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CHANGE IN OWNERSHIP OF PROPERTY UNDER CONSTRUCTION

When a property changes ownership, a new base year value is established at the current fair market value on the date of the change in ownership.[49] If a property changes ownership with partially completed improvements transferred, the partially completed improvements are no longer considered construction in progress. Instead, the partially completed improvements should be valued as part of the entire property that changed ownership and a base year value established on the date of the change in ownership.

VALUATION OF CONSTRUCTION IN PROGRESS

Determining the value of construction in progress may present a difficult appraisal problem. The same methods and principles that apply when valuing completed improvements are applicable to construction in progress. However, the procedure is usually more difficult due to a lack of market data. The income and sales comparison approaches are of limited use because property under construction is typically not producing any income, and it is difficult to find comparable sales of partially completed projects.

The cost approach is nearly always used in the earliest stages of construction. The cost approach is used to determine the amount of costs in place relative to the partially completed project on the lien date. The total of costs in place on the lien date may be higher or lower than the market value of the new construction in progress on the lien date. When property is completed or close to completion, the sales comparison approach is ~~generally~~ more reflective of fair market value.

CASE STUDY

In May 2001, a taxpayer who ~~was a building contractor~~ purchased a five-acre lot for $200,000. On this lot he planned to construct a 5,000 square-foot home to be used as his personal residence. He obtained a building permit on August 1, 2001 at a cost of $3,000. In addition, the owner had to submit a soil report at a cost of $4,000. School fees at a rate of $3.75 per square foot ($3.75 x 5,000 square feet = $18,000) were also required for all new construction within the county. On lien date, January 1, 2002, the owner had completed phase one of the project, which included the following alterations to the land:

- Site preparation work was completed on October 1, 2001. This work included grading and leveling two acres at a cost of $7,000. The owner graded the land himself. The cost of grading reflected only the rental of the earth moving equipment and grading plans.
- On November 1, 2001, he completed a six-inch thick retaining wall made of steel, concrete, and stone. The retaining wall was six feet high and 120 feet long. In building the wall, the owner used materials that were left over from prior building projects. The total cost of building the retaining wall was $7,000 consisting mostly of labor and some materials.

[49] Sections 50, 75.10(a), and 110.1(a) and (b).

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On December 1, 2001, the owner obtained a set of architectural design plans for a 5000 square-foot house with six bedrooms and six bathrooms for $15,000. Also included in the plans were designs for the construction of a modern barn and in-law quarters.

On January 10, 2002, the appraiser from the assessor's office appraised the new construction to the land. She noted that since the owner is also the builder, certain reported costs may not reflect the true market cost of construction. She evaluated the costs reported by the owner and compared them to true economic costs as follows:

- Cost of leveling and grading similar land sites in the county is $10,000 per acre. She enrolled $20,000 for land leveling and grading of the two acres of the subject lot.

- The owner-reported cost of the retaining wall was not consistent with local norms. The county appraiser determined that the retaining wall should be considered land improvements.[50] The county appraiser used Assessors' Handbook Section 531, *Residential Building Costs*,[51] to obtain an estimated cost of building the retaining wall. She enrolled $14,000.

The county appraiser's treatment of the first phase of the construction, considering actual costs versus economic costs, is shown below.

Phase One of the Construction		
Description	**Owner-Reported Costs**	**Economic Costs (Enrolled)**
Grading and Leveling (2 acres)	$7,000	$20,000
Retaining Wall	$7,000	$14,000
Building Permit Fee	$3,000	$3,000
Soil Report Cost	$4,000	$4,000
Total Phase One Costs	***$21,000***	***$41,000***

value Date: 1/10/2002

In January 2003, the county appraiser returned to the property to inspect phase two of the construction and to appraise the construction in progress. She noted the following had taken place:

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[50] Rule 121 provides that when materials, such as concrete, are added to land to render it amenable to being built upon, the land together with the added materials remains land.

[51] Published annually by the State Board of Equalization.

Phase Two of the Construction		
Description	**Owner-Reported Costs**	**Economic Costs (Enrolled)**
Foundation	$20,000	$20,000
Framing	$15,000	$25,000
Roof	$20,000	$20,000
Sheathing and Stucco	$10,000	$12,000
Electrical Rough-ins	$10,000	$13,000
Plumbing Rough-ins	$15,000	$15,000
Architectural Plan Fee	*$10,000	*$10,000
Total Phase Two Costs	***$100,000***	***$115,000***

*Prorate to exclude fee for design of the barn and in-law quarters

LD 2003

The total cost of construction reported by the owner for 2002 ($100,000) was lower than the local norm ($115,000). Certain work was done by the owner himself, while other work was done by specialized subcontractors. In either case, most of the reported costs did not reflect the true costs of construction, but represented a discounted cost as the owner used his extensive contacts within the industry to obtain favorable prices from subcontractors and materials suppliers. The appraiser enrolled true economic costs which more accurately reflected market costs.

In January 2004, construction in progress was 90 percent complete, with the exception being the basement and yard improvements. Upon final inspection from the building department, the owner and his family moved into their new home on April 1, 2004. Reported cost of construction for 2004 was $150,000. Total cost reported by the owner to date for improvements was $100,000 in 2003 and $150,000 in 2004 for a total of $250,000. LD 2003

The county appraiser informed the owner that the date of completion is the date the property or a portion of it is available for use after final inspection by the appropriate governmental official,[52] in this instance April 1, 2004. Furthermore, the county appraiser advised that on the date of completion, the completed portion of the newly constructed property must be appraised and assessed at its full market value. Any subsequent construction would be considered construction in progress and continue to be appraised at its market value on the lien date and every lien date thereafter. The base year value of the land was calculated as follows:

[52] Rule 463(e).

• Acquisition of land in 2001	$200,000
• Land improvements on value date 1/19/2002	$41,000
• 2001 base year value of land	$241,000

The county appraiser used the comparative sales method to estimate a total value of $800,000. Properties with similar characteristics in the area were selling for $800,000. Land parcels of similar size were selling for $300,000. The value of improvements was calculated as follows:

$800,000 - $300,000 = $500,000*

*Included an increment for the countywide school fees

However, a portion of the $500,000 value is reflected in the improvements to land. Assuming that the comparable properties have similar characteristics, an adjustment must be made to avoid double assessment

The base year value of land and improvements was enrolled as follows:

2001 base year value of land	$2~~41~~00,000
2002 BYV Land Imps	41,000 $241,000
	x1.05980
Adjusted base year value of land in 2004	$255,412
2004 base year value of improvements	$500,000
	-50,000
Current market value of improvements to land	$450,000
	$255,412
	+$450,000
Total Assessed Value	$705,412

The assessor enrolled a base year value of ~~$705,400~~ $705,412 for the property as of the date of completion of the new construction, April 1, 2004. The allocation was $450,000 for improvements and ~~$255,400~~ $255,412 for land.