The Enterprise of Community:
Social and Environmental Implications of Administering Land as Productive Capital

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We hear a lot of expressed concern about conserving the environment. But no one talks much about producing it. Why not manufacture it competitively and sell it in the free market like other goods and services—and even bundle it with product support? As a matter of fact, exactly that is being done. Designer environment is relatively new on the market, but its manufacturers stand behind it, and we will doubtless be seeing much more of it in the future.

To explain this unlikely sounding proposition, I shall first analyze an incentive structure that is only now gaining explicit recognition in commercial real estate. Then I shall describe a two-hundred-year empirical trend to show how the above scenario is being played out. In light of the incentives coming into play, this historic trend has some far-reaching and unexpected social implications.

It does not matter that the incentive structure I am about to describe is in its infancy, for in matters of social progress, it is always the trend and not any particular stage of development that is significant. But before tracing out the logic of these incentives, a key term calls for definition. For a moment let us talk abstractly about land.

**Land as an Economic Concept**

We are used to thinking of land as something physical; we describe it as clear, rocky, fertile or barren. But those who deal in land say that three things give it value: location, location, and location. It makes sense from an economic standpoint, therefore, to look at land not as anything physical but as a special kind of location having to do only incidentally with geophysical coordinates. It is intangible, always changing, never fixed in supply. I am talking about location with respect to all of the things in the environs of a site, near or far, present or anticipated, that have any relevance for its intended use. This excludes features of the site itself, such as the presence or absence of valuable minerals, soil, water, or built improvements. We are interested in what surrounds the site, not what is on it. Admittedly, having said that, the physical attributes of a site can influence the uses of surrounding land and, to that extent, its environment and hence its value. But
except for that, the physical features just named can be bought, sold, altered, or removed from a site without affecting its *location* as here understood.

From this perspective, what landowners actually sell—that which commands value—is location with respect to a specific *environment* at the moment of consideration or anticipated for the future. A site merely defined by geophysical coordinates without reference to its surroundings has no ascertainable value; it comes into demand only as its environs have relevance for an activity that is to take place there. A prospective home site for a young family gains in desirability if there is a school nearby, or a mine site if there is a railroad accessible to transport its ores, or a retail site if there are residences nearby, not to mention parking spaces, utility grids and many other things. When we buy or sell land, therefore, we are trading in what might be called *positioning rights*—rights to position ourselves and our activities strategically relative to other people and activities we consider significant.

For this discussion, therefore, "land" will mean *economic location*, or location that is potentially of use to somebody so that it commands a market value. It should be noted that "location" in this sense and "environment" are correlative terms; each implies the other and by itself has no meaning. While it is practical to define a parcel of land in terms of "metes and bounds," or geophysical coordinates, because these are constant, its economic location and hence its value is fluid, reflecting the changing location/environment of the site and the subjectivity and situation of the actors. Paul Birch (2002) puts it succinctly in economic terms: "The site value of a property is simply the sum of the externalities directed to that property from all other properties."

### Administering Land as Productive Capital

The immediate advantage an owner can take of his parcel of land is to use it himself, directly, as a farmer might or a homeowner. But that is of no interest to us here. Our concern is with the incentives a landowner acquires who brings his land into the market—that is to say, who sells or lets out its use to others. If he sells it, then of course he will be out of the picture and of no further interest for this particular discussion. But if he opts to lease it to others while retaining its ownership, he may be in the picture for a very long time. He will no longer be using the property himself, but will have made a
specialty of its ownership and administration. Ownership and use will have separated. That is the situation we want to study—and the more so if he has multiple tenants. In the case of a single tenant, the discussion that follows may have little relevance. But with multiple tenants it begins to be consequential, because a multi-tenant property begins to approach a community.

When ownership and use have parted and the owner no longer has the direct use of his land, what is his incentive with respect to it? How can he maximize his advantage from it over the long term? The only way he can do so is by making the site more valuable to its present or prospective tenants/users so that it will bring more rent. What does that entail?

