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Land Lines

JULY 2010

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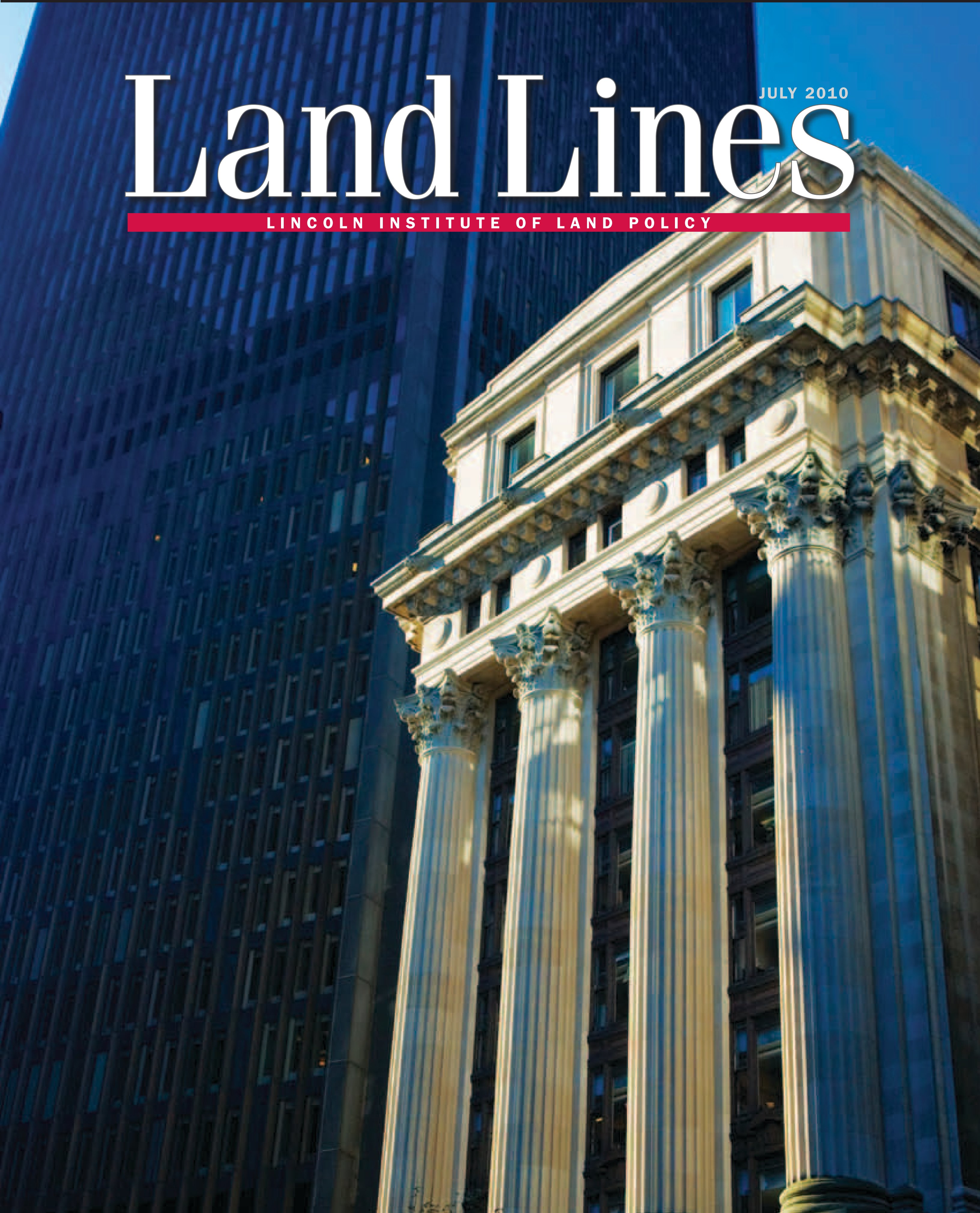

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JULY 2010 • VOLUME 22, NUMBER 3

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LINCOLN INSTITUTE OF LAND POLICY

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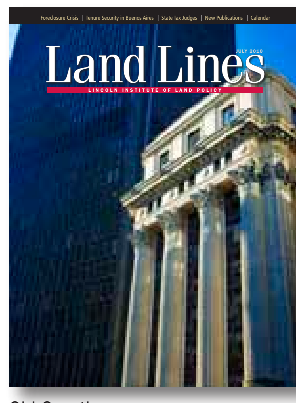

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The Environment, Climate Change, and Land Policies

Planning and land policy experts recognize the need for timely and accurate information about how to take account of likely, if uncertain, environmental and climate change impacts on global land use and development patterns. The Lincoln Institute's fifth annual land policy conference in May 2010 addressed the status of many of these issues currently and through the twenty-first century.

Gregory K. Ingram

Transport and Land Use

Providing effective transit service—a smart growth policy—requires residential densities of at least 30 persons per hectare. A review of census tract data for 447 U.S. urbanized areas in 2000 indicates that about a quarter of the urbanized population resided in areas with such densities, down from half in 1965. Fully 47 percent of the 447 areas had no tracts with a transit-sustaining density. But, transit ridership requires more than just dense residential areas.

For example, New York and Los Angeles have similar average residential densities, but 51 percent of commuters in New York use transit compared to 11 percent in Los Angeles. An analysis of travel diaries from nearly 17,000 Los Angeles households indicates that accessibility to employment centers increases transit use much more than living in a high-density area. Alternatively, congestion toll schemes dating from the mid-1970s have yielded sustained increases in transit use and reductions in auto use and congestion. While such policies are likely to produce land use changes, theory is ambiguous about their direction, and virtually no empirical evidence is available.

Energy and Carbon Pricing

Analysis of 13 completed LEED-certified developments showed that their residents produced fewer vehicle miles travelled than the average for their metropolitan areas, suggesting that these developments are fulfilling one of their objectives. A review of the land intensity of alternative energy sources demonstrates that wind and solar sources are feasible in terms of their land coverage, whereas heavy reliance on bio-fuels would require unfeasibly large shares of current agricultural land. However, alternative energy sources for electricity will require large investments in transmission lines across the continent.

An analysis of the effects of cap-and-trade, a carbon tax, and emissions standards as instruments to reduce carbon emissions shows that their impacts depend critically on implementation details. The first two approaches can appear very similar if permits are auctioned rather than given away. The regressivity of carbon taxes can be offset by revenue recycling that is proportional to total tax payments. Emission standards are likely to involve efficiency losses but may be most attractive politically.

Climate Change Impacts

Models of how climate change will affect sea-level rise, temperature, and rainfall differ greatly at the micro level, but all indicate that major costs will be borne by coastal cities and areas in the lower latitudes, with lower costs and some benefits accruing to those in the higher latitudes. A temperature rise of two degrees centigrade in this century seems inevitable, and constraining it to that level will require both large investments and effective policies. Such policies will have to include coordinated management of the one-third of land in the United States that is publicly owned, carbon capture in the form of larger forest areas, and mobilization of revenues for protection of environmentally sensitive areas.

The Way Forward

Many subnational U.S. jurisdictions are already engaged in implementing relevant policies, but the federal government needs to develop an approach to climate mitigation that includes benefit-cost standards, a realistic financing framework with beneficiary and user fees, and a national plan consistent with state plans. Internationally, capacity to address governance issues related to global commons is developing slowly and is hampered by inadequate funds, insufficient consensus, and a lack of legitimacy of existing institutions to address these issues, as well as by an increasing popular skepticism about the very existence of climate change.

The conference volume, with papers and commentaries by more than 25 contributors, will be published in May 2011.

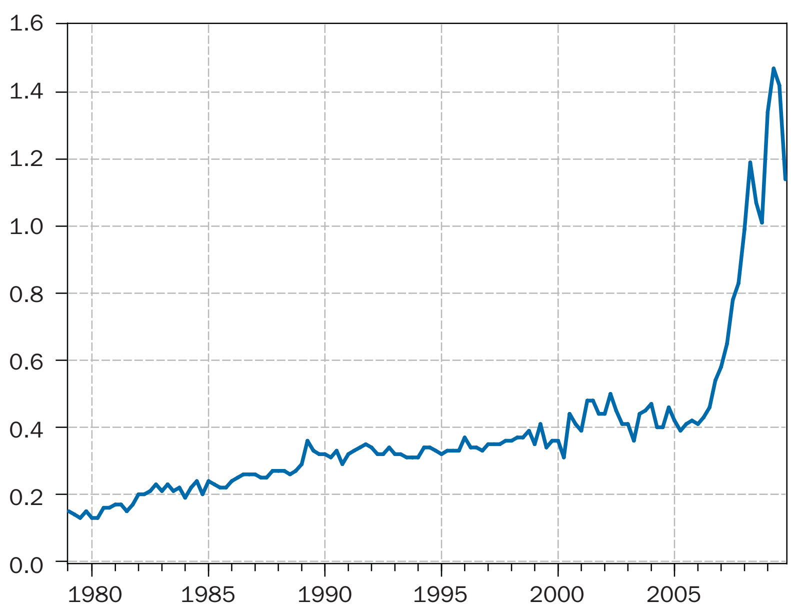
Reflections on the Forecl

Morris A. Davis

Until recently, a foreclosure on an owner-occupied home in the United States was a relatively rare event. According to data from the Mortgage Bankers Association (MBA), foreclosure proceedings were initiated on approximately 0.3 percent of all owner-occupied housing units with a mortgage in each quarter from 1979:Q1 through 2006:Q2 (figure 1). Since mid-year 2006, foreclosure proceedings have more than tripled and now occur at the rate of at least 1 percent per quarter.

To place these percentages in context, in the 27½ year period between 1979 and mid-2006, a cumulative total of 7.5 million foreclosure proceedings had been initiated at a rate of 275,000 per year. In the 3½ year period between mid-2006 and year-end 2009, 6 million foreclosure proceedings had been initiated, at a rate of 1.7 million per year, a more than six-fold increase. The conditions for high foreclosure rates are in place for at least the next two years, suggesting that another 4 to 5 million owner-occupied homes will enter into foreclosure in 2010 and 2011.

FIGURE 1
Foreclosure Starts as a Percentage of All Mortgages, 1979:Q1–2009:Q4



Note: Data are from the Mortgage Bankers Association.

What is a Foreclosure?

A house is seized by a mortgage lender in a foreclosure proceeding after three steps have occurred. First, the homeowner fails to make contractually obligated mortgage payments, a condition commonly known as default. If homeowners fail to make one or two monthly payments, they are known as 30- and 60-days delinquent, respectively. In many of these cases, the homeowner "self-cures" by making the missed payment(s) in full and paying an additional (contractually pre-specified) penalty. A homeowner who misses three consecutive monthly payments is known as 90-days delinquent, and the probability increases that the house will end up in foreclosure (Tanta 2007).

