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# Using Jane Jacobs and Henry George to Tame Gentrification

By JASON LESLIE COMBS\*

**ABSTRACT.** The solutions that Jane Jacobs proposed to improve neighborhoods created a paradoxical problem: improvement increased demand for the amenities of the area, which caused land prices to rise. The net result was at least partial displacement of the old residents of the neighborhood with new ones. Jane Jacobs has been criticized for ignoring gentrification, but she was clearly aware of this process and tried to find means to counter it. By combining the ideas of Henry George about land taxation with the ideals of Jane Jacobs about neighborhood diversity, we can mitigate the negative effects of gentrification and direct the energy of market forces into producing a greater supply of desirable neighborhoods.

## Introduction: The Problem of Gentrification

The urban lifestyle is making a big comeback. More specifically, maturing Millennials and aging Baby Boomers with empty nests are seeking out districts marked by high walkability and location efficiency, streaming into city cores and adjacent neighborhoods. There is no need to recount the figures and statistics demonstrating the change in housing preferences among these demographic groups here. A plethora of recent articles and books exist that have already done that (perhaps most exhaustively in Arthur C. Nelson's *Reshaping Metropolitan America*), and more continue to be churned out as the trend becomes more and more visible (Nelson 2013).

These groups are seeking the kinds of amenities that are lacking in most of the suburban sprawl that has been constructed in the post-

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World War II era. As a result, they are being attracted to neighborhoods with an older framework, whether the buildings themselves are old or new, gridded and platted before the advent of the car and its dispersive effects. Therein lies the problem. These neighborhoods are typically preexisting, hemmed in by the suburban ring, and therefore geographically restricted in their capacity to accommodate the growing interest in these areas. As volumes of new residents arrive, the laws of supply and demand require that housing prices rise. True, there are a growing number of New Urbanist greenfield projects that seek to recreate traditional urban frameworks from scratch, but these, too, fail to meet pent-up demand, and typically fetch a high price.

#### Jane Jacobs and Gentrification

Jane Jacobs would surely applaud this trend, even if many of the neighborhoods that these new city residents are flocking to do not live up to her standards of “urban vitality, diversity, and magnetism” (Jacobs 1961: 149), or at least not yet. What is less clear is how she might feel about the effects, direct and indirect, that this population influx is having on existing residents of these neighborhoods, and on the urban fabric itself, effects often labeled *gentrification*. This term can be very problematic, but Jacobs did use it herself on occasion, though not in her seminal work, *The Death and Life of Great American Cities*. In the “Notes and Comments” section of her final work, *Dark Age Ahead*, Jacobs (2007: 214) has this to say:

By the end of the 1990s, gentrification was under way in what had been even the most dilapidated and abused districts of Manhattan. Again, the poor, evicted and priced out by the higher costs of renovating, were victims. Affordable housing could have been added as infill in parking lots and empty lots if government had been on its toes, and if communities had been self-confident and vigorous in making demands, but they almost never were. Gentrification benefitted neighborhoods, but so much less than it could have if the displaced people had been recognized as community assets worth retaining. Sometimes when they were gone their loss would be mourned by gentrifiers who complained that the community into which they had bought had become less lively and interesting.

Obviously, she was against poorer residents being pushed out of districts, even though it was due to improvements that she believed generally beneficial. Throughout *Death and Life*, Jacobs goes on and on

about *diversity*, in many different manifestations, being the hallmark of truly healthy urban districts. Economic sorting reduces diversity, so therefore Jacobs was against it. Some critics seem to think that Jacobs was somehow economically naive, that she was not aware that the husbandry of vital, diverse districts could lead to such outcomes. These critics cannot help but use her own former neighborhood, Greenwich Village, as an example.

Edward Glaeser (2011: 19), author of *Triumph of the City*, giving the plenary speech at the 19<sup>th</sup> Congress for the New Urbanism, either misunderstands Jacobs or chooses to misconstrue her writings, in regards to how to create affordable housing:

Jacobs' logic is completely wrong. You don't in fact make a place affordable by stopping new building. There's no repealing the laws of supply and demand. If there's a lot of demand for an area, and you don't supply new units, prices are going to go up. As we've seen so clearly in her own Greenwich Village historic district.

Piling on, Matthew Yglesias writes the following in *The Rent is Too Damn High*:

The huge premium that people pay nowadays to live in the Village may or may not last forever, but it's not a bubble; the price reflects increased demand. Ironically, some of the desirable qualities Jacobs wrote about have undermined what originally made it appealing. The neighborhood is so desirable that it became too expensive to be cool. (Yglesias 2012: ebook location 161)

Contrary to what these passages imply, Jacobs understood what was happening and why. In an interview with James Howard Kunstler that appeared in *Metropolis* magazine in 2001, specifically in regards to Greenwich Village, she said:

Oh, it has done very well. If other city neighborhoods had done as well there would be no trouble in cities. There are too few [good] neighborhoods right now, so that the supply doesn't nearly meet the demand. So they are just gentrifying in the most ridiculous way. They are crowding out everybody except people with exorbitant amounts of money. Which is a symptom that demand for such a neighborhood has far outstripped the supply. (Kunstler 2001)

Jacobs was perfectly aware that it was a problem of supply and demand. However, whereas Glaeser and Yglesias think that supply should be increased right in the presently desirable neighborhoods by building towers, Jacobs believed that demand should be met by increasing the overall stock of good neighborhoods, without the towers, thank you. She said this explicitly in *Death and Life*, as we shall see later.

Specifically using the word “gentrification,” Jacobs said little more than what is quoted above. However, these clues can inform a re-reading of *Death and Life*, imagining where the forces and effects of gentrification might have fit into her discussion of the conditions and processes affecting the vitality of urban districts. We can piece together these thoughts primarily from three chapters, all found in *Part Three: Forces of Decline and Regeneration*. In these chapters she outlined the challenges that neighborhoods and districts face in attaining and keeping diversity at different points of their evolution. Much of this coincides with what we now think of as gentrification.

In Chapter 15, “Unslumming and Slumming,” Jacobs describes the process by which a “slum” can improve itself and become a vibrant, diverse neighborhood. First, the conditions for diversity (described earlier in the book: a mix of primary uses, small blocks, aged buildings, and concentration of population) must be present in sufficient degree that the slum has some inherent charm, so that productive residents see its potential and *want* to live and do their business there, rather than move out as soon as they are able. Jacobs asserts that it is essential that this population stay for the slum to improve over time; otherwise, it will remain in a “perpetually embryonic stage” (Jacobs 1961: 277).

