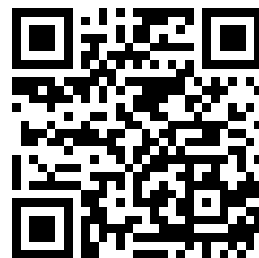

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U.S. Department of
Housing and Urban Development

**A STUDY OF
PROPERTY TAXES AND URBAN BLIGHT**

Report to

U.S. Department of Housing & Urban Development

January, 1973

H-1299

Volume I

PREFACE

This report was prepared by the firm, Arthur D. Little, Inc., under HUD Contract H-1299. The statements and conclusions contained herein do not necessarily reflect the views of the Department of Housing and Urban Development. Furthermore, HUD does not make any warranty, expressed or implied, or assumes responsibility for the accuracy or completeness of the information herein.

The reader is cautioned that the findings of this study are based on interviews with 228 property owners and data on 420 of their properties, located in ten cities. The data should not be construed as being averages for, or necessarily representative of, the nation as a whole.

ACKNOWLEDGEMENTS

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SUMMARY OF FINDINGS

This report summarizes information obtained from 228 owners of real property regarding 420 individual properties in the following cities:

- | | |
|--------------|-------------------|
| 1. Atlanta | 6. Oklahoma City |
| 2. Baltimore | 7. Philadelphia |
| 3. Chicago | 8. Portland |
| 4. Detroit | 9. Providence |
| 5. Nashville | 10. San Francisco |

The study was designed to ascertain:

1. "The comparative tax burden on owners of differing types of properties"
2. "The comparative incremental tax burdens borne by owners of various types of properties when they undertake to remodel or replace their structures"
3. "The characteristics of municipal assessment practices that lead to differential tax burdens"
4. "The extent to which the failure to undertake remodeling expenditures can be attributed to property tax procedures"

This summary presents the report's principal findings relevant to these four points. In addition, since the impact and role of the property tax varies significantly by neighborhood – or housing sub-market – the major findings for each neighborhood are set forth separately.

I. COMPARATIVE TAXES, ASSESSMENT PRACTICES AND URBAN BLIGHT

A. Comparative Tax Burdens

Neighborhood Differentials. In most cities, neighborhoods form distinct housing sub-markets containing different types of properties. On the basis of trends in property values, four neighborhoods were identified in each of the ten sample cities. These neighborhoods were: stable (property values at a high value and increasing at the city's average rate); upward transitional (property values increasing at an above average rate); downward transitional (property values declining); and blighted (property values steady at a low level or sinking toward zero).

Table A presents the effective property tax rate (tax as a percentage of investor reported

market value), in each neighborhood of the ten cities. A clear pattern emerges in which *poor quality housing in blighted neighborhoods, occupied by low-income tenants, pays property taxes at a substantially higher rate than property in other neighborhoods*. Since the millage rate is uniform throughout each city, neighborhood differences in effective tax rates are due entirely to differential assessment/market value ratios. In Baltimore, Chicago, and Philadelphia for example, properties in blighted neighborhoods carry ten times the tax burden of properties in upward transitional neighborhoods. For Providence the ratio is five to one. This is so, despite legislative requirements that residential properties be assessed at a uniform proportion of market value throughout each city.

TABLE A *

**MEDIAN EFFECTIVE TAX RATES
BY NEIGHBORHOOD AND CITY FOR 1970**

City	Stable Neighborhood	Upward Transitional Neighborhood	Downward Transitional Neighborhood	Blighted Neighborhood
Atlanta	2.1%	2.1%	2.2%	4.6%
Baltimore	1.6	1.4	9.8	14.9
Chicago	5.2	0.8	4.7	10.7
Detroit	3.1	2.8	3.5	3.0
Nashville	1.5	1.2	1.3	0.9
Oklahoma City	1.5	1.5	2.3	1.7
Philadelphia	1.6	1.0	1.9	9.3
Portland	2.2	2.1	2.6	1.6
Providence	1.2	1.0	—	5.2
San Francisco	2.2	2.0	2.5	1.9
ALL CITIES	1.9	1.4	2.5	3.8
TOTAL NUMBER OF PROPERTIES	84	96	84	85

Sample: Residential properties reporting market value for 1970.

Notes: Effective Tax Rate is property tax as a percent of owner reported market value of the property.

Source: ADL Investor Interview questions 3 and 8; ADL Homeowners Interview questions 6d and 7; and ADL Property Data Sheet question 4.

* The tables summarize information obtained from 228 owners regarding 420 individual properties in ten cities.

Investors' opinions about the property tax reflect the relative burden the present system assigns to them. Sixty-eight percent of the investors in stable and upward transitional neighborhoods rated the present tax system "desirable" or "very desirable". In cities where tax rates are low and equally distributed, investors in blighted and downward transitional neighborhoods also reacted favorably to the present system. In *Baltimore, Chicago and Philadelphia*, where low-quality properties bear grossly excessive tax burdens, there was strong opposition to the property tax. In the blighted and downward transitional neighborhoods of these cities, only 16% of investors described the present property tax as "desirable" or "very desirable".

Structural Differentials. The sample properties in each city also were classified by *age* of structure, size of building, and total number of units owned by investor. No over all pattern in tax rates was discernible for any of these classifications. In certain cities, the effect of the local assessment formula was evident, such as in Chicago where large rental properties and new properties are taxed at a higher percentage of market value. There was a clear indication that smaller apartment buildings and single family homes in Chicago were assessed at somewhat lower rates in an effort to encourage homeownership and owner occupancy, as well as to reduce the number of appeals by angry taxpayers.

B. Comparative Incremental Tax Burden

In our sample generally, building-specific improvements of moderate scale were not assessed, and consequently properties incurred no incremental tax burden for undertaking such improvements. 90% of all rehabilitation costing less than \$3,000 per unit was *not* reassessed. Large-scale rehabilitation was more likely to be reassessed, though the incremental rate of taxation was less than that applied to residential property in original use.

While the frequency of reassessment clearly suggests that the marginal disincentive to housing investment provided by the property tax has been exaggerated, *a great number of respondents reported that they feared property improvements would result in reassessment.* Several respondents went so far as to report that they had been reassessed for upgrading their properties, when in fact, their taxes had been raised because of a city-wide increase in the millage rate or a general reassessment. Misunderstanding of the assessment system was common to most cities in the sample. Few assessors' offices promulgated clear rules as to which types of improvements lead to reassessment and which do not.

The properties in the sample which most regularly were reassessed for improvements were federally subsidized projects, notably Section 236 rehabilitation projects. Some cities looked upon these as a free opportunity to augment municipal tax revenue. In large measure, differences in the percent of rehabilitated units reassessed among cities reflect variations in assessment practices with respect to government-assisted improvements.

C. Assessment Practice and Variation in Tax Rate

The main differential tax burden uncovered by this study was the variation in tax rates by neighborhood. The six out of ten cities that assessed property at approximately uniform rates across neighborhoods were those that made substantial efforts to keep track of changes

TABLE B
REASSESSMENT OF PRIVATE MARKET REHABILITATION
BY NEIGHBORHOOD

Neighborhoods	Less Than \$3000 Per Unit			More Than \$3000 Per Unit		
	No. of Properties Rehabilitated	No. of Properties Reassessed	Percentage Reassessed	No. of Properties Rehabilitated	No. of Properties Reassessed	Percentage Reassessed
Stable	27	1	3.7%	10	1	10.0%
Transitional Upward	26	5	19.2	21	7	33.3
Transitional Downward	30	5	16.7	3	0	0.0
Blighted	32	0	0.0	3	0	0.0
All Neighborhoods	115	11	9.6	37	8	21.6

Sample: Private market residential structures built prior to 1961 with any rehabilitation expenditures in the period 1966-1970.

Sources: ADL Investor Interview questions 17a, and 20a, ADL Homeowner Interview question 14, 17 and ADL Property Data Sheet question 4.

TABLE C
REASSESSMENT OF REHABILITATION BY CITY

City	Rehabilitation Expenditures					
	Less Than \$3000 Per Unit			More Than \$3000 Per Unit		
	Total Projects	Number Reassessed	Percentage Reassessed	Total Projects	Number Reassessed	Percentage Reassessed
Atlanta	12	0	0.0%	6	0	0.0%
Baltimore	11	1	9.1	5	1	20.0
Chicago	18	2	11.1	5	0	0.0
Detroit	15	2	13.3	3	1	33.3
Nashville	13	2	15.3	1	1	100.0
Oklahoma City	5	0	0.0	3	0	0.0
Philadelphia	9	0	0.0	12	8	66.7
Portland	14	2	14.3	4	2	50.0
Providence	15	0	0.0	6	2	33.3
San Francisco	16	2	12.5	6	1	16.6
	128	11	8.6	51	16	31.3

Sample: All private market residential structures with any rehabilitation expenditures in the period 1966-1970.

Source: ADL Investor Interview questions 17a and 22a, ADL Homeowner Interview questions 14 and 17.

in sales value of properties by neighborhood. Where this was done most effectively, as in the cities of Portland and San Francisco, the state reserved the ultimate authority to cut off certain transfers to the city in the event of excessive variation in the assessment/sales ratios. This seemed to provide an effective incentive to accurate assessment.

Federally subsidized projects, such as Section 236 rehabilitation, are taxed by widely varying criteria in different cities. Sometimes projects are assessed at substantially different rates within the same city. These variations result from the inability of assessors to assign an unambiguous meaning to "market value" in the case of subsidized developments.

The evidence of this study indicates an unequal use of appeals procedures. Two groups of investors are most likely to appeal: large investors, who own a great number of units, and recent purchasers, who (especially in blighted areas) use their purchase price as the basis for appealing for a reduction in the assessed valuation of their property. On balance, the appeal procedure appears to make the property tax more regressive rather than less.

D. The Property Tax as Contributor to Blight

Incremental assessment of building-specific improvements is *not* a major source of blight or a major disincentive to upgrading. This is true because, in practice, improvements are seldom reassessed unless they involve very extensive investment. No group of investors in any neighborhood in any city reported fear of reassessment to be the principal obstacle to building improvement. All assessors believed that the marginal taxation of improvements has only a slight impact on the quality of the housing stock.

However, the evidence of this study indicates that *inequality of tax levels, as among neighborhoods of the same city, may contribute significantly to blight*. In those blighted and downward transitional neighborhoods, where property taxes account for up to 20-25% of gross income, the chance to generate a substantial positive cash flow from properties has been effectively destroyed. As a result, there are no purchasers of property in these neighborhoods, except at prices which approach 1-1.5 times annual gross rents. Existing owners are unwilling to absorb the great capital loss that sale at this price implies. We found that a much higher proportion of investors in these areas reported they wanted to get out of the real estate market immediately, but could find no buyers for their property.

Those same long-time holders of property are the most likely to let their holdings deteriorate. On the other hand, in those cities where a market in low-income housing still exists, new purchasers of blighted properties undertake substantial rehabilitation investment. Even in the high-tax cities, those investors who knew how to obtain downward reassessment through the appeals procedure were active in purchasing and improving blighted properties.

In short, we found that an entrepreneurial class does exist which – except in the most badly blighted neighborhoods – can operate low-priced housing profitably providing they can acquire property at a realistic market price. To a considerable extent these owners are non-white. In contrast, long-time property owners, who are white and have suffered serious capital losses on properties purchased at much higher prices, are unwilling to invest further in their properties.

By inhibiting the transfer of property from poor managers to good managers, differentially high levels of property taxation in blighted areas prevent upgrading of the stock and encourage run-down strategies.

II. PROPERTY TAXES AND HOUSING SUB-MARKETS

This section highlights the findings regarding the property tax's impact on the four housing sub-markets identified in the study.

A. Blighted Neighborhoods

- Popular mythology holds that operators of properties in blighted areas follow a uniform short-term "run-down" strategy designed to extract the maximum possible cash flow from a property. We found this view to be considerably exaggerated; long-run strategies predominated in blighted neighborhoods as in others.
- Far more rehabilitation occurs in blighted neighborhoods than generally is recognized. Rehabilitation expenditures were made on 47.2% of the blighted properties in our sample during the period 1966 to 1970. Most of these improvements were carried out by new purchasers.
- Many long-term absentee landlords, unable or unwilling to adjust to changing neighborhood conditions, want desperately to sell their properties but are unwilling to accept the large capital losses implied by actual offers. These investors characterize themselves as "trapped" and are unwilling to invest further in their properties.
- Reassessment as a result of rehabilitation of properties in blighted neighborhoods is the exception, rather than the rule. As a result, the marginal tax on building improvements plays virtually no role in discouraging upgrading.
- In many cities, the high level of property taxes, resulting from inequitable assessment practices, lessens the opportunity for transfer to more activist owner/managers who would improve properties in blighted neighborhoods.

B. Transitional Downward Neighborhoods

- While overall property values are declining in these neighborhoods, homeowners and owner-occupants tend to maintain their properties at consistent quality, a fact which keeps the downward spiral from accelerating.
- Many homeowners and small investors feel that most rehabilitation expenditures will result in a reassessment of their property. While these apprehensions usually are unwarranted, given actual assessment practices, there is considerable misinformation among small owners as to how the assessment system functions.

- The failure to reassess properties downward, in line with depreciating capital values, undermines the ability of current owner-occupants to retain ownership, thereby placing considerable financial pressure on the areas' most stable households.
- The lack of government assistance, (such as subsidizing loans for rehabilitation) during the periods of racial succession, makes the stabilization of downward transitional neighborhoods more difficult.

C. Upward Transitional Neighborhoods

- The potential of large-scale investment in the housing stock exists in these areas, but the rate-of-return on such investments and, consequently, the probability of their taking place, is highly sensitive to tax policy. This is especially true in the early stage of upward transition.
- The burden of risk-taking in these neighborhoods is assumed by small investors who require financing more than property tax concessions.
- *Most cities avoid any reassessment of building improvements in upward transitional neighborhoods even in those neighborhoods where revitalization is well established and capital appreciation pronounced. Philadelphia is the one exception to this rule.*
- Poorer neighborhoods are being forced to subsidize heavily, through tax payments, the tax concessions granted to these areas.

D. Stable Neighborhoods

- For most stable area homeowners, the burden of the property tax does not contribute to the "flight to the suburbs." If anything, assessment practices encourage residential stability. It is in less affluent stable areas, like older ethnic and elderly neighborhoods, where the rising level of the property tax threatens buildings maintained primarily out of pride of ownership and neighborhood cohesiveness. Increases in the property tax could seriously undermine these non-economic incentives for rehabilitation and maintenance.

Since the future of stable areas is intricately related to prospects for the rest of the central city, favorable tax treatment, at the expense of poorer neighborhoods, will exacerbate rather than alleviate the long-run exodus to the suburbs.

CHAPTER I

INTRODUCTION

Recent years have brought mounting criticism of the property tax.* The property tax is held to be a regressive tax, which raises revenue disproportionately from the poor. As a matter of equity, critics contend, property taxation ought to be replaced by an income tax, or some other tax whose burden falls principally on the well-to-do. In addition, the property tax is criticized because it taxes a commodity – residential housing – which is especially valuable to the community. According to this view, by increasing the costs of operating housing, the property tax lowers the rate-of-return that can be earned by investing in residential property. Confronted with lower earning possibilities, some investors will prefer alternative forms of capital investment. This reduction in housing investment results in fewer housing starts, less money spent on upgrading the existing housing stock, and, in general, a lower quality of housing.**Finally it is said that these effects are especially pronounced in the large cities, where rates of property taxation are highest. Through this process, property taxation is held to contribute to urban blight.

Purpose of Study

This study does not examine all the alleged deficiencies and inequities of local property taxation. Many of these defects arise because of the variation in tax rates among communities. Taxable real property tends to be most abundant in communities where affluent families reside, while expenditures from the funds raised by taxing real property often are greatest where poor people live, for here the cost of schooling and welfare are greatest. In order to finance these expenditures, poor communities must tax themselves at a higher rate than wealthy communities. To many, this seems inequitable. Furthermore, it discourages improvements in the housing stock of high tax communities, where urban problems already are concentrated.

The present study examines the effects of the property tax within the central cities of each of 10 different metropolitan areas. No comparisons were made with taxation in the surrounding suburban areas. While this emphasis precluded an examination of the consequences of variation in tax rates among communities of the same metropolitan region, it does permit many other useful comparisons. As will be argued in subsequent chapters, in many respects, the relationship between the several housing sub-markets of a single city resembles the relationship between the separate taxing jurisdictions of a metropolitan

*For an excellent survey of criticism of the property tax, see Dick Netzer, *Economics of the Property Tax* (The Brookings Institution, 1966), Chapter 1, pp. 1 to 16.

***Ibid.*, p. 36.

area. Millage rates are everywhere the same within a city, but assessments in different neighborhoods may represent varying proportions of true market value. As a result, effective tax rates may vary among sections of a given city as much as they do among different cities. The same questions then must be asked: Who bears the burden of the property tax, and is the distribution of burden desirable? What is the impact of tax differentials on the separate housing markets within a city? Does the property tax system contribute to deterioration of the housing stock?

Scope of the Study

As shown in Table 1.1, the present study is based on interviews with the owners of a minimum of 40 properties in each of ten cities: Atlanta, Baltimore, Chicago, Detroit, Nashville, Oklahoma City, Philadelphia, Portland, Providence and San Francisco. Within each city sample properties were stratified according to three parameters. While urban properties can be classified in many ways, a three-way classification by property-type, size of owner, and neighborhood submarket seemed most useful for investigating the relationship between the property tax and housing conditions. The types of properties identified were commercial properties, residential rental stock, and owner-occupied single family homes. It seems likely that the owners of these property types behave differently in the real estate market. Owners of rental stock, for instance, may respond much more rapidly to economic incentives provided by public policy, than single family homeowners.

TABLE 1.1*
SAMPLE DISTRIBUTION BY CITY
(All Properties)

Atlanta	46	Oklahoma City	41
Baltimore	43	Philadelphia	46
Chicago	41	Portland	42
Detroit	41	Providence	40
Nashville	40	San Francisco	40

*The tables summarized information obtained from 228 owners regarding 420 individual properties in ten cities.

Given the emphasis of this study on the effect of property taxation on rental housing, owners of rental stock were divided into two size categories: those who held 40 or fewer units, and those who held more than 40 units. Tests in our sample city, Providence, indicated that 40 units represented the best cut-off point: investors whose holdings exceeded that limit tended to identify themselves primarily as owners of real estate.

The need to distinguish full-time from part-time operators of real estate is supported by several findings presented in this study. As will be described in Chapter V, small investors often have a different investment strategy than their larger counterparts. Likewise small investors tend to have little understanding of the property tax system, and little ability to cope with the complicated process of launching a successful appeal of their property taxes. These findings are in essential agreement with those of George Sternlieb, who noted: "More than half of the (slum) properties are owned by people for whom real estate represents a supplement to income ... The significance of this factor from the viewpoint of securing rehabilitation should not be overlooked...Shaking these owners loose from their lethargy and making them aware of possible governmental programs for aiding rehabilitation is perhaps much more difficult than doing the equivalent for the full-time real estate owner."*

The third parameter used to stratify the sample properties was neighborhood-type. Because there is extreme inter-dependence among residential property values, the "neighborhood" occupies a central role in real estate analysis. Each neighborhood tends to specialize in satisfying demand for a certain class of housing: one neighborhood will provide low quality housing at relatively low prices; another, high quality housing at high prices. In real estate the aphorism holds that the three most important factors in determining property values are location, location, and location.

If neighborhoods form well-defined sub-markets, all the factors determining neighborhood quality should be reflected in the level and trend of neighborhood property values. In each city, we identified four neighborhood types on the basis of trends in property values over the last six years: stable neighborhoods (property values constant at a high level or increasing at the city-wide average rate); upward transitional neighborhoods (property values increasing at an above average rate); downward transitional neighborhoods (property values declining) and blighted neighborhoods (property values steady at a low rate or sinking toward zero). The neighborhoods in each city were identified on the basis of two or three days of interviews with the Assessor and his staff, local planning agencies, and local bank officials. Once the four sub-markets were identified with specific neighborhood regions, owners of property were contacted for interview. A list of the neighborhoods interviewed in each city is included Table I.2.

Combining the three defining characteristics – property type, owner size, and neighborhood type – establishes a property stratification matrix of the kind presented in Table I.3. The numbers in each of the cells indicate the number of properties that

*George Sternlieb, *The Tenement Landlord*, (New York, 1967) p. 124.

TABLE 1.2
NEIGHBORHOODS SELECTED BY CITY

CITY	STABLE	TRANSITIONAL UPWARD	TRANSITIONAL DOWNWARD	BLIGHTED
Atlanta	Peachtree Hills	Uptown/Inman Park	West End	Pittsburg/Vine City
Baltimore	Guilford	Boltonhill	Patterson Park	East Baltimore
Chicago	Hyde Park/ Norwood Park	Lincoln Park	Logan Square	Woodlawn
Detroit	Palmer Park	Cadillac	Jefferson/Mack	John R.
Nashville	S.W. Nashville	Edgehill	Fisk Park	Sulpher Dell
Oklahoma City	N.W. Oklahoma City	Historical District	Capital Hill	John Kennedy
Philadelphia	S. Philadelphia	Queens Village	S. W. Philadelphia	Lower N. Philadelphia
Portland	Hollywood	Couch	Brooklyn	Albina
Providence	E. Providence	College Hill/Fox Point	Smith Hill	S. Providence
San Francisco	Sunset/Richmond	Marina/Pacific Heights	Mission Dolores/ Haight Fillmore	Western Edition/ Hunter's Point

typically were interviewed in each class for a single city. Although not a parameter in our stratification, our results indicate that the survey properties included a cross-section of tenants by income level and race. (See Table I.4) In addition, at least two developers of new residential property were interviewed in each city, in order to evaluate the effect the property tax has on new construction. Most of these new buildings were located in stable neighborhoods.

In all, 184 investors and 45 homeowners were interviewed. The distribution of the total sample of 420 properties is presented in Table 1.5. Within the neighborhood boundaries defined for the study, the sample properties represented just over 2% of the housing stock. Given the in depth interviews of property owners, and the careful prior screening of neighborhoods it is thought that the data presented here are highly suggestive of a number of important implications of the current operation of the property tax system in these cities. In light of the sample size, however, care should be taken not to attach too much importance to small differences in the tabulations presented.

The Interview Format

Since the study is empirical, the interview format emphasized discovering from property owners themselves how they make maintenance and rehabilitation decisions. In this study rehabilitation refers to all expenditures for capital improvement over and above ordinary or regular maintenance and repair.*Personal interviews were conducted with each investor and homeowner included in the sample, as well as with representatives of the Assessor's office and ten to fifteen general informants in each city. The information obtained from interviews was supplemented by a large amount of statistical data collected in each city from the Assessor's office and other sources. To the extent feasible data obtained from the investor questionnaires was verified from public records.

The hypothesis underlying the investor interviews was that the property tax is an economic factor, which affects owners' investment decisions by altering their profit-loss calculations. Whether or not the property tax is an important factor in the maintenance/rehabilitation decision depends, first, on the relative importance of tax payments among the total costs incurred by the investor, and, second, on the changes in market price anticipated by the investor and whether these overwhelm tax payments. If tax payments loom large among the investor's costs, adjustments in them may affect rehabilitation/maintenance decisions decisively. If tax payments form a small part of total costs or if property prices are changing rapidly for other reasons, such as neighborhood revitalization or decay, the effect of the property tax may be quite marginal.

*For a more complete definition of this and other terms used in this study the reader is referred to the Appendix to Chapter I.

TABLE 1.3
PROPERTY STRATIFICATION MATRIX,
TYPICAL CITY

Property	Stable	Upward Transitional	Downward Transitional	Blighted
Homeowner	1	1	1	1
Investor				
2 to 40 units	3	3	3	3
41 or more units	6	5	5	5
Commercial		3		

TABLE 1.4
AVERAGE ANNUAL INCOME OF TENANTS
BY CITY, 1970

City	Average Annual Income of Tenants, 1970				Total
	Less Than \$3,000	\$3,000 To \$4,999	\$5,000 To \$9,999	\$10,000 And Over	
Atlanta	3	12	10	5	30
Baltimore	5	4	17	6	32
Chicago	2	8	12	6	28
Detroit	1	7	7	15	30
Nashville	5	11	5	8	29
Oklahoma City	3	10	7	11	31
Philadelphia	3	2	14	10	29
Portland	2	4	15	9	30
Providence	4	2	11	4	21
San Francisco	1	7	14	9	31
All Cities	29	67	112	83	291

Sample: Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 6a.

TABLE 1.5
PROPERTY STRATIFICATION MATRIX;
ENTIRE SAMPLE
BY NUMBER OF PROPERTIES

Property	Stable	Upward Transitional	Downward Transitional	Blighted
Homeowner	13	11	11	10
Investor				
2 to 40 units	19	35	37	29
41 or more units	72	54	41	58
Commercial		30		

Source: ADL Homeowner and Investor Interview

The contract stipulated examination of the "extent to which property taxes, in contrast to other factors, influence property owners' decisions regarding maintenance and rehabilitation." To fulfill this requirement, it was necessary to understand the entire process by which landlords decide to rehabilitate. Conventional wisdom, of course, holds that the property tax is an important deterrent to rehabilitation and maintenance activity. In addition, existing owners stand to gain considerably from elimination of the property tax, whether or not they intend to carry out further investment. For these reasons, simply to ask owners their opinion of the property tax, is to lead them into the stereotyped response that property taxes are seriously harmful in all their effects. The interview was designed to avoid focusing prematurely or exclusively on the property tax, but to treat tax payments as one element, among many, in the investor's cost calculation. Only after the entire investment decision had been clarified did the interviewer ask questions about the property tax.

The Questionnaires

Copies of the homeowner, investor, and assessor questionnaires are reprinted in Vol II of this study. The questionnaires were perfected after being screened in the test city, Providence. The heart of the study is the investor questionnaire. It is set up to include several blocks of questions, each designed to obtain information on a different facet of the market situation and the investor's decision-making process.

Questions 1a-1f; 5

These questions deal with neighborhood characteristics. Their objective is to determine whether the investor perceives his property as belonging to the neighborhood classification in which city informants placed it. They also elicit the investor's attitude about his neighborhood situation.

Questions 2a-2i

This group of questions is aimed at revealing the owner's strategy for buying the property and his style of operation. It is expected that maintenance/rehabilitation policy will be influenced by the property owner's overall investment strategy.

Questions 4; 6-12

These questions pertain to the legal structure of ownership of the property and the economics of its operation. They obtain basic information regarding rent level, vacancies, capital appreciation, debt structure, and cash flow.

Questions 13-15

This group of questions obtains information on the property tax: its importance in the investor's cash flow and the investor's ability to pass on tax increases to the tenants.

Questions 16-24

This block of questions provides a means of categorizing landlords by the extent and type of maintenance/rehabilitation that they undertake. If the owner had done any major rehabilitation, information was obtained regarding its costs, the change of rental income and asset value that resulted, and the tax consequences of making the improvement.

Questions 25-27

These questions obtain the investor's views regarding the principal obstacles to rehabilitation, and the importance he attaches to reassessment.

Questions 28-29

These questions ask the investor to rank alternative methods of levying the property tax, and elicit suggestions for improving the present system.

The homeowner interviews followed much the same pattern as the investor interview although the homeowner questionnaire excluded questions regarding rental operations. The Assessor interview obtained detailed information on present assessment and appeals practice in each city, as well as the Assessor's recommendations concerning policy changes.

Following completion of the schedule of interviewing, and the gathering of local assessment records, the questionnaires were checked for internal consistency and coded for machine tabulation. Through the use of cross tabulations; and frequency distributions, it was felt that important patterns could be identified. In addition, detailed consideration was given to responses of individual investors and homeowners. In this way an attempt was made to preserve the richness of individual situations so often blurred by aggregation.

Organization of the Report

This chapter has summarized the purpose and scope of the study. The appendix to this chapter contains a list of definitions of terms used throughout this report.

CHAPTER TWO: Presents the basic facts concerning the variation in residential property tax rates by 1) city, 2) neighborhood and 3) structural type. It also identifies each city's rate of incremental taxation on improvements.

CHAPTER THREE: Describes the basic neighborhood analysis to be presented.

CHAPTER FOUR TO EIGHT: Examine the impact of property taxation on each of the four neighborhood sub-markets: Blighted neighborhoods, Downward Transitional, Upward Transitional and Stable. Chapter Six treats the special case of the effect of levying property taxes on federally subsidized housing projects.

CHAPTER NINE: Analyzes the assessments and appeals procedure in each of the ten sample cities.

CHAPTER TEN: Reports investors' and assessors' views regarding alternative methods of levying the property tax.

APPENDIX I-A

DEFINITION OF TERMS

Neighborhood

While the concept of neighborhood is subject to varying definitions, for this study we have used an operational definition based on property and land values of the structures in the neighborhood. All characteristics which determine the market value of a property are reflected in its price, e.g., age and type of structure, proximity to job location, and quality of neighborhood services. The use of market price of structures to define and distinguish different neighborhoods has four important advantages:

- a. It establishes a measurable criterion-price which is ascertainable.
- b. It is unambiguous.
- c. It is the criterion which real estate investors and local planners and officials use.
- d. It is the neighborhood price trend, more than any other phenomenon, which determines the investment strategies of realtors.

The four neighborhood types were selected primarily in terms of relative market prices. But because there is a strong relation between relative market prices and certain socio-economic and land use characteristics, the neighborhood selection was also supplemented by this type of data. The following definitions were used for neighborhood selection.

A. Blighted Neighborhood

Neighborhoods where property values are steady at a low rate or sinking toward zero. Blighted neighborhoods usually are characterized by a large proportion of sub-standard and vacant dwellings; mixed residential, commercial, commercial and/or industrial use; relatively low rent levels; high densities and minority population.

B. Upward and Downward Transitional Neighborhoods

Upward transitional neighborhoods are those where property values are increasing at an above average rate. Downward transitional neighborhoods are where values are declining. Transitional neighborhoods are in the process of change: population is changing, there is a mix of multi-family and single unit residences, standard and substandard dwellings, property conversions and some mixed zoning.

C. Stable Neighborhoods

Stable neighborhoods are those where property values are constant at a high level or increasing at the city-wide average rate.

Our aim was to select neighborhood boundaries in such a way as to form homogeneous housing submarkets. We found that homogeneous housing submarkets often coincide with geographic or topographic features, governmental program definitions or historical demarcations. Sometimes the degree of homogeneity was surprising. In Chicago, for example, we found neighborhoods where the housing stock was quite uniform, built at the same time with similar materials, and now undergoing similar quality and price changes.

OTHER DEFINITIONS USED

In addition to the definitions needed to operationalize the selection of the neighborhoods and sample properties, other definitions were established for the purpose of the study.

Building Quality Level

An overall measure of housing quality developed by measuring services provided such as janitorial and managerial, as well as the state of the physical plant. This study examines change in building quality level over the years 1966-1970.

Calculation of Value Appreciation or Depreciation

Present sales price minus the purchase price plus the cost of any capital improvements (moderate renovation and/or extensive reconstruction – see definitions under "Rehabilitation".) This calculation is based on current prices.

Cash Flow

Actual gross rent collected less all cash outlays including debt service, property taxes, maintenance and operations.

Effective Tax Rate

Tax payments as a percentage of current market value of the property.

Gross Rent Multiplier

Market value of the property as a percentage of gross rent. In the case of owner occupied multiple structures, the gross rent figure includes an imputed rent for the owner's unit. The imputed rent is equal to the market rent charged for a similar unit in the same neighborhood. A similar imputation is needed for the provision of apartment space to a janitor, or building manager in lieu of salary.

Long-term Investment

Investments which have an expected or actual term of five years or more.

Mill Rate or Millage

Tax rates expressed as amount per 1000 dollars of assessed valuation.

Number of Properties Owned

Total number of properties owned outright or in conjunction with others, including properties being purchased under various financing arrangements.

Operating Expenses

All expenses which require a cash outlay and are deductible under Federal Internal Revenue Service regulations. This excludes mortgage amortization and capital improvements.

Private Market Real Estate

All properties except those owned by non-profit or by limited profit entities operating with the assistance of such programs as 221(d)3 or 236.

Rehabilitation

Any capital expenditure over and above ordinary or regular maintenance or repair. There are essentially three levels of property rehabilitation:

(a) **Minor Repair**

Those requiring only a paint-up/fix-up or decoration of interior and exterior walls, ceilings, and floors.

(b) **Moderate Renovation**

Those needing "renovation" which includes, in addition to painting such work as leveling floors, straightening partitions, replacing doors and windows, plus modernizing heating, plumbing, and electrical systems, and resurfacing (paneling, plastering, new siding, etc.) interior or exterior walls, ceilings, floors or roof.

(c) **Extensive Reconstruction**

Those needing a "gut" job -- all the items in renovation plus removal of partitions and major changes in floor plans, roofs, new interior walls, etc.

Residential Rental Properties

All buildings which are exclusively residential rental and those which are mixed commercial and residential rental.

Short-term Investment

Investments which have an expected or actual term of five years or less.

Single Family Homeowner

An individual who held no other real estate other than his own home.

APPENDIX I-B

STUDY DESIGN AND SAMPLE SELECTION

This appendix describes the study design and sample selection procedure used in the ten city survey and subsequent analysis. The underlying rationale for the study, the sample stratification and the major research hypotheses are set forth in this appendix.

Our study was empirical. Its emphasis was not on formulating theory about how property owners make rehabilitation/maintenance decisions, but rather on finding out from property owners themselves what they do and why. Thus, the study design was based in part upon exploratory interviews with property owners. In fact, the study design was tested and refined on the basis of a trial run in Providence before interviewing in the other nine cities.

The reason for carrying out interviews with property owners is succinctly stated in a number of places in the contract. "The objective of this contract is to assemble data from property owners and local tax officials to permit assessment of the ways property tax characteristics do, *in fact* (emphasis supplied) influence decisions to maintain or upgrade property". The contract further states that "analysis of the survey results shall have as two principal objectives:

- (1) an indication of the extent to which property taxes, in contrast to other factors, influence property owners' decisions regarding maintenance and rehabilitation.
- (2) recommendations on how property tax laws and procedures could be revised in order to eliminate undesirable effects or to promote improved maintenance and rehabilitation practices."

The property-owner study was based on the following general hypothesis: that the property tax is an economic factor, and whether or not it affects a person's behavior in the maintenance and rehabilitation of his property depends on the extent to which the property is important to him for economic or non-economic reasons. If the property-owner is primarily economically motivated-i.e., if the property represents a source of revenue for him, in the form of capital gain, immediate cash flow, or tax shelter-his decisions regarding maintenance and rehabilitation are influenced by economic considerations (one of which may be the property tax). In contrast, if the property represents primarily non-economic motives of the owner, such as might be the case in a single-family owner-occupied dwelling where the owner's desires for privacy, status, and pride in ownership may be uppermost, economic considerations such as the property tax may not be important in the owner's decisions regarding maintenance and rehabilitation. The study also attempted to determine the extent to which the property tax was a deterrent to rehabilitation and maintenance, among different types of owners and various neighborhood submarkets.

DESIGN RATIONALE

This study dealt with a form of behavior that is quite complex. The property tax is but one of many factors that enter into owners' decisions about rehabilitating and maintaining their properties; in turn, decisions regarding rehabilitation and maintenance are but two of many kinds of decisions owners make.

Rather than ask narrow questions about the property tax-rehabilitation relationship, we have tried to avoid abstracting this question from its real world decision-context. Thus, by placing the relation within the broader rehabilitation decision framework we were able to determine the relative importance of the property tax vis a vis other factors affecting the rehabilitation decision. After establishing that the property tax and assessment practices were significant, we determined what aspects or characteristics were most important. The property-owner interview schedule was constructed to answer the basic question, "How does the property tax affect a property-owner's behavior in the maintenance and rehabilitation of his property?" In order to answer this question, it was necessary to understand the *process* by which landlords decide to rehabilitate, or not to rehabilitate, as well as the level of maintenance, and to determine what role, if any, the property tax plays in this process.

In order to isolate the effects of the property tax and to make generalized recommendations concerning the tax, it was necessary to select very carefully the sample of properties whose owners were to be interviewed. The selection of properties in each sample city reflected the spectrum of property types in that city; at the same time there was sufficient similarity among the property types in all cities to permit grouping for analysis. We developed a sample-identification design, that would allow some generalizations about the impact of the property tax in specific housing submarkets, among building types, etc.

The operational plan was designed to act as the linkage between the conceptual framework represented by the sample-identification design and the actual interview sessions. It was a strategy that depended on both the development of data for selecting the property sample and on the systematic development of contacts to assure maximum cooperation from property owners selected for interviews.

In the three questionnaires that were administered in the interview sessions, we translated study objectives into hypotheses which were testable through groupings of questions. Thus, underlying the questionnaires were a set of hypotheses concerning the investment behavior of real estate owners—the circumstances under which they undertake or do not undertake rehabilitation, as well as the factors which affect the level of maintenance they perform.

SAMPLE-IDENTIFICATION

In this study we developed a series of general models which represented the most likely set of circumstances for property owners regarding investment decisions. Thus, in each of the cities our selection of properties for inclusion in the survey was based on several

considerations, including the universe of urban property types, conditions and environments; the attainment of comparability across the ten cities; and, most important, the selection of properties which differed by those characteristics (e.g., neighborhood-submarket, etc.) which were most important in revealing the complex relationship between the property tax and the rehabilitation/maintenance decision. Our selection of these salient characteristics are discussed in the section on the stratification matrix, below.

BASIC HYPOTHESES UNDERLYING SAMPLE SELECTION

We chose three parameters to define our sample properties. While there are many possible parameters to define urban residential properties, we chose the three parameters which, both housing literature and real estate developers suggest are the most important in determining the real-estate owner's investment decision. The selection of these parameters itself involved testable hypotheses. The three parameters were:

1. Property type (residential rentals, owner single family and commercial)
2. Neighborhood submarket
3. Size of owner (number of units)

In studying any complex behavior, it helps to have in mind a simplifying representation of the behavior under examination. This is the analytical model. The model does not and cannot mirror all aspects of reality but abstracts those features of reality that are most important for the specific purpose at hand, and helps to structure the analytic design. Thus, we examine the three features of our model which provided our basic hypotheses about owner decisions regarding maintenance and rehabilitation investments.

1. Property Type

HYPOTHESIS: Different motivations for owning property produce different behavior. The homeowner concerned with noneconomic factors such as privacy, space, and neighborhood, operates in a different manner than the non-resident landlord.

Our model assumed that the property tax was an economic factor, and whether or not it affected an owner's maintenance or rehabilitation of his property depends upon the extent to which the property is important to him for economic or non-economic reasons. If the property owner is primarily economically motivated, i.e., if he sees the property primarily as a source of revenue, his decisions regarding maintenance and rehabilitation are more likely to be directly influenced by economic considerations, one of which may be the property tax, than is the case for the non-economically motivated owner. A non-economically motivated owner, might be the man who lives in the house that he owns, either alone, or with renters in other apartments. In this case, motivations toward privacy, status, and pride in ownership may be paramount over economic considerations. Thus, our model took into account both economic and non-economic considerations in

maintenance and rehabilitation and tried to ascertain *empirically* the extent to which each of these kinds of considerations affected rehabilitation behavior.

Among investors there are different forms of ownership—partnerships, corporations, trusts, etc. However, owners' economic objectives—cash flow, tax shelter, long-term capital gain, etc., are not dependent upon the legal/organizational form. Therefore, for the purpose of structuring the sample, we took homeowner vs. residential investor as the salient characteristic, though some data on commercial investors was collected as well.

2. Neighborhood Submarket

HYPOTHESIS: Neighborhood quality and expectations are critical factors in determining rehabilitation investment.

The present and future condition (externalities) of a neighborhood submarket is an extremely important factor in an investor's rehabilitation decision. For example, in a blighted neighborhood, a property owner is less likely to make rehabilitation investments because he is unable to raise his rents—municipal services are inadequate, the surrounding environment has deteriorated, schools are still poor, etc.; these factors depress his market. On the other hand, in an exclusive residential, stable, neighborhood there are both social and economic incentives to maintain properties at a higher quality level.

An interesting case is the transitional neighborhood. There, to undertake investment depends in part upon expectations about the future of the area. Because the factors affecting rehabilitation/maintenance decisions in these neighborhoods were likely to be subject to greater variations, we included a relatively greater number of empirical observations in transitional submarkets.

3. Size of Owner (number of units)

HYPOTHESIS: The number of units owned by a real estate investor affects his operating procedures.

The contract emphasized the effect of property taxation on rental housing. Our interviews with investors in the test city, Providence, indicated that size of owner was an important parameter. And several studies in Baltimore¹ and Newark, New Jersey² suggest that full time operators of real estate approach the housing market differently from those whose principal occupation is other than real estate. Our experience in Providence indicated that 40 units represented the best cutoff point. Investors whose holdings exceeded that number tended to identify themselves as real estate entrepreneurs. Moreover, those owners with more than 40 units presumably could afford to retain a maintenance man on their own payroll, could hire accounting and legal assistance and possibly achieve some economies of scale in operating and maintaining their buildings.

1. Stegman, M., *Housing Investment in the Inner City*, MIT Press, 1972.

2. Sternlieb, G., *Some Aspects of the Abandoned House Problem*, Center for Urban Social Science Research, Rutgers University, 1970.

SAMPLE STRATIFICATION

Combining these three parameters as we have done in the accompanying Property Stratification Design establishes a property stratification matrix of the kind presented below. The numbers in each cell indicate the number of properties typically interviewed in each class for a city. In addition, at least two developers of residential property were interviewed in each city in order to evaluate the effect of property taxes on new construction. Most of these buildings were located in stable neighborhoods. Although the actual distribution of properties sampled differed slightly from that suggested for the typical city the difference was slight.

Obviously the number of observations per cell varied somewhat from city to city, according to the housing characteristics in each city. (An observation, in this sense, means a complete interview about a property.) Some cells may thus contain 10 observations or less, for the entire study. This apparent maldistribution was actually an advantage because it yields a larger number of observations in cells that represent the more important areas of concern in this study. The distribution of interviews in any given city might proceed something like this:

There might be four to six interviews of homeowners: one each for stable residential and blighted neighborhoods since these should be quite representative of their populations—same environment, similar housing condition, etc. On the other hand, in transitional neighborhoods there are more complexities—different perceptions of population and housing trends, more real-estate speculation, etc.; therefore, we might have two to four interviews of single-family homeowners in transitional areas. This leaves a minimum of 34 - 36 properties for the investor sample. These units were chosen according to the distribution set forth in the foregoing matrix, in Table I.B.

Close contacts with local officials and key real estate operations, helped us to generate a list of prospective respondents. In order to ensure that the sample of properties chosen met the requirements of the stratification system outlined above, prior to final selection, prospective respondents were screened via a brief telephone interview.

TABLE I.B

PROPERTY STRATIFICATION MATRIX

TYPICAL CITY

	Stable Neighborhood	Upward Transitional Neighborhood	Downward Transitional Neighborhood	Blighted Neighborhood
Homeowner	1	1	1	1
Investor				
2 to 40 Units	3	3	3	3
41 or more units	6	5	5	5
Commercial		3		

CHAPTER II

VARIATION IN PROPERTY TAX RATES

This chapter summarizes the data on property tax rates collected in our investigation. It establishes the range of variation in tax levels by city and neighborhood and examines the incremental rates at which cities tax improvements.

The sample cities fall into two groups. In one (Baltimore, Chicago, Philadelphia, and Providence), a clear neighborhood pattern emerges in which poor quality housing, occupied by low-income tenants, pays property taxes at a substantially higher rate than property in wealthy neighborhoods. Since legislation applicable to each of the cities calls for uniform rates of taxation, neighborhood rate differentials like these place a tax burden on low quality housing which, by the standard of existing legislation, is inequitable. In the remaining cities no systematic neighborhood variation in tax rates was discernible.

The sample evidence compiled on incremental tax rates was surprising. In most cities, moderate improvements to the housing stock were not reassessed at all, while major improvements were reassessed at substantially lower than cost. As a result, the incremental rate of taxation on improvements was extremely low. This evidence indicates that conventional wisdom may have exaggerated the marginal disincentive which the property tax provides to housing investment.

CITY DIFFERENTIALS IN PROPERTY TAX RATES

The property tax provides the principal source of local revenue for American cities. In all but two of the cities investigated in this contract, property tax revenues account for at least 50% of total locally raised revenue. Table II.1 presents a city-by-city breakdown of property tax receipts as a proportion of all local revenue. As Table II.1 also reveals, the bulk of the tax burden falls on residential property.

Reliance on the property tax as a revenue source has created a fiscal dilemma for the older cities especially, since the property bases of these cities have been expanding at a much slower rate than their expenditures. Table II.2 illustrates the relative rates of growth. Faced with a fiscal squeeze between a stagnant tax base and growing expenditures, the cities have tried to shift the cost of providing welfare and education to the federal government, and have lobbied for a share in national tax revenues. While those efforts may bear fruit in the future, up to now the cities have been compelled to meet their revenue needs principally by raising the effective rate of the property tax, or imposing new users' charges.

Table II.3 presents the effective residential property tax rates in each of the cities of our sample. The first column presents the "legal" effective tax rate for 1970, assuming that assessment/sales ratios within the city met the legislatively mandated target level. The second column gives the ratio of the "actual" median effective tax rate in 1966 to the "legal" rate. The "actual" tax rate is based on the true median assessment/sales ratio for each city, rather than the target ratio. In a well functioning assessment system, the values for Column 2 would be close to 1.0. Data on actual assessment/sales ratios are collected by the Census of Governments, and are not available subsequent to 1966.

The third column of Table II.3 shows the percentage increase in the legal effective property tax rate between 1966 and 1970. This figure gives some indication of the cities' increasing tax burden, but tends to understate the rate of increase since certain cities, such as Philadelphia, have shifted to greater reliance on users' charges during the period. Others, like Detroit, have raised their actual assessment/sales ratio without revising the legal target ratio.

Compared to the range of effective property tax rates among all cities, the variation among the sampled cities is relatively small. Among the nation's 50 largest cities, Newark (N.J.) has an effective property tax rate of 8.44%, while Birmingham (Ala.) has an effective rate of 1.08%.

NEIGHBORHOOD VARIATION IN TAX RATES

The fact that property tax rates vary among different cities is a direct consequence of state and local legislation and the distribution of real property. However, within their boundaries, the sample cities are bound by legislation to tax residential property at a uniform rate of market value*, regardless of neighborhood location.

To determine whether, in fact, effective tax rates are equal across neighborhoods, we have classified the sample properties into four mutually exclusive categories: stable neighborhoods (land and dwelling prices at above-average levels and increasing at the city-wide average); upward transitional neighborhoods (land and property values increasing at a rate above the city average); downward transitional neighborhoods (land and property values declining); and blighted neighborhoods (property values steady at low rates, or sinking toward a zero level).

Table II.4 reveals that the effective tax rate varies dramatically over neighborhoods in several cities. In Baltimore, Chicago, Philadelphia, and Providence, the neighborhood variation of tax rates exceeded 500%. The ratios in Table II.4 are calculated as Actual Property Tax Payments/Investor Reported Market Value of Property. Reliance on investor reports of market value introduces considerable random error into the calculation, but several studies show that investor estimates contain no systematic bias toward under- or over-estimation of market value compared to actual sales prices.** Wherever possible, we

*The legal interpretation of "market value" or "true cash value" varies from state to state. Most cities are not obliged to accept actual sales as determinative of market value. They may also adduce comparable sales, the capitalized value of a property's income stream and reproduction costs minus depreciation and obsolescence as basis for estimating market value. However, all cities agree that assessment/sales ratios represent the best check on the accuracy of assessment. See ADL Assessor Interview question 4.

