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As sad as this state of affairs is for so many people in the United States, the absence of decent, affordable housing (as well as the corruption and fraud involved in the development of such housing units) is a symptom of a much deeper systemic problem caused by our tax system. For twenty years, from 1985 to 2005, I worked as a manager and market analyst at Fannie Mae. What became clear to me was the power of the property tax -- as structured -- to destroy communities. The mainstream property tax is a disincentive to the production of new housing or renovation of existing, older housing. The band-aid solution utilized by too many communities is to offer tax abatements on new construction. What this essentially does is raise the price owners of land can charge to developers, who can pass on the added cost to purchasers because the monthly escrow for property taxes during the abatement period is a small percentage of what the actual tax obligation will be when the abatement expires. Thus, the buyer/mortgagor is able to qualify for a much larger loan than would be the case if the full property taxes were imposed.

Owners of land (and land speculators) benefit as well by the almost universally-low effective rates of taxation on vacant and underdeveloped land. The assessment of land, whether vacant or highly developed, is rarely kept current with rising - or falling - market values. The result is that land values in high priced markets are almost universally under-assessed, while in neighborhoods experiencing declining values the assessed value becomes a higher percentage of market value. One remarkable exception existed in the town of Greenwich, Connecticut, during the years when the city assessor kept land assessments current based on market data. The assessor, Ted Gwartney, reported several years ago that the assessed value of land in the city represented 70 percent of the total property values.

The economics are well-understood by analysts of land markets. Every parcel or tract of land has some potential annual rental value. This rental value is determined by many factors, but locational advantages are the primary determinants. A location may be highly desira-