

# Waterfront Valuation by Doug Tichenor

(Assessor for the Towns of Harrietstown, Brighton, Santa Clara, and Franklin)

## • Introduction

- I have some of the most diverse waterfront in North America in the towns I work in – from swamp flowage to beautiful, pristine deep water lakes. I've gotten quite a few sales recently and these waterfront sales are probably the most driving economic force in this whole region, as many of you well know.
- We, as assessors, differ from general real estate appraisers in the fact that we have to value property according to its current use, for assessment purposes. Plus, we have to depict these values on the assessment roll as "land" and "total" – which is land, buildings and the total value. I've found that that when a property owner comes in to talk about their assessment, they tend to pick apart the land value mostly. I've had lots of people say, "Well, I've got no problem with the building, it's the land I've got issues with here."
- When conducting municipal mass appraisals, we depend on developing a model to assist in predicting the market value of improved property. Market value is a range of value. When estimating market value, the International Association of Assessing Officers' standards indicate an acceptable plus or minus range of 10% in urban areas and 20% in rural areas.
- In simple terms, if we assessors fall into this plus or minus range, when a new sale crosses our desk, we feel like we nailed it. Our Computer Assisted Mass Appraisal models – the CAMA models – no matter how much we groom them, can often predict a total value that does not make sense in relationship to land value. Especially in rural towns with diverse types of land with many different variables influencing the marketplace.

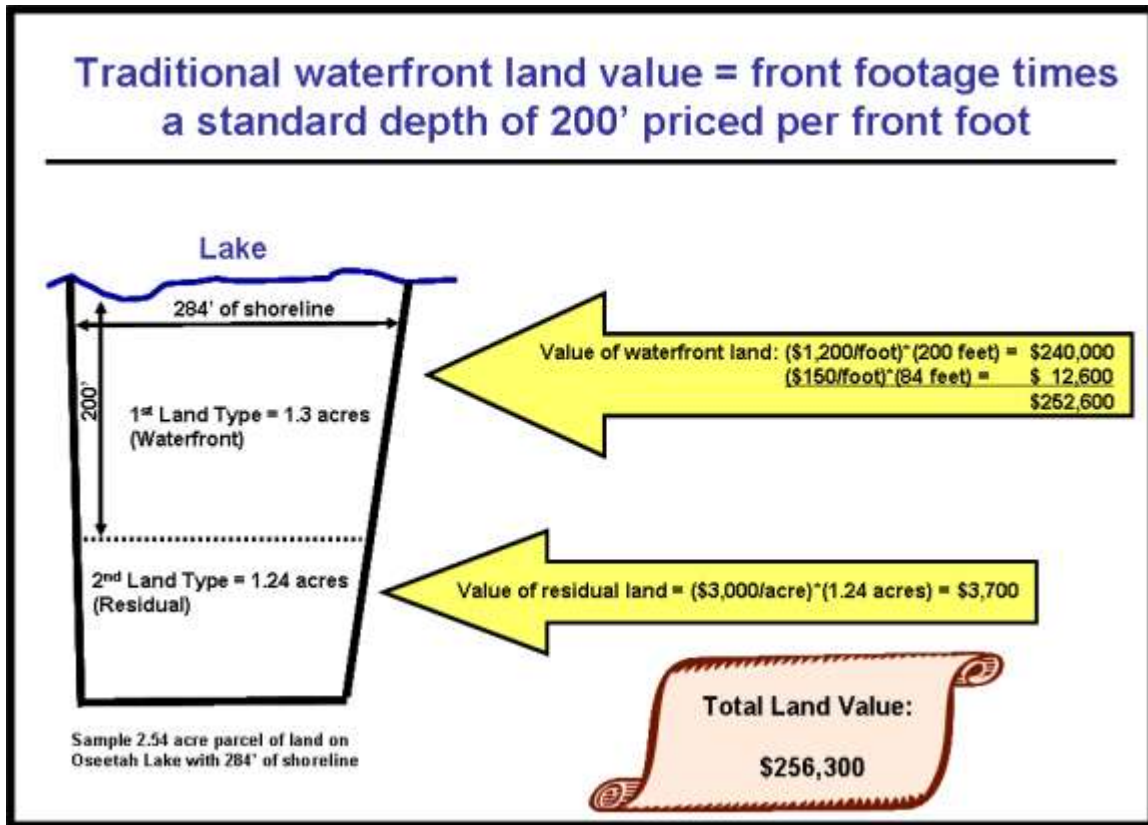
## • Traditional Waterfront Assessment Approach

