



ALLEGHENY INSTITUTE
FOR PUBLIC POLICY

*The Upcoming Property Reassessment:
What to Expect*

Eric Montarti, Policy Analyst

Allegheny Institute for Public Policy

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Summary and Key Findings

There were over 3,000 sales of property in Allegheny County in June of 2004. Many of these sale prices will be used to create updated assessed values for the County's next reassessment. Recalling the reaction to the previous two reassessments, property owners are eager to know if they will be shocked--for better or for worse--when they open their notice informing them of their new assessment.

In order to get an idea of how recent sale prices compare to recent assessed values, we obtained data on all recorded sales in June along with the assessed value of those properties. After analyzing that data, this report notes that:

- There were \$295 million in sales on single-family homes, condos, townhouses, duplexes and row houses. On that property, the total assessed value was \$254 million, a countywide difference of 16 percent between sales value and assessed value.
- For single-family homes only, the difference between total sales value and total assessed value was 14 percent. Nearly 70 percent of the more than 2,000 arm-length sales sold for a price greater than or equal to the assessed value of the parcel.
- If recent sales move assessed values closer to those prices, homebuyers who paid a price more than 16 percent above the assessed value are likely to see County tax increases after the reassessment. Those who paid well below are likely to see decreases.
- These findings point to the need for the County to move as quickly as possible to conduct annual assessments in order to prevent large gaps between market value and assessed values from developing. It also points to the need to adopt appraisal procedures that can get each parcel valuation as close to accurate as humanly possible.

Introduction

Here we go again. Allegheny County will be officially reassessing all properties in 2006. Property owners will receive notice of their new assessment in early 2005 although the 2005 tax bill will be based on the 2002 assessments that have been frozen for three years. The idea is to give owners adequate opportunity to appeal the new assessments before they go into effect in 2006. Given the consternation over the reassessments in 2001 and 2002, it is important to begin the education process about the upcoming reassessment as soon as possible.

Countywide, the new market values of over 500,000 properties will generate the real estate taxes that will serve as the primary funding mechanism for the County budget, as well as those of the County's municipalities and school districts, for the next three years.

Without a doubt, the last two countywide assessments--while they moved the taxable value of the parcels closer to a valid total--provided much frustration for property owners and a flood of appeals to the County courthouse. Big differences in value among similarly situated properties on nearby streets led to complaints, sharp tax increases occurred in many neighborhoods, and many homeowners were very irritated.

Setting aside the public complaints about assessments and the level of property taxes in the County, how accurate will the upcoming assessments be? In order to answer that question, we obtained a database of all recorded property transactions in Allegheny County for the month of June 2004.¹ Since 97 percent of all residential properties were reassessed using the "comparable sales" approach (comparing a property to recent sales of similar properties), and it has been several years since the last assessment, it is crucial to examine recent home sale values and compare them with current assessed values to get an idea of how surprised owners are likely to be when they open their assessment letters in a couple of months. While there may be additional changes over the next year, they are unlikely to alter the relative changes already experienced.

At the outset, there were 3,232 sales recorded in Allegheny County during June of 2004 among various categories of residential, undeveloped parcels, recreational areas, business-related properties, and the like in 122 of the County's 130 municipalities. Those sales, when totaled up, yielded a total sales value of \$386 million. The assessed value of those properties stood at \$373 million. This resulted in an average difference of 4 percent between June sales value and the assessed value on those sales.

¹ REALStats Database on Sales in Allegheny County in June of 2004

Methodology

There were several types of sales that were removed from the sample in order to get a more accurate model that could help determine how recent sales and current assessed values might work together to influence property taxes owners will face in the upcoming reassessment.

- First, all sales of \$0 or \$1 were taken out in order to capture arm length transactions only. This eliminated any refinancing of properties or family transfers.
- Second, all new construction was taken out since it is not counted in any windfall provisions applicable to the county, municipalities, and school districts and the property's assessment did not reflect the construction's added value.
- Third, any remaining parcels that were not commonly assessed by the comparable sales approach was eliminated. Since many parcels are assessed by a cost (estimating the assessed value by what it would cost to rebuild the property today) or income (estimating the assessed value by the income it generates from business activity), approach, recent sales may not have an effect on upcoming assessments. A quick survey of the County's real estate website found that commercial property, large apartment buildings, acreage and lots were likely to be assessed by this method, and, as such, they were eliminated.

This left the sample with three types of property: single family residential (RES), condominiums, townhouses and apartment units (not apartment buildings) (CDO), and duplex, attached homes, and row house properties (DBL).

