JUNE 2024

# Rising property taxes squeeze warehouse occupiers and limit rents

savills.us

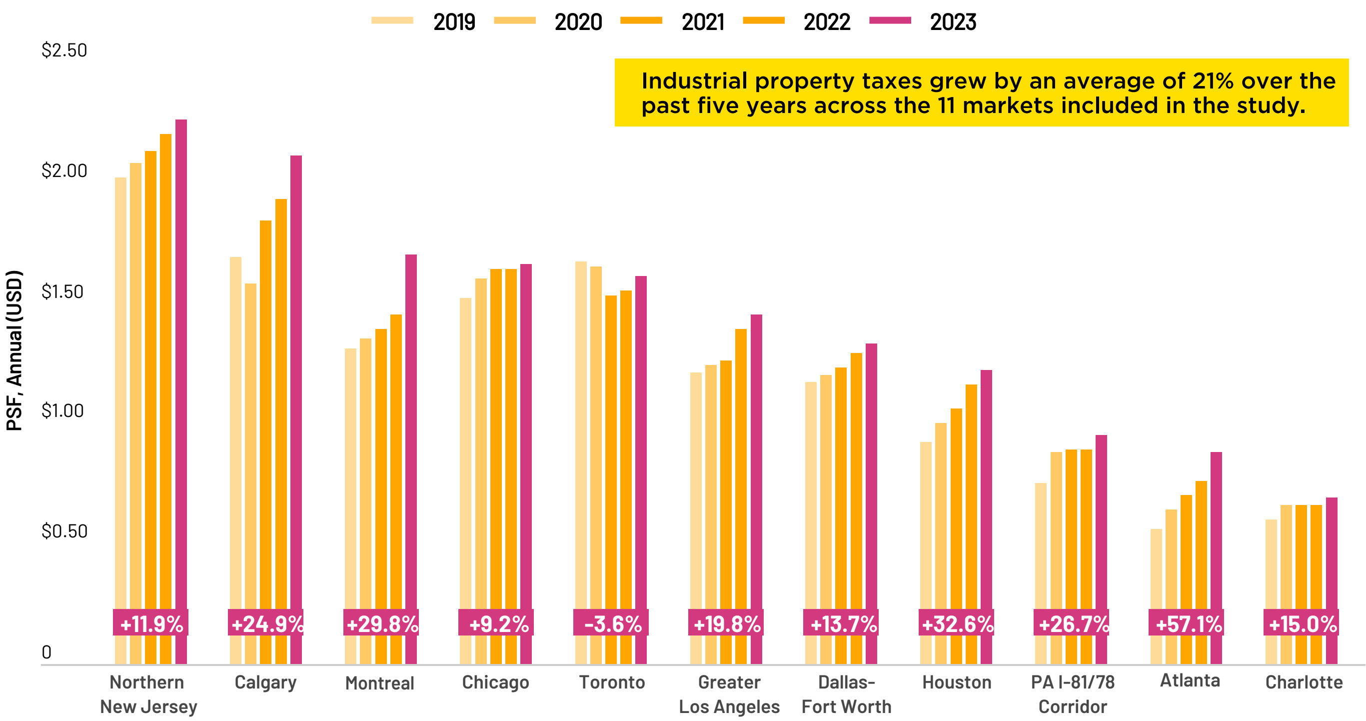
savills

**While higher vacancy rates and stabilizing rents have offered some relief to tenants, property tax sticker shock is emerging as a new pain point for warehouse occupiers, who often reimburse expenses on triple-net leases.** Tax bills for industrial buildings are experiencing significant jumps due to reassessments as taxing jurisdictions catch up to rising sale prices, which have surged an average of 70.4% over the past five years across 11 major U.S. and Canadian markets. Since property taxes are a crucial part of most municipal budgets, taxing bodies will continue aligning assessments with market values, raising the yearly levy on industrial assets. With the industrial property sector outperforming all other major asset types, more of the local property tax burden will continue to shift onto warehouse occupiers.

Savills Research conducted an in-depth analysis on the growth of property taxes and assessed values across a representative sample of modern industrial facilities in 11 major markets in the U.S. and Canada, uncovering the following key findings:

- Property taxes vary widely, with market averages ranging from $0.69 to $2.26 per square foot, accounting for **6.9% to 19.3% of total occupancy costs.**
- Over the past five years, property taxes on industrial buildings in the study markets **have grown by 21.3%**, primarily due to a 29.6% increase in assessments.
- **Additional increases** in property taxes **are expected** as assessments catch up to sale prices, which have grown by 70.4% compared to 4.3% for other commercial real estate sectors.
- The degree of **underassessment varies by market**, putting Toronto at the highest risk (10/10) for future tax hikes, while Dallas-Fort Worth and Houston have the lowest exposure (1/10).

