Freddie Mac MULTIFAMILY

Property Taxes in an Appraisal

Property Taxes

Question: How should the appraiser handle property taxes?

Common Issues We See

- Risk of a tax reassessment is not adequately discussed.
- Date or scope of the next reassessment is not discussed.
- Property tax estimate was outside the range of the observed comparables and is not discussed.
- Adjustment to the capitalization rate is not adequately supported or discussed.
- Tax liability projection does not assume a sale.
- Future successful tax appeal assumed without written confirmation.
- Allocation of tangible and intangible value not adequately discussed.

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.
  - Adequately address and analyze the subject's base tax rate, any special or direct assessments, any special fees, and Mello-Roos (CA only), and supplemental taxes.
  - 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?
  - If a tax comparable reflects a successful tax appeal following a sale, it must be noted and the appraiser must discuss why it is appropriate to consider.
- Is the tax assessment value similar to the appraiser's value?
  - If not, why not?
- Risk of reassessment at the appraiser's value:
  - Given the definition of Market Value, the tax liability projection utilized in the valuation of the Property must assume a sale and **may not consider the loan purpose in any way**.
  - The valuation may not assume a future successful tax appeal without written confirmation from the taxing authority that the appeal has been or will be granted within the next 12 months.
  - Utilize a non-loaded capitalization rate if reassessment will occur in Year 1. If reassessment will occur after Year 1, it may be appropriate to load the capitalization rate to account for future reassessment risk. It is not appropriate to estimate the risk of reassessment by merely applying an unsupported bump to the capitalization rate. Any adjustment to the capitalization rate must have adequate support and discussion.

Suggestions for Incorporating Risk of Reassessment

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 Name	Property Type	Recorded Sale Price	Assessment at Sale	Next Year Assessment	Percentage Increase	Percentage of Sale Price
Date	Sale 1	LIHTC	$31,000,000	$17,491,090	$19,503,300	11.5%	62.9%
Date	Sale 2	Conventional	$21,600,000	$19,784,990	$19,784,370	0.0%	91.6%
Date	Sale 3	Conventional	$89,500,000	$56,459,960	$56,841,190	0.7%	63.5%
Date	Sale 4	Conventional	$86,100,000	$56,019,680	$63,419,190	13.2%	73.7%
Date	Sale 5	LIHTC	$18,100,000	$14,622,200	$17,221,080	17.8%	95.1%
Date	Sale 6	Conventional	$42,400,000	$30,120,500	$32,965,520	9.4%	77.7%
Date	Sale 7	Conventional	$16,200,000	$12,900,100	$14,402,460	11.6%	88.9%
Date	Sale 8	Conventional	$19,350,000	$11,839,100	$19,149,340	61.7%	99.0%
Date	Sale 9	Conventional	$120,791,000	$79,386,200	$111,680,700	40.7%	92.5%
						Min % of Sale Price	62.9%
						Max % of Sale Price	99.0%
						Average	82.8%
						Median	88.9%

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 a median of 88.9%. The subject's current assessment is approximately 80% of the value derived late 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.

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.