

Revitalization: Who Benefits?

Recently I went to a meeting of two towns, located side by side, that wanted to join in a common revitalization effort. I sat there a while and listened to the discussion. Everyone was hot to revitalize and then someone stood up and said they did not want to revitalize because their rent would go up. The meeting went downhill as the woman went on to say that her taxes would increase and more people in the downtown means that the landlords would want more rent.

I thought that it was a weird comment but then I really started thinking about it. Is it true? Probably partially true, because when an area becomes more vibrant the rents usually go up...but that means you have additional sales and additional sales means more income.

Income is the basis for valuing commercial property. I learned a lot about how properties are valued and how the role of the merchants plays a big part in whether or not a building is valuable. The merchant sales generate an income stream for the merchant and that income stream is capitalized to derive a value.

That is the basis for real estate assessment. Normally residential properties are valued by comparable sales (what the similar house down the street sells for) and commercial properties are valued through the income stream capitalization. Then a millage is charged against the assessed value. It is a little more complex than that but that is the down and dirty.

When revitalization happens in a downtown the buildings that are improved will be reassessed. Then, when these buildings are reassessed, the value of the building will increase and the taxes will most likely increase because of the increased value of the building. I suppose there could be a case where the value goes down but I never have seen that happen.

The interesting part of this discussion is that, the buildings surrounding the buildings that are improved, gain in value and never is reassessed. Basically, if you do nothing to your building, and it is in the between two buildings that have been improved and your building value appreciates the tax burden remains the same unless the owner improves the building or sell it for an appreciated value.

Normally another result of a revitalized commercial strip is that the value of housing that surround the strip increases. This is not really so much so for stand alone strip centers but would relate more to the corridor that encompasses a series of strip centers or a traditional downtown. Again, those values will not go up unless there is a sale or some significant betterment of the property.

I remember the commercial values in downtown Phoenixville almost quadrupling and the residential values increasing to a lesser extent. Still the Borough of Phoenixville did not get a windfall in taxes because if the building next to you is worth \$800,000 and your building has a fair market value of *much, much* less it does not increase in value with the assessment board.

So really, it is a mixed bag about who will benefit. It depends on which end of the equation you are on.

A downtown property owner could charge the higher rent because of the revitalization while not pay his or her fair share of taxes to reflect the increase because there is no reassessment on buildings that are not sold or improved.

A merchant may gain if they were in a long-term lease and they get the benefit of revitalization because their rent is set. In this case, the property owner will gain in appreciation of the value of the property but will not receive the increased benefit of additional rent.

The borough or city will benefit to a limited extent, as the properties that have been revitalized will pay more taxes. The downside of that is that there will be additional services provided because when revitalization occurs the price for making it safe and clean often increases. Those services must be provided to the entire corridor, whether or not the building reflects a change in taxes.

Mixed bag for everyone! So is it even worth revitalizing? I believe it is because the entire community wins. People become proud of their town, local businesses thrive, and the vacancies in the downtown lessen. It is a process...a long process and fixing up the first storefront is a start.

There is no need to fear revitalization...it can only help.