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The impact of tax increment finance districts on localized real estate: Evidence from Chicago's multifamily markets ☆

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Abstract

Sales price indices for the Chicago multifamily real estate market are developed in order to examine the influence that designating an area a tax increment financing district (TIF) has on the real property appreciation rates. Chicago is a community with a long history of TIF investment and a patchwork of more than 130 established TIF districts, comprising over 29 percent of the city's total acreage and approximately 19 percent of the total real property tax base. Municipal governments across the country have come under increased pressure to provide quantifiable evidence that the tools they employ in the name of economic development have the potential to increase private investment. The results indicate that properties located within a designated TIF district exhibit higher rates of appreciation after the area is designated a qualifying TIF district when compared to those properties selling outside TIF districts, and when compared to properties that sell within TIF district boundaries prior to designation. The findings provide support for the hypothesis that TIF policy impacts property values through increased investment.

Introduction

Tax increment financing (TIF) is one of the predominant economic development policies utilized by municipalities in the United States for fostering market-based urban renewal (Man, 2001, Weber et al., 2003). Originating in California in 1952, TIF has been accepted by 49 states and the District of Columbia (excludes Arizona) and is employed extensively in California, Colorado, Florida, Illinois, Indiana, Minnesota, and Wisconsin. Minnesota has more than 2000 TIF districts, among them its Mall of America. The Chicago metropolitan area has more than 400 and Kansas City 50.

The goals of TIF are broad and include eliminating blight, retaining businesses, spawning new businesses, developing a skilled labor force, stabilizing the localized economy, and stimulating new jobs within the TIF district. There has been extensive research on the process and administration of TIFs with the dominant focus on the "but for question" (i.e., private investment would not have occurred were it not for the stimulus provided by public investment in the TIF district) (Brueckner, 2001). There have been far fewer studies examining the impacts of TIF on the local real estate market on which the TIF investments are dependent.

The research contained in this article comprehensively examines the impact of TIF designation by municipal government on the local real estate market utilizing recorded sales of attached, single-family (multifamily) properties over the period 1992 through 2000. The study area is the city of Chicago, Illinois. Comparisons are made between the rate of appreciation in multifamily properties and their proximity to a TIF district.[1] Consideration is given to structural factors, neighborhood/locational characteristics, and date of sale. The central hypotheses assert that properties located within a designated TIF district will exhibit higher rates of appreciation after the area is designated a qualifying TIF district when compared to those properties outside TIF districts and when compared to properties located within TIF district boundaries that sell prior to designation.

As TIF district designation expands across the country it has become increasingly important for policymakers, investors, and citizens to evaluate whether TIFs have the potential to successfully stimulate tax resources sufficient to offset the expenditures in public investment. In no instance there has been comprehensive research on the impacts of TIF adoption on localized real estate markets with adjustments to recognize influences within geographic submarkets of observed transactions. In this study, for the first time, individual real estate transactions are observed and analyzed over time in an attempt to isolate the contributing influence of TIF designation on local economies. The remainder of this article is divided into the following sections. The next section provides a brief background on TIFs with discussion on the study area of Chicago, Illinois. The literature on TIF impacts is then outlined. That is followed by an introduction to the empirical modeling procedure, the variables to be employed, and the sources of data. The findings from the analysis and the implications for TIF district designation conclude the article.

Section snippets

Background

TIF is an economic development tool used by municipal governments to fund economic development initiatives in selected areas. Investment in TIF districts by a local government development authority is intended to stimulate economic growth in an area in which development would not otherwise occur. When a geographic area is selected for a TIF district, the property tax collected by local taxing bodies is frozen at the amount corresponding to the total assessed value of property in the area at the …

Model of appreciation impact

The literature to date presents inconclusive evidence regarding the relationship between TIF and the value of the proximate real estate. This lack of coherence is largely due to the limited data available in communities utilizing TIFs, and the cross sectional structure of many of the previous datasets. This study examines the market for multifamily real estate within the city of Chicago. The nature of the data used in this analysis allows for an examination of the intrametropolitan variation in …

Conclusions and implications

In summary, the model suggests that TIF designation does have a positive relationship with the market for real estate as exhibited by the Chicago multifamily market over the period of observation. Appreciation rates within TIF districts exceeded those of properties outside TIF boundaries, and the designation of TIF districts stimulates market value increases in areas that are ultimately designated TIF districts. This is the first time a microlevel study has been conducted on the impact of TIF…

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> …The second blight intervention strategy is the acquisition/purchase of blighted properties to control occurrences of urban blight, while the third is disposition or the transfer of property for rehabilitation purposes. The last blight intervention strategy is to provide redevelopment incentives that seek to encourage private market investment in formerly blighted properties (Banaitienė, Banaitis, Kaklauskas & Zavadskas, 2008; Beers et al., 2011; Hackworth, 2014; Mine, 2013; Redfearn, 2009; Smith, 2006). The present study focused on the first intervention strategy (i.e., blight prevention), where the issue of blight poses complex, wide-reaching negative impacts involving politicians, urban planners, contractors, financial institutions, investors, residents, and the community at large.…

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> …It is therefore not surprising that studies on spillover effects of new developments are conducted primarily in the context of urban regeneration. Several studies have also examined price appreciation accruing to the spillover effect of new developments under the Tax Increment Financing scheme, which allows municipalities to designate an area for improvement and then earmark growth in property tax revenues resulting from appreciation to finance economic development within the district (Weber et al., 2003; Smith, 2006; Weber et al., 2007; Smith, 2009). Desalvo (1974) and Schwartz et al. (2006) document significant positive externalities associated with public and subsidized housing projects.…

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