

AY 2021 Summary Report - CBJ Commercial Property Valuations

Broad Brush Overview

We are in the process of a major review of the valuation models, the assessed values and the assessment level for all Juneau commercial properties.

A brief background. By State law we are to value properties at market value. Information that is looked at in determining market value includes sales prices, construction costs, income and expenses, lease rates, and capitalization rates.

Commercial property valuations are challenging in Juneau. We are a somewhat isolated market with a limited number of commercial properties available and a fairly low number of sales. Up until late this last year there was no requirement that the sales price be disclosed in real estate transactions. So, besides starting with a low number of sales we only had data on a portion of those.

It would seem that those challenges resulted in assessed values for commercial properties, on a whole, not being increased for the past 10 or more years causing the commercial property assessed values to lag behind the market. This caused a tax shift. A tax shift occurs when the tax burden that should be paid by one party is shifted to being paid by another party. In this case the shift was from commercial properties onto residential properties.

To rectify this tax shift the commercial property assessed values must be brought up to market. This means that commercial properties will see increases that should have occurred in smaller increments for the past 10 plus years being applied in a few years. Because the increases will represent multi-year corrections they may seem to be significant increases.

This first year we are addressing the land component. Next year we will refine the land adjustments and also start making adjustments to the improvement portion of the commercial values.

As a commercial property owner you can help improve the assessed values of Juneau's commercial property!

The more sales, market and lease information we can gather the better our basis for market analysis.

For sales, the primary year we look at is the last year. For property types with fewer sales, which include all commercial property types, we expand the sales data up to 5 years back until we have a large enough sample. For special studies we occasionally go back 10 or more years.

It would be helpful if you would provide information on commercial property sales or purchases that you have made as well as rental, lease and income and expense information.

Thank you for any information you provide.

Assessed Values In The Midst Of A Pandemic

We recognize and are sympathetic to the fact that the past year has been difficult for some businesses in Juneau. Some businesses have seen drastic reductions in revenue, in some cases almost a complete elimination of revenue. At the same time, other businesses had a good year in 2020.

In the midst of that, what State statutes require of us is to determine the market value of the real estate. While a particular business may go out of business the underlying real estate value may decrease, may stay the same, or may even increase.

Compounding Circumstances

Compounding this situation is the fact that it has become recognized and documented that most of the commercial assessed values have not changed in ten plus years while the actual market values have increased during that time. So, we need to take steps to correct that neglect.

Analysis Conclusions

A lot of work was done this year cleaning up the commercial property sales data. There is still more work to be done but good progress was made. That resulted in us having 57 market sales from the past 5 years for which we had sales prices.

Below is a table that summarizes some of the ratios from comparing assessed values to sales. A ratio of 1.00 would be right at market, a ratio under 1.00 indicates that properties are undervalued. This analysis compares 01/01/2020 assessed values to 01/01/2021 market value.

<i>Property Class</i>	<i>Count</i>	<i>Mean</i>	<i>Median</i>
Commercial Land	12	0.4095	0.3928
Commercial Improved Properties (Core Types)	35	0.7748	0.8112
Commercial Properties Overall	57	0.7149	0.7411
Residential Properties (for class equity comparison)	1025	0.9629	0.9653

Adjustments To Assessed Values

If we were a larger jurisdiction with thousands of sales and hundreds of sales in particular subsets, then we could make more drastic changes to correct the imbalance between residential and commercial properties more quickly but with limited sales we need to be a little more cautious.

Over the next few years we will work to:

- Bring more uniformity between the commercial and residential property classes
- Bring more uniformity between the commercial subclasses
- Correct the imbalance in the distribution of the value between the land component and the building component(s).

This year will just be a first step. For most properties the increase will be applied to just the land component. For some classes of properties that have no land component or only a token land value, the increase will be applied to the buildings. This will bring all commercial properties closer to market. Next year we will take another step towards parity with residential properties. This will likely involve a further increase in land and, at least in some cases, a reduction in the building component.

The adjustment being applied this year will result in a 50% increase in the land component for most commercial properties. On average this results in a 20% increase to commercial property values. One class of properties, boathouses, will actually see a 20% reduction this year.

