

## General Discussion List—Range of Acceptable Values

### Q. Kathryn Temchack, Concord, NH

I am working on a court case and hoping to find any references and/or court decisions that refer to an acceptable range of value. There is no one correct assessment value, so if appraisals are within a certain percentage of the assessment, the assessment would be considered acceptable. Any help would be greatly appreciated. Thanks.

### A. Alan Dornfest, AAS, Boise, ID

Although it does not pertain to individual assessments or values, the *Standard on Ratio Studies* provides considerable guidance in terms of the percentage by which the median ratio may differ from the statutorily required or otherwise established level of assessment and still be considered acceptable—at least under IAAO standards, which some states have adopted by law or rule. Again, these standards look at overall level of assessment, not individual properties. However, Part 1, Section 2.3 of the Standard comments, “...ratio study statistics cannot be used to judge the level of appraisal of an individual parcel. Such statistics can be used to adjust assessed values on appealed properties to the common level.”

### A. Daniel Furdek, Milwaukee, WI

There is no authority on a definitive range of values that appraisals should be within in order to be considered similar that I know of, or one you can cite. All you can say is that generally acceptable ranges within the appraisal community by professionals are within a certain range. I've always said 5–15 percent is an acceptable range for appraisals on the same property. How do I know? By my experience, education, and training. I'd say a tighter range should be required for the three methods within an appraisal. All three methods should come to a relatively similar conclusion; if not, you've done something wrong. Values that are within 5–15 percent don't go to trial.

### A. Barry Dayton, Portland, OR

Of course, I have no idea what the statutory laws and administrative rules are in your jurisdiction regarding assessment and taxation as that relates to your tax courts. But where I am located, if I were approached with your question I would immediately suggest the questioner's focus to be incorrect. I would tell them that where I am, the court is not likely to rule on a range of values in an effort to find the assessed value to be correct or incorrect. That is because the mass appraisal system itself is not on trial. The court simply wants to know what the value is. If the court cannot determine from expert

testimony and evidence whether the plaintiff's value or defendant's value is correct; then, only *if* the evidence is indicative, the court may decide on a value at the court's own opinion. That would not be a goal I would choose if I could at all avoid that happening. Most courts are finders of fact, not finders of ranges, with “the value” somewhere in the range but not determined by anyone.

It may help to consider that, for real estate appraising, the definition of value is “an opinion.” To say there is no one correct assessment/value when dealing with an opinion would be incorrect. There certainly is one opinion of value, and that opinion of value would be the opinion of your expert witness. If your expert is incapable of arriving at a single point value for the real estate, either your expert fails to comprehend his or her role as an expert—to make a choice and opine a single point value—or lacks the ability to do so. In either case, he or she should be replaced with someone who has experience and an understanding of the assignment for tax court purposes.

Depending on your local laws, your mileage may vary. But here, I would advise that attempting to prove that the assessed value falls within the range, so therefore the assessed value is the correct value, would be a tax court rabbit hole and that strategy should be abandoned. Any expert witness should do what all real estate appraisers should be able to do, arrive at a single point opinion of value and then defend their own opinion on the witness stand.

### A. Joseph Turner, Saginaw, MI

Kathy, may I suggest some market research that may help address your issues of price variation and an acceptable range of values?

Within the comments that follow there are: a referral to a reference work that may have data relevant to your problem; a suggestion of how you can use the comparables you've selected as prima facie evidence of the range within which the subject property's value should lie; a suggestion to use an analysis of sales by type of financing to create a range of potential values; and a method of using average or median selling prices by geographic area to create a range of value within which the subject property might fall. Finally, rules used to identify an acceptable range of value for individual properties I appraised as a “fee” appraiser are presented. Perhaps none of this will be judged useful by you, but they are offered in the hope that something useful will be found.

At [See original AssessorNET post for link] you will find a copy of a market research project presented as a working paper. Portions of it have been published in the *Michigan Assessor* and more material is planned for submission to the *Property Tax Journal*.

Within the working paper there is an analysis on pages 8

and 9 that illustrates how selling prices in one market typically varied from the asking price. The result is a range of values dependent upon the method of financing. There is also a section that provides a snapshot in time for several real estate markets around the United States. The section argues that financing options may vary somewhat, but where the "conventional" loan is the dominant financing tool, economic forces in various markets across the country are similar. That might help you argue that if an economic principle is demonstrated in one market, it may have applicability in your market (say, a percentage range of values from someone responding to your inquiry). A necessary corollary to the argument is that your market has characteristics similar to the market from which the referenced range of values arise. I agree with Alan's comment that the review body will demand a value determination predicated upon the property under appraisal, but suspect you can make a strong argument that there is a reasonable "range" within which the value must lie. After all, in every market there will be a selling price for the least amount within the market and a selling price that is the greatest price paid in the market. From that huge range of value, the appraiser determines an estimate of value by selecting properties from within that large range that are most similar to the subject. Consequently, the properties selected as most comparable actually provide a "range" of probable values. It is from this range that you, the expert, determine which of the economic forces and components, when considered with physical and social features, yields an appropriate estimate of value. Therefore, I suggest that your selection of comparable properties provides prima facie evidence of the appropriate range of value for your subject property.

May I suggest several other approaches to identifying a range of value? (1) If your subject property was listed for sale by a multiple list service (MLS) such as a board of realtors, the average difference within your market between the original list price and the final sale price (by type of financing: cash, seller financed, conventional and FHA/VA) can provide an arguable indicator of potential value for the specific property. (2) Similarly, use the average selling price of homes you judge to be comparable within the MLS area containing your subject property. (3) Use the average selling price of homes comparable to the subject property and lying within the "neighborhood" (as you define it) of the subject property. Creating a simple table of these three values may suggest a reasonable range of value. Of course, you may need to look at median prices instead of average if there are a lot of outliers within the data.

