



# How to Lower Excessive Property Tax Assessments in a COVID-19 World

BY RACHEL DUCK | DECEMBER 2021

The right to appeal property-tax assessments might be more important than ever in the wake of COVID-19. Despite the pandemic's disastrous and continuing effects on the value of many classes of real estate, some property owners saw tax assessments increase dramatically in 2021 and fear 2022 will bring additional increases.

## What is the value, anyway?

When property owners receive their 2022 assessments, their first step should be to determine whether the valuation is, indeed, excessive. The right to appeal an assessment does not mean that an appeal is always prudent, so carefully analyze your property's

performance in the context of the current valuation.

For example, suppose you own a mid-size, multi-tenant office property outside of Austin, Texas. Market vacancy rates increased to 20 percent in the fourth quarter of 2021 from 12 percent at year-end 2020, but asking market rents increased 10 percent in that time. Your office property fared better than the general market and only increased its vacancy to 5 percent when one small tenant did not renew its short-term lease.

The property's in-place rental rates were unaffected and unpaid rent from tenants at year-end 2021 was minimal. The property's assessment for 2022 indicates a 20 percent decrease from the previous assessment.

Although there are many additional circumstances to consider, in this scenario, it may be best to forego an appeal.

In many cases, however, property owners might see dramatic jumps in assessments for 2022 that do not reflect actual property performance and market fundamentals. Taxpayers and assessors alike are seeking how best to analyze the value implications of the past 18 months on different property types going forward.

## Vacancy levels have affected individual office properties quite distinctly, and pandemic performance seems to be largely influenced by market location, tenant mix, and landlords' flexibility in negotiating lease terms moving forward.

### An uncertain future for office

The office market has suffered from continuing uncertainty despite a recovery in jobs. According to Cushman & Wakefield's *Q2 Office Market Beat* report, "even as occupiers increasingly clarify post-pandemic future workforce policies and set targets for employees to return the office, leasing activity has remained below pre-pandemic levels."

Moving into the fourth quarter of 2021, there was uncertainty among employers as to what return-to-office policies would even look like. Resurgence of COVID-19 cases in many markets, as well as dramatic shifts in labor preferences during historically high rates of workforce migration, have forced many employers to reconsider or delay their initial return-to-office policies.

Delivery of office product that began construction

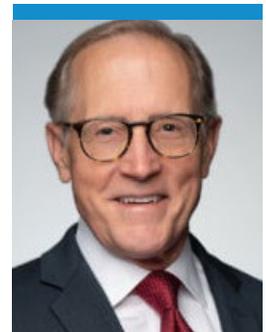
before the pandemic exacerbates vacancy woes.

Cushman & Wakefield reported that, as of the second quarter of 2021, "more office space was delivered in each of the past three quarters than any other quarter in the past three years except Q4 2019."

However, vacancy levels have affected individual office properties quite distinctly, and pandemic performance seems to be largely influenced by market location, tenant mix, and landlords' flexibility in negotiating lease terms moving forward.

### An insider's perspective on value

Hartman Income REIT owns and manages office, retail, industrial, and flex properties across Texas. David Wheeler is Hartman's chief investment officer and executive vice president and has been with the firm since 2003. He shared some insight into what he has seen across the market during the past 18 months and his expectations for the future.



David Wheeler

*How was your occupancy affected during the height of the COVID-19 pandemic?*

**Wheeler:** "The pandemic has both positively and negatively affected our occupancy rates here at Hartman. At the end of 2020, we closed about 3 percent lower in occupancy, but as we moved into 2021, maintaining our focus on the small tenants and flexible lease terms, we captured 130,000 square feet (12,077.40 sq. m.) of net absorption in the first quarter. Today, we are on track to reach 1,000,000 square feet (92,903 sq. m.) in new, signed leases this year, a record-breaking number for the firm."

*How is your leasing activity currently?*

**Wheeler:** "Our leasing activity is currently standing on a very solid foundation; we intend to end the year with this 1,000,000 square feet of newly signed leases. We also recently launched BIZSUITES, a new business entity aimed to address the post-pandemic workplace needs of small businesses and start-ups, which has

drawn significant attention to our suburban office buildings.”

*Have you seen certain classes of properties struggle more than others?*

**Wheeler:** “Retail and office-property classes struggled more than industrial and flex. Industrial space continued to rise in popularity during the pandemic as many people moved a significant portion of their spending online to e-commerce. However, certain types of retail and office benefitted during the pandemic. For example, grocers and home-improvement retailers benefitted tremendously. For office, the suburban buildings like Hartman gained significant occupancy as businesses and individuals emptied from high-density central business districts.”

*What do you see as any shifts in space utilization that might be necessary to maintain successful levels of occupancy moving forward?*

**Wheeler:** “Dedensification is an important shift in space utilization that is already taking place. I see it upholding occupancy numbers at least through the uncertain times of the pandemic. For the past decade, office space per employee steadily shrank from 250 square feet (23.22 sq. m.) to less than 100 square feet (9.29 sq. m.). Now, with health concerns, space trends are erring on the side of more space per person, with some businesses even moving back to the individual-office model. At Hartman, we’ve had several tenants expand their space to allow more breathing room in their offices.”

### What is a property owner to do?

The best evidence for a value correction is the

property’s actual performance. Communicate clearly and early with your assessor and provide all relevant documentation.

Office-property owners should describe concessions and flexible lease terms that might affect valuation. Occupancy and rental rates alone might paint an inaccurate picture of the property’s performance. Did tenants receive any free rent? Did new tenants sign short-term leases, resulting in higher long-term vacancy risk? Did you provide significantly higher tenant-improvement allowances to incentivize tenants?

As Mr. Wheeler indicated, Hartman maintained occupancy rates in its office and retail centers by focusing on flexible lease terms. Such terms might affect valuation differently than traditional, longer-term leases but changes such as these might prove essential to correct valuation.

Remember, everyone is working toward a goal of accurate valuation under challenging and unpredictable market conditions. Whether communicating directly to the assessor or during the appeal process, conveying specific factors that have affected your property’s value is the best approach to achieve a fair assessment in 2022 and beyond.



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