

## **RESIDENTIAL PROPERTY VALUATION PROCESS**

### **What is Residential Property?**

“Residential Property”, as defined by the American Institute of Real Estate Appraisers, is “A property consisting of a vacant or improved parcel of land devoted to or available for use primarily as a place of abode, such as single family homes...”

Residential properties are usually found in areas zoned for residential use, but are also found in non-platted areas outside the city limits, and include such property types as single family dwellings, duplexes, mobile homes, as well as others.

### **The Appraisers**

Residential appraisers meet the requirements of the Texas Department of Licensing and Regulation (TDLR), and pursue continuing education training through the International Association of Assessing

Officers (IAAO), Texas Association of Assessing Officers (TAAO), Texas Association of Appraisal Districts (TAAD), and other professional organizations. Some residential appraisers hold additional certifications, licenses and college degrees.

The assignment of each residential appraiser is to develop annual valuations for residential properties at market value as defined by the Tax Code. Residential appraisers use generally accepted appraisal methods and techniques and mass appraisal standards in compliance with the Uniform Standards of Professional Appraisal Practice, “USPAP”, using similar methods and techniques for similar properties while also considering the individual characteristics of each property. Appraisal assignments for residential appraisers are based on property type and are geographically assigned by school districts.

### **Data**

Residential appraisers collect and utilize data to be used in their valuations. Some of the collected data includes:

- verified sales of properties
- information obtained from on-site inspections
- building permits
- discovery forms
- survey letters sent to buyers and sellers
- fee appraisals
- closing statements
- aerial photography

- actual construction cost data
- market data publications and informational data bases
- mapping changes and surveys
- aerial photographs
- protest hearings & informal interviews with property owners
- deed activity (including mechanic liens)

The District also subscribes to MLS which provides information on sold properties as well as properties listed for sale. District staff collects information from other sources including property owners, neighbors, the internet, real estate agents, brokers and their websites, construction professionals, and appraisers.

### **Identifying and Updating Relevant Property Characteristics**

The District creates and maintains an appraisal record for each residentially classified property. The appraisal records will include the owner's name and address, property legal description, parcel identifiers, appraised value of land and improvements, applicable exemptions, tax year and other such information required by statute or deemed necessary by the District. The date of last inspection, notes of inspection as deemed appropriate, and the appraiser responsible is listed in the appraisal record.

### **Discovery: New Construction, Remodeling, Reconfiguration and Demolition**

The residential appraisal staff locates and appraises all new construction, planned renovations, and demolition utilizing:

- planned physical inspections,
- building plans,
- building permits,
- information from property owners,
- taxing jurisdictions, tax agents, real estate professionals,
- real estate publications and media services, and
- oblique imagery, orthographic imagery.

### **Field Review and Inspections**

Each appraiser is responsible for conducting inspections of their assigned properties which includes the review of property characteristics, such as: building class, quality of construction, physical improvement characteristics, square footage, condition, physical, functional and economic obsolescence factors contributing significantly to the market value, and other observable factors or conditions deemed relevant to or influencing the valuation of the property.

## **Re-Inspection of Neighborhoods**

A general reappraisal of all residential property is conducted annually, utilizing a sales ratio study for each neighborhood. The selection process to facilitate a physical inspection of residential property to ensure a re-inspection is performed at least once every three years is completed using a combination of resources and tools to determine those properties which are slated for re-inspection.

## **Defining Market Areas**

Neighborhood identification and delineation is the cornerstone of the residential valuation system. All residential analysis is neighborhood specific. Neighborhoods are visually inspected to verify delineations based on observable aspects of homogeneity such as quality of homes, lot size, price point, etc. Sub-neighborhoods may be created when external influences create a marked difference between a smaller group of properties within a neighborhood. These sub-neighborhoods may include positive or negative influences such as a busy street, power lines, adjacent commercial influences, creeks, greenbelts, golf courses, etc.

## **Sales Data**

SCAD receives a copy of all deeds recorded in Shelby County. For those properties involving a transfer of ownership, a sales file is produced and a verification letter is mailed to the grantee and/or grantor in the transaction. In other instances, sales verification can be obtained from other sources including brokers, agents, appraisals, as well as local, regional and national real estate and financial publications. Finally, closing statements are often provided during the hearing process. The actual closing statement is the most reliable and preferred method of sales verification.

