

CITY OF CINCINNATI

RESIDENTIAL TAX ABATEMENT PROGRAM

Evaluating Options for a More Equitable and Competitive Policy

**City Council Presentation:
Equitable Growth and Housing Committee**

June 2022



Agenda

1. Project Introduction
2. Housing Market Analysis
3. RTA Program Analysis
4. Recommendations

ONE

PROJECT
INTRODUCTION



Project Introduction

Housing Market
Analysis

RTA Program Analysis

Recommendations

Project Introduction



PROJECT GOALS

- Understand **opportunities and challenges in the city's housing market** and the city's relative growth since 2010
- Evaluate the **RTA Program's activity** over the past 5 years to understand if the current program structure is **achieving its intended goals**
- Identify an option for a **more targeted program** to foster more equitable outcomes and better align with City goals

Project Introduction

Housing Market
Analysis

RTA Program Analysis

Recommendations

Project Process

1. Housing Market Analysis

Conducted a housing, economic, and demographic analysis to frame recommendations.

2. RTA Program Analysis

Evaluated the RTA Program to understand whether the program is achieving its intended goals and identify gaps.

3. Stakeholder Engagement

Formed an Advisory Committee and facilitated discussions to better understand the local housing market context and receive feedback on the analysis and recommendations.

4. Precedent Research and Tiered Program Recommendations

Reviewed residential tax abatement programs in other peer cities to create data-informed recommendations.

TWO

HOUSING MARKET
ANALYSIS



Over the last decade, **Cincinnati's loss of housing units** is a likely result of the city's aging housing stock and the need to improve existing housing conditions

TODAY:

161,555

Total housing units

60%

of units built **pre-1960**

1951

median **year** home built

15%

of total units are **vacant**

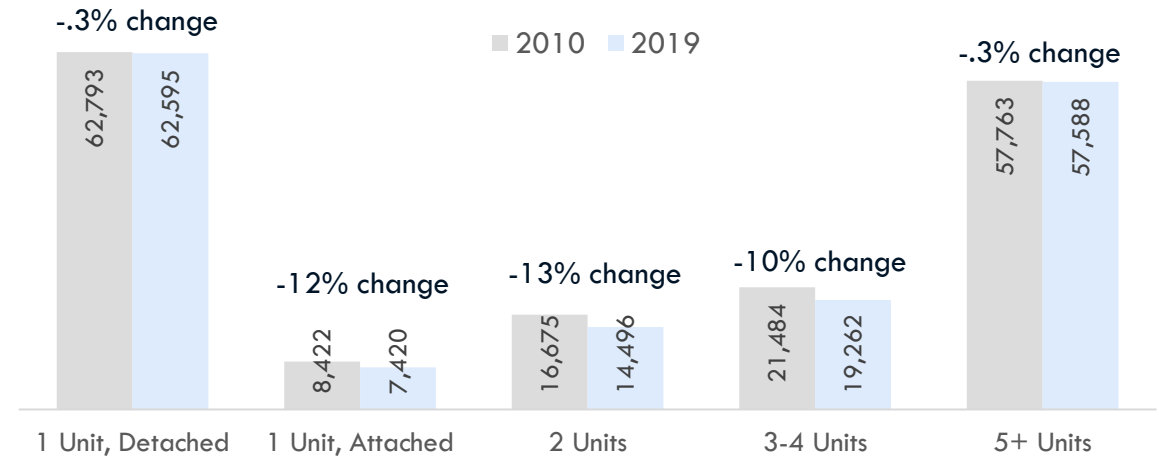
62%

of occupied units are **renter-occupied**

Total housing units in the city decreased 4% since 2010 from 167,515 units in 2010.

The City struggles to offer diverse housing options. Single-family homes dominate the housing market, demonstrating a need for more 2-4 unit housing options.

Change in Housing Stock, 2010-2019



Source: ACS 2019, 5-yr estimates

Cincinnati households are younger with more **nonfamily households** compared to the County and State, influencing the city's housing needs

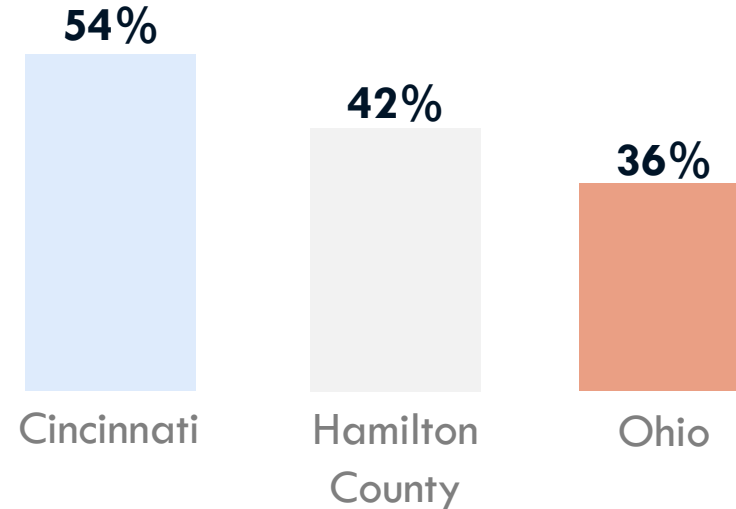
54%

of households are **nonfamily households**, which is high relative to the County and State

63%

of householders are **54 years old or younger**

Share of Nonfamily Households (2019)



HOMEOWNERSHIP

Homeownership rates declined 8% since 2010, with now **38% of households being owner-occupied.**

67%

Of homeowners are **Non-Hispanic White** residents.

32%

Of homeowners are **Non-White** residents.

Source: ACS 2019, 5-yr estimates

Though the average income level has increased in the city with higher resident educational attainment, a significant population of residents still face **affordability challenges with increasing rents and home prices**

24%
Median Rent Increase

Rental supply with rents over \$1,500 saw the largest percentage increase, increasing 159% since 2010-2019

6.4%
Citywide Home Value Increase

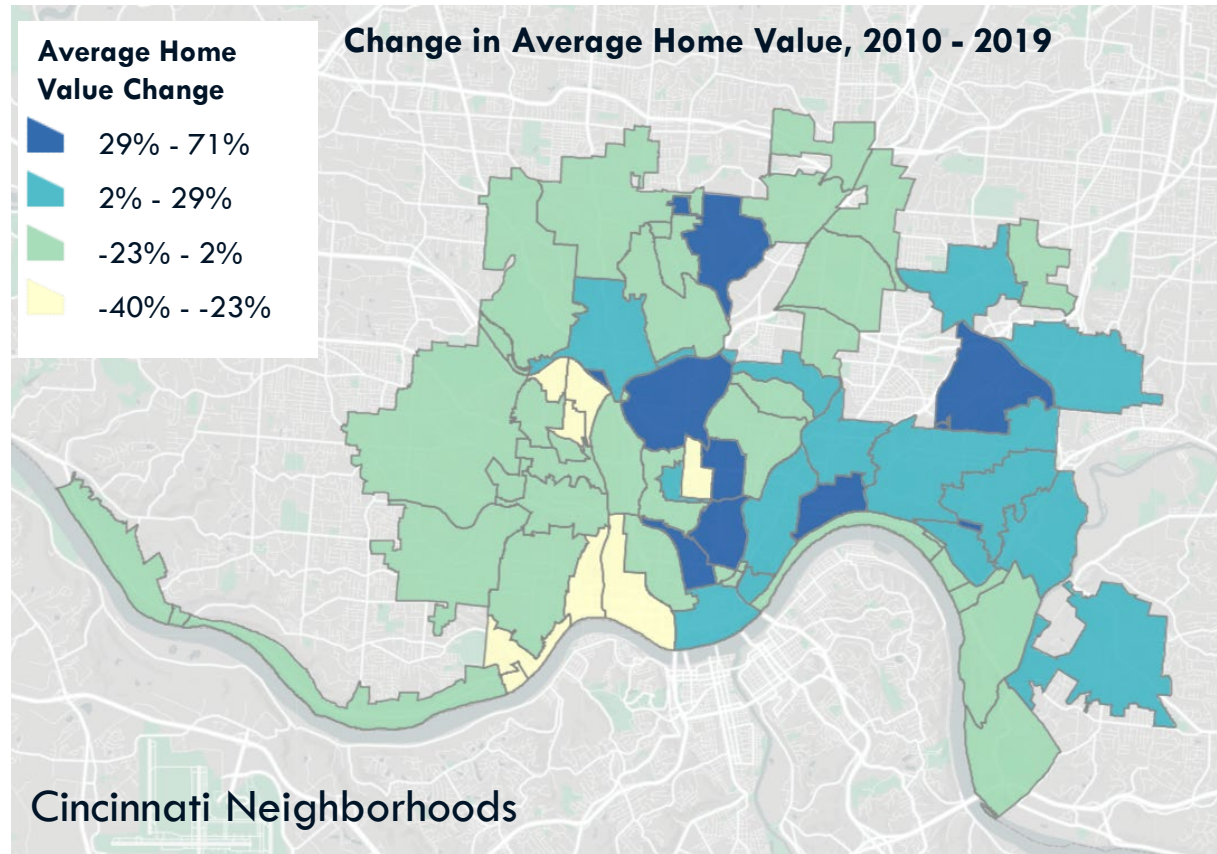
Homes between **\$300K-\$499K saw the largest percentage increase** among other home value ranges. The median home value is \$138,000

51,000 (17%)
Cost-Burdened Residents

38,000 households have a median income of less than \$20K. This group remains the largest group among other income ranges

Source: ACS 2019, 5-yr estimates

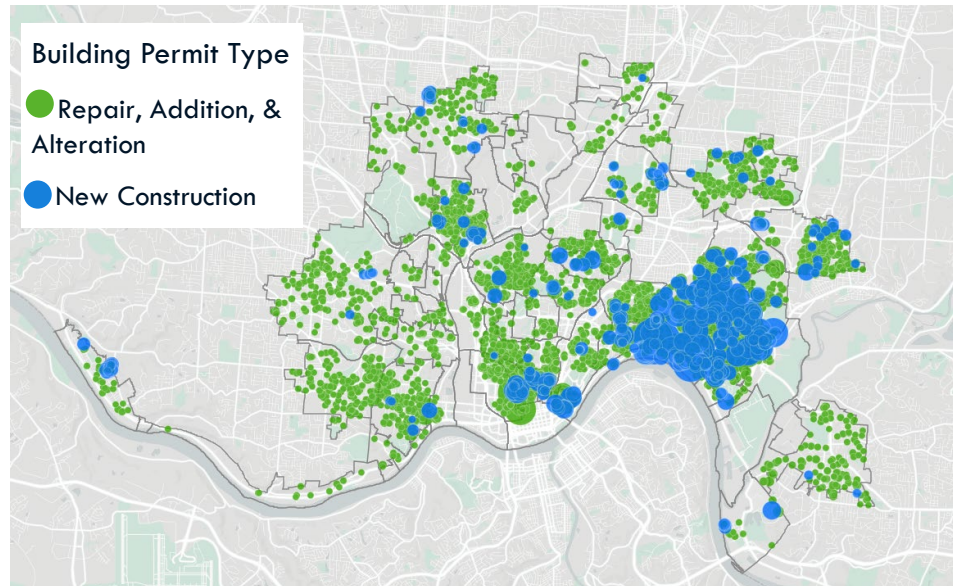
With an overall increase in citywide home values, neighborhoods on the east side of the city have experienced higher **increases in home values** compared to neighborhoods on the west side



