STATE OF NORTH CAROLINA
COUNTY OF WAKE

BEFORE THE PROPERTY TAX COMMISSION
SITTING AS THE
STATE BOARD OF EQUALIZATION AND REVIEW

IN THE MATTER OF THE APPEAL OF:

JAMES S. GLASGOW,
Appellant

19 PTC 0422

From the decision of the Mecklenburg
County Board of Equalization and Review

FINAL DECISION

This matter came on for hearing before the North Carolina Property Tax Commission ("Commission") sitting as the State Board of Equalization and Review in the City of Raleigh, Wake County, North Carolina on Wednesday, July 29, 2020, pursuant to the Appellant's appeal from the decision of the Mecklenburg County Board of Equalization and Review ("Board").

Chairman Robert C. Hunter presided over the hearing, with Vice Chairman Terry L. Wheeler and Commission Members Alexander A. Guess and June W. Michaux participating.

Attorney Robert S. Adden, Jr., appeared on behalf of Mecklenburg County ("County") via Webex. The Appellant appeared *pro se* via Webex.

STATEMENT OF THE CASE

The property under appeal is a residential lot, improved by a single family residence and located at 3931 Melchor Avenue, Charlotte, North Carolina, and is identified by the County by Tax Parcel #157-097-13. The County conducted its most recent countywide reappraisal with an effective date of January 1, 2019.

The Appellant disputed the January 1, 2019 assessed value of the subject property, and appealed said value to the Mecklenburg County Board of Equalization and Review ("Board"). On July 16, 2019, the Board determined the value of the subject property to be $230,600, and mailed notice of its decision to the Appellant on August 20, 2019. The Appellant appealed the decision of the Board by filing a Notice of Appeal and Application for Hearing with the Commission on August 26, 2019. In said Application, the Appellant stated his opinion that the true value of the subject property was actually $196,600.

ANALYSIS AND ISSUES

A county's ad valorem tax assessment is presumed to be correct.[1] A taxpayer may rebut this presumption by producing "competent, material, and substantial" evidence that tends to show that: "(1) [e]ither the county tax supervisor used an *arbitrary method* of valuation; or (2) the county tax supervisor used an *illegal method* of valuation; AND (3) the assessment *substantially* exceeded the true value in money of the property".[2] N.C. Gen. Stat. §105-283 requires all taxable property to be valued for tax purposes at its "true value," as that term is defined in the same section.

If the taxpayer produces the evidence required to rebut the presumption, then the burden shifts to the taxing authority to demonstrate that its methods produce true values.[3]

Under this analysis, the Commission must consider the following issues:

1. Whether the Appellant carried his burden of producing competent, material and substantial evidence tending to show that:

   (a) The County employed an arbitrary or illegal method of valuation in determining the assessed value of the Appellant's property; and

   (b) The assessed value substantially exceeded the true value of the property for the year at issue.

2. If the Appellant produced the evidence required to rebut the presumption, then whether the County demonstrated that its appraisal methods produced a true value for the property, considering the evidence of both sides; its weight and sufficiency and the credibility of witnesses; the inferences drawn therefrom; and the appraisal of conflicting and circumstantial evidence.[4]

FROM THE EVIDENCE PRESENTED AND ALL DOCUMENTS OF RECORD, THE COMMISSION MAKES THE FOLLOWING FINDINGS OF FACT:

1. At the hearing, the Appellant contended that the sole issue as to value of the subject property was that the County has inaccurately appraised the land portion of his property's value, and that he took no issue with the County's value of the building portion of the subject property's

[1] In re Amp, Inc., 287 N.C. 547, 563, 215 S.E.2d 752, 762 (1975).
[2] Id. (capitalization and emphasis in original).
[3] In re Appeal of S. Ry. Co., 313 N.C. 177, 323 S.E.2d 235 (1985). In re IBM Credit Corporation, (IBM Credit II), 201 N.C. App. 343, 689 S.E.2d 487 (2009), disc. review denied and appeal dismissed, 363 N.C. 854, 694 S.E.204 (2010).
[4] In re Parkdale Mills, 225 N.C. App.713, 741 S.E.2d 416 (2013).

total value. More specifically, the Appellant testified as to his opinion that the County's base rate for the land portion of the subject property value should have been $300,000, rather than the $385,000 base rate determined by the County. After making adjustments to the base rate for the specific features of the subject property, the resulting land value would then be $120,000 (using the Appellant's base rate), rather than the $154,000 determined by the County. The net difference of $34,000 represents the difference in the Appellant's opinion of value ($196,600) and the value as determined by the Board ($230,600). Accordingly, we do not address the value of the subject property's improvements in this decision.

