SDAT's Statistics Show Interesting Trends in Property Values

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On April 16, 2012, the State Department of Assessments and Taxation (SDAT) issued its annual assessment ratio report to Governor O'Malley and the General Assembly. The report contains statistics from which interesting trends in Maryland's real estate markets can be gleaned. The report indicates that 739,764 properties were valued by SDAT in the new triennial reassessment for years 2012, 2013 and 2014, based on relevant sales or income data obtained as of December 31, 2011. SDAT reports that, on average, residential property values decreased by 22%, while commercial property values decreased by only 1%.

But the averages don't tell the whole story because certain counties had different experiences than others. The counties with the largest percentage of decreasing residential property values were Charles, Dorchester, Frederick, Prince George's and Wicomico Counties. On the commercial side, there was a rise in property sales in fiscal year 2011, increasing from 207 in 2010 to 303 in 2011. But some counties saw very few commercial sales. For instance, there were 5 or fewer commercial sales in Allegany, Caroline, Cecil, Dorchester, Garrett, Kent, Queen Anne's, St. Mary and Talbot Counties. With such small numbers it is difficult to observe any trends in these counties.

Trends can be seen in the counties (and city) with the largest numbers of commercial sales, such as Baltimore City (58), Anne Arundel (46), Prince George's (33) and Baltimore County (29). In each of these jurisdictions, the total sales prices exceeded the total assessed values. In Anne Arundel County, for example, the margin between the two was quite large. Of the 46 properties sold the total assessed value was $117,730,100, while the total sales price for the properties was $162,765,088. This equates to an assessment ratio of 72.3%, which suggests that the local assessment office under-assessed the properties or their values increased substantially since the most recent assessment of these properties.

On the other hand, some counties saw total sales values that were quite close to the assessed values. In Montgomery County, for instance, the total assessed value for 21 commercial properties sold in fiscal year 2011 was $176,356,000, while the total sales price for these properties was $177,740,768. This equates to an assessment ratio of 99.2%, which means the local assessment office accurately assessed the subject properties and there was little change in fair market value since the last assessment.

The statistics released by SDAT provide some useful insight when considering whether to appeal an assessment. For commercial properties in particular, it depends upon the county in which the property is located and the volume of sales that have occurred. Some local assessment offices appear to be more accurate than others when placing values on properties. But one must also be willing to ignore general statistics when making the important decision to appeal an assessment.

Ultimately, every commercial property stands alone with unique characteristics that distinguish it from comparable properties that might be relied upon by the assessor under a sales approach to value. For instance, an older property may require major capital improvements (like a new roof) of which the assessor is unaware. In this situation, the owner can highlight the cost of the improvement to support a challenge to the assessment.

For income-producing properties, the assessor often utilizes the income approach to value. But for properties worth $5 million or less, the assessor usually does not have *actual* income and expense data for the property and, instead, relies on estimates derived from industry and local standards. In this situation, an owner should obtain a copy of the assessor’s worksheet and compare the estimates to the actual income and expense data for the property. If there are major differences, an appeal may be warranted to reduce the assessment.

Under the third approach to value, the assessor may use the cost-approach by determining the cost to replace the property and then depreciating the cost from the date the improvements were constructed to the current date. This approach is less reliable for older properties because the older the property, the more guess-work is involved when depreciating. Again, it is critical to obtain the assessor's worksheet to determine the valuation method used, analyze whether the method is appropriate and, if so, examine the assessor's calculations to see if they bear any relationship to reality.