As suggested above, the use anyone makes of a site is facilitated—indeed made possible—by the suitability of the site for the activity in question. That suitability depends on what people are doing elsewhere, and the proposed activity, or lack of one, in turn affects the value of sites elsewhere, creating a systemic process constantly changing with changing culture, people, and technology. By modifying the environment of a site (and correspondingly its economic location) in ways that make the site better suited for its intended range of uses, landowners make it more valuable to present or prospective tenants—who are then able and willing to bid more for it.

What is significant in the broad social picture is that landlords singly and collectively—persons specialized in the ownership and administration of sites rather than in their use—have incentive to optimize the environment for present and prospective site users, in the process creating land value and helping to harmonize land uses community-wide. They are, collectively, the natural market agency of community land-use coordination and planning. They have an economic incentive to become environmental entrepreneurs.

The owner of a regional shopping mall, for example, is concerned about all of the things he has any control over within that mall that are environmentally significant for the individual leased sites, such as there being the right combination of stores to create maximum draw from the market area served—taking into account the income level, culture and special needs of that particular market. He is also concerned that the managers of those stores make up an effective retailing team, each ready to cooperate in a
hundred different ways, such as participating in joint promotions, referring customers, maintaining a good appearance, keeping regular hours, or alerting one another promptly in security matters. He is equally concerned about having adequate parking and attractive landscaping of common areas.

But as a competent environmentalist, he is also concerned with a wide range of things outside his mall that affect each and every one of the sites he offers for lease within. He is of course concerned about the more obvious things, like convenient freeways and other transportation to the mall from his market area. But he also wants the community itself to be affluent—since that means a prosperous customer base for his mall merchants.

As within the mall itself, so in the surrounding community: one of the things most affecting the utility and value of land and thereby the affluence of inhabitants is the presence or absence of common services such as the provision and maintenance of parks and well-placed streets, water and power and other utilities, sewerage, security, justice services, and the like. Just as a mall owner, therefore, is concerned with the quality of management within his mall, so is he concerned with the quality of management in the community surrounding the mall, which is to say, the quality of local government. He is not alone in his concern. He is one among a growing constituency of commercial property owners, all of them concerned to see that municipal services are performed and performed well, whether that means monitoring, informally supervising, subsidizing, or actually providing the services—alone or in collaboration.

Now a small landlord, leasing or renting to perhaps one tenant, has little hope of improving or rearranging the environment of that small parcel to make it more valuable to the tenant. He is almost as helpless as an individual owner who uses the land directly. He lets it for whatever use and level of use the existing surroundings permit and has little control over how community infrastructure is provided. If he looks for any improvement at all, it is for municipal government to intervene on his behalf.

But as he enlarges his holding or combines with others to achieve a holding of more practical size, and begins to lease not to one but to multiple tenants, he gains leverage over the environment. He may now find it economically feasible and in his interest to build substantial physical infrastructure for tenants in a multi-tenant property.
But even before that, he finds that he creates environment in the very act of leasing to multiple tenants, since each tenant becomes a factor in the environment of every other. This has been carried to high levels of sophistication in the selection and arrangement of tenants in shopping malls.

Returning to the example of the shopping mall landlord, he goes well beyond merely selecting and arranging particular land users for optimal synergy and then building physical infrastructure for them. By providing proactive leadership and by creating in the terms of his leases rules that facilitate community living, he builds effective social infrastructure as well. He brings focused attention to the myriad environmental factors affecting land users in that place in order to facilitate a highly complex, interactive community of landlord and merchant tenants.

Just as environment is blind to property lines, so is the landlord's concern on his tenants' behalf. As he achieves success in building land value, he becomes economically more able to influence environmental factors well beyond his property boundaries, both directly and in cooperation with other landlords, each of whom has similar environmental concerns.