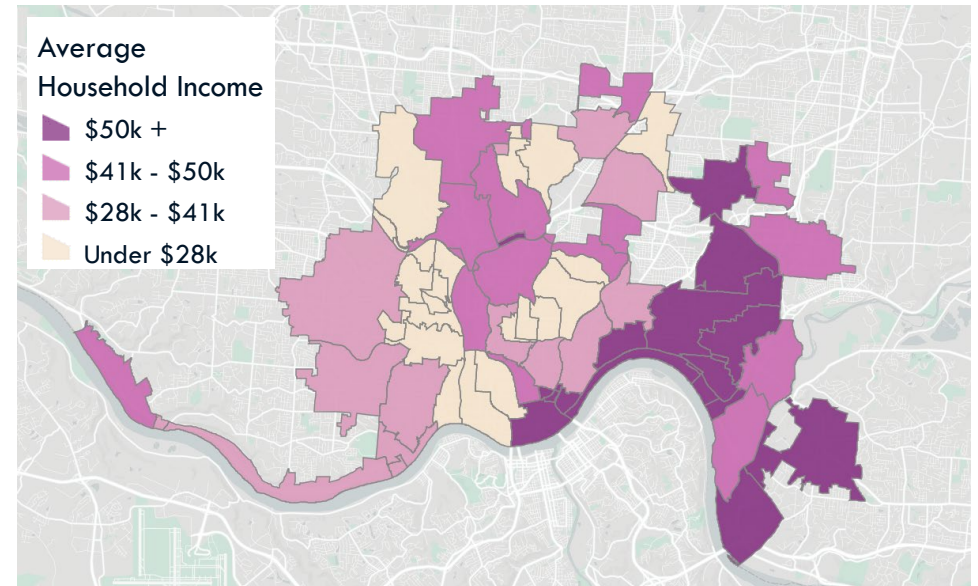
Source: ACS 2019, 5-yr estimates; 2019 census tract data for Lower Price Hill, Queensgate, and Villages at Roll Hill is limited.

Rehab is taking place across the city, though **new construction** is mostly occurring in more high-income neighborhoods on the east side of the city

New Construction v Rehab Building Permits, Issued 2017-2021



Average Income by Neighborhood, 2019



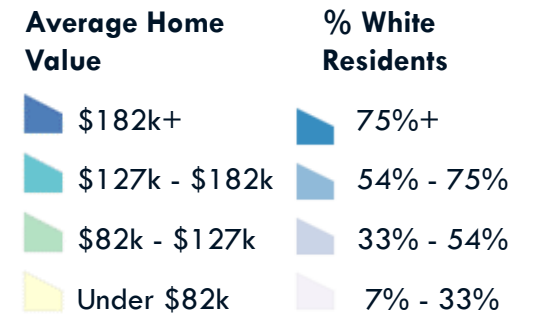
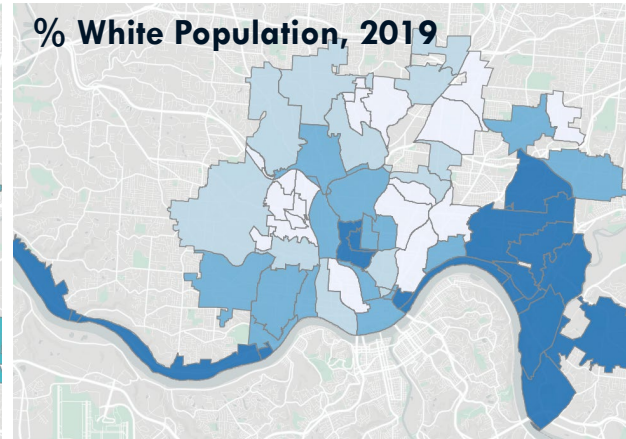
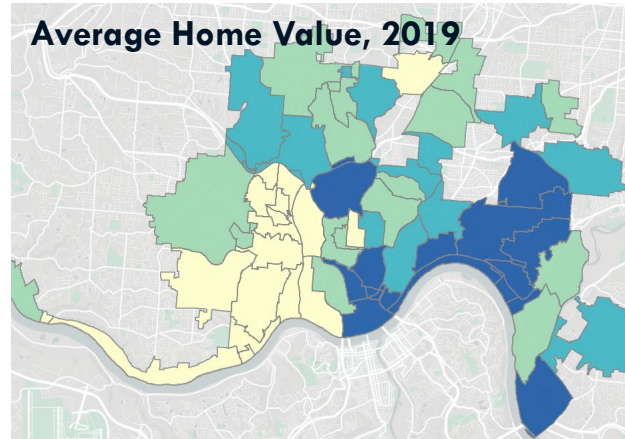
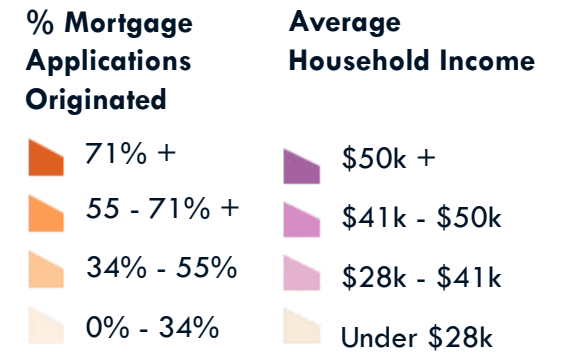
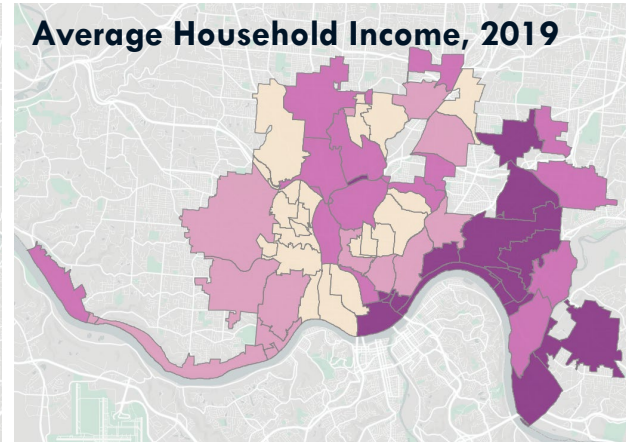
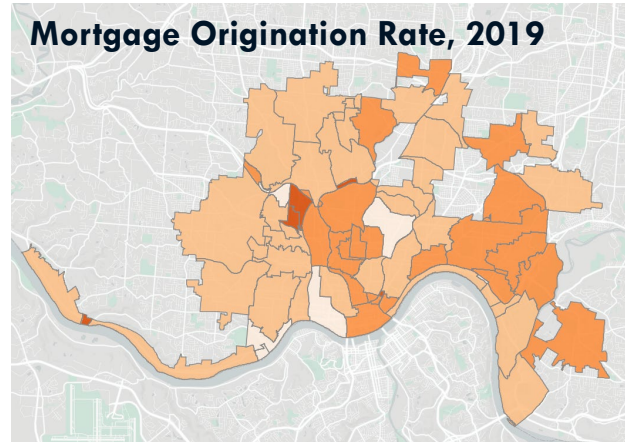
Source: ACS 2019, 5-yr estimates

\$34k Average Rehab/Renovation Improvement Cost

\$311k Average New Construction Improvement Cost

Source: City of Cincinnati Building Permit Data; includes 1–3-unit parcels with building permits completed 2017-2021. Rehab includes Alteration, Repair, and Addition.

Rates of mortgage origination align closely with trends in household income, home value and race across the city demonstrating the neighborhoods experiencing the economic benefits of housing investment



Project Introduction

**Housing Market
Analysis**

RTA Program Analysis

Recommendations

The **Residential Tax Abatement program can influence housing market activity** in Cincinnati, but the **program has limitations**

The housing market analysis shows a strong correlation between income and housing development across Cincinnati's neighborhoods, which also aligns with other racial and economic trends in the city today.

The **City's Residential Tax Abatement (RTA) Program** can be a useful tool to direct some of the housing market investment across the city to more disinvested neighborhoods where incomes or homeownership rates are lower. However, the RTA program is not a tool for income generation, which plays a role in which residents and homeowners can take advantage of the program benefits. As seen in the analysis, higher income neighborhoods have more housing investment due to the ability of homeowners to make those investments.

THREE

RTA PROGRAM ANALYSIS



Through conversations with the City, the **following goals for Cincinnati's Residential Tax Abatement (RTA) program** were identified and used to guide the program analysis



Support **community revitalization and housing development** in neighborhoods that would not see much investment but for the RTA incentive, while also **preserving the rich character** of historic homes in the City.

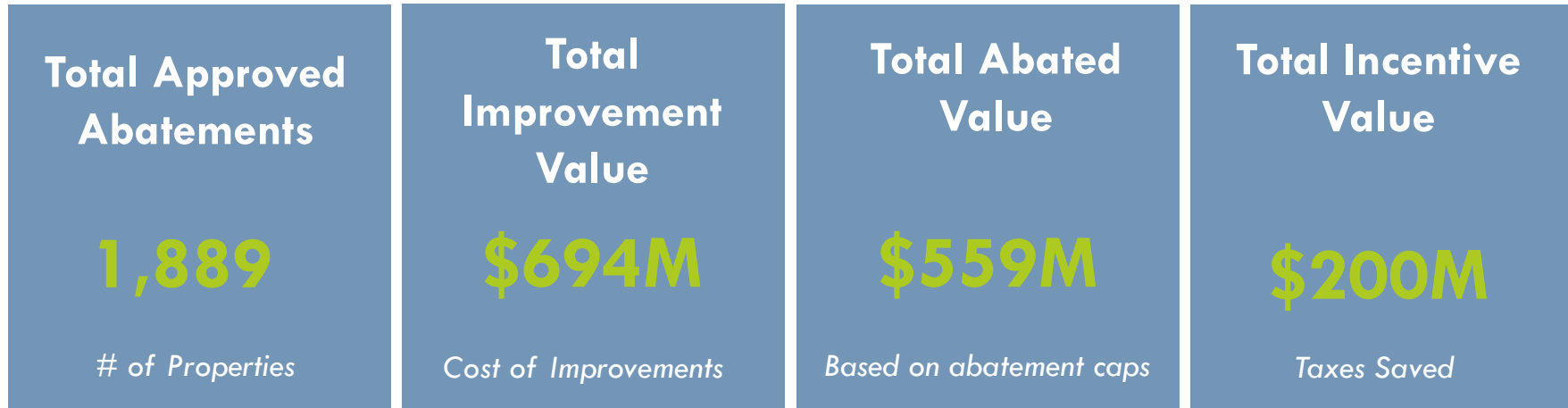


Attract **homeowners** and retain **city residents** through reducing the costs to own a home and **increasing access to homeownership**.



Encourage building and renovation of more **affordable green homes** for all residents and **increase housing accessibility** for people with mobility impairments.

