

The seal of the Texas Comptroller of Public Accounts is visible in the background. It features a five-pointed star in the center, surrounded by a wreath of olive and oak branches. The words "THE COMPTROLLER" are arched above the star, and "TEXAS" is arched below it.

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Texas Comptroller of Public Accounts

Guidelines for the Valuation of  
Public Access  
Airport Property

May 2016

Tax Code Section 5.05(a) authorizes the Comptroller's office to prepare and issue publications relating to the appraisal of property and the administration of taxes as a public service. By publishing this manual, the Comptroller's office is making available an information resource of a general nature regarding the appraisal of property and the administration of taxes. This publication does not address and is not intended to address all aspects of property appraisal, tax administration or property tax law. The information contained in this publication neither constitutes nor serves as a substitute for legal advice. Pursuant to Tax Code Section 5.041(f), the Comptroller's office may not advise a property owner, a property owner's agent or the appraisal district on a protest matter. Questions regarding property appraisal, tax administration, the meaning or interpretation of statutes, legal requirements and other similar matters should, as appropriate or necessary, be directed to an attorney or other appropriate counsel.



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# Deed Restrictions on Public Access Airport Property

These guidelines describe the methods to apply and the procedures to use in appraising land under voluntary and enforceable deed restriction and used for public access airport purposes. These revised guidelines supersede the *Guidelines for the Valuation of Public Access Airport Property* as published by the State Property Tax Board, May 1987.

Tax Code Chapter 23, Subchapter G, provides a means by which a property owner may create a voluntary deed restriction on real property restricting the property's use to public access airport property as defined in the statute. It establishes specific limitations on and procedures for creation of the restriction.<sup>1</sup>

Owners of real property subject to these restrictions may apply to have their property appraised under Tax Code Section 23.93.<sup>2</sup> Subchapter G sets out not only qualifications and guidelines for such appraisal, but also establishes provisions for additional taxation with interest or penalties on the property when the deed restriction expires; the use of the land changes; or the property is not used exclusively as a public access airport.<sup>3</sup>

Local tax administrators must be knowledgeable of Subchapter G provisions in order to respond to inquiries and to administer provisions of the law. Taxpayers are urged to study carefully all provisions of the law prior to applying since failure to properly qualify or expiration of the deed restriction results in additional taxes plus interest and/or a penalty being owed, depending on the circumstances.<sup>4</sup>

Tax Code Section 23.93(e) requires the Comptroller's office to promulgate rules that specify the methods to apply and the procedures to use in appraising land which qualifies under Subchapter G. This manual is adopted under rule-making authority

of the Comptroller's office pursuant to this statute in Comptroller Rule 9.4010, Appraisal of Public Access Airport Property.<sup>5</sup>

## Definitions

**Public access airport property** is defined to mean "privately owned airport property that is regularly used by the public for or regularly provides services to the public in connection with airport purposes."<sup>6</sup>

**Airport property** is "real property that is designed to be used or is used for airport purposes" including:

- the landing, parking, shelter or takeoff of aircraft; and
- the accommodation of individuals engaged in the operation, maintenance or navigation of aircraft or aircraft passengers.<sup>7</sup>

## Establishment of restrictions

Tax Code Chapter 23, Subchapter G entitles taxpayers to have property appraised as restricted to public access airport use.<sup>8</sup> To accomplish this, the owner of a fee simple estate in property executes a written instrument in the form and manner of a deed.<sup>9</sup> The property must be at least five acres.<sup>10</sup> The requirements of the instrument are that it must:

- describe the property and the restricted part of the property;
- name each owner of the property;
- state that the restriction on the property is for use only as public access airport property;
- state the term of the restriction which must be at least 10 years; and

<sup>1</sup> Tex. Tax Code §§23.91 – 23.97

<sup>2</sup> Tex. Tax Code §§23.93 and 23.94(a)

<sup>3</sup> Tex. Tax Code §§23.96(a), 23.97(a) and 23.93(d)

<sup>4</sup> Tex. Tax Code §§23.93(d), 23.96(a) and 23.97(a)

<sup>5</sup> 34 Tex. Admin. Code §9.4010

<sup>6</sup> Tex. Tax Code §23.91(2)

<sup>7</sup> Tex. Tax Code §23.91(1)

<sup>8</sup> Tex. Tax Code §23.93(a)

<sup>9</sup> Tex. Tax Code §23.92(a)

<sup>10</sup> Tex. Tax Code §23.92(a)

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- be filed with the county clerk of the county in which the property is located.<sup>11</sup>

Deed restrictions can also be created by restrictive covenants or any other recorded written instruments.

