

## Business Seminars

**Monrovia Business Seminar**  
TBD

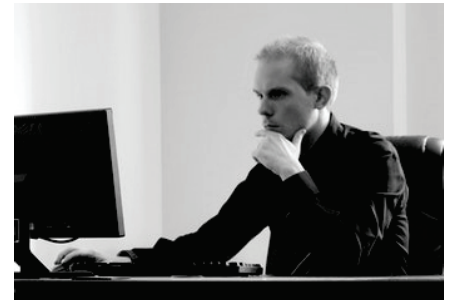
**MADIA TECH LAUNCH**  
TBD

**Monrovia Kiwanis**  
Meets at the Monrovia Restaurant  
Every Thursday 12-1:30 PM  
President - Brian Deets

**Duarte Kiwanis**  
Meets at Westminster Gardens  
Every 3rd Tuesday 12-1:30 PM

## How the Real Rate of Inflation is Impacting Your Commercial Property Rents

If you've been paying attention to the official, reported rate of inflation, you've probably noticed something very strange going on. How is it that when we go to the supermarket to buy food, the prices have risen dramatically within recent years, and yet the reported rate of inflation is just a miniscule 2.4%? Then when you look at things like the cost of housing, the cost of energy, and the cost of many other items that we all purchase on a regular basis, those prices have been rising considerably, too.



What's been happening is that the government has been changing both the items utilized when calculating the inflation rate, and changing the weighting of those items within the overall calculation of the index, too. So while we all may be feeling the pinch financially whenever we're buying the items that we consume within our day-to-day lives, those items may not be given the exact consideration that many of us believe they should be when the cost-of-living index is calculated.

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## Quotes for the Month

*I like football. I find its an exciting strategic game. It's a great way to avoid conversation with your family at Thanksgiving. –*  
**Craig Ferguson**

*It took me three weeks to stuff the turkey. I stuffed it through the beak. –*  
**Phyllis Diller**

*I'm excited about Thanksgiving because I love unwelcome parenting advice from relatives I see twice a year.*  
**Anonymous**

## California Property Owners Brace for Vote to Repeal Limit on Tax Increases

OCTOBER 29, 2018 | RANDYL DRUMMER

California's landmark property tax law may be facing a change.

An effort to repeal protections of the property tax-cutting measure known as Proposition 13 for commercial real estate has qualified for the state's 2020 ballot. And everyone from commercial property owners and tenants to parents, students and users of local community programs could feel the effects of the ballot initiative should it pass in two years.

The measure, which qualified for the ballot this month after proponents collected more than the 644,000 signatures required by state law, could trigger the largest seismic shift in the state's property tax system since voters approved Proposition 13 four decades ago. Commercial real estate owners and developers are already warning that hundreds of companies could leave California, taking thousands of jobs with them, to avoid paying higher state taxes -- and that could drive up commercial vacancy rates, discourage development and alter the economics of real estate investment in the state.

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With this in mind, The Chapwood Index was created, and it shows us what the real rate of inflation would be when utilizing the prices of 500 items that people are likely to consume in their day-to-day lives. In addition, when this has been done, the results are shocking. The index shows us that in many major U.S. cities, the real annual rate of inflation has been between 9% and 12%, depending on the city, and you can see these results by visiting [ChapwoodIndex.com](http://ChapwoodIndex.com).

So what this then means for leases that have cost-of-living adjustments in them is that the tenants will be paying less rent than would normally be called for when the cost-of-living adjustments are made, and the owners will be receiving less rent than would normally be reflected if the true cost-of-living adjustments had been made. In addition, this will hold down the upward adjustments in both government employees' pay, and in people's pensions, too. So what we are looking at here is a massive transfer of money from certain sectors of the economy, to others.

With this in mind, if you're a landlord signing leases with cost-of-living adjustments in them, what can you do? You're not likely to get your tenants to sign leases with rent increases tied to the Chapwood Index, and your only other course of action might be to have rent increases of specific amounts or percentages within your leases, with these amounts then being higher than the officially reported rate of inflation. But then again, you'll need to get the tenant to go along with this.

But on the other side of the coin, if you're a tenant who has cost-of-living adjustments specified within your lease, recognize that you are getting a very nice subsidy.

Meanwhile, backers of the measure project it could raise as much as \$11 billion annually for California schools and colleges, affordable housing, emergency services and local programs that they argue have been chronically underfunded for decades. Passed in 1978 during a period of surging home prices that prompted a revolt against taxation across the United States, Proposition 13 has been one of the most popular and potent tools of anti-tax advocates in California and across the country. The measure capped annual property tax increases on California properties at 2 percent, with valuation reassessments allowed only when properties are sold.

At the time it was passed, the measure immediately slashed property taxes for businesses, homes and agriculture by 57 percent and rolled back assessed valuations to 1976 levels.

However, Proposition 13 has long been criticized as draining state coffers of crucial funds for schools, emergency services and local community programs, and it has been tested several times over the past four decades. All but one of those efforts failed to make the ballot because of political distaste for raising property taxes, which has been called the "third rail of California politics" for decades.

