

# Navigating Property Taxes in a COVID-19 Market

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# Panelists



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“Let me tell you how it will be.  
There’s one for you, nineteen for me.  
Cause I'm the tax man. Yeah, I'm the  
tax man.”

THE  
BEATLES

# Learning Outcomes

1. COVID-19 Market
2. Property Subject to Tax
3. Valuation Methods
4. Appeals Process Across the Midwest  
(and COVID-19 related changes)

# Polling Question No. 1

# COVID-19 Market

# Retail Industry

## *The Death of the Department Store: 'Very Few Are Likely to Survive'*

Shuttered flagships. Empty malls. Canceled orders. Risks of bankruptcy. The coronavirus has hit the behemoths of the retail world.



- The sales of clothing and accessories fell by more than half in March
- Nordstrom has canceled orders and put off paying its vendors.
- Neiman Marcus Group is expected to declare bankruptcy

<https://www.nytimes.com/2020/04/21/business/coronavirus-department-stores-neiman-marcus.html>

# Restaurant Industry

NEWS  
110,000 restaurants expected to permanently close in the United States



According to the National Restaurant Association, as of March 27:

- Permanently closed: 3 percent
- Temporarily closed: 44 percent
- 11 percent expect to permanently close within 30 days.
- Restaurant sales down 47% in March

<https://www.restaurantdive.com/news/3-of-restaurants-have-already-closed-permanently-nra-survey-finds/575022/>

<https://matadornetwork.com/read/restaurants-closures-expected/>



# Restaurant Industry

**Restaurants on track to lose \$80 billion in sales by end of April; 8 million employees out of work**

April 21, 2020

Coronavirus continues to devastate the industry; sales losses could total up to \$240 billion by year-end.



The industry could see combined losses of \$80 billion by the end of the month, and up to \$240 billion by the end of the year.

New research from the National Restaurant Association indicates that the restaurant industry is likely to lose more than \$50 billion in sales in April, the result of the coronavirus-imposed stay-at-home policies and forced closures of restaurant dining rooms across the country.

Combined with the estimated \$30 billion in lost sales in March, the industry could see combined losses of \$80 billion by the end of the month, and up to \$240 billion by the end of the year.

According to the National Restaurant Association, as of April 21:

- March: \$30 billion in lost sales
- April: Anticipated loss of \$50 billion in sales
- 2020: Anticipated loss of \$240 billion in sales
- Overall, sales down 80% in full-service category

[https://restaurant.org/Articles/News/Restaurants-on-track-to-lose-\\$80-billion-in-sales](https://restaurant.org/Articles/News/Restaurants-on-track-to-lose-$80-billion-in-sales)

# Healthcare Industry

TECH

## Rural hospitals and private medical practices struggle to stay open during the COVID-19 pandemic

PUBLISHED TUE, MAR 31 2020-12:14 PM EDT



Christina Farr  
@CHRISFYARR

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### KEY POINTS

- It's not just the large, urban hospital systems that are struggling in the midst of the COVID-19 pandemic.
- Doctors with their own independent practices in small to mid-size towns are trying to keep their doors open, but have seen huge revenue hits.
- They are no longer performing elective, non-essential procedures.
- For Drs. Ed Boyle and his wife, Ida Alul, the impact has been "devastating."

<https://www.cnn.com/2020/03/31/coronavirus-closures-could-ruin-rural-hospitals-medical-practices.html>

# Other Industries Impacted

- Gambling
- Airlines
- Hotels
- Movie Theaters
- Live Sports
- Cruises
- Film production
- Automakers
- Oil & Gas
- Tech
- Conventions
- Theme Parks
- Gyms
- Construction

<https://www.usatoday.com/story/money/2020/03/20/us-industries-being-devastated-by-the-coronavirus-travel-hotels-food/111431804/>

# What does this mean for the real estate market?

- Too early to tell exact impact
  - How long will this last?
  - Financial relief from Congress?
- Closures across all industries will likely result in high vacancy, which will lead to lower market values

# Polling Question No. 2

# Property Subject To Tax

# Real Property v. Personal Property



# Taxation of Personal Property

## States that DO

- Wisconsin
- Indiana
- Kansas
- Michigan
- Missouri
- Nebraska

## States that DON'T

- Iowa
- Illinois
- Minnesota (with some exceptions)
- North Dakota (with some exceptions)
- Ohio
- South Dakota



# Polling Question No. 3

# Methods of Valuation

# Fair Market Value

Most states require property to be assessed at its fair market value.

