Alleviating the Appraisal Burden: A Cost-Benefit Analysis of Property Tax Relief

Center for Civic and Public Policy Improvement

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Introduction

In their efforts to provide affordable housing for low-to-moderate income families in Southeast Houston, the Center for Civic and Public Policy Improvement (CCPPI) has recognized that increasing home appraisals often burden residents with unsustainably high property taxes. As appraisals grow faster than household incomes, homeowners are more likely to be forced out of the community, leading to cultural erosion and disruption of social networks. This report provides a cost-benefit analysis of CCPPI's proposal to the Harris County Appraisal District (HCAD) to base the appraisals of affordable housing properties on the purchase price rather than market value. This report also proposes other possible solutions to provide tax relief, including an income-based cap on property taxes. Our analysis highlights Harris County's loss of tax revenue if CCPPI's proposal, or our alternatives, are implemented, where homeowners' savings from tax relief come at a direct cost to the county. However, we also account for individual benefits and the positive externalities of this relief for the local community. These include the benefits of reduced cost burdens, increased wealth, improved health outcomes, community stability, and increased educational attainment. Overall, we provide essential insights into the potential tax losses and benefits of CCPPI's proposal and the next steps for CCPPI, such as pursuing an income-based property tax approach, surveying their impact on their homebuyers, and researching additional funding sources.

The Center for Civic and Public Policy Improvement

The Center for Civic and Public Policy Improvement (CCPPI) is a leading nonprofit that provides affordable housing in the Greater Third Ward, MacGregor, and OST/South Union super neighborhoods (which cover the 77004 and 77021 zip codes). Homeownership is an integral way to build wealth, but the rising costs often prevent low-to-moderate-income residents of these neighborhoods from purchasing homes and reaping the benefits. Increasing housing costs frequently leave residents cost-burdened, which the U.S. Department of Housing and Urban Development (HUD) defines as spending 30% or more of household income on housing, including rent/mortgage payments, property taxes, insurance, utilities, etc. (HUD, 2017).

In partnership with the Midtown Redevelopment Authority (MRA), CCPPI is implementing the Southeast Affordable Housing Initiative to improve housing affordability in 77004 and 77021. Midtown Redevelopment Authority conveys land to affordable housing developers at minimal or no cost, ranging from $63,000 to $94,000 before home construction. This reduced land cost enables CCPPI to collaborate with the developers and sell/rent out the constructed housing units at a lower cost to program participants. Families with a household income between 80% to 120% of the Area Median Income (AMI) for the Houston, Sugar Land, and The Woodlands region – as calculated by HUD – are eligible to join CCPPI's programs (CCPPI, 2024). However, one concern is that some prospective buyers may look to flip these properties for a profit, which may disrupt neighborhood cohesion. MRA set several restrictions in the purchase contract to prevent this scenario. First, the applicants must be first-time homebuyers and use the home as their primary residence. They are not allowed to rent out their home. Second, they must meet the income qualifications. Finally, homebuyers agree that they must fully pay back the land value to MRA if they decide to sell within the first 20 years. However, if CCPPI facilitates the property's resale to a prospective buyer similarly qualified for the affordability program, the seller can avoid paying back MRA. These restrictions serve to attract homebuyers who need assistance and are committed to the community's long-term success.

On Third Ward, MacGregor, and OST/South Union

The Greater Third Ward (located in 77004), MacGregor (partially located in 77021 and 77004), and OST/South Union (located in 77021) are all historically and predominantly African American neighborhoods of Houston, with the community having long-lasting ties to the area (Houston Planning, 2023a). However, these areas are also historically economically disadvantaged, featuring lower median household incomes compared to Harris County ($45,000-$50,000 vs. $65,000), lower rates of homeownership (36/37% vs. 55%), and approximately one in five homeowners and half of renters being cost-burdened (Houston Planning, 2023a; ACS, 2022a-d).

These areas have also been undergoing or are at risk of gentrification and experiencing its negative ramifications in recent years. As an influx of high-income residents, mostly college graduates, have moved into these neighborhoods (often due to their proximity to downtown Houston), higher living costs have arrived with them (Olin, 2020). In Third Ward, residents have cited worries over the recent expansion of townhomes, as their development often brings higher housing costs, quicker turnover, and displacement (Moore et al., 2019). Furthermore, median household values have outpaced median household income growth in all three super neighborhoods, highlighting the increasing unaffordability of housing and homeownership (Houston Planning, 2023b). The current trends of these neighborhoods demonstrate the ever-growing need for sustainable, affordable housing programs such as CCPPI's Southeast Affordable Housing Initiative.

Project Objective

CCPPI identified that increasing home appraisals – often reaching $350,000 or higher – burden participants of their affordable home program with tax bills pushing housing costs over 30% of household income. They are currently working with the Harris County Appraisal District (HCAD) to provide relief. Specifically, they propose that HCAD base the initial appraisal of the single-family homes sold under the Southeast Affordable Housing Initiative closer to the purchase price rather than the market value. The aim of this report is to complete a cost-benefit analysis of CCPPI's proposal. We have also proposed and analyzed other policy alternatives to provide more support for homeowners. We evaluate Harris County's calculated loss of property tax revenue, potential savings for the homeowner, and additional benefits to program participants and the local area. Our analysis is thus focused on the families in the 80%-120% AMI range (approximately $75K-$113K for a four-person household) in the 77004 and 77021 zip codes who participate in CCPPI's affordable housing program and are first-time homebuyers.

