



ATLANTA
NEIGHBORHOOD
DEVELOPMENT
PARTNERSHIP, INC.

Responding to the Foreclosure Crisis

Analysis of Changes in Property Tax Values
from 2008 to 2009 in
High Foreclosure Rate Neighborhoods

THIRD IN AN ONGOING SERIES
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Report Prepared by

***Analysis of Changes in Property Tax Values
from 2008 to 2009 in
High Foreclosure Rate Neighborhoods***

Commissioned by
Atlanta Neighborhood Development Partnership, Inc.

Prepared by
RCLCO (Robert Charles Lesser & Co.)

The mission of Atlanta Neighborhood Development Partnership, Inc. (ANDP) is to promote, create and preserve mixed income communities through direct development, lending, policy research and advocacy that result in the equitable distribution of affordable housing throughout the metropolitan Atlanta region. The organization has shifted its primary focus to addressing the impact of the foreclosure crisis on neighborhoods and their residents.

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RCLCO (Robert Charles Lesser & Co.) is the nation's leading independent real estate advisory firm, providing market and financial analysis and strategic planning for a broad spectrum of clients. RCLCO is recognized in the industry as having the ability to address specific project situations as well as overall long-term strategic needs. With unsurpassed experience in market and feasibility analysis and strategic programming, RCLCO's client base includes developers, major investors, lenders, non-profits and government agencies.

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Previous Reports:

Updated Analysis of Home Sales Prices and Appraised Home Values in High Foreclosure Rate Neighborhoods.
Released April 2009.
Download at www.andpi.org/updatedtaxreport.pdf

Analysis of Home Sales Prices and Appraised Home Values in High Foreclosure Rate Neighborhoods
Released October 2008.
Download at www.andpi.org/taxreport.pdf

All reports commissioned by Atlanta Neighborhood Development Partnership, Inc. and prepared by RCLCO.

Analysis of Changes in Property Tax Values from 2008 to 2009 in High Foreclosure Rate Neighborhoods

As one of the leading housing advocacy groups in metro Atlanta, the Atlanta Neighborhood Development Partnership (ANDP) has pursued policy initiatives to address its concerns about systemic property tax inequities and the resulting impact on low- and moderate-income homeowners. In 2008, ANDP, working with interested legislators, led a successful campaign to double the homestead exemption from \$15,000 to \$30,000 for the City of Atlanta and Fulton County. The effort required passage of state legislation and voter approval by ballot referendum. The homestead exemption, a tax provision that dates back to the Great Depression and was originally intended to protect the owners of modest, affordable homes from excessive taxes, had not kept pace with rapidly appreciating home prices in the late 1990s and early 2000s.

Building on its homestead policy work, ANDP next turned its attention to examining the relationship between home sale prices and home appraisal values in some of the metro area's most foreclosure-ridden neighborhoods. ANDP wants to ensure that, in light of the dramatic changes in the housing market, homeowners are being taxed on a fair appraised value of their home that accurately reflects true market conditions. ANDP initially hired RCLCO Real Estate Advisors in the fall of 2008 to perform an analysis of home sale prices and appraised values in the five-county core of metro Atlanta in order to determine if a projected overpayment of residential property taxes does in fact exist in high-foreclosure neighborhoods. Through that analysis, as well as a subsequent update in the spring of 2009, RCLCO found a significant projected overpayment of taxes in neighborhoods with the highest rates of foreclosure due to large gaps in recent sales prices compared to the appraised values of those homes. Additionally, the research showed that many of these hardest hit areas were also home to large concentrations of minorities and lower income households.

Now that the severity of the home price drops has been documented in neighborhoods throughout metro Atlanta, ANDP set out to see whether or not those drops in prices were accurately reflected in the home valuations conducted by tax assessors in 2009. In addition, the organization wanted to ensure that tax assessors were complying with important changes in state law, resulting from final passage of Senate Bill 55 in April, 2009, requiring the inclusion of foreclosed and bank-owned sales in the real property valuation process. ANDP again partnered with RCLCO to analyze the actual changes in county tax assessor appraised values from 2008 to 2009 to determine if the county assessor offices have changed values to the degree warranted by the price drops experienced in 2008 and also if those changes occurred in an equitable manner across various neighborhoods.

