



MINNESOTA ASSOCIATION *of* ASSESSING OFFICERS

Sales Verification and the Adjustment of Sales

There is no such thing as a “bad” sale

Presented By:

Stephen Baker – Ramsey County

Laura Fridgen – Ramsey County

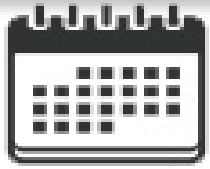
Jason McCaslin – Jackson County

Sadie Dietrich – MN DOR Data Analysis

Gretchen Buechler – MN DOR Data Analysis

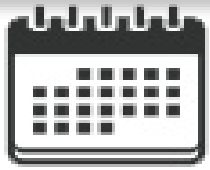
Dell Sanko – Scott County

Michael Thompson – Scott County



Agenda

- ✓ Sale Verification Overview – Basics and Best Practices
- ✓ Access Database for Sales Verification
- ✓ 2015 Sales Ratio Study Criteria Update
- ✓ MCAST – Overview and Real World Case Studies
- ✓ Commercial and Industrial Verification Problems



Agenda

- ✓ **Sale Verification Overview – Basics and Best Practices**
- ✓ Access Database for Sales Verification
- ✓ 2015 Sales Ratio Study Criteria Update
- ✓ MCAST – Overview and Real World Case Studies
- ✓ Commercial and Industrial Verification Problems

DOR Definition of a Bad Sale?

- There isn't one!
- There is Reject Criteria
 - New Construction
 - Old Sales
 - Splits
 - Properties in more than one county
 - Etc.



Good vs. Bad Sales

“How am I gonna get this sale out?”



Good vs. Bad Sales

Cherry-Picking:

“Categorizing as usable only sales that are close to the assessor’s values”

IAAO – Fundamentals of Mass Appraisal



“Good” and “Bad” Sales

MINNESOTA - REVENUE	
Sales Ratio Reject Code Sheet	
Verification	
Form Codes: Reasons for Rejection	
01	Old sales outside of the 21-month study period Do not exclude sales within the 21-month study period
02	Relative sale - Related business
03	Government or exempt party sales
04	Partial interest sale
05	Use change (change of legal property class)
06	Unusual financing; Non-cash financing; Income guarantees
07	Physical change (after assessment date, before sale)
08	Correction deed, not an actual sale
09	Trade, Gift, or Estate sale not exposed to open market
10	Prior interest sale, such as lease with option to buy
11	Skipped CRV number; Used to indicate that auditor's number was not used
12	Unique reject reason that Department of Revenue Regional Representative must authorize
13	Duplicate CRV; Buyer and seller file certificate for same parcel, used in Dept of Revenue duplicate edit
14	Sale of interest in or payoff of contract; Mortgage assumption
15	Forced sale; Legal action; Foreclosure; Short sale;
16	Assessor value for sale year not available or split not agricultural or timber classes
17	Excessive non-real property
18	Rewrite of terms; Default on CD
19	Relocation; Employee transfer
20	Sale - Lasseback property leased back to seller, for more than 6 months
21	Bank sale (including HUD sales), and lending institution sales not exposed to the market
22	Less than minimum down payment with CD longer than 1 year
23	Sale under minimum dollar amount - 3,000 minimum for bare land sales - 10,000 minimum for all other property types
24	Sale of properties in more than one county
25	Ag preserve; Sales subject to minimum assessment agreement
26	Not typical market
27	Court ordered value
28	Nursing home - Mobile home park
29	Allocated sale price
30	Assessor's value restricted by plat law; First year only
31	Assemblage



Use change example
agricultural land sold for
development

With 31 legitimate reasons, it's
sometimes possible to “make one fit”
Don't selectively include/exclude sales
by altering verification practices

“Good” and “Bad” Sales



Takeaways:

- **Think in terms of qualified and unqualified, instead of good and bad**
 - “Good” versus “Bad” may just be a label
 - An unqualified sale may still provide information for another purpose
 - An unqualified sale for state study purposes doesn’t mean there shouldn’t be consideration given for future valuation purposes
 - Consider the purpose of the study/analysis
 - Are you looking at your state ratio or responding to market? Both?
- **Remember that you will still be measured on the state studies**
 - Communicate with your Property Tax Compliance Officer
 - The state’s ratio is what actually counts for state studies

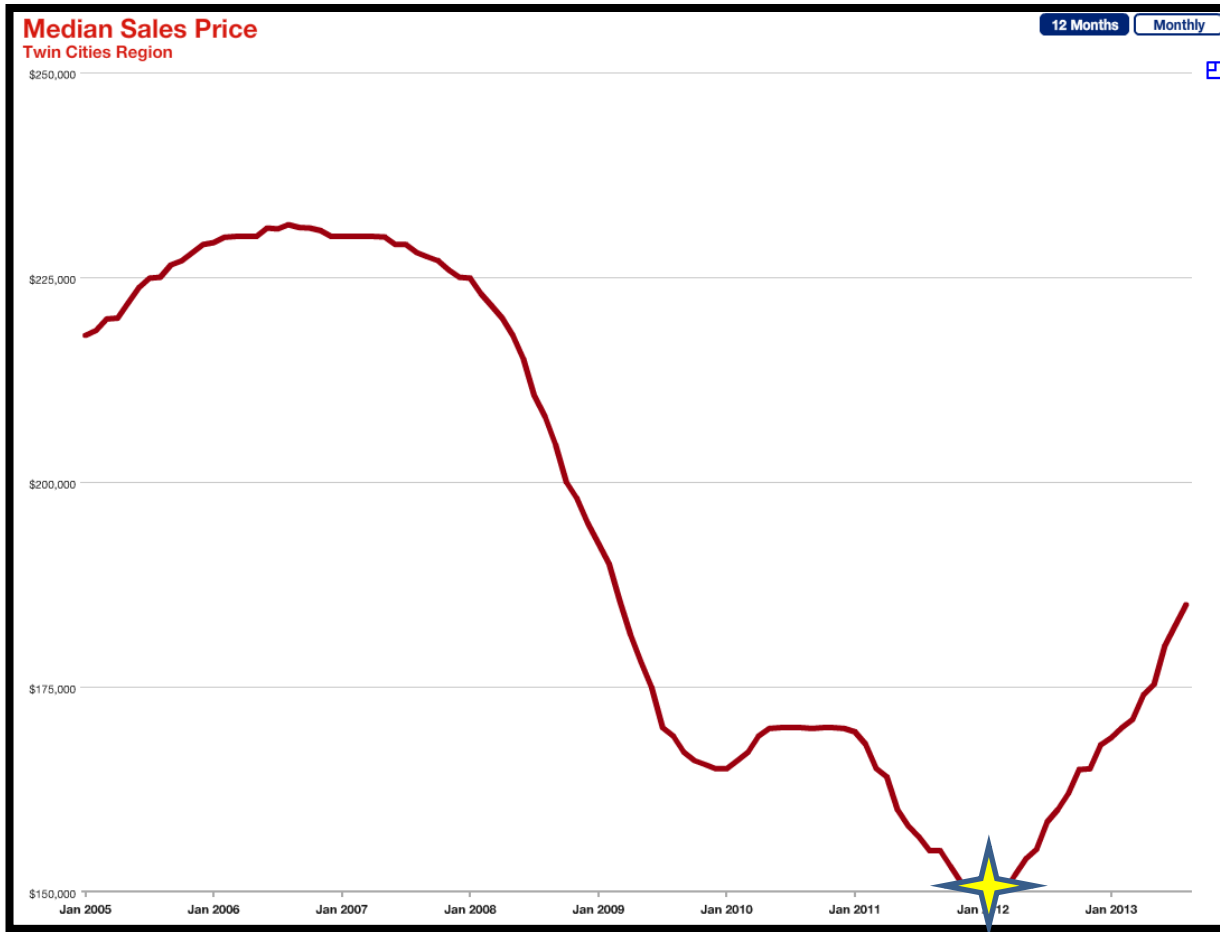
“Good” and “Bad” Ratios

*Does Value Today =
Value at Previous
Assessment Date?*



**100%
Ratio!!!
NAILED IT!**

“Good” and “Bad” Ratios



THETHING

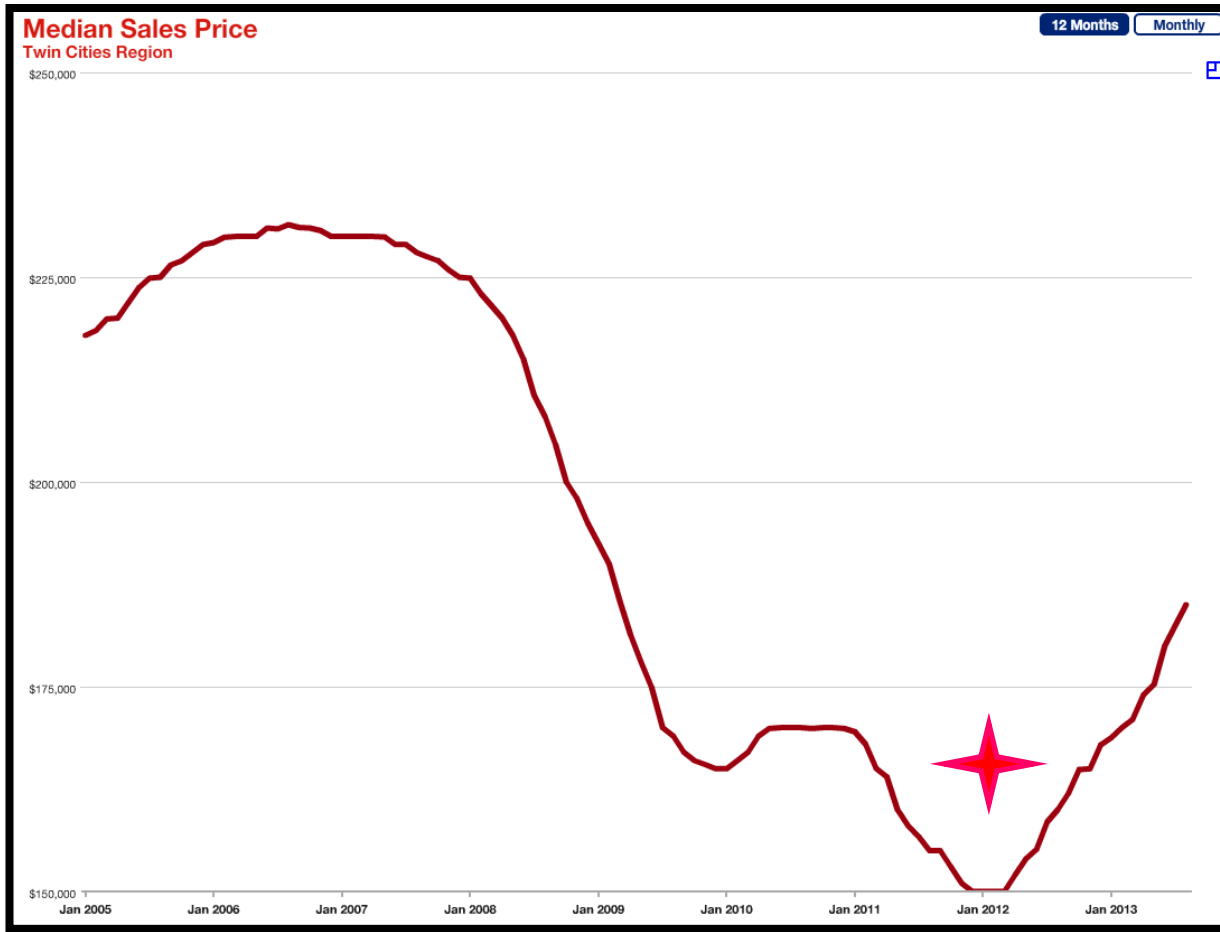
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- **Consider unadjusted ratios of 100% vs. 88%, which is better?**
 - Market conditions usually change over time
 - Assessors are not expected to predict the future
(except for 9 month tax court ratio – kind of)

“Good” and “Bad” Ratios



THE THING 

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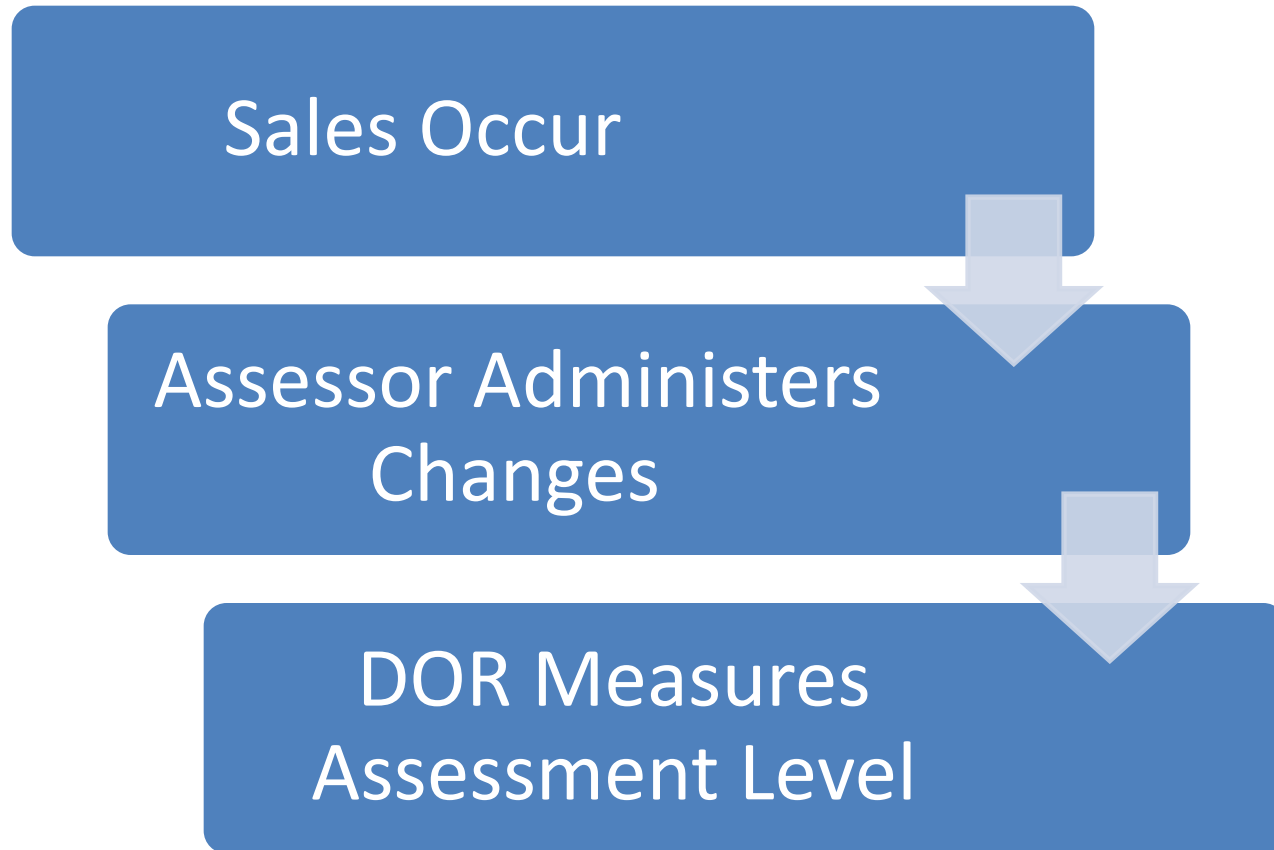


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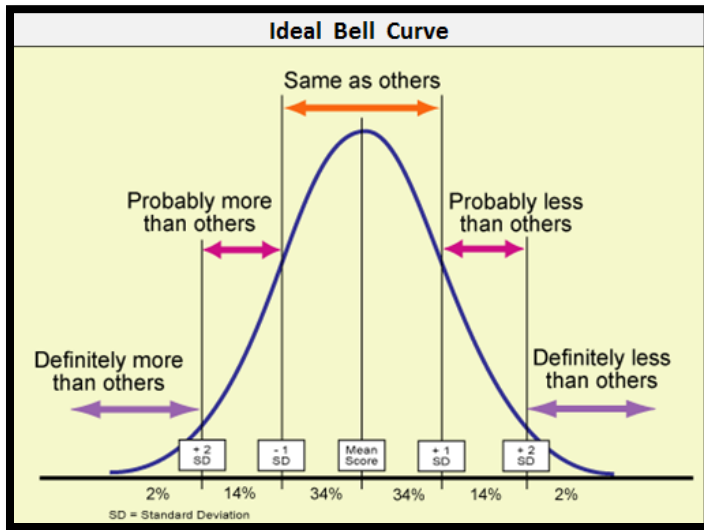
100% Ratio – 1/2/2012 value at \$170,000, sells for \$170,000 11/2/2012

-The property was over assessed at \$170,000 1/2/2012

CONSIDER WHEN THE ASSESSMENT LEVEL IS MEASURED?



