

Going Green Shouldn't Increase Property Taxes - By Michael J. Shalley

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The added start-up costs of going 'green' translate into higher property taxes for hotels? The answer is they can and here's how you can prevent it.

Eco-friendly operations and design have moved into the mainstream of real estate and changed the way the market approaches renovation and new development. Hotel owners and operators are now fully engaged in the 'green' movement, as they have witnessed the positive market response to these initiatives in other areas of real estate. Most experts suggest that the hard costs to go 'green' have come down significantly in the past couple of years, but in hotels, 'green' start-up costs (operational training and certification process) still present a financial challenge. A key question remains: do the added start-up costs of going 'green' translate into higher property taxes for hotels? The answer is they can and here's how you can prevent it.

The wider availability of 'green' materials, improvements in recycling, and additional experience in 'green' construction methods have resulted in a decrease in hard costs. Industry experts indicate that the actual hard costs for 'green' construction today just about equal conventional construction costs. However, the operation of 'green' hotels cause an increase in soft costs and raise numerous operational issues not found in 'non-green' hotels.

For example, experienced and certified 'green' consultants can be costly and need to be retained to guide the project through the dizzying array of 'green' credits required for proper accreditation.

On the operational side, managing a 'green' hotel takes a special skill set not found in most management companies, and those companies possessing the necessary skills cost more money. The additional costs to operate and maintain special mechanical systems such as water recycling systems, eco-friendly grounds and solar power create operational challenges for a 'green' hotel. These operational issues require specific training, marketing and documentation, all of which drive start-up costs higher.

From a property tax perspective, three components comprise a hotel property: the real estate, the tangible personal property (furniture, fixtures and equipment), and the operating business. The real estate and tangible personal property are the two components, and the only two components, that by law are subject to property taxation in most states.

Many tax assessors use the income approach to value hotels, and most recognize that certain income adjustments must be made in order to remove the value of the hotel's business for property tax purposes. Once specific business start-up costs for a 'green' hotel are established, appropriate adjustments should be made to the income model to remove: 1.) the costs associated with the 'green' business initiatives and 2.) the expected rate of return on the 'green' investments. When owners fail to remove these items from their hotel's valuation, the eco-initiatives that drive additional business value for the 'green' hotel can be inadvertently taxed as real estate value.

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