



ADMINISTRATIVE RULES OF MONTANA



42.20.109 CAPITALIZATION RATES

- (1) When using the income approach, the department will develop overall capitalization rates which may be according to use type, location, and age of improvements. Rates will be determined by dividing the net income of each property in the group by its corresponding valid sale price. The overall rate chosen for each group is the median of the rates in that group. The final overall rate must include an effective tax rate.
- (2) If there are insufficient sales to implement the provisions of (1) , the department will consider using a yield capitalization rate. The rate shall include a return of investment (recapture) , a return on investment (discount) , and an effective tax rate. The discount is developed using a band-of-investment method for types of commercial property. The band-of-investment method considers the interest rate that financial institutions lend on mortgages and the expected rate of return an average investor expects to receive on the equity. This method considers the actual mortgage rates and terms prevailing for individual types of property.
- (3) A straight-line recapture rate and effective tax rate will be added to the discount rate to determine the yield capitalization rate.

Authorizing statute(s): 15-1-201, MCA

Implementing statute(s): 15-7-111, MCA

History: NEW, 1992 MAR p. 2780, Eff. 12/25/92; AMD, 2002 MAR p. 3723, Eff. 12/27/02.