

Appealing Appraisals



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Property taxes play a big role in bottom-line decisions.

Each year, appraisal districts send out property valuations, and upon receiving a building's assessed value, owners and investors spend time on appeals to receive what they believe is a fair value. Property taxes are one of the largest line item expenses for a company, and the amount paid can drastically affect a company's bottom line.

Appeal Tips

Given the importance of a building's value and its affect on cash flow, there are several points to consider when it comes to property tax appeals.

First, be familiar with your jurisdiction's calendar. Specific deadlines are set for sending out valuation notices and for filing appeals. Some appraisal districts have rolling appeals without a regimented date range on when valuation notices will be sent out. In contrast, for example, Texas districts send 90 percent of the notices between May and July.

Of course, each year a certain percentage of owners end up missing the deadline for a variety of reasons. Fortunately, most states have a late filing deadline, but there are some restrictions for late protests that can differ depending on which state and county the building is located.

Late protest periods can be beneficial. For instance, investors and buyers need to pay particular attention if a property is acquired after an appeal deadline. The owner/investor can take advantage of the late protest period to ensure their property is valued fairly.

During a transaction, there is usually no benefit or incentive for the seller to lower property taxes, but buyers have two options on which to act. The buyer can either ask the seller not to appeal or withdraw any pending appeals, or they can ask the seller to file an appeal on their behalf. If the seller agrees not to file an appeal or withdraws an appeal, the buyer can file a late protest, which will give them full control over the process. However, as mentioned before, each state and county has certain late filing provisions, and the property may not qualify for the appeal. On the flip side, if the seller agrees to file and executes an appeal for the buyer, a reduction is more than likely. Although, in this case, buyers need to be careful that they do not acquire the property at a higher value than what was settled with the appraisal districts as this could cause the appraisal districts to feel taken advantage of and hinder the future success of appeals. Another point to keep in mind is the intricacies and potential changes of the property tax code in each state. For instance, the frequency of appraisals is usually dictated by the law, and each state has its own peculiarities. Being familiar with the details can make a large difference in the budgeted and/or underwritten expectations of an asset.

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A second factor is how valuations are set. Typically, valuations are set based on market value, but there may be other provisions to consider. For example, the Texas legislature is discussing repealing the equal and uniform law, which allows for a commercial property to be appraised at the same value as a similar building in its county. The law is essentially beneficial to commercial property owners because it helps keep appraisal districts from unfairly valuing a property. If the Texas legislature repeals this act, it will certainly raise the value of an owner's property and thus increase property taxes for some investors. It is important to be aware of legislature changes such as this in your own state and county.

Other information to remember includes identifying appraisal parameters in your district. Most county laws state that valuations should be based on the real estate value only, meaning the physical structure and the land, and should be separate from the operational value. However, appraisers tend to have a difficult time defining the value of properties such as hotels and seniors housing facilities because of the value the business services, such as food, activities, and healthcare, bring to the properties. In industries such as these, owners and investors need to isolate the value of the real estate.

Getting Help

Finally, as owners and investors, if you do not understand the ins and outs of property valuations and appeals, hiring professional help is highly recommended. Tax professionals will ensure a smooth process and that the best valuation is achieved. Furthermore, always involve professional help if you are planning to invest in property outside your market — trying to understand local laws in an unfamiliar area can be tough. Educating yourself on the local laws in your market and paying attention to the appeals calendar are the best ways to guarantee your property is valued fairly and tax burdens are kept low. Understanding local administrative policies and identifying appraisal parameters are other key factors to remember. Following these tips can help owners become more savvy investors as they learn how to best minimize property taxes.