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## NEWSLETTER



### TALES FROM THE CRYPT: CRYPTOCURRENCY AND REAL ESTATE

BY BRAD ELDRIDGE, MAI, CAE

axes come in many forms when it comes to real estate. Those of us in assessment are well-versed in the property tax side, while there are income tax, transfer fees and other assessments on real estate that eat into investors' returns.

There are a lot of ways to reduce one's income tax liability – 1031 Exchanges, cost segregation (accelerated deprecation on short-lived items) and maximizing deductions. Cryptocurrency is now being touted as a way to avoid paying transfer fees.

### **CRYPTOCURRENCY BASICS**

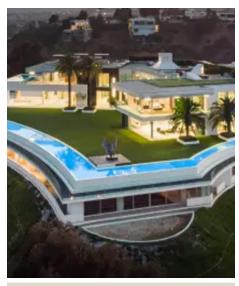
Cryptocurrency is a virtualbased currency that you can use to purchase goods and services safely. Moreover, it's maintained by cryptography rather than a centralized authority, making it secure and nearly impossible to counterfeit. By now, most of us have heard of Bitcoin and some of us may have been asked to pay ransom to a tech terrorist who locked up our computer system. According to Inc., there are already over 1,300 different types of these currencies and coins out there. You can earn it, transfer it and spend it, but it is all virtual.

### CRYPTOCURRENCY IN REAL ESTATE

Since cryptocurrency is difficult to track, regulating it through reporting and documentation is difficult, as it is up to the parties involved to report it.

The use of cryptocurrency in real estate listings for sale and rent is now an option. Websites such as <u>https://cryptorealestate.</u> <u>cc/</u> and <u>https://bithome.ch/</u> have surfaced as multi-list platforms.

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## CRYPTOCURRENCY



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### Advantages of Using Cryptocurrency in Real Estate

There are other benefits to using cryptocurrency in real estate transactions:

- Privacy when buying property
- Easier international and overseas transactions
- Reduces the cost of real estate transactions
- Avoids tax on transferring property rights
- Gains attention in the press
- Balances the security of brick-and-mortar real estate with flexibility of bitcoin.

### Source: Cryptocurrency and Real Estate Transactions: What You Need to Know by Cody Tromler

While there are risks to using these platforms, such as volatility in exchange rates and behavior of bad actors, the lure of financial gain will draw many to this real estate option for real estate transactions.

Real estate investors also have options with cryptocurrency through the use of Initial Coin Offerings (ICOs), which are similar to Initial Public Offerings (IPOs) on the stock market. Real estate ICOs behave similar Real Estate Investment Trust (REIT) where an investor can buy shares in the holding company.

### LAW AND STATUTES REGARDING TAXATION

Most definitions of market value and taxation make reference to dollars or the jurisdiction's national coinage as the currency. These legal definitions make it difficult for cryptocurrencies to be used as a point of reference for taxation and value.

Some jurisdictions may have "valuable consideration" in their statutory language. Assessors and appraisers will need to check with their local authority (department of revenue or comptroller's office) to determine whether the statutory verbiage applies to transactions involving cryptocurrency.

#### WHAT SHOULD ASSESSORS DO WITH THIS ISSUE?

It is likely that tax agencies are aware of this issue and some of our finest attorneys are working to develop a strategy to avoid escaped taxes. In the meantime, we're putting it on your radar to consider as we continue to evolve with technology in the real estate world. At some point, we may be determining cash equivalents to real estate transactions involving cryptocurrency.

### **CRYPTOCURRENCY RESOURCES:**

Cryptocurrency and Real Estate Transactions: <u>What You Need To Know</u>, by Cody Tromler

 How Blockchain and Cryptocurrency Are Influencing the Real Estate Market, by Lee Nelson, Realtor Magazine

 Crypto Just Became Real Estate's Hottest New Thing. Here's What That Means for Buyers, Sellers and Developers, by Lane Taylor, Forbes Magazine
Can You Buy a Home with Cryptocurrency?, by Jeff Ostrawski, BankRate.com,

■ <u>Is Real Estate Cryptocurrency the Future of the</u> <u>Industry?</u>, by Sarah Kim ■

**Editor's note:** Thank you to Jim Hall, RES, MAS, for providing the resources noted in this article. Hall is the Chief Appraiser at King County, Washington, and leader in the assessment industry. Hall put this issue on my radar and made the article recommendation.

