



COMMERCIAL REVALUATION – CITY COUNCIL WORK SESSION

October 2, 2017

- ▶ **Update on Revaluation Process & Current Tax Rate**
- ▶ **Present Current Tax Base in Historic Context**
- ▶ **Respond to “FAQ’s” re: the Commercial Revaluation**
- ▶ **Show Trends in Commercial Revaluation**
- ▶ **Discuss Options**

WORK SESSION AGENDA

April 3rd - Assessor Notifies Council of the Need for Revaluation

August 21st - City Council Revaluation Update

August 29th – 2017 Public Revaluation Forum

September 18th – City Council Revaluation Update

September 26th – City-Wide Neighborhood Committee Forum

October 2nd – City Council Work Session

REVALUATION MEETINGS

New Hampshire Assessing Standard Board Requires:

- **Median Assessment Ratio of 90% - 110%**

- This is a ratio of the property's assessed valuation to its market value

2013 Tax Year (FY14)	2014 Tax Year (FY15)	2015 Tax Year (FY16)	2016 Tax Year (FY17)	2017 Tax Year (FY18)
94.5%	88.5%	92.5%	86.6%	True Market Value

Revaluation Year Revaluation Year

WHY ARE WE DOING THIS REVALUATION?

Assessed Property Valuation ÷ 1,000 x Tax Rate = Property Taxes

Median Single Family Valuation

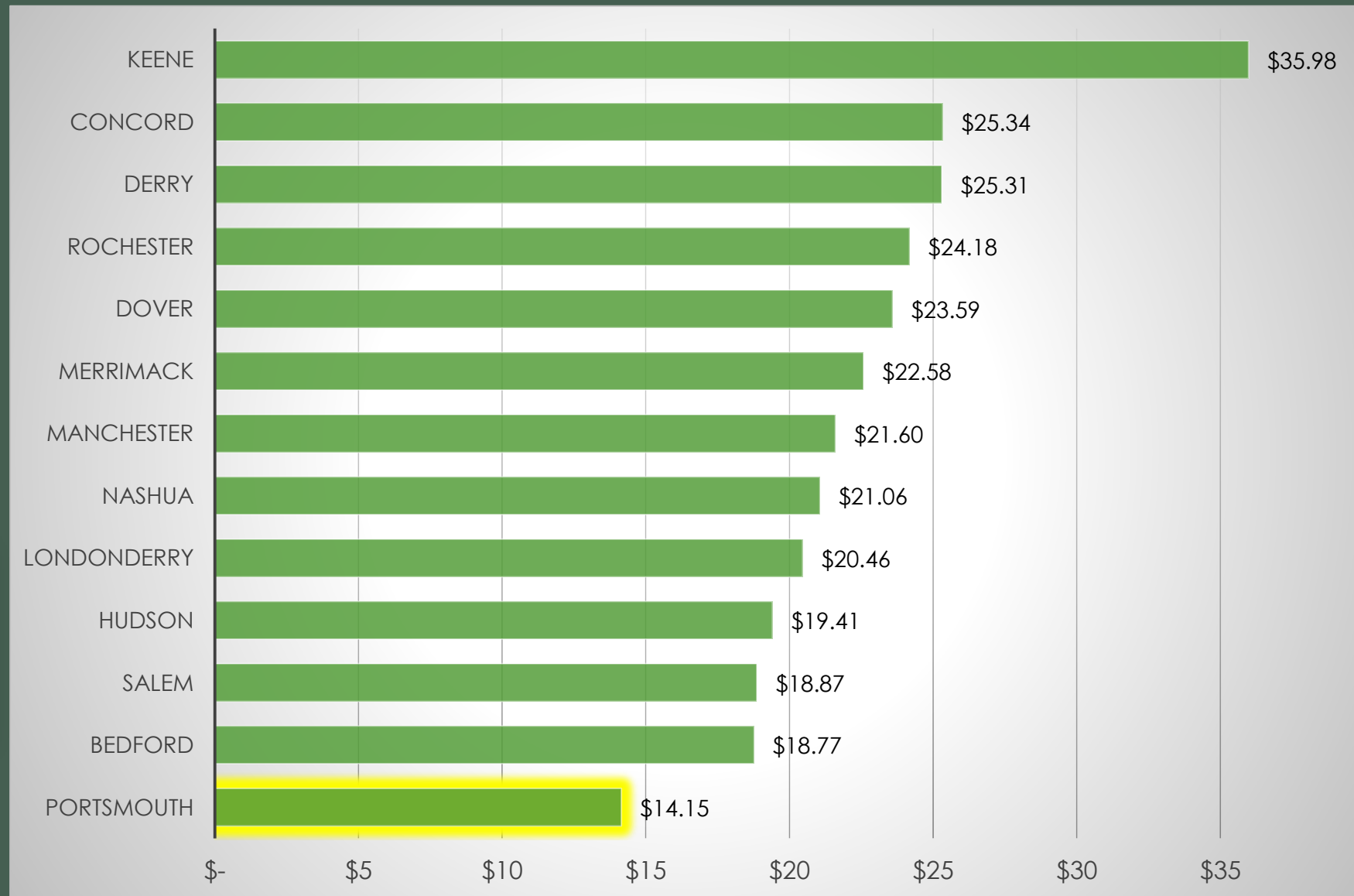
$$\begin{aligned} & \$412,700 \div \$1,000 \times \$15.36 \quad (\text{Estimated}) \\ & \qquad \qquad \qquad \$6,339 \end{aligned}$$

PROPERTY TAX CALCULATOR

TAX YEAR 2016 EQUALIZED TAX RATES

NH COMMUNICATES WITH
20,000+ RESIDENTS

Ranked #37 as having
the lowest equalized tax
rate out of all 234 taxable
communities



Source: NH Department of Revenue

“ Thus, the City Council now has a chance to explain why residential property owners will shoulder more of the city’s budget and many commercial property owners will pay less.

Various city officials...have already taken turns explaining it, but **however factual their explanations** might be, **they’re not convincing residents** facing higher tax bills. ”

PORTSMOUTH HERALD EDITORIAL, OCTOBER 1, 2017

Reval shines light on Portsmouth’s \$109M budget

A harbor scene with several boats docked at a pier. In the background, there are multi-story buildings and a large crane. The image is overlaid with a semi-transparent dark green filter.

PORTSMOUTH'S TAX BASE

How are taxes distributed across property types?

PORTSMOUTH'S TAX BASE

Please answer my questions about Portsmouth appraisals

First: why is residential property taxed on full current market value and commercial properties taxed only on some percentage of current value??

I have read between 15 percent and 25 percent but do not know the correct percentages, nor how these percentages are determined. Can someone enlighten me?

Second: How is it that when commercial property increases in value, their taxes go down? (See the article in Sunday's paper) When our homes increase in value according to the market, we get a tax increase as well as an increased valuation.

Q: Are residential and commercial properties taxed at the same rate?

Q: What are the correct percentages?

Q: How can taxes paid by commercial properties go down if their values went up?

