Negative Effects on Real Estate Markets

Appraisal caps very likely to have negative effects on the real estate market. The following example shows why.

Suppose a young married couple purchase a starter home in Austin for $120,000. Suppose that a three-percent appraisal cap is in place, and that the home's market value increases by eight percent annually. After ten years, the home is worth $239,880, but the owners are paying taxes on an appraised value of only $156,573. If the total property tax rate is $2.50 per $100 of assessed value, the owners are paying $3,914 annually in property tax. That's just 1.63 percent of the home's actual value.

After ten years, the couple consider buying a larger home for $300,000. Because a home's assessed value "pops up" to market value when it is sold, the couple will pay property taxes on the home's full market value of $300,000. At a composite tax rate of $2.50, the property tax bill will be $7,500, or 2.5 percent of the home's actual value. The couple will probably be very surprised to find that purchasing a new home means that property tax (expressed as a percentage of market value) will go up by more than 50 percent! In this way appraisal caps represent a disincentive to purchasing a new larger home.

-- Excerpted from draft interim report,
House Local Government Ways & Means Committee