

Research Brief

Property value growth slows but still healthy in southeastern Wisconsin

Illinois border counties continue to lead way

Property values in southeastern Wisconsin counties grew 6% last year, a relatively healthy rate but the slowest since at least 2004, and for some counties, the past decade. Also, proximity to northern Illinois looks to be a key factor in fueling strong growth.

The slowdown in property value growth is not unexpected given the national downturn in property values and the explosive growth rates of recent years. Of significance, however, is that the region grew slower than the state of Wisconsin for the first year since 2002. Overall growth in Wisconsin was 6.2%, compared to the region's 6%. From 2005-2006, the region grew by 10.7%, while the state grew by 9.6%.

The downturn in property values, however, could have impacts on public policy in the region. State-imposed property tax caps are impacted by growth in property values and could become more restrictive as the rate of growth in values and new construction declines. This may pose a particular challenge for municipal and county governments and school districts at a time when budgets are stressed by increased fuel costs and increased demand for social services due to the declining economy.

Both Walworth and Kenosha counties — the two counties in the region bordering northern Illinois — had the highest property value growth rates in 2006-2007 among the seven counties of southeastern Wisconsin. Walworth saw its overall tax base grow 10.5% during that period, while Kenosha had the next-highest growth rate, 7.2%. In residential property value growth, the same scenario was true: Walworth topped the list with a 12.6% growth rate, while Kenosha came in second at 7.7%. During the last decade, Walworth and Kenosha counties have had the greatest overall property value growth in the region.

Milwaukee and Waukesha counties had the slowest overall growth rates in the region, 5.5% and 5.1% respectively. Milwaukee County saw a particularly steep decline in residential property value growth, falling from 11.5% (2005-2006) to 5.0% (2006-2007).

Table 1: Growth in total property values

	One-year change	10-year change
Walworth County	10.5%	121.4%
Kenosha County	7.2%	109.3%
Waukesha County	5.1%	106.1%
Washington County	5.7%	105.1%
Racine County	5.6%	93.4%
Milwaukee County	5.5%	92.2%
Ozaukee County	6.6%	90.0%
Southeastern Wisconsin	6.0%	100.1%
State of Wisconsin	6.2%	100.0%

Major findings

- Every county in southeastern Wisconsin had a lower total property value increase than last year. Walworth County had the largest increase in total value from 2006-2007, increasing 10.5%. Kenosha was next at 7.2%.
- Total property value for southeastern Wisconsin increased 6% to \$189 billion in 2007. The state of Wisconsin total property value increased 6.2%.
- Milwaukee County enjoyed explosive growth of 12.2% and 10.8% the previous two years, but fell back to a more modest 5.5% from 2006-2007. Waukesha County, meanwhile, experienced by far its lowest growth in the past decade, falling to 5.1% after previously being greater than 8% every year since 2000.
- Residential property increased 6.1% in 2006-2007 in southeastern Wisconsin, while commercial and manufacturing property increased 6.5% and 2.4% respectively.
- The city of Milwaukee's tax base grew 5.5% from 2006 to 2007, ranking it 79th out of 147 municipalities in southeastern Wisconsin. The city of Milwaukee had the fourth lowest per capita property value in the region in 2007.
- Sixty percent of total real estate growth in southeastern Wisconsin was due to economic change, as opposed to new construction.
- The 2007 per capita property value for southeastern Wisconsin was \$94,857, an increase of 5.6% over 2006. The statewide per capita value was \$88,157.

Data and methodology

Municipal tax rates are based on the total value of all taxable property in each municipality, also known as the tax base. Because local assessors are responsible for determining the property values for their jurisdictions, comparing assessed values across municipalities and counties is not a uniform measure. To bring all property to a uniform level comparable across jurisdictions, the state equalizes as-

essed values by using tools such as market sales analysis, random appraisals, and local assessors' reports. Equalized values, calculated yearly, are meant to reflect fair market value (most probable selling price).

Our analysis was based on equalized values determined by the Wisconsin Department of Revenue (DOR) as of August 15, 2007. Total property wealth has two categories: real estate and personal property. Real estate makes up the overwhelming majority of the tax base and has eight classifications: residential, commercial, manufacturing, agricultural, undeveloped, agricultural forest, forest, and other. The three classifications considered by the Forum are residential, commercial, and manufacturing.