A deed restriction is “a valid and enforceable provision that restricts the use of property and that is included in a written instrument filed and recorded in the deed records of the county in which the land is located.”<sup>12</sup>

### **Exclusive use as public access airport property**

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In addition to requiring a valid deed restriction on the property, Tax Code Section 23.93 requires that the property be **exclusively**:

- devoted to use as public access airport property in the preceding year; and
- used and intended for use as public access airport property in the current year.<sup>13</sup>

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<sup>11</sup> Tex. Tax Code §23.92(a) and (b)

<sup>12</sup> Tex. Tax Code §23.91(3)

<sup>13</sup> Tex. Tax Code §23.93(a)(1)-(3)



# Additional Taxation, Penalties and Interest

## **Additional tax plus interest imposed for nonexclusive use**

If airport property is appraised under Tax Code Section 23.93 for a year, the chief appraiser shall determine at the end of that year whether the property was used exclusively as public access airport property. If the property was not used exclusively as public access airport property, an additional tax is to be imposed equal to the difference in the amount of tax imposed and the amount that would have been imposed for that year if the restriction had not been considered, plus interest.<sup>14</sup> The assessor is to include the amount of additional tax plus interest on the next bill for taxes on the land.<sup>15</sup>

## **Deed expiration triggers additional taxes plus interest for five years**

Property qualified for appraisal under Tax Code Chapter 23, Subchapter G, is subject to additional tax plus interest if qualifications for the appraisal are not maintained. The additional taxation provision, contained in Tax Code Section 23.96(a), is very similar to the rollback or recapture provisions which exist under the agricultural productivity valuation sections of the Tax Code.<sup>16</sup>

A rollback or recapture of taxes is triggered upon expiration of the deed restriction.<sup>17</sup> A rollback tax is not triggered if the use of the property is diverted to a use other than as public access airport property. In this situation, a penalty tax would be due (see next section). The amount of rollback tax due is measured by the difference between the taxes paid under the valuation procedures in Tax Code Chapter 23, Subchapter G, and the taxes that would have been paid if the property had not been appraised as restricted use public access airport property.<sup>18</sup>

The rollback period is for the “...five years preceding the year in which the deed restriction expires...”<sup>19</sup> If the deed restriction has expired, the additional tax is for the five years prior to the year the restriction ends. Each of these prior five years is reviewed to see whether the valuation was granted. Those years in which the valuation was granted are used to calculate the rollback taxes. Rollback taxes incur interest at an annual rate of 7 percent to be calculated from the dates on which the differences would have become due.<sup>20</sup> A tax lien attaches to the property on the date the deed restriction expires to secure payment of the additional tax and interest imposed and any penalties incurred.<sup>21</sup>

The tax assessor must deliver a tax statement for rollback taxes and interest as soon as practicable after the deed restriction expires.<sup>22</sup> Comptroller Rule 9.3038 specifies the minimum items of information that must be included on special valuation rollback tax bills, including rollback tax bills under Tax Code Section 23.96(c) for public access airport property. The taxes become delinquent and incur penalty and interest as provided by law on the date when the taxing unit’s taxes become delinquent so long as that is more than 10 days after the date the statement is delivered.<sup>23</sup>

## **Change of use triggers penalty**

A penalty is incurred for any year in which the property appraised under Tax Code Section 23.93 is used as other than public access airport property before the deed restriction expires.<sup>24</sup>

The measure of the penalty for the year in which the violation occurs is the same measure for determining the amount of rollback tax due in one year. The penalty will be the

<sup>14</sup> Tex. Tax Code §23.93(d)

<sup>15</sup> Tex. Tax Code §23.93(d)

<sup>16</sup> Tex. Tax Code §23.96

<sup>17</sup> Tex. Tax Code §23.96(a)

