

High-Tech, Low Tax: How the Richest Silicon Valley Corporations Pay Incredibly Low Taxes on Their Land

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The Undertaxation of Land in Silicon Valley

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Executive Summary:

This report examines commercial property tax assessments in Silicon Valley. From our examination of hundreds of properties, we find that many of the richest corporations in the world are paying extremely low property taxes on their land, taxes far below anywhere else in the country.

Proposition 13 was designed to keep property taxes from rising faster than the incomes of homeowners. For Silicon Valley companies it has been the reverse: *Prop. 13 has kept property taxes at a trivial level for many companies whose incomes and revenues have exploded since their land was last assessed.*

One significant finding: By far the largest disparities in assessed value are in land values. Many hundreds of acres of prime commercial land are assessed at rates from a generation ago. Disparities of 1/10th or even 1/50th for similar land are common. Building values demonstrate far smaller differences, though still display significant disparities.

This study is an effort to open a discussion about property taxes, in the light of on-going deficits and the declines in public services and education. The property tax is a mainstay of local services, including infrastructure, public safety and education. This research will hopefully encourage further research throughout the state.

1. Hundreds of acres of prime commercial land are taxed at very low values.

For huge areas of commercial land, assessed values and property taxes for major companies are fixed at the level of a generation ago. For example, Intel sits on 36 acres of centrally-located land taxed at 2 cents/square foot, or \$980/acre. IBM pays \$202/acre on 200 acres of land. By way of comparison, open land recently bought by Google generates \$1.35 in tax per square foot, or \$58,000/acre in tax—60 times what Intel pays.

Differences in tax on land of 10, 20 times and even 50 times appear regularly for similarly-situated properties in Silicon Valley. Companies such as IBM, Intel and Hewlett Packard are paying millions of dollars less in taxes than they would on their land each year compared to newer companies such as Adobe, Yahoo and Google.

2. Land leasing avoids reassessment. Large amounts of prime Silicon Valley land are held at low values by large commercial landowners, such as Stanford Research Park and the Irvine Company. This land is leased to new businesses at market rates, while the owners still pay the extremely low property taxes of 20 and 30 years ago. Lease rates appear to bear little relationship to tax levels for land, so new investors pay market rental rates irrespective of the underlying taxes.

3. Different assessments, same company. Companies which have multiple parcels of land which are nearly identical are assessed at wildly different rates,

reaping tax savings for major pieces of land while paying full value on others. Apple, for example, pays land taxes which range from the lowest to the highest in Silicon Valley, as does Google. The differences paid in taxes on Intel's own land vary by factors of 19 in some cases.

4. Close proximity, wildly different assessments. We also looked at commercial areas within close proximity, and again found wildly-different property tax assessments on the land in commercial areas with otherwise little to distinguish the parcels. In many cases smaller businesses are paying far more than corporate giants in the immediate locations.

5. Change of ownership allows loopholes by which property never changes ownership. Under Proposition 13, property is re-assessed upon "a change in ownership." When property is purchased outright or re-constructed, it is reassessed.

Trusts, partnerships and LLC's (Limited Liability Companies) hold land for generations, avoid reassessment despite change in underlying ownership, and pay virtually no tax on highly valuable land. For example, Google leases land which has been owned by a family trust since the 1970's and is taxed at less than \$800/acre.

Publicly-traded corporations never change ownership under this system, because cumulative changes in stock are not considered change of ownership. So the land bought and held by companies in the 1970's and '80's will never be reassessed, although surely many of their stockholders have changed during that time.

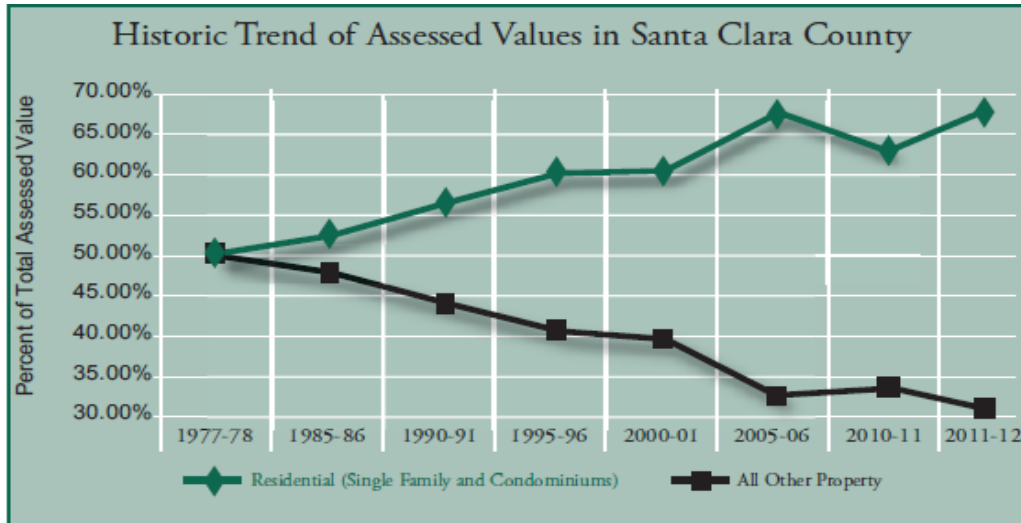
Initial public offerings (IPOs) by which closely-held companies sell the vast majority of their ownership interests do not legally generate re-assessment upon change of ownership. Once publicly-traded, they will never be reassessed.

6. Land values show far greater disparities than buildings. Land values are much easier to compare than building values, since buildings vary significantly in quality and features. Land values also appear to account for the largest disparities in value, because buildings are reassessed when they are renovated or rehabilitated. The differences among building reassessments, while still significant in some cases, are nowhere near the many multiples of value that land reassessment demonstrates.

The explanation for this difference is relatively straightforward: few high-tech companies, hotels, or modern retailers are still working in unimproved structures, so that their building improvements have triggered reassessment. Unlike the buildings, the underlying land never is reassessed for many large corporations.

