

My House is Worth What?

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Property Tax Fact Sheet 14

Fact Sheet

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 2 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, 2007. This assessment is based on home sales that occurred between October 2005 and September 2006. However, the property may sell for \$230,000 in August 2007. Does this mean the estimated value is incorrect? Not necessarily. It could signal an upturn in the housing market between September 2006 and August 2007, raising the sale price of the home.

Just as buyers in rapidly accelerating markets may pay significantly more than the assessor's last valuation, they may also pay less in declining markets. A property valued by the assessor at \$200,000 for the 2007 assessment may sell for \$175,000 in August 2007.

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 often 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 are rising in value and sales are strong, but residential sales are stable or slightly declining in several areas. Some neighborhoods are 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/her professional judgment and knowledge to estimate market values on an annual basis. This may mean looking at sales that take place outside the study time frame or in a neighboring city or township.

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.

If you have additional questions or concerns, please contact your county assessor.