## Industrial Property Taxes by Market: Five-Year Trend



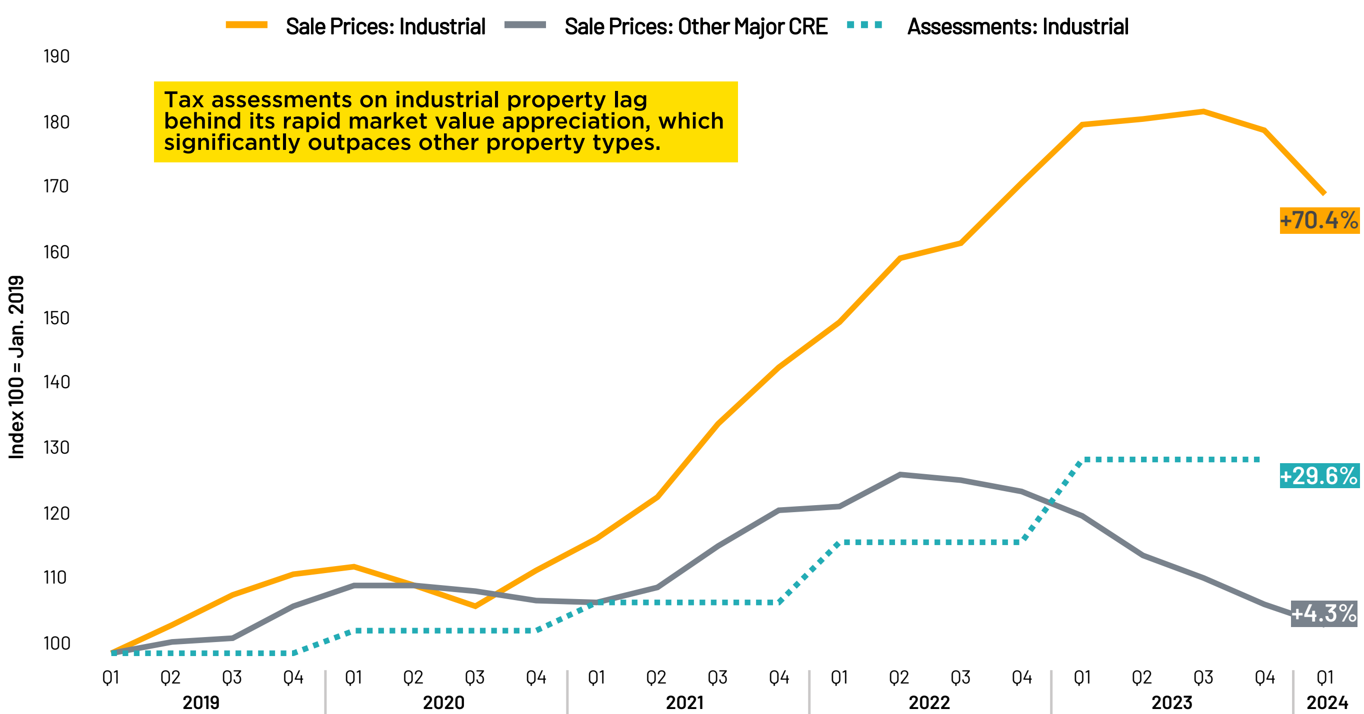

Note: Analysis based on representative sample of properties greater than 100k sf and constructed since 2000.
Source: County and municipal assessors' offices; Canadian data converted to USD at rate of 1 CAD = 0.73 USD.

High-tax states such as New Jersey and Illinois unsurprisingly host the highest property tax burden among the selected U.S. markets but are seeing below-average increases. Conversely, Atlanta and the Pennsylvania I-81/78 Corridor have significantly lower taxes on a per-square-foot basis but have observed notable five-year tax growth of 57.1% and 26.7%, respectively. Property taxes can be a significant expense, accounting for an average of 12.0% of a tenant's total occupancy cost across the analyzed markets, reaching up to 19.5% in Chicago. For example, a 500,000-square-foot building in Toronto, under current assessment and millage, may face a tax bill of around $1.1 million CAD, a figure that is expected to increase when province-wide reassessments resume.