Background: Property tax shift, property tax burden

Since 1978, the burden of the property tax has shifted dramatically away from commercial property in Santa Clara County, and toward residential property. The chart from the Santa Clara Assessor's Annual Report demonstrates an almost uninterrupted shift:



This dramatic shift in the property tax burden in a county that has experienced world-class growth in industry, commerce and employment during this entire period prompted us to look at other counties as well. In [“System Failure: California’s Loophole Ridden Commercial Property Tax.”](#) (available at www.caltaxreform.org) we found data that demonstrated similar shifts away from commercial and toward residential property in 55 of the 58 counties in the state. We also sought to delve deeper into taxation in Silicon Valley.

California’s overall taxes on businesses have generally ranked somewhat in the middle of the 50 states. A recent study on state competitiveness by the Council on State Taxation (COST) of the U.S. Chamber of Commerce placed California at 29th out of 50 states and D.C. in 2010 in terms of tax burden on new investment. COST also estimates the business tax burden as a percent of gross state product as slightly above the national average. ¹

In the competitiveness study, COST assumes that California’s property tax is at full market value, which for new purchases and new investment it would be. Even at full market value of property, the study shows that California’s effective property tax on business is among the lowest 10 in the country.

¹COST, “State and Local Tax Burden Study”; COST, “Competitiveness of State and Local Business Taxes”. <http://www.cost.org/StateTaxLibrary.aspx?id=17768> The competitiveness study was done before “single-sales factor” was implemented in CA in 2011, a factor that is significant in their calculations. So California’s ranking is likely higher in 2011.

Another study, done by the Minnesota Taxpayers' Association, examines the property tax in major cities on industrial property of various sizes with various assumptions about equipment and structures. Again, at full market value, California businesses consistently enjoy tax levels among the lowest in the country, with the business rate in San Jose at 36th among the 50 largest cities in the country.²

That result stems predominantly from our constitutionally-determined low property tax rate of 1% (with small local over-rides), a rate lower than most other states. But, as the following results show, property taxes are often a small fraction of market value. **For major corporations, they are taxed not at 1% of value but a fraction of value—astoundingly low compared to property taxes anywhere else in the country.**

Methodology and Data Sources

In examining property values and taxation in Silicon Valley, we gathered land and building values and the size of properties for nearly 400 larger commercial properties, mostly with high-tech uses, from several primary sources. The Santa Clara County Assessor has an accessible on-line database of property assessments. Dataquick, a commercial provider, has detailed information about properties, including deeds of ownership, square footage, location, lessees and lessors, and last sale date. We also used Loopnet.com for information about lease rates and tenants, as well as owners, and for values of recent sales. And we examined buildings and neighborhoods from the pictures contained in Google Maps, to verify the accuracy and proximity of properties.

Accurate appraisal of property values is a complex process, although land values are far less complex than building values. Further, buildings are substantially upgraded frequently and are thus reassessed over time. We did not attempt to compare building values, other than to look at lease rates as an indication of market value but looked instead at contiguous land. We also looked at many recent sales in the area, which do not break down land values but, when there are improvements, are compared in terms of purchase price per square foot. In the lowest areas, property sales are at \$150 per square foot, and generally run up to about \$200-400 per square foot, and higher than that for office property in high-end Palo Alto.

Vacant land sales were also helpful in looking at comparables, although there is not a significant amount of vacant land left for development. We used Google's recent purchase of 7 acres in Mountain View, assessed at \$135 per square foot (\$5.9 million/acre) as one benchmark, although wide variations existed, relative to potential uses of the land and of course location.

² Available at http://www.lincolnst.edu/subcenters/significant-features-property-tax/upload/sources/ContentPages/documents/MTAdoc_NewCover.pdf San Jose ranking pg 33.

Aside from comparable recent sales, we relied on a straightforward way to compare assessed values of land, broken down by tax per square foot or acre, for companies and properties which are nearby and have similar commercial/industrial uses, rather than, say, retail properties in downtown areas. We mapped these properties by locations, and observed the differences among locations. While there may be little vacant land to demonstrate current market values, we were able to compare land values in similar areas with similar uses.

A caveat: Silicon Valley changes rapidly. Mergers and acquisitions occur, leases change, companies move, and occasionally assessments lag. With the voluminous amount of data in this report, it is likely that some of it has changed, or may have been inaccurate or out of date.³ To the extent that there are data errors in the report, we will correct any that are pointed out to us. But if specific numbers turn out not to be exact, there is still little question about the thrust of the data.

Ultimately, our approach is similar to epidemiology: Are there patterns that emerge from a substantial body of data, covering many of the major companies in Silicon Valley, that can generate valuable findings?

Major Findings

1. Hundreds of Acres of Commercial Land Taxed at Very Low Values

Major corporations that have been in Silicon Valley for a long time are paying extremely low taxes on their land compared to comparable companies and other businesses. In addition, a great deal of leased land, purchased many years ago and housing many new businesses also pay very low levels of tax on the land.

Companies which have been in Silicon Valley from the era of the 1970's and 80's, such as IBM, National Semiconductor, Hewlett-Packard, Intel, Cisco, Apple and Intuit, have benefitted disproportionately as land values have risen.

For example, in San Jose, IBM pays \$0.005 (1/2 cent) in tax per square foot of land (\$202 in tax/acre), compared to current values paid by Adobe in San Jose, which are close to \$1/sf (\$48,000/acre) or 200 times IBM's current assessed value. If IBM paid closer to what other businesses pay in the area, they would pay approximately \$6 million more yearly in tax on the land alone. While IBM's land is remote, they pay a total of about \$40,000 in estimated taxes on 200 acres, an assessment that is hard to explain when other companies pay \$40,000 in tax per acre.

Some of those underassessed properties house newer companies which lease the property. Facebook (until recently) and Skype lease land from Stanford Research Park, which is at very low land values, although their building values reflect newer

³ For example, Facebook has moved into an entirely new campus, although for this study they were still leasing from Stanford Research Park.

construction (See section 2, on land leasing). Google, which has purchased new land and pays some of the higher values in the county, also leases property which is assessed at 1.3 cents per square foot, compared to nearby Google-owned properties assessed at 50 or 100 times more.⁴

Chart 1 on the next page demonstrates some of these differences. These results show huge differences in land values, many of which are proximate to each other and may be of the same company. In many cases, older properties have substantial swaths of land at very low values.

