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# Softer real-estate market doesn't equal appraisal relief

## Property owners confused, frustrated by system as values rise in Travis County.

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Standing on the manicured front lawn of his well-kept Northwest Austin home, Tom Matherly puffed on a cigar and launched into a bluntly critical assessment of how the government determined what his home is worth.

"The homes on a street should have the same value" for tax purposes, said Matherly, whose blond-gray mustache quivered with indignation as he described how appraisers had decided his home was worth significantly more per square foot than his neighbors', despite being nearly the same general design and age. He said he doesn't believe the softening real-estate market would match the \$252,453 appraisal, either.

"I'll sell the house for that right now, so if you want it, get out your checkbook," Matherly recalled telling a government appraiser. "Cause I can't get that."

**As Travis County homeowners and businesses cope with another year of rising appraisals — which can lead to higher tax bills — complaints like Matherly's surface frequently. Property owners have questioned how the appraisal notices that arrived in May can show home values soaring amid news of a market that's losing steam. There also are the usual complaints that appraisals are based on inaccurate or incomplete data, a situation created at least in part because government appraisers in Texas have access to limited information.**

Those complaints intensify in markets that have been bustling, and this year's appraisals sent plenty Travis County residents' blood pressure soaring. **Overall, average home values in Travis County rose 11 percent, excluding new houses, as did the median value, a reflection that moderately priced homes felt the increases as much as higher-end ones.**

Like the past few years, concentric circles formed around downtown Austin; the closer the circle to the city center, the higher the average increase, generally speaking. ZIP codes in Central East Austin, Travis Heights, Tarrytown, Hyde Park and the Westlake area saw average home values rise between 9 percent and 27 percent, excluding new homes, according to Statesman statistical analyst Robert Cushing. Average values in Lake Travis communities also spiked. And three ZIP codes along the Travis/Hays border rose between 7 percent and 12 percent.

Today's market, yesterday's data

At first blush, those numbers seem at odds with real estate trends. Although the problems affecting much of the country have not slammed Austin, the market here is slowing. Total sales are decreasing, and houses are staying on the market longer. By some measures the average sale price of a new home also has dipped slightly.

Still, the appraisal notices that hit the mailboxes in May mostly showed big increases.

**That is because most of them were finished by the end of 2007, before the Austin market softened as the damage created by banks loaning money to people who couldn't afford homes spread into the broader credit and real-estate markets.**

"The appraisals," said Patrick Brown, chief of the Travis Central Appraisal District, "reflect what was happening in 2007, not 2008."

To some property owners, that distinction hasn't been clear. Charles Pennie, who serves on a panel that hears appraisal protests, said property owners have been arguing their case by citing sales comparisons as recent as May 2008. That's far too late for the appraisal district to consider in establishing 2007 values, Pennie said. The cutoff is Feb. 29.

Confusion about appraisal time frames "is the biggest trend I've seen this year," Pennie said. "A lot of taxpayers don't necessarily understand the process, and it's not always made clear to them that appraisals are a year behind."

Stable values

don't equal relief

What that means is the effects of today's market won't affect most people's appraisals until notices hit mailboxes next May.

There could be some smiles then. Some experts, including real estate consultant Charles Heimsath, say they expect flattening or even slightly declining home values this year, which in some cases will mean an appraisal that isn't any higher.

But if home prices level off, appraisal relief still might not follow for years, particularly in the neighborhoods ringing downtown Austin.

That is what Doug Johnston is facing. The appraised value of his two-story, white-trim home off Barton Springs Road has jumped 110 percent since 2004, to \$551,546.

**A statewide cap on home appraisals has provided some relief. The cap prevents a home's taxable value from rising more than 10 percent a year.** Thanks to the cap, Johnston's home is being taxed as if it's worth \$391,149 — which will save him about 27 percent this year in property taxes.

If neighborhood values stop rising, the cap benefit will gradually vanish. The taxable value of Johnston's home would continue rising 10 percent a year for four years, until the cap protection disappeared and the home was being taxed on its full appraised value.

"The cap," said Johnston, who bought the home in 1984 for about \$94,000, "is a temporary benefit."

Cary "Peach" Reynolds, a friend of Johnston's who sells real estate in the Barton Springs area, said most of his clients and friends haven't realized this. He predicted confusion and anger next year for property owners across Travis County.

"Sticker shock in Austin," he said, "is just being delayed."

### Big swings

In some cases, the shock is immediate. The cap does not apply to second homes, empty lots or businesses.

Terry Register isn't naive about the real-estate game. The 54-year-old has purchased several foreclosed properties through the years, fixed them up and sold them.

Even he got caught off guard by the wild appraisal increases of recent years. His situation is unusual, but his reaction to appraisals is common: Those who want to sell are happy when values rise, while those who don't want to sell are often unhappy.

