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Shelter Sector Reform Project Newly Independent States of the Former Soviet Union

An ICMA Report

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TRIP REPORT
MARKET-BASED PROPERTY ASSESSMENT

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By

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Table of Contents

Abstract.....	1
1. Introduction.....	2
2. Market-Based Property Assessment Sub-project.....	2
2.1 Planning Retreat.....	2
2.2 Market Monitoring and Pilot Valuation Research.....	3
3. Future Missions.....	3
4. Notes of Meetings and Other General Observations	4
4.1 Liaison Meetings.....	4
4.2 Basic Course in Armenian on Real Property Appraisal.....	5

Attachment A: Persons Interviewed

Attachment B: Property Tax Assessment Retreat Preparation Materials

Attachment C: Report of Property Tax Assessment Retreat

Attachment D: Suggested Plan for Market Monitoring and Valuation Research

Attachment E: Preliminary Outline for a Basic Course in Armenian on Real Property Appraisal

ABSTRACT

This is a report by Richard Almy, ICMA Consultant, on his mission to Armenia, 14-22 February 1997 under Task Order 88. In this report, he discusses the format and results of a retreat he planned to develop an action plan for land and property tax assessment and details his meetings with Armenian government officials.

1. INTRODUCTION

The main focus of Richard Almy's mission was ICMA's market-based property assessment sub-project (section 2). His chief activity was to facilitate a retreat related to the development of an action plan for land and property tax assessment (2.1). In addition, Mr. Almy worked to initiate market monitoring and pilot valuation research (2.2), had several general-purpose liaison meetings with key counterparts, and helped outline a basic course in real property appraisal.

2. MARKET-BASED PROPERTY ASSESSMENT SUB-PROJECT

2.1 Planning Retreat

The implementation of the property tax in Armenia has been hampered, *inter alia*, by a lack of coordinated planning by the agencies involved. To address this problem, ICMA's market-based property assessment sub-project envisages a memorandum of understanding (which has been drafted) between USAID/ICMA and relevant Armenian agencies concerning an action plan for land and property tax assessment. Earlier, it was decided that a participatory planning approach offered the greatest promise of success. An introductory meeting was held in November 1996, and a planning retreat was scheduled for 20-21 February 1997. Before the retreat, preparatory materials were distributed (see attachment B).

The retreat combined highly structured sessions with informal social events. For the participatory planning approach to succeed, Mr. Almy, acting as retreat facilitator, created a comfortable environment, in which all participants were treated as equals and were encouraged to express their opinions, without judgment as to their validity. For a plan to be realistic, differences of opinion must be taken into account. A shared understanding of the planning process, retreat objectives (a realistic, attainable plan), and current situation also were important. Most important, was for the group to be able to reach planning decisions that each participant would accept. The aim of this was to make each participant feel responsible for his part of the plan and to feel accountable to the others for ensuring its overall success (if the planning process were to continue with the same participants). To this end, Anlian and Almy served only as facilitators.

Decisions of the planning group are recorded in attachment C. It was understood that inasmuch as the participants were invited by ICMA and were not formally representing their agencies, all decisions were preliminary. The retreat was understood to be a beginning step in the development of the action plan. All participants were given assignments to outline details in the initial plan.

Retreat participants included Manuk Vardanian (Cadastre Department), Arsen Bagratian (Yerevan Registration State Enterprise), Gagik Begjanian (Republic Registration State Enterprise), Haik Jaghatspanian and Benik Martirosyan (CAMA seminar participants and retreat

participants), Robert Sahakian (State Tax Inspectorate), and Artashes Arakelian, (Scientific Research Center for City Management). Ivan Ford also participated. Members of the Ministry of Agriculture and the Ministry of Economy were also invited.

2.2 Market Monitoring and Pilot Valuation Research

ICMA's work program envisages a resumption of real property market monitoring and the initiation of pilot valuation research. The latter effort would have several objectives. One would be to develop an understanding of internationally accepted valuation methods, with an emphasis on methods used in property tax administration. Another would be to test the practicality of the methods in Armenia. Still another would be systematically to compare estimates of market values with the normative values now used as the basis for property taxation. This comparison would identify likely "winners" (taxpayers who would pay less tax) and "losers" in a transition to market-based property tax assessment.

