

# **The Arden Land Trust**

By Mike Curtis (1994)

Today there are hundreds of land trusts in the United States; dozens of them are community land trusts which collect land rent and keep their land out of the speculative market. Between 1894 and 1950 there were 17 land trusts started by Georgists and referred to as Enclaves of Economic Rent. Fairhope, Ala. was the first, Arden was second and Ardencroft was number 17. What is true of Arden is to a greater or lesser extent also true of Ardentown and Ardencroft.

## **The Potential of a Georgist Land Trust**

Before it is possible to judge the success or failure of Arden as a Georgist land trust, it is necessary to understand the limitations of such a trust.

Unless you have an enormous amount of land and can limit population, you cannot create a frontier. If you cannot offer free land (land that can be used without annual payments or a sale price), you can't alter the distribution of wealth — raise wages and interest and lower rent. However, there are two primary things a land trust can do that cannot otherwise be done through the democratic process. The first is to remove the need to invest in the speculative price of land, which is based on expectations of greater profits in the future. The second is to transform a tax system based on the confiscation of private property into a payment for the exclusive possession of land, which is common property.

## **The Speculative Price of Land**

In the simplest terms, the difference in payments between leasing and buying a building is how quickly you want to pay off the debt. If you don't pay off the principal, all other things being equal, the payments are about the same. Land is different. In most cases its income increases much faster than inflation. Its price, therefore, is always based on a projection of its future income. If the current rate of interest is 5%, a building-lot with a current potential income of \$3,500 per year might well sell for around \$100,000 or more. That means, if you borrow the money to pay for the land at five percent, you'll have to pay \$5,000 per year to the bank in interest.

That's \$1,500 more per year than you would have had to pay its owner if you were just renting. However, if you borrow the money and buy the land, no one can ever raise your rent again. Those who can't afford to invest in the speculative price of land are destined to be long-term renters.

## **No Need to Buy a Piece of Land**

A land trust can buy land at the speculative price and lease it out at its much lower current market value. During the early years of a lease, the trust absorbs the loss. Each year the rental value is reassessed, and the rent is adjusted commensurately. In time, most land will yield more than enough to make payments on the purchase price. As the surplus accrues, the trust can purchase additional land and extend to others the same opportunity to use land without investing in the speculative price.

## **Wealth and Income Taxes Converted into a Potential Rent Tax**

Only through the lease agreement can the landholders be shielded from the government theft of their private property, and required to contribute to the community in reference to the value of the benefits they receive through the exclusive possession of land.

The trust simply pays all the confiscatory taxes levied upon the wealth and income generated within the trust, and pays them out of the rents levied upon the annual value of the leased land.

## **Arden and the full rental value**

Arden, the Georgist Land Trust, has evolved over the years, but its basic documents are still in tact. The streets and parklands, which make up about half the area of the village, are owned by the political entity, "The Village of Arden". The other half of the land, which is leased in varying sizes for houses, is owned by the trust. Instead of a Deed, the people who own houses and other improvements have a lease.

The Deed of Trust and the lease agreements require that the land be leased at its full rental value. Out of the rent so collected all state and local taxes are to be paid so far as the rent is sufficient. Any remaining balance may be spent for such common purposes as desired by a majority of the residents, so long as those disbursements are properly public.

### **The Annual Board of Assessors**

The assessors are sworn to assess as nearly as possible the full rental value of each of Arden's leaseholds. However, a provision of the charter allows an alternative assessment submitted by any leaseholder and approved by two thirds of the Town Assembly with a simple majority in a referendum to become law. The alternative assessment is not required to be the full rental value. Ironically an alternative assessment has only once been adopted, and that was rather recently.

In the early years there was a mortgage to pay on the purchase price of the land, streets and public improvements to build, and a reluctance on the part of many prospective residents to build a house on a piece of land you couldn't own. It is likely during those early years that the full rental value of the leaseholds totaled just enough to pay the taxes levied by the county on the buildings and land, make the payments on the mortgage, and provide a reasonable level of revenue for the maintenance and improvement of Arden's infrastructure. In other words, the full rental value of the land was being collected and spent for the needs of the community. (When the state began to levy income and other taxes, they were disregarded by the trust.)

As time went on, the mortgage was paid, the roads were complete, water, gas, electric (much later), sewers became available, the rest of the county increased in population and development, and the value of Arden's land increased. The value of Arden's land increased at a much faster rate than its expenses, a trend that continues. Unfortunately, no provision was made for buying more land or any other external expenditure.

Arden could issue a cash dividend, encouraging a denser population, or it could still further improve its public spaces. However, not only would the right of a cash dividend increase the rental value of land, but so would the improved streets and park land. There is not only no need to collect the full rental value of the land, but if it were, there would be no reasonable way to spend it.