Chart 2, on page 10, gives more detail about two companies, Intel and Yahoo. Intel and Yahoo own substantial amounts of property in the same area of Santa Clara, near Mission College and Great America Amusement Park. For a huge property of 26 acres on Bowers Avenue, Intel is paying \$25,000 in tax, or less than \$1,000 per acre. On another 36 acres, Intel pays \$1,302 in tax per acre. On its own nearby property of 8.5 acres, it pays \$19,000/acre in tax. Intel pays total taxes on its land in this area of approximately \$480,000.

Yahoo's assessed values in the same area begin at a level where Intel's leave off, and extend, in the same neighborhood, to more than \$50,000/acre. If Intel's land were assessed similarly to Yahoo's land, it would pay close to \$5 million on the land alone, or 10 times what it currently pays.

Similarly, Hewlett-Packard leases 47 acres of property on Page Mill Road for 11-18 cents/sq. ft., or \$7,700/acre near property which is taxed at \$40,000/acre. If the land alone were comparably taxed with other land on Page Mill Road, that land would pay an additional \$1.5 million yearly in tax. HP recently sold 92 acres of property to Apple (purchased in the name Campus Holdings, LLC), which for many years had been assessed at 2 cents/sq. ft. or \$951/acre. Many millions in revenue have been lost forever by this vast underassessment of 92 acres of prime land.

National Semiconductor, another older company, pays \$945 per acre on 37.6 acres in Santa Clara, or about 2 cents per square foot. In the very same complex, it pays up to 25 cent/sq. ft., or \$11,029/acre. If the company merely paid on its first land what it pays on its later land (which is also substantially below market), it would pay \$370,000 more in tax each year. And if it paid closer to the higher assessed values in the area (e.g. Yahoo's), it would pay millions more in tax per year.

⁴ An article based on this research appeared in the New York Times/Bay Citizen which delved more deeply into the details of this property. <http://www.baycitizen.org/proposition-13/story/proposition-13-silicon-valley-vastly-tax/>

Chart 1: Variations in Tax on Land on Selected Property in Silicon Valley

Company	Location	Sizes (Acres)	10-11 Est. Land Tax Per Sq. Ft.	10-11 Est. Land Tax Per Acre
Lower Values				
IBM Silicon Valley	San Jose	200	\$0.005	\$202
National Semiconductor	Santa Clara	37.6	\$0.02	\$945
Apple (from H-P)*	Cupertino	92.4	\$0.02	\$951
Intel	Santa Clara	26	\$0.02	\$985
Applied Materials	Santa Clara	5	\$0.02	\$1,010
Facebook Inc.**	Palo Alto	8.5	\$0.03	\$1,324
Wall Street Journal**	Palo Alto	8.5	\$0.03	\$1,365
Intuit	Mt. View	9.5	\$0.03	\$1,302
Intel	Santa Clara	36	\$0.05	\$1,981
Skype **	Palo Alto	4.5	\$0.07	\$2,937
Hewlett Packard **	Palo Alto	46.8	\$0.18	\$7,763
Cisco Systems	San Jose	15	\$0.18	\$7,705
Hewlett Packard	Mt. View	8.4	\$0.24	\$10,296
Cisco Systems	Mt. View	9	\$0.25	\$10,877
Google Inc.	Mt. View	19	\$0.36	\$15,829
Lockheed Martin **	Palo Alto	22.7	\$0.36	\$15,871
Higher Values				
Yahoo Inc.	Sunnyvale	24	\$0.57	\$17,540
Yahoo Inc.	Santa Clara	8.75	\$0.57	\$24,857
Xerox Campus **	Palo Alto	16.3	\$0.68	\$29,639
Palm Inc.	Sunnyvale	10	\$0.71	\$30,869
Facebook, Inc.	Palo Alto	13.5	\$0.71	\$31,034
New York Stock Exch **	Palo Alto	10.3	\$0.93	\$40,347
Adobe Systems	San Jose	2	\$0.96	\$41,677
Lockheed Martin **	Palo Alto	2.6	\$0.97	\$42,412
Yahoo Inc.	Santa Clara	2	\$1.23	\$53,777
Google Inc.	Mt. View	7	\$1.35	\$58,735
Apple Inc.	Cupertino	1	\$2.09	\$91,162
Apple Inc.	Cupertino	1	\$2.18	\$95,025

Sources: Dataquick and Santa Clara County Assessor's Office

*will be reassessed.

**Stanford Research Park, leased land

Chart 2: Comparison of Select Intel and Yahoo Properties in Reasonable Proximity

Address	Land Size (acre)	10-11 Assessed Value Land	10-11 Est. Tax Per Sq. Ft. Land	10-11 Est. Tax Per Acre Land
<u>Intel Properties</u>				
3065 Bowers Ave., Santa Clara (SC)	26	\$2.5 mil.	\$0.02	\$985
2200 Mission College Blvd., SC	38	\$7.5 mil.	\$0.05	\$1,981
1501 Martin Ave., Santa Clara	1.5	\$299,767	\$0.05	\$2,067
3600 Juliette Ln., Santa Clara	16	\$9 mil.	\$0.13	\$5,696
3935 Freedom Cir., Santa Clara	3.3	\$4.8 mil.	\$0.34	\$14,674
Freedom Cir., Santa Clara	5	\$8.2 mil.	\$0.37	\$16,245
Freedom Cir., Santa Clara	8.3	\$15.73 mil.	\$0.44	\$19,004
<u>Yahoo Properties</u>				
701 First Ave., Sunnyvale	24	\$42 mil.	\$0.40	\$17,540
700 First Ave.	9	\$22.2 mil.	\$0.56	\$24,494
4805-4995 Patrick Henry Dr., SC	18	\$45 mil.	\$0.57	\$25,000
3050 Democracy Way., Santa Clara	7	\$17.77 mil.	\$0.57	\$25,000
4850-4900 Old Ironsides Dr., SC	14.4	\$35.87 mil.	\$0.57	\$25,000
2945 Tasman Dr., Santa Clara	2.8	\$7 mil.	\$0.57	\$25,000
399 E Java Dr., Sunnyvale	3.3	\$11 mil.	\$0.77	\$33,618
1333 Bordeaux Dr., Sunnyvale	3.6	\$12 mil.	\$0.77	\$33,628
3005 Democracy Wy., Santa Clara	1.6	\$5.5 mil.	\$0.80	\$34,777
3055 Democracy Wy., Santa Clara	2	\$10.7 mil.	\$1.23	\$53,777

Sources: Dataquick and Santa Clara County Assessor's Office

2. Land Leasing: Low Property Taxes, Market Rates for Rents

Leasing provides an important means for start-ups and the many high-tech companies without headquarters in Silicon Valley to access the tremendous talent and synergies of the region. Leasing allows companies to invest in capital and labor rather than use scarce capital in land purchases and land development. Many companies not native to Silicon Valley, such as German software giant SAP, lease substantial property in Santa Clara County.

