

Property Taxes in an Appraisal

Property Taxes

Question: How should the appraiser handle property taxes?

Issues we commonly see:

- Typically, appraisers do not adequately discuss/analyze the risk of a tax reassessment at the appraiser's estimate of market value.
- Typically, the appraiser does not discuss the date or scope of the next reassessment.
- Typically, the appraiser does not discuss why his/her property tax estimate was outside the range of the observed comparables.

What We Want to Know Regarding Property Taxes

- Description of the local assessment process and the next date of revaluation
 - Property tax assessment values may or may not be static — it depends on the laws of the local jurisdiction.
 - Even with static assessment values, property taxes might be materially variable from year-to-year.
- Are the tax comparables appropriate?
 - Why not use the rental comparables as tax comparables, too?
- Is the tax assessment value similar to the appraiser's value?
 - If not, why not?
- Risk of reassessment at the appraiser's value:
 - It is not appropriate to estimate the risk of reassessment by merely applying an unsupported bump to the capitalization rate.

Suggestions for Incorporating Risk of Assessment

Select several multifamily sales within the same or similar taxing jurisdiction that have been reassessed after the sale.

- A comparability chart can be constructed to compare each sales price with the new tax assessment.
- So, if other comparable/similar properties were reassessed at an average of, say, 75% of the sales price, then it would be reasonable to assume that the subject would be also be reassessed at that amount.

Sale Date	Property	Property Type	Recorded Sale Price	Assessment at Sale	Next Year Assessment	% Increase	% of Sale Price
Mar-15	Grove at Flynn's Crossing	MF (LIHTC)	\$31,000,000	\$17,491,090	\$19,503,300	11.5%	62.9%
Mar-15	Commons on Potomac Square	Multi-Family	\$21,600,000	\$19,784,990	\$19,784,370	0.0%	91.6%
Jan-14	Loudoun Heights	Multi-Family	\$89,500,000	\$56,459,960	\$56,841,190	0.7%	63.5%
May-13	Residences at Moorefield Village	Multi-Family	\$86,100,000	\$56,019,680	\$63,419,190	13.2%	73.7%
Dec-12	Grove at Flynn's Crossing	MF (LIHTC)	\$18,100,000	\$14,622,200	\$17,221,080	17.8%	95.1%
Sep-12	Chase Heritage Apartments	Multi-Family	\$42,400,000	\$30,120,500	\$32,965,520	9.4%	77.7%
May-12	The Manor East (f/k/a Hunter's Crossing)	Multi-Family	\$16,200,000	\$12,900,100	\$14,402,460	11.6%	88.9%
Mar-12	Commons on Potomac Square	Multi-Family	\$19,350,000	\$11,839,100	\$19,149,340	61.7%	99.0%
Sep-11	Archstone Stoneridge	Multi-Family	\$120,791,000	\$79,386,200	\$111,680,700	40.7%	92.5%
						Minimum % of Sale Price:	62.9%
						Maximum % of Sale Price:	99.0%
						Average:	82.8%
						Median:	88.9%

Source: Loudoun County Assessment Records

The above table indicates the assessments following the sales ranged from 62.9% to 99.0% of the sale price with an average of 82.8% and median of 88.9%. The subject's current assessment is approximately 80% of the value derived later in this report, which is below the range. In the analysis, we have estimated a pro-forma tax assessment of \$50,000,000 which is 88% of the contract price.

