



Center for the Study of Economics

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A Report Exploring Possible Assessment Inequities and Solutions

This report by the Center for the Study of Economics (CSE) is different from the usual product of CSE. Since 1980, CSE has helped taxing entities make informed decisions about land value taxation (LVT). When evidence supports LVT, CSE urges adoption; circumstances that prevent adoption are not common and are not analyzed to any great degree.

CSE hopes that this analysis leads to a “deeper” study of the real property assessment structure and practice in Lancaster County.

The City of Lancaster, doing its own research, concluded that LVT did not make good policy sense under the current assessment regime. In short, the Center agrees. Why?

What Should LVT achieve?

The vast trove of literature on land value taxation (and related economic development literature) is summarized into these few points:

1. LVT should reduce the inherent distortion that taxation causes, in both markets and economic decision-making, especially in a defined-area (such as a city) that performs less well than its neighbors do with other economic indicators being equal.
2. LVT should serve as a stable revenue source for government.
3. LVT should be a repository for tax shifting off mobile forms of property such as buildings, commerce, capital and labor.
4. LVT should serve to make the property tax progressive i.e. it should reduce taxation on those with the least ability to pay.

On the first point, we know that LVT will work for Lancaster City. The current combined tax rate of 8.17 mills is by far the highest tax rate in the County (See Chart One) over 30% higher than runner-up Columbia borough.

Understanding that the School District Taxes are roughly similar in the County (see Chart Two), the LVT building rate used for the purposes of the study – 5.16 mills – would make Lancaster City as a defined area more competitive with surrounding jurisdictions.

On the second point, land abandonment and tax delinquency does not increase with LVT. This outcome stands true even with parcels that pay more under an LVT regime. Indeed, the intent of LVT is to help the land market revive where none existed. The recent experience in Clairton, Pa. after the School District adopted LVT (July 2006) with the City, more tax-delinquent parcels were liened into auction than in preceding years, along with an up-tick in raw commercial and industrial land sales, including land giant United States Steel, peeling off some parcels held vacant since the 1950s.

On the third point, the theory and practice have played out as expected. Land is the only species of property tax cannot be mobile or hidden. In most large Australian cities, the trend to reduce business taxes (“rates”) into LVT seems to have resumed after a two-

decade lull.¹ Sadly, there is little evidence of how this would work in the United States, as only Harrisburg and Allentown have slightly reduced business taxation and rolled that revenue need into LVT. Further evidence may come from serious efforts in Scotland² to reform business taxes, where the process is now in the Scottish Executive and Parliament.

The fourth point suggests that LVT is, for now, untenable in the City of Lancaster. LVT will not be progressive in a city that now has disproportionate poverty, and lower than average homeownership.

The Results of LVT Modeling and Shifting

13,000 of the 17,000 taxable parcels in Lancaster are single-family residential. There are about 2,200 other residential uses.

By sheer number and by serving as the prime housing option in Lancaster City, we need to closely examine the impact of the LVT shift in this sector. A useful strategy here is to compare what we expect versus what we see from the data.

What is Expected

The Center has studied over 100 cities over the past four years. These cities have run the spectrum from good assessment to bad assessment, in over 10 states. Looking at the socio-economic “crescent” extending from the Virginia/ Maryland border to the Allentown/New Jersey border, the results - *when looking at this particular sector of taxable real estate* - have been consistent:

In Fairfax, Virginia, 88% of residential properties in the hot DC market see a tax reduction.

In Hagerstown, Md. 67% of residential properties, see a tax reduction. Also:

Frederick, Md, 65%

Taneytown, Md 59%

Cumberland, Md 61%

Baltimore City, Md 65%

Baltimore County Md 66%

In York, Pa. 76%

Harrisburg, Pa 80%

Steelton, Pa. 78%

Allentown, Pa. 76.0%

Lebanon, Pa 78%

Tamaqua, Pa. 71%

¹ <http://www.lvrg.org.au/>

² **How land tax reform could unlock (pounds) 50bn**
[Sunday Herald, The, Oct 5, 2003](#)

The operating constant, across state and county lines is that the ratio of land value to building value is nearly always 15-25% land value for residential properties, and 35-55% LV for commercial properties.

Two cities in the same region had outcomes where the number of pay more (defined as one penny and more) residential occurred: Reading, Pa. and Easton, Pa. My colleague from Reading, Eron Lloyd will brief Lancaster City on his findings.

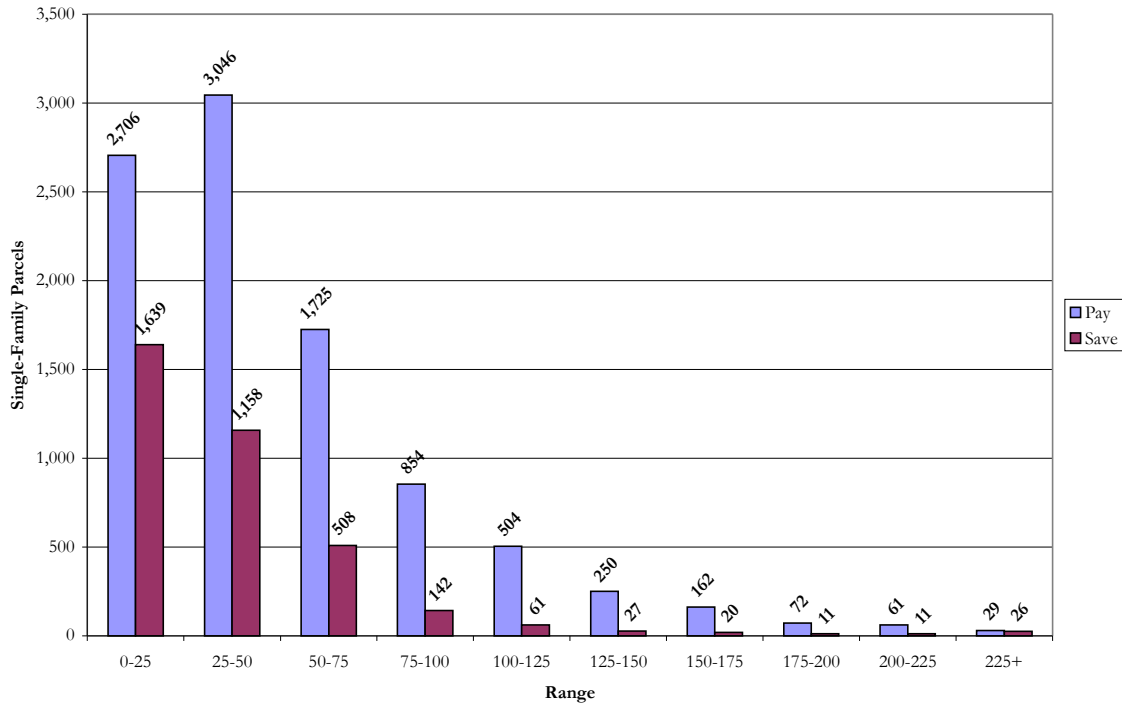
Lancaster Single Family

The unexpected outcome for Lancaster, though is dissimilar to Reading and Easton. At least in those two cities, the range of increased tax liability is nearly a wash (the increase per parcel is quite small).

In Lancaster, of the “Code 113” parcels, nearly 28% would expect reduced tax liability, as oppose to 72% that would see increased liability. The range of dollar amounts is enough to recommend that the hard-pressed owners (and tenants) of Code 113 should not have to bear the increased burden (Table and Chart):

	Dollar Shift	Pay	Save
0-25	2,706		1,639
25-50	3,046		1,158
50-75	1,725		508
75-100	854		142
100-125	504		61
125-150	250		27
150-175	162		20
175-200	72		11
200-225	61		11
225+	29		26

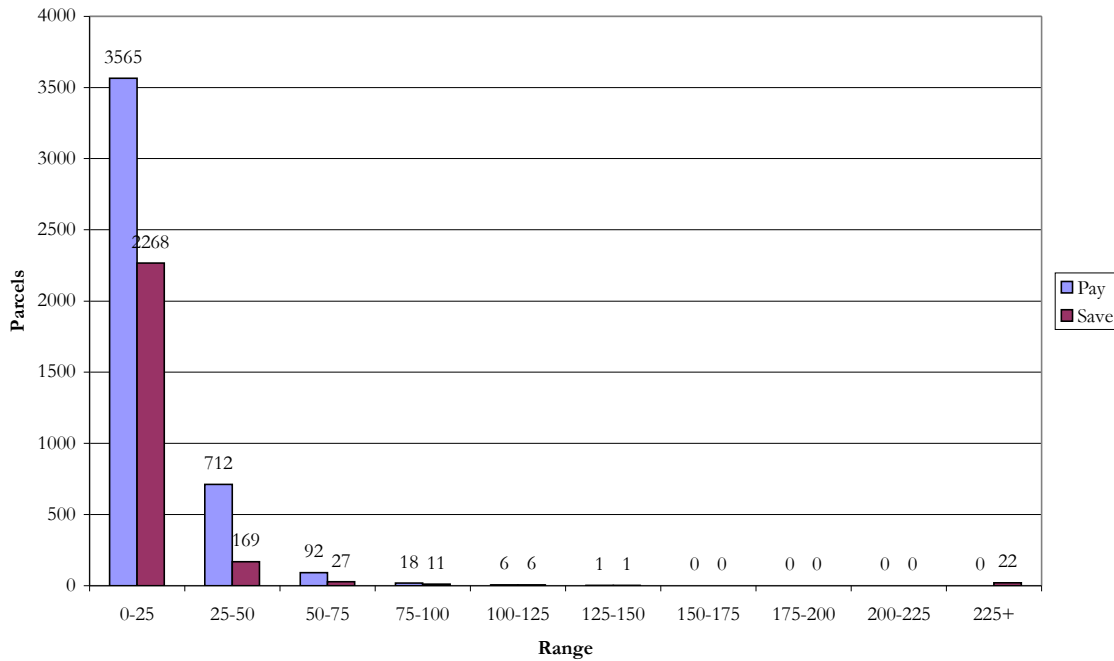
Pay/Save Dollar Range - Single Family, Lancaster



When Easton's outcome is studied, the shift to residential parcels, though marked, is minor (Table and Chart):

Dollar Shift	Pay	Save
0-25	3565	2268
25-50	712	169
50-75	92	27
75-100	18	11
100-125	6	6
125-150	1	1
150-175	0	0
175-200	0	0
200-225	0	0
225+	0	22

