



A Comprehensive Evaluation of Richmond's Rehabilitation Tax Abatement Program

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Overview:

Tax Abatement for Rehabilitated Structures



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Overview: Tax Abatement for Rehabilitated Structures

Launched in the early 1990s to preserve and protect historic buildings in Richmond, and to spur development in underinvested neighborhoods.



Overview: Tax Abatement for Rehabilitated Structures

	Single Family	Multi Family	Com./ Ind./ Mixed In Enterprise Zone	Com./ Ind./ Mixed NOT in Enterprise Zone
Must be 20 years old or older	✓	✓	✓	✓
Value must increase by at least 20%	✓			
Value must increase by at least 40%		✓	✓	✓
Abatement: 7 years full, 3 years partial	✓	✓	✓	
Abatement: 5 years full, 2 years partial				✓
Abatement: 10 years full	All qualifying properties in Redevelopment & Conservation & Rehabilitation Districts			

Key Research Questions

1. What is the total fiscal impact of the abatement program? Is the city losing revenue because of the program?
2. How long does it take for the city to recoup the lost revenue?
3. To what extent is the abatement program responsible for rehabilitation investment, and improvement of property values in the city? Would the abatement program be still useful if it were modified by reducing the abatement period and/or rate?
4. What policy alternatives could preserve the original goals of the program and stimulate further investment in underinvested neighborhoods?

Quantitative analysis

Program Evaluation and Return on Investment (2009 – 2016)



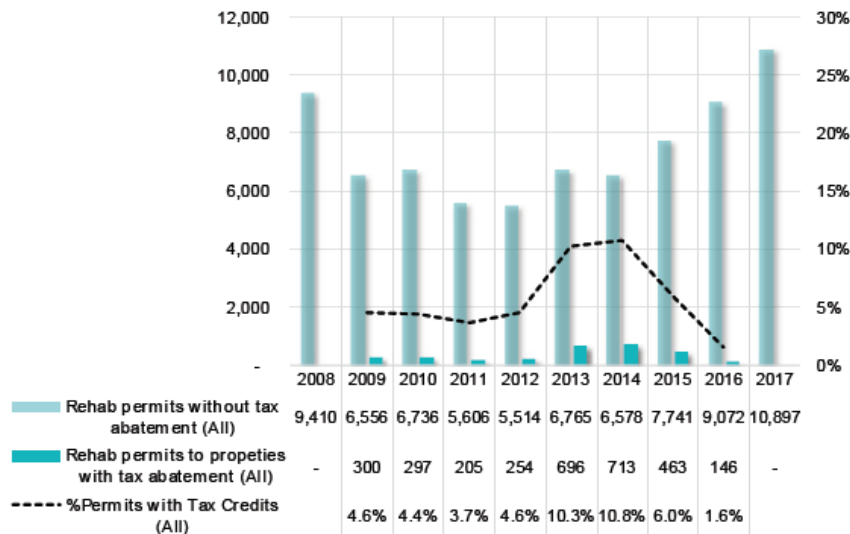
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Program Evaluation and Return on Investment

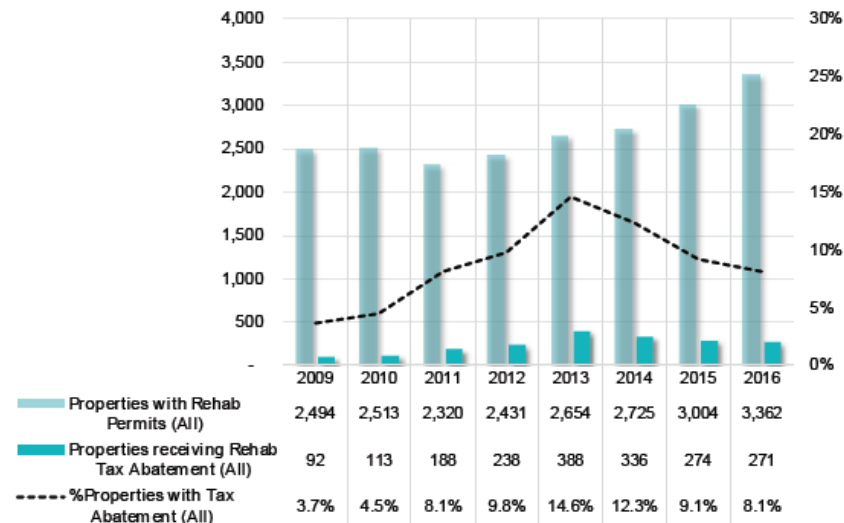
Number of Rehab Permits Issued

FIGURE-2.A: NUMBER OF REHABILITATION PERMITS ISSUED FROM 2008 TO 2017
(PARCEL LAND USE: SINGLE FAMILY, DUPLEX, MULTI FAMILY, COMMERCIAL, INDUSTRIAL, VACANT)



