

State of Maryland

**Department of Assessments and  
Taxation**

Office of the Director

**Robert L. Erhlich,  
Jr.**  
*Governor*

**C. John Sullivan  
Jr.**  
*Director*

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December 30, 2005

**REAL ESTATE MARKET IN MARYLAND CONTINUES  
UNPRECEDENTED GROWTH**

Maryland's continued strong real estate market will be reflected in assessment notices mailed today to 711,000 property owners across the State. Over the past three years, property values have soared statewide by an average of 60.2 percent in the areas which were reassessed. This equates to an average annual increase of 20.1% for each of the next three years. This is the largest value increase in Maryland since the beginning of triennial reassessments in 1980.

Nationwide, real estate values have risen at a pace of more than 5 times the rate of inflation. In Maryland, the rate of increase has surpassed the national average. Job creation, changing demographics, attractive interest rates, and creative financing packages have combined to force Maryland home prices even higher. Investors have turned to real estate as an investment tool in recent years. The supply of homes for sale continues to be small while the demand for homes remains strong.

While both residential and commercial property values continue to increase in this robust real estate market, the percentage increase for residential continues to outpace commercial. The largest percentage increase in assessed values will be in Worcester County in which Ocean City was reassessed. Ocean City continues to be one of the most popular summer resorts in the Mid-Atlantic region and has begun to attract visitors year round. Suburban Washington continues to demonstrate strong growth with average residential increase of 71.2% in Prince George's County and 70.4% in Montgomery County. Calvert, Charles, and St. Mary's Counties in Southern Maryland continue to show strong residential growth. Southern sections of Calvert and St. Mary's Counties were reassessed this

largest employer, Patuxent River Naval Air Station.

Housing prices continue to climb in southern Baltimore City which was reassessed this year. The Inner Harbor continues to attract home buyers. Federal Hill, Fells Point, Little Italy, and Canton continue to experience gentrification. Historic properties attract buyers who are interested in rehabilitation and renovations.

Waterfront home prices continue to increase. This is especially evident in Queen Anne's County where Kent Island was reassessed and Anne Arundel County where Annapolis and the southern part of the county were reassessed.

All segments of the real estate market have experienced increasing values. Some of the largest increases across the State were for properties valued at less than \$300,000. New buyers continued to enter the market due to low interest rates.

Qualified homeowners with significant increases in assessed values take advantage of locally-established assessment caps. These tax caps lessen the impact of rising assessments for homeowner occupied properties. State law mandates that all taxable assessment increases for homeowner occupied properties cannot increase by more than 10 percent per year. For tax purposes, the assessment increases are capped at 8 percent per year in Cecil County, 7 percent per year in Carroll County, 5 percent per year in Dorchester, Frederick, Garrett, Howard, Kent, Queen Anne's, and St. Mary's Counties, and at 4 percent per year in Baltimore City and Baltimore County. Prince George's and Worcester Counties have a 3 percent per year assessment cap and Anne Arundel County has a 2 percent per year assessment cap. Talbot County continues to cap all taxable increases for homeowners.

The commercial market continues to be strong but has not increased as rapidly as residential real estate. Statewide, the commercial increase is 37.4% compared to 67.4% for residential properties over the three year period. Queen Anne's and Somerset Counties had larger increases in commercial values than in residential values. Residential growth on Kent Island is increasing demand for businesses. The Princess Anne area, home to the University of Maryland Eastern Shore, is experiencing rapid growth. Route 13 has become a major North-South corridor which continues to influence commercial values in Somerset County.

In Maryland, properties are reassessed, by law, once every three years. Properties are required to be assessed at their current market value so that all property owners pay only their fair share of local property taxes. The properties being reassessed were last revalued for January 2003. The

assessments are based upon the examination of more than 139,700 sales which have occurred in the reassessment area over the past three years. Emphasis has been placed on sales which occurred in 2004 and the first half of 2005. Any increase in property value is phased-in equally over the next three years.

The assessment only partially determines a property owner's tax bill. Ultimately, next July's tax bill will be calculated with the tax rates which local governments will set in the spring. As part of the budgetary process, the property tax rates are established by the spending needs of each local government. Local governments may offset assessment increases by lowering their tax rates to the "constant yield" tax rate level. The constant yield tax rate provides local governments with a stable level of property taxes from one year to the next.

Governor Ehrlich is aware of the impact these assessments have on Maryland property owners. Shortly, the Governor will announce several specific proposals to mitigate the State's portion of the property tax.

For further information, please contact the State Department of Assessments and Taxation at 410-767-4881. Extensive reassessment data and information is available from the Department's website at [www.dat.state.md.us](http://www.dat.state.md.us).

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**REASSESSMENTS**

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**2006 Average Annual Reassessments  
and County-Established  
Assessment Caps**

Jurisdiction	Average Annual Increase Before Cap	County Assessment Cap
Allegany	7.1%	10%
Anne Arundel	22.0%	2%
Baltimore City	15.2%	4%
Baltimore	17.8%	4%
Calvert	23.9%	10%
Caroline	16.6%	10%
Carroll	18.0%	7%
Cecil	18.9%	8%
Charles	23.4%	10%
Dorchester	20.3%	5%
Frederick	20.3%	5%
Garrett	15.9%	5%
Harford	16.1%	10%
Howard	19.6%	5%
Kent	12.3%	5%
Montgomery	21.1%	10%
Prince George's	20.2%	3%
Queen Anne's	19.6%	5%
St. Mary's	19.1%	5%
Somerset	21.7%	10%
Talbot	17.8%	0%
Washington	19.5%	10%
Wicomico	13.4%	10%
Worcester	26.3%	3%
State average	20.1%	

\*Annual assessment cap applies only to owner-occupied properties.

