

## Chapter 20

### The Rise of Urban Real Estate Values

In no case is the unearned increment arising from land-rental value better illustrated than in the field of urban real estate. Here in the United States it has had an amazing opportunity to develop, since in no other country or section of the world have towns and cities grown up in so short a period of time. Even in colonial times, land in areas that were chosen as concentrated settlements was eagerly sought after. Because of the need of ports and of places for defense against savages, concentrated communities developed early, and population in these areas increased, as a rule, more rapidly than in outlying districts. This was due in part to the lack of adequate transportation facilities. The fact that in all the thirteen colonies the first settlements centered around one or more ports, which in time became the capitals of their respective administrations, is an indication of their importance to the economic and political life of the people. This laid the groundwork for the early growth of real estate values.

An illustration of the rapid rise of real estate values in colonial times can be noted in Philadelphia. William Penn, even before he arrived in America and soon after his grant was received from Charles II, ordered the city laid out at the junction of the Delaware and Schuylkill rivers. The lots (except those on the waterfront) were reserved for the first purchasers in England, whose names appeared on a parchment list of August 22, 1682. These drew for their lots. According to Alfred N. Chandler, "Heirs of holders of rights to such lots usually had difficulty in obtaining their plots, which soon became valuable, and recog-

nition depended on payments for warrants, the survey, the return, the patent and its recording, besides many inconveniences."<sup>1</sup>

Regarding the success of his City of Brotherly Love, Penn wrote in 1683: "Within one year of my arrival, the value of the least desirable lots in Philadelphia increased to four times their value when first laid out, and the best lots were worth forty times, without any improvements thereon. And though it seems unequal that the absent should be thus benefited by the improvements made by those that are upon the place, especially when they have served no office, run no hazard nor as yet defrayed any public charge, yet this advantage does certainly redound to them, and, whoever they are, they are great debtors to the country."<sup>2</sup>

Real estate speculation was thus rife even in those early days, for, as Penn stated, there was "great buying of one another."

The story of Philadelphia's rise in land value is typical of that in other American towns and cities in the early days. "It seems ridiculous," writes Chandler, "that within only twenty years after the first white settlers arrived, all the land at Boston should have been privately appropriated," in referring to the privilege given by Boston to admit a carpenter named Palmer as an inhabitant "if he can get a house, or land to set a house upon." In neighboring Charlestown, John Greenland had a similar experience.<sup>3</sup>

### Post-Revolutionary Boom Towns

In previous chapters the rage for town-jobbing and town-booming in the post-Revolutionary period has already been pointed out. To give the details of this development would require many pages, and it is proposed here merely to cite a few cases, particularly those which have reference to the rise in real estate values. Like all other fields of financial speculation, many of these ventures were failures—some at least to the immediate promoters, but with success to their followers. Others

<sup>1</sup>Chandler, *op. cit.*, p. 405.

<sup>2</sup>*Ibid.*, pp. 407-8.

<sup>3</sup>*Ibid.*, p. 99. For details of the growth in the value of town real estate in New England, see William B. Weedon, *Economic and Social History of New England, 1620-1789*.

were permanent disappointments. Whether the gains exceeded losses may never be revealed, but the almost steady and, in many cases, fabulous rise in urban real estate in most well-located American cities and towns is evidence that these values were not artificially created but, instead, were the result of the surging growth of population and the rapid agricultural and commercial progress that accompanied it.

### Washington, the Federal City

Perhaps the most spectacular episode in American town-jobbing is to be found in the creation of the city of Washington, then called the Federal City. As is well known, the framers of the Constitution provided that a site not exceeding ten miles square, separated from state jurisdiction and to be governed by Congress, should be selected as the nation's capital. Previous to the adoption of the Constitution, the Continental Congress had already passed a resolution authorizing a commission to lay out such a site at the Falls of the Delaware River. Robert Morris, then prominent in the affairs of the new Republic, sought to take advantage of the move and bought a tract of land, in all 2,500 acres, in the neighborhood. This site he named Morrisville, a name it still retains, though Morris lost it in 1798 when it was sold by the sheriff subsequent to the financier's bankruptcy in that year. It has only recently received attention as the location of the newest and largest steel-fabrication plant on the eastern seaboard.

