

HOME > FINANCE & INVESTMENT > TAX STRATEGIES > BIG-BOX RETAIL OFFERS PROPERTY TAX LESSONS FOR INDUSTRIAL OWNERS

Big-Box Retail Offers Property Tax Lessons for Industrial Owners

By Cecilia Hyun, Esq.

Jun 17, 2015

 EMAIL  SHARE  Tweet  Recommend  COMMENTS 



Taxing jurisdictions have struggled to properly value big-box retail buildings for many years, and the potential for improperly assessing the real estate value of these buildings remains high. Yet the ongoing dance between big-box owners and assessors provide useful insights for property owners in other commercial property types, particularly industrial.

A big box of confusion

Assessing the taxable value of a big-box retail property touches on many of the hot-button issues in property tax law. Some of the circumstances that often lead to incorrect tax assessments include development of big-box retail under build-to-suit arrangements, in which the tenant's rent is a contractual repayment of the developer's

The Latest in Finance & Investment

Big-Box Retail Offers Property Tax Lessons for Industrial Owners

10 Must Reads for the CRE Industry Today (June 17, 2015)

Developers Tap New Sources of Financing

8 Best Markets for Industrial Real Estate

10 Must Reads for the CRE Industry Today (June 16, 2015)

[More](#)

TOUR OUR LATEST COMMERCIAL REAL ESTATE DEVELOPMENT

Newsletter Sign Up

Sign-up to receive our free newsletters

NREI Weekender - (Weekly) [View Sample](#)

NREI Daily - (Daily) [View Sample](#)

E-MAIL *

costs, rather than a market-rate rent. Big-box tenants are often creditworthy national companies under absolute net leases, valuable to a potential investor as a guaranteed income stream, but irrelevant to taxable value of the real estate.

The sale/leaseback transactions that big-box retailers often enter to free up capital for business operations, and the strong investor demand to buy buildings leased on a net basis to a single user that handles all property expenses, can all lead to incorrect tax assessments. Many assessors value the wrong interest, confused over whether to reflect investment value, leased-fee interest, fee simple interest, or value in use versus value in exchange.

The potential for improperly capturing non-taxable items in the property tax assessment is high. Often assessors and appraisers lack sufficient education about the nuances of valuing these types of properties. Depending on whether a tax assessor adopts the correct methodology, the difference in both value and tax liability can be significant. And for cash-strapped governmental entities, there is a strong inclination to try to capture as much taxable value as possible.

Implications beyond retail

Owners of non-retail property types shouldn't dismiss these valuation issues as pertaining only to big-box retailers. Consider the potential for similar valuation errors with other single-tenant properties developed and exchanged in a similar way. A corporate headquarters building with "superadequacies"—or features only valuable to that particular tenant—is particularly vulnerable to overvaluation, for example.

In Ohio, the state tax appeal board recently dealt with that scenario, related to a large industrial building. The property was constructed to a national bank tenant's unique specifications for its use as a data center, with gated entrances, impact-resistant windows, raised floors with subfloor cooling, battery backup rooms, and fire-suppression systems. The tenant had specific security needs based on its use, and had the building constructed to protect servers from weather events.

The two expert appraisers involved in the case concluded to drastically different overall values. One appraiser viewed the building as used for general office or warehouse space, and did not perform a cost-approach analysis because of the large degree of economic obsolescence related to a single-tenant industrial building used as an operations center.

The other appraiser posited that the building was unique, rather than tailored to the use of that particular tenant. That conclusion led the appraiser to use out-of-state sales for comparison in his analysis and to develop a cost approach. The resulting *difference* in the conclusions of value was \$8.38 million, and the appeals board adopted the higher value.

According to the current appeal pending at the Ohio Supreme Court, more than half of the property was basic office and warehouse space; and the tenant only used a small portion of the remaining space for its specific purpose: a data center.

A recent Pennsylvania case involved a large, industrial, single-occupant, mixed-use property that consisted of an office building, a conference center, and a third building used for offices, research and development, and manufacturing, all constructed at different times. Again, the value conclusions and appraisal methodologies of the experts differed significantly.

Similar to the Ohio case, one appraiser viewed the property as a special-purpose facility with a limited market. Both appraisers developed cost and sales comparable approaches to value, but the appraiser who viewed the property as special-purpose put more weight into a cost-based conclusion, while the other put more weight on his sales-comparison

COUNTRY United States

* Enter your email above to receive messages about offerings by Penton, its brands, affiliates and/or third-party partners, consistent with Penton's [Privacy Policy](#).

