

## **RE 310 – Principles of Real Estate**

### **Public Restrictions on Ownership**

#### 1) Governmental land use controls

a) Recall that spillover effects are common in real estate, and can distort private land-use decisions.

- Two potential problems include:

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- Covenants and private law suits are examples of private contracts designed to resolve land use externalities.

– *Nuisance*

- Nobel laureate Ronald Coase suggested that spillover effects were a consequence of failing to clearly define property rights.

- Example – Suppose Joe wants to open a new nightclub on his property, but his neighbors don't want it nearby.

- Situation 1: Joe will make \$200,000 if he opens the nightclub, but doing so will cost each of his five neighbors \$20,000.
  - The total cost of the nightclub to Joe’s neighbors is
  
  - In a social welfare sense, the nightclub \_\_\_\_\_ because
  
  - If Joe’s neighbors have the right to stop the nightclub:
  
  - If Joe has the right to open the nightclub even if the neighbors don’t want it:
  
- Situation 2: Joe will make \$200,000 if he opens the nightclub, but doing so will cost each of his five neighbors \$50,000.
  - The total cost of the nightclub to Joe’s neighbors is
  
  - In a social welfare sense, the nightclub \_\_\_\_\_ because

- If Joe’s neighbors have the right to stop the nightclub:
  
- If Joe has the right to open the nightclub even if the neighbors don’t want it:
  
  
- In practice, private contracts can’t always resolve spillover effects because of
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- The Coase Theorem provides an economic justification for public land-use controls.
  
- The legal right of governments to regulate land use comes from *police power*, the common law right of governments to regulate private actions in order to protect the public health, safety, morals, and general welfare.

## 2) Urban Planning and The Comprehensive General Plan

a) Urban planning is necessary to ensure that required public services are available for urban growth as it occurs.

- In Sedgwick County, this task falls to the Metropolitan Area Planning Department (MAPD) and Commission.

b) The *comprehensive plan* is used as a guide when making specific land-use and other urban policy decisions.

<http://www.wichita.gov/CityOffices/Planning/AP/Comprehensive/>

- At the broadest level, the comprehensive plan presents a vision for what the community will look like in coming decades.
  - The comprehensive plan should be used to anticipate and prepare for growth and the infrastructure needs that will come with that growth.

- The comprehensive plan should project:

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### 3) Zoning Codes

- a) Zoning ordinances are local laws that divide land in the jurisdiction into zones, each with its own restrictions on the type of permitted use and the maximum intensity of that use.
  - Wichita and Sedgwick County have adopted a unified zoning code that applies to all properties in the city and in unincorporated parts of the county.
    - <http://www.wichita.gov/CityOffices/Planning/Zoning/>
  - Small cities in the county have their own zoning codes.
  
- b) A listing and brief description of the Wichita/Sedgwick County zoning districts can be found in the “Zoning Chart” on the MAPD zoning website.



- Special district regulations

d) Other site development standards

- Parking requirements

- Screening & lighting

- Other standards

e) Both the City of Wichita and Sedgwick County provide online Geographic Information Systems tools for finding zoning and other information related to real estate in the county.

- Wichita – <http://gis.wichita.gov/outsidegeneral/>
- Sedgwick County – <http://gis.sedgwick.gov/startup.asp>

f) Zoning Approval Process

- See the Wichita-Sedgwick County Zoning Procedure Diagram on the MAPD website.

g) How should zoning change requests be decided?

- The “Golden” Rules (available on the MAPD website).

