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Limiting Property Tax Assessments to Slow Gentrification

A recent *New York Times* article on gentrification discussed a number of cities—including Boston, Philadelphia, and Washington, D.C.—that are planning to freeze property tax assessments for long-time homeowners in gentrifying neighborhoods. The concern is that rising house prices will also raise property assessments, forcing low-income residents to move to escape the greater tax burden and thereby accelerating the pace of gentrification. Although the desire to protect existing residents from gentrification appears to be new, laws capping assessment growth for all property or all primary homes ("homesteads") have been around since Californians passed Proposition 13 in 1978. After California, a number of additional states passed laws limiting how quickly an individual property's assessed value could increase. The bulk of these laws passed in the early eighties to the mid-nineties, and advocates for the law were concerned, at least in part, with limiting the size of local government. If this tax backlash of the previous decades is uncorrelated with more recent gentrification pressures, this may be a good test of statewide assessments caps.

Using a data set of low-income central-city neighborhoods that Dan Hartley of the Cleveland Fed assembled from the 2000 census and the 2007 American Community Survey, we can look at the share of neighborhoods that gentrified in capped and uncapped states. Hartley shows that a central city moving from below-median-MSA house price to above-median house price is a good indicator of gentrification. Relying on the table of statewide assessment caps that Haveman and Sexton compiled, we identify 10 states and the District of Columbia (plus the city of New York) with the strictest limits. In these states, assessed value can increase only at the rate of inflation or by a fixed percentage ranging from 2 percent (California) to 10 percent (Texas). Table 1 presents the share of neighborhoods that gentrified in capped and uncapped states.

Table 1
Share of Neighborhoods that Gentrified between 2000 and 2007
(with and without statutory caps on the growth in assessed value)

Neighborhood type	Low-priced neighborhoods in 2000	Gentrified between 2000 and 2007	Share
Assessment cap	3,608	722	0.200
No assessment cap	3,201	456	0.142
Difference			0.057*

*Statistically different from zero at all standard cut-offs

Note that neighborhoods protected by assessment caps actually gentrified faster than those in states without them.

However, we might worry that the decision to impose statewide assessment caps was not random. In the case of Prop 13, rising home prices was certainly a factor in rising property taxes. It is possible that some underlying factor may drive statewide price up but also cause poor inner-city neighborhoods to appreciate faster than other homes in the metro area. One candidate is restrictive zoning laws that limit densification of already desirable neighborhoods. Such laws could both drive up aggregate house prices and push homebuyers into more marginal neighborhoods, causing them to appreciate relatively faster. However, assessment caps are only one possible response to rising property taxes. If voters wish to limit the growth in property taxes, they don't need capped assessments—they can restrict the growth in property tax revenues directly. At the same time, assessment caps that don't also cap the property tax rate don't actually constrain property taxes, but instead shift the tax burden from longtime owners to new buyers. In Table 2, we limit the sample to states that have a binding revenue growth cap or that jointly cap assessments and municipal tax rates. In this case, we assume that, conditional on imposing a tax expenditure limit, the decision to cap assessments rather than property tax revenue is random. We rely on the work by Hoyt, Coomes, and Biehl (2011) to identify various statewide tax expenditure limits.

Table 2
Share of Neighborhoods that Gentrified between 2000 and 2007
(with some form of binding property tax limit)

Neighborhood type	Low-priced neighborhoods in 2000	Gentrified between 2000 and 2007	Share
Assessment cap	2,392	504	0.21
No Assessment cap	1,792	305	0.17
Difference			0.041*

*Statistically different from zero at all standard cut-offs

Limiting the sample to states that have chosen to constrain the property tax in some way, we still observe assessment caps seeming to accelerate gentrification rather than slow it. How can that be? One possibility is that because these are state-wide limits, the caps have reduced the turnover in more desirable neighborhoods, driving new homebuyers to marginal central-city neighborhoods. In that case, targeted assessment caps that apply only to currently low-priced neighborhoods could still be efficacious. On the other hand, the existence of an assessment cap may increase the long-run return from "pioneering" in a low-priced neighborhood.

So far, we have been using change in relative house prices as our definition of gentrification. However, advocates for assessment caps are plainly concerned about the ability of homeowners to stay in their home in the face of rising home values. While the in-migration of higher-income residents and house prices are highly correlated, we do not observe the duration of time that existing residents remain in their home. Unfortunately, there are few individual-level data sets with sufficiently granular geography to allow such an analysis. As an alternative, we can look at the change in median income of residents. This value is available at the census-tract level in the 2000 census and the 2007 American Community Survey. Table 3 presents change in median income for all census tracts and for gentrifying tracts with and without assessment caps. While median incomes rose in gentrifying neighborhoods (even as they declined nationally), they rose faster in tracts subject to an assessment cap. However, this difference is not statistically different from zero (p value 0.303).

Table 3
Change in real income for gentrifying neighborhoods with and without assessment caps.

	Number of tracts	Mean change in real income 2000–07
All tracts	12,646	-448
Gentrified		
Assessment cap	722	2,383
No assessment cap	456	1,699
Difference		685*

*Not statistically different from zero

Finally, assessment caps do nothing for renters, who may be impacted much more immediately by rising neighborhood quality than homeowners. It is possible that assessment caps could still allow a small share of long-time owners to stay, and the observed effects are just dominated by the movement of renters. If we had access to administrative data with finer geographic identifiers, we could look at whether neighborhoods that gentrified with assessment caps now exhibit more income or racial heterogeneity than neighborhoods without. However, looking only at aggregate data, property taxes do not appear to be a primary driver of neighborhood change, and concerns about gentrification do not appear to warrant interfering with the assessment process.

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