In 1982, Register and his father bought five acres near Lago Vista, on which Register planned to build a retirement home.

Two decades later, the area became a hot spot. From 2001 to 2006, the value of Register's lot rose nearly fivefold, to \$298,355. The taxes skyrocketed to \$5,045, a 767-percent increase.

Register is not disputing the appraisal district's assessment of the property. But he says the increased taxes left him with more basic concerns about the property tax system, in which taxes rise and fall without regard to a person's ability to pay them. Register said the only way to make enough money to pay the taxes was to sell the property.

Two years ago, he did. He said the contract prohibits him from saying how much he got, although he acknowledges the land fetched a good price.

Greg Billings, a longtime real estate broker in the Lake Travis area, said Register's situation mirrors what is happening to some other longtime property owners there. Billings, who owns three lots on the north side of the lake and one on the south side, says he believes he, too, will be forced out one day.

"I hate to say it, but only the affluent are going to be able to hold and invest in waterfront property," he said, acknowledging that those who sell usually make a tidy profit. But he, and others, say the pressures are affecting other parts of Travis County, such as Tarrytown and Central East Austin.

"Did I make money? Yes, I did," Register said, "I would have given anything to have kept my property, but I was forced to sell it. ... I really feel like it's the old days when they ran people out of Dodge."

### Appraisal angst

Carole Price says she has had similar thoughts.

She lives near Zilker Park and owns several rental properties nearby whose values have doubled since 2000. As a result, she said, profits have diminished, because rents can't be increased as fast as tax bills have risen.

If she sold, she would hit a one-time jackpot and doesn't see herself facing any hardship. But she said she doesn't like the idea of taxes forcing such a decision, and said the appraisal increases are also taxing middle-class renters — people with situations similar to her own a few years ago — out of her neighborhood.

She said she would be facing the same situation if the family had been less fortunate.

"If my husband hadn't been so successful, if he was making the kind of money he made 15 years ago, we would have to sell," Price said. The problem with the property-tax system, she said, "is it assumes people's income goes up like the property taxes do."

She and Johnston, who also owns rental properties near Zilker Park and has seen his profits cut, say recent appraisals have left them so frustrated they've pondered what was once unthinkable: a state income tax.

In the Legislature, the idea almost always dies without a hearing. Ideally, advocates such as Price say, if Texas did create an income tax, every dollar collected through it would be a dollar less the state collected in property taxes. Price and Johnston see an income tax as a way to more closely mirror people's ability to pay.

But Johnston says he also fears property taxes would rise to previous levels shortly after an income tax was created.

"I've never been a fan of the income tax," Johnston said. "If we trusted the government ... I think it would get a lot of support. But people don't think the government would keep it revenue-neutral."

### Backbone of the system

The complaints have led many Texans to think that the appraisal system and the property-tax system in general aren't working right and have led lawmakers to regularly raise the issue when the Legislature is in session.

Two years ago, lawmakers approved a one-third cut in school property tax rates as part of a school finance reform package.

But the anticipated tax cuts have been blunted by rising appraisal values. Many property owners got an actual savings of 15 percent or less — and only on the school portion of their property tax bills — because of rising property values. And the angst persists.

The overall tax burden in Texas is still lower than most states. But few states rely on property taxes as heavily as Texas, according to the national Institute on Taxation and Economic Policy and other think tanks. Most states also make public the sales price of a property, but Texas does not, which leaves government appraisers with limited information.

"We're one of the most property-tax dependent states," said Dick Lavine, a policy analyst at the Center for Public Policy Priorities who also sits on the Travis Central Appraisal District's governing board, "and at the same time we're one of the only states doing appraisals blindfolded."

This leaves appraisers to glean property values by sending out inquiring fliers, chatting up real-estate professionals and compiling information from people protesting the value of their property, among other back-door methods.

The state comptroller has determined for several years running that appraised values in Texas are almost identical to market values. But it's easy to find people who question fundamental assumptions in the system. Sometimes they don't agree on the solution.

Like many others in the real-estate business, Reynolds says the appraisal district once habitually valued properties well below their actual value and has been surprised by what he considers an about-face. He said the appraisal district also doesn't take the condition of a property into account often enough, resulting in run-down houses being valued above what they sell for.

Matherly says he sees things just the opposite.

Every lot on his North Austin block is valued at \$50,000, but his house is valued at \$202,453, about \$50,000 higher than his neighbors'. Matherly said the appraisal district justified widely varying per-square-foot values by saying some houses are dilapidated, decreasing their value.

This could be explained as mirroring the market (as Reynolds wants). But Matherly sees the practice as one that pushes higher taxes onto homeowners for taking care of their property.

"What they're telling me is, don't mow my lawn, don't fix up the house ... " said Matherly, who lives just off Spicewood Springs Road near U.S. 183. "This makes 'Keep Austin Beautiful' a joke."

**Courtesy of JB Goodwin**