However, with regard to property tax consequences, land leasing locks in low land values for many years. Stanford Research Park, owned by Stanford University⁵, and the Irvine Company, own large amounts of land leased to high-tech firms. Leasing is

⁵ Stanford University land used for educational purposes is exempt from taxation, but its commercially-leased land is taxed as commercial land.

also used frequently by hotels, where the hotel holds the right to operate on the land and the land is held by a trust or an LLC.

For a lease to result in a change of ownership, it must be for a 35-year period or greater. For example, some commercial land owned by Stanford University appears to have been reassessed next to very similar land taxed at far lower values, presumably because long-term leases have been entered into⁶. However, that land will not be reassessed during the 35-year period of the lease. Assessors have informed us that they see leases on property which are established for 34 years, 11 months, so that no reassessment occurs.

We examined leased land by two very large property owners, Stanford Research Park and the Irvine Company, along with a large company with fewer properties in Silicon Valley, Koll and Bay Area Intereal, Inc., all of which lease space generally to high-tech companies. Much of this land was purchased many years ago and is assessed at extremely low values. These low values, however, do not necessarily translate into benefits for lessees, who, according to all economic theory, will pay market rates for their properties.

Stanford Research Park, owned by Stanford University, leases substantial amounts of land to companies at land values that are as low as two cents in tax per square foot of land, as well as other very low assessed values. For example, land leased by Xerox and SAP pays 2 cents per square foot in tax, and land leased by the Wall Street Journal pays 3 cents, a small fraction of the tax on comparable land in Palo Alto and even other parts of Stanford's own property. At a conservative estimate of land value, \$10's of millions in property taxes are avoided on Stanford Research Park land every year.

There is a substantial amount of leased property that has never changed hands. Koll and Interreal Bay Area appears to have bought and developed land near Intel many years ago which is leased to many companies and is taxed at 5 cents/sq. ft. or \$1,200/acre. Intuit has long leased property which is vastly underassessed, and even Google, which has purchased a great deal of new property which will be assessed at market value, also leases property which is at very old values. While we don't know the specifics of their leases, our data show that lease rates for available space appear unrelated to the property taxes on land paid by the building owners.

For example, lease rates for industrial property in Sunnyvale for the Irvine Company are from \$11 to \$22 per sq. ft. with little apparent relationship to assessed value of the land (See Chart 4 on pg. 13). Similar rates occur for Koll properties which are assessed at ¼ of the Irvine values. While lease rates in a similar location should be

⁶ Stanford Shopping Center, a highly valuable commercial center on Stanford land, had been assessed for years at very low values until it apparently negotiated a long-term lease, which generated reassessment, according to the Assessor's office. Many millions in tax avoided on its land values since the 1970's will never be collected.

Chart 3: Summary of 2010-11 Estimated Taxes Paid on Select Stanford University-Owned Palo Alto-Based Properties, Includes Advertised Market Lease Rates Where Available

Address	Tenant(s) (Partial List)	Size (Acres)	10-11 Est. Tax Per Sq. Ft. Land	10-11 Est. Tax Per Sq. Ft. Struc.	Market Rate Lease Listing Per Sq. Ft. Per Year
3351 Miranda Ave.	Foothills Tennis Club	3.1	\$0.01	\$0.35	--
3240 Hillview	Docomo Com. Labs, CNF Trust I	2.7	\$0.03	\$1.01	\$23.40
1601 S California	Facebook Inc.	8.5	\$0.03	\$2.00	\$18.00
3215 Porter Dr.	Hines Interests LP	3.2	\$0.03	\$0.76	\$24.00
1451 S California	Mmp Acquisition	4.5	\$0.03	\$0.72	--
1701 Page Mill Rd.	Wall Street Journal	8.5	\$0.03	\$0.62	--
1501 S California	Canary Foundation, Stanford	3.9	\$0.03	\$2.53	--
2550 Hanover St.	Institute Research on Learning	2.8	\$0.03	\$2.70	--
2626 Hanover St.	Marcus Inv. Services	1.0	\$0.03	\$1.74	--
2670 Hanover St.	Hanover Page Mill Center	1.2	\$0.03	\$0.27	--
2690 Hanover St.	Lipman Grant MD	1.3	\$0.03	\$0.24	--
911 Hansen Wy.	Varian Medical Systems	13.7	\$0.03	\$0.28	--
3100 Hansen Wy.	Varian New Zealand	14.5	\$0.03	\$0.92	--
1601 S. California	Facebook, Inc.	8.5	\$0.03	\$2.00	--
1400 Page Mill Rd.	Arnold&Porter, Robotex Inc.	1.3	\$0.04	\$1.92	\$21.00
3475 Deer Creek	SAP Labs LLC, Sapmarkets Inc.	7.3	\$0.04	\$0.92	\$30.00
2625 Hanover St.	Nanosys Inc.	2.0	\$0.06	\$1.48	\$34.20
3210 Porter Dr.	Skype	4.5	\$0.07	\$1.64	--
845 Page Mill Rd.	New York Stock Exchange	.5	\$0.10	\$4.11	--
900 Hansen Wy.	Nest Labs	1.0	\$0.17	\$2.04	\$35.40
1501 Page Mill Rd.	Hewlett Packard	46.8	\$0.18	\$0.50	--
3460 Hillview Ave.	Frog Design, Fujitsu	7.4	\$0.31	\$1.71	\$18.00
3251 Hanover St.	Lockheed Martin Corp.	22.7	\$0.36	\$0.14	--
850 Hansen Wy.	Mitsubishi., Mercedes Benz	1.2	\$0.45	\$0.84	\$42.00
1661 Page Mill Rd.	Gordon&Betty Moore Found.	3.5	\$0.56	\$2.17	\$54.00
600 Hansen Wy.	Squire Sanders, B of A	5.9	\$0.68	\$3.78	\$66.00
3400 Hillview Ave.	VMWare, Xerox Campus etc.	13.3	\$0.68	\$2.58	\$30.00
1050 Page Mill Rd.	Facebook, Inc.	10.3	\$0.71	\$1.45	--
1117 S California	Bertram Capital, Paul Hastings	4.0	\$0.79	\$2.53	\$54.00
1001 Page Mill Rd.	Office Building	8.4	\$0.80	\$2.63	\$63.00
3075 Hansen Wy.	Merrill Lynch Pierce Fenner	5.1	\$0.84	\$2.94	\$45.00
650 Page Mill Rd.	New York Stock Exchange	10.3	\$0.93	\$4.23	--
4001-09 Miranda	Affymax Inc., Affymax Research	9.3	\$0.96	\$2.93	\$35.40
3176 Porter Dr.	Lockheed Martin	2.6	\$0.97	\$3.06	--