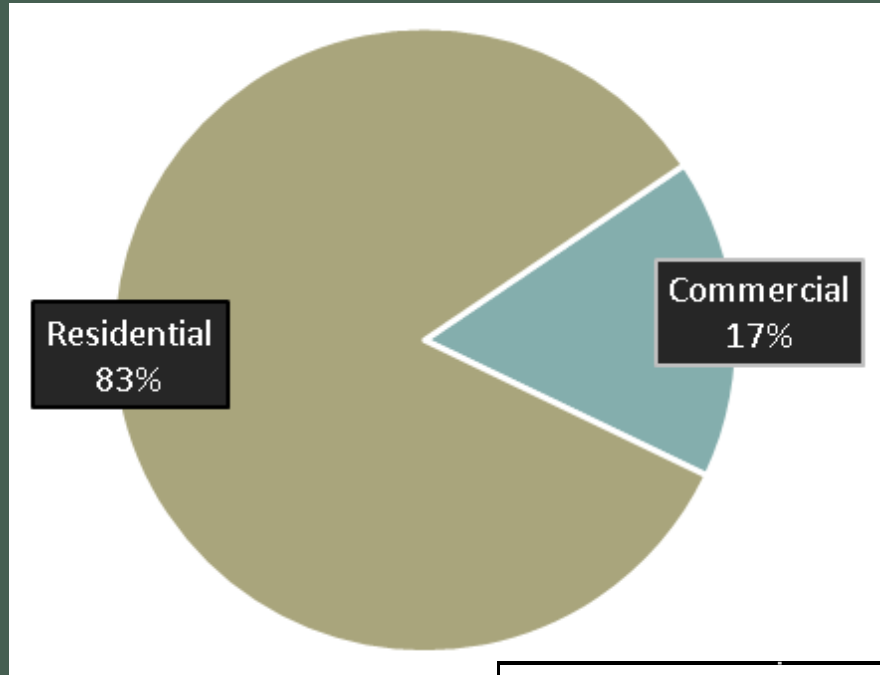
	Values net of Exemptions	Property Taxes	Net Value Change Prior Year	% of Value Change	Property Tax Change from 2016	% Property Tax Change
Residential	3,106,304,150	47,712,832	546,355,686	21.3%	4,091,310	9.4%
Commerical	2,149,778,004	33,020,590	123,446,688	6.1%	(1,508,095)	-4.4%
Uilties	222,362,780	2,941,860	36,938,009	19.9%	229,095	8.4%
	5,478,444,934	83,675,281	706,740,383	14.8%	2,812,310	3.5%

PORTSMOUTH'S TAX BASE

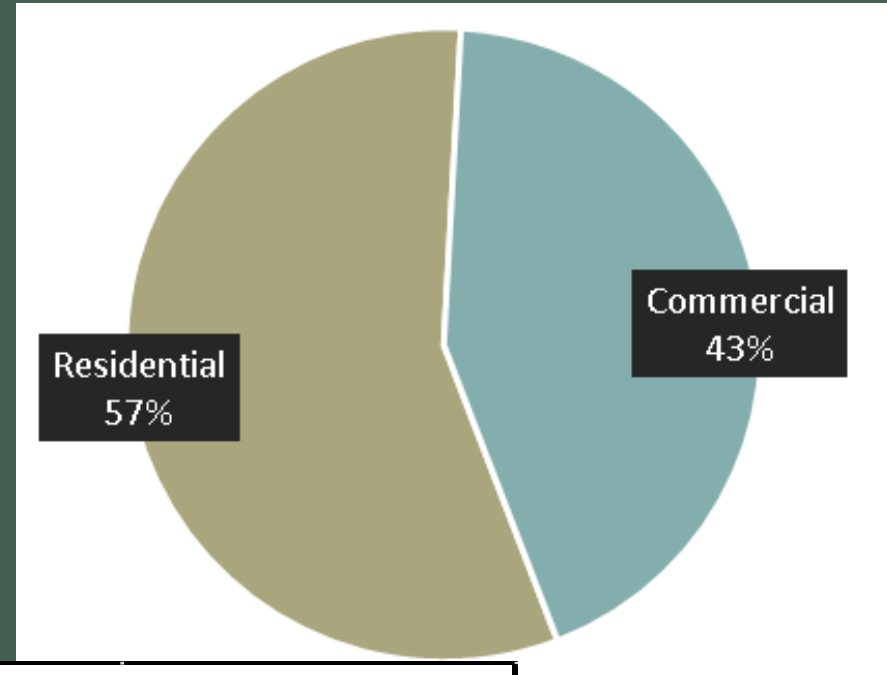
Tax Year 2015 Revaluation

			Net	% of	Property	%
	Values net of		Value Change	Value	Tax	Property
	Exemptions	Property Taxes	Prior Year	Change	Change from 2014	Tax Change
Residential	2,518,275,864	42,281,851.76	177,951,814	7.6%	(78,014)	-0.2%
Commercial	2,016,983,163	33,865,147.31	346,542,503	20.7%	3,630,171	12.0%
Utilities	192,583,616	2,788,610.76	20,979,521	12.2%	116,735	4.4%
	4,727,842,643	78,935,609.82	545,473,838	13.0%	3,668,893	4.9%