- In estimating land value, we first must break the parcel into its land types during the data collection phase. We then build our land valuation tables into the computer program by assigning prices to the various land types. These prices are derived from sales in the local marketplace and can be expressed as dollars per acre, or dollars per front foot, or per square foot. We get to choose. The goal is to come up with a uniform contributory value increment that reflects the market and can be applied to similar property that has not sold.
- Simple building lots are pretty easy. You find sales of lots that have sold, break them apart, and build a land schedule from that.
  - My method is to collect the first acre as either an undeveloped site, a 03 site, or as a primary site, which is a 01 site. I classify a site as primary if it is developed with water, septic, electric and/or a driveway on site.
  - The residual land, after the first acre is collected, is considered to be either residual, woodland, tillable, etc.
- The first acre site value is valued high. It's front end loaded. And the residual acreage is valued using a sliding scale, reducing the value per acre as the lot increases in size, to show an economy of scale. I'm sure we all do this in some fashion.
- I employ a bottom line price per acre where the sliding scale stops. For instance, if I'm valuing forest land, the first 25 acres might be \$3,000 per acre, but once I get out to 200 acres, it's bottomed out at \$700 per acre. So, the scale levels off at that point.
- Waterfront presents a unique challenge. Sales are difficult to analyze and discern patterns. It would be great if the waterfront lots sold at fixed prices per acre, but many influences – and a lot of them are purely whimsical – come into play. The market forces do, however, indicate certain factors follow suit with standard sales. To name a few:
  - The longer the shoreline, the less per front foot or acre the lot will sell for.
  - The quality of the water body is a profound influence on the associated lots.

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- Non-waterfront lots with water access sell considerably higher than those with no water access.
- In the past, I priced out my waterfront by simply measuring the shoreline times a standard depth of 200 feet. I would split that out – that shoreline times a depth of 200 feet – and any acreage beyond that was coded as residual land. See the following chart for details:



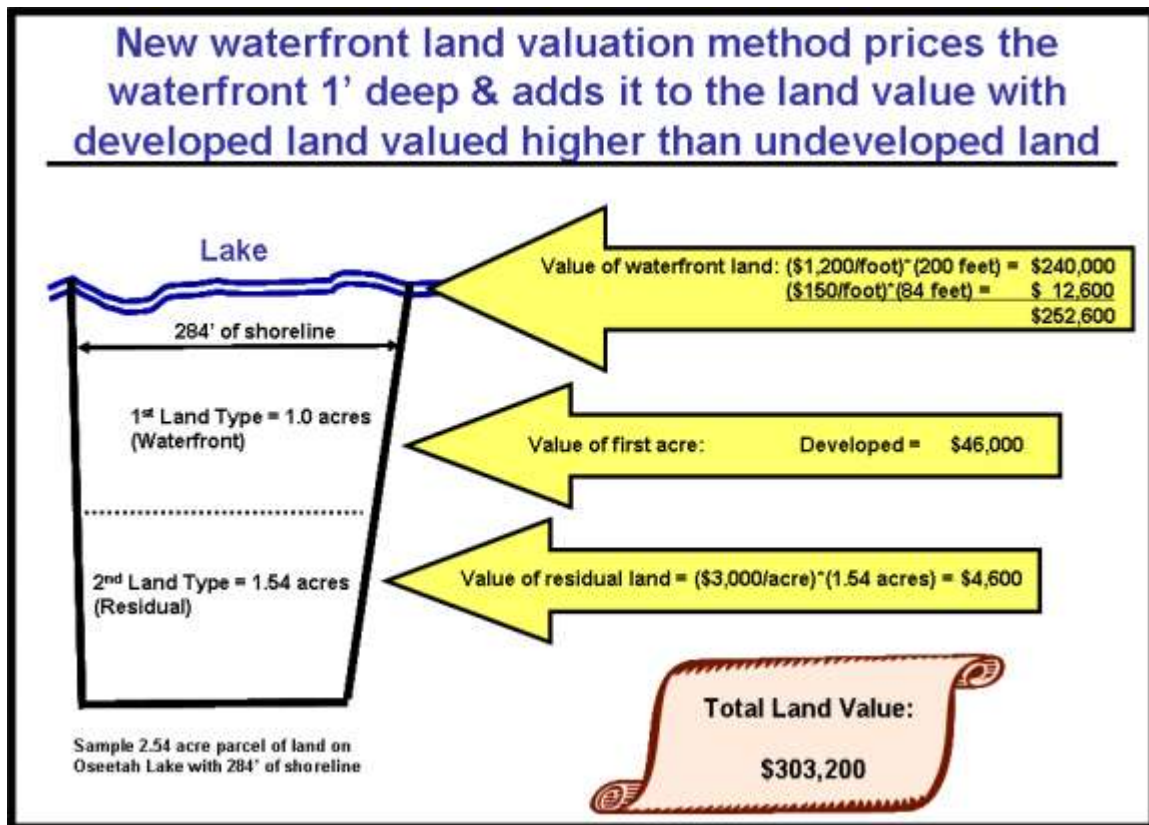
- In the late 1990's this method started to fail because sale prices were increasing exponentially. Camp lots were being improved with water wells, elaborate septic systems and landscaping. The Dot-Com millionaires had arrived, and brought their expensive lifestyles with them. A lot of people were moving from urban areas, setting up their homes on what used to be the family camp lot, and working out of that place.
- By 2006, my old methodology of valuing the waterfront could not express adequately the balance between the land's contributory value and the buildings in my total assessment. A mass appraisal model would, in trying to hit a \$3 million dollar sale, end up with a building value that made no sense, like \$600 or more per square foot of living area. The bottom line assessment was fine, it's just that the land was skewed too low and this made the defense of the assessments very difficult with the BAR and Small Claims processes.

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- **New Waterfront Assessment Approach**