Jacobs then goes on to describe several indicators that might signal that the slum is improving. One of these is that people begin to move there by choice. In our modern conception of gentrification, this might be the in-migration of students and members of the “creative class” attracted by cheap housing in a rough but interesting neighborhood. At this point, the unslumming neighborhood is now “just providing a decent, animated place to live for people who are predominantly of modest circumstances, and providing an unspectacular livelihood to the owners of many small enterprises” (Jacobs 1961: 288).

The reader's mind is probably automatically adding "and ripe for gentrification" to the quote above. Jacobs also thought that unslumming neighborhoods were incredibly vulnerable, but in her time the danger was that their relatively improved conditions might attract the notice of city planners looking for an urban renewal site, and be cleared entirely for massive redevelopment. That no longer happens these days, partly due to the work of Jacobs and others, but the argument might be made that gentrification has supplanted urban renewal projects as the threat to gradually improving neighborhoods, especially now that large numbers of people are seeking to return to the city.

In Chapter 13, "The Self-Destruction of Diversity," Jacobs described what can happen to undermine a neighborhood, perhaps a slum in the past, that has achieved true urban vitality. The profit motive tends to push uses of property towards whatever is returning the most on investment. Therefore, successful businesses are repeated over and over, destroying the diversity of uses in the area. In addition, this piling up of a particular use in a particular district deprives other areas of the presence of this use, lessening their own potential diversity. Though Jacobs is mainly concerned with commercial uses here, she does make a statement about residential uses that sounds like a contemporary comment on the gentrification of San Francisco:

If tremendous numbers of people, attracted by convenience and interest, or charmed by vigor and excitement, choose to live or work in the area, again the winners of the competition will form a narrow segment of population of users. Since so many want to get in, those who get in or stay in will be self-sorted by expense. (Jacobs 1961: 243)

Jacobs offers several methods by which the diversity of an already successful neighborhood might be protected. Most of these rely on government intrusion into the market, but come back to the conclusion that the best remedy is to create more outlets for investment pressure from the private sector. She called this *competitive diversion*, saying: "At bottom, this problem of the self-destruction of outstanding success is the problem of getting vital, diversified city streets and districts into a saner relationship with demand" (Jacobs 1961: 256). Here we see the evidence that, even in 1961, Jane Jacobs most certainly understood that

gentrification was a supply and demand problem. However, she did not want to overload already successful districts with more people and more commercial uses. She urged the creation of new successful districts.

This brings us to Chapter 16, “Gradual Money and Cataclysmic Money,” where Jacobs laments how great sums of money, both public and private, tend to too often rush in and change improving neighborhoods drastically. The process of improvement that was happening naturally, gradually, from the efforts of those already in the district can become hijacked by outside money that locals cannot compete with. In the current discussion about gentrification, this corresponds to the resentment at everyday businesses like the corner bodega being replaced with types of businesses—chic cafes, doggy day cares, and high priced vintage clothing stores—that obviously cater to a class of people with high disposable incomes. These are the poster children for class change.

It is unclear whether or not Jane Jacobs would sympathize with those who bemoan cultural changes and class encroachment for their own sakes. She probably would not, saving her criticism for cataclysmic money that brought the changes too fast, for she preferred growth that “produces continual and gradual change, building complex diversifications” (Jacobs 1961: 293). She wished that there was more access to gradual money for those already in the district wishing to invest in improvements, allowing them to stay and take part in the change.

So, from these three chapters we can take away the following that Jane Jacobs might say about gentrification:

- Change will happen, but gradual change is preferable to cataclysmic change, for it builds more complexity and diversity.
- Investment pressure that is damaging to diversity should be dispersed through a broader array of desirable districts and neighborhoods.
- There should be a means of uncoupling displacement from gentrification, allowing current residents to stay, take part, and benefit.

### **The Upside of Gentrification?**

Everyone seems to agree that displacement is a negative effect of gentrification. There is an apparent consensus that it is unjust for residents without sufficient resources to be squeezed out of a neighborhood by market forces, especially when it was often their small acts of gradual improvement to the neighborhood that made it an attractive target for these newcomers in the first place. But what is less talked about are those that benefit on the other end of these same market forces. What about all the profits being made by sellers, flippers, and real estate developers? Are they deserved? Could the accrual of these benefits be as unjust as the burden of the detriments?

In early December 2014, the American Public Media show *Marketplace*, which is featured on National Public Radio, broadcast a series of pieces that had been collected from a branch office established in the Highland Park neighborhood of Los Angeles, called the “hottest real estate market in the country.” The series was entitled “York & Fig,” after the intersection at the epicenter of the neighborhood’s change.

In one segment of the series, three successive owners of a particular residential property in the neighborhood were interviewed (King 2014). The first couple bought the bungalow in question in 1988, when the neighborhood was still in very bad shape, for \$95,000. They fixed it up some and sold it in 1991 to a single artist for \$180,000. It is not stated how much the couple spent on improvements, but it is safe to assume that they made a decent profit. The artist lived in the house from 1991 to 2013, without making any significant improvements. At that time the neighborhood was getting hot, and she sold it to a “house flipper” for \$430,000. The flipper renovated the house, for an unknown cost, and sold it in 2014 for \$710,000.

That is not an uncommon story for the area. At about the same time, a similar bungalow across the street was renovated and sold for \$680,000. In yet another example, a well-known house flipper and neighborhood character, Steve Jones, agreed to be interviewed and divulged improvement figures (Clark 2014). He bought a house for \$280,000 and then put \$140,000 into renovations. He sold the house six months after buying it for \$530,000. That’s a profit of \$110,000. A partner that routinely invests in properties with Steve Jones said that his



returns were consistently 35 percent to 40 percent, at a time when returns from a money market account are around 2 percent to 3 percent.

Here are the questions that are seldom asked: Do Steve Jones, flippers like him, and their investment partners deserve to pocket these profits? Further, does the owner who sold to the flipper, perhaps simply unsophisticated in the ways of the real estate market, deserve some of this profit due to their previous tenure? If the previous owner made no improvements over his or her time of ownership, does he or she deserve the profits made simply from the market being hot?

### Henry George and Gentrification

Henry George, author of *On Progress and Poverty* ([1879] 1942), would answer “no” to all of the above. As he explains at length in his landmark book, land is a “gift of nature” that belongs to us all. Therefore, any profit that comes directly from that land, such as profits derived from the location of the house, rather than any attribute of the structure itself, should belong to society. Each time profit is made that cannot be traced to an actual improvement that has been made to or upon the land by a group or individual, *economic rent* has been extracted from the land itself.

