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## California Property Taxes: The Time to Act for 2009 Savings is Now!

by Lawrence Hoenig, Craig Becker and Thomas Chaffin

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- *2009 presents a unique opportunity for property tax savings for many investors, building owners, and tenants.*
  - *Property tax payments may be lowered by as much as 50% in 2009.*
  - *The key is to file a timely property tax appeal in 2009 – the deadline is September 15 in many counties and November 30 in others.*
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As a result of the market downturn and the credit crisis, many properties have declined in value, some by as much as 50%. This is true even without reductions in the rent roll because market cap rates have increased, causing the value of properties and rent rates to decline.

This decline in value, however, presents a unique opportunity for 2009 property tax savings as one-time reductions in property taxes can be generated. However, securing such benefits requires that property tax appeals be filed in a timely manner.

### Pursuing California Property Tax Reductions

California law states that a property must be assessed at the lower of its Proposition 13 indexed base year value or its January 1 (2009) fair market value. Thus, owners of real property, tenants subject to property tax pass-through clauses, developers, and holders of possessory interests may be eligible for reductions in property tax assessments. Individuals or organizations may file for a reduction in property taxes for any kind of property, including industrial, commercial, residential rental, residential developments, homes, and raw land.

Assessors rarely volunteer to reduce assessments on commercial, industrial and investment properties, so the onus falls on the business owner, investor, and/or tenant to request such tax relief, which in the current market can be significant.

It is critical to file a timely appeal with the Assessment Appeals Board in the county where the property is situated. Alameda, Inyo, Kings, Orange, Placer, San Francisco, San Luis Obispo, Santa Clara, Sierra, and Sutter Counties all have filing deadlines of September 15, 2009. All other California counties have filing deadlines of November 30, 2009.

## Example of Potential Savings

### Top of the Market Acquisition Value:

- 100,000 square feet, \$500 per square foot
- \$50 million "top of the market" assessment

### January 1, 2009 Assessment:

- Current Market Rents: \$45 full service per square foot
- Less Market Vacancy and Expenses: \$20 per square foot
- Net Operating Income: \$25 per square foot
- Market Cap Rate of 8.5%: \$300 per square foot

### Assessment Reduction:

- Difference of \$200 per square foot times 100,000 square feet = \$20 million decrease in value

### 2009 Property Tax Savings

- \$20 million times 1.1% = \$220,000 property tax savings in 2009

## Conclusion

2009 has been a tumultuous year in the credit, financial, and real estate markets, but as a result, property tax savings are available to improve the owner's or tenant's bottom line. A timely appeal and expert guidance are critical to achieving these tax reductions in 2009.

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