

Don't be afraid to challenge your property tax assessment

The stark decline in the market value of commercial property in recent years has caused all manner of problems for certain businesses.

It goes without saying that real estate firms have taken a significant hit, in part due to the decline in property value. Moreover, for some businesses that own their facilities, the decline in property values has depleted their collateral and imposed significant obstacles to obtaining credit.

However, the decline in commercial property values can actually benefit some businesses, translating into lower costs. Obviously, lower values make acquisition costs of commercial property more affordable for those few businesses that need to expand and can obtain financing.

But the greatest potential benefit of the decline in commercial property values may be in reducing property tax liability. Most businesses pay property taxes, directly or indirectly. Businesses that own their facilities or rent their facilities under a triple net lease pay property taxes directly. Most other businesses that lease space indirectly pay property taxes that are passed on by landlords as part of their common area maintenance (CAM) charges. Regardless, real savings can be achieved for businesses that take active steps to manage their property tax liability in this time of declining property values.

The decline is real

Last month, Moody's Investment Service issued a special report showing that 2009 commercial values have declined 36.4 percent from 2008 and a whopping 43.7 percent from 2007. This report is consistent with most other measures of commercial values.

How does the decline in commercial property values translate in lower property taxes? Consider a business that leases 5,000 square feet for its operations. In Madison, that 5,000 square feet could easily have been assessed in 2007 at \$200 per square foot, or \$1 million for property tax



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purposes. If that property had declined in value by the Moody's nationwide average of 43.7 percent, the value would have declined by \$437,000 since 2007. Based on the current Madison mill rate, this decline would translate into annual savings of \$8,900.

The problem is that property tax assessments don't automatically follow commercial values. In fact, while commercial values were plummeting by 43.7 percent from 2007 to 2009, commercial property assessments in Wisconsin's 10 most populous counties actually increased by 6 percent over the same period.

Managing property tax assessments

So, how can assessors increase commercial property assessments in a time

of overwhelming decline in the value of commercial property? The simplest answer is that the vast majority of owners and tenants who are responsible for property taxes do not challenge assessments. It is estimated that fewer than 1 percent of commercial property assessments are challenged. In order to reduce your property tax liability, it is necessary to engage your local assessor and, if need be, formally challenge your assessment.

For most businesses, the initial step in managing property tax assessments is to provide useful data to the assessor as early as is practical. To do this, it is vital to provide something more concrete than an opinion of value. It is best to come to a meeting with an assessor armed with evidence that supports a lower assessment such as comparable sales, rental income and expenses, or market rents.

Some taxpayers may mistakenly assume that because the property they own or rent has steady or increasing cash flow, the property's value has not declined. To the contrary, even if a property's rents and vacancy rate have remained steady or even improved, the property's value may have actually declined (and so, therefore, should its property tax assessment). Why the decline? Since the collapse of the credit markets, most lenders are requiring investors and borrowers to commit a greater share of their own funds when acquiring property. Because buyers and investors must invest more of their own money into acquisitions, there is a tendency to insist upon a greater return. This translates into higher capitalization rates, which measure the relationship between value and cash flow. The higher the capitalization rate, the lower the value. Thus, "successful" properties can decline in value because of the increase in capitalization rates.

When all is said and done, businesses can help manage their property tax liability by being alert to market trends and providing assessors with documented information that shows a decline in their property value. ■