
Assessed Property Value is Not Market Value

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Many times I have observed a number of offer and counter-offer negotiations between sellers and buyers. All ended without a binding contract being achieved. What, by coincidence, these potential sales had in common was the belief of the seller that the true value of his property was the value placed on his property as indicated on his property tax assessment.

These owners were unwilling to drop their selling price below what their "tax assessment" stated was the "actual" value of their property.

Buyers are equally as confused as sellers. They, more often than not, do not wish to offer more than the taxation assessment. It was my observation that the singular item that prevented sales from being

formed was a general degree of confusion about the meaning of "assessed value."

In British Columbia, the assessed value is defined, in s. 26(1) of the Assessment Act to be the "actual" value of each taxable property. It is important to keep in mind that this setting of "actual" value under the Assessment Act has as its primary underlying purpose, the setting of an equitable base of valuation for the purpose of taxation. In determining "actual value" an assessor uses all normal appraisal considerations that is used in a private fee appraisal. With this in mind, it is easy to understand why homeowners believe the "actual value" of their home, as stated on their tax assessment notice, would also be "market value."

Unfortunately, this is seldom the case. Real estate is an "imperfect" market. No one can actually say what any property is "actually" worth at any given time. Why? The price a property will sell for is determined by a number of varying factors. These factors include the motivation and urgency of the owner to sell, interest rates, overall economic factors, exposure to the market, desirability of the property and so on. The state of "all" market forces has tremendous impact on the "market value" of a property.

Realtors and other property appraisers in arriving at an "appraised value" or listing price know that the price they arrive at, is at best, a knowledgeable "estimate" of value. This estimate of value can vary by as much as 5% or more and "volatility" (Seller's Market) or "sluggishness" (Buyer's Market) greatly impacts upon these evaluations.

The "assessed value" on which your property taxes are based have a very good chance of being either valued too high or too low. Keep in mind that although B.C. Assessment has a professional staff, these evaluators rely almost solely on statistics, i.e., square footage, lot size, number of bedrooms, etc. They seldom view personal properties and thus, their opinion is not based on visual on-site inspection. Also, assessed value is determined once a year on July 1st. So if your property was valued on July 1st of 2005 and you are now selling your property on May 1st of 2006, how can their evaluation be accurate? Taxation evaluations can not possibly keep up with rising or falling markets.

Therein, lie some of the inadequacies of our taxation system.