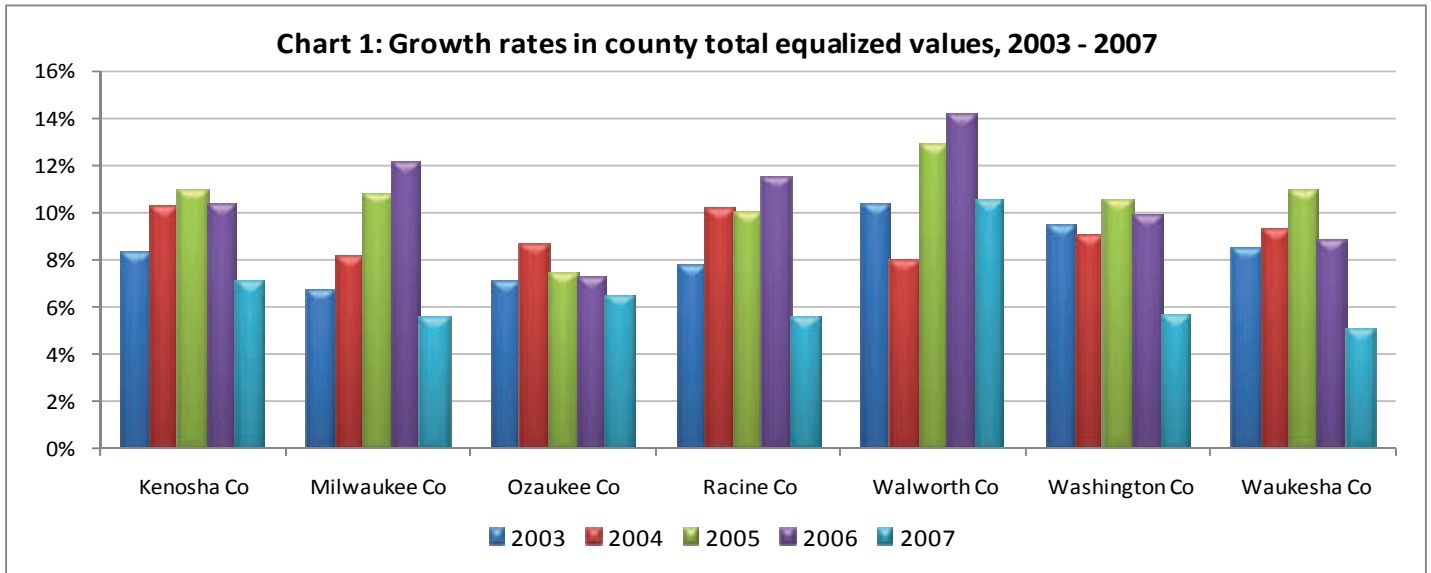
Changes in property value are classified in three ways. Economic changes refer to changes on existing properties or changes as a result of market conditions. There also are new construction changes and "other" changes, which could include corrections that were made to the value of the property, demolition or destruction of property, and changes in the exempt status or classification of property. New construction drives value growth because, as the land is used more intensively, it generates a higher land utility.

Total equalized values

For the first time in the last five years, state growth exceeded growth in southeastern Wisconsin. Total equalized property values for southeastern Wisconsin in 2007 were \$189 billion. This represents a 6% increase from 2006, marking the lowest regional growth since 1999. Total statewide growth was 6.2%. Last year, southeastern Wisconsin grew 10.7%; the state 9.6%.

Each of the seven counties in the region had less growth in 2007 than in 2006 (see Chart 1). In fact, each county, except Walworth, showed the lowest growth in equalized values since 2001.

For the third year in a row, Walworth County showed the highest growth in total equalized property value. The county grew 10.5%, which was still below the 14.2% growth between 2005 and 2006.



