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How to find the best property-tax consultant

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In this article, we will discuss considerations for choosing, compensating and evaluating third-party consultants hired to manage property-tax expenses.

1. Evaluating

Most owners think of property taxes reactively, meaning they wait for the assessors to send out a notice and then a consultant appeals to get the value lowered and save taxes. So, first and foremost the owner is looking for tax savings. However, simply looking for any level of tax savings will not give a complete picture of consultant performance.

The tax savings should be evaluated based on a relative measure, such as tax savings as a percentage of potential taxes. For example, it might seem impressive to save $1 million in taxes but if that only represents 2% of the potential tax savings, it is likely there are still significant savings to achieve. One might also consider looking at net savings (actual savings-less fees) as a percentage of potential savings. This will show the bottom-line economic benefit to the owner.

Another metric to consider is taxes as percentage of gross revenue or gross operating profit. Owners should expect their property taxes to be at a certain level as a percentage of gross revenue. For example, there is survey data that shows, on average, that property taxes as a percentage of gross revenue for full-service hotels are approximately 3%. If a particular property is showing property taxes greater than 3% of gross revenue, it is possible there is more work to be done on that property.

A third metric to consider in evaluating consultant performance concerns the final value achieved as opposed to the target value, or final value as a percentage of target value. For example, if the owner and the consultant have agreed the target value for the appeal is $10 million and the final value achieved is $12 million, the result is 120% of the target value. Final results that are at or below 100% of target value are home runs. The owner needs to keep in mind, however, target values often are aggressive and assessors/boards/courts rarely reach total agreement with the appellant in a case. Having this relative data over time will be more meaningful.

The final factor to consider in evaluating consultant performance is the timeliness of the completion of the appeals. For cash-management purposes, it is in the owner's best interest if the appeals are concluded prior to the issuance of tax bills. Otherwise, the owner has to pay incorrect tax amounts and wait for refunds. Most jurisdictions do not pay interest on refunds. The owner needs to make the consultant aware cash management is important—if it is—and make time an element in the process.

2. Choosing a consultant

Once you have evaluated the consultant performance, you might need to hire a new consultant. When choosing a new consultant there are a few things that need to be considered:

First and foremost is experience. Experience is two pronged—experience in the locality and experience with the asset type. Most owners think of property taxes as "local" taxes and highly value locality experience. However, as discussed in earlier articles, assets such as hotels are unique and have much different valuation issues that need to be handled. In the case of hotels, locality experience might not be as valuable as asset experience. Of course, the best case would be to find a consultant who has both or can offer both in some fashion. Many consultants subcontract with other consultants so be sure to ask who specifically will be handling the appeals.

The second thing to look for in hiring a consultant is the cost of the services or fees. If you are very sensitive to the expense side of this service, keep in mind the old adage "you get what you pay for." Any experienced, good consultant will work with you on fees and you should be able to develop an engagement that will fairly compensate the consultant and incentivize him or her to work hard for the benefit to both parties.

3. Compensating property tax consultants

For the most part, the property tax consulting business is based on contingency (performance-based) fees. This is because it requires no expense until results are achieved. Then fees can be booked against the refund and essentially not affect the property's bottom line. Typical contingency fees are 25% of tax savings for lower level cases—assessor, board and state boards. Once litigation is involved, attorneys and experts have to be hired and then the consultant's fees are usually a percentage of "net savings," which is actual tax savings less attorney's fees and expert fees.

If you desire a strictly contingent contract, consider the percentage fee that is applicable to the locality. For example, in jurisdictions where the property tax rate is relatively high, 2.5% to 3% or more, a contingency fee lower than 25% might be the market. In jurisdictions where the tax rate is very low, 1% or lower, 25% is probably not enough. Consultants in those jurisdictions usually need 35%.

If your particular property is in a situation where the savings are like low-hanging fruit, you might want to consider a flat-fee arrangement. For example, during the recession, values of hotels plummeted as much as 50%. It will be easier for the consultant to make the valuation arguments because the market data is there. One might consider a flat fee of $5,000 for such circumstances.

Another tool in negotiating fees with property tax consultants are fee caps. The owner needs to determine an appropriate cap on the fees that would allow the consultant to have an incentive to work hard but not to unnecessarily benefit from the situation. Fee caps can range from $30,000 to $100,000 depending on the value of the property and the size of the opportunity.

Of course, the engagement can be structured with all of the above—flat fee for first level; contingent fee for next level; and contingent fee with caps for the next level.

Lastly, make sure it is clear how the owner's out-of-pocket expenses will be handled (e.g., consultant's fees are based on net savings after the owner's out-of-pocket expenses).

Choosing, compensating and evaluating property tax consultants is not as simple as how much money you save. We discussed a few simple techniques to assist in helping the owner to effectively manage property taxes without needing a full-time dedicated staff person. Spreadsheets with the metrics can be set up to make it as easy as dropping in a few numbers each year to give a truer picture of how well property taxes are being managed.

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