Over the last 5 years, city residents have used the program for rehabs and new construction, **saving on property taxes and improving energy efficiency**



2.2% of all eligible **1-3-unit parcels in the city** applied for and were issued an abatement since 2017



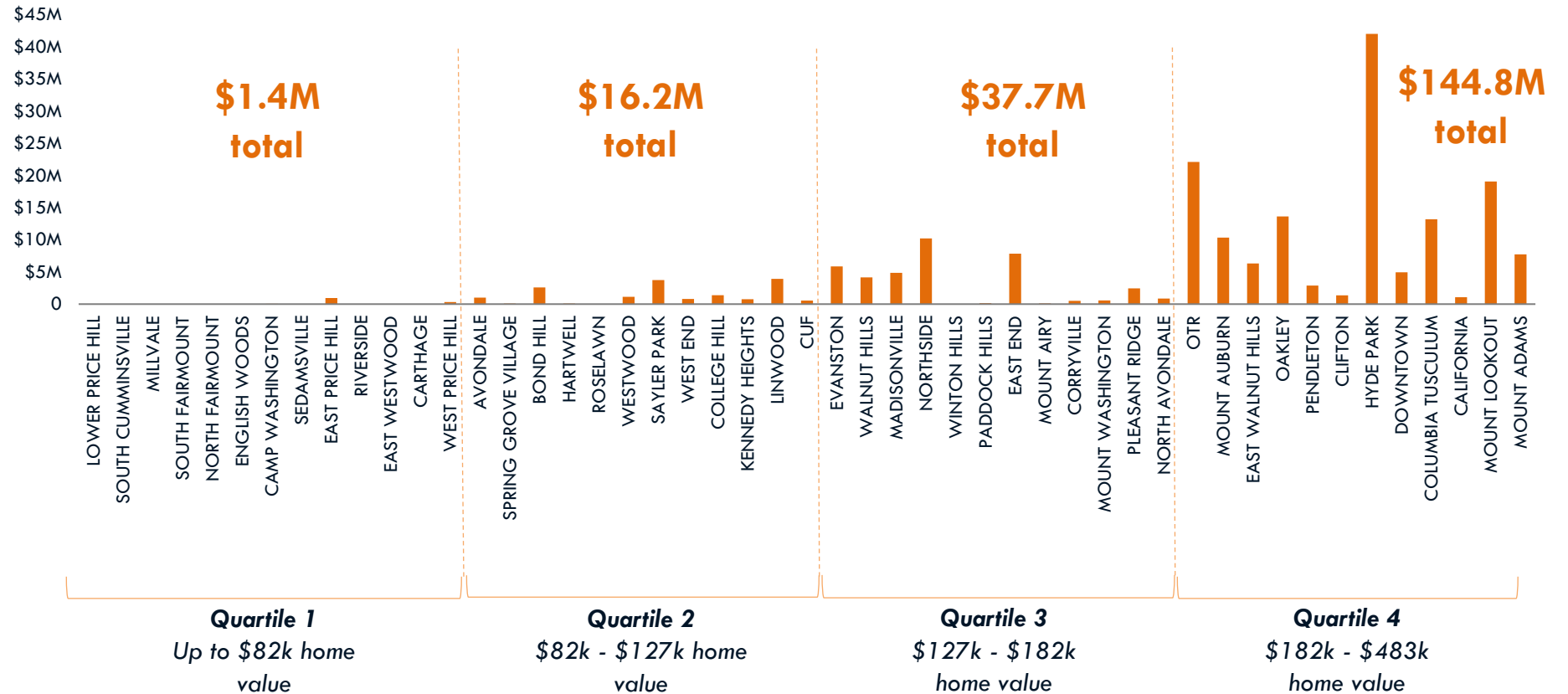
30% of abated properties are **LEED certified** (Certified, Silver, Gold or Platinum).



63% of abatements are **rehab** projects

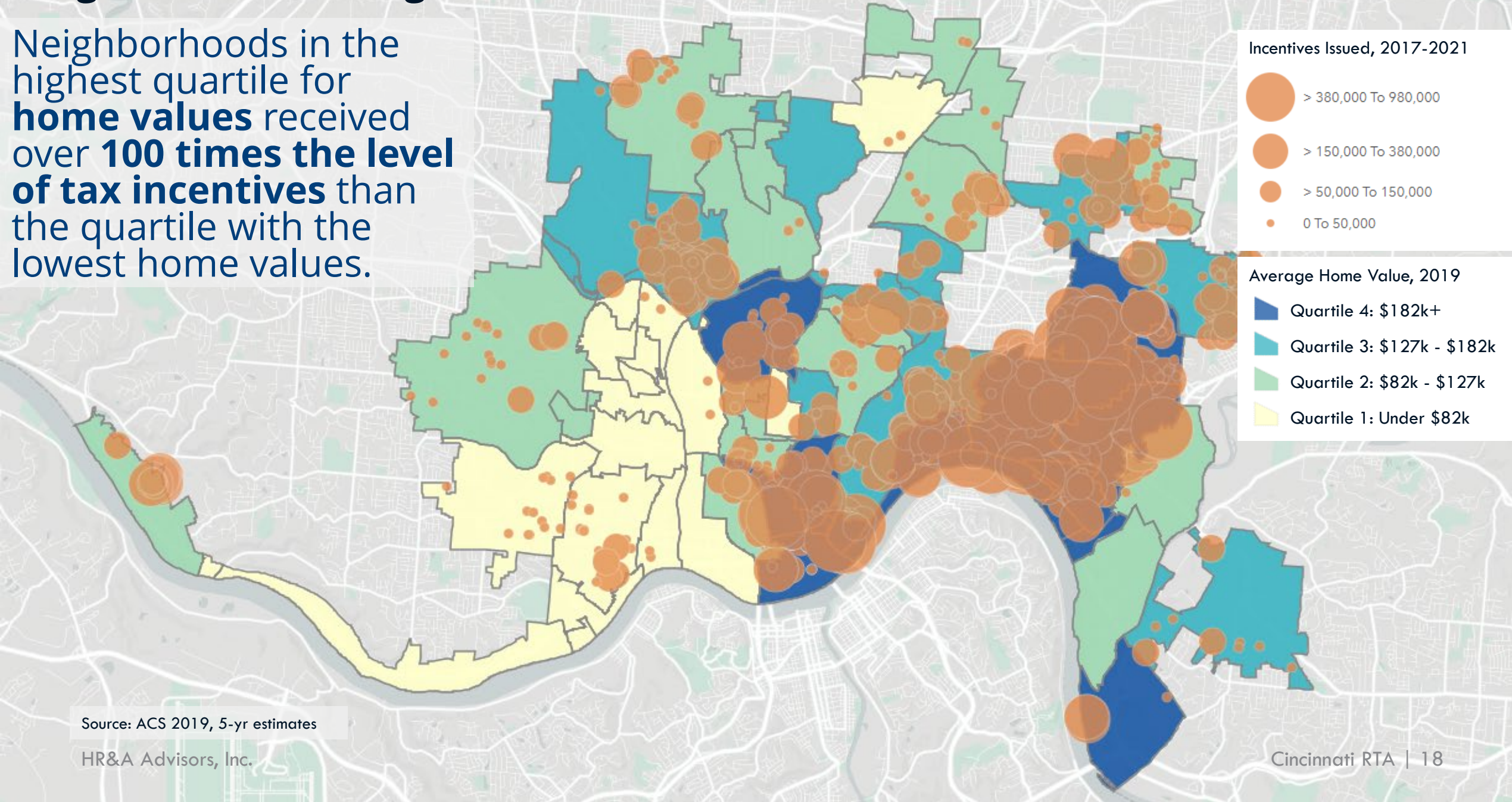
The neighborhoods in the quartile with the **highest home values** received over **100 times** the level of tax incentives than those with the lowest home values and almost four times the level of the third quartile

Total Incentive Issued 2017-2021, by Ascending Neighborhood Home Value



Neighborhood Average Home Value vs. Incentives, 2017-2021

Neighborhoods in the highest quartile for **home values** received over **100 times the level of tax incentives** than the quartile with the lowest home values.

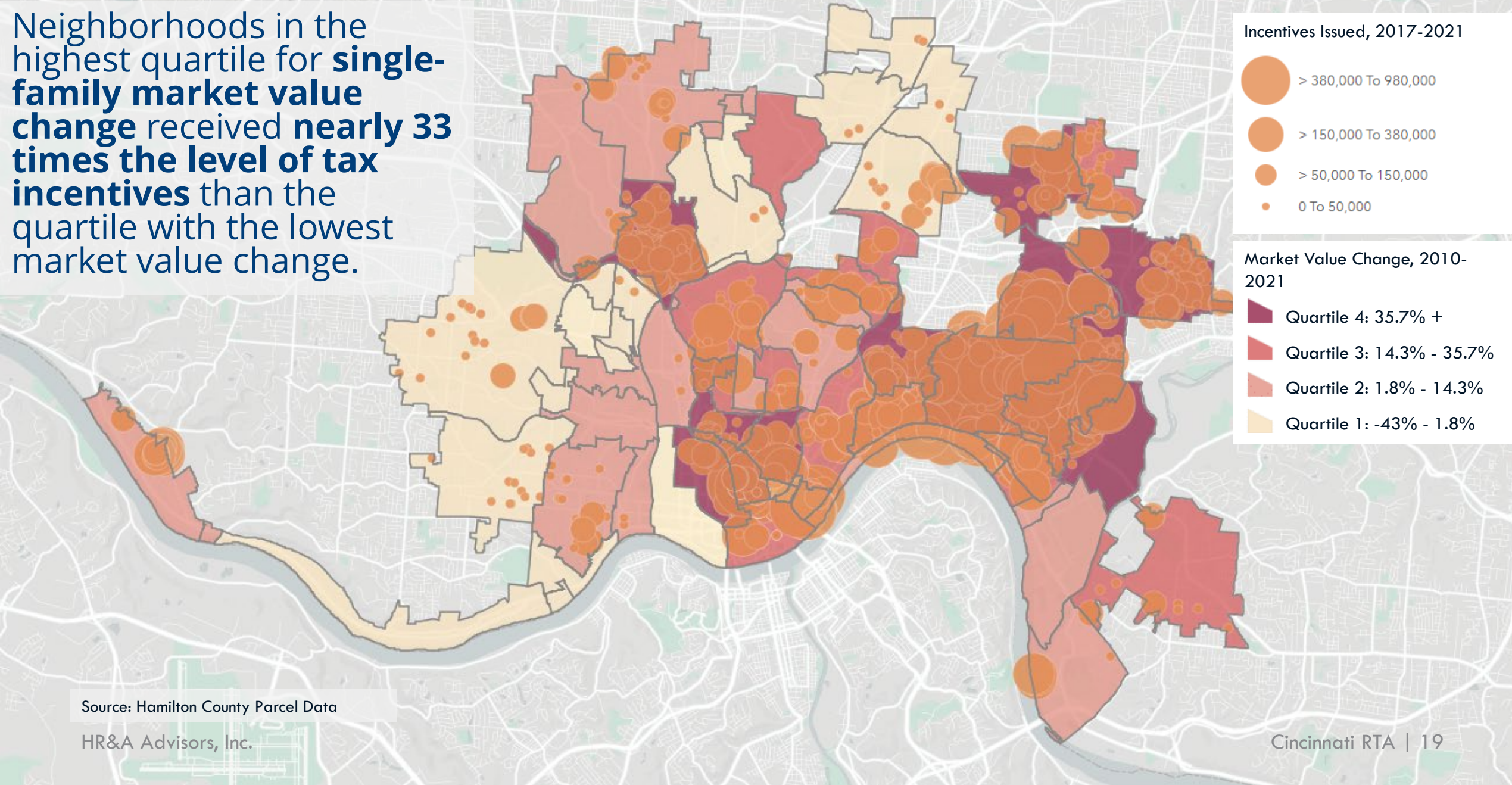


Source: ACS 2019, 5-yr estimates

HR&A Advisors, Inc.

Neighborhood Market Value Change vs. Incentives, 2017-2021

Neighborhoods in the highest quartile for **single-family market value change** received **nearly 33 times the level of tax incentives** than the quartile with the lowest market value change.