SUMMARY OF FINDINGS

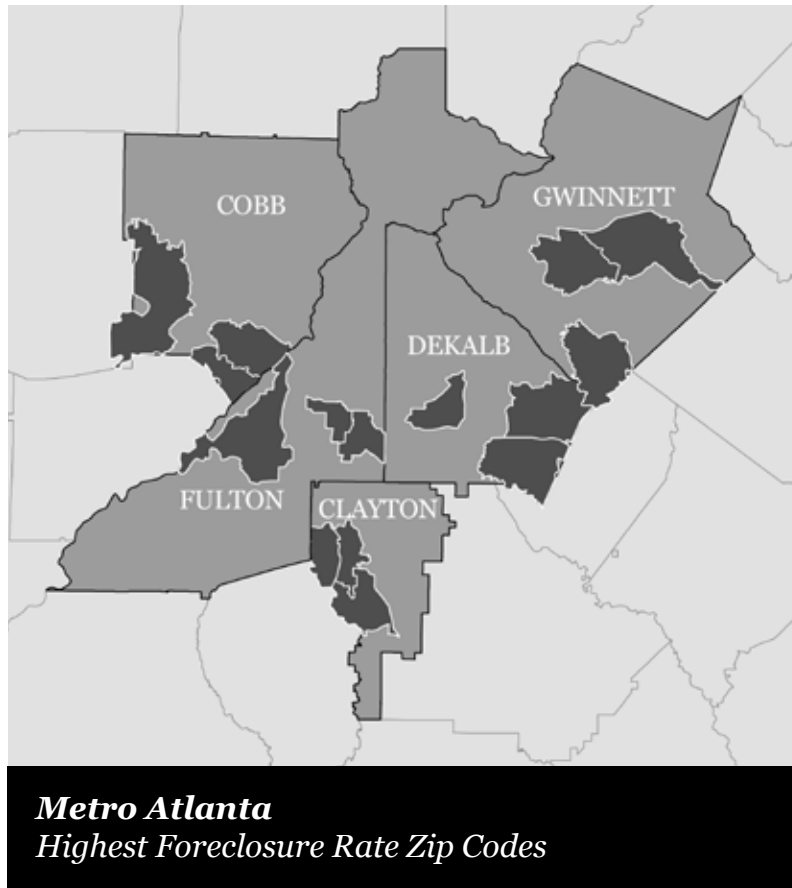
Our analysis found that, in many instances, county tax assessors did not lower values to the degree to which the drop in prices suggest would be warranted. That said, many of the areas hardest hit by price declines saw larger drops in appraised values than their respective counties saw overall. In aggregate, the 15 zip codes with the highest foreclosure rates saw an average decline in appraised value of 10%, compared to an overall average decline of 7% for the corresponding

five counties (see Table 1 for a full summary of results) suggesting that appraisers are responding, to some degree, to the impact foreclosures are having on home values. Although the larger drops in harder-hit neighborhoods are a positive step in reconciling the vast differences between recent sale prices and county appraised values, the research reveals that in all instances studied high foreclosure neighborhoods still exhibit a large overpayment of property taxes. While the average homeowner in the five county

core of metro Atlanta overpaid their taxes by an average of \$244 in 2009, that number more than doubles to \$491 when you isolate the 15 zip codes with the highest foreclosure rates. And, while these 15 zip codes represent only 20.4 percent of overall metro properties (and only roughly 15 percent of overall tax digest), they represent \$82,246,816 of the total metro overpayment of \$200,171,460. In short, these high-foreclosure and largely minority neighborhoods are bearing 41.1 percent of the metro's total tax overpayment. The study demonstrates that inequality still exists in overpayment between those neighborhoods hardest hit by foreclosure and more stable communities.

METHODOLOGY

The primary focus of this study was to compare the appraised value from county tax assessors of homes in 2009 versus 2008. Home sales data for the second half of 2008 was obtained from the First Multiple Listing Service (FMLS) to generate a dataset of properties to analyze. Sales data were collected for each of the five core counties in metro Atlanta, as well as for the three zip codes with the highest foreclosure rate in each county. For each sales record, the 2008 and 2009



county appraised value was obtained from the county tax assessor website. A change in appraised value was then calculated for each sales record. For every geography that was analyzed, an average change in appraised value was then calculated. Each zip code of analysis was then compared to the overall county average, and a test of statistical significance was performed to determine if there was any difference in average appraised value change when comparing the zip codes to the county overall.

2008 and 2009 values were then used to generate property tax amounts, and those amounts were then compared to property tax amounts based on the sales prices for each home sale record. These tax values were then compared to determine an under or overpayment of property taxes. A full description of the study methodology can be found at the end of this report. The following sections discuss the results of the study more in-depth.

FULTON AND DEKALB COUNTIES - Fulton and DeKalb counties provide examples where county assessors lowered values to a greater degree in the areas hardest hit by foreclosures and price declines but not to a degree consistent with the decrease in prices. Both counties lowered values overall in the county by an average of 11% from 2008 to 2009. In both counties, the three zip codes with the highest foreclosure rates saw a more significant decrease, with the Fulton County Tax Assessor lowering values by an average of 13% and DeKalb lowering values by 19%. For some individual zip codes, the drop was even more significant. Atlanta zip code 30310 recorded the largest drop among the zip codes covered by this study; county appraised values declined there by an average of 24%. Fulton's 30331, on the other hand, realized a decline of only 6% despite the fact that median home sales prices in 30331 represented half of the median appraised value.

While the assessors offices made some effort to lower values more in the hardest hit areas, it appears values were not lowered enough to reflect accurate market conditions, especially in these hardest hit areas. For example, zip code 30310 saw a median home sale price in the second half of 2008 of 79% less than the appraised value set by the county tax assessor. Although a 24% reduction in value is a positive step, it does not appear to go far enough given the 79% gap between sales price and appraised value. RCLCO research showed a potential average overpayment in taxes of \$1,739 on average in this zip code if values had not been adjusted from 2008 levels. Given the adjustment of values, this overpayment has shrunk to \$1,078. While a \$700 drop is significant, it still leaves homeowners in this zip code significantly overpaying their taxes.

CLAYTON COUNTY - Clayton County provides a clear instance of a county assessor's office that did not lower values to the degree demonstrated by the drop in home prices. For the county overall, appraised values only dipped an average of 7% when comparing 2009 to 2008 values. The last RCLCO analysis for the second half of 2008 showed homes in the County sold for 48% less than county appraised value, when comparing the median sales price to the median appraised value. A 7% drop in values does not appear appropriate when the staggering price declines of 2008 are analyzed. It is interesting to note, however, that the Clayton assessor lowered values in 87% of cases. The Clayton assessor recognized the widespread nature of the value decline in Clayton County, but appears to have underestimated or simply ignored the severity of the actual drops in home pricing. This leaves homeowners in Clayton

County overpaying their property taxes by an average of \$724. While this number is smaller than the \$872 average that would have existed had the assessor not lowered values at all, it demonstrates a significant gap still remains.