“Good” and “Bad” Ratios

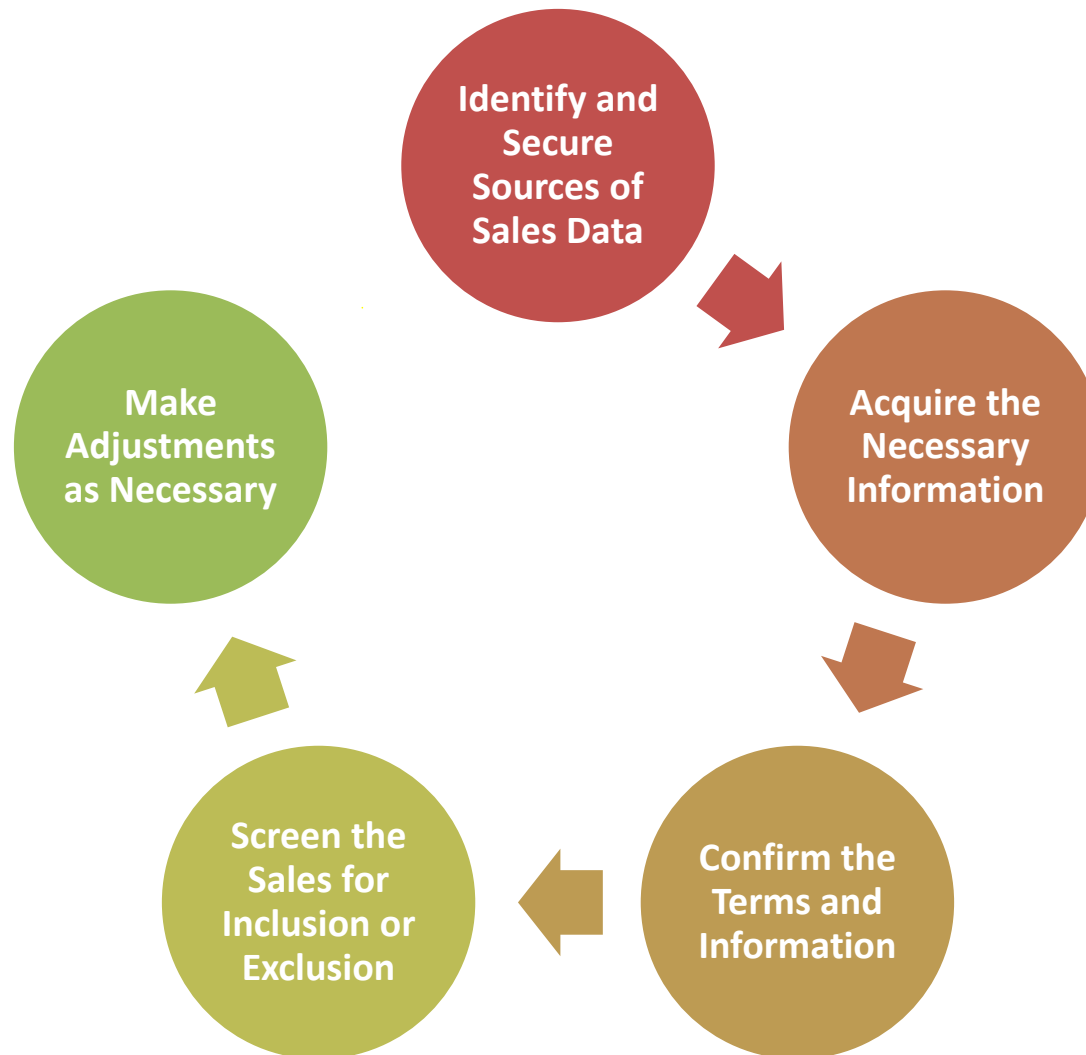


Every ratio is telling you a story. If it's way off it might be telling you a very important story!

If a direct ratio is not at 100% don't panic, if it is at 100% wait before patting yourself on the back.

- Market conditions have changed
- You have inaccurate property information recorded
- People get good deals and bad deals
- No valuation model is perfect – normal distribution
- Your previous assessed valuation was not at 100% of market value
- Etc.

Sales Validation Guidelines: IAAO Standards on Ratio Studies




Sales Validation Guidelines: IAAO Standards on Ratio Studies



Identify and
Secure
Sources of
Sales Data

- ~~CRV~~ and **eCRV**
- **Multiple Listing Service**
- Real Estate Brokers
- Government and Private Fee Appraisers
- Attorneys
- Appraisal Organizations
- Other

Sales Validation Guidelines: IAAO Standards on Ratio Studies



Acquire the
Necessary
Information

- Full consideration involved
- Names of buyer and seller
- Addresses, phone numbers, other contact information, of parties involved
- Relationship of buyer and seller
- Legal description, address, parcel identification
- Type of transfer
- **Time on market**
- Interest Transferred
- Type of financing
- Personal property
- Date of transfer
- Instrument number

Sales Validation Guidelines: IAAO Standards on Ratio Studies

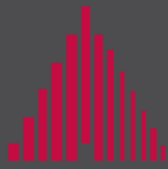
Time on market

Acquire the
Necessary
Information

Sales that have been exposed to the open market too long, not long enough, or not at all may not represent market value



When value opinions are based on market exposure that is inadequate or excessive, the value opinion is not market oriented. Improper identification of the reasonable Exposure Time in a market value opinion can lead to a value conclusion that is not credible.



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Guide Note 14

Concept of Exposure Time

The basis for an opinion of Exposure Time can include consideration of one or more of the following:


Acquire the
Necessary
Information

- Statistical information about days on market for similar types of property
- Information gathered through sales verification
- Interviews of market participants
- Market information from data collection services

...an office building... could have been on the market for two years at a price of \$2,000,000, which informed market participants considered unreasonable. Then the owner lowered the price to \$1,600,000 and started to receive offers, culminating in a transaction at \$1,400,000 six months later. Although the actual exposure time was 2.5 years, the reasonable exposure time at a value range of \$1,400,000 to \$1,600,000 would be six months.

Sales Validation Guidelines: IAAO Standards on Ratio Studies

Property Changes



Acquire the
Necessary
Information

Sales data files should reflect the physical characteristics of the property when sold. If significant legal, **physical**, or economic changes have occurred between the sale date and assessment date, the sale should not be used for ratio studies.

Sales Validation Guidelines: IAAO Standards on Ratio Studies

Confirm the
Terms and
Information

Mailed questionnaires should include:

- A postage-paid return envelope
- Official stationary
- Purpose for the questionnaire
- Contact person
- Authorized signature



Telephone interviews should have designed forms:

- Name and phone number of contact person
- Date of call
- Interviewer name
- Number of attempts made to contact each party



Sales Validation Guidelines: IAAO Standards on Ratio Studies

Specific objectives are as follows:

- To ensure that sales prices reflect to the maximum extent possible only the market value of the real property transferred and not the value of personal property, financing, or leases
- To ensure that sales that occurred only during the period of analysis are used
- To ensure that sales are excluded from the ratio study only with good cause (e.g., when they compromise the validity of the study)



Screen
the Sales

Sales Validation Guidelines: IAAO Standards on Ratio Studies

Written Procedures and Policies

To help analysts make wise and uniform judgments, screening procedures should be in writing.



Screen
the Sales

Who Should be Verifying Sales?

Each sales analyst should be thoroughly familiar with these procedures as well as with underlying real estate principles.

Sales Validation Guidelines: IAAO Standards on Ratio Studies

Auctions?

In general, auction sales tend to be at the lower end of the price spectrum. Auction sales that have been well-advertised and well-attended may be valid for consideration in ratio studies. The seller must have the option to set a minimum bid on the property or the right of refusal on all bids (*with reserve*) in order for the sale to be considered valid.

Screen
the Sales



1. **Well-advertised?**
2. **Well-attended?**
3. **Minimum bid option, or seller had right of refusal?**

Sales Validation Guidelines: IAAO Standards on Ratio Studies



Screen
the Sales

Multiple Parcel Sales?

If the appraiser needs to include multiple parcel sales, he or she should first determine whether the parcels are contiguous and whether the sale comprises a single economic unit or multiple economic units.



Any multiple parcel sale that also involves multiple economic units generally should not be used in ratio studies because of the likelihood that these sales include some plottage value or some discount for economies of scale...

1031 Exchange Process



**1. Identify
Qualified
Intermediary**



**2. List
Relinquished
Property**



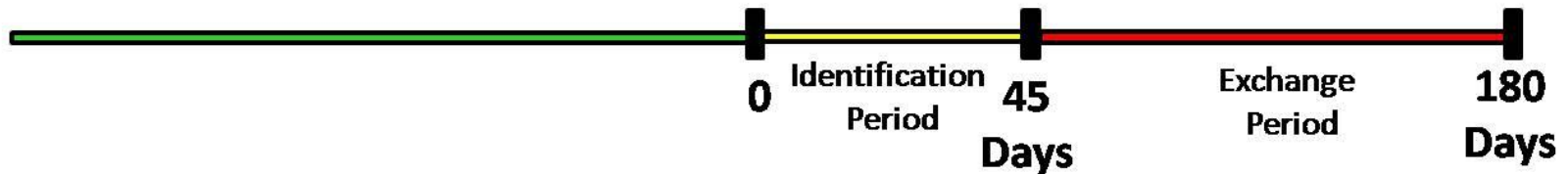
**3. Sell
Relinquished
Property**



**4. Identify
Replacement
Property**



**5. Receive
Replacement
Property**



Time →

Sales Validation Guidelines: IAAO Standards on Ratio Studies

What are 1031 Exchanges?

- Are not a trade or transfer involving no monetary items.
- These transactions allow the taxpayer to defer capital gains tax on the sale of a business use or investment property.
- Accumulate more assets.
- A certain amount of undue stimuli may be present as this time lapses.
- They are a very formal, regulated, can be costly process. Acquire and close on Replacement Property within 180 days of relinquished property closing. IRS prefers in same tax year.



Screen
the Sales

Sales Validation Guidelines: IAAO Standards on Ratio Studies



Screen
the Sales

1031 Exchanges?

1031 exchanges should be analyzed like any other commercial transaction and, absent conditions that would make the sale price unrepresentative of the market value, should be regarded as valid.

Sales Validation Guidelines: IAAO Standards on Ratio Studies

Internet Marketing?

Property that sells on the internet and meets the criteria of being an open-market, arm's length transaction should be included as valid.

Screen
the Sales



Sales Validation Guidelines: IAAO Standards on Ratio Studies

Sales prices used in ratio studies may need to be adjusted for:



Make
Adjustments
as Necessary

- Financing
- Assumed long-term leases
- Personal property
- Gift programs
- Date of sale
- Etc.

Sales Validation Guidelines: IAAO Standards on Ratio Studies

If adjustments for more than one purpose are to be made, they should be made in this order:



Make
Adjustments
as Necessary

1. Adjustments that convert the price to a better representation of the market value as of the date of sale (financing, long-term leases)
2. Adjustments that develop or isolate the price paid for taxable real property (personal property received by buyer, property taken in trade by the seller, combination of partial interest sales, incomplete or unbuilt common property)
3. Adjustments for differences in market value levels between the date of the sale and the date of the analysis

Sales Validation Guidelines: IAAO Standards on Ratio Studies

Adjustments for Assumed Leases

The sale price of a property encumbered by a long-term lease of at least three years should be adjusted as follows:

Make
Adjustments
as Necessary

- If the contract rent differs significantly from market rent, then the sales price should be adjusted by the difference between the present worth of the two income streams.
- If the contract rent exceeds market rent, the present worth of the difference in the two income streams should be subtracted from the sale price.
- If the contract rent is less than current market rent, the present worth of the difference in the two income streams should be added to the sale price.



Sales Validation Guidelines: IAAO Standards on Ratio Studies

Contract rent exceeds market rent

Example 1: Long-Term Lease Adjustment

Sale price	\$500,000	
Monthly contract rent	\$6,000	
Monthly market rent	\$5,000	<i>Use monthly tables</i>
Years remaining on lease	5	
Discount rate	12%	

The difference between the market and contract rent is \$1,000.
The present worth of 1 per period for five (5) years @ 12 percent ($\$1,000 \times 44.95504$) = \$44,955
This is the present worth of monthly savings.
Adjusted sale price = \$500,000 (sale price) minus \$44,955 (monthly savings) or \$455,045

Contract rent is less than market rent

Example 2: Long-Term Lease Adjustment

Sale price	\$100,000	
Monthly contract rent	\$1,000	
Monthly market rent	\$1,200	
Years remaining on lease	5	
Discount rate	11%	

The difference between the market and contract rent is \$200 per month for five (5) years capitalized at 11 percent (monthly tables)
 $\$200 \times 45.99303$ (present worth 1/p factor @ 11% or \$9,198.60
This is the portion of the present worth of the property that the buyer cannot realize and that consequently should be added to the sale price to determine the full cash value of the property as indicated by the sale.
The indicated full cash value is \$100,000 + \$9,199 or \$109,199.

Make
Adjustments
as Necessary



Is inspecting sold properties because they have sold sales chasing?



“Spearing”

It probably depends on whether or not new data being collected is utilized for modeling purposes only, or if the changes are being implemented in the CAMA system for the following assessment.

Also dependent on whose definition you are utilizing.

