

Fulton County Property Tax Base Forecast, 2015-2020

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US and Atlanta Economic Climate and Property Market

The US housing market has made steady returns since the housing bubble burst mid-2007. In 2014, new housing construction increased by almost 9 percent, and the construction of single-family homes reached a level not seen since March 2008. 2014 saw 1.1 million new buildings constructed, which, although still down sharply from a peak of 2.3 million in January 2006, is up sharply from a recession trough of just 500,000.¹ Finally, housing prices saw a 6.4 percent year over year increase in October 2014.² However, the continuation of growth in the housing market has slowed down somewhat after stronger growth in 2012 and 2013, as the post-crisis rebound is has slowed. Notably, the housing market is still down from pre-crisis levels.

The tepid housing recovery has been boosted by low interest rates, which means cheaper borrowing costs for homebuyers. In fact, mortgage-finance company Freddie Mac reported a steep drop in mortgage rates in early January 2015. The average rate on a 30-year fixed-rate mortgage reached 3.66 percent, and the rates on 15-year fixed mortgages dropped below 3 percent, the lowest levels since May 2013.³ In theory this should stimulate the housing market in 2015. However, in reality, sales have not responded as enthusiastically as predicted, as tight mortgage-qualification standards, and greater demand for cheaper, older homes over newer, more expensive ones are believed to have restrained demand for housing. Some economists expect the US housing market in 2015 to mirror developments in 2014, displaying growth, albeit increasingly slow. An additional threat on the horizon is the expected increase in interest rates by the Federal Reserve in the middle of 2015. This is expected to raise mortgage rates, which would depress home buying and the US housing market.

Still, other economists are optimistic about the expected performance of the US housing market in 2015. Stronger job and income growth, and greater consumer confidence are expected to allow greater savings and household formation among younger Americans, putting them in a better position to purchase homes.⁴ This is expected to particularly benefit those areas of the country where housing prices are lower, such as the South.⁵ The sharp drop in oil prices, from \$101 in June 2014, to just under \$48 today is expected to contribute to these economic trends, by putting more money in the pockets of US consumers, and boosting consumption. Although the lower price of oil is negatively impacting housing markets in oil-producing states, Atlanta is expected to benefit from the price drop.⁶

In the past two years, Atlanta has experienced both some job and personal income growth, as the Metro Atlanta area has continued to recover from the economic crisis. Atlanta's unemployment rate has dropped from 8.8 percent in 2012, to 7.9 percent in 2013, and 7.1 percent in 2014. This trend is expected to continue in 2015, with the unemployment forecast falling to 6.3 percent. Real personal income has improved as well from the lows experienced in 2009 and 2010. 2014 saw a 2.7 percent increase, and 2015 is expected to bring 3.8 percent growth in personal

incomes. These positive economic trends are likely to have a beneficial impact on the metro area's housing market.

The housing market recovery in Metro Atlanta counties has been mixed over the past years. The entire Metro Atlanta area has seen an estimated 4 percent growth in total housing permits issued in 2014, and this is expected to increase to 5.4 percent in 2015. The situation in Fulton County, however, is slightly different. Fulton County has historically produced most of the region's multifamily housing units. However, permits for these units experienced a sharp downturn, declining 56.5 percent and 3 percent respectively in the third and fourth quarters of 2014, compared to a year earlier. Single-family housing permits have seen growth of 15 percent and 25 percent during those same quarters when compared to 2013. Total housing permit growth in Fulton County in 2015 is predicted to decrease by some 3.6 percent. While single-family housing permits are expected to grow by 4 percent, multifamily housing will face a 7.4 percent decline.⁷ The Atlanta Regional Commission (ARC) expects the slow growth in permits to put upwards pressure on housing prices, as new supply will remain limited in 2015.

After bottoming out in March 2012, housing prices have increased in the past years throughout the Metro Atlanta region. The Atlanta board of Realtors noticed a 9 percent jump in metro area housing prices in 2014, as well as increases in housing inventory.⁸ In Fulton County, however, housing prices increased by 3.3 percent, from an average of \$241,175, to \$249,082, between July 2013 and July 2014. This represents the fifth worst performance out of the 20 Metro Atlanta counties.⁹ The Case-Schiller Index indicates that even after almost one and a half years of recovery, as of August 2014, housing prices in Atlanta were still 12.5 percent lower than the August 2007 pre-crisis peak. Additionally, Atlanta housing prices have declined by half of a percent between August and October of last year.

The Metro Atlanta housing market has markedly improved over the last few years, and is doing better than most other hard hit urban areas in the US. However, it has yet to fully recover from the mortgage crisis.

Forecasting methodology and data

The data used to forecast the assessed values is from the Georgia Department of Revenue Local Government Services property tax consolidated sheets. Data from 2000-2014 was used to perform the analysis for Fulton County. Data from 2008-2014 was used to perform the analysis for the South Fulton Special Services District (SSD).

The data was broken down by type of property, including residential, commercial, industrial, utility, motor vehicle, and other, to allow each type of property to be considered separately. For instance, because of the implementation of the Georgia Title Ad-Valorem tax (TAVT), the

growth in the value of motor vehicles in the tax base is declining as more vehicles come off the traditional property tax rolls. Furthermore, industrial property is subject to assessment based on the income generated from the use of that property, while commercial and residential properties are based on their market value. Lastly, the category of other property includes agriculture, timber, motor homes, historical, conservation use, forest conservation use property and brownfield property.

In addition, the data by type of property was also grouped by three areas of the county. These areas were North Fulton which consisted of the municipalities of Alpharetta, Johns Creek, Milton, Mountain Park, Roswell and Sandy Springs. The second area included the tax jurisdiction of Atlanta. The South Fulton area included the South Fulton SSD and the municipalities of the County south of Atlanta. Because not all types of property are distributed evenly throughout the county, considering each type of property based on these geographic areas allows the forecast to reflect the uneven growth patterns that occur among areas of the county and among property types.

Future values of the property types were forecasted based on a combination of historical growth patterns and in the case of residential and commercial properties, the forecasted values of additional variables from Moody's Analytics. The residential forecast is based on a 5 year moving average of the median existing single family home price. The commercial forecast based on an adjusted 5 year moving average of an index of private non-residential construction put in place. Industrial property is based on the historical patterns of growth and decline over the 2000-2014 period and future expectations of economic recovery. Utility property is estimated as a constant percent of the gross digest less utilities. Motor vehicles is forecasted to decline to zero by 2020 due to the implementation of the TAVT. The value of exemptions is forecasted using a linear trend model for both the M&O exemptions and the bond exemptions.

