Appraisal Principles / Real Property Valuation April 2024

T.J. Mains – Real Property Lead
509-987-1236 / tjm@dor.wa.gov

Alex Ball – Real Property Specialist
360-534-1366 / AlexB@dor.wa.gov

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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

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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…"

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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."

WAC 458-07-030

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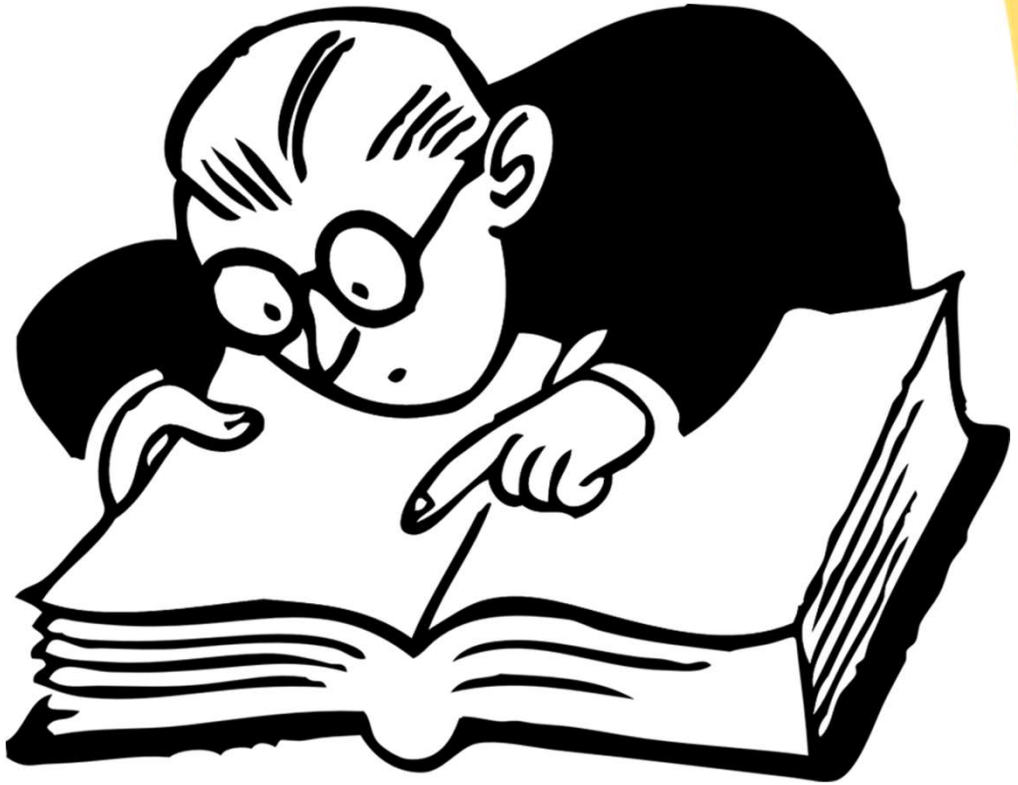
Pertinent tasks of a Real Property Appraiser

