

# e-POER Report

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## Houston Office Values Increase 10%-25% in a Declining Market

*By Kenneth Graeber, Houston*

Houston office properties are facing higher assessed values at a time when the market is actually in decline due to a large increase in sublease space.

Tax appeals will be necessary for many properties. The appeal deadline is May 31.

### ONE FOR THE RECORD BOOKS

Over a year into the oil industry downturn, the amount of sublease office space in Houston is soaring. More than 8.6 million square feet of sublease space is on the market. This is more than double the historic average of 3.3 million square feet, according to NAI Partners. Since the flood of sublease space began in the second quarter of 2014, it has increased 48 percent for Class A and B properties combined, and 63 percent for Class A alone.

This glut of sublease space in various submarkets is negatively affecting office values. The number of new leases has declined significantly, with owners having to reduce asking rents, increase concessions, and raise tenant improvement allowances. In many cases, owners are competing with their own tenants who offer sublet space at lower rates.

The combination of direct space and sublease space on the market has created a level of total available space that cannot be absorbed based on typical absorption rates. Given this trend, actual occupancy levels will decline, putting additional pressure on rental rates and values.

### 2016 PROPOSED VALUES INCREASE

While there has been a significant decline in the number of office transactions, some recent sales for newer office properties with high occupancy and long-term leases above the current NNN rates have occurred. The sales prices for these properties are in most cases higher than the 2015 assessed values established by the Harris County Appraisal District (HCAD).

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In response to the limited number of leased fee sales, HCAD has proposed increases in value for the majority of office properties for 2016. While the level of increase varies by submarket and by individual properties within submarkets, typical increases range from 10% to 25% over the 2015 values.

### **AVOID OVER ASSESSMENT**

The current challenges in Houston's office market provide opportunities to appeal and achieve tax savings. Texas law gives property owners the right to protest actions concerning their property tax appraisals. You may follow these appeal procedures if you have a concern about:

- The market value of your property
- Unequal appraisal with competing properties
- Any exemptions that may apply
- The taxable status of your property
- Which local governments should be taxing your property
- Any action taken by the chief appraiser, appraisal district, or appraisal review board that adversely affects your property

The appeal deadline is May 31, or within 30 days after a notice of appraised value was mailed, whichever is later.