In the second step, the lender initiates foreclosure proceedings. This process varies by state and can take between 6 and 18 months to complete. In the third and final step, the court system assigns the ownership of the house back to the mortgage lender. In some states, after a foreclosure occurs lenders may try to obtain a "deficiency judgment," which implies that the foreclosed homeowner must compensate the lender in an amount equal to the difference between the value of the house after the foreclosure and the outstanding loan balance of the mortgage (Ghent and Kudlyak 2009).

What Factors Lead to Foreclosure?

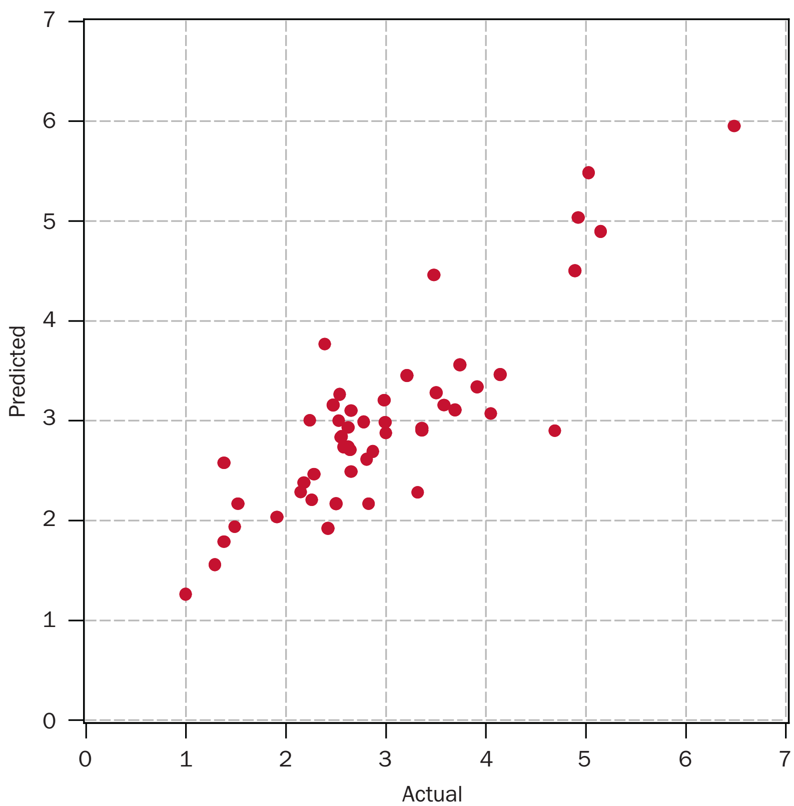
We learn about the root causes of foreclosure by first exploring how foreclosure rates vary across places and over time. Figure 2 shows a graph of 90-day delinquency rates by state in the second quarter of 2009, when the 90-day delinquent rate ranged from 1 percent to 6.5 percent. Two variables explain almost three-quarters of the cross-sectional variation in delinquency rates across states: (1) the statewide unemployment rate in August 2009; and (2) the percentage change in house prices over the three-year period from 2006:Q2 to 2009:Q2.

osure Crisis

Table 1 shows the highest and lowest five states in terms of foreclosure rates in 2009:Q2. The states with the steepest declines in house prices and highest unemployment rates have the highest percentage of seriously delinquent borrowers. The two states with the most disparate outcomes are Nevada and North Dakota. In Nevada, house prices fell almost 50 percent; the unemployment rate was 13.2 percent in August 2009; and the 90-day delinquency rate on mortgages was 6.5 percent. In North Dakota, homes appreciated by almost 11 percent; the unemployment rate was a low 4.3 percent; and the 90-day delinquency rate on mortgages was only 1.0 percent.

Figure 3 shows the time-series patterns of the nationwide 90-day delinquency rate, the national unemployment rate less 4 percent, and an index of commonly tracked house prices known as the Case-Shiller-Weiss (CSW) index. The vertical line on the graph at 2006:Q2 marks the height of the housing boom. Over the 2006:Q2–2007:Q4 period, nationwide 90-day delinquency rates started rising after house prices started to decline,

FIGURE 2
Actual and Predicted 90-day Delinquency Rate by State, 2009:Q2



Note: Each dot represents one of the 50 states or the District of Columbia. "Actual" data are from the Mortgage Bankers Association. "Predicted" data are based on a simple regression of the statewide 90-day delinquency rate on a constant, the percentage change in house prices in that state from 2006:Q2 to 2009:Q2, and the state unemployment rate in August 2009. The R^2 of the regression is 0.73.

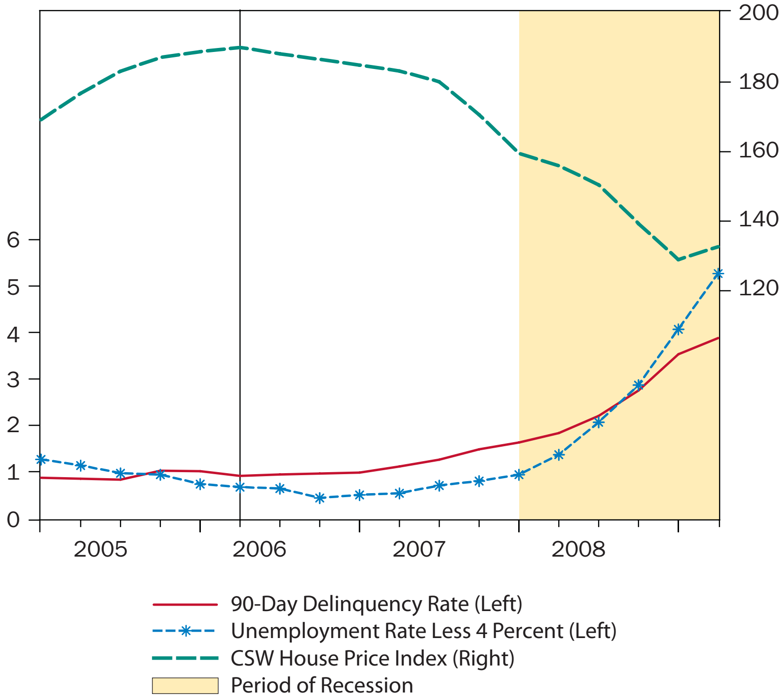
TABLE 1
Foreclosure Rates for the Bottom and Top Five States by 90-Day Delinquencies, 2009:Q2

Bottom States	% Change in House Prices, 2006:Q2–2009:Q2[a]	Unemployment Rate[b]	90-day Delinquency Rate[c]	Model Predicted 90-Day Delinquency Rate[d]
	(1)	(2)	(3)	(4)
Nevada	-46.1	13.2	6.5	5.9
Florida	-35.3	10.7	5.2	4.9
California	-40.9	12.2	5.0	5.5
Michigan	-20.5	15.2	4.9	5.0
Arizona	-33.8	9.1	4.9	4.5
Top States				
Montana	6.5	6.6	1.5	1.9
Alaska	0.6	8.3	1.4	2.6
Wyoming	9.4	6.6	1.4	1.8
South Dakota	7.3	4.9	1.3	1.5
North Dakota	10.7	4.3	1.0	1.3

Notes:
a. House Price data from the Federal Housing Finance Agency purchase-only house price index.
b. Unemployment rate from the Bureau of Labor Statistics.
c. 90-day delinquency rate from the Mortgage Bankers Association, 2009:Q2.
d. See notes to Figure 2 for details on the predicted 90-day delinquency rate.

FIGURE 3

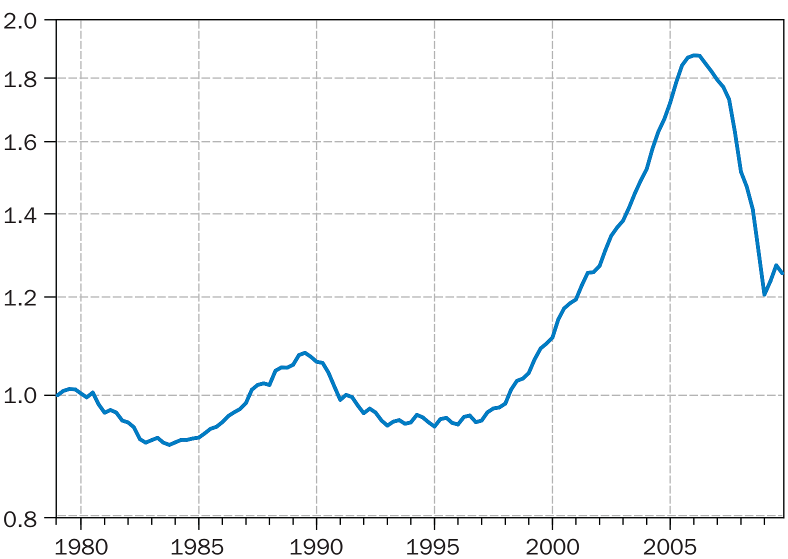
Nationwide 90-day Delinquency Rate, Unemployment Rate Less 4 Percentage Points, and the Case-Shiller-Weiss (CSW) House Price Index, 2005:Q1–2009:Q2



Note: Data for the nationwide 90-day delinquency rate are from the Mortgage Bankers Association. The nationwide unemployment rate is from the Bureau of Labor Statistics. The CSW house price index is from Macromarkets, LLC.

FIGURE 4

Index of Inflation-Adjusted House Prices for the United States, 1979:Q1–2009:Q4, Log Scale



Note: Nominal house price data are taken from the Federal Housing Finance Agency purchase-only house price index (1979:Q1–1986:Q4) and the Case-Shiller-Weiss (CSW) house price index (1987:Q1–2009:Q4). The consumer price index for consumption excluding food and energy is used to adjust nominal house prices for inflation. The CSW index is from Macromarkets, LLC. The consumer price index is from the Bureau of Economic Analysis.

despite relatively stable unemployment rates. During the recession, unemployment increased, house prices contiued to fall, and the 90-day delinquency rate rose dramatically.

Both figures 2 and 3 suggest that foreclosures are associated with two "triggers"—falling house prices and rising unemployment rates. The double-trigger theory of foreclosures posits that the potential for a foreclosure is highest when (1) a homeowner is "under water," meaning the house is worth less than the outstanding loan balance of the mortgage (plus any applicable fees); and (2) the homeowner experiences a significant disruption to income, such as unemployment, divorce, or a health event. In addition to the aggregated state-level and nationwide data shown here, the double-trigger theory of foreclosures has been shown to fit foreclosure patterns in loan-level data sets as well (Foote, Gerardi, and Willen 2010).

The double-trigger theory suggests that being under water is a necessary condition for a foreclosure, because it means the homeowner cannot sell the house unless he or she is willing to write the mortgage holder a check at closing to make up the difference of the value of the house and the outstanding loan balance of the mortgage. Recent estimates by the First American Core Logic company suggest that more than 10.5 million properties—20 percent of all residential properties with mortgages—are currently under water; many of them were purchased between 2005 and 2007.

