# INFLATION IN HOUSING TO TRIGGER UNPRECEDENTED INCREASES IN PROPERTY TAXES

## ABOUT THIS STUDY

For several years, Colorado Concern has been studying a range of issues and challenges associated with the manner in which Colorado collects property taxes. It is a complex and important public policy space with significant implications for our citizens and the state's economic competitiveness. Colorado's population growth, an expanding economic base, and economic tremors caused by the pandemic have added new wrinkles, new dimensions, and new unintended real-world implications that merit attention.

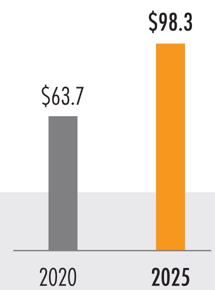
Colorado Concern takes a balanced view of property taxes. Property taxes are the central mechanism used by counties and local districts to fund vital local services, but they are also a significant cost driver for homeowners, small businesses, manufacturers, and other job creators. Care and attention must be applied to ensure that property tax policy appropriately balances both sides of the ledger.

**If property taxes are too low, basic local services that our citizens need and communities expect would be impacted; if our property taxes become unreasonably high, small businesses and homeowners would be devastated, Colorado's affordable housing crisis would be exacerbated, and the heart and soul of Colorado's economic advantage – a competitive and fair tax environment – would be compromised.**

Against this backdrop, Colorado Concern has commissioned a multi-faceted review of the state's property tax laws and policies with an eye toward improving and modernizing these laws. The first phase of this review has been to develop projections about how the state's current property tax regime will impact homeowners and commercial property owners in the coming years. The goal is to establish a baseline forecast that will give policymakers and the public a clearer view of how property tax liabilities will evolve into the future.

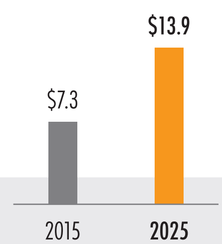
## CRITICAL FINDINGS

### Value




- The total assessed value of residential property is expected to increase 38.5% from $71.0 billion to $98.3 billion between 2021 and 2025. That will result in an over 50% increase from 2020 ($63.7 billion). Statewide, single family homes comprised 80.8% of total residential assessed value in 2020.
  - The average **single family** home market value is projected to increase by 29.9% from $465,741 to $605,068 between 2021 and 2025.
  - The average **residential condominium** market value is projected to increase by 31.9% from $419,547 to more than $553,305 between 2021 and 2025.
  - The average **multifamily** (rental) residential unit market value is projected to increase by 34.3% from $238,688 to $321,014 between 2021 and 2025.
- Increased valuations will result in an increase in property taxes of greater than 20% for the average property owner beginning in 2022.
- The total assessed value of non-residential property is expected to increase 15.3% from $60.0 billion to $69.3 billion between 2021 to 2025 (excluding oil & gas, natural resources, and producing mines).

### Revenue




- Total statewide property tax revenues are expected to nearly double from $7.3 billion to $13.9 billion from 2015 to 2025 (excluding oil & gas, natural resources, and producing mines property).
- The total non-residential assessed value is expected to increase 15.3% from $60B to $69.3B between assessment years 2021 and 2025, this is on top of the increase of 33.1% from 2015 to 2020 (excluding oil & gas, natural resources, and producing mines).

## UNDERSTANDING PROPERTY TAXES IN COLORADO

There are three variables that drive property taxes paid by residential and commercial property owners in the state of Colorado.

The first element is the **actual value** of the property that is being taxed, which is determined by county assessors on a two-year cycle in odd-numbered years.

The second element of property taxation is the **assessment rate**, which is 29% for commercial property owners in Colorado and 7.15% for residential property owners. (SB 21-293 temporarily reduced rates for agricultural and renewable energy production properties to 26.4%, multifamily residential to 6.8%, and single family residential to 6.95%. These rates will only apply to tax years 2022 and 2023.) The impact of the Gallagher Amendment over the last 40 years was to shift the relative property tax burden to commercial property owners as residential property values increased at a faster rate: the assessment rate for commercial properties stayed fixed while the assessment rate for residential properties was continually cut, resulting in a commercial assessment rate more than four times higher than residential. Multiplying the actual value of the property by the assessment rate yields the assessed value, which is the portion of the total value of the property on which taxes are applied.

