

PRESERVATION

# EXTRA CREDIT

## Historic Preservation Can Reduce Property Taxes

**THINKING OF RESTORING A MID-CENTURY MODERNIST BOX** or a 1930s Regency-style manse? A sympathetic historic restoration may qualify for a substantial 15-year reduction of city property taxes. Even those who have already restored historic houses have hope: The program was recently expanded to permit a “look-back” measure that enables a retroactive application for qualifying work completed five years prior to historic designation.

To qualify, a structure must first be designated a “Landmark,” or “Protected Landmark” by the Houston Archaeological and Historical Commission (HAHC), or it must be located in a city-designated Historic District. Landmark designation is not limited to architectural monuments; it may also be based on distinction derived from a colorful or prominent past owner, from noteworthy historic associations, if the structure exemplifies an interesting architectural style, occupies a special place in neighborhood sentiment, or is considered a “contributing” or “potentially contributing” structure in an established historic district. There is only one hard and fast rule: The house must be over 50 years old and able to be restored to its original external historic appearance.

Step one is to apply for and obtain HAHC and city landmark or historic district approvals. Step two is to obtain approval of the proposed project from the HAHC. Step three is to expend “qualifying” restoration costs of at least 50 percent of the pre-renovation official appraised value of the house, not counting the value of the land.

For example, if the Harris County Appraisal District valued a house and lot at \$1.1 million, assigning \$500,000 to the land and \$600,000 to a landmark house, qualifying restoration expenditures would need to be \$300,000 (50 percent of \$600,000) or more to meet the test. This would reduce the base taxable value for city of Houston (not county or school district) taxes by \$300,000 each year for 15 years. Above the \$300,000, the actual amount spent would reduce the base tax valuation dollar for dollar, up to the pre-renovation appraised value of the house—\$600,000 in this example.

The savings can be significant: In the example above, spending \$300,000 in qualifying expenditures

and assuming the most recent city of Houston annual property tax rate of \$.0064375, the \$300,000 restoration expense would generate \$1,931.25 per year in savings, or \$28,968.75 over the exemption’s 15-year period.

The benefit is more generous when one spends 100 percent or more in qualifying expenses. In that event the landmark owner’s tax exemption expands to cover the entire value of the historic house (land still exclud-

BEGIN THE APPLICATION PROCESS WITH ONE OF THE FOLLOWING CITY PRESERVATION EXPERTS:  
**randy.pace@cityofhouston.net;**  
**713.837.7796** or **thomas.mcwhorter@cityofhouston.net;**  
**713.837.7963.**  
 For River Oaks homes, Kelley Trammell:  
**khtram@swbell.net.** HCAD: **hcad.org.**  
 The city’s preservation web site: **houstontx.gov/planning/historic\_pres/hist\_pres\_links.htm.** The city’s code of ordinances: **municode.com/resources.**

ed), not just the amount spent restoring it. The valuation in case of 100 percent expenditures is established by the HCAD in the year after the work is completed. For example, should the restoration work cost \$700,000 and the HCAD increase its market appraisal of the house, land excluded, in the following year to \$1.6 million, this would mean the owner spent \$700,000 but achieved a \$1.6 million, 15-year tax exemption. The reverse is also true: spending \$700,000 on a house initially appraised by HCAD at \$600,000 but achieving an HCAD valuation of \$1.2 million after completion of the work, would earn an exemption of \$1.2 million. In other words, the HCAD appraisal for the year following completion of the work fixes the exemption for projects costing more than 100 percent of the pre-renovation HCAD appraisal.

The total dollar savings for a 100-percent renovation are significant: The owner of the \$600,000 landmark house in the \$1.2 million example would pay \$3,862.50 in city taxes per year before the renovation, but no city property tax at all on the structure for 15 years follow-

ing completion of approved restoration expenditures. By comparison, a neighbor making the same improvements without the benefit of the historic preservation tax exemption would see his or her property tax on the structure double from \$3,870 per year to \$7,725 annually. In this example, the exemption for the restored historic structure would be worth \$115,875 in saved taxes over 15 years.

Those restoration costs related to the original structure (architectural, electrical wiring, re-plumbing, bathroom renovation, kitchen upgrade, painting, interior remodeling, window repair, etc.) qualify, and must amount to “bona fide restoration or preservation” work. No design conditions apply to interior restoration, nor do design limitations apply to parts of the structure not visible from the street.

Some common investments do not qualify, so a determination will primarily depend on the recommendations of the HAHC when it issues the “Certificate of Appropriateness” that is needed to support the tax exemption. The city planning commission and city council must approve the initial designation, and the city’s finance department will determine the amount of the final tax exemption.

Typically, however, other city agencies follow the HAHC’s recommendations.

While a landmark designation can be applied for anywhere in the city, similar rules apply to restoration of a designated “contributing structure” or “potentially contributing structure” in an officially-designated city historic district. Currently nine districts are on the list, including areas such as Courtland Place near Downtown and Broadacres in the Rice area. Another valuable tax exemption path is available for historic commercial structures converted to four or more residential units. The resulting “Protected Landmark” exemption can be obtained for buildings meeting the stringent requirements of city ordinance Section 44-29.

Any landmark designation becomes a part of the legal description of the property and binds future owners. If a later owner wants to tear down the building and follows the prescribed procedures, he is entitled to demolish the historic structure within 90 days, but must repay all past tax savings to the city. A “Protected Landmark” applicant, however, must demonstrate hardship and obtain permission before demolition.