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**Property Taxes in a  
Rapidly Changing  
Marketplace**

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Moderated by  
**Tom Hamilton**  
**PhD, CRE, FRICS**

University of St. Thomas  
Opus College of Business/Shenehon Center  
for Real Estate



**Speakers:**

Dr. Tom Hamilton, University of St. Thomas  
Mary Bujold, Maxfield Research  
Jim Atchison, Hennepin County Assessor  
Stephen Baker, Ramsey County Assessor  
Doug Shiell, Smith Gendler Shiell Sheff Ford & Maher



## Purpose of Seminar

Real estate markets have changed and market prices have fallen. Present times are quite different from the recent past due to many factors. The purpose of this seminar is to identify what has changed in the marketplace for real estate — and in the pricing of real estate — and how those changes are appearing in the property tax assessment arena.



## Takeaways of Seminar

- Assessed value and real estate market valuation
- Economic value versus sale price
- Historic information versus reasonable expectations of the future
- Supply and demand imbalances
- Sustainable net operating income forecasts



# Property Tax Assessment, Market Value and Price

Real Estate Valuation for Tax Assessment  
(Market Value)



# Property Tax Assessment, Market Value and Price

Real Estate Valuation for Investment (Price)

- May be close to the market value of a property, but it could be quite different
- For example, Section 1031-based transactions



## Property Tax Assessment, Market Value and Price

What happens when Market Value and Investment Value (Price) diverge?

- For individual properties, someone makes a lot of extra money.
- For an entire marketplace of properties, there will be short-run price run-ups or fall-offs (bubbles and bursts).



## Economic Value versus Sale Price

Appraised and assessed values are (*should be*) based on economic values of properties.

- The price an individual pays for a property will be influenced by that individual's financing and tax strategies.



## Economic Value versus Sale Price

Economic values are independent of financing – an appraisal is based on NOI.

- Typical rents, typical vacancies, typical operating expenses from the open marketplace are the basis for economic valuation.



## Economic Value versus Sale Price

Atypical financing terms and conditions will cause sales prices to diverge from economic values.

- Access to greater proportions of debt (higher LTV ratios) can create the illusion of sustainable (or long-run), high rates of return on equity.
- This is not new information, but we revisit this issue on a regular basis (during crashes).



# Historic Information versus Reasonable Expectations of the Future

Historic information tells us where we've been (usually with 100% accuracy).



# Historic Information versus Reasonable Expectations of the Future

Reasonable expectations will yield likely potential future paths (but with less than 100% accuracy).



## Historic Information versus Reasonable Expectations of the Future

Appraisals AND prices should be based on how the future should transpire – not simply a linear projection of the past.



## Supply and Demand Imbalances

An imbalance in either supply or demand will cause short-run price aberrations – prices will not reflect long-run, sustainable values.



## Supply and Demand Imbalances

Short-run supply and demand imbalances can exist in physical stock (too many or too few of a property type), in employment types and levels in an area (rapid growth/decline of a business sector), and in capital markets (cheap and easy money).



## Sustainable Net Operating Income

Properly reconstructed financial statements are crucial for market value estimates.



## Supply and Demand Imbalances

Items that should not affect the market value of property in the short-run:

- Good (bad) property management
- Superior (inferior) access to capital
- Preferable (significant) income taxation
- All revenue/expense items should be “typical” for the market



## Sustainable Net Operating Income

Once reconstructed, a property’s financial statement should reflect a “typical” competitive property.