

Historic Homes Information

DETERMINATION OF LAND VALUES FOR AD VALOREM TAX PURPOSES WHEN ENCUMBERED BY DESIGNATED HISTORIC BUILDINGS PROTECTED AGAINST DEMOLITION

Section 193.011(2) Florida Statutes requires the Property Appraiser to consider the effect of any applicable historic preservation ordinance. "Consider" must be more than a mere statement but an actual practice.

The Appraisal Institute and similar leading groups all recognize that vacant land is worth more than similar land encumbered by a historic building protected against demolition (unless perhaps if above FAR which is not the case virtually always). The PA often does not properly consider this in making adjustments from unencumbered land sales.

In virtually all cases, the land assessments are the same for vacant lots and those encumbered with historic buildings protected against demolition.....this is not proper. A substantial negative adjustment to comparable vacant land sales or comparable sales outside historic districts is required when determining proper ad valorem tax value for properties encumbered with historic structures.

For example, the Property Appraiser has relied on the sale of a vacant lot in the Museum District to unfairly raise land assessments on properties encumbered with historic buildings.

2206 Park Avenue (02-3226-001-0320) sold in May 2007 for \$2,650,000 or \$331.21psf. based on 8,000sqft of land. This parcel is vacant and adjacent to and across the street from a major mixed-use development called Art-City.....and was purchased by the developer. It has use for staging during construction of the adjacent properties and for future building.

Compare this sale with the adjacent property at:

2216 Park Avenue (02-3226-001-0310) which sold in March 2007 for \$2,850,000. However, this parcel's 13,600sqft of land is encumbered by a two (2) story designated historic structure with 14,979sqft protected against demolition. Any rehabilitation would have to be done in accordance with the Secretary of the Interior's Standards for the rehabilitation of historic structures and other similar local statutes as determined by the City of Miami Beach Historic Preservation Board and Staff. Therefore, in spite of being a bigger lot (more advantages at this size range) and having canal frontage, the sale price divided by the land square footage (\$2,850,000/13,600sqft) equals only \$209.56 psf. or 37% LESS than the adjacent vacant unencumbered lot!!! No wonder the developers of Art-City said "no thanks" as their rehabilitation of neighboring historic structures is already behind schedule per original public estimates.

Please also look at the nearby **2000 Liberty Avenue (Historic Fillard Apartment-Hotel-02-3226-001-0180)** that sold with a protected historic building in need of a rehabilitation in December 2006 for \$2,900,000 with a 27,237sqft building on 18,750sqft of land. **On a gross land basis, this equates to \$154.67psf or 53% less than the vacant 2206 Park Avenue!**

There are numerous other examples. For example, a vacant lot can provide parking for a new or rehabilitated building....parking is desirable regardless as to requirements as a big advantage in the market. An acquired lot can also be used for staging during construction as well. Therefore, vacant land and not parcels with designated historic structures are in demand.....see the Fontainebleau and Cipriani purchases. Again, the Property Appraiser is not making the adjustments. If it is, it is not being applied to the Properties before the Special Magistrate and instead these sales are being used to defend the assessments placed on historic encumbered properties.

Properties with such historic buildings are further disadvantaged by this "automatic" application without adjustment of vacant land sale value. Where an adjustment is made by the Property Appraiser, it is made to the building and not the land. The PA then attempts to refute the income approach, the most reliable methodology for ad valorem tax purposes for operating income producing properties, by saying the Taxpayer does not have land sales to support a reduction because all or most of the assigned value is in the land!

The PA cannot avoid an overall correct valuation below its preliminary land valuation component by avoiding the income approach and avoiding proper adjustments to the comparable sales that take place. The land component of the assessment can be reduced based on the income approach and proper adjustments to the comparable sales that take place.

The Cost Approach



The basic premise of the cost approach is that a property will sell at a price relative to a newly constructed version of itself. The cost to reproduce anything is a controlling element of value. However, cost and market value are closest when buildings are new and when the building represents the highest and best use of the land. Consequently, of the three approaches to value, the traditional cost approach is usually the least indicative of the value of historic properties. Furthermore, the cost approach is unpopular with appraisers because it often requires securing assistance from a cost estimator and because the calculations of the various forms of depreciation are detailed and tedious. It can be difficult to reconcile the results of the cost approach with the results of sales comparison and income analysis. Nevertheless, some clients and some circumstances require a cost approach.

LIMITATIONS OF THE COST APPROACH IN APPRAISING HISTORIC PROPERTIES

Why is it more difficult to appraise historic properties using the cost approach? Because the cost approach adds the value of the site as though vacant and available for its highest and best use to an estimate of the replica cost new of the building less any accrued depreciation. The more depreciation, the more difficult it is to accurately carry out a cost approach.

The Benefits and Costs of Historic Properties

lery and museum owners, and transportation providers. In recent years history-related travel has become a predominant feature of the tourism industry in the United States.

Negative Aspects of Historic Properties

National Register listing confers prestige and the potential for financial benefits, but not all property owners consider it a benefit. Listing may bring unwanted attention to owners who wish to alter or even demolish properties, or who simply do not welcome the public's interest in their private property.

