



Department of Local Government Finance

Determining a Neighborhood Factor

2020 Level I Tutorials





Neighborhood Factor

- The formula for calculating a Neighborhood Factor (NF) is:
- $$NF = \frac{\text{Total Improvement Sale Price}}{\text{Total Improvement Value}}$$





Neighborhood Factor

- **IMPROVEMENT SALE PRICE** is the result of calculating the difference between the individual sale price of a property and the land value established for that property.
- **TOTAL IMPROVEMENT SALE PRICE** is the sum of all the individually calculated Improvement Sale Prices for the sales that were analyzed within the neighborhood.





Neighborhood Factor

- **IMPROVEMENT VALUE** is the result of subtracting the depreciated dollar amount (depreciation) from the Replacement Cost New (RCN) for the improvements involved in each individual sale.
- **TOTAL IMPROVEMENT VALUE** is the sum of all the individually calculated Improvement Values for the sales that were analyzed within the neighborhood.





Neighborhood Factor

- Now, lets walk through an example of completing a neighborhood sales grid and calculating the corresponding Neighborhood Factor for a sample neighborhood.
- The following slide represents 8 parcels posted to the grid:





Neighborhood Factor Example

SALE #	SALE PRICE	LAND VALUE	IMP. SALE PRICE	TOTAL RCN	DEPR. (Expressed in Dollars)	IMP. VALUE
#1	\$118,000	\$23,000	\$95,000	\$137,600	(\$41,280)	\$96,320
#2	\$122,600	\$23,000	\$99,600	\$140,100	(\$30,820)	\$109,280
#3	\$139,900	\$25,000	\$114,900	\$164,600	(\$39,500)	\$125,100
#4	\$127,500	\$23,000	\$104,500	\$143,000	(\$42,900)	\$100,100
#5	\$117,500	\$23,000	\$94,500	\$136,300	(\$27,260)	\$109,040
#6	\$125,000	\$23,000	\$102,000	\$150,600	(\$27,110)	\$123,490
#7	\$147,500	\$25,000	\$122,500	\$176,700	(\$42,410)	\$134,290
#8	\$135,000	\$23,000	\$112,000	\$158,000	(\$34,760)	\$123,240
#9						
#10						
Total						





Neighborhood Factor Example – Sale #9

SALE #	SALE PRICE	LAND VALUE	IMP. SALE PRICE	TOTAL RCN	DEPR. (Expressed in Dollars)	IMP. VALUE
#1	\$118,000	\$23,000	\$95,000	\$137,600	(\$41,280)	\$96,320
#2	\$122,600	\$23,000	\$99,600	\$140,100	(\$30,820)	\$109,280
#3	\$139,900	\$25,000	\$114,900	\$164,600	(\$39,500)	\$125,100
#4	\$127,500	\$23,000	\$104,500	\$143,000	(\$42,900)	\$100,100
#5	\$117,500	\$23,000	\$94,500	\$136,300	(\$27,260)	\$109,040
#6	\$125,000	\$23,000	\$102,000	\$150,600	(\$27,110)	\$123,490
#7	\$147,500	\$25,000	\$122,500	\$176,700	(\$42,410)	\$134,290
#8	\$135,000	\$23,000	\$112,000	\$158,000	(\$34,760)	\$123,240
#9	\$149,900	\$23,000	\$126,900			
#10						
Total						





Neighborhood Factor Example

- The dwelling associated with Sale #9 has a Replacement Cost New of \$174,600. The depreciation percentage assigned to the dwelling by the local assessing official is 24%.
- What is the amount of DEPRECIATION (expressed in dollars) for Sale #9?
- Amount of DEPRECIATION equals:
 - RCN $\$174,600$
 - Depreciation % $\times 24\%$
 - Dollar amount of DEPR. $\$41,904$
 - Or $\$41,900$





Neighborhood Factor Example

- What is the IMP. VALUE for #9?

- IMPROVEMENT VALUE equals:

• RCN	\$174,600
• minus DEPRECIATION	<u>- \$41,900</u>
• IMPROVEMENT VALUE	\$132,700





Neighborhood Factor Example – Sale #9

SALE #	SALE PRICE	LAND VALUE	IMP. SALE PRICE	TOTAL RCN	DEPR. (Expressed in Dollars)	IMP. VALUE
#1	\$118,000	\$23,000	\$95,000	\$137,600	(\$41,280)	\$96,320
#2	\$122,600	\$23,000	\$99,600	\$140,100	(\$30,820)	\$109,280
#3	\$139,900	\$25,000	\$114,900	\$164,600	(\$39,500)	\$125,100
#4	\$127,500	\$23,000	\$104,500	\$143,000	(\$42,900)	\$100,100
#5	\$117,500	\$23,000	\$94,500	\$136,300	(\$27,260)	\$109,040
#6	\$125,000	\$23,000	\$102,000	\$150,600	(\$27,110)	\$123,490
#7	\$147,500	\$25,000	\$122,500	\$176,700	(\$42,410)	\$134,290
#8	\$135,000	\$23,000	\$112,000	\$158,000	(\$34,760)	\$123,240
#9	\$149,900	\$23,000	\$126,900	\$174,600	(\$41,900)	\$132,700
#10						
Total						





