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Property taxes must be reduced due to COVID-19’s impact - by Brad Cronin and Sean Cronin

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We’ve heard the expression “the new normal” all too often since March. As society adjusts to the devastating impact of COVID-19, there will be a “new normal” for property tax cases as well. The effect on the real estate industry cannot be understated. As a result, any property that has seen a decline in their income from the pandemic should be in a strong position to obtain a corresponding reduction in property taxes.

With shuttered stores and empty parking lots, the immediate changes are shockingly evident. However, many other factors related to COVID must be considered when presenting the case for a reduction in property taxes:

Declining Income as a Result of Unpaid and Reduced Rents

Many tenants have stopped paying rent entirely over the past few months. Those tenants who are still communicating with landlords are only doing so to negotiate rent reductions and deferrals. Landlords have been placed in the unenviable position of choosing between an accommodation that will help a tenant survive or enforcing the original rental agreement. While the latter may seem harsh in this environment, many landlords paid sale prices for their property based on current rental agreements. Without rent, they may not be able to pay their mortgage and could potentially lose the property.

For those landlords who are able to get through this difficult time, they must document every lost payment, every adjustment, and every accommodation made. The reduced income stream is the bottom line number, but explaining the volatility specific to each property, and the reasons for the decline in operations, is also a critical component to the tax case.

Prior Value Estimates and Agreements Have Become Irrelevant

COVID-19 has effectively hit the reset button on all commercial properties. Investments previously seen as stable are now viewed through a completely altered lens. Whether it’s the ability to work from home, order goods online, or just the fear of entering a certain space, the landscape has been entirely reshaped.

Some sectors were already feeling the effects of the internet prior to the virus. The retail world was changing as consumers found internet alternatives to brick and mortar properties. Retail experts acknowledged the shift but heralded experiential retail as impervious to the internet’s draw because people wanted to touch and feel certain items. They touted the ability to interact with someone who can provide a level of service as a differentiator that could not be found on the internet. But now, medical experts say staying safe means avoiding interactions with others and not touching anything outside of the home, if possible.

For these reasons, prior estimates of value cannot be relied upon. Whether it’s a sale or a previous negotiation with the assessor, all bets are off going forward.

COVID-19 Adjustments Needed for Reopening

The idea that the country can reopen and things will quickly return to a “new normal” that resembles the old is at odds with reality. At a minimum, there will be increased costs for all sectors to keep properties clean and sanitary. A misstep that leads to a property being a source for COVID would be such a set-back that even cost-conscious owners must allocate funds to keep properties hygienic.

Capital expenditures are the most startling numbers. Quick fixes such as plastic partitions and additional hand sanitizer dispensers are band-aids on a bullet wound. In many instances, office layouts will be forced to be overhauled. Restaurants and coffee shops, places once designed to encourage interaction amongst attendees, will shift to formats that balance customer's comfort with their ability to run a viable business. These expenses must be factored into the operations or amortized to impute a true value of the property for tax purposes.

Future Tax Rates are the Great Unknown

There are competing agendas in regards to property taxes. On the one hand, taxes must be at a reasonable number for properties to survive, but the government also relies on property tax revenue to function. Property taxes are one of the most stable sources of government revenue and with sales tax collections declining to record lows, property taxes become even more critical. With states struggling to meet unemployment insurance and other transfer payments that are now elevated due to COVID, the future path for taxes at all levels looks to be higher. Much also depends on aid figures that have been politicized to such an extreme that it's unknown where those figures may land. Long Island already boasts some of the highest property taxes in the nation. Shifting these tax rates higher at a time when owners are at their most vulnerable, is a recipe for economic disaster.

Some owners, commercial and residential, will simply not be able to pay their property taxes. Others will make adjustments but still be forced to spend incredible amounts to navigate this rapidly changing environment. Many owners and tenants will not make it through this recession. But the American capitalist system is built on creative destruction: over 1,600 companies shut down every week in America even in good times. American business will survive but decreased operations and costly changes must be considered and property taxes must be reduced commensurately to drive a return to economic growth.

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