Image Source: Office 365 Stock Images



## APPEALING DECISIONS: DARK STORE THEORY LOSING TRACTION

BY BRAD ELDRIDGE, MAI, CAE

alloween typically seems like an appropriate time to bring out dark store stories around the campfire. It always freaks my kids out when I start sharing tales of former retail buildings that sat vacant for over five years...held captive by a deed restriction spell (insert ghoulish laugh). Don't they know that all you need to fix it is some eye of newt, wool of bat and a good attorney?

Dark store theories continue to haunt boardrooms and courts year-around and coast-to-coast, but it seems the warlocks who purport these wicked tales are losing their muster. Some hearing officials understand that it is inappropriate to value a brand new big box building using sales of 40-year-old buildings that have sat vacant for years in a different state.

This article contains several recent decisions involving big box properties. If you have any recent appeal decisions that you'd like to share and include in future TEAM Newsletters, please email me at <u>eldridge.brad@gmail.com</u>.

### Kansas Supreme Court Rules against Walmart in Johnson County Property Tax Dispute

By Maia Bond | Kansas City Star | July 2

The Kansas Supreme Court reversed a Board of Tax Appeals decision, ruling on Friday that property tax values at 11 Johnson County Walmart and Sam's Clubs were underestimated by millions of dollars.

Last year, the Kansas Court of Appeals upheld a BOTA decision, siding with Walmart by saying the property tax values for those stores in 2016 and 2017 should be \$60 million lower than what the county said.

At the BOTA hearing, Johnson County argued that their appraisers relied on data from build-tosuit leases to estimate fair market rental values and that doing so was common practice among appraisers, according to the Supreme Court's statement.

Build-to-suit leases are an agreement where a developer builds a property specifically for a retailer and leases it to them.

According to the Supreme Court, the tax board disregarded that information and cited a 2012 Kansas Court of Appeals decision that said rental rates for commercial build-to-suit leases are not reflective of market conditions and should not be used to determine property values for tax purposes.

A common name for the theory that BOTA agreed with is the "dark store theory." Walmart argued that the value of the business itself should not be factored into the property value. They should instead be assessed as if they are empty buildings, or dark stores.

The Kansas Supreme Court effectively overruled the dark store theory and sent the case back to BOTA to reexamine the county's evidence.

"While we disagree with the decision, we look forward to asking the Board of Tax Appeals to reaffirm its prior findings about the proper assessed values of Walmart's stores," Randy Hargrove, a spokesperson for Walmart, said in a statement.

### Ikea Loses Bid to Slash St. Louis Taxes

By Steph Kukujian | St Louis Today | May 10

ST. LOUIS — The state of Missouri has ruled against global retailer Ikea's push to reduce its city property taxes, but still agreed to cut millions of dollars off the local store's valuation.

Ikea, known for its modern, flat-pack furniture, had petitioned the state to slash the value of

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## APPEALING DECISIONS

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its local store from \$75.7 million to \$23.4 million because it said the store, which opened in 2015, was "functionally obsolete" and therefore overvalued.

The company argued, in part, that its building at Forest Park and Vandeventer avenues was "functionally obsolete the day the last coat of paint was put on." The highest and best use of the property, Ikea said, was to demolish it.

But Missouri's State Tax Commission, which hears appeals from taxpayers after they go through their local taxing agency, disagreed, ruling Friday that the company did not provide enough evidence to substantiate its claims.

The state agreed with the St. Louis Board of Equalization's determination that the property should be revalued at \$62.5 million.