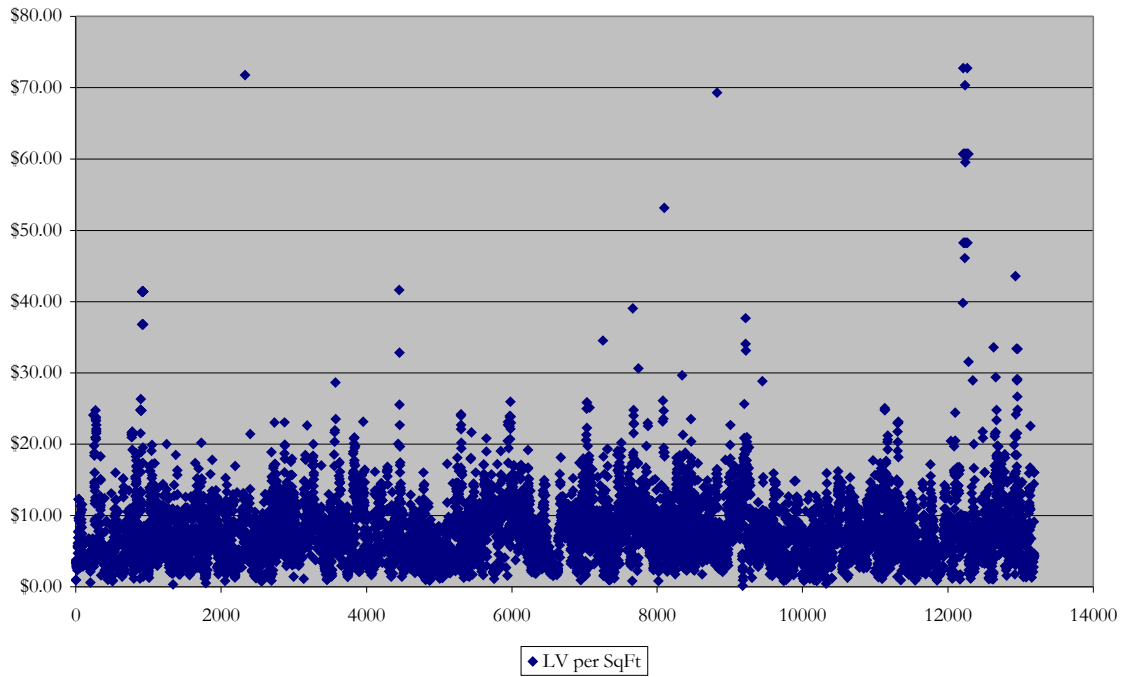
Pay/Save Dollar Range - Single Family, Easton



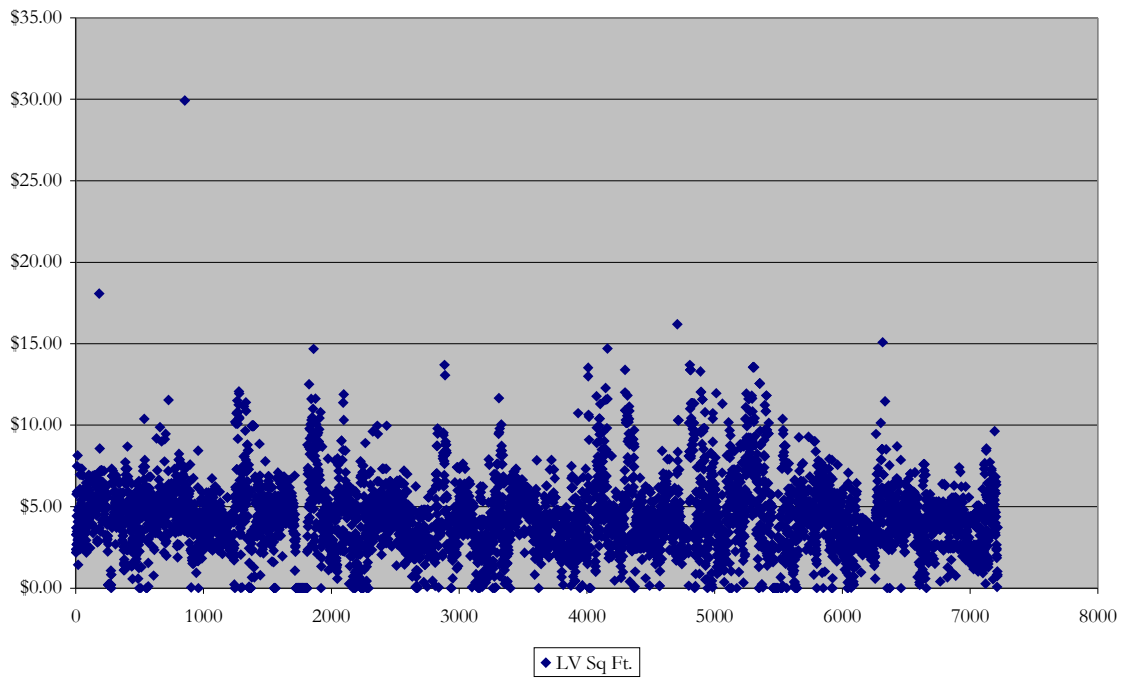
The shift *to* single-family residential is very significant in Lancaster City. But, what makes Easton and Lancaster so different from each other? The short answer, of course, is not much. Demographically, socially and economically there are more matches between the cities than not.

The Center believes that assessment and valuation are the heart of the issue. In Easton, when the single-family residential tax roll is studied, we see that the trendlines of land value are consistent and much lower than Lancaster, while the trendlines of a similar scatter chart for Lancaster show much variation. For comparison's sake, the City of Allentown's residential land values (though not available as square feet) is "blocky" and consistent from neighborhood to neighborhood.

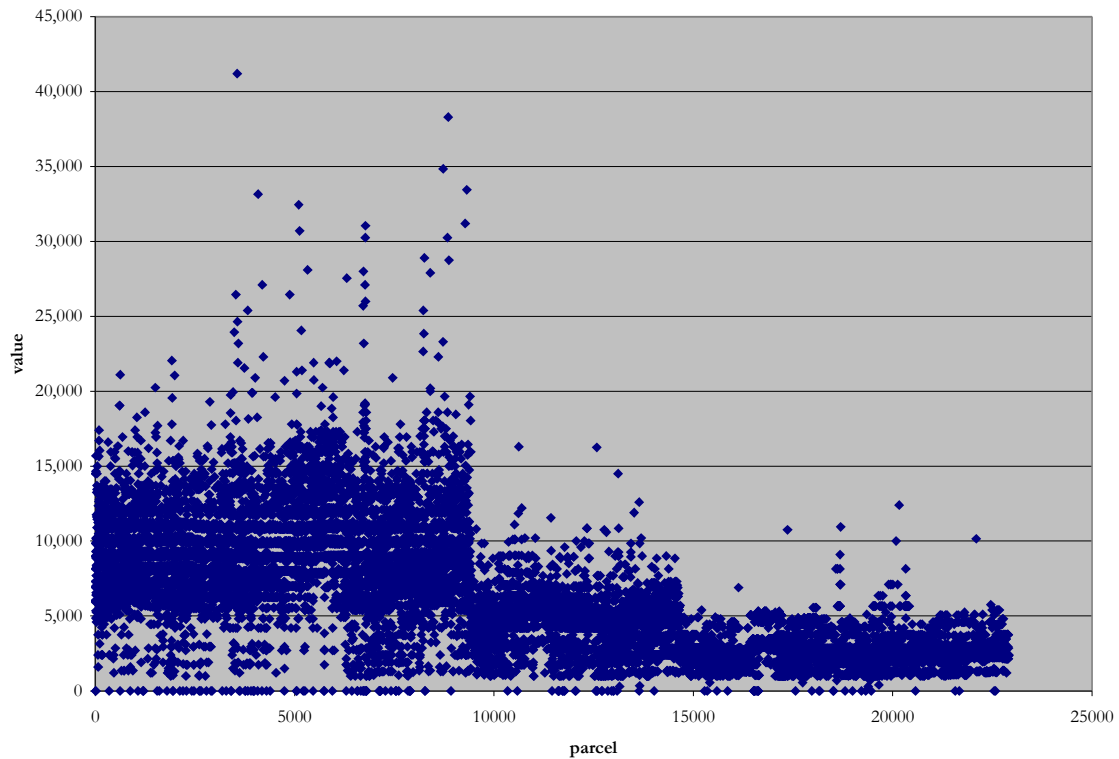
Lancaster, Pa. Res LV per SqFt



Easton, Pa. LV Sq Ft.



All Res Land Allentown



Residential Land Values (Code 113) Within the City of Lancaster

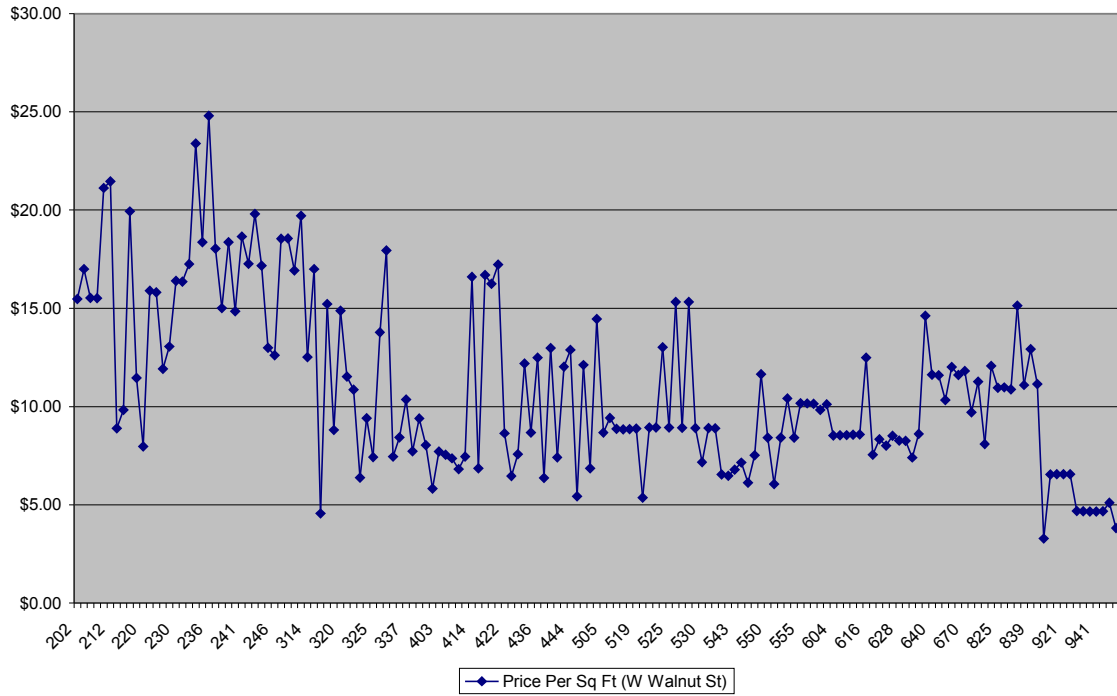
Are there anomalies in the class of single-family residential with city borders? Yes. We tracked two ways to determine and then demonstrate a problem.

First, some streets in Lancaster run the length of city, (north to south and east to west). Theory tells us that series of connected line charts show that as the streets move through the city, land values should be a wave of undulations, as land values should be consistent with the desirability of any given area on the street “line.”

