use to remove an element of discrimination that now exists between those uses which use large amounts of capital per lot and those uses which do not and to accelerate the removal of sites by removing the bias that exists in the tax system between a new building which is taxed as a new building and an old building which as a building is frequently taxed at a very low value.

Now, the definition of the tax base, the basic

concept there, I used two terms that I find useful. One is the concept of public value. This comes from Alfred Marshall who wrote about this; this stuff is no longer quoted very much, but it's pretty good. The public value, he meant the value which is created by the public, and he assumed that the public had something to do. And we include nature there and the public in its capacity as a builder of roads and other public improvements, and the public not in the governmental sense but in the sense of the improvement to land which they had built in the surrounding area. These environmental factors are factors in public value.

MR. DORAU: On the practical follow-up of that, in the Land Valuation Act of 1912 in England, the results obtained so far as they went, eventually they gave it up, but they started one in 1912 making a determination of how significant the public cost, the cost, historical cost in effect had. It's quite an interesting piece of literature.

It came in 1912, the same time that we got the idea of making a historical value of the railroads. The LaFollette Act of 1912 came at the same time in this country.

MR. GAFFNEY: Now, this second item here as I understand it, who owns the land at the present time, this departs from the present practice where the ownership makes a difference; the ownership makes a difference.

MR. WIESLER: I didn't intend to make that impression.

MR. GAFFNEY: You were talking about the farmer. You said that the ownership was taken into consideration in the assessment. Maybe you meant use or ownership as related to use.

MR. WIESLER: Ownership as related to use. It doesn't make any difference who owns the land itself. The nature of the land and its use, that is the basic factor in its value.

MR. DORAU: If there is 160 acres of farmland used for farmland owned by anyone?

MR. WIESLER: Yes, we wouldn't care. A piece of land, say it's being farmed, tenant farmed, at a different rate because a developer owns it rather than an adjoining land owned by a farmer.

MR. GAFFNEY: In batting this subject about with a number of assessors and people in this area and other areas, I have run into what seems to me a curious resistance for the commercial society in which we live to the concept of a potential value assigned to land on the basis of assuming that it could change ownership; there is a tendency to think the highest and best use of the land is the best use that can be made of it by the old widow who presently owns it.

And to think of any other concept is somewhat

brutal in opposing economic determination of individuals. In a commercial society it seems to be rather basic that resources are not valued in that way but are valued in assuming that they are exchangeable, that they are able of commerce, and that individuals are not bound to the land as serfs were but can move about and the highest and best use of the land is independent of who happens to be sitting on it at the present time.

MR. FARR: Or who happens to hold title.

MR. GAFFNEY: Yes.

MR. DORAU: Would you carry that so far then, as to say that this is independent of the sum total of the surrounding circumstances?

MR. GAFFNEY: Oh, no. Only the circumstance of ownership of the particular piece of land.

MR. DORAU: Just the particular purpose; you aren't implying that helps a 40 by 80 foot lot that I envision and -- I just use it for my students; I ask them what's the highest and best use of this thing? When we got through, the highest and best use was exactly what the guy was doing, for the first floor it was a vegetable shop and Chinese laundry; the second floor was rented out by the night, flop rooms and so on. There was nothing else that anybody could do with it. That's its highest and best use.

MR. GAFFNEY: That gets back to this plottage

problem.

MR. DORAU: In a way, yes.

MR. WIESLER: I think the highest and best use there, he has to take into account all uses; you can't just say -- envision all property being used for high rise apartment buildings.

MR. GAFFNEY: Oh, no, certainly not.

MR. WIESLER: Well, this size of lot perhaps had something to do with the use, but, nevertheless, you speak of an area because the widow happened to own a lot and she has very restricted capital resources, she can't do anything with it; but she could sell the lot and somebody else would do something with it. But what if you are in the neighborhood where the particular owners are older, retired people with limited capital? You have a whole neighborhood that's typically the same. Then perhaps the little house that the widow lives in is the highest and best use in the area.

MR. GAFFNEY: I am sure there are areas where that is the highest and best use, because widows have to live somewhere. It's a question of where.

MR. WOODRUFF: There is another twist to this which I want to submit. We often think of highest and best use, the highest and best potential use. With your farm you think of the highest and best use as subdivision property whereas in fact if we were appraising it for condemnation we

probably would go at it just that way; but if it were for a prospective buyer, the highest and best use is to hold fourteen years for subsequent subdivisions.

Now, there is a rise and curve here as you get from the farm toward the subdivision, and the highest and best use may be anywhere on that curve.

MR. WIESLER: I think this is what I said.

MR. WOODRUFF: That's exactly what you said, but I am trying to introduce a ~~kabiet~~ curve here.

MR. WIESLER: And all the spots also represent the highest and best use at the time.

MR. GAFFNEY: At this point I don't need ~~kabiets~~ curves. I need solutions.

MR. BARNARD: I like the expression on -- I like to use the expression on highest and best use, that's meaningless in itself until you couple with it the term and likely use and most likely use.

MR. WIESLER: How about using the word most typical use?

MR. BARNARD: That doesn't say the same thing.

MR. GAFFNEY: In fact, it's different.

MR. MORRIS: What about potential?

MR. WOODRUFF: Potential in terms of time, and how far out in terms of time are you reaching? Time has a value and you discount this time back in order to get where

you are now.

MR. PICHARD: Under the Law, the assessor says he can't tax potential; is that correct?

MR. WIESLER: No.

MR. DORAU: Well --

MR. WOODRUFF: Every market sale reflects its potential and says or reflects --

MR. DORAU: This is on all types and varieties discounted down date.

MR. FARR: How do you determine this land value? No doubt the taxes on the land value, the carrying charges would have an interest to me in determining whether I would buy the farm or not, buy the land or not. If the carrying charges were going to be too high I just wouldn't buy it unless I bought it at a low enough price.

MR. DORAU: The price could be then a capitalized value of the extra burden and the annual tax.

MR. GAFFNEY: We have stuck all those pins in that map, we have begun with sales, market information, and we have also interpreted very freely which I think you can do with this question but moreso with land values than others economic data, because it's the nature of land values to to be closer related to the adjoining land values.

So, beginning with that solid basis of market

information, I think you can get pretty close to answering the question: What is market value?

MR. FARR: You can determine current market value on the basis of comparable sales under existing conditions. That I think is right. I have jotted down here a few items, how do you determine land value, how do you determine market value; and I added, who pays the taxes and from what source?

MR. DORAU: The fellow who is caught owning it when the tax was imposed.

MR. FARR: That's right, because the only source of revenue from a piece of farmland, of course, is what the farm will earn. There is no other money there. That's all there is; there isn't any more.

MR. PICHARD: This is for the dirt farmer. In the urban fringe you have got other kinds of farmers.

MR. FARR: He's got to rent his house or put a filling station or a house on it or he has got to build some houses along the highway or he's got to put an open-air theater out in the back lot or -- those are not revenues from a farm as such.

MR. DOWNING: It; too, that he doesn't get revenues from the farm as such from farming, but he gets an additional revenue in the fact that his land values are going up because of speculation. It may not pay his taxes, but it's

something that he can apply to -- he can consider as part of his earnings.

MR. FARR: No, he can't. Where is the money in the bank? There isn't any money.

MR. DOWNING: The money is in the land which he can convert.

MR. FARR: He's got to sell the land in order to pay the taxes.

MR. WEHRLY: This is a conflict between social values and economic values, as I see it being in the business, and we see where there is a social value which includes a lot of things; and when that declines to a certain point where the economic value is such that it will be converted, then, to a -- re-used, then the recognition of the re-used value comes into play.

MR. GAFFNEY: I agree with that 100 percent, and I would suggest, though, that the assessor is not a welfare worker and should not be used as such. We have rather an extensive welfare program in this county.

MR. WEHRLY: It will remain intact up to a certain point and then disintegrate and become converted, the urban renewal areas and so forth.

MR. GAFFNEY: I wish that the process were as rapid as seemed to be suggested by that phrasing.

MR. WEHRLY: It isn't, of course, but it is

sometimes.