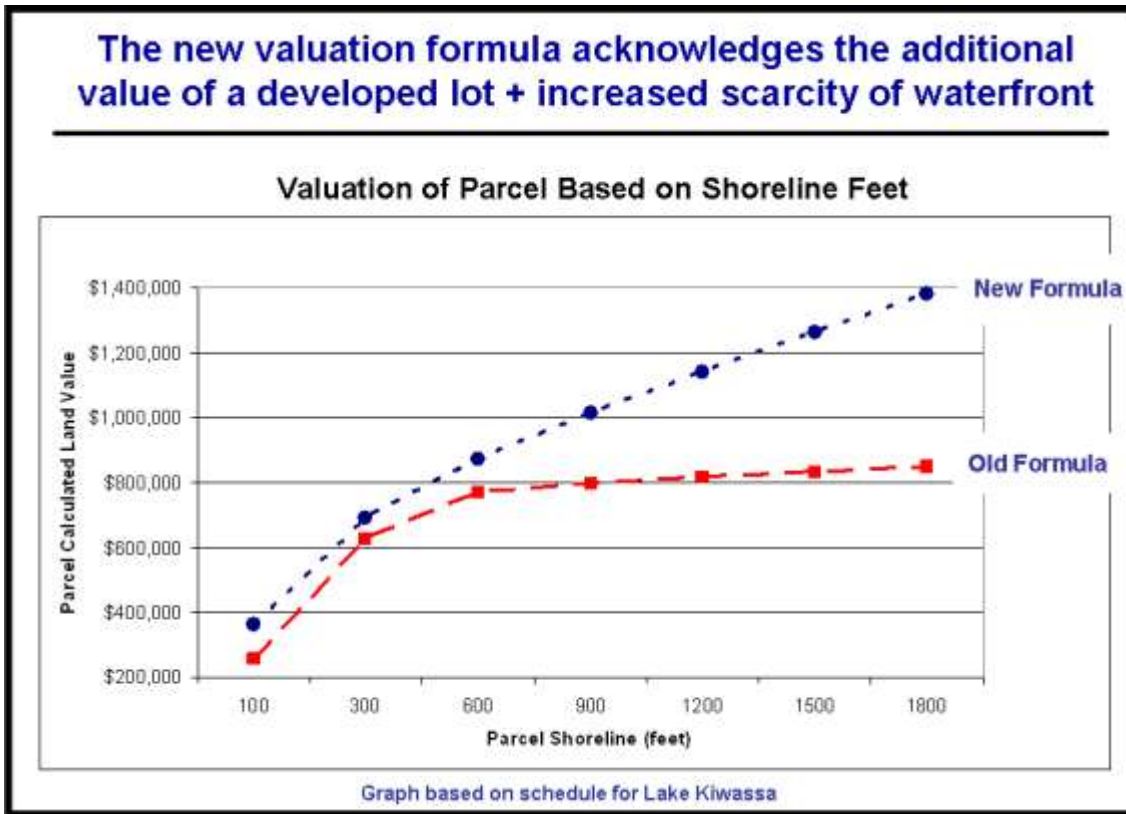
- For my latest revaluation project here in Harrietstown, I used a method that was new to me. First of all, waterfront lot data is collected the same as non-waterfront.
  - The first acre gives a site value – either undeveloped or primary.
  - The remaining land is residual – woods or whatever.
- To capture the contributory value that the waterfront brings, the measured shoreline is collected in the waterfront category, and because our RPS system requires a depth, I just give it a depth of one foot. The waterfront is then priced per front foot and added to the lot value. See the following chart for details:



- Differentiation between undeveloped and improved lots is shown in the first acre. I'll either call it a primary site with a higher value, or an undeveloped site with a lower value. Different bodies of water are priced according to what the sales of similar water bodies indicate.
- The old formula for valuing the waterfront, as the parcel got larger, flattened out. The new formula has a more linear relationship between shoreline length and waterfront value. We'll probably revisit this sometime in the future as this relates to state-owned land. See the chart below for a comparison of the new and old formulas applied to Lake Kiwassa:

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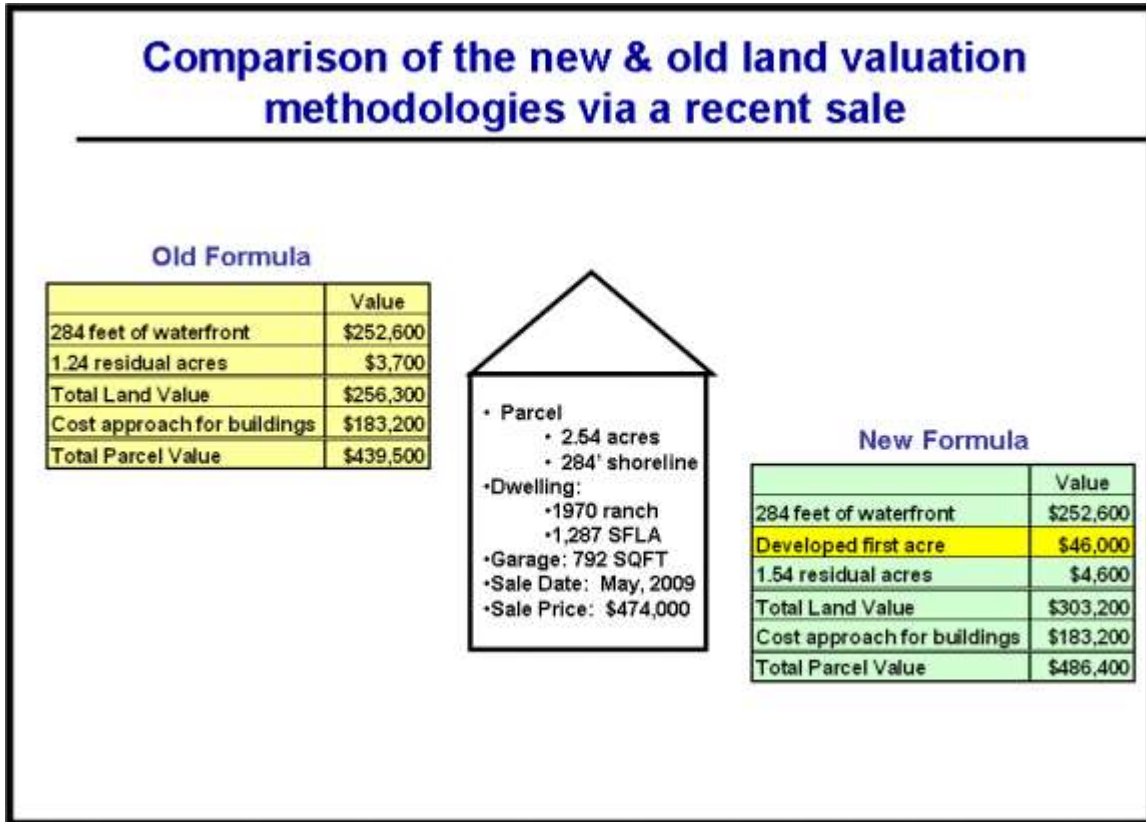
- I will use a recent sale on Oseetah Lake as an example. Oseetah Lake is located upstream from the lake outside this building called Lake Flower. The dam that forms Lake Flower also creates Oseetah Lake.
  - The property in question contained 2.54 acres and 284 shoreline feet. It sold in May of '09 for \$474,000.
  - The dwelling is an older 1970 ranch with 1,287 square feet of living area and there's a garage of 792 square feet on the parcel as well. It's accessible by vehicle and it's in an area not consisting of what one might consider high value waterfront. The price attributed to waterfront in this neighborhood starts at \$1,200 per foot and scales downward from there. The price for residual land is \$3,000 per acre, which is the price I placed on residual land, town wide.
  - Under the old method (see the chart on page 2), 284 shoreline feet times a 200 foot depth amounts to 1.3 acres. This leaves 1.24 residual acres. The value of the land acres is calculated as follows:
 

• \$1,200 per front foot for the first 200' of shoreline	= \$240,000
• \$150 per front foot for the next 84' of shoreline	= \$ 12,600
• 1.24 acres of residual acreage * \$3,000/acre	= <u>\$ 3,700</u>
• Total land value	= \$256,300

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- Valuing the buildings using the cost approach gives a value of \$183,200. Adding this to the \$256,300 land value gives a total parcel value of \$439,500. See the left side of the following chart for details:



- Under my new valuation approach (see the right side of the above chart), the land valuation is as follows:
  - The primary site of one acre is \$46,000, which is the same value I put on primary lots on properties not on the waterfront in that neighborhood.
  - \$1,200 per front foot for the first 200' of shoreline = \$240,000
  - \$150 per front foot for the next 84' of shoreline = \$ 12,600
  - 1.00 primary acres = \$ 46,000
  - 1.54 acres of residual acreage \* \$3,000/acre = \$ 4,600
  - Total land value = \$303,200
- Adding in the same building value of \$183,200 gives a total parcel value of \$486,400.
- After reviewing the value range estimates of the cost approach and the market value based on comparable sales, I ended up placing an assessment on the land of \$303,200. I then added in \$155,000 for the dwelling and \$15,800 for the garage for a total parcel value of \$474,000. This turned out to be the sale price! I felt that fit very well.
- Now when property owners come to talk to me, I show them the above break down for their land and structures. I've found this new valuation approach results in a more defensible balance between the land and total parcel values because the waterfront contributing value to the property is the most significant portion of the assessment. I find



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it very easy to explain this to property owners. They might not agree with me, but at least I can show them I've consistently applied it to all properties in the town.

