



A Tradition of Stewardship
A Commitment to Service

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THE IMPACT OF LAND-USE RESTRICTIONS ON PROPERTY VALUATION

California law requires the assessor to value property at the time of change of ownership or new construction at its highest and best use as if it were unencumbered, i.e. to appraise the property as if there were no leases or other agreements in effect at the time of valuation. The law does provide, however, one exception to the unencumbered fee simple concept which relates to governmental and certain other land use restrictions, i.e. the assessor shall consider the effect upon value of any enforceable restrictions such as zoning or conservation and scenic easements.

As an example, Frank and Judy Jones buy a 2.4 acre vacant parcel of land zoned for one single-family residence per acre. They paid \$500,000 which is comparable to the sales price of other parcels suitable for single-family development. A year later the couple succeeds in getting the city to change the zoning to high-density luxury apartments. Properties zoned for luxury apartments are selling for \$ 1 million per acre meaning the Jones's parcel is now worth \$2.4 million. Because no change of ownership has taken place, the assessor cannot recognize this higher and better use until the couple sells the parcel. If the couple later develops an apartment complex, the assessor would add value for the new apartments. The assessor would also add to the factored base year value of the land, which started with the original purchase price of \$500,000, the value of any improvements made to the land such as grading and water, sewer and storm drains.

While a change in zoning which increases the value of property does not trigger a reappraisal of the property, a change of zoning which reduces the value of the property can have an immediate impact on a property's assessed value. In this example, Edward and Martha Smith purchase a vacant 2.4 acre parcel zoned for high-density luxury apartments and pay \$2.4 million. The assessor enrolls that value based on their purchase price which compares to other like-zoned parcel sales. A year after their purchase, the city amends its general plan and rezones their parcel to single family residential, one unit per acre. This reduction in the highest and best use of the land causes a decline in value which the law permits the assessor to recognize. Based on sales of parcels which carry the new, less dense zoning, the assessor determines that the Smith parcel is now worth only \$500,000. The assessed value of the land will be reduced on a temporary basis to that figure until there is a change of ownership or another change in zoning.

Conservation easements obtained by either a local agency or a recognized non-profit organization under California Civil Code section 815 can also impact the value of a parcel as an enforceable restriction. To calculate the reduction caused by the easement, if any, the assessor reviews the market value before the easement was signed and the market value with the restrictions contained in the easement. If the value of the property under easement is less than the pre-easement Proposition 13 factored base year, the assessor would reduce the value to reflect the easement's impact on the highest and best use of the property until the restricted value exceeded the factored base year value at some future date.

Real estate sellers and buyers need to do their homework on current and proposed governmental restrictions to insure that they are either receiving or paying fair value for property they own or wish to buy.

Should you have any questions please contact Napa County Assessor-Recorder-County Clerk John Tuteur at 707.253.4459 or by e-mail john.tuteur@countyofnapa.org More articles can be found at <http://www.countyofnapa.org/Assessor/>