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Experts: Scrutinize property tax assessments

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As municipalities are under increased pressure to generate income, most sources suggest appealing all property assessments that come across the desk.

Highlights

- Hoteliers can work with a national firm or a local tax lawyer.
- Partners should be interviewed and fees should be negotiated.
- Be sure to educate partners on the property and keep all parties aligned.

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REPORT FROM THE U.S.—For hotel owners and asset managers, every dollar counts. Anytime there’s an opportunity to shave expenditures here or there, active investors are going through the numbers with a fine-toothed comb.

One area hoteliers are actively looking to save a few bucks is by appealing their annual property real estate taxes. Most sources for this story suggest appealing all property assessments that come across the desk. For hotel owners with fewer resources, property-tax assessments still should be viewed with a keen eye.

Municipalities today are under increased pressure to generate income and are often “very aggressive” in their assessments without having all the facts about the hotel’s performance and competitive set, said Celeste Ledoux, corporate controller at Capital Hotel Management, which manages investments of 27 primarily big-box hotels across the United States.

“I would agree that almost every property is appealed. I can think of a handful that (we haven’t) appealed,” she said. “It’s the tax assessors’ job to raise money and it’s our job to make sure we’re not overly assessed. They’re very aggressive in their valuations.”

As corporate controller at CHM, Ledoux oversees the appeal process, culling and managing outside accounting and legal firms that file the appeals in court. Sometimes she works with national firms like HVS, but usually she does her due diligence and finds a local firm that knows the asset and the area. She contacts the consultants, interviews them and negotiates an appropriate fee structure. Once a third party is hired, she educates it on the property and works with the hotel’s owners and management team to keep everyone aligned.

“I’m educating people about the property,” she said. “I bring the consultant together with the owner and make sure they have access to the property when needed. A lot of owners are far removed and it’s not an account that’s looked at closely. But for us, it’s one of our regular tools.”

While not all assessments are appealed at New Castle Hotels & Resorts’ 27 hotels, all are at least evaluated, said Judith Scofield, New Castle’s VP and CFO.

“We evaluate all of our properties every six months to see where we stand against the competitive set and then we also evaluate the properties whenever there is a re-assessment,” she said. “We will appeal if we feel like the value is unfair in any way; not 100% of the time because it depends on how the property is performing.”

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The process

Scotfield said [New Castle](#) typically works with HVS. Others suggest a more local approach. Either way, fees are negotiable and most firms will work on a contingency, only collecting payment if they are successful in getting the assessment lowered.

Finding the right representation is critical, Ledoux said.

"The right local match is often part of the national firm but we don't take the one-size-fits-all approach," she said. "What consultants are in the market? Who has a good reputation? A lot of it is about reputation and relationships."

Ledoux said CHM executives will request target values and fee structures in advance. They'll schedule interviews, ask if representatives have walked the property and evaluate based on how much work has been done in advance.

"Usually the candidate that's right for the property is obvious and we'll negotiate an executable fee factor," she said.

Once hired, educating the partner is the next key step.

"It's not just about forwarding them (profit-and-loss) statements," Ledoux said. "We need to discuss capital needs, what the market looks like, where the asset is located. A lot of assessors look at comparable hotels and value per room, but when you're an asset manager you need to educate your consultants on that."

It's a cumbersome process because many municipalities are extremely behind in processing appeals, sources said. For example, on a recent earnings call, LaSalle Hotel Properties' President and CEO Michael D. Barnello said his company had 26 tax years under appeal.

"And we don't know when those are going to get settled, if at all," he said.

In addition, most municipalities have different processes for filing appeals.

"Some do it the standard way, but many towns aren't sophisticated or don't have the manpower to do it in a normal method," Scotfield said.

Until a few months ago, CHM had a property tax appeal case from 2004 still open. But on average the process takes approximately two years, Ledoux said. In Washington, D.C., the process is often completed in less than a year, she said.

Results

Sources said property-tax appeals rarely go to trial; rather, most are settled before they get that far.

"In my experience it's very infrequent these go to trial," Scotfield said. "In fact, we've never had one that went to trial."

"You do occasionally get a ruling and then you appeal the ruling," Ledoux added. "Both parties want a settlement in the end."

Therefore, Ledoux suggested having an idea of where you're OK settling before getting too deep into the process.

"Know where they are in an appeals process and then negotiate a settlement," she suggested.

However, Ledoux also said don't be afraid to go to court.

Scotfield said New Castle has achieved as much as a 30% reduction in taxes owed. Other times the company has gotten "very little off," she said.

Because of the variable timeframe and success, modeling or budgeting for tax-appeal reductions can be difficult.

When asked during the earnings call how the 26 years of appeals would affect [LaSalle's](#) bottom line, Barnello said the fact that appeals get settled time to time creates "a lumpy model."



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"If they all get settled next quarter, we would see a decrease in our property taxes. That's unlikely to happen," he said. "But as we go on, some of them do get settled from time to time."

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