Here we enter an esoteric, but essential, area of economic theory—that of *economic rent*. In contrast to the common understanding of rent as a monthly payment for the use of property, economic rent is all profit returned to land due to its inherent value, just as profit returned to labor is wages, and profit returned to capital is interest. David Ricardo was the first economist to expound upon the derivation of profits from land. Henry George accepted his work and built upon it. Ricardo and others concerned with economic rent tended to explain it in agricultural terms.

Imagine a piece of land with almost no agricultural value. Even so, intense application of labor and capital, in the form of such things as fertilizer, irrigation, and genetically modified seeds, will produce a harvest. This is all due to the labor and investment of capital by human effort, and the farmer can rightly claim the proceeds. Put those same efforts into a better piece of land, and the harvest will be much greater. This increment between the two harvests is economic rent, the added value given by the land itself. If the farmer saves money on transport

costs because one farm is closer to market than another, that profit is also attributable to economic rent.

Henry George argued that profit attributable to economic rent, as a “gift of nature,” rightly belongs to society as a whole. This is because George also argued that all private ownership of land stemmed from some injustice in the past. No one has clear title to what was given to us all in the beginning. Therefore, any private profit from land is unjust. Henry George would have abolished private property if he could, but he knew that society could not be persuaded to go this far. Instead, George sought to recapture all profit made from land through the “Single Tax,” called so because he argued that this one tax would be able to fund all functions of the government. All other taxes on production (labor and capital) could be abolished, allowing workers and entrepreneurs to keep all profits that were rightfully theirs.

The remainder of this article will show how Henry George’s ideas about the justification and method of recapturing economic rent can be used to form the basis of a new system of modern property taxation. Such a system would not only reap large amounts of revenue; it could also be used to create a greater volume of the kinds of neighborhoods that Jane Jacobs would approve of. In that way, the new property tax system would reduce the competition for space and solve the problem of gentrification at the level of an entire city, not in each neighborhood separately.

However, we will make two large departures from George. The first is a matter of theory and scope; the second in the application of the tax, or as we shall see, taxes.

### *1. Land as a “Gift of Nature” Versus a “Work of Humans”*

Henry George was interested in all land, in the grand economic scheme, as one of the three basic inputs of production. We are not. Here we take off the hat of the economic theorist, and put on the hat of the city planner or urban designer. We are interested only in land that is suitable for building upon in an urban area—urban building sites.

As a piece of the urban matrix, this land now derives very little, if any, of its value from what it was granted by nature, other than the fact that it physically exists. The quality of its soil matters not one bit. It is

now valuable only as a location where a structure can be built, filled with people, and partake in urban civilization. Its value is entirely socially created, a product of all the activities going on in the village or metropolis around it. Thus, its value is no longer granted by nature, but by modern people collectively. By looking at it in the same way we did agricultural land, we can see that, according to the reasoning of Henry George, its economic rent still justly deserves to go back to society.

This time imagine a parcel of land on the exurban fringe. If we buy this land with no improvements, we could very well say that all that value belongs to the land, but not really. Some of its value goes to its potential to be provided utilities and services by the local government. Still, now imagine that we construct improvements upon that land, through the application of labor and capital—a three-story apartment building. Whatever monthly rent these apartments can command at this inconvenient location, for the sake of argument we will say that it is entirely the product of the labor and capital invested in the construction of the apartment building. Now, imagine that this same apartment building is instead closer to the urban core, or in the center of the city itself. Or, imagine that the city has grown to meet it, that it is no longer at the exurban fringe, but part of a bustling community. The monthly rent that these apartments can command will of course go up, but not due to any added application of labor or capital from the landowner. This is economic rent in the urban sense. Of course, it is not just in the form of monthly payments. Its value is capitalized and makes up part of the purchase price of the property when it is bought or sold.

This is a simplistic example, but it should help the reader see that a great deal of value in urban real estate comes not from a landowner's labor and capital investment, but from the location of the land itself, and the collective activities of others around it. Much of this value has been "baked-in" over the course of time and many successive purchases and sales, and it is very hard to tease out from improvements, a problem that Henry George acknowledged.

## *2. Not a Single Tax*

However, for our purposes we do not need to have an exact figure. We are not going to try to have a "Single Tax" that reaps all economic rent

from land to fund all government in one fell swoop, as Henry George intended. Instead we are taking from George the justification to tax the socially created economic rent from land in two different manners, to fund local government only. The first is to tax the economic rent derived from its physical suitability as a site on which one can build, coming from the public sector, by local government's provision of infrastructure, services, and zoning that allows the land to support improvements in an urban matrix. The second is to tax the economic rent provided by the intricate weave of human activity around it, most easily referred to collectively as the private sector.

Given that the value of the land that we are interested in is a product of human activity rather than a "gift of nature," we must now determine a way to measure that socially created value in order to properly tax it, for it cannot be measured by its harvest. Henry George was happy to let the market value of land, in dollars, remain the basis on which it would be taxed. However, land and improvements are typically sold as a bundle, and we have already established that it is difficult to parse what is the true value of each. On top of that, the real estate market does not function in a way that produces accurate pricing of value, as will be discussed below, so it would not be rational to base the entirety of the tax on this unreliable and fluctuating system of measurement.

So, our first tax, seeking to recapture socially created value from the private sector, will look only at increments of socially created value, not that which has already been extracted and "baked-in" by previous sales. This will be called the "landfall tax."

The second tax will seek to recapture the value that is granted to the land by the local government. It will treat the land's utility as an urban building site as a product, a product created by the local government year after year by its provision of infrastructure and services. This product is the city itself, and each parcel must pay back to the city what it has been granted in utility. But before we delve into how these taxes will work, we must further discuss the general mechanics of the real estate market.

### **Real Estate Market Mechanics**

Let us start this discussion with an assertion: the argument in favor of the unhindered operation of "free markets" rests on the proposal that

they are the most efficient way to allocate inputs and outputs. Prices rise and fall due to supply and demand, and, through competition, resources are optimally allocated by what Adam Smith described as the “invisible hand” of said market forces. Capitalism, per se, was not created by Adam Smith, but simply observed and described in the *atomistic* markets for various goods and services that existed in his day. Free market ideology is an outgrowth of the belief that all markets operate most efficiently, and to the benefit of all mankind, when unfettered by regulation.