The forecast of the assessed value by property type for Fulton County is shown in Table 1. The forecast of the assessed value by property type for the South Fulton SSD is shown in Table 2. Summary statistics for both forecasts are shown in the following section in Tables 3 and 4, along with Figures 1-4 showing the net M&O and net bond digest from 2000-2020 and the gross digest by residential, commercial, and all other property for 2000-2020.

Table 1. Forecast of Net Assessed Value for Fulton County

	Net Assessed Value					
	CY2015	CY2016	CY2017	CY2018	CY2019	CY2020
Residential	28,024,059,745	30,629,391,496	33,468,191,948	35,052,717,950	36,085,877,447	36,841,258,793
Commercial	22,797,833,226	25,240,452,495	27,781,795,888	29,172,878,018	29,887,526,080	30,056,200,055
All Other	4,457,603,900	4,301,918,871	4,043,697,107	3,690,206,930	3,533,053,051	3,532,370,842
Gross Digest	55,279,496,871	60,171,762,862	65,293,684,943	67,915,802,898	69,506,456,579	70,429,829,689
Exemptions M&O	8,389,991,977	9,322,597,458	10,322,419,748	10,951,506,534	11,427,576,864	11,801,881,375
Exemptions Bonds	3,374,274,647	3,710,203,689	4,066,501,735	4,271,912,526	4,415,055,819	4,517,371,982
Net M&O	46,889,504,894	50,849,165,404	54,971,265,195	56,964,296,364	58,078,879,715	58,627,948,314
Net Bonds	51,905,222,224	56,461,559,174	61,227,183,208	63,643,890,372	65,091,400,760	65,912,457,707

Table 2. Forecast of Net Assessed Value for South Fulton Special Service District

	Net Assessed Value					
	CY2015	CY2016	CY2017	CY2018	CY2019	CY2020
Residential	1,406,268,257	1,620,583,540	1,770,782,844	1,854,619,206	1,909,283,082	1,949,249,876
Commercial	1,469,713,176	1,552,017,114	1,606,337,713	1,654,527,845	1,687,618,402	1,697,142,686
Other	796,492,090	815,678,830	787,596,459	749,635,650	762,560,549	786,391,370
Gross Digest	3,672,473,524	3,988,279,485	4,164,717,016	4,258,782,701	4,359,462,033	4,432,783,932
Exemptions M&O	918,947,904	997,970,727	1,042,119,963	1,065,657,631	1,090,850,205	1,109,197,242
Exemptions Bonds	-	-	-	-	-	-
Net M&O	2,753,525,620	2,990,308,757	3,122,597,053	3,193,125,070	3,268,611,828	3,323,586,690
Net Bonds	3,672,473,524	3,988,279,485	4,164,717,016	4,258,782,701	4,359,462,033	4,432,783,932

Summary Statistics for Fulton County Forecast

Table 3 shows the compound annual growth rates for assessed values of residential property, commercial property and all other property for the Fulton County tax base. Over the 2006-2014 period, the assessed value of residential property in the county tax base fell by 0.21 percent annually on average. Negative growth rates in the residential base in the southern parts of the county were somewhat offset by lower and much less negative growth rates in other parts of the county. Over the 2015-2020 period, the residential housing market is forecasted to have a compound annual growth rate of 5.62 percent due to the recovery of the residential housing market. The commercial property market in the county experienced a 3.26 percent annual growth over the 2006-2014 period. It is forecasted that commercial property in the county will experience a 5.68 percent annual growth over the 2015-2020 period. The category of all other property is forecasted to decline by 4.55 percent over the 2015-2020 period. This is due to the elimination of motor vehicles from the property tax rolls. The forecast assumes that by 2020 the county will receive no revenue from the ad valorem taxation of motor vehicles. Exemptions are forecasted to grow at a rate of almost 5 percent annually. This rate of growth is largely driven by the overall rate of growth in property values in the county base.

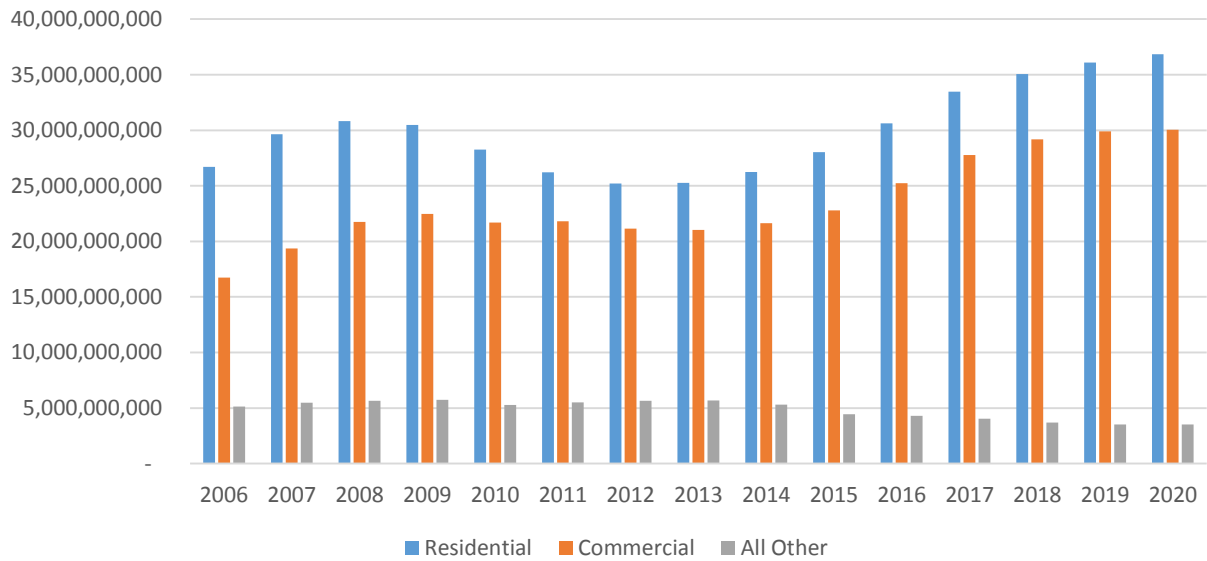
Table 3. Summary Statistics for Fulton County

	Fulton County Assessed Value Compound Annual Growth Rates	
	2006-2014	2015-2020
Residential	-0.21%	5.62%
Commercial	3.26%	5.68%
All Other	0.42%	-4.55%
Gross Digest	1.14%	4.96%
Net Digest M&O	0.35%	4.57%
Net Digest Bond	1.54%	4.89%

