

From: Eric Grossman

Sent: Friday, September 29, 2023 1:33 PM

Dear fellow LCM researchers & DLGF Cost Co-conspirators,

Thanks again for your openness to chat about solutions to pressing legislative and corresponding valuation matters. I would like to follow up our discussion with a formal request that the DLGF consider increasing the 2023 LCM of .93 to 1.32 for the 2024 cost table update for Tippecanoe County. The details and support for this request are described below:

Tippecanoe County utilizes the DLGF supplied cost tables as a starting point to derive the market value-in-use of residential, agricultural and some commercial/industrial facilities. Periodic regression testing using physical CAMA data as independent variables to predict market activity (via validated sales data) shows a **high correlation between DLGF cost tables and market value**. This strong correlation is the reason that applying replacement cost factors to similar property groupings is effective, however, the factors necessary to bridge the gap are large and ever increasing.

With the recent additions to Ind. Code § 6-1.1-4-39, applying trending factors at the local level to achieve market-value-in-use seem barred by the plain wording of the statute. Due to this change, a prominent and valuable class of property is not trend-able at the local level thus making it imperative for the DLGF cost table to not only be correlated to market value, but also reflect the **level** of market activity on the relevant assessment date. We left our conversation thinking that a research-driven LCM was the most feasible way to maintain both market value and legal compliance with Ind. Code § 6-1.1-4-39 utilizing the current cost tools in place.

Quantifying an LCM

We began the process by consulting with Ginny Whipple and obtained her research to quantify a LCM in Bartholomew County. Ginny gathered verified building permit information and compared the reported cost to the RCN cost utilizing the DLGF cost schedules. The simple philosophy in this approach is that the RCN for a dwelling from a cost table should equal what it generally costs to build.

We began looking at permits that were pulled for single family new home construction since Covid, 2020 and forward. We filtered our list of permits to isolate projects that had a reported cost. Most of the 53 new homes with reported construction costs are supplied by prolific firms that we recognize. Please find attached a spreadsheet titled "LCM cost analysis". Comparing the reported builder cost to the RCN from the DLGF cost model shows that our median required LCM is 70% too low, suggesting an increase from .93 to 1.58. We are happy to make digital copies of the building permits available upon request.

For assessments to reflect market value, the methodology used must satisfy the law of substitution. Of the 53 new homes with listed permit costs, 13 of them sold within a year of completion. Most of these are in Provenance SD, a new subdivision near Purdue Airport. We have a web application that defines grading and valuation information for most neighborhoods, including provenance: [NBHD 525 \(arcgis.com\)](#). Calling these A- Grade houses is a stretch (see pics on the web app), but a negative effect of drastically low cost base is over-grading; calling these Bs, or C+X would indicate a higher LCM differential. Land is predictable in new subdivisions due to high, concentrated sale volume during development. The median difference between reported cost and sale price attributed to improvements (sale-land AV) is 16.5%. This indicates that the cost reported by the builders, that drive their permit fees, are hard costs

plus soft costs, but do not include entrepreneurial profit or change orders. Entrepreneurial profit is a vital component of a cost value to satisfy the law of substitution. As a former contractor, I can tell you that we would try very hard not to engage in work unless the payout was a substantively above our actual cost. USPAP standard rule 1-4, in describing the parts of a credible cost approach, requires the appraiser to:

analyze such comparable data as are available to estimate the difference between the cost new and the present worth of the improvements (depreciation).

In looking at the 13 sales where we can compare the sale and cost of a new home, the LCM appears to be 76% too low, or indicating an increase from .93 to 1.64.

Looking at the sale of the new home appears to be the best indication of the total cost including any changes during construction and entrepreneurial profit. The median profit margin for the 13 new home sales is 16.5% based on the reported cost and sale price attributable to improvements. It is vital to capture all components of the cost approach to create a value that satisfies the law of substitution and not just the material plus labor incurred by the builder. To this end, there are 861 sales of single lot, single family homes built in Tippecanoe County since 2020; these new homes have negligible physical depreciation and sold new to their first occupant. The sale price of these homes minus the land value should reconcile with the replacement cost of the improvements. These homes would not have any physical depreciation at the time of sale and new subdivision lot values are generally predictable and consistent. Please find attached "LCM sale analysis" spreadsheet that contains information on these 861 sales. With one LCM for all types of property, there is not one magic number that will perfectly equalize all classes and township. Our goal was to create an LCM that will be the most beneficial for the greatest number of properties and drastically reduce the need for additional local factors. Comparing the sale price attributable to improvements (minus land) to the DLGF cost indicates that **the current LCM is 42% too low, suggesting an increase of LCM from .93 to 1.32**. To get a visual indication of LCM spread throughout Tippecanoe, this map can be used to see the difference between cost and (sale-land) for the 861 sales described above: [RCN PROJECT \(arcgis.com\)](#). The line charts at the bottom of the map highlight the correlative relationship but differing levels of cost and value that we are attempting to bridge via LCM. Additionally, I have attached the average LCM per neighborhood and taxing district based on the 861 sales, but our request is based on the median. The average neighborhood and district LCM highlight the County-wide need for higher LCM across the board:

To summarize: We are requesting the median LCM of 1.32 based on the analysis of cost, land and sales of 861 new homes built after 2020.

If you have any questions about our methodology or data, I am free to discuss at your convenience,

Have a good weekend,

Eric Grossman

From: Wood, Barry

Sent: Friday, September 29, 2023 3:23 PM

Eric:

Thank you for the information. This may be a case of putting the cart before the horse. We expect to release the January 1, 2024 Location Cost Multipliers (LCM) by the end of next month. At this point, we do not know what the final LCM will be for Tippecanoe County. Hence, after reviewing the 2024 LCM, if you decide to continue with your request, we can do so.

Thanks for your understanding.

Barry Wood
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