

Getting Behind Appraisal District Methodology



Dallas commercial property appraisals are out and many owners who saw an increase in values are asking themselves how these valuations came to be. If you're one of those owners questioning this year's numbers, consider this—appraisal districts face the impossible task of valuing every piece of real estate and business personal property. Even if the valuation cycles are not every year, this almost is an impossible task. Below are just some of the reasons valuations can prove difficult and even yield incorrect values:

Volume: Appraisal districts are responsible for valuing tens and at times hundreds of thousands of properties each year, and this isn't restricted to one type of property or industry niche. Appraisal districts are required to be the "expert" on all types of property including commercial, residential and business personal property whether they are familiar with that particular market or not.

Limited Funding: With insufficient staffing in appraisal district offices, ratios are usually in the thousands per one appraiser yielding a near impossible workload that is often met with a "cookie-cutter" valuation approach. Limited funding also translates to recruiting challenges—both new hire and retention—not to mention, fewer senior staff members who have "real world" experience on valuations/acquisitions. With limited staffing and HR, many jurisdictions rely heavily on IT capabilities, but unfortunately a lack of funding often means IT budgets are not on par with the task at hand.

Lack of Information: Most states are non-disclosure states when it comes to real estate properties, including Texas. Owners in non-disclosure states are not required to provide annual income statements nor do they have to disclose purchase price information. As a result, appraisal districts are making an "educated guess" on the value of a property based on the information they have available according to surrounding properties. Without knowing the past cash flow of a business, appraisal districts have a hard time predicting future cash flow. This is why many values may not be an accurate reflection of a property's value because jurisdictions have to make their best guess based on the available information and area comparables. However, all states require disclosure (or renditions) for business personal property. This process usually is more straight forward, but it does require the appraisal districts to process each rendition and "audit" any that may seem irregular. However, just because appraisal districts have this information readily available it's still important to closely review these valuations because you may qualify for an exemption such as the Freeport exemption.

Equitable requirements: Many state valuation codes require that properties be valued fairly in a “market” and “equitable” sense. Equitable meaning comparable properties are valued similarly on a “per pound” basis. For example, if two identical multifamily apartment complexes are situated next door to each other with no discernible difference other than one complex operating at 90 percent versus the other operating at 50 percent occupancy, the law requires that both properties are to be valued the same. Also, reconciling “market” and “equitable” values is not possible on each property. Many times, a fair “market” and “equitable” values on the same property are quite different. Yet, appraisal districts can only tax based on one value, and therefore are tasked with an impossible assignment.

Political / PR pressures: Although theoretically appraisal districts are supposed to be immune to any pressures, there are conflicting pressures. For instance, local governments, school districts and utility districts are always seeking a higher tax base which can yield high taxable values. At times, these are the same people who are in charge of appointing the most senior level appraisers.

It is important for owners to know more about the appraisal district valuation process, which can help them decide whether to protest this year’s values. If you are an owner who experienced “sticker shock” when you opened this year’s property tax assessment, remember these points above. Appraisal districts are trying to appease all parties and attempt to value properties as accurately as possible. While they try to push values as much as they can without causing too much upheaval from the general public, realistically some commercial property owners will still receive inaccurate and perhaps unfair valuations.

If this is you, be sure to file your protest; and, if you missed the May 31 protesting deadline, you can file a late protest until Jan. 31st of the following year. But remember, there are additional stipulations associated with filing a late protest so it’s best to turn your valuation in on time.

Amish Gupta is COO of Real Estate Tax Consultants. The views expressed in this column are the author’s own.