

# PTA

# PROPERTY TAX UPDATE

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FALL

2010

## Going at it Alone

Ron. Gangloff Jr. Esq. Vice President

As a consultant and practitioner in the area of property taxation I am frequently faced with the individual or company that is struggling with the idea of going at it alone and handling the appeals process in house. So the theory goes "we can save the consulting fees". At this point in my career, I can say that I don't know it all, but I have seen a lot and I will give the reader just a couple of recent examples of why going alone can cost you a lot more than it will save.

The main reason for hiring an experienced, legally trained firm or practitioner comes down to understanding legal procedure as it relates to appeal filing. I was recently in discussion with one very large company who was representing themselves and failed to timely file their appeals. My estimate put the cost of this error at around three hundred thousand dollars. Whether the error was caused by lack of experience, time or oversight, the result was the same.

Another company was unaware of a provision which would have allowed them to expand the scope of the appeals they filed. Having been to superior court on these issues numerous times and given my dealings with assessment appeals clerks over the years, I can tell you that this issue would not have been missed by an experienced practitioner. The failure to take advantage of that expansion of scope cost the taxpayer about four hundred thousand dollars in tax recovery.

Unfortunately, this has been a re-occurring theme over the years. As a practitioner it is difficult to watch a company make a costly mistake, especially one that is irreparable. I have seen companies successfully represent themselves, but more often than not the benefit was far less than what was anticipated and usually not worth the effort. Furthermore, the best opportunities were left undiscovered.



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## Property Tax Update

### In Honor of Football Season

“Without self-discipline, success is impossible, period.”  
--Lou Holtz

“I learned that if you want to make it bad enough, no matter how bad it is, you can make it.”  
--Gale Sayers

“Build up your weaknesses until they become your strong points.”  
--Knute Rockne

“Show class, have pride, and display character. If you do, winning takes care of itself.”  
--Paul "Bear" Bryant

“The difference between a successful person and others is not a lack of strength, not a lack of knowledge, but rather in a lack of will.”  
--Vince Lombardi

“The road to Easy Street goes through the sewer.”  
--John Madden

# WHAT IS YOUR PROPERTY WORTH WHEN THERE ARE VERY FEW PROPERTY SALES?

Sean P. Keegan, EVP & Principal

Considering the Income Approach to value.

We have witnessed dramatic changes in California real property values during 2009 & 2010. As asset managers, property managers, owner users, and institutions look for ways to reduce costs, the annual review of property tax liabilities may provide tax savings opportunities. This tax liability is based on the Assessor's Property Value which is then multiplied by the tax rate (CA - estimated at 1.1%). For the 2010/2011 Tax Year, tax bills will start to be issued in October.

In the County Assessor's Office, the Real Property Division has already issued their 2010/2011 values for land and improvements. They will review assessments as they are appealed. For properties built or acquired during the period of 2004 through 2008, it is probable that the property values have decreased compared to the County enrolled values. The 2010/2011 county values may not reflect a value decrease which is contrary to the real estate market downturn during 2008-2010. The Assessor's Office will be challenged with the 2009/2010 & the 2010/2011 Appeals due to the fact that for many property types there have been a low number of property sales to provide meaningful sales comparables. This affects our ability to have any meaningful rates derived from these sales (OAR-Overall Rates).

It is important to determine whether the Assessor knows the facts, any limitations to the income (i.e. restrictions, expensive renovations, demand due to newer projects nearby, age, functional obsolescence, or the expected changes associated with your property). We believe that the subject property income and the income approach may be more accurate in valuing your property than trying to find sales comparables.

For the income approach to value, if the Assessor is relying primarily on leasing information (rent roll report) as contracted without making adjustments where the taxpayer is providing several months of free rent to retain a tenant due to current market conditions, then the resulting value estimates will require adjustment. Also, actual vacancy and collections may differ from the Assessor's estimates.

The California Code of Regulations outlines in Rule 8(a), the Income Approach to Value is "used in conjunction with other approaches when the property under appraisal is typically purchased in anticipation of a money income ...". The Assessor's Handbook (AH) 501 states "[T]he income used in rate derivation must be the investor's anticipated income, because the decision to invest in property is directly related to its anticipated return." If the anticipated income is not reasonably accurate for the subject property or a comparable property, it can create a flawed value result. "In direct capitalization, only the next year's income is forecasted." (Advanced Appraisal, AH Section 502, P. 67) However it is beneficial when subject property information is available for two years, currently we do know that rents have decreased and the net operating income may have decreased. It helps in countering the county appraiser's forecasts. This is possible since assessment appeals are not calendared for hearing for more than a year.