COBB COUNTY - In Cobb County, the findings are somewhat inconclusive. Since the foreclosure crisis had not been as pronounced in Cobb County, the negative pressure on home prices had been somewhat muted compared to other parts of the metro. The most recent RCLCO study found that homes in the high foreclosure zip codes were selling for 13% less than county appraised value, compared to 9% less for the county overall (which is a statistically significant difference). To account for this decline in values, the County tax assessor lowered property values in 17% of cases, leading to an overall average decline in appraised value for the county of 3%. In the three high foreclosure zip codes, the average decline was 5% (which is not a statistically significant difference when compared to the 3% of the County overall). Cobb County appears to have taken some steps to address the decline in values experienced in 2008 by lowering assessments, although whether or not those declines are occurring in the hardest hit areas remains somewhat unclear. As a result, while the average homeowner in Cobb County overpaid their property taxes by \$153, that overpayment increases to \$239 in the three zip codes with the highest foreclosure rates.

GWINNETT COUNTY - Finally, the analysis in Gwinnett County provides an example of a county that does not appear to be lowering property values in the hardest hit areas. The research shows an average decline in county appraised values of 4% from 2008 to 2009. However, the three zip codes with the highest foreclosure rates in Gwinnett County saw an average decline in county appraised values of only 5%. It appears Gwinnett County lowered values fairly uniformly despite the most recent RCLCO study which demonstrated that certain areas of Gwinnett saw steeper pricing declines than the County overall. For example, median home sale prices in zip code 30044 were 17% less than median appraised value in the second half of 2008. When compared to the countywide difference between sale prices and appraised values of only 11% less, the numbers show that certain areas of Gwinnett are seeing steeper pricing declines than other areas. However, the County only lowered appraised values by an average of 4% in this zip code, which is identical to the Gwinnett County average. This translates into significant overpayments of property taxes in areas where pricing is declining the most. The three zip codes with

the highest foreclosure rates saw an average overpayment of taxes of \$359, compared to only \$231 on average for the county as a whole. While these overpayments would have been larger if the assessor had not lowered values, the overpayments remain greater in hard-hit neighborhoods, speaking to the need to lower values more aggressively in these neighborhoods.

IMPLICATIONS FOR HOMEOWNERS

There is no doubt that home prices took a steep plunge in 2008 in most neighborhoods across metro Atlanta. Further, it is clear from previous ANDP/RCLCO research that neighborhoods with the highest rates of foreclosure almost always saw price declines much more pronounced than their respective county averages. When analyzing the response of county tax assessors to these pricing declines, the results appear mixed. While some assessors lowered appraised values slightly more in the hardest hit neighborhoods, in most cases they do not appear to have lowered the values enough when compared to 2008 market conditions as defined by sales.

The key issue at stake here is the equitable taxation of homeowners in metro Atlanta. Previous RCLCO/ANDP research showed large overpayments of taxes in the neighborhoods with the highest rates of foreclosure. It appears that this discrepancy in tax burden is unfairly taxing neighborhoods that were the hardest hit during this real estate and foreclosure crisis and the “overtaxing” relative to market values is placing undue pressure on these already struggling neighborhoods. While many of the assessors have taken steps to rectify this imbalance, likely with an eye toward encouraging reinvestment in these neighborhoods, the research shows that in many instances not enough has been done.

FULL METHODOLOGY DESCRIPTION

The following section describes RCLCO’s methodology for performing this engagement in detail.

PHASE 1: IDENTIFIED HIGH FORECLOSURE NEIGHBORHOODS

The first step in this analysis was to identify the geographies that are considered to have high rates of foreclosures in the five-county study area (Clayton, Cobb, DeKalb, Fulton, and Gwinnett Counties). ANDP obtained information from EquityDepot on the three zip codes with the highest rates of foreclosures for each county in 2008. Since previous studies have already been completed based on these zip codes, ANDP elect-

ed to continue to use these same zip codes for tracking purposes in this study.

Next, ANDP obtained home sales data (closings) from the FMLS service for all residential for-sale product in the second half of 2008 for the five-county study area. Home sales in each of the 15 zip codes (five counties with three zip codes each) were then isolated. In cases where the number of sales in a zip code exceeded 100, a random sample of 100 sales was taken. Additionally, a control group was established in each county by randomly selecting 100 sales from the entire set of sales data for each county. The control group is necessary in order to place the analysis of zip codes in the context of the county overall.

It is important to note that FMLS data was utilized because it represents arms-length transactions. Auction sales of foreclosed properties on courthouse steps are therefore not included. Use of FMLS data somewhat mitigates the extreme effect auctioned properties could have on median home sales values in these geographies.

PHASE 2: COMPARED 2009 APPRAISED VALUES WITH 2008 APPRAISED VALUES

For each home sale record the county tax assessor website was utilized to identify the county appraised values for 2008 and 2009. This was done to analyze the change in appraised value for the various geographies for 2008 and 2009. The change was calculated for each home sale record and an average (mean) of these changes was calculated for each geography of analysis. A negative value represents a decline in value from 2008 to 2009, a positive value represents an increase in value.

