

## REDUCTION OF TAX ON BUILDINGS IN THE CITY OF NEW YORK

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The movement for the reduction of the tax on buildings and the corresponding increase of the tax on land have been prosecuted with some vigor for a good many years. It has resulted in the entire exemption of buildings in several Canadian provinces, and in various cities of western Canada; and in the United States, in a reduction of the tax on buildings in Pennsylvania cities, Pittsburgh and Scranton.

In this agitation arguments which are undoubtedly extreme have been presented on both sides; arguments which involve far more than the proposed comparatively moderate change in the burden of taxation, of reducing the tax on buildings and increasing the tax on land to make up the deficiency. Those who favor the proposal are apt to attribute to it results which at best could only be achieved by a much more extensive application of the principles of Henry George, than are at present proposed. On the other hand, those who oppose the change often do so on the theory that very much more is involved than the shifting of part of the tax from buildings to land.

When suggesting the reduction of a tax on buildings and an increase in the tax on land it is not necessary to assume that the reduction will be brought about at any particular rate per annum or within any given number of years. The rate of change should depend upon time, place and circumstances. In some rapidly growing city of western Canada, where the tax rate is very low in proportion to the value of all real estate, buildings may be exempted from all taxation at one stroke without affecting values as much as a very small change might affect them in an older city of the United States, where taxes are high in proportion to value. If it were agreed that in any given city taxes on buildings should be reduced and taxes on land increased, it would still be subject for serious discussion as to the rate of the reduction and the time within which all taxes, or one-half the taxes on buildings, should be taken off.

The argument advanced most forcibly by those who object to a differentiation in the treatment of land and buildings is that for a

long time the present treatment of real estate as a unit has prevailed, and that any change would be unjust. Many of these persons admit that if at the beginning of our development in this country we had exempted buildings from taxation, the results would have been better. The city of New York is some three hundred years old. We hope that it will endure for at least some thousands of years. It is therefore in its infancy. An argument that because for one-hundred years or more we have pursued a certain policy we must therefore pursue it forever, seems either childish or so prejudiced as to be unworthy of consideration.

The objections to the reduction of the tax on buildings that it would disturb existing conditions, produce financial panic and ruin many innocent persons, all proceed from the assumption that the change in the rate of taxation on land and buildings is to be too rapid.

It would be possible to make a change so gradually that from decade to decade no shock or disturbance due to the change would be felt. It is not assumed that the changes are to be made so slowly; nevertheless, the fact that it would be possible to make them almost imperceptibly entirely destroys the force of any objections to the principle, based on the disturbance or supposed disturbance of existing values and existing relations. That argument is against some mode of change and not against the proposed change in itself.

Another objection urged sometimes with much violence is that an increase of the tax on land will force the erection of buildings of extravagant height, and thus congest both population and business activity. Unfortunately, in this country we have neglected to provide any efficient regulations upon the erection of buildings in cities. We are beginning to do it. We have some regulations now in Washington, Boston, New York and various other cities, and the tendency is to improve and strengthen those regulations so that we may control the erection of the buildings at least as efficiently as they have long been controlled in the cities of northern Europe. Whether or not the change in the incidence of taxation would intensify the evils from which we now suffer is immaterial. The evils of congested buildings are admitted on all sides; the remedy, regardless of taxation, is proper regulation.

Probably no change in methods of taxation would improve the conditions due to the failure to impose proper restrictions upon the

erection of buildings, and no change could make it worse than it is now in the borough of Manhattan of the city of New York, and to a lesser degree in other cities of the United States.

Since the invention of steel frame construction the history of the development of Manhattan Island has been deplorable. Someone found that he could erect a twenty-story office building and steal light, air and means of access that belong to his neighbors. For a time the building was profitable and the land apparently had a much higher value than before. Others desired to take advantage of the enhanced value of their land and erected similar buildings. When the first building was deprived of light on two or more sides it ceased to be profitable. Some streets were entirely inadequate to carry the new traffic. These results followed the erection of buildings on Manhattan Island of excessive height and which covered too large a percentage of the lot on which they were built. Regulations in European cities are almost always based on street width. They are designed to permit the best use of all the land consistent with the best use by each owner without impairing the equal rights of other owners. The amendments to the New York charter enacted in 1914 as the result of the report of the commission on building heights contain a direction which indicates clearly the intent of the commission to bring about regulation upon these principles. Section 242-a of the charter contains the following direction to the Board of Estimate:

The board shall pay reasonable regard to the character of the buildings erected in each district, the value of land and the use to which it may be put, to the end that such regulations may promote public health, safety and welfare and the most desirable use for which the land of each district may be adapted and may tend to conserve the value of buildings and enhance the value of land throughout the city.

When suitable regulations are in force, the tendency observed in all cities is the erection of buildings of the maximum heights and area permitted by law. This is a most satisfactory tendency, which could only be intensified by a reduction of the tax on buildings and an increase in the tax on land.