In our opinion, the income approach to value provides opportunities for value reductions on properties since real value estimates may be made for the subject property. If the reduction in value is processed and the taxes have been paid, then a refund will be issued. These monies may provide a reduction to operating expenses for the owner-user or these efforts by the landlord create value to the property tenant. To protect your rights for many of the California counties, we will need to file the Assessment Appeal Application by 11/30/10 on your behalf.



# Quotes

**Everytime you smile at someone, it is an action of love, a gift to that person, a beautiful thing.**  
—Mother Teresa.

**We are the true architects of our lives. Only we as individuals and individuals alone, carry within us the inner ability to make any changes to its blueprints.**  
—Robert M. Hensel

**People who lack confidence won't take risks. People without goals won't accomplish their dreams. That's why, if you believe in yourself, you can accomplish anything you set your mind to.**  
—Mike BrockenshireI

**Behind every technological breakthrough there lies a dream. Behind every new product there lies a dream. Dreams create realities—through hard work.**  
—Rolf Jensen

**Families are like fudge—mostly sweet with a few nuts.**  
—author unknown

**The reason women don't play football is because eleven of them would never wear the same outfit in public.**  
--Phyllis Diller

**You have to put in many, many, many tiny efforts that nobody sees or appreciates before you achieve anything worthwhile.**  
—Brian Tracy

# Two More Years

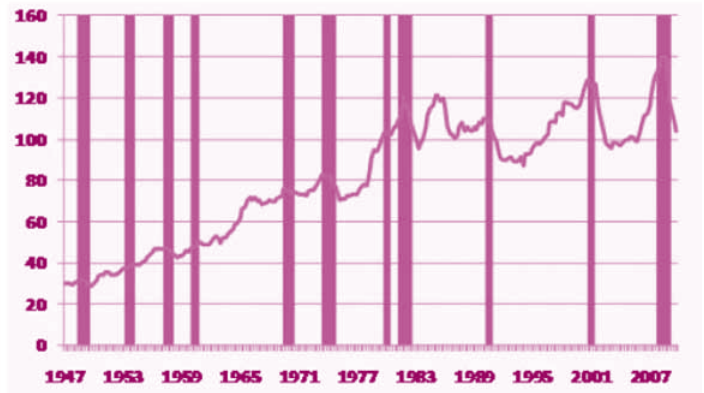
Linda Boehme, Senior Tax Consultant

According to Allen Matkins/UCLA Anderson Forecast, California Commercial Real Estate, Summer/Fall 2010 Survey, we could be looking at recession relief in about two years. The panel believes the recession will be more like 1982 than 2002.

### Office Markets

The panel's view of the 2013 market in both Los Angeles and San Diego is now one of optimism. For Los Angeles, the index is at its highest level since the survey began in June 2007 indicating optimism with respect to both rental rates and occupancy rates. For San Diego the picture is similar; the panel is more optimistic in this survey than they were last December. However, the panel only sees improvement in Orange County with regard to occupancy rates.

Investment in Structures (non-residential): United States (1947-2010, recessions shaded)



Source: Bureau of Economic Analysis

The Bay Area Developer Panel views both San Francisco and the East Bay as potentially productive markets in 2013. Their sentiment has been steadily improving since 2008. In the East Bay the Panel was not as optimistic, but it did see increased absorption leading to higher occupancy rates. In San Francisco the sentiment was for markets to improve in both rental and occupancy rates. For the Silicon Valley the sentiment was optimistic, but more cautiously so.

### Industrial Market

The survey of Industrial Space Developers, now beginning its second year shows surprising optimism about 2013 industrial markets. The optimism is somewhat greater in Los Angeles and Orange County possibly reflecting the current strength in manufacturing in the early days of this post-recession expansion. Consumption spending is growing at a slow pace and growth in consumption is the key ingredient for an improvement in warehouse usage. Nevertheless, all markets are seen by the panel as having higher rents and higher occupancy three years from now.