Is inspecting sold properties because they have sold sales chasing?

Sales Chasing:

“...Reappraising properties that have been sold in a manner different than unsold properties...”

IAAO – Fundamentals of Mass Appraisal



“Sales Chasing”

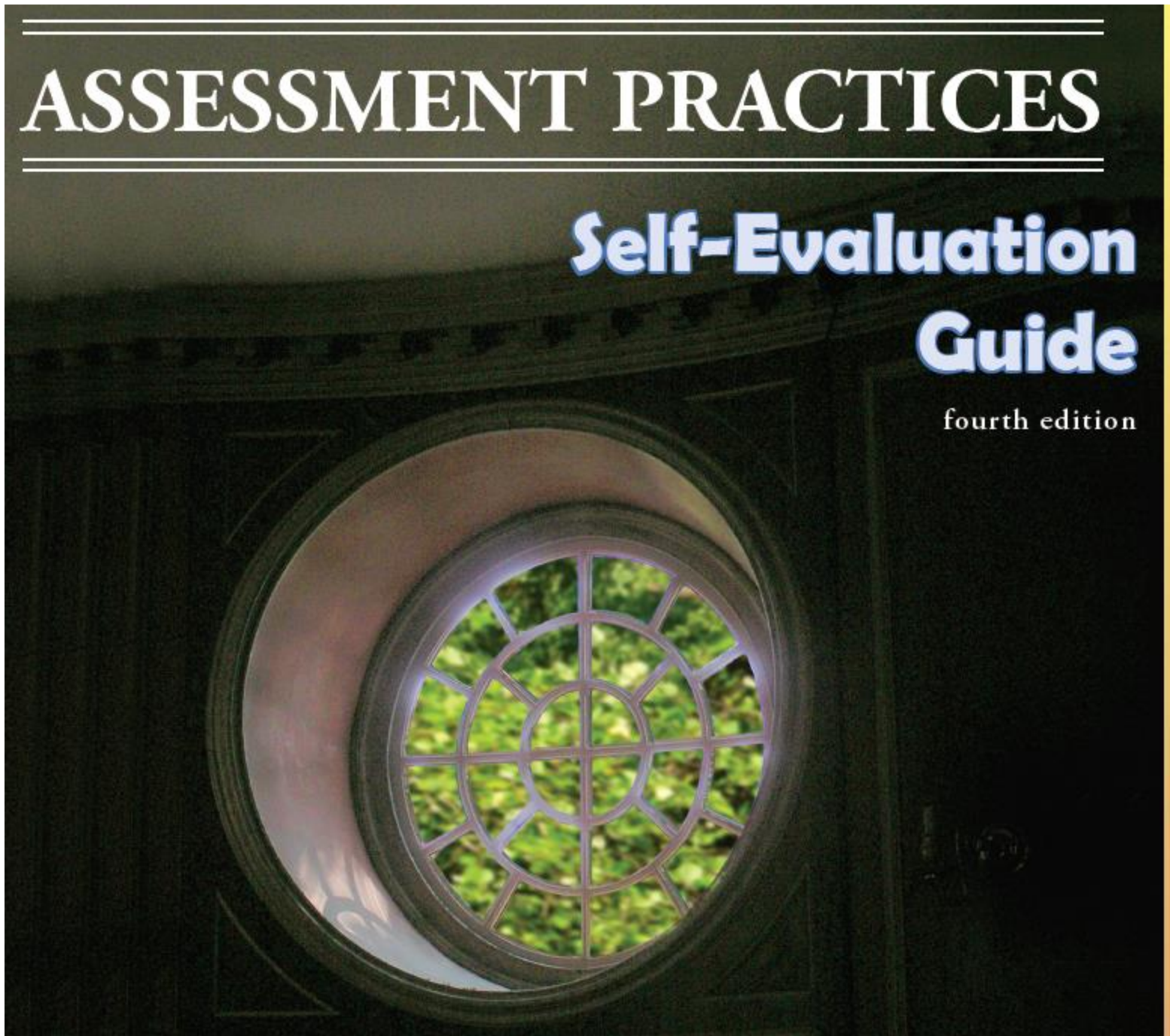
“Sales chasing is the practice of making any subjective change in value to a recently sold property, while not also reviewing and applying the same criteria to properties that have not sold.”

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ASSESSMENT PRACTICES

Self-Evaluation Guide

fourth edition



Industry Standard Measures – IAAO

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Chapter 1. Setting, Legal Framework, Value Standard, and Assessment Cycle provides a way to take into account factors largely beyond the control of the assessment office, such as key features of the legal framework and the size of the assessment district.

Chapter 2. Resources and Management examines management procedures and practices and the important question of whether the assessment office has the resources to discharge its legal responsibilities.

Chapter 3. Computerization provides guidance on evaluating computer systems. It identifies basic requirements, as well as features of state-of-the-art systems that can help improve assessment operations.

Chapter 4. Computerized and Manual Mapping Systems and Assessment Support examines practices essential for creating complete and accurate maps to identify assessable real property and value influences. The chapter is divided into two parts, one for computerized mapping and assessment support, the other for manual mapping and assessment support.

Chapter 5. Data Collection describes collection practices essential for collecting complete and accurate data on assessable real property.

Chapter 6. Land Valuation outlines the essentials of land information and valuation practices.

Chapter 7. Residential Property Valuation provides the essentials of a residential property valuation system, as well as an overview of a high-quality residential property appraisal program.

Chapter 8. Commercial Property Valuation helps assessment offices evaluate their commercial property appraisal programs.

Chapter 9. Sales Data, Ratio Studies, and Stratification helps the analyst review sales data collection and processing and provides standards for evaluating the accuracy of ratio studies conducted by the assessment office.

Chapter 10. Personal Property Assessment outlines a program for discovering and valuing personal property that meets professional standards, as well as elements of an advanced personal property program.

Chapter 11. Assessment Administration sums up the key elements of preparation of taxpayer notices, assessment rolls, and publications for taxpayers and the public.

Chapter 12. Defense of Values describes the key elements of appeals procedures for a high-quality assessment program.

Chapter 13. Public Relations identifies some of the important public relations requirements of a modern assessing office.

The **Bibliography** cites many valuable publications and materials that provide more detailed information about each of the topics found in the text's chapters.

This guide focuses on IAAO's three pillars—mass appraisal, tax policy, and tax administration—and provides a useful tool for any individual or jurisdiction seeking to improve its performance in assessment administration.

Chapter 9

Sales Data, Ratio Studies, and Stratification

- 1. Are all transfers of property (sales) uniquely identified and captured?**
- 2. Are real estate sales properly screened and appropriate adjustments made?**
- 3. Does the computer system in the assessment office maintain a snapshot of the property at the time of sale?**
- 4. Are sales used in valuation analyses and ratio studies adjusted to the valuation date (time-trended)?**
5. Has the assessment office stratified residential properties by market area and neighborhood?
6. Are ratio studies conducted at timely intervals during the valuation process?
7. Does the assessment office use ratio studies as a planning tool for both reappraisals and staff needs?
8. Does the assessment office conduct ratio studies by property groups and subgroups?
9. Does the assessment office have the capability of performing ratio studies by user-selected combinations of property characteristics?
10. Does the statistical program used to produce the ratio study compute the IAAO standard measures of level (median, mean, weighted mean ratio), horizontal uniformity [coefficient of dispersion (COD)], and vertical uniformity [price-related differential (PRD)], along with confidence intervals?
11. Does the software used for ratio studies have graphics capabilities?
- 12. Does the assessment office test that sold and unsold properties have been appraised similarly (to prevent sales-chasing)?**
13. Does the oversight agency conduct an appraisal/sales ratio study?

Are all transfers of property (sales) uniquely identified and captured?



~~CRV~~ and eCRV!

Excellence Checklist:

- Does your office currently have a sales disclosure statute in place?
- If yes, explain the process.
- Provide a copy of the sales disclosure document.
- Describe how each sale is uniquely identified and accounted for.
- If the office is currently working without sales disclosure, how are sales identified?

Are real estate sales properly screened and appropriate adjustments made?

1. Written procedures should be provided to all staff who are validating sales
2. Your office should hold annual training sessions in sales validation
3. Best practice is to have sales validation performed by a staff member different from the assigned field appraiser



Excellence Checklist:

- Provide a description of your jurisdiction's validation procedures.
- Are written guidelines used for the validation process? If so, provide copies.
- Are sale prices adjusted for items such as personal property in the CAMA system?
- Does your jurisdiction have a unique coding system to identify those valid sales for which the sale price has been adjusted? If so, provide copies.

Does the computer system in the assessment office maintain a snapshot of the property at the time of sale?

The computer system should preserve a picture of a property's data when it is sold so that the sale price and property characteristics can be properly matched during modeling. CAMA systems can accomplish this in a number of ways, including date-stamping or maintaining a separate sales file that includes property characteristics at the time of sale.

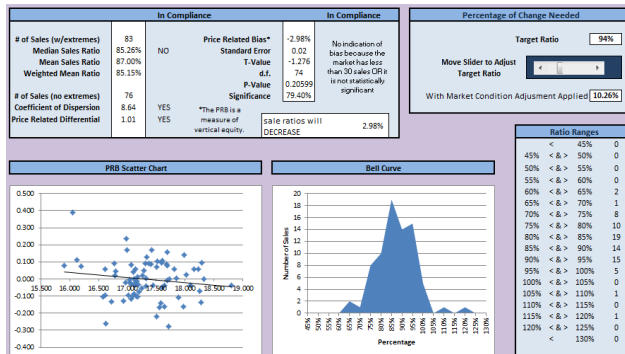


Excellence Checklist:

- Provide system documentation on how property characteristics data and sales data are merged and saved.
- Provide sample sales reports to support that this objective has been met.

Are sales used in valuation analyses and ratio studies adjusted to the valuation date (time-trended)?

To estimate property values and measure assessment performance accurately, sales must be adjusted for any significant time trends to the valuation date (or as near thereto as practical). Table 9-3 identifies ways to do this. Trends can be applied on a daily, monthly, or quarterly basis. For ratio study purposes, trends should always be applied prior to trimming of outlier ratios.



MCAST!

Excellence Checklist:

- What method(s) of time adjustment is used by your jurisdiction?
- Provide sample trend analysis reports and reports showing methods of time adjustments.
- Provide a description of these reports.

Does the assessment office test that sold and unsold properties have been appraised similarly (to prevent sales-chasing)?



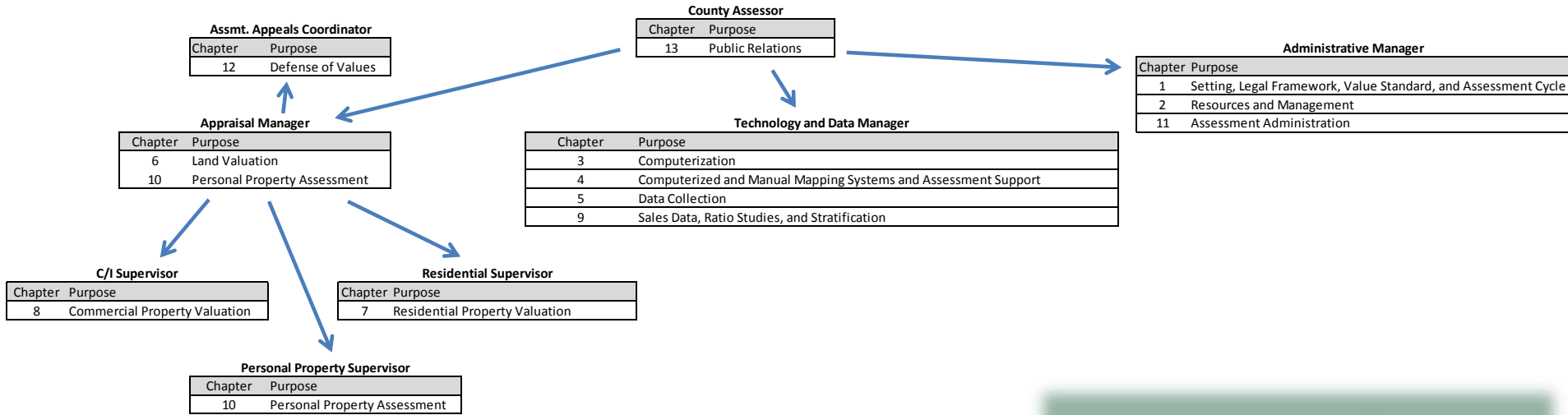
Table 9-9. Evaluating Equity between Sold and Unsold Properties

Market Area	Percentage Change in Sales	Number of Sales	Percentage Change in Unsold Properties	Number of Unsold Properties
101	8.5	123	3.7	2,418
102	7.9	372	8.4	4,950
103	5.2	252	5.5	3,497
104	14.1	188	14.5	1,788

Excellence Checklist:

- Describe how sold and unsold properties are analyzed to show equity between sold and unsold properties.
- Provide sample analysis reports.

Industry Standard Measures – IAAO



An overwhelming endeavor?





SALE VERIFICATION STORIES?

Two men charged with fraud relating to sale of Prior Lake condos

“Two Prior Lake men and a California man each were charged with 15 counts of fraud in federal court April 21 for allegedly scamming lenders out of \$3.1 million. The men allegedly solicited buyers and then created false mortgage loans to purchase Prior Lake condominium units at inflated prices....

...To secure investors, _____ allegedly told buyers they would not have to pay for the units and promised to give them money for down payments, closing costs and monthly mortgage payments. The Prior Lake duo told potential investors that the units would be rented out for a while, but ultimately sold for profit that would be shared with them, the indictment states....

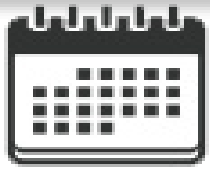
...However, contrary to their promises to buyers, _____ allegedly didn't pay for the investors' monthly mortgage payments – causing the buyers to default on mortgage loans....

...If convicted, the defendants face a maximum penalty of 20 years in federal prison on each wire fraud count, 20 years on the conspiracy count and 10 years on each of the money-laundering counts....

...The Prior Lake Police Department, the Federal Bureau of Investigation and the Internal Revenue Service-Criminal Investigation Division investigated the case. It is being prosecuted by Assistant U.S. Attorney Tracy L. Perzel.”

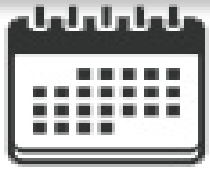
Shawn Hogendorf | Posted Apr 30, 2010

PRIOR LAKE
AMERICAN



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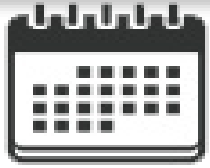


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✓ Access Database for Sales Verification



Jason McCaslin



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2015 Sales Ratio Criteria

Sadie Dietrich

Gretchen Buechler

2015 Sales Ratio Study

- eCRV and CRV
 - We are no longer pulling sales from the CRV. However, sales from January 2014 through September 2014 will be used for ANTCs and the calculation of market condition trends
- Appeals
 - We are continually trying to improve the appeal process

2015 Sales Ratio Study

- Assessment Statistics
 - The PRB will not be enforced for the 2015 State Boards. It will continue to be an informational statistic for counties to measure their vertical equity.
- Water Types
 - Lake; River; Swamp/Slough; Pond/Creek/Stream; Other; and None

2015 Sales Ratio Study

- Trend Regions
 - Agriculture & Rural Vacant Land Regions
 - Residential & SRR regions
 - On and off water DO NOT have be the same
- Neighborhood Code
 - This field is optional but if you want to look at trends, assessment statistics or even value growth we can only do it if you report the info

2015 Sales Ratio Study

- Five Year Study
 - With the 2015 study we will have 5 years of data with the forward methodology.
- Sales List
 - D & A will begin to send out sales lists this summer. In order to maintain the general sales ratio timeline, it's essential to be working on edits now.

