



PDF of this article



Mail the article

Haven't Gone 'Green'? It May Mean Property Tax Relief

By **Michael Shalley**

as published online at *Hotel Resource*

November 2008

In these tough economic times, hotel owners need to proactively manage their property tax liabilities. The massive movement toward 'green' construction presents a meaningful opportunity for existing hotels to reduce their property taxes because 'green' has introduced obsolescence into the property tax equation.

How Obsolescence Works

Two types of obsolescence resulting from the 'green' movement affect hotels and, for that matter, all commercial buildings. Functional obsolescence reduces the ability of a building to perform the function for which it was originally designed and built. For example, in the 1950s and 1960s, the market saw swift and substantial functional obsolescence when the innovation of central air conditioning found its way into commercial buildings. Properties that lacked this new feature quickly saw market demand dry up, causing a loss in value.

Economic obsolescence refers to external forces that affect the ability of the building to continue to perform, such as changes in the types of building design and performance demanded by the market. This changing market demand can be seen in the new 2008 SmartMarket research report. It indicates that green building has become a global phenomenon, with 53% of respondents expecting to be dedicated to green on over 60% of their projects in the next five years.

Today, the biggest functional obsolescence issues for conventionally built hotels involve the acceptance and implementation of green technologies, especially in the areas of energy efficiency and water conservation. Green or cool roofs, photovoltaic panels, rainwater collection systems, and geothermal heating represent just a few technological advances that are being utilized in cutting edge green hotels.

Obsolescence Equals Tax Reductions

Taxpayers who show taxing jurisdictions how their hotel's market position has changed with the recent green movement may be able to obtain tax savings that produce huge bottom line impacts for them. If your hotel competes against others that have incorporated many of the new green building standards and operating protocols, you may have an argument for obsolescence. Should your local building code require green certification for new construction, chances that your hotel competes against green hotels are much greater.

In presenting arguments to the assessor for reducing property taxes, taxpayers need to demonstrate that hotels using green building materials, efficient design, high performance systems and operational protocols produce higher net operating incomes than non-green facilities. While green hotels provide economic, social and environmental benefits, it is the direct monetary benefits received by owners that typically affect market value.

Observed data on market value differences between high performance green hotels and conventionally built hotel is limited. That makes it even more imperative for taxpayers to clearly demonstrate to the assessor the direct economic benefits and the shift in market demand that supports a lower assessment for a non-green hotel.

Thus, it becomes critical that the taxpayer describe and explain to the assessor the technical differences in building components and systems employed in green and non-green hotels. In that way, the taxpayer exposes the assessor to the economic impact that these components and systems have on the market value of their non-green hotel.



Michael Shalley is a Director of Appeals at the law firm Popp, Gray & Hutcheson in Austin, Texas. The firm devotes its practice to the representation of taxpayers in property tax disputes and is the Texas member of the American Property Tax Counsel (APTC), the national affiliation of property tax attorneys. Mr. Shalley can be reached at: Mike.Shalley@property-tax.com.