Future Tense?

Avoid unnecessary stress by accurately forecasting a property's tax burden.

by Rachel Duck

Property taxes are one of the largest expenses for a real estate project. They are also one of the most difficult to forecast — which can make navigating a complex taxation system intimidating. With statutes varying from state to state, property owners can better manage their tax burden with the help of a few key considerations.

Know Your Laws

The first step is becoming familiar with the applicable procedural and valuation laws. Across most jurisdictions, property taxes are based on a specific "market value" standard as of a specific valuation date. If you are a property owner or representative, pay attention to these value standards as well as deadlines. Applicable deadlines for renditions, appeals, litigation, and the payment of taxes are typically very strict. Failure to comply may result in a forfeiture of your right to appeal and, in some cases, may incur additional penalties and interest.

Knowing the frequency of reassessment in a jurisdiction is also critical. In Texas, for example, property, both real and personal, is assessed annually. Initial value assessments can increase 20 to 40 percent in strong markets, making tax forecasts especially difficult.

Know Your Property

Examining the pertinent details of a property, including any changes in its physical condition or performance, is crucial to both accurate forecasts and effective assessment appeals. If a retail center's net income is up 25 percent year over year, budgeting 5 percent more for property tax expenses will likely result in a shortfall. In addition to performance, note any new construction, deferred maintenance, extraordinary expenditures, and other physical changes that may affect the property's market value.

Know Your Assessor

Assessments can be subjective in nature, especially when they are determined by individuals and not fixed formulas. Understanding your assessor's personality and preferred methodology will help you predict assessments. Communicate early and often with the assessor, along with other property owners, managers, and tax specialists in a particular jurisdiction. Examine the methodology the assessor will use to value your property, as well as the standard assumptions and allowances. For instance, are warehouse properties valued based on income or cost? Or does the assessor depend on age? Paying attention to these details will help you understand how changes in the market and property performance will impact future assessments.

Know When to Appeal

Once you receive an assessment, when should you appeal? The process itself can be intimidating, expensive, and full of uncertainty. Taxpayers must ensure it is economically prudent by comparing the costs of an appeal with potential savings. Here are key questions to consider:

Does the assessment exceed your estimate of the property's market value?

The most obvious time to appeal is when you can demonstrate that your property has been overvalued by the assessor. If you estimate a value of $10 million based on a thoughtful,

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well-supported analysis but the assessor values the property at $12 million, an appeal makes sense.

Did the assessor make errors in collecting basic property information?

Perhaps the easiest and most successful appeals are based on basic errors in property information, such as differences in net leasable area, unit mix, age, or construction class. Correcting these errors can significantly impact an assessment. For instance, if your property's net leasable area is 100,000 square feet but the assessor applied the gross building area of 120,000 sf to the valuation, correcting that error could reduce the valuation by 17 percent.

Are the assessor's valuation assumptions supportable?

Most often, property owners and representatives achieve reductions by disputing an assessor's assumptions. In the income approach, pay attention to market assumptions on rent, vacancy, expenses, and cap rates. Do those assumptions reflect the property's actual performance?

Errors in the cost approach generally involve an inaccurate calculation of total depreciation. Assessors typically focus on physical depreciation calculated through depreciation tables. What they frequently neglect to consider, however, is how functional and external obsolescence may affect a particular property. Additionally, if a property transacts business or the assessor bases the valuation on comparable sales transactions, pay attention to whether intangibles (generally non-taxable) or other considerations were factored into the final valuation. Assuming the purchase price must equal the market value of the taxable property is a common error.

Is the property equally and uniformly assessed?

While statutes vary, many jurisdictions require a property to be assessed equally and uniformly with comparable properties. If your property is assessed higher than its true competitive set, equity may offer a remedy for an appeal even when the assessor's determination of market value is supported.

Managing the Property Tax Expense

If you are responsible for managing property tax expenses, dive into the details of how the property is valued by assessors or hire someone who has the expertise and experience to do so. The more you know about your property, the laws, and the relevant local assessor, the better your chance of accurately forecasting property tax expenses and effectively disputing excessive assessments.

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