As it is, the elected Assessors have simply redefined the words "full" "rental" "value" when used in regard to assessments, to mean an amount equal to the needs and wants of the Village. There is testimony as early as 1912 that the full rental value was not being collected.

Because all the rent is not collected, the leaseholders enjoy what Georgists call an Unearned Income (Money collected or saved). This Unearned Income is calculated in a speculative projection and capitalized into a selling price. The net result is that land in Arden sells for just as much, given its advantages and disadvantages, as land sells for anywhere else in the county. The leaseholders enjoy the Unearned Income and the Unearned Increment (the increase in the selling price), and those who want to live in Arden have to pay the speculative selling price of the land, in spite of the fact that they only get a lease.

This failure, perhaps an oversight of the founders, was caused by not having an outside entity entitled to the surplus rent. There is no doubt it was a monumental undertaking to establish the trust and the village, and it may well have been impossible to find lessees under provisions that part of the rent would be spent for the

purchase of more land or education. However, the absence of an outside entity entitled to the surplus rent, ensured this ultimate failure.

### **Development Restrictions**

The founder had in his house a hand carved quotation of Themistocles. It read "I cannot play upon any stringed instrument; but I can tell you how of a little village to make a great and glorious city"

Today, Arden's residents have another idea. Arden's land continues to increase in value, but the town restricts additional dwelling units and therefore a greater density of population. This restriction lowers land values and often requires people to hold far more land than they want to — the antithesis of the Single Tax incentive.

### **Arden Transforms the Real Estate Tax**

If nothing else, Arden as a Georgist land trust, has accomplished one thing perfectly. It has transformed the county and school real estate taxes into a land value tax. The Real estate tax bills go to the legal owner of the land, the Arden Trust, and the money to pay the taxes is raised from leaseholders in proportion to the value of their land only.

We are told that Arden gets its name from a forest in a Shakespearean play. "Now am I in Arden?" says the character, "The more Fool I." In Arden, if you own a \$250,000 house, you pay no more in land rent for revenue than your neighbor does if she owns a \$50,000 house on a similar piece of land. However, the more your house is worth, the more everyone's land rent increases.

That's why people say: "in Arden, they take from the poor and pay for the rich." "Now am I in Arden? The more Fool I." The truth is, however, within the leaseholds of Arden, the value of houses and other improvements belong unconditionally to their producers or their assignees, not in any degree to the government or the community. Conversely, each leaseholder within the community is required to contribute to the community in direct proportion to the benefits she receives from the community; a small, but very real step toward the Georgist goal of justice. []

### **Addendum**

This article was written in 1994. It is now 2015. For some time now I have come to believe that the most important thing that land trusts can do is to convert the real estate tax levied on land and buildings to a tax on the rental value of land only. Because a land trust cannot create a free land alternative place to live and work, it cannot increase wages and the return to buildings and capital investments, and it cannot lower land rents.

If the full rental value of the land were collected within a land trust, the reality would be that the leaseholders would find that their wages and interest would not be any higher, and their rents would not be any lower. The only people that would take the leases would be those who could not afford to buy a parcel of land at the speculative price and build a house as well. As a result, the houses that would be built would consist of a little more than the bare essentials. They would not be significantly better off than a renter who lives in someone else's house. In other words, anyone who could afford to buy land instead of renting it, would do so and enjoy all the increases in its value.

During the first eight years of Arden when the leases required the full rental value of the land to be collected, and it was expected that they would be collected, and it was expected that as Arden became a more desirable community, the rents so collected would increase, only a small percentage of the lots were taken and those that were had only the most basic shelters built upon them. Then as it was insured that only as much of the rent would be collected as was needed to pay real estate taxes and meet the expenses of the village, as approved by the residents, all of the lots were taken and the houses that were build within the trust were equal in size and quality to those built in the surrounding area.

For this reason, I now believe that were another land trust to be founded, the best concept would be to write the leases so as to collect only whatever portion of the land rent was necessary to pay external real estate taxes and internal expenditures as desired by the residents. By doing that, the unearned income would be capitalized into a selling price that would generally increase over the years just as the selling price of fee simple land. By doing that, we would have in place a community that taxes only the value of land, and therefore, has as a much greater deterrent to non-use and under use of land. Once the infrastructure is in place, the leases could be sold, the investment recaptured, and land for another community purchased. This system would be equal to legislation that shifted all municipal and school district taxes to the value of land.

If another land trust is to be started, it should be in a state where the real estate tax is among the highest in the country. In that case, the conversion of the real estate tax will have a far greater effect in deterring the non-use and under use of land, which causes unemployment and a shortage of housing. []