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Reports[SDAT/Stats Home](#)[SDAT Home](#)**State Department of Assessments and Taxation****REASSESSMENTS**[Table of Contents](#)[Previous Page](#)[Next Page](#)**Full Cash Value Before Phase-in  
For the Years Beginning July 1, 2005 and 2006**

Jurisdiction	For the Years Beginning		Percent Change	
	July 1, 2005	July 1, 2006	Total	Per Year
Allegany	736,077,239	893,273,720	21.4%	7.1%
Anne Arundel	17,104,795,815	28,370,272,350	65.9%	22.0%
Baltimore City	6,714,336,170	9,775,814,600	45.6%	15.2%
Baltimore	14,023,977,390	21,508,836,770	53.4%	17.8%
Calvert	2,446,821,315	4,200,535,750	71.7%	23.9%
Caroline	434,178,950	650,050,810	49.7%	16.6%
Carroll	3,606,785,350	5,552,846,880	54.0%	18.0%
Cecil	2,215,458,020	3,470,752,520	56.7%	18.9%
Charles	3,631,086,100	6,180,367,550	70.2%	23.4%
Dorchester	558,090,350	897,618,060	60.8%	20.3%
Frederick	4,761,042,138	7,659,716,050	60.9%	20.3%
Garrett	813,713,520	1,201,440,520	47.6%	15.9%
Harford	5,782,399,670	8,572,097,490	48.2%	16.1%
Howard	8,595,410,740	13,644,925,040	58.7%	19.6%
Kent	638,347,770	872,961,210	36.8%	12.3%
Montgomery	41,466,181,530	67,703,659,760	63.3%	21.1%
Prince George's	14,811,911,655	23,788,284,650	60.6%	20.2%
Queen Anne's	2,152,659,350	3,417,140,760	58.7%	19.6%
St. Mary's	2,390,020,590	3,757,241,200	57.2%	19.1%
Somerset	414,672,750	684,155,710	65.0%	21.7%
Talbot	1,543,571,820	2,369,418,320	53.5%	17.8%
Washington	2,453,574,497	3,890,692,750	58.6%	19.5%
Wicomico	1,492,692,410	2,092,020,950	40.2%	13.4%
Worcester	6,134,361,740	10,971,436,680	78.9%	26.3%
<b>Total</b>	<b>144,922,166,879</b>	<b>232,125,560,100</b>	<b>60.2%</b>	<b>20.1%</b>

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**Number of Appeals  
1984-2005**

**(The number of appeals below are in thousands)**

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<b>Year</b>	<b>Appeals</b>
1984	32
1985	29.9
1986	23.4
1987	30.4
1988	28.1
1989	30.6
1990	55.9
1991	66.8
1992	57.1
1993	48.9
1994	35.2
1995	29.8
1996	41
1997	30.6
1998	26.8
1999	26.4
2000	22.9
2001	23.4
2002	24.7
2003	30.4
2004	25.9
2005	30.9

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### Average Assessment Increases 1985-2006

Year	% of Increase
1985	17.0 %
1986	18.0 %
1987	21.0 %
1988	24.0 %
1989	28.0 %
1990	42.0 %
1991	34.0 %
1992	21.0 %
1993	1.9 %
1994	0.1 %
1995	1.9 %
1996	3.8 %
1997	3.6 %
1998	3.2 %
1999	3.8 %
2000	5.7 %
2001	10.1 %
2002	15.9 %
2003	26.4 %
2004	36.0%
2005	46.6%
2006	60.2%

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## Constant Yield Tax Rates

*The property owners' opportunity to be heard on the issue of property tax rates before they are final.*

Although setting of the local property tax rates is the task of elected officials, Maryland's **Constant Yield Tax Rate Provision** gives property owners a voice in the process before the final tax rates are determined. This is done by requiring each taxing jurisdiction to give advance notice and hold public meetings prior to the rate setting if they are considering a tax rate higher than the **Constant Yield Tax Rate**. Most meetings are held during April, May and early June. Tax rates must be set by July 1, which is the beginning of the tax year.

The **Constant Yield** concept is that, as assessments rise, the tax rate should drop to the point that the revenue derived from the property tax stays at a constant level from one year to the next, thus assuring a "constant yield" from this tax source. The **Constant Yield Tax Rate** is simply a property tax rate that, when applied to new assessments, will result in the taxing authority receiving the same revenue in the coming taxable year that was produced in the prior taxable year.

The **Constant Yield Tax Rate** is a State Law that exists solely for the benefit of the taxpayer. It represents a clear and direct opportunity for citizen input to influence the level of property taxation.

Prior to February 15, the Department of Assessments and Taxation notifies the counties, Baltimore City, and municipal taxing authorities of the tax rate that would produce the same revenue from the property tax as was produced the year before. The rates certified to the local governments are known as the "**Constant Yield Tax Rates**" and are based on the new, net assessable base for that jurisdiction. New property or construction added to the rolls for the first time is subtracted from the calculation and allowances for abatements and other deletions are deducted in arriving at the net assessable base for this purpose.