This proposed ballot measure, which backers are calling "the California Schools and Local Communities Funding Act," would amend the state constitution to end Proposition 13's restrictions on taxing commercial and industrial properties, creating a so-called "split-roll" property tax system. Single-family homes would retain their current tax rate under the amended proposition. Business and real estate groups are warning that its passage would contribute to what they call an already unfriendly business and regulatory climate and cause more companies to move out of California.

### **Real Estate Executives Sound Warning**

A growing number of real estate executives warn that eliminating the property tax cap would hurt their financial condition but said this effort could succeed. Among them is Hamid Moghadam, chief executive of San Francisco-based Prologis, the largest warehouse and distribution property owner in the world, who said this month that changes to Proposition 13 are almost certain to pass in 2020 or 2022.

"This would create a huge tax hit for commercial property owners as well as increased uncertainty," said Kevin Ivey, chairman of the corporate, state and local subcommittee for National Association of Industrial and Office Properties, known as NAIOP. Jon Coupal, president of the Howard Jarvis Taxpayers Association, founded by and named for Proposition 13's author in 1978, said the new measure would be a "foot in the door" to gut Proposition 13 of its fundamental tax benefits that could eventually include repealing Proposition 13 protections for homeowners.

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"The way the law is now, businesses can predict with certainty what their property taxes will be in the future," Coupal said. "This initiative discriminates against California businesses. It could give them yet another reason to move out of the state."

### **Supporters, Opponents Wage \$150 Million Battle**

The proposition passed by two-thirds of voters on June 6, 1978, capped property tax increases on all California properties at 2 percent as long as the property wasn't sold. Once sold, the property was reassessed at 1 percent of the sale price, and the 2 percent yearly cap became applicable to future years.

However, opponents mounted a significant challenge to the law this year and succeeded in qualifying a measure they said will increase tax receipts for cities, counties and school districts by up to \$11 billion a year. Under the proposal, businesses would have their properties reassessed to market values every three years or less. In addition, commercial properties would still be taxed at 1 percent of their value.

Nothing would change for single-family residential properties.

Business groups, including the California Business Roundtable, expect to spend up to \$100 million to defeat the measure. The coalition backing the changes, including such groups as the American Civil Liberties Union, the League of Women Voters of California and the California Federation of Teachers, are prepared to spend as much as \$50 million to pass the measure. Supporters say its purpose is to generate revenue for local and state governments, including schools. They argue that school spending as a share of personal income in California has declined since the passage of Proposition 13, even as it has generally increased in the rest of the United States.

Proposition 13 critics argue the measure is really a giant subsidy for commercial property owners, frequently citing Walt Disney Co.'s Disneyland and Downtown Disney in Anaheim, California, as an example of a company that pays little in property taxes compared to the rising value of its property. Supporters of the latest ballot effort said such properties can change hands via corporate buy-outs and mergers to avoid triggering re-assessments.

However, Californians have largely been satisfied with their lower tax rates from Proposition 13, according to recent polls and surveys. A March survey by the Public Policy Institute of California found that 57 percent of residents and 65 percent of likely voters said Proposition 65 had been mostly good for the state. Only 23 percent said its effects have been mostly bad. Those who support amending Proposition 13, which targeted high property taxes and plunging housing affordability for senior citizens and families in the late 1970s, said the measure is now worsening the state's housing crisis.

Among Proposition 13's effects homeowners age 55 and over can transfer their current tax assessment percentage to a new residence when they sell their home. But accountants and real estate brokers say many empty nesters are still hoping to avoid incurring huge property tax increases, even when they scale down to much smaller dwellings, by passing their properties down to family members to avoid the need to sell.

The California tax rate averaged a little less than 3 percent of market value before Proposition 13, with no limits on increases for either the tax rate or property value assessments. Some properties were reassessed 50 percent to 100 percent in just one year and their owners' tax bills jumped correspondingly.

Since Proposition 13, property tax revenue flow has been 2.9 times more stable, including a nearly 10 percent average annual revenue increase for local governments between 1980 and 1992. The tax rolls grew nearly 8 percent even in 1992, a recession year, according to the Howard Jarvis Taxpayer Association.

Business property owners already pay a proportionately higher share of the property tax than homeowners. Business properties are assessed at an average of 75 percent of market value, while the statewide assessment average, including business properties, is 55 percent.

The Howard Jarvis Taxpayer Association points out that voters defeated a previous effort to impose a split-roll tax system, Proposition 167, by a 2-to-1 margin in November 1992.







**415 W. Chestnut Ave., Monrovia, CA 91016**

- Approx. 5,400 SF Commercial Warehouse/Office Building
- Located next Old Town Monrovia
- 18Ft Ceilings and Large Roll Up Doors



**220-222 E. Foothill Blvd., Monrovia, CA 91016**

- Approximately 1,680 Square Foot Office
- Walk to Old Town Monrovia and All Amenities.
- Perfect for an Owner User, was Split into Two Units.



**2620 S. California Ave., Monrovia, CA 91016**

- Approximately 2,000 SF Building
- Zoned Light Manufacturing.
- Property is good for – Labs, Church, Karate Studio, Art /Studio, Call

