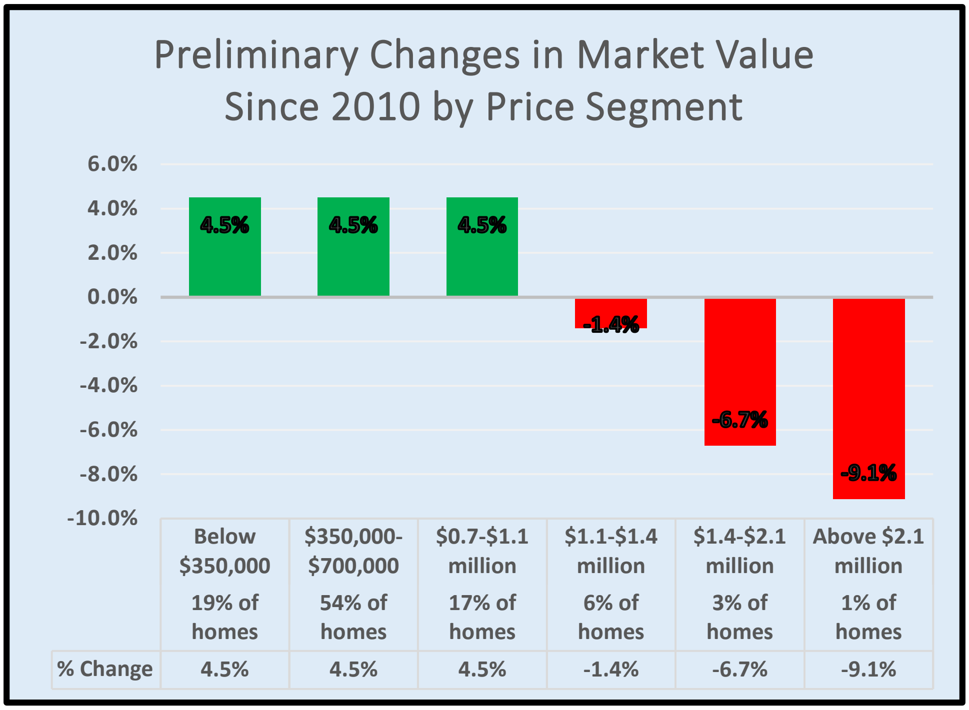
UPDATE ON FAIRFIELD'S PROPERTY REVALUATION

At public meetings on June 18th and July 23rd, Tax Assessor Donald Ross and representatives of Vision Government Solutions, Inc. (VGSI) provided progress reports on the Town's revaluation process.[1] Fairfield Taxpayer's observations based on what we learned at these meetings are as follows:

1. Based on highly preliminary data, homes valued in 2010 **below $1.1 million** are, on average, **up 4%-5%** in value, and homes valued in 2010 **above $1.1 million** are **down 1%-9%**.

2. If this pattern holds and all other things being equal, the **average** home in Fairfield would be **up 3%-4%**, and the combined value of all homes[2] would be **up 1%-2%**.



3. As reported at the meetings, the **median sales price** (MSP) for Fairfield homes **increased about 7%** between 2010 and 2014 (from $495,000 to $530,000). However, based on more recent data from the same source, Fairfield's MSP declined 2% in the first half of 2015 (to $519,400), so the gain since 2010 is **now only 4.9%**. Because they are subject to distortions from any change in the mix of sales, MSPs do not necessarily reflect what is happening to true market values.

4. A decline in the value of higher-end homes relative to other homes would reverse some of the shift in tax burden that occurred in 2010 when their relative value increased, in some cases substantially. All other things being equal (e.g., no new construction or demolitions, commercial property values up exactly in line with residential, and a zero tax increase), if the pattern above holds, then **on average** taxes on homes valued **above $1.4 million** would be **down 9%**, taxes on homes valued at **$1.1-$1.4 million** would be **down 3%**, and taxes on homes valued **below $1.1 million** would be **up 3%**.