Figure 4 shows that house prices have declined by 40 percent in nominal terms (50 percent after accounting for overall consumer price inflation) from the peak of the housing market in 2006:Q2 through the end of 2009. Standard underwriting calls for a homeowner to make a 20 percent down payment on a house. Given the decline in house prices, homeowners who bought at the peak of the market using a standard down payment are still approximately 33 percent under water. For example, if a homeowner buys a house for $100,000 with an $80,000 mortgage at origination and it then loses 40 percent of value, it is worth only $60,000. The house is now 33 percent under water ($80,000–$60,000)/$60,000.

Most economists believe that being under water is not a sufficient condition to lead to a foreclosure, although there is some debate on this issue (Goodman et al. 2009; Foote et al. 2010). As long as the house value is not too far below the outstanding

TABLE 2

Maximum Unemployment (UI) Benefits and Average Mortgage Payments for the Bottom and Top Five States by 90-Day Delinquencies, 2009:Q2

Bottom States	Maximum Monthly UI Benefits, 2009	Average Monthly Mortgage Payment, 2007[a]	Weekly Leftover Income
Nevada	$1,448	$1,722	X
Florida	$1,100	$1,510	X
California	$1,800	$2,326	X
Michigan	$1,460	$1,216	$61
Arizona	$960	$1,408	X
Top States			
Montana	$1,628	$1,109	$130
Alaska	$1,480	$1,502	X
Wyoming	$1,548	$1,127	$105
South Dakota	$1,140	$982	$40
North Dakota	$1,540	$932	$152

Note: a. Authors' computations from data in the 2007 American Community Survey.

loan balance of the mortgage, there is a nontrivial probability that the house will appreciate such that its price will be greater than the mortgage in a reasonable amount of time, and this probability has value called "option value." Given this value, and given that foreclosure is costly for homeowners, economic theory suggests that many homeowners who are under water should not "optimally" default on their mortgage. In many cases, the available data support this prediction.

Once a homeowner is under water, however, the data suggest that an additional shock to a homeowner's income strongly increases the odds of foreclosure. Consider the experience of a homeowner who is under water and suddenly loses his or her main source of income due to unemployment or illness. In this case, the house is worth less than the mortgage, so the owner cannot sell or pull equity from the house. Furthermore, the homeowner has reduced income, so after depleting savings cannot make the mortgage payment in full.

To illustrate the quantitative relevance of this point, table 2 shows state-level maximum unemployment benefits (UI) and average mortgage payments for the set of ten states shown in table 1. In many states, UI benefits are not large enough for a one-income family to make a full mortgage payment. In all states, the average mortgage payment consumes a sizeable percentage of monthly UI benefits, leaving little income for food, transportation, clothing, health care, and other essentials.

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Should Foreclosures Be Prevented?

A foreclosure seems like a simple transfer of an asset (the house) from the current equity holder (the borrower) to the current debt holder (the mortgage holder), which occurs whenever the borrower defaults on a mortgage obligation. If a foreclosure is just a simple transfer of assets across agents in the economy, then a case can be made that society should not care about foreclosures, the same way that normal people typically do not care how many electric guitars trade hands on eBay in any given month.

However, a case can be made that foreclosures are an undesirable outcome for society in some cases. Many economists think that foreclosures have externalities, meaning people not directly involved in the foreclosure process bear costs every time a house enters foreclosure. For example, foreclosures are estimated to reduce the resale value of nearby homes (Lin, Rosenblatt, and Yao 2007). In addition, foreclosures are associated with other costs that may be socially undesirable, such as the well-being of children (Kingsley, Smith, and Price 2009).

Has the Government Prevented Foreclosures?

Since 2007, the federal government has established initiatives and put into place a set of policies to try to reduce foreclosures. One of the first major initiatives, called Hope for Homeowners, was established in the spring of 2008. This program tried to address the first trigger directly to reduce the number of homeowners who were under water by encouraging institutions and investors holding mortgages to "write down" principal on those mortgages until homeowners were no longer under water. Participation in the program by mortgage holders was voluntary, and the program was structured in such a way that few mortgage holders participated (Cordell et al. 2009). For example, only one person received assistance in the first six months of the program's launch (Arnold 2009).

In February 2009, the Obama administration announced another major initiative to reduce foreclosures, the Home Affordable Modification Program (HAMP) program, funded with $73 billion of TARP money. Implicit in the HAMP program is the notion that delinquencies and foreclosures have occurred because mortgages underwritten during the housing boom were often exotic, expensive, and ultimately unaffordable.

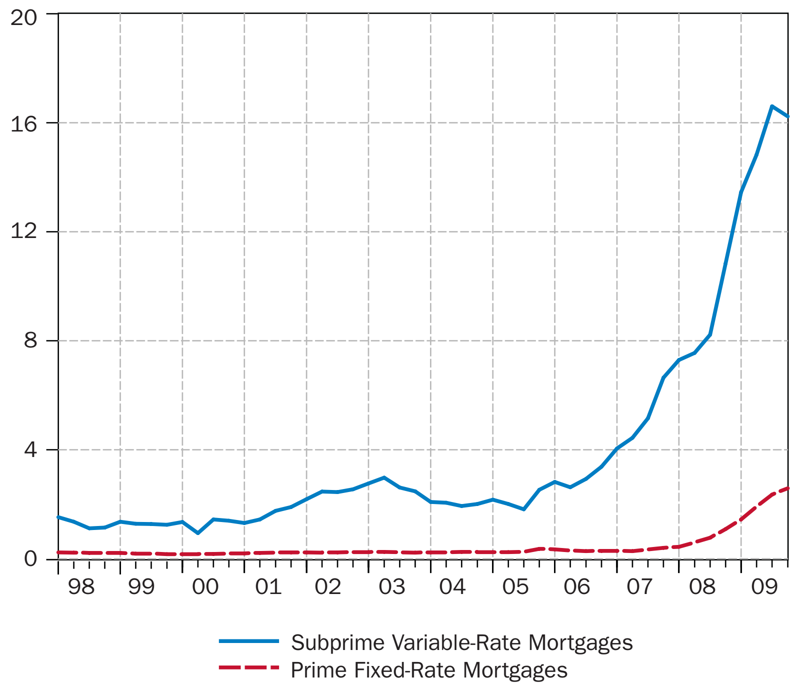
Until recently, HAMP's solution to reduce foreclosures was to modify the terms of these mortgages (by reducing the interest rate, extending the amortization period, and offering some forbearance) for the purposes of making the mortgage "affordable," meaning the mortgage payment would not exceed 31 percent of the borrower's income after the mortgage was modified. As originally written, the HAMP program did not require the mortgage lender to reduce any of the borrower's mortgage balance, and many unemployed did not qualify to receive a mortgage modification.

Figure 5 shows data from the Mortgage Bankers Association on 90-day delinquency rates for subprime adjustable-rate mortgages and prime fixed-rate mortgages over the 1998–2009 period. It is clear that subprime adjustable-rate mortgages are much more likely to be seriously delinquent than prime fixed-rate mortgages. These data might help explain why policy makers crafting the HAMP program have, until recently, focused on refinancing people out of exotic or expensive mortgages and into more conventional or less expensive mortgages as a method of reducing aggregate foreclosure rates.

These policy makers might have presumed that refinancing people from mortgages associated with high default rates to mortgages associated with low default rates would, by construction, reduce the overall default rate on all mortgages. There are two problems with this logic. First, people most likely to default are least likely to get a prime mortgage. This implies the mortgage choice at origination may be indicative of the underlying default risk of the borrower. In other words, defaults of subprime mortgages are high because, in some cases, subprime mortgage borrowers had high default risk and could only get a subprime mortgage.

Second, and more important, the recent data suggest that the majority of mortgages currently in default are not subprime mortgages (table 3). Given the current situation, it seems that a program designed to reduce foreclosures in the aggregate should focus on the inherent reasons that households with good mortgages or good credit are defaulting: the double-trigger theory.

FIGURE 5
Nationwide 90-day Delinquency Rates for Subprime Variable-Rate Mortgages and Prime Fixed-Rate Mortgages, 1998:Q1–2009:Q4



Note: Data are from the Mortgage Bankers Association.

Will We Have More Foreclosures?

Both foreclosure triggers are still in place. Unemployment rates are high, and the Congressional Budget Office (2010) is forecasting the national unemployment rate will remain above 9.0 percent in both 2010 and 2011. And, many homeowners

TABLE 3
Breakdown of 90-Day Delinquent Loans by Mortgage Type, 2009:Q2

	All Loans	FHA+VA Loans	Subprime Loans**	Prime Loans
Total loans serviced	44,721,256	5,686,207	4,919,778	34,115,271
Percent of total	X	13%	11%	76%
Percent > 90 days past due	3.88%	4.74%	12.00%	2.65%
# Loans > 90 days past due*	1,735,185	269,803	590,373	904,055
Percent of total > 90 days past due	X	16%	34%	52%

Notes: Data are from the Mortgage Bankers Association.
* Numbers do not add to total due to rounding. ** Refers to all subprime loans at fixed and variable rates.

are still under water. Assuming that house prices and housing rents will increase at the same rate over the next few years—not an unreasonable assumption given the behavior of historical rent and price data prior to 1996 (Davis, Lehnert, and Martin 2008)—then house prices should be expected to rise in nominal terms by somewhere between 1 and 2.5 percent per year for the next two years. Given the slow expected pace of house-price growth, many homes now under water will continue to be under water in two years.

Against this gloomy backdrop, Congress and the Obama administration have taken steps recently to prevent more foreclosures. First, on March 26, the administration revised the HAMP program so that the recently unemployed will be offered between three and six months of payment reductions (forbearance). This adjustment is in line with the recommendations of a well-known plan to reduce foreclosures, written by economists at the Federal Reserve Board and the Federal Reserve Bank of Boston, commonly called the Boston Fed plan (Foote et al. 2009). It is also similar to an existing plan in the State of Pennsylvania that makes loans to unemployed homeowners to enable them to pay their mortgage, called HEMAP. In addition, mortgage investors will be subsidized by the HAMP program for writing down principal when borrowers are under water.

Second, the Obama administration has set up a "Hardest-Hit" fund distributing $2.1 billion to state housing finance agencies in ten states with severe house price decline and high unemployment rates. The state agencies are free to design programs to reduce foreclosures, subject to some guidelines (Housing Finance Agency 2010).

My colleagues and I have worked on foreclosure relief policy and are hopeful these new initiatives—the modification to HAMP and the Hardest-Hit fund—might significantly reduce foreclosure activity over the next few years.