The third element of property tax bills is the tax rate, which is generally expressed as a **mill levy**. A "mill" is $1 of tax per $1,000 of assessed value. Under Colorado's property tax rules, local taxing authorities such as counties, cities, and school districts determine the revenue they need from property taxes and set a mill levy to achieve it (subject to statutory and constitutional limits, and the provisions and requirements of the levy's authorization). Under state law, local taxing authorities are also allowed to ask voters to approve floating mill levies that automatically adjust when residential assessment rates changed to accommodate the requirements of the Gallagher Amendment. Floating mill levies – which account for roughly a quarter of statewide property tax revenues – provide more predictability in tax revenues for local taxing authorities, and both static and floating mill levies have been incorporated into the current analysis. Combining all the mill levies from the taxing authorities that provide services in a particular area determines the total tax rate for that area.

The way the tax bill for a property owner is set would be:

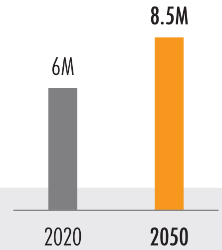
**(Actual Value) x (Assessment Rate) x (Mill Levy / 1,000) = Property Tax Owed**

For example, a residential home (which is assessed at 7.15%) worth $250,000 and taxed at 100 mills would owe $1,787.50 in property taxes:

**($250,000) x (0.0715) x (100 / 1,000) = $1,787.50**

Of those three variables, the assessment rate is currently frozen at 29% and 7.15% for commercial property and residential property respectively. The variability that property owners face in their tax bills, therefore, now depend on changes to the actual value of their property and any voter-approved changes to increased tax rates.

## SURGING PROPERTY VALUES AMID AN INFLATIONARY ENVIRONMENT POSE RISK TO COLORADO'S COMPETITIVENESS




The U.S. is experiencing a run-up in inflationary pressures that is unprecedented in the last four decades. As the price of everyday goods such as food, clothing, and gas hits a three-decade high, Coloradans also face another costly and looming threat: a record-setting increase in real property taxes driven by rapidly escalating property values all across the state of Colorado. The cause of this run-up in property values is well-known: Colorado's population is growing rapidly. The State of Colorado is projected to grow from just under 6 million residents in 2020 to over 7 million residents in 2040 and to over 8.5 million residents by 2050, and this population boom will continue to drive up the cost of all forms of property.

Though higher property values are a boon for sellers, homeowners and businesses – already burdened with higher costs due to rampant inflation – will soon find themselves confronting dramatically increased property tax bills as a result. Already beset by a shortage of affordable housing, this impending run-up in property taxes will make home purchases and rents even more expensive. For restaurants, retailers, and small businesses who lease or own commercial office space, this inflationary pressure on commercial properties could pose an existential threat as higher costs cut into tight margins for many businesses.

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## RECENT EFFORTS ARE NOT ENOUGH

### Gallagher Repeal

In recent years, property taxes have been thrust into the forefront as Coloradans expressed their concern over long-term trends. Voters passed Amendment B in 2020 to repeal the Gallagher Amendment, a constitutional provision that mandated that residential properties make up only 45% of the state's property tax base. Over the years since it was enacted in 1982, the distorting effect of the Gallagher Amendment became more pronounced as the tax burden on commercial properties grew relative to residential properties, many communities faced shortfalls in paying for essential services typically funded by property taxes, and local voters were asked to approve tax increases to cover those shortfalls. With its repeal, the state legislature locked in the residential assessment rate (RAR) at 7.15% and the commercial property assessment rate at 29%.

While the repeal of Gallagher put a stop to the continual increase in property tax burden on the state's businesses, homeowners in particular will still see a spike in the actual property taxes they pay because that existing tax rate will be applied to dramatically increased property values.

### SB 21-293

In 2021, the Colorado legislature recognized the looming threat and passed SB 21-293, providing property owners some relief from rising tax burdens resulting from dramatically higher property values. The bill provides an estimated $200 million in property tax relief by temporarily reducing assessment rates for tax years 2022 and 2023: the assessment rates for agricultural and renewable energy production properties were temporarily reduced to 26.4% from 29%, multifamily residential to 6.8% from 7.15%, and single family residential to 6.95% from 7.15%.