**See, for example, John Lansing and Leslie Kish, "Response Error in Estimating the Value of Housing," *Journal of American Statistical Association*, Vol. XLIX (September 1954), pp. 520-538. For a study using more recent data, see John F. Kain and John M. Quigley, "Measuring the Quality and Cost of Housing," *Journal of American Statistical Association*, Vol. LXV (June 1970), pp. 532-548.

corroborated investors' reports of market value with local real estate experts and recent sales of comparable properties in the neighborhood. The only bias discernible was the tendency of small investors in downward transitional neighborhoods to exaggerate the market value of their properties. In case of serious disagreement, expert opinion on market value was preferred to investors' reports.

The magnitude of variation in neighborhood tax rates is best seen by comparing Tables II.3 and II.4. Despite the fact that uniform taxation *within* each city is mandated by law, the neighborhood variation in several cities exceeds the variation in legal rates adopted by *different* cities. In Chicago and Baltimore the sample properties in blighted neighborhoods pay property taxes at a rate 10-15 times higher than properties in upward transitional neighborhoods. In these cities the regressivity of the property tax's effective rate structure is due principally to neighborhood bias in assessments.

The significance of neighborhood differentials in tax burden may be easiest to grasp in terms of a typical rental payment in a blighted neighborhood. In the blighted neighborhood of East Baltimore a two-bedroom apartment may rent for \$70 per month and command a market price of \$1,500. Of the total rent, 20% or \$14 per month goes to pay property taxes. If properties in East Baltimore were taxed at the legally prescribed rate of 3.39% of market value, the taxes on this typical dwelling unit would be reduced to \$4.25 per month. Passed on to the tenant, the tax savings would represent a rent reduction of almost 14 percent.

As will be discussed in Chapter III, the extent to which such a rent reduction would occur depends on the competitiveness of the housing market. If the owners of housing compete with one another to attract tenants, then eventually the cost reductions achieved by a tax cut will be passed along to the tenant. While the evidence is not conclusive, we will argue in that Chapter and in subsequent neighborhood analyses that housing investors behave more competitively than generally is conceded.

PROPERTY TAX AS A PERCENTAGE OF GROSS RENT

The residential property tax is designed to be a tax on capital held in the form of residential real estate. In judging the equity of tax burden by neighborhood, the proper comparison is between effective rates of taxation levied on asset values. These are the figures presented in Table II.4.

Another measure of tax burden is given by tax payments as a percentage of gross rents.

Table II.5 displays these percentages for the same city and neighborhood classifications as Table II.4 did for effective tax rates based on market value. Comparison of the two tables shows that the taxes as a percentage of gross rent are much more evenly distributed across neighborhoods.

The reason for the convergence of taxes as a percentage of gross rent lies in the market's valuation of blighted properties. The cost of operating these properties represents a higher proportion of rent receipts than is true of properties in stable neighborhoods. Therefore,

TABLE II.1
PER CAPITA EXPENDITURES AND REVENUE BY CITY (1966)

City	Per Capita Expenditures	Per Capita Total Locally Raised Revenue	Per Capita Local Property Tax Revenues	Residential Property Assessments as a % of all Locally Assessed Taxable Property
Atlanta (Fulton Co.)	\$ 329.58	\$ 259.95	\$ 133.66	59.1%
Baltimore	407.29	265.49	149.36	66.0
Chicago (Cook Co.)	355.24	279.39	152.49	62.4
Detroit (Wayne Co.)	422.13	282.76	154.62	57.7
Nashville (Davidson Co.)	421.30	263.04	93.48	63.7
Oklahoma City (Oklahoma Co.)	281.74	211.84	109.69	78.9
Philadelphia	329.27	235.00	99.14	63.3
Portland (Multnomah Co.)	363.29	281.39	179.31	68.4
Providence	237.37	179.35	142.50	52.5
San Francisco	877.15	552.32	302.32	54.2

Notes: For those cities where education expenditures are assumed by the county or special school district, the county figures have been used. Expenditures includes all money paid out — Net of recoveries and other correcting transactions — other than for retirement of debt, investment in securities, extension of credit, or as agency transactions. Expenditures include only external transactions of a government and exclude non cash transactions such as provision of prerequisites or other payments in kind. Population figures used for per capita calculations are for 1960.

Source: U.S. Bureau of Census, Census of Governments, 1967, Finances of Municipalities and Township Governments.

TABLE II.2
CHANGE IN TAX BASE AND EXPENDITURES, 1961-1966
BY CITY

City	% Increase in Property Tax Base	% Change in Expenditures
Atlanta	22.0%	54.8 %
Baltimore	3.7	43.8
Chicago	2.2	6.8*
Detroit	(-)3.1	24.3
Nashville	34.9	— **
Oklahoma City	23.0	42.2
Philadelphia	7.3	28.8
Portland	13.3	32.0
Providence	9.6	10.3
San Francisco	42.8	52.3

* Excludes school districts which are independent.

** Not available. City and county were consolidated into a metropolitan government.

Notes: Expenditures include all money paid out — Net of recoveries and other correcting transactions — other than for retirement of debt, investment in securities, extension of credit, or as agency transactions. Expenditures include only external transactions of a government and exclude non cash transactions such as provision of prerequisites or other payments in kind.

Source: U.S. Bureau of Census, Census of Governments, 1967, Finances of Municipalities and Township Governments, and Census of Governments, 1962, Local Government in Metropolitan Areas.

TABLE II.3
EFFECTIVE TAX RATE
BY CITY

City	"Legal" Effective Rate, 1970	Ratio "Actual" to "Legal" Rate, 1966	% Increase in Legal Rate, 1966-70
Atlanta	2.61%	.73	29%
Baltimore	3.31	.95*	16
Chicago	6.89	.36	27
Detroit	2.85	.75	10**
Nashville	2.12	.95	0
Oklahoma City	2.27	.82	0
Philadelphia	2.91	.90	0***
Portland	2.96	.82	11
Providence	3.44	.85	13
San Francisco	2.82	.88	N.A.

* Based on Baltimore's study of assessment/sales ratio for 31,127 properties of all classes.

** Actual rate of taxation has increased by a greater percentage since the actual rate is now closer to the legal rate than in 1966.

*** Large increase in users' taxes.

Notes: "Legal" effective tax rate equals legislatively mandated assessment sales ratio multiplied by the official millage rate for the city.

"Actual" median effective tax rate equals actual median assessment sales ratio times the official millage rate for the city.

Source: Millage rates and legislatively mandated assessment sales ratios were obtained from ADL Assessor Interviews and verified by reference to appropriate city and state publications. Actual assessment sales ratios for 1966 were obtained from: U.S. Bureau of the Census, Census of Governments, 1967, Property Taxes.

TABLE II.4*

**MEDIAN EFFECTIVE TAX RATES
BY NEIGHBORHOOD AND CITY FOR 1970**

City	Stable Neighborhood	Upward Transitional Neighborhood	Downward Transitional Neighborhood	Blighted Neighborhood
Atlanta	2.1%	2.1%	2.2%	4.6%
Baltimore	1.6	1.4	9.8	14.9
Chicago	5.2	0.8	4.7	10.7
Detroit	3.1	2.8	3.5	3.0
Nashville	1.5	1.2	1.3	0.9
Oklahoma City	1.5	1.5	2.3	1.7
Philadelphia	1.6	1.0	1.9	9.3
Portland	2.2	2.1	2.6	1.6
Providence	1.2	1.0	—	5.2
San Francisco	2.2	2.0	2.5	1.9
ALL CITIES	1.9	1.4	2.5	3.8
TOTAL NUMBER OF PROPERTIES	84	96	84	85

Sample: Residential properties reporting market value for 1970.

Notes: Effective Tax Rate is property tax as a percent of owner reported market value of the property.

Source: ADL Investor Interview questions 3 and 8; ADL Homeowners Interview questions 6d and 7; and ADL Property Data Sheet question 4.

*The tables summarize information obtained from 228 owners regarding 420 individual properties in ten cities.

TABLE II.5
MEDIAN TAX/GROSS RENT RATIO
BY NEIGHBORHOOD AND CITY FOR 1970

City	Stable	Upward Transitional	Downward Transitional	Blighted
Atlanta	13.4%	13.1%	13.7%	18.7
Baltimore	19.0	9.9	18.0	15.0
Chicago	20.7	9.9	17.4	19.9
Detroit	17.4	11.8	17.5	13.1
Nashville	9.5	7.9	7.8	8.4
Oklahoma City	14.0	8.9	10.8	14.0
Philadelphia	13.2	4.4	6.5	12.1
Portland	16.3	15.0	15.8	11.0
Providence	7.9	7.6	—	20.2
San Francisco	17.8	12.6	16.8	18.4
All Cities	14.4	10.1	12.9	15.5
Total Number of Properties	69	88	74	78

Sample: Residential rental properties reporting gross rent for 1970.

Notes: Tax/Gross Rent Ratio is property tax as a percent of actual rental receipts (full up rent roll less vacancy losses). For owner occupied structures, an imputed rent has been assigned to the owner's apartment of the basis of the rent structure prevailing in the rest of the building.

Source: ADL Investor Interview questions 3 and 12a; ADL Property Data Sheet question 4.

with any given level of gross rent in both neighborhoods, there corresponds a lesser net income in the blighted neighborhood. Furthermore, the expected duration of this net income flow is less for blighted properties. In the extreme case of the blighted neighborhoods in Baltimore, Chicago, Providence, or Philadelphia, several investors noted that there was a high probability that in a year or two their properties would be destroyed by vandals or rendered unrentable as a result of neighborhood deterioration. The market price for a property, of course, is determined by its total expected net income. Since for any fixed level of current gross rent, there is a greater expected net income for properties in stable neighborhoods, market prices, too, will be a greater multiple of gross rent in the neighborhood. Table II.6 shows how the Market Price/Gross Rent ratios – or "gross rent multipliers" – were distributed in our sample. Note how much lower the multipliers are for blighted and transitional downward neighborhoods in the four cities where market expectations are lowest.

TABLE II.6
MEDIAN GROSS RENT MULTIPLIER
BY NEIGHBORHOOD FOR 1970

Neighborhood	Median Gross Rent Multiplier All Cities	Baltimore Chicago Philadelphia Providence	Atlanta Detroit Nashville Oklahoma City Portland San Francisco	Total Number of Properties All Cities
Stable	6.7	6.5	6.8	71
Transitional Upward	6.9	7.2	6.8	86
Transitional Downward	5.1	3.5	5.9	76
Blighted	4.3	1.5	5.4	72
All Neighborhoods	5.8			305

Sample: All residential rental properties reporting rent and value for 1970.

Notes: The gross rent multiplier is the ratio of the market value of a property to its gross rent roll. This figure is a commonly used rule of thumb for measuring the attractiveness of real estate investments.

Source: ADL Investor Interview questions 3, 8, and 12a.

To demonstrate the importance of the variation in gross rent multipliers consider the following identity

$$T_M \equiv g \cdot T_R$$

Where T_M is tax as a percentage of market value, T_R is tax as a percentage of rents, and g is the gross rent multiplier or market value as a percentage of gross rent. Since gross rent multipliers are highest in stable and upward transitional neighborhoods, and lowest in blighted neighborhoods, the variation partially offsets the opposite variation in effective tax rates, shown in Table II.4. The result is a relatively even distribution of Tax/Gross Rent ratios.

The relatively equal Tax/Gross Rent ratios imply that the property tax raises the cost of housing by roughly the same proportion in every neighborhood. If the effective tax rates, based on market value, had been evenly distributed at the outset, the cost of supplying blighted housing would have shifted *less* than the cost of supplying other types of housing. That is, property tax payments as a percentage of gross rent would be *less*

in blighted neighborhoods than elsewhere, in a tax system where uniform tax rates are applied to asset values.

As part of the present study, historical data on Tax/Gross Rent ratios were gathered. Table II.7 shows that the *relative* tax burden of blighted and downward transitional neighborhoods, compared to stable and upward transitional neighborhoods, has increased substantially over the last five years. In general, property taxes were increasing in all neighborhoods, but in the stable and upward transitional neighborhoods rents were increasing even faster. Thus in the majority of instances in these two neighborhoods taxes as a percentage of gross rent declined during the period. The exact opposite was the case in the downward transitional and blighted neighborhoods. There rents typically did not increase as fast as property taxes. As a result, property taxes as a percentage of gross rents tended to increase over the period.

VARIATION IN TAX RATES BY STRUCTURE AND TYPE

The properties in the sample can be classified in other ways than by neighborhood. Table II.8 arrays the properties by age of structure and Table II.9 by size of building. In both cases the range of variation of effective tax rates is much less than when properties are classified by neighborhood. In fact, what variation there is can be attributed to neighborhood factors. In Baltimore the blighted neighborhood consisted of single-family row houses built 50 years ago. Consequently, Baltimore showed extremely high tax rates in three categories: blighted neighborhood, buildings 30-60 years of age, and one-unit dwellings. This predominant importance of neighborhood factors, rather than structural features, is reinforced in Table II.10. When median effective tax rates are stratified by age of property and neighborhood the variation in tax rates are much more pronounced across neighborhoods. Within any single neighborhood the relationship between the age of the building and the effective tax is slight, but among neighborhoods the effective tax rate is consistently highest in the blighted areas. Even viewing property taxes as a percent of gross rent the range of variation by age of structure is not significant (see Appendix, Tables II.29-II.32).

INCREMENTAL TAX RATES ON IMPROVEMENTS

According to the legal description of each city's tax system, residential property is to be taxed at a uniform proportion of market value, regardless of date of construction. If an improvement to a property augments its market value, this value is to be taxed at the overall tax rate, just as if the value were attributable to the original portion of the property.

In most discussions of the property tax, fear of reassessment is presumed to be a principal deterrent to upgrading of the housing stock. Taxing the increment in market value due to investment adds an additional cost which the investor must bear and reduces the rate-of-return he can earn on his investment. A 3% effective tax rate on market value, when applied to a project which is 90% financed, reduces an investor's before-income tax rate-of-return on equity by 30% per annum, if he cannot pass on the tax to his tenants. Reductions in profitability of this magnitude will cause investors to forego many

TABLE II.7

**CHANGE IN PROPERTY TAX AS A PERCENTAGE OF GROSS RENT
BY NEIGHBORHOOD, 1966-1970**

Neighborhood	Number of Properties	Properties for which Taxes as a Percentage of Gross Rent Increased from 1966 to 1970	Percent of Total	Median Change in Taxes as a Percentage of Gross Rent 1966-1970
Stable	44	15	34.1%	-1.0%
Transitional Upward	57	28	49.1	-0.1
Transitional Downward	58	40	69.0	+1.6
Blighted	53	35	66.0	+1.8
ALL NEIGHBORHOODS	212	118	55.6	+0.7

Sample: All 212 residential rental properties built prior to 1966 for which rent and tax histories could be obtained.

Notes: The difference between property tax as a percent of gross rental receipts for 1966 and 1970 was calculated for each individual property. The median value of these figures was then selected. A minus figure indicates that tax as a percentage of gross rent declined by one percent point from 1966 to 1970 (eg. from 17.0% to 16.0%).

Source: ADL Investor Interview question 12; and Property Data Sheet question 4.

TABLE II.8
MEDIAN EFFECTIVE TAX RATES BY AGE OF
BUILDING AND CITY, 1970

City	61 Years and Older	15 to 60 Years	Less Than 15 Years
Atlanta	2.3%	2.3%	2.4%
Baltimore	3.9	10.6	—
Chicago	1.5	5.2	—
Detroit	3.3	3.2	3.3
Nashville	—	1.1	1.5
Oklahoma City	—	2.1	1.5
Philadelphia	1.4	1.7	1.6
Portland	2.4	2.3	2.3
Providence	0.9	1.2	1.2
San Francisco	1.9	2.1	2.4
All Cities	2.2	2.8	2.0
Total Number of Properties In Sample	76	156	107

Sample: Residential properties reporting market value for 1970.

Notes: Effective Tax Rate is tax payment as a percent of investor reported market value of the property.

Source: ADL Investor Interview questions 3 and 8; ADL Homeowner Interview questions 1 and 7; and ADL Property Data Sheet question 4.

TABLE 11.9
MEDIAN EFFECTIVE TAX RATES BY
BUILDING SIZE FOR 1970
BY CITY

City	1 Unit	2 - 4 Units	5 - 19 Units	20 + Units
Atlanta	2.3%	3.3%	2.9%	2.1%
Baltimore	9.6	1.9	—	—
Chicago	2.1	1.7	4.7	6.3
Detroit	2.9	3.2	3.2	3.0
Nashville	1.1	1.1	1.2	1.6
Oklahoma City	1.6	2.5	—	1.5
Philadelphia	1.4	2.6	0.9	1.6
Portland	2.4	2.1	1.9	2.5
Providence	1.2	4.1	1.0	1.3
San Francisco	1.8	2.0	2.2	2.3
All Cities	2.7	2.5	2.3	2.5
Total Number of Properties	110	80	72	82

Sample: Residential Properties reporting market value.

Notes: Effective Tax Rate is property tax as a percent of owner reported market value.

Source: ADL Investor Interview questions 3 and 8; ADL Homeowner Interview question 7; and ADL Property Data Sheet question 4.

improvements of the housing stock which they would undertake in the absence of reassessment.

The potential disincentive of the property tax is clear. However, the actual disincentive depends on whether improvements to the housing stock *in fact* result in reassessment. Table II.11 shows the proportion of improvements in our sample which were reassessed to be surprisingly small. Of all improvements costing less than \$10,000 per unit only 10.3% were reassessed. Of the total 152 cases of private market rehabilitation examined in the study, only 19 resulted in reassessment. As an empirical fact, the property tax provides little disincentive to improvements in the housing stock because the presumed reassessment on which the effect depends only infrequently occurs.

Table II.12 examines the neighborhood pattern of reassessment of improvements. The popular view is that the marginal effect of the property tax is most severe in blighted neighborhoods. This hypothesis receives no substantiation whatsoever from Table II.12. Among our sample properties, not a single improvement effected by private investors in blighted neighborhoods resulted in reassessment. Typically property values are overassessed in these neighborhoods, and assessors disregard any improvements which, if they change the market value of a property at all, only move it closer to its assessed valuation.

Tables II.11 and II.12 hide a wide range of particular circumstances. Most important is the situation in Philadelphia's Upward Transitional Neighborhood. All five properties with rehabilitation expenditures in this neighborhood were reassessed. Excluding this one neighborhood leaves only 14 instances of reassessment out of 147 cases of rehabilitation. Even in the nine other upward transitional neighborhoods, only five out of forty-two projects were reassessed. It should be noted that even with reassessment, the five Philadelphia properties had effective tax rates well below the city wide average.

The timing of the reassessment varied greatly from city to city and with so few examples of reassessment few general conclusions can be made. It was apparent, however, that cities such as Portland which assessed all properties on a regular cycle, often did not reassess smaller rehabilitation expenditures immediately. For these smaller projects, the assessor would wait until the entire neighborhood came up for review and then reassess each building and improvement simultaneously. In other cities, such as Oklahoma City, with no general neighborhood cycle, reassessment was made within six months of completion of the rehabilitation work. As will be noted in Chapter IX, however, only a select few types of rehabilitation expenditures were reassessed at all in Oklahoma City.

The evidence of our sample indicates that the marginal effect of the property tax on investment is slight. Since this position differs from the usual view, it is well to cross-check the data with a report on investors' perceptions. As part of the questionnaire, investors were asked to identify what they regarded as the "principal obstacle" to upgrading their property. Table II.13 presents the responses to this question.

As shown in Table II.13, in only 19 instances was fear of reassessment listed as the most important obstacle to rehabilitation. Far more important were such reasons as difficulty in obtaining financing, deterioration of neighborhood, or inability to raise rents. The same

TABLE II.10
MEDIAN EFFECTIVE TAX RATE BY
AGE OF PROPERTY AND NEIGHBORHOOD, 1970

Neighborhood	Age of Property		
	Less Than 15	15 To 60	60 And Older
Stable	1.7%	2.1%	1.6%
Upward Transitional	1.8	1.9	1.1
Downward Transitional	2.1	2.6	3.8
Blighted	4.7	2.2	4.2
All Neighborhood	2.5	2.2	2.4

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 3 and 12.

TABLE II.11
REASSESSMENT OF PRIVATE MARKET REHABILITATION

Value of Rehab	No. of Properties Rehabilitated	No. of Properties Reassessed as a Result of Rehab	Percent Reassessed
Less Than \$500	53	1	1.9%
\$ 500 to \$2,999	62	10	16.1
\$ 3,000 to \$9,999	30	4	13.3
\$10,000 and over	7	4	57.1
ALL PROPERTIES	152	19	12.5

Sample: Private market residential structures built prior to 1961 with any rehabilitation expenditures in the period 1966-1970.

Source: ADL Investor Interview questions 17a, and 20a, ADL Homeowner Interview question 14, 17 and ADL Property Data Sheet question 4.

TABLE 11.12
REASSESSMENT OF PRIVATE MARKET REHABILITATION
BY NEIGHBORHOOD

Neighborhood	Less Than \$3000 Per Unit			More Than \$3000 Per Unit		
	No. of Properties Rehabilitated	No. of Prop Reassessed	Percentage Reassessed	No. of Properties Rehabilitated	No. of Properties Reassessed	Percentage Reassessed
Stable	27	1	3.7%	10	1	10.0%
Transitional Upward	26	5	19.2	21	7	33.3
Transitional Downward	30	5	16.7	3	0	0.0
Blighted	32	0	0.0	3	0	0.0
ALL NEIGHBORHOODS	115	11	9.6	37	8	21.6

Sample: Private market residential structures built prior to 1961 with any rehabilitation expenditures in the period 1966-1970.

Source: ADL Investor Interview questions 17a, and 20a, ADL Homeowner Interview question 14, 17 and ADL Property Data Sheet question 4.

TABLE 11.13

**OBSTACLES TO REHABILITATION OF RENTAL PROPERTIES
BY NEIGHBORHOOD AND NUMBER OF PROPERTIES
(Distribution of Most Important Obstacles)**

Obstacles	Stable	Upward Transitional	Downward Transitional	Blighted	All Neighborhoods
Difficulty Obtaining Financing	17	18	14	24	73
Fear of Reassessment	10	4	4	1	19
Deterioration of Neighborhood	1	11	21	27	60
Unavailability of Labor	3	10	6	3	22
Inability to Raise Rents	14	3	9	13	39
Does not need Rehabilitation	8	8	2	0	18
Other	3	5	6	0	14
TOTAL	56	59	62	68	245

Sample: Private market residential rental properties built prior to 1961.

Source: ADL Investor Interview question 24a.

is true in Table II.14 which combines the first and second most important obstacles to rehabilitation cited by investors. Finally, Table II.15 shows that even among homeowners, fear of reassessment was not considered to be a major obstacle to rehabilitation.

While few claim that fear of reassessment is an obstacle to rehabilitation, future chapters will demonstrate that many investors and homeowners have an unclear conception of how the assessment system functions. Many have expectations of reassessment which, on the basis of Assessors' reports and observed assessment practice, are unjustified. Nevertheless, on one point there is fundamental agreement: *in practice* reassessments are an infrequent consequence of undertaking improvements and investors perceive it to be a relatively minor obstacle. The disincentive effect of the property tax seems to have been exaggerated.

TABLE II.14

**OBSTACLES TO REHABILITATION OF RENTAL PROPERTIES
BY NEIGHBORHOOD AND NUMBER OF PROPERTIES**
(Distribution of Two Most Important Obstacles)

Obstacles	Stable	Upward Transitional	Downward Transitional	Blighted	All Neighborhoods
Difficulty Obtaining Financing	22	26	32	34	114
Fear of Reassessment	10	8	8	15	44
Deterioration of Neighborhood	16	18	26	46	106
Unavailability of Labor	11	17	17	6	51
Inability to Raise Rents	18	6	12	23	59
Does not need Rehabilitation	8	8	3	3	22
Other	4	8	10	1	23
TOTAL	92	91	108	128	419

Sample: Private market residential rental properties built prior to 1961.

Source: ADL Investor Interview question 24a.

TABLE II.15
OBSTACLES TO REHABILITATION BY HOMEOWNERS AND RENTERS
BY NEIGHBORHOOD
(Distribution of Most Important Obstacles)

Obstacles	Stable	Upward Transitional	Downward Transitional	Blighted	Total
Difficulty Obtaining Financing	5	3	4	5	17
Fear of Reassessment	2	0	0	0	2
Deterioration of Neighborhood	1	0	2	2	5
Unavailability of Labor	1	0	1	0	2
Can't Afford	1	0	1	1	3
Does Not Need Rehabilitation	1	1	0	0	2
Other	1	2	1	0	4
TOTAL	12	6	9	8	35

Sample: All single family owner occupied homes built before 1961.

Source: ADL Homeowner Interview question 19.

APPENDIX II-A

In Chapter Two we analyzed variations in property tax rates by city, neighborhood and structural type. These are the major stratifications made throughout the study. In order to carry our assessment of the distributional consequences of the property tax one step further we examined variations in tax rates of properties occupied by tenants of different race and income levels. Before reaching any definitive conclusions about the relative tax burden borne by the poor or by non-whites, however, we have to know the actual incidence of the property tax. Although buildings occupied by poor blacks, for example, may carry the highest effective tax rates in a particular city, unless we know the relative ability of landlords to pass the property tax forward to tenants we cannot be certain about the regressivity of the tax burden.

Table II.16 indicates that properties occupied by tenants with incomes less than \$5000 per annum carry heavier effective tax rates than the properties with more affluent tenants in four cities: Baltimore, Chicago, Philadelphia and Providence. These are the same four cities in which neighborhood variations in effective tax rates have been found to be so excessive. Since effective tax rates in other cities do not vary perceptibly, it appears that the substantial differences in the older northeastern cities are attributable to the dramatic variations among neighborhood submarkets. This assessment is supported by the data on the racial composition of tenants. Table II.17 shows that where the percent of white occupants in properties is lowest the median effective tax rate is highest. This occurs in the same four cities cited above. In other cities there is little difference in median effective tax rates in properties occupied by whites and non-whites.

The relationship between the income of tenants and the effective property tax rate is unclear except when households of the same income level are concentrated in particular neighborhood submarkets. As seen in Tables II.18 and II.19 there is little variation in the effective tax in properties occupied by tenants of different income levels or racial composition within the same neighborhood submarkets. To the extent that assessment-sales ratios are consistent, and lower income tenants occupy lower value housing, the effective tax rates should be the same. Since the property tax is by law a tax on the capital value of properties, not on the income level or race of the tenants, an equitably administered assessment program leads to uniform taxation within each city. In those cities where there is a consistent neighborhood bias, however, the property tax has a regressive impact, and the burden of the tax bias falls most heavily on the properties occupied by low-income minorities.

As indicated in this chapter, the appropriate measure of variations in tax burden is a comparison of tax rates on the market value of properties. For reasons already discussed, taxes as a percent of gross rent differ less across neighborhoods than taxes on asset value. As Tables II.20 and II.21 reveal, there is no consistent pattern between the income of tenants and the property tax as a percentage of gross rent. The lower gross rent multipliers, especially in the blighted and transitional neighborhoods such as Chicago, Baltimore, Providence and Philadelphia provide a more similar distribution of taxes across submarkets. This can be seen in the figures presented for 1966 and 1970 when taxes as a percent of gross

rents were stratified by separate neighborhoods (See Table II.22 and Table II.23). Once again there is no consistent relationship.

We have already established the fact that despite legal requirements, several cities overassess properties in blighted neighborhoods and underassess properties in upward transitional areas. The cause of this bias is unclear since it could derive from a conscious effort to overtax those landlords and tenants with the greatest need for local public services, outright discrimination against the poor and minorities or a serious lag between changes in market values and property reassessments. Several assessors indicated their concern about discouraging investments in revitalized neighborhoods or speeding the flight of middle-income homeowners to the suburbs. But with respect to the inequitable assessment of properties occupied by blacks or other poor tenants, assessors and other local officials are obviously reticent. Our comparison of variations in taxes by the racial composition of tenants provides inconsistent evidence on this matter. As a percentage of gross rents, taxes seem to be higher in properties occupied by non-whites, but the differences are not consistent or pronounced enough to allow one to draw any definitive conclusions. As Tables II.24 – II.27 indicate, the relationship between tax rates and the racial composition of occupants is unclear. There are no perceptible variations in property taxes by city or neighborhood in either 1966 or 1970.

As previously noted, even if we found a clear pattern of variations in property tax rates by the characteristics of tenants, one could not conclude that the property tax is regressive, or biased toward particular household types. In order to reach such conclusions it is necessary to know the incidence of the property taxes. Does the landlord absorb the cost of property taxes out of his potential profits? Do tenants have to pay the full amount of these taxes? Does the incidence of property taxes follow any consistent pattern? These are the type of questions which must be answered before there is conclusive evidence about who bears the actual burden of property taxes.

Although some economists have provided a theoretical framework for studying the incidence question, there has been little empirical work. Our survey elicited some information on this question, although our evidence is based on the subjective attitude and estimations of real estate investors rather than their actual behavior. In any case, the findings indicate that the distributive impact of property taxes is even more complex than is popularly assumed. Landlords were reasonably consistent in pointing out that it is more difficult to pass tax increases on to tenants in blighted areas than in any other neighborhood submarket. As Table II.28 reveals, less than one-quarter of the landlords in blighted neighborhoods believed that they could pass tax increases forward to tenants as compared to three-quarters of the landlords in stable and transitional upward submarkets. Table II.29 presents similar data stratified by the racial composition of tenants. Tables II.30 – II.32 reveal data regarding median tax as a percentage of gross rent by age of property and city, and age of property and neighborhood, 1966 and 1970.

TABLE 11.16
MEDIAN EFFECTIVE TAX RATE BY
INCOME OF TENANTS AND BY CITY, 1970

City	Income of Tenants		
	Less Than \$5,000	\$5,000 To \$10,000	\$10,000 And Over
Atlanta	3.4 %	2.1 %	0.9%
Baltimore	11.0	9.4	1.6
Chicago	10.2	2.7	0.7
Detroit	3.3	3.0	3.3
Nashville	1.3	0.8	1.5
Oklahoma City	2.3	1.5	1.5
Philadelphia	5.9	1.4	1.2
Portland	2.5	2.3	2.4
Providence	5.2	0.7	1.2
San Francisco	2.0	2.1	1.9
All Cities	3.0	2.4	1.6

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 6a and 12.

TABLE 11.17
MEDIAN EFFECTIVE TAX RATE BY
RACIAL COMPOSITION OF THE TENANTS AND BY CITY, 1970

City	Percent White		
	0 To 10	10 To 90	90 To 100
Atlanta	3.5%	2.1%	2.3%
Baltimore	11.8	—	1.5
Chicago	11.0	3.8	2.2
Detroit	3.7	3.2	3.2
Nashville	1.2	—	1.3
Oklahoma City	1.7	—	1.6
Philadelphia	2.2	0.6	1.6
Portland	1.8	—	2.4
Providence	—	18.5	1.1
San Francisco	2.1	2.0	2.2
All Cities	3.6	3.0	1.8

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 6b and 12.

TABLE 11.18

**MEDIAN EFFECTIVE TAX RATE BY
INCOME OF TENANTS AND NEIGHBORHOOD, 1970**

Neighborhood	Income of Tenants		
	Less Than \$5,000	\$5,000 To \$10,000	\$10,000 And Over
Stable	2.9%	2.2%	1.7%
Upward Transitional	1.8	1.5	1.2
Downward Transitional	2.8	2.7	5.7
Blighted	3.1	2.8	—
All Neighborhoods	3.0	2.4	1.6

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 6a and 12.

TABLE 11.19

**MEDIAN EFFECTIVE TAX RATE BY
RACIAL COMPOSITION OF TENANTS BY NEIGHBORHOOD, 1970**

Neighborhood	Percent White		
	0 To 10	10 To 90	90 To 100
Stable	1.7 %	2.7%	1.9 %
Upward Transitional	1.0	1.8	1.3
Downward Transitional	3.8	2.7	3.2
Blighted	3.6	3.1	2.0
All Neighborhoods	3.6	3.0	1.8

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 6b and 12.

TABLE 11.20

**MEDIAN TAX AS A PERCENTAGE OF GROSS RENT
BY INCOME OF TENANTS AND BY CITY, 1970**

City	Income of Tenants		
	Less Than \$5,000	\$5,000 To \$10,000	\$10,000 And Over
Atlanta	18.4%	9.2%	9.6%
Baltimore	15.7	18.6	12.9
Chicago	15.0	16.3	10.5
Detroit	13.1	14.1	18.0
Nashville	7.8	7.2	9.6
Oklahoma City	14.0	11.4	10.5
Philadelphia	12.8	12.1	6.5
Portland	10.3	14.5	16.6
Providence	19.1	5.0	7.8
San Francisco	18.0	14.1	19.5
All Cities	14.2	12.2	12.2

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 6a and 12

TABLE 11.21

**MEDIAN TAX AS A PERCENTAGE OF GROSS RENT
BY INCOME OF TENANTS AND BY CITY, 1966**

City	Income Of Tenants		
	Less Than \$5,000	\$5,000 To \$10,000	\$10,000 And Over
Atlanta	13.0%	9.2%	—
Baltimore	15.4	16.9	15.7%
Chicago	12.3	13.4	10.4
Detroit	18.4	15.9	16.6
Nashville	7.4	—	9.3
Oklahoma City	12.2	12.3	16.0
Philadelphia	14.4	14.3	13.4
Portland	12.4	13.1	16.4
Providence	15.0	7.1	6.5
San Francisco	11.3	11.5	18.7
All Cities	13.0	11.8	14.2

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 6a and 12.

TABLE 11.22

**MEDIAN TAX AS A PERCENTAGE OF GROSS RENTS
BY INCOME OF TENANTS AND NEIGHBORHOOD, 1970**

Neighborhood	Income of Tenants		
	Less Than \$5,000	\$5,000 To \$10,000	\$10,000 And Over
Stable	17.6%	14.4 %	14.2%
Upward Transitional	9.1	9.3	10.0
Downward Transitional	14.5	14.5	18.1
Blighted	14.9	14.5	—
All Neighborhoods	14.2	12.2	12.2

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 6a and 12.

TABLE 11.23

**MEDIAN TAX AS A PERCENTAGE OF GROSS RENT
BY INCOME OF TENANTS AND NEIGHBORHOOD, 1966**

Neighborhood	Income of Tenants		
	Less Than \$5,000	\$5,000 To \$10,000	\$10,000 And Over
Stable	17.5%	12.2%	15.6%
Upward Transitional	9.1	9.1	13.7
Downward Transitional	13.0	13.1	19.2
Blighted	13.0	12.7	14.5
All Neighborhoods	13.0	11.8	14.2

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 6a and 12.

TABLE 11.24**MEDIAN TAXES AS A PERCENTAGE OF GROSS RENTS
BY RACIAL COMPOSITION OF THE TENANTS AND BY CITY, 1970**

City	Percent White		
	0 To 10	10 To 90	90 To 100
Atlanta	18.5%	13.5%	12.3%
Baltimore	17.8	—	9.9
Chicago	19.9	15.5	15.0
Detroit	12.0	15.3	17.6
Nashville	7.3	—	9.9
Oklahoma City	14.2	—	10.7
Philadelphia	11.2	5.9	11.5
Portland	10.3	—	15.6
Providence	18.0	—	7.9
San Francisco	19.1	15.3	18.6
All Cities	14.9	13.1	12.8

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 6b and 12.

TABLE 11.25

**MEDIAN TAXES AS A PERCENTAGE OF GROSS RENT
BY RACIAL COMPOSITION OF THE TENANTS AND BY CITY, 1966**

City	Percent White		
	0 To 10	10 To 90	90 To 100
Atlanta	12.2%	9.1%	7.5%
Baltimore	17.8	—	10.4
Chicago	13.0	11.8	12.6
Detroit	12.2	20.9	16.4
Nashville	7.4	—	9.3
Oklahoma City	12.5	—	13.8
Philadelphia	14.3	6.8	13.0
Portland	9.2	—	14.3
Providence	—	—	8.9
San Francisco	—	15.2	15.4
All Cities	12.5	12.8	13.2

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 6b and 12

TABLE 11.26

**MEDIAN TAXES AS A PERCENTAGE OF GROSS RENTS
BY RACIAL COMPOSITION OF TENANTS BY NEIGHBORHOOD, 1970**

Neighborhood	Percent White		
	0 To 10	10 To 90	90 To 100
Stable	14.2%	16.2%	14.4%
Upward Transitional	6.8	12.0	10.5
Downward Transitional	15.7	17.4	14.9
Blighted	15.3	14.3	19.8
All Neighborhoods	14.9	13.1	12.8

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 6b and 12.

TABLE 11.27

**MEDIAN TAXES AS A PERCENTAGE OF GROSS RENT
BY RACIAL COMPOSITION OF TENANTS BY NEIGHBORHOOD, 1966**

Neighborhood	Percent White		
	0 To 10	10 To 90	90 To 100
Stable	14.3%	15.9%	14.8%
Upward Transitional	—	10.9	13.6
Downward Transitional	17.0	15.1	13.0
Blighted	12.4	16.0	—
All Neighborhoods	12.5	12.8	13.2

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 6b and 12.

TABLE 11.28

**ABILITY TO PASS TAX INCREASE ON TO TENANTS
BY NEIGHBORHOOD, 1970**

Neighborhood	Total Number of Properties	Able to Pass Tax On	Percent
Stable	74	55	74.3%
Transitional Upward	75	56	74.7
Transitional Downward	70	31	44.3
Blighted	66	16	24.2
All Neighborhoods	285	158	55.4

Sample: Private Market Residential Rental Properties

Source: ADL Investor Interview Questions 3 and 15a.

TABLE 11.29

**ABILITY TO PASS TAX INCREASE ON TO TENANTS
BY RACIAL COMPOSITION OF TENANTS, 1970**

Percent White	Total Number of Properties	Able To Pass Tax On	Percent
90 to 100	140	95	67.9%
10 to 90	49	30	61.2
0 to 10	78	25	32.1
Total	267	150	56.2

Sample: Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 6 and 15a.

TABLE 11.30**MEDIAN TAX AS A PERCENTAGE OF GROSS RENT
BY AGE OF PROPERTY AND CITY, 1970**

City	Age of Property		
	Less Than 15	15 To 60	60 And Older
Atlanta	14.4%	14.2%	—
Baltimore	—	17.7	15.0%
Chicago	20.9	17.2	10.5
Detroit	14.1	15.3	13.1
Nashville	8.6	6.3	—
Oklahoma City	10.2	12.3	—
Philadelphia	16.8	6.5	9.9
Portland	18.2	14.2	14.9
Providence	18.0	14.9	5.7
San Francisco	18.1	17.8	14.0
All Cities	11.5	12.6	13.6

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 3 and 12.

TABLE 11.31**MEDIAN TAX AS A PERCENTAGE OF GROSS RENT
BY AGE OF PROPERTY AND CITY, 1986**

City	Age of Property		
	Less Than 15	15 To 60	60 And Older
Atlanta	11.9%	9.5%	—
Baltimore	—	16.6	16.9%
Chicago	—	12.3	10.4
Detroit	18.2	16.4	16.0
Nashville	9.3	7.4	—
Oklahoma City	14.0	12.5	—
Philadelphia	16.9	12.5	14.3
Portland	—	13.6	15.4
Providence	—	11.3	8.9
San Francisco	15.4	13.4	11.3
All Cities	12.2	13.3	14.4

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 3 and 12.

TABLE 11.32

**MEDIAN TAX AS A PERCENTAGE OF GROSS RENT
BY AGE OF PROPERTY AND NEIGHBORHOOD, 1970**

Neighborhood	Age of Property		
	Less Than 15	15 To 60	60 And Older
Stable	15.8%	14.7%	14.3%
Upward Transitional	9.4	11.0	10.4
Downward Transitional	11.6	12.4	18.4
Blighted	14.0	12.3	13.7
All Neighborhoods	11.5	12.6	13.6

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 3 and 12.

TABLE 11.33

**MEDIAN TAX AS A PERCENTAGE OF GROSS RENT
BY AGE OF PROPERTY AND NEIGHBORHOOD, 1966**

Neighborhood	Age of Property		
	Less Than 15	15 To 60	60 And Older
Stable	14.4%	14.0%	14.1%
Upward Transitional	10.5	11.0	9.9
Downward Transitional	13.2	15.7	17.3
Blighted	18.9	14.3	13.1
All Cities	12.2	13.3	14.4

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 3 and 12.

CHAPTER III

THE PROPERTY TAX AND NEIGHBORHOOD ANALYSIS

There are basically two approaches to studying the impact of property taxation on housing supply. One approach is to examine the income statements of individual investors and the particular circumstances of individual properties. One might hypothesize, for instance, that owners of properties currently generating a negative cash flow are less likely to maintain or upgrade their properties than owners who face a positive cash flow. Changes in the property tax then would be significant insofar as they altered particular investors' operating statements.

The alternative view is that the cash flows of the investors who happen to be holding property at a given moment are insufficient to determine the effect of changes in the property tax on housing supply. Properties can always be transferred to other hands in response to profit incentives, and the price at which the transaction takes place may alter drastically the cash flow which a given property generates. In this view, the proper level of analysis is the neighborhood sub-market for housing, not the individual property or individual owner alone.

The rest of this report emphasizes neighborhood analysis. However, the survey also accumulated a great amount of information on investors' income statements, and the age and condition of their properties. This chapter summarizes the structure-specific and investor-specific data obtained. Analysis of these data shows that it is possible to formulate some rules of thumb as to which kinds of properties are most likely to be profitable to upgrade, and which kind of owner is most likely to take advantage of the profit opportunities. But it must be emphasized that in general owners of rental stock undertake improvement of their property for one reason only, because it is profitable to do so.

Whether it is profitable to renovate a property, undertake cosmetic rehabilitation, or let a property run down depends not so much on characteristics of the property itself, as on the aggregate supply and demand for housing of different types in the market. For this reason, it is misleading to concentrate too much on individual properties. A structure-specific method of analysis implies that if a property is of a certain age, structure, and type, it will be profitable to improve it, regardless of market conditions. This approach ignores the demand for housing. For purposes of policy analysis, it is much more fruitful to analyze housing improvements, by looking at neighborhood sub-markets, wherein the basic demand and supply conditions are similar enough to justify generalizations as to the kind of investment strategy that will prove profitable. Renovation of a 140 year-old town house, with stained glass windows and oak floors may or may not be profitable, depending on neighborhood conditions and the demand for housing; but renovation of such a house in an upward transitional neighborhood, where professionals are moving into the neighborhood in great numbers, almost certainly will be profitable.

Owner Characteristics, Structure Characteristics, and the Likelihood of Improvement

Table III.1 links the owner's investment decision with his cash flow. It is often hypothesized that owners are more likely to effect improvement of their property if they can finance the investment out of current cash flow. The rows of Table III.1 classify investors by the magnitude of their cash flow, per dwelling unit.

The columns present a breakdown of the rental stock 10 years of age or older by change in the quality level of housing services provided, over a five year period. The quality of housing services includes not only the physical quality of the building, but also the service level and management techniques provided by the owner. This measure is somewhat more subjective than one that only looks at rehabilitation, but it provides a comprehensive measure of quality. This measure recognizes that rehabilitation is only one possible element of upgrading a building; lack of rehabilitation may or may not be a sign of deterioration in quality.

This measure was formulated on the basis of comments by the owner about his investment strategy and the type of neighborhood sub-market he was investing in, by examining his five year history of maintenance and rehabilitation, and by visual inspection of his property.

As shown in Table III.1, the relationship between per unit cash flow and change in quality is weak. There is a tendency for quality to decline in buildings that are currently experiencing a negative cash flow, and a tendency for quality to increase in buildings with a positive cash flow. Yet, the only definitive conclusion that can be drawn from the relationship between operating expenses, rent receipts and building quality is that only in the circumstance when a dwelling unit generates a net cash flow of more than \$300 per annum is it unlikely that the landlord would allow such a seemingly good investment to decline in quality. Otherwise, it is extremely difficult to predict the quality of a building solely from an examination of the owner's cash flow statement.

What is most noteworthy about the findings in Table III.1, and Table III.2 is the lack of any consistent relationship between the quality of a dwelling unit and the associated cash flow. There are many landlords in blighted neighborhoods, for example, whose properties are still generating a positive cash flow because they have cut back on maintenance and building services. Alternatively, the landlords in upward transitional or stable neighborhoods may be willing to upgrade their property despite existing negative cash flows because the future prospects for the area are good. It is unclear how quality and cash flow are interrelated. In order to understand this relationship, for instance, one has to ascertain whether the decline in dwelling quality has produced a decline in cash flow, or whether the weakness of the rental submarket forces the landlord to disinvest. For all investment decisions property owners give primary emphasis to their expectations about the future, since this determines how quality improvement or decline will affect the profitability of their investment.

As indicated in Table III.3, an examination of selected per unit expenditures does not provide a sufficient amount of information upon which to determine the rehabilitation

TABLE III.1 *
CHANGE IN BUILDING QUALITY BY ANNUAL
CASH FLOW PER UNIT

Annual Cash Flow Per Dwelling Unit, 1966	Number of Properties	Percent Quality Improved	Percent Quality Maintained	Percent Quality Declined
Greater Than \$300	34	41.2 %	52.9%	5.9 %
\$150 to \$300	106	30.2	49.0	20.8
\$0 to \$150	73	43.8	31.5	24.7
Less than \$0	43	20.9	48.8	27.9
Total	256	34.0	44.6	21.4

Note: Change in quality refers to period 1966 to 1970.

Sample: All private market residential rental properties 10 years of age and older where cash flow per unit could be determined.

Source: ADL Investor Interview Question 12.

* The tables summarize information obtained from 228 owners regarding 420 individual properties in ten cities.

TABLE III.2
TOTAL EXPENSE AND CASH FLOW PER UNIT BY NEIGHBORHOOD, 1970

Neighborhood	Total Per Unit Expenses			Cash Flow Per Unit		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Stable	\$1152	\$1586	\$2478	\$-162	\$126	\$256
Transitional Upward	622	1203	1833	22	155	297
Transitional Downward	835	956	1266	30	87	259
Blighted	522	876	1140	- 69	28	284

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 12a and b.

TABLE III.3
SELECTED PER UNIT EXPENSE CATEGORIES BY NEIGHBORHOOD, 1970

Neighborhood	Principal Payments And Debt Service			Property Tax			Operating Expenses		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Stable	\$389	\$631	\$925	\$168	\$207	\$364	\$332	\$567	\$710
Upward Transitional	0	370	705	129	157	226	413	676	902
Downward Transitional	180	285	508	125	179	225	250	421	551
Blighted	0	281	520	102	135	213	199	260	526

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 12a and b.

potential of individual properties or groups of properties. Within each neighborhood, debt service, property taxes and operating expenses vary significantly among dwelling units. In an upward transitional neighborhood where capital values are appreciating, for example, there are many investors who are willing to rehabilitate their properties; not because of the level of their present debt service, operating expenses or rent roll but on the basis of a belief in the future of their neighborhood. Demand for their properties may be increasing as higher-income residents move into the area. If there is an influx of higher income tenants who want to live in an upward transitional area, then property-owners are likely to upgrade their buildings even if their existing cash flow is small. What such investments reflect is an expectation about the stability of their cash flow over time. Property owners invest in the future; not in the present. And the future profitability of a rehabilitation investment depends upon the condition of the neighborhood even more than the condition of the individual property.

