

Appraising Residential Property



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The purpose of this informational document is to help taxpayers understand how residential property is appraised. After reviewing this document, we hope that you will understand the assessment process, and the District's appraisal methodology. In addition, information will be provided about how the District uses the mass appraisal method to value property.

Introduction to the Appraisal Process

The District's role in the assessment process is to appraise property within its jurisdiction at a fair, equal and uniform market value; in relation to January 1st. Appraisal District's use mass appraisal techniques to appraise properties efficiently and equitably each year. The Texas Property Tax Code requires that District's maintain property records and assigns market value to all properties.

What is market value?

Appraisal districts follow the provisions of the Texas Property Tax Code (TPTC). The TPTC requires, unless otherwise provided, that all taxable property be appraised at its market value as of January 1st of that tax year. TPTC defines "market value" as:

The price at which a property would transfer for cash or its equivalent under prevailing market conditions if: (A) exposed for sale in the open market with a reasonable time for the seller to find a purchaser; (B) both the seller and the purchaser know of all the uses and purposes to which the property is adapted and for which it is capable of being used and of the enforceable restrictions on its use; and (C) both the seller and purchaser seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other.

Appraisal Methodology

Mass Appraisal

The annual appraisal of properties in Nueces County is performed using a technique known as 'Mass Appraisal'. The District utilizes a mass appraisal system as a standard method to appraise all taxable properties at fair market value as of January 1st of each year. Mass appraisal is defined by the International Association of Assessing Officers (IAAO) as: *"The process of valuing a group of properties as of a given date, using standard methods, employing common data, and allowing for statistical testing"*.

Mass appraisal utilizes market models which explain the relationship between sales

prices and the property characteristics that produce value such as: property location, utility (use), property size, amount and type of waterfront, type and scope of view, improvement quality, improvement square footage, age, condition, etc. A mass appraisal system, as established by IAAO, has three main functions; *reappraisal*, *data maintenance*; and *value updates*.

Reappraisal is the process of preparing the mass appraisal system for reappraisal. This function consists of planning and organizing, analyzing current procedures and resources, data collection, and ratio studies.

Data maintenance is the process of capturing and valuing new construction and new subdivisions, and any changes due to building permits. Furthermore, the appraisal district must perform periodic re-inspections of all properties, in which property characteristics are verified and re-evaluated.

The *Value updates* function is the process of applying annual adjustments to all properties using trending factors based on market analysis.

Residential Property Appraisal

What is a Residential Property?

“Residential Property”, as defined by (IAAO), is “*Real property that might be vacant land or an improved parcel of land devoted to or available for residential use*”.

Residential properties are typically found in areas zoned for residential use, but could also be found in rural areas outside the city limits. Residential properties could be improved or unimproved (vacant).

Appraisal of Residential Properties

Property appraisals are conducted through physical inspections and through aerial photography. The aerial photography program allows an appraiser to review and/or measure a property from his/her computer with a 360 degree view. By utilizing this method, staff may review new additions to a property such as, a swimming pool, porch or any other improvement discovered, without leaving the office premise. Property appraisal values are determined by the location of a property, economic influences, and/or physical attributes. Property appraisal records are updated to reflect any relevant changes of characteristics and/or images identified by the appraiser, in comparison to the last inspection conducted.

The District yearly goes through a process in order to arrive at a final market value. These steps further explained, include data collection, inspection/review of properties, valuation, statistical analysis, and finally notification of values.

Data Collection

The District gathers as much information from available resources. The data gathered will be used for further review, valuation and analysis of properties. Data sources are used in the collection of data including but not limited to

- Maps & Plats
- Building Permits
- Deed Transactions
- Real Estate Publications
- Field Inspections
- Aerial Photography
- Sales Surveys

Data gathered also is subject to accuracy and accountability. Quality control occurs immediately after data collection begins and is achieved through performance audits to check for data accuracy and transposition as per Sec.3.3.2.5 *Data Collection Quality Control* from the IAAO Standards on Mass Appraisal of Real Property.

