

Tracking tax assessment trends in multifamily properties across Texas

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- Texas is one of only seven states without an individual income tax, which make property taxes an important revenue stream for counties and municipalities to fund schools, hospitals, and other governmental services.
- Each county has an appraisal district responsible for assessing a property's full market value at the beginning of each calendar year. Taxing authorities then use this assessed value to determine a property owner's tax liability.
- CBRE Research, in collaboration with CBRE's Debt and Structured Finance division, studied the dynamics of the assessed market values in a sample of nearly 450 multifamily properties that sold during 2017 across the major four Texas metro areas in order to gain insight into what, if any, spread exists between assessed values and investment sales prices.
- Our chief findings are contained below.

While there are established guidelines from the Property Tax Assistance Division of the Office of the Comptroller, the Chief Appraiser of each district maintains substantial discretion over the methods employed to assess the market value of each property. As with no individual state income tax, Texas is also one of only twelve states where a property's sales price is not included in public records, meaning assessing appraisal value against sales price value can be a unique challenge, making proprietary information particularly important when calibrating valuation and underwriting models.

CBRE's analysis shows that Austin leads Texas multifamily markets for highest average sales price during 2017. Meanwhile, our results for assessed value to sales price ratios are higher in Central Texas at 80%; major metros of Dallas-Ft. Worth and Houston near 66% in 2017. Interestingly, the assessed values from 2017 to 2018 were quick to align with sales price with an average increase of 16% in assessed value to sales price ratio across the region.

DFW LEADS MARKET IN NUMBER OF SALES BUT AUSTIN OUTSHINES ON TOTAL PRICE

In our sample, the DFW Metroplex saw the highest 2017 total number of sales transactions with more than the other three markets combined. Though DFW was dominant in overall transaction volume, the largest property sales prices belonged to the smallest of the four markets: Austin. The state capital's market led Texas with an average transaction sales price of \$32.5 million, explained in part by the youth of the properties sold, as 26% of them were completed since 2010 compared to an average of 13% for the remaining three metros.

Sales Price & Assessment Value: Summary Statistics

MARKET	#	Sales Price (2017)		Assessed Value (2017)		Assessed Value (2018)	
		AVERAGE	MAXIMUM	AVERAGE	MAXIMUM	AVERAGE	MAXIMUM
DFW	231	\$23.62M	\$115.50M	\$16.45M	\$69.90M	\$20.58M	\$78.60M
HOU	104	\$20.20M	\$90.50M	\$14.70M	\$101.35M	\$16.35M	\$86.32M
SAN	53	\$21.89M	\$75.73M	\$19.50M	\$72.50M	\$21.37M	\$76.00M
AUS	59	\$32.46M	\$158.25M	\$27.84M	\$149.82M	\$32.47M	\$159.54M
Texas Overall	447	\$23.79M	\$158.25M	\$17.91M	\$149.82M	\$21.26M	\$159.54M

Source: CBRE Research, 2018.

TEXAS MULTIFAMILY ASSESSMENT VALUES QUICK TO ALIGN WITH SALES PRICE

The assessment value to sales price ratio is the basis for CBRE's analysis of appraisal trends by Texas metro market. By comparing the assessed value of the property to the actual sales price, we were better able to characterize the tax burden a property owner is likely to encounter in the major metros.

The first takeaway from this CBRE study is the overall diversity in the assessment-to-sales ratio across the Texas markets. Central Texas has the highest average ratios in 2017 with both markets over 80% whereas the major metropolitan areas of Dallas-Ft. Worth and Houston both have average ratios near 66%.

The second takeaway from this study is the quick alignment from the assessed value prior to sale to the actual transaction price. The assessment-to-sales ratio revision from 2017 to the 2018 preliminary figure across Texas was a substantial 16% increase. Dallas-Fort Worth alone averaged a 18.9% increase in the assessed to sales ratio year-over-year.

Assessment-to-Sales Price Ratios

MARKET	#	Assessment-to-Sales Price Ratio		
		2017	2018	CHANGE
DFW	231	65.9%	84.8%	+18.9%
HOU	104	66.5%	79.1%	+12.6%
SAN	53	86.6%	96.3%	+9.7%
AUS	59	80.8%	96.3%	+15.5%
Texas Overall	447	70.4%	86.4%	+16.0%

Source: CBRE Research, 2018.

BUT WAIT, THERE'S MORE: STAY TUNED FOR A 2.0 LATER THIS YEAR

CBRE Research will continue to track the assessed value of these properties as these preliminary numbers are finalized by the appraisal districts later this year.

As a result, look forward to an update on what impact property tax protests have on final assessment-to-sales ratios across major Texas metros in addition to repeating this same type of analysis in 2019.

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