

# Appraisal Principles / Real Property Valuation April 2023



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# Appraisal Principles / Real Property Valuation

## **Objectives:**

- Increase your awareness of appraisal principles and real property valuation
- Give insight on what appraisers do
- Provide understanding on the definition of Market Value
- Familiarize you with some terminology used in the appraisal of real property
- Provide an overview/discussion on the 3 approaches used to arrive at market value

# Basis of Valuation

Assessors are to determine the true and fair market value of taxable property in their respective counties.

*“All property shall be valued at one hundred percent of its true and fair [market] value ...unless specifically provided otherwise by law...”*



# Market Value

True & fair market value is further defined as,

*“...the amount of money a buyer of property willing but not obligated to buy would pay a seller of property willing but not obligated to sell, taking into consideration all uses to which the property is adapted and might in reason be applied.”*

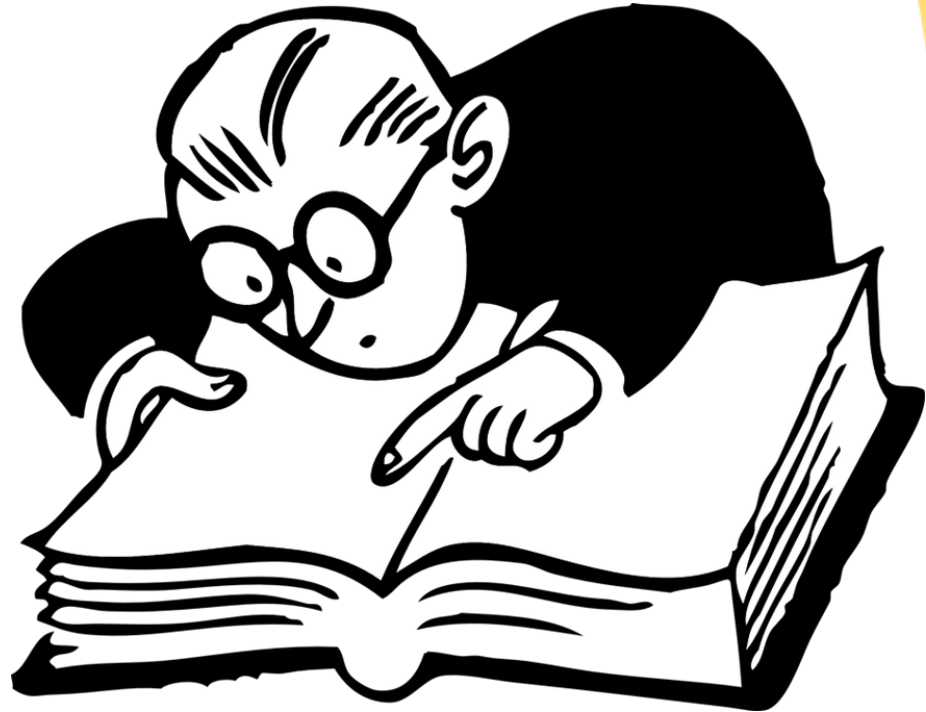
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# Pertinent tasks of a Real Property Appraiser

- Discovery
- Listing
- Valuation
- Revaluation
- Defend



# Three Approaches to Value

- Cost
- Sales Comparison
- Income



# Subject Property Data

- Characteristics
- Site Improvements
- Dwelling Improvements



# The Cost Approach To Value

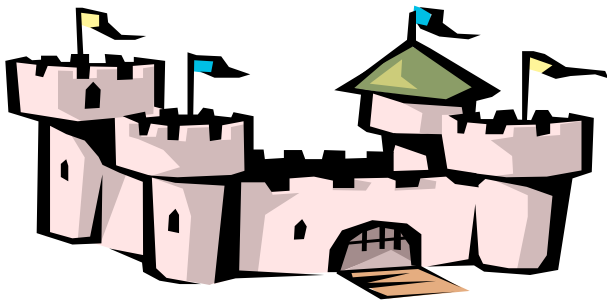
- Major Points
- Principle Characteristics
- Advantages / Disadvantages
- Reproduction vs Replacement Cost



