2024 Board of Equalization Training

Real Property Valuation

Property tax is an “ad valorem” tax -- meaning it is based on the value of the property.

Property tax (for the most part) is administered by local government

Real Property is defined in…

- RCW 84.04.090
- WAC 458-12-010

Basis of Valuation

Valuation vs. Property Tax

Revaluation Requirements

Each county assessor shall maintain an active and systematic program of revaluation of all taxable property on a continuous basis:

Revaluation of all taxable real property each year.

Physical inspection at least once every six years.

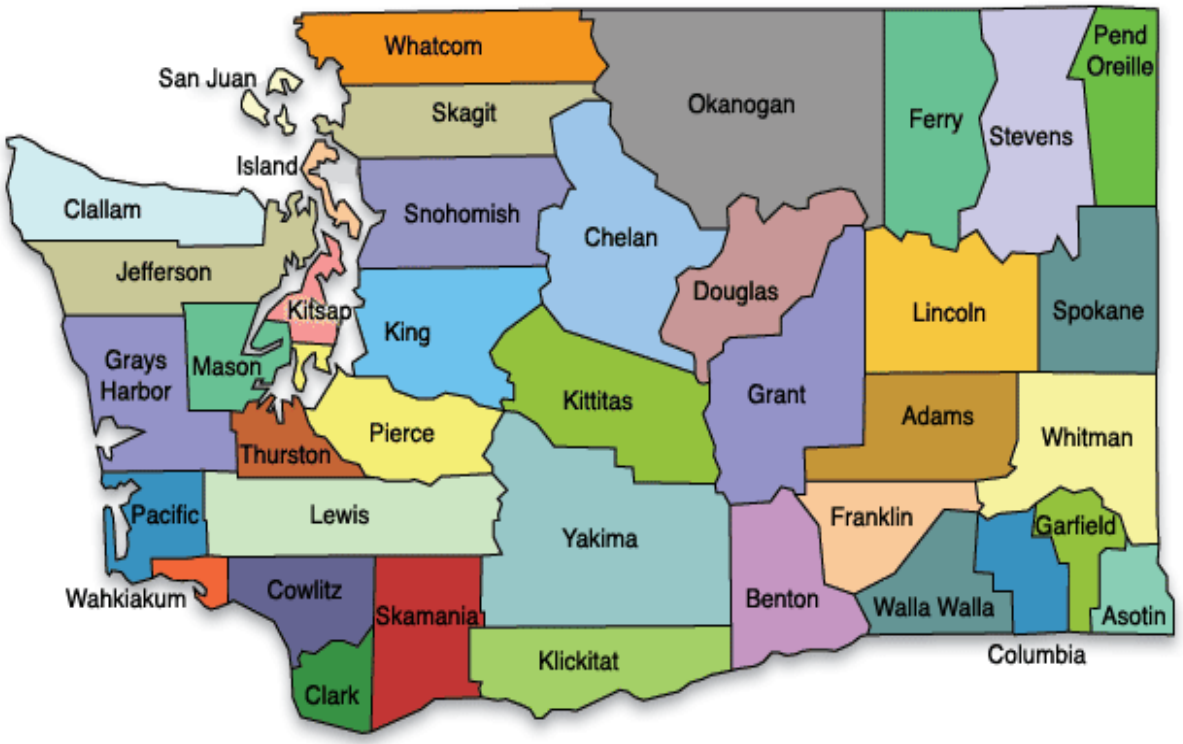
RCW 84.41.030

Revaluation Plan

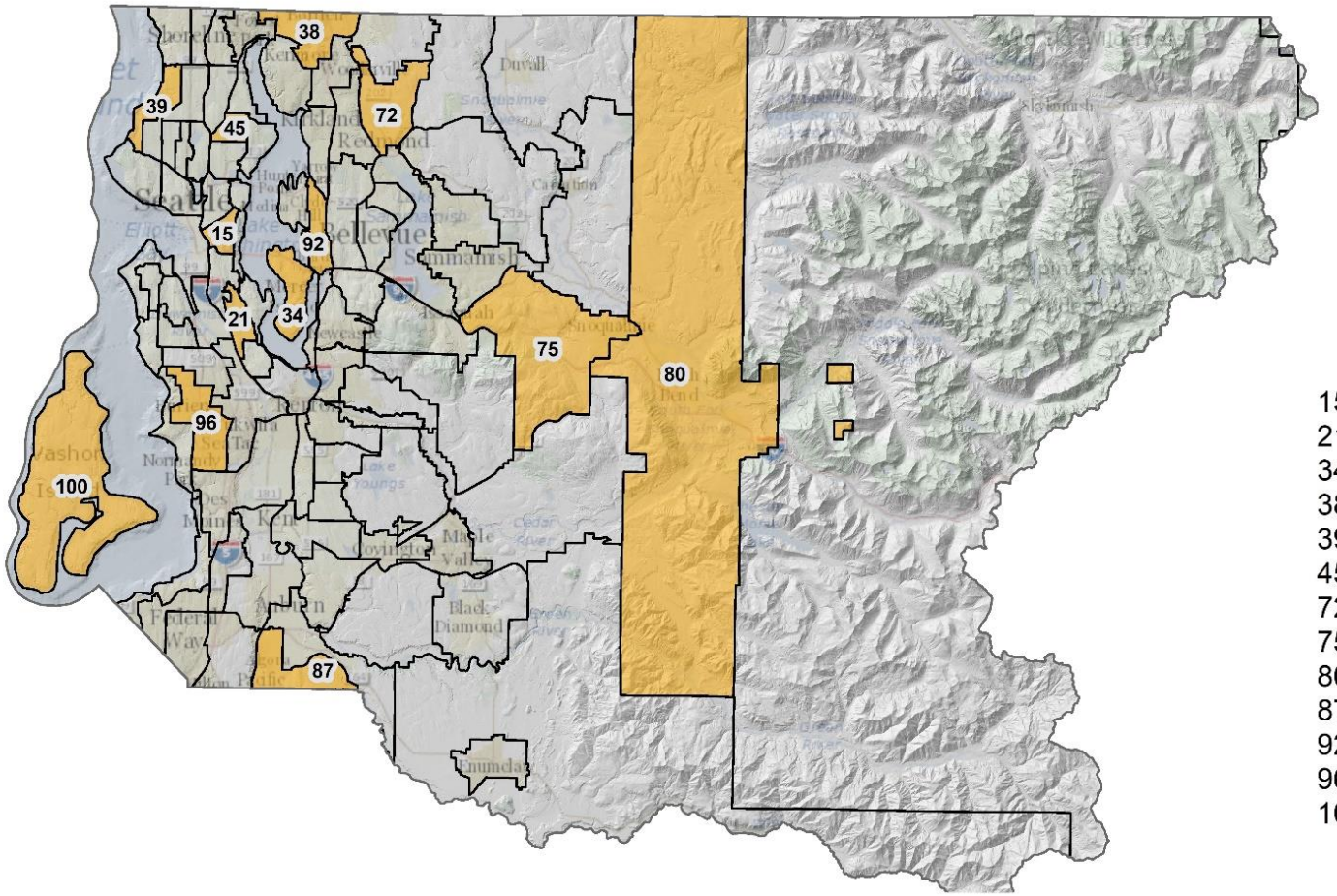
- Department of Revenue must approve prior to the first year of any revaluation and physical inspection cycle. (WAC 458-07-025)

