
California Property Taxes and the Troubled Hospitality Asset: The Ugly, The Bad and The Good



By Edward L. Trudersheim

The Ugly – If you are, in any way, involved with a hospitality property in California you do not need a property consultant to tell you about how ugly things are. Distressed hotel and resort assets are struggling to avoid the legions of vulture funds formed to prey on the weak, and scrambling to remain viable, service debt, raise occupancy, maintain rates, and reduce every possible expense. We can't help you much with all the other stuff, but we might have some advice for you on the expense front.

The Bad – The vast majority of your expenses are virtually fixed. They are not functions of the economy. They persist, day in and day out, eating away at your bottom line, regardless of occupancy, rate, or ADR. While California property tax rates are some of the lowest in the country and Prop 13 has blessed some long-term-hold properties with low Base Year Assessments, many, many properties were acquired and re-assessed at, or near, the top of the market. Those Prop 13 Trended Base Year Values now on the rolls still reflect those boom times.

In all likelihood, if you are involved in one of these top-of-the-market distressed properties you are already pursuing Prop 8 Decline-in-Value assessment appeals on your own, or with the help of a professional consultant with extensive hospitality experience. If you are, you know that the 2009/10 appeals you filed last year are probably still unsettled, and you have either already filed assessment appeals for 2010/11 or you soon will. If you have not yet filed 2010/11 appeals, many deadlines are looming, about a week away on September 15th. Check our website www.paradigmtax.com for details. You also know that these are only temporary reductions, and those assessments will be allowed to increase back up to the Prop 13 Trended Base Values, when the market recovers.

The Good (such as it is) – If your property is likely to be acquired by another party, a lender, a vulture fund, or a white knight, Prop 13 will require a re-assessment of real estate as of the date of the transfer. For the bottom line and long term financial viability of the property, this is a good thing.

In the 32 years since Prop 13 became law, it has traditionally held real property assessments *below* current market levels, so we have become conditioned to do everything we possibly can to avoid or prevent re-assessment due to changes of ownership. In times like these, a re-assessable transfer of ownership may well be a good thing. If the current fair market value of your real estate is below the Prop 13 Trended Base Value, it *absolutely* is a good thing, because a re-assessment due to a transfer of ownership will “lock in” that current fair market value as the New Prop 13 Trended Base Value. That New Base Value cannot increase more than 2% annually going forward, as long as another change of ownership or new construction does not occur.

If a re-assessable ownership change *does* occur, either by design (to purposely lock in the FMV as the New Base Value), or by acquisition, short sale, or foreclosure, one can take even greater advantage of the opportunity by engaging a firm such as PTG to perform a Deal Price Analysis (DPA). This is an end-to-end solution that breaks the elements of the property’s value down, separating out the tangible, intangible, taxable and non-taxable components. The results of that DPA can then be taken directly to the assessor prior to enrollment of the New Base Value, and utilized to support the lowest possible legal value to be enrolled. PTG’s National Hospitality Practice has a strong history of success with this approach, working for such clients as Hilton, Larkspur, Starwood Capital, Omni, Interstate Hotels & Resorts, Crescent Hotels & Resorts, and Cornerstone Advisers amongst many others.

Good Luck.

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