2015 Sales Ratio Study

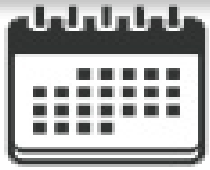
- Reports
 - Initial
 - Preliminary
 - Final Preliminary
 - Pre-Board of Equalization Final
 - Final

Current eCRV Updates (coming soon)

- Neighborhood Code
- Phone numbers are moving to numeric only
- In the County, City, and state apps, the “re-run last search” option will no longer disappear when the previous search returned only one result
- Assessor free-form comments regarding the reason an eCRV was not included in the state study will no longer display in public search application

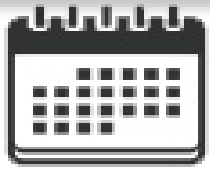
2016 Sales Ratio Study and Beyond

- eCRV updates
 - Beginning in October 2015, property type and property use will be separated. Property type will move to match PRISM property type to ensure consistency across applications



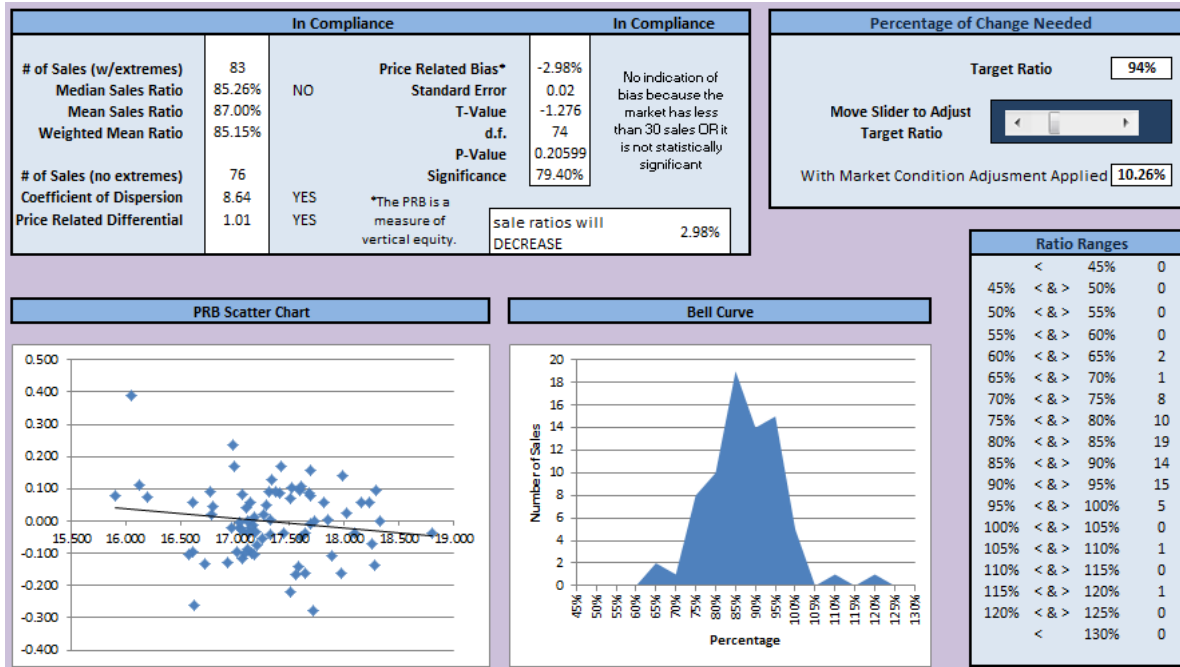
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✓ MCAST – Overview and Real World Case Studies



MCAST v2.0

MINNESOTA · REVENUE

MCAST v2.0

Save As Options
Save As & Close
Close

Instructions	Market Condition and Assessment Statistic Tool v.2.0	
Enter Data	MCAST is a tool designed to help calculate time trends and other assessment related statistics. Every effort has been made to have MCAST mirror the official DOR analysis results. If the results from this tool however do not match the official DOR analysis, the DOR analysis will be considered correct and final.	
T-Calc Area	INSTRUCTIONS	DATA REQUIREMENTS
Single Jurisdiction	!!! ATTENTION !!! When opening this workbook it is necessary to "ENABLE MACROS". Likewise when closing and/or saving this workbook it is necessary to save it as an "Excel Macro-Enabled Workbook (*.xlsm) "	Time Trend (T-Calc): Sale Price, First Year EMV, Month and Year of Sale
T-Calc Only	The first step in using MCAST is to select the "Enter Data" tab on the left, and follow the directions on how to load the sales data to the "Start Page" table. This data can be from a Department of Revenue spreadsheet, a local CAMA system extract, or any other source available.	Appraisal Statistics: All of the above mentioned fields and at least one of the additional EMV columns.
Manual/Saved Entry	Once the sales data is loaded you may want to save this spreadsheet with a descriptive name for future analysis.	Property Type, Region, Water Status, and City/Town: These columns enable the user to provide a means to sort out specific T-Calc Markets and other things like the 21 month sales study year.
Contact Us	Next chose between several analysis procedures by selecting the appropriate Tab on the left.	The Auditor ID and Parcel Number columns are always optional.
	<ol style="list-style-type: none">1. Analyze an entire T-Calc Market Area2. Analyze an Individual Jurisdiction within a larger T-Calc Market Area3. Calculate only the Market Conditions (Time) Adjustments for an area.	Note: For best visual effects when using multiple monitors run MCAST on the main screen (Typically the Left monitor).

MCAST v2.0

Calculate ratios by jurisdiction with calculated trend

Calculate For an Individual Neighborhood

This is a Four Step process designed to help analyze the assessment level of a city, township or neighborhood that is part of a larger T-Calc Market Area.

Step 1.

Filter out the Overall T-Calc Market Area.

Using the drop down button on Columns J-M, filter and select the area to be analyzed. Begin by property type, then move to region, water status, and finally, city. (To do another region, you can reset filters and start the process over rather than repaste in new data.)

Step 2.

Run the "T-Calc Set Up" to establish the Market Condition (Time) Adjustment, and the thresholds limits for extreme sales. Select the appropriate year for the assessment date and then chose between the Second or Third Year EMVs for Assessment Statistics.

Step 3.

Sort out of the above market area a smaller Individual Neighborhood you would like to analyze.

Step 4.

Run the Statistical Analysis of the smaller neighborhood using the overall Market Condition Adjustment and extreme sales thresholds. See results.

Process

Step 1.

Filter For
Overall Market Data

Step 2.

T-Calc Set Up

Step 3.

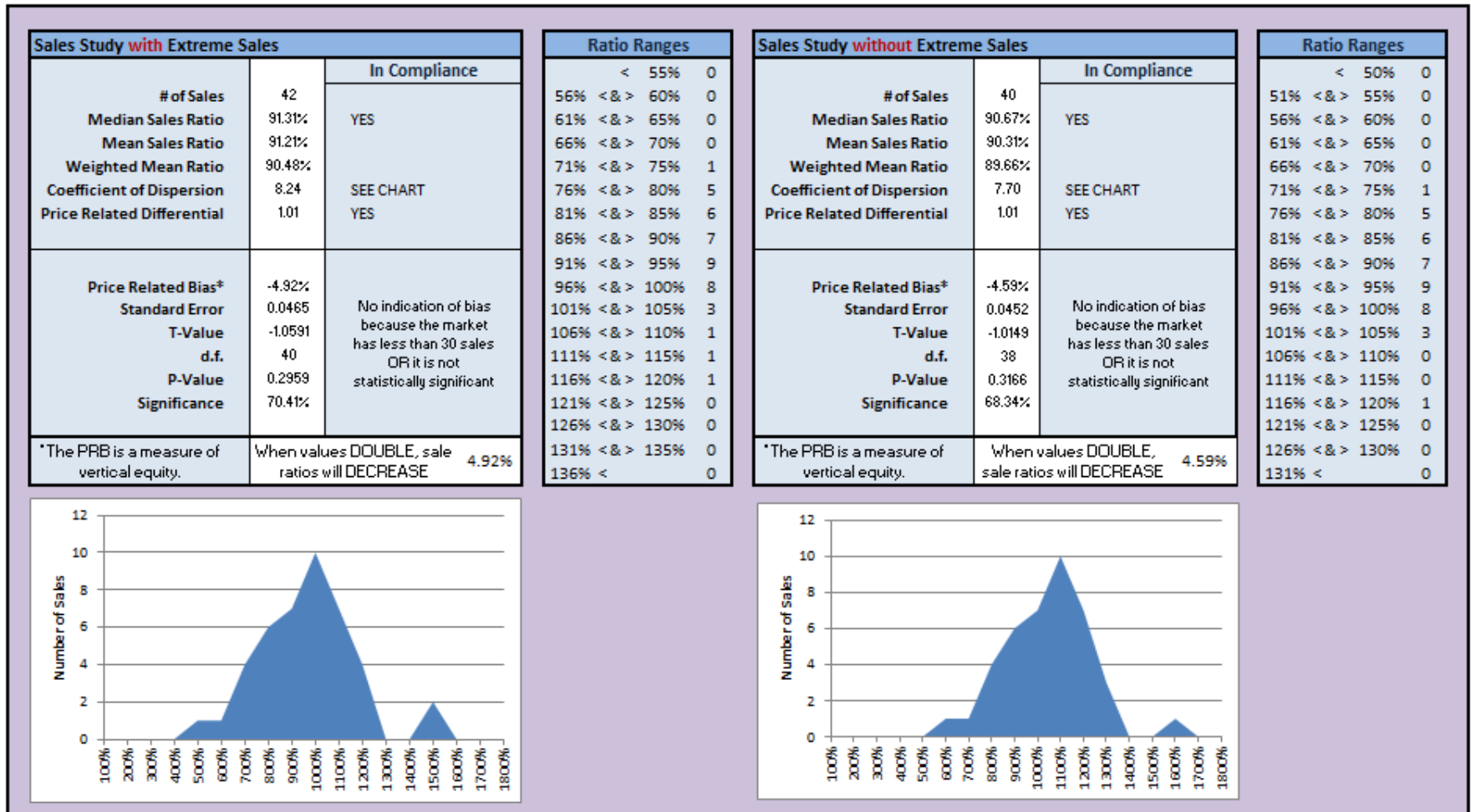
Filter For
Individual Neighborhood

Step 4.

Run Statistics
For Neighborhood

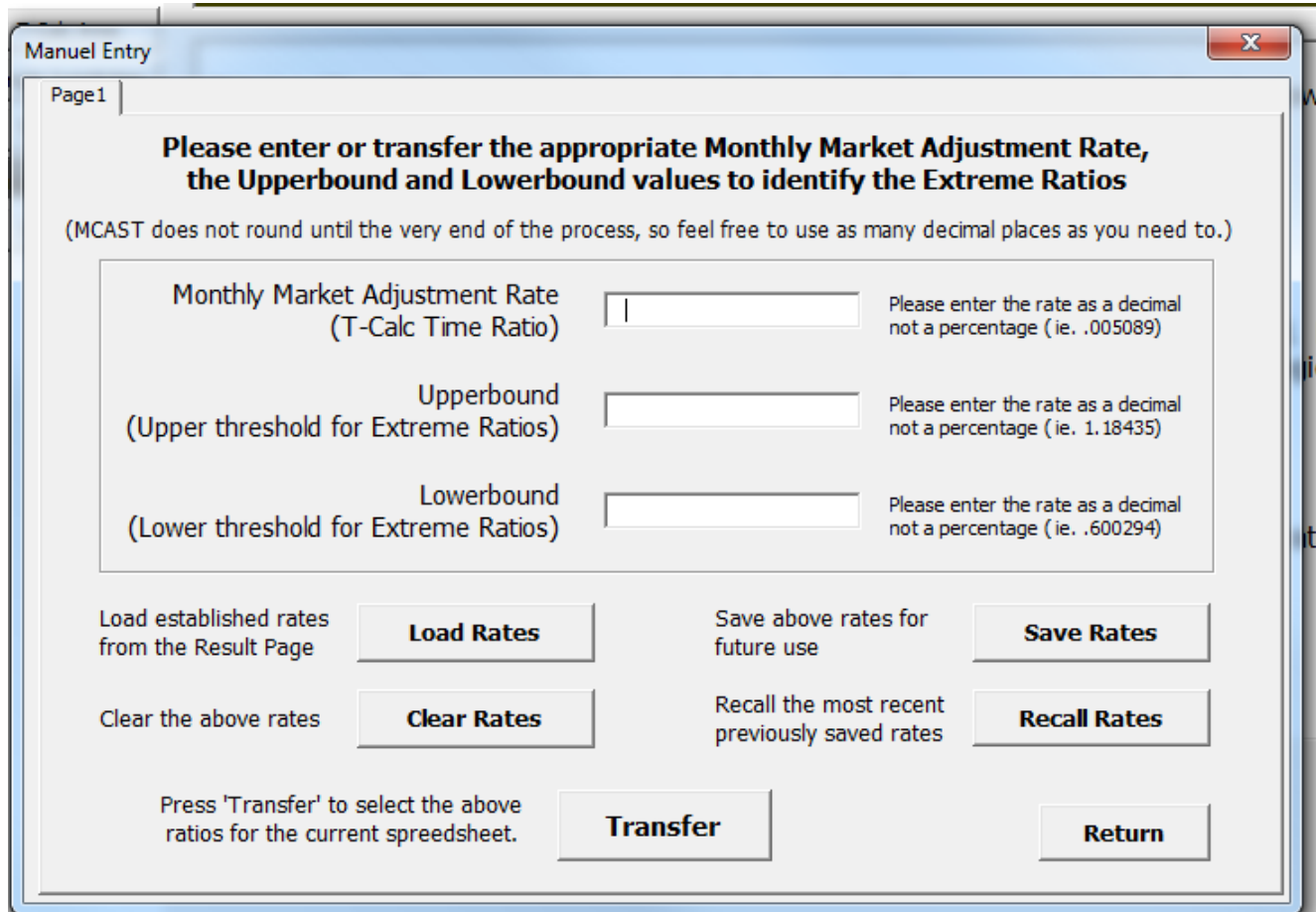
MCAST v2.0

Statistics with and without extreme ratios



MCAST v2.0

Enter your own trends and extreme ratio bounds



Manuel Entry

Page1

Please enter or transfer the appropriate Monthly Market Adjustment Rate, the Upperbound and Lowerbound values to identify the Extreme Ratios

(MCAST does not round until the very end of the process, so feel free to use as many decimal places as you need to.)