Number of Properties with Rehab Permit

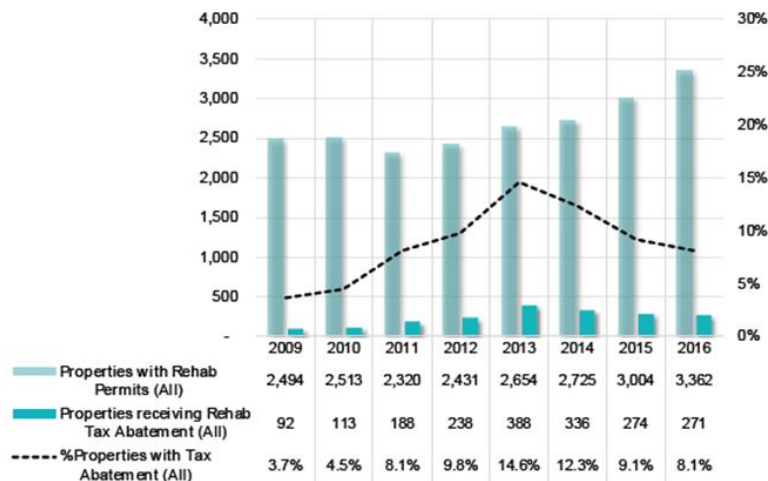
FIGURE-2.B: NUMBER OF PROPERTIES RECEIVING REHABILITATION PERMITS FROM 2009 TO 2016
(PARCEL LAND USE: SINGLE FAMILY, DUPLEX, MULTI FAMILY, COMMERCIAL, INDUSTRIAL, VACANT)



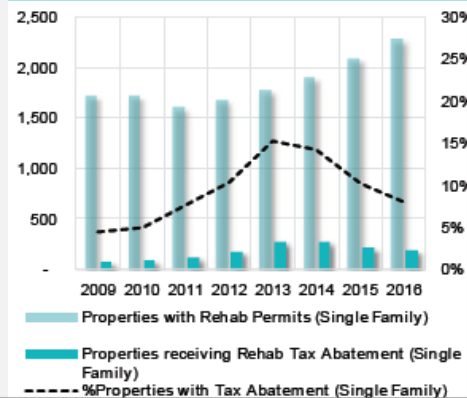
Program Evaluation and Return on Investment

Number of Properties with abatement by Land Use Type

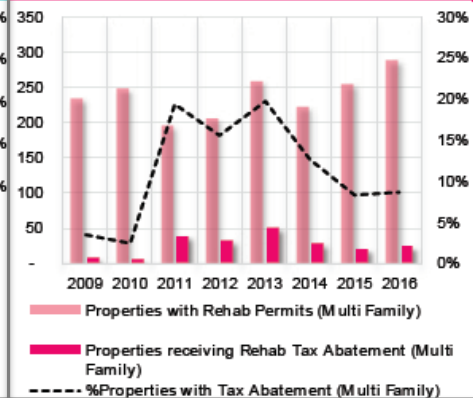
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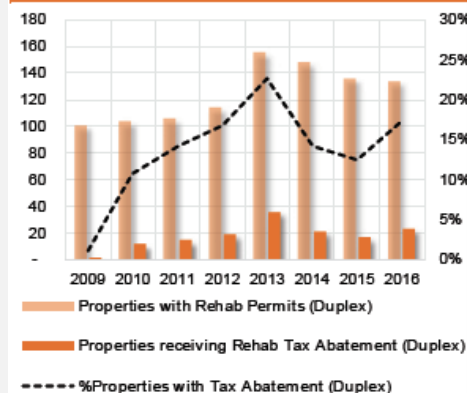
SINGLE FAMILY PROPERTIES WITH REHAB PERMITS