## • Summary

- But formulas, regardless of how intricate they are, cannot possibly address all variables involved in valuing land and buildings. With any valuation schedule, there must be flexibility. For example, some shoreline might consist of a hundred usable front feet and 500 unusable feet of pure swamp. There are a variety of ways to take into account the impact of the swampy shoreline:
  - Use influence codes to address these situations.
  - Simply don't consider the 500 feet of unusable shoreline as viable and just value the usable front footage.
  - Add the unusable shoreline at a very reduced value, for it does contribute some value to the parcel.
- My current waterfront reduction scales (a beginning value for the first 200 feet, a lower value for the next 100 feet, etc.) were modeled after the current state discount table developed by ORPS. I obtained their lake schedules and tried to tie my lakes to what they were seeing on their lakes. However, I didn't agree with a lot of them, so I ended up using my own values.
- In the past, I have always taken the ORPS values for state land and used them as the assessments for state land because they seemed to be close. This was the first year I diverged from that. But using my formula, I was still within 15% of what they estimated their state land value to be.

## • Questions and Answers

- Question: Every now and then a buyer comes along who has more money than brains. They pay a factor twice the real market value of the property. So, in a case like the one you have on the screen, you have a buyer buying that \$474,000 house and instead of paying \$474,000 they pay something like \$1,200,000. How do you adjust for the "more money than brains" mentality when you do the assessments?
  - Doug's Answer: Well, before I run valuations, I build a PID (parcel identification file) of sales. I analyze the sales and some are going to come out as outliers. In the past, I've tried to develop graphs of sales, and I've ended up with something that looks like buckshot. The short answer is, I'd probably throw the sale in question out, and I would hope ORPS would do the same.
  - I try to maintain a very close working relationship with ORPS so that they know why I threw the sale out. But once you get a group of these whimsical sales, then that's pointing you to what the market is. And then you start using them.
  - For my example, I was fortunate that I had plenty of sales that showed me that \$474,000 was not out of the realm of reason. This same house, were it in the village, with the same acreage, would probably sell for around \$225,000; but, because it's on the water, it sold for \$474,000.
  - Even my new approach starts to skew out of proportion on a lake like Upper Saranac where there are \$3 to \$5 million dollar sales. When that starts happening, then I've got to go back and look at my front footage schedule again, because that's what's usually contributing the most to the total parcel value. Right now, my shoreline valuation schedule for Upper Saranac Lake starts at \$3,000 per foot for the first 200 feet.
  - At present, all my waterfront, other than some remote spots and very swampy spots, bottoms out at \$400 a running foot. So, if you get out to say a thousand

