

THINKING DIFFERENTLY about Development



BY JOE MINICOZZI

Communities often experience some level of disconnect between economic development policy and ensuring sufficient tax revenue to cover the cost of the services the government provides. Suburban projects tend to be favored over denser downtown development, but data from more than 30 jurisdictions across 10 states¹ show that a municipality receives a greater level of revenue from its denser and more walkable urban patterns than its suburban pattern of development. Considering this information provides local government officials with an opportunity to consider development from a different angle.

The studies this article is based on cover municipal revenues per acre across states from California to Maine and Montana to Florida, including wealthy cities such as Mountain View, California, and less affluent towns such as Driggs, Idaho, and Dunn, North Carolina. The data consistently confirm that mixed-use, dense development produces

greater revenues per acre than low-density patterns. In most cases, the proportion of revenue growth is exponential, not proportional, based on density increases. The “per acre” measurement is important; it is similar to judging the efficiency of a car in a “per gallon” basis. Both land and gasoline are finite resources, and comparing the consumption of the resource can be the easiest way to understand the efficiency of the product. This is especially true when annexation is difficult or impossible, limiting the amount of land available.

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CASE STUDY: SARASOTA COUNTY

Consider the example of Sarasota County, Florida (see “The Missing Metric,” in this issue of *Government Finance Review*), which asked the following question: Can properties and cash-flow be isolated, geospatially, as revenue model? The state of Florida hired a consultant to assess the cost of public facilities for residential properties to help demonstrate the costs asso-

Exhibit I: Costs Associated with Land Development Patterns



This map shows a notable lack of consistency of land valuation on a per-acre basis. The small property (A) is double the value of the parcels across the street (B). There are also notable outliers in the residential neighborhoods.

Land Assessment

Assessed Value Per Acre

Dark Blue	\$ 0.00-\$ 5,000.00
Blue	\$ 5,000.01-\$10,000.00
Light Blue	\$10,000.01-\$15,000.00
Very Light Blue	\$15,000.01-\$20,000.00
Pink	\$20,000.01-\$25,000.00
Yellow	\$25,000.01-\$30,000.00
Light Orange	\$30,000.01-\$35,000.00
Orange	\$35,000.01-\$40,000.00
Dark Orange	\$40,000.01-\$45,000.00
Red-Orange	\$45,000.01+

Source: Urban3

Exhibit 2: Comparative Performance of Suburban and Multi-family Housing (Sarasota County, 2009)

	Suburban	Urban
Land Consumed	30.6 acres	3.4 acres
Public Facility Costs	\$10 million	\$5.7 million
County Tax Yield (annual)	\$238,529	\$1.98 million
Payback Period	42 years	3 years
Taxes Generated per \$1,000 in Public Investment	\$238	\$1,756
County ROI	2%	17.6%

See Exhibit 3 on page 28 for more information.

Source: Urban3

ciated with spreading out land development patterns (see Exhibit 1).² Using this report, an apples-to-apples comparison was made between a suburban multi-family unit and a multi-family unit located downtown (see Exhibit 2).

Assuming a finite limit to the downtown example — if tax value and density were cut in half — the suburban ROI would still be much smaller. Projecting this kind of cash flow out 20 years puts the county in the red by \$5 million, using the suburban model, while the urban model shows a profit of more than \$20 million. (These numbers did not account for the revenues that go to the city or the additional services the city must provide.)

Decades of research indicates that municipalities do need to account for costs and revenues within a geographic location.³ In addition to accounting for administrative costs, jurisdictions also need to account for the cost of government “on the ground.” A municipality can be looked at as a very large real estate development corporation; in that light, city administrators would be fund managers for (in some cases) multi-billion-dollar portfolios. Although we don’t think of running a municipality this way, there’s something to the idea.