## Appraisal of Real Estate (14<sup>th</sup> Edition)

“The most probable price that a property should bring in a **competitive and open market** under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus.”

# Fair Market Value

- Minn. Stat. § 272.03: The price which could be obtained at a private sale or an auction sale, if it is determined by the assessor that the price from the auction sale represents an arm's-length transaction.
- Wis. Stat. § 70.32: Real property shall be valued . . . at the full value which could ordinarily be obtained therefor at private sale.
- Iowa Code § 441.21: “*Market Value*” is defined as the fair and reasonable exchange in the year the property is listed and valued between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and each being familiar with all the facts relating to the particular property.

# Highest and Best Use

Property is always appraised at its highest and best use. That may or may not be the actual use in place.

The highest and best use concepts are defined in The Dictionary of Real Estate Appraisal, Sixth Edition, published by the Appraisal Institute, as follows:

The reasonably probable use of property that results in the highest value.

The four criteria that the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum productivity.

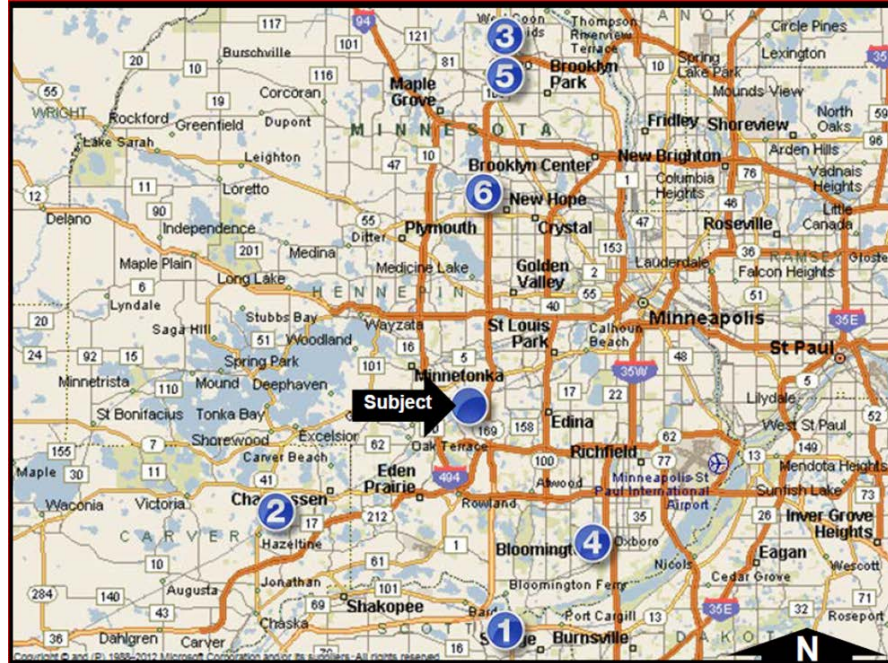
# Fundamental Approaches to Value

1. Sales Comparison Approach
2. Cost Approach
3. Income Approach

# Sales Comparison

Comparison of the subject property to sales of similar properties in the same or competing areas.

# Sales Comparison





# Cost Approach

The market value of the land (assumed vacant) plus the current cost of reproducing a property less depreciation (physical deterioration, functional obsolescence and external obsolescence).

# Cost Approach

REPLACEMENT COST CALCULATIONS		
Category of Cost	Description	Totals
Building Type	Industrial/Light Manufacturing	
Source	M&S Section 14, Pg 1-42	
Building Class	Class C	
Quality	Good	
Year Built	1980	
MFA	61,859	
GBA	61,859	
Number of Stories	One Story	
Base Square Foot Costs		\$69.34
Square Foot Refinements		
Heating and Cooling (From Moderate to Extreme)	\$4.50	
Dock Height Floors	\$2.50	
Sprinkler Adjustment	\$2.40	
Total Refinement Costs		+ \$9.40
Subtotal		\$78.74
Height and Size Refinements		
Height Per Story	x 1.041	
Perimeter/Area Multiplier	x 0.911	
Total Height and Size Multiplier		x 0.948
Refined Per Square Foot Cost		\$74.65
Current and Local Cost Multipliers		
Current Cost Multiplier		x 1.00
Local Multiplier		x 1.15
Final Cost Per Square Foot		\$85.85
Main Floor Area		x 61,859
Total Replacement Cost		\$5,310,595
Site Work		+ \$385,000
<b>TOTAL COST OF ALL IMPROVEMENTS</b>		<b>\$5,695,595</b>
Estimated Overhead and Entrepreneurial Profit @ 15%		+ \$854,339
Overall Replacement Cost		\$6,549,934
Rounded To		\$6,550,000

