STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
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No. 77/10

January 20, 1977

TO COUNTY ASSESSORS:

VALUATION OF SECTION 236 HOUSING—SUPPLEMENT

This letter is to supplement assessors' letter No. 76/157 of the same title and dated September 24, 1976. The additional data are intended to clarify the valuation principles for those projects that are in poor financial condition and likely to be repossessed.

The Attorney General has stated that Section 236 properties should be valued as subject to an enforceable restriction pursuant to Section 402.1 of the Revenue and Taxation Code. Section 402.1 provides that the appraiser must consider the effect upon value of any enforceable restriction to which the use of the property is subjected. Property may be appraised, however, on the basis of a use other than that allowed by an enforceable restriction if it can reasonably be concluded that it is possible to have the restriction changed. Grounds for rebutting the presumption can include past history of like use restrictions in the jurisdiction in question.

Therefore, if the only logical "market" for a particular project is by way of the foreclosure process, the history of other comparable projects that have been foreclosed can be considered. If the history shows that foreclosed projects are resold minus restrictions, the property facing foreclosure can be valued accordingly. Or if past history shows some other eventual outcome for the distressed properties, the appraiser can and should consider this in his valuation approach. Obviously, if foreclosure appears remote, a property should not be valued by reference to the value of properties in distress.

It must be emphasized that 236 housing projects are to be considered individually, especially when estimating the shape and duration of the income stream. Likewise, the capitalization rate may vary from project to project depending upon the individual circumstances.

In the final analysis, the appraiser should appraise the property at a value equivalent to the price a knowledgeable buyer would pay for the property; a knowledgeable buyer being one who is aware of the ramifications of the applicable restrictions, inherent management problems, financial limitations, and the foreclosure options.

Sincerely,

Jack F. Eisenlauer

Jack F. Eisenlauer, Chief
Assessment Standards Division

JFE:sk