

## Business is about what you keep

David L. Gangloff Jr., Esq., CEO & Principal

As a general rule we like to keep our newsletter as "news" oriented as possible. Unfortunately, this last quarter has been a little slow in the "news" as it relates to property taxes in California. Therefore, I am going to relate something that happened early in my career that made a large impact on the way I think about things.

About 25 years ago I was working on a case where my instincts told me there was a problem with the assessments for a food processing company. Even though I knew the assessments were too high I could not find anything that would prove that the assessments were too high. I asked the controller who in the company would know the value of the equipment the best and he said that the president of the company was most knowledgeable as he had been in the industry for 40 years. I asked if I could speak with him. The controller told me that would not be possible because the president was much too busy, but that he could arrange for me to speak to several other people in the organization.

I spoke to all of the people that the controller recommended but had no success in getting the information I was after. After I spoke to the first person I asked the controller if he was sure the president wouldn't have just 30 minutes to chat with me. He said no. After the second person I asked for 15 minutes with the president. The controller said no. After the third person I asked for just five minutes. Finally the controller said he would ask the president for five minutes of his time as long as I promised not to take more than that. I agreed.

After just five minutes with the president he was able to point me in the direction of finding some solid information to support a value reduction. When I thanked him and I was ready to leave he insisted that I tell him more about what I was doing. The more we spoke the more interested he became. I was very nervous because I had promised the controller that I would not take more than five minutes of his time but since he was so knowledgeable and was interested I thought it would be alright.

*Continued on page 5...*



# Tips for Developing an Accurate Estimate of Market Rent

Chris Larsen Tax Consultant II

The Income Approach is one of the most widely used methods for valuing real property. In fact, it is often considered to be the primary approach to value for commercial and multi-family residential properties types. The types of properties are regularly purchased by investors, who are not particularly interested in the real estate itself, but, the income that the property can generate. The first step to developing any income approach is to determine an estimate of market rent for the property in question (the subject property) on the valuation date.

One of the best sources of market rent data may be the subject property itself. If a new lease was transacted for the subject on or around the valuation date, that may give you a pretty good idea what the going market rent is. However, estimating market rent is typically accomplished by analyzing the timely lease transactions of other similar properties (i.e. lease comparables). When analyzing lease comparables it is important to have accurate, detailed information regarding the comparable property and the terms of the lease deal. Common adjustment factors you may want to consider are: the location and visibility property, the size of the leased space, the age and condition of the building, the number of bedrooms and bathrooms, and the increase or decrease of market rental rates between the date of the transaction and the date of appraisal. These and other factors that may or may not apply, depending on the type of property in question. When making adjustments for differences between two properties, often the best question an appraiser can ask himself is "how would a typical user of this type of property perceive the difference?" For example, being located adjacent to a freeway or busy street may be advantageous for the users of many commercial properties. Most businesses would likely benefit from the extra visibility associated with higher traffic flows. However, the same location is usually a detriment for residential property. Many residents would be turned off by the noise and traffic associated with freeways and busy streets.

Another important factor when analyzing a lease comparable are the expense terms. One lease may be written whereby the landlord is responsible for most or all of the expenses associated with operating the real property (often referred to as a Gross Lease). In this case, the landlord is likely to require a higher rent payment from the tenant in order to cover the cost of the expenses. On the other hand, if the tenant is responsible for most of the expenses (often referred to as a Net Lease) the rental rate is likely to be lower.

One last area to consider, is that leases can be structured with just about any special terms or arrangements that a potential tenant and landlord can come to agreement on. It is not uncommon for leases to be structured with free rent or other special concessions, such as an allowance for tenant improvements. The tenant may be paying \$2,000 a month in rent; however, this is probably not an accurate reflection of the effective market rental rate, if the lease included several months of free rent, or a large T.I. allowance.

When analyzing lease transactions for comparison, it is important to have accurate information. It never hurts to give a quick telephone call to one of the real estate agents involved in a transaction. Verification from a party involved in the transaction is probably the best advice I can give. You'd be surprised how often real estate agents are willing to provide important details, assuming you are polite and respectful of their time.