Although Armenians should do much of the work so that they can benefit from the experience, ICMA will need to appoint a project coordinator. Mr. Almy drafted a terms of reference for such a position and interviewed a possible candidate for the position (who appeared qualified and interested). He used the draft terms of reference to elaborate further on a research outline developed during the November 1996 mission (see attachment D). If a project director is hired to pursue the plan, demonstrable results should be available by September 1997.

Ideally, the participants in the November 1996 seminar on computer-assisted mass appraisal (CAMA) would have completed the supplementary exercises that Almy and Gloudemans left behind and would have done some independent research using data they had collected. However, the press of other activities prevented translation of the laboratory materials and distribution of software and data files until just before Mr. Almy arrived. Consequently, none had made any progress apart from installing the statistical software. Nevertheless, the group seems enthusiastic and should be able to contribute to future work. The aim is to build a nucleus of experts in use of the software and valuation methods.

3. FUTURE MISSIONS

A follow-on mission (possibly in April-May 1997) would focus on two things: (1) further work with the planning group to refine the action plan and (2) work on the plan to monitor property markets in Armenia and do valuation research. The initial focus should be on the scope of the project, the data collection strategy, and orientation and training (including further work with the CAMA seminar group). If needed, Mr. Almy could work on the textbook and provide assistance to the Ministry of Urban Development and the State Tax Inspectorate. In the summer, either Mr. Almy, Robert Gloudemans, or both could return for valuation modeling (time has tentatively been scheduled in July).

6

There is some need for a property tax primer for parliamentarians / local government officials, that would explain in plain terms the rationale for land and building taxes, the concept of market value, and the valuation of property. Co-operating organizations might include the Ministry of Finance or the State Tax Inspectorate.

As many realize, there is a need to harmonize the land and property tax laws with local government and budget laws. Consolidating the land and property tax laws remains on many Armenian's agendas, although with a lower priority than a few months ago.

4. NOTES OF MEETINGS AND OTHER GENERAL OBSERVATIONS

4.1 Liaison Meetings

A common feature of Mr. Almy 's missions to Armenia has been general meetings with the key actors in cadastral reform and property taxation. During the February 1997 mission, Mr. Almy met with Manuk Vartanian, head of the Cadastre Department in the Ministry of Urban Development; Pavel Sapharyan, the former head of the State Tax Inspectorate, who recently was appointed Deputy Minister of Finance; and Artashes Toumanian, the new head of the State Tax Inspectorate.

Manuk Vartanian. As before, Mr. Vartanian implied cadastral organizational issues would be resolved "soon." He seems to be angling to be a minister-level cadastral czar responsible for both the legal and fiscal cadastre (he also is a member of the national assembly). Others apparently would prefer to see the cadastral department in a staff role in the Ministry, with the line (property registration and valuation) agencies reporting separately to a deputy minister.

Vartanian exhibited a growing understanding of property taxation issues. He seems to envisage reforms similar to those advocated by the State Tax Inspectorate.

Mr. Almy's initial meeting with Mr. Vartanian was cordial. At the end, however, he complained that we should have asked the Minister to assign people to the planning retreat rather than directly inviting Bagratian and Begjanian (and presumably Vartanian himself). Mr. Almy explained that we had established relationships with their organizations and were unaware of new organizational structure/ expectations.

Vartanian attended parts of the planning retreat. Early on, he attempted to dominate discussions. After dinner on Thursday, Steven Anlian and Mr. Almy met at length with him, and seem to have succeeded in communicating their vision regarding cadastral and property tax reforms and perhaps began to build a better rapport with him. Vartanian was more constructive during the retreat on Friday.

Pavel Sapharyan. Anlian and. Almy had a cordial meeting with Mr. Sapharyan. His new responsibilities include budget and tax policy. He mentioned the government has recommended transferring collection of land and property taxes to local governments. The State Tax Inspectorate would serve as a supervisory (control) agency.

