



# A property tax reckoning is coming

Property taxes are rising unevenly across the country, triggering concerns for affordability

In Spokane, Washington, a mortgage loan officer at a regional bank has seen five borrowers qualify for a mortgage for one amount, only to have that number slashed a few months later.

“They were approved in December,” he said. “Now they’ve gone from \$450,000 down to \$325,000.”

The reason behind the change, he said, is not that they had a sudden reduction in income, or an emergency expense that drained their savings. The culprit is property tax bills, which arrived on April 1, bearing property tax increases driven by fast-rising home prices.

In Spokane, the average property tax bill has risen from about \$2,500 in 2019 to about \$3,000 in 2021, tax assessment data shows. Depending on a specific property’s assessment, however, the increase can be much higher.

For those hoping to buy a home with a mortgage, property tax increases can reduce their debt-to-income ratio, and thus the amount they qualify for. But underwriters only factor in current property tax rates, not future increases. So existing homeowners can be caught off guard when there is a gap between what is held in escrow and tax bills that come due.

Most conversations surrounding the affordability crisis have focused on headline-grabbing home price increases, bidding wars, racial disparities in home appraisals and a lack of supply. But a property tax reckoning is coming, even if its arrival date is at some distant point in the future.

“Assessments won’t catch up to the increases for some time,” said Rick Sharga, executive vice president of market intelligence for real estate data firm **ATTOM**.

But the increases are already in progress. There have been large increases in areas that saw large home price increases and recently updated tax assessments.

The average property tax bill in Tennessee, which has one of the lowest tax rates in the country, saw a 30% increase in average property taxes paid on single-family homes last year, according to ATTOM. Average property tax bills in Milwaukee increased 19%. Residents of Baltimore saw their tax bills rise 12% in 2021.

But property taxes vary dramatically from state to state, city to city, and even within cities where there are multiple tax authorities. Further clouding the picture, property taxes tend not to move in concert with home price increases. Rather they lurch forward and back on an uneven schedule, trailing the market by years, depending on intervals set by tens of thousands of separate localities.

“Assessment values always lag home prices, on the way up and on the way down,” Sharga said.

As house prices continue their meteoric rise — although rate hikes from the **Federal Reserve** may cool increases — prospective borrowers and existing homeowners are seeing their property taxes grow bigger and bigger.

“We’re in uncharted territory,” said Joan Youngman, who chairs the department of valuation and taxation at the **Lincoln Institute**. “No one knows how this will all play out.”

### **Pick your battles**

Racial disparities in appraisals are far less clear than property taxes. But the federal government has fixed its might on the former.

The strategy has irked appraisers, in large part because they feel the federal government has not yet proven its case. The government-sponsored enterprises possess the largest historical data set of appraisals, but studies on appraisal bias have been limited to self-reported values and other proxies to understand its pervasiveness. Lawmakers, academics, fair housing and trade groups have all bemoaned the lack of appraisal data.

For property tax assessments, there is no such obstacle.

In 2020, researchers Carlos Avenancio-León of **Indiana University** and Troup Howard of the **University of California-Berkeley** combed through tax assessments at 118 million properties. Avenancio-León and Howard found that, on average, the ratio of a Black resident’s property assessment to sales price is nearly 13% higher than for a white resident.

For Black or Hispanic residents overall, the average assessment gap is about 10%. The puffed-up assessments mean minority homeowners pay about \$300 to \$390 more each year than they would if their tax burden were in line with that of white homeowners.

Minority homeowners are paying more for public services relative to the market value of their homes, the researchers wrote, a dynamic the researchers demonstrated in all but a handful of states.

Sixteen years prior, Lee Harris, an associate at **Baker, Donelson, Bearman, Caldwell & Berkowitz**, wrote in **Florida State University Journal of Land Use** that racialized property tax assessments is “startling.”

Harris wrote that the increased tax burden could discourage minorities from becoming homeowners.

“High property taxes are a direct cost to potential homebuyers and, if too high, they will dissuade some minority non-homeowners from making home purchases.”

### **Unstoppable force**

In Texas, lawmakers limited property tax rate increases even before the COVID-19 housing rush sent home prices skyward. But it wasn't enough to stop taxes from rising.

Although school tax rates dropped 13% after [the legislation](#) passed in 2019, taxable values — propelled by the white-hot housing market — were up 23% in the same period, the **Texas Taxpayers and Research Association** found.

