

Valuation of commercial real estate for Real Estate Tax in light of the COVID-19 pandemic



As per January 1, 2021 the tax authorities will provide all owners of real estate on Bonaire with a new valuation for the properties owned for the purpose of Real Estate Tax assessments for the years 2021 up to 2025. The last valuations have been done in 2016. We kindly like to request your attention for the following

Valuations in times of the COVID-19 pandemic

Because of the unprecedented situation regarding the COVID19 pandemic we researched the impact on the real estate market on Bonaire, in particular the hotel, timeshare and lodging industry. According to our research and after consulting with US experts in the field of appraisal of commercial real estate, in particular for hotels, timeshares and lodgings, the hotel properties in the US specifically have in general devaluated between 20% and 35% in value due to the effects of the pandemic on the US economy and especially on the leisure market.

After consultations with US experts and based on our research we are of the opinion that the impact on hotel valuations in Bonaire should be even greater taking into consideration Bonaire's economy is almost complete dependency on tourism (90% of the economy is tourism) and also taking into consideration that Bonaire has been estimated to have the largest GDP contraction in the world due to the pandemic. Therefore, we feel that the hotel valuations in Bonaire could have sustained a depreciation in value of up to 50% in 2020 (depending on the specific circumstances of each property). Further, according to our research and after consultations with US experts we feel that it is likely that the leisure market in particular will bounce back slower than other markets and that pre-COVID19 levels will likely be attained again after at least several years.

Real Estate Tax

According to article 4.6 BES Tax Law, the real estate will be valued as per the state it is in at January 1, 2021. In our opinion, the impact of the COVID-19 pandemic should be taken into account. The lower value will be carried through for the entire 5-year term (2021-2025).

Example

In light of the above, we have provided a calculation below of the savings impact a hotel and any other business with significant real estate assets can attain if it were to justify a depreciation in its property of 50%.

For the calculation we have used a property valuation of USD. 50,000,000 pre-COVID19, a deemed interest of 4% and a taxable rate of 10% in order to calculate the savings if a depreciation in value of 50% would to be sustained post-COVID19. For other commercial real estate, the tax rate would amount to 17.5% and therefore the impact of a depreciation of the value would increase.

Property valuation pre-COVID19		
Year	Value	Real Estate Tax
2021	50,000,000	200,000
2022	50,000,000	200,000
2023	50,000,000	200,000
2024	50,000,000	200,000
2025	50,000,000	200,000
	Total	1,000,000

Potential property valuation post-COVID19		
Year	Value	Real Estate Tax
2021	25,000,000	100,000
2022	25,000,000	100,000
2023	25,000,000	100,000
2024	25,000,000	100,000
2025	25,000,000	100,000
	Total	500,000

Valuation of the property

Taking the above into consideration we feel that in the best-case scenario there is a potential to save 50% in Real Estate Tax over the course of 5 years if the depreciation in value were to be sustained.

Given the complexity of the valuation process, we would however strongly advise to act pro-actively in this matter and ensure you have a valuation of the property before the tax authorities start the valuation process.



Contact

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