Sources: Dataquick, Santa Clara County Assessor's Office and Loop.net

Chart 4: Comparison of Tax and Advertised Lease Rates for Select Properties Owned by Koll & Intereal Bay Area and the Irvine Company in Silicon Valley

Use/Address	Tenants (Partial List)	10-11 Est. Tax Per Sq. Ft. Land	10-11 Est. Tax Per Sq. Ft. Struc.	10-11 Land Tax Plus Struc. Tax Per Sq. Ft.	Market Rate Lease Listing Per Sq. Ft. Per Year
Koll & Intereal Bay Area's Santa Clara Properties					
2041 Mission Collg.	Dollar Exp., Accounting Part.	\$0.05	\$1.31	\$1.36	\$22.80
1500 Wyatt Dr.	Nova Corp., Global Flare Inc.	\$0.05	\$0.88	\$0.93	\$15.00
1505 Wyatt Dr.	MACS Labs, Ventura, Hitachi	\$0.05	\$0.83	\$0.88	\$18.00
1705 Wyatt Dr.	Data Robotics, Netcont.	\$0.05	\$0.92	\$0.97	\$18.00
3901 Burton Dr.	Boc Edwards Chemical Mgt.	\$0.05	\$0.84	\$0.89	\$15.00
4000 Burton Dr.	SPI Lasers LLC	\$0.05	\$0.90	\$0.95	\$13.20
4051 Burton Dr.	Brooks Automation Inc.	\$0.05	\$0.74	\$0.79	\$18.00
4151 Burton Dr.	Brion Tech., Buslogic Inc.	\$0.05	\$0.98	\$1.03	\$18.00
4201 Burton Dr.	Industrial Misc.	\$0.05	\$0.95	\$1.01	\$11.40
4250 Burton Dr.	Motorola Good Tech. Group	\$0.05	\$1.46	\$1.51	\$21.00
Irvine Company's Sunnyvale Properties					
615 N Mary Ave.	Davis Inotech Instruments	\$0.18	\$0.92	\$1.10	\$18.00
1175 Sonora Ct.	Elpida Memory, Action Tech.	\$0.20	\$0.74	\$0.79	\$16.20
435 Oakmead Pkwy.	Maisole, Capcom USA	\$0.20	\$1.19	\$1.39	\$15.00
440 Potrero Ave.	Kaledescape Inc.	\$0.20	\$0.83	\$1.03	\$13.20
749 N Mary Ave.	Artificial Muscle Inc.	\$0.20	\$0.83	\$1.03	\$13.80
776 Palomar Ave.	JCA Technology Inc.	\$0.20	\$0.78	\$0.98	\$16.20
990 Almanor Ave.	Light Industrial for Lease	\$0.20	\$0.92	\$1.12	\$21.00
610 N Mary Ave.	Fortrend Engineering Corp.	\$0.21	\$0.73	\$0.94	\$22.20
650 N Mary Ave.	AMI Semiconductor	\$0.21	\$0.74	\$0.95	\$15.00
675 Palomar Ave.	TDC Medical, Neomend Inc.	\$0.21	\$0.90	\$1.11	\$11.40
263 N Mathilda Ave.	Ipar Golf Inc., Ecco	\$0.25	\$0.73	\$0.78	\$13.80
845 Del Rey Ave.	Light Industrial for Lease	\$0.33	\$0.46	\$0.77	\$12.00

Sources: Dataquick, Santa Clara County Assessor's Office and Loopnet.com

related to building quality, some of the highest assessed value property has the lowest lease rate. The explanation, of course, is that assessed value does not have any necessary relationship to market value in this system.

In particular, some (though not all) of the higher lease rates are in buildings with higher assessed structure values, which may mean that it is higher-quality space. But the land tax has no apparent connection to lease rates, and it seems certain that lessees are not benefitting from the lower tax.⁷

3. Apples-to-Apples: Land Taxes Within the Same Company Vary Widely

Large corporations, such as Apple and Google, which have substantial property holdings, are paying widely varying taxes on similar land held by their own companies. An Apple-to-Apple comparison demonstrates differences on their land holdings in contiguous areas which range from \$0.30/sq. ft. to \$2.18/ sq. ft. If Apple paid similar amounts on their own properties, they would pay millions more per year in property taxes.⁸

While property values vary from location to location, contiguous properties cannot in any economic sense be worth 7 times their neighbor in these circumstances. These differences are not due to any manipulation of the law by these companies or tax avoidance; rather, it is just the operation of the current system.

We should note that some of these properties are taxed comparably with the sales prices of high-end space in Silicon Valley, that is, \$400/sq. ft. of building and land. Others are far less, and the differences are often because of very low land values.