MR. TOBIN: You have got a very good record on highest and best use. Why don't you move to the next one?

MR. GAFFNEY: This assessment freeze is a means which we find very valuable in Wisconsin. Right now the program to use the assessment freeze technique is very hot, and it comes surprisingly close to site value taxation.

Now, we have a law in the books that says that a city upon application to the State Legislature, I am not sure just what it is, you have to go back to the State Legislature for it, but, anyway, there is a law on the books that says that the City can institute an assessment freeze for a period of up to twenty years.

Now, if you discount that string of future taxes back to the present, the first twenty years of tax on a new building are more than half the total value of the lump sum that you get right now; by discounting the future values back to a twenty-year assessment freeze is better than the Pittsburgh plan in terms of moving partway towards site value taxation. And this is the law we have on the books in Wisconsin right now.

MR. TOBIN: Is this in consideration of the owner carrying on some development program?

MR. GAFFNEY: No. Although -- well, yes and no, there is the assessment freeze that is applied to just one

building that covers 100,000 square feet or more of which we have one example in Milwaukee now, the Marine Plaza down here.

MR. MORRIS: Of land.

MR. GAFFNEY: Yes, of land area. And right now the City of Milwaukee is trying to get that reduced to 20,000 square feet.

MR. WIESLER: Yes, trying to amend the legislation to make it 25,000 square feet instead of 100,000 square feet.

I think there is one other requirement, the area has to be declared blighted.

MR. TOBIN: Well, does something have to be done about the blight to get the freeze?

MR. WIESLER: That's right. We have to clear the area and build an improvement.

MR. FARR: And the assessed valuation will be the same.

MR. WIESLER: The assessment stays the same as-- the assessment is frozen for whatever period of time is granted. With the Marine Plaza, it's seven years. I wasn't aware that it could be extended to a longer period of time.

MR. GAFFNEY: Well, I believe I am correct.

MR. TOBIN: I don't want to delay on this, but it's an alternative to the subsidy in the form of land value by land clearance.

MR. FARR: Yes, but the taxes collected after the improvements are several times what the previous taxes were in a given area. Lake Meadows, the taxes from Lake Meadows today are substantially more than the old slum area prior to the demolition.

MR. TOBIN: Yes, but their alternative breaks to encourage redevelopment; they are alternative subsidies.

MR. GAFFNEY: Well, in the particular case here, the site potential tax proposal is similar to the assessment freeze program with some differences. One difference, of course, is that it would apply throughout instead of to selected buildings so that it would not be a discriminatory subsidy extended to some and denied to others.

And also a difference in that the freeze would apply only to the buildings which would in effect be frozen at zero. The site assessment would change but not in response to anything that is done on that site by the owner of that site; it would change to response to what is done by his neighbors and also in response to other environmental factors of a more general sort such as change in traffic patterns and demand preferences. But the assessment would not change in response to improvement by the individual.

And in this respect, the assessment freeze concept is very close to the site potential tax concept. And I was very interested to find that we have something already

on the books in Wisconsin which comes so close to what we have in mind here.

MR. PICHARD: I would like to raise a question. If enough individuals in a block or group of blocks in a city make a major improvement, say convert low houses to office buildings, wouldn't that affect the land values?

MR. GAFFNEY: Well, again, each individual plot would be affected by what is done on the neighboring plots. But the value of an individual plot would not be significantly affected or at all affected.

MR. DORAU: It should be reflected in your -- it's like in depreciation, provision for impairment from causes known to be in operation; if it's something other than known to be in operation, it's not depreciation, it's a casualty.

MR. PICHARD: What I really am asking is a question, since things don't stand still in a city, if we have the kind of site value taxation the implication that has been posed here, I just raise the question of whether you do not have environmental changes resulting from improvements which reflect back in land values in area rather than in parcels; that was the question I was throwing out.

MR. GAFFNEY: The answer is yes without question. We have neighborhood effects.

MR. DORAU: We have it somewhat in the

Washington Sq. East, - NYC

fragmentation. Under political pressure the idealized size for redevelopment was cut in two. Half was developed, cleaned and fixed up. This is the rest of it nearby.

It has been entertained that one of the motivations in getting this thing sliced in two was that the political bosses in power there were going to be able to get more when it comes to a second step of redevelopment by virtue of the improved environment created by step one. All the hocus-pocus and everything else was inspired with the idea of being able to get more for the whole of it.

If you took it in two pieces and allowed -- now, the English Redevelopment Act, you know, attempted to cope with that by stating that the thing is frozen as of the time when the area is indicated as subject to redevelopment. And, so, what therefore happens as a result of a partial redevelopment of it can't be used to get more for that which has been advantaged by the first redevelopment. That is the intent at least.

MR. MORRIS: Can I ask this non-expert question, which I am not, you mean assessment freeze of land?

MR. GAFFNEY: No.

MR. MORRIS: Of everything?

MR. GAFFNEY: What we have now is assessment freeze of everything. What I am suggesting is that under the site potential tax you would get the same effect as though

you had an assessment freeze as far as the incentive to build a new building is concerned. There would be no increased tax as a result of building a new building.

But the site potential tax differs in that your assessment will go up as the neighborhood improves or go down--

MR. MORRIS: The person who builds a new building on this frozen assessment, he will still -- would still be taxed for an improvement, wouldn't he?

MR. GAFFNEY: He would be taxed on a historical improvement which would be just a fixed figure. It would not have any effect on his future conditions.

MR. FARR: He would be taxed on the buildings which have subsequently been wrecked?

MR. GAFFNEY: Right. Now, I don't hold with that myself, but half a loaf is better than none.

MR. FARR: I am here to listen and comment.

MR. MORRIS: How generally among the states is that practiced?

MR. GAFFNEY: Assessment freeze?

MR. MORRIS: Yes.

MR. GAFFNEY: I haven't surveyed the fifty states, but I do know that Kansas City has done something on this.

MR. TOBIN: New York has done it in several cases.

MR. MORRIS: It's discriminatory.

MR. GAFFNEY: Well, in Wisconsin they are subject to -- there is no rent control. There are other special conditions like the 100,000 square footage.

MR. MORRIS: No control other than that?

MR. GAFFNEY: No. And, as a matter of fact, the Assessor's Office is poised to pounce on this building as soon as its seven years have expired, and they may get it back. They may recoup.

MR. FARR: That does apply to the Marine Building, does it?

MR. GAFFNEY: Yes.

MR. FARR: And they will pay taxes based on the previous improvements?

MR. GAFFNEY: They do pay taxes on previous improvements. They will pay taxes on the present improvements at the end of seven years from when they built it.

MR. BARNARD: Did they pay for that site, the total acquisition cost of this site; was there any right down to this tax freeze?

MR. GAFFNEY: No, they have on the map showing what was paid for a number of those parcels.

MR. DOWNING: Not all of them, by the way. I don't know why we didn't get them all.

MR. WIESLER: I think they previously owned some

of that for quite a long period of time and they just added to it.

MR. FARR: If the Marine --

MR. GAFFNEY: If they had not owned that land previously, why the previous owner would have gotten most of the benefit from the freeze. I presume the price would have gone up considerably.

MR WOODRUFF: The outstanding horror I was about to mention was the Prudential Insurance Company over the tax in Boston where they had about eleven different tax deals each one repudiated by the municipalities, and they started construction and stopped it an equal number of times.

MR. TOBIN: Got special legislation, didn't they?

MR. WOODRUFF: Eventually got special legislation, but even this, the officials played games with the thing.

MR. GAFFNEY: The law in its present form is not going to go very far. I didn't mean to imply that I thought it was. The limitations are bad, and, of course, anytime one fellow tries to get it everybody who is in that business objects. And it's --

MR. BARNARD: I think this has been interesting, and I agree this is an example of the site value tax now. When you have a tax freeze like you have in this state and

some other states, what we are talking about then is the phenomena of a site value tax.

MR. PICHARD: Applied selectively to specific tracts.

MR. FARR: Yes that has no bearing on the rates, though.

MR. GAFFNEY: It's an assessment freeze only, that's right. The rate is applied to every other piece of property.