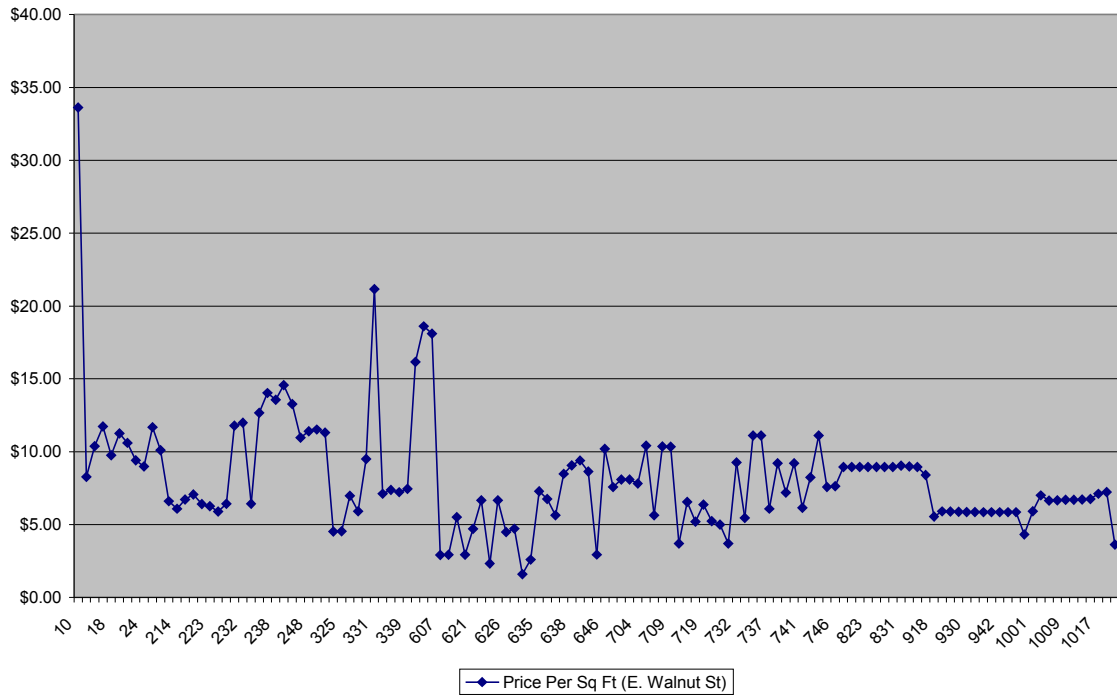
Yet, this is what we see with the various streets examined. The only constant is “Code 113”, single-family residential.

Walnut Street

Price Per Sq Ft (W Walnut St)

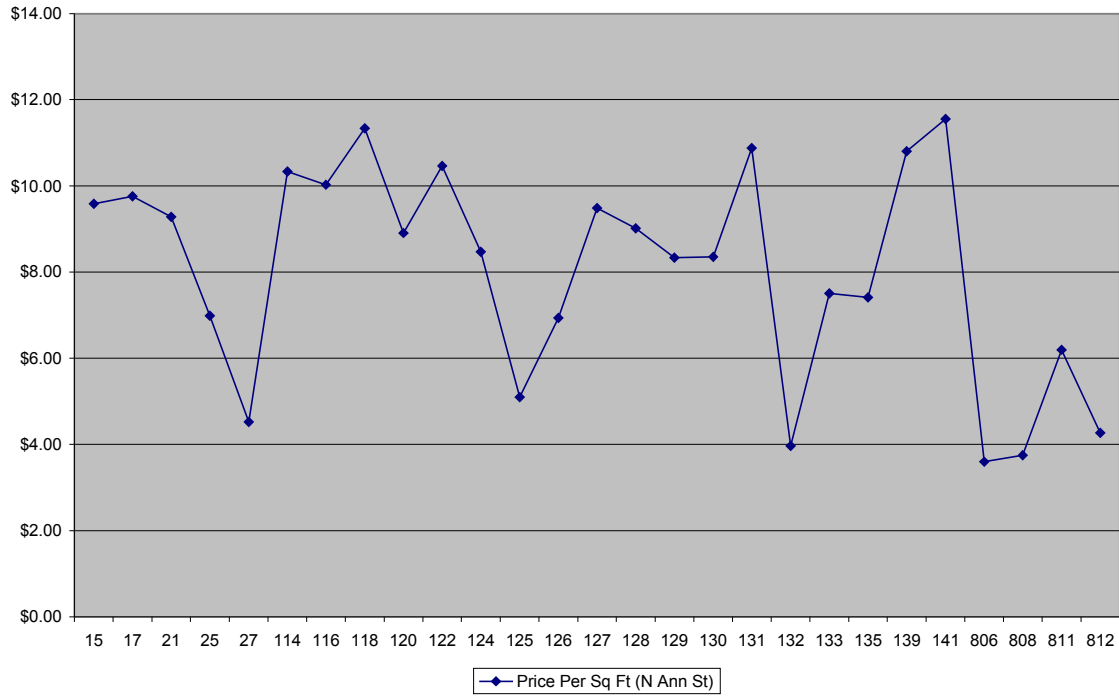


Price Per Sq Ft (E. Walnut St)

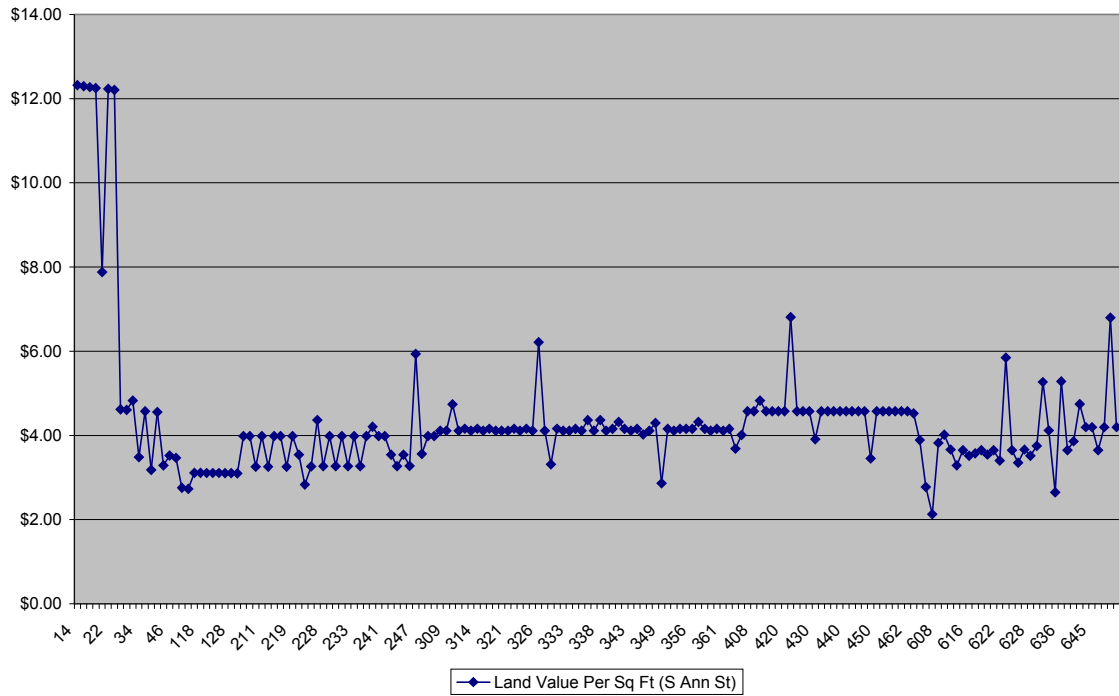


Ann Street

Price Per Sq Ft (N Ann St)

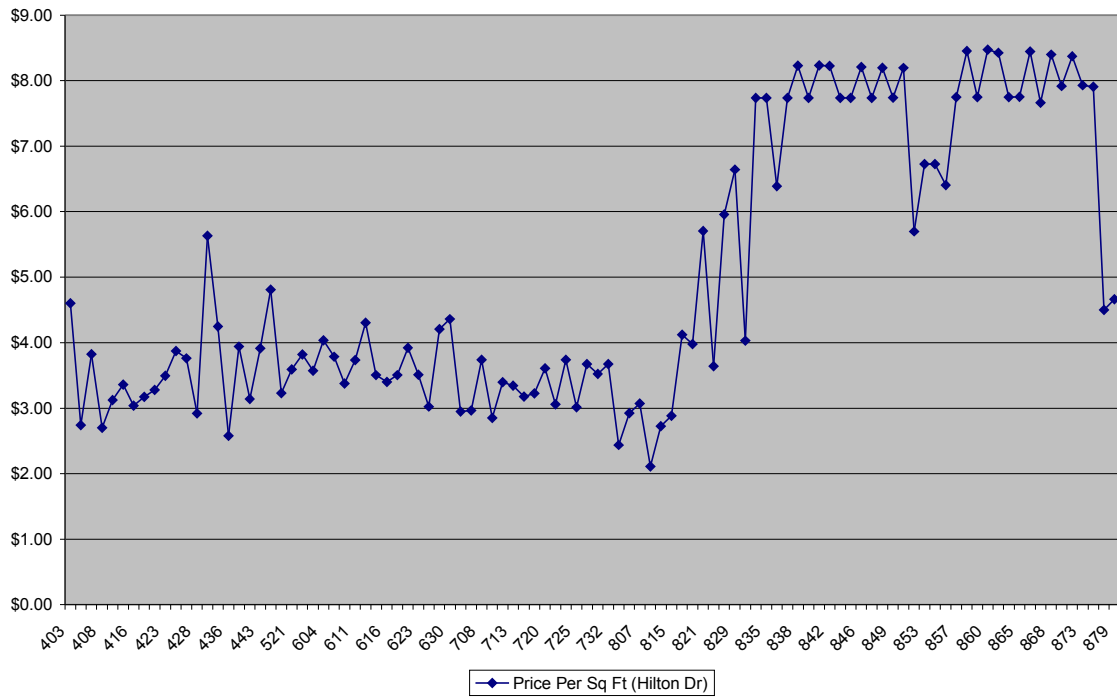


Land Value Per Sq Ft (S Ann St)



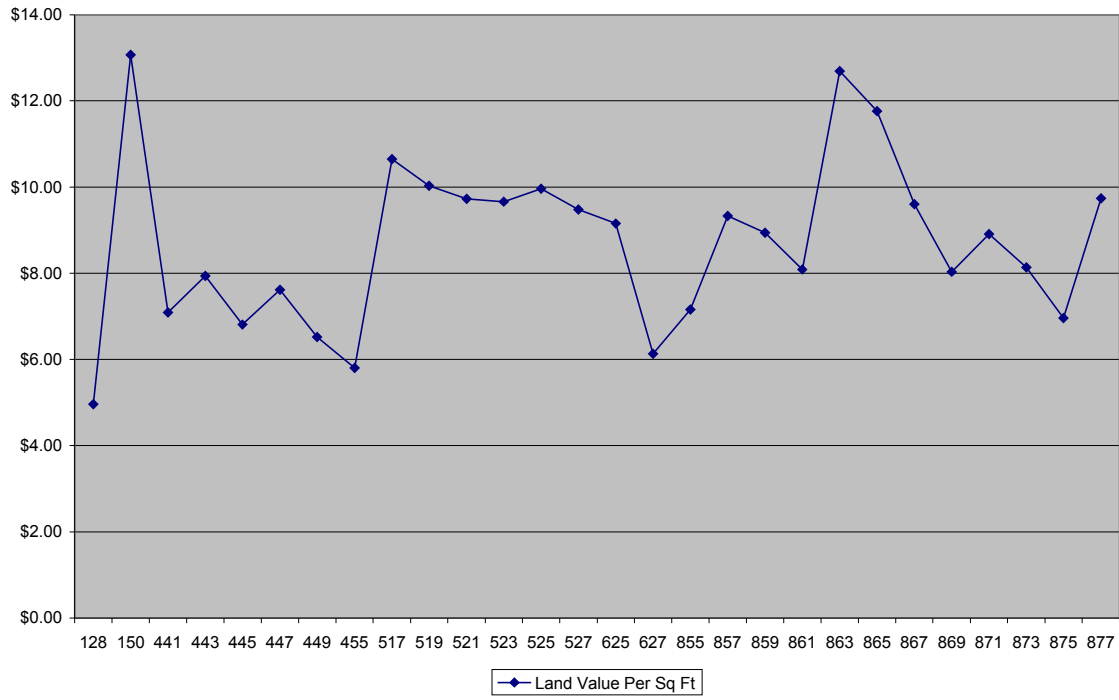
Hilton Drive

Price Per Sq Ft (Hilton Dr)