Estimating market rent for a property is the first, and most important step when conducting any income approach. It doesn't matter how good the rest of your income approach is, if you're market rent estimate is flawed, your final result will be flawed as well.

**"Stop worrying about the potholes in the road and celebrate the journey."**

Fitzhugh Mullan





# Tax Tidbits

## Is a Split Roll the Solution to the California's Fiscal Problems?

### Key Facts

1. Property Tax Burden Has Not Shifted to Homeowners.
2. Businesses Pay Largest Share Under Proposition 13.
3. Impact on Residential Properties.
4. Increases Revenue Volatility.

For the full article go to:  
<http://www.caltax.org/SplitRollFactSheet.pdf>

## 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.

### Business Personal Property

Architectural & Structural Metals Mfg	\$65,407.60
Biotechnology Research Services	\$111,201.00
Campgrounds	\$114,829.03
Cloud and Data Center Security	\$146,742.96
Converted Paper Products Mfg	\$49,701.70
Data Center	\$350,417.11
Grocery Retail	\$14,000.00
Pharmaceutical Mfg	\$173,313.41
Residential Construction Contractors	\$31,434.34
Shipping	\$257,780.77

### Real Property

#### California

Storage Property - Alameda County	\$24,705
Industrial Properties (2) - LA County	\$83,074
Multifamily Property - LA County	\$213,874
Retail Properties (3) - LA County	\$42,099
Storage Property - LA County	\$82,711
Multifamily Property - Marin County	\$186,025
Multifamily Property - Orange County	\$41,502
Office Property - Orange County	\$207,494
Multifamily Property - San Bern. County	\$22,636
Industrial Property - Riverside County	\$216,327



*“Rest is not idleness, and to lie sometimes on the grass under trees on a summer's day, listening to the murmur of the water, or watching the clouds float across the sky, is by no means a waste of time.”*

*John Lubbock, The Use Of Life*



# The Need for a Tax Agent...

Gilbert Arciba, Sr. Tax Consultant

Proper representation is important when dealing with property tax matters. Often we are approached by taxpayers to assist them in handling appeals filed by themselves. The temptation is great to think that if you're the owner or controller, you can handle all the accounting related to the property taxes, and the appeal process too. The truth, there may be more effective ways to handle this crucial aspect of your business, namely hiring a tax agent. Many companies will frown on the idea of paying someone else, but the investment in a tax agent can actually save your business money in the long run.

## **Proper Filing:**

We have come across many scenarios where a taxpayer does not file the appeals properly. For example, a common mistake is filing on the audit escape, but not on the regular roll. Also, every county has their own appeal forms and process requirements. Annually, we contact every county to obtain appeal forms and discuss the process requirements ahead of the filing season. Our experience allows us to identify the tax bills and correct manner to file the applications in every county.

## **Notice of Invalid Filing:**

Counties are changing their filing requirements without notification to taxpayers. They will send a notice invalidating the appeal with a date specific to amend the application, if not corrected the appeal will be deemed invalid. Our experience allows us to quickly respond and provide the county with the appropriate information to obtain validation.

## **Confirmation Cards:**

Counties are shifting to the use of confirmation cards. This means that in order to appear and testify at the scheduled hearing, the taxpayer must confirm 21 days prior to the hearing date. We have witnessed where a taxpayer fails to submit the confirmation card timely and is denied a continuance and unable to testify because no card was submitted. After waiting 18-24 months for a hearing, the opportunity is lost on a technicality.

## **Information Sharing:**

Because of the volume of appeals we file, our knowledge and experience allows us to resolve issues with applications by relying on prior resolutions. Our knowledge of the Revenue & Taxation Codes allows us to catch errors and cite codes to correct applications before they become a problem. We also have the advantage of highly experienced property tax attorneys to assist, if the issues are complex too.

## **The Bottom Line:**

It is now the filing season in California and these are all examples of the administrative headaches that a taxpayer might come across before even preparing a property tax case. PTA maintains a solid cast of tax agents to address all property tax matters. But, we must credit our administrative staff that maintains relationships with the clerks of the board to assure that all appeals filed are correct and valid.