A statistical test of significance (Mann-Whitney test with a confidence level of 95%) was then performed to determine if the average change found in a zip code was different from the average change found in the respective county control group for that zip code. For any geography where the test was positive, it can be interpreted that RCLCO is 95% confident that the average change in appraised value for that zip code is indeed different than the average change for the county overall. It is important to note that RCLCO also performed a similar analysis on a random sample of properties where a sale did NOT occur in the past year. This was done to ensure that there was no difference in the prevalence or degree to which appraised values changed for properties where a sale occurred in the last year compared to those properties where a sale did not occur. This comparison was performed for several geographies of analysis and statistical tests of significance were performed between the two groups. The

tests showed that there was no significant difference in changes in appraised values when comparing properties where a recent sale occurred to those where a sale has not recently occurred.

This data on average changes was then compared to the previous research completed by RCLCO and ANDP on the gap between county appraised values and actual sales prices in the second half of 2008. Please refer to previous research by RCLCO and ANDP (Analysis of Home Sale Prices and Appraised Home Values in High Foreclosure Rate Neighborhoods) for an in-depth description of study methodology.

Additionally, for each geography of analysis, the share of records that showed an increase, decrease, and no change in value was calculated. This was performed to assess the prevalence of value changes in a given geography of analysis.

Also, an under/overpayment of property taxes analysis was performed for each geography. This analysis translated appraised values and sales prices to tax bill values in order to determine if homeowners were being unfairly taxed. The first step of this analysis was to translate 2008 appraised value, 2009 appraised value, and sales prices for each record into an estimated tax bill using the millage rate for the geography in which the property is located. For both 2008 and 2009 ap-

praised value, the tax bill based on the appraised value was then subtracted from the tax bill based on the sales price to determine an under or overpayment of taxes. For the 2009 appraised value, this difference represents the actual under/overpayment, whereas for the 2008 appraised value, the difference represents what the over/underpayment would have been if the assessor had not adjusted the appraised value in 2009. For each geography of analysis, an average (mean) of these under/overpayments was calculated to yield the average under/overpayment for that geography. To yield a total overpayment, this average under/overpayment was then multiplied by the total number of owner occupied housing units for that geography (data on owner occupied housing units from Nielsen Claritas Inc.).

Finally, data for several demographic variables were collected for the geographies of analysis to place the results in a socioeconomic context. This demographic data was provided using 2009 data from Nielsen Claritas Inc.

