Real Estate Tax Assessments

A tax assessment, the value a local government assigns to a home for real estate taxation purposes, has only a very general relationship to that home's market value: It is so general as to be valueless. Some will tell you there is a direct relationship. They have not done an analysis and are relying on a very few bits of data, or are repeating "what everybody knows." A careful analysis of the statistics proves them wrong, both over a wide area as well as in an area as limited as a subdivision.

The reason that tax assessments are an issue is the following: Local government tax assessors have long had the stated objective of assessing properties at some fixed percentage (for example, 100%, 50%) of fair market value. When property values were appreciating in the mid-1980s, tax assessments lagged behind market values so far that the two figures were rarely connected in anyone's mind. When unmitigated real estate appreciation came to a halt in the 1990s, *average* tax assessments caught up with *average* property values. Many became aware of an apparent relationship. The use of tax assessments as an indicator of market value had, unfortunately, come of age.

One who attempts to predict a contract price from a tax assessment needs to correctly *guess* a percentage to multiply by the tax assessment to obtain the predicted contract price. That would mean correctly guessing a number between approximately 80% and 150% *with absolutely no basis* for making the choice. That is quite an impossible trick.

Of course, there is some *average* relationship between tax assessments and market values that can be calculated. But use of this figure to determine the market value of a *specific* home should be enough to make even the tax assessor giggle. Sellers who sold for 80% of their tax assessment would have been happy to have the tax assessment myth be true. Those who sold for 50% more than their assessment would have missed their maximum price by a lot!

Be wary of anyone who tries to draw a conclusion from just a few cases. This is logically as well as mathematically unsound. It is like concluding that smoking is harmless because Uncle Joe, who was a heavy smoker, lived to be 90 years old. Please see a definition of **statistical significance**.

Amazingly, elaborate calculation schemes or algorithms (pronounced: Al Gore rhythms) have been devised to predict home market values from tax assessments. Although the mathematics are impeccable and some have even gotten favorable press nationally, the fact remains that any calculation using basically flawed data (tax assessments), inevitably produces flawed results. Garbage in; garbage out. And some of these schemes are no more than applications of 8th grade ratio and proportion mathematics.

How long it has been since the tax assessor has seen *your* home? Never? There is no substitute for a properly prepared market value analysis or an appraisal, which are usually within 2 or 3% of market value. Zillow, and other such schemes that rely heavily on tax assessments, are just as inaccurate. Track down Zillow's own disclaimer: They now report they are ***more than 5% off*** **almost one-third of the time.** (And our area is one of their most accurate in the U.S.)

While it is deceptively easy to read your home's tax assessment from government information, **in one out of three cases, the assessment will not be within 15% of your home's true value.** There is no substitute for a properly prepared market value analysis or an appraisal. Mortgage lenders do not rely on tax assessments, and neither should you.

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This series is excerpted from David Rathgeber's $ELLING YOUR HOME in the Washington, DC Metropolitan Area

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