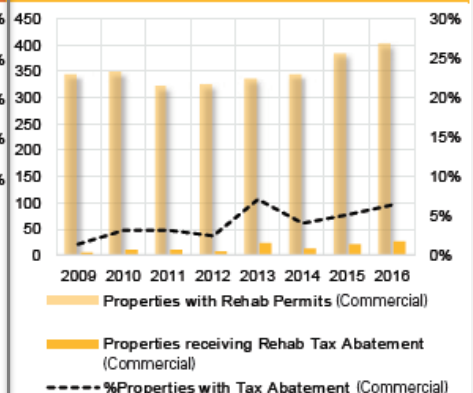
MULTI-FAMILY PROPERTIES WITH REHAB PERMITS



DUPLEX PROPERTIES WITH REHAB PERMITS



COMMERCIAL PROPERTIES WITH REHAB PERMITS



Program Evaluation and Return on Investment

Geographic Distribution of Abatement Permits

FIGURE-5: NEIGHBORHOOD MEDIAN HOUSEHOLD INCOME AND USE OF REHABILITATION TAX ABATEMENT

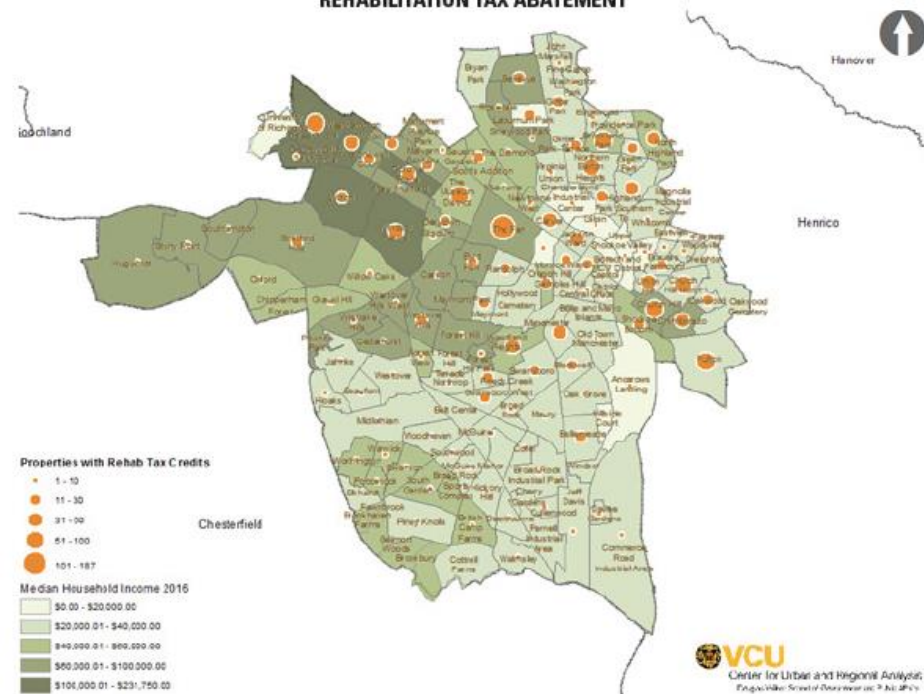
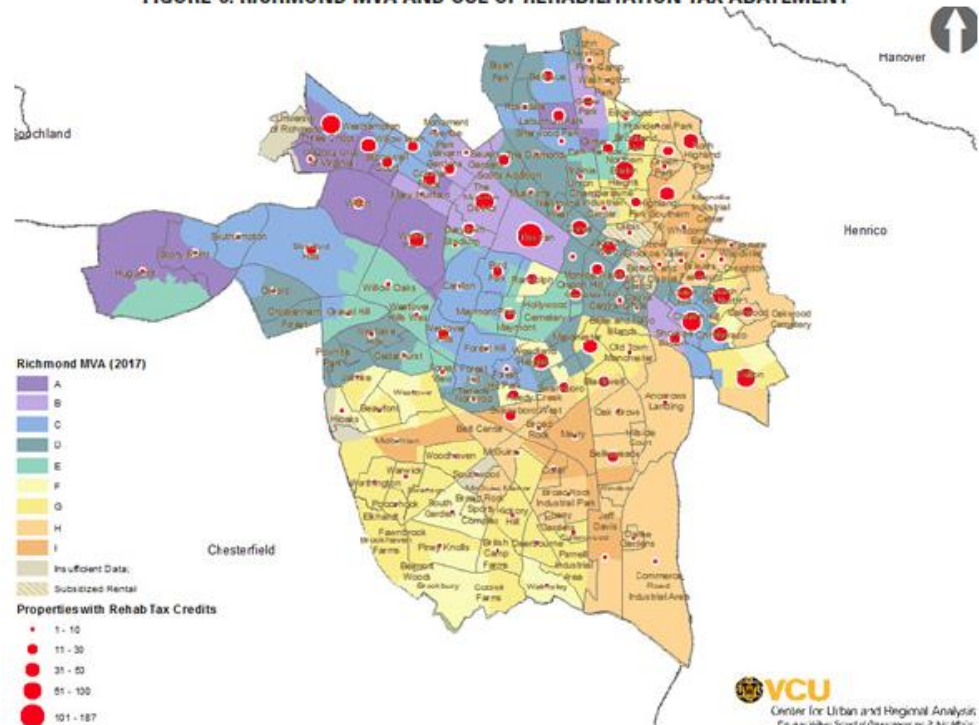


