Six Ways to Reduce Student Housing Property Taxes

Advice on one of the biggest hurdles in acquiring – and owning – off-campus student housing properties.

By Gilbert Davila, Esq.

Property taxes can have a huge impact on a student housing project's bottom line, and that expense is growing as assessors across the country aggressively increase valuations. Student housing owners should ask themselves the following questions as a part of any effort to combat excessive valuations.

1. Is My Property Data Correct?

Assessors' records commonly contain errors regarding a property's age, square footage, leasable area, number of units, number of beds, unit mix and amenities. An error can significantly increase a property's assessment.

Providing a current rent roll to the assessor can correct many of the above-referenced mistakes. Consider providing a property site plan and marketing materials that show the project's floor plans and amenities. Correcting basic errors in the assessor's records remains the simplest path to a lower tax assessment.

2. When Will My Property Be Re-Appraised?

Assessment schedules vary from state to state and sometimes county to county. Many jurisdictions appraise commercial property annually, while some opt for every three to five years. A handful of jurisdictions reevaluate a property's assessment only when the asset sells. Student housing owners should learn their jurisdictions' appraisal rules, since this can factor into a property tax appeal.

3. How Did The Assessor Arrive At My Valuation?

Assessors commonly derive market value using one or more of the three classic approaches: cost, income, or sales comparison. Cost is arguably the least reliable approach if the property is more than a few years old, especially given the difficulties of estimating depreciation and obsolescence for older properties. In valuing student housing, an assessor will most likely rely on an income and/or sales comparison approach. Taxpayers have reduced assessments by disputing how the assessor applied a valuation methodology to a specific property.

4. How Did The Assessor Apply The Income Approach To Valuation?

In an income approach, assessors typically use market rent, vacancy and expense factors to arrive at an annual net operating income figure and then apply a market capitalization rate to calculate value. Often, the market factors used in the assessor's income approach reflect data taken from properties that are incomparable to the property being assessed.

The most common mistake assessors make when using the income approach for student housing is applying conventional apartment data in their analysis. Student housing owners should explain the differences between these two property types, especially when discussing values per square foot used in conventional apartments versus values per unit or bed in student housing. Also, owners should emphasize seasonal occupancy fluctuation differences between a student housing property, which often experiences low summer occupancy, and a conventional apartment project, in addition to the influence of on-campus housing supply on the performance of an off-campus student housing project.

Even if an assessor is using student housing market factors in a valuation analysis, the owner should challenge the market factors with data taken directly from the property's current and previous year's operating statements, if such data is in the property owner's favor. Specific income and expense items can show trends in rental rates, occupancy and expenses that differ from the market trends alleged by the assessor.

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5. How Did The Assessor Apply The Sales Comparison Approach To Valuation?

Aggressive assessment increases often stem from an assessor's reliance on the recent sales prices of other student housing properties. A property owner can usually discredit so-called "comparable" sales by outlining the physical and economic differences between the properties sold and the assessed property.

Specifically, the owner can point out to the assessor that the factors influencing a buyer's decision to purchase a property cannot be known unless the assessor was a party to the transaction. For example, a purchaser may have obtained below-market-rate financing, or might have been motivated by time constraints or income tax consequences. Make sure that the assessor understands the meaning of comparability.

Many student housing owners worry that a recent purchase price will increase their property's assessment. Owners should consider a tax appeal even if the recent purchase price of their complex was higher than the taxable value of the property, however. Buyers analyze factors extending beyond real estate in determining what they can pay for properties. As a result, a purchase price should provide no more than a touchstone for an assessor.

Taxpayers arguing against the assessor's use of a purchase price as a value basis should outline for the assessor the considerations that affected the price, such as special financing. Also explain how the actual performance of the property differs from projections made at the time of purchase. A purchase price may lead to a higher assessment, but student housing owners can mitigate the increase through a discussion with the assessor.

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6. Did The Assessor Consider Equality And Uniformity?

Most taxing jurisdictions require equal and uniform assessments among comparable properties. An equal and uniform argument is separate from a discussion about a property's market value. Assessors often value student housing projects without considering the assessment of like properties, which presents an additional opportunity to argue for a reduced assessment.

The assessment of a student housing property should fall within a uniform range of values for comparable properties. Student housing owners should compare their property's assessments to comparable properties on a per-unit or per-bed basis. Assessors often compare by square footage, which is inappropriate for student housing.

Another unit of comparison for student housing owners is to analyze the gross rent multiplier ratio between comparable properties. If an owner's property is assessed disproportionately higher than the comparable properties on an appropriate unit of comparison, the taxpayer can argue for a value reduction based on equality and uniformity, regardless of the assessor's market value claims.

Owners of student housing should consistently monitor their property tax assessments. Asking the appropriate questions can lead to effective strategies to reduce taxable values.

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