

**HB647**  
**Sponsored by Matthew McQueen**  
**Questions and Answers**

**What does the bill do?**

In 2001 New Mexico enacted a cap on increases in assessed valuation of residential property, generally prohibiting assessors from raising the assessed value more than 3% per year. Because residential properties include not just owner-occupied homes, the cap also resulted in a benefit to investor-owned properties and second homes.

HB 647 preserves Speaker Lujan's original intent to protect long-time property owners from being taxed out of their homes, but limits the benefit to properties occupied by the owner as their principal residence. Apartments, second homes and other residential properties would pay their fair share of taxes based on the market value of the property.

**How will my taxes change?**

The bill makes the tax burden more equitable by ensuring that a greater share of properties are assessed at their actual market value. Owner-occupied properties will see their taxes go down, and investor-owned properties and second homes may see their taxes go up, depending on how much they are currently under-assessed.

If you are a homeowner, your taxes will go down. This is because of *yield control*. Yield control ensures that as values go up, rates come down to keep property tax revenues consistent and avoid a windfall to the taxing jurisdictions. The assessor still will not be able to raise your value more than 3% per year, but your tax rate will be lower.

If you are an investor, the effect depends on how under-assessed your property is now. Under-assessed properties will be brought up to their "current and correct" market value. However, since yield control also applies to these properties, their rates will go down as well.

**Will the value of my property go down?**

Under the current system the assessment of a property increases to its market value when it is sold. That aspect of the law will remain. What will change is that new homeowners will benefit from a lower tax rate, and thus lower overall tax burden

than they currently have. This will not affect the value of any given home. However, it will lower monthly payments and make it easier for prospective homeowners to buy a home.

Investment properties may experience a reduction in market value. The value of investment property is typically determined by capitalizing the property's net income. If expenses increase and rents remain constant, the market value may decrease. However, because the rate will come down the amount of increase will not be as big as if the property were reassessed under the current law.

### **If rental properties have to pay more taxes, won't they raise rents?**

Real estate investors typically set rents at the fair market rent, which is "the rent currently prevailing in the market for properties comparable to the subject property."<sup>1</sup> That is, they charge what the market will bear. If landlords ask more than the fair market rent, tenants will go elsewhere.

Currently developers who want to build new rental units are at a disadvantage because they will have to pay taxes based on market value, while existing units have a cap. HB 647 will level the playing field, and the reduced property tax rate if it is passed will encourage construction of new rental units. An increased supply of rental housing would help ensure that rents do not increase.

### **Will all resident homeowners get a tax break?**

HB 647 will correct the most inequitable aspects of the current law and make it more progressive, but it does not propose to impose an income limit on the cap. All resident homeowners will see their rates reduced.

### **How many properties will this effect?**

Every residential property will be effected. There are roughly 784,000 residential properties in the state. Data from Bernalillo County indicates that 63% of residential properties are owner occupied. Assuming that same proportion applies statewide, in rough numbers, the taxes for 494,000 homeowners will be expected to decrease and the taxes for 290,000 investors and second homeowners will be expected to increase.

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<sup>1</sup> International Association of Assessing Officers, *Glossary for Property Appraisal and Assessment*