Figure 1. Fulton County Net Digest, 2006-2020



Figure 2. Fulton County Property by Type, 2006-2020



Summary Statistics for South Fulton Special Service District Forecast

Table 4 shows the compound annual growth rates for assessed values of residential property, commercial property and all other property for the South Fulton County SSD tax base. Over the 2008-2014 period, the assessed value of residential property in the county tax base fell by 7.58 percent annually on average. Over the 2015-2020 period the residential housing market is forecasted to have a compound annual growth rate of 6.75 percent due to the recovery of the residential housing market. The annual growth of the South Fulton SSD residential market is forecasted to exceed that of the county as a whole because of the tremendous declines experienced by this area during the recession. The commercial property market in the SSD experienced a 2.4 percent annual decline over the 2008-2014 period. It is forecasted that commercial property in the county will experience a 2.92 percent annual growth over the 2015-2020 period. The category of all other property is forecasted to decline by 0.25 percent over the 2015-2020 period. This is due to the elimination of motor vehicles from the property tax rolls. The forecast assumes that by 2020 the county will receive no revenue from the ad valorem taxation of motor vehicles. Because industrial and utility property is a much larger share of the other property category of the SSD tax base, the eventual elimination of motor vehicles from the SSD tax base does not have the same overall negative effect that it has on the other property category for the county as a whole.

Table 4. Summary Statistics for South Fulton SSD

	South Fulton SSD Assessed Value Compound Annual Growth Rates	
	2008-2014	2015-2020
Residential	-7.58%	6.75%
Commercial	-2.40%	2.92%
All Other	-2.11%	-0.25%
Gross Digest	-4.55%	3.83%
Net Digest M&O	-5.93%	3.83%
Net Digest Bond	-4.55%	3.83%

Figure 3. South Fulton SSD Net Digest, 2008-2020

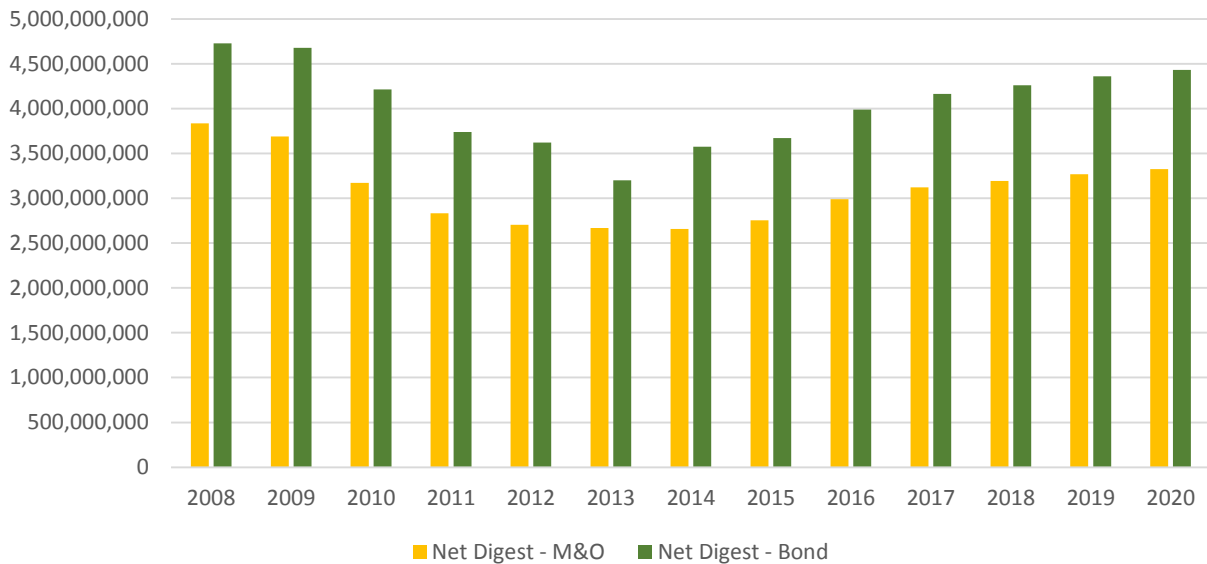
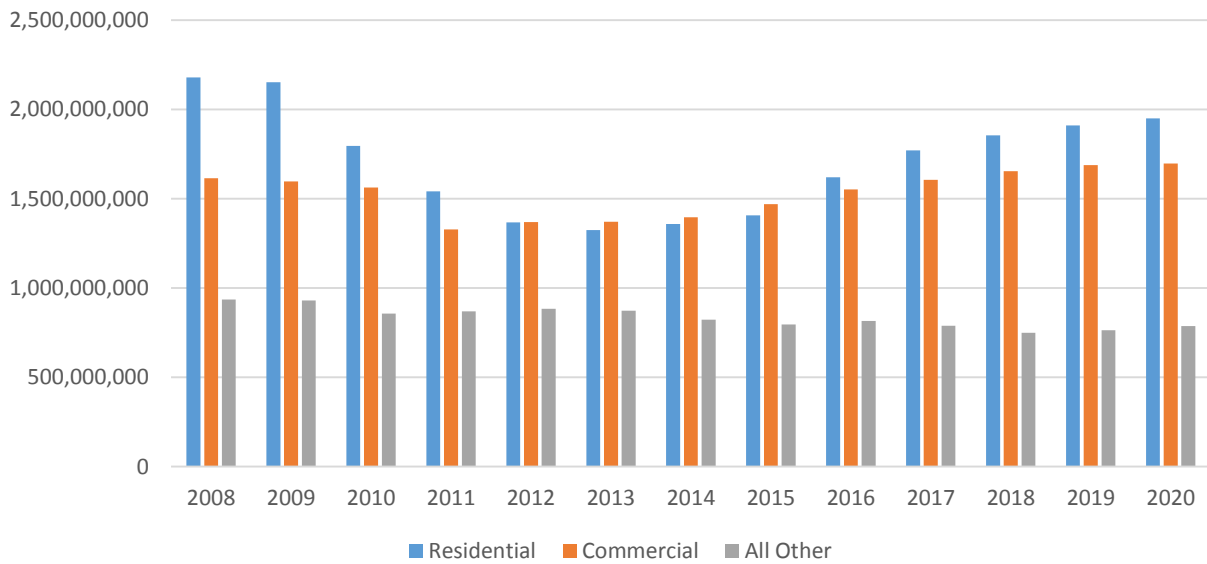
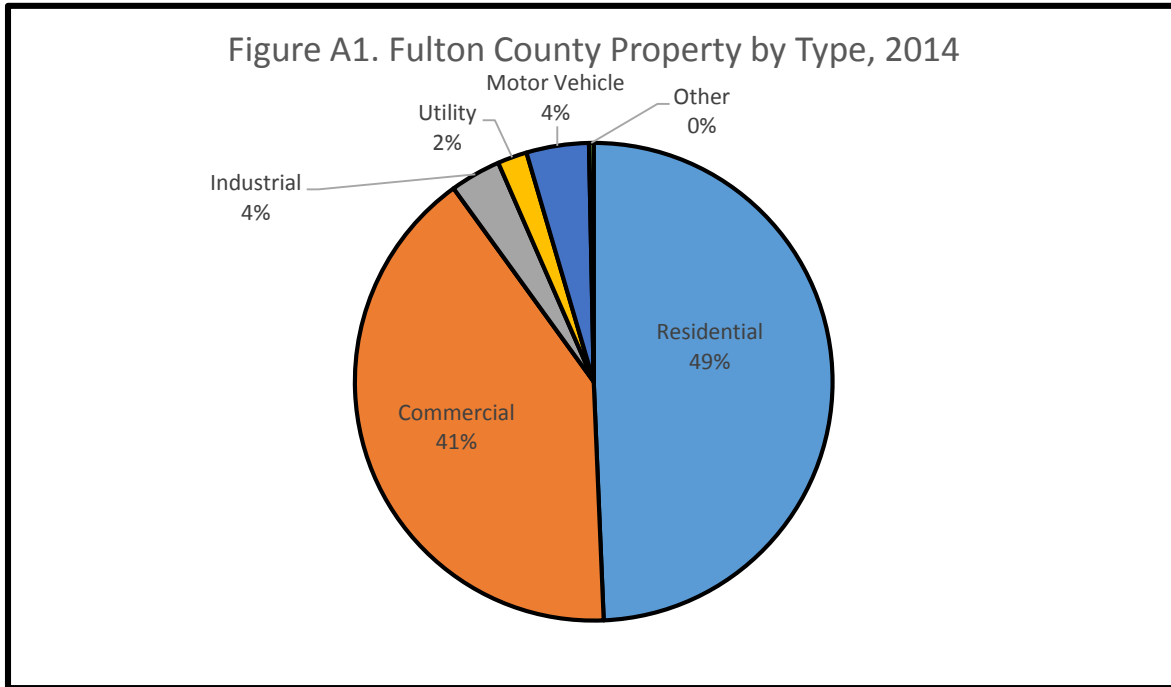