St. Louis Assessor Michael Dauphin said his office was "satisfied with the State Tax Commission's very thorough, well-assembled opinion." Ikea did not immediately return a request for comment.

The Europe-based company opened its 377,000-square-foot store here in 2015 after the city granted it \$32 million in tax increment financing. The subsidy is part of the \$168 million TIF city officials approved for the Cortex technology district in 2012.

Ikea spent at least \$100 million to build the store, officials said at the time. It is the only location in eastern Missouri.

### Important Ohio Supreme Court Decision Clarifies Proper Method to Value "Big Box Stores"

### By Carly Sherman | August 18, 2021

The Ohio Supreme Court issued an important decision today clarifying the proper method under Ohio law to value big box stores—in this case, a Lowe's store.

The Ohio Supreme Court rejected the property owner's argument that an appraiser should presume that the property is vacant when appraising the property.

Instead, the court agreed with the school board and county that a property should be valued using market rent rather than the actual rent from an existing lease encumbering the property at the time of the sale and transfer.

The court was called upon to interpret somewhat recent changes to R.C. 5713.03, which requires county auditors to value property based upon the value of the "fee simple estate, as if unencumbered."

Rejecting the property owner's argument, the court clarified that this statute invokes a market-

lease rule, rather than a vacant-at-transfer rule. This decision, commonly referred to as Rancho Cincinnati, is the latest in a series of decisions in Ohio that affect the valuation of big box stores.

The court's decision will be perceived as more favorable to political subdivisions and taxing authorities; in contrast, the court's decision will diminish the salience of appraisals that use a "godark" value of big box stores.

The Rancho Cincinnati decision was issued by the Ohio Supreme Court on August 18, 2021 and may be cited as Rancho Cincinnati Rivers, LLC v. Warren County Board of Revision, et al., slip opinion no. 2021-Ohio-2798.

### Maine Took on Big Box Stores ... and Won

By Pat Garafolo | Fair & Equitable Magazine | June-July 2022

The Walmart Supercenter in Thomaston, Maine, was causing the town headaches by fighting its property tax bills, using a tactic that has spread all across the nation.

So the state representative for the area, Democrat Rep. Ann Matlack, set out to do something about it — and won, beating the big-box stores and their lobbyists, and securing a major new protection for local communities and taxpayers from corporate tax shenanigans.

"We have a couple of big-box stores in my House district, and specifically one was creating issues with the assessor for the town of Thomaston," Matlack said. "They were continually appealing their tax assessment, and it was a real problem."

She said Walmart was using a nearby store that it had intentionally closed and refused to sell as a comparable for lowering the Thomaston store's tax rate.

In 2019, the Maine Center for Economic Policy surveyed the 25 Maine towns with the highest retail sales, as well as every town with a Walmart. It found that big-box stores were consistently requesting that their property taxes be reduced by about a third, on average.

As the Maine Monitor wrote earlier this year, large retailers "are overwhelming assessors and creating a years-long backlog at a state board that hears the cases, as well as costing taxpayers hundreds of thousands of dollars in lost tax revenue and legal fees."

Many communities simply give up or settle rather than wage a long court fight with corporations that have essentially limitless resources.

In response, Matlack proposed and Maine's legislature passed LD 1129, which was enacted in continued on page 5

#### Appealing Decisions continued from page 4

April without the signature of the governor. The bill had actually been floating around for a few years, Matlack said, but got lost in the pandemic shuffle.

She picked it up this year, and the political will was finally there to push it across the finish line on a mostly party line vote. (Just one Republican in each chamber voted for it.)

The new statute stipulates that assessors must consider all characteristics of a big-box store, including its current income, when assessing the property, and that restrictive sales terms can't be used to artificially hold down a property's value.

This is a big deal, not just in Maine, but also as a model for the rest of the United States.

In the states where the dark store tactic first took root — Wisconsin, Indiana, Michigan, and Texas, in particular — loads of cases have led to billions of dollars in property tax payments coming off or potentially coming off the local tax rolls.

