2015 SCHEDULES OF VALUES, STANDARDS, AND RULES FOR MARKET VALUE

Prepared and Presented by,

Stan C. Duncan
Henderson County Assessor & Tax Collector

To the

HENDERSON COUNTY BOARD OF COMMISSIONERS

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Tommy Thompson, Vice Chairman
Grady Hawkins, Commissioner
Michael Edney, Commissioner
Larry Young, Commissioner

ADOPTED

________________________
Date

Signed: _______________________________________________________
Chairman, Henderson County Board of Commissioners
ACKNOWLEDGEMENTS

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Introduction

The economic principal of Change has been much in evidence in the real estate market over the past eight years, a time period encompassing two reappraisals; 2007 representing a high water mark, and 2011 at a lower tide level. Calendar year 2014 continues to reflect an appreciating trend observed previously in calendar years 2011, 2012, and 2013. The 2014 data appears to indicate what is hopefully a return to a reliable rate of appreciation in the local real estate market; slow and steady.

Data from reports specific for Henderson County from Multiple Listing Service (MLS), permit data from the County Permit & Inspections Department, unemployment figures, foreclosure and bankruptcies, have all converged to indicate a cautious improvement in market attitude. Readers of the Wall Street Journal are given a regular diet of national summaries alternating daily between a return to normalcy and warnings of lurking lapses. As always, what matters most is what is happening locally – in Henderson County – and fortunately both the front-end data (building starts, remodeling, unemployment, etc.), and the back-end data (arms-length sales, property listings, and lease information, etc.), are presenting the first stabilized indications of sustained, positive growth.

What began in late spring/early summer 2008, still lingers in the minds of many property owners (both buyers and sellers), lenders, real estate sales people, and builders. But, as mentioned above, there is some good news. Sales are up, both in frequency and median sales price. New residential construction is up slightly from 2011, and remodeling permits are approaching 2009 levels. Cautious optimism would be an appropriate characterization. Unlike the 1980-82 disruption in the real estate market, interest rates have remained low provided buyers could manage a larger down payment. Foreclosures and short sales this time around appear to have replaced the volatility of creative financing in the early 1980’s. Fortunately, the entry-level market suffered the least and remained relatively positive since 2011. As calendar year 2014 has progressed, a greater interest and sales in higher valued properties has been observed making a welcome comeback – albeit, slower – than entry level properties.

Looking forward to 1 January 2015, interest rates remain comparatively low (from a 8 October 2014 survey of local lenders, the benchmark 30-year Fixed-Rate Mortgage is hovering between 4-4.25% locally, comparable to nationally reported rates1), and while lending institutions have made qualifying for a home mortgage loan easier than in 2011, it is still more difficult than in the years prior to 2008. The inventory of foreclosed properties is diminishing. Consequently, other properties entering into the general real estate market are not currently at the same disadvantage as comparable property would have been in 2011.

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1 As reported by Bloomberg, Freddie Mac, and MarketWatch, and several other national media outlets.
Household incomes remain stressed, though not to the extent as in past years. As building permits continue to show growth, other businesses and professions dependent on housing are likewise showing signs of renewed growth.

Median sales prices in calendar year 2011 initially saw a decline, but have recovered in 2014 to almost pre-2008 levels. The number of transactions was marginally down from 2006, but is compensated by a slight rise in the median sales price. Fortunately, days on market is decreasing towards normalcy; down from 134 in 2010 and 2011, to 106 in 2013, with 2014 indicating a number close to 100 days on market. At the same time building permits for residential new construction, while still down from the highs in 2006 and 2007, are showing renewed strength. Residential remodeling has held steady and shows a slight growth since 2011. On the commercial side, remodeling has outpaced new construction by a significant margin since 2008.

Consider the following:

<table>
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<tr>
<th>Calendar Year</th>
<th>Median* Sales Price</th>
<th># of* Sales</th>
<th>Days on* Market</th>
<th>Residential** New Const Permits</th>
<th>Residential** Remod Permits</th>
<th>Commercial** New Const Permits</th>
<th>Commercial** Remod Permits</th>
</tr>
</thead>
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<tr>
<td>2014</td>
<td>$187,250</td>
<td>1,366</td>
<td>103</td>
<td>260</td>
<td>570</td>
<td>40</td>
<td>187</td>
</tr>
<tr>
<td>2013</td>
<td>$178,700</td>
<td>1,624</td>
<td>106</td>
<td>468</td>
<td>629</td>
<td>61</td>
<td>203</td>
</tr>
<tr>
<td>2012</td>
<td>$168,000</td>
<td>1,362</td>
<td>122</td>
<td>462</td>
<td>580</td>
<td>60</td>
<td>243</td>
</tr>
<tr>
<td>2011</td>
<td>$168,000</td>
<td>989</td>
<td>134</td>
<td>253</td>
<td>537</td>
<td>36</td>
<td>203</td>
</tr>
<tr>
<td>2010</td>
<td>$185,000</td>
<td>1,015</td>
<td>134</td>
<td>223</td>
<td>580</td>
<td>32</td>
<td>177</td>
</tr>
<tr>
<td>2009</td>
<td>$184,000</td>
<td>1,043</td>
<td>109</td>
<td>311</td>
<td>536</td>
<td>27</td>
<td>199</td>
</tr>
<tr>
<td>2008</td>
<td>$200,000</td>
<td>1,216</td>
<td>95</td>
<td>444</td>
<td>626</td>
<td>68</td>
<td>213</td>
</tr>
<tr>
<td>2007</td>
<td>$222,950</td>
<td>1,878</td>
<td>65</td>
<td>1,239</td>
<td>665</td>
<td>128</td>
<td>220</td>
</tr>
<tr>
<td>2006</td>
<td>$205,000</td>
<td>1,956</td>
<td>46</td>
<td>1,018</td>
<td>712</td>
<td>124</td>
<td>188</td>
</tr>
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* Data source; MLS (please note the medians are always less than averages - sales prices, etc.)

** Data source; Henderson County Permit Center

These are the general market conditions – locally – in which the County undertakes a general reappraisal effective as of 1 January 2015. As evidenced by the chart above, most properties are selling for more in 2014 than they did in 2011, 2012, or 2013. Additional equity value is being invested in existing homes and commercial properties, some of which will make their way onto the market while others remain under the current ownership. When properties are placed on the market, buyers appear to be absorbing the new inventory at a rate approaching the norm for days on market. However, note is made of the disparity between median versus average days on market; 103 versus 165, something to keep watch on as we look to 1 January 2015.

Reappraisals are dependent on data and the expertise to analyze and interpret that data. For this reason, Henderson County subscribes to the Western North Carolina Regional Mountain Multiple Listing Service (hereinafter MLS). From the MLS Sold Report data we are able to compile various reports allowing us to examine the sales transactions in a variety of ways; by location, property
type, price point, etc. By a similar measure we have expanded our use of the Assessment/Sales Ratio Reports conducted under the general guidelines and auspices of the North Carolina Department of Revenue’s Property Tax Division. From a randomly-selected base of arm’s-length sales, a comparison is made between the actual sales price of a series of property transactions and their respective assessed values.

Any general reappraisal poses a challenge. Reappraisals measure change, and change does not occur at the same rate among all locations within the county, nor among all property types.

As we approach 1 January 2015, much of the change we are observing is reflective of a rebounding market. But it is not reminiscent of the wonder years from 2003 – 2007. For the most part, this is a market on a slow, deliberate, calculated rebound. For obvious reasons, since our statutory charge is to measure the market for real property as of 1 January 2015, we will continue to monitor sales and other market indicators to the end of the 2014 calendar year. By ruling of the North Carolina Appellate Courts, sales occurring after 1 January 2015 are not to be considered for valuations established effective for 1 January 2015. The schedules presented herein will allow for us to continue examination of the market with the latest available activity occurring in calendar year 2014 and by so doing, permit us to be as accurate and up-to-date as the data will allow for 1 January 2015. It is only in this manner that we can provide the most equitable and fair reappraisal to the property owners (real and personal) in Henderson County.

All appraisals, including countywide reappraisals for ad valorem tax purposes, fall under the jurisdiction of the Uniform Standards of Professional Appraisal Practice (USPAP), the relevant portions of which have been included in the Addendum, and which by reference are hereby made a part of this proposed set of Schedules, Standards, and Rules for Market Value.

Respectfully submitted,

Stan C. Duncan
County Assessor & Tax Collector
COMPONENTS OF A REAPPRAISAL PROGRAM

Mass appraisal for ad valorem tax purposes builds on the same principles as independent fee, single-property appraisal. Mass appraisal techniques, however, emphasize valuation modules (expressed as equations, tables and schedules), standards of practice, and statistical quality control. A reassessment program consists of four basic subsystems:

1. A data management system.
2. A sales analysis system.
3. A valuation system.
4. An administrative system.

The subsystems are independent. For example, the valuation system uses information maintained in the sales analysis and data management systems and produces output (valuations) required by the administrative system in the production of tax bills.

DATA MANAGEMENT SYSTEM

The data management system has components for collection, entry, editing, organization, conversion, storage, and security of property characteristics and ownership data. This system is the heart of the Henderson County mass appraisal program. Quality control of this system is of the utmost importance because the accuracy of the values determined depends on the reliability of the data from which they are generated. In addition, data collection, conversion, and maintenance are the most expensive aspect of any reappraisal program. Much thought and planning is required to detail the data management logic in order to minimize the operating costs of this system.

Data maintenance is the protocols for creating new parcels, capturing and valuing new construction, and making changes to the county current property database. The maintenance protocol consists of three components:

- County land records system: the daily creation of new parcels from the recording of “splits” (the sale of a part of an existing parcel), and the recording of new subdivision plats feed the second component of our system.

- Permits and inspections: as the appraisal staff receives notice of new permits and inspections, property records are pulled and new data is collected daily. The real property appraisal section receives automatic notices electronically through the software system when new construction permits are initially issued and when the Certificate of Occupancy (hereinafter CO), is issued. “Pending” notifications of the various inspections requested and required between the initial application and the
CO, are received allowing staff to monitor the construction progress and make determinations of the percentage of construction competed as of 1 January each calendar year.

- Periodic re-inspection of all properties: routine field visits are supplemented with information obtained from the latest Orthophotography (most recently flown in 2007 and soon to be re-flown as part of the State-wide Ortho Project) and Pictometry © (flown 2008, 2010, and scheduled for 2012), information provided by property owners as part of the annual Listing abstracts, as well as requests from taxpayers for reviews or appeals.

SALES ANALYSIS SYSTEM

The sales system has components for sales data collection, sales screening and processing, ratio studies, and sales reporting. Assessment/sales ratio studies are the primary tool for measuring mass appraisal performance. They are invaluable for monitoring appraisal results, identifying reappraisal priorities, adjusting valuations to the market, and assisting the administrative system in planning and scheduling.

Ratio studies and sales reports draw on values produced by the valuation system and on property characteristics maintained in the data management system.

The ongoing sales file program includes a computerized sales ratio study and report, an active computerized sales questionnaire system, an active sales maintenance routine, and a collection of photographs on subject properties.

VALUATION SYSTEM

The valuation system (CAMA) consists of mass appraisal applications of the three approaches to value and/or allows for various adjustments that recognize specific aspects of each approach.

- The COST APPROACH requires maintenance and application of computerized cost schedules and equations, depreciation schedules, and indexing factors.
- SALES COMPARISON APPROACH applications include multiple regression analysis and model building for automated comparable sales analysis.
- The INCOME APPROACH will require income multipliers and overall rates.

The optimum results of the valuation system will be to consider all three approaches to value, as appropriate to property type, and determine which method(s) produces the best results for the final appraisal. Properly executed, any of the three approaches to value will yield creditable results. The Sales Comparison and Income Approaches are highly dependent on available data. Only the Cost Approach can be uniformly applied with limited data.
The current economy has affected the number of arm’s length sales occurring in the market. As is the case with any appraisal, a general, county-wide, reappraisal depends on data being available from a wide variety of sources in order to properly apply each of the three approaches to value. Even when an abundance of relevant data is available for applying the Sales Comparison Approach and the Income Approach, that data may also be utilized in refining the Cost Approach. In the absence of relevant data prior to the final determination of reappraisal values, the Cost Approach becomes the more reliable approach for all property types, as shown below:

Comparing the Three Approaches to Value to Various Property Types When Relevant Data is Available from the Market:

<table>
<thead>
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<th>RESIDENTIAL</th>
<th>COMMERCIAL</th>
<th>INDUSTRIAL / SPECIAL PURPOSE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Sales Comparison</td>
<td>1. Income</td>
<td>1. Cost</td>
</tr>
<tr>
<td>2. Cost</td>
<td>2. Cost</td>
<td>2 or 3. Sales Comparison</td>
</tr>
<tr>
<td>3. Income</td>
<td>3. Sales Comparison</td>
<td>2 or 3. Income</td>
</tr>
</tbody>
</table>

THE ADMINISTRATIVE SYSTEM

The administrative system is comprised of a variety of functions and activities, each of which requires information from the sales analysis, valuation, or data management systems and produces products used by the administrative system. For example, the appeals process uses valuation and property characteristics data and the results of sales ratios and reports. The results of the appeals process affect other systems in the form of data changes, value adjustments, and recalculated ratio statistics. The administrative system serves throughout the reappraisal process; in the beginning in identifying areas of concern, throughout the reappraisal process as various analytical measures are studied and adjusted, and at the conclusion when sales are measured against assessed values as part of a randomly-selected ratio study.

IN-HOUSE REAPPRAISAL

An in-house reappraisal is a major effort requiring careful preparation, the support of county management and the Board of County Commissioners, adequate time, and sufficient funds. The outlined plan will show the detailed work scheduling tasks and activities. The schedule takes into account the relationship between the daily operations of the assessor’s office and the reappraisal program. It includes adequate time to cover probable delays and contingencies to deal with unforeseen problems.

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2 Information provided from IAAO One-Day Forum 960.
The reappraisal process should be viewed as separate and distinct from daily operations. However, existing staff, duties, responsibilities, and priorities must be modified, and additional staff may be required. The assessor’s office will have control over the quality and performance of additional personnel.

SUMMARY

General reappraisals of real property are required by statutory authority to be performed on an octennial plan (the eight-year cycle). Counties may adopt a shorter cycle via a Resolution by their respective county board of commissioners. The prevailing trend in North Carolina is moving towards a four-year reappraisal cycle. The economic downturn in 2008 prompted several counties delay reappraisals, the results of which have generally caused more consternation than benefit to the respective county and their taxpayers.

<table>
<thead>
<tr>
<th>Reappraisal Cycle (# of Years between Reappraisals)</th>
<th># of Counties 4</th>
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</thead>
<tbody>
<tr>
<td>8-Year Reappraisal Cycle</td>
<td>57 Counties</td>
</tr>
<tr>
<td>6-Year Reappraisal Cycle</td>
<td>2 Counties</td>
</tr>
<tr>
<td>5-Year Reappraisal Cycle</td>
<td>2 Counties</td>
</tr>
<tr>
<td>4-Year Reappraisal Cycle</td>
<td>39 Counties</td>
</tr>
</tbody>
</table>

More specific to the 20 counties reappraising effective for 1 January 2015; 11 counties are on a 4-year cycle and 9 are on an 8-year cycle.

Presently, the trend is for counties to hire and train the staff in order to perform “In-House” reappraisals as opposed to “contracted” reappraisals with expertise being contracted from outside the county lines.

<table>
<thead>
<tr>
<th>Type of Reappraisal</th>
<th># of Counties 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contracted Reapraisals with an Outside Appraisal Firm</td>
<td>23 Counties</td>
</tr>
<tr>
<td>In-House Reappraisal with Full-time County Staff</td>
<td>33 Counties</td>
</tr>
<tr>
<td>Joint; Primarily In-House, but with some Outside Expertise</td>
<td>44 Counties</td>
</tr>
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</table>

NOTE: Based on data supplied by the Property Tax Division of the NC DOR, the average parcel count for counties contracting with a reappraisal firm was 21,228 parcels. The average size of counties undertaking a joint reappraisal effort was 49,060. Counties conducting in-house reappraisals averaged 68,814 parcels. Henderson County, with a current total of approximately 66,500 parcels of real property, is clearly in range of the trend. In fact, as Henderson County has maintained a four-year cycle since 1999.

3 Recent results where counties opted to wait 8 years between reappraisals have prompted an interest across North Carolina to seek legislation restricting the reappraisal cycle to a shorter cycle, possibly as early as the 2015 legislative session.
4 Data provided by NC Department of Revenue, Local Government Services Division
5 Data provided by NC Department of Revenue, Local Government Services Division
The assessor’s office understands that an effective reappraisal requires careful planning. A realistic analysis of the present state of the assessment records and values, and the resources needed to conduct the reappraisal is always under consideration.

Reapraisals are a costly, highly visible and politically sensitive undertaking. However, since the real property staff in the assessor’s office understands its own resources and the technical requirements of the tasks, they are committed to building on the previous efforts and conducting the most fair and equitable reappraisal Henderson County has experienced to date.

The success of this endeavor depends on the leadership of the assessor’s office, an informed public awareness and committed management support. More than most any other aspect of the property tax program, the reappraisal of real property is critical to a fair and equitable assessment program.
Before an assessor can undertake his responsibilities and duties properly, he must be familiar with the legal framework in which his function is performed. In addition to the specific statutory direction and appellate court rulings, it is necessary to be well-versed with the nature of appraised values and property and with the basic economic principles that serve as the foundation of the valuation process.

Concepts of Property and Property Rights

A discussion of property and property rights should begin with a definition of property. When the layman thinks of property, he tends to think of a thing. Legally, however, property is associated with the right of any person to possess, use, enjoy, and dispose of a thing. Property, then, is a broad term expressing the relationship between owners and their rights in and to possessions. In appraising real property, the parcel to be appraised includes the rights inherent in the ownership of the property be included in the opinion of value rendered by the reappraisal.

All property may be divided into two major categories-real property and personal property. Real property is defined as the sum of the tangible and intangible rights in land and improvements. It refers to the interest, benefits, and rights inherent in the ownership of physical real estate. A synonym for real property is realty. Real estate, on the other hand, is the physical land and everything permanently attached to it. Personal property consists of movable items not permanently affixed to, or part of, the real estate and is commonly known as “personalty” or "chattels."

Real estate may be divided into two categories-land and improvements. Land may be defined as the surface of the earth together with everything under its boundary and everything over it, extending indefinitely into the heavens. The shape of a parcel of land can be described as an inverted pyramid with its apex at the center of the earth and extending upward through the surface into space. Certain legal limitations have been imposed throughout the years by the Courts, such as the right of aircraft to fly over the land. Improvements (land improvements, such as paving, fencing, structures, and landscaping) consist of immovable items affixed to and becoming part of the real estate. "Permanently affixed" refers to the original intent of the owner and the economic life of the improvements rather than "forever."

In discussing the distinction between real estate and personal property, the term “affixed” was used. Defining “fixture” has been the subject of much litigation, and the courts do not always agree. Generally speaking, personal property annexed to land is called a fixture. Chattels that have been annexed to land are called a fixture.
Chattels that have been annexed to the land so as to lose their character as chattels become real estate for ad valorem tax purposes. In determining the nature of the annexation of personal property, there are two basic considerations: first, the adaptability of the personal property to the use of that part of the realty and, second, the person by whom the annexation is made and his interest in the land and the personal property.

Courts tend to agree that, if the chattel is affixed to the land so that it loses its original physical character and cannot be restored to its original condition as a practical matter; it loses its nature as personal property and becomes real property. In some cases there are two basic tests to determine whether personal property becomes real property (1) the intention of the person who put the item in its place and (2) whether the item may be removed from the real estate without damaging either the item or the real estate. An excellent example is in how NC law distinguishes manufactured homes as personal versus real property.

N.C.G.S. 105-273(13)b. reads:

“Real property, real estate, or land. – Any of the following:
   a. The land itself.
   b. Buildings, structures, improvements, or permanent fixtures on land.
   c. All rights and privileges belonging or in any way appertaining to the property.
   d. A manufactured home as defined in G.S. 143-143.9(6), unless it is considered tangible personal property for failure to meet all of the following requirements:
      1. It is a residential structure.
      2. It has the moving hitch, wheels, and axels removed.
      3. It is placed upon a permanent foundation either on land owned by the owner of the manufactured home or on land in which the owner of the manufactured home has a leasehold interest pursuant to a lease with a primary term of at least 20 years and the lease expressly provides for disposition of the manufactured home upon termination of the lease.”

Another important distinction in property is that of tangible and intangible property. Tangible property consists of actual physical property. Intangible property is evidence of ownership of property rights. Examples of intangible property are patent rights, copyrights, notes, mortgages, deeds of trust, and stock certificates.

Ownership of Property

There are six basic rights associated with the ownership of property:

1. The right to use.
2. The right to sell.

For example, if a tenant places a screen in front of a fireplace, there is no intent of permanent installation, and the screen can be easily removed when the tenant leaves, the screen is therefore personal property. However, if a property owner installs a light switch in the wall, the wall would be damaged by its removal. The light switch is considered part of the real estate. In more difficult cases involving this question, state statutes and court decisions should be the reference sources.
3. The right to lease or rent.
4. The right to enter or leave (real property).
5. The right to give away.
6. The right to refuse to do any of these.

These rights are known as the “bundle of rights”, which is the ownership of all the legal rights obtained with fee-simple title. The bundle of rights may be compared to a bundle of sticks, each representing one property right. Property rights are divisible. Property ownership is sometimes transferred without the exchange of the full bundle of rights.

Unless property is owned by the government, it is subject to certain public and possibly private restrictions. The United States and other nations impose certain limitations for the common good. These public, or legal, restrictions thrust limitations on the full bundle of rights. Four rights, or "sticks," have been removed from the full bundle in favor of governmental control, identified as follow:

- Taxation - the right to tax the property for support of the government.
- Eminent domain - the right to take the property for public use provided that just compensation is paid.
- Police power - the right to regulate the use of property for the public welfare in the areas of safety, health, morals, zoning, building codes, and traffic and sanitary regulations.
- Escheat - the right to have property revert to the state for nonpayment of taxes or where there are no legal heirs of a decedent who dies intestate.

Some examples of private limitations which affect fee-simple ownership of property are (1) the rights of other co-owners of the property; (2) covenants, conditions, and restrictions that are found in the chain of title to the property; (3) mortgages (a mortgage is a written instrument pledging specified real estate as a guarantee for the repayment of a loan used to purchase property); (4) easements and rights of way (an easement is a right held by one person to use the land of another); (5) liens and judgments (a lien is a legal right to hold property or to have it sold or applied for a payment of a claim-n); and (6) leases.

**Estates in Property**

An “estate” may be defined as the legal position or status of an owner with respect to the property and the degree or quantity of interest owned with respect to the nature of the right, its duration, or its relation to the rights of others. Estates in real property may be categorized according to the quality and duration of the property rights. The two main divisions in estates are freehold and non-freehold. A freehold estate is one which is to endure for an uncertain period of time but which usually lasts during the life of some person. Non-freehold estates endure for a specified period of time and may be subject to immediate termination. There are three basic types of freehold estates: fee simple absolute, fee tail, and life estates.
An “estate in fee simple” is one which has been given to an individual, and his heirs without any end or limit put to his estate. Fee-simple title is the greatest possible degree of ownership. It is title free and clear of all encumbrances, including easements, rights of way, liens, and so forth. In other words, it is the ownership of all legal rights. With certain statutory exceptions, fee-simple title is the only estate which the assessor values. Personal property is always valued by the assessor as free and clear of all encumbrances.

N.C.G.S. 105-302 sets forth the statutory direction regarding in whose name real property should be listed. In North Carolina, the property will be listed, appraised, and assessed at “fee simple” to the holder of the life estate, usually referred to as the “life tenant”. A life estate is granted with ownership limited to the life of the owner or that of another party.

G.S. 105-302 (c)(8) reads:

“A life tenant or tenant for the life of another shall be considered the owner of real property, and it shall be his duty to list the property for taxation, indicating on the abstract that he is a life tenant or tenant for the life of another named individual.”

Estates in real property may also be categorized according to the way in which title is held: tenancy in severalty indicates ownership interest by one owner; tenancy in common indicates ownership by more than one person where the interest is not divided and descends individually to each owner’s heirs; tenancy by the entirety indicates joint ownership by husband and wife where ownership reverts to the survivor and cannot be disposed of individually during the lifetime of either. There are many different types of tenancy in which the assessor is interested primarily for the purpose of keeping ownership records up to date. Ultimately, North Carolina General Statutes control how ownership of all real property is determined for ad valorem tax purposes.

**Nature of Property Appraisal or Value**

The word “value” is an abstract word; generic in nature, with many acceptable definitions and meanings, the term defying an exact definition to suit all circumstances. Generally speaking, its definition is largely dependent upon the context in which it is being used. In a broad sense, value can be defined as the relationship between an object desired and a potential purchaser. It is the ability of a commodity to command another commodity (money) in exchange. For purposes of real property appraisal, value may be described as the present worth of future benefits arising from the ownership of real property.

A major distinction must be made between value in use and value in exchange. A property may have relatively little value in use and a significantly different value in exchange. Value in use embodies the objective premise, which maintains that value is within the object itself. A hose rack built into a fire station is a useful and valuable item as long as the building is used as a fire station. If use as a fire station is abandoned, however, the hose rack probably will not add value to the property unless it can be used for an almost identical purpose. Under the concept of value in exchange, the subjective element is accentuated. In a subjective context, value is within the mind of
man. For example, meat is valuable only if hunger exists; stated differently, meat is desirable and therefore valuable because it satisfies hunger when and if hunger exists. The value-in-use concept easily accommodates cost. In an economic sense, value in exchange is the primary concern for the assessor because this value – market value – reflects the actions and reactions of buyers, sellers, and investors.

In order for property to have value, there must be desirability, utility, scarcity, and economic purchasing power. Utility is the capacity of goods to excite desire for possession and should not be confused with usefulness. Diamonds possess utility in that they excite a desire for possession in the minds of most people and usefulness in that they are the hardest substance known and have many industrial uses. Utility is a subjective concept, in the mind of man; usefulness is an objective concept, inherent in the property.

Scarcity is the third requirement for value. The air we breathe has utility, but it is not valuable, primarily because it is not scarce. There are two economic forces that determine scarcity: supply and demand. As demand increases or supply decreases, the value of the goods will increase. Conversely, if the supply increases or the demand decreases, the value of the goods will decrease.

Utility and scarcity by themselves do not confer value on an object, unless the desire by the purchaser is present, a desire backed by the economic purchasing power of the buyer(s).

A comparison of the terms "cost" and "price" is useful in a discussion of value. Cost may be defined as the sacrifice made in the acquisition of property and commonly reflects the perspective of the buyer. It may be incurred in either the purchase of an existing property or the construction of a new property. Price may be defined as the amount of money given or expected or arrived at arranging for the exchange of property. Cost and price may be the same. If a purchaser pays $100,000 to buy a property, it may be stated that the property costs the purchaser $100,000. However, while price is defined in terms of money, cost is expressed as a sacrifice. A sacrifice may be in terms of money, labor, or time. Also, when a property is sold, the price may be either above or below the owner’s cost.
Market Value

While the term "value" remains quite difficult to define, the term "market value" does not suffer from the same limitation. The constitutions and statutes of the 50 states have many different definitions of market value; they also have different definitions of value for property taxation, eminent domain, corporate reorganization, and public utility rate regulation. The assessor must adhere to the definition of market value as stated in N.C.G.S. 105-283 and as interpreted in various decisions rendered by the North Carolina Appellate Courts, as set forth below:


“All property, real and personal, shall as far as practicable be appraised or valued at its true value in money. When used in this Subchapter, the words “true value” shall be interpreted as meaning market value, that is, the price estimated in terms of money at which the property would change hands between a willing and financially able buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of all the uses to which the property is adapted and for which it is capable of being used. For the purposes of this section, the acquisition of an interest in land by an entity having the power of eminent domain with respect to the interest acquired shall not be considered competent evidence of the true value in money of comparable land.”

NOTE: In analyzing sales of property, close attention is paid to identifying all transactions that are the result of a foreclosure or short sale. Such sales are not retained for further consideration in determining the schedules set out elsewhere in this document, and neither will they be considered in analyzing the reappraisal results via the State-mandated assessment/sales ratio study.7

Several Appellate Court cases have addressed the issue of defining market value:

- **Neither this section nor G.S. 105-317(a) requires the commission to value property according to its sales price in a recent arm’s length transaction when competent evidence of a different value is presented.**


- **The purpose of the statutory requirement that all property be appraised at its true value in money is to assure, as far as practicable, a distribution of the burden of taxation in proportion to the true values of the respective taxpayers’ property holdings, whether they be rural or urban.**

  In re King, 281 N.C. 533, 189 S.E.2d 158 (1972).

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7 For a complete list of conditions (in addition to foreclosure and short sales), that the NC Department of Revenue distributes to all 100 NC counties to be used in determining whether a particular sale is qualified or disqualified, please refer to the Addendum, Document 1.
• In substance this section and G.S. 105-317.1 provide that all property shall be appraised at market value, and that all the various factors which enter into the market value of property are to be considered by the assessors in determining this market value for tax purposes.

• Where sale was not between a willing buyer and a willing seller, as contemplated by this section, sales price was not indicative of property’s true value.
In re Phoenix Ltd. Partnership, 134 N.C. App. 474, 517 S.E.2d 903 (1999)

• Section 105-317(a), in fixing the guide which assessors must use in valuing property for taxes, includes as a factor the past income therefrom, and its probable future income. But the income referred to is not necessarily actual income. The language is sufficient to include the income which could be obtained by the proper and efficient use of the property. To hold otherwise would be to penalize the competent and diligent and to reward the incompetent or indolent.

• To find the true value of property subject to conservation easements, the Commission must determine the market value prior to the granting of the easements and then reduce that value by applying a damage factor caused by the granting of the conservation easements. Determining the highest and best use of the property prior to the granting of the easement is a critical part of the appraisal process.

• A post-octennial valuation sale is not a statutory permissive basis for adjusting a property’s tax valuation.
In re Allred, 351 N.C. 1, 519 S.E.2d 52 (1999)

• State Tax Commission’s reliance upon an independent appraiser’s collateral determination of petitioners’ property value, without challenge or correlation to the county’s schedules of value or the application of those schedules to the property, was in violation of the statutory requirement of this section that any permissible increase or decrease in the appraised value of real property be calculated using the schedules and standards established by the county.
In re Allred, 351 N.C. 1, 519 S.E.2d 52 (1999)

• In order for a taxpayer to have valuation set aside, he must show more than a failure to follow statutory procedures. It is not enough for the taxpayer to show that the means adopted by the tax supervisor were wrong; he must also show
that the result arrived at is substantially greater than the true value in money of the property assessed, i.e., that the valuation was unreasonably high.

Other General Legal References that bear on the Concept of Value:

- The North Carolina General Assembly, and no one else, determines how property in this State should be valued for purposes of ad valorem taxation.

- The legislature has decreed that all property, real and personal, within the jurisdiction of the State, is subject to taxation whether owned by a resident or a nonresident. The purpose of this strong decree is to treat all property owners equally so that the tax burden will be shared proportionately, and to gather in all the tax money to which the various counties and municipalities are entitled.

- Uniformity in taxation relates to equality in the burden of the State’s taxpayers.

- Ad valorem tax assessments are presumed to be correct, and when such assessments are challenged, the burden of proof is on the taxpayer to show that the assessment was erroneous.

- Ad valorem tax assessments are presumed correct. In order to rebut this presumption, the taxpayer must present evidence to show that an arbitrary method of valuation was used, or that an illegal method of valuation was used and that the assessment substantially exceeded the true value in money of the property.

- In order to obtain relief from valuations upon their property by the State Board of Assessment, appellant electric membership corporations must show that the methods used in determining true value were illegal and arbitrary, and that appellants were substantially injured by a resulting excessive valuation of their property.

- Burden is on the taxpayer to show that it comes within the exemption or exception.

The following important points regarding market value should be noted:

• It is the most probable price.
• It is not the highest, lowest, or average price.
• It is expressed in terms of money.
• It implies a reasonable time for exposure to the market.
• It implies that both buyer and seller are well-informed of the uses to which the property may be put. It requires an arm’s length transaction in the open market.
• It requires a willing buyer and willing seller, with no advantage being taken by either buyer or seller. This is a constraint against consideration of foreclosures and short sales.\(^8\)
• It recognizes the present use as well as the potential use of the property.

**Highest and Best Use**

The way in which property is used, or could be used, plays an essential role in determining its market value. Most appraisal organizations recognize the highest and best use of a given property must conform to the following four points:

• It must be a legal use. (in many instances zoning will identify the legal use)
• It must be a physically possible use.
• It must be an economically feasible use. And,
• It must be the use that generates the greatest net return to the owner.

Almost all property is subject to competing uses. Rural land is subject to the competition of farming and grazing. Urban land is subject to many competing uses; a single parcel of land may be sought after as the site for a store, gas station, apartment building, or office building. When determining an opinion of market value, it is necessary to determine which of the competing uses is the highest and best use.

Highest and best use may be defined as that use which will generate the highest net return to the property over a period of time. Further amplification of this definition is necessary for a clear understanding of the term.

The highest and best use must be a legal use. This means not only that the use cannot be criminal but also that it must be permitted under local administrative regulations, such as zoning. Assuming that zoning regulations are strictly enforced, the highest and best use may be limited. If

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\(^8\) Please refer to the Addendum, Document #1 for the DEED EDIT SHEET provided by the NC Department of Revenue’s Property Tax Division, for a complete list of reasons for which a sale can be rejected from consideration as an arm’s length transaction.
it is easy to obtain a change or variance in zoning, uses not permitted by current regulations must be considered along with the probability that zoning will be changed. The use also must not be prohibited by enforceable restrictions contained in the chain of title to the property.

The use must be a probable use and not a highly unlikely or speculative one. There must be a demand for the use either in the present or in the near future. This, of course, is determined by persons in the market and not by a bias on the part of the assessor. It is important to consider as well that the highest and best use may be the present use or an entirely different one. It may even be a combination of uses over a period of time. Imagine, for example, a site in a good downtown location on which stands a three-story store with a 75 percent vacancy factor. Assume that the site could be developed with a modern fifteen-story office building. However, since there is currently too much unrented office space on the market, the highest and best use of the property might be as a parking lot for the next five years. Once the excess office space is absorbed, its highest and best use could be as an office building.

The highest and best use will be a complementary rather than a competitive use. For example, if there are gas stations on three of four corners, a fourth gas station will reduce the customers that are available to all four stations. However, suppose that on the fourth corner a fast-food restaurant were established. The restaurant would draw business from the gas station customers. Conversely, the gas stations would draw business from the restaurant’s customers.

The highest and best use must be the most profitable for the entire property, land, buildings, and other improvements—since the market deals with the total property unit and land and buildings usually are not sold separately. Also, when estimating highest and best use, the assessor should not combine parcels of common ownership that are used independently for different purposes.

The highest and best use generates the highest net return over a reasonable period of time. A use that yields a very high immediate income but one of short duration may not be as valuable as a use that results in a lower but more prolonged income stream. Just as everything changes with time, the highest and best use of property will change. The character of a neighborhood may be altered, thereby creating demands for different uses. The assessor periodically reviews conclusions as to highest and best use and revises them according to the data that are collected.

Properties in transition present a difficult appraisal problem. Not only must a new highest and best use be found for the property, but also an estimate must be made as to when the property will begin the new use. Occasionally, there will be an interim use prior to the future highest and best use. In order to estimate the value of these consecutive uses, the benefits must be identified, valued, and summed. The total value is the sum of:

1. The present worth of the income stream from the interim use for the period of that use less the cost of erecting interim improvements.

2. The present worth of the salvage value of the interim improvements less the present worth of removing them.

3. The present worth of the income stream from the future use less the present worth of erecting the future improvements.
For example, assume that a vacant parcel of land downtown has a highest and best use as a parking lot for five years and as a twenty-five-story office building thereafter. The sum of the future benefits is shown as pluses and minuses in the following example:

Plus . . . .
1. Present worth of parking-lot income for five years,
2. Present worth of salvage value of parking-lot improvements deferred five years,
3. Present worth of sixty-year income stream from twenty-five-story office building deferred six years (one year for construction)

Minus . . . .
1. Cost of erecting parking-lot improvements: paving, fencing, and small office.
2. Present worth of cost to demolish parking-lot improvements deferred five years.
3. Present worth of cost to construct a 25-story office building deferred six years.

Basic Principles of Value

These principles, which have evolved from economic doctrine, are generally accepted as having a direct effect on the modern concept of value. It should be emphasized that these principles rarely if ever can be considered in isolation; it is typical to conceive of them in an interrelated setting, for they tend to complement and accompany one another. It should also be pointed out that highest and best use is the resulting use after considering the interrelationship among the basic appraisal principles.

The following are generally regarded as essential to the understanding of the appraisal function. They are listed (in alphabetical order) as follows:

Principle of Anticipation:
Market value is the present worth of all the anticipated future benefits to be derived from the property. The benefits may be in the form of an income stream or amenities. Anticipated future benefits are those benefits anticipated by the market. The assessor should not allow personal opinion to influence the determination of anticipated future benefits. Past sales of the property and past income are of importance only when they are an indication of what may be expected in the future. The principle of anticipation works in conjunction with the principle of change.

Principle of Balance:
The principle of balance has dual significance. When applied to an individual property, the principle states that maximum market value is reached when the four agents of production - labor, coordination or management, capital, and land attain a state of equilibrium. In the case of individual properties, the principle works in conjunction with the principles of contribution, increasing and decreasing returns, and surplus productivity. When applied to a neighborhood,
principle of balance indicates that maximum market value is reached when the complementary uses of land attain equilibrium. For example, a single-family residential neighborhood requires commercial facilities such as grocery stores, gasoline stations, drugstores, and so forth. It also needs residential support facilities such as churches, schools, recreational facilities, and the like. When these complementary uses are in balance, the individual properties (and the neighborhood) achieve maximum market value. When the principle of balance is applied to a neighborhood, it works in conjunction with the principle of competition.

**Principle of Change:**

This principle states that market value is never constant, because economic, social, and governmental forces are at work to change the property and its environment. In addition, property itself is constantly changing. For example, the forces of nature can change the quality of the soil, and improvements change by aging. Because change is continuous, the estimate of market value is valid only on the effective day for which it is made. The principle of change works in conjunction with the principle of anticipation.

**Principle of Competition:**

The principle states that when substantial profits are being made, competition is created. This leads to the aphorism that profit tends to breed competition and that excess profit breeds ruinous competition. A neighborhood can support only a certain number of bowling lanes, department stores, gasoline service stations, and shopping centers. An excess of any one type of facility will tend to decrease the value of most, if not all, other such facilities.

**Principle of Conformity:**

This principle states that maximum market value is reached when a reasonable degree of economic and social homogeneity is expected in the foreseeable future. When the principle is applied to improvements, reasonable homogeneity implies reasonable similarity, not monotonous uniformity. When it is applied to the residents, it means similarity in age, income, background, education, attitudes, and so on. Conformity works in conjunction with the principles of progression and regression and is essential in understanding the “neighborhood” concept as a mass appraisal technique.

**Principle of Consistent Use:**

This principle states that the property must be valued with a single use for the entire property. It is improper to value a property on the basis on one use for the land and another use for the improvements. This is not to say that consecutive uses for the entire property would violate the principle of consistent use. The principle of consistent use is especially applicable to a property in transition from one use to another.
While the improvements on a parcel ready for a higher use may theoretically have a long physical life, their economic life may have already terminated. In this case the improvements may have a negative value, namely, the cost of demolition.

**Principal of Contribution:**

This principle states that the value of an agent of production (or a property component) depends upon its contribution to the whole. This is another way of saying that cost does not necessarily equal value. Some examples are:

1. Cost does not always equal value. Ten thousand dollars is spent on labor, (which is a cost), to build a two-car garage. What has the $10,000 worth of labor contributed to the value of the property—less than $10,000, $10,000 or more than $10,000?

2. The real estate market tends to look at the contribution of a property characteristic in broad terms. While there can be significant cost differences between a stucco chimney and a very plain fireplace profile versus a stone chimney and fireplace profile, that difference in cost may very likely not be likewise reflected in the value of the two homes located in the same neighborhood with the very different chimneys and fireplaces.

3. An owner spends $20,500 to erect a garage for use with the home. Based on a comparable sales analysis, it is determined that such a garage adds $21,500 to the overall market value of the property. In this case $21,500 is the value contribution of the garage.

4. In the case of income-producing properties, the value of an agent in production (or property component) can be measured by the amount it contributes to net income, since net income can be capitalized into value. For example, assume that the owner of a small retail store finds that, by spending $2,000 for an air-conditioning unit, annual gross income from rents can be increased by $650. Additional operating expense due to the air-conditioning unit will be only $400, including amortization of the investment. Consequently, installation of this unit will add value to this property in excess of its cost. If the additional annual income were less than $400, the expense would not be practical.

This principle is the basis for the adjustment process of the comparative sales approach to value and the direct sales comparison method of land valuation, for determining whether physical deterioration and functional obsolescence are curable or incurable, and for justifying remodeling and modernization. Many of the adjustments to value that are detailed herein for various property characteristics, are based on their contribution to the whole property, not their actual cost.

The principle of contribution works in conjunction with the principles of balance, increasing and decreasing returns, and surplus productivity.

**Principle of Increasing and Decreasing Returns:**

This principle states that when successive increments of one agent of production are added to fixed amounts of other agents, future net benefits (income or amenities) will increase up to a certain point
(point of decreasing returns), after which successive increments will decrease future net benefits. For example, assume a number of hypothetical buildings, each constructed on the same site.

- A 10,000 square foot building that can earn 1.4 percent on its cost;
- A 20,000 square foot building that can earn 5.5 percent on its cost;
- A 30,000 square foot building that can earn 8.0 percent on its cost;
- A 40,000 square foot building that can earn 5.8 percent on its cost;
- A 50,000 square foot building that can earn 1.2 percent on its cost.

In this illustration, constructing larger buildings will produce increasing returns up to the point of a 30,000 square foot building. Beyond this point, additional investment to construct a larger building starts to contribute to diminishing returns. The principle of increasing and decreasing returns works in conjunction with the principles of balance, contribution, and surplus productivity.

**Principles of Progression and Regression:**

Progression indicates that the value of a lesser object is enhanced by association with better objects of the same type. For example, a $72,000 house among $125,000 homes could probably bring a higher price in the market. The principle of regression states that when there are dissimilar properties within the same general classification and in the same area, the better property will be adversely affected. Thus, when a $150,000 house is located in an area where the typical home is in the $75,000 category, the market value of the former will tend to fall. The $150,000 house, in this example, is an over-improvement for the neighborhood. The principles of progression and regression work in conjunction with the principle of conformity. This principle is sometimes referred to as the “hydraulic principle” – all waters tend to seek the same level – whereas comparable properties within a given neighborhood tend to seek a common market level.

**Principle of Substitution:**

A property’s market value tends to be set by the cost of acquiring an equally desirable and valuable substitute property, assuming that no costly delay is encountered in making the substitution. This principle serves as the basis of the three approaches to value-cost, comparative sales, and income.

**Principle of Supply and Demand:**

This principle states that market value is determined by the interaction of the forces of supply and demand. A sudden increase in the population of an area would increase demand. If, at the same time, mortgage interest rates rose sharply, demand might lessen.
**Principle of Surplus Productivity:**

This principle states that the net income remaining after the cost of the agents of production—labor, coordination, and capital has been paid is considered surplus productivity. The surplus productivity is the income earned by or attributable to the land. The agents in production must be satisfied in the following order: labor (wages), coordination (management), capital (improvements), and land. As a result, land value tends to be set by the cost of labor, coordination, and capital. The principle of surplus productivity works in conjunction with the principles of balance, contribution, and increasing and decreasing returns.

**Important Concepts Regarding Property**

1. Real property is the sum of tangible and intangible rights in land and improvements. Real estate is the physical land and everything permanently attached to it. Personal property consists of movable items not permanently affixed to, or part of, the real estate.

2. Land is the surface of the earth together with everything under its boundary and everything over it. Improvements are movable items affixed to and becoming part of the real estate.

3. The six basic rights associated with the ownership of property are the rights to use, sell, lease, or rent, enter or leave, give away, and refuse to do any of these.

4. The four limitations imposed by governments on the private ownership of property are taxation, eminent domain, police power, and escheat.