SB 21-293 also expands upon an existing property tax deferral program currently available for seniors and active-duty military members, allowing other residents to apply to have a portion of the property tax on their primary residence deferred each year if the amount currently owed exceeds the average owed over the past two years by more than 4%. Any amount over that 4% increase is eligible to be deferred, up to a cumulative total of $10,000 for the property.[1] The state loans the local government the amount deferred by the homeowner, and the local government in turn places a lien on the property to be repaid – with interest – when the homeowner sells or rents the property or can no longer claim the property as their primary residence.[2]

However, under SB 21-293, neither small businesses nor homeowners will see much meaningful relief. Commercial and industrial properties – other than agricultural and renewable energy – are still subject to a 29% assessment rate, resulting in a projected total statewide assessed value that will increase from $38.6 billion in 2021 to $38.7 billion in 2022 and $40.1 billion in 2023. Commercial properties also do not have access to the expanded property tax deferral program available to residential owners. Residential properties will see a small dip in total statewide assessed value from $71.0 billion in 2021 to $70.6 billion in 2022 before jumping to $83.9 billion in 2023. Despite the temporary assessment rate reductions enacted as part of the bill, many property owners will still face higher tax liabilities due to the increase in the base value of their property – a problem that will only become clearer after the rate reductions expire after 2023. Even the expanded property tax deferral program, though based on a worthwhile program aimed at aiding seniors and active-duty military members, is unlikely to see widespread participation by homeowners likely due to points of friction in its design and administration, including lack of awareness and a potential reticence by homeowners to place a lien on their property. The existing program only recorded 495 participants statewide in fiscal year 2021. According to the review of business data and intelligence firm, CoreLogic, the expanded program of 1.3 million owner-occupied properties in the state, based on tax data and projections, about 475,000 of those properties would have been eligible for the expanded program had it existed at the time, and fewer than 35,000 would have participated under CoreLogic's model, with an average deferral amount of $347.[3]

## RISING PROPERTY VALUES WILL LEAD TO HIGHER TAX BURDENS

*Total Statewide Property Tax Revenues Are Expected To Nearly Double From 2015 To 2025*

Although property prices have increased nationwide over the past year, Colorado has outpaced the national trend as prices in the state have surged. On the residential side, Colorado is one of only eight states in the country in which more than half of the state's ZIP codes logged double-digit gains over the past year.[4] Due to the guidelines set out in Colorado statute, the latest property value assessment – occurring biennially in odd-numbered years – is based on the appraisal date of June 30, 2020, which was mere months into the pandemic in the United States and well before property values began their steep ascent. The timing of the assessment cycle spared property owners net tax increases over the next two years, but that has only delayed the pain. Looking ahead to the next assessment in 2023, then, property owners are likely to see a dramatic rise in property values that captures the increase seen later in the pandemic as the residential real estate market spiked. Commercial property owners will also likely see increasing property tax bills as the commercial real estate market recovers from the pandemic.

Colorado is one of only eight states in the country in which more than half of the state's ZIP codes logged double-digit gains over the past year.

Only halfway through the timeframe for the 2023 reassessment, the average home sales price in Colorado increased by 18.9% from July 1, 2020, to July 1, 2021. In comparison, the average home sales price in Colorado increased by only 9.2% over the two-year reassessment period from July 1, 2018 to July 1, 2020, by 17.6% from July 1, 2016 to July 1, 2018, and by 22.5% from July 1, 2014 to July 1, 2016.[5] The average apartment rent in Colorado has already increased by 16.3% from July 2020 through November 2021, whereas due to the pandemic it only increased by 0.1% from July 2018 to July 2020.[6]

Historically, the percentage growth in total property tax revenues statewide has greatly outpaced the percentage growth in total population over tax years 2000 to 2020, excepting the Great Recession. In 2020, total nominal statewide property tax revenues (including oil & gas, natural resources, and producing mines property) was about $11.4 billion, versus $3.5 billion in 2000 as seen in the graph on the next page – a 208.3% increase with a compound annual growth rate (CAGR) of 5.8%. Adjusted to 2020 dollars (using the Denver-Aurora-Lakewood consumer price index), real statewide property tax revenues increased by 143.5% with a CAGR of 3.4%. In comparison, the total statewide population in 2020 was roughly 5.8 million versus 4.3 million in 2000 – an increase of 33.3% with a CAGR of only 1.4%.

