

Commercial property assessment
in California:
the reverse of good economics

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Failure to reassess commercial property under Prop. 13

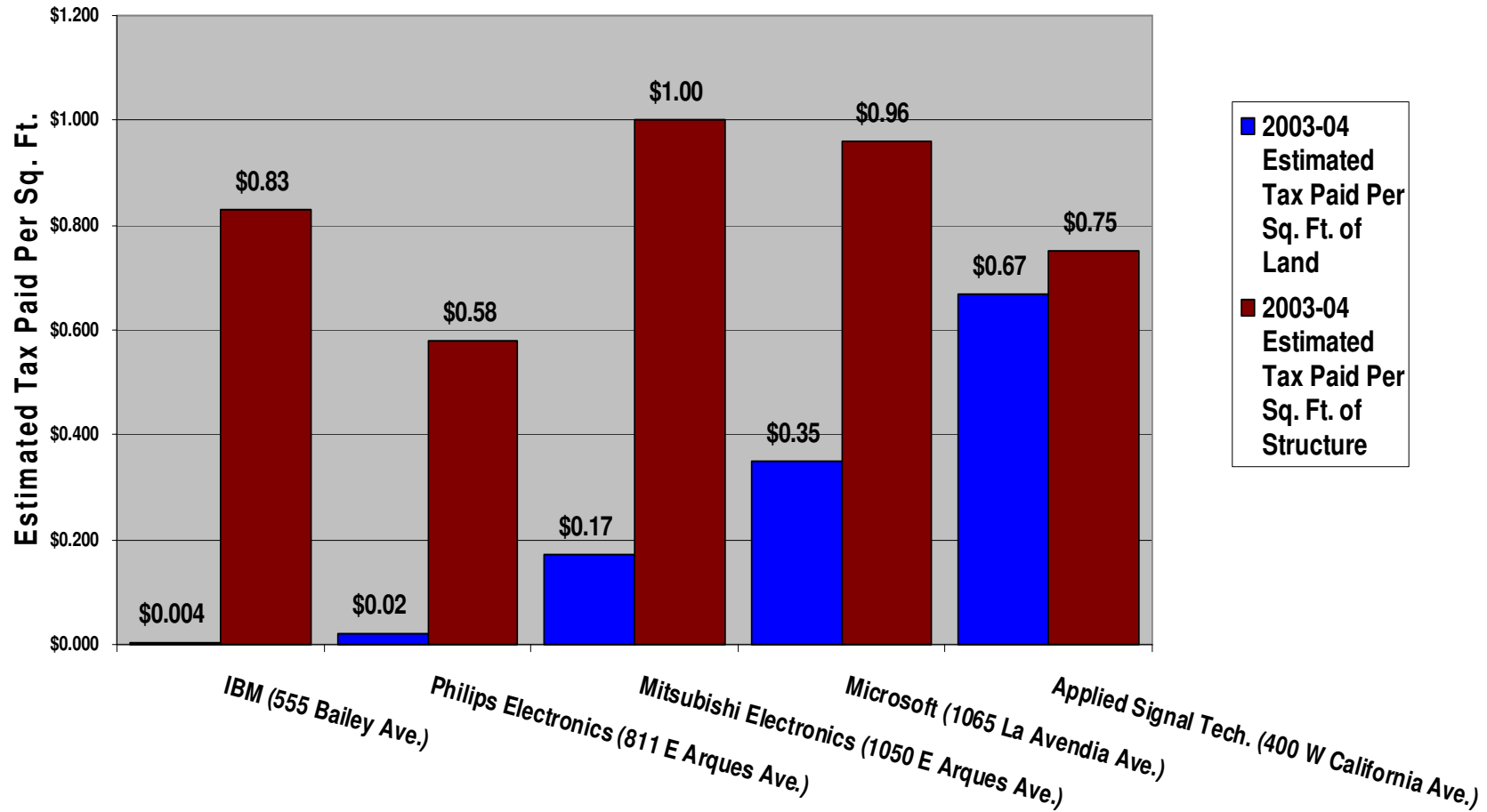
- Economically indefensible: Failure to capture economic rents, taxes new investment uncompetitively
- Legally flawed: “change of ownership” inapplicable to complexities of commercial property ownership, more loophole than tax
- Environmentally damaging: no cost to holding land off market, encourages speculation and sprawl, encourages big box retail
- Fiscal policy failure: no public returns from non-retail commercial growth, no virtuous cycle of infrastructure investment, burden shift to homeowners