Clayton County: 30296, 30274, 30238

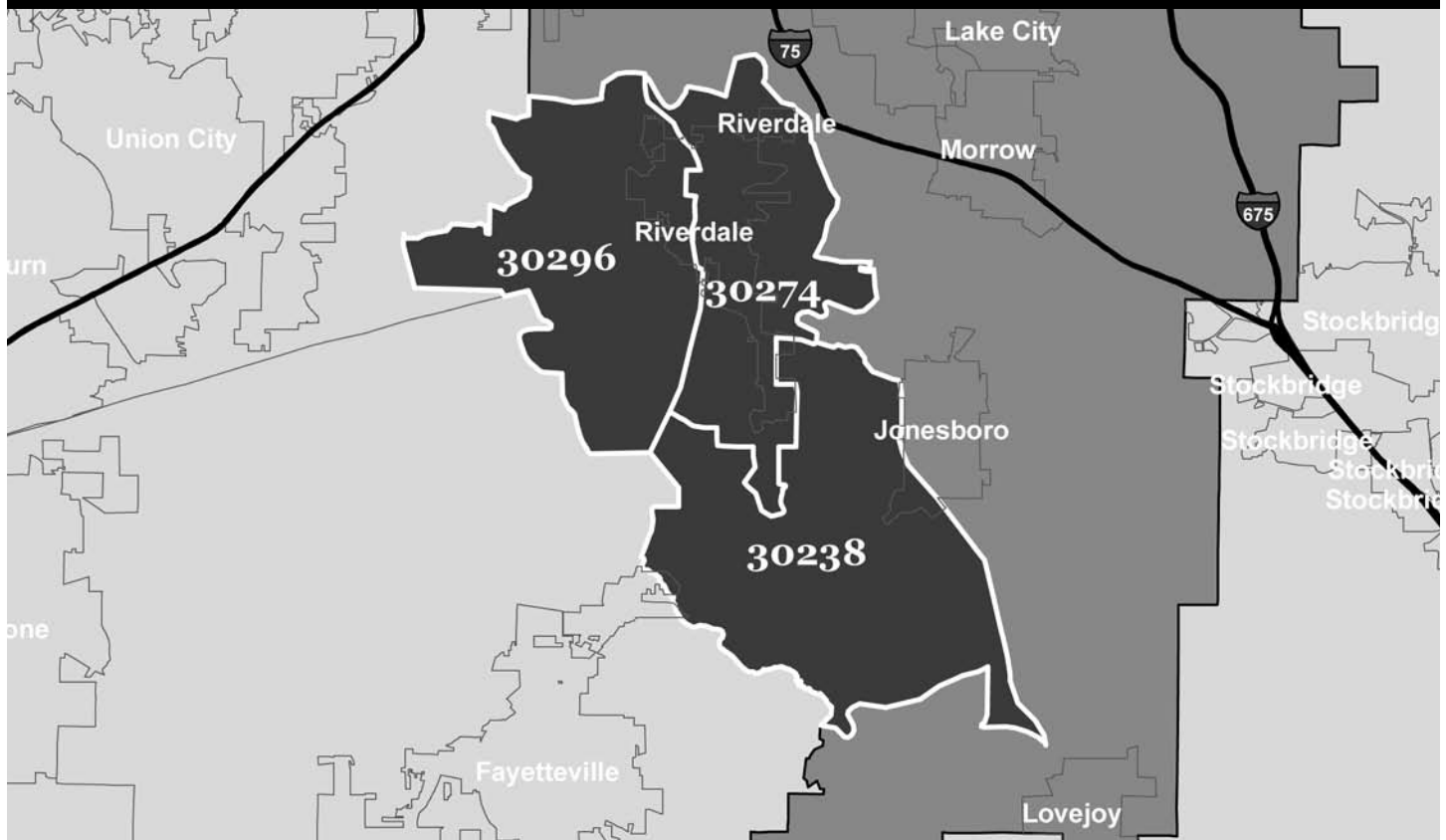


TABLE 1-Summary of Analysis-Based on Homes Sold in the Second Half of 2008

	Difference in Median Sales Price from Median Appraised Value 2008	Average Change in Appraised Value 2008 - 09	Average Over/Under Payment of Property Taxes Based on 2008 values ¹	Average Over/Under Payment of Property Taxes Based on 2009 values	Average Change in Over/Under Payment	Total Over-Payment of Property Taxes Based on 2009 Values	Race (% White)	Median Household Income	% With College Degree
CLAYTON									
High Foreclosure Zip Codes									
30238	-50%	-8%	\$759	\$628	-\$131	\$6,409,294	28%	\$47,453	17%
30274	-57%	-8%	\$844	\$712	-\$132	\$4,829,385	19%	\$40,709	15%
30296	-62%	-10%	\$1,005	\$824	-\$181	\$5,696,349	16%	\$49,819	22%
3 Zip Total	-56%	-8%	\$854	\$709	-\$146	\$16,935,028	22%	\$45,594	18%
Countywide									
Control	-48%	-7%	\$872	\$724	-\$148	\$42,433,958	29%	\$44,586	17%
COBB									
High Foreclosure Zip Codes									
30168	-36%	-15%*	\$539	\$305	-\$234	\$1,483,491	27%	\$42,688	19%
30127	-9%	-3%	\$305	\$237	-\$67	\$4,514,946	61%	\$72,879	29%
30126	-10%	-2%	\$282	\$209	-\$73	\$2,008,396	47%	\$59,193	27%
3 Zip Total	-13%	-5%	\$332	\$239	-\$93	\$8,006,832	50%	\$61,231	26%
Countywide									
Control	-9%	-3%	\$214	\$153	-\$61	\$27,851,244	64%	\$66,187	39%
DEKALB									
High Foreclosure Zip Codes									
30038	-37%	-19%*	\$919	\$391	-\$528	\$4,374,907	11%	\$57,704	31%
30058	-34%	-17%*	\$712	\$391	-\$321	\$5,851,288	10%	\$51,273	29%
30032	-62%	-21%*	\$860	\$513	-\$346	\$5,352,916	9%	\$40,133	14%
3 Zip Total	-43%	-19%*	\$818	\$426	-\$392	\$15,579,111	10%	\$48,737	23%
Countywide									
Control	-18%	-11%	\$523	\$230	-\$293	\$37,746,325	35%	\$54,227	36%

* Represents a statistically significant difference between the average change in appraised value from 2008 to 2009 compared to the control group.

¹ These figures are not actual overpayments but rather reflect projected overpayments had the assessors kept values the same in 2009 as they were in 2008.