FIGURE-6: RICHMOND MVA AND USE OF REHABILITATION TAX ABATEMENT



Program Evaluation and Return on Investment

Effect of Rehabilitation of Property Value

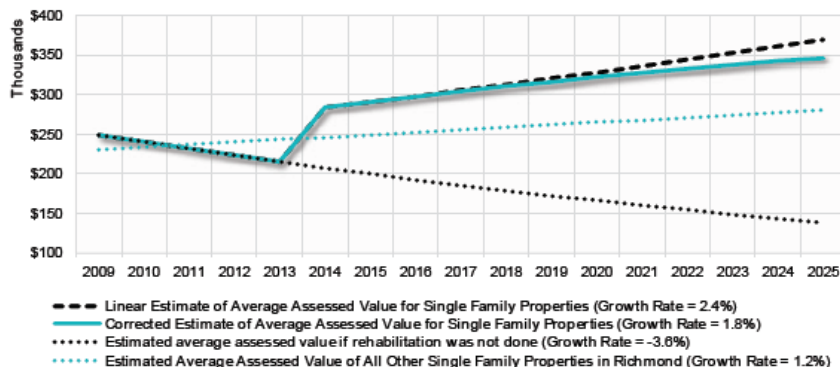
- Comparison of property values before and after rehabilitation of properties receiving tax abatement since 2013
- Pre-rehabilitation period: 2009-2012; post-rehabilitation period: 2014-2017

ESTIMATED VALUE GROWTH RATES	SINGLE FAMILY	MULTI FAMILY	DUPLEX	COMMERCIAL	INDUSTRIAL
PRE-REHABILITATION GROWTH RATE	-3.6%	-4.8%	-5.6%	-7.8%	0.8%
POST-REHABILITATION GROWTH RATE (LINEAR ESTIMATE)	2.4%	3.5%	2.4%	0.7%	2.0%
GROWTH RATES OF ALL OTHER PROPERTIES	1.2%	3.1%	2.2%	2.2%	1.0%
POST REHABILITATION GROWTH RATE (CORRECTED ESTIMATE)	1.8%	3.3%	2.3%	1.4%	1.5%

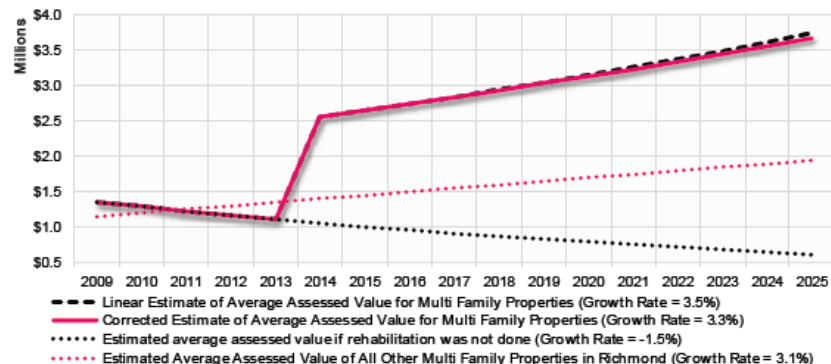
Program Evaluation and Return on Investment