Cost Analysis

CCPPI provided a random sample of recently sold homes under their affordable housing initiative. The sample yielded 30 homes – 15 in 77004 and 15 in 77021 – with recent tax records and appraisals found through the Harris County Collector-Assessor office and HCAD records. Using this sample, we calculated the average first appraisal (majority of which were in 2021 and 2022) of the homes in each zip code. The average first appraisal was $334,364 in 77004 and $225,720 in 77021. Additionally, 9 out of the 15 homes in 77004 had high first appraisals over

$350,000, the average being $421,350. We also calculated the average portion of the appraisal taxed in 2023 by dividing the average tax paid by the average appraisal for each zip code. This yielded a rate of 1.27% for 77004 and 1.33% for 77021. These rates reflect the most recent legislation on property taxes and account for the Texas Legislature increasing the Homestead Exemption from $40,000 to $100,000 (Scherer, 2023). Our findings from CCPPI's sample are summarized in Table 1 and provide the basis for our cost analyses. All estimates are in terms of present value.

Table 1

Average Appraisals and Tax Rates

	77004	77021
Average first appraisal	$334,464	$225,720
Average high ($350,000+) appraisal	$421,350	Not applicable
Average 2023 taxed portion of appraisal	1.27%	1.33%

Note: No home in 77021 featured a high appraisal ($350,000+) in CCPPI's sample. Refer to the section for Estimate 3.

Estimate 1*: *Status Quo

CCPPI currently has 48 properties under construction (all in 77004) and additional lots (49 in 77004 and 26 in 77021) under development. We first calculated the total expected revenue these properties would generate over the next five years according to the status quo. This is Estimate 1.

For the upcoming houses in 77004 – of which there are 97 total – we estimated their first appraisal would equal the average first appraisal from CCPPI's sample, which is $334,364. For each following year, we predicted the appraisal will increase by the 10% max per the Homestead Exemption Cap. We used the following formula: $Appraisal = (First\ appraisal\ value) \cdot (1.10)^n$ for n = 1-4 years after the first appraisal. To calculate the tax for each year, we multiplied the year's appraisal by 1.27%. For a single future property in 77004, the sum of the estimated property taxes over five years is $25,926. The total revenue to Harris County for all 97 properties would be about $2,515,000.

We repeated a similar process for the 26 upcoming houses in 77021. We estimated the first appraisal for these properties to be $225,720 from CCPPI's sample and applied the same formula as above. We used the rate of 1.33% to calculate the annual property tax each year. For a single future property in 77021, the sum of the estimated property taxes over five years is $18,328. The revenue to the county for the 26 properties would be about $476,500.

Thus, the total revenue to HCAD for the 123 properties in 77021 and 77004 over five years would be an estimated $2,991,000. Refer to Table 2 for a summary and comparison of these findings.

Estimate 2: CCPPI Intervention

CCPPI is working with HCAD to base the first appraisal of their affordable housing properties on the purchase price plus an additional 10%. The 48 houses under construction have an average sales price of $203,694. The additional parcels do not currently have a purchase price, but since they are in a similar geographical area, we also expect their typical price to be

$203,694. We calculated the expected tax revenue Harris County would receive over five years under this proposal as Estimate 2.

For both 77004 and 77021, we estimated the typical first appraisal would be $224,063 and appraisals would increase by 10% each year. We used the same formula and tax rates for each zip code from Estimate 1 to calculate the appraisals and tax bills. Under this proposal, the total estimated property taxes after five years would be $17,373 for a single future home in 77004 and $18,193 for a single future home in 77021. Compared to Estimate 1, each future homeowner would save $8,552 in 77004 but only $135 in 77021 over five years. Harris County receives $833,000 less in property taxes from the 123 properties combined. This comparison is summarized in Table 2 below and depicted in Figures 1 and 2.

Table 2
Estimate 1 and 2 Comparison

		Estimate 1 (E1)	Estimate 2 (E2)	Difference E1-E2
77004	5Y Taxes/Property	$25,925	$17,373	-$8,552
	County Revenue	$2,514,710	$1,685,152	-$829,558
77021	5Y Taxes/Property	$18,328	$18,193	-$135
	County Revenue	$476,527	$473,030	-$3,497
	Total County Revenue	$2,991,237	$2,158,182	-$833,054

Estimate 3: CCPPI Intervention and Preferred Analysis

CCPPI is particularly concerned by the high first appraisals ($350,000+) of the most recently constructed properties in 77004. This batch of homes is appraising at a significantly higher value, on average $421,350, compared to the calculation in Estimate 1. The strongest factor in the HCAD appraisal evaluation for a new home's first appraisal is the value of comparable homes in the neighborhood, so the high appraisal batch is the prime determinant of the home price for the properties under construction once they come to market. This means the higher average is the value most likely to be assigned to all new constructions. Thus, the concern with Estimate 1 is that averaging all the properties together will potentially underestimate the severity of the appraisal crisis. Estimate 3 repeats the same process as Estimate 1 but assumes the higher average first appraisal value as a worst-case affordability scenario.

For all 97 properties under development in 77004, we estimated the first appraisal to equal $421, 350, the average high appraisal from the CCPPI sample. Using the same appraisal calculation and tax rate, we estimated that a single future home would generate $32,669 in property taxes over five years. Harris County would receive about $3,169,000.

We did not repeat this estimation for the properties in 77021 as no homes in the CCPPI sample reflected the high appraisal issue. Even if the future 77004 properties featured these higher appraisals, there is little indication that 77021 properties would differ from the values found in Estimate 1. The total expected tax revenue between both zip codes for this estimate is thus $3,645,500

If the new properties in 77004 do receive a high appraisal, then CCPPI's intervention (Estimate 2) would save each future owner $15,297, as depicted in Figure 1 below. The county would receive $1,484,000 less in property taxes from 77004, and $1,487,000 less from both zip codes in total. This comparison is summarized in Table 3. Figures 1 and 2 visually depict the typical taxes each homeowner in 77004 and 77021, respectively, would pay under each of the estimates.

