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.