5. Fee-simple title is the greatest possible degree of ownership and is title free and clear of all encumbrances.

**Concepts of Value**

1. Value in use embodies the objective premise, which maintains that value is within the object itself. Value in exchange holds that value is within the mind of man. Value in exchange-market value— is the primary goal of the assessor.

2. Desire, utility, scarcity, and economic purchasing power are essential in creating value.

3. Market value is the most probable price, expressed in terms of money, that a property would bring if exposed for sale in the open market in an arm’s-length transaction between a willing seller and a willing buyer, both of whom are knowledgeable concerning all the uses to which it is adapted and for which it is capable of being used.

4. Estimating market value is dependent upon determining the highest and best use of the property. Highest and best use is defined as the legal, physically possible and
economically feasible use which will generate the highest net return to the property over a period of time.

5. The determination of highest and best use requires the proper application of the interrelated appraisal principles.
Value is an elusive item that occurs in many different forms. The forces and influences which combine to create, sustain, or destroy value are numerous and varied. It is the appraiser’s function to define the type of value sought (market value in North Carolina for ad valorem tax purposes), to compile and to analyze all related data, and giving due consideration to all the factors which may influence the value, to process and translate that data into a final opinion or estimate of value. This, appraisers must do for each parcel to be appraised.

The processing of this data into a conclusion of value generally takes the form of three recognized approaches to value; Cost Approach, Sales Comparison Approach and Income Approach. The use of one or all three approaches in the valuation of a property is determined by the quantity, quality, and accuracy of the data available to the appraiser for that particular property type. Underlying each of the approaches is the Principle of Substitution; that the justifiable price of a property is no more than the cost of acquiring and/or reproducing an equally desirable substitute property.

The COST APPROACH involves making an estimate of the depreciated cost of reproducing or replacing the building and site improvements. Reproduction Cost refers to the cost at a given point in time of reproducing an exact replica of the improvements, whereas Replacement Cost refers to the cost of producing improvements of equal utility, but using modern materials and construction techniques. Depreciation is deducted from this cost new for loss in value caused by physical deterioration, and functional or economic obsolescence. To this depreciated cost is then added the estimated value of the land, resulting in an indication of value derived by the Cost Approach.

The significance of the Cost Approach lies in its extent of application . . . it is the one approach that can be used on all types of construction. It is a starting point for appraisers, and therefore it is a very effective "yardstick” in any equalization program for ad valorem taxes. Its widest application is in the appraisal of properties where the lack of adequate market and income data preclude the reasonable application of the other traditional approaches.9

The SALES COMPARISON APPROACH involves compiling sales and offerings of properties, which are comparable to the property being appraised. These sales and offerings are then adjusted for any dissimilarity, and a value range obtained by a comparison of said properties. The approach is reliable to the extent that the properties are comparable, and the appraiser’s judgment of proper adjustments is sound. The procedure for using this approach is essentially the same for all types of property with the only difference being the elements of comparison.

The significance of this approach lies in its ability to produce estimates of value, which directly reflect the attitude of the market. Its application is contingent upon the availability of comparable

9 Please refer to the chart at the top of Page 7 comparing the relative strengths of the three approaches to value to Residential, Commercial, and Industrial/Special Purpose property.
sales, and therefore finds its widest range in the appraisal of vacant land and residential properties. Applicable North Carolina case law includes:

Neither this section nor G.S. 105-317(a) requires the commission to value property according to its sales price in a recent arm’s length transaction when competent evidence of a different value is presented.

Where sale was not between a willing buyer and a willing seller, as contemplated by this section, sales price was not indicative of property’s true value.
In re Phoenix Ltd. Partnership, 134 N.C. App. 474, 517 S.E.2d 903 (1999)

Essentially, North Carolina law prohibits the presumption that the sale price of any particular property must be the basis for its appraised value for ad valorem tax purposes. Instead, reliance is placed on the greater weight of evidence determined from a larger sampling of comparable properties and as a result, the appraised value may be less than or greater than the sale price of any particular property.

The INCOME APPROACH measures the present worth of the future benefits of a property by the capitalization of the net income stream over the remaining economic life of the property. The approach involves making an estimate of the "Effective Gross Income" (EGI), of a property, derived by deducting the appropriate “Vacant and Collection Loss” from its estimated “Gross Potential Income” (GPI), based on its economic rent, as evidenced by the yield of comparable properties. From this figure are deducted applicable operating expenses, the cost of taxes and insurance, and reserve allowances for replacements resulting in an estimate of “Net Income”, which may then be capitalized into an indication of value.

The income approach obviously has its basic application in the appraisals of properties universally bought and sold on their ability to generate and maintain a stream of income for their owners. The effectiveness of the approach lies in the appraiser’s ability to relate to the changing economic environment and to analyze income yields in terms of their relative quality and durability.
Applicable North Carolina case law includes:

Section 105-317(a), in fixing the guide which assessors must use in valuing property for taxes, includes as a factor the past income therefrom, and its probable future income. But the income referred to is not necessarily actual income. The language is sufficient to include the income which could be obtained by the proper and efficient use of the property. To hold otherwise would be to penalize the competent and diligent and to reward the incompetent or indolent.

Neither this section nor G.S. 105-317(a) requires the commission to value property according to its sales price in a recent arm’s length transaction when competent evidence of a different value is presented.

If it appears that the income actually received is less than the fair earning capacity of the property, the earning capacity should be substituted as a factor rather than the actual earnings. The fact finding board can properly consider both.
In re Property of Pine Raleigh Corp., 258 N.C. 398, 128 S.E.2d 855 (1963);
THE COST APPROACH

If the highest and best use of a property is its current use, a valid indication of value may be derived by estimating the value of the land, and adding the land value to the depreciated value of the structures on the land; the resulting equation being...

\[ \text{Estimated Land Value} + \text{Estimated Replacement Cost New of Structures} - \text{Estimated Depreciation} = \text{Indication of Property Value} \]

Since estimating the land value is covered in a separate section, this section will address itself to the two remaining elements, Replacement Cost and Depreciation.

REPLACEMENT COST

Replacement Cost is the current cost of producing an improvement of equal utility to the subject property; it may or may not be the cost of reproducing a replica property. The distinction being drawn is one between Replacement Cost, which refers to a substitute property of equal utility, as opposed to Reproduction Cost, which refers to an exact replica of the property. In a particular situation the two concepts may be interchangeable, but they are not necessarily so. They both, however, have application in the Cost Approach to value, the difference being reconciled in the consideration of depreciation allowances.

In actual practice, outside of a few historic type communities in this country, developers and builders, for obvious economic reasons, replace buildings, not reproduce them. It logically follows that if an appraiser's job is to measure the actions of knowledgeable persons in the market place, the use of proper replacement costs should provide an accurate point of beginning in the valuation of most improvements.

The replacement cost includes the total cost of construction incurred by the builder whether preliminary to, during the course of, or after completion of the construction of a particular building. Among these are material, labor, all subcontracts, builders' overhead and profit, architectural and engineering fees, consultation fees, survey and permit fees, legal fees, taxes, insurance, and the cost of interim financing.
ESTIMATING REPLACEMENT COST

There are various methods that may be employed to estimate replacement cost new. The methods widely used in the appraisal field are the quantity survey method, the unit-in-place or component part-in-place method, and the model method.

The Quantity-Survey Method involves a detailed itemized estimate of the quantities of various materials used, labor and equipment requirements, architect and engineering fees, contractor's overhead and profit, and other related costs. This method is primarily employed by contractors and cost estimators for bidding and budgetary purposes and is much too laborious and costly to be effective in every day appraisal work, especially in the mass appraisal field. The method, however, does have its place in that it is used to develop certain unit-in-place costs, which can be more readily applied to estimating for appraisal purposes.

The Unit-in-Place Method is employed by establishing in-place cost estimates (including material, labor, overhead and profit) for various structural components. The prices established for the specified components are related to their most common units of measurement such as cost per yard of excavation, cost per lineal foot of footings, and cost per square foot of floor covering.

The unit prices can then be multiplied by the respective quantities of each component as they are found in the composition of the subject building to derive the whole dollar component cost, the sum of which is equal to the estimated cost of the entire building, providing of course, that due consideration is given to all other indirect costs which may be applicable. This components part-in-place method of using basic units can also be extended to establish prices for larger components in-place such as complete structural floors (including the finish flooring, sub-floor, joists and framing), which are likely to occur repeatedly in a number of buildings.

The Model Method is still a further extension, in that unit-in-place costs are used to develop base unit square foot or cubic foot costs for total specified representative structures in place, which may then serve as "models" to derive the base unit cost of comparable structures to be appraised. The base unit cost of the model most representative of the subject building type is applied to the subject building and appropriate tables of additions and deductions are used to adjust the base cost of the subject building to account for any significant variations between it and the model.

Developed and applied properly, these pricing techniques will assist the appraiser in arriving at valid and accurate estimates of replacement cost new as of a given time, which for ad valorem tax purposes is always January 1 of the reappraisal year. That cost generally represents the upper limit of value of a structure. The difference between its replacement cost new and its actual value is depreciation. The final step in completing the Cost Approach then is to estimate the amount of depreciation and deduct said amount from the replacement cost new.
DEPRECIATION

Simply stated, “accrued depreciation” is defined as “a loss in value from all causes”. As applied to real estate, it represents the loss in value between market value and the sum of the replacement cost new of the improvements plus the land value as of a given time. The causes for the loss in value may be divided into three broad classifications; Physical Deterioration, Functional Obsolescence, and Economic Obsolescence.

Physical Deterioration pertains to the wearing out of the various building components, referring to both short-life and long-life terms, through the action of the elements, age, and use. The condition may be considered either “curable” or “incurable”, depending upon whether it may or may not be practical and economically feasible to cure the deficiency by repair and replacement.

Functional Obsolescence is a condition caused by either inadequacies or super-adequacies in design, style, composition, or arrangement inherent to the structure itself, which tends to lessen its usefulness and desirability in the marketplace. Like physical deterioration, the condition may be considered either curable or incurable. Some of the more common examples of functional obsolescence are inadequate wall and ceiling heights, excessive structural construction, surplus capacity, and ineffective layouts.

Economic Obsolescence is a condition caused by factors extraneous to the property itself, such as encroachment of inharmonious land uses on adjoining or nearby parcels. The condition is generally incurable in that the causes lie outside the property owner’s realm of control.

ESTIMATING DEPRECIATION

An estimate of depreciation represents an opinion of the appraiser as to the degree that the present and future appeal of a property has been diminished by deterioration and obsolescence. Of the three estimates necessary to the cost approach, it is the one most difficult to make. The accuracy of the estimate will be a product of the appraiser’s experience in recognizing the symptoms of deterioration and obsolescence and the ability to exercise sound judgment in equating all observations to the proper monetary allowance to be deducted from the replacement cost new. There are several acceptable methods, which may be employed:

Physical deterioration and/or functional obsolescence can be measured by observing and comparing the physical condition and/or functional deficiencies of the subject property as of a given time with either an actual or hypothetical, comparable, new and properly planned structure.

Curable physical deterioration and functional obsolescence can be measured by estimating the cost of restoring each item of depreciation to a physical condition as good as new, or estimating the cost of eliminating the functional deficiency.
Functional and economic obsolescence can be measured by capitalizing the estimated loss in rental due to the structural deficiency or lack of market demand.

Total accrued depreciation may be estimated by first estimating the total useful life of a structure and then translating its present condition, desirability, and usefulness into an effective age (rather than an actual age), which would represent that portion of its total life (percentage), which has been used up.

Total accrued depreciation may also be estimated by deriving the amount of depreciation recognized by purchasers as evidenced in the prices paid for property in the market place; the loss of value being the difference between the cost of replacing the structure new and its actual selling price (total property selling price less the estimated value of the land).
INTRODUCTION

The justified price paid for income producing property is no more than the amount of investment required to produce a comparably desirable return; and since the market can be analyzed in order to determine the net return actually anticipated by investors, it follows that the value of income producing property can be derived from the income which it is capable of producing. What is involved is an estimate of income through the collection and analysis of available economic data, the development of a proper capitalization rate, and the processing of the net income into an indication of value by employing one or more of the acceptable capitalization methods and techniques.

The caveat to a sole reliance on the above premise in the income approach occurs when actual and/or economic rents will not support the sales price. In those instances, other forces must be assumed to be present; the anticipation of future benefits being foremost.

THE PRINCIPLES OF CAPITALIZATION

*Capitalization* is the process for converting the net income produced by property into an indication of value. Through the years of appraisal history, a number of procedures have been recognized and employed by appraisal authorities in determining the value of real estate by the income approach. For ad valorem tax purposes, when and where reliable data is available, direct capitalization will be used.

EXPLORING THE RENTAL MARKET

The starting point for the appraiser is an investigation of current economic rent in a specific area in order to establish a sound basis for estimating the gross income, which should be returned from competitive properties. The appraiser must make a distinction between *economic rent* and the rent which the property would normally be expected to produce on the open market, as opposed to *actual rent* or that which the property is actually producing at the time of the appraisal, usually due to lease terms established sometime in the past.

The first step then is to obtain specific income and expense data on properties, which best typify normal market activity. The data is necessary to develop local guidelines for establishing the economic rent and related expenses for various types of properties.

The next step is to similarly collect income and expense data on individual properties, and to evaluate the data against the established guidelines. The collection of income and expense data (I & E) is an essential phase in the valuation of commercial properties. The appraiser is primarily
concerned with the potential earning power of the property. The objective is to estimate its expected net income. Income and Expense Statements of past years are valuable only to the extent to which they serve this end. The statements must not only be complete and accurate, but must also stand the test of market validity. Consideration of the following factors should assist the appraiser in evaluating the “Income & Expense” data in order to arrive at an accurate and realistic estimate of net income; sometimes expressed as “Net Income Before Recapture”.

Henderson County sends surveys soliciting income and expense data from property owners of commercial (income-producing) property. Historically, these surveys are not well-received by the public. Historically, a more significant amount of additional information becomes available upon the mailing of the reappraisal notices of value. At that point, as part of the local appeals process, income and expense data is generally provided by the property owner in support of their claim seeking a decrease in appraised value. The quality/worth of that data is dependent on the documentation provided. Lease information (lease rates, terms, and other stated considerations) is best. Undocumented statements are least useful.

NOTE: Henderson County, as part of our development of the 2015 Schedules of Values, Standards, and Rules, recently mailed surveys to 243 Mobile Home Park Owners and 1,941 owners of commercial property, with the following results, to date:
- 46 of the 243 MH Park Owners responded (18.9%).
- 222 of the 1,941 commercial property owners responded with data (11.4%).
- 236 of the same 1,941 commercial property owners responded by indicating their property was owner-occupied (12.2%).

Henderson County recently subscribed to Karnes © in order to have access to their database of commercial property listings and sales. This statewide database allows for us to narrow our search to listings and sales located within Henderson County only. Given the number of commercial enterprises in our county, this database is an attempt to obtain as much information as possible.

QUESTIONS RELATING TO INCOME DATA

A. Was the reported income produced entirely by the subject property? Very often the rental will include an amount attributable to one or more additional parcels of real estate. In this case, it would be necessary to obtain the proper allocations of rent.

B. Was the income attributable to the subject property as it physically existed at the time of the appraisal, or did the appraisal include the value of leasehold improvements and remodeling for which the tenant paid in addition to rent? If so, it may be necessary to adjust the income to reflect economic rent.

10 All Survey data received from property owners where their income and expense information is stated, is held CONFIDENTIAL. Survey data may be compiled into a summary document and incorporated herein for subsequent consideration either prior to a final determination for reappraisal purposes or for supporting evidence of value as part of the appeal process.
C. Does the reported income represent a full year’s return? It is often advisable to obtain both monthly and annual amounts as a crosscheck.

D. Does the income reflect current economic rent? Is either part or all of the income predicated on old leases? If so, what are the provisions for renewal options and rates?

E. Does the reported income reflect 100% occupancy? What percentage of occupancy does it reflect? Is this percentage typical of this type of property, or is it due to special non-recurring causes?

F. Does the income include rental for all marketable space? Does it include an allowance for space, if any, which is either owner or manager occupied? Is the allowance realistic?

G. Is the income attributable directly to the real estate and conventional amenities? Is some of the income derived from furnishings and appliances? If so, it will be necessary to adjust the income or make provisions for reserves to eventually replace them, whichever local custom dictates.

H. In many properties an actual rental does not exist because the real estate is owner occupied. In this event it is necessary to obtain other information to provide a basis to estimate economic rent. The information required pertains to the business operation using the property. Proper analysis of the annual operating statements of the business, including gross sales or receipts, can provide an accurate estimate of economic rent. Caution must be exercised to relate the income and expense data as it is attributable to the property and not the business enterprise. Information requirements for a few of the more common property uses are as follows:

Retail Stores The annual net gross sales (Gross sales less returned merchandise), and leased space if any.

Hotels and Motels The annual operating statement of the business. If retail or office space is leased in these properties, obtain the actual rent paid.

Theaters The annual gross receipts (including admissions and concessions) and seating capacity.

Automobile Parking The annual gross receipts.
ANALYSIS OF EXPENSE DATA

The appraiser must consider only those expenses, which are applicable to the cost of ownership; that is, those expenses, which are normally owner incurred. Any portion of the expenses incurred directly or indirectly by the tenant should not be considered. Each expense item must stand the test of both legitimacy and accuracy. How do they compare with the established guidelines and norms? Are they consistent with the expenses incurred by comparable properties?

Management refers to the cost of administration. These charges should realistically reflect what a real estate management company would actually charge to manage the property. If no management fee is shown on the statement, the appraiser must make a proper allowance. On the other hand, if excessive management charges are reported, as is often the case, the appraiser must disregard the reported charges and use an amount, which he deems appropriate and consistent with comparable type properties. The cost of management bears a relationship with the risk of ownership and will generally range between 4 to 10% of the gross income.

General expenses may include such items as the cost of services and supplies not charged to a particular category. Unemployment and F.I.C.A. taxes, Workmen’s Compensation, and other employee insurance plans are usually legitimate deductions when employees are a part of the building operation.

Reimbursed expenses refer to the cost associated with the maintenance of public or common areas of the commercial property. This expense is passed on to the tenants and should, therefore, only be considered when the amount of reimbursement is included as income.

Miscellaneous expenses are the "catch-all" category for incidentals. This item should reflect a very nominal percentage of the income. If expenses reported seem to be excessive, the appraiser must examine the figures carefully in order to determine if they are legitimate and if so, to allocate them to their proper category.

Cleaning expenses are legitimate charges. Many are for such items as general housekeeping and maid service, and include the total cost of labor and related supplies. All or a portion of the cleaning services may be provided by outside firms working on a "contract" basis. Cleaning expenses vary considerably and are particularly significant in operations such as offices and hotels. "Rule of thumb" norms for various operations are made available through national management associations. The appraiser should have little difficulty in establishing local guidelines.

Utilities are generally legitimate expenses and if reported accurately, need very little reconstruction by the appraiser, other than to determine if the charges are consistent with comparable properties. Local utility companies can provide the appraiser with definite guidelines.

Heat and Air Conditioning costs are often reported separately and in addition to utilities. The expenses would include the cost of fuel other than the above-mentioned utilities, and may include, especially in large installations, the cost of related supplies, inspection fees, and maintenance
charges. These are generally legitimate costs, and the same precautions prescribed for "utilities" are in order.

*Elevator* expenses, including the cost of repairs and services, are legitimate deductions, and are generally handled through service contracts. These fees can generally be regarded as fairly stable annual recurring expenses.

*Decorating and minor alterations* are necessary to maintain the income stream of many commercial properties. In this respect they are legitimate expenses. However, careful scrutiny of these figures is required. Owners tend to include the cost of major alterations and remodeling which, in fact, capital expenditures, and as such are not legitimate operating expenses.

*Repairs and* Maintenance expenses reported for any given year may not necessarily be a true indication of the average or typical annual expense for these items. For example, a statement could reflect a substantial expenditure for a specific year (possibly because the roof was replaced and/or several items of deferred maintenance were corrected); yet the statement for the following year may indicate that repairs and maintenance charges were practically none. It is necessary for the appraiser to either obtain complete economic history on each property in order to make a proper judgment as to the average annual expense for these items, or include a proper allowance based on norms for the type and age of the improvements to cover annual expenses. Since it is neither possible nor practical to obtain enough economic history on every property, the latter method is generally used and the amounts reported for repairs and maintenance are then estimated by the appraiser.

*Insurance.* Caution must be used in accepting insurance expense figures. Cost shown may be for more than one year, or may be for blanket policies including more than one building. It is generally more effective for the appraiser to establish his own guidelines for insurance. He must also be careful to include only items applicable to the real estate. Fire extended coverage and owner's liability are the main insurance expense items. Separate coverage’s on special component parts of the buildings, such as elevators and plate glass, are also legitimate expenses.

*Real Estate Taxes.* In making appraisals for tax purposes, the appraiser must exclude the actual amount reported for real estate taxes. Since future taxes will be based on his appraised value, the appraiser must express the taxes as a factor of the estimated value. This can be done by including an additional percentage in the capitalization rate to account for real estate taxes.

*Depreciation.* The figure shown for depreciation on an operating statement is a "bookkeeping figure" which the owner uses for Internal Revenue purposes and should not be considered in the income approach. This reflects a tax advantage, which is one of the benefits of ownership.

Interest. Although interest is considered a legitimate expense, it is always included in the Capitalization Rate. Most property is appraised as if it were "free and clear"; however, the appraiser does consider the interest of a current mortgage in the Capitalization Rate build-up.
Land Rent. When appraising for real estate tax purposes, only the sum of the leasehold and the leased fee is usually considered. Land rent is not deducted as an expense. Considered separately, rent from a ground lease would be an expense to the leasehold interest and an income to the leased fee. However, if land were rented from another property to supply additional parking for example, that land rent would be an allowable expense.

It is obvious that there are some expense items encountered on operating statements that the appraiser should not consider as allowable. This is because he is interested in legitimate cash expenses only. Income statements are usually designed for income tax purposes where credit can be taken for borrowing costs and theoretical depreciation losses.

It is virtually impossible and certainly not always practical to obtain a complete economic history on every commercial property being appraised. On many properties, however, detailed economic information can be obtained through the use of Income and Expense forms. One must realistically recognize the fact that the data obtainable on some properties is definitely limited.

In most cases, the gross income and a list of the services and amenities furnished can be obtained during the data gathering operation. However, in order to insure a sound appraisal, it may be necessary to estimate the fixed and operating expenses. This is best accomplished by setting guidelines for expenses, based on a percent of Effective Gross Income or a cost per square foot of leasable area. These percentages or costs will vary depending on the services supplied and the type of property.

CAPITALIZATION METHODS

The most prominent methods of capitalization are Direct, Straight Line, Sinking Fund, and Annuity. Each of these is a valid method for capitalizing income into an indication of value. The basis for their validity lies in the action of the market, which indicates that the value of income producing property can be derived by equating the net income with the net return anticipated by informed investors. This can be expressed in terms of a simple equation:

\[ \text{Value} = \text{Net Income} + \text{Capitalization Rate} \]

The Straight Line and Sinking Fund methods are both actual forms of Straight Capitalization, with one using Straight Line recapture and the other using Sinking Fund recapture. Both methods follow the same basic principles as Direct Capitalization, differing only in that they provide for separate Capitalization rates for land and buildings; the building rate differing from the land rate in that it includes an allowance for recapture.

Straight Line Capitalization allows for "recapture" based on remaining economic life of the building - implying that at the end of that period of time, there would be a zero improvement value. There
are three fallacies in this thinking. First, the potential buyer (investor) has no intention of holding the property that long. The average investment period might average ten years. Second, the investor anticipates that at the end of that period he will either get all his money back or will make a profit. And third, is the depreciation allowance possible in connection with federal income taxes.

Depreciation allowances begin to "run out" between seven and ten years, so the advantages of owning the property are reduced considerably. A prudent owner may choose to sell the property at this point and re-invest in another property so that he may begin the depreciation cycle again and continue to take full advantage of the favorable tax laws.

For these reasons, the Straight Line Capitalization Method does not usually follow what the market indicates.

*Straight Line recapture* calls for the return of investment capital in equal increments or percentage allowances spread over the estimated remaining economic life of the building.

*Sinking Fund recapture* calls for the return of invested capital in one lump sum at the termination of the estimated remaining economic life of the building. This is accomplished by providing for the annual return of a sufficient amount needed to invest and annually re-invest in "safe" interest-bearing accounts, such as government bonds or certificates of deposit, which will ultimately yield the entire capital investment during the course of the building’s economic life.

*Annuity Capitalization* lends itself to the valuation of long-term leases. In this method, the appraiser determines, by the use of annuity tables, the present value of the right to receive a certain specified income over stipulated duration of the lease. In addition to the value of the income stream, the appraiser must also consider the value that the property will have once it reverts back to the owner at the termination of the lease. This reversion is valued by discounting its anticipated value against its present day worth. The total property value then is the sum of the capitalized income stream plus the present worth of the reversion value.

**CURRENT TECHNIQUES**

There are two methods, however, that do lend themselves to an accurate measure of market value based on potential income. These are Direct Capitalization, utilizing the Direct Comparison Method of Rate Selection, and Mortgage Equity Capitalization.

**DIRECT CAPITALIZATION**

In *Direct Capitalization*, the appraiser determines a single "overall" capitalization rate. This is done by analyzing actual market sales of similar types of properties. He develops the net income of each property, and divides the net income by the sales price to arrive at an overall rate to provide an
indication of value. Many of the appellate court rulings regarding the valuation of income-producing properties for ad valorem tax purposes have relied on direct capitalization.

MORTGAGE EQUITY CAPITALIZATION

*Mortgage Equity Capitalization* is a form of direct capitalization with the major difference in the two approaches being the development of the overall capitalization rate.

In this method, equity yields and mortgage terms are considered influencing factors in construction of the interest rate. In addition, a plus or minus adjustment is required to compensate for anticipated depreciation or appreciation. This adjustment can be related to the recapture provisions used in other capitalization methods and techniques.

RESIDUAL TECHNIQUES

It can readily be seen that any one of the factors of the Capitalization Equation (Value = Net Income ÷ Capitalization Rate) can be determined if the other two factors are known. Furthermore, since the value of property is the sum of the land value plus the budding value, it holds that either of these can be determined if the other is known. The uses of these mathematical formulas in capitalizing income into an indication of value are referred to as the *residual techniques*, or more specifically, the property residual, the budding residual, and the land residual techniques.

*The Property Residual Technique* is an application of Direct Capitalization. In this technique, the total net income is divided by an overall capitalization rate (which provides for the return on the total investment) to arrive at an indicated value for the property. This technique has received more popular support in recent years because it closely reflects the market. With this technique, the capitalization rate may be developed by either "direct comparison" in the market or by the Mortgage Equity Method.

The *Building Residual Technique* requires the value of the land to be a known factor. The amount of net income required to earn an appropriate rate of return on the land investment is deducted from the total net income. The remainder of the net income (residual) is divided by the building capitalization rate (which is composed of a percentage for the return on the investment, plus a percentage for the recapture of the investment) to arrive at an indicated value for the building.

The *Land Residual Technique* requires the value of the building to be a known factor. The amount of net income required to provide both a proper return on and the recapture of the investment is deducted from the total net income. The remainder of the net income (residual) is then divided by the land capitalization rate (which is composed of a percentage for the return on the investment) to arrive at an indicated value for the land.
GENERAL DISCUSSION:

The SALES COMPARISON APPROACH to value is a method for estimating the market value of a property on the basis of information from sold properties. It is the most commonly used approach in the minds of many participating in the market, as it mimics their general inclinations whether buying and selling a car, a piece of furniture, or an item of clothing. In the process of making comparisons, the buyer generally is aware of a comparable car, piece of furniture, or a similar piece of clothing available at a different business for a different or not-so-different price. Sellers are also mindful of what is being offered in the market that is in direct competition with what they are attempting to sell.

The SALES COMPARISON is so named because the act of comparison is the basic technique being employed. Actually, comparisons are made in each of the three valuation approaches. It is more accurate to say the entire appraisal process is a series of comparisons. This is especially true in the mass appraisal process for property tax administration, where in the final analysis it must be demonstrated that all taxable properties have been uniformly, accurately and equitably valued.

INTRODUCTION TO THE SALES COMPARISON APPROACH:

Constitutions, statutes, and case law define a market value standard for assessment purposes. When sales data is available, the sales comparison approach is generally considered the most reliable. However, in North Carolina assessment litigation, under the "rules of evidence" a bona fide sale of the subject property may not be considered the best evidence of market value “when competent evidence of a different value is presented”. In re Greensboro Office Partnership, 72 N.C.App. 635, 325 S.E.2d 24, cert. denied, 313 N.C. 602, 330 S.E.2d 610 (1985).

The purpose, in both the North Carolina statutory language and the interpretation of relating actual sales to market value by the North Carolina Courts, is to emphasize uniformity and the equitable distribution of the tax burden relative to the premise that similar properties should share similarly in that burden. For that reason, no property is likely to be appraised and assessed for its most recent sales price. Instead, each sale will be included in the sales file from which sales will be analyzed by property type, location, etc., and from which assessments can be fine-tuned for greater uniformity.

The SALES COMPARISON APPROACH models the behavior of the market by comparing the properties being appraised (subject property) with similar properties that have recently sold (comparable properties), or for which offers to purchase have been made. Comparable properties are selected for their similarity to the subject property. Their sales prices are then adjusted for their
differences from the subject. Finally, a market value for the subject is determined from the adjusted sales prices of the comparable properties.

The economic principles of supply and demand provide a framework for understanding how the market works. The interaction of supply and demand factors impacts property prices. Supply depends on current inventories and, in the longer run, on the availability of human skills, material, and capital. Demand is influenced by population levels, mortgage rates, income levels, local services, personal housing preferences, and the cost of substitutes. One demand factor is the cost of substitutes, which ensures that prudent consumers will pay no more for a piece of property than for comparable properties with equal utility, assuming no unreasonable delays. The Principle of Substitution implies that the market will recognize differences in utility between the subject and its best alternatives by a difference in price.

The SALES COMPARISON APPROACH requires the following steps:

- Definition of the appraisal problem.
- Data collection.
- Analysis of market data to develop units of comparison and select attributes for adjustment (model specification).
- Development of reasonable adjustments (model calibration).
- Application of the model to adjust the sales prices of comparables to the subject property.
- Analysis of the adjusted sales prices to indicate the value of the subject property.

The entire valuation process depends on accurately defining the appraisal problem, because the nature of the problem determines the sources of information, methods of comparable selection, and adjustment techniques.

Defining the appraisal problem includes:

- Identifying the property (Parcel Number or PIN for ad valorem tax purposes)
- The rights to be appraised (generally Fee Simple for ad valorem tax purposes)
- The date of appraisal (January 1 of the reappraisal year)
- The use (Highest and Best Use)
- The type of value to estimate (Market Value, for NC ad valorem tax purposes)

The rights to be valued can be a partial interest or fee simple absolute interest. Fee simple absolute interest is usually assumed for both the subject and comparable sales. The date of the appraisal, the "as of" date, is usually defined by statute. In narrative appraisals, the date of appraisal is identified on the valuation report. All comparables are adjusted to the "as of" date.
The collection of accurate data is also essential to the SALES COMPARISON APPROACH. The appraiser analyzes market data to identify important supply and demand factors and determine data needs.

Although the SALES COMPARISON APPROACH has such a wide application as a method of estimating value there are factors, which do or can limit its usefulness. Examples of these limitations include the following:

1. No provision is made for arriving at an estimate of value in those cases where no comparable properties have been sold in recent months or years.
2. No two properties are ever exactly alike. At the very least, they vary in location, even if they are alike in other respects.
3. Depreciation affects value. Because houses are dissimilar in quality of construction and materials, they depreciate at varying rates. Even structures built exactly alike depreciate at different rates because of inevitable differences in maintenance, occupancy, and use.
4. Amenities, being intangible qualities, are difficult to compare. The value of otherwise similar houses may not be the same because of the direction in which one house faces or the view it affords its occupants.
5. Learning the exact conditions attending each sale is essential so that the validity of the sale as comparative data may be substantiated. If the owner had to sell and could not wait for an "informed buyer" and/or was unaware of the current market, the price he accepted may not be indicative of the property’s value in the market. Many motivations lead to the transfer of real property at figures unrelated to its market value. Transfers of property between relatives frequently do not give a true indication of market value and are rarely relied upon as being “arms length”.
6. Properties can vary considerably in their appointments and equipment; heating system, plumbing and electrical equipment and fixtures, insulation, kitchen facilities, and built-in features. All of these factors must be considered in the comparative process, adjusting for the degree of variation. The more factors to be compared and adjusted, the greater the number of decisions and judgments the appraiser must make. Obviously, the more decisions and judgments that must be made, the greater the incident of error.

In spite of its limitations, the SALES COMPARISON APPROACH has broad application in all appraisal work. The value estimates found by the use of this approach are considered particularly significant because they are expressions of value as established by transactions in the market place.

Henderson County employs the SALES COMPARISON APPROACH to estimating Market Value for both the residential category and some commercial properties. Additionally, some valuation parameters of the other valuation approaches (cost & income) are influenced by the application of and observations gleaned from the SALES COMPARISON APPROACH.
EXPLANATION OF THE SALES COMPARISON APPROACH PROCESS:

There are five specific applications of the SALES COMPARISON APPROACH in the appraisal process. Three relate to residential properties and two relate to commercial properties.

Residential
- Multiple Regression Analysis via Group Modeling (MRA)
- Comparable Sales Estimate of Value (Comp Sales)
- Time Adjustment of Previous Selling Price (TASP)

Commercial
- Capitalization of Net Income (Income)
- Comparable Value Approach

The quality of these five applications, moreover, the quality of the appraisal/assessment base for real property, depends upon the quality of the sales file.

Conceptually, the database is made up of two separate, interacting, storage files:

1. A large file (Property Characteristics File) that houses the property characteristics on all properties, and
2. A smaller sub-file (Sales Information File) created from the Property Characteristics File that houses a "snapshot" of the information stored in the characteristics file, plus, additional information such as sales date, sale amount, etc.

The purpose of the "Sales File", in addition to facilitating faster processing time, is to permit adjustments to a "Sales File" parcel so that the condition of the property as of the time of sale can be reflected without alteration to the current property characteristics stored in the "property Characteristics File".

In determining market value by the SALES COMPARISON APPROACH a sufficient number of complete and valid sales are imperative. Therefore, proper procedures should be developed and adhered to in the creation and maintenance of a "Sales File". Otherwise, the results produced from an "unverified" Sales File would be unreliable and most likely, misleading.

MAJOR STEPS IN THE SALES REVIEW PROCESS

There are four major efforts required to insure that the information contained in the Sales File is as accurate as possible.

Step 1. Identification – A review of all available ownership transfer information (deeds, records, MLS, etc.) should take place to "identify", for further analysis, those properties that may be included in the Sales File.
Step 2. Screening - An office review (screening) of the sold properties being considered for inclusion in the Sales File should be conducted to code transactions that are obviously invalid, such as transactions between family or related parties.

Step 3. Verification - After office screening, the property characteristics and sales information on sold property should be verified (and/or corrected) so that they reflect the "status" of the property at the time of sale. Following are different methods of sales verification.

1. Telephone confirmation
2. Mailing and return of sales verification letters
3. On-site, field visit
4. Multiple Listing Service

NOTE: Henderson County mails a Sales Confirmation Questionnaire to all buyers. Upon receipt of a recorded deed that meets all the apparent requirements of an arms-length sale, the questionnaire is mailed; a good percentage of which are filled out, completed, and mailed back to us (we include a return envelope, we do not include the return postage). See below:

<table>
<thead>
<tr>
<th>Year</th>
<th># Mailed</th>
<th># Returned</th>
<th>Percentage Returned</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006 Jan – Dec</td>
<td>4,571</td>
<td>2,958</td>
<td>64.7%</td>
</tr>
<tr>
<td>2007 Jan – Dec</td>
<td>3,684</td>
<td>2,160</td>
<td>58.6%</td>
</tr>
<tr>
<td>2008 Jan – Dec</td>
<td>2,155</td>
<td>1,376</td>
<td>63.9%</td>
</tr>
<tr>
<td>2009 Jan – Dec</td>
<td>1,402</td>
<td>894</td>
<td>63.8%</td>
</tr>
<tr>
<td>2010 Jan – 10/14/10</td>
<td>982</td>
<td>599</td>
<td>61.0%</td>
</tr>
</tbody>
</table>

Henderson County subscribes to the Western North Carolina Regional Mountain Multiple Listing Service (hereinafter, MLS), and attempts to confirm all sales through their MLS Sold Reports. If confirmed through MLS, a Real Property Support Specialist scans the Sold Report for the parcel into our CAMA software and the document is attached to the parcel record. Henderson County considers sales confirmation through MLS as the 2nd most reliable source, following the returned Sales Confirmation Questionnaire from the buyer.

Occasionally, staff is made aware of confirmed sales included as a part of an appraisal reports authored by an independent fee appraiser. Such information is considered the 3rd most reliable source. When verified by a member of our staff, the confirmation can be elevated to the most reliable source, equal to a returned Sales Confirmation Questionnaire from a buyer.

Henderson County considers Deed Stamps attached to a recorded General Warranty Deed to be the 4th most reliable source, only slightly more reliable than an un-confirmed source.

Once the parcel conveyance has been confirmed or “Qualified” as a reliable indication of an “arms-length transaction”, it is sent to the real property appraiser assigned to the geographical part of the county where the parcel is located. It is the responsibility of the appraiser to check our data record against the MLS Sold document attached to the parcel record, and determine the need to make an
on-site visit to verify the record. If anything from our various sources (the Sales Confirmation Questionnaire, MLS Report, or Pictometry), appears in conflict with the parcel data record in CAMA, an on-site field visit is made.

Step 4. Validation - Because the Sales File is not limited to just "good" sales it is necessary to assign a "validity code" to each property. This code allows for the sorting and grouping of various properties for analysis and reporting purposes.

To insure that the selection of properties best represent the marketplace, the following verification activities should occur:

1. Print sales listings with pre-set parameters to eliminate transactions, which are explicitly invalid.
2. Print out property field sheets showing the characteristics of the property as they currently exist.
3. Perform an in-house review (manual screening of the record worksheets) to further eliminate transactions, which are either
   a. Obviously invalid; or
   b. Apparently invalid
   NOTE: Transactions falling into Group B should be held for telephone verification prior to a field visit.
4. The property field sheets selected for field verification should be subjected to Quality/Inventory Control for prepping and routing.
5. Conduct a field inspection/review of the property.
6. Conduct an in-house review of the completed field sheets for assignment of a validation code,
7. Conduct a final review and accountability of the field sheets by Quality/Inventory Control prior to data entry.
8. Enter the reviewed record or correct the existing information in the "Sales File".

TASP - TIME ADJUSTED SALE PRICE

The TIME ADJUSTED SALE PRICE (TASP) is basically an extrapolation to the present day (January 1 of the reappraisal year), of a previously known selling price as of a specific date for a particular property, based upon the market trend in the area of the property in question. It should be noted in particular that two parameters must be known about the particular property before this extrapolation is made, namely the exact date and amount of transfer consideration. Moreover, it is also necessary to have an established set of accurate sales data on similar properties in the area, in order to establish the trend of sales prices over a period of time. The important feature of this calculation is that it does not establish a total estimated selling price from an "a priori" calculation; rather it merely calculates the increment of value that has been added to an already established
market value. That is to say, the Time Adjusted Selling Price does not attempt to establish the magnitude of the market value, but rather it computes a value increment based on the change in market value in an area. Thus, the market value for a particular property is established by the market itself at some point in the past, while the change in that known market value to today’s date is indicated by the trend in market values in that area.

The calculation of the TIME ADJUSTED SELLING PRICE (TASP) depends upon the knowledge of the selling price at some known time in the past, and the ability to compute the increment of value added (or subtracted) since that time. The standard equation for TASP is as follows:

\[
\text{TASP} = \text{PREVIOUS SELLING PRICE} + \text{INCREMENTAL Value}
\]

Where INCREMENTAL VALUE equals NUMBER OF MONTHS INTERVAL X TASP adjustment factor X the previous sale amount.

RESIDENTIAL PROPERTIES CATEGORY

For residential properties, the three market approaches to estimating Market Value are similar in that they each depend upon measured relationships between property data and sales data. They are different, however, in their specific focus, and accordingly, one market approach may be more appropriate than another, depending upon the information and situation. For example, TASP is an excellent market approach technique when the subject property has recently sold. Also, MRA via the analysis of sales of properties similar to the individual property being appraised (IMRA) may produce better results than MRA against a mixed group of sold properties (MRA).

CALIBRATING THE SALES COMPARISON MODEL

- DETERMINING ADJUSTMENT AMOUNTS
  During model specification, the appraiser determines the significant attributes and the relationships among the attributes. The adjustment amounts (coefficients) are determined during model calibration. Paired sales analysis, multiple regression analysis, adaptive estimation procedure, and the cost method are often used to calibrate sales comparison models.

- PAIRED SALES
  Paired sales analysis is the foundation of single-property appraisal by the sales comparison approach. Paired sales analysis requires that sales properties be identical in all attributes
except the attribute being measured or that adjustments have already been made for the other attributes. The assessor compares these sales and isolates the value contribution for the desired attribute.

Calibrating with paired sales analysis is usually impractical in mass appraisal because it is difficult to find sales that meet the above narrow conditions. Even more unreasonable is the expectation that sales are available to measure all the attributes needed in the sales comparison approach. In addition, it is difficult, if not impossible, to determine rates of change using this method, such as when the contribution for additional square feet decreases as the size of the property increases. However, paired sales analysis can be useful when many homogeneous sales are available; for example, in some residential neighborhoods (condominiums are one example), it can be used to determine both time and attribute adjustments.

An analysis of re-sales using paired sales analysis is one method of determining time adjustments. It is necessary to use properties that have had no changes between the sale dates. The steps are:

1. List the sales
2. Calculate the percent change between the first sale price and the resale price
3. Divide the percent change by the number of months
4. Estimate a time adjustment from the results.

As with any data, the level of confidence in the estimate is a function of the recency, amount, variance, and reliability of the data. Proper functional fit to a well-specified model is also essential to good estimates.

When an adequate volume of sales is available, the appraiser can use paired sales to estimate qualitative and quantitative adjustments. Again, the analysis requires that attributes other than the one being measured remain constant. This process differs from estimating the time adjustment because re-sales are not required (sales should occur at the same time or have already been adjusted for time). In paired sales analysis, the appraiser must determine benchmark properties for measurement purposes. The paired sales method can be used for any adjustment including size, style, garage, basement, or location. The greater the number of sales, the greater the level of confidence in the adjustments.
In preceding sections, the fundamental concepts, principles, and valuation techniques underlying the appraisal process has been outlined. The task is to reappraise all real property within Henderson County via a systematic mass appraisal program, with the goals of producing appraisal results that yield valid, accurate, and equitable property valuations at a reasonable cost, as dictated by budgetary limitations, and within a time span compatible with administrative needs.

The key elements of the program are validity, accuracy, equity, economy, and efficiency. To be effective, the program must...

- incorporate the application of proven and professionally acceptable techniques and procedures;
- provide for the compilation of complete and accurate data and the processing of that data into an indication of value approximating the prices actually being paid in the market place as of the effective assessment date;
- provide the necessary standardization measures and quality controls essential to promoting and maintaining uniformity throughout the jurisdiction;
- provide the appropriate production controls necessary to execute each phase of the operation in accordance with a carefully planned budget and work schedule; and
- provide techniques especially designed to streamline each phase of the operation, eliminating superfluous functions, and reducing the complexities inherent in the appraisal process to more simplified but equally effective procedures.

In summary, the objective of an individual fee appraisal is to arrive at an opinion of value, the key elements being the validity of the approach and the accuracy of the estimate. The objective of a mass appraisal for tax purposes is essentially the same. However, in addition to being valid and accurate, the value of each property must be equitable to that of each other property, and what's more, these valid, accurate, and equitable valuations must be generated as economically and efficiently as possible.

**OVERVIEW**

The prime objective of mass appraisals for tax purposes is to equalize property values. Not only must the value of one residential property be equalized with another, but it must also be equalized with each agricultural, commercial, and industrial property within the County.

