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What Colorado Commercial Property Owners Should Know About Property Valuation Approaches

Real property is valued at its actual value by county assessors for the purpose of assessing real property taxes. Colorado assessors generally use three approaches to determine market value — market, income, and cost.

1. Market Approach

Assessors use the market approach to determine property value by analyzing the sale price of comparable properties sold during the base period. They consider the property's characteristics, including size, shape, classification, and zoning, when comparing properties. Only "like" properties should be used in determining the property's value. If appropriate sales data is not available during the 18-month data collection period, the assessor is permitted to go back in six-month increments for up to five years to obtain comparable sales data.

2. Income Approach

The assessor uses the income approach to determine property value by analyzing operating income, expenses, and vacancy to ascertain the property's net operating income. The assessor then divides the net operating income by the determined capitalization rate to establish the property's value. The higher the

net operating income and the lower the capitalization rate, the higher the property value will be. This approach is typically used for income generating properties to determine the financial return an investor could expect for the property. It is possible that an assessor may not have the correct rental rates, expense ratio, or vacancy rate.

3. Cost Approach

Using the cost approach, the assessor determines property value based on the anticipated or actual development and construction costs to build it. This approach is used in limited circumstances, such as for new construction. The assessor considers how much it would cost to rebuild or replace the property to determine the property's value.

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