

How to Value Real Property

Property Other than the Principal Residence

Other real property can be exempt if the net market value of the property is \$6,000 or less and if the beneficiary is “utilizing” the property, i.e., receiving yearly income of at least 6% of the net market value.

Example:

John has some land whose net market value is \$5,000. If he can generate at least \$300/year in income (6% of \$5,000) from the land, the property will be exempt. (§§50427, 50416)

If the net market value of the other real property exceeds \$6,000, the first \$6,000 of net value will be exempt if the property generates yearly income of at least 6% of the net market value. Any property value in excess of \$6,000 will be counted in the property reserve.

Example:

The net market value of John’s land is \$9,000. The first \$6,000 of value will be exempt if he can generate at least \$540/year in income (6% of \$9,000), and the remaining \$3,000 in value will be added to the property reserve. Since John can only have \$2,000 in property reserve, he will be ineligible for Medi-Cal unless he can reduce the net market value of the land. (§§50427, 50416)

How To Reduce Net Market Value

The net market value of real or personal property is the owner’s equity in that property and is determined by subtracting the encumbrances of record from the market value. Example: The market value of John’s land is \$11,000, but he still owes \$2,000 on the property. Thus, the “net” market value is \$9,000. In the example above, John can reduce the net market value to \$8,000 and still be eligible for Medi-Cal if he borrows \$1,000 on the land and generates at least \$480/year (6% of \$8,000) in income from the property. (§§50413, 50415)

Utilization Requirements

Other real property must meet utilization requirements in order to be exempt. This means that the property must generate at least 6% a year of the net market value. If the property does not generate income, then the full net market value of the property will be counted. (§50416(b),(j))

Good Cause

If the applicant has made bona fide efforts to meet the utilization requirements but is unable to do so, the utilization period can be extended indefinitely and the applicant can be eligible. For example, if the applicant has made bona fide efforts to sell the property, but is unable to do so, the property won’t be included in the countable resources. Note that the regulations include specific criteria won’t be included in the countable

resources. Note that the regulations include specific criteria for what constitutes “good cause” and “bona fide” efforts to sell. (§§50416, 50417)

Market Value

The market value of property is very important, since it is used to determine the net market value. The market value of real property in California is one of the following, whichever is less: (§50412)

- the assessed value determined under the most recent property tax assessment
- or
- the appraised value by a qualified real estate appraiser

The market value of real property outside of California is one of the following, whichever is lower:

- the value established by the assessment method used where the property is located
- or
- the appraised value by qualified real estate appraiser

Business Property

Property used in whole or in part as a business or as a means of self-support is exempt. Rental real property, however, will not be exempt unless the property is clearly held as a business. If the applicant can demonstrate with tax returns or other evidence that the property is clearly a “business” not just investment property, it can be exempt. (§50485(d), ACWDL 91-28)

Income from Real Property

If a Medi-Cal beneficiary is renting real property, the “net” income from the property is used in determining the share of cost. Certain expenses are deducted from the gross rental income to determine the net income. These include taxes and assessments, interest payments (not principal), insurance, utilities and upkeep and repairs. Upkeep and repairs are the greater of either: the actual amount expended for upkeep and repairs during the month or 15% of the gross monthly rental, plus \$4.17 per month. (§50508) Note that other calculations are used for income from rental of rooms, rental of unit(s) in a multiple dwelling unit or other dwellings on the property. (§50508)

Maintaining the Home for Return of LTC Resident

In addition to the \$35 for personal and incidental needs, a person in long term care can retain a amount of income for upkeep of a home if all of the following conditions are met:

- the spouse or family of the LTC is not living in the home.
- the home, whether rented or owned by the LTC patient, is actually being maintained for the return of the LTC patient.
- there is a verified medical statement that the person will return home within six months.

The amount allowed for upkeep of the home depends on the living circumstances of the LTC patient. (see 22 CCR §50605(c))

Proceeds From the Sale of Your Home

Under California regulations at 22 CCR §50426, the proceeds from the sale of real property retained by an applicant or beneficiary who does not own a suitable principal residence or who wishes to sell the current principal residence and purchase a new principal residence shall be exempt for a period of six months from the date of receipt of the proceeds so long as the proceeds from the sale of the real property are intended to be used to purchase a principal residence. The proceeds may also be applied to the costs of moving, necessary furnishings for the new residence and repair or alteration to the principal residence. If a portion of the proceeds is diverted to some other purpose, the status of the remainder is not affected provided such remainder is being retained to apply toward the purchase of a principal residence.

For SSI purposes, the rules are more restrictive. SSA POMS Manual Section SI 01130.11 states that, when an individual sells an excluded home, the proceeds of the sale are excluded resources if the individual: 1) plans to use them to buy another excluded home, and 2) does so within 3 full calendar months of receiving them.