

# **Bond Case Briefs**

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## **Why Bond Investors Should Avoid Big-Box Retailers.**

Unless you are a commercial real estate expert, tax assessor or bond geek, you've probably not heard of the retail Dark Store theory. This may sound a bit hair-brained but it's 100% true.

Many big-box retailers—names with which you are familiar such as Target, Lowe's Home Improvement, Wal-Mart, CVS and Home Depot—are appealing their property tax assessments. They are claiming the appraisal should be based on the store's vacant or "dark" value.

It is abundantly clear that Internet sales are crushing the old brick and mortar retailers. This has given the large box retailers that are still standing new incentive to sue for massive property tax reductions. Arbitrations and lawsuits are flying. It's not happening just in little towns or counties. This property tax litigation wave is in Dallas, Houston, Indiana, Madison Wisconsin and Michigan, to name a few.

Litigation costs are soaring for these municipalities, already with scarce resources to fend off the lawsuits. Eventually, they will have to settle for a reduction in their property tax revenue rather than go broke trying to prove they're right.

What does this have to do with bond investing?

Everything! Everything you've grown to believe about why municipal bonds are secure. Think about it. A big-box retailer wins a major property tax reduction suit. That municipality's revenues decline. And in the process it incurred massive litigation expenses that were never budgeted. Any way you cut it, this contributes to revenue deficiencies.

According to a *Bond Buyer* February 21, 2017 article, "Dark-store assessment theory has prevailed in legal battles in Michigan, Indiana and other states, contributing to millions in lost local tax revenue."

I have railed for years that General Obligation bonds no longer take priority in our investment protocol. Nor should they in yours. Revenue bonds that have a dedicated revenue stream beat out GOs. Now, in some areas, property taxes are in decline and may be in permanent jeopardy as the Internet not only disrupts retailers but the areas in which they reside.

So keep it simple and safe. Invest in senior lien airport revenue bonds only from major hubs—no regionals. Invest in water & sewer municipal bonds in economic upscale areas. Invest in personal income tax bonds, toll bridges and turnpikes.

Internet disruption will only amplify. Don't let it affect your munis.

**Forbes**

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