The local taxing authority cannot set a tax rate that exceeds that **Constant Yield Tax Rate** until first advertising its intent to do so. The notice must meet certain specifications. The taxing authority may, at its option, mail a copy of the notice to each taxpayer instead of publishing an advertisement.

The taxing authority must meet on the day and time shown in the notice. This meeting must be held between 7 and 21 days after the advertisement is published. The hearing must be held on or before June 17th. Afterward, the taxing authority may adopt a resolution or ordinance adopting a property tax rate in excess of the **Constant Yield Tax Rate**, but if the ordinance or resolution adjusting this tax rate is not approved on the day of the public hearing, the day, time, and place where the resolution or ordinance will be scheduled for consideration and approval must be announced at the public hearing.

The Department of Assessments and Taxation is charged with the responsibility of administering the **Constant Yield Tax Rate Provisions**. In addition to calculating the rate, the Department also oversees and monitors the advertising requirements. If violations are detected, the Department must report them to the Attorney General who

must investigate and take appropriate legal action to effect compliance.

The chart below lists the 2003/2004 actual tax rates and the 2004/2005 **Constant Yield Tax Rates** for each of the counties and Baltimore City. To obtain the **Constant Yield Tax Rate** for a particular municipality or other local taxing jurisdiction, contact your local assessment office or see the Constant Yield Tax Rate chart on this web site.

## 2004/2005 Constant Yield Tax Rates

### 2003/2004 Actual Tax Rates

Jurisdiction (County)	Actual 2003/2004	C.Y.T.R. 2004/2005 <sup>1</sup>	Difference
*Allegany	\$1.00	\$0.9621	-0.0379
*Anne Arundel	\$0.955	\$0.920	-0.035
Baltimore	\$1.115	\$1.085	-0.030
Baltimore City	\$2.328	\$2.258	-0.070
*Calvert	\$0.892	\$0.842	-0.050
*Caroline	\$0.952	\$0.904	-0.048
Carroll	\$1.048	\$0.987	-0.061
Cecil	\$0.980	\$0.929	-0.051
*Charles	\$1.016	\$0.960	-0.056
Dorchester	\$0.930	\$0.891	-0.039
Frederick	\$1.000	\$0.939	-0.061
*Garrett	\$1.036	\$0.977	-0.059
*Harford	\$1.092	\$1.037	-0.055
Howard	\$1.044	\$0.992	-0.052
Kent	\$1.012	\$0.961	-0.051
Montgomery	\$0.751	\$0.694	-0.057
*Prince George's	\$0.960	\$0.936	-0.024
Queen Anne's	\$0.976	\$0.895	-0.081
St. Mary's	\$0.908	\$0.880	-0.028
Somerset	\$1.010	\$0.968	-0.042
*Talbot	\$0.553	\$0.525	-0.028
Washington	\$0.948	\$0.910	-0.038
Wicomico	\$1.041	\$1.006	-0.035
Worcester	\$0.730	\$0.630	-0.100

**NOTES:**

\* These counties levy a separate county tax rate referred to as the "municipal tax rate differential" that applies to just property located within a particular municipality. A separate county Constant Yield Tax Rate is calculated. <sup>1</sup> Beginning with the tax year 2001/2002, Personal Property is no longer subject to the provisions of the C.Y.T.R. Law. Rates listed are for Real



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**:: Tax Calendar**

<b>January 1</b>	Valuation date (Date of Finality) for real and business personal property
	Deadline for filing a real property petition for review appeal form
<b>January</b>	Business personal property returns mailed to all current businesses
	Homeowners' and Renters' tax credit applications mailed to all current recipients and prior year applicants
<b>February 14</b>	Constant yield tax rates established and mailed to local governments
<b>Mid February</b>	Deadline for appealing reassessment notices mailed the prior December (deadline date is on the notice and depends on the actual notice mailing date)
<b>April 15</b>	Deadline for filing business personal property returns or 60 day extension requests
<b>May 1</b>	Homeowners' tax credit applications received by this date will have credits reflected on property tax bills, if eligible.
<b>June 15</b>	Deadline for filing extended business personal property returns
<b>June 30</b>	Deadline for local governments to set property tax rates
<b>July 1</b>	Beginning of taxable year for property taxes Local governments typically mail tax bills in early July
<b>September 1</b>	Deadline to submit Homeowners' and Renters' tax credit applications
	Deadline to submit initial real property exemption applications for all filers other than blind persons and disabled veterans.
<b>September 30</b>	Deadline to pay property taxes without interest and penalty. Homeowners must pay the first installment of semiannual property taxes by this date.
<b>Late December</b>	Real property reassessment notices mailed to one-third of property owners in each county. Property owners have 45 days to file an appeal.
<b>December 31</b>	Deadline for homeowners to pay the second installment of semiannual property taxes without interest and penalty.