The reverse of good economics

- Windfalls accruing as the result of investment by others (private or public) are untaxed
- New investment taxed heavily to pay for inability to capture land values (buildings, not land, fees and exactions)
- Competitors taxed wildly differently
- Land values are function of stream of income—no rationale for lock-in effect
- Job-generating investments do not pay for itself, compared to alternatives

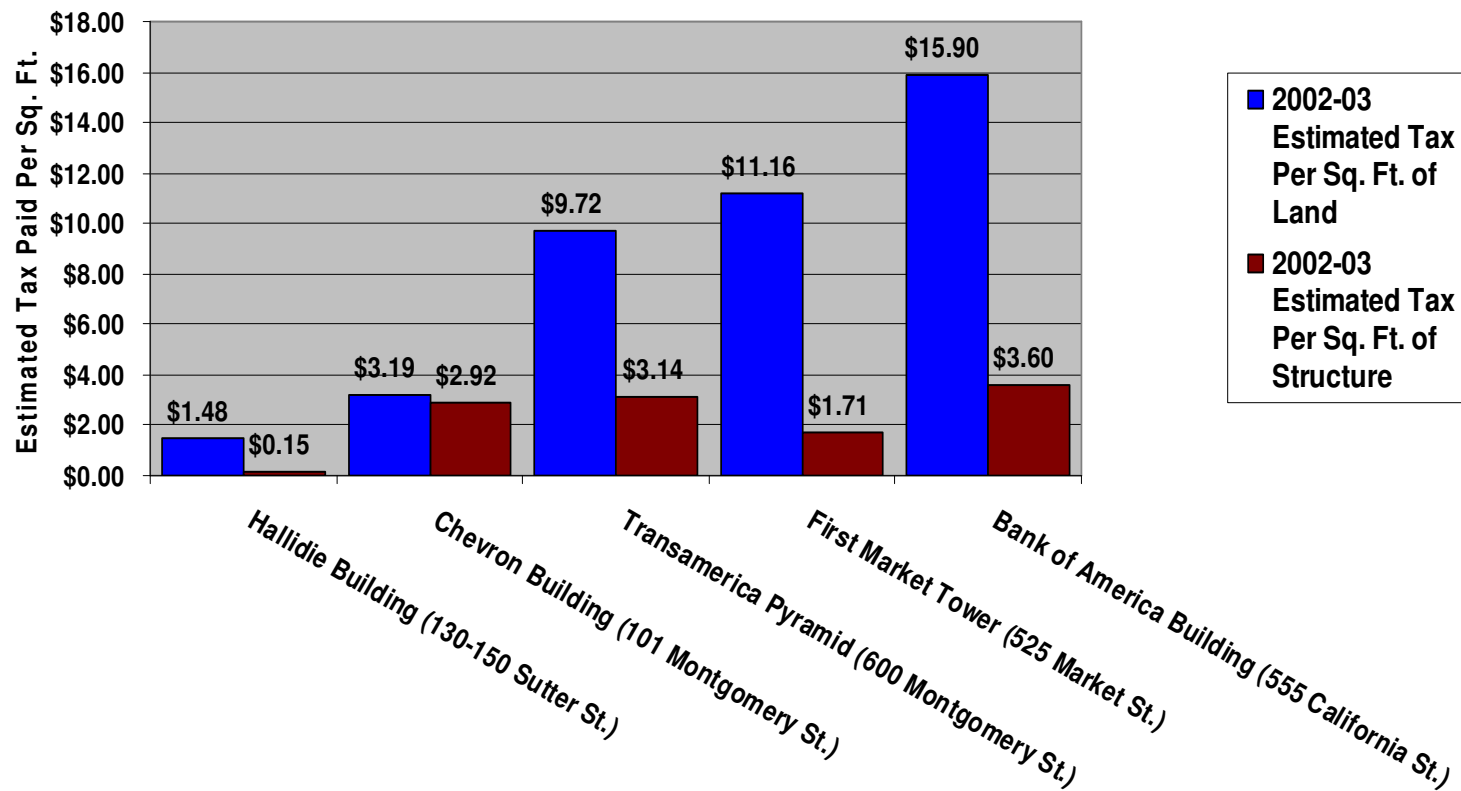
Santa Clara: high tech

Disparities in Property Taxes Paid for Select Santa Clara County Properties

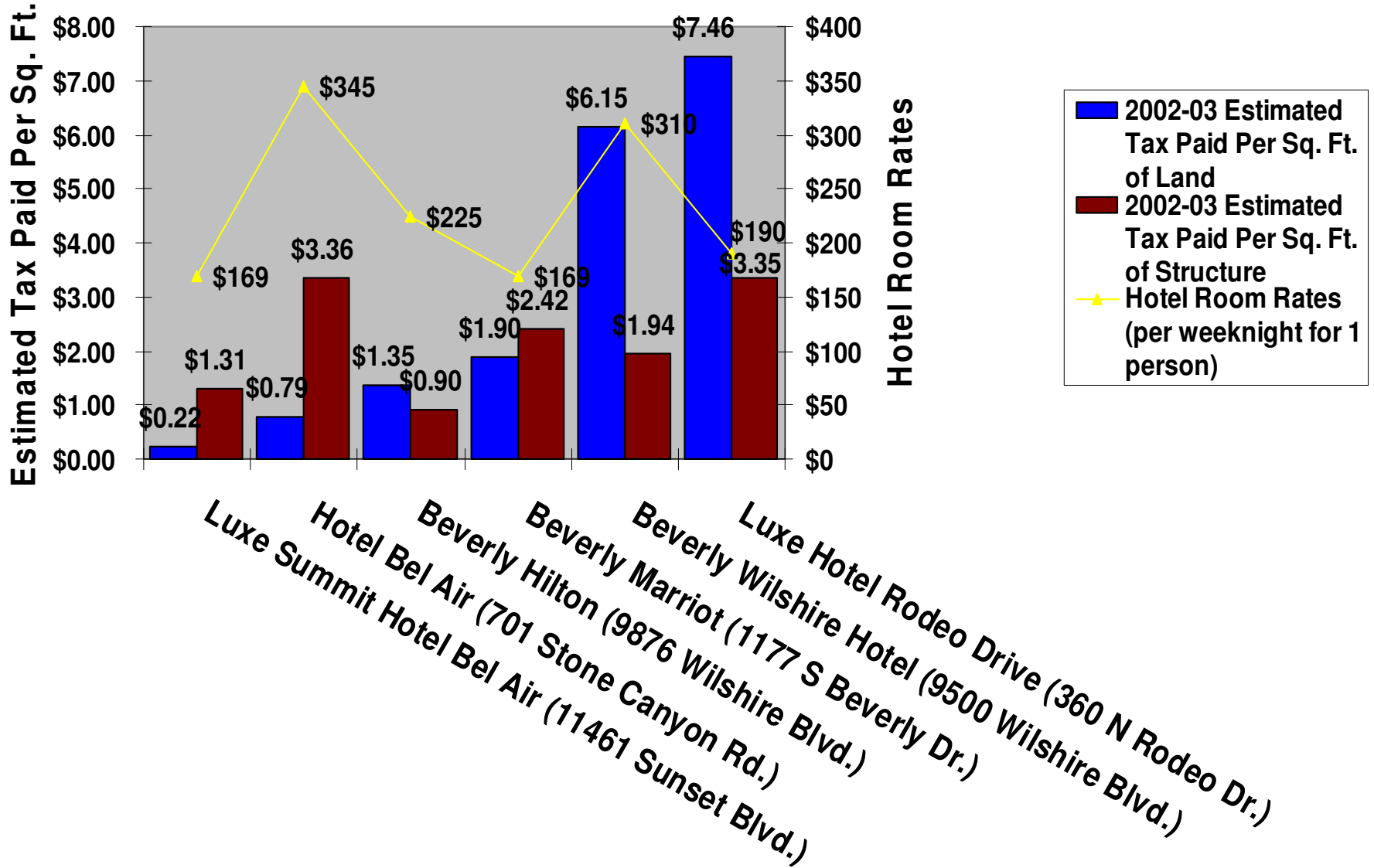


SF: downtown office buildings

Disparities in Property Taxes Paid for Select San Francisco Office Buildings



Disparities in Property Taxes Paid for Select West Los Angeles Hotels



Taxing new investment

- New manufacturing/research facility:
 - pays full market value on inflated land value
 - pays sales tax on installed equipment
 - pays yearly property tax on equipment
 - Increases apportionment factors if multi-state
 - pays exactions, mitigations, fees, easements to cover infrastructure and growth costs
 - Still doesn't generate sufficient local revenue over time (at least comparatively)

Legal morass

Complexity of holdings makes change of ownership impossible to define and/or track (REIT's, publicly-traded corps, limited partnerships, Sub S corps, LLC's, etc)