However, what many forget or overlook when discussing markets, is that there is a list of requirements that a market must meet in order for it to be considered adequately competitive to produce these efficient results. As previously mentioned, the markets observed by Adam Smith were *atomistic*, having many participants and points of interaction, and therefore met these requirements, creating adequate competition to give the “invisible hand” its sway, in theory, if not always in practice. However, the real estate market does not meet the requirements for a competitive market—in theory or in practice. Therefore, as will be shown, in this market the “invisible hand” is arthritic, at best. Let us look again at the requirements to see why this is.

#### *Requirements of a Competitive Market*

The following are some of the requirements of a competitive market:

- Many buyers and sellers
- Low barriers to participation
- Knowledgeable and informed participants
- Rational, profit-maximizing behavior
- Mobility of goods, capital, and labor
- A homogeneous product

In real estate, the number of buyers and sellers depends largely on the use of the land in question (residential versus commercial or industrial) and the geographic location. For the moment, we will allow that the real estate market meets this requirement, though we will return to this issue later, specifically in relation to sellers and speculation. The

market fails enough other requirements to disqualify it from being truly competitive, as we shall immediately see.

There are *vast* barriers to participating in the real estate market. In a competitive market, new suppliers may reasonably enter the market to compete with the present players. However, one cannot simply get into the land production business (unless perhaps one lives in the UAE or Qatar and intends to build islands in the Persian Gulf). One must instead buy a parcel of the *fixed supply* of land from someone else who already owns it. Even if the city decides to create more urban building sites by extending services and infrastructure, this land is not created from scratch, it is land already owned that has now become more valuable, unconnected to any effort of the owner.

The one requirement that the real estate market clearly does meet is that of containing knowledgeable and informed participants. Even in residential transactions where buyers and sellers may only participate once in their life, they have the assistance of real estate agents, mortgage brokers, and lawyers whose job it is to work in this market every day. In other segments of the market, players, such as real estate developers, tend to be very savvy and spend a great deal of time and money investigating buying and selling opportunities.

That said, the real estate market is plagued with all manner of irrational actors. Even where they are few and far between, they can have a disproportionate effect on the market. One example is the owner who will not sell for any price, due to perhaps a sentimental attachment or ideological fervor. Whatever the cause, this type of irrational actor has clogged up many a commercial real estate deal. On the residential side, though inexperienced buyers may be aided by career professionals as mentioned above, a great deal of emotion typically affects the purchase of not just a house, but a home, and perhaps the largest single expenditure one will ever make.

The most often overlooked failure of the real estate market is the immobility of land and the improvements constructed upon it, perhaps because it is so obvious. Still, it is an important point. Some would argue that personal mobility, typically through ownership of a car, serves just as well. This is simply not true. From the perspective of an urban designer, location efficiency, or the co-location of everyday destinations, is more and more desirable every day, given concerns with

pollution from transportation contributing to climate change, maintenance of sprawling road and highway infrastructure, and dwindling oil resources in the face of increasing global demand. Sprawl is out. Proximity is in.

Finally, there is the question of homogeneity. Basically, are building sites a commodity? Absolutely not. One might hear someone argue that land, in the abstract, is a commodity, which might be true if one is just referring to a patch of dirt, or even tracts of farmland, but urban building sites are heterogeneous. A true commodity is interchangeable. If one has a warehouse of the item in question, any instance of that item can be used and the outcome will be the same, whether it be barrels of oil or microchips. However, exchanging one building site for another can have immense repercussions, even if the parcels have the same square footage and zoning, because one must consider the matrix that it is a part of. This is why there are entire consulting firms that engage in nothing but site analysis and selection.

The culmination of these failures is that the real estate market is not sufficiently competitive. Therefore, acting on its own, it does not behave as a belief in the universal efficiency of free markets would have us expect. Prices are not set in a way that guarantees the best allocation of parcels to various uses. Rather than an equilibrium of supply and demand, the real estate market is plagued by disequilibrium, a persistent state of shortage, and, as a result, a persistent seller's market. Simply put, the real estate market is *naturally* inefficient, primarily due to the impossibility of producing more land (with some exceptions, of course). Therefore, contradictory to the accepted dogma of the day, government intervention is actually *desirable*, in order to increase competition and efficiency in this naturally skewed market.

#### *The Better Model—Shortage Economics*

Before we move on to the proposed interventions, let us further consider the real estate market. If free market ideology has given us the wrong instruction manual for understanding its mechanics, then what is the correct instruction manual? One does exist, and it was devised by an economist named Janos Kornai, author of *Economics of Shortage* (Kornai 1980). The model that he devised was not intended for

understanding the real estate market, but it works. Looking at real estate through the lens provided by his model will help us better understand why Jacobs's ideal neighborhoods are plagued by persistent problems of supply and demand, problems that our Henry-George-based interventions will remedy.

Born in Hungary, Kornai became intimately familiar with the working of a *command* economy, one where supply did not respond to demand, but to government decree. His observations, which became the basis for "shortage economics," or *Mangelwirtschaft* in German, can help us to better understand the workings of the real estate market, where the dictator constraining supply is a combination of nature, speculation, and government regulation.

Kornai examines the shortage economy at the sub-micro level, taking apart each decision to purchase supplies or produce goods, and how these decisions can be affected by constraints. Though Kornai uses as an illustration the industrialist shopping for supplies of high-grade steel, so that he or she may manufacture correspondingly high-grade screws, we may instead imagine a real estate developer shopping for land that will provide a highly location-efficient site, say in a matrix of walkable urbanism, on which to construct condominiums. Thus both the industrialist and the developer would be acting at different points as both buyer and producer.

If shoppers are able to find their desired input for a reasonable price, of course they will buy it and produce the corresponding product. If the input is not available at a reasonable price, the shoppers may revise their demand and buy a substitute input, most likely inferior. For the industrialist this would be steel of a poorer grade, thereby producing screws of a correspondingly poorer grade. For the real estate developer, this would be land farther from the walkable urban center, with lower location efficiency, producing condominiums with a correspondingly lower location efficiency.

But let us say that the shopper makes the decision to buy the appropriate input at the unreasonable price—after all, if there is a general shortage then the cost can probably be passed on. In the case of the industrialist, the high-grade screws are produced and a correspondingly unreasonable price is asked for them. The sub-micro purchasing decision is now passed on to the person shopping for these screws. In the



case of the real estate developer, perhaps his market study says that given the shortage of other options, there is sufficient demand for residences in this highly walkable location that he can buy the land at the unreasonable price and then build nothing but luxury condominiums for the wealthiest of prospective buyers. The shortage of building sites in the walkable urban district has thus squeezed out affordability for most of the population.