% of Taxable Parcel Count



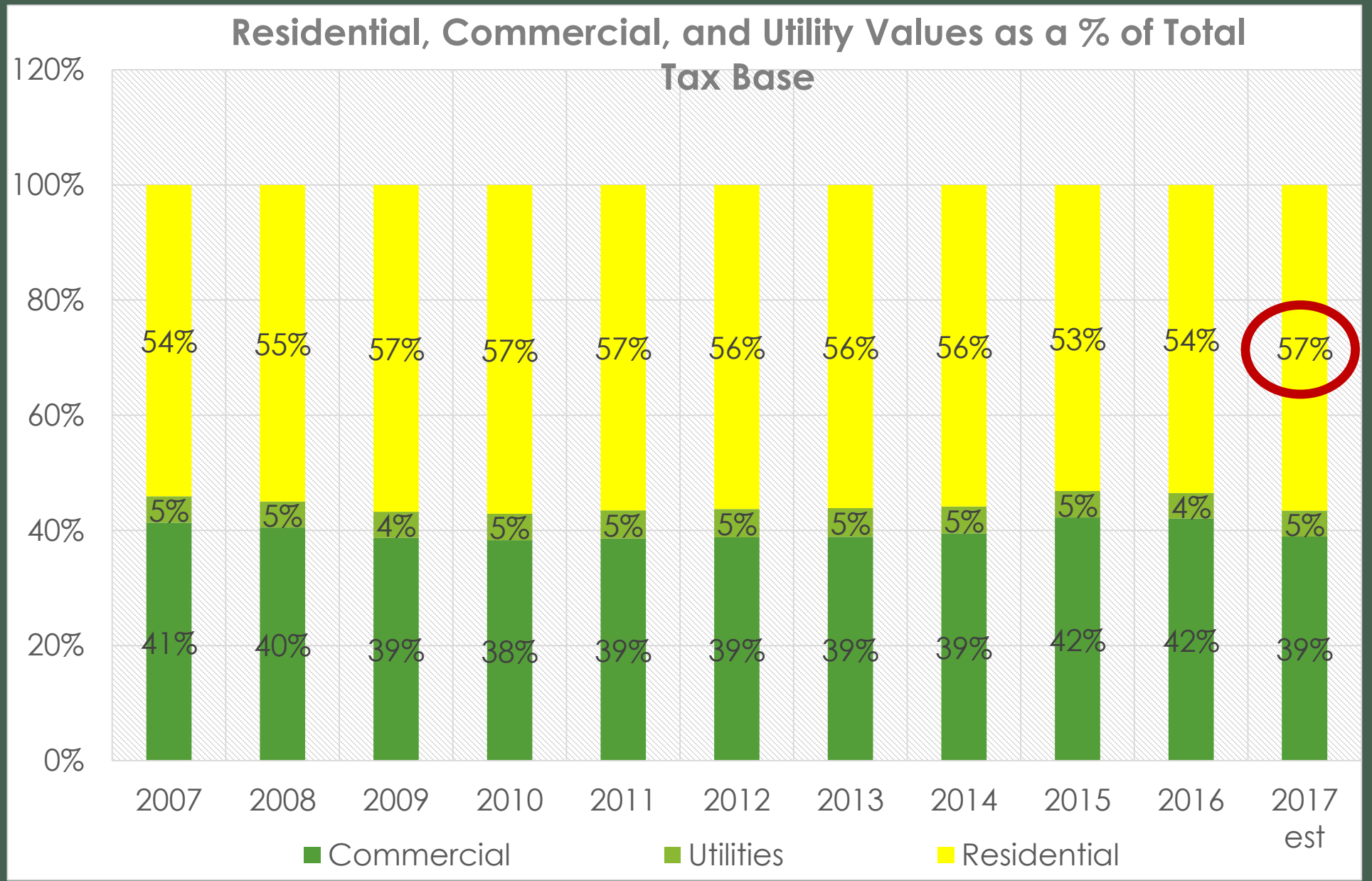
% of Total Valuation



Total Valuations Net of Exemptions 2017 (FY18)		
	Total Valuation	Parcel Count
Residential	\$3,106,304,150	7,195
Commercial	\$2,372,140,784	1,429
Totals	\$5,478,444,934	8,624

TAX BASE: RESIDENTIAL VS. COMMERCIAL

TAX BASE 2007- 2017



**2003
MASTER
PLAN**

Table 47: Portsmouth's Property Tax Base, FY 2003

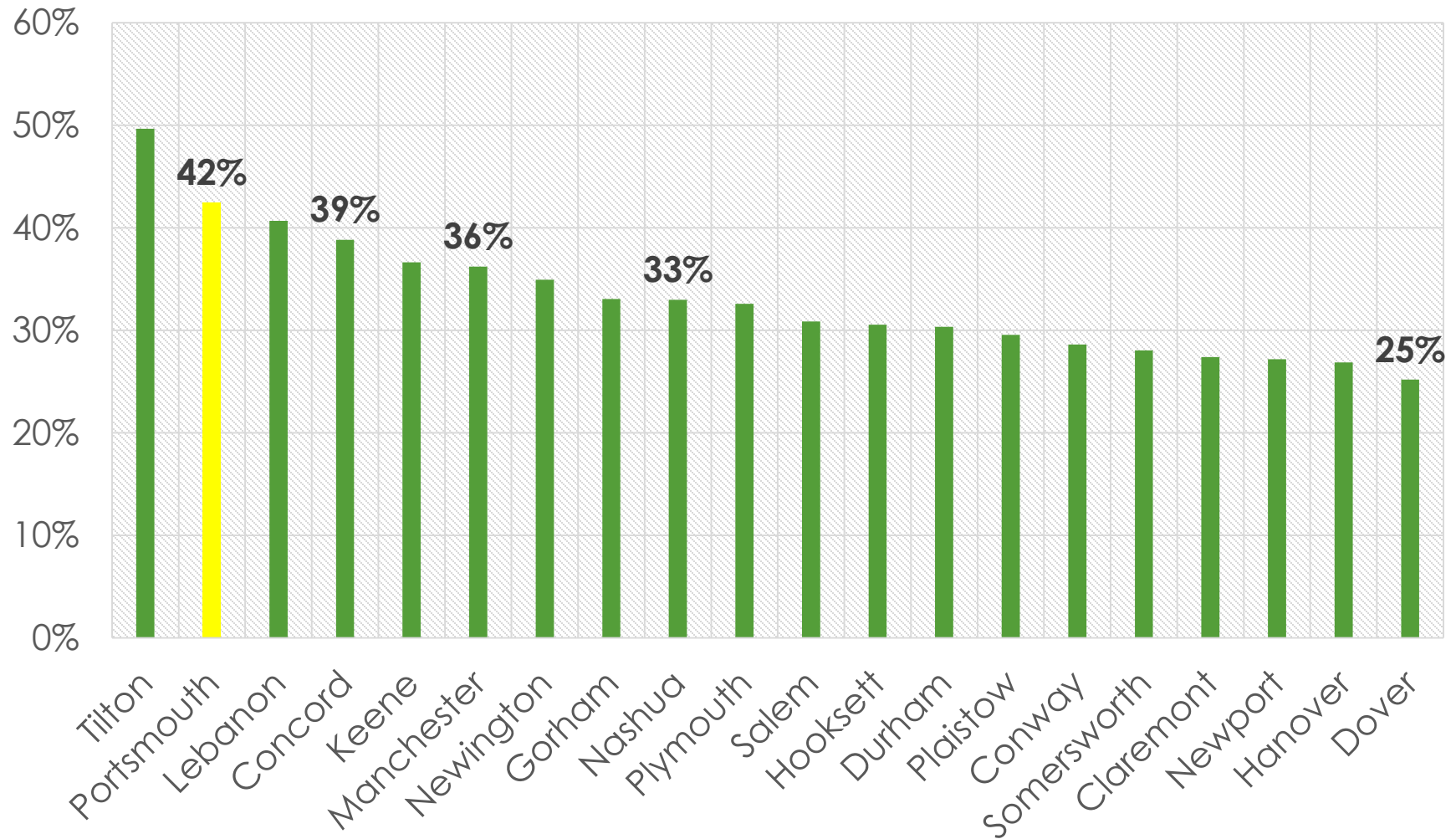
Classification	Assessed Value	% of Total
Residential	\$1,578,574,150	56.2%
Commercial	\$919,809,600	32.8%
Industrial	\$269,567,095	9.6%
Vacant & Agriculture	\$38,877,860	1.4%
Total	\$2,806,828,705	100.0%

Source: City of Portsmouth Assessing database

PORTSMOUTH'S COMMERCIAL BASE IS...

