

Our Broken Commercial Property Tax System Burdens Homeowners and Communities

It's Time for Real Values for Texas

Under state property tax law, all properties in Texas are supposed to be taxed at 100 percent of their market value.

However, while most homeowners pay taxes on the real value of their property, many large commercial property owners routinely use appeals and lawsuits to avoid paying their fair share. Over the last five years, homeowners have carried the burden of approximately \$5.6 billion more in property taxes because of the state's largest commercial property owners' manipulation of the property tax system. When large commercial property owners shirk their responsibility, ordinary homeowners pay more property taxes to make up the difference. It leads to frustration among homeowners and erodes support for our schools and other public services

Taxes Shifted from Commercial Property Owners to Homeowners:¹

Appraisal District	For Schools:	For Hospitals:	For Other Services:	Total Shift:
Dallas County	\$646.3	\$134.3	\$520.6	\$1,301.2
El Paso County	\$117.9	\$18.1	\$108.3	\$244.3
Bexar County	\$387.2	\$79.1	\$290.6	\$756.9
Travis County	\$404.1	\$24.1	\$331.5	\$759.7
Tarrant County	\$398.4	\$66.4	\$319.9	\$784.7
Harris County	\$871.3	\$129.8	\$783.4	\$1,784.5
TOTALS	\$2,825.2	\$451.8	\$2,354.3	\$5,631.3

Chart shows estimated total lost revenue (in millions) over five years from top 500 properties in each major district. Where available, data is from 2009-2013; some districts use 2008-2012 data.

Large commercial property owners are exploiting a broken system.

Both the Houston Chronicle and the Texas Association of Appraisal Districts have found that commercial properties, in their sample studies, were appraised at about 60% of actual sales price. The property tax law has been revised over the years to make it more and more open to manipulations that particularly benefit large commercial property owners.

Property sales prices are secret. Texas is one of only 11 non-disclosure states in which real estate transactions are not required to be collected for valuation purposes. Appraisal districts can buy sales data for residential properties from realtors in many counties. However, similar sales data for large commercial property is not available.

Commercial owners have the resources to manipulate the system. Most large commercial property owners take advantage of the lack of information around the real value of properties and appeal appraisals each and every year. If their appeals are not initially successful – and even sometimes when they are – many large commercial property owners sue for further reduction on their taxes. Appraisal districts, with limited resources and an overwhelming number of appeals, often settle.

The appeals process encourages race to the bottom. Texas is truly unique in its appeals process. Owners do not have to prove that their valuation is wrong. The so-called “equity” provision only requires them to find other allegedly

¹ The Houston *Chronicle* found commercial buildings it surveyed (in Houston) appraised at an average of 60% of sales price. The Texas Association of Appraisal Districts found similar results. See Texas Association of Appraisal Districts, “[Why Do We Need Mandatory Sales Disclosure in Texas?](#)” (2007); Loren Steffy, “[A Dated Law on Commercial Real Estate](#),” Houston Chronicle, 2/3/2012. See also, “[Unequal and Unfair: Why Texas Should Require Mandatory Sales Price Disclosure to Reconcile the Texas Property Tax Code with the Texas Constitution](#),” *St Mary's Law Journal*, 5/10/2010.

“comparable” properties assessed for less, even if those appraisals might be inaccurate. As a result, valuations are driven down for the whole category of commercial property.

Manipulation is against the broad intent of the law. All property in Texas is supposed to be taxed at “market value” -- what someone would buy or sell it for on the open market. The language is clear that all property owners should pay the same tax rate on properties in the same taxing jurisdiction.

Samples sales prices in the news provide a glimpse of how under-appraised buildings are.

Property Address	Final Appraised Value (2012 unless noted)	Sale price (year)	Appraisal as a % of actual sales price
Wells Fargo Plaza, 1000 Louisiana Avenue, ² Houston	\$288.7 million	\$510 million (2011)	57%
Four Allen Center, 1400 Smith Street, ³ Houston	\$191.5 million	\$340 million (2011)	56%
Bank of America Center, 700 Louisiana ⁴ Houston	\$197.4 million (2008)	\$370 million (2007)	54%
JPMorgan Chase ⁵ Tower, 2200 Ross Avenue, Dallas	\$195.9 million (2008)	\$289.6 million (2007)	68%
Fairmont Dallas, 1717 N. Akard Street, ⁶ Dallas	\$46.8 million	\$ 69.0 million (2011)	68%
Homewood by Hilton, 432 West Market Street, San Antonio ⁷	\$14.7 million	\$ 32.5 million (2011)	45%

It’s time for reform.

Even though the impact of our broken commercial property tax system is felt locally, solving the problem must happen at the state level in the legislature. For the first time, community leaders, public officials, and homeowners across Texas are uniting to call for reforms that will ensure that large commercial property owners do their part and pay property taxes on the actual market value of their properties.

It’s time for Real Values for Texas.



It is time for a fair property tax system that does not burden homeowners nor deprives communities of vital public services. **It’s time for Real Values for Texas.** Get more information at Realvaluesfortexas.org

² Real Estate Alert, “Metlife To Sell Houston Office Stake To ING,” June 8, 2011. <http://www.realert.com/headlines.php?hid=151910>

³ Alex Finkelstein, World Property Channel, “CHEVRON PAYS \$340 MILLION FOR 1.3-MILLION-SF HOUSTON OFFICE BUILDING,” June 30, 2011. <http://www.worldpropertychannel.com/us-markets/commercial-real-estate-1/chevron-oil-houston-office-building-sales-brookfield-office-properties-1400-smith-street-world-financial-center-4487.php>

⁴ As reported by Nancy Sarnoff, “Bank Of America Center, Downtown Icon, Sold,” *Houston Chronicle*, August 24, 2007. <http://www.chron.com/business/real-estate/article/Bank-of-America-Center-downtown-icon-sold-1816895.php>

⁵ SEC 8-K, November 16, 2007, PDF p. 8 <http://www.secinfo.com/d16hbz.t5.htm#1stPage>

⁶ Karen Robinson, “Major Real Estate Investor Buys Fairmont Dallas For \$69 Million,” Harvard Companies, Inc., August 2, 2011.

⁷ SEC 10-K for 2011, PDF p. 10 http://public.thecorporatelibrary.net/annual/ar_2011_172568.pdf