Policy Brief:
Impacts on Los Angeles County from Commercial Property Tax Reform

December 2018
How to Raise Billions for Schools and Services by Reforming the Commercial Property Tax System

Summary

More than $3.6 billion in new revenues are estimated for Los Angeles County from reforming Prop 13’s commercial property tax system according to USC/PERE’s extensive multi-year study.(1) These funds will be allocated for cities, counties, schools and special districts, with additional revenue paying off the bonds for school construction and infrastructure. The primary impact of market-value reassessment will be on the underassessed land and buildings belonging to companies and investors which purchased their properties a long time ago. Commercial property tax reform will also reassess underutilized land in sprawling commercial strips, auto malls and underassessed retail areas. In addition to strengthening local governments, reform will also lead to far more efficient land use, including likely higher-density housing along commercial strips, particularly around transit lines as Los Angeles builds out its system, and more intensive use of land currently held vacant or in low-level uses.

Some key findings from the data and patterns we have examined:

1 Revenues for local government and schools: New revenues in Los Angeles County are estimated to be at $3.6 billion from reassessment of commercial/industrial property for schools, cities, the County, and special districts once fully implemented, which is nearly twice what is currently received from such properties. This amount is at the 1% current property tax rate; with overrides for voter-approved bonded indebtedness, revenue gain will be higher. As the state’s largest county, Los Angeles County will generate 32% of the new revenues statewide. This revenue is local property tax revenue, which can be used for all local purposes: infrastructure, public safety, parks and libraries, affordable housing, health care and homelessness services. The measure follows current allocation of the property tax; in Los Angeles County that means 40% for schools and community colleges, about 29% for cities, 24% for the County and its unincorporated areas and 7% for special districts such as fire and sanitation.(2) The revenue will strengthen every unit of local government, as well as schools and community colleges. (See Figure 1).
2 Long-held properties: The majority of revenues from reassessment will come from properties held for long periods of time. In Los Angeles County, 57% of all commercial/industrial properties have not been reassessed for nearly 20 years or more, while 18% still have assessments based on property values dating back to 1975-1979. A significant share (24%) of properties are assessed at values that are 20 to 30 years out of date (between 1990 to 1999) and a similar share (24%) are assessed at values from 10 to 20 years earlier (between 2000-2009). (See Figure 2). The huge real estate boom since the Great Recession, reflected in the properties sold and assessed between 2010 and 2016, shows that they will provide only about 19% of the new revenues from commercial property tax reform since their values are much closer to current market prices.

3 Wide disparities: Assessed land values throughout Los Angeles County can vary by factors of 10 and even 100 or more. Assessments vary widely from company to company and can also vary among a single company, such as when a company buys or leases new property for expansion while maintaining the long-held property they have outgrown.

4 Commercial renters: The tax advantages afforded by the current system accrue to long-term landholders, not new companies. Rents for companies that lease their property in industrial/office parks and commercial centers are at market rates and will continue at market, with the tax benefits providing a windfall to landowners. For example, in the City of Carson, neighboring industrial properties are assessed at very different rates: within the Dominguez Technology Center, a huge industrial park with Fortune 500 tenants, two major property owners are assessed at $1 per square foot — the fair market value from 1975 — while owners who recently bought their property are assessed at $46 per square foot. Rents for the industrial tenants, however, are similar since they are primarily set by market conditions. Underassessment of the vast majority of the Dominguez Technology Center results in an $8 million annual loss on the land value alone.

5 High value-added per square foot: Technology companies hold such high value-added per square foot that the 1% property tax is a trivial cost. Google’s Venice headquarters, located in the heart of “Silicon Beach” on the west side of Los Angeles, is assessed on land value at a rate of only $6 to $11 per square foot, compared to other parcels within the same few blocks that are assessed at $300 to $400 per square foot, and nearby commercial property recently purchased is assessed at $950. Google Venice sits on leased land that is undervalued by 100x or more. The additional cost is inconsequential to the wealthy investors who own this valuable land.

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Sony USA’s Property
10202 W. Washington Blvd.
Culver City

Sony USA’s property at 10202 W. Washington Blvd. is assessed at $50 per square foot, an amount based on its fair market value in 1975, while some of it is on land assessed at $304 per square foot. Culver City Studios has similar property to Sony’s, located nearby at 9300 W. Washington, but the Culver City Studios property is assessed at $117 per square foot. If Sony and Culver City Studios were similarly assessed, Sony would generate hundreds of thousands of dollars in additional property tax revenue for schools and local services.