Estimated Trend of Average Property Value Pre- and Post- Rehabilitation

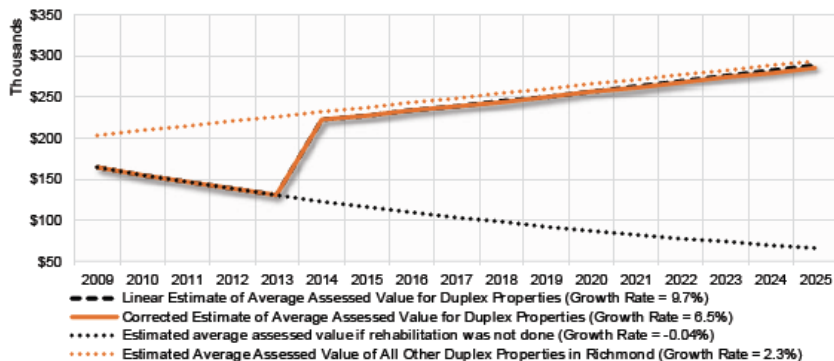
SINGLE FAMILY PROPERTY AVERAGE ASSESSED VALUE ESTIMATES



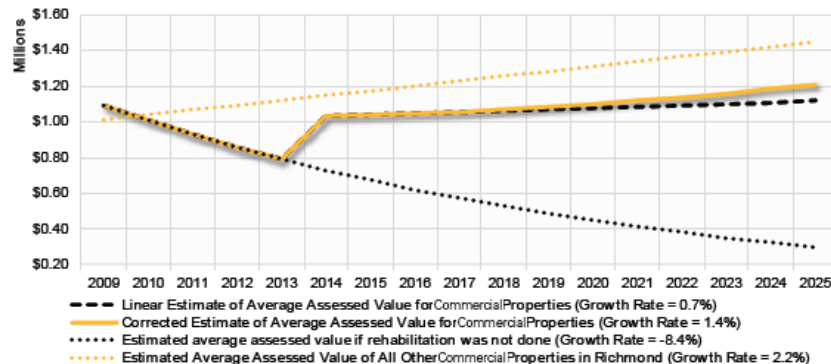
MULTI-FAMILY PROPERTY AVERAGE ASSESSED VALUE ESTIMATES



