

Title

Resolution to Express the City of Ann Arbor's support for HB 4025, regarding the tax treatment of so-called 'Dark Stores'

Memorandum

So-called 'Dark Stores' are big-box retail spaces that have become vacant and are generally considered to be under-valued for tax purposes. Large retailers have been successful in Michigan at lobbying tax tribunals to lower the assessed value of these properties, arguing that because of their size it is difficult to find tenants and therefore they are not valuable from an income perspective. In many instances retailers apply deed restrictions so that the large buildings cannot be redeveloped once they become vacant, thus strengthening their argument that the properties deserve tax breaks because of the unviability of other development opportunities.

Prior to larger retailers employing this 'Dark Store' theory in their property tax appeals, empty big box stores were valued at \$55 per square foot in Michigan. Today, Lowe's stores are valued at \$22.10 per square foot while in North Carolina they are valued at \$79.08 per square foot. Target stores are valued at \$24.97 per square foot, while in Wisconsin they are valued at \$61.23. Michigan communities are clearly being hurt by an unfair tax valuation process that favors corporate land owners.

The proposed legislation would make three important changes to the way these properties are valued. First, it would bar tax tribunals from considering deed restrictions when they assess property values. Second, it creates a universal set of valuation criteria for local tax tribunals to consider when valuing the properties. Third, it requires that the value of the property be derived from a comprehensive analysis that includes a cost valuation, a sales comparison valuation, and an income valuation—a three part analysis which is the national standard.

Staff

Prepared by: Howard Lazarus, City Administrator

Sponsored by: Christopher Taylor, Mayor;

Body

WHEREAS, the City of Ann Arbor, like many communities in the state of Michigan, hosts a number of "big box" retail stores that provide goods and services to our residents; and

WHEREAS, the massive buildings that house "big box" retail stores are specially designed to house large retail operations, and oftentimes designed to meet the needs of a specific company; and

WHEREAS, national retailers will sometimes record deed restrictions on these properties requiring that they house retail stores of certain square footage to prevent the properties from being redeveloped; and

WHEREAS, because of this specialization, vacant "big-box" retail stores are often times difficult to fill with new business and remain vacant for many years; and

WHEREAS, "big-box" retailers have developed a strategy to appeal the tax valuation of these properties every year to win favorable tax treatment because of this specialization and because the properties are difficult to occupy; and

WHEREAS, this so-called "dark store" strategy has cost communities across the state valuable tax dollars as the average tax valuation of a "big-box" store has dropped from \$55 a square foot to less than \$25 a square foot in some instances in the last few years; and

WHEREAS, the vacancy of these large retail spaces is costly enough for communities struggling to attract economic activity and makes it difficult for communities to attain a sustainable source of funding for their governmental operations; and

WHEREAS, HB 4025 as recently introduced in the Michigan House of Representatives would create a fair and uniform standard for the tax treatment of "dark stores" across the state, outlawing the consideration of deed restrictions in tax assessments; creating a uniform statewide standard for considering tax assessments by "big-box" retail stores, and requiring a three part tax assessment process that includes a cost valuation, a sale comparison, and an income valuation before a final tax assessment is made; now therefore be it

RESOLVED that the City Council of the City of Ann Arbor supports the passage and adoption of HB 4025 in the 100th Session of the Michigan Legislature.