

Response to Land Increases across Hamilton County

The Hamilton County Assessor's office has mailed out Form 11 - Notices of Assessment changes for the January 1, 2020 assessment date. This value will serve as the basis for taxes that will be due in 2021. The assessment notice has a breakdown of a property's assessed value between the Land and Structures and also has a comparison with the prior year's assessed value. One of the things creating a lot of questions on this year's notices is the change in land values across property throughout the county. There is a basis and a reasoning behind these changes.

County Assessor's in Indiana follow guidelines established and provided by the state Department of Local Government Finance (DLGF). Part of that guideline requires counties to update their Land Order every four years. For Hamilton County, the Land Order was updated for 2020, and it serves as the basis for assessing land in the county. The 2020 Land Order is a detailed analysis of sales data over the two-year period from 01/01/2017 to 12/31/2018. The sales information is used to establish land rates for all subdivisions, neighborhoods, and other areas throughout Hamilton County. Once the values have been established, they are presented to the Property Tax Assessment Board of Appeals (PTABOA) for their review and approval. Following the approval is a Public Hearing for the Land Order which was held October 30, 2019 at 6:00 p.m.

The Land Order allows for a re-balancing of the Land and Structures components of the assessment, while still determining an overall assessed value that reflects current market value. Due to this re-balancing, it is not uncommon to see increases to the Land and decreases to the Structures on the assessment notice. During the four years in between Land Order changes, the state DLGF still requires county Assessor's to annually "trend" assessed values according to market trends. Annual trending is usually handled by placing a factor on the Structures component of the assessed value. Real estate sale prices in Hamilton County have seen a significant trend upwards over the past four years. As a result, the Structures portion of assessments have been increased with no real change to the Land portion.

The sales data used in the Land Order consists of both vacant land sales and "improved" sales (lots/land with structures such as houses, barns, pools, etc. on them). Vacant land sales are the best resource to establish land values. Vacant sales are generally used in newer developments where vacant lot sales have occurred. However, in neighborhoods that are already established, the sales of the "improved" properties are used. There are a couple of ways for the Assessor to evaluate the "improved" sales, using either the abstraction method or allocation method.

The abstraction method uses a "cost approach" to value by estimating the depreciated cost value of the structures using state provided cost and depreciation tables. This method calculates an estimated land value by taking the sale price and subtracting the cost of the structures to determine a residual land value. Utilizing multiple sales, the assessor derives an average base land value for a particular neighborhood. For example, if a property sold recently for \$250,000 and the estimated depreciated cost of the structures is \$180,000, then the value attributed to the land is \$70,000. Now, suppose the prior year land assessment was \$45,000 and the prior year's depreciated cost of structures had been "factored" up to 195,000 for a total assessment of \$240,000. The assessed value comes up short meaning either the land must be increased, the structures must be further increased, or changes to both

must occur. In this scenario, the land is increased, and the structures decreased to arrive at the desired overall value.

The other method, the allocation method, uses an allocated percentage of an “improved” sale as the land value. The allocated percentage is also known as a Land to Building Ratio. Vacant sales can be compared to “improved” sales to determine an appropriate percentage of value that is attributable to the land. The abstraction method mentioned above may also be used to generate an appropriate percentage. Generally, this allocation percentage is in the range of 20% to 30% of total value. From the example above, the sale price was \$250,000 and the land was determined to be \$70,000, which works out to a land value allocation percentage of 28%. Suppose this property had a land assessment of \$45,000 for the previous year, the land value as a percentage of the total sale of \$250,000 is only 18% implying that land value may be too low.

Both methods are used to validate the changes in land values using available sales. The changes in assessed value that are shown on the Form 11 – Notice of Assessment are reflective of the changes in market value trends as well as the changes in land value as established by the 2020 Land Order.

Ultimately, the focus should be on the overall assessed value and whether the new value shown for 2020 is reflective of the property’s market value as of the January 1, 2020 assessment date.