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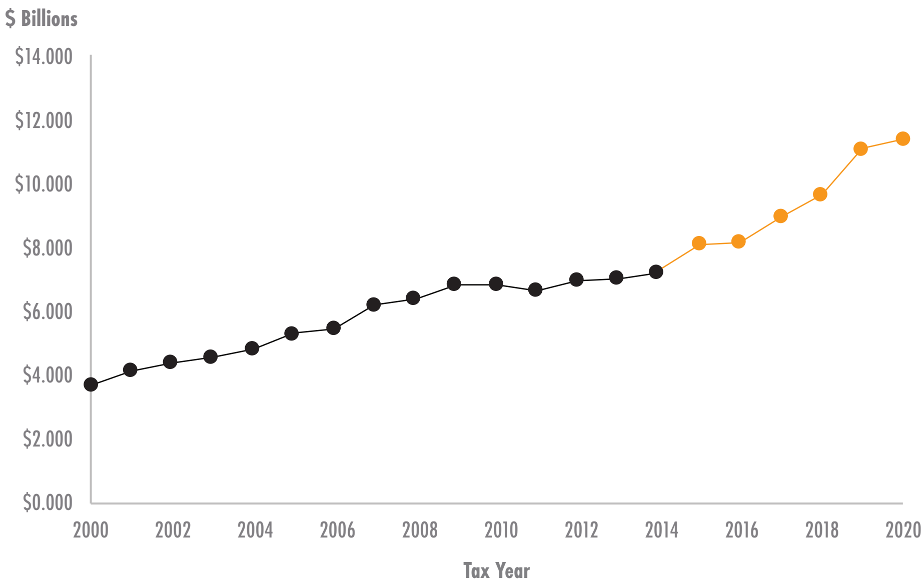
## Total Statewide Property Tax Revenues 2000 through 2020[7]



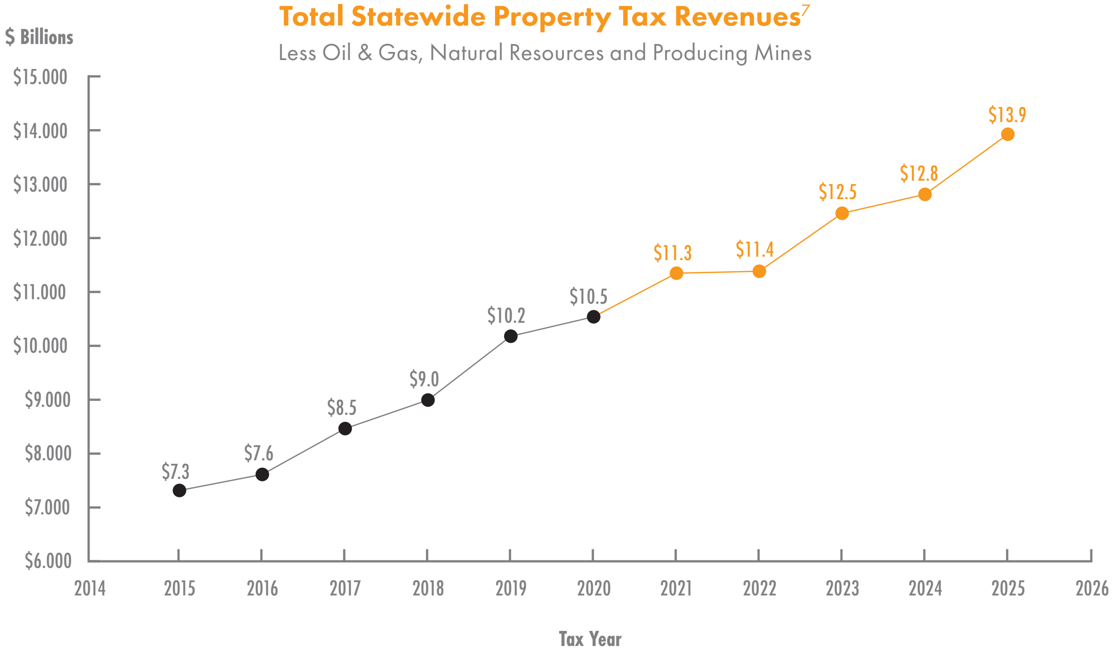

Looking at current and projected statewide property tax revenues (excluding revenues generated by oil & gas, natural resources, and producing mines property), the total amount collected under current law is expected to increase 22.7% from the current assessment cycle in 2021 (payable 2022) to 2025 (payable 2026), from $11.3 billion to $13.9 billion.

At the homeowner and commercial property owner level, these increased valuations will result in an increase in property taxes of greater than 20% for the average property owner beginning in 2022.

**The percentage growth in total property tax revenues statewide has greatly outpaced the percentage growth in total population over tax years 2000 to 2020.**