MR. DORAU: That's just opposite to rationale of urban redevelopment, isn't it, where we justify it right down in the land value on the grounds that the increased investment in the structure exposed to the tax would produce enough additional tax to amortize it right down and a return on it right down --

MR. WOODRUFF: That was the golden triangle philosophy in Pittsburgh.

MR. GAFFNEY: You have got the same raw materials, and you put them together a little differently.

MR. DORAU: Here we write down the value of the land, purchase price at which you can get it, and we justify this by saying the building he is going to put up is going to be so exposed to taxes that the relevance from taxing the building will amortize it right now and pay the return on it during the period.

MR. BARNARD: You would be right only if that applied to the full economic life of the building which it does not. It only applies to the first seven years. Then we recapture what we have lost by the remainder of the life of that building.

MR. DORAU: I grant that. A simple comparison would be on the same terms for the same years.

MR. GAFFNEY: If you have to subsidize people to pay their tax, you don't have much. Under the site potential system you could raise the tax level first and then freeze it at that level, and then they would still have an incentive to go ahead.

MR. FARR: I wonder what this incentive then would be to build a building such as the one down the street already. You are going to be confronted with an increase in taxes, that we know. We are going to continue to pay our policement and firemen and school teachers more and more money.

At any rate, we know perfectly well that our tax rates are going to have to increase. In spite of what we can do, we are going to struggle with it anyway.

MR. BARNARD: You are wrong. What we do know is that at the end of seven years the owners will renegotiate for another tax freeze.

MR. WOODRUFF: And get it.

MR. WIESLER: I think that's because this is a bank there is something in the charter of a bank that -- I know they already know what their assessment will be, and they have to set funds aside in reserve funds that would be equivalent to the additional taxes they have to pay, and this is part of the banking laws somewheres.

MR. FARR: But the bank doesn't own the building.

MR. WIESLER: They still have to set the funds aside, because they have to know what their assessment will be.

MR. DORAU: That's being done in many other areas.

MR. GAFFNEY: We probably had better turn back. Point No. 3 here spells out a few of these things. It distinguishes environmental factors from owner control factors and under site potential environmental factors are what you tax and owner factors are what you don't tax.

Now, the things that the individual controls are listed here. The building, he can change that. The ownership, he can change that. The use he can change within the limits allowed by zoning. And the intensity again within the limits allowed by zoning.

Now, the things that are outside of his control which are not taxed are the zoning itself insofar as that is a determining influence on land value, neighborhood land use

which is a paramount influence, public works and the total supply and demand value in the land market.

These things the individual cannot control; these things either benefit him or work at his injury without it being to his credit or his discredit as the case may be without his contribution or subtraction. And so if we tax these things, we are not discouraging him from doing anything in the way of improvement that we want him to or that the market directs him to do, I should say, because, basically, this is a means of permitting consumer sovereignty to prevail without the intervention of a tax which is biased in a particular direction.

Now, then, there is the plottage problem which falls in a twilight zone, and we better not get off on that again. But it is noted here that to some extent the individual owner controls the boundaries of this lot and can alter them and to some extent he is trapped between his neighbor and has a hard time making this alternation. This will be interesting and certainly worth the trouble.

Now, Point 4 there, that's a little bit of economic theory for the benefit of some of my more academic colleagues that we didn't get to very much. This old debate has been ranging in the economic journals for many decades between the marginal analysts who feel that they have a way of unscrambling the omelet and permitting contribution to

particular imputations and those who say it cannot be done or perhaps unsympathetically interpret because they have discredited the process of analysis itself. That at any rate is something more for the theorist.

At this point I would like to break in and introduce Dr. Arthur Becker who has just joined us from the University of Wisconsin Milwaukee.

Now, the question of separating the value of the site from the value of old buildings is something we discussed at this conference or at some preceding one at some length. The position that I have taken there is site value is what's left after a good fire. And like the oriental philosopher who discovered that he didn't have to burn down the building to roast a pig, after several tries, we too do not need to burn down buildings to find out what the site underneath would be worth if the building did burn down.

And Bill Nelson who is a Planning Consultant on Farwell Avenue tells me that every site on Farwell Avenue that doesn't have an apartment building on it has an imaginary apartment building on it and is priced accordingly. This process of building models is not only something engaged in in classrooms but is very much in the imagination of buyers and sellers in the market.

MR. DORAU: It's the highest and best use -- hypothetical highest and best use.

MR. GAFFNEY: Hypothetical except that somebody is willing to put their money in.

MR. WOODRUFF: An owner comes to an appraiser and says how much can you afford to pay for a piece of land? We build a situation and work backwards. This is a technique that we use constantly.

MR. GAFFNEY: One big difference here, just to jump ahead a little bit, the site potential under the system of site potential taxation would be quite different than what it is under the present system of real estate taxation because of the fact that say, for example, a high rise apartment would not be taxed; and if a high rise apartment would not be taxed and if the present tax of three percent per annum discounted back to a lump sum at the present is equivalent about to a 50 percent sales tax levied at the time of building which is about the way it works out, then this freedom from taxation would be capitalized back to the land value and the value underneath the -- the value of land which is executed for high rise apartments would be much higher than it is today which leads us to the interesting result that by applying Henry George's philosophy of taxation would we create a large increment for those who owned land in certain areas.

MR. DORAU: Why wouldn't it result in more apartments with lower rents and income be the same?

MR. GAFFNEY: That would occur over a period of

time.

MR. BARNARD: Excepting that normal market breaks would be put on and principally financing.

MR. DORAU: That would prevent it from being overdone.

MR. BARNARD: That is right.

MR. DORAU: Basically that should just invite more apartments, lower the rents and keep land income where it was.

MR. GAFFNEY: But now -- see, what you say is no small thing. This implies enormous building moves to do this, because in the absence of such an enormous building move-- here is a seventeen-unit apartment that costs about $300,000 to build, and it's put on a site that's worth about $40,000 and it's right across the street from a gas station.

Now, if we say that the lump sum equivalent of the anticipated tax on that building are equal to about 50 percent of $300,000, that's $150,000. And if that 150 grand is capitalized back into that land which is now worth 40,000, that is a multiple increase in the value of sites which are suitable for high rise -- this is a low rise apartment that I am speaking of which is a multiple increase in thought land values. You are going to have a lot of building before you bring it back down again.

MR. DORAU: That's what happens in any turn in

a real estate boom cycle. The first fellow builds an apartment, got high rents. And if he was stupid enough to capitalize those rents through the price he paid for the land, he is broke down; you can't do it. He also anticipates that this is what is going to happen.

MR. GAFFNEY: I think your general point is correct, though. But over the long period -- what you say is only true in the shortrun.

MR. DORAU: This is a matter of record. I think it's very close to the center of your conclusion.

MR. TOBIN: There is another factor, and it applies to Farwell Avenue and these apartment sites as well.

You place a site on Farwell Avenue at $10 a square foot say as potential for an apartment house; but if every vacant site has an apartment house on it you couldn't sell it for that price. You are shooting for the one developer that's in it; and when you assess your forty acres for the subdivision, if you assessed every forty acres at that price, you couldn't sell it simultaneously at the market.

MR. GAFFNEY: Somewhere in here you will notice a sword of Damocles mentioned; that's where that comes in. Oh, yes, 6-A, floating value.

Now, the demand focuses on a particular area such as Prospect Avenue along the Lakefront, and it can't make it there because many of those sites are not available at the

prices that these people can pay. And so the demand is spread over a much wider area, and it influences the value of all the land in between the sites that are actually built.

As you indicate, all up and down Farwell Avenue, if all of these sites were raised to the highest and best use and if in addition all the westside sites were raised, and I show you one of the pictures showing how far out on the westside those apartments go, we would have more apartments around here than we could use for some time to come at the price that a builder would need in order to put it up.

MR. FARR: What are these other fellows on Farwell Avenue going to do with their sites there? They are not going to be able to carry them as is. They are going to want to find someone else to buy at a price.

