

Wise County Appraisal District  
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## **RESIDENTIAL BUILDER'S INVENTORY**

### Texas Property Tax Code

#### Sec23.12 Inventory

- (a) Except where provided by Sections 23.121, 23.1241, 23.124, and 23.127, the market value of an inventory is the price for which it would sell as a unit to a purchaser who would continue the business. An inventory shall include residential real property which has never been occupied as a residence and is held for sale in the ordinary course of a trade or business, provided that the residential real property remains unoccupied, is not leased or rented, and produces no income.
- (b) The chief appraiser shall establish procedures for equitable and uniform appraisal of inventory for taxation.
- (c) In appraising an inventory, the chief appraiser shall use the information obtained pursuant to Subsection (b) of this section and shall apply generally accepted appraisal techniques in computing the market value as defined in subsection (a) of this section.

## **RESIDENTIAL BUILDER'S INVENTORY APPRAISAL PROCEDURE**

In accordance with Texas Property Tax Code Sec. 23.12 (a), (b), & (c), the Wise County Appraisal District has established the following procedures for the equitable and uniform appraisal of inventory for taxation using generally accepted appraisal techniques in computing the market value:

- Both Vacant and Improved Residential Real Property qualify for Builder's Inventory Valuation
- Market Value of Inventory calculation is equal to 1) or 2) of the methods below, but not both:
  1. Fair Market Value minus Inventory % Adjustment determined by Discount cash flow analysis (DCF)
    - Older existing residential developments may be floored with a higher % inventory adjustment factor due to extended holding period or absorption rate.
    - New developments will typically have much shorter holding periods due to shorter absorption rates causing for a much lower inventory adjustment.

- If the asking price/sales price for the property is greater than the sum of the Appraisal Districts value for the current year plus the amount of discount to be granted, then no discount would be granted as the property would appear to be undervalued to begin with thus meaning the property owner is already receiving a discount
- The maximum discount granted will be difference from the property owners asking price less the Inventory% adjustment as calculated by the DCF calculation
- If it is deemed to be a one year or less holding period for any property then a discount equal to the Present Worth of \$1 will be applied based on the current discount rate chosen by the Appraisal District for its calculation. Current rate used in the calculation is 10% (annual table)
- If asking price or sales listings cannot be verified then inventory valuation may not be granted.

Vacant Inventory- This method is primarily used for vacant inventory

2. Cost Amount as of January 1<sup>st</sup> as rendered by the builder.

Improved Inventory- This method is primarily used for improved inventory (residential home construction)

- There is no minimum ownership requirement (i.e. a single lot or house is eligible)
- The property must be owned by a builder on January 1<sup>st</sup> of the year to qualify
- Renditions are confidential and will be treated as confidential information

The calculation for inventory % adjustment is determined by discounted cash flow DCF. DCF analysis is a generally accepted appraisal technique. Analysis of new developments have shown absorption rates of one to three years or less. See the below example for a 30 lot subdivision with estimated 3 year absorption rate.

|   |             |                 |           |   |   |   |
|---|-------------|-----------------|-----------|---|---|---|
| Holding Period                              | 3           | VACANT LAND DCF |           |   |   |   |
| Total # of Lots                             | 30          |                 |           |   |   |   |
| Average Lot Price                           | \$55,000    |                 |           |   |   |   |
| Apprec Rate 1st Year                        | 5%          |                 |           |   |   |   |
| Apprec Rate Years 2-XXX                     | 3%          |                 |           |   |   |   |
| Discount Rate                               | 10%         |                 |           |   |   |   |
| Expense Rate 1st Year (including taxes)     | 12%         |                 |           |   |   |   |
| Expense Rate Years 2- XXX (including taxes) | 12%         |                 |           |   |   |   |
| Year  | 1           | 2               | 3         | 4 | 5 | 6 |
| Beg. Gross Sales Potential                  | 1650000     | \$825,000       | \$288,750 |   |   |   |
| Appreciated Lot Value                       | \$1,650,000 | \$866,250       | \$297,413 |   |   |   |
| Beginning Lot Inventory                     | 30          | 15              | 5         |   |   |   |
| Lots Absorbed                               | 15          | 10              | 5         |   |   |   |
| Ending Lot Inventory                        | 15          | 5               | 0         |   |   |   |

|                              |                |            |           |        |                   |                   |
|------------------------------|----------------|------------|-----------|--------|-------------------|-------------------|
| Ending Gross Sales Potential | \$825,000      | \$288,750  | 0         |        |                   |                   |
| Sales Proceeds               | \$825,000      | \$577,500  | \$297,413 |        |                   |                   |
| Sales Expense                | \$99,000       | \$69,300   | \$35,690  |        |                   |                   |
| Net Income                   | \$726,000      | \$508,200  | \$261,723 |        |                   |                   |
|                              |                |            |           |        |                   |                   |
| Total Net Present Value      | \$1,276,636.34 | DCF Factor |           | 10%    | Yearly Net Income | Net Present Value |
| Net Present Value Per Lot    | \$42,554.54    | Year 1     |           | 0.9091 | \$726,000         | \$660,000.07      |
| Lot NPV/AVG Lot Price Ratio  | 77%            | Year 2     |           | 0.8264 | \$508,200         | \$419,999.86      |
|                              |                |            |           |        |                   |                   |
| Inventory% Adjustment        | 23%            | Year 3     |           | 0.7513 | \$261,723         | \$196,636.42      |

**\*\*IMPORTANT\*\*** Filing a rendition does not guarantee that the value will change. It is recommended that the party filing the Rendition of Builders Inventory file a timely protest with the Wise Appraisal Review Board in addition to filing a rendition.

Please return completed renditions and excel listings on or before April 15<sup>th</sup> by email to [deidra-wcad@embarqmail.com](mailto:deidra-wcad@embarqmail.com).