

May 2000

## Local Government

### Business Property Values: A Look at the Data

*By Stephen Kroes*

From time to time, legislators or advocates of fiscal reform urge that corporate property be reassessed more often to bring values closer to market value. This is sometimes advocated as a way to provide additional revenues to local governments, or as a means to equalize a perceived imbalance of tax burden between corporate taxpayers and individual property owners. Advocates of such a change fear that corporate property often avoids reassessment because of the complicated nature of corporate changes in ownership.

It appears that some useful data on this subject is not widely available or understood. This data shows that commercial property assessed values are closer to market value than many may think and are probably closer to market value than residential homes.

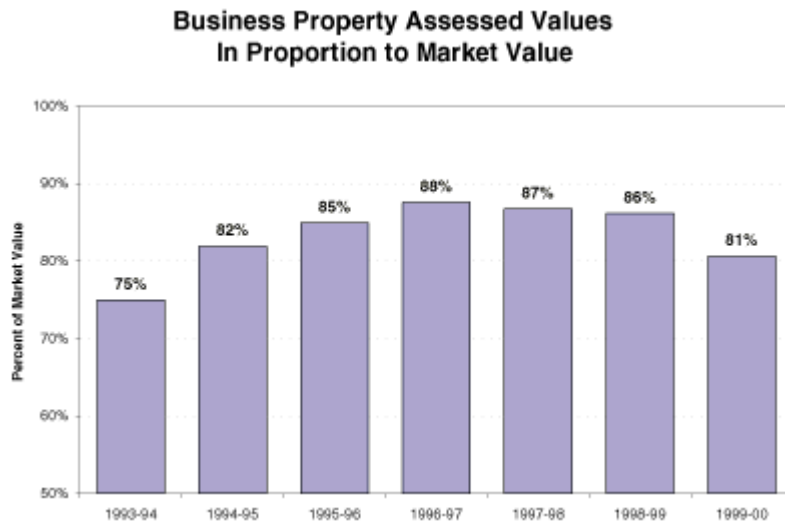
Each year, the State Board of Equalization (BOE) is required to estimate commercial/industrial assessed values and market values. The figures are compared to determine a ratio of assessed value to market value. This ratio is used in assessing railroad property, because federal law requires that states tax railroad property at the same proportion of market value that commonly applies to other commercial properties.

The BOE calculates these figures largely from actual sales data, comparing assessed value before a sale to the price paid for a property. Figure 1 shows the results of these surveys: the average commercial/industrial property is assessed at over 80 percent of its market value. This has been as high as 88 percent in recent years. According to the experts at the BOE, the recent



*Stephen Kroes is vice president and director of research of the California Taxpayers' Association.*

drop is probably attributable to assessors finally getting through a backlog of downward assessments spurred by the 1990s recession, combined with a nascent rebound in market values.

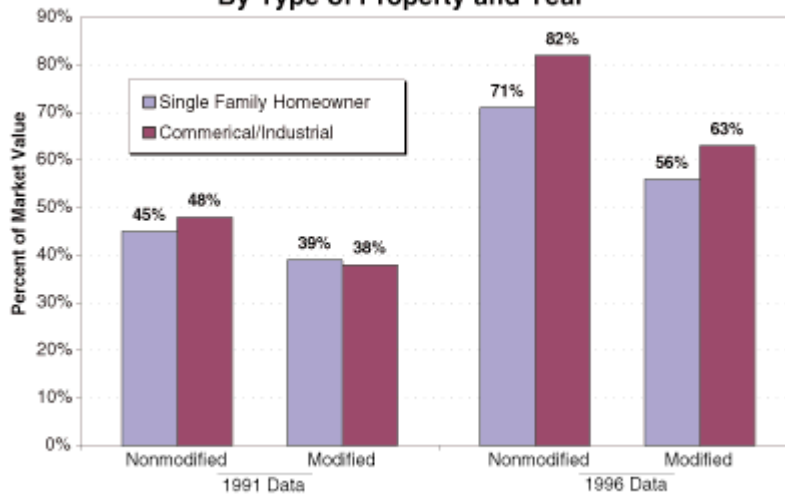


Unfortunately, the BOE does not perform the same survey on individually owned residential properties. A useful survey on this subject was performed in 1998 by Steven Sheffrin and Terri Sexton in "Proposition 13 in Recession and Recover," a study published by the Public Policy Institute of California (PPIC). The study provided data on Los Angeles and San Mateo counties, but only the Los Angeles survey included commercial/industrial property.

Figure 2 shows findings for Los Angeles County from the PPIC study. Assessed values of all types of property increased as a share of market value during the 1990s. This was largely due to the recession-caused decrease in market values rather than increases in assessed values. Unmodified single-family residences with a homeowners' exemption were estimated to be assessed at 71 percent of market value, while unmodified commercial/industrial properties were assessed at 82 percent of market value.

**The fact that commercial properties were assessed at a higher percentage of market value seems to indicate that these properties experience greater turnover than homeowner properties.**

**Ratio of Assessed Value to Market Value, Los Angeles County  
By Type of Property and Year**



Nonmodified properties are those which had no improvements requiring reassessment since purchase. •  
Modified properties have multiple base tax years as improvements are assessed when completed.

Modified properties, or those that have had improvements and partial reassessments on the improved portions, had lower assessed values in relation to market value. The primary reason for the lower ratio is that these are typically properties that have been held for a longer period. When owners modify their property, they are more likely to hold the property longer and retain the lower base-year values on the original portions of the improvements.

According to the PPIC findings, for both modified and non-modified properties, commercial property did not seem to be avoiding reassessment at a rate higher than homeowner property. The fact that commercial properties were assessed at a higher percentage of market value seems to indicate that these properties experience greater turnover than homeowner properties.