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ACKNOWLEDGMENTS

I have benefited greatly from conversations, help, and advice from Chris Foote, Jeff Fuhrer, Kris Gerardi, Eileen Mauskopf, François Ortalo-Magné, Erwan Quintin, Steve Malpezzi, and Paul Willen. All mistakes and errors are my own.

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Tenure Security and Housing Improvement in Buenos Aires

San Cayetano, Argentina

All photos courtesy of the author.

Jean-Louis van Gelder

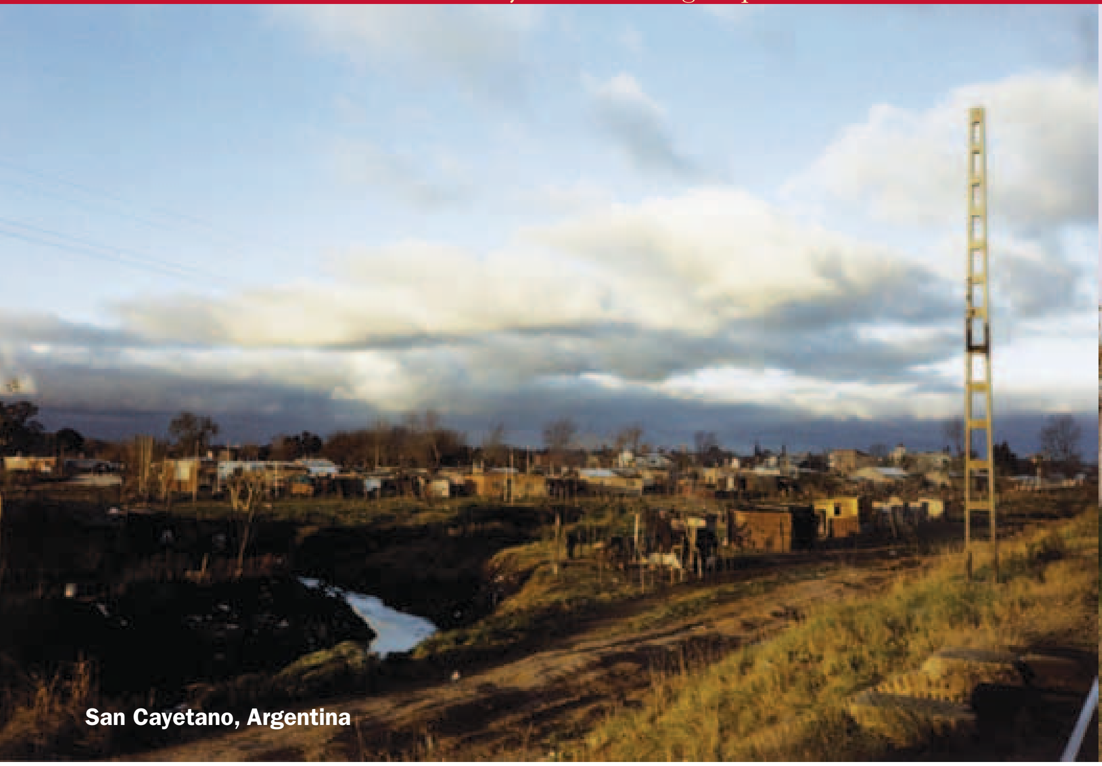
How do the perceptions of informal settlement dwellers on tenure security translate into investment in housing improvement? Is a property title necessary to establish security or increase investment? And how are income and credit related to investment? Does the average dweller actually aspire to legalization of tenure, and if so, what is expected? Based on research conducted in two land invasions in Buenos Aires, Argentina, this article addresses these questions, focusing on two issues in particular: the concept of tenure security and the empirical measurement of perceptions of security related to investment in housing improvement (Van Gelder 2009b).

Tenure Security as a Tripartite Concept

In the face of rapidly increasing urban informality in the 1970s, organizations such as the World Bank started experimenting with programs that provided basic services to settlements and granted property titles to dwellers. The assumption was that with secure tenure dwellers would mobilize resources for housing construction more efficiently than they would under public housing programs. Self-help housing, thus, was viewed as a source of economic security and upward social mobility.

In the early 1990s, the economic dimensions of tenure legalization took on new importance in some policy circles (Bromley 1990; World Bank 1993). The mere provision of private property rights was believed to be both a sufficient and necessary condition for settlement development. It was assumed that by providing both the incentive to invest and the possibility to do so by making formal credit accessible, property rights would function as leverage for development.

Critics of this idea argued that, with respect to establishing tenure security and investment, one could better focus on the actual situation on the



San Cayetano, Argentina

El Tala, Argentina

ground. Factors such as the official recognition of a settlement, introduction of infrastructure and services, and other factors that could strengthen de facto security of tenure were considered more fundamental than holding a legal document for a plot (e.g., Gilbert 2002).

A third point of view on investment in housing claims that security as perceived by the dwellers is the most important factor. Rather than legal security, as embodied by titling, perception is the actual driving mechanism behind investment. It is argued that residents invest in their dwellings regardless of legal status, as long as they think they will not be evicted and will be allowed by the authorities to remain in their homes (Broegaard 2005; Varley 1987).

The concept of tenure security thus can be viewed in three different ways: as a legal construct that often takes the form of title to property; as de facto security based on the actual situation; and as it is perceived by dwellers. However, these views are often confused or simply equated in the research literature and by policy makers, so it is important to distinguish among them in order to answer the questions posed earlier.

Legal tenure security is a formal concept that refers to authoritative documents that identify the owner of an asset recognized by state power, but de facto and perceived tenure security are empirical concepts. To understand the de facto situation, we need to study the facts on the ground and answer such questions as: Have forced evictions been rare or frequent occurrences in a certain city or area? Has the general attitude towards illegal occupation by authorities been lenient or strict? Perceived tenure security, on the other hand, resides in the mind of the dweller, and its measurement requires fine-tuned methods.

The different types of tenure security may overlap. For example, having a title may imply that a dweller also has de facto security and he may perceive his situation to be secure, but there is no necessary connection among these types. Property rights do not always have a bearing on any kind of empirical fact, nor do they have to be recognized as something meaningful in the eyes of dwellers (Van Gelder 2010). Rather, cities with extensive informality are characterized precisely by an absence of such correlations.

One problem with the titling approach is that it equates property rights with tenure security. This makes sense in situations where the facts on the ground reflect the norms of the legal system, but not necessarily when this is not the case. Furthermore, it is important to remember that if tenure security, whether legal or de facto in nature, influences investment, it must operate through psychological pathways.

The Psychological Side of Tenure Security

The literature reveals three critical issues with respect to measuring tenure security. First, whether

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it is considered legal, de facto, or perceived, tenure security is often seen as a yes–no issue; either you have it or you do not. Second, and related to the first issue, studies only rarely provide an indication of the degree to which tenure security contributes to (more) investment in housing, compared to other factors likely to influence investment, such as income level or the availability of credit. Third, perceived tenure security is nearly always operationalized as a dweller's perceived probability of eviction.

These three issues expose a number of important limitations related to each point. First, the idea of viewing tenure security as a dichotomy does not fit the reality of developing countries, where tenure security is better conceived as a matter of degree. Most low-income settlements fall somewhere between being completely insecure and entirely secure. Second, to understand the strength of tenure security as a factor influencing investment, this relationship needs to be quantified and examined along with other factors likely to influence investment, such as household income.

With regard to the third point, social psychological research increasingly shows that people's decisions are often influenced by what they feel about a situation, instead of or in addition to how they think about it (Hsee and Rottenstreich 2004; Kahneman 2003; Van Gelder, De Vries, and Van der Pligt 2009). These insights can be applied to the study of informal housing if we consider a dweller's investment as a form of decision making under uncertainty. That is, besides operationalizing perceived security only as the perceived probability of eviction, which refers to a cognitive or thinking state, we can also examine the feelings or worry, insecurity, and fear that dwellers experience. We term this component of tenure security *fear of eviction*.

Does examining feelings add to understanding estimates of the probability of eviction? In the context of informal tenure, it is often suggested that dwellers think that the probability of a forced eviction is very low, in particular when a settlement is relatively consolidated. In these cases, using only perceived probability of eviction as an indicator of tenure security limits its predictive value because it is invariably low. Yet, the possibility of eviction, however small, may still generate intense feelings of worry and stress in dwellers whose decisions are influenced regardless of whether this probability is perceived as likely or not (Van Gelder 2007; 2009a).

To avoid considering (perceptions of) tenure security as a dichotomy, we can operationalize probability and fear of eviction using psychometric scaling techniques. In my research, dwellers were presented various statements about their tenure situation and asked to indicate to what extent they agreed with each statement using five-point scales that ranged from completely disagree to completely agree. For example: "The possibility of an eviction

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worries me sometimes," or "The possibility that we could be evicted from this neighborhood is always present." Both items refer to the possibility of eviction, but the second item, which measures perceived probability of eviction, refers to a chance estimate—a thinking state—whereas the first item inquires about feelings.

Separate composite scales consisting of multiple items measured the perceived probability of eviction and fear of eviction. Respondents, all of whom were heads of household, were also asked about their household income and whether they had taken out a loan in the previous years. To measure investment in housing improvement, surveyors scored participants' dwellings on three defining elements: the floor, the walls, and the roof. The scores were subsequently combined into a housing improvement or consolidation index, the dependent variable. To isolate the effects of perceived tenure security on investment, the survey included only those heads of household who had lived in the settlement since its origin and were responsible for their home construction.

Case Study Settlements

A land invasion typically involves a few hundred people who gain access to land by collectively invading and immediately building on the site. Residents attempt to comply with land use legislation and other requirements that render the legal and technical subdivision of the land possible at a later stage. This active resident participation makes these settlements different from more irregular slums (e.g., *villas miserias)*.

The study consisted of a structured survey as well as semi-structured interviews and focus groups with dwellers in two different land invasions in the southern cone of Greater Buenos Aires, which is known for its large-scale popular urbanization and high concentrations of poverty (table 1).

TABLE 1
Characteristics of Survey Respondents in Two Greater Buenos Aires Settlements

Settlement	Municipality	Year of Formation	# Lots	# Respondents	Average Age	Income[a] (AR$)
San Cayetano	Florencio Varela	2006	350	124	29	949
El Tala	Quilmes	1981	516	118	52	1,111

Note: a: Average monthly income in Argentine pesos (3AR$ » 1US$).

The settlements were similar in size, but differed in age and hence degree of consolidation. El Tala was one of the first invasions in the city, while San Cayetano had existed for only two years prior to the survey in 2008. Only half of the dwellers in El Tala had received legal title, creating the conditions for a valid comparison of titled and nontitled households in this settlement.