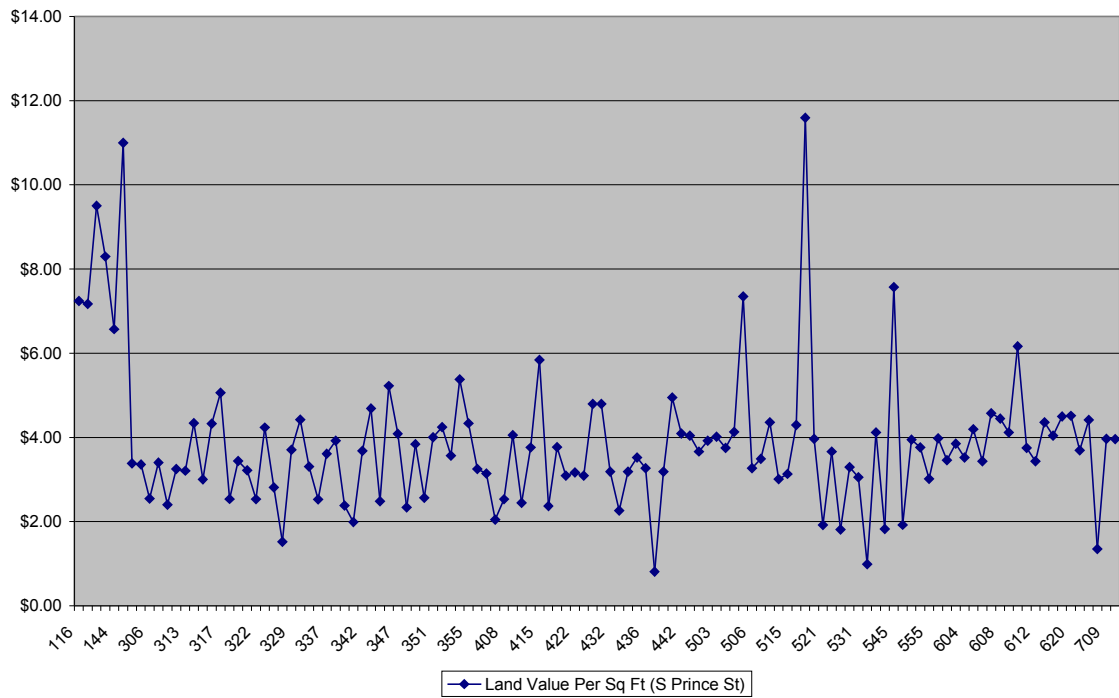


Prince Street

Land Value Per Sq Ft

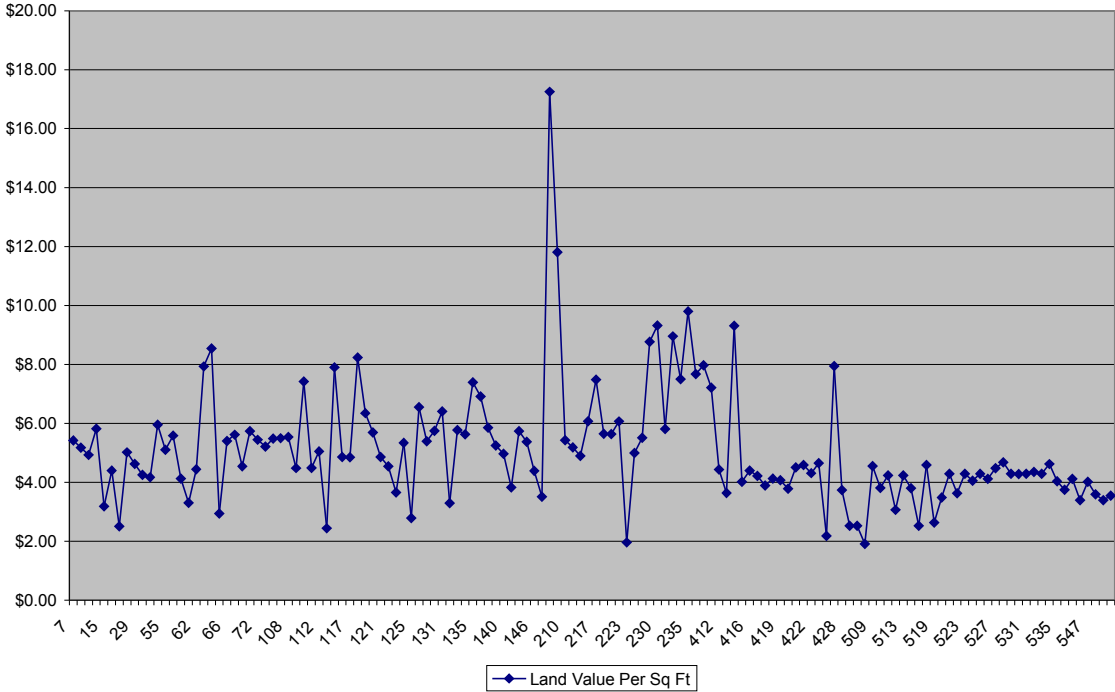


Land Value Per Sq Ft (S Prince St)



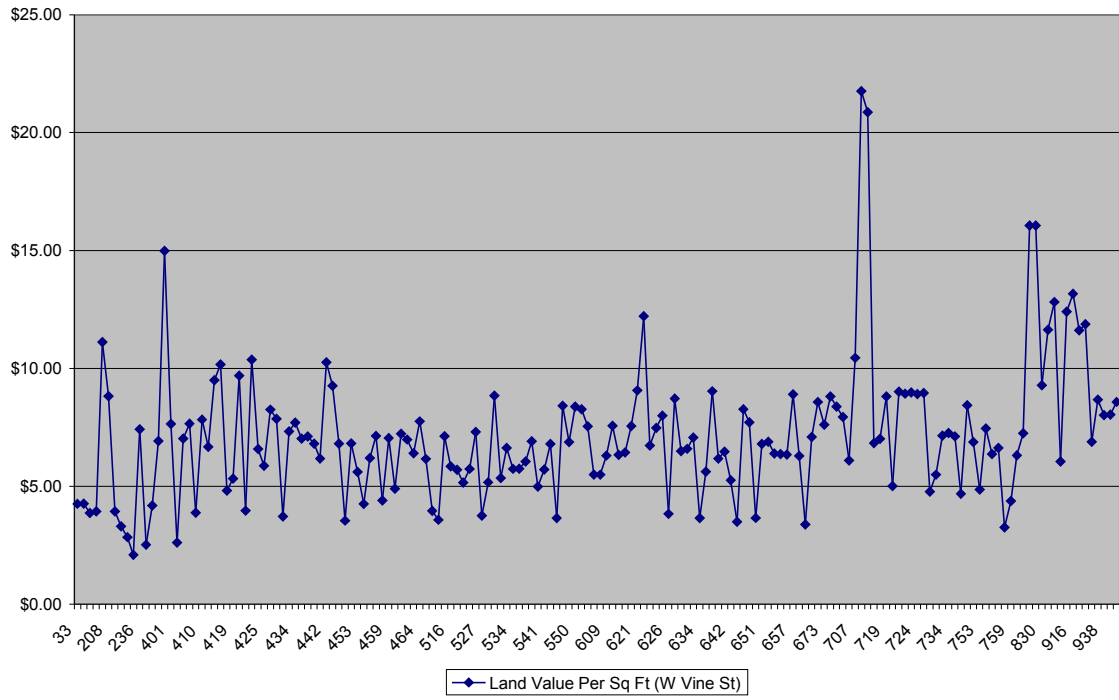
Howard Avenue

Land Value Per Sq Ft

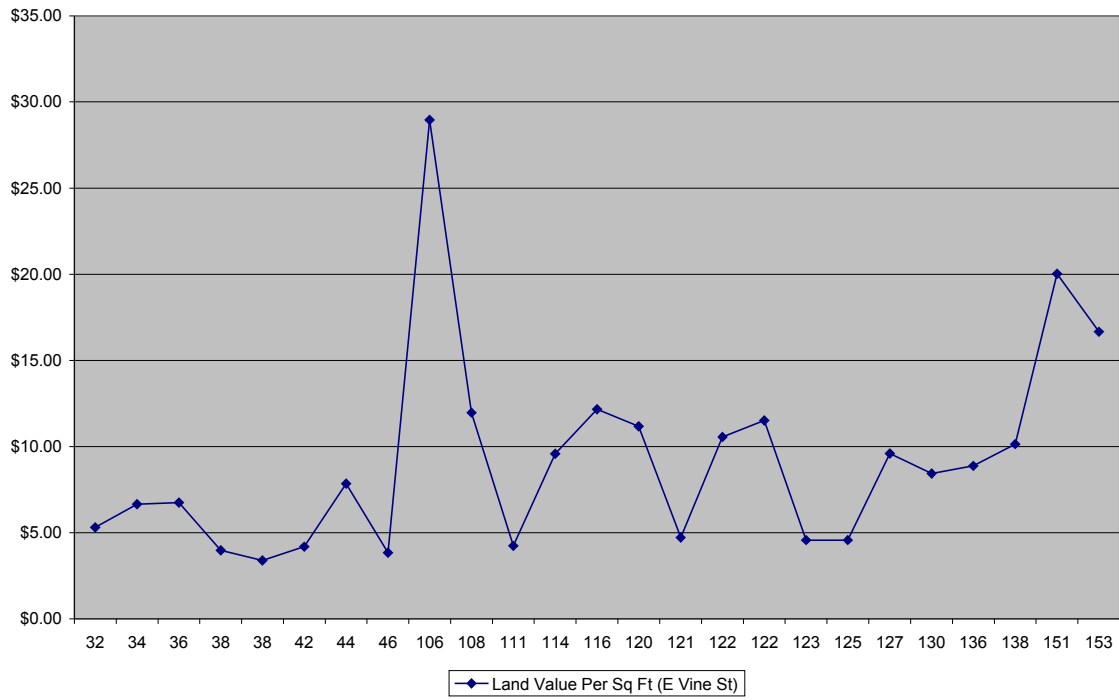


Vine Street

Land Value Per Sq Ft (W Vine St)