## Estimated and Projected Total Statewide Property Tax Revenues[7]

Less Oil & Gas, Natural Resources and Producing Mines

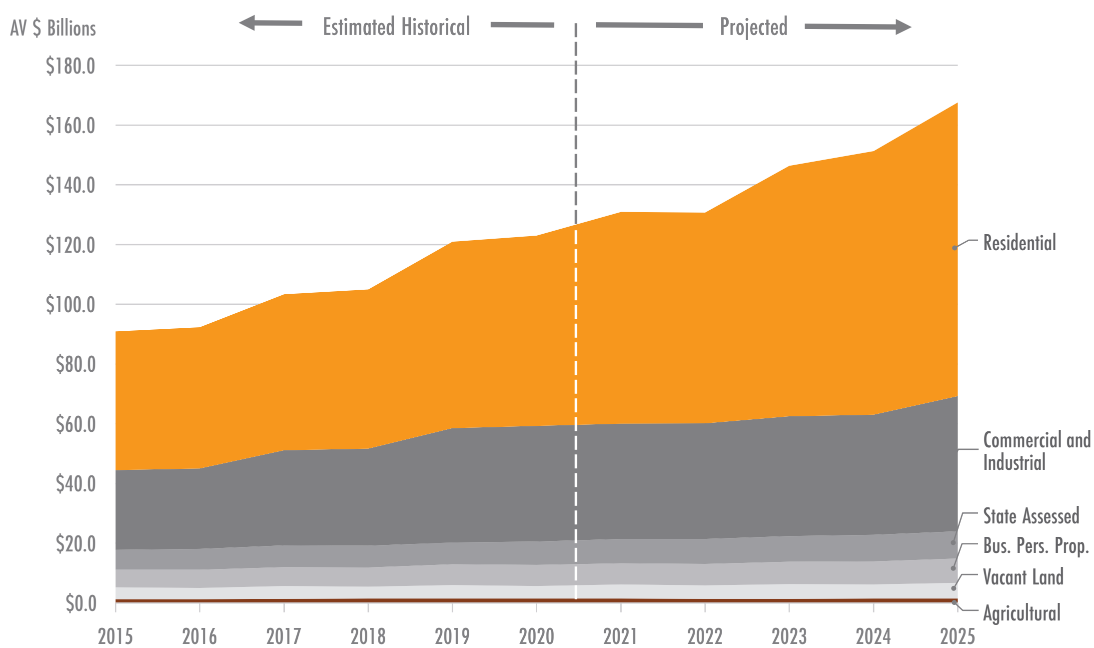


The statewide property tax revenue projection above incorporates a cautious outlook on the recovery of the commercial and industrial real estate markets following the pandemic-related trough in 2020-2021. A stronger, faster recovery will result in greater total property tax revenues than those projected above. As illustrated below, for non-residential property (excluding oil & gas, natural resources, and producing mines), the total assessed value – the portion of the total market value that is subject to taxation – is expected to increase 15.3% from $60.0 billion in assessment year 2021 to $69.3 billion in 2025, as compared to the increase of 33.1% from 2015 to 2020.

Residential property is projected to account for about three-quarters of total statewide assessed value growth from 2021 to 2025. The total assessed value of residential property is expected to increase 38.5% from $71.0 billion in assessment year 2021 to $98.3 billion in 2025. The temporarily lower RARs in assessment years 2022 and 2023 are projected to result in a slight drop in total residential assessed value in 2022, and to somewhat dampen the expected impact of the 2023 reassessment. This projection reflects an outlook that the rates of growth in residential property values will begin to taper in 2022 and continue to taper in 2023 through 2024. The number of single-family building permits issued statewide in 2021 has reached levels not seen since 2006, and the number of multifamily units permitted statewide in 2021 has reached the highest total since at least 1995 (when the Census Bureau's Building Permits Survey data series began). Though the underlying projection does conservatively assume a slowing rate of growth, this tapering is by no means a given in the near term.

These increased valuations will result in an increase in property taxes of greater than 20% for the average property owner beginning in 2022.

## Total Statewide Assessed Values (AV) – by Type[8]



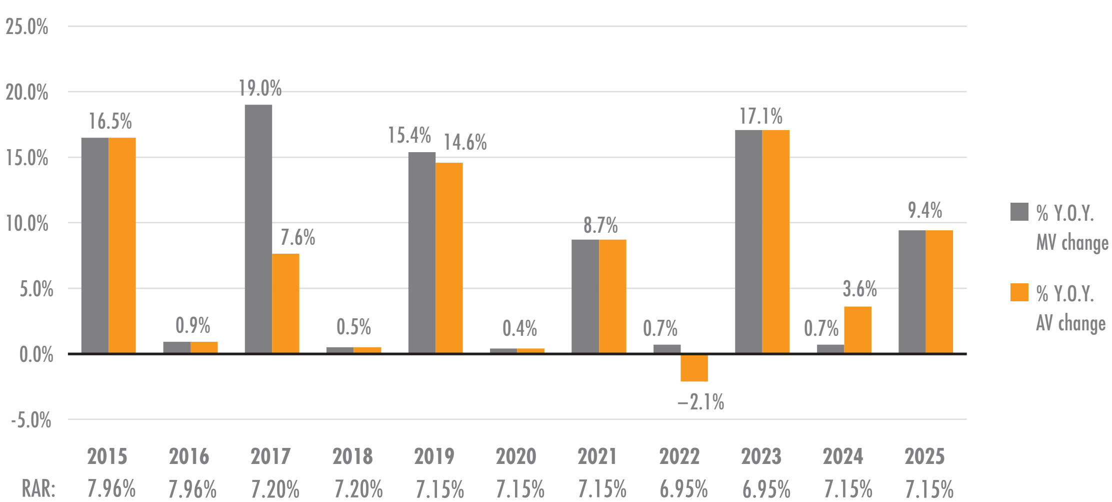
### Statewide Average Market Value (MV) Per Dwelling Unit