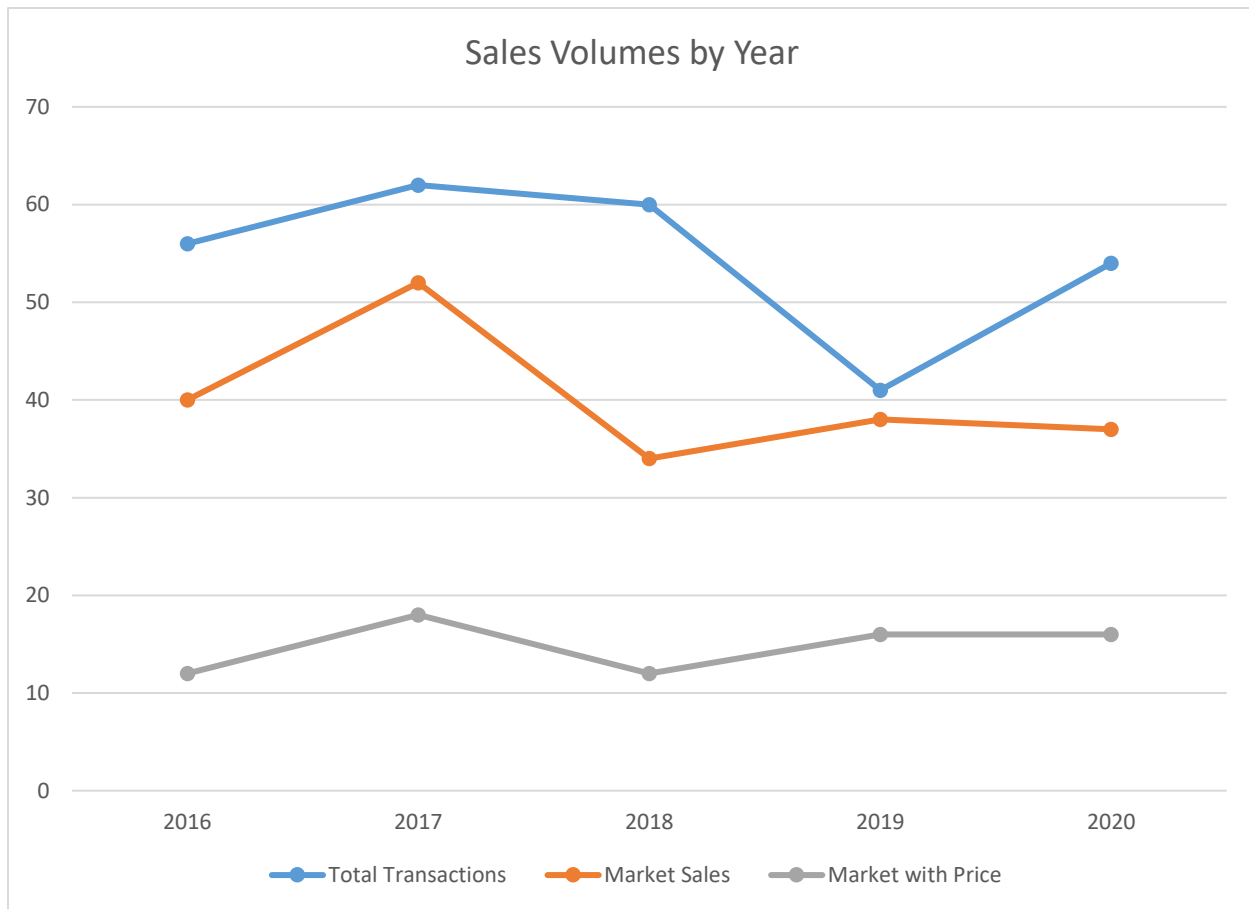
Future Refinements

In the coming years we will be:

- Refining the valuation models for all of the commercial property types- retail, office, medical, industrial, etc.
- Refining the locational adjustments
- Refining the value adjustments for things like quality, condition and other attributes.