Monthly Market Adjustment Rate (T-Calc Time Ratio)	<input type="text"/>	Please enter the rate as a decimal not a percentage (ie. .005089)
Upperbound (Upper threshold for Extreme Ratios)	<input type="text"/>	Please enter the rate as a decimal not a percentage (ie. 1.18435)
Lowerbound (Lower threshold for Extreme Ratios)	<input type="text"/>	Please enter the rate as a decimal not a percentage (ie. .600294)

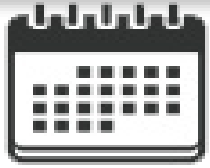
Load established rates from the Result Page **Load Rates** Save above rates for future use **Save Rates**

Clear the above rates **Clear Rates** Recall the most recent previously saved rates **Recall Rates**

Press 'Transfer' to select the above ratios for the current spreadsheet. **Transfer** **Return**

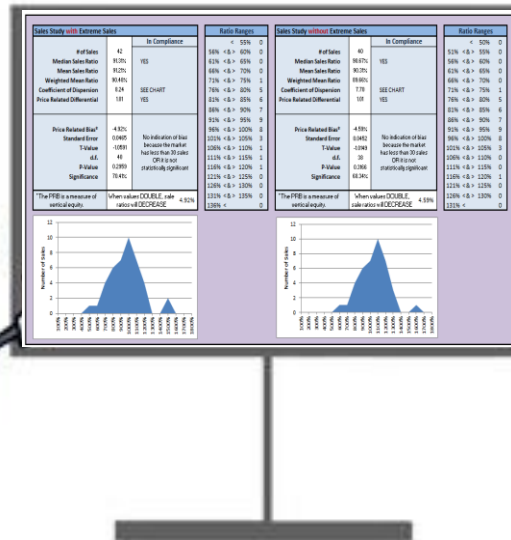
MCAST v2.0

- **The MCAST is a tool.**
 - It has been developed to be extremely close to, if not exact, but it is not meant to replace the DOR study. If the results of the MCAST do not match DOR results, DOR results will be considered correct and final.
- MCAST training
- PACE Sales Ratio



Agenda

System walkthrough and live demonstrations



Sadie Dietrich, Gretchen Buechler, Dell Sanko, and Jason McCaslin

Jackson County

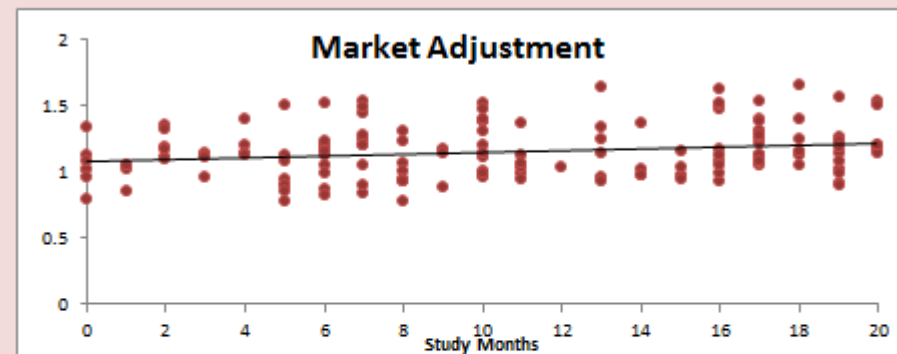
MCAST PRESENTATION

HOW DID MCAST HELP ME?

- × Jackson County has 1 Residential Time Adjustment Region
 - + Works fine when everything is consistent
 - + The problem lies when one of my jurisdictions behaves differently than the others

Market Conditions (T-Calc Statistics)

Intercept Year	2013	
Sale Count	149	
Slope	0.0065	
P-Value	0.4%	
Significance	99.58%	
Monthly Trend	0.65%	
Annual Trend	8.10%	
Applied Trend	8.10%	A market condition adjustment trend will be applied.



Assessment Statistics -- With -- Market Condition Adjustment Applied

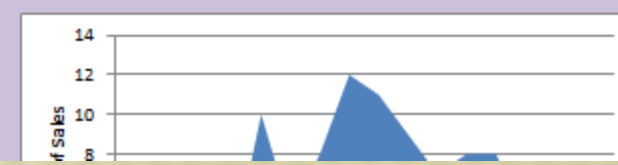
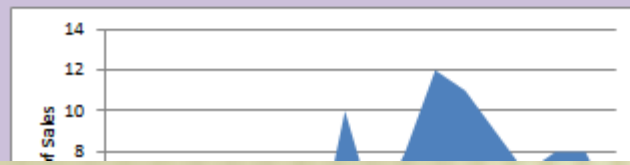
All assessment statistics will apply because there are enough sales in the 12 month study.

Sales Study with Extreme Sales		In Compliance
# of Sales	93	NO
Median Sales Ratio	89.02%	
Mean Sales Ratio	90.50%	
Weighted Mean Ratio	87.98%	
Coefficient of Dispersion	16.03	
Price Related Differential	1.03	
Price Related Bias*	-3.30%	SEE CHART YES
Standard Error	0.0300	
T-Value	-1.0992	
d.f.	91	
P-Value	0.2746	
Significance	72.54%	
*The PRB is a measure of vertical equity.		When values DOUBLE, sale ratios will DECREASE 3.30%

Ratio Ranges		
<	35%	0
36% <& >	40%	0
41% <& >	45%	1
46% <& >	50%	0
51% <& >	55%	0
56% <& >	60%	0
61% <& >	65%	4
66% <& >	70%	9
71% <& >	75%	5
76% <& >	80%	8
81% <& >	85%	10
86% <& >	90%	11
91% <& >	95%	13
96% <& >	100%	10
101% <& >	105%	6
106% <& >	110%	10
111% <& >	115%	1
116% <		0

Sales Study without Extreme Sales		In Compliance
# of Sales	87	NO
Median Sales Ratio	88.82%	
Mean Sales Ratio	87.46%	
Weighted Mean Ratio	86.29%	
Coefficient of Dispersion	12.41	
Price Related Differential	1.01	
Price Related Bias*	-0.35%	SEE CHART YES
Standard Error	0.0198	
T-Value	-0.1790	
d.f.	85	
P-Value	0.8583	
Significance	14.17%	
*The PRB is a measure of vertical equity.		When values DOUBLE, sale ratios will DECREASE 0.35%

Ratio Ranges		
<	40%	0
41% <& >	45%	0
46% <& >	50%	0
51% <& >	55%	0
56% <& >	60%	0
61% <& >	65%	4
66% <& >	70%	9
71% <& >	75%	5
76% <& >	80%	8
81% <& >	85%	10
86% <& >	90%	11
91% <& >	95%	13
96% <& >	100%	10
101% <& >	105%	6
106% <& >	110%	10
111% <& >	115%	1
116% <& >	120%	0
121% <		0

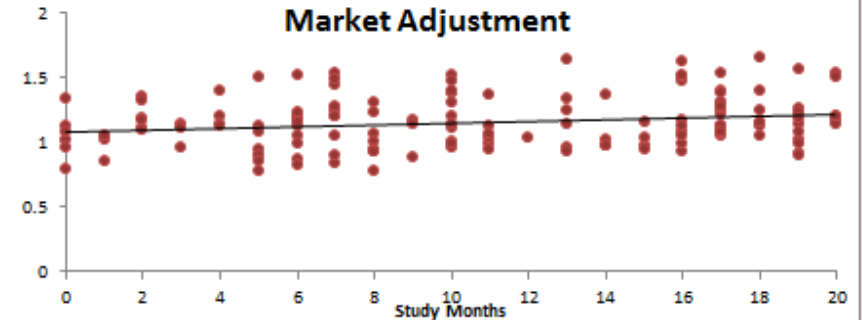


JACKSON COUNTY MCAST

Market Conditions (T-Calc Statistics)

Intercept Year	2013	
Sale Count	149	
Slope	0.0065	
P-value	0.4%	
Significance	99.58%	
Monthly Trend	0.65%	
Annual Trend	8.10%	
Applied Trend	8.10%	A market condition adjustment trend will be applied.

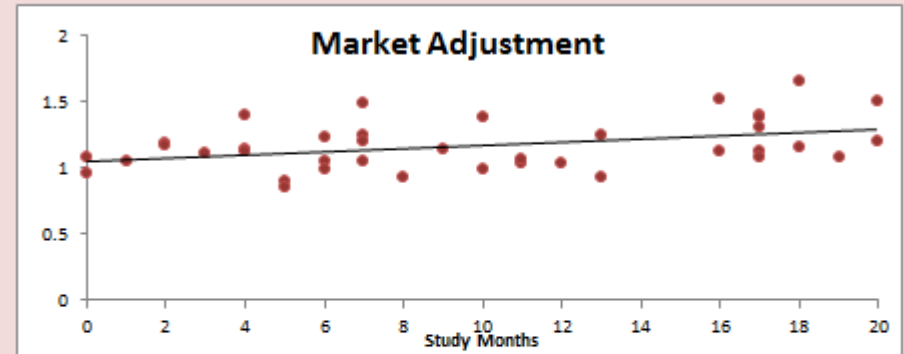
Market Adjustment



- × The trend is significant at 99.58%
- × Annual Trend of 8.10%

Market Conditions (T-Calc Statistics)

Intercept Year	2013	
Sale Count	39	
Slope	0.0099	
P-Value	1.3%	
Significance	98.74%	
Monthly Trend	0.99%	
Annual Trend	12.57%	
Applied Trend	12.57%	A market condition adjustment trend will be applied.



Assessment Statistics -- With -- Market Condition Adjustment Applied

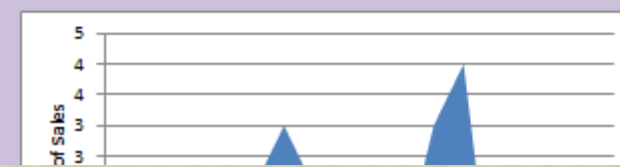
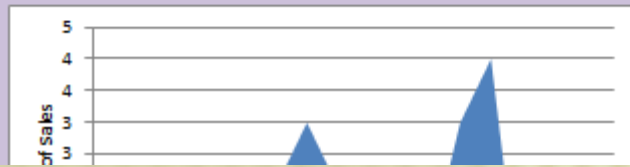
Median, mean, and weighted mean ratios will be applied because the region has more than 5 sales in 12 month study.
 PRD, PRB, and COD will not be applied because there is less than 30 sales in 12 month study

Sales Study with Extreme Sales		
		In Compliance
# of Sales	20	NO
Median Sales Ratio	87.87%	
Mean Sales Ratio	83.62%	
Weighted Mean Ratio	82.72%	
Coefficient of Dispersion	12.16	
Price Related Differential	1.01	SEE CHART
		YES
Price Related Bias*	-0.95%	No indication of bias because the market has less than 30 sales OR it is not statistically significant
Standard Error	0.0438	
T-Value	-0.2170	
d.f.	18	
P-Value	0.8306	
Significance	16.94%	
*The PRB is a measure of vertical equity.	When values DOUBLE, sale ratios will DECREASE	0.95%

Ratio Ranges	
< 45%	0
46% < & > 50%	0
51% < & > 55%	0
56% < & > 60%	0
61% < & > 65%	1
66% < & > 70%	3
71% < & > 75%	2
76% < & > 80%	2
81% < & > 85%	1
86% < & > 90%	3
91% < & > 95%	6
96% < & > 100%	0
101% < & > 105%	2
106% < & > 110%	0
111% < & > 115%	0
116% < & > 120%	0
121% < & > 125%	0
126% <	0

Sales Study without Extreme Sales		
		In Compliance
# of Sales	20	NO
Median Sales Ratio	87.87%	
Mean Sales Ratio	83.62%	
Weighted Mean Ratio	82.72%	
Coefficient of Dispersion	12.16	
Price Related Differential	1.01	SEE CHART
		YES
Price Related Bias*	-0.95%	No indication of bias because the market has less than 30 sales OR it is not statistically significant
Standard Error	0.0438	
T-Value	-0.2170	
d.f.	18	
P-Value	0.8306	
Significance	16.94%	
*The PRB is a measure of vertical equity.	When values DOUBLE, sale ratios will DECREASE	0.95%

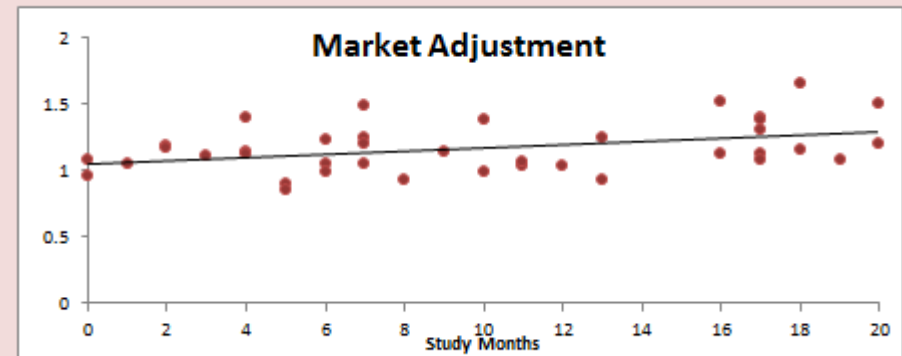
Ratio Ranges	
< 40%	0
41% < & > 45%	0
46% < & > 50%	0
51% < & > 55%	0
56% < & > 60%	0
61% < & > 65%	1
66% < & > 70%	3
71% < & > 75%	2
76% < & > 80%	2
81% < & > 85%	1
86% < & > 90%	3
91% < & > 95%	6
96% < & > 100%	0
101% < & > 105%	2
106% < & > 110%	0
111% < & > 115%	0
116% < & > 120%	0
121% <	0



CITY OF LAKEFIELD

Market Conditions (T-Calc Statistics)

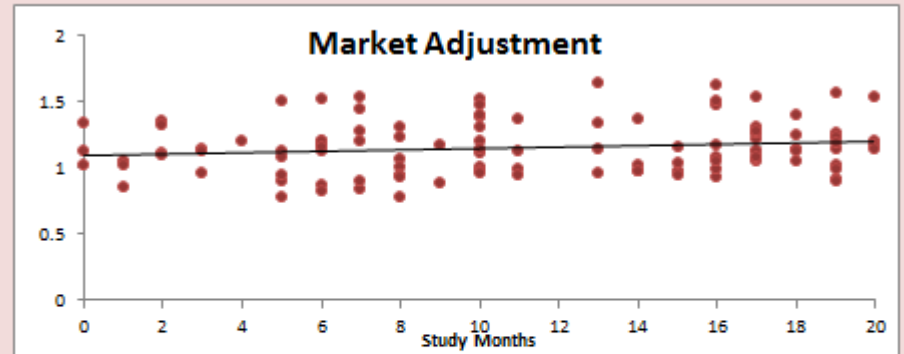
Intercept Year	2013	
Sale Count	39	
Slope	0.0099	
P-Value	1.3%	
Significance	98.74%	
Monthly Trend	0.99%	
Annual Trend	12.57%	
Applied Trend	12.57%	A market condition adjustment trend will be applied.