5. Assessment notices will be mailed on **November 6th**, and property owners will be able to schedule informal hearings to discuss their new assessments with VGSI personnel from **November 16th to December 12th**, before the new Grand List is finalized on **January 31st**. The deadline for any appeals to the Town's Board of Assessment Appeals is **February 20th**.

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[1] The slides from the presentations can be found by going to http://gis.vgsi.com/fairfieldct/ and clicking on "Valuation Trends Power Point."

[2] Otherwise known as the "Residential Grand List."

General Background on the Revaluation

The purpose of the Revaluation is to update (as required under State law every five years), the value of each home and commercial property in Fairfield to what they are estimated to be worth on October 1, 2015. Current valuations, or "appraisals," reflect what each property is estimated to have been worth five years ago on October 1, 2010 (even if the home was built after that date). The results of the revaluation process are important because everyone's property taxes will be based on the new values (starting with the tax bill due on July 1, 2016), and because we and many others believe the trend in home values is one of the most important "vital signs" of the health of any community, region or state.

Figuring out what has happened to property values over the last five years may seem fairly simple, but it is not. We know exactly what every home buyer paid over the last five years, but simply comparing those sales prices to each property's appraisal as of October 1, 2010, may not be indicative of what has happened to property values in general. For example:

- a selling price below its 2010 appraisal might ***understate*** what has happened to market values in general because the home was heavily damaged by a fire or a storm, was subject to a distress sale of some kind, or was very poorly maintained; and
- a selling price above its 2010 appraisal might ***overstate*** what has happened to market values because the home was purchased by a developer who planned to subdivide the property and build several homes, or was exceptionally well maintained.

Mr. Ross and VGSI reported that **from 2010 to 2014**, the **Median Sales Price** (MSP) for homes: in **Fairfield** was **up about 7%** (from $495,000 to $530,000); in **Fairfield County** was **up about 2.5%** (from $385,000 to $394,500); and in the **State** as a whole was **basically flat** (at $226,500 versus $225,000). However, MSPs are down in the first six months of 2015, so the changes since 2010 are now **+4.9%** for Fairfield [$519,400], **flat** for Fairfield County [$385,000], and **-1.3%** for the State [$222,000].

MSP data is widely used as a measure of what is happening to home values around the country, but these numbers must always be used with great caution because they can change simply in response to a change in the mix of sales (more on this later). Accordingly, these MSP numbers for Fairfield, Fairfield County and the State may or may not be indicative of what has happened to true market values.

Based on sales that are believed to reflect actual market conditions, Mr. Ross reported that, on a highly preliminary basis, ***the values of homes worth less than $1.1 million – representing 90% of all the homes in Fairfield – are up 4%-5%*** from where they were five years ago, while ***the values of homes worth more than $1.1 million – the other 10% of total homes – are down 1%-9%***. Overall, this implies ***an average increase of 3%-4%*** in the value of Fairfield homes, and it would result in a 1%-2% increase in the combined value of all homes in Fairfield, which is known as the Residential Grand List.

Fairfield Taxpayer will continue to follow the revaluation process in Fairfield (and in nearby towns on the same five-year schedule like Greenwich, Trumbull and Westport), and will provide periodic updates. Meanwhile we encourage everyone to attend the Tax Assessor's upcoming public information meetings, all of which begin at 7:00 pm.

- Thursday, August 20, 2015 Fairfield Woods Middle School Auditorium
- Thursday, September 24, 2015 Fairfield Warde High School Auditorium
- Thursday, October 22, 2015 Fairfield Ludlowe High School Auditorium

When Will We Get the Results?

Property owners will be notified of their new appraisals in early November, and will have an opportunity to discuss them in informal hearings with representatives of VGSI (the company hired by the Town to perform the revaluation), before they are finalized. Property owners who feel that their final appraisal is not correct can appeal to the Town's Board of Assessment Appeals, and if after doing that they feel their appraisal is still not correct, they can appeal to the State Superior Court. The new valuations will go into effect a year from now on tax bills due July 1, 2016.

What Effect Will This Have on the Taxes We Pay?

