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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.

JEL classification: H71; O18; R11

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1. 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.

[1] Although there are now 140 TIFs in Chicago the analysis includes only those TIF districts that designated prior to 2001.