MR. GAFFNEY: Yes, I think you would end up with a most odd pattern. You would have your high-intensity demand focused in a smaller area and satisfied within that area, and beyond that you wouldn't have much float left and beyond there the land would be put at a lower use without this --

MR. TOBIN: This goes to one of the fundamental philosophies of the Henry George School of thought which I have been associated to, which is that invalidity has always been questionable to me, the high land values for sprawl and into less agreeable districts, the subsequent disadvantages of all sorts; I have never seen any real analysis of whether that's

a factor or not.

MR. GAFFNEY: Well, it's the relation of the asking price to the price that a new developer is able to bid, I would say, as high land values might refer to both asking price and bid price.

MR. TOBIN: The asking price is higher, more refined, forcing sprawled development into the less -- further out regions.

MR. GAFFNEY: Yes, and one of the -- if I can introduce a couple borrowed words here, we could refer to the potential use as the challenger and the present use, the old buildings, as the defender. At the present time the challenger is somewhat weighted down by the fact that then when the value engineer takes over from the defender he will have to pay an increased tax bill. If this bias were removed, it would give all challengers an advantage over all defenders compared with the present, accelerate removal and so on.

MR. DORAU: Of course, it's still an open question as to whether an accelerated retirement is economical or not. Look at what we are doing as a national policy. We are with subsidies; we are inducing the scrapping of billions of dollars of industrial equipment. This is exactly what inflation did in post-World War I Germany by inducing the uneconomical retirement of useful industrial capacity.

MR. GAFFNEY: What do you mean by useful? If

I have got an old building which is located on a farm out in the country, it's always going to be useful for something. I can end up storing hay in it. But if it's located on Farwell Avenue, then it gets in the way of a much better building. Then it's not useful in that place.

MR. DORAU: A better building is only one that will earn more on the amount involved. Many a building today is a better investment than what is contemplated in the replacement.

You know we tore down the Waldorf-Astoria; that was a wonderful paying investment and we tore it down and built the Empire State Building and went broke. Then we went uptown and took a marvelous investment and we built a new Waldorf; and before that was completed it defaulted and had to be refinanced. Is that how -- I mean, that's no proof of being better or more economical.

MR. GAFFNEY: It might make a difference, though, whether it could have gone broke if it hadn't had to pay an increment in property taxes.

MR. DORAU: If we put on any penalties we change the point of equilibrium which is the point of choice. We could make any existing building economically so obsolete to the present owners that they be torn down and replaced.

MR. GAFFNEY: That would be going quite far. A good 20 percent or 25 percent of existing buildings are in

the opinion of most people, whatever that's worth, over-ripe for demolition and replacement.

MR. DORAU: You look at it and say out with it.

MR. WOODRUFF: There is a good deal of evidence supporting what you are saying in the reconstruction of Georgetown where there are structures from a hundred to one hundred fifty years old being repaired and put back to the use for which they were built having gone through a number of transitions in between.

MR. DORAU: We assume that a rational person would make his choice as to whether it's economical at a given theme to retire it and replace. There had been some equilibrium between present income, alternative income, present cost or present income, future cost and future income, and that's presumably what the rational economic choice would be. Now, there is no problem about engaging in public policies which will modify that point of equilibrium in either direction.

MR. GAFFNEY: Well, there is no -- I think what you are saying is that the individual economizes within the limits that the public imposes on him by tax policy.

The question here is whether the tax policy as it exists now is neutral. I say it is not. That putting a tax on that new building and not putting an equally heavy tax on the old building is a factor that biases decision and

delays renewal.

MR. PICHARD: Could I raise a question. In other words, the difference between short run and long run effects of site valuation seems to me to be involved in what you said. Your implication was that the market would make a long-run adjustment whereas the site value taxation would be making -- that adjustment would be in the direction of an improvement adjustment.

I am not sure that these are the same things. In other words, if you tear your Farwell Avenue area down, the site value taxation is going to level taxation compared to what it is now so that owners of not improved property -- then owners of property heavily improved will pay less. Where do we go from there? I don't quite see the answer.

MR. BECKER: I don't think there would be any levelling here. You would find that you would have a bigger range than before depending on what the potential value of the site is. I like this point that was brought up a minute ago by this gentleman. The point that you mentioned is one of basic economic law, that the price of anything is set always at the margin as we economists say which means that the value of a piece of land is in terms of what you could put on it, next which is the highest and best use, and next best and maybe the next -- the next best use as an apartment building and therefore you imagine it there. It's the potential, you

see.

But after it's once built, then you come to a new margin. Then it might drop. We don't know.

Then we begin to get into long run. And just what will happen there depends upon many, many factors. It might be that there will be room for another apartment building and another lot would be worth as exactly as much.

If we find that the people who fill up the first apartment building come from the suburbs, let's say they move in, maybe then the total demand for more apartment units or another additional demand for another apartment on Farwell will remain as long as it was before that last one was built.

Now, how far this can go, we don't know. This depends entirely upon, and as I said, many circumstances, the growth of the community, the extent of urban sprawl, how much population pressure there is there, the attractiveness of Farwell as against other alternatives; these are the things that we really can't absolutely predict.

But the point I think is good that I made. Namely, that we can be sure that there is a high value for a piece of land permitting it to be put to a high use like an apartment building, only for at least one more unit; if we get that one unit up, then our whole framework begins to shift a little bit, and whether it will hold up for the next site

to be put at an equally high use is a question. That's an open question yet.

MR. DORAU: All of imputed price and imputed values.

MR. BECKER: But we do decide values on the margin.

MR. GAFFNEY: They are pushing me to get this show on the road. So, I guess I had better move ahead here.

Point 4-C, relation of land value to street improvement costs. In some areas I think it would be fair to say that the value of the lot isn't more than putting in the street improvements, but, of course, that would be way out in the boondocks.

Now, we have a study of a site closer in which Mr. Downing and I made on the Milwaukee Downer College campus. There we figured that the street improvement costs, if it were subdivided for residential purposes, would come to about $2,000 a lot and the lot would sell for about $10,000.

Well, as it turns out, the whole parcel sold as a unit for another purpose at a higher value, but this is what we figured at the residential basis.

Now, if that had been done, I think it would be fair to say the only thing you could call land value if these street improvement costs were paid for by the private owner would be an $8,000 excise of the selling price over

the $2,000 street improvement cost. There is some danger of confiscation here, if we get carried away.

MR. DORAU: Just take that notion and extend it to the entire issue. Don't forget to extend it to all costs; that's where the English Land Value Study I am referring to would give us a lot of insight.

MR. GAFFNEY: Your site values would be in the middle. They could go negative and the case of miscalculations.

MR. DORAU: Just lots and lots of land isn't worth it.

MR. GAFFNEY: On this point, Mr. Downing has pulled together some more figures for me which I am going to ask him to present now on outlying values of land and buildings together as compared with central values.

Now, let me say that in our study of land values alone, the things that we have on the map over there and the things that we have on the contour map over here we find that the outlying values differ from the central values; the highest values are about $30 a square foot along Wisconsin Avenue by a factor of about 1200 times which is to say that two and a half cents a square foot which is up in the northwest corner compared with $30 a square foot is a difference of about 1200 times.

Now, we find that the equalized value of land and buildings together does not vary by nearly so large a

factor. It's more like seven or fourteen times or something in that neighborhood.

MR. FARR: Roughly twenty percent in land against the over-all value.

MR. GAFFNEY: Which would suggest --

MR. FARR: That's my personal figure.

MR. GAFFNEY: In the central area the land value component in real estate is a much higher percentage than it is in the boondocks.

MR. BARNARD: That's everywhere.

MR. FARR: In the suburbs it's a pretty uniform figure. In the suburbs you have to add the cost of your improvements, sewer, water, paving, sidewalks, street improvements.

MR. GAFFNEY: Well, now, if this doesn't come as news to anybody, we might dispense with it.

MR. DORAU: That goes as a simple fact. You can get that by observation.

MR. GAFFNEY: Now, this I might say doesn't just apply to individual improved lots; it applied to the whole mess out there in spite of the fact that most of it is vacant, but the few buildings that are out there make the whole difference.

