Department of Revenue Income Valuation Appraisal System

The Orion computer system presently calculates a net operating income (NOI) for commercial properties and applies the NOI to a Capitalization rate (Cap Rate) to develop an indication of value.

The general formula is as follows:

UNITS X RENT X EXPENSE PERCENT = NOI

NOI / Cap Rate = VALUE

The NOI is determined by assigning rent based on the nature of use of the property and the rent rating applied. Deductions are then made for the typical expenses associated with each type of property.

The nature of use of a property falls into one of the following models based on its' principle or predominant use. There are some properties that have multiple uses and will have different combinations of these categories:

- Apartment
- Hotel/Motel
- Mini-Warehouse
- Office
- Restaurant
- Retail
- Warehouse
- Other Unit Type
    - Mobile home parks
    - RV Parks

The rent rating determines the amount of rent applied to each of the individual uses within the property. The rent rating scale indicates a range from low to high and uses the following terms to identify the quality of the income stream:

- Low
- Fair
- Average
- Good
- Excellent

Example: Billings Office Model Rent

BLG-Off-PR	$ 2.50
BLG-Off-FR	$ 6.00
BLG-Off-AV	$ 10.50
BLG-Off-GD	$ 16.00
BLG-Off-EX	$ 22.00

Different ratings may also be applied to different portions of a building even though there is only one specific use. The main floor of a multiple story office building that does not have an elevator, may charge more rent for the first floor areas than the upper floors due to accessibility.

Increasing the number of variables for property valuation

Increase the number of ratings within the model

The number of ratings could be increased without any additional programming done by the vendor. The department could identify additional points in the data set to include in the model. The new ratings could be alpha, numeric or descriptive. Descriptions may be more difficult to determine when trying to identify points between the existing descriptions.

Example: Billings Office Model Rent

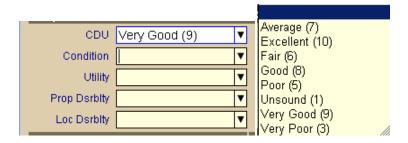| Current			Example 1A			Example 1B		
BLG-Off-PR	$	2.50	BLG-Off-A	$	2.50	BLG-Off-1	$	2.50
BLG-Off-FR	$	6.00	BLG-Off-B	$	4.50	BLG-Off-2	$	4.00
BLG-Off-AV	$	10.50	BLG-Off-C	$	6.00	BLG-Off-3	$	6.00
BLG-Off-GD	$	16.00	BLG-Off-D	$	10.50	BLG-Off-4	$	7.50
BLG-Off-EX	$	22.00	BLG-Off-E	$	15.00	BLG-Off-5	$	9.00
			BLG-Off-F	$	18.50	BLG-Off-6	$	10.50
			BLG-Off-G	$	22.00	BLG-Off-7	$	12.00
						BLG-Off-8	$	14.50
						BLG-Off-9	$	16.00
						BLG-Off-10	$	18.50
						BLG-Off-11	$	22.00

Advantages:

- Easy for department to incorporate into future models
- Requires no programming changes within the Orion system
- Easy to implement with current staff

Disadvantages

- More ratings could lead to greater inconsistency with its application to individual properties
- Requires the maintenance of current data while developing and implementing reappraisal information for the subsequent cycle that would have different ratings

Develop an overall composite rating (similar to residential Condition, Desirability and Usefulness [CDU]) measuring different property characteristics

The example below is for a residential property however a similar set of components could be created for commercial property that could be used to identify an appropriate rent for the property.

Advantages:

- May take some of the ambiguity out of the appraisal decision by measuring unique components to develop the rating. (Not one individual decision point)
- The overall composite rating may help aggregate sales and I&E information for future models

Disadvantages

- Would require significant programming changes by the vendor at potentially significant cost
- Requires significant amount of staff training
  - Possibly require additional staff
- Requires the maintenance of current data while developing and implementing reappraisal information for the subsequent cycle that would have different ratings

Increase the number of models (by neighborhood or groups of neighborhoods)

Advantages:

- No programming changes required by vendor
- No staff training

Disadvantages

- May not have sufficient data to separate current models
  - Different models may have different boundaries creating confusion for taxpayers and staff
    - Example: The boundaries of retail model my overlap part of the boundaries of the office model but not necessarily all of the same neighborhoods.
- May require additional staff to meet increased workload: modelers to aggregate data into more models
- The final result would very likely be similar to the outcomes from current practice – No material benefit to the valuation results is apparent.