Valuing Property

Tax Code Section 23.01 requires all taxable property to be appraised at market its value as of Jan. 1. Market value is the price at which a property would transfer for cash or its equivalent under prevailing market conditions if:

it is exposed for sale in the open market with a reasonable time for the seller to find a purchaser;

both the seller and the purchaser know of all the uses and purposes to which the property is adapted and for which it is capable of being used and of the enforceable restrictions on its use; and

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.

How Property is Valued

Each county appraisal district determines the value of all taxable property within the county boundaries. Tax Code Section 25.18 requires appraisal districts to reappraise all property in its jurisdiction at least once every three years. Tax Code Section 23.01 requires that appraisal districts comply with the Uniform Standards of Professional Appraisal Practice if mass appraisal is used and that the same appraisal methods and techniques be used in appraising the same or similar kinds of property. Individual characteristics that affect the property's market value must be evaluated in determining the property's market value.

Before appraisals begin, the appraisal district compiles a list of taxable property. The list contains a description and the name and address of the owner for each property. In a mass appraisal, the appraisal district then classifies properties according to a variety of factors, such as size, use and construction type. Using data from recent property sales, the appraisal district appraises the value of typical properties in each class. Taking into account differences such as age or location, the appraisal district uses typical property values to appraise all the properties in each class.

Three common approaches that the appraisal district may use in appraising property are the sales comparison (market) approach, the income approach and the cost approach.

The market approach to value is based on sales prices of similar properties. It compares the property being appraised to similar properties that have recently sold and then adjusts the comparable properties differences between them and the property being appraised.

The income approach is based on income and expense data and is used to determine the present worth of future benefits. It seeks to determine what an investor would pay now for a future revenue stream anticipated to be received from the property.

The cost approach is based on what it would it cost to replace the building (improvement) with one of equal utility. Depreciation is applied and the estimate is added to the land value.