Results of Analysis

Regression and correlational analysis were employed to examine the strength of both perceived probability of eviction and fear of eviction as predictors of housing improvement. To obtain a better idea of their comparative strength, we also looked at household income. Table 2 shows that both probability and fear were significantly correlated with improvement in both settlements. In other words, both thinking about the probability of an eviction and the feelings evoked by it influence the extent to which people are willing to invest in their dwelling. The higher the perceived probability and fear of an eviction, the less improved their dwelling.

Household income was quite strongly correlated with housing improvement in San Cayetano, but not in El Tala. One likely explanation for these findings is that the most visible investment in housing occurs in the early years of settlement development. Recall that San Cayetano was only two years old at the time of the survey, while El Tala dates to the early 1980s. Another related explanation is that the current income of households, as measured in the survey, does not necessarily reflect income in preceding decades. That income fluctuation makes it more difficult to assess the valid relationship between income and investment for older settlements like El Tala.

The regression analysis in table 3 simultaneously tests probability, fear, and income as predictors of investment by looking at their unique contribution. The strength of the relationship for each separate variable is indicated by the ß symbol, which can range from -1 to +1 (indicating a perfect linear negative and positive relationship respectively).

In El Tala the effect of probability of eviction is largely explained by fear of eviction. This appears to confirm the assumption discussed earlier that in cases where eviction is very unlikely, such as in consolidated settlements, fear of eviction is the better predictor of housing improvement. Stated differently, when deciding on whether and how much to invest in their dwellings, individuals are actually more influenced by how they feel about

TABLE 2
Correlations Among Perceived Probability of Eviction, Fear of Eviction, Household Income, and Housing Improvement

	El Tala				San Cayetano			
Variables	**1**	**2**	**3**	**4**	**1**	**2**	**3**	**4**
1 Probability of eviction	–	.66**	-.18	-.22*	–	.70**	-.21*	-.24**
2 Fear of eviction		–	-.06	-.31**		–	-.24*	-.23*
3 Household income			–	.12			–	.42**
4 Housing improvement				–				–

* $p < .05$; ** $p < .01$

TABLE 3
Regression of Housing Improvement on Perceived Probability of Eviction, Fear of Eviction, and Household Income

	El Tala[a]			San Cayetano[b]		
Variables	**B**	**SE B**	**ß**	**B**	**SE B**	**ß**
Probability of eviction	-.00	.35	.00	-.25	.35	-.09
Fear of eviction	-.77	.30	-.30*	-.49	.59	-.10
Household income	.00	.00	.12	.01	.00	.37**

Notes: a: R = .45, R2 = .20, SE (1.81); b: R = .31, R2 = .10, SE (1.81); * $p < .05$, ** $p < .01$

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their situation and the risks involved than how they think about it. These results make a strong case for altering our view on perceived tenure security as merely consisting of perceptions of the probability of eviction. If we want to be able to predict behavior, we also need to understand how people feel.

In San Cayetano, however, a different picture emerges. Even though both perceived probability and fear of eviction are negatively correlated with investment in housing improvement, the results of the regression analysis show that household income explains most of the variance. In other words, household income dictated the investment more than perceptions of security, whether perceived probability of eviction or fear of eviction. My assumption is that again these results can be attributed to the young age of the settlement, because financial abilities more than anything else dictate to what extent people can invest in their housing in the earliest phase of settlement consolidation.

Virtually all residents surveyed and interviewed in both settlements indicated that having a property title was important to them, and they expressed a strong desire to be legalized. This result presents an intriguing paradox: Even though forced eviction is rarely regarded as likely or even possible by residents, about half of them still gave security of tenure as the most important reason for wanting to have a title to their property. One resident of El Tala commented on different motivations for investment: "I think that there are two moments. One is in the beginning when constructing is a way of ensuring yourself that no one will kick you out. Nowadays, I think the situation is rather reversed. I don't believe that it is worth putting money in your house if you do not have a title."

This means that even in situations with very high de facto security of tenure, such as El Tala, property titles are still desired by residents, principally for additional security. This finding corresponds with the point made earlier about the importance of including fear of eviction alongside probability estimates as an indicator of perceived tenure security. The *possibility* of an eviction, however small, may still elicit strong feelings of worry and fear that can influence residents' decisions, almost regardless of perceived probability (Van Gelder 2007)

Other frequently mentioned motivations for wanting a property title were expressed as "leaving something to my children" and "being or feeling that I am the owner of my house." Surprisingly few dwellers in either settlement mentioned commercial reasons (e.g., increased value of their dwelling or access to credit) for their desire to be an owner. In both settlements, more than 80 percent of the respondents thought that having title would further increase security. More than half of the residents thought they would invest more after having title, and more than half of the residents that had title indicated that they had in fact invested more after their tenure was legalized.

With respect to accessing credit, titled owners did not take out a bank loan more frequently than residents who lacked title. In El Tala only three people with a property title had taken out a mortgage loan in the previous five years versus two people in the untitled part of that settlement. More people—eight in the titled and five in the untitled areas—had taken out loans at lending institutions that charge high interest rates but do not require property as collateral. In other words, the owners did not pledge their dwellings as collateral to obtain the loans.

The majority of the respondents who had taken a loan had done so to improve or repair their dwellings. The small amounts of money borrowed and the very few loans intended for business investments raise doubts about the extent to which increasing access to credit will function as an engine for economic growth, as is sometimes suggested as a rationale for land titling programs.

Conclusions

These results shed some new light on the debate over tenure security and the discussion between advocates and critics of legalization. For example, even though legal title is not a necessary condition for investment in housing improvement, it is likely to be a contributing factor in some situations. Furthermore, nearly without exception, all dwellers aspire to be the legal owner of their home. However, the social and psychological effects seem to be much greater than economic factors in valuing legal tenure.

While policy increasingly has stressed mercantilist arguments in support of titling (e.g., credit and land markets), respondents tend to stress social reasons. Besides tenure security, the ability to leave something "safe" for offspring and the simple feeling that one is the (legal) owner of one's dwelling were cited as more fundamental motivations for the desire to be a homeowner. Formal ownership is seen by many, realistically or not, as a way of escaping marginality and as a substitute for a largely deficient social security system.

One way to improve policy and more accurately anticipate the consequences of specific interventions, which all too often take straightforward top-down approaches, is to pay more attention to the perspectives of dwellers and to borrow methods and insights from disciplines such as psychology and sociology. These disciplines offer fine-tuned measures of varied constructs that development scholars, policy makers, and land experts should consider in future research and on-the-ground programs for informal developments.

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Thirty Years of Judicial Education on Property Tax Issues

Joseph C. Small and Joan Youngman

When a handful of judges and tax experts met around a table at the Lincoln Institute's original Moley House headquarters in January 1980, they could hardly have foreseen that their one-day seminar would initiate the major educational program for the nation's state tax judges. Over the past 30 years, the Lincoln Institute has sponsored the annual National Conference of State Tax Judges as a means of improving land-related tax policy as applied and interpreted by adjudication in tax courts and tax appeal tribunals.

Participants in the conference include members of administrative and judicial tax tribunals who hear appeals of tax assessments, denials of refund requests, or other property tax disputes on a jurisdiction-wide basis in all 50 states, the District of Columbia, and the cities of Chicago (Cook County) and New York.

Tax Tribunals and Effective Tax Policy

Taxation is a highly complex and emotionally charged reality in countries throughout the world. Patrick Doherty, the past president of the United Kingdom's Institute of Revenues, Rating, and Valuation, has observed that to be acceptable, it is not sufficient or sometimes even necessary for a tax to meet an abstract standard of fairness. The essential element is that the levy "feel fair" to the taxpayer. An open, accessible, timely, and unbiased forum for appeals is crucial to this sense of fairness.

Tax tribunals play a vital role in affording aggrieved taxpayers a fair opportunity for consideration of their claims. Legislation and regulation enunciate policy at general and sometimes abstract levels. The actual application of the law to specific factual situations and disputes effectuates that policy. Tax tribunal interpretations can carry the force of law and precedent. Judicial education is an investment in sound tax policy that, by reaching a targeted and highly influential audience, can reap public benefits long into the future.

Although consideration of appeals is central to any tax system, the special nature of the property tax increases the importance of access to a fair and equitable tribunal. Unlike income taxes withheld from one's salary or sales taxes collected as part of numerous transactions and never totaled for the taxpayer, property taxes generally require significant and highly visible periodic payments. Furthermore, the intricacies of the income tax leave most taxpayers without any intuitive sense of potential errors in its calculation. The property tax, on the other hand, is usually based on fair market value, a dollar figure that a homeowner may be able to estimate with some precision.

The property tax is primarily a local tax that engenders a greater sense of personal involvement than levies that support more distant levels of government. Not incidentally, the property tax is also the primary focus of much taxpayer discontent. It is easier to mobilize opposition to a visible local taxing body than to state or federal revenue departments. State legislators are also far more receptive to pressure to constrain local revenues than to efforts to reduce their own budgets.

At the same time, property tax disputes may involve large business enterprises owning complex structures whose valuation may raise highly theoretical or technical questions. Courts may need to determine the value of manufacturing plants that can constitute the major portion of a locality's tax base, or of property that is part of a going concern whose sale price represents intangibles such as business good will.


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Recent recipients of the Judge of the Year award gathered at the 2009 National Conference of State Tax Judges in Louisville, Kentucky. Left to right, seated: Peter Loesch and Kelsie Jones, Kentucky. Standing: Glenn Newman, New York City; George Perez, Minnesota; Thomas Fisher, Indiana; Jill Tanner, Oregon; Albert Shamash, New Hampshire; Arnold Aronson, Connecticut; Steven Gombinski, New York City; Thomas Jaconetty, Cook County, Illinois; and Joseph Small, New Jersey.

The Special Challenges of Judicial Education

The importance of judicial education is matched by the challenge of presenting ongoing, impartial, and up to date instruction, especially with regard to specialized subject matter. Judges grappling with complex factual and legal issues often face a lonely task, and specialized tribunals such as tax courts can be particularly isolated. Some state tax courts have only one member.

Before the establishment of the National Conference of State Tax Judges, no national association or other formal means existed for judges in one state to confer with colleagues facing similar issues in another jurisdiction. Training in highly technical tax issues requires faculty with specialized expertise and a sophisticated understanding of sometimes arcane provisions.

At the same time, judges must be far more cautious than lawyers in private practice when they seek advice and instruction. They must avoid even the appearance of special access or private influence, particularly when dealing with specialists who may at some point serve as expert witnesses or litigants in their courtrooms. Outside the judicial realm, many educational conferences are supported by commercial sponsors with special ties to the subject matter, but in the tax area these organizations and corporations would be the most likely to have a stake in future litigation. Public funding for judicial education is rarely a legislative priority, even when budgets are relatively generous, and is among the first items to be curtailed in economic downturns.

All of these factors present special hurdles to the development of effective, ongoing educational programs for members of tax tribunals. The success of the National Conference of State Tax Judges speaks to both the effectiveness of the Lincoln Institute's support and the enthusiastic work of judges across the country who have found it a professionally and personally rewarding means of creating ties with colleagues in other states.