Anlian briefed Sapharyan on ICMA's local government efforts and discussed provisions in draft budget laws that undercut local autonomy. We also discussed the administrative desirability (if not political practicality) of rationalizing (reducing the number of) local governments.

Artashes Toumanian and Armen Alaverdian. According to Alaverdian, Toumanian is a long-time activist in parliament (co-speaker, budget committee, author of bills). Toumanian was brought in to renew the State Tax Inspectorate (STI). His agenda includes: fair taxes, a buoyant tax system, simplicity, and greater operational efficiency (more revenue, less expenditure). The last goal will require disciplined taxpayers, who pay more than symbolic amounts and greater reliance on self-assessment, with less "direct" collection by STI. The STI would focus on auditing and control. Implicitly, there is a need to design a tax system that is more palatable to taxpayers, especially business taxpayers.

Toumanian sees a need for future collaboration between the Tax Inspectorate and ICMA/USAID. He also supports institutional changes, such as a greater local role in tax administration.

Mirroring Toumanian's general agenda, Alaverdian's property tax agenda includes more efficient administration, greater revenues, a rationalization of central-local relations, and improvements in legislation (reconciling the constitution, the law on land tax, the law on property tax, the law on property, the law on local self government, and the law on budget). The legal and administrative framework for enforcing delinquent property taxes needs to be addressed. Although he sees having the power to seize property to satisfy an obligation as desirable, he does not believe it would be wise for the government to give land away with one hand and seize it for non-payment of taxes with the other.

4.2 Basic Course in Armenian on Real Property Appraisal

At the request of Diana Avetian, Mr. Almy worked on an outline for a basic course in Armenian on real property appraisal and discussed strategies for getting such a course developed (see attachment E). The outline is derived from Mr. Almy's November 1995 seminar on real property appraisal.

The strategy is to secure a local writer/teacher who would produce a draft of the course materials, which Mr. Almy might review in conjunction with an upcoming TDY. At a later TDY, there might be a train-the-trainers session. The main problem is that no highly qualified candidates for the course developer have been identified. Ideally, the course developer would be a good writer *and* have practical experience in appraisal. (The writer/teacher should be a practitioner for

8

credibility.) An alternative is to select co-authors. The chief author should have strong writing skills and the co-author should have some relevant practical experience.

A strategy that Mr. Almy has used with some success is to form a voluntary *advisory* committee to review outlines and drafts to ensure the relevance and validity of the material. Such a committee could have one or more members from the real estate industry, academia, and government. Each member could have independent status. That is, the committee would have no obligation to reach consensus and would have no power to dictate content. Of course, if the authors ignored the advice of committee members, they would do so at their peril.

As to course reference materials, Mr. Almy mentioned a textbook, *Property Appraisal and Assessment Administration* published by the International Association of Assessing Officers, a copy of which is in the ICMA library. Mr. Almy supplied copies of overheads keyed to the outline and copies of Russian versions of materials on valuation used in OECD property tax courses. Mr. Almy also mentioned trying to obtain copies of materials used in appraisal courses offered by a Russian appraisal association.

ATTACHMENT A: PERSONS INTERVIEWED

Attachment A: Persons Interviewed

ICMA

Steven Anlian, Resident Advisor (also retreat participant)
Deborah Kimble (also retreat participant)

Diana Avetian, Project Manager
Melik Karapetyan, Office Manager

Ivan Ford, Marston & Marston (also retreat participant)

Ministry of Finance

Pavel Sapharyan, Deputy Minister of Finance.

State Tax Inspectorate

Artashes Toumanian, Chief, State Tax Inspectorate
Armen Alaverdian, Deputy Chief
Sergei Paturian, Head of Information and Tax Calculation Department (CAMA seminar participant)
Robert Sahakian, Head of Property Taxation Control (retreat participant and CAMA seminar participant)

Ministry of Urban Development

Manuk Vardanian, Head, Cadastral Department (also retreat participant)
Gagik Begjanian, Director, Republic Registration State Enterprise (retreat participant)
Arsen Bagratian, Director, Yerevan Registration State Enterprise (retreat participant)
Haik Jaghatspanian (CAMA seminar participant and retreat participant)
Benik Martirosyan (CAMA seminar participant and retreat participant)
Ludmilla Sargsyan, Republic Registration State Enterprise (CAMA seminar participant)
Armen Hakopyan, Yerevan Registration State Enterprise (CAMA seminar participant)