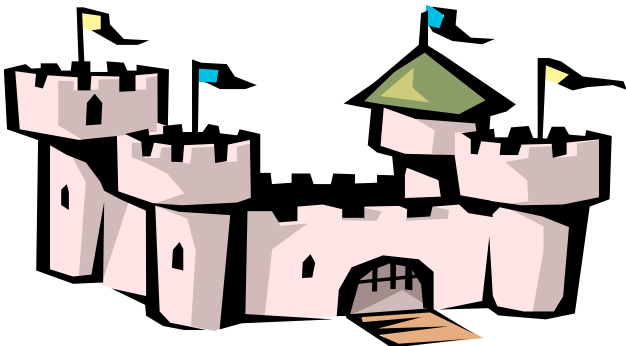


# The Cost Approach To Value

## Reproduction Cost



## Replacement Cost



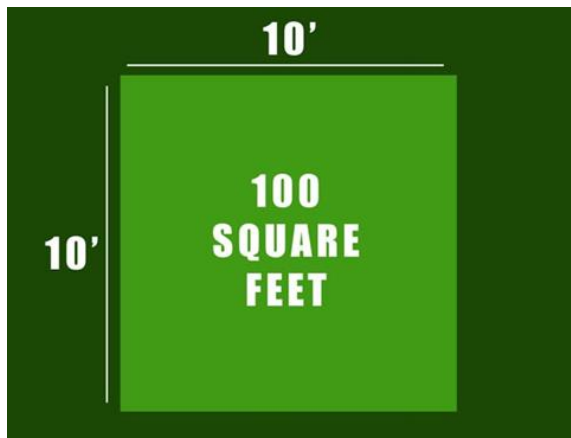
# The Cost Approach To Value

- Data needed
- Replacement Cost New less Depreciation (RCNLD)
- Basic Process



# The Cost Approach To Value

Types of cost estimates:



# The Cost Approach To Value

Replacement Cost New  
less Depreciation (RCNLD)

= *Improvement Value*

add in Land Value

= Total Property Value

or Market Value ← Indicates

# The Cost Approach To Value



# The Cost Approach To Value

*Depreciation -- (Accounting vs. Appraisal)*



vs.





# The Cost Approach To Value

## *Depreciation*



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# The Sales Comparison Approach To Value





# The Sales Comparison Approach To Value

- Data Needed
- Subject characteristics
- Comparable sales data & characteristics
- Advantages
- Disadvantages

	SUBJECT	COMP #1	COMP #2	COMP#3
SALE PRICE		\$175,000	\$183,000	\$186,500
TIME ADJUSTMENT		\$10,500	\$3,660	NONE
LOCATION	STANDARD	EQUAL	EQUAL	EQUAL
SITE	STANDARD	EQUAL	EQUAL	EQUAL
DWELLING TYPE	I STORY FRAME	EQUAL	EQUAL	EQUAL
QUALITY	AVERAGE	EQUAL	EQUAL	EQUAL
ROOFING	SHAKE	EQUAL	EQUAL	EQUAL
SQ. FT. LIVING	1600	EQUAL	EQUAL	EQUAL
# BEDROOMS	3	EQUAL	EQUAL	EQUAL
# BATHS	2 1/2	EQUAL	EQUAL	EQUAL
FIREPLACE	NONE	-1,500	EQUAL	EQUAL
GARAGES	DOUBLE	\$4,000	EQUAL	EQUAL
CARPORTS	NONE	EQUAL	(\$1,000)	(\$1,000)
DECKS/PORCHES	I EACH	EQUAL	\$2,000	\$1,000
AMENITIES	NONE	(\$3,000)	EQUAL	EQUAL
OTHER				
INDICATED VALUE		\$185,000	\$187,660	\$186,500
<b>FINAL ESTIMATE OF VALUE</b>	<b>\$186,500</b>			

# Sales Comparison Approach Adjustments to Consider



# The Income Approach To Value



# The Income Approach To Value

- *General attributes*
- *Data Needed*
- *Advantages*
- *Disadvantages*
- *Factors affecting  
income/operating expenses*