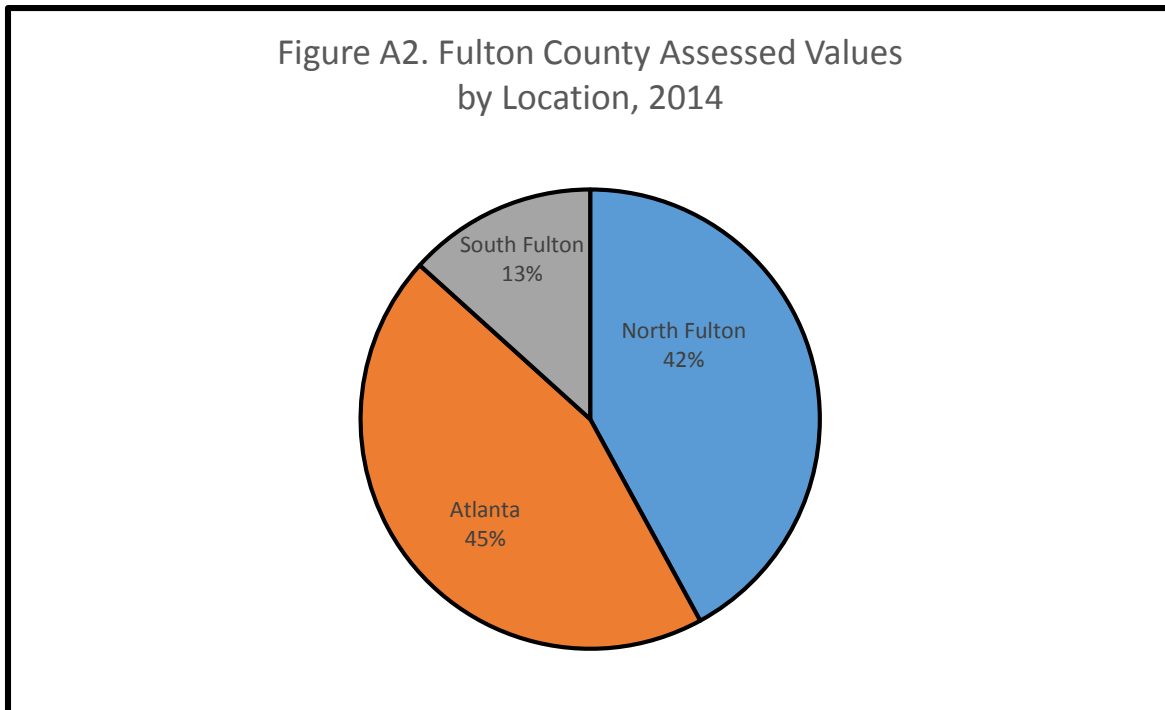
Figure 4. South Fulton SSD Property by Type, 2008-2020



Appendix A. Fulton County Descriptive Statistics

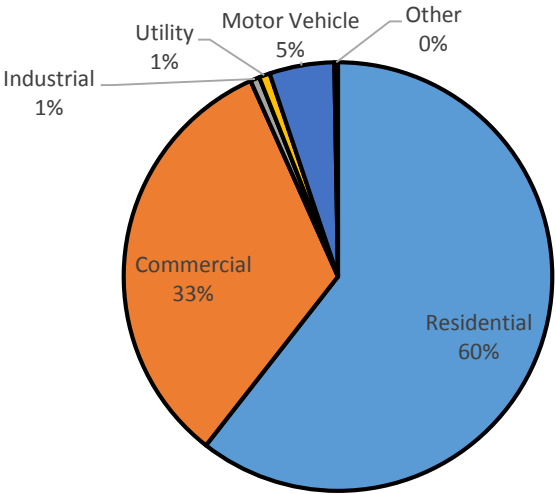


Source: Author's calculation, Georgia Department of Revenue Local Government Services, Property Tax Consolidation sheets



