



ADMINISTRATIVE RULES OF MONTANA



42.20.108 INCOME APPROACH

- (1) The income approach is based on the theory that the market value of income-producing property is related to the amount, duration, and certainty of its income-producing capacity. The formula used by the department to estimate the market value of income-producing property through application of the income approach to value is $V = I/R$ where:
 - (a) "V" is the value of the property to be determined by the department;
 - (b) "I" is the typical property net income which shall reflect market rents, not investment value income or other rents, for the type of properties being appraised; and
 - (c) "R" is the capitalization rate determined by the department as provided in ARM 42.20.109 .
- (2) Market rent is the rent that is justified for the property based on an analysis of comparable rental properties, and upon past, present, and projected future rent of the subject property. It is not necessarily contract rent, which is the rent actually paid by a tenant.
- (3) The department will periodically request gross rental income and expense information from commercial property owners. Standard forms, developed by the department, will be used to collect the information statewide. Additional methods of obtaining income and expenses information may consist of personal or telephone contacts with owners, tenants, renters or lessees, knowledgeable lending institution officials, real estate brokers, fee appraisers, or any other sources the appraiser deems appropriate including summarized data from recognized firms who collect income and expense information, and appeal or court actions.
- (4) The department will review and analyze all annual rental income and expense data collected. As necessary, that data will be adjusted to reflect average conditions and management before entering the data into the computer assisted mass appraisal system. The process must result in defensible estimates of potential gross rents, effective gross incomes, normal operating expenses, and normal net operating incomes.
- (5) The department will follow established procedures for validating commercial sales information for the development of income models. Only valid sales will be used for the income and expense module of the computer assisted mass appraisal system.
- (6) The department will use generally accepted procedures as outlined by the International Association of Assessing Officers in their text titled "Property Assessment and Appraisal Administration" when determining normal net operating income. The following is an example of the format that will be used:
 - (a) potential gross rent
 - (i) - vacancy and collection allowance

- (ii) + miscellaneous income
 - (iii) = effective gross income
 - (iv) - normal operating expenses
 - (v) = normal net operating income.
- (b) Normal and allowable expenses include:
- (i) the cost of property insurance;
 - (ii) heat, water, and other utilities;
 - (iii) normal repairs and maintenance;
 - (iv) reserves for replacement of items whose economic life will expire before that of the structure itself;
 - (v) management; and
 - (vi) other miscellaneous items necessary to operate and maintain the property.
- (c) Items that are not allowable expenses are:
- (i) depreciation charges;
 - (ii) debt service;
 - (iii) property taxes; and
 - (iv) business expenses other than those associated with the property being appraised.
- (d) An effective tax rate will be included as part of the overall capitalization rate.
- (7) Depending on data availability, the department may develop income models for various income use groups.
- (a) Use groups may be, but are not restricted to:
- (i) apartments;
 - (ii) hotels/motels;
 - (iii) general retail stores;
 - (iv) offices;
 - (v) regional malls;
 - (vi) multiuse offices;
 - (vii) warehouses/light manufacturing;
 - (viii) mini warehouses;
 - (ix) department stores;
 - (x) medical buildings;
 - (xi) auto service buildings;

- (xii) manufacturing buildings;
 - (xiii) parking garages;
 - (xiv) multiuse sales;
 - (xv) banks;
 - (xvi) restaurants;
 - (xvii) storage buildings;
 - (xviii) apartment spaces in commercial buildings;
 - (xix) discount stores/super markets; and
 - (xx) franchise restaurants.
- (b) Location groupings for each use type will be developed by combining the income and expense data in the following sequential order until a statistically significant amount of income and expense data and capitalization rate data is obtained:
- (i) commercial intracounty neighborhoods as determined by the department to be economically and demographically homogeneous. In making the commercial neighborhood determinations, the department will consult with real estate and fee appraisal professionals; and
 - (ii) commercial intercounty neighborhoods the department determines to be economically and demographically homogeneous.
- (c) The department may analyze the following information in addition to other appropriate information to ensure economic and demographic homogeneity:
- (i) population;
 - (ii) employment;
 - (iii) income;
 - (iv) service availability and infrastructure;
 - (v) multiple listing service designations;
 - (vi) zoning and planning board designations;
 - (vii) proximity to employment/business centers; and
 - (viii) proximity to federal parks and reservations.
- (d) The department may further group data based on the age of improvements if that is determined to be statistically significant.

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; AMD, 2005 MAR p. 1594, Eff. 8/26/05.