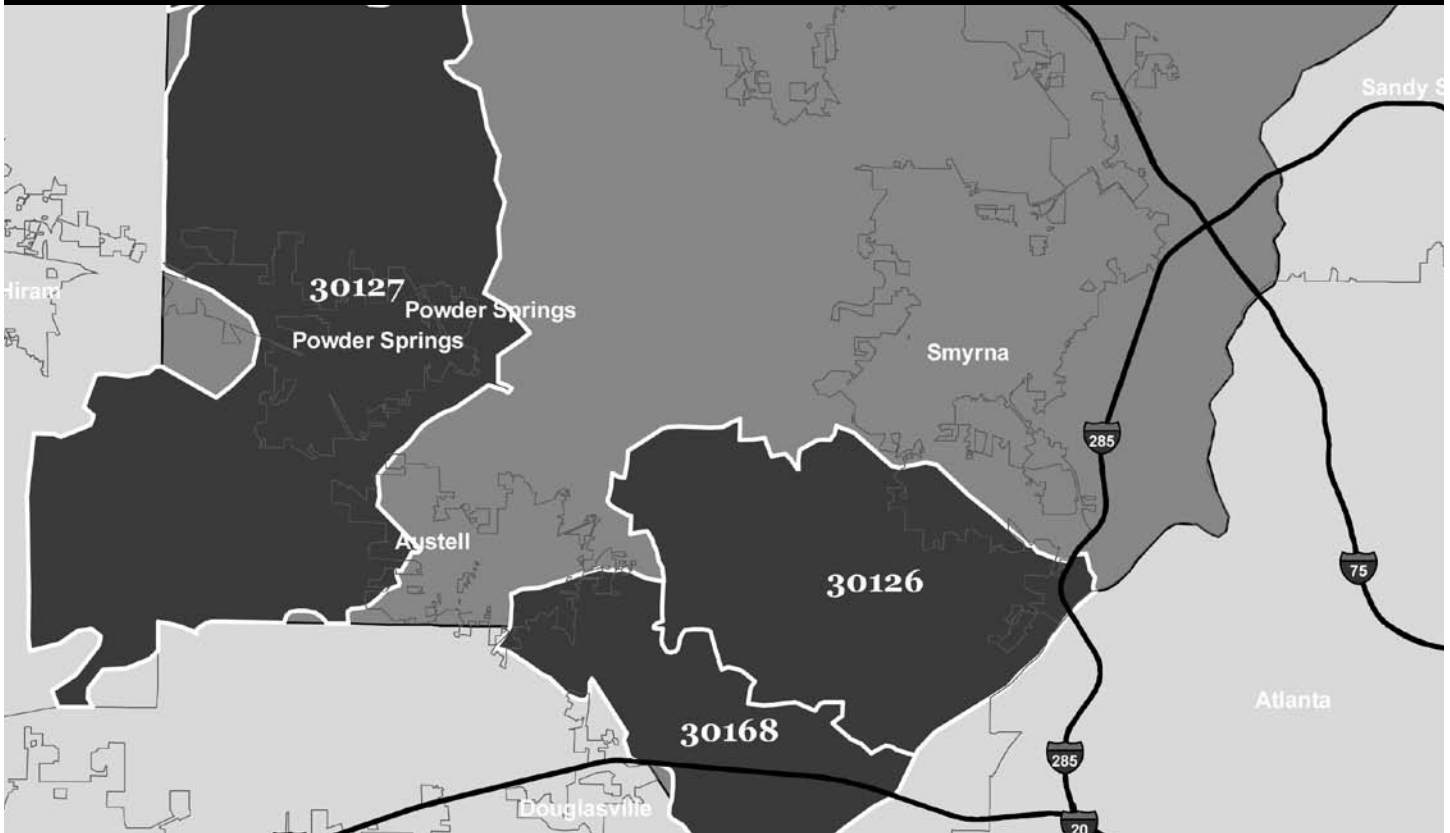
TABLE 1-Continued

	Difference in Median Sales Price from Median Appraised Value 2008	Average Change in Appraised Value 2008 - 09	Average Over/Under Payment of Property Taxes Based on 2008 values ¹	Average Over/Under Payment of Property Taxes Based on 2009 values	Average Change in Over/Under Payment	Total Over-Payment of Property Taxes Based on 2009 Values	Race (% White)	Median Household Income	% With College Degree
FULTON									
High Foreclosure Zip Codes									
30310	-79%	-24%*	\$1,739	\$1,078	-\$661	\$6,162,332	5%	\$29,210	11%
30315	-81%	-17%*	\$1,976	\$1,360	-\$617	\$7,352,189	16%	\$24,171	7%
30331	-50%	-6%	\$967	\$809	-\$157	\$10,455,162	5%	\$47,272	27%
3 Zip Total	-64%	-13%*	\$1,377	\$997	-\$380	\$23,969,683	9%	\$34,138	16%
Countywide									
Control	-31%	-11%	\$507	\$212	-\$294	\$44,518,221	47%	\$59,144	41%
GWINNETT									
High Foreclosure Zip Codes									
30039	-16%	-4%	\$627	\$503	-\$124	\$6,315,110	56%	\$66,068	31%
30045	-10%	-7%	\$549	\$287	-\$262	\$4,551,814	61%	\$58,337	24%
30044	-17%	-4%	\$430	\$328	-\$101	\$6,889,233	47%	\$61,715	34%
3 Zip Total	-14%	-5%	\$518	\$359	-\$159	\$17,756,157	53%	\$61,611	30%
Countywide									
Control	-11%	-4%	\$398	\$231	-\$167	\$47,621,712	59%	\$65,090	34%
TOTAL									
High Foreclosure Zips	-33%	-10%	\$718	\$491	-\$227	\$82,246,812			
Control	-20%	-7%	\$444	\$244	-\$200	\$200,171,460			