The common denominator and the basis for equalization is market value, set forth by N.C.G.S. 105-283 as the Uniform Appraisal Standard, as follows:
“All property, real and personal, shall as far as practicable be appraised or valued at its true value in money. When used in this Subchapter, the words “true value” shall be interpreted as meaning market value, that is, the price estimated in terms of money at which the property would change hands between a willing and financially able buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of all the uses to which the property is adapted and for which it is capable of being used. For the purposes of this section, the acquisition of an interest in land by an entity having the power of eminent domain with respect to the interest acquired shall not be considered competent evidence of the true value in money of comparable land.

The job of the appraiser is to arrive at a reasonable estimate of that justified price. To accomplish this, the coordination of approaches to the valuation of the various classes of property must be made relative to one another in such a way as to reflect the motives of the prospective buyers and sellers of each type of property.

A prospective buyer of a residential property is primarily interested in its capacity to render service to the family as a place to live. Its location, size, quality, design, age, condition, desirability and usefulness are the primary factors to be considered in making a selection. By relying heavily upon powers of observation, knowing what could be afforded, and simply comparing what is available, one property will eventually stand out to be more appealing than another. So it is likewise the job of the ad valorem appraiser to evaluate the relative degree of appeal of one property to another.

The prospective buyer of agricultural property will be motivated somewhat differently. The primary interest will be in the productive capabilities of the land. It is reasonable to assume that the buyer will be familiar, at least in a general way, with the productive capacity of the farm. It might be expected that the prudent investor will have compared one farm’s capabilities against another. Accordingly, where the highest and best use of the property is for agricultural purposes, the appraiser must rely heavily upon prices being paid for comparable farmland in the community.

The prospective buyer of commercial property is primarily interested in the potential net return and possible tax shelter the property will provide. Ideally, the property must return the investment made by the purchase price and provide a return on that investment. Real estate, as an investment, not only must compete with other real estate, but also with stocks, bonds, annuities, and other similar investment areas. The commercial appraiser must explore the rental market and compare the income-producing capabilities of one property to another.

The prospective buyer of industrial property is primarily interested in the overall utility value of the property. Of course, in evaluating the overall utility, individual consideration must be given to the land and each improvement thereon. Industrial buildings are generally of special purpose design, and often, cannot readily be divorced from the operation for which they were built. As long as the operation remains effective, the building will hold its value. However, if the operation becomes obsolete, the building likewise will become obsolete. The upper limit of its value is its
replacement cost new, and its current value is some measure of its current usefulness relative to the purpose for which it was originally designed.

Any effective approach to value for ad valorem tax purposes must be patterned in such a way as to reflect the typical motivation of buyers in the market place. As indicated above, the motives influencing prospective buyers tend to differ depending upon the type of property involved. It follows that the appraiser’s approach to value must differ accordingly.

The residential appraiser must rely heavily upon the market data approach to value . . . analyzing the selling prices of comparable properties and considering the very same factors of location, size, quality, design, age, condition, desirability, and usefulness which were considered by the buyer.

The rural appraiser must likewise rely primarily upon the market data approach to value, but in addition to analyzing the selling prices of comparable properties, an effective analysis of the farm’s productive potential might also be necessary.

Rural dwellings are similar to urban dwellings in that their primary purpose is to provide a family with a home. As such, the appraiser should value them in the same manner as the valuation of any other residence. The approach to farm buildings, however, must be somewhat different. Here, the primary objective is to arrive at that value which the building’s presence contributes to the highest and best use of the property, either as a farm or so other competing use, taking into consideration their degree of utility or usefulness. In determining the productive capabilities of the land (provided the highest and best use of the property is agricultural), it will be necessary to divide the land into various classes according to specific types and uses, such as tillable, pasture, woodland, and wasteland; to compute the acreage of each class; and to value each class individually. Due consideration must be given to soil types and their fertility, making every effort to utilize all soil and land maps available through agriculture extension services, and state universities. Similarly, should the highest and best use be a competing use, equal consideration must be given to all other factors affecting the value of the property, such as its location relative to the market place, its relative accessibility, the topography of the land, the shape and size of the parcel, etc.,

The commercial appraiser will find that since commercial property is not bought and sold as frequently as is residential property, the sales market will likely not be readily established. By relying heavily on the income approach to value, the net economic rent which the property is capable of yielding can be determined, and the amount of investment required to affect that net return at a rate commensurate with that normally expected by investors, can also be determined. This can only be achieved through a comprehensive study of the income-producing capabilities of comparable properties and an analysis of present-day investment practices.

The industrial appraiser will not be able to rely on the market data approach because of the absence of comparable sales, each sale generally reflecting different circumstances and conditions. Also, it is not possible to rely upon the income approach. Again, most industrial property is owner-occupied and it is difficult to accurately determine the contribution of each building unit to the overall income produced. There is also an absence of comparable investments. Therefore, ad
valorem appraisals typically rely heavily on the cost approach, requiring careful estimates in the loss of value resulting from physical, functional and economic factors.

The fact that there are different approaches to value, some of which are more applicable to one class of property than to another, does not, by any means, preclude equalization between classes. Remember that the objective in each approach is to arrive at a price which a well-informed buyer, fully aware of the existence of competing properties and not being compelled to act, is justified in paying for any one particular property. Underlying and fundamental to each of the approaches is the comparison process. Regardless of whether the principal criteria are actual selling prices, income-producing capabilities, or functional usefulness, like properties must be treated alike.

The primary objective is equalization; the equitable distribution of the tax burden. The various approaches to value, although valid in themselves, must nevertheless be coordinated one to the other in such a way as to produce values which are not only valid and accurate, but are also equitable. The same "yardstick" of values must be applied to all properties, and must be applied by systematic and uniform procedures.

It is obvious that sales on all properties are not required to effectively apply the market data approach. The same is true regarding any other approach. What is needed is a comprehensive record of all the significant physical and economic characteristics of each property in order to compare the properties of "unknown" values with the properties of "known" values. All significant differences between properties must in some measure, either positively or negatively, be reflected in the final estimate of value.

Each property must be given individual treatment, but the treatment must be uniform and standardized, and essentially no different than that given to any other property. All the factors affecting value must be analyzed and evaluated for each and every property within the County. It is only by doing this that equalization between properties and between classes of properties can be ultimately realized.

All this, at best, is an oversimplification of the equalization process underlying the entire Mass Appraisal Program. The program itself consists of various operational phases, and its success depends primarily upon the systematic coordination of collecting and recording data, analyzing the data, and processing the data to an indication of value.

**DATA INVENTORY**

Basic to the appraisal process is the collecting and recording of pertinent data. The data will consist of general supporting data – that data required to develop the elements essential to the valuation process; neighborhood data - information regarding pre-delineated neighborhood units; and specific property data – property characteristics compiled for each parcel of property. All the resulting information will be processed into an indication of value by the cost, market and/or income approach.
The data must be comprehensive enough to allow for the adequate consideration of all factors which significantly affect property values. In keeping with the economics of a mass appraisal program, it is costly and impractical to collect, maintain, and process data of no or marginal contribution to the desired objectives. Appraisers, if given the choice, would generally opt for "too much data". What is more important is to have an appropriate amount of data, no more or no less than necessary to support and generate the necessary and defendable valuations.

- **General Supporting Data.** The appraisal staff will be primarily concerned with cost, sales and income data, but they will also find it necessary to research and compile general socioeconomic information pertaining to the entire political unit under appraisal. The information will serve to assist the staff during the analytical phase of the operation and should include, but not necessarily be limited to, population trends, prevailing geographical factors, primary transportation facilities, primary income sources, unemployment and income levels, institutional influences, the annual volume of new construction and ownership transfers, availability of vacant land, construction labor and material costs, preponderance of residential rentals, and the amount of residential vacancies.

- **Cost data** must be sufficient enough to develop or select and validate the pricing schedules and cost tables required to compute the replacement cost new of improvements needed to apply the cost approach to value.

- All data pertaining to the cost of total buildings in place should include the parcel identification number, property address, and date of completion, construction cost, name of builder, source of information, structural characteristics, and other information pertinent to analysis. Cost information may be recorded on the same form (unassigned property record card) used to record specific property data. The principal sources for obtaining cost data are builders and developers. It is generally advisable to collect data in conjunction with new construction.

- **Sales data** must be sufficient enough to provide a representative sampling of comparable sales needed to apply the market data approach, to derive unit land values and depreciation indicators needed to apply the cost approach, and to derive gross rent multipliers and elements of the capitalization rate needed to apply the income approach. All sales data should include the parcel identification number, property classification code, month and year of age, selling price, source of information, i.e., buyer, seller, agent, or fee, and a reliable judgment as to whether or not the sale is representative of a true arm’s length transaction. Sales data should be recorded on the same form (assigned property record card) used to record specific property data, and verified during the property-listing phase. The principal source for obtaining sales data is the Register of Deeds Office and the real estate transfer returns. Other sources may include developers, Realtors, lending institutions, and individual owners during the listing phase of the operation.
• *Income and expense data* must be sufficient enough to derive capitalization rates and accurate estimates of net income needed to apply the income approach. Income and expense data should include both general data regarding existing financial attitudes and practices, and specific data regarding the actual incomes and expenses realized by specific properties. The general data should include such information as equity return expectations, gross rentals, vacancy and operating cost expectations and trends, prevailing property management costs, and prevailing mortgage costs. Specific data should include the parcel identification number, property address (or building ID), source of information, the amount of equity, the mortgage and lease terms, and an itemized account of the annual gross income, vacancy loss, and operating expenses for the most recent two-year period.

The general data should be documented in conjunction with the development of capitalization procedural guidelines. The specific data, since it is often considered confidential and not subject to public access, should be recorded on special forms, designed in such a way as to accommodate the property owner or agent thereof in submitting the required information. The forms should also have space reserved for the appraiser’s analysis and calculations.

The principal sources for obtaining the general financial data are investors, lending institutions, and property managers. The primary sources for obtaining specific data are the individual property owners and/or tenants during the listing phase and the appeals phase of the reappraisal effort.

• *Neighborhood data.* At the earliest feasible time during the data inventory phase of the operation, and after a thorough consideration of the living environment and economic characteristics of the overall county, or any political sub-division thereof, the appraisal staff should delineate the larger jurisdictions into smaller "neighborhood units," each exhibiting a high degree of homogeneity in residential amenities, land use, economic trends, and housing characteristics such as structural quality, age, and condition. The neighborhood delineation should be outlined on an index (or comparable) map and each assigned an arbitrary Valuation Control Section Number (VCS), which when combined with the parcel identification numbering system, will serve to uniquely identify it from other neighborhoods.

Neighborhood data must be comprehensive enough to permit the adequate consideration of value-influencing factors to order to understand the variations in selling prices and income yields attributable to benefits arising from the location of one specific property as compared to another. The data should include the taxing district, the school district, the VCS number, special reasons for delineation (other than obvious physical and economic boundaries), and various neighborhood characteristics such as the type (urban, suburban, etc.), the predominant class (residential, commercial, etc.), the trend (whether it is declining, improving, or relatively stable), its accessibility to the central business district, shopping centers, interstate highways and primary transportation terminals, its housing characteristics, the estimated range of selling prices for residually-improved properties, and a rating of its relative durability.
All neighborhood data should be recorded on a specially designed form during the
delineation phase. The existing property record card can serve in this capacity as it
contains the current data on file.

- **Specific property data** must be comprehensive enough to provide the database needed to
  process the characteristics of each parcel into an indication of value, to generate the tax roll
  and related tax roll requirements, to generate other specified output, and to provide the
  assessing officials with a permanent record to facilitate maintenance functions and to
  administer taxpayer assistance and appeal proceedings.

The data should include the parcel identification number, ownership and mailing address,
legal description, property address, property classification code, local zoning code,
neighborhood identification code, site characteristics, and structural characteristics.

All the data should be recorded on a single, specially designed property record card
customized to meet individual assessing needs. Each card should be designed and
formatted in such a way as to accommodate the listing of information and to facilitate data
processing. In addition to the property data items noted above, space must be provided for
a building sketch, land and building computations, summarization, and memoranda. In
keeping with the economy and efficiency of a mass appraisal program, the card should be
formatted to minimize writing by including a sufficient amount of site and structural
descriptive data which can be checked and/or circled. The descriptive data should be
comprehensive enough to be suitable for listing any type of land and improvement data
regardless of class, with the possible exception of large industrial, institutional, and utility
complexes which require lengthy descriptions. In these cases, it will generally be necessary
to use a specially designed supplemental property record document, keyed and indexed to
the corresponding property record card. The property record card should be made a
permanent part of the assessing system, and used not only in conjunction with the
revaluation, but also to update the property records for subsequent assessments.

The specific property data should be compiled from existing assessing records and field
inspections. The parcel identification number, ownership, mailing address, and legal
description may be obtained from existing tax rolls. Property classification codes may also
be obtained from existing tax rolls (whenever available) and verified in the field. Local
zoning codes may be obtained from existing zoning maps. Neighborhood identification
codes may be obtained from the neighborhood delineation maps. Lot sizes and acreage
may be obtained from existing tax maps. The property address, and the site and structural
characteristics may be obtained by making a physical inspection of each property.

During the measuring and listing phase of the operation, the appraiser must visit each property
and try to make personal contact with the occupant. In the course of the inspection, the following
procedures must be adhered to.

- Verify the identification of the property (parcel ID or PIN).
- Verify the ownership (recording any transfers which may have occurred).
- Record or confirm the property’s situs address.
• Verify the property classification and zoning codes.
• Interview the occupant of the building and record all pertinent economic data.
• Inspect the interior of the structures when permissible and record all pertinent physical data.
• Verify the exterior measurements and inspect the exterior of the building, as well as all other improvements on the property, and record the story height, and the dimensions and/or size of each.
• Record a sketch of the principal building(s), consisting of an overhead view showing the main portion of the structure along with any significant attached exterior features, such as porches, etc. All components must be identified and the exterior dimensions shown for each.
• Select and record the proper “grade” of the improvement (construction quality).
• Select and record the proper replacement costs or replacement cost adjustments for all field priced items.
• Review the property record card for completeness and accuracy.

After the field inspection is completed, the property record cards must be submitted to clerical personnel to review the cards for completeness, calculate the areas, and make any necessary mathematical extensions.

Complete and accurate data are essential to the program. Definite standardized data collection and recording procedures must be followed if these objectives are to be met.

**PROCESSING THE DATA**

This phase of the operation involves the analysis of data compiled during the data inventory phase and the processing of that data to an indication of value through the use of the cost, market, and income approaches to value.

During the analytical phase, it will be necessary to evaluate cost, market, and income data in order to provide a basis for validating the appropriate cost schedules and tables required to compute the replacement cost new of all buildings and structures; for establishing comparative unit land values for each class of property; for establishing the appropriate depreciation tables and guidelines for each class of property; and for developing gross rent multipliers, economic rent and operating expense norms, capitalization rate tables and other related standards and norms required to effect the mass appraisal of all the property within an entire political unit on an equitable basis.

After establishing the appropriate standards and norms, it is necessary to evaluate the specific data compiled for each property by giving due consideration to the factors influencing the value of that particular property as compared to another, and then to process the data into an indication of value by employing the techniques described in the section of the manual dealing with the application of the traditional approaches to value.
Any one, or all three of the approaches, if applied properly, should lead to an indication of market value. The primary concern is applying the approaches on an equitable basis. This requires the coordinated efforts of a number of individual appraisers, each acting as a member of a team, with the team effort directed toward a valid, accurate and equitable appraisal of each property within the County. Each property must be reviewed, during which time the following procedures must be adhered too.

- Verify the property characteristics recorded on the property record card.
- Confirm that the proper schedules and cost tables were used in computing the replacement cost of each building and structure,
- Confirm the determination of the proper quality grade and design factor is applied to each building to account for variations from the base specifications.
- Make an appraisal judgment of the overall condition, desirability, and usefulness of each improvement in order to arrive at a sound allowance for depreciation.
- If applicable, capitalize the net income capabilities into an indication of value in order to determine the loss of value attributable to functional and economic obsolescence.
- Confirm that the depreciated value of all improvements has been added to the land value, and review the total property value relative to the value of comparable properties.
- Confirm that the total property value established can be correlated to actual sales of comparable properties.

At the completion of the review phase, the property record cards must be, once again, submitted to clerical personnel for final mathematical calculations and extensions, and a final check for completeness and accuracy.

Once the final values have been established for each property, the entire program should be evaluated in terms of its primary objectives; do the values reflect a satisfactory level of market value, and what's more important, are the values equitable? Satisfactory answers to these questions can best be obtained through a statistical analysis of recent sales in an assessment/sales ratio study, if sufficient sales are available.

To perform the study, it is necessary to take a representative sampling of recent valid sales and compute the assessment-to-sale ratio for each of the sales. If the sample is representative, the computed median assessment-to-sale ratio will give an indication of how close the appraisals within each district approximate the market value. This is providing, of course, that the sales included represent true market transactions. It is then needed to determine the deviation of each individual appraisal-to-sale ratio from the median ratio, and to compute either the average or the standard deviation, which will give an indication of the degree of equity within each individual district. What remains then is to compare the statistical measures across property classes in order to determine those areas, if any, which need to be further investigated, revising the appraisal, if necessary, to attain a satisfactory level of value and equity throughout the entire jurisdiction.
The techniques and procedures set forth herein, if applied skillfully, should yield highly accurate and equitable property valuations, and should provide a sound property tax base. It should be noted, however, that no program, regardless of how skillfully administered, can ever be expected to be error free. The appraisal must be fine tuned and can best be done by giving the taxpayer an opportunity to question the value placed upon his property and to produce evidence that the value is inaccurate or inequitable. During this time, the significant errors will be brought to light, and taking the proper corrective action will serve to further the objectives of the program. What’s important in the final analysis is to use all these measures as well as any other resources available to assure the highest degree of accuracy and equity possible.
This guide is to be used in estimating the percentage of completion of both residential and commercial buildings under construction.

10% Lot cleared, footings poured, foundation laid, floors framed

20% Walls and roof framed

30% Plumbing and electrical roughed in, insulated, and roof shingled

40% Concrete poured, windows and exterior doors hung

50% Interior walls and ceilings hung, exterior siding and trim up

60% Interior and exterior painting done

70% Interior doors and trim hung, cabinets in place

80% HVAC, electrical, and plumbing fixtures installed

90% Floor coverings laid, screening hung, columns and rails installed

100% Appliances installed, gutters hung, landscaping completed

As near as possible, it is essential to estimate the percentage of completion as of January 1 of the year for which the appraisal is being made and for which taxes on the value of the new construction will be levied.
INTRODUCTION

This section is provided to establish general guidelines and procedures in the identification (delineation) of residential and commercial neighborhoods.

Definition of a “Neighborhood” or VCS (Valuation Control Section).

A set of parcels within a specific geographical area, where the parcels share a high degree of homogeneity, the environment of which has a direct and immediate impact on the value of the parcels within its boundary.

The following points are noted:

- Ideally, it is the smallest geographic unit that can be defined as a single area in which property characteristics for all parcels share a high degree of homogeneity.
- The term is primarily an urban and suburban concept. However, it may be extended to rural areas.
- Neighborhoods are characterized by the activities or operations that are carried on within its borders.
- The boundaries of a neighborhood must be delineated for the purpose of analysis. The three types of boundaries are:
  - natural, (including rivers, hills, lakes, ravines, and undeveloped areas)
  - manmade (streets, highways, roads, railroad tracks, rights-of-way, subdivision boundaries), and
  - political (city limits, school districts, zoning districts and special assessment districts).

There are four forces, or sets of factors, to be addressed in neighborhood analysis: physical, economic, governmental and social. They must be analyzed specific to their impact on each neighborhood.

It should be noted that mere size does not determine a neighborhood, although large area neighborhoods have the advantage of better protection from infiltration of inharmonious influences or detrimental property uses from adjoining properties.
The appraisal technique for both residential and commercial properties, employed for assessment purposes, is mass appraisal. That is, within a neighborhood a large number of sales are analyzed and the results applied to a larger number of parcels within the same neighborhood. Neighborhood grouping allows for comparable neighborhoods that are not contiguous to one another to share sales data. Results are applied to a particular group of properties (neighborhood), rather than to individual properties.

The mass appraisal process requires every parcel be assigned to a “neighborhood” or VCS number. This assignment number, or neighborhood description code, links properties of like characteristics for neighborhood grouping and subsequent market analysis and development of land rate tables. The large number of neighborhood descriptions (approximately 849 residential and 124 commercial) prohibits their inclusion in this document, but the Neighborhood Description and Grouping logs can be reviewed at the Assessor’s Office.

The “Neighborhood description” number is a five position alpha-numeric field and is user-defined.

It can be assigned randomly or sequentially because its only purpose is ease of “Neighborhood Grouping.”

The steps involved in the assignment of the Neighborhood Description Code are as follows:

1. Identify and locate surveyed tracts and subdivisions
   Assign a numerical identification code to the areas
   Enter the assigned identification code into the individual parcels

2. Identify and locate non-surveyed tracts and subdivisions.
   Assign an unused numerical identification code to the areas.
   Enter the assigned identification code into the individual parcels

3. Identify and locate major pockets (clusters) of properties (towns/villages).
   Breakdown the pockets (clusters) by like neighborhood characteristics.
   Assign an unused identification code to each identified area.
   Enter the assigned identification code into the individual parcels

4. Identify and locate rural areas of like neighborhood characteristics.
   Assign and unused numerical identification code to the areas.
   Enter the assigned identification code into the individual parcels

5. Identify all properties that are without a neighborhood description code.
   Assign to the identified properties an unused numerical identification code or to an existing identification code of like characteristics.
   Enter the assigned identification code into the individual parcels
NEIGHBORHOOD GROUP CODE

The Neighborhood Group Code is designed to increase the ability of the appraiser to project market value in a given selection of properties by using sales information from like Neighborhood Descriptions.

Neighborhood Descriptions will be assigned to the same Neighborhood Group if their neighborhood characteristics, ones that are important on the marketplace, prove to be similar.

The steps involved in the grouping of Neighborhood Descriptions require but are not limited to the following activities:

1. Completion of the Henderson County Neighborhood Data Form (NDF).
2. Review of the NDF for purposes of rating each neighborhood description
3. Run sales listing
   - Review extreme high sales and extreme low sales
   - Array (qualified, arm’s length) sales by amount
   - Calculate estimated market value
   - Calculate Neighborhood Description “points”
   - Match the neighborhood descriptions with market values within predetermined range of each other
   - Array the matched neighborhood descriptions into ascending order according to the “points” as determined above
   - Match all Neighborhood Descriptions whose “points” fall within a predetermined range
   - Assign all matched Neighborhood Descriptions to the same Neighborhood Group
GENERAL DISCUSSION:

The property tax is an *ad valorem* tax (according to value) and because value is defined as "market" value and because market value is evaluated by measuring "sales" of properties in the market place, then the quality of a group of assessments may be evaluated by measuring their ratio to the real estate sales from the same geographical area as of the assessments. This process of comparing appraised values to sale prices is called the assessment/sales ratio study.

DEFINITION:

The word “ratio” is a statistical term that, when numerically expressed, simplifies the comparison of magnitude of numbers. There are various types of ratios, distinguished by their base of comparison, that is the denominator of the fraction, and they may take the form of fractions, proportions, percentages or rates. Some of the leading types of ratios are the results of comparing a part to its whole, comparing a part to a part within a whole, or comparing one whole to another whole.

SALES RATIO STUDY:

The Henderson County Assessor’s Office has a straightforward purpose -- to value all properties uniformly and equitably. Therefore, it is incumbent on the staff appraiser to place property values that represent the current probable selling price or some constant fraction thereof.

The ratio study has been found to be a useful and meaningful tool in measuring the quality of the real property appraisals. The measurements (commonly referred to as ratio studies and median assessment levels) can be either in the aggregate or sectional and are found by comparing the value placed on properties which have sold with the amount for which the property actually sold.

Again, it is important to stress caution when reviewing sales ratio results for the properties that make up a sales file which does not always constitute a representative sample of the property type (class) population within the County. The calculated results could be biased, even if carefully weighted for some important classes of properties are seldom, if ever, sold.

SALES RATIO APPLICATION:

The Henderson County *AUTOMATED SALES ANALYSIS APPLICATION* allows for the building of a Master Sales File, stratification of the Master Sales File, generation of various sales listing, and *SALES RATIO STUDIES*. 
UTILIZATION OF REPLACEMENT COST LESS DEPRECIATION

The COST APPROACH to value lends itself best to property valuation for tax purposes for two principle reasons.

1. Appraisals for ad valorem taxes generally require separate land value estimates. N.C.G.S. 105-317(a)(1) requires the following:
   “In determining the true value of land, to consider as to each tract, parcel, or lot separately listed at least its advantages and disadvantages as to location; zoning; quality of soil; waterpower; water privileges; dedication as a nature preserve; conservation or preservation agreements; mineral, quarry, or other valuable deposits; fertility; adaptability for agricultural, timber-producing, commercial, industrial, or other uses; past income; probable future income; and any other factors that may affect its value except growing crops of a seasonal or annual nature.”

2. The cost approach can be applied to all classes of property.

The use of one approach to the exclusion of the others is contrary to the appraisal process. The better method would therefore be an integrated approach based essentially upon cost but incorporating both market comparison and income whenever feasible and appropriate.

The following cost schedules are based on a typically constructed fifteen hundred square foot dwelling of average quality components and workmanship with eight standard plumbing fixtures (water heater, kitchen sink, and two full, 3-fixture, baths) and a central heating system.

All necessary adjustments to reflect any variance from base are also supplied.
BASE REPLACEMENT COST FORMULA
FOR RESIDENTIAL PROPERTY
(2015 REAPPRAISAL)

Subject Area Adjusted By Ratio Calculation = Cost Factor

Cost Factor x Base Replacement Cost = Subject Replacement Cost

The base replacement cost formula has been developed to generate a replacement cost for any area up to 5000 square feet. A calculation representing the relationship between the base area and 100 percent is applied to the subject area. The resulting factor is then multiplied by the replacement for the base area of 1,500 square feet to produce the replacement cost of the subject area.

Example:

Assuming a base replacement cost of $150,000

A dwelling with an area of 1,632 square feet has a replacement cost of $151,905 as determined by the following procedure.

Subject Area (1,632 Square Feet) Adjusted By Ratio Calculation

(1,632 x .0005 + .25)

Equals the Cost Factor (1.066%)

Cost Factor (1.066%) x Base Replacement Cost $150,000)

Equals Subject Replacement Cost ($159,900)
RESIDENTIAL REPLACEMENT COST BASE RATE RANGES

BASE REPLACEMENT COST

<table>
<thead>
<tr>
<th>Building Type</th>
<th>Rate Range</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Family</td>
<td>$95.00 - $105.00 sq ft</td>
</tr>
<tr>
<td>Condominium</td>
<td>$85.00 - $95.00 sq ft</td>
</tr>
<tr>
<td>Townhouse</td>
<td>$90.00 - $100.00 sq ft</td>
</tr>
<tr>
<td>Garage Apartment</td>
<td>$60.00 - $70.00 sq ft</td>
</tr>
<tr>
<td>MH-Modular</td>
<td>$60.00 - $65.00 sq ft</td>
</tr>
<tr>
<td>Duplex</td>
<td>$75.00 - $85.00 sq ft</td>
</tr>
<tr>
<td>Boat House</td>
<td>$75.00 - $85.00 sq ft</td>
</tr>
<tr>
<td>Modular</td>
<td>$85.00 - $95.00 sq ft</td>
</tr>
</tbody>
</table>

STORY HEIGHT MULTIPLIERS

<table>
<thead>
<tr>
<th>Story Multiplier</th>
<th>Multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0 Story</td>
<td>Base</td>
</tr>
<tr>
<td>1.1 Story</td>
<td>4% of Base</td>
</tr>
<tr>
<td>1.2 Story</td>
<td>10% of Base</td>
</tr>
<tr>
<td>1.3 Story</td>
<td>16% of Base</td>
</tr>
<tr>
<td>1.4 Story</td>
<td>22% of Base</td>
</tr>
<tr>
<td>1.5 Story</td>
<td>27% of Base</td>
</tr>
<tr>
<td>1.6 Story</td>
<td>33% of Base</td>
</tr>
<tr>
<td>1.7 Story</td>
<td>38% of Base</td>
</tr>
<tr>
<td>1.8 Story</td>
<td>44% of Base</td>
</tr>
<tr>
<td>1.9 Story</td>
<td>49% of Base</td>
</tr>
<tr>
<td>2.0 Story</td>
<td>55% of Base</td>
</tr>
<tr>
<td>2.1 Story</td>
<td>61% of Base</td>
</tr>
<tr>
<td>2.2 Story</td>
<td>67% of Base</td>
</tr>
<tr>
<td>2.5 Story</td>
<td>82% of Base</td>
</tr>
<tr>
<td>3.0 Story</td>
<td>110% of Base</td>
</tr>
</tbody>
</table>

EXTERIOR WALL MULTIPLIERS

<table>
<thead>
<tr>
<th>Wall Type</th>
<th>Multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frame or Equal</td>
<td>Base</td>
</tr>
<tr>
<td>Combination Frame and Masonry</td>
<td>2% of Base Rate</td>
</tr>
<tr>
<td>Brick or Masonry</td>
<td>5% of Base Rate</td>
</tr>
</tbody>
</table>

GRADE FACTORS

<table>
<thead>
<tr>
<th>Grade</th>
<th>Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>AAA+</td>
<td>500%</td>
</tr>
<tr>
<td>AAA</td>
<td>400%</td>
</tr>
<tr>
<td>AA+</td>
<td>325%</td>
</tr>
<tr>
<td>AA</td>
<td>250%</td>
</tr>
<tr>
<td>AA-</td>
<td>200%</td>
</tr>
<tr>
<td>A+</td>
<td>175%</td>
</tr>
<tr>
<td>A</td>
<td>155%</td>
</tr>
<tr>
<td>A-</td>
<td>145%</td>
</tr>
<tr>
<td>B+</td>
<td>135%</td>
</tr>
<tr>
<td>B</td>
<td>128%</td>
</tr>
<tr>
<td>B-</td>
<td>120%</td>
</tr>
<tr>
<td>C+</td>
<td>110%</td>
</tr>
<tr>
<td>C</td>
<td>Base</td>
</tr>
<tr>
<td>C-</td>
<td>95%</td>
</tr>
<tr>
<td>D+</td>
<td>90%</td>
</tr>
<tr>
<td>D</td>
<td>85%</td>
</tr>
<tr>
<td>D-</td>
<td>75%</td>
</tr>
<tr>
<td>E+</td>
<td>65%</td>
</tr>
<tr>
<td>E</td>
<td>55%</td>
</tr>
<tr>
<td>E-</td>
<td>45%</td>
</tr>
</tbody>
</table>

AIR CONDITIONING

<table>
<thead>
<tr>
<th>Type</th>
<th>Multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Air</td>
<td>Base</td>
</tr>
<tr>
<td>NAC (No Air Conditioning)</td>
<td>-3.00% of Base Rate</td>
</tr>
</tbody>
</table>

ATTIC AREA

<table>
<thead>
<tr>
<th>Type</th>
<th>Multiplier</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unfinished</td>
<td>5.00% of Base Rate</td>
</tr>
<tr>
<td>Partly Finished</td>
<td>10.00% of Base Rate</td>
</tr>
<tr>
<td>Fully Finished</td>
<td>20.00% of Base Rate</td>
</tr>
</tbody>
</table>
BASEMENT / FOUNDATION

Crawl Space  Base
Pier  Base
None  Base
Slab  Base
Concrete Block  Base
Masonry  Base
Full Basement  12% of Base Rate
Partial Basement  12% of Base Rate

BASEMENT FINISH

Fully Finished  $19.00 - $21.00 sq ft
Partly Finished  $19.00 - $21.00 sq ft
Unfinished  Base

FIREPLACE

Per Stack  $3,325 to $3,675
Per Opening  $1,425 to $1,575

HEATING

Forced Air or Equal  Base
Unit Heaters  -2.00% of Base Rate
Wall or Floor Furnace  -2.00% of Base Rate
No Heat  -5.00% of Base Rate
Solar Heat  Base

PLUMBING

Base equals (8 Fixtures, 2 Full Baths, Hot Water Heater, and Kitchen Sink)

BATHS

Actual Baths  1F0H -$4,750 to -$5,250
Actual Baths  1F1H -$1,900 to -$2,100
Actual Baths  1F2H -$950 to -$1,050
Actual Baths  1F3H $3,800 to $4,200
Actual Baths  1F4H $3,800 to $4,200
Actual Baths  1F5HM $3,800 to $4,200
Actual Baths  2F0H Base
Actual Baths  2F1H $2,850 to $3,150
Actual Baths  2F2H $4,750 to $5,250
Actual Baths  2F3HM $4,750 to $5,250
Actual Baths  3F0H $4,750 to $5,250
Actual Baths  3F1HM $6,650 to $7,350
Extra Fixtures (EF)  $950.00 to $1,050 each
No Plumbing  -$9,500 to -$10,500
<table>
<thead>
<tr>
<th>RESIDENTIAL BUILDING ADDITIONS</th>
<th>Rate $17.00 - $19.00 sq ft</th>
</tr>
</thead>
<tbody>
<tr>
<td>ATTIC FINISHED (AF)</td>
<td>Rate $5.00 - $7.00 sq ft</td>
</tr>
<tr>
<td>ATTIC UNFINISHED (AU)</td>
<td>Rate $10.00 - $12.00 sq ft</td>
</tr>
<tr>
<td>BRICK ADDITION (BA)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>BASEMENT FINISHED (BF)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>BRICK GARAGE (BG)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>BOAT HOUSE (LIVING AREA) (BH)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>BASEMENT UNFINISHED (BU)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>BAY WINDOW (BY)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>COVERED DECK (CD)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>CANOPY (CN)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>CARPORT (CP)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>DECK (DK)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>ENCLOSED BRICK PORCH (EB)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>ENCLOSED FRAME PORCH (EP)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>FRAME ADDITION (FA)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>FRAME GARAGE (FG)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>MAIN AREA (MA)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>OPEN BRICK PORCH (OB)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>OVERHANG (OH)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>OPEN FRAME PORCH (OP)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>PATIO (P)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>COVERED PATIO (PC)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>STORAGE AREA (SG)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>SCREEN PORCH (SP)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>STOOP (ST)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>TERRACE (TB)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>UNFINISHED ADDITION (UA)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
<tr>
<td>UTILITY ROOM (UT)</td>
<td>Rate $20.00 - $22.00 sq ft</td>
</tr>
</tbody>
</table>
QUALITY GRADE OR CLASS

The quality grade of materials and workmanship is one of the most significant variables to consider in estimating the replacement cost of a structure. Two buildings may be built from the same general plan, each offering the same facilities and general features, but have vastly different costs due to the quality of materials and workmanship used in their construction. For instance, the cost of a dwelling constructed of high quality materials and with the best of workmanship throughout can be more than twice that of one built from the same floor plan but with inferior materials and workmanship.

The following schedule has been developed to distinguish between variations in cost. This schedule represents the full range of conventional dwelling construction. The basic qualifications for each grade, such as type of facilities furnished, is relatively constant. That is, each has a specific type of heating system, one bathroom, one kitchen, and other typical living facilities, but with differing quality of materials, and workmanship,

The basic grade, therefore, represents the cost of construction with average quality materials and workmanship and is designated as Grade C (100 percent). The majority of dwellings fall within one class above and one class below the base grade of C. The layman or professional appraiser can readily distinguish among these classes. The three classes of quality grade for this group of dwellings have been established as follows:

<table>
<thead>
<tr>
<th>Grade</th>
<th>Quality</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>C+</td>
<td>Good Quality</td>
<td>Quality 100-110%</td>
</tr>
<tr>
<td>C</td>
<td>Average Quality</td>
<td>Quality 100%</td>
</tr>
<tr>
<td>C-</td>
<td>Fair Quality</td>
<td>Quality 90-100%</td>
</tr>
</tbody>
</table>

In order to justify variation in cost, maintain uniformity and retain complete control throughout the cost range, we have established these base grades. The pricing spread between each grade is based on the use of better grade materials and higher quality workmanship from Grade C to Grade B. Grade B dwellings have better individual features and interior finish, which reflects a higher cost than Grade C. Likewise, the Grade D dwelling would be constructed of materials and workmanship of lower quality than Grade C.

To cover the entire range of dwelling construction, two additional classes of dwellings above the three base grades and one below the base grades must be considered.

The two classes above the base grade are as follows:

<table>
<thead>
<tr>
<th>Grade</th>
<th>Quality</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>A Excellent Quality</td>
<td>Quality 135-185%</td>
<td></td>
</tr>
<tr>
<td>AA Superior Quality</td>
<td>Quality 190-350%</td>
<td></td>
</tr>
</tbody>
</table>

The grade A or AA dwelling incorporates the best quality of materials and workmanship. Construction costs of Grade AA dwellings generally run as much as 250 percent higher than that of Grade C dwellings. The prestige-type home, the mansion and the country estate-type home are usually in this class. Grade A dwellings, with outstanding architectural style and
design, are generally custom-built and are as much as 85 percent better in overall construction than Grade C dwellings.

Dwellings of the cheapest quality construction, built of low-grade materials and inferior workmanship and usually lacking sufficient facilities occupy their own class: Grade E.

These six (6) established base grades or classes of quality will cover the entire range of dwelling construction, from the cheapest to the finest.

**USE OF GRADE FACTORS**

The grading method is based on Grade C as the standard of quality and design. A factor multiplier of 100 percent is assigned to the Grade C base grade. The relationship between the highest and lowest grade levels is established by means of grade factor multipliers. Since not all dwellings fall precisely within a particular grade level, but may be slightly better or poorer, the use of Grade Factor Symbols (+ or -) will accomplish the appropriate adjustment in grades A, B, C, D and E.

Here is an example: A dwelling with outstanding architectural style and design, constructed with the finest quality material and having superior quality interior finish and extensive built-in features. A deluxe heating system and high-grade lighting and plumbing may be graded A+. The Grade Factor Symbol + places this house one level above the Grade A category. Grade A+ has a multiplier of 165-185 percent. Once you have priced this house to the base level of C, you would apply a multiplier of 165-185 percent to adjust the Grade C base level up to the Grade A+ level.

The same approach would apply should you find a house constructed of a cheap grade of material, usually culls and seconds, and poor quality workmanship resulting from unskilled, inexperienced, do-it-yourself labor. Minimal code, low-grade mechanical features may be graded E. Grade E has a multiplier of 50-60 percent. Therefore, once you have priced this house to the base level of C, a multiplier of 50-60 percent would be applied to adjust the Grade C down to the Grade E level.

**NOTE:** The quality factor ultimately selected is to represent a composite judgment of the materials and workmanship of the overall Quality Grade. Generally, the quality of materials and workmanship is fairly consistent. However, since this is not always the case, it is frequently necessary to weigh the quality of each major component in order to arrive at the proper overall Quality Grade. Equal consideration must be given to any additions which are constructed of materials and workmanship inconsistent with the quality of the main building.

The appraiser must be careful not to confuse quality and condition when establishing grades for older houses in which a deteriorated condition may noticeably affect their appearance. Grades should be established on original built-in quality and not be influenced by physical condition. Proper grading must reflect replacement cost of new buildings. Bear in mind that a house will always retain its initial grade of construction, regardless of its present deteriorated condition.
Grade AAA Residences

Custom built or estate residences of the finest quality and workmanship, exhibiting unique and elaborate architectural styling and are characterized by the high quality of finishes and the considerable attention to detail. The following will further describe the most common characteristics of this grade of construction.

**Foundation** - A continuous reinforced concrete block or poured concrete perimeter and interior load bearing wall, waterproofed, with drainage system.

**Exterior Walls** - Imported brick or cut stone, stucco, cedar, or the best quality siding with well designed fenestration, high quality sash, custom ornamentation and trim. 2” x 4” or 2” x 6” wood or metal studs 16” on center, 1 3/4” - 2 1/4” fine quality exterior doors, finest quality wood or vinyl insulated windows with custom ornamentation and trim.

**Roofing** - Hipped, or contemporary designed, tongue and groove plywood sheathed, covered with slate, tile, wood shake, or architectural shingles; 2” x 10” rafters or custom built trusses; ornamental wood cornice, copper flashing and gutters.

**Flooring** - Basement floor poured with 4” reinforced concrete. Upper floors have 3/4” tongue and groove sub floor with underlayment. Floor coverings are the finest quality carpet, vinyl, hardwood, marble, slate, or tile.

**Interior Finish** - Interior walls are painted drywall with best grade paper or vinyl covering, hardwood paneling or ceramic tile. Finest quality vanities in bathrooms and dressing areas with imported ceramic, tile, marble, or Corian countertops. Custom built kitchen with pantry, cooking island, built-in microwave, dishwasher, disposal, and custom made cabinetry with imported ceramic, tile, marble, or Corian countertops. Raised panel hardwood veneer or enameled doors with ornamental hardware. High grade ornamental moldings with tight mitered corners. Spacious walk-in closets, wardrobes, linen closets, and pantries that are fully shelved.

**Heating** - Forced air furnaces and/or heat pumps with central air conditioning, multiple controls, and large capacity insulated ductwork. Optional vented or un-vented gas fireplaces.

**Plumbing** - Four or more full baths. Finest quality white or colored fixtures including water heaters, kitchen sinks, laundry tub, tiled shower stalls, bidets, lavatories, tub and shower combinations, wet bar, whirlpool tubs and Jacuzzi.

**Electrical** - Numerous well positioned outlets and finest quality lighting fixtures throughout. Large luminous fixtures in kitchen, bath, and dressing areas. Some recessed, track, and fluorescent lighting possible.

**Note:** These grading specifications are only guidelines for general descriptive purposes and may or may not be limited to the detail of the individual components.
These photographs are only an indication of “grade” and not a determination of actual “grade” of the dwellings shown. “Grade” must be based upon individual inspection of the type of materials and quality of construction of the subject dwelling.
Dwellings constructed of the finest quality and workmanship, exhibiting unique and elaborate architectural styling and are characterized by the high quality of finishes and the considerable attention to detail. The following will further describe the most common characteristics of this grade of construction.

**Foundation** - A continuous reinforced concrete block or poured concrete perimeter and interior load bearing wall, waterproofed, with drainage system.

**Exterior Walls** - Select brick, stucco, cut stone, cedar, vinyl, or the best quality siding with well designed fenestration, high quality sash, custom ornamentation and trim. 2” x 4” wood or metal studs 16” on center, 1 3/4” - 2 1/4” fine quality exterior doors, best quality wood or vinyl insulated windows with custom ornamentation and trim.

**Roofing** - Gable, hipped, or contemporary designed, tongue and groove plywood sheathed, covered with slate, tile, wood shake, or architectural shingles; 2” x 10” rafters or custom built trusses; ornamental wood cornice, copper flashing and gutters.

**Flooring** - Basement floor poured with 4” reinforced concrete. Upper floors have 3/4” tongue and groove sub floor with underlayment. Floor coverings are best quality carpet, vinyl, hardwood, marble, slate, or tile.

**Interior Finish** - Interior walls are painted drywall with best grade paper or vinyl covering, hardwood paneling or ceramic tile. Finest quality vanities in bathrooms and dressing areas with ceramic, tile, marble, or Corian countertops. Custom built kitchen with pantry, cooking island, built-in microwave, dishwasher, disposal, and custom made cabinetry with ceramic, tile, marble, or Corian countertops. Raised panel hardwood veneer or enameled doors with high quality hardware. High grade ornamental moldings with tight mitered corners. Spacious walk-in closets, wardrobes, linen closets, and pantries that are fully shelved.

**Heating** - Forced air furnace(s) or heat pump(s) with central air conditioning, multiple controls, and large capacity insulated ductwork. Optional vented or un-vented gas fireplaces.

**Plumbing** - Three and one-half baths. Finest quality white or colored fixtures including water heater(s), kitchen sink(s), laundry tub, tiled shower stall, bidet, lavatories, tub and shower, wet bar, and whirlpool tub.

**Electrical** - Numerous well positioned outlets and finest quality lighting fixtures throughout. Large luminous fixtures in kitchen, bath, and dressing areas. Some recessed, track, and fluorescent lighting possible.

**Note:** These grading specifications are only guidelines for general descriptive purposes and may or may not be limited to the detail of the individual components.
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Grade A Residences

Dwellings constructed of excellent quality materials and workmanship, exhibiting outstanding architectural styling and treatment, and having an abundance of built-in features. Architect designed and supervised homes would normally fall into this classification. The following will further describe the most common characteristics of this grade of construction.

