

## *The Appraisal Process*

The Guadalupe Appraisal District uses what is commonly referred to as mass appraisal techniques in the valuation of property in the boundary of the Guadalupe Appraisal District. Mass appraisal is a widely accepted practice for the valuation of property for the purposes of ad valorem taxation. The same basic principles employed in an individual appraisal are used for mass appraisal, although their application is somewhat different, as mass appraisal applies to a universe of properties. Individual appraisals involve comparing a subject property to the sale of comparable properties. In mass appraisal, volumes of sales and cost information are processed by the district. This data is deciphered and classified to develop a base value for each property classification within the district. When this base value is then applied to a subject, and appropriately adjusted, a direct comparison can be made. For ad valorem tax purposes, the mass appraisal technique is used to create precise valuations at a relatively low cost per parcel.

The Guadalupe Appraisal District has approximately 620 neighborhoods. A neighborhood as defined by the I.A.A.O. is “1.) The environment of a subject property that has a direct and immediate impact on value. 2.) A geographic area (in which there are typically fewer than several thousand properties) defined for some useful purpose, such as to ensure for later multiple regression modeling that the properties are homogeneous and share important locational characteristics.” In some circumstances, a neighborhood may have the same boundaries as a subdivision. However, in some circumstances, a neighborhood may include several neighborhoods. Benchmark property classifications are developed based on the profile of the subdivision. Benchmark properties indicate what typically can be found with regard to all properties within the class, regardless of neighborhood they are found in.

Typically, there are three approaches to value employed in mass appraisal for ad valorem taxation, as follows:

- Cost Approach
- Income Approach
- Market Approach./Sales Comparison

All three approaches to value may be employed by an appraisal district to arrive at a value for the January 1<sup>st</sup> appraisal date. However, the quantity and quality of information available may eliminate an approach to value from consideration for particular classifications of property. For residential properties, the market and cost approach generally produce the most reliable results. Conversely, for income producing properties, the income approach may yield the most accurate result. The income approach to value correlates what a property can produce in income and the value or worth of the property. In order to reliably develop the income approach to value, a survey must be taken to validate income and expense data across a classification of property. The cost approach to value is based on the fundamental that a consumer would not pay more for a property than it would cost to build an equally comparable structure. The cost approach may be a reliable indication of value in terms of recent construction activity. The market approach to value is defined in terms of the market value as outlined in the Standard on Mass Appraisal of Real Property, I.A.A.O., as “The most probable price (in terms of money) which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- The buyer and seller are typically motivated;
- Both parties are well informed or well advised, and acting in what they consider their best interests;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto;

- The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

### **LAND**

Commonly accepted valuation techniques for land include the following:

- Sales Comparison
- Allocation
- Abstraction

Typically, the district uses the sales comparison or market approach to develop land values.

The Allocation method is used when there are not any sales of vacant land for comparison purposes. The fundamental premise to this method indicates that a portion of the overall value of a property may be assigned to the land component. In homogeneous neighborhoods, the component of land typically makes up 10-20% of the overall property value, based on historical research of the Guadalupe Appraisal District.

The Abstraction method can be employed on an improved property sale. This method takes the difference between the sales price and the RCN-D (replacement cost new less depreciation) of the structure.

### **IMPROVEMENTS**

The quality of construction will have a direct impact on the construction cost of property. Quality typically varies among residential properties and likewise the associated cost schedules vary accordingly. The field inspection component is crucial in determining quality of construction and classification of the residential structure.

The Guadalupe Appraisal District has 20 main residential classifications which fall into the following categories:

- Basic
- Low
- Fair
- Average
- Good
- Very Good
- Excellent
- Premium

The cost approach to value estimates the value of the improvements as new and then adjusts for various forms of depreciation, as follows:

- Physical
- Functional
- Economic

In addition to depreciation, a factor that will influence value is the stage of completion of the subject property on the January 1<sup>st</sup> appraisal date. This is referred to as the percent complete.

Typically, a market modified cost approach to value is employed in order to arrive at market value for the universe of properties, which is derived as follows:

Market Value of Subject= {[Sq. Ft.\* (Replacement Cost New \* Countywide Adjustment)] \* Depreciation} + Land Value} \* Neighborhood Adjustment

**EXAMPLE\***

A 2,000 sq. ft. single story residential structure is identified, that is in average condition and is determined to be a benchmark property, class R5 in ABC Subdivision, running at a replacement cost of \$80.00 per square foot. The subject property is 2 years old, with a total depreciation of 8%. It is also determined that a negative countywide adjustment of 5% is necessary to calibrate the cost schedule to the Countywide market. No other depreciation is warranted for the subject property. The land value is determined to be \$18,000. The neighborhood adjustment is determined to be 105%. It is assumed for this example that the subject property is 100% complete.

Market Value of Subject= {[2,000 \*(\$80.00 \*.95)] \*.92} +\$18,000} \*1.05

Market Value of Subject=\$165,732

*\*NOTE: Please be advised that this example is a hypothetical example used for illustration purposes only. This example does not represent a specific property in the district. Ancillary structures values are derived following the same technique, and then added to the structure/improvement value before any market adjustment is made, or land value being incorporated.*

**NOTICE PROCESS**

Once the appropriate approach to value is fully developed and implemented, the appraisal district will send out notices of appraised value to property owners, as required under §25.19 of the Texas Property Tax Code. Upon receipt of the Notice of Appraised Value, the property owner should review the value to determine if they agree with the proposed value, or if they do not agree with the proposed value. If the owner determines that they do not agree with the proposed value, they should then file a written notice of protest with the district. The normal deadline to file a protest is on or before May 15<sup>th</sup> (or 30 days after a notice of appraised value is sent, whichever is later). In order to begin administrative remedies for protesting a property, a written notice of appraised value must be received by the Guadalupe Appraisal District.