

JAMES A. GRAASKAMP COLLECTION OF TEACHING MATERIALS

V. INDUSTRY SEMINARS AND SPEECHES - SHORT TERM

- I. Other Presentations In Which Either The Date And /
Or Sponsoring Organization Is Missing
2. Appraisal Topics
 - y. "Real Estate Tax Appraisal", no date

REAL ESTATE TAX APPRAISAL

- I. Real estate taxes have their origin in an old English feudal law in regard to land tenure.
 - A. If you will recall the king would grant land to his chief nobles in exchange for military service, in which case he held a knight service tenure, or in exchange for props or a nominal rent such as a rose, in which case the land was held in socage tenure.
 - B. The form of tenure was feudalistic in America as in Europe. The King of England originally granted lands in socage to the great trading corporations and individual proprietors who settled America, giving them the right to "subinfeudate", as the lawyers put it, the lands to the actual settlers.
 - C. Declaration of Independence broke the strand of tenure to the English Crown, while some states specifically abolished tenure by state constitution.
 - D. Under the colonial quit rent system properties were rated for taxation according to their annual earnings as agricultural land. The unit of appraisal reflected use in terms of bushels of grain or the rating of pasture land by a unit of four acres which was estimated sufficient "to summer a cow, one year to another."
 - E. These early measures of productivity survived. For example the Appraisal Terminology & Hand Book defines a unit of appraisal measurement known as AUM-

"A standard contraction of the term "Animal Unit Months", being the number of animals (one adult cow, or four or five adult sheep, etc.,) which can be grazed during a given number of months without injurious effect upon the natural vegetative cover of the land. For example, a section (640 acres) of land which would nourish properly twenty head of cattle for three months would have a rating of 60 AUM's of grazing capacity, or 10 $\frac{2}{3}$ acres per AUM."
 - F. Urban development and population growth led to replacement of this kind of rating system by the ad Valorem system which literally means a tax according to value. The general property tax is built on a concept that all property can be valued uniformly and taxed on a uniform rate.
 - G. The increasing wealth of the Nation in non real estate led to attempts to incorporate personal property into the same system and explains the present vestigial remnants of personal property taxes in our system.
- II. Wholesale appraisal which was sensitive to differences in property and yet uniform and inexpensive began in St. Paul, Minnesota, in 1896.
 - A. William A. Sommers, City Engineer, developed a manual and assessment system directed toward equitable and uniform assessment of fair market value.
 - B. With the aid of a citizens' committee a front foot land value was determined for the center of each block of urban land in St. Paul. These values were then adjusted by Mr. Sommer's rules and tables reflecting the size, depth, shape and location of each lot to produce a land value.
 - C. A committee of architects set up simple rules for valuing buildings based on unit price per square foot of floor area, with a schedule of adjustments for special features.

- D. Inspectors were hired to measure each building and record all data on standard cards, one for each tax parcel.
 - E. This crude start led to Mr. Sommers becoming a consultant for most of the other major cities in the country and his manual became known as "The Sommer's System".
 - F. Mr. Sommer's program was then developed and expanded by a Cleveland attorney named John A. Zangerle, who became Secretary of the Board of Assessors.
 - G. Thus by 1920 we had three basic philosophies for placing values on real estate for general property assessment:
 - 1. Taxation by ability to pay (which now appears in the form of homestead exemptions, etc.).
 - 2. Taxation by allocation of the public benefits thus created (which is the basis for special assessments and present cost-revenue district tax debates).
 - 3. Assessment by the principle of uniformity of relative values (which is the most common base today for general property taxes).
 - H. Successful tax appraisal requires separation of the fiscal and appraisal functions.
 - 1. Real estate taxes have become politically vulnerable where assessment is the result of a rigid math formula intended to maintain the tax base and/or the political base.
 - 2. At this point we are interested only in sound valuation approaches to bring about equitable operation of the ad valorem real estate tax system.
 - I. Related to valuation methods are the decisions of the courts, generally on matters which result from appeal of an assessor's valuation.
 - 1. The courts will generally not substitute their judgment for that of an assessor for individual properties. In fact in 22 states only the matter of the legality of the assessment may go to court.
 - 2. The court may consider the question of uniformity, but generally the issue is joined on the matter of equity, comparison of one property assessment to another.
 - 3. The courts are also a source of a great many confusing decisions since many judges do not understand appraisal theory.
- III. Currently land value appraisal for assessment purposes follows a pattern based on a standard unit foot.
- A. The unit foot is a strip of land one foot wide at the street and extending at right angles to the street to a depth of 125 feet or whatever dept is selected for a local community.