# Cost Approach

COST APPROACH SUMMARY		
<b>Estimated Replacement Cost</b>		<b>\$6,550,000</b>
Physical Depreciation		
Curable Deferred Maintenance	\$0	
Combined Incurable Physical Deterioration	<u>\$3,493,333</u>	
<b>Total Physical Depreciation</b>		<b>\$3,493,333</b>
Functional Obsolescence		
Curable Functional Obsolescence	\$0	
Incurable Functional Obsolescence	<u>\$0</u>	
<b>Total Functional Obsolescence</b>		<b>\$0</b>
Economic Obsolescence		<u>\$0</u>
<b>Total Depreciation</b>		<b><u>(\$3,493,333)</u></b>
Estimated Replacement Cost Less Depreciation		<b>\$3,056,667</b>
Value of Land		<u>\$930,000</u>
<b>Value Indication by the Cost Approach</b>		<b>\$3,986,667</b>
<b>Rounded To</b>		<b>\$3,990,000</b>

# Income Approach

The net income capitalized to arrive at an indication of value (value to an investor). Measures the present worth of anticipated future benefits (net income) derived from a property.

# Income Approach

PRO FORMA INCOME AND EXPENSE ANALYSIS				
<u>Income</u>				
Total Net Base Rental Income				\$324,142
Recoverable Expenses				<u>\$180,300</u>
Potential Gross Income				\$514,442
Less: Market Vacancy and Credit Loss at 8.00%				<u>(\$30,867)</u>
Effective Gross Income				\$483,575
<u>Recoverable Expenses</u>				
<u>Fixed Expenses</u>				
Real Estate Taxes	[	\$1.88	psf]	\$116,400
Insurance	[	\$0.06	psf]	\$3,700
<u>Variable Expenses</u>				
Utilities	[	\$0.30	psf]	\$18,600
Repairs & Maintenance	[	\$0.00	psf]	\$37,100
Management Fee at 4.0%	[	\$0.23	psf]	<u>\$14,500</u>
Total Recoverable Expenses	[	\$3.08	psf]	\$190,300
<u>Unrecoverable Expenses</u>				
Reserves for Replacement	[	\$0.10	psf]	<u>\$6,200</u>
Total Unrecoverable Expenses				\$6,200
Total Operating Expenses	[	\$3.18	psf]	(\$196,500)
Net Operating Income	[	\$4.64	psf]	\$287,075
DIRECT CAPITALIZATION				
Net Operating Income with a Reserve Expense Deduction				\$287,075
Plus: Reserves for Replacement <sup>1</sup>				<u>\$6,200</u>
Net Operating Income With the Reserve Expense Added Back				\$293,275
Divided by: Capitalization Rate				<u>7.50%</u>
Income Capitalization Approach Value Indication				\$3,910,333
Rounded To				\$3,910,000
PSF				\$63.21

# Methods of Valuation

- There are other less common methods
- Not all of them are used in every appraisal assignment
- Some states require the use a specific valuation method before another
  - Ex: Wisconsin follows a 3-tiered method (*Markarian Hierarchy*)

# Appraiser Licensing & Standards

- Appraisers are governed by:
  - State and federal statutes and regulations
  - Appraisal standards (USPAP)
- The regulations may differ depending on the nature of the assignment.



# Factors to Consider

- Location
- Zoning
- Vacancy
- Condition of property (deferred maintenance)
- Rent rates
- Financing (discount rates)

There are many more factors to consider.

Each property requires its own unique evaluation.