By virtue of this incentive, a distinctive entrepreneurial role for landowners in the market place has been building for more than two centuries. Instead of continuing like everyone else on his own plot as an environmental consumer, some owners have specialized and differentiated by administering their land to benefit others, who now have become their customers. In so doing, they are administering land as productive capital in the market. Their enterprise consists in the production and marketing of optimal human environment. As this enterprise has grown, so has the accompanying know-how.

However unconscious and unplanned, the spread of this enterprise reveals the general outline of a new paradigm of incentives governing the production and distribution of community goods. Ever so quietly, little remarked by social commentators but with the seeming inevitability of a sea change, this new paradigm has made its appearance with the advent and growth of multi-tenant income properties in every area of commercial real estate.

Growth of Multi-tenant Income Properties
The multi-tenant income property (MIP) is the application in an urban setting of a form of land tenure that for millennia characterized agrarian societies. It consists in holding the overall land title intact while parceling sites among land users by leasing. Site improvements, on the other hand, may be owned by anyone, depending on the particular circumstances. Multi-tenant income properties are the antithesis of real-estate subdivisions, such as condominiums and planned unit developments, in which a tract of land is fragmented into many separate ownerships.

Although the principle is ancient and widespread, modern multi-tenant income properties stand out as an American phenomenon. From their first appearance in the second quarter of the nineteenth century, they grew along a rising trend line that steepened after World War II, when they began to expand dramatically in number, kind, size, and complexity. Entrepreneurs in this new line of business created myriad environments reflecting the specialized needs of a seemingly endless variety of clientele—merchants, travelers, manufacturers, residents, and professionals of every variety. Each new type of environment that met with success in the market defined an economic niche. In rapid succession, we saw the debut of hotels, apartment buildings, office buildings ("skyscrapers"), luxury liners, camping grounds, commercial airports, shopping centers, recreational vehicle (RV) parks, mobile-home parks, coliseums, small-craft marinas, research parks, professional parks, medical clinics, theme parks, leasehold manufactured-home communities, as well as, increasingly, integrations and combinations of these and others to form properties larger, more complex and, significantly, less narrowly specialized.

As these properties become more generalized through mixed, complementary uses, they begin to approach what we are accustomed to think of as communities. Some hotels today, for example, compare with a small but complex city. The Venetian Hotel in Las Vegas, for example, includes shopping malls, professional offices, convention facilities, restaurants and cafes, chapels, theaters and art galleries, medical services, a security force, and the list goes on. In terms of population size, counting registered

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1 For an early history of the multi-tenant income property, see MacCallum (1970,7-48).
guests, visitors, and service personnel, it is two to three times larger on any given day than was the city of Boston at the time of the revolutionary war.²

As entrepreneurial landowners learned to build land value by optimizing environment for land users, a major segment of the business community in the United States abandoned the atomistic pattern of subdivided lots along Main Street, devoid of a unifying proprietary interest, and moved onto larger landholdings organized and managed under integrated ownership. Here the organized landowners—of whom there can be unlimited numbers through the use of stock and other undivided interests—provide many of the services that once only governments provided, including streets and parking, sewerage, storm drainage, power distribution, policing, and landscaped public places. Indeed, the sophistication of common goods now routinely provided in large multi-tenant income properties has far surpassed that of municipalities.

The rapidity of growth of such environmental enterprise in the free market was extraordinary. The shopping center at the close of World War II was small and experimental. Fewer than a dozen existed in the United States, and the name had yet to be coined. Today, shopping centers and malls in the United States number 47,000 and accommodate half of the non-automotive retail activity of the nation (ICSC 2001).³

Landlords have far transcended their stereotypical role. From being merely passive recipients of rents, they have become entrepreneurs. For each specialized type of multi-tenant property, they have tailored their management style to the needs of their clients. A large mall, for example, requires a serious commitment to leadership on the part of management to forge a collection of merchant tenants into an effective retailing team. Teams need a coach, and the mall manager is it. His coaching role calls for keeping the peace and building morale among highly competitive merchants (MacCallum 1971). The merchants recognize his unique qualifications. His concentrated entrepreneurial

² Boston Public Library, Reference. Boston had 15,520 inhabitants in 1765. By the time of the United States Census of 1790, this had grown to 18,038--freemen only. Counting room guests, service staff and visitors, the population of the MGM Grand ranges between 35,000 and 70,000 persons daily (MGM Grand public relations department 1998).