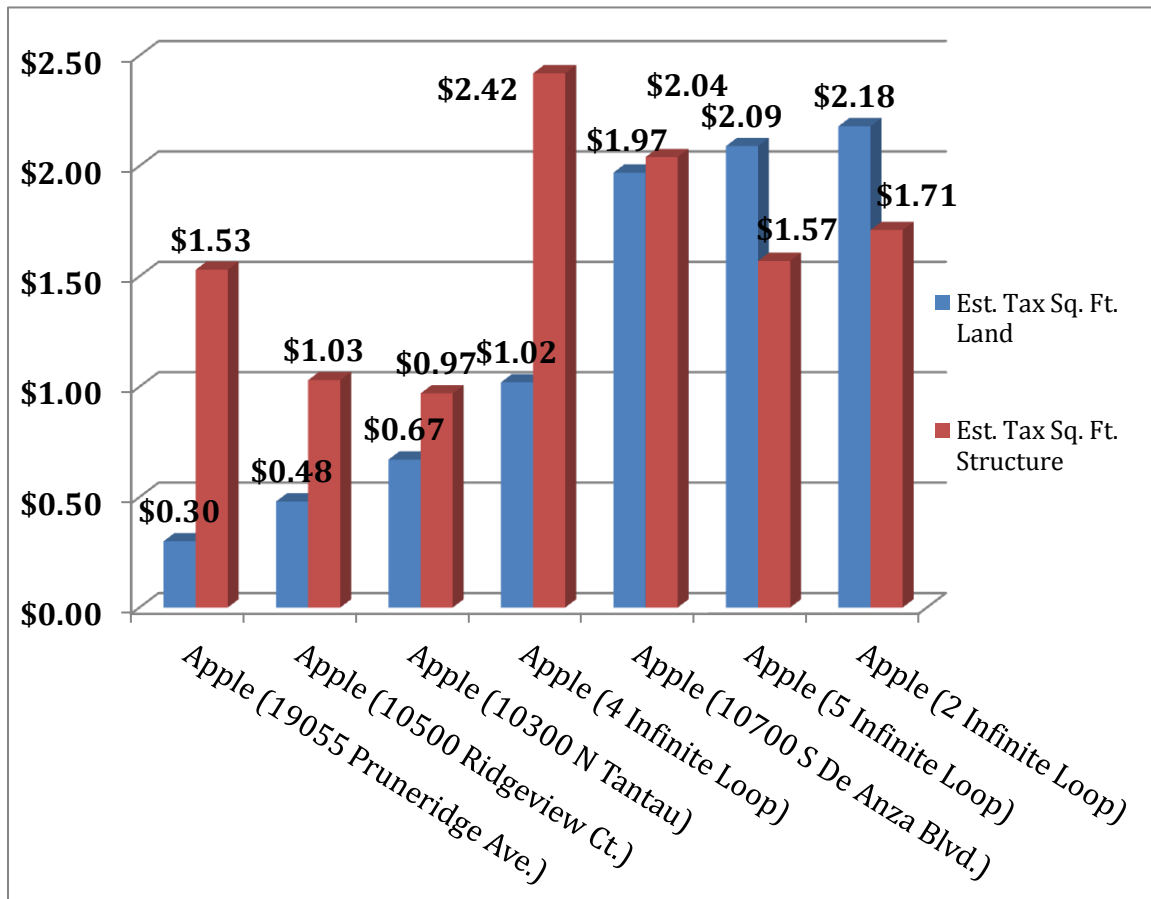
For Google, the property tax on the land they occupy ranges from 1 cent per sq. ft (\$450/acre) to \$1.35/sq. ft., or \$58,000/acre. Two large pieces of land leased by Google are owned by family trusts, which are assessed at 1/100th the value of Google's recently purchased property. We do not know whether the low tax is incorporated in the lease or only accrues to the benefit of the owner. In either case, the land value is a very small fraction of market value.

In both of these charts, we include structure values as well. Note that the structures are generally taxed within a reasonable range of each other, far closer than the land. Many such structures have been upgraded considerably. Like the leasehold properties mentioned above, these may be newly built or re-built to custom, and are re-assessed as such. It is only the land value which permanently avoids reassessment.

⁷ Jennifor Bestor, in her Open Letter to Warren Buffett <http://caltaxreform.org/?p=253> finds no impact on consumer prices as well, in her Menlo Park investigation.

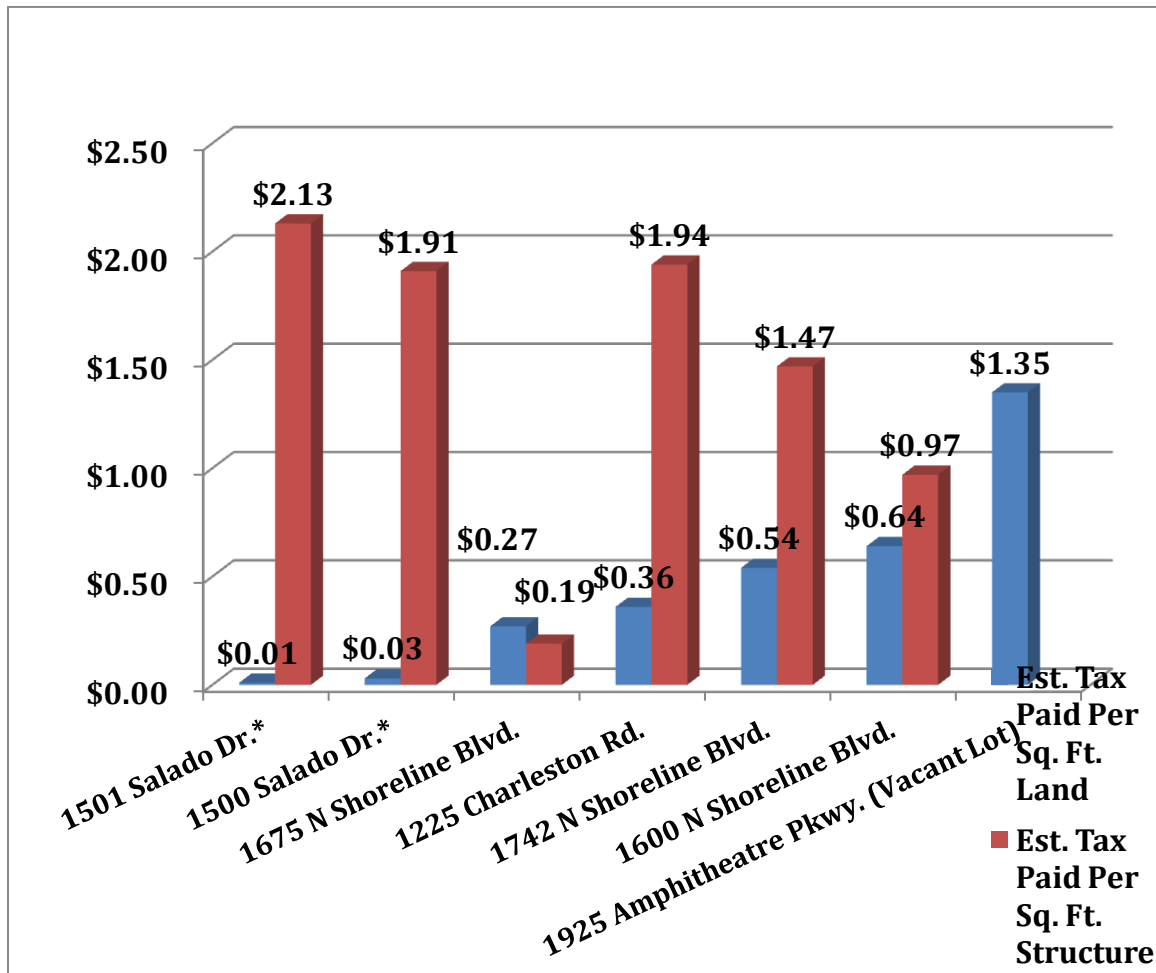
⁸ Apple recently purchased 92 acres of former H-P land which had been assessed at \$0.02/sf. It was purchased in the name of a subsidiary, Campus Holdings LLC, a Delaware corporation.