Other

Rouzanna Khachatrian, candidate for project director position
Nellie Malkhassian, Interpreter

**ATTACHMENT B: PROPERTY TAX ASSESSMENT RETREAT PREPARATION
MATERIALS**

Attachment B: Property Tax Assessment Retreat Preparation Materials

PLANNING RETREAT

ACTION PLAN FOR MARKET-BASED LAND AND PROPERTY TAX ASSESSMENTS

Sponsor: International City/County Management Association (ICMA)

Where: Writers' Home, Tsakhkadzor, Armenia

When: Thursday and Friday, 20-21 February 1997

Preparation

To prepare for the planning retreat and to get into the right "frame of mind," we ask that you do the following before the meeting:

1. Review the proposed goal, objectives, and agenda for the retreat (attached).
2. Take the time to respond in writing to the questions on the attached sheets.

Please bring this information with you to the retreat. We will refer to the goal and objectives of the retreat during the meeting. We will ask you how you answered the preparation questions, but we will not collect them.

Also bring any other planning materials that you will need during the retreat.

**PLANNING RETREAT
ACTION PLAN FOR MARKET-BASED LAND AND PROPERTY TAX ASSESSMENTS**

Sponsor: ICMA

Where: Writers' Home, Tsakhkadzor, Armenia

When: Thursday and Friday, 20-21 February 1997

Working Agenda

Thursday, February 20, 1997

12:00 Lunch

14:00 Introduction and Situation Analysis

Confirm goals and objectives of the retreat

Discuss current institutional strengths and weakness related to the goal of market-based taxes on land and buildings. Discuss opportunities and any perceived threats to success.

15:30 Detailed Planning Session

Elaborate goals, objectives, activities, and responsibilities related to achieving a system of market-based property taxes.

18:00 Adjournment to Social Hour

Friday, February 21, 1997

08:00 Breakfast

09:00 Planning Session (Continued)

12:00 Lunch

14:00 Finalize Action Plan
Next Steps

15:30 Evaluation of Retreat

14

17:00 Adjournment

**PLANNING RETREAT
ACTION PLAN FOR MARKET-BASED LAND AND PROPERTY TAX ASSESSMENTS**

Sponsor: ICMA

Where: Writers' Home, Tsakhkadzor, Armenia

When: Thursday and Friday, 20-21 February 1997

Goal

The goal for the retreat is to develop a realistic, generally accepted action plan for accomplishing market-based assessments by 1999.

Objectives

The objectives to be accomplished during the retreat are to:

1. Establish a shared understanding of the current situation.
2. Develop a set of objectives related to the goal of market-based property taxes
3. Identify actions for achieving these objectives.
4. Assess the resources needed and available.
5. Establish priorities.
6. Assign responsibilities for the actions.
7. Set deadlines for actions and objectives.
8. Determine follow-up steps to the meeting (for example, involving others in the planning process, monitoring the plan, and the like).

16

PLANNING RETREAT

ACTION PLAN FOR MARKET-BASED LAND AND PROPERTY TAX ASSESSMENTS

Sponsor: ICMA

Where: Writers' Home, Tsakhkadzor, Armenia

When: Thursday and Friday, 20-21 February 1997

Preparation Questions

Please bring your completed questionnaire and background material with you to the planning retreat.

1. What do you think of having this planning retreat? In your view, do others support it?
2. What would you like to see accomplished in the retreat?
3. Reflect on the current status of the organizations now involved in land and property registration, valuation, and taxation. In your own words, please write down your thoughts in response to the following questions.

