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Property Tax Strategies for Data Centers

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In recent years, Texas has made headlines for its flourishing economy, boosted by its exceptional population and job growth. As a result, numerous corporations have been drawn to relocate here, putting Dallas at the forefront of the corporate relocation trend.

With this economic boom comes an increased need for data management and data centers—a growing industry in Texas. The Dallas-Fort Worth region, in particular, has become a hub for data centers. According to Data Center Map, there are currently 118 colocation data centers in Texas with 56 of those located in Dallas alone.

One of the biggest decisions a company can make is where to lay its bricks and mortar for a data center. In addition to location, companies must also consider abatements, exemptions, and other economic incentives states offer to entice the data center industry to choose their specific region. In most cases, site decisions are heavily weighted on property taxes and sales tax, due to large capital requirements. And with property taxes usually being one of the largest annual expenses for a company, somehow they often fly under the radar during budgeting—when they should be at the top of the list.

As companies are assessing ad valorem taxes for their data center facilities, it is important to scrutinize and confirm that the property is being assessed and taxed appropriately as either personal property or real estate in order to avoid double taxation. Many appraisers are accustomed to estimating value on offices, retail strips, multifamily units, and warehouses; however, data centers are a unique property type that many local appraisers have never valued resulting in a lack of understanding of the intricacies involved in the build-out of a data center.

To ensure your data center property is valued correctly, the following points are essential to think about.

First, in states that tax both real and personal property, it's important to ensure each assessment is distinctly defined or you risk your property being double taxed. For example, items that should be considered personal property, such as technology, software, cooling and underground cabling, are often being added to the real estate assessment by appraisers, accounting for their value twice.

Second, with the ever-changing technology market, the value of equipment in a data center quickly depreciates and becomes more obsolete with each passing year. The business personal property value is typically based on cost (less a depreciation rate), but does not include any obsolescence factor that should be addressed with aging equipment.

Keep in mind that many appraisers are unfamiliar with data centers, and the appraiser's depreciation schedule is most likely similar to the typical commercial property tax schedule where components of personal property do not depreciate as quickly. As a result, the appraiser may value the technology component much higher than its actual current value. This is a big problem because the technology and infrastructure can sometimes account for 50 percent of the overall value of a data center.

With rapidly changing technology comes the need for intricately designed properties with the capacity to house it. Although the current design and efficiency of a data center is on target now, it may not be the preferred and most efficient design five or 10 years from now. Taking that into consideration, owners can explore the possibility of additional deprecation for their real estate value due to inefficient design or fair market value.

With appraisal districts still getting to know the data center industry, the previously discussed points are a few important issues to be aware of to ensure your property is valued fairly and correctly. Take the time to look at every angle and functionality component of your data center to mitigate property tax exposure.