A revaluation does not change how much money the Town raises from property taxes, but it often changes how much each property owner must pay.[3] In a town as large and diverse as Fairfield, the value of every property in every neighborhood never rises or falls by exactly the same percentage. In every revaluation, property values in certain neighborhoods and certain price segments always rise or fall more or less than others. A good example of this is the Beach area, where many years ago the homes were modest and used only in the summer. Over time, the appeal of living year-round in the Beach area increased, resulting in higher appreciation in the value of these properties relative to the average for the town as a whole. The damage from Superstorm Sandy contributed to this trend, as the owners of many older homes have chosen to sell to developers rather than restore them, and those developers are replacing them with much larger and more expensive homes that increase land values as well as adding to the tax base. Nonetheless, the owners of some older Beach-area homes who have chosen not to sell to developers may experience declines in the estimated value of their homes from 2010, particularly if their homes are not compliant with the new FEMA standards for flood insurance.

How Do They Revalue Every Property in Fairfield?

After physically inspecting at least the exterior of virtually all homes in Fairfield, the appraisers will rely primarily on a statistical analysis of the prices at which **similar homes in the same neighborhood** have been selling in order to estimate how the value of each residential property has changed. By the way, in any discussion of home values, it is important to avoid confusion between the **appraised** (or market) value of properties, and their **assessed** value. Taxes could be based on full market values,[4] but by tradition, homes are instead taxed based on assessed values that are now standardized throughout the State at 70% of market value.

Sales data for the 30 months (i.e., 2½ years) before October 1, 2015 will eventually be included in this analysis, with greater weight given to more recent sales (because all homes must be valued as of October 1, 2015). Special attention is paid to any re-sales of the same house, because such sales are

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[3] Simplistically, if we ignore the likelihood that there will be slightly more homes, cars and commercial properties in town (i.e., more taxable property), and if we assume the value of every property in Town rises or falls by exactly the same percentage, then all taxpayers would pay exactly the same taxes in fiscal 2016 that they paid in fiscal 2015, plus their small share of any (hopefully) modest increase in total taxes that is required because spending rises.

[4] For an 18-year history of Fairfield's tax rate as a percent of actual market value – **which has risen 55% from its low of 1.12% in 2004/05 to 1.74% in 2015/16 while the so-called "mill rate" based on assessed values has risen only 6% from 23.40 to 24.79** – see: http://www.fairfieldtaxpayer.com/uploads/1/1/1/8/11185705/ft-fairfieldhistoricalbudget3.31.15.pdf

presumed to offer the most reliable indicator of how the overall market is changing. Any sales for which the change in price is greater than 10% (up or down) are analyzed individually to assess whether they reflect a change in market values or special circumstances (e.g., substantial renovations or damages that were not yet included in their most recent appraisal).

About 700 of the roughly 1,500 residential sales since the beginning of 2013 are considered by the appraisers to be indicative of overall market trends and are currently being analyzed.

Based on those 700 "indicative sales," home values in Fairfield have on average increased 3%-4% since 2010. Per the data in the table on the right, homes appraised in 2010 at less than ~$1.1 million have increased 4%-5% in value since then, while homes appraised in 2010 at more than ~$1.1 million have declined 1%-9% in value.[5]

PRELIMINARY REVALUATION DATA

Appraised Home Value	Assessed Home Value	Percent of Total Homes	Implied Assessment as a Percent of Current Market	Implied Change in Market Value
Below 357k	Below $250k	19%	67%	4.5%
$357k-$714k	$250k-$500k	54%	67%	4.5%
$714-$1071k	$500k-$750k	17%	67%	4.5%
$1071k-$1429	$750k-$1000k	6%	71%	-1.4%
$1429-$2143k	$1000k-$1500k	3%	75%	-6.7%
Above $2143k	Above $1500k	1%	77%	-9.1%

If this pattern holds, even though the **average value per home would be up 3%-4%**, the **Residential Grand List (RGL) would increase only 1%-2%** because of the disproportionate importance of the decline in the value of higher-end homes. The 5%-6% most highly valued homes in Fairfield currently account for about 20% of the RGL, and the 25%-30% most highly valued homes account for about 50%, so they pay, respectively, 20% and 50% of total residential taxes.