If the shopper decides against purchasing a substitute, or it is simply unavailable, he or she will have to delay production while the search for workable inputs continues. The industrialist or real estate developer may even become so discouraged that he or she abandons the search and the intention to produce. As Kornai (1992: 286) says: "Shortage breeds shortage."

There are two further actions that Kornai lists in his sub-micro examination that one does not usually find in other economic models: queuing (waiting in line) and engaging in efforts to win over the seller (legal or illegal). Kornai saw both of these options play out on a daily basis in Eastern Europe and they can certainly be observed in the arena of real estate development. Quite often a developer must wait to make an offer on a site until negotiations have run their course with another aspiring developer, and of course this gives extra leverage to the seller. In addition, real estate developers engage in all manner of schemes to win over sellers, or in some cases to coerce them against their will.

#### *The Role of Speculation*

Previously listed were three constraints to the real estate market: nature, regulation, and speculation. The first constraint cannot be changed, obviously (unless we return to the Persian Gulf). The second constraint is imposed by the public sector, and many, including Matthew Yglesias and Edward Glaeser, argue that allowing higher densities is the answer to achieving more supply in desirable urban neighborhoods. This argument has two problems. The first is that it could destroy the human-scale urban fabric that contributes to the attraction of walkable urbanism. The second is that it does nothing to relieve, and in fact would exacerbate, the third restriction—the real estate market's attractiveness to speculators.

Real estate is incredibly valuable as an *asset* because of the fact that it exists in the previously described perpetual shortage market. Consider what George Cooper (2008: 8) has to say about the price of fixed assets in *The Origin of Financial Crises*:

Whenever we invest in the hopes of achieving capital gains we are seeking *scarcity value*, in defiance of the core principle that supply can move in response to demand. . . . Frequently in asset markets demand does not stimulate supply, but rather a lack of supply stimulates demand. [emphasis added]

This brings us to the concept in real estate of “highest and best use.” It is obviously in the interest of the speculator (or anyone, but the speculator depends on this alone) to make the most money possible off of the sale of his or her real estate. This means determining the *highest and best use* of that particular parcel. This is a form of determining price in reverse of what belief in the efficiency of free markets would tell us. Remember that in an efficiently running competitive market, the price of a product will be forced down to its production cost. But as we have shown, the real estate market is no such market. There is no production cost for land. There is the cost at which the present owner acquired the real estate, but rarely enough competition to make this a basis of negotiation. Rather, the basis of negotiation is: “How much income can this site produce at its *highest and best use*, and considering other costs, how much does that leave to be spent on the site itself?” In other words, the price of the site is whatever can be afforded by the most profitable use, and thus affordability is constantly being squeezed out of hot markets. Accordingly, allowing more density in vibrant neighborhoods, as proposed by Glaeser and Yglesias, will not increase affordability in desirable urban neighborhoods. It will simply allow increased profit to those with control of the sites, or allow so much population influx that the amenity of the area is degraded, and it is no longer so desirable, and *then* prices go down. Neither of these is a worthwhile goal.

#### *Corrective Taxes on Economic Rent*

Given the real estate market’s similarity to Kornai’s shortage markets, and land’s resulting attractiveness to speculators due to its asset value,

we will seek to use our new taxes as correctives. And since we are taxing unearned value coming from the land itself, we will not be discouraging productive activity, but rather rewarding it. The goal is to use the taxes as positive stressors, to force land that is not being used, or is being under-used, into productive use. The way to do this is by first diminishing as much of unimproved land's asset value as possible, chasing out those looking for purely speculative profits, and, second, by taxing land's utility rather than its market value, rewarding those using their land efficiently.

### **Recapturing Economic Rent: Two Taxes to Prevent Gentrification**

We have now reached a point where we can introduce the two taxes that could be used to prevent gentrification from crowding out residents or spoiling the character of diverse neighborhoods. These two taxes are inspired by Henry George, but they differ from his "Single Tax" idea, as discussed above.

#### *Tax #1—The Windfall Tax*

We will first discuss the tax that directly targets profits made from rising values attributed to population growth and the work of others. Recall the example of Steve Jones from *Marketplace's* York & Fig project. He and his investors made a profit of \$110,000 after his renovations were accounted for (Clark 2014). What was the source of this value? It was not from any application of his labor or capital. It was due to the location of the housing—the fact that the neighborhood was "hot" and people were looking to move there. The improvement of the district at large was due to the sum of hundreds if not thousands of individual acts, small and large, public and private, going on in the neighborhood. This is the definition of socially created value.

Henry George would argue that Steve Jones and his investors should profit only from their own direct application of labor and capital. Jones and his investors would of course argue that they deserve all of it, due to their savvy and foresight. George would likely give this argument no quarter. However, we will. Flippers such as Steve Jones are nowadays a necessary part of neighborhood improvement. Someone must go first and show others the way, so we do not want to take all speculative

profit out of their activities. However, there is a great deal of latitude between their current 35 percent to 40 percent return on investment and the modest returns of a safe money market account. A substantial portion of this could be taxed away without diverting their attentions to other investment opportunities.

Such a “landfall tax,” on the profits from the sale that could not be traced to labor or capital, would still leave the Steve Joneses of the world with a reward for their efforts. However, it would also still reward the lazy speculator who does nothing but hold land, applying no labor or capital to it, and sell it at a later date when the activity of others has increased prices in the area. So, instead of basing the amount of tax collected on a percentage of profit from the sale, let us instead base the amount of the profit that the seller is allowed to keep on the amount of labor and capital that was applied. Thus, the pure speculator might be allowed to keep only a percentage from the sale that corresponds to the rate of inflation over the time that he or she held the land, and perhaps Steve Jones and his investors are allowed to pay themselves a 20 percent commission, based on their expenditures, from the profits of the sale. This would be \$28,000 of the \$110,000 profit from their sale, based on their \$140,000 expenditure. That is still a very good profit. It may look small in comparison to \$110,000 but remember that they made a *huge* profit on that deal. Also, with their commission being based on their expenditures, Jones and his partners would still be able to keep \$28,000 even if that was *all* of the profit from the sale. Meanwhile, with current inflation below 2 percent, the naked speculator who made no improvements would be allowed to keep less than \$2,200 of a similar sale with \$110,000 in profit.

Though this tax is not intended to completely dissuade active investors like Steve Jones, it would most certainly change the equation enough for inactive speculators to scare them out of the market, or coerce them into becoming active investors, especially when the combined effects of the second tax are realized. But as they say in the tech world—this is a feature, not a bug. We *want* to activate building sites in high-demand areas in order to avoid detrimental production adjustments.

