AGENCY OF ADMINISTRATION

Department of Taxes

SEARCH

ASSESSMENT

Listers are unique to Vermont. The primary responsibility of the lister is to determine the fair market value of your property, they strive to provide all property owners with fair and accurate assessments.

What Type of Property Is Assessed?

All real property commonly known as real estate is assessed. Real property is defined as land and any permanent structures attached to it.

How Property Is Assessed

Generally speaking, property is to be appraised at its fair market value. Fair market value is defined as the price which the property will bring in the market when offered for sale and purchased by another, taking into consideration all the elements of the availability of the property, its use both potential and prospective, any functional deficiencies, and all other elements such as age and condition which combine to give property a market value.

This value is converted into an assessment, which is one component in the computation of real property tax bills.

Determining Fair Market Value

There are three approaches to determining the fair market value of a property:

- **Cost Approach** - This is sometimes called the summation approach, the theory being that the value of a property can be estimated by summing the land value and the depreciated value of any improvements. It is the land value, plus the cost to reconstruct any improvements, less the depreciation on those improvements.

- **Market Data Approach** - This approach uses the sales of properties similar to the subject are analyzed and the sale prices adjusted to account for differences in the compared properties to the subject to determine the fair market value.

- **Income Approach** -This method is most often used in the appraisal of income producing properties commercial, industrial and rental properties. To do this, the income stream is analyzed in terms of quantity, quality and duration. To conduct an income approach appraisal on an apartment building, for instance, you would need:
  - potential gross income from the market
  - vacancy rate and collection loss from the market
  - operating expenses
  - capitalization rate

Expenses are deducted from gross income. The resulting net operating income is capitalized to determine value.

In theory, if all three approaches are utilized to appraise any given parcel, it will result in the same. Once the lister or assessor has determined the fair market value an assessment is calculated using the fair market value and the town or city's level of assessment.

Find out more information and tools used by listers and assessors (http://tax.vermont.gov/municipal-officials/listers-and-assessors/assessing-property).

Contact Us

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Taxpayer Assistance Window
Located on the 1st Floor
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HOW TO ESTIMATE NET OPERATING INCOME

The appraiser needs to have access to income and expense statements for the subject building and for similar buildings in the area to estimate net operating income. Having that information on hand enables the appraiser to accurately estimate income and expenses for the building. Remember that all income and expenses in the income capitalization method always are annual figures.

You can break down the actual process of estimating the net operating income (NOI) into four steps:

1. Estimate the potential gross income.

   Potential gross income is the income that the building generates when rented at 100 percent occupancy, at market rent or lease rent or a combination of both. *Market rent* is the rent that normally is charged for that kind of space in the market place.

   Lease rent is also known as *scheduled* or *contract rent.* Potential gross income includes adding in income from all sources, such as the laundry machines in an apartment house or separately rented parking spaces.

2. Subtract a vacancy and collection loss figure from potential gross income.

   This number, which usually is expressed as a percentage, is the appraiser's estimate from the market for these kinds of buildings in the local area, and it reflects normal loss of income caused by nonpayment of rent and periodic vacancies. Additional income, say from an antenna rental on the roof of the building is added in at this point to arrive at *effective gross income.*

3. Estimate all building expenses and subtract them from the effective gross income.

   Building expenses fall into three categories: fixed, variable (sometimes called operating), and reserves. *Fixed expenses* are expenses that don't change with the occupancy of the building, like property taxes and insurance. *Variable expenses* are pretty much all other expenses, some of which may vary with the occupancy of the building. These expenses include snow removal, utilities, management fees, and so on.

   Reserves, sometimes called reserves for replacements, are funds that landlords put aside for items that have to be periodically replaced but not on an annual basis. Cooking stoves in an apartment are an example of a reserve item. Note that the expenses don't include mortgage payments or building depreciation.

4. Subtract the estimated expenses from the effective gross income.

   The result is the net operating income.

You can put some numbers to these steps to see what the formula looks like:

Potential gross income	$50,000
– Vacancy and collection loss (10 percent of $50,000)	–$5,000
Additional income	$3,000
Effective gross income	$48,000
Expenses	
Fixed	$10,000
Variable	$23,000
Reserves	$5,000
– Total expenses	– $38,000
Net operating income	$10,000

THE CAPITALIZATION RATE

A *capitalization rate* is similar to a rate of return; that is, the percentage that the investors hope to get out of the building in income. There are a number of ways appraisers learn to calculate capitalization rates, most of which are beyond what you're required to know. All you need are some comparable sales — buildings similar to the subject property being appraised that have sold recently.

The formula you use is

Net operating income (I) ÷sales price (V) = capitalization rate (R)

This formula is applied using the net operating income and sale price of each comparable that you're analyzing. Note in this formula, the reversal of the IRV formula for finding value.

Here's an example: A building sells for $200,000. Its net operating income is $20,000.

Applying the formula, you divide \$20,000 by \$200,000, which looks like \$20,000 ÷\$200,000 = 0.10 or 10 percent. Capitalization rates are expressed in percentages.

Although the results may look wrong because you're always dividing a smaller number by a bigger number, remember that you're trying to get a percentage, so the answer always is less than one.

After studying the various capitalization rates that you get after applying the IRV formulas, you select the one you think is the most applicable to the building you're appraising and apply it to the final step.

APPLY THE FORMULA TO ESTIMATE VALUE

Now back to the basic income capitalization formula. You can use the numbers from the previous examples to calculate the value:

Net operating income (I) ÷capitalization rate (R) = estimated value (V)

\$10,000 ÷0.10 = \$100,000

By dividing the net operating income of the subject property by the capitalization rate you have chosen you arrive at an estimate of \$100,000 as the value of the building.

HOW TO CALCULATE INCOME

You may find one other part of the formula that test writers occasionally like to ask about: calculating net operating income.

Suppose you have a commercial building that sells for \$300,000 and its rate of return or capitalization rate is 8 percent. With that information, you can find out what the net operating income (NOI) is. In this case, you multiply the building sales price or value by the capitalization rate or rate of return.

Value (V) xcapitalization rate (R) = net operating income (I)

\$300,000 x 0.08 = \$24,000