- a. What are the major strengths today of the organization(s) you work for or are most familiar with. (That is, what makes it especially effective? What distinguishes it from other government agencies?)
 - b. What areas need improvement the most? What are the soft spots in the organization?
 - c. Please list any organizational or operational improvements you feel *could* be made in the organization?
4. Reflect on the setting or environment in which the organization operates. In your own words, please write down your thoughts in response to the following questions.
- a. Are there any major trends in government, economic conditions, and/or technological developments that may have an impact—positive or negative— upon the organization?
 - b. What outside pressures or threats exist that affect the operations of the organization? (Consider any issues external to the organization that impede or threaten the way it wants to operate.)
 - c. What opportunities exist that the organization might take advantage of?
 - d. In your opinion, how do you think Armenian citizens (taxpayers) view your organization?

5. Other. Add here any other matters that you think are significant and should be discussed during the planning session?

ATTACHMENT C: REPORT OF PROPERTY TAX ASSESSMENT RETREAT

Attachment C: Report of Property Tax Assessment Retreat

(Preliminary)

Tsakhkadzor, 20-21 February 1997

Retreat participants recorded their decisions on flip charts. The charts dealt with accomplishments so far, weaknesses, opportunities, threats, plan objectives, and priorities. A translation of some charts follows (the group felt that there were on threats to completing a conversion to market-based assessments—apart from the possible termination of ICMA's assistance project). Mr. Almy 's comments are in italics.

Chart 1: Problems (Weaknesses) of Armenia's Current Situation

Note: The following are not listed in order of priority or importance.

1. ±600,000 (out of ±900,000) property units must be assessed (lack of self-financing tax administration)
2. Lack of financing (\$900,000 in the 1997 Annual Budgets + \$450,000 in P.M.'s reserve). Estimate \$2 to \$2.50 (1,000 drams) per unit of assessment. Therefore, enough for 600,000 properties.
3. Training (lack of)
4. No tax paying/no private property tradition
5. Absence of penalties, enforcement
6. Valuation methodology doesn't track market
7. No market monitoring (sales & rents)
8. Land tax problems
9. Lack of real property registration system (legal)
10. Lack of independent appraisal profession

Chart 2: (External) Opportunities

Note: The following are not listed in order of priority or importance.

1. Governmental understanding of basic issues
2. Outside independent existing resources
3. Brokerage communities (real estate industry developing)
4. USAID
5. World Bank
6. Spain
7. Local authorities
8. International investment community
9. Banks

Chart 3: Major Plan Elements

<u>Time Frame</u> <u>Responsible</u>	<u>Statement of the Goals for Action Plan</u>	<u>Lead Agency</u>
0-6 mo.	1. Assemble Planning Group	ICMA
	<i>It was felt that to transcend institutional issues and organizational jealousies, ICMA should initiate efforts to formalize the planning group, recognizing that the heads of the participating organizations would have to ratify the appointment of group members.</i>	
6-24 mo.	2. Research—start pilot project	ICMA
	<i>See section 2.2.</i>	
0-6 mo.	3. Complete structural changes, uniform structure	Ministry of Urban Development
	<i>This pertains to finalizing the organization for cadastral registration and valuation.</i>	
0-6 mo.	4. Cadastral maps	Ministry of Urban Development
0-6 mo.	5. Market monitoring	Ministry of Urban Development
	<i>This recognizes that eventually market monitoring should be responsibility of the valuation agency.</i>	
6-24 mo.	6. Collect new data and analyses	Ministry of Urban Development
6-24 mo.	7. Funding mechanism	Ministry of Finance
6-24 mo.	8. Continuing education in real property profession	Yerevan S. U./REACT
0-6 mo.	9. Computerization	SRCCMS
0-6 mo.	10. Public information campaign	MoF/Tax Inspectorate

6-24 mo. 11. Tax collection—new methods/controls MoF/Tax Inspectorate

6-24 mo. 12. Auditing and control mechanisms MoF/Tax Inspectorate

Note: Also ongoing legislation/executive actions will be required to implement Action Plan in both short-term and long-term time frames.

ATTACHMENT D: SUGGESTED PLAN FOR MARKET MONITORING AND VALUATION RESEARCH

Attachment D: Suggested Plan for Market Monitoring and Valuation Research

Note: This plan draws from a draft terms of reference for an Armenian project manager for the market-based assessment project prepared during the February 1997 mission.

