Issues of Valuation Methodology: In summary, there is nothing contained in the Buehler decision which should cause us significant concern with regard to either our current methodologies for valuing rent-controlled properties or planned refinements for the upcoming revaluation process.

The central focus of the Buehler case was the capitalization rates used and their derivation. The two parties were worlds apart. The Brookline assessors derived their rates from a study of sales -- the preferred approach when feasable. The ATB and SJC found, however, that these studies were so fraught with errors, of many types, that the Buehler cap rate position (derived through "band of investment"--alternative investment--approach) should receive predominant weight.

Much of the Buehler case centered upon the specifics of the Brookline market studies. There is a clear lesson in this for us: be as thorough and careful as possible with our market analysis work. While we think we are relatively in our market analysis, Buehler will undoubtedly cause us to be doubly so. Many of the specific points raised deserve our consideration as we proceed with our work. Further, the case implies we should constantly measure our results against alternative investment returns to insure a rational relationship.

It should be pointed out that, while our past methodology was not strictly an income-capitalization approach, the straight application of the ATB's Buehler parameters to the Cambridge situation would produce results generally similar to our current assessments.

For the upcoming revaluation, the "net rent multiplier" approach of the last three years will give way to a more straightforward "capitalization of net income" approach. Our new computer capabilities, along with improvements in the quality of Rent Control's data base, will enable us to do what we think will be a more accurate job on rent-controlled properties. Since we can deal with data on an individual property basis, we should be better able to reflect individual property circumstances. Further, the Rent Control Board's general adjustment process last Summer/Fall undoubtedly corrected miscellaneous data errors which should serve to reduce errors on our part.

In conclusion, there is nothing in Buehler which should cause us to question our general level of rent-controlled property assessments or our past and future methodologies. The case's specific comments and findings do, however, provide us with food-for-thought which will assist us to improve the quality of our work and perhaps avoid some assessment challenges and appeals in the future.

Very truly yours,

Robert W. Healy
City Manager

RWH/mbf

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EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
DEPUTY CITY MANAGER

February 10, 1986

To the Honorable, the City Council:

This is in response to City Council Order No. 2 of February 3, 1986 relative to the impact of the Buehler Case on assessments of rent-controlled property in Cambridge.

The impact of the Buehler Case on Cambridge rent control assessments should be examined on two levels: First, the essence of the overall issue is whether Brookline's rent controlled property was fairly assessed, and, in comparison how Cambridge's situation differs. Secondly, the ATB case and the SJC case touch on a number of specific issues related to the valuation of rent-controlled property which could have an impact on our assessing practices.

Overview. The fundamental issue behind the case is that Brookline adopted initial revaluation policies which produced "100% assessments" far in excess of what they should have been for rent-controlled properties. Indeed, taxes for the two buildings reviewed in the case did not drop at all after revaluation. When the Buehler appeal reached the Appellate Tax Board, the Assessors obviously overreached in attempting to defend their assessments. Brookline's case was, to sum it up, poor -- a fact which the ATB easily perceived and the SJC confirmed.

In contrast, Cambridge's initial 100% valuation of rent-controlled properties resulted in assessments which reflected the market reasonably accurately and generated tax reductions which were substantial -- 50 to 70% for most large buildings. Because our approach was reasonable, and the results fair to most owners, we suffered relatively few abatement appeals for rent-controlled property.

Some numbers for comparison: Brookline originally valued the Buehler properties at approximately $45,000 per unit, with taxes of about $1100 per unit. The ATB reduced these numbers to $25,000 per unit, with taxes of $625. In contrast, our values for properties similar to the Buehler buildings would be in the range of $15,000 to $20,000 per unit, with taxes of $255-$340 per unit in our initial revaluation year.

The contrast in these numbers indicates clearly that, as far as the fundamental issues are concerned, the Brookline and Cambridge situations are far apart, that we are not in a seriously exposed position with regard to our rent-controlled property values.

Agenda Item No. 3 105

Re: impact of the Buehler Case on assessments of rent control property.

2/10/1986
Charter Right
By
Councillor Duehay

In City Council,

February 10, 1986

2/24/86
Placed on File