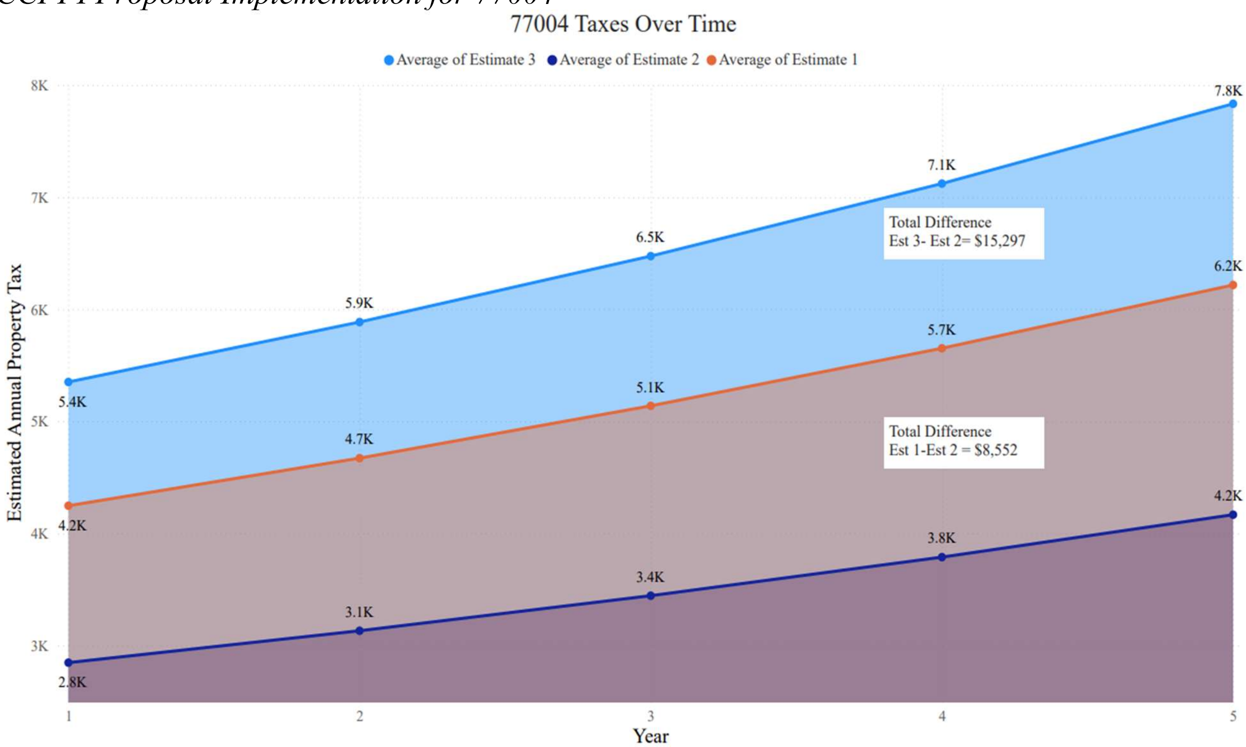
Table 3

Estimate 2 and 3 Comparison

		Estimate 3 (E3)	Estimate 2 (E2)	Difference E2-E3
77004	5Y Taxes/Property	$32,669	$17,372	-$15,297
	HCAD Revenue	$3,168,917	$1,685,152	-$1,483,765
77021	5Y Taxes/Property	$18,328	$18,193	-$135
	HCAD Revenue	$476,527	$473,030	-$3,497
	Total HCAD Revenue	$3,645,444	$2,158,182	-$1,487,262

Figure 1

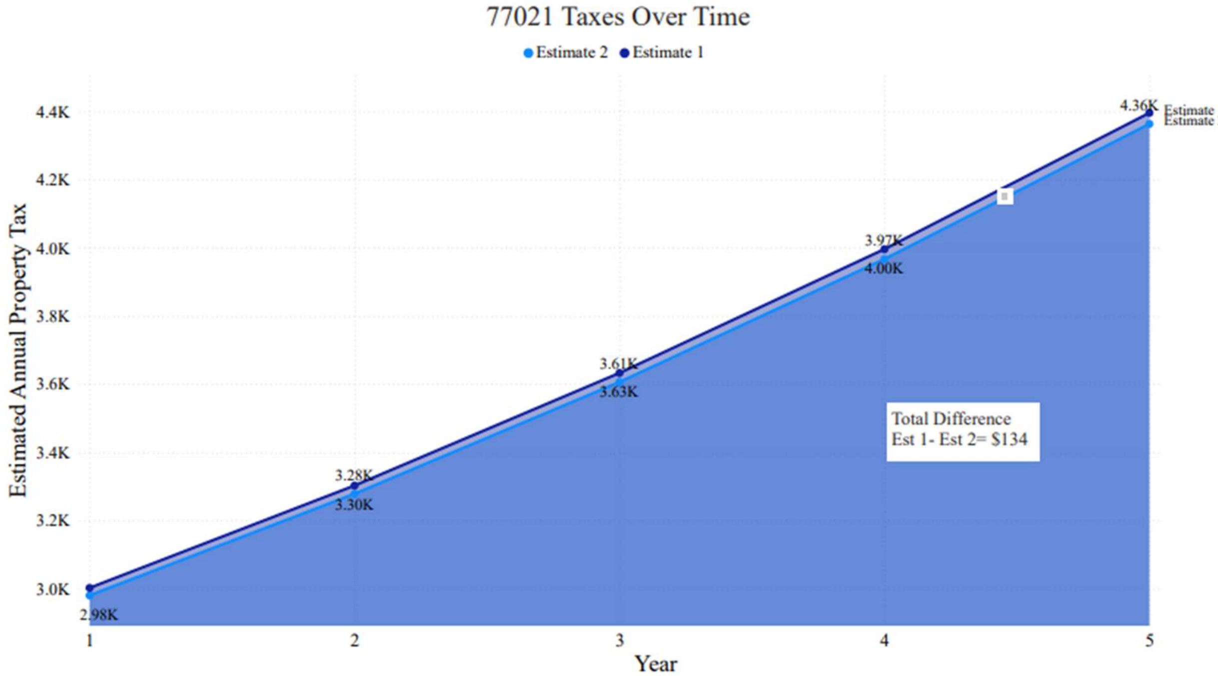
CCPPI Proposal Implementation for 77004



Note: A comparison of the taxes a typical homeowner in 77004 would pay under Estimate 1, Estimate 2, and Estimate 3 over five years. Estimate 2 provides significant savings over the other estimates. The figure combines the results from Tables 2 and 3.