³ Automotive retail trade includes dealers and service stations.
interest in the land confers on him qualities found nowhere else in the mall. Unlike the tenants he serves, who are naturally partisan and inclined to exploit the mall as a commons, he is at once interested and disinterested. His personal and business interest is in the success of the mall as such and therefore in the success of each and every proprietor on the team. This leadership presence in the shopping mall is a major environmental asset for the community of merchants. Commentators in the retail trade literature have called it the whole premise of the shopping center.

Rationale of the Multi-tenant Income Property

The business rationale of the multi-tenant income property is straightforward. As environmental entrepreneurs in the economic niche defined by their type of property compete to lower their asking rents, a field of prospective tenants, similarly competing, bid up the rents they are willing to pay. For owners and managers who succeed in offering attractive physical and social environment in this competitive market, land revenues return the costs and a profit besides.

Multi-tenant income properties are essentially communities. As such, they stand out against the tragic record of traditional, subdivided communities, which can only be run politically. Subdivisions are not market phenomena because they do not sell a product and consequently have no customers. Hence they generate no income, but must subsist on assessments, or tax levies. Multi-tenant income properties, on the other hand, are business enterprises. Because they serve customers, they earn an income. Their market revenue makes them self-supporting—and more than merely self-supporting. Market revenue not only finances the current operation, it enables the accumulation of reserve funds from which to renovate as needed or even to completely rebuild to the same or another use in that or another location to stay competitive with other locations being similarly administered in the market. This illustrates the immortality of productive capital.

A natural question arises regarding the growth and spread of multi-tenant income properties. Why, with the major exception of apartments and hotels, has nothing comparable happened in the housing field? Instead, we have subdivisions with

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4 For speculation on the reasons for this and some of its attendant complications, see MacCallum 2005.
homeowners’ associations, which David Friedman (1987, 506) describes as government like any other. The anomaly may be due to a combination of factors. A partial explanation may be that innovations often appear first in the business world, where competition drives innovation and efficiency, and later make their way into the consumer market. A different explanation is cultural—the longstanding ideological bias in America favoring home ownership over renting or leasing that traces to colonial times and the repudiation of the last vestiges of feudalism in Europe. Still another explanation is public policy. Detached, single-family subdivision housing has been aggressively promoted since the 1930s by a collaboration of the federal government with the corporate building industry. In addition, federal income tax policy discriminates against renting or leasing for residential use. The federal government also directly subsidizes homeownership through its various federal mortgage insurance programs. The fact that such insurance only covers homes in a subdivision with a qualifying homeowners’ association in effect mandates subdivision housing, since most builders feel their product must qualify for federal insurance if they are to remain competitive in the industry. Added to these various federal requirements, the taxing of dividends at substantially higher rates than capital gains (at top rates the difference is 39.5 percent versus 20 percent) encourages short-term venturing for capital gain, as in subdivision housing, over conservative, long-term investment for income. At the local level, many municipalities require residential developers to adhere to the formula of subdivision with a mandatory-membership homeowners’ association.

Certainly all of these factors play a role, but understanding how they are to be weighed one against another awaits empirical and historical study. The public policy factor is so great as to suggest that the ubiquity of subdivision over land leasing in residential housing may be a matter of market distortion more than of consumer preference. To the extent the explanation is cultural and psychological, we do know from the abrupt shift of New York City apartment living from disrepute to respectability.

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5 “Is not the residents’ association, with compulsory membership, compulsory dues, and democratic voting rules, simply a local government under a different name?” For a discussion of homeowners’ associations, see MacCallum (forthcoming in Critical Review).

6 For a detailed historical account, see Evan McKenzie (1994).
almost overnight in the mid-nineteenth century that such change can happen rapidly (Cromley 1990).