**Foundation** - A continuous reinforced concrete block or poured concrete perimeter and interior load bearing wall, waterproofed, with drainage system.

**Exterior Walls** - Brick, stucco, stone, cedar, vinyl, or high quality siding with well designed fenestration, high quality sash, custom ornamentation and trim. 2” x 4” wood or metal studs 16” on center, 1 3/4” - 2 1/4” fine quality exterior doors, best quality wood or vinyl insulated windows with custom ornamentation and trim.

**Roofing** - Gable, hipped, or contemporary designed, tongue and groove plywood sheathed, covered with slate, tile, wood shake, or architectural shingles; 2” x 10” rafters or custom built trusses; ornamental wood cornice, copper flashing and gutters.

**Flooring** - Basement floor poured with 4” reinforced concrete. Upper floors have 3/4” tongue and groove sub floor with underlayment. Floor coverings are high quality carpet, vinyl, hardwood, marble, slate, or tile.

**Interior Finish** - Interior walls are painted drywall with high grade paper or vinyl covering, hardwood paneling or ceramic tile. High quality vanities in bathrooms and dressing areas with ceramic, tile, marble, or Corian countertops. Raised panel hardwood veneer or enameled doors with good quality hardware. High grade ornamental moldings with tight mitered corners. Spacious walk-in closets, wardrobes, linen closets, and pantries that are fully shelved.

**Heating** - Forced air furnace(s) or heat pump(s) with central air conditioning, multiple controls, and large capacity insulated ductwork. Optional vented or un-vented gas fireplaces.

**Plumbing** - Three full baths. High quality white or colored fixtures including water heater(s), kitchen sink(s), laundry tub, tiled shower stall, bidet, lavatories, tub and shower, wet bar, and whirlpool tub.

**Electrical** - Many well positioned outlets and high quality lighting fixtures throughout. Large luminous fixtures in kitchen, bath, and dressing areas. Some recessed, track, and fluorescent lighting possible.

**Note:** These grading specifications are only guidelines for general descriptive purposes and may or may not be limited to the detail of the individual components.
GRADE A
RESIDENTIAL DWELLING

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Grade B Residences

Dwellings constructed of good quality materials and workmanship, exhibiting pronounced architectural styling and treatment, and having an ample amount of built-in features. Custom-built tract homes would normally fall into this classification. The following will further describe the most common characteristics of this grade of construction.

**Foundation** - A continuous reinforced concrete block or poured concrete perimeter and interior load bearing wall, waterproofed, with drainage system.

**Exterior Walls** - Brick, stone, cedar, vinyl, or good quality siding with good fenestration, and good quality sash. 2” x 4” wood studs 16” on center, 1 3/4” wood exterior doors, good quality wood or vinyl insulated windows with some ornamental trim.

**Roofing** - Gable or hipped, tongue and groove plywood sheathed, covered with wood shake, or architectural shingles; 2” x 8” rafters or custom built trusses; plain wood cornice, metal flashing and gutters.

**Flooring** - Basement floor poured with 3 1/2” reinforced concrete. Upper floors have 3/4” tongue and groove sub floor. Floor coverings are good quality carpet, vinyl, or hardwood.

**Interior Finish** - Interior walls are painted drywall with good grade paper or vinyl wall covering, with some paneling. Kitchen and baths have enamel painted walls and ceilings. An ample amount of cabinets with natural wood veneer finish are used in kitchen and bath areas. Countertops are laminated plastic, ceramic tile or simulated marble. Doors are good quality hollow-core fir or pine with enameled trim. Walk-in closets or large sliding door wardrobes. Ample linen and storage closets. Workmanship throughout is good quality.

**Heating** - Forced air furnace or heat pump(s) with central air conditioning, multiple controls, and insulated ductwork. Optional vented or un-vented gas fireplaces.

**Plumbing** - Two and one-half baths. Good quality white or colored fixtures including water heater(s), kitchen sink(s), laundry tub, tiled or modular plastic shower stall, lavatories, tub and shower.

**Electrical** - A good amount of convenience outlets and good quality lighting fixtures throughout. Luminous fixtures in kitchen and bath areas. Some recessed, track, and fluorescent lighting possible.

**Note:** These grading specifications are only guidelines for general descriptive purposes and may or may not be limited to the detail of the individual components.
GRADE B
RESIDENTIAL DWELLING

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GRADE B
RESIDENTIAL DWELLING

These photographs are only an indication of “grade” and not a determination of actual “grade” of the dwellings shown. “Grade” must be based upon individual inspection of the type of materials and quality of construction of the subject dwelling.
Dwellings constructed of average quality materials and workmanship, exhibiting moderate architectural styling and treatment, and having a minimal amount of built-in features. Typical tract built homes would normally fall into this classification. The following will further describe the most common characteristics of this grade of construction.

**Foundation** - A continuous reinforced concrete block perimeter and interior load bearing wall, waterproofed, with drainage system.

**Exterior Walls** - Frame, vinyl, brick, or average quality siding with standard sash. 2” x 4” wood studs 16” on center, 1 3/4” wood exterior doors, average quality wood double hung windows.

**Roofing** - Gable or hipped, plywood sheathed, covered with asphalt shingles; 2” x 8” rafters or custom built trusses; plain wood cornice, metal flashing and gutters.

**Flooring** - Basement floor poured with 3 1/2” reinforced concrete. Upper floors have 3/4” tongue and groove sub floor. Floor coverings are average quality carpet, vinyl, or hardwood.

**Interior Finish** - Interior walls are painted drywall with some inexpensive wall paper or paneling. Kitchen and baths have enamel painted walls and ceilings. Pre-finished plywood cabinets are used in kitchen areas and small vanities in bath areas. Countertops are laminated plastic or ceramic tile. Doors are medium grade hollow-core with standard grade hardware. An adequate amount of closet space. Baseboard moldings and casings are stock quality. Workmanship throughout is average quality.

**Heating** - Forced air furnace or heat pump with adequate output and ductwork. Optional vented or un-vented gas fireplaces.

**Plumbing** - Two full baths. Average quality white or colored fixtures including water heater, kitchen sink, laundry tub, tiled or modular plastic shower stall, lavatories, tub and shower.

**Electrical** - An adequate number of outlets with some luminous fixtures in kitchen and bath areas.

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These photographs are only an indication of “grade” and not a determination of actual “grade” of the dwellings shown. “Grade” must be based upon individual inspection of the type of materials and quality of construction of the subject dwelling.
GRADE C
RESIDENTIAL DWELLING

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GRADE C
RESIDENTIAL CONDO

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GRADE C
BOATHOUSE
LIVING AREA

These photographs are only an indication of “grade” and not a determination of actual “grade” of the dwellings shown. “Grade” must be based upon individual inspection of the type of materials and quality of construction of the subject dwelling.
Dwellings constructed of fair quality materials and workmanship, generally lacking architectural styling and treatment, and having a scant amount of built-in features. Economy mass built homes would fall into this classification. The following will further describe the most common characteristics of this grade of construction.

**Foundation** - A continuous reinforced concrete block perimeter and piers.

**Exterior Walls** - Wood, asbestos, vinyl or aluminum siding with inexpensive sash. 2” x 4” wood studs 16” on center, 1 3/8” wood exterior doors, double hung wood sash or aluminum frame windows.

**Roofing** - Gable roof, sheathed with plywood or 1” planks, covered with asphalt shingles or metal roofing; 2” x 6” rafters or prefabricated trusses; plain wood cornice, galvanized metal gutters.

**Flooring** - Basement floor poured with 3 1/2” reinforced concrete. Upper floors have 3/4” tongue and groove sub floor or 1” plank sheathing on older homes. Floor coverings are linoleum, asphalt tile, or carpet.

**Interior Finish** - Interior walls are painted drywall or plaster with enamel painted walls and ceilings. Inexpensive paint grade wood cabinets in kitchen areas with small vanity in bath. Countertops are laminated plastic with small splash. Stock, hollow core doors with inexpensive hardware. Minimal amount of closet space. Workmanship throughout is below average quality but will still meet minimum construction codes.

**Heating** - Forced air furnace or electric baseboard heat with minimum output and ductwork and thermostat.

**Plumbing** - One full bath. Inexpensive quality white fixtures including water heater, kitchen sink(s), stall shower, lavatories, tub and shower. Some galvanized piping.

**Electrical** - A minimal number of outlets and lighting fixtures.

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Grade E Residences

Dwellings constructed of low-cost materials and poor workmanship, lacking any architectural treatment or built-in features. Interior and exterior finishes are plain and inexpensive with little or no attention given to detail. Normally, self-built built homes would fall into this classification. The following will further describe the most common characteristics of this grade of construction.

**Foundation** - Cement block, brick, or rock continuous foundation with block, brick, or wooden piers.

**Exterior Walls** - Wood frame, cement block, asbestos, or composition roll siding with inexpensive sash and little or no trim. 2” x 4” wood studs 24” on center, 1 3/8” wood exterior doors, and wood painted windows.

**Roofing** - Gable or shed roof, sheathed with plywood or 1” planks, covered with low quality asphalt shingles or metal roofing; 2” x 4” wood rafters 24” on center; no cornice or gutters.

**Flooring** - Basement floor poured with 3” cement on earth. Upper floor has plywood flooring or 1” plank sheathing on older homes. Floor coverings are low grade linoleum, asphalt tile, or carpet.

**Interior Finish** - Interior walls are inexpensive drywall or plaster with painted walls and ceilings. Inexpensive paint grade wood cabinets in kitchen areas with small vanity in bath. Countertops are low cost laminated plastic with small splash. Stock, hollow core doors with low cost hardware. Minimal amount of closet space. Workmanship throughout is poor quality but will still meet minimum construction codes if new construction.

**Heating** - Forced air furnace, electric baseboard, unit heaters or wood heat with minimum output and ductwork.

**Plumbing** - One full bath. Low cost white fixtures including water heater, kitchen sink(s), stall shower, lavatories, tub and shower. Some galvanized piping.

**Electrical** - A minimal number of outlets and low cost lighting fixtures.

**Note:** These grading specifications are only guidelines for general descriptive purposes and may or may not be limited to the detail of the individual components.
GRADE E
RESIDENTIAL DWELLING

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GRADE E
RESIDENTIAL DWELLING

These photographs are only an indication of “grade” and not a determination of actual “grade” of the dwellings shown. “Grade” must be based upon individual inspection of the type of materials and quality of construction of the subject dwelling.
As houses grow older, they wear out. They become less desirable and less useful. This universal decline in value is called depreciation. Appraisers are required to determine the degree of this loss in each property they examine.

If all houses deteriorated at the same rate this decline in value would be a simple function of the age of the structure—a certain percentage per year. However, houses deteriorate at varying rates depending on a number of variables.

Every building is acted on by two depreciating forces. One tends to shorten is physical life. The other shortens its economic life. Both depreciating forces act concurrently. They overlap and affect one another.

A new house, or any type of structure, has its greatest value at the moment of completion. Its life expectancy—both physical and economic—is longest the day the key is handed over by the builder. The building is most desirable. It is most useful. The future benefits the occupant may expect to enjoy are at a maximum. From that day on, however, decay and wear and tear act to lessen the value of the structure by curtailing its remaining capacity for use.

At the same time the house is wearing out, it is also going out of style. It is becoming less desirable. It is progressively becoming less useful, both from the effect of forces within the property (obsolescence) and forces outside the property (encroachment of undesirable influences).

Neither physical decline nor functional loss is constant in its action. Deterioration is a relatively steady process offset periodically by maintenance. Worn-out elements of the building are repaired or replaced at intervals depending on the policy of the owner. Cheaper houses usually deteriorate faster than more expensive ones. Obsolescence and encroachment may come slowly, or they may happen almost overnight.

The forces that cause both deterioration and functional/economic depreciation may, and often do, act simultaneously, but they are not necessarily related. A house may decline in physical condition and yet throughout its entire life remain relatively functional.

Obviously, the age of a house remains an important factor in estimating accrued depreciation. A certain number of houses will receive “normal” maintenance and will experience “average” economic loss due to obsolescence and functional depreciation. These buildings will depreciate at an average rate as they grow older.

Other houses will depreciate at lesser or more rapid rates. CDU Ratings provide a logical method by which normal age depreciation may be modified according to the appraiser’s best determination of the relative loss of value in a structure as compared with the average loss that might be expected.
Thus the age of a dwelling is an unreliable indicator of the degree of depreciation from its new cost. Houses depreciate not only because they grow older, but because they wear out and become less desirable and useful from a variety of causes.

To assist the appraiser in establishing “CDU Ratings” of buildings, eight simple classifications, or ratings, have been established. These classifications are entirely natural and will fit the normal impressions of the appraiser as he examines a building. The following is a tabulation of CDU Ratings with accompanying definitions of the observed physical condition of the building and its degree of desirability and usefulness, for its age and type:

**CDU RATING GUIDE**

<table>
<thead>
<tr>
<th>CDU Rating of Dwelling</th>
<th>DEFINITION</th>
</tr>
</thead>
<tbody>
<tr>
<td>Excellent</td>
<td>Building is in perfect condition; highly attractive and desirable</td>
</tr>
<tr>
<td>Very Good</td>
<td>Slight evidence of deterioration; still attractive and quite desirable</td>
</tr>
<tr>
<td>Good</td>
<td>Minor deterioration visible; slightly less attractive and desirable but useful</td>
</tr>
<tr>
<td>Average</td>
<td>Normal wear and tear is apparent; average attractiveness and desirability</td>
</tr>
<tr>
<td>Fair</td>
<td>Marked deterioration, but quite useful; rather unattractive and undesirable</td>
</tr>
<tr>
<td>Poor</td>
<td>Definite deterioration is obvious; undesirable and barely useful</td>
</tr>
<tr>
<td>Very Poor</td>
<td>Condition approaches unsoundness; extremely undesirable and barely useful</td>
</tr>
<tr>
<td>Unsound</td>
<td>Building is definitely unsound and practically unfit for use</td>
</tr>
</tbody>
</table>

*Age* is reflected as an index of the normal deterioration and obsolescence in a structure that may be expected over the years. *Condition* represents a variable measure of the effects of maintenance and remodeling of a building. *Desirability* is a measure of the degree of appeal a particular building may have to prospective purchasers. *Usefulness* is a measure of the utility of the structure for the purpose for which it may be used.
Once the CDU Rating of a building has been established through a consideration of its Condition, Desirability and Usefulness for its Age and Type, reference to the Basic Depreciation Table will indicate the appropriate depreciation allowance for a structure possessing these qualities to the degree observed and noted by the appraiser.

The term “basic depreciation” is appropriate to define the allowance for depreciation established by the method suggested here. It is truly “basic” depreciation that has been sought and found. It represents a determination of a single depreciation allowance, which reflects the total combined effect on value of all the depreciating forces, both physical and functional.

The degree of deterioration and obsolescence, or loss of value from all causes, both within and without the property, is automatically taken into account. This is accomplished by means of a simple rating of the capabilities and qualities of the structure, in precisely the same terms as would a prospective purchaser. Sound valuation theory presupposes the existence of a prospective buyer, with intelligence enough to compare the advantages and disadvantages of competing properties, and then rate the property he is examining according to its relative degree of desirability and usefulness.

APPLYING THE CDU SYSTEM

To apply the CDU system, the appraiser rates each house according to his composite impression of its relative CONDITION, DESIRABILITY and USEFULNESS—for its AGE and TYPE. The following four hypothetical cases illustrate this convenient and practical method of determining a crude depreciation in houses.

Case One: A 15-year-old single-family residence situated in an attractive residential suburb of a typical American community. Grade “B” quality: Two story and basement brick veneer construction; three bedrooms with two baths. Minor deterioration is visible; slightly less attractive and desirable than new, but useful. A qualified observer would rate this house above average on the CDU Rating System. Accordingly, our appraiser has assigned it a CDU rating of “Good.” Referring to the table, we find 14 percent depreciation would be appropriate.

Case Two: A one-story frame house, seven years old. Grade “C” or average quality construction; three bedrooms, one and one-half baths. Structure shows normal wear and tear and has average attractiveness and desirability. The appraiser's impression is that, “For a seven year old grade ‘C’ house, this would be rated as Average.” From the table, we find 7 percent depreciation is indicated.

Case Three. This century-old colonial style frame house is located in a rural farming community; erected 1858. Grade “B” or good quality construction. Building has been extremely well maintained and completely modernized with central heating, electric lighting and modern plumbing added. The structure is in good physical condition in spite of its age. Building is architecturally attractive and quite desirable. The appraiser’s impression is that “For a very old house of Grade “B” quality, this is an excellent one.” In this
case, the appraiser would use an effective age from his or her own judgment, of 50 years. From the table, 44 percent depreciation is indicated.

Case Four. A 24-year-old single-family residence of Grade “C” quality; one story and basement frame construction; three bedrooms with bath. Structure has had normal maintenance and is in average physical condition. Within the last two years, an elevated six-lane expressway has been erected, passing over the adjoining lot. This encroachment has seriously detracted from the attractiveness and desirability of the property. Accordingly, the appraiser has assigned a CDU Rating of “Very Poor.” From the table, 39 percent depreciation is indicated.
GENERAL

Manufactured housing can be single wide mobile homes, double wide mobile homes, or modular homes. These structures are designed with a steel undercarriage and wheel assemblies for transporting to the site. Note: modular homes have wood joists rather than a steel undercarriage and for mass appraisal purposes are considered to be like stick-built homes. N.C.G.S. 105-273(13), in defining real property, provides for the inclusion of manufactured housing as follows:

“'Real property,' ‘real estate,’ and ‘land’ mean not only the land itself, but also buildings, structures, improvements, and permanent fixtures thereon, and all rights and privileges belonging or in any wise appertaining thereto. These terms also mean a manufactured home as defined in G.S. 143-143.9(6) if it is a residential structure; has the moving hitch, wheels, and axles removed; and is placed upon a permanent foundation either on land owned by the owner of the manufactured home or on land in which the owner of the manufactured home has a leasehold interest pursuant to a lease with a primary term of at least 20 years for the real property on which the manufactured home is affixed and where the lease expressly provides for disposition of the manufactured home upon termination of the lease. A manufactured home as defined in G.S. 143-143.9(6) that does not meet all of these conditions is considered tangible personal property.”

The following guidelines should be used when estimating replacement cost:

On manufactured homes, the wheel and hitch assemblies are usually removed at the building site location. The hitch is not included in the overall dimensions when calculating the actual square footage.

Manufactured homes built in the USA after June 15, 1976, must meet Federal Standards outlined in Title VI, Housing and Community Development Act of 1974. A HUD seal certifying these standards must be displayed on each unit. This section will be used for the purpose of appraising replacement cost for those built prior to its enactment, as well as those built after 1976.

Manufactured homes are generally the only type of factory-produced houses to be priced from this section and are referred to as single wide manufactured homes and double wide manufactured homes. The quality characteristics of these homes are described in the Grading Standards on the following pages.
COST

Factory-produced homes consist of single or multi wide units, eight feet or greater in width and at least thirty-two feet or greater in length. These units are transported on their own wheel assemblies to the building site. The units are then set up on a permanent or semi-permanent foundation with utilities attached. Utilities such as water, electricity, sewer or septic tank are included in the building site (land) cost, not the factory home cost.

Manufactured homes are usually described in terms of length and width (12 x 60, 14 x 74, 24 x 52, 28 x 66, etc.) and are priced accordingly. Although most units are sold furnished, furnishings and appliances are not included in the base rate schedules for tax purposes.

Items such as wood decks, stoops, porches, patios, etc. are add-ons and are valued accordingly to the schedule in the following pages.

There are five “quality of construction levels” categorized for manufactured homes. They are as follows:

<table>
<thead>
<tr>
<th>Grade</th>
<th>Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>Excellent</td>
</tr>
<tr>
<td>B</td>
<td>Good</td>
</tr>
<tr>
<td>C</td>
<td>Average</td>
</tr>
<tr>
<td>D</td>
<td>Fair</td>
</tr>
<tr>
<td>E</td>
<td>Poor</td>
</tr>
</tbody>
</table>

There are also eight “condition, desirability, and utility levels” categorized for manufactured homes. They are as follows:

<table>
<thead>
<tr>
<th>CDU</th>
<th>Condition</th>
</tr>
</thead>
<tbody>
<tr>
<td>E</td>
<td>Excellent</td>
</tr>
<tr>
<td>VG</td>
<td>Very Good</td>
</tr>
<tr>
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Foundation costs and heating are included in the applicable base rates. Additional add-ons to the base cost are air conditioning, extra plumbing, and fireplaces. Grade factor percentages and physical depreciation are figured from the residential grade and depreciation schedules.
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Grade A Manufactured Homes

Manufactured homes constructed of excellent quality materials and workmanship, exhibiting outstanding styling and treatment, and having an abundance of built-in features. The following will further describe the most common characteristics of this grade of construction.

**Foundation** - A continuous reinforced concrete block or poured concrete perimeter, bricked and vented.

**Exterior Walls** – 7 ½ foot exterior walls, 2” x 4” or 2” x 6” studs 16” on center, ½” OSB sheathing with lifetime name brand vinyl, excellent quality or comparable to cedar or other exterior finish. Thermal windows, steel or vinyl with 6 panels. Insulated exterior doors, French doors, bay windows, thermal sliding doors, and skylights.

**Roofing** – Gable roof, 2” x 4” trusses 16” on center, OSB sheathing, 25 year shingles, with 5 in 12 pitch or greater.

**Flooring** – 2” x 8” floor joists 16” on center, ¾” plywood sub-floor, covered with good grade carpet, vinyl, or hardwood flooring.

**Interior Finish** – ½” to 5/8” drywall, 2” x 4” studs 16” on center with marriage walls, some wallpaper or paneling. Crown molding, chair rail, and vaulted ceilings in most models. Excellent kitchen cabinetry. Walk-in closets with shelving.

**Heating** - Forced air furnace or heat pump with central air conditioning. Optional vented or un-vented gas fireplaces.

**Plumbing** – Two to two and one-half baths. Kitchen sink is single lever with spray, excellent quality fixtures including one piece fiberglass shower and tubs.

**Electrical** - Many well positioned outlets and high quality lighting fixtures throughout. Large luminous fixtures in kitchen, bath, and dressing areas. Some recessed, track, and fluorescent lighting possible.

*Note: These grading specifications are only guidelines for general descriptive purposes and may or may not be limited to the detail of the individual components.*
This photograph is only an indication of “grade” and not a determination of actual “grade” of the manufactured home shown. “Grade” must be based upon individual inspection of the type of materials and quality of construction of the subject manufactured home.
This photograph is only an indication of “grade” and not a determination of actual “grade” of the manufactured home shown. “Grade” must be based upon individual inspection of the type of materials and quality of construction of the subject manufactured home.
Manufactured homes constructed of good quality materials and workmanship, exhibiting good styling and treatment. The following will further describe the most common characteristics of this grade of construction.

**Foundation** - A continuous reinforced concrete block or poured concrete perimeter, bricked and vented.

**Exterior Walls** – 7 ½ foot exterior walls, 2” x 4” studs 16” on center, ½” OSB sheathing with lifetime name brand vinyl, good quality or comparable to cedar or other exterior finish. Four to six panel thermal windows.

**Roofing** – Gable roof, 2” x 4” trusses 16” on center, OSB sheathing, 20 year shingles, with 4 in 12 pitch or greater.

**Flooring** – 2” x 6” floor joists 16” on center, ¾” plywood sub-floor, covered with good grade carpet or vinyl tile.

**Interior Finish** – ½” to 5/8” drywall, 2” x 4” studs 16” on center with marriage walls. Crown molding, chair rail, and vaulted ceilings in most models. Good kitchen cabinetry.

**Heating** - Forced air furnace or heat pump with central air conditioning. Optional vented or unvented gas fireplaces.

**Plumbing** – Two to two and one-half baths. Kitchen sink is single lever with spray, good quality fixtures including one piece fiberglass shower and tubs.

**Electrical** - Many well positioned outlets and moderate quality lighting fixtures throughout. Large luminous fixtures in kitchen, bath, and dressing areas.

*Note:* These grading specifications are only guidelines for general descriptive purposes and may or may not be limited to the detail of the individual components.
This photograph is only an indication of “grade” and not a determination of actual “grade” of the manufactured home shown. “Grade” must be based upon individual inspection of the type of materials and quality of construction of the subject manufactured home.
GRADE B
MANUFACTURED HOME
SINGLE-SECTION

This photograph is only an indication of “grade” and not a determination of actual “grade” of the manufactured home shown. “Grade” must be based upon individual inspection of the type of materials and quality of construction of the subject manufactured home.
Manufactured homes constructed of average quality materials and workmanship, exhibiting average styling and treatment. The following will further describe the most common characteristics of this grade of construction.

**Foundation** - A continuous reinforced concrete block or poured concrete perimeter, bricked and vented, or aluminum or vinyl skirting.

**Exterior Walls** – 7 to 7 ½ foot exterior walls, 2” x 3” or 2” x 4” studs 16” on center, mostly pressboard sheathing with lifetime name brand vinyl. Basic mobile home windows and doors.

**Roofing** – Gable roof, 2” x 3” trusses 24” on center, inexpensive sheathing, low cost shingles, with 3 in 12 pitch or greater.

**Flooring** – 2” x 6” floor joists 16” on center, on metal frame, ¼” plywood sub-floor, covered with carpet or vinyl tile.

**Interior Finish** – ½” drywall or panels with batten, 2” x 4” studs 16” on center with marriage walls. Small appliance package.

**Heating** - Forced air furnace or heat pump with central air conditioning. Optional vented or unvented gas fireplaces.

**Plumbing** – One and one-half to two baths. Kitchen sink is single lever with spray, average quality fixtures including basic fiberglass shower and tubs.

**Electrical** – Basic low cost fixtures.

*Note: These grading specifications are only guidelines for general descriptive purposes and may or may not be limited to the detail of the individual components.*
GRADE C
REAL PROPERTY MANUFACTURED HOME

These photographs are only an indication of “grade” and not a determination of actual “grade” of the dwellings shown. “Grade” must be based upon individual inspection of the type of materials and quality of construction of the subject dwelling.
GRADE C
MANUFACTURED HOME
SINGLE-SECTION

This photograph is only an indication of “grade” and not a determination of actual “grade” of the manufactured home shown. “Grade” must be based upon individual inspection of the type of materials and quality of construction of the subject manufactured home.
Manufactured homes constructed of fair quality materials and workmanship, generally lacking styling and treatment. The following will further describe the most common characteristics of this grade of construction.

**Foundation** - Continuous concrete block perimeter, or aluminum or vinyl skirting.

**Exterior Walls** – 7 foot exterior walls, 2” x 3” studs 16” on center, mostly pressboard sheathing with low grade vinyl siding or masonite siding. Low cost mobile home windows and doors.

**Roofing** – Gable roof, 2” x 3” trusses 24” on center, wafer board sheathing, low cost shingles, with 3 in 12 pitch or greater or metal roof.

**Flooring** – 2” x 6” floor joists 16” on center, on metal frame, low cost decking covered with carpet or vinyl tile.

**Interior Finish** – ½” drywall or panels with batten, 2” x 3” studs 24” on center, paneled ceilings, small appliance package.

**Heating** – Electric furnace.

**Plumbing** – One bath, plastic type fixtures with low cost tub and shower.

**Electrical** – Basic, low cost, minimal fixtures.

*Note: These grading specifications are only guidelines for general descriptive purposes and may or may not be limited to the detail of the individual components.*
This photograph is only an indication of “grade” and not a determination of actual “grade” of the manufactured home shown. “Grade” must be based upon individual inspection of the type of materials and quality of construction of the subject manufactured home.
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Grade E Manufactured Homes

Manufactured homes constructed of low cost quality materials and workmanship, lacking any treatment or built-in features. Interior and exterior finishes are plain and inexpensive. The following will further describe the most common characteristics of this grade of construction.

Foundation – Cement block, aluminum, wood, or no skirting.

Exterior Walls – 7 foot exterior walls, 2” x 3” studs 24” on center, pressboard sheathing with masonite or metal siding. Low cost mobile home windows and doors.

Roofing – Gable roof, 2” x 3” trusses 24” on center, no overhangs, wafer board sheathing, low cost shingles, with 3 in 12 pitch or greater or metal roof.

Flooring – 2” x 6” floor joists 16” on center, on metal frame, low cost decking covered with carpet or linoleum.

Interior Finish – ½” drywall or panels with batten, 2” x 2” studs 24” on center, paneled ceilings.

Heating – Electric furnace.

Plumbing – One bath, plastic type fixtures with low cost tub and shower.

Electrical – Basic, low cost, minimal fixtures.

Note: These grading specifications are only guidelines for general descriptive purposes and may or may not be limited to the detail of the individual components.
This photograph is only an indication of “grade” and not a determination of actual “grade” of the manufactured home shown. “Grade” must be based upon individual inspection of the type of materials and quality of construction of the subject manufactured home.
This photograph is only an indication of “grade” and not a determination of actual “grade” of the manufactured home shown. “Grade” must be based upon individual inspection of the type of materials and quality of construction of the subject manufactured home.
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## COMMERCIAL - AGRICULTURAL - OUTBUILDING
### BASE RATE RANGES

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<tr>
<td>119</td>
<td>Pavilion (Open Park)</td>
<td>$25.00 - $35.00 sq ft</td>
</tr>
<tr>
<td>120</td>
<td>Kiosk (Sales)</td>
<td>$166.00 - $186.00 sq ft</td>
</tr>
<tr>
<td>121</td>
<td>Outdoor Kitchen (Average)</td>
<td>$3,350 - $3,700 each</td>
</tr>
<tr>
<td>122</td>
<td>Outdoor Kitchen (Good)</td>
<td>$6,500 - $7,500 each</td>
</tr>
<tr>
<td>123</td>
<td>Outdoor Kitchen (Excellent)</td>
<td>$14,500 - $16,000 each</td>
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<tr>
<td>124</td>
<td>Pavilion (Enclosed)</td>
<td>$35.00 - $70.00 sq ft</td>
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<tr>
<td>125</td>
<td>Outdoor Fireplace</td>
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<tr>
<td>19</td>
<td>Packing House</td>
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<tr>
<td>200A</td>
<td>Asphalt Paving up to 3000 SF</td>
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<td>200B</td>
<td>Asphalt Paving up to 5000 SF</td>
<td>$1.50 - $1.75 sq ft</td>
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<td>200C</td>
<td>Asphalt Paving up to 10000 SF</td>
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<tr>
<td>200D</td>
<td>Asphalt Paving over 10000 SF</td>
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<td>Concrete Paving</td>
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<td>23</td>
<td>Shed – Open Sided</td>
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<td>Shed – One Side Open</td>
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<td>Metal Barn</td>
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<td>Shop</td>
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<td>Stable</td>
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<td>Garage Unit</td>
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<td>Tennis Court</td>
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<td>Greenhouse – Average</td>
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<tr>
<td>56</td>
<td>Greenhouse – Good</td>
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<tr>
<td>57</td>
<td>Greenhouse – Fair</td>
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<td>Greenhouse – Economy</td>
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<td>Canopy</td>
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<td>Farm Building</td>
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<td>Carport</td>
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<td>Boat House</td>
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<td>Prefab Metal Building</td>
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<td>Metal / Frame Building</td>
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<td>Swimming Pool (vinyl)</td>
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<td>Utility Building (unfin.)</td>
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<td>83</td>
<td>Utility Building (fin.)</td>
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<td>Cemetery Plots</td>
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<td>Miscellaneous</td>
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<td>Golf Course Class I</td>
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<td>Golf Course Class II</td>
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<td>Golf Course Class III</td>
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<td>Golf Course Class IV</td>
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<td>Mini Golf Course – Minimal Quality</td>
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<td>Mini Golf Course – Average Quality</td>
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<td>Mini Golf Course – Good Quality</td>
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<td>GCEC</td>
<td>Golf Course – Executive</td>
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<td>MHP4</td>
<td>Mobile Home Park Sites – Excellent</td>
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<td>RV Park Sites</td>
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<tr>
<td>TOW</td>
<td>Cell Tower Site</td>
<td>$40,000 - $60,000 per site</td>
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TYPICAL BOATHOUSE
BOAT STORAGE ONLY
TYPICAL WOOD FRAME/METAL STORAGE BUILDING (MORTON TYPE)
TYPICAL METAL STORAGE BUILDING
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<td>Outbuilding Physical Depreciation Table (Percent Good)</td>
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</table>
In making appraisals for ad valorem tax purposes, it is generally necessary to estimate separate values for the land and the improvements on the land. In actuality, the two are not separated and the final estimate of the property as a single unit must be given prime consideration. However, in arriving at that final estimate of value, aside from the requirements for property tax appraisals, there are certain other reasons for making a separate estimate of value for the land:

1. An estimate of land value is required in the application of the Cost Approach.

2. An estimate of land value is required to be deducted from the total property selling price in order to derive indications of depreciation through market-data analysis. (Depreciation being equal to the difference between the replacement cost new of a structure and the residual price attributable to the structure from the sales price.)

3. As land is not a depreciable item, a separate estimate of land value is often required for bookkeeping and accounting purposes; likewise, the total capitalization rate applicable to land will differ from the rate applicable to the improvements on the land.

4. Since land may or may not be used at its highest and best use (potential), the value of land may be completely independent of the existing improvements on the land.

Real Estate is valued in terms of its highest and best use. The highest and best use of the land (or site), as if vacant and available for use, may be different from the highest and best use of the improved property. This will be true when the improvement is not an appropriate use and yet makes a contribution to total property value in excess of the value of the site. Highest and Best Use (Highest and Most Profitable Use; Optimum Use) is that reasonable and probable use which will support the highest present value as of the date of the appraisal. Alternatively, it is the most profitable likely use to which a property can be put. It may be measured in terms of the present worth of the highest net return that the property can be expected to produce over a stipulated long run period of time. (American Institute of Real Estate Appraisers’ Appraisal Terminology Handbook, 1981 edition.)

As appraisers’ opinions are based on data derived from the market, it is necessary to study and adapt, if possible, procedures used by those closest to everyday transactions.

**COMPARABLE SALES METHOD**

The most frequently used method in estimating the value of land is the comparable sales method in which land values are derived from analyzing the selling prices of similar sites. This method is in essence the application of the market data approach to value and all the considerations pertaining thereto are equally applicable here.
The appraiser must select comparable and valid market transactions, and must weigh and give
due consideration to all the factors significant to value, adjusting each to the subject property. The
comparable sites must be used in the same way as is the subject property, and subjected to the
same zoning regulations and restrictions. It is also preferable, whenever possible, to select
comparables from the same or a similar neighborhood. The major adjustments will be to account
for variations in time, location, and physical characteristics to include size, shape, topography,
landscaping, access, as well as other factors which may significantly influence the selling price.

Although it is always preferable to use sales of unimproved lots for comparables, it is not always
possible to do so. Older neighborhoods are not likely to yield a sufficient number of representative
sales of unimproved lots to permit a valid analysis. In such cases, in order to arrive at an estimate
of land values using the comparable sales approach, it is necessary to consider improved property
sales and to estimate the portion of the selling price applicable to the structure. The procedure
would be to estimate the replacement cost of the buildings as of the date of sale, estimate the
accrued depreciation and deduct that amount from the replacement cost resulting in the estimated
selling price of the buildings, which can be deducted from the total selling price of the property to
derive the portion of the selling price which can be allocated to the land. The equation is as
follows:

Selling Price of Property - Estimated Depreciated Value of Buildings = Indication of Land Value

In some older neighborhoods, vacant lots will exist often as a result of fire or normal deterioration.
Care must be taken in determining their highest and best use as either a building site or as a buffer
of additional land to an adjoining owner.

In order to apply the comparable sales method, it is first necessary to establish a common unit
of comparison. The units generally used in the valuation of land are price per front foot, price
per square foot, and price per acre. The selection of any one particular unit depends upon the
type of property being appraised; frontage being more appropriate for older, platted, uniform
type residential lots; square footage and acreage for larger, unplatted tracts, as well as
irregularly shaped lots lacking in uniformity. Depth factor adjustments are most appropriate
for residential parcels valued by the frontage method, and if applied to commercial parcels may
have a tendency to distort this concept. Use of square footage is especially desirable in Central
Business Districts and along commercial arteries where the entire lot maintains the same level
of value.
The utility of a site will vary with the frontage, width, depth, shape, and overall area. Similarly,
the unit land values should be adjusted to account for differences in size and shape between the
comparables and the subject property. Since such an adjustment is generally necessary for each
lot, it is beneficial that the appraiser adopt and/or develop standardized procedures for
adjusting the lot size and the unit values to account for the variations. While it is not
uncommon for all lots within some developments to market at the same price, should the data
so indicate, it will be necessary to make alterations or adjustments to reflect the data from the
marketplace. In some of these cases, a "site value" concept has advantages. Other techniques
commonly employed include:
Standard lot sizing techniques provide for the adjustment of the frontage, width, and depth of irregular shaped lots to make the units of measurement more comparable with uniform rectangular lots.

Standard Depth Tables provide for the adjustment of front foot unit values to account for variations in depth from a predetermined norm.

Frontage Tables provide for the adjustment of front footage unit values to account for variations in the relative utility value of excessive or insufficient frontage as compared to a predetermined norm.

Acreage or Square Footage Tables provide for the adjustment of unit values to account for variations in the relative utility value of excessive or insufficient land sizes as compared to a predetermined norm.

During the process of adjusting the comparable sales to account for variations between them and the subject property, the appraiser must exercise great care to include all significant factors and to properly consider the impact of each of the factors upon the total value. If done properly, the adjusted selling prices of the comparable properties will establish a range in value in which the value of the subject property will fall. Further analysis of the factors should enable the appraiser to narrow the range down to the value level which is most applicable to the subject property.

RATIO METHOD

A technique useful for establishing broad indications of land values is a "typical" allocation or ratio method. In this technique, the ratio of the land value to the total value of improved properties is observed in situations where there is good market and/or cost evidence to support both the land values and total values. This market abstracted ratio is then applied to similar properties where the total values are known, but the allocation of values between land and improvements are not known. The ratio is usually expressed as a percentage which represents the portion of the total improved value that is land value, or as a formula:

\[ \text{Total Land Value} \times 100\% = \% \text{ Land Is of Total Property Value} \]

Total Property Value

This technique can be used on most types of improved properties, with important exceptions being farms and recreational facilities, provided that the necessary market and/or cost information is available. In actual practice, available market information limits this technique primarily to residential properties, and to a much lesser extent, commercial and industrial properties such as apartments, offices, shopping centers, and warehouses.

The ratio technique cannot give exact indications of land values. It is nevertheless useful, especially when used in conjunction with other techniques of estimating land values because it provides an indication of the reasonableness of the final estimate of land value.
The ratio should be extracted from available market information and applied to closely similar properties. It should be noted that any factor that affects values may also affect the ratio of values. Zoning is particularly important because it may require more or less improvements be made to the land, or may require a larger or smaller minimum size. This tends to have a bearing on the land values, and so it may also influence the ratio of values considerably from community to community. The following is an example of a residential land valuation situation:

*Market information derived from an active new subdivision:*

Typical Lot Sale Price (most lots equivalent)

Improved Lot Sales (range)

Indicated Ratio $15,000 to 15,000 \times 100\% = \frac{20\% \text{ to } 23\%}{75,000 \text{ to } 65,000}$

*Similar subdivision, but 100% developed:*

Typical Lot Sale (most lots equivalent) unavailable

Improved Lot Sales (range) $85,000 \text{ to } 105,000$

Broadest Indicated Range of Lot Values $\frac{20\% \times 85,000 \text{ to } 23\% \times 125,000}{17,000 \text{ to } 24,150}$

Narrowest Indicated Range of Lot Values $\frac{23\% \times 85,000 \text{ to } 20\% \times 105,000}{19,550 \text{ to } 21,000}$

If both lots and improvements vary considerably, the broadest range is most appropriate. If most lots vary little and are judged equivalent but the improvements vary somewhat, the narrowest range is appropriate. Most subdivisions exhibit a combination of the two ranges; showing a narrow typical range, but a wider actual range of land values.
RURAL HOME SITES

Remote or sparsely developed areas of the county where much of the land is being actively farmed or lying idle. Turnover is infrequent, and development is generally limited to major highway intersections and rural hamlet communities. Public water may or may not be available. Most homes are served by wells and septic systems.

SUBURBAN HOME SITES

Areas in the county in which development is occurring or has reached equilibrium. Includes typical subdivisions and concentrated communities surrounding cities and towns. Public water is usually available and, in some cases, sanitary sewer services exist.

URBAN AND RESORT HOME SITES

Areas in or surrounding cities or towns with a high density of housing and commercial and/or industrial properties. Land is almost always bought and sold with the intent to develop. Turnover is frequent and development is rapid. Public water and sewer are readily available.

OPEN LAND SCHEDULES

Superior

- Nearly level with no erosion hazard
- Well drained, easily cultivated
- Well adapted to holding water, highly responsive to fertilizer
- Not subject to damaging overflow
- Productive and suited to intensive cropping

Good

- Gentle slopes, moderate susceptibility to wind or water erosion
- Soil depth less than ideal
- Somewhat unfavorable soil composition
- Occasional overflow
- Wetness that can be corrected with drainage

Average

- Moderately steep slopes, rolling terrain
- Frequent overflow and erosion
- Shallow depth of soil
- Low moisture-holding capacity
- Low fertility, can be corrected
Fair

- Steep slopes, severe erosion
- Shallow soil, very low moisture-holding capacity
- Constant overflow and wetness, severe crop damage
- Deep sand

WOODLAND SCHEDULES

Superior

- Well-drained, generally level
- Highly productive
- Readily accessible

Good

- Rolling terrain, minor drainage problems
- Moderate erosion, average productivity
- Good access

Average

- Steep slopes, poor topography
- Rock outcroppings, erosion
- Below average productivity
- Access somewhat limited

Fair

- Very steep topography
- Constant wetness, limited productivity
- Access limited or no access

UNDEVELOPED LAND / FUTURE DEVELOPMENT

Land that is either being actively developed, being prepared for development, suitable for development, or likely to be developed in the near future.