Following this logic, a “value per acre” analytic was applied to the entire city of Mountain View. This is the hometown of Google, and as an homage, the data were exported into Google Earth, allowing users to experience the value difference in three dimensions. The results were interesting, and logical. (See Exhibit 3.) The downtown area was expected to show a great deal of value, but the

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difference between that core area and immediately adjacent neighborhoods is dramatic. It should also be noted that the majority of downtown buildings have fewer than three stories. Additionally, the data show that “downtown scaled values” were popping up in other areas of the community. This analytic helps community leaders identify the high-performance parts of the community and, perhaps, identify new policies to make the best use of those areas. High-scaled value is not limitless, but even adding more of the development patterns that are happening at the transit-oriented developments (TODs) could add significantly to public coffers.

Real estate developers are constantly looking for ways to advance their portfolios by seeking new retail tenants, looking for new properties to develop, and keeping an eye on broader capital markets and real estate trends. Savvy developers understand who is in their marketplace, who their competition is, and even what that market will look like 20 to 30 years into the future. They are also conscious of how all the parts of their portfolios are performing — giving local government officials another way to think about their communities.

THE VALUE OF COMMUNITIES

Thinking differently about how local governments might be run is an argument for how we think of the places we make, and their inherent value. Jurisdictions sometimes make policy decisions that actually undermine their ability to create value. Our taxation system is based obliquely on “value” as a non-invasive way to assess a taxation rate, which is calculated through a complicated rubric that mixes in estimates of market demand and inherent value.

But assessment methodology cannot always bring about the intended consequences. For instance, a basic standard is “the larger the parcel of land, the lower its unit value on a per unit basis.” The rationale is that as the unit of land gets larger, fewer buyers can afford it. Missing from that equation, however, are the public costs tied to that parcel. Land is not like a manufactured item that gets less expensive with each additional unit produced. The larger a tract of land, the more expensive it becomes to provide services to it — especially when those large parcels sit at the periphery of the community. That’s because the farther

Exhibit 3: 3D Depiction of Land Value per Acre in Mountain View



Source: Urban3

The areas of greatest revenues per acre are easy to spot, and the values dissipate quickly. Higher density transit-oriented development also provides this community with impressive returns in along the rail line.

away from the center of the community a piece of land lies, the more roads, pipes, and wires must be put in place to reach that land. Sending fire, police, and medical teams is also more costly. It might make sense, then, to reconsider the common practice of discounting the tax rates for owning that land.

As an example, the community in Exhibit 1 had a distinct dichotomy. On one side of the street, there was a shopping mall and a parking lot, surrounded by streets, totaling three square miles. Across the street from this parcel were smaller commercial parcels, each with about 150 feet of frontage along the road. On a per acre basis, the land under the mall (not including the buildings) was valued at about half the rate of the smaller parcels — the mall received a volume discount, compared to properties that stood literally across the street. Why wouldn't land on one side of the street have the same value as land on the other?

Architecture has similar incentives. When less expensive buildings are taxed at a lower value than more expensive buildings, developers have a direct incentive to erect low-cost buildings with limited shelf lives. Many such buildings are destined to eventually sit vacant — a typical big-box retail store, for example, is designed to last, on average, about 15 years. On a square-foot basis, its taxable assessment is also much less than that of most residential properties in the community.

