

CHARTS

# The Simple Math That Can Save Cities From Bankruptcy

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In the 1950s, the five-story brick Asheville Hotel in Asheville, North Carolina, started to fall into decline, presaging what would happen to most of the city's downtown over the next couple of decades. A department store moved into the ground floor while everything above it sat empty. Then the building got one of those ugly metal facades that's designed to distract from the fact that all the windows are boarded up. Here's what it looked like in the 1970s, by which time it was completely vacant:



Twenty years later, the local real-estate developer Public Interest Projects set its sights on the building for a mixed-use retail and residential property. Local bankers and businessmen said they were foolish. No one wants to live downtown, they said. And so no one was interested in financing the project. Public Interest Projects went ahead with its own money and turned the building into this:



"Usually people like to see these before-and-after pictures of buildings," says Joe Minicozzi, the new projects director at the firm who has now made something of a traveling road show with these photos. "And then we have the chaser of castor oil called economics."

Minicozzi at this point starts pulling out bar graphs and land-use maps and property-tax calculations, because he's not necessarily trying to make a point about the Asheville Hotel as much as he is about the fundamental math problem posed by modern cities in America.

In its vacant state in the 1970s, the Asheville Hotel didn't contribute much to the public coffers. Today, though, that same parcel of land is responsible for exponentially more property tax revenue that helps pay for police, parks and city streets.

We tend to think that broke cities have two options: raise taxes, or cut services. Minicozzi, though, is trying to point to the basic but long-buried math of our tax system that cities should be exploiting instead: Per-acre, our downtowns have the potential to generate so much more public wealth than low-density subdivisions or massive malls by the highway. And for all that revenue they bring in, downtowns cost considerably less to maintain in public services and infrastructure.

"We really are kind of preachy, because we know it works," says Minicozzi, who has performed similar tax studies in 15 cities across the country. "And the reason we know it works is because cities have been here forever. That's all we're saying: think urban. When I talk with people about urbanism, we as hairless apes have lived in these things called cities for thousands of years. Now over these last 40 years, we think we don't need them any more?"

So, broke cities: Need money? If you've got underutilized buildings in your downtown, do anything you can to fix them up, because that's where your wealth comes from. This is Minicozzi's first lesson.

This property, an old JCPenney in downtown Asheville, sat vacant for 40 years before Minicozzi's firm bought and remodeled it:



It's now home to a beauty salon in the basement, retail on the ground floor, offices on the second floor and 19 condos above. In 1991, the taxable value of this vacant building was just \$300,000. Now, this property that sits on one-fifth of an acre is worth \$11 million.

The really interesting math, though, comes not when we compare derelict buildings to their refurbished selves, but when we look at unsung half-block offices alongside what we think are our big municipal money-makers: vast hotels, malls, big-box stores.

Asheville has a Super Walmart about two-and-a-half miles east of downtown. Its tax value is a whopping \$20 million. But it sits on 34 acres of land. This means that the Super Walmart yields about \$6,500 an acre in property taxes, while that remodeled JCPenney downtown is worth \$634,000 in tax revenue per acre. (Add sales tax revenue, and the downtown property is still worth more than six times as much as the Walmart per acre.)

This is the cognitive blinder we bring to the economics of land use: We tend to compare buildings to each other, without looking at their unit value. This would be like comparing the fuel economy of the tank of a Ford F-150 to the tank of a Prius. We don't shop for vehicles that way, because that makes no sense. We look at miles-per-gallon, not miles-per-tank, because tanks come in all different sizes. We should look at buildings, Minicozzi argues, the exact same way.

"As a community, if you have a finite limit of land, would you want \$6,500 or \$20,000, or \$634,000 downtown an acre?" he asks. "I tell people, 'What would you rather grow: wheat, soybeans or marijuana?' People understand that cash-crop concept, so why aren't we doing that downtown?"

This concept is true everywhere. In Raleigh, for instance, it would take 600 single-family homes on a 150-acre subdivision to equal the tax base of the 30-story Wells Fargo Capitol Center downtown. And it sits on 1.2 acres of land.

All of this is also just looking at the revenue side of the ledger. Low-density development isn't just a poor way to make property-tax revenue. It's extremely expensive to maintain. In fact, it's only feasible if we're expanding development at the periphery into eternity, forever bringing in revenue from new construction that can help pay for the existing subdivisions we've already built.