Superior

* Excellent location
* Public services available
* Land restricted to specific improvements
Good

* Above average location
* Services available
* Public zoning and restrictions

Average

* Average or good location
* Typical services available
* Limited zoning and restrictions

Fair

* Fair-Poor location
* No public services available
### Site Value & Per Acre Rates

#### RURAL HOME SITES

<table>
<thead>
<tr>
<th>Location</th>
<th>(1) Fair</th>
<th>(2) Average</th>
<th>(3) Good</th>
<th>(4) Superior</th>
<th>Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Excellent</td>
<td>30000</td>
<td>35000</td>
<td>40000</td>
<td>50000</td>
<td>20000</td>
</tr>
<tr>
<td>B) Good</td>
<td>25000</td>
<td>30000</td>
<td>35000</td>
<td>40000</td>
<td>15000</td>
</tr>
<tr>
<td>C) Average</td>
<td>20000</td>
<td>25000</td>
<td>30000</td>
<td>35000</td>
<td>10000</td>
</tr>
<tr>
<td>D) Fair-poor</td>
<td>15000</td>
<td>20000</td>
<td>25000</td>
<td>30000</td>
<td>5000</td>
</tr>
</tbody>
</table>

#### SUBURBAN HOME SITES

<table>
<thead>
<tr>
<th>Location</th>
<th>(1) Fair</th>
<th>(2) Average</th>
<th>(3) Good</th>
<th>(4) Superior</th>
<th>Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Excellent</td>
<td>50000</td>
<td>75000</td>
<td>100000</td>
<td>200000</td>
<td>40000</td>
</tr>
<tr>
<td>B) Good</td>
<td>30000</td>
<td>50000</td>
<td>75000</td>
<td>150000</td>
<td>30000</td>
</tr>
<tr>
<td>C) Average</td>
<td>20000</td>
<td>30000</td>
<td>50000</td>
<td>100000</td>
<td>20000</td>
</tr>
<tr>
<td>D) Fair-Poor</td>
<td>10000</td>
<td>20000</td>
<td>30000</td>
<td>50000</td>
<td>10000</td>
</tr>
</tbody>
</table>

#### URBAN & RESORT HOME SITES

<table>
<thead>
<tr>
<th>Location</th>
<th>(1) Fair</th>
<th>(2) Average</th>
<th>(3) Good</th>
<th>(4) Superior</th>
<th>Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Excellent</td>
<td>75000</td>
<td>100000</td>
<td>200000</td>
<td>500000</td>
<td>75000</td>
</tr>
<tr>
<td>B) Good</td>
<td>50000</td>
<td>75000</td>
<td>150000</td>
<td>300000</td>
<td>60000</td>
</tr>
<tr>
<td>C) Average</td>
<td>40000</td>
<td>50000</td>
<td>100000</td>
<td>200000</td>
<td>50000</td>
</tr>
<tr>
<td>D) Fair-Poor</td>
<td>20000</td>
<td>25000</td>
<td>50000</td>
<td>100000</td>
<td>20000</td>
</tr>
</tbody>
</table>

#### Per Acre Rates

#### UNDEVELOPED LAND / FUTURE DEVELOPMENT

<table>
<thead>
<tr>
<th>Location</th>
<th>(1) Fair</th>
<th>(2) Average</th>
<th>(3) Good</th>
<th>(4) Superior</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Above average</td>
<td>9000</td>
<td>15000</td>
<td>20000</td>
<td>50000</td>
</tr>
<tr>
<td>B) Average</td>
<td>7000</td>
<td>9000</td>
<td>15000</td>
<td>20000</td>
</tr>
<tr>
<td>C) Below average</td>
<td>5000</td>
<td>7000</td>
<td>9000</td>
<td>15000</td>
</tr>
</tbody>
</table>

#### WOODLAND / ORCHARD / OPEN LAND

<table>
<thead>
<tr>
<th>Location</th>
<th>(1) Fair</th>
<th>(2) Average</th>
<th>(3) Good</th>
<th>(4) Superior</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Above average</td>
<td>7000</td>
<td>8500</td>
<td>10000</td>
<td>15000</td>
</tr>
<tr>
<td>B) Average</td>
<td>5000</td>
<td>6500</td>
<td>8000</td>
<td>10000</td>
</tr>
<tr>
<td>C) Below average</td>
<td>3000</td>
<td>4500</td>
<td>6000</td>
<td>8000</td>
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</table>

#### WASTELAND

100-500 / ACRE
## LESS THAN 1 ACRE ADJUSTMENT TABLE - FOR HOMESITES

<table>
<thead>
<tr>
<th>Area</th>
<th>Value</th>
<th>Area</th>
<th>Value</th>
<th>Area</th>
<th>Value</th>
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<td>82</td>
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<tr>
<td>3</td>
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<tr>
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<td>84</td>
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<td>1.52</td>
<td>85</td>
<td>1.10</td>
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<tr>
<td>6</td>
<td>4.60</td>
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<td>86</td>
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<tr>
<td>7</td>
<td>4.20</td>
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<td>87</td>
<td>1.08</td>
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<tr>
<td>8</td>
<td>3.80</td>
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<td>1.49</td>
<td>88</td>
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<tr>
<td>9</td>
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<td>49</td>
<td>1.48</td>
<td>89</td>
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<tr>
<td>10</td>
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<tr>
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<td>2.58</td>
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<td>97</td>
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<td>2.42</td>
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<td>100</td>
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<td>2.38</td>
<td>61</td>
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<tr>
<td>22</td>
<td>2.34</td>
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<tr>
<td>23</td>
<td>2.32</td>
<td>63</td>
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<td>24</td>
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<td>64</td>
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<tr>
<td>25</td>
<td>2.18</td>
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<td>1.25</td>
<td></td>
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</tr>
<tr>
<td>26</td>
<td>2.12</td>
<td>66</td>
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<td></td>
<td></td>
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<tr>
<td>27</td>
<td>2.08</td>
<td>67</td>
<td>1.23</td>
<td></td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>2.04</td>
<td>68</td>
<td>1.22</td>
<td></td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>2.00</td>
<td>69</td>
<td>1.21</td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>1.95</td>
<td>70</td>
<td>1.21</td>
<td></td>
<td></td>
</tr>
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<td>31</td>
<td>1.93</td>
<td>71</td>
<td>1.20</td>
<td></td>
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</tr>
<tr>
<td>32</td>
<td>1.91</td>
<td>72</td>
<td>1.19</td>
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<td>1.88</td>
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<td>1.76</td>
<td>76</td>
<td>1.16</td>
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<td>1.68</td>
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<td>1.15</td>
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<td>1.64</td>
<td>79</td>
<td>1.14</td>
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</tr>
<tr>
<td>40</td>
<td>1.60</td>
<td>80</td>
<td>1.13</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**COMMERCIAL / INDUSTRIAL ADD / DEDUCT ADJUSTMENTS**

**AIR CONDITIONING**
The base price for commercial buildings includes the cost of a central air conditioning system, while the price of industrial buildings does not. Depending on the type of air conditioning code selected, the appropriate adjustment will be made to the base price as shown below.

<table>
<thead>
<tr>
<th>CODE</th>
<th>COMM. ADJ</th>
<th>IND. ADJ</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEN – Central Air (100)</td>
<td>Base</td>
<td>+$5.00 sq ft</td>
</tr>
<tr>
<td>CEN – Central Air (99)</td>
<td>-$5.00 sq ft</td>
<td>+$5.00 sq ft</td>
</tr>
<tr>
<td>NAC – No A/C</td>
<td>-$5.00 sq ft</td>
<td>Base</td>
</tr>
<tr>
<td>NONE – No A/C</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>UAC (Unit A/C)</td>
<td>Base</td>
<td>+$5.00 sq ft</td>
</tr>
</tbody>
</table>

**ATTIC FINISH**
Although rare, it is possible for a commercial / industrial building to have an attic. The total attic area is divided by the foundation area of the main body and shown to the nearest 1%. The adjustment for story height, if needed is done automatically by the computer.

<table>
<thead>
<tr>
<th>CODE</th>
<th>COMM. ADJ</th>
<th>IND. ADJ</th>
</tr>
</thead>
<tbody>
<tr>
<td>FF (Fully Finished)</td>
<td>$15.00 sq ft</td>
<td>$15.00 sq ft</td>
</tr>
<tr>
<td>PF (Partly Finished)</td>
<td>$10.00 sq ft</td>
<td>$10.00 sq ft</td>
</tr>
<tr>
<td>UF (Unfinished)</td>
<td>$5.00 sq ft</td>
<td>$5.00 sq ft</td>
</tr>
</tbody>
</table>

**PLUMBING**
For commercial / industrial properties, code “AB”, actual baths is not a valid listing. The base specifications for each commercial / industrial series calls for “adequate, commensurate with the type and use”. If the number of fixtures is not adequate for the size, or type and use of the building, then code “LP”, limited plumbing should be used. Code “NP”, no plumbing, is self-explanatory, and code “AD”, adequate, will be found applicable in most all situations.

<table>
<thead>
<tr>
<th>CODE</th>
<th>COMM. ADJ</th>
<th>IND. ADJ</th>
</tr>
</thead>
<tbody>
<tr>
<td>AD (Adequate)</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>LP (Limited Plumbing)</td>
<td>-$0.50 sq ft</td>
<td>-$0.50 sq ft</td>
</tr>
<tr>
<td>NP (No Plumbing)</td>
<td>-$1.00 sq ft</td>
<td>-$1.00 sq ft</td>
</tr>
<tr>
<td>NONE (No Plumbing)</td>
<td>Base</td>
<td>Base</td>
</tr>
</tbody>
</table>

**BUILT-IN**

<table>
<thead>
<tr>
<th>CODE</th>
<th>COMM. ADJ</th>
<th>IND. ADJ</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESC (Escalator)</td>
<td>$130,000</td>
<td>$130,000</td>
</tr>
<tr>
<td>FEL (Freight Elevator)</td>
<td>$55,000</td>
<td>$55,000</td>
</tr>
<tr>
<td>PEL (Passenger Elevator)</td>
<td>$63,000</td>
<td>$63,000</td>
</tr>
<tr>
<td>RBC (Racquetball Court)</td>
<td>$38,000 - $60,000</td>
<td>Base</td>
</tr>
<tr>
<td>SSY (Sprinkler System)</td>
<td>$2.25 sq ft</td>
<td>$2.25 sq ft</td>
</tr>
</tbody>
</table>
COMMERCIAL / INDUSTRIAL ADD / DEDUCT ADJUSTMENTS

BASEMENT / FOUNDATION
The base rates for basement / foundation are shown below. The adjustment for story height, if needed is done automatically by the computer.

<table>
<thead>
<tr>
<th>CODE</th>
<th>COMM. ADJ</th>
<th>IND. ADJ</th>
</tr>
</thead>
<tbody>
<tr>
<td>CB (Concrete Block)</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>CS (Crawl)</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>FB (Full Basement)</td>
<td>$12.00 - $14.00 sq ft</td>
<td>$12.00 - $14.00 sq ft</td>
</tr>
<tr>
<td>MS (Masonry)</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>NONE (None)</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>PB (Partial Basement)</td>
<td>$12.00 - $14.00 sq ft</td>
<td>$12.00 - $14.00 sq ft</td>
</tr>
<tr>
<td>PF (Pier)</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>SL (slab)</td>
<td>Base</td>
<td>Base</td>
</tr>
</tbody>
</table>

BASEMENT FINISH
The base rates basement finish is shown below. The adjustment for story height, if needed is done automatically by the computer.

<table>
<thead>
<tr>
<th>CODE</th>
<th>COMM. ADJ</th>
<th>IND. ADJ</th>
</tr>
</thead>
<tbody>
<tr>
<td>FF (Fully Finished)</td>
<td>$21.00 - $23.00 sq ft</td>
<td>$21.00 - $23.00 sq ft</td>
</tr>
<tr>
<td>PF (Partly Finished)</td>
<td>$21.00 - $23.00 sq ft</td>
<td>$21.00 - $23.00 sq ft</td>
</tr>
<tr>
<td>UF (Unfinished)</td>
<td>Base</td>
<td>Base</td>
</tr>
</tbody>
</table>

DESIGN & STYLE
All entries are descriptive. Data provided for information purposes only.

EXTERIOR WALLS
All entries are descriptive. Data provided for information purposes only.

FIREPLACES
Although rare, it is possible for a commercial / industrial building to have a fireplace. This will be primarily used for multi-family buildings. The base rate is then adjusted based on the size of the main area.

<table>
<thead>
<tr>
<th>CODE</th>
<th>COMM. ADJ</th>
<th>IND. ADJ</th>
</tr>
</thead>
<tbody>
<tr>
<td>OPN (Fireplace Openings)</td>
<td>$3,500 each</td>
<td>$3,500 each</td>
</tr>
</tbody>
</table>
## COMMERCIAL / INDUSTRIAL ADD / DEDUCT ADJUSTMENTS

### GRADE ADJUSTMENTS

<table>
<thead>
<tr>
<th>CODE</th>
<th>COMM. ADJ</th>
<th>IND. ADJ</th>
</tr>
</thead>
<tbody>
<tr>
<td>AA+</td>
<td>325%</td>
<td>325%</td>
</tr>
<tr>
<td>AA</td>
<td>250%</td>
<td>250%</td>
</tr>
<tr>
<td>AA-</td>
<td>200%</td>
<td>200%</td>
</tr>
<tr>
<td>A+</td>
<td>175%</td>
<td>175%</td>
</tr>
<tr>
<td>A</td>
<td>155%</td>
<td>155%</td>
</tr>
<tr>
<td>A-</td>
<td>145%</td>
<td>145%</td>
</tr>
<tr>
<td>B+</td>
<td>135%</td>
<td>135%</td>
</tr>
<tr>
<td>B-</td>
<td>128%</td>
<td>128%</td>
</tr>
<tr>
<td>B</td>
<td>120%</td>
<td>120%</td>
</tr>
<tr>
<td>C+</td>
<td>110%</td>
<td>110%</td>
</tr>
<tr>
<td>C</td>
<td>100% (Base)</td>
<td>100% (Base)</td>
</tr>
<tr>
<td>C-</td>
<td>95%</td>
<td>95%</td>
</tr>
<tr>
<td>D+</td>
<td>90%</td>
<td>90%</td>
</tr>
<tr>
<td>D-</td>
<td>85%</td>
<td>85%</td>
</tr>
<tr>
<td>D</td>
<td>75%</td>
<td>75%</td>
</tr>
<tr>
<td>E+</td>
<td>65%</td>
<td>65%</td>
</tr>
<tr>
<td>E-</td>
<td>55%</td>
<td>55%</td>
</tr>
<tr>
<td>E</td>
<td>45%</td>
<td>45%</td>
</tr>
</tbody>
</table>

### HEATING

The base price for commercial buildings includes the cost of a central, automatic, forced air system, while the price for industrial buildings does not. Depending on the type of building and the heating code selected, the appropriate adjustment will be made to the base price. For those commercial buildings that are not 100% heated, adjustments are made to the base rate.

<table>
<thead>
<tr>
<th>CODE</th>
<th>COMM. ADJ</th>
<th>IND. ADJ</th>
</tr>
</thead>
<tbody>
<tr>
<td>B (Elec. Baseboard)</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>CEN (Central)</td>
<td>Base</td>
<td>+$3.50 sq ft</td>
</tr>
<tr>
<td>CEN (Central)</td>
<td>-$3.50 sq ft</td>
<td>+$3.50 sq ft</td>
</tr>
<tr>
<td>F (Forced Air)</td>
<td>Base</td>
<td>+$3.50 sq ft</td>
</tr>
<tr>
<td>F (Forced Air)</td>
<td>-$3.50 sq ft</td>
<td>+$3.50 sq ft</td>
</tr>
<tr>
<td>N (None)</td>
<td>-$3.50 sq ft</td>
<td>Base</td>
</tr>
<tr>
<td>NONE (No Heat)</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>P (Heat Pump)</td>
<td>Base</td>
<td>+$3.50 sq ft</td>
</tr>
<tr>
<td>P (Heat Pump)</td>
<td>-$3.50 sq ft</td>
<td>+$3.50 sq ft</td>
</tr>
<tr>
<td>S (Solar)</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>U (Unit Heaters)</td>
<td>Base</td>
<td>+$1.50 sq ft</td>
</tr>
<tr>
<td>H (Steam /Hot Water)</td>
<td>Base</td>
<td>+3.00 sq ft</td>
</tr>
<tr>
<td>W (Wall/Floor Furnace)</td>
<td>Base</td>
<td>Base</td>
</tr>
</tbody>
</table>
ROOF / FLOOR SYSTEM
All selections are descriptive, and no adjustments to the base rate are made. The selection for this category should be based upon the roof system in a one-story building, and upon both the floor and roof system in a multi-story building.

<table>
<thead>
<tr>
<th>CODE</th>
<th>COMM. ADJ</th>
<th>IND. ADJ</th>
</tr>
</thead>
<tbody>
<tr>
<td>CS (Cellular Steel)</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>ES (Exposed Steel)</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>FS (Fireproof Steel)</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>MS (Masonry)</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>RC (Reinforced Concrete)</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>WJ (Wood Joist)</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>NONE</td>
<td>Base</td>
<td>Base</td>
</tr>
</tbody>
</table>

STORY HEIGHT
Story height adjustments for Commercial / Industrial properties are accomplished by the one-story square foot price being multiplied by the entry in the story height field.

<table>
<thead>
<tr>
<th>CODE</th>
<th>COMM. ADJ</th>
<th>IND. ADJ</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Story</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>1.1 Story</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>1.2 Story</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>1.3 Story</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>1.4 Story</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>1.5 Story</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>1.6 Story</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>1.7 Story</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>1.8 Story</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>1.9 Story</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>2 Story</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>2.1 Story</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>2.2 Story</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>2.5 Story</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>3 Story</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>4 Story</td>
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</tr>
<tr>
<td>5 Story</td>
<td>Base</td>
<td>Base</td>
</tr>
<tr>
<td>6 Story</td>
<td>Base</td>
<td>Base</td>
</tr>
</tbody>
</table>
## COMMERCIAL / INDUSTRIAL BASE RATE RANGES (COST PER SQUARE FOOT)

### APARTMENTS:
- **Multi-Units**: $54.00 to $60.00
- **Garden**: $61.00 to $68.00
- **Townhouse**: $78.00 to $86.00
- **Converted**: $54.00 to $60.00
- **Condos**: $142.00 to $160.00
- **Mixed –Use**: $54.00 to $60.00
- **Walk-Up**: $57.00 to $64.00
- **Elevator (High-rise)**: $68.00 to $76.00

### AUTOMOTIVE:
- **Auto dealership – showroom**: $68.00 to $76.00
- **Auto dealership – service area**: $35.00 to $40.00
- **Car Wash – self-service**: $43.00 to $49.00
- **Car Wash – drive thru**: $61.00 to $68.00
- **Car Wash – full service**: $64.00 to $72.00
- **Mini Lube**: $59.00 to $66.00
- **Service Center (tires)**: $60.00 to $68.00
- **Service Station (gas)**: $78.00 to $87.00
- **Paint & Body Shop**: $35.00 to $40.00
- **Complete Auto Dealership**: $74.00 to $83.00
## COMMERCIAL / INDUSTRIAL BASE RATE RANGES (COST PER SQUARE FOOT)

**BANKS:**
- High Rise Bank: $121.00 to $135.00
- Branch: $135.00 to $164.00
- Modular: $78.00 to $90.00
- Central Bank Office: $140.00 to $200.00
- Drive-Thru (mini-banks): $253.00 to $292.00

**BARBER / BEAUTY SHOPS:**
- Barber / Beauty Shop: $56.00 to $63.00

**BROADCASTING:**
- Radio / Television: $99.00 to $110.00

**CAMPGROUNDS:**
- Cabins: $40.00 to $46.00
- Camp Gym: $49.00 to $57.00
- Camp Office: $54.00 to $61.00
- Camp Dining Hall: $59.00 to $67.00
- Infirmary: $45.00 to $49.00
- Camp Bath House: $35.00 to $40.00

**CHURCHES:**
- Churches, synagogues, temples: $115.00 to $134.00
- Religious Education: $81.00 to $94.00
- Fellowship hall: $74.00 to $87.00

**DAY CARE:**
- Conventional: $84.00 to $93.00
- Converted (from residence): $62.00 to $72.00
- Modular Daycare: $49.00 to $55.00
### COMMERCIAL / INDUSTRIAL BASE RATE RANGES (COST PER SQUARE FOOT)

#### EDUCATIONAL BUILDINGS:
- **Elementary School**: $100.00 to $112.00
- **Middle School**: $95.00 to $105.00
- **High School**: $100.00 to $110.00
- **Administration Offices**: $98.00 to $108.00
- **Libraries**: $110.00 to $124.00
- **College Classrooms**: $113.00 to $126.00
- **Multi-Purpose Buildings**: $98.00 to $109.00
- **Technology Buildings**: $145.00 to $160.00
- **Vocational Buildings**: $105.00 to $116.00

#### FLEX MALL BUILDINGS:
- **Flex-Mall Buildings**: $39.00 to $43.00

#### FUNERAL HOMES:
- **Conventional**: $88.00 to $97.00
- **Converted (from residence)**: $62.00 to $72.00
- **Mausoleum**: $71.00 to $79.00

#### GARAGES:
- **Garage – parking**: $29.00 to $33.00
- **Garage – storage**: $26.00 to $28.00
- **Garage – work shop**: $26.00 to $29.00

#### GREENHOUSES:
- **Low**: $1.05 to $3.15
- **Average**: $5.25 to $7.35
- **Good**: $9.45 to $11.00
- **Low (straight-wall)**: $3.00 to $6.00
- **Average (straight-wall)**: $7.00 to $12.00
- **Good (straight-wall)**: $12.00 to $20.00
## COMMERCIAL / INDUSTRIAL BASE RATE RANGES (COST PER SQUARE FOOT)

<table>
<thead>
<tr>
<th>GOVERNMENTAL:</th>
<th></th>
<th>to</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Fire department (volunteer)</td>
<td>$50.00</td>
<td></td>
<td>$56.00</td>
</tr>
<tr>
<td>Armory</td>
<td>$70.00</td>
<td></td>
<td>$78.00</td>
</tr>
<tr>
<td>Courthouse</td>
<td>$137.00</td>
<td></td>
<td>$160.00</td>
</tr>
<tr>
<td>Fire department (staffed)</td>
<td>$94.00</td>
<td></td>
<td>$109.00</td>
</tr>
<tr>
<td>Library</td>
<td>$103.00</td>
<td></td>
<td>$120.00</td>
</tr>
<tr>
<td>Law Enforcement Center</td>
<td>$100.00</td>
<td></td>
<td>$112.00</td>
</tr>
<tr>
<td>Post office</td>
<td>$84.00</td>
<td></td>
<td>$93.00</td>
</tr>
<tr>
<td>Jails</td>
<td>$168.00</td>
<td></td>
<td>$194.00</td>
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</table>

<table>
<thead>
<tr>
<th>GROUP HOUSING:</th>
<th></th>
<th>to</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Homes</td>
<td>$83.00</td>
<td></td>
<td>$91.00</td>
</tr>
<tr>
<td>Dormitories</td>
<td>$88.00</td>
<td></td>
<td>$97.00</td>
</tr>
<tr>
<td>Rectory</td>
<td>$84.00</td>
<td></td>
<td>$92.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HEALTH CARE FACILITIES:</th>
<th></th>
<th>to</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical Clinics</td>
<td>$84.00</td>
<td></td>
<td>$92.00</td>
</tr>
<tr>
<td>Elderly Care Facility</td>
<td>$87.00</td>
<td></td>
<td>$96.00</td>
</tr>
<tr>
<td>Elderly Assisted Living</td>
<td>$76.00</td>
<td></td>
<td>$85.00</td>
</tr>
<tr>
<td>Hospital</td>
<td>$163.00</td>
<td></td>
<td>$180.00</td>
</tr>
<tr>
<td>Nursing / Convalescent Home</td>
<td>$100.00</td>
<td></td>
<td>$113.00</td>
</tr>
<tr>
<td>Outpatient Center</td>
<td>$183.00</td>
<td></td>
<td>$204.00</td>
</tr>
</tbody>
</table>
## COMMERCIAL / INDUSTRIAL BASE RATE RANGES (COST PER SQUARE FOOT)

### INDUSTRIAL:
- **Light**: $34.00 to $39.00
- **Medium**: $43.00 to $49.00
- **Heavy**: $72.00 to $82.00
- **Brewery**: $75.00 to $100.00
- **Cold storage**: $50.00 to $57.00
- **Distribution**: $36.00 to $42.00
- **Transit**: $48.00 to $54.00
- **Warehouse – Metal Frame**: $31.00 to $36.00
- **Warehouse – Wood Frame**: $24.00 to $27.00
- **Warehouse – concrete block**: $25.00 to $29.00
- **Mega Warehouse**: $28.00 to $33.00

### KENNELS:
- **Kennels**: $69.00 to $77.00

### LAUNDERING FACILITIES:
- **Dry cleaners**: $60.00 to $68.00
- **Laundromats**: $56.00 to $63.00

### LODGING FACILITIES:
- **Motel**: $75.00 to $84.00
- **Hotels**: $87.00 to $96.00
- **Extended-stay facilities**: $70.00 to $79.00
- **Cottages**: $69.00 to $77.00
- **Lodges**: $74.00 to $82.00
- **Bed & breakfasts**: $76.00 to $84.00
# COMMERCIAL / INDUSTRIAL BASE RATE RANGES (COST PER SQUARE FOOT)

## LOFTS:
- **Lofts**: $46.00 to $50.00

## LUMBER YARD:
- **Showroom (retail area)**: $39.00 to $44.00
- **Storage area (main building)**: $16.00 to $19.00
- **Material shed**: $14.00 to $16.00
- **Material shelter**: $7.50 to $10.00

## MARKETS:
- **Convenience store – mini mart**: $110.00 to $124.00
- **Convenience store – rural**: $39.00 to $44.00
- **Convenience store – multi-use**: $118.00 to $136.00
- **Supermarket**: $64.00 to $71.00

## MEDICAL OFFICE BUILDINGS:
- **Medical office**: $106.00 to $120.00
- **Converted medical office**: $94.00 to $105.00
- **Medical office condo**: $136.00 to $154.00
- **Dental Clinic**: $118.00 to $131.00

## MISCELLANEOUS:
- **Utility Building**: $14.00 to $17.00

## OFFICES:
- **General**: $84.00 to $95.00
- **Open office**: $59.00 to $66.00
- **Converted office**: $68.00 to $77.00
- **Office Condo**: $120.00 to $140.00
- **Office enclosure**: $42.00 to $46.00
- **Row office**: $78.00 to $88.00
### COMMERCIAL / INDUSTRIAL BASE RATE RANGES (COST PER SQUARE FOOT)

#### OFFICES: cont.
- **Row office / Upper Unfinished**: $56.00 to $63.00
- **Row office / apartment**: $64.00 to $74.00
- **Modular office**: $44.00 to $50.00
- **Veterinarian Office**: $108.00 to $119.00

#### PACKING HOUSE:
- **Packing House**: $29.00 to $33.00

#### PARKING DECK:
- **Parking Deck**: $42.00 to $47.00

#### RECREATIONAL BUILDINGS:
- **Bowling alley**: $58.00 to $65.00
- **Gymnasium**: $76.00 to $85.00
- **Roller Skating Rink**: $59.00 to $66.00
- **Ice Skating Rink**: $66.00 to $74.00
- **Social club**: $61.00 to $68.00
- **Fitness Center**: $56.00 to $63.00
- **Sportsplex**: $37.00 to $43.00
- **Apartment clubhouse**: $60.00 to $69.00
- **Fraternal building**: $90.00 to $102.00
- **Golf clubhouse**: $96.00 to $110.00
- **Community center**: $72.00 to $80.00
- **Indoor tennis club**: $42.00 to $48.00
- **Racquetball club**: $70.00 to $74.00
- **Pool house**: $56.00 to $69.00
- **Golf Cart Storage Building**: $38.00 to $43.00
- **Community Recreation Center**: $110.00 to $140.00
- **Shooting Range (indoor)**: $75.00 to $90.00
### COMMERCIAL / INDUSTRIAL BASE RATE RANGES (COST PER SQUARE FOOT)

#### RESTAURANTS:
- Restaurants: $97.00 to $107.00
- Bar or lounge: $78.00 to $87.00
- Cafeteria style: $88.00 to $99.00
- Modular restaurants: $180.00 to $204.00
- Neighborhood – diner: $67.00 to $76.00
- Fast food: $110.00 to $124.00
- Truck stop restaurants: $110.00 to $123.00

#### RETAIL BUILDINGS:
- Dollar Store: $60.00 to $80.00
- Auto Parts Store: $80.00 to $90.00
- Retail showroom: $45.00 to $49.00
- Retail store – general: $61.00 to $69.00
- Warehouse Showroom: $40.00 to $50.00
- Department store: $81.00 to $91.00
- Discount store: $49.00 to $55.00
- Row retail (downtown): $64.00 to $71.00
- Retail – condo: $119.00 to $132.00
- Retail – converted: $57.00 to $64.00
- Drug store: $85.00 to $125.00
- Discount superstore: $42.00 to $47.00
- Home improvement warehouse: $57.00 to $61.00
- Row Retail/Office: $74.00 to $82.00
- Row Retail/Apt: $64.00 to $71.00
- Row Retail/Office/Apt: $190.00 to $214.00
- Row Retail/Upper Unf: $49.00 to $55.00
## COMMERCIAL / INDUSTRIAL BASE RATE RANGES (COST PER SQUARE FOOT)

<table>
<thead>
<tr>
<th>Location</th>
<th>Minimum Cost</th>
<th>Maximum Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SHOPPING CENTERS:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strip Shopping Center</td>
<td>$72.00</td>
<td>$80.00</td>
</tr>
<tr>
<td>Mall shopping center</td>
<td>$77.00</td>
<td>$90.00</td>
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<tr>
<td>Mixed-use retail center</td>
<td>$54.00</td>
<td>$61.00</td>
</tr>
<tr>
<td><strong>SHIPPING DOCK:</strong></td>
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</tr>
<tr>
<td>Shipping dock</td>
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<td>$38.00</td>
</tr>
<tr>
<td><strong>THEATERS:</strong></td>
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<tr>
<td>Auditorium</td>
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<td>$97.00</td>
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<tr>
<td>Movie Theater</td>
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</tr>
<tr>
<td>Play house</td>
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<td>$98.00</td>
</tr>
<tr>
<td><strong>VETERINARIAN OFFICE:</strong></td>
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<td></td>
</tr>
<tr>
<td>Veterinarian office</td>
<td>$108.00</td>
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</tr>
<tr>
<td><strong>WAREHOUSES:</strong></td>
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</tr>
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<td>Storage Hanger</td>
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</tr>
<tr>
<td>T-hangers</td>
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<tr>
<td>Hangers</td>
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<td>$27.00</td>
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<tr>
<td>Mini-Storage</td>
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</tr>
<tr>
<td>Climate Control Mini Storage</td>
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<tr>
<td><strong>Winery:</strong></td>
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<td></td>
</tr>
<tr>
<td>Winery Tasting Room / Shop</td>
<td>$85.00</td>
<td>$100.00</td>
</tr>
<tr>
<td>Winery Production Facility</td>
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<td>$100.00</td>
</tr>
<tr>
<td>Feature</td>
<td>Rate</td>
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<tr>
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<tr>
<td>Atrium (595)</td>
<td>$97.00 - $107.00 sq ft</td>
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<tr>
<td>Attached Garage (519)</td>
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<tr>
<td>Attic Finished (AF)</td>
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<tr>
<td>Attic Unfinished (AU)</td>
<td>$5.00 - $7.00 sq ft</td>
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<tr>
<td>Bank Canopy (582)</td>
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<tr>
<td>Basement Unfinished (UB)</td>
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<tr>
<td>Basement Finished (FB)</td>
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<tr>
<td>Canopy (523)</td>
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<tr>
<td>Canopy/Slab (524)</td>
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<td>Carport (573)</td>
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<tr>
<td>Deck (561)</td>
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<tr>
<td>Display Mezzanine (5673)</td>
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<tr>
<td>Enclosed Porch (505)</td>
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<td>Glass Enclosure (537)</td>
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<td>Loading Dock (5832)</td>
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<tr>
<td>Covered Loading Dock (5833)</td>
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<tr>
<td>Misc. Storage (502)</td>
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<tr>
<td>Office Mezzanine (5671)</td>
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<td>Upper Floor Storage (570)</td>
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<td>Upper Floor Office (566)</td>
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<tr>
<td>Upper Floor Open Finished (568)</td>
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<td>Upper Floor Open Unfinished (569)</td>
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<td>Patio (503)</td>
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<td>Screen Porch (506)</td>
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<td>Stoop (501)</td>
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<td>UT (531)</td>
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COMMERCIAL / INDUSTRIAL BUILDING ADDITIONS

APARTMENTS:
Multi-Units $51.00 to $58.00
Garden $54.50 to $63.00
Townhouse $57.50 to $67.00
Converted $48.00 to $57.00
Mixed –Use $48.00 to $58.00
Walk-Up $51.00 to $60.00
Elevator (High-rise) $60.50 to $71.50

AUTOMOTIVE:
Auto dealership – showroom $60.00 to $68.00
Auto dealership – service area $31.50 to $36.00
Car Wash – self-service $40.00 to $44.00
Car Wash – drive-thru $54.00 to $60.00
Car Wash – full-service $57.50 to $64.00
Mini Lube $50.00 to $57.00
Service Center (tires) $57.50 to $64.00
Service Station (gas) $71.00 to $79.00
Paint & Body Shop $35.50 to $40.00
Complete Auto Dealership $71.00 to $82.00

BANKS:
High-Rise $108.00 to $120.00
Branch $110.00 to $124.00
Modular $72.00 to $80.00
Drive-Thru (mini-banks) $174.00 to $193.00

BARBER / BEAUTY SHOPS:
$53.50 to $60.00

BROADCASTING:
Radio / Television $89.00 to $99.00

CHURCHES:
Churches, synagogues, temples $102.00 to $121.00
Religious Education $72.00 to $85.00
Fellowship hall $78.00 to $91.50

DAY CARE:
Conventional $74.50 to $82.00
Converted (from residence) $56.50 to $63.00
Modular Daycare $47.00 to $51.50
## COMMERCIAL / INDUSTRIAL BUILDING ADDITIONS

### EDUCATIONAL BUILDINGS:

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<thead>
<tr>
<th>Type</th>
<th>Minimum Cost</th>
<th>Maximum Cost</th>
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<tbody>
<tr>
<td>Elementary School</td>
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<tr>
<td>High School</td>
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<td>Libraries</td>
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<td>College Classrooms</td>
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<td>Multi-Purpose Buildings</td>
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<td>Technology Buildings</td>
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### FUNERAL HOMES:

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<tr>
<td>Converted (from residence)</td>
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<td>$63.00</td>
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<tr>
<td>Mausoleum</td>
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### GARAGES:

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<tbody>
<tr>
<td>Garage – parking</td>
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<td>Garage – storage</td>
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<td>Garage – work shop</td>
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### GREENHOUSES:

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### GOVERNMENTAL:

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<td>Fire department (volunteer)</td>
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<tr>
<td>Armory</td>
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<td>Courthouse</td>
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<td>Fire department (staffed)</td>
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<td>Library</td>
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<td>Law Enforcement Center</td>
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<td>Post office</td>
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<td>Jails</td>
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### GROUP HOUSING:

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<tr>
<td>Group Homes</td>
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<tr>
<td>Dormitories</td>
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<tr>
<td>Rectory</td>
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<td>HEALTH CARE FACILITIES:</td>
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<tr>
<td>Medical Clinics</td>
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<tr>
<td>Elderly Care Facility</td>
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<tr>
<td>Elderly Assisted Living</td>
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<td>Hospital</td>
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<td>Nursing / Convalescent Home</td>
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<tr>
<td>Outpatient Center</td>
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<td>Brewery</td>
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<tr>
<td>Cold storage</td>
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<td>Distribution</td>
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<tr>
<td>Transit</td>
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<tr>
<td>Warehouse – Metal Frame</td>
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<tr>
<td>Warehouse – Wood Frame</td>
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<tr>
<td>Warehouse – concrete block</td>
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<td>Mega Warehouse</td>
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<table>
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<th>LAUNDERING FACILITIES:</th>
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<td>Dry cleaners</td>
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<td>Laundromats</td>
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<th>LODGING FACILITIES:</th>
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<td>Motel</td>
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<td>Hotels</td>
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<td>Extended-stay facilities</td>
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<td>Cottages</td>
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<td>Lodges</td>
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<tr>
<td>Bed &amp; breakfasts</td>
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<td>Pool Enclosures</td>
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<th>LOFTS:</th>
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<td>Lofts</td>
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<table>
<thead>
<tr>
<th>LUMBER YARD:</th>
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</thead>
<tbody>
<tr>
<td>Showroom (retail area)</td>
</tr>
<tr>
<td>Storage area (main building)</td>
</tr>
</tbody>
</table>
## COMMERCIAL / INDUSTRIAL BUILDING ADDITIONS

### MARKETS:
- Convenience store – mini mart: $99.50 to $110.00
- Convenience store – rural: $37.50 to $42.00
- Convenience store – multi-use: $110.00 to $122.00
- Supermarket: $60.00 to $68.00

### MEDICAL OFFICE BUILDINGS:
- Medical Office: $97.50 to $109.00
- Converted Medical Office: $85.00 to $94.50
- Medical Office Condo: $126.00 to $140.00
- Dental Clinic: $107.00 to $119.00

### PACKING HOUSE:
- Packing House: $27.30 to $30.50

### PARKING DECK:
- Parking Deck: $42.00 to $46.50

### OFFICES:
- General: $73.50 to $89.50
- Open office: $47.00 to $59.00
- Converted office: $57.50 to $68.50
- Office enclosure: $36.50 to $40.00
- Row office: $71.00 to $84.00

### RECREATIONAL BUILDINGS
- Bowling alley: $52.50 to $58.00
- Gymnasium: $68.00 to $76.00
- Roller Skating Rink: $56.50 to $63.00
- Ice Skating Rink: $63.00 to $70.50
- Social club: $54.50 to $60.00
- Fitness Center: $47.00 to $57.00
- Apartment clubhouse: $59.50 to $60.00
- Fraternal building: $81.50 to $90.50
- Golf clubhouse: $89.00 to $99.00
- Community center: $68.00 to $76.00
- Indoor tennis club: $37.50 to $42.00
- Racquetball club: $58.50 to $65.00
- Sports-plex: $34.50 to $38.00
COMMERICAL / INDUSTRIAL BUILDING ADDITIONS

RESTAURANTS:
Restaurants $91.00 to $102.00
Bar or lounge $74.50 to $83.00
Cafeteria style $75.50 to $84.00
Modular restaurants $174.00 to $192.00
Neighborhood – diner $64.00 to $71.50
Fast food $106.00 to $118.00
Truck stop restaurants $106.00 to $117.00

RETAIL BUILDINGS:
Retail showroom $40.00 to $43.00
Retail store – general $49.00 to $65.00
Retail enclosure $29.00 to $32.50
Department store $73.50 to $81.00
Discount store $46.00 to $53.00
Row retail (downtown) $56.50 to $63.00
Retail – converted $54.50 to $60.00
Drug Store $80.00 to $120.00
Discount superstore $38.50 to $43.00
Home improvement warehouse $51.00 to $58.00

SHOPPING CENTERS:
Strip Shopping Center $64.00 to $71.50
Mall shopping center $72.00 to $80.00
Mixed-use retail center $51.00 to $58.00

THEATERS:
Auditorium $77.50 to $86.00
Movie Theater $90.00 to $100.00
Play house $79.50 to $88.50

WAREHOUSES:
T-hangers $25.00 to $28.00
Hangers $22.00 to $24.00
Mini-Storage $22.00 to $24.00
Climate Control Mini Storage $23.00 to $25.00
Utility Building $15.00 to $17.00

Winery:
Winery Shops / Tasting Room $75.50 to $84.00
Winery Production Facility $75.00 to $95.00
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<td>3%</td>
<td>1%</td>
<td>2%</td>
<td>1%</td>
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<td>1%</td>
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</tr>
<tr>
<td>101</td>
<td>2%</td>
<td>1%</td>
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<td>1%</td>
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<tr>
<td>102</td>
<td>1%</td>
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<td>1%</td>
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</tr>
<tr>
<td>103</td>
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<td>104</td>
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<td>1%</td>
<td>1%</td>
<td>1%</td>
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<td>1%</td>
</tr>
</tbody>
</table>
Commercial Land Values for Henderson County are calculated on the price per square foot method. Three rates have been developed for each commercial neighborhood;

- **Primary**: The square foot rate for the standard lot size within the subject neighborhood
- **Secondary**: The square foot rate for areas exceeding up to 100% the standard lot size
- **Residual**: The square foot rate for excess areas

Resulting land section values can be appraiser modified (adjusted) for various influences such as corner location, size, shape, etc.

Neighborhood land rates are presented on the following pages in a 'range' format - LOW (residual) to HIGH (primary).
### BASE RATES FOR LAND PRICED PER SQUARE FOOT

#### RURAL

<table>
<thead>
<tr>
<th>Location</th>
<th>Primary</th>
<th>Secondary</th>
<th>Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Excellent</td>
<td>$8.00</td>
<td>$5.00</td>
<td>$0.75</td>
</tr>
<tr>
<td>B) Good</td>
<td>$7.00</td>
<td>$4.00</td>
<td>$0.45</td>
</tr>
<tr>
<td>C) Average</td>
<td>$6.00</td>
<td>$3.00</td>
<td>$0.35</td>
</tr>
<tr>
<td>D) Fair-poor</td>
<td>$2.00</td>
<td>$1.00</td>
<td>$0.25</td>
</tr>
</tbody>
</table>

#### SUBURBAN INFLUENCE

<table>
<thead>
<tr>
<th>Location</th>
<th>Primary</th>
<th>Secondary</th>
<th>Residual</th>
<th>Undeveloped</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Excellent</td>
<td>$30.00</td>
<td>$20.00</td>
<td>$15.00</td>
<td>$8.00</td>
</tr>
<tr>
<td>B) Good</td>
<td>$25.00</td>
<td>$10.00</td>
<td>$9.00</td>
<td>$5.00</td>
</tr>
<tr>
<td>C) Average</td>
<td>$15.00</td>
<td>$7.00</td>
<td>$6.00</td>
<td>$4.00</td>
</tr>
<tr>
<td>D) Fair-Poor</td>
<td>$2.00</td>
<td>$5.00</td>
<td>$1.00</td>
<td>$0.50</td>
</tr>
</tbody>
</table>

#### URBAN & DOWNTOWN

<table>
<thead>
<tr>
<th>Location</th>
<th>Primary</th>
<th>Secondary</th>
<th>Residual</th>
<th>Undeveloped</th>
</tr>
</thead>
<tbody>
<tr>
<td>A) Excellent</td>
<td>$60.00</td>
<td>$50.00</td>
<td>$25.00</td>
<td>$15.00</td>
</tr>
<tr>
<td>B) Good</td>
<td>$40.00</td>
<td>$30.00</td>
<td>$10.00</td>
<td>$7.00</td>
</tr>
<tr>
<td>C) Average</td>
<td>$25.00</td>
<td>$15.00</td>
<td>$5.00</td>
<td>$3.00</td>
</tr>
<tr>
<td>D) Fair-Poor</td>
<td>$3.00</td>
<td>$2.00</td>
<td>$1.00</td>
<td>$0.50</td>
</tr>
</tbody>
</table>

**FOR LAND PRICED BY THE ACRE**

*Refer to the residential land schedules on page 135.*
105-277.16. Taxation of low-income housing property.

A North Carolina low-income housing development to which the North Carolina Housing Finance Agency allocated a federal tax credit under section 42 of the Code is designated a special class of property under Article V, Section 2(2) of the North Carolina Constitution and must be appraised, assessed, and taxed in accordance with this section. The assessor must use the income approach as the method of valuation for property classified under this section and must take rent restrictions that apply to the property into consideration in determining the income attributable to the property. The assessor may not consider income tax credits received under section 42 of the Code or under G.S. 105-129.42 in determining the income attributable to the property.
ADDENDUM

Document #1: NC Department of Revenue; Deed Edit Sheet

Document #2: Real v. Business-Personal Property

Document #3: Guide to Leasehold Improvements

   Foreword; Revisions to USPAP & USPAP Advisory Opinions
   Table of Contents
   Definitions
   Preamble
   Ethics Rule
   Record Keeping Rule
   Competency Rule
   Scope of Work Rule
   Jurisdictional Exception Rule
   STANDARD 6: Mass Appraisal, Development & Reporting
   (The Appraisal Foundation; Appraisal Standards Board, Authorized by Congress as the
   Source of Appraisal Standards and Appraiser Qualifications, Washington, DC)

Document #5: Commercial Building Use Descriptions

Document #6: UNC School of Government - Development Finance Initiative Report; Historic 7th Avenue
   District: Recommendations for Revitalization
DEED EDIT SHEET

CODE REASONS FOR REJECTION:

A. The transaction includes the conveyance of two (2) or more parcels.

B. Sales for which the improvements sold are not included in the tax assessment or the assessment included improvements built after the sale.

C. Deed shows $6.00* or less in revenue stamps. *Transaction is for $3,000 or less.

D. The date the deed was made, entered or notarized is outside the dates of the study period. (The study period runs from January 1 to December 31.)

E. The transaction is between relatives or related businesses.

F. The grantor is only conveying an undivided or fractional interest to the grantee.

G. The deed reserves until the grantor, a life estate or some other interest.

H. The deed reserves unto the grantor the possession of, or lease of, the property for specified period following the sale.

I. One or both of the parties involved in the transaction is governmental, a public utility, lending institution, or a relocation firm.

J. The deed conveys a cemetery lot or other tax exempt property.

K. One or both of the parties involved in the transaction is a church, school, lodge, or some other educational organization.

M. The deed indicates that the property conveyed is situated in more than one county.

N. The transaction is for minerals, timber, etc. or the rights to mine or cut same.

O. The transaction includes the conveyance of personal property, and the value of such is not specified separate from the real property value in the deed.

P. The transaction is the result of a forced sale or auction.

Q. Transaction made by the use of a Contract for Deed, the agreement for which is executed and sale actually made prior to the study.

