

Panel Discussion: "IMPLICATIONS OF PROPERTY TAX POLICY CHANGES FOR AFFORDABLE HOUSING"

Panelists:

Emily Horton, University of Michigan

Cameron LaPoint, Yale University

Jenny Schuetz, Brookings Institution

Jared Walczak, Tax Foundation

Moderator:

Byron Lutz, Federal Reserve Board of Governors

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Moderator Disclaimer

The opinions expressed are solely those of the moderator, Byron Lutz, and do not necessarily express the opinion of the Board of Governors of the Federal Reserve.

Housing Affordability Crisis

- U.S. perceived to be suffering from housing affordability crisis
- Housing consuming a growing share of household resources
 - Share of renters spending $> 30\%$ of income on housing has risen from 20 percent in 1960 to 45 percent in 2022
 - House price growth exceeded wage gains over the last twenty years (White House, 2024)
- Rising *costs*, not quantity or quality (Albouy et al. 2016)
- Lack of affordability particularly acute among young
 - Young more prone to being cost-burdened
 - Rate of homeownership fallen more steeply than older cohorts

Many Recent Proposals to Lower Property Tax Burdens

- State-level efforts
 - Texas: increased homestead deduction from \$40k to \$100k and lowered local property tax rates
 - Nebraska: proposals to eliminate property tax and proposal to lower burdens
 - Georgia: grants to local governments to offset losses from homestead exemptions
- Reforms appear at least partly motivated by housing affordability concerns

Implications of Property Tax Policy Changes for Affordable Housing

- Panel considers the connection between property tax changes and housing affordability
- Surprisingly little recent work explicitly on housing affordability and property taxes (exception: Andy Reschovsky 2023)

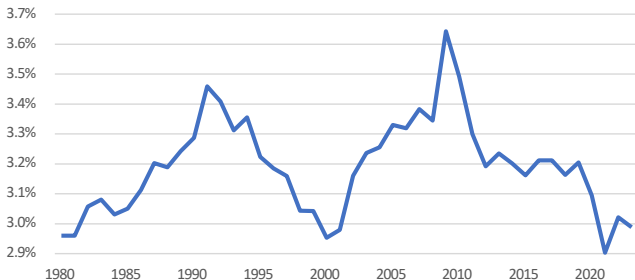
Implications of Property Tax Policy Changes for Affordable Housing

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- Surprisingly little recent work explicitly on housing affordability and property taxes (exception: Andy Reschovsky 2023)
- Topic begs two initial questions
 - Are property taxes a *cause* of the worsening housing affordability?
 - Are property tax reductions a sensible policy lever to address affordable housing?

Are Property Taxes a *Cause* of Worsening Housing Affordability?

- Property taxes as a share of income have been trending down
- Likely not important cause of affordability crisis (in aggregate)

Property Tax Collections as a Share of Personal Income



Note. Figure displays state and local government property taxes divided by personal income.
Source. Bureau of Economic Analysis. Property tax collections on real property, NIPA Table 3.5, line 38. Personal income, NIPA Table 2.1, line 1. Extracted 05/06/2024.

Are Property Tax Reductions a Sensible Way to Increase Affordability?

- In some ways, yes
 - Property taxes are an important component of housing costs
 - Can be changed quickly and take immediate effect
 - Property tax is very salient (Cabral and Hoxby 2012, Youngman 2016)

Are Property Tax Reforms a Sensible Way to Increase Affordability?

- In other ways, not clear
- Consideration of economic incidence of tax raises many questions; e.g.
 - Property tax reductions capitalize under inelastic housing supply → aid existing homeowners but not new homeowners
 - If value of public goods falls—e.g. lower quality K-12 education—is “housing” really more affordable?

Panelist Introduction

- Jared Walczak, Tax Foundation: Assessment limits
- Jenny Schuetz, Brookings Institution: Homestead exemptions
- Cameron LaPoint, Yale University: Impact and user fees compared to property tax
- Emily Horton, University of Michigan: TCJA changes to property tax deduction