<sup>18</sup> Tex. Tax Code §23.96(a)

<sup>19</sup> Tex. Tax Code §23.96(a)

<sup>20</sup> Tex. Tax Code §23.96(a)

<sup>21</sup> Tex. Tax Code §23.96(b)

<sup>22</sup> Tex. Tax Code §23.96(c)

<sup>23</sup> Tex. Tax Code §23.96(c)

<sup>24</sup> Tex. Tax Code §23.97(a)

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difference between the taxes paid under the restricted use valuation procedures and the taxes that would have been paid if the property had not been restricted to public access airport property use.<sup>25</sup> The amount of the penalty constitutes a lien on the property and accrues penalties and interest in the same manner as a delinquent tax.<sup>26</sup>

The chief appraiser must send a written notice of the imposition of the penalty to the person who applied for this appraisal. The notice must include a brief explanation of the procedures for protesting the imposition of the penalty before the appraisal review board. The tax assessor must include the penalty on the taxing unit's next bill for the property.<sup>27</sup>

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<sup>25</sup> Tex. Tax Code §23.97(a)

<sup>26</sup> Tex. Tax Code §23.97(c)

<sup>27</sup> Tex. Tax Code §23.97(b) and (c)





# Applications

In order to be considered for qualification as public access airport property as defined by Tax Code Section 23.91, the property's owner or agent must file a sworn application the first year that he or she claims it. The property owner must use the application form provided by the appraisal office and file it with the chief appraiser of the appraisal district in which the property is located.<sup>28</sup>

The Comptroller's Property Tax Assistance Division (PTAD) prescribes the contents of the public access airport property application in Form 50-169 *Application for Appraisal of Public Access Airport Property*. Although it is not mandatory to use PTAD's form, an application submitted must substantially comply with the model form and contain all language required by statute.<sup>29</sup>

## Application deadline

Completed applications must be filed with the chief appraiser before May 1. For good cause, the chief appraiser may extend the filing deadline for a single period of up to 60 days.<sup>30</sup>

If a claimant should fail to timely file a completed application form, the property is ineligible that year for appraisal as public access airport property under Subchapter G.<sup>31</sup> If the appraisal district is aware of a deed restriction limiting the use of any property, the restriction must be taken into consideration in making a determination of fair market value of the property.

After an application has been filed and valuation as public access airport property has been granted, the property is eligible for this special valuation in subsequent years without the need for a new application. This is true during the term

of the deed restriction for as long as the property's ownership remains the same and its eligibility remains intact.<sup>32</sup>

If the chief appraiser has good cause to believe the property's eligibility has ended, he or she may require a person allowed special valuation as public access airport property in a prior year to file an updated application to confirm that the property is currently eligible. The chief appraiser must deliver notice that a new application is required, along with an application, to the person allowed the special valuation in a prior year.<sup>33</sup>

## Eligibility change

Persons who receive the public access airport property appraisal must notify the appraisal district office in writing before May 1 after the eligibility of the property ends.<sup>34</sup>

If the chief appraiser discovers that this special appraisal was erroneously allowed in any one of the five preceding years that it was appraised as restricted, the chief appraiser determines the difference between the appraised value of the property (as public access airport property) and the property's market value (non-restricted) and adds it to the appraisal roll for each year the property was erroneously allowed this special appraisal. To do so, the chief appraiser uses the provisions of Tax Code Section 25.21 for property which has escaped taxation.<sup>35</sup>

## Review of application forms

The application for appraisal of public access airport property must contain the necessary information to determine the validity of the claim.<sup>36</sup> The information solicited on the application form is sufficient, if completed in full by the person claiming the exemption and if the property is eligible. If not completed

<sup>28</sup> Tex. Tax Code §23.94(a) and 34 Tex. Admin. Code §9.402

<sup>29</sup> 34 Tex. Admin. Code §9.402

<sup>30</sup> Tex. Tax Code §23.94(b)

<sup>31</sup> Tex. Tax Code §23.94(c)

<sup>32</sup> Tex. Tax Code §23.94(c)

<sup>33</sup> Tex. Tax Code §23.94(c)

<sup>34</sup> Tex. Tax Code §23.94(d)

<sup>35</sup> Tex. Tax Code §23.94(e)

