# Incentive Property Taxation Can Help Prevent Neighborhood Blight

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Item in the Seattle Weekly, May 28, 1999: *"It'd be easy to think that Seattle doesn't have real slumlords. Easy, but wrong. 'The main thing is that they take money in and they don't put any out—that's the name of the game'."*

*A prime example of slumming can be found in the Roosevelt neighborhood of Seattle. "Welcome to the small empire of Hugh and Drake Sisley, who own 54 rental homes worth around $14 million." (Seattle Weekly, April 8, 1999) Since 1990 the brothers have accumulated 80 land use code violations. Despite repeated citations and meetings with City Council and the City Attorney, the city has had little success in changing their behavior. "In case after case, a bureaucratic system has hampered the DCLU's efforts"… to cite the owners for property negligence. (See also Real Change, May 1999.) After multiple lawsuits, the process drags on for many months. Neighborhood residents and homeowners are outraged. "I feel like I'm watching a neighborhood crumble."*

**The Problem: Slumlords and speculators benefit from the current property tax system.**

Has anyone given thought to how the property tax system encourages this kind of neglect? Slumlords know that if they did repair their properties, their tax bills would increase. The present method of taxing land and buildings at the same rate is not neutral in its affects. The equal rate system encourages unwise land use practices by imposing heavier fiscal burdens on property improvements and lighter burdens on under-improved parcels. Taxes on total market value make it profitable for some owners to let their properties deteriorate. Take the example of a 1979 Washington Supreme Court decision. A property owner's appeal for a lower assessment was honored because the county assessor had not considered the property's "deferred maintenance condition" when examining comparable sales. Slumlords in effect receive a tax subsidy--an inducement to speculate on land.

Realtors, prospective developers, neighbors and adjacent property owners all suffer from the socially detrimental activity of "slumming". Even the community at large is impacted because jurisdictions are forced to increase taxes on productive properties to balance the losses from speculative holdings that are losing building value. Land speculation leads to a tightening of the land market and further inefficiencies in the allocation of urban land resources. At the same time, speculators know that while their own tax bills are comparatively smaller than their neighbors, the land values of the wider community are increasing due to population growth and accumulating capital investments in real estate. These community effects are reflected in the speculators' land values as well, and will provide a source of windfall gain at some future date.

**The Solution: Shift the tax off of buildings onto land.**

A property tax reform adopting a differential rate would tax mainly the value created by the community at large (land values), not the capital invested by individual owners (improvement values). As a result of placing a higher tax rate on land assessments, it could become too costly to hold onto underutilized or deteriorated sites. Likewise, a proportionately lower tax rate on improvement assessments would encourage owners to repair or replace obsolete buildings. The widespread response to the fiscal inducement to reduce the land-to-building value ratio would lead to the development of infill sites and the upgrading of neighborhoods. Individual owners will now be willing to take the risk of investing in property improvements because they are assured that everyone in the community receives a similar tax incentive.

**The Evidence: Slumming reaps no reward.**

By simulating property tax applications on 46 Sisley properties in the Roosevelt-Ravenna area, comparisons in tax liability can be drawn. Because of the high ratio of land-to-improvement values, taxes under a 2-rate system (with 95% of the tax rate applied to land value) would be 36% higher than under the present system. If quality upgrades were made to improved single family and new multifamily housing units, taxes would instead be 32% lower. Seattle's premier slumlord would be discouraged, through financial incentives, not to speculate on residential sites.

**COMPARATIVE TAXES ON SISLEY PROPERTIES: EXISTING AND UPGRADE SCENARIOS**