In Maine, though, unlike those other states, the legislature acted.

"This is a matter of fairness," said Sarah Austin, director of policy and research at the Maine Center for Economic Policy.

"This new law will help ensure that big-box retailers pay what they owe and protect Maine small businesses and homeowners."

But it's not just about fairness. It's also about power.

Big retailers have launched an effort to promulgate dark store theory because they have the time and resources for a long fight that pays off in the long term, unlike the communities that are seeing property tax revenues plummet in the here and now.

As Ron Knox of the Institute for Local Self-Reliance wrote, "Walmart's extraordinary market dominance gives it the scale to engage in a systematic strategy like this, with the upfront costs of developing this legal tactic and deploying it via litigation at state tax boards more than rewarded by the huge cumulative gains of succeeding across thousands of communities."

And it's local businesses and residents who pay the price, in both the lost tax revenue and in the time and effort spent fighting endless property tax appeals.

As Matlack said, "It hits residents in their property taxes whenever something like a Walmart or a Lowes or another big-box store decides to appeal their assessment. It means either the residents have to pay more in taxes for roads, for infrastructure, for police and fire departments, and so forth, or pare back on things they decided that they need or want. It's a real economic burden on the municipalities, and the assessors were really feeling that."

Statehouses, though, are where lawmakers can stop this nonsense in its tracks, as Matlack and the Maine Democrats showed, joining New York in passing legislation to get rid of dark store theory on a state level.

Other states can and most certainly should follow suit.



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### The Effects of Solar Systems on Home Values



BY TERRY TAYLOR, CAE, AAS, RES

Director, Real Estate Residential Assessment at the Orange County, Florida Property Appraiser's Office. IAAO Board Member, IAAO Senior Instructor, and TEAM Consulting Instructor n the United States, the number of homes with solar voltaic (PV) systems has increased substantially. The U.S. Department of Energy estimates that 108 gigawatts of residential rooftop PV systems will be installed by 2050, in up to 30 million homes.

Property appraisers and real estate agents have made strides toward evaluating the effect of solar systems on home values, however, significant gaps remain in understanding these effects. The Orange County property appraiser's office (OCPA) examined home values with PV

system and compared the sales values before and after systems were installed. Additionally, numerous other studies were also reviewed in consideration of bridging gaps that exist.

In collaboration with the Orlando Utilities Company (OUC), the appraisal team of OCPA studied the effects through an analysis of more than 1,000 homes identified having solar systems converting solar energy to electricity. Identifying a resale sales approach led the appraisers to recognize properties that sold before and after installation of PV systems. Cost of installation provided by building permit information was believed to offer consideration to a cost approach to value. Ultimately, only 67 sales were identified in the resale analysis and only 13 resales were extracted from the data as useful.

The data sample of 13 sales were further analyzed resulting

in trimming four homes from the study due to the time between sales, lack of similarity in kilowatt size installed, alterations after installations and an outlier indicating a loss. The appraiser also attempted to reduce or neutralize the interaction of buyers and sellers. An automated valuation model generated an indication of value to equalize the comparison of all the nine resales remaining. The summary of the results provided measures of central tendencies of kilowatt size installed, percent changes of sales, and more importantly, a sense of contributory value of the solar systems installed. A price per square foot of \$10, 6% of price, with an average cost to install PV of \$23,000.

The minimal useful number of resales and an average of 3.5 years between each sale required additional research to affirm the indication of the results. It was important for the appraisers to understand that the power of a study was only as good as the ability to identify any effect of value in terms of a contribution depends on the size of the effect. Larger effects are easier to notice and increase the power of the study.

Four independent studies from Zillow, Lawrence Berkley National Labs, Elevate Energy and Forbes provided additional support on the effects of solar systems on home values. Each of the four independent studies included multiple cities in their analysis. Zillow included Los Angeles, Riverside, California; San Francisco, New York, and Orlando, Florida, indicating a 4.1 to 5.4% range of contributory value. Lawrence Berkley studied eight states to identify homes with solar had higher sale prices than homes with out.