<sup>36</sup> Tex. Tax Code §23.94(f)

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in full, the chief appraiser has the authority to refuse to qualify the property. The better practice is to give the applicant a second opportunity to complete the application before the deadline runs out. Each application must identify the property owner, the land's legal description and the total acreage under application and affirm that the property will be used exclusively as public access airport property in the current year.<sup>37</sup>

## Action on applications

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The chief appraiser must determine each claimant's right for valuation as public access airport property. After considering the application and all relevant information, the chief appraiser:

1. approves the application and designates the property for appraisal as public access airport property;
2. disapproves the application and requests additional information from the claimant in support of the claim; or
3. denies the application.<sup>38</sup>

If the chief appraiser requests additional information from a claimant, the claimant must furnish the information within 30 days after the date of the request or before April 15, whichever is earlier, or the application is denied. The chief appraiser may extend the deadline for furnishing additional information for good cause by written order for a single period not to exceed 15 days.<sup>39</sup>

The chief appraiser determines the validity of each application for valuation as public access airport property filed before the appraisal records are submitted for review and determination of protests by the appraisal review board.<sup>40</sup>

## Notification

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If the chief appraiser denies an application, he or she must deliver a written notice of the denial to the claimant within five days after the date of denial and include a brief explanation of the procedures for protesting the denial.<sup>41</sup> It is a good practice to include in the notice the reason for rejection.

If the application is approved, it may be advisable to notify the applicant. The appraisal record must reflect that the property is receiving this valuation.<sup>42</sup> In the event of a change in the use of the property or expiration of the deed restriction, each taxing unit's assessor is to mail a statement to collect rollback taxes.

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<sup>37</sup> Tex. Tax Code §23.94(f)

<sup>38</sup> Tex. Tax Code §23.95(a)

<sup>39</sup> Tex. Tax Code §23.95(b)

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<sup>40</sup> Tex. Tax Code §23.95(e)

<sup>41</sup> Tex. Tax Code §23.95(d)

<sup>42</sup> Tex. Tax Code §25.011



# Appraisal Guidelines

In verifying that property is eligible for appraisal under Tax Code Chapter 23, Subchapter G, the appraiser should review the deed restriction to ensure a valid and enforceable provision exists under Tax Code Section 23.92.

If restrictions contain provisions which allow the restriction to be voluntarily removed by the owner filing a request prior to the end of the term of the restriction, the restriction is not truly binding upon the property. Under such conditions, the restriction does *not* affect the market value of the property since the restriction may be voluntarily removed and the property sold without the restriction.

Property subject to appraisal under this subchapter includes the land and improvements that qualify as public access airport property. Other improvements and the mineral estate are appraised separately at market value.<sup>43</sup> Both the land and qualified improvements should be valued by taking into consideration the use restrictions placed on them under Tax Code Chapter 23, Subchapter G.<sup>44</sup> Sales of comparable airport property not restricted as provided by Subchapter G may not be used to determine the value of the subject property.<sup>45</sup>

Subchapter G should be read in harmony with Texas Constitution, Article VIII, Section 1, which states in part:

Taxation shall be equal and uniform. All real property and tangible personal property, in this State, unless exempt as required or permitted by this Constitution, whether owned by natural persons or corporations, other than municipal, shall be taxed in proportion to its value, which shall be ascertained as provided by law.

Tax Code Section 23.01(a) provides that all taxable property is appraised at market value except as otherwise provided by Tax Code Chapter 23. When valuing deed-restricted public access airport property, the appraiser must take into consideration the effect of the use restriction on the market value of the land. The procedures discussed in this section are applicable to the market value appraisal of such restricted land, whether or not application for appraisal is made under Subchapter G.

## Market value

Market value is defined in statute to be the price at which a property would transfer for cash or its equivalent under prevailing market conditions if:

- exposed for sale in the open market with a reasonable time for the seller to find a purchaser;
- both the seller and the purchaser know of all the uses and purposes to which the property is adapted and for which it is capable of being used and of the enforceable restrictions on its use; and
- both the seller and purchaser seek to maximize their gains and neither is in a position to take advantage of the exigencies of the other.<sup>46</sup>

Ownership in real estate is an ownership in a bundle of rights in the property. These rights are inherent in the ownership of real property and guaranteed by law. They include the right to use, sell, lease or rent, enter or leave and give away real property and the right to refuse to exercise any of these rights. These rights may be diminished by a deed restriction that limits the uses of the real property. These factors must be considered by the appraiser when appraising the market value of deed-restricted public access airport property.