Inspection & Review of Properties

All residential properties are inspected/reviewed but not limited to a 3 year cycle per Sec.25.18 (b) of the Texas Property Tax Code. Inspections/reviews are done through reliable means including but not limited to deeds or other legal documentation, aerial digital photography, land-based photographs, surveys, maps, property sketches, and physical inspections.

Valuation

There are 3 different approaches to value in appraisal practice. The Income, Cost, and Market (Sales) approach.

The *Income Approach* values property based on their ability to produce lease or rental income. Therefore, it is primarily used for income producing properties (i.e. hotels, commercial office buildings, etc.).

Since residential properties are typically owner occupied and not used for the production of income, the Cost and Market Approach are relied upon for the appraisal of residential properties.

The Cost Approach values properties based on the estimated cost of replacing that property. The approach derives a “Replacement Cost New minus Depreciation” (RCNLD) using current cost data from reliable sources that are placed in cost tables and depreciation tables.

The Market (Sales) Approach uses qualified sales data from comparable properties to calibrate neighborhood market adjustments. Per Sec. 23.013 (b-1) of the TPTC, only qualified arms-length transactions (transaction between unrelated parties under no duress) and foreclosures (bank owned properties) sold within 36 months of the appraisal date are used for the analysis. Vacant residential land also is appraised using the Market Approach.

Statistical Analysis

The Residential and the Market Analyze department meets frequently to analyze, identify, discuss, and adjust for local market trends, ratio studies, and plotted stratified data within each neighborhood and subdivision.

Ratio Studies are performed to measure the appraisal level, which is the relationship and comparison of appraised values to sales prices. This relationship is commonly referred to as the ‘ratio’ and is calculated by the following equation:

$$\mathbf{R = AV/SP}$$

Whereas, the ratio (R) equals appraised value (AV) divided by the sales price (SP). For example if a property is appraised for \$100,000 and it sold for \$105,000, then the ratio would be .95 or 95%. The District’s target median ratio is 1 or 100%. The median ratio is the middle ratio of arrayed ratios in an ascending or descending order.

As previously mentioned, the Cost and Market Approach are used for the valuation of residential properties. Both approaches are used in a hybrid method. The

following equation denotes the hybrid model used:

$$MV = \underbrace{(IRC N - D)}_{\text{Cost}} * \underbrace{INBHD \text{ Mod}}_{\text{Market}} + \underbrace{(LV * LNBHD \text{ Mod})}_{\text{Market}}$$

Whereas, the market value (MV) equals improvement replacement cost new (IRC N) less depreciation (D) times improvement neighborhood modifier (INBHD Mod) plus land value (LV) times land neighborhood modifier (LNBHD Mod). This hybrid method allows for adjustments at the neighborhood level to reflect market influences not captured in the cost pricing tables. The neighborhood modifiers (adjustments) are from ratio studies within stratified properties based on location, size, age, condition, and class of property.

Notification of Value

The appraisal notice is the property owners' first contact with the protest process. The protest process is a taxpayer's right that can be exercised in a timely manner if in disagreement with their property's appraisal value. Every county has an appeal process mandated by law. Instructions on protest procedures, rules and regulations are introduced to property owner/taxpayer's when the District mails a notice of appraised value letter. The District requires a protest to be filed, then recommends property owners to attend an informal meeting with the appraisal staff, sometimes over the phone or by visiting our office to discuss their appraisal concerns. During an informal meeting, property owners may review property characteristics such as, lot size, square footage, number of stories, and condition of property and ensure the District's appraisal record is correct. Upon conclusion of the informal meeting, they may proceed to a formal hearing if they are not satisfied with the District's determination. The deadline to file a protest with the Appraisal Review Board (ARB) is thirty (30) days after the District mailed the notice of appraised value or June 1st whichever is sooner. Property owners may learn more about the protest process, rights and remedies by visiting the Texas State Comptroller's website at www.window.state.tx.us/taxinfo/proptax or write to:

*State Comptroller of Public Accounts
Property Tax Assistance Division
P.O. Box 13528
Austin, Texas 78711-3528*