DUPLEX PROPERTY AVERAGE ASSESSED VALUE ESTIMATES



COMMERCIAL PROPERTY AVERAGE ASSESSED VALUE ESTIMATES

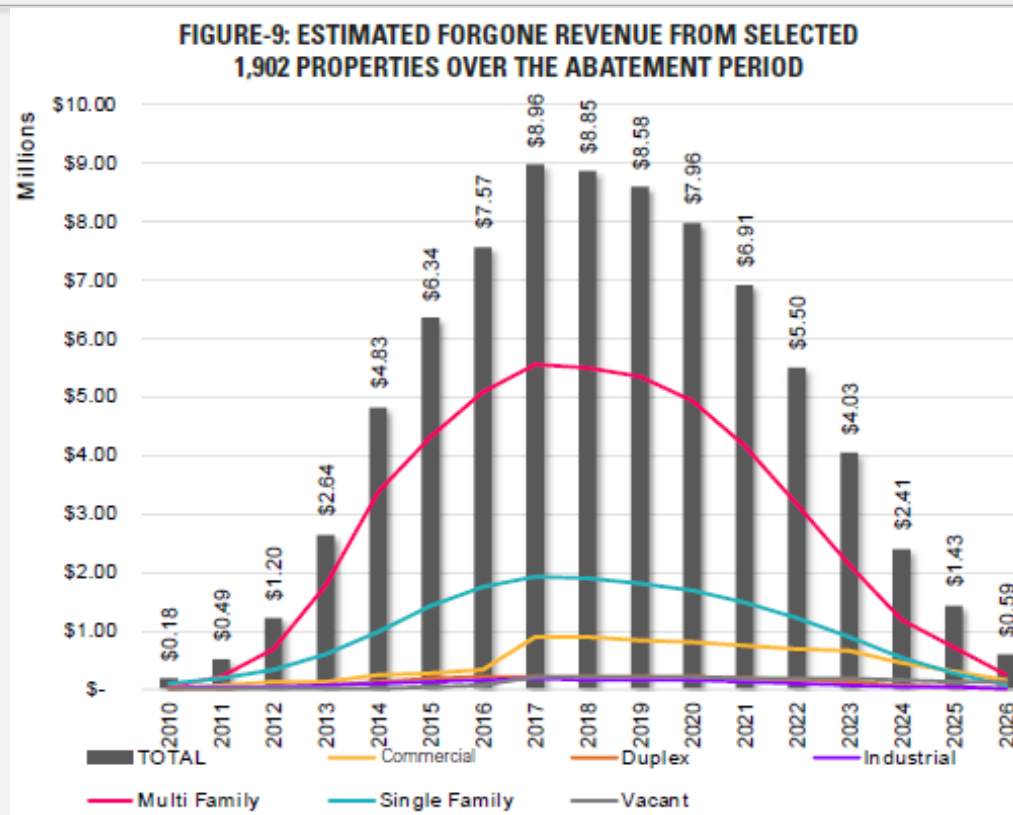


Program Evaluation and Return on Investment

Estimated Revenue Forgone

Total Abatement Granted for properties rehabilitated from 2009 to 2016 (until maturity year 2026) = **\$78,479,193**

Average Annual Revenue Forgone from 2010 to 2026 = **\$4,616,423**

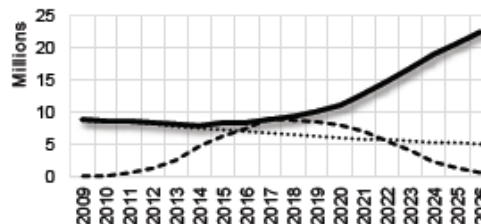


Program Evaluation and Return on Investment

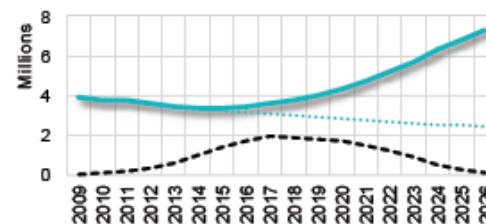
Revenue Collected

- Abatement granted
- Revenue if rehabilitation was not done
- Revenue after rehabilitation

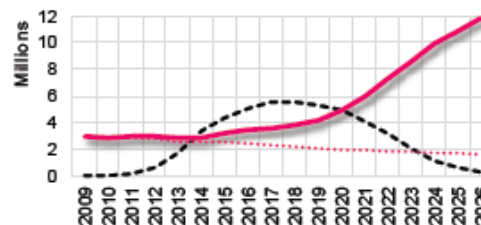
REVENUE FROM ALL PROPERTIES



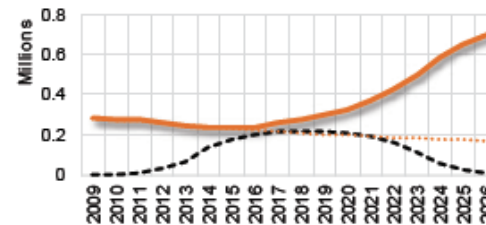
REVENUE FROM SINGLE FAMILY PROPERTIES



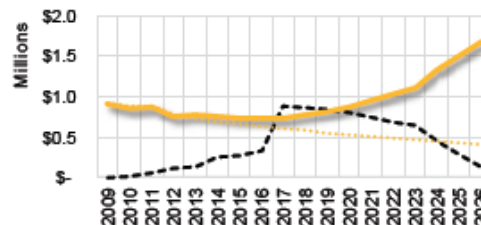
REVENUE FROM MULTI-FAMILY PROPERTIES



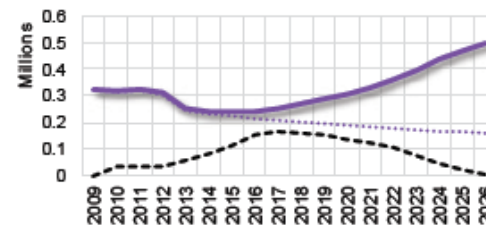
REVENUE FROM DUPLEX PROPERTIES



REVENUE FROM COMMERCIAL PROPERTIES



REVENUE FROM INDUSTRIAL PROPERTIES



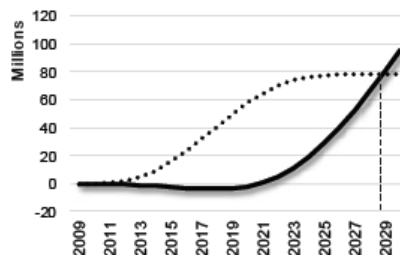
Program Evaluation and Return on Investment

