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D.C. Tax Hikes Could Backfire

By Tom Branham, Washington D.C.

Commercial property tax hikes that were approved as part of Washington D.C.'s 2020 budget could have a disastrous impact on the District's office market, according to a new study

Commercial real estate services firm JLL says the higher taxes, a 2.2% hike from \$1.85 to \$1.89 per \$100 of assessed value, "will cause rent paid by office tenants to jump further, at a time when the market's supply-demand paradigm strongly favors tenants."

The report also says an approved 72% increase in the deed transfer and recordation tax will cause commercial property sales activity to "grind to a halt in the mid-to-long term."

DOUBLE-EDGED SWORD

For the 12 months ending in April, the JLL report found nine D.C. office buildings with a combined value of \$1.9 billion were pulled off the market after failing to attract buyers or failing to reach a price that both sides could agree to.

If that same level of buildings were to fail to transact in the next 12 months after the tax increases go into effect, the report estimated it would result in \$95 million of lost tax revenue for the District. That exceeds the \$90.8 million expected to be collected from the higher taxes.

WILL INVESTORS LOOK ELSEWHERE?

Bisnow, which first reported on the study, quoted JLL Managing Director of Research John Sikaitis as saying the higher taxes in D.C. could drive increased investment interest and office leasing to Arlington.

"No one denies now that Arlington is a core market with a significant amount of future urban demand," Sikaitis said. "You're now seeing institutional investors start to look at Arlington from an investment perspective, which didn't happen 12 or 24 months ago. Their allocation to D.C. could be allocated to Arlington."

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Northern Virginia has traditionally not been viewed as the same type of core market as D.C. in the eyes of outside investors, but an improving office market and expected growth from Amazon HQ2 has them taking a closer look.

The tax rate increase from \$1.85 to \$1.89 on properties \$10M and higher was included in the first-half property tax payment that was due this past March 31st. The second-half payment will be due September 15, 2019. The deed transfer and recordation tax hike takes effect Oct. 1, 2019.