

State Tax Commission July 3, 2013 Tip
Topic: “Multiple Dwelling Style” Condominiums



Dear STaCy,

I’m in the process of valuing a new “multiple dwelling” style condominium built in my assessment jurisdiction. I am uncertain as to the method which I should use to determine the true cash value of each unit. Most of the units have been sold, so I have a great deal of sales data, but I don’t know how to apply that data using the Michigan Assessor’s Manual costs. The condominium units each occupy part of a floor and there are units located on different floors of each building. I don’t know how to use the Assessor’s Manual cost tables to determine the replacement cost of the individual units. It seems to me that the most accurate way to value the units is to rely on the sales comparison approach to value. Am I permitted to do to this and, if so, how do I go about presenting the value on the property record card?

Sincerely,
Val U. Proper

Dear Ms. Proper;

Although it is possible to determine the replacement cost of the entire building using the Assessor’s Manual, there is no procedure for determining the “replacement cost” of each unit of a “multiple dwelling” or “high rise” style condominium, except by making a somewhat artificial allocation of the total building cost and then applying an appropriate Economic Condition Factor (ECF).

Despite the fact that MCL 211.10e requires assessors to use a cost manual which is approved by the State Tax Commission, the assessor is not restricted from considering either the income approach or the sales comparison approach to value for a given property, so long as the valuation is determined at the midpoint of the ratio and ECF study periods.

If an assessment is based on the sales comparison and/or income approaches to value, without using the Michigan Assessor’s Manual, the assessor should not complete the property record card in a manner which creates an incorrect impression that the assessment was derived using the Manual. Although it is appropriate to enter the property’s physical characteristics on the property record card, the following should not be entered:

1. Since depreciation is recognized in the sales comparison and the income approaches by other means, the assessor should not enter a “percent good.”

2. Since differences in value that relate to size and/or other physical attributes are recognized in the sales comparison and income approaches by other means, the assessor should also not calculate, or enter, a separate “cost” for any given physical attribute of the property. In particular, the assessor should not calculate, or enter, a square foot “base rate cost” for the property’s physical components, or calculate, or enter, a “cost” for lump sum additions based on the physical characteristics of the subject. It is permissible to state a final value per square foot for the parcel’s structure so long as it is clear that the square foot value was not the source of the total value, as would be the case if the Assessor’s Manual had been used.

3. Since the sales comparison and income approaches to value do not entail the separate determination of the land value, no land value should be entered. On rare occasions, it might be necessary to develop a separate assessed and taxable value for land, to meet other statutory requirements, such as might be required to administer the recently enacted PA 43 of 2013 (an amendment to the qualified forest exemption provisions), but in such cases we suggest that the land should be assessed as a separate tax parcel and that the assessed and taxable values for the land should be deducted to determine the assessed and taxable values of the improvements.

If the sales comparison and/or income approaches are used to value a parcel, and the assessment software being used does not permit a full explanation of the approach(es) used on the record card, then the assessed and taxable values should be entered on the record card, but language should be inserted in the “Remarks” section of the record card which is substantially similar to the following:

“True cash value determined using the (sales comparison approach) (and) (income approach), rather than by using the Michigan Assessor’s Manual. The file containing the supporting documentation for (this)(these) approach(es) is available for inspection.”

Such a presentation is not considered to be an “override” for assessment review purposes, as long as the value is properly supported using the sales comparison and/or income approaches to value. An assessor should be aware that he or she is required to maintain a supporting file when the sales comparison and/or income approach is used. This file is a part of the parcel’s assessment record. The assessor should remove from the file and separately store any data used in making the valuation which was obtained under circumstances such that it is not subject to disclosure under a Freedom of Information Act request.

Sincerely,
STaCy