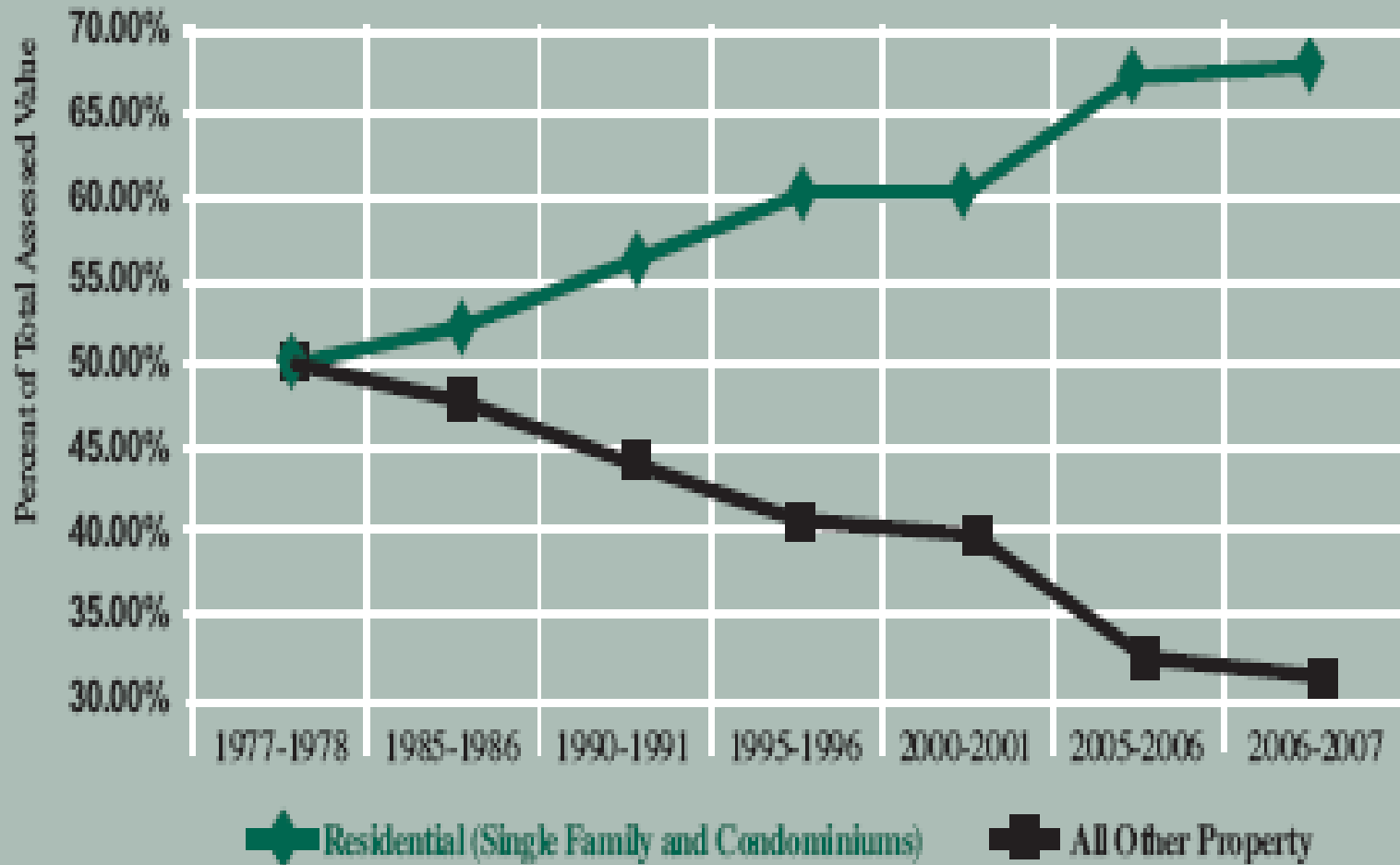
E.g. Martini to Gallo partners, 100% sale, no change of ownership