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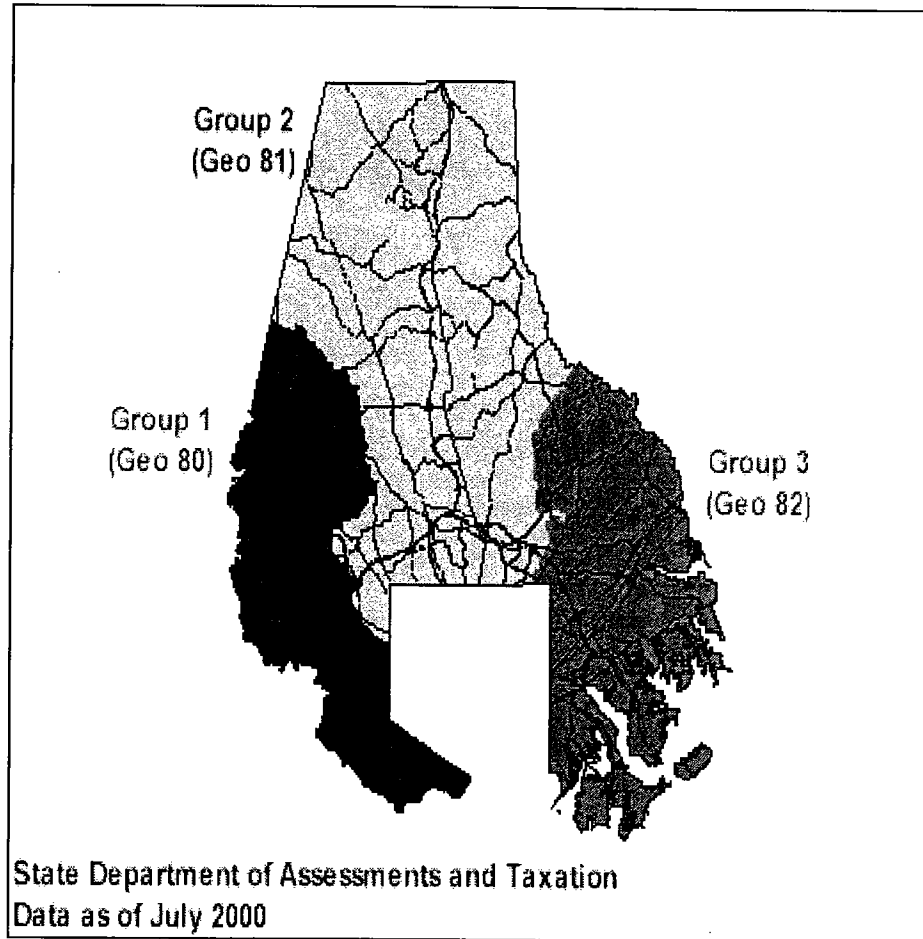
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Maryland State Department of Assessments and Taxation



301 W. Preston St., Baltimore  
410-767-1199, toll free in MD  
MD Relay TTY 800-735-2256  
Contacts

## Baltimore County Residential Reassessment Areas



**Group 1 will be reassessed for January 1, 2007**  
**Group 2 will be reassessed for January 1, 2008**  
**Group 3 will be reassessed for January 1, 2006**

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COMMERCIAL WORKSHEET - REASSESSMENT YEAR 2003

1. PROPERTY ADMINISTRATIVE DATA

Account No.	[REDACTED]	Income Method	Direct Capitalization
Map/Grid/Parcel	[REDACTED]	PI/Sc/Bk/Lt	21047 / / / BPRUC 40000
District / Card Seq	[REDACTED]	CamaSet	100 Zoning I1
Owner's Name	[REDACTED]	Occupancy	Non-owner (N) Exmpt Class
Address	[REDACTED] DR	Valued by	1645 Exmpt Status
	00000	Land Use	Commercial (C)
		Model	0

<b>1 Rents</b>					
Rent Type	Size/Number	Rent	Frequency	Annual Rent	
Office	40,600	23.50	Annual	954,100	
Office	53,300	23.50	Annual	1,252,550	
Office	64,520	23.50	Annual	1,516,220	

<b>2 Gross Potential Income</b>				
Gross Potential Income				3,722,870

<b>3 Vacancy and Collection Loss</b>				
Vacancy			( 5.00%)	186,143

<b>4 Effective Gross Income</b>				
Effective Gross Income				3,536,726

<b>5 Expenses</b>					
Expense Type	Size/Number	Rate	Percent	Annual Expense	
Miscellaneous Expenses	1	1,061,017.95	(30.00%)	1,061,017	
Total Expenses				1,061,017	

<b>6 Other Income</b>				
Other Income				0

<b>7 Net Operating Income</b>				
NOI				2,475,708

<b>8 Capitalization Rate</b>				
Base Cap Rate				8.7500
Effective Tax Rate				1.1030
Overall Rate				9.8530

<b>9 Value</b>				
Value	Direct Cap Number	1		25,126,444

<b>10 Value Statistics</b>				
Value per GBA	153.70	Value per NLA	158.60	Value per Encl SF 153.70

<b>11 Value Adjustments</b>				
Total Value Adjustments				0

<b>12 Total Income Value</b>				
Total Value				25,126,400

REMARKS

\*\*\* 03/24/03 - CAMA 2000 value was less than the previous reassessment value from DOS CAMA. The record status was changed to 40. \*\*\*  
 Suprv 03 no change rep ok with value 4/3/03

Prior Land	4,052,400	SALE DATE	02/13/2002
Prior Improv	16,320,600	SALE PRICE	30,694,320
Prior Total	20,373,000	LIBER/FOLIO	20559/0751

