132.191 Valid valuation methods -- Minimum applicable appraisal standards -- Property valuation of multi-unit rental housing subject to government restriction on use.

(1) The General Assembly recognizes that Section 172 of the Constitution of Kentucky requires all property, not exempted from taxation by the Constitution, to be assessed at one hundred percent (100%) of the fair cash value, estimated at the price the property would bring at a fair voluntary sale, and that it is the responsibility of the property valuation administrator to value property in accordance with the Constitution.

(2) The General Assembly further recognizes that property valuation may be determined using a variety of valid valuation methods, including but not limited to:

(a) A cost approach, which is a method of appraisal in which the estimated value of the land is combined with the current depreciated reproduction or replacement cost of improvements on the land;

(b) An income approach, which is a method of appraisal based on estimating the present value of future benefits arising from the ownership of the property;

(c) A sales comparison approach, which is a method of appraisal based on a comparison of the property with similar properties sold in the recent past;

(d) A subdivision development approach, which is a method of appraisal of raw land:

1. When subdivision and development are the highest and best use of the parcel of raw land being appraised; and

2. When all direct and indirect costs and entrepreneurial incentives are deducted from the estimated anticipated gross sales price of the finished lots, and the resultant net sales proceeds are then discounted to present value at a market-derived rate over the development and absorption period; and

(e) The approaches listed in subsection (5) of this section for multi-unit rental housing that is subject to government restriction on use.

(3) The valuation of a residential, commercial, or industrial tract development shall meet the minimum applicable appraisal standards established by:

(a) The Kentucky Department of Revenue, as stated in its Guidelines for Assessment of Vacant Lots, dated March 26, 2008; or

(b) The International Association of Assessing Officers.

(4) To be appraised using the subdivision development approach, a subdivision development shall consist of five (5) or more units. The appraisal of the development shall reflect deductions and discounts for:

(a) Holding costs, including interest and maintenance;

(b) Marketing costs, including commissions and advertising; and

(c) Entrepreneurial profit.

(5) (a) The property valuation of multi-unit rental housing that is subject to government restriction on use may be determined:

1. a. Through an annual net operating income approach to value that uses actual income and stabilized operating expenses that are based on the actual history of the property, when available, and a capitalization rate.
   b. The methodology employed in the projection of income, expenses, and capitalization rate used shall be consistent with the Uniform Standards of Professional Appraisal Practice.
   c. The capitalization rate shall be:
      i. Based on the risks associated with multi-unit rental housing subject to government restriction on use, including diminished ownership control; income generating potential; liquidity; the condition of the property; the class of the property; and the property's location and size;
      ii. Equal to or greater than the capitalization rate used for valuing multi-unit rental housing that is not subject to government restriction on use; and
      iii. In the range of fifty (50) to one hundred fifty (150) basis points above the most recent quarterly survey of the national average cap rates of multifamily properties published by realtyrates.com or a successor organization.
   d. The department shall publish the capitalization rate range for the property valuation administrators to use on its website at the beginning of each year; or
2. By adjusting the unrestricted market value of the multi-unit rental housing, computed without regard to any government restriction on use applicable to the multi-unit rental housing, based on the ratio of the average annual rent of those units of the property that are subject to government restriction on use to the average annual rent of comparable multi-unit rental housing that is not subject to government restriction on use.

(b) Income tax credits received under Section 42 of the Internal Revenue Code or from any state or federal program shall not be included in the methods used under paragraph (a) of this subsection in determining the income attributable to the multi-unit rental housing or in any separate intangible assessment.

(c) 1. The owner of multi-unit rental housing shall:
   a. Notify the property valuation administrator if:
      i. The property is subject to government restriction on use;
      ii. The property is no longer subject to government restriction on use; or
      iii. A foreclosure action has been brought upon the property; and
   b. File with the property valuation administrator, on a form prescribed by the department, the information necessary for the multi-unit rental housing to be valued based on the methods

described in paragraph (a) of this subsection.

2. The notification shall be in writing and submitted to the property valuation administrator within sixty (60) days of the date on which the applicable circumstance listed in subparagraph 1.a.i., ii., or iii. of this paragraph occurred.

3. An owner who fails to comply with this paragraph may be subject to penalties in an amount not to exceed two hundred dollars ($200) as determined by the department.

(d) The department shall promulgate administrative regulations in accordance with KRS Chapter 13A to adopt forms, penalties, and procedures to carry out this subsection.

Effective: March 24, 2023

History: Amended 2023 Ky. Acts ch. 92, sec. 51, effective March 24, 2023. -- Created 2012 Ky. Acts ch. 94, sec. 1, effective July 12, 2012.