

The Real Estate Tax Advisor: Your Partner in Maximizing Returns

Are you aware real estate taxes are often the single largest component of operating expenses for commercial real estate, representing between 20-30% of total annual property operating expenses?

Active management of this expense line is critical to maximizing property cash flow and property values for owners and managers.

Here are three strategies you can use to help lower your real estate taxes and increase your property's value:

1. Take the Income and Expense Questionnaire Seriously

Tax assessments are often based on information provided by the owner in the Income and Expense Questionnaire, which must be submitted annually or tri-annually depending on the property's location. Properly completing this paperwork with an understanding of how the local jurisdiction values real estate can make the difference in avoiding increased tax assessments and the need for tax appeals altogether. An accurate questionnaire attentive to local assessor guidelines is the first step in protecting against higher tax assessments.

Real estate tax accounting has its own set of books. Never submit unadjusted financial statements to local jurisdictions without having a real estate tax advisor review them in advance to make the necessary adjustments. Just because a property manager may consider a certain line item a capital improvement does not mean your local assessor would do the same. A competent real estate tax advisor knows what your jurisdiction's assessor will and will not accept for adjustments to income and expenses. Owners and managers cannot afford to submit these forms on their own. Knowledge of local practices is essential to avoiding costly mistakes.

2. Don't be Afraid to Appeal Your Tax Assessments

Notwithstanding the good job you may have done with the questionnaire, local authorities can ignore what was submitted and/or use inappropriate assumptions to value properties for tax assessments. When this happens, tax appeals are necessary to protect your investment.

Do not give the government the benefit of the doubt! You may think your property is correctly valued by the local jurisdiction, either because the assessment equals what you might be able to sell the property for today in the open market or because

it is valued at a price similar to what you paid for the asset. Nonetheless, the tax assessment should not necessarily reflect those values.

In Maryland, the District of Columbia, and Virginia, local laws governing tax appeals do not expressly define what qualifies as legitimate income and expense categories in determining Net Operating Income, a key valuation metric used by local governments to derive commercial real estate values. This means the valuation methodology applied by the local governments is inherently arbitrary and open to dispute. For example, there are no defined rules for what qualifies as an operating expense versus a capital improvement. A compelling tax appeal presentation can successfully influence how the government values properties, even if the final value may be lower than what the market would bear.

Successful tax appeals and properly prepared questionnaires have a tremendous positive impact on property financial performance.

They accomplish the following:

- Reduced tax assessments and corresponding real estate tax bills,
- Higher property net operating income,
- Increased property cash flow,
- Higher property values.

3. Navigating the Tax Appeal Process

There are three levels of tax appeals in the District of Columbia, Maryland and Virginia. All three jurisdictions share a first level informal administrative review hearing, a second level more formal hearing by an independent review board, and a third level hearing at court. Each jurisdiction has its own rules and procedures at each level and they differ from each other in terms of flexibility on valuation, dates and deadlines, and other procedural issues.

Successfully navigating these jurisdictions and their multiple levels of appeals can be daunting for the uninitiated. As a seasoned real estate tax advisor, Advantage Properties can make the difference.

We at Advantage Properties utilize a variety of sources and tools to present compelling tax appeal presentations. In addition to our own written and oral testimony, we may also include the following as part of our presentation:

- Third party written reports from recognized industry publications
- Appraisals from reputable appraisal companies along with oral testimony at hearings

- Relevant broker testimony to support valuations based on comparable sales
- Engineers to provide expert testimony on property age and maintenance related issues, and/or
- Oral and written testimony from other third party experts as needed.

Advantage Properties has a proven record of lowering property real estate tax assessments by 10-15% per year, saving our clients millions of dollars in real estate taxes since 1985. For over three decades, we have leveraged our local expertise as owners of multifamily assets to develop highly effective presentations for tax appeals in the District of Columbia, Maryland, and Virginia.

Along with our partners, the principals of Advantage Properties have collectively owned 36 multifamily properties (nearly 6,000 apartments) in the Mid-Atlantic region of the United States since the mid-1980s. We originally developed our real estate tax assessment and appeal practice as part of our investment strategy to add value and increase asset cash flow and soon thereafter offered our services to other property owners.

For additional information on Advantage Properties and how we can improve the performance of your portfolio, please contact us at 301 986-1400 or visit our website at <http://ad-prop.com/consulting/>.

We would be delighted to help you lower your property's real estate taxes.

Sincerely,

Alex Gross