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Property Appraisal Newsletter

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MARKET ANALYSIS

ANNUAL PROJECTS COMPLETED EACH FALL

In order to comply with Kansas Statutes and Kansas Division of Property Valuation directives, Lyon County must annually complete various analytical tasks and valuation studies. Most of these analysis projects are performed in the fall and must be completed prior to setting individual property values, a phase which normally begins in November.

The first analytical project is ***NEIGHBORHOOD ANALYSIS***. The creation of "market neighborhoods" was completed several years ago, but annually the boundaries and property statistics are reviewed in order to stay current in terms of individual neighborhood profiles. The average size and average year built of dwellings located within a specific neighborhood are examples of a neighborhood's statistics, as well as the neighborhood's low, high, and average sales prices.

The next market analysis project is ***LAND ANALYSIS***. Recent fair market vacant land sales occurring in 2017 are incorporated into prior year data bases. These land sale data bases typically include several years of sales due to an insufficient number of land transactions occurring in most neighborhoods. Although sales are limited, an analysis is performed in order to extract from the market the average or typical price paid for land on a unit basis of either acre, square foot, or front foot.

One of the more complex analysis projects is the ***DEPRECIATION STUDY***, which is conducted for both commercial and residential structures. By definition, depreciation is the loss in property value from any cause, but is typically the result of age, condition, and locational characteristics. This loss in value is measured by subtracting the building portion of a sale price from the current cost to build. For example, a residential property that sold for $80,000 and having a land value of $5,000 would have a calculated building value of $75,000. If the building's estimated Replacement Cost New (RCN) is $100,000, then the loss in value due to depreciation would be $25,000 ($100,00 minus $75,000), or a depreciation loss of 25%. Correspondingly, the percent good would then be 75%. Typically, five years of sales are used for residential depreciation analysis. The sales are grouped by CDU (a depreciation/location rating) and are then plotted out on a "Percent Good" graph. A "best fit" line is drawn which correspondingly determines the average depreciation for a home based on it's age and it's particular CDU factor.

MARKET MODELING is a the final residential analysis project, which results in the creation of four valuation models. These four models represent subsets of residential property based on market area (location) and age group. A computerized application of linear regression is utilized to draw conclusions from the sales data in each model and ultimately define a "normal" market coefficient value for specific characteristics of a home for each model. The most relevant dwelling characteristics include square foot values for Condition, CDU (location), Age; Construction Quality; Heating System type; and Foundation Type. Unit values are determined for bedrooms, bathrooms, and fireplaces. Additionally, a time-trend is calculated from the modeling analysis.

For commercial class appraisal purposes, an extensive ***INCOME & EXPENSE STUDY*** is performed to identify typical incomes and expenses associated with commercial use property, such as Rent, Vacancy Loss, and Operating Expenses. This data is segregated on the basis of a property's income-producing use, i.e. retail, office, hotel/motel, and apartments. In conjunction with the I&E study, a ***CAPITALIZATION RATE STUDY*** is conducted to determine typical investment risk, typical interest rates, and the equity ratios required by lending institutions, then followed by an ***EFFECTIVE TAX RATE STUDY*** that measures the impact of property taxes.

Upon the completion of these tasks, appraisals of individual properties can begin.