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Law & Accounting

Real property tax bills have arrived – what’s the next step?

Attention: Real property tax bills have arrived. County treasurers mail property tax bills out in January. The bill you just received is based on the 2019 valuation of your property, which was established by the county assessor in May. Property taxes impact everyone – landlords, owners, tenants, businesses and individuals. Property taxes generally are one of the largest operating expenses for a business and they warrant your attention each year.

The Colorado economy continues to be strong. County assessors redetermine property values every two years (in odd years). This two-year period is referred to as a reassessment cycle. During each reassessment cycle, county assessors gather data and conduct revaluations for the succeeding reassessment cycle. Under Colorado law, county assessors are required to value properties based on data from an 18-month data collection period. For 2019, county assessors revalued properties using a data collection period of Jan. 1, 2017, through June 30, 2018. Real estate values and economic conditions in Colorado continued to strengthen during the Jan. 1, 2017, through June 30, 2018, data collection period generally resulting in significant increases in property values.



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According to the Colorado Secretary of State’s Quarterly Business and Economic Indicators (Q2 2018), state employment, wealth and building activity signaled that the Colorado economy continues to be fundamentally strong; for example, in May 2018, employment increased 2.7% year over year, residential construction increased 15% year over year, and home prices were growing at the fourth-fastest pace in the United States (9.9%). While much of this positive economic data may come as no surprise to you, the bottom line on your property tax bill just might be a surprise as this strong economic data from county assessors’ data collection period translates into higher real property valuations. Consider, for example, in the city and county of Denver, between the end of the last reassessment cycle – 2018 to the current reassessment cycle (2019) – the Denver Assessor’s total actual value of retail properties increased by 29.15%, the Den-

ver Assessor’s total actual value of office properties increased by 27.37% and the Denver Assessor’s total actual value of warehouse properties increased by 34.73%. While these percentages account for both increases in value of existing properties and new construction, they clearly show significant increases in valuations across property types.

■ **What data is considered in establishing your valuation?** All real property, except agricultural lands, residential property, producing mines and lands or leaseholds producing oil and gas, are valued by county assessors based on consideration of the income approach, the market approach and the cost approach to valuation. The market approach is the only valuation approach that is used for single-family and multifamily residential properties and vacant land (with certain limited exceptions). The following is a brief explanation of these three approaches to valuation.

■ **The income approach.** Using the income approach, based on market data collected by the assessor, the assessor calculates an operating income, expenses and vacancy; selects a capitalization rate; and divides the net operating income by the capitalization rate to determine the value of a property. The cap-

italization rate is a key component of the income approach valuation. For 2019 valuations, we generally saw county assessors using capitalization rates between 6.75% and 7.5%.

■ **The market approach.** Using the market approach, the assessor determines the value of a property by analyzing the sales prices of comparable properties sold during the data collection period. For 2019 valuations, we generally saw county assessors using strong sales data from sales occurring between Jan. 1, 2017, and June 30, 2018.

■ **The cost approach.** Using the cost approach, the assessor determines the value of a property based on the anticipated or actual development and construction costs of the property. If a property was newly constructed within a few years of the assessor’s valuation, it can be difficult for a property owner to use one of the other valuation methods to overcome the actual construction costs in establishing valuation.

So, what are your options if you disagree with your 2019 valuation? Property owners had an opportunity to protest the new valuations in May. At this point, a property tax abatement may be available to property owners who did not file a tax protest in May and, in some limited cir-

cumstances, even if a property owner did file a tax protest. An abatement is initiated by filing a petition for abatement or refund of taxes with the county assessor’s office.

There still is plenty of time to file an abatement with respect to your current tax bill. Under current Colorado law, during 2020, a property owner may file an abatement for the 2018 tax year and/or the 2019 tax year. If you decide to file an abatement, you still should pay your current tax bill when due and, if you are successful in achieving a reduction through the abatement process, you will receive a refund for the amount of taxes overpaid (plus interest). Property owners have the option of paying 2019 property taxes in either two installments (with the first installment due on or before March 2, 2020, and the second installment due on or before June 15, 2020) or in one installment that is due on or before April 30, 2020. Even in a time when many are prospering due to the strong economic conditions in Colorado, it is important for property owners to carefully evaluate their property tax values on a yearly basis and consider available remedies if a value does not appear to be accurate. ▲