| | Single Family | Condominium | Multifamily |
|---|---|---|---|
| 2015 | $306,361 | $253,556 | $113,292 |
| 2016 | $309,141 | – | – |
| 2017 | $367,909 | $291,143 | $168,951 |
| 2018 | $369,783 | – | – |
| 2019 | $426,635 | $384,320 | $199,430 |
| 2020 | $428,367 | $384,856 | $201,481 |
| 2021 | $465,741 | $419,547 | $238,688 |
| 2022 | $469,005 | $420,488 | $240,109 |
| 2023 | $549,064 | $502,061 | $281,756 |
| 2024 | $552,911 | $502,491 | $282,681 |
| 2025 | $605,068 | $553,305 | $321,014 |

These outcomes predictably mirror the observed increase in residential values relative to non-residential values, with residential values increasing at a greater rate. When drilling down into statewide residential values:

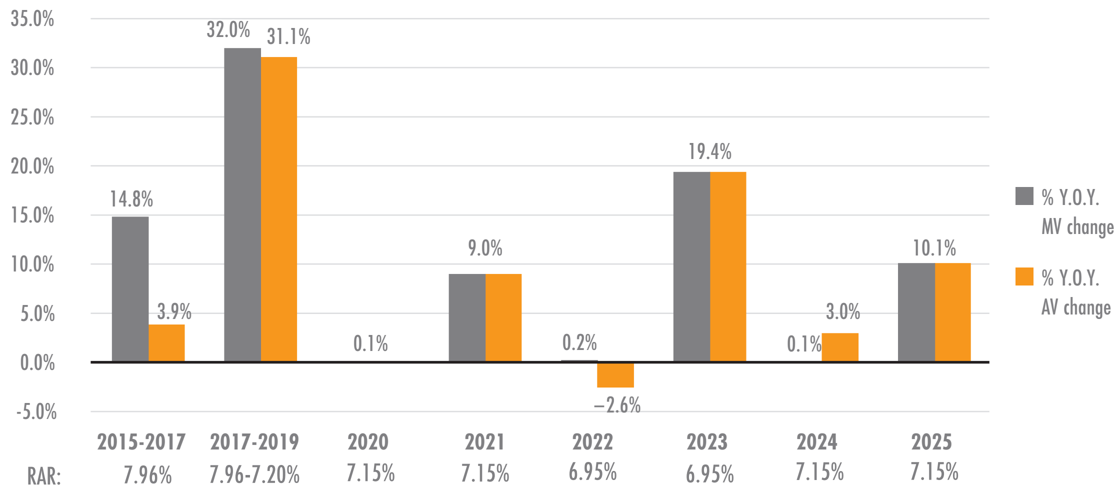
- The average single-family home market value is projected to increase by 29.9% from almost $466,000 in 2021 to about $605,000, as shown in the chart above.
- The average assessed value is also projected to increase by 29.9%, with the RAR set at 7.15% in 2025.
- The average single-family home market value increased more, by 39.8%, from 2015 to 2020, but the average assessed value only increased by 25.6% as the RAR decreased from 7.96% in 2015 to 7.15% to 2020.
- Statewide, single-family homes comprised 80.8% of total residential assessed value in 2020.

### Single Family Homes –Statewide Average Market Value and Assessed Value Growth Rate



As illustrated in the graph below, the average residential condominium market value is projected to increase from almost $420,000 in 2021 to more than $553,000 in 2025, for an increase in market and assessed value of 31.9%. The average residential condominium market value increased by 51.8% from 2015 to 2020, while the average assessed value increased by 36.3% due to decreases in the RAR.

