



Summary Report and Minutes
The Board of Equalization
The City of Falls Church

December 15, 2022

Laurel Room, 300 Park Avenue, Falls Church, Virginia 22046

I. CALL TO ORDER: At 3:08pm, the In-Person meeting was called to order by The Board of Equalization Chairperson Aaron Ford

II. THOSE PRESENT/ROLL CALL:

Board of Equalization Members:

Aaron Ford, BOE Member and Chairperson

Barbara Green, BOE Member

Christina Goodwin, BOE Member

Robert Speir, BOE Member and Secretary

City of Falls Church:

Erwving Bailey, Director of Real Estate Assessment, City of Falls Church (Assessor)

Lisa Freeman, Real Estate Appraiser III, City of Falls Church (Remote)

Ashley Pollard, Real Estate Specialist, City of Falls Church

A quorum was present and affirmed, and the meeting was open to all attendees and the public, throughout. An agenda was posted and reviewed and standardized opening remarks were made.

III. LIVE RECORDING: Ashley Pollard, Real Estate Specialist, City of Falls Church. The City of Falls Church provides public access to video recordings of BOE proceedings.

IV. CASE HEARINGS:

Address

RPC

Appeal

422 S. Washington St.

52-306-015

047-22AB

502 W. Broad St. #208

51-130-208

006-22AB

(Several other cases had originally appeared on the agenda but were settled between The Assessor's Office and the respective Appellants, prior to this hearing)

The following sections synopsise the issues and decisions regarding the appeals.

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ADDRESS: 422 S. Washington St

RPC: 52-306-105

APPEAL: 047-22AB

Appellant:	Johnathon Kapneck/Owner
Original Appeal Date:	Unknown; June 2, 2022 to The BOE
Original Assessment for 2022:	\$1,134,000
Appellant's Requested Assessment:	\$1,022,069
Assessor's Level 1 Decision:	No change

OVERVIEW

422 S. Washington St. is a 3 unit commercial property with 4864sf of rental space on a 0.28 acre lot. It is occupied by three tenants: two small restaurant/carry out businesses and a laundromat. There were no vacancies in 2021, but the appellant reported difficulties getting rent paid in full.

The Assessor's review appraiser valued the property using a depreciated facility replacement value approach rather than the income-related methodology that is customary for business properties. This was because financial documents that would have permitted use of the income approach could not be found initially. Later, the assessor's office located the financial records and performed an after-the-fact income analysis. It produced a slightly higher assessment than the replacement value approach used. However, the office made no changes to raise the assessment.

APPELLANT

Mr. Kapneck's appeal was under uniformity. He and his partners own another small lot/ restaurant (436 S. Washington St.) that is adjacent to the appealed property. 436 S Washington's assessment rose by 3% year-over-year from 2021, while the property in question here rose 14%. In previous years, dating from 2016, Appellant's two properties had changed similarly.

He noted several times that the improvements portion of the assessment increased by \$140,000, but that he had made no changes to the physical structure. Mr. Kapnick said conversations with The Assessor's Office staff and the Consultant Appraiser suggested that the increase resulted from use of a new model, and Appellant did not understand how that could produce such a substantial increase.

Mr. Kapneck mentioned that his rents are contractually tied to the Consumer Price Index (CPI). While that is presently high, Appellant is having trouble with his tenants being able to bear a 7% CPI based increase, much less their portion of a 14% increase in real estate taxes.

Later in the discussion session, Mr. Kapnick asked if he was likely to see a sharp increase again in 2023. Director Bailey replied that, if the replacement methodology valued the property again, then the amount of increase would depend on building cost increases. Director Bailey added that the income approach would be a more appropriate methodology to apply, and that would not include current building costs.

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REAL ESTATE ASSESSMENT OFFICE

The Assessor's Office noted the following key points:

- 1) There is a large difference in sizes between the 422 and 436 S. Washington St properties.
- 2) The two have different quality grades.
- 3) They have similar depreciation factors.
- 4) The depreciation granted to the subject property was very high—43%
- 5) The income approach to valuation, which would have been more appropriate, produced a higher valuation (\$1,226,400 vs \$1,134,000). However, since The Assessor's Office had used the replacement value when I&E forms could not be found as they had been misfiled, The Assessor's Office elected to go with the lower replacement value calculation.

