

# Seldin On Change

## IMPLICATIONS OF CHANGING LAND PRICES

by Maury Seldin, CRE

Land price increases generate a great deal of interest. Land price declines generate a great deal of concern. Currently, there is a great deal of concern about land prices.

The downturn in land prices is yet to be fully documented, but a few related points are of considerable interest:

*First*, the ratio of land value to building value has increased, at least for housing. In regard to land value as a proportion of land and building value, the housing market is experiencing a situation similar to the boom of the 1920s.

*Secondly*, the scale of projects and accompanying increases in intensity of land use have increased substantially. The skyline is seeing changes similar to those which occurred in the '20s.

*And finally*, there are some real questions as to how much additional land is really needed in order to add to the inventory of buildings. Construction activity has declined, which may be partially due to the high cost

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This article, fourth in a series by Dr. Seldin, is based on a presentation he made at the Land Policy through Taxation Conference, held last July in Rindge, New Hampshire.



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of financing and may also indicate that much more space under current conditions simply is not needed. With the decline in construction activity, there is a resultant decline in the demand for land.

From an historical perspective it is interesting to note that according to Homer Hoyt's *One Hundred Years of Chicago Land Value*, land value peaked in 1836, 1856, 1873, 1892 and 1926. It may well have peaked again.

### Significance Of Changes In Land Prices

Inflation and inflationary expectations account for a substantial portion of the change in land prices. In order to know and better understand how much of the change in land prices has been accounted for by inflation, it would be useful to know how much land is in speculative hands and how the quantity of this land changes with general price movements. Having this information in hand would sort out some of the factors influencing changes in land prices.

Our interest in land values is predicated on obtaining a more effective utilization of the urban land. Strangely enough, the most efficient pattern of land uses would give the least aggregate land value.

On a site-by-site basis, an increase in the efficiency of land use by increasing the intensity of use improves the land value. This may continue until the improvement becomes an overimprovement. Thus, within such limitations, we tend to think that the greater the land value, the more efficient the land use.

What is true of the individual parcel is not necessarily true of the aggregate. The value of the particular site depends upon the availability of competitive sites. Thus, a legal or other restriction on potential developable sites for a type of use will, by constraint of supply, push up values.

The extent to which values can be increased because of this artificial constraint is influenced by the availability of

sites farther out, even though they are less desirable. The location differences, especially the transportation costs, will influence how high the values of the more favorably located sites are able to rise. Thus, the more restrictive the supply of close-in land, the greater the premium for the close-in land.

Such premiums are reduced by additions of freeways and rapid rail transit systems. The far-out land becomes close-in, and the competitive advantage of this land is eroded. Thus, an optimal system would utilize a spatial relationship of activities and a transportation/communications network which would give the least aggregate land values.

As previously discussed, it would still hold true that the more intense development of a specific would give a greater value to that site. But it is irrelevant if the question focuses on the pattern of land use and aggregate land values rather than the value of a particular site in various uses.

### Current Trends

Forecasting by extrapolation will show good results, except for the turning points, and sometimes only the turning points count.

It is too early to tell if the back of inflation has really been broken. It is doubtful because many of the underlying causes have not been dealt with fully. While the cost push of the oil cartel and domestic suppliers of a wide variety of goods and services has softened, the lack of fully competitive markets still permits oligopolistic price pressures. Other impediments to a decline in inflation are the lack of productivity gains, wage and price increases tied to price indexes, and of course, the problem of the federal deficit. The attempt to deal with all these inflationary forces using mostly monetary restraint is at best optimistic — the better word might be foolhardy.

Nevertheless, the expectation surrounding inflation has changed and that tempers the rate of price increases in land. But there may also be some real changes in the demand for land.

The physical requirements for land use are changing. Smaller households along with some element of hard times tend to push people toward making do with less space in the housing unit and greater land use density. Also, the forces tend to favor a greater geographic concentration of activity.

The 1980 census showed more households living in two-unit structures than there were dwelling units in these structures. Illegal conversions of single-family units to include an accessory unit have been commonplace in many areas. This activity as well as other conversions exert less pressure to obtain additions to the supply of developable land.

The "back to the city" movement is not yet completely clear. The desire for a suburban environment and the shift of job locations to outlying areas are obviously a centrifugal force.

The big deterrent to efficient land use—the ecological movement—hit a watershed mark with the 1970 NEPA legislation. It may have hit another watershed with the 1980 elections. In any event, the decade of restraint constrained the land supply, fostered leapfrogging, and hence pushed up prices.

Now, however, the rise in unemployment is for some communities an overriding concern. The decline in the relative strength of the environmentalists is a tempering force on the pressures for extensive land use.

The contribution of the environmental movement in enhancing ecological and aesthetic values has been qualitative. However, instead of a positive approach to an improved environment, the strategy of restraints brought a quantitative problem in developable land. That problem appears to be easing.

### Land Policy Implications

The makers of land use policy are thus receiving signals from a variety of forces that land prices should be declining. A decline in inflationary expectations softens the land market. Demographics and the economy are softening the real demand for additional land; and, an ease in the environmentalist's impact is softening the supply constraint. Since the price of land is also an adequate indicator of misuse of land, there is great difficulty in sorting out which forces account for how much of a decline.

The greater the misuse of land, the higher the general level of prices. On the other hand, the more efficient the land use, the lower the level of land prices. In using land price measures as tools, it is necessary to couple them with a land inventory and budget. Urban development managers must determine how much land should be budgeted for conversion and whether or not the inventory is sufficient. Obviously, the inventory needs to be greater than the "budgeted" absorption. And, absorption will vary from year to year with economic conditions, especially interest rates. Land use managers should understand the system and maintain a management approach which utilizes price and quantity signals.

Land price indexes and land use budgets are only part of this system. It is also essential to plan, program and budget public improvements and coordinate these activities with the planning zoning systems so that there is an availability of developable land.

The supply of land has been unduly constrained in recent years. This imbalance has now lessened, probably due more to a fallback in demand rather than the improvement of land use management.

Land use management still needs to be improved through a better system of signals and better use of these signals. For example, taxation as well as regulatory authorities often send the wrong signals. Many of these signals come through land prices.

We have a lot to be concerned about.