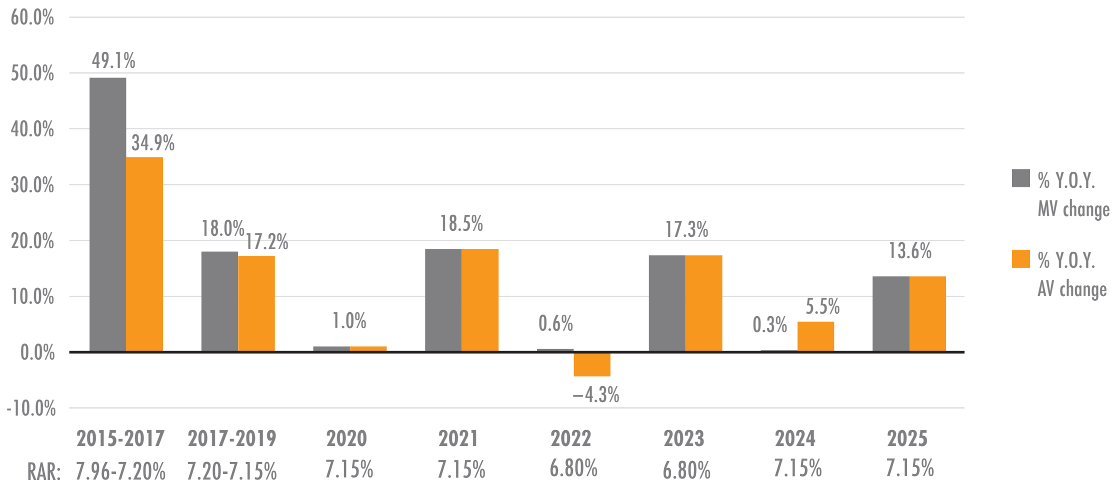
**Residential Condominiums – Statewide Average Market Value and Assessed Value Growth Rate**




Although property owners face big increases in their tax bills due to surging property values, renters too will face higher costs in the form of higher rents as multifamily residential owners pass on the cost of higher property taxes to their residents. The average multifamily (rental) residential unit market value is projected to increase at a greater rate than single family homes and residential condominiums – from almost $239,000 in 2021 to about $321,000 in 2025, for an increase in market and assessed value of 34.3%. The average multifamily unit market value increased by 77.8% from 2015 to 2020, while the average assessed value increased by 59.7%. This extraordinary growth in average market values has been partly driven by a shift towards construction of higher-rent multifamily units, as well as net subtraction of lower-rent units. But the growth in single-family and condominium property values has also pushed broader segments of the population into the rental market, creating greater multifamily demand and driving up rents. The market values of multifamily properties are primarily established by the rents achieved by those properties, with higher rents resulting in higher market values. The burden of paying property taxes on a rental unit is effectively passed on to the renter.

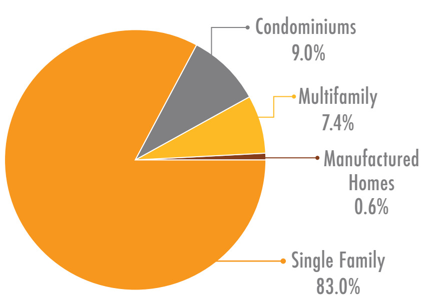
Although property owners face big increases in their tax bills due to surging property values, renters too will face higher costs in the form of higher rents as multifamily residential owners pass on the cost of higher property taxes to their residents.

## Multifamily Unit – Statewide Average Market Value and Assessed Value Growth Rate

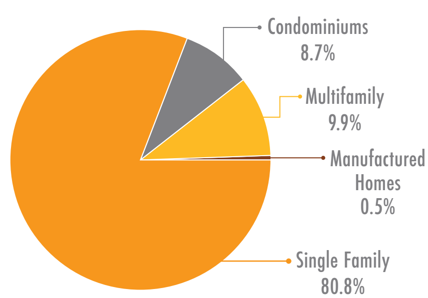



As indicated in the graph below, multifamily residential assessed value as a share of total residential assessed value is growing, from 7.4% in 2015 to a projected 11.7% in 2025 as single family residential assessed value declines from 83.0% in 2015 to a projected 79.4% in 2025. This increase in share of assessed value is largely indicative of the higher rate of property value growth per unit of multifamily residential.