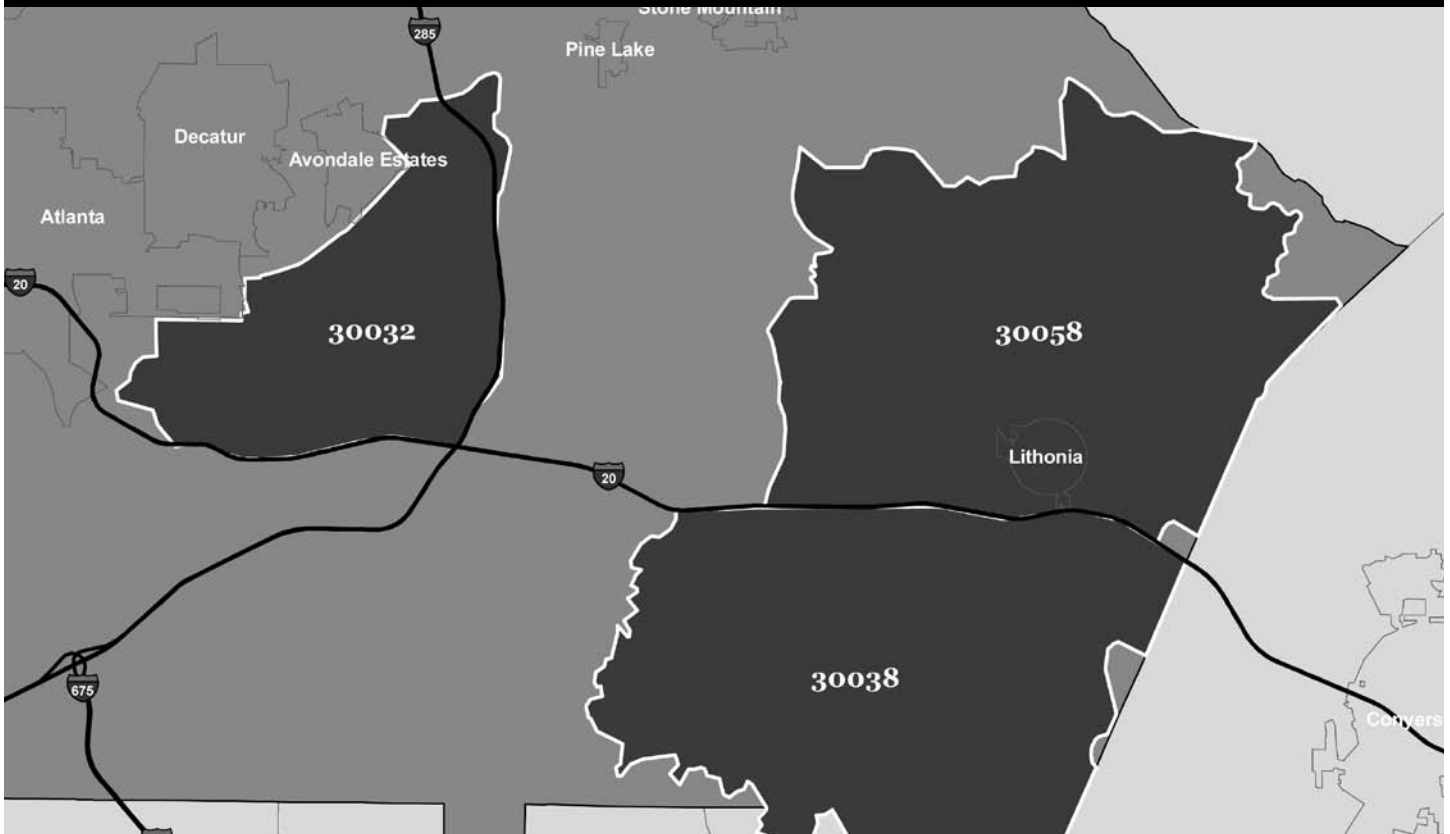
* Represents a statistically significant difference between the average change in appraised value from 2008 to 2009 compared to the control group.

¹ These figures are not actual overpayments but rather reflect projected overpayments had the assessors kept values the same in 2009 as they were in 2008.