The landfall tax may initially seem unfair, but consider that we will use the proceeds for providing infrastructure improvements, expanded

services, and incentives in the next neighborhood showing signs that it is ready for investment, perhaps physically adjacent to the current one. This takes the socially created value and returns it directly to society, and accomplishes what Jane Jacobs called *competitive diversion*, a way to save improving districts from too much attention. By always providing ready new frontiers for investment, the flood of cataclysmic money into “hot” neighborhoods can instead be dispersed, allowing more natural, incremental change. Also, some of the landfall tax funds could be placed with private community banks or public community redevelopment agencies (CRAs) and made available for providing loans to current residents. That would constitute the “gradual money” that Jacobs wished there was more access to, allowing current residents to stay in place and join in the improvement.

#### *Tax # 2—The Site Tax*

In *Home from Nowhere*, James Howard Kunstler (1996: 96) states that our current system of property taxation “may be the single most insidious, pathogenic factor contributing to the geography of nowhere.” Why is this?

The current *ad valorem* (by value) methodology taxes the “fair market value” of both land *and* improvements. Therefore, those who apply their labor and capital to land in order to improve and construct upon it are effectively punished for their efforts. Meanwhile, those who do nothing with their land, or allow improvements to decay, are rewarded for their inactivity. Low taxation of fallow and underdeveloped building sites allows speculators to hold on to them for long periods of time with relatively little carrying cost, waiting for the activity of others to raise their values. As we already know, this contributes to the chronic shortage found in the real estate market, and to the detrimental production adjustments described in Kornai’s model.

In another market (recall the screw example) these production adjustments might be negligible, or only endure for one generation of production, being remedied as conditions changed or producers adapted. However, in the built environment these production adjustments take on a physical form that might last for decades, and can therefore cause long-lasting damage that is not easily remedied. As

Janos Kornai said, “[s]hortage breeds shortage,” and in the built environment sprawl breeds more sprawl.

How do we remedy this? First, we follow the philosophy of Henry George that no man’s labor or capital should be taxed, so we design a new property tax that applies only to the building site itself, and ignores any improvements upon it. Next, we ignore the supposed “fair market value” of the site that is typically calculated using sales comparisons in the *ad valorem* methodology. This is not a fair basis on which to tax citizens for the upkeep of their local government, and in any case we cannot trust this shortage market with correctly pricing the site for us. So what is to be the basis of the tax if not value?

More than a century ago, a real estate professional named Richard Hurd (1903: 1) made a simple but profound statement with regard to city land values: “*Utility precedes value.*” Site values are a market interpretation of the physical qualities that grant utility to land—objectively measurable qualities. So, following the chain of causation upriver, we can base the tax on utility rather than value. We can call this methodology *ad utilitas*, as opposed to *ad valorem*. Thus, landowners will be taxed based on the utility of their site, no matter how they are presently taking advantage of that utility.

So what physical attributes will we use? In the same book, Hurd states that the utility of city land is based on three basic physical criteria: area, accessibility, and proximity (Hurd 1903: 146). Therefore, the new *ad utilitas* methodology will score the utility granted to the site by the public sector in these three categories. The result will be the Site Utility Score (SUS). The details of its compilation and application are described at the end of the article, but for now we move on to discuss the effects of this new tax.

The new site tax will put a much greater fiscal burden on un- and under-improved land within the urban environment, even if the new tax is revenue neutral, which means it brings in the same amount of revenue as the previous property tax. Owners who use their land efficiently, with valuable income-generating improvements, are rewarded. The tax on their improvements is wiped away at the same time that the tax on their land is increased. Many will actually see their net taxes lessened significantly. On the other hand, those owning building sites that are fallow or underdeveloped will now be paying a much greater share

of the tax burden relative to the previous system, for the tax on their land has increased as well, but they have gained little or nothing from the elimination of taxes on improvements.

This intensification of the tax burden on those not making efficient use of their land has two immediate effects. The first is in timing. The carrying cost of holding land fallow or underdeveloped, whether due to deliberate speculation or simple inaction, will increase greatly, spurring these owners to either put their site to use or sell to someone who will. Thus land with high utility will spend much less time off-the-market and underperforming. The second effect is in the application of capital and labor. With tax on the site remaining the same no matter what the improvements upon it, the developer will be encouraged to max out the site's potential and compete with others based on quality and efficiency of construction, for now there will be no rise in taxes punishing such efforts.

#### *The Combined Effect*

So how do these taxes help to mitigate gentrification? Basically, by addressing the conditions of the shortage market. First, the site tax addresses it directly, by incentivizing full use of what supply of land there is, according to its utility. Efficient use is rewarded, while sloth is punished. This is not unfair, as landowners are simply paying back to the local government what has been provided to them, whether they are actively employing it or not. The city or county must pay for upkeep of infrastructure and services whether or not parcels are being used effectively; therefore, landowners should pay for infrastructure and services whether they are using them or not.

Second, the landfall tax addresses the asset value of land that attracts speculators. While the site tax increases their carrying costs, the landfall tax seeks to wipe out any "light at the end of the tunnel" for those who would simply hold land off the market without actively improving it, simply seeking to buy low and sell high—in essence, riding the coattails of active investors. The combined effect of these taxes is to make under-performing land a "hot potato" that only cools once it produces income proportional to its utility. Thus, inactive landowners will be coerced into becoming active, or selling to active investors, freeing up

the supply of land in high-demand districts. As the supply is loosened, and naked speculators flee the market, the price of land in such districts should diminish, and savings should be passed on to end users as developers compete with one another in a more active market.

To reiterate, while proceeds of the site tax should go to fund local government, just as did those of the *ad valorem* property tax that it replaces, proceeds of the landfall tax should fund efforts to accomplish Jacobs's *competitive diversion*, providing the spark that will ignite improvement in the next potential hot spot, where the cycle will start all over again. For even more direct mitigation, funds could be used to build public housing units, or to institute a *guaranteed rent program* such as that described by Jacobs (1961: Ch. 17) in her examination of "Subsidized Dwellings."

But at its core, the solution is as simple as the problem. If people with means are crowding out people without means from the best neighborhoods because there are too few good neighborhoods, then the solution is to create more good neighborhoods. It is the scarcity value of these neighborhoods, not physical determinants of production, that drives up prices. Find a source of funds, as we have, to create more good neighborhoods, and the price of housing will fall. The supply of good neighborhoods will increase and the demand for them will be dispersed across the metropolitan area.

