LOB #102

REAL ESTATE ASSESSMENT - COMMERCIAL

Purpose

This LOB reflects the valuation of commercial properties as mandated by Virginia Code §§ 15.2 and 58.1; Fairfax County Code, Chapter 4; and the Constitution of Virginia, Article X. In pursuing DTA's vision of "Generating Revenue Fairly", the Commercial Branch of the Real Estate Division is committed to ensuring that the valuation and taxation of commercial properties is completed in a timely, accurate and uniform manner throughout the County while adhering to professional standards.

Description

The Commercial Team within DTA's Real Estate Division is responsible for the annual assessment of all commercial real estate for the purpose of ad valorem taxation. Real estate assessments generate approximately $2.4 billion dollars in General Fund revenue, and almost 25 percent of that revenue (including Commercial/Industrial property at 18.67 percent and 5.69 percent for apartments in FY 2016) is generated by commercial properties. The principal responsibilities under this LOB include the following duties:

- Verification of all commercial sales data
- Maintenance of commercial property records
- Discovery of new commercial construction
- Analyzing the impact on commercial value created by land rezonings and breakdowns
- Annual revaluation of all commercial property
- Appeal (both administrative to DTA and Board of Equalization) and litigation defense

Assessments must be at fair market value and comply with legal mandates set forth in the Constitution of Virginia, the Code of Virginia and the Fairfax County Code.

Benefits

The Real Estate Division annually assesses over 11,100 commercial parcels, valued at more than $55 billion. The Real Estate Division also provides revenue forecasts for DMB and senior County management. Fully supporting the County vision element of Exercising Corporate Stewardship, real estate taxation provides approximately 64 percent of the County's General Fund revenue, which is used to fund education, public safety and all other General Fund programs. Of this amount, this LOB contributes approximately $602 million in General Fund revenue annually.

Additionally, homeowners, mortgage companies and other real estate professionals, including agents, fee appraisers, title examiners and settlement attorneys depend on the accuracy and availability of real estate assessment data.

Mandates

This LOB is fully mandated. The assessment of real property, both commercial and residential, is mandated by Virginia Code §§ 15.2 and 58.1; the Fairfax County Code, Chapter 4; and the Constitution of Virginia, Article X.

Trends and Challenges

Office properties make up the largest part of the commercial tax base in the County. Currently, office vacancy is higher than it has been since the early 1990's. A significant portion of the County's office stock was built in the 1980's or earlier. The Fairfax County office market has been very dependent in the past on federal procurement spending, particularly in the defense arena. The effects of sequestration and cuts in defense spending, coupled with the federal government reducing the amount of office space leased per employee, has had a significant impact on office vacancy in the County. This contributes to the number of commercial Board of Equalization appeals and litigation filed with the Fairfax Circuit Court.

The last commercial real estate bubble led to a significant spike in commercial tax litigation. The number of court cases soared from a typical handful of cases per year to nearly 100. DTA's Commercial Team was able to work with the County's Office of the County Attorney to defend these court cases over the last couple of years with minimal impact to County tax revenue. Given the significant values involved, and litigious nature of tax representation, this area always remains a potential challenge in the commercial arena.

Urbanization of the County is leading to redevelopment of areas newly served by Metro rail (Tysons and Reston). These areas are seeing new office and complex mixed use development. This type of new development can lead to a flight to quality, with tenants leaving older, lesser quality buildings for newer, higher quality buildings. These new buildings are more energy efficient, have fresher design, and have floor plates that are more desirable in the current market. With tenants taking less space per employee, buildings with less space per floor are generally more desirable than buildings with more space per floor.

The challenges of valuing the office market in Fairfax County present a distinct dichotomy. On the one hand, there is the development of Tysons transitioning from an area of disjointed office parks to a walkable urban core. This will present new challenges to the Commercial Team to forecast revenue, capture the value of high density rezonings and new construction, and defend the values of what will be very complex and valuable property. On the other hand, there is the challenge of valuing older office properties in other areas which may have high levels of vacancy.

