



Department of Local Government Finance

Determining a Neighborhood Factor

2023 Level I Tutorials



Neighborhood Factor

- The formula for calculating a Neighborhood Factor (NF) is:

$$\text{NF} = \frac{\text{Total Improvement Sale Price}}{\text{Total Improvement Value}}$$



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, let's 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 sold within the prescribed 14-month period for \$149,900. The land value assigned to the parcel by the local assessing official is \$23,000.
- What is the IMPROVEMENT SALE PRICE for Sale # 9?
- IMPROVEMENT SALE PRICE equals:

Sales Price	\$149,900
minus Land Value	<u>- \$23,000</u>
Sale # 9 - IMP. SALE PRICE	\$126,900



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 %	<u>x 24%</u>
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 #	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 %	<u>x 30%</u>
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
#4	\$127,500	\$23,000	\$104,500	\$143,000	(\$42,900)	\$100,100
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#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
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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:

$$\text{NF} = \text{Total Improvement Sale Price} / \text{Total Improvement Value}$$



Neighborhood Factor Example

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



Neighborhood Factor Problems and Answers

- Please go to the Neighborhood Factor Problem / Answer packet with audio and work Problem #1.



Neighborhood Factor Problems and Answers

- Please go to the Neighborhood Factor Problem / Answer packet with audio and work Problem #2.



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 Department.
- Please send emails to Level1@dlgf.in.gov