SUBSTANTIALLY EQUIVALENT TO NEW

New construction is assessable when that new construction has converted an improvement (or a portion) to a state *substantially equivalent to new*.[1] For example, a house is stripped and rebuilt from the foundation up. The restoration is such that the house has been converted into a state comparable to that of a new house. The value added by such a conversion would be assessable as new construction, and the value of the removed property must be subtracted from the property's existing base year value.

Section 70(b) provides that assessable new construction includes any major rehabilitation, renovation, or modernization which converts an improvement to the substantial equivalent of new. Whether or not new construction transforms an improvement or fixture (or a portion) into a state that is substantially equivalent to new (into a state where its utility is comparable to new) is a factual determination that must be made on a case-by-case basis.

For example, landlord and leasehold (tenant) improvements, both structure items and fixtures, are frequently renovated, rehabilitated, or modernized. This is often done in order to provide an interior or exterior "facelift" for the space. Existing improvements may be removed and new improvements added, even before the useful life of the existing improvements is over. If such construction activity converts the existing improvements to substantially equivalent to new or is the installation of a new fixture, such activity is assessable new construction to the building (or portion thereof).

Example 2-1:

A 20,000 square-foot office building sold for $3 million in July 2000. The building was 20 years old, had been in the same ownership since it was constructed, was in fair condition on the date of sale, and was 100 percent vacant. The tenant improvements were deemed to have no value at the time of sale. The assessor enrolled the sale price.

Shortly after the sale, the new owner removed and replaced all of the tenant improvements. ~~At that time~~ As of the completion date, the assessor assigned the new tenant improvements a base year value of $40 per square foot and enrolled a value of $800,000 for the assessable new construction.

Years later, ~~I~~in December 2010, the owner leases the entire building and replaces all of the tenant improvements over the leased area. All of the tenant improvements are similar in quality to those that existed prior to the new leases. The value cost of the tenant improvements is estimated to be $60 per square foot. ~~All of the tenant improvements are similar in quality to those that existed prior to the new leases.~~

The assessor deems the installation of the new tenant improvements to be a modernization that converts the portions modernized to "substantially equivalent to new." The assessor

[1] Rule 463(b)(3).

removes the 2001 TI increment of $800,000 and adds a 2011 TI increment of $1,200,000 for assessable new construction.

The ~~assessor values the new construction as~~ net difference to the supplemental roll will be as shown below ~~follows~~:

Value of New Tenant Improvements: 20,000 sq. ft. x $60/sq. ft.	$1,200,000
Less: Adjusted Base Year Value of Removed Tenant Improvements	
20,000 sq. ft. x $40/sq. ft. = $ 800,000 x 1.1907	($ 952,564)
Net Value Added for New Construction:	$ 247,436