Figure 2

CCPPI Proposal Implementation for 77021



Note: A comparison of the annual tax payments a typical homeowner in 77021pays under Estimate 1 and Estimate 2 over five years. The household savings are significantly less than in the 77004 scenario.

Alternative Cost Analyses

In addition to CCPPI's interventions, we repeated similar cost analyses for four other proposals to provide tax relief. These include permanently fixing the property tax (Estimate 4), deferring property taxes (Estimate 5), capping property taxes at 2.5% of household income (Estimate 6), and deferring property taxes above a 2.5% income cap (Estimate 7).

Estimate 4: Fixed Tax

For Estimate 4, we propose that the first appraisal for each of the developing properties be set at the purchase price + 10% and locked there indefinitely. For both zip codes, each year's appraisal would be $224,063. After five years, each 77004 property would generate $14,228, and each 77021 property would generate $14,900. Harris County would receive $1,380,100 in total from the 77004 properties and $387,400 from the 77021 properties. These estimates are summarized in Table 4 below. When compared to Estimate 1, each future property owner under this proposal would save $11,697 in 77004 and $3,428 in 77021. This would result in the county losing out on an estimated $1,223,700 in total, as seen in Table 5 below**.**

Estimate 5: Deferral

Texas regulations allow homeowners with select specialties (seniors, military widowers, and disabilities) to defer property taxes. The accounts with unpaid taxes accrue 5% interest annually. For Estimate 5, we propose that low-income status be added to the list of acceptable exemptions and that all property taxes be deferred. Taxes are not due until the homeowner moves out, and the next of kin assumes the debt if the homeowner dies with the tax payment still outstanding or the home is foreclosed.

We calculated the expected property taxes owed the same as in Estimate 1. Under this proposal, Harris County would not receive any revenue from the future properties and would lose out on the full estimated $2,991,000 over five years. Homeowners would save $25,925 in 77004 and $18,328 in 77021.

Homeownership would be the most affordable under this proposal, enabling homeowners to build more wealth. However, the homeowners would also accrue debt. In the first year, their debt would equal the same tax owed in Estimate 1. Each year after, they would owe that year's property tax (following the same values as in Estimate 1) and gain 5% interest on the previous year's debt. This follows the equation: $Debt_n = (Debt_{n-1}) \cdot (1.05) + (Appraisal_n \cdot Tax\ Rate)$ for n = 1-4 years after the first year. After five years, each homeowner in 77004 would accrue $28,386 in debt, and each homeowner in 77021 would accrue $20,068 in debt. The total debt between all homeowners would be about $3,275,000. Refer to Table 4 below. This debt, in addition to the borrowing terms stipulated in the purchase agreement, makes capitalizing on home equity a challenge.

Estimate 6: Income Cap

For Estimate 6, we propose capping the property tax owed at 2.5% of income, which is generally consistent with other states that implement some sort of income cap (Davis, 2023). Since participants in CCPPI's affordable housing program must earn 80-120% AMI, we calculated the revenue of implementing an income cap if all participants were at the 80% and the 120% levels for Estimate 6. For a typical four-person household, the HUD 80% AMI level is $75,700, and the 120% AMI level is $113,500 (Houston Housing, 2024). The area median household income is projected to annually increase by 1.345% for the next five years, so we factored this into our analysis as well (Market Profile Data, 2023).

For both zip codes, the initial property tax payment would be $1,893 at the 80% AMI level and $2,838 at the 120% AMI level. For each year after, we applied the formula $Income\ Capped\ Tax = Income\ at\ Level \cdot (1 + .01345)^n \cdot 0.025$ for n = 1-4 years after the first year. *Income at Level* would be either $75,000 or $113,500. After five years, each future homeowner would pay $9,720-$14,574. For 77004 and 77021, Harris County would receive an estimated $1,196,000-$1,793,000 in revenue. Refer to Table 4. Compared to Estimate 1, this proposal would save each homeowner $11,351-$16,204 in 77004 and $3,754-$8,607 in 77021. The county would lose out on an estimated $1,199,000-$1,796,000 in total (refer to Table 5).

Estimate 7: Income Cap and Deferral

For our final alternative, Estimate 7, we propose deferring all property taxes above a 2.5% income cap. Under this proposal, each homeowner's savings and the county's total revenue would be the same as in Estimate 6 (refer to Table 4). However, once again the homeowners would accrue debt at a 5% interest rate. We calculated this debt similar to Estimate 5 but also subtracted the income-capped property tax payment.

The deferred initial tax payment for 77004 properties would be $2,354 at the 80% AMI level and $1,409 at the 120% AMI level. For 77021, the deferred initial payment would be $1,110 at the 80% AMI level and $165 at the 120% AMI level. We used the following formula to estimate the total debt accrued over five years for each future homeowner: $Debt_n = (Debt_{n-1}) \cdot (1.05) + (Appraisal_n \cdot Tax\ Rate) - (Income\ Capped\ Tax_n)$ for n = 1-4 years after the first year. The *Income Capped Tax* is equivalent to the values calculated in Estimate 6. Each future homeowner in 77004 would accrue \$12,300-\$17,657 in debt after five years, and each 77021 homeowner would accrue \$3,982-\$9,339 (refer to Table 4). The total debt between all homeowners would be about \$1,297,000-\$1,956,000. Refer to Table 5.

