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Accurate appraisals get tricky

Commercial property sales downturn challenges tax valuation calculation

Dallas Business Journal - by Bill Hethcock Staff writer

It's never easy to put a dollar value on skyscrapers, shopping centers, warehouses and apartment complexes.

But this year, that task will be doubly difficult because the virtual freeze in commercial property transactions means there are few comparable sales on which to base appraisals, property tax consultants and commercial real estate experts say.

"The lack of sales presents a problem when it comes to both sides arriving at what should be a fair value for a property in this environment," said Jeff Kurz, a principal at Dallas-based property tax consulting firm Kurz Group Inc., which he owns with his brother, Rick Kurz.

There's no question that the scarcity of comparable sales has made it more challenging to appraise commercial property, said Ken Nolan, chief appraiser for the Dallas Central Appraisal District.

"It makes it very speculative," he said.

Nolan added, however, that appraisal districts rely on other factors such as the amount of rental income that commercial properties produce and the cost of construction or improvements.

Property tax assessments will be mailed May 1; the deadline to file protests is May 31.

Sales and listing prices of Dallas-Fort Worth office and industrial buildings plunged in the first quarter of 2009, according to Delta Associates, the research affiliate of commercial real estate firm Transwestern.

Office property sales volume dropped to \$45 million in the first quarter of 2009, compared with \$283 million in the same period a year ago. Office sales prices averaged \$70 per square foot in the first quarter, down from \$195 per square foot last year, the Delta report said.

Warehouse and distribution center sales volume sank to \$15.6 million in the first quarter of 2009 compared with \$68 million in the same period of 2008. Industrial building sales prices fell to \$38 per square foot in 2009 from \$55 per square foot a year ago, according to Delta Associates.

In 2008, the investment volume for office property in Dallas/Fort Worth was down nearly 60% compared with 2007, according to another report from real estate research firm Real Capital Analytics. Only eight office properties, with a market value of \$72 million, traded in Dallas-Fort Worth between September 2008 and January 2009, the Real Capital Analytics study shows.



Jake Dean

COMPARABLE TO NONE: Brothers Rick, left, and Jeff Kurz, principals of the property tax consultant firm Kurz Group Inc., say a dearth of commercial real estate sales makes it tough to find comparable transactions for use in appraising properties.

All signs point to "a very interesting year" for property owners and appraisal districts, said Scot Farber, senior vice president of investment services for commercial real estate firm Grubb & Ellis.

"The backlash that resulted from the credit crisis of 2008 has decreased the market value of commercial property across the board," Farber said. "Therefore, it is likely that the upcoming 2009 tax assessments will not reflect the market's adjustment to values."

The limited sales volume and lack of financing have shaken investor confidence, leaving them leery of buying more properties, Rick Kurz said. The difficult market conditions will make building owners more eager than ever to minimize their tax bills, he said.

"There's a lot of stress in the system, properties are not performing as well as they used to and market values are definitely going down," Rick Kurz said. "I think with these market conditions, people are going to be looking to cut expenses in any way they can, and cutting taxes is a big part of that."

Investors should use a property tax consulting firm to make sure they get a fair shake, Rick Kurz added.

"We (consultants) know the tax rolls well and we know what like-kind properties are assessed for on the rolls, and that goes a long way toward knowing how to approach an appeal," he said. "The bottom line is local expertise does matter in a big way."

About 75% of commercial property owners protest their assessments in a typical year, Nolan said. Even with the market upheaval, the number of protests probably won't rise significantly because it's already so high, he said.

The appraisal district does not make projections for how much commercial values are likely to change, Nolan said. "The numbers are what they are," he said. "They're a reflection of what's going on in the market, and when we're done with our job, we'll have the numbers."

Appraisers prefer to use the most recent sales figures available, but will look back as far as three years for comparable sales on commercial properties, said Cheryl Jordan, community relations and taxpayer liaison officer with the Dallas Central Appraisal District.

The certified taxable value of commercial property in Dallas County in 2008 totaled \$82.4 billion, Jordan said. That was about 10% lower than the \$91 billion preliminary market value in 2008, which reflected valuations before protest hearings were conducted, she said.