In contrast to Table III.3, Table III.4 presents the median change in selected per unit income and expense items during the 1966 and 1970 period for each of our neighborhood groups. Over a five year period trends in the submarkets provide a much better basis for determining the likelihood of significant rehabilitation. In the blighted areas, for example, it is apparent that investors face a continuing financial squeeze. Gross expenditures are rising faster than gross rents. If these trends continue then the profitability of additional investments is questionable.

Table III.5 portrays change in quality by owner investment strategy. It might be expected that investors involved in a long term strategy are more likely to maintain or upgrade their properties than those with a short term strategy. This assumption is not supported by the data.

However, those investors interested in capital appreciation were less likely to let the building quality decline than those primarily interested in rental income. Those investors in our sample primarily interested in the tax shelter advantages of real estate, were making few, if any, improvements to their buildings.

By far, the best maintenance record was achieved by those investors who bought their rental property primarily as a home. Fifty percent of these owners had increased the quality of their building in the period 1966 - 1970.

Further confirmation of the importance of owner occupancy is presented in Table III.6. The category "owner occupied" includes those whose investment strategy was primarily purchase of property as a home as well as owners who live in the property but had some other investment strategy, such as capital appreciation. Of the 68 owner occupied buildings only 10.3% experienced a decline in quality in the period 1966-1970. This compared with 22.3% for absentee owned buildings.

Table III.7 portrays change in quality by age of building. The table indicates that the

TABLE III.4
MEDIAN PERCENT CHANGE IN SELECTED PER UNIT
INCOME AND EXPENSE ITEMS, 1966 TO 1970

Neighborhood	Principal Payments And Debt Service	Property Tax	Operating Expense	Gross Rent
Stable	-3%	7%	23%	17%
Upward Transitional	0	42	23	24
Downward Transitional	2	43	20	22
Blighted	0	34	37	11
Total	0	36	34	14

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 12a and b.

TABLE III.5
CHANGE IN BUILDING QUALITY BY
PRIMARY INVESTMENT STRATEGIES

Strategy	Total Number of Properties	Percent Quality Improved	Percent Quality Maintained	Percent Quality Declined
Long Term Capital Appreciation	93	38.7%	50.5%	10.8%
Long Term Rental Income — Cash Flow	119	28.6	43.7	27.7
Short Term Capital Appreciation	17	35.3	52.9	11.8
Short Term Rental Income — Cash Flow	21	28.6	47.6	23.8
Tax Shelter	7	0.0	57.1	42.9
Bought For Home	40	50.0	37.5	12.5
Other	18	27.8	50.0	22.2

Notes: Change in quality refers to period 1966 to 1970.

Sample: All private market residential rental properties 10 years of age and older.

Source: ADL Investor Interview Question 2c.

TABLE III.6
OWNER TYPE BY CHANGE IN BUILDING QUALITY

Owner Type	Number of Properties	Percent Quality Improved	Percent Quality Maintained	Percent Quality Declined
Owner Occupied	68	51.5%	38.2%	10.3%
Absentee Owned	247	29.1	48.6	22.3
Total	315	34.0	46.3	19.7

Notes: Changes in quality refer to period 1966 to 1970.

Sample: All private market residential rental properties 10 years of age and older.

Source: ADL Investor Interview Question 3.

TABLE III.7
CHANGE IN BUILDING QUALITY BY AGE OF BUILDING

Age	Number of Properties	Percent Quality Improved	Percent Quality Maintained	Percent Quality Declined
10 to 19	42	23.8%	57.1 %	19.0 %
20 to 29	21	19.0	61.9	19.0
30 to 39	28	35.7	46.4	17.9
40 to 49	54	29.6	59.3	11.1
50 to 59	50	30.0	40.0	30.0
60 to 69	40	45.0	27.5	27.5
70 to 79	34	35.3	32.4	32.4
80 to 89	15	33.3	53.3	13.3
90 And Older	29	48.3	37.9	13.3
All Properties	315	34.0	46.3	19.7

Notes: Change in quality refers to period 1966 to 1970.

Sample: All private market residential rental properties 10 years of age and older.

Source: ADL Investor Interview Question 3.

oldest buildings are less likely to be allowed to deteriorate. The oldest buildings, 80 years and over, had very low percentages of decline. The most serious decline in quality occurred in buildings 50 to 79 years of age.

The age of the building alone can tell us little about the likelihood of rehabilitation. We need to understand the characteristics of the neighborhood submarket in which the building is located. As we shall indicate in the chapters on Downward and Upward Transitional Neighborhoods, housing of similar age may undergo drastic change in the quality because of neighborhood differences.

Even knowing the physical condition of a property does not indicate whether or not the owner will undertake rehabilitation. As in the foregoing discussion; the relationship between the quality of a structure and the investment prospects of a particular landlord must be considered in conjunction with the neighborhood setting. For example, one management firm in Atlanta identified a few blocks in the Pittsburg neighborhood where vacancy rates were among the highest in the city despite the fact that most of the buildings were less than 15 years old. One of the properties in our sample was taken from these blocks. The owner had built the structure 12 years ago. Originally, he intended to house middle-income families. Because of the changing character of the neighborhood, however, his building was not fully occupied and those units that were occupied were overcrowded with large poor families. Major repairs were needed in the plumbing system, doors, windows, cabinets and the like. Even though the basic structure, interior walls, electrical wiring, heating plant and plumbing system were virtually new, dense living arrangements and tenant vandalism made several of the units virtually uninhabitable.

Another situation in Detroit reconfirms the need to consider both the quality of the individual structure as well as the condition of the neighborhood. One landlord interviewed in our survey wanted to redecorate and carpet the apartments of some of his more stable, dependable tenants. He estimated that he could carry out his improvement plans by increasing rents only \$10-12 per month. The response from several of his tenants, however, was that if they could afford the higher rents they wouldn't be living in that neighborhood.

As both of these cases illustrate, it is the interaction between the demand for structural quality, public services, neighborhood schools and other local conditions that is the key to investment decisions. The rehabilitation of essentially good structures in unattractive neighborhoods will not be marketable. Why should a family with sufficient income to choose among several neighborhoods select an apartment with large rooms, up-to-date mechanical systems and attractive structural features if the dwelling is located in a neighborhood with poor schools, high crime rates, littered streets and hazardous playgrounds. Obviously information on the physical condition of a building alone, without some knowledge about the neighborhood is an inadequate basis for predicting rehabilitation decisions.

As pointed out in the preceding chapter (see Tables II.12 and II.13) the three most important obstacles to rehabilitation are difficulty of obtaining financing, neighborhood deterioration and inability to raise rents. Clearly, two of these factors are dependent upon the conditions of the neighborhood submarket rather than the circumstances of the

individual investor. Over three-quarters of the investors who cited the deterioration of the neighborhood as the single most important obstacle to rehabilitation were located in downward transitional and blighted areas. This was expected, of course, since the upgrading of a few properties has no effect on crime rates, vandalism, poor quality schools, conditions of other residential or commercial structures or any other residential services.

In order for the private market to value the improvement in quality of a single structure in a blighted area a number of additional improvements in public services, infrastructure, and other properties would have to be made. Otherwise the rehabilitation of a single isolated building is a poor investment. It is precisely because of the overall conditions in the neighborhood submarket that landlords are unable to raise rents even if they undertake rehabilitation. Obviously, if landlords are unable to cover the marginal costs incurred with structural improvements they will not be willing to make such investments. Also, in blighted and downward transitional areas there are a limited number of households who can really afford to pay the higher rents required after rehabilitation. Although incomes are higher in stable neighborhoods, as are rents, the ability or willingness to pay higher post-rehabilitation rents seems to inhibit reconstruction investments in these areas as well.

The difficulty of obtaining financing, the third major obstacle to rehabilitation, may be a function of neighborhood conditions and/or the circumstances of individual investors. Savings and loan banks, commercial banks and other major lending sources are unwilling to assume the risks associated with investments in low quality neighborhoods. With uncertain expectations about the future, a decline in demand for housing services and increases in supply costs associated with vandalism, fuel prices, insurance, property taxes, etc., conventional lenders do not want to make additional loans in blighted areas. This is true even for well-capitalized large scale investors unless they are willing to take personal loans. In neighborhoods where properties are likely to appreciate over time, conventional lenders are willing to provide financing for rehabilitation unless the investor, himself, is not deemed to be a good credit risk. In this latter case, the investor may have little real estate experience, a poor track record, little equity capital or an uncertain investment opportunity. This is one of the circumstances in which the situation of the individual investor has an overriding influence on the decision to rehabilitate.

In each instance above, some insight was gained into the conditions which affect the decision to change the quality of housing. Without, however, an understanding of the overall demand and supply conditions of the particular neighborhood submarket, only limited meaning can be attached to most of the relationships observed.

To recapitulate, looking at a property's cash flow, age, size, or characteristics of the current owner does not give enough information in general, as to whether it would be profitable to upgrade the structure or not. This depends upon the market for rental housing. In order to encourage rehabilitation, changes in the property tax need not make the cash flow of a property's present owner so attractive that the owner finds it worthwhile to upgrade; tax changes may provide incentives for purchase of the property by a quite different class of investor. These investors will then bid for the properties and take advantage of the profit opportunities to be had from operating them. In a well-functioning market, properties will be transferred from inefficient to efficient managers, from

sub-optimal quality levels to profit maximizing quality levels, and from those who profit little from public policy incentives to those who profit greatly.

At the same time, the housing market is not perfect. Sometimes investors hold on to properties when to all appearances they would be better off to sell them. Sometimes they refuse to improve properties, in spite of lucrative returns to rehabilitation. The question, then, is not what improvement, but what profit incentives can be created for any class of potential owners, and what can be done to smooth the market transferral of ownership to this class of people who potentially benefit from public incentives.

Knowing owner characteristics or building characteristics is useful, but by themselves, they are insufficient evidence regarding a property owner's likely decision to undertake rehabilitation.

Property Cash Flow and Operating Statement

Just as the changes in quality of a building cannot be explained in terms of structural characteristics alone, the cash flow of a building is not a unique characteristic of the property. Consider the following operating statement of an owner of a 6-unit structure in the blighted sections of Atlanta.

TABLE III.8
CASH FLOW STATEMENT

Gross Income	\$3540
Administration	\$221
Insurance	50
Utilities	208
Maintenance and Repairs	275
Property Taxes	380
Other Taxes	139
Eviction Warrants	26
Operating Income	\$2291
Debt Service	0
Cash Flow	\$2291

Note: This cash flow statement of a particular investor was selected as representative of the point discussed in the text.

This investor currently shows a large cash flow, because he owns his building free and clear. He originally purchased the building in 1951 for \$21,500. If he had paid \$5,000 cash in 1951 and borrowed the remaining sum on a 20-year, 6% loan, the investor would have had a cash flow of \$852 in 1970 instead of the actual \$2291. With a more recent acquisition and shorter-term loan he would have shown a negative cash flow. See Table III.8.

In short, the cash flow a property produces depends considerably on the financial conditions surrounding its purchase. It depends on the price at which the investor acquired the property and the amount and terms of financing. In blighted neighborhoods it is

common for properties purchased 10-15 years ago to produce a negative cash flow. This is true largely because the investor is saddled with debt payments based on a purchase price which far exceeds the current value of the structure. If the property were to change hands today, debt payments on the new purchase price would be so much lower that a positive cash flow might well result. For all structures, except those which should be abandoned, there is some price at which a property will produce a positive cash flow. If the real estate market is functioning well, the market price of the property will adjust until debt payments on that price do leave a positive cash flow.

Since Table III.1 showed that owners who suffer a negative cash flow are reluctant to upgrade their properties, one function of the market should be to transfer these properties at lower prices to new owners who will be more likely to undertake investment. Actually, a structure's operating income provides a better indication of its current profitability than its cash flow. Operating income is the total that remains from Gross Rents after subtraction of expenditures on Maintenance and Operations. It is the amount which is capitalized into the asset value of a property. However, even the operating income of a building may turn out to be highly variable. Our interviews identified a large number of investors who purchased properties, and immediately appealed the assessment, using the lower purchase price as evidence that the building was overassessed. If the appeal was successful, one important component of operating costs, property tax liability, was reduced. Other new purchasers found that replacement of the heating plant could significantly slash operating expenses, or that cosmetic rehabilitation of a structure's interior could greatly augment rents. Often, upon transfer of ownership a property's operating income changed drastically. Table III.9 illustrates the case of a skilled investor who in late 1966 purchased a property in a quasi-blighted neighborhood. The investor at once appealed the assessment, changed insurance coverage, repainted the interior of the building and filled vacancies. By 1968 the operating statement bore little resemblance to that of 1966.

PROPERTY TAX AND THE SUPPLY OF HOUSING

In terms of the traditional demand-supply diagram, imposition of a uniform property tax can be represented as a shift upwards in the supply curve of rental housing, since at every level of housing supply the owner must cover all his previous costs plus the additional tax payments. With typically shaped curves, this shift upwards in the cost of supplying rental units will both raise the price of housing and lower the quantity of housing provided. Increases in the price of housing are easily observed as rent increases. Decreases in the quantity of housing may be harder to observe. The "quantity" of housing stock is a composite measure of the number of dwelling units and their quality. A diminution of the housing stock can take the form of a reduction in the number of dwelling units or a reduction in the "quality," or standard of maintenance and building services, provided by each unit. Imposition of a residential property tax usually is thought to have both effects. It discourages some investment in rehabilitation and maintenance of the existing stock and eliminates some new investment. Reducing the property tax would have a reverse effect: it would lower prices and stimulate investment.

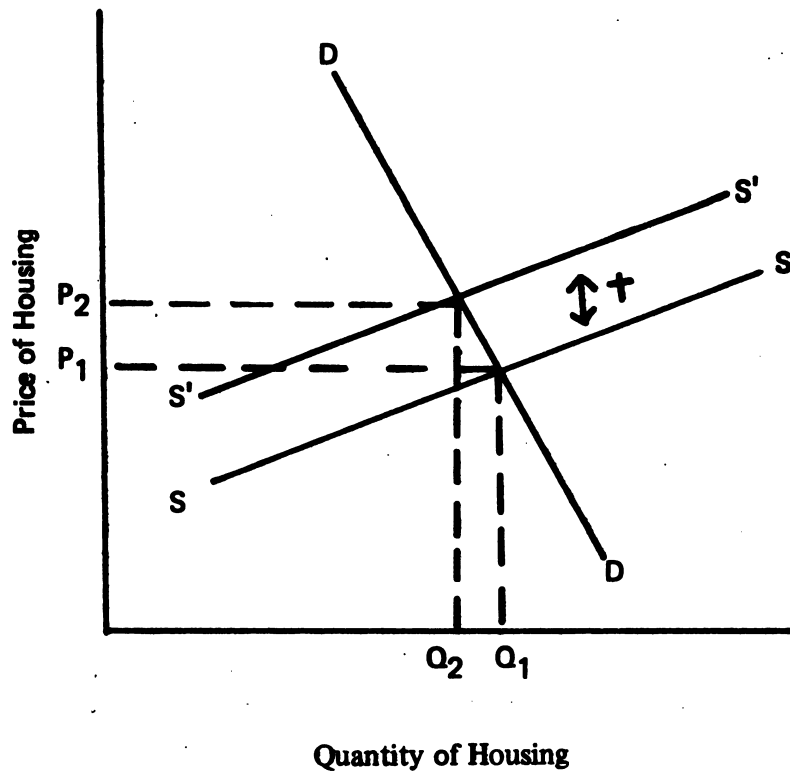
Diagram I illustrates the shift to a new equilibrium caused by imposing a property tax.

TABLE III.9
CHANGE IN CASH FLOW STATEMENT

	1968	1968
Gross Rent	\$6042	\$9217
Administration	\$900	\$900
Insurance	752	327
Utilities	171	142
Maintenance and Repairs	1,977	2,765
Property Taxes	2,063	1,336
Operating Income	1121	3447
Debt Service	1,303	1,303
Cash Flow	1324	2444

Note: This cash flow statement of a particular investor was selected as representative of the point discussed in the text.

DIAGRAM I



Note: DD is the demand curve for housing

SS is the supply curve for housing prior to introduction of property tax

S'S' is the supply curve for housing after the imposition of tax t .

After imposition of the tax (t) the price of housing (P_2) is higher and the quantity of housing (Q_2) is lower than before the tax.

Whether property taxes have their principal effect on the quality of housing or rent levels depends on the elasticity of the supply and demand curves – that is, the responsiveness of housing supply and demand to price changes.

Housing market experts sometimes seem to argue that reducing the property tax burden will benefit tenants only if substantial improvement of the housing stock results. This view disregards consumer preferences. For poor families, there are many necessities to be purchased. Better housing, desirable as it is, may seem less urgent to a family than other needs. These savings from a property tax reduction may be passed on to the tenant in the form of improved housing – better maintenance and repairs, for the same rent – or in the form of rent reductions. Without a detailed study of each housing sub-market, it is impossible to determine whether a reduction in the cost of supplying housing will benefit tenants principally by improving housing quality or by reducing rents. However, if the objective of governmental policy is to improve the welfare of tenants, it does not matter which effect predominates. Given that the benefit must be passed on to the tenants, tenants' preferences will determine whether benefits occur in the form of rent cuts or quality increases.

The crucial question is whether reduction in the property tax rate would be passed on to the tenant at all. If landlords can maintain the same rents, in the face of reduced property taxes, the entire effect of a tax reduction would be to make landlords richer.

Who ultimately benefits from a tax reduction, or any other reduction in the cost of supplying housing, depends on the competitiveness of the housing market. If owners of housing must compete with one another to attract tenants, either by price cutting or undertaking minor repairs, then eventually the cost reductions achieved by a tax cut will be passed on to the tenant. If the housing market is more oligopolistically organized, so that owners can fix prices, free from competition, the principal beneficiaries of tax reduction will be landlords. The degree of competition among suppliers of housing is crucial in determining the welfare implications of property tax policy. The neighborhood chapters of this study indicate that housing investors behave more competitively than generally is conceded. If this is so, a substantial part of any property tax reduction would be passed on to tenants, even without compulsory legislation. The discussion now turns to an analysis of these neighborhood sub-markets.

CHAPTER IV

BLIGHTED NEIGHBORHOODS

The underlying reason for low-quality housing is the disparity between the rents low-income households can afford to pay and the rents required by landlords to supply standard housing. Most low-income households, even spending 30 or 35 percent of their income for rent, cannot pay enough to cover the costs of good quality housing. If property owners were compelled to supply only standard housing, their rates-of-return in what are now blighted areas, could not compete with alternative investment opportunities, and eventually properties would be abandoned. In several cities, the active enforcement of housing codes already has had this effect of accelerating abandonment. Of the 11 examples in our sample of properties about to be abandoned, all of the owners, without exception, cited as a contributory cause to abandonment the need to meet housing code standards, the cost of which they were unable to pass on to tenants because of the lack of demand for the features which housing codes emphasize.* Since the primary cause of urban blight is the insufficiency of residents' income, changes in the property tax alone will not eliminate blight. Modification of the property tax, however, can improve the welfare of low-income tenants and stimulate some improvement in housing conditions.

TABLE IV.1**
CHANGE IN AVERAGE VACANCY LEVEL
BY NEIGHBORHOOD, 1966 TO 1970

Neighborhood	Average Vacancy Level, 1966 To 1970			
	Increased	Remained The Same	Decreased	Total
Stable	11	63	4	78
Transitional Upward	9	58	6	73
Transitional Downward	7	61	3	71
Blighted	23	36	12	71
All Neighborhoods	50	218	25	293

Sample: Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 3 and 7c.

* The tables summarize information obtained from 228 owners regarding 420 individual properties in ten cities.

**A similar conclusion was also reached by Linton, Miels and Coston, Inc., "A Study of the Problems of Abandoned Housing and Recommendations for Action by the Federal Government and Localities", A Research Report prepared Under Contract to the U.S. Department of Housing and Urban Development, Office of Research and Technology, (1971), p. 237.

TABLE IV.2
AVERAGE PERIOD OF VACANCY
BY NEIGHBORHOOD, 1966 TO 1970

Average Period of Vacancy, 1966-1970				
Neighborhood	Increased	Remained The Same	Decreased	Total
Stable	14	58	2	74
Transitional Upward	10	54	9	73
Transitional Downward	10	59	2	71
Blighted	18	43	8	69
All Neighborhoods	52	214	21	287

Sample: Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 3 and 7b.

The Neighborhood

Blighted neighborhoods have in common poor quality housing, low income residents and relatively low property values. Also, with many central cities losing population during the 1960's blighted residential areas have experienced increased population turnover and lower occupancy rates.

As Table IV.1 indicates, vacancy rates have increased more in blighted submarkets than in other neighborhoods. As upper- and middle-income whites moved to the suburbs their dwelling units have filtered down to lower and lower income households. This has allowed many former residents of blighted areas to improve their housing conditions by moving into better neighborhoods. For the lowest quality submarkets this has meant a thinning out of the population, higher vacancy levels and the removal of dwelling units from the standing stock. Not only have vacancy rates increased but the length of time that units remain vacant has grown as well. Table IV.2 illustrates this trend in the lengthening of time between occupancies. Some additional evidence comes from data on vacancies by the racial composition of tenants. Yet, this latter source of data is less persuasive since many non-whites live in other than blighted neighborhoods. Without the identification of specific neighborhoods the type of information presented in Table IV.3 is merely suggestive.

Table IV.4 presents data on the frequency of household turnover of blighted areas. With higher turnover rates investors in blighted neighborhoods place a high premium on stable

TABLE IV.3
AVERAGE PERIOD OF VACANCY
BY RACIAL COMPOSITION OF TENANTS, 1966 TO 1970

Average Period of Vacancy, 1966-1970				
Percent White	Increased	Remained The Same	Decreased	Total
90 to 100	24	9	113	146
10 to 90	7	7	37	51
0 to 10	15	3	58	76
Total	46	19	208	273

Sample: Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 6a and 7b.

TABLE IV.4
AVERAGE TURNOVER OF TENANTS
BY NEIGHBORHOOD, 1970

Average Turnover of Tenants, 1970					
Neighborhood	Six Months Or Less	Six Months To One Year	One To Two Years	Two Years Or More	Total
Stable	2	5	29	48	84
Transitional Upward	1	7	32	37	77
Transitional Downward	6	8	20	38	72
Blighted	13	9	18	27	67
All Neighborhoods	22	29	99	150	300

Sample: Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 3 and 7c.

tenants and full occupancy buildings. As Table IV.5 notes, turnover rates in blighted areas increased in the late 1960's. And these trends have continued in the current decade. The importance of high vacancy and turnover rates in shaping the investment climate for blighted area landlords will be examined in more detail in another section of this chapter.

Tables IV.5A and IV.5B show for each neighborhood the annual income of tenants and the racial composition of tenants. The concentration of low income population in the blighted neighborhood is an important element behind the high turnover rates observed in the blighted neighborhoods. While blighted neighborhoods share many characteristics in common they differ significantly in many respects as well. Table IV.5C presents some salient characteristics of selected blighted neighborhoods from our sample.

As can be seen, the blighted neighborhoods in the four cities differ in several key respects. Not all blighted areas are dominated by large tenement-type structures. Indeed, in Oklahoma City, four-fifths of the blighted neighborhood housing units are single family homes. Similarly, in Portland and in Oklahoma City there is a surprising degree of homeownership and rental single unit structures. Beyond these obvious differences exists a wide range of other more subtle differences that make generalizations about blighted neighborhoods a difficult undertaking.

Indeed, the essential difference among blighted neighborhoods is difficult to convey by statistics. In certain blighted areas, despair has set in to such an extent that investors see no possibility of selling their properties, no possibility of getting rid of them, except through abandonment. In these neighborhoods vandalism, crime and fear have virtually destroyed the functioning of the housing market. In other cities, though the quality of the housing stock is little better, the market in blighted properties remains active, and marginal upgrading of the stock is occurring constantly.

TABLE IV.5
AVERAGE TURNOVER OF TENANTS
BY NEIGHBORHOOD, 1966 TO 1970

Average Turnover of Tenants, 1966 To 1970				
Neighborhood	Increased	Remained The Same	Decreased	Total
Stable	5	63	8	76
Upward Transitional	7	62	7	76
Downward Transitional	12	52	8	72
Blighted	21	38	7	66
All Neighborhoods	45	215	30	290

Sample: Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 3 and 7c.

Four cities whose blighted neighborhoods have reached the terminal stage of impending abandonment are Baltimore, Chicago, Philadelphia, and – to a slightly lesser extent – Providence, the same cities which were grouped together in Chapter 2 as having the most unequal distribution of effective property tax rates. Table IV.6 presents the proportion of investors in the blighted neighborhoods of these cities who reported a desire to sell out immediately, if they could only find a buyer for their properties. To place the numbers in perspective, comparable figures for the remaining cities and neighborhoods are presented.

TABLE IV.5A
AVERAGE ANNUAL INCOME OF TENANTS
BY NEIGHBORHOOD, 1970

Neighborhood	Average Annual Income of Tenants, 1970				Total
	Less Than \$3,000	\$3,000 To \$4,999	\$5,000 To \$9,999	\$10,000 And Over	
Stable	0	1	36	44	81
Upward Transitional	1	9	33	30	73
Downward Transitional	6	24	30	9	69
Blighted	22	33	13	0	68
All Neighborhoods	29	67	112	83	291

Sample: Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 3 and 6a.

TABLE IV.5B
NEIGHBORHOOD BY RACIAL COMPOSITION
OF TENANTS, 1970

Percent White	Stable	Upward Transitional	Downward Transitional	Blighted	All Neighborhoods
90 to 100	62	57	38	4	161
10 to 90	9	18	10	15	52
0 to 10	8	3	22	49	82
Total	79	78	70	68	295

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 3 and 6a.

TABLE IV.5C

CHARACTERISTICS OF SELECTED BLIGHTED NEIGHBORHOODS

City	Number of Housing Units	Percent in Single Unit Structures	Percent Owner-Occupied	Rental Vacancy Rate	Median Contract Rent	Average Value Single-Family Owner-Occupied
Chicago	22,195	4.9%	10.1%	15.6	\$ 112	\$ 18,000
Detroit	13,095	3.6	2.0	16.6*	N.A.	N.A.
Oklahoma City	5,152	80.5	53.0	N.A.	59	10,600
Portland	2,735	41.4	35.3	18.0	62	9,300

* Vacancy rate for Detroit refers to entire housing stock. Given the tendency for the homeowner vacancy rate to be lower than rental vacancy rate, this figure underestimates the rental vacancy rate.

Source: 1970 Census Data provided by local city planning agencies. Tracts included in blighted areas, Chicago: 4201 to 4212; Detroit: 24, 25, 29, 30, 31, 32, 34; Oklahoma City: 1013, 1014, 1027, 1028; and Portland: 22.01, 22.02, 23.01, 23.02.

TABLE IV.6

INTENTION TO SELL BY NEIGHBORHOOD AND CITY GROUPING
PERCENT EXPRESSING DESIRE TO SELL IMMEDIATELY

Neighborhood	GROUP I			GROUP II			TOTAL FOR ALL CITIES
	Number of Properties	Percent Expressing Desire to Sell Immediately	Number of Properties	Number of Properties	Percent Expressing Desire to Sell Immediately	Number of Properties	
Blighted	31	67.7%	47	47	27.7%	78	43.6%
Downward Transitional	29	65.5	45	45	24.4	74	40.5
Upward Transitional	41	2.4	41	41	29.3	82	15.9
Stable	25	16.0	62	62	24.2	87	21.8
ALL NEIGHBORHOODS	126	35.7	195	195	26.2	321	29.9

Sample: All private market residential rental properties.

Notes: The first group contains those cities with most uneven assessment across neighborhoods.

Sources: ADL Investor Interview question 2b; and ADL Homeowner Interview question 3b.

Behind this summary of investor intentions lies a wealth of particular experience, which is best illustrated by considering, in detail, two contrasting blighted neighborhoods.

East Baltimore, located close to the downtown area, was largely a Jewish community until World War II. At this time the neighborhood began to change over to an almost entirely black population. Up until 10 years ago, many investors made good incomes from renting to low-income blacks. Values were strong and there was a market for buying and selling these properties. This situation has changed dramatically. Though the social characteristics of tenants has changed drastically, ownership remains in the hands of whites who now live in other parts of the city. A number of investors indicated that they were afraid to visit their properties. Many of the more stable tenants have moved out of East Baltimore to Patterson Park or to other more desirable areas. Landlords complained of black-white antagonism, vandalism, robberies, and unreasonable tenants who intimidated older residents. For property owners, all this means that they have not been able to increase rents over the last five to ten years, whereas expenses have been going up dramatically, in some cases as much as 50 percent. Formerly lucrative investments have become marginal at best. A building in East Baltimore that sold for \$4000 to \$6000 ten years ago, would now be sold for \$500 in cash or \$1000 with a minimal down payment. One real estate dealer said his East Baltimore properties, worth \$200,000 in 1935, are worth \$30,000 to \$35,000 today.

The Pittsburg neighborhood of Atlanta's South Side is in many respects similar to East Baltimore ten years ago. While the neighborhood has for some time housed a low-income black population, investors are still active in the area, and continue to maintain their properties. There is, however, a growing uneasiness about crime and a fear of increased tenant destructiveness. Older landlords admit that they find it difficult to deal with the new type of tenants, and express a desire to sell their buildings. Unlike East Baltimore, there are buyers for these properties: small real estate agents, many of them black, who understand the nature of the community. They continue to invest in low-income housing with an eye to cash flow returns. In many respects, the future of the neighborhood depends on the ability of these new investors to adapt to the changing rental market.

The Housing Market

One view of the low income housing market is that operators of properties in blighted areas follow a short term run-down strategy for their buildings intending to extract the maximum possible cash flow from a property. After "milking" their properties as much as possible, such an investor would sell the property to a tenant, or a land speculator, or if no buyer was available merely walk away from the property. Table IV.7 casts serious

TABLE IV.7
PRIMARY INVESTMENT OBJECTIVE
BY NEIGHBORHOOD

Response Categories -- % Answering	Blighted	Downward Transitional	Upward Transitional	Stable
Long-term Capital Appreciation	17.9%	18.9%	52.4%	39.1%
Long-term Rental Income	53.8	58.1	23.1	35.6
Short-term Capital Appreciation	3.8	6.8	7.3	10.3
Short-term Rental Income	7.7	9.5	8.5	3.4
Tax Shelter	3.8	2.7	3.7	4.6
Other	12.8	4.1	4.9	6.9
Total Number of Properties	78	74	82	87

Sample: Private market residential rental properties

Notes: If investor mentions more than one investment strategy, he was asked to rank them according to which strategy he considered to be dominant.

Source: ADL Investor Interview question 2c.

doubts on this hypothesis. Of all investors in blighted properties, only 11.5 percent cited a short term goal as their primary investment strategy. For all neighborhoods this figure was 14.4 percent. Across neighborhoods the type of long term strategy chosen clearly reflected the condition of the market. In the upward transitional neighborhoods, for example, more than half of all investors had as their investment strategy long term capital appreciation. This reflected the strong upward trend in prices to be found in these neighborhoods. While investors in blighted and downward transitional neighborhoods tend to emphasize rental income more than investors in other neighborhoods, there is no discernible difference in the time horizon of their goals. Long term rental income clearly predominates as the principal investor strategy in blighted neighborhoods.

Investors' reports about their own intentions may be softened by a desire to avoid the public opprobrium now accorded those who admittedly "milk" their buildings. More reliable evidence of investors' long-term intentions in the blighted neighborhoods is the surprising extent to which private, profit-maximizing investors carry out improvements of properties. As can be seen from Table IV.8, the frequency of rehabilitation in blighted neighborhoods is only slightly less than that in other neighborhoods. Though the median expenditure per unit rehabbed is less in blighted neighborhoods (Table IV.9), rehabilitation expenditure as a percentage of the property's market value (Table IV.10) often exceeded that found in the other neighborhoods.

For government subsidized and non-profit owners the amount of rehabilitation, as expected, is even greater. As Table IV.11 indicates, the availability of government assistance has stimulated relatively high average per unit expenditures. Given the availability of low-interest government guaranteed loans the carrying charges for these improvements is quite low. Nevertheless, the amount of rehabilitation activity taking place in these blighted areas is still a significant sign of market viability.

Table IV.12 presents a further breakdown of the privately owned, non-subsidized residential stock. As was noted in the previous chapter, the housing stock in the sample has been divided into three maintenance categories: quality of housing service being improved, quality of housing service being maintained, and quality of housing service being lowered. The changes were based on the five year period 1966 to 1970. These classifications are based on visual inspection of the properties and analysis of five-year rehabilitation and maintenance histories for each property. They were introduced to supplement the basic information on rehabilitation. While large scale rehabilitation expenditures raise the quality of the housing services provided by a building, there are other ways to upgrade the service level of a building, including more efficient management, and better daily maintenance and care of the property. Likewise an owner could make a small physical improvement in response to a building code violation, while at the same time cutting back on other services provided. This index of overall housing quality was designed to include these aspects of housing service as well as the services provided by the physical plant.

As illustrated in Table IV.12, new owners of properties in each of the four neighborhoods are more likely to improve and maintain their buildings than owners who have already held the property for more than five years. The opposite side of the picture, of course, is that the largest number of properties of declining quality were purchased prior to 1966.

TABLE IV.8
FREQUENCY OF REHABILITATION BY
NEIGHBORHOOD AND INVESTOR SIZE, 1966-1970

Property Owner	Stable		Upward Transitional		Downward Transitional		Blighted		Total	
	Number of Properties	Percent Rehabbing	Number of Properties	Percent Rehabbing	Number of Properties	Percent Rehabbing	Number of Properties	Percent Rehabbing	Number of Properties	Percent Rehabbing
Homeowner	13	76.9%	9	66.7%	9	66.7%	9	55.6%	40	67.5%
Investor										
2 to 9 units	3	100.0	10	70.0	9	77.8	7	28.6	29	65.5
10 to 40 units	15	46.7	19	89.5	23	39.1	20	20.0	77	48.1
41 or more units	46	37.0	37	35.1	34	35.3	49	49.0	166	39.8
TOTAL	77	48.1	75	57.3	75	45.3	85	41.2	312	47.8

Sample: Private market residential structures built prior to 1961.

Notes: Percent Rehabbing gives proportion of the total number of properties in the relevant category with rehabilitation expenditures at any time in the period 1966 to 1970.

Sources: ADL Investor Interview questions 3 and 17a; and ADL Homeowner Interview questions 6d and 14.

TABLE IV.9

**MEDIAN PER UNIT REHABILITATION
EXPENDITURES BY OWNER SIZE AND NEIGHBORHOOD**

Property Owner	Stable	Upward Transitional	Downward Transitional	Blighted	Total
Homeowner	\$2600	\$4000	\$1500	\$1500	\$2600
Investor					
2 to 9 units	1400	600	1500		800
10 to 40 units	1600	1400	700	500	700
41 or more units	400	2100	400	500	500
TOTAL	1700	2000	800	500	800

Notes: Rehabilitation expenditures per unit were rounded to the nearest \$100.

Sample: Private market residential structures built prior to 1961 with rehabilitation expenditures at any time in the period 1966 to 1970.

Source: ADL Investor Interview questions 3 and 17a; and ADL Homeowner Interview questions 6d and 14.

TABLE IV.10

**MEDIAN REHABILITATION EXPENDITURES
AS PERCENTAGE OF MARKET VALUE OF PROPERTY
BY NEIGHBORHOOD**

Investor Size	Stable	Upward Transitional	Downward Transitional	Blighted
Homeowner	18.3%	31.4%	21.3%	13.0%
Investor				
2 to 9 units	7.0	31.9	16.5	16.8
10 to 40 units	12.2	22.7	17.3	29.4
41 or more units	13.9	22.8	18.5	20.9

Sample: Private market residential structures built prior to 1961.

Notes: Percent Rehabbing gives proportion of the total number of properties in the relevant category with rehabilitation expenditures at any time in the period 1966 to 1970. Median Per Unit Expenditures on Rehabilitation have been rounded to the nearest \$100. For further discussion of Percent Maintaining or Upgrading Their Properties see Table IV.7.

Source: ADL Investor Interview questions 3, 17a, and 21; and ADL Homeowner Interview questions 6d, 14 and 18.

TABLE IV.11**GOVERNMENT SUBSIDIZED AND NON-PROFIT REHABILITATION
BY NEIGHBORHOOD**

Neighborhood	\$ Value of Rehabilitation	Number of Units Rehabilitated	Average Expenditure Per Unit
Blighted	\$2,820,000	320	\$8813
Downward Transitional	30,200	8	3775
Upward Transitional	52,200	12	4350
Stable	<u>18,000</u>	<u>17</u>	<u>1059</u>
Total	\$2,920,820	357	\$8182

Sample: Refers to all government assisted and non-profit properties.

Source: ADL Investor Interview

The figures for blighted neighborhoods are most striking. While only 18.8 percent of all buildings in blighted neighborhoods purchased before 1966 were being improved in quality, 56.5 percent of buildings purchased more recently fell in this category.

The above data suggest an important aspect of blighted area submarkets. The investors responsible for upgrading buildings in blighted areas have recognized a diversity of demand for housing that the holder owners have failed to perceive. Most residents in each of the blighted neighborhoods of our sample were poor and/or non-white. (See Tables IV.5A and IV.5B). Typically, housing segregation has severely constrained the choice of residential location for these families. As a result, families of widely different incomes and tastes for housing are forced to reside in the same neighborhood. From the point of view of demand, there is no reason why families like these should consume the same quality of housing. Their forced presence in the same neighborhoods creates an opportunity for enterprising entrepreneurs to divide the neighborhood population into sub-markets, offering better quality housing at higher prices to some residents and poorer quality housing at lower prices to others. The investors most likely to respond to this opportunity are relatively new owners who remain in close contact with the neighborhood.

TABLE IV.12

**CHANGES IN QUALITY OF THE HOUSING STOCK
BY DATE OF PURCHASE AND NEIGHBORHOOD ***
(PERCENTAGE DISTRIBUTION)

Neighborhood	Purchase Before 1966				Purchase After 1966			
	Quality Improved	Quality Maintained	Quality Declined	Number of Properties	Quality Improved	Quality Maintained	Quality Declined	Number of Properties
Stable	34.8%	63.0%	2.2%	46	31.0%	69.0%	0.0%	29
Upward Transitional	51.2	39.0	9.8	41	52.8	44.4	2.8	36
Downward Transitional	19.1	48.9	31.9	47	27.6	44.8	27.6	29
Blighted	18.8	37.5	43.8	64	56.5	34.8	8.7	23
TOTAL	29.3	46.5	24.2	198	41.9	48.7	9.4	117

* Findings are based on a stratified sample of 420 properties.

Sample: Private market residential rental property built prior to 1961.

Notes: These classifications are based on a visual inspection of the properties and analysis of five-year rehabilitation and maintenance histories for each property. See text for fuller discussion.

Source: ADL Investor Interview question 12, 16, 17a.

Physical improvement of a building typically forms part of an investor's over all strategy to increase his income stream by operating a property at a new quality level for a different type of tenant. A decision of this sort usually is made by a new manager. Consistent with this fact, the bulk of the upgrading of housing stock in blighted neighborhoods is performed by new purchasers.

Investors who improve their properties to satisfy demand for marginally higher quality housing in blighted areas tend to follow a common pattern of upgrading. First priority is given to security. Without security protection, the desired tenants cannot be attracted to a building; and without security protection, the other improvements an investor carries out are exposed to vandalism, which reduces their serviceable life to a very short period. Once a building is isolated from its environment, however, internal improvements can be very lucrative. While most of the investment carried out can be classified as "cosmetic" rehab, the term should not carry any derogatory implications. By confining their investment to those improvements which increase a building's rent roll, private investors, in fact, insure that they provide what tenants value most. There is no indication that tenants willingly would pay the cost of bringing a building up to code standards; nor does their limited income allow them to pay the rent increases necessary to make substantial rehabilitation worthwhile; but there is ample evidence that tenants are willing to pay the cost, and more, of certain basic amenities which make living in a dwelling more secure and pleasant.

A good example of an investor who buys up properties in blighted neighborhoods, improves them, and operates them for a new class of tenants is Investor A of Atlanta.

Investor A purchases at low prices structurally sound, distressed properties in Atlanta's Pittsburg neighborhood. One property, acquired by A in 1970 contained 4 units renting for \$55 a month with no utilities. Vacancies had reduced the annual rent roll by nearly 25% and the previous owner operated for several years with negative cash flow. Mr. A acquired the building for \$7,500 by paying \$2,500 cash and borrowing \$5,000 on a five-year loan. For approximately \$800, A built a security fence, painted the apartments, repaired fixtures, and replaced the locks on the doors. Unable to raise the rents, A did manage to reduce vacancies to less than 5% in 1970. In addition, A also successfully appealed his assessed valuation, using the purchase price of the property as his main piece of evidence of reassessment. This resulted in a reduction of his property tax liability from \$700 to \$500. The combination of these activities have turned a distressed building into an income producing asset.

Table IV.13 summarizing the building's cash flow before and after acquisition by A illustrates the change in profitability. Though A still has a negative cash flow, this is because he is paying off his purchase loan in five years. Previously, the building carried a \$12,000 mortgage with level amortization payments spread over 20 years.

TABLE IV.13
CASH FLOW SUMMARY FOR INVESTOR A

	1968	1970
Gross Rent	\$2200	\$2648
Administration	\$160	\$160
Insurance	30	37
Utilities	90	127
Maintenance	660	575
Property Tax	700	500
Operating Income	560	1249
Interest Amortization	1046	1324
Cash Flow	(-486)	(-75)

Investor A's approach to upgrading his building is typical of blighted neighborhoods in that the principal return to investment lies in the reduction of vacancies rather than increase in rents. The blighted neighborhoods in our sample had vacancy rates averaging 10-15%. Many buildings had vacancies in excess of 20%. Competition among investors in this situation takes the form of competing for higher occupancy rates, by increasing the attractiveness of structures.

Mrs. L. of Detroit purchased a building in 1969 which had eight of its 32 units vacant. Though located in a blighted neighborhood, the building was near a hospital. Mrs. L. determined to upgrade the structure in order to attract nurses and professional staff as tenants. This included addition of showers to the old-fashioned raised-leg bathtubs, and installation of cheap wall-to-wall carpeting, purchased at \$1.87 a yard. Elaborate security mechanisms were added to the building. Result: reduction in vacancies to a single unit and an increase of rent of 10 percent. In the first year Mrs. L. earned \$12,500 in augmented rent on her \$12,000 investment.

Table IV.14 shows that reduction in vacancies was far more often the consequence of rehabilitation in blighted neighborhoods than it was elsewhere.

TABLE IV.14
RESULT OF REHABILITATION
BY NEIGHBORHOOD

	Stable	Upward Transitional	Downward Transitional	Blighted	Total
Number of Properties	27	41	27	30	125
Rent Raised	17	28	11	11	67
Percent of Total	63.0	68.3	40.7	36.7	53.6
Vacancies Reduced	3	14	6	15	38
Percent of Total	11.1	34.1	22.2	50.0	30.4
Both Vacancies Reduced and Rent Raised	3	12	3	7	25
Percent of Total	11.1	29.3	11.1	23.3	20.0

Sample: Private market residential rental structures built prior to 1961, with rehabilitation expenditures at any time in the 1966 to 1970 period.

Notes: Rental increase and vacancy reduction must have been the direct result of rehabilitation expenditures.

Source: ADL Investor Interview questions 3, 17a, 22a and 22b.

Contrast this managerial style with that of owners who, having purchased their properties 15 or 20 years previously, had seen the character of the neighborhood change in a way they did not comprehend. These owners are white. When they first acquired their properties, the residents, too, were white, or, as one respondent put it, a "different kind

of black" who was easier for an absentee landlord to deal with. A large number of these owners now are afraid of their tenants and afraid of the prospect of further capital loss on the investment. They wish to sell their properties, but have no offers. The inability to find buyers for the properties has convinced them that it is senseless to put more money into the buildings. Instead, they operate them so as to secure the maximum cash flow possible.

Investor B is a man in his mid 60's who lives in an upper-middle class section of East Providence. As a child he lived in South Providence, where his father was a small businessman. Late in his life, the father began to buy up a few three-flat wooden frame houses to leave as an estate. B inherited eight of those frame houses. They returned a good, steady income, and B eventually acquired more than 40 of the homes, which by the mid 50's were worth some \$8,000 each. Meanwhile, South Providence began to undergo racial transition. By the 60's, the area was virtually 100% black and had become the city's ghetto. B resents the change in the neighborhood and fears the black tenants he now has. Though his wife protests that it is too dangerous for an old man to visit the neighborhood himself, he collects rents in person on the first and fifteenth of each month, when welfare checks arrive. B wants desperately to sell his properties, but except for an occasional tenant who buys a building on contract, he can find no buyers. Every building he owns, he reports, is for sale at \$1,500 and he would accept far less if paid in cash. During 1970, B gave five of his properties to the city. He wants to donate more, but the city is reluctant to accept them. Meanwhile, B claims to have a negative cash flow in excess of \$10,000 per year, even though he owns most of his properties free and clear. His properties have been vandalized repeatedly, and in one, plumbing was stolen three times within eight months. B is determined not to invest one penny in his properties where it is not demanded by code enforcement officials. When the demands of code enforcement become too severe, he simply offers the property to the city, free.

Mr. B's despair over his neighborhood is typical of many of the older investors. These owners tended to cite "neighborhood deterioration" as the principal obstacle to upgrading their buildings, as is illustrated in Table IV.15. They also were pessimistic about the chances of raising rents. In contrast, newer investors were more likely to accept the neighborhood as it was. Unlike investors who purchased properties prior to 1966, these new investors did not fear neighborhood deterioration or view the inability to raise rents as an important obstacle to rehabilitation. They saw the possibility of applying sound management, selective upgrading, and careful tenant selection to turn the property into a money making venture. They realized that most of the neighborhood's decline already was reflected in the level of housing prices. Given an attractive purchase price, they were willing to undertake rehabilitation in order to increase a property's gross rents. The obstacles to upgrading which these investors instanced were practical ones, such as the unavailability of financing.

As was noted in Tables II.13, II.14 and II.15 fear of reassessment is not considered by investors to be an obstacle to rehabilitation. Indeed, we found only one investor in the blighted neighborhoods who mentioned fear of reassessment as the most important obstacle. It should be noted that this individual had recently purchased the property and was planning to redecorate the interior and repair the exterior. This work was being held up, however, by his inability to determine the extent to which his property would be reassessed as a result of his planned rehabilitation.

Yet, given this uncertainty landlords point to increasing pressure for repairs from tenants. While tenant demands are increasing in all cities, as evidenced by the trend portrayed in Table IV.16, the friction between landlord and tenant is most pronounced in the low-income blighted areas (see Tables IV.17 and IV.18). With increased demands by more militant tenants on the one hand and deteriorating neighborhood conditions and rising operating costs on the other it is understandable why the older investors would seek any "reasonable" opportunity to sell out.

TABLE IV.15
OBSTACLES TO REHABILITATION OF RENTAL PROPERTIES
IN BLIGHTED NEIGHBORHOODS
(Distribution of Most Important Obstacle)

Obstacle	Purchased Before 1966		Purchased 1966 or Later	
	Number of Properties	Percent Distribution	Number of Properties	Percent Distribution
Fear of Reassessment	0	0.0%	1	5.3%
Unavailability of Labor	2	3.9	1	5.9
Lack of Financing	15	29.4	9	52.9
Deterioration of Neighborhood	22	43.1	5	29.4
Inability to Raise Rents	12	23.5	1	5.9
TOTAL	51	100.0	17	100.0

Sample: Private market residential rental properties built prior to 1961.