2ND IN THE STATE
FOR ITS % SHARE
OF THE CITY'S
TOTAL VALUATION

2016 Commercial Properties % of Total Valuation w/Utilities



FREQUENTLY ASKED QUESTIONS

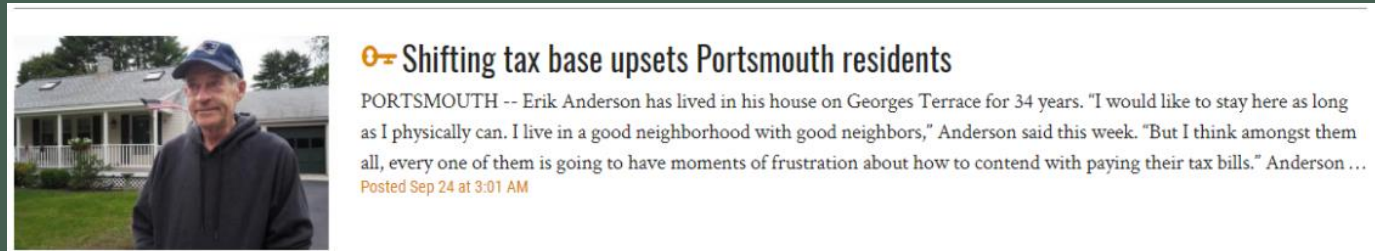
FREQUENTLY ASKED QUESTIONS

Q: Why are commercial properties paying less taxes than home owners?

A: They pay the same tax rate at 100% of their market value, just as home owners do.

The tax levy is derived by the amount of expenditures *less* revenues.

The tax rate is based on value of all taxable properties within the City.



Total Valuations Net of Exemptions 2017 (FY18)		
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Totals	\$5,478,444,934	8,624

FREQUENTLY ASKED QUESTIONS

Q: “I don’t quite understand the need for such high tax increases when our city’s budget is only increasing by approximately 3 percent.”

A:

- The City’s FY18 budget actually increased by 1.85% overall.
 - The tax levy increased by ~3% due one time uses of revenue in the prior fiscal year.
 - This is not a simple calculation. It is based on a combination of:
 - The increase in tax levy,
 - The revaluation, and
 - A resulting redistribution of value.
-

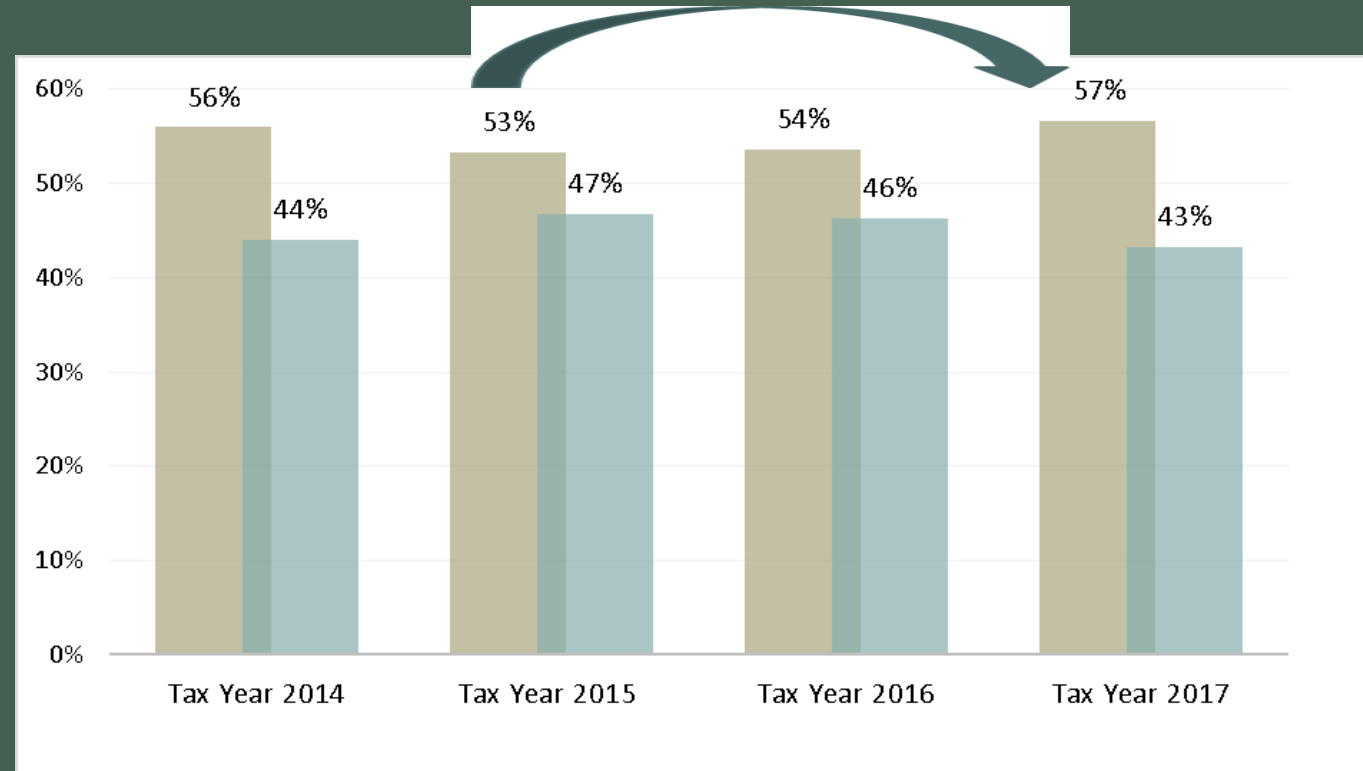
FREQUENTLY ASKED QUESTIONS

Q: How is it possible that commercial values have increased but the taxes they pay are going down?

A: Commercial market values did increase but the market for residential properties increased more.

The overall increase in values caused the tax rate to decline.

If commercial and residential market values increased at the same rate the balance would be the same with little to no tax difference from the prior year.



FREQUENTLY ASKED QUESTIONS

Q: How is all this development (hotels!) helping us? They cost more than they are worth!

A: From a quantitative view: studies show that commercial development more than “pays for itself.”

“it’s not what many residents, particularly those on fixed incomes, want to hear. It offers little comfort and the frustration remains.”

Municipality	Date of Study	Population	Open Space	Municipal Cost per \$1.00 of Revenue		
				Residential	Commercial	Open Space
Windham	2010	13,257	5%	\$1.05	\$0.28	\$0.57
Alton	1999	3,500	55%	\$0.92	\$ 0.54	\$0.52
Brentwood	2002	3,197	54%	\$1.17	\$0.24	\$0.83
Deerfield	1994	3,200	52%	\$1.15	\$0.22	\$0.35
Dover	1993	25,000	35%	\$1.15	\$0.63	\$0.94
Exeter	1997	13,000	25%	\$1.07	\$0.40	\$0.82
Fremont	1994	2,700	64%	\$1.04	\$0.94	\$0.36
Groton	1997	339	71%	\$1.01	\$0.12	\$0.79
Hooksett	2008	13,279	61%	\$1.16	\$0.43	\$0.55

A Meta-Analysis of Cost of Community Service Studies

Average		6653	49%	\$1.10	\$0.38	\$0.52
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The main findings of our analysis are the following. We find clear support for the common perception that residential land uses tend to have ratios greater than one, while commercial/industrial and agricultural/open-space land uses tend to have ratios less than one.

International
Regional Science Review
Volume 32 Number 3
July 2009 376-399
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10.1177/0160017609336082
<http://irsr.sagepub.com>
hosted at
<http://online.sagepub.com>

Q: The Hilton sold for \$44 million and is only assessed at **\$19 million** – isn't that proof that our commercial values are incorrect?