R. The transaction involves the trade or exchange of real property.

S. The transaction is for real property which cannot be clearly identified on the county tax records.

X. Other (An explanation must be provided when this code is used).

Z. To use when $1 is put in the Assessed Value (for use of Access Database only).
CLASSIFICATION OF PROPERTY; REAL vs PERSONAL

GENERAL OVERVIEW:

There are several, long-standing, generally-held, tenets to explain the distinction between real property and personal property.

1. Real property begins with the land and everything that is permanently attached to the land or affixed with the intent to make permanent. Generally, property that remains with the land or which is permanently affixed to the land, is real property.

The term real property is also used to refer to the rights associated with the ownership of land. This is especially pertinent when considering the Bundle of Rights associated with the ownership of real property. Owners of condominium units traditionally benefit from an interest in severalty which gives them the right to access the amenities of their particular condominium project.

2. Personal property is everything not considered real property, and generally is considered to be temporary or moveable without causing damage to the real property. As a general rule, personal property is available and permitted to go with the person as opposed to remaining with the land.

LEGAL DISTINCTIONS:


(13) Real property, real estate, or land. – Any of the following:
   a. The land itself.
   b. Buildings, structures, improvements, or permanent fixtures on land.
   c. All rights and privileges belonging or in any way appertaining to the property.
   d. A manufactured home as defined in G.S. 143-143.9(6), unless it is considered tangible personal property for failure to meet all of the following requirements:
      1. It is a residential structure.
      2. It has a moving hitch, wheels, and axles removed.
      3. It is placed upon a permanent foundation either on land owned by the owner of the manufactured home or on land in which the owner of the manufactured home has a leasehold interest pursuant to a lease with a primary term of at least 20 years and the lease expressly provides for disposition of the manufactured home upon termination of the lease.

(14) Tangible personal property. – All personal property that is not intangible and that is not permanently affixed to real property.
(8) Intangible personal property. – Patents, copyrights, secret processes, formulae, good will, trademarks, trade brands, franchises, stocks, bonds, cash, bank deposits, notes, evidences of debt, leasehold interests in exempted real property, bills and accounts receivable, or other like property.


(16) Non-business Property. – As used in this subdivision, the term “non-business property” means personal property that is used by the owner of the property for a purpose other than the production of income and is not used in connection with a business. The term includes household furnishings, clothing, pets, lawn tools, and lawn equipment. The term does not include motor vehicles, mobile homes, aircraft, watercraft, or engines for watercraft.

OTHER CONSIDERATIONS:

1. The distinction between real and personal for some items turn on the reason or purpose for their existence, and their use. The following are but a few examples:
   a. central air conditioning in residential properties; real property.
   b. window air conditioning units in residential properties; personal property.
   c. central air conditioning in commercial/industrial buildings for the comfort of the employees; real property.
   d. central air conditioning in commercial/industrial buildings required for the manufacturing process; personal property.

2. In some instances, an item of property may begin as personal property (such as when the lessee is responsible for the original installation of air conditioning, plumbing fixtures, finished flooring, lighting, and wall covering in a leased retail space), but becomes real property (upon the vacating of the lease). Once installed by the lessee, the items are carried on their books, but upon vacating the property, the items will most likely remain behind, in the same manner as it was installed as though it had always been a part of the real property.
CLASSIFICATION OF PROPERTY; REAL vs PERSONAL

Air conditioning; residential building central systems  REAL
Air conditioning; for comfort of employees in commercial/industrial properties  REAL
Air conditioning; as part of the business/manufacturing process  Personal
Air conditioning; window units  Personal
Aircraft/airplanes;  Personal
Alarm systems; (fire, carbon monoxide, etc.,)  Personal
Asphalt plants;  Personal
Auto exhaust systems; for buildings  REAL
Auto exhaust systems; as part of the manufacturing process  Personal
Automatic teller machines;  Personal
Awnings  Personal
Balers; for cardboard, paper, etc.;  Personal
Bank teller counters or kiosks;  Personal
Bank teller lockers;  Personal
Bank teller windows;  Personal
Bank vaults;  REAL
Bank vault doors;  Personal
Bars and bar equipment;  Personal
Billboards  Personal
Boats/watercraft and motors for...;  Personal
Boilers; for the service of the building  REAL
Boilers; for the business/manufacturing process  Personal
Bowling alley lanes;  Personal
Broadcasting equipment;  Personal
Built-ins; dishwashers, ovens, ranges, and other kitchen equipment  Personal
Cabinets;  Personal
Cable TV delivery/distribution systems;  Personal
Cable TV equipment and wiring;  Personal
Camera equipment;  Personal
Canopies; (generally structural, not awnings)  REAL
Canopies; (fabric, vinyl, plastic, etc.,)  Personal
Carpet; (installed as part of flooring)  REAL
Car wash equipment  Personal
Catwalks for machinery & equipment  Personal
Cement mixing plants  Personal
Chairs  Personal
CIP; (Construction In Progress)  Personal
Closed circuit TV  Personal
Cold storage equipment/partitions/rooms/units  Personal
Cold storage, free-standing structures attached to the land;  REAL
Compressed air or gas systems (other than building heat/air);  Personal
CLASSIFICATION OF PROPERTY; REAL vs PERSONAL (cont.,)

Computer room air conditioning; Personal
Computer room raised flooring; Personal
Computerized scanning equipment; Personal
Computers and data lines; Personal
Concrete mixing plants; Personal
Construction and grading equipment; Personal
Control systems; for buildings and/or equipment Personal
Conveyor and material handling systems Personal
Coolers (walk-in or self-standing) Personal
Cooling towers constructed & used as part of the building; REAL
Cooling towers used for manufacturing; Personal
Counters and reception desks; Personal
Dairy Barns REAL
Dairy processing plants; the physical structure(s) REAL
Dairy processing plants; the equipment (all items) Personal
Dance floors Personal
Data processing equipment; (all items) Personal
Deli equipment; Personal
Desks; Personal
Diagnostic center equipment; Personal
Display cases; Personal
Dock levelers; Personal
Drapes and curtains; Personal
Drawings; Personal
Drinking fountains; Personal
Drive-thru windows; Personal
Drying systems; Personal
Dumpsters; Personal
Dust catchers; Personal
Electronic control systems; Personal
Elevators; REAL
Escalators; REAL
Farm equipment; Personal
Fencing; (inside, required for safety as part of the business) Personal
Fencing; (outside, perimeter, on commercial properties) REAL
Flagpoles; Personal
Foundations; (required for buildings as real property) REAL
Foundations; (for machinery and equipment) Personal
Freight charges; Personal
Fuels; (held for business, and not for sale) Personal
Furnaces; used as part of the business or manufacturing process Personal
Furniture and fixtures; Personal
<table>
<thead>
<tr>
<th>Property</th>
<th>Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gazebos;</td>
<td>REAL</td>
</tr>
<tr>
<td>Golf courses; all improvements</td>
<td>REAL</td>
</tr>
<tr>
<td>Greenhouses; permanently affixed to the land</td>
<td>REAL</td>
</tr>
<tr>
<td>Greenhouses; portable</td>
<td>Personal</td>
</tr>
<tr>
<td>Greenhouse equipment, benches, fans, heating systems</td>
<td>Personal</td>
</tr>
<tr>
<td>Heating systems; for the comfort of employees or residents</td>
<td>REAL</td>
</tr>
<tr>
<td>Heating systems; for the purpose of the business or manufacturing</td>
<td>Personal</td>
</tr>
<tr>
<td>Hoppers;</td>
<td>Personal</td>
</tr>
<tr>
<td>Hospital systems; equipment and piping</td>
<td>Personal</td>
</tr>
<tr>
<td>Hot air balloons;</td>
<td>Personal</td>
</tr>
<tr>
<td>Hotel/motel televisions, wiring, furniture and fixtures;</td>
<td>Personal</td>
</tr>
<tr>
<td>Humidifiers for business and manufacturing processes;</td>
<td>Personal</td>
</tr>
<tr>
<td>Incinerators;</td>
<td>Personal</td>
</tr>
<tr>
<td>Industrial piping and wiring; for business and manufacturing processes</td>
<td>Personal</td>
</tr>
<tr>
<td>Installation costs;</td>
<td>Personal</td>
</tr>
<tr>
<td>Irrigation equipment;</td>
<td>Personal</td>
</tr>
<tr>
<td>Kilns;</td>
<td>Personal</td>
</tr>
<tr>
<td>Kitchen equipment; residential</td>
<td>Personal</td>
</tr>
<tr>
<td>Kitchen equipment; commercial and/or industrial</td>
<td>Personal</td>
</tr>
<tr>
<td>Laboratory equipment;</td>
<td>Personal</td>
</tr>
<tr>
<td>Lagoons/settling ponds;</td>
<td>REAL</td>
</tr>
<tr>
<td>Land;</td>
<td>REAL</td>
</tr>
<tr>
<td>Laundry bins and equipment;</td>
<td>Personal</td>
</tr>
<tr>
<td>Law and professional libraries;</td>
<td>Personal</td>
</tr>
<tr>
<td>Leased equipment;</td>
<td>Personal</td>
</tr>
<tr>
<td>Lifts; (other than elevators)</td>
<td>Personal</td>
</tr>
<tr>
<td>Lighting; (portable/moveable/special)</td>
<td>Personal</td>
</tr>
<tr>
<td>Lighting; including poles for commercial and industrial properties</td>
<td>REAL</td>
</tr>
<tr>
<td>Lighting; exterior lighting for individual residential purposes</td>
<td>Personal</td>
</tr>
<tr>
<td>Machinery and equipment;</td>
<td>Personal</td>
</tr>
<tr>
<td>Manufactured housing; mobile homes meeting test of 105-273.(13)d.</td>
<td>REAL</td>
</tr>
<tr>
<td>Manufactured housing; mobile homes NOT meeting test of 105-273(13)d.</td>
<td>Personal</td>
</tr>
<tr>
<td>Medical equipment;</td>
<td>Personal</td>
</tr>
<tr>
<td>Milk-handling equipment;</td>
<td>Personal</td>
</tr>
<tr>
<td>Mineral rights; held separate and apart from the surface fee estate</td>
<td>REAL</td>
</tr>
<tr>
<td>Mirrors; used in commercial or industrial businesses (excl restrooms)</td>
<td>Personal</td>
</tr>
<tr>
<td>Monitoring systems;</td>
<td>Personal</td>
</tr>
<tr>
<td>Newspaper stands (portable or kiosk styles);</td>
<td>Personal</td>
</tr>
<tr>
<td>Night depository systems;</td>
<td>Personal</td>
</tr>
<tr>
<td>Office equipment;</td>
<td>Personal</td>
</tr>
<tr>
<td>Office supplies;</td>
<td>Personal</td>
</tr>
<tr>
<td>Oil company equipment;</td>
<td>Personal</td>
</tr>
</tbody>
</table>
Ovens; located in residences                | Personal
Ovens; used for processing and manufacturing | Personal
Overhead conveyor systems;                | Personal
Package and labeling equipment;          | Personal
Paging systems;                          | Personal
Paint spray booths;                      | Personal
Partitions; (especially those configurable and moveable) | Personal
Paving; concrete or asphalt)             | REAL
Pneumatic tube systems; (typical at banks) | Personal
Process piping;                          | Personal
Playground equipment;                    | Personal
Portable buildings;                      | Personal
Power generator systems;                 | Personal
Power transformers;                      | Personal
Public address systems;                  | Personal
Railroad sidings;                        | REAL
Refrigerator systems;                    | Personal
Repairs; to buildings, especially structural | REAL
Restaurant furniture; including that permanently attached | Personal
Restaurant kitchen equipment (commercial grade) | Personal
Returnable containers;                   | Personal
Roll-up doors; especially exterior door locations | REAL
Roll-up doors; especially interior door locations | Personal
Roofing;                                 | REAL
Room dividers and/or partitions;         | Personal
Rooms; special purposes                  | Personal
Safes; wall or self standing             | Personal
Sales/use tax;                           | Personal
Satellite dishes;                        | Personal
Scale houses;                            | REAL
Scales used in commercial or industrial businesses | Personal
Security systems;                        | Personal
Service station equipment (pumps, tanks, etc.,) | Personal
Sewer systems;                           | REAL
Shelving;                                | Personal
Signs;                                   | Personal
Sinks; as part of residential plumbing fixtures | REAL
Sinks; as part of a commercial kitchen area | Personal
Software; especially where capitalized | Personal
Sound systems and projection equipment;   | Personal
Spare parts; (should be listed BPP as supplies) | Personal
Speakers;                                | Personal
Spray booths;  
Sprinklers; generally finished systems (offices), part of fire protection  
Sprinklers; generally un-finished systems (industrial), part of fire protection  
Supplies; (office and otherwise)  
Swimming pools; (in-ground, permanent installations only)  
Tanks; surface tanks and below ground tanks  
Telephone systems;  
Teller windows; (bank)  
Theatre screens; (indoor)  
Theatre seats;  
Tooling equipment; dies and molds  
Towers; microwave, equipment, wiring, and foundations  
Towers; TV, radio, CATV, two-way radio, and all wiring  
Transportation costs; (for all equipment)  
Tunnels; (NOT a part of any processing system)  
Tunnels; (part of a processing system, such as hydro-electric power)  
Upgrades to equipment;  
Vacuum system; especially when used for processing (manufacturing)  
Vaults; (excluding vault doors)  
Vault doors;  
Vending machines;  
Vent fans;  
Ventilation systems; (part of the building mechanical system)  
Ventilation systems; (part of the required manufacturing process)  
Video tapes, movies, reels, and other specialized equipment  
Wall covering; paneling, drywall, etc., excluding wallpaper, paint, etc.,  
Water coolers;  
Water lines; required for manufacturing process  
Water tanks and systems; required for manufacturing process  
Whirlpools, Jacuzzi, hot tubs;  
Wiring; for machinery and equipment
Henderson County Tax Department’s
Guide to Leasehold Improvements

Leasehold improvements are modifications made to a leased premises used for business purposes by the tenant or lessee. They are taxable in North Carolina as business personal property. It is the responsibility of the lessee (not the real property owner) to properly list these improvements with the Tax Department as of January 1 of each year.

Any modifications made to a leased premises for the purpose of improving the tenants comfort, enhancing the tenants image, or promoting the tenant’s business viability are considered leasehold improvements. There are two tests for determining whether a particular modification is a “leasehold improvement”:

1. They are made by the tenant or at the tenant’s request for the benefit of the tenant’s business and not for the benefit of the structure or parcel in or which the business is operated.
2. They can be removed without material injury to the premises.

The ownership or taxability of leasehold improvements may be further or otherwise defined by a lease agreement between the landlord and tenant.

The following are examples of real property taxable to the building/land owner and personal property/leasehold improvements taxable to the lessee.

1. Plumbing
   Waste supply lines,
   Waste, and vent lines. Real Property

2. Electrical
   Main electrical connections
   Breaker panels, transformers,
   and meters for building. Real Property
   All wiring for basic electrical service Real Property
   Additional electrical connections
   breaker panels, transformers, meters,
   and wiring for equipment. Personal Property

3. Floor and floor covering
   concrete slab floor or
   frame subfloor. Real Property
Tile, vinyl flooring
carpet glued to concrete slab floor.

Any flooring installed
by the tenant over the
base floor or sub-floor
is a lease-hold improvement

Baseboards

Personal property when
added by the tenant

4. Lighting
Panel lighting, track lighting
lens covers

Personal property when
added by the tenant

outdoor lighting

Personal property

Emergency light and exit lights

Personal property

5. Doors
Rolling grille doors
(security gates) as in malls

Personal property

Fire doors

Real property

Locks and alarm locks

Personal property

6. Interior Finishes
Beams

Real property

Floor to ceiling walls

Real property

Column enclosures, painting and staining
wall cover, moveable, freestanding
partitions, mirrors affixed to walls
Built-in counters, fitting rooms

Personal property

7. Roof-top HVAC system

Real property

8. Sprinkler system (building)
Additional sprinklers
for equipment

Real property

Personal property

9. Smoke detector systems

Personal property
10. Signs  All signs are considered personal property even when permanently affixed to the ground. Real property, removal would materially harm the premises.

11. Store fronts

12. Construction allowances paid to the tenants  Personal property

Note that architectural, engineering fees, freight, transportation and installation costs attributable to the design and construction of leasehold improvements are considered part of the improvements.

USPAP has five sections: DEFINITIONS, PREAMBLE, Rules, Standards and Standards Rules, and Statements on Appraisal Standards. For convenience of reference, USPAP is published with this Foreword and a Table of Contents. The publication also includes the Advisory Opinions and Frequently Asked Questions (FAQs) as additional reference materials. These reference materials are forms of “Other Communications” provided by the ASB for guidance only and are not part of USPAP.

It is important that individuals understand and adhere to changes that are adopted in each edition of USPAP. State and federal regulatory authorities enforce the content of the current or applicable edition of USPAP.

History of USPAP

These Standards are based on the original Uniform Standards of Professional Appraisal Practice developed in 1986–87 by the Ad Hoc Committee on Uniform Standards and copyrighted in 1987 by The Appraisal Foundation. The effective date of the original Uniform Standards was April 27, 1987. Prior to the establishment of the ASB in 1989, USPAP had been adopted by major appraisal organizations in North America. USPAP represents the generally accepted and recognized standards of appraisal practice in the United States.

At its organizational meeting on January 30, 1989, the Appraisal Standards Board unanimously approved and adopted the original USPAP as the initial appraisal standards promulgated by the ASB. Portions of USPAP may be amended, interpreted, supplemented, or retired by the ASB after exposure to the appraisal profession, users of appraisal services, and the public in accordance with established rules of procedure.

Changes to USPAP

Over the years, USPAP has evolved in response to changes in appraisal practice. The ASB has developed a process for developing both Standards and guidance based, in part, on written comments submitted in response to exposure drafts and oral testimony presented at public meetings.

Guidance

The ASB issues guidance in the form of Advisory Opinions, USPAP Frequently Asked Questions (FAQ) and periodic questions and responses “USPAP Q&A.” These communications do not establish new Standards or interpret existing Standards and are not part of USPAP. They illustrate the applicability of Standards in specific situations and offer advice from the ASB for the resolution of specific appraisal issues and problems.

The USPAP Q&A is published periodically and available on The Appraisal Foundation website. These questions and responses are compiled and published in the USPAP Frequently Asked Questions.
Contacting the Appraisal Standards Board

The ASB invites questions about USPAP, commentary on USPAP and proposed changes to USPAP from all interested parties, including appraisers, state enforcement agencies, users of appraisal services, and the public.

If you have any comments, questions, or suggestions regarding USPAP, please contact the ASB.

Appraisal Standards Board
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1155 15th Street, NW, Suite 1111
Washington, DC 20005
Phone: 202-347-7722
Fax: 202-347-7727
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After the publication of the 2012-13 edition of USPAP, a series of two requests for comment papers and three exposure drafts were released to obtain feedback on possible modifications for the 2014-15 edition. On February 1, 2013, the Appraisal Standards Board (ASB) adopted modifications for the 2014-15 edition of the Uniform Standards of Professional Appraisal Practice (USPAP). These modifications include:

1. **Revisions to the DEFINITIONS of “Assignment Results” and “Scope of Work”** – Based on comments received, there was a need to clarify the definition of “Assignment Results.” In an appraisal assignment, assignment results currently include more than just the appraiser’s opinion of value, as the appraiser is responsible not only for the opinion of value, but for the other opinions formed as part of an appraisal or appraisal review assignment. The change to the definition was made to clarify this point. The change to the definition of Scope of Work makes it consistent with the application of the SCOPE OF WORK RULE.

2. **Revisions to the PREAMBLE - When Do USPAP Rules and Standards Apply?** - A section was added to clearly state when the Rules and Standards apply.

3. **Certification Requirement Related to Current or Prospective Interest and Prior Services** – The ETHICS RULE was edited to clarify that in assignments in which there is no appraisal or appraisal review report, only the initial disclosure to the client is required - a certification is required only for appraisal and appraisal review assignments.

4. **Revisions to the COMPETENCY RULE** – The COMPETENCY RULE has always required that an appraiser be competent to perform the assignment, or acquire the necessary competency to perform the assignment, or withdraw from the assignment. However, the COMPETENCY RULE previously did not expressly require the appraiser to act competently in the given assignment. The change to the COMPETENCY RULE now clearly states that the appraiser must perform competently when completing the assignment.

5. **Report Options in STANDARDS 2, 8, and 10** – USPAP previously had three written report options for real property and personal property appraisal assignments: Self-Contained Appraisal Report, Summary Appraisal Report, and Restricted Use Appraisal Report. USPAP now has two written report options, Appraisal Report and Restricted Appraisal Report, for real property and personal property appraisal assignments; this is similar to STANDARD 10 Business Appraisal Reporting. In STANDARDS 2, 8, and 10, the “restricted use” report option name was changed to Restricted Appraisal Report.

An Appraisal Report must summarize the appraiser’s analysis and the rationale for the conclusions. A Restricted Appraisal Report might not include sufficient information for the client (no other intended users are allowed) to understand either the appraiser’s analyses or rationale for the appraiser’s conclusions.

Additional edits were made to the minimum report requirements. In Standards Rule 2-2(a)(i), clarifying changes were made regarding intended users. The order of the requirements in subsections (iii) and (iv) within Standards Rule 2-2(a) were rearranged. In Standards Rule 2-2(a)(vi), the date of report was defined. In Standards Rule 2-2(a)(vii) and 2-2(b)(vii) the statement, “The signing appraiser must also state the name(s) of those providing the significant real estate assistance” was edited. The new statement eliminates “the signing appraiser, and states “The name(s) of those providing the significant real property appraisal assistance must be stated in the certification.” In Standards Rule 2-2(a)(viii), “agreements of sale” was added. In Standards Rule 2-2(a)(ix) and 2-2(b)(ix), the statement was divided with the last part of the statement becoming Standards Rule 2-2(a)(x) and 2-2(b)(x). The remaining items under these Standards Rules were renumbered. Similar changes were made to Standards Rules 8-2 and 10-2.

Lastly, to be consistent with items identified in the development requirements of Standards Rule 1-2(e)(i), an edit was made to Standards Rule 2-2(a)(iii) to include the summarization of legal
characteristics relevant to the assignment. This edit is not viewed by the ASB as a new requirement; rather, it clarifies legal characteristics of the property that are relevant to the type and definition of value and intended use of the appraisal must be communicated.

6. **Revisions to Standards Rule 3-5** - STANDARD 3 now requires a date of the appraisal review report which makes STANDARD 3 consistent with the other Standards which require the date of the report.

7. **Retirement of STANDARDS 4 and 5** - STANDARDS 4 and 5 addressed real property appraisal consulting development and reporting. STANDARDS 4 and 5 have been retired due to the confusion and misuse of these Standards. Revisions and additional Illustrations were made to Advisory Opinion 21 to demonstrate how an appraiser can complete assignments that include services other than appraisal or appraisal review. The use of the term “appraisal consulting” has been eliminated in USPAP.

8. **Revisions to Advisory Opinion 11, Content of the Appraisal Report Options of Standards Rules 2-2 and 8-2 and Advisory Opinion 12, Use of the Appraisal Report Options of Standards Rules 2-2 and 8-2** – Due to the changes in the reporting format options, Advisory Opinions 11 and 12 were edited to demonstrate the impact of these changes. In addition, the scope of these two Advisory Opinions was expanded to include Standards Rule 10-2.

9. **Revisions to Advisory Opinion 13, Performing Evaluations of Real Property Collateral to Conform with USPAP** – Due to changes in the Interagency Appraisal and Evaluation Guidelines effective December 2010, Advisory Opinion 13 has been revised.

Administrative edits were also made to USPAP and all guidance material, including the USPAP Advisory Opinions and USPAP Frequently Asked Questions, for conformity and consistency. The details of the changes to the 2014-15 edition of USPAP can be read on The Appraisal Foundation’s website, www.appraisalfoundation.org in a document entitled 2013 Summary of Actions Related to Proposed USPAP Changes.
## UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE

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### Statements on Appraisal Standards

Statements on Appraisal Standards (SMT) are authorized by the by-laws of The Appraisal Foundation and are specifically for the purposes of clarification, interpretation, explanation, or elaboration of the Uniform Standards of Professional Appraisal Practice (USPAP). Statements have the full weight of a Standards Rule and can be adopted by the Appraisal Standards Board only after exposure and comment.

Each Statement is labeled as to its applicability to the various appraisal disciplines. The abbreviations are:

- Real Property – RP
- Personal Property – PP
- Intangible Property – IP (includes business interests)
- All disciplines – ALL

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DEFINITIONS

UNIFORM STANDARDS OF PROFESSIONAL APPRAISAL PRACTICE

as promulgated by the
Appraisal Standards Board of
The Appraisal Foundation

DEFINITIONS

For the purpose of the Uniform Standards of Professional Appraisal Practice (USPAP), the following definitions apply:

APPRAISAL: (noun) the act or process of developing an opinion of value; an opinion of value.
(adjective) of or pertaining to appraising and related functions such as appraisal practice or appraisal services.

Comment: An appraisal must be numerically expressed as a specific amount, as a range of numbers, or as a relationship (e.g., not more than, not less than) to a previous value opinion or numerical benchmark (e.g., assessed value, collateral value).

APPRAISAL PRACTICE: valuation services performed by an individual acting as an appraiser, including but not limited to appraisal and appraisal review.

Comment: Appraisal practice is provided only by appraisers, while valuation services are provided by a variety of professionals and others. The terms appraisal and appraisal review are intentionally generic and are not mutually exclusive. For example, an opinion of value may be required as part of an appraisal review assignment. The use of other nomenclature for an appraisal or appraisal review assignment (e.g., analysis, counseling, evaluation, study, submission, or valuation) does not exempt an appraiser from adherence to the Uniform Standards of Professional Appraisal Practice.

APPRAISAL REVIEW: the act or process of developing and communicating an opinion about the quality of another appraiser’s work that was performed as part of an appraisal or appraisal review assignment.

Comment: The subject of an appraisal review assignment may be all or part of a report, workfile, or a combination of these.

APPRAISER: one who is expected to perform valuation services competently and in a manner that is independent, impartial, and objective.

Comment: Such expectation occurs when individuals, either by choice or by requirement placed upon them or upon the service they provide by law, regulation, or agreement with the client or intended users, represent that they comply.¹

APPRAISER’S PEERS: other appraisers who have expertise and competency in a similar type of assignment.

ASSIGNMENT: 1) An agreement between an appraiser and a client to provide a valuation service; 2) the valuation service that is provided as a consequence of such an agreement.

ASSIGNMENT RESULTS: An appraiser’s opinions or conclusions developed specific to an assignment.

Comment: Assignment results include an appraiser’s:

¹ See PREAMBLE and Advisory Opinion 21, USPAP Compliance.
DEFINITIONS

• opinions or conclusions developed in an appraisal assignment, not limited to value;
• opinions or conclusions, developed in an appraisal review assignment, not limited to an opinion about the quality of another appraiser’s work; or
• opinions or conclusions developed when performing a valuation service other than an appraisal or appraisal review assignment.

ASSUMPTION: that which is taken to be true.

BIAS: a preference or inclination that precludes an appraiser’s impartiality, independence, or objectivity in an assignment.

BUSINESS ENTERPRISE: an entity pursuing an economic activity.

BUSINESS EQUITY: the interests, benefits, and rights inherent in the ownership of a business enterprise or a part thereof in any form (including, but not necessarily limited to, capital stock, partnership interests, cooperatives, sole proprietorships, options, and warrants).

CLIENT: the party or parties who engage, by employment or contract, an appraiser in a specific assignment.

Comment: The client may be an individual, group, or entity, and may engage and communicate with the appraiser directly or through an agent.

CONFIDENTIAL INFORMATION: information that is either:

• identified by the client as confidential when providing it to an appraiser and that is not available from any other source; or
• classified as confidential or private by applicable law or regulation*.

*NOTICE: For example, pursuant to the passage of the Gramm-Leach-Bliley Act in November 1999, some public agencies have adopted privacy regulations that affect appraisers. As a result, the Federal Trade Commission issued a rule focused on the protection of “non-public personal information” provided by consumers to those involved in financial activities “found to be closely related to banking or usual in connection with the transaction of banking.” These activities have been deemed to include “appraising real or personal property.” (Quotations are from the Federal Trade Commission, Privacy of Consumer Financial Information; Final Rule, 16 CFR Part 313.)

COST: the amount required to create, produce, or obtain a property.

Comment: Cost is either a fact or an estimate of fact.

CREDIBLE: worthy of belief.

Comment: Credible assignment results require support, by relevant evidence and logic, to the degree necessary for the intended use.

EXPOSURE TIME: estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal.

Comment: Exposure time is a retrospective opinion based on an analysis of past events assuming a competitive and open market.
DEFINITIONS

EXTRAORDINARY ASSUMPTION: an assumption, directly related to a specific assignment, as of the effective date of the assignment results, which, if found to be false, could alter the appraiser’s opinions or conclusions.

Comment: Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.

FEASIBILITY ANALYSIS: a study of the cost-benefit relationship of an economic endeavor.

HYPOTHETICAL CONDITION: a condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis.

Comment: Hypothetical conditions are contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis.

INTANGIBLE PROPERTY (INTANGIBLE ASSETS): nonphysical assets, including but not limited to franchises, trademarks, patents, copyrights, goodwill, equities, securities, and contracts as distinguished from physical assets such as facilities and equipment.

INTENDED USE: the use or uses of an appraiser’s reported appraisal or appraisal review assignment opinions and conclusions, as identified by the appraiser based on communication with the client at the time of the assignment.

INTENDED USER: the client and any other party as identified, by name or type, as users of the appraisal or appraisal review report by the appraiser on the basis of communication with the client at the time of the assignment.

JURISDICTIONAL EXCEPTION: an assignment condition established by applicable law or regulation, which precludes an appraiser from complying with a part of USPAP.

MARKET VALUE: a type of value, stated as an opinion, that presumes the transfer of a property (i.e., a right of ownership or a bundle of such rights), as of a certain date, under specific conditions set forth in the definition of the term identified by the appraiser as applicable in an appraisal.

Comment: Forming an opinion of market value is the purpose of many real property appraisal assignments, particularly when the client’s intended use includes more than one intended user. The conditions included in market value definitions establish market perspectives for development of the opinion. These conditions may vary from definition to definition but generally fall into three categories:

1. the relationship, knowledge, and motivation of the parties (i.e., seller and buyer);
2. the terms of sale (e.g., cash, cash equivalent, or other terms); and
3. the conditions of sale (e.g., exposure in a competitive market for a reasonable time prior to sale).

Appraisers are cautioned to identify the exact definition of market value, and its authority, applicable in each appraisal completed for the purpose of market value.

MASS APPRAISAL: the process of valuing a universe of properties as of a given date using standard methodology, employing common data, and allowing for statistical testing.
MASS APPRAISAL MODEL: a mathematical expression of how supply and demand factors interact in a market.

PERSONAL PROPERTY: identifiable tangible objects that are considered by the general public as being “personal” - for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all tangible property that is not classified as real estate.

PRICE: the amount asked, offered, or paid for a property.

Comment: Once stated, price is a fact, whether it is publicly disclosed or retained in private. Because of the financial capabilities, motivations, or special interests of a given buyer or seller, the price paid for a property may or may not have any relation to the value that might be ascribed to that property by others.

REAL ESTATE: an identified parcel or tract of land, including improvements, if any.

REAL PROPERTY: the interests, benefits, and rights inherent in the ownership of real estate.

Comment: In some jurisdictions, the terms real estate and real property have the same legal meaning. The separate definitions recognize the traditional distinction between the two concepts in appraisal theory.

REPORT: any communication, written or oral, of an appraisal or appraisal review that is transmitted to the client upon completion of an assignment.

Comment: Most reports are written and most clients mandate written reports. Oral report requirements (see the RECORD KEEPING RULE) are included to cover court testimony and other oral communications of an appraisal or appraisal review.

SCOPE OF WORK: the type and extent of research and analyses in an appraisal or appraisal review assignment.

SIGNATURE: personalized evidence indicating authentication of the work performed by the appraiser and the acceptance of the responsibility for content, analyses, and the conclusions in the report.

VALUATION SERVICES: services pertaining to aspects of property value.

Comment: Valuation services pertain to all aspects of property value and include services performed both by appraisers and by others.

VALUE: the monetary relationship between properties and those who buy, sell, or use those properties.

Comment: Value expresses an economic concept. As such, it is never a fact but always an opinion of the worth of a property at a given time in accordance with a specific definition of value. In appraisal practice, value must always be qualified - for example, market value, liquidation value, or investment value.

WORKFILE: documentation necessary to support an appraiser’s analyses, opinions, and conclusions.
PREAMBLE

The purpose of the Uniform Standards of Professional Appraisal Practice (USPAP) is to promote and maintain a high level of public trust in appraisal practice by establishing requirements for appraisers. It is essential that appraisers develop and communicate their analyses, opinions, and conclusions to intended users of their services in a manner that is meaningful and not misleading.

The Appraisal Standards Board promulgates USPAP for both appraisers and users of appraisal services. The appraiser’s responsibility is to protect the overall public trust and it is the importance of the role of the appraiser that places ethical obligations on those who serve in this capacity. USPAP reflects the current standards of the appraisal profession.

USPAP addresses the ethical and performance obligations of appraisers through DEFINITIONS, Rules, Standards, Standards Rules, and Statements.

- The DEFINITIONS establish the application of certain terminology in USPAP.
- The ETHICS RULE sets forth the requirements for integrity, impartiality, objectivity, independent judgment, and ethical conduct.
- The RECORD KEEPING RULE establishes the workfile requirements for appraisal and appraisal review assignments.
- The COMPETENCY RULE presents pre-assignment and assignment conditions for knowledge and experience.
- The SCOPE OF WORK RULE presents obligations related to problem identification, research and analyses.
- The JURISDICTIONAL EXCEPTION RULE preserves the balance of USPAP if a portion is contrary to law or public policy of a jurisdiction.
- The Standards establish the requirements for appraisal and appraisal review and the manner in which each is communicated.
  - STANDARDS 1 and 2 establish requirements for the development and communication of a real property appraisal.
  - STANDARD 3 establishes requirements for the development and communication of an appraisal review.
  - (Note: STANDARDS 4 and 5 have been retired).
  - STANDARD 6 establishes requirements for the development and communication of a mass appraisal.
  - STANDARDS 7 and 8 establish requirements for the development and communication of a personal property appraisal.
  - STANDARDS 9 and 10 establish requirements for the development and communication of a business or intangible asset appraisal.
- Statements on Appraisal Standards clarify, interpret, explain, or elaborate on a Rule or Standards Rule.
- Comments are an integral part of USPAP and have the same weight as the component they address. These extensions of the DEFINITIONS, Rules, and Standards Rules provide interpretation and establish the context and conditions for application.

When Do USPAP Rules and Standards Apply

USPAP does not establish who or which assignments must comply. Neither The Appraisal Foundation nor its Appraisal Standards Board is a government entity with the power to make, judge, or enforce law. An appraiser must comply with USPAP when either the service or the appraiser is required by law, regulation, or agreement with the client or intended user. Individuals may also choose to comply with USPAP any time that individual is performing the service as an appraiser. In order to comply with USPAP, an appraiser must meet the following obligations:
• An appraiser must act competently and in a manner that is independent, impartial, and objective.

• An appraiser must comply with the ETHICS RULE in all aspects of appraisal practice.

• An appraiser must maintain the data, information and analysis necessary to support his or her opinions for appraisal and appraisal review assignments in accordance with the RECORD KEEPING RULE.

• An appraiser must comply with the COMPETENCY RULE and the JURISDICTIONAL EXCEPTION RULE for all assignments.

• When an appraiser provides an opinion of value in an assignment, the appraiser must also comply with the SCOPE OF WORK RULE, the RECORD KEEPING RULE, the applicable development and reporting Standards and applicable Statements.

• When an appraiser provides an opinion about the quality of another appraiser’s work that was performed as part of an appraisal or appraisal review assignment, the appraiser must also comply with the SCOPE OF WORK RULE, the RECORD KEEPING RULE, applicable portions of STANDARD 3 and applicable Statements.

• When preparing an appraisal or appraisal review that is a component of a larger assignment with additional opinions, conclusions, or recommendations, the appraisal or appraisal review component must comply with the applicable development and reporting Standards and applicable Statements, and the remaining component of the assignment must comply with the ETHICS RULE, the COMPETENCY RULE, and the JURISDICTIONAL EXCEPTION RULE.
ETHICS RULE

An appraiser must promote and preserve the public trust inherent in appraisal practice by observing the highest standards of professional ethics.

An appraiser must comply with USPAP when obligated by law or regulation, or by agreement with the client or intended users. In addition to these requirements, an individual should comply any time that individual represents that he or she is performing the service as an appraiser.

Comment: This Rule specifies the personal obligations and responsibilities of the individual appraiser. An individual appraiser employed by a group or organization that conducts itself in a manner that does not conform to USPAP should take steps that are appropriate under the circumstances to ensure compliance with USPAP.

This ETHICS RULE is divided into three sections: Conduct, Management, and Confidentiality which apply to all appraisal practice.

Conduct:

An appraiser must perform assignments with impartiality, objectivity, and independence, and without accommodation of personal interests.

An appraiser:

- must not perform an assignment with bias;
- must not advocate the cause or interest of any party or issue;
- must not accept an assignment that includes the reporting of predetermined opinions and conclusions;
- must not misrepresent his or her role when providing valuation services that are outside of appraisal practice;
- must not communicate assignment results with the intent to mislead or to defraud;
- must not use or communicate a report that is known by the appraiser to be misleading or fraudulent;
- must not knowingly permit an employee or other person to communicate a misleading or fraudulent report;
- must not use or rely on unsupported conclusions relating to characteristics such as race, color, religion, national origin, gender, marital status, familial status, age, receipt of public assistance income, handicap, or an unsupported conclusion that homogeneity of such characteristics is necessary to maximize value;
- must not engage in criminal conduct;
- must not willfully or knowingly violate the requirements of the RECORD KEEPING RULE; and
- must not perform an assignment in a grossly negligent manner.

Comment: Development standards (1-1, 3-1, 6-1, 7-1 and 9-1) address the requirement that “an appraiser must not render appraisal services in a careless or negligent manner.” The above requirement deals with an appraiser being grossly negligent in performing an assignment which would be a violation of the Conduct section of the ETHICS RULE.
ETHICS RULE

If known prior to accepting an assignment, and/or if discovered at any time during the assignment, an appraiser must disclose to the client, and in each subsequent report certification:

- any current or prospective interest in the subject property or parties involved; and
- any services regarding the subject property performed by the appraiser within the three year period immediately preceding acceptance of the assignment, as an appraiser or in any other capacity.

Comment: Disclosing the fact that the appraiser has previously appraised the property is permitted except in the case when an appraiser has agreed with the client to keep the mere occurrence of a prior assignment confidential. If an appraiser has agreed with a client not to disclose that he or she has appraised a property, the appraiser must decline all subsequent assignments that fall within the three year period.

In assignments in which there is no appraisal or appraisal review report, only the initial disclosure to the client is required.

Management:

An appraiser must disclose that he or she paid a fee or commission, or gave a thing of value in connection with the procurement of an assignment.

Comment: The disclosure must appear in the certification and in any transmittal letter in which conclusions are stated; however, disclosure of the amount paid is not required. In groups or organizations engaged in appraisal practice, intra-company payments to employees for business development do not require disclosure.

An appraiser must not accept an assignment, or have a compensation arrangement for an assignment, that is contingent on any of the following:

1. the reporting of a predetermined result (e.g., opinion of value);
2. a direction in assignment results that favors the cause of the client;
3. the amount of a value opinion;
4. the attainment of a stipulated result (e.g., that the loan closes, or taxes are reduced); or
5. the occurrence of a subsequent event directly related to the appraiser’s opinions and specific to the assignment’s purpose.

An appraiser must not advertise for or solicit assignments in a manner that is false, misleading, or exaggerated.

An appraiser must affix, or authorize the use of, his or her signature to certify recognition and acceptance of his or her USPAP responsibilities in an appraisal or appraisal review assignment (see Standards Rules 2-3, 3-6, 6-9, 8-3, and 10-3). An appraiser may authorize the use of his or her signature only on an assignment-by-assignment basis.

An appraiser must not affix the signature of another appraiser without his or her consent.

Comment: An appraiser must exercise due care to prevent unauthorized use of his or her signature. An appraiser exercising such care is not responsible for unauthorized use of his or her signature.
Confidentiality:

An appraiser must protect the confidential nature of the appraiser-client relationship.

An appraiser must act in good faith with regard to the legitimate interests of the client in the use of confidential information and in the communication of assignment results.

An appraiser must be aware of, and comply with, all confidentiality and privacy laws and regulations applicable in an assignment.²

An appraiser must not disclose: (1) confidential information; or (2) assignment results to anyone other than:

- the client;
- persons specifically authorized by the client;
- state appraiser regulatory agencies;
- third parties as may be authorized by due process of law; or
- a duly authorized professional peer review committee except when such disclosure to a committee would violate applicable law or regulation.

A member of a duly authorized professional peer review committee must not disclose confidential information presented to the committee.

Comment: When all confidential elements of confidential information and assignment results are removed through redaction or the process of aggregation, client authorization is not required for the disclosure of the remaining information, as modified.

² Pursuant to the passage of the Gramm-Leach-Bliley Act in 1999, numerous agencies have adopted privacy regulations. Such regulations are focused on the protection of information provided by consumers to those involved in financial activities “found to be closely related to banking or usual in connection with the transaction of banking.” These activities have been deemed to include “appraising real or personal property.” (Quotations are from the Federal Trade Commission, Privacy of Consumer Financial Information; Final Rule, 16 CFR Part 313.)
RECORD KEEPING RULE

An appraiser must prepare a workfile for each appraisal or appraisal review assignment. A workfile must be in existence prior to the issuance of any report. A written summary of an oral report must be added to the workfile within a reasonable time after the issuance of the oral report.

The workfile must include:

- the name of the client and the identity, by name or type, of any other intended users;
- true copies of any written reports, documented on any type of media. (A true copy is a replica of the report transmitted to the client. A photocopy or an electronic copy of the entire report transmitted to the client satisfies the requirement of a true copy);
- summaries of all oral reports or testimony, or a transcript of testimony, including the appraiser’s signed and dated certification;
- all other data, information, and documentation necessary to support the appraiser’s opinions and conclusions and to show compliance with USPAP, or references to the location(s) of such other documentation; and
- a workfile in support of a Restricted Appraisal Report must be sufficient for the appraiser to produce an Appraisal Report.

An appraiser must retain the workfile for a period of at least five years after preparation or at least two years after final disposition of any judicial proceeding in which the appraiser provided testimony related to the assignment, whichever period expires last.

An appraiser must have custody of the workfile, or make appropriate workfile retention, access, and retrieval arrangements with the party having custody of the workfile. This includes ensuring that a workfile is stored in a medium that is retrievable by the appraiser throughout the prescribed record retention period.

An appraiser having custody of a workfile must allow other appraisers with workfile obligations related to an assignment appropriate access and retrieval for the purpose of:

- submission to state appraiser regulatory agencies;
- compliance with due process of law;
- submission to a duly authorized professional peer review committee; or
- compliance with retrieval arrangements.

Comment: A workfile must be made available by the appraiser when required by a state appraiser regulatory agency or due process of law.

An appraiser who willfully or knowingly fails to comply with the obligations of this RECORD KEEPING RULE is in violation of the ETHICS RULE.
COMPETENCY RULE

An appraiser must: (1) be competent to perform the assignment; (2) acquire the necessary competency to perform the assignment; or (3) decline or withdraw from the assignment. In all cases, the appraiser must perform competently when completing the assignment.

Being Competent

The appraiser must determine, prior to accepting an assignment, that he or she can perform the assignment competently. Competency requires:

1. the ability to properly identify the problem to be addressed; and
2. the knowledge and experience to complete the assignment competently; and
3. recognition of, and compliance with, laws and regulations that apply to the appraiser or to the assignment.

Comment: Competency may apply to factors such as, but not limited to, an appraiser’s familiarity with a specific type of property or asset, a market, a geographic area, an intended use, specific laws and regulations, or an analytical method. If such a factor is necessary for an appraiser to develop credible assignment results, the appraiser is responsible for having the competency to address that factor or for following the steps outlined below to satisfy this COMPETENCY RULE.

For assignments with retrospective opinions and conclusions, the appraiser must meet the requirements of this COMPETENCY RULE at the time of the assignment, rather than the effective date.

