The “Walgreen’s Lease Loophole” Defined

There are actually two assessment theories used by commercial and manufacturing property owners to artificially lower their taxes. One has been labeled the “dark store” theory, while the other has been coined the “Walgreen’s lease loophole”. The dark store theory involves manipulating the comparable sales assessment approach in order to shift taxes to home owners and small businesses. The Walgreen’s lease loophole manipulates the use of market rents to artificially decrease taxes.

Market Rent Manipulation

The second loophole is the result of a court decision between the City of Madison and Walgreens and relates to the income method of assessment.

Essentially, the courts have said the actual lease rate for a property cannot be used for assessments in certain cases. The assessor must use “market” lease rates to determine the income capability of the property. So even if a property owner has a lease for twice the market rate, the market rate would still apply. For example, if the subject property has a monthly lease of $4,000, but the market rate is $2,000, the lower rate must be used. Even in cases where a national drug store building is sold, the courts have found those are not valid sales for determining property value, deeming them not arms-length. This means the property is essentially valued substantially less than it would on the open market.