Objectives

The chief objective of the market monitoring and valuation research activities is help the Republic of Armenia successfully convert to a market-based tax on land and buildings.

Activities

1. Organization

1.1 Hire project director

The sooner this is done, the greater the progress that can be made in fiscal year 1997.

1.2 Orient/train project director

Objectives: The project manager will have to become familiar with past research in Armenia (particularly market-monitoring activities sponsored by ICMA), property valuation principles, analytical methods (including use of the statistical package, SPSS for Windows), and relevant laws, regulations, and procedures currently used in property registration, valuation, and taxation. About two months should be allowed for this.

Deliverables: The project manager should submit brief oral progress reports to the resident advisor at least weekly and communicate periodically with advisors Almy and Gloudemans about accomplishments, problems, questions, and proposals for future activities.

References:

- Market monitoring reports in ICMA files. For general background and to provide anecdotal time-series data.
- Almy's previous TDY reports. Scan for background information.
- *Property Appraisal and Assessment Administration* (IAAO, 1990). Scan. Almy or Gloudemans to provide specific reading "assignments" later.

- November 1996 computer-assisted mass appraisal seminar materials, particularly the laboratory exercises.
- "Implementation of Market Values in Urban Areas," 11-16-96 (rjgplan.wp).

1.3 Liaise with CAMA seminar participants

The project advisor should liaise with CAMA seminar participants to ensure their continued interest in the project. Liaison could begin during the orientation period.

1.4 Secure registration and valuation agency cooperation

In close coordination with the ICMA resident advisor, the project manager should work to secure the cooperation with administrative and technical personnel in relevant governmental organizations (in addition to CAMA seminar participants). This activity should be initiated before the preliminary tasks outlined below are begun to ensure that the project receives the greatest possible benefit of contributions by Armenians and that they fully understand the issues involved.

2. Preliminaries

Concerned Armenians (e.g., selected members of the planning group, CAMA seminar participants, and the project director) with assistance from advisors (Almy and Gloudemans) would design the project. These tasks should be taken up during Almy's next mission.

2.1 Refine project objectives

2.2 Outline research strategy

2.3 Define candidate variables

Preliminary work in this area was done during the November 1996 CAMA seminar. The project manager should refine this list, including how each variable should be coded.

2.4 Define pilot "area"

2.5 Define sub-zone market areas and property groups

2.6 Develop market data collection strategy

During the orientation period, the project manager, with input from project participants, should develop a proposal for resuming market monitoring during the project.

The primary objective would be to initiate routine time series data useful in their own right and as background for valuation. The primary series would be types of price data broken down by property type and region. Initially, the focus would be on Yerevan housing prices, but series covering other market indicators, locations and property types should be established as soon as feasible.

Another component of the strategy will be the identification of an optimal set of property characteristics for use in valuation for property tax purposes and for other purposes (2.3, above).

3. Data collection

The data would be entered into computer files for analysis.

3.1 Primary source(s)

It is anticipated that the primary source of price data will be the prices at which properties are advertised for sale ("asking prices").

3.2 Field verification and supplementary data collection

Some field collection and verification activities may be necessary to add such things as neighborhood codes and building quality codes.

3.3 Add actual price data as available

If cooperation with brokers can be arranged, it may be possible to add actual sale price data to some records. This would provide the most defensible basis for estimating the amount by which asking prices should be debased to reflect actual transaction prices.

Registration agencies may be able to add declared prices, which would enable us to evaluate the extent to which prices are mis-stated.

3.4 Add decision 306 values

With the cooperation of registration agencies, it should be possible to add to sale records the official values produced under decision 306. This will make it possible to do the "ratio studies" and tax impact analyses outlined below (4.3).

4. Analysis

4.1 Preliminary analyses

4.2 Valuation modeling

Specific objectives and deliverables would be determined during the preliminary and market monitoring phases of the project. It is likely that one or more specific geographic areas would be selected for modeling purposes, so that the models could be applied to sold and unsold properties in the area.