- Plan & Assessment Objectives:
  - Uniformity in taxation
  - Standard of market value
  - Active and systematic program of revaluation on a continuous basis.
  - Efficient use of limited resources

Transition to Annual Valuation



Revaluation Area is the whole county



2020 Residential Area Physical Inspection

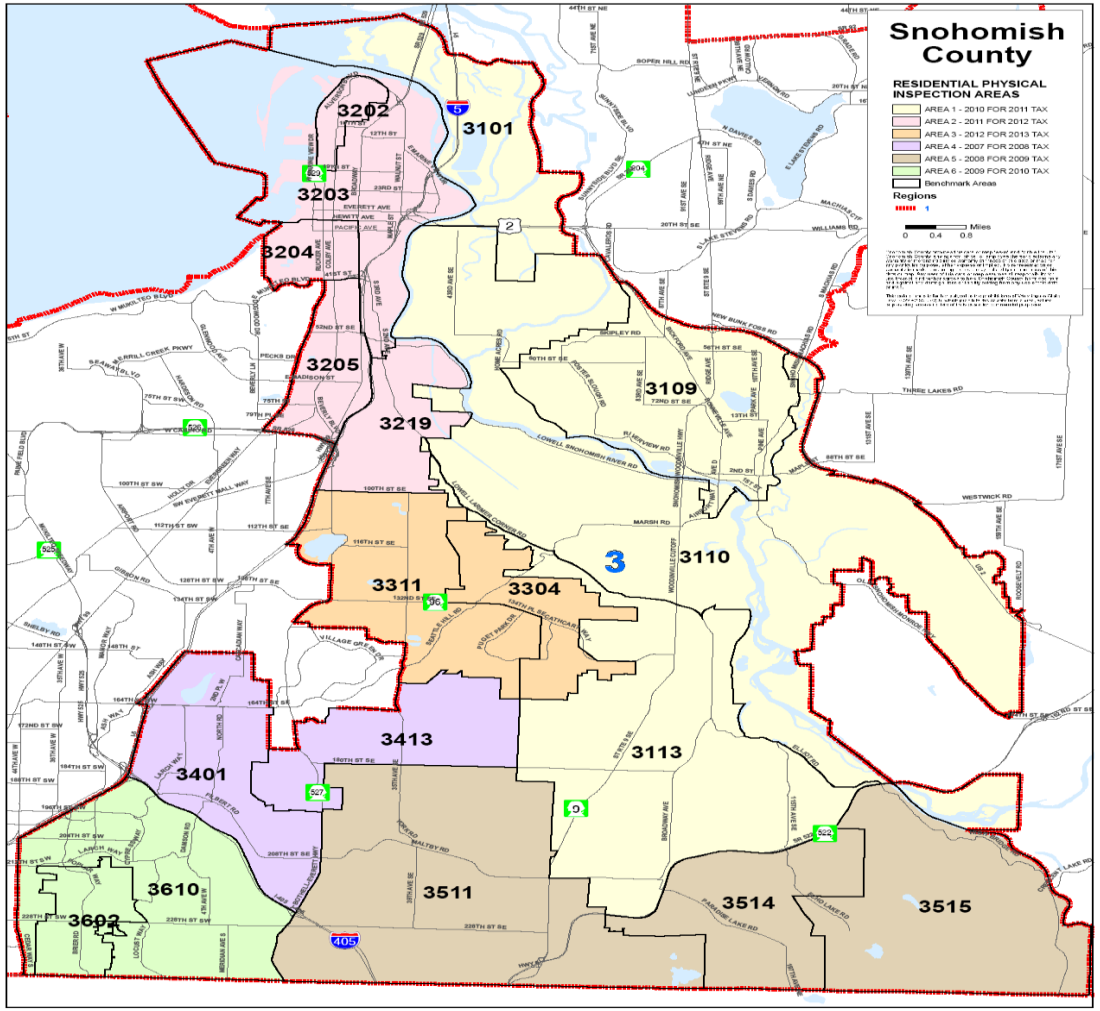
Physical Inspection

Yes

No

15-Central Area
21-South Beacon Hill/South Rainier Valley
34-Mercer Island
38-Bothell/East Kenmore
39-Broadview/Blue Ridge/Shilshole
45-Wedgwood/Bryant
72-Redmond/South Woodinville/Sammamish Valley
75-Issq/Preston/Snoq Rdg
80-North Bend/Snoqualmie
87-Algona/Pacific
92-NW Bellevue/Enatai/Meydenbauer/Beaux Arts
96-Burien/Des Moines
100-Vashon

Physical Inspection Areas



Physical Inspection Areas

ANNUAL REVALUATION COUNTIES		
6 YEAR INSPECTION CYCLE		
ADAMS	ISLAND	PIERCE
ASOTIN	JEFFERSON	SKAGIT
BENTON	KING	SKAMANIA
CLALLAM	KITSAP	SNOHOMISH
CLARK	KITTITAS	SPOKANE
COLUMBIA	KLICKITAT	STEVENS
COWLITZ	LEWIS	THURSTON
DOUGLAS	LINCOLN	WAHKIAKUM
FRANKLIN	MASON	WALLA WALLA
GARFIELD	OKANOGAN	WHATCOM
GRANT	PACIFIC	WHITMAN
GRAYS HARBOR	PEND OREILLE	YAKIMA
4 YEAR INSPECTION CYCLE		
CHELAN	SAN JUAN	FERRY

Changes with Annual Valuation

- Inspection at least once every 6 years
- Values statistically updated each year
- Expanded use of Mass Appraisal Practices
- More reliance on statistical modeling

