

# PARKER COUNTY APPRAISAL DISTRICT

## (PCAD)

### APPRAISAL PROCEDURES

PCAD's goals and objectives is to provide Property Owner's an overview of PCAD's Appraisal Valuation Procedures for property in Parker County

- Definition of Market Value
  - Building Permit Process
- Review Residential and Commercial Appraisal Procedures
  - Approaches to Value (Cost, Market or Sales, Income Approaches)
  - Building Class Concept
  - Residential Neighborhood or Market Area Concept
  - Commercial Concept
- Review Land Appraisal Procedures
  - Land Schedule Concept
- Review Business Personal Property Appraisal Procedures
  - Examples of Business Personal Property
  - Discovery and Listing Processes
  - Valuation Process
  - Rendition Process

- PCAD appraises property using mass appraisal techniques. The appraisal staff is responsible for appraising a large universe of properties by developing appraisal models
- Mass Appraisal is a systematic appraisal of a group of properties as of a given date (January 1<sup>st</sup>) using a set of standardized procedures and statistical testing

## **APPRAISAL PROCESS**

### **“MARKET VALUE”**

- PCAD is required to appraise all property at Market Value as of January 1 of every year
- The Texas Property Tax Code, Section 1.04 defines Market Value:
- Market Value means the price at which a property would transfer for cash or its equivalent under prevailing market conditions if:
  - (A) Exposed for sale in an open market place with a reasonable time for seller to find a purchaser
  - (B) Both the seller and purchaser know of all uses and purposes to which the property is adapted and for which it is capable of being used and 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

The appraisal process or Discovery Cycle is performed from August 1 – April 15. During this period, the appraisal staff will be conducting on site property inspections for any changes. This process is assisted by building permits:

- New Construction – The exterior perimeter of all new construction are measured and the sketch is accurately recorded. All physical characteristics such as living area square footage, condition, bath rooms, garages, and other physical characteristics are updated. If the property is still under construction as of January 1, the appraiser is required to determine the percentage of completion and flag the account for re-inspection the following year
- Miscellaneous Permits - are all building permits for items such as pools, room additions, garage enclosures, remodeling, repairs, and demolitions. Exterior measurements are made when required, and adjustments to the improvement's physical characteristics are updated on the property record.

Also, recently flown aerial photography or Pictometry, which has software change detection, will assist the appraisal staff for any new construction or changes to the property.

# RESIDENTIAL APPRAISAL PROCEDURES

Residential building classes will be developed using the Cost Approach, and modified with recent sales information (Market Approach). The steps in the Cost Approach are:

- Calculate the land or lot value as vacant
  - The appraiser develops the land or lot value based on recent sales data or abstraction/allocation methods to insure land values developed best reflect contributory market value of the land to the overall property value
- Calculate Replacement Cost New (RCN) of improvements
  - This is developed with National Valuation Services, Marshall & Swift. This cost is adjusted for local market conditions assisted by local builders.
- Estimate and deduct appropriate amount of Depreciation (D)
  - Depreciation is determined by effective year of construction and condition of the improvements
- Land value is added to Replacement Cost New Less Depreciation (RCNLD) to arrive at an estimated market value

Sold properties within a defined market or neighborhood are reviewed and inspected for physical characteristics and accuracy. Then a neighborhood or market area building class location factor will be applied to the neighborhood building class model for both sold and unsold properties to predict what homes will sell for based on recently sold similar properties. The appraiser will undertake a neighborhood

value review to review all new proposed market values. Digital photographs, aerial photography and GIS Information System (GIS) maps are also updated upon inspection. Equity is achieved by using the same location factor or market adjustment for all similarly classed properties within a neighborhood or defined market area.

The Sales Approach is typically used during the informal process with taxpayers and at the formal Appraisal Review Board (ARB) hearings. Recently sold properties are compared to similarly appraised properties. Adjustments are made to the sold properties when compared to the subject property. Therefore, if a sold property had a pool or shop and the subject doesn't then an adjustment would be warranted. The Income Approach to value is used in very limited instances for residential. The Income Approach method is preferred for income producing commercial properties.

## **COMMERCIAL APPRAISAL PROCEDURES**

Commercial Building Classification:

- Office Buildings
- Multi-family Property (Apartments)
- Retail Property (Shopping Centers)
- Industrial Property (Warehouses)
- All Commercial Buildings

Commercial property cost tables are developed using a National Valuation Service, Marshall & Swift (Cost Approach) and Commercial Classes are developed. These costs are adjusted for current and local market conditions. These properties are appraised using the Cost Approach, and modified with recent sales information (Market Approach), and income models developed (Income Approach).

- Market data analyzed for model development
  - Income and Expense Statements
  - Rent Rolls
  - Data received during Appraisal Review Board (ARB) hearings
  - Local and National publications

Commercial Cost Approach:

- Calculate the land value as vacant
  - The appraiser develops the land value based on recent sales data or abstraction/allocation methods to insure land values developed best reflect contributory market value of the land to the overall property value
- Calculate Replacement Cost New (RCN) of improvements
  - This is developed with National Valuation Services, Marshall & Swift. This cost is adjusted for local market conditions.
- Estimate and deduct appropriate amount of Depreciation (D)
  - Depreciation is determined by Age-Life tables or effective year of construction and condition of the improvements

- Land value is added to Replacement Cost New Less Depreciation (RCNLD) to arrive at an estimated market value

The appraiser will analyze sales (Market Approach) of comparable properties to the subject. Sales data is gathered by:

- Sale surveys
- Market research companies
- Third party appraisals
- Local media
- Appraisal Review Board (ARB) hearings

Sale comparisons are adjusted for sale conditions, land size, improvement size, age, condition, and location to arrive at indicated Sales Approach to Value.

Commercial Income Approach:

PCAD appraisers collect and enter income data into database:

- Income and expense data
- Rental data surveys
- Occupancy data
- Secondary income data
- Net operating Income data

Market income data is compared to the subject property income data. This annual income is Capitalized to a present value using Direct Capitalization (single year's net operating income divided by market cap rate). Capitalization rates are estimated based on sale prices and net operating incomes. Cap rates are also developed using outside sources:

- Market research companies (Karpacz)
- Real Estate publications
- MAI Appraisers

The subject property income components are compared to market indicators to arrive at a market value. The Income Approach is the preferred method for income producing properties (Office, Apartment, Retail, and Industrial).

## **LAND APPRAISAL PROCEDURES**

PCAD's appraisal staff develops land schedules based on recent sales information. The sales are gathered by:

- Sales questionnaires
- Taxpayer Informal meetings
- ARB hearings
- Local media

Within a market area, benchmark sold properties are defined for the development of the schedule on a per acre basis. These benchmark sales are inspected and reviewed for typical market conditions for that market area. Interpolation is used between the known benchmark properties to establish an estimated per acre market value. These estimated values for land can be adjusted for topography, flooding, location, size, and any other outside factor effecting the market value.