It was noted in their study that existing homes saw \$16,000 premiums compared to new home at only \$12,000. The Elevate Energy study considered value in the absence of data. In other words, lack of sales prevents a sales comparison approach. Their income approach relied more on an energy saving for the homeowner and a discounted cash flow analysis dependency. Finally, Elevate Energy's cost approach made the most sense due to the cost of installation may be a measure to contribute. Forbes economists studied Sacramento, California, and San Diego recognizing after-tax credits to the homeowners an average increase of sales price exceeded \$20,000 and approximately 97% of homeowners who installed PV systems recovered their investment.

## WORKSHOP SPOTLIGHT



### UP THE CREEK: MANAGING DAILY PERSONNEL DISASTERS

BY KARA ENDICOTT, CAE, RES, RMA

ne of the things no one tells you about management is how much you will have to deal with personnel issues. In fact, at times they consume a fantastic amount of your day-to-day activities. Different personality types, monitoring work procedure adherence, what to do with difficult people all contribute to the obstacle course that is managing personnel.

This workshop takes you through the scenario of being a manager and focuses on the hardest part—managing personnel. The material contains general guidelines for handling employees and takes you through various scenarios to help find solutions happening every day in the assessment office (or any office, for that matter). Topics include hiring practices, communication issues, working with difficult personalities and other related personnel issues.

This is an interactive workshop that encourages and solicits attendee participation and problem solving. Attendees are encouraged to provide their own situations that they may have dealt with in the past.

One part of management you cannot predict is problematic people and handing it properly is often the most difficult skill to master. Let's work together to figure out what to do when you feel yourself getting into unchartered territory because no one likes to be up the creek without a paddle.

### OBJECTIVES OF THE WORKSHOP INCLUDE:

- Learning effective communication
- Develop better listening skills
- Working with difficult people
- Hiring employees and recruitment
- Employee development
- Motivating employees
- Delegation
- Performance evaluations
- Discipline and coaching

Like most of our offerings, the workshop is available in several formats: half-day, one-day, or two-day sessions. The material contains multiple scenarios asking the class to problem-solve and roleplay together to figure out the best-case solution to each situation. It allows managers to prepare and experience a situation before it happens so they are prepared when it does.

Pulled from real life situations happening in offices everyday, this course will shed some light on questions often asked by managers both new and more experienced.

To schedule this workshop contact Brad Eldridge email: <u>eldridge.brad@gmail.com</u> phone: 785-550-0945

# **TEAM CONSULTING NOTES**

### SALE OF WORKSHOP MATERIALS **BY RICK STUART, CAE, FIAAO**



I have done it! KARA **ENDICOTT**, CAE, RES, RMA, has purchased the remaining 50% of my class materials. As a consultant and instructor for TEAM, Kara is already a known face to many of vou. She is currently on the executive board of IAAO (International Association of Assessing

Officers) and a long-time IAAO instructor. Kara joins Brad Eldridge, MAI, CAE, as the owners of TEAM education materials. The only exceptions are those workshops related to GIS and mapping.



The sale was effective July 1 and as of Sept. 1, I am out of the instructor role. Thank vou for all your support over the years. I am proud to pass along our workshops to Kara and Brad, as their passion for writing and instructing will continue to create professional and topical workshops.

If you have questions, please contact Brad at eldridge.brad@gmail.com 785- 550-0945 or Kara at dendicott@att.net 913-530-3777.

### **RICK NOREJKO RECEIVES IAAO** RECOGNITION **BY BRAD ELDRIDGE, MAI, CAE**



**TEAM** Consulting member **RICK NOREJKO**, CMS, received the Professional Designation Lifetime Achievement award from the International Association of Assessors (IAAO) at its annual conference in Boston in August Norejko has contributed significantly

to IAAO over the years, with his past recognitions as Member of the Year, Instructor of the Year, Donahoo Essay award, and being a former executive board member. Congratulations, Rick! The assessment industry is better because of all your hard work.