Advantages of Annual Valuation

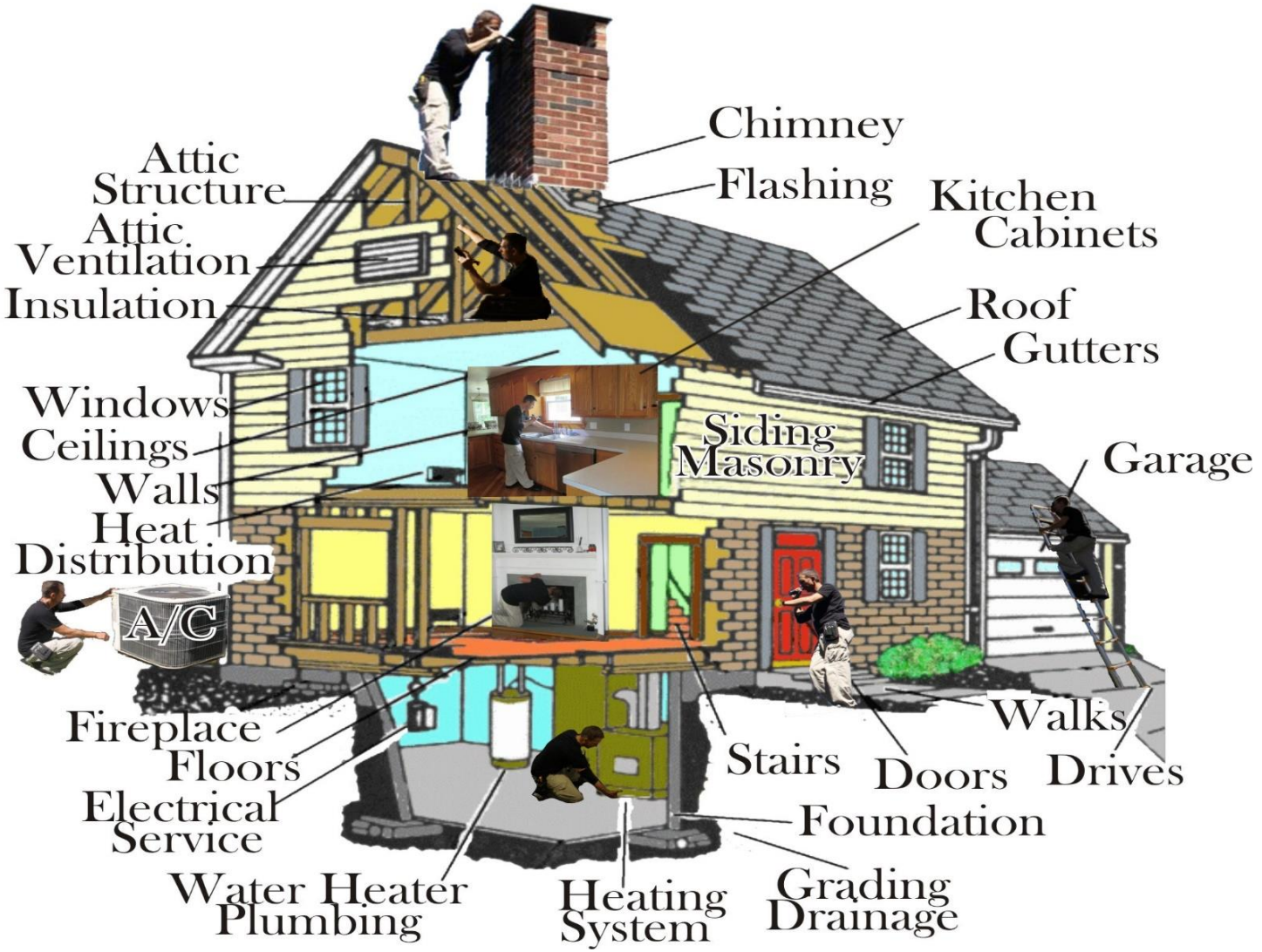
- Promotes uniformity.
- More predictable values for property owners.
- Stabilize sharp spikes in values.
- Expand inspection interval to 4 or 6 years.
- Reflect current market considerations for industries or market areas that are in the midst of sudden change.
- Improves level of assessment as measured by the ratio of assessed value to market value.

Advantages Con't…

- Current values for taxing districts - more reflective of the property and users of the services provided.
- Closer alignment with personal property cycle - promotes uniformity between classes of property.
- Simplification of administrative rules and processes.

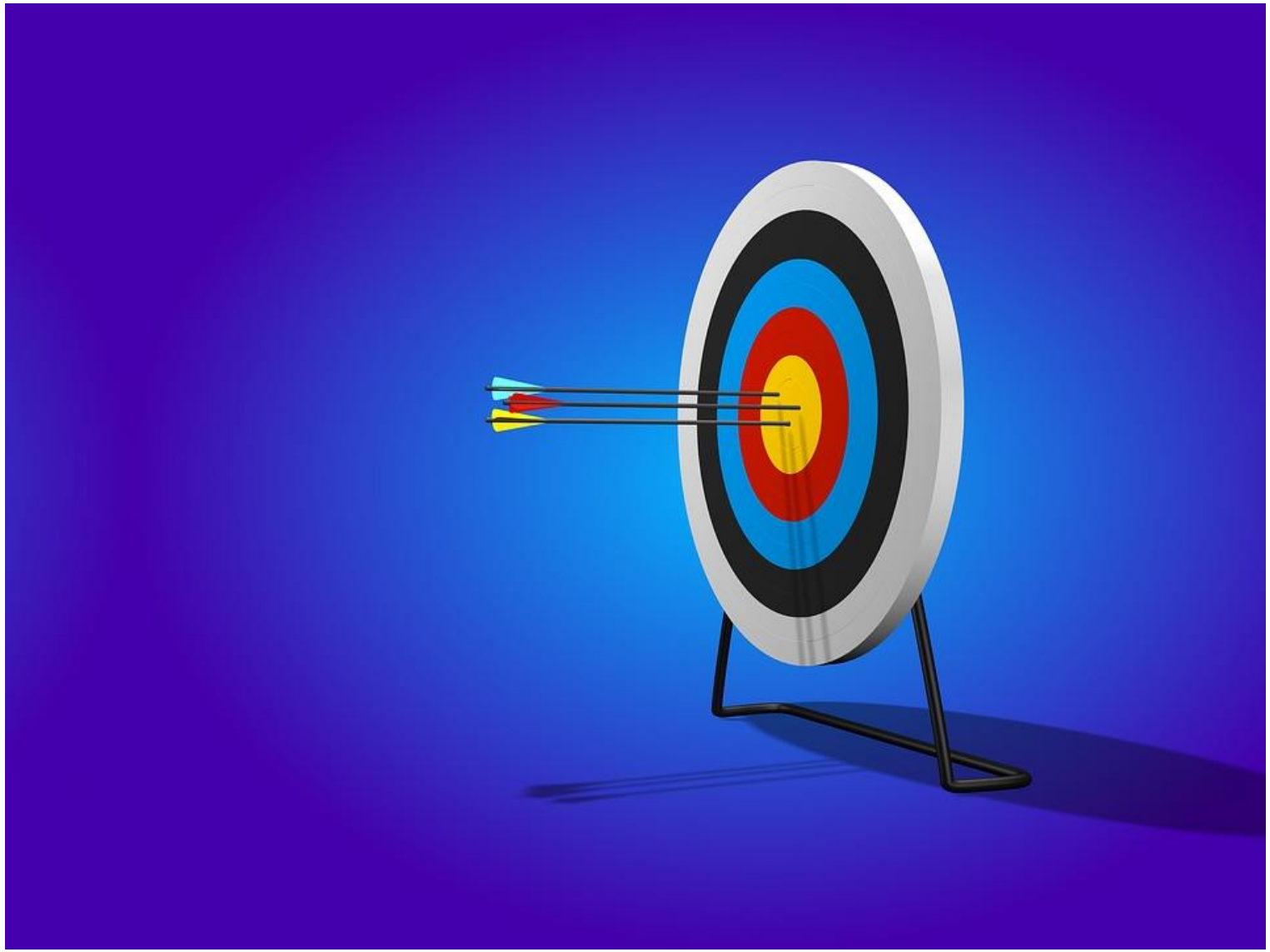
Fee Appraisal vs. Mass Appraisal

Mass appraisal vs. Single Property Appraisal



Mass Appraisal

Objectives Do Not Change



Sales Validation & Verification

Verification of Sales

Three Approaches to Value

- Cost Approach
- Income Approach
- Market Approach (Sales Comparison)

The Cost Approach To Value

- Based on Principle of Substitution
- Cost doesn’t always equal value - but can be a valid determinant of value
- The cost approach can be applied to most classes of property
- Requires analysis of characteristics: Design, Construction Type, Quality, Square Footage, Age, etc.

Two Ways to Calculate

Reproduction Cost

vs.

Replacement Cost

Reproduction Cost

Cost to construct a duplicate building

- *Identical materials*
- *Identical construction*

Replacement Cost

Cost to construct a building with same utility

- *Current prices, standards, & material*
- *Typically used by Assessors*
- *Use square foot method to calculate cost (Marshall and Swift)*

Replacement **C**ost **N**ew **L**ess **D**epreciation

(RCNLD)

Indicates

Improvement Value

Depreciation

Physical Deterioration

Results from wear & tear, use & abuse, inadequate repair, etc.