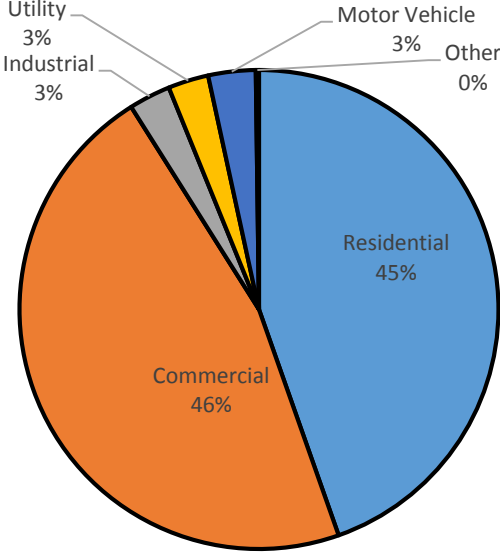
Source: Author's calculation, Georgia Department of Revenue Local Government Services, Property Tax Consolidation sheets

Figure A3. North Fulton Property by Type, 2014

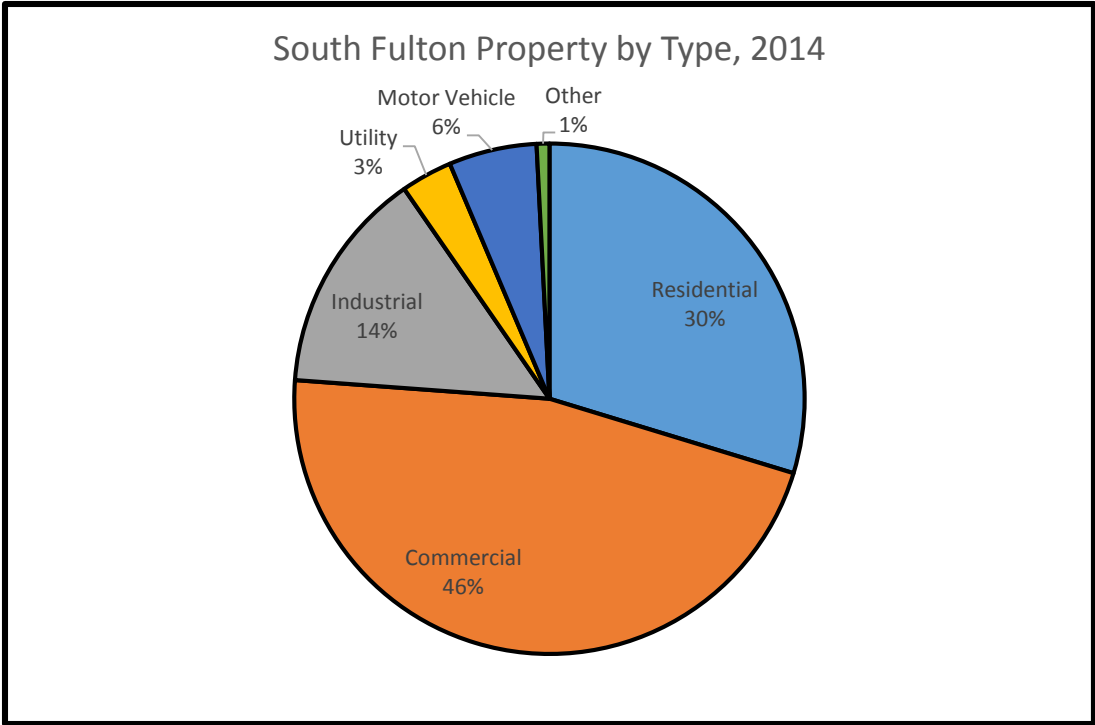


Source: Author’s calculation, Georgia Department of Revenue Local Government Services, Property Tax Consolidation sheets

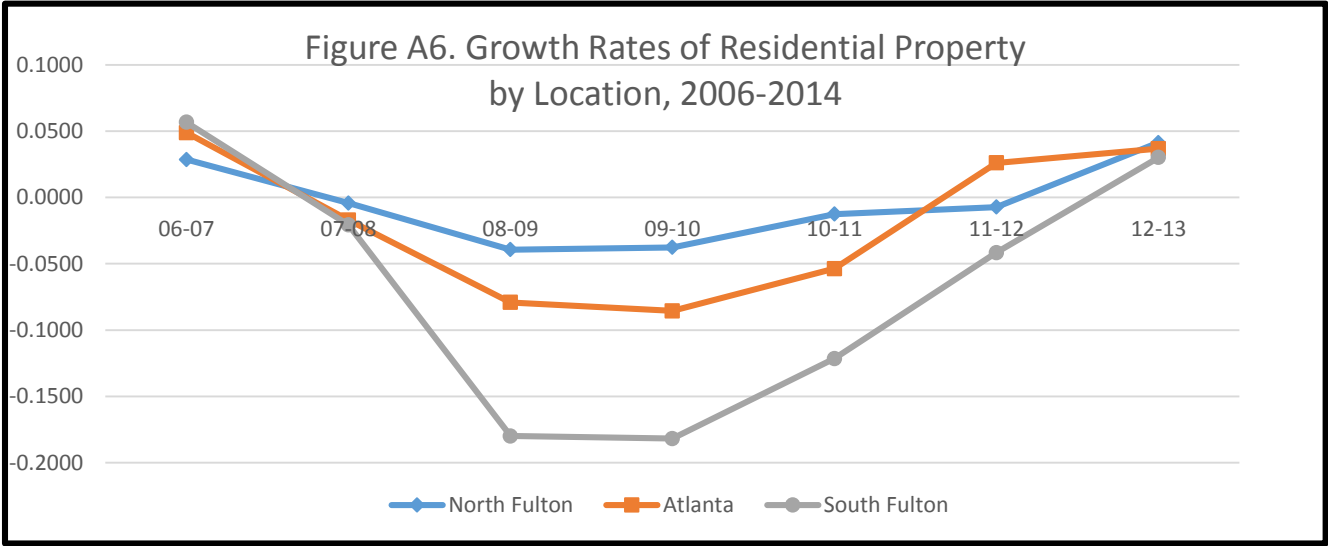
Figure A4. Atlanta Property by Type, 2014