Property in the Sample

General Classification	Specific Use Code	# Sales (excluding \$0 or \$1 sales)	Total Sales (Excluding \$0 or \$1 Sales)	Total Assessed (Excluding \$0 or \$1 sales)	Sales/Assessed (%)
Single Family	Single Family Homes	2117	\$ 250,765,892	\$ 219,111,362	14
Multi Family	Condos, Apartment Units	292	\$ 39,611,938	\$ 30,536,900	30
	Duplexes, Row Houses	68	\$ 5,112,486	\$ 4,491,100	14
	Total	2477	\$ 295,490,316	\$ 254,139,362	16

As shown in the table above, on average, the sales taking place in many communities in Allegheny County are substantially different from their current assessed value. In this sample, many sales were well above and many were well below the County average. It is not surprising to learn that values in many communities, especially those of single-family homes, have risen sharply. Over a three-year period of very low mortgage rates, housing demand has been quite strong, even in a slow growth county such as Allegheny. Still, it is not surprising to learn that home values in several communities that have been in steep long-term decline are continuing to experience weakening prices.

Single-Family Homes

The 2,117 sales of single-family homes accounted for the largest single classification of total sales in the county during June. As such, they merit special attention. We conducted measurements on individual sale prices in relation to the countywide average of sales in relation to assessed value. Total sales of single-family homes (not including sales of \$0 or \$1) were \$250 million and had a total assessed value of \$219 million, a 14 percent difference between sales and assessments.

Variance from the Countywide Average

The 2,117 sales were divided up into ranges to see how close--or far--the individual sales fell from the 14 percent average for single-family homes. Nearly 70 percent of the parcels sold for an amount greater than or equal to their assessed value.

- 696 homes sold for 26 percent higher or more than the assessed value. The greatest difference in this range reached into percentages in the thousands.
- 358 homes sold in the range of 15 to 25 percent above their assessed value.
- 39 homes sold for 14 percent higher than their assessed value--the exact same percentage as the Countywide average for single-family homes. *If* the County were to rollback its millage rate by the amount of the percentage sales are above assessed value and adhere to windfall provisions (not take in more than 5 percent above last assessment) these homeowners would not see a noticeable difference in their County taxes.
- 353 of these homes sold in the range of 13 percent higher to zero--a percentage where the sale price was at the assessed value of the parcel (when rounded). Thirty single-family homes met this zero threshold.

This group is likely to see increases in the amount of County real estate taxes they pay based on their sale price being above the assessed value of the property. In some cases, the increases will be significant. Over 300 of these homes sold for roughly 50 percent above their assessed value.

The remaining 671 sales delivered a sale price less than their assessed value.

- 132 sales fell in the range of 1 to 10 percent lower than the recorded assessed value.
- 539 parcels sold for 11 percent or lower than the recorded assessed value, some for 100 percent less than their assessed value.

This group is likely to see decreases in their county taxes. This would hold true even if the County were to enact a slight increase in millage over the current rate.

Sales in Comparison to Assessments

To see how this plays out, we looked at actual sales in comparison with their current assessed value and the County taxes they pay now as opposed to what they would pay if the next round of assessments move closer to the sales price. All of the sales below are on single-family homes, and there is one sale from each of the six ranges detailed above.

Impact of Recent Sales on County Taxes²

June Sale Price	Current Assessed Value	Sale/Assessed (%)	Current County Taxes (4.69 mills)	06 Assessment	06 County Taxes (estimated at 4.23 mills)	Change in County Taxes
\$ 159,900	\$ 85,500	87	\$ 401	\$ 159,900	\$ 676	\$ 275
\$ 130,000	\$ 106,800	22	\$ 501	\$ 130,000	\$ 550	\$ 49
\$ 90,825	\$ 79,900	14	\$ 375	\$ 90,825	\$ 384	\$ 9
\$ 80,000	\$ 80,000	-	\$ 375	\$ 80,000	\$ 338	\$ (37)
\$ 74,500	\$ 90,000	(17)	\$ 422	\$ 74,500	\$ 315	\$ (107)
\$ 33,000	\$ 35,200	(6)	\$ 165	\$ 33,000	\$ 140	\$ (25)

Here we see the impact of sales as the driver for upcoming assessments. In this microcosm, the property owner who paid 87 percent more than the parcel's assessed value--an amount well above the average countywide difference on comparable parcels (14% on RES)--would see a large increase in his County taxes if the assessed value were to reflect the recent sale. Increases of a smaller magnitude would fall on the buyers who paid 22 and 14 percent more than the assessed value. The buyer who paid at the assessed value and the two buyers who paid below the assessed value would see a decrease in County taxes.

One thing is certain: if assessments in the County's municipalities change to reflect recent sales as they are supposed to, there will be a flood of appeals next year.