- Discovery
- Listing
- Valuation
- Revaluation
- Defend



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Three Approaches to Value

- Cost
- Sales Comparison
- Income

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Subject Property Data

- Characteristics
- Site Improvements
- Dwelling Improvements

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The Cost Approach To Value

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

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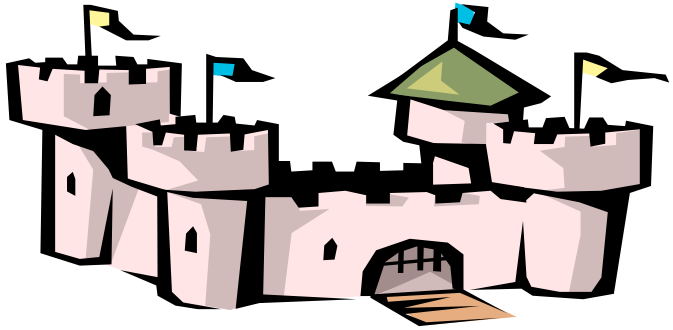
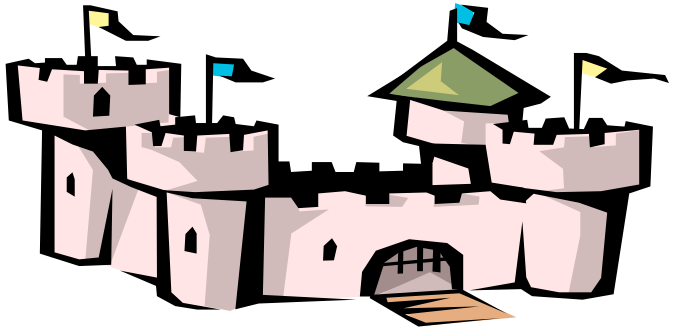
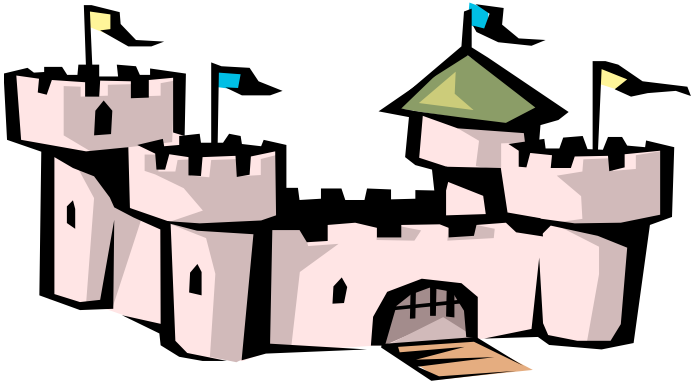
The Cost Approach To Value

Reproduction Cost





Replacement Cost



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The Cost Approach To Value

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

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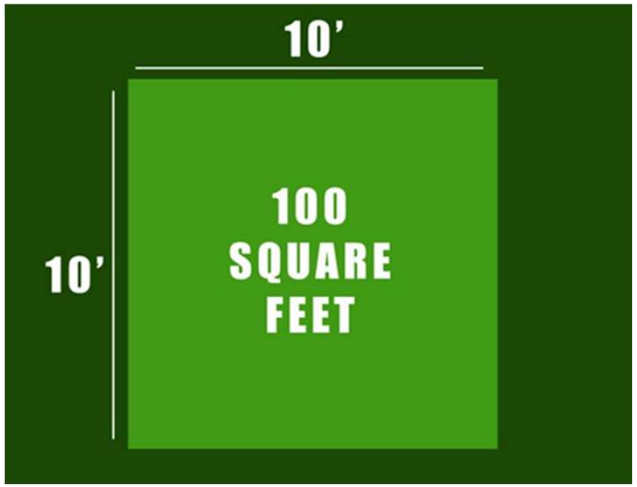
The Cost Approach To Value

Types of cost estimates:



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The Cost Approach To Value

Replacement Cost New

less Depreciation (RCNLD)

= *Improvement Value*

add in Land Value

= Total Property Value

or Market Value ← Indicates

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The Cost Approach To Value

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The Cost Approach To Value

Depreciation -- (Accounting vs. Appraisal)

vs.

