



Wide gulf in buyout values

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GALVESTON — Sales contracts for the first 23 beach-front properties whose owners completed buyout agreements with the city show wide disparities between the values set by private appraisers and those listed by the Galveston Central Appraisal District. On average, the city paid 89 percent more for the houses damaged by Hurricane Ike than the appraisal district said they were worth before the storm.

The value disparities didn't surprise the city's buyout consultant, who said appraisal district values are notoriously below market values.

But appraisal district officials said such a wide difference can't be justified as anything other than significant price inflation.

160 Percent Increase

The federal Hazard Mitigation Grant Program, which provided the funds and the rules for the buyouts, requires cities to pay pre-storm, fair market value for the purchased properties.

Before evaluating any of the 64 houses eventually included in the program, the city had to give the state agency overseeing the program an estimate of how much it expected the whole buyout would cost.

After comparing appraisal district values and sales information from the Galveston Multiple Listing Service, a database maintained by the Galveston Association of Realtors, consultant Jeff Ward increased the appraisal district values by 160 percent to make sure the program had enough money to buy all the houses. City officials recommended Ward increase the values by 180 percent, he said.

"On average, we have money left over in the program," he said. "Had we used appraisal district values, we would have overrun the budget."

The city budgeted \$20 million for the buyouts.

Lower In Every Instance

Once the state approved the city's application to participate in the program, Ward hired Houston-based IRR Residential Appraisers & Consultants to evaluate every house individually.

If the property owner didn't dispute the value, it became the state's final offer, and Ward drew up the sales contract.

Property owners who disagreed with the appraisal could get their own and then let state reviewers set the final offer price based on the two valuations.

City officials reviewed all final offer amounts and didn't find fault with any of them, Ward said.

Ward, whose company has managed buyout programs all across the country, wasn't surprised that the private appraisals came in so much higher than the appraisal district values.

"My experience is that appraisal district values are lower than appraised values in every instance," he said. "I've never run a program where that wasn't the case."

Ward managed the buyout program in Harris County after Tropical Storm Allison, in 2001, which included several thousand houses.

'Significantly inflated'

Although appraisal district Deputy Chief Appraiser Mitch McCullough acknowledges official values are sometimes low, they all are based on average sales data, he said.

"The buyout program numbers are significantly inflated based on our understanding of the market," he said.

The appraisal district doesn't have access to the sales records maintained by area real estate agents but relies on voluntary sales surveys and documents submitted during protest hearings to set average values for a neighborhood.

Documents filed in an appraisal protest for one house on the buyout list show the owner bought the property 15 months before Hurricane Ike for \$148,500 less than what the city paid for it after the storm.

Buyout program appraisers valued the property at 13101 Bermuda Beach Drive at \$365,000, 126 percent more than its \$161,180 appraisal district value.

The owner protested the appraisal district assessment of his property in 2008, bringing in documentation to show he bought the house for \$216,500 the year before, McCullough said.

Using the buyout value, the 29-year-old, 750-square-foot house is worth \$486 per square foot, McCullough said.

“I’ve never seen any sales in Galveston that would support that amount,” he said.

‘Contrived Numbers’

The state comptroller evaluates appraisal districts every year to make sure their values are between 95 percent and 105 percent of market value, based on a random sampling of sales data.

Districts that fail the evaluation several years in a row can be forced to operate under state oversight, and area school districts risk losing state funding.

The Galveston Central Appraisal District passed all its recent evaluations, McCullough said.

The federal buyouts shouldn’t effect next year’s evaluation because they weren’t fair market sales, he said.

“These are just some contrived numbers,” he said. “They are not arm’s length, open market transactions.”

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