1. PROPERTY ADMINISTRATIVE DATA

Account No.	[REDACTED]	Value Method	Direct Capitalization	
Map/Grid/Parcel	[REDACTED]	PI/Sc/Bk/Lt	21047 / / /	BPRUC 40000
District / Card Seq	[REDACTED]	CamaSet	100.0	Zoning 11
Owner's Name	[REDACTED]	Occupancy	Non-owner (N)	Exmpt Class
Address	[REDACTED]	Valued by	1645	Exmpt Status
		Land Use	Commercial (C)	

2 BUILDING

Building No	1	Average Square Foot	42,757
		Average Perimeter	1,071

3 SECTION

Section No	1		
Building Type	Office Building		
Year Built	1999	Effective Year Built	1999
Square Footage	42,757		
Story Height	19		
No of Stories	1		
Class	C, Masonry Construction		
Quality	4.00	Exterior Walls	Face Brick
Condition	Average	Elevators	0

4 SECTION VALUES

Section Number	1	Base Rate	86.16
Square Foot Refinements			
Heat	HVAC	100 %	5.35
Elevators			-2.15
REFINED RATE			89.36
Story Adjustment			1.000
Story Height Multiplier			1.161
Area Perimeter Multiplier			0.911
FINAL PRODUCT			1.057
ADJUSTED RATE			94.48
SQUARE FEET			42,757
ELEVATORS			0
REPLACEMENT COST SUBTOTAL			4,039,865

5 SECTION SUMMARY

M & S CURRENT MULTIPLIER	1.060
M & S LOCAL MULTIPLIER	1.020
REPLACEMENT COST NEW	4,367,902
DEPRECIATION	1 %
TOTAL SECTION COST	4,324,223

6 FEATURES

Type	Size/No	Rate	Current Mult	Local Mult	Depreciation	Value
Sprinklers, Wet	42,757	1.25	1.060	1.020	1%	57,208
Total Features Value						57,208

7 BUILDING SUMMARY

Building No	1	
Total Building Value		4,381,400

**1. PROPERTY ADMINISTRATIVE DATA**

Account No.		Value Method	Direct Capitalization	
Map/Grid/Parcel		PI/Sc/Bk/Lt	21047 / / /	BPRUC 40000
District / Card Seq	0000-00	CamaSet	100.0	Zoning 11
Owner's Name		Occupancy	Non-owner (N)	Exmpt Class
Address	DR	Valued by	1645	Exmpt Status
		Land Use	Commercial (C)	

**2 BUILDING**

Building No	2	Average Square Foot	56,196
		Average Perimeter	1,290

**3 SECTION**

Section No	1	Effective Year Built	1999
Building Type	Office Building		
Year Built	1999		
Square Footage	56,196		
Story Height	19		
No of Stories	1		
Class	C, Masonry Construction		
Quality	4.00	Exterior Walls	Face Brick
Condition	Average	Elevators	0

**4 SECTION VALUES**

Section Number	1	Base Rate	86.16
Square Foot Refinements			
Heat	HVAC	100 %	5.35
Elevators			-2.15
REFINED RATE			89.36
Story Adjustment			1.000
Story Height Multiplier			1.161
Area Perimeter Multiplier			0.905
FINAL PRODUCT			1.051
ADJUSTED RATE			93.90
SQUARE FEET			56,196
ELEVATORS			0
REPLACEMENT COST SUBTOTAL			5,277,037

**5 SECTION SUMMARY**

M & S CURRENT MULTIPLIER	1.060
M & S LOCAL MULTIPLIER	1.020
REPLACEMENT COST NEW	5,705,533
DEPRECIATION	1 %
TOTAL SECTION COST	5,648,477

**6 FEATURES**

Type	Size/No	Rate	Current Mult	Local Mult	Depreciation	Value
Sprinklers, Wet	56,196	1.25	1.060	1.020	1%	75,189
Total Features Value						75,189

**7 BUILDING SUMMARY**

Building No	2	Total Building Value	5,723,600
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## COMMERCIAL WORKSHEET - REASSESSMENT YEAR 2003

## 1. PROPERTY ADMINISTRATIVE DATA

Account No.	[REDACTED]	Value Method	Direct Capitalization	
Map/Grid/Parcel	[REDACTED]	PI/Sc/Bk/Lt	21047 / / /	BPRUC 40000
District / Card Seq	[REDACTED]	CamaSet	100.0	Zoning 11
Owner's Name	[REDACTED]	Occupancy	Non-owner (N)	Exmpt Class
Address	[REDACTED] DR	Valued by	1645	Exmpt Status
		Land Use	Commercial (C)	

## 2 BUILDING

Building No	3	Average Square Foot	64,520
		Average Perimeter	1,484

## 3 SECTION

Section No	1		
Building Type	Office Building		
Year Built	2000	Effective Year Built	2000
Square Footage	64,520		
Story Height	19		
No of Stories	1		
Class	C, Masonry Construction		
Quality	4.00	Exterior Walls	Face Brick
Condition	Average	Elevators	0

