



CENTER FOR STATE AND LOCAL TAXATION

# Proposition 13 and Residential Mobility

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## The Lock-In Effect



House Purchased in 1980 for \$200,000  
Assessed at \$200,000. Tax = \$2,000



In same house in 2005, worth \$1,065,700  
Assessed at \$328,121. Tax = \$3,281



Same house purchased in 2005  
Assessed at \$1,065,700. Tax = \$10,657  
(a difference of \$7,376)



A much smaller house purchased in 2005 for  
\$500,000 Assessed at \$500,000. Tax = \$5,000  
(A difference of \$1,719)



## The lock-in effect in theory: household mobility distortions are relatively large

O'Sullivan, Sexton, and Sheffrin (1995) use a simple Simulation model to show:

- ❖ Assuming a 3 percent tax rate and 6 percent inflation in housing prices, a revenue-neutral switch from a conventional property tax to an acquisition-value tax increases the median time per dwelling by about 19 percent from 4.41 years to 5.25 years. (ranges from 125% or 12 years to 10% or 4 months)
- ❖ Because of California's low tax rate of 1 percent, the median time per dwelling increases only 4 percent due to the switch.
- ❖ The optimum time per dwelling increases with the inflation rate, the tax rate, and the real value of the dwelling.



## Empirical evidence of the lock-in effect: California

- ❖ Nagy (1997) compared mobility in three California SMSAs (San Bernardino, San Diego, San Francisco) and seven non-California SMSAs. Average housing tenure increased significantly after 1978 for both CA and non-CA households—possibly due to high mortgage interest rates.



## Empirical evidence of the lock-in effect: California

❖ Stohs, Childs, and Stevenson (2001) compared household mobility in California, Illinois, and Massachusetts from 1995 to 2000. Using both analysis of means and regression techniques, they examined the percentage of homes sold per year in census tracts. The averages were 5.7% in CA, 6.3% in MA, and 8.1% in IL, meaning that families remain in their homes on average 17.5 years in CA, 15.9 years in MA, and 12.3 years in IL.



## Empirical evidence of the lock-in effect: California

❖ Ferreria (2004) looked at Propositions 60 and 90, passed in the late 1980s, to estimate the lock in effect. These propositions allow homeowners 55+ years old to transfer their Prop 13 tax benefit to another house of equal or lower value in same or reciprocating county. Results suggest that 55 year olds in CA in 1990 had a 1.2 percent higher rate of moving (a 25 % increase from the base of 4 percent) compared to 54 year olds. No similar discontinuity was found among control groups.



## Empirical evidence of the lock-in effect: California

❖ Wasi and White (2005) compare California homeowner mobility to that of Texas and Florida from 1970 to 2000. Average ownership tenure in CA was 0.66 years longer relative to households in Texas and Florida, a 6 percent increase relative to average tenure of CA owners in 1970. The response to Prop 13 increases as the subsidy rises giving rise to their geographic result of larger increases in tenure in CA coastal areas (as high as 3 years in San Jose).



## Empirical evidence of the lock-in effect: Other states

- ❖ Sjoquist and Pandey (2001) investigate the effects of an assessment freeze in Muscogee County, Georgia. They estimate a probit regression model using sales data from 1985 to 1997 and conclude that the benefit of the freeze had no significant effect on household mobility.





## Empirical evidence of the lock-in effect: Other states

- ❖ Stansel, Jackson, and Finch (2007) found no evidence of a lock-in effect in Florida based on a sample of 20 counties in 2002 and 2006. In fact, they find that average tenure declined slightly from 11.2 years in 2002 to 10.83 years in 2006 with lower tenure and larger declines in tenure in coastal counties.



## Consequences of the lock-in effect

- ❖ excess burden
- ❖ increased commutes
- ❖ more modified properties
- ❖ smaller stock of entry-level housing
- ❖ neighborhood stability
- ❖ higher quality of housing stock (due to a higher degree of homeowner repair and maintenance)



## Excess Burden

Using a simulation model, O'Sullivan, Sexton, and Sheffrin (1995) demonstrate that a revenue-neutral switch from a conventional property tax to an acquisition-value tax:

- ❖ causes an excess burden equal to 4.58 percent of tax revenue or 0.41 percent of income
- ❖ the excess burden increases with both the tax rate and the rate of inflation in housing prices



## Change in Commuters From within to Outside Metro Areas: 1980 to 1990

