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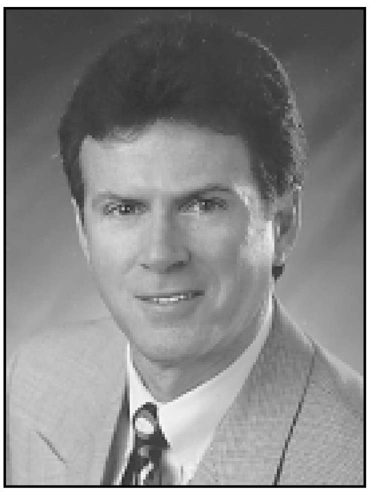
Reevaluate your taxes! Assessments are frequently calculated with outdated factors

Hemisphere Holdings Corp. has been actively challenging real estate tax assessments for apartment complex owners throughout upstate New York for the past 10 years. During this time I have performed over 160 tax grievances and the primary reason for my high success rate has been exposing the out-dated market factors that many assessors have used in calculating market values. The following is a brief explanation of the three factors used in the widely accepted band of investment technique which appraisers and assessors use to calculate the market value of an apartment investment property for assessment purposes:

Tax Portion: Let's assume a municipality is using a 100% equalization rate which is the current trend, and the total tax rate is $35 per thousand which is about the average for a full valued city or town. Multiplying the $35 (tax rate) by 1 (equalization rate) and dividing by 1,000, you have a .0350 tax factor.

Lender's Portion: Let's assume the prevailing lending terms for apartment mortgages is 75% loan to value at



9% amortized over 20 years. This equates to a .1004 (loan constant) and when this is multiplied by the .75 (loan about) you have a .0809 lender's factor.

Investor's Portion: The 1986 tax law creating the 27.5 year depreciation table has made tax benefits of apartment ownership almost negligible. This law was also a key element in the resulting overall devaluation of apartments in upstate New York from the '80s into the '90s. With property appreciation now in doubt, this has left cash flow as the primary benefit and concern of apartment buyers in our market. Through most of the 1990s other forms of investment such as money markets, mutual funds and stocks have been returning easily between 5% and 20% interest without the risks, aggravation, illiquidity, and time investment required of real estate ownership. Therefore, buyers of apartments in the upstate N.Y. market required at the very least 20% interest before tax on their invested cash. This allows for the unforeseen expenses that always occur which will invariably bring their return on cash investment below 20%. So when this .20 (return) is multiplied by the .25 (down payment), you have a .05 investor's factor.

The overall cap rate for the purposes of assessing apartments should be the sum of these three rates. Therefore: .0350 + .0809 + .05 = .1659 or 16.6%.

This overall cap rate is very crucial because it is then applied to the net operating Income of the property to arrive at the assessed full value of the property. Since the tax factor and lender's factor are given figures and easily identified by matters of record, it leaves only the investor's factor open to subjectivity and interpretation. It has been my experience that given the same set of circumstances as this example, many assessors are using overall cap rates between 10% and 14%. This requires that these assessors are assuming acceptable return rates of investors are between 5% and 10% on invested cash. Return rates such as these may have been the norm in the '60s and '70s but certainly since the tax laws were drastically amended in 1986, these return rates have increased to at least 20%.

Cash flow is king in this marketplace but many tax assessments are still out of step with the market changes that have transpired in the past 15 years. Hemisphere Holdings Corp. answers this problem by tracking the apartment transactions in upstate New York and the evidence I collect allows me to continue educating assessors on the current market.

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