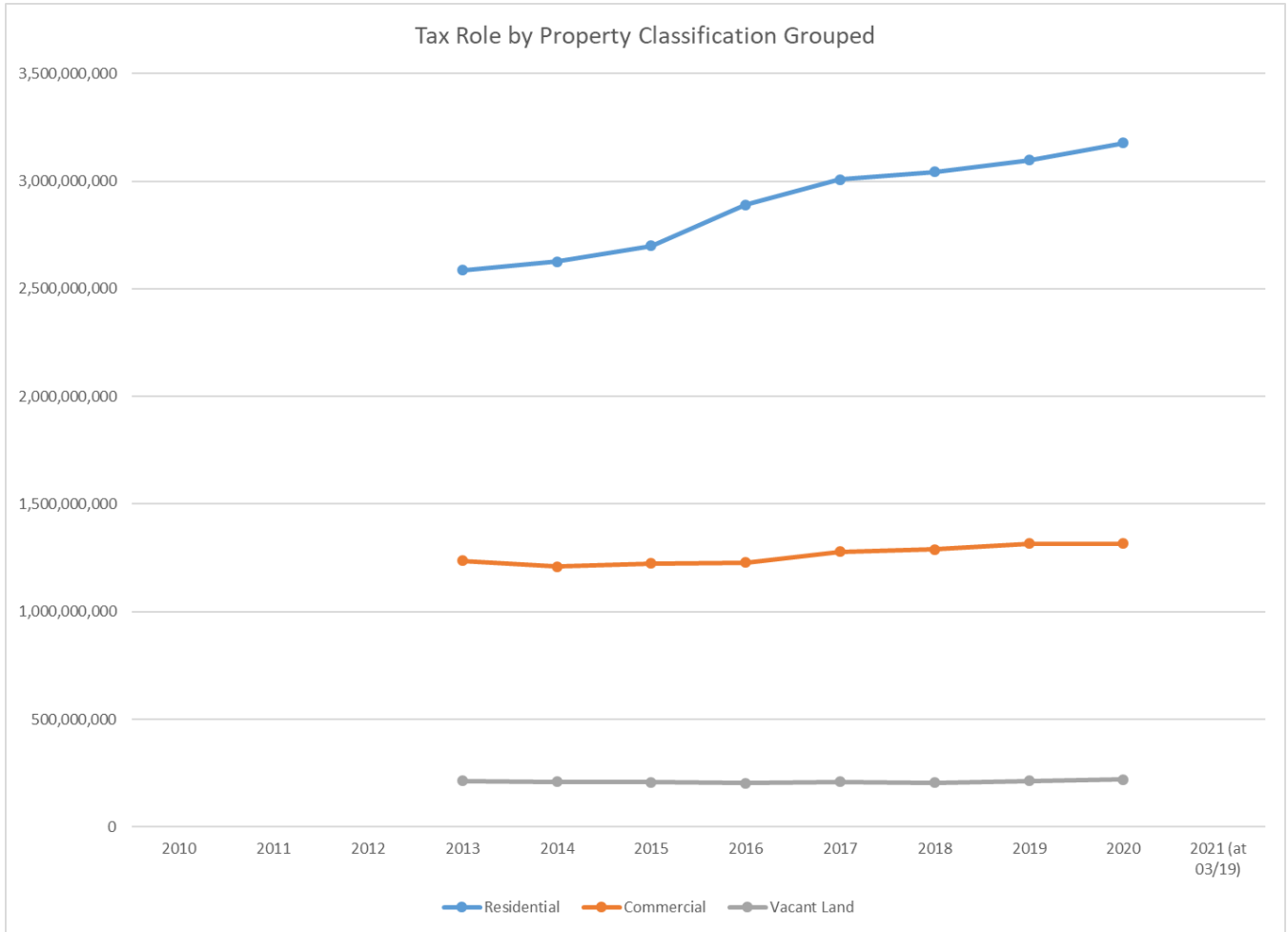
Charts

This first chart shows the number of sales per year in three groups- total transactions, market sales and market sales for which we know the sales price. You can see that the sales volume held steady through 2020 in spite of the pandemic.