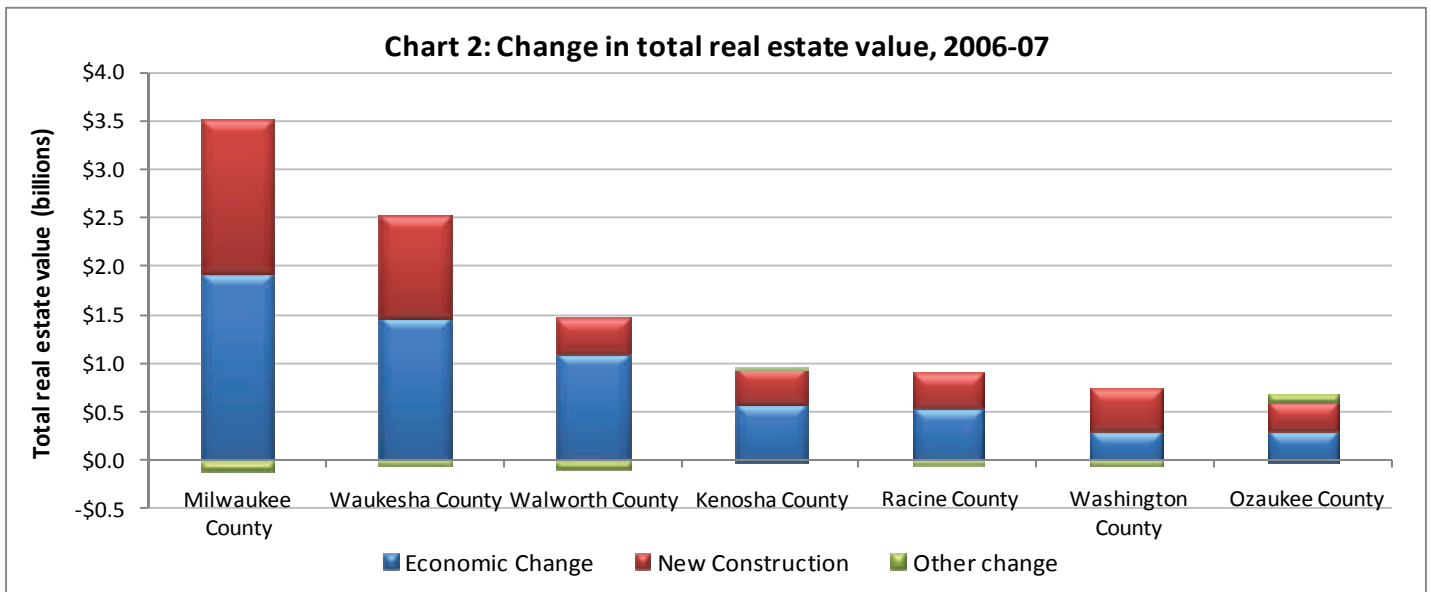
Milwaukee County went from having the second-highest growth in 2005-06 (12.2%) to the second-lowest growth in 2006-07 (5.5%), the county's lowest growth in a decade.

For the first time since 1992, Waukesha County had the lowest growth in the region, at 5.1%, down from the previous year's 8.9% growth. This is Waukesha County's second year in a row with a lower growth rate than Milwaukee County.

Southeastern Wisconsin consists of 147 municipalities, of which 61 are towns, 57 are villages, and 29 are cities. Six out of the top 10 southeastern

Wisconsin municipalities in total equalized value growth were in Walworth County. From 2006 to 2007, three municipalities decreased in value; from 2005 to 2006, one decreased.

Only three cities were in the top 20 municipalities in growth. The towns of Belgium (Ozaukee County) and Geneva (Walworth County) were the only municipalities with growth above 20%. The city of Milwaukee's growth (5.5%) ranked 79th in growth out of 147 municipalities. The highest-ranking city, Glendale, ranked fifth in total equalized value growth among municipalities.



Causes of total real estate growth

Real estate growth is driven by both economic change and new construction. In southeastern Wisconsin, 60% of real estate growth was generated by economic change, while 42% was due to new construction. This ratio was similar statewide, with 61% because of economic change and 41% because of new construction. Figures do not always total 100% due to the “other” category — consisting of various classification alterations and adjustments — which was a negative percentage in all cases except Ozaukee County.

Chart 2 presents growth generators affecting total real estate value for the seven counties. Washington County was the only southeastern Wisconsin county to have more of its growth due to new construction than economic change (62% new construction vs. 45% economic change). Walworth County had the highest percentage of economic change, with 80% of growth due to economic change and 26% due to new construction. Milwaukee County matched the region’s overall pattern, with 57% of growth due to economic change and 46% due to new construction.

