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May 15, 2019

TO: Sachi A. Hamai
Chief Executive Officer

FROM: Jeffrey Prang
Assessor

SUBJECT: **2019 ASSESSMENT ROLL FORECAST**

The 2019 Assessment Roll Forecast reflects a 5.80% increase over the prior tax year amounting to an estimated net local roll value of approximately \$1.6 trillion. This projected increase is the result of continued strength in the real estate market and high construction demand for new multi-family residential properties in Los Angeles County. The two largest factors positively impacting the Assessment Roll continue to be the 2% CPI Inflation Adjustment and Property Transfers. The 2% adjustment will increase the total by approximately \$28.5 billion and Property Transfers are estimated to add \$47 billion.

These projections are based on the best information available at this time; however, there are several factors that are subject to change as my staff continues to work diligently to process all assessable values and exemptions. Therefore, we cannot fully guarantee the accuracy of these estimates until the final release of the Assessment Roll scheduled in July 2019.

If you have any questions or need additional information, please feel free to call me directly or your staff may contact Assistant Assessor, George Renkei at (213) 974-3101.

JP:SHK:GR

Attachments (2)

c: Supervisor Janice Hahn, Chair, Fourth District
Supervisor Hilda Solis, First District
Supervisor Mark Ridley-Thomas, Second District
Supervisor Sheila Kuehl, Third District
Supervisor Kathryn Barger, Fifth District
Arlene Barrera, Acting Auditor-Controller
Joseph Kelly, Treasurer and Tax Collector
Celia Zavala, Executive Officer

2019 Forecasted Roll Change From 2018 Year-End

Components of Change	Change in Billions	Percent of Roll Change ⁺
CPI (2%)	\$28.513	1.82%
Transfers	\$47.000	2.99%
New Construction	\$9.000	0.57%
Personal Property & Fixtures	\$2.000	0.13%
Special Property Use Types*	\$1.194	0.08%
Decline-in-Value and Other Adjustments	<u>\$2.000</u>	<u>0.13%</u>
TOTAL GROSS ROLL	\$89.707	5.71%
Major Exemptions	<u>-\$2.198</u>	
TOTAL LOCAL ROLL (After Major Exemptions)	\$87.509	5.77%
Homeowners' Exemptions	<u>\$0.097</u>	
NET LOCAL ROLL	\$87.606	5.80%

+Percentage breakdown might not add up to total percentage due to rounding.

*Special Property Use Types are comprised of properties of various use, such as mining rights, water rights, water distribution, possessory interest, and mobile homes.

2019 Assessment Roll May Forecast

Inflation Adjustment (CPI)

This component is one of the most significant contributors to the growth of the assessment roll. For 2019, the inflation adjustment rate was finalized at 2%, which will add \$28.5 billion to the 2019 assessment roll.

Transfers

Interest rates increased and overall sales slowed, but values remained relatively stable. The continuing demand for housing coupled with a healthy job market were significant factors in the growth of this component. Increased assessments resulting from property transfers continue to be the largest contributor to the roll this year and are projected to add approximately \$47 billion.

New Construction

As in years past, demand for housing remains strong with a trend toward the development of multi-family residential properties. Although rising interest rates and construction labor shortages have slowed down development, overall builder sentiment remains positive. The decrease in the total number of permits this year is expected to be offset by two new stadium projects that will add approximately \$2 billion. As a result, new construction is projected to add \$9 billion to the assessment roll.

Personal Property and Fixtures

The estimate for personal property and fixture values reflects continued optimism in the market as business owners increase their investments in equipment, machinery, computers, furniture, supplies, etc. After the exceptional growth experienced last year, a robust level of continued economic activity suggests an ongoing level of positive capital investment. While peaking employment and increasing volatility in some markets warrant cautious expectations, high levels of consumer activity and purchases of durable goods indicate ongoing positive value gain. Most Personal Property and Fixture assessments are processed in May and June and are particularly difficult to predict. The anticipation for growth in this category ranges from 1 to 6% and our estimation is based on a midrange increase of approximately \$2 billion.

Special Property Use Types

Possessory interest assessments and mining rights are two major contributing factors to this particular forecast component. The value of privately held interests in government property are continuing to increase with new leases of commercial and residential development and we are also anticipating increases in the assessed valuation of mining rights as a result of crude oil price increases. This component is projected to add approximately \$1.2 billion to the 2019 assessment roll.

Decline-in-Value and Other Adjustments

Due to the ongoing stability of the real estate market, the number of properties with reduced assessments is continuing to trend downward. There are approximately 91,000 mandatory reviews this year, which is down from 119,000 last year and the Office projects this component will restore approximately \$2 billion to the assessment roll.