2. The Appellant's initial contentions relate to the County's designated appraisal neighborhood (P710) for the subject property. The Appellant contends that lots within P710 contain lots of different sizes and development ages, such that sales of newer and larger lots within the neighborhood influence the overall neighborhood base rate for P710 in a manner that overstates the value of the subject property, which the Appellant contends is smaller and of an older development age, relative to some of those sales. The Appellant contends further that Melchor Avenue would be a more appropriate dividing line between neighborhoods, rather than the County's inclusion of parcels on both sides of Melchor in neighborhood P710. Later testimony from the County explained that all lots fronting on Melchor Avenue are subject to the same market factors, and were therefore designated as part of the same neighborhood. We find this to be both an intuitive and reasonable explanation for the inclusion of Melchor Avenue lots within the same neighborhood, and there is insufficient evidence to conclude that the boundaries of neighborhood P710, as designated by the County, are excessive. Accordingly, we find that neighborhood P710 is appropriate for the subject property, which fronts on Melchor Avenue.

3. The Appellant next contends that neighborhood P710 is not subject to the same size adjustments as the adjoining neighborhood P713 (which the subject property also adjoins), and further contends that the size adjustments are not realistic. We note, however, from the map designated as Appellant's Exhibit 1, that there appears to be much greater variation in lot sizes for the parcels in neighborhood P713 than in P710, which would explain the greater emphasis on size adjustments for that neighborhood. We note further that none of the parcels in P713 front on Melchor Avenue, as does the subject property, which is the last parcel fronting on Melchor Avenue at its end (and, therefore, the last parcel in neighborhood P710 at this end of Melchor Avenue). There is insufficient evidence to conclude that the size adjustments made by the County for neighborhood P713 are inappropriate for that neighborhood, or that the same

size adjustments should be made to the parcels in neighborhood P710, when the two neighborhoods appear to be subject to different market factors based on their location—precisely the reason for designating and appraising the two parcel groups differently, relative to each other. There is no evidence that parcels within a given neighborhood are appraised differently from one another, and given that we have found the subject property to be appropriately designated within neighborhood P710, we find that the distinctions between neighborhood P713 and neighborhood P710 are irrelevant as to the true value of the subject property.

4. Much of the Appellant's contention stems from the County's consideration of so-called "demo[lition] sales," by which the value of vacant land is determined by reviewing sales of parcels that are improved, but then the improvements are demolished shortly following the sale. We note that such situations are commonly referred to as "demo sales" or "teardown sales," because the buyer's intention is to remove the existing structure from the land and replace it with a new structure. The Appellant contends that there is no mention of "demo sales" either in the County's Schedule of Values for the 2019 reappraisal, and that none of the professional appraisal literature refers to "demo sales," and that considering such sales as the equivalent of raw land sales is inappropriate. We disagree. The Appraisal of Real Estate (14th Edition), published by the Appraisal Institute, specifically recognizes the market extraction technique for appraising land, defining it as "a valuation technique in which land value is extracted from the sale price of an improved property by deducting the contributory value of the improvements. The remaining value represents the value of the land" (emphasis added). When an improved property is purchased with the intent to remove the improvements, it is logical to conclude that the improvements contribute no value to the sale. Furthermore, the fact that there would certainly be additional costs in removing the improvements from the land not only adds further support to the idea that the improvements contribute no value to the sale, but also implies that the actual cost to convert the parcel to raw land is actually higher than the actual purchase price. We find, therefore, that the market extraction technique, whether labeled as a "demo sale," "teardown sale," or some similar informal term, is a recognized and logical technique for developing an indication of the market value for land.
5. The Appellant contends further that the appropriate approach for applying the market extraction technique would require the County to reduce the sale price of "demo sales" by some correlation to the amount of value assigned by the County to the improvements, as shown on the County's property record for the parcel in question. We disagree on this point as well,

because it assumes that the value of an improvement prior to a sale is the same after the sale, when clearly a market exists for the acquisition of improved properties by buyers who assign no contributory value (or even negative value) to the improvements. Again, and also for the reasons stated above, we find that "demo sales" do indicate the value of the underlying land, especially when market data indicate multiple such sales within a market area.

6. Alternatively, the Appellant testified as to his opinion that the actual value of the improvements situated upon properties subject to "demo sales" could be estimated at $100,000, thereby arriving at his opinion that the actual base price for lots in neighborhood P710 should be $300,000. This approach both misapplies the market extraction technique as described above, and attributes an arbitrary value to the improvements. Accordingly, we find the opinion of value derived in this way to be unreliable, and do not consider it further.
7. Finally as to this issue, the Appellant contends that the market extraction technique is only appropriate when the highest and best use of the property has changed, and cites the Appeals Handbook, published by the North Carolina Department of Revenue, in support of this contention. Suffice to say that we find no support for such a contention, either in the Department's Handbook or in any known appraisal literature. Accordingly, we find this contention to be irrelevant.
8. The Appellant provided testimony as to topographical and other issues that, in his opinion, adversely impact the value of the subject property. While acknowledging that the County had adjusted the value of the subject property, the Appellant contended that the County had used an incorrect base value ($385,000) from which to apply the adjustments, and should have actually used the $300,000 base value as the starting point for such adjustments. We note that the County's ultimate land value of $154,000 represents a 60% reduction from the base value of $385,000, and that the Appellant's $120,000 opinion of land value also represents a 60% reduction of value from $300,000, his opinion of base value. Accordingly, we find that the reductions from the base value are not at issue in this matter, and the only remaining question is which base lot value is appropriate for the subject property.
9. The County's witness, Jeremy Blackwelder, offered testimony based on his experience both as a North Carolina-certified appraiser and as an ad valorem property appraiser certified by the North Carolina Department of Revenue. Referring to County Exhibit 9, Mr. Blackwelder offered testimony as to sales during 2017 and 2018 of several properties situated in neighborhood P710. Of these sales, two were of vacant lots that sold for $380,000 each, and fifteen additional sales were of properties for which the buyer removed all or nearly all of the

