HOW IS YOUR PROPERTY APPRAISED?

PROPERTY TAX ADMINISTRATION

In Texas, property owners pay property taxes based on the market value of their property. This is sometimes referred to as “ad valorem” taxation, meaning "according to value".

In order to employ a system of ad valorem taxation, two basic functions must take place. First, a taxable value for the property is determined each year. Secondly, local taxing jurisdictions such as cities, schools, counties, and other entities authorized to levy a property tax need to apply a tax rate to that value in order to calculate the amount of taxes owed for that year on that property.

In 1979, the Texas legislature created appraisal districts in each county. One of the primary roles of appraisal districts is to annually determine the market value of all of the properties, also referred to as tax parcels, within its county’s boundaries. Once established, these values are certified to the assessor/collector for each taxing jurisdiction in the form of an appraisal roll. At this point the assessor/collector submits the rolls to the governing body for each taxing jurisdiction as the tax roll. The taxing jurisdictions then use these appraisal rolls to calculate the tax bills to be sent to property owners.

Mass Appraisal
Due to time and financial restraints, the appraisal district utilizes a method called mass appraisal. Mass appraisal is the process of valuing a large group of properties as of a given date using common data, standardized methods and statistical testing. In mass appraisal, values for individual parcels should not be based solely on the sale price of a property; rather, valuation schedules and models should be consistently applied to property data that is correct, complete and up-to-date.

Market Value
In the State of Texas, the appraisal date for property tax purposes is January 1st of each given year. Property must be appraised at its fair market value as of January 1st.
The property tax code defines market value as:
The price at which property would transfer for cash or its equivalent under prevailing market conditions if:

- Exposed for sale in the open market with a reasonable time for the seller to find a purchaser;
- 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
- 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.

Highest and Best Use
In order to determine the market value of property, the appraiser must determine the “highest and best” use of the property. The highest and best use is the use of the property that is its most profitable use at a specific time (as of January 1), that is:

- legally permissible
- physically possible
- financially feasible

Highest and best use is not always the actual current use of the property.
*The only time highest and best use is not considered is in the appraisal of a residence homestead property. In this instance, the residence homestead value must be determined solely on the basis of its current use.

Data Collected
The appraisal district begins the appraisal process by performing data collection of all property. Appraisers will inspect properties noting the individual characteristics of the property that affect value such as size (square feet), age, quality of construction, physical condition, restrictions to use of property, terrain or topography, etc. The appraisal district has developed valuation schedules and models based on the different types of properties.

Statistical Analysis and Ratio Studies
Models are calibrated and adjusted annually through the use of ratio studies and statistical analysis. The appraisal district will compare actual sales prices of individual properties to the value produced to that property through the model and determine the appropriate adjustment that is needed for the model. Ratio studies allow the district to measure and evaluate the two major aspects of mass appraisal models:

- **Level of appraisal accuracy** refers to the overall ratio of appraised values to market values of properties within the same category or market area. Level measurements provide information about the degree to which mass appraisal models are working and what adjustments are warranted. The measures of appraisal level that are calculated are the median ratio, mean ratio and weighted mean ratio. These are also referred to as measures of central tendency.
- **Level of appraisal uniformity** refers to the degree to which properties are appraised at equal percentages of market value.

Value Approaches
There are three ways to determine the value of Real Estate, and each plays a part in property appraisal. The most widely-used and accepted in residential and commercial practice is the S**ales Comparison or Market Approach**. This approach bases its opinion of value on what similar properties in the vicinity have sold for recently, with appropriate adjustments for time, acreage, living area, amenities and so on. It is these adjustments where the expertise of the professional appraiser becomes necessary — no computer can tell you how much or little to mark up for a fireplace without knowing the neighborhood or even talking to Realtors and recent buyers in the area about how important that amenity is in that particular location.

Another approach is the **Cost Approach**. How much would a property cost to replace, that is, rebuild, minus “accrued depreciation,” that is, depreciation that has occurred since the property actually was built? The cost approach includes concepts like “economic life” and “effective age” that are mostly of use in determining the value of special use properties, special purpose properties or properties where subsequent structural improvements greatly impact value.

The third approach to value is called the **Income Approach**. Some properties generate income for their owners — the most obvious examples being rental properties such as apartment buildings, rental houses and duplexes and the like. The rental income an owner might reasonably expect from a property is part of its value. For a purely owner-occupied residential property, this may not be applicable, but it can be important if the property is to be rented out or used otherwise to generate income, such as a storage facility, cell tower rental and office building.

Consideration of Value Approach by Property Type

The appropriateness of each valuation approach varies with the type of property being appraised. For example: The sales comparable approach would be the preferred method for valuing a residential property but the income approach would be the preferred method for finding the value of productivity value for agricultural land. Each approach should be considered and the most appropriate used in the valuation.

Depreciation

Depreciation schedules, for mass appraisal purposes, can be developed from market data. Sales are grouped by building type, land and miscellaneous improvement values are subtracted, leaving a building residual value. The building residual value is subtracted from the replacement cost new (RCN) to determine the dollar amount of depreciation. The market derived depreciation is divided by the RCN to determine the percentage of depreciation..

Land Valuation

In appraising land the appraiser will take into consideration the four basic factors that affect land values:

1. Physical Attributes of the Site
2. Economic Conditions
3. Government Influences
4. Social Standards

There are four methods of appraising land that can be used by our appraiser:

1. Sales Comparison (Preferred)
2. Allocation by Ratio
3. Allocation by Abstraction
4. Capitalization of Ground Rent (Income Approach)

This handout was intended to give property owners the basic framework of property appraisals and does not include detailed information regarding property appraisal. For more information please, feel free to contact our office at 940-574-2172.

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