



**The Chamber**

For a Greater Chapel Hill-Carrboro

# Property Tax Impact on Local Businesses

May 15, 2024



# What impact does a property tax increase have on local businesses?

# Bottom Line

- The impact on business is inconsistent depending on...
  - Type of Enterprise
    - Retail vs. Office vs. Property Owner
  - Existing (incremental) vs. New (barrier to entry)
  - Uneven Impacts of Revaluation

# No surprise:

- Modest, infrequent increases, on stable valuation = modest impact for most businesses
- Larger, more frequent increases on increasing valuation = significant impact



# Full-Service Lease

A full-service lease (sometimes called a gross lease) is a lease agreement on a property where the tenant pays a flat rate and the landlord pay the operating costs of building including taxes, insurance, common area maintenance, and sometimes some utilities and cleaning fees.

\*When taxes go up, the tenant's expenses do not change

# Triple Net Lease

“A triple net lease (triple-net or NNN) is a lease agreement on a property where the tenant promises to pay all expenses, including real estate taxes, building insurance, and maintenance.”\*

\*When taxes go up, the cost to the tenant goes up.

(TICAM = Taxes, Insurance, and Common Area Maintenance)

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\*Source: <https://www.investopedia.com/terms/t/triple-net-lease-nnn.asp>

# Example: Top of the Hill Restaurant

Building Value: \$9,746,700

Property Tax Bill: \$ 166,628

Building Size: 55,935 sq.ft.

Top of the Hill: 9,115 sq.ft. (16.3% of building)

Topo's Tax Bill: \$ 26,520 (\$2,210/month)

# Example: Top of the Hill Restaurant

	<u>Annual</u>	<u>Monthly</u>
Rent:	\$196,800	\$16,400
Property Tax:	\$ 26,520	\$ 2,210
Ins + CAM:	\$ 13,620	\$ 1,135
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	\$236,120	<b>\$19,745 per month</b>



# 2023 Property Value and Property Tax

Business Type	Assessed Value	2023 Real Estate Tax Bill
Mama Dips	\$1,658,400	<b>\$27,684</b>
Top of the Hill	\$1,608,206	<b>\$26,520</b>
W. Franklin St. Office Building	\$7,584,300	<b>\$126,605</b>
Timberlyne Area Pharmacy	\$4,542,300	<b>\$72,918</b>
Siena Hotel	\$8,911,800	<b>\$143,061</b>
Fly Leaf Books	\$1,351,158	<b>\$21,690</b>
Berkshire Apartments	\$80,124,700	<b>\$1,286,242</b>
Merritt's Grill	723,300	<b>\$11,611</b>

