Madness in the Method Inflates Property Assessments

Publication
November 19, 2013
Western Real Estate Business

Contact

Cynthia M. Fraser

Related Services

Property Tax

The real estate headlines in Oregon newspapers this month kindled cautious optimism that the economy is in full recovery. One article touted a boom in the residential and commercial markets of Canby, a Portland suburb, while another trumpeted a bash to kick off a $25 million, mixed-use development in downtown Portland.

These positive headlines added to the stimulating effects of last year's expansion announcements by Nike and Intel. News of those companies' plans for growth in Hillsboro bolstered the industrial, office, and residential markets in the Sunset Corridor.

Industrial property owners, be vigilant. This uptick in the economic outlook does not mean there should be a corresponding increase in a property's real market value and a corresponding over-assessment of the property.

It should be simple to spot an inflated assessment. By statute, a property is assessed at its real market value, defined as what a willing buyer and willing seller would agree upon in an open market transaction. Assessments are also subject to Measure 50's maximum assessed value limitations. The assessed value is the lower of the maximum assessed value or the real market value.

Yet over-assessments are common, and the reasons numerous. Despite the economic uptick, there are still significant economic impacts to industry in Oregon resulting in over-valuation of property by the Counties and the Department of Revenue.

The madness is in the method of assessment, because it is impossible for the assessor to physically inspect and appraise each property on its rolls. Instead, the assessor will typically add up a taxpayer's historical investments in a property as reported each year, and equate the cumulative sum of those investments to the real market value of the property – without any regard to market conditions.

Market conditions that impact a company and the real market value of the property can be significant, particularly for an industrial property. Take a high tech campus that was built in the 1970’s and designed for a single user. Back then, tech firms favored flex buildings designed for manufacturing, research and development, assembly, and distribution with a typical floor plate of 40,000 square feet. No thought went into an exit strategy when planning the design or layout of the access, parking, integrated utility systems, and location of the buildings on the property.

Fast forward to 2013, when globalization generally calls for overseas assembly plants and distribution centers located strategically to the company’s global market. The need for a single-user campus with six or more dated, 100,000-square-foot flex buildings that share interconnected utilities on a single tax lot is gone. Globalization is an economic force that is external to a company and one that drives down the market price of these facilities. It is a form of obsolescence that is rarely accounted for in a property valuation.

Another factor that assessors typically overlook at industrial sites is functional obsolescence. Consider a facility built 30 or 40 years ago. Technology for the manufacturing processes may have advanced over the years, but the building design, including the ceiling height or floor load, may limit the use of the new technology. The overall utility of the property suffers from functional obsolescence that impairs the market value.

The assessor often lacks the people power to drill down into the details of every property. Because property value reflects not only local market conditions, but also the inherent functional and economic obsolescence unique to the property, a property being taxed solely on a trending basis may be over-assessed.

As appeared in ***Western Real Estate Business*** *November issue.*