

Tax assessments

Now might be time to appeal your commercial real estate assessment

INTERVIEWED BY SUE OSTROWSKI

COVID-19 has had a dramatic impact across the board, creating economic uncertainty and having an adverse effect on commercial property values that continues to this day. In Allegheny County, effects are perhaps most pronounced in the office market, and in particular in Class B downtown Pittsburgh office space, but no commercial property type with indoor space has been immune, says Peter Schnore, shareholder at Babst Calland.

“Tenants’ initial response to COVID was a wait-and-see holding pattern with respect to whether they were going to renew leases or move to new space,” says Schnore. “As a result, many landlords have had to dig deep to keep and attract tenants by offering unprecedented periods of free rent or tenant improvement allowances, creating an adverse impact on net operating income. The unknowns surrounding COVID are still affecting nearly all commercial property types, not just office properties.”

Smart Business spoke with Schnore about how COVID is impacting the value of commercial real estate and why it may be a good idea to review your recent tax assessment.

WHAT IS THE CURRENT SITUATION FOR OWNERS OF COMMERCIAL REAL ESTATE?

Future uncertainty while we remain in the throes of COVID is driving up risk of commercial property investment, driving down commercial property values. Landlord concessions — in some cases multiple years of free rent or triple-digit tenant improvement allowances — are increasing operating expenses and reducing short-term income, resulting in an immediate and substantial adverse impact on value. As a result, many properties that house office,

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retail, restaurants, hospitality and others now have assessments that are higher than the current value of the real estate merits.

COVID-19 has also impacted business owners who own their own space as they question whether they actually need the amount of space they own. If your space has been sitting partially empty for a year and a half now because employees are working remotely, do you really need to hang on to it? That is adding to the glut of available space on the market and driving down value, including the value of owner-occupied space.

WHY MIGHT YOUR ASSESSMENT APPEAR LOW BUT ACTUALLY BE HIGH?

In Allegheny County, the last reassessment was in 2012 — thus, the assessment on your tax bill represents value from nearly a decade ago. Pennsylvania has no regular reassessment schedule, and it is easy to forget taxpayers have an annual right to challenge assessments. Each year, the state publishes an equalization ratio for counties based on a comparison of the county’s most recent years’ sales data vs. the sold properties’ assessments. In a properly filed appeal, this ratio can be applied to the property’s current fair market value to set the assessment. Because counties are not required to regularly reassess, the financial benefit of a decreased assessment may be enjoyed for many years.

Importantly, for Allegheny County, there has been a sudden and significant drop in this ratio from last year, the most significant drop since the last reassessment. That makes 2022 a particularly good year for owners to evaluate whether an appeal is warranted.

Owners of commercial properties in Allegheny County have until March 31, 2022, to initiate an appeal; for owners of property in the remainder of Pennsylvania, annual appeal deadlines are between Aug. 1 and Oct. 3, 2022, depending on the county.

WHAT IS THE APPEALS PROCESS?

Start by gathering your income and expenses for the last three years. Work with an attorney to discuss what the income of the property has been and the expected rate of return. Whether an income-producing investment property or an owner-occupied facility, an attorney, often with the assistance of the right appraiser, can evaluate the current value and help determine whether an appeal is warranted.

Although you can’t file an appeal in Allegheny County until Jan. 1, 2022, talk to an attorney now. Getting your information in order allows you to be prepared when the filing period begins. Property taxes are often the most significant operating expense for an income-producing property, so it’s important to evaluate your situation, with the help of an attorney, to make sure you are not paying more than you should be. ●