In the city of Milwaukee, 59% of growth was due to economic change and 50% to new construction (this exceeded 100% because of a decrease in the “other” category).

Residential, commercial, and manufacturing tax bases

Tax bases consist of residential, commercial, manufacturing, and agricultural property. Ninety-five percent of southeastern Wisconsin’s property was either assessed as residential or commercial. Residential is the largest property group, at 74.2% of the region. Twenty percent of regional property is commercial, 2.5% consists of manufacturing, and 0.1% is agricultural. These figures are comparable to the shares of the state tax base, where residential and commercial property make up over 90% of the base. Milwaukee County has the highest percentage of commercial property in the region, 28.8%, which leads it to have a lower residential percentage than the rest of the region.

Residential property values

Southeastern Wisconsin had the lowest growth in residential value in the last decade. Values grew 6.1% from 2006 to 2007, the same rate as residential property value growth statewide. Last year, southeastern Wisconsin residential value grew 10.7%, and the state’s grew 10%. Most of the region’s growth is attributed to economic change, with about a third coming from new construction.

Table 2: Change in residential property values

	2007 residential value (billions)	2005-2006 % change	2006-2007 % change
Walworth County	\$12.3	15.2%	12.6%
Kenosha County	\$11.3	10.5%	7.7%
Ozaukee County	\$9.3	8.1%	6.5%
Washington County	\$10.9	10.1%	5.6%
Racine County	\$12.2	11.9%	5.6%
Waukesha County	\$39.7	9.1%	5.2%
Milwaukee County	\$44.5	11.5%	5.0%
Southeastern Wisconsin	\$140.2	10.7%	6.1%
State of Wisconsin	\$360.9	10.0%	6.1%

As Table 2 illustrates, Walworth County had the highest growth in residential property values in the region for the second straight year, at 12.6%. Kenosha County had the next-highest growth, at 7.7%. Ozaukee County went from having the lowest in growth in southeastern Wisconsin from 2005 to 2006 to having the third-highest from 2006 to 2007, at 6.5%.

Milwaukee County had the lowest residential property value growth in the region, at 5%. This was Milwaukee County’s lowest growth rate in a decade and was less than half last year’s rate.

Table 3: Causes of residential growth, 2006-2007

Rank	Percentage of growth due to economic change	Percentage of growth due to new construction
1	Walworth	Washington
2	Milwaukee	Ozaukee
3	Racine	Racine
4	Kenosha	Waukesha
5	Waukesha	Kenosha
6	Ozaukee	Milwaukee
7	Washington	Walworth

Table 3 ranks the region's counties according to increases in residential property values due to economic change and new construction. Washington County, boasting 5.6% growth in residential value, was the only southeastern Wisconsin county with a higher percentage of growth from new construction than economic change.

Among regional municipalities, Walworth County is the area to watch for residential property value. Eight of the top 10 municipalities in growth are in Walworth County, with the city of Delevan showing the highest growth rate of 26%. The city of Milwaukee grew 6.1%, ranking it 64th among municipalities.

Commercial property values

Commercial property value in southeastern Wisconsin showed its lowest growth since 2000. Commercial value grew 6.5% from 2006 to 2007, while growth from 2005 to 2006 was 12.3%, the first time southeastern Wisconsin's growth has been below the state's since 2002. With growth of 7.3%, the state showed its lowest commercial property value growth since 2003.

Ozaukee County went from having the lowest commercial property value growth in southeastern Wisconsin from 2005 to 2006 (4.2%) to having the highest growth from 2006 to 2007 (10.7%). Part of Ozaukee County's significant growth may have been because of a correction for the last two years. This correction is notable in the county's designation that 60% of its commercial property value growth was due to an "other" category of change, as opposed to being driven by an economic change or new construction. Ozaukee County was the only county in the area with higher growth this year compared to last year.