Using data collected and entered during market monitoring, the project manager in collaboration with other researchers (e.g., CAMA seminar participants) would develop new pilot valuation models under the guidance of the technical advisers. In parallel with that effort and with the assistance of counterparts, decisions would be made about additional data elements that should be collected and tested in subsequent pilot studies. This effort would inform the Armenian property tax administration about the data needed for a fully operational market-based valuation system. An emphasis would be placed on an economical data collection system.

4.3 "Ratio studies" and tax impact analyses

With the cooperation of counterparts, values developed during the pilot projects would be systematically compared with values generated from decision 306. Standard "ratio study" techniques would be used. This effort would provide information about the effects of shifting to market-based assessments, including shifts in tax burdens.

5. Presentation of findings

5.1 Market monitoring

First in draft form and later as routine publications, the project manager with the cooperation of others would produce memoranda on such things as numbers of listings; numbers of completed transactions; asking prices, reported prices, and actual prices, broken down by time period, type of property, and location; and such other data as may be agreed upon. The content of the reports and their frequency of reports would be mutually determined later, but either monthly or quarterly reports would be most likely.

5.2 Valuation modeling, ratio studies, and tax impact analyses

The technical advisors visualize a conference in Armenia after some pilot valuation research has been completed. This conference would be used to provide practical information to interested parties. We also envisage one or more presentations at international conferences by the key researchers.

6. Develop operational proposals

7. **Develop policy and legislative proposals**
8. **Begin operational data collection**
9. **Develop, test, and refine operational valuation models**
10. **Generate market-based assessments**

**ATTACHMENT E: PRELIMINARY OUTLINE FOR A BASIC COURSE IN
ARMENIAN ON REAL PROPERTY APPRAISAL**

Attachment E: Preliminary Outline for a Basic Course in Armenian on Real Property Appraisal

Note: The following preliminary outline is derived from the November 1995 seminar on real property appraisal. The references to "slides" are the overheads used during the seminar.

I. INTRODUCTION

- A. The aim of the course is to survey the field of real property appraisal, illustrate basic methods, and provide a foundation for future courses and practical work. Much of real property appraisal is "common sense."
- B. Basic concepts
 - 1. Property (slides 22 & 23)
 - 2. Types of property (slide A)
 - 3. Private property rights (slide B)
 - 4. Price, cost, & value (slides C & D)
 - 5. Market value (slide E)
 - 6. Appraisal—systematic approaches to answering the question: What is this property worth?—involves many professional disciplines but essentially is applied economics
 - 7. Terminology
- C. Cadastres (slide 18?)
 - 1. Historical development (to inventory conquered lands, to serve as a basis for taxation; examples: Domesday Book, Austro-Hungarian)
 - 2. Modern fiscal (tables 3 & 4?)
 - 3. Modern legal
 - 4. Multipurpose/GIS
 - 5. Technology
- D. Property markets
 - 1. Characteristics (slide F)
 - 2. Professional responsibility: to increase openness and efficiency
 - 3. Professional property services (slide G)
 - 4. Demand for appraisal services (government & private sectors)
- E. Appraisal process

1. Single-property appraisal (slide H)
2. Mass appraisal (slide I)

F. Basic appraisal methods (slide J)

1. Sales comparison (what can sales of similar or competitive properties tell us?)
2. Income capitalization (how much is the right to receive rent worth?)
3. Cost of construction (what can construction costs tell us about property value?)

II. APPRAISAL IN ARMENIA

- A. Market Monitoring—ICMA, etc.
- B. For governmental purposes (property registration and taxation)
- C. For private purposes

III. DEFINING THE APPRAISAL PROBLEM (slide K)

- A. Identify and locate the real estate

Cadastres can provide starting point.

Inspect and describe the land, buildings, or (usually) both.

- B. Identify the property rights to be valued

Based on Real Property Law (not yet finalized or adopted).

Are all the privately held rights to be valued or are only some to be valued?

- C. Establish the date of the value estimate

Values change with changes in the economy. The date of appraisal must be specified for clarity.

- D. Identify the use of the appraisal

How the appraisal will be used affects the work that should be done. An appraisal made to help decide whether to acquire an enterprise should be more carefully done than a valuation for property tax purposes.

E. Define the value to be estimated

Usually market value is estimated, but some assignments will call for another type of value.