Recent Comments

Linda, which part of the Western seaport city you are in? I know someone from China looking to buy commercial... *Posted 9 sec ago by 88investor*

I would very much like to connect with the group from China. We have the most inland Seaport in the Western... *Posted 4 hours 23 min ago by Linda Joyner-Jones*

CMBS delinquency rates may be falling but property owners stuck with unreasonable demands from special... *Posted 1 week 4 days ago by Brian Mahany*

Mr. Pellegrin is right on target! However, for rents to continue this upward spiral, salary and wage growth... *Posted 1 week 6 days ago by user-442622*

This article did a very good job of discussing the senior housing needs in America. One area that I would... *Posted 2 weeks 8 hours ago by Libertyrealty*

Connect With Us



approach.

Unlike the Ohio case, however, neither appraiser included the replacement costs of specific features that an entity replacing the facility would consider unnecessary, such as acoustic rooms, vibration floor slabs, special piping and chilling equipment.

As in assessments of big-box properties, this divergence in appraisal methodology and the definitions of the interest to be valued led to significant gulfs in the final tax assessments. Assessors are more likely to value properties deemed to be special-purpose with primary reliance on the cost approach, with its inherent difficulties in accurately measuring all forms of depreciation and obsolescence, both functional and economic.

Traditionally, appraisers applied this special-purpose classification to properties that did not readily transfer in the open market—houses of worship, sports arenas, schools. Additionally, primary reliance on the cost approach lacks the built-in market "check" that is present when using data from actual sales and rent transactions that have occurred in the marketplace. Even if not considered as special use, improvements only valuable to the current user can be improperly included in the assessment. Rather, the assessor should measure the value-in-exchange, and avoid cherry picking data for comparables.

Avoid complacency in industrial

The U.S. industrial real estate market is booming, with Los Angeles and the Inland Empire standing out as particularly hot markets, according to Diana Golob, managing director at Hanna Commercial Real Estate in Cleveland, Ohio, who represents both U.S. and European multinational firms. Speculative development has even started to reappear in multiple markets.

Do not let the good news of a thriving market create a blind spot when it comes to reviewing property tax assessments.

In the retail context, jurisdictions are still identifying the correct interest to be valued for real estate tax purposes, and the best appraisal methods to do so. Courts, legislatures, tax assessors and independent appraisers are all grappling with these nuanced issues.

It appears that owners of single-tenant, net-leased or owner-occupied industrial properties will be dealing with similar assessment issues. The applicable assessment law is in flux and sometimes is the polar opposite from one jurisdiction to the next.

It is vital to consult with professionals, familiar with both the legal and appraisal complexities of the jurisdiction, to determine whether a property tax assessment is fair. With a few changes, an expression from psychologist Abraham Maslow is appropriate here: Do not view every assessment challenge as a nail because you only have a hammer in your belt; make sure you have the right tool—or the right assessment approach—for the job.

Cecilia Hyun is an attorney at the law firm Siegel Jennings Co., L.P.A., which has offices in Cleveland and Pittsburgh. The firm is the Ohio and Western Pennsylvania member of American Property Tax Counsel (APTC), the national affiliation of property tax attorneys. Cecilia can be reached at chyun@siegeltax.com.

 PRINT  REPRINT  SAVE  EMAIL  SHARE  Tweet

 6

Please [Log In](#) or [Register](#) to post comments.

Related Articles

[Big-Box Opportunity Knocks—And It's a Big, Big Door](#)

[Backfilling Older Big-Box Space in Atlanta](#) 🔒

[Best Buy Pares Space As Internet Rattles Big-Box Stores](#)

[The Power Center Segment is Facing a Shakeout as Big-Box Retailers Reinvent Themselves](#) 🔒

[Single Tenant Big-Box Sector Trades at Discount to Market](#) 🔒

**Community Participation You
Won't Find Anywhere On The Globe**

[Nreionline.com](#)

[News](#) [Deals](#) [Markets & Regions](#) [Property Types](#) [Finance & Investment](#) [People](#) [Sustainability](#) [Research & Data](#) [Services](#)

Site Features

[Subscribe](#)

[RSS](#)

[Sitemap](#)

[Site Archive](#)

[View Mobile Site](#)

[National Real Estate Investor](#)

[Privacy Policy](#)

[Terms of Service](#)

Follow Us



Search Nreionline.com



NATIONAL REAL ESTATE
Investor®

National Real Estate Investor Related Sites

[WealthManagement.com](#)