A: The Hilton sale price includes other factors besides real estate value.

The sale price for the real estate was \$19,400,000 per filing at the Registry of Deeds.

Portsmouth NH – 131 rms - \$19,400,500

Manchester Dwtm 126 rms - \$12,392,000

Portland Maine – 120 rms - \$10,717,000



Hilton sale price raises questions about revaluation

Posted Sep 24, 2017 at 4:35 PM

Updated Sep 24, 2017 at 4:35 PM



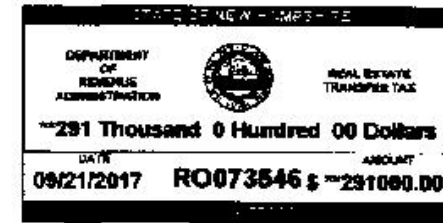
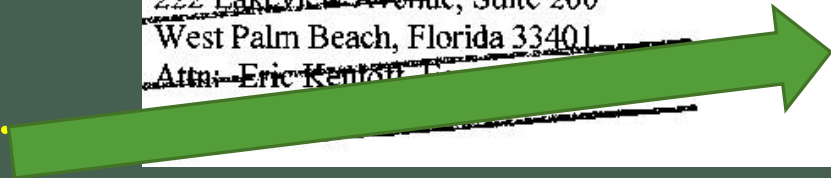
Sept. 24 -- To the Editor:

Those who question the recent revaluation of commercial properties do not have to look hard to support their arguments. Last week it was

BK 5855 PG 1829

After Recording Return to:

MAIL TO
Chatham Lodging Trust
222 Lakeview Avenue, Suite 200
West Palm Beach, Florida 33401
Attn: Eric Kenton



MARKET TRENDS

Why did Commercial Only Increase by 6%?

How is this “Apples to Apples” w/Residential?

What can we learn from observed trends?

FREQUENTLY ASKED QUESTIONS

Q: How do we know that Mr. Traub's assessment reflects the Portsmouth Commercial Market. What is the source of his data? How were his factors derived? There seems to be a disconnect...

A: The Uniform Standards of Professional Appraisal Practice Manual cites its sources.

This Manual is available on the City's Website, at the Library and the Assessors Office.

The screenshot shows the 'ASSESSOR' website header with a search bar. A navigation menu includes 'Tax Relief', 'Revaluation', 'Maps', 'Land Use', 'Resources', and 'Staff'. The breadcrumb trail reads: 'City of Portsmouth > Assessor's Office Home > 2017 Statistical Revaluation > 2017 USPAP COMMERCIAL ASSESSMENT MANUAL'. The main heading is '2017 USPAP COMMERCIAL ASSESSMENT MANUAL'. Below it, the table of contents lists three sections: 'Section 1 - Introduction and Letter of Transmittal', 'Section 2 - Scope of Work', and 'Section 3 - Valuation Premises and Procedures'. Each section has a list of sub-topics.

ASSESSOR

Tax Relief ▾ Revaluation ▾ Maps Land Use ▾ Resources ▾ Staff

City of Portsmouth > Assessor's Office Home > 2017 Statistical Revaluation > 2017 USPAP COMMERCIAL ASSESSMENT MANUAL

2017 USPAP COMMERCIAL ASSESSMENT MANUAL

Section 1 - Introduction and Letter of Transmittal

- **Introduction and Letter of Transmittal**

Section 2 - Scope of Work

- **Scope of Work**

Section 3 - Valuation Premises and Procedures

- **Basic Valuation Theory**
- **Sales Analysis**
- **Qualified Sales**
- **Sales Property Record Cards**
- **Income Data**
- **Vacancy & Expense Data**
- **CAP Rate Data**
- **Income-Vacancy-Expense Rental Adjustments**

SOURCE:

<http://files.cityofportsmouth.com/assessors/2017/2017USPAP-COM/CommercialRealEstateBrokersReports.pdf>

Source: Portsmouth Resident David Hudlin Communication to Council, 9/25/18

NEW HAMPSHIRE OFFICE MARKET SNAPSHOT

Submarket	Total Sq. Ft.	Vacant (Sq. Ft.)	Vacancy (%)	Avg. Asking Rent (NNN)
Amherst	267,263	2,400	0.9	9.75
Auburn	60,600	8,256	13.6	8.60
Bedford	1,898,427	205,362	10.8	13.50
Bow	79,155	25,000	31.6	9.00
Concord	2,442,191	295,771	12.1	13.50
Derry	228,162	54,146	23.7	12.00
Hooksett	321,472	20,868	6.5	9.00
Hudson	41,091	-	0.0	8.50
Londonderry	631,217	25,271	4.0	12.50
Manchester	7,778,168	879,237	11.3	12.75
Merrimack	2,144,014	113,514	5.3	12.25
Nashua	3,937,913	434,101	11.0	12.50
Salem	2,122,148	206,008	9.7	12.50
Windham	232,579	34,493	14.8	12.00
Total I-93/Route 3	22,184,400	2,304,427	10.4	11.31
Dover	1,674,535	137,043	8.2	10.00
Durham	184,688	0	0.0	8.50
Exeter	506,692	32,988	6.5	12.50
Greenland	70,947	3,200	4.5	11.50
Hampton	444,926	35,457	8.0	12.00
Newington	128,196	33,176	25.9	16.00
Newmarket	40,064	800	2.0	8.00
North Hampton	93,459	17,795	19.0	10.50
Pease	1,990,012	93,916	4.7%	16.50
Portsmouth	2,142,625	93,107	4.3	18.00
Rochester	582,419	166,545	28.6	7.50
Seabrook	76,149	0	0.0	9.00
Somersworth	213,370	14,400	6.7	8.50
Stratham	393,818	80,000	20.3	11.00
Total Seacoast	8,541,900	708,427	8.3	11.92
Overall NH Office	30,726,300	3,012,854	9.8	11.62

