

## Is it Still the Right Fit?

Remember back when you first purchased your building? It was the perfect fit. You moved in and began operations with little or no fuss and muss. Same for those machines you bought a decade ago. They were the highest efficiency available and boy you were off to the races. Well, as it happens, things change. You've grown and added space in a kind of hodgepodge to keep things working...if not with the greatest efficiency. Technology has made great strides making a number of your machines inefficient or worse, idle. In other words, you have obsolescence!

Obsolescence plays a significant role in property taxes. Property plant and equipment are subject to three different forms of obsolescence; physical, functional and economic. Each has its own way of impacting your property tax burden. In this article we will focus on functional obsolescence (FO) as it relates to real property and how it can negatively affect property values.

Functional obsolescence is defined in "Real Estate Appraisal Terminology" and published by the Society of Real Estate Appraisers as follows:

"FO is an impairment of functional capacity. It reflects the loss in value brought about by such factors as over-capacity, inadequacy and changes in the art that affect the property item itself or it's relation with other items comprising a larger property."

FO directly relates to functional utility (utility, capacity, design and/or layout) which may or may not be obvious in a

particular property. However, if it is present it can severely affect the market value of the property.

Functional obsolescence can exist directly or indirectly. An old plant having numerous additions can have direct FO in and of itself while another property can have indirect FO to one user and not another. To illustrate, consider a building having 30' wall heights but only 15' are necessary for the operation to be housed in it. A prudent purchaser would normally be unwilling to pay for such overcapacity.

Similar in theory is a large industrial facility comprised of 5 or 6 small buildings all conducive to the manufacturing process. Piecemeal construction, as this is commonly referred to, would typically result in a disjointed production flow. Consequently, the inefficiency of such a building to the working environment would ultimately detract from the property's market value.

After identifying the FO within a property, the valuer must measure its effect on market value and negatively adjust the value of the improvements. Quantifying the overall depreciation in a property is a difficult task. In the case of ad valorem taxation, should an assessor be unaware of or underestimate FO the resulting assessment will be excessive. The results would be over taxation for the taxpayer.

If you think one of your properties may suffer from a form of functional obsolescence please call us for a review. While we are constantly on the watch for this form of obsolescence your input is invaluable in identifying FO situations we may have missed. If it is no longer a good fit let us take a look at it!

### **Hell Hath No Fury Like...Mother Nature**

We send our sincere sympathy to all those who have suffered at the hands of Mother Nature this season. It's been a rough year and we haven't hit winter yet. Numerous taxing bodies have announced tax relief measures for various taxes including property tax. Be sure to check with your local authorities.

Real estate is valued as of the assessment date and taxes are paid on that value, despite any catastrophe that happens after that date. While in some instances it is possible to reduce the assessment for the current year, most statutes dictate these disasters be considered in the following year. Even if your property has been restored by the subsequent assessment date, in some cases it is possible to have the value prorated for the reconstruction period.