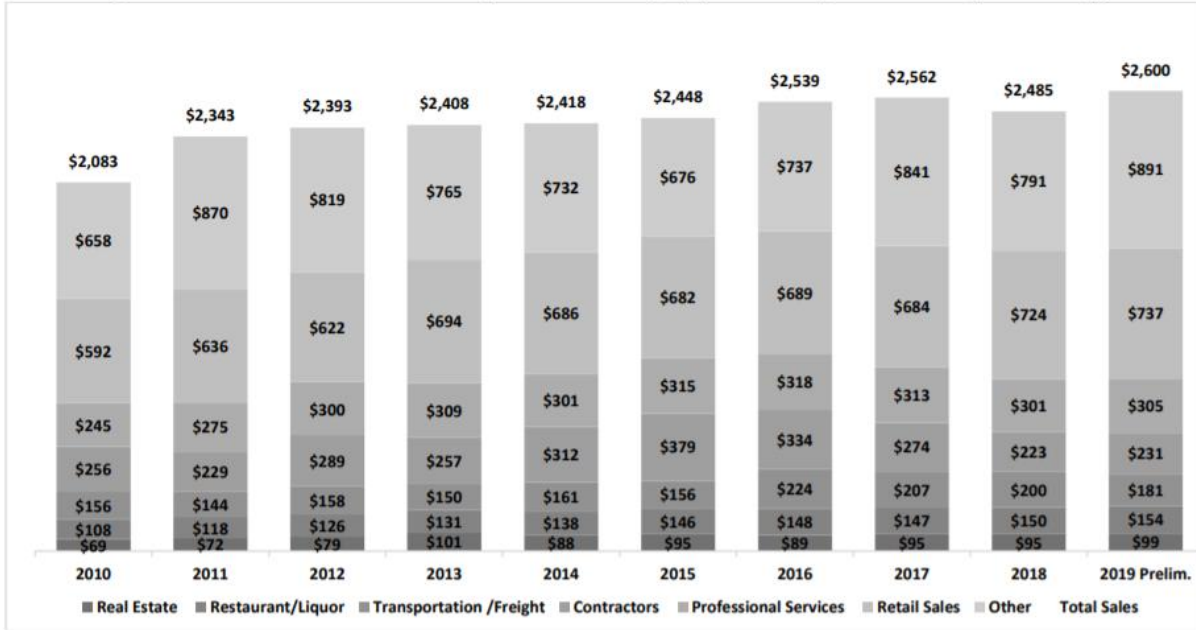
The second chart (below) shows the change in total assessed values by classification over the past 8 years. It includes both new construction and market trend increases. You can see that the residential assessed values have been increased each year while the land assessments and commercial assessments have remained flat.

Economic data from the same time period would suggest that over the past 8 years the actual market value of residential property, land and commercial property have all actually increased.



The next chart is from the JEDC Economic Indicators Report 2020 and shows the growth in sales over the past 10 years.

Figure 52: Business Sales in Juneau by Business Category (in Millions), 2010– 2019 (Preliminary)



Source: City & Borough of Juneau Sales Tax Office and CBJ Comprehensive Annual Financial Report, July 1, 2018- June 30, 2019, Statistical Section. Note: "Other" category includes mineral sales, wholesale equipment, food suppliers, and fuel companies.

Next we have a summary report of the analysis. The first Summary shows the data for commercial properties prior to this years adjustments and the second summary report shows the data after the corrections that were applied this year.

