



# OKLAHOMA TAX COMMISSION

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**SUBJECT:** 2010 Use-Value Capitalization Rate

**NUMBER:** 10-2

**DATE:** March 29, 2010

Dear County Assessor:

The Ad Valorem Division is statutorily mandated to annually determine the capitalization rate for use value of agricultural land. This is in keeping with 68 O.S. Section 2817 which provides the following:

*C. The use value of agricultural land shall be based on the income capitalization approach using cash rent. The rental income shall be calculated using the direct capitalization method based upon factors including...*

*4. A capitalization rate to be determined annually by the Ad Valorem Division of the Oklahoma Tax Commission based on the sum of the average first mortgage interest rate charged by the Federal Land Bank for the immediately preceding five (5) years, weighted with the prevailing rate or rates for additional loans or equity, and the effective tax rate.*

Criteria utilized was derived from 2009 data, and the resulting determination is reflective of prevailing economic conditions.

The 2010 ag capitalization rate is 6.92%.

**Remember, this is NOT a fractional assessment percentage.**

Sincerely,

Jeff Spelman, CAE, Director  
Ad Valorem Division

Enclosures

**OKLAHOMA TAX COMMISSION  
AD VALOREM DIVISION**

**AGRICULTURAL CAPITALIZATION RATE HISTORY**

<b>YEAR</b>	<b>CAPITALIZATION RATE</b>
1995	9.94%
1996	9.28%
1997	9.11%
1998	9.11%
1999	9.06%
2000	9.10%
2001	9.24%
2002	8.32%
2003	7.64%
2004	7.20%
2005	6.86%
2006	7.05%
2007	7.36%
2008	7.56%
2009	7.13%
2010	6.92%

**2010 CAPITALIZATION RATE  
AGRICULTURAL LAND**  
(based on 2009 data)

Prepared by the  
Oklahoma Tax Commission  
Ad Valorem Division

Five-year average interest rate for FIRST MORTGAGES.....	6.78%
Average interest rate for SECOND MORTGAGE.....	6.53%
Average interest rate for CERTIFICATES OF DEPOSIT ..... (equity capital)	2.15%

**THE CALCULATION PROCESS**

65% of 5-yr. average first mortgage interest rate of 6.78%	=	4.40
17.5% of second mortgage interest rate of 6.53%	=	1.14
17.5% of cert. of deposit rate (equity) of 2.15%	=	.38
1% applied effective tax rate 1.00	=	<u>1.00</u>

**2010 CAPITALIZATION RATE = 6.92%**