



The Chamber

For a Greater Chapel Hill-Carrboro

Property Tax Impact on Local Businesses

May 15, 2024



**What impact does a
property tax increase have
on local businesses?**

Bottom Line

- The impact on business is inconsistent depending on...
 - Type of Enterprise
 - Retail vs. Office vs. Property Owner
 - Existing (incremental) vs. New (barrier to entry)
 - Uneven Impacts of Revaluation

No surprise here:

- Modest, infrequent increases, on stable valuation = modest impact for most businesses
- Larger, more frequent increases on increasing valuation = significant impact

Full-Service Lease (office users)

A full-service lease (sometimes called a Gross Lease) is a lease agreement on a property where the tenant pays a flat rate and the landlord pay the operating costs of building including taxes, insurance, common area maintenance, and sometimes some utilities and cleaning fees.

*When taxes go up, the tenant's expenses do not change

Triple Net Lease (retail/restaurant)

“A triple net lease (triple-net or NNN) is a lease agreement on a property where the tenant promises to pay all expenses, including real estate taxes, building insurance, and maintenance.”*

*When taxes go up, the cost to the tenant goes up.

(TICAM = Taxes, Insurance, and Common Area Maintenance)

*Source: <https://www.investopedia.com/terms/t/triple-net-lease-nnn.asp>



Example: Top of the Hill Restaurant

Building Size: 55,935 sq.ft.

Top of the Hill: 9,115 sq.ft. (16.3% of building)

Building Value: \$9,746,700

Property Tax Bill: \$ 166,628

Topo's Tax Bill: \$ 26,520 (\$2,210/month)

Example: Top of the Hill Restaurant

	<u>Annual</u>	<u>Monthly</u>
Rent:	\$196,800	\$16,400
Property Tax:	\$ 26,520	\$ 2,210
Ins + CAM:	\$ 13,620	\$ 1,135
	\$236,120	\$19,745 per month

2024 Property Value and Property Tax

Business Type	Assessed Value	2024 Real Estate Tax Bill
Mama Dips	\$1,658,400	\$27,684
Top of the Hill	\$1,608,206	\$26,520
W. Franklin St. Office Building	\$7,584,300	\$126,605
Timberlyne Area Pharmacy	\$4,542,300	\$72,918
Siena Hotel	\$8,911,800	\$143,061
Midtown Bookstore	\$1,351,158	\$21,690
Berkshire Apartments	\$80,124,700	\$1,286,242
Merritt's Grill	723,300	\$11,611

*Source: <https://www.orangecountync.gov/897/Tax-Rates-and-Fees-Information>



Side Note

- Leasehold improvements
- Personal Property Tax



Property Tax Bill Increase 2024 to FY25

Business Type	2024 Tax Bill	FY2025 Proposed Tax Bill*	Increase
Mama Dips	\$27,684	\$28,481	\$798
Top of the Hill	\$26,520	\$27,285	\$764
W. Franklin St. Office Building	\$126,605	\$130,253	\$3,648
Timberlyne Area Pharmacy	\$72,918	\$75,102	\$2,185
Siena Hotel	\$143,061	\$147,348	\$4,287
Fly Leaf Books	\$21,690	\$22,340	\$650
Berkshire Apartments	\$1,286,242	\$1,324,782	\$38,540
Merritt's Grill	\$11,611	\$11,959	\$348