While Morris was engrossing land in the prospective site of a federal city, the Constitution was adopted, and the First Congress was forced to battle over the selection of a site for the national capital. This was a perplexing problem, since sectional jealousy, then as now, prevailed in the nation's legislature, and no agreement could be reached on a proposed site. Robert Morris, who was then a senator from Pennsylvania, of course offered the Falls of the Delaware. But others could not see eye to eye with him, and it was not until after a compromise agreement between Hamilton and Jefferson—an early case of “log-rolling”—that a site was selected on the Potomac River, fourteen miles above Washington's home at Mount Vernon. Hamilton agreed to the selection of the site, and Jefferson, in return therefor, agreed not to op-

pose Hamilton's plan for the federal assumption of the debts of the states.

Congress appointed a commission to carry out the plan of erecting a federal district. Their chief problem was to acquire the land from the existing owners. These naturally demanded a high price. One of the principal owners was a Scotsman named Burnes, who was obdurate in holding out for favorable terms. It required a patriotic address by the Father of his Country to get the landholders to agree to sell out. He met them at Georgetown, a village located in the selected area, and in the course of his visit remarked "that the contention in which they seemed engaged, did not in my opinion comport either with the public interest or that of their own; that while each party was aiming to obtain the public buildings, they might by placing the matter on a contracted scale, defeat the measure altogether; not only by procrastination, but for want of the means necessary to effect the work . . . and that instead of contending they had better by combining more offers make a common cause of it."<sup>4</sup>

The proprietors then adhered to Washington's terms. They signed an agreement stating that "in consideration of the great benefit they were expected to derive from having the Federal City laid off on our lands" they conveyed in trust the whole of their lands upon condition that "the President shall have the sole power of directing the Federal City be laid off in what manner he pleased." The lots, it was agreed, were to be divided equally between the government and the owners, and those taken by the owners were to be paid for at the rate of \$25 per acre.

As the commissioners appointed by Congress to lay out the city needed money to construct public buildings and improvements, they immediately offered their share of the lots for sale. So did the private owners. These were naturally desirous of securing the "windfall" that would come to them merely because of the placing of the site of the capital city on their lands.

Robert Morris, who at this time was engaged in a series of vast land speculations, along with two partners, John Nicholson and James Green-

<sup>4</sup>See *The Diaries of George Washington*, Vol. IV, p. 154.

leaf, were the largest purchasers of the "lots." The prices of lots ranged from \$160 to \$534. Whoever bought or held the lots was required to build on them, and there were also building restrictions. While the sale of lots was going on—and there was considerable disappointment regarding the sales—one of the first commercial panics with which the nation has been cursed occurred in the United States. The speculations of William Duer, Alexander Macomb, and other capitalists in New York, the reign of terror in France, the suspension of specie payments by the Bank of England—together, these "produced general stagnation of money contracts," as Jefferson wrote to the District Commissions. Morris and his partners were forced into bankruptcy. Samuel Blodget, Jr., another large speculator in Washington lots, followed in their wake. The construction of the "President's Palace," the capitol building, and other improvements was exceedingly slow, thus retarding the drift of population into the federal city. There was, accordingly, little incentive at the time to acquire real estate in the area. It was not until after 1800, when the federal government moved to the site, that some encouragement was given to the lot speculators, and even then the rise of land values was not as great as in Philadelphia, New York, and other cities, which were assuming a more significant role of commercial importance.<sup>5</sup>

#### Rise of Real Estate Values in the City of New York

The growth of real estate values in the City of New York undoubtedly has been the most spectacular of any metropolis in the world. Yet an adequate and authentic history of this development has never been written in a way to reach the general public. Perhaps it is the immensity

