DAILY BUSINESS REVIEW
LAW | REAL ESTATE | FINANCE
DailyBusinessReview.com
An ALM Publication

September 14, 2020

Commercial Property Owners: Make Your Best Case for Lower Property Taxes

It is time for property owners to prepare and quantify the true impact the pandemic has had on their property values.

By **Robb Udell and Nathan Mandler** | September 14, 2020 at 10:15 AM

Robb Udell, left, and Nathan Mandler, right, with Rennert Vogel Mandler & Rodriguez in Miami.

Commercial property owners looking at their proposed 2020 property tax notice in one hand and their 2020 financials in the other cannot be blamed for grimacing. There may be a major disconnect between what a property tax appraiser thinks a South Florida hotel, office building or retail center is worth and what that asset is producing. It is time for property owners to prepare and quantify the true impact the pandemic has had on their property values.

The property appraisers' valuations for this year are based on their opinion of value as of January 2020, two months before a pandemic was officially declared. While some taxing districts saw taxable values decrease, the cities of Miami and Miami Beach saw their aggregate taxable valuations increase, with some of the gains attributable to new construction. Miami's $63 billion estimated taxable value represents a 6.9% increase from 2019. Miami Beach's projected year-over-year increase in taxable value is 4.1% for an estimated $41.8 billion. Other cities including Coral Gables, Doral, Hialeah, Homestead, Miami Gardens, North Miami and North Miami Beach, among others, had estimated year-over-year percentage gains per the July 1 estimates released by the property appraiser's office.

That defies what owners and managers are seeing on the ground. Since mid-March, some tenants have stopped paying rent. Others have moved out or asked for rent abatements or lease concessions. Owner-operators of some properties have seen their income drop to zero in recent months.

Take the hospitality industry, which has been hit the hardest, as an example. A recent report from STR revealed that occupancy among South Florida's hotels that hadn't completely shut down was at approximately 30% during the week of July 4. This marked a 54% decline year-over-year compared to the week of July 4 last year. STR estimates hotel demand is not expected to return to pre-pandemic levels until 2023. The Greater Miami Convention &

Visitors Bureau reports that for the week ending Aug. 5, occupancy was down 56.1% year-over-year and revenue per available room (RevPar), a key hotel metric, was down 69.5% year-over-year for the week ending Aug. 5. The numbers were even more grim in April and May, when RevPar in Miami-Dade County was down in excess of 80% year-over-year. To be best prepared to review, discuss or challenge their property taxes, hotel operators should be maintaining monthly reports that show average daily rates and occupancy levels with comparisons to 2019. They should dig deeper into the numbers, quantifying the revenue lost in the food and beverage department, from canceled conferences and events, and so on. They can share trailing 12-month averages or month-by-month figures with their legal and financial advisers for review.

In the retail sector, more than 25,000 U.S. stores are expected to permanently close in 2020, according to Coresight Research. That would shatter the record of 9,302 set last year. Retail center owners and managers, with their exposure to restaurant failures and clothing-store bankruptcies, and other retail closures, should be compiling revenue comparisons and break-out reports by type of tenant. They should also utilize indirect measures such as foot traffic. Their forecasts can anticipate potential losses from tenants requesting rent relief or release from their leases because an anchor tenant closes or has closed.

Office buildings will also see fallout from the pandemic. Some tenants will exit their leases; certainly, some already have. Others will find that because working from home, works so well, they need less square feet. As their leases expire, tenants may give back space or move out. Office building owners and managers should keep detailed records of when tenants stopped paying rent, terminated leases early and reduced footprints. The trend lines and year-to-year comparisons may not be as dramatic as they are for hospitality and retail properties, they will be significant to ensure that valuations make the case for lower property taxes.

Few, if any, property types have been immune from the impacts of COVID-19. We are still navigating the first wave of COVID-19, while at the headwaters of hurricane season, and experts have warned of the danger of a second wave of coronavirus cases in the fall. We recommend owners keep detailed records as to how the pandemic is impacting their properties, keep track of all appeal-filing deadlines (the 2020 filing deadline for Miami-Dade and Broward counties is Sept. 18—this deadline varies by county and by tax year) and hire the strongest possible representation to protect their interests. Disputes over property tax valuations related to COVID-19 are likely to be prevalent not only in tax year 2020, but also for tax year 2021 and perhaps beyond depending on continued impacts of COVID-19 and the speed and degree of economic recovery when conditions improve.

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