### DESIGNATION SPOTLIGHT: Professionals Earn AAS Designation Using **TEAM's Review Workshop Materials**



University in Kansas City, Missouri.

### **JONATHAN**

**GAIL MCCANN** 

She is director of

BECK, AAS, earned the Assessment Administration Specialist designation. He is an assessor with Beckham County, Oklahoma, and has been in the profession for three years. Reprinted with permission from IAAO.

## MEET OUR TEAM

Trevor Abernathie, RES, CSDA, CAA Ed Crapo, AAS, ASA, FIAAO Keith Cunningham, PhD Dan Cypert, RES, AAS Pete Davis Brad Eldridge, MAI, CAE Kara Endicott, CAE, RES, RMA Lath Harris, CAE, SRA Kevin D. Hayes, MAI, CAE, RES, CFE Marion Johnson, CAE, FIAAO Scott Johnson, RES, ICA Robert T. Lee, ESQ., J.D., AAS Richard Norejko, CMS Amy Rasmussen, RES, AAS, FIAAO Randy Ripperger, CAE, FIAAO Jerald Rudman, CIAO-M Christa Rush, RES Lori-Ann Seethaler, RES, MIMA Tina Stone, PPS, AAS Terry Taylor, CAE, AAS, RES Ken Voss, MAI, AI-GRS, SRA, CAE Stephen D. White

## SCARY HOUSE STORIES WILL IT EVER SELL? HALLOWEEN EDITION BY BRAD FLÖRIDGE, MAI, CAE

This edition of Will It Ever Sell? takes a look at several unique properties and others that have some notoriety.



### ▲ Billionaire developer Robert Toll's NYC triplex penthouse hits the market for \$22 million

The glitzy triplex, which is located a stone's throw from Central Park on Manhattan's Upper East Side, offers panoramic views of the city, an inordinate amount of space and a full suite of luxury amenities.

https://bit.ly/3rZdTlr



## ▲ Tulsa home that looks like an airport watch tower

The house sits on 1.7 acres of land, is around 1,386 square feet, has two bedrooms, three bathrooms, a spacious kitchen, and was built in 2005.

https://bit.ly/3MxUku4

continued on page 3

## WILL IT EVER SELL?

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### Home that sold for \$805K comes with stranger living in basement

The Fairfax, Virginia, home received five allcash offers and sold in less than a week, according to the listing agent. The listing generated headlines in noting that buying the home required "acknowledgement that home will convey with a person(s) living in lower level with no lease in place."

https://nbcnews.to/3g4R4tP

## Mr. Toilet House and more of the world's ugliest homes

They say that beauty is in the eye of the beholder and never has that phrase been truer than in the face of these challenging architectural choices. From the gaudy to the downright weird, we take a look at some of the most questionable houses found around the globe. But are they unique or ugly? Click or scroll through to find out...



https://bit.ly/3VvdsNi



### ▲ Luxury yacht seen on 'Modern Family' sells at deep discount after federal seizure

The winning bid for the 85-foot yacht named the "Sierra Rose" was \$520,000 after the online-only auction. Fred Finney of Coeur D'Alene, Idaho, built the triple-level cabin for \$4 million in 2005.

https://bit.ly/3TrJkRi



### ▲ Inside a \$3.3 million modernist, LA home designed by Frank Lloyd Wright's son

Derby House—designed by Lloyd Wright, son of famed American architect Frank Lloyd Wright—is on the market for just under \$3.3 million. Built in 1926 for the businessman James Daniel Derby and his family, the Glendale, Califorinia, home is best known for its distinctive façade, designed with concrete ornamentation inspired by Mayan architecture.

https://bit.ly/3yMmYBX



### Mega mansions having a tough time finding buyers

These mega-mansions are forsaken for all kinds of reasons. Let's look at some of the most extravagant and expensive but abandoned mansions worldwide and the reason for their current state.

https://bit.ly/3S0OhPD