Depreciation

Functional Obsolescence

Results from poor layout or design, under/over improvement, change in tastes, nonconforming style.

3,640 square feet, assessed at $1,396,000

- Source: Google Street View

Depreciation

Economic Obsolescence

(AKA External Obsolescence)

Results from forces outside of the property, i.e. heavy traffic, excessive noise, unpleasant odors, physical hazards, etc.

Example

RCN	$150,000
Less Depreciation	$ 50,000
RCNLD (Improvement Value)	$100,000
Plus Land Value	$ 40,000
Total Property Value (or Market Value)	**$140,000**

The Cost Approach To Value

- Advantages:
  - Universal application
  - Sometimes the only approach for special purpose properties
  - Well adapted and easily applied under a mass appraisal system

- Disadvantages:
  - Difficulty in estimating depreciation especially in older structures

The Income Approach To Value

- Based on Principle of Anticipation
- Value equals the present worth of future benefits that come from ownership
- The benefits are the future income stream the property will generate
- Must consider the quantity, quality, & duration of potential income stream

- Data Needed:
  - Subject income & expense data
  - Economic income & expense data (from Market)
  - Appropriate rate to apply (cap rate)

Income and Expense Data Needed

- Unit of Comparison (Rent)
  - per sq. ft.
  - per unit - storage, rental, hotel
  - per bin - grain
- Vacancy and Collection Loss (from Market)
- Expenses (from Market)
  - Fixed and Variable Expenses
  - Typical for property type; replacement reserves, utilities, property management, insurance

Components of a Capitalization Rate

Recapture Rate

(Return of your investment)

- Usually 1/Life Expectancy
- Example: 1/50 years =
  2.0%

Discount Rate

(Required rate of return on your investment)
5.0%

Effective Tax Rate

(For use in ad valorem valuation)
1.5%

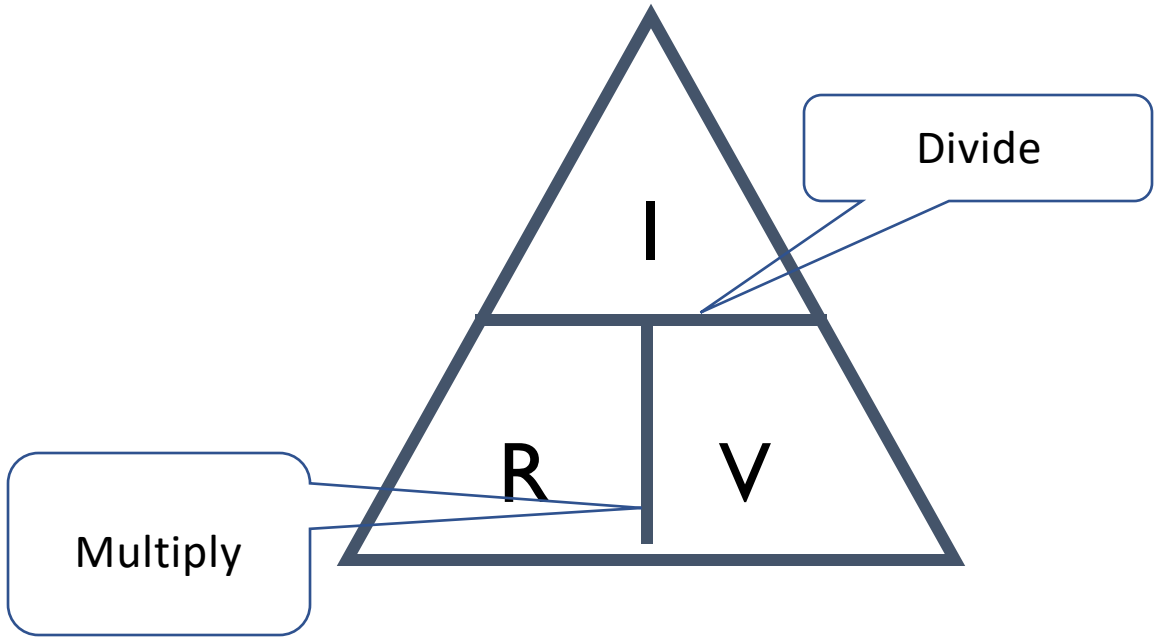
= Capitalization Rate (sum of components)
8.5%

The "IRV" Equation

$I = R \times V$

$R = I \div V$

$V = I \div R$



The Income Approach

Advantages:

- Generally, the most reliable for commercial / income producing properties
- Market data available from investors who buy & sell on the basis of a property's income capabilities

Disadvantages:

- Limited use for valuation of residential properties or some types of special use properties
- Limited income data available to Assessors

The Sales Comparison Approach To Value

- Based on principles of Substitution & Contribution
- Value tends to be set by the cost of acquiring a substitute property
- Generally, reflects market behavior

Data Needed

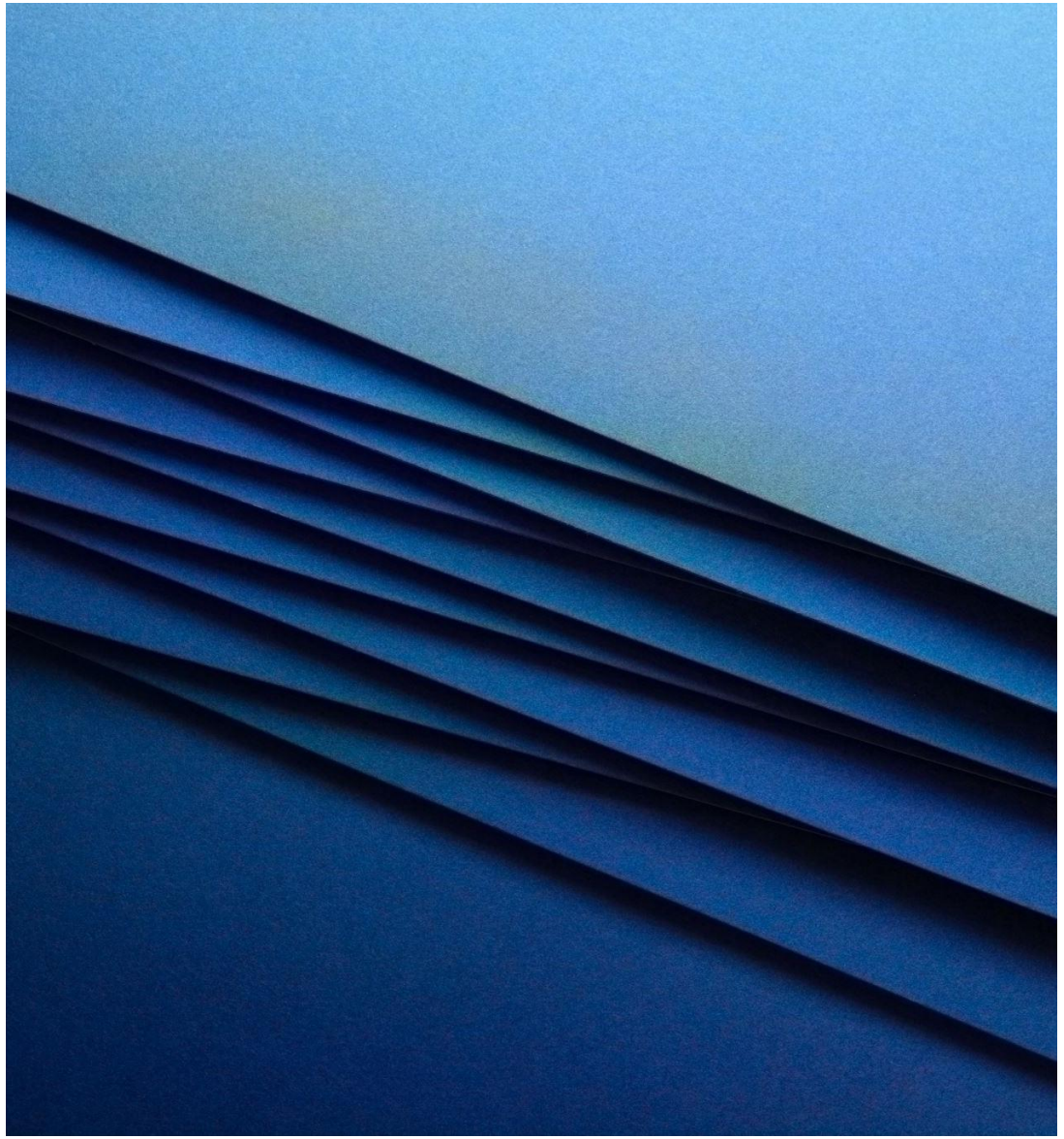
- Subject characteristics
  - Design, Construction Type, Quality, Square Footage, Age, Location, etc.