Table 4

Summary of Alternatives

		Estimate 4 (E4)	Estimate 5 (E5)	Estimate 6 (E6)	Estimate 7 (E7)
77004	5Y Taxes/Property	\$14,228	\$0	\$9,720 - \$14,574	\$9,720 - \$14,574
	5Y Debt/Property	\$0	\$28,386	\$0	\$12,300 - \$17,657
	County Revenue	\$1,380,119	\$0	\$942,887 - \$1,413,708	\$942,887 - \$1,413,708
77021	5Y Taxes/Property	\$14,900	\$0	\$9,720 - \$14,574	\$9,720 - \$14,574
	5Y Debt/Property	\$0	\$20,068	\$0	\$3,982 - \$9,339
	County Revenue	\$387,406	\$0	\$252,733 - \$378,932	\$252,733 - \$378,932
	Total Debt	\$0	\$3,275,160	\$0	\$1,296,636 - \$1,955,560
	Total County Revenue	\$1,767,525	\$0	\$1,195,620 – \$1,792,640	\$1,195,620 – \$1,792,640

Table 5

Comparison of Alternatives to Estimate 1

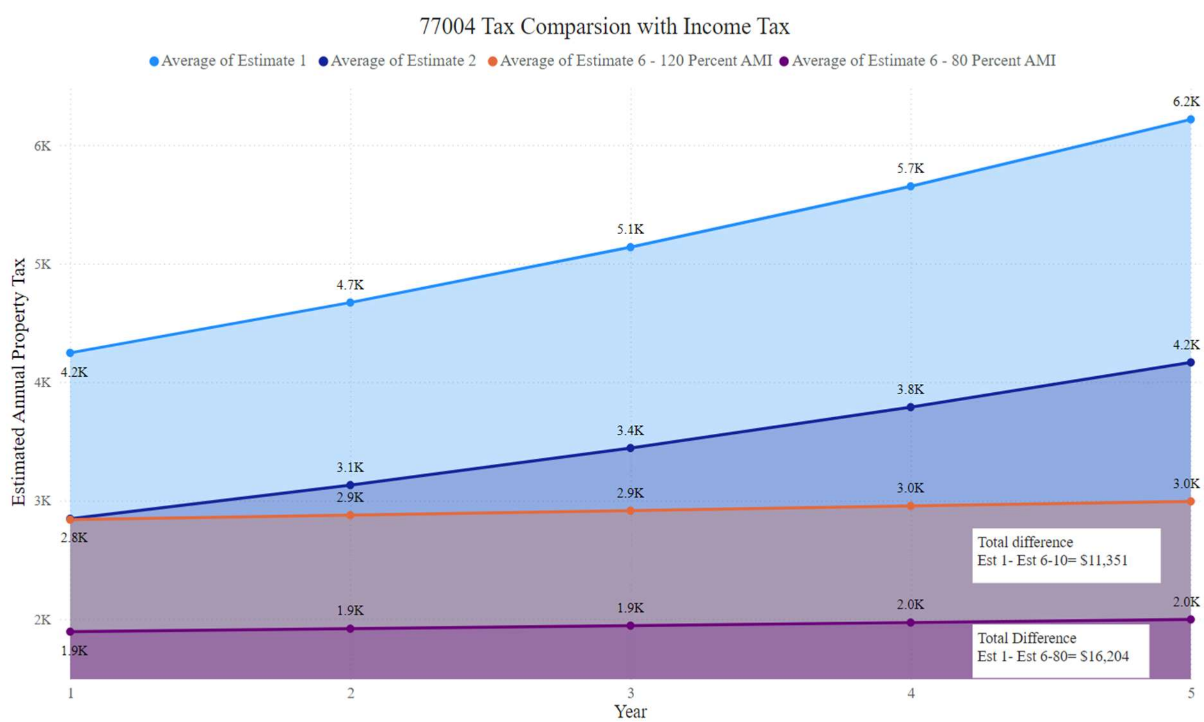
		E4-E1	E5-E1	E6-E1	E7-E1
77004	5Y Taxes/Property	-\$11,697	-\$25,925	-\$11,351 - \$16,204	-\$11,351 - \$16,204
	County Revenue	-\$1,134,591	-\$2,514,710	-\$1,101,001 - \$1,571,822	-\$1,101,001 - \$1,571,822
77021	5Y Taxes/Property	-\$3,428	-\$18,328	-\$3,754 - \$8,607	-\$3,754 - \$8,607
	County Revenue	-\$89,121	-\$476,527	-\$97,595 - \$223,794	-\$97,595 - \$223,794
	Total County Revenue	-\$1,223,712	-\$2,991,237	-\$1,198,596 - \$1,795,616	-\$1,198,596 - \$1,795,616

Note: Each column represents the difference between each alternative estimate and Estimate 1. Ex: E4-E1 represents the difference between Estimate 4 and Estimate 1 for each category.

Review of Cost Analysis

Overall, under the current average sales price of the upcoming properties and tax situation, future homeowners in 77004 would benefit from CCPPI's intervention (Estimate 2), especially if they receive the higher appraisals of Estimate 3. Harris County would lose $800,000-$1,500,000 over five years, but the households of 77004 would also save the same amount, each homeowner likely saving $8,000-$15,000 in that time. However, homeowners in 77021 receive a negligible decrease from the proposed intervention as they only save an estimated $135 over five years. This indicates that homeowners in 77021 may not suffer from the same high appraisal issue compared to properties in 77004, as their initial appraisals resemble the typical purchase price. Nonetheless, if CCPPI seeks to also provide additional tax relief for future owners in 77021, we recommend pursuing a 2.5% income cap on property taxes. This would save both the 77004 and 77021 properties thousands of dollars over time (depicted in Figures 3 and 4 below), leave participants with no additional debt, and be resistant to future appraisal hikes.

