Commercial and Industrial Real Property Valuation

For commercial and industrial property the assessor’s office values the real property, business personal property and possessory property interests for taxation purposes. Real property consists of land, and improvements on the land, such as buildings, fences and parking lots as well as leasehold improvements and fixtures that have become physically incorporated into an improvement such as heating and air conditioning. Business personal property includes all machinery, equipment, and in some cases leasehold improvements related to the business. A possessory interest is the right to the occupancy and use of a tax-exempt property that has been granted under a contract or agreement.

The assessor determines the actual value of commercial and industrial property every two years in odd-numbered years. This is called a reappraisal. As with any appraisal, the level of value is established as of a specific date, and for ad valorem appraisal this date is dictated by statute to be June 30th of the year preceding the reappraisal. For example, the appraisal date for the 2013 Reappraisal is June 30, 2012. There is another important date for property valuation, and that is the assessment date, which is January 1st of each year. Although property is valued as of the appraisal date, it is valued given the property characteristics that exist as of the assessment date.

The assessor determines the actual value of commercial and industrial real property every two years in odd-numbered years by considering the three approaches to appraisal.

- The market, or sales comparison, approach uses arm’s length market sales of similar properties which are analyzed, compared, and adjusted to arrive at a value for the property.
- The cost approach estimates the material and labor costs to replace the subject property, and then the property value is calculated by subtracting accumulated depreciation from the replacement cost new.
- The income approach estimates the present value of future benefits to be derived from a property by capitalizing net income into an indication of value.

Choosing the most appropriate approach for a property’s value requires extensive knowledge of economic trends and the real estate market, but ultimately it comes down to identifying the factors that would influence an investor’s decision making process.