



**STATE BOARD OF EQUALIZATION**

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December 14, 1977

No. 77/173

TO COUNTY ASSESSORS, BOARDS OF EQUALIZATION, AND ASSESSMENT APPEALS BOARDS

VALUATION OF SECTION 236 HOUSING SUBSEQUENT  
TO AMENDMENT OF SECTION 8, TITLE 18, CALIFORNIA ADMINISTRATIVE CODE

On September 27, 1977 the Board approved an amendment to Rule 8 that deleted the following sentence from paragraph (c):

"Gross return includes interest subsidy payments, if any, made by the government on behalf of a property owner whose property is subject to government rent control."

The position of the Board's appraisal staff on valuation procedures applicable to property funded by the Federal Government's 236 Interest Subsidy Program is set out in letters to assessors dated September 24, 1976 (No. 76/157), and January 20, 1977 (No. 77/10).

On August 18, 1977 the Board, prior to the public hearing for the amendment to Rule 8, directed a letter to "Area Directors of Housing Management Divisions, U. S. Department of Housing and Urban Development." The purpose of this letter was to notify any interested party that the Board has no control over individual assessments. The implication is that if the interested party believed that an assessment was improper then relief should be sought through the assessment appeals process. This letter is the subject of some misinterpretation in that appeals applicants are citing the Board letter as a sole authority in attempting to demonstrate that their properties are improperly assessed.

Property owners, assessors, and assessment appeals boards should understand that the Board's action in amending Rule 8 provides greater discretion to assessors in the appraisal of 236 property. The Board's action is not a declaration that current appraisals by assessors are inaccurate.

For appeals involving 1977 assessments, it should be noted that the effective date of the amendment is November 25, 1977; hence, the amended version is not applicable to assessments on the 1977 assessment roll. In appraising 236 property for the 1977 assessment roll, the assessor was directed under provision of Rule 8 to include the interest subsidy payment as part of the gross income to the property. The assessor will have greater latitude in the appraisal process for 1978 assessments of these properties because of the recent amendment to Rule 8.

TO COUNTY ASSESSORS, BOARDS OF  
EQUALIZATION, AND ASSESSMENT  
APPEALS BOARDS

-2-

December 14, 1977

The assessor may choose not to include interest subsidy payments as income when making appraisals for the 1978 assessment roll. If the subsidy payment is not included as gross income, good appraisal procedure dictates that the capitalization rate reflects the low rate of interest paid by the owner. Shown below are examples of how an overall capitalization rate may be derived using a version of the band-of-investment technique. The first example would be applicable if the interest subsidy is included as income.

Band-of-Investment — 40 years at 8%

90% x .0840 mortgage constant =	.0756
10% x .0600 equity =	.0060
Allowance for taxes =	<u>.0300</u>
Overall capitalization rate	.1116
Say	11.2%

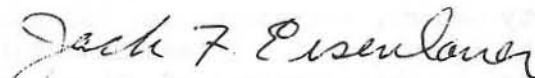
When the interest subsidy payment is not included as income, the following is a suggested method for developing an overall rate.

Band-of-Investment — 40 years at 1%

90% x .0304 mortgage constant =	.0274
10% x .0600 equity =	.0060
Allowance for taxes =	<u>.0300</u>
Overall capitalization rate	.0634
Say	6.3%

The income approach is the preferred approach until such time as sales data are available. Section 236 properties should always be considered individually, especially when analyzing the income stream and developing the capitalization rate. A technique acceptable for one project may be a poor approach for another.

Sincerely,



Jack F. Eisenlauer, Chief  
Assessment Standards Division

JFE:sk

cc: Area Directors of Housing Management Divisions,  
U. S. Department of Housing and Urban Development