- ✘ The City of Lakefield's trend is significantly higher than the remainder of the county.
- ✘ The trend is also significant at 98.74%
- ✘ Annual Trend of 12.57%

Market Conditions (T-Calc Statistics)

Intercept Year	2013	
Sale Count	109	
Slope	0.0046	
P-Value	9.8%	
Significance	90.23%	
Monthly Trend	0.46%	
Annual Trend	5.67%	
Applied Trend	5.67%	A market condition adjustment trend will be applied.



Assessment Statistics -- With -- Market Condition Adjustment Applied

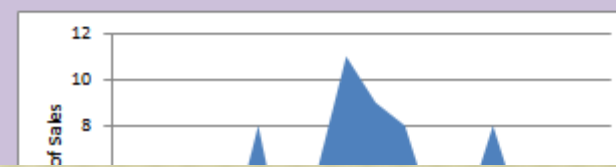
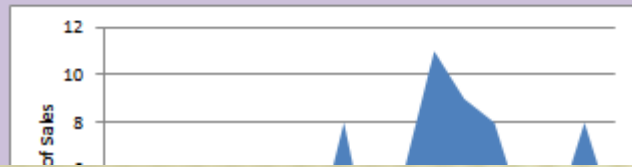
All assessment statistics will apply because there are enough sales in the 12 month study.

Sales Study with Extreme Sales		
		In Compliance
# of Sales	73	
Median Sales Ratio	90.74%	YES
Mean Sales Ratio	93.21%	
Weighted Mean Ratio	89.97%	
Coefficient of Dispersion	16.91	SEE CHART
Price Related Differential	1.04	NO
Price Related Bias*	-4.99%	No indication of bias because the market has less than 30 sales OR it is not statistically significant
Standard Error	0.0365	
T-Value	-1.3698	
d.f.	71	
P-Value	0.1751	
Significance	82.49%	
*The PRB is a measure of vertical equity.	When values DOUBLE, sale ratios will DECREASE	4.99%

Ratio Ranges		
< 35%	0	
36% < & > 40%	0	
41% < & > 45%	1	
46% < & > 50%	0	
51% < & > 55%	0	
56% < & > 60%	0	
61% < & > 65%	2	
66% < & > 70%	4	
71% < & > 75%	6	
76% < & > 80%	6	
81% < & > 85%	5	
86% < & > 90%	12	
91% < & > 95%	11	
96% < & > 100%	4	
101% < & > 105%	6	
106% < & > 110%	8	
111% < & > 115%	3	
116% <	0	

Sales Study without Extreme Sales		
		In Compliance
# of Sales	67	
Median Sales Ratio	89.84%	YES
Mean Sales Ratio	89.30%	
Weighted Mean Ratio	87.93%	
Coefficient of Dispersion	12.35	SEE CHART
Price Related Differential	1.02	YES
Price Related Bias*	-0.68%	No indication of bias because the market has less than 30 sales OR it is not statistically significant
Standard Error	0.0233	
T-Value	-0.2910	
d.f.	65	
P-Value	0.7720	
Significance	22.80%	
*The PRB is a measure of vertical equity.	When values DOUBLE, sale ratios will DECREASE	0.68%

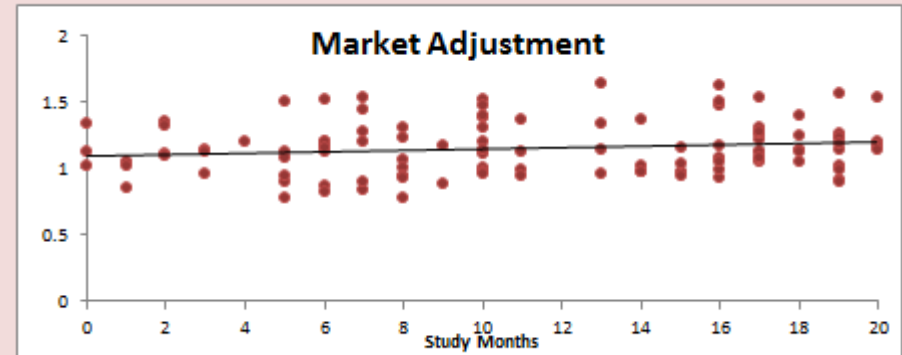
Ratio Ranges		
< 40%	0	
41% < & > 45%	0	
46% < & > 50%	0	
51% < & > 55%	0	
56% < & > 60%	0	
61% < & > 65%	2	
66% < & > 70%	4	
71% < & > 75%	6	
76% < & > 80%	6	
81% < & > 85%	5	
86% < & > 90%	12	
91% < & > 95%	11	
96% < & > 100%	4	
101% < & > 105%	6	
106% < & > 110%	8	
111% < & > 115%	3	
116% < & > 120%	0	
121% <	0	



BALANCE OF JACKSON COUNTY

Market Conditions (T-Calc Statistics)

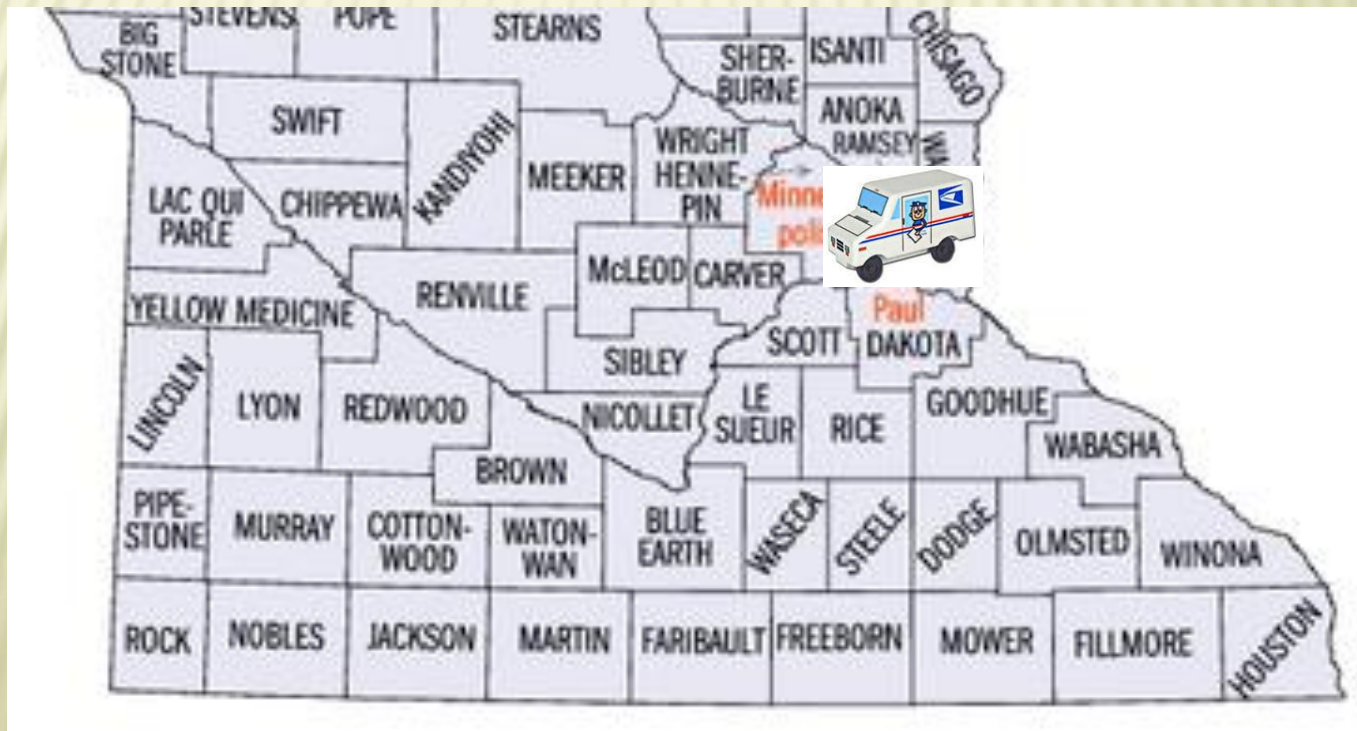
Intercept Year	2013	
Sale Count	109	
Slope	0.0046	
P-Value	9.8%	
Significance	90.23%	
Monthly Trend	0.46%	
Annual Trend	5.67%	
Applied Trend	5.67%	A market condition adjustment trend will be applied.



- ✘ The Balance of Jackson County's trend is also significant at 90.23%
- ✘ Annual Trend of 5.67%

APPEAL OF TIME ADJUSTMENT

- × Observing the large discrepancy between the City of Lakefield and the Balance of Jackson County, I appealed the time adjustment.



CONTENTS OF APPEAL

- × When I submitted my appeal I included...
 - + A detailed explanation of what I had observed
 - + Copies of the data to support my observations
 - + A detailed explanation of what I felt was the most appropriate route to address the discrepancies

TIME TREND REGION APPEAL

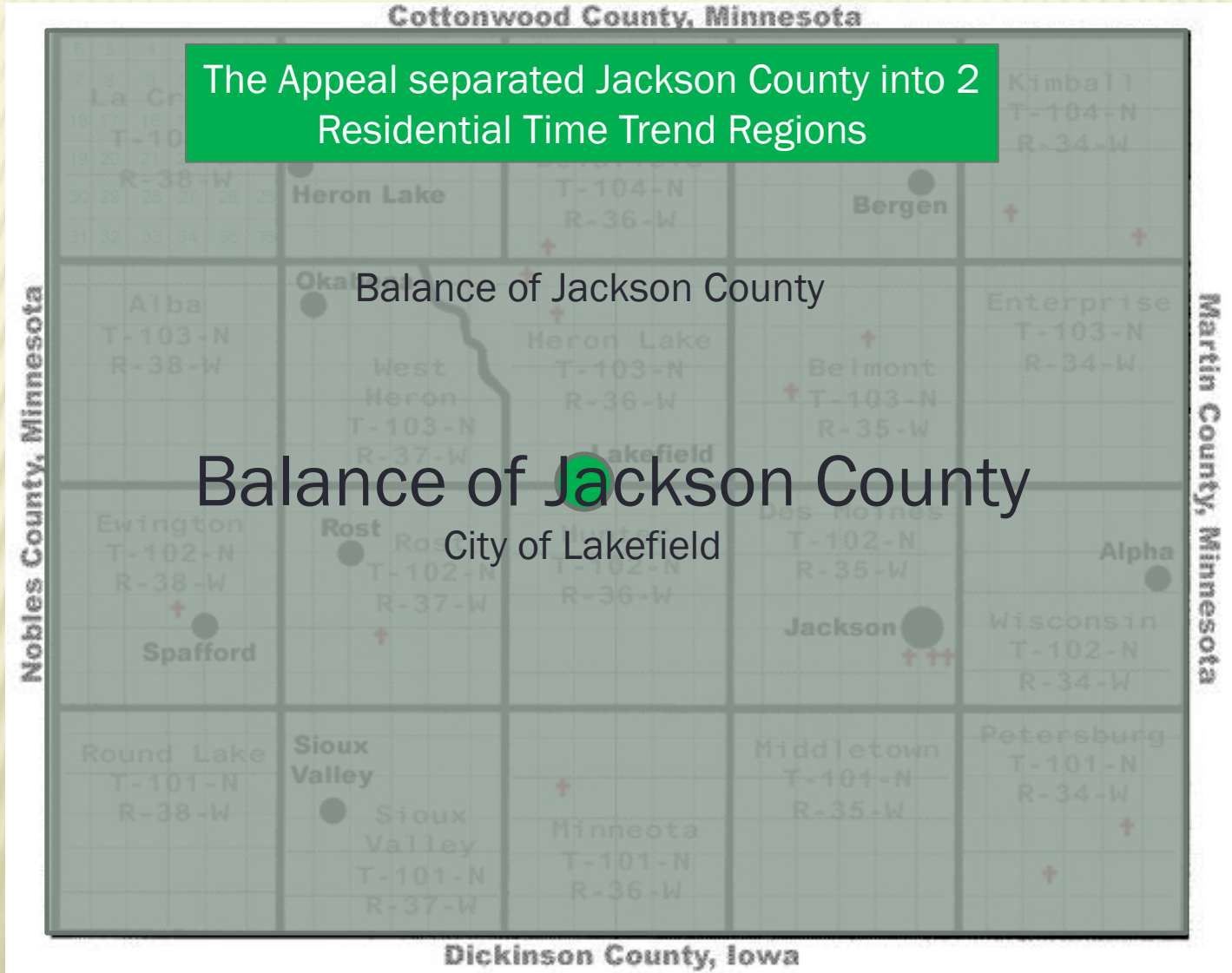
This is my formal appeal of the application of the time trend in Jackson County. Below I will detail the jurisdictions and my rationale for the appeal.

I am appealing the residential time trend for Property Type 91. Attached are several MCAST sheets illustrating the effects of the City of Lakefield and the rest of Jackson County. The residential market in Lakefield has inflated at a much higher rate than the rest of Jackson County during the study period which needs to be addressed. While most of the individual jurisdictions are unable to develop a significant trend on their own, the influence of Lakefield does not reflect the market activity in the remainder of Jackson County. When the City of Lakefield is excluded from the analysis, the Balance of Jackson County develops a trend more reflective of the level of inflation the rest of the county is observing. As Lakefield has a significant trend on their own, which varies drastically from the rest of the county, it does not seem appropriate to allow the Lakefield sales to influence the remainder of the county. An appropriate application of the time trend in my mind would be to allow Lakefield to stand on their own with their significant trend and have the remainder of Jackson County (excluding the Lakefield sales) to carry a separate trend. The trends I am appealing to are: City of Lakefield - 12.57% Annual and the Balance of Jackson County - 5.67% Annual.

I am also appealing the agricultural time trend for Property Type 93. Attached you will notice Jackson County's MCAST illustrating a relatively flat market during the study period. The trend generated by the sale activity during the 21 month study period indicates an inflating market (insignificant with 22 sales in the study period). The application of the regional time trend will cause the time adjusted median ratio to increase to a point which will require a larger adjustment to the agricultural land which may not be warranted based on the limited selection of sales I have available. I do not believe the trend indicated by the insignificant data in the MCAST offers an accurate picture of the agricultural market in Jackson County either. I am appealing the time trend to a range of 0% to -2% Annual based on the conflicting data between Jackson County and the Region. I feel there is a deflating market, but I do not think it is as aggressive as the remainder of the Southern Region 2 Ag Region.

If you have any questions, please contact me and I can provide any additional information you require.

THE APPEAL WAS GRANTED



WITHOUT MCAST

- × The time it would have taken to break down each jurisdiction would have taken a substantial amount of time.
- × Due to time constraints, would I have been able to dedicate the necessary amount of time to see the discrepancies between the jurisdictions?
 - + Seeing the significant countywide trend, would I have taken the time to break them down to the point I did?

QUESTIONS FOR JASON?

× Questions?

× Preview of 2015 Fall Conference
Seminar

99

10.86

PRB

Michael Thompson

PRD

104

Dell Sanko

Time Adjustments

Sadie Dietrich

Have you ever had a sales call that felt like a business issue in your assessment or how to fix it?
What does that mean?!