Source: ADL Investor interview question 24a.

TABLE IV.16
CHANGE IN TENANTS DEMAND FOR REPAIR
BY CITY, 1966 TO 1970

Change In Tenants Demand For Repair, 1966 To 1970

City	Increased	Remained The Sama	Decreased	Total
Atlanta	7	24	0	31
Baltimore	16	16	0	32
Chicago	9	17	2	28
Detroit	6	24	0	30
Nashville	17	15	0	32
Oklahoma City	0	25	0	25
Philadelphia	12	18	3	33
Portland	6	24	0	30
Providence	11	9	0	20
San Francisco	5	25	0	30
All Cities	89	197	5	291

Sample: Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 6b.

TABLE IV.17
CHANGE IN TENANTS DEMAND FOR REPAIR
BY NEIGHBORHOOD, 1966 TO 1970

Change In Tenants Demand For Repair, 1966 To 1970				
Neighborhood	Increased	Remained The Same	Decreased	Total
Stable	15	59	1	75
Transitional Upward	18	56	0	74
Transitional Downward	22	47	2	71
Blighted	34	35	2	71
All Neighborhoods	89	197	5	291

Sample: Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 3 and 6b.

TABLE IV.18
CHANGE IN TENANTS DEMAND FOR REPAIR
BY RACIAL COMPOSITION OF TENANTS, 1966 TO 1970

Change In Tenants Demand For Repair 1966 To 1970				
Percent White	Increased	Remained The Same	Decreased	Total
90 to 100	32	114	2	148
10 to 90	19	32	0	51
0 to 10	37	43	0	80
Total	88	189	2	279

Sample: Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 6a and 6b.

The Role of Property Taxes

Reassessment of improvements plays little or no role in blighted neighborhoods. Information presented in Chapter 2 showed that none of the 37 instances of private rehabilitation undertaken in these neighborhoods led to reassessment. The only example of reassessment as a result of rehabilitation in a blighted neighborhood occurred in non-profit and government subsidized projects. These will be discussed in a later chapter.

The assessment issue is rather different in blighted neighborhoods. In most of these areas buildings are overassessed. One of the first actions a purchaser of property in these neighborhoods takes is to appeal his assessment, citing the purchase price of the property as evidence of the lower market value. We found many instances of annual property tax reductions, as a result of appeal, equal to 10% or more of the cash equity paid for the structure. This means that on the reduced tax liability alone the investor earned a reasonable rate of return. Unfortunately, remedy through appeal is available in practice almost solely to large investors. Table IV.19 summarizes the frequency of appeal by neighborhood and investor-size. It makes clear that while large investors in blighted neighborhoods actively utilize the appeals system, small investors are much less likely to do so.

While the marginal effective tax on improvements is not a significant factor in blighted neighborhoods, the level of taxation is. The high level of property taxes contributes to blight by impeding the transfer of properties from long-time owners, who are operating

TABLE IV.19
RESIDENTIAL APPEALS BY NEIGHBORHOOD
(Percent Appealing Assessment One or
More Times in Period 1966-1970)

Neighborhood	Homeowners		Small Investors 40 or Fewer Units		Large Investors 41 or More Units	
	Number of Properties	Percent Appealing	Number of Properties	Percent Appealing	Number of Properties	Percent Appealing
Stable	13	7.7%	19	5.3%	72	18.1%
Upward Transitional	11	0.0	35	17.1	54	29.6
Downward Transitional	11	9.1	37	2.7	41	14.6
Blighted	10	0.0	29	13.8	58	36.2
All Neighborhoods	45	4.4	120	10.0	225	24.9

Sample: All residential properties.

Notes: Percent appealing includes all properties for which the assessment was appealed during the period 1966-1970 regardless of the success of the appeal. For further breakdown of appeals see Table IX.6 and IX.7.

Source: ADL Investor Interview question 26a; ADL Homeowner Interview question 21b, and ADL Property Data Sheet question 4.

a rundown strategy and want to sell, to those investors who are potential purchasers and rehabilitators of slum properties. Low-cost housing is a difficult asset to manage. If the market functioned well, these assets would end up in the hands of those people who

could operate them most skillfully. As it is, market impediments, like the property tax, have kept the assets in the hands of those who inherited them and now cannot manage them successfully.

In cities like Baltimore, Chicago, Philadelphia, and Providence the high level of property taxes – as a percent of gross rent – reduces operating income on blighted properties. As illustrated in Table IV.20 these properties, on the average, spend 17% of their gross rent receipts for property taxes. One of the reasons gross rent multipliers are so low in

TABLE IV.20
MEDIAN TAX/GROSS RENT RATIO
BY NEIGHBORHOOD AND CITY GROUPING FOR 1970

Neighborhood	Baltimore Chicago Philadelphia Providence	Atlanta Detroit Nashville Oklahoma City Portland San Francisco	All Cities
Stable	14.6%	14.1%	14.4%
Transitional Upward	7.9	15.5	10.1
Transitional Downward	13.9	14.2	14.0
Blighted	16.7	13.6	15.5

Sample: Residential rental properties reporting in 1970. Based on a sample of 375 rental properties.

Notes: Tax/Gross Rent Ratio is property tax as a percent of actual rental receipts, (full up rent roll less vacancy losses). For owner occupied structures, on imputed rent has been assigned to the owner's apartment on the basis of the rent structure prevailing in the rest of the building.

Source: Based on Table 11.5 and ADL Investor Interview questions 3 and 12a; and ADL Property Data Sheet question 4.

the blighted areas of these cities is that the sizable tax liability that goes with blighted properties sharply reduces their capacity to generate operating income. With operating and maintenance costs accounting for 40% of gross rent and property taxes for 17%, little is left for amortization, interest on debt, and profit. The lower cash flow is capitalized into a lower market price. Table IV.21 illustrates the close inverse correlation that exists between effective property tax rates and gross rent multipliers. The greater the tax burden on a property, the lower its market price.

Table IV.22 shows that where property taxes, as a percent of gross rent, have been increasing at the fastest rate there is the greatest expressed desire on the part of owners to sell properties as soon as they can locate a buyer at what they consider to be a fair price. Most investors who reported that they wanted to sell immediately were long-term property owners in blighted areas.

TABLE IV.21

**EFFECTIVE TAX RATES CROSS TABULATED BY GROSS RENT
MULTIPLIERS FOR RENTAL PROPERTIES IN BLIGHTED NEIGHBORHOODS**

Gross Rent Multiplier	Effective Tax Rates					Median Effective Tax Rate
	Greater Than 10%	10% to 5%	5% 2.5%	Less Than 2.5%	Total	
Less than 1.50	13	2	0	0	15	11.2
1.50 to 3.99	4	4	6	2	16	5.2
4.00 to 6.49	0	0	10	9	19	2.6
6.50 or more	0	0	4	14	18	1.6
Total	17	6	20	25	68	4.8

Sample: All rental properties in blighted neighborhoods for which rent, value and tax histories could be obtained.

Notes: Effective Tax Rate is property tax as a percent of owner reported market value. The Gross Rent Multiplier is owner reported market value divided by rent receipts. For owner occupied units, an imputed rent has been assigned to the owner's apartment on the basis of the rent structure of the building

Source: ADL Investor Interview questions 8a, 12a, and 12b; ADL Property Data Sheet question 4.

Long-term investors in blighted areas tend to be victims of the past. They are tied to large capital losses, which they are unwilling to realize by selling at currently depressed prices. Having acquired properties at earlier, higher prices, they often are saddled with heavy debt payments which produce a negative cash flow. When these adverse economic circumstances are combined with social and racial changes which the investors fear, they render owners incapable of looking at their structures as new investment opportunities. While expressing a desire to sell their properties immediately, they often are unable to locate a buyer at what they consider to be a fair price. As Table IV.23 demonstrates, rather than upgrade or maintain their properties, these investors let them deteriorate, hoping to get whatever cash return they can from future urban renewal, highway expansion, or industrial development.

TABLE IV.22

INTENTION TO SELL BY CHANGE IN PROPERTY TAX

BY NEIGHBORHOOD, 1966-1970

Neighborhood	No. of Properties	Tax as Percentage Of Gross Income Increasing, 1966-1970	No. of Properties	Tax as Percentage Of Gross Income Decreasing, 1966-1970
		Percent For Which Investor Expresses Desire To Sell Immediately		Percent For Which Investor Expresses Desire To Sell Immediately
Stable	15	53.3%	29	3.4%
Transitional Upward	28	14.3	29	6.9
Transitional Downward	40	45.0	18	33.3
Blighted	35	45.7	18	22.2
All Neighborhoods	118	39.0	94	13.8

Sample: All residential rental properties for which rent and tax histories could be obtained.

Notes: Tax as a Percentage of Gross Income is based on actual rental receipts. For owner occupied units, an imputed rent has been assigned to the owner's apartment on the basis of the rent structure prevailing in the rest of the building. See also Table 11.7

Source: ADL Investor Interview questions 5 and 12a; ADL Property Data Sheet question 4.

Equalization of tax rates could create an immediate increase in the market value of blighted properties in many cities. On the average these properties are currently paying some 16% of gross income for taxes. This could very well be reduced to 10% or less, if these properties were taxed at effective rates, based on market value, similar to those found in other neighborhoods of the same cities. Given anything less than a perfectly competitive supply of housing, part of this tax savings will accrue to the landlord as augmented net income. This increment of net income will be capitalized in the property's market value. Recall, for example, that lower effective tax rates on blighted properties were associated with higher gross rent multipliers. Thus for any given rent level, the lower the taxes as a percentage of market value, the higher the sale price of the property. Lowering of property taxes in blighted areas would allow long term owners to sell out at a somewhat higher price. By permitting these owners to "bailout" without the excessive capital losses they want to avoid, the once-for-all price effect of equalizing taxes might well lead to a large transfer of properties to a new class of owners whose ability to manage blighted properties is greater.

TABLE IV.23
CHANGES IN QUALITY OF THE HOUSING STOCK
BY INTENTION TO SELL FOR BLIGHTED NEIGHBORHOOD

	Desire to Sell Property Immediately (Percent Distribution)	No Desire to Sell Property Immediately (Percent Distribution)
Quality Improved	26.5 %	30.8%
Quality Maintained	26.5	41.2
Quality Declined	47.0	25.0
Total Number of Properties	34	52

Sample: All private market rental properties built prior to 1961.

Source: ADL Investor Interview questions 12, 16, and 17a.

To the extent landlords in blighted areas would pass on to tenants the cost savings resulting from tax equalization, tenants would benefit directly. As was discussed in Chapter III, whether this occurs or not depends on the competitiveness of housing supply. Evidence gathered for this study suggests that blighted area housing markets may be quite competitive. In Providence, we determined the ownership of 2476 properties in each of four plats or assessor's districts. Two of the plats were upward transitional neighborhoods, and one each of the blighted and downward transitional. Table IV.24 reveals the extensive fragmentation of ownership in each of the three housing sub-markets. In the blighted neighborhood, only 6 individuals owned 5 or more properties, the largest owner only 18, many of which were vacant lots.

The lack of concentration of ownership in the low income housing market in Providence clearly contradicts the image of a housing market dominated by several large slum lords. In other cities, the large slum lord was often talked about, and certainly individuals who own several thousand units exist, but in each city we also found and talked to large numbers of smaller investors in blighted areas, including many black real estate operators, who specialized in buying and managing a limited number of low income properties. While this topic deserves additional study, we conclude that there is considerable evidence pointing to the fact that low income areas are not the sole province of a few large investors.

TABLE IV.24

OWNERSHIP PATTERNS IN FOUR PROVIDENCE NEIGHBORHOODS

	Total Number of Projects	Total Number of Property Owners	Owners of Only One Property	Owners With 2 to 4 Properties	Owners With 5 or More Properties
Upward Transitional (Plat 15)	464	121	95	22	4
Upward Transitional (Plat 16)	599	316	263	48	5
Downward Transitional (Plat 69)	643	309	265	41	3
Blighted (Plat 23)	770	408	326	76	6
Total	2476	1154	949	187	18

The presence of a large number of potential suppliers of housing services helps to ensure that no single landlord will be able to set rents arbitrarily. This factor is reinforced in blighted areas by the large number of vacancies and the premium that landlords place on maintaining a full building. If one building is vacant, there is the strong temptation for the owner to cut rents somewhat in order to attract new tenants. Several landlords interviewed announced that they were forced to cut rents during a period of slack demand. Others observed that rather than cut rents they offered extra services such as free paint, the first month's rent free, or some other method of passing on effective rent reductions to new tenants without being forced to lower rents for existing tenants. In addition, several landlords noted that once they had found a good tenant, they were reluctant to drive the tenant away with higher rents.

This activity on the part of the landlords indicates that the suppliers of low income housing compete among themselves for tenants and for tenants' good will. While this view does not deny the existence of many large owners oblivious to tenant demands, it does present the possibility that enough competitiveness occurs to guarantee that tenants would benefit from property tax reductions.

Abandonment

In the final stages of blight residential properties are abandoned by their owners. The mere fact of abandonment does not signify that public policy has failed. Durable goods of all types must be replaced at the end of their useful life. If old houses of bad quality were abandoned for the same reasons as old cars or old washing machines, the proper policy response would be simply to expedite removal or replacement of the old stock. It is the premature abandonment of still useful housing which represents wastage of valuable social capital.

While the main focus of this study was not abandonment, in blighted neighborhoods investors were questioned about the process that produced abandonment. Many of these investors had abandoned residential properties or foresaw likelihood that they would be obliged to abandon properties in the near future.

Respondents emphasized that abandonment is a neighborhood phenomenon. Once a neighborhood has deteriorated seriously, there is an effective ceiling to the rents that can be charged there, regardless of an individual building's quality. In the blighted neighborhood in Philadelphia this ceiling was \$50 per month; in Baltimore, about \$55. Once blight has progressed to the stage of abandonment, costs, too, become a function of neighborhood conditions, for vandalism and theft account for a greater and greater proportion of operating expenses. For the eleven buildings in the sample which investors reported to be in imminent danger of being abandoned, annual losses due to vandalism and theft averaged more than 35% of annual gross rents. In two cases, loss due to vandalism exceeded the building's entire rent roll. The category "vandalism and theft" also represents the most rapidly accelerating cost item, a fact which leads investors to identify it as the primary cause of abandonment.

Because the cost squeeze leading to abandonment is so determined by neighborhood conditions, sound buildings and dilapidated ones alike are likely to become unprofitable

to operate. The tragedy of abandonment is that structurally sound buildings have to be written off because they happen to be located in what have become socially undesirable neighborhoods.

Public policy in some instances has contributed to the premature abandonment of sound housing. Unrealistically stringent housing codes were frequently listed by investors as precipitating abandonment. Indeed of the 11 properties in our sample about to be abandoned, all of the owners cited housing codes as one of their main problems. Given the effective rent ceiling that exists in blighted neighborhoods, if costs of operation are increased greatly because of the maintenance necessary to keep a property at code standard, the building may cease to produce a positive cash flow. In several cities, laws now permit tenants to pay their rents into escrow accounts as long as code violations persist.

Faced with the impossibility of generating a positive cash flow if he maintains the building at code standards, and the impossibility of collecting rents if he maintains the building below code standards; the investor inevitably turns to abandonment as the only way out of his cash drain.

In principle, property taxes also could serve as a precipitating cause of abandonment. This chapter has shown that in several blighted neighborhoods property tax payments approach 20% of gross rents. If the city enforced payment of this tax as long as a property remained in operation, the profitable life of a structure, to the owner, might fall far short of its economically useful life. At a given level of maintenance costs, the building might produce a 15% return on gross rents and still be profitable to operate, before property taxes, but produce a 5% cash loss after property tax payments. If the owner could avoid the tax by abandoning the building, it would be rational for him to do so. Alternatively, the city might reduce assessments to reflect the very limited asset value of the property. The investor then could continue to operate his property for some years more.

In practice, the property tax has not greatly encouraged abandonment, because few cities enforce payment of the tax in badly decayed neighborhoods. None of the 11 properties in our sample classified as in imminent danger of abandonment was paying full property tax. Several were paying no tax at all. Three others were three years in arrears, the maximum period the city permitted before seizing the property for tax sale. At the margin, the property tax typically does not figure prominently in the abandonment decision because, long ago, the investor stopped paying this tax.

If the property tax has played a subsidiary role in producing abandonment, it may play a central role in frustrating the recuperation of badly blighted neighborhoods.

Even the worst neighborhoods may revive with changing economic circumstance. Changing employment patterns, rediscovery of a neighborhood's historical or architectural appeal, urban renewal, some success in limiting vandalism and crime – any of a series of possible events can rescue a neighborhood from the edge of decay. Lincoln Park in Chicago and Fox Point, Providence are now sharply upward transitional neighborhoods, but 20 years ago they were severely blighted. In other upward transitional neighborhoods, boarded up

buildings shared the same block with major rehabilitation projects. Properties which at one time seemed headed for abandonment became profitable to operate and upgrade. However, if properties like these carry with them a large accumulation of unpaid back taxes, investors will be extremely reluctant to acquire them, even if present prospects are more hopeful. The necessity of acquiring not just title to a property, but responsibility for its back debts to the city, increases significantly the level of profit an investor must expect to earn before he will operate a property. If a neighborhood as a whole is saddled with such debts, investors are unlikely to risk revitalizing it.

The burden of unpaid back taxes hinders the market in real estate just as high rates of present taxation do. Both serve to discourage potential investors from acquiring properties and operating them at their optimal quality level. Several investors and assessors suggested that the city ought to restore the market in these neighborhoods by forgiving back taxes upon transfer of title to new investors. Before receiving this credit, the new investor would have to present evidence that he had returned the building to a high level of occupancy either through selective rehabilitation or changes in management style. This would encourage transfer of stock in blighted neighborhoods to those who propose to use it productively.

CHAPTER V

DOWNWARD TRANSITIONAL NEIGHBORHOODS

The problems of the downward transitional neighborhoods are in many ways representative of the overall problems confronting the center city. The facts of an aging housing stock, the growing exodus of white middle class population and the increased concentration of the old, the poor, and the disadvantaged in the central city neighborhoods are all too common. The role that property taxation can play in the dynamics of downward transition will be investigated in this chapter. The discussion will first present a brief outline of several of the neighborhoods included in our survey. It will then proceed to outline the major issues delineated by investors in response to our questions regarding the role that property tax plays in the declining neighborhood. Finally, the discussion turns to an analysis of neighborhood efforts to arrest the downward spiral, and to the role that local and Federal officials can play in assisting these efforts.

THE NEIGHBORHOOD

Several downward transitional neighborhoods in our sample were in the process of racial succession. Some respondents felt that the downward transition was caused by the influx of blacks or other minorities into an area. Others pointed to the fact that the decline in the quality of housing in the neighborhood was well-advanced prior to the in-movement of minorities. Both explanations do injustice to the dynamics of downward transition, as the example of the Logan Square area of Chicago will demonstrate.

Located in the Near North West side of Chicago, the Logan Square area developed rapidly at the turn of the century following the extension of the elevated train service. At first the home of Germans and Norwegians, by 1930 the area's population of 114,000 was a mixture of many ethnic groups. While some structures date to the 1800's, much of the stock was built during the 1920's. As the 1960 census reported, less than 1 percent of the area's stock was built in the 1940-1960 period. The curtailment of new building activity was reflective of the general stagnation of the area. Since the 1930 peak, the population has declined gradually to the 1970 level of 94,000. While for many years the decline of the neighborhood was often imperceptible, recent developments have changed this. The expansion of low income black areas south of Logan Square has alarmed many local residents. The principal fear is that the social disruption, violence, and blight of these areas will soon spill over into their own neighborhood. In addition, both blacks and Puerto Ricans have been moving into Logan Square. While most investors interviewed admitted that these families often had higher incomes than the current white population, they felt that this was only the forerunner of the movement of low income blacks into the neighborhood. It is this overwhelming fear of ghetto expansion, and the related fear of future capital loss that dominated the actions of the investors in the area.

While similar fears were expressed by property owners in other racially transitional neighborhoods, there were important examples of neighborhood decline that did not involve the element of racial succession.

The Brooklyn area of Portland was once a solidly middle-class neighborhood of single family houses. As incomes increased, many people moved out of the area in search of larger and newer housing. Those who remained were often unable to afford to rent or purchase homes of the size that were available. Seeing this possibility, small investors had converted many homes into duplexes and rented them out. While there is some new construction and speculation in land prompted by the neighborhood's attractive location, for the most part, the neighborhood is gradually showing the signs of age and deterioration.

In the Capital Hill area of Oklahoma City this process of gradual decline is well-advanced. Single family homes and duplexes that had been poorly constructed 40 years ago are now near the end of their economic usefulness. While not as pleasing to the eye as some of Oklahoma City's newer areas, Capital Hill provides cheap rental housing and home ownership at prices that even the City's poorest families can afford.

THE HOUSING MARKET

While each of these neighborhoods is unique in many ways, they have in common a past history of declining property values and uncertain expectations regarding future market values. In the extreme case of the Logan Square area, skilled investors felt there was a high probability that property values would decline dramatically in the next five years. Consider the case of a large investor in the area.

Mr. R purchased a 50-unit building in the Logan Square area in 1966 by assuming a \$70,000 mortgage and paying \$140,000 cash. The building was poorly maintained and Mr. R put little into the property. In 1969, Mr. R was confronted with increased vacancies and rapidly declining cash flow. At this stage Mr. R decided to test the possibility of rehabilitating his building. For \$3000, he upgraded one of his units and increased the rents by \$648. Moreover, the rehabilitation expenditure was eligible for an accelerated depreciation over a five year period, giving the project an additional \$300 annual return for the first 5 years in the form of tax savings. Despite the apparent success of this experiment, Mr. R decided not to upgrade the building. In his opinion, if the blighted area did spill over into Logan Square, it would be difficult, if not impossible, to continue to find tenants who would be willing to pay the higher rents. In addition, there was a high probability that tenant vandalism, so common in blighted areas,

would destroy his improvements. Whether through economic conditions or physical destruction, Mr. R viewed the possible loss of an additional \$150,000 investment as unacceptable. Instead of rehabilitation, he made some minor repairs and hoped he could hang onto the building for two more years to get the maximum tax shelter advantage of the original investment. In the meantime, he was looking for a new buyer and would consider any sale which might cut his losses. He indicated a tremendous fear that if he did not sell soon enough, he would be forced to hold the property indefinitely.

The realization that downward transition, once under way, usually culminates in blight, deters further investment in the housing stock in these neighborhoods. Investors feel they cannot recover at time of sale even a part of the costs of substantial improvements. In the face of such risk, large investors begin to look for investment opportunities in other neighborhoods. Mr. R for example is currently involved in the rehabilitation of a 12-unit apartment building in Lincoln Park's upward transitional neighborhood in Chicago. As is typical of such neighborhoods, the building has a low effective tax rate. Mr. R felt it was unlikely that the building would be reassessed even after substantial rehabilitation. These features heightened the attractiveness of the project.

The movement of investment capital out of a downward transitional neighborhood helps to insure that the worst expectations of the large investor are met. The ability of the neighborhood to maintain a middle income population of any mix is eroded by the failure of large numbers of investors to risk additional investments in their buildings. As these buildings deteriorate, it becomes increasingly difficult to rent them to anyone but the low-income people moving in from the nearby blighted neighborhood.

To this point, the discussion has relied almost entirely on opinions and information gathered during interviews with skilled, professional real estate investors. Much of the real estate in these neighborhoods, however, is owned by owner-occupants and small investors. As Table V.1 demonstrates, in cities such as Chicago, Baltimore and Providence, more than 40% of all rental units are in owner-occupied structures. In many older ethnic areas of the city, the percentage of rental stock in owner-occupied buildings exceeds the city-wide average given in these tables. The small owner-occupant of a 2-to-10 unit building is the dominant investor type in such areas.

The owner-occupant, then, is an important factor not only in the single-family housing market, but as a supplier of rental housing. On the basis of our sample, there is reason to believe that owner-occupants in the downward transitional neighborhoods maintained their property at a higher quality level and spent more on rehabilitation than absentee owners. Thus the prospects for arresting the downward transition of the quality of the housing in a neighborhood may very well depend on keeping the small owner committed to his property. It is essential, therefore, to understand his mode of operation.

TABLE V.1**DISTRIBUTION OF RENTAL HOUSING
UNITS IN MULTIPLE STRUCTURES, 1960
BY CITY**

City	In Owner Occupied Structures	Total Units	Owner Occupied as a Percent of Total
Atlanta	8,534	53,331	16.0%
Baltimore	32,720	78,326	41.8
Chicago	298,162	705,428	42.3
Detroit	51,356	153,633	33.4
Nashville	6,534	21,735	30.1
Oklahoma City	4,370	15,008	29.1
Philadelphia	36,801	135,581	27.1
Portland	6,748	34,814	19.4
Providence	19,299	39,538	48.8
San Francisco	37,935	164,126	23.1
All Cities	502,459	1,401,520	35.9

Source: U.S. Bureau of the Census, Census of Population and Housing, 1960, Detail Housing Characteristics.

Investor J purchased his three-flat apartment building for \$21,500 in 1964. Although it was nearly 60 years old, the building was structurally sound, and for the most part well-maintained. J lived in one unit and rented two other two-bedroom apartments for \$80 and \$90, unfurnished with no utilities included. The owner stressed the fact that the annual rent of \$2040 nearly covered payments on interest and principal of \$1380, property taxes of \$538, insurance of \$137, and water payments of \$40 (total \$2095). This fact insured that even in time of unemployment or family crisis, the investor would be able to hold onto his home.

In addition, the owner felt that the security of owning property was enhanced by a sound policy of preventive maintenance and gradual upgrading. Staying ahead of repairs not only provided him with better housing today; it was also seen as a way of forestalling future difficulties. A well-maintained house could go for some time without much maintenance if the owner were temporarily unable to afford such expenses in the future. Investor J was a lifelong resident of the area, and no doubt the wave of foreclosures that swept the area in the 1930's had made a lasting impression on his mind.

Another element in the strategies of the small investors interviewed is their view of real estate as a vehicle for wealth accumulation.

Mr. S, a man in his late 60's from the Brooklyn neighborhood of Portland, purchased his first building in 1950 on contract. In 1956, he refinanced that building and used the money to purchase two additional properties. Now he owns 16 units valued at more than \$50,000. Upon retirement, he plans to gradually sell off his holdings.

Mr. and Mrs. M sold their duplex in Logan Square, Chicago and used the money to make a sizeable downpayment on a seven-unit building. While running a cash loss on the building, they are optimistic that once the mortgage is paid down, they will reap returns in the form of both cash flow and their ability to borrow against the property.

Typically, the upgrading of owner-occupied structures involves a limited cash expenditure and a liberal expenditure of the owner's time and effort. The cases of two property owners in East Detroit provide examples.

Mrs. A estimated that she and her husband had put some \$3000 worth of work into improving a recently purchased duplex. He was able to do minor electrical, plumbing, and carpentry repair work, while she prided herself on being a skilled painter, tile worker, and general carpenter's helper. The cash requirements for their efforts were approximately \$600.

Mr. P, a man in his 40's, recalled that 10 years ago, when he first purchased his duplex, he could hardly change a light bulb. When confronted with increasing maintenance problems, and mindful of the increased costs of hiring repairmen, he soon learned how to do most minor repairs. Most recently, he had finished the construction of a small garage, a clear indication of the degree to which his skills had advanced.

The maintenance and upgrading of properties was found to be a key element in the strategy of many small investors and owner-occupants. As noted in table V.2, a greater percentage of small investors did rehabilitation work than was true of the larger investors in the downward transitional neighborhoods. If the dollar value of the owners' labor is included in the cost of rehabilitation, it is the small investors who tended to spend more per unit.

Table V.2 also presents similar figures for the homeowners in the downward transitional neighborhoods. Like the small investors, the homeowner often does much of his own maintenance and repair work. Through a combination of their own labor and cash expenditure, many homeowners in our sample were able to significantly upgrade their own housing.

TABLE V.2*
DISTRIBUTION OF REHABILITATION ACTIVITY
BY SIZE OF INVESTOR
FOR DOWNWARD TRANSITIONAL NEIGHBORHOODS

Size of Investor	Total Number of Properties	Percent Rehabbing	Median Per Unit Expenditures on Rehabilitation	Percent Maintaining or Upgrading Their Properties	Percent Using Borrowed Funds
Single-Family homeowners	10	60.0%	\$ 1,500	100.0%	0.0%
Investors with:					
2 - 9 units	9	77.8	1,500	89.9	28.6
10 - 40 units	23	39.1	700	73.9	11.1
40 or more units	34	32.4	400	52.9	9.1
TOTAL	76	43.4	800	69.7	12.1

Sample: Private market residential structures built prior to 1961.

Notes: Percent Rehabbing gives proportion of the total number of properties in the relevant category with rehabilitation expenditures at any time in the period 1966 to 1970. Median Per Unit Expenditure on Rehabilitation have been rounded to the nearest \$100. For further discussion of Percent Maintaining or Upgrading Their Properties see Table IV.7.

* The tables summarize information obtained from 228 owners regarding 420 individual properties in ten cities.

The next to last column of Table V.2 demonstrates that not only did large owners fail to upgrade their properties, but that in many instances the quality of their structures was declining. This reflects the reluctance of individual large investors to risk additional expenditure in the downward transitional neighborhood.

The phenomenon of well-maintained owner-occupied structures existing side-by-side with deteriorating structures owned by large investors was a point frequently made by small investors and homeowners in these neighborhoods. Indeed, in all the neighborhoods in our sample, owner-occupants and homeowners were more likely to be maintaining and upgrading their properties, than absentee owners.

Table V.3 documents the impressive amount of upgrading of owner-occupied structures found in all of the neighborhoods sampled. Even in the blighted neighborhood, owner-occupants were more likely to maintain and upgrade their properties.

TABLE V.3

**MAINTENANCE AND REHABILITATION ACTIVITY
OF OWNER-OCCUPANTS BY NEIGHBORHOOD**

Neighborhood	Total Number of Properties	Percent Rehabbing	Median Per Unit Expenditures or Rehabilitation	Percent Maintaining or Upgrading Their Properties	Percent of Rehabilitation Projects Financed
Stable	20	65.0%	\$2,500	100.0%	65.0%
Transitional Upward	20	80.0	3,100	90.0	43.8
Transitional Downward	16	68.6	1,500	100.0	18.2
Blighted	12	50.0	1,000	66.7	50.0
Total	68	67.7	2,000	91.7	47.2

Sample: Private market residential structure built prior to 1961.

Notes: Percent Rehabbing gives proportion of the total number of properties in the relevant category with rehabilitation expenditures at any time in the period 1966 to 1970. Median Per Unit Expenditures on Rehabilitation have been rounded to the nearest \$100. For further discussion of Percent Maintaining or Upgrading Their Properties see Table IV.7.

Source: ADL Investor Interview questions 3, 17a, and 21; and ADL Homeowner Interview questions 6d, 14 and 18.

As noted earlier, in the blighted neighborhoods of Oklahoma City, Nashville, Atlanta and Portland, single family detached structures predominate. Despite the low incomes in these areas, there is a surprising amount of home ownership. Given the maintenance and rehabilitation record of owner-occupants interviewed, the encouragement of additional homeownership in these neighborhoods could result in considerable upgrading of the housing stock. In the older ethnic areas in the stages of decline, a similar beneficial effect would result from the maintenance of the high level of owner-occupancy already found in these areas.

While pride of ownership on the part of owner occupants is an important element in maintaining the quality of the housing stock, several problems associated with owner-occupancy need to be mentioned. Older owner-occupants in downward transitional neighborhoods may have lost much of their ability to maintain their properties. Forced to pay cash for repair work, they lose one of the significant advantages of owner-occupancy.

As both the housing stock and the population of the neighborhood age, deterioration of the owner-occupied stock may become an important neighborhood problem. These older owners are often reluctant to go into debt to finance needed repairs and feel uneasy about dealing with contractors and hired repairmen. As one older woman who owned a small rental unit observed, "The property will last for my lifetime, and that's good enough for me."

Other instances of the decline of maintenance on the part of owner-occupants were found in neighborhoods in racial transition. Several owner-occupants admitted that they were holding back on needed repairs because they were afraid that the growing number of minority people in the neighborhood would force them to leave the area.

THE IMPACT OF THE PROPERTY TAX

In the downward transitional neighborhood, it is the expectations of future market conditions that most influence investor activity. To the extent that the equalization of effective tax rates across neighborhoods improves the market situation in the blighted areas, it also improves the expectations of investors in the downward transitional neighborhood. Not only would such flexibility in assessments alleviate somewhat the cash flow squeeze that forces many investors to defer necessary maintenance, it would also enhance the expected sale price of any project. Both would increase the possibility that large investors would respond to the current demand for improved housing, rather than withdraw from the area in fear of future market collapse.

To the small investor the importance of property tax policy is quite different.

Often, in the downward transitional area, small owners were unaware of adverse market trends. When asked to discuss the current market value of their property, such owners frequently cited their purchase price or made reference to the current assessed value of their property. Only in certain instances was the small investor able to cite the sale prices of comparable properties.

Given small investors' reliance on assessed valuation as an indication of property values, if reassessment lags far behind market trends, there will be a resultant lag in investors' awareness of the declining value of their property. Consider the example of the downward transitional neighborhood in the early stages of racial transition. The Logan Square area had been gradually deteriorating for decades but assessments had not been reduced accordingly. Recently, increased numbers of Puerto Ricans and Blacks moved into the area. One large realtor noted that it was racial change that brought the first awareness of neighborhood decline to many of the members of the community. Owners who previously paid little attention to the market situation, suddenly began to follow closely the sale price of housing in their neighborhood. It is at this time that the false expectations are shattered. This in turn can help to promote the impression that the decline in observed sale price is caused by the presence of minority buyers. The rapid decline in expectations concerning the neighborhood may become a crucial element in the panic selling that often sweeps such neighborhoods.

A further indication of the importance of assessment in such situations was the attempt by a group of black and white citizens to prevent the assessor from reducing the assessed valuation of properties in a racially changing neighborhood in North East Oklahoma City. While there have been some panic sales and a brief period of depressed prices, they are now stabilizing. The neighborhood group argued that the housing stock was new, well-maintained, and would sell in the near future for prices comparable to those charged

prior to the panic. To reassess downward on the basis of declining market values could very well shatter the confidence in the neighborhood held by those who decided not to sell in the face of social transition.

This effort of a group to raise their taxes is a striking example of the importance that assessments can have in shaping neighborhood attitudes. Many Oklahoma City communities had not had a general reassessment for 18 years; any reassessment was taken to be a sign of major importance. In Chicago, the failure of periodic reassessments to accurately reflect market decline gave small investors an inflated sense of the value of their property. Both examples point to the importance of periodic reassessments. While the assessor cannot be expected to adjust to every fluctuation in sales, reassessment should roughly follow the trend of the market, and should be carried out frequently enough to prevent a major change in assessment from sending a shock wave through the neighborhood.

The non-professional small investor not only lacks an accurate impression of trends in prices in the neighborhood, he often has a very hazy idea of how the assessments are determined. As noted in Table V.4 only 15.2% of all buildings rehabilitated or upgraded in the downward transitional neighborhood were reassessed. Of those buildings reassessed, in no instance was the increase in assessment more than 20 percent of the dollar amount of rehabilitation expenditures. Despite these facts, many investors felt that any rehabilitation expenditure would lead to reassessment. While this fear of reassessment was not cited as a major obstacle to rehabilitation by investors, this misunderstanding of the workings of the property tax system needlessly adds risk and uncertainty to many investment decisions. Consider investor J from Logan Square again. As part of his strategy of staying ahead of repairs, he had put new siding on his building. He claimed he was reassessed upward and noted that next time he would know better than to improve the exterior of his building. In fact, the marginal increase in assessment was one that was applied to every 3-flat apartment building in the neighborhood.

TABLE V.4

**REASSESSMENT OF REHABILITATION IN DOWNWARD
TRANSITIONAL NEIGHBORHOODS**

Per Unit Expenditures	No. of Properties Rehabilitated	No. of Properties Reassessed as a Result of Rehab	Percent Reassessed
\$ 0 to \$ 499	12	0	0.0 %
\$ 500 to \$2999	18	5	27.8
\$3000 and over	3	0	0.0
ALL PROPERTIES	33	5	15.2

Sample: Private market residential structures built prior to 1961 with any rehabilitation expenditures in the period 1966-1970.

Notes: See Table II.10 and II.11 for comparison of reassessment of neighborhoods.

Source: ADL Investor Interview questions 17a, and 20a; ADL Homeowner Interview question 14, 17 and ADL Property Data Sheet question 4.

As will be discussed in Chapter IX, many large investors shared this mystification about the assessment process. In Atlanta a large real estate operator confessed that he had been in the business for 15 years and still could not predict whether or not a particular rehabilitation would be reassessed. The assessor claimed to check out large building permits, but since the dollar estimates on building permits were often unreliable, the assessor obviously had some additional rules for selecting which buildings to inspect. In repeated efforts, this investor had not been able to obtain a clear statement as to the procedure used.

Although many investors in the downward transitional neighborhoods have little understanding of market and assessment practices, they are acutely aware of the increased tax burden they are forced to bear. The increase in taxes relative to rent generating ability demonstrated in Table V.5 has seriously eroded the benefits of holding real estate in these neighborhoods. This is especially true for the small investor. Again consider Investor J.

TABLE V.5
CHANGE IN PROPERTY TAX AS A PERCENTAGE OF GROSS RENT
BY NEIGHBORHOOD

Neighborhood	Number of Properties	Properties for which Taxes as a Percentage of Gross Rent Increased from 1966 to 1970	Percent of Total	Median Change in Taxes as a Percentage of Gross Rent 1966-1970
Stable	44	15	34.1%	-1.0%
Transitional Upward	57	28	49.1	-0.1
Transitional Downward	58	40	69.0	+1.6
Blighted	53	35	66.0	+1.8
ALL NEIGHBORHOODS	212	118	55.6	+0.7

Sample: All 212 residential rental properties built prior to 1966 for which rent and tax histories could be obtained.

Notes: The difference between property tax as a percent of gross rental receipts for 1966 and 1970 was calculated for each individual property. The median value of these figures was then selected. A minus figure indicates that tax as a percentage of gross rent declined by one percent point from 1966 to 1970 (eg. from 17.0% to 16.0%).

Source: ADL Investor Interview question 12; and Property Data Sheet question 4.

For the present, Investor J felt that there was a secure balance between his cash rent receipts (rents excluding an imputed rent for his own unit) and what he felt were the fixed costs of property ownership – taxes, debt service, insurance, and city service collections. His taxes had roughly doubled in 5 years. If they doubled again in the next 5 years, and if he is unable to increase his rent roll, which is likely, this investor could be spending out of pocket to make up the difference between cash rent and fixed costs. After necessary maintenance costs have been incurred, this property could still have

a positive rate of return in a strict accounting sense (i.e., if there were an imputed rent charged the owner for his own lodgings), but the main security element of property ownership has been threatened.

To the extent that the small investor provides much of his own management and maintenance, he is protected from certain aspects of the cost squeeze encountered by many holders of real estate who are forced to contract out maintenance and repair work at ever increasing wage levels. To such an owner, property tax is often the most visible and most bothersome of his increasing costs. Under favorable conditions, owner-occupants were able to turn hard work and minimal cash requirements into both a secure home for their families, and hopefully, a small amount of wealth for their later years. In the downward transitional neighborhood these advantages are gradually being reduced. Given the decline in property values, the rise in property taxes is often excessive. A periodic reassessment downward would greatly enhance the ability of a given set of owner occupants to hold onto their properties, and the ability of new owners to come into the area. While it is not possible to say that property tax increases are the cause of neighborhood decline, once neighborhood decline is underway, a tax system that neither responds to market changes, nor is well understood by so many small investors, can seriously erode one of the major strengths of the neighborhood, the commitment of many owner-occupants and small investors to their neighborhood and to their homes.

REVERSING DOWNWARD TRANSITION

Atlanta's West End Neighborhood illustrates the role that government intervention can play during a crucial stage in neighborhood transition.

The West End neighborhood of Atlanta is a curious mixture of an old, closed-in neighborhood and a lower density single family area. While much of the housing stock dates to the turn of the century, as Atlanta grew in the Post-World War II period, some new construction found its way into the West End in the form of new single family homes and low density apartment development. Despite this, the West End steadily lost ground to the more dynamic and affluent sections of North Atlanta. By the early 1960's much of the stock was seriously deteriorating. To remedy this situation, West End Urban Renewal Area was established to administer a program of Federally-subsidized loans and grants for rehabilitation, as well as to stimulate new housing and commercial investments. The activity generated by the program is impressive. A new Shopping Mall is rapidly approaching completion. Other commercial facilities have been upgraded. With the initial round of Federally subsidized loans and grants nearly exhausted, the neighborhood faces the crucial test of demonstrating that the downward decline has, in fact, been arrested.

The West End, then, had been declining for years. Many owner-occupants through inability caused by old age, or lack of confidence in the neighborhood resulting from their fear of racial change, were neglecting their properties. The choice of this neighborhood for

a program of code enforcement and widespread utilization of federally subsidized home improvement loans and grants was timely. It did not reverse the course of racial transition – the neighborhood is now 70% black. It did stimulate rehabilitation activity. In doing this, the program helped ensure that during the difficult period of racial succession, neighborhood deterioration did not accelerate.

By now the new nature of the neighborhood is becoming clear to residents and investors alike. With a mixture of middle income whites and blacks committed to the idea of preserving the West End as a healthy, integrated neighborhood, there is reason to believe that the decline has been reversed. This reversal of expectation is best demonstrated by the privately financed construction and rehabilitation of apartment units to serve the expanding middle income black population.

The West End of Atlanta gives a clear example of how the worst expectations of large and small investors about the future of a neighborhood can be reversed. While the key in Atlanta was the timely utilization of a program of loans and grants, the important role that tax policy has to play in such a neighborhood should not be overlooked. As the next section will illustrate, the success of various Federal Housing programs is intricately related to local assessment practices.

CHAPTER VI
THE PROPERTY TAX AND
FEDERALLY SUBSIDIZED HOUSING
IN BLIGHTED AND DOWNWARD TRANSITIONAL NEIGHBORHOODS

The discussion of the private market in the last two chapters may have obscured the fact that most current investment in the housing stock of blighted and downward transitional neighborhoods is federally subsidized. Rehabilitation under Section 236 of the 1968 Housing Act by itself accounts for a substantial proportion of all investment in these neighborhoods. No less than 88% of the total dollar value of rehabilitation in the blighted and downward transitional neighborhoods of our sample came from 236 rehab projects. These projects now dominate investment in multi-unit stock in blighted areas; no federal policy exists as to how these projects should be taxed. Assessors in two cities identified the lack of federal guidelines on how to assess 236 projects as among the most urgent policy problems they confront. Without exception, investors in these projects reported that the uncertainty surrounding property tax liability was a principal obstacle to their planning and operation. The matter at stake is important, for how the property tax is administered affects the volume of federally assisted projects undertaken in a city, and helps to determine how successful a program is in reducing rents for low-income families.

Assessment of Subsidized Projects

The great dilemma in assessing federally assisted housing projects is that the "value" of these projects is inherently ambiguous. Construction costs are known; but these overstate the market value of a project, since in the absence of subsidy the rental stream produced by the property would not justify the actual expenditure on construction.

The cost of rehabilitation under a Section 236 program may exceed \$2 million, yet the re-sale value of this same project, if sold on the free market without its federal subsidy, may be zero, or even negative in the event that annual unsubsidized costs exceed market rent. Should the local taxing authority then enter the project on its tax rolls at the cost of \$2 million? At the assumed free market value of zero? Or should it apply some other criterion, such as a percentage tax on gross rents? In the absence of plain reasons for preferring one assessment basis to another, cities have vacillated among various formulas for taxing 236 and 221(d)3 projects. The result is that it has become extremely difficult for operators of projects to predict their tax liability into the future. The chance that the assessor will change the standard of assessment, thereby substantially augmenting a property's tax liability, adds significantly to the risk of operating 236 and 221(d)3 projects. These projects are so highly leveraged that a change in property taxes can easily convert

a project with a significant positive rate-of-return into one with a negative cash flow.

- Non-profit organization A in Atlanta operates a 280 unit 221(d)3 project for low-income families. A two-bedroom apartment rents for \$72.50 per month. The respondent reported that in his judgment "The City is eating up the federal housing program through property taxation." The building sponsored by A was assessed at \$568,000 in 1965, its first full year of operation. In 1966 the assessment was jumped to \$790,000. After appeal, it was lowered in 1967 to \$501,000. These erratic movements in assessed valuation imply differences of more than \$14,000 in annual tax liability. For a non-profit organization operating at the very edge of its cash flow, an additional \$14,000 in tax liability translates into a \$5 a month rent increase (with HUD approval) or a serious cash deficit. The organization felt that with it now paying 18% of gross for property taxes, it had become nearly impossible to operate low-income housing.
- Investor B in Portland was forced to place in escrow \$28,000 to cover his annual property tax liability on a 236 project, since Portland maintains that it taxes these projects on "market value." As a precautionary measure, this investor estimated that he might be reassessed for 70-80% of FHA productions costs. To date, B has not been reassessed for any part of the \$600,000 rehabilitation he carried out. Though thankful, B reports that if Portland does not intend to assess at close to construction costs, there are a series of 236 projects he would like to undertake. All that he requires is a clear understanding of his tax obligation.

The vulnerability of federally assisted projects to local tax policy can be seen from Table VI.1. Upward reassessment was much more likely to occur in federally subsidized rehabilitation or rehabilitation carried out by non-profit sponsors than it was in private-market housing. Most municipalities seem to feel that tax increases in the former case are passed on to the federal government or the non-profit sponsor, and so represent a free good to the municipality.

Investors' Perspective

From the point of view of investors, the present system for determining tax obligation on 236 projects has three defects.

(1) Obtaining a property tax commitment from the assessor often is the most time consuming step in the application for a letter of feasibility. The operator of a 236 project in Chicago reported that, "If a uniform rule existed for taxing 236 projects, we could speed up the application process by 45 days."

(2) The level of property taxation and the risk that assessment will be increased makes many 236 projects infeasible. So many risks exist in these programs that the additional

TABLE VI.1 *

REASSESSMENT OF PRIVATE AND PUBLIC REHABILITATION PROJECTS

Expenditure Per Unit	Non-Profit and Government Aided Rehabilitation Projects		Private Market Properties	
	No. of Projects	Percent Reassessed	No. of Projects	Percent Reassessed
Less than \$500	1	0.0%	53	1.9%
\$ 500 to \$ 2,999	3	33.3	62	16.1
\$ 3,000 to \$ 9,999	7	57.1	30	13.3
\$10,000 and over	5	100.0	7	57.1
TOTAL	16	62.5	152	12.5

Sample: Residential structures built prior to 1961.

Notes: Federal government aided rehabilitation projects include 236, 221d3, and 312 loans and grants as part of a FACE program. Other projects included in these categories are owned by non profit corporations set up to provide low or moderate income housing under various state regulations.