MR. FARR: When it comes to certain types of commercial buildings, the balance has been half of the land,

half of the improvements.

MR. DORAU: One to one.

MR. FARR: But on residential, one to four.

MR. WIESLER: I would say that that relationship is with new buildings now being constructed. The land to building ratio is about one to two.

Take the total sales price of a new house on a lot, $18,000, $6,000 in the land and $12,000 in the house. This is the current ratio in competitive class housing.

MR. WOODRUFF: That is pretty high.

MR. FARR: Your costs may be lower then, than they are in other areas.

MR. WIESLER: The ratio in 1957 and '58 was one in four parts, but this has gradually been getting higher; the land is -- large portions of it sold so that now it's a token, this one to two.

MR. GAFFNEY: When you say land value there, though, you are including the thing I said I was going to rule out, that part of the value of the land that reflects the cost of street improvement.

And one of the reasons land values are higher in the outlying areas, it's higher because we are requiring more street improvement.

MR. WIESLER: What are you going to rule out?

MR. GAFFNEY: Just the cost.

MR. DOWNING: What we have tried to do is determine whether the City figures what they charged the individual person for putting in sewers, street, gutter, sidewalk, according to the City engineers' rates.

MR. GAFFNEY: The result of these considerations, combined considerations, would be, I think, the conclusion that the result of site value taxation would be to redistribute the tax burden appreciably from the outer fringe to the inner part of the city.

MR. FARR: What would be the effect of the street improvement to the land value? Would that be added to land value, or would the land be the bare land?

MR. GAFFNEY: Be the bare land if the improvements are paid for by the land owner. If they are paid for by the City, then you have got, of course, a different statement.

MR. FARR: Who is the City? The City is you and me; we pay for the City.

MR. GAFFNEY: That's different. That's collective.

MR. TOBIN: I think it's trouble to guess figures one way or the other. What Mason's statement was is absolutely correct. In downtown Chicago in the Loop, land and buildings are each fifty percent in total.

MR. FARR: In commercial buildings it could be

as much as fifty-fifty and the residential, twenty-eight, one to five, perhaps, or one to four.

MR. TOBIN: If you carry your doctrine out all of a sudden, I have seen studies on this, you are making a great redistribution in the instance of taxation. You can't sidestep the fact that it's an economic revolution if you did it all at once, and I am not saying that it could be done all at once.

MR. GAFFNEY: With the extraordinary turn here that the area received this increment in tax burden would also develop itself most rapidly, because the tax would serve more as a spur than as a penalty.

MR. TOBIN: That I question.

MR. DORAU: I do, too. I don't think that follows.

MR. GAFFNEY: It's just the difference between a fixed cost and a variable cost. The difference between the margin --

MR. DORAU: What is the difference whether I pay $2,000 for the lot and let's say have no taxes or I pay $1,000 for the lot and pay $50 a year taxes at five percent capitalization.

MR. GAFFNEY: The difference is when the time comes --

MR. DORAU: I have got an investment and an

annual charge there.

MR. GAFFNEY: The difference comes when I have to make the decision whether to build a twenty-story building or a three-story building, whether to build a beautiful building or an ugly building.

MR. DORAU: Lower capital costs or higher running costs or the reverse. We can split some hairs and say the financing program anyway in which the bond and mortgage market using this and so on makes a difference one way or the other, but --

MR. GAFFNEY: It's not splitting hairs.

MR. DORAU: What's the difference?

MR. GAFFNEY: Because that charge which is contingent upon my putting up a twenty-story building I can avoid by not putting up a twenty-story building. But that charge I have to pay because I will not build on the site I cannot avoid. It's a fixed --

MR. DORAU: It's a fixed cost. A cost that at least has to be renewed in ten or twenty years or so can get a second chance.

MR. GAFFNEY: Does it make sense? It doesn't matter how heavy the tax is. The tax could be heavy enough to confiscate the full value of the land not that that is what is implied here or I am advocation but it could be.

The thing is how the tax changes when I do some-

thing economic. If I can make that tax change by building or by not building, then that will have an influence on my decision. But if I can't get rid of that tax except by selling, of course --

MR. DORAU: No, you can't do it that easily, because the other fellow is not dumb either.

MR. GAFFNEY: If I sell the land, it's not going to walk out of town; it will still be there.

MR. DORAU: In other words, it's a sunk cost.

MR. FARR: Take the case of say I happen to own a piece of land that I paid $50,000 for and I billed a billing on there costing four times as much, $200,000. I carried that -- I am too old to do this, but I mean, in my younger days I carried that building until I have written it off; in the meantime, that area has increased in demand. My $50,000 lot is worth $200,000.

Is there anything wrong with that if my intentions for building the building was number one for income, number two gain and number three depreciation write-offs against my income tax? Is there anything wrong with that? There my $50,000 becomes $200,000.

MR. GAFFNEY: If you can get something for nothing without stealing it from anybody else, I think that's wonderful.

MR. PICHARD: Isn't the real question how would

site value taxation compare with the taxation you pay?

MR. FARR: If the site value were $50,000 and I keep it for twenty-five, thirty years and it went up to 200,000, who would have the right to increase that site value?

MR. TOBIN: I think your site value at the start would be higher than $50,000, because by your supposition it was your right to build a building on it and the building was free of taxation. Your land value would go up.

MR. FARR: I will make it a million dollars, if you want but I didn't -- I did have as much as that at one time, but I am talking about incentive. Of course, the whole philosophy of the Henry George theory is incentive to improve.

But is it the proper incentive under our present economy? I am just citing a case of -- maybe this Boyd's lot that we paid $50,000 for, I don't know. There is certainly an advantage in buying a piece of property and improving it for commercial purposes and carrying it for a certain period of time and then all of a sudden gradually over a period of years that site increases in value. And in our urban economy, those things happen. They happened out in the suburbs, too.

MR. GAFFNEY: Are you saying you approved that land because it was rising in value or because it was going to

rise in value?

MR. FARR: Because the neighborhood in my opinion was improving.

MR. GAFFNEY: Because the neighborhood, yes.

MR. DORAU: They are not only built sooner but bigger and represent the bigger investment, because piecemeal construction being impossible and impractical you anticipate the future --

MR. GAFFNEY: Yes, but what you are anticipating is during the life of the building you will get a reasonable -- cause you to sell the land for a gain rather than at the end of the period.

MR. FARR: But the building will be written off during that time. The building will not be compatible with the neighborhood at that time.

MR. PICHARD: What would happen if you weren't taxed on the building; you wouldn't have any reduction in the taxes and probably an increase if there were sales in the neighborhood which reflected the land value.

MR. FARR: Would any $50,000 land value be increased gradually; would the assessor keep increasing my land assessment?

MR. DORAU: If it were one to one and you got a reduction of $25,000 and an increase of $25,000 there, what difference would it make?

MR. FARR: I can't conceive where an assessed value would continue forever at the initial rate; there has to be some justification for an increase in land value if there is an increase.

I don't see the advantage to me. This isn't an exact example, but I have had one or two situations similar to this.

MR. BECKER: Your point as to the relationship between the land value and the improvement on the site, I think we have to keep in mind that while there will be a tendency perhaps for that -- your land to rise in value because it has a new building on it, we know very well that the value of a piece of land, however, is not established by the specific building on that piece of land alone.

It is determined by many other factors, environmental factors; therefore, you would not find the value of your land rising anywhere near as rapidly as the increase in the value of the building you put up.

MR. FARR: The building as being written off; the building in thirty or forty years will have been -- will become obsolete.

MR. GAFFNEY: You better get ahold of me afterwards and try to explain this to me. Frankly, I don't quite understand it, what you are driving at, but maybe you can tell me later.

MR. BARNARD: I see what he is driving at, but I think it's one of those things that's not going to be settled. Let's go on.

MR. GAFFNEY: Right. Now, as to that, we have already talked about this to some extent at least. That's what all this mapping is about.

MR. MOLEY: What does the word cadastral mean?

MR. GAFFNEY: A map of land values.