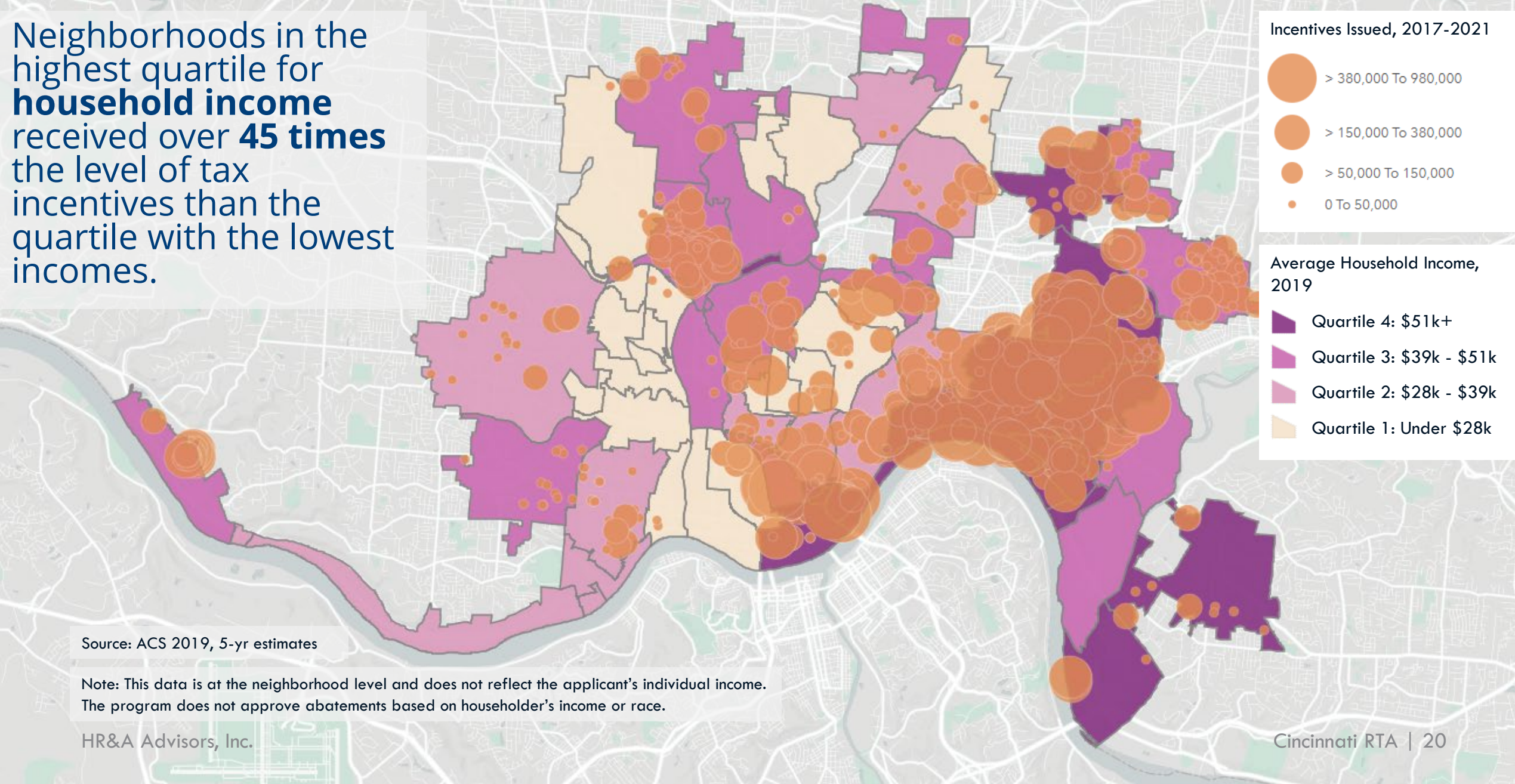
Source: Hamilton County Parcel Data

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Cincinnati RTA | 19

Neighborhood Average Income vs. Incentives, 2017-2021

Neighborhoods in the highest quartile for **household income** received over **45 times** the level of tax incentives than the quartile with the lowest incomes.



Source: ACS 2019, 5-yr estimates

Note: This data is at the neighborhood level and does not reflect the applicant's individual income. The program does not approve abatements based on householder's income or race.

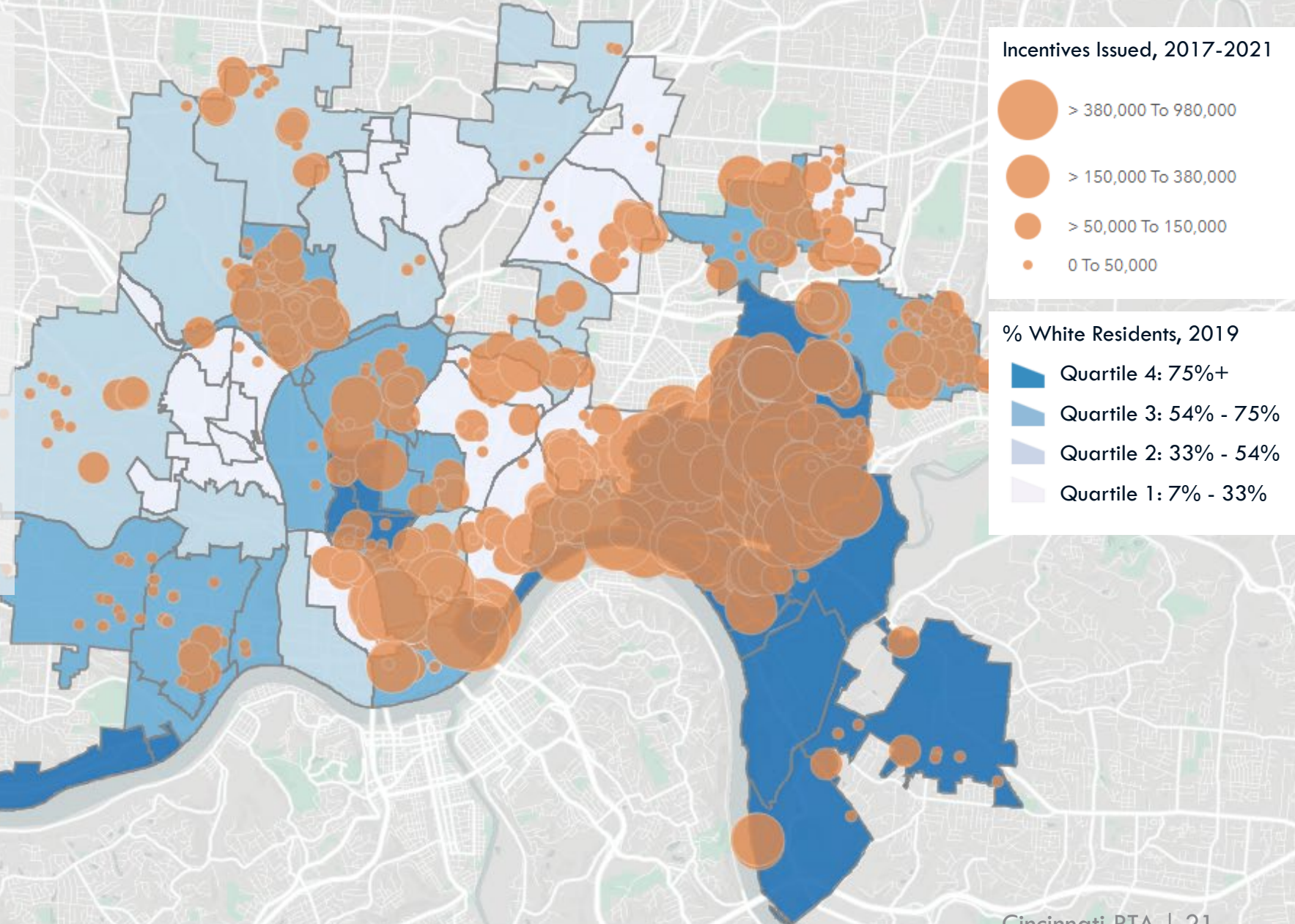
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Neighborhood % White Residents vs. Incentives, 2017-2021

Neighborhoods in the highest quartile for **percentage of white residents** have seen tax incentives **over 7 times** higher than the quartile with the lowest percentage of white residents.

Race data is at the neighborhood level and does not reflect the applicant's individual race. The program does not approve abatements based on a householder's income or race.

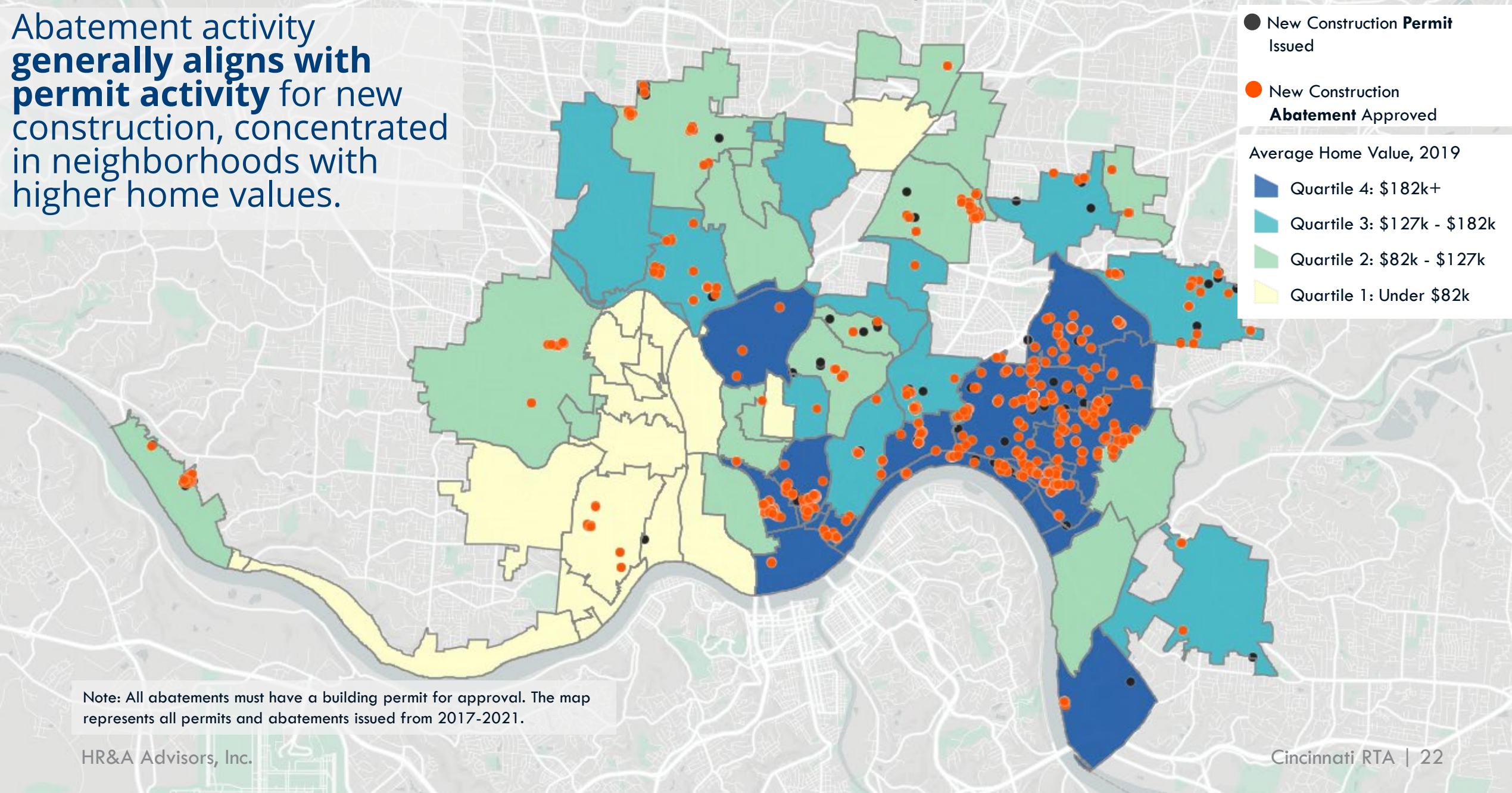


Source: ACS 2019, 5-yr estimates

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New Construction Permit vs. Abatement Activity, 2017-2021

