A QUESTION OF FAIR MARKET VALUE

The emergence of lifestyle centers could result in property tax savings for large enclosed malls.

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This is not your mother's shopping experience. In the never-ceasing cycle of trying to stay hip and cool (or perhaps just relevant), mall owners in recent years have shifted away from the traditional, inward-facing enclosed mall to today's outward-facing lifestyle center. This change in design for new shopping centers brings with it a potential change in valuation techniques for older malls.

Assessors often apply a modified reproduction cost to malls, basing value on the cost of recreating the property's identical shape, size, design and layout. A more relevant value is replacement cost, or the cost to replace the asset with a modern shopping center with the same utility. In other words, in certain circumstances assessors should assess large enclosed malls as if they were the less costly, more efficient lifestyle centers that could be developed on the same site. The difference might result in property tax savings for the owner.

Lifestyle centers typically range between 150,000 and 500,000 square feet of leasable retail area and include at least 50,000 square feet devoted to upscale national chain stores, according to the International Council of Shopping Centers. Many rely on multiplex theaters or other entertainment components rather than traditional anchor stores.

Most importantly, lifestyle centers are open, with streets or outdoor pedestrian walkways rather than enclosed corridors, and are easily accessible from the parking area. There is no common entrance, no massive food court, no inline space or mezzanines — and none of the costs that go with those expensive construction items.

According to Sara Coers, managing director at Valbridge Property Advisors in Indianapolis, lifestyle centers reflect a pedestrian-centric, Main Street idea where customers can park near and access their favorite retail properties from the exterior. Shoppers avoid the extra time needed to find and enter a common entrance, traverse a long stretch of the mall's interior to find a particular store, and then reverse the process after making a purchase. For these reasons and others, lifestyle centers are the new, trendy kid on the shopping block.

Costs Are Key Consideration

Large interior spaces make enclosed malls bigger and more expensive to build and operate. That interior space must be heated and cooled, lit, cleaned, secured and insured. Those higher costs can translate into a lower property tax assessment, and here is how. Under the cost approach, the assessor should value the enclosed mall as a modern property of the same utility as the existing property, and the mall's modern equivalent may very well be a smaller and more efficient lifestyle center.

A penalty for the property's excess construction cost is only part of the equation. The assessor should also consider reducing the enclosed mall's assessment based on its excess operating costs, which penalize the existing mall's value. An assessment for property tax purposes should be adjusted downward to reflect that penalty.

However, not every enclosed mall should be replaced with a lifestyle center for assessment purposes. The demographics of the market served must support the case. Lifestyle centers will be sustained by a higher-income customer base. Consider the competition as well. Would customers flock to a lifestyle center, if another regional mall were nearby?

Is the climate compatible? A developer might replace an enclosed mall with a lifestyle center in Florida but not necessarily in Minnesota, where indoor shopping is a significant customer draw during severe winter weather.

The replacement property must have the same utility as the existing assessed property. How utility is measured is open for discussion, and might be leasable square footage, the number of customers served, or something else. A utility measuring stick of some kind is a necessity, however.

How To Bolster Your Case

Sometimes property owners need to speak the language of the local assessor. That language is often cost, and applying cost means looking at replacement value. Enclosed mall owners must ask themselves, "What would a modern replacement for this property be?" If the answer is "a lifestyle center," then there may be an opportunity to negotiate a property tax reduction.

The replacement cost approach has enabled property owners to obtain reduced assessments for steel mills, hospitals and other property types. The same theory can apply to an enclosed mall. Even if the mall would not be "replaced" with a lifestyle center, a reduction is likely justified if the property is overbuilt or inefficiently configured and a smaller enclosed mall design would support the same utility.

Property owners shouldn't be afraid to ask themselves if a lifestyle choice might reduce their property tax assessment.

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