

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

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|--------------------------|-----------|
| 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 |
|---|---|
| Estimated Effective Gross Income (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 |
| Effective Gross Income | \$18,000 |
| Less annual expenses (25% of effective gross income) | - 4,500 |
| Net Operating Income (NOI=income after deducting for operating expenses but before deducting for income taxes and interest) | \$13,500 |
| Capitalization Rate (discount rate used to determine the present value of a stream of future earnings-fixed amt): <ul style="list-style-type: none"> 1) Interest component (prime rate, varies) 2) Risk component (rate of return required to attract capital to an investment-fixed) 3) Property tax rate (varies) 4) Amortization component (based on the estimated remaining life of the building = 30 years/30 – standard amount used) | 5.5000% 4.0000% 1.0089% <u>1.0000%</u> |
| TOTAL CAPITALIZATION RATE | 11.5089% |
| Capitalized Net Operating Income (NOI/Total Capitalization Rate or \$13,500/.115089 – you pay tax on this new value) | \$117,301 |
| Estimated property taxes would be \$1,184.45/yr | .010089 x \$117,301 |
| | Estimated property taxes would be \$2,623.14/yr. |