G. Identify limiting conditions or limitations

These include special instructions made by the client, reliance on data collected by others, and so forth.

IV. PRELIMINARY ANALYSIS AND PLAN: SELECT AND COLLECT DATA (slides L & O)

A. Market analysis

The appraiser should have a general understanding of the property market in question and the state of the economy in the locale.

B. Property analysis (subject property)

The appraiser should be familiar with the property (properties) being appraised (factors of a legal nature, physical characteristics, immediate surroundings, and any market evidence, such as rents or recent sales).

C. Comparison analysis (competitive properties or "comparables")

Similarly, the appraiser should be familiar with competitive properties. Along with facts such as those mentioned for the subject property, the appraiser should decide what factors make other properties "competitive" and select the measures (such as price per square meter) that will be used in comparative analyses.

D. Analysis of market evidence

Implicit in the analysis of market evidence is preliminary research to confirm the accuracy of sales prices and the like and efforts to make sure the sales were open-market, "arm's-length" sales.

V. ESTIMATING HIGHEST AND BEST USE (slide M)

- A. Market value can be defined as the present worth of future benefits (value in use). Future benefits are greatest when property is used in its most economic and legal use (or "highest and best" use). Then value in use is the same as value in exchange. Therefore, the appraiser's decision regarding highest and best use is very important.

Legal (planned) use is not necessarily the most economic use. Planners may not adequately consider supply and demand factors. Current use often can be presumed to be highest and best use. This is not the case when there is clear evidence that another owner would use the property differently.

- B. Land as if available and vacant
- C. Buildings as improved (or as proposed)

VI. USING THE SALES COMPARISON APPROACH

- A. Basic premise: Substitution.
- B. When to use: Whenever there are sufficient comparable sales. The preferred approach.
- C. Identifying comparability factors

Factors which make the property similar or attractive to a potential buyer.

- D. Selecting comparable sales (slide R)
- Identifying properties whose dissimilarities are at a minimum.
- E. Analyzing effects of dissimilarities on value (slide S)

"Pairwise" comparisons.

Note: Date of sale is a factor that should be considered when prices have changed significantly over time.

- F. Reaching a value conclusion (slide T)
1. Most reliable adjustments
 2. Fewest number of adjustments
 3. Lowest amount of adjustments

VII. USING THE INCOME CAPITALIZATION APPROACH

- A. Premise: Anticipation: Present worth of future benefits.
 - 1. Basic relationships (slides U & V)
 - 2. Real property investment and finance (slide W)

- B. When to use: When appraising properties that commonly are rented.

- C. Analyzing income and expense data (slide X)

- D. Estimating the capitalization rate
 - 1. Theoretical components (slide Y)
 - 2. Direct market analysis (slide V)
 - 3. Built-up

- E. Selecting an appropriate income capitalization method
 - 1. Factors to consider (slide Z)
 - 2. Direct methods
 - 3. Yield methods

VIII USING THE COST OF CONSTRUCTION APPROACH

- A. Basic premise: Substitution by constructing a property of equivalent utility. (Slide AA)

- B. When to use: When valuing new buildings. When valuing buildings for insurance purposes. When the sales comparison approach and income approach cannot be used reliably.

Note: Estimating land value is the subject of the next talk.

- C. Estimating current construction costs
 - 1. Cost components (slide AB)
 - 2. Types of cost estimates (replacement, reproduction)
 - 3. Methods of estimating costs (slide AC)

Affects data requirements and cost of appraisal services.

4. Sources of cost data

D. Estimating depreciation (slide AD)

1. Theory
2. Causes of depreciation
3. Age/life concepts (slide AE)

IX. ESTIMATING LAND VALUE

A. Location analysis

1. Market
2. Sub-market (neighborhood)
3. Site

B. Methods (slide N)

X. ESTIMATING IMPROVED PROPERTY VALUE

XI. RECONCILING VALUE INDICATORS (slide P)

XII. COMMUNICATING (REPORTING) THE VALUE ESTIMATE (slide Q)

XIII. PROFESSIONAL RESPONSIBILITIES

A. Ethics

B. International Valuation Standards