- * The tables summarize information obtained from 228 owners regarding 420 individual properties in ten cities.

risk of miscalculating a major cost such as property taxes can discourage investment altogether. The State of Michigan now has legislation stipulating that non-profit operators of 236 projects pay 10% of net shelter rent in lieu of property taxes. One non-profit organization in Detroit reported that, before passage of this legislation, it submitted to HUD a proposal for a 430 unit 236 project, which was rejected as infeasible. After passage of the legislation, the organization resubmitted its proposal. Its tax liability was now 33% less than the assessor's previous estimate; and the organization was guaranteed that this liability would not increase unless rental rates increased. The project was approved by HUD, and now operates at 100% occupancy.

All operators of 236 projects agreed that a long queue of presently infeasible 236 projects would become feasible if taxes were fixed at a known low level of gross income. How greatly such a change in tax policy would affect overall investment depends, of course, on whether the present 236 program is constrained by a lack of feasible projects or a lack of budgetary funds. If the constraint is budgetary, the mere fact that more projects become feasible need not imply that more projects will be constructed.

(3) Once constructed, 236 and 221(d)3 projects run the risk of having to absorb substantial tax increases due to changes in the basis for assessing properties. These must either be passed on to the tenant, raising the cost of housing to low-income families, or absorbed in the form of a reduced cash flow, increasing the probability that the operator will not be able to maintain mortgage payments after the exhaustion of depreciation benefits.

Smaller owners who had taken advantage of 3% rehabilitation loans under the 312 program reported that local tax policy consumed much of the subsidy of these programs. The owners believed, and Table VI.1 tends to confirm, that the Assessor's office was much more active in reassessing 312 rehabilitation than it was in reassessing the same work, where carried out privately. An effective 3% property tax levied on the cost of rehabilitation raises the interest and tax payment to 6%, comparable to what it would be on the private market, without reassessment.

The Municipality's Perspective

From the point of view of the municipality, the objective in taxing 236 projects is to collect the maximum possible revenue without driving away the federally subsidized programs or making rent levels impossibly high for low-income families.

Table VI.2 summarizes the tax formula presently used by each of the sample cities.

Those cities which tax 236 projects at a very low rate reported that they feel they are doing so at the expense of their tax base. According to Baltimore's Assessor, the agreement to tax 236 projects at 6% of gross rent was worked out by the City solicitor, against the judgement of the Assessor's Office. The Assessor felt that the accumulation of tax-exempt low-income and elderly housing eventually would increase the tax burden on private sector housing. He reported that already several private investors who had lost tenants to the subsidized projects had demanded that their assessment be reduced, as well. Several other Assessors reported that federally subsidized programs in their cities substituted for private investment. One effect of the program was to replace fully taxable properties with partially taxable property, reducing the city's tax base.

Those cities that tax 236 properties at a very high rate tend to see their actions as inducing a pure transfer of federal funds into municipal coffers. In Atlanta, the assessors reported that HUD automatically permitted rent increases when a 236 project's tax liability increased, and that a substantial part of this rent increase was absorbed out of rent supplement monies. Consequently, a significant proportion of local property taxes were absorbed directly by federal rent supplement funds. The City seemed to follow a policy of taxing 236 programs at the maximum rate possible without discouraging their further construction. For low-income families now on rent supplements, the direct consequence was higher rents.

Conclusion

As Table VI.2 makes clear, no agreement exists as to how 236 rehab projects should be taxed. This confusion extends to other federally subsidized projects like 221(d)3 projects

and 312 subsidized-interest improvements. Several Assessors requested federal guidelines on the subject.

Investors in 236 and 221(d)3 programs without exception preferred paying property taxes as a percentage of gross rents to paying a tax based on market value. They stressed that payment based on gross rent carried certainty regarding tax liability and the assurance that taxes would not increase unless rent levels increased.

In conclusion, assessors and investors alike felt that a simple, uniform standard was needed for the assessment of federally assisted housing. Investor's currently involved in these projects noted that the difficulty of accurately forecasting property tax burden seriously altered the effectiveness of these programs. Once these projects are once completed, an unexpected change in property tax assessment can damage the prospects for continued successful operation.

TABLE VI.2

CRITERIA FOR ASSESSING 236 REHAB PROJECTS

City	Criteria
Atlanta	Now reviewing assessment standards, intend to increase assessments. Subsidized projects should receive no tax concessions if they can generate positive cash flow when fully taxed.
Baltimore	6% of Gross Rent
Chicago	<i>Ad hoc</i> assessments -- trying to work out standards with civic groups. "We need guidelines from the Feds."
Detroit	Non-profit groups: 10% of net shelter rent; Profit groups: "Reasonable fraction" of construction cost.
Nashville	Unknown
Oklahoma City	236 Program just starting. No concessions.
Philadelphia	Now treat as if private rentals, assessment based on project's income; "awaiting additional information from federal authorities." Have several appeals pending.
Portland	Estimate sale value on private market.
Providence	12% of Potential Gross Rent -- 5% vacancy allowance.
San Francisco	Use income approach, with adjustment for "lower quality" of income from 236 projects.

CHAPTER VII

UPWARD TRANSITIONAL NEIGHBORHOODS

The potential disincentive efforts of property taxation are greatest in the Upward Transitional Neighborhoods, where property upgrading normally would be most vigorous. More than half the upward transitional properties in our sample had been rehabilitated with a median per unit expenditure of \$2,300. In older cities where little space remains for new construction, this rejuvenation of the existing housing stock accounts for most of the increments in the cities' property base. Our sample revealed that city authorities are understandably reluctant to impose on Upward Transitional Neighborhoods a tax burden that might destroy their growth or propel white residents out of the city into the suburbs. Table VII.1 shows the median effective tax rate in each city's upward transitional neighborhood as a proportion of the legally prescribed rate for the city as a whole. A value less than one indicates that the median effective tax rate of the upward transitional properties in the sample is less than the legally prescribed tax rate for the city as a whole. This was found to be the case for each of the ten cities in our sample.

TABLE VII.1 *

MEDIAN EFFECTIVE TAX RATES IN UPWARD TRANSITIONAL NEIGHBORHOODS AS PROPORTION OF LEGALLY PRESCRIBED RATE, 1970

Atlanta	.80%	Oklahoma City	.66%
Baltimore	.39	Philadelphia	.31
Chicago	.12	Portland	.71
Detroit	.91	Providence	.28
Nashville	.57	San Francisco	.71

Sample: All residential properties reporting current market value.

Notes: Effective tax rate is tax as a percentage of investor reported market value. Legally prescribed rate legislatively mandated assessment/sales ratio times official millage rate for city.

Source: Based on material previously presented in table II.3 and II.4

* The tables summarize information obtained from 288 owners regarding 420 individual properties in ten cities.

Property taxes may discourage neighborhood upgrading in two ways. The level of taxation may be so high that affluent whites, of the kind who are responsible for rediscovering "chic" downtown neighborhoods, prefer to reside outside the city. Dramatic restoration of aged and blighted housing stock is almost exclusively a white phenomenon, undertaken by families whose alternative residence is the suburbs. If the city's tax burden becomes too high or its service quality too low, the city is apt to lose these people and with them the housing investment they would have undertaken. Table VII.1 indicates that most cities have gone to considerable lengths to keep the level of taxation in upward transitional neighborhoods from becoming burdensome.

The second potentially discouraging effect of property taxation is a marginal effect. If improvements to the housing stock are assessed for the incremental value they add to a property, the additional tax burden will lower the rate of return to such improvements, and discourage investors from undertaking them. This marginal effect can occur at any overall level of taxation, though evidently the discouragement to investment will be most severe in those neighborhoods where incremental improvements are taxed at a high rate.

The Neighborhood

The typical Upward Transitional Neighborhood from our sample was a well-defined geographic neighborhood composed of old, architecturally interesting housing stock. Often constructed as single-family homes, the structures over the years had been converted to more intensive use and permitted to fall into disrepair. At some point, the neighborhood was rediscovered by young professionals and foresighted developers who valued access to downtown and recognized that by upgrading this old stock they could purchase high quality housing at much lower prices than was possible in new construction. The first entrants typically were small investors who intended to live in the neighborhood; not until neighborhood revival was well underway did large investors enter the area. As the quality of housing changed, so did the residents of the neighborhood. Young, white affluent professionals displaced older, poorer residents, many of whom were non-white. Three examples of the Upward Transitional Neighborhood included in our sample were:

1. College Hill/Fox Point, Providence

College Hill contains a large number of 18th century merchants' homes which up to 1956 served as slum tenements. In 1956 Brown University announced that it intended to demolish a large portion of the housing stock in order to construct a new dormitory. Reacting in opposition to this proposal, residents formed the Providence Preservation Society, which succeeded in having the neighborhood designated as historical site. One developer purchased 16 buildings, then in crowded, multi-unit use, and restored them as single-family homes; after a lag, others followed suit. Though all of the 400 homes of the original historical site were preserved, eventually the success of the College Hill restoration spread to fringe areas, like Fox Point, where rehabilitation of existing housing was combined with replacement of the worst

portion of the stock by new multi-unit structures. Aggressive "up-graders" in the Fox Point neighborhood have had the area approved for Section 312 loans, and are exerting pressure on other owners to make use of the subsidized loans. At times this pressure has led to conflicts between the new residents, bent on rapid upgrading, and the Portuguese community, which sees the transformation of the housing stock as threatening its living patterns.

2. Lincoln Park, Chicago

In the 19th century Lincoln Park was populated by beer barons and retail merchants. In later years, their lavish homes were converted to boarding houses or cheap multi-unit rental stock. Lincoln Park became a point of entry for poor white migrants to Chicago. The revitalization of Lincoln Park occurred as a spill-over from Old Town, a well publicized restoration project of the 1950's which, according to Lincoln Park residents, became over-commercialized. Some of the original residents of Old Town moved into Lincoln Park. One device they used to delimit the area was the deliberate exclusion of bars and package stores, which residents viewed as essential to upgrading the neighborhood. Of the upper transitional neighborhoods included in our study, Lincoln Park was one of the furthest along in development. Large-scale rehabilitation of the housing stock has been completed in many parts. Younger, wealthier residents have now moved into the neighborhood, giving it an artsy, swinging reputation. By now, much of the rehabilitation activity is in the hands of large-scale real estate operators.

3. Couch, Portland

The housing stock in Portland is of more recent vintage than is true of most other cities in our study. The predominant housing style in Couch is the wooden frame, single-family home, constructed between 1900 and 1930. Rehabilitation here is a more recent phenomenon than in Providence or Chicago, and, up to now, it has been carried out on a smaller scale. Several large homes, which had been converted to boarding houses, have now been converted back to single-family dwellings. Much minor repair and cosmetic rehabilitation have been carried out on other structures. No large realtors have entered the neighborhood. Investment has been delayed in part by fear that adverse zoning changes would destroy the residential character of the neighborhood. Adding to this uncertainty was the possibility that large sections of the area would undergo urban renewal in the form of an expansion of the Good Samaritan Hospital. In the judgment of residents both changes would destroy the residential character of the neighborhood. Property values have gone up greatly in the neighborhood as a result of the competition for land use, and the speculation against possible influences of urban renewal.

The neighborhoods described above are examples of private market transition. Most cities also have transitional neighborhoods that were deliberately created by public policy. In order to contrast the styles of upgrading, we selected an urban renewal district as our upward transitional neighborhood in Detroit and a Federally assisted code enforcement area in San Francisco.

4. Buena Vista East, San Francisco

Until recently, this was a lower-middle-income neighborhood whose housing stock had been declining steadily as it aged. Dominated by small multi-unit structures built between 1906-1930, the neighborhood possesses many amenities, easy access to downtown and structurally sound buildings. Yet, because the income of residents had not kept pace with escalating property taxes, maintenance and other operating costs, many structures accumulated minor code violations. Rejuvenation of the area was touched off when the city designated Buena Vista East as a concentrated code enforcement area, and made subsidized 3% loans and direct grants available. As upgrading spread, a number of young professionals purchased properties. To reinforce the neighborhood improvement stimulated by low-interest loans and technical assistance, the city made environmental improvements, including the repair of streets, curbs and sidewalks and an increase in street lighting and tree planting. The gradual decline of the neighborhood has been reversed, and property values have begun to increase.

The Market

Improvement of the housing stock plays a central role in investors' strategies in the upward transitional neighborhoods. Most investors in our sample bought their properties with the intention of expending substantial amounts in upgrading them, in return for which they expected to gain significant capital appreciation, and (if owners of rental stock) to augment rental income significantly.

Respondents stressed that the profitability of investment in housing rehabilitation depends, above all, on the success of neighborhood upgrading. An investor can substantially rehab his own property, but if surrounding properties remain unimproved, the market will fail to value his investment even at cost. Conversely, in neighborhoods of active upgrading, individual properties will appreciate in value, even if no investment is made. Investors have adapted their strategy to these strong neighborhood effects.

Investor A in the College Hill section of Providence prefers to buy up two entire blocks of homes at a time. One block he rehabilitates in depth, at a cost of over \$20,000 per unit, for professional families. The second block he rehabilitates just enough to replace the present,

low-income tenants with students. The second block serves as a "buffer" for the first, putting some distance between the professional families and the blighted sections of the city. When the time is ripe, Investor A will further upgrade the second block of properties, and replace the students with professional families.

Investor B in Lincoln Park, Chicago, was one of several partners in a townhouse project. He recognized that, if successful, the project would upgrade substantially the tone of the immediate neighborhood. Accordingly, he acquired a nearby six-unit building, carried out external improvements and raised rents to reflect the better atmosphere of the block. This investor felt that "the only way to make sure that a neighborhood changes is to buy up enough properties to change it yourself."

By upgrading several properties at once, large investors can create "mini-neighborhoods" of their own. Smaller owners have to band together to achieve the same result. A prominent feature of each of the upper transitional neighborhoods studied was the strong neighborhood associations that existed. These neighborhood associations participated in whatever activity would boost the quality or reputation of the neighborhood.

The homeowners in Inman Park, Atlanta, meet once a week to exchange information about the neighborhood. Currently two issues are uppermost on their minds: the possibility of persuading banks to extend improvement loans to the neighborhood and the desire to discover ways to reduce costs of home improvement. To convince the banks that improvement loans in the neighborhood represent a good investment, leaders of the neighborhood association have invited bankers to their homes and conducted tours of the neighborhood — though to date without success. To compile information on home improvement techniques, residents pool their knowledge regularly as to where building materials can be purchased most cheaply and where skilled labor can be hired for restoration. Recently residents have attempted to capture some of the external benefits their own improvements have generated. One owner interviewed had acquired two adjacent houses. One he took as his personal residence and restored. The other he held in the conviction that the improvement in his own home, and the neighborhood, would make the adjacent property appreciate in value. This action imitates, on a small scale, the strategy of large investors who buy up entire blocks of property. At the time of interview, the neighborhood association was attempting to find ways in which it could, as a group, buy neighborhood properties, improve them, and offer them for resale at a profit.

Where neighborhood revival succeeds, the returns to capital investment in upward transitional neighborhoods can be very large. The median amount invested per housing

unit in our sample was \$2,300; the investor earned an average return, by way of capital appreciation and augmented rental income, that exceeded the rate of return on investment in all other neighborhoods.

While the payoffs are large, in the event that neighborhood upgrading succeeds, the investor runs the risk that his neighborhood will fail to take-off. To be successful, the momentum of rehabilitation must increase from the outset. Otherwise, investors cannot hope to recover the expenditures made for improvements. Since typically the first entrants into the neighborhood are small investors, the availability of financing is a crucial concern, which respondents listed as the primary obstacle to neighborhood development. Banks are unwilling to extend improvement loans until it is clear that a neighborhood has turned the corner. Large investors, likewise, will not risk their capital until revival is well underway. The burden of risk-taking then falls on the small investor, who has the most difficult time gaining access to capital. Table VII.2 summarizes the sample information regarding the type of investor and investment found in the Upward Transitional Neighborhoods.

TABLE VII.2
DISTRIBUTION OF REHABILITATION ACTIVITY
BY SIZE OF INVESTOR
FOR UPWARD TRANSITIONAL NEIGHBORHOODS

Size of Investor	Total Number of Properties	Percent Rehabbing	Median Per Unit Expenditures on Rehabilitation	Percent Maintaining or Upgrading Their Properties	Percent Using Borrowed Funds
Single Family Homeowners	8	75.0%	\$ 4,000	87.5%	50.0%
Investors with:					
2 - 9 units	10	70.0	600	80.0	14.3
10 - 40 units	18	94.4	1,500	100.0	17.6
41 or more units	38	36.8	1,000	94.7	42.9
TOTAL	74	59.5	2,000	93.2	29.5

Sample: Private market residential structures built prior to 1961.

Notes: Percent Rehabbing gives proportion of the total number of properties in the relevant category with rehabilitation expenditures at any time in the period 1966 to 1970. Median Per Unit Expenditure on Rehabilitation have been rounded to the nearest \$100. For further discussion of Percent Maintaining or Upgrading Their Properties see Table IV.7.

Source: ADL Investor Interview questions 3, 17a, and 21; and ADL Homeowner Interview questions 6d, 14 and 18.

The Role of Property Taxation

The potential impact of property taxes in upward transitional areas is very large. The possibility of large-scale investment in the housing stock exists in these neighborhoods, but the rate of return on such investments, and consequently, the probability of their taking place, is highly sensitive to tax policy. Some cities periodically reassess all properties in upward transitional neighborhoods, on the grounds that capital appreciation is attributable principally to neighborhood improvement, not building-specific improvements. Other cities increase assessment only on those properties which have been upgraded. A third group of cities avoids reassessment altogether, in the desire to keep property taxation from serving as a disincentive to property or neighborhood improvement. Each of these tax strategies has different implications for the housing stock which we now examine.

Assessing Building Specific Improvements

When a property is reassessed for the value of improvements made to it, a direct tax is placed on investments in the housing stock. If a city acts promptly in reassessing properties for the full value of improvements effected, the increased tax burden can cut sharply into the investor's rate-of-return. As an illustration, consider a \$10,000 improvement which has a ten-year life for tax purposes, but which retains its economic value at the end of period. Suppose that by carrying out the investment, the owner can raise his rent-roll by \$1,700 annually and that 90% of the principal amount is financed by a 7 1/2% 10-year loan. We assume the property tax is set at 3% of market value. All of these figures are representative of the ones reported by respondents. Table VII.3 summarizes this typical investor's financial set-up for the seventh year of operation. It shows the rate of return the investor can earn if the city does not reassess his property, and the rate of return he can earn if the city assesses the improvement at its full cost. Building-specific reassessment in this instance reduces the investor's rate of return from 41.8% to 11.8%. Similar reductions in profitability would be enough in many cases to make an otherwise attractive housing investment unprofitable.

How is the practice of reassessing properties to reflect the value of improvements? Most cities in our sample claimed to assess all improvements which increased a property's market value. Despite this, assessment practice varies substantially from one city to the next. Chicago calculates assessed valuations according to a formula which assigns values to buildings by age and structural type, while virtually ignoring any rehabilitation undertaken. The effect is to grant a de facto abatement for much upgrade investment. One large investor in Lincoln Park reported that the Chicago assessor had assured him that if he rehabilitated structures built prior to 1870, he would not be reassessed no matter how much he expended on improvement. Investors in Oklahoma City reported that the only improvements which resulted in reassessment were those which increased the floor space of a dwelling unit. Even in cities which professed to assess every improvement, exceptions seemed to be made in the case of upward transitional neighborhoods. Baltimore, for instance, has a policy of assessing improvements, but the very substantial improvements made in Bolton Hill have, for the most part, gone unassessed. As elsewhere, the explanation seems to lie in the assessor's unwillingness to nip in the bud neighborhood revitalization, by levying a tax on it.

TABLE VII.3

**IMPACT OF REASSESSMENT ON RATE OF RETURN
TO REHABILITATION**

	Rate of Return With Reassessment	Rate of Return No Reassessment
Original Equity	\$ 1000	\$ 1000
Increased Income Per Year	1700	1700
Interest Payments (9th Year)	345	345
Depreciation (Straight Line)	1000	1000
Increased Property Tax	300	—
Profit for Tax Purposes	55	355
Increased Income Tax (50%) Bracket	28	178
Net Income After Tax	27	177
Average Principal Payment	937	937
Depreciation	1000	1000
Total Cash Flow	118	418
Cash Flow as Return on Equity	11.8%	41.8%

Table VII.4 presents the proportion of improvements in Upward Transitional neighborhoods that resulted in reassessment. It also lists the proportion of investors representing fear of reassessment as a major obstacle to improving their properties.

Table VII.4 conceals a wide range of circumstances in the various upward transitional neighborhoods in our sample. Of particular interest is the situation of Queens Village, an upward transitional neighborhood in Philadelphia. All five Queens Village properties with rehabilitation expenditures were reassessed. Despite these reassessments, as noted earlier, the effective tax rates of these Queen Village properties were far below the rates found in other neighborhoods in the city.

The case of Philadelphia suggests that generalization is a risky business. On the basis of our sample, however, it would appear that the marginal disincentive to investment provided by the practice of taxing property improvements has been exaggerated. The evidence from the properties in our sample indicates that anything less than a thorough going "gut" job is unlikely to lead to reassessment. Table VII.4 shows that of the 26 rehabilitation investments in our upward transitional sample costing less than \$3,000 per unit, only 5 were reassessed. In all only 25.5 percent of all rehabilitation investments in upward transitional neighborhoods were reassessed. Excluding Queens Village drops this figure to 16.7 percent. While even these low rates of reassessment may discourage some investment, most respondents agreed that the prospective capital gains in upward transitional neighborhoods were so large, that fear of building specific reassessment played a decidedly minor role in their investment strategy.

TABLE VII.4

**REASSESSMENT OF REHABILITATION IN UPWARD
TRANSITIONAL NEIGHBORHOODS**

Rehabilitation Expenditures	Number of Properties With Rehabilitation Expenditures	No. of Properties Reassessed at a Result of Rehabilitation	Percent Reassessed
\$ 0 to \$ 499	13	1	7.7%
\$ 500 to \$2,999	13	4	30.8
\$ 3,000 to \$9,999	15	3	20.0
\$10,000 +	6	4	66.7
ALL PROPERTIES	47	12	25.5

Proportion of Investors Citing
Fear of Reassessment as Major
Obstacle

Sample: Private market residential structures built prior to 1961 with any rehabilitation expenditures in the period 1966-1970.

Notes: See Tables II.10 and II.11 for comparison of reassessment by neighborhoods.

Source: ADL Investor Interview questions 17a, and 20a; ADL Homeowner Interview question 14, 17 and ADL Property Data Sheet question 4.

Assessing Neighborhoods for Increases in Market Value

Neighborhood reassessment assesses entire geographical areas to reflect the changing market values of properties. The extent of neighborhood reassessment varied greatly among our sample cities. Detroit reassesses every neighborhood in the city on the basis of the previous year's assessment/sales ratio. Oklahoma City has not had a neighborhood reassessment since 1952. The remaining cities fall between these extremes, with neighborhood reassessments carried out at intervals of different lengths. Chicago attempts to reassess neighborhoods every four years; Baltimore has a neighborhood schedule which calls for reassessment every five years.

Like building-specific taxation, neighborhood reassessment on balance increases the tax burden of investors in upward transitional neighborhoods, because property values, by definition, are increasing in these neighborhoods. However, the marginal effects on the housing stock of the two measures is quite different. If the entire neighborhood is reassessed, no special burden is borne by the investor who upgrades his property. There is no marginal disincentive to investment in the housing stock. In fact, reassessing properties by neighborhood is a form of land value taxation, since the distinguishing feature of a neighborhood is the location of its residential land. In theory, neighborhood assessment should tax properties according to the optimal use for land in that neighborhood. Since in the case of upward transitional neighborhoods, the optimal land use involves upgrading (or replacing) the existing housing stock, neighborhood assessment ought to encourage housing investment. This is just the reverse of the marginal effect of imposing a tax on building-specific improvements.

That is the theory. However, several respondents reported that in practice neighborhood taxation can also discourage upgrading. Large investors feared that reassessing neighborhoods on the basis of a few sales of upgraded properties would make it impossible for commercial rehabbers to operate in the area. These firms typically buy up a number of properties at one time. Some of the properties they rehabilitate immediately; others they hold until neighborhood revival generates more demand. If all properties in the neighborhood are reassessed on the basis of the first sales, the cost of carrying unimproved properties for future rehabilitation becomes prohibitive. Planned phasing of rehabilitation then becomes impossible, with the risk that neighborhood revitalization never will get off the ground.

Long-time residents of neighborhoods where land prices recently have begun to increase feel that assessing the land at the new, higher value is especially prejudicial to them. Although their income stream has not increased, these families are obliged to pay higher taxes. Many feel that the city's assessment policy is driving them from their homes.

Neighborhood assessment undoubtedly imposes some burden on long-time residents and, if pushed too soon, may shut off some neighborhood upgrading, but its disincentive to investment in upward transitional neighborhoods is minimal. In fact, applied prudently, it should provide a positive incentive to investment. Since, as we have argued in previous chapters, neighborhood assessment has highly beneficial consequences for the poorer sections of the city; it seems a desirable policy to encourage.

Abatements

Assessors in several cities reported that, in their judgment, there are two factors in elastic supply to the cities, which can be affected by assessment policy. One factor is the supply of capital to the housing market. The second factor is white, middle-class population. Special concessions have been made to retain both factors. In addition to the de facto abatements on housing improvements granted in Chicago and Oklahoma City, as well as in certain neighborhoods in other cities, Providence has adopted an explicit abatement policy, which promises investors five-years' freedom from reassessment on improvements. Just as these measures are designed to keep capital invested in the city, so other concessions seem to have been made to retain white middle-class families in the city. Though no assessor admitted to deliberately under-assessing upward transitional neighborhoods in order to keep professional whites in the city, many expressed their fears that if assessments became too high in these neighborhoods, the white population would desert the city. Among other undesirable consequences, this exodus would slow down drastically the upgrading of the residential housing stock in transitional neighborhoods.

Conclusion

Concern about the effects of property taxation often focuses on the deterrent the tax is supposed to provide to neighborhood upgrading. Our analysis suggests that this concern has been exaggerated. At present, relatively few housing improvements are reassessed. Overall, the level of property taxation in upward transitional neighborhoods is lower than that found in other neighborhoods. This was especially true of the upward transitional neighborhoods in Baltimore, Chicago, Philadelphia, and Providence. All evidence indicates that the poorer neighborhoods of many cities are being forced to subsidize heavily, through tax payments, the special tax concessions granted to residents of upward transitional neighborhoods where revitalization is strongest, capital appreciation most likely, and residents most affluent.

We have no desire to minimize the importance of neighborhood rejuvenation nor underestimate its effect on the spirit of a city. However, the potential capital gains to investment in upward transitional areas are very large. No additional tax subsidy is required to provide attractive investment opportunities. As reported by investors, the primary obstacle to the neighborhood upgrading is the unavailability of financing for property improvement, especially at the early stage of neighborhood revitalization. Tax concessions represent a considerable income transfer to the wealthy residents of stable and upward transitional neighborhoods; but they are an inefficient way to encourage housing investment, which is better achieved by direct subsidy or improvement loans.

CHAPTER VIII

STABLE NEIGHBORHOODS

By objective standards stable neighborhoods suffer little from the property tax. Owners of property in these neighborhoods generally pay taxes at a lower rate than blighted neighborhoods, are usually able to pass on the tax to tenants, and rarely cite fear of reassessment as an obstacle to improving their properties. Moreover, property taxes as a percentage of gross rents typically have been declining. (See Table VIII.1.)

TABLE VIII.1 *
SELECTED ASPECTS OF PROPERTY TAXATION
BY NEIGHBORHOOD

	Stable	Upward Transitional	Downward Transitional	Blighted
Property Tax as Percent of Market Value	1.9%	1.4%	2.5%	3.8%
Percent of Rehabili- tation Projects Reassessed	5.4%	25.5	15.2	0.0
Pass Tax on (Percent Yes)	74.3%	74.7	44.3	24.2
Fear of Reassessment as Principal Obstacle (as Percent of Total)	13.2%	4.0	8.0	2.1
Change in Property Tax as Percent of Gross Rent, 1966-1970	-1.0%	-0.1	+1.6	+1.8

Source: Derived from Tables II.5, II.11, II.12 and IV.14 and ADL Investor question 15a.

* The tables summarize information obtained from 228 owners regarding 420 individual properties in ten cities.

While investors in stable neighborhoods show little inclination to complain about tax rates, they fear that their privileged position will be eroded by the spill-over of social ills from the rest of the city. Owners in the neighborhoods were far more concerned about the deterioration of public services, which are financed by the property tax, than by tax rates. They emphasized the poor quality of public schooling, which they attributed to increased mixing of pupils from all parts of the city, either through busing or other pupil and teacher exchanges. They feared the prospect of racial integration in their neighborhood. They were worried about police protection. In short, investors feared their neighborhoods would cease to be "stable" in the sense they valued most.

THE NEIGHBORHOOD

The survey identified a number of different types of stable neighborhoods: upper middle class areas, historic districts, older sections with concentrations of elderly residents and ethnic neighborhoods. While property values in each of these areas remain stable, the market forces which determine their future prospects differ significantly. The varying factors underlying current and future stability are best described through some examples.

In Norwood Park, a typical upper middle class area in Chicago, realtors reported a strong demand for housing. Young couples were moving into the neighborhood from other parts of the city and vacancies were extremely low. Prices were holding up, moving with the rate of inflation. Homeowners, the major investor type in the area, were keeping up their properties, but were worried about the future. Their concern was not related to property taxes, since taxes were lower than in most of the suburbs. Blue collar workers were moving into the neighborhood, and there was apprehension about the changing ethnic mix. There were also incipient signs of disinvestment. The neighborhood business district had vacancies for the first time and some of the new owners were not keeping up the external appearances of their homes.

Many of the cities in our sample contained another type of stable area, the historic district. When a neighborhood is first established as an historic district, it becomes a very active real estate market. Prices move up rapidly and extensive rehabilitation takes place. Gradually over the years, the area stabilizes. Ansley Park in Atlanta has, as is common with such districts, a strong civic association. The area is attractive and quaint. The residents are well to do, demand is very strong. There is a slight problem with the public school because an adjoining neighborhood, which shares the same elementary school, is declining. Despite this, overall prospects are good.

This contrasts with the situation in stable areas with concentrations of elderly households. This is true for one of the neighborhoods in Oklahoma City which, although currently stable, lacks vitality and is losing momentum. As the present elderly residents die, they are being replaced by transients and gradually the neighborhood may become downward

transitional. The property taxes in this area have been going up which portends future problems since many of the residents are on fixed incomes.

A good example of an ethnic neighborhood is an Italian area surveyed in South Philadelphia. In this stable neighborhood, few homes are put on the market and those are quickly purchased by residents of the neighborhood. The neighborhood has a strong family cohesiveness; parents help their children purchase homes. There is a strong pride in ownership and a great deal of money is spent on improving the buildings. Financing, however, is a problem, especially for improvements. Residents stressed that the neighborhood is convenient to a parochial school. There is considerable concern about an urban renewal area adjacent to this district. This project probably will be stopped because of pressure from the community which is afraid of losing its ethnic integrity.

THE REAL ESTATE MARKET

In the more affluent stable neighborhoods, multi-unit residential properties tend to be managed by the largest, most sophisticated real estate firms. These specialized management firms usually operate properties in other cities or in suburban locations within the metropolitan area as well. Most of the properties operated by these firms are large, requiring skilled management techniques, trained work crews and regularly scheduled preventive maintenance and repair procedures. Refer to Table VIII.2 for comparison of median number of units per structure according to type of neighborhood.

TABLE VIII.2

SIZE OF RENTAL PROPERTIES BY NEIGHBORHOOD

Neighborhood	Median Number of Units per Structure
Stable	20
Upward Transitional	6
Downward Transitional	3
Blighted	4

Sample refers to private market residential properties.

The small-scale investor, owning small structures, does not have the economies of scale to afford such a maintenance schedule. He follows a pattern based on demand. However, because he is faced with the strong competition of large scale apartment buildings which are frequently new and are operated under sound maintenance and repair procedures, the small-scale landlord is forced to provide comparable services. It is the best maintained housing that sets the standard for the entire market in the stable neighborhood. This competition forces others to conform, otherwise tenants would move to better quality residences.

A further factor that keeps maintenance and repair standards as high as the market can afford is the fact that residents can move to the suburbs and do move whenever conditions become unsatisfactory or rents too high. In the less affluent areas which characteristically have a high level of homeownership (for example, the ethnic areas and older neighborhoods with many elderly residents), it is pride of ownership and the community cohesiveness which tends to maintain the buildings in good condition insofar as the income levels of the residents permit.

THE EFFECT OF THE PROPERTY TAX

For most investors in stable neighborhoods the alternative to holding real estate in such areas is to invest in the suburbs. Similarly, for residents, their desire to live in stable neighborhoods can be fulfilled in either the central city or in suburban locations.

We found that neither the level of the property tax nor the marginal tax on improvements was a "direct" contributor to suburbanization. Investors and homeowners both agreed that the property tax rates were minor factors in residents' locational decisions. In both Chicago and Detroit, for example, the effective property tax rates in surrounding suburban townships exceed the level in the stable neighborhoods surveyed, yet residents reported they were considering moving because of the higher quality of services available in the suburbs.

While property tax *rates* have only an indirect effect on residents' locational decisions, they have a more direct impact on builder's construction decisions. New construction decisions by developers and builders are significantly influenced by the property tax system. The differential rate of taxation between the center city and suburban communities was cited as a key element in location decision-making. However, several investors added that a simple comparison of differential rates is not sufficient. A large builder-developer in the Atlanta area said that the higher tax rate in the center city in part reflects the additional services provided. These services reduce operating expenditures or add to the attractiveness and value of the project; for example, being within the Atlanta Fire Protection Zone decreases insurance premiums. Other investors noted the importance of locating within particular school districts; this advantage could well offset the disadvantage of increased taxation.

Another issue mentioned by builder-developers was the importance of obtaining an accurate prediction of the assessment during the planning stage of a project. The availability of conventional financing for new construction often hinges on anticipated tax treatment. The financing of a 300-unit apartment project in Chicago was held up for six months while the builder-developer awaited a statement from the assessor regarding his building. Chicago has been giving favorable treatment to many large apartment developments. Without the special concession, this project could not compete with the other developments in the city that already carried preferential assessments. Obtaining a commitment from the assessor eliminates only part of the risks faced by the developer. In Providence, a builder-developer observed that tax concessions offered for new construction by the present city administration were offset by the fear that future city officials would reverse these policies.

Contrast this with the situation in Oklahoma City. Here assessment procedure was relatively simple and well understood by the investment community. Mr. W, a builder, is currently developing an apartment complex with more than 400 units. When asked what his tax obligation would be during the first year of operation, he responded quickly and precisely. He noted that he had not bothered to check his estimate with the assessor since past experience demonstrated that his own estimates were highly accurate. He said that if any special problem did arise, he could easily obtain clarification from the Assessor's Office.

CONCLUSION

Establishment of an atmosphere favorable to new construction and rehabilitation is essential to the maintenance of stable neighborhoods in the center city. Unless new investment is forthcoming to periodically update and replace worn out housing stock, these neighborhoods could well begin to deteriorate. While preferential tax treatment can play a role in stimulating new investment, preferential treatment of stable neighborhoods at the expense of other neighborhoods in the city could well be counter productive. The vitality of center city stable neighborhoods is intricately related to the vitality of the entire city. The creation of an efficient and equitable property tax system which recognizes the nature of this interrelationship is an important goal towards which public policy should aim.

CHAPTER IX

IMPLEMENTING THE PROPERTY TAX SYSTEM

Previous chapters on the neighborhood sub-markets have demonstrated that the consistency of assessment/sales estimation varies greatly by city. This chapter considers the institutional reasons that make some assessment systems function better than others.

Dispersion of Assessment/Sales Ratios

The usual criterion for judging the effectiveness of a city's assessment procedures is the dispersion of its Assessment/Sales ratios. The first column of Table IX.1 presents data for 1966 from the Census of Governments, ranking the ten sample cities in order of increasing dispersion of assessment/sales ratios for single family homes. For a city to have a low dispersion measure signifies that when properties in different locations come on the market, they sell at approximately the same multiple of their assessed valuation.

The coefficient of dispersion is a measure of random error. It is a valid measure of assessment performance only if deviations in the assessment/sales ratio are, in fact, randomly distributed. From the point of view of public policy, it is more important to determine whether there is a systematic variation in assessment/sales ratios; whether, that is, certain neighborhoods or types of property are discriminated against in the assessment procedure. A city with a low coefficient of dispersion may be assessing its properties more equitably than a city with a high dispersion number, if in the former case all properties share an equal probability of being under- or over-assessed, whereas in the latter case properties in poor neighborhoods are systematically over-assessed and properties in affluent neighborhoods systematically under-assessed.

A good measure of systematic dispersion is provided by the neighborhood breakdown of our sample. The second column of Table IX.1 presents values of

Assessment/Sales Ratio in Blighted Neighborhood

$$Q = \frac{\text{Assessment/Sales Ratio in Blighted Neighborhood}}{\text{Assessment/Sales Ratio in Upward Transitional Neighborhood}}$$

Assessment/Sales Ratio in Upward Transitional Neighborhood

A value of Q in excess of 1.0 indicates that properties in blighted neighborhoods bear a greater tax burden than properties in upward transitional neighborhoods. A value of Q below 1.0 indicates that blighted neighborhoods bear a lesser burden.

By and large, the two columns of Table IX.1 show only slight agreement between the ranking of cities by random and systematic dispersion measures. Most interesting are two cities, Detroit and San Francisco,, which rank badly on the former scale but well on the latter. Both of these cities have reformed their assessment systems drastically since 1966, with the explicit intention of reducing the dispersion in assessment/sales ratio. The

TABLE IX.1***

DISPERSION OF ASSESSMENT/SALES RATIOS
BY CITY

City	Coefficient of Dispersion*, 1966	Systematic Variation Q**, 1970
Providence	15.4	5.2
Portland	18.3	.8
Atlanta	18.3	2.2
Oklahoma City	18.7	1.1
Nashville	19.0	.8
Detroit	20.4	1.2
Baltimore	24.3	11.5
Chicago	24.5	13.2
Philadelphia	26.3	10.3
San Francisco	28.9	1.0

* Standard deviation about median.

$$** Q = \frac{\text{Assessment/Sales Ratio in Blighted Neighborhood}}{\text{Assessment/Sales Ratio in Upward Transitional Neighborhood}}$$

Notes: Standard deviation about median is a measure of dispersion about a central value, the median. It is the sum of the squared difference between the sample median and the individual observations. The figures for 1966 are based on all single family homes for which assessment and sales information was collected by the Census of Governments. Comparison of the two columns should be guarded because of the vastly different sample sizes involved.

Source: U.S. Bureau of Census, Census of Governments, 1967, Property Taxes, and ADL Investor Interview question 8; ADL Homeowner Interview question 7; and Property Data Sheet question 4.

***The tables summarize information obtained from 228 owners of real property regarding 420 individual properties in ten cities.

great improvement they register in the second column of Table IX.1 probably reflects the achievements of their reforms more than any contradiction between the two measures of dispersion. Providence's excellent score in Column I is partly explained by the fact that the city has a total of only 15,000 single family homes, almost all of which are clustered in the better-off sections of the city.

Assessment Methods

Professional appraising recognizes three basic approaches to estimating the "true cash value" of a residential rental property. Sales of comparable properties may be taken as a direct indication of market price. Capitalization of the property's income stream may be used to estimate market price. Or the true cash value may be estimated as reproduction costs corrected for depreciation. If a well-functioning market exists, the first two approaches should yield the same value, since the market value of a property "is" the net present value of its income stream, corrected for risk. Estimating true cash value as reproduction costs corrected for depreciation, however, is likely to yield a figure seriously at variance with the other two. This approach recognizes supply costs only. It ignores demand conditions, which may cause a property of a certain type in a certain location to be worth far more (or less) than the cost of replacement.

In addition to these three basic approaches for assessing properties, several cities in our sample made use of the gross rent multiplier approach. The gross rent multiplier is the market value of a property divided by its annual gross rental receipts. Where variable gross rent multipliers are used, these may provide a reliable rule-of-thumb as to market value. For instance, new luxury apartments may be valued at 7 times gross rents and old blighted properties at 2 times, because these are the gross rent multipliers which market prices in fact imply. Where a uniform gross rent multiplier for all properties is applied, however, this method of assessment converts a tax on capital into a sales tax, which is much more regressive. If the market's gross rent multipliers for luxury and blighted properties are 7 and 2 respectively, but the Assessor's Office applies a uniform multiplier of 5; then luxury buildings must be under-assessed and blighted buildings over-assessed. In order to ensure that this does not happen, however, the assessor must determine what is the appropriate gross rent multiplier for a variety of different structure types and neighborhood conditions. This of course requires the application of one of the appraisal techniques discussed above, such as the review of sales of comparable properties.

Which ever approach a city uses to assess properties in the first instance, it can maintain a check on the accuracy of its assessments by calculating assessment/sales ratios for diverse neighborhoods in the city. The evidence of the survey indicates that adjusting assessed valuations for all properties in a given neighborhood on the basis of observed deviations of assessment/sales ratios from the target level is the most cost-effective means of reducing dispersion.

Table IX.2 summarizes the criteria the several cities use in assessing properties and the interval at which they carry out reassessment.

TABLE IX.2

ASSESSMENT STANDARDS BY CITY

City	Assessment Formulas	Neighborhood Cycle	Use of Neighborhood Assessment/Sales Ratios To Confirm Assessments
Atlanta	<ul style="list-style-type: none"> ● Gross Rent Multiplier also other criteria 	No general cycle Reassess neighborhoods with greatest sales activity	No
Baltimore	<ul style="list-style-type: none"> ● Homes: Comparable Sales ● Industrial: Reproduction Costs ● Rental: Variable Rent Properties ● Multiplier 	5 years	Yes
Chicago	<ul style="list-style-type: none"> ● Replacement-Depreciation 	4 years	No
Detroit Sales	<ul style="list-style-type: none"> ● Replacement-Depreciation ● Comparable ● Capitalized Income Stream 	No general cycle Reassess all neighborhoods where assessment/sales ratios out of line	Yes
Nashville	<ul style="list-style-type: none"> ● Capitalize Standard Income Formula by Building Type 	No general cycle Reassess neighborhoods with greatest sales activity	No
Oklahoma City	<ul style="list-style-type: none"> ● Use classification formula giving cost per sq. ft. of new construction and rate of depreciation by property type 	No general cycle Last city-wide reassessment in 1952	No
Philadelphia	<ul style="list-style-type: none"> ● No set formula 	No general cycle	No
Portland	<ul style="list-style-type: none"> ● Cost-Depreciation Neighborhood Adjustment ● Comparable Sales ● Capitalized Income Stream 	5 years	Yes

TABLE IX.2 (continued)

City	Assessment Formulas	Neighborhood Cycle	Use of Neighborhood Assessment/Sales Ratios To Confirm Assessments
Providence	<ul style="list-style-type: none"> ● Replacement Cost-Depreciation ● Capitalized Income Stream ● Comparable Sales 	No general cycle Last city-wide reassessment in 1960	No
San Francisco	<ul style="list-style-type: none"> ● Comparable Sales ● Replacement Cost-Depreciation 	No general cycle Reassess all neighborhoods where assessment/sales ratios more than 6% off target	Yes

Source: ADL Assessor Interview.

TABLE IX.3

REHABILITATION OF COMMERCIAL PROPERTIES

	Number of Properties	Percent of Properties
Total Commercial Properties	30	100%
With Rehabilitation Expenditures	12	40
Reassessed As Result of Rehabilitation	3	10

Sample: All commercial property investors responding to the questioning.

Source: ADL Investor Interview

The cities which maintain the lowest dispersion measures are those which give the most importance to market value in making assessments.

The assessment systems in Portland and San Francisco, for instance, have the sole objective of duplicating market value. In both cases, state legislation empowers the state government to withhold certain transfers to the cities in the event that assessment/sales ratios deviate too much from the state-wide target.

The most manifestly professional assessment operation was that of Portland, Oregon. Portland maintains a complete computer file on every property in the city, which is open to all citizens. Properties are reassessed on a five-year cycle. When an inspector goes to a project, he carries with him the record of building permits which have been filed for that property. Properties are reassessed for both the specific improvements which have been carried out and for the overall changes in neighborhood values which have occurred since the last assessment. To reduce the magnitude of reassessment, at five-year intervals, the Assessor recently adopted the practice of increasing the assessed valuation of all properties, not specifically being reassessed, by 4% annually. Portland goes further toward land value taxation than any other city in the sample. If a land parcel is not in its optimal use, it is assessed at the market value it would have in optimal use minus the costs of converting it to that use. This means that improvements on some properties carry a negative assessment, since their presence only adds to the cost of converting to optimal use.

Chicago, on the contrary, pays no attention to market value in its original assessment. The city follows a four-year neighborhood assessment cycle, but assessed valuations are determined on the basis of a structure's reproduction costs and depreciation. No attempt is made to make reassessments reflect changes in neighborhood property values or the income generating possibilities of a structure, unless the assessment is appealed. At the time of appeal, market value and net income are admitted as grounds for revising the assessed valuation. But the responsibility for introducing market considerations into the assessment procedure lies entirely with the owner. It is obvious that in upward transitional neighborhoods, properties will be grossly under-assessed, since the depreciation formula recognizes that these structures are very old, while ignoring the fact that property values are rapidly appreciating. In blighted neighborhoods, properties will be vastly over-assessed, since the assessment formula pays no attention to the depressing effect neighborhood conditions have on market value.

Assessing Improvements

Previous chapters have established that most improvements do not, in fact, result in reassessment. This is especially true for non-government aided rehabilitation where only

12.5% of the units rehabilitated were actually reassessed. Obviously, local assessors do not want to discourage private reconstruction efforts. In fact, in most central cities in our sample even improvements to commercial properties were seldom reassessed, although the frequency was higher than for residential properties. Nevertheless, investor misunderstanding over reassessment persists. (See Table IX.3.) In most cities tremendous confusion reigns as to reassessment policy. Again and again, investors reported that they thought they would be reassessed for improvements which, according to the Assessor's Office, never lead to reassessment. In several instances, investors reported that they had been reassessed as a result of their rehabilitation activity when, in fact, Assessor's records revealed that no reassessment had occurred.

Table IX.4 illustrates this discrepancy between investor's perceptions and Assessor's practice for residential property owners. In no city did the Assessor admit to reassessment of all exterior improvements. Indeed our sample indicates that only the largest of rehabilitation jobs are reassessed. Despite this fact, one third of all investors interviewed felt that any exterior improvement they carried out would result in reassessment.

TABLE IX.4
INVESTORS EXPECTATIONS OF REASSESSMENT OF
EXTERIOR IMPROVEMENTS
BY CITY

(Percent of all Investors Who Felt That Any Exterior
Improvement Would Lead to Reassessment)

City	Number Responding	Percent "Yes"		Number Responding	Percent "Yes"
Atlanta	17	35.3%	Oklahoma City	14	42.9%
Baltimore	13	61.5	Philadelphia	15	26.7
Chicago	15	60.0	Portland	23	17.4
Detroit	16	45.5	San Francisco	12	33.3
Nashville	21	9.6	TOTAL	146	32.2

Sample: All investors responding to the questioning.

Source: ADL Investor Interview question 19b.

Among our sample cities, San Francisco has devised what seems to be the most efficient remedy for the confusion regarding which improvements result in reassessment. The Assessor's Office publishes a slim pamphlet listing a large number of frequently made improvements which the city does not reassess. Any investor can inquire at the Assessor's Office beforehand to determine if a proposed improvement will be reassessed or not. Detroit has recently initiated a similar program.

