Policy Brief:
Impacts on Silicon Valley and High Tech Industry from Commercial Property Tax Reform

I believe in a Silicon Valley where families like mine can thrive.
I believe in a Silicon Valley where workers who work hard and play by the rules can make enough to live.

April 2018
It is time that the long held untouchable “third rail” of California politics – Proposition 13 – be closely scrutinized and its impact quantified. This report, produced by the Make it Fair Coalition and funded by Silicon Valley Community Foundation, makes clear that Prop 13 disproportionally hurts the fastest growing Silicon Valley companies and their employees which in turn, impede California and the nation’s growth.

The inequity highlighted in this report is alarming. For example, IBM property is assessed at $0.50 per square foot, (assessed as agricultural land with 1975 values). Intel and Stanford Research Park have land as low as $2 per square foot. Google leases land assessed at $1.50 per square foot (on Salado Drive) and also owns land assessed at $155 per square foot. Adobe recently bought land in downtown San Jose at a reported $650 per square foot.

Proposition 13 was passed in 1978 and initiated sweeping changes to the California property tax system. The proposition passed amidst a tidal wave of anti-government, anti-tax popular sentiment in California and across our nation. Since then, Prop 13 has been an extremely difficult issue for politicians because of well-organized interest group’s threat of “nuclear war” whenever any reform idea or effort emerges.

The Proposition’s fiscal impact on our state has been significant. Fiscal revenue per person has decreased from $790 dollars when Prop 13 was enacted, to $640 in 2014-2015. There is ample research that points to the proposition as a key driver of disinvestment at the local and state level, starving education, health services, and other human needs for the last 40 years.

This inefficient and inequitable system on corporations and industry has created winners and losers and stifled urban development and innovation. Its basis of only reassessing value upon sale of property (plus a 2% per year), creates incentives for owners to keep their properties which encourages low-density sprawl and underutilization of land; and allows unfair competition and squelches innovation, when new investors or businesses have to pay higher property taxes than their competitors for the same plots.

The time to change this is now. The California Schools and Local Communities Funding Act of 2018, which is seeking to qualify for the ballot and has the full support of Silicon Valley Community Foundation, the League of Woman Voters, California Calls and the PICO network, is seeking to reform commercial and industrial property tax while maintaining residential, agricultural and small business protections. If approved, this measure will provide more than $11 billion a year to our cities, K-12 schools and community colleges and ensure the continued growth and competitiveness of Silicon Valley companies, our state and our nation.

EMMETT D. CARSON
Silicon Valley Community Foundation

HELEN HUTCHINSON
League of Women Voters of California, Make it Fair

ANTHONY THIGPENN
California Calls, Make it Fair

REVEREND BEN MCBRIDE
PICO, Make it Fair
Policy Brief: Impacts on Silicon Valley and High Tech Industry from Commercial Property Tax Reform

Summary

Over $1 billion in Santa Clara County will be raised for cities, counties, schools and special districts, with additional revenue paying off the bonds for school construction and infrastructure, from reforming Prop 13’s commercial property tax system. The primary impact of market-value reassessment on high-tech will be on the underassessed land and buildings belonging to companies and investors which purchased their properties a long time ago. It will also reassess underutilized land in sprawling commercial strips, auto malls and underassessed retail areas. In addition to strengthening local governments, it will also lead to far more efficient land use, including likely higher-density housing along commercial strips in San Mateo and Santa Clara Counties 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:**

Revenues in Santa Clara County are estimated to be at $1.065 billion from reassessment of commercial/industrial property, for schools, cities, counties and special districts, which is about twice what it currently receives from such property. For San Mateo, it would be $587 million annually, and San Francisco $836 million. Those amounts are at the 1% current property tax rate, and with overrides for bonded indebtedness would be higher, minus the small business relief that would offset a small percentage of that revenue increase. 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. It will improve local service delivery and strengthen the finances of local governments and schools.

2. **Long-held properties:** The majority of revenues from reassessment will come from properties held for long periods of time. In Santa Clara, the assessor reports that 41% of commercial/industrial parcels assessed before 1999 account for only 22% of the commercial/industrial assessed value in the county. Data analysis by USC/PERE shows similar patterns: 51% of the new revenue will come from property with assessments before 1999 in Santa Clara. In San Mateo, 58% of the new revenue is from pre-1999, with much of that pre-1980, i.e property not reassessed in 40 years. (See accompanying charts on page 2)
Wide disparities: Assessed land values in Santa Clara and San Mateo can vary by factors of 50x and even 100x or more. They not only vary widely from company to company, they can vary within one company which leases or owns long-held land and also has recently bought land for expansion. Land values vary by far more than building values, because buildings are upgraded and therefore reassessed when improved.

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 are at market rates and will continue at market, with the benefits providing a windfall to landowners. For example, the listed rents for office space from Stanford Research Park or underassessed Irvine properties are at market, as are other rents throughout the area. Rents are equivalent for buildings with both higher and lower assessments; there is no indication that any rents are below market because of low assessed values.