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- feet, the shoreline valuation schedules, whether they start at \$1,200 in the case of Oseetah Lake or at \$3,000 in the case of Upper Saranac Lake, come down to \$400 where it stays.
- Question: Have you considered staying with the old formula and just changing your starting value per front foot from \$1,200 to say, \$1,400?
    - Doug's Answer: I did, and I worked on that and it just didn't seem to work. I would get property owners coming in that didn't have waterfront. They would say that they understood why I front loaded their first acre with a primary site at \$46,000 or \$60,000 (it differs depending upon the neighborhood). But they pointed out that the guy across the street who had waterfront didn't get hit with the cost of a primary site though he had a well, an elaborate septic, and a driveway.
    - I also ran into the problem of undeveloped waterfront. Using my old approach, gave me the same value as for the developed lots. Sometimes I took an undeveloped piece of land and subtracted 20% because it's not improved with anything. But I found that my new approach is easier to explain to property owners.
    - On Lake Kiwassa, the state owns a third of the shoreline. They had argued that they were undeveloped and that it wasn't fair to compare the state shoreline to developed parcels. My new approach takes that argument off the table. I can now say that I'm just going to look at shoreline one foot deep for everyone. Then for the state, since the land is not developed, it's first acre will be valued as undeveloped while a private owner with a developed primary acre will see a significant increase for value of the first acre.
  - Question: I want to ask a follow-up question. As I understand it, from what I've heard from you and what you've just alluded to, you applied this new valuation method to the first foot of the state land as well. Could you expand on that a little bit and say what the effect was? By what percent it changed those valuations, and what reaction it got from the state, if any?
    - Doug's Answer: The reaction I got from the state was pretty much no reaction because I was within their parameters of the aggregate total value.
    - To get back to the value and use issue, we generally tend to have to look at state-owned land as one big chunk of property. Most of it, in the towns I'm in, is contiguous. Most of it is APA classified as resource management. So, it is just straight forest land that happens to have waterfront. And they have a lot of waterfront.
    - So, my discount table, as does theirs, hits the bottom line on most of their parcels. So, if I look at the ORPS's aggregate total value of all state waterfront in Harrietstown, it worked out to about \$379 a foot. My new valuation approach gave a total value of about \$400 a foot. Their land plus timber value per acre was \$600 and change, mine was \$700. So, we came in reasonably close. But, on individual parcels, some of mine were well over what they estimated as their value and some of mine were under. For example, on Lake Clear, ORPS has a parcel they value at about \$1.5 million and I couldn't hit that with my scale. I came in around \$980,000. So, there's give and take in there, too. But, the numbers are mine, rather than the state's. And, I did apply the formula, but mostly as a sum total thing.
  - Question: Suppose the state owned a parcel, a thousand acres, with 10 lakes on it. Would each lake be valued separately for the \$3,000 per foot?

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- Answer from Doug: Yes, I would apply the scale to each lake. There you're hitting a little bit of a different animal, something which I ran into on islands.
- Trying to value an island by a front foot method will shoot you in the foot every time. You've got to either:
  - Divide the island in half, so you're not, as property owners would say, double counting. The same approach would apply to a narrow peninsula.
  - Or develop from sales, and I've got some sales of islands, a scale using a dollars-per-acre for islands. And this approach has worked out very well. As I said earlier, you've got to be, flexible; but consistent.
- Question: Now, I understand that if you run a shoreline valuation table, it's going to give the same value whether the land is developed or undeveloped. But if you have a waterfront lot that's valued at \$100,000 and you've got one that's valued at \$1 million dollars, you could apply a percentage as the cost for development. For example, assuming that it cost 20% to develop a lot, you could assume that the smaller lot is going to require \$20,000 to be developed while the more expensive lot is going to require \$200,000 in development costs. Are you accounting for this?
  - Doug's Answer: Well, that's why I went to the new valuation method. I've got the first acre as either a primary site or an undeveloped site, rather than, splitting out the waterfront acreage by a depth of 200 feet.
  - In the neighborhood that I used in my example, the first acre for everybody with a house on it – that was improved with water, septic, electric, etc. – was \$46,000 for that first acre. Other areas like on Kiwassa, Upper Saranac, where the scale of the homes is better, I put \$60,000 for the first primary acre.
  - Now, for an undeveloped site, looking at sales, if I wanted to buy an acre of land anywhere in the town of Harrietstown, that's just raw land, I'd have to pay in the neighborhood of \$30,000 for that acre. That's what I put on for the first acre of undeveloped land, whether it's on the water or not. And then I add the value of the shoreline in.
  - The RPS system doesn't like the fact that I'm using a one-foot depth. I had to put the one foot in there for it to take my input at all. But it continually says "The depth range is 10 feet to whatever." So, it requires an edit, but it seems to work pretty well.
- Question: Whether you're using the new formula or the old formula, do you change your land values from year-to-year between revaluations?
  - Doug's Answer: I leave all my assessments status quo until I do a reassessment. We're not on a reassessment cycle. Nobody in Franklin County is, at this point.
  - Everything tracks back to the last revaluation I did. However, suppose somebody built a new house on a lake in 2010 and my last reassessment was done in 2003. I would use the 2003 land schedule and my valuation modeling from that year to come up with a new assessment on that new sale. That would put the new house in the same league as the ones that were reassessed in '03. And then when I jump to the new values for a reassessment year; I would apply the new parameters to everybody.
  - My breakpoint is usually 200 feet on the shoreline schedules. The smallest increment that I go down to is maybe 60 feet. But, the lakes, all the lakes that I've got, we don't have any of those spaghetti lots.
- Question: I wondered if you could ask if anyone in here is finding that values on lakes that are heavily infested with invasive species, like Lake Lucerne, is that affecting assessed values anywhere?