A clear statement of reassessment policy is required in all cities. One of the ironies of the present system is that Assessors themselves tend to exaggerate the amount of

reassessment that occurs on building- specific improvements. Because the law requires them to assess all increases in market value, assessors are reluctant to admit that, in fact, many improvements are not assessed. Whatever disincentive the property tax provides for building improvements is more a result of investors' misconceptions as to assessment practice than of the actual practice.

Costs of Operation

The most efficient assessment system, from the point of view of performance, need not be the most cost-effective, if the cost of operating it is extremely high. As shown in Table IX.5 Portland's system which undoubtedly was the most professional, also has by far the highest per-property cost of operation. Portland's assessment budget exceeds that of Philadelphia, which contains almost three times as many properties and 5 times as many people. However, with the exception of Portland there is only a weak correlation between per-property costs of operation and performance levels, as measured in Table IX-1 and Table IX-5.

The most cost-effective means of reducing the dispersion of assessment/sales ratios seems to be a continued checking of neighborhood ratios, followed by neighborhood-wide reassessment whenever a neighborhood ratio gets out of line with the target level. This is the method used by Detroit, Portland, and San Francisco. The expense of Portland's system lies in its detailed visual inspection of each property. In Detroit, where visual inspection is much less common, the costs of operation are also much lower.

Detroit offers a good example of an assessment system which operates efficiently, yet inexpensively. Beginning in 1967, the Assessor's Office divided the city into 613 neighborhoods. Records are kept of all sales, and median assessment/sales ratios are calculated annually for each neighborhood. If in a given year a neighborhood ratio exceeds the 50% level stipulated by law, assessments in the next year are lowered in that neighborhood. If the assessment/sales ratio falls below 50%, assessments are raised. In four years of operation Detroit's system has significantly reduced the neighborhood spread in assessment/sales ratios.

Appeals Procedure

In a system where assessments are erratically determined or systematically biased, the possibility of remedy through the appeals procedure is extremely important. Table IX.6 presents the frequency of appeal in each city.

The principal conclusion to be drawn from Table IX.6 is that relatively few investors in any city appeal their assessments. The appeals system may serve an important purpose, by establishing the possibility of remedy for individual inequities, but the appeals can by no means alter the overall impact of the assessment system. If a system treats a certain class of properties inequitably in the original assessment, this class of properties will continue to be treated inequitably after appeal.

TABLE IX.5
COSTS OF ASSESSMENT SYSTEMS
BY CITY

City	Separately Listed Parcels	1971 Assessor's Budget	Cost Per Parcel	Cost Per Capita
Atlanta	180,000	\$ 840,000	\$ 4.52	\$ 1.91
Baltimore	250,000	700,000	2.80	0.77
Chicago	1,300,000	5,000,000	3.85	1.49
Detroit	423,000	1,800,000	4.26	1.08
Nashville	136,000	350,000	2.58	0.78
Oklahoma City	220,000	375,000	1.70	1.02
Philadelphia	550,000	2,500,000	4.55	1.28
Portland	200,000	3,000,000	15.00	7.83
Providence	45,000	196,000	4.36	1.09
San Francisco	154,000	2,020,000	13.12	2.82

Source: ADL Assessor Interview.

TABLE IX.6
FREQUENCY OF APPEALS
BY CITY

City	Number of Appeals	Separately Listed Parcels	Appeals as Percentage of all Parcels
Atlanta	1,500	180,000	0.8%
Baltimore	5,000	250,000	2.0
Chicago	23,000	1,300,000	1.8
Detroit	5,000	423,000	1.2
Nashville	400	136,000	0.3
Oklahoma City	30	220,000	0.0
Philadelphia	1,300	550,000	0.2
Portland	600	200,000	0.3
Providence	75	45,000	0.2
San Francisco	1,000	154,000	0.6

Notes: This refers to formal appeals only and excludes numerous requests for review that are routinely handled without use of the formal appeal procedures.

Source: ADL Assessor Interview question 5d.

The sample evidence presented in Table IX.7 demonstrates that the investors who do make use of the appeals system are large investors. Mastering the appeal formalities requires a moderate amount of expertise, which it pays investors to acquire only if they can apply their knowledge to obtain reductions on several different properties.

TABLE IX.7
FREQUENCY OF APPEAL BY INVESTOR SIZE

Investor Size	No. of Properties	No. Appealed	Percent Appealed
Homeowner	45	2	4.4%
2 - 10 Units	42	4	9.5
11 - 39 Units	80	8	10.0
40 - 399 Units	152	33	21.7
400 + Units	71	23	32.4
Commercial	30	15	50.0
All Properties	420	85	20.3

Sample: All residential and commercial properties.

Notes: Properties with appeals had assessment appeal once or more in period 1966-1970.

Source: ADL Investor Interview question 26g; ADL Homeowner Interview question 21b; and ADL Property Data Sheet question 4.

Success on appeal was quite evenly distributed by investor size. Combined with the unequal distribution of appeals, the net impact of the appeals system was to improve markedly the economic position of large investors. Table IX.8 shows the ultimate disposition of investors' appeals.

TABLE IX.8
DISPOSITION OF APPEALS, 1966-1970
BY INVESTOR SIZE

Investor Size	Total Number of Properties With Appeals	Appealed but No Change in Assessment	Assessment Reduced 10% or Less	Assessment Reduced More than 10%	Appeal Unresolved
Homeowner	2	-0-	1	-0-	1
2 - 40 Units	12	2	4	4	2
41 + Units	56	11	15	18	12
Commercial	15	2	6	7	-0-
All Properties	85	15	26	29	15

Sample: All residential and commercial properties with one or more appeals of assessment in the period 1966 to 1970.

Notes: Properties with appeals had assessment appealed once or more in period 1966-1970.

Source: ADL Investor Interview question 26a; ADL Homeowner Interview question 21b; and ADL Property Data Sheet question 4.

Earlier chapters have made clear that the greatest property tax burden in our sample falls on the blighted neighborhoods of Baltimore, Chicago, and Philadelphia. Since tax rates here are in greatest need of alteration, it is interesting to determine how successful the appeals systems of these cities are at adjusting assessed valuations. Table IX.9 shows that only the large investors in the blighted neighborhoods of these cities benefited from appeals.

TABLE IX.9
DISPOSITION OF APPEALS
IN BLIGHTED NEIGHBORHOODS
OF BALTIMORE, CHICAGO, AND PHILADELPHIA

Investor Size	Total Number of Properties	Properties With Appeals	Assessment Reduced 10% or Less	Assessment Reduced More than 10%	Appeal Unresolved
Homeowner	3	0	0	0	0
2-40 Units	8	2	2	0	0
41 + Units	15	11	3	5	3
All Properties	26	13	5	5	3

Sample: All residential properties for the blighted neighborhoods of Baltimore, Chicago and Philadelphia.

Notes: Properties with Appeals had assessment appealed once or more in period 1966-1970.

Source: ADL Investor Interview question 26a; ADL Homeowner Interview question 21b; and ADL property Data Sheet question 4.

Conclusion

The objective of assessment is to estimate the true cash value of real estate parcels as accurately as possible. The agreed standard for measuring assessment performance is the deviation between assessed valuations and the actual price levels at which properties change hands in legitimate sales. Deviations of assessment/sales ratios from the legislatively mandated target level may be randomly distributed or systematically distributed. In the latter case certain classes or locations of properties are favored over others.

The evidence of this survey indicates that the most efficient means of limiting both types of dispersion is through repeated checks of neighborhood sales ratios. The principal price changes that occur in large cities are changes in the relative valuations of different neighborhood locations. The lag in reassessment behind changes in market values produces

most of the serious deviations of assessment values from sales values. In principle, some of the resulting inequities can be corrected by the appeals procedure, but in practice the volume of appeals in each city is extremely small. In addition, the bias of appeals systems in favor of large investors means that assessments, after appeal, are more regressive than before appeal.

CHAPTER X

PROPERTY TAX ALTERNATIVES

One objective of this study was to determine investors' and assessors' responses to various alternative methods of levying the property tax. This chapter discusses these alternatives and respondents' comments about them.

THE PRESENT SYSTEM

Property taxes have come in for a great deal of public criticism recently. Despite this, respondents regarded the present system of taxing the market value of properties (a flat tax on land and improvements together) as preferable to most of the eight alternatives which they were asked to evaluate. Even among those who objected to the present tax, several stressed that it was the unequal *application* of the tax's principles which they took exception to, rather than the principle of taxing market value. Assessors showed an overwhelming preference for the present system over all alternatives.

Table X.1 presents the proportion of investors and assessors, respectively, who considered the present system "desirable" or "very desirable," together with similar proportions for the other eight alternatives. These alternatives are:

Alternative 1:

Assessing property on the basis of present use of land without regard to improvements or physical deterioration;

Alternative 2:

Assessing property on the basis of the highest and best use of land only, without regard to improvements of physical deterioration or present zoning;

Alternative 3:

Assessing property so that land values are subject to a higher rate than improvements;

Alternative 4:

Assessing income-producing property on the basis of capitalization of net income (rental receipts minus expenses for operations, maintenance, repairs and replacement);

TABLE X.1 *

**PROPERTY OWNERS' RESPONSE TO PROPOSED
ALTERNATIVE TAX SYSTEMS**

Percent Indicating That Proposal Was
"Desirable" or "Very Desirable"

Alternative	Percent	Alternative	Percent
1	19.1%	6	72.4%
2	20.5	7	34.6
3.	20.3	8	33.6
4	65.6	Current Method	56.6
5	50.0		

Sample: All property owners responding to question.

Notes: Figures do not add to 100 percent because each individual was permitted to recommend more than one alternative as desirable or very desirable.

Source: ADL Investor Interview question 29; and ADL Homeowner Interview question 24.

* The tables summarize information obtained from 228 owners regarding 420 individual properties in ten cities.

Alternative 5:

Assessing income producing property on the basis of a fixed proportion (e.g., 15 percent) of annual gross rent receipts;

Alternative 6:

Reassessing property improvements, but offering a five-year tax abatement on the improvement;

Alternative 7:

Imposing higher taxes on properties in violation of local housing and building codes;

Alternative 8:

Assess properties on the basis of their present use, but assume standard conditions, e.g., full compliance with the local codes. (This approach involves a penalty for properties which are kept in substandard condition.)

Investors showed a preference for those systems which seemed to offer tax reductions -- e.g., abatements for improvement -- rather than those which involved penalties -- e.g., imposing higher taxes on properties in violation of housing codes. Comparison on this basis is misleading. Unless revenue is forthcoming from some other source, it is unlikely that a property tax system could be adopted which lowered net tax receipts. In order to finance abatements for improvements, the overall rate structure would have to be increased. If this should occur, support for the abatement alternative doubtless would decline.

The reaction to the present tax system by neighborhood is revealing. Table X.2 shows that opposition to the present tax system is concentrated in the blighted neighborhoods of Baltimore, Chicago, and Philadelphia, precisely those areas which suffer most from the way assessment is carried out. As Chapter 2 demonstrated, the blighted neighborhoods in these cities bear 10 times the tax burden of the upward transitional neighborhoods.

THE ALTERNATIVES

Generally, investors responded to the tax alternatives as economically rational men, who favored those tax proposals which would benefit them most.

TABLE X.2

PROPERTY OWNERS' ATTITUDE TOWARD CURRENT ASSESSMENT SYSTEM BY NEIGHBORHOOD AND CITY GROUPING

(Percent Indicating That Current Assessment System Was
"Desirable" or "Very Undesirable")

Neighborhood	Baltimore Chicago Philadelphia	Atlanta Detroit Nashville Oklahoma City Portland San Francisco
Stable	60.0%	37.5%
Upward Transitional	21.4	25.0
Downward Transitional	75.0	31.8
Blighted	92.3	42.3
Total	61.1	34.8

Sample: All property owners responding to question.

Notes: First group contains those cities with most uneven assessment across neighborhoods. Providence is excluded from this first group because this question was not included in the pilot questionnaire

Source: ADL Investor Interview question 29; and ADL Homeowner Interview question 24.

LAND TAXATION OR A DIFFERENTIAL TAX ON LAND AND IMPROVEMENTS

These alternatives received very little support from investors. Only 20% found land taxation to be desirable or very desirable. Assessors on balance disliked the idea. Several claimed it would give them more discretionary power than they desired in determining assessed valuations. Investors and assessors alike felt it was preferable to leave the determination of optimal use to the market. To the extent market values are determined by the alternative use to which land could be put, assessment on the basis of market value is a tax on land value, though the market also recognizes that the land, as presently available, is encumbered.

Others objected to assessing properties on the basis of their highest and best use because it was impossible, even among experts, to find universal agreement on what constituted optimal use. Bureaucratic determination of optimal use would require a degree of governmental intervention in the real estate market which investors and assessors alike found undesirable.

TAX ON NET INCOME

This approach was a heavy favorite, especially in blighted neighborhoods, where many owners claimed to have virtually zero net income. As several respondents pointed out, estimates of market value *ought to* be based on net income projections. Adopting a tax on the expected net income stream would only bring pressure on the taxing authorities to levy the tax in the manner which they should be following, in any event. A tax on the *current* year's net income would discriminate, however, against older buildings in downward transitional and blighted areas where the property's remaining economic life is shorter.

The more sophisticated investors in the sample recognized that a tax on net income easily could be abused. One large investor stated that if such a tax system were adopted his first action would be to set up dummy corporations from which he would purchase materials and furnishings. By paying himself (in another corporate capacity) excessive prices for maintenance and materials, he could reduce the net income of his rental property to zero. Several other respondents reported that a skillful investor always could show zero income for tax purposes. A tax on net income also discourages modernizing of plant and equipment, since the gains from cost reductions are partially offset by increased taxes.

TAX ON GROSS INCOME

As pointed out in Chapter 3, a tax on gross income is much more regressive than a tax on market value, when both are implemented fairly. In low-rent housing, the proportion of net to gross income tends to be lower than in high-rent housing and the expected lifetime of the income stream is much shorter. Therefore, in low-rent housing the total net income to be gained from any current gross rent is much less – a fact which the market recognizes in lower asset prices. If the gross rent multiplier is small in low-rent districts and large in high-rent districts, switching from a fairly administered tax on market

value to a fairly administered tax on gross rents would increase the tax burden of low-rent housing and decrease the burden of luxury housing.

Despite this fact, a surprising proportion of investors in blighted neighborhoods responded favorably to a tax on gross rents. The reasons given were two fold: first, in many cities, the application of the present system is so biased against low-rent housing that blighted properties presently are paying higher percentages of gross income for property taxes than are luxury rental properties. Thus, these properties clearly would benefit from the change of tax method. Second, calculating tax liability as a percentage of gross income eliminates some of the risk of the tax system for the investor. He knows that his tax bill can increase only if his receipts increase. This eliminates the cash squeeze many investors in blighted and downward transitional neighborhoods fear most – a reduction in rents accompanied by an increase in taxes.

The advantages of reduced risk can be achieved more directly, without the regressive impact of a tax on gross rent, by ensuring that the Assessor keeps assessed valuations in all neighborhoods current by reducing assessments on properties which have diminished income possibilities.

The tax on either net or gross income poses some difficult conceptual and administrative problems when applied to homeowners. For owner-occupied properties an imputed rental value would have to be determined, probably based on actual rent payments for comparable homes.

ABATEMENT FOR IMPROVEMENTS

This alternative, too, received much support. Most investors treated it as a windfall gain. Because they plan to carry out improvements, many respondents stand to gain from an abatement on reassessment for improvements. We found little evidence that an abatement policy would encourage substantial upgrading that otherwise would not occur.

Providence has granted a 5-year abatement for all improvements carried out on residential property in the city. To determine the incentive effect of the policy we conducted a telephone survey of a random sample of 50 participants in the program. Of this total, only two families reported that the availability of the abatement had contributed to their decision to improve their properties. Seven other families reported that the abatement had affected the timing of the improvement. These families had carried out their improvements more rapidly than originally planned in order to take advantage of the abatement. For the most part, families reported that the abatement had not affected their decision at all. Since abatement was available, they simply took advantage of it to reduce their tax liability.

The marginal impact of tax abatement is confirmed by investors' responses to the question whether extension of a tax abatement and/or tax credit would induce them to undertake rehabilitation. The responses to these questions are presented in Tables X.3 and X.4. For many, such proposals would add to the return of already profitable rehabilitation investments. Yet, despite the self-interest of investors to respond favorably to such

TABLE X.3

**WOULD A FIVE YEAR ABATEMENT FOR REASSESSMENT INDUCE REHABILITATION
BY NEIGHBORHOOD AND CHARACTER OF OWNERSHIP**

Neighborhood	Homeowners		Small Investors 40 Units or Fewer		Large Investors 41 Units or More		Total	
	Number of Properties	Percent "Yes"	Number of Properties	Percent "Yes"	Number of Properties	Percent "Yes"	Number of Properties	Percent "Yes"
Stable	13	15.4 %	18	33.3 %	65	56.9 %	96	46.9 %
Upward Transitional	8	25.0	31	54.8	50	54.0	89	51.7
Downward Transitional	10	30.0	36	44.4	38	47.4	84	44.0
Blighted	8	25.0	24	12.5	52	32.7	84	26.2
All Neighborhoods	39	23.1	109	38.5	205	48.3	353	42.5

Sample: All residential properties. Providence Pilot Questionnaire did not include this question.

Source: ADL Investor Interview question 24C; ADL Homeowner Interview question 20b.

TABLE X.4

**WOULD A TAX CREDIT INDUCE REHABILITATION
BY NEIGHBORHOOD AND CHARACTER OF OWNER**

Neighborhood	Homeowners		Small Investors 40 Units or Fewer		Large Investors 41 Units or More		Total	
	Number of Properties	Percent "Yes"	Number of Properties	Percent "Yes"	Number of Properties	Percent "Yes"	Number of Properties	Percent "Yes"
Stable	13	18.2%	18	33.3%	65	53.8%	96	44.8%
Upward Transitional	8	37.5	31	51.9	50	58.0	89	50.7
Downward Transitional	10	30.0	36	50.0	38	44.7	84	45.2
Blighted	8	50.0	24	37.5	52	61.5	84	53.5
All Neighborhoods	39	30.8	109	42.2	205	55.1	353	48.4

Sample: All residential properties. Providence Questionnaire did not include this question.

Sources: ADL Investor Interview question 24d; ADL Homeowner Interview question 20c.

questions, a majority of property owners in blighted areas indicated that neither form of tax inducement would affect their plans for rehabilitation. We should note, however, that large investors responded more favorably to tax abatements than did small investors.

As we have pointed out previously, families often express the fear that they will be reassessed for improvements which, according to the Assessor, are not assessed at all. Much of the incentive effect of an abatement policy could be obtained by publishing a list of improvements which *never* are assessed, thus permitting an investor to determine beforehand whether the improvement he plans will be cause for reassessment.

TAX PENALTY FOR CODE VIOLATION

Both assessors and investors overwhelmingly opposed higher taxes on properties in violation of local housing and building codes. The reason for most of this opposition was based on the fact that some properties, particularly in blighted areas, did not generate enough rental income to support the provision of standard units. As pointed out in Chapter 4, strict enforcement of local codes would accelerate property abandonment. In addition, where insufficient rent receipts are not the underlying cause of substandard housing, municipalities already have the necessary legal powers to correct such violations.

OVERHAULING THE PROPERTY TAX SYSTEM

While homeowners, investors and assessors were explicitly asked to comment on the foregoing alternatives, other tax reforms were often mentioned voluntarily. As Table X.5 makes clear, these responses fall into three main categories.

Foremost among investor concerns was the need to substitute some other major source of revenue for the property tax. Fear of increasing *rates* of taxation disturbed most respondents more than the method of assessment. While it is beyond the scope of this study to suggest alternative sources of municipal revenue, federal assumption of the costs of welfare and education seems the most promising long-run solution to the increasing burden of property taxation.

The second most frequently volunteered response concerned the administration of the property tax. Investors in several cities complained that the appeals procedure, especially at the first level, was unprofessional, since investors typically had to present their appeal to the Board of Assessors, composed of the same men who had determined the assessed valuation in the first place. There was also a considerable number of complaints by investors contemplating improvements about the inability to get straight answers regarding reassessment policy.

A significant number of investors complained that assessments strayed too far from market value. Respondents urged that the assessors pay more attention to market value, and less to their formulas for replacement costs and depreciation. Finally, several investors complained that they were being forced to pay higher taxes to pay for the provision of services to tax exempt properties and properties with special tax concessions.

TABLE X.5**INVESTOR COMPLAINTS REGARDING PROPERTY TAXES**

Item	Number of Respondents Volunteering Complaint
Lower Property Tax by Substituting Other Forms of Taxation	29
Improve Administration of Tax	24
Make Assessment More Sensitive to Market or Income Changes	23
Too Many Tax Exempt Properties a Too Large Concession to Federally Subsidized Projects	15

Sample: All investors, excluding single family homeowners.

Notes: Question 28 read "What specific changes, if any, in the Property Tax and its administration could you recommend to encourage more landlords to keep their property in good repair." While this open ended question brought a variety of responses, four common themes appeared.

Source: ADL Investor Interview question 28.

**A STUDY OF
PROPERTY TAXES AND URBAN BLIGHT**

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Volume II

APPENDIX TO REPORT

VOLUME II

APPENDIX TO REPORT: CITYWIDE HOUSING MARKET FEATURES, FINANCIAL DATA, PROPERTY TAX STATUTES AND QUESTIONNAIRES

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PART I:

CITYWIDE HOUSING MARKET FEATURES AND

FINANCIAL DATA

APPENDIX TO REPORT: CITYWIDE HOUSING MARKET FEATURES, FINANCIAL DATA, PROPERTY TAX STATUTES AND QUESTIONNAIRES

It is the purpose of this Appendix to provide additional background information on the ten cities surveyed in this study. Relying on decennial Census data, this appendix presents data on aggregate changes in population size, population composition and housing stock trends between 1960 and 1970. It is our intention in this appendix to supplement the census data with information on selective housing market characteristics.

Table 1 indicates that average vacancy rates remained virtually unchanged between 1966 and 1970 in the ten survey cities. As seen in the report, however, it is the structure of vacancy rates rather than the citywide average which is really important in analyzing neighborhood submarkets. And in most cities both vacancy rates and the average period of vacancies in blighted areas have increased. This is probably the basis for the overall trend in the duration of housing vacancies found in Table 2. The fact that nearly one-quarter of the properties with non-white tenants experienced higher vacancy rates over the last five years further suggests the concentration of lower occupancy levels in blighted neighborhoods.

Data on citywide turnover rates do not suggest any major trends in the ten cities. Both Tables 4 and 5 seem to indicate that the average turnover of tenants has remained the same over time. With changes in income, location of employment and family age and composition there is often a change in residential location. In order for this natural turnover to proceed without excessive friction, rental vacancy rates should remain around 5 percent. This is the case in most of the cities except for the respective blighted areas where less population has led to higher vacancy rates and lower household stability. To the extent that most of our sample of properties occupied by non-whites were concentrated in blighted areas, our data seems to support this phenomena (See Tables 6 and 7). According to our sample of rental properties there is a tendency for non-whites to change their residence more frequently than whites. Before one could conclude, however, that these differential turnover rates are attributable to racial characteristics, neighborhood submarket conditions, etc., it would be necessary to undertake a multivariate analysis, controlling for household income, stage in life cycle, change in workplace and other independent factors which might affect household turnover rates.

As pointed out in the text, neighborhood submarkets form the analytical context for this study. Individual cash-flow statements for particular properties provide some insight into the likelihood of rehabilitation, but are an insufficient basis for such predictions. While Tables 8-11 provide much useful information on trends in property taxes, fuel costs, maintenance expenditures and other cost items, it should be recalled that these data are based on a limited sample of properties in a variety of situations.

At the citywide level there is a substantial variation among cities with respect to selective expense items. Where we find relatively high property taxes, capital costs and operating expenses – as in Baltimore, Chicago, Philadelphia and Detroit – it is clear that we are dealing with high rent cities. In some of the southern and far west cities we find lower operating costs, but higher average capital costs. In part, this reflects the age of the housing stock. In Nashville, Oklahoma City and Portland, for example, over a quarter of the standing stock has been built since 1960. Because of the lower operating costs and property taxes average rents tend to be somewhat lower than in the older cities of the northeast and midwest. These rent differentials are confirmed by the U.S. Department of Labor's BLS Cost-of-Living Indices on local areas. But none of this data provides a sufficient basis for explaining the ability to pass property tax increases along to tenants, as set forth in Table 12. The ability to pass the tax forward to tenants depends upon the competitiveness of the local submarket, and citywide data is not sensitive enough to disaggregated differences in market conditions.

Because of the extreme interdependence among residential properties – and their occupants' common stake in the quality of public services, local schools and other externalities – neighborhood submarkets occupy a central role in real estate decisions. To the extent that neighborhood submarkets are homogeneous then all the factors determining neighborhood conditions should be reflected in the price and quality of properties. This is the appropriate level of analysis, then, for examining changes in revenue and expenditure items. Tables 13 to 19A, for example, illustrate the relative financial condition of properties in stable, transitional upward, transitional downward and blighted areas. Of course there are differences across cities but the patterns and trends are similar. Blighted areas generate the smallest cash flow while upward transitional areas generate the largest cash flow. Although per unit expenses in blighted areas are low, so are gross rent receipts. This has led to an increasing financial squeeze and disinvestment in the standing stock, particularly in older cities like Chicago, Baltimore and Philadelphia where demand for housing in these neighborhoods has declined. Changes in the cost of supplying housing contributed to this decline as well. Without the ability to raise rents very high, increases in fixed costs create a financial squeeze for the property owner. As portrayed in the statistical analysis for 1966 and 1970 expenses are lowest in low-quality areas. This is true for property taxes, mortgage payments and operating expenses. But monthly rents are not keeping pace with monthly expenditures. As seen in Table 18 operating expenses are increasing fastest in blighted areas and percentage-wise, gross rents are growing at the slowest pace. Even the absence of change in the mortgage burden carried by blighted area property owners is not sufficient to offset these other trends. Tables 19B and 19C present information on type of rehabilitation. The first stratifies this information by neighborhood, the second by reason for rehabilitation. While each property could be in only one type of neighborhood, multiple answers were possible to the question regarding reason for rehabilitation. As a result, the totals in the two tables do not agree.

As we have seen in other parts of the study income levels and neighborhood conditions

are highly correlated. This is expected since each individual neighborhood tends to specialize in satisfying demand for a certain price and quality level of housing. Bedroom suburbs or attractive central city neighborhoods provide high quality housing at high prices while inner or core city slums provide low quality housing at relatively low prices. Thus, the wealthy tend to live in the high quality neighborhoods and the poor in low-quality areas. This implies, of course, that the average income level of tenants is a proxy for neighborhood type. So when Table 20 indicates that tenants with less than \$5000 annual income live in units with higher effective tax rates than the units occupied by tenants with incomes over \$10,000 we are capturing the neighborhood bias in assessment practices. This bias is not as pronounced when the property tax is expressed as a percent of gross rent, rather than a percent of capital value, because the capital or market value reflects differences among neighborhoods in expected net income while the gross rent calculations only take into account the revenue side of the accounting ledger. This explains the consistency across neighborhoods in Tables 21-24 and the variations in gross rent multipliers discussed in Chapter 2.

If most cities have a neighborhood bias in their assessment practices and the purchase price of properties is highly correlated with neighborhood submarket – at least for the blighted areas – then the median effective tax rate per unit purchase price should be highest for blighted neighborhoods and properties purchased for the lowest prices. These are precisely the findings presented in Tables 25 and 26. And as explained in the preceding paragraph the consistency of the median tax as a percent of gross rent is misleading. This does not imply that those who purchase low-price properties are fairly assessed but that this type of ratio is less meaningful for our analysis. (See Tables 27-30).

Our contention about the bias against blighted areas and their property owners is supported by our findings regarding the effective tax rate by value of mortgage debt carried on the property. Properties carrying small mortgage debts can either be those sold for a low price (and consequently a low mortgage) or those who are reaching the end of their mortgage life.

Both conditions are found, primarily, in blighted areas. These areas are where the lowest priced housing is found and where the market for property transactions is less active. This is why Table 31 indicates that the effective tax rates are highest on properties with the lowest per unit mortgage debt, especially in cities such as, Baltimore, Chicago and Philadelphia where the real estate market in blighted neighborhoods is quite inactive. In other cities the low quality housing market is more active, more purchase and sales transactions occur, and therefore fewer properties are held by the owner who is unable to find a buyer for these properties. This issue, however, deserves further research in other studies. The results of Table 32 provide the same kind of consistency found in the other calculations of median property taxes as a percent of gross rent. When properties carry a second mortgage either their owner is a sophisticated realtor who wants to keep his own equity contribution small through financial leveraging or the owner does not possess enough capital and needs a second financial source. It is probably this ambiguity about the possible circumstances of the property owners with second mortgages that accounts for the lack of any clear relationship between property tax rates and the existence of a second mortgage, as seen in Tables 33-35.

Our final observation relates to the concern that property owners expressed about the cost of property taxes when they made their purchase. From Table 36 it could be hypothesized, for example, that excessive property tax rates discouraged households from becoming homeowners or, for knowledgeable households, it might have had the opposite effect since they wanted to take advantage of the preferential income tax treatment accorded home buyers. For investors or homeowners, concern over property taxes probably relates more directly to the level of the tax burden. Many current demands for property tax reform derive from the concern of property owners about the continuing rise in property tax payments and the inadequacy of the public services paid for from tax revenues. Responses to this question about concern over property taxes did not yield any consistent answers since the date of purchase varied significantly both within and among cities. Also, some cities like Philadelphia have begun to rely more on user charges to fund local services. As expected, recent property owners in high property tax cities expressed the most concern about future trends in the property tax burden. And those in lower property tax cities, with healthy tax bases, as Nashville and Oklahoma City, showed less concern at time of purchase. It seems, moreover, that property attitudes toward assessment of properties kept in poor condition differed little by either city or neighborhood categories. See Tables 37 and 38.

Tables 39 to 48 summarize additional data for each of the cities in our sample. Included in these tables are 1960 and 1970 census information on housing and population as well as a listing of the neighborhoods sampled. Following these tables is a summary of relevant tax statutes for each city. These are provided as background information.

The last elements of this appendix are the survey instruments used in this study. The interested reader may wish to check both the wording and the sequence of the questions in order to better interpret the data analysis presented in this study.

TABLE 1*
CHANGE IN AVERAGE VACANCY LEVEL
BY CITY, 1966 TO 1970

Average Vacancy Level, 1966 To 1970

City	Increased	Remained The Same	Decreased	Total
Atlanta	4	24	4	32
Baltimore	2	25	5	32
Chicago	4	23	1	28
Detroit	11	16	2	29
Nashville	13	19	1	33
Oklahoma City	2	23	0	25
Philadelphia	4	25	1	30
Portland	2	26	2	30
Providence	4	19	1	24
San Francisco	4	18	8	30
All Cities	50	218	25	293

Sample: Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 7c.

*The tables summarize information obtained from 228 owners of real property regarding 420 individual properties in ten cities.

TABLE 2
AVERAGE PERIOD OF VACANCY
BY CITY, 1966 TO 1970

Average Period of Vacancy, 1966 To 1970

City	Increased	Remained The Same	Decreased	Total
Atlanta	5	25	2	32
Baltimore	2	24	3	29
Chicago	4	20	4	28
Detroit	11	16	3	30
Nashville	8	23	0	31
Oklahoma City	7	18	0	25
Philadelphia	4	25	0	29
Portland	2	26	2	30
Providence	4	19	0	23
San Francisco	5	18	7	30
All Cities	52	214	21	287

Sample: Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 7b.

TABLE 3
CHANGE IN AVERAGE VACANCY LEVEL
BY RACIAL COMPOSITION OF TENANTS, 1966 TO 1970

Percent White	Average Vacancy Level, 1966 To 1970			
	Increased	Remained The Same	Decreased	Total
90 to 100 %	20	120	9	149
10 to 90	6	37	7	50
0 to 10	19	55	6	80
Total	45	212	22	279

Sample: Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 6a and 7c.

TABLE 4
AVERAGE TURNOVER OF TENANTS
BY CITY, 1970

City	Average Turnover of Tenants, 1970				Total
	Six Months Or Less	Six Months To One Year	One To Two Years	Two Years Or More	
Atlanta	0	8	18	6	32
Baltimore	1	0	1	30	32
Chicago	4	0	13	11	28
Detroit	0	4	12	14	30
Nashville	8	1	8	15	32
Oklahoma City	8	4	13	5	30
Philadelphia	0	0	13	16	29
Portland	0	2	7	23	32
Providence	0	7	12	5	24
San Francisco	1	3	2	25	31
All Cities	22	29	99	150	300

Sample: Private Market Residential Rental Properties.

Source: ADL Investor Interview Question.7c.

TABLE 5
AVERAGE TURNOVER OF TENANTS
BY CITY, 1966 TO 1970

Average Turnover of Tenants, 1966 To 1970

City	Increased	Remained The Same	Decreased	Total
Atlanta	4	26	2	32
Baltimore	1	24	8	33
Chicago	7	20	1	28
Detroit	6	21	3	30
Nashville	11	18	3	32
Oklahoma City	6	19	0	25
Philadelphia	1	22	7	30
Portland	2	27	0	29
Providence	5	18	0	23
San Francisco	2	20	6	28
All Cities	45	215	30	290

Sample: Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 7c.

TABLE 6
AVERAGE TURNOVER OF TENANTS
BY RACIAL COMPOSITION OF TENANTS, 1970

Average Turnover of Tenants, 1970

Percent White	Six Months Or Less	Six Months To One Year	One To Two Years	Two Years Or More	Total
90 to 100 %	5	16	57	82	160
10 to 90	1	7	23	20	51
0 to 10	16	5	15	45	81
Total	22	28	95	147	292

Sample: Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 6a and 7c.

TABLE 7
AVERAGE TURNOVER OF TENANTS
BY RACIAL COMPOSITION OF TENANTS, 1966 TO 1970

Average Turnover of Tenants, 1966 To 1970

Percent White	Increased	Remained The Same	Decrease	Total
90 to 100 %	17	121	15	153
10 to 90	8	37	6	51
0 to 10	19	53	6	78
Total	44	211	27	282

Sample: Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 6b and 7c.

TABLE 8
TOTAL EXPENSE AND CASH FLOW PER UNIT BY CITY, 1970

City	Total Per Unit Expenses			Cash Flow Per Unit		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Atlanta	\$660	\$1458	\$1651	\$ 0	\$ 87	\$293
Baltimore	689	1292	1428	-18	72	228
Chicago	904	1285	1527	- 6	142	433
Detroit	788	1152	1659	-65	193	275
Oklahoma City	509	889	1220	-109	17	49
Nashville	291	736	1420	-63	128	218
Philadelphia	608	892	1509	-95	102	240
Portland	500	835	1218	-13	141	284
San Francisco	985	1266	1681	-21	77	293

Sample: All Private Market Residential Rental Properties.

Sources: ADL Investor Interview Question 12a and b.

TABLE 8A
TOTAL EXPENSE AND CASH FLOW PER UNIT
BY CITY, 1966

City	Total Per Unit Expenses (Median)	Cash Flow Per Unit (Median)
Atlanta	\$1080	\$180
Baltimore	1062	140
Chicago	1047	137
Detroit	1053	148
Nashville	778	106
Oklahoma City	937	110
Philadelphia	967	109
Portland	742	98
San Francisco	1172	172

Note: Due to small sample base for 1966, only medians are presented.

Sample: All Private Market Residential Rental Property.

Sources: ADL Investor Interview Questions 12a and b.

TABLE 9
RELATIONSHIP OF MEDIAN CASH FLOW PER UNIT
TO MEDIAN PROPERTY TAX PER UNIT BY CITY, 1970

City	Median Cash Flow Per Unit	Median Property Tax Per Unit	Ratio Column Two To Column One
Atlanta	\$ 87	\$169	1.94%
Baltimore	72	206	2.86
Chicago	142	193	1.35
Detroit	193	213	1.10
Nashville	17	125	7.35
Oklahoma City	128	115	.90
Philadelphia	102	210	2.06
Portland	141	143	1.01
San Francisco	77	214	2.78

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 12a and b.

TABLE 9 A**RELATIONSHIP OF MEDIAN CASH FLOW PER UNIT
TO MEDIAN PROPERTY TAX PER UNIT BY CITY, 1986**

City	Median Cash Flow Per Unit	Median Property Tax Per Unit	Ratio Column Two To Column One
Atlanta	\$180	\$154	.85%
Baltimore	140	180	1.29
Chicago	137	160	1.17
Detroit	148	206	1.39
Nashville	106	110	1.03
Oklahoma City	110	115	1.04
Philadelphia	109	200	1.83
Portland	98	122	1.24
San Francisco	172	207	1.20

Sample: All private market Residential Rental Properties.

Source: ADL Investor Interview Question 12a and b.

TABLE 10
SELECTED PER UNIT EXPENSE ITEMS BY CITY, 1970

City	Principal Payments And Debt Service			Property Tax			Operating Expense		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Atlanta	\$313	\$508	\$570	\$125	\$169	\$250	\$275	\$414	\$583
Baltimore	240	273	392	148	206	270	431	657	891
Chicago	0	245	360	152	193	243	593	737	983
Detroit	0	405	601	107	213	299	484	575	781
Oklahoma City	285	520	925	70	125	149	178	260	332
Nashville	0	438	628	65	115	135	220	290	350
Philadelphia	0	306	522	137	210	280	497	634	740
Portland	0	325	535	111	143	218	234	343	463
San Francisco	365	616	820	180	214	356	263	400	624

Sample: All Private Market Residential Rental Properties.

Sources: ADL Investor Interview Question 12a and b.

TABLE 11
SELECTED PER UNIT EXPENSE ITEMS
BY CITY, 1966

City	Principal Payments and Debt Service Median	Property Tax Median	Operating Expense Median
Atlanta	\$500	\$154	\$326
Baltimore	362	180	620
Chicago	240	160	647
Detroit	375	206	472
Nashville	448	110	220
Oklahoma City	540	115	282
Philadelphia	295	200	472
Portland	300	122	320
San Francisco	606	207	359

Note: Due to small sample base for the for the 1966 figures only median are presented.
Sample: All Private Market Residential Rental Properties.
Sources: ADL Interview Question 12a and b.

TABLE 12
ABILITY TO PASS TAX INCREASE ON TO TENANTS
BY CITY, 1970

City	Total Number of Properties	Able to Pass Tax On	Percent
Atlanta	33	15	45.5%
Baltimore	33	19	57.5
Chicago	25	13	52.0
Detroit	31	15	48.4
Nashville	28	22	78.6
Oklahoma City	33	17	51.5
Philadelphia	34	15	44.1
Portland	32	19	59.4
Providence	6	4	66.7
San Francisco	30	19	63.3
All Cities	285	158	55.4

Sample: Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 15a.

TABLE 13
SELECTED EXPENSE CATEGORIES AS A PERCENT OF
GROSS INCOME, BY NEIGHBORHOOD, 1970

Neighborhood	Principal Payments and Debt Service	Property Tax	Operating Expenses
Stable	36.9%	12.9%	33.1%
Upward Transitional	27.2	11.6	49.8
Downward Transitional	27.2	17.2	40.4
Blighted	31.1	14.8	38.8

Source: Derived from Table 14.

TABLE 13A
SELECTED EXPENSE CATEGORIES AS A
PERCENT OF GROSS INCOME, BY NEIGHBORHOOD, 1966

Neighborhood	Principal Payment and Debt Service	Property Tax	Operating Expenses
Stable	46%	14%	31%
Upward Transitional	32%	9%	46%
Downward Transitional	48%	13%	42%
Blighted	44%	14%	36%

Source: Derived from Tables 15 and 17.

TABLE 14
TOTAL EXPENSE AND CASH FLOW PER UNIT BY NEIGHBORHOOD, 1970

Neighborhood	Total Per Unit Expenses			Cash Flow Per Unit		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Stable	\$1152	\$1586	\$2478	\$-162	\$126	\$256
Transitional Upward	622	1203	1833	22	155	297
Transitional Downward	835	956	1266	30	87	259
Blighted	522	876	1140	- 69	28	284

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 12a and b.

TABLE 15
TOTAL EXPENSE AND CASH FLOW PER UNIT
BY NEIGHBORHOOD, 1966

Neighborhood	Total Per Unit Expenses Median	Cash Flow Per Unit Median
Stable	\$1280	\$130
Transitional Upward	1011	142
Transitional Downward	710	80
Blighted	601	34

Note: Due to small sample base for 1966, only medians are presented.

Sample: All Private Market Residential Rental Properties.

Sources: ADL Investor Interview Questions 12a and b.

TABLE 16

SELECTED PER UNIT EXPENSE CATEGORIES BY NEIGHBORHOOD, 1970

Neighborhood	Principal Payments And Debt Service			Property Tax			Operating Expenses		
	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile	Lower Quartile	Median	Upper Quartile
Stable	\$389	\$631	\$925	\$168	\$207	\$364	\$332	\$567	\$710
Upward Transitional	0	370	705	129	157	226	413	676	902
Downward Transitional	180	285	508	125	179	225	250	421	551
Blighted	0	281	520	102	135	213	199	260	526

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 12a and b.

TABLE 17

**SELECTED PER UNIT EXPENSE ITEMS
BY NEIGHBORHOOD, 1966**

Neighborhood	Principal Payments and Debt Service Median	Property Tax Median	Operating Expense Median
Stable	\$650	\$193	\$437
Upward Transitional	370	107	534
Downward Transitional	279	102	328
Blighted	281	89	231

Note: Due to small sample base for the 1966 figures, only medians are presented.

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 12a and b.

TABLE 18

**MEDIAN PERCENT CHANGE IN SELECTED
MEDIAN PERCENT CHANGE IN SELECTED PER UNIT
INCOME AND EXPENSE ITEMS, 1966 TO 1970**

Neighborhood	Principal Payments And Debt Service	Property Tax	Operating Expense	Gross Rent
Stable	- 3%	7%	23%	17%
Upward Transitional	0	42	23	24
Downward Transitional	2	43	20	22
Blighted	0	34	37	11
Total	0	36	34	14

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 12a and b.

TABLE 19

**RELATIONSHIP OF MEDIAN CASH FLOW PER UNIT
TO MEDIAN PROPERTY TAX PER UNIT BY NEIGHBORHOOD, 1970**

Neighborhood	Median Cash Flow Per Unit	Median Property Taxes Per Unit	Ratio Column Two To Column One
Stable	\$ 126	\$ 207	1.64 %
Transitional Upward	155	157	1.01
Transitional Downward	87	179	2.06
Blighted	28	135	4.82

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 12a and b.

TABLE 19A

**RELATIONSHIP OF MEDIAN CASH FLOW PER UNIT
TO MEDIAN PROPERTY TAX PER UNIT BY NEIGHBORHOOD, 1970**

Neighborhood	Median Cash Flow Per Unit	Median Property Taxes Per Unit	Ratio Column Two To Column One
Stable	\$130	\$193	1.48%
Upward Transitional	142	107	.75
Downward Transitional	80	102	1.27
Blighted	34	89	2.62

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 12a and b.

TABLE 19B**TYPE OF REHABILITATION BY NEIGHBORHOOD SUBMARKET****1966 TO 1970**

Type of Rehabilitation	Stable	Transitional Upward	Transitional Downward	Blighted	Total
Heating Plant	18	31	11	15	75
Rewiring	14	28	17	18	77
New Lobby or Front Entrance	11	13	1	7	32
Plumbing	15	29	14	20	78
Changing Room Dimensions	6	16	3	6	31
Replastering	18	23	16	13	70
External Improvements	21	32	24	20	97
Total with Rehabilitation Expenditures 1966 to 1970	37	47	33	35	152

Sample: Private market residential properties built prior to 1961, with rehabilitation expenditures in period 1966 to 1970.

Source: ADL Investor Interview Question 17a and ADL Homeowner Interview Question 14.

TABLE 19C

REASON FOR REHABILITATION BY TYPE OF REHABILITATION WORK

REASON FOR REHABILITATION	Type of Rehabilitation Work						
	HEATING PLANT	REWIRING	NEW LOBBY	PLUMBING	CHANGING APARTMENT SIZE	REPLASTERING	EXTERNAL IMPROVEMENT
Replacement of Worn out Equipment	32	24	6	44	14	33	42
Pride of Ownership	24	9	12	26	18	28	34
To get new Tenants	39	42	29	40	13	43	48
To keep old Tenants	9	10	5	6	7	10	14
Code Violation	22	26	4	21	0	22	25
To Raise Rents	8	10	5	9	0	6	2
Other	19	17	21	20	8	15	14

Sample: All properties reporting rehabilitation expenditures for the period 1965-1970

Source: ADL Investor Interview Question 17A and ADL Homeowner Interview Question 14

TABLE 20**MEDIAN EFFECTIVE TAX RATE BY INCOME
OF TENANTS AND CITY, 1970**

City	Income of Tenants		
	Less Than \$5,000	\$5,000 To \$10,000	\$10,000 And Over
Atlanta	13.4 %	2.1%	0.9%
Baltimore	11.3	9.3	1.6
Chicago	0.2	2.7	0.7
Detroit	3.3	3.0	3.3
Nashville	1.3	0.8	1.5
Oklahoma City	2.3	1.5	1.5
Philadelphia	5.9	1.4	1.2
Portland	2.5	2.3	2.4
Providence	5.2	0.7	1.2
San Francisco	2.0	2.1	1.9
All Cities	4.6	2.6	1.8

Sample: All Private Market Residential Properties.

Source: ADL Investor Interview Question 6a and 12.

TABLE 21**MEDIAN TAX AS A PERCENTAGE OF GROSS RENTS
BY INCOME OF TENANTS AND CITY, 1970**

City	Income of Tenants		
	Less Than \$5,000	\$5,000 To \$10,000	\$10,000 And Over
Atlanta	18.4%	9.2%	9.6%
Baltimore	15.7	18.6	12.9
Chicago	15.0	16.3	10.3
Detroit	13.1	14.1	18.0
Nashville	7.8	7.2	9.6
Oklahoma City	14.0	11.4	10.5
Philadelphia	12.8	12.1	6.5
Portland	10.3	14.5	16.6
Providence	19.1	5.0	7.8
San Francisco	18.0	14.0	19.5
All Cities	14.2	12.2	12.2

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 6a and 12.

TABLE 22**MEDIAN TAX AS A PERCENTAGE OF GROSS RENTS
BY INCOME OF TENANTS AND CITY, 1966**

City	Income of Tenants		
	Less Than \$5,000	\$5,000 To \$10,000	\$10,000 And Over
Atlanta	13.0%	9.2%	—
Baltimore	15.4	16.9	15.7%
Chicago	12.3	13.4	10.4
Detroit	18.4	15.9	16.6
Nashville	7.4	—	9.3
Oklahoma City	12.2	12.3	16.0
Philadelphia	14.4	14.3	13.4
Portland	12.4	13.1	16.4
Providence	15.0	7.1	6.5
San Francisco	11.3	11.5	18.7
All Cities	13.2	12.8	13.6

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 6a and 12.

TABLE 23

**MEDIAN TAX AS A PERCENTAGE OF GROSS RENTS
BY INCOME OF TENANTS AND NEIGHBORHOOD, 1970**

Neighborhood	Income of Tenants		
	Less Than \$5,000	\$5,000 To \$10,000	\$10,000 And Over
Stable	17.6%	14.4 %	14.2%
Upward Transitional	9.6	9.3	10.0
Downward Transitional	14.5	14.5	18.1
Blighted	14.2	14.5	—
All Neighborhoods	14.2	12.2	12.2

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Questions 6a and 12.