## 4 SECTION VALUES

Section Number	1	Base Rate	86.16
Square Foot Refinements			
Heat	HVAC	100 %	5.35
Elevators			-2.15
REFINED RATE			89.36
Story Adjustment			1.000
Story Height Multiplier			1.161
Area Perimeter Multiplier			0.905
FINAL PRODUCT			1.051
ADJUSTED RATE			93.92
SQUARE FEET			64,520
ELEVATORS			0
REPLACEMENT COST SUBTOTAL			6,059,801

## 5 SECTION SUMMARY

M & S CURRENT MULTIPLIER	1.060
M & S LOCAL MULTIPLIER	1.020
REPLACEMENT COST NEW	6,551,857
DEPRECIATION	1 %
TOTAL SECTION COST	6,486,339

## 6 FEATURES

Type	Size/No	Rate	Current Mult	Local Mult	Depreciation	Value
Sprinklers, Wet	64,520	1.25	1.060	1.020	1%	86,326
Total Features Value						86,326

## 7 BUILDING SUMMARY

Building No	3	Total Building Value	6,572,600
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COMMERCIAL WORKSHEET - REASSESSMENT YEAR 2003

1. PROPERTY ADMINISTRATIVE DATA

Account No.	00050225	Value Method	Direct Capitalization
Map/Grid/Parcel	[REDACTED]	PI/Sc/Bk/Lt	21047 / / / BPRUC 40000
District / Card Seq	000	CamaSet	100.0 Zoning I1
Owner's Name	[REDACTED]	Occupancy	Non-owner (N) Exmpt Class
Address	[REDACTED]	Valued by	1645 Exmpt Status
		Land Use	Commercial (C)

8 ACCESSORY STRUCTURES

Type	Grade	Size/No	Rate	Regional Mult	Local Mult	Depreciation	Value
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9 IMPROVEMENT VALUE

Total Improvement Value	16,677,600
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10 LAND VALUATION

Land Type	Land Units	Size	Rate	Adj Reason	Adjustment	Influence	Value
2400	Square Feet	623,458.00	6.50				4,052,477
Total Land Size		623,458.00					

11 TOTAL LAND VALUE

4,052,400

12 TOTAL IMPROVEMENT VALUE

16,677,600

13 TOTAL PROPERTY VALUE

20,730,000

REMARKS

\*\*\* 03/24/03 - CAMA 2000 value was less than the previous reassessment value from DOS CAMA. The record status was changed to 40. \*\*\*  
 Suprv 03 no change rep ok with value 4/3/03

Prior Land	4,052,400	SALE DATE	02/13/2002	Preferred Land Value	0
Prior Improv	16,320,600	SALE PRICE	30,694,320	Curtilage	0
Prior Total	20,373,000	LIBER/FOLIO	20559/0751		

RRI ACQUISITION COMPANY, INC. \*

IN THE

vs. \*

MARYLAND TAX COURT

SUPERVISOR OF ASSESSMENTS  
OF HOWARD COUNTY \*

No. 03-RP-HO-0055

**MEMORANDUM AND ORDER**

Petitioner, RRI Acquisition Company, Inc., owns the Red Roof Inn Jessup located at 8000 Washington Boulevard in Jessup, Maryland. The subject property is comprised of a 1.8279 acre improved site with a three story limited service hotel containing 108 rooms and 117 parking spaces. As of January, 2002, the Respondent, Supervisor of Assessments for Howard County, valued the property at \$6,830,400.

After an appeal to the Property Tax Assessments Appeal Board for Howard County, the value of the property was retroactively reduced to \$6,300,000 on January 3, 2003. In appealing to the Maryland Tax Court, Petitioner contends that the present assessment should be reduced to \$4,800,000 because the State's valuation included tangible and intangible personal property. The Petitioner relies upon the testimony of David C. Lennhoff, an expert who has given expert appraisal testimony in hotel valuation cases before tax tribunals in several states.

The subject property is assessed for real estate Ad Valorem tax purposes pursuant to Sections 8-102, 8-103 and 8-105 of the Maryland Tax-Property Article of the Annotated Code. The assessment of real property equals its value on the date of finality,

and since the subject property produces income, the income capitalization approach ("income approach") may be used to determine its value. Generally accepted appraisal practices recommend consideration of the income approach as well as the sales comparison and cost approaches to value income generating property.

The critical question for the Court to determine is how to distinguish the tangible and intangible personal property value from the real estate value of the subject property hotel. Petitioner argues that a hotel is a business enterprise and is comprised of many assets, which in their totality equate to the total value of the business. In an effort to insure that the real estate only is taxed for assessment purposes, it is necessary to separate the real estate value from all other assets. The Petitioner suggests that the income approach may be utilized to separate or distinguish the real estate from other assets by distinguishing the revenue derived from the tangible and intangible personal property of the business enterprise from that attributed to the real estate.

The Petitioner further contends that it is well established Maryland law to exclude business value and other personal property when valuing real property for Ad Valorem tax purposes, see Whitestake Assoc. vs. Supervisor of Assessments of Anne Arundel County, MTC Case No. 728 (1990); see also Inner Harbor Marina of Baltimore, Inc. vs. Supervisor of Assessments of Baltimore City, 1 HTC 533, 534 (1991). The Court ruled in Whitestake that "... care must be taken to avoid an analysis of the business rather than the real estate on which it is operated." In Inner Harbor, the Court cited the Whitestake holding and stated that "... we must carefully distinguish real estate income from business income and real estate expenses from business expenses."