Land Value Per Sq Ft (E Vine St)



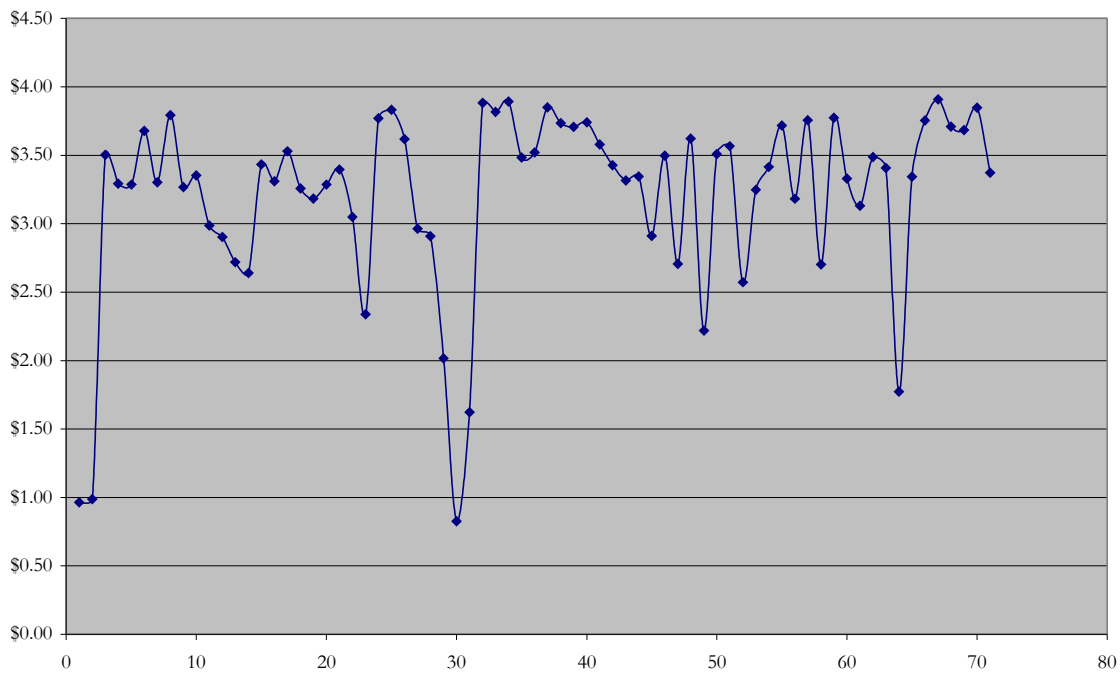
The consistency of the inconsistencies leads us to believe that land values are allocated with little consideration of the facts on and of the ground. To determine if this plays out in a non-linear context, we next studied neighborhoods.

In planning parlance, a “neighborhood” is non-linear, consisting of groupings by demographic, economic and physical characteristics. Lancaster has been ascribed 37 neighborhoods by the County Planners. Some are quite small, most have about 250 Code 113 parcels.

The inconsistency of land value inside neighborhood groupings repeats from the linear examination:

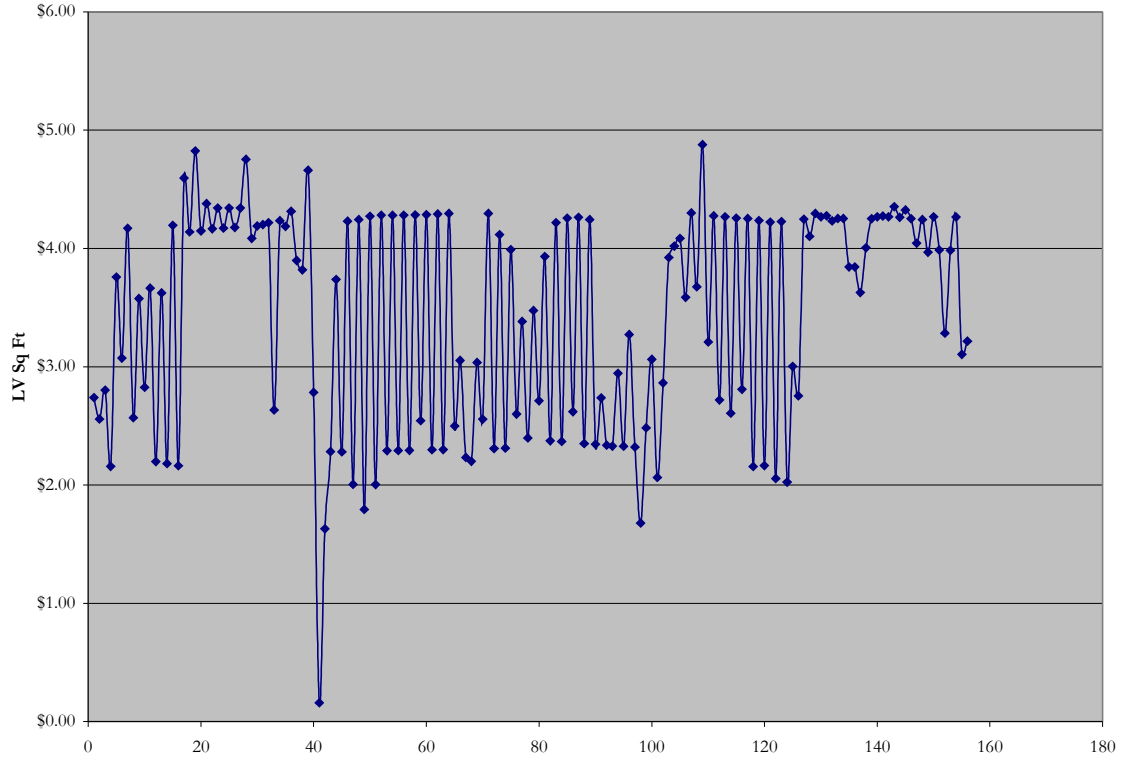
N7903 (Abbas, Putnam, Rozet, William Streets)

N7903 LV per SqFt



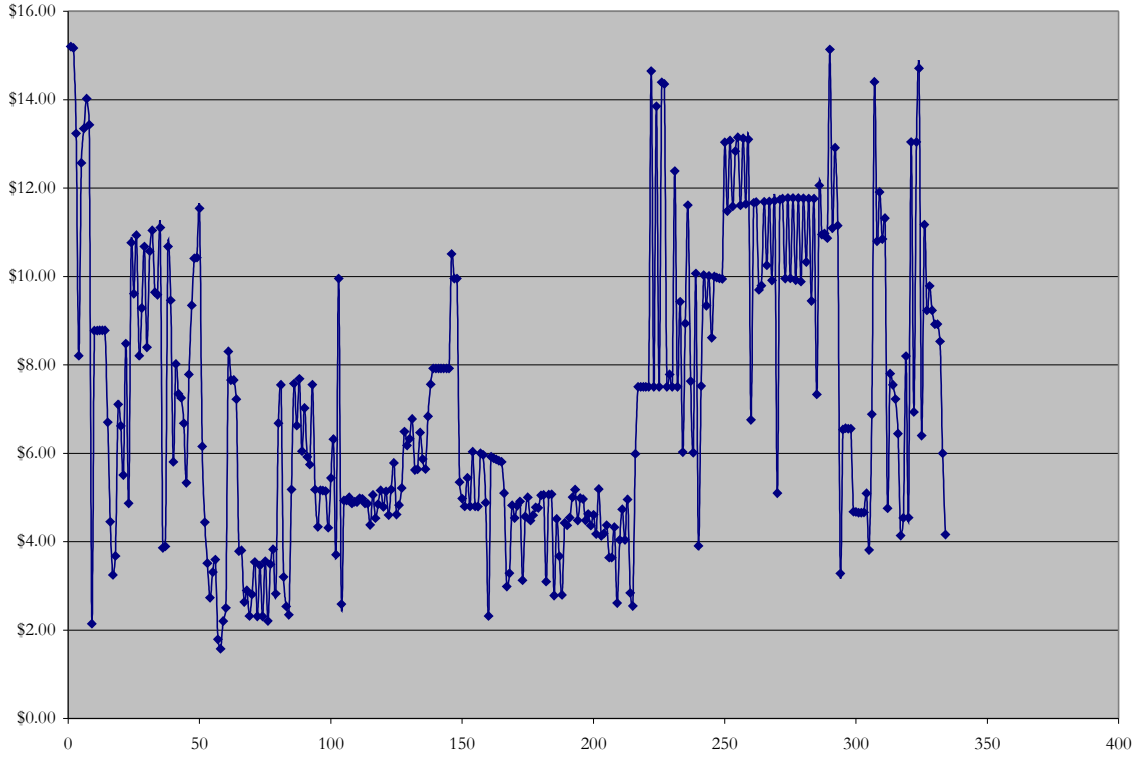
N8101 Glenn, Pitney, Princess Anne, Robert, Samuel Roads

N8101



**N3303 Buchanan, Clay, College, Marietta, President, Race, Sate, Virginia, West End,
Walnut Streets**

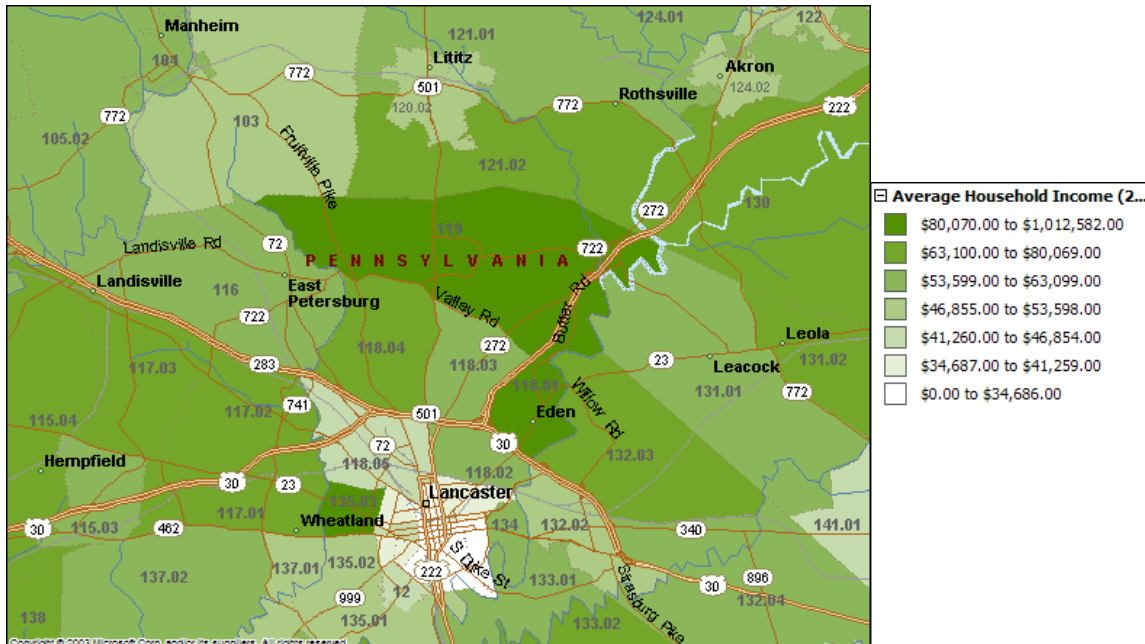
N3303 LV per SqFt



Residential Land Values (Code 113) Outside the City of Lancaster

High residential land values high relative to improvement value even in poorer neighborhoods seems to be the norm in Lancaster City. But what about the rest of Lancaster County? There is no doubt that household income disparity is significant in Lancaster County.