<sup>5</sup>A large early purchaser of Washington real estate was a wealthy and aristocratic East Indian trader named Thomas Law, who in 1794 decided to take up residence in America. While at Philadelphia, in conversation with President Washington, he became impressed with the prospects of the new national capital. He accordingly bought a number of lots there from the Morris-Nicholson-Greenleaf syndicate. Unlike these speculators, he succeeded in holding onto his purchases, though his real estate ventures caused him serious loss of fortune. In 1796 he married Elizabeth Parke Custis, a granddaughter of Mrs. George Washington. But the marriage was not a happy one, and a separation ensued in 1802. Law continued to reside in the national capital and became one of its most progressive and respected citizens.

and complexities of the rise in real estate values and the numerous transactions involved that have discouraged research along these lines.<sup>6</sup> Certainly it is impossible to give anywhere a nearly complete account in these pages. All that can be done is to comment briefly on the "high spots" comprised in the story of the principal owners of and operators in a two-century span of New York City history.

*Trinity Corporation:* Old Trinity Church in New York is reputed to own or have owned some of the most valuable urban real estate in the country. Its origin is an interesting story. A Dutch matron, Annetje Jansen (corrupted to Anneke Jans), came to America in 1630 with her husband, Roelof Jansen. They settled in New Amsterdam where Jansen, in 1636, obtained a grant of sixty-two acres of land covering a considerable portion of lower Manhattan, lying west of what now is Broadway, and extending as far north as Canal Street. Jansen died and Anneke married the clergyman, Dominé Everardus Bogardus. After Bogardus' death, Anneke had the Jansen grant confirmed by the English Government, and it was held by her and her heirs until 1671 when it was sold to Governor Lovelace. Lovelace was later disgraced. Thereupon the land passed to the Crown and in 1705 was granted by Queen Anne to Trinity as an endowment. Numerous suits were instituted by Anneke's heirs based on a claimed defect in the grant from them to Lovelace, but in all of these Trinity's title was upheld and today, after many grants by them of parts of the property to other institutions, and conveyances of additional portions for its own support, the church continues to enjoy the benefits of the remainder.<sup>7</sup>

*John Jacob Astor's Holdings:* One of the most successful engrossers of valuable land in New York City, as is well known, was the first John

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<sup>6</sup>A popular account of the growth of real estate values in New York City may be found in the book of Arthur Pound, *The Golden Earth, The Story of Manhattan's Landed Wealth*. Extensive information regarding New York City real estate developments is also contained in the monumental work, I. N. Phelps Stokes, *The Iconography of Manhattan Island*.

<sup>7</sup>See Appleton's *Cyclopedia of American Biography*, Vol. I, p. 301.

Jacob Astor. Although his wealth originated from commercial enterprise, the foundation of the vast Astor Estate is the result of shrewd operations in real estate. Of course there were other capitalists of Astor's time who also accumulated fortunes because of the rise of the unearned increment in urban land values. Among them were John G. Wendel, Nicholas Emmerich, Henry Brevoort, Peter Goelet, Stephen Whitney, and a host of "old merchants of New York," as well as Stephen Girard and Jacob Ridgeway in Philadelphia, and Nicholas Longworth in Cincinnati. But Astor was the most astute of all, and his objective, as indicated by his will, was to create a permanent estate of his holdings for his heirs of succeeding generations. In executing this objective, he was successful.

Astor did not buy real estate for a profit on "turnover." He bought to hold indefinitely, to gain the profit arising from increasing rental values; and his descendants still live on the rentals of scores of lots and plots obtained at bargain prices by their ingenious and far-seeing progenitor. Land-poor individuals, institutions, and estates found him a willing purchaser of vacant and non-income-producing properties, provided he thought them cheap. He bought numerous lots from Trinity Corporation. He bought from distressed traders and merchants, from defaulting mortgagors, and when the real estate crash of 1837 came he had cash to buy at ridiculously low prices.

