The Plummeting of Realty Values

WHEN A MAN wants to make a purchase he consults his pocketbook, bank account or probable income.

When a government decides to spend it does so with scant regard to its resources or income; taxation must meet the budget.

City governments, whose spending is limited by law to a ratio between its budget and its gross realty values, have hit upon a technique which enables them to circumvent this limitation. When they need more money they either raise the rate, if the law permits it, or they raise the assessed valuations, which the law finds difficult to fix.

Loud has been the wailing of real estate boards this past year because of "over-assessments." The complaint is based on the assumption that assessment and market value are, or should be, identical. If this were true, then the cities were robbed by the realty men during the boom years, and restitution should be made. For, even in New York, where realty assessments are high, it is a matter of record that market prices in 1928 were above the tax assessment figures to a greater degree than they are below them today.

But there is no necessary relationship between assessed values and market values. The figures established by the assessors' office constitute merely a basis for taxation, for meeting the budget. If the rate of taxation is fixed by law, the assessor is compelled by budgetary requirements to raise the assessment. That's all there is to it.

Real estate interests who demand assessments based on market values would find their proposition much to their disadvantage if they followed through on their argument. Suppose the law were so fixed that real estate had to be sold at exactly the assessed value. Would they then argue for lower or higher assessments? There would be no higgling of the market; the prospective buyer would need no broker, for the assessment books would establish the price.

That assessed values and market values bear little relationship to one another is shown by the tax methods of various cities. In New York, where the howling has been greatest, market values are supposed to be from twenty to thirty percent lower than the assessors' figure; the average rate of taxation is $2.84. In Chicago the rate is between $8 and $9, but the assessed values are about 30% of the market values.

The confusion results from a basic error, as usual. Real estate is a mixture of a labor value and a monopoly value, the one decreasing and the other increasing as population and production increase. Houses decay in time; land, as a place to live and work on, remains put. The attempt to fix a common basis of value for two things which by their nature may go in two different value directions must lead to a muddle.

Land valuation is immoral in theory. When you set an exchange value on land you admit by that act the right of the individual to the ownership of land. A market price being the capitalization of

rent, the very existence of such a value is recognition of the private appropriation of rent. And that is immoral, because it is the private appropriation of a public value. No good end can come from a bad beginning.

Besides, value being merely an opinion, and as changeable as human desires, every attempt to fix value for a length of time is hazardous. That's why banks and other mortgaging institutions are in such a dither today. The law requires banks to liquidate their real estate "assets"—foreclosed mortgage holdings—within a reasonable time, usually five years. Decreased production during the past ten years has decreased land values—since rent is part of production. Government spending has tended to hold up land values, but it has also increased taxation, which has further retarded production.

So now the banks are being forced to clear their books and are taking "losses." But these are largely book losses, since most of the real estate acquired by foreclosure sells for more than the amount originally lent on it. That is poor solace for the bank which has been figuring on a profit.

From a social point of view the present unloading tendency is hopeful. The plummeting of realty values (sales in Manhattan during the first five months of 1940 averaged about 75% of assessed values) indicates that land which has been held speculatively will now be put to use; the valueless dilapidated buildings will have to be repaired or replaced.

City controllers report that property acquired through tax liens is being dumped on the market (let's hope returned to former owners) for revenue producing purposes. Early this spring Scranton, Pa., had taken title to 6,000 unsalable, tax-delinquent properties, and was planning to make up for its tax losses by renting them itself.

This delayed deflation of land values—delayed primarily by the pump-priming fallacy practiced by the Federal government, aided and abetted by local extravagance—portends some renewal of production activity, although increasing taxes on production will tend to check this tendency. And, so long as we allow private collection of rent, this "breathing spell" for production will soon result in speculative advances in land values, which will again choke the smoke-stacks.