



MYTH: Blanket Upzoning Will Not Result in Higher Property Taxes

What impact could the Land Development Code Revision have on property taxes?

... All property appraisals are market driven. It is unclear whether proposed zoning changes would impact property taxes for single-family homes, positively or negatively.

— [City of Austin Land Development Code Revision website](#)

In a long discussion in a [city council work session](#) with Marya Crigler, chief appraiser at Travis County, it was suggested through questioning that there is nothing to fear: taxes on your home will not go up because of upzoning, but, at most, may cause a shift between the value of the land and the value of the structure. In other words, that only the market, and not upzoning will impact tax appraisals. But that, of course, ignores the question whether upzoning and redevelopment impact the local real estate market.

Council Member Alison Alter hones in on this point:

Alter: So overnight changing the zoning is not going to change people's property evaluations.

Crigler: No.

Alter: However, once the market gets going, if the market decides that those entitlements demand a greater sales price there could be a knock-on, domino effect if you have similar structures for that first sort of sale period, but that knock-on may or may not happen ...

Alter: So my question is that if — what I've been trying to understand is the incentives we're creating for the market demand on the impact of the property values. ... And what I'm hearing from the discussion is from your perspective simply changing the zoning doesn't change the property value, but it's the market's response to that change in the property value that will impact property values.

Crigler: That's correct.

— [City Council Work Session Meeting Transcript – 6/20/2017](#)

Council member Tovo then focuses on entitlements and market values:

Tovo: If increased entitlements impact market values, those market values will impact property owners around them.

Crigler: Yeah. Our requirement is to appraise properties at market value. So that's what we're going to try to do is determine what the market value is. We're going to listen to the market and let it tell us ... If the market responds to increased entitlements then our appraisals are going to go reflect the market.

— [City Council Work Session Meeting Transcript – 6/20/2017](#)

In a more recent work session, Council Member Alter (a Ph.D. economist) expanded her logic on the impact of upzoning on property taxes:

*Alter: So my understanding that there's two parts to this question about the property taxes that people will experience after we make a change. So, one is what happens overnight when you change their zoning? Does their property value change? The answer to that is no because the zoning — the appraisal district doesn't base it on the zoning. But then there's a question of what is the knock-on effect that happens after that once houses start selling on your street that have the upzoning? And that house that sold looks just like your house and then that affects your, but the property values that you will be judged against when the appraisal district gets to relooking at stuff will be looking at that property if that property — because when it was sold it was still the same house type as yours, which is what they're looking at. They're not looking at what it's going to be used at next. They're looking at what it was when it was sold. **So I think there's a distinction here when we talk about the property taxes that, yes, changing the zoning doesn't affect the property taxes, but changing the zoning affects the entitlements on the properties and when you change the entitlements on the properties you change the value of the properties and when they're sold they're worth more and then that impacts your property if they're sold on your street.***

— [City Council Work Session Meeting Transcript – 11/12/2019](#) (emphasis ours)

The chief appraiser has spoken specifically about transition zones around corridors:

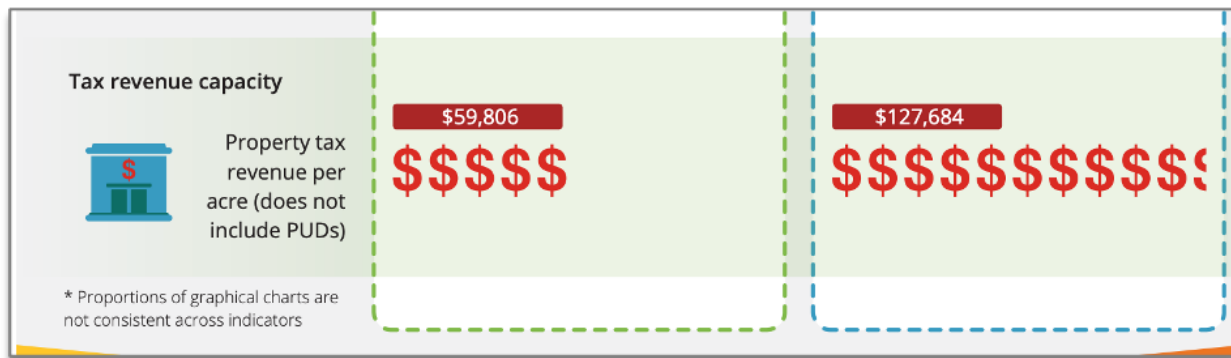
If it becomes apparent over time that a substantial number of single-family homes in transition zones are selling for more than single-family homes without those entitlements, Crigler said the district would likely try to determine why that is the case and potentially incorporate those sale prices into valuations of other homes within transition zones.

— [Austin Monitor, Dec. 4, 2019](#)

Upzoning of rental properties will definitely affect tax appraisals because the homestead valuation provision does not apply to rental property. When appraisals go up, rents go up. When rents go up, tenants will be displaced when the property becomes unaffordable.

A University of Texas study on [Housing Development and Policy](#) (Jiao et. al.) showed that “ADU development, as well as all redevelopment, greatly increases property value.”

This chart from the COA's [Code Next Report Card](#) for Draft 3 of the proposed code revision, comparing tax revenue per acre under the their estimate of the current code versus Draft 3. Draft 3 forecasted 287,000 total new housing capacity. This COA chart reveals that the City estimates that the increased entitlements (upzoning) will more than double the capacity for property tax revenue per acre acknowledging the potential impact of the code revision on property taxes.



Conclusion

Because of state law, upzoning a single-family residence does not alone increase its or its neighbor's valuation for property tax purposes as long as it continues to be used as a homestead-protected single-family residence. However, the additional development entitlements make these properties more valuable to investors and developers wishing to redevelop the property at higher densities. As these properties are sold for higher values for redevelopment, those higher values will increase the market value of properties in the neighborhood. The increased market values will increase the amount of TCAD's tax appraisals, raising the taxes for those wishing to stay in their homes. So, yes, blanket upzoning is designed to result in higher property taxes.