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### OPERATIONS / LAW

#### REDUCE CARRYING COSTS

##### Monitoring property tax assessments can save money in the long run

Carrying costs are a significant consideration for any development project. For residential developers in particular, the issue escalates when you consider a nationwide decline in the housing market, the increased time on market for new homes and rising construction costs. Understanding and planning for variable costs, such as property taxes, is critical to determining a development project's profitability and maintaining sufficient cash flow to ensure the project's survival.

Real property assessments and thus, property taxes, are on the rise in virtually every major market. Yet all too often, property taxes are either overlooked or poorly forecasted in the development budget. Underestimating the extent of a project's property tax liability over the course of the development life span can quickly turn a profitable project upside down. Fortunately, developers can take an active role in mitigating a project's property tax expense by understanding the local assessment process, engaging in proactive research and appealing excessive valuations.

#### UNDERSTAND THE ASSESSOR'S VALUATION METHODOLOGY

Knowing the frequency and method by which an assessor values a residential development project is the first step to understanding the project's property tax liability. Tax parcels are generally assessed at fair market value as of a specific valuation date. Generally, three methodologies are considered in the industry—income, market and cost. While an income approach is suitable for income producing properties, the market and cost approaches are applicable to virtually all property types. Often, an assessor will use a combination of valuation methods to arrive at fair market value.

When a project is under construction on the date of valuation, fair market value can be more difficult to ascertain. The local assessor typically values the property using some variation of the cost approach wherein the value of the land plus an estimation of hard and soft construction costs is calculated. While most jurisdictions assess property annually, projects under construction are typically subject to one or more midyear supplemental assessments. The frequency of supplemental assessments will depend upon on the rules of the jurisdiction where the property is located.

#### MITIGATING YOUR PROPERTY TAXES—BE PROACTIVE, KNOW YOUR MARKET AND COMMUNICATE

Property assessments are not based on an exact science. The method for valuing a development project may vary by jurisdiction, assessor and even project, leaving substantial room for differing opinions. Developers have an obligation to take an active role in their project's assessed value by monitoring assessments and appealing valuations where necessary. Taking a proactive approach can minimize a project's exposure for excessive property taxes.

### **RESEARCH YOUR MARKET**

An assessor's valuation is typically presumed to be correct by law, absent a showing of substantial evidence to the contrary. Thus, it is critical to know both the property and issues affecting its value inside and out. Quantify and qualify information. For residential developers, this may entail research on the number of new home builds in the area, the Bluechelaverage absorption rate and time on market projections, as well as investigation into inflation of construction and labor costs. Analyze whether and to what extent these factors affect a property's ascertainable selling price. For completed residential developments, there's no better indicator of fair market value than recent sales of comparable properties.

### **COMMUNICATE WITH YOUR ASSESSOR**

Local assessors invariably have numerous properties to value within a limited time frame. They do not have the time to become intimate with the project constraints, market conditions, cost factors and ultimate valuation issues affecting each tax parcel as its individual owner does. Therefore, keeping an open dialogue and responding to information requests is key to ensuring that both the assessor and developer are informed. Not only is this information helpful during the assessment process and thus, before the final assessment is issued, it serves as ammunition to support your motion for a lower property value if an appeal becomes necessary.

### **KNOW YOUR APPEAL RIGHTS**

Property owners have a right to appeal their property's assessed value. Generally, appeals are initiated through an informal administrative hearing before the local assessing officer and/or a board of equalization, with final appeal taken to the state court. Each state and local government has its own appeal procedures. It is critical to know the timelines and informational requirements of your jurisdiction. This information is often found on the local assessor's website, but also through state statutes and local codes. Most counties require that property owners conduct administrative appeals before triggering the right to appeal an assessment to state court. By overlooking a simple deadline, the right to challenge an excessive property assessment could be lost until the next appeal cycle.

### **THE BOTTOM LINE**

Property taxes can exceed six figures depending on the size of the project, and the impact of an unexpected tax increase on a project's cash flow can be devastating. However, by working with the local assessor, evaluating the fairness of each property assessment and actively appealing excessive valuations, developers can minimize the potential for unnecessary property tax expenditures.

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