In the 2010 revaluation, when the RGL declined 12.4%, the appraised values of higher-level homes in general declined less than the Town average of 15% and/or actually increased, which resulted in substantial tax increases for many home owners (some of whom were hit with 50%-100% increases), which in turn led to a record number (~200) of court appeals. It now appears that some of that shift in tax burden will be reversed by the 2015 revaluation. If so, on average, owners of homes valued in 2010 at less than $1.1 million will see greater increases in their property taxes in fiscal 2016 than would otherwise have resulted from what we hope will be only a modest increase in the Town's spending.

WHAT IF?

If the above pattern holds for changes in home values and all other things being equal (e.g., no new construction or demolitions, commercial property values up exactly in line with residential, and a zero tax increase next year), taxes on the 90% of homes valued below $1.1 million in 2010 would increase 3%, taxes on the 6% of homes valued at $1.1-$1.4 million would decline 3%, and taxes on the 4% of homes valued above $1.4 million would decline 9%.

[5] To see the original VGSI chart, go to: http://gis.vgsi.com/fairfieldct/ and click on "Valuation Trends Power Point."

Statistical Challenges

There are a number of complications that make the revaluation process challenging.

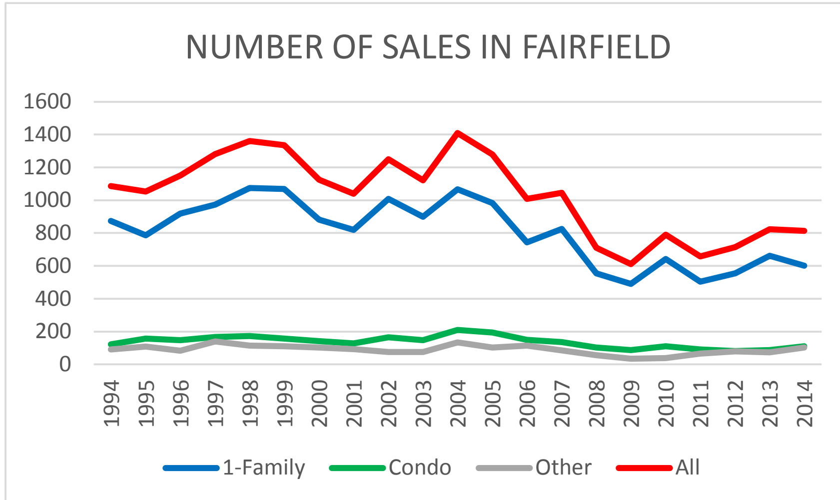
TIME LAGS: There are never enough home sales ***immediately*** before the revaluation date (in this case, October 1, 2015) to provide an adequate sample for statistical purposes. Some of the sales included in the analysis will therefore have taken place 2.5 years (i.e., 30 months) earlier. Thus, the appraisers must analyze carefully whether prices have risen or fallen since the date of any given sale. Among the indicators of current market conditions at any given point in time are trends in the size of the inventory of homes for sale, the sales-to-list-price ratio, the number of days on the market, the number and direction of changes in list prices, the number of foreclosures, and the percentage of homes that are delinquent on their mortgage and/or have negative equity.

EARLIER DISTORTIONS: For many reasons, some homes were either undervalued or overvalued in the previous revaluation. For example, there is a natural tendency toward undervaluation because property owners only challenge overvaluations, and because not all material home and property improvements result in upward adjustments to appraised value after they are made. Because of these distortions, any difference between the selling price of a home and its 2010 appraised value may or may not reflect what has happened to the value of other homes in its neighborhood. Some sales are therefore deemed to be statistically more significant than others, a good example of which is "re-sales," or homes that have sold often, particularly if there are no material changes, for better or for worse, in their size or quality between sales. The corollary is also true, namely that homes which have not sold recently (i.e., "Unsold Homes") are more likely to have been mispriced in the previous revaluation. State revaluation certification standards seek to minimize such distortions by requiring what is called an "Unsold Property Test" that compares the changes in appraisals for both sold and unsold properties as of the new valuation date (i.e., October 1, 2015) and the year before. The objective of this test is to determine if sold properties have been assessed in a manner similar to unsold properties.