ROI Period

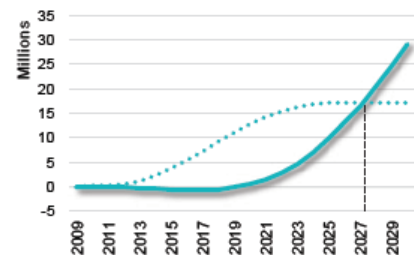
- Cumulative Revenue Forgone due to Abatement
- Cumulative Net Revenue Collected above Status Quo

Revenue forgone in abatement is recouped within three years after the abatement expires.

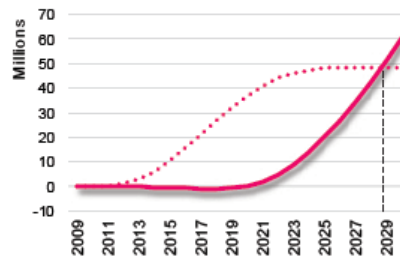
REVENUE FROM ALL PROPERTIES



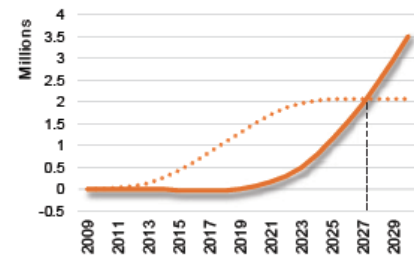
REVENUE FROM SINGLE FAMILY PROPERTIES



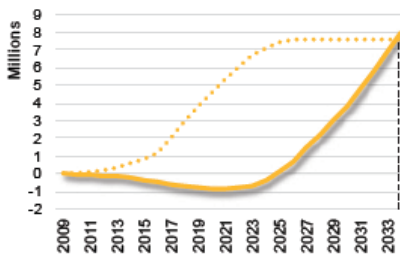
REVENUE FROM MULTI-FAMILY PROPERTIES



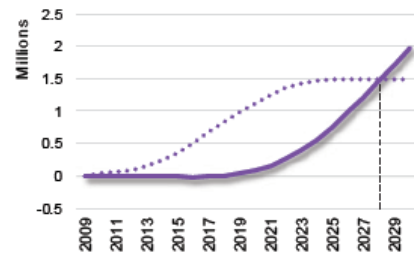
REVENUE FROM DUPLEX PROPERTIES



REVENUE FROM COMMERCIAL PROPERTIES



REVENUE FROM INDUSTRIAL PROPERTIES



Program Evaluation and Return on Investment

ROI Period – Modified Scenario

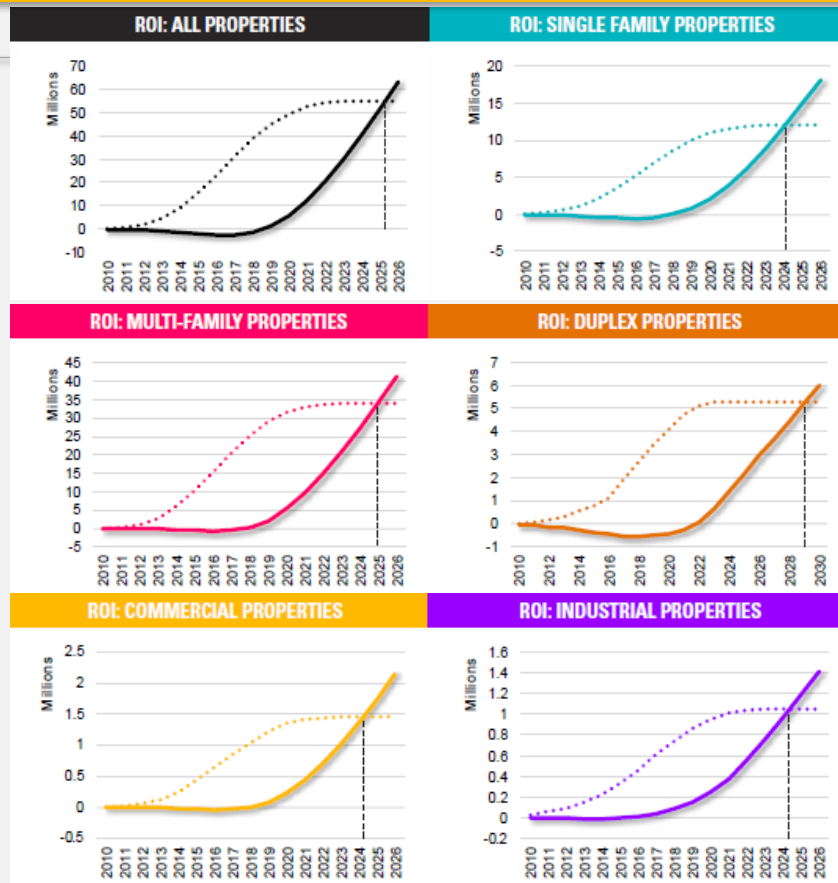
- Cumulative Revenue Forgone due to Abatement
- Cumulative Net Revenue Collected above Status Quo