2018 Historical Tax Re-Assessments Quick Reference – Central & Northeast Florida Multifamily

ORANGE COUNTY	RATIO OF ASSESSED VALUE TO SALE PRICE - ORANGE COUNTY										
Comparable Sale	Linden Audubon Park	Lantower Grande Pines	Place On Hillenia	Eastmor Commons	The Groves	Savannah At Park Central	Courtyard At Lake Shadow	HighPoint Club	Montevisto At Windermere	Esplanade Apartments	Park at Solterra
Year Built	2016	2017	2007	2016	1973	2007	2015	1994	1989	2007	1972
Tax Year	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018
Assessor's Market Value	\$80,242,748	\$49,533,222	\$48,747,298	\$51,703,990	\$15,566,592	\$43,718,863	\$36,371,498	\$40,005,682	\$41,528,250	\$19,478,190	\$16,407,121
Date of Sale	Nov-17	Nov-17	Nov-17	Oct-17	Jul-17	Jun-17	Jun-17	May-17	May-17	Apr-17	Mar-17
Sales Price	\$97,100,000	\$59,500,000	\$57,000,000	\$56,450,000	\$17,928,000	\$50,400,000	\$44,350,000	\$48,500,000	\$49,500,000	\$23,250,000	\$19,400,000
AV Ratio	83%	83%	86%	92%	87%	87%	82%	82%	84%	84%	85%
Source: Assessor's Office											
SEMINOLE COUNTY	RATIO OF ASSESSED VALUE TO SALE PRICE - SEMINOLE COUNTY										
Comparable Sale	Station House	Hideaway North	Radius Winter Park	Terraces At Lake Mary	The Palms At Cisselberry	Elmhurst Village	The Edge At Lake Lotus	Charter Pointe	Rise At Winter Springs		
Year Built	2015	1973	1983	1998	1976	2001	1987	1975	2016		
Tax Year	2018	2018	2018	2018	2018	2018	2018	2018	2018		
Assessor's Market Value	\$29,396,434	\$4,932,694	\$29,126,962	\$35,067,355	\$12,203,817	\$44,377,509	\$14,587,542	\$24,974,203	\$40,474,169		
Date of Sale	Nov-17	Oct-17	Sep-17	Aug-17	May-17	Mar-17	Feb-17	Jan-17	Jan-17		
Sales Price	\$35,350,000	\$6,000,000	\$36,400,000	\$44,100,000	\$14,100,000	\$52,000,000	\$18,550,000	\$31,000,000	\$46,500,000		
AV Ratio	83%	82%	80%	80%	87%	85%	79%	81%	87%		
Source: Assessor's Office											
OSCEOLA COUNTY	RATIO OF ASSESSED VALUE TO SALE PRICE - OSCEOLA COUNTY										
Comparable Sale	Domain	Lake Tirol	Sonoma Pointe	Park at Sorrento	Goldem at Volencian	Villas at 17th					
Year Built	2017	1990	2015	1974	1972	1973					
Tax Year	2018	2018	2018	2018	2017	2017					
Assessor's Market Value	\$42,856,100	\$42,943,200	\$27,873,600	\$14,256,100	\$23,076,200	\$3,944,800					
Date of Sale	Nov-17	Aug-17	Aug-17	Jan-17	Sep-16	Sep-16					
Sales Price	\$57,672,000	\$49,500,000	\$40,000,000	\$20,000,000	\$32,600,000	\$8,150,000					
AV Ratio	74%	87%	70%	71%	71%	48%					
Source: Assessor's Office											
DUVAL COUNTY	RATIO OF ASSESSED VALUE TO SALE PRICE - DUVAL COUNTY										
Comparable Sale	Courtyard Meadows	River City Place	Coventry Park At Sunpoint	The Columns	Oaks At Normandy	The Views At Harbortown	Pickwick Apartments	The Vue At Baymeadows	Heron Walk Apartments	Paradise Island	Canopy At Belfort Park
Year Built	2001	1975	2009	1968	2007	2014	1985	1988	1978	1992	2013
Tax Year	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018	2018
Assessor's Market Value	\$33,035,400	\$6,157,600	\$40,792,811	\$9,919,650	\$26,848,000	\$48,677,151	\$12,773,100	\$22,950,900	\$18,738,000	\$99,189,400	\$20,259,400
Date of Sale	Dec-17	Dec-17	Sep-17	Sep-17	Aug-17	Jul-17	Apr-17	Mar-17	Mar-17	Feb-17	Feb-17
Sales Price	\$41,400,000	\$8,075,000	\$48,600,000	\$13,150,000	\$32,000,000	\$57,250,000	\$14,500,000	\$34,220,000	\$22,752,000	\$120,000,000	\$26,500,000
AV Ratio	80%	76%	84%	75%	84%	85%	86%	67%	82%	83%	76%
Source: Assessor's Office											
BREVARD COUNTY	RATIO OF ASSESSED VALUE TO SALE PRICE - BREVARD COUNTY										
Comparable Sale	Waverly Place	Pavilions at Monterey	The Park At Via Terrassa	The Park At Via Velino	Highlands Viera West	Bridgewater Pointe					
Year Built	1987	1985	1985	1974	2007	1987					
Tax Year	2018	2018	2018	2018	2018	2018					
Assessor's Market Value	\$18,000,000	\$14,875,000	\$12,000,000	\$10,200,000	\$35,000,000	\$6,800,000					
Date of Sale	Oct-17	Jun-17	Mar-17	Mar-17	Feb-17	Jan-17					
Sales Price	\$22,500,000	\$20,600,000	\$16,650,000	\$17,100,000	\$42,000,000	\$8,000,000					
AV Ratio	80%	82%	72%	60%	83%	85%					
Source: Assessor's Office											
VOLUSIA COUNTY	RATIO OF ASSESSED VALUE TO SALE PRICE - VOLUSIA COUNTY										
Comparable Sale	Fork at Countryside	The Barrington	Emerald Park	Sutton Place	Jude Park	Integro Landings at Ivey's Lake	Pierpoint	The Groves			
Year Built	1985	1974	1985	1975	1985	2006	1988	1989			
Tax Year	2018	2018	2018	2018	2017	2017	2017	2017			
Assessor's Market Value	\$7,554,829	\$13,710,289	\$10,394,644	\$11,879,172	\$8,248,389	\$21,962,271	\$14,175,356	\$13,271,176			
Date of Sale	May-17	Mar-17	Mar-17	Mar-17	Sep-16	Aug-16	Jul-16	Jul-16			
Sales Price	\$9,300,000	\$15,100,000	\$15,087,500	\$14,062,500	\$10,000,000	\$34,185,000	\$19,800,000	\$15,500,000			
AV Ratio	81%	91%	69%	84%	82%	64%	72%	86%			
Source: Assessor's Office											