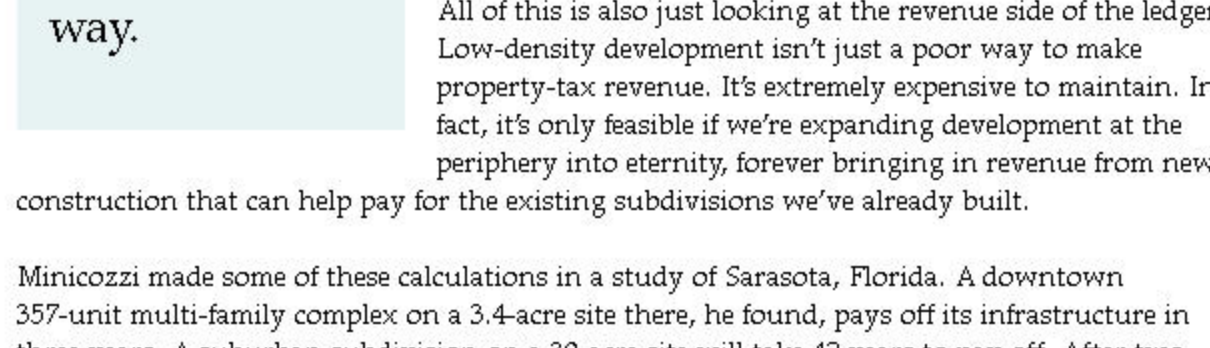
Minicozzi made some of these calculations in a study of Sarasota, Florida. A downtown 357-unit multi-family complex on a 3.4-acre site there, he found, pays off its infrastructure in three years. A suburban subdivision on a 30-acre site will take 42 years to pay off. After two decades, that downtown multi-family complex will have made the city \$33 million in net revenue. The suburban subdivision will still be \$5 million in the hole.

"The thing is it all works fine – that's fine with you have, all this new gap is met by all these new permit fees – that's like free money," Minicozzi says. "But if you and I go out and just keep eating McDonald's french fries, we're going to feel full, but is it providing enough sustenance for us?"

Cities everywhere are experiencing the collapse of that model now. But few have caught on yet to the solution Minicozzi is talking about. If we look at the per-acre value of our land, and where that land is most valuable, cities could generate wealth not by raising taxes, but by better exploiting the economics of land use.

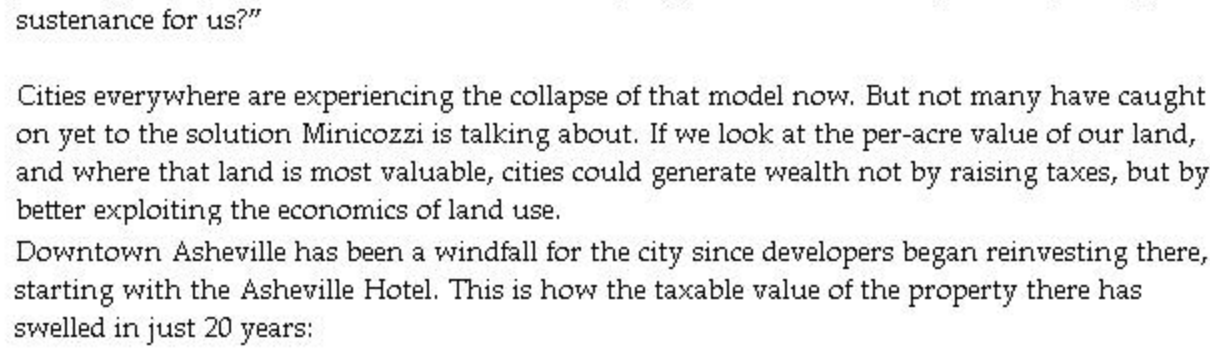
Downtown Asheville has been a windfall for the city since developers began reinvesting there, starting with the Asheville Hotel. This is how the taxable value of the property there has swelled in just 20 years:

## Asheville CBD Taxable Value



The whole idea is pretty simple. But it's sort of baffling, that we haven't been looking at our land this way for years. Cities, Minicozzi laments, are woefully ignorant about exactly which types of neighborhoods and development put the most financial strain on public coffers and which kick in the most money. This is why Minicozzi has been deploying every metaphor he can think of – cash crops, gas tanks, french fries! – to beat home the math.

His colleague Joshua McCarty has developed one other trick that could change how we look at our cities. This is a three-dimension map of the property-tax value of downtown Asheville:



Those tall buildings aren't necessarily tall in real life (they aren't necessarily the real money-makers for the city). That five-block wide low-slung green building on Spruce Street is in fact a 12-story Renaissance Hotel. But, per acre, those little office buildings across the street are actually kicking in more tax revenue. To get back on sound financial footing, cities ought to start looking at all their land this way.

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