<sup>43</sup> Tex. Tax Code §23.93(c)

<sup>44</sup> Tex. Tax Code §23.93(b)

<sup>45</sup> Tex. Tax Code §23.93(b)

<sup>46</sup> Tex. Tax Code §1.04(7)

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Market value appraisals require application of the principle that property should be appraised on the basis of its highest and best use. Highest and best use is defined as the use which at the time of the appraisal is most likely to produce the greatest net return over a period of time. This use may be limited by a deed restriction.

## Factors influencing value

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Restrictions on the use of the land, whether voluntary as by written instrument or governmental as by zoning, will affect the value of the property. The appraiser must carefully study the subject property and the area in which it is located to determine any other factors that might affect market value, such as location, climate, access, travel distance from the likely source of clientele, topography and soil conditions.

## Effect of restrictions on value

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The market value of land is determined by at least three distinct market influences:

1. The production market influence is based on the income generated from the land's use.
2. The investment market influence is based on the property's appreciation potential.
3. The consumption market influence is based on the satisfaction derived from land ownership.

When the owner of public access airport property imposes a deed restriction upon the property, it affects the property's market value by limiting one or more of the market influences mentioned above.

The placing of a deed restriction on public access airport property does not normally affect the consumptive value of that property, but it can affect the potential appreciation from an investment point of view and could possibly limit the income stream derived from the property's production.

The appraiser may not consider any factor other than those relating to the value of the airport property, as restricted, and is prohibited from using sales of comparable airport properties that are not similarly restricted in making the appraisal.<sup>47</sup>

The information needed to estimate the market value of deed-restricted public access airport property is basically the same as for other property types. In addition to general data regarding the region, city and neighborhood, specific data is required with respect to land size, characteristics and comparable land sales.

## Approaches to value

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There are three generally accepted approaches used to arrive at an opinion of the market value for a particular property: the market data (sales) approach, cost approach and income approach. In an ideal setting, all three approaches are used to develop three independent estimates of value that are correlated to find a final estimate of value. The appraiser must use his or her best effort and judgment to apply all three approaches, but the weight given to each approach in the final estimate of value will always depend on the amount and quality of the available data. In order to perform a good appraisal, it is critical that the appraiser have a good working knowledge of each approach. The exclusion of an approach may invalidate the appraisal.

### *Market data (sales) approach*

The market data (sales) approach may be defined as any approach that is based upon direct evidence of the opinion of buyers and sellers of the market value of property. Of the three approaches used to arrive at an indication of value, the market data (sales) approach relies most heavily upon the principle of substitution. The principle of substitution states that the value of any piece of property is governed by the cost of acquiring a substitute or comparable parcel of property.

Using the comparable sales method under the market data (sales) approach, the appraiser collects a sample of all available recently sold properties that are similar to the subject property (property being appraised) and makes any value adjustments necessary because of the differences between the sample properties and the subject property. The appraiser uses adjusted sample properties to arrive at a value for the subject property.

When valuing deed-restricted property, adjustment must be made in the market value of the sales property to reflect the effect of any significant differences in the restrictions. Tax Code Subchapter G strictly forbids using comparable land not deed-restricted to determine the value of restricted land.

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<sup>47</sup> Tex. Tax Code §23.93(b)

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Certain factors tend to limit the usefulness of the comparable sales method:

- Certain types of properties are seldom sold. In order to secure enough sales to be useful, the appraiser may desire to obtain sales on property of similar use and circumstances without regard to location.
- In some cases the information as to the conditions of a sale may not be available. The sales price is not always the same as market value. Not knowing the conditions of a sale should result in the sale not being used for comparative purposes.
- In appraising a subject property at a given time, it is nearly impossible to find sales data on property that is exactly the same and sold on the same date. As a general rule, the indicated value of the subject property becomes less reliable as the number of adjustments made increases.

