

You Can't Get There from Here

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Embedded in the current Metro zoning and tax codes are disincentives to the Plan's mid-rise strategy for increasing density and reweaving the city fabric.

The 1974 zoning code for Metro--following the lead of the New York City code--encouraged the building of tall, slender towers surrounded by open space in the downtown core. While the code was revised in 1998, the current zoning code still gives height bonuses to developers who construct plazas adjacent to their buildings, even though these plazas erode the street wall. And because Metro lacks a master plan for the location of downtown plazas, and design guidelines to make them successful, these developer-plazas--such as the "porch" behind the Commerce Center--are not integrated into the civic space and are not used as gathering points. Developing a plaza master plan, and requiring developers to build to the sidewalk for the first five to seven stories--unless a plaza corresponded to this master plan--would reinstate the street wall with new construction.

Land values also play a role in building height. The current floor-area-ratio (FAR) for the central core is 15/1, which means that for every square foot of land in the parcel, a developer can construct 15 square feet of building--a minimum of 15 stories if built to the property line and no bonus is invoked. A developer can, of course, build taller--for example, the Bell South tower--if a building footprint occupies only part of a site. In any case, this FAR ratio is a major determinant of the price of land. For a developer to pay for a site on which he/she can construct 15 or more stories and then build fewer, he/she must receive some other incentive to hold the height.

The decay and demolition of older mid-rise buildings and their replacement with surface parking--a phenomenon which has blighted Church Street in particular--is fostered by the Metro tax code. Property taxes are calculated from the value of the property, reflecting both the land and structure value as determined by Metro property assessors. These appraisals are based on sales of comparable properties and/or revenue generated by the property. The assessment ratio of taxes for land and building are the same--40 percent of appraised value for commercial properties, 25 percent for residential.

The rehabilitation of older structures results in higher appraised values and thus higher taxes. (Metro does have a program that defers taxes on the post-improved value of the property for seven years, if the upper floors are rehabbed for residential use.) If property decays through lack of maintenance, however, the value goes down and the owner is "re-warded" with reduced taxes. Land without a structure is assessed at the value of the land plus improvements; in the case of surface parking these improvements are the paving and lighting.

A property owner with a building whose floors are not fully occupied--in many cases because these floors need remodeling and rehabilitation--can reduce the tax burden by tearing the building down and paving the land for surface parking. Developers consider surface parking an interim--and very low maintenance--use, in which the land produces an income to pay the (lower) taxes while the owner withholds the land from higher utilization--new construction--creating an artificial scarcity of land, which drives up the value.

One strategy to combat demolition for surface parking and the consequent underutilization of land in the heart of the city is to tax land more heavily than buildings, according to land tax advocate Pam Neary. "Pittsburgh has had a two-tiered system since 1913, when the land portion of property value was taxed at twice the rate of buildings," Neary reports. In 1979 the city increased its tax on land to almost five times the rate on structures in order to induce reinvestment in the city. During the 1980s, "the value of Pittsburgh's building permits rose by over 70 percent relative to the two decades that preceded the tax reform."

Parts of Canada and Australia also employ variations of the land tax approach, assessing land value based on the property's highest and best use--i.e., the highest potential use, not the current use. Such a taxation system encourages reinvestment in property and higher densities because underutilized land is taxed as if it were more fully utilized. A property owner, therefore, is encouraged to develop vacant parcels to get the maximum yield in rent, because the owner is paying taxes as if receiving this revenue stream.

Metro's current zoning and tax codes have produced some unintended consequences: the demolition of older urban fabric, and the warehousing of land in the form of surface parking.

City officials should reconsider these policies to support an increase in downtown density.

From The Plan of Nashville: Avenues to a Great City.
Vanderbilt University Press (Nashville) 2005.