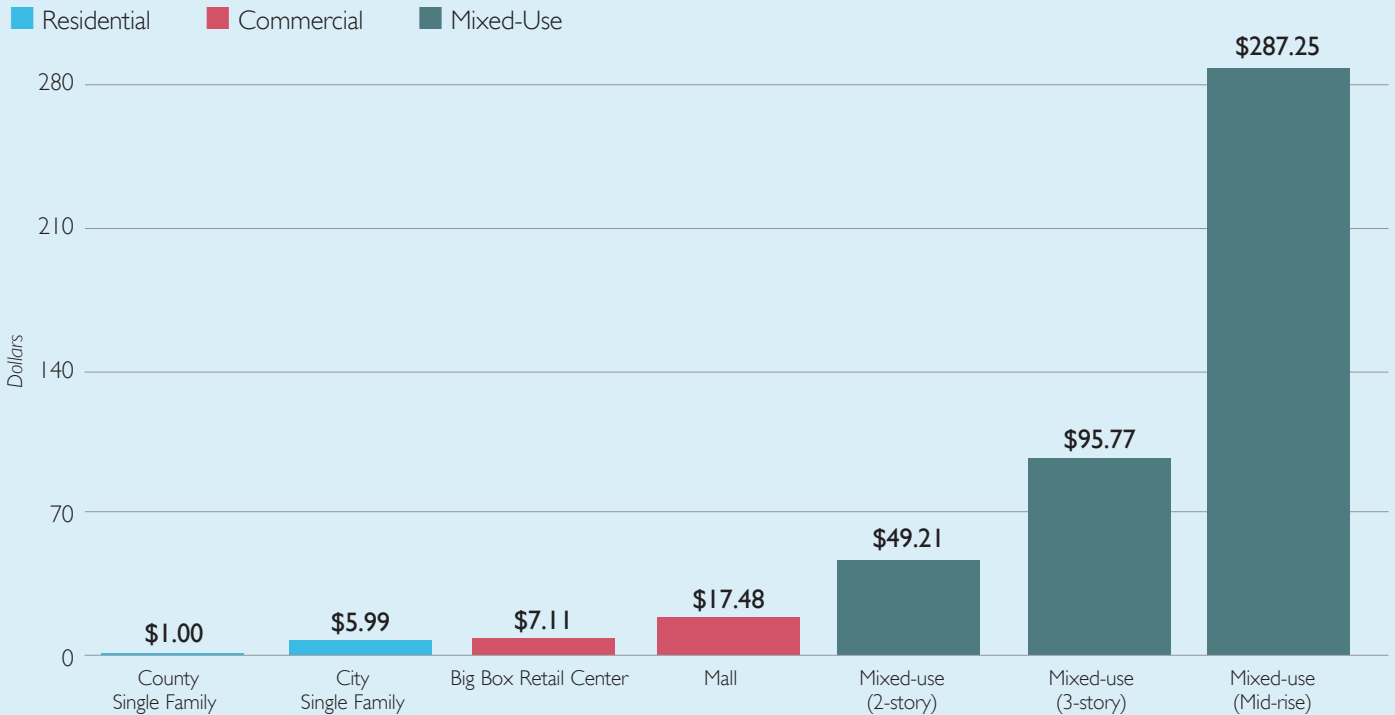
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TIME VALUE AND ROI

Of course, assessors do not create development policy; they just have the unenviable task of figuring out “value” in a real estate marketplace that doesn't always make rational choices. Also, even though they create the pricing structures for public revenues, they are rarely brought into the conversation about the costing variables that are literally at the front stoop of the parcels they're pricing.

Exhibit 4: County Property Taxes per Acre

For every dollar of county taxes a resident pays, the city pays \$6 in county taxes per acre.



Ratio difference of 30 city sample set across 10 states

Source: Urban3

The time value of money and the return on the investment also need to be accounted for. As the Sarasota case demonstrates, investments made in the urban downtown area pay for themselves in just three years, compared to 42 years for development in the surrounding suburban areas. Cities might want to require a faster return for public investments — perhaps 15 years, rather than 40. (See “The Missing Metric.”)

CONCLUSIONS

Jurisdictions need to look closely at their financial models for development and be sure that they are separating out the numbers considered in development decisions. This includes analyzing all the information in a comprehensive manner. Research shows that regardless of the size of the municipality, its most potent property tax-generating areas are its downtown or Main Street. Those parts of the community should, therefore, receive reinvestment commensurate with the revenue they produce, and policy should be adjusted, where necessary, to capture the costs of development patterns within a reasonable time cycle. Doing so will help keep our communities from operating in the red. ■

Notes

1. The information in this article comes from a series of studies performed by Urban3 (see a map of the cities at http://urban-three.com/?page_id=36/). The Sonoran Institute published the first sample set, from the Rockies, in its 2012 “About Town” report (<http://www.sonoraninstitute.org/library/265-abouttown.html>).
2. “The Search for Efficient Urban Growth Patterns,” James Duncan and Associates, Florida. Department of Community Affairs (Governor’s Task Force on Urban Growth Patterns, 1989).
3. A good example is the now-classic report, “The Cost of Sprawl,” commissioned by the Department of Environmental Quality in 1974, and its 2002 update of the same name, by Robert Burchell of Rutgers University’s Center for Urban Policy Research.

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