#### **A Note on Form-Based Codes (FBCs)**

In addition to tax reform, there is one more element that we can add that will greatly improve the physical outcomes that we see in neighborhoods being filled with new investment. This is a relatively recent tool called the Form-Based Code.

It has always been a challenge for city planners and urban designers to incorporate the ideas of Jane Jacobs into new projects. Jacobs was the ultimate empiricist. All of her work sprang from what she observed in action around her, not modeled on abstract theories of how things should be. And what was around her was dense, mature urban fabric. She was not at all interested in making plans for what we now call "greenfield developments." Instead, she had this to say about where population growth should be housed:



We can take advantage of this metropolitan area growth and, with at least part of it, we can begin building up currently unfit city districts, limping along at “in-between” densities—build them up to the point where (in conjunction with other conditions for generating diversity) these concentrations of population can support city life possessing character and liveliness. (Kunstler 2001)

She even criticized her most ardent followers, the New Urbanists, for creating so many new developments, as opposed to concentrating more on infill. However, she appreciated that these projects, such as the famous Seaside in Florida, were of use in their ability to educate the public about good urban design principles, and that after a time, “when enough of the old regulations can be gotten out of the way—which is what is holding things up—that there’s going to be some great period of infilling” (Kunstler 2001).

On this note, perhaps the most important tool that the New Urbanists have devised, for both the promotion of proper infill and ensuring that good design principles are followed in greenfield developments, is the Form-Based Code (or FBC, also sometimes called a Smart Code). As the Form-Based Codes Institute (2015) succinctly defines it:

A form-based code is a land development regulation that fosters predictable built results and a high-quality public realm by using physical form (rather than separation of uses) as the organizing principle for the code. A form-based code is a regulation, not a mere guideline, adopted into city, town, or county law. A form-based code offers a powerful alternative to conventional zoning regulation.

In regards to Jacobs, the most important thing to notice is that FBCs do not preoccupy themselves with separating uses, as conventional zoning codes do. Therefore, a mix of compatible uses can grow to fill forms naturally, in the complex weave of diversity that Jacobs favored. In addition, when implemented in mature neighborhoods, FBCs can protect the character of the existing urban fabric when infill development and redevelopment occurs. One complaint that was voiced several times in the York & Fig series was that developers came in (with cataclysmic money) and built structures that did not fit in with the character of existing buildings. With a well-designed FBC, this can be prevented.

The best metaphor for how FBCs interact with the new taxes and real estate development activity is that of baking a special cake. If you want a special cake to have a particular form, you need to bake it in a molded cake pan. Perhaps this is the Jane Jacobs cake pan, molded in the image of her four requirements for vibrant neighborhoods, or the New Urbanist cake pan, molded in the image of their charter. Real estate development is the batter that you put into the pan. To make sure that no batter is left in the bowl, we use a spatula, leaving none to waste. The landfall tax is the spatula, discouraging any lack of supply being caused by resources being held idle. Let no batter be wasted. But the batter alone is not enough, for without encouragement it might not completely expand to fill up the entire shape of the pan, leaving the cake malformed. To make sure that it rises sufficiently we add baking powder. The site tax is the baking powder, encouraging the batter to reach the full potential that the cake pan allows. Given time to bake, the result is a cake that looks exactly as it was envisioned.

### **Conclusion**

Private investment shapes cities, but social ideas (and laws) shape private investment. First comes the image of what we want, then the machinery is adapted to turn out that image. If and when we think that a lively, diversified city, capable of continual, close-grained improvement and change, is desirable, then we will adjust the financial machinery to get that. (Jacobs 1961: 313)

Those living in and returning to live in the city know what they want: safe, compact, vibrant, walkable neighborhoods. However, we are not actively adapting the machinery of urban planning and development to produce more of this because the prevailing philosophy of the day is that the machinery works best when left alone. In the case of our urban fabric, this is simply false. As a result, we are left with persistent unmet demand and gentrification leading to displacement.

Janos Kornai's model of a shortage economy shows us how the real estate market really behaves. To remedy its failures we must tinker with the machinery. The ideas of Henry George tell us that this is both

desirable and fair, for if you must tax, tax that which is unearned. By “unearned,” he meant private profit that is derived from neither labor nor capital improvement, but from the land itself, imbued with value by nature and mankind as a whole. Use the proceeds of the site tax to fund the basic functions of the city and county, while simultaneously encouraging efficient employment of the utility inherent in every building site. With the proceeds of the landfall tax, create a revolving fund to realize Jane Jacobs’s strategy of *competitive diversion*, sowing the proceeds into the next neighborhood ready for investment, while simultaneously providing protections for current residents and disincentives for naked speculation.

Currently, gentrification is not a tide that lifts all boats, but one that sweeps in, sometimes cataclysmically, washing more modest vessels from their safe harbor and out to sea. But if it can be gentled, and the mooring ropes of the smaller vessels strengthened, then it can truly be of benefit to all in the harbor. Cities and neighborhoods are in a constant state of flux. There is no static condition. Change will always come, but as long as it is beneficial, and the process is channeled in a way that reduces exclusion and displacement, it does not need to be viewed with resentment and fear. When this kind of neighborhood improvement becomes the rule, with methods like those described here, I predict that the use of the term “gentrification” will fall into disuse and become an anachronism.

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### **Appendix: Compiling the Site Utility Score (SUS)**

In this appendix, we give an example of how it would be possible for the assessment of property for tax purposes to be carried out on the basis of utility rather than market value. We have explained in the text why utility is the preferable measure. Here we explain in detail how such a measure could be constructed.

The basic formula for utility, the "Site Utility Score" (SUS) is as follows:  
 $SUS = Area \times Access \times Proximity = \text{Site Utility Score}$

We now explain the three elements that comprise the SUS.

#### *Area = Base Developable Area*

The first criterion, which provides the base for the SUS, is area. However, rather than use the dimensions of the building site itself, the area that should be calculated is the developable area allowed on the site—this is a more accurate measure of the potential utility granted by local government

regulations. Since full build-out of the site's potential is desired, this method also acts as a penalty for underdevelopment.

Example: A building site with a 30' foot frontage and 100' depth is allowed 80 percent coverage and a 4 story height, the resulting Base Developable Area is 9,600 square feet ( $30 \times 100 \times 0.8 \times 4 = 9600$  sf).

An easy incentive to spur development might be to allow an extra floor or two, the area of which would not be added to the base score until some later time.

#### *Accessibility = Accessibility Multiplier*

The base score, area, must then be adjusted for the other two factors, accessibility and proximity. We will start with accessibility because all sites will have an access metric, but it is possible that they might not have a proximity metric.