We illustrate this with 2002 Census Data Household Income and dividing into octiles. By doing so, we isolate the preponderance of wealth (or poverty) by location:

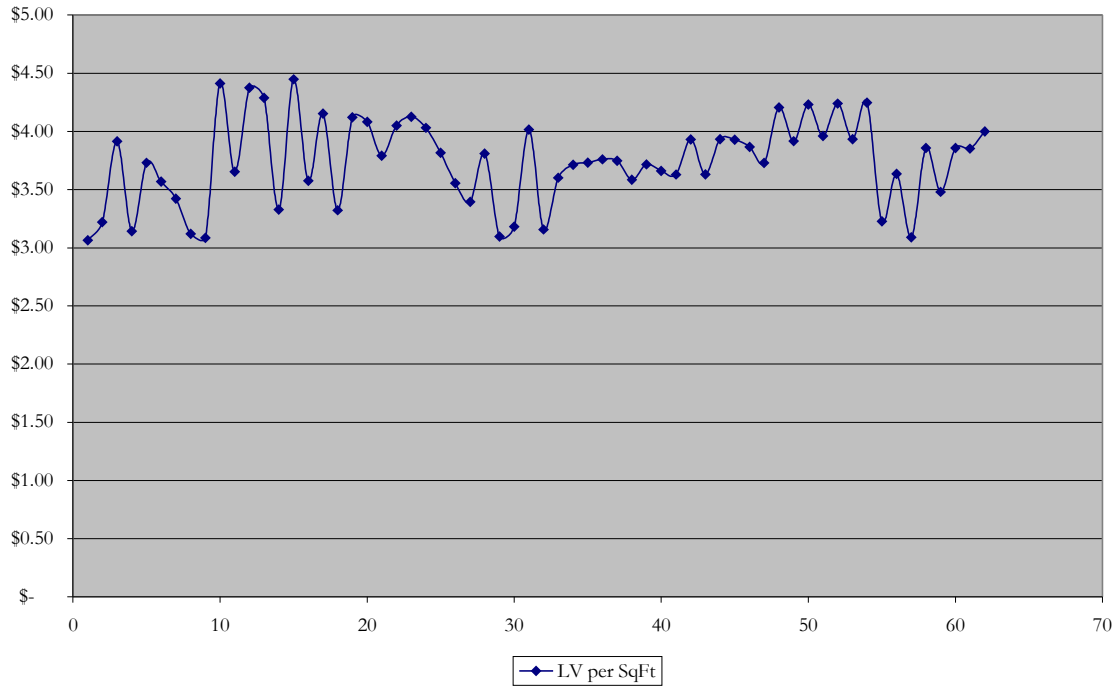


Clearly, Lancaster City has the preponderance of low-income households. This is not a new development. Certainly, with so many low-income households, theory expects that low land values serve as a marker of market (non) desirability for the City of Lancaster residential sector.

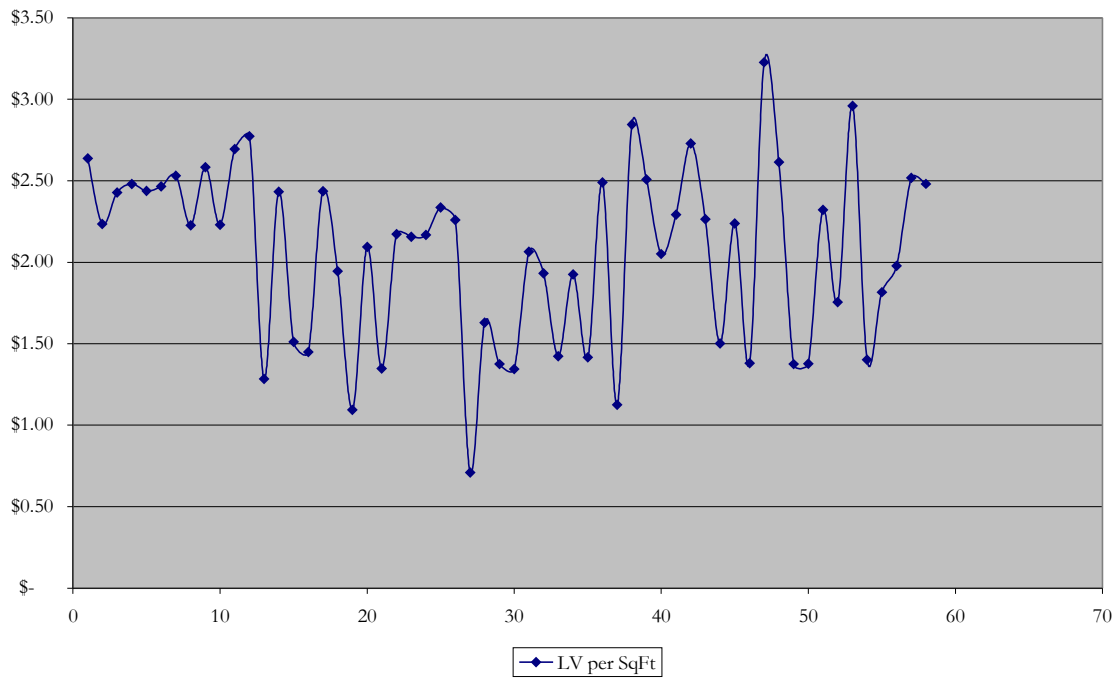
Therefore, the Center decided to test the reality. We sampled some jurisdictions that are rapidly growing and have active residential construction and real estate markets for existing homes. The results were interesting, particularly when compared to Lancaster City.

We took several streets in Manheim Township with a random selection. Using the same linear charting we used for Lancaster City, our results were much “tighter” meaning that while land value for a Lancaster neighborhood could range from \$1.90 a square foot to over \$15.00 a square foot, a Manheim Township variance of values is most often less than \$1.50 to \$3.00 a square foot:

Ashford Drive, Manheim - LV per SqFt

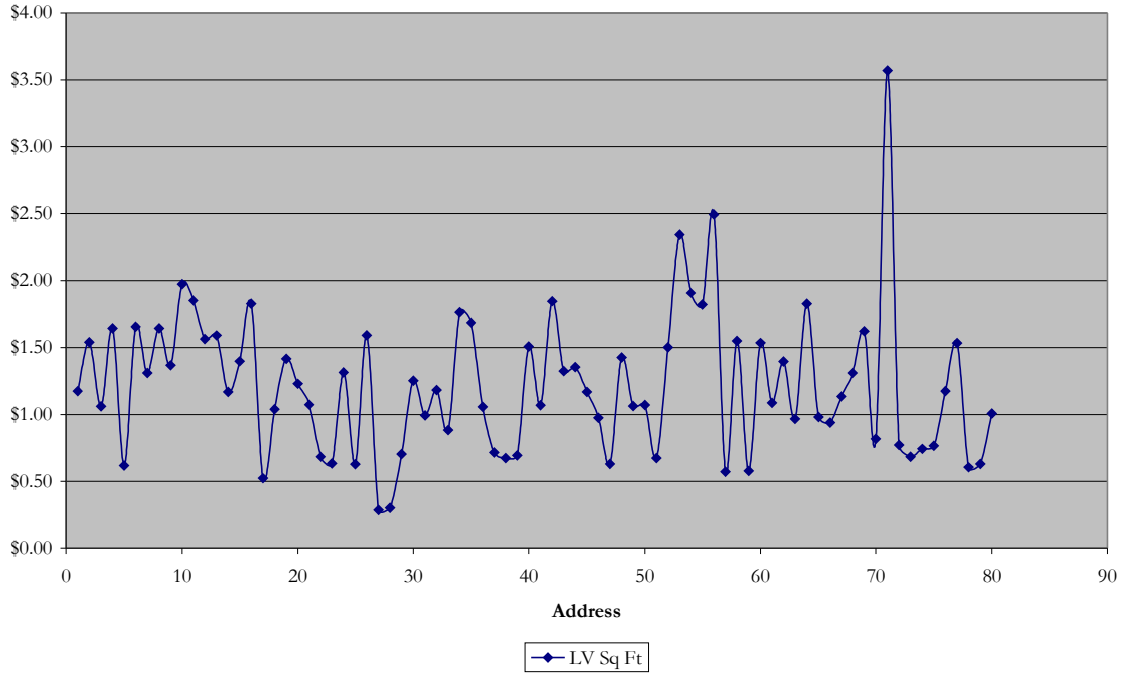


Blossom Hill Dr. LV per SqFt



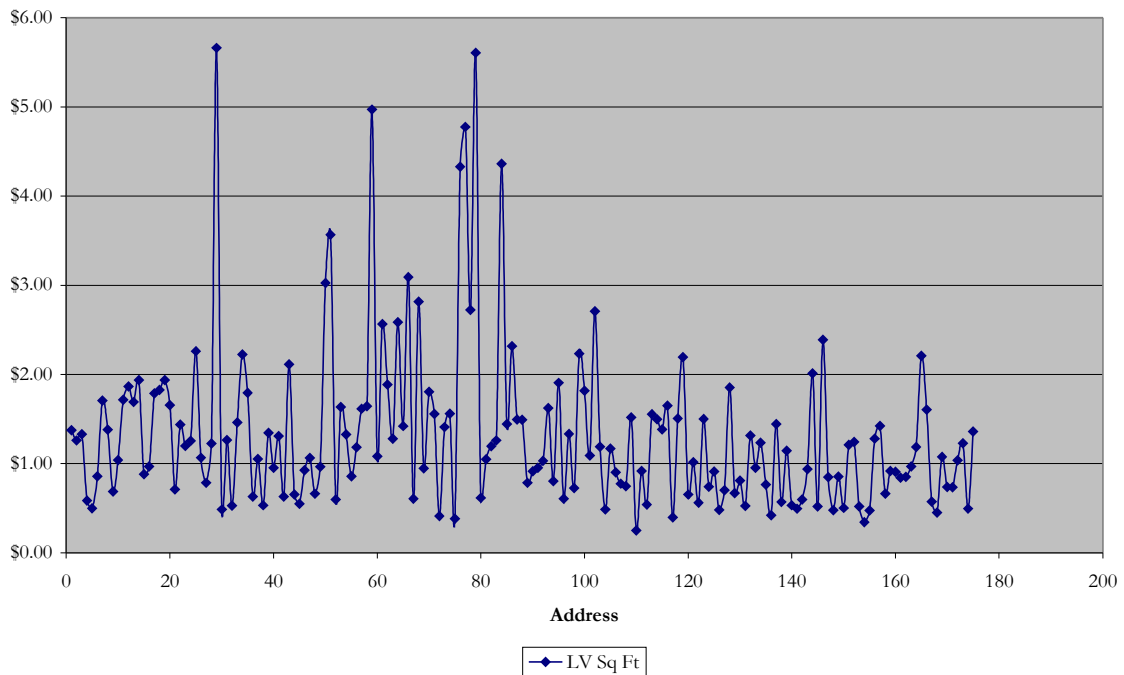
The outcome is similar for Conestoga Township:
Conestoga Township, Stone Hill Road