QUESTIONS, DECISION, AND RATIONALE

Members of the BOE had the following comments and questions:

- 1) Board Member Green asked why Appellant requested land value higher than the assessment. Mr. Kapnick highlighted that it was a pure calculation as a 3% increase, over the 2021 assessment, in which he included land and improvements.
- 2) Chairman Ford asked for a recap of tax year-over-year assessed value: 2015=\$941k, 2016=\$969k, 2017=\$993k, 2018=\$1013k, 2019=\$1033k, 2020=\$992k, 2021=\$1134k
- 3) Board Member Goodwin, noting that a number of appellants had noted the high rises in improvements assessments, asked Director Bailey to discuss the factors that would have caused these increases.
- 4) Director Bailey answered that, although he was not employed by The City of Falls Church City when the last assessments were performed, it appeared that previous assessments had simply been trended from year-to-year. He explained that the 2022 assessment model calculates the cost to build the structure using current materials and labor, then depreciates that—in this case, by 43%. Next year, Marshall and Swift guide/tables will help to calculate the value. Cost tables were updated for tax year 2021, which contributed to the market-wide increase within The City of Falls Church.
- 5) Chairman Ford asked Appellant about current and projected maintenance and repair costs, and if there were any Covid-related problems.
- 6) Mr. Kapneck's answer was that the building is in good physical shape and has a roof that is only 5 years old. Covid related matters increased tenants' own costs, such as carryout and delivery support. With these higher costs, the tenants sometimes could not make their rent at current rates, thereby causing a collection problem for the Appellant's business. Director Bailey noted that these problems could be addressed using the income approach next year.

Board Member Green indicated that she would leave the assessment as it is. Her view was that the income approach performed was conservative from the point of view of the Appellant, and still was higher than the Appellant's current assessment. Further, leaving out the assessment decrease in tax year 2020, the 2021 tax assessment looks more consistent with the previous years' trends. Board Member Goodwin agreed, as did Chairman Ford.

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MOTIONS

Chairman Ford moved that the 2022 assessment remain as stated; Board Member Green seconded. The Board voted unanimously to support the 2021 assessment, leaving it unchanged.

ADJUDICATION

The assessment for 2022 will be \$1,134,000, \$943,900 for land value and \$190,100 for improvements.

ADDRESS: 502 W. Broad St. #208	RPC: 51-130-208	APPEAL: 006-22AB
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Appellant:	Peter Petrucci
Original Appeal Date:	Unknown; Appealed directly to the BOE on June 1, 2022
Original Assessment for 2022:	\$780,000
Appellant's Requested Assessment:	\$738,800
Assessor's Level 1 Decision:	No change

OVERVIEW

Unit #208 is a 1802sf unit with 2 bedrooms and 2 ½ baths on the second floor of The Broadway, a condominium building. Its 2021 assessment was \$703,100. It was inherited by the former owner's children on June 25, 2021 and listed for sale on July 22 at \$785,000. On July 31, the asking price was reduced to \$750,000. Bright Multiple Listing Services (MLS) announced a pending contract on August 31. Redfin and Zillow list the property sale as closing on September 13 at \$738,810 paid by the appellant in this BOE proceeding, Dr. Peter Petrucci.

APPELLANT

Dr. Petrucci did not appear for his hearing. Appellant had been rescheduled and was expected to appear remotely, but he did not enter the discussion when asked. Director Bailey stepped out of the hearing room to attempt to reach him via telephone but was only able to leave a voicemail message.

Dr. Petrucci's BOE appeal was on the basis of fair market value, but he only included the statement, "The sales price on 9/17/2021 (sic) was 738,800. I see no reason why the assessment should be increased in less than 6 months." Later in the hearing, The Assessor's Office disclosed that they considered his purchase an "unqualified sale" for the purposes of valuing properties in the Broadway condominium complex.

REAL ESTATE ASSESSMENT OFFICE

Appraiser Freeman presented the case for The Assessor's Office. She opened by noting the absence of substance in Dr. Petrucci's appeal, then she observed that his purchase was an estate sale in cash with a quick closing. "Sometimes in those cases, a seller will accept a little less for the property. I would say that is most likely what happened here." She stated several times in the hearing that she had contacted the sales agent to confirm the characteristics of the sale.

Ms Freeman provided the following information on the 6 sales of Broadway units in 2021:

- 1) All were on the 2nd or 3rd floor of The Broadway.

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- 2) The sales prices ranged from \$830,000 for the largest unit to \$725,000 for #213, the lowest priced, not the smallest unit. Dr. Petrucci's purchase was the second lowest price of the 6 properties.
- 3) The median and average of the ASRs were 0.92, but ranged from 0.88 for the largest properties to 0.98 for unit #213; Dr. Petrucci's ASR was 0.95.
- 4) After the 2022 assessment, Dr. Petrucci's townhouse and #213, which had the lowest sales prices and the highest ASRs, both were assessed in 2022 at greater than their sales prices, while the other 4 units that sold were priced below their 2021 sales prices.