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Figure 2
Distribution of Average Revenue Gain by Base Year, Los Angeles County

Source: USC PERE analysis of disparity ratios of commercial and industrial properties based on CoreLogic assessor roll data for 2015-16.
Most revenue from largest properties: In Los Angeles County, a full 76% of the new revenue will come from only 12% of all properties worth over $5 million (See Figure 3). In other words, the impact of increased property tax revenues due to reassessment will be concentrated in the very top-tier of property owners. Conversely, 35% of small commercial properties valued at less than $1 million will provide only 1% of all the new revenues. Even for somewhat larger commercial properties valued between $1 million and $5 million (about 29% of all properties), the data show that they will provide just 19% of the new revenues overall. Clearly, it is the largest investors and corporations who have held their properties longest who have received huge windfalls which account for the lion’s share of the missing revenue for schools and services.

Export of tax: A share of the tax increase will be exported from California, since many of these highly valuable properties are owned by national and international investors and shareholders as corporations or Real Estate Investment Trusts. The recent federal tax bill gives even greater benefit to these investors. For example, Westfield is an Australian company, and its Century City Mall pays millions less on their land than its neighbors in Century City. Sony, which is Japanese-owned, should pay millions more on its studios in Culver City. Corporate shareholders and property investors from all over the world are benefitting at the cost of schools and local services.

Competitive impact: California’s property tax rate of 1% is among the lowest in the nation, guaranteed by Prop. 13 and unchanged by the initiative. Even with full market value reassessment, commercial property taxes in Los Angeles will still rank at 42 (and Long Beach at 40) among the largest 50 cities in the nation...
**Land use and housing:** One of the most counter-productive aspects of the failed assessment system has been its negative effects on land use, specifically in promoting underutilization and sprawl. With reassessment, higher density housing and rising commercial property values will work together for better urban environments and a strong response to the housing crisis. As some cities are already demonstrating, a major solution to the housing crisis will be higher-density housing which will be built on the underutilized commercial strips which criss-cross our urban and suburban areas.

Research has shown that underassessed land is more likely to be vacant\(^{(6)(7)}\). Underutilized commercial land for car lots, strip malls and sprawl are often greatly underassessed, with much of it passed on for generations in trusts. A June 2018 study by Professor Chris Benner of UC Santa Cruz analyzes this problem carefully and clearly shows the current system encourages holding land off the market, decreasing supply and inflating its value.

Figure 4 shows that in the 5-county Southern California Association of Governments (SCAG) region, the vacant lots least likely to be developed during the latest real estate boom of 2011-2016 are those that have not been reassessed for the longest time. Properties that were last assessed at current market value between 1975 and 1996 were less likely to be developed than properties assessed more recently. Vacant lots that were most recently assessed (2009-2011) were 7 times more likely to be developed than properties whose tax base year was 1975 (prior to Prop 13). This is because they were already closer to current market value and paying taxes at a fair market rate, providing greater incentive for development.

**Residential Properties Pay Increasing Share of Local Taxes:** Figure 5 clearly demonstrates that the residential sector has greatly increased in assessed market value relative to the commercial/industrial sector since Prop 13’s passage. In 1975, residential properties accounted for 53% of all assessed value and were fairly equal to commercial/industrial properties which represented 47% of assessed value. Yet by 2017, this had radically diverged to where residential properties now represent 71% of all assessed value, compared to only 29% for commercial/industrial. Residential properties are now paying a much greater share of property taxes as compared to commercial/industrial properties. While there may be a variety of causes for this shift, it is undeniable that commercial property has steadily comprised less and less of the property tax base since 1978, despite massive economic growth and rising land values. Reassessment of commercial properties will bring their share back up to 43%, closer to its historic level.

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**Figure 4**

**Percent of Vacant Lots Developed Between 2011-2016, by Tax Base Year:** Southern California Association of Governments

![Figure 4](image)


**Figure 5**

**Share of Total Assessed Value by Property Type, 1975-2017**

![Figure 5](image)

In downtown Los Angeles, Joe’s Parking Lots, owned by L&R Investment Company, operates many parking lots, including 3 parcels at 233 South Main totaling about one-half acre, valued at $21 per square foot. This compares to an immediately adjacent parking lot that is valued at $405 per square foot. If Joe’s Parking at this location was assessed at fair market value, it would pay an additional $80,000 per year if assessed at the same rate as its neighbor.