He did not care to sell until he obtained a price with which he could make a better investment. And he did not spend money on building and improving property unless he could reap the immediate reward of such expenditure. Occasionally he asked for and received grants of city land, and though political corruption or graft may have been at the bottom of some of these transactions, he generally offered some reward to the community, such as undergoing the expense of cutting streets, draining or filling in the donated plots or the surrounding areas. The Astor Estate is a typical example of how the unearned increment in land value can be garnered by private interests at the expense of the public at large.<sup>7a</sup>

<sup>7a</sup>Kenneth W. Porter, *John Jacob Astor, Business Man*, *passim*.

### The Story of Chicago Real Estate

Chicago, as a "boom town," has almost as interesting a history as Washington and New York. It was not until the 1830s, however, that this metropolis attracted the attention of land-grabbers. However, as early as 1836 it was the fastest-growing metropolis in all Christendom. Chicago grew in population from 550 inhabitants in 1832 to over 5,000 in 1836, without including the perambulating speculators and real estate vendors. The value of taxable property in the same period rose from \$19,560 to several millions. So utterly reckless had the city grown in this early period that the people "chased every bubble that floated on the speculative atmosphere. The more absurd the project the more madly was it pursued."<sup>8</sup> Specially improvised lake steamers, in the boom years 1835 and 1836, carried whole boatloads of land speculators to Chicago and Milwaukee, infected with what was then called "Michigan fever." So great was the demand for lots in this area that almost all northeastern Illinois was laid out in towns, just as almost seventy-five years later the whole coast of Florida was mapped out. Most of those who bought tracts in the region, even before seeing their plots, laid them out into city lots. The whole Chicago area became infested with "get-rich-quick strangers, capitalists, clerks, and even greedy clergymen."

The greatest stimulation to real estate speculation arose from the planning of a canal from Chicago to the Illinois River. The project was authorized by the Illinois legislature, which received a gift of federal land for the purpose. In 1836 the Illinois legislature ordered the trustees of the canal to sell "canal lots," though the exact route of the waterway was not yet definitely determined. The sale was hailed as a wonderful success. Single lots in Chicago brought from \$9,000 to \$21,400. Aggregate sales from June to September 1836 amounted to \$1,359,465, of which \$401,042 was received in cash.

But the coming of the Panic of 1837 in the next year led in nearly every instance to the abandonment of purchases. So great was the col-

<sup>8</sup>See Moses and Kirkland, *History of Chicago*, Vol. I, p. 98.



lapse that hardly an important purchaser carried his transaction to completion, preferring to forfeit the lots rather than complete the payments. Following the crash, lots that had been sold for more than \$1,000 could not fetch \$100 in specie.

The collapse of swollen real estate values in Chicago, as elsewhere, gave an opportunity for capitalists with funds to engross large plots in the urban areas. Among those in Chicago who reaped vast profits from such transactions were William Ogden, the first mayor of Chicago; Potter Palmer and Charles Butler of New York; Gurdon S. Hubbard, and several others. Ogden, in the interest of increasing the value of his Chicago real estate holdings, promoted railroads leading in and out of Chicago and was at one time president of the Chicago & North-Western Railroad.

Regarding his successful real estate operations after the 1837 debacle, Ogden wrote in his notebook: "I purchased in 1845 property [in Chicago] for \$15,000 which twenty years thereafter [1865] was worth ten millions of dollars. In 1844, I purchased for \$8,000 what eight years thereafter sold for three millions of dollars, and these cases could be extended almost indefinitely."<sup>9</sup>

Many similar enormous rises in real estate values in Chicago, St. Louis, and other pioneer metropolises, some of which laid the foundations for the wealthiest private estates in America, could be cited. It is stated by Homer Hoyt that the land value of the territory within the present city limits of Chicago increased from an estimated total of \$1,400,000 in 1842 to \$126,000,000 in the latter part of 1856, "an increase of eighty-fold in fourteen years."<sup>10</sup> St. Louis and New Orleans experienced a slower but somewhat similar rise in real estate values. Hardly a decade had passed since the United States acquired Louisiana Territory (in which these cities were located) when the combined wealth of a few individual newcomers exceeded the whole price paid for the region by the federal government. Most of this wealth was obtained

<sup>9</sup>See *William B. Ogden and the Early Days in Chicago*, by Hon. Isaac N. Arnold, Fergus Historical Series, No. 17, p. 21.