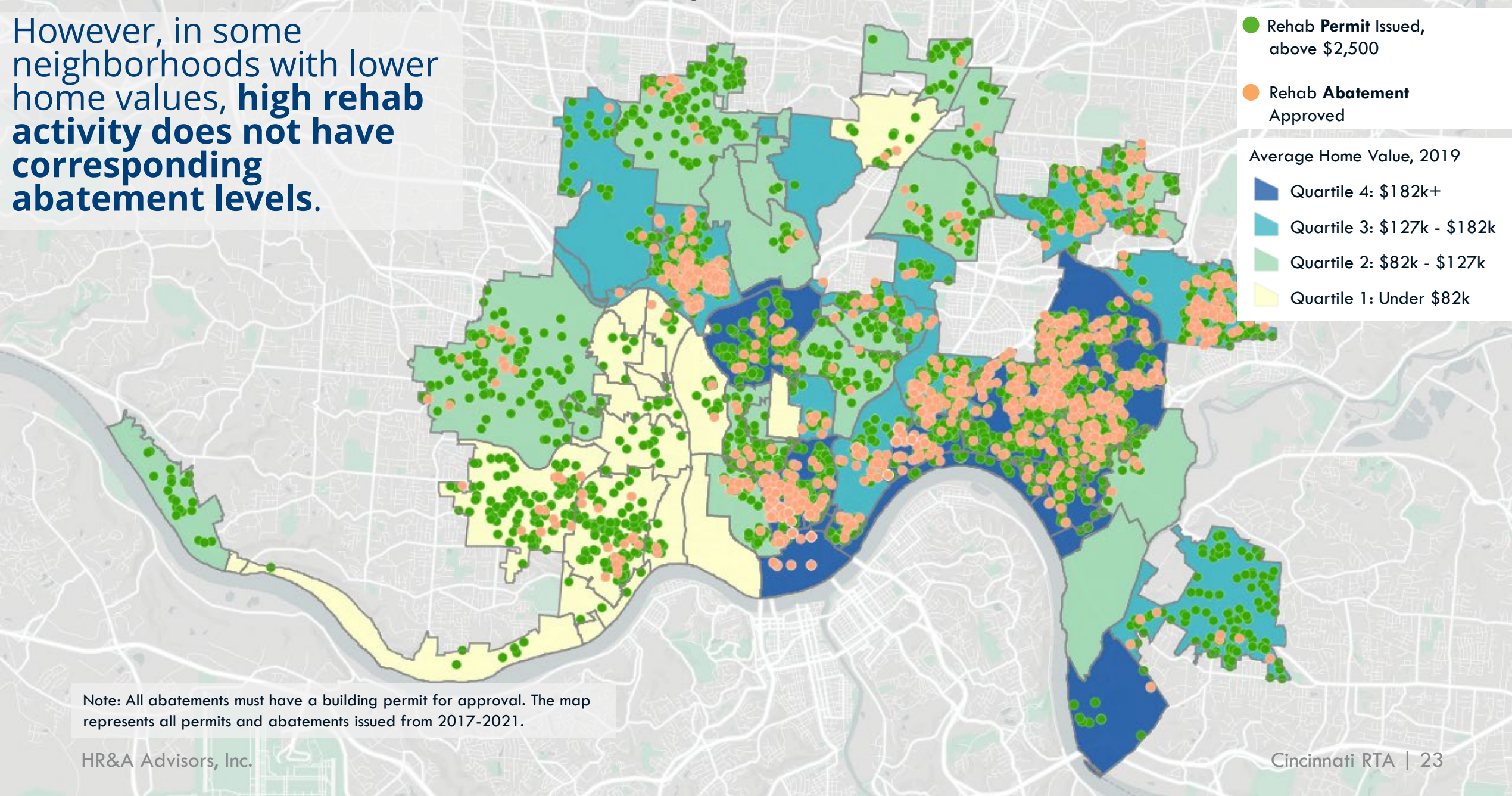
Abatement activity **generally aligns with permit activity** for new construction, concentrated in neighborhoods with higher home values.



Note: All abatements must have a building permit for approval. The map represents all permits and abatements issued from 2017-2021.

Rehab Permit vs. Abatement Activity, 2017-2021

However, in some neighborhoods with lower home values, **high rehab activity does not have corresponding abatement levels.**



Note: All abatements must have a building permit for approval. The map represents all permits and abatements issued from 2017-2021.

Project Introduction

Housing Market
Analysis

RTA Program Analysis

Recommendations

The program evaluation suggests that abatement activity is closely tied to neighborhoods in the city with **more active housing markets or experiencing market change**



Support **community revitalization and housing development** in neighborhoods that would not see much investment but for the incentive, while also **preserving the rich character** of historic homes in the City.

- **Program activity is closely tied to home value trends.** Neighborhoods with higher home values are seeing the highest abatement activity, due to both demand from high income residents and financial feasibility for developers.
- **A few “outlier” neighborhoods suggest that external market conditions also drive abatement activity.** The RTA program may only be incentivizing community revitalization and housing development in low- and middle-income neighborhoods that are in the **middle of market changes** and where developers see more opportunity.
- Development and subsequent abatements in neighborhoods with the lowest home values and market change often **require Community Development Corporation (CDC) activity and additional subsidy but does support new homeownership for lower income residents.**

There should be more of a focus on what **types of households** are able to take advantage of the program's incentives



Attract **homeowners** and retain **city residents** through reducing the costs to own a home and **increasing access to homeownership**.

- **Program activity is closely tied with higher incomes.** More new construction abatements are happening in the highest income neighborhoods, suggesting these neighborhoods are attracting homeowners that can afford the higher home prices or can make the housing investment needed to benefit from the program.
- **Middle-income neighborhoods are not seeing new construction and abatement activity even close to that of the highest income neighborhoods.** Attracting housing development and thus new homeowners is more concentrated in the highest income neighborhoods.
- **In lower income neighborhoods, lower rates of homeownership automatically reduces who is even “eligible” to participate in the program.** Given that, the first step in these neighborhoods is providing more access to homeownership and possibly retaining these residents through reducing costs for homebuyers.

Project Introduction

Housing Market
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RTA Program Analysis

Recommendations

The program has an opportunity to **encourage higher levels of green building** in the city's neighborhoods for rehab projects



Encourage building and renovation of more **affordable green homes** for all residents and **increase housing accessibility** for people with mobility impairments.

- **Current LEED incentives are encouraging green building** in the city's neighborhoods, but primarily for new construction. 71% of new construction projects are LEED certified.
- However, green building incentives are not widely used for rehab projects in the RTA program. **Only 6% of rehab projects are LEED certified and just 3 rehab projects used HERS.** An alternative incentive may be necessary to encourage more green renovation.

FOUR

RECOMMENDATIONS



The **current program structure** includes standard incentives citywide and places an emphasis on rehab and LEED certified projects

Current Citywide Program Terms & Lengths

	Abatement Term Length	Abatement Max Cap*
Remodeling		
Non-LEED	12 years	\$200,000
HERS Qualified	15 years	\$300,000
LEED Silver	15 years	\$500,000
LEED Gold or LBC Net Zero	15 years	\$650,000
LEED Platinum or LBC Full or LBC Petal	15 years	\$800,000
New Construction		
Non-LEED	10 years	\$200,000
LEED Silver	15 years	\$400,000
LEED Gold or LBC Net Zero	15 years	\$500,000
LEED Platinum or LBC Full or LBC Petal	15 years	\$650,000

If the Residential Improvement is certified to the Cincinnati Visitability and Universal Design Standards or is a Historic Restoration, then the maximum market improvement value is increased by \$100,000 per criteria met.

Benefits of Current Program

- Incentivizes rehab to preserve the city’s historic building character
- Incentives LEED building to develop more energy friendly homes

Risks of Current Program

- Allows projects up to \$900K
- No consideration for redistributing housing development to all neighborhoods across the city and neighborhoods with the most need

Following the lead of many other cities, **Cincinnati has an opportunity to create a more equitable RTA program** that aligns with the City's housing goals and needs

GOALS OF A TIERED PROGRAM:

As seen through the Housing Market Analysis, Cincinnati of 2010 is not the same as Cincinnati today and the structure of the City's Residential Tax Abatement Program (RTA) should reflect this through a tiered program.

- ✓ Creates a **more equitable approach to the level of incentives** that are provided to neighborhoods, focusing on neighborhoods that would not otherwise see investment “but for” the incentives of the program
- ✓ Allows the program to be **flexible in advancing other City housing goals** such as maintaining housing affordability, preserving historic character, creating mixed-income neighborhoods and building more LEED and accessible homes
- ✓ Provides a **mechanism to measure neighborhood growth and development** and **purposefully deploy the program in transitioning neighborhoods** to achieve the city's core policy goals.

Other cities with residential tax abatement programs are **aligning their program structures and policy approaches** with their **respective housing needs and goals**

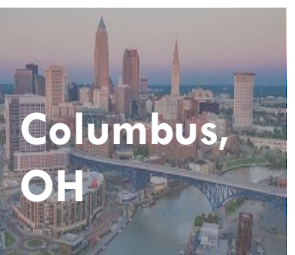
National



Regional



State



Reviewed the following:

- ✓ Abatement term lengths
- ✓ Abatement caps
- ✓ Neighborhood scoring criteria
- ✓ Geographic designations
- ✓ Tier structure
- ✓ Other program requirements

Two options for a tiered system were considered to effectively advance the City's program goals



Option 1
2-Tiered program



Option 2
3-Tiered Program

BOTH OPTIONS ACHIEVE THE FOLLOWING:

- Reduce incentives in neighborhoods that need less of an incentive
- Increase non-LEED base caps for lower income neighborhoods to allow for larger incentives
- Incentivize rehab over new construction to preserve neighborhood character
- Lower overall abatement maximum caps to align with actual construction activity
- Maintain LEED enhancements to encourage more green building
- Use abatement term lengths as the lever for incentive levels to maintain abatement caps that are consistent with housing activity in the city

Project Introduction

Housing Market
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RTA Program Analysis

Recommendations

Recommended Option



3-Tiered Program

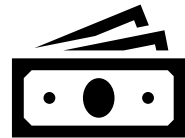
- Accounts for the **major differences in market activity between “High-Score” and “Low-Score”** neighborhoods
- Creates a **phased approach and allows the City to evaluate the growth of neighborhoods over time**, looking at how neighborhoods shift between the three tiers to inform future housing policy goals
- Accounts for if a **“High-Score” neighborhood shifts down** to the “Mid-Score” tier, it will not receive the full incentives of the program but will still be a focus for investment
- **Creates a buffer** to control for the resulting impacts of shifting investment from the highest income neighborhoods to lower and middle-income neighborhoods
- Including the “Mid-Score” tier allows for the program to consider how **gentrification and residential displacement is playing out** in these neighborhoods that are at the tipping point or are already seeing major market changes

Using the housing market analysis and precedent research, **six scoring criteria** were identified to define the **neighborhood levels** that will align with the program tiers