Taxation is ordinarily regarded as a necessary evil. This is not true of taxes on land. The evil results of inadequate land taxes are apparent everywhere. Land needed for intensive use is put to a less adequate use, and land needed for immediate use is held at

such high prices that improvers are forced to utilize less well suited land, in advance of any economic necessity. About all our cities, and especially about New York, we find great tracts of vacant land intervening between well built areas. These intervening tracts are often fully developed with streets and all conveniences greatly increasing the cost of city administration, for lighting, policing, fire protection and in other ways. Persons are driven to establish factories and houses on less desirable sites because of the public policy that offers the hope of reward to those who withhold land from use. This hope of reward is seldom fully realized, and only a few who gamble in vacant land draw prizes in this undesirable lottery. The whole community suffers. In every direction the development of our cities is hampered and distorted by this withholding of land from appropriate use and putting it to an inferior use. Our systems of transportation cost vastly more for original construction and for operation than they should because they must traverse sparsely settled territory to reach settled areas. High land values impose an annual charge on the whole community without the slightest compensating gain. A tax on land is a burden on no one save the one who happened to be the owner at the time the tax was imposed. A land tax is like a rent charge, but instead of going into the pockets of private citizens it goes into the public treasury to relieve all citizens from the burden of taxes imposed on all. The higher the tax on land the lower the selling value and the less capital is required for land development. The rent of land blesses neither him that gives nor him that takes, unless it falls into the public treasury. The greater the degree in which it goes into the public treasury for needed costs of government, the better.

Taxes on buildings present an entirely different aspect. In every growing city taxes on buildings tend to check the erection of buildings because capital will only seek investment when the investment offers a reasonable return. Supply and demand determine price, and a tax on buildings must be paid by the tenants of the building just as every other tax imposed on products of human labor must be paid by consumers.

A few illustrations drawn from actual conditions may make the matter more clear to those unfamiliar with the relative value of land and buildings. In the city of New York as a whole the value of land is about 62 per cent of the total assessed value of land and

buildings. Every increase in the tax on land and a corresponding decrease of the tax on buildings will favorably affect all properties where the value of the building exceeds 38 per cent of the total value of land and building. With the exception of the houses of the very rich and a small section of the financial district of the city of New York, buildings when first erected generally exceed in value the land on which they are placed. The highest-priced residential land on Fifth Avenue is worth from \$150,000 to \$200,000 for an inside lot 25 x 100. It is a very costly house which is worth more than one-half the value of such land. Corner lots are worth half as much again, which more than makes up the cost of the building erected on the corner. In the financial section some of the highest priced land, corner included, is worth from \$200 to \$350 a square foot. A twenty-story building of good construction can be erected for \$150 a square foot or less. In the case of industrial buildings, factories, the houses of the moderately well-to-do and the tenements, the conditions are very different. A factory building is rarely erected on land worth more than \$4 a square foot, and a six-story factory costs about \$9 a square foot of the land on which it stands, while a ten-story factory of most inexpensive construction costs \$12 a square foot or more. Usually such a building stands on land not worth more than \$2 or \$3 a square foot. A loft building in Manhattan twelve stories high costs \$30 a square foot. The condition in respect to lofts is abnormal in the extreme because of the failure to regulate building heights. The ordinary six-story tenement house without elevators on Manhattan Island costs about \$8 a square foot while it usually stands on land worth not more than \$4 a square foot. In the other boroughs, a four- or five-story tenement house is still more valuable in proportion to the land on which it stands. In Brooklyn a five-story tenement costing \$7 a square foot stands on land worth perhaps \$2 a square foot. The modest dwelling of two and a half stories built of frame, which costs from \$4,000 to \$6,000 costs about \$5 a square foot and stands on land worth generally not more than \$1 a square foot.

These figures may be hard to follow, although they are presented in the simplest way. The lesson they teach is this, that taxes on buildings are very onerous on tenement dwellers, owners of modest houses and upon manufacturers. Not a few rather arrogant persons who receive ground rents and never did a stroke of work to increase the world's wealth, talk of themselves as taxpayers and the

poor dwellers in tenement houses as persons who pay no taxes. The contrary is the fact. The recipient of ground rent is the recipient of government favor whose taxes are paid for him by others, while the man who lives in the tenement house is charged at least one-sixth of the rent he pays in taxes. To the extent to which taxes on buildings are reduced, to that extent tenants of buildings will save. They will not save in the first year, perhaps, but charges for buildings can only amount in the long run to the usual return for capital. If for the time that return is increased by a lessening of the tax, others will seek a like investment until the demand and supply of buildings meet at the rate of usual return.

Some day society will see that there is no occasion for any tax at all in any community; no buildings of extravagant height or size will be allowed; there will be open space, light, air and access enough, and all buildings once constructed will be protected from encroachment of neighbors upon their light, air and access. The value of buildings will be conserved, and our cities be supported by a rent charge in the form of a tax on land only which will then be a burden upon no one.

For the purpose of this argument, the time within which this beneficent change shall be brought about is not material. The question before American cities is whether they shall be content to suffer forever the ills which now affect them, because their ancestors started in the wrong way, or turn their faces toward the light.