Erie Land Tax Association

ELTA

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BULLETIN

People who are doing business in Downtown Erie need to understand the basic economics of Land Value Taxation, (LVT) Two kinds of operators are involved, the renters and the landholders.

LVT is good for each group but each must understand the advantages that are involved. Let us consider first the renter.

It is not the landholder who fixes the rent. He is in competition with other landholders for renters and must abide by the conditions of the open market. Rent of downtown locations is based largely upon the number of people who pass the site. This will depend upon the size of the city, the proximity to other stores and offices and the general drawing power of the area. Naturally the rent will be affected by the condition of the building but unfortunately this factor is nullified to a large degree when there are no really good buildings in the area.

Renters on State Street are going on strike. A renter does not like trying to start a new venture in an old building. Since he is saddled with the maintenance of the building he is reluctant to expose himself to the high probability of failure.

Under the LVT policy taxes will be increased on those very valuable sites where buildings are obsolete. It must be understood however that an increase in the tax on the <u>land</u> will not and cannot increase the rent. An increased tax due to LVT must be borne by the landholder. Only two factors can increase the rent. First, more people coming regularly into the area to shop, and second, a new building, which is attractive and worth more to the renter. Most renters are willing to pay higher rents for good accomodations.

If landholders want to secure their position in downtown Erie, where $300,000,000 worth of business is done each year, they must provide an attractive atmosphere for shoppers in general, and to do this they must build new buildings. This they cannot and will not do under the present tax policy. The proof of this statement is everywhere.

But can the landholders stand having their taxes increased on the land with the understanding that the tax on improvements will be cancelled? There will be a period of transition. Will the landholders be able to take the blow?

We think of a man clinging for dear life to a log in a swiftly moving stream. If he hangs on he will wear himself out and have no strength to get to shore. But the act of letting go involves his going under the log and bobbing up on the other side. If he lets go now and gambles on the only avenue of escape that there is, he might come up and eventually reach the shore.

What will happen to Erie landholders in the downtown area if they let go of the log now? Can they survive? We say they can and that they have only a short time in which to make up their minds. Look at the trend now. There are thirty main floor vacancies on State Street between 4th and 14th. They are all in old buildings.

We have difficulty in getting accurate figures on all properties. Therefor, we suggest that each store manager do a bit of calculating. He knows what rent he is paying.

He knows when the building was built. If it is fifty years old it has paid for itself. Therefor it has no real "book value". It does have some "use value" but the owner depreciated this 100% years ago. Every cent derived in rent is "land rent". Investment in capital goods is nil.

Let a manager get out his tax duplicate and examine the figures. Under the present system the city tax is computed by adding the land and building assessments and multiplying by .01025. School taxes are computed by multiplying the same figure by .01350. To get an approximation of the County tax multiply by .005. Add these and you have the total tax take of City, School and County.

You know approximately how much the insurance is. You know how much, if any, the landholder has agreed to do in the way of maintenance. Add these to the tax bill and subtract the total from the rent received. This will represent the profit of the landholder. Multiply this figure by 20 and you will have the capitalized worth of the property under the present system with 5% as the basis of your computation.

Now turn to the city tax duplicate and take only the land value and multiply it by .070. This will give you the city tax under the LVT policy. Scratch out the former city tax and enter this last figure in its place. Add the three and you have what the total tax take would be should the LVT policy be adopted.

Now follow the same proceedure in ascertaining the capitalized value of the property. In most cases this will have been lowered but the threat of having to pay excessive taxes on a new building has been removed. Can the landholder survive long enough to get to shore, shore being a generally improved and more attractive shopping center, and a nice new building in which to house the store.

If your figures show that the squeeze will be a bit tight, just remember that the landholder has been salting his profits away for many years. He has put nothing back but has been depending upon the location factor to get him by.

Land value taxation maximizes the importance of investing in capital goods. Buildings have to be built and in the building will provide wages for labor and profits for building supply houses. LVT will minimize the advantage of investing in land as such. This will be good for all who are willing to work for their living.

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IN THOSE CASES WHERE THE LANDHOLDER IS ALSO THE PROPRIETOR THE FUNDAMENTAL ECONOMICS REMAIN UNCHANGED. FOR PURPOSES OF DISCUSSION WE MUST SEPARATE THEM IN OUR THINKING.