Accessibility is a measure of the quality of public rights-of-way (R.O.W.), such as streets, street parking, sidewalks, and bike lanes, that allow access to the building site. For instance, a boulevard with parallel parking directly adjacent to the site allows much more access than if the site can only be reached through a side lane requiring that supplies be brought in by dolly.

The easiest way to account for differentials affecting utility in the public R.O.W. is to use an Accessibility Multiplier starting at 1.00, with values added for various features. The local body administering the site tax should create a table covering all reasonable possibilities. The base of 1.00 should represent a "control condition" such as a site at the middle of a block facing a two-lane street with no parking. A site on the corner of a block where two well-landscaped boulevards with parallel parking meet might be so blessed by public infrastructure that its utility was doubled, the various values given to all the features adding up to a full 1.00, thus making the Accessibility Multiplier a 2.00. On the other hand, the site on the awkward side lane might actually be awarded a negative value, making its Accessibility Multiplier less than 1.00, and decreasing its base figure that was calculated by area.

Example: To continue with the previous example, let us say that the site has parallel parking on the street (+ 0.20), a 15 sidewalk (+ 0.10), and attractive streetscaping elements (+ 0.05), making its Accessibility Multiplier 1.35. Once applied to the Base Developable Area, the result is 12,960 ( $9,600 \times 1.35 = 12,960$ ).

#### *Proximity = Proximity Bonuses*

Points for proximity could be granted as lump sums or as multipliers. The real question is: Which public features increase the utility of a building

site? Up to what distance? This is the area that might give local designers of the site tax the most difficulty. Some obvious candidates for producing a Proximity Bonus would be parks, transit stops, and publicly-funded parking structures. Also to be considered would be monuments and dignified public buildings that lend a certain cachet to their neighbors.

What should *not* be considered for a Proximity Bonus, even if being close to it obviously adds utility, is any private enterprise. Tenants of buildings change and business cycles go up and down. It would be too complicated to rate the fluctuating utility of proximity to various private neighbors. This *is* what the market is for, and this utility will be reflected in monthly rents and sales prices. This methodology is concentrating on utility provided by the public sector.

The key is that whatever methodology is chosen should remain consistent. Treat all parks the same way. Do not make subjective judgments about one public space being of better quality than another. If one park has features within it that really do make it superior to others, such as sports fields, then consider those features for Proximity Bonuses of their own.

Once the producers of Proximity Bonuses have been picked, simple concentric buffers may be drawn around them and points awarded for varying degrees of proximity. If one wanted to concentrate specifically on walkability, the length of actual pedestrian walking distances could be measured. Both of these can be easily calculated with GIS software.

Example: Returning to our example, let us imagine that there is a fixed streetcar stop on the same block where the building site is located. This is deemed to be worth .50, using the same multiplier technique as with Access. Therefore the final Site Utility Score will be 19,440 ( $12,960 \times 1.5 = 19,440$ ).

#### *Further Details*

Once the Site Utility Score (SUS) is compiled, how is it used to assess the site tax? In essence, the SUS is used to give the utility of the building site as a proportion of all site utilities in a jurisdiction.

Building Site SUS : Sum of all SUS = Parcel's Site Tax : City Budget

The conversion to the site tax is perhaps the stickiest issue that would be involved in implementation. How should the switch be made? With a greenfield development, it is not an issue at all. Simply start employing the *ad utilitas* methodology from the beginning. In the existing urban fabric, a gradual approach would be required. For example, for a transition period of 10 years, calculate both the *ad valorem* property tax and the *ad utilitas* site tax. In year one, 90 percent of the property tax bill would be paid,

and 10 percent of the site tax. In year two, 80 percent of the property tax bill would be paid, and 20 percent of the site tax, and so on, until year ten when the property tax has disappeared and been entirely replaced with the site tax.

One might then ask whether the conversion should be made everywhere. It could be, but probably not. Remember that one of the goals of the new system is to promote more dense infill development. Some parts of the city simply cannot be changed, so it would be pointless to implement the new system there. Brenda Case Scheer (2001), an urban morphologist (someone who studies the physical characteristics of the built environment), identifies three types of suburban “tissues”—static, campus, and elastic.

As the name implies, “static tissues” are very resistant to change over time. These are the typical planned suburban subdivisions in which parcels were all carved out at the same time from a previously rural piece of land, and then single-family homes were constructed in the center of each plot over a short span of time. Streets and blocks are of such an arrangement that it would be incredibly difficult to transition the area to denser urbanism, even if such a goal were desired.

These incredibly inefficient land uses are better left as-is, under the *ad valorem* property tax system. This will also make it easier to raise relative tax rates on these properties if there is political will to do so, as they are typically much more expensive to provide services and infrastructure to on a per unit basis, as opposed to denser urban districts.

Campus tissues (malls, office parks, apartment campuses, etc.) and elastic tissues (typically strip malls and stand-alone stores along arterials) can be transitioned into denser urbanism if there is a will and a concerted plan to do so. *Retrofitting Suburbia*, by Ellen Dunham-Jones and June Williamson (2011), is full of examples of how this has been done, and serves as an excellent guide for future projects. Instituting the site tax in these areas after they have been re-platted (and perhaps re-streeted) for increased density would be a way to nudge redevelopment and infill forward at a faster pace.

In addition, when considering the effects of site tax adoption, most cities will probably find that they are severely over-zoned in some land use categories. Under an *ad valorem* system it does not matter if huge swaths of vacant land are zoned low-grade commercial, since they are taxed based on their value, and their value will not rise until development pressure nears. But under *ad utilitas* they would immediately be taxed according to their highest potential. In many cases cities will probably want to re-zone this land into some sort of holding category until

development reaches it. Or, establish an “adjacency clause” in which the full brunt of the site tax is not applied to a parcel until it is adjacent to the fringe of development activity.

It might seem that the *ad utilitas* method of assessment is more complex than current property taxation. Admittedly, it may not be simpler, but it is more clear and more certain. Yes, there are more moving parts than with *ad valorem* property taxation. However, with the *ad utilitas* methodology, the gears are exposed and their functions are more easily understood. *Ad utilitas* is based on set, objective physical characteristics that can be measured and shown graphically. An exciting new technology that could be used for visual representation is the recent spin-off from the Google X lab of the Flux Metro project. A preview is available at [flux.io/metro/](https://flux.io/metro/). With a tool such as this, any member of the public could look up a parcel online and not only see its development potential, but exactly how much utility has been provided to the parcel by the public sector, and thus what its site tax would be.