



Dallas Central Appraisal District

COMMERCIAL PROPERTY VALUATION PROCESS

The Dallas Central Appraisal District's (DCAD) goal is to appraise all property within Dallas County at market value as of January 1 of each year. DCAD uses a Computer Assisted Mass Appraisal (CAMA) software system to achieve this goal. DCAD's CAMA system is commonly referred to as MARS (Mass Appraisal Records System). The MARS software has been integrated with a Geographical Information System (GIS) which is an intelligent mapping system, digital photographs of all real property, aerial photographs, an image workflow system, and an Appraisal Review Board tracking system.

The Texas Property Tax Code requires appraisal districts to maintain property records including ownership changes, property descriptions, a market value estimate, and any applicable partial or total exemptions to arrive at a taxable value. This information is then provided annually to the taxing jurisdictions within Dallas County to set tax rates and to collect taxes. DCAD does not collect taxes as this function is the responsibility of the various tax offices.

DCAD is required to appraise all property at market value as of January 1 of every tax year. The definition of Market Value per the Texas Property Tax Code Section 1.04 states: Market Value means the price at which a property would transfer for cash or its equivalent under prevailing market conditions if: (a) exposed for sale in the open market with a reasonable time for the seller to find a purchaser; (b) both the seller and the purchaser know of all uses and purposes to which the property is adapted and for which it is capable of being used and the enforceable restrictions on its use; and (c) both the seller and purchaser seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other. In short, it is the goal of DCAD to appraise all property within Dallas County at what it would sell for as of January 1 of every tax year.

The Commercial Division is responsible for valuing office buildings, apartment complexes, shopping centers (retail properties), warehouses (industrial properties) as well as all commercial type buildings, properties built on commercially zoned land, and land tracts with commercial zoning or agricultural uses. Commercial has 86 different building classifications. From August 1 to April 15 of every year, the two primary appraisal functions undertaken by the Commercial Division are to review all building permits issued by the cities within Dallas County and to undertake an annual reappraisal effort.

A physical inspection or site visit is required for all new construction permits and may also be required for miscellaneous building permits such as remodels, additions, repair, demolition, etc. Most inspections associated with building permits are completed prior to January 15 of every tax year. Properties that are partially complete as of January 1 will be valued based on their percentage complete and will be re-inspected annually until the construction is completed.

A Land Market Area (LMA) is a geographical contiguous grouping of properties that are reviewed at least every third year to insure accurate and equitable land market values. An Improved Market Area (IMA) is a geographical area consisting of one of the four primary Commercial property types. The four primary Commercial property types are Retail, Industrial (Warehouses), Apartments, and Office Buildings. Income models are developed annually by the Commercial Division for all IMAs within Dallas County. Typically, a Class A, B, and C Income Model will be developed for each Improved Market Area. Data used to develop these Income Models are gathered from various sources such as an actual property's Income and Expense statement and Rent Roll received during the Appraisal Review Board process as well as other local and national commercial publications.

The Mass Appraisal Records System (MARS) utilized by the Commercial Division of DCAD gives the ability to appraise property by all three approaches to value: 1) Cost Approach, 2) Sales Approach, and 3) Income Approach.

The Cost Approach involves calculating the replacement cost new for each improvement and then deducting the appropriate amount of depreciation using age/life tables. The cost tables utilized by DCAD are derived from Marshall Valuation Service, a recognized national cost publication that develops its data from actual case studies of sales and market value appraisals. Marshall Valuation then applies local modifiers to their figures to better reflect the Dallas market. DCAD may further augment this data with its own cost information received during the appeals process through property construction cost documentation and other cost sources. Based on the physical characteristics of a subject property, the DCAD cost tables generate a price per square foot that is applied to the subject improvement. The land value is then added to the depreciated value of the improvements to establish the estimated market value of the property via the Cost Approach. The DCAD cost tables are reviewed on an annual basis. The Cost Approach may be the preferred method used during the informal and formal Appraisal Review Board process if the Commercial property is a special use property, a new property recently constructed, lacks comparable sale information, and/or the property type does not lend itself to the Income Approach to value.

The Sales Approach involves determining market value of a subject property by analyzing sales of comparable properties. DCAD collects sales from several sources including sales surveys, market research companies, third-party appraisals, and local media. The bulk of sales information is received through the appeals process in the form of closing statements. The sales are processed and entered into the Commercial sales database. The Commercial MARS system then allows the appraiser to select the most comparable sale properties based on the subject's physical characteristics and market area. The sale prices can further be adjusted based on sale conditions, land size, improvement size, age, condition and location. Finally, the appraiser may weight the sales to arrive at an overall adjusted value per square foot or unit via the Sales Approach.

The Income Approach involves the capitalization of income into an estimation of market value. DCAD emphasizes the Direct Capitalization Approach where a single year's net operating income is capitalized. Capitalization is the process of dividing the subject property's estimated net operating income by a market capitalization rate to arrive at an indicated estimate of market value via the Income Approach. DCAD collects income/expense statements and rent rolls from property owners throughout the year, but primarily during the appeals process. Rents, occupancies, expenses, secondary income and net operating income for these properties are entered into the Commercial income database. Capitalization rates are then estimated based on sale prices of properties and their respective net operating incomes. Outside sources such as market research companies and real estate publications are also referenced for data pertaining to income, expense, occupancy, and capitalization rates. DCAD analyzes this data to determine market income models for properties based on their physical characteristics and market areas. Actual income components for a property are then compared to market indicators and an estimated market value is established via the Income Approach. The Income Approach is typically the preferred method when analyzing income producing Commercial properties (Retail, Office, Apartments, and Industrial) not only during the reappraisal effort but during the informal and formal Appraisal Review Board process.

The Equity Analysis process involves comparing the Subject Property to comparable properties under similar market conditions. The comparable properties are adjusted based on a variety of factors to account for differences between the comparable and the Subject. These adjustments can be either an increasing or decreasing percentage depending on whether the comparable is superior or inferior to the subject property in different categories. The degree, type and number of adjustments depend on the Building Class and the current approach to valuation. Variables for which we adjust may include: Location, Unit Count, Average Unit Size, Class Designation, Quality, Vacancy, Deferred Maintenance, Rent Rate, Total Square Footage, Condition, Year Built, Clear Height, Construction Type, and Revenue. Once the percentage of each adjustment for each comparable is totaled it will then be applied on a per square foot or per unit basis to each property. The Median per square foot or per unit value will then be applied to the subject and result in an equity valuation.

The Dallas Central Appraisal District hopes this brochure provides you with a better general understanding of the valuation processes undertaken by the Appraisal District for properties in Dallas County. Our goal is to appraise all property within Dallas County at Market Value every year, and the objective is to not only be accurate, but also equitable. You may also visit the DCAD website at www.dallascad.org to view Property Valuation Process PDF in Navigation Links.