<sup>10</sup>*One Hundred Years of Land Values in Chicago*, p. 69.

in urban real estate speculation and town-jobbing. Speculators from the East, among whom were John McDonogh, Edward Livingston, and John B. C. Lucas, waxed wealthy in their real estate deals. Lucas acquired a large tract in St. Louis for which he paid \$700. In a few years it was worth several millions. Like Nicholas Longworth in Cincinnati and Astor in New York, he did not sell, but left the tract to his heirs.

### San Francisco Real Estate

It has been correctly stated that more fortunes have been made from land and real estate investments in California than in gold mining. After the United States took possession of this territory, land values rose, and with the further impetus given when gold was discovered there in 1848, land speculation became rife. Aside from dealings in the old Spanish grants, land speculation was first concentrated largely in the San Francisco area and later became prevalent in southern California in the neighborhood of Los Angeles.

It is quite conceivable that, even if gold had not been discovered in California just after the American conquest, real estate and land speculation would have flourished in the territory. Indeed, real estate speculation and the rise in urban real estate values in San Francisco began early in March 1847, two years before the gold rush. On March 10 of that year General Stephen Watts Kearny, American military commander of California, issued a proclamation granting the municipality of San Francisco the right and title of the Government of the United States and of the new territory to the beach and water-lots on the eastern part of the town. Within a week thereafter, this property was ordered to be sold and the proceeds used by the town authorities. In that year, also, an important section of the town was laid out into streets by the public authorities and the vacant area converted into town lots.

A public sale of these lots took place in 1847. Speculators and investors bought 200 lots at \$50 to \$100 each. As was customary in such cases where rapid town growth was desired, each purchaser was required to fence the lot and erect a building thereon within a year. Corruption prevailed in the disposal of the lots, and it is reported that the

choice sites were secured by speculators "under the old regulations" or by private agreements with the city officials.<sup>11</sup>

In 1853, another great public sale of town lots took place. Values had advanced, but because the best selections had already been engrossed, prices were disappointing. At this time San Francisco was buzzing with the excitement of the gold discovery, and a "boom" was on. Advantageous locations were snapped up by astute buyers, and they demanded high prices when they offered the plots for re-sale. In the meantime immigration was rapidly adding to the population. "Squatting" became a general nuisance to the real estate owners. The squatters organized themselves into associations and resisted efforts to oust them. With "pre-emption" as a byword, the newcomers set up tents and cabins wherever they found a suitable vacant lot and defied dispossession.

There were further sales of "city lots." Members of the City Council and other privileged political favorites figured largely as buyers. The governor of the territory, hearing of the corruption, ordered the sales to be stopped. But this order was ignored by the City Council, who claimed the governor had no legal right to interfere. Among the city councilors who obtained choice parcels of real estate were Samuel Brannon, J. W. Osborn, William H. Davis, Gabriel B. Post, Talbert H. Green, and Rodman Price. The names of this delectable lot, remarks a historian, "are still perpetuated and honored by the people of San Francisco."<sup>12</sup>

There were obviously good reasons in this period for the rapid rise in real estate values in San Francisco, though of course speculation carried it beyond prudent heights. The town was the only good port accessible to the gold regions. It was the chief emporium for an immense back country where real money was sifted from the soil by the increasing hordes of prospectors. As a contemporary analyst noted: "In two years space, the financier doubled his capital, without risk to himself, and the accumulation went on in geometrical progression. But

<sup>11</sup>See Soule, Gihon and Nisbet, *The Annals of San Francisco*, pp. 180-84. Also Theodore H. Hittel, *A History of California*, Vol. III, p. 116.

