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COMMENTARY

It may be time to revisit property's assessed value

WITH VALUES DOWN, OWNERS CAN REDUCE THEIR TAX EXPOSURE

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BY MATT EISENBERG

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- Sonoma County loans offer businesses energy opportunity
- How to manage through potential 25% workers' comp premium hike
- Federal stimulus provides additional solar incentives
- Brad Bollinger: Rhetoric on bonuses was chilling
- Economic downturn creates acquisition opportunities
- Brad Bollinger: Railroad Square project a good fit for stimulus
- Rethinking retirement portfolio design

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Property values in many parts of California, including the North Bay, have declined significantly since 2007. If you purchased your property over the last four years, it is likely that the current fair market value has dropped below the assessed value calculated under California's Proposition 13. Given that recent market declines are a moving target, that four-year window may soon extend to six, eight or 10 years in some cases.

Many California counties are already reviewing and reducing assessments affected by the market. If your local assessor has determined that the fair market value of your property has declined below the Proposition 13 value, a reduction in the assessment of your property should be made even if no request was made.

If you received a recent notification of a reduction, you should note that by law, this assessment reflects the valuation of the property as of Jan. 1, 2008. If you have evidence that the assessment is not accurate, you have the right to file an appeal and to discuss these matters further with your local assessor and/or county supervisors.

The yearly taxable value of most real property in California (excluding, for example, property under a Williamson Act contract) must be the lower of either: the property's base year value adjusted for inflation, known as the "Prop. 13" or the factored base year value, or the property's fair market value on Jan. 1 (the lien date) for the applicable tax year, which is referred to as the "Prop. 8" value.

The base year value is either the 1975 market value or the market value based on whenever new construction or an ownership change has occurred. The law then provides for an annual inflation adjustment of no more than 2 percent.

Sometimes the market value of a property falls below its Prop. 13 value. Prop. 8 addresses these temporary declines by allowing the assessor to reduce the assessed value. Once reduced, the assessor must review your property's value on Jan. 1 of each year to compare its current market value to its Prop. 13 value and then enroll the lower of the two values.

Prop. 8 values can change from year to year as the market fluctuates. While your Prop. 13 value may increase a maximum of 2 percent per year, there is no such limitation on the Prop. 8 value. Accordingly, your new Prop. 8 assessed value may rise more than 2 percent in a given year. However, your assessment can never exceed your factored base year value. Once the market value exceeds the Prop. 13 value, the assessor will restore the Prop. 13 value as the assessed value.

Likewise, if the market declines are significant and protracted, your Prop. 8 value could be in place for a long period of time until the market regains its losses.

The process for temporary reductions to your property's taxable value can be initiated either by you or the assessor.

The property owner must provide the assessor with evidence that justifies a reduction in property value. A simple claim that the property value has declined is not sufficient. This evidence may include sales of comparable properties or an appraisal. For income-producing property, a verified current operating statement and rent roll should be included. The most effective comparable sales are recent ones, but earlier ones are relevant, too.

Generally, the assessor will only look at sales that have occurred no later than 90 days following Jan. 1. Later comps will be looked at the following year.

Another route to challenging your assessed value is to file an Application for Changed Assessment. In fact, filing such an appeal is generally a good idea if you believe your value may not accurately reflect market conditions as it allows you to preserve your rights and sort it out with the assessor.

Generally, it becomes an informal process, including an exchange of information (market and/or lease data, comparables, etc.) to reach a stipulated settlement of your appeal in lieu of a hearing and more formal adjudication of the matter.

Obviously, declines in assessed values can have a significant effect on financing, which relies on real property as collateral for a loan. But while you are working out such issues with your bank, do not forget to check with the assessor to ensure that your assessed value is accurate and creates the lowest possible real property tax liability in light of current market conditions.

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Matt Eisenberg is a director at Dickenson, Peatman & Fogarty and practices in the areas of business and real property. He has been assisting business in the North Bay for more than 10 years. Dickenson, Peatman & Fogarty has offices in Napa and Santa Rosa.