During my days as a fee appraiser, I also created a table that perhaps would suggest a range of values from a methodological point of view. That is, as a fee appraiser, if the variation between the cost, market, and income approach was greater

than 15 percent, I went looking for mistakes or irregularities within each of the three approaches to value. I don't know if that is useful information to you or not. However, if you feel your appraisal method can withstand scrutiny, I would consider an argument that the spread between the high and low results of each valuation method suggests a range. The argument may be subject to attack, but if the range is consistent with other ranges you might develop, you begin to create a sense of validation through diversity.

For whatever it is worth, as a fee appraiser using the "market approach," I would reject comparables whenever the "net" change between the actual selling price and the adjusted value was greater than 15 percent. While not always possible, I preferred to have the comparables that were used all lying within a 5 percent range from the highest to the lowest. This was usually only possible when the subject property was located within a subdivision or group of similar subdivisions with little variation in housing styles and enough annual sales to provide a robust data base from which one could draw inferences. I sincerely hope something in this communication will be useful to you. If you do look at the working paper, I would be most grateful for feedback. The information was first published as a working paper so that others could consider and comment on it before material was submitted for publication in other venues. Best of luck to you.

#### **A. Allan Booth, Newport, RI**

I see two questions here. If I am defending a "revaluation," and the argument is that some assessments are greater than a sale price and some are less. My position is that sale price is exactly that, sale price. Market value is an educated option of what a property is worth. It is rare that a sale price and an unbiased appraisal are identical numbers. I would finish by stating that a 10 percent difference would be normal. If I am defending an individual value, I would not use the argument that my assessment was "close enough."

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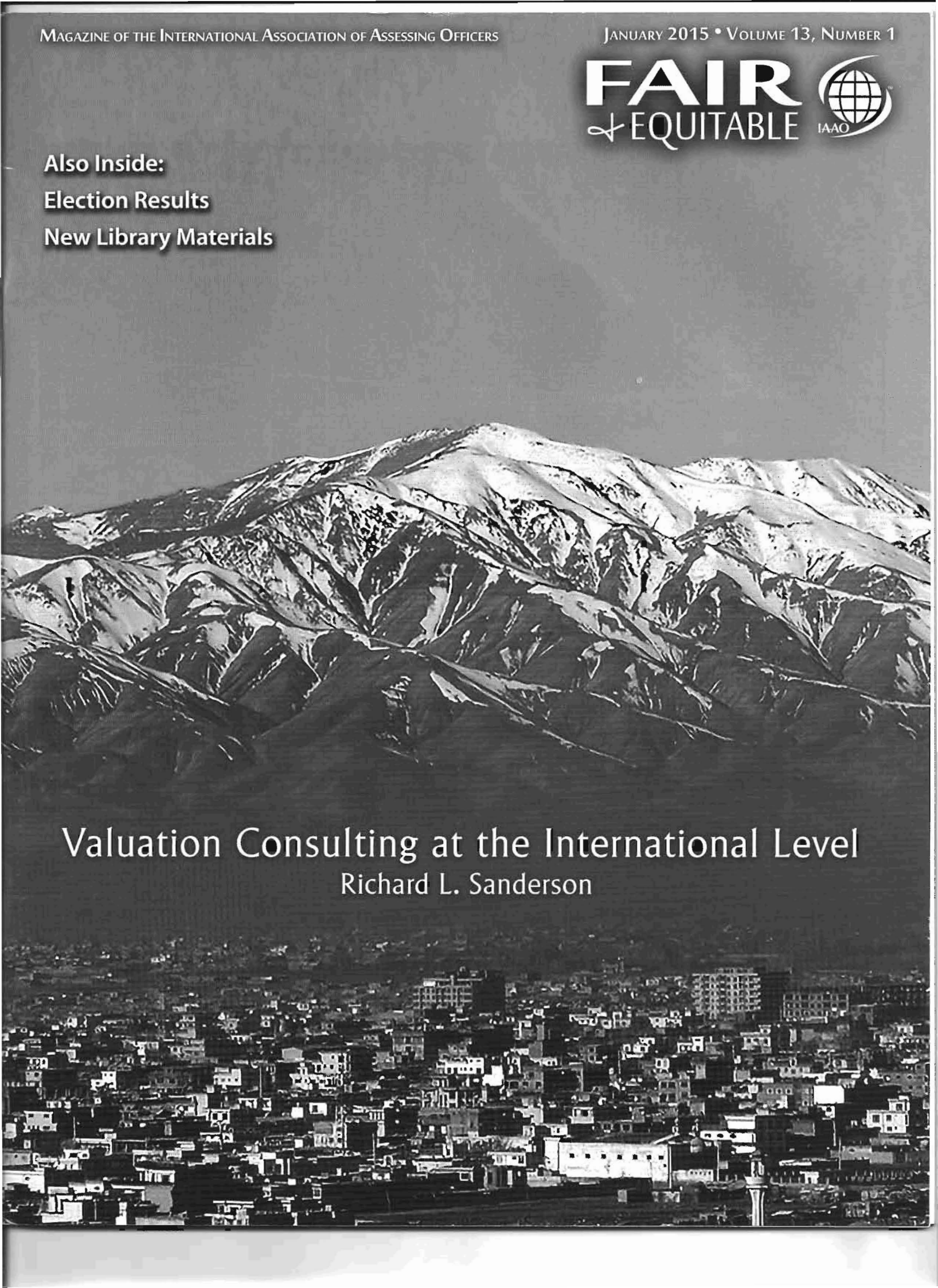
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