

Washington Property Tax Updates: Opportunity for a Property Tax Break on Value-Add Properties

Legal Alert
December 2017
American Property Tax Counsel

A shopping center with nearly 40% vacancy obtained a significant property tax reduction based on what a buyer would pay for property suffering substantial vacancy. The state board of tax appeals based the reduction on a stabilized value less lease-up costs (e.g., rent lost, tenant improvements, and leasing commissions). The board rejected one element of the deductions from value, however: the margin for entrepreneurial profit required for the effort and risk value-add investors assume. Both parties had quantified an entrepreneurial profit margin as a percentage of lease-up costs. (The assessor argued against this and all other vacancy-related costs due to above-market rents on some units, but the board rejected that offset, and the assessor did not appeal.) A court recently reversed the board's decision on this point and ordered the board to treat entrepreneurial profit as a valid additional deduction from the property's value.

Related Services

Property Tax
State & Local Tax
Tax