



**Testimony on behalf of  
Building Owners and Managers Association of Metro Detroit  
House Tax Policy Committee**

**June 8, 2011**

Good morning distinguished committee members. I am Jim Jonas of REDICO testifying on behalf of Building Owners & Managers Association of Metro Detroit; with me is Janet Langlois, Executive Director for BOMA. Thank you for this opportunity to address you regarding this important issue.

The Building Owners and Managers Association was founded in 1908 and is comprised of nearly 400 member companies representing over 250 million square feet of office space in southeast Michigan. Among our most recognizable member-owners are REDICO, Schostak Brothers, the Farbman Group, Kojaian Companies, Kirco, Etkin Equities, Grubb & Ellis, CB Richard Ellis, Blackstone Property Management, Fordland, Hines, and Ashley Capital.

BOMA members represent every aspect of our industry from building owners, building managers, real estate brokers, and all the suppliers to real estate including landscapers, roofers, janitorial services, utilities, construction firms and architects. We are primarily comprised of business owners who have made the choice to invest in Michigan and create jobs.

After enduring the last several years in a weakened market --- perhaps better described as tumultuous for most and disastrous for others-- the commercial real estate industry is slowly recovering. However, commercial property in Michigan continues to suffer from vacancy rates among the highest in the nation leaving Michigan BOMA members with building vacancy rates in some cities as high as 30-35%; as high as 60%, including ghost vacancies, where companies have simply left or laid off staff. These vacancies drive rent concessions and increase operational expenses.

This is not a new issue, and over the years, several legislators have attempted to craft a legislative fix to this constitutional problem; we have participated in work groups, met with representatives in the Governor's office, Treasury and the Tax Tribunal. We believe the proposal HB4602, as introduced, remains a constitutional issue of taxation as part of Proposal A. This endeavor to eliminate the so-called 'additions and losses' section of the state property tax code is a provision upheld in 2002 by the Michigan Supreme Court and further upheld in the recent Toll v Northville decision of February 2008.

Further, the majority of tax appeals at this time are based on true cash value of properties—a dramatic decrease in value-- of which the 'additions and losses' factors are only a very small consideration in the property's assessment. This is reflective of the economy, not based on occupancy, and will accomplish little to nothing to assist struggling cities to recapture property tax revenues that just do not exist in the current market-- or the foreseeable future.

Adding insult to injury, are the number of property tax appeals before the Michigan Tax Tribunal which was problematic since 2004 and has now overwhelmed the court having the case load double since 2008; about 41,000 cases lie in wait despite a 'recovering' economy.

Owners of commercial property have a strongly vested interest in healthy vibrant cities, too. A decline in city services is directly related to the value of their investments in these very communities. Increased costs to business and an immediate increase in property taxes are inconsistent with this legislature's stated goals of improving Michigan's business climate. If so, it begs the question "what will be gained by adopting this proposal?"

We urge you to consider other remedies to an economy in crisis and city and state budget woes such as making hard choices to reduce the budget, enact incentives to retain population in Michigan as well as enacting legislation addressing concerns raised by the Supreme Court WPW ruling and returning the real estate tax appeal process to its intended methods.

Again, thank you for this opportunity and we look forward to answering any questions you may have regarding this issue. We are committed to working with the sponsor and committee members in order to find a fair solution for both our communities and the businesses that keep them strong and help them grow.

#### **Just FYI on CRE Market Realities**

- In many commercial dense cities where out of every \$1.00 spent, .60 cents is derived from commercial and industrial property tax.
- Nationally, commercial property values have fallen more than 40 percent.
- A report from the Congressional Oversight Panel for the Treasury Asset Relief Program, nearly a trillion in commercial real estate loans will reset in the next five years, and half of those loans will be upside down, meaning they're worth less than the amount owed.

#### **For more information on BOMA, its members or issue positions please contact:**

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