DISCRIMINATION, TIME-LAG, AND ASSESSMENT INEQUITY IN BLACK NEIGHBORHOODS

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The inconsistency in observed property assessment in urban areas has been a subject of considerable academic and professional discussion. Numerous studies have indicated that there exist significant and systematic variations in the ratio of assessments and market prices among different neighborhoods and property types. It has been shown that assessment-sales ratios are higher in lower income areas, black neighborhoods, and blighted parts of cities. Existing evidence also suggests that the ratios are higher for multifamily residential structures and lower priced buildings.

Despite the abundance of empirical documentation of systematic biases in assessment practice, relatively fewer attempts have been made to explain the causes of variations in assessment-sales ratios. An earlier study by Oldman and Aaron suggested that the variation may be related to the level of benefits of local services per dollar value of a property. If we assume that residential density per unit of property value is higher for multifamily structures than for single family units, the higher assessment-sales ratio could indeed be a reflection of the benefits of taxation. However, this explanation does not satisfactorily account for the inconsistencies in assessments among residential units of an identical structure type.

An alternative explanation suggests that the variation is primarily due to the time-lag between assessments and market transactions. Failures to make adjustments in assessments in accordance with changing market values will result in higher assessment-sales ratios in declining or blighted neighborhoods.

An implicit and critical assumption of both the benefit principle and the time-lag explanation is that assessment practices at a given point in time are fair and unbiased. It is assumed that assessment practices are nondiscriminatory and rational. Properties in black neighborhoods are relatively
overassessed not because they are owned by Blacks, but because they are located in areas with higher population density per property value or because their prices increase at a lower rate. These two approaches do not adequately explain the cause for variations in assessment practices. By assuming fair, rational behavior, they fail to take into account the effect of discrimination on assessment inequities in black neighborhoods.

On the other hand, studies that deal with the effect of race on assessments usually observe only the direct relationship between assessment-sales ratios and the racial composition of neighborhoods without using appropriate controls for the benefits of taxation and time-lag in assessments. The lack of control for these variables obscures the true source of variations in assessment ratios. A systematic association between the racial characteristics of neighborhoods and density per property value or the changing pattern of property prices is likely to produce a biased estimate of the effect of race on assessments. Therefore, studies focusing on the direct relationship between assessments and racial characteristics, without appropriate statistical controls, cannot provide reliable conclusions.

This article attempts to isolate the effect of race on assessment practices from that of other variables in order to evaluate the relative importance of the racial characteristics of neighborhoods in determining assessment-sales ratios. It examines in particular the roles of racial discrimination and time-lag as sources of assessment inequity in black neighborhoods. The following section introduces a model describing the determination of assessment-sales ratios. In the second section, an empirical analysis is conducted using data from the city of Chicago. Finally, the results of the analysis are summarized and concluding observations are made.

MODEL OF ASSESSMENT-SALES RATIO DETERMINATION

Assumptions

A distinctive feature of the approach being presented is the assumption that assessment practice at a given point in time is not completely unbiased. The model assumes that discriminatory behavior with respect to racial and other socioeconomic attributes is implicit in assessment practices. Assessments are rational only in that they are unbiased within a group of properties having identical racial and socioeconomic characteristics. Therefore, a uniform assessment-sales ratio should be observed for a group of properties characterized by the same set of racial and socioeco-