Stone Hill Road LV Sq Ft



Main Street, Conestoga

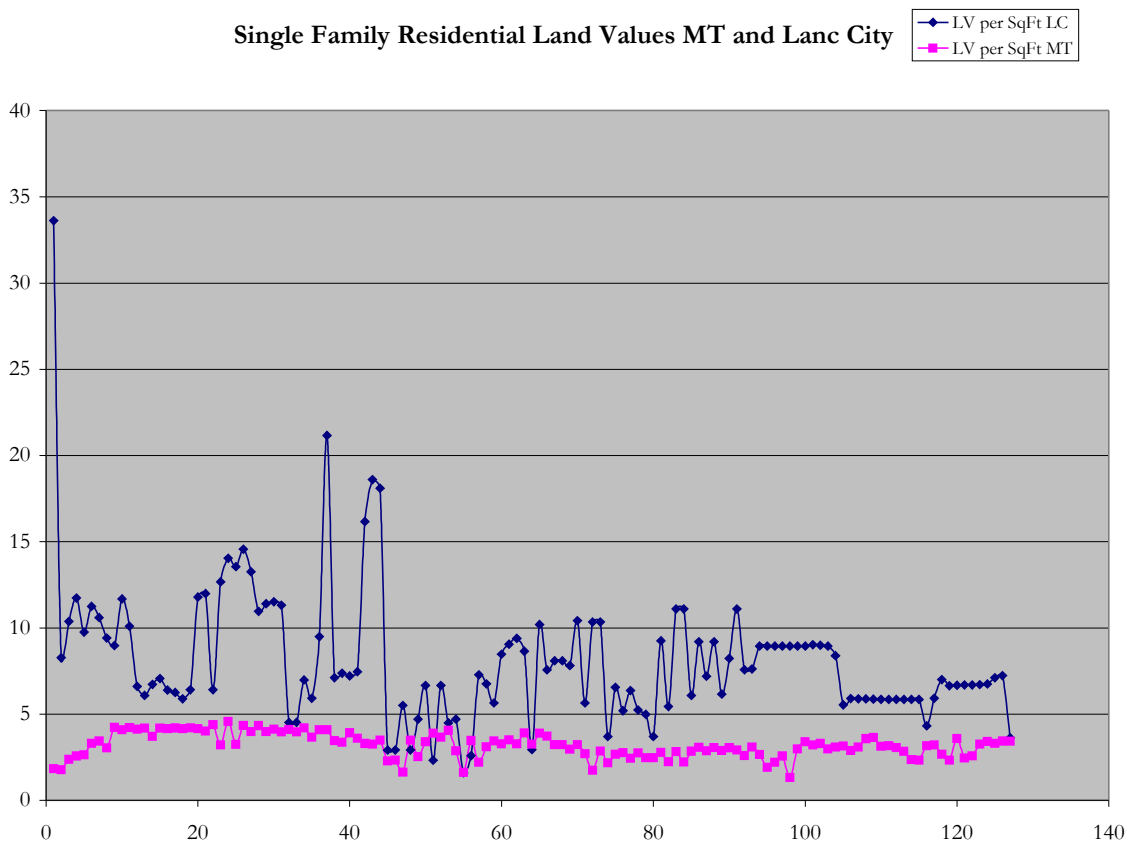
Main Street, Conestoga LV Sq Ft



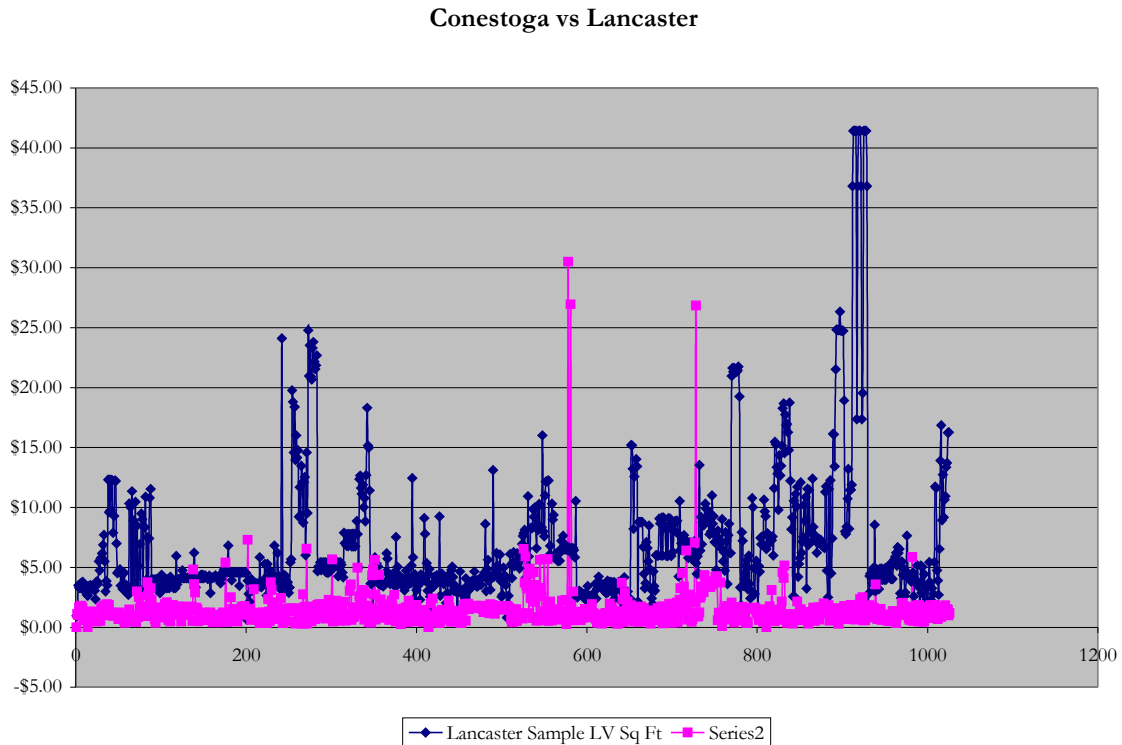
The important issue, though, is comparing residential land value per square foot between communities.

The Center believes that there is no justification for a pattern of higher land values per unit in Lancaster City versus very prosperous townships. The first chart indicates a comparison between All Code 113s on Walnut Street with a like number of randomly chosen street names in Manheim Township, resulting in the same number of parcels measured.

In almost no case does land value per square foot in the wealthier community approach those of the poorer city.



Using all 1,025 Code 113s in Conestoga, we then compared land value per sq ft against a random patch of 1,025 Lancaster City Parcels:



The outcome is much the same as in the Manheim comparison, even though many more properties are included.

Conclusions:

1. Lancaster City single-family homeowners are paying more than their fair share of tax currently in terms of absolute value of land.
2. The share of land value to building value is abnormally high
3. There cannot be a land value tax program in Lancaster until this is sorted out.

Commercial Properties

Code 5XX contains all commercial properties. The experience in Pennsylvania, Maryland and other states has been that commercial properties pay more under LVT. Nearly always, commercial property owners object to LVT. The objections arise for several prime reasons:

1. The land value is adjusted upwards for income-producing (i.e. commercial) properties.
2. The share of land value per parcel is usually significantly higher than residential or industrial properties.

3. The perceived need for free and expansive parking leads to greater footprints under current commercial development patterns.

Yet, in Lancaster, these verities fade. How?

Of 1,770 commercial properties, 250 parcels have no ascribable or detectable land value.

Condominium Commercial Properties

Code 580, condo commercial skews the ratio of land value to building value in the City. 8.9% of all commercial improvement value in Lancaster is ascribed to these parcels with no land value. The super-majority of the values is located physically at 1700 Fruitville Pike, one of the bigger developments in Lancaster's recent history, put together by Goldenberg, the ubiquitous New York developer.

The trend towards the legal condominium designation has led, in some Commonwealth counties, to allocate all of a property's value to improvements. We have heard from some in the assessment community say they believe that they must do so. Some also indicate that they are doing a good thing by allocating no land value, as it helps the depreciation schedules for corporate federal (and other) tax treatment.

Indeed, other than commercial condominium properties the EDC Financial Corporation of 25 N Queen Street has a \$12.75 million building on top of a \$169,000 plot of land! Normally, this situation is explained by tax-exempt land underneath the building, but no parcel could be found in our research.

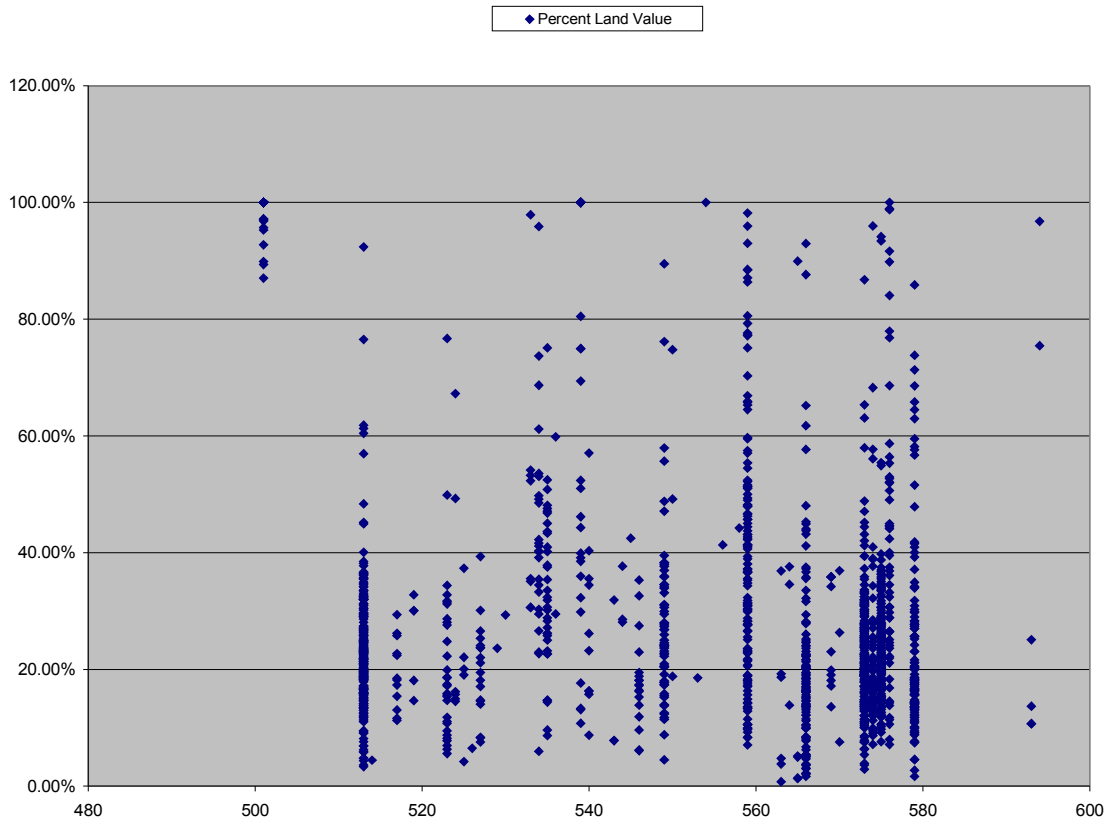
Non-Condo Commercial Properties

There are 80 parcels of higher-valued commercial properties, consisting of a combined value of \$1Million or more. Alone, they constitute 55% of all commercial property value. Why is this important?

