

StarTribune

Commercial properties are facing higher taxes

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Special to the Star Tribune
January 6, 2012 - 12:23 AM

A key budget-balancing measure that Minnesota adopted last year in its protracted fight over how to close a \$5 billion deficit has raised an alarm among commercial and industrial property owners, who say they and their tenants are being forced to shoulder a bigger share of local property taxes.

State government projections seem to back their case. House of Representatives research reveals that even though commercial and residential properties are losing value at similar rates, property taxes will go up substantially more on commercial properties next year.

Apartment and multifamily properties will also take a major jump, the projections show.

The commercial property owners trade group, the National Association of Industrial and Office Properties (NAIOP) says this happened because of a move to repeal the homestead property tax credit and replace it with a new system that exempts part of a home's value when local governments set property tax levies.

The homestead credit, which had mostly benefited owners of lower-valued homes, was eliminated in the budget deal to end the state government shutdown. It will result in \$261 million less the state will pay in reimbursements to local governments -- savings that were a crucial piece of the puzzle for plugging the state's deficit.

To soften the financial blow to owners of the modestly valued homes that most benefited from the credit, a replacement measure was adopted that excludes part of their homes' value from property taxes.

But because commercial, industrial, apartment and other non-homesteaded properties don't receive the benefits of the new exclusion, it's resulting in a shift of tax burdens to them, says the League of Minnesota Cities.

"Because of the way this tax credit program was resolved, cities are faced with bigger budget gaps than they have in the past," said Pat Mascia of Duke Realty, the incoming president of NAIOP's local chapter. "Their budgets haven't changed, but they're not getting the property taxes they typically would have because of the way this is working out."

As a result, he said, a bigger share of the property tax burden in many cities is falling on owners of office and retail buildings, who in turn pass along the tax increases to their tenants.

Gary Carlson, director of intergovernmental relations for the League of Minnesota Cities, said the effects of the switch to the market value exclusion system will vary from city to city. But in general, he said, communities with many lower-value homes and small commercial-industrial bases will see the biggest tax shifts to commercial properties.

"I'm hearing from people across the state there are some fairly significant tax burden shifts going on among property types," he said.

Projected tax runs performed by House Research Department show that in the Twin Cities metropolitan area, values of homesteaded residential properties will drop 4.5 percent while facing a 0.5 percent property tax rise. Values for large commercial properties, meanwhile, will fall 4.1 percent but they will face a 2.7 percent tax increase.

Smaller commercial properties won't see as much of a value drop -- 1.1 percent. But their property taxes are expected to rise



Pat Mascia of Duke Realty and NAIOP says this year a bigger share of property taxes in many cities is falling on owners of office and retail buildings.

6.1 percent.

Twin Cities-area apartments, meanwhile, will see their values fall by only 0.8 percent, but their property taxes will jump by 7.1 percent next year, the research predicted.

"I think the biggest impact of this will be on apartment owners in outstate Minnesota where there isn't as much of a commercial-industrial base to spread out the shift," said Todd Liljenquist of the Minnesota Multi-Housing Association.

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