<sup>12</sup>John P. Young, *San Francisco, A History of the Pacific Coast Metropolis*, Vol. I, pp. 186-87.

chiefly it was the holders of real estate that made the greatest fortunes."<sup>13</sup>

Although in 1854, because of overspeculation and local political corruption, a real estate depression occurred in San Francisco, real estate values after a few years continued to rise. Among those who made fortunes from real estate in the city were James Lick, founder of the famous Lick Observatory on Mount Wilson; Peter Smith, who through judgments obtained from non-payment of "city scrip," which he bought up in large quantities, obtained valuable tracts of city-owned land at ridiculously low prices; and David C. Broderick, United States senator from California from 1857 to 1859. The acquisitions of Smith and Broderick were validated by the courts. Their holdings included, besides beach and water lots, the public wharves and the city's valuable "under-water" lands. Today their monetary value is enormous.<sup>14</sup>

### Los Angeles Real Estate

The "booming" of Los Angeles, now the largest city on the Pacific coast, began within three decades after that of San Francisco. In 1868 the former "pueblo," the seat of a Spanish mission, gave financial assistance toward the construction of the Los Angeles and San Pedro Railroad, which affords the town a commercial outlet to the nearest port. When shortly thereafter the Southern Pacific was planning a railroad from San Francisco by a southerly route to the East, the citizens of Los Angeles were desirous of having this line pass through their town. At this time the total population of the place was under six thousand. Collis P. Huntington, the promoter of the Southern Pacific, demanded a heavy price to comply with the request, but it was granted and the groundwork laid for a real estate boom. The Panic of 1873, however, caused a delay, and it was not until 1882 that the Southern Pacific tracks came into Los Angeles. In the meantime the Atchison, Topeka & Sante Fe Railroad also reached Los Angeles and instituted a rate war. All this led to a vast real estate fever in and around Los Angeles.

The speculative fever was induced largely by the influx of "develop-

<sup>13</sup>Soule, *op. cit.*, p. 498.

<sup>14</sup>Young, *op. cit.*, p. 192.

ers," who, taking advantage of the low rates of railroad fare resulting from the rate war between the Sante Fe and the Southern Pacific railroads, transferred their operations from the Middle West to the Pacific coast. These "developers" mapped out new mushroom "cities" all over Los Angeles County, some of them close to the limits of Los Angeles and some within the city itself. The boundaries of each new "city" almost overlapped those of its neighbors. The wooden street markers and the lot pegs gave them the appearance of a battlefield cemetery. Lots were offered in large and small quantities and were eagerly bought on the spot and sold at distant places. In the single year 1887 the value of real estate transactions recorded in Los Angeles approximated \$100,000,000. But only a small part of this sum represented cash outlays, since the bulk of the sales were merely contracts to buy. As in similar transactions before and since, liberal credit was given lot purchasers. When the boom collapsed in 1889, most of these purchasers on credit forfeited their unpaid acquisitions.

Unlike the booms in Chicago and some other eastern cities, the Los Angeles boom of the 1880s was carried on by professional and unscrupulous town-jobbers, mostly from other sections. T. S. Van Dyke, who published a history of the whole affair, derides the idea that it was analogous to any South Sea Bubble, or oil or mining-stock swindles. In the account of the speculation, he states:

The actors in this great game were not ignorant or poor people, and from end to end there was scarcely anything in it that could be called a swindle. With few exceptions, the principal victims were men of means. Most of them, and certainly the most reckless of them, were men who in some branch of business had been successful—all had the amplest time to reverse their judgments and investigate the conditions. Some of the silliest of the lot were men who, during the first three fourths of the excitement, kept carefully out of it, and did nothing but sneer at the folly of those who were in it.<sup>15</sup>

The same might also be said of the Florida land boom of the 1920s. Many capitalists did not venture into the field until the boom reached

<sup>15</sup>*Millionaires for a Day: An Inside History of the Great Southern California Boom*, pp. 2-3.

its peak. But it cannot be said that most of the victims were people of wealth. Many of the poor and ignorant were losers in the venture.

