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PROPERTY TAX CONSULTANTS

How Do I Minimize My Property Taxes?

SENIORS HOUSING BUSINESS

The United States is beginning to experience a demographic shift as the baby boomer generation moves toward retirement. With more retirees on the horizon, there will be an increased demand for specialized seniors housing such as independent and assisted living and memory care during the next 20 to 30 years.

The seniors housing industry is making a gradual transition from unfamiliar territory to a more pervasive market sector. Large institutional investors are gradually becoming more familiar with the industry. At the same time, real estate fundamentals are gradually improving.

Anytime a real estate asset class begins to take on more prominence and transaction volume heats up, jurisdictions begin to pay more attention. In order for owners to keep their tax burden low, the most important thing they need to do is arm themselves with strong knowledge of local appraisal rules.

With property taxes there are many factors to consider, but here are the most important to remember when considering each issue.

1 Understand local administrative policies

Understanding appraisal rules and the appeal calendar is the first step in gaining valuable knowledge to ensure a property is valued fairly and to keep taxes low.

It's important to ask the right questions. How often is a property reappraised? Are there certain events that can trigger a reappraisal? For example, Proposition 13, which passed in California in 1978, established limitations on assessed value and set the maximum general property tax rate at 2 percent.

In this case, Proposition 13 would have been an important law to be aware of when considering the property value of a facility. Any time there is a transaction or transfer of ownership, reappraisal is triggered. If someone has owned a piece of property for 25 years, and it was originally valued at $2 million, the taxes are most likely very low, but when ownership is transferred through a sale or inheritance it must be reappraised at the current value.

Find out the notice schedule. It's also important to ask if there is a window of appeal that occurs every year around the same time, or if owners have to be on the lookout for appraisal notices at all times. In Texas, for example, 90 percent of notices are sent between May and July.

How quickly do appeals typically get resolved and are there ways to escalate the appeal process? Timing of the appeal process varies from state to state and from county to county. Be aware of the general timing the initial appeal process takes as well as the advanced appeal process.

How does the appeal calendar interact with the payment schedule? This could have a significant impact in your pro formas and cash flow analysis. At times there can be a lag between the date of valuation and the actual payment dates. Does your jurisdiction require you to provide property financial statements? Most of the time this is not required, but some jurisdictions ask for them anyway. The vast majority of times, it makes sense to not provide any financial information if it is not required.

2 Identify appraisal parameters

Knowing the limitations of appraisal jurisdictions will help ensure a property is being valued properly and fairly.

Understand what the rules are for taxable property value in the area. It's highly likely that the taxable value is only on the physical structure and the land. However, many seniors housing facilities offer services above and beyond the real estate that some appraisal districts may inadvertently factor into the tax rate when determining valuations.

These can include, but are not limited to, food and beverage arrangements and medical services for assisted living and memory care, as well as activity fees. Each facility administers and charges for services differently. Although an investor may purchase a facility for a certain price, the cash flow of the property most likely includes the ancillary services listed above. From the standpoint of ad valorem taxes, it is necessary to isolate the value of the real estate. One can achieve this by using a replacement cost analysis.

It is also possible to use a stripped-down version of a pro forma, such as taking out service income and related expenses, to derive a value. The important part is to look at the value in different ways and to triangulate it to a reasonable and justifiable number.

3 Recognize the experience of appraisal jurisdictions

Appraisal districts often value every type of real estate. They are often understaffed and may not have the technical expertise or information available to make quality valuations regarding seniors housing.

Although they don't necessarily directly seek it, appraisal districts learn from owners on how to value new property types. Sometimes owners have to push the envelope and force an appraiser to rethink his or her previous conventional knowledge of appraisals.

For example, if a facility was purchased for $30 million, it may take extra convincing as to why that same property today may only be worth $20 million of the original purchase.

4 Hire professional help

If you are not an expert and are having trouble, it is important to hire an experienced professional who knows the local rules and regulations.

It is best to involve a professional early on, typically before acquisition, in order to get a better sense of what to expect because it takes time for an owner/operator of a seniors housing facility to understand all the local nuances of property tax appraisals.

If you are having trouble understanding the dos and don'ts of working with your local appraisal district, or simply do not have the time to learn about the process, always hire a professional to help. It is never too early to start preparing for future cost expenses.