

Housing for All in Wilmington, Delaware

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Affordable housing is a national crisis. A significant number of Americans throughout the country cannot afford to rent a habitable dwelling, and many more are impoverished by its cost. And, because it's a national problem, the high cost of housing cannot be fully solved within a single city like Wilmington, Delaware. When the local supply of rental housing goes up, prices go down until people from elsewhere come for the lower rents and bid them back up. More jobs would draw people to Wilmington and enable landlords to increase their rent, and an increase in the local Minimum Wage would allow the same workers to pay higher rents. However, more housing, more jobs, and an increase in the local Minimum Wage would be very good.

It is a matter of supply and demand; people will pay whatever they can rather than go without a place to live—and the incentives too often favor land speculation, rather than increasing the supply of rental housing. Given the number of units offered for rent and the number of renters in need, it is reported that only those earning more than \$22 per hour can afford to rent an adequate dwelling in Wilmington Delaware. That's 2.16 times Delaware's Minimum Wage.

So, how can a more significant number and a more substantial proportion of Wilmington's population get housing? There are certainly more empty houses and vacant lots than there are homeless families. Out of 35,000 dwellings, 3,500 of them are empty. These houses could be rehabilitated, and the many vacant lots could have housing built upon them once again. And they would if it was more profitable to do so than to let them sit empty. Why would anyone let a valuable plot of land sit idle growing weeds and collecting trash when they could sell it for tens of thousands of dollars? Why would anyone leave a building to sit empty when they could fix it up, rent it out, and get thousands of dollars per year in rents?

And the answer is simple. In many cases, the value of the land increases more than the real-estate taxes paid each year. In the case of buildings that are deteriorating, the value of the land is increasing more than the buildings are losing value. Most importantly, the owners of idle land believe that the value of the land will grow more in the years ahead than the return on anything else they could buy with the money if they sold—in spite of the real-estate taxes that must be paid each year. They see the increase in the value of land as more profitable than an investment in restoring living units—especially true where residential land has potential for high-rise buildings and commercial use.

It is also true, in the worst areas of most cities, anyone who rehabilitated a house would find that

the return on their investment would be less than it would have been if they put the money in the stock market. That is because the neighborhood is so unsafe and unhealthy, that no one will pay enough rent to yield the accustomed returns on the investment in the building plus management, maintenance, insurance, and other expenses, which include taxes on the building. And that is perhaps the biggest reason why the city owns a purported one thousand empty uninhabitable houses, which they don't sell, or even give away.

Given the national scope of the problem, the solution may require several measures. The first and most important is also the most difficult, politically. It requires a shift of all taxes from buildings and wages to the value of the land. This removes the penalty from providing the things we most want: jobs and housing. In the least desirable areas, this tax shift will automatically make profitable the rehabilitation of many units that are currently not profitable. Why? The tax on buildings and wages exceed the rent of land and make the site unprofitable. After the shift, any lost revenue comes from the value of land in more desirable neighborhoods.

A tax shift from buildings and wages to the value of land in a single city or even a state does not diminish the income from rental housing, which is what the selling price of residential land is based on (It increases slightly). That is because of the reduction in taxes on buildings and wages increases the land's income by an equal amount. However, it does increase the penalty for holding idle land and stimulates the rehabilitation of housing. Every landholder pays according to value whether the land is used or not.

Delaware has one of the lowest real-estate tax rates in the country, so the shift would be less of a stimulant than it would be where the rates are higher, like New Hampshire or Pennsylvania. Most of Wilmington's real-estate tax is levied by the school district, so it makes the shift more difficult. None-the-less, shifting taxes is a necessary step, one that creates a stimulus without any government subsidy or loss of revenue. Wilmington's landlords now pay a little bit of tax penalty on the value of the land. Without it, there would be no inherent cost for holding idle land, including worthless buildings, and the city would be even more dependent upon code violations and vacant dwelling registration fees to encourage the maintenance of its housing stock.

The state of Delaware, like the federal government, operates largely on the income tax. It, like most other taxes, is paid at the expense of land rent and diminishes the income from the land by the same amount. However, it poses no penalty for holding idle land. And, because income taxes are levied throughout the state and the rest of the country, Wilmington cannot shift them to the value of the land. If Wilmington is unable to shift the school district real-estate taxes to the value of land, it will very much diminish the results of the effort to create jobs and rejuvenate its housing stock.

Whether a re-assessment is done before, at the same time, or after a shift to land value taxation, it will increase the cost of holding valuable land idle, and it will diminish the penalty for

improving buildings in the slums. That is because the more time since a re-assessment, the more land values will have increased in the better areas, and decreased in the worst areas of every city.

Because Wilmington levies such low real-estate and wage taxes, even with a shift to land value taxation, other measures will be considered. The first is Rent Control. It is an intervention in the market, which tends to make rental housing more affordable by preventing precipitous increases in market rents. Rent Control would, as it has in other cities, help numerous renters from the oppressive increase in rents. However, the first problem is that landlords tend to defer maintenance until the units are worth what they are allowed to charge. That is the reason why maintenance codes require far greater policing under Rent Control. The dilemma posed with Rent Control is one of ethics. Does priority of occupation give one person a right to occupy a dwelling with lower rent, when another person is willing to pay a higher one?

The second consideration is Public Housing. With the city owning a purported one thousand empty dwellings, it seems reasonable that the city's administration could hire carpenters, have the buildings rehabbed, and add them to the city's Public Housing. This might cost the taxpayer less than subsidizing the free market.

There are also 2,500, privately-owned empty houses and many vacant lots. They must be restored or rebuilt by their owners, or sold to someone who will. In cases where the land has value, the land value tax must be greater and expected to be greater in the future than the increase in the selling price of the land. At the same time, when the houses are restored or rebuilt, the taxes should not increase because of it. In other words, a land value tax remains the same whether the land is used or not. The city should not levy taxes on buildings, wages, sales, or any other productive activity.

In places where the restoration and rebuilding are not profitable, the removal of taxes on buildings would lower the cost of providing them. At the same time, the removal of the wage tax would enable more tenants to afford the minimum profitable rent.

It is not clear how much of the wage tax is compensated for with higher wages, which would lower the employer's income from land, and how much of the wage tax diminishes the wages of city employees, lowering what they are able to pay for a place to live. None-the-less, eliminating the wage tax would increase total land rents within the city by the same amount.

Land rent should be the only basis for taxation. That is not only because it creates the largest number of jobs and housing units, but because it is the only value that increases with the expenditure of city revenue.

The rehabilitation of 3,500 houses would go a measurable way toward increasing the desirability

of the city and its aggregate land values, which would not only add to the assets of Wilmington's landowners but the city's tax base. In other words, land value taxation in the city of Wilmington would not only enable more people to get jobs and housing, but the landlords would increase their income because they would be getting rental income from 3,500 more houses, and with a healthier, safer, larger economy, people would pay more to live and do business in Wilmington Delaware.

It should be said that many people will come from near and far to get new jobs and housing that are produced within the city. Because of the competition from new people, the least healthy, skilled, and educated will still need public support. However, with land value taxation, the city will have ample revenue for public housing and special education. Unlike taxes on building, wage, and sales, which discourage production, the higher the tax on the value of land, the greater incentive to use the land productively—increasing the number of jobs, dwellings, and public revenue.

There are many programs and subsidies that will help. However, every subsidy to the poor will indirectly increase the income and the selling value of the land. So, as long as there is no serious penalty for non-use and underuse of land, it will continue and result in a lack of jobs and a shortage of housing. Whatever course of action Wilmington takes, every city has within its borders, the resources to provide for its residents with ample jobs and housing.