TABLE 24

**MEDIAN TAX AS A PERCENTAGE OF GROSS RENTS
BY INCOME OF TENANTS AND NEIGHBORHOOD, 1988**

Neighborhood	Income of Tenants		
	Less Than \$5,000	\$5,000 To \$10,000	\$10,000 Or More
Stable	17.5%	12.3%	15.6%
Upward Transitional	9.1	9.1	13.7
Downward Transitional	13.0	13.1	19.2
Blighted	13.0	12.7	—
All Neighborhoods	13.2	12.8	13.6

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 6 and 12.

TABLE 25**MEDIAN EFFECTIVE TAX RATE PER UNIT
PURCHASE PRICE BY NEIGHBORHOOD, 1970**

Neighborhood	Purchase Price of Property		
	Less Than \$5,000	\$5,000 To \$10,000	\$10,000 Or More
Stable	2.2%	2.6%	1.7%
Upward Transitional	1.2	2.0	1.8
Downward Transitional	2.8	1.8	2.8
Blighted	3.4	4.6	—
All Neighborhood	3.0	2.0	2.1

Sample: All Private Market Residential Properties.

Source: ADL Investor Interview Question 3 and 12.

TABLE 26**MEDIAN EFFECTIVE TAX RATE PER UNIT
PURCHASE PRICE BY CITY, 1970**

City	Purchase Price of Property		
	Less Than \$5,000	\$5,000 To \$10,000	\$10,000 Or More
Atlanta	3.4%	2.1%	2.0%
Baltimore	14.7	7.0	1.6
Chicago	8.6	2.9	4.6
Detroit	3.0	3.1	2.9
Nashville	1.0	1.2	1.4
Oklahoma City	1.8	1.7	1.9
Philadelphia	8.7	1.4	1.6
Portland	1.8	2.2	2.1
Providence	5.2	1.6	1.2
San Francisco	2.2	2.3	2.3
All Cities	3.0	2.0	2.1

Sample: All Private Market Residential Properties.

Source: ADL Investor Interview Question 3 and 12.

TABLE 27**MEDIAN TAX AS A PERCENTAGE OF GROSS RENT
PER UNIT PURCHASE PRICE BY NEIGHBORHOOD, 1970**

Neighborhood	Purchase Price of Property		
	Less Than \$5,000	\$5,000 To \$10,000	\$10,000 Or More
Stable	14.7%	15.8%	16.3%
Upward Transitional	10.2	11.4	9.8
Downward Transitional	14.5	14.2	17.4
Blighted	13.6	12.8	—
All Neighborhood	14.8	12.3	14.4

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 3 and 12.

TABLE 28**MEDIAN TAX AS A PERCENTAGE OF GROSS RENT
PER UNIT PURCHASE PRICE BY CITY, 1970**

City	Purchase Price of Property		
	Less Than \$5,000	\$5,000 To \$10,000	\$10,000 Or More
Atlanta	18.4%	14.2%	12.8%
Baltimore	14.0	16.2	14.3
Chicago	19.9	14.2	20.0
Detroit	14.6	11.9	16.2
Nashville	8.3	7.9	9.4
Oklahoma City	12.6	11.2	14.0
Philadelphia	10.8	6.8	16.2
Portland	12.7	16.8	15.5
Providence	18.7	8.3	9.1
San Francisco	16.9	15.8	16.7
All Cities	14.8	12.3	14.4

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 3 and 12.

TABLE 29

**MEDIAN TAX AS A PERCENTAGE OF GROSS RENT
PER UNIT PURCHASE PRICE BY CITY, 1966**

City	Purchase Price of Property		
	Less Than \$5,000	\$5,000 To \$10,000	\$10,000 And Over
Atlanta	12.0%	8.7%	10.2%
Baltimore	15.4	16.9	15.7
Chicago	12.3	13.4	10.4
Detroit	17.3	14.8	15.3
Nashville	7.2	7.8	8.9
Oklahoma City	12.1	12.8	15.2
Philadelphia	10.8	12.2	14.3
Portland	14.8	8.2	7.3
San Francisco	11.2	11.8	18.8
All Cities	11.3	10.6	11.6

TABLE 30

**MEDIAN TAX AS A PERCENTAGE OF GROSS RENT
PER UNIT PURCHASE PRICE BY NEIGHBORHOOD, 1966**

Neighborhood	Purchase Price of Property		
	Less Than \$5,000	\$5,000 To \$10,000	\$10,000 Or More
Stable	16.5%	14.3%	14.9%
Upward Transitional	9.8	8.7	12.9
Downward Transitional	13.6	12.5	18.7
Blighted	12.8	14.2	10.2
All Neighborhoods	11.3	10.6	11.6

TABLE 31**MEDIAN EFFECTIVE TAX RATE PER UNIT
MORTGAGE DEBT BY CITY, 1970**

City	Per Unit Mortgage Debt		
	Less Than \$3,000	\$3,000 To \$5,000	\$5,000 Or More
Atlanta	3.2%	2.8%	3.1%
Baltimore	11.3	8.2	1.5
Chicago	7.2	3.4	5.4
Detroit	3.0	3.4	3.2
Nashville	1.1	1.3	1.2
Oklahoma City	1.7	1.9	1.6
Philadelphia	7.2	2.4	1.6
Portland	2.2	1.9	2.1
San Francisco	2.3	1.9	2.0
All Cities	3.0	2.2	2.4

Sample: All Private Market Residential Properties.

Source: ADL Investor Interview Question 2 and 12.

TABLE 32
MEDIAN TAX AS A PERCENTAGE OF GROSS RENT
PER UNIT MORTGAGE DEBT BY CITY, 1970

City	Per Unit Mortgage Debt		
	Less Than \$3,000	\$3,000 To \$5,000	\$6,000 Or More
Atlanta	14.2%	18.2%	16.1%
Baltimore	18.6	14.2	10.2
Chicago	20.2	15.6	19.8
Detroit	14.3	18.7	14.5
Nashville	8.2	7.9	8.8
Oklahoma City	12.2	11.4	15.2
Philadelphia	16.6	7.3	10.9
Portland	12.8	13.2	14.3
Providence	17.2	8.2	9.8
San Francisco	14.4	13.7	14.9
All Cities	14.2	12.8	15.2

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 7 and 12.

TABLE 33**MEDIAN EFFECTIVE TAX RATE BY PRESENCE ABSENCE
OF SECOND MORTGAGE BY NEIGHBORHOOD, 1970**

Neighborhood	Properties With Second Mortgage	Properties With No Mortgage
Stable	1.3%	2.0%
Upward Transitional	1.9	1.4
Downward Transitional	1.9	2.6
Blighted	10.2	3.8
All Neighborhoods	2.2	2.1

Sample: All Private Market Residential Properties.

Source: ADL Investor Interview Question 7 and 12.

TABLE 34**MEDIAN TAX AS A PERCENTAGE OF GROSS RENT
BY PRESENCE OF ABSENCE OF SECOND MORTGAGE
BY NEIGHBORHOOD, 1966**

Neighborhood	Properties With Second Mortgage	Properties With No Second Mortgage
Stable	12.5%	15.2%
Upward Transitional	8.4	12.7
Downward Transitional	9.0	16.2
Blighted	8.8	13.7
Total	9.6	14.3

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 7 and 12.

TABLE 35**MEDIAN TAX AS A PERCENTAGE OF GROSS RENT
BY PRESENCE OR ABSENCE OF SECOND MORTGAGE
BY NEIGHBORHOOD, 1970**

Neighborhood	Properties With Second Mortgage	Properties With No Second Mortgage
Stable	9.2%	16.4%
Upward Transitional	12.3	12.7
Downward Transitional	10.7	16.9
Blighted	14.4	16.8
Total	12.1	16.3

Sample: All Private Market Residential Rental Properties.

Source: ADL Investor Interview Question 7 and 12.

TABLE 36
CONCERN OVER TAXES AT
TIME OF PURCHASE

City	Yes	No	Total	Percent Yes
Atlanta	12	34	46	26.1%
Baltimore	7	32	39	17.9
Chicago	4	36	40	10.0
Detroit	14	26	40	35.0
Nashville	7	32	39	17.9
Oklahoma City	6	35	41	14.6
Philadelphia	13	31	44	29.5
Portland	15	27	42	35.7
San Francisco	19	21	40	47.5
All Cities	97	274	371	35.4

Sample: All properties.

Source: ADL Investor Interview Question 11 and ADL Homeowner Interview Question 21d.

Note: Response to question "Were you concerned about rises in property tax when you purchased the property?"

TABLE 37
PROPERTY OWNERS ATTITUDE TOWARD ASSESSMENT OF
PROPERTIES KEPT IN POOR CONDITION BY CITY*

City	Higher	Same	Lower	Don't Know	Total
Atlanta	0	17	8	13	38
Baltimore	3	14	12	8	37
Chicago	2	18	5	7	32
Detroit	2	19	12	2	35
Nashville	0	9	17	11	37
Oklahoma City	12	23	0	2	37
Philadelphia	14	8	3	16	41
Portland	3	10	21	4	38
Providence	5	11	9	9	34
San Francisco	2	22	8	3	35
All Cities	43	151	95	75	364

* Response to Question: From your experience, are properties which are kept in POOR condition assessed LOWER in relation to actual market value than properties kept in GOOD condition?

Sample: All private market residential owners responding to question.

Source: ADL Investor Interview Question 22 and ADL Homeowner Interview Question 22.

TABLE 38
PROPERTY OWNERS ATTITUDE TOWARD ASSESSMENT OF
PROPERTIES KEPT IN POOR CONDITION BY NEIGHBORHOOD*

Neighborhood	Higher	Same	Lower	Don't Know	Total
Stable	10	54	24	12	100
Transitional Upward	7	30	34	21	92
Transitional Downward	9	33	20	22	84
Blighted	17	34	17	20	88
Total	43	151	95	75	364

* Response to Question: From your experience, are properties which are kept in POOR condition assessed LOWER in relation to actual market value than properties kept in GOOD condition?

Sample: All private market residential property owners responding to question.

Source: ADL Investor Interview Question 22 and ADL Homeowner Interview Question 22

TABLE 39
ATLANTA SUMMARY

I. Housing Characteristics	1970	1960
A. Total Housing Units	170,892	153,677
1. Percentage One Unit Structures	49.3	58.6
2. Percentage Two to Four Unit Structures		21.8
3. Percentage Five Unit Structures or Larger		19.6
B. Total Negro Occupied Units	71,166	47,939
1. Percentage Owner-Occupied Units	37.4	29.3
C. Total Owner-Occupied Units	66,823	66,504
1. Percentage One Unit Structures	92.6	91.4
2. Percentage Two to Four Unit Structures		7.9
3. Percentage Five Unit Structures or Larger		0.6
4. Homeowner Vacancy Rate	1.2	2.3
5. Median Value Single Family, Owner Occupied	\$17,200	\$12,000
D. Total Occupied Rental Units	95,489	79,449
1. Percentage One Unit Structures	21.0	32.8
2. Percentage Two to Four Unit Structures		32.6
3. Percentage Five Unit Structures or Larger		34.6
4. Renter Vacancy Rate	5.9	4.9
5. Median Contract Rent	\$80	\$54
E. Units Built Before 1939		70,365
II. Population Characteristics		
A. Total Population	516,993	487,455
1. White	240,551	300,635
2. Non-White	256,442	186,820
B. Median Income		\$5,758
III. Neighborhoods Sampled		
A. Blighted	Pittsburg /Vine City	
B. Downward Transitional	West End	
C. Upward Transitional	Uptown/Inman Park	
D. Stable	Peachtree Hills	

TABLE 40

BALTIMORE SUMMARY

I. Housing Characteristics	1970	1960
A. Total Housing Units	305,464	289,734
1. Percentage One Unit Structures	61.1	63.0
2. Percentage Two to Four Unit Structures		26.4
3. Percentage Five Unit Structures or Larger		10.6
B. Total Negro Occupied Units	34,299	27,628
1. Percentage Owner-Occupied Units	30.1	34.3
C. Total Owner-Occupied Units	128,763	149,668
1. Percentage One Unit Structures	90.7	91.2
2. Percentage Two to Four Unit Structures		5.2
3. Percentage Five Unit Structures or Larger		3.6
4. Homeowner Vacancy Rate	0.9	1.4
5. Median Value Single Family, Owner-Occupied	\$10,000	\$9,000
D. Total Occupied Rental Units	160,586	125,929
1. Percentage One Unit Structures	39.6	48.2
2. Percentage Two to Four Unit Structures		35.4
3. Percentage Five Unit Structures or Larger		17.4
4. Renter Vacancy Rate	5.8	6.4
5. Median Contract Rent	\$90	\$64
E. Units Built Before 1939		199,711
II. Population Characteristic		
A. Total Population	905,759	939,024
1. White	479,837	610,608
2. Non-white	425,922	328,416
B. Median Income		\$6,185
III. Neighborhoods Sampled		
A. Blighted	East Baltimore	
B. Downward Transitional	Patterson Park	
C. Upward Transitional	Bolton Hill	
D. Stable	Guilford	

TABLE 41
CHICAGO SUMMARY

I. Housing Characteristics	1970	1960
A. Total Housing Units	1,208,327	1,212,264
1. Percentage One Unit Structures	23.8	24.0
2. Percentage Two to Four Unit Structures		36.9
3. Percentage Five Unit Structures or Larger		39.1
B. Total Negro Occupied Units	314,640	233,263
1. Percentage Owner-Occupied Units	23.6	15.7
C. Total Owner-Occupied Units	396,357	396,727
1. Percentage One Unit Structures	51.6	58.4
2. Percentage Two to Four Unit Structures		35.9
3. Percentage Five Unit Structures or Larger		5.7
4. Homeowner Vacancy Rate	0.6	0.6
5. Median Value Single Family, Owner-Occupied	\$21,200	\$18,000
D. Total Occupied Rental Units	741,497	760,682
1. Percentage One Unit Structures	7.2	7.2
2. Percentage Two to Four Unit Structures		37.9
3. Percentage Five Unit Structures or Larger		54.9
4. Renter Vacancy Rate	6.7	5.2
5. Median Contract Rent	\$108	\$78
E. Units Built Before 1939		841,524
II. Population Characteristics		
A. Total Population	3,366,957	3,550,404
1. White	2,207,767	2,712,748
2. Non-white	1,159,190	837,656
B. Median Income		\$7,342
III. Neighborhoods Sampled		
A. Blighted	Woodlawn	
B. Downward Transitional	Logan Square	
C. Upward Transitional	Lincoln Park	
D. Stable	Hyde Park/Norwood Park	

TABLE 42

DETROIT SUMMARY

		1970	1960
I. Housing Characteristics			
A.	Total Housing Units	529,043	552,050
1.	Percentage One Unit Structures	53.9	60.1
2.	Percentage Two to Four Unit Structures		22.9
3.	Percentage Five Unit Structures or Larger		17.0
B.	Total Negro Occupied Units	192,902	129,643
1.	Percentage Owner-Occupied Units	51.1	39.0
C.	Total Owner-Occupied Units	298,624	299,472
1.	Percentage One Unit Structures	83.4	86.8
2.	Percentage Two to Four Unit Structures		12.4
3.	Percentage Five Unit Structures or Larger		0.8
4.	Homeowner Vacancy Rate	1.5	0.9
5.	Median Value Single Family, Owner-Occupied	\$15,600	\$12,000
D.	Total Occupied Rental Units	199,129	215,365
1.	Percentage One Unit Structures	15.4	28.7
2.	Percentage Two to Four Unit Structures		35.5
3.	Percentage Five Unit Structures or Larger		36.8
4.	Renter Vacancy Rate	9.2	11.5
5.	Median Contract Rent	\$80	\$64
E.	Units Built Before 1939		202,212
II. Population Characteristics			
A.	Total Population	1,511,482	1,670,144
1.	White	838,877	1,182,970
2.	Non-white	672,605	487,174
B.	Median Income		6,825
III. Neighborhoods Sampled			
A.	Blighted	John R. Jefferson/Mack Cadillac Palmer Park	
B.	Downward Transitional		
C.	Upward Transitional		
D.	Stable		

TABLE 43**NASHVILLE SUMMARY**

I. Housing Characteristics	1970	1960
A. Total Housing Units	147,226	120,474
1. Percentage One Unit Structures	67.7	76.7
2. Percentage Two to Four Unit Structures		15.5
3. Percentage Five Unit Structures or Larger		7.8
B. Total Negro Occupied Units	24,222	20,175
1. Percentage Owner-Occupied Units	39.7	36.6
C. Total Owner-Occupied Units	83,706	69,865
1. Percentage One Unit Structures	91.8	93.3
2. Percentage Two to Four Unit Structures		6.4
3. Percentage Five Unit Structures or Larger		0.4
4. Homeowner Vacancy Rate	0.9	0.4
5. Median Value Single Family, Owner-Occupied	\$15,800	\$10,800
D. Total Occupied Rental Units	56,705	44,770
1. Percentage One Unit Structures	35.8	51.1
2. Percentage Two to Four Unit Structures		29.7
3. Percentage Five Unit Structures or Larger		19.1
4. Renter Vacancy Rate	7.1	5.1
5. Median Contract Rent	\$81	\$48
E. Units Built Before 1939		24,951
II. Population Characteristics		
A. Total Population	348,003	399,743
1. White	358,765	322,911
2. Non-white	89,238	76,832
B. Median Income		\$5,059
III. Neighborhoods Sampled		
A. Blighted	Sulpher Dell	
B. Downward Transitional	Fisk Park	
C. Upward Transitional	Edgehill	
D. Stable	S.W. Nashville	

TABLE 44
OKLAHOMA CITY SUMMARY

I. Housing Characteristics	1970	1960
A. Total Housing Units	138,378	114,513
1. Percentage One Unit Structures	76.3	82.5
2. Percentage Two to Four Structures		8.8
3. Percentage Five Unit Structures or Larger		8.7
B. Total Negro Occupied Units	14,470	11,871
1. Percentage Owner-Occupied Units	55.4	47.3
C. Total Owner-Occupied Units	81,908	66,957
1. Percentage One Unit Structures	95.8	96.9
2. Percentage Two to Four Unit Structures		2.5
3. Percentage Five Unit Structures or Larger		0.7
4. Homeowner Vacancy Rate	1.9	2.3
5. Median Value Single Family, Owner-Occupied	\$13,100	\$9,800
D. Total Occupied Rental Units	45,037	40,097
1. Percentage One Unit Structures	47.7	62.4
2. Percentage Two to Four Unit Structures		18.7
3. Percentage Five Unit Structures or Larger		18.9
4. Renter Vacancy Rate		8.2
5. Median Contract Rent	\$74	\$51
E. Units Built Before 1939		52,953
II. Population Characteristics		
A. Total Population	366,481	324,253
1. White	307,628	281,971
2. Non-white	58,853	42,282
B. Median Income		\$5,601
III. Neighborhoods Sampled		
A. Blighted	John Kennedy	
B. Downward Transitional	Capital Hill	
C. Upward Transitional	Historical District	
D. Stable	N.W. Oklahoma City	

TABLE 45

PHILADELPHIA SUMMARY

I. Housing Characteristics		1970	1960
A. Total Housing Units		673,390	647,911
1. Percentage One Unit Structures		66.5	73.6
2. Percentage Two to Four Unit Structures			15.1
3. Percentage Five Unit Structures or Larger			11.3
B. Total Negro Occupied Units		194,955	149,137
1. Percentage Owner-Occupied Units		47.4	43.0
C. Total Owner-Occupied Units		383,630	381,339
1. Percentage One Unit Structures		93.3	94.7
2. Percentage Two to Four Unit Structures			4.6
3. Percentage Five Unit Structures or Larger			0.7
4. Homeowner Vacancy Rate		1.0	1.3
5. Median Value Single Family, Owner-Occupied		\$10,700	\$8,700
D. Total Occupied Rental Units		258,515	234,425
1. Percentage One Unit Structures		29.6	42.2
2. Percentage Two to Four Unit Structures			30.6
3. Percentage Five Unit Structures or Larger			27.2
4. Renter Vacancy Rate		5.6	6.7
5. Median Contract Rent		\$76	\$56
E. Units Built Before 1939			505,324
II. Population Characteristics			
A. Total Population		1,948,609	2,002,512
1. White		1,278,717	1,467,479
2. Non-white		669,892	535,033
B. Median Income			\$6,433
III. Neighborhoods Sampled			
A. Blighted	Lower North Philadelphia		
B. Downward Transitional	South West Philadelphia		
C. Upward Transitional	Queens Village		
D. Stable	South Philadelphia		

TABLE 46
PORTLAND SUMMARY

I. Housing Characteristics	1970	1960
A. Total Housing Units	152,043	142,777
1. Percentage One Unit Structures	66.8	68.4
2. Percentage Two to Four Unit Structures		7.6
3. Percentage Five Unit Structures or Larger		20.5
B. Total Negro Occupied Units	6,541	6,101
1. Percentage Owner-Occupied Units	47.1	49.3
C. Total Owner-Occupied Units	81,930	83,231
1. Percentage One Unit Structures	95.5	96.4
2. Percentage Two to Four Unit Structures		2.6
3. Percentage Five Unit Structures or Larger		1.0
4. Homeowner Vacancy Rate	0.8	1.3
5. Median Value Single Family, Owner-Occupied	\$14,400	\$10,800
D. Total Occupied Rental Units	63,152	51,625
1. Percentage One Unit Structures	32.5	32.6
2. Percentage Two to Four Unit Structures		15.7
3. Percentage Five Unit Structures or Larger		51.8
4. Renter Vacancy Rate	6.8	8.4
5. Median Contract Rent	\$91	\$60
E. Units Built Before 1939		87,015
II. Population Characteristics		
A. Total Population	382,619	372,776
1. White	352,635	351,757
2. Non-white	29,984	20,919
B. Median Income		\$6,340
III. Neighborhoods Sampled		
A. Blighted	Albina	
B. Downward Transitional	Brooklyn	
C. Upward Transitional	Couch	
D. Stable	Hollywood	

TABLE 47
PROVIDENCE SUMMARY

I. Housing Characteristics	1970	1960
A. Total Housing Units	121,798	121,310
1. Percentage One Unit Structures	21.9	24.6
2. Percentage Two to Four Unit Structures		58.1
3. Percentage Five Unit Structures or Larger		17.3
B. Total Negro Occupied Units	5,031	3,530
1. Percentage Owner-Occupied Units	18.9	17.1
C. Total Owner-Occupied Units	114,762	113,995
1. Percentage One Unit Structures	55.4	53.5
2. Percentage Two to Four Unit Structures		44.3
3. Percentage Five Unit Structures or Larger		2.2
4. Homeowner Vacancy Rate	0.7	1.3
5. Median Value Single Family, Owner-Occupied	\$17,000	\$12,000
D. Total Occupied Rental Units	58,883	60,966
1. Percentage One Unit Structures	5.1	9.4
2. Percentage Two to Four Unit Structures		58.7
3. Percentage Five Unit Structures of Larger		31.9
4. Renter Vacancy Rate	7.0	7.1
5. Median Contract Rent	\$63	\$40
E. Units Built Before 1939		60,573
II. Population Characteristics		
A. Total Population	179,213	207,498
1. White	161,338	195,525
2. Non-White	17,875	11,973
B. Median Income		\$5,632
III. Neighborhoods Sampled		
A. Blighted	South Providence	
B. Downward Transitional	Smith Hill	
C. Upward Transitional	College Hill/Fox Point	
D. Stable	East Providence	

TABLE 48
SAN FRANCISCO SUMMARY

I. Housing Characteristics	1970	1960
A. Total Housing Units	310,364	309,671
1. Percentage One Unit Structures	33.7	37.0
2. Percentage Two to Four Unit Structures		22.8
3. Percentage Five Unit Structures		40.2
B. Total Negro Occupied Units	32,500	41,612
1. Percentage-Owner Occupied Units	25.3	24.9
C. Total Owner-Occupied Units	97,036	102,141
1. Percentage Owner Occupied Units	80.1	86.6
2. Percentage Two to Four Unit Structures		15.7
3. Percentage Five Unit Structures or Larger		3.7
4. Homeowner Vacancy Rate	0.7	0.7
5. Median Value Single Family, Owner-Occupied	\$28,100	\$17,300
D. Total Occupied Rental Units	198,138	189,834
1. Percentage One Unit Structures	12.6	13.5
2. Percentage Two to Four Unit Structures		26.4
3. Percentage Five Unit Structures or Larger		60.1
4. Renter Vacancy Rate	4.7	6.6
5. Median Contract Rent	\$128	\$68
E. Units Built Before 1939		233,093
II. Population Characteristics		
A. Total Population	715,674	740,316
1. White	511,186	604,403
2. Non-white	204,488	135,913
B. Median Income		\$7,147
III. Neighborhoods Sampled		
A. Blighted	Western Edition/Hunter's Point	
B. Downward Transitional	Mission Dolores/Haight-Fillmore	
C. Upward Transitional	Marina/Pacific Heights	
D. Stable	Sunset/Richmond	

PART II: CITY TAX STATUTES

ATLANTA, GEORGIA

THE TAX¹

The 159 counties in Georgia constitute the property tax units. Property is taxed at the sum of the state, county, municipal, and school rates. Although the state still has the power to receive a portion of the property taxes, its recent share has been negligible (1/4 mill.).

PROPERTY SUBJECT TO TAX

Both real and tangible personal property is subject to tax unless exempt. Family homesteads are exempt up to \$2,000 from state and county taxes and household property up to \$300 is exempt from all taxes. In addition there is a state and county exemption of \$10,000 for disabled veterans and \$4,000 for persons 65 or older with incomes not exceeding \$4,000.

ASSESSMENT

Property owners must file an annual return of their property which is to be listed at fair market value. Property is assessed at 40% of fair market value (although municipalities are not bound by this ratio). The tax assessors are not elected in Georgia. The county tax receiver assesses property that has been omitted or grossly undervalued. In addition, town or city assessors assess and value property for municipal taxation subject to appeal to the municipal board of tax appeals. Returns submitted by the tax receiver are examined by the county board of tax assessors. The State Revenue Commissioner then equalizes assessments of property by classes among the counties and by classes within a county.

A recent court decision (*McLennan vs. Undercofler*, Fulton Superior Court, No. B-14129, August 31, 1965 (CCH Ga. 200-135), appeal dismissed 221 Ga. 6.3, 146 S.E. 2d 635 (1966), supplemental order, March 14, 1966 (CCH Ga. 200-246)) has ordered equalization among the counties. To the extent that the courts have entered the equalization area, it should provide motivation for the state to enforce its statutory requirements.

In 1970, Fulton County hired an outside appraisal firm to help them perform a county-wide reassessment. Although this task has been completed, the utilization of the new assessments has been tied up by court action. Principal opponents claimed, among other things, that the manner in which the reassessment was conducted failed to permit owners adequate opportunity to contest valuations before they were established.

¹Georgia Code, 1933 - Chap. 92-1, 92-2, 92-23, 92-24, 92-26, to 92-28, 92-37, to 92-83, and 32-11.

RESTRICTIONS ON TAX POWER

County, school district, and non-home charter municipalities are subject to constitutional and statutory tax rate limitations. The rate for counties is 5 mills including debt service. For noncity school districts the limitation is 20 mills exclusive of debt service. These limitations may be exceeded only by voter approval. Since Atlanta is a charter municipality, it is subject only to the county limitation.

1970 TAX RATES FOR ATLANTA

Atlanta City and Fulton County	65.22 per \$1000
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Assessments targeted at 40% of actual value.

BALTIMORE, MARYLAND

THE TAX¹

Each of Maryland's 23 counties is an administrative unit in the assessment and collection of taxes for state and county purposes. Baltimore City is also treated as the equivalent of a county so the total number of assessing areas is 24. Because it has a small number of relatively large assessment areas, Maryland can be considered one of the more progressive states from an administrative point of view. The State's portion of property tax revenues is small (approximately 4%).

PROPERTY SUBJECT TO TAX

Real and tangible personal property is taxable and intangible personal property is usually exempt. Exemptions are not numerous compared to other states. The primary ones related to housing are: 1) a statewide exemption of the house and lot of disabled veterans and 2) a tax credit of the lesser of 50% of the assessed property value or \$4,000 for all persons over 65 or disabled with incomes of not over \$5,000 per year. The City of Baltimore also has the power to exempt from all taxes levied by the city any new industry or business it is trying to attract.

ASSESSMENT

The valuation concept required is full cash value which is current value less an allowance for inflation; the legal standard rate of evaluation is 100%. While the state laws do not specifically require uniformity with respect to owners of the same class of property, the above standard may be interpreted to do so. The City Charter of Baltimore specifically requires uniformity.

In line with its relatively progressive structure, the property tax in Maryland is administered by appointed assessors. The assessing body in Baltimore is the Department of Assessments of Baltimore City, with appeals going to the Board of Municipal and Zoning Appeals. Certain classes of property not assessed at the local level are handled by the State Department of Assessments and Taxation, with appeals going to the Maryland Tax Court.² The Director of the State Department of Assessments and Taxation is required to conduct biennial surveys of assessment ratios of assessed value to sales prices and/or appraised values.³ In 1968, the ratio of assessment to actual value ranged from 48.2% in Garrett

¹Annotated Code of Maryland, 1957, Article 81; Baltimore Charter.

²Annotated Code Art. 81, Sec. 258.

³Chapter 757, Acts of 1959; Ch. 9, Laws 1961.

County to 58.4% in Baltimore City. This is a county average and individual properties in a given county may vary considerably around the mean. Although the law requires annual review of assessable real property and reassessment whenever a change in value is disclosed, the procedure for statewide equalization is not defined.

The law requires corporations to file returns with the State Department of Assessments and Taxation, but individual returns are filed only when called for.

RESTRICTIONS ON TAX POWER

Maryland has no general constitutional and statutory restrictions on local power to raise property tax revenue. The Charter of the City of Baltimore⁴ precludes the city from certain kinds of taxing power, including the imposition of taxes on income, gasolines, and motor vehicle registration.

1970 TAX RATE FOR BALTIMORE

55.20 per \$1,000 assessed value

Assessment targeted at 60% of actual value.

⁴Baltimore Charter, Art. II, Sec. 40.

CHICAGO, ILLINOIS

THE TAX¹

A large amount of local control is present in the property tax system of Illinois as evidenced by the presence of over 1,400 primary assessing areas. This specialized autonomy with hundreds of overlapping districts makes it very difficult for the property owner to find out where his tax money is going and how it is used. Across the state the township is the principal unit for tax purposes. The rate in each area is the aggregate required for county, township, municipal, school, and special district purposes. The State receives no portion of the property tax.

PROPERTY SUBJECT TO TAX

All real and personal property is subject to tax unless specifically exempt. Intangible personal property is also theoretically taxed at the same rates as tangible property, but it has been customary to assess intangible property of individuals at lower values. Principal exemptions include 1) household furniture and one automobile, 2) a \$1,500 homestead tax credit for any dwelling owned or occupied by persons over 65 years of age and 3) homesteads up to \$15,000 for disabled veterans.

ASSESSMENT

The Constitution requires that the property tax be paid in proportion to a property's fair cash value.² Although the typical unit of tax control is the township, in Cook County an elected county assessor is responsible for assessments in Chicago and for supervision of assessors outside the city. A State Department of Local Government Affairs is required to equalize assessments among the counties, but not among classes, districts, or individuals.

In line with the popular notion that it is unfair to tax non-income producing property at the same level of market value as income producing properties, wide discrepancies exist within individual counties. These discrepancies seem to be based more on an ability to pay basis than an evaluation of the amount of services obtained from the community. For example, one- and two-family homes will be assessed at 30% of value, multi-family flats at a higher level. This discrimination is carried over to the personal property tax which is usually collected from businesses.

Cook County is divided into 4 assessment districts with assessments subject to equalization in the same manner as counties. A multiplier is used to bring all assessed values in a

¹Revenue Act of 1939, I.

²Ill. Const. Art IX, Sec 1.

county or district up to the state norm. This multiplier for Cook County in 1970 was 1.59. Real property is assessed each year in only one Cook County district. In the other 3 Cook County Districts and most other Illinois counties, assessment takes place quadrennially unless improvements are made or property is damaged. Equalization also takes place only every 4 years. In Cook County the county assessor has permitted listing of personal property at less than full value. Lists of personal property are filed with the county assessor only when he requests them. Any appeals of assessments are handled by the County Board of Appeals.

RESTRICTIONS ON TAX POWER

Tax rates for all primary assessing areas are subject to State Constitutional or statutory limits. The limits are usually based on population size of the area and do not include debt servicing. The only exception to this general rule is that there is no municipality limit for Chicago. Otherwise, for example, the Cook County rate limit is 7.5 mills and the school district limit 15 mills. Taxation beyond these limits is provided only by specific voter approval. Individual assessing area limitations encourage the continual formation of new taxing districts.¹

THE 1970 TAX RATE FOR CHICAGO

\$68.90 per \$1,000 assessed value

Assessment nominally targeted at 100% of actual value.

¹See Irving Howard, "Property Tax Rate Limits in Illinois and Their Effect Upon Local Government," *National Tax Journal*, XVI (Sept. 1963), pp. 285-93.

DETROIT, MICHIGAN

THE TAX¹

The State of Michigan has just under 1,500 primary property tax assessing areas. In this respect it can be compared to Illinois which also has large numbers of overlapping tax districts. The township and the city are the principal units in property assessment. Property is taxed at the aggregate of county, township, municipal school and other district rates. The State receives no revenue from the property tax.

PROPERTY SUBJECT TO TAX

All tangible and intangible property is subject to tax unless expressly exempt. Principal exemptions include: 1) clothes, 2) household furniture, provisions, and fuel up to \$5,000, 3) personal business property up to \$500, 4) homesteads of persons over 65 up to \$2,500 if their income is less than \$6,000, and 5) certain homestead exemptions for soldiers and pensioned or disabled veterans.

ASSESSMENT

Property is assessed on the basis of 50% of true cash value.² In 1970 a State Equalization factor of 1.05 was applied to all property assessments in the City of Detroit. A City Board of Review hears all appeals. Further appeals may be taken to the State Tax Commission whose decision is final and cannot be taken to the county.³ Counties exercise little supervision over the township and city assessors other than performing a yearly equalization. The State Board of Equalization has been abolished. Appeals from equalization by the County Board of Supervisors are also heard at the State level by the State Tax Commission. "The State Tax Commission shall have the same authority to consider and pass upon the action and determination of the Board of Supervisors in equalizing said valuations as it has to consider complaints relative to the assesment and taxation of property."⁴ Local tax assessors are either elected or appointed, depending on the city. Assessors have the power to demand a listing of any taxable property. This return if requested must be accompanied by a sworn statement as to its validity. The City of Detroit requires this property tax return annually.

¹Compiled Laws 1948, Chapter 211.

²Mich. Const. Article 9, Sec. 3; Laws 1965, Act 409.

³Compiled Laws, Sec. 211.152.

⁴Compiled Laws, Sec. 211.34.

RESTRICTIONS ON TAX POWER

The Michigan constitution specifies an overall tax limitation on the sum of all nonmunicipal (charter) taxation of 1.5% of assessed value. This limitation does not apply to debt servicing of school bonds approved by the voters and can also be exceeded by other taxing districts on voter approval. The City of Detroit also has a city charter rate limitation of 2% of assessed valuation for municipal taxation unless a specific increase is approved by the voters.⁵

THE 1970 TAX RATES FOR DETROIT

County	7.10
City	27.10
School	<u>22.86</u>
	57.06 per \$1,000 assessed valuation

Assessment targeted at 50% of actual value.

⁵Charter of the City of Detroit, Title VI, Ch. I, Sec. 1.

NASHVILLE, TENNESSEE

THE TAX¹

The property tax in Tennessee is based upon county administration, but charter cities are also empowered to assess and collect their own taxes. There are in all 95 primary assessing areas in the state. The tax rate is the sum of county, municipal, school, and special district rates. The state receives no property tax revenues.

PROPERTY SUBJECT TO TAX

All real and personal property not specifically exempted is subject to taxation. The principal exemption is a \$1,000 personal property credit for each resident taxpayer. This exemption takes on added importance when a recent General Assembly law is noted: "Personal Property... used in the taxpayer's own household together with all intangible property including bank accounts of the taxpayer may be assumed prima facie by the tax assessor to be of a value not in excess of \$1,000 in the absence of any tax return or schedule to the contrary."² This law flies in the face of a constitutional requirement of equality and uniformity of tax valuation throughout the state and has the effect of making only business property subject to personal tax. It has not been tested in court.

ASSESSMENT

Property is assessed at its fair market value. This assessment occurs annually for personal property and biennially in the odd years for real property for which a value of 50% will be required in 1973. This is to be attained by conforming to the following schedules: 1969, no less than 25%; 1970, 30%; 1971, 35%; 1972, 40%. Both Federal and State courts have recently made rulings that should hasten Tennessee toward uniform assessment.³

The county or city assessor requires property owners to list their property. Assessments may be appealed to the County Board of Equalization or the Board of City Tax Equalization. Further appeal may be made to the State Board of Equalization which has the power to increase or decrease valuations.³ "...same (valuation may be revised or changed by the State Board of Equalization."⁴

¹Tennessee Code, Title 67; Ch. 1-21

²Tennessee, *Public Acts* (1959), Ch. 279, Sec. 4, pp. 874-75.

³*Louisville and N.R.R. vs Public Service Commission*, 249 F. Supp 894 (1966),
Southern Ry vs Clement, Davidson County Chancevy Court II, Book 77 (1966), p.191.

⁴T.C.A., Sec. 67-809.

RESTRICTONS ON TAX POWER

The counties in Tennessee are subject to no general statutory rate limitations on their property taxing power. Cities on the other hand are. The specific maximum rate for ordinary tax purposes in Nashville is 1.3% of assessed value. This does not include debt servicing but it still may act as a significant constraint as any increase beyond this requires a change in the city charter. Nashville is a nonhome rule charter city so the change must be made by the State General Assembly.

1970 TAX RATES FOR NASHVILLE

	Rate per \$1,000 assessed value
County	\$35.00 (40% assessed to actual value)
City	\$18.00 (40% assessed to actual value)
	\$53.00

OKLAHOMA CITY, OKLAHOMA

THE TAX¹

Each of Oklahoma's 77 counties is an administrative unit in the assessment and collection of taxes. An amendment to the Constitution in 1933 abolished the state levy and established a primary levy limit of 15 mills (exclusive of debt service) to be apportioned among the county, schools, and municipalities by the county excise board. This makes the cities largely dependent upon the counties for general revenue. Incorporated cities may, however, levy additional general property taxes on elected approval by vote of their citizens.

PROPERTY SUBJECT TO TAX

All property in the state is subject to ad valorem taxation unless exempt. Primary exemptions are: 1) homesteads up to \$1,000 of assessed value, 2) family household goods up to \$100, and 3) personal property of veterans or their widows up to \$200. Neither the Legislature or cities can exempt any property not authorized by the Constitution.

ASSESSMENT

Property is taxed at not to exceed 35% of its fair cash value. Uniformity of taxation within a city is required. Although the Constitutional standard requires a fair cash value base, assessed valuations seldom exceed half of actual value. Assessment is made yearly by the elected county assessor and may be appealed to the County Board of Equalization. Further appeal on individual valuation may be made to the District Court.² As would be expected from its title, the County board also equalizes valuation within the county. A State Board of Equalization is also provided for.

"...It shall be the duty of said State Board (of Equalization) to examine the various county assessments and to equalize, correct, and adjust the same as between counties by increasing or decreasing the aggregate assessed value of the property or any class thereof..."³

Lists of taxable property are required to be filed annually with the county assessor.

¹Oklahoma Statutes, Title 68, Article 24.

²O.S. Tit. 68, Sec. 2461.

³O.S. Tit. 68, Sec. 2463.

RESTRICTIONS ON TAX POWER

All taxing units are subject to a tax rate limit of 15 mills excluding debt service unless an increase is specifically voted by the eligible voters of that unit.

THE 1970 TAX RATE FOR OKLAHOMA CITY

School	48.15
City	22.80
County	<u>19.78</u>
	90.73 per \$1,000 of assessed value.

Assessment targeted at 25% of actual value.

PHILADELPHIA, PENNSYLVANIA

THE TAX¹

Each of Pennsylvania's 67 counties is a tax assessment administrative unit. Counties are broken down into eight classes according to population, with Philadelphia being the only first class county (city) (population over one million).² Different legislative provisions affect each county according to class. The state receives no revenue from the property tax. In Philadelphia the tax rate (which includes school district taxes) is set by the City Council.

PROPERTY SUBJECT TO TAX

All real and personal property is subject to tax unless exempt. A principal exemption is the machinery and tools used in manufacturing.

ASSESSMENT

The valuation concept for assessment is the actual value of the property. In determining actual value, the price at which a property would separately bona fide sell shall be considered but shall not be controlling. In Philadelphia the legal assessment ratio is 100%. In practice this is not observed as evidenced by the determination of the State Tax Equalization Board for purposes of school subsidies in 1969 that the percentage of assessed valuation to market value in Philadelphia was 69.1%. In 4th to 8th class counties, real property must be assessed at a predetermined ratio not to exceed 75%. Although some assessors in the state are elected, assessors in Philadelphia are appointed by a majority of the judges of the courts of common pleas. The Board of Revision of Taxes hears appeals and makes an annual equalization among all the properties.

RESTRICTION ON TAX POWER

The power granted to the City of Philadelphia to levy local taxes is subject to only one limitation – preemption of the tax by the State.³ Other counties and municipalities of different classes are subject to various statutory tax limitations depending on class size.

¹Public Law 45, Act of Aug. 5, 1932

²Public Law 275, Act of June 25, 1895

³Public Law 45, Act of Aug. 5, 1932, Sec. 1

1970 PROPERTY TAX RATE FOR PHILADELPHIA

\$44.75 per \$1,000 assessed valuation

Assessment targeted at 65% of actual value

PORTLAND, OREGON

THE TAX¹

The 36 counties of Oregon are the base units for both property tax assessment and collection. The rate in each county is the aggregate of all levies for state, county, municipal and other special districts.

PROPERTY SUBJECT TO TAX

All real and tangible personal property is subject to tax unless exempt.² A principal exemption is nonbusiness tangible personal property. The personal residence of elderly people is also exempt a percentage of the \$10,000 valuation depending on age.

ASSESSMENT

Statutes require that all property be assessed at 100% of true cash value. Assessment valuations made by the county assessors are equalized on a local level by county boards of equalization. All values are then subject to final adjustment by the Department of Revenue sitting as a State Board of Equalization. Oregon takes a strong view toward tax uniformity throughout the state and the Department of Revenue exercises close supervisory power over the counties. "The Department of Revenue shall exercise general supervision of the system of taxation throughout the state, and general supervision and control over the administration of the assessment and tax laws and over county assessors and county boards of equalization in the performance of their duties relating to taxation to the end that all taxable property is assessed uniformly according to law and equality of taxation according to law is secured".³ In all cases Department of Revenue directives may be appealed to the Oregon Tax Court.⁴

Although county assessors are elected, they must be certified and a law requires prosecution of any county assessor whose assessment ratio varies 20% or more from that determined by the Department. Uniformity among counties is especially important because a large portion of the State revenues are derived from the property tax. Equalization on a statewide basis is required annually. The law also requires an annual return of personal property of all tax-payers.

¹Oregon Revised Statutes, Title 29, Chapters 306-312

²O.R.S., 307, 030.

³O.R.S., 305.090.

⁴O.R.S., 306.545.

RESTRICTIONS ON TAX POWER

A constitutional provision limits each local taxing unit's levies to 1.6% of the dollar amount levied in the highest of the preceding 3 years, exclusive of levies specifically authorized by the legislature or approved by local voter.⁵ This limitation does not, however, apply to debt service.

THE 1970 TAX RATE

The 1970-71 tax rate of Portland is \$29.56 per \$1,000 assessed valuation.

Assessment targeted at 100% of actual value

⁵Const. of Oregon, Art. XI, Sec. 11.

PROVIDENCE, RHODE ISLAND

THE TAX¹

Rhode Island follows the typical New England system in making the cities and towns rather than counties the units for local tax administration and in making the levy for state purposes in effect a levy against the respective cities and towns for their portions thereof, rather than a levy directly against the property of the taxpayers. Consequently, tax administration is dependent to a considerable extent on local administrative practice in the 39 primary assessing areas.

PROPERTY SUBJECT TO TAX

All real and tangible personal property is subject to tax unless exempt. No city or town may assess any tax on intangible personal property. Exemptions are few in number compared to most states, the primary ones being; 1) manufacturer's inventories and 2) \$1,000-\$3,000 homestead exemptions for senior citizens in some towns (not Providence). The cities and towns also have the power to extend 10-year tax exemptions to attract commercial enterprises.² Providence, however, is not one of the cities that has chosen to take advantage of this provision.

ASSESSMENT

Real and personal property is taxable at its full and fair cash value or at a uniform assessment thereof not to exceed 100%.

Assessors may be either elected or appointed. Appeals from the local boards of assessors are made in the superior courts. The Division of Local and Metropolitan Government has the "power to equalize the valuation of the property in the several cities and towns in the state by adding to or deducting from the aggregate valuations of the property in the cities and towns such sums as will bring said valuations to the true and market value of the property."³ It does not have any original assessment or appellate functions. The town assessors publish notices which require all taxpayers to file an account of their ratable property.

¹The Laws, Title 28, Ch. 17, Tit. 44, Ch. 1,3-8,9,25; Title 45, Ch. 12.

²General Laws, (1956), Sec. 44 - 3 - 9.

³General Laws, Sec. 42-11, 1-2.

RESTRICTIONS ON TAX POWER

There is a statutory limitation of 3.5% of assessed value on the taxing power of the cities and towns. This does not include debt servicing, but it does include school taxes as there are no independent school districts in Rhode Island. The city or town may levy taxes in excess of this limit only by petitioning and receiving permission from the State Director of Administration.

1970 TAX RATE FOR PROVIDENCE

Rate per \$1,000 assessed valuation \$43.00.

While Providence has targeted assessment at 80% of actual value, the Division of Local and Metropolitan Government determined that in 1970 the ratio of assessment to full value was 65.76%.

SAN FRANCISCO, CALIFORNIA

THE TAX¹

The 58 counties of California are the primary base units for the assessment and collection of property taxes. The rate is a composite of the state, county, municipal, school, district, and special district levies. A State statute limits the amount of all state fund appropriations to be derived from property taxes to 25% of such appropriations.² Although the State has reserved the right to levy property taxes, it never has.

PROPERTY SUBJECT TO TAX

All real and tangible personal property is subject to tax unless exempt. Principal exemptions include: 1) a householder's exemption of \$100, and 2) veteran's exemptions of \$1,000, and if disabled or blind, to \$5,000.

ASSESSMENT

All taxable property except aircraft is assessed at a publicly announced ratio of between 20% and 25% of full cash value, and beginning in 1971, at 25% of full cash value. This assessment is almost entirely in the hands of elected county assessors. The County Board of Supervisors hears appeals and is required to make an annual equalization of property valuation. This decision is final as to individual properties in the absence of any showing of fraud. At least once each 3 years, the State Board of Equalization conducts a survey to determine the full cash value of all locally assessable tangible property. The State Board may direct that the entire assessment roll of any county be increased or lowered, but it may not adjust or revise individual assessments..."equalization shall be by raising or lowering the value of locally assessable property entered upon the secured roll by the assessor of the county".³

Taxpayers owning taxable personal property of \$30,000 or more are required to file an enumeration list of their property with the county assessor. He may also request a written property statement from other property owners if he so desires.