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Durham	184,688	0	0.0	8.50
Exeter	506,692	32,988	6.5	12.50
Greenland	70,947	3,200	4.5	11.50
Hampton	444,926	35,457	8.0	12.00
Newington	128,196	33,176	25.9	16.00
Newmarket	40,064	800	2.0	8.00
North Hampton	93,459	17,795	19.0	10.50
Pease	1,990,012	93,916	4.7%	16.50
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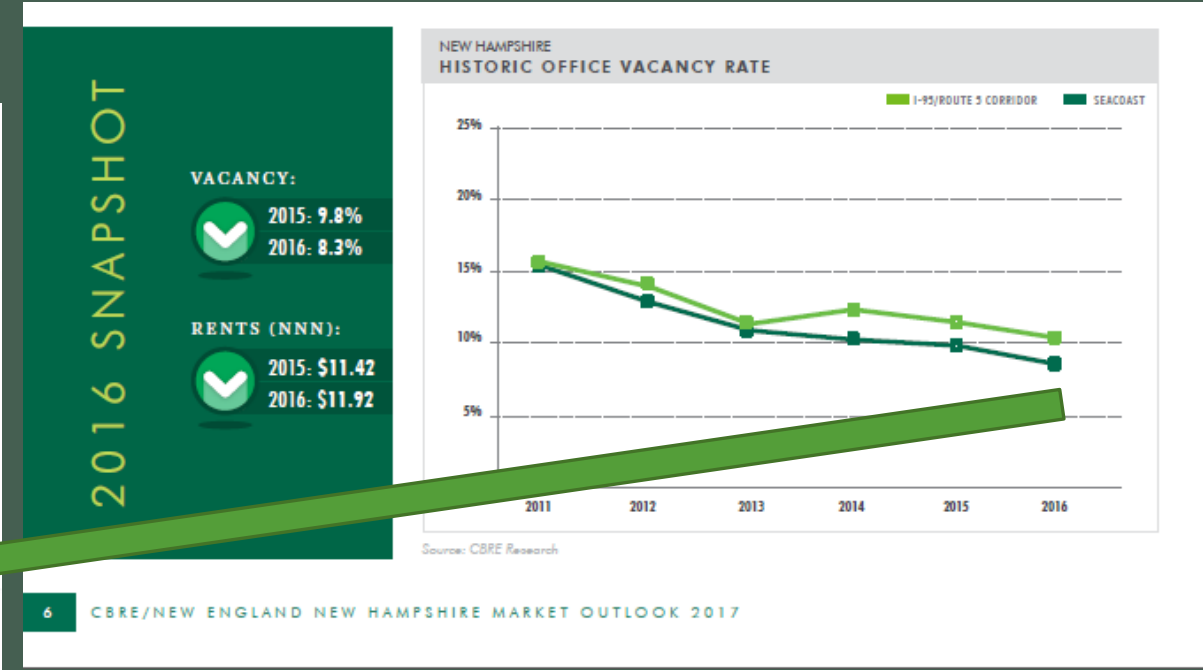
DOES THE DATA ALIGN? HOW?????

- ▶ **SOURCE:**
<http://files.cityofportsmouth.com/assessors/2017/2017USPAP-COM/CommercialRealEstateBrokersReports.pdf>

- ▶ **Source: Portsmouth Resident David Hudlin Communication to Council, 9/25/18**

Vacancy Data

Office	Area	Vacancy Rate	Source	Timeframe
Office	Portsmouth	4.3%	CBRichEllis	Q4 '16
Office	Pease Tradeport	4.7%	CBRichEllis	Q4 '16
Office Class A	Greater Portsmouth	4.9%	Colliers	Q2 '17
Office Overall	Greater Portsmouth	5.4%	Colliers	Q2 '17
Office Class C	Greater Portsmouth	5.9%	Colliers	Q2 '17
Office Class B	Greater Portsmouth	5.9%	Colliers	Q2 '17
Office	NH Seacoast	8.3%	CBRichEllis	Q4 '16
Office	New Hampshire	9.8%	CBRichEllis	Q4 '16
Office	Overall Average	6.1%		
Office	Portsmouth & Pease C	4.8%		



VACANCY



SOURCE:
<http://files.cityofportsmouth.com/assessors/2017/2017USPAP-COM/CommercialRealEstateBrokersReports.pdf>

Source: Resident Communication to Council, 9/25/18

COLLIERS INTERNATIONAL | NEW HAMPSHIRE

New Hampshire Office Trends

Portsmouth	3,951,097	212,562	5.38	3,738,535	94.62	209,062	5.29	200,748	5.08	8,314	0.21	\$23.54
Rochester	637,269	76,994	12.08	560,275	87.92	42,880	6.73	42,880	6.73	0	0.00	\$10.31
Salem	1,263,774	165,564	13.10	1,098,210	86.90	517,316	40.93	478,246	37.84	0	0.00	\$15.89
TOTAL	17,352,028	1,911,146	11.01	15,440,882	88.99	2,318,573	13.36	2,177,990	12.55	129,620	0.75	\$14.45

Vacancy Rates



Vacancy rate remains relatively flat while rental rates continue downward trend.

Asking Rental Rates (\$/SF/Yr Full Gross)



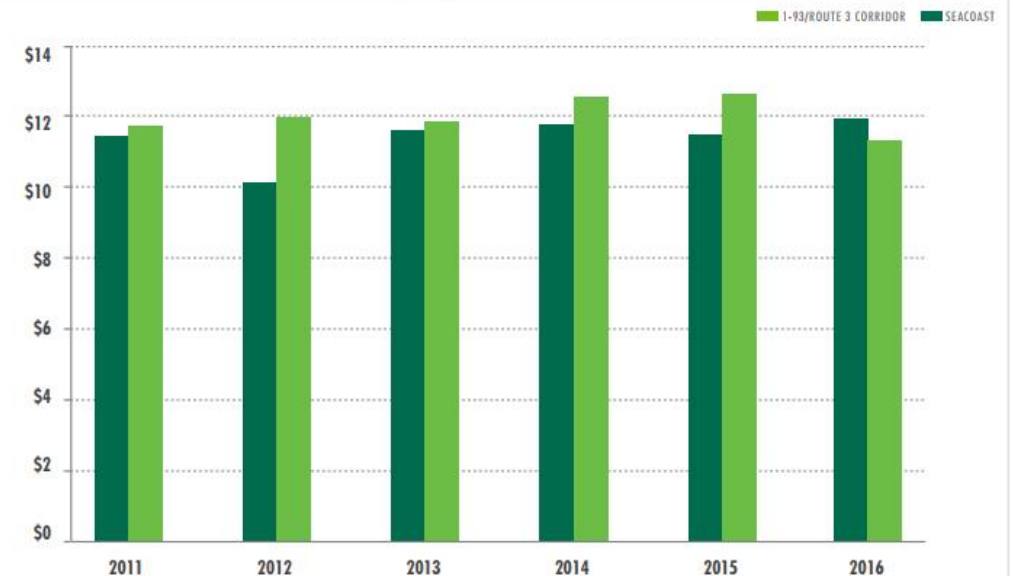
PORTSMOUTH/PEASE VS. THE REST OF THE MARKET

The New Hampshire Seacoast Office market consists of two independent submarkets—Portsmouth/Pease and the rest of the Seacoast. Following are a few facts that emphasize the Portsmouth/Pease market's impact on the overall Seacoast market:

- Portsmouth/Pease comprises 48% of the total Seacoast Office market
- Average asking lease rates in Portsmouth/Pease are \$5.00 per sq. ft. higher than surrounding communities
- **NNN expenses are higher, especially property taxes, in Portsmouth/Pease**
- Higher rents should spur new construction in Portsmouth/Pease