MR. MOLEY: If we come back to this Farwell question, and there are several lots that are occupied by high rise apartments and there are several other lots, if you are going to take all the same, in other words, a high tax on all of them, wouldn't that drive down the value, the selling value of the vacants lots and therefore a high tax means a lowland value; isn't that the rule in economics?

MR. GAFFNEY: You are right. But I think I am guilty of spilling half the pot of beans and not the other half. To begin with, if you delayed the shift to site value taxation, the fact that you take the tax off the building will be capitalized into the land value and then at the end make land value higher. By then you are going to take that higher land value as the tax base, and that will be capitalized down so it will come back down again.

MR. MOLEY: So the fellow who has the unimproved lot will get rid of it because he doesn't want to pay the high

tax. Therefore, he will pay a lower price for it and the fellow who gets it won't build a very good thing on it.

MR. BARNARD: As those values drop as a result of this, the assessor is faced with the dilemma of his tax base, because he cannot assess higher than the value of the land.

MR. GAFFNEY: More owners will be willing to sell; but by the same token or at the same time more buyers will be willing to buy.

MR. BARNARD: What is the incentive to buy now that you have all the tax on land? What is the incentive to buy land?

MR. GAFFNEY: The developer who wants to put up an improvement that at present would be highly taxed -- he is going to be more anxious to buy than he is now.

MR. FARR: How many unimproved sites are there in Milwaukee?

MR. GAFFNEY: Well, according to the standard of the neighborhood half the sites are unimproved.

MR. FARR: Is it 50 percent citywide?

MR. GAFFNEY: No, we are talking about something different. This Farwell Avenue stuff isn't vacant. None of it is vacant; it's just that you have got high rise apartments and low rise apartments next door to old buildings that should be used for chicken coops.

MR. FARR: I am trying to find this lot that Boyd wants to buy and build on. I think there are a lot of them now in Milwaukee.

MR. WIESLER: Oh, yes.

MR. FARR: When is the supply going to be exhausted? How many Boyds do we need; who is going to carry the inventory in the meantime?

MR. DOWNING: Technically the supply will never be exhausted, because as long as there is a demand somebody is willing to sell even if he has to tear down his building to do so.

MR. WOODRUFF: One fact is that the supply is artificially controlled by zoning, and there would be no more land available for apartment construction unless the zoning is changed. That's my first point.

My second point, a certain amount of land on Farwell Avenue is in fact improved apartment houses. Now the drift of the conversation indicates and clearly that if all of this land was forthwith improved with apartment houses it would simply spoil the market and the revolution would have eaten its own children.

Now, there is a whole lot of land there, then, which is in this transitional state which we appraisers have been talking about on and off all along, and it would be fair to impute to it the highest value which it could develop if

improved. Therefore, you would be faced with a concept that would be very troublesome to an assessor of applying different values down the street depending upon improved and potential land.

And if you applied to the potential land the highest value, then all these various different things which we have been speaking of would happen. I don't think the market would sustain this, and I think that this, in fact, would mean that you would plug in on various points on this rising curve. I think it would be an awful job for the appraisers. I can just think of all the nice fees we could collect fighting cases.

This brings us to Item 6.

MR. WIESLER: It looks to me like it would put an ever-increasing premium on the more desirable sites. The more desirable sites would become more and more desirable whereas the outlying areas would become less desirable.

MR. WOODRUFF: Yes, I think it would have a compacting effect.

MR. DOWNING: If this is carried on in the Prospect-Farwell area, you might find that those comparatively vacant spots in between the high rise buildings actually do have the demand, because the demand will be pulled in from the outskirts of the city.

MR. MORRIS: What are they going to be used for?

MR. DOWNING: Probably used for apartment buildings.

MR. MORRIS: Then there ain't no more use for the apartments; isn't that what you said, Arch?

MR. DORAU: You would have empty houses.

MR. GAFFNEY: Well, you would go so far and reach an equilibrium.

MR. MORRIS: I learned something from you in your piece with the Agricultural Department or whatever it was. That is that the subsidies on farmland cause the land to go up. Also that it taxes on land, the higher the taxes the lower the-- you drive people out; isn't that the whole purpose of land value taxation, to compel people to do something about the land, get off or improve?

MR. DORAU: How different would I be if I own it at a given time, you come along and sock me with $50 for taxes; now, then I can either absorb my loss, capitalize the $50 or I can go on as I am and pay the $50 and in simple mathematics, no hits, no runs, no errors. I am as badly off if I own the land when I am socked with the tax; there is no way of mitigating the circumstances.

MR. MORRIS: Sell the land.

MR. TOBIN: Except as a landowner you have got an opportunity of building an improvement on that site, and your taxes don't go up.

MR. DORAU: At the same time I have accepted the amortization; I paid my dues. I have lost -- that's right, no hits, no runs, no errors.

MR. LINCOLN: You are making an assumption that your tax would be exactly the same. You would either have a raise or lowering of tax.

MR. DORAU: Do we accept the proposition that the fellow who owns the land when the tax is increased capitalizes or amortizes the increase and takes the capital breakdown; I mean, are we accepting that?

MR. TOBIN: Not if -- this goes to the heart of this site value taxation. If he has the opportunity to improve his land, he can't build a building.

If he can improve it with a building, then his taxes are still the same; he's got a big break.

MR. GAFFNEY: What we have usually done in our textbooks is talk about tax capitalization. We say that if the tax on land goes up and everything else remains constant we don't change anything else, then sure the value of land goes down. But that never happens in real life.

We can also say if you get rid of the tax on buildings and everything else remains the same the value of land could go up, but what we are doing is doing both things at the same time, taking it off the building and putting it on the land. And one factor will tend to make values go down,

and the other factor will tend to make them go down; there is a redistribution.

MR. DORAU: That is meritorius as such.

MR. GAFFNEY: Oh, no.

MR. DORAU: Any change of the past system will cause a redistribution, and somebody is going to get a bonus out of it.

Any old tax is a good tax, because we have adjusted to it. The values have adjusted to it. The water has found its level.

Now, we start jiggling again, and we are going to get differential results.

MR. TOBIN: You are jiggling it all at the end by all kinds of social controls, the principal one which is zoning.

MR. DORAU: Oh, yes. We are arbitrary; we redistribute things everyday.

MR. GAFFNEY: Well, let's jump on to this floating value problem, if we might, because this is a pretty interesting one. I do think that in a sense we are playing with dynamite here.

Now, some people have said that taxation is a relevantly minor element in the cost of buildings; so, it doesn't make too much difference what we do with it one way or the other. I don't believe that is correct.

It seemed to me that when you do convert this annuity to a lump sum and discover that it's worth about 50 percent of the building cost at the time of building, that is a pretty potent factor and that the removal of this burden or the imposition of the burden as a fixed charge rather than as a variable charge would have quite a potent effect in accelerating removal and intensifying the use of sites in premium areas. Not everywhere, but in premium areas.

We then are faced with this problem, will we get over-building? Depending on what that means.

Mr. Dorau has pointed out that we will get additional building so that we will bring down rents; but, of course, the builder can afford lower rents now that he doesn't have this tax burden. So, this isn't going to stop him from building; it's going to pass the benefit on to the consumer.

MR. DORAU: Somebody is paying the additional tax money, because they are not going to cut the spending.

MR. GAFFNEY: That's right, but it is paid in a way that's not a burden on the construction.

MR. DORAU: So we are asking in effect that somebody endow the difference; that's all it amounts to, isn't it?

MR. BARNARD: I think you are asking the owner of the vacant ground to confiscate himself.

MR. GAFFNEY: Now there I disagree with you. Now in the short run, I mean to say tomorrow, it looks that way. The owner of vacant land is going to find himself with a higher tax bill, but in this vacant land --

MR. WOODRUFF: Certain vacant land.

MR. GAFFNEY: Certain vacant land. If this vacant land is located along the east side of Prospect Avenue, this high rise apartment area, then although he is going to have to pay a higher tax, he can sell also for a higher price to developers who will put up a high rise apartment there which will not be taxed. So, he's not going to lose the value.

MR. TOBIN: The first fellow can, but the second fellow can't.

