

Assessments Process

- Based on rigorous and comprehensive study of market
 - Demand (vacancy/availability rates)
 - Sales (confirmation/analysis)
 - Rental Rates
 - Operating Expenses
 - Capital Requirements
- Board is confident in its valuations
- Valuations are reasonable and defensible

The Process Not Completed in a Vacuum

- Established by Law
 - Not always concise
 - Sometimes doesn't conform to market
- Overseen by DOR
 - Interprets laws
 - Sets policies and guidelines
- Reviewed by Judiciary
 - ATB decisions
 - Appeals Court decisions
- Market Conditions

Commercial Property Valuation Process

- Generally valued based on income
- ATB typically does not consider Sales Comparison Approach or Cost Approach
 - Must be an engineer to testify to cost
 - Sales are limited
 - Many sales are non-qualified or include other considerations
 - Leased fee interest
 - Portfolio
 - 1031 Exchanges
 - Partial Interest
 - Going Concerns
- ATB relies on Income Approach
- Commercial property owners that challenge our assessments rely on Income Approach

Value

- “Value” is typically thought of as a single, pinpoint dollar amount
- It is in more efficient markets
- Real estate market is not that efficient
- Each property is different
- Many variables
- Valuation requires considerable professional judgment

Simplified income approach for hypothetical 10,000 square foot office building, from the owner's and assessor's perspective

Gross Potential Income	<u>Owner</u>	<u>Assessor</u>
Building Area (SF)	10,000	10,000
Market Rent PSF	<u>\$20.00</u>	<u>\$22.00</u>
Total Gross Income	\$200,000	\$220,000
Vacancy & Collection Loss	<u>15%</u>	<u>10%</u>
Effective Gross Income	\$170,000	\$198,000
Expenses		
Operating	\$70,000	\$60,000
RE Taxes	\$0	\$0
Other	<u>\$20,000</u>	<u>\$10,000</u>
Total	\$90,000	\$70,000
Net Operating Income Before RE Taxes	\$80,000	\$128,000
Capitalization Rate	10%	9%
Real Estate Tax Factor	<u>2%</u>	<u>2%</u>
Loaded Capitalization Rate	12%	11%
Indicated Value	\$666,667	\$1,163,636
Indicated Value PSF	\$67	\$116

Assessment/ Sales Price Case Study

125 & 150 Cambridge Park Drive Cambridge, MA

PROPERTY: Two office buildings containing 436,100 square feet.

SALES HISTORY:	<u>Date</u>	<u>Total Sales Price</u>	<u>Total Price PSF</u>
	4/99	\$ 84,000,000	\$193
	12/01	\$ 98,000,000	\$225
	5/07	\$127,900,000	\$293

ASSESSMENT HISTORY:	<u>Total Both Buildings</u>
FY 04 (1/03)	\$82,201,400
FY 05 (1/04)	\$68,515,200
FY 06 (1/05)	\$63,913,000

APPELLATE TAX BOARD DECISION	<u>Total Both Buildings</u>
FY 04 (1/03)	\$72,000,000
FY 05 (1/04)	\$54,500,000
FY 06 (1/05)	\$50,000,000

ATB Ruling	
Total Over Assessment	\$38,029,600
Total Abatement	\$697,318.73

Questions

- Owner Occupied Properties
- Zoning Changes
- Raytheon Property
 - Sale Leaseback
 - Purchased for speculative redevelopment
 - Market changed
 - Demolished buildings
 - Look at Cambridge Case
- Lexington Club
 - Sales price on deed is \$9,600,000, not \$11,000,000—we have not yet confirmed
 - Assessing department confirmed 2004 sale price
 - Portfolio sale
 - Going concern
 - Personal property
 - Leased fee

Conclusion

- Assessing department now fully staffed
- Back on track
- Instituted CPA
- Now working on other issues
- Issues raised by them are not new—have been a concern to the Department and Board
- Values are based on detailed market analysis
- Values overseen by DOR
- Values are reasonable and defensible