



# Property Tax Analysis for Real Estate Acquisition Due Diligence

Preparing a property tax analysis is a critical step in the acquisition due diligence process involving the transfer of real estate assets. The analysis should be completed for the acquisition of real estate assets, as well as for an operating company that includes owned real estate.

Although property taxes are typically the single largest line-item expense on the property's operating statement, taxes are not often closely reviewed or analyzed. As a result, an unexpected material increase in property taxes can have a significantly negative impact on property operating expenses and value. Although the lease(s) may provide for a reimbursement of property tax increases, a large increase may adversely affect a tenant's ability to meet its base rent and additional rent obligations.

## Due Diligence Steps

Here's a summary of the steps involved in conducting a property tax analysis for acquisition due diligence:



- 1. Gather and analyze data** such as past and current tax bills, assessed values, tax rates, exemptions, abatements and any past or current tax appeals. Identify any outstanding tax liabilities or delinquencies and obtain a recent appraisal report to determine the viability for a tax appeal.



- 2. Evaluate potential tax risk** to determine the likelihood of material increases in assessed value based on conversations with the local tax assessor to understand the assessment process and changes in tax laws or regulations.



- 3. Identify and analyze tax comparables** such as the sale and subsequent changes in assessed values of comparable assets for an indication of the weight the assessor places on a sale price in the assessment process.



**4. Obtain property tax projections** of future assessed values, tax rates and resulting taxes post-acquisition based on potential changes in property value, market conditions and tax rates in order to develop a financial model that can help estimate the impact of various tax scenarios on the property's cash flow and investment returns.



**5. Determine the impact** of any potential downward pressure on market rent as a result of a material increase in property taxes, tenant default risk and property value.



**6. Document key findings** in a property tax analysis report prepared by an independent property tax expert for credibility and transparency; this report is both crucial for stakeholders involved in the acquisition decision-making process and will provide a basis for negotiating price reductions.



**7. Integrate with the due diligence process** to ensure a comprehensive evaluation of all aspects of the transaction.

Completing a property tax analysis for acquisition due diligence is a complex process. By engaging an appropriate property tax expert, investors can make informed decisions and mitigate tax-related uncertainties in real estate-related transactions.

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