

Property Tax Valuation Dilemma – Are Your Properties Fairly Assessed?

As hoteliers in the State of Iowa prepare for the 2023 property tax reassessment, there are several factors to consider when the Notices of Assessment are issued by the respective county assessors. One of the most important factors will focus on how the county assessors respond to their proactive reductions in value granted in 2021.

Many counties across the state reduced the valuations on hotel properties 20-30% as a proactive measure to limit the number of appeals to the respective Boards of Appeal. In other states, we have seen counties increase values back to, or above pre-pandemic levels. Is this appropriate?

What will the county use as a capitalization rate when implementing an Income Approach to Value? Higher interest rates directly correlate to ROI for investors and increased capital costs demand higher returns for investors. As a simplistic example, a property generating Net Operating Income of \$500,000 can assume a valuation of \$10,000,000 based upon a capitalization rate of 5%. Increase the rate to 6% and the same NOI imputes a value of \$8,350,000. A further reduction in the value to \$7,150,000 occurs when applying a capitalization rate of 7%.

According to the American Hotel & Lodging Association 2023 State of the Hotel Industry Report, the top 25 US Markets are below the 2019 pre-pandemic Gross Operating Profit per Available Room (GOPAR) levels through October 2022. While leisure traffic has increased significantly in 2022, the business traveler has yet to return to prior levels. A survey released by the AHLA indicates individuals are less likely to meet business associates face to face and prefer the technical advances such as Teams, Zoom or other tele-connect options to “meet” virtually.

Other factors to consider include the increase in labor cost; rising costs for food, beverage and supplies due to inflationary price increases and a general lack of workforce to adequately service a property. Conventions are on the increase, however, they are catering to smaller attendees, creating a gap between anticipated revenue and realized room and banquet revenue. While occupancy rates may be up over the past 2 years, are the operators generating the pre-pandemic margins?

The replacement of Furniture, Fixture and Equipment (FFE) during the pandemic should not be discounted. Many operators took advantage of the down time to remodel, refurnish and upgrade their facilities. When looking at the Income Approach to Value for 2023, will the counties accurately account for the business personal property allowance? Newer FFE should generate a greater deduction for the “Return Of” and “Return On” the personal property allocation. This is particularly true in Iowa as business personal property is not assessable for property tax purposes.

Please consider these factors and others when you receive your notice in the upcoming weeks. The appeal deadline in the State of Iowa is April 30th (or May 1 this year as the 30th falls on Sunday).

Donald Swartz is President of Swartz & Associates, Inc. (SAI) SAI is a boutique firm specializing in the review of commercial/industrial real estate valuations as well as business personal property. SAI employees have worked with many hoteliers across the country in the review of property tax valuations, reviewing hundreds of properties over the past 35 years. To learn more about SAI, visit www.swartzsai.com.