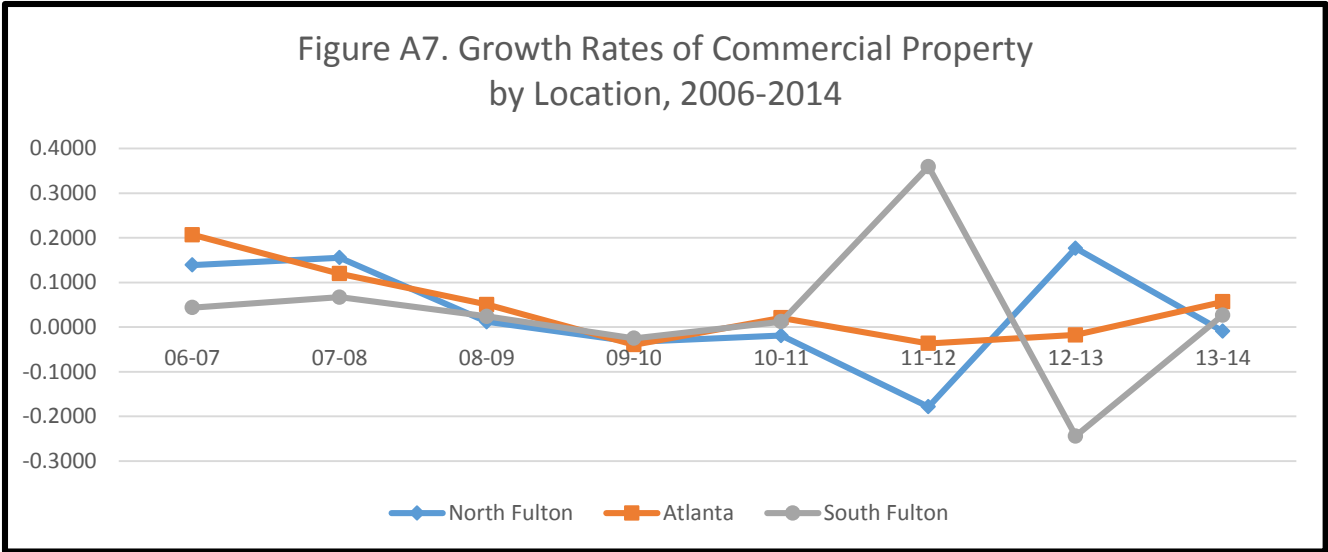
Source: Author’s calculation, Georgia Department of Revenue Local Government Services, Property Tax Consolidation sheets



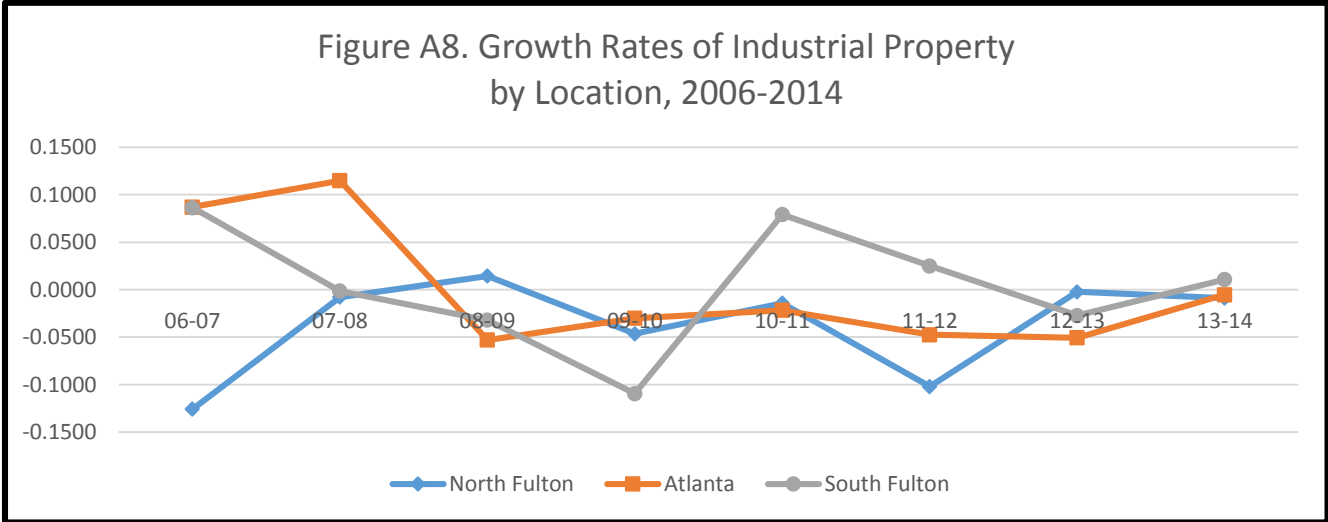
Source: Author's calculation, Georgia Department of Revenue Local Government Services, Property Tax Consolidation sheets



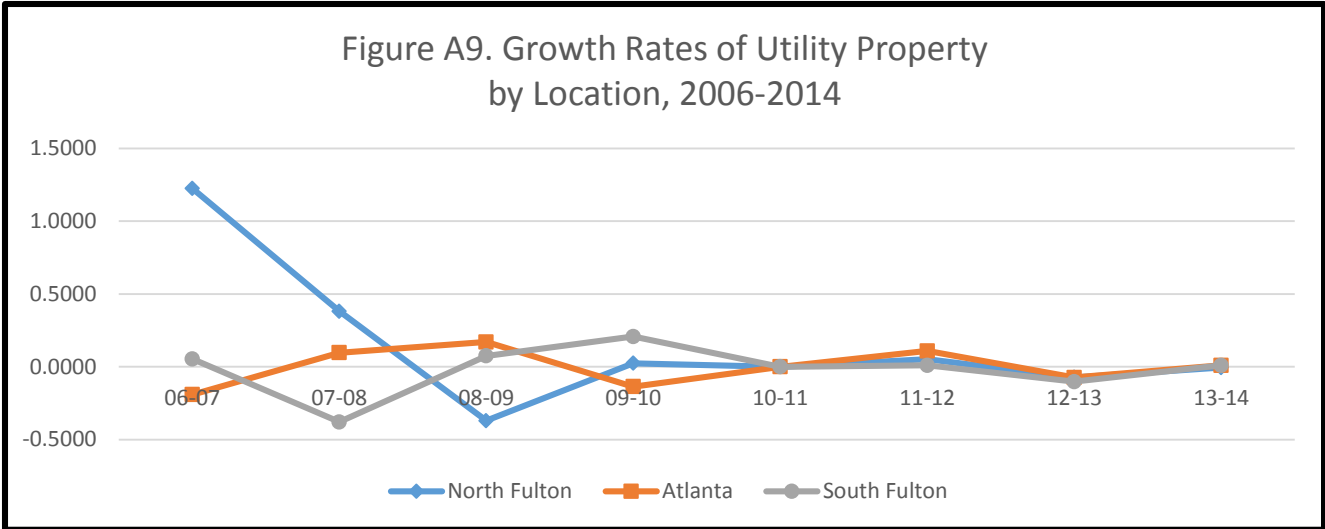
Source: Author's calculation, Georgia Department of Revenue Local Government Services, Property Tax Consolidation sheets