Modified Abatement Period:

7 - 3 Years ➡ 5 - 2 Years

5 - 2 Years ➡ 3 - 2 Years

- \$55.25 million forgone revenue would be recouped within 3 years.
- 30% reduction (or \$23.22 million) in forgone revenues, over 17 years
- Linear projections – No elasticity!**



Quantitative and qualitative analysis

Overall summary of findings



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Summary of Findings

- 90 % of properties in Richmond qualify for Rehabilitation Tax Abatement Program but only 9% of properties considering rehabilitation use the program benefits.
- While the number of abatement permits increased during the post-recession years, it gradually declined as the housing market started to rebound after 2014.
- More than 60 percent of abatement amount is claimed by Multi-Family rehabilitation projects.
- While every neighborhood has seen a rehabilitation project using the program, the use of tax abatement is concentrated in the city's high-income areas, areas with historically stronger housing markets, and areas facing high redevelopment pressure.

Summary of Findings

- We find no direct role of the abatement program on demographic transformation of city's neighborhoods. However, Multi-Family properties utilizing lion's share of abatement benefits raises concerns about them being potentially less affordable after redevelopment. More on this later.
- Most rehabilitated properties using abatement had declining assessed values prior to rehabilitation and substantial increases in value afterwards.
- Properties keep on generating revenue to the city at their base value during the abatement period. Thus, rehabilitation has prevented further sliding of revenues from those properties.

Summary of Findings

- For most property types, the revenues forgone in abatement is estimated to be recouped within three years after the abatement period expires.
- Many homeowners seeking rehabilitation considered the abatement program as added advantage. However, there is room for improvement in program administration, appraisal process, and public information about the program.
- For developers seeking to rehabilitate single family homes, the decision was mostly contingent upon the purchase price, resale value, and local market conditions – i.e. limited role of the program in their decision.
- For developers seeking to rehabilitate multi-family properties, the abatement program is an important factor affecting their investment decision. Some have used abatement benefits to keep rents affordable.

Outstanding Issues



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Outstanding Issues

- Many homeowners in city's economically weaker neighborhoods find it difficult to access capital big enough to achieve the mandated 20% increase in improvement value.
- Properties in neighborhoods with weaker market conditions could benefit from longer abatement periods whereas the period could be shortened for stronger markets.
- Currently rehabilitation is primarily focused in areas with strong or upcoming housing markets. Spatial targeting could help some of these investments to flow into disinvested neighborhoods.
- Abatement program could be modified to encourage affordable housing in the city.

Recommendations



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Recommendations

- Provide a base level of incentives for all properties
 - Possibly lower than the current provisions (e.g. 5 years full, 2 years partial for all properties)
- Tailor the program to local housing market conditions
 - Create a sliding scale for the abatement period where stronger markets would receive the shortest period (e.g. 5 years), and progressively increase with less favorable market conditions (e.g. up to 15 years)
- Incentivize rehabilitation of declining properties
 - Make attractive provisions for properties whose value was declining during the three most recent years
 - Properties 80% or below the average market value would receive the longest tax abatement
- Incentivize the creation or preservation of affordable housing
 - Increase incentives for multi-family developments, especially those developing larger share of affordable units



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QUESTIONS?