**Comparing property taxes across markets is not straightforward,** with key differences in policy, incentives, assessment cycles, and composition of the tax base. Examples include:

- California's Proposition 13 limits assessed value increases to 2.0% unless the property is sold, resulting in a 327.0% average increase for recently sold properties versus 10.0% for unsold ones in the sample.
- New Jersey's PILOT (Payment in Lieu of Taxes) programs offer developers a fixed-term payment lower than standard property taxes to encourage urban infill development.
- The Toronto assessment cycle was disrupted by COVID-19, causing 2023 and 2024 property assessments to be based on 2016 values.
- More than 45 million square feet of new industrial development over the past five years in Will County, Illinois, has increased the tax base enough to reduce millage rates.

## Sale Prices vs. Assessments: Five-Year Growth




Note: Analysis includes select 11 industrial markets across U.S. and Canada; Other Major CRE defined as office, retail, and multifamily.
Source: MSCI Real Capital Analytics, county and municipal assessors' offices

The increase in property taxes has been largely driven by increased assessments, which have grown by 29.6% in five years. Municipal taxing bodies continue to play catchup with market values, which have grown at more than double the pace. This sets the stage for the risk of additional increases in assessments and even higher property taxes. It is important to understand that industrial properties are only a portion of a jurisdiction's tax base, which also includes other major commercial real estate as well as single-family residential. The industrial sector has significantly outperformed other CRE types, with market value appreciation that has even outpaced the notable recent rise in home prices, which the Case-Shiller Index measures at 54% nationally over the last five years. This sustained bifurcation is driving a shifting share of the municipal tax burden onto industrial property.

### Reassessment Risk Analysis By Market

| | Example Taxes on 500k SF Building | | Assessment | Market Value | Reassessment Risk |
|---|---|---|---|---|---|
| Market | 2023 Total (USD) | 5-Year Increase | 5-Year Increase | 5-Year Increase | 10 = Highest Risk |
| **Atlanta** | $438,731 | $157,021 | 59.2% | 73.0% | 3 |
| **Calgary** | $1,054,043 | $207,362 | 30.8% | 50.5% | 4 |
| **Charlotte** | $346,272 | $44,525 | 33.0% | 39.3% | 2 |
| **Chicago** | $831,449 | $73,398 | 8.4% | 39.1% | 7 |
| **Dallas-Fort Worth** | $667,107 | $80,196 | 47.9% | 48.4% | 1 |
| **Greater LA** | $724,355 | $117,215 | 26.0% | 79.6% | 7 |
| **Houston** | $608,064 | $148,446 | 43.3% | 23.9% | 1 |
| **Montreal** | $850,996 | $195,165 | 54.2% | 97.7% | 5 |
| **Northern NJ** | $1,129,658 | $120,554 | 23.8% | 80.0% | 7 |
| **PA I-81/78 Corridor** | $476,066 | $98,974 | 6.4% | 55.0% | 8 |
| **Toronto** | $806,943 | -$30,450 | 0.0% | 133.8% | 10 |

Note: Market value increase based on average sale price increase; reassessment risk reflects gap between the 5-year increase in assessment vs. market value.

Savills Research identified markets with the highest inherent reassessment risk and thus the highest potential for property tax increases. The rankings are derived from the margin between the five-year market value increase and the increase in assessments. Toronto stands out due to its unique assessment cycle and disruption, which translates to an eight-year lag. Comparatively, assessments in Dallas-Fort Worth and Houston have tended to keep pace, presenting a relatively low risk of significant reassessment in the near term and potentially even options to appeal.

While a softer market is providing occupiers with some relief and near-term rent stability, the gap between property tax assessments and market values poses a risk of significant unexpected increases in occupancy costs. Tenants must perform due diligence to understand the intricacies of local assessment and property tax calculations. Also, continued property tax hikes could limit rent growth, as occupiers approach the maximum costs they can absorb, restricting landlords from raising rents further. This dynamic underscores the critical importance of considering location-specific property tax dynamics and reassessment risks in any transaction.

For more information, please contact:


**Mark Russo**
Vice President,
Industrial Research
mrusso@savills.us
+1 201 556 4994

**Chris Bauers**
Senior Research
Analyst, Industrial
cbauers@savills.us
+1 267 256 7564

**Thom Slater**
Research Analyst
tslater@savills.ca
+1 587 387 7275




**savills.us**