CRE Execs Are Feeling Bullish on US Economy

CHICAGO—DLA Piper released its "State of the Market Survey" at its 12th Global Real Estate Summit here earlier this month, and of the commercial real estate executives surveyed, 89% were "bullish" on the prospects for the US economy. This was slightly higher than last year, when 85% responded optimistically, and even higher than in 2007, when 77% did so. Typically, respondents stated that their good feelings came from the massive amount of capital now available for investment or simply that the economy has strong fundamentals.

Those views resonated with panelists at one of the sessions at the conference, titled "Risks and Rewards of Real Estate and the Public Markets." Lauralee E. Martin, the president and chief executive officer of Irvine, CA-based HCP Inc., a $30-billion healthcare REIT, said "there is so much capital driving value." Furthermore, "the underlying fundamentals of the US economy are getting better every day." She does not discount the possibility of a downturn, but HCP's focus on healthcare, an asset class that retained a good deal of its health even during the recession, gives her and her colleagues even greater confidence. Their strategy is to "remain bullish on our business and bullish on the economy, but be prepared for whatever comes along."

Confidence mixed with a bit of caution was also the outlook of Benjamin S. Butcher, the chief executive officer and chairman of STAG Industrial, a $2-billion Boston-based REIT. "We're pretty far into the recovery," he said, and STAG is primed to take advantage of investment opportunities as they occur. However, he did raise the possibility that "maybe, a relatively mild recession" was possible in the near future. Still, just after stating that, he added that "the economy continues to improve. Maybe it's further off."

"It doesn't feel like the fifth year of a recovery," said David J. LaRue, the president and chief executive officer of Forest City Enterprises, "so I think it has additional legs." In fact, foreign investment groups continue to come to Forest City and want to pour equity into the US because they see the nation as a safe bet. But LaRue is waiting for the day when the US Federal Reserve begins to shrink its massive balance sheet, and believes that could finally make an impact. "We've got a little bit of time, but not much."

J. Michael Lynch, the president of Dividend Capital Diversified Property Fund, believes the economy, while outwardly healthy, does not have enough pillars and instead relies too heavily on burgeoning sectors like technology, energy and healthcare. "That narrow focus definitely worries me." The office markets that have performed the best tend to be in towns or regions, like San Francisco or Silicon Valley, that rely on just a few of these pillars, but the larger, more diversified markets have not kept up that pace. National rent growth is below 3%, he points out, a fact sometimes masked by the huge gains made by the high performers.

Some conference participants were asking one another whether the apartment market had gotten a bit too exuberant in the past few years resulting in an oversupply of units. LaRue was somewhat skeptical of that view. He believes that recent

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How to Discover Whether Your Tax Assessment Is Fair

Many taxpayers pay more than their fair share of property taxes. Yet in a tax arena fraught with nuance, it can be difficult for a taxpayer to recognize an inflated assessment. The key to spotting a bad assessment lies in knowing precisely what the assessor is measuring and the requirements of the state's property tax law.

What, then, is being assessed? The simplistic answer is that real estate is being assessed, but that response doesn't fully address commercial real estate, where values often hinge on contracts, encumbrances and regional legal definitions.

By Kieran Jennings

That said, all states attempt to tax at similar levels properties that are similar to one another.

The challenge to meeting that goal is that commercial real estate is subject to a variety of contracts and encumbrances, creating situations where nearly identical properties are taxed at significantly different assessments. Causing more trouble is assessors' tendency to rely on recent sales to determine values, resulting in tremendous differences in assessments among similar properties.

In a Pennsylvania case, an owner filed to reduce his property's taxable value based on a long-term lease in place at below-market rent. The Pennsylvania Supreme Court held that assessors must weigh all the interests associated with a parcel, specifically the impact of leased-fee interests and leasehold interests on value. However, the typical commercial property sale only reflects the leased-fee portion of the sale, because the buyer is essentially buying a rental income stream.

Kentucky has yet to fully address the uniformity problem. The Kentucky constitution states that "all property, not exempted from taxation by this Constitution, shall be assessed for taxation at its fair cash value, estimated at the price it would bring at a fair voluntary sale." As a result, nearly identical buildings could be taxed at significantly different amounts.

Ohio legislators recently passed a statute to achieve uniform taxation. Ohio simply stated that the assessor must assess all real property at the fee-simple value as if it were unencumbered. In this way the state is requiring the assessor to use market terms regardless of above-market or below-market rents in place at the property.

The remedy to unfair taxation based on recent sales is to tax all property using market terms and market rates applied to the conditions specific to the property. Without knowing what the assessor is measuring, however, a taxpayer may consider a sales price to be a fair assessment value. As demonstrated by these examples, understanding how the states assess properties goes a long way to knowing whether a taxpayer is paying a fair share in that particular state.

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