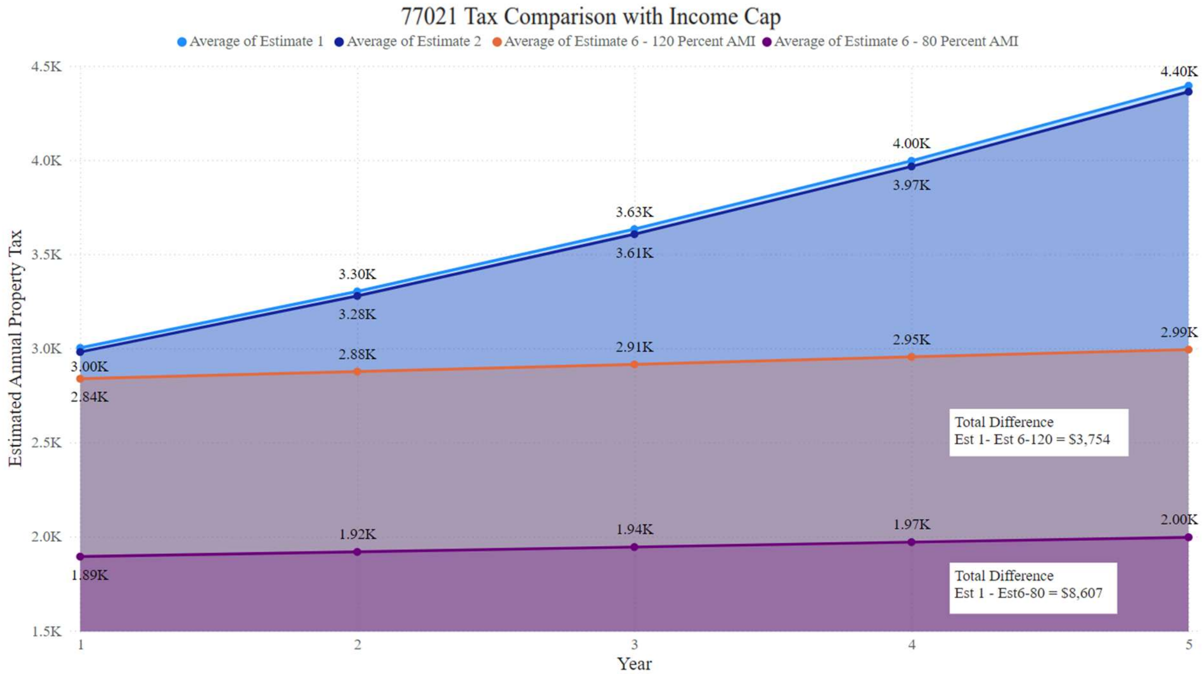
Figure 3
Income Cap Implementation for 77004



Note: Increasing annual tax payments for households in 77004 comparing the income-based cap on property taxes. The income cap proposal provides more consistent cost-burden relief to homeowners than the previous estimates.

Figure 4

Income Cap Implementation for 77021



Note: Increasing annual tax payments for households in 77021 comparing the income-based cap on property taxes. The income cap proposal provides more consistent cost-burden relief to homeowners than the previous estimates.

Benefit Analysis

The most obvious benefit of a program reducing property tax burdens is savings for the individual. Focusing on CCPPI's proposal, participants suffering from high appraisals can save over $8,000 over five years compared to the status quo. Though this comes at a cost of $800,000-$1,500,000 in reduced revenue for local government – which could impact funds for services like public schools, local infrastructure, water management, hospitals, and other city/county services – this loss only makes up a small portion of all taxes. The total property taxes levied in Harris County in 2022 were approximately $2.1 billion (Post, 2022).

It is also important to note the cost calculated in the previous section is the difference in tax revenue between CCPPI's proposal to keep appraisals low and the higher tax revenue properties would generate at market value. After reviewing the HCAD property history for these addresses, most of these lots sat vacant or in disrepair when left to free market dynamics. It appears developers had little interest in building up these areas before CCPPI and MRA's affordable housing initiative. Since these homes go to first-time homebuyers, the residents will be brand new sources of property taxes for the county. Repeating the previous calculations with the assumption all properties are empty lots, the total tax revenue would be approximately $750,000, which is less than the $2,100,000 generated under CCPPI's proposal. The difference between tax revenue on empty lots versus tax revenue from affordable homes taxed under CCPPI's proposal could be re-framed as a benefit.