Social Implications

However they may be provided, it is important to recognize that common services and amenities like streets, utilities, parks and public safety pertain to sites rather than to individuals as such; individuals derive benefit from them only as occupants of a place. Thus when landowners sell or lease sites for price or rent, they are in fact acting as the market purveyor of the public services and other environmental amenities attaching to that place.

With that in mind, we can readily imagine a scenario forecast by Spencer Heath in 1936. Pointing out that communities have owners, albeit unorganized, he forecast that the growing class of entrepreneurial landlords, representing broad segments of the investing public, would organize and begin to monitor the provision of public services. In so doing they would become thoroughly aware of the fact that they are merchandisers of the environmental amenities of their combined sites and that, prominent among these, are the public services of the host community. In a strict sense therefore, he argued, public employees act agents of the owners of the land of the community, even if the latter do not fully pay or supervise them.

Today, Heath continued, the unorganized owners of a community might be likened to the owners of a hotel who allow their staff to be chosen by public shout and, without any supervision or salary, to finance themselves and the operation as they see fit by picking the pockets of the guests. But as enterprising landowners become aware of their role in the provision and marketing the public goods—how they fit into the larger societal picture—it will only remain for a sufficient number of them to organize and assume full responsibility for servicing the community, which will then become a market enterprise. First they would voluntarily assume full fiscal responsibility, realizing in a practical way the Georgist dream of the "single tax," followed in due course by administrative responsibility. This, Heath forecast, will all come about as a matter of good business. Commercial landowners will see their opportunity to enhance land values dramatically by providing effective community services while relieving site users of the
harassment and burden on their productivity that taxation and bureaucratic regulation entail. The provision of common goods will then become a truly competitive market enterprise.

Robert Nisbet (1952) in his classic, *The Quest for Community*, described the importance, for the preservation of freedom, of "intermediate associations" of many kinds—familial, religious, economic, professional, recreational, academic—acting as buffers between individuals and political government. Because of their immature development when he was writing toward the close of World War II, it did not occur to him to specify multi-tenant income properties as a prime example of what he was describing. Later (1991), he acknowledged the omission, observing that they "assuredly fit the category of intermediate associations and perhaps also communities."

The manager of a shopping-center in a small California city volunteered how multi-tenant income properties provide such buffering. A large part of his role as manager, he said, was running interference between the local city government and his merchants so that they could devote more of their time to operating their business, to their own profit and to that of the center as a whole. He said he participated widely in civic organizations in the host community "to make friends for the center" and knew "the right people to go to to get something done, as long as it's fair." He cited examples of the center's cooperation with civic clubs, schools, and the Boy Scouts, and counted as personal friends the mayor, city manager, chief of police, and fire chief (MacCallum 1971).

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7 My grandfather, Spencer Heath (1876-1963), was an engineer, lawyer, poet, philosopher of science and social philosopher, as well as a pioneer in early aviation, developing the first machine mass production of airplane propellers in 1912 and ten years later demonstrating at Boling Field the first engine powered and controlled variable and reversible pitch propeller. Heath was awakened to social issues as a young man by the widely influential novel, *Looking Backward*, in which author Edward Bellamy set forth compellingly his socialist vision of the future. Rejecting that after six months and looking for something more workable, Heath found himself attracted to Henry George's emphasis on free trade. This began a 35-year active involvement in the Georgist movement, which focused his attention on land. Studying George's proposal that government collect and disburse all land rents, Heath came to a recognition of the importance of the private administration of land as productive capital. This new perspective he outlined in 1936 in a self-published monograph, *Politics versus Proprietorship*, and elaborated in 1957 in his main work on society, *Citadel, Market and Altar*. Heath's published and unpublished writings are administered by the Heather Foundation, 713 W. Spruce #48, Deming, NM 88030. <sm@look.net>
If we make but the single assumption that the historic trend toward the business-like administration of land as productive capital will continue, then it seems inevitable from the logic of the situation that the growing numbers of owners of multi-tenant income properties will associate to further their common interests, and that at the top of the list will be the shared desire to enhance community-wide services while relieving land users of taxation and its abuses and reducing bureaucratic regulation. Historically, being small and divided, landowners had little power to effect any significant improvements outside their own small parcel. The increase in the number and size of commercial holdings, however, and the growing involvement of the investing public, is changing that picture.