- B. The first step in any appraisal is to identify the property. Therefore the first step in a whole-sale appraisal is to create an adequate set of tax maps. Such maps show each lot, parcel, or tract to be appraised in its true relative size, shape, and location.
1. These maps will show factors influencing value such as streets, railroads, waterways, zoning, etc.
 2. These maps will identify taxable property by index numbers to avoid complicated legal descriptions. Included in the index number or as a separate number is a control number for filing and data recovery purposes.
- C. The basic data from the map would be put on appraisal record cards, which also contain the legal description and collected data from field investigation.
- D. A manual and system are not freely transferable from one community to another. There must be analysis of local market conditions and the creation of rules and depth tables which reflect the area under assessment. He will develop:
1. Corner premium and discount tables (vary for business district, industrial, etc)
 2. Depth premium and discount tables (vary for business district, industrial, etc.)
 3. Definition of current acceptable comparable transactions to establish market value for key inside units.
 4. Lot areas will be increased by alley or court enhancements. For example a side alley might be computed as an inside lot up to 50 feet in width and then adjusted by a side alley factor of 10% here. Side alleys and courts generally enhance the property more than rear alleys and courts.
 5. A demonstration appraisal of central business district property might look like this:

	<u>Front & Depth</u>	<u>Unit Price</u>	<u>Depth Factor</u>	<u>Corner Factor</u>	<u>Front Foot Value</u>	<u>Valuation</u>
A.	60 x 125	\$7,000	1.000	.	\$7,000.00	\$ 420,000
	50 x 125 S.C.	7,000	1.000	.20	1,400.00	70,000
	60 R.A.	7,000		.05	350.00	21,000
						<u>\$ 511,000</u>
B.	130 x 160	7,000	1.079		7,553.00	\$ 981,890
	60 x 160 S.C.	7,000	1.079	.20	1,510.60	75,530
	130 R.C.	7,000		.10	700.00	91,000
	50 x 160 S.A.	7,000	1.079	.10	755.30	37,765
						<u>\$1,186,185</u>

- IV. The statutes also require local assessment officers to uniformly value buildings and improvements.
- A. The first important principle in wholesale assessment of buildings is to be assured that land and building values are correlated, particularly as to the percentage of market value each represents. Both must be assessed at the same percentage of market value.

LAND ASSESSMENT VALUATION

<u>FRONT & DEPTH</u>	<u>UNIT PRICE</u>	<u>DEPTH FACTOR</u>	<u>CORNER FACTOR</u>	<u>FRONT FOOT VALUE</u>	<u>VALUATION</u>
60 x 125	\$7,000	1.000		\$7,000.00	\$420,000
50 x 125 S.C.	7,000	1.000	.20	1,400.00	70,000
60 R.A.	7,000		.05	350.00	<u>21,000</u>
					\$511,000
130 x 160	7,000	1.079		7,553.00	\$981,890
60 x 160 S.C.	7,000	1.079	.20	1,510.60	75,530
130 R.C.	7,000		.10	700.00	91,000
50 x 160 S.A.	7,000	1.079	.10	755.30	<u>37,765</u>
					\$1,186,185

BASIC PROPERTYPROPERTY APPRAISED

No porch

10' x 20'

Full basement

glazed porch

1 bath tile wainscot

50% basement

1 2-fixture powder room

2 baths, 1 tile wainscot

Wood-burning fireplace

No fireplace

Kitchen-plaster

Kitchen-tile

Base price Class 5D

1,451 square feet

\$11.11

Addition and deductions from Base Price

Add porch 10' x 20' = 200' @ \$6.90
per sq. ft. = \$1380 ÷ 1,451 sq. ft.

+.10

Deduct 50% to basement 5 x .08 =

-.40

Add one bath 1,451 sq. ft. =

+.53

Deduct 2 fixture powder room
1,451 sq. ft.