The Commercial Team also defends the bulk of the Board of Equalization appeals filed in Fairfax County. The vast majority of these appeals are filed by a handful of firms that specialize in filing real estate tax appeals. The Commercial Team typically works about four to five months per year defending Board of Equalization appeals against these sophisticated firms of attorneys, appraisers, and accountants. This requires Commercial staff to attend hearings, principally at night, that are held three times per week from August through November/December.

These tax representatives are firmly entrenched in the marketplace. It is expected that a significant number of appeals per year will continue to be filed.

Another challenge is succession planning. A number of senior appraisers will be retiring before the end of FY 2017, and the learning curve for new employees can be significant. Fortunately, DTA has been able to groom a solid cadre of appraisers and has also used underfill agreements as training opportunities in the past; at the same time, DTA also actively recruits qualified appraisers from the private sector. This is expected to continue to be a balancing act for the near future.

Resources

Category	FY 2014 Actual	FY 2015 Actual	FY 2016 Adopted
LOB #102: Real Estate Assessment - Commercial			
FUNDING			
Expenditures:			
Compensation	$2,065,197	$2,088,018	$2,182,060
Operating Expenses	289,778	297,414	266,183
Total Expenditures	$2,354,975	$2,385,432	$2,448,243
General Fund Revenue	$171,351	$166,759	$168,805
Net Cost/(Savings) to General Fund	$2,183,624	$2,218,673	$2,279,438
POSITIONS Authorized Positions/Full-Time Equivalents (FTEs)			
Positions:			
Regular	28 / 28	28 / 28	28 / 28
Total Positions	28 / 28	28 / 28	28 / 28

Metrics

Metric Indicator	FY 2013 Actual	FY 2014 Actual	FY 2015 Actual	FY 2016 Estimate	FY 2017 Estimate
Commercial Properties Valued	11,139	11,133	11,125	11,122	11,200
Commercial Sales Verified	444	467	433	302	300
Commercial Permits Worked	2,297	3,797	2,905	3,320	3,800
Commercial Appeals Worked	506	461	491	502	525
Commercial Base-Equalization (Assessed Value)	$47,331,523,650	$49,146,319,040	$49,059,054,760	$48,609,273,560	TBD
Commercial Base – Growth (Assessed Value)	$4,635,389,060	$3,822,163,310	$4,984,972,900	$6,590,015,400	TBD
Commercial Assessment/Sale Ratio	93.36%	92.14%	92.90%	92.41%	95.00%
Commercial Coefficient of Dispersion	7.49%	9.47%	8.03%	6.22%	7.00%

Although the number of commercial properties valued has not changed significantly from FY 2013 to FY 2016, there have been a significant number of changes to those properties as evidenced by the number of permits worked by staff during that time, as well as the upward changes in value for both equalization and growth (new construction).

Two key statistics used by the assessment industry to measure effectiveness are the Assessment to Sale Ratio (ASR) and the Coefficient of Dispersion (COD). The ASR measures assessment level. The Constitution of Virginia mandates that all property should be assessed at fair market value. The dynamic and heterogeneous commercial market increases the complexity of the appraisal process for commercial property. For income producing properties, DTA staff uses an income capitalization approach which takes into account numerous factors, to include rents, operating expenses, capitalization rates and building vacancy.

Given the statutory emphasis on uniformity in assessing, it is a balancing act for commercial staff to not undervalue newer properties in urban core locations while not exceeding fair market value in older properties, particularly office building with high levels of vacancy.

Based on these factors, an ASR in the low to mid-90 percentile is deemed to be highly reflective of fair market value without over-assessing properties. DTA's ASR is well within professional standards. It is also important to note that this measure is against a sales volume of only about 150 sales per year, or just over 1 percent of all taxable properties.

The Coefficient of Dispersion (COD) is a statistic that measures the uniformity of all assessment-to-sale ratios among all commercial properties within the County. The Commercial Coefficient of Dispersion for FY 2016 was 6.22 percent. By comparison, an index of 15 percent is considered good by professional assessing standards. The index for Fairfax County falls in the excellent category, indicating a high degree of assessment uniformity.

Factors that contribute to a high level of performance are staff stability (low turnover), careful quality review, and a stable market.