The judges who volunteer to produce each year's program are the cornerstone of the organization. The planning committee members begin monthly telephone meetings soon after the close of the previous conference so they can evaluate participant suggestions and consider topics of particular current importance. Individual judges then contact scholars and professionals who can address these issues.

Faculty members include academic experts in law and economics as well as legislators, policy analysts, appraisers, journalists, and specialists in fields such as housing and commercial property markets.

The central role of the judges themselves is highlighted by a session on case law updates. One of the most lively and interactive parts of the program, this forum offers the participants an opportunity to describe and comment on recent decisions of special interest in their own states. Judges submit these cases in the months preceding the conference to the session moderators, who have responsibility for choosing the cases to be examined and guiding the discussion. Moderating a conference of judges carries special challenges of its own.

Wide Scope within a Specialized Area

The range of topics covered by the conference reflects underlying property valuation problems confronted in changing economic, social, and technological conditions. In the early years, discussions included utility properties, office complexes, and rental apartments, whereas now the focus is likely to be subsidized housing, golf courses, or nonprofit landowners. More complex methods of valuation, made possible by the introduction of computer-based techniques, have also entered the agenda. What approach to value is best suited to a specific type of property? What properties are exempt from property taxation? How does one value properties that are partially taxable and partially exempt, such as a structure that includes a hospital (exempt) and doctors' offices (taxable).

Tax exemptions for charitable institutions are often expressed in legislative language reflecting an earlier and far starker division between commercial and nonprofit enterprises, such as hospitals. Retirement communities that require significant initial and continuing payments may not fit the pattern of a "home for the aged," just as a traditionally exempt YMCA may seem a commercial competitor to a neighboring health club. The continuing challenge of distinguishing exempt and taxable property takes on new forms over time.

Many similar issues of statutory interpretation and the application of legal analysis to new factual situations have been the subject of ongoing examination at the annual conference.

- An income-based approach to value, often useful in the assessment of commercial property, may require adjustment in the case of shopping malls that rely on the presence of prestigious department stores to draw traffic. These anchor tenants may be allowed to occupy space rent-free or receive concessions and special treatment as an incentive for them to locate in the mall. Should a normal rent per square foot be imputed to the space occupied by such tenants? Is the value of the anchor property reflected in the higher rents that can be charged to other stores as a result of the increased business because of the presence of the anchor tenant?
- Property contaminated by hazardous waste can be unsalable if a new purchaser is responsible for its remediation. Does this situation relieve the current owner of tax liability? Does it matter whether the owner bears responsibility for the contamination? What kind of expert testimony is required to establish the likely costs of and a reasonable schedule for this clean-up?
- The specialized features of a sophisticated manufacturing plant built to the current owner's specifications may have little value to potential purchasers. Does this mean that the current owner's investment has no effect on the property's valuation for tax purposes? Should the result be influenced by the utility of the property, and whether the owner would replace it in the event of damage or loss? Can value to the owner be a factor in determining fair market value?
- The federal income tax code offers various incentives for private parties to invest in housing for low- and middle-income tenants. Should the limited rents that can be charged for these units form the basis of the property valuation, or is it legitimate to consider the income tax benefits that led the owners to make this investment?
- The value of a hotel as a business enterprise includes many intangible elements, from the existence of an assembled work force to the prestige and name recognition of a hotel chain to the use of computerized reservation systems. What are appropriate methods for valuing the real property component of the business?

In addition to valuation questions of this sort, the conference agenda includes a session on developments concerning state income and sales taxes, and presentations on such topics as judicial writing, ethical issues, and the effect of business cycles on

"Through informal as well as formal discussions at the annual meetings, and frequent phone calls during the rest of the year, judges have been able to tap the knowledge, experience, and intelligence of their colleagues all over the nation. The National Conference has provided an introduction and a phone number that have helped many of its members make a better decision concerning issues that at an earlier point seemed intractable. These personal connections may be one of the Lincoln Institute's greatest contributions to the improvement of tax policy through the improvement of state and local tax adjudication."

—Joseph C. Small

property markets. Judges serving on appellate courts and state supreme courts have also contributed their perspectives on tax decisions that reach them on appeal.

Times of economic stress also require special attention to case management, as property tax appeals increase when market values fall. Courts require flexibility and excellent procedures to offer taxpayers accessible, timely determinations under these circumstances, particularly since economic downturns usually bring reductions in state budgets, and the need to do more with less.

In times of rapidly rising prices, taxpayers are often pleased to see an assessment figure that has not kept pace with market values. In downturns, taxpayers are more likely to be disturbed if bills reflect an earlier assessment date when prices were higher. The Minnesota Tax Court, for example, saw a 50 percent rise in appeals from 2,954 in 2008 to 4,760 in 2009 (through November). The state's Chief Judge George Perez, the current chair of the National Conference of State Tax Judges, explained, "There's a direct inverse relationship between Tax Court filings and the economy. When the economy is down, numbers are up. When the economy is up and healthy, the numbers begin to drop."

Evidence of Impact

Strong ties have been formed among the members of tax courts and tribunals from over 30 states and the cities of New York and Chicago who have participated in the judges' conference. These connections, as much as the technical material covered at the conference, have provided a means of improving the judicial process. Many participants have observed that the conference has produced a positive impact on the quality of tax decisions.

Glenn Newman, president of the New York City Tax Commission and Tax Appeals Tribunal, says, "It is remarkable how many issues cut across state lines. The issues we all face can be discussed and analyzed, helping all participants focus and come to a clearer understanding."

Michelle Robert, counsel to the Maine State Board of Property Tax Review, states, "This is a wonderful conference that offers attendees a forum for exchange of ideas and viewpoints in this are of the law that is truly not otherwise available."

Chief Judge George Perez of the Minnesota Tax Court, the current conference chair, sums up these perspectives: "It's the best seminar given for tax judges and tax officials."

The conference's contribution to improved tax policy is a tribute to the foresight of those who gathered at Moley House 30 years ago, and the current participants who are eager to carry that benefit to future tax judges as well.

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Faculty Profile

Daniel McMillen has a joint appointment in the Department of Economics and the Institute of Government and Public Affairs at the University of Illinois. He is also a visiting fellow in the Department of Valuation and Taxation at the Lincoln Institute of Land Policy. Before moving to Urbana-Champaign, he was a member of the economics departments at the University of Illinois at Chicago, University of Oregon, Santa Clara University, and Tulane University. McMillen received his Ph.D. in economics from Northwestern University in 1987.

Since 2005, McMillen has worked on a number of Lincoln Institute projects, including two David C. Lincoln Fellowships with Rachel Weber, a member of the Urban Planning and Policy Department at the University of Illinois at Chicago. He has also collaborated with Richard F. Dye of the University of Illinois on a series of Lincoln-sponsored projects on land valuation and assessment limitation measures.

McMillen has been co-editor of Regional Science and Urban Economics *since 2007. He also serves on the editorial boards of other leading journals in urban economics, real estate, and regional science, and as a consultant for the Federal Reserve Bank of Chicago. He directed the Center for Urban Real Estate at the University of Illinois at Chicago from 1999 to 2005, and has served on the board of the American Real Estate and Urban Economics Association.*

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Daniel P. McMillen

LAND LINES: *How did you become associated with the Lincoln Institute of Land Policy?*

DANIEL McMILLEN: I first came to the Lincoln Institute in 1989 for a conference on "Growth Management and Land Use Controls." It was an honor to be invited there as a relatively new assistant professor and to have the chance to meet many leading urban and public finance economists. I returned for another conference in 1996. I was impressed by the quality of the research being conducted by and for the Lincoln Institute on land use, land and property taxation, and the regulation of land markets. When I had a sabbatical in 2005–2006, the Lincoln Institute seemed like an ideal place to work. I spent much of that year in Cambridge, and have been involved regularly ever since.

LAND LINES: *What was the first project you conducted for the Lincoln Institute?*

DANIEL McMILLEN: I began working with Richard F. Dye on a study of teardowns and land values in the Chicago metropolitan area. A teardown is a property that is purchased solely to replace the existing structure with a new one. Teardowns have been remarkably controversial because they drastically alter the character of long-established neighborhoods. In 2006 the National Trust for Historic Preservation declared Chicago to be the "epicenter" of teardown activity, so the city offered an ideal setting for such a study.

We collected data on sales and demolition permits for homes in Chicago and several suburbs. An assessment file including the structural characteristics of each home allowed us to test a key prediction of theoretical models of demolitions—that is, when a home is purchased as a teardown, it is valued only for the land on which it rests. Our results supported this theory by showing that structural characteristics did not influence the sale prices of teardown properties.

This study has important practical implications because it suggests that teardowns can be used to estimate land values in areas where many homes are being demolished and replaced by new structures. One of the impediments to a land tax is the difficulty of estimating land values in built-up areas where there are few sales of vacant land. Teardowns may help make land taxation feasible in large urban areas that are undergoing redevelopment.

LAND LINES: *What other research topics have you investigated?*

DANIEL McMILLEN: I have worked on a series of projects with Rachel Weber analyzing property assessments in Chicago. In a paper published in the *National Tax Journal*, titled Thin Markets and Property Tax Inequities: A Multinomial Logit Approach, we developed a new approach for determining whether property assessments are regressive in the sense that assessment ratios tend to be lower for higher-priced properties. We use a statistical (logit) model to estimate the probability that a property will have an assessment ratio in the upper or lower end of the distribution rather than in the middle. Although we do find evidence of regressivity, we also find that assessments tend to be much more accurate in neighborhoods with a large number of sales. Thin markets—areas with few sales—have a much higher probability of both unusually high and unusually low assessment ratios.

In subsequent work to be published in the *Public Finance Review,* titled Ask and Ye Shall Receive? Predicting the Successful Appeal of Property Tax Assessments, we develop an empirical model of the appeals process for property assessments. We find that thin markets have many more appeals and a higher proportion of successful appeals than areas with many sales. Taxpayers who appeal their assessments tend to live in moderate-income neighborhoods in newer, larger homes with assessments that increased significantly since the previous reassessment year. In contrast, *successful* applicants tend to live in smaller, older homes and in neighborhoods that have experienced relatively slower rates of property appreciation.

LAND LINES: *What conferences have you organized for the Lincoln Institute?*

DANIEL McMILLEN: For several years, I have helped organize the conference "Recent Advances in Urban Economics and Public Finance," at which many of the leading researchers in urban economics and public finance present new work. The conference provides the opportunity for authors to summarize their papers and receive useful feedback from an enthusiastic, knowledgeable audience.

The conference includes both established and emerging scholars. It was very important to me to meet recognized scholars when I was an assistant professor at the University of Oregon, and I want to return the favor by using these conferences to help junior scholars meet more established researchers.

