

# Commercial Property Values Continue to Decline... But Is Your Assessor Paying Attention?

By any measure, the market value of commercial property has declined over the past two years. In most respects, this decline in value is bad news. However, there is a small silver lining because the declining property values should translate into lower property taxes. Yet, in city after city, tax attorneys have noticed many assessors in Wisconsin seem to have ignored the market and actually increased property tax assessments on commercial property. This e-alert is designed to assist owners of commercial property to understand the problem and take steps to manage fluctuating commercial property values.

## Decline in Values Ignored

Last month, Moody's Investment Service issued a special report showing that nationwide, 2009 commercial values have declined 36.4% from 2008 and a whopping 43.7% from 2007. Yet, in each of the ten most populous Wisconsin counties, tax assessments of commercial property did not decline, but actually increased. According to the Wisconsin Department of Revenue, in the ten most populous counties, commercial property values increased by an average of 6.0% from 2007 to 2009.

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 their assessments. It is estimated that fewer than 1% of commercial property assessments are challenged. However, when taxpayers challenge assessments, reductions often result.

## Tips on Challenging Your Assessment

For many taxpayers, the most important step in managing property tax assessments is to provide useful data to assessors as early as is practical. If you have something more than opinions (*i.e.*, comparable sales, rental income and expenses, market rents), and the data supports a lower assessment, it may make sense to sit down with the assessor to go over this data.

If discussions with the assessor do not result in a sufficient reduction, an appeal

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may be appropriate. However, taxpayers must be aware of the deadline for filing objections in their community. With the exception of Milwaukee, the due dates for objections varies. The deadline for objections typically falls between May 1 and September 30, although it can occur either before and after these dates. If you miss the deadline, your ability to challenge your assessment for that year will almost certainly be lost. Don't count on a notice from your assessor to remind you. Many assessors will not issue a notice if the assessed value has not changed.

## **Impact of Increased Capitalization Rates**

Owners and tenants in properties that have had stable rents and manageable vacancies may assume that the value of their properties have not declined. Don't make this assumption. Even if rents and vacancy rates have remained steady or even improved, the property's value may have declined and so, therefore, should its assessment.

Properties with steady or increasing profitability may have seen their values decline because market capitalization rates have increased. Since the collapse of the credit markets, most lenders are requiring investors and purchasers to commit a greater share of their own funds when acquiring property. Because purchasers and investors must commit more of their own funds to acquire properties, there is a tendency to insist upon a greater return. This translates into a higher capitalization rate. The higher the capitalization rate, the lower the value. Thus, properties that have had steady or increasing cash flow may still experience a decline in value due to the increase in market capitalization rates.

If you have any questions about the implications of declining property values or any other aspect of property tax assessment, feel free to contact any member of the [Reinhart Property Tax Team](#).

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