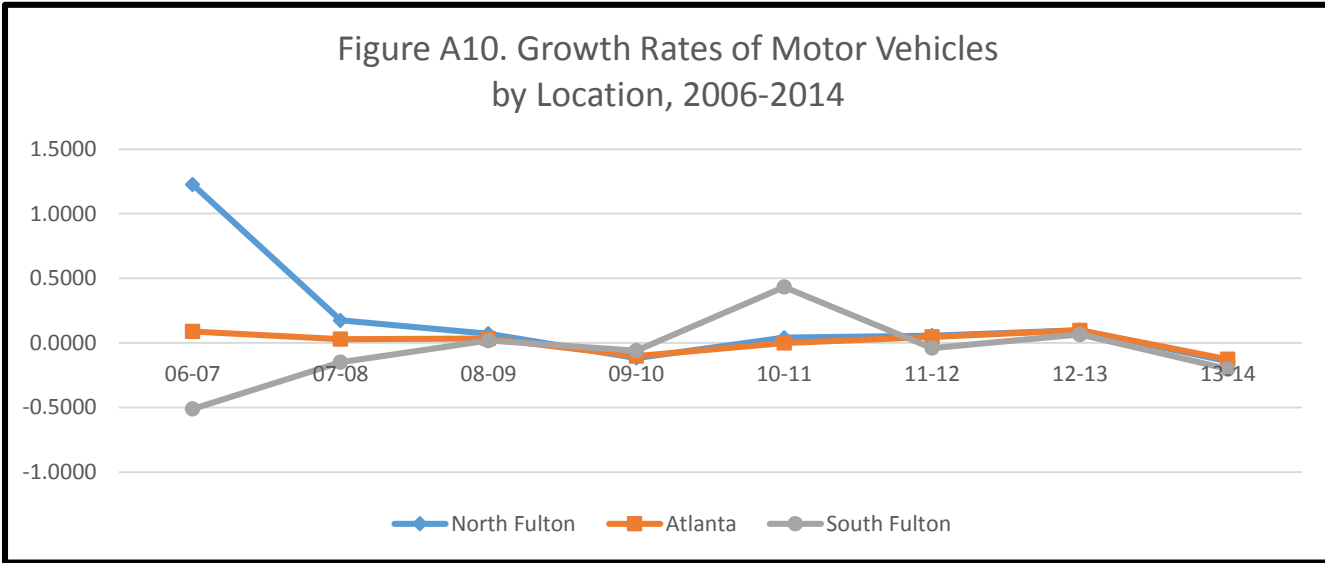
Source: Author's calculation, Georgia Department of Revenue Local Government Services, Property Tax Consolidation sheets



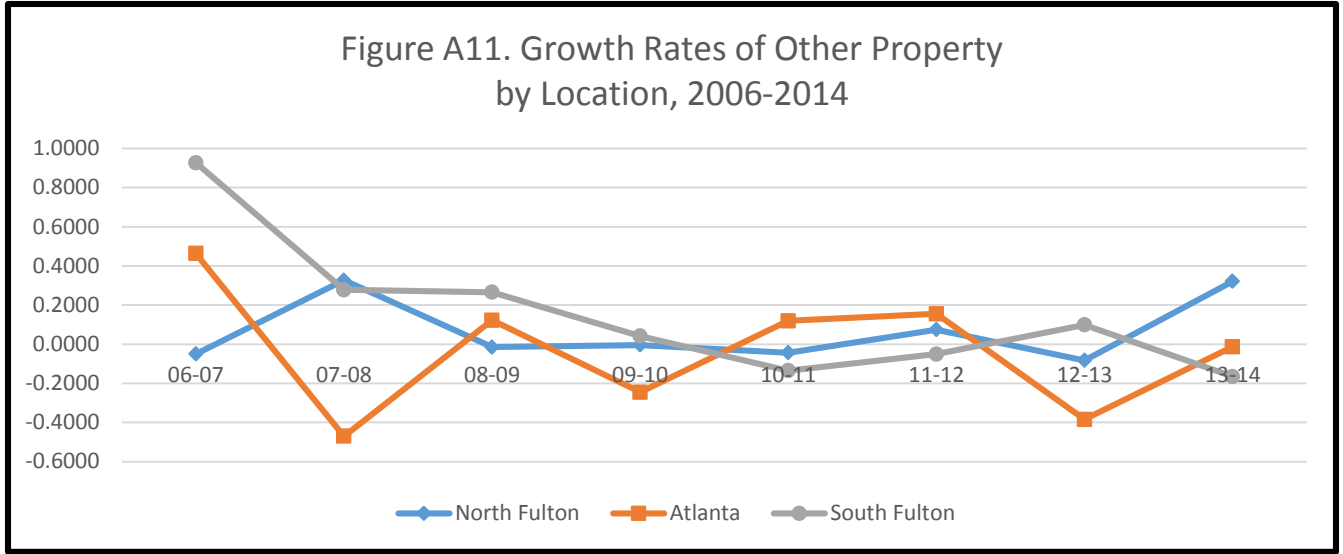
Source: Author's calculation, Georgia Department of Revenue Local Government Services, Property Tax Consolidation sheets