For more information, please contact:

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RE Tax Quick Reference - Central & Northeast Florida Multifamily CBRE VALUATION & ADVISORY SERVICES

Alternatively, check this link: <http://cbreemail.com/rv/ff00eb31c0dfe27b9b7994c33c44b9104bda6ab5>

A closer look below:

OSCEOLA COUNTY		RATIO OF ASSESSED VALUE TO SALE PRICE - OSCEOLA COUNTY						
MIN	48%	Comparable Sale	Domain	Lake Tivoli	Sonoma Pointe	Park at Sorrento	Goldelm at Valencian	Villas at 17th
AVG	70%	Year Built	2017	1990	2015	1974	1972	1973
MAX	87%	Tax Year	2018	2018	2018	2018	2017	2017
		Assessor's Market Value	\$42,856,100	\$42,943,200	\$27,873,600	\$14,256,100	\$23,076,200	\$3,944,800
		Date of Sale	Nov-17	Aug-17	Aug-17	Jan-17	Sep-16	Sep-16
		Sales Price	\$57,672,000	\$49,500,000	\$40,000,000	\$20,000,000	\$32,600,000	\$8,150,000
		AV Ratio	74%	87%	70%	71%	71%	48%
		Source: Assessor's Office						

This type of information helps us answer the questions:

- “What is the re-assessment methodology of the local assessor?”
- “If the property is due for re-assessment in the near future, what is the risk that the assessor will be similar to the property’s market value or recent sales price?”

If the appraiser’s comparables were mostly chosen from the same or a similar taxing jurisdiction, then the market’s measurement of the uncertainty of reassessment could already be built into the capitalization rate.

- There would be no need for an adjustment to the appraiser’s capitalization rate.

Tax Abatement

Questions:

- How does Freddie Mac look at tax abatement and the handling of the abatement?
- Does Freddie underwrite abated taxes or handle with full taxes and a net present value of the abatement?

Freddie Mac Property Tax Abatement Policy

12.23: Collateral evaluation for tax abatement (07/01/14)

For all Appraisals of a Property with a tax abatement, the preferred Freddie Mac valuation methodology is as follows:

- First, full, stabilized real estate taxes are used to calculate the NOI that is used to determine the property value with full taxes.
- Next, the present value of the tax savings over the term of the tax abatement is determined using a discount rate supported fully by the appraiser.
- The present value of the tax savings is then added to the property value with full taxes to determine the value of the Property with the tax abatement.

Note: If local practice is different from the Freddie Mac preferred methodology, the appraiser may use the local methodology, provided that any differences in technique are fully discussed in the Appraisal.