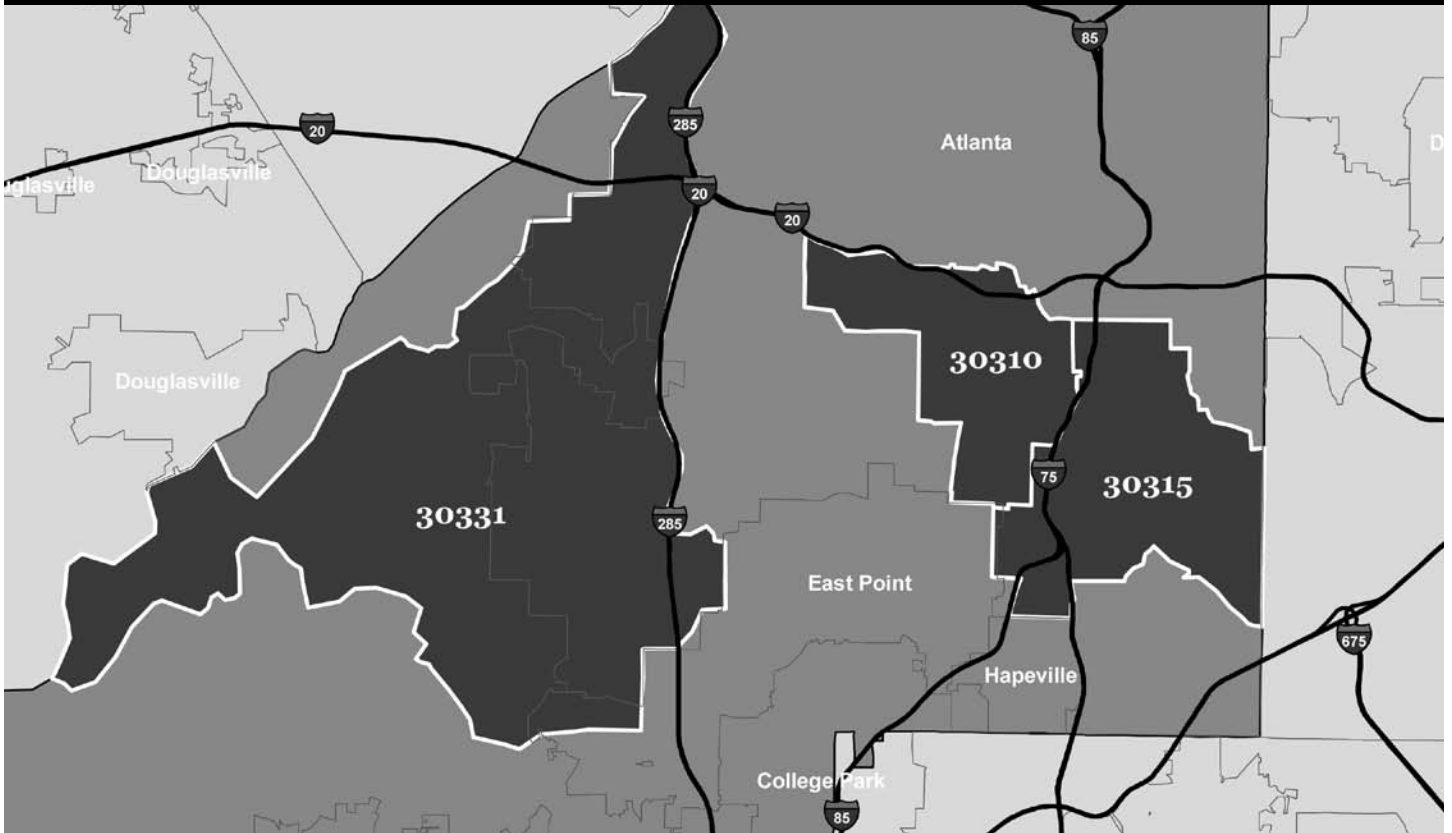
Cobb County: 30126, 30127, 30168



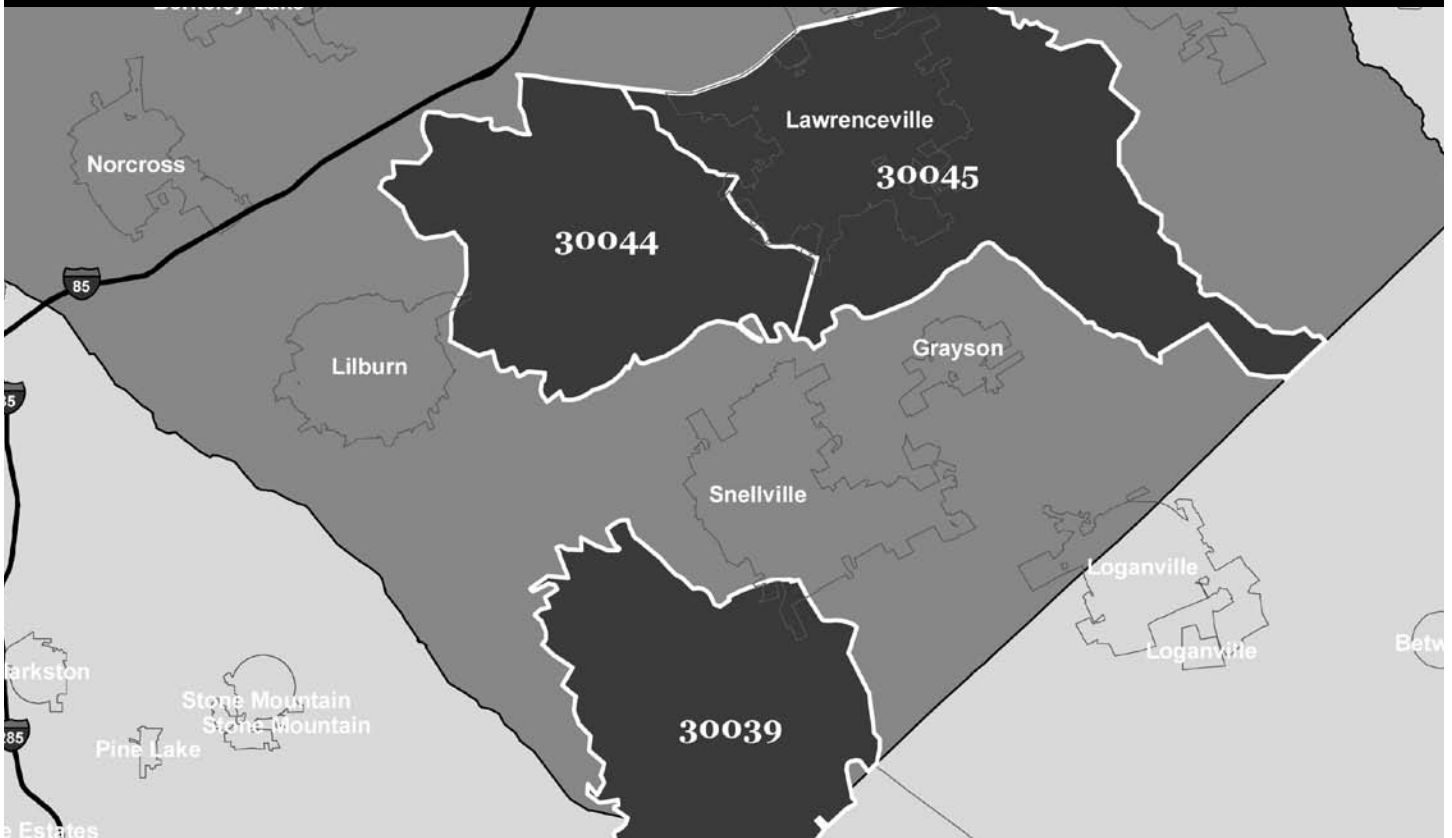
DeKalb County: 30032, 30038, 30058



Fulton County: 30310, 30315, 30331



Gwinnett County: 30039, 30044, 30045





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neighborhood by neighborhood



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