h) Other Zoning Tidbits

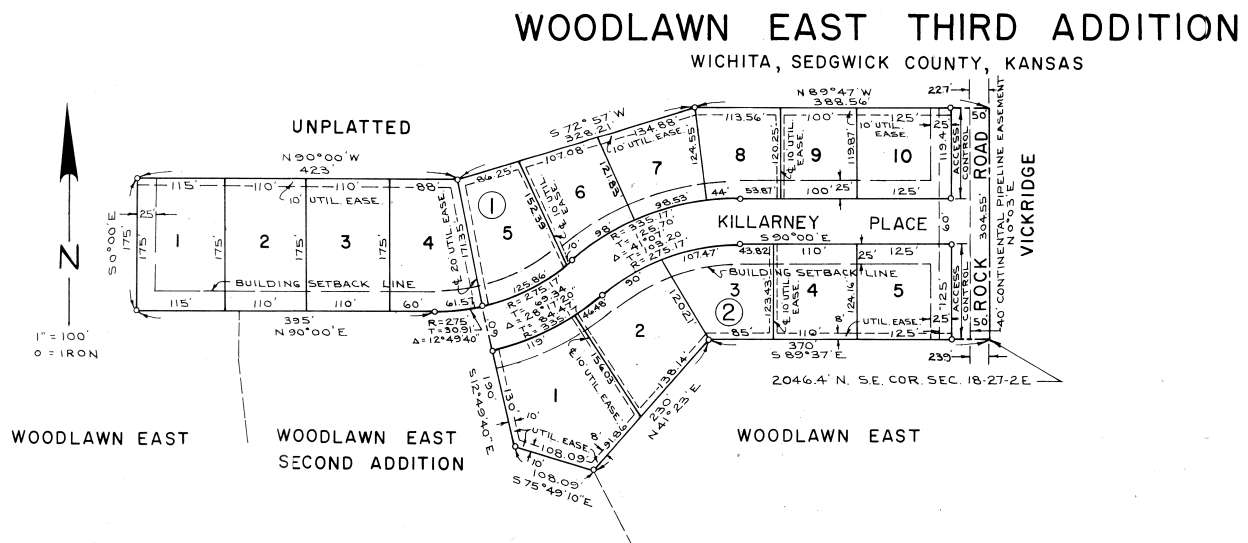
- Conditional use authorization

- Variances

4) Subdivision Regulations

- a) Subdivision regulations are local laws regulating the division of land into lots, blocks, tracts, and/or parcels.

- b) Subdivision regulations are intended to provide for
- Efficient and orderly location of streets;
  - Reduction of vehicular congestion;
  - Reservation and/or dedication of land for open spaces;
  - Necessary off-site and on-site public improvements;
  - The provision of recreational facilities which may include, but not be limited to, the dedication of land area for park purposes;
  - Flood protection and storm water pollution prevention;
  - Designation of building lines where necessary;
  - Assurances of compatibility of design; and
  - Other services, facilities, and improvements deemed necessary.



c) Community Unit Plans

d) Planned Unit Developments

5) Other Governmental Powers

a) Building Codes

b) Escheat

c) Eminent Domain

## 6) Property Taxes & Specials

### a) Property tax assessment

- Property taxes are levied on the owners of real estate based on the assessed value of the property owned (ad valorem tax).
  - Most states exempt certain real estate from taxation, and local jurisdictions often provide tax abatements for certain industries.
  
- Property taxes are based on the *assessed value* of the property, not its true market value.
  - In many states, assessed value is virtually unrelated to market value.
  
- In Kansas, a parcel's assessed value is a fixed fraction of its market value:
  - Residential – 11.5%      – Commercial – 25.0%
  - Non-profit – 12.0%      – Vacant land – 12.0%
  - Farm land is assessed based on its “use value”
  - Sedgwick County property tax assessments can be found at <http://www.sedgwickcounty.org/appraiser/>

b) Levying property taxes

- The taxation process begins with the *adoption of a budget*. After the budget is approved, an *appropriation* is passed to authorize the expenditure. The *tax levy* is the formal action taken to impose the tax.
  - The *tax rate* is calculated by dividing the total funds needed by the taxing authority by the total assessed value of taxable properties in the district.
  - A *mill* is 1/1,000 of a dollar, or \$0.001.

c) Example: In the 2011-12 budget, the City of Wichita estimated it would require \$101,996,852 in property tax revenues.

- What is the resulting mill levy?
  - The estimated assessed value of property in the City of Wichita was \$3,160,537,060.
  - The resulting tax rate is \_\_\_\_\_.
  - The resulting mill rate is \_\_\_\_\_.

- Suppose you owned a \$125,000 house in Wichita. What would your 2009 tax bill be?

– Your assessed value is \_\_\_\_\_.

– Your tax bill is:

<b>Taxing District</b>	<b>Assessed Value</b>	<b>Mill Rate</b>	<b>Taxes Due</b>
City of Wichita		32.272	
Sedgwick County		27.857	
USD 259		56.928	
State of Kansas		1.500	
WSU		1.502	
<b>Total</b>		<b>120.059</b>	

- Suppose you owned a commercial office building worth \$2.35 million. What would your 2011 tax bill be?

– Assessed value = \_\_\_\_\_.

– Tax bill = \_\_\_\_\_.

d) Special Assessments

- Infrastructure improvements (streets, sewers, sidewalks, etc.) in new developments and existing neighborhoods are financed using special assessments.
  - The city pays for the improvements using a \_\_\_\_\_.
  - The principal and interest payments on the bond are then assessed \_\_\_\_\_.

- Pros

- Cons