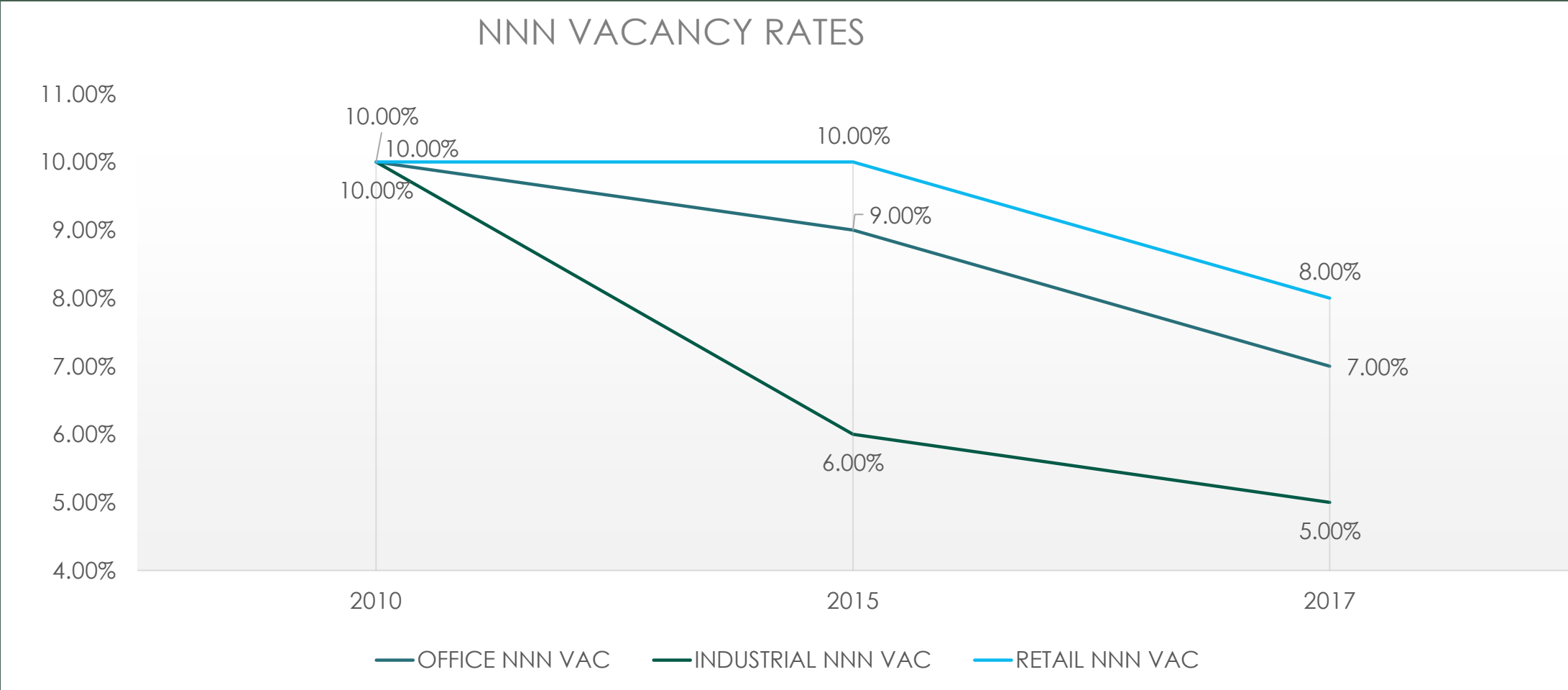


NEW HAMPSHIRE HISTORIC OFFICE AVERAGE ASKING RENT (NNN)



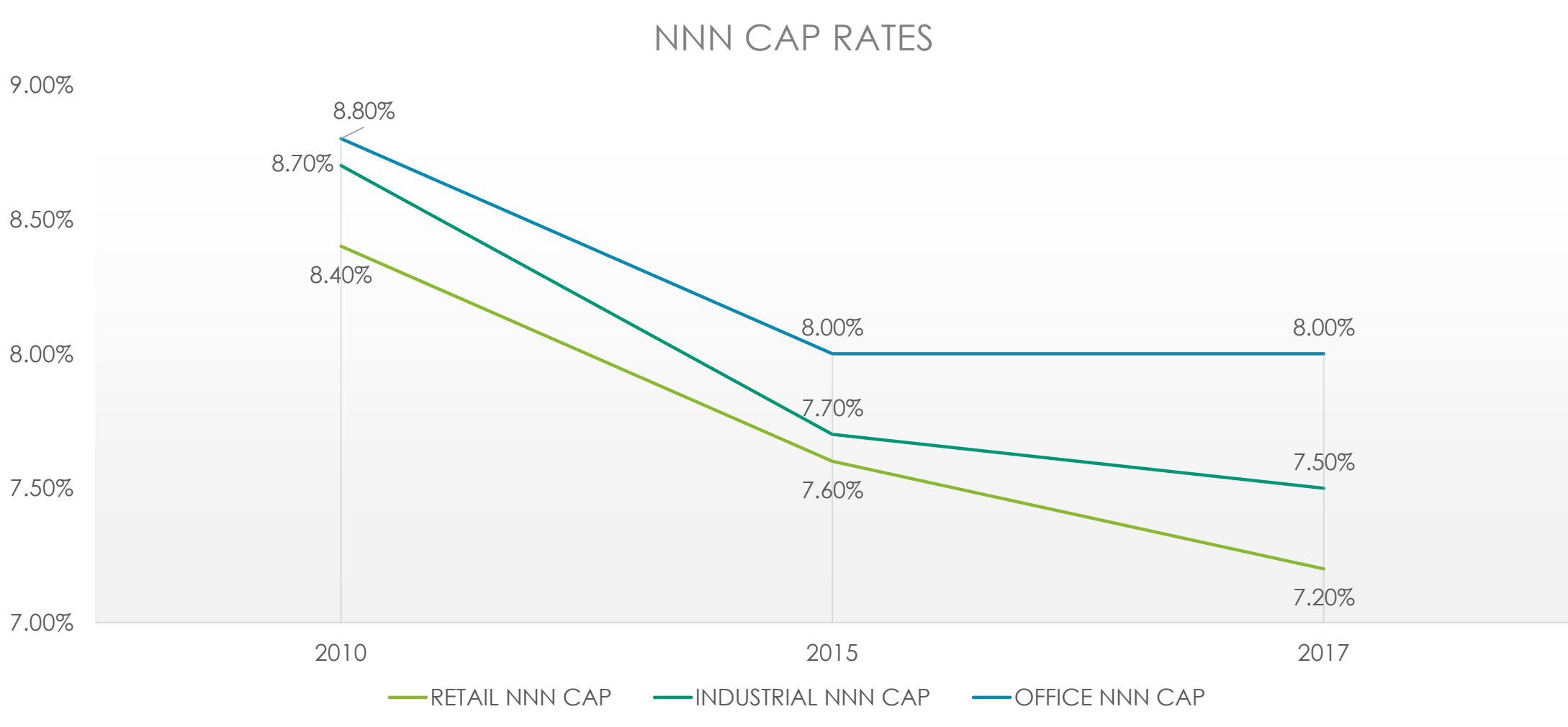
RENTS/S.F.

