

Stephen Nowak: Optimize Revenue While Minimizing Property Tax Valuation

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Ancillary services have become a crucial revenue generator in student housing and can help owners improve occupancy, justify higher rents and increase tenant satisfaction. In an industry that often correlates income with market value, however, it is critical to distinguish ancillary service revenue from real estate value and property tax liability.

Failure to properly distinguish between real estate and intangible business assets can lead to unfair valuations and excessive property tax bills. Simply put, real estate is land and improvements to that land, such as buildings. Intangible assets, as the term suggests, cannot be held or touched. Examples include business service operations and partnership contracts with third parties.

To help taxpayers recognize the intangible components of their private, off-campus student housing operations, we will review some of the most popular services that owners are using to boost revenue today. Then we will explore strategies for managing valuation and tax implications of these non-real-estate income streams.

Selling premium amenities and convenience

Owners and operators working to improve the financial performance of their off-campus properties know that increased rents and occupancy are not the only ways to drive revenue. By adapting to student renters' changing wants and needs, providers are turning ancillary services into significant revenue producers.

Here are a few of the key services at many properties today:

High-speed internet. Working with a provider to offer broadband internet connectivity as a premium feature can generate hundreds of dollars per unit annually for a student housing operator.

Fitness centers. Property managers know that offering tenants access to an on-site or nearby fitness center can justify increased rental rates. Some properties partner with a local fitness center to ensure access for their residents or to provide on-site programming such as yoga classes.

On-site laundry services. This revenue generator is a no-brainer, which is why landlords for decades have offered access to coin-operated washers and dryers. On-site laundry facilities at a 100-unit apartment building can easily generate \$10,000 annually. With student housing's higher density, operators have the potential for more substantial revenue. Owners without laundry facilities may be able to partner with a nearby laundry or dry cleaner to offer these services.

Movers. When a new tenant signs a lease agreement, some student housing managers provide the new resident with an email link or advertising material from a local moving company offering moving kits, boxes, packaging tape or services. The referral agreement behind this relationship is yet another potential income producer for the landlord.

Advertising. Student housing managers often sell advertising to local businesses. Restaurants, retailers and service providers may buy ad space in tenant emails or plaster vinyl ads on the outside of the property's elevator doors. Partnerships with area restaurants or other businesses may also bring in referral fees or commissions.

Housekeeping: Many student housing owners have taken a page from assisted living operators' book by offering cleaning service options to their residents.

Separate ancillary revenue from real estate value

It is crucial for off-campus housing providers to differentiate ancillary services revenue from the real estate value of the property and to ensure the local tax assessor recognizes this distinction when valuing their property for taxation. This is important because ancillary service revenues represent money derived from intangible business assets rather than from the real estate.

The owner of a student housing property with ancillary revenue streams should track this income specifically and separately in record keeping. Resist the temptation to throw specific ancillary income into a catchall "other income" line item on the property's income and expense spreadsheet.

When student housing properties trade hands based, in part, on revenue attributable to ancillary services, their improved economic performance generates higher sale prices than do properties under less creative management. Over and above the total sale prices reported to the public, were an assessor or appraiser to include revenue from ancillary services in property valuations, it would lead to inflated assessments.

Accurate assessments should reflect only the real estate value excluding business income. And properties with extensive ancillary services might appear more valuable compared to those without, even if the actual real estate is comparable.

Owners and managers of private, off-campus student housing can help to ensure fair property valuations and tax liability by conducting annual reviews.

Regular and careful reviews of assessments can identify and help correct any discrepancies, saving the property owner money in reduced tax bills. If a property is over-assessed, consider challenging that assessment. Each jurisdiction presents unique rules, laws and challenges requiring careful and informed decision making. Taxpayers often find it helpful to consult an experienced, local property tax professional before deciding whether to begin a valuation challenge.



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