

My Property is Worth What?

Why doesn't the assessor's value reflect the sale price of my property?

1. There is a lag between the time of the assessment and when the sale takes place.

An appraisal is an *estimate* of property value based on historical data at a set point in time, January 2nd of each year, and the market can change dramatically by the time the property is sold.

For example, consider a property valued at \$180,000 as of January 2, 2009. This assessment is based on home sales that occurred between October 2007 and September 2008. However, the property may sell for \$160,000 in August 2009. Does this mean the estimated value is incorrect? Not necessarily. It could signal a downturn in the housing market between September 2008 and August 2009, lowering the sale price of the home.

Just as buyers in declining markets may pay less than the assessor's last valuation, they may also pay more in accelerating markets. A property valued by the assessor at \$200,000 for the 2009 assessment may sell for \$225,000 in August 2009.

This lag time often results in a dramatic difference between actual sale prices and the estimated market values for the current year.

2. Properties can change over time.

While values can fluctuate on an annual basis due to sales of similar properties, Minnesota law requires that properties only be inspected once every five years, unless new construction or demolition takes place. Between those inspections, properties may be improved without the owner obtaining a building permit, or they may deteriorate if neglected. These changes can be difficult for assessors, who may only see the exterior of the home, to consider in their annual evaluations.

3. There is no "correct" price for real estate – but rather a range of prices.

The ultimate sale price of a particular property depends on its unique characteristics as well as the complex motivations and preferences of the seller and potential buyers. If that weren't the case, realtors and sellers would never have to reduce listing prices, offers from multiple buyers would all be identical, and professional appraisals would all arrive at the same value. In reality, list prices may misjudge the market, offers are negotiable and can vary widely, and appraised values may be disputed.

4. No two parcels of property are identical.

Estimating the precise value of a property that is based on dozens, if not hundreds, of characteristics is very difficult. Even nearly identical properties (e.g. adjacent townhomes or condominiums) often sell for different amounts.

5. Real estate markets are highly localized and always changing.

Sale prices of different types of properties can vary widely. Currently, farmland and recreational properties may be rising in value and sales may be strong, but residential sales may be stable or slightly declining in several areas. Some neighborhoods may be declining at a much faster rate than other areas, which may be stable or slightly increasing in value.

6. Fewer sales mean more challenges for assessors.

In many markets and for many types of property, there are few sales of comparable properties. This can make accurate market assessments more difficult, but the assessor must still use his or her professional judgment and knowledge to estimate market values on an annual basis.

7. Not all sales are representative of the market.

Some sales, such as foreclosures, sales between relatives, or sales where the seller or buyer are acting under undue duress are not considered open-market, arm's length transactions and are not used in sales ratio studies, nor are they used as comparables in estimating the market values of similar properties.