Select Apple Properties, Cupertino



Data Sources: Santa Clara County Assessor's Office, Dataquick

Select Google Properties, Mountain View



*Leased property

Data Sources: Santa Clara County Assessor's Office, Dataquick

4. Immediate Neighborhoods, Major Disparities

Since locational differences can create significant value differences, we have used as a check an examination of assessments in immediate vicinities, and found some very large corporations paying far less than small businesses in the same area. For example, the vast Intel complex is paying less on the land than neighbors in the immediate area, although some of its neighboring properties are far smaller. (The map below is used as an example of far more that needs to be done.)

Intel Corporation Property Tax Assessment Compared to Properties in Close Proximity

Property Use	Property Owner	Property Address	Sq. Ft. Land	2010-11 Est. Taxes Paid Per Sq. Ft. Land	Total Est. Taxes Paid Land 2010-11
Intel	Intel Corporation	2200 Mission College Blvd., Santa Clara	1,657,894	\$0.05	\$75,389
Office building with General Dynamics Advanced Info., and TuV Rheinland of North Amercia	VV USA City	2305 Mission College Blvd., Santa Clara	687,377	\$0.43	\$296,434
Perkin Elmer Medical Imaging	SCP 2001PE LLC	2175 Mission College Blvd., Santa Clara	248,292	\$0.27	\$66,841
Industrial Misc.	Washcop LP	2051 Mission College Blvd., Santa Clara	157,252	\$0.18	\$28,628
Montague's Café	Kang Family Partners LP	2151 Laurelwood Rd., Santa Clara	196,020	\$0.32	\$61,988
ACO Furniture, Park and Jet	SPI 2121 Laurelwood	2121 Laurelwood Rd., Santa Clara	305,791	\$0.47	\$142,462
Media Value	Washcop LP	4251 Burton Dr., Santa Clara	150,282	\$0.21	\$32,127
Industrial Misc.	Koll & Intereal Bay Area	4201 Burton Dr., Santa Clara	140,699	\$0.05	\$7,262

Data Sources: Santa Clara County Assessor's Office and Dataquick



5. Change of ownership: Publicly-traded corporations, LLC's, Trusts, IPO's

The law governing change of ownership requires that 50% of a property be purchased by one purchaser for reassessment to occur, or for property to be leased for at least 35 years. Many Silicon Valley companies own and purchase property directly and do not appear to utilize complex ownership patterns which avoid reassessment upon change in ownership. Growing companies like Google and Apple have purchased substantial amounts of land for the company which has been reassessed. (As noted, Apple has purchased property in an LLC subsidiary, Campus Holdings, but it will be reassessed in any case as a wholly-owned subsidiary which purchased land outright in its name).

a. Publicly-traded corporations: no change of ownership. The law does not provide for cumulative change of ownership for publicly-traded companies ever to trigger a reassessment. It is hard to imagine that IBM, Intel, National Semiconductor, and H-P have not changed 50% of their stockholders since the 1970's, but publicly traded corporations only change ownership upon mergers with one company or full buyouts. Thus, no changes of ownership have ever occurred for the assessments of these major corporations, despite the many years of stock transactions.

b. IPO's: No change of ownership. Beyond stock transfers, these companies are still able to benefit from the limitations in the law by which, for example an initial public offering is not a change of ownership. When many companies went from closely-

held to publicly-traded and ownership went from a small number of people to a very large number, no reassessment of their property took place. Neither IPO's nor public trading generates reassessment, so that change of ownership only occurs with mergers, such as Oracle purchasing Sun and its property.

c. LLC's, Trusts, Limited Partnerships: avoidance of change of ownership. The most direct way in which change of ownership is avoided is by the use of LLC's (limited liability companies), Trusts, and Limited Partnerships. Discovering these properties requires examining not only the property ownership but the deeds which have been filed for these properties. Sorting through each of these is a painstaking process.

Examples. From our research, substantial amounts of land in California are owned by trusts, LLCs, and partnerships, the underlying ownership of which are often highly complex.

- At 1500 Salado Drive in Mountain View, Google leases 9.5 acres of land which pays tax of \$.03/sq. ft., or \$1,312/acre. The property has been owned by the Salado Family Trust since 1976. The tax payment on the land is about \$12,500.
- That trust also owns 2475-2525 Garcia Drive in Mountain View, which is leased by Intuit, and is also 9.5 acres which is assessed at \$.03/sq. ft., or \$1,302/acre. The tax payment on the land is about \$12,400.

Both of these properties are in the immediate neighborhood of Google's campus, which ranges in tax from \$0.32/sq. ft. to \$0.64/sq. ft. on their older land, and \$1.35 per square foot for the newly purchased property in the same area.

From our deed research, numerous changes within the trust have occurred, including granting shares of the parts to children and then re-granting to the spouses and further to children, occurring after the original owners, whose address is in Washington state, have died.