The ratio of land value to building value for these 80 properties is 10.29%. The ratio skews the outcomes for LVT for residential single-family and indeed for small-scale commercial businesses. (Next Page)

LMUS		%		%	TOTAL	OWNER NAME	Door No	Direction	Street	
E	LAND	Land	IMPRPV	Improv						
559	972,000	65.94%	502,100	34.06%	1,474,100	US BOILER COMPANY INC	1245		MANHEIM	PIKE
533	740,000	53.24%	650,000	46.76%	1,390,000	JONES PONTIAC CO	1313		MANHEIM	PIKE
549	666,000	48.81%	698,500	51.19%	1,364,500	R & B REALTY COMPANY	1271		MANHEIM	PIKE
559	451,000	41.36%	639,500	58.64%	1,090,500	LOOP ROAD ASSOCIATES LP	1336		LOOP	RD
533	720,000	38.28%	1,160,900	61.72%	1,880,900	JONES PONTIAC COMPANY	1341		MANHEIM	PIKE
544	540,000	37.66%	893,700	62.34%	1,433,700	LIU CYNTHIA HSIU	1027		DILLERVILLE	RD
579	413,000	37.12%	699,600	62.88%	1,112,600	GRANDVIEW PLAZA LANCASTER LP	790		NEW HOLLAND AVE	
549	447,400	35.83%	801,300	64.17%	1,248,700	SPTIZER M JAMES ETAL	830		PLAZA	BLVD
513	388,100	35.46%	706,300	64.54%	1,094,400	HDC XIV ASSOCIATES	301	S	BROAD	ST
546	2,030,000	35.30%	3,720,000	64.70%	5,750,000	THERMAL SOLUTIONS PRODUCTS LLC	1175		MANHEIM	PIKE
549	384,000	34.50%	729,100	65.50%	1,113,100	SPTIZER M JAMES ETAL	820		PLAZA	BLVD
549	362,000	33.90%	705,900	66.10%	1,067,900	STEFFAN ANDREW P	431		HARRISBURG	AVE
576	570,600	33.18%	1,149,100	66.82%	1,719,700	DREAMS FJ	1320		MANHEIM	PIKE
513	588,000	31.91%	1,254,400	68.09%	1,842,400	PAREC AMBASSADOR COURT ASSOC	440		EUCLID	AVE
543	480,000	31.89%	1,025,100	68.11%	1,505,100	SPTIZER, JAMES ET AL	800		PLAZA	BLVD
544	594,000	28.59%	1,484,000	71.41%	2,078,000	TDB LAND ASSOCIATES LP	235	N	RESERVOIR	ST
544	468,000	28.11%	1,197,100	71.89%	1,665,100	TALKOW PHILIP & DONNA	1285		MANHEIM	PIKE
549	343,500	25.97%	979,200	74.03%	1,322,700	CEDAR CHESTNUT STREET LLC	825	E	CHESTNUT	ST
513	400,100	25.16%	1,190,300	74.84%	1,590,400	HILLRISE MUTUAL HOUSING ASSOC	205		LOCUST	ST
513	2,564,900	24.60%	7,860,600	75.40%	10,425,500	CEDAR ACRES EAST INC	50		LEPORE	DR
566	297,500	23.08%	991,600	76.92%	1,289,100	RS GK ASSOCIATES LLC	829		MARIETTA	AVE
513	629,700	21.60%	2,285,700	78.40%	2,915,400	DPMW ASSOCIATES LLC	420		HERSHEY	AVE
579	295,700	20.32%	1,159,200	79.68%	1,454,900	SUBURBAN CABLE TV CO INC	1131	S	DUKE	ST
513	1,178,400	18.13%	5,321,600	81.87%	6,500,000	GARDEN COURT ASSOC	127	S	ANN	ST
549	182,000	18.01%	828,400	81.99%	1,010,400	ALSPACH ALFRED C JR	600	N	RESERVOIR	ST
549	546,400	16.66%	2,732,600	83.34%	3,279,000	WOLF GROUP LP	360		STEEL	WAY
559	269,000	16.33%	1,378,100	83.67%	1,647,100	LANCASTER GENERAL SERVICES	1397		ARCADIA	RD
535	225,900	15.27%	1,253,200	84.73%	1,479,100	LLM REALTY PARTNERS	1009	N	PRINCE	ST
544	500,000	14.78%	2,883,300	85.22%	3,383,300	FRANKLIN & MARSHALL COLLEGE	931		HARRISBURG	AVE
566	296,000	14.10%	1,803,900	85.90%	2,099,900	DUDEK REALTY INVESTMENT LP	48	W	CHESTNUT	ST
513	156,000	13.51%	998,600	86.49%	1,154,600	SYCAMORE ASSOCIATES	205		RACE	AVE
566	144,000	12.14%	1,042,300	87.86%	1,186,300	ARNOLD REALTY	60	W	WALNUT	ST
574	144,000	12.03%	1,053,300	87.97%	1,197,300	KING THEATRE ASSOCIATES	419	E	KING	ST
513	164,500	11.48%	1,268,500	88.52%	1,433,000	740 NORTH DUKE ASSOCIATES LLC	720	N	DUKE	ST
513	145,300	11.16%	1,156,600	88.84%	1,301,900	CARPE DIEM, INVESTMENT LLC	417	E	FREDERICK	ST
575	106,800	9.76%	987,900	90.24%	1,094,700	WESS ASSOC	554	N	DUKE	ST
513	117,300	9.07%	1,176,600	90.93%	1,293,900	HIGHLAND CROSSING LLC	349	N	DUKE	ST
559	195,700	8.32%	2,155,700	91.68%	2,351,400	STUMPF KATHLEEN M	1205		MARSHALL	AVE
566	147,000	8.25%	1,633,900	91.75%	1,780,900	EASTERN ALLIANCE BUILDING LP	25		RACE	AVE
576	91,500	8.01%	1,050,900	91.99%	1,142,400	PHILADELPHIA CITY OF	826		MANOR	ST
543	11,202,500	7.88%	130,950,100	92.12%	142,152,600	SPTIZER, JAMES ET AL	100		PARK CITY	CTR
575	85,800	7.61%	1,042,000	92.39%	1,127,800	LANCASTER GENERAL HOSPITAL	609	N	CHERRY	ST
513	91,000	6.90%	1,227,600	93.10%	1,318,600	HISTORIC HAMILTON SUITES &	247	N	DUKE	ST
513	168,000	6.88%	2,273,700	93.12%	2,441,700	UMBRELLA WORKS ASSOC	250	W	KING	ST
566	65,100	6.26%	974,700	93.74%	1,039,800	53 WEST JAMES LP	53	W	JAMES	ST
513	73,500	6.24%	1,104,300	93.76%	1,177,800	ROSENWALD VENTURES LLC	215	E	FULTON	ST
566	92,000	5.43%	1,603,300	94.57%	1,695,300	CONNELL PATTI A	53	N	DUKE	ST
566	172,000	5.07%	3,218,100	94.93%	3,390,100	217 HARRISBURG AVENUE ASSOCIAT	217		HARRISBURG	AVE
566	54,000	4.99%	1,027,200	95.01%	1,081,200	CIPHER REALTY	32	E	KING	ST
513	206,500	4.79%	4,106,700	95.21%	4,313,200	PRINCE STREET TOWERS LMTD PRTN	335	N	PRINCE	ST
563	106,000	4.76%	2,119,400	95.24%	2,225,400	FIRST STATES INVESTORS 3300 LL	100	N	QUEEN	ST
513	51,600	4.75%	1,034,500	95.25%	1,086,100	THE APARTMENTS AT MULBERRY	301	W	JAMES	ST
579	60,000	4.53%	1,263,300	95.47%	1,323,300	CENTRAL MARKET MALL ASSOCIATES	44	N	QUEEN	ST
514	208,000	4.45%	4,467,400	95.55%	4,675,400	BRUNSWICK REAL ESTATE MANAGEMI	151	N	QUEEN	ST
513	54,500	4.35%	1,198,800	95.65%	1,253,300	ECKLIN DEVELOPMENT LLC	343	W	CHESTNUT	ST
563	66,000	3.78%	1,682,000	96.22%	1,748,000	SOVEREIGN BANK FSB	23	E	KING	ST
566	50,200	3.77%	1,281,800	96.23%	1,332,000	COUNTY OF LANCASTER	150	N	QUEEN	ST
566	64,800	3.73%	1,674,500	96.27%	1,739,300	ONE TWENTY SIX EAST	126	E	KING	ST
513	61,700	3.63%	1,637,400	96.37%	1,699,100	FRANKLIN & MARSHALL COLLEGE	602	N	CHARLOTTE	ST
566	61,300	3.08%	1,931,400	96.92%	1,992,700	115 ASSOCIATES	113	E	KING	ST
566	54,300	2.98%	1,769,900	97.02%	1,824,200	MUSSER PARK NORTH ET AL	221	E	CHESTNUT	ST
573	75,300	2.91%	2,514,400	97.09%	2,589,700	HORST CLYDE W	29	E	KING	ST

When charting all types of commercial use, the percentages of land value range from the low land value percentages to a general range of 10% to 30%, with notable but statistical negligible outliers at the top end of land value.



Again, this changes the outcome of LVT by pulling the share of commercial improvement value up to a degree that it eliminates the possibility of residential savers, with their lowered ratio of improvement value.

Conclusion and Recommendation

The City of Lancaster cannot take advantage of Land Value Taxation without unduly burdening the poor and working class residents of Lancaster. LVT would also reduce much of the newest and most valuable recent development in the City, shifting tax burden from Red Rose Commons and others to homeowners.

Lancaster County assessments have overstated land values inter-jurisdictionally for single-family residential parcels in the City, and intra-jurisdictionally have lowered them for prosperous suburban entities. County assessments greatly overstate commercial improvements values as a percentage of total value. The undervaluation of commercial land is not at all realistic.

Recommendations:

1. The City of Lancaster should commission a study of the real property market for both residential and commercial properties. This study will compare assessed city parcels with current market data. Put out for bid in the Realtor or appraisal community, this study can do a deep analysis of the issues raised here.
2. The Center for the Study of Economics will find funding for an assessed value to market value study using banking and mortgage industry data. GeoTrends, an Austin, TX based firm has a long history of value modeling not just total property values, but land values as a component of property valuation. www.geotrends.net
3. The City of Lancaster should organize a one-day session – in late 2007 with County assessors in the spirit of cooperation to see if the values can be readjusted. The Center will arrange speakers and respondents.
4. The City of Lancaster should consider a line item to create at least a part-time permanent city assessor as permitted by the Third-Class City Code (using Wilkes-Barre as a model).