Acquiring Competency

If an appraiser determines he or she is not competent prior to accepting an assignment, the appraiser must:

1. disclose the lack of knowledge and/or experience to the client before accepting the assignment;
2. take all steps necessary or appropriate to complete the assignment competently; and
3. describe, in the report, the lack of knowledge and/or experience and the steps taken to complete the assignment competently.

Comment: Competency can be acquired in various ways, including, but not limited to, personal study by the appraiser, association with an appraiser reasonably believed to have the necessary knowledge and/or experience, or retention of others who possess the necessary knowledge and/or experience.

In an assignment where geographic competency is necessary, an appraiser who is not familiar with the relevant market characteristics must acquire an understanding necessary to produce credible assignment results for the specific property type and market involved.

When facts or conditions are discovered during the course of an assignment that cause an appraiser to determine, at that time, that he or she lacks the required knowledge and experience to complete the assignment competently, the appraiser must:

1. notify the client, and
2. take all steps necessary or appropriate to complete the assignment competently, and
3. describe, in the report, the lack of knowledge and/or experience and the steps taken to complete the assignment competently.

Lack of Competency

If the assignment cannot be completed competently, the appraiser must decline or withdraw from the assignment.
SCOPE OF WORK RULE

For each appraisal and appraisal review assignment, an appraiser must:

1. identify the problem to be solved;
2. determine and perform the scope of work necessary to develop credible assignment results; and
3. disclose the scope of work in the report.

An appraiser must properly identify the problem to be solved in order to determine the appropriate scope of work. The appraiser must be prepared to demonstrate that the scope of work is sufficient to produce credible assignment results.

Comment: Scope of work includes, but is not limited to:

- the extent to which the property is identified;
- the extent to which tangible property is inspected;
- the type and extent of data researched; and
- the type and extent of analyses applied to arrive at opinions or conclusions.

Appraisers have broad flexibility and significant responsibility in determining the appropriate scope of work for an appraisal or appraisal review assignment.

Credible assignment results require support by relevant evidence and logic. The credibility of assignment results is always measured in the context of the intended use.

Problem Identification

An appraiser must gather and analyze information about those assignment elements that are necessary to properly identify the appraisal or appraisal review problem to be solved.

Comment: The assignment elements necessary for problem identification are addressed in the applicable Standards Rules (i.e., SR 1-2, SR 3-2, SR 6-2, SR 7-2 and SR 9-2). In an appraisal assignment, for example, identification of the problem to be solved requires the appraiser to identify the following assignment elements:

- client and any other intended users;
- intended use of the appraiser’s opinions and conclusions;
- type and definition of value;
- effective date of the appraiser’s opinions and conclusions;
- subject of the assignment and its relevant characteristics; and
- assignment conditions.

This information provides the appraiser with the basis for determining the type and extent of research and analyses to include in the development of an appraisal. Similar information is necessary for problem identification in appraisal review assignments.

Communication with the client is required to establish most of the information necessary for problem identification. However, the identification of relevant characteristics is a judgment made by the appraiser that requires competency in that type of assignment.

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Assignment conditions include assumptions, extraordinary assumptions, hypothetical conditions, laws and regulations, jurisdictional exceptions, and other conditions that affect the scope of work. Laws include constitutions, legislative and court-made law, administrative rules, and ordinances. Regulations include rules or orders, having legal force, issued by an administrative agency.

**Scope of Work Acceptability**

The scope of work must include the research and analyses that are necessary to develop credible assignment results.

Comment: The scope of work is acceptable when it meets or exceeds:

- the expectations of parties who are regularly intended users for similar assignments; and
- what an appraiser’s peers’ actions would be in performing the same or a similar assignment.

Determining the scope of work is an ongoing process in an assignment. Information or conditions discovered during the course of an assignment might cause the appraiser to reconsider the scope of work.

An appraiser must be prepared to support the decision to exclude any investigation, information, method, or technique that would appear relevant to the client, another intended user, or the appraiser’s peers.

An appraiser must not allow assignment conditions to limit the scope of work to such a degree that the assignment results are not credible in the context of the intended use.

Comment: If relevant information is not available because of assignment conditions that limit research opportunities (such as conditions that place limitations on inspection or information gathering), an appraiser must withdraw from the assignment unless the appraiser can:

- modify the assignment conditions to expand the scope of work to include gathering the information; or
- use an extraordinary assumption about such information, if credible assignment results can still be developed.

An appraiser must not allow the intended use of an assignment or a client’s objectives to cause the assignment results to be biased.

**Disclosure Obligations**

The report must contain sufficient information to allow intended users to understand the scope of work performed.

Comment: Proper disclosure is required because clients and other intended users rely on the assignment results. Sufficient information includes disclosure of research and analyses performed and might also include disclosure of research and analyses not performed.

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4 See Advisory Opinion 29, *An Acceptable Scope of Work*. 
JURISDICTIONAL EXCEPTION RULE

If any applicable law or regulation precludes compliance with any part of USPAP, only that part of USPAP becomes void for that assignment.

Comment: When compliance with USPAP is required by federal law or regulation, no part of USPAP can be voided by a law or regulation of a state or local jurisdiction.

In an assignment involving a jurisdictional exception, an appraiser must:

1. identify the law or regulation that precludes compliance with USPAP;
2. comply with that law or regulation;
3. clearly and conspicuously disclose in the report the part of USPAP that is voided by that law or regulation; and
4. cite in the report the law or regulation requiring this exception to USPAP compliance.

Comment: The JURISDICTIONAL EXCEPTION RULE provides a saving or severability clause intended to preserve the balance of USPAP if compliance with one or more of its parts is precluded by the law or regulation of a jurisdiction. When an appraiser properly follows this Rule in disregarding a part of USPAP, there is no violation of USPAP.

Law includes constitutions, legislative and court-made law, and administrative rules and ordinances. Regulations include rules or orders having legal force, issued by an administrative agency. Instructions from a client or attorney do not establish a jurisdictional exception.
STANDARD 6: MASS APPRAISAL, DEVELOPMENT AND REPORTING

In developing a mass appraisal, an appraiser must be aware of, understand, and correctly employ those recognized methods and techniques necessary to produce and communicate credible mass appraisals.

Comment: STANDARD 6 applies to all mass appraisals of real or personal property regardless of the purpose or use of such appraisals. STANDARD 6 is directed toward the substantive aspects of developing and communicating credible analyses, opinions, and conclusions in the mass appraisal of properties. Mass appraisals can be prepared with or without computer assistance. The reporting and jurisdictional exceptions applicable to public mass appraisals prepared for ad valorem taxation do not apply to mass appraisals prepared for other purposes.

A mass appraisal includes:

1) identifying properties to be appraised;
2) defining market area of consistent behavior that applies to properties;
3) identifying characteristics (supply and demand) that affect the creation of value in that market area;
4) developing a model structure that reflects the relationship among the characteristics affecting value in the market area;
5) calibrating the model structure to determine the contribution of the individual characteristics affecting value;
6) applying the conclusions reflected in the model to the characteristics of the property(ies) being appraised; and
7) reviewing the mass appraisal results.

The JURISDICTIONAL EXCEPTION RULE may apply to several sections of STANDARD 6 because ad valorem tax administration is subject to various state, county, and municipal laws.

Standards Rule 6-1

In developing a mass appraisal, an appraiser must:

(a) be aware of, understand, and correctly employ those recognized methods and techniques necessary to produce a credible mass appraisal;

Comment: Mass appraisal provides for a systematic approach and uniform application of appraisal methods and techniques to obtain estimates of value that allow for statistical review and analysis of results.

This requirement recognizes that the principle of change continues to affect the manner in which appraisers perform mass appraisals. Changes and developments in the real property and personal property fields have a substantial impact on the appraisal profession.

To keep abreast of these changes and developments, the appraisal profession is constantly reviewing and revising appraisal methods and techniques and devising new methods and techniques to meet new circumstances. For this reason it is not sufficient for appraisers to simply maintain the skills and the knowledge they possess when they become appraisers.

34 See Advisory Opinion 32, Ad Valorem Property Tax Appraisal and Mass Appraisal Assignments.
STANDARD 6

Each appraiser must continuously improve his or her skills to remain proficient in mass appraisal.

(b) not commit a substantial error of omission or commission that significantly affects a mass appraisal; and

Comment: An appraiser must use sufficient care to avoid errors that would significantly affect his or her opinions and conclusions. Diligence is required to identify and analyze the factors, conditions, data, and other information that would have a significant effect on the credibility of the assignment results.

(c) not render a mass appraisal in a careless or negligent manner.

Comment: Perfection is impossible to attain, and competence does not require perfection. However, an appraiser must not render appraisal services in a careless or negligent manner. This Standards Rule requires an appraiser to use due diligence and due care.

Standards Rule 6-2

In developing a mass appraisal, an appraiser must:

(a) identify the client and other intended users;35

(b) identify the intended use of the appraisal;36

Comment: An appraiser must not allow the intended use of an assignment or a client’s objectives to cause the assignment results to be biased.

(c) identify the type and definition of value, and, if the value opinion to be developed is market value, ascertain whether the value is to be the most probable price:

(i) in terms of cash; or

(ii) in terms of financial arrangements equivalent to cash; or

(iii) in such other terms as may be precisely defined; and

(iv) if the opinion of value is based on non-market financing or financing with unusual conditions or incentives, the terms of such financing must be clearly identified and the appraiser’s opinion of their contributions to or negative influence on value must be developed by analysis of relevant market data;

Comment: For certain types of appraisal assignments in which a legal definition of market value has been established and takes precedence, the JURISDICTIONAL EXCEPTION RULE may apply.

(d) identify the effective date of the appraisal;37

35 See Statement on Appraisal Standards No. 9, Identification of Intended Use and Intended Users.
36 See Statement on Appraisal Standards No. 9, Identification of Intended Use and Intended Users.
37 See Statement on Appraisal Standards No. 3, Retrospective Value Opinions, and Statement on Appraisal Standards No. 4, Prospective Value Opinions.
identify the characteristics of the properties that are relevant to the type and definition of value and intended use, including:

(i) the group with which a property is identified according to similar market influence;
(ii) the appropriate market area and time frame relative to the property being valued; and
(iii) their location and physical, legal, and economic characteristics;

Comment: The properties must be identified in general terms, and each individual property in the universe must be identified, with the information on its identity stored or referenced in its property record.

When appraising proposed improvements, an appraiser must examine and have available for future examination, plans, specifications, or other documentation sufficient to identify the extent and character of the proposed improvements.

Ordinarily, proposed improvements are not appraised for ad valorem tax. Appraisers, however, are sometimes asked to provide opinions of value of proposed improvements so that developers can estimate future property tax burdens. Sometimes units in condominiums and planned unit developments are sold with an interest in un-built community property, the pro rata value of which, if any, must be considered in the analysis of sales data.

identify the characteristics of the market that are relevant to the purpose and intended use of the mass appraisal including:

(i) location of the market area;
(ii) physical, legal, and economic attributes;
(iii) time frame of market activity; and
(iv) property interests reflected in the market;

in appraising real property or personal property:

(i) identify the appropriate market area and time frame relative to the property being valued;
(ii) when the subject is real property, identify and consider any personal property, trade fixtures, or intangibles that are not real property but are included in the appraisal;
(iii) when the subject is personal property, identify and consider any real property or intangibles that are not personal property but are included in the appraisal;
(iv) identify known easements, restrictions, encumbrances, leases, reservations, covenants, contracts, declarations, special assessments, ordinances, or other items of similar nature; and
STANDARD 6

(v) identify and analyze whether an appraised fractional interest, physical segment or partial holding contributes pro rata to the value of the whole;

Comment: The above requirements do not obligate the appraiser to value the whole when the subject of the appraisal is a fractional interest, physical segment, or a partial holding. However, if the value of the whole is not identified, the appraisal must clearly reflect that the value of the property being appraised cannot be used to develop the value opinion of the whole by mathematical extension.

(h) analyze the relevant economic conditions at the time of the valuation, including market acceptability of the property and supply, demand, scarcity, or rarity;

(i) identify any extraordinary assumptions and any hypothetical conditions necessary in the assignment; and

Comment: An extraordinary assumption may be used in an assignment only if:

• it is required to properly develop credible opinions and conclusions;
• the appraiser has a reasonable basis for the extraordinary assumption;
• use of the extraordinary assumption results in a credible analysis; and
• the appraiser complies with the disclosure requirements set forth in USPAP for extraordinary assumptions.

A hypothetical condition may be used in an assignment only if:

• use of the hypothetical condition is clearly required for legal purposes, for purposes of reasonable analysis, or for purposes of comparison;
• use of the hypothetical condition results in a credible analysis; and
• the appraiser complies with the disclosure requirements set forth in USPAP for hypothetical conditions.

(j) determine the scope of work necessary to produce credible assignment results in accordance with the SCOPE OF WORK RULE.\(^{40}\)

Standards Rule 6-3

When necessary for credible assignment results, an appraiser must:

(a) in appraising real property, identify and analyze the effect on use and value of the following factors: existing land use regulations, reasonably probable modifications of such regulations, economic supply and demand, the physical adaptability of the real estate, neighborhood trends, and highest and best use of the real estate; and

Comment: This requirement sets forth a list of factors that affect use and value. In considering neighborhood trends, an appraiser must avoid stereotyped or biased assumptions relating to race, age, color, gender, or national origin or an assumption that race, ethnic, or religious homogeneity is necessary to maximize value in a neighborhood. Further, an appraiser must avoid making an unsupported assumption or premise about neighborhood decline, effective age, and remaining life. In considering highest and best use, an appraiser must develop the concept to the extent required for a proper solution to the appraisal problem.

(b) in appraising personal property: identify and analyze the effects on use and value of industry trends, value-in-use, and trade level of personal property. Where applicable, analyze the current use and alternative uses to encompass what is profitable, legal, and physically possible, as relevant to the type and definition of value and intended use of the appraisal. Personal property has several measurable marketplaces; therefore, the appraiser must define and analyze the appropriate market consistent with the type and definition of value.

Comment: The appraiser must recognize that there are distinct levels of trade and each may generate its own data. For example, a property may have a different value at a wholesale level of trade, a retail level of trade, or under various auction conditions. Therefore, the appraiser must analyze the subject property within the correct market context.

Standards Rule 6-4

In developing a mass appraisal, an appraiser must:

(a) identify the appropriate procedures and market information required to perform the appraisal, including all physical, functional, and external market factors as they may affect the appraisal;

Comment: Such efforts customarily include the development of standardized data collection forms, procedures, and training materials that are used uniformly on the universe of properties under consideration.

(b) employ recognized techniques for specifying property valuation models; and

Comment: The formal development of a model in a statement or equation is called model specification. Mass appraisers must develop mathematical models that, with reasonable accuracy, represent the relationship between property value and supply and demand factors, as represented by quantitative and qualitative property characteristics. The models may be specified using the cost, sales comparison, or income approaches to value. The specification format may be tabular, mathematical, linear, nonlinear, or any other structure suitable for representing the observable property characteristics. Appropriate approaches must be used in appraising a class of properties. The concept of recognized techniques applies to both real and personal property valuation models.

(c) employ recognized techniques for calibrating mass appraisal models.

Comment: Calibration refers to the process of analyzing sets of property and market data to determine the specific parameters of a model. The table entries in a cost manual are examples of calibrated parameters, as well as the coefficients in a linear or nonlinear model. Models must be calibrated using recognized techniques, including, but not limited to, multiple linear regression, nonlinear regression, and adaptive estimation.

Standards Rule 6-5

In developing a mass appraisal, when necessary for credible assignment results, an appraiser must:

(a) collect, verify, and analyze such data as are necessary and appropriate to develop:

(i) the cost new of the improvements;

(ii) accrued depreciation;

(iii) value of the land by sales of comparable properties;
(iv) value of the property by sales of comparable properties;

(v) value by capitalization of income or potential earnings - i.e., rentals, expenses, interest rates, capitalization rates, and vacancy data;

Comment: This Standards Rule requires appraisers engaged in mass appraisal to take reasonable steps to ensure that the quantity and quality of the factual data that are collected are sufficient to produce credible appraisals. For example, in real property, where applicable and feasible, systems for routinely collecting and maintaining ownership, geographic, sales, income and expense, cost, and property characteristics data must be established. Geographic data must be contained in as complete a set of cadastral maps as possible, compiled according to current standards of detail and accuracy. Sales data must be collected, confirmed, screened, adjusted, and filed according to current standards of practice. The sales file must contain, for each sale, property characteristics data that are contemporaneous with the date of sale. Property characteristics data must be appropriate and relevant to the mass appraisal models being used. The property characteristics data file must contain data contemporaneous with the date of appraisal including historical data on sales, where appropriate and available. The data collection program must incorporate a quality control program, including checks and audits of the data to ensure current and consistent records.

(b) base estimates of capitalization rates and projections of future rental rates and/or potential earnings capacity, expenses, interest rates, and vacancy rates on reasonable and appropriate evidence; 41

Comment: This requirement calls for an appraiser, in developing income and expense statements and cash flow projections, to weigh historical information and trends, current market factors affecting such trends, and reasonably anticipated events, such as competition from developments either planned or under construction.

(c) identify and, as applicable, analyze terms and conditions of any available leases; and

(d) identify the need for and extent of any physical inspection. 42

Standards Rule 6-6

When necessary for credible assignment results in applying a calibrated mass appraisal model an appraiser must:

(a) value improved parcels by recognized methods or techniques based on the cost approach, the sales comparison approach, and income approach;

(b) value sites by recognized methods or techniques; such techniques include but are not limited to the sales comparison approach, allocation method, abstraction method, capitalization of ground rent, and land residual technique;

(c) when developing the value of a leased fee estate or a leasehold estate, analyze the effect on value, if any, of the terms and conditions of the lease;

Comment: In ad valorem taxation the appraiser may be required by rules or law to appraise the property as if in fee simple, as though unencumbered by existing leases. In such cases,

41 See Statement on Appraisal Standards No. 2, Discounted Cash Flow Analysis.

42 See Advisory Opinion 2, Inspection of Subject Property.
market rent would be used in the appraisal, ignoring the effect of the individual, actual contract rents.

d) analyze the effect on value, if any, of the assemblage of the various parcels, divided interests, or component parts of a property; the value of the whole must not be developed by adding together the individual values of the various parcels, divided interests, or component parts; and

Comment: When the value of the whole has been established and the appraiser seeks to value a part, the value of any such part must be tested by reference to appropriate market data and supported by an appropriate analysis of such data.

e) when analyzing anticipated public or private improvements, located on or off the site, analyze the effect on value, if any, of such anticipated improvements to the extent they are reflected in market actions.

Standards Rule 6-7

In reconciling a mass appraisal an appraiser must:

a) reconcile the quality and quantity of data available and analyzed within the approaches used and the applicability and relevance of the approaches, methods and techniques used; and

b) employ recognized mass appraisal testing procedures and techniques to ensure that standards of accuracy are maintained.

Comment: It is implicit in mass appraisal that, even when properly specified and calibrated mass appraisal models are used, some individual value conclusions will not meet standards of reasonableness, consistency, and accuracy. However, appraisers engaged in mass appraisal have a professional responsibility to ensure that, on an overall basis, models produce value conclusions that meet attainable standards of accuracy. This responsibility requires appraisers to evaluate the performance of models, using techniques that may include but are not limited to, goodness-of-fit statistics, and model performance statistics such as appraisal-to-sale ratio studies, evaluation of hold-out samples, or analysis of residuals.

Standards Rule 6-8

A written report of a mass appraisal must clearly communicate the elements, results, opinions, and value conclusions of the appraisal.

Each written report of a mass appraisal must:

a) clearly and accurately set forth the appraisal in a manner that will not be misleading;

b) contain sufficient information to enable the intended users of the appraisal to understand the report properly;

Comment: Documentation for a mass appraisal for ad valorem taxation may be in the form of (1) property records, (2) sales ratios and other statistical studies, (3) appraisal manuals and documentation, (4) market studies, (5) model building documentation, (6) regulations, (7) statutes, and (8) other acceptable forms.

c) clearly and accurately disclose all assumptions, extraordinary assumptions, hypothetical conditions, and limiting conditions used in the assignment;
Comment: The report must clearly and conspicuously:

- state all extraordinary assumptions and hypothetical conditions; and
- state that their use might have affected the assignment results.

(d) state the identity of the client and any intended users, by name or type;  
(e) state the intended use of the appraisal;  
(f) disclose any assumptions or limiting conditions that result in deviation from recognized methods and techniques or that affect analyses, opinions, and conclusions;  
(g) set forth the effective date of the appraisal and the date of the report;  
(h) state the type and definition of value and cite the source of the definition;  
(i) identify the properties appraised including the property rights;

Comment: The report documents the sources for location, describing and listing the property. When applicable, include references to legal descriptions, addresses, parcel identifiers, photos, and building sketches. In mass appraisal this information is often included in property records. When the property rights to be appraised are specified in a statute or court ruling, the law must be referenced.

Comment: In ad valorem taxation the effective date of the appraisal may be prescribed by law. If no effective date is prescribed by law, the effective date of the appraisal, if not stated, is presumed to be contemporaneous with the data and appraisal conclusions.

The effective date of the appraisal establishes the context for the value opinion, while the date of the report indicates whether the perspective of the appraiser on the market and property as of the effective date of the appraisal was prospective, current, or retrospective.

Comment: Stating the type and definition of value also requires any comments needed to clearly indicate to intended users how the definition is being applied.

When reporting an opinion of market value, state whether the opinion of value is:

- In terms of cash or of financing terms equivalent to cash; or
- Based on non-market financing with unusual conditions or incentives.

When an opinion of market value is not in terms of cash or based on financing terms equivalent to cash, summarize the terms of such financing and explain their contributions to or negative influence on value.

Comment: The report must clearly and conspicuously:

See Statement on Appraisal Standards No. 9, Identification of the Intended Use and Intended Users.  
See Statement on Appraisal Standards No. 9, Identification of the Intended Use and Intended Users.  
See Statement on Appraisal Standards No. 3, Retrospective Value Opinions, and Statement on Appraisal Standards No. 4, Prospective Value Opinions.  
See Statement on Appraisal Standards No. 6, Reasonable Exposure Time in Real Property and Personal Property Opinions of Value. See also Advisory Opinion 7, Marketing Time Opinions.
(j) describe the scope of work used to develop the appraisal;\(^\text{47}\) exclusion of the sales comparison approach, cost approach, or income approach must be explained;

Comment: Because intended users’ reliance on an appraisal may be affected by the scope of work, the report must enable them to be properly informed and not misled. Sufficient information includes disclosure of research and analyses performed and might also include disclosure of research and analyses not performed.

When any portion of the work involves significant mass appraisal assistance, the appraiser must describe the extent of that assistance. The signing appraiser must also state the name(s) of those providing the significant mass appraisal assistance in the certification, in accordance with Standards Rule 6-9.\(^\text{48}\)

(k) describe and justify the model specification(s) considered, data requirements, and the model(s) chosen;

Comment: The appraiser must provide sufficient information to enable the client and intended users to have confidence that the process and procedures used conform to accepted methods and result in credible value conclusions. In the case of mass appraisal for ad valorem taxation, stability and accuracy are important to the credibility of value opinions. The report must include a discussion of the rationale for each model, the calibration techniques to be used, and the performance measures to be used.

(l) describe the procedure for collecting, validating, and reporting data;

Comment: The report must describe the sources of data and the data collection and validation processes. Reference to detailed data collection manuals must be made, as appropriate, including where they may be found for inspection.

(m) describe calibration methods considered and chosen, including the mathematical form of the final model(s); describe how value conclusions were reviewed; and, if necessary, describe the availability of individual value conclusions;

(n) when an opinion of highest and best use, or the appropriate market or market level was developed, discuss how that opinion was determined;

Comment: The mass appraisal report must reference case law, statute, or public policy that describes highest and best use requirements. When actual use is the requirement, the report must discuss how use-value opinions were developed. The appraiser’s reasoning in support of the highest and best use opinion must be provided in the depth and detail required by its significance to the appraisal.

(o) identify the appraisal performance tests used and set forth the performance measures attained;

(p) describe the reconciliation performed, in accordance with Standards Rule 6-7; and

(q) include a signed certification in accordance with Standards Rule 6-9.

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\(^{48}\) See Advisory Opinion 31, *Assignments Involving More than One Appraiser*. 
STANDARD 6

Standards Rule 6-9

Each written mass appraisal report must contain a signed certification that is similar in content to the following form:

I certify that, to the best of my knowledge and belief:

— the statements of fact contained in this report are true and correct.

— the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.

— I have no (or the specified) present or prospective interest in the property that is the subject of this report, and I have no (or the specified) personal interest with respect to the parties involved.

— I have performed no (or the specified) services, as an appraiser or in any other capacity, regarding the property that is the subject of this report within the three-year period immediately preceding acceptance of this assignment.

— I have no bias with respect to any property that is the subject of this report or to the parties involved with this assignment.

— my engagement in this assignment was not contingent upon developing or reporting predetermined results.

— my compensation for completing this assignment is not contingent upon the reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.

— my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.

— I have (or have not) made a personal inspection of the properties that are the subject of this report. (If more than one person signs the report, this certification must clearly specify which individuals did and which individuals did not make a personal inspection of the appraised property.)

— no one provided significant mass appraisal assistance to the person signing this certification. (If there are exceptions, the name of each individual providing significant mass appraisal assistance must be stated.)

Comment: The above certification is not intended to disturb an elected or appointed assessor’s work plans or oaths of office. A signed certification is an integral part of the appraisal report. An appraiser, who signs any part of the mass appraisal report, including a letter of transmittal, must also sign this certification.

In an assignment that includes only assignment results developed by the real property appraiser(s), any appraiser(s) who signs a certification accepts full responsibility for all elements of the certification, for the assignment results, and for the contents of the appraisal report. In an assignment that includes personal property assignment results not developed by the real property appraiser(s), any real property appraiser(s) who signs a certification accepts full responsibility for the real property elements of the certification, for the real property assignment results, and for the real property contents of the appraisal report.

In an assignment that includes only assignment results developed by the personal property appraiser(s), any appraiser(s) who signs a certification accepts full responsibility for all elements of the certification, for the assignment results, and for the contents of the appraisal report. In an assignment that includes real property assignment results not developed by the

49 See Advisory Opinion 2, Inspection of Subject Property.
personal property appraiser(s), any personal property appraiser(s) who signs a certification accepts full responsibility for the personal property elements of the certification, for the personal property assignment results, and for the personal property contents of the appraisal report.

When a signing appraiser(s) has relied on work done by appraisers and others who do not sign the certification, the signing appraiser is responsible for the decision to rely on their work. The signing appraiser(s) is required to have a reasonable basis for believing that those individuals performing the work are competent. The signing appraiser(s) also must have no reason to doubt that the work of those individuals is credible.

The names of individuals providing significant mass appraisal assistance who do not sign a certification must be stated in the certification. It is not required that the description of their assistance be contained in the certification, but disclosure of their assistance is required in accordance with Standards Rule 6-8(j).\(^\text{50}\)

\(^{50}\) See Advisory Opinion 31, *Assignments Involving More than One Appraiser*. 

COMMERCIAL / INDUSTRIAL BUILDING USE DESCRIPTIONS

Apartments

10- Multi-Unit Apartments
Multi-Unit apartments consist of apartment buildings typically no higher than 1-story. They are usually medium density buildings with no more than four units per building.

11- Garden Apartment
These apartments are typically two or three-story buildings designed and used as apartments. They are distinguished by their lower story height, "garden-like" setting, and (often) a suburban location.

12- Row (Townhouse) Apartments
Typically designed as two-story attached units which are constructed in a row, sharing common walls, and have similar architectural styles.

13 - Converted Apartments
These properties were originally designed for some other use (large single family residence) but have been converted to multiple tenant living accommodations. The living units resulting from these conversions usually have poor functional utility. There can be any number of apartments.

14 - Apartment Condos
These are apartments that have been converted from some type of commercial use, and have since been subdivided as living accommodations. These will usually be on the upper floors of buildings, primarily found in the central business district.

15 - Mixed Use/Apartment
These are commercial structures containing commercial apartment accommodations in addition to some other commercial use. The key to using this code is that the apartments are NOT the primary use of the commercial property being described.

16 - Walk-up Apartments
Walk-up Apartments consist of apartment buildings typically no higher than 4 to 8 stories with no elevators. They are usually medium density buildings with 4 to 8 units per floor.

17- High-rise Apartments
These are elevator-serviced buildings of four (4) stories or more. High-rise apartments usually represent highest unit density of any apartment use. An allowance for elevators commensurate with size is included.
COMMERCIAL / INDUSTRIAL BUILDING USE DESCRIPTIONS

**Automotive**

20 – Automotive Showroom
A large, open sales area characterized by large display windows, good lighting, average or superior interior finish. There are typically small, partitioned offices, and there may be lounges, waiting rooms, and executive offices.

21- Automotive Dealership Service
A garage or warehouse type of building usually attached to an automotive showroom. Features include minimal interior finish and plumbing, adequate lighting and heating, and areas for parts storage and payment areas are included.

22- Self Service Carwash
A multiple stall structure with a coin operated spray system where all washing is done by the automobile owner. Features include two or more bays and a central equipment room. Wash equipment is to be listed as business personal property.

23 – Drive thru Carwash
These are buildings used as a single-car drive-thru with a type of roll-over robot type of automated car wash. All car wash equipment should be listed as business personal property.

24 – Full Service Carwash
Full-service or tunnel car wash service buildings that may include office, restrooms, basic equipment room, and customer waiting area. All car wash equipment is to be listed as business personal property.

25 – Mini Lube
These are buildings designed for quick oil changes. Features include a grease pit for each bay. A small office and customer waiting area may be present.

26 – Auto Service Center
Usually a national chain auto service or tire company facility. There are areas for retail sales, service and repair, and customer waiting.

27- Service Station
A full service gas station sells repair and lubrication services and perhaps towing services in addition to gasoline. There will be one or more service bays, and may include a small office.

28 – Paint / Body Shop
These buildings are used as collision repair services. This code is used for those buildings that are independently-owned operations as distinguished from the franchise dealers and national chains. The buildings are usually minimal construction with limited office and customer waiting.
COMMERCIAL / INDUSTRIAL BUILDING USE DESCRIPTIONS

Automotive, cont’d

29 – Complete Auto Dealership
These buildings include showroom-office, service and parts facilities. Allowances for heating and cooling are included.

Bank Buildings

30 – High-Rise Bank
These buildings are of four or more stories with ample elevator service. They may be multiple or single tenant buildings, with the bank occupying the first floor, with administration offices on the upper floors. An allowance is included for elevators.

31- Branch Bank
Buildings that are typically one to three story buildings, which include savings and loan and credit union occupancies where the design is of bank type.

32- Modular Bank
Similar to a branch bank, but these are prefabricated buildings that are constructed off-site, and brought in by truck and set-up on-site.

33 – Drive Thru Bank (mini-bank)
These are drive-up facilities, typically between 500 and 1,000 square feet in size. Costs include vaults, but do not include banking fixtures or equipment, vault doors, or safe deposit boxes.

Barber / Beauty Shop

40 – Barber / Beauty Shop
Free-standing buildings, extra costs include sinks, plumbing and electrical fixtures necessary for operation but do not include mirrors, chairs, barber cabinets, which are usually tenant-owned.

Church Buildings

50 – Church Buildings
These can be a church, synagogue or mosque. Allowances are included for the auditorium, sanctuary or gathering area, and storage rooms.

51 – Religious Education Buildings
Similar to a school building, but is associated with the church. Includes classrooms, meeting rooms and office areas.

52 – Church Fellowship Hall
A general purpose building attached or close to a church. Closely associated with a clubhouse or fraternal building. Allowances include a lobby area, activity hall, meeting rooms, kitchen and dining area.
COMMERCIAL / INDUSTRIAL BUILDING USE DESCRIPTIONS

Broadcasting Facilities

53 – Broadcasting Facility Building
Buildings used for producing and transmitting radio and TV programs. Includes allowances for control rooms, studios office and lobby areas. There may be a lounge, news rooms, and tape library. Broadcasting equipment is to be listed as business personal property.

Day Care Buildings

80 – Conventional Daycare
A facility for pre-school and elementary aged children. Similar to a school, but usually of lighter residential quality construction. May include classrooms, recreation areas, multiple-use rooms and kitchen facilities.

81 – Converted Daycare
These properties were originally designed for some other use (single family residence) but have been converted to daycare use.

82 – Modular Daycare
These are prefabricated buildings that are constructed off-site, and brought in by truck and set-up on-site.

Packing House

90 – Packing House
These are facilities where produce is received and processed prior to distribution to the market.

Funeral Homes

100 – Funeral Home
Buildings used for the preparation of bodies for burial and or cremation. There are also areas for holding wakes and funerals. Allowances are included for a lobby, chapel, offices, preparation rooms, and storage facilities.

101 – Funeral Home (Converted)
These are buildings that were originally designed for some other use (large single family residence) but have been since converted to a funeral home. Allowances include a lobby, chapel, and viewing rooms.

102 - Mausoleum
These are buildings usually made from stone and are above ground, with places for entombment of the deceased. Allowances for a chapel are included. Costs do not include crypts or niches.
COMMERCIAL / INDUSTRIAL BUILDING USE DESCRIPTIONS

**Garages**

110 – Garage
These are buildings of light construction that have no interior finish, that are primarily used for vehicular storage. There may be more than one parking stall. These buildings may be free-standing, or attached to another building.

111 – Garage (storage)
These are buildings of light construction that have no interior finish, and are primarily used as storage.

112 – Garage (work/maintenance shop)
These are buildings of light construction that have very limited finish, and are designed for vehicular repair and maintenance that will accommodate no more than two vehicles.

**Greenhouses**

120 – Low Cost Greenhouse
These are structures that are used to regulate the climate conditions for germinating and growing various plants and vegetables. These may be of light pipe arch, polyethylene cover.

121 – Average Cost Greenhouse
These are structures that are used to regulate the climate conditions for germinating and growing various plants and vegetables. These may be of fiberglass/metal panels on light arch frame, some vents.

122 – Good Greenhouse
These are structures that are used to regulate the climate conditions for germinating and growing various plants and vegetables. These may be metal frame, glass or fiberglass covering, some vents, gravel or some concrete. Adequate electrical and hose bibs are included.

**Group Housing**

130 – Group Care Homes
These are small congregate care or special needs buildings that are more residential style in character. There will be common dining areas present.

131 – Dormitories
This classification includes structures which provide sleeping accommodations along with some form of shared bath facilities. Dining facilities, if present are usually of cafeteria design and are shared by all occupants of the building.
Group Housing, cont’d

132 – Rectories
These are buildings of residential type with some additional plumbing and kitchen facilities for the additional unrelated number of occupants. The better qualities may include small offices, meeting and/or chapel rooms.

Governmental Buildings

140 – Volunteer Fire Department
These are buildings that are primarily used for vehicular/apparatus storage only, with minimum office and meeting room facilities commensurate with the quality and size.

141 – Armory
A building designed to headquarter and train National Guard units. Features include classrooms, offices, drill hall, and waiting areas.

142 – Courthouse
A building dedicated to or used for judicial proceedings and administrative offices for the Court and/or County.

143 – Fire Department
These are emergency service buildings designed with engine storage, sleeping and kitchen facilities.

144 – Public Library
These are media/resource centers. Included in the basic construction of the building are allowances for stack areas, main desk area, reading rooms and offices. There may be conference rooms, work rooms, and an audio/visual center. Free standing shelving is personal property.

145 – Law Enforcement Center
These are buildings that are basically law enforcement facilities. Allowances include offices, dispatching area, day room, and lobby.

146 – Post Office
Reserved for buildings constructed under contract to or lease agreement with the United States Postal Service. Features will include a lobby; counter area, office, mail room, and sorting areas.

147 – Correctional Facility (Jail)
These are also referred to as detention centers. Allowances include the jail hardware; i.e., cell blocks and locking equipment. The full range of facilities, for minimum to maximum security is included, commensurate with the quality of the entire jail.
COMMERCIAL / INDUSTRIAL BUILDING USE DESCRIPTIONS

Educational Buildings

150 – Elementary School
These are buildings that serve kindergarten/first grade through fifth or sixth grade. They are generally smaller in scope than the secondary schools, with fewer auxiliary facilities, and primarily comprised of general classrooms.

151 – Middle School
Buildings that cover sixth or seventh grade through eighth or ninth grade, they are generally larger and can have many varied facilities commensurate with the quality.

152 – High School
These buildings will encompass ninth or tenth grade through twelfth grade. They are generally the largest of the secondary school plants, with the most varied support and assembly facilities.

153 – Administration Offices
Are of office design and include many private offices, meeting and other special-purpose rooms commensurate with the quality.

154 – Libraries
These are buildings that are separated into two categories: College libraries, including special studies, research or collection libraries, and secondary school media resource center libraries. Costs include the basic construction of the building. But not furnishings such as counters, kitchenette, seating or book stacks, which are not considered, built in and permanently attached.

155 – Laboratory Classrooms
These buildings will have a greater amount of plumbing and cabinetry, as well as lecture and demonstration space.

156 – Multi-Purpose Buildings
These are buildings designed for large audience and participation groups, and administrative services. Typically they include a combination gymnasium/auditorium and/or cafeteria, plus office and miscellaneous rooms. Costs include a stage but do not include fixed seating or cafeteria and kitchen equipment.

157 – Technology Buildings
These are buildings designed to offer media services, computer science, networking and web technologies. These buildings will have a greater amount of electrical, and provide more space for faculty, support staff, and administrative personnel.
COMMERCIAL / INDUSTRIAL BUILDING USE DESCRIPTIONS

Educational Buildings, cont’d

158 – Vocational Buildings
Buildings that include adult education facilities emphasize trade and technical skills, with a greater proportion dedicated of shops and laboratories.

Parking Deck

160 – Parking Deck
A multiple-story drive up parking facility which may be opened or enclosed. Stairwells are included.

Campgrounds

170 – Cabins
These are buildings that are box frame or light studs that are used on a seasonal basis. Costs include minimum standard lighting and limited plumbing, with low cost fixtures.

171 – Camp Gym
These are buildings that have very minimal construction where the design is of gymnasium type with a basketball court as the focal point. Minimum lighting will be present.

172 – Camp Office
These are buildings designed for general occupancy. These will be of lighter construction than a typical office. Allowances for adequate plumbing and electrical is included.

173 – Camp Dining Hall
These are buildings that have large, open dining areas to serve campers on a seasonal basis. Allowances include kitchen area, plumbing and electrical commensurate with size. Kitchen equipment is to be listed as business personal property.

174 – Infirmary
These buildings will have limited exam rooms for patient care. Allowances for electrical, plumbing are included.

175 – Bath House
These are facilities that will serve as shower and bath facilities. Allowances for plumbing and electrical are included.
COMMERCIAL / INDUSTRIAL BUILDING USE DESCRIPTIONS

Flex (Mall) Buildings

180 – Flex (mall) building
These are the modern multi-tenant structure, typically of low-rise construction. The lower qualities are purely light industrial the low cost category having minimal subdivisions and finish per space user. The better qualities have fully finished customer service areas with storefront entries and lobby/display areas.

Indoor Shooting Range

190 – Indoor Shooting Range
These are indoor pistol ranges, which include all ancillary services, heating and cooling, and exhaust system.

Health Care Buildings

200 – Medical Clinics
These are buildings that are designed for medical and/or dental services with examination and outpatient treatment, and include private and public clinics.

201 – Independent Living Facility
These are similar to garden apartments, but usually of lighter residential construction. Differentiated from nursing home by a lack of patient care facilities. Individual kitchen facilities and/or common kitchen/dining facilities may be present.

202 – Elderly Assisted Living
Buildings that consist of studios and one or two bedroom suites with limited kitchens and common dining areas, lounges craft, and game, beauty parlor and therapy rooms commensurate with the quality.

203 – Hospital
A comprehensive in-patient care center including surgery and emergency facilities. Allowances are made for patient rooms, offices, common kitchens, laboratories, pharmacies, treatment rooms, surgeries and emergency electrical power. Elevators are included in the building model.

204 – Nursing or Convalescent Home
This may also be called a rest home or sanitarium. Unlike a hospital it only has limited patient care facilities. There will be patient rooms, examination and treatment rooms, offices, and a central kitchen and dining area.

205 – Outpatient Facility
These are freestanding, specialty treatment centers for outpatient or same-day surgery facilities and include all clinical surgery, diagnostic lab, administrative and public areas commensurate with the quality level. This building category will also include specialized imaging and radiation treatment, and diagnostic centers for cancer, diabetes and eye and kidney diseases, etc.
COMMERCIAL / INDUSTRIAL BUILDING USE DESCRIPTIONS

Lodging Facilities

240 – Motels
These are buildings usually of three or fewer stories, without individual kitchen facilities, and designed for transient occupancy.

241 – Hotels
These are buildings usually of three or more stories, without kitchen facilities. There may be meeting rooms, dining and lounge facilities.

242 – Extended Stay Facility
Similar to hotels, these will have large rooms to accommodate kitchen facilities. There may also be meeting rooms, dining and lounge facilities.

243 – Cottages
These are individual sleeping bungalows or villas with limited kitchen facilities.

244 – Inns (Lodges)
Inns are generally of rustic design with multiple sleeping units and lobby with some additional plumbing and kitchen facilities for the additional unrelated number of guests. The better qualities with include large formal dining and meeting rooms.

245 – Bed & Breakfast
These are buildings of residential-type designed for transient boarding and are more family style in character than lodges. Woodfield Inn and Claddagh Inn are examples.

Industrial Buildings

250 – Heavy Industrial
These buildings are characterized by their heavy frames, walls and floors typical of specialized manufacturing processes. Raflatac is an example of this type of building.

251 – Light Industrial
Light manufacturing is applicable to lightweight pre-fab metal constructed manufacturing facilities that generally produce or assemble lightweight goods such as cabinets, some clothing or furniture. Levi Tool and Mold is an example of this type of building.

252 – Medium Industrial
Medium manufacturing is applicable for facilities that bring in raw materials and convert them into goods ready for use, usually with the use of machinery. The construction type may be of steel frame and sandwich panels. Continental Teves and Arvin Meritor are examples of this type of building.
COMMERCIAL / INDUSTRIAL BUILDING USE DESCRIPTIONS

Laundring Facilities

260 – Dry Cleaners
Buildings that are designed for full-service laundry cleaning including typical retail storefront and laundry work space commensurate with the quality level.

261 – Laundromat
Buildings that are constructed to hold automatic self-service washing machines, dryers and dry cleaning machines, and the costs include the plumbing and electrical fixtures necessary for the operation but do not include the laundry or cleaning equipment.

Lumber Yard

270 – Showroom
These are buildings that are used for the sale and display of building supply material, they have a semi-finished showroom and a carry-out warehouse as one complete facility. Adequate lighting and limited plumbing is included.

271 – Storage Building
These are buildings that are the more weatherproof lumber yard-type structures designed for closed storage of such building materials as cement, lime, nails, roofing, etc.

273 – Material Shed
These are structures that are enclosed on three sides, and are used for the storage of lumber.

274 – Material Shelter
These are open structures for the storage of lumber.

Markets

350 – Mini Marts
Small retail food stores with limited product range but with refrigeration and cooling equipment commensurate with size. An allowance for built-in coolers is included. Freestanding coolers should be listed as personal property.

352 – Rural Convenience Store
These buildings will be of minimal interior finish, primarily found in the outlying areas of the county.
COMMERCIAL / INDUSTRIAL BUILDING USE DESCRIPTIONS

353 – Multi-Use Convenience Store
Similar to a mini mart, but these buildings will also include some sort of fast food restaurant. An allowance for built-in coolers is included. Freestanding coolers should be listed as personal property.

354 – Supermarket
Large retail food chain stores containing built-in refrigerators, cold rooms and ancillary cooling equipment. Note: freestanding freezers and coolers for the display of merchandise are considered personal property.

Kennels

541 – Kennels
These are buildings that have limited examination and treatment facilities and are predominantly for the boarding of animals. The better qualities include the large public animal control facilities. Costs include the cages and enclosed runs.

Lofts

577 – Lofts
These are industrial buildings usually designed for multiple occupancy by relatively small-space users. Because of display areas and extra partitioning and plumbing in the higher qualities, they are a transition between industrial and office construction.

Office Buildings

600 – General Office
These are buildings for general commercial occupancy, including administrative and corporate uses, and are normally subdivided into relatively small units.