Neighborhood Factor Example

- Sale #10 sold within the prescribed 14 month period for \$130,000. The land value assigned to the parcel by the local assessing official is \$23,000.
- What is the IMPROVEMENT SALE PRICE for Sale #10?
- IMPROVEMENT SALE PRICE equals:

• Sales Price	\$130,000
• minus Land Value	<u>- \$23,000</u>
• Sale #10 - IMP. SALE PRICE	\$107,000





Neighborhood Factor Example – Sale #10

SALE #0	SALE PRICE	LAND VALUE	IMP. SALE PRICE	TOTAL RCN	DEPR. (Expressed in Dollars)	IMP. VALUE
#1	\$118,000	\$23,000	\$95,000	\$137,600	(\$41,280)	\$96,320
#2	\$122,600	\$23,000	\$99,600	\$140,100	(\$30,820)	\$109,280
#3	\$139,900	\$25,000	\$114,900	\$164,600	(\$39,500)	\$125,100
#4	\$127,500	\$23,000	\$104,500	\$143,000	(\$42,900)	\$100,100
#5	\$117,500	\$23,000	\$94,500	\$136,300	(\$27,260)	\$109,040
#6	\$125,000	\$23,000	\$102,000	\$150,600	(\$27,110)	\$123,490
#7	\$147,500	\$25,000	\$122,500	\$176,700	(\$42,410)	\$134,290
#8	\$135,000	\$23,000	\$112,000	\$158,000	(\$34,760)	\$123,240
#9	\$149,900	\$23,000	\$126,900	\$174,600	(\$41,900)	\$132,700
#10	\$130,000	\$23,000	\$107,000			
Total						





Neighborhood Factor Example

- The dwelling associated with Sale #10 has a Replacement Cost New of \$151,300.
- The depreciation percentage assigned to the dwelling by the local assessing official is 30%.
- What is the amount of DEPRECIATION (expressed in dollars) for Sale #10?
- Amount of DEPRECIATION equals:
 - RCN $\$151,300$
 - Depreciation % $\times \underline{30\%}$
 - Dollar amount of DEPR. $\$45,390$





Neighborhood Factor Example

- What is the IMP. VALUE for #10?
- IMPROVEMENT VALUE equals:

• RCN	\$151,300
• minus DEPRECIATION	<u>- \$45,390</u>
• IMPROVEMENT VALUE	\$105,910





Neighborhood Factor Example – Sale #10

SALE #	SALE PRICE	LAND VALUE	IMP. SALE PRICE	TOTAL RCN	DEPR. (Expressed in Dollars)	IMP. VALUE
#1	\$118,000	\$23,000	\$95,000	\$137,600	(\$41,280)	\$96,320
#2	\$122,600	\$23,000	\$99,600	\$140,100	(\$30,820)	\$109,280
#3	\$139,900	\$25,000	\$114,900	\$164,600	(\$39,500)	\$125,100
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#5	\$117,500	\$23,000	\$94,500	\$136,300	(\$27,260)	\$109,040
#6	\$125,000	\$23,000	\$102,000	\$150,600	(\$27,110)	\$123,490
#7	\$147,500	\$25,000	\$122,500	\$176,700	(\$42,410)	\$134,290
#8	\$135,000	\$23,000	\$112,000	\$158,000	(\$34,760)	\$123,240
#9	\$149,900	\$23,000	\$126,900	\$174,600	(\$41,900)	\$132,700
#10	\$130,000	\$23,000	\$107,000	\$151,300	(\$45,390)	\$105,910
Total						





Neighborhood Factor Example

- The next steps to determining the neighborhood factor are to calculate the TOTAL IMPROVEMENT SALE PRICE and the TOTAL IMPROVEMENT VALUE.
- Both Totals are found by summing the appropriate columns.