TEARDOWNS: Sometimes properties are sold not for their value as an existing residence, but to be demolished in order to build a new house and/or to be subdivided. As previously noted, the Beach area has seen substantial teardown activity in the wake of Superstorm Sandy. The owners of many of the homes that sustained significant damage have been unwilling or unable to repair them, including the need to elevate them to the new FEMA standards to qualify for flood insurance. Many have chosen instead to sell their homes to developers who tear them down and build much larger homes that can be sold at a profit. These teardowns are typically sold at prices below their 2010 appraisals, which could give the false statistical impression that property values are falling in the neighborhood. The developer then builds and sells a much bigger house at a price that is much higher than the appraised value of the home it replaced, which could give the false statistical impression that home values in general are rising.

DISTRESS SALES: When there are a substantial number of foreclosures and short sales, as there have been since the Great Recession, they temporarily increase the supply of homes relative to demand and thus depress selling prices. In addition, a bank that forecloses on a property is generally willing to accept a lower price than would an informed and patient owner because the bank simply wants to recover as much as it can of the value of the mortgage it holds on that property and move on. Estate sales under probate are also generally at lower prices than an informed and patient owner would be willing to accept. Such distress sales dampen selling prices, and do not reflect true market values. A related transitory effect comes about when supply is reduced (thereby benefiting market prices) because some owners refuse to sell when they have negative equity in their homes, and then supply is increased (thereby hurting market prices) when the market recovers enough to allow these owners to sell at a price that covers their mortgage.

FEWER SALES: As a general rule, the validity of any statistical analysis benefits as the sample size grows, so the more sales the better in terms of trying to understand what is happening to home values in Fairfield. Unfortunately, as indicated in the chart on the right, the number of sales has declined almost 40% over the past seven years (2008-2014) to an average of 732 from the previous 14 years (1994-2007), when they averaged 1,182.[6]



TAX LAW CHANGES: Changes in federal or state capital gains tax rates can temporarily increase the supply of homes relative to demand as well as the motivation of sellers. Such a change stimulated the sale of primarily higher-end homes in 2012 in anticipation of a higher capital gains tax rate (20% up from 15%) and the imposition of a 3.8% Medicare tax on investment gains, both of which became effective on January 1, 2013. Tax-motivated sales would have had the greatest impact on selling prices in towns with a significant number of higher-end homes that were owned long enough to still be worth significantly more than the owner paid, despite the substantial decline in housing values from their 2006-2007 peak.

<u>The Problems with Median Sales Price Data</u>

The problems with using median sales price (MSP) data to analyze changes in home values are that:

- the trend in MSPs over time can be significantly distorted by shifts in the mix of the homes being sold;
- the mix of the homes that are selling may be very different than the mix of all the homes in a town; and
- comparisons of changes in MSPs between two or more towns can be significantly distorted unless the towns have similar proportions of homes in each price segment.

If the mix of the homes that are sold changes significantly in terms of high, middle, and low segments: (a) the MSP can change significantly, even if all homes are sold at <u>exactly</u> the same price for which they sold five years earlier; and (b) the MSP can remain unchanged even though home prices rise or fall significantly. A pretty good explanation from one source of how MSPs can be misleading is as follows:

> *"We have observed before that most market areas contain a number of price ranges. Think of them as layers, something like geological strata. Consider a hypothetical example, greatly more simplified than any real market. There are three levels to this imaginary market: Starter Homes that currently range from $150,000-$200,000; Mid-range Homes that are $300,000-$500,000; and Luxury Homes that run from $800,000 - $1 million. Now, if in one year there were 20 sales of Starter Homes, 5 sales*

[6] Source: The Warren Group.

