<u>NEMC - Springfield Income Valuation Approach</u>

The appraisal of property is achieved in three specific manners.

- Cost approach
- Comparable sales approach
- Income approach

Every appraisal foundation or organization that monitors appraisers and assessors adheres to these three fundamental approaches. It is up to the appraiser to choose the best technique for the valuation of the individual property. In most cases, the sales approach is considered the most accurate method. The approach does however require a valid, varied population of sales in order to properly value differences in properties to be appraised. This is most difficult to achieve with apartment/commercial/industrial appraisals. Most sales that fall in these categories are limited in number and are seldom valid to real estate only (most include some value of business interest; i.e. client lists, inventory, machinery, ongoing business reputation and personnel). Extracting non-real estate value is difficult and seldom precise.

The appraiser needs a reliable, equitable and defensible method to value commercial property. The best method for determining commercial type values is the income approach. It is the approach most banks use in business mortgage loans. Simply put, the process seeks to determine if the real estate can generate enough income to service the loan taken against the real estate.

<u>The income generated by real estate is rent. It is not the business' product</u>. A business can net 1 million dollars out of a 300 square foot office or lose 1 million out of a 100,000 square foot office. Neither is an indication of real estate value.

The income approach estimates rent, expenses and a capitalization rate. The rent is simply that amount collected each year. Expenses are those expenses specific to the property. Expenses are typically management, heat, utilities, property maintenance, and insurance to name a few. A capitalization rate is developed looking at the local cost to borrow for the type of property being purchased, the tax burden expected, and a rate of return expected by the owner.

An example

Property is 2,500 square feet and rents for $12.00/sq ft.
Expenses annually are $12,345
Capitalization rate is based on borrowing at 6.5%, a tax rate of $3 and equity expectation of 6%

Annual Rent	30,000
Expenses	(12,345)
Net Income	17,655
Cap Rate	9.4
Indicated Value	17,655 / .094 = 187,819 or rounded to $187,800

There is no fairer means available in trying to achieve fairness and equity in commercial valuations than utilizing the income approach to develop values. NEMC will be using the approach as a secondary means of valuation to establish functional and economic factors to apply to all commercial property. The actual request is attached to this document. It is important to note that the basic form is produced by the State PV&R for use by Listers and Assessors.

Dear Property Owner:

The Town of Springfield is undergoing a complete reappraisal of all property for the 2018 Grand List. The process will be completed with a fair and considered estimate of the value of your property as of April 1, 2018. Commercial and industrial property values will be partially established through the income approach. The income approach assumes that a willing seller and buyer of any income producing property will consider the income to be derived from that property as critical in the decision to buy or sell.

The Springfield Listers' Office is requesting that you complete the enclosed INCOME and EXPENSE information on COMMERCIAL, INDUSTRIAL, and APARTMENT properties to help us determine equitable values for assessment purposes. **This request is for income and expense information relative to the operation of <u>real estate</u> and not the business use within the real estate.**

When determining commercial property values, the Board of Listers must weigh financial as well as physical attributes. By completing and returning the enclosed form, you help ensure the development of a sound basis to estimate the income approach to value. Please be aware that this information will be used only to determine 'market' income and expense levels for commercial and industrial properties. **In accordance with State Law and except as provided therein, all information listed on the forms is not available to the public for inspection. This form must be returned within forty-five (45) days. [32 V.S.A. §4009].**

While it is in the best interest of property owners to contribute to the establishment of fair assessments, Vermont Law also requires such disclosure:

<u>Title 32, Chapter 129, Subchapter I. Inventories</u>

§ 4006. **Failure to Return Inventory**

> Failure of a taxpayer to make and return a signed, sworn to, or affirmed inventory within 45 days after the mailing of such inventory by the town listers shall bar the taxpayer from any statutory appeal under this chapter or chapter 131 of this title, unless such failure is due to factors beyond the taxpayer's control. In addition, a taxpayer who fails to submit an inventory within the time and in the form prescribed may be fined not more than $100.00 for each violation.

Please return the information to the Listers' Office at the address noted above. Alternatively, you can bring the form to the Town Hall located at 96 Main Street, email a scanned form to toslisters@vermontel.net or fax the form to (802) 885-1617. Please feel free to call our office at (802) 885-2104 with any questions, comments or to receive additional forms. The Springfield Listers thank you for your cooperation.

Sincerely,
Board of Listers, Town of Springfield

General Instructions

- The income and expenses are for calendar year 2017. Please estimate final numbers as needed.
- If your property is owner occupied (your business occupies the space) and no rent is charged, please write OWNER OCCUPIED across the front of the form and just fill out the expense portion of the form.
- If leases are tenant at will (month to month) write TAW across the LEASE columns.
- Overage rent is supplemental rent received for common area maintenance.
- In the expenses section, the 2 columns (LANDLORD/TENANT) are available to show which party is responsible for the expense.
- RESERVES FOR REPLACEMENT is an internal fund you may have to cover capital improvements.

Please remember that this document is not available for public viewing. The information we receive is strictly confidential and cannot be shared beyond the Listers functions.