Table 4 shows county commercial property value growth rates. While Milwaukee County showed the highest increase in the region at 15.5% last year, in 2006-2007 it had its lowest increase since 2003, at 7.1%. Milwaukee County has long had the largest commercial tax base in the region. At \$19.3 billion this year, it was twice as large as the next-highest county, Waukesha, at \$9.6 billion. Both Waukesha and Walworth counties showed lower annual in-

Table 4: Change in commercial property values

	2007		
	Commercial Property (Billions)	2005-2006 % change	2006-2007 % change
Ozaukee County	\$1.4	4.2%	10.7%
Racine County	\$2.4	11.8%	8.4%
Washington County	\$1.8	10.6%	7.2%
Milwaukee County	\$19.3	15.5%	7.1%
Kenosha County	\$2.5	11.4%	5.2%
Waukesha County	\$9.6	8.8%	5.1%
Walworth County	\$1.5	9.7%	2.1%
Southeastern Wisconsin	\$38.5	12.3%	6.5%
State of Wisconsin	\$87.9	10.2%	7.3%

creases in commercial property value than any time in the past decade, with Walworth dropping sharply from 9.7% to 2.1%.

The city of Milwaukee's commercial tax base, the largest in the region, had its lowest growth rate since 2002, with a rate of 4.9%. This was less than a third of the previous year's growth rate of 18%. Its commercial tax base has grown 93.4% since 1998.

Manufacturing property values

Manufacturing is a much less significant portion of the region's total tax base than residential and commercial value, accounting for only 2.5% of the total state property tax base. It was the only southeastern Wisconsin property value sector in which 2006-2007 growth outpaced 2005-2006. Manufacturing property value increased 2.4% in the region from 2006 to 2007; the increase from 2005 to 2006 was 1.8%. Statewide, manufacturing value increased 3.2% from 2006 to 2007 compared to 1.4% from 2005 to 2006.

Table 5 shows county manufacturing property value growth rates. Walworth County showed the largest increase in manufacturing property value, 7.8%. This was the county's highest increase since 1999; the previous year it grew 2.8%. Washington, Kenosha, Milwaukee, and Racine counties also grew more in manufacturing property value than during the previous three years.

Table 5: Change in manufacturing property values

	2007 Manufacturing Property (Billions)	2005-2006 % change	2006-2007 % change
Walworth County	\$0.2	2.8%	7.8%
Kenosha County	\$0.5	2.8%	6.6%
Washington County	\$0.4	1.4%	4.5%
Milwaukee County	\$1.5	2.4%	3.5%
Racine County	\$0.4	-1.3%	2.6%
Waukesha County	\$1.4	1.9%	0.4%
Ozaukee County	\$0.3	0.7%	-7.0%
Southeastern Wisconsin	\$4.6	1.8%	2.4%
State of Wisconsin	\$12.2	1.4%	3.2%

Racine County showed its first increase in manufacturing property value since 2003, following three years of decreases. From 2005 to 2006, it decreased 1.3%. While Waukesha County increased 0.4%, this was its lowest increase in the last 10 years. Its growth rate from 2005 to 2006 was 1.9%.

Ozaukee County was the only county in the region to experience a decrease (7%) in manufacturing tax base from 2006 to 2007, while the previous year it had increased 0.7%.

Of the 147 southeastern Wisconsin municipalities, 120 had a manufacturing tax base in 2007. The city of Milwaukee’s manufacturing tax base decreased 0.3%, following an increase the previous year of 4.3%.

Per capita property value

Southeastern Wisconsin continued to have a higher per capita property value than the state, as illustrated by Chart 3. The 2007 per capita property value was \$94,857 for southeastern Wisconsin and \$88,157 statewide. Both the state and the region showed smaller increases in per capita property value from 2006-2007 than from 2005-2006.

Walworth County had the highest per capita property value for the second year in a row, at \$145,024. It increased 9.5% from 2006 to 2007, the highest increase in southeastern Wisconsin, slightly down from the previous year’s increase of 12.8%.