Courts in Tennessee, Arizona, and Virginia have found that non-real estate value should be separated from real estate value when assessing hotels and other facilities. See Potomac Hotel Limited Partnership vs. Maricopa County, A.T.C. No. 2001-000531 (2004); see In Re: Essex House, a/k/a Marriott Courtyard Airport, Tennessee State Board of Equalization (2004); see WXII/Oxford-DTC Real Estate, LLC vs. Board of Supervisors of Loudoun County, Virginia, CL No. 29368 (2004). In determining market value for real estate purposes, assessing authorities were required to segregate the value of the real estate from the value of the going concern.

The process of separating the income attributable to the use of the real estate out of the total income generated by the operation of the business before capitalization of the real estate income is generally treated in the discussions of the going concern value and business enterprise value in The Appraisal of Real Estate, 12<sup>th</sup> Edition, The Appraisal Institute (2001). This well respected treatise notes that income is derived from the total assets of the business, which can include real property, tangible personalty, and intangible elements. Necessarily, in the income capitalization approach, because the capitalized income stream will most likely reflect income to all of the assets of the business, all components of net operating income not attributable to the real estate must be removed.

The Respondent relies upon the Rushmore method. Stephen Rushmore is the author of Hotels, Motels, and Restaurants: Valuations and Market Studies (1983). Mr. Rushmore has established a national reputation in hotel valuation.

Rushmore suggests that all payments to the entity that manage and operates the hotel constitute business income generated by the exercise of management and

entrepreneurship. Under the Rushmore method, these payments are excluded in the computation of realty income subject to capitalization. In addition, a portion of the overall income realized by the employment of furniture, fixtures, and equipment ("FF&E") is also excluded from realty income. Separate adjustments are made to provide for the periodic replacement of the personal property (the return of FF&E) and also for a yield on the investment in personal property (the return on FF&E). This method has been employed by experts in other hotel valuation cases and has been generally accepted in the market.

The Petitioner relies on the Lennhoff approach. David C. Lennhoff is the editor of a collection of articles entitled A Business Enterprise Value Anthology (The Appraisal Institute, 2001), and is one of the developers of the Appraisal Institute Course 800: "Separating Real and Personal Property from Intangible Business Assets." Applying the theories he has developed to hotel valuation, Lennhoff concludes that, in addition to the adjustments of the Rushmore method, several additional adjustments must be made to arrive at an accurate valuation for the real property used in a hotel operation.

The additional adjustments that Lennhoff supports are designed to deal with value attributable to: (a) personal property; (b) the hotel franchise or "flag"; (c) various residual intangibles, including goodwill and business and credit relationships; and (d) developmental and start-up outlays associated with the initiation of the hotel business.

Mr. Lennhoff first determines the net operating income to the going concern from which he subtracts a return on/of furniture, fixtures, and equipment (FF&E), a return on/of business start-up costs, and a return on/of brand-specific intangibles. Lennhoff asserts that the return on/of FF&E, return on/of business start-up costs, and return on/of brand-specific intangibles are all non-realty items excluded from net operating income.



The resulting NOI is ultimately capitalized into real estate value using a cap rate, which is increased to account for market specific residual intangibles, according to Petitioner's approach.

The Petitioner further argues that the incremental value added to tangible and intangible personal property makes a hotel an economically viable business enterprise that is expected to continue. If a hotel investor was interested in buying or selling a hotel property, he might use the sales comparison method as a reference point to compare the sale price of the subject property against other similar properties. The sale price would reflect the value of the total assets of the business: the real property, tangible, and intangible personal property. The income capitalization method is preferred for hotels in order to properly deduct the tangible and intangible property, thereby isolating the real property component.

Lenhoff testified that a return on and of FF&E, as well as a replacement allowance are both necessary deductions in order to completely remove the value of FF&E from the capitalized stream of net income. The return on FF&E reflects the level of profit that an investor would anticipate on a limited service hotel such as the subject property. This return on is considered an intangible, because it reflects profit earned on tangible items. Lenhoff also takes a return of FF&E to recover the money actually invested in FF&E. Lenhoff accomplishes this by amortizing the "as is" value of FF&E over eight years using an average hotel mortgage rate adjusted upwards by 250 basis points to reflect the higher rate of return on personal property.

A replacement allowance provides for the periodic replacement of building components that wear out more rapidly than the building itself and must be replaced

periodically during the building's useful life. Petitioner's expert utilizes a replacement allowance consistent with the replacement allowance taken by other similar limited service hotels. Mr. Lennhoff then increases the allowance to reflect the subject's higher occupancy penetration rate premium over other limited service hotels within the same geographic area.

The Petitioner also contends that the start-up costs benefit the going concern over the economic life of the hotel, and, therefore, must be amortized over the period of time that should realistically reflect a typical management agreement as well as the time period before which a thorough "renovation and re-orientation" is needed. The Appraisal of the Petitioner capitalizes the business start-up costs from the Subject Property's Franchise Offering Circular over the subject's estimated economic life of twenty years.

