

Proposition 15 on November Ballot to Increase Commercial Property Tax

Proposition 15 would change the law enacted in 1978 under Proposition 13 which provided property tax protection to all property owners. Prop 15 would increase property taxes for commercial properties throughout California except those zoned for agriculture. It would keep the existing tax rules in place for residential properties. This would increase commercial property taxes based on current market value as a pose to the time of purchase. It would begin phasing in during the 2022-2023 fiscal year. Retail properties that have small business occupants of fifty percent or more would be phased in during 2025-2026 fiscal year. There would be an exception for owners who have \$3 Million or less in property holdings in California.

Proposition 15 would make the California State Legislature responsible for passing laws for a phase-in of the market value-based tax on commercial properties, how often reassessments would occur (no less than three years between reassessments), and an appeals process for challenging reassessments. The funds generated would be distributed first to specific areas including the state to supplement decreases in revenue and counties to cover the costs of implementing the measure. The remainder of funds would be allocated sixty percent to local governments and special districts and forty percent to school districts and community colleges.

Supporters of the measure argue that this law meets the needs of supporting schools, community colleges and local government services. They estimate upon full implementation that this initiative will bring in an additional \$8-12 Billion in tax revenue. Supporters argue this will benefit low-income communities who have been disproportionately affected by COVID and its economic fallout.

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Opponents of the measure state that during this time where businesses are fighting to stay alive and provide jobs due to COVID this initiative would be a nail in the coffin. Businesses in California already have to pay the high cost of taxes and have one of the most difficult business climates in the country. Many believe this will drive more businesses out of the state and cause losses in jobs. Opponents feel that special interests are pushing this measure for new and higher taxes instead of solving the state's excessive spending problems. Supervisor Kathryn Barger was the only dissenting vote on the LA County Board of Supervisors arguing the initiative "would be the largest tax increase in California history at a time when businesses are grappling with major financial repercussions as a result of COVID-19."

Source: Ballotpedia.org and CoStar Newsletter August 12, 2020

**Current SBA 504
Effective Rate for
August 2020 is 2.21-2.39%**

Pandemic Cuts Commercial Borrowing Activity

Due to the economic effects of COVID-19, commercial mortgage originations have fallen forty-eight percent in the second quarter from one year earlier according to the Mortgage Banker's Association. Activity came to a halt at the start of the pandemic and has slowly increased. However, the association believes it will be a while until it returns to pre-coronavirus levels.

The sector most widely affected throughout the country has been retail and hotel properties. Multifamily and industrial have held the strongest market activity throughout the pandemic due to refinancing volume from government-

Sponsored housing lenders Fannie Mae and Freddie Mac.

Loan origination for hotel properties fell 91% year over year. Declines for other property types include retail decreasing 64%, office falling 71%, industrial sliding 44%, healthcare dropping 40% and multifamily declining 24%.

The dollar volume of loans originated for commercial mortgage-backed securities decreased ninety-five percent year over year, and life insurance company lending was down forty-nine percent.

Although bank lending volume was down, it was reported that banks overall captured over seventy percent of loan origination in the second quarter. That is more than double recent averages.

Banks have seen a steady increase in loan applications over the last five weeks showing signs of continued improvement. Commercial lending groups expect underwriting standards to be conservative due to current economic conditions and continued challenges facing COVID-19.

Source: CoStar news 8/17/2020

Industrial Building for Sale in Monrovia



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Linda specializes in commercial and industrial sales and leasing throughout the San Gabriel Valley. She has extensive knowledge in 1031 exchange transactions, investment opportunities, and market analysis. Feel free to contact Linda with any questions or requests for information.

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