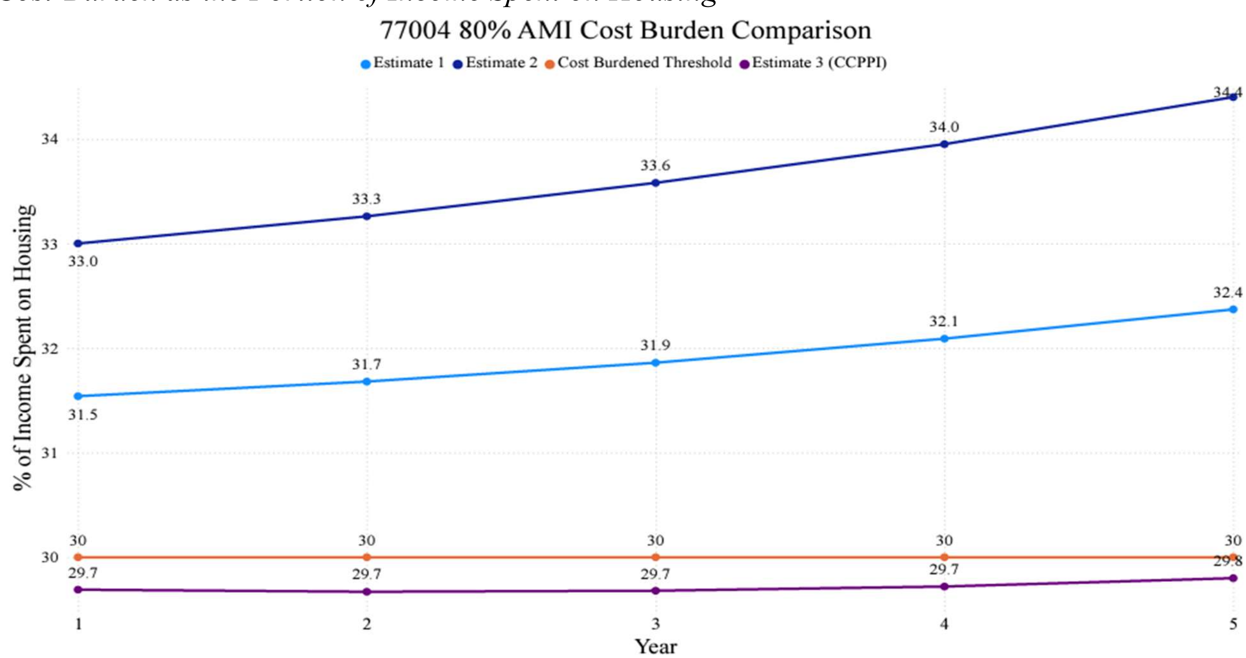
The justification for CCPPI's proposal may still be debatable since property tax relief will cause Harris County resources to receive less funding while maintaining or adding to the local population. However, homeowners will receive important housing cost burden relief and benefits that go beyond savings that come at the county's loss. We account for the positive externalities of making homeownership more affordable, such as increased wealth and health improvements, as well as others like educational attainment, stronger communities, and economic growth. Studies on other home affordability initiatives, like Denver's Home Ownership Program, factored in some of these benefits and found that each participant had a net social benefit of $6,000 (Galster et al., 2018). While CCPPI's proposal may not share the same degree of positive impact, it nonetheless will have multiple important benefits that justify its implementation, which we summarize below.

Cost-Burden Relief

Overall, CCPPI's proposal will save households thousands of dollars, which helps alleviate cost-burdens. Using the average property taxes and sales price from our CCPPI sample, the current 6.82% mortgage rate and a typical 20% down payment (HAR, 2024), and average monthly utilities and insurance costs of $260 and $311 in Texas (Todoroff, 2024; Durrani, 2024), we found that residents in 77004 and 77021 will use 20-34% of their income on housing annually in the next five years. Those who are closer to the 80% AMI level are thus significantly at risk of being cost-burdened, especially since there may be additional housing costs like repairs, weather-related insurance, etc. CCPPI's proposal can reduce the cost-burden by about two to five percentage points, which – as Figure 5 depicts – will bring those in 77004 at the 80% AMI level under the 30% cost-burden threshold. Though CCPPI's proposal does not result in a massive decrease in cost-burden, it will better ensure homeowners are not cost-burdened, provide households with more disposable income, and can reduce housing cost stress.

Figure 5

Cost-Burden as the Portion of Income Spent on Housing



Note: The homeowner cost-burden, or percentage of income spent on housing costs, does not cross the thirty percent threshold for affordability for those at the 80% AMI level in 77004 under the CCPPI proposal. However, it is increasing over the threshold in the other status quo scenarios.

Wealth Growth

Homeownership enables households to build wealth, which is a key goal of CCPPI's initiative. Wainer & Zabel (2020) tracked accumulated wealth over time for renters and homeowners and found that from 1984 to 2011, the percent increase for real wealth (excluding home equity) increased more for homeowners than renters in the bottom income quartiles. Homeowners' wealth grew 333% while those who exclusively rented grew 284%. The wealth for the group of switchers (initially renters that bought in that period) – which CCPPI's program includes since it focuses on first-time homebuyers – grew by 1,167%. Furthermore, for low to moderate-income households, each additional year of homeownership is associated with a $6,000-$10,000 increase in wealth holdings (Turner & Luea, 2009). While this exact number is from data from the 2000s, it illuminates the significant financial advantage of homeownership. This growth in wealth is critical to CCPPI's goal and provides generational benefits that minority populations, like those that make up the communities of Southeast Houston, have historically been excluded from (Tuner & Luea, 2009). Increased public funding to boost homeownership would thus help correct wealth disparities as well.

Health Benefits

CCPPI's proposal can also provide critical health improvements. Though homeowners tend to have better health than renters (often due to better environmental conditions, less overcrowding, and the threat of evictions), unaffordable housing still creates health issues. Those facing potential foreclosure tend to have higher rates of hypertension, heart disease, anxiety, or depression, and these conditions – among others – are exacerbated as residents often cannot afford proper medication/treatment (Pollack, 2009; Martin et al., 2019). Overall, higher cost-burdens are associated with declining health outcomes. Housing cost-burdens are directly associated with increases in preventable and treatable mortality rates, suicide rates, and other health stressors (Park et al., 2023; Maqbool et al., 2015). Food and prescription drug purchases also decrease as a higher percentage of household income is required for shelter. Kirkpatrick found a 25-percentage point increase in food insecurity rates for those spending over 30% of household income on housing compared to those under the 30% threshold (2011).

Through reducing cost-burdens, CCPPI's proposal will help mitigate these negative ramifications. As residents gain greater disposable income, they endure less cost-induced stressors and can spend more on food and healthcare, improving health outcomes (Park et al., 2023; Maqbool et al., 2015). In a study on the Earned Income Tax Credit – which also focuses on low-to-moderate income families – Lenhart (2018) found that households who received the credit were 7-9% more likely to report being in very good health, were 15.2% more likely to have health insurance, and increased their food expenditures by 10-23%. Furthermore, Brennan et al. (2023) found that providing affordable housing can reduce healthcare costs by $10,500 per person per year due to a reduction in emergency services provided to the unhoused. By a similar logic to Pollack (2009), there should be some healthcare savings from moving more renters into homeownership. While Brennan et al. (2023) focuses on the previously homeless, the study still represents the transformative impact of adequate housing. This could be incorporated into the cost-benefit analysis once further research determines an estimate for the cost difference between renters and homeowners.