Quantitative comparisons above in some cases amplify Appraiser Freeman's comments, using data from a table in her BOE submission package.

QUESTIONS, DECISION, AND RATIONALE

Chairman Ford opened the case discussion by noting that this case is similar to the BOE's December 13 case, for 311 Hillwood Ave, wherein the appellant purchased his property during the reference year. Saying that his view was that there is no better comparable than the property itself in these situations, he observed that, since the appellant was not present, we do not know if this sale is anything else but an arm's-length transfer between two unrelated parties, tipping off a spirited but informative discussion about what constitutes an arm's-length transfer and how that data would then be used.

- 1) Board Member Goodwin and Board Member Green noted that The Assessor's Office had said that it was an estate sale for cash, and that made it different.
- 2) Chairman Ford said that this did not make it unqualified, then he asked Director Bailey if he used this unit 208 sale in the assessment for other units in the building.
- 3) Director Bailey answered, "...if we coded it as unqualified, we would not use it in our analysis [calculation of 2021 assessment escalation for all units within The Broadway]." He expounded upon examples of sales types that the office would judge to be unqualified, such as: a family transfer, distressed sale, short sale, foreclosure, bank sale or estate sale.
- 4) Board Member Green again said that she disagreed with Chairman Ford that there was *nothing* to show that it was an unqualified sale, stating that all cash and an estate sale could lead to low prices.
- 5) Chairman Ford agreed saying that his point was that: without the Appellant present The Board could not know if any of these factors applied.

Chairman Ford asked for additional comments, and Mr. Speir responded that he thought that the conversation that this may or may not have been a special type of sale is "pretty subjective." He reminded the group that The BOE had observed qualified/unqualified sales go both ways - referencing case #018 on November 10, 2022. In that case, the Appellant noted that the City's only comparable transaction was a home bought substantially over the current assessment, which was then immediately torn down by the purchaser. There, The Assessor's Office noted the sale as valid. Mr. Speir added that he did not see anything in the record to indicate that Dr. Petrucci's purchase was anything other than an arm's-length transfer, and that making the assumption that it was not a fair market price was subjective.

- 1) Director Bailey and Appraiser Freeman objected to the contention of subjectivity by again saying that Ms. Freeman had researched the Petrucci sale by talking to the connected real estate agent.
- 2) Director Bailey stated "we don't chase sales," and explained how his office reviews all sales fairly, by being unbiased about low versus high priced sales.

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- 3) Chairman Ford attempted to deescalate the conversation by reiterating that no one was alluding to any real problem or concern, merely that The BOE would like to have more information from the Appellant, to clearly understand the any potential details of the sale.
- 4) Director Bailey offered more details by recounting his view of what happened, saying, “Mary Lopez died and left it to her children, Elaine and Daniel, June 25, 2021 and they sold it to the new owner on September 14, 2021. So they got the property when their mom died and decided ‘we just want to sell it and get the money.’ Again, estate sale, fast settlement, all cash, and that is why it is not a qualified sale.”
- 5) Chairman Ford then re-asked: “so is the sale qualified?” and Director Bailey responded, “it is not a qualified sale.”

MOTIONS

Ms. Green ended the above discussion by moving that The BOE accept the assessment unchanged. Ms. Goodwin seconded. The vote was 3 to 1 for the motion with Mr. Speir voting against.

ADJUDICATION

The assessment will remain at \$780,000 (with land value at 180,000 and the improvements value at \$600,000).

POST HEARING DISCUSSION:

As a point of procedural clarification, Board Secretary Speir asked what would happen if The Appellant Dr. Petrucci contacts The City and states that, due to technical difficulties, he could not get online with the hearing and was prohibited from participating.

- Director Bailey replied that it would be too late, because the Board voted and The Assessor’s Office could not act to change or reopen the ruling.
- Chairman Ford added that The Assessor’s Office had been very accommodating as regards Dr. Petrucci, incusing rescheduling. Further, during this discussion, The BOE members were not being adversarial about the details of the sales qualification process. BOE Members goal was knowledge and clarification in the process.

VI. ADMINSTRATIVE AGENDA ITEMS:

- 1) Reminder that there would be a recap meeting in the new year.
 - a. Board Member Goodwin noted that we could update the Appeal Form itself.
 - b. Chairman Ford highlighted that we want to leave it better than we found it.
 - c. Ms. Goodwin highlighted that The BOE is a hard committee, and more guidance is valuable.

VII. ADJOURNMENT

Chairman Ford motioned to adjourn the meeting at 4:00pm, which was approved unanimously.

VIII. AFFIRMATION

These minutes are hereby affirmed and accepted by The Board of Equalization: