

S.C. laws leave commercial properties untaxed

\$2.67 billion worth of commercial property in Charleston County went untaxed in 2017

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When South Carolina radically altered the way real estate is taxed, the focus was on homeowners, but changes effective in 2007 and 2012 have also taken billions of dollars worth of commercial property off the tax rolls across the state.

In Charleston County, for example, real estate worth more than \$3.6 billion went untaxed in 2017. Most of it, valued at \$2.67 billion, was commercial and rental property.

In Horry County, Councilman Gary Loftus, who is director of the Grant Center for Real Estate and Economic Development at Coastal Carolina University, was not surprised the changes exempted more commercial property value from taxation than residential property.

That's because a single commercial property could be worth millions of dollars, he said, and it takes a lot of houses to add up to that much.

Historic changes to property taxation in South Carolina approved in 2006 included a voter-approved amendment to the state constitution, and called for slashing the burden on homeowners and a limit on future property tax increases, in exchange for a higher sale tax. And the rule changes have done that.

"Our taxes in South Carolina, for (owner-occupied homes), are silly low, compared to other states," said Charleston County Assessor Toy Glennon.

Business groups complained that the tax overhaul, Act 388, shifted the property tax burden to commercial properties because owner-occupied homes were no longer taxed to fund public school operations.

But Act 388 and a subsequent law passed in 2011 also greased the wheels for commercial property deals.

Together, the laws keep many properties from being taxed on what they are actually worth, and have exempted 8 percent of the value of all commercial property in Charleston County from the tax rolls. In nearby Berkeley County, more than 7 percent of commercial real estate was exempt from taxation last year, compared to less than 1 percent of residential real estate.

"I don't think they intended for it to be this way," said Darlington County Assessor Kyle Johnson, president of the S.C. Association of Assessing Officials. "I would have thought that residential (property) would have had the most."

When some properties are taxed at less than their true value, that generally shifts the tax burden to other properties.

"There are a lot of changes that the state legislature passes, every year, that tweak the property tax base," said Charleston County Budget Director Mack Giles. "There is some impact, but it's not so bad."

One of those tweaks was a 2011 law that keeps many commercial properties from being fully taxed following a change in ownership. When that law was passed, some developers said it



The Boulevard apartments in Mount Pleasant are among commercial developments that may not have happened without a business property tax break approved in 2011.

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made possible deals and construction projects that would not have happened otherwise.

For example, The Beach Co. President John Darby said in 2012, when the law took effect, that it made financing The Boulevard apartment complex in Mount Pleasant financially feasible, along with other apartment projects the company planned in Greenville and Columbia.

"The projects that we have on the drawing board wouldn't be on the drawing board" if the law hadn't changed, Darby said at the time.

Here's why: Before the law changed in 2011, when any property changed ownership, its taxable value was reset. If a \$15 million commercial property were sold for \$20 million, the property taxes would have shot up by 33 percent, with a big impact on the cost

of the deal and financing.

The change in law gave commercial properties a discount of 25 percent, when tax values are recalculated after a sale. So a \$15 million property sold for \$20 million would see no increase at all in its taxable property value as long as the buyer requests the exemption.

"If you've got a property with a low assessed value, and somebody purchases it, having that exemption is a big deal," said Chris Fraser, managing director of commercial real estate firm Avison Young's South Carolina offices in Charleston and Greenville.

The exemption, said Glennon, appears to have had the intended effect.

"It was intended to encourage commercial purchasing," she said, and to compensate for some of the shifting of the tax burden from residential to commercial property.

Johnson, in Darlington County, said the benefit of the 25 percent discount is likely concentrated in fast-growing metropolitan areas, where property values are rising and the commercial real estate market is robust.

"We don't really have that many (requests for the exemption)," he said. "I think we have had four in the past two years."

Governments generally set property tax rates by looking at what taxable properties are collectively worth, then setting a tax rate that delivers the desired amount of dollars. Untaxed real estate costs Charleston County about \$5.8 million in annual taxes, but the county doesn't lose money so much as make it up from the remaining tax bills.

Across that county, the market value of all commercial and own-occupied properties has increased from \$44.86 billion in 2007 to \$68.3 billion last year. So the tax base has grown tremendously despite the several billions in property value that go untaxed.

Fraser has been chairman of both the Charleston County school board and the Charleston Metro Chamber of Commerce, so he's seen the impact of the assessment caps and the 25 percent exemption from both sides.

"All of this just backs in to the (property tax) rate anyhow," Fraser said. "You're just moving the money around."

"Every time we do these things there are unintended consequences, and winners and losers," he said. "We're moving the cheese around the cheese tray, but it's the same cheese."

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