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- Doug's Answer: Well, I can answer that from my own experience, I have a camp on a lake in Jefferson County in the Indian River Lakes, which is pretty heavily infested with Eurasian Milfoil. And, of course I'm lucky enough to be in the Indian River Lakes school district so they subsidize everything. A couple of years ago, there was a five acre island that sold for \$57,000 and it's on a beautiful lake.
- A similar island in Upper Saranac Lake, Dry Island, sold 15 years ago for \$550,000. So, I would say invasive species do make a difference. You take Oseetah Lake which has invasive species in it. Of course, the water quality is different as well because it's mostly an impoundment full of stumps, but I've found that waterfront sells for, \$1,200 versus \$3,000 per foot on nearby Lake Kiwassa which is relatively clean.
- I'd like to close with a quote from a friend of ours, Roger Tibbitts. He was a past president of the State Assessors' Association, and he hit the nail on the head for all of us here, when he said in a recent publication:
  - *"Consistency in the way we collect data and maintenance of that data is critical to proper assessment uniformity and equality. We should all be collecting data in the same manner using tried and true methods."*
  - That's what I've heard so far through this whole morning starting with Paul. Every time you cross a county line or a town line, something different is happening in the collection of data
- **Afternoon Breakout Session Results**
  - Problem Definition: Need to find a defensible way to value land + dwelling on waterfront that approximates the sales price.
  - Alternatives:
    - Value the shoreline one foot deep and then add an additional value for an improved primary acre (E.g. \$60,000) that is higher than for an unimproved primary acre (E.g. \$30,000).
    - Value the first foot of an improved shoreline parcel higher (E.g. \$1,200 per foot) than the first foot of an unimproved shoreline parcel (E.g. \$1,000 per foot).
    - Determine "effective point to point" footage by measuring in a straight line from one side of the parcel's shoreline to the other side.
      - Reduce the resulting value by 50% for islands.
      - Reduce the resulting value thru the use of influence percentages or use \$/acre, if the shoreline is unusual in some manner. (E.g. Peninsula)
    - Try to reval on an annual basis, though in a hot market, that may not be enough.
    - Between revals, increase the land table values/percentages, but keep the total parcel value constant.
    - Base the value of any new waterfront construction that finishes between revals on the valuation criteria used in the prior reval.
    - Agree on consistent data collection standards so that sales can be shared between towns. For example, have all assessors measure shoreline the same way (point-to-point).
    - Use professional data collectors. For example, St. Lawrence performs this function for all the towns in the county.
    - When the economy is weak, hire appraisers to collect the data as their normal workload will be lighter.
    - Conduct Pre-Decision Collaboration (PDC) meetings with ORPS. Having experienced assessors meet with ORPS representatives prior to finalizing the roll can result in EQ rate changes based on data from real world sales.

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- Approximate the value of vacant land by looking at sales followed by a tear down. In this case, the value of the land should equal the sales price for the parcel + the cost for demolition + the value of any grandfathered footprint.
- Restart the “North Country Assessors’ Association”. It can become the forum for:
  - Gaining agreement to use standard procedures.
  - Assessor education