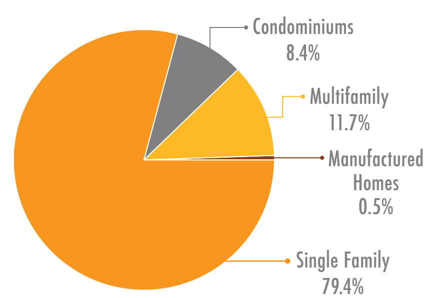
**Statewide Residential AV – 2015**




**Statewide Residential AV – 2020**




**Statewide Residential AV – 2025**



## OUTLOOK

Despite the assessment rate freeze enacted as part of the repeal of the Gallagher Amendment, property owners under current law face the prospect of dramatic increases in tax liability as prices continue to climb in Colorado. Because of the timing of the biennial property tax assessments, residential homeowners and renters have yet to fully face the substantial increase in property values during the bulk of the pandemic. As those market developments are factored into valuations, homeowners and renters will be faced with significantly greater tax burdens as values increase by double-digit percentages over just a few years. The end result is that tax bills will be larger even as the overall economy recovers.

It is clear from these findings, as well as from the findings of Legislative Council, that leaders must come together to provide relief for property taxpayers while maintaining an appropriate balance between the needs of taxpayers and the needs of the community.

Colorado Concern is ready to help inform the discussion and is actively working with stakeholders and policy experts to help develop options in policy responses. In the coming weeks Colorado Concern and partners will work to advance a solution that ensures both that vital services are funded and that taxpayers are given some relief. Modernizing the state's property tax laws is the first step in ensuring the long-term growth and competitiveness of the state.

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Leaders must come together to provide relief for property taxpayers while maintaining an appropriate balance between the needs of taxpayers and the needs of the community.

## Footnotes

[1] SB21-293: Property Tax Classification And Assessment Rates, Colorado General Assembly, Accessed 1/26/22

[2] SB 21-293 Revised Fiscal Note, Legislative Council Staff, 6/3/21

[3] Colorado Tax Deferral Program, CoreLogic, 12/1/21

[4] Aldo Svaldi, "Surge In Colorado Home Prices Both Record-Setting And Widespread," *The Denver Post*, 10/11/21

[5] U.S. Federal Housing Finance Agency, All-Transactions House Price Index for Colorado [COSTHPI], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/COSTHPI, 8 December 2021.

[6] Apartment List Rent Reports, State-Level Historic Estimates (2017-Present); https://www.apartmentlist.com/research/category/data-rent-estimates, 8 December 2021.

[7] Projections based on historical data from the Colorado Division of Property Taxation, Annual Reports 1999 through 2020, and data from: U.S. Federal Housing Finance Agency, All-Transactions House Price Index for Colorado [COSTHPI]; U.S. Census Bureau, American Community Survey; U.S. Census Bureau, Building Permits Survey; Colorado Legislative Council Staff and Division of Property Taxation, December 2020 Assessed Value Projections; and complete countywide property and sales data from the Assessor's Offices of Adams, Boulder, Chaffee, Denver, Douglas, El Paso, La Plata, Pitkin, and Weld Counties, and partial data from all other Colorado counties. Economic and market projections also informed by data and information from: Fuller Real Estate, Colorado Commercial Market Reports, CoStar Statistics; CBRE MarketView Reports; RCA Commercial Property Price Indices (RCA CPPI); Apartmentlist.com, Denver Rent Report; Ron Throupe and Jennifer L. Von Stroh, Apartment Vacancy and Rent Survey - Colorado, Denver Metro, and Colorado Springs. Mill levy projection includes adjustments for school total program mill levy increases per HB 21-1164, as well as variable "floating" mill levies, based on data from: Colorado Division of Property Taxation, Annual Reports; Colorado Legislative Council Memo, "Property Taxes on Oil and Natural Gas Property," 31 January 2020; and Colorado Department of Education, School Finance Division.

[8] Projections based on historical data from the Colorado Division of Property Taxation, Annual Reports 1999 through 2020, and data from: U.S. Federal Housing Finance Agency, All-Transactions House Price Index for Colorado [COSTHPI]; U.S. Census Bureau, American Community Survey; U.S. Census Bureau, Building Permits Survey; Colorado Legislative Council Staff and Division of Property Taxation, December 2020 Assessed Value Projections; and complete countywide property and sales data from the Assessor's Offices of Adams, Boulder, Chaffee, Denver, Douglas, El Paso, La Plata, Pitkin, and Weld Counties, and partial data from all other Colorado counties. Economic and market projections also informed by data and information from: Fuller Real Estate, Colorado Commercial Market Reports, CoStar Statistics; CBRE MarketView Reports; RCA Commercial Property Price Indices (RCA CPPI); Apartmentlist.com, Denver Rent Report; Ron Throupe and Jennifer L. Von Stroh, Apartment Vacancy and Rent Survey - Colorado, Denver Metro, and Colorado Springs.