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Tennessee Set to Release Appraisal Ratio Report

By Lee Wharton, Memphis

The Tennessee Comptroller will release the 2019 Real Estate Appraisal Ratio Report this month, which will include the sales ratios for the four largest counties in Tennessee — Davidson, Hamilton, Knox, and Shelby.

This report has various applications for state and local assessing agencies. More importantly, it opens the door for appeal opportunities for property owners, even if their assessment is at or below current market value.

HOW THE APPRAISAL RATIO REPORT IS UTILIZED

Ratio Studies are conducted primarily to determine the overall level of appraisal within each assessing jurisdiction. Assessors use ratio studies for many reasons, including:

- Identifying potential problems with appraisal procedures
- Providing for a current value update between reappraisals
- Adjusting sales prices over time
- Developing depreciation schedules
- Determining the accuracy of state mandated reappraisals

The State Board of Equalization has a slightly different application when it comes to using the ratios. The Board's primary use is to equalize values as determined through the appeal process.

Equalization is the process of updating the fair market value for a property during a non-reassessment year, then reducing the value by the published sales ratio in order to make the new market value fair, equitable, and equalized with surrounding properties.

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APPEAL OPPORTUNITIES

The foundation of the sales ratio is to establish the variance between current appraised values and market values by dividing the assessed value by the sales price. All real estate sales deemed by the assessor to be an Arm's Length transaction are included in the study.

As an example, an office property is assessed at \$7 million by the county assessor. The property owner has an independent valuation analysis conducted that indicates the fair market value is actually \$7,500,000. The owner may not appeal because the assessed value is far below the current market value.

However, let's say in this example that the county publishes a sales ratio of 82.9%. Then by applying the sales ratio to the property's indicated fair market value of \$7,500,000, the new equalized market value becomes \$6,217,000, and a credible appeal position now exists. Sales ratios provide an important and often overlooked tool to keep property taxes at a minimum.