Mr. Lennhoff's methodology further evaluates brand specific intangibles by measuring the extent to which the subject property out-performs other hotels within its competitive set. The competitive set is a group of properties in the same geographical area whose real property is generally equivalent. Because the competitive set, as adjusted, equalizes the value of the real property, any superior performance by the subject property relative to its competitors is business related as opposed to income related to the real estate. Mr. Lennhoff measures this degree of superior performance using a formula calculated by multiplying the average daily room rate by occupancy in order to determine the revenue per available room. The RevPAR penetration rate index suggests that the subject property out-performs the market by about 20%. Lennhoff accounts for the 20% above market performance by deducting 20% of the projected 2002 net operating income.

Petitioner argues that the Salomon Smith Barney Equity Research Report on Marriott International, Inc. ("SSB Report") indicates that a RevPAR premium benefits hotels with a Marriott flag by increasing property revenue, which allows Marriott to charge higher fees and secure preferable contract terms from its franchisees. Consequently, according to Lennhoff, a hotel investor would pay more for a Marriott branded hotel because of its future ability to out-perform the market. The subject property is a Red Roof Inn and is similar to Marriott and, thus, out-performs its respective competitive set. A hotel investor likewise would pay a higher price for the total assets of the business related to the subject property since it too would yield higher revenues and occupancy rates. Therefore, since the RevPAR premium directly measures the real estate's ability to sustain higher revenues than other equivalent real estate, Lennhoff argues a 20% deduction from 2002 projected income is justified.

Finally, Lennhoff concludes that the subject property qualifies as second or third tier property, and a cap rate for only the real property would logically be below that of a going concern but above an apartment or office building which enjoy relatively long-term leases as compared to a hotel. Lennhoff suggests that a premium on the cap rate is necessary to reflect this additional risk.

The Respondent argues that the Court should reject Mr. Lennhoff's methodology with respect to the treatment of FF&E and the value of certain business intangibles. The Respondent suggests that the proper method is to deduct an amortization of the current replacement costs of FF&E to remove a return on the personal property from the real property value. The Respondent's Assessor also subtracted the actual corporate expenses to remove the value of the flag affiliation.

According to the Respondent, the method of the Petitioner duplicates the removal of the return of value first as a reserve and then as a return of. Moreover, the annual amortization of the original start-up costs incurred at the initial opening of a fourteen-year-old hotel is not a recognized analysis in the market place.

The Respondent further contends that the intangible value which Petitioner assigns to the Red Roof Inn affiliation based upon average daily rates and occupancy percentages of the subject with those of a competitive set is fatally flawed because such a comparison does not give proper consideration to the location, market segment, or other differences between the subject and the components of the set. Accordingly to the Respondent, unless all the properties were comparable in all other value impacting characteristics, the differences identified by comparison to the so-called competitive set does not justify an allocation of value based solely on the flag.

The Court agrees with the Respondent's methodology and is skeptical of the adjustments proposed by Lennhoff to the Rushmore method. Lennhoff's proposed adjustments are not persuasive from a theoretical standpoint due to the lack of market data supporting such adjustments. The Court is persuaded that in the case of properties such as hotels, which are sensitive to many intrinsic and extrinsic factors, there may be a wide range of business incomes which could be achieved at different but competent levels of management. Those differences do not necessarily depend on management that is either superior or inferior.

Mr. Lennhoff's deduction for a return on FF&E from income as well as a deduction of the invested capital from value is an impermissible duplication under standard

appraisal practice. Once an appropriate allowance of income earned on FF&E is deducted from the income stream to be capitalized, that property is no longer in the capitalized value.

In addition, Mr. Lennhoff's start-up cost adjustment may have some theoretical soundness where the hotel business is actually still benefiting from start-up costs, and the costs can be specifically identified and limited to those that produce business value as opposed to real estate value. However, the subject property is fourteen years old, and there is no data to support such an adjustment.

Roy Sleeman, a statewide Commercial Supervisor, with over thirty years of experience in commercial assessments, provided a persuasive rebuttal to Mr. Lennhoff's approach. Mr. Sleeman suggested that the real estate market simply does not understand or address intangibles in the way Mr. Lennhoff suggests. To accept Mr. Lennhoff's approach would be to in effect turn expenses into intangible assets for the purpose of deducting value from the return of value on real property. Mr. Sleeman also provided a detailed analysis of Mr. Lennhoff's appraisal, which raised theoretical as well as empirical questions regarding the Lennhoff method.

The Court finds that the Lennhoff approach includes impermissible adjustments to the Rushmore approach, which were either duplicative or not supported by the market place. Consequently, the Court must reject Mr. Lennhoff's appraisal as his theories and methodologies are academic constructs unsubstantiated by the market. Respondent's appraisal closely reflects the Rushmore methodology, which is market driven and tested.

For the foregoing reasons, the Maryland Tax Court, this *10<sup>th</sup>* day of *February*, 2006, affirms the determination of value by the Property Tax Assessment Appeals Board of Howard County of \$6,300,000.

cc: Eric S. Kassoff, Esq.  
David M. Lyon, Esq.  
Ronald L. Bowers, Administrator

**CERTIFIED TRUE COPY**  
**TEST: Robert L. Zouck, Clerk**

**NOTICE:** You have the right of appeal from the above Order to the Circuit Court of any County or Baltimore City, wherein the property or subject of the assessment may be situated. The Petition for Judicial Review **MUST** be filed in the proper Court within thirty (30) days from the date of the above Order of the Maryland Tax Court. Please refer to Rule 7-200 et seq. of the Maryland Rules of Court, which can be found in most public libraries.