PROPOSED SCORING CRITERIA FOR CINCINNATI RTA PROGRAM:

Households

Identifies neighborhoods with higher household incomes and lower rates of poverty



Income



Poverty Rate

Homes

Identifies neighborhoods with the highest home values and rates of mortgage approval



Home Value



Mortgage Approvals

Development

Identifies neighborhoods experiencing external development pressures from new development and fast market changes



Single-Family Market Change



New Construction

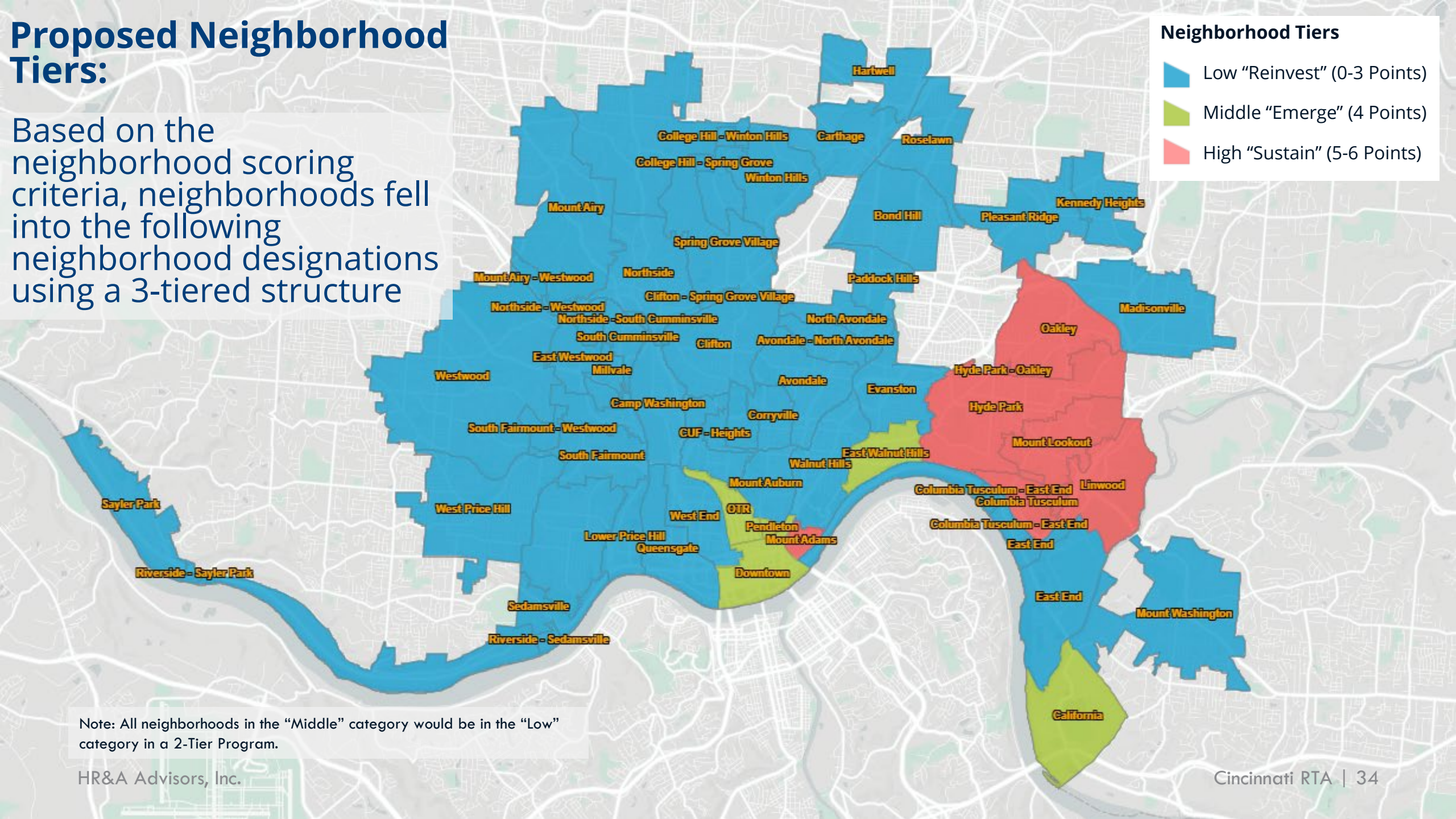
Neighborhoods were scored on a scale of 0-6, with a 6 indicating the lowest need for incentives to encourage development and a 0 indicating neighborhoods with the highest need for incentives.

Proposed Neighborhood Tiers:

Based on the neighborhood scoring criteria, neighborhoods fell into the following neighborhood designations using a 3-tiered structure

Neighborhood Tiers

- Low "Reinvest" (0-3 Points)
- Middle "Emerge" (4 Points)
- High "Sustain" (5-6 Points)



Note: All neighborhoods in the "Middle" category would be in the "Low" category in a 2-Tier Program.

The recommended structure takes a different approach to each neighborhood tier to achieve the intended goals and outcomes for the RTA program

“LOW-SCORE” Recommendation Approach

- **Maximize program ability to support investment into these neighborhoods**, while also recognizing other supports are needed to make development more feasible for developers in the “Low-Score” neighborhoods
- Reduce maximum abatement caps to align with construction activity across the city to foster mixed-income neighborhoods
- Still incentivize rehab and LEED projects to encourage rehabilitation of old homes and build more green homes in the city’s most disinvested neighborhoods

“MID-SCORE” Recommendation Approach

- **Continue to drive investment into these neighborhoods that are seeing rapid development**, in order to balance investment and impacts to legacy residents from increased market pressures
- Increase the emphasis on rehab projects in these neighborhoods, while still allowing for some new construction
- Create a buffer between the incentive levels between “Low-Score” and “High-Score” geographies as neighborhoods shift across tiers

“HIGH-SCORE” Recommendation Approach

- **Reduce overall incentives for “High-Score” neighborhoods where development is already happening, in order to redistribute housing investment and property tax burden** across a broader range of neighborhoods in the city, as well as **safeguard efficient and effective use of public resources for incentivizing investment**
- Emphasize incentive reductions in new construction while still allowing more incentives for rehab and LEED projects
- Maintain some incentives to continue attracting new residents and remain competitive with surrounding localities

Compared to the current program, a 3-tiered program structure will reduce incentives in “High-Score” neighborhoods and account for neighborhoods experiencing market changes

“LOW-SCORE”	Abatement Term Length	Abatement Max Cap*
Remodeling		
Non-LEED	15 years ↑	\$350,000 ↑
HERS+LEED	15 years	\$550,000 ↓
New Construction		
Non-LEED	15 years ↑	\$300,000 ↑
LEED	15 years	\$500,000 ↓
“MID-SCORE”	Abatement Term Length	Abatement Max Cap*
Remodeling		
Non-LEED	12 years ↓	\$350,000 ↑
HERS+LEED	12 years ↓	\$550,000 ↓
New Construction		
Non-LEED	10 years ↓	\$300,000 ↑
LEED	10 years ↓	\$500,000 ↓
“HIGH-SCORE”	Abatement Term Length	Abatement Max Cap*
Remodeling		
Non-LEED	8 years ↓	\$200,000
HERS+LEED Silver	8 years ↓	\$400,000
LEED Gold + Platinum	8 years ↓	\$550,000 ↓
New Construction		
Non-LEED	5 years ↓	\$200,000
LEED Silver	7 years ↓	\$400,000
LEED Gold + Platinum	8 years ↓	\$500,000 ↓

Approach:

- ✓ Maximizes program ability to support shifting development into these neighborhoods, while recognizing other supports are needed to make development in the low-score neighborhoods more feasible

Approach:

- ✓ Still driving investment in these neighborhoods but controls for neighborhoods that are seeing rapid development and impacting legacy residents

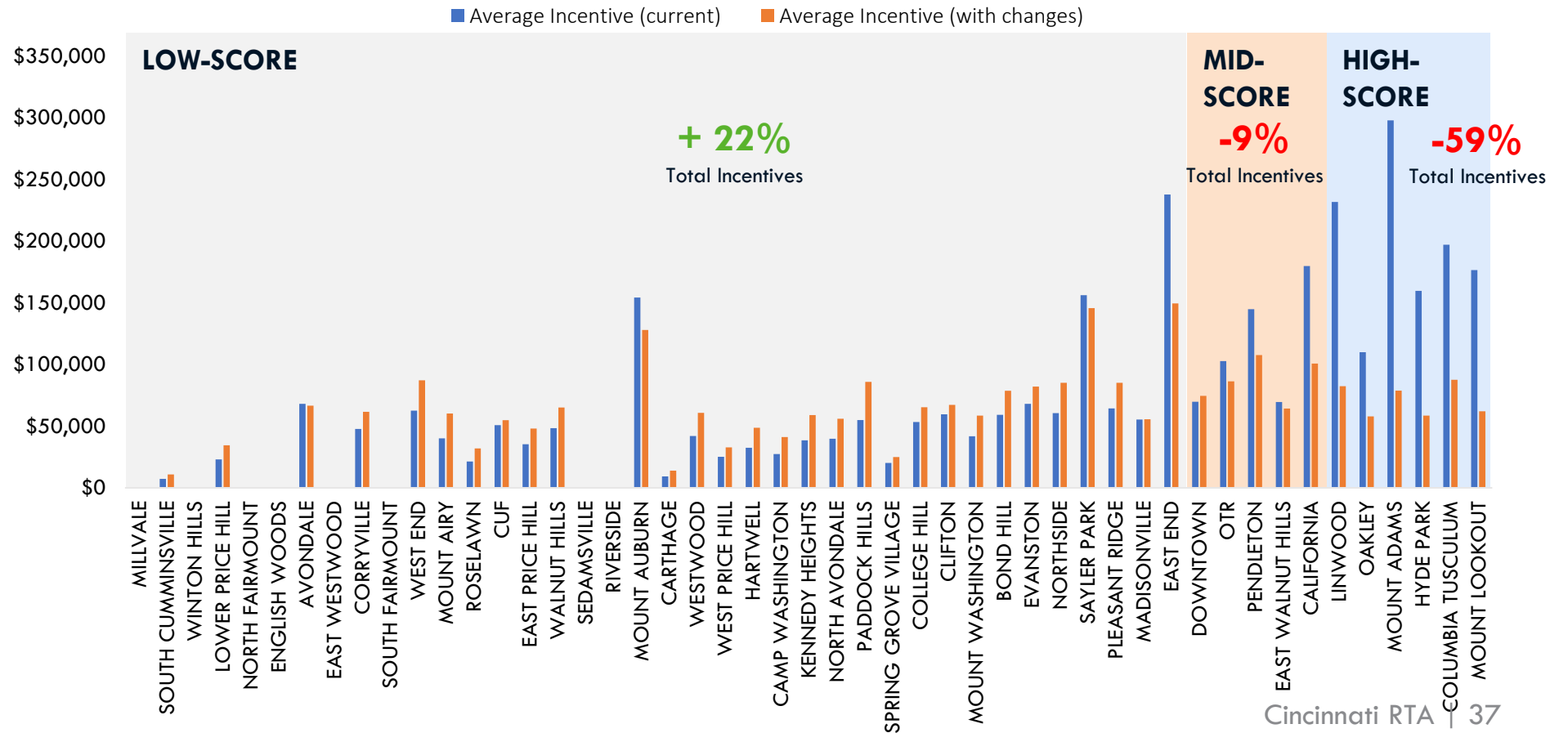
Approach

- ✓ Reduces overall incentives for high score neighborhoods, while still remaining a tool to attract residents

Arrows represent decreases and increases to the terms and caps of the 2022 RTA program. No arrows means, no change.