-.35

Add tile walls in kitchen
1,451 sq. ft. =

+.37

Deduct no woodburning fireplace
\$339 ÷ 1,451 sq. ft. =

-.23

Net difference between adds and deducts is

+.02Adjusted base price representing estimated
replacement cost new of subject property

\$11.13

- B. For example consider two parcels of property, both with a total assessed value of \$10,000, the first of which has a fair market value of \$5,000 for land and \$5,000 for the building, and the second of which has \$7,500 fair market value for the land and \$2,500 for the building.
1. If land were valued at 80% of FMV and buildings at 40%, the assessment on property number one would be \$4,000 plus \$2,000 or \$6,000 while the assessment for number two would be \$6,000 plus \$1,000 or \$7,000.
- C. As construction costs were inflated and more recently land prices boomed, lack of uniformity between land and building is common today. Therefore the first step in establishing a uniform method of appraising building values is to select a date representing the market value and percentage of market value which has been used for the land appraisal.
- D. Once the date is established and the percentage of full fair value is established, then reproduction costs on a square or cubic foot basis are selected tied to that date.
- E. The system for appraising buildings is generally conditioned by the need to use wholesale methods for economy of administration while achieving uniform values for all properties assessed.
- F. Generally the square foot method used is called the slotting method because it attempts to place the property appraised into a building class or slot to which it is most similar.
1. Square foot method is preferred because of the problems of getting an accurate height measurement.
 2. Generally assessors have developed rather thorough classification systems, many of which are overrefined where variations are matters of pennies.
 3. The system provides for adjustment of the square foot cost for a particular class where there are essential differences between the property standard and the property to be assessed.
- G. For example an appraisal of a single family residence, the measurements and summary description of which would be on the real estate record card would be appraised as follows, assuming these essential differences:

<u>Basic Property</u>	<u>Property Appraised</u>
No porch	10' x 20' glazed porch
Full basement	50% basement
1 bath tile wainscot, 1 2-fixture powder room	2 baths, 1 tile wainscot
Wood-burning fireplace	No fireplace
Kitchen-plaster	Kitchen-tile

- H. Where there is more than one building on a given property, such as a detached garage or several structures for an industrial plant, each unit is slotted and the value estimated separately. And as we shall see, the reproduction cost is adjusted for age and condition of property to reflect depreciation.

Base price Class 5D

1,451 square feet \$11.11

Additions and Deductions from Base Price

Add porch 10' x 20' = 200' @ \$6.90
per sq. ft. = \$1380 ÷ 1,451 sq. ft. / .10

Deduct 50% no basement 5 x .08 = -.40

Add one bath 1,451 sq. ft. = / .53

Deduct 2 fixture powder room
1,451 sq. ft. = -.35

Add tile walls in kitchen
1,451 sq. ft. / .37

Deduct no wood-burning fireplace
\$339 ÷ 1,451 sq. ft. = -.23

Net difference between adds and deducts is / .02

Adjusted base price representing estimated
replacement cost new of subject property \$11.13

- F. Assessors may also use a unit in place approach, developing tables as part of the manual. A few jurisdictions will actually use a quantity survey method for new commercial and industrial structures since the larger buildings defy slotting.
- V. The assessor must also apply depreciation on a wholesale basis. Accordingly he tends to rely on age depreciation tables which attempt to reflect the various elements of depreciation.
- A. Generally the tables depreciate no more than 50% of the property over useful lives ranging from 40 to 60 years depending on the type of construction.
- B. Various types of buildings are given a percentage of depreciation relative to years of age, generally rounded off to the nearest five years.
- C. Once the basic percentage of accrued depreciation has been selected, this figure will be adjusted for condition as observed by the appraiser, The condition is assumed to be average in the typical age-depreciation table. If condition is excellent the total depreciation is reduced by 30% and if the property is very poor it might be increased by 20% according to a separate table.
- D. Sometimes special obsolescence tables must be designed to reflect economic obsolescence. For example movie theaters following introduction of television were given drastic reassessments on the basis of paid admissions or market value per seat.
- E. Currently downtown retailers are pressing for modification of depreciation charts to reflect economic obsolescence brought on by the shopping center.

VI. The assessment system is subject to error, appeal, and review, and the appraiser must be able to adjust for these possibilities.

A. Factual errors generally consist of:

1. Arithmetical or clerical errors in extension or addition and in transportation of numbers.
2. Errors in dimensions of land and buildings.
3. Faulty or erroneous data concerning land and construction features of building.
4. Erroneous data as to age and physical condition of building.

B. Errors of judgment generally consist of:

1. Improper classification of building.
2. Erroneous land value.
3. Incorrect estimation of functional and economic depreciation.

C. Errors of policy generally consist of:

1. Lack of uniformity between basis of land and building valuations.
2. Lack of uniformity between valuation of different types and classes of real estate.
3. Lack of a sound approach for recognizing existing lack of utility and obsolescence.