¹Revenue and Taxation Code, Division 1.

²Revenue and Taxation Code, Section 1605; *Eastern-Columbia Inc., County of Los Angeles et al* (1945), 70 Cal. App. 2d 497, 161 P 2d 407.

³Revenue and Taxation Code, Sec. 1821.

RESTRICTIONS ON THE TAX POWER

There is no general limitation on counties, but county levies authorized for a few specific purposes may be subject to some rate limits. Municipalities, school districts, and special districts are subject to statutory rate limits that can be exceeded only by voter approval of the specific increase in the respective district. Debt servicing levies do not usually fall within the restrictions.

1970 TAX RATE FOR SAN FRANCISCO

128.20 per \$1,000 assessed valuation

Assessment/Sales Ratio 22%. Entire state moving toward target ratio of 25%.

PART III: SURVEY INSTRUMENTS

A. INVESTOR INTERVIEW

INVESTOR INTERVIEW

Interviewer _____

City _____

Respondent _____

Date _____

INTRODUCTORY TELEPHONE CALL

My name is _____ and I work for Arthur D. Little, Inc., a management consulting firm located in Cambridge, Massachusetts. We are doing a study for the Department of Housing and Urban Development of center city property owners and managers, and the problems they encounter in the ownership and maintenance of property in the city. We are especially interested in finding out what effect property taxation has on the maintenance and improvement of properties. We are talking to property owners and managers in ten cities all over the country. Your name has been given to us as an owner of property here in _____ (name city). Can we make an appointment to talk with you? The terms of our contract with the Department of Housing and Urban Development provide that any information we receive during this study from particular property owners will be strictly confidential. No information will be given to either HUD or any other government agency or official in a form that will identify data with the participants in our study.

INTERVIEW

Repeat above introduction, say something about yourself here to make the atmosphere more informal if you choose. See interview instructions for possible introductory conversation.

1. Let's talk about the properties you own.

- a. How many properties and units do you own in all? (Find out whether these are commercial or residential properties, and classify according to table below.)

PROPERTY DATA SHEET

Commercial	Residential	
	1-29 Units	30+ Units

- b. How do land and property values in the neighborhood where the property(ies) under consideration is (are) located compare with values in this city generally? (See definitions -- Operational Selection of Neighborhood. Note respondent's definition of his neighborhood boundaries and note how it compares with the neighborhood boundary we have developed through city reconnaissance. Obtain data from Assessor's records whenever possible.)

	Property 1			Property 2			Property 3		
	Above Aver.	Below Aver.	Aver.	Above Aver.	Below Aver.	Aver.	Above Aver.	Below Aver.	Aver.
Current Land Values									
Current Value of Buildings or Improvements									
Current Total Property Value									

- c. Have prices in this neighborhood increased, decreased or stayed the same since 1966? Why? (See definitions -- Operational Selection of Neighborhood.)

	Property 1			Property 2			Property 3		
	Up	Down	Same	Up	Down	Same	Up	Down	Same
Current Land Values as compared to those of 1966									
Current Value of Buildings or Improvements as compared to those of 1966									
Current Total Property Values as compared to those of 1966									

- d. Have prices in this neighborhood increased or decreased relatively more or less than in the city generally since 1966 (e.g., was there a larger percentage change in prices)? (See definitions -- Operational Selection of Neighborhood.)

	Property 1			Property 2			Property 3		
	Above Aver.	Below Aver.	Aver.	Above Aver.	Below Aver.	Aver.	Above Aver.	Below Aver.	Aver.
Increased:									
Land Values									
Value of Buildings or Im- provements									
Total Property Values									
Decreased:									
Land Values									
Value of Buildings or Im- provements									
Total Property Values									

- e. (Interviewer, classify neighborhood(s) on basis of definitions of neighborhoods.)

	Stable	Trans.↑	Trans.↓	Blighted
Property 1				
Property 2				
Property 3				

- f. Do you regard the public services such as schools, libraries, public transportation, neighborhood centers adequate to serve the needs of the neighborhood? Why?

2. a. Why did you acquire this property? (More than one box may be checked for each property; for instance a short term investment may reflect cash flow considerations.)

	Property 1	Property 2	Property 3
Inherited			
Cash flow			
Tax shelter			
Long term investment			
Short term investment			
Other (<i>specify</i>)			

- b. How long do you intend to keep it (from date initially acquired)?

	Property 1	Property 2	Property 3
No. years intend to keep			

- c. Summarize his investment strategy according to categories below and confirm, e.g., "then you are in the habit of investing for long-term?". If investor mentions more than one investment strategy, rank them in order (e.g., 1,2). See definitions of long-term and short-term.

<u>Investment Strategy</u>	<u>Rank</u>
Long-term capital appreciation	
Long-term rental income	
Short-term capital appreciation	
Short-term rental income (cash flow)	
Tax shelter	
Other (specify)	

3. *Identify the property(ies). How would you describe each of your properties? According to your matrix, get answers to fill in data sheet below and write others in space provided. (Compare the investor's classification of neighborhoods with the assessor's and other informants' descriptions of price movements which provide the basis for neighborhood classification.)*

	Property 1	Property 2	Property 3
Address			
Investor Report			
Neighborhood (stable, trans. ↑ ↓ , blighted)			
Assessor Report			
Neighborhood (stable trans ↑ ↓, blighted)			
*Age of building (no. of yrs. old)			
*Number of previous owners			
Number of dwelling units			
Purchased (P) or inherited (I)			
Year P or I			
Live in building?			
Commercial (C)/ Residential (R)			

* *Obtain this information from Assessor's records or other public records whenever possible.*

4. Are you the sole owner of this property or do you own it in a partnership, a real estate investment trust, a corporation, or another arrangement?

	Property 1	Property 2	Property 3
Sole owner			
Partnership			
Corporation			
Real estate investment trust			
Other (specify)			

- 4a. If other than sole owner: Who makes the decisions regarding the management of this property?

	Property 1	Property 2	Property 3
I do			
Someone else or joint (specify)			

5. Let's talk specifically about the neighborhood. Has the ethnic mix changed since 1966? (See definitions -- Operational Selection of Neighborhood)

	Property 1		Property 2		Property 3	
	1966	1971	1966	1971	1966	1971
Neighborhood % Black (B)						
% White (W); % Other (specify)						

6. a. Now, about your tenants, what is the racial composition and household income of the tenants at this property(ies)?

Race:	Property 1	Property 2	Property 3
% Black			
% White			
% Other (specify)			

Household Income:	Property 1	Property 2	Property 3
Below \$3K/year			
\$3 - 5K			
\$5 - 10K			
Over \$10K			

- b. Have tenants become more insistent on repairs and upkeep? (Check data box below and jot down notes in space provided.)

Tenant demands for repair and upkeep since 1966:	Property 1	Property 2	Property 3
Up			
Down			
Same			

- c. Have the characteristics of your tenants changed since 1966? (If yes, check the appropriate box(es).)

	Property 1	Property 2	Property 3
Younger			
Older			
More students			
More retired			
More ADC (welfare)			
More Whites			
More Blacks			
More other minority groups			
More children			
Less income			
More income			

d.

	Property 1	Property 2	Property 3
Average number of children per household			

7. a. How many apartments are presently vacant in this building? Is this level materially different from what it was in 1966?

	Property 1	Property 2	Property 3
Number units vacant			
Current Vacancy Level Compared to that of 1966			
Up			
Down			
Same			

- b. Has the average period of vacancy changed since 1966?

	Property 1	Property 2	Property 3
Current Average Period of Vacancy Compared to that of 1966:			
Up			
Down			
Same			

- c. What is the current average turnover for your tenants and how has it changed since 1966? (Check data box below and make notes in space provided.)

<u>Turnover</u>	Property 1	Property 2	Property 3
6 months or less			
1/2 year to one year			
1 - 2 years			
More than two years			
<u>Change</u>			
Up			
Down			
Same			

8. What do you think the current market value of this property is? On what basis do you make this estimate? If you were to sell your property today, would it market value have appreciated, depreciated, or remained the same since you purchased this property? (See definitions -- Calculation of Market Value of Properties (appreciation, depreciation)).

	Property 1	Property 2	Property 3
Current Market Value			
Land			
Buildings or Improvements			
Total			
How estimated (e.g., comparable properties, recent offers, other.)			
Appreciate (A), Depreciate (D) Remain the Same (S)			

9. a. What average rents do you charge monthly for:

	Property 1	Property 2	Property 3
Efficiency/studio			
One bedroom			
Two bedroom			
Three bedroom			
Commercial (specify)			

5. What services does this include?

	Property 1	Property 2	Property 3
Heat			
Water			
Electricity			
Furnished			
Other (specify)			

10. Who does minor building maintenance? (Check data box below and jot down notes in space provided.)

Maintenance	Property 1	Property 2	Property 3
Janitor			
Superintendent			
Management firm			
Contract cleaner			
Other (specify)			

Now I would like to ask you about some of the costs involved in owning property.

11. a. What was the purchase price of the property?

	Property 1	Property 2	Property 3
Price (\$)			
Year purchased			

b. What does your present debt structure look like? (Check the data box below and note comments in space provided.)

<u>First Mortgage</u>	Property 1	Property 2	Property 3
Purchase Money Mortgage			
Takeover or assumption of mortgage			
Type mortgage (e.g. conv., FHA VA)			
Interest rate			
Original maturity (years)			
Years remaining			
Principal remaining			

<u>Second Mortgage</u>	Property 1	Property 2	Property 3
Takeover or assumption			
Lender (e.g., seller; other indiv.; bank)			
Interest rate			
Original maturity			
Years remaining			
Principal remaining			

<u>Other</u>	<u>Property 1</u>	<u>Property 2</u>	<u>Property 3</u>
Takeover or assumption of mortgage			
Lender (e.g., seller; other indiv.; bank)			
Interest rate			
Original maturity			
Years remaining			
Principal remaining			

- c. Were you concerned about rises in the property tax when you purchased the property? If so, what was the nature of your concern?

12. Now let's talk about your gross income and expenditures from this building. (Ask about gross income and % change since 1966; costs for each year since 1966 and % change in costs since 1966. Check data boxes and note comments in space provided.)

a. Gross Income
Each Year Since 1966

	Property 1	Property 2	Property 3
1966			
1967			
1968			
1969			
1970			

	Property 1	Property 2	Property 3
% change in gross income since 1966			

b. Costs (in dollars)
Each Year Since 1966

	Property 1				
	1966	1967	1968	1969	1970
Administration/management					
Insurance					
Utilities					
Maintenance					
Debt Service					
Property taxes					
Other taxes					
Reserve for replacements or extraordinary repairs					
Other expenses					
Total expenses					

**Costs (in dollars)
Each Year Since 1966**

	Property 2				
	1966	1967	1968	1969	1970
Administration/management					
Insurance					
Utilities					
Maintenance					
Debt Service					
Property taxes					
Other taxes					
Reserve for replacements or extraordinary repairs					
Other expenses					
Total expenses					

	Property 3				
	1966	1967	1968	1969	1970
Administration/management					
Insurance					
Utilities					
Maintenance					
Debt Service					
Property taxes					
Other taxes					
Reserve for replacements or extraordinary repairs					
Other expenses					
Total expenses					

12. c. Could you ~~summarize~~, then, how your cash flow has changed since 1966?

13. Property taxes represent _____ % of the market value of this property? (Take market value from question 8, property tax from question 12, calculate effective tax rate, and check this with investor -- Obtain this information from Assessor's records whenever possible.)

	Property 1	Property 2	Property 3
Effective Tax Rate (per ADL calculation)	%	%	%
Effective Tax Rate (Assessors Record)	%	%	%

14. (Check Assessor's records for data on the effective tax rate in the neighborhoods where these properties are located.)

	Property 1	Property 2	Property 3
Average Neighborhood Effective Tax Rate			

15. a. If your taxes are increased, do you pass the increase on to the tenants?

	Property 1	Property 2	Property 3
Tax Passed on			
How soon after tax increase			
Tax not passed on			

- b. (Interviewer: calculate what percentage of gross income goes toward property taxes by comparing answers to Question 12a and 12b.)

	Property 1	Property 2	Property 3
% gross income			

- c. (If assessment records do not reveal the information.)
At what point, in relation to the due date, do you pay your property taxes?

	Property 1	Property 2	Property 3
Less than 1 month before due			
1 to 3 months before due			
More than 3 months before due			
After they are due			

- d. If after, why?

16. Thinking in terms of maintenance repairs and rehabilitation, how frequently do you: (ask each category, but don't read the intervals.)

<u>PROPERTY 1</u>	At Regular Intervals (state interval)	At Tenant Request	At Apt. Turnover	When Necessary	Other (specify)
<u>Window cleaning</u>					
<u>General cleaning</u>					
<u>Trash removal</u>					
<u>Lighting</u>					
<u>Minor plumbing</u>					
<u>Minor electrical repair</u>					
<u>Paint job</u>					
<u>Apartments</u>					
<u>Common area</u>					
<u>Exterior</u>					
<u>Decorating</u>					
<u>New bathroom appliances</u>					
<u>New kitchen appliances</u>					

<u>PROPERTY 2</u>	At Regular Intervals (state interval)	At Tenant Request	At Apt. Turnover	When Necessary	Other (specify)
<u>Window cleaning</u>					
<u>General cleaning</u>					
<u>Trash removal</u>					
<u>Lighting</u>					
<u>Minor plumbing</u>					
<u>Minor electrical repair</u>					
<u>Paint job</u>					
<u>Apartments</u>					
<u>Common area</u>					
<u>Exterior</u>					
<u>Decorating</u>					
<u>New bathroom appliances</u>					
<u>New kitchen appliances</u>					

<u>PROPERTY 3</u>	At Regular Intervals (state interval)	At Tenant Request	At Apt. Turnover	When Necessary	Other (specify)
<u>Window cleaning</u>					
<u>General cleaning</u>					
<u>Trash removal</u>					
<u>Lighting</u>					
<u>Minor plumbing</u>					
<u>Minor electrical repair</u>					
<u>Paint job</u>					
<u>Apartments</u>					
<u>Common area</u>					
<u>Exterior</u>					
<u>Decorating</u>					
<u>New bathroom appliances</u>					
<u>New kitchen appliances</u>					

17. a. Since 1966, have you done any of the following rehabilitation in any of these buildings?

	Property 1				Property 2				Property 3			
	No	Yes	Year	Cost	No	Yes	Year	Cost	No	Yes	Year	Cost
a. Heating Plant												
b. rewiring												
c. new lobby												
d. plumbing												
e. changing apartment size												
f. replastering												
g. external improvements												
	skip to Q23				skip to Q23				skip to Q23			

- b. What was the major reason behind each of these improvements?
 (Commercial: only for those expenditures paid by owner -- note rehabilitation type for each-- See definitions of rehab. Note: Do not read alternatives)

	Property 1	Property 2	Property 3
Replacement of worn-out equipment			
Pride of ownership			
To get new tenants			
To keep tenants			
Code violations			
Other (specify)			

18. Was it necessary to obtain a building permit for each of these changes?
(Specify type of rehab)

<u>Building Permit</u>	Property 1 -- Rehab Episode			
	I	II	III	IV
Yes				
No				

	Property 2 -- Rehab Episode			
	I	II	III	IV
Yes				
No				

	Property 3 -- Rehab Episode			
	I	II	III	IV
Yes				
No				

19. Generally, what kinds of improvements that a property owner makes to his property are likely to result in an increased assessment?

	Yes	No
Any improvement requiring a building permit		
Any exterior improvement		
Any time you purchase a new property, the property is reassessed		
Any improvement which eliminates a code violation		

Now I'd like to ask a bit about the consequences of your rehabilitation.

20. a. Were you reassessed as a direct result of the rehabilitation which you told me about? *(See definitions of rehab. Specify type of of rehabilitation.)* What was your assessment rate before rehabilitation? What was it after?

	Property 1				Property 2				Property 3			
	Rehab Episode				Rehab Episode				Rehab Episode			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Type of rehab												
Reassessed												
Yes												
No												
*Assessment value(\$)												
Before												
After												
*Property Tax												
Before												
After												

* Obtain information from Assessor's records or other public records whenever possible.

- b. How soon after the rehab were you reassessed?

	Property 1				Property 2				Property 3			
	Rehab Episode				Rehab Episode				Rehab Episode			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Date of rehab												
Date of reassessment												

c. What was your reaction to reassessment?

d. In each case, how did the change in the assessment compare with the cost of the improvement(s)?

	Property 1 Rehab Episode				Property 2 Rehab Episode				Property 3 Rehab Episode			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Change in assessment												
Cost of improvements												

21. What about financing? Did you get financing for the rehab work? What type of financing did you use? What percentage of the work was financed?
(Specify type of rehabilitation)

Property 1	Not Financed	Personal Loan	Mortgage	Other	% Financed	Interest Rate
Rehab I:						
Rehab II:						
Rehab III:						
Rehab IV:						

<u>Property 2</u>	Not Financed	Personal Loan	Mortgage	Other	% Financed	Interest Rate
Rehab I:						
Rehab II:						
Rehab III:						
Rehab IV:						

Property 3

Rehab I:						
Rehab II:						
Rehab III:						
Rehab IV:						

22a. After you rehabbed, did you find it necessary to raise rents. If so,
by how much?

	Property 1 Rehab Episode				Property 2 Rehab Episode				Property 3 Rehab Episode			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
Rent raised												
yes												
no-skip to Q22b												
How long after rehab?												
How much?												
Year before cover cost (e.g., number of years to recoup cost)												

b..Did the number of vacancies change as a result of this rehabilitation?
(Note rehabilitation type for each)

	Property 1 Rehab Episode				Property 2 Rehab Episode				Property 3 Rehab Episode			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
No												
Yes												
number before rehabilitation												
number after rehabilitation												

- c. From your experience, are properties which are kept in POOR condition assessed LOWER in relation to actual market value than properties kept in GOOD condition?

Higher _____

Same _____

Lower _____

Don't know _____

- d. Do you think this situation contributes to neighborhood blight or improvement? Why?

23. a. (Nonrehabilitators only) Have you ever considered rehabilitating?

	Property 1	Property 2	Property 3
No - skip to Q23c			
Yes			

b. If yes, What are you considering doing in the next two years?
(Jot notes in space provided)

What Planned?	A Htg	B Wiring	C Plumbg	D Partit	E Plast	F Addis	G Ext	H Other
Property 1								
Property 2								
Property 3								

c. If not, Why not?

difficult to obtain financing								
fear of reassessment								
deterioration of neighborhood								
unavailability of labor								
other								
rents could not be raised to cover costs								

24. a. (*Ask both rehabilitators and nonrehabilitators*). In your case, what are the most significant obstacles to rehabilitation? Rank the following from 0 to 5, with 0 the least and 5 the most significant obstacles.

Rank

Difficulty of obtaining financing

Fear of reassessment

Deterioration of neighborhood

Unavailability of labor

other

- b. What factors might induce you to undertake needed rehabilitation or repairs? (If rehabilitation has already been undertaken, what factors might have induced you to undertake it sooner or more intensively?)

- c. If you had a five-year abatement from reassessment due to major rehabilitation, would this affect your plans for rehabilitation?

Yes _____ No _____

- d. Would your reaction be any different if you were to receive a credit against the property tax owed in the year of rehab, instead of a five-year abatement from reassessment?

Yes _____ No _____

24. e. How much of a tax credit would you deem necessary to induce major rehab?

f. (If a willingness to rehabilitate is indicated). What rehabilitation would you do?	Property 1	Property 2	Property 3

25. How has the assessed value of each of these properties changed since 1966? (Obtain this information from Assessor's records or other public records whenever possible.) Why?

	Property 1	Property 2	Property 3
Assessed valuation at date of purchase			
Year assessment changed			
Why?			
rehabilitation			
town assessment			
random assessment			
don't know			
other (specify)			
Current assessed valuation			

26. a. Have you ever appealed the assessment of your property?

Yes _____ No _____

If yes, what were the results?

No change

Assessment decreased less than 10%

Assessment decreased more than 10%

Property 1

Property 2

Property 3

- b. Are you concerned about possible increases in the property tax? Why?

- c. Are assessments made equitably throughout the city?

27. What do you think keeps some people from maintaining and upgrading their property?
(Do not read alternatives.)

	Yes	No
Properties rehabilitated will get increased assessment		
Building permit = tax increase		
External improvements will bring in assessor		
Assessors redo whole property, not just changes		
New property owner always reassessed		
Difficulty of obtaining financing		
Fear of reassessment		
Deterioration of neighborhood		
Unavailability of labor		
Other (specify)		

28. What specific changes, if any, in the property tax and its administration would you recommend to encourage more landlords to keep their property in good repair? (Jot notes in space below. Builders: ask specifically incentives needed for new construction; effect of differential tax or reassessment on new construction. Ask how the tax rate compares with other surrounding areas and its impact on rehabilitation and new development decisions.)

29. Could you comment on the following alternatives which have been suggested as possible means of reform? Comment on each alternative using the terms "very desirable", "desirable", "undesirable" and "very undesirable". Then rank the best three alternatives 1-2-3 in the order of your preference.

Alternative 1:	<u>Comment</u>	<u>Rank</u>
Assessing property on the basis of present use of land without regard to improvements or physical deterioration;	_____	_____
Alternative 2:		
Assessing property on the basis of the highest and best use of land only, without regard to improvements or physical deterioration or present zoning;	_____	_____
Alternative 3:		
Assessing property so that land values are subject to a higher rate than improvements;	_____	_____
Alternative 4:		
Assessing income-producing property on the basis of capitalization of net income (rental receipts minus expenses for operations, maintenance, repairs and replacement);	_____	_____
Alternative 5:		
Assessing income producing property on the basis of a fixed proportion (e.g., 15 percent) of annual gross rent receipts;	_____	_____
Alternative 6:		
Reassessing property improvements, but offering a five-year tax abatement on the improvement;	_____	_____
Alternative 7:		
Imposing higher taxes on properties in violation of local housing and building codes;	_____	_____
Alternative 8:		
Assess properties on the basis of their present use, but assume standard conditions, e.g., full compliance with the local codes. (This approach involves a penalty for properties which are kept in substandard condition.)	_____	_____
Alternative 9:		
Assess properties on the basis of the current method of assessment.	_____	_____

Thank respondent and terminate.

INSTRUCTIONS TO INTERVIEWERS: INVESTOR INTERVIEW

INTRODUCTORY CONVERSATION:

Begin a casual conversation.

Ask respondent how he got involved in real estate; how long he has been in real estate; has his investment strategy changed over these years, how?

Ask respondent in what types of neighborhoods he likes to invest? Why? What types of problems he faces in the neighborhoods in which he does invest -- tenants, crime/violence, etc.?

Q1b Refer to definitions -- Operational Selection of Neighborhood; obtain data on land and property values from the Assessor's records whenever possible.

1c Refer to definitions -- Operational Selection of Neighborhood.

1d Refer to definitions -- Operational Selection of Neighborhood.

Q2a. Refer to definitions of long-term and short-term.

2c. Refer to definitions of long-term and short-term.

Q3. Obtain data on age of building and number of previous owners from Assessor's or other public records whenever possible.

Q5 Refer to definitions -- Operational Selection of Neighborhood.

Q8 Refer to definitions -- Calculation of Market Value of Properties.

Q12 It is extremely important to collect as accurate data as possible on gross income and individual cost items.

Q13 Obtain property tax data from Assessor's records and check with investor.

Q14 Obtain effective tax rate in the neighborhood where properties are located from Assessor's records or other public records.

Instructions to Interviewers -- Investor Questionnaire (continued)

Q17b Refer to definitions of rehab.

Q20a Refer to definitions of rehab and obtain information concerning assessment value and property tax from Assessor's records and other public records.

Q25 Obtain information from Assessor's records or other public records whenever possible.

B. HOMEOWNER INTERVIEW

HOMEOWNER INTERVIEW

Interviewer _____

City _____

Respondent _____

Date _____

INTRODUCTORY TELEPHONE CALL

My name is _____ and I work for Arthur D. Little, Inc., a management consulting firm located in Cambridge, Massachusetts. We are doing a study for the Department of Housing and Urban Development of center city property owners and managers, and the problems they encounter in the ownership and maintenance of property in the city. We are especially interested in finding out what effect property taxation has on the maintenance and improvement of properties. We are talking to property owners and managers in ten cities all over the country. Your name has been given to us as an owner of property here in _____ (name city). Can we make an appointment to talk with? The terms of our contract with the Department of Housing and Urban Development provide that any information we receive during this study from particular property owners will be strictly confidential. No information will be given to either HUD or any other government agency or official in a form that will identify data with the participants in our study.

INTERVIEW

Repeat above introduction, say something about yourself here to make the atmosphere more informal if you choose. See interview instructions for possible introductory conversation.

1. Let's talk about the property you own at _____
 (Give address). How would you describe your building? (Fill in data sheet
 below and write comments in the space provided. Obtain information on
 age of building and number of previous owners from Assessor's records or
 other public records whenever possible.)

Age of building (no. of years old) _____

Number of previous owners _____

Purchased (P); or Inherited (I) _____

Year P or I _____

2. What is the condition of the property? (See definitions of rehab.
 (Note -- more than one box may be checked.)

Needs Extensive Reconstruction	Needs Moderate Renovation	Needs Minor Repairs	Recently Rehabilitated	Well Maintained	Other
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

3. a. Why did you buy this property? (See definitions of long-term and short-term. Check data box and write comments in space provided.)

Investment

Long-term capital appreciation _____

Short-term speculation _____

Other (specify) _____

Non-Investment

Inherited _____

Desire for more space (larger house) _____

Desire for less space (smaller house) _____

Better school system _____

Better neighborhood (environment,
less densely populated, etc.) _____

Closer to work _____

Other (specify) _____

- b. How long do you intend to keep this property? (State in years from date of purchase.)

Number of years intend to keep from date of purchase _____.

Why?

4. What are the advantages or disadvantages of owning property in this neighborhood?
(See definitions of neighborhood)

5. Let's talk specifically about the neighborhood. Has the ethnic mix changed since 1966? (See Definitions -- Operational Selection of Neighborhood. Note respondent's definition of his neighborhood boundaries and note how it compares with the neighborhood boundary we have developed through city reconnaissance.)

Neighborhood	% Black		% White		% Other (specify)	
	1966	1971	1966	1971	1966	1971

6. a. Since 1966 have prices in this neighborhood increased, decreased, or stayed the same? Why? (See Definitions -- Operational Selection of Neighborhood. Obtain this data from the Assessor's records and other public records whenever possible.)

	Up	Down	Same
Current total property values in neighborhood as compared to those in 1966			

- b. How does the change in total property values since 1966 for this neighborhood compare with price movements in the city generally?

	Above Average	Average Change	Below Average
Relative price movements			

- c. How do total property values in this neighborhood compare with current values in the city generally?

	Above Average	Average Change	Below Average
Total property values in this neighborhood as compared with current property values in the city generally			

- d. Interviewer -- classify neighborhood on basis of definitions of neighborhoods.)

	Stable	Trans. ↑	Trans. ↓	Blighted
Neighborhood				

7. What do you think the current market value of this property is? On what basis do you make this estimate?

Current Value (\$) _____

How Estimated?

Sales of comparable properties _____

Recent offer _____

Other (specify) _____

Now I would like to ask you about some of the costs involved in owning property.

8. a. What was the purchase price of this property? \$ _____
- b. What was the year of purchase? _____ year
- c. *(Interviewer: calculate the change in the market value of this property by comparing the answer to Q7 with the answers to Q8a,b. See Definitions -- Calculation of Market Value of Properties.)*

If property owner were to sell his property today, would its market value have

appreciated _____

depreciated _____

remained the same _____

9. What does your present debt structure look like? (Check the box below and note comments in space below.)

	1st Mortgage	2nd Mortgage	Other (specify)
Purchase money mortgage			
Takeover or assumption of mortgage			
Type mortgage (e.g., conventional, FHA, VA)			
Interest rate			
Original maturity (years)			
Years remaining			
Principal remaining			

10. Approximately how much do you pay a month for principal and interest (include all mortgages but exclude taxes and insurance)? (Check one)

\$50 and under	_____	226 - 300	_____
51 - 75	_____	301 or more	_____
76 - 100	_____	Don't know (refused)	_____
101 - 125	_____		
126 - 150	_____		
151 - 175	_____		
176 - 225	_____		

11. a. What cost items would you say have changed the most since 1966?

b. How would rank the following in terms of % changes in cost?

Insurance _____

Utilities _____

Maintenance _____

Interest _____

Property tax _____

12. a. What is the amount of your annual property tax? \$ _____.
- b. Then property taxes represent _____ % of the market value of this property? *(Take market value from question 7, property tax from question 12a, calculate effective tax rate and check this with the homeowner.)*
- c. *(If assessment records do not reveal the information)* At what point, in relation to the due date, do you pay your property taxes?
- | | |
|-----------------------------------|-------|
| less than one month before due | _____ |
| 1 to 3 months before due | _____ |
| more than three months before due | _____ |
| After due | _____ |
- If after, Why?*

13. Thinking in terms of rehabilitation, when did you last:

	Year	Cost (\$)	Description
Interior paint/wallpaper (indicate no. of rooms)			
Exterior paint (indicate extent-- trim, entire house, etc.)			
New Roof			
New Bathroom (appliances)			
New Kitchen (appliances)			

14. Have you ever done any of the following rehabilitation?

	<u>No</u>	<u>Yes</u>	<u>If yes: Year</u>	<u>Cost (\$)</u>
a. heating plant	—	—	_____	_____
b. rewiring	—	—	_____	_____
c. plumbing	—	—	_____	_____
d. changing partitions	—	—	_____	_____
e. replastering	—	—	_____	_____
f. additions	—	—	_____	_____
g. external improvements	—	—	_____	_____
h. other (specify)	—	—	_____	_____

Skip to
Q19

15. What was the major reason behind (each of) the rehabilitation(s)?
(Specify type of rehabilitation)

Rehab Episode:	Replace Worn out Equipment	Replace- ment Cycle	Pride of Owner- ship	Code Viola- tions	Moderniza- tion	Property Appreciation	Other
Rehab I: (specify)							
Rehab II: (specify)							
Rehab III: (specify)							
Rehab IV: (specify)							

16. Was it necessary for you to obtain a building permit for each of these changes?

Rehab Episode	Yes	No
Rehab I (specify)		
Rehab II (specify)		
Rehab III (specify)		
Rehab IV (specify)		

Now I'd like to ask about the consequences of your rehabilitation.

17. Were you reassessed as a direct result of the rehabilitation?

Rehab Episode	Reassessment		Assessment Value		Assessment/Market Ratio		Property Tax Payment (\$)	
	Yes	No	Before	After	Before	After	Before	After
Rehab I:								
Rehab II:								
Rehab III:								
Rehab IV:								

18. What about financing? Did you get financing for the rehab work? What type of financing did you use? What percentage of the work was financed?

Financed?	Rehab I	Rehab II	Rehab III	Rehab IV
Yes				
No				

	Personal Loan	Mortgage	Other (Specify)
Rehab I:			
How financed?			
Repayment period? (years)			
% financed			
Interest Rate			

	Personal Loan	Mortgage	Other (specify)
Rehab II:			
How financed?			
Repayment period?(years)			
% financed			
Interest Rate			
Rehab III:			
How financed?			
Repayment period?(years)			
% financed			
Interest Rate			
Rehab IV:			
How financed			
Repayment period?(years)			
% financed			
Interest Rate			

19. Are there moderate or extensive changes which you feel are needed on your home at the present time?

Yes _____

No _____ - go to Q.20

19a. If yes: What are you considering doing in the next two years?
(Jot notes separately)

	A	B	C	D	E	F	G	H
	Htg	Wiring	Plumbg	Partit	Plast	Adds	Ext	Other
What planned								

19b. If not, Why not? If yes, what obstacles have kept you from making changes before now? (Do not read alternatives)

Difficult to obtain financing								
Fear of reassessment								
Deterioration of neighborhood								
Unavailability of labor								
Other								

19c. In your particular case, what are the most significant obstacles?
Rank the following from 0 to 5, with 0 the least and 5 the most significant obstacles.

Neighborhood considerations _____

Difficulty of obtaining financing _____

Unavailability of labor _____

Fear of reassessment _____

Other (specify) _____

20. a. What factors might induce you to undertake needed rehabilitation and repairs? (If rehabilitation has already been undertaken, what factors might have induced you to undertake it sooner or more intensively?)
- b. If you had a five-year abatement from reassessment due to major rehabilitation, would this affect your plans for rehabilitation?
- Yes _____ No _____
- c. Would your reaction be any different if you were to receive a credit against the property tax owned in the year of rehab, instead of a five-year abatement from reassessment?
- Yes _____ No _____
- d. How much of a tax credit would you deem necessary to induce major rehab?
- e. *(If a willingness to rehabilitate is indicated)* What rehabilitation would you do?

21. a. How much has the assessed value of this property changed since 1966?
Why has it changed? *(Obtain this information from Assessor's records
or other public records whenever possible.)*

Year Changed	Assessed Value	
	Before	After

	Rehabilitation	General Reassess.	Random Reassess.	Don't Know	Other (Specify)
Why?					

21. b. Have you ever appealed this assessment? If so, what were the results?

- c. What was the property tax on this property when you purchased it? *(compare the answer to this question with the answer to Q12a, current property tax -- obtain this information from the Assessor's records or other public records whenever possible.)*

Property Tax at Date of Purchase	
Amount of Tax (\$)	

- d. Were you concerned about possible rises in property tax when you purchased this property? Why?

- e. Are you now concerned about possible rises in the property tax? Why?

22. a. Generally, what do you think keeps some people from maintaining and upgrading their property? *(Do not read alternatives. Jot notes below.)*

	Yes	No
Indifference about quality of property		
Neighborhood conditions, e.g. blight, vandalism		
Rehabilitation on property will increase taxes		
Building permit = tax increase		
External improvements will bring in assessor		
Assessors redo whole property not just the improvements		
New property owners are always reassessed		
Assessments are inequitable		
Other <i>(specify)</i>		

- b. Do you think property taxes are assessed fairly for property owners in the city?

- c. From your experience, are properties which are kept in poor condition assessed lower than properties kept in good condition?

Higher _____

Lower _____

Same _____

Don't know _____

- d. Do you think this situation contributes to neighborhood blight, or improvement? Why?

23. What specific changes, if any, in the property tax and its administration would you recommend to encourage more people to keep their property in good repair or to build new houses?

24. Could you comment on the following alternatives which have been suggested as possible means of reform? Which do you prefer? Comment on each alternative using the terms "very desirable", "desirable", "undesirable", and "very undesirable". Then rank the best three alternatives 1, 2, 3, in the order of your preference.

HAND OUT CARD WITH ASSESSMENT ALTERNATIVES

	<u>Comment</u>	<u>Rank</u>
Alternative 1:		
Assessing property on the basis of present use of land without regard to improvements or physical deterioration;	_____	_____
Alternative 2:		
Assessing property on the basis of the highest and best use of land only, without regard to improvements or physical deterioration or present zoning;	_____	_____
Alternative 3:		
Assessing property so that land values are subject to a higher rate than improvements;	_____	_____
Alternative 4:		
Reassessing property improvements, but offering a five-year abatement on the improvement;	_____	_____
Alternative 5:		
Imposing higher taxes on properties in violation of local housing and building codes;	_____	_____
Alternative 6:		
Assess properties on the basis of their present use, but assume standard conditions, e.g., full compliance with the local codes (This approach involves a penalty for properties which are kept in substandard condition.);	_____	_____
Alternative 7:		
Assess properties according to the current method of assessment.	_____	_____

Thank respondent and terminate.

INSTRUCTIONS TO INTERVIEWERS: HOMEOWNER INTERVIEW

INTRODUCTORY CONVERSATION:

Begin a casual conversation.

Ask respondent what he likes or dislikes about the neighborhood in which his property is located. Probe for: his identification with the neighborhood; historical background of neighborhood; extent of urban renewal; presence of housing projects; and quality of public services.

Ask respondent if he has any intention of selling his property and moving. If so, why? Where to?

Q1: *Obtain data on the age of building and number of previous owners from the Assessor's records, whenever possible. Otherwise check other public records (e.g., building permits) before asking interviewee.*

Q2: *Refer to definitions of rehabilitation.*

Q3a: *Refer to definitions of short-term and long-term.*

Q4: *Refer to definitions of neighborhood type.*

Q5: *Refer to definitions -- Operational Selection of Neighborhood*

Q6a: *Refer to definitions of neighborhood; obtain data from Assessor's records and other public records whenever possible.*

6b: " "

6c: " "

Q7: *Refer to definitions -- Calculation of Market Value of Properties.*

Q21a: *Obtain data from Assessor's records or other public records whenever possible.*

21b: " "

MATRIX

NEIGHBORHOOD	HOMEOWNER	INVESTOR LESS THAN 35 UNITS	INVESTOR 35+ UNITS	DEVELOPER	COMMERCIAL
BLIGHTED					
TOTAL					
TOTAL ED					
STABLE RESIDENTIAL					

NOTE: A complete matrix for each city should have a minimum of 40 properties and 20 respondents. There should be one homeowner for each neighborhood; two commercial and two owner/developer respondents per city with as many properties as possible for each; the remainder of the properties and respondents should be as evenly distributed among the investor boxes as possible.

MATRIX

NEIGHBORHOOD	HOMEOWNER	INVESTOR LESS THAN 35 UNITS	INVESTOR 35+ UNITS	DEVELOPER	COMMERCIAL
BLIGHTED					
TRANSITIONAL UPWARD					
TRANSITIONAL DOWNWARD					
STABLE RESIDENTIAL					

NOTE: A complete matrix for each city should have a minimum of 40 properties and 20 respondents. There should be one homeowner for each neighborhood; two commercial and two owner/developer respondents per city with as many properties as possible for each; the remainder of the properties and respondents should be as evenly distributed among the investor boxes as possible.

MATRIX

NEIGHBORHOOD	HOMEOWNER	INVESTOR LESS THAN 35 UNITS	INVESTOR 35+ UNITS	DEVELOPER	COMMERCIAL
BLIGHTED					
TRANSITIONAL UPWARD					
TRANSITIONAL DOWNWARD					
STABLE RESIDENTIAL					

NOTE: A complete matrix for each city should have a minimum of 40 properties and 20 respondents. There should be one homeowner for each neighborhood; two commercial and two owner/developer respondents per city with as many properties as possible for each; the remainder of the properties and respondents should be as evenly distributed among the investor boxes as possible.

C. ASSESSOR INTERVIEW

ASSESSOR INTERVIEW

Interviewer _____

City _____

Respondent _____

Date _____

INTRODUCTION

We are conducting a study for the Department of Housing and Urban Development aimed at providing a better understanding of the housing market in the central areas of large cities and the factors, such as property taxes, that affect that market. What I would like to do is talk with you about your perceptions of the housing market.

I want you to understand that only Arthur D. Little staff will have access to these interview notes. Although in our reports and working memoranda no names will be used, by the very nature of your position it may be possible for one familiar with this city to pinpoint your comments. However, we shall use our judgment to avoid anything that might prove embarrassing if a person could be identified. If you wish to make a comment "off the record", however, you are urged to do so. This will help us in analyzing and interpreting information for this city.

INTERVIEW

1. Can you give me a little background on yourself?
 - (a) Are you elected or appointed?
 - (b) How long have you been in this job?
 - (c) How many properties are there in the city?
 - (d) How many assessors are there in the city?
 - (e) What is your function? (What do you do?)

(f) To whom do you report?

2. How would you describe the assessment policies in this city? How do they work out?

(a) First of all, about how many reassessments do you make in a year due to improvements in existing property? Due to new construction?

(b) What are the official assessment-sales ratios by type of property (e.g., residential, commercial, industrial)?

(c) What is the tax per \$1000 of assessed value? Does it differ by type of property? by condition of property, city neighborhood?

	Single Family	Multi- Family	Commercial	Industrial
Tax per \$1000 assessed value				

(d) How do you determine the assessed value of property?

- By comparison with recent sales?
- By formulae for type and location of building? (show formula)
- By capitalized value of income stream, etc.? (how calculated)

(e) What criteria are used to determine when a property should be reassessed? How have these criteria changed over the past five years?

(f) Do these criteria differ by types of property (e.g., residential, commercial, industrial) or by neighborhoods in the city?

(g) Do you reassess the whole property or just the improvements?

3. Let's discuss general reassessment practices. Even if properties haven't been improved, are they generally reassessed at certain intervals?

(a) When was this city's last general reassessment?

(b) Are reassessments regularly scheduled? How frequently? Does the schedule differ by type of property? By neighborhood?

(c) Do you think this schedule is appropriate? If not, why not?

4. Let's discuss market changes and assessment practices.

(a) How do assessors keep abreast of market changes?

(b) How do you get information on a property?

If sold?

If newly constructed?

If rehabilitated?

(c) To what extent do you rely upon information on file with the building permit office?

(d) Do all building permits lead to reassessment?

(e) What proportion of all property improvements which legally require a building permit actually obtain one?

(f) What measures, if any, are taken to assure consistent evaluations by different assessors?

(g) Are there assessment policies which, as a practical or political matter, cannot be enforced?

5. Let's discuss appeals procedures.

(a) Under what circumstances does a property owner usually appeal his tax liability?

(b) Please explain the various means of appeal, both formal and informal, by which a property owner can appeal what he considers to be an unjust assessment.

(c) If local appeals are unsuccessful, is there a state appeal procedure? Could you describe it?

(d) Approximately how many appeals were there last year?

(e) About what percent of the appeals result in adjustments in property assessments and tax liability?

6. (a) How many tax delinquent properties are there in the city?

(b) Are they concentrated in particular neighborhoods?

(c) What are the major reasons for these delinquencies?

7. (a) Approximately how many abandoned structures are there in the city?
- (b) What indications do you have that a property will be abandoned e.g., a tax delinquency?
- (c) Under what conditions do landlords abandon their properties? Be specific.

8. Now let's talk about the problems you face as an assessor.

(a) Which problems are most frequent in day-to-day operations?

(b) What long-term fundamental problems do you face?

(c) What pressures do you get from different groups?

- (d) When you reassess, do some groups challenge the new assessments more frequently than others? Which groups? Using what means?

9. How has the real estate market changed in this city over the last five years?

(a) Have the values of real estate gone up, gone down or stayed the same?

Estimate % Change
Since 1966

For commercial _____

For residential _____

For industrial _____

Why?

(b) Has the mix between commercial, residential and industrial changed? _____; If yes, in what direction? _____

Why? Why not?

10. We are trying to delineate three neighborhood types: stable, transitional (upward and downward) and blighted. (*Read definitions of these neighborhood types to assessor*) Could you describe the major areas of the city which would clearly fit into each of these categories? (*Make certain that neighborhood boundaries are defined*)

- (a) Which of these areas have changed since 1966?
In what direction?

Specifically how and why did this happen?

(b) To what extent has the presence of tax exempt properties contributed to the stability or deterioration of the neighborhood(s) identified above?

(c) Where do you think each area is heading? Why?

Blighted:

Transitional (downward):

Transitional (upward):

Stable:

11. What are the main things we should know about those neighborhoods which you have classified as blighted?

(a) What has caused these neighborhoods to become blighted?

- (b) How would you rank the following as causative factors? Rank these factors from 1 to 5 with 1 the most causative and 5 the least.
(Note comments in space provided)

- | | <u>Rank</u> |
|--|-------------|
| (1) Aging of buildings in neighborhood | _____ |
| (2) Unwillingness of owners to repair deterioration because | |
| (a) of high cost of repairs and equipment replacement | _____ |
| (b) fear of possible property tax increase | _____ |
| (3) Growing indifference of residents in neighborhood | _____ |
| (4) Moveout of more stable residents, replaced by persons
who have less pride in appearance of neighborhood | _____ |
| (5) Depopulation of neighborhood | _____ |

12. Do you think that the property tax and its administration have any effect on the quality of the housing stock?

Yes _____ No _____

- (a) How does it affect investor behavior in terms of the decision to purchase or not to purchase new properties?

(b) How does it affect investor behavior in terms of building new apartments in your city versus other cities?

(c) How does the property tax affect investor behavior in terms of maintenance and upkeep of properties presently owned?

(d) Does this differ by condition of property, neighborhood, size of investor?

13. (a) Do you believe most property owners understand the circumstances which bring about reassessments?

(b) Do you believe most property owners understand the tax consequences resulting from improvements?

(c) To what extent do the concerns of property owners regarding tax consequences inhibit rehabilitation of their properties?

(d) What can be done with the property tax and its administration in order to eliminate or reduce these inhibitions?

14. Now we would like to ask your views about possible reforms in public policy.

(a) What changes in the property tax or assessment practices would encourage new construction in this city?

(b) What changes in assessment practices and property taxes would you suggest to encourage good maintenance, upkeep and modernization? Would these changes differ for areas in which there are racial or ethnic concentrations?

(c) Can you suggest any reforms in assessment or tax practices which would minimize housing abandonments?

15. Could you comment on the following alternatives which have been suggested as possible means of reform? Comment on each alternative using the terms "very desirable", "desirable", "undesirable", and "very undesirable". Then rank the best three alternatives 1, 2, 3 in the order of your preference.

Alternative 1:

Comment: **Rank:**

Assessing property on the basis of present use of land without regard to improvements or physical deterioration;

Alternative 2:

Assessing property on the basis of the highest and best use of land only, without regard to improvements or present zoning;

Alternative 3:

Assessing property so that land values are subject to a higher rate than improvements;

Alternative 4:

Assessing income-producing property on the basis of capitalization of net income (rental receipts minus expenses for operations, maintenance, repairs and replacement);

Alternative 5:

Assessing income producing property on the basis of a fixed proportion (e.g., 15 percent) of annual gross rent receipts;

Alternative 6:

Reassessing property improvements, but offering a five-year abatement on the improvement;

Alternative 7:

Imposing higher taxes on properties in violation of local housing and building codes;

Alternative 8:

Assess properties on the basis of their present use, but assume standard conditions, e.g., full compliance with the local codes. (This approach involves a penalty for properties which are kept in substandard condition.);

Alternative 9:

Assess properties on the basis of the current method of assessment.

16. What, if any, changes in assessment practices should be encouraged by the Federal Government? How?

17. Could you give me the names of people knowledgeable about the field of housing in this city to whom I could talk?

D. PROPERTY DATA SHEET

PROPERTY DATA SHEET

(Using data from official records, complete one copy of this form for each property included in the survey.)

Address of property: _____

Owner: _____

Date(s) data were assembled _____

Sources: _____

I. General Background

1. Year Built: _____

2. Dates and sales prices of transfers:

Dates	Initial Acq.								
Prices									

3. Assessment history:

Dates Assessed									
Value Assigned									
Land Only									

Property Data Sheet (continued)

4. Property tax history over the last ten years:

	Assessed Value	Rate	Amount of tax	Paid on time? "yes" "no" If no, date paid	Appeal filed Date action
1961					
1962					
1963					
1964					
1965					
1966					
1967					
1968					
1969					
1970					

II. Questions included on Investor and/or Homeowner Questionnaires for which data should be obtained initially from Assessor's records or other public records (includes questions not covered above).

- 1. How do current total property values (land and improvements) in the neighborhood compare to those of 1966?**

Up	Down	Same

- 2. How do changes in total property values in this neighborhood compare to price movements in the city, generally?**

Above Average	Average Change	Below Average



3 0000 076 187 917