

Property Tax System Makes It Costly to Keep Vacant Land Vacant

The evolution of Colorado's system for taxing real estate may be interesting, but it is far too complex to describe in this space, so I'm going to limit myself to describing where we're at now with regards to the assessment of real property by county assessors and how it is causing vacant land to be developed against the wishes, in many cases, of land owners.

Currently, residential property is assessed for taxation purposes at 7.96% of full valuation. Thus, if a residential property is valued (for easy calculation) at \$100,000, then the mill levy would be applied to an "assessed" valuation of only \$7,960. If the mill levy is, say, 100, then the property tax would be \$796.

Non-residential property (including vacant land) is assessed for taxation purposes at 29% of full valuation. Thus, vacant land valued at \$100,000 would have an assessed valuation of \$29,000, and the property taxes for that parcel, at 100 mills, would be \$2,900 per year. That is over 3½ times the property taxes for a residential property of equal valuation.

It is little wonder, then, that owners of vacant land find themselves incentivized to either sell the land or build a home on it, even when the property owner's preference would be to leave the land open and undeveloped.

People who see value in keeping vacant land vacant are understandably upset that government policy is forcing them to build on that land or sell it to a developer.

If your home is on a lot that's large enough to subdivide, you may be tempted to subdivide it, thinking that it adds value to your property. Perhaps you're thinking you can sell the separate parcel in a few years to pay for your child's college tuition. But beware, that vacant parcel will be reclassified as non-residential, assigned a value of its own, and incur a huge tax bill you didn't have when it was part of your home's lot.

This scenario happened to one of my clients. He has a house valued by the county assessor at about \$600,000. His property tax bill for that house is about \$4,200. He subdivided his parcel to create a vacant lot and now he's paying \$4,400 in property tax for the empty lot! So guess what? He's asking me to sell his house (which he loves) and is going to build a home on that vacant lot. If that new home is worth, say, \$500,000 after it's finished, his property tax bill for that parcel will actually be less than it is as vacant land. Sounds crazy, doesn't it?

In some cases, it might make sense to apply to the county to combine adjoining lots if one is vacant. Your

property taxes will drop because you'll then have one residential property on a larger lot. The valuation — and therefore the property taxes — of a house on a 1/2-acre lot is only marginally higher than of a house on a 1/4-acre lot. I was just told by our county assessor that the county does not charge anything to combine adjoining lots, which makes that decision pretty easy to make!

This unfair discrepancy in the taxation of residential and non-residential property is not easily fixed, rooted as it is in our state's constitution. Voters would never approve a constitutional amendment changing a system which would cause their own taxes to go up by relieving taxation on non-residential property.

The 29% assessment rate applies to commercial property, not just vacant land. If you have a commercial property — such as our real estate office — then your property taxes will be over 3½ times the property taxes for the same value residential property.

To those of us with commercial property it seems unfair to pay so much more for property taxes, but we're resigned to the fact that voters will never vote to lower our proportion of property taxes as the cost of

raising residential property taxes. At least we can comfort ourselves with the fact that our property tax rates are lower than in many other states!

With commercial property taxes so much higher than residential property taxes, guess what cities and counties favor when it comes to re-zoning vacant land. Commercial zoning, of course! Commercial development is much more likely near beltway interchanges, and the building of C-470 and E-470 produced a lot of development, most of it residential, but much of it commercial, which has greatly increased county and municipal tax rolls. It has been pretty obvious that the proposed Jefferson Parkway toll road in northern Jefferson County is pushed by Arvada and Jefferson County for the commercial development and higher property taxes it will bring to those jurisdictions.

A couple years ago, the Jefferson County Commissioners re-zoned land north of Golden and west of Highway 93 for future commercial development, despite loud objections about it destroying the "mountain backdrop." It seemed clear to me that their motivation was the higher property taxes that such development will generate.

REAL ESTATE TODAY



By JIM SMITH, Realtor®

Why Sellers Should Want Multiple Offers & How to Get Them

The bargaining power available to sellers increases dramatically when they get multiple offers on their home in the first days it is listed. But many sellers price their home so high that they are lucky to get one offer and, as a result, lose all their bargaining power.

What can you do with that bargaining power? For sellers who need to buy a home but can't do so without selling their current home, having multiple buyers allows them to negotiate post-closing occupancy. Sellers know they're going to have a hard time finding a replacement home, and if they have several offers they can usually convince one or more of the buyers to (a) match the highest offer and (b) agree to 30-60 days of free rent-back after closing so the seller can find and purchase a replacement home.

Buyers are becoming more and more desperate. The chances are that if you get, say, 10 offers on your home, at least half those buyers have lost out on one or more previous offers. If you tell one of those buyers, "You can have this house if you

agree to this or that," the buyer will probably agree to this or that, which can include, for example, agreeing to take the property "as is" or waive appraisal objection — or even to purchase that furniture that you were going to have to put on craigslist.

How do you get multiple offers? Just price your house at or below what comparable homes have sold for. **You cannot underprice a home in this market, you can only overprice it.** If you price your home slightly below market value, you will likely sell it for more (because of competitive bidding) than if you price it above market value. This is not a hypothesis, but a statement of fact based on numerous successful transactions I have done in the past year or so. Go ahead and price a home below what you're willing to accept, because you can always reject an offer, if it doesn't reach an acceptable level. If you think that's a possibility, consider asking your listing agent to waive Sec. 7.3.2 of the listing agreement, which says you still owe a commission if you reject a full-price offer.



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