Tom Reineke

105.86%

Mean Ratio

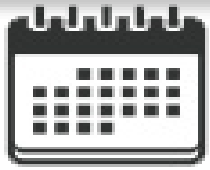
Median Ratio

Jason McCaslin

Significance

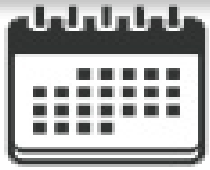
93.10%

14.92



Agenda

- ✓ Sale Verification Overview – Basics and Best Practices
- ✓ Access Database for Sales Verification
- ✓ 2015 Sales Ratio Study Criteria Update
- ✓ MCAST – Overview and Real World Case Studies
- ✓ **Commercial and Industrial Verification Problems**



Agenda

✓ Commercial and Industrial Verification Problems

- ✓ Rights in Real Property
- ✓ Economic Interest in Real Estate
- ✓ Personal Property
- ✓ Intangibles

At Issue or Not At Issue?

Present or Not Present?

Adjust or Not to Adjust?



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C240

How To Be Certain We are Estimating the Value of the Fee Simple Interest

- Carefully Consider the Definition of Value
- Carefully analyze the market to determine current market conditions and metrics
- Carefully choose comparables
- Carefully adjust comparable sales to reflect the market on the date of valuation



Interests in Real Property

- Fee Simple – Includes all the property rights not held/retained by Government
- Leased Fee – A Partial Interest where the owner has granted a third party one or more of the rights to the property.



LEASEHOLD VS FREEHOLD

Economic Interests created by a Lease



- **Leased Fee Interest**
 - The right held by the lessor, or landlord, including the right of use and occupancy conveyed by lease to others.
- **Leasehold interest:**
 - The right held by the lessee to use and occupy the real estate for a stated term and under the conditions specified in the lease.
- **Sub-leasehold interest:**
 - Created by an agreement in which the lessee in the prior lease conveys the right of use and occupancy of the property to another, the sub-lessee, for a specified period of time.

Considerations of Fee Simple



- “When the fee simple interest is valued, the presumption is that the property is available to be leased at market rates....A lease never increases the market value of real property rights to the fee simple estate. Any potential value increment in excess of a fee simple estate is attributable to the particular lease contract”. The Appraisal of Real Estate, 14th Ed., Chapter 21: *The Income Capitalization Approach*, p. 441
- “To a certain extent, the interest being appraised determines how rents are analyzed and estimated. The valuation of fee simple interests in income-producing real estate is based on the market rent the property is capable of generating. The Appraisal of Real Estate, 14th Ed., Chapter 21: *Income and Expense Analysis*, p. 467

Rights in Real Property

- Occupy and use the property
- Sell the property in whole or in part
- Bequeath the property
- Mortgage the property
- Transfer or lease the property
- Build improvements upon the property
 - (subject to government restrictions)
- Do Nothing



Apparently the first use of the term “Leased Fee” in the Tax Court was in the TMG Life Ins. Co. V. Goodhue Co. case in 1994, Here Tax Court (Judge Gustafson) said:

- The fundamental disagreement between the parties is what interest should be valued for tax purposes, the fee, or the **leased fee** interest?
- The fee is the entire interest or the entire “bundle of rights.”
- According to the bundle of rights theory, complete real property ownership, or *title in fee*, consists of a group of distinct rights. Each of these rights can be separated from the bundle and conveyed by the fee owner to other parties in perpetuity or for a limited time period. When a right is separated from the bundle and transferred or mortgaged, a partial, or fractional, property interest is created. (Footnote omitted.)
- Appraisers must understand partial interests to define appraisal problems. *At the start of any appraisal assignment, the property rights to be valued must be clearly identified.* (Emphasis supplied.) American Inst. of Real Estate Appraisers, *The Appraisal of Real Estate* 121 (10th ed. 1992).
- Petitioner called N. Craig Johnson, MAI, as its expert appraisal witness. Mr. Johnson had earlier appraised the “asset value” of the property for Petitioner and he used this appraisal at trial as the basis for his opinion that the property had a market value of \$415,000. It is clear from his testimony that this was a valuation of the owner's “**leased fee**” interest, not the fee simple interest free of encumbrances.¹

Apparently the first use of the term “Leased Fee” in the Tax Court was in the TMG Life Ins. Co. V. Goodhue Co. case in 1994, Here Tax Court (Judge Gustafson) said:

- The task of the assessor is to value the full market value of the entire fee interest of property for taxation. The property may be divided into different interests and estates and the tax payment obligation may be divided by contract between owner and lessee, but the assessor values the whole, not the separate parts. *Osborne Properties v. County of Hennepin*, File No. TC-2748 (Minn.Tax Ct. Feb. 16, 1984); *Hillcrest Development v. County of Hennepin*, File No. TC-2208 (Minn.Tax Ct. Sept. 5, 1984); and *Jermyn v. County of Stearns*, File No. 44347 (Minn.Tax Ct. Dec. 12, 1984).
- The subject property is being leased to the J.C. Penney Company for less than market rents. This lowers the value of the **leased fee** but raises the value of the leasehold estate. **The assessor and this Court must value the property by assuming normal market rents and must ignore the actual rents under the lease unless they happen to correspond with market rents.**
- Bradford Johnson, the Goodhue County Assessor, appraised the subject property and testified at trial as the Respondent's expert witness. He used the three approaches to value, cost, income and sales comparison approaches, and gave the income approach the greatest weight. In his opinion, the market value was \$755,000, slightly higher than the EMV of \$740,600.
- *3 Based on the record before us, we are affirming the EMV of \$740,600.

***Leased Fee – Fee Simple Discussion by Judge Ramstad File
No. 30776 IRET v Hennepin 8-25-2005 Redacted***

- ...We agree with the experts that the leased fee value of the Subject Property was not reflective of market value at the time of sale and that the April 2002 sale of the Subject Property was a leased fee sale. While both experts are credible on this issue, we find Mr. Leirness' reasoning to be more persuasive and that several detailed adjustments are necessary in determining the fee simple value of the Subject Property at the time of sale. Based upon the circumstances, we are not convinced that the sale is the best indicator of value at the time of assessment even after the sale price is adjusted to approximate the fee simple value because it was not an arm's length transaction. The buyer and seller in the April 2002 transaction were related parties, with Mr. Hoyt serving on Petitioner's Board of Trustees at the time of the sale. Moreover, Mr. Hoyt also leased office space in the Subject Property as part of the sale, and his company managed the property for the buyer after the sale and to the date of trial.
- We are not convinced by Respondent's argument that the fact that Petitioner reported in its SEC filings that it purchased the Subject Property in 2002 for \$8.6 million based on an independent third-party appraisal means that \$8.6 million is the fee simple value.
- Petitioner reported the transaction in its SEC filings pursuant to SEC rules requiring the disclosure of related-party transactions. However, the appraisal was obtained to satisfy Petitioner's own internal requirements rather than to satisfy SEC rules, and the SEC filings do not state that \$8.6 million was the fee simple value of the Subject Property. In fact, Mr. Bennett refers to this as an "analysis" rather than an appraisal because the authors were neither licensed appraisers nor independent, and they had an interest in the outcome of their analysis.

Indiana has Made Vacant Stores off Limits as Comps for Big Boxes

- May 6, 2015 law retroactive to 2014 assessement.
- Under a law passed unanimously by the Indiana General Assembly and signed by the Governor on May 6, 2015 Big box retailers (single tenant property over 50,000 GBA and less than ten years old) won't be able to use the sale of a closed store as a comp for an appeal on an operating facility
- Mandates use of cost approach by assessors and requires petitioners to provides actual costs of all buildings less than ten years old.
- Reverses a decision last year where the Indiana Board of Tax Review ruled for Meijer and Kohl's in their appeals of property tax bills for stores in Howard and Marion counties.

- Form Codes Reasons for Rejection
- 01 Old sales outside of the 21-month study period (Do not exclude sales within the 21-month study period)
- 02 Relative sale - Related business
- 03 Government or exempt party sales
- 04 Partial interest sale
- 05 Use change (change of legal property class)
- 06 Unusual financing; Non-cash financing; Income guarantees
- 07 Physical change (after assessment date; before sale)
- 08 Correction deed, not an actual sale
- 09 Trade; Gift; or Estate sale not exposed to open market
- 10 Prior interest sale, such as lease with option to buy
- 11 Skipped CRV #
- 12 Unique reject reason that Department of Revenue Regional Representative must authorize
- 13 Duplicate CRV; Buyer and seller file certificate for same parcel, used in Dept of Revenue duplicate edit
- 14 Sale of interest in or payoff of contract; Mortgage assumption
- 15 Forced sale; Legal action; Foreclosure; Short sale;
- 16 Assessor value for sale year not available or split not agricultural or timber classes
- 17 Excessive non-real property
- 18 Rewrite of terms; Default on CD
- 19 Relocation; Employee transfer
- 20 Sale - Leaseback property leased back to seller, for more than 6 months
- 21 Bank sale (including HUD sales), and lending institution sales not exposed to the market
- 22 Less than minimum down payment with CD longer than 1 year
- 23 Sale under minimum dollar amount - 3,000 minimum for bare land sales - 10,000 minimum for all other property
- 24 Sale of properties in more than one county
- 25 Ag preserve; Sales subject to minimum assessment agreement
- 26 Not typical market
- 27 Court ordered value
- 28 Nursing home - Mobile home park
- 29 Allocated sale price
- 30 Assessor's value restricted by plat law; First year only
- 31 Assemblage

General Property Classes

- Real Property



Includes Fixtures - Items that have been installed or attached to the land or building in a permanent manner-(plumbing, lighting, heating).

- Personal Property

Movable items of property that are not permanently affixed to, or part of, the real estate.



- Intangible property or assets

Those assets that are not tangible real property, tangible personal property , or financial assets. An intangible is something that is not material, not corporeal, not substantially real.

Challenges

- Old leases with terms no longer at market
- Changing market conditions
- Lack of comparable sale, lease, and expense data
- Incomplete or inaccurate data on available comparable data
- Many property sales are of the Leased Fee Interest, but in many instances this sale price is equal to the value of the Fee Simple Interest.



MN Tax Court, Kmart, 2001

“We are charged with determining market value for the subject property on a fee simple basis.”

“...standards require an appraiser to examine the terms of the leases of comparables to find out whether the leases were above, below, or at market. Leases that are either above or below market must be adjusted ...in order to obtain a fee simple comparison basis.”



Income Approach & Property Rights



“When the fee simple interest is valued, the presumption is that the property is available to be leased at market rates....A lease never increases the market value of real property rights to the fee simple estate. Any potential value increment in excess of a fee simple estate is attributable to the particular lease contract”.

The Appraisal of Real Estate, 14th Ed., Chapter 21: The Income Capitalization Approach, p. 441

Above Market Lease – What to Do?



One Approach... Use a Loaded Vacancy/Credit Allowance Technique

- Market participant interviews are useful for typical situations but not as useful with non-typical situations.
- Often loading the vacancy and collection allowance for the risk of default or not renewing (whether using a direct cap or a discounted cash flow with two different V & C rates) is easier to quantify.
- A benefit of using the vacancy and collection allowance adjustment is that it lends itself to (with a lower rate) analyzing below market rents with the same methodology and allows the use of market based discount and capitalization rates since most sales in which most of the rent is not from credit tenants have rents relatively near market levels for that property.
It is likely that if there is under 3 years on the above market lease (different story with credit-rated tenants) that the transactions indicate there is little if any premium for the above market rent .

Sale/Comp Verification Questions



Market Approach

- Did the sale (or purchase) include an existing lease?
- Did the buyer have a prior interest in the property or with the seller?
- What was the condition of the property at time of sale or valuation?
- Did the sale include any seller provided or assumed financing?

Income Approach

- What are the existing lease terms?
- When were they negotiated?
- Do you consider them to be market terms today?
- How did your purchase proforma treat tenant improvements, capital items and commissions?
- How did you treat property tax expense?

Mn Sales Ratio Study

Criteria – Reject Code 17



Non-assessed and significant or unknown non-realty sales including:

- Sales in which a significant, but unknown portion of the total price is non-realty, such as personal property, business value, franchise fees, etc.
- Sales in which there is a significant, known amount (50% or more) of non-realty included in the sale price, such as personal property, franchise fees, etc. If the sale includes a large but well-documented non-realty portion, it may be used in the sales ratio study.
- Sales of non-assessed property such as cemetery lots.

What Does the 2013 IAAO Ratio Standard Say?



A.5.3 Adjustments for Personal Property

- Sales screening includes determining the contributory value of any significant personal property included in the sale. Personal property includes such tangibles as machinery, furniture, and inventories and such intangibles as franchises, licenses, and non-compete agreements.
- Ordinarily, it is not necessary to consider goodwill, going-concern value, business enterprise value, or the like, unless the value of these intangible assets has been itemized in a sales contract or a formal appraisal has been prepared by either party.
- It is necessary to decide whether each item included in the sale should be classified as real or personal property.

(See *Standard on Valuation of Personal Property [IAAO 2005]*, which provides guidance on classification of property as real or personal.)

More from IAAO (A.5.3- 2013 Ratio Standard)

- Sale prices should be adjusted by subtracting the contributory value of personal property received by the buyer.
- Ordinary window treatments, outdated models of freestanding appliances, and common-grade used furniture included with residential property **do not usually influence the sale price** of real property and do not require an adjustment unless the items were specifically broken out in the contract as personal property included in the sale price.
- If the value of personal property appears to be substantial (10 percent for residential, 25 percent for commercial)*, the sale should be excluded as a valid sale in statistical analysis unless the sample size is small.
- **Note: MN Ratio Guide sets PP limit at 50% for MN ratio sales study.*

Types of Personal Property

- **Residential Property Examples*:**

Appliances

Window Treatments

Furniture and furnishings not built into the structure



*Determine if listed on separate Bill of Sale

- **Commercial Property Examples:**

Inventory

Restaurant Equipment

Trade Fixtures

Business Equipment

Pollution Control Equipment



Real or Personal?



CRV Deductions for Personal Property

Allowed Personal property

- Above ground pool
- Boats and docks
- Crops
- Display cases
- Drapes
- Free standing appliances
- Fireplace equipment
- Farm machinery
- Furniture
- Fuel tanks
- Garden equipment
- Portable dehumidifiers
- Portable humidifiers
- Swing set
- Signs for commercial enterprises
- Shelves
- Satellite Dishes
- Trash compactor
- Throw or area rugs
- Television
- Window air conditioner

CRV Deductions for Personal Property

NOT Allowed (fixtures)

- Awnings
- Attached grill or barbecue
- Attic fans - air cleaners
- Built-in appliances
- Built-in vacuum cleaners
- Central air conditioner
- Garbage disposal
- Gates and fences
- Garage door openers
- Installed carpeting (indoor-outdoor)
- Light fixtures
- Music/intercom system
- Solar panel
- Smoke or security detectors
- Screen or storm windows or doors
- Sun deck or porch
- Sheds or storage buildings
- Water Softener

Adjusting for Personal Property

- Adjust based on depreciated cost not RCN
- Adjust based on confirmation from both seller and buyer – be aware that their interests may differ (taxes)
- Be consistent
- Be fair
- Do not ever automatically accept PP value as reported on the CRV
- Consider what is typical

Sale Verification Questions

Intangibles

- Did the sale (or purchase) include any non real property assets?
- EG: Business lists, trademarks, patents, brands, franchise, non-compete agreements, others.
- Did your analysis of the value of the assets being sold or purchased include analysis of real and non-real assets?