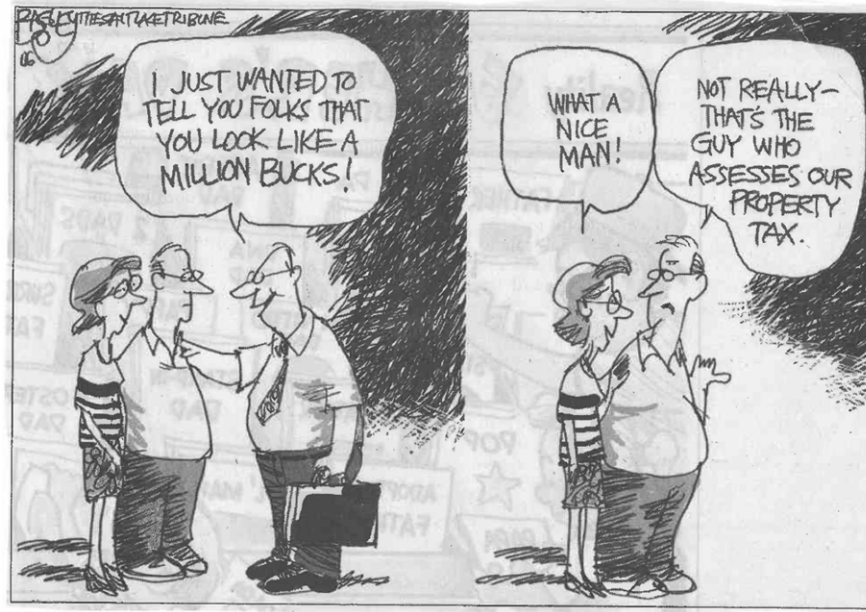
# Does the Tax Protest Make Economic Sense

Tax rates range generally from 1.5% to 4.0% depending on the classification/location.

**Example:** Every \$100,000 reduction in value results in a tax savings (per year) of \$1,500 to \$4,000.

# Polling Question No. 4

# Appeals Process Across the Midwest



# Common Reasons for Appeal

- Estimated Market Value (majority of appeals)
- Unequal Assessment
- Classification
- Exemption Status

Taxes too high is not a basis for appeal.

# Process by State - Minnesota

- Assessment date: January 2
- Petitions due: April 30 of Year Taxes Payable
- Appeal Heard by Tax Court
- Automatic certiorari at the Minnesota Supreme Court



# Process by State – Minnesota

Heads Up!

- August 1 Rule
- Appraisals serve as expert's direct testimony
- Payment of taxes while appeal pending  
(May 15 & October 15). *Minn. Stat. § 278.03*



# Process by State – Minnesota

## COVID-19 Changes

- Appeal Deadline – May 30, 2020
- Deadline to Pay Taxes
  - Legislative amendment? No
  - County waiver of interest & penalty? Maybe
  - Impact on pending appeal?



# Process by State – Wisconsin



# Process by State – Wisconsin

## Non-Manufacturing Property

- Assessment date: January 1
- Open Book (chat with your local assessor!)
- Board of Assessors/Board of Review
- Excessive Assessment (Jan. 31 of year taxes payable)
- Circuit Court
- Don't Forget to Pay Your Taxes by Jan. 31!

# Process by State – Wisconsin

## Warnings

- Wis. Stat. § 70.47(7)(af): if requested by the assessor, taxpayer must provide income and expense information prior to the Board of Review
- Non-manufacturing properties heard at circuit court level
- Manufacturing properties follow a completely different appeal process



# Process by State – Wisconsin

## COVID-19 Changes

- Position of Wisconsin DOR: “COVID-19 does not impact the value and classification determinations for 2020 assessments.”
- No extension of appeal or payment deadlines
- 2020 BOR to meet between April 27 and June 10, 2020

# Process by State - Iowa



- Assessment Date: January 1 every second (odd) year
- Taxes due March 31
- Board of Review Petitions due: April 30 of year of assessment
- Appeal to PAAB (Iowa Property Assessment Appeal Board) or District Court

# Process by State – Iowa

## COVID-19 Impact

- Governor waived penalty and interest on Property Taxes due March 31, 2020, but only until end of emergency proclamation (currently April 30, 2020).
- Deadline to appeal to BOR is extended in some counties to June 5

# Process by State – Nebraska

- Assessment Date: January 1
- Valuation Notices: June 1
- Petition to Board of Equalization by June 30 of assessment year
- Appeal to the Tax Equalization and Review Commission (TERC) by August 24 (in most counties) or September 10 (some larger counties)



# Process by State – Nebraska

## COVID-19 Impact

- No shelter-in-place order
- Many counties extending deadline to appeal to TERC from August 24 to September 10
- TERC postponed all hearings through June



# Summary of Appeals Process

- Identify who you are appealing to
  - Every municipality has different requirements
- Know your deadlines
- If all else fails, hire an attorney

# Polling Question No. 5

# Panelists



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