This year Daphne Kenyon, another Lincoln Institute visiting fellow, and I formalized this mentoring goal by introducing a junior scholars program that matched young assistant professors with the editors of key urban economics and public finance journals, including *Regional Science and Urban Economics*, *Public Finance Review*, the *Journal of Regional Science*, *Real Estate Economics*, and the *National Tax Journal*. After a session with the full panel of editors, each junior scholar met individually with one of the editors, who provided comments on a working paper the scholar had prepared. The junior scholars came from a variety of universities and organizations, including the University of Michigan, the University of Southern California, the University of Oklahoma, Georgia State University, the University of Georgia, Winthrop University, Washington University, and the Federal Reserve Board.

LAND LINES: *How has your association with the Lincoln Institute influenced your research?*

DANIEL McMILLEN: I have published many papers that deal directly with issues of land use, land and property taxation, and land policies. My association with the Lincoln Institute has encouraged me to think more about the policy implications of my research and to expand its potential audience beyond academic economists.

For example, I wrote a paper on the costs and benefits of teardowns for *Land Lines* (July 2006) as a direct result of a presentation for the Lincoln Lecture Series. A surprising number of people in the audience were convinced that teardowns should be heavily regulated because they could never generate any benefits. However, teardowns may also offer new tax revenues, an improved housing stock, and perhaps even reduced urban sprawl. Economists become so used to thinking in terms of costs and benefits that they tend to take it for granted that others use the same framework to analyze issues. Although I think a strong case can be made for regulating teardowns, this kind of experience helps me realize how vital an economist's perspective can be in shaping policies that lead to good outcomes.

The Lincoln Institute has also encouraged me to think about the implications of my research for assessment practices. When I presented my work on teardowns in an Institute-sponsored session at the International Association of Assessing Officers (IAAO) conference in 2005, the participants were very interested in using teardowns to improve land assessments. They wanted to know what data would be required and what statistical procedures to use. This conference and subsequent contact with IAAO members provided inspiration and background for my work on assessment regressivity and assessment appeals.

My Lincoln Institute affiliation has also led to contacts with legislators and other policy makers. Richard Dye, David Merriman, and I produced a study for the Illinois Department of Revenue that analyzed the effects of Cook County's cap on the growth rate of residential property assessments. This work motivated a 2007 conference on assessment limits held at the Institute where academics, local government officials, and state legislators heard presentations about the experience with assessment limits in Colorado, Idaho, Illinois, and Minnesota.

One lesson from the conference was that assessment limits have important distributional effects that transfer taxes from fast-growing areas to those with low rates of appreciation, or from residences to commercial or industrial properties. This conclusion surprised many people who thought that assessment limits simply lowered property taxes for everyone. To share this work with a broader audience, Richard Dye and I wrote a *Land Lines* article (July 2007), titled Surprise! An Unintended Consequence of Assessment Limitations, in which we presented the algebra and explanations behind such policies.

LAND LINES: *What are your current projects for the Lincoln Institute?*

DANIEL McMILLEN: I am returning to my work on teardowns. I am working with Arthur O'Sullivan, professor of economics at Lewis & Clark College, to develop the implications of an options model of teardown investments. The basic implication is that the sales price of a property can be decomposed into the value of the land and the value of the structure, with the weights to each component depending on the probability that the structure will be demolished. Whereas land accounts for the entire value of a property when the structure will be demolished immediately, structural characteristics have more influence on the sales price when the owner is likely to live in the home for some time. We are now testing these implications using updated data on property sales in the Chicago area.

I am also extending my work on assessment practices by developing new statistical procedures to analyze the distribution of assessment ratios. My preliminary results suggest that the variance of assessment ratios is much higher at very low sales prices and that assessments tend to be more accurate for relatively high-priced properties. I am working to develop a set of computer programs that will make the analysis of assessment ratio distributions readily accessible to assessors and other practitioners.

We plan to continue our junior scholars program as a companion to the Urban Economics and Public Finance conference. These conferences play an important role in mentoring young scholars and in helping to introduce the Lincoln Institute to academic researchers, which my own experience shows can be a formative intellectual experience.

New Lincoln Institute Book

Inclusionary Housing in International Perspective: Affordable Housing, Social Inclusion, and Land Value Recapture

Inclusionary housing is a means of using the planning system to create affordable housing and foster social inclusion by capturing resources created through the marketplace. The term refers to a program, regulation, or law that requires or provides incentives to private developers to incorporate affordable or social housing as a part of market-driven developments. This can be achieved either by including the affordable housing into the same development, building it elsewhere, or contributing money or land for the production of social or affordable housing in lieu of construction.

Inclusionary housing originated in the United States during the early 1970s, and gradually spread to Canada, western Europe, and more recently to countries throughout the world. The initial intellectual impetus came from the civil rights movement of the 1960s, and the recognition of the close relationship between the pervasive racial segregation in American society and the land use regulation system that perpetuated it through what came to be known as *exclusionary zoning*. Indeed, the term *inclusionary zoning* was coined to contrast with the former term, and was first used to refer more broadly to any strategy designed to foster the production of affordable housing in otherwise exclusive and affluent suburban jurisdictions.

Editors Nico Calavita and Alan Mallach present a practical as well as theoretical focus to assess the outcomes of inclusionary housing programs as implemented in seven countries. Their two main objectives are to (1) describe why and how each country chose to adopt inclusionary policies; and (2) make sense of the variety of these approaches and discern what works and under what circumstances. Particular attention is given to the manner and extent to which each country's inclusionary policies create affordable housing, foster social inclusion, and either provide explicitly or result implicitly in the recapture of land value increments for public benefit. The countries follow this rough typology:

Inclusionary Housing in International Perspective: Affordable Housing, Social Inclusion, and Land Value Recapture
Edited by Nico Calavita and Alan Mallach
2010 / 416 pages / Paper / $30.00
ISBN: 978-1-55844-209-2

Ordering Information
Contact Lincoln Institute at
www.lincolninst.edu

- two countries decentralize land use regulation via state or provincial schemes (United States and Canada);
- two countries mandate inclusionary housing (Spain and Ireland);
- two countries explicitly enable its use (England and France);
- one country, until recently, provided for neither, thus prompting inclusionary housing as a local initiative (Italy); and
- other countries (South Africa, Israel, India, New Zealand, Colombia, Malaysia, and the Netherlands) offer their own variations of inclusionary housing.

Global political shifts and changes in economic and social policy have all contributed to the emergence of inclusionary housing as arguably the most significant new public policy direction in the realm of social and affordable housing in recent decades. The chapter authors explore both how the cross-national variations in political, social, and economic cultures and conditions have led to different forms of inclusionary housing in the countries studied, and how it is working on the ground to address each country's need for better housing and greater social inclusion.

Contents

ABOUT THE EDITORS

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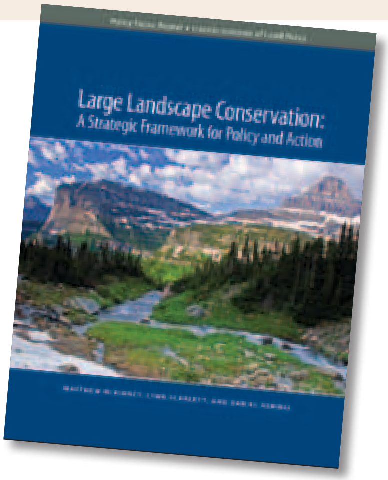
Large Landscape Conservation: A Strategic Framework for Policy and Action

The most important land and water issues facing North America—including land use patterns, water management, biodiversity protection, and climate adaptation—require new approaches. While most of these challenges need to be addressed at several scales simultaneously, ranging from the local to the global, it is increasingly imperative to address them at the scale of large landscapes. The territory of these issues often transcends the legal and geographic reach of existing jurisdictions and institutions.

Since no single entity has the power or authority to address these types of cross-boundary issues, there is a gap in governance and a corresponding need to create informal and formal ways to work more effectively across boundaries. Large landscape conservation also provides significant economic and fiscal benefits to rural and urban communities. Since taking office in January 2009, President Barack Obama and his administration have made the concept of large landscape conservation a component, and often a focus, of many natural resource initiatives.

In response to increasing activity at the large landscape scale, leaders from the public, private, and nongovernmental sectors participated in two national policy dialogues and many other informal discussions in 2009. Convened by the Lincoln Institute of Land Policy and the Center for Natural Resources and Environmental Policy at The University of Montana, the intent of the dialogues was to synthesize what we know about large landscape conservation and identify the most important needs as we move forward.

There is general agreement that the promise of large landscape conservation is its focus on land and water problems at an appropriate geographic scale, regardless of political and jurisdictional boundaries. While it is hard to define precisely what constitutes a large landscape conservation effort, there is a growing consensus that such efforts are multijurisdictional, multipurpose, and multistakeholder, and they operate at various geographic scales using a variety of governance arrangements.



Large Landscape Conservation: A Strategic Framework for Policy and Action
Matthew McKinney, Lynn Scarlett, and Daniel Kemmis
2010 / 52 pages / Paper / $15.00
ISBN 978-1-55844-210-8
Policy Focus Report / Code PF026

Ordering Information
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www.lincolninst.edu

The common currency in large landscape conservation is regional collaboration—the ability to work across boundaries with people and organizations that have diverse interests yet share a common place. While there is no single model for large landscape conservation, ten key elements are evident in the most successful efforts. Practitioners apply these elements on a case-by-case basis to create homegrown processes and solutions for particular places.

With the increasing movement toward large landscape conservation, several barriers still must be addressed for this approach to land and water conservation to endure. In response, participants in the national policy dialogues, along with other many planners, practitioners, and policy officials, believe that large landscape conservation can be improved significantly by implementing the following recommendations:

- *Gather and share information.* Establish a common, coherent scientific database, and develop an annotated atlas of governance efforts to clarify who is doing what and what needs to be done.
- *Encourage a network of practitioners.* Catalyze collaboration through a network akin to the Land Trust Alliance to identify best practices and advocate for policy reforms.
- *Establish a national competitive grants program.* Facilitate homegrown partnerships, improve coordination among ongoing efforts, and recognize the most promising approaches to large landscape conservation.
- *Improve the policy toolkit.* Strengthen incentive-based tools for landowner conservation and improve coordination and participation by federal and other governmental agencies.
- *Facilitate innovative funding opportunities.* Maximize and focus the use of existing federal and state programs and authorities that can be implemented quickly and without significant new funding.

ABOUT THE AUTHORS

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Daniel Kemmis is a private consultant, working primarily in the natural resource and philanthropy arenas. He is a former mayor of Missoula, Montana, and a former speaker and minority leader of the Montana House of Representatives. Contact: *dkemmis@bresnan.net*

Courses and Conferences

The education programs listed here are offered as open enrollment courses for diverse audiences of elected and appointed officials, policy advisers and analysts, taxation and assessing officers, planning and development practitioners, business and community leaders, scholars and advanced students, and concerned citizens.