Other Benefits

A variety of benefits do not fit into the main categories above. Below, we provide a high-level view of additional positive externalities typically associated with affordable housing projects or policies that increase disposable income. Several studies highlight the benefits to community stability from these types of policies. Lower turnover in home sales strengthens social ties, increases civic engagement, reduces individual stress, and decreases the number of foreclosures in the neighborhood. This stability provides important educational benefits that we also address, including minimal disruptions to childhood learning and higher educational attainment, which translate to greater lifetime earnings. We provide a summary of these benefits along with supporting research.

Community Stability

- Lower risk of delinquency and foreclosure (Ding, 2011)
- Reduction in cost of maintaining foreclosed/abandoned homes (Deutsch, 2012)
- Lower turnover rates, strengthening social ties (Park 2011; McCabe, 2013)
- Higher degrees of civic engagement and better quality of life (Rohe et al., 2003)
- Higher achieving children with fewer behavior problems (Coley, 2013)
- Increased investment in social capital and greater political activism (Zavisca & Gerber, 2016)
- Reduced stress due to greater social cohesion (Robinette et al., 2013)

Education Benefits

- Prevention of residential moves due to foreclosure that disrupt learning and lead to lower scores (Hutchings et al., 2013; Brennan et al., 2014)
- Greater likelihood of graduating high school and having higher educational achievement due to lower cost burdens and stability (Brennan et al., 2014)
- Greater lifetime earnings ($200,000+) from graduating high school (Messacer & Oreopoulos, 2013)

Additional Economic Benefits

- More disposable income to spend at local businesses (Moore et al., 2019), increasing local economic activity
- Increase in sales and business property tax payments (NAHB, 2015)

Next Steps

The benefits we have described and listed illuminate the important improvements to individuals and communities that affordable housing can provide. To aid in CCPPI's work to realize these benefits, we have outlined a few next steps. In addition to recommending consideration of an income-based cap on property taxes (refer to the end of the Cost Analysis section), we also recommend CCPPI conduct future research on their program participants, as described below.

Survey Recommendation

While many of the benefits we discussed above occur across various affordable housing programs, we cannot truly establish the extent to which residents will experience these benefits without understanding where and how they lived prior. Studies analyzing the benefits of affordable housing typically judge improvements based on participants' previous situations, such as homelessness, crowded rentals, poor living standards, etc. (Diamond, 2019; Clark & Kearns, 2012). They often use tenant survey responses to estimate the social value of increased disposable income, well-being, perceived safety, accessibility for those with a disability, social connection, decreased transportation costs, changes in healthcare spending, etc. (Miller & Ofrim, 2016). These measurements are essential to creating accurate Social Return on Investment (SROI) determinations. Therefore, we recommend gathering demographic data, income before and after purchasing, a baseline for health, education level, stress levels, school performance for children, or diet baseline. We recommend that CCPPI survey program participants who have moved into their first home in the last two years to build a database, evaluate these metrics, and calculate the Social Return on Investment specific to these community developments (Clark & Kearne, 2012).

In addition to gathering demographic information – race, age, sex, etc. – we recommend that CCPPI surveys their program participants on their prior housing situation and measures of attaining objectives associated with affordable housing. These objectives are obtained from the literature (Miller & Ofrim, 2016; Diamond, 2019) and include the following:

- Decreased utility costs
- Increased disposable income
- Improved health
- Increased social connections and community
- Decreased transportation/commuting time
- Decreased work costs
- Increased feelings of safety
- Increased access to education

Summary and Recommendations

This report completed a cost-benefit analysis of CCPPI's proposal to HCAD to base the initial appraisals of their affordable single-family homes in Southeast Houston on the purchase price plus an additional 10%. Our cost analysis found that CCPPI's proposal will reduce property taxes for each homeowner in 77004 by $8,000-$15,000 over five years, resulting in an aggregate cost of $800,000-$1,500,000 to Harris County. CCPPI's proposal, however, does not provide substantial relief to those in 77021. Thus, we recommend the income-cap proposal receive consideration as it specifically targets more relief to lower-income residents and will benefit those in both zip codes. Overall, this alternative provides more relief than lowering the first appraisal can accomplish and does not saddle homeowners with more debt. This alternative, however, does result in a greater loss to the county of $1,200,000-$1,800,000.

Though the county will lose tax revenue under CCPPI's proposal – or our alternative – individuals and the community will benefit from property tax relief. Primarily, a reduction in taxes under CCPPI's proposal will lower cost burdens by 2-5 percentage points. This is especially important for those who are at the 80% AMI level as they tend to be/nearly are cost-burdened. This lower cost-burden provides individual stability and greater disposable income, resulting in benefits like greater wealth, better health outcomes, stronger social ties, higher educational attainment, and increased local economic activity. Thus, we believe the benefits justify the reductions in county revenue. However, due to current budget deficits for the City of Houston (Cheng, 2024), decreases in tax revenue may be untenable.

Thus, for the next steps, we recommend CCPPI survey its program participants and complete future research on politically feasible funding sources. Regarding the survey, we encourage CCPPI to survey their residents on benefits associated with affordable housing to gain an initial understanding of the extent of their impact. Regarding future research, we recommend CCPPI explore other methods to mitigate the tax revenue the county loses by providing property tax relief to those who need it. By utilizing our analysis and implementing our recommendations, CCPPI will gain essential insights to guide them in their work of promoting affordable, long-term homeownership in Southeast Houston.

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