AY2021- Comm- Set 2- 20210316- No19- All, 5 Yr, 5% Trend

Summary Report

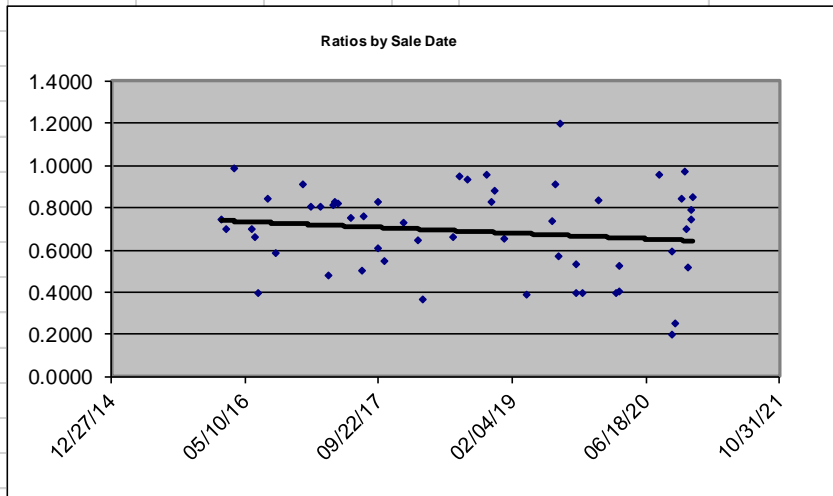
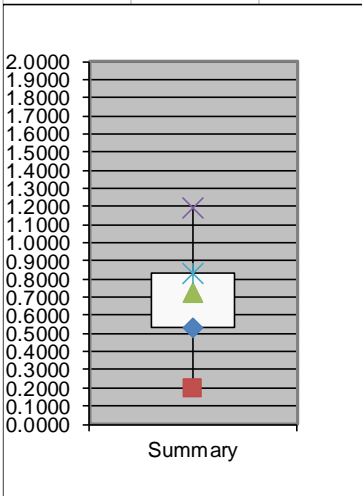
<u>Statistics</u>		IAAO Standards for COD	
Current		SFR	15.0 or less
54	Count (Number of Records with Ratio)	SFR-newer/homog	10.0 or less
0.1959	Minimum Ratio	Income Properties	20.0 or less
1.1908	Maximum Ratio	Income-Urban area	15.0 or less
0.9950	Range	Vacant Land	20.0 or less
0.6879	Mean (This is the average ratio for your sample.)		
0.7286	Median (This is the mid-point value for your sample. Preferred measure of central tendency.)		
0.5418	Weighted Mean		
2.3448	Sum of the Square of Deviations		
0.1720	AAD		
0.2103	Standard Deviation	Coefficients (0=Normal Distribution)	
23.6036	COD (Good indicator of confidence level.)	Kurtosis	-0.3111
30.5772	COV	Skewness	-0.2814
1.2696	PRD- Price-Related or Factor Differential	Alt.Cyhelsky's Skew	-0.1481
	(PRD s/b between 0.98 & 1.03, IAAO)	Alt.Pearson's Skew	-0.5808
	(PRD over 1=Regressive)		

Trending Factors

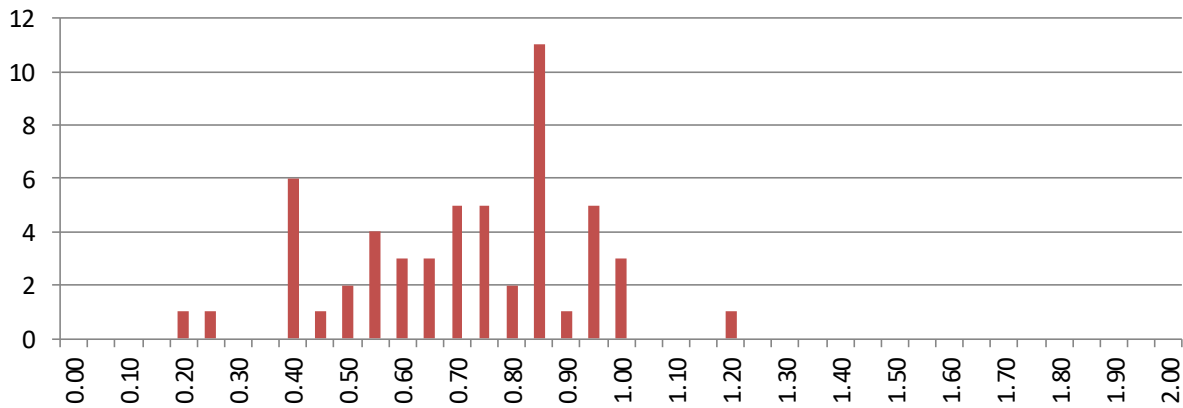
- 0.98 Target Level
- 1.4246 Factor on Mean
- 1.3450 Factor on Median**
- 1.8087 Factor on Weighted Mean

Normal / Skewed Distribution Evaluation

- 0.0407 Differential Mean to Median
- 23 Number of data points below the mean.
- 31 Number of data points above the mean.
- *Note- # below/above works on data sets up to 5,000 pts.