For more information about the agenda, faculty, accommodations, tuition, fees, and registration procedures, visit the Lincoln Institute Web site at *www.lincolninst.edu/education/courses.asp*.

NATIONAL COMMUNITY LAND TRUST (CLT) ACADEMY

Greg Rosenberg, CLT Academy Director
John Emmeus Davis, CLT Academy Dean

The National CLT Academy, a joint venture of the Lincoln Institute and the National Community Land Trust Network, provides comprehensive training on theories and practices unique to community land trusts. The CLT Academy promotes public understanding of the community land trust model, sets a high standard for practitioner competence, and supports research and publication on evolving practices in the field.

NOVEMBER 8–11
Albuquerque, New Mexico

National CLT Conference and Academy Courses

The 2010 National CLT Conference presents a series of CLT Academy courses and other programs. This year's event is hosted by the Sawmill Community Land Trust. For more information, contact *www.cltnetwork.org*.

MONDAY, NOVEMBER 8

Introduction to Community Land Trusts (CLT 101)

This course offers a comprehensive introduction to the nuts and bolts of creating a community land trust. Participants learn how local CLTs seek to balance the seemingly competing goals of providing income-eligible homeowners with a fair return on their housing investment while ensuring that housing is kept affordable. The course is designed to provide tools and resources for people who are new to the model and are considering establishing a CLT in their own community.

MONDAY–TUESDAY, NOVEMBER 8–9

Stewardship

The contractual controls that a CLT imposes on the homes in its portfolio are not self-enforcing. They require the continuing presence of a watchful steward to monitor and enforce them, ensuring that: (1) the affordability of these homes will be preserved; (2) the quality, durability, and livability of these homes will be maintained; and (3) the homeowners' security of tenure will be protected, making foreclosure a rare event. The course focuses on the period after a resale-restricted home is sold, although consideration is given to the steward's pre-purchase responsibilities.

TUESDAY–WEDNESDAY, NOVEMBER 9–10

Intermediate Training (CLT 201)

This intermediate-level course offers two days of training, primarily for CLT staff and board members. A comprehensive array of presentations, workshops, and joint problem-solving exercises examines the roots and rationale of the CLT, compares ground leasing to deed covenants, considers the use of CLTs in developing cooperatives and condominiums, explores nonresidential applications of the CLT, and discusses how CLTs frame their message and measure success.

THURSDAY, NOVEMBER 11

Organizational Growth and Sustainability

CLTs too often define their mission and stake their claim with words like "permanent" and "forever" without developing realistic plans for the long-term fiscal viability of their organizations. How do CLTs plan financially for the critically important work they do in their communities—not only next year and the year after that, but in 10, 20, even 50 years from now? This course helps participants explore issues in planning effectively for the long-term fiscal health of their CLTs.

THURSDAY, NOVEMBER 11

The New CLT Model Ground Lease

The CLT model ground lease has served as a cornerstone of the CLT movement for nearly 30 years. In 2010 the CLT Academy is completing work on the first major revision to the lease in nearly a decade. This course, designed for both CLT practitioners and attorneys, provides a detailed overview of the lease, with an emphasis on newly revised sections.

Programs in Latin America

SEPTEMBER 2010
La Plata, Argentina

Alternative Approaches to Land in Social Housing Policy

Martim Smolka, Lincoln Institute of Land Policy; and Eduardo Reese, Conurbano Institute, General Sarmiento National University, and Institute of Housing for the Province of Buenos Aires, Argentina

This seminar considers the complex topic of housing by combining land management, urbanism, and housing programs. Topics include the functioning of land markets and access to urban land by low-income segments; production of land in Greater Buenos Aires over the past 25 years; acquisition of land for housing by local governments; land as a factor in the redistribution of wealth; land readjustment; and equitable distribution of obligations and benefits. While the seminar is open to the public, it is oriented to officials in the 134 municipalities of the Province of Buenos Aires.

SEPTEMBER 2010
Vitoria, Brazil

National Guidelines for Multipurpose Cadastres

Diego Erba, Lincoln Institute of Land Policy; and Eglaisa Cunha, Ministry of the City, Brasilia, Brazil

As part of an ongoing program to strengthen capacity for municipal land, fiscal and environmental management, and land tenure regularization, this seminar aims to identify technical, institutional, and political challenges related to the implementation of the recently approved national guidelines for multipurpose cadastres at the local and regional levels. Specific practical cases, problems, and solutions are discussed in an open forum for local public officials and social agents.

OCTOBER 2010
Quito, Ecuador

Urban Land Market Analysis

Martim Smolka and Ciro Biderman, Lincoln Institute of Land Policy

This course covers the main theories inspiring empirical modeling and hypothesis testing, methods of data gathering, and analysis related to land market performance indicators. Attention is given to the specificities of spatial analysis including cluster analysis and spatial econometrics.

New Working Papers on the Web

The Lincoln Institute supports research fellows and other collaborators who document their research in working papers that are posted on the Institute Web site for free downloading (*www.lincolninst.edu/pubs*).

More than 680 working papers are currently available, including the results of Institute-sponsored research, course-related materials, and occasional reports or papers cosponsored with other organizations. Some papers by associates affiliated with the Institute's Latin America and China programs are also available in Spanish, Portuguese, or Chinese. Listed below are some of the papers that have been posted since late March 2010.

United States Programs

Alden Boetsch and Susan Culp
State Trust Land Exchanges in the Intermountain West: A Review and Analysis

Rebecca Boldt, Bradley Caruth, Andrew Reschovsky
Are Property Taxes Forcing the Elderly Out of Their Homes?

Bruce M. Burger and Randy Carpenter
Rural Real Estate Markets and Conservation Development In the Intermountain West: Perspectives, Challenges and Opportunities Emerging from the Great Recession

Janet M. Hammer, Jennifer H. Allen, and Briana Meier
Accounting for Development: Assessing Social and Triple Bottom Line Returns of Public Development Investments

Nichola J. Lowe
Beyond the Deal: Integrating Recruitment into Economic Development Planning

China Program

The Lincoln Institute's China Program offers working papers in both English and Chinese languages. These recent papers are posted in English on the Lincoln Web site, and many other papers are available in Chinese on the Web site of the Peking University–Lincoln Institute Center for Urban Development and Land Policy (*www.plc.pku.edu.cn*).

Chaolin Gu, Xiaoming Zhang, Xiaodan Wang, Jing Guo, and Ivy Lingqian Hu
Climate Change and Urbanization in the Yangtze River Delta

George C.S. Lin
Land Development, Municipal Finance, and Urban Expansion in Globalizing China: A Study of Guangdong Province, 2000-2005

African Tax Program

As part of an ongoing joint venture partnership between the Lincoln Institute of Land Policy and the African Tax Institute (ATI) of the University of Pretoria in South Africa, several research fellows have begun to compile data on land-related taxes in most of Africa. Property tax information is extremely difficult to obtain in many African nations, yet it could provide a basis for policy debate that has not been possible in the past. The following reports have been posted recently, and many other country reports are also available for free downloading.

Dobingar Allesambaye
- **North-Central Africa Appendix 1: Chad**

Samuel Jibao
- **Southern Africa Appendix 3: South Africa**
- **Southern Africa Appendix 4: Lesotho**

Vasco Correia Nhabinde
- **Lusophone Africa Appendix 4: Guinea Bissau**
- **Lusophone Africa Appendix 5: Angola**

Jean Jaques Nzewanga
- **Property Taxation in Francophone Central Africa: Case Study of Burundi**
- **Property Taxation in Francophone Central Africa: Case Study of the Democratic Republic of Congo**
- **Property Taxation in Francophone Central Africa: Case Study of the Republic of Congo**
- **Property Taxation in Francophone Central Africa: Case Study of Rwanda**

Washington H. A. Olima
- **Property Taxation in Anglophone East Africa: Case Study of Kenya**
- **Anglophone East Africa Appendix 2: Kenya**
- **Property Taxation in Anglophone East Africa: Case Study of Mauritius**
- **Anglophone East Africa Appendix 5: Mauritius**
- **Property Taxation in Anglophone East Africa: Case Study of Seychelles**
- **Anglophone East Africa Appendix 6: Seychelles**
- **Property Taxation in Anglophone East Africa: Case Study of Tanzania**
- **Anglophone East Africa Appendix 3: Tanzania**
- **Property Taxation in Anglophone East Africa: Case Study of Uganda**
- **Anglophone East Africa Appendix 4: Uganda**

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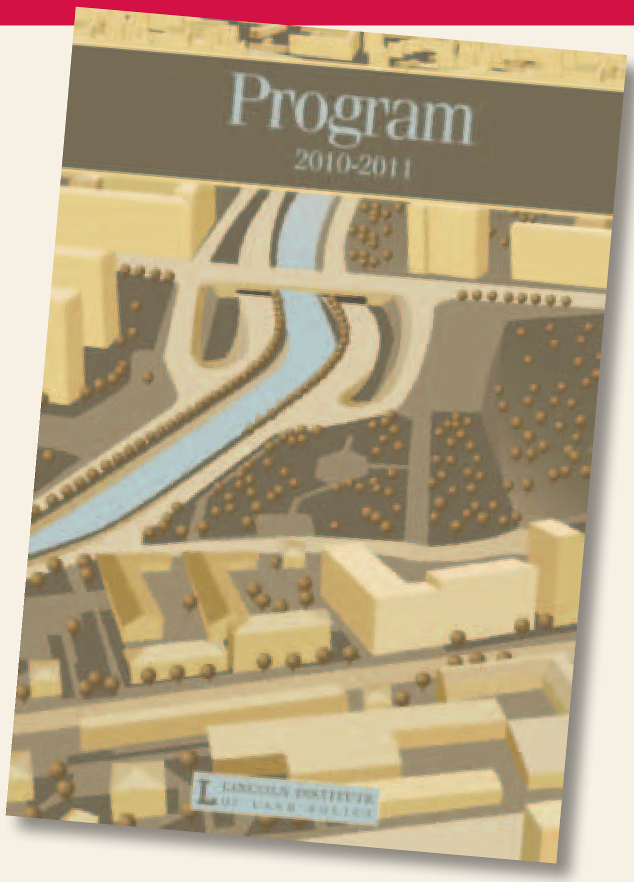

The Lincoln Institute's annual Program for 2010–2011 presents a comprehensive overview of the Institute's mission and its diverse programs for the new academic year. It includes department descriptions; courses, seminars, conferences, and online education programs; research, demonstration, and evaluation projects; publications and multimedia products; Web-based resources and tools; and lists of fellows and faculty. The complete Program catalog will be posted on the Lincoln Web site for free downloading in late August. To request a printed copy, contact *help@lincolninst.edu.*