The last time overall commercial property values dropped in Dallas County was 2003, when the taxable value fell to \$55.4 billion from \$57.2 billion the year before, Jordan said.

John Alvarado, managing director of commercial property sales for Jones Lang LaSalle's office in Dallas, said he expects most building owners will aggressively pursue a tax reduction.

"I think it should be fairly easy to argue and prove that property values have gone down across the board," he said.

There's no advantage to having a higher appraisal on the tax rolls, Alvarado said. Even if an owner plans to sell the property, lenders and buyers of commercial buildings don't consider assessed values a benchmark of what properties are worth, he said. Lenders conduct their own appraisals, and investors buy based on the income the building is projected to generate over the years the property will be held, he said.

Historically, market values run 15% to 20% more than what properties are appraised for by the county, Alvarado added.

Property appraisals could inch up for some

Market activity, occupancy rates put pressure on values

BY CANDACE CARLISLE | STAFF WRITER

Two types of commercial property — multifamily and Class A office buildings — could see an increase in this year's property tax valuations, as those sectors saw some recovery in transactions and pricing last year.

Property tax appraisals will be available May 2.

The state deficit could also pressure the county appraisal district to raise more revenue by increasing the tax rate for cities and schools, according to market sources.

The economic downturn made it difficult to value commercial property, but the market seems to be "bouncing off the bottom" and stabilizing in some sectors, said Jeff Kurz, a principal at Dallas-based property tax consulting firm Kurz Group Inc., which he owns with his brother, Rick Kurz.

"There are certain parts of the market improving more than others, such as multifamily," he said. "There are also sales occurring, on some degree, in Class A office buildings."



ALVARADO:

There is an anticipation there will be an increase in property taxes with firmed occupancy in better quality buildings. There are a larger number of transactions occurring, which will set increasing market values.

Dallas County tax appraisers will reflect whatever the market indicates, said Ken Nolan, chief appraiser for the Dallas Central Appraisal District.

Last year, there were 103,000 protests filed on property tax appraisals, which was 10,000 fewer protests than 2009, as property tax appraisals dipped, Nolan said.

When property tax values increase, protests tend to increase, he said. There are roughly 100,000 protests filed yearly in Dallas County, he said.

Investment sales for office space in the Dallas-Fort Worth market hit \$236 million in the first quarter of 2011, compared with \$64

million in the first quarter of 2010, according to data collected by Delta Associates, the research affiliate of commercial real estate firm Transwestern.

The market's deal flow has increased as credit restrictions and market conditions improve, according to the report.

Appraisal districts rely on data, such as the amount of rental income, similar property taxes and comparable property sales to determine property valuations

HOW TO APPEAL

The end of April is generally when most appraisal districts mail out the proposed values for that given year.

If you disagree with the proposed value, file a protest in writing by the appeal deadline, which is generally the end of May.

Information is available on your property at appraisal district websites to review the assessment and check the accuracy of building size, land-square footage, year of construction and other information.

You will need to know what recent sales and listings are in comparison to your property and the market rents of similar properties. If your building is income producing, you will need to provide financials, rent rolls and other relevant information related to your property.

If you are going to handle the appeal on your own, sit down with an appraisal district representative to try to work out the value on an informal level prior to going before the Appraisal Review Board.

Source: Kurz Group Inc.

for tax appraisals.

Improving property sales for multifamily and Class A office building sectors could indicate that those commercial properties will see a hike in property tax appraisals, said Rick Kurz.

The possibility of rising property tax valuations could put some landlords at a disadvantage if they don't carefully review their property valuations.

"Commercial property owners don't want to be at a competitive disadvantage, and where you have these pass-through costs, you can't afford to not look at it," Rick Kurz said.

The commercial real estate market is anticipating an uptick of property tax appraisals across the board, said John Alvarado, managing director of the capital markets group for Jones Lang LaSalle's Dallas office.

"There is an anticipation there will be an increase in property taxes with firmed (up) occupancy in better quality buildings," Alvarado said. "There are a larger number of transactions occurring, which will set increasing market values."

Landlords must file protests on commercial property by May 31.

The deadline for protests on business personal property is June 16.