

Discussions in Current Ad Valorem Valuation Issues

Joint Fall Symposium

Connecticut Chapter of the Appraisal Institute
Connecticut Association of Assessing Officers
Connecticut Association of Municipal Attorneys

Morning Session
Bill O'Brien, MAI, CCMA

Discussions in Current Ad Valorem Valuation Issues

Valuation, Communication and Legal Issues in Estimating Value for:

- Large Single Use Owner-Occupied Properties.
- Large Single Use Leased Properties.
- Unique Properties.
- Business Enterprise Value.

Which Method?

- Always consult statutes (i.e.: I2-63b; I2-64).
- Owner-occupied.

RCNLD and/or Direct Sales Comparison.

Regulated or Special Use Enterprise? Approaches non-traditional to other property types but traditional, applicable, or acceptable (supportable) to the specific use type.

Which Method? Continued

- Leased Properties.
 - Assessor generally must consider three traditional approaches.
 - Plaintiff/taxpayer – not necessarily; but best be aware of.

- Other Comments.

Taxpayer/Property Owner has some greater flexibility in methodology, but assessor may adopt same methodology used by plaintiff.

Assessor must generally utilize same, similar, comparable methodology for like properties or interests, or properties or interests of the same general category or class type.

Large Single Use Owner-Occupied Properties

Valuation

- Traditional Methodology.
- Cost Approach.
- Direct Sales Comparison.
- Income Capitalization.
- Other – Regulated Businesses; Unique Enterprises.

Large Single Use Leased Properties

Rent

Net rent or absolute net rent.

vs.

Gross Rent excluding taxes.

vs.

Gross Rent including taxes.

Large Single Use Leased Properties, continued

Variations – Other Considerations

- Percentage Rent.
- Overage Rent.

May require separate discounting (risk).

Large Single Use Leased Properties, continued

- Valuation – Traditional Methodology; plus Income Capitalization.
- Consideration of both Contract & Market Rent.
- If market rent = contract, no major issues other than dispute of capitalization rate.

Large Single Use Leased Properties, continued

- If contract rent $>$ market rent, separation of income likely necessary; different risk rates; etc.
- If contract rent $<$ market rent, positive leasehold and deficit rent created. Two marketable interests?

Large Single Use Leased Properties, continued

- Sheridan vs. Killingly.
- Separate Interests created by lease.
- Lease contract may (usually does) help resolve who is responsible for taxes, but may not necessarily address valuation issues.

Large Single Use Leased Properties, continued

Assessment Appeal

Can I ? or Can of Worms ?

- For Taxpayer: Be certain of implications.
- For Assessor: Opportunity to Examine All filings.
- Personal Property Declarations.
 - Tenant Improvements? Depreciation; Reversion, Did plaintiff file? Penalties?
- Income and Expense Statements.
 - Agree with IRS records?
 - Did plaintiff file? Penalties?
- 12-57 (CofC; incl MVs) & 12-60 (CofCE) – 3 Yrs.

Large Single Use Leased Properties, continued

■ Other Considerations.

■ Disclosure.

- Not so much a problem for municipality; with few exceptions, all data is public.
- Not so for taxpayer or taxpayer's experts; appraisals; etc.

■ Mortgage Financing.

- Recent? Recent appraisals? Re-appraisals?
- Relationship to value? L/V ratio?

■ Equal Treatment.

- Assessor must treat similar properties and similar interests in similar manner; like methodology; etc. (equal protection) unless inappropriate or not possible (LF LH FS PM session).

Unique Properties

- Special Purpose; Special Use.
- Value-in-Use (Value-in-Exchange).
- Leased.
 - Income - Usually would involve net lease - relatively easily valued.
- Possible Sales – Possible application of Cost.
- Owner-Occupied.
 - May tend to depart or migrate from traditional approaches.
 - Be certain to support techniques or rationale.
 - Such departure not necessarily inconsistent with valuation for ad valorem taxation – highest & best use encompasses non-traditional, non-profit oriented use.
 - Financial feasibility and optimum productivity may include perceived community benefit or other special considerations.
 - Also, for ad valorem assessment existing use is presumed highest and best use.

Large Single-Use Properties, Business Value, Enterprise Value, Going Concern Value

- Business, enterprise or going-concern value associated with real property generally involves other (non single-use or single occupancy) types of income-producing property.
- Hospitality, nursing facilities, marinas, life care continua, apartments, etc.
- Owner-occupied
 - Little or no increment or contribution from most Single-Use Properties.
 - Business, enterprise or going concern will be associated with the business occurring at the location, not the real property.
- Leased Property
 - Any possible business, enterprise or going-concern associated with the real property will be accounted for in management expense or cap rate.

Business Value, Enterprise Value, Going Concern Value, continued

- If some business, enterprise or going-concern present (Trash to energy plant; etc.) must be deducted in some manner:
 - Lump sum estimate.
 - Capitalization rate.
 - Management.
- Should consider both positive or negative implications.
- Assembled work force, bargaining unit contracts, etc.
- Good will?