MR. FARR: That's right.

MR. TOBIN: The first fellow can and maybe the second fellow can, but the third and fourth fellows can't, because the demand for apartments will have subsided, will have been filled in that area. It's a fact.

MR. BARNARD: That is what is bound to happen, you see. At least I think so.

MR. TOBIN: That to me has been the whole big $64 question in site value taxation. It's always bothered me.

MR. GAFFNEY: Well, if values are affected, it will not be through direct confiscation, through taxation. It will be through the encouragement of new building and the

resultant reduction in rents and the price of buildings which will through competition reduce the value of existing structures.

MR. BARNARD: That sounds great, but you have still got to have the same amount of tax money, and somebody has got to pay for it. Who is going to pay for it?

MR. FARR: The Edgewater Beach Hotel has been the development along there. This has been about forty years now, and I would say the available sites have been perhaps twenty-five or thirty percent have been used.

Now, you multiply that by three, that would be 100 percent before those sites would be absorbed on the basis of our present schedule of development.

MR. WOODRUFF: Well, those vacant sites then are well along the potential curve.

MR. DORAU: That seems to go to a subject that doesn't even -- that's an awful recognition of all the social costs that enter into it, if you are going to play that ball-game. And along with them certainly is the unavoidable, the necessary cost of carrying vacant land. Who is going to do it?

Here somebody suggested a stockpile for a city. Let the city buy it and hold it and see whether that's a costless experience. The way it's diffused among the people who are willing to take the chance for maybe a million, maybe a gain, somebody is going to clean up, you know; and when you

offer that kind of an Irish sweepstakes proposition, the fact is you get the willingness of people to do that at the lowest possible cost at which it's exhibited anywhere, to-wit, Adam Smith on the lotteries, remember?

Nowhere will you get as cheap a performance of economic function as when there is a great big potential prize even though the probability of getting it is mathematically almost non-existent. Here we have individuals performing this function.

MR. GAFFNEY: This is where the performers create in large part a need for the function.

MR. DORAU: We can't overnight go into a program of utilization here. This unavoidably takes time.

MR. PICHARD: Well, taxes are sufficiently high to cause a change under site value taxation -- vacant land particularly if this proves to be sensitive to the higher tax and therefore regresses in value.

MR. DORAU: The point I was after was that if we are going to go on a cost basis for appraising this, then it's recognizing all the social costs involved; that doesn't merely mean curbs and sidewalks and street improvements. That means all the economic sacrifices that are unavoidably necessary in the performance -- in the evolution of these uses.

MR. GAFFNEY: I don't think much of this really is unavoidable. Now, when a man holds a big piece of vacant

land off the market to see what is going to happen, waits ten years until the rest of the neighborhood develops, he creates uncertainty which forces uncertainty elsewhere.

MR. DORAU: The only way you get a consensus in our free society.

MR. GAFFNEY: Oh, there might be a better way than that.

MR. FARR: It doesn't hurt him, because he is in a high income tax bracket.

MR. WOODRUFF: I wonder if it hurts society.

MR. FARR: That's what worries me.

MR. WOODRUFF: That's what bothers me both ways. In the large the speculator performs a very valuable service out on the fringe. This is the contribution of the speculator.

MR. GAFFNEY: What does he contribute; does he keep it from blowing away?

MR. WOODRUFF: No, he provides you as the farmer-owner an opportunity to sell if you want to, sell prior to the time -- subsequent to the time the land rises above the agricultural value and prior to the time when it can be sold for its potential; this may be ten, fifteen, twenty years.

MR. FARR: He keeps it from improper use in the meantime.

MR. WOODRUFF: This is the one that bedevils me a lot more than those points which Herb was raising.

MR. GAFFNEY: Has he been hearing the mess we have got up here?

MR. WOODRUFF: Is it a mess, and if so, why?

MR. LINCOLN: If you don't believe it, just drive around Los Angeles.

MR. MORRIS: I think he gets too much.

MR. WOODRUFF: Well, Ray, somebody --

MR. DORAU: Anything else has a chance.

MR. WOODRUFF: Somebody makes the profit between what land is worth in Fairfax County right around my house for farming which is $500 an acre and what it's worth for development which is about 5,000.

If there were not speculators in the market, the owners would sit on $500 land until it got up to 5,000. The speculator comes in there at 1,000, 1500, 2,000, various other points as the thing gets closer and closer to coming ripe and provides the present owner with an opportunity to get out.

In other words, the profit between 500 and 5,000 gets divided up in a good many hands instead of all going to one.

MR. DORAU: He's not guaranteed that everybody else could have bought at the same price at the same time.

MR. WOODRUFF: This is a digression, an interesting one, but it is a digression of the point that we were

on before, it is some contribution in holding this land out from development for awhile.

Yes, there is, because if all the land was developed simultaneously it wouldn't be worth anything.

MR. DORAU: We would have made 99 percent mistakes.

MR. WOODRUFF: On the other hand, obviously to me as a so-called city planner of sorts, the resultant development in Los Angeles is not the most ~~ascetic~~ esthetic or desirable that could be contrived. But -- to what extent this has resulted from holding off the market certain tracts of land while others have gone on is to me a completely unanswered question. I just don't know.

MR. DORAU: I come to conclusion that the mess that they have out there is due to the rapid, disorderly development. You could come to this conclusion just as easily.

MR. TOBIN: Herb referred to the British applying a solution of this difficulty by letting the forty-acre farm remain as long as it was agricultural or remain at tax as agricultural value. But it was sold to the speculator; the capital enhancement was taxed in one sweep, and they gave it up.

MR. DORAU: That's their system. We are every year taxing the increment. We tax all this capitalized value of all the anticipation, and we do not every year -- the way

I see it, you are taxing this value every year. And many of the anticipations are wrong, and you are collecting an awful lot of money.

Over in Europe there, we only get a crack at it at the time when the transaction or change takes place. It seems to me you are doing a lot better.

What do you want to look at our system for?

MR. GAFFNEY: Excuse me a minute. Our assessor has been trying to get a word in here.

MR. WIESLER: I think that we assessors have to recognize just what this gentleman has mentioned, that there are uses of land between farming and residential subdivisions and assess it accordingly.

MR. WOODRUFF: They weren't uses; they are values.

MR. WIESLER: Isn't speculation a use? It exists.

Let's find a better name for it that will be more acceptable.

MR. DORAU: All value is futurity. Why dodge it.

MR. WIESLER: That's right. I think the -- if the assessor did his job and just followed the market with these lands, that a great deal -- I mean, if that forty acres that lie in the center of that aerial photograph is going to

be valued as farmland when everything around it -- I don't like the value of farmland; this implies that farmland value is something fixed and that everybody can tie things to it. It isn't.

But, nevertheless, it's valued at something considerably less than what the adjacent subdivided land is. He's given the choice of holding it forever and waiting to see -- if he was assessed on the same basis as everyone else, his choice would be reduced somewhat.

MR. DORAU: It isn't as low as it is because of the competitive appraisal.

MR. GAFFNEY: If we start out in that area, we are going to start with a mess and end with a mess, because that area is a mess. And the solution that I have tried to come to to this problem is to start in the middle.

Now, we have got a mess there, too, but it's a little more orderly. There is such a thing as a hundred percent location, and there are different areas of focused values, areas that seem to be more desirable than other areas; and the modification of the site value taxation program that I have been moving towards in this outline is an incremental approach where you would define a central area and apply the idea there and then move outwards never getting out to the area where that photograph was taken until such time as compactness and development got out there in considerable force.

The value out there now would consider quite largely of improvements and houses. The site potential as such is negligible. If there is any there, we can afford to ignore it.

Before getting into any more detail on that, though, I would like to suggest a more optimistic viewpoint expressed in Item B at the very bottom of Page 2 as to the positive aggregate effects.

We have been talking about dumping all this on the market. I would like to look at the other side of that for a moment, namely that you would stimulate building.

The construction industry is a big industry; it uses a lot of capital. Returns on capital would go up, capital would flow into the area from outside, the population in the city would increase, the economic base would increase not only through the process of construction but through the production of the things that were built particularly factories.