During the 1920s, Los Angeles experienced another wild real estate boom. New developments were laid out over a large area surrounding the city, and lots were sold and as eagerly bought by speculators and home seekers at fabulous prices, akin to what happened in the same period throughout Florida. After the boom collapsed, however, the resulting depression in values was not as serious as in Florida.<sup>16</sup>

The collapse of the southern California land booms did not hinder the progressive rise in real estate values in the area. Today the county of Los Angeles is one large aggregation of cities and towns. But its rapid growth has been placed on a permanent foundation. It has advantages created by nature and human progress—the basis of sound land value. Its rapid growth, though accompanied by real estate boosting and town-jobbing, may be accounted for by the increase in population, commercial and industrial development, natural resources, and other factors to which the owners of the land as a class contributed very little but reaped the full benefit.

The growth of real estate values in San Francisco and Los Angeles can be matched to some extent by the rival cities of Tacoma and Seattle on Puget Sound. Though also fostered by real estate booms and the work of professional real estate “developers,” the values have been created for the most part by favorable location for shipping and other transportation facilities, and by the importance as sites for commerce and industry. These advantages are not generally created by any single person or group of individuals. They are the work of nature, social progress, and the concentration of population.

### Corporation Urban Engrossment

There are a few notable cases in the nation's history in which corporations engrossed large tracts of land to be held for other purposes than that relating to their business operations. From the earliest colonial times, industrial operations, such as mining, iron manufacture, and the like, followed the practice of creating villages or population

<sup>16</sup>See Marquis James, *The Biography of a Bank*, New York, 1954, pp. 235–36.

centers in which the operating concerns housed their offices and workers. The village of Hopewell, built around a forge in Pennsylvania, is a typical example. But in this there was no aim to reap the benefit of land rental. The practice was followed by a number of mining companies, who built and rented houses and maintained "company stores" for their workers. In most cases, however, the system has been abandoned, and it is noteworthy that the United States Steel Corporation, in the construction of Gary, Indiana, and in the planning of its new works at Morrisville, Pennsylvania, did not seek to monopolize the land-ownership in the area adjacent to their vast undertakings.

The most outstanding case of a large corporation creating a town and at the same time endeavoring to hold the title to the land within its boundaries intact was that of Pullman, Illinois. George Pullman, a wealthy Chicago car builder, in 1880 conceived a plan to locate his great car works near Chicago but withheld the selection of the site from public notice in order to ward off land speculators who would engross real estate in the area. He secretly bought 3,500 acres of land adjacent to Chicago at from \$75 to \$200 an acre. In 1883, after the new works were built, the land had risen to from \$1,000 to \$3,000 per acre, but Pullman would not dispose of any of it. Instead, his company, the Pullman Land Company, retained it and built "a model town," which was named Pullman, and, in addition to constructing homes, churches, and schools, erected its own gasworks, waterworks, and sewage-disposal plant. All these developments were retained by the Pullman Company and all rentals and charges accrued to it. Thus the venture was a real estate development as well as an industrial project. The town of Pullman remained an independent community in the Chicago area, "being surrounded on all sides by vacant land of lower value." The Pullman Land Company, however, by holding its land and not disposing of it, detracted from its development as a business center of Chicago. This center was developed elsewhere in areas where cheaper land could be obtained.<sup>17</sup>

Another somewhat though not entirely similar case of industrial real estate engrossment is that of Newport News, Virginia. The develop-

<sup>17</sup>Homer Hoyt, *op. cit.*, p. 135.

ment of this important southern seaport and industrial center was largely the work of Collis P. Huntington, California pioneer millionaire and railroad builder. Huntington, after the successful completion of his western railroad ventures, came East and acquired control of the Chesapeake & Ohio Railroad Company. In order to obtain a satisfactory tidewater terminus for this railroad, he conceived the idea of building a port in Hampton Roads, Virginia, on a site having a harbor sufficiently deep to accommodate large ocean steamers. The place selected was given the name of Newport News. A company, incorporated as the Old Dominion Land Company, was organized in 1880 to acquire the site. A "town boom" was started. Not only was the terminus of the Chesapeake & Ohio Railroad fixed at the place, but Huntington constructed one of the largest dry docks and shipbuilding plants on the Atlantic seaboard.