# TOOTING OUR HORN!

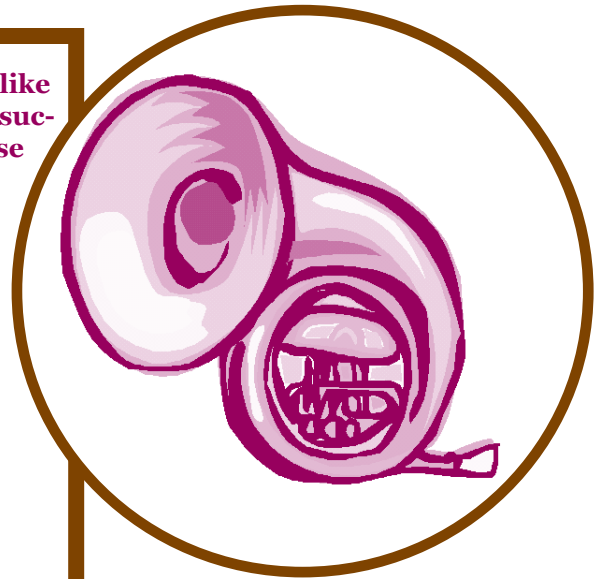
Although this is an informational newsletter, we would like to take the opportunity to brag about a sampling of our successes, from various industries, in the last quarter. These are a few examples of the refunds that our clients have received from the county, due to our work.

## Personal Property

Amphitheatre	\$42,975.05
Clothing Manufacturer	\$88,488.90
Communications Co.	\$99,972.95
Composite Manufacturer	\$326,434.71
Container Company	\$82,823.96
Electroplating Manufacturer	\$29,830.69
Electronic Components	\$69,211.68
Fiber Optics	\$47,842.72
Food Manufacturer	\$445,226.91
Glass Container	\$57,050.10
Grocery Stores	\$81,377.18
Hydraulic Components Mfg.	\$34,194.28
Instrument Mfg.	\$11,236.57
Medical Mfg.	\$62,333.20
Nutritional Supplements	\$33,524.51
Pharmaceutical Mfg.	\$116,197.28
Plastic Mfg.	\$101,123.56
Printing Co.	\$58,635.54
Race Track	\$71,952.29
Satellite Equipment	\$190,617.13
Semi Conductor Mfg.	\$145,626.72
Textile Product Mills	\$110,119.12
Tool Manufacturing	\$40,092.01
Winery	\$185,358.46
Wire Manufacturer	\$44,784.01

## Real Property

Multifamily Property	- \$46,226.62
Quarry Property	- \$175,033.42
Multifamily Property	- \$111,705
Retail Property	- \$32,805.98
Multifamily Property (4 Prop.)	- \$73,826.62
Industrial Building	- \$57,054
Storage Units (2 Prop.)	- \$44,442.66
Office Building	- \$466,064.72
Multifamily Property	- \$125,660.17
Office Building	- \$78,608
Mix Use	- \$43,927.35
Multifamily Property (4 Prop.)	- \$65,256.84



*"Come said the wind  
to the leaves one  
day, Come o're the  
meadows and we  
will play.  
Put on your dresses  
scarlet and gold,  
For summer is gone  
and the days grow  
cold."*

- A Children's Song of the 1880's



# Tax Tidbits



**WWW.CALTAX.ORG**

**For up to date California tax information,** The California Taxpayers Association is a non-partisan, non-profit organization founded in 1926 to protect taxpayers from unnecessary taxes and to promote government efficiency. We serve our members through research and advocacy on significant tax and spending issues in the legislative, executive and judicial branches of government.

## **California Again Ranked as Worst State for Business**

For the seventh year in a row, a corporate relocation expert has ranked California as the worst state for business.

Chicago-based Ronald Pollina, whose annual Corporate Top 10 study evaluates job retention and creation by the 50 states and federal government, said the most business-friendly states are, in order, Virginia, Utah, Wyoming, South Carolina, North Carolina, Nebraska, Kansas, South Dakota, Alabama and Missouri.

Cal-TaxReports, August 30, 2010

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## **Dessert Contest Winner**

On Saturday July 31, 2010, the Property Tax Assistance Company picnic was held at Irvine Regional Park, in Irvine California. Lou Wilcox of LGL, an affiliate company won the dessert contest. Lou's dessert was so yummy we wanted to share the recipe with you, for the upcoming holidays.

### **Better Than Anything Cake**

Ingredients:

Chocolate Cake mix (bake as directed)  
1 can Condensed Milk  
1 jar of Caramel Topping  
1 tub of Cool Whip  
3 Heath Bars (smashed)



Bake your favorite chocolate cake in an 9 x 13 pan and let it cool completely. With the handle of a wooden spoon make holes all over the cake; make sure the holes are deep. Pour Condensed Milk into the holes, do the same with the jar of Caramel Topping. Place a thick layer of Cool Whip over the entire cake and sprinkle with smashed Heath Bars.

Keep refrigerated until serving.

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