Personal Property (IAAO Sales Ratio Standard)

- Was any personal property (such as furniture, equipment, machinery, livestock, crops, business franchise or inventory, etc.) included in the sale price? Yes No
- If yes, please describe

- Estimated value of all personal property items included in the sale price \$_____

Buyer

Seller

Sale Date

Sale Price

- personal property?
- special assessments?
- business value?

Financing

Are the buyer & seller related individuals/firms?

Was the property openly marketed?

- with whom?
- how long?
- original list price?
- was there other interest?

How was price arrived at?

Was there an appraisal? How much?

Fair market transaction, fair price?

Unique characteristics that affected price?

- environmental?
- condition?
- vacancy?

Condition of property

- does it need repairs?
- projected cost?

Did buyer have access to property income?

- income amounts=
- number of apartments & bedroom count
- rental rates at time of sale? (\$/SF, \$/month, \$/annually)
- rental rates now?
- vacancy?
- expenses?
- reserves included?

Intangibles

- Franchises Fees,
Contracts
- Patents, Trademarks
Copyright
- Permits, Entitlements
- Assembled Work Force
- Trade Name, Hotel
Flag,
- Market position of
Anchor Tenant
- Goodwill
- Customer Lists

Electronic Certificate of Real Estate Value

eCRV ID: **206402** **Ramsey County** Auditor ID:

Submit Date: **03/07/2014 4:27 PM** Accept Date:

Buyers Information

Organization name: Jade 950 LLC
Address: 8635 Quarles Rd. N., Maple Grove, MN 55311 US
Foreign address: No
Phone number: 612-889-2287 Email:
Comments: *** MN Revenue does not display SSN/Tax ID fields due to privacy. ***

Sellers Information

Organization name: PDQ FOOD STORES, INC.
Address: 7601 Discovery Lane, Middleton, WI 53562 US
Foreign address: No
Phone number: 608-836-3335 Email:
Comments: *** MN Revenue does not display SSN/Tax ID fields due to privacy. ***

Property Information

County: Ramsey

1-3

degrees, 22 minutes, West a distance of 140 feet; thence South 89 degrees, 8 minutes East a distance of 30 feet to the actual point of beginning.

Will use as primary residence: No
What is included in the sale: Land and Buildings
New construction: No

Property Address(es)

Property address: 950 West County Road D, New Brighton, 55112

Parcel ID(s)

Primary parcel ID: 323023340026
Additional parcel ID(s):

Use(s)

Planned type/use: Commercial / Auto/Truck Gas convenience store
Prior type/use: Commercial / Auto/Truck Gas convenience store

Sales Agreement Information

Agreement date: 03/05/2014
Purchase amount: \$650,000.00
Downpayment amount: \$50,000.00
Seller-paid amount: \$0.00
Special Assessments Paid by Buyer: \$0.00
Financing type: New Mortgage

Personal Property

Personal property included: Yes
Item: \$250,000.00 - Equipment
Personal Property Total Amount: \$250,000.00

Sales Agreement Questions

Buyer leased before sale: No
Seller leased after sale: No
Minimum rental income guaranteed: No
Contract payoff or deed resale: No
Like exchange (IRS section 1031): No
Lease option to buy: No
Partial interest indicator: No
Received in trade: No
Purchase over two years old: No

Supplementary Information

Buyer paid appraisal: Yes
Seller paid appraisal: No
Buyer and seller related: No
Government sale: No
Gift or inheritance: No
Buyer owns adjacent property: No
Public promotion: No
Significant different price paid: No
Comment on price difference:
Appraisal value: \$640,000.00
Appraisal value: \$0.00
Organization tax exempt: No
Foreclosed, condemned or legal proceedings: No
Name change: No

Submitter Information

Submit date: 03/07/2014 4:27:47 PM
Submitter: Roy Mahlberg
Organization: Land Title Inc
Email:
Phone number: 6516381900
Comments:

Terms Accepted by the Submitter: I declare under penalty of law that I have examined the information entered and submitted on this form, and, based on what I know and believe to be true, the information entered on this form is complete and correct.

MINNESOTA · REVENUE

Electronic Certificate of Real Estate Value

CRV ID: **224789** Ramsey County Auditor ID:

Submit Date: **05/27/2014 5:15 PM** Accept Date:

Buyers Information

Organization name: GPE LLC ✓
Address: 280 S. Beverly Dr., Suite 210, Beverly Hills, CA 90212 USA
Foreign address: Yes
Phone number: 3105524794 Email:
*** MN Revenue does not display SSN/Tax ID fields due to privacy. ***
Comments:

Sellers Information

Organization name: Grand Pre East, LLC
Address: 1700 E. Highway 36, Roseville, MN 55113 US
Foreign address: No
Phone number: 6513618941 Email:
*** MN Revenue does not display SSN/Tax ID fields due to privacy. ***
Comments:

Property Information

County: Ramsey
Legal description: Tract D, Registered Land Survey No. 270 ✓

Will use as primary residence: No
What is included in the sale: Land and Buildings
New construction: No

Property Location(s)

Property location: County Road B2 E, Viking Drive E, Little Canada, 55117

Parcel ID(s)

Primary parcel ID: 072922140128
Additional parcel ID(s):

Use(s)

Planned type/use: Apartment / Apartments (4 or more units)
Prior type/use: Apartment / Apartments (4 or more units)

Property Attributes and Programs

Rental buildings: 1 Rental units: 250

579776

Sales Agreement Information

Date of Deed or Contract: 05/29/2014
Purchase amount: \$19,450,000.00
Downpayment amount: \$0.00
Seller-paid amount: \$0.00
Special Assessments Paid by Buyer: \$0.00
Financing type: New Mortgage

Personal Property

Personal property included: Yes

Item: \$45,000.00 - Stock appliances and air conditioning units ✓
Item: \$125,000.00 - Common area furniture, fixtures, and equipment ✓
Item: \$30,000.00 - Maintenance, facilities, and custodial tools and equipment
Item: \$5,000.00 - Trash compactors
Item: \$300,000.00 - Unit appliances and air conditioning units ✓
Item: \$7,500.00 - Miscellaneous artwork
Item: \$35,000.00 - Management furniture, computers, and office equipment
Item: \$27,500.00 - Laundry equipment
Item: \$25,000.00 - Exercise and game room fixtures and equipment

Personal Property Total Amount: \$600,000.00

Sales Agreement Questions

Buyer leased before sale: No
Seller leased after sale: No
Minimum rental income guaranteed: No
Contract payoff or deed in lieu: No
Like exchange (IRS section 1031): Yes

Lease option to buy: No
Partial interest indicator: No
Received in trade: No
Purchase over two years old: No

Supplementary Information

Buyer paid appraisal: No
Seller paid appraisal: No
Buyer and seller related: No
Government sale: No
Gift or inheritance: No
Buyer owns adjacent property: No
Public promotion: Yes
Significant different price paid: No
Comment on price difference:

Appraisal value: \$0.00
Appraisal value: \$0.00
Organization tax exempt: No
Foreclosed, condemned or legal proceedings: No
Name change: No

Submitter Information

Submit date: 05/27/2014 5:15:21 PM
Submitter: Alex Sellke
Organization: Ravich Meyer
Email: asellke@ravichmeyer.com
Phone number: 6123174757
Comments:

Terms Accepted by the Submitter: I declare under penalty of law that I have examined the information entered and submitted on this form, and, based on what I know and believe to be true, the information entered on this form is complete and correct.

What's a Brand Worth?

Depends whom you ask. Two research firms, using less than scientific methods, often come up with different values. Here are most recent brand values for selected companies:

- **MILLWARD BROWN***
- **INTERBRAND†**



* For 12 months ending Dec. 2011
† For 12 months ending July 2011

Sources: Millward Brown; Interbrand
Graphic by Alberto Cervantes/
The Wall Street Journal

Trademarks / Flags



Top Brands



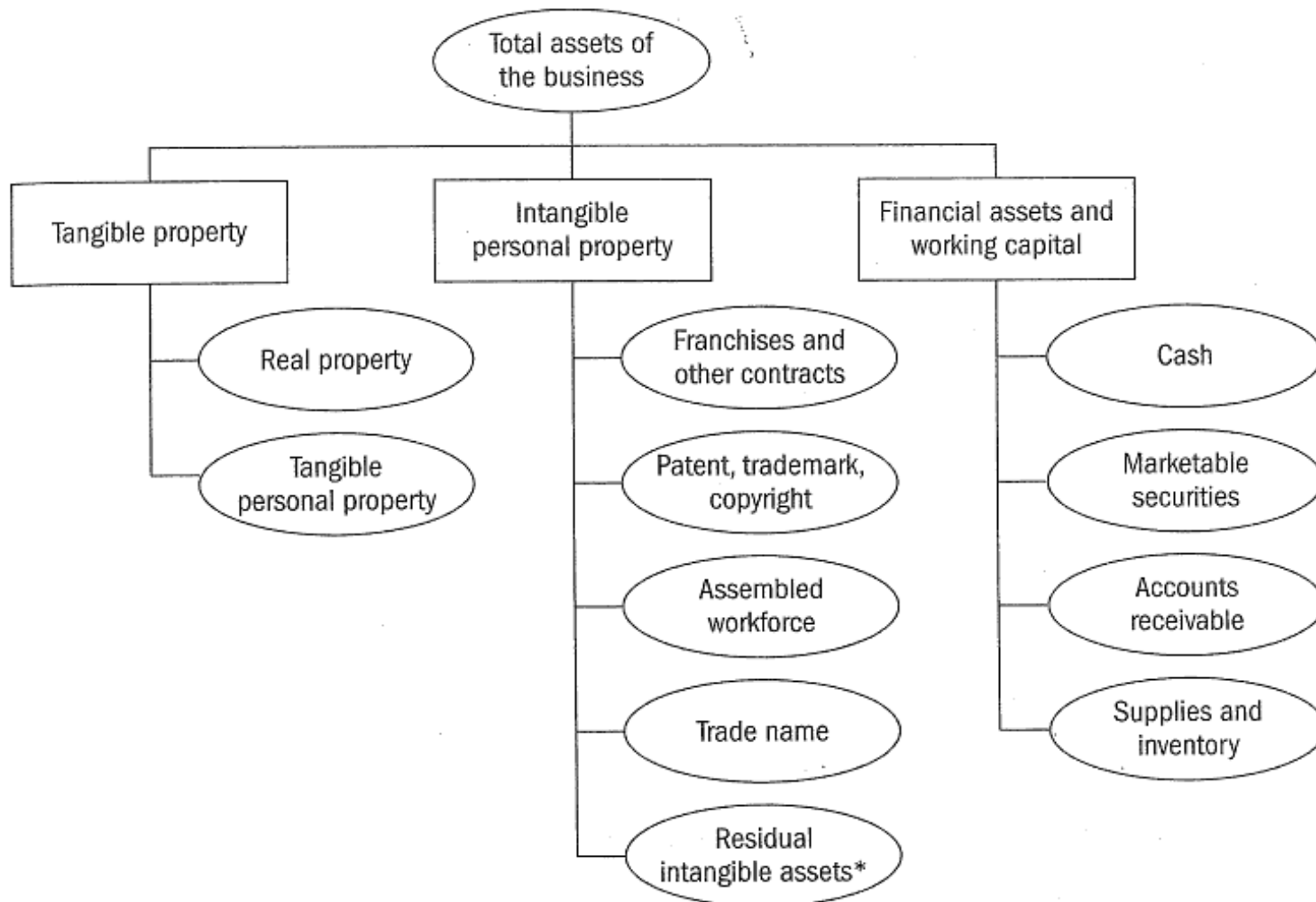
Trademark:

TM

Registered Trademark:

®

Figure 35.1 Components of the Total Assets of a Business in an Asset-Based Transaction



Note. Some appraisers consider supplies and inventory to be a subset of tangible personal property rather than a financial asset, which is also acceptable. In any case, the appraisal report must make it clear to the reader what assets are included in the valuation and how they are allocated.

* The earnings that an entrepreneur receives after all other agents of production have been paid (agents being capital, land, and labor, including management)

Terminology is Changing

OLD TERMINOLOGY

- Blue Sky
- Going Concern Value (GCV) – Total value of all
- Business operation assets
- Business Value (BV) – Intangible increment
- Real Estate (RE)
- Personal Property (PP) – FF&E, trade fixtures
- Intangible Assets (IA) – Liquor license, franchise,
- Hotel flag, superior management, workforce
- Goodwill – Accounting term for an intangible

NEW TERMINOLOGY

- Market Value Total Assets of the Business (MVTAB) - replaces Going Concern Value
- Business Enterprise Value (BEV) = Business Value
- Total Tangible Assets (TTA) = R.E. + P.P.
- Total Intangible Assets (TIA) = Identifiable Intangible Assets (IIA) + Residual Intangibles (RIA)
- RIA (Residual Intangibles) may include Capitalized Economic Profit (CEP)
- CEP definition, *A BEV Anthology, p. 164*, **not** in *The Dictionary of Real Estate Appraisal 13th or 14th*

Capitalized economic profit (CEP) - CEP from 12th Edition The Present Worth of an entrepreneur's economic (pure) profit expectation from being engaged in the activity of acquiring an asset or collection of assets at a known price and then selling or being able to sell the same asset or collection of assets at future uncertain price.

PROPERTY TYPES THAT ARE PROSPECTS FOR INTANGIBLES

- Restaurants
- Car Washes
- Hotels/Motels
- Health Care
- Shopping Malls? (Misc income, anchors)
- Special Purpose – Quarry, Landfill, Billboard
- Others????

CAPITALIZED ECONOMIC PROFIT (CEP)

- PV of “excess” profit
- Results from superior management or monopoly
- Innovation may generate superior profits (Apple)
- Typically, competition will drive down profit
- Perfect competition will allow only normal profit
- Perfect competition does not exist
- Monopoly and/or large corps diminish competition
- Difficult to measure excess profit in RE asset

EXTRACTING ECONOMIC PROFIT

- Reduce revenue (room rates, % rent)
- Deduct an expense for franchise fee, reservation system, advertising
- Deduct amortization expense(s)
- Deduct BV expense
- Increase cap rate (Why if R.E. is low risk?)
- One or more of the above
- Does the market consider/recognize?

How To Identify Potential for Presence of Intangibles

- The Income and Market Approaches indicate a value greater than the cost approach
- Services are offered at the property beyond rent for space
- The business at the property includes income primarily derived from sales of goods or services
- The business at the location includes franchises, trademarks, flags, assembled work force, or licenses.



**Don't cry because it's over.
Smile because it happened.**

--Dr. Seuss