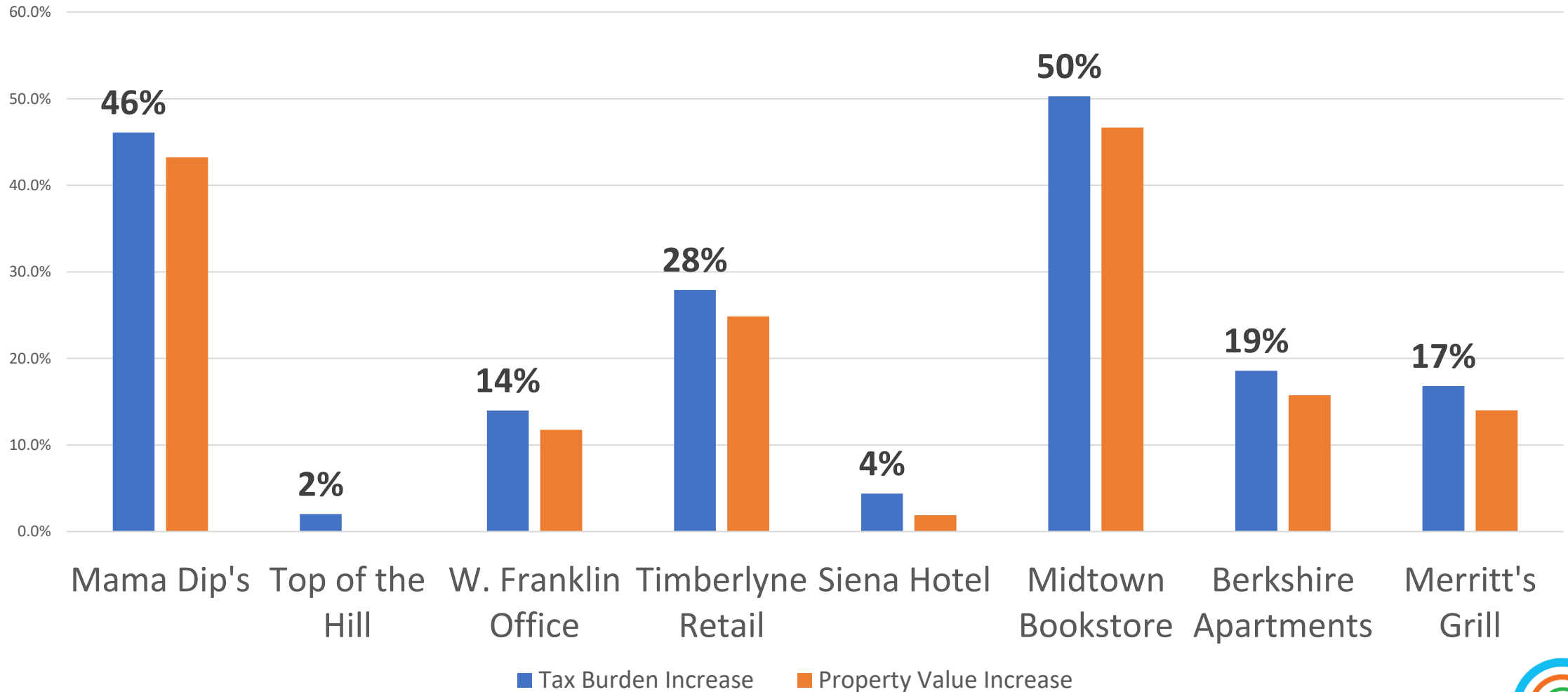
*Assuming 2 cent increase from Chapel Hill and 2.81 cents from County



Property Tax Increase FY2021 to FY2025

Business Type	2020 Assessed Value	FY2021 Tax Bill	2024 Assessed Value	FY2025 Proposed Tax Bill*	Increase
Mama Dips	\$1,157,800	\$19,494	\$1,658,400	\$28,481	46% (\$8,987)
Top of the Hill	\$1,588,370	\$26,743	\$1,588,712	\$27,285	2% (\$730)
W. Franklin Office	\$6,787,100	\$114,274	\$7,584,300	\$130,253	14% (\$15,789)
Timberlyne Area Pharmacy	\$3,638,200	\$58,710	\$4,542,300	\$75,102	28% (\$16,393)
Siena Hotel	\$8,746,100	\$141,136	\$8,911,800	\$147,348	4% (\$6,212)
Fly Leaf Books	\$921,147	\$14,865	\$1,351,158	\$22,340	50% (\$7,476)
Berkshire Apts	\$69,227,900	\$1,117,131	\$80,124,700	\$1,324,782	19% (\$207,651)
Merritt's Grill	\$634,400	\$10,237	\$723,300	\$11,959	17% (\$1,722)

Percent Change FY2021 to FY2025



Property Tax as Barrier to Entry

A. Downtown Retail (11,600sqft)	Prop Tax	\$37,299
B. Restaurant (3,657sqft)	Prop Tax	\$33,414
C. Midtown Bookstore (6,000sqft)	Prop Tax	\$21,900
	Rent	\$126,000
	TICAM	\$ 17,400
	TOTAL	\$165,300

Two final things

- Revaluation and “neutral rates”

- Impact of Vacancy

- 40,000sqft bldg. \$7.5million \$123,000 taxbill
- If fully leased \$13.6million \$227,025 taxbill
- Request a reval \$3.2million \$ 52,000 taxbill