The full extent of how much property taxes will rise is unclear, because the lag between home price appreciation and assessment cycles varies. In Lancaster, Pennsylvania, there has not been a reassessment of county-wide property values since 2018. The tax assessment office said there might be a reassessment in 2025.

Many states lack any mandatory reassessment cycle at all. The [Journal of Property Tax Assessment and Administration](#) wrote in 2019 that states, including California, New York, Maine and Pennsylvania, don't have a set interval for reassessments. Some states, like Vermont and Tennessee, go six years or more between tax assessments.

Just 10 states have mandatory annual assessments, which means that the bulk of the COVID-19 home price increases have yet to be reflected in property taxes.

That's borne out in tax assessment data from ATTOM, showing that \$328 billion in property taxes were levied on single-family homes in 2021, a 1.6% increase from 2020. It was the second smallest rise in the past five years.

### **Drive-by assessments**

Property taxes provide the majority of funding for local services, including school districts and road crews. Local governments raise over five times more revenue from property taxes than from sales taxes, and over 10 times more than from income taxes, data from the **Department of Commerce** show.

But unlike the appraisal required for a mortgage loan – a process which has only recently added a remote option in limited instances – tax assessors only look at properties from the outside.

Assessments are “really less accurate than an actual appraisal,” said Alison Tulio, president at **Incenter Tax Solutions**. “They just don’t have the manpower.” Her company assists homeowners in lodging appeals to their assessed values.

There is certainly a lack of local resources to carry out an exhaustive accounting of property values. According to Craig Haertter, director of assessment in Pennsylvania’s Lancaster County, there are just 11 evaluators in the Lancaster office tasked with evaluating all 168,000 residential parcels every few years.

In contrast, home appraisals are ordered up only when a house sells and is financed with a mortgage, or when an owner chooses to refinance.

Another reason tax assessors are on the outside looking in is that they are not usually welcomed by homeowners.

“There is a great reluctance on part of most homeowners to have an interior inspection,” said Youngman. “It’s not just a question of resources, but the intrusiveness on someone’s home.”

Assessors do visit properties, but are not required to go inside. Assessors calculate square footage by taking outside measurements of the property, and rely on data the homeowner furnishes.

That data is then fed to a software program that uses a proprietary model to calculate the property’s value. Assessors rely on building permit records – and the homeowner’s self reporting – to stay abreast of renovations that raise the home’s value.

### **Taxpayers revolt**

In the late 1970s, rapidly increasing house prices in California resulted in bigger property tax bills. As a direct result, voters rallied behind legislation to curtail yearly property tax increases to 2% – a “tax revolt” that reverberated across the country.

“It became a bellwether for other states,” said Youngman.

Other states soon followed, including Massachusetts, which passed a similar provision a few years later.

The so-called tax revolt only happened after taxes had already risen substantially. Measures to limit taxes and increase exemptions are cropping up in areas that saw a dramatic influx of remote workers, like Montana and Idaho.

"I don't know how a local tax assessor in Boise can justify raising taxes on a resident who just happened to be living in a house when a bunch of out-of-towners came in and overpaid for properties," Sharga said.

The "sticker shock" may well trigger tax revolts, Sharga said. Those revolts can take many forms.

Famously, a tax levied on buildings windows in 17th century England was meant to lighten the tax burden on the poor, who generally had fewer windows in their homes. But it failed to consider the poor in cities, who rented rooms in tenements with many windows.

Landlords, who were responsible for paying the tax, defied it, and boarded up windows in their buildings. New buildings were built without sufficient windows, and an 1845 health committee found the window tax aggravated typhus and smallpox epidemics, and was the "primary cause of much sickness and mortality."

Modern approaches to property tax relief include increased state aid, limits on tax rates or assessment, exemptions, deferrals and monthly payment plans.

The Texas Taxpayers and Research Association said that property tax rates are "dropping like never before."

"As property values rise, jurisdictions are finding they must cut tax rates or face voters," TTRA wrote in an April 2022 report. But Youngman cautions against viewing property tax rates and affordability as a zero-sum game.

"An increase in a few hundred dollars in a tax burden could be the difference between affordability and unaffordability," said Youngman. "But we also know that homeownership carries various uncertainties. Does that mean the property tax is the problem, or that this home is not the right home?"