\*Source: <https://www.orangecountync.gov/897/Tax-Rates-and-Fees-Information>



# Side Note

- Leasehold improvements
- Personal Property Tax



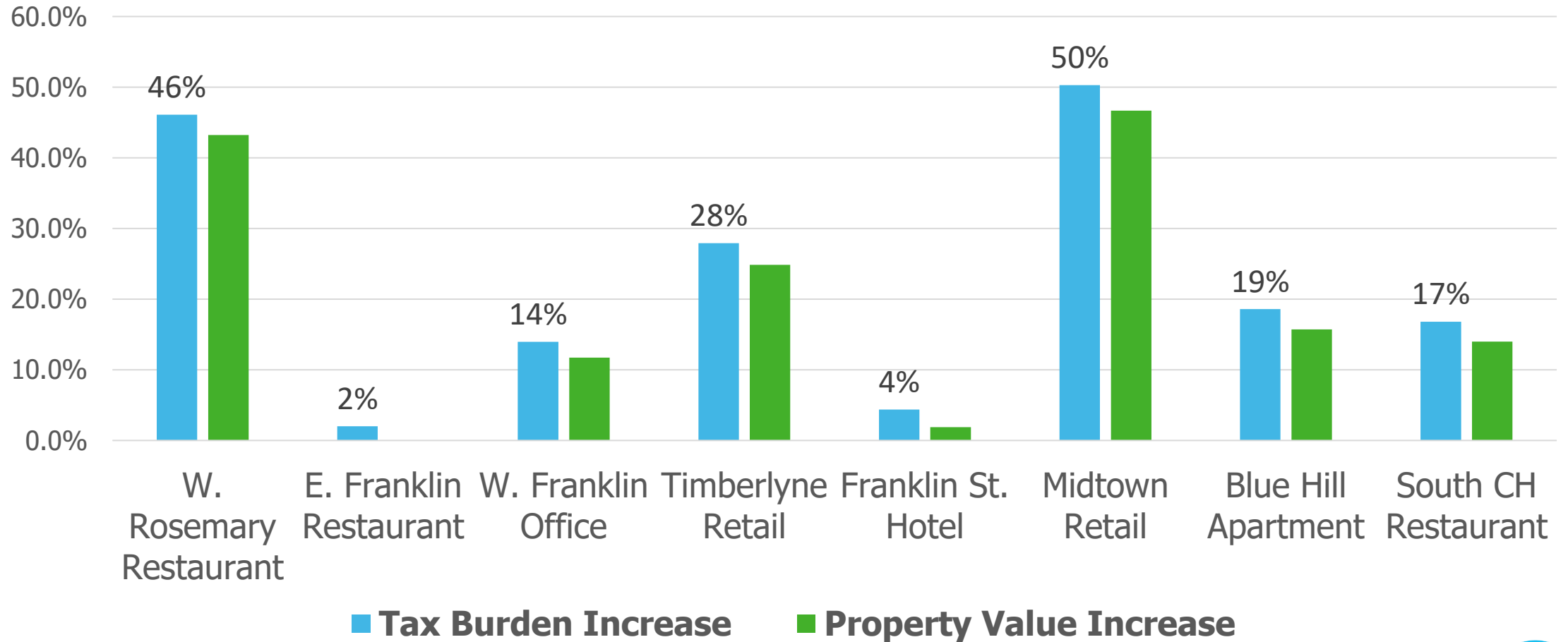
# Property Tax Bill Increase 2023-2024

Business Type	2023 Tax Bill	2024 Proposed Tax Bill*	Increase
Mama Dips	\$27,684	\$28,481	<b>\$798</b>
Top of the Hill	\$26,520	\$27,285	<b>\$764</b>
W. Franklin St. Office Building	\$126,605	\$130,253	<b>\$3,648</b>
Timberlyne Area Pharmacy	\$72,918	\$75,102	<b>\$2,185</b>
Siena Hotel	\$143,061	\$147,348	<b>\$4,287</b>
Fly Leaf Books	\$21,690	\$22,340	<b>\$650</b>
Berkshire Apartments	\$1,286,242	\$1,324,782	<b>\$38,540</b>
Merritt's Grill	\$11,611	\$11,959	<b>\$348</b>

# Property Tax Increase 2020 to 2024

Business Type	2020 Assessed Value	2020 Tax Bill	2024 Assessed Value	2024 Tax Bill	Increase
Mama Dips	\$1,157,800	\$19,494	\$1,658,400	\$28,481	<b>\$8,987 (46%)</b>
Top of the Hill	\$1,588,370	\$26,743	\$1,588,712	\$27,285	<b>\$730 (0%)</b>
W. Franklin Office	\$6,787,100	\$114,274	\$7,584,300	\$130,253	<b>\$15,978 (14%)</b>
Timberlyne Area Pharmacy	\$3,638,200	\$58,710	\$4,542,300	\$75,102	<b>\$16,393 (28%)</b>
Siena Hotel	\$8,746,100	\$141,136	\$8,911,800	\$147,348	<b>\$6,212 (4%)</b>
Fly Leaf Books	\$921,147	\$14,865	\$1,351,158	\$22,340	<b>\$7,476 (50%)</b>
Berkshire Apts	\$69,227,900	\$1,117,131	\$80,124,700	\$1,324,782	<b>\$207,651 (19%)</b>
Merritt's Grill	\$634,400	\$10,237	\$723,300	\$11,959	<b>\$1,722 (19%)</b>

# Percent Change 2020-2024



# Property Tax as Barrier to Entry

A. Downtown Retail (11,600sqft)	Prop Tax	\$37,299
B. Restaurant (3,657sqft)	Prop Tax	\$33,414
C. Midtown Bookstore (6,000sqft)	Prop Tax	\$21,900
	Rent	\$126,000
	TICAM	\$ 17,400
	<b>TOTAL</b>	<b>\$165,300</b>

# Two final things

- Revaluation and “neutral rates”

- Impact of Vacancy

- 40,000sqft bldg.     \$7.5million     \$123,000 taxbill

- If fully leased     \$13.6million     \$227,025 taxbill

- Request a reval     \$3.2million     \$ 52,000 taxbill