Urban Expansion—Will It Ever Stop?

by M. MASON GAFFNEY

(Excerpts from his article in Land, the Department of Agriculture's 1958 yearbook)

WHEN you walk down Main Street in any large city, each step takes you past several thousand dollars' worth of frontage. Residential lots in respectable established neighborhoods sell for 50 dollars to 250 dollars a foot and for more than 500 dollars a foot along a few gold coasts. Apartment sites average higher, going above one thousand dollars along Lake Shore Drive in Chicago. Slum sites are often held at fancy prices because of an expectation of future industrial, commercial, or public demand. Some subsidiary shopping districts sell for one thousand dollars a foot. The best industrial sites in large central cities command well over 100 thousand dollars an acre.

Urban prices have a baleful influence on farming. The dirt farmer has struggle enough financing title to lands priced by their anticipated income from agriculture alone. Urban prices push him out of the market completely. Landholders near cities must be speculators as well as farmers.

Often they are not farmers at all. High-priced lands in areas with urban possibilities tend to gravitate to those who have the financial power to wait.

Federal income-tax laws tend to aggravate the dirt farmer's disadvantage, for they make speculative gains especially attractive to those in higher tax brackets.

To qualify for capital gains treatment, the speculator must establish that he is not "in the real-estate business," but is a passive "investor," neither improving land for sale nor soliciting buyers. Or he may establish that he is "using the land in his trade or business" (other than real estate).

Still better, if it is his residence that he sells, and he puts the proceeds into a new residence within the year, the entire gain is tax free—and with a little effort a commuter may learn to "reside" over a considerable investment.

Best of all, one who buys land years ahead of his own needs never pays a tax on the rise of value so long as he does not sell—something many large corporations, with huge reserves "for expansion," have little expectation of doing. Wilbur Steger, writing in the National Tax Journal for September 1957, estimates that 90 percent of all capital gains were thus left tax free from 1901 to 1949.

A striking aspect of today's cities is their rapid outward thrust. The urban expansion bears critical watching, however.

Cities, even central cities, are not using nearly the land they already contain. These undigested pieces are of negative value to the city itself. Cities exist to bring people together. Vacant and underdeveloped lands keep them apart and thus destroy part of the city's basic resources: Cheap distribution and easy access.

Just how wide and how empty these undeveloped territories are is startling to discover. The New York engineering firm of Parsons, Brinckerhoff, Hall & MacDonald surveyed land uses and potentialities in connection with its 1953-1955 report to the San Francisco Bay Area Rapid Transit Council. It found ample suitable acreage in the Bay area for the entire projected 1990 population of the whole State of California: 22 million to 31 million people—7 to 10 times the Bay area's population of 3 million in 1953-1955. This is allowing ample areas for recreation and industry.

In the crowded city of San Francisco itself, the California Water Resources Board survey showed 23 percent of the usable land was developed in 1955.

The Water Resources Board bulletin said that 65 percent of the suitable land was undeveloped for urban use in the Los Angeles hydrographic unit—that is, in the city of Los Angeles, the immediately surrounding cities, and the more or less urbanized unincorporated lands.

Another 1955 survey, Bulletin 87 of the Regional Planning Association of New Jersey, New York, and Connecticut, reported the following percentages of suitable land undeveloped in some of the counties of metropolitan New York: Bronx, 9 percent; Kings (Brooklyn), 44 percent; Richmond, 32 percent; Hudson, 21 percent; Bergen, 54 percent; Westchester, 63 percent; Fairfield, 81 percent. For the entire 22-county, tri-state metropolitan region, dotted from end to end with fragments of New York City and laced with transportation and utility lines, only 21 percent of the suitable land, or 16 percent of the gross land area, was developed for urban use.

Here are the makings of a cycle of everexpansion that should come to light when speculators holding the better lands try to find markets.

Urban land prices are uneconomically high—the "scarcity" of urban land is an artificial one, maintained by the holdout of vastly underestimated supplies in anticipation of vastly overestimated future demands. I think this uneconomical price level imposes a correspondingly uneconomcial growth pattern on expanding cities. High land prices discourage building on vacant lands best situated for new development and divert resources to building highways, utility networks, and whole new complexes of urban amenities so as to provide and serve substitute urban lands further out—substitutes for something that is already in long supply. Not only is this pattern wasteful of time, steel, cement, gasoline, and good farmland; it founds national prosperity on the film of a land bubble.

And so it would seem wise for policymakers to set about lowering asking prices for urban land. But here they meet a dilemma. What stimulates building is not falling prices, but the end result of the fall—low prices.

Policymakers are tempted to put off the day of reckoning, to tolerate and, in fact, actively support high land prices. But the irony of such policies is that they stimulate development of still more substitute urban lands, and set the stage for more drastic ultimate collapse.

There seems one obvious escape from this dilemma. As it must be done, do it quickly. Bring land prices down fast, and get it over with.