- Comparable sales data & characteristics
  - Valid Sale
  - Invalid Sale

A comparable sale is a property similar to a subject

- Similar in physical, economic, or operating characteristics
- Sales need to be recent and similar in use, utility & function
- Sales need to be “Arms-length Transactions”

Compares sold properties to a subject property



The Sales Comparison Approach

Advantages:

- Widely recognized as a reliable valuation approach by nearly all involved with real property values including taxpayers, courts, salespersons, lenders, fee appraisers, and assessors.
- Processed directly from market actions of buyers and sellers
- Easily understood

The Sales Comparison Approach To Value

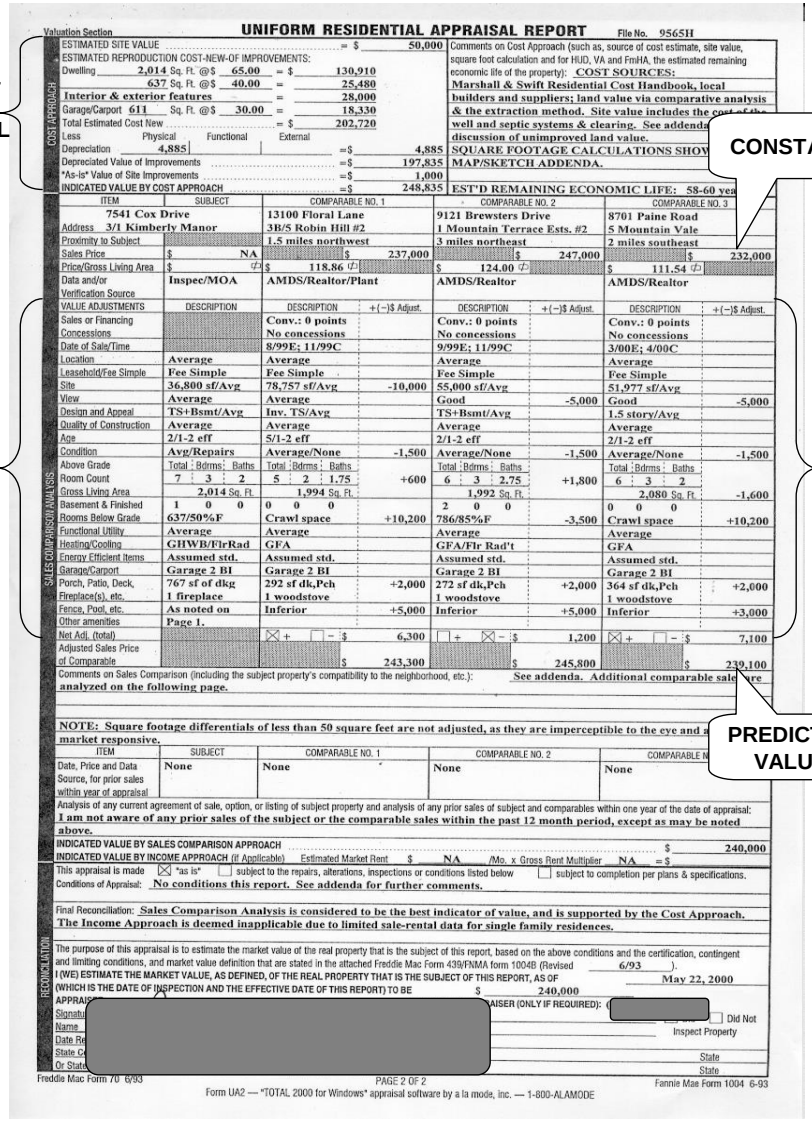
Disadvantages:

- Instances when sufficient sales data is unavailable
- Difficult when subject property is unique

Comparing Residential Appraisals

- If the appraisal dates differ, remember that the further from the assessment date the less reliable the appraisal

- Lien date for assessment is January 1st



A residential fee appraisal is a cost and market model.

Note: Coefficients = ($V_{subj} - V_{comp}$) * Adj. Rate

Review local real estate trends

- Look for rapid changes in value, up or down
- Be familiar with general market movement

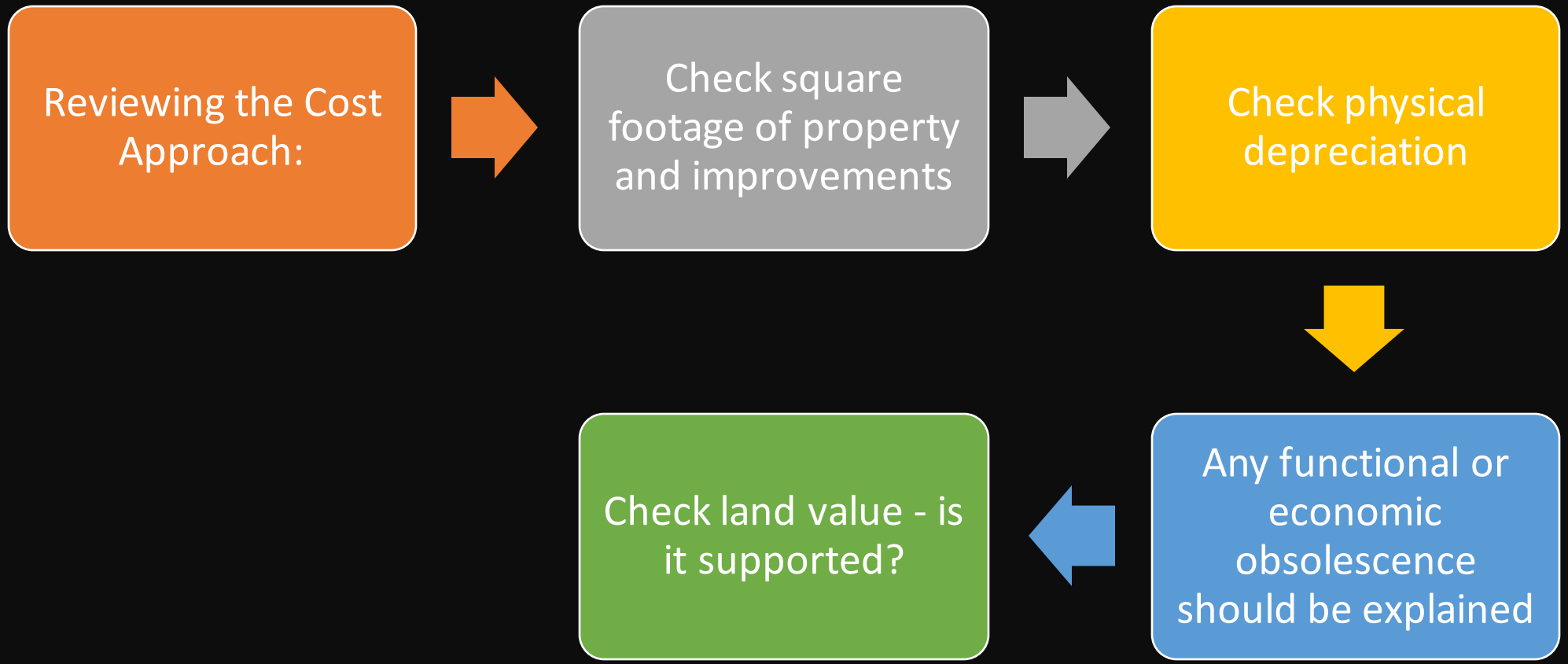
Review the market-based information provided by the taxpayer and assessor