> *of Mid-range Homes, and 2 sales of Luxury Homes, the median would be somewhere in the Starter Homes range of $150,000-$200,000. Suppose that in the next year, the Mid-range Homes and the Luxury Homes each experienced price declines in the neighborhood of 30%. (It happens.) Now, their respective price ranges would be $210,000-$350,000 and $560,000-$700,000. Suppose that, along with those price declines, sales of those higher priced properties picked up. Let's say that in the next year there were 5 sales of Starter Homes, 15 sales of Mid-range Homes, and 7 sales of Luxury Homes. The median then would be in the middle range of $210,000-$350,000. It would be higher than the year before, even though it was reflective of sales of properties whose values had declined."*[7]

A great local example of how a change in the mix of sales can distort MSPs and thus impressions of what is happening to home values in general is Darien, which shows **a 12% increase in MSP for all homes** in the first six months of 2015 versus 2013, despite an **5% decline in single-family home prices** (from $1.35 million to $1.28 million). This is **because condo prices surged 150%** (from $680,000 to $1.7 million) after the completion of a new high-end, 62-unit, residential condo development called Kensett.[8]

Comparisons of changes in MSPs between towns can also be significantly distorted unless the towns have a similar proportion of homes in each price segment. For example, if one town has a greater concentration of housing values around the center of its range (e.g., a bell-shaped curve), then its MSP will change less in response to any change in the mix of housing sales than another town with a perfectly flat distribution of housing values.[9] In other words, if there is a large enough homogenous "core" at the center of the housing stock, variations in the number of "transactions" at either the high or the low end will not have much effect on the MSP, which will tend to remain within its relatively narrow core range.

In conclusion, MSPs may or may not reflect what is happening to true market values, and it is thus extremely important to determine whether the sales are representative of the entire housing stock in a town, and whether there has been any material change in the mix of sales over time.

Sources of Information on Home Prices

The Warren Group (TWG)[10] tracks real estate data for the Northeast, and is the source of the median sales price data for the 2010-2014 period presented by VGSI at the public meetings. By the way, TWG reports that MSPs are down in the first six months of 2015 from 2014 for **Fairfield**, **Fairfield County** and the **State** at **$519,400 (down 2.0%), $385,000 (down 2.4%)** and **$216,000 (down 2.0%),** respectively, which also means a lesser gain since 2010 of **4.9%** for Fairfield (versus the 7% gain through 2014), **flat** for Fairfield County (versus what was a 2.5% gain through 2014), and **down 1.3%** for the state (versus the modest 0.6% gain through 2014).

Corelogic is another source of state and national (but not town-level) MSP data.[11] Their latest data show that as of May 2015, Connecticut has experienced the fifth worst housing price decline in the

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[7] http://realtytimes.com/rtpages/20100302_medianprice.htm

[8] www.kensettdarien.com

[9] Think of a town in which there is only one house at each and every price point, in $100,000 increments, from $100,000 to $2 million. Any change in the mix of sales in this town is going to move the median sales price up or down significantly. Now think of another town with exactly the same number of houses and the same range of prices, but with 75% of them at a single price point, say $1 million. In Town #2, changes in the sales mix are not likely to move the median sales price above or below $1 million because most sales will always be at that price.

[10] http://www.thewarrengroup.com/business/data-solutions/

[11] http://www.corelogic.com/

nation (down 23.1%) from the peak in July 2006 to the current level. The only states with greater declines were Nevada, Florida, Rhode Island and Arizona. Connecticut was also one of only five states that experienced a year-to-year decline in the latest twelve months (May 2015 vs. May 2014), along with Massachusetts, Mississippi, Louisiana and Maryland.

Zillow, the real estate website,[12] purports to track home values as well as MSPs, and shows a modest increase in Fairfield's MSP over the past five years, but a modest decline in its estimated home values. Zillow also shows a decline year to date in 2015 and is forecasting a further decline for Fairfield in 2016. Since we have no way to assess the accuracy of their data or analysis, we mention them only as being of possible interest.[13]

S&P/Case-Shiller (S&P/C-S) publishes a quarterly National Home price Index which tracks single-family home values based on changes in the selling price of homes that have sold at least twice in recent history, excluding new construction. A helpful explanation of the limitations of the S&P/C-S data is provided in a paper on the Zillow website.[14] Essentially, S&P/C-S tracks only repeat sales in the large, coastal metro markets, including foreclosure sales, which can distort the data for both a specific metro market and for metro-market comparisons because of longer foreclosure cycles in some states.