As such trade associations develop, their membership will come to include not only larger landowning interests, but also owners of small multi-tenant and single-tenant properties and even owner-occupiers, as these associations are seen to offer a more promising avenue to improvements than city hall. For the first time ever, we will see major trade groups endowed with substantial resources dedicated to promoting the public interest. For the special interest of their founding member firms will be the prosperity and well being of their tenants and properties, which they will see as interconnected with and dependent upon that of the host community.

As local real estate associations grow and develop and communities prosper, the environmental industry will inevitably organize on state and regional levels and take on correspondingly broader responsibilities for the physical and social environment. Associations will concern themselves with regional security, public parklands, and communications, even as shopping malls today on a small scale are known to build public roads and other common facilities, pro-rating the costs between them.

Fully half-a-century before modern multi-tenant income properties appeared in the United States, Adam Smith (1901,365) described the congruence he saw between the landed interest and the general public interest. In ways he could not have foreseen, the present discussion bears out his statement of broad principle:

The interest [of landowners] is strictly and inseparably connected with the general interests of the society. Whatever either promotes or obstructs the one, necessarily promotes or obstructs the other. When the public
deliberates concerning any regulation of commerce or police, the proprietors of land never can mislead it, with a view to promote the interest of their own particular order; at least, if they have any tolerable knowledge of that interest.

This alignment of the landed interests with the interests of land users, the latter embracing the whole of society, is explained by the fact that land utility and value is a function of environment. As an economy becomes more specialized, this concert of interests becomes ever more marked. When an individual gives up the direct use of his land and instead administers it as productive capital by letting its use to others, he acquires an economic interest in creating environments conducive to the well being of those others. His concern extends, albeit indirectly, to the total population, since its well being or adversity in turn affects his tenants.

It is noteworthy that Spencer Heath more than half-a-century ago was not so much proposing a social reform as he was merely predicting a future course of events, extrapolating from the market process as he understood it from what he saw happening around him. If the scenario he forecast is correct, the commercial real estate industry will find it in its business interest to voluntarily assume the full provision of public services, both locally and regionally. Not the least of these services will be to untax land users and relieve them of the manifold burdens of political government. In this way will the industry promote the general prosperity while building land values for its investors throughout the population. Through local and regional realty associations, neighborhood will compete with neighborhood, community with community, and region with region. On all of these levels, the competitive provision of common goods will be among the most highly profitable of all enterprises.

Conclusion

At the beginning of this paper, I set out to get the reader's attention by stating an unlikely sounding proposition. I said that human environment, both social and physical, resembles any other good or service in that it is amenable to being manufactured, marketed and maintained through the freely competitive processes of the market. I then did three things. I analyzed how this works in theory; described how it has evolved in practice, and
showed the unexpected and significant result toward which the practice must logically lead.

That is to say, I first analyzed an incentive structure that was not present so long as land was mainly owned for consumption or speculation, but that came about with the emergence of land ownership as a capital enterprise. Second, I showed how that pattern has unfolded historically in the emergence and proliferation of modern multi-tenant income properties. Finally, from that trend in real estate, I extrapolated to the future.

The unexpected result logically implied by the continuation of this trend in real estate is nothing less than the qualitative transformation of government from, to follow Oppenheimer’s distinction set out in *The State, a political process* to one purely *economic*. It seems especially fitting that this transformation will come about not by taxation, the marching and marshalling of armies, or the deliberations of legislative bodies, but by the quiet emergence of the *enterprise of community* as an almost incidental consequence of the continued normal development of the market process.

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