601 – Open Office
Similar to a general office, but these buildings will not be subdivided into small units.

602 – Medical Office
These are buildings designed for medical services with examination and outpatient treatment. Allowances for plumbing and electrical commensurate with size are included.

603 – Converted Medical Office
These properties were originally designed for some other use (usually single family residence) but have been converted to medical office space.

604 – Veterinary Office
These are buildings that are designed for the medical and surgical care and treatment of small animals. Costs do not include cages and runs or open shelters, which should be priced separately.
COMMERCIAL / INDUSTRIAL BUILDING USE DESCRIPTIONS

605 – Office Condo
These are buildings that can share common walls and roof. They are often one unit in a building of comparable units. Allowances for electrical and plumbing commensurate in size are included.

606 – Converted Office
These properties were originally designed for some other use (usually a single family residence) but have been converted to office space.

607 – Office Enclosure
Similar to a general office, but this will be primarily found in warehouses, and or industrial buildings. Typically these are between 5% - 15% of the total area of the warehouse or industrial building.

608 – Row Office
Often found in the Central Business District, these buildings share common walls and have multiple stories. They are often mixed use properties: offices on the first floor with apartments, retail, or vacant floors on the upper levels.

609 – Row Office/Upper Unfinished
Often found in the Central Business District, these buildings share common walls and have multiple stories. These are buildings where there is office on the first floor, and the upper floors are unfinished.

610 – Row Office/Apartment
Often found in the Central Business District, these buildings share common walls and have multiple stories. These are buildings where there is office on the first floor, and apartments are on the upper floors.

611 – Modular Office
These are prefabricated office structures. An allowance for adequate plumbing, electrical is included.

612 – Medical Office Condo
These are buildings that can share common walls and roof. They are often one unit in a building of comparable units. These buildings will have a greater amount of plumbing and electrical commensurate with size of each unit.

613 – Dental Clinic
These are small stand-alone facilities and will generally have a greater amount of plumbing and partitions.
COMMERCIAL / INDUSTRIAL BUILDING USE DESCRIPTIONS

Winery

700 – Winery Shops
These are buildings that are for the display, tasting and sales directly from the vineyard.

701 – Winery
These are buildings used for the processing of making wine.

Recreational Buildings

750 – Bowling Alley
Includes all bowling alley facilities. May also comprise a restaurant, bar, billiard room, locker room(s), or other miscellaneous rooms with the necessary plumbing and electrical connections, but do not include any equipment or fixtures such as the alleys, ball returns, kitchen and bar equipment.

751 – Gymnasium
Include athletic, recreation, health and physical fitness occupancies where the design is of gymnasium type with a basketball court as the focal point. Shower/dressing rooms are included.

752 – Roller Skating Rink
These are typically lower-quality auditoriums modified for that particular use. Costs include all the necessary plumbing and electrical connections, but do not include any equipment or fixtures. The roller rinks will include the basic skating surface.

753 – Ice Skating Rink
Same for roller skating rink. Costs include the basic floor surface, but do not include the ice-making equipment.

754 – Social Club
These are general purpose recreation or activity buildings, usually with light kitchen facilities.

755 – Fitness Center
These are buildings that are designed as small physical fitness facilities typically 2,000 to 6,000 square feet with limited exercise and conditioning areas. Allowances for locker and shower facilities are included.

756 – Apartment Clubhouse
These will be multipurpose buildings that may include an office area, laundry facility, and/or fitness room.

757 – Fraternal Building
These are multiple purpose buildings designed for meetings, entertainment, and social activities. Allowances include space for a large multi-purpose room, dining facilities, kitchen, and small offices.
COMMERCIAL / INDUSTRIAL BUILDING USE DESCRIPTIONS

758 – Golf Club House
These are specialized buildings that may have a bar, banquet and pro shop facilities, as well as locker and shower rooms.

759 – Community Center
These are mixed-use structures, typically found in rural communities, and are generally smaller and utilitarian in scope. There will be limited office, council meeting rooms, kitchen space, etc.

760 – Tennis Club
Include the basic playing surfaces, including all the necessary plumbing and electrical connections, but do not include any fixtures such as seating, lockers, food preparation, exercise equipment, or swimming pools.

761 – Racquetball Club
Include the basic playing courts and ancillary facilities commensurate with the quality similar to tennis clubs. Allowances for shower facilities are included.

762 – Pool House
These are buildings that contain shower and restroom facilities.

763 – Golf Cart Storage Buildings
These are buildings that are used for the storage and maintenance of golf carts. Allowances for electrical commensurate with size is included.

764 – Sports-plex
These are multi-purpose sports facilities. Basketball, volleyball and soccer courts may be present. Costs include all the necessary plumbing, and electrical connections, but do not include any fixtures such as seating, lockers, food preparation, exercise equipment, or swimming pools.

Restaurants

800 – Restaurants
A full service eating and drinking establishment that contains provisions for multiple table seating, beverage consumption, and a large multi-purpose kitchen area.

801 – Bar / Lounge
Buildings that are designed primarily for the service and consumption of beverages, with the better qualities having limited food preparation areas and service.

802 – Cafeteria Style
Buildings that have large, open dining rooms for self-service of large groups, and include commercial as well as institutional facilities.

803 – Modular Restaurant
These are the prefabricated stainless diners.
COMMERCIAL / INDUSTRIAL BUILDING USE DESCRIPTIONS

804 – Neighborhood/Diner
These are free-standing frame or masonry buildings that are simple in design. There will be a dining area, and kitchen area. Dixie Diner and Carolina Diner are examples.

805 – Fast Food
Fast food restaurants are designed with high volume, fast service in mind. Kitchen facilities are designed for rapid production of light meals.

806 – Truck Stop Restaurants
These are of multipurpose design to include convenience store, food service, shower and toilet, game and rest facilities for truckers.

Retail Buildings

807 – Dollar Store
These buildings will have minimal finish, and are used for the sales of merchandise. Allowances include plumbing, electrical, minimal office space and storage are included. These buildings include the Dollar General Stores.

808 – Auto Parts Stores
These buildings are the large discount auto parts stores. There will be minimal finish with some office and storage space. Allowances include plumbing and electrical commensurate with size. Advance Auto Parts, Autozone, and O’Reilly’s Auto Parts are examples of this type of building.

809 – Retail Showroom
These will have minimal finish, and is used primarily for the sales and display of merchandise. This is used primarily for the furniture warehouse type of building. Allowances include plumbing, electrical commensurate with size.

810 – General Retail
These buildings are freestanding buildings designed for retail sales and display. These include general merchandise outlets, stores, specialty shops, and commercial buildings designed for general occupancy. Features include sales and display areas and a stockroom. Also included may be a small office.

811 – Warehouse Showroom Store
While similar in design to the Discount Store, the interior may not be finished to the same extent as normal mercantile occupancy. These will generally be the large walk-through furniture outlets with a semi-finished showroom and large carryout warehouse as one complete facility.

812 – Department Store
These are buildings typically one or more stories found in Regional or Community Shopping Centers. Department stores handle multiple lines of merchandise which are sold in departments. Allowances for merchandising, display, storage, and office areas are included.
COMMERCIAL / INDUSTRIAL BUILDING USE DESCRIPTIONS

813 – Discount Store
Discount stores typically consist of large open shells with minimal partitions separating the departments or specialty areas. Allowances for merchandising, display, storage, and office area is included.

814 – Row Retail
Often found in the Central Business District, these buildings share common walls and have multiple stories. They are often mixed use properties: retail first floor with apartments, offices, or vacant floors on the upper levels.

815 – Retail Condos
These are buildings that can share common walls and roof. They are often one unit in a building of comparable units.

816 – Converted Retail
These properties were originally designed for some other use (usually a single family residence) but have been converted to use as retail space.

817 – Drug Stores
These are the large chain discount-type store with a variety of merchandise departments including convenience foods. Costs include built-in refrigerators, but do not include display freezers and coolers or other trade fixtures.

818 – Warehouse Discount Super Center
These are buildings that are of warehouse construction, with minimal finish and partitions. Wal-Mart and Sam’s Club are examples of this category.

819 – Home Improvement Warehouse
Similar to a discount store, but may not be as completely finished. Allowances for merchandising, display, shipping and receiving are included. This category includes the building supply stores. Lowe’s and Home Depot are examples.

820 – Row Retail/Office
Often found in the Central Business District, these buildings share common walls and have multiple stories. These are buildings where there is retail on the first floor, and office space on the upper floors.

821 – Row Retail/Apartment
Often found in the Central Business District, these buildings share common walls and have multiple stories. These are buildings where there is retail on the first floor, and apartments are on the upper floors.

822 – Row Retail/Office/Apartment
Often found in the Central Business District, these buildings share common walls and have multiple stories. These are buildings where there is office on the first floor, and office space, and apartments are on the upper floors.
COMMERCIAL / INDUSTRIAL BUILDING USE DESCRIPTIONS

823 – Row Retail/Upper Unfinished
Often found in the Central Business District, these buildings share common walls and have multiple stories. These are buildings where there is retail on the first floor, and unfinished space on the upper floors.

824 – Lawn and Garden Center
A lightweight commercial building with exposed concrete floor. Allowances include lighting, electrical and plumbing, minimal office area.

Shopping Centers

825 – Strip Shopping Center
Strip Shopping centers is typically a row of stores with similar fronts built as a unit. Each unit will have a separate entrance in the front and a separate entrance at the rear. They are normally built parallel to the fronting street.

826 – Mall Shopping Center
A Mall Center has anchor stores and in-line stores arranged in a courtyard fashion around a interior concourse. The concourse is the common area of the mall. Allowances include lighting, air conditioning, heating, floor covering and interior finish for the public or common areas only. All improvements to the individual stores are considered business personal property.

827 – Mixed Use Retail / Office
These are buildings of minimal interior finish; there will be three or more tenants divided into multiple units, with a mix of retail and or office space.

Warehouses

838 – Storage Hanger
These buildings will have limited facilities for light line maintenance and repair servicing only.

839 – T-Hangers
These are multiple hangers for small planes and include partitioned areas for individual planes.

840 – Hangers
These are buildings that are designed for aircraft storage and repair maintenance, and normally will have offices and storage space commensurate with the quality and type of service provided.

841 – Mini-Warehouses
Mini-warehouses are warehouses subdivided into a mixture of cubicles of generally small size, designed primarily to be rented for small self-storage or noncommercial storage and may include some office space.
WAREHOUSES, cont’d

842 – Climate Control Mini-Warehouses
These are mini-warehouses that will have some form of heating and cooling for the building.

843 – Cold Storage
These are buildings that are generally rigid steel frame that are designed to keep stored commodities at various temperature levels. Cooler and chilled rooms, with some offices may be present. Adequate plumbing and lighting is included, along with complete HVAC.

844 – Distribution Warehouse
These buildings will have larger areas, between 15% - 30% for office/sales and/or other subdivisions designed to accommodate breakdown and transshipment of small lots as well as increased plumbing, lighting, and partitioning to accommodate workers.

845 – Transit Warehouse
These are also referred to as truck terminals and are designed for temporary closed storage, freight segregation and loading. There may be a dispatcher’s office and bunkhouse for truck drivers.

846 – Metal Warehouse
These are buildings that are primarily designed for storage. These are metal construction, with metal siding.

847 – Wood Frame/Metal Warehouse
These are the Morton-Type warehouses that are of wood frame structure with metal siding.

848 – Concrete Block Warehouse
These are buildings that are primarily designed for storage. These are concrete block construction.

849 – Mega Storage/Distribution Warehouse
These are the large storage-distribution facilities, typically over 200,000 sq feet, where interior build-out is only 1% - 5%.

850 – Utility Building
Usually a small to medium size single story storage building with no partitioning or interior finish.
**COMMERCIAL / INDUSTRIAL BUILDING USE DESCRIPTIONS**

**Theaters**

870 – Auditorium
A large open area with minimum ornamentation designed primarily for mass seating and visual presentations. These may be either live performances or motion pictures. Seating is permanent but balconies are rarely found. A stage is always present but support facilities are much more limited than those found in a cinema theater.

871 – Movie Theater
A multiple “house” motion picture facility. There will be two or more auditoriums, each with its own screen, but partitions between auditoriums may be moveable. There will be a concession stand, spacious lobby, and projection room. Curtains, screens and seating are to be listed as personal property.

873 – Playhouse
These are buildings that are primarily for live stage presentations, the structure is a large open area with seating and full facilities for live performances. Stage areas, balconies, mezzanines, and a full complement of necessary electrical and lighting may be present.

**Shipping Dock**

890 – Shipping Dock
These are roofed structures designed for temporary open storage and segregation and loading of freight. A small office may be present. Adequate plumbing and lighting is included.
Historic 7th Avenue District:
Recommendations for Revitalization
Historic 7th Avenue District: Hendersonville, North Carolina

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Section 1: Executive Summary
The City of Hendersonville and the Historic Seventh Avenue District (HSAD) engaged the Development Finance Initiative (DFI) at the UNC School of Government to assist with the development of strategies to attract private investment into and around the 7th Avenue District (Project Area). The Project Area first developed as a commercial corridor around the turn of the 20th century due to the location of Hendersonville’s first train depot. Today, the district has lost its connection with Main Street and many of the historic buildings remain vacant. The City established the 7th Avenue Municipal Service District in 1998 and a steering committee of local property owners have been working under context of HSAD’s mission to “reestablish a thriving commercial area that serves the needs of the adjacent neighborhoods, Henderson County residents and visitors.”

The following report considers the level of underutilization throughout the HSAD, current impediments to development within the Project Area, the expected development trajectory of the HSAD over the next ten years, and the level of investment required to accelerate the redevelopment process. Finally, the report offers recommendations relating to ways in which the City can expedite the transition and energize the redevelopment process.

Most importantly, this report recognizes the need for the City of Hendersonville to take the lead in beginning the redevelopment process by focusing on 2 initiatives:

1. Expanding the HSAD Municipal Service District, and
2. Beginning the process of forming an Urban Redevelopment Area in the residential neighborhood south of the HSAD.

Section 2: Project Background
In January 2014, the City of Hendersonville and the Historic Seventh Avenue District (HSAD) engaged the Development Finance Initiative (DFI) to study revitalization opportunities in the 7th Avenue District of downtown Hendersonville. During the course of the project, DFI provided the following services:

- Reviewed existing studies, plans and market research
- Assessed property tax records
- Analyzed market conditions and redevelopment potential
- Developed absorption model
- Evaluated potential district designations
- Evaluated options for financing and structuring public-private partnerships
- Identified potential development partners
- Advised local officials on development & finance options

In addition to research and analysis, DFI held several stakeholder meetings with local residents, business owners and property owners to better identify current challenges and formulate redevelopment strategies for the HSAD.
In June 2014, DFI presented final project recommendations to the Hendersonville City Council, including extension of the current 7th Avenue Municipal Service District (MSD) and initiation of an Urban Redevelopment Area (URA) in the residential neighborhood south of 7th Avenue. The strategies and finance tools detailed in this report are designed to attract private investment into and around the 7th Avenue district in Hendersonville.

**Section 3: Historic 7th Avenue District Assessment**

DFI worked with city staff and HSAD stakeholders to define a Project Area that includes all properties currently in the 7th Avenue MSD, as well as nearby properties contributing to the vitality of the district (Figure 3.1). Using the Project Area as a baseline, DFI conducted an extensive property assessment in order to gauge current market conditions in the HSAD. This analysis includes property valuation, ownership breakdown, sales trends and an evaluation of levels of property distress in the area. In addition, DFI solicited feedback via stakeholder meetings throughout the course of the project. The following sections summarize the findings of the initial HSAD assessment.

**Current Conditions**

Using county tax data, DFI analyzed land use, assessed value and the scale of the built environment in the Project Area which includes 128 parcels and covers 76 total acres. Commercial property in this area comprises 80% of the built environment and has an average tax value of $32 per square foot; this is significantly lower than the $74 per square foot in the nearby Main Street municipal service district. The analysis of property tax records is summarized in Figure 3.2.
Historic 7th Avenue District: Hendersonville, North Carolina

Figure 3.2: HSAD Project Area Property Summary

<table>
<thead>
<tr>
<th>Use</th>
<th># of Properties</th>
<th>Building Sq Ft</th>
<th>Total Tax Value</th>
<th>Avg Value PSF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial</td>
<td>75</td>
<td>402,641</td>
<td>$12,960,300</td>
<td>$32</td>
</tr>
<tr>
<td>Industrial</td>
<td>3</td>
<td>18,672</td>
<td>$816,300</td>
<td>$44</td>
</tr>
<tr>
<td>Residential</td>
<td>14</td>
<td>18,222</td>
<td>$727,150</td>
<td>$40</td>
</tr>
<tr>
<td><strong>Total Private</strong></td>
<td><strong>92</strong></td>
<td><strong>39,535</strong></td>
<td><strong>$14,503,750</strong></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>1</td>
<td>15,550</td>
<td>$682,400</td>
<td>$44</td>
</tr>
<tr>
<td>Religious</td>
<td>2</td>
<td>56,206</td>
<td>$5,593,800</td>
<td>$100</td>
</tr>
<tr>
<td><strong>Total Public</strong></td>
<td><strong>3</strong></td>
<td><strong>71,756</strong></td>
<td><strong>$6,276,200</strong></td>
<td></td>
</tr>
<tr>
<td>Auxiliary Improvement</td>
<td>3</td>
<td>n/a</td>
<td>$88,300</td>
<td>n/a</td>
</tr>
<tr>
<td>Cellular Tower</td>
<td>1</td>
<td>n/a</td>
<td>$275,900</td>
<td>n/a</td>
</tr>
<tr>
<td>Commercial</td>
<td>4</td>
<td>n/a</td>
<td>$315,400</td>
<td>n/a</td>
</tr>
<tr>
<td>Government</td>
<td>1</td>
<td>n/a</td>
<td>$0</td>
<td>n/a</td>
</tr>
<tr>
<td>Industrial</td>
<td>1</td>
<td>n/a</td>
<td>$141,600</td>
<td>n/a</td>
</tr>
<tr>
<td>Vacant Land</td>
<td>23</td>
<td>n/a</td>
<td>$1,296,500</td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Total Vacant</strong></td>
<td><strong>33</strong></td>
<td>-</td>
<td><strong>$2,117,700</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total (All Properties)</strong></td>
<td><strong>128</strong></td>
<td><strong>511,291</strong></td>
<td><strong>$22,897,650</strong></td>
<td></td>
</tr>
</tbody>
</table>

Current Level of Distress
DFI also conducted a field survey to evaluate and confirm the physical condition and level of vacancy for each commercial parcel in the study area. Results of the survey suggest that 49% of property in the area is currently underutilized. Of this total, 27% of parcels (33 properties; 138,063 square feet) were classified as underutilized because buildings were vacant or in poor physical condition; 22% of underutilized parcels (27 properties; 10.55 acres) were vacant land. The tax value of underutilized buildings totals $3,879,800, while the tax value of vacant land in the study area totals $1,639,300. Figure 3.3 shows the location of underutilized property and vacant land in the study area.

Figure 3.3: Current Parcel Utilization in DFI Study Area
Contributing Historic Properties

In addition to the amount of underutilized property, DFI also studied the number of contributing historic structures in the study area that might be eligible to receive federal historic tax credits for rehabilitation. Because the study area includes the nationally listed Seventh Avenue Depot District, properties contributing to the historic nature of the district (as listed on the National Register of Historic Places Registration Form) are eligible to receive federal tax credits for qualifying rehabilitation expenses. In the Seventh Avenue Depot District, addresses for 10 commercial properties listed on the original National Register registration form from 1988 were matched to current properties in the study area. Appendix 1 includes a list of these 10 contributing structures.

An additional 65 properties in the project area were identified as potentially eligible for tax credits; these properties are at least 50 years old, which is a general requirement for listing on the National Register of Historic Places. An individual listing on the National Register makes a property eligible for historic tax credits. The map in Figure 3.4 shows the location of the 10 contributing properties currently eligible for historic tax credits, as well as the 65 potentially eligible properties that are over 50 years old. In addition to age, properties must meet standards of historic integrity and significance.

Figure 3.4: Historic Status of Parcels in DFI Study Area
Residential Neighborhood South of 7th Avenue

Based on feedback from early stakeholder meetings, DFI conducted a high-level analysis of the residential neighborhood immediately south of the 7th Avenue MSD. The map in Figure 3.5 shows the boundary of the HSAD study area, as well as the boundary of the residential neighborhood south of 7th Avenue. Analysis of census data and county tax records indicate a high level of distress in this residential neighborhood; distress indicators include home values and rental rates below median city levels, a significant amount of vacant land and a low level of homeownership. Seventy-four percent of residential property in this neighborhood is rental, significantly higher than the 47% of property classified as rental in the City of Hendersonville.\(^1\) A summary of land use and assessed values in the residential area is shown in Figure 3.6. Figure 3.7 lists owners with multiple properties. The map in Figure 3.8 shows the location of rental and owner occupied property; the hash-marks indicate property owned by Thompson Family Partnership, the major property owner in the area.

**Figure 3.6: Summary of land use in residential area south of 7th Avenue**

<table>
<thead>
<tr>
<th>Use</th>
<th># of Properties</th>
<th>Bldg Sq. Ft.</th>
<th>Total Tax Value</th>
<th>Avg Value PSF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential - Renter Occupied*</td>
<td>31</td>
<td>29,693</td>
<td>$1,236,900</td>
<td>$42</td>
</tr>
<tr>
<td>Residential - Owner Occupied*</td>
<td>11</td>
<td>10,232</td>
<td>$443,800</td>
<td>$43</td>
</tr>
<tr>
<td><strong>Total Private</strong></td>
<td><strong>42 (67%)</strong></td>
<td><strong>39,925</strong></td>
<td><strong>$1,680,700</strong></td>
<td><strong>$42</strong></td>
</tr>
<tr>
<td>Religious</td>
<td>2</td>
<td>6,206</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Institutional</strong></td>
<td><strong>2 (3%)</strong></td>
<td><strong>6,206</strong></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Vacant Land</td>
<td>19</td>
<td>-</td>
<td>$143,200</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total Vacant</strong></td>
<td><strong>19 (30%)</strong></td>
<td></td>
<td><strong>$143,200</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Total (All Prop)</strong></td>
<td><strong>63 (100%)</strong></td>
<td><strong>46,131</strong></td>
<td><strong>$1,823,900</strong></td>
<td><strong>$40</strong></td>
</tr>
</tbody>
</table>

* Rental status calculated based on the mailing address of the property owner and the physical address of property; differences in the mailing and physical addresses were assumed to be rental property.

\(^1\) ESRI Business Analyst, 2014.
Figure 3.7: Owners with multiple properties in residential area south of 7th Avenue

<table>
<thead>
<tr>
<th>Owner</th>
<th># of Properties</th>
<th>Total Acreage</th>
<th>Total Sq Ft</th>
<th>Total Tax Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>THOMPSON FAMILY LTD PRTNRSHP</td>
<td>13</td>
<td>2.42</td>
<td>10,739</td>
<td>$440,800</td>
</tr>
<tr>
<td>CITY OF HENDERSONVILLE</td>
<td>3</td>
<td>0.45</td>
<td>-</td>
<td>$0</td>
</tr>
<tr>
<td>DEBBIE L MANIS</td>
<td>2</td>
<td>0.29</td>
<td>600</td>
<td>$46,800</td>
</tr>
<tr>
<td>CHARLES W NELSON SR; DIXIE G NELSON</td>
<td>2</td>
<td>0.67</td>
<td>-</td>
<td>$22,600</td>
</tr>
<tr>
<td>RICHARD M PRYOR; GLORIA J PRYOR</td>
<td>2</td>
<td>0.25</td>
<td>934</td>
<td>$29,500</td>
</tr>
<tr>
<td>MICHAEL GARY COX</td>
<td>2</td>
<td>0.2</td>
<td>-</td>
<td>$6,800</td>
</tr>
<tr>
<td>GEORGE TERRY YOUNG</td>
<td>2</td>
<td>0.27</td>
<td>1,152</td>
<td>$43,700</td>
</tr>
</tbody>
</table>

Figure 3.8: Occupancy status for residential property south of 7th Avenue
Section 4: Market Analysis

To understand the market outlook and development trajectory in the HSAD, DFI conducted an analysis of existing residential, office and retail development conditions. Overall, the residential and office markets show very limited or no growth in the coming years; retail projections suggests modest growth (5,000 square feet of additional retail space annually). DFI’s baseline market projections suggest that in 10 years 37% of HSAD will remain distressed. However, with focused private investment totaling $20 million, DFI estimates that distress in HSAD can be reduced to 25% over the same 10 year period. The following sections detail the market analysis for residential, office and retail uses, as well as baseline and alternative development scenarios over the next 10 years.

Residential Outlook

DFI estimated projected growth in housing units in the City of Hendersonville and identified the capture rate of housing units in the HSAD study area. Data based on current growth forecasts indicates that the City of Hendersonville will add 115 additional housing units annually over the next 4 years.\(^2\) Currently, HSAD captures 0.18% of all housing units in the city.\(^3\) Assuming this capture rate remains consistent, DFI projects that HSAD will add one additional housing unit every five years. This very limited growth suggests that, without any change, housing demand will not be a significant driver of growth and development in HSAD.

The limited residential growth in the study area is also a function of the intentional exclusion of housing units when defining the study area boundaries. Because the project focus was specifically on HSAD’s commercial corridor, study area boundaries were drawn to include commercial properties and exclude residential properties. Potential growth in nearby residential neighborhoods is not accounted for in the residential market outlook.

Office Outlook

Using data from the Bureau of Labor, DFI estimated projected growth in office employment in Henderson County by 2017. This data indicates that Henderson County will lose over 300 office-occupying jobs between 2013 and 2017.\(^4\) This expected county-wide decrease in office employment suggests that demand for office space will not be a driver of growth and development in HSAD.

Retail Outlook

DFI’s baseline retail market analysis shows modest growth of approximately 5,000 square feet of additional retail space each year in HSAD. These projections were developed based on the current retail space in HSAD and population counts\(^5\) within 5, 10 and 15 minute “drive-times” of the district. The larger drive-time area includes the population counted in each of the shorter drive-time distance. Dividing existing HSAD retail space by current population counts in each drive-time area gives the

\(^2\) ESRI Business Analyst, 2014.
\(^3\) ESRI Business Analyst, 2014.
\(^4\) Quarterly Census of Employment and Wages, 2014.
estimated retail square footage per person. Using population projections for 2017\(^6\) and the estimated retail space per person results in a range of 4,043 square feet to 5,142 square feet of additional retail space needed annually in HSAD to keep pace with population growth (Figure 4.1). Appendix 2 shows the area covered by each of the 5, 10 and 15 minute drive times.

**Figure 4.1: Retail outlook by drive-time for HSAD**

<table>
<thead>
<tr>
<th>Drive Time (from SAHD)</th>
<th>Current Retail Space (Sq Ft/ Person)</th>
<th>2017 Population (Projection)</th>
<th>2017 HSAD Retail (Sq Ft, Projection)</th>
<th>New HSAD Retail (Annual Sq Ft)</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 minute</td>
<td>40.81</td>
<td>9,337</td>
<td>381,020</td>
<td>5,142</td>
</tr>
<tr>
<td>10 minute</td>
<td>9.45</td>
<td>39,752</td>
<td>375,527</td>
<td>4,043</td>
</tr>
<tr>
<td>15 minute</td>
<td>5.06</td>
<td>74,602</td>
<td>377,274</td>
<td>4,393</td>
</tr>
</tbody>
</table>

*Population counts for each drive-time include all population within the total drive-time. Source: ESRI Business Analyst, 2014.*

**Development Trajectory**

DFI’s market analysis indicates that, without major changes to current market drivers and assuming all properties in the area maintain their current conditions, 37% of the Historic 7\(^{th}\) Avenue District will remain distressed in 10 years (Figure 4.2). Limited and non-existent growth in the residential and office markets suggest that retail expansion will be the primary driver of any new development during this time. Figure 4.3 summarizes the expected additional square footage that will be added to HSAD annually. In this “status quo” scenario, $10 million of cumulative private investment will occur; however, this investment will only moderately reduce the level of distress in the district.

Alternatively, DFI modeled a development scenario meant to accelerate the revitalization process, setting a goal to reduce commercial distress in HSAD to 25% in the next 10 years. In this alternative scenario, redevelopment is accelerated through increased private investment in the district. To achieve this accelerated reduction in commercial distress, DFI projects that approximately $20 million of private investment will be required, essentially doubling the amount of expected investment. DFI believes that

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$20 million in private investment over the next ten years is a reasonable goal for HSAD, particularly if the city engages in focused efforts to increase the visibility of HSAD and uses its available tools to attract private investment to this area, as described in the following sections.

**Figure 4.3: HSAD Expected Annual Growth (Baseline Scenario)**

<table>
<thead>
<tr>
<th></th>
<th>Annual Growth (SF)</th>
<th>Annual Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Residential</td>
<td>250</td>
<td>1.4%</td>
</tr>
<tr>
<td>Office</td>
<td>-170</td>
<td>(0.4%)</td>
</tr>
<tr>
<td>Retail</td>
<td>5,000</td>
<td>1.4%</td>
</tr>
<tr>
<td><strong>Total Annual Growth</strong></td>
<td><strong>5,080</strong></td>
<td><strong>1.2%</strong></td>
</tr>
</tbody>
</table>

**Section 5: Recommendations**

Based on data analysis and public input collected over the course of the project, DFI has identified five primary challenges to redevelopment in the HSAD:

1. High level of distress/underutilization within and surrounding the HSAD
2. Lack of consolidated ownership
3. Absence of gateways/egress
4. Perceived lack of safety in the HSAD
5. Blighted residential area south of HSAD

The final recommendations outlined in the following sections of this report are designed to address these current challenges to development in HSAD.

**Extend Current MSD Services through Expanded Boundary**

Throughout DFI’s consulting process, our team heard repeatedly from local stakeholders that existing MSD boundaries are currently too narrow. DFI recommends extending the current boundaries to incorporate additional commercial corridors that contribute to the HSAD. Expanding the size of the current MSD will increase the number of businesses invested in the HSAD and will increase the tax base generating revenue for the district’s services. In addition, an extended MSD would include emerging leadership amongst district stakeholders not currently included.

**New Boundaries**

The proposed new boundary stretches slightly west along 7th Avenue and to the north along Locust and Maple Street (Figure 5.1). Both areas have been highlighted by recent commercial redevelopment and should be recognized as positive contributors to the HSAD. DFI also believes that the commercial corridor along Locust St will continue to generate foot traffic and should see additional redevelopment in the near future. DFI recommends including the additional two parcels east of the current MSD as well. These commercial properties, one of which is vacant and one of which is underutilized, serve as potential gateways into HSAD and should be earmarked for future redevelopment.
Authority for Extending an MSD
The city council can annex territory to an MSD by passing a resolution when:

1) they find that the area to be annexed is “contiguous to the district, with at least one eighth of
the area’s aggregate external boundary coincident with the existing boundary of the district”
and needs the services of the district; or

2) 100% of the property owners of the area to be annexed have petitioned the council for
annexation to the MSD.

Expansion of the 7th Avenue MSD can be accomplished without a petition, since at least 1/8th of the
additional area is contiguous and the properties require the MSD services.

Impact on Tax Base
Overall, DFI’s proposed extension would add 36 private, commercial parcels to the existing MSD,
increasing the current valuation by $7,647,400 (Figure 5.2). At the current tax rate of .12 cents per $100,
the extension would create additional annual revenue of $9,177 from real property. This almost doubles
the current annual revenue generated by the district. Appendix 3 includes a detailed listing of proposed
properties (and projected revenue) to be added to the MSD.
**Figure 5.2: Potential Financial Impacts of 7th Avenue MSD Extension**

<table>
<thead>
<tr>
<th></th>
<th>Current MSD</th>
<th>Proposed Extension</th>
<th>Total Extended MSD</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Count</td>
<td>Valuation</td>
<td>Count</td>
</tr>
<tr>
<td><strong>Total Assessed Value</strong></td>
<td>86</td>
<td>$10,204,050</td>
<td>36</td>
</tr>
<tr>
<td>Less Government Owned</td>
<td>3</td>
<td>($672,400)</td>
<td>0</td>
</tr>
<tr>
<td>Less Religious</td>
<td>2</td>
<td>($1,697,600)</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Eligible Tax Base</strong></td>
<td>81</td>
<td>$7,834,050</td>
<td>36</td>
</tr>
<tr>
<td>Projected Revenue from Real Property @ Current MSD Rate (.12/$100)</td>
<td></td>
<td>$9,401</td>
<td>$9,177</td>
</tr>
<tr>
<td>Projected Revenue from Personal Property Assumed to be 5% of Real Property Revenue</td>
<td></td>
<td>$470</td>
<td>$459</td>
</tr>
<tr>
<td><strong>Total Projected MSD Revenue</strong></td>
<td></td>
<td>$9,871</td>
<td>$9,636</td>
</tr>
</tbody>
</table>

**Implementation Process**

A local government’s governing board may establish or extend a service district by following a few, relatively straight-forward procedural requirements:

1. Prepare a report on the proposed district extension containing the following:
   a. A map of the proposed extension, showing each additional parcel being annexed;
   b. A statement attesting that the properties included within the expansion are in need of one or more of the authorized functions or services to a demonstrably greater extent than the rest of the unit and meets other required statutory standards; and
   c. A plan for providing one or more of the authorized functions or services in the proposed district.

2. Make the report available for public inspection in the municipal or county clerk’s office at least four weeks before holding a public hearing on establishing the district.

3. Publish notice that a public hearing will be held on establishing the district at least one week before the date of the hearing, and mail notice to all property owners in the proposed district at least four weeks before the date of the hearing.

4. Hold a public hearing on establishing the district.

5. Adopt a resolution establishing the district, to take effect at the beginning of a future fiscal year.

Given the current date (June 2014), the earliest these properties could be officially annexed into the current 7th Avenue Tax District is July 1, 2015.

**Initiate Process to Create URA in Residential Area South of HSAD**

Over the course of our research and stakeholder meetings, it has become clear that the residential area south of the Project Area is pertinent to the success of the HSAD redevelopment process. Throughout our meetings, DFI heard unequivocal support from stakeholders for addressing blight, vacancy and the lack of perceived safety in this area. In addition, several local developers expressed their reluctance to invest in the HSAD without significant public involvement directed to the residential neighborhood. For

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the purposes of this recommendation, the residential area is referred to as the parcels encompassed in Figure 5.3.

DFI believes the residential area should be a focus of the City’s redevelopment efforts for the following reasons:

1. **Perceived lack of safety and association with drugs and violence** – As long as Hendersonville residents associate the residential area with these characteristics, foot traffic along 7th Avenue will be limited.

2. **Dispersed ownership and absentee Landlords** – The residential area in question encompasses 62 parcels and 43 separate owners. In addition to the large array of ownership, many of these owners remain absentee landlords and their properties show obvious signs of neglect. Dispersed ownership, in addition to absentee landlords, presents a hurdle for large redevelopment efforts because it is difficult to assemble a site to allow development at a scale to attract private investment.

3. **Opportunity to increase density** – Currently, the residential area in question is zoned “R-6 High Density Residential” allowing for 8.5 residential units per acre. A large-scale multi-family project could substantially increase the number of dwellings in the 12 acre area. In the past, this area has been zoned for as many as 16 units per acre and there was consideration for 40 units per acre for a development prior to the recession. Laying the groundwork for high-density development around the HSAD will help increase foot traffic and should have a direct impact on commercial development along 7th Avenue.

4. **Potential to create a gateway into the HSAD** – The residential area is well-positioned between 7th Avenue and HWY 64 (4 Seasons Blvd) to the South. With 25,000 cars passing along HWY 64 per day, the corridor could serve a much needed role as a gateway into the HSAD and Downtown Hendersonville.

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8 2012 Market Planning Solutions, Inc.
In order to address the current concerns associated with the residential neighborhood and take advantage of development opportunities, DFI recommends that the City of Hendersonville initiate the process of creating an Urban Redevelopment Area (URA). A redevelopment area is a geographic area targeted for redevelopment by a local government (pursuant to the Urban Redevelopment Law, North Carolina General Statutes Chapter 160A, Article 22). Once an area is designated as a redevelopment area, special statutory powers may be exercised there to attract private investment.

By designating the residential area as a redevelopment area, the City would be sending a signal to the private sector about its long-term commitment to redevelopment. In addition, this strategy provides a more efficient way to ensure that redevelopment unfolds in a manner that meets the City’s interest. Finally, a successful designation sets the stage for future public-private partnerships.

**URA Authority**

A redevelopment commission must be formed to exercise the powers granted by the Urban Redevelopment Law. Once a redevelopment area has been designated and a plan has been approved for the area, the city council (or redevelopment commission) may exercise extensive powers within its area of operation to undertake redevelopment projects as defined by G.S. 160A-503(19), to include the following:

- Acquisition of property, including by power of eminent domain for blighted parcels;
- Sale of real property through competitive bidding procedures
- Clearance of areas by demolition or removal of existing buildings;
- Installation or construction of site improvements and other site preparation;
- Entering into contracts for construction, demolition, moving of structures, and repair work;
- Encumber property with covenants to uphold redevelopment goals
- Engaging in “programs of assistance and financing, including the making of loans,” for rehabilitation, repair, construction, acquisition, or reconditioning of residential units and commercial and industrial facilities in a redevelopment area.

**Implementation Process**

The procedures for approval, summarized below, are set forth in G.S. 160A-513.9

- A redevelopment plan for the area must be drafted by the redevelopment commission. North Carolina statutes require the plan to contain certain elements, such as proposed land use changes, a preliminary site plan, and a statement of the estimated cost and the proposed method of financing redevelopment under the plan.
- A public hearing must be held to allow residents to comment on the plan.
- The planning commission may review the plan and certify its recommendation on the plan, either of approval, rejection, or modification with specific changes.
- After receiving the planning commission’s recommendation (or upon expiration of the 45 days allotted for review by the planning commission), the redevelopment commission must determine whether to forward the plan to the governing board for approval.

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• Upon receipt of the plan from the redevelopment commission, the governing body must hold a public hearing, properly noticed.
• The governing body “shall approve, amend, or reject the redevelopment plan as submitted.”

Section 6: Conclusion
DFI believes council should act on both recommendations in order to accelerate the redevelopment process in the HSAD. Extending the MSD increases the district’s ability to provide needed services for property owners within its boundaries and capitalizes on current redevelopment momentum in the area. Initiating the process of creating a URA in the residential area south of the HSAD addresses a major impediment to redevelopment in the area. Any significant redevelopment effort will take a coordinated effort from both the public and private sector. By taking a proactive role, the City would send a strong signal to the private sector about its long-term commitment to the revitalization of HSAD.
Appendix

Appendix 1: Contributing structures in the Seventh Avenue Depot District (National Register)

<table>
<thead>
<tr>
<th>Address</th>
<th>Acreage</th>
<th>Property Owner</th>
<th>Assessed Value</th>
<th>Sq Ft</th>
<th>Year Built</th>
</tr>
</thead>
<tbody>
<tr>
<td>317 7TH AVE E</td>
<td>0.1</td>
<td>RUSSNICK PROPERTIES LLC</td>
<td>$82,500</td>
<td>4,136</td>
<td>1918</td>
</tr>
<tr>
<td>319 7TH AVE E</td>
<td>0.13</td>
<td>RUSSNICK PROPERTIES LLC</td>
<td>$123,700</td>
<td>4,964</td>
<td>1920</td>
</tr>
<tr>
<td>321 7TH AVE E</td>
<td>0.09</td>
<td>HARVEY, LAWRENCE KIMSEY ; HARVEY, BRENDA JUNE</td>
<td>$86,200</td>
<td>3,364</td>
<td>1920</td>
</tr>
<tr>
<td>360 7TH AVE E</td>
<td>0.05</td>
<td>KILPATRICK, DORIS B</td>
<td>$66,600</td>
<td>3,264</td>
<td>1920</td>
</tr>
<tr>
<td>402 7TH AVE E</td>
<td>0.01</td>
<td>HYDER, BOYD L</td>
<td>$6,300</td>
<td>225</td>
<td>1925</td>
</tr>
<tr>
<td>407 7TH AVE E</td>
<td>0.07</td>
<td>FLASHBACK FURNITURE LLC</td>
<td>$77,000</td>
<td>5,400</td>
<td>1910</td>
</tr>
<tr>
<td>411 7TH AVE E</td>
<td>0.11</td>
<td>RUSSNICK PROPERTIES LLC</td>
<td>$126,400</td>
<td>8,100</td>
<td>1915</td>
</tr>
<tr>
<td>417 7TH AVE E</td>
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<td>RUBIN, STUART I TRUSTEE ; STUART I RUBIN REVOCABLE TRUST</td>
<td>$55,200</td>
<td>2,656</td>
<td>1905</td>
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<tr>
<td>510 7TH AVE E</td>
<td>0.06</td>
<td>HARPER, WILLIAM L ; HARPER, BARBARA</td>
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<td>988</td>
<td>1915</td>
</tr>
<tr>
<td>675 MAPLE ST</td>
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<td>HUNTLEY, DAVID C ; HUNTLEY, KRISTIN LEES</td>
<td>$94,700</td>
<td>3,170</td>
<td>1920</td>
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</tbody>
</table>

Appendix 2: Retail Outlook – Area covered by 5, 10 and 15 minute drive-time

HSAD is shown by the blue and white pin in the center of the map. Red shading shows the area in the 5-minute drive-time, green shows the area with a 10-minute drive-time and blue shading shows the area within a 15-minute drive-time of HSAD.
Appendix 3: Expanded MSD Projected Tax Base Breakdown

<table>
<thead>
<tr>
<th>Property Owner</th>
<th># Props</th>
<th>Assessed Value</th>
<th>Sum of HTD SQFT</th>
<th>Annual Tax</th>
</tr>
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<tbody>
<tr>
<td>ASHEVILLE TEMPORARY SERVICES, INC</td>
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<td>$129,700</td>
<td>1,045</td>
<td>$156</td>
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<tr>
<td>BRECK HOLDINGS LLC</td>
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<td>3,287</td>
<td>$136</td>
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<tr>
<td>CARUSO, KAREN M</td>
<td>1</td>
<td>$55,300</td>
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<td>$186</td>
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<tr>
<td>DENNIS M DUNLAP REVOCABLE TRUST</td>
<td>1</td>
<td>$138,500</td>
<td>2,917</td>
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<tr>
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<td>$137</td>
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<tr>
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<tr>
<td>HENDERSON OIL COMPANY INC ; EXXON</td>
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<td>6,479</td>
<td>$427</td>
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<tr>
<td>HILLS, JERRY W ; HILLS, MARTHA V</td>
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<td>5,203</td>
<td>$458</td>
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<tr>
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<td>$275,900</td>
<td>-</td>
<td>$331</td>
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<tr>
<td>HODGES COMPANY THE LLC</td>
<td>1</td>
<td>$279,900</td>
<td>-</td>
<td>$336</td>
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<tr>
<td>HUNTING CREEK ASSOCIATES LLC</td>
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<td>46,205</td>
<td>$1,190</td>
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<tr>
<td>HUNTING CREEK ASSOCIATES LLC &amp; NN LL CO</td>
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<tr>
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<td>5,022</td>
<td>$356</td>
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<tr>
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<td>$451,500</td>
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<td>$542</td>
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<tr>
<td>KING, WILMA M</td>
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<td>$630</td>
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<tr>
<td>MAGNA 7 REALTY INC</td>
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<tr>
<td>MICHAELIAN HOME INC</td>
<td>3</td>
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<td>MILLER, WINFIELD SCOTT ; MILLER, CHARLES DEAN</td>
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<td>$582</td>
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<tr>
<td>SARITA C SIGMON REVOCABLE TRUST ; SIGMON, SARITA C TRUSTEE</td>
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<td>2,912</td>
<td>$308</td>
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<tr>
<td>SOUTHER, LARRY D ; SOUTHER, CELIA ANNE</td>
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<td>701</td>
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<tr>
<td>WADDELL, J HALL</td>
<td>1</td>
<td>$254,800</td>
<td>8,370</td>
<td>$306</td>
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<tr>
<td><strong>Grand Total</strong></td>
<td><strong>36</strong></td>
<td><strong>$7,647,400</strong></td>
<td><strong>180,838</strong></td>
<td><strong>$9,177</strong></td>
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</tbody>
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