The market data (sales) approach is the most common method used in property valuation and generally considered by appraisers to be the most applicable method, but its use is contingent upon obtaining a sufficient number of comparable sales and factors involved in such sales. The value of property restricted to a specific use is often affected more by the economic nature of the use rather than by general market conditions. Under certain conditions, it is possible to consider sales of similarly restricted properties from other locations as comparables.

The stock and debt method is another market data (sales) approach that may be used when attempting to appraise a type of property that rarely sells. This method is based on the theory that the market value of a unit may be obtained by computing the value of all the items that make up the liability and capital sections of the balance sheet.

### **Cost approach**

The cost approach in a market value appraisal is similar to the market data (sales) approach in that it is based on the principle of substitution. This principle holds that a rational person would not pay more for a property than what it would cost for a satisfactory and timely substitute property.

The historical cost method is the most frequently used technique, especially in those instances where the property being appraised is relatively new and construction costs are still available, but it produces a progressively less reliable estimate of value as the property ages.

The replacement cost new is the cost of replacing the subject property with one that is comparable in terms of the utility which will be provided.

The reproduction cost new is the cost of producing an exact replica of the subject property. It is not being widely used because most properties would not be reproduced exactly as they were developed originally.

One way in which deed-restricted public access airport property can be valued using the replacement cost method is to consider the land as if it were vacant and available for development as an airport. The appraiser analyzes recent sales and offerings of comparable sites and compares these with the subject site with respect to differences in location, size and shape, topography and other physical characteristics, zoning, deed restriction and the demand for similar land in the local real estate market.

After estimating the base value for the land, the appraiser estimates the costs associated with the construction of various improvements necessary for its use. This approach assumes that the contributory value of the improvements to the land can be measured by their costs. The base cost of the land and costs for establishment of improvements are added to obtain an initial indication of cost for the property.

An important portion of the cost approach to value is depreciation. Depreciation in the appraisal sense is customarily defined as all losses of utility that result in loss of value. To appraisers, a more useful definition of depreciation is the difference between replacement or reproduction cost new (RCN) and the present value of improvements. Depreciation is the measure of the value inferiority of the subject improvement compared to a hypothetical new and similar improvement. It is desirable to verify depreciation estimates by sales and income analysis.

There are three generally recognized causes of depreciation: physical deterioration, functional obsolescence and economic obsolescence.

Physical deterioration is a lessening of value because of some physical change in the structure that lowers its utility. The actions of man, pests, or elements cause this depreciation. Virtually all structures deteriorate with age. Physical factors set a maximum possible life for any structure.

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It is often difficult to determine whether functional obsolescence is caused by change in tastes or innovations. Functional obsolescence has historically been the major factor in limiting the economic life of structures. As buildings age they become out of style. All structures suffer some functional obsolescence with the passage of time.

Economic obsolescence is a lessening of value because of adverse factors outside the subject property that decrease the desirability of the neighborhood in which the property is located. It occurs because of the immobility of real estate. Losses in value that are called economic obsolescence are usually beyond the power of any one individual to influence. This cause of depreciation affects both land and improvements. Not all properties will suffer economic obsolescence during their economic lives.

When using the cost approach in valuing deed-restricted public access airport property, the appraiser must remember the effect of that restriction on the value of the property. Extreme care is necessary in the application of this approach.

### ***Income approach***

The income approach to value may be defined as any method of appraising that converts the income expected to be produced by a property into an estimate of property value. The income approach is sometimes referred to as the capitalization method because capitalizing is the process by which an income stream is converted into an indicated value.

The income approach to value is a useful, but sensitive appraisal approach. If used properly, this approach has the ability to detect the presence of physical depreciation as well as functional and economic obsolescence in a property because of its decreased earning ability.

Economic data for the income approach should be obtained from the operations of other public access airport property, the subject property and any other reliable source. Extreme care must be used in adjusting the data to account for the individual characteristics of the subject because a small error in net income will produce a large error in the appraisal.

The basic assumption of the income approach is that a person purchases property for the income it will yield. A different way of stating this assumption is that the value of a property depends upon the income it produces. This is an important

assumption. In cases in which it does not correspond with the facts, the validity of the approach is reduced.