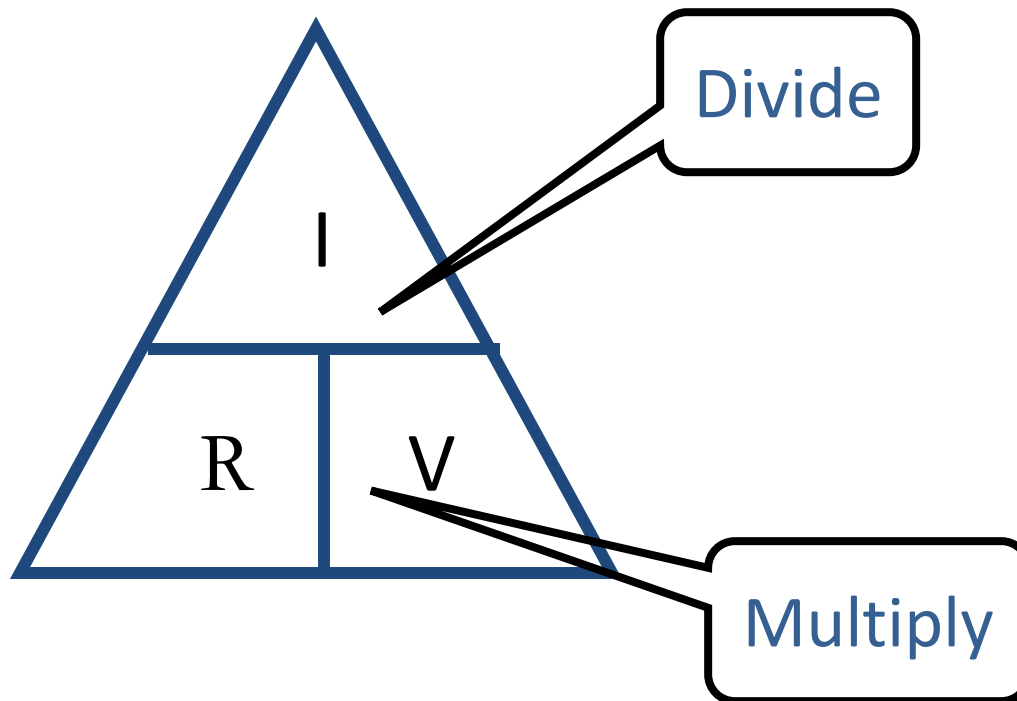
# The Income Approach To Value

## THE “IRV” EQUATION

$$I = R \times V$$

$$R = I \div V$$

$$V = I \div R$$



# The Income Approach To Value

## Sample of Income Approach

$$df_n = \frac{(1 - \sum_{i=1}^{n-1} C_n \cdot \Delta_i \cdot df_i)}{(1 + C_n \cdot \Delta_n)}$$

Just kidding!

# The Income Approach To Value

Example of the “IRV” formula

$$\underline{\$600,000 (I)} \div \underline{7.5\% (R)} =$$
$$\$ 8,000,000 (V)$$



# Final Reconciliation



# Fundamentals of the Assessor's Office

## April 2023

### Answers / Exercise

1. What are the three approaches to value:

- a. *Cost*.
- b. *Market or Sales Comparison*.
- c. *Income*.

2. What is the IRV formula?

*Income divided by Rate equals Value*

*Income divided by Value equals Rate*

*Value multiplied by Rate equals Income*

3. When using the Market Approach, the subject property is adjusted to the comparables.

*False -- The comparables are always adjusted to the Subject Property*

4. The cost of creating a building having the same utility as a subject building, on the basis of current prices, using current standards of materials and design best defines:

*D. Replacement Cost*

5. When using the Cost Approach to value property is it important to know the reason for selling the property?

*No*

*Why? The cost approach is based on the cost of the materials and labor needed for construction. The reason for selling a property is irrelevant. However, in the sales comparison (market) approach, the reason for selling may be an indication that the sale price is not market value.*

6. After completing an appraisal using all three approaches to value, which approach is the best to choose? Why?

*The method that most accurately represents the subject property, because it will be the best indication of market value.*

7. What is the definition of Market Value?

*The price a willing but non-obligated buyer will pay to a willing but non-obligated seller, both being knowledgeable of the market.*

8. Mass Appraisal is the valuation of many properties as of a given date, using standard procedures and statistical testing.