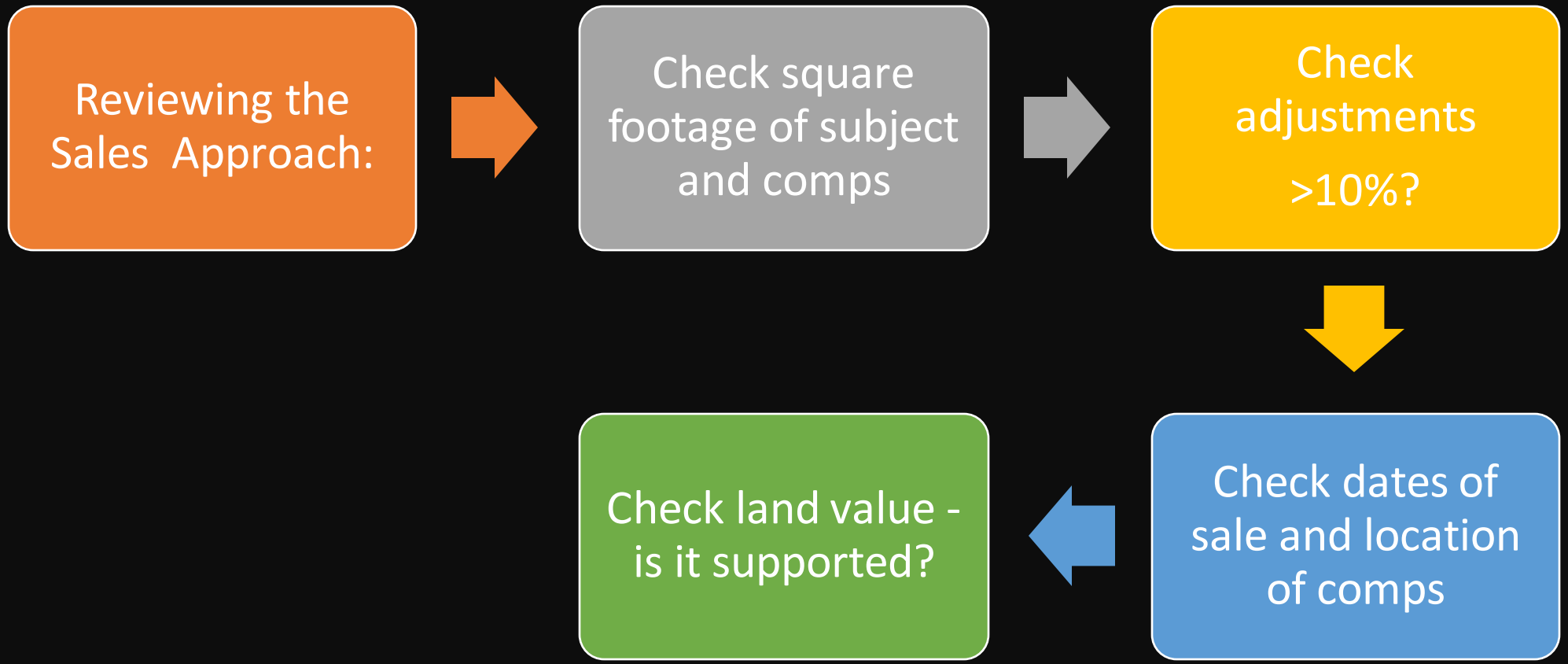
Assessor will usually have market trends

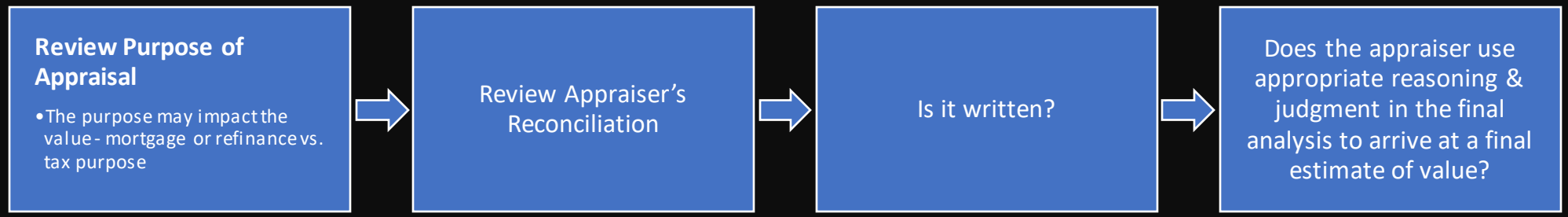
Fee appraisal should discuss market information in narrative portion and relate it to the subject

- Review approaches used, are they appropriate for the subject property?

- Cost and market approaches generally used for single family homes, duplexes, townhomes, condominiums.


Reviewing the Cost Approach:
Check square footage of property and improvements
Check physical depreciation
Any functional or economic obsolescence should be explained
Check land value - is it supported?


Reviewing the Sales Approach:
Check square footage of subject and comps
Check adjustments >10%?
Check dates of sale and location of comps
Check land value - is it supported?


Review Purpose of Appraisal
•The purpose may impact the value - mortgage or refinance vs. tax purpose
Review Appraiser's Reconciliation
Is it written?
Does the appraiser use appropriate reasoning & judgment in the final analysis to arrive at a final estimate of value?

Single Property Appraisal

An estimate of value for a single property or ownership

Mass Appraisal

An estimate of values for many properties using standard procedures and statistical testing. (IAAO)

Why Assessors Do Mass Appraisal

- It is not practical or feasible to do individual appraisals for thousands to hundreds of thousand of parcels annually.
- To successfully complete statutory requirements, Assessors must employ mass appraisal techniques.

