



nerej

The rising tide of apartment tax assessments in Connecticut: A property owner's perspective - by Josephine Aberle

September 13, 2024 - Appraisal & Consulting



Josephine Aberle

Connecticut, often recognized for its picturesque landscapes, quaint towns, and proximity to major metropolitan areas, has been a desirable place for property owners, especially for those investing in apartment buildings. However, recent years have seen a significant rise in apartment tax assessments, a trend that has caused concern among property owners throughout the state. This article explores the reasons behind the increased tax assessments and the broader impact these have on property owners and the real estate market in Connecticut.

Understanding Property Tax Assessments

Property tax assessments are a critical component of the revenue systems for municipalities. These assessments determine the value of a property, which in turn dictates the amount of tax owed by the property owner. The tax rate is applied to the assessed value of the property, generating funds that support local schools, public safety, infrastructure, and other municipal services.

The assessment process typically involves a review of the property's market value, which is influenced by factors such as location, property condition, and market trends. In Connecticut, towns and cities are mandated to conduct property revaluations every five years to ensure that assessments reflect current market conditions. This revaluation process leads to changes in property assessments, which directly affect tax bills.

Rising Apartment Tax Assessments: A Closer Look

In recent years, property owners in Connecticut have observed a marked increase in the tax assessments of their apartment buildings. This increase is attributed to multiple factors including:

Rising Property Values: Connecticut has experienced significant real estate growth, particularly in urban and suburban areas. With an influx of residents seeking housing outside of major cities, property values have grown. This increase in market value has directly impacted tax assessments, as higher property values result in higher assessments.

Municipal Budget Needs: Connecticut's municipalities continue to face increasing budgetary pressures, often driven by rising costs in public services, education, and infrastructure maintenance. To address these financial needs, municipalities may rely more heavily on property taxes, leading to higher assessments to generate additional revenue.

Revaluation Schedules: The five-year revaluation cycle mandated by the state means that property owners can experience significant jumps in their assessments when market conditions change. A period of rapid property value appreciation, as seen in recent years, can result in steep assessment increases during the revaluation process.

Shift in Tax Burden: In some cases, there may be a shift in the tax burden from one class of property to another. For instance, if residential properties see less growth in value compared to

commercial properties, the tax burden may shift more heavily onto apartment buildings and other commercial real estate.

The Impact on Property Owners

The increase in apartment tax assessments has had a substantial impact on property owners, creating financial and operational challenges. These challenges can vary depending on the size of the property, its location, and the financial position of the owner.

Increased Financial Burden: Higher tax assessments lead to higher property tax bills, which increases the financial burden on property owners. This typically means allocating a larger portion of rental income towards covering tax expenses, reducing profitability and cash flow.

Rent Increases: To offset the rising costs associated with higher property taxes, property owners naturally feel compelled to increase rent. This creates a challenging balancing act, as raising rents too high could lead to increased vacancy rates or drive tenants away, while not raising rents could strain the financial sustainability of the property.

Property Maintenance and Investment: The increased tax burden limits a property owner's ability to invest in property maintenance and improvements. When a sizable portion of income is directed towards taxes, there is less available cash for repairs and upgrades, which negatively impacts the property's long-term value and appeal to tenants.

Market Competitiveness: Higher operating costs due to increased taxes make it challenging for property owners to compete in the rental market. New developments or properties in neighboring towns with lower tax rates may become more attractive to potential tenants, leading to decreased demand for higher-taxed properties.

Broader Implications for the Real Estate Market

The ripple effects of rising apartment tax assessments extend beyond individual property owners and have broader implications for the real estate market and local communities in Connecticut.

Shifts in Investment Patterns: As property taxes increase, investors will seek opportunities in areas with lower tax rates or more favorable tax policies. This could lead to shifts in investment patterns, with capital flowing away from high-tax areas, potentially impacting local economies and development prospects.

Affordable Housing Challenges: Higher property taxes exacerbate affordable housing challenges. When property owners pass on increased costs to tenants through higher rents, low- and moderate-income families struggle to find affordable housing options. This leads to increased demand for affordable housing programs and pressure on local governments to find solutions.

Impact on Property Values: Over time, consistently high property taxes could have a dampening effect on property values. Prospective investors may be deterred by the high cost of ownership, which will lead to reduced demand and slower property value appreciation. In some cases, property

values may stagnate or decline if tax burdens become unsustainable.

Community Relations: Rising property taxes can strain relations between property owners and local governments. Property owners may feel that they are unfairly bearing the burden of municipal budget shortfalls, leading to increased tensions and potential disputes over assessments and tax rates. Maintaining open communication and transparency in the assessment process is crucial to fostering positive relationships between property owners and municipalities.

Strategies for Property Owners

Given the challenges posed by rising apartment tax assessments, property owners need to adopt strategies to manage the impact effectively:

Appeal Assessments: Property owners have the right to appeal their tax assessments if they believe they are unfair or inaccurate. Engaging with local tax assessors and providing evidence through an expert real estate appraiser to support a lower assessment can result in reduced tax bills. It is essential to understand the assessment process and gather data that accurately reflects the property's market value.

Expense Management: Efficient management of operating expenses helps offset the impact of higher taxes. This may involve seeking cost-saving measures in maintenance, energy saving utility alternatives, or other operational areas. Working with property management professionals helps identify opportunities to streamline operations and improve financial performance.

Lease Negotiations: Property owners may consider structuring leases to include clauses that allow for rent adjustments based on changes in property taxes. This can provide a mechanism to pass on a portion of the tax burden to tenants while maintaining transparency and fairness.

Long-Term Planning: Developing a long-term financial plan that accounts for potential tax increases helps property owners prepare for future assessments. Building reserves and maintaining a healthy cash flow provides a buffer against unexpected tax hikes and other financial challenges.

Conclusion

The rising apartment tax assessments in Connecticut present significant challenges for property owners, impacting their financial health, property operations, and market competitiveness. While the trend reflects broader market dynamics and municipal budget needs, property owners must navigate these challenges with strategic planning and proactive management. By understanding the factors driving tax increases and implementing effective strategies, property owners can mitigate the impact and continue to thrive in Connecticut's dynamic real estate market. The ongoing dialogue between property owners, local governments, and communities is crucial in balancing the needs of all stakeholders and ensuring a sustainable and prosperous future for Connecticut's real estate sector.

Josephine Aberle, MAI, is managing director at Ascendant Valuation Advisors, Glastonbury, Conn.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540