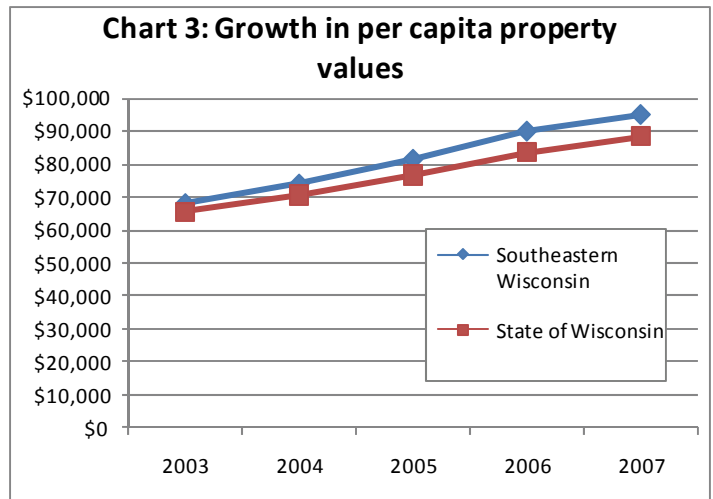


Table 6: Top- and bottom-10 municipalities in per capita property values in southeastern Wisconsin, 2007

Municipality	Top 10	Municipality	Bottom 10
Village of Chenequa (Waukesha County)	\$971,508	City of Cudahy (Milwaukee County)	\$70,513
Village of Oconomowoc Lake (Waukesha County)	\$747,623	Village of Union Grove (Racine County)	\$70,439
Town of Linn (Walworth County)	\$676,753	Village of Darien (Walworth County)	\$70,254
Village of Fontana (Walworth County)	\$655,346	City of Kenosha (Kenosha County)	\$69,022
Village of Lac La Belle (Waukesha County)	\$398,105	Village of Newburg (Washington County)	\$66,202
Village of River Hills (Milwaukee County)	\$314,356	City of South Milwaukee (Milwaukee County)	\$65,347
Town of La Grange (Walworth County)	\$312,742	City of Milwaukee (Milwaukee County)	\$53,995
Village of Williams Bay (Walworth County)	\$277,185	Village of Sharon (Walworth County)	\$51,771
Town of Delavan (Walworth County)	\$228,572	City of Racine (Racine County)	\$50,640
City of Pewaukee (Waukesha County)	\$221,730	City of Whitewater (Walworth County)	\$49,079

All seven counties had a lower percentage increase from 2006 to 2007 than from 2005 to 2006. Four counties had a per capita property value of over \$100,000: Walworth, Waukesha, Ozaukee and Washington. Milwaukee County had the lowest per capita property value, at \$71,607, and showed an increase in value that was less than half that of the previous year (5.5% vs. 12.5%).

The top eight municipalities this year are identical to last year. Table 6 shows the top 10 municipalities in per capita property value. Only one municipality in the top 10 was not in either Walworth or Waukesha county: the village of River Hills, in Milwaukee County, ranked 6th.

The city of Whitewater had the lowest per-capita property value in the region, at \$49,074; the city of Milwaukee had the fourth-lowest per capita property value, at \$53,995. The village of Chenequa had the highest, at \$971,508 per capita.

Conclusion

It was inevitable that growing national economic turbulence would put the brakes on the explosive growth in property values experienced by the region during the past several years. Whether the slowdown in growth between 2006 and 2007 is a precursor to an even greater slowdown for 2008 — or whether this will set in motion a lengthy period of slow or moderate growth — is uncertain. Government officials, however, should be prepared for the potential ramifications that reduced property tax

base growth can bring, including more restrictive caps on property tax levies.

The past year also was notable for breaking southeastern Wisconsin's five-year stretch of overall tax base growth greater than that of the state. Southeastern Wisconsin counties showed smaller increases from 2006 to 2007 in total equalized values, residential values, and commercial values. Again, whether this was the beginning of a trend or a one-year occurrence is unknown, but the continued strength of the Illinois border counties may speak to the need for continued focus on highlighting the region's proximity to northern Illinois as a means of ensuring that the region's growth remains on par with that of the State.

This report on property values is the first in a series of two that the Public Policy Forum releases every year. Look for the Forum's accompanying analysis of property tax rates to be released and posted to the Website later this spring. To the extent that tax base growth decreases, it is possible that property tax levy rates will need to grow to generate sufficient revenue for local government needs.

***Please go to our Web site:
www.publicpolicyforum.org
to download tables in Excel format showing
every southeastern Wisconsin municipality's
equalized property value and per-capita property wealth.***