Can manipulate change or no change as matter of convenience/tax savings

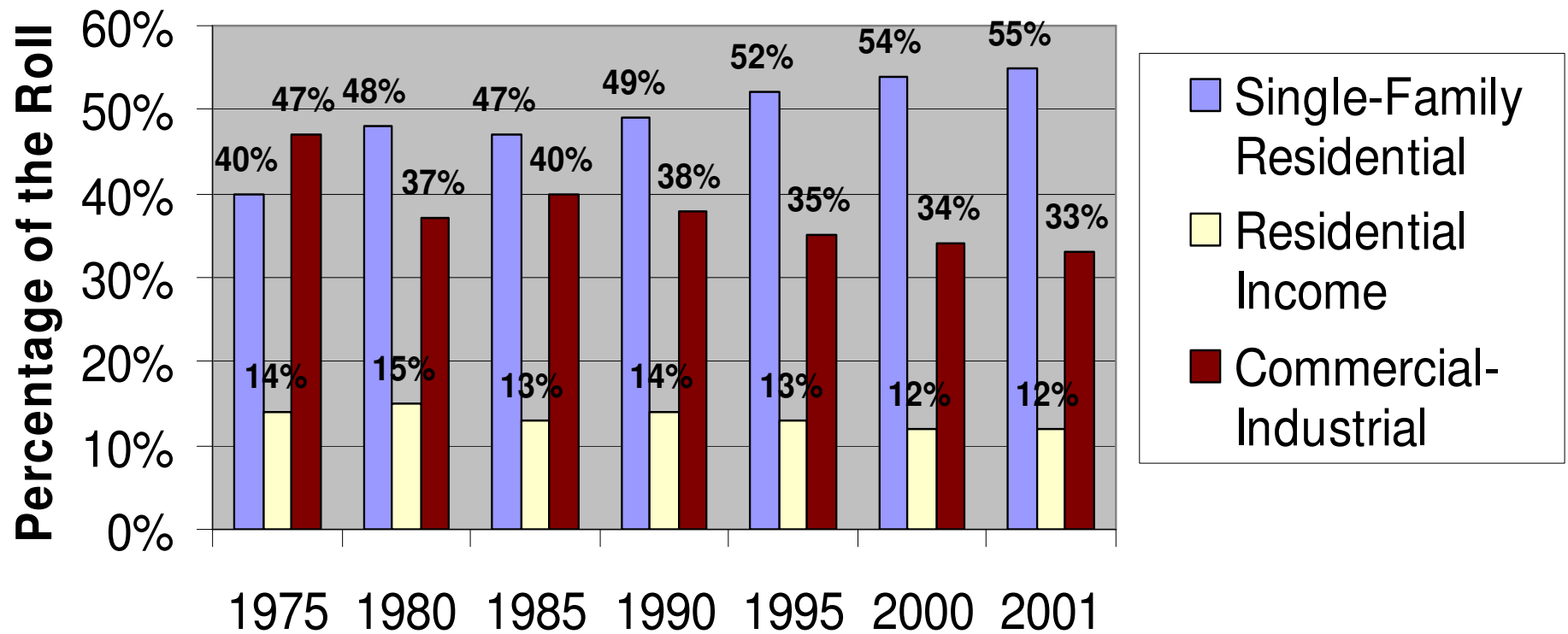
Fiscal failure

- Inability to pay for infrastructure—short-circuits virtuous cycle of infrastructure investment
- Growth does not generate sufficient revenues, because no spillover impacts, leading to anti-growth local politics
- Burden shift to homeowners: statewide, from 32% to 40%

Historic Trend of Assessed Values in Santa Clara County



Historical Trend of Property Tax Burden in Los Angeles County



Source: Los Angeles County Assessor's Office

Environmentally unsound land economics

- No penalty for withholding land from market, promotes speculation and sprawl
- Land values inversely related to tax burden, thus land value inflation
- Low-value infill uses maintained
- Big box retailing: best fiscally, worst land-use
- Insufficient returns to growth

Simple policy solution

- Reassess non-residential property to market value, on a periodic basis = \$4-5 billion annually (or more).
- Allocating the revenue: cities and counties (Prop 1A) and schools (Prop. 98)
- Other issues:
 - Why not statutory change?
 - Why not apartments?
 - Farms and open space
 - Trade-offs with small business: personal property

Business impacts

- Burden on business as % of land value moves from 49th to 43rd in nation
- Lower land costs—land values inversely related to tax burden on land, and increased by market distortions
- Lower development costs, better development climate—better land market, potential relief in fees because of on-going tax benefits
- Infrastructure investment—local government incentive to improve property values, reinvest
- Level playing field w.r.t. taxes among competitors
- Costs borne by those with untaxed windfall land values, particularly hotels, retail, offices—not manufacturing
- Potential trade-offs on other taxes, other burdens—major, but so far ignored opportunity by business

The Empire's New Clothes

- SD Union-Trib: “Even Prop. 13 Must be on the table”: “While Democrats and Republicans cower before this iconic restriction on property taxes, **they should nevertheless be amenable to an annual reassessment of business and commercial properties.** There can be no sacred cows in confronting California’s catastrophic budget”.
- PPIC Polling: Should commercial property be taxed on the basis of market value?

Yes 60, no 34