

## Paying too much for a good thing: The cost of lower taxes

By Liz Lent

Since 2006, the city of Detroit has used the Neighborhood Enterprise Zone (NEZ) Homestead program to draw homebuyers, providing them with significant tax incentives to purchase and maintain homes in designated zones. By offering beneficiaries a 50 percent reduction in city and county operating millage rates for 15 years, the NEZ program has successfully encouraged new home purchases and built stronger neighborhoods.

But has it made good financial sense for all of those homebuyers? Not necessarily, says Timothy Hodge, Ph.D., assistant professor of economics at the Oakland University School of Business Administration. In a new research paper, Dr. Hodge found that NEZ homebuyers often pay too much for a good thing.

“I wanted to know how much people understood about the property tax incentives and how much they were willing to pay for them,” says Dr. Hodge. “For example, if you were getting a \$100 tax break, you’d expect to pay \$100 more on the price of your house.”



*Timothy Hodge, Ph.D., assistant professor of Economics, researches the impact of property tax policies.*

Instead, Dr. Hodge’s analysis showed that NEZ home prices were 10 percent higher than in neighborhoods outside the zones. Buyers who took advantage of the tax incentives paid an additional 29 percent for their properties, totaling 39 percent all together.

Dr. Hodge also found that, while buyers were paying top dollar in NEZ neighborhoods, many did not receive the tax breaks they sought. “Only about 2 percent of the homebuyers in our sample were actually benefiting from the program,” he explains.

“They may never have applied for the incentives or weren’t granted the benefits after the purchase,” says Dr. Hodge. “Others may have misunderstood the program.” To qualify, residents had to meet a broad range of criteria, including investing in home improvements and staying current on their property taxes.

The overcapitalization of NEZ homes may be a bitter pill for buyers, but it has been a positive for the city itself. Lower taxes on higher-priced homes still results in increased revenue. In the future, though, prospective buyers may take a closer look at the NEZ fine print before signing on the bottom line.

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Hodge, T., & Komarek, T.M. (2016). Capitalizing on Neighborhood Enterprise Zones: Are Detroit residents paying for the NEZ homestead exemption? 18-25.

### Key Takeaways

Detroiters pay more for homes in NEZ designated zones, far exceeding the estimated cost benefits promised by the program.

Many buyers ultimately do not take advantage of the incentives, paying more for no tax savings at all. Other buyers ultimately do not qualify for the incentives.

**Dr. Timothy R. Hodge** holds a doctor degree in agricultural, food and resource economics from Michigan State University. Dr. Hodge also has taught at Alma College, was a visiting assistant professor at Allegheny College and worked at Ford Motor Credit Company as an econometrician/data scientist. He is also senior research associate at Oakland’s Southeastern Michigan Economic Data Center. His research interests include property tax policies and assessment practices; real estate capitalization; the effect of place-based

urban/regional economics. His research has been published in journals such as *Regional Science and Urban Economics*, *Land Economics*, *Real Estate Economics*, *National Tax Journal* and *Public Finance Review*, among others.