The appraiser must demonstrate in the Appraisal that the tax abatement is likely to continue for its stated term. This can be accomplished by a variety of methods including a review and discussion within the Appraisal of the tax abatement agreement and/or documented conversation and confirmation of the tax abatement by the Appraiser with the local property tax authority or tax abatement-granting agency.

Example (actually nine pages in the appraisal)

Contributory Value of 421a Tax Exemption

	A	B	C (A*B)	D	E	F (A-E)	G (B * F)	H (C - G)	I	J (H*I)
<u>Yr.</u>	<u>Total AV</u>	<u>Tax Rate</u>	<u>Full Taxes</u>	<u>% Exempt</u>	<u>Exemption</u>	<u>Taxable Av</u>	<u>Actual Taxes</u>	<u>Tax Savings</u>	<u>PV Factor @ 5.5%</u>	<u>PV Tax Savings</u>
1	\$66,122,131	12.855%	\$8,500,000	100%	\$62,840,381	\$3,281,750	\$421,869	\$8,078,131	0.947867	\$7,656,996
2	\$66,122,131	13.241%	\$8,755,000	100%	\$62,840,381	\$3,281,750	\$434,525	\$8,320,475	0.898452	\$7,475,551
3	\$66,122,131	13.638%	\$9,017,650	100%	\$62,840,381	\$3,281,750	\$447,561	\$8,570,089	0.851614	\$7,298,405
4	\$66,122,131	14.047%	\$9,288,180	100%	\$62,840,381	\$3,281,750	\$460,988	\$8,827,192	0.807217	\$7,125,457
5	\$66,122,131	14.468%	\$9,566,825	100%	\$62,840,381	\$3,281,750	\$474,817	\$9,092,008	0.765134	\$6,956,607
6	\$66,122,131	14.902%	\$9,853,830	100%	\$62,840,381	\$3,281,750	\$489,062	\$9,364,768	0.725246	\$6,791,759
7	\$66,122,131	15.350%	\$10,149,445	100%	\$62,840,381	\$3,281,750	\$503,734	\$9,645,711	0.687437	\$6,630,817
8	\$66,122,131	15.810%	\$10,453,928	100%	\$62,840,381	\$3,281,750	\$518,846	\$9,935,082	0.651599	\$6,473,688
9	\$66,122,131	16.284%	\$10,767,546	100%	\$62,840,381	\$3,281,750	\$534,411	\$10,233,135	0.617629	\$6,320,283
10	\$66,122,131	16.773%	\$11,090,572	100%	\$62,840,381	\$3,281,750	\$550,443	\$10,540,129	0.585431	\$6,170,514
11	\$66,122,131	17.276%	\$11,423,289	100%	\$62,840,381	\$3,281,750	\$566,957	\$10,856,333	0.554911	\$6,024,293
12	\$66,122,131	17.794%	\$11,765,988	100%	\$62,840,381	\$3,281,750	\$583,965	\$11,182,023	0.525982	\$5,881,537
13	\$66,122,131	18.328%	\$12,118,968	80%	\$50,272,305	\$15,849,826	\$2,904,981	\$9,213,987	0.498561	\$4,593,731
14	\$66,122,131	18.878%	\$12,482,537	80%	\$50,272,305	\$15,849,826	\$2,992,130	\$9,490,406	0.472569	\$4,484,875
15	\$66,122,131	19.444%	\$12,857,013	60%	\$37,704,229	\$28,417,903	\$5,525,674	\$7,331,339	0.447933	\$3,283,949
16	\$66,122,131	20.028%	\$13,242,723	60%	\$37,704,229	\$28,417,903	\$5,691,444	\$7,551,279	0.424581	\$3,206,130
17	\$66,122,131	20.629%	\$13,640,005	40%	\$25,136,153	\$40,985,979	\$8,454,793	\$5,185,212	0.402447	\$2,086,770
18	\$66,122,131	21.247%	\$14,049,205	40%	\$25,136,153	\$40,985,979	\$8,708,437	\$5,340,768	0.381466	\$2,037,321
19	\$66,122,131	21.885%	\$14,470,681	20%	\$12,568,076	\$53,554,055	\$11,720,186	\$2,750,495	0.361579	\$994,522
20	\$66,122,131	22.541%	\$14,904,801	20%	\$12,568,076	\$53,554,055	\$12,071,791	\$2,833,010	0.342729	\$970,955
									Total	\$102,464,161 \$102,500,000 rd.