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The Cost Approach To Value

Depreciation

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The Sales Comparison Approach To Value

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The Sales Comparison Approach To Value

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

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	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	1 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	1 EACH	EQUAL	$2,000	$1,000
AMENITIES	NONE	($3,000)	EQUAL	EQUAL
OTHER				
INDICATED VALUE		$185,000	$187,660	$186,500
FINAL ESTIMATE OF VALUE	$186,500			

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Sales Comparison Approach Adjustments to Consider

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The Income Approach To Value

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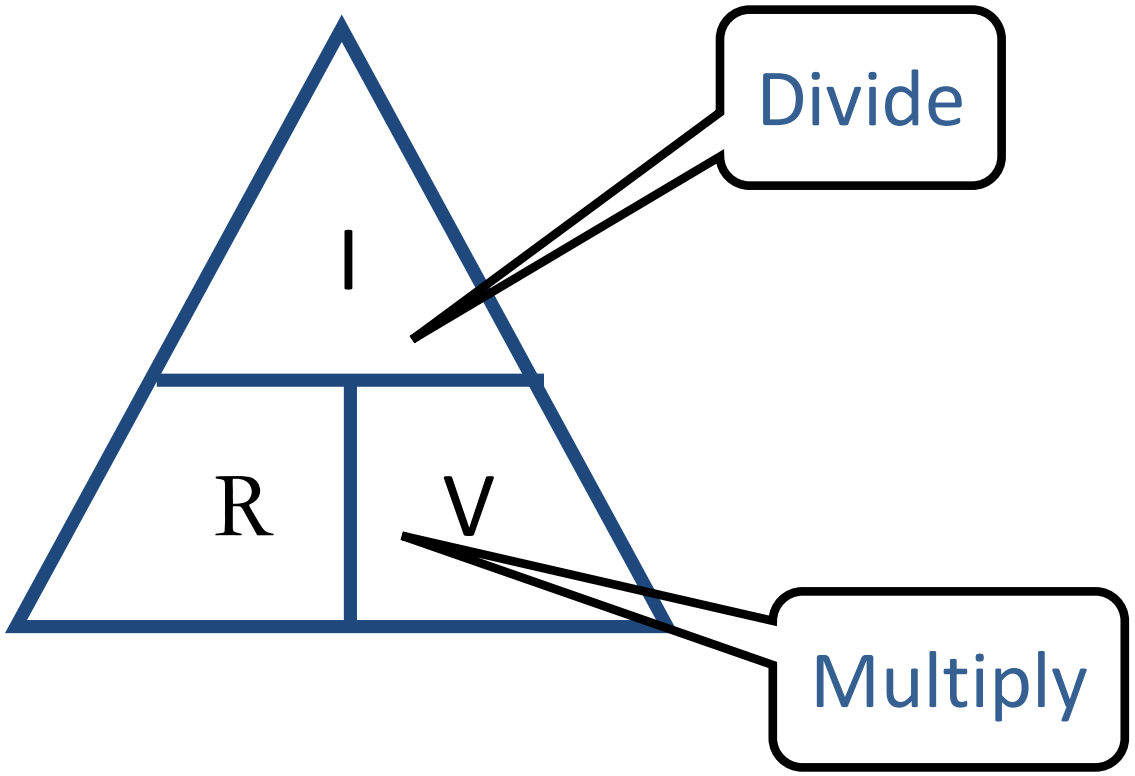
The Income Approach To Value

THE "IRV" EQUATION

$I = R \times V$

$R = I \div V$

$V = I \div R$



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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!

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The Income Approach To Value

Example of the "IRV" formula

We know "R" and "V", and we want to solve for "I"

(I) = 10% (R) X $ 2,000,000 (V)

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The Income Approach To Value

Example of the "IRV" formula

We know "I" and "V", and we want to solve for "R"

(R) = $100,000 (I) ÷ $ 1,000,000 (V)

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The Income Approach To Value

Example of the "IRV" formula

$800,000 (I) ÷ 10% (R) =

$ 8,000,000 (V)

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What is the VAT and why is there a VAT?

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Final Reconciliation

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Final Reconciliation

- Consider all three approaches to value
- Review of available data: Validity; Pertinence; Consistency; Quantity & Quality
- Should fall within the final range of values indicated by all approaches
- Final estimate of value should **never** be averaged - it should come from appraiser's reasoning & judgment of all market evidence

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