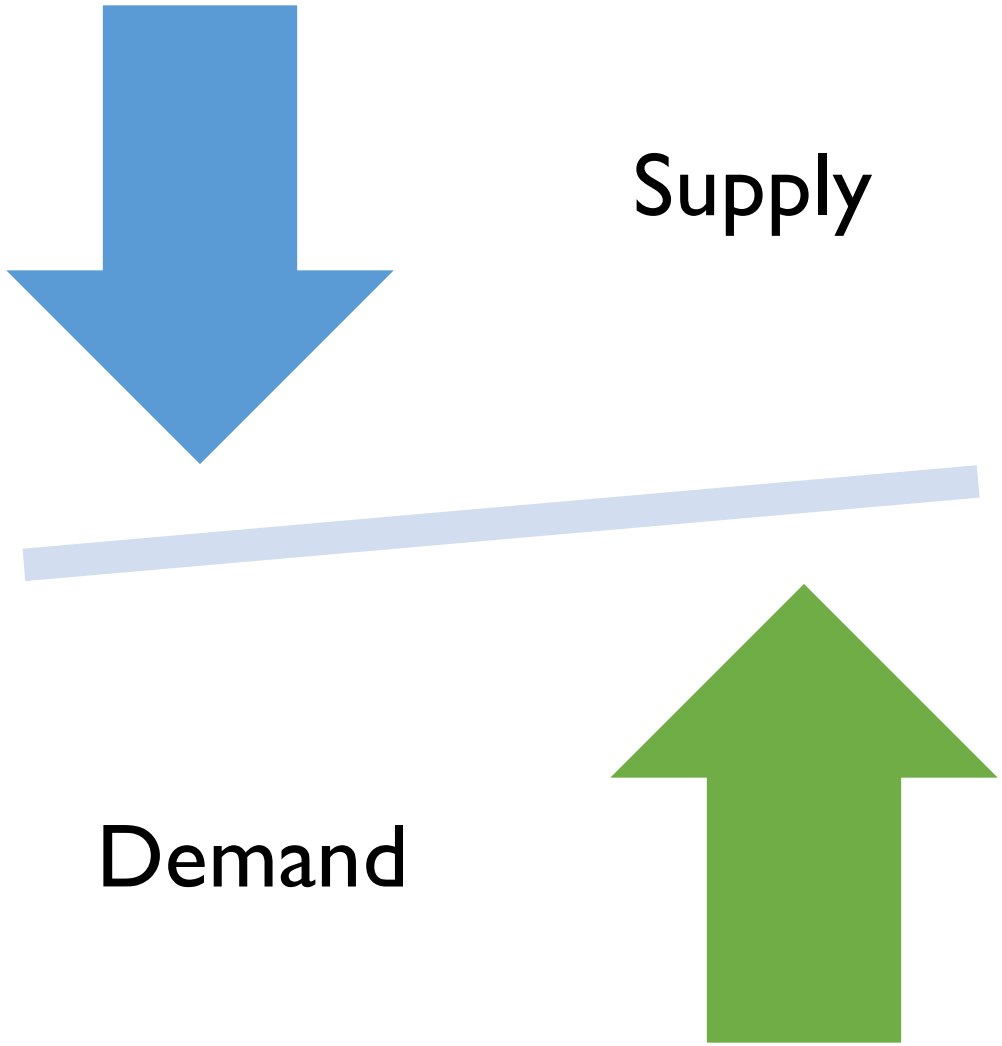
Mass Appraisal

Mass appraisal is an efficient way for counties to provide equitable estimates of value for all property in a jurisdiction for ad valorem purposes.

- ❖3,164,832 Real Property Taxable Parcels
- ❖12,353 Property Division/Consolidation Projects
- ❖$1.6 trillion in Locally Assessed Real Property & Personal Property
- ❖$24.5 Billion in New Construction & Improvements to Property
- ❖862 FTEs in Assessment Offices

- Source: DOR, 2022 *Comparison of County Assessor Statistics*

A model is a representation of how something works.



Mass Appraisal Process

Data Collection

Market Analysis

Highest & Best Use Analysis

What characteristics should be in the valuation model

How much value do the characteristics add to the value

Model testing, quality control, and reconciliation of values

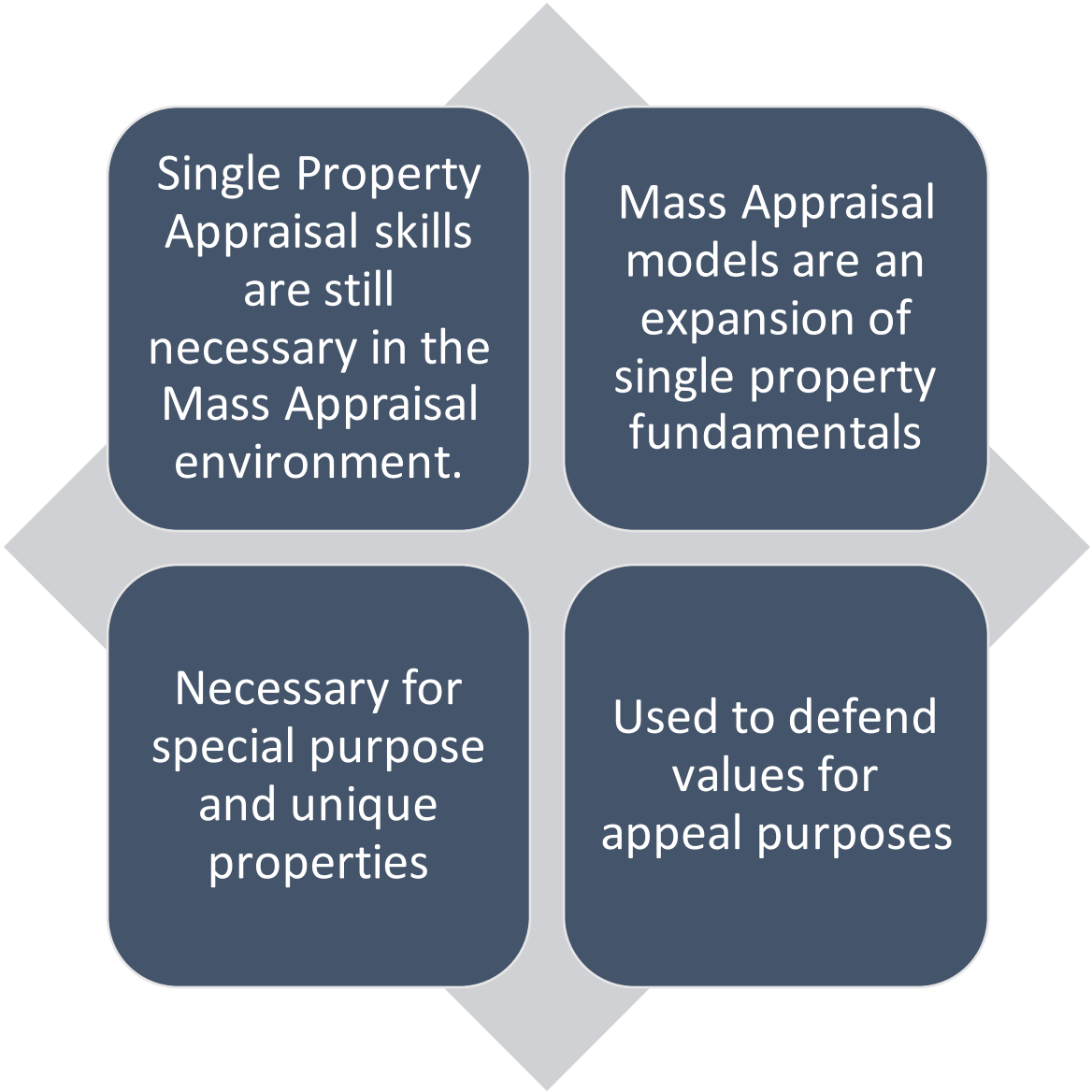
Reports

Appeals

Mass Appraisal was developed to meet the need for greater uniformity and consistency in assessments.