Neighborhood Factor Example

SALE #	SALE PRICE	LAND VALUE	IMP. SALE PRICE	TOTAL RCN	DEPR. (Expressed in Dollars)	IMP. VALUE
#1	\$118,000	\$23,000	\$95,000	\$137,600	(\$41,280)	\$96,320
#2	\$122,600	\$23,000	\$99,600	\$140,100	(\$30,820)	\$109,280
#3	\$139,900	\$25,000	\$114,900	\$164,600	(\$39,500)	\$125,100
#4	\$127,500	\$23,000	\$104,500	\$143,000	(\$42,900)	\$100,100
#5	\$117,500	\$23,000	\$94,500	\$136,300	(\$27,260)	\$109,040
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#7	\$147,500	\$25,000	\$122,500	\$176,700	(\$42,410)	\$134,290
#8	\$135,000	\$23,000	\$112,000	\$158,000	(\$34,760)	\$123,240
#9	\$149,900	\$23,000	\$126,900	\$174,600	(\$41,900)	\$132,700
#10	\$130,000	\$23,000	\$107,000	\$151,300	(\$45,390)	\$105,910
Total			\$1,078,900			\$1,159,470





Neighborhood Factor Example

- The sum of the IMPROVEMENT SALE PRICE column totals \$1,078,900.
- The sum of the IMPROVEMENT VALUE column totals \$1,159,470.
- Remember, the formula for calculating a Neighborhood Factor (NF) is:
- $NF = \text{Total Improvement Sale Price} / \text{Total Improvement Value}$





Neighborhood Factor Example

- Our Example Neighborhood Factor equals:
- $\$1,078,900 / \$1,159,470 = .9305113$
- Neighborhood Factor = .93
- (Round to the nearest one-hundredth)



Level I
Neighborhood Factor Problem 1

You are developing a neighborhood factor for Neighborhood 10161951. You have gathered the following information:

- House #1) Sale price of \$79,900. Land value of \$15,000. The RCN from the property record card is \$87,700 and depreciation of \$3,510.
- House #2) Sale price of \$92,500. Land value of \$16,500. The RCN from the property record card is \$117,790 and depreciation of \$30,540.
- House #3) Sale price of \$85,000. Land value of \$17,000. The RCN from the property record card is \$95,900 and depreciation of \$21,100.
- House #4) Sale price of \$82,500. Land value of \$17,000. The RCN from the property record card is \$107,000 and depreciation of \$27,820.
- House #5) Sale price of \$68,000. Land value of \$16,100. The RCN from the property record card is \$67,590 and depreciation of \$17,680.

Neighborhood Factor Grid

	A	B	C	D	E	F
House #	Sale Price	Land Value	Imp Sale Price	Replacement Cost New	Depreciation	Imp Value
1						
2						
3						
4						
5						
TOTALS						

NEIGHBORHOOD FACTOR

Total	Sales Price of all Improvements	_____
Total	AV of all Improvements	
	Neighborhood Factor	EQUALS _____



Level I
Neighborhood Factor Problem 1 Answer

	A	B	C	D	E	F
House #	Sale Price	Land Value	Imp Sale Price	Replacement Cost New	Depreciation	Imp Value
1	\$79,900	\$15,000	\$64,900	\$87,700	\$3,510	\$84,190
2	\$92,500	\$16,500	\$76,000	\$117,790	\$30,540	\$87,250
3	\$85,000	\$17,000	\$68,000	\$95,900	\$21,100	\$74,800
4	\$82,500	\$17,000	\$65,500	\$107,000	\$27,820	\$79,180
5	\$68,000	\$16,100	\$51,900	\$67,590	\$17,680	\$49,910
TOTALS			\$326,300			\$375,330

$$A - B = C \qquad D - E = F$$

NEIGHBORHOOD FACTOR

Sales Price of all
Total Improvements
Total AV of all Improvements

\$326,300	C
\$375,330	F

Neighborhood Factor

EQUALS	<u>0.87</u>
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Level I
Neighborhood Factor Problem 2

Develop a Neighborhood Factor using the following information:

Total Sale Price:	\$1,890,600
Total Improvement Sale Price:	\$1,607,000
Total RCN:	\$1,657,300
Total Improvement Value:	\$1,557,900

Round your answer to the nearest hundreth.



Level I
Neighborhood Factor Problem 2 Answer

Total Sale Price:	\$1,890,600
Total Improvement Sale Price:	\$1,607,000
Total RCN:	\$1,657,300
Total Improvement Value:	\$1,557,900

To develop a Neighborhood Factor, remember to divide the Total Improvement Sale Price by the Total Improvement Value.

Total Imp. SP / Total Imp. Value = Neighborhood Factor

\$1,607,000 / \$1,557,900 =

1.03

OR 103%





Level I Neighborhood Factor

- This concludes the neighborhood factor tutorial and is a reminder that should you have questions you can email these questions to the DLGF.
- Please send emails to Level1@dlgf.in.gov