Communities with Large Number of Sales

The final part of our analysis was on communities that had 30 or more recorded sales of RES, CDO, and DBL in June. Twenty-one municipalities met this threshold. Pittsburgh recorded the most--621 sales--while South Park had exactly 30 sales that month. The remainder fell in between.

In all, 1,604 sales of the RES, CDO, and DBL codes were recorded in these 21 communities. That's about 65 percent of all sales of these three codes in the County in June.

² Assumptions include current County millage of 4.69 currently, a average millage of 4.23 in 2006 to reflect the 16% excess of sales over assessments and windfall provisions, all assessed values moving to their recent sale price, no homestead exemption or other abatements apply, and that no appeal of the assessed value is made. Realizing that the sales totals reflect only single- and multi-family home sales in June, the actual adjusted millage in 2006--and the results for each of these sales--could be quite different. The appendix details the results with different millage rates.

The sales in these 21 communities were compared to the County difference (16% in all municipalities) and the municipal differences (varying percentages in all municipalities) to see how many sales fell above, at, or below these separate indicators.

Of the 1,604 sales, 829 (52%) were greater than or equal to the countywide difference of 16 percent. The remaining sales--775 (48%) were less than that 16 percent standard.

This ranged from a high of 75 percent in Shaler (75% of the sales were greater than or equal to the County percentage) to a low of 23 percent in McKeesport (23% of the sales were greater than or equal to the County percentage). It is instructive to note the trend in sales in these two communities at the extremes. In Shaler, only 7 of the 57 sales in June--one out of every 8 sales--were for a price below the assessed value of the property.

In McKeesport, by contrast, there were 28 sales out of the 40 total that were for a price below the assessed value. In fact, 18 of the 28 sold for more than 50 percent of the assessed value of the property. Many of the sales were in the range of \$10,000 or less, indicating that several sold at sheriff auction in June.

Compared to the individual percentage differences in each municipality, 13 out of the 21 communities had a majority of sales selling for a percentage equal to or greater than the average. Returning to the two examples from above--Shaler and McKeesport--we see that at the municipal level, the June sales in Shaler were 32 percent greater than the assessed value. Thirty of the 57 sales were for a price greater than or equal to this 32 percent variation. In McKeesport, the percentage difference was (negative) 15 percent. That is, total June sales were 15 percent lower than the listed assessed value on those sales. Seventeen of the 40 sales in McKeesport were above this negative 15 percent standard.

Along with McKeesport, Penn Hills and Wilkinsburg had, on average, total sale prices below the total assessed value of those properties. Wilkinsburg was the furthest out of line, with sales coming in at 17 percent lower than assessed value. It is not a surprise given that 2003 millage rates in Wilkinsburg were the tops in the County with a municipal rate of 10 and a school district rate of 32. As is the case with many communities in Allegheny County, such burdensome tax rates have done much to discourage the growth of sales price of property.³

It is also important to note that within each municipality the gaps between sales and assessed values for individual homes vary widely around the community average. Thus, there could be extremely disparate tax impacts on properties within each community for municipal taxes. In general, if a home sold for a percentage greater than the municipal average, that homeowner would end up paying more in municipal taxes.

³ Allegheny County Office of the Treasurer (www.county.pa.us/treasure/millsd.asp)

Communities with 30 or More Sales⁴

Muni	# Sales	County Avg (%)	# Sales > or = to County	# Sales < County	Muni Avg (%)	# Sales > or = Muni	# Sales < Muni
Pittsburgh	621	16	306	315	22	277	344
Baldwin Boro	39	16	20	19	12	22	17
Bethel Park	60	16	40	20	15	40	20
Franklin Park	32	16	16	16	15	17	15
Hampton	32	16	18	14	21	12	20
McCandless	69	16	38	31	16	38	31
McKeesport	40	16	9	31	-15	17	23
Monroeville	48	16	30	18	18	30	18
Moon	42	16	18	24	8	27	15
Mt. Lebanon	80	16	41	39	17	40	40
North Fayette	37	16	22	15	26	11	26
Penn Hills	99	16	39	60	-3	63	36
Plum	39	16	25	14	18	22	17
Ross	73	16	51	22	24	35	38
Scott	45	16	24	21	15	27	18
Shaler	57	16	43	14	32	30	27
South Fayette	42	16	29	13	25	15	27
South Park	30	16	15	15	11	17	13
USC	35	16	15	20	13	16	19
West Mifflin	39	16	17	22	5	21	18
Wilkinsburg	45	16	13	32	-17	21	24

Though not considered in this paper, the impact on school taxes--usually the largest component of the real estate tax bill--would follow a similar trend with sales and their relation to the average percentage between sales value and assessed value. Nine of the communities in the table share contiguous boundaries with their school district⁵. As such, the sales would perform in the same manner they do to the municipal average. In communities that are part of multi-municipal school districts, many communities in the districts did not have enough sales in June to draw any definite conclusions about school taxes.