The recommended structure will reduce average incentives in “High-Score” neighborhoods while also slightly reducing average incentives in “Mid-Score” neighborhoods to drive moderate investment

Average Incentive Issued per Abatement, Current vs. Future Changes

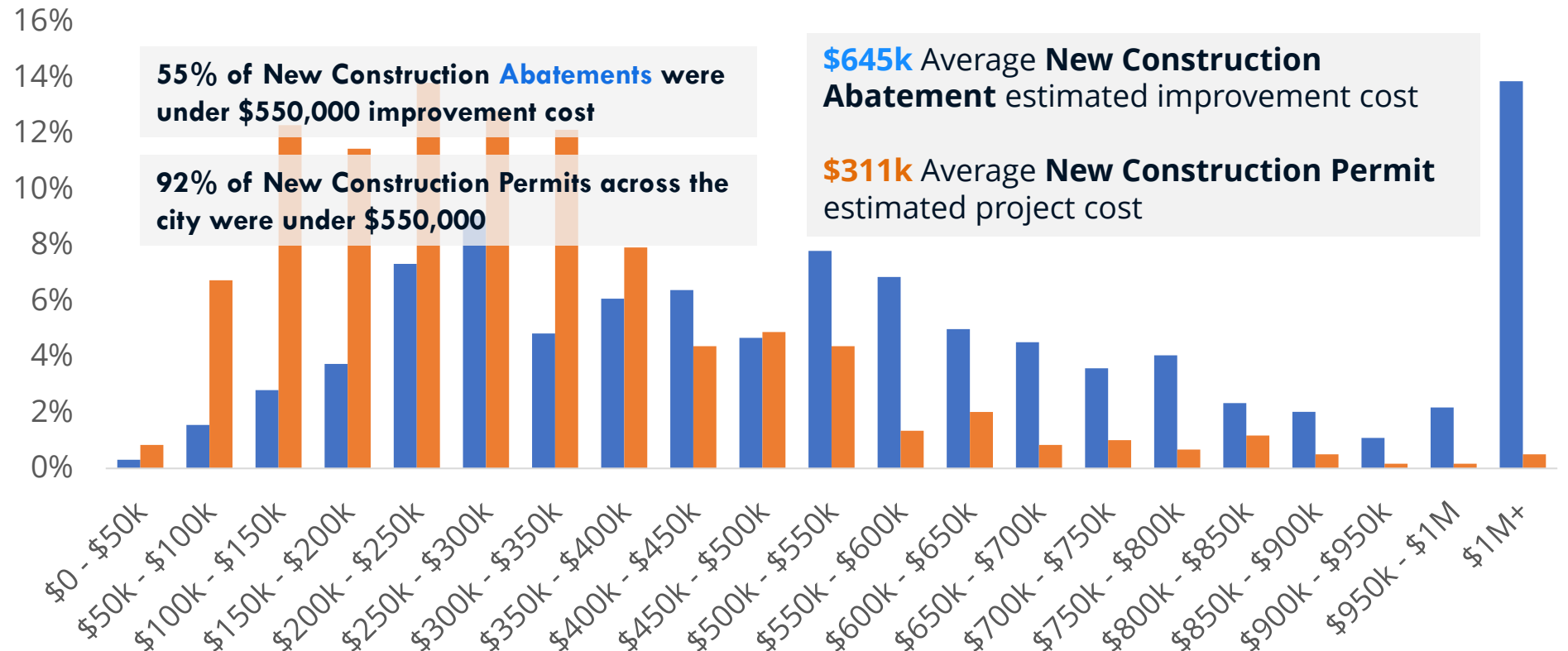


New construction abatement cap recommendations were informed by 1-3-unit building permit data, past abatement activity and precedent research

Distribution of **New Construction** Improvement Values, 2017-2021

■ Approved New Construction Abatements

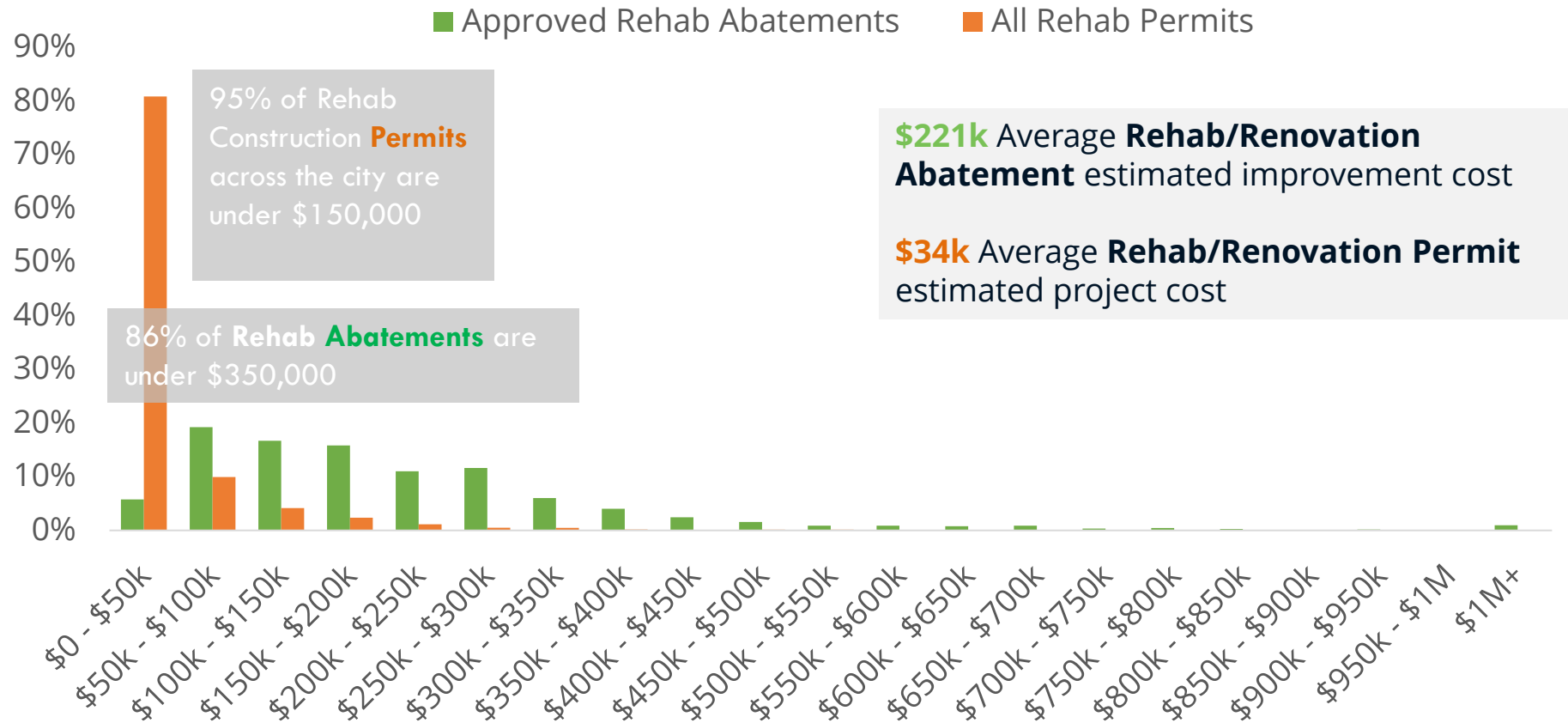
■ All New Construction Permits



Source: City Building Permit Data and RTA Program Data


Rehab abatement caps recommendations were also informed by 1-3-unit building permit data, past abatement activity and precedent research

Distribution of **Rehab** Improvement Values, 2017-2021



Source: City Building Permit Data and RTA Program Data

Cincinnati will remain a competitive place to invest in a home compared to peer localities in the same school district, even with the proposed program changes



Hyde Park (High-Score) vs. Amberley Village
 \$500k New Construction Improvement Value
 No LEED

	Hyde Park, No Abatement	Hyde Park, Current Abatement	Hyde Park, Proposed Abatement	Amberley Village (No Abatement)
Tax on Improvement Value	\$13,200	\$7,900	\$7,900	\$13,600
Tax on Estimated Land Value	\$6,400	\$6,400	\$6,400	\$3,500
Total 1st Year Post-Construction Tax Payment	\$19,600	\$14,300	\$14,300	\$17,100
Total Tax Payment over 10 Years <small>Assumes taxes and values stay constant over 10 years</small>	\$196,000	\$143,000	\$170,000 <small>Abatement active for 5 years</small>	\$171,000

- **There are many factors that influence a homeowner’s decision to move to a certain neighborhood such as schools, proximity to amenities, neighborhood character and more**
- **If only controlling for property tax payments, compared to other peer localities without residential tax abatement programs such as Amberley Village, Cincinnati will still remain competitive in attracting new residents to the city with the new RTA program changes**
- **Higher land values in Cincinnati contribute to higher overall taxes, but with the City’s robust RTA program property taxes are reduced to help make the city more competitive**

Note: Impacts compare the annual and 10-year tax payments a household would make for multiple scenarios: Hyde Park with current abatement program, Hyde Park with proposed abatement program, and Amberley Village (which does not have a tax abatement program). Assumes a 2022 effective tax rate of 75.63 in Cincinnati and 77.79 in Amberley Village, for both improvement and land value. Based on 2021 Hamilton County Parcel Data, assumes that for a Hyde Park single-family home between \$450-\$550k improvement value, the land value averages \$249k, compared to \$129k in Amberley.

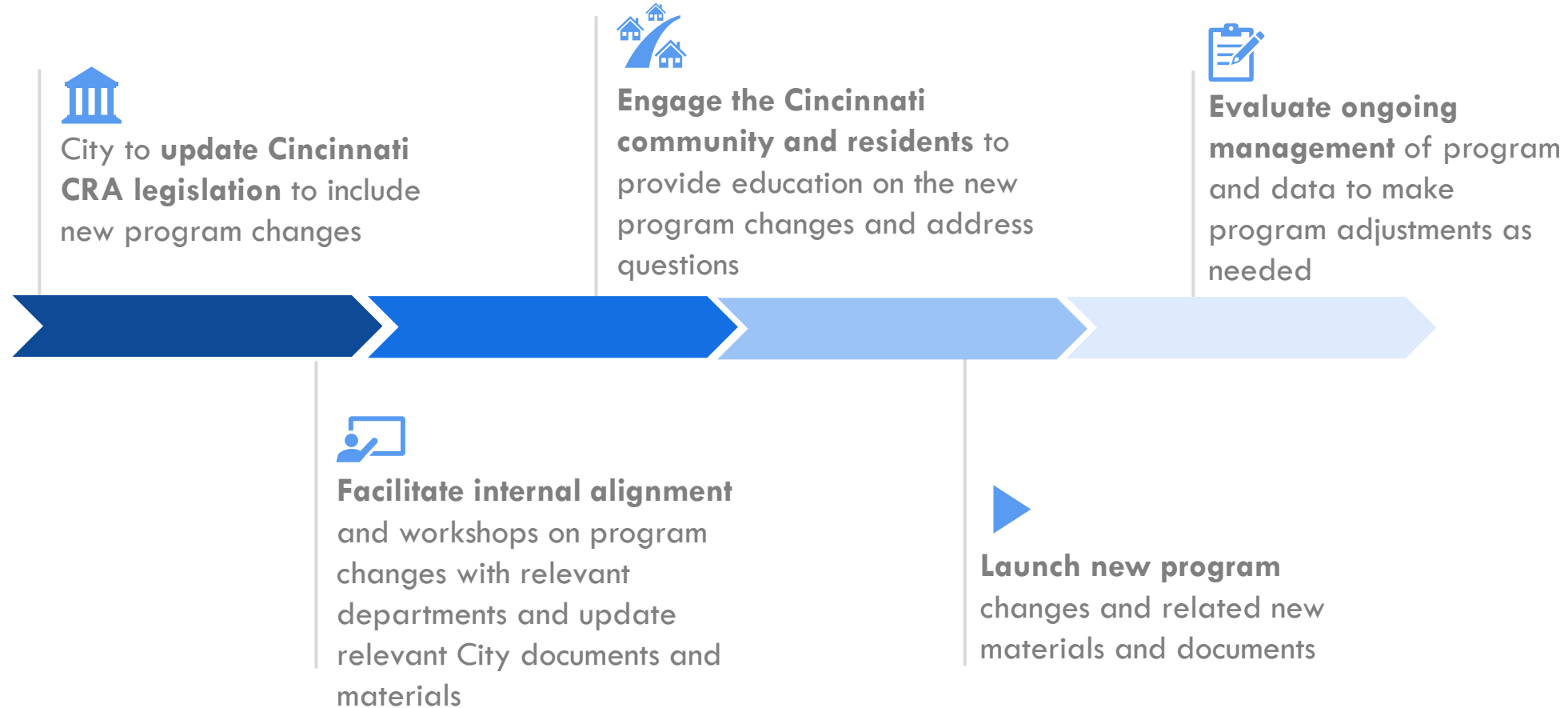
Project Introduction

Housing Market
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RTA Program Analysis

