# TIME TO REDUCE PROPERTY TAXES

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If your hotel's property tax assessment has not dropped in the last five years, you may be paying more than your share of real estate taxes.

Property taxes are levied by municipalities on the basis of market value. Real estate with high value should have proportionately more taxes than property with lower value. Theoretically, assessments should go up and down in accordance with movements in property values, which means that in most areas of the country suffering from overbuilding and the recession, hotel owners should be enjoying lower taxes.

Hotel owners have two simple methods to check the fairness of their property assessment. The first method is the **assessment comparison procedure.**

Your property assessment should be fair in comparison with other similar hotels in the same taxing jurisdiction. Since assessments are a matter of public record, you can easily check the assessment of all your competitors. Compare assessed values on a per-available-room basis for each hotel similar to yours.

| Number of Rooms | Assessed Value | Assessed Value per Room |
|---|---|---|
| *Subject:* | | |
| 250 | $13,000,000 | $52,000 |
| *Hotel A:* | | |
| 300 | 12,000,000 | 40,000 |
| *Hotel B:* | | |
| 225 | 9,450,000 | 42,000 |
| *Hotel C:* | | |
| 275 | 12,100,000 | 44,000 |

The table shows the assessed values for similar hotels in the market ranged from $40,000 to $44,000 per room, compared to the subject property's assessment of $52,000 per room. This is a good indication that the subject property may be overassessed.

The second method, the **assessment calculation procedure**, is somewhat more complicated. It actually calculates a rough approximation of the assessed value based on an income capitalization approach. The following example illustrates this procedure.

Step 1 involves determining the subject's actual net income before debt service and also before management fees, reserve for replacement and property taxes for the year closest to the year of assessment. In this example, the amount is $2,856,000.

In Step 2, you would calculate the income attributed to the business and personal property. Since real estate taxes are based on the value of the real property component, it is necessary to deduct from the income derived in Step 1 any income attributed to the business and personal property components. Normally, this income ranges from eight percent to 15 percent of total revenue. Assuming the subject's total revenue is $10,675,000, this amounts to $907,000 if an 8.5-percent factor is used.

Step 3 calculates the income attributed to the real estate by deducting the results of Step 2 from the results of Step 1: $2,856,000 - $907,00 = $1,949,000.

In Step 4, you determine the equalized tax rate for your municipality. Take the tax rate for the assessment year and express it as a percentage. Multiply this amount by the municipality's stated assessed value ratio (the relationship between the assessed value and the market value). The tax rate in this municipality is $31.01 per $1,000 of assessment, or 3.11 percent (.0311) of the assessed value. The assessed value ratio is 75 percent. The equalized tax rate is .0311 X .75, or .023.

Step 5 involves determining the capitalization rate and adding the equalized tax rate. A capitalization rate represents the relationship between a property's net income and its market value. Many factors influence the selection of a capitalization rate, including the cost of capital, a property's condition, location, future earnings expectations and other factors of risk. A typical range for hotel capitalization rates is currently 9 percent to 12 percent. For this example, the capitalization rate loaded with the equalized tax rate is .11 + .023 = .133.

In Step 6, the value of the real estate is calculated by dividing the income attributed to the real estate (Step 3) by the loaded capitalization rate (Step 5): $1,949,000/.133 = $14,654,000.

In Step 7, you calculate the assessed value by multiplying the value of the real estate (Step 6) by the assessed value ratio: $14,654,000 X .75 = $10,991,000.

The calculated assessed value of $10,991,000 equates to $44,000 per room. As you can see, this assessed value would be more in line with the assessments of the other similar hotels in the market and further indicates a tax appeal may be in order.

If either method indicates a potential problem with your property's assessed value, then a more thorough analysis by a hotel property tax appraiser is recommended. Now is the time to review and adjust your hotel's assessed value so it will be more competitive with the other hotels in the market. **LH**