<u>What Do We Think is Happening to Home Values in Fairfield?</u>

Benefitting, among other things, from a compelling benefit-to-cost ratio for families with school-age children, great recreational facilities and excellent affordability (thanks to historically low mortgage rates), the values of most Fairfield homes appear to be doing fairly well with a 4%-5% increase, particularly relative to what is happening in the State as a whole. If as we believe, the mix of sales has shifted toward the lower end, then all other things being equal, the increase in the median sales price actually understates the strength in the value of those homes.

Meanwhile, based solely on personal observations and anecdotal evidence (including many discussions with local realtors), Fairfield Taxpayer believes that homes valued above $1.4 million have declined even more in value since 2010 than 7%-9%. The weakness at the higher end of the market has been apparent for several years, with homes lingering on the market despite repeated reductions in list prices, and eventually selling well below their appraised values.[15] After 17 years when Fairfield's spending and taxes increased at 2.5x-3.0x the rate of inflation,[16] we believe the weakness at the higher end reflects

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[12] http://www.zillow.com/home-values/

[13] Anyone who is interested in learning more about the methodology for Zillow's Home Value Index, which it describes as being "based on proprietary statistical and machine learning modes," should begin with the paper at the following link: http://www.zillow.com/research/zhvi-methodology-6032/

[14] http://cdn1.blog-media.zillowstatic.com/3/ZHVI-InfoSheet-04ed2b.pdf

[15] Some examples: **1131 Sasco Hill Road**, originally listed at $25.5 million, sold in January 2015 for $13.9 million, **<u>29% below</u>** its tax appraisal of $19.7 million; **1078 Sasco Hill Road**, originally listed at $14.3 million, sold in December 2014 for $6.75 million, **<u>37% below</u>** its appraisal of $10.63 million; **1110 Harbor Road**, originally listed at $7 million, sold in March 2014 for $4.7 million, **<u>19% below</u>** its appraisal of $5.8 million, and after substantial renovations it has reportedly been sold again for $4.5 million, **<u>22% below</u>** its appraisal; **893 Sasco Hill Road**, originally listed at $5.2 million, sold in April 2012 for $3 million, **<u>35% below</u>** its appraisal of $4.6 million; **875 Sasco Hill Road**, originally listed at $3 million, sold in May 2015 for $2.4 million, **<u>22% below</u>** its appraisal of $3.25 million; **580 Sasco Hill Road**, originally listed at $4.5 million, sold in August 2013 for $4.2 million, **<u>23% below</u>** its appraisal of $5.5 million; **478 Harbor Road**, originally listed at $5 million, sold in May 2014 for $2.45 million, **<u>23% below</u>** its appraisal of $3.2 million. Six homes in this neighborhood are currently listed at prices below their appraisals.

[16] http://www.fairfieldtaxpayer.com/uploads/1/1/1/8/11185705/ft-fairfieldhistoricalbudget3.31.15.pdf

our high tax rate relative to such towns as Westport, Darien and Greenwich, where buyers can find homes they like in communities with equally great public services, better commutes to NYC, and lower tax burdens.

Important Dates

• November 6, 2015	Assessment Notices Mailed
• November 16 – December 12, 2015	Informal Hearings with VGSI Personnel
• January 6, 2016	Notice of Results of Informal Hearing
• January 31, 2016	Grand List Signed
• February 20, 2016	Deadline for BAA Appeal Application

Please note that an earlier version of this paper indicated that the Tax Assessor's public information meeting on August 20th at 7:00 pm was to be held at Fairfield Ludlowe High School. The venue for that meeting was subsequently changed to Fairfield Woods Middle School, and this version has been updated accordingly on the bottom of page two.