One thing on our study shows, but it is certainly true in Milwaukee, that the heavy industry, that is our major economic base, generally speaking has a very high ratio of building value to land value.

Now, it's considered a physical surplus use. We are always glad to have industry because we get more money out of them than they cost us. But by the same token we are driving them out of town or we are discouraging them from

coming into town.

MR. DORAU: You sure can subsidize them.

MR. GAFFNEY: Right now we are doing the opposite of subsidizing them. We are treating them as a physical surplus use. We are getting more taxes out of them than they get service out of the city.

MR. DORAU: You can't assume that.

MR. GAFFNEY: Well, I assume I can't assume anything, but -- that is about as good as anything.

MR. DORAU: Take industry in New York, the cleaning and suit bill that they impose on us; I mean, just to mention something --

MR. GAFFNEY: Well, we have got nice clean industry here in Milwaukee, and the main thing it imposes on us is our livelihood. Without this we haven't got anything.

We have got a pretty poor location here compared with some other cities. We have got some very enterprising businessmen and some very good industries, and they have to stay sharp, stay competitive in order to exist.

MR. DORAU: Then the other fellows do the same thing, these subsidies; and so when everybody does it, then how much better off are you?

MR. GAFFNEY: California has managed to pull population and industry and capital out of all the eastern states without inducing much of the response. So, I don't

think we get an immediate -- it's not like competitive evaluation of currencies or something like that where you get an offer; the game takes a lot longer than that.

MR. MORRIS: Mason, you made a contribution here under C which is over on the top of Page 3. That is very interesting to me. I would like to hear that discussed.

MR. GAFFNEY: Well, yes, that's what I am working up to. Now, I am suggesting that train of thought which is quite conspicuous among those who preach in favor of the single tax that we should start at the outside.

Now, it is true that out in the fringe areas is where we have some of the most flagrant examples of underassessment of valuable land. I would suggest, however, that that land has value primarily because the better located land is not developed.

MR. MOLEY: In the center.

MR. GAFFNEY: Yes. And if we developed it in the center, we will pull the rug out from under a considerable part of this outlying area. Not all of it to be sure, but some of it.

And we can't really know the factors involved here; they are too far beyond anyone's grasp.

I don't think -- it's hard enough to predict what is the highest and best use of a site. If you start to predict what's going to happen to a whole city if you made

a change in the tax system, you wouldn't be able to do it. So, therefore, it seems to me somewhat more workable to begin at the center and set up a zone.

Now, the legal process by which this might be done is something I am going to talk to my lawyer about. I'm not sure that I have the answer to that.

I have two or three suggestions here. You could set up a special district, call it a synchronized removal district in which the landowners would accept a higher fixed assessment in return for an assessment freeze. They would in effect bargain with the other property owners in the city and say we are going to take a chance.

We think this system -- they wouldn't say this to the others in bargaining -- well, this system will help us more than it will hurt us. We will take more but at a fixed level so that we can improve our land up to what we can see the highest and best use and our assessment will remain frozen at that level that we bargained for to begin with.

And you could begin with a small area. And as you saw what you were getting in that area, then you could move outwards a ring at a time or a district here, a district there. In that way you would have a small experiment, too small to be disasterous if it's a bad idea, small enough to be a good -- good pilot plant if it's a good idea. You gain experience; you gain confidence, and then you could move

outwards. You would see what you had.

MR. TOBIN: Would you freeze on the basis of land values or land and building values as they are?

MR. GAFFNEY: I would much prefer to freeze on the basis of land values.

MR. FARR: That would require an amendment to the Constitution in Illinois.

MR. WOODRUFF: One thing that is known in detail, that is the whole level of taxation in Australia and New Zealand is very much lower than it is here; and, therefore, the impact of the changeover presumably would be somewhat dampened by smaller numbers.

But this is one of the fascinating things to all of us who are fooling around with this; we just don't know enough about what has happened.

This has been going on since World War I. They have had some rather recent shifts, communities have shifted over particularly in New Zealand.

MR. GAFFNEY: Sidney has been on it for a long time.

MR. WOODRUFF: That's right, Sidney has been on it for a long time. One of the things we want to do, obviously, is to make a comparison between some cities in Australia that have had site value taxation and another city that hasn't and by the same token compare what has happened

in Sidney with a city in the United States somewhat parallel with Sidney in other characteristics and see if we can draw some valid conclusions. This all lies in the future.

MR. PICHARD: Is Pennsylvania the only place that it's had the graded tax?

MR. WOODRUFF: You might as well forget that, because the impact of the graded tax in Pennsylvania is so darn small nobody has been able to sort out the effect of site value taxation in Pittsburgh. They fooled around with it.

MR. PICHARD: Now, the other question, aren't there some Canadian communities that still have site value taxation or are those all gone?

MR. GAFFNEY: Jerry, you published the study --

MR. PICHARD: I didn't get up to Canada.

MR. DORAU: I think Vancouver has something.

MR. PICHARD: Somebody told me there are some in Alberta that now have it. This could probably be determined by writing to the Commission of Assessors. I think these are smaller cities.

MR. GAFFNEY: The experience in Western Canada is one of the reasons I have been kind of cautious with jumping into it with both feet. One of the problems in these areas and one of the reasons why I think the system was abandoned there was that they took a large area something like

the City of Milwaukee area and applied the system over the whole area and then did get overdeveloped and land was abandoned for taxes and all this sort of problems.

MR. WOODRUFF: You can get overdevelopment without this, Trenton, New Jersey.

MR. GAFFNEY: Maybe the zoning idea here would be unconstitutional.

MR. FARR: I am merely speaking of Illinois.

MR. GAFFNEY: That's right. Every state would present a different problem, but since zoning has been held to be constitutional and since zoning affects land values and since the State Legislature can permit us to tax property and assess land alone if we want to in Wisconsin, and I suspect that goes for many, many states, we could use zoning.

We could coordinate assessment with zoning and set aside areas, pretty restricted areas, I would say to begin with. And say this area is zoned for central business district use and it is going to be taxed accordingly. That would be your redevelopment.

MR. BARNARD: Providing that that assessment would not be greater than the market value of the property.

MR. GAFFNEY: Well, that's right.

MR. BARNARD: You are still confined to that.

MR. GAFFNEY: That's right. And I accept that contraint. I don't think that would be a problem.

MR. BARNARD: Because an area is zoned a certain way and you want to exercise this theory. That will not give you the power to raise assessments there in that zoning unless it's in conformance with the market value, and the presumption is that it is already assessed at its market value.

MR. WOODRUFF: Absolutely a basic matter here in what he is saying at the moment. And it's clear as crystal that the tax system can be used to bring about social ends determined desirable by those who have in their power the manipulation of the tax system, and this is exactly what he is speaking to at the moment.

Now, the tax system can also be used to raise revenue, and in theory at least the property as they have it should be a land tax not affecting appreciably the three place of force in the market although we know this isn't the case.

We are talking and have been now for the last hour about a system of taxation designed to bring about social ends determined desirable which, of course, then raise the question of who deems what desirable and how desirable are they, but beg that one.

MR. GAFFNEY: And don't blame that one on me.

MR. WOODRUFF: No, I am not. I am begging that question.

MR. GAFFNEY: Zoning we have already got.

MR. WOODRUFF: Zoning we have already got, that much is clear.

MR. GAFFNEY: Let's take the social controls we have already got and coordinate them.

MR. PICHARD: If you are going to do this to a part of the city, you couldn't say take the existing land values and apply the existing tax rate; it would seem to me if you wanted to create as little disturbance as possible in the market you would take such a tax rate on the land or site value as would raise the same total revenue from that same geographic part of the city that you are starting with.

MR. GAFFNEY: It would be done that way.

MR. PICHARD: Anything else is going to subsidize that area that you are starting with at the expense of the rest of the city or vice-versa.

MR. GAFFNEY: It could very well be done that way.

MR. PICHARD: We will now adjourn for supper.

(Whereupon, the proceedings were adjourned at 6:30 o'clock p.m. of the same day).

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