



Why You Should Reevaluate Your Property Taxes in Light of the Coronavirus Pandemic

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THE ONGOING COVID-19 health crisis will likely have a deep impact on many different aspects of the commercial real estate industry and larger economy. As readers of this magazine are well aware, the hospitality sector suffered the hardest and most immediate hit and is also particularly vulnerable to a lasting slowdown and any potential aftershocks which could continue for years in some markets. Pennsylvania property owners who have been financially impacted by the pandemic need to act soon to evaluate and potentially request relief on their property taxes.

With respect to the impact of the COVID-19 pandemic, owners in Pennsylvania have an advantage over most other states because the date on which the market value for an appeal is based—known as the “effective date of value”—is earlier than in other states. In Pennsylvania, the effective date of value is:

- For Allegheny County, PA—March 31, 2020
- For Philadelphia County, PA—the first Monday in October (October 5, 2020)

- For all other 65 PA Counties—Between August 1, 2020, and September 1, 2020, (we recommend filing before August)

By comparison, in nearly every other state, the effective date of value is either January 1, 2020 (at which point, the impact of the pandemic was largely unknown in the market), or January 1, 2021 (at which point assessors will likely argue that the effect of the pandemic is already behind us). Assessors in other states are already pushing back against requests for property assessment reductions based on arguments of what was known on those dates.

Thus, Pennsylvania property owners are uniquely positioned to use information about the effect of the pandemic to seek a reduction in property taxes. For 65 of Pennsylvania’s 67 counties, the operative question in seeking to reduce your property taxes will be: “What would someone pay for my property on August 1, 2020, based on what information was known in the market?”

Reducing your property taxes will require appealing your assessment; winning that appeal will require evidence of

your property’s market value. Therefore, appraisals used to support assessment appeals filed in Pennsylvania this year should incorporate the impacts of the COVID-19 crisis.

Procedurally, the assessment appeal process in Pennsylvania begins with the filing with the Board of Assessment Appeals in the county in which a property is located. The Board (or in some areas the county commissioners) will conduct a hearing on the appeal in September or October, at which time the valuation evidence must be presented. Generally, for commercial properties—and especially this year—sufficient evidence to reduce your property assessment and taxes will require a written appraisal report prepared by a Pennsylvania Certified General Real Estate Appraiser who is competent in valuation of hotels and who is attuned to the unique impact of the COVID-19 pandemic on that sector. After the hearing, the Board will render a decision either changing or sustaining the property’s assessment, and both the taxpayer and taxing districts then have a right to appeal the Board’s decision to that county’s court of common pleas.

Most property assessment cases ultimately end up in court. Pennsylvania law allows property owners to represent themselves, but if representation is desired, the law requires that the owner engage an attorney.

Hotel operators in particular should evaluate the potential to reduce their property taxes this year. Even in a typical year, valuation of hotels presents a unique appraisal problem that requires a specialized appraisal expertise. Because hotels operate as “going concerns”—in which the separate values of the personal property, real estate, and the business itself are intertwined—the normal valuation process for a property assessment appeal requires the appraiser to tease out the real estate component because the real estate value alone is the basis for the assessment. For this year, the expectation is that the impact of the current crisis will impair hotels’ real estate values in most cases.

Further, as market participants in some sectors are looking to the 2009 financial crisis as a point of reference, there seems to be general agreement that demand for hotel rooms will be slower to return this time around. This unknown timeline increases the risk to potential investors, further driving down property values.

Now is the time to start collecting the data and documents that will be necessary to evaluate your property’s assessment to see if there is an opportunity to reduce your real estate taxes. Owners should gather three years of income and expense statements, a current balance sheet, and a recent monthly STAR Report. In addition, STAR Reports from 2018 and 2019 will be helpful to compare and estimate the impact of the pandemic on 2020 performance.

If you believe the value of your property may be diminished by the COVID-19 crisis, contact an experienced attorney and/or appraiser before July so that you can properly evaluate the opportunity to reduce your property taxes with adequate time to prepare a winning case. •

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