While parent-child transfers of property under \$1 million are permissible, the assessed land value on each of these is \$1.24 million, so they do not qualify for parent-to-child transfers. However, change of ownership does not look behind the members of the trust, particularly if it is structured with numerous members who transfer shares among those members. To the extent that no single member takes a 50% share, there is never a change of ownership.

If those 19 acres were taxed at the values paid by nearby land, the increased tax payment would be between \$550,000 to over \$1 million, at the upper end.

- Fujitsu Corp. leases 23 acres of land in Sunnyvale at 1250 E Argues Avenue, which is taxed at \$0.10/sq. ft., or \$4,300/acre. It is owned by Berg Family Partners LP, a Delaware limited partnership. The property ownership history is complex: it changed from a trust to a limited partnership, and has different names on the trust and partnership with shifting share allocations among family members and children, but no reassessment has taken place.

Other Sunnyvale properties in the area run as high as \$.77/sf, or 7 times the tax paid. If these 23 acres were assessed similar to other properties in the area, it would pay an additional \$770,000 per year.

It is not only high-tech which leases land at very low rates:

- The land under the nearby Santa Clara Marriott hotel, is owned by Dorcich Farms LLC along with the Marriot Corporation, and pays 2 cents/sf or \$880 in tax/acre on 11 acres. The LLC is registered at the same Maryland address as the Marriott corporation.

The building itself is modern and comparably assessed with other buildings, but the land, contiguous to Great America and Yahoo, is assessed at a small fraction of nearby properties. Dorcich was apparently one of the original landowners in the area, and the assessment reflects land values of a long time ago.

Such a result is not uncommon for hotels, by which the underlying land is leased from an LLC, partnership or trust. If those 10 acres were comparably assessed with other land in the area, the landowner would pay about \$500,000 instead of the \$9,000 it currently pays in tax on the land.

6. Land vs. Buildings: Land Values Vary Far More than Building Values

One result that jumps out from the more than 400 properties we examined: assessed land values vary far more than structure values. The tax per square foot of land can vary easily by 8-10 times for contiguous land, 20 to 50 times in the area, and by 200 times in the extreme, among comparable land uses. Structure values, which are harder to compare in any case, have far lower disparities in value.

It appears clear from the detail available in Google Earth or Satellite, there is substantial upgrading and new construction which is subject to reassessment, so that high-tech office and research property tends toward similar values. Land occupied since 1975 does not change attributes, but it is unlikely that high-tech work is still being done in buildings that date from 1975, without modification. Higher structure values reflect those changes.

As noted throughout this report, land locations which are indistinguishable from each other are taxed at differences which are often many multiples of each other.

Current land values appear to be well several million/acre, while much land is taxed at 1/10 or far less than that amount.

While our property sample is only 400 properties, chosen to represent mostly high-tech properties (with some hotels), the differences in assessed building values generally range from \$70/sf to \$240/sf. While there are some outliers—buildings that are more expensive, some older buildings assessed at far lower values—for major properties, the differences are far smaller.

We were not able to do definitive statistical calculations examining these differences. But looked at various ways, the differences in building values are at most 4 or 5 times, while land values are far more disparate.

By company, for example, we find Intel's assessed land values differ by nearly 20 times for indistinguishable land in the same location while their building values are at most differences of 5 times, not correcting for quality.

Similarly, for Google's extensive campus, the assessed values for most of the buildings are taxed in the range of \$1.00-\$2.30/sq. ft., with some older buildings as low as \$0.67/sq. ft. and one small outlier at \$0.19/sq. ft. For all others of these many buildings, the ranges are at the most are 3 times, while the Google land varies by 100 times, including their leased property.

For Apple, 20 buildings we examined have tax value differences which range from \$0.56 to \$2.42/ sq. ft. The very low value building appears to be an older property. Most Apple buildings are taxed in the range of \$1 to \$2/sq. ft., differences of percentages rather than multiples. And the range of Apple land is in multiples ranging from \$0.30 to \$2.00/sq. ft., not including the 92 acres taxed at \$0.02/sq. ft. Z which has yet to be reassessed.

And, while these many buildings vary in quality which may not be reflected by their tax assessment, the many acres of commercial/industrial land are indistinguishable from each other. Arguably, there are locational differences for commercial property among Mountain View, Sunnyvale, Cupertino, Santa Clara, Palo Alto and San Jose which could account for differences in value. Certainly prime hotel and retail space can account for value differences compared to industrial land. But none of those differences can account for many multiples in value for the same uses.

Conclusions

Three conclusions stand out from the many issues raised by this report.

1. The change of ownership system, established for homeowners, has little rationale for the complexities of modern finance and ownership patterns. In particular, it provides a means by which land value assessment can stay at inordinately low rates,

whether companies are publicly-traded or closely-held or held by a variety of many ownership forms available to investor and property owners.

2. The disparities in assessed land values and taxes, by which land indistinguishable in purpose and location are assessed in wildly different ways, cannot be explained in any rational or defensible way. There is no theory of taxation by which Indistinguishable parcels of land should be taxed at many multiples of each other.

3. Far more data and research should be done throughout the state, and can be done in a more sophisticated manner than this study. Such studies should involve larger data sets and advanced gps mapping, in order to systematically examine what is at stake in our communities.

Land values incorporate the progress of the region and the cumulative investments of many. In Silicon Valley, those rising land values represent the world-class dynamism that a combination of public and private investment has brought to the area.

Virtually all economists would argue that taxing increased land value is one of the best ways to tax, insofar as such a tax does not have an impact on new investment but merely captures the benefit that investors are receiving on their property from the actions of others. UC Davis economist Steven Shefrin, who has studied Proposition 13 in depth, called reassessment “very close to the economist’s ideal of non-distorting taxes”.⁹

The purpose of this document is to describe and analyze the property tax, not debate solutions. But in the context of on-going deficits for cities, counties and schools which depend on the property tax, state leaders should examine the issues in depth. And, in fact, the broad-based civic group Joint Venture Silicon Valley has recently stimulated such a discussion, which is a major step forward toward change.

Ultimately, a system which allows the richest corporations in the world to pay virtually nothing in tax on acres and acres of prime commercial land must be re-examined and reformed.

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⁹ Paper presented to Commission on Twenty-first Century Economy
<http://www.cotce.ca.gov/documents/reports/documents/Economic%20Aspects%20of%20A%20S%20lit.pdf>