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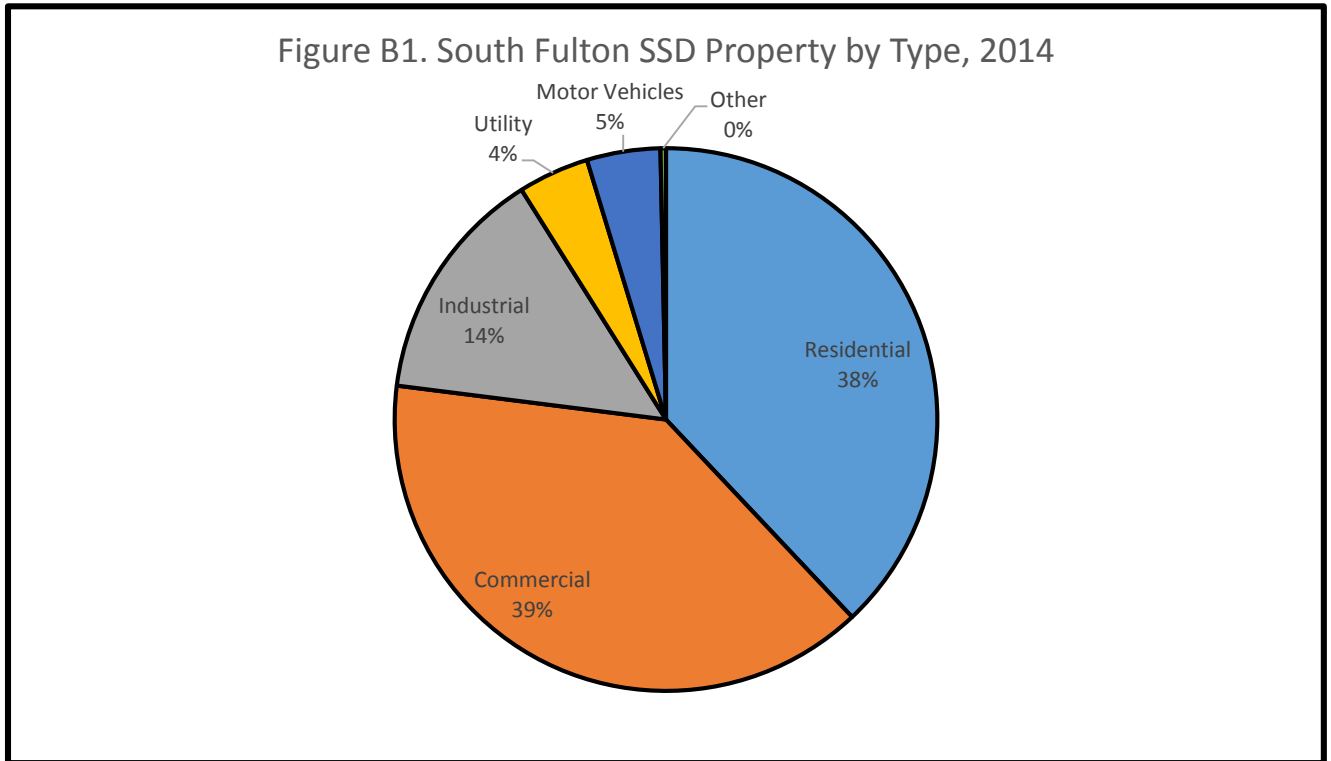


Source: Author's calculation, Georgia Department of Revenue Local Government Services, Property Tax Consolidation sheets

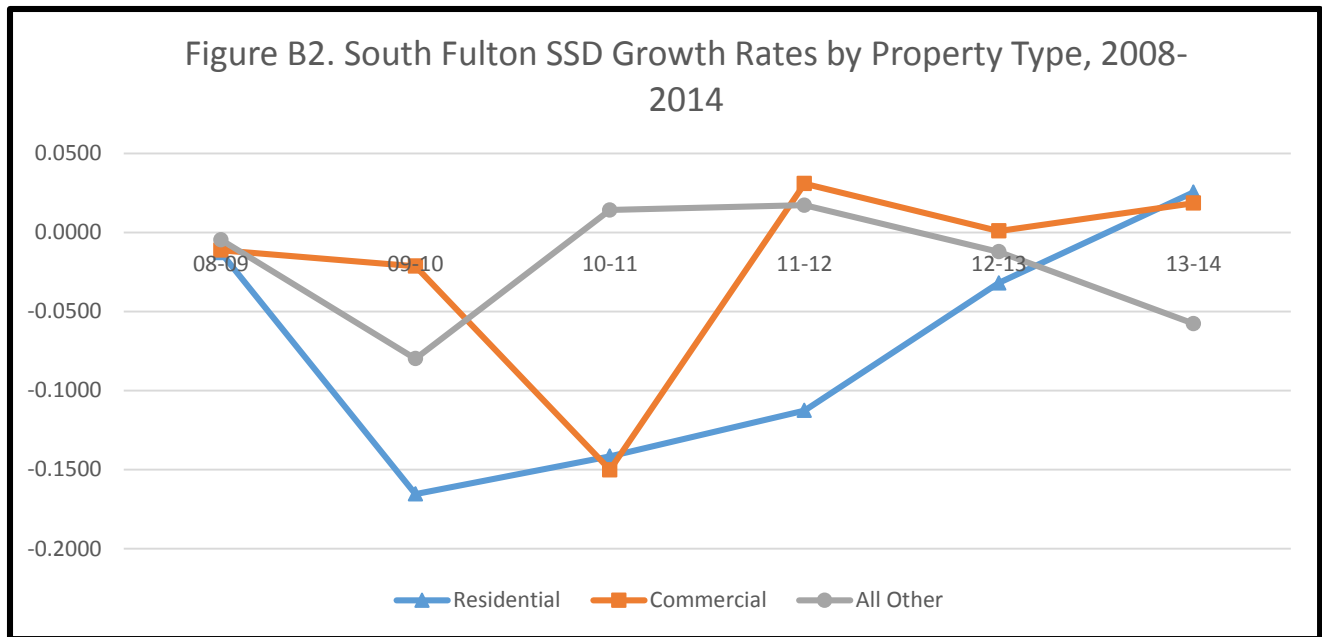


Source: Author's calculation, Georgia Department of Revenue Local Government Services, Property Tax Consolidation sheets

Appendix B. South Fulton Special Service District Descriptive Statistics



Source: Author's calculation, Georgia Department of Revenue Local Government Services, Property Tax Consolidation sheets



Source: Author's calculation, Georgia Department of Revenue Local Government Services, Property Tax Consolidation sheets

¹ Mitchell, J. and Hudson, K., *Housing Starts End Year Solidly, up 4.4%*, The Wall Street Journal, January 21, 2015.

² Matthews, C., *4 predictions for the housing market in 2015*, Fortune, December 9, 2014.

³ Stynes, T., *U.S. Fixed Mortgage Rates Fall in Latest Week – Freddie Mac*, The Wall Street Journal, January 15, 2015.

⁴ Kusisto, L., *Economists See Housing Market Pickup*, The Wall Street Journal, January 20, 2015.

⁵ Matthews, C., *4 predictions for the housing market in 2015*, Fortune, December 9, 2014.

⁶ Matthews, C., *How will cheap oil affect the housing market?*, Fortune, January 8, 2015.

⁷ Dhawan, R., *Forecast of Georgia and Atlanta*, J. Mack Robinson College of Business: Economic Forecasting Center, November 2014.

⁸ Seward, C., *Strong home sales, prices mark metro Atlanta housing market*, Atlanta Journal Constitution, January 16, 2015.

⁹ Atlanta Regional Commission, *Housing Market on the Upswing in Metro Atlanta*, October 7, 2014.