VACANCY RATE TRENDS



Source Data- PW Coopers 1Q-'17 Realtyrates Q1-2017, CBRE End 2016, Net Lease Advisor Class A&B, Other

CAP RATE TRENDS



Source Data- PW Coopers 1Q-'17 Realtyrates Q1-2017, CBRE End 2016, Net Lease Advisor Class A&B, Other

LAND VALUE TRENDS

ONE ACRE LAND VALUE TRENDS BY NBHD/TYPE

One Acre Assessed Land Value Trends by NHBD/TYPE						
NHBHD	Location/NHBD	2010	2015	2017	2010-15 % Change	2015-17 % Change
305	Downtown 4+ Story Hotel	\$ 2,000,000	\$ 2,100,000	\$ 2,310,000	5%	10%
305	Downtown Waterfront / 305	\$ 1,700,000	\$ 1,785,000	\$ 1,955,000	5%	10%
305	Downtown Market Square / 305	\$ 1,250,000	\$ 1,575,000	\$ 1,725,000	26%	10%
305	Downtown Low Rise / 305	\$ 1,000,000	\$ 1,050,000	\$ 1,150,000	5%	10%
	Avg Non-Downtown 60 Unit Motel	\$ 900,000	\$ 1,020,000	\$ 1,020,000	13%	0%
303	Woodbury Retail / 303	\$ 930,000	\$ 930,000	\$ 1,000,000	0%	8%
302	Islington / 302	\$ 444,000	\$ 480,000	\$ 576,000	8%	20%
	Avg Apt Land w 12 Units	\$ 460,800	\$ 508,800	\$ 556,800	10%	9%
304	DT Peripheral /304	\$ 480,000	\$ 480,000	\$ 530,000	0%	10%
302	Lafayette /302	\$ 370,000	\$ 400,000	\$ 480,000	8%	20%
301	Industrial/2ndry Commercial / 301	\$ 200,000	\$ 220,000	\$ 260,000	10%	18%
306	Tertiary Commercial / 306	\$ 200,000	\$ 200,000	\$ 220,000	0%	10%
Average		\$ 827,900	\$ 895,733	\$ 981,900	8%	10%
Note:						
	1/2 Acre at 70% of an acre					
	1/4 Acre at 50% of an acre					
	1/8 acre (5,445 SF) at 35% of an acre					

**WHAT OPTIONS DO WE
HAVE?**

Q: We are frustrated! What can we do to change things?

A: Petition the NH Legislators:

- ▶ 1) Enable the City to get its fair share of Rooms and Meals tax
- ▶ 2) Consider a Homestead Exemption
- ▶ 3) Give Assessors the same income and expense information that commercial appraisers have
- ▶ 4) Consider other ways to generate revenue in addition to local property taxes

An Overview of Property Income and Expense Information and its Impact on Property Assessments

ASB Subcommittee Report

Executive Summary

With property tax rates creeping upwards and increased scrutiny on municipal budgets throughout the state, it is critical to explore all possible efficiencies in government management. Tightening budgets and effective stewardship can be enhanced with careful consideration of existing systems currently in place. What stakeholder roles can be reconsidered? What regulation can be revisited? What changes can be implemented to enhance those efficiencies necessary to effect beneficial changes? The focus of this paper is to inform and educate the reader on one area of the property tax system which may benefit from a more intensive examination.

Why this issue is Important

...

FAIR AND EQUITABLE:

RSA 21-J:14-b charges the Assessing Standards Board with the establishment of standards for revaluations based on the most recent edition of The Uniform Standards of Professional Appraisal Practice (USPAP) Standard 6: Mass Appraisal, Development and Reporting. USPAP Standard 6 requires that "In developing a mass appraisal, an appraiser must be aware of, understand, and correctly employ those recognized methods and techniques necessary to produce and communicate credible mass appraisals." This paper explores what practices and procedures are necessary for assessors to comply with statute, how best to produce credible results in the most efficient

▶ Q: “Regardless of whether City officials can calmly explain the revaluation follows legal mandates and can point to an experienced commercial revaluation consultant, it is nonetheless looking like a broken and unfair system.”

▶ A: **Petition the NH Legislators!**

▶ **Consider other ways to generate revenue in addition to local property taxes!**

Civic patience taxed

By Karen Dandurant

Posted Sep 21, 2002 at 2:00 AM

Updated Dec 17, 2010 at 12:56 AM

for,” Hudlin said. “I am just frustrated with it. My challenge to the city is this: We are required to generate so much revenue to cover our budget. I would like to think we had some control over how to disperse the tax burden. I don’t know how, but there ought to be a way.”

He added, “The only fair tax is a broad-based tax, based on ability to pay taxes. I know that isn’t about to happen here, but there must be a way to incorporate some other factors in. That’s what they get paid to do.”

Q: Can We Simply Use the Valuation Prior to the Revaluation and Raise the Tax Rate Accordingly?

A: No.

DRA has advised us that this is neither recommended nor “technically achievable,” and taxes would increase disproportionately to market value.

We would knowingly be presenting values that are disproportional to each other. Appeals would increase, and that is clear from 2016 abatements.

Q: Should we do an Audit of Commercial Values?

A: No. For several reasons:

- ▶ **The revaluation is monitored and overseen by the Department of Revenue. We await their review**
 - ▶ **We have an experienced Assessor who also reviews the revaluation**
 - ▶ **We have not seen any evidence that the values are not representative of market value, despite the frustration of taxpayers**
 - ▶ **It would be timely and expensive**
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DISCUSSION

The Income Method of Real Estate Appraisal and Valuation

Understanding the Numbers

Updated August 22, 2017

This Method Is Used for Income Properties

If a property's use is to be to generate income from rents or leases, the income method of appraisal or valuation is most commonly used. The net income generated by the property is used in conjunction with certain factors to calculate its value on the current market if sold.

Income Approach — Income and Expense and Vacancy Data: As previously described, the "Income Approach" is based upon the principle of "anticipation" which recognizes that value is created by the owner's expectation of future benefits. Typically, these benefits are anticipated in the form of income, and/or in the anticipated increase in the property's value over time. Therefore, a primary consideration is the relative level of anticipated income and expenses a property is likely to achieve, and "base" rates for both income and expenses must be established. Consequently, research was undertaken in order to identify the appropriate "base" levels of income and expenses for each commercial property "use" type, such as apartments, office, retail, industrial, etc.

THE INCOME APPROACH TO VALUE

INCOME APPROACH TO VALUE

Income Approach to Value					
	Industrial Property		Units/SF	Rent/SF	Total
Potential Gross Income			53,874	x \$ 6.06	= \$ 326,476
	Vacancy Allowance	5%			\$ (16,324)
Effective Gross Income					\$ 310,153
	Expense Ratio	11%			\$ (34,117)
Net Income					\$ 276,036
Divided by The Cap Rate					÷ 7.50%
Indicated Income Value (rounded)					\$ 3,680,000

COST APPROACH TO VALUE

Cost Approach to Value				Size/SF	Adj Price per SF	Total
Land Value				204,732	\$ 4.7755	\$ 977,700
Building Value						
	Building Replacement Cost New (RCN)				\$ 3,177,500	
	Depreciation (Age 1995 Condition Avg.)			-18%	\$ (572,000)	
	RCN Less Depreciation				\$ 2,605,500	\$ 2,605,500
	Paving					\$ 31,500
Indicated Cost Value						\$ 3,614,700

CHANGE IN EQUALIZED VALUATION

Equalization is the process of equalizing local assessed values for each NH municipality in order to bring the values to 100%.

