

# SAMPLE RESIDENTIAL MILLS ACT CONTRACT VALUATION

## Property Characteristics:

- 1225sf, 3BR, 2Bath, single family home built in 1909.
- Purchased in 1997 for \$223,000, 1998 Base year
- Estimated allocated values between land improvements:
 

70% to land	\$156,000
30% to improvements	<u>\$ 66,900</u>
	\$223,000
- Fair market value at time of sale - \$260,000
- Estimated remaining life is 30 years (standard estimation)
- Owner occupied

Factored Base Value:	\$246,210
Fair Market Value:	\$260,000
Historic Property Value:	\$117,301

## Valuation Methods:

MILLS ACT/HISTORIC PROPERTY CONTRACT ASSESSMENT	NORMAL PROP 13 ASSESSMENT
<b>Estimated Effective Gross Income</b> (annual rent this property would receive if it were a rental property based on information for similar areas) Less vacancy & collection loss (not applicable since it is owner occupied)	\$18,000  -0
<b>Effective Gross Income</b>	\$18,000
Less annual expenses (25% of effective gross income)	- 4,500
<b>Net Operating Income</b> (NOI=income after deducting for operating expenses but before deducting for income taxes and interest)	\$13,500
<b>Capitalization Rate</b> (discount rate used to determine the present value of a stream of future earnings-fixed amt):	1) Subject property sold for \$223,000. Sales comparison approach value is employed using the sales of similar historic properties and the subject property at the time of sale.
1) Interest component (prime rate, varies)	2) Sales in the subject property's area confirms that the sales price was the fair market value of the property at the time of sale. Tax would be based on \$260,000.
2) Risk component (rate of return required to attract capital to an investment-fixed)	3) Tax rate .010089 x \$260,000
3) Property tax rate (varies)	
4) Amortization component (based on the estimated remaining life of the building = 30 years/30 – standard amount used)	
<b>TOTAL CAPITALIZATION RATE</b>	<b>11.5089%</b>
<b>Capitalized Net Operating Income</b> (NOI/Total Capitalization Rate or \$13,500/.115089 – you pay tax on this new value)	\$117,301
<b>Estimated property taxes would be \$1,184.45/yr</b>	.010089 x \$117,301 <b>Estimated property taxes would be \$2,623.14/yr.</b>