Shell Oil Company in Carson
Oil extraction and production have played a pivotal role in the development of Southern California. The Shell Carson Distribution Complex, which was originally built in 1924 as a refinery, 44 years before the City of Carson was established, is greatly underassessed and illustrates how oil companies with a long legacy in California benefit from the current system.

Shell Oil owns over 400 acres of industrial land in Carson assessed between $3.40 and 3.60 per square foot. This property was last reassessed in 1975. Much of the land is vacant, and large sections are used for yard and warehouse storage. Recently purchased industrial land in the surrounding area is assessed as high as $50 per square foot, with other properties in the range of $25-40 per square foot. Even assuming the mid-point (approximately $25 per square foot for vacant land) between their current assessment and the highest in the area, Shell Oil would pay nearly $4 million more. If it were reassessed to the highest rate of similar industrial land in the area, Shell would pay $8 million more each year to benefit schools, parks and local services in Carson and LA County.

The Walt Disney and Burbank Studios in Burbank
Los Angeles’ unique history as the home to major movie studios also places them in the spotlight with regard to commercial property tax disparity. Most of these multinational companies are also multi-billion dollar enterprises, yet most pay property taxes based on old land values.

The Walt Disney Studios in Burbank sit on 43 acres of land assessed at 1975 land values, resulting in the loss of millions each year. The Disney Studios are assessed at $5 per square foot, while the nearby Burbank Studios are assessed at $180. If the Disney Studios and the Burbank Studios were similarly assessed, the owners would compete on a level playing field and restore $3.5 million in additional revenue every year for schools and local services.

The Dominguez Technology Center in Carson
Los Angeles County is home to the twin ports of Los Angeles and Long Beach, which handle roughly 40% of all imports into the country, making it a major economic driver for the region. Today Southern California’s industrial market is the largest in the nation and also has some of the highest rental rates of any market.

In the City of Carson, the Dominguez Technology Center (DTC), a state-of-the-art master-planned industrial park close to the ports, has extremely low assessed land values. Most of the properties are owned by the Carson Companies or the Watson Land Company - two corporations that trace their legacy to land grants from Spain to the Dominguez Family. Most of the land at DTC is assessed at $1 per square foot or less, while identical land that was recently purchased by a new owner is assessed at $46 per square foot. If the Carson Companies and the Watson Land Company were assessed like their neighbors, they would pay approximately $8 million more yearly on the land alone.

Beverly Hills Hotels
Beverly Hills, located in the middle of Los Angeles County and surrounded by the cities of Los Angeles, West Hollywood, Santa Monica and Culver City, is home to some of the most expensive real estate and draws many visitors. Tourists pay market rate price for a room, while the underlying property tax assessment on land differs between similar properties.

The Montage Hotel in Beverly Hills, a 5-star luxury resort, is assessed at $23 per square foot while charging over $1000 per room. Adjacent land is assessed at around $1000 per square foot. For example, the Luxe Rodeo Drive Hotel is assessed at $966 per square foot. The Montage should pay about $600,000 more on its valuable land, which is assessed at less than many residential lots in Beverly Hills.

Reforming Proposition 13’s commercial property tax provisions is a long overdue reform that will provide billions in new revenues to support schools and services, incentivize smart growth and housing production, and create greater fairness and competition in the marketplace by taxing similar commercial and industrial properties much more equally.
Research has shown that underassessed land is more
infrastructure. Since infrastructure investment raises property
values, which in turn helps finance more infrastructure can and will be supported, particularly
if payment rank at 37th and San Francisco 42nd among the
1% plus overrides. (4)
(1) USC Program for Environmental & Regional Equity analysis
(2) Office of the Assessor, Los Angeles County, 2018 Annual Report.
(3) Lincoln Institute of Land Policy and Minnesota Center for Fiscal Excellence, 50 State
(4) Ernst and Young/Council on State Taxation, Total State and Local Business Taxes,
a state-by-state comparison, November 2018.
(5) Los Angeles County Auditor-Controller, LA County Comprehensive Annual Financial
(6) Legislative Analyst’s Office, State of California, Common Claims About Proposition 13,
September 2016.
(7) Chris Benner and Gabriela Giusta, Everett Program, University of California-Santa Cruz,
Market Value: How Fair Assessment of California’s Commercial Property Values Would
Likely Affect Land Use, Urban Development and The Economy, June 2018.

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(2) Office of the Assessor, Los Angeles County, 2018 Annual Report.
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