Property tax in focus: three keys to increasing the accuracy of your valuations and assessments

It is safe to say that property taxes have not been a major focus for many corporate taxpayers since the height of the Great Recession. The largest component of state and local tax liability for companies in the US, property taxes have long been a function of economic trends and conditions. Since the recovery from the Great Recession began, property taxes increased steadily over the next decade, ending in 2020.

Times have changed.

Since 2020, the economy has been anything but steady—or predictable. The past three years have brought seismic shifts in the trends that influence property valuations such as real estate prices, supply and demand, and occupancy rates for many kinds of property—from hotels to offices to retail space. As a result, valuing property for tax purposes has become much more complex and nuanced.

Variable economic conditions bring new opportunities

While economic conditions appear to be returning to something resembling normalcy, trends such as inflation, real estate prices, and workforce models continue to create a great deal of uncertainty. Workforce models have rapidly changed from onsite, to fully remote, to now mostly hybrid. Office occupancy, as a result, has swung from near full occupancy to 100% vacant to now anywhere in between. While not widely reported, in our experience, physical occupancy of office space is often in the 30-40% range as hybrid models are implemented.

The result is ongoing and extensive variability in property valuations and tax assessments, with future assessments likely to be more situational than in past years based on industry, jurisdiction, and other factors. This fluid situation may create new opportunities for tax valuation reassessment, and potential tax savings.

Three key considerations for reaching an appropriate property tax assessment

Valuations depend on the particular jurisdiction and whether the property will be valued on a local basis or on a central/state level. Jurisdictions may be open to changing valuations despite—and because of—uncertainty about how to assess property values in light of rapid market swings. What should you keep in mind as you work with property tax assessors to arrive at property valuations and tax assessments?

1. The importance of being proactive in working with property tax assessors

With property tax valuations being subject to interpretation, the first assessment should be reviewed to determine whether it needs to be adjusted. Being proactive in seeking reassessment of real property is essential. In the current environment, there may be uncertainties because of dramatic fluctuations during and after the pandemic. It is important to act early.

Even in a more settled business environment, waiting for the assessor to make the first move may not be the best strategy. The ever-accelerating speed of business may lead to more businesses seeking redress, and there may be more appeals activity than usual. On the one hand, tax assessors may be more willing to revise an assessment following an appeal, because there will likely be many taxpayers experiencing the same challenges and seeking valuation changes. But on the other hand, more requests may mean assessors will have more on their plates and less time for each appeal. This is why it is essential to come prepared with your proposed revaluations and the reasons for them.

Regarding your communications with assessors, one potential pitfall is overcommunicating. Consider assigning one or two points of contact from your organization to avoid the risk of creating confusion from too many people sending too much information or mixed messages.

2. How a diligent approach can impact the outcome

Your organization likely has the most up-to-date metrics about your operations and can draw on this valuable data to build a case. Providing meticulous, detailed, and comprehensive data can instill confidence in the validity of your metrics and propriety of your proposals.

Walking assessors through the details

In building your case, it is important to avoid one common pitfall: providing complex information to assessors without explaining or clarifying it. Tax professionals often assume that assessors—who work in a division specific to their industry—are familiar with all the intermediate steps of their industry-specific argument and do not need to be taken on the journey.

That assumption may not be accurate. At the very least, many assessors are incredibly busy. As a point of courtesy, one should walk assessors through the steps of the argument and underscore important details which can make it easier for an assessor to make proactive adjustments.

3. Anticipating discrepancies resulting from applying an incorrect method

While differences in data can lead to valuation inaccuracies, so can differences in methods used by assessors. Anticipating and identifying the most common discrepancies can have a substantial impact on the final results.

For example, assessors often focus on contract rent when in the current economic environment capitalization rates often lead to a more accurate reflection of current market events. Although capitalization rates are a measure of risk, the challenge is identifying and applying the right capitalization rate that appropriately reflects risk to capitalize the income stream into a value that can be assigned to that property.

Industry differences

It is also worth double-checking that the correct industry method is being used, since valuations vary by industry. A number of industries, such as manufacturing, energy, transportation, retail, and hospitality, have undergone substantial changes to their valuation models. Using an incorrect industry method may result in an inaccurate valuation. The traditional model for all industries seeks to apply a fair market value (FMV) for all real and personal property assets that a jurisdiction uses to create a taxable fair market value. The taxable value is then multiplied by the local millage rate to ultimately create the property tax bill. The three traditional methods of appraisal are the cost, market, and income approaches to value.

Manufacturing, energy, and transportation are impacted by operating efficiency. These industries can be impacted by all three approaches to appraisal/valuation. Income producing properties, such as retail and hospitality, are generally appraised on the income approach to value.

Green and renewable industries have a different set of challenges. For example, traditional valuation models could be incorrectly applied to certain renewable and green industry businesses, resulting in inaccurate valuations. While these businesses are rapidly increasing in number, the majority of business taxpayers are still in traditional industries. Therefore, assessors may tend to apply traditional valuation models focused on declining costs even with renewable assets.

Renewable assets such as battery storage have inherent complexity, including the obsolescence of technology and declining efficiency so it is often worth challenging the use of a traditional approach for these assets.

Occupancy trends will determine how real estate is valued going forward, but it could take a few years before it is known how flexible work arrangements will affect occupancy and property tax rates.

Because facility usage changes have impacted many industries—before, during, and after the pandemic—consider seeking to reassess and reduce property value to reflect such changes. Understanding the processes and procedures within local assessment communities is important in this effort.

Ready to take your property tax strategy up a notch?

Ultimately, property tax should be assessed based on a valuation model that captures changes in the business environment in determining the value of your company's business property.

To learn more about how Deloitte Tax LLP can help with your property taxes, connect with one of our Multistate Property Tax practice leaders.

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