Historic properties, despite their charm and many beneficial aspects, are not the easiest properties to own or to work with. All types of structures suffer from ongoing disintegration, but wood, the substance of which many historic structures are built, is more subject to termites, fire, and rot than masonry and metal. Wood must be painted and cared for continuously whereas modern buildings of brick, steel, and glass require relatively little maintenance. Stucco, plaster, terra-cotta, tabby (mixture of lime and water with shells, gravel, or stones) crack and disintegrate as they age. Roof surfaces of slate, tile, and wood can be difficult and expensive to maintain. Brick chimneys disintegrate and wood-framed windows and shutters rot.

Restoring historic structures requires specialized knowledge and sometimes technical assistance. A whole industry of professional and published assistance for old building owners has come into being since the 1966 Historic Preservation Act. Knowledge of how buildings were constructed and decorated is necessary to restore and preserve authenticity. Owning a property within a historic district or one that has its own landmark designation, where these properties are controlled by a landmark ordinance, requires that they be treated according to certain standards and guidelines. An owner may not change window configurations, clean brick by sandblasting, or put up signs unless these actions conform to the local ordinance. Sometimes an owner's actions lead to conflicts, litigation, or fines.

Occupying historic buildings also presents problems. Older buildings are frequently less energy efficient because of their vast spaces and drafty construction. There may be concerns about safety from earthquakes, windstorms, and fire or concerns about the dangers of older paints, plumbing lines, and pathogens. Along with any structural deficiencies, these problems, which can prove difficult and expensive to correct, should be remedied before occupation.

The ownership of a historic building is to some extent a public responsibility. Public expectations must be met, presenting an additional burden for owners of private property. The cost of acquiring and rehabilitating an old building can be greater than the cost of constructing a new building of equal size.

Historic properties do not lend themselves very well to this type of analysis for several reasons:

1. A replica of the appraised building is not likely to be built because the construction methods and materials of old buildings are no longer available.
2. History and extraordinary craftsmanship cannot be built into a replica.
3. The usual measures of depreciation are complicated by the way in which historic buildings are judged by the market; their atypicality adds rather than detracts from value.
4. Site value premised on highest and best use is not valid when historic buildings cannot be demolished.
5. Time distorts the relationship between development cost and market value as building technology changes.

ADVANTAGES OF THE COST APPROACH IN APPRAISING HISTORIC PROPERTIES

Despite these limitations, the cost approach may be advantageous in valuing historic properties from several perspectives. First, it is a revealing way to recognize and accord value to the quality of materials and workmanship usually inherent in historic properties and to relate these qualities to the higher income and sale prices that often accrue to them.

From another perspective, a careful analysis of design and physical and economic depreciation—if carried out realistically and as a reflection of market preferences—will demonstrate the major point that many preservationists try to make: Market preferences concerning older buildings do not always adhere to simplistic concepts about functional utility and age. In addition, valuing the land as restricted by the presence of a historic building that cannot be removed presents a more accurate picture of the changed status of land as a commodity in our age of land use regulation. Because the cost approach proceeds by estimating the contribution to value of the separate components of an improved property, it avoids the blurring and blending of these parts that result from sales comparison and income analysis.

Finally, cost is an important component of the value of historic properties because many of these require significant renovation. The cost to put a property into proper condition for a potential use can be the major determinant of its feasibility. Estimating the cost of rehabilitation is directly related to estimating cost new. If the cost of a particular component of the building is required to make an adjustment in one of the other approaches to value, the cost approach can be a source of this information.

the rent that the tenant's business can afford to pay also influence rent amounts. Appraisers may have to address the rent that is available from unique or unusual historic properties in a context that balances consideration of all three: competitive market rates, a reasonable return on investment, and the proportion of rent to the income from retail sales, room occupancies, and so forth.

If the gross income to the property is not rent per se, but is a function of the number of daily visits or overnight guests, as is the case for hotels, bed-and-breakfasts, and museums, income will be dependent on the number of people who visit the property to sleep, eat, or tour. The number of visitors must be projected, based on comparable situations, past performance, and future expectations, together with an analysis of all physical, political, economic, and social variables. Appraisers may also need to factor in income from all other sources, such as the sale of products in conjunction with the operation of a museum or historic inn.

ESTIMATING EXPENSES

When an appraiser is estimating net income, annual expenses must be subtracted from the estimate of gross income available to the property. Operating expenses are the periodic expenditures necessary to maintain the property and support its income. An appraiser projects expenses by combining past trends with expected future economic trends and by anticipating any changes in the building's physical condition, occupancy level, or tenant profile.

The expenses of income-producing historic properties sometimes vary from those of modern utilitarian buildings. Utility charges, repair, and cleaning expenses can be higher for high-ceilinged, intricately configured interior space. The exteriors of ornate older buildings can be more difficult and expensive to keep clean and in good repair. Casualty insurance premiums may be higher for older buildings. Inherent physical deterioration must be continuously offset with maintenance, repair, and replacement. On the other hand, allowances for vacancy for buildings operated by historic trusts may be unnecessary because maintenance may be provided by volunteers. For other historic properties real estate taxes are waived or reduced. Recapture provisions are arithmetically reversed for those historic buildings which are appreciating rather than depreciating assets.

It is difficult to apply standardized expense models to historic buildings because their expenses are specific to their individual characteristics. Therefore, an appraiser must analyze expenses for similar and nearby buildings along with the operating history of the subject building, if any, and provide a specific analysis of the factors that will affect the various expense items.