An important step in applying the income approach is the selection of the capitalization rate. There are several methods of estimating the capitalization rate. The selected method should include an analysis of all available comparable data. The next step in estimating the property value by the income method is to divide the projected net income by the capitalization rate found by one of the aforementioned methods. The result is an indication of value.

### **Special considerations in appraisal of restricted land**

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Under certain conditions, the remaining term of the deed restriction can influence the property's market value as restricted. This occurs when the restriction is to expire or can be voluntarily removed in the near future.

In this case, a buyer might be willing to purchase the property at a price exceeding its current restricted value with knowledge that the property can be resold as unrestricted property upon expiration of the restriction.

The procedure for estimating this potential value is commonly referred to as the valuation of a reversionary interest. The estimation of a reversionary interest is appropriate when the reversionary value exceeds the current use value as restricted. The market value of the property is the higher of either the current use value as restricted or the value of the reversion to a nonrestricted use.

The current value of a reversion may be estimated by projecting the future value for which the property may be sold after the restriction is removed and discounting the value to its present value based upon an appropriate discount rate.

This procedure is referred to as measuring the present value of a future sum. The majority of appraisal and financial texts contain tables (annual compound interest tables) that can be used for this purpose.

The appraiser must determine the remaining term of the restriction. If the remaining term of the restriction exceeds 10 years, the value associated with the reversion will probably not exceed the current restricted value. The current value of a future sum to be received 10 years or longer into the future is

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significantly reduced due to the discount factor. For example, the current value of one dollar to be received 10 years into the future based upon a 10 percent discount rate is only 39 cents. In most circumstances, the value of reversion on longer term restrictions does not exceed the current use value as restricted.

As the remaining term of the restriction becomes shorter, the value of the reversion increases and may exceed the current restricted value.

**Example:** Assume that a specific property is subject to the expiration or voluntary removal of a deed restriction within two years. Further assume the current use value, as restricted, is estimated to be \$100,000 and that it is projected that the property could be sold for \$150,000 at the end of two years when the restriction is removed.

If the discounted rate is estimated to be 10 percent, the current value of the reversion is  $\$150,000 \times 0.83$  (factor from the 10.00% Annual Compound Interest Table) or \$124,500.

In this example, the reversion value exceeds the value of the current use as restricted and provides a more accurate indication of the property's market value.

## Correlation and value conclusion

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The cost, income and market data (sales) approaches each produce independent estimates of market value. For some types of property, all three approaches may apply. For other types only one or two approaches may apply because of inappropriateness or lack of data. Since independent indicators seldom produce identical values, a correlation of values is normally made to reach the final estate of market value.

The essence of the correlation is the appraiser's attempt to explain or reconcile the differences that may exist between the different indicators of value. It is an opportunity to review each approach to value. The final procedure is to make a subjective allowance for the value influences that are not already reflected in the indicators. At this point, the appraiser must come to a value conclusion. It need not be equal to any one of the value indicators, but should not be outside of their range.

## Summary

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Market value is the required standard for the valuation of deed-restricted property. The appraiser must take into consideration the effect of the use restriction on the market value of the land and qualifying improvements. All three traditional approaches to value – the market data (sales), cost and income – may be applicable in the appraisal of deed-restricted properties.

When valuing public access airport property, the appraiser should begin with a description as complete as possible of the physical facts and general circumstances. All three approaches to value should be used to the extent allowed by quantity and accuracy of the available data.

1. The market data (sales) approach is dependent upon having an adequate number of sales. Since sales of public access airport property are limited, it is necessary to consider a broad area. Appropriate adjustments should be made to account for the ways in which the subject property differs from the sales properties.
2. The cost approach is the summation of the cost of all of the individual elements that constitute the property. Depreciation must be applied to reflect current conditions. Data should be sought from persons who are active as designers or builders of such facilities and from publications directed at them and at those who operate such facilities. *The Marshall and Swift Manual* can be helpful.
3. The income approach is an effort to estimate the net profit that the property could produce and to convert this estimate to value by the use of the standard capitalization techniques. Income and expenses should be obtained from the operations of the property being appraised, comparable facilities and industry sources.

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Texas Comptroller of Public Accounts  
Publication #96-1772  
May 2016