Examples (among thousands):
IBM property is assessed at .50/sf, (1975 values, assessed as agricultural land).
Intel and Stanford Research Park own land currently assessed as low as $2/sf.
Irvine Company land from the 1980’s is assessed at $20-30/sf, while current land values in the area are over $100/sf.
Google leases land assessed at $1.50/sf (Salado Drive) and owns land assessed at $155/sf.
Adobe recently bought land in downtown San Jose at a reported $650/sf.

High value-added per square foot: Technology companies hold such high value-added per square foot that the 1% property tax is not a significant cost, as it might be for auto lots or big box retail. New equipment is already taxed at full market value (although the initiative will provide for a $500,000 exemption), and buildings are reassessed when remodeled. High-tech companies have built expensive new properties, assessed at full market value, with the tax at 1% representing a miniscule part of their revenue stream (also still fully deductible under the new federal tax law just passed), e.g., Apple’s $5 billion spaceship, Facebooks $400 million new campus.

Most revenue from largest properties: In Santa Clara, 88% of the revenue will come from 25% of properties worth over $5 million. In San Mateo, 86% of the revenue will come from 14% of properties worth over $5 million. (See accompanying charts on page 3)

Export of tax: A not-insignificant amount of the tax increase will be exported from California, since many of these highly-valuable properties are owned by national and international investors through REITs and other mechanisms and as shareholders of corporate-owned property who are worldwide as well. The recent federal tax bill gives even greater benefits to these investors. For example, MetLife owns a greatly underassessed office park in Redwood City. PSBusiness Parks is a publicly-traded REIT with underassessed property in Santa Clara and San Mateo. The impact of reassessment will be borne by shareholders and investors all over the world.
**Competitive impact:** With full market value reassessment, property taxes in San Jose will still rank at 37th and San Francisco 42nd among the top 50 cities in the nation, due to the low rates of 1% plus overrides.\(^{(4)}\)

**Infrastructure will benefit greatly:** Santa Clara on average has .2 in overrides for debt, which means that the additional revenue will either pay off current bonded indebtedness more quickly or, if payment is a fixed amount, will lower the rates to generate the same amount of revenue. A greater degree of infrastructure can and will be supported, particularly since infrastructure investment raises property values, which in turn helps finance more infrastructure.

**Commercial strips, housing and land use:** Research has shown that underassessed land is more likely to be vacant.\(^{(5)}\) \(^{(6)}\) Underutilized commercial land for car lots, strip malls and sprawl are often greatly underassessed, with much of it passed on for generations in trusts. The current tax system encourages holding land off the market and inflates its value. With market value taxation, much of this land will be released and made available for more intensive use, including much-needed high-density housing. (see attached housing document).

**Share of Total Commercial / Industrial Properties and Share of Santa Clara County Revenue Gain by Estimated Market Value, 2019**

<table>
<thead>
<tr>
<th>Estimated Market Value</th>
<th>% of Total Commercial Properties</th>
<th>% of Revenue Gain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $250,000</td>
<td>16%</td>
<td>0.1%</td>
</tr>
<tr>
<td>$250,000 to $500,000</td>
<td>9%</td>
<td>0.4%</td>
</tr>
<tr>
<td>$500,000 to $1 million</td>
<td>15%</td>
<td>1%</td>
</tr>
<tr>
<td>$1 to $3 million</td>
<td>25%</td>
<td>5%</td>
</tr>
<tr>
<td>$3 to $5 million</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>Greater than $5 million</td>
<td>25%</td>
<td>88%</td>
</tr>
</tbody>
</table>

**Share of Total Commercial / Industrial Properties and Share of San Mateo County Revenue Gain by Estimated Market Value, 2019**

<table>
<thead>
<tr>
<th>Estimated Market Value</th>
<th>% of Total Commercial Properties</th>
<th>% of Revenue Gain</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than $250,000</td>
<td>41%</td>
<td>0.4%</td>
</tr>
<tr>
<td>$250,000 to $500,000</td>
<td>8%</td>
<td>1%</td>
</tr>
<tr>
<td>$500,000 to $1 million</td>
<td>10%</td>
<td>1%</td>
</tr>
<tr>
<td>$1 to $3 million</td>
<td>20%</td>
<td>7%</td>
</tr>
<tr>
<td>$3 to $5 million</td>
<td>7%</td>
<td>5%</td>
</tr>
<tr>
<td>Greater than $5 million</td>
<td>14%</td>
<td>86%</td>
</tr>
</tbody>
</table>

Source: USC PERE analysis of disparity ratios of commercial and industrial properties based on CoreLogic assessor roll data for 2015-16, projected forward to 2019-20.

**Executive Committee**

**Steering Committee**

www.makeitfairca.com
phone: 323-735-9515