

**2012 Tippecanoe County Trending Narrative**

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## **Overview**

For 2012 annual adjustments, sale data from the sales disclosure database was pulled on 3/1/2012 in order to establish value on the March 1st valuation date. Sales occurring 1/1/2010 through 3/1/2012 were included in ratio analysis. We did not establish a time adjustment policy due to the expanded sales window.

Tyler Technologies conducted field visits in accordance with the 2012 General Reassessment guidelines. Physical changes to assessment listings were made prior to ratio analysis. A Land Commission was formed to review and update countywide land rates. Commercial and Industrial parcels were valued using income capitalization models. Special use income-producing properties were valued using replacement cost due to scarce data necessary to accurately derive an income value. Residential property was valued via trended replacement cost.

## **Residential Property**

Replacement cost for residential parcels were computed using the 2012 Craftsman Cost Tables. The updated cost values were calibrated with trending factors developed from analysis of valid sales. The trending factor represents the typical relationship between replacement cost and market value in a geographic or qualitatively similar neighborhood.

Total assessed value reflects the general level of sale in a particular area based on a pool of sales. At least five sales were necessary to establish a valid trending factor. Many Neighborhoods were consolidated into various submarkets to create more accurate and stable assessments by ensuring a larger pool of sales.

## **Commercial and Industrial Property**

Commercial and Industrial property saw marginal increases for most sectors in urban and suburban areas of Lafayette and West Lafayette. Commercial and Industrial property values in rural areas and small residual towns were stagnant. We began our review by updating potential rents, vacancy rates, expense ratios and capitalization rates in IncomeWorks, our vendor-supplied Income capitalization models. We compared these results to sales to validate the effectiveness of the updated models.

Hotels and golf courses were valued from income capitalization models developed by the assessor's office. Due to lack of industrial sales, commercial and industrial categories were combined.

Sales of apartments, mixed-use and retail facilities on Purdue's campus were thoroughly reviewed to identify influences that effect value other than the value of the real-estate attributable to its current use. Many of these sales were not appropriate for ratio analysis.

Vacant commercial and industrial land was valued based on the guidelines established by the Tippecanoe County Land Commission. There were insufficient vacant commercial and industrial land sales to compute valid ratio statistics. Many vacant parcels that are zoned for commercial and industrial use are valued as agricultural land because it is actively being farmed or subject to "developer discount."

## **Comparison Assessed Value Detail**

### ***Commercial Improved***

In the commercial improved category, there were three townships where AV increased by more than 10%.

#### **Perry Township**

Commercial Improved assessed value increased by \$17,298,800 from 2011 to 2012. Two parcels accounted for virtually all of this increase.

79-08-30-300-046.000-009 - For 2011, this 37.67 acre parcel was valued as ag land. For 2012, this parcel was created, building permits pulled and 32 duplexes and a swimming pool were constructed. This resulted in assessed value of \$8,894,100.

79-08-31-100-005.000-009 - For 2011, this 21.17 acre parcel was valued as ag land. This parcel was created when building permits were pulled for a 16 building apartment complex and resulted in assessed value for 2012 of \$8,252,200.

The remainder of the change was a result of minor additional improvements and correctly recording improvements as a result of general reassessment.

#### **Randolph Township**

Commercial improved assessed value increased by \$575,000 from 2011 to 2012. This was entirely the result of a new parcel created and the construction of a new retail store on parcel 79-15-19-200-030.000-011.

## **Wabash Township**

The increase of \$78 million in assessed value in Wabash township was a result of several factors – new construction, a general decrease in capitalization rates for student apartments, and our student apartment income capitalization project. Purdue University is located in Wabash township and there are 637 parcels in the commercial improved category.

### *New Construction:*

New construction of three student apartment buildings and a new carwash accounts for \$18.8 million of the increase.

### *Capitalization Rates:*

59 parcels in the commercial improved category in Wabash township are valued on the cost approach; these are nursing homes, parking structures and mixed use facilities that do not lend themselves to valuation via income capitalization.

There are 574 parcels that are valued on income capitalization. Of these, 54% or 310 parcels are in class 401,402 and 403. Virtually all of these parcels are oriented towards student housing. Sales of student apartments showed tremendous declines in capitalization rates – capitalization rates ranged from 2% to 7% with a median of 4.3%. As capitalization rates decline, the value increases.

### *Student Apartment Income Capitalization Project:*

Another factor that changed values both up and down was the refinement of our student apartment income capitalization models. This is the fifth year that Tippecanoe County has valued most commercial property on the income capitalization approach. Until 2011, we relied upon our vendor for models. For 2012, we stratified student oriented apartments by distance from campus and amenities inherent to the property. We did extensive research on rents. We surveyed students and landlords. We compiled data from published sources, leases and appraisals. We also carefully reviewed data to be certain that we had correctly listed the number of units, bedrooms and bathrooms for each parcel. We found that we were dramatically undervaluing modern, high amenity apartments within one mile of campus. Older apartments farther from campus were generally reasonably valued but they too had a minor increase in value as a result of the decrease in capitalization rates.

The net impact of the student apartment income capitalization project was an increase in value of \$55.3 million. The remaining increase in value of \$3.9 million was

almost entirely due to the revaluation of a hotel when it was refurbished and rebranded to carry the Sheraton Four Pointes flag.

### ***Industrial Improved***

There were three townships that increased by more than 10%. In Wea township, nearly the entire increase in value can be attributed to the new construction of the Nanshan American aluminum factory. When complete for 2013 pay 2014, the factory will be valued at more than \$45 million.

In Fairfield township, the apparent increase in value is actually an illusion. For 2011, pay 2012, we rolled \$1,074,800 on parcel 79-07-34-100-001.000-004, which is the ALCOA plant. We should have rolled \$10,748,300. This error was caught and corrected prior to billing on a Form 133. Had the correct value rolled, the prior year AV would have been \$113,145,400. The current year AV of \$114,766,000 would then be an increase of 1.4%.

In Union township, the entire increase can be attributed to an increase in value of the Evonik Degussa manufacturing facility. The 2010 and 2011 values were low as a result of an appeal when the facility was sold by Eli Lilly to the Germany based Evonik.

### ***Residential Vacant***

The only township to show an increase in value was Shelby township. This township has 228 vacant residential parcels. Although the percentage increase is 15.2%, the dollar difference is small, totaling \$391,800. Of this, five parcels went from being valued at agricultural rates due to developer discount to market because they were sold to non-developers. This increase in assessed value for these changes totaled \$206,100, which is 53% of the total increase.

The remaining changes are a result of changing the value of eleven parcels in neighborhood 706 and 709 because the land commission felt that they were undervalued.