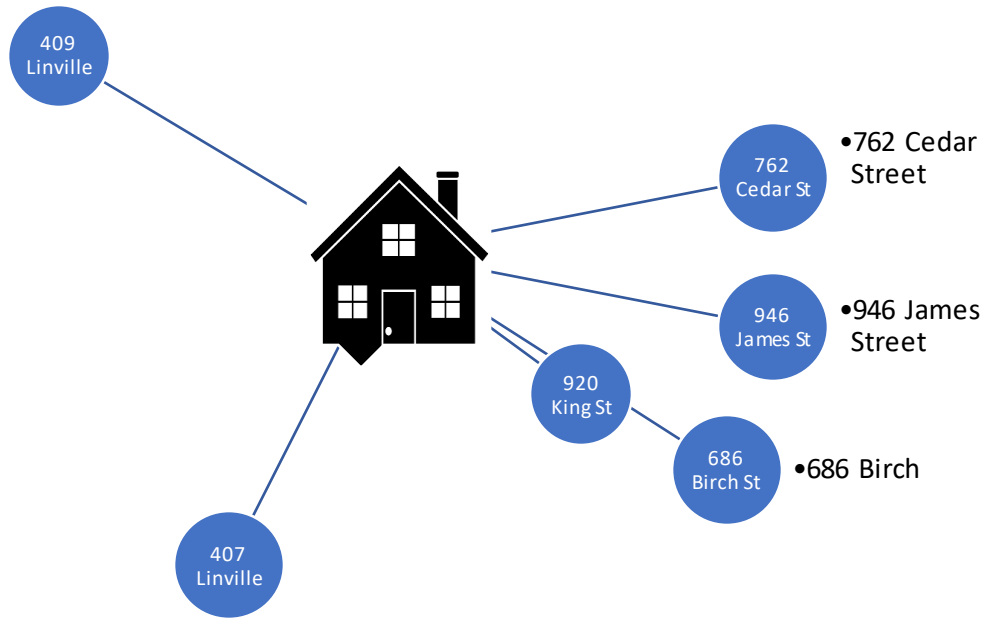
- Mass appraisal has an increased emphasis on:
  - Standardized procedures
  - Valuation models
  - Testing
- Successful implementation requires:
  - Trained Staff
  - Technology – Hardware, Software, GIS

Mass Appraisal



Group Properties for Analysis & Valuation

Identify properties with common elements or with common market influences



Improvement Value Equals:

A Constant (or base value)

- x (size factor)
- x (construction quality)
- x (condition factor)
- x (building style factor)
- x (negative influence factor)

Example of Land Model

- Land Value Equals:

- A Constant (or base value)
  - x (size factor)
  - x (location factor)
  - x (traffic factor)
  - x (utility factor)
  - x (negative influence factor)

Example of an Improvement Model

(120 x SQFT) + (3000 x CPORT) + (9,000 x BSMT) + ($12,000 x BTH)

SQFT = square feet of living area: 1200

CPORT = Carport = 2

BSMT = a true/false binary variable for a basement (0 for no, 1 for yes): No

BTH = Bathroom = 1.5

Imp Value = ($120 x 1,200) + ($3000 x 2) + ($9,000 x 0) + ($12,000 x 1.5)

= ($144,000) + ($6,000) + (0) + ($18,000)

= $168,000 Improvement Value

Example of Land Model

Land = ($20,000 + ($1000 x ACRE))x (VIEW)

ACRE = Lot Size In Acres:15

VIEW = View Quality (refer to schedule): Very Good

View Quality (Poor = 0.70, Average = 1.00, Very Good= 1.25).

Land = (20,000 + (1000 x 15)) x 1.25

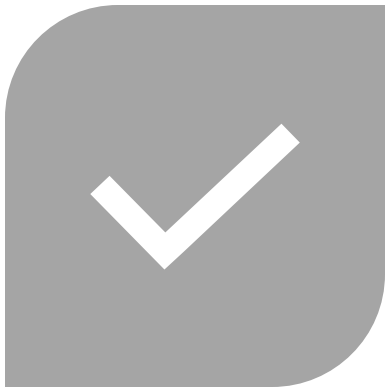
=($20,000 + $15,000) x 1.25

= ($35,000) x 1.25

= $43,750 Land Value

Example of Appraisal Model

IMPROVEMENT VALUE + LAND VALUE = TOTAL VALUE



$168,000 IMPROVEMENT + $43,750 LAND =

$211,750 TOTAL PROPERTY VALUE

Annual Revaluation Requirements

"During the intervals between each physical inspection of real property, the valuation of such property shall be adjusted to its current true and fair value, such adjustments to be made once each year based upon appropriate statistical data."

- Portion of RCW 84.41.041

Market Adjustments

One method used to statistically update values is using a market adjustment factor derived from the AS ratio of assessed value to market value (sale price). Sometimes this is referred to as **trending** the previous value to the current market value.

Example: Sales over the past year indicate assessed values need to be increased by 5% to reflect the new true and fair value.

All properties would have a Market Adjustment Factor of 1.05 applied to reflect this value increase.

Previous Assessed Value x Market Adjustment Factor = New Value

Time Adjustments

Can be done by graphing AS ratios in Excel (using sales)

- AS or AV ratio - the ratio of Assessed Value/Sales Price
- A county can use up to five years of sales in order to have enough sales for a valid analysis
- This adjustment can be done county wide, by property characteristic, or location

Mass Appraisal Reports Uses

- Document the appraisal process
- Communicate the mass appraisal process and results to taxpayers and BOE members
- Defend values at appeal
- Conduct training classes
- Provide sales data and neighborhood or valuation area reports to taxpayers or other interested parties through posting on the county website

Reports in the Appeal Process

Some counties will continue to provide the BOE with comparable sales in a grid format that are adjusted specifically for the property under appeal.

Many counties will provide the BOE with a mass appraisal report for the “valuation area” or “neighborhood” of the subject property.

Reliability of Mass Appraisal Reports

- The reliability of any appraisal is dependent on good data and good judgment.

- In most cases a mass appraisal report will explain and support the value of the property.

- Sometimes, even the best mass appraisal models may result in individual value conclusions that will not meet standards of reasonableness, consistency, and accuracy. In these instances…

  - The property owner should first contact the assessor and request a review of both the property record and appraisal information. If not satisfied with the review, the owner may appeal to the BOE.

Destroyed Property

The assessed value of property may be reduced if:

- By Dec. 31st, property is destroyed in whole or in part; or
- The property has been reduced in value by more than 20% and is in an area declared a disaster by the Governor or the CLA

RCW 84.70.010

Destroyed Property

Refund or Abatement of Taxes:

- Taxes may be abated or refunded during the tax year in which the destruction occurs unless the property was damaged or destroyed voluntarily.

- The amount of relief is determined by the value of the destroyed property and the date of destruction.

Destroyed Property

New Construction:

- If destroyed property is replaced prior to July 31, the county assessