

Where do these values for rental properties come from?

That is a very good question and one that is asked often. Hopefully this illustration will provide some answers to that question. According to IC 6-1.1-4, income properties are to be valued with the preferred method of the gross rent multiplier. The calculation for the multiplier to be used is:

$$\underline{\text{Sale Price/Rent} = \text{Multiplier (annual) or (Sale Price/Rent)/12 = \text{Multiplier (monthly.)}}$$

So, how is this put into practice?

- Step 1. Collect sales and income information from all available resources. All sales checked as Income properties are verified and validated, determining their suitability to be used for modeling. Rent information is also collected during this process.
- Step 2. Separate all sales and rents into appropriate neighborhood or GRM areas.
- Step 3. Determine the median gross rent multiplier for each area.
- Step 4. Determine the appropriate market rent for each area dependent upon bedroom count.
- Step 5. Apply estimated market rent and gross rent multiplier to each residential income property.

Example: Below is a brief example of how assessed values are arrived at for income properties showing each step of the process.

Step 1 & 2. Collection of data – All 9 sales are valid transactions occurring during the previous year. This Sample Neighborhood has been separated from the overall group.

Sample Neighborhood

| House # | Bedroom Count | Rent | Sale Price |
|----------|---------------|-------|------------|
| House 1: | 2 | \$400 | \$25,000 |
| House 2: | 3 | \$450 | \$24,000 |
| House 3: | 3 | \$550 | \$27,000 |
| House 4: | 2 | \$350 | \$24,000 |
| House 5: | 3 | \$500 | \$31,800 |
| House 6: | 4 | \$550 | \$36,900 |
| House 7: | 2 | \$425 | \$28,700 |
| House 8: | 4 | \$600 | \$41,000 |
| House 9: | 4 | \$650 | \$42,000 |

Step 3. Determine the median Gross Rent Multiplier

Sample Neighborhood

| House # | Bedroom Count | Rent | Sale Price | GRM ((sale/rent)/12) |
|----------|---------------|-------|------------|----------------------|
| House 1: | 2 | \$400 | \$25,000 | 5.21 |
| House 2: | 3 | \$450 | \$24,000 | 4.44 |
| House 3: | 3 | \$550 | \$27,000 | 4.09 |
| House 4: | 2 | \$350 | \$24,000 | 5.71 |
| House 5: | 3 | \$500 | \$31,800 | 5.30 |
| House 6: | 4 | \$550 | \$36,900 | 5.59 |
| House 7: | 2 | \$425 | \$28,700 | 5.63 |
| House 8: | 4 | \$600 | \$41,000 | 5.69 |
| House 9: | 4 | \$650 | \$42,000 | 5.38 |

*** Gross Rent Multiplier = median (middle-point) multiplier for the area.

The median GRM for this sample neighborhood is: **5.38**

4.09 4.44 5.21 5.30 5.38 5.59 5.63 5.69 5.71

Step 4. Determine the appropriate market rent by bedroom count.

- B. The estimated market rent for a 2 bedroom house is: **\$400**
 \$350 \$400 \$425
- C. The estimated market rent for a 3 bedroom house is: **\$500**
 \$450 \$500 \$550
- D. The estimated market rent for a 4 bedroom house is: **\$600**
 \$550 \$600 \$650

Step 5. Apply market rent and gross rent multiplier to each income property.

Assessed Values for Sample Neighborhood

| House # | Bedroom | Est Mkt Rent | GRM | Assessed Value |
|----------------|----------------|---------------------|------------|-----------------------|
| House 1: | 2 | \$400 | 5.38 | \$24,000 |
| House 2: | 3 | \$500 | 5.38 | \$32,300 |
| House 3: | 3 | \$500 | 5.38 | \$32,300 |
| House 4: | 2 | \$400 | 5.38 | \$24,000 |
| House 5: | 3 | \$500 | 5.38 | \$32,300 |
| House 6: | 4 | \$600 | 5.38 | \$38,700 |
| House 7: | 2 | \$400 | 5.38 | \$24,000 |
| House 8: | 4 | \$600 | 5.38 | \$38,700 |
| House 9: | 4 | \$600 | 5.38 | \$38,700 |

This illustrates the importance of providing income information in the interest of achieving accurate and uniform assessments. This information is constitutionally protected by Code: IC 6-1.1-35-9 and will remain confidential. Thank you for your assistance in helping achieve appropriate values!