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Use strong gov. revenues to provide comm'l. tax relief - by Valerie Pontiff

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Takings without just compensation happen all the time. The pandemic has seen governments take education opportunities from students, resulting in anticipated lost lifetime earnings. Small businesses have been destroyed, with recourse impossible to achieve. Commercial property owners, especially owners of office and hospitality space, have borne an out-sized burden. In a recent interview Tony Capuano, the new CEO of Marriott International, indicated that full deployment by May of the COVID vaccine has the potential to rapidly bring the hospitality industry back to fighting strength. Recovery for the office sector will take longer. While it is true that some office space is rented to lockdown beneficiaries like Amazon, plenty is rented to companies that relied on PPP forgivable loans to pay rent. The duration of the lockdowns, now over one year, has changed the market for office space.

On February 10th, Salesforce.com announced that most employees will be remote. On a going-forward basis, their office footprint will be much smaller, with the expectation that employees will come into the physical office space between one and three days per week for collaboration. While this will primarily impact wealthy cities like San Francisco, less-wealthy cities are seeing a similar trend. In Greeley, Colorado, State Farm announced in November that the company would be vacating all office space, moving to a 100% work-from-home model. Are these business decisions an acceleration of a trend, or a pandemic-created opportunity for corporate cost-saving and cost-shifting? Given the robust leasing market pre-pandemic, the data suggests the latter. A 2021 Biznow survey indicated 59% of landlords expect their tenants to shrink their footprints on a going-forward basis. Real estate taxing authorities need to start paying attention.

One of the most striking results from the lock-downs has been government revenues well above both budgets and expectations. In Massachusetts, the first six months of fiscal year 2021 through December saw revenues nearly 9% above the prior year, with January results coming in 13% above the prior year. For fiscal year 2022, Governor Baker has proposed a budget of $45.6 billion, and the anticipated federal COVID relief bill will deliver $8.8 billion to the Commonwealth. Property taxes exist to fund service delivery, but with such robust revenue and expected significant federal stimulus, there is an opportunity to provide property tax relief to those owners most impacted by pandemic-induced vacancy or rent reduction. Suggesting a new program –“property tax relief”–implies a new administrative infrastructure. But rather than putting that in place, the existing COVID program that pays apartment landlords rent on behalf of tenants in arrears could be augmented to compensate through property-tax abatement the harm experienced by commercial landlords.

Are investors concerned about office building valuations? Based upon changes in prices of REIT shares, yes. Despite a robust overall stock market, SL Green Realty (SLG) is trading at less than half its January 2007 peak, while our home team, Boston Properties (BXP), is down 35%. Is the pandemic the fault of real estate taxing authorities? Of course not. Can taxing authorities make decisions that improve business conditions for those most harmed by government lock-downs? Yes. It’s time to take property tax relief for impacted commercial property owners seriously. No time like fiscal year 2022, which begins in just over 90 days on July 1st.

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