COMMERCIAL REAL ESTATE

How would a split roll affect the state's commercial real estate?

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Contributing Columnist

Split roll. Not a term with which you are familiar? Here's a brief primer. Split roll refers to a different treatment of property taxes for residential vs. commercial real estate.

Since the enactment of Proposition 13 in 1978, California property owners have enjoyed a program that assesses property values annually in July — commercial and residential — multiplies that assessment amount by 1 percent and sends a property owner a bill in October. Your percentage may vary slightly as municipalities are able to add to your property tax bill for such things as local utilities and bond payments incurred for the costs of streets, curbs, gutters and storm drains — also known as a Mello-Roos assessment.

The first installment for the first half of California's fiscal year — July 1 through Dec. 31 — are due in November and late December. The second installment for the second half of the state's fiscal year — Jan. 1 through June 30 — are due in February and late April. (I remember these property tax due dates by employing the mnemonic device No Darn Fooling Around.)

Property taxes cannot increase by more than 2 percent annually unless the commercial building or home trades hands — which triggers an assessment based on the sale amount. If a building or house has not sold in 20 years, the resulting property tax an owner pays is substantially less than that house across the street that transacted last year. Some say it isn't fair for there to be such a wide disparity.

Currently, there are conversations happening among our state legislators to "split the tax roll" and bill residential property owners differently than commercial real estate owners. If you own a house, the current Prop. 13 rules would remain. Own a manufacturing building? Your property taxes are going to increase. The theory? Businesses can afford to pay more and many commercial property owners benefit from very low assessed values compared with current commercial real estate values.

Simply stated, here is the problem with a split roll, in this author's opinion:

Commercial real estate is owned by folks who occupy the buildings with their businesses or by investors whose livelihood relies upon rents paid by tenants. Businesses — whether owner occupants or tenants — create jobs and produce and sell goods and services at a profit, hopefully. Jobs are created and goods and services are produced at a cost — which includes the rent paid by an occupant. Therefore, if business property taxes go up, who bears that expense? Yep, the consumer of those goods and services — you and I. Alternatively, a business leaves California for the cheaper tax environs of Texas or Nevada. Neither scenario sounds terribly promising for the Golden State.

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California legislators are considering splitting the property tax rolls, charging residential residents differently than commercial property owners.