Recommendations

The following **timeline highlights the major next steps** to implement and manage the new program changes:



CITY OF CINCINNATI

RESIDENTIAL TAX ABATEMENT PROGRAM

Evaluating Options for a More Equitable and Competitive Policy

**City Council Presentation:
Equitable Growth and Housing Committee**

June 2022



Based on the neighborhood scoring criteria, neighborhoods fell into the following neighborhood designations using a 3-tiered structure

“LOW-SCORE” Neighborhoods

VILLAGES AT ROLL HILL	WALNUT HILLS	CLIFTON	
MILLVALE	SEDAMSVILLE	MOUNT WASHINGTON	
SOUTH CUMMINSVILLE	RIVERSIDE	EVANSTON	
WINTON HILLS	MOUNT AUBURN	NORTHSIDE	
LOWER PRICE HILL	CARTHAGE	SAYLER PARK	
NORTH FAIRMOUNT	WESTWOOD	PLEASANT RIDGE	
ENGLISH WOODS	WEST PRICE HILL	MADISONVILLE	
AVONDALE	HARTWELL	EAST END	
EAST WESTWOOD	CAMP WASHINGTON	“MID-SCORE” Neighborhoods	
CORRYVILLE	BOND HILL		
SOUTH FAIRMOUNT	KENNEDY HEIGHTS		
WEST END	NORTH AVONDALE		
MOUNT AIRY	QUEENSGATE		
ROSELAWN	PADDOCK HILLS		
CUF	SPRING GROVE VILLAGE		
EAST PRICE HILL	COLLEGE HILL		
			DOWNTOWN
			OTR
		PENDLETON	
		EAST WALNUT HILLS	
		CALIFORNIA	

“HIGH-SCORE” Neighborhoods

MOUNT ADAMS	OAKLEY	HYDE PARK
LINWOOD	COLUMBIA TUSCULUM	MOUNT LOOKOUT

Score Tiering

Neighborhoods are listed in order of total points scored

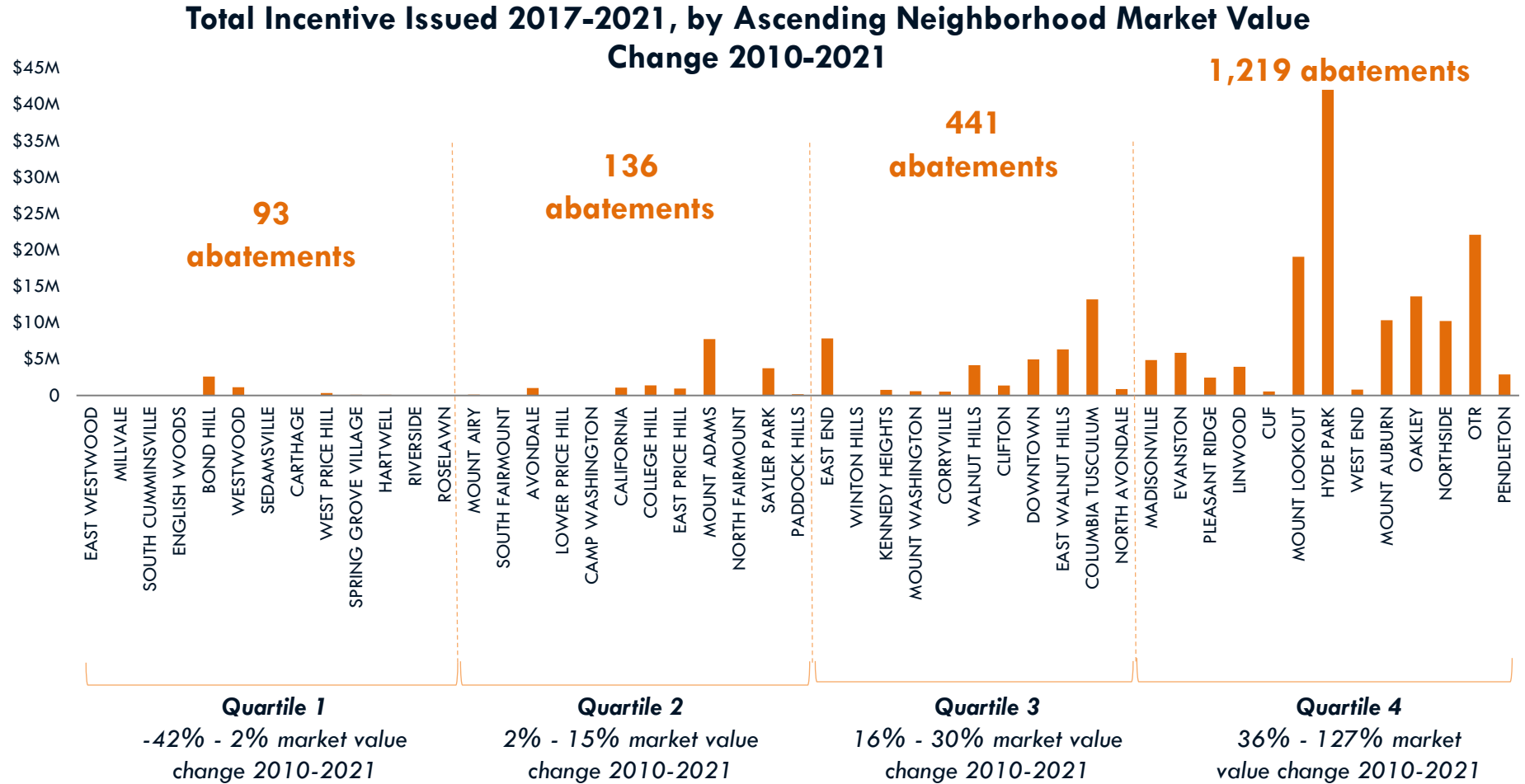
LOW = 0 - 3 points

MID = 4 points

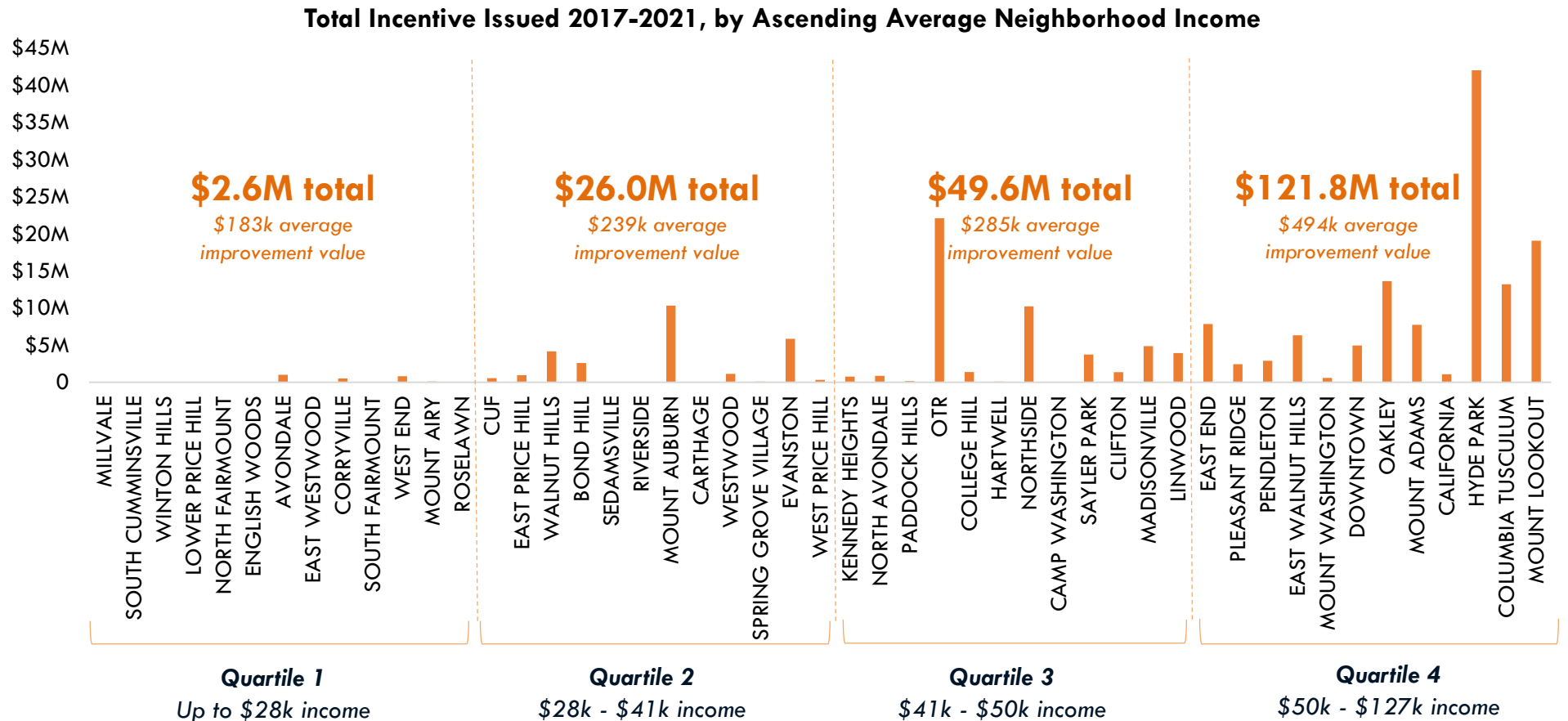
HIGH = 5 – 6 points

Scores are determined based on the neighborhood scoring methodology discussed in the previous section of the report

Correlating with home values, neighborhoods **experiencing more market changes** are seeing higher levels of abatement activity



The **highest income** neighborhoods received over **45 times** the level of tax incentives than the lowest income neighborhoods, and more than two times the level of the third quartile



Neighborhoods with a higher percentage of white residents have seen tax incentives **over 7 times** higher than neighborhoods with more non-white residents

Total Incentive Issued 2017-2021, by Ascending Neighborhood White Population

