

March, 2010

(This article, written by Terry Ennes, was published in the December Business Ledger)

Improve your cash flow and strengthen the value of your real estate.

One of the most effective ways to improve your cash flow without negatively impacting your business during a recession is to make sure you are not overpaying your real estate taxes. The cash you save goes directly to your bottom line. Your property tax expense is based on two factors, the value of your real estate and how much money local taxing bodies demand to run government. Most taxpayers blame the Assessor for their high taxes. The Assessor is not the problem but he can be part of the solution. Today most Assessors' offices are staffed with well trained and overworked professionals.

While it is always a good idea to keep a close eye on your tax assessment it is never more important than during rapidly changing real estate markets like the current recession we are in. The lack of quality market data, combined with the difficulty Assessors encounter in accurately adjusting the value for millions of tax parcels in a relatively short time, presents an opportunity for diligent taxpayers. Those taxpayers willing to either outsource the appeal responsibility or have the expertise and can take time to prepare and submit pertinent information that helps the Assessor's office more effectively do its job will insure they only pay their fair share of the property tax.

Step one of the process is to determine if your tax assessment is fair and equitable. To do this it helps to know;

“Controlling your property tax expense is one the most effective ways to reduce operating expenses and improve cash flow.”

- The fair market value of your property as of the assessment date (January 1 in Illinois). This is best done by getting an appraisal from a qualified appraiser.
- Find out how much comparable properties in the area are being assessed for. You will need to compare their value to yours.
- If you recently purchased your property you need to determine if it was an arms length transaction before you can compare your purchase price to the Assessor's FMV.
- If you lease your property and pay the taxes, you need to determine if you or your landlord are responsible for appealing the tax assessment. If the landlord maintains this control you need to make sure he is aggressively managing this function, and not just passing the expense thru to the tenants.
- Has needed maintenance been deferred on your property that reduces the value of the property?
- If your tax expense is equitable but your can not afford it, relocation is an option, especially if your business generates a lot of sales tax that may be desirable in another community.
- Have rental income or occupancy rates declined?

Once you have determined your assessment is too high you will need to file an appeal before the deadline. The filing deadline is usually on your assessment notice or you can get it by calling your local assessors office. Successfully appealing your assessment will reduce operating expenses and increase cash flow by reducing your monthly tax accrual. Additionally, if you are a triple net landlord it will reduce your tenant's gross rent and reduce the chance of tenant flight that is so often a problem with poorly managed properties. If you are an owner it will increase the value of your property by increasing the property's net income which is capitalized to determine its value.

Commercial and industrial properties in Illinois are assessed some of the highest property taxes in the country. It is imperative for businesses to have a process in place to constantly monitor this expense to protect your bottom line and insure you are only paying your fair and equitable share.

Reassessment IOI

The mechanism taxing authorities use to assure that property owners pay their fair and equitable share of property taxes is the reassessment process. Some jurisdictions revalue on an annual basis. Others revalue as they feel the need arises or as required by statute.

In today's economic environment, the reassessment takes on special emphasis especially if your property hasn't been reassessed in the last two years. Falling market values, high foreclosures, high vacancies and depressing income/expense figures all will affect your property's reassessment.

One of the avenues assessors use to accomplish this reassessment is the site visit. This allows the assessor to see what changes have taken place in the property itself as well as the area around it. These visits or tours as they are sometimes called are excellent opportunities for the taxpayer to point out all the factors that detrimentally affect the property's value...no matter how seemingly insignificant. In order to present the best case there are some steps owners, plant managers, and lessees should keep in mind. Here are a few:

- Any assessing official should call before hand to make an appointment. Never allow access to the property or property records to someone who has not made an appointment first.
- No assessing official or representative should be allowed to tour the facility unaccompanied by a company representative.
- Have a plan. Discuss all of the problems with the facility and identify the factors you want to bring to the assessor's attention. Be prepared to communicate all those factors which have a negative impact.
- If you have a property tax consultant, inform them of any planned visits, problems etc.

What kind of information is best to point out to an assessing official... anything that might negatively affect a property's value. They will pick up the positive attributes! Here are some things to think about:

- What physical changes have taken place? New roof? Additions?
- Is there deferred maintenance?
- Is the facility being fully utilized, or grossly underutilized?
- Is it costly to run the plant because of inefficiencies?
- Is the particular facility on that is demand or has it been adversely impacted by changes in the economy or industry?

A proactive approach to any reassessment helps set the basis for a reasonable value being set. As this value can affect your taxes for years to come being prepared is essential.

As The Wind Blows



The recent devastation from a number of major earthquakes around the world tends to make us feel less unfortunate when our property is damaged by Mother Nature. However, business is business and when the howling winds and shaking earth do damage to your property be aware that property tax relief is a possibility.

Real estate is valued as of the assessment date and taxes are paid on the value despite any catastrophe that occurs after the assessment 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 the property has been restored by the subsequent assessment date it is very often possible to have the value pro-rated for the period covering the time from the damage through reconstruction.

Timing is everything tho. Very often there are time constraints in place for notification and adjustments. We once had a client whose lumber center was severely damaged by fire. They quickly notified us and we went to work with the assessor petitioning for relief. In this case, had the taxpayer notified us one day later our window would have closed.

E&A attempts to monitor natural disasters and the impact they may have on our clients' facilities. However, it is impossible to investigate every one. So, keep us in the loop if Mother Nature wreaks her fury upon you!

Savings Ticker...Savings Ticker.....Savings Ticker.....Savings Ticker.....Savings Ticker.....Saving

Here's a small sample of the savings we've been able to secure, in the last quarter, for our clients.....

- \$74,000 in cumulative savings for a mid-sized service garage
- \$107,755 one year savings for a hotel
- \$14,000 one year savings for a small strip mall
- \$257,751 one year savings for an office building