

How is Commercial Property Valued?

Appraisal Districts use what is commonly referred to as “mass appraisal techniques” in the valuation of commercial property. Mass appraisal is a widely accepted practice for the valuation of property for the purpose of taxation. The same principles followed in an individual appraisal are used in mass appraising, although their application may slightly differ. Appraisals made on an individual basis generally involve direct comparison between sales and subject. In mass appraisal, a large volume of data, including sales, income data, and construction costs is processed. This data is developed into baseline values for each commercial property type. When the baseline value is applied to a specific property, and appropriately adjusted, mass appraisal takes on the nature of direct comparison.

Cost Analysis:

The District refers to published national cost schedules as a reference to develop the commercial improvement schedules. The district’s cost schedules have been modified to fit the local building and labor market. The District does not create nor maintain all of the various schedules outlined in most publications. The county does not have many of the unique structures described in these cost publications. The District therefore only creates and maintains cost schedules for improvements that are typically found within its jurisdiction.

Cost schedules are used to develop a cost value for all improvements. The cost approach estimates the building values as new then adjusts for depreciation.

Income Analysis:

The District collects samples of income and expenses for specified markets from various sources. Surveys of various types of rental and/or leased properties are conducted to collect a sample of income streams. These surveys are typically done at the beginning of each calendar year. The District also incorporates all income and expenses provided by owners or their agents from the real property renditions and during the appeals process. This information along with publications and data collected from websites is also included to determine the various income streams.

All income data will be analyzed in order to identify trends in the local rents and expenses. From this data, any economic classes are identified and the median lease and expense rates are calculated. Schedules are created when appropriate for each economic class of properties. The income schedule will be tested with a sample of properties from the same market. This sample should include properties that were used to develop the model. The District will determine if an appropriate value is calculated for each property.

The following commercial property types have income schedules developed and applied:

- Shopping centers
- Office
- Warehouse
- Mini-storage facilities
- Boat-storage facilities
- Multifamily
- Motels
- Assisted Living
- Nursing Homes
- Mobile Home Parks

Sales Analysis:

Sales of real estate establish trends in the market and valuation models must reflect those trends. Therefore, in order to understand and adapt to changes in the market it is first necessary to analyze those sales. A significant part of the initial analysis involves determining the extent and direction of movement in the market.

When sales are available, they are used to develop cap rates, identify trends in the market, produce ratio studies, and estimate the land value component for all properties.

The District gathers actual documented sales from various sources. These sources may include Listing Services, Bill of Sales, and Housing and Urban Development (HUD) forms, also referred to as settlement statements.

The District determines what attributes and characteristics of a property the market recognized as important or of utility. The property attributes and characteristics are used to establish the benchmark property of a market area and/or property type. Correctly identifying the attributes of a property is important for developing a model that reflects what and how those characteristics relate to the market. This information is collected and/or verified at the time of a field inspection.

The District uses the following list as a guide in identifying the commercial attributes which typically affect the market.

<u>Commercial Attributes</u>	<u>Comments</u>
Site- land size	used to calculate land to building ratio
Access	limited or sufficient
Visibility	
Excess	is there excess land for future development

Improvements-

Building	gross building area & net rentable area
Class	construction quality
Age	
Story height	
Condition	at time of sale
Number of units	multi tenant or single
Use	what type of utility

Reconciliation

The final step to the mass appraisal process is to determine the best indicator of value for a group of properties. The District determines if a group of properties should be valued via the cost, income or sales approach to value. Generally, all properties within a property use will be valued using the same approach to value. However, there may be instances where the appraiser elects to value an individual property within the market area or property use with a different approach to value. For example if an apartment complex is under construction and has no rental history, then the appraiser may choose to value that property via cost approach to value. The District always considers any qualities or characteristics about a property which differ or do not equally compare to the sample of properties.