Undoubtedly the object of Huntington in creating the Old Dominion Land Company was to reap the profit from the rise in the value of the surrounding area which naturally would follow his construction of a railroad terminus and the shipbuilding enterprise. But there was no intention to withhold the land from sale, and lots and plots were readily disposed of. However, the Old Dominion Land Company continued to operate Newport News as a private venture until 1895, when a city charter was obtained from the state of Virginia. The president of the company at the time, in referring to the change to a municipal status, remarked in his annual report that, in the interests of the company, the charter was "reasonable as to its nature, care having been taken to avoid the imposing of extreme taxation or other burdens." At that time, the land company still owned 156 lots in the city and a 30-acre farm. In addition, it owned the Newport News Lighting and Water Company. Most of the company's lots had been sold on deferred payments, so with high taxes they were likely to revert to the company; but with a city charter, the expenses previously incurred by the land company in keeping the streets of the town in order would be borne by the taxpayers.

The amount of funds invested by the Old Dominion Land Company in its unique town-building venture was not large in the light of more



recent similar land-speculation episodes. In 1891 its total capitalization was reported at \$1,962,736. The cost of its real estate was put down as \$1,585,299, while its buildings, including a hotel, cost an additional \$1,118,564. But in 1930, when the company had wound up its affairs, the assessed valuation of taxable property in the city of Newport News, Virginia, was about \$35,000,000. This is but one example of how enormously real estate values can be increased.

Another instance of a magnificent scheme of modern city building, with real estate speculation as the prime motive, was the promotion of Coral Gables during the Florida land boom of the 1920s. Coral Gables was originated by George Edgar Merrick, a Miami real estate operator. His first idea was to develop an exclusive inland suburb. However, as his plans developed and as the oncoming boom caused a rapid growth of Miami, the project was expanded to cover a sea-front community with forty miles of beach land. The aim was to make it a complete city, with business zones, workers' districts, and favorable locations for the rich and well-to-do. The whole project was a money-making scheme, similar to the town-jobbing of earlier days—and collapsed when the "Florida Bubble" burst.<sup>18</sup>

### Summary

The foregoing account of the rise of urban real estate values is necessarily discursive and selective. The subject deserves a more definite and complete account, a research project well within the public interest, since, as already stated, in real estate the unearned increase in land values is so clearly demonstrated. Almost all economists are agreed that such values should accrue to the benefit of the people in common. But of course it has been argued that private property in land has been an indispensable instrument for the advance of civilization, and cupidity and progress frequently go hand in hand.

As the late Professor Frank Taussig has stated:

There is no vested right in the indefinite future . . . with the rapid growth of modern cities and the unmistakable swelling of

<sup>18</sup>For a journalistic account of Coral Gables, see T. H. Weigall, *Boom in Paradise*.

site rents, a reservation of the community's rights with respect to urban land has met with steadily increasing recognition: The form in which this right is most likely to be asserted is that of a special tax on the newly accrued increase in site values. In strict theory, the whole of this increase might be taken through taxation. . . . But it is not likely, so long as the institution of private property remains, that there will be so drastic an application of the principle.<sup>19</sup>

And commenting on the taxation of site values in Germany and Great Britain, Professor Taussig had this to say:

In Germany, where so many movements toward social reform are being carried on in deliberate and well-planned fashion, the recent (1911) imperial legislation for taxing gains in site value did no more than appropriate thirty per cent of the increase. The hotly debated British tax of 1909 took twenty per cent. It may be that this is only a beginning, and those who oppose it will maintain that eventually everything will be taken. . . . But such objectives are urged against every proposal for social reform, and, if allowed, would prevent any disturbance whatever of the *status quo*. The day is gone by when they are felt to be insuperable. . . . The rights to property must approve themselves on examination in each particular case, and must submit to modification where a balance of gain for the public can be reasonably expected.<sup>20</sup>

<sup>19</sup>*Principles of Economics*, Vol. II, p. 103.

<sup>20</sup>*Ibid.*, p. 103.