Conclusion

Once again, these findings point to the need for the County to move as quickly as possible to conduct annual assessments in order to prevent large gaps between market value and assessed values from developing. It also points to the need to adopt appraisal procedures that can get each parcel valuation as close to accurate as humanly possible. With the huge fraction of older housing stock in Allegheny County, using only computer

⁴ Table denotes the municipality and the total number of sales that took place in June for RES, CON, and DBL. The County average column is the total dollar value of sales divided by the total assessed value on those sales expressed as a percentage. The next two columns denote how the sales in a particular municipality compare to the County average. This process is repeated for each municipality and the average percentage for the June sales in its community only.

⁵ Bethel Park, Hampton, Mt. Lebanon, Penn Hills, Plum, South Fayette, South Park, Upper St. Clair, and Wilkinsburg

models and databases will not achieve that goal. Local real estate experts will be needed to verify computer estimates for several years and on a sampling basis after that.

Finally, after the County starts reassessing every year, the County, all school districts and all municipalities should be limited to a two percent windfall from reassessed values. Allowing a five percent windfall every year would be an invitation to officials to spend excessively and deny property owners tax relief they deserve and should have.

Appendix--Sales at Various County Millage Rates

Millage at 4.23

June Sale Price	Current Assessed Value	Sale/Assessed (%)	Current County Taxes	06 Assessment	06 County Taxes	Change in County Taxes
\$ 159,900	\$ 85,500	87	\$ 401	\$ 159,900	\$ 676	\$ 275
\$ 130,000	\$ 106,800	22	\$ 501	\$ 130,000	\$ 550	\$ 49
\$ 90,825	\$ 79,900	14	\$ 375	\$ 90,825	\$ 384	\$ 9
\$ 80,000	\$ 80,000	-	\$ 375	\$ 80,000	\$ 338	\$ (37)
\$ 74,500	\$ 90,000	(17)	\$ 422	\$ 74,500	\$ 315	\$ (107)
\$ 33,000	\$ 35,200	(6)	\$ 165	\$ 33,000	\$ 140	\$ (25)

Millage at 4.5

June Sale Price	Current Assessed Value	Sale/Assessed (%)	Current County Taxes	06 Assessment	06 County Taxes	Change in County Taxes
\$ 159,900	\$ 85,500	87	\$ 401	\$ 159,900	\$ 720	\$ 319
\$ 130,000	\$ 106,800	22	\$ 501	\$ 130,000	\$ 585	\$ 84
\$ 90,825	\$ 79,900	14	\$ 375	\$ 90,825	\$ 409	\$ 34
\$ 80,000	\$ 80,000	-	\$ 375	\$ 80,000	\$ 360	\$ (15)
\$ 74,500	\$ 90,000	(17)	\$ 422	\$ 74,500	\$ 335	\$ (87)
\$ 33,000	\$ 35,200	(6)	\$ 165	\$ 33,000	\$ 149	\$ (17)

Millage at 4.69

June Sale Price	Current Assessed Value	Sale/Assessed (%)	Current County Taxes	06 Assessment	06 County Taxes	Change in County Taxes
\$ 159,900	\$ 85,500	87	\$ 401	\$ 159,900	\$ 750	\$ 349
\$ 130,000	\$ 106,800	22	\$ 501	\$ 130,000	\$ 610	\$ 109
\$ 90,825	\$ 79,900	14	\$ 375	\$ 90,825	\$ 426	\$ 51
\$ 80,000	\$ 80,000	-	\$ 375	\$ 80,000	\$ 375	\$ -
\$ 74,500	\$ 90,000	(17)	\$ 422	\$ 74,500	\$ 349	\$ (73)
\$ 33,000	\$ 35,200	(6)	\$ 165	\$ 33,000	\$ 155	\$ (10)

Millage at 5

June Sale Price	Current Assessed Value	Sale/Assessed (%)	Current County Taxes	06 Assessment	06 County Taxes	Change in County Taxes
\$ 159,900	\$ 85,500	87	\$ 401	\$ 159,900	\$ 800	\$ 399
\$ 130,000	\$ 106,800	22	\$ 501	\$ 130,000	\$ 650	\$ 149
\$ 90,825	\$ 79,900	14	\$ 375	\$ 90,825	\$ 454	\$ 79
\$ 80,000	\$ 80,000	-	\$ 375	\$ 80,000	\$ 400	\$ 25
\$ 74,500	\$ 90,000	(17)	\$ 422	\$ 74,500	\$ 373	\$ (50)
\$ 33,000	\$ 35,200	(6)	\$ 165	\$ 33,000	\$ 165	\$ (0)