

County-Assessed Properties Division Dark Store Valuation Overview

California State Board of Equalization
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Background

Owners of “big-box” retail stores have sought reductions in property tax assessments.

A big box retailer is a retail store that occupies a large amount of physical space and offers a variety of products to its customers.

Dark Store Theory

Owners contend that although a big-box store may be occupied and operating as designed, it would have little value to a prospective purchaser, and should therefore be valued as if vacant, or “dark.”

Essentially, they contend that their stores are so specially designed for the current occupant that no one else would consider making an offer that would reflect the value of the property in its current use.

Property Tax Appraisal Requirements & Definitions

- The duty of assessors is to appraise property for property tax purposes using recognized methods and techniques consistent with property tax law.
- California Constitution, statutes, and regulations require real property to be appraised at fair market value.

Property Tax Appraisal Requirements & Definitions (cont.)

Fair Market Value

- Section 1 of article XIII of the California Constitution establishes that the fair market value of real property is the assessable value of that property for property tax purposes:

Unless otherwise provided by this Constitution or the laws of the United States:

(a) All property is taxable and shall be assessed at the same percentage of fair market value...

(b) All property so assessed shall be taxed in proportion to its full value.

Property Tax Appraisal Requirements & Definitions (cont.)

Fair Market Value

- Subdivision (a) of Revenue and Taxation Code section 110 defines “fair market value” as:

[T]he amount of cash or its equivalent that property would bring if exposed for sale in the open market under conditions in which neither buyer nor seller could take advantage of the exigencies of the other, and both the buyer and seller have knowledge of all the uses and purposes to which the property is adapted and for which it is capable of being used, and of the enforceable restrictions upon those uses and purposes.

Property Tax Appraisal Requirements & Definitions (cont.)

Fair Market Value

- Property Tax Rule 2, “fair market value”, means the price that property would sell for in a transaction “between parties who have knowledge of the uses to which the property may be put, both seeking to maximize their gains...”

Property Tax Appraisal Requirements & Definitions (cont.)

Assessors are required to appraise real property as though it were unencumbered or unrestricted by a lease, mortgage, or other private agreement, even though the property may, in fact, be so encumbered.

Property Tax Appraisal Requirements & Definitions (cont.)

- **Unencumbered-Fee Interest**
 - Property Tax Rule 4, Comparative Sales Approach to Value
 - For leases, Rule 4 requires that, where the terms of a lease are favorable to the purchaser who assumes those terms, sale prices must be adjusted by deducting from the sale price of the seller's equity the amount by which it is estimated that the lease enhanced that price.

Property Tax Appraisal Requirements & Definitions (cont.)

- **Unencumbered-Fee Interest**
 - Property Tax Rule 8, Income Approach to Value
 - Rule 8 provides that, in valuing property encumbered by a lease, the net income to be capitalized is the amount the property would yield were it not so encumbered, whether this amount exceeds or falls short of the contract rent and whether the lessor or the lessee has agreed to pay the property tax.

Property Tax Appraisal Considerations

- Highest and Best Use
 - The legally permissible, physically possible, financially feasible or probable, and maximally productive use that produces the highest residual land value.
 - The use that produces the greatest long term net return to the owner.

Property Tax Appraisal Considerations (cont.)

- Value in Exchange
 - The purchasing power of a commodity to command money in exchange.
- Value in Use
 - The value of property based on its utilization by a particular owner or group of owners.

Questions?