# Quotes

**If I cannot do great things, I can do small things in a great way.**  
—Martin Luther King Jr.

**Research is what I'm doing when I don't know what I'm doing.**  
—Wernher von Braun

**The greatest wealth is health.**  
—Virgil

**In the time of darkest defeat, victory may be nearest.**  
—President William McKinley

**How do you get a sweet little 80-year-old lady to say the F word? Get another sweet little 80-year-old lady to yell "BINGO!"**  
—Anonymous

**How is it one careless match can start a forest fire, but it takes a whole box to start a campfire?**  
—Anonymous

**By the time a man realizes that his father was right, he has a son who thinks he's wrong.**  
—Charles Wadsworth

**My husband wanted one of those big-screen TVs for his birthday. So I just moved his chair closer to the one we have already.**  
—Wendy Liebman

**You can trust your dog to guard your house but never trust your dog to guard your sandwich.**  
—Anonymous

**Every boy who has a dog should also have a mother, so the dog can be fed regularly."**  
—Anonymous

*Continued from page 1, Business is about what you keep....*

He had been in the food processing industry for over 40 years and knew everything about the equipment. I told him that I thought he would make an excellent witness at the assessment appeals board hearing. I explained to him that the hearing would be about 15 miles away and take a day. I told him that I realized that his company did over \$300,000,000 a year in sales and that I was only trying to save the company between \$150,000 and \$200,000 and therefore I understood if he thought that it was just not worth the time.

His response - he asked me if I had ANY idea how many jars of mayonnaise he had to sell to make \$150,000 to \$200,000 in profit. He told me that, "Business is about what you keep, not what you sell." I will never forget what he said next, "Son, you tell me where you want me to be and when you want me to be there and I will change my schedule to make it happen. I can't think of a faster way to add money to the bottom line."

I have never forgotten that gentleman (although I can't remember his name.) He taught me a very valuable lesson that I always remember in running our company. As an observation, over the years I have noticed that many people don't want to review their property tax situation because it is 'just not worth their time.' I can't help but smile and think, "business is about what you keep."

Oh, and yes, when we went to hearing the assessment appeals board ruled in our favor 100%.

## What to do if you find a sick or injured bird.

Lisa Henry Director Sales and Marketing

I was ready to put in a fun article in this space about hot dogs, but this morning when I came into work and pulled into the parking space, I got out of my car and noticed a little wounded pigeon standing in the corner. I felt sorry for it, but had no idea what to do if you find an injured bird. I went into my office and Googled, "Wild Bird Rescue". Who knew there would be so many people to help a poor defenseless wild bird. I called a man named Bruce and he told me to put it into a box about the size of a file box or one that the reams of paper come in with some paper towels. He said I could give it some water, to tear off half of a paper cup and add a little water and keep it in a warm quiet place. After the morning traffic died down I took it over to Bruce.

What a nice man Bruce is! He took the Pigeon out of the box and checked her out. He said it was attacked by something but she wasn't too bad. He is going put her in his aviary to keep an eye on her before he releases her.

He told me about his pet pigeon named squeaky, he was like a dog. You can Google "Squeaky the Pigeon" and see YouTube videos on Squeaky play fighting with Bruce.

Bruce also had some adorable baby birds that couldn't wait to be fed. He opened their cage and they all hopped out with their mouths open and squeaking! Thank you Bruce for helping the wild birds! I am thankful to work for a company that has compassion for Mother Nature.



# PTA

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David L. Gangloff Jr., Esq.  
CEO & Principal  
Property Tax Assistance Co., Inc.  
16600 Woodruff Ave.  
Bellflower, CA 90706

For information please contact:

**Lisa Henry**  
562-282-5911  
LHenry@property-taxes.com

[www.property-taxes.com](http://www.property-taxes.com)

Bellflower, CA (Corporate Headquarters)  
Property Tax Assistance Co., Inc.  
16600 Woodruff Ave.  
Bellflower, CA 90706  
Phone 562-920-1864 Fax 562-920-5775  
PTA@property-taxes.com

Bay Area Office  
Property Tax Assistance Co., Inc.  
1981 N. Broadway, Suite 342  
Walnut Creek, CA 94596  
Phone 925-942-1004 Fax 925-942-0369

## Property Tax Update

