

# Henry George School Briefs

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## AFFORDABLE HOUSING

It is impossible to pick up a newspaper today and not see one or more articles on the housing crisis. This crisis manifests itself in various ways: from the appalling numbers and conditions of homeless people in urban centers to the high cost of buying a home on the suburban fringes. Housing - affordable housing - is in short supply.

Free-standing single-family homes may soon disappear in response to the affordable housing crisis in the same way that eight-cylinder gas-guzzlers disappeared in response to the oil crisis of the '70s. Single-family homes are becoming a high-priced luxury beyond the reach of many in the middle class.

Several items go into the cost of housing, including land, building construction, interest on the mortgage, and property taxes. Many solutions have been proposed which address one or more of the costs. Some experts say "there are no easy solutions" and that the federal government must return to higher levels of housing subsidization and/or set aside government land to build upon.

Other experts call for easing of zoning restrictions, allowing for more density - more housing per acre. Proposals such as this often meet with resistance from local residents. Vested interests of present homeowners are served by zoning, but at the expense of those who would like to become homeowners.

What various governmental regulations such as zoning have done is, in effect, to create an artificial shortage of land in addition to the natural shortage of land available for housing. For example, in the New York metropolitan area almost all undeveloped land zoned for residential use is restricted to single-family housing. The net effect of this land shortage is to raise the value or price of land even higher than it would be without legal restrictions on homebuilding. The haves benefit while the have-nots either pay more or do without.

Indeed, it is the high price of land, and its tendency to increase faster than other costs, that limits the supply of affordable housing. According to a recent study by the Urban Land Institute, land values during the first half of the 1980s rose over 200 percent in some areas, while the national average was 51 percent. This is almost twice the rise in the Consumer Price Index for the same period. Land values in cities with new high-tech industries have soared much higher than the national average. The supply of land, being very inelastic, has been unable to meet demand.

Where is this all taking us? Perhaps we can get a clue by looking at Japan, where rising land values are a bigger problem than in the US. Residential land prices in the Tokyo area averaged 93% higher in fiscal 1987 than in the preceeding year. This translates into higher prices for homes which now average \$2 million outside Tokyo. Even though mortgage rates are cheap (a little over 6%), young Japanese couples spend about 20% of their disposable income on mortgage payments. In fact, the high price of land comprises 80% of the cost of a new home in the Tokyo area! These facts reflect not only a natural shortage of land in Japan, but also an "unnatural" shortage arising from excess money being "invested" not in the production of wealth, but in the speculative selling, buying, and holding of land.

The problems caused by rising land values and land speculation was noticed over 100 years ago by the American economist, Henry George. As a solution, he urged a single tax on land values:

"If we tax houses, there will be fewer and poorer houses...But if we tax land values, there will be no less land. On the contrary, the taxation of land values has the effect of making land more easily available ...since it makes it more difficult for owners of valuable land which they themselves do not care to use to hold it idle for a large future price."

An increase in taxes on land values will have a significant effect. For example, assume a plot of land yields a 10% annual return; a 5% tax on its market value (selling price) reduces the annual profit by 50%. (This expected profit determines how the land is valued in the market -- what it will sell for.) Speculators will find their future gains from selling the land reduced. Temptation to hold on to it is lessened, therefore many would sell their land. More buyers than before would be those who intend to build upon the land, not hold it out of use.

By taking the profit out of land speculation, more land will be put up for sale. Increasing the supply of land on the market will further decrease its price. Sellers will have to compete among themselves for buyers -- by lowering their prices.

This reform can be implemented by gradually shifting current state and local property taxes from the value of buildings onto the value of land. The nonproductive incentive to speculate in land would give way to the productive incentive to build more homes. As more housing is constructed for middle income folks, existing housing will be made available for those of more moderate means. With land no longer priced beyond the reach of most homebuyers, Americans will once again be able to house themselves -- and realize the American dream.

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#### HENRY GEORGE SCHOOL BRIEFS

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