improvements subsequent to their respective sales. The median sale price of all seventeen sales was $410,000. Referring to the Appellant's Exhibit 12, which the Appellant labeled as "demo sales" from 2017 and 2018, a list of ten sales (nine of which were also included in the County's list of seventeen sales), Mr. Blackwelder noted that the Appellant had determined the median value of these sales to be $405,500. We find, therefore, that there is substantial market evidence to support our conclusion that the appropriate base value for lots in neighborhood P710 is at least $385,000.

10. As further support for the County's base lot value, Mr. Blackwelder testified as to the ratio between the County's assessed values and actual sale prices for the seventeen properties listed in County's Exhibit 9. On average, the seventeen properties are assessed at 88.8% of the price at which the properties actually sold, with the median such ratio being 89%. Since data from actual sales within neighborhood P710 support land values of at least the base rate, we conclude and find that the County has demonstrated that its methods in valuing land in neighborhood P710 produce true values, and find again that the appropriate base value for lots in neighborhood P710 is at least $385,000.
11. In a similar ratio analysis performed by the County for all qualified sales in neighborhood P710 (including vacant lot, demo sales, and improved properties) and labeled as County Exhibit 8, Mr. Blackwelder testified that, for all fifty-nine such sales occurring in 2017 and 2018, the average assessed value for the properties is 98.3% of the actual sale prices of those properties, with the median such ratio being 98.4%. We conclude and find that this report further demonstrates that the County's appraisal methods produce true values within neighborhood P710 as a whole.
12. Mr. Blackwelder testified that the subject property was the only parcel in all of neighborhood P710 with an assessed land value lower than $200,000, and that the deficiencies of the subject property had been adequately addressed in reducing the assessed land value from $385,000 to $154,000.
13. Mr. Blackwelder testified further that the County's 2019 reappraisal was conducted in compliance with all relevant standards of the The Appraisal Foundation's Uniform Standards of Appraisal Practice ("USPAP") and of the International Association of Assessing Officers ("IAAO").

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BASED UPON THE FOREGOING FINDINGS OF FACT, THE PROPERTY TAX COMMISSION CONCLUDES AS A MATTER OF LAW:

1. The Commission has jurisdiction over the parties and the subject matter of this appeal and has the authority to correct any assessment of real property when it is shown to be based upon an arbitrary or illegal method of valuation and that the valuation substantially exceeds the true value in money.
2. "True value" is defined in N.C. Gen. Stat. §105-283, and N.C. Gen. Stat. §105-317(a) provides specific elements of value that are to be considered when appraising real property in order to determine its true value.
3. N.C. Gen. Stat. §105-317 "has been interpreted as authorizing three methods of valuing real property: the cost approach, the comparable sales approach, and the income approach."[5]
4. The cost approach is not relevant to unimproved land. There was no evidence presented indicating that the subject property is income-producing; therefore, the income approach is likely irrelevant with regard to the subject property.
5. The Appellant offered limited evidence of true value based on comparable sales, contending primarily that the County's methods of determining the base rate for the land value of the subject property and other properties was arbitrary. The Appellant further produced some evidence that the County's base rate, if inaccurate, would result in an assessed land value for the subject property that "substantially exceeded the true value of the property for the year at issue."
6. Even if the Appellant produced sufficient evidence to overcome entirely the presumption of correctness of the County's assessment, the County was able to demonstrate that its methods produced true value by offering competent, material, and substantial evidence that the subject property's true value is consistent with the value at which it was assessed; that the value is also consistent with the County's duly adopted Schedule of Values, Standards and Rules; and that the value is also consistent with the relevant professional appraisal standards set forth by USPAP and by the IAAO.

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[5] *In re Greens of Pine Glen Ltd.*, 356 N.C. 642, 648, 576 S.E.2d 316, 320 (2003)

WHEREFORE, the Commission orders and decrees that the decision of the Mecklenburg County Board of Equalization and Review, determining the true value of the subject property to be $230,600, is hereby affirmed.

NORTH CAROLINA PROPERTY TAX COMMISSION

Robert C. Hunter, Chairman

Vice Chairman Wheeler and Commission Members Guess and Michaux concur.

ATTEST:

Stephen W. Pelfrey, Commission Secretary

Date Entered: 9.10.2020