



## STATE BOARD OF EQUALIZATION

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TO COUNTY ASSESSORS:

CONSTRUCTION IN PROGRESS

Board Rule 463 states: "New construction in progress on the lien date shall be appraised at its full value on such date and each lien date thereafter until the date of completion, at which time the entire portion of property which is newly constructed shall be reappraised at its full value." The rule further states that for purposes of this section, the date of completion is the date the property or portion thereof is available for use. Therefore, it is possible that when the construction project is completed in stages, with some portions available for occupancy prior to the completion of the total project, base years and base values can be separately established for the completed portions without regard to the incomplete status of the total project.

The assessor must use judgment in determining whether or not portions of a project can be considered complete for purposes of base year valuation. If the project is to be constructed in distinct stages, with portions being completed and available for use before the other portions are constructed, then it is proper to assign a base year and base value to the completed portions. If, however, the project is to be constructed as a single facility and the entire improvement will become available for occupancy within a reasonably short period of time, the total project will be handled as construction in progress until all of the improvement is available for occupancy. In other words, the incidental occupancy of a portion of such an improvement would not trigger the separate base year valuation of the occupied portion unless there will be a significant time delay before the balance of the improvement is complete. When a project is available for occupancy but is vacant simply for lack of tenants it should be considered complete and its base year value determined.

A special problem is created if a construction project comes to an unscheduled halt for an extended period. When there are no definite plans for continuation of construction within a reasonable period, the project no longer qualifies as construction in progress and the assessor should establish a base year value for the newly constructed improvements without regard to their incomplete status.

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The following examples are intended to clarify the base year concept when construction is not complete on the lien date.

EXAMPLE 1: Assume that a shopping center project is being built in stages. One large anchor building and a wing of adjacent stores are complete and occupied on the lien date. The master plan calls for the construction of another anchor building and a group of peripheral buildings in the next year. The completed improvements can be viewed as an independent phase and a base year value assigned. On the other hand, if the initial stage (the anchor building and adjacent stores) is incomplete on the lien date, it should be valued as construction in progress.

EXAMPLE 2: Assume a high-rise structure has the first level complete and the upper levels completed except for interior finishing on the lien date. The plans call for the upper level to be finished as they are leased. In this case the entire structure, as it exists on the lien date, should be given a base year and base value. The interior finishing work will be picked up as new construction on the date or dates of completion.

EXAMPLE 3: Assume the first store in a commercial building that will contain six stores is complete and occupied, but the other units are under active major construction. Indications are that the work will progress continuously for another few months until completion. Should the assessor determine a separate base year value for the occupied portion? In this instance the entire project should be treated as construction in progress until the basic structure is essentially complete. Completion need not include interior finish as indicated in Example 2.

EXAMPLE 4: A residence presents a somewhat different type of problem, particularly recreational homes and owner-builder structures. As sometimes happens, assume an owner moves into his owner-builder structure before it is fully complete with the intention of finishing it while living there. Further assume that after a period of years the owner still has not finished the structure. The valuation procedure now becomes questionable. It is not proper to continue valuing this structure year after year as construction in progress. On the other hand, the structure is technically incomplete. The assessor should use his judgment and establish a base year and base year value when it appears that the structure is "substantially equivalent" to a completed home and is a livable unit. Finishing at a later date should be handled as new construction.

Sincerely,

*Verne Walton*

Verne Walton, Chief  
Assessment Standards Division

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