Histogram of Ratio Frequency



AY2021- Comm- Set 2 Updated AVs Live1- 20210316- No 19- All, 5 Yr, 5% Trend

Summary Report

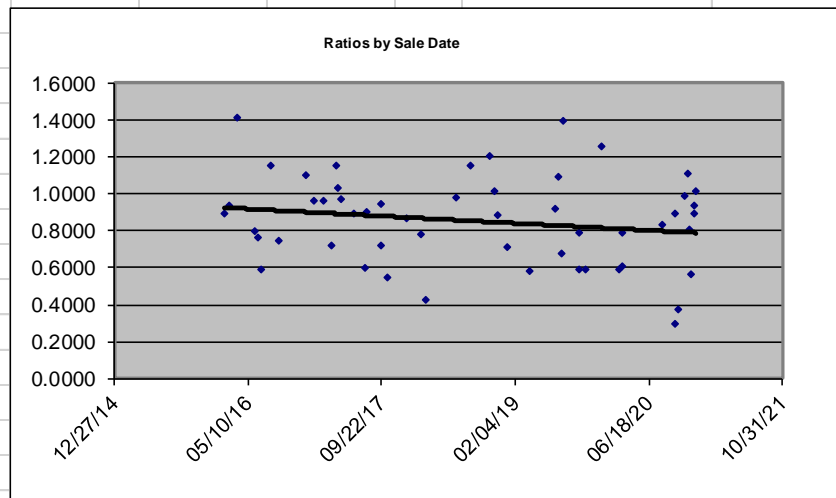
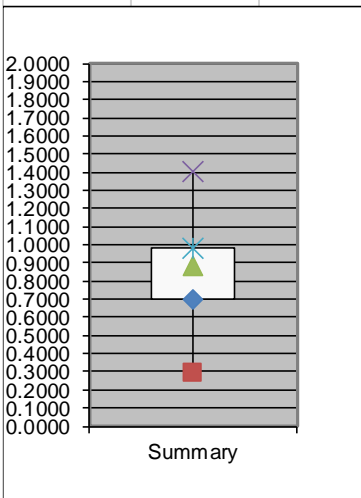
<u>Statistics</u>		IAAO Standards for COD	
Current		SFR	15.0 or less
53	Count (Number of Records with Ratio)	SFR-newer/homog	10.0 or less
0.2932	Minimum Ratio	Income Properties	20.0 or less
1.4091	Maximum Ratio	Income-Urban area	15.0 or less
1.1159	Range	Vacant Land	20.0 or less
0.8526	Mean (This is the average ratio for your sample.)		
0.8853	Median (This is the mid-point value for your sample. Preferred measure of central tendency.)		
0.6981	Weighted Mean		
3.0313	Sum of the Square of Deviations		
0.1908	AAD		
0.2414	Standard Deviation	Coefficients (0=Normal Distribution)	
21.5490	COD (Good indicator of confidence level.)	Kurtosis	-0.0245
28.3180	COV	Skewness	0.0181
1.2214	PRD- Price-Related or Factor Differential	Alt.Cyhelsky's Skew	-0.0943
	(PRD s/b between 0.98 & 1.03, IAAO)	Alt.Pearson's Skew	-0.4059
	(PRD over 1=Regressive)		

Trending Factors

0.85 Target Level
 0.9969 Factor on Mean
0.9601 Factor on Median
 1.2176 Factor on Weighted Mean

Normal / Skewed Distribution Evaluation

0.0327 Differential Mean to Median
 24 Number of data points below the mean.
 29 Number of data points above the mean.
 *Note- # below/above works on data sets up to 5,000 pts.



Histogram of Ratio Frequency