## **The Sales Comparison (Market) Approach**

Although all three of the approaches to value are based on market data, the sales comparison approach is most frequently referred to as the market approach. This approach is utilized not only for estimating land value, but also in comparing sales of similarly improved properties to parcels on the appraisal roll. As previously discussed in the Data Collection section, pertinent data from actual sales, both vacant and improved, is pursued throughout the year in order to obtain relevant information which can be used in all aspects of valuation. Sales of similarly improved properties can provide a basis for the depreciation schedules in the cost approach, rates and multipliers used in the income approach, and as a direct comparison in the sales comparison approach. Improved sales are also used in ratio studies, which afford the appraiser an excellent means of judging the present level and uniformity of appraised values.

## **The Cost Approach to Value**

Cost tables are developed based on the Marshall & Swift Valuation Service. The tables include the replacement cost new (RCN) based on the improvement category and class, as well as adjustments for certain property characteristics, and also lists the expected economic life of the improvement category.

Depreciation schedules are utilized based on the range of expected economic life spans of the property categories being appraised. Actual and effective ages of improvements are maintained in the appraisal records. Effective age estimates are based on the utility of the improvements

relative to where the improvement lies on the scale of its total economic life and its competitive position in the marketplace.

### **The Income Approach to Value**

The income approach to value is used for properties which are typically viewed by market participants as “income producing”.

### **Valuation and Statistical Analysis (Model Calibration)**

Although the District recognizes all three approaches to value and considers the cost approach as an acceptable method, the District's primary approach to the valuation of residential properties uses a hybrid “cost” sales comparison approach. This approach allows for adjustments at the neighborhood level to replicate market influences not captured in the base building class pricing tables. The neighborhood adjustment takes into consideration the location of the market area, physical attributes (size, age and condition of the properties), and all legal and economic attributes that may affect values within the market areas, as well as any other enforceable restrictions. The following equation denotes the hybrid model used:

$$MV = LV + NBHD \text{ mod } (RCN - D)$$

Whereas, the market value (MV) equals land value (LV) plus the neighborhood modifier (NBHD mod) times the replacement cost new (RCN) less depreciation (D).

Residential land values are estimated using the base lot method, which establishes the value of the standard or “base” lot, within each delineated neighborhood. The sales comparison analysis, when applicable, or in areas where insufficient vacant land sales exist, the abstraction method will be used to establish base lot values within a neighborhood and a land table will be created. Land tables are utilized to store a base lot mass pricing code and base lot value. Land adjustments are applied on individual properties, where necessary, to adjust for such influences as location, shape, size and topography, among others.

Neighborhood adjustments are developed from appraisal statistics provided by ratio studies and are used to ensure that estimated values are consistent with the market. Each sale produces a ratio by dividing the appraised value by the confirmed sales price. The ratios are arrayed in descending order and the median ratio is identified. A neighborhood factor is calculated to appraise the sold properties within the neighborhood at approximately 100% of the median ratio relative to their appraised value. Once tested, the neighborhood factor is applied to both sold and unsold properties within that neighborhood to insure equitable and accurate market values. Sales used to determine the neighborhood factor will reflect the market influences and conditions for the properties within a neighborhood, thus producing representative and equitable values.

In aging neighborhoods, where homes have been maintained at various levels of ongoing maintenance, an effective age adjustment may be applied by the appraiser which may have an effect on the depreciation in a positive or negative manner.

### **Reconciliation**

Appraisers are required to take reasonable steps to ensure that the quantity and quality of the factual data that are collected are sufficient to produce credible appraisals. Therefore, appraisers consider all three approaches and then determine which will yield the most credible results for

their properties which share common influences of value. The appropriateness of each approach varies with the type of property under consideration.

### **Special Appraisal Provisions**

The Texas Property Tax Code provides for special appraisal provisions and exemptions including:

- Section 23.01(d) of the Tax Code states: “The market value of a residence homestead shall be determined solely on the basis of the property’s value as a residence homestead, regardless of whether the residential use of the property by the owner is considered to be the highest and best use of the property.”
- Sec. 23.12 of the Tax Code provides the definition of market value and inventory: “...the market value of an inventory is the price for which it would sell as a unit to a purchaser who would continue the business. An inventory shall include residential real property which has never been occupied as a residence and is held for sale in the ordinary course of a trade or business, provided that the residential real property remains unoccupied, is not leased or rented, and produces no income.”
- Section 23.23 of the Tax Code allows for the limitation of the appraised value of a qualified residence homestead and is often referred to as the homestead “capped value”.
- Sec 23.41 of the Tax Code allows for land designated for agricultural use to be appraised at its value based on the land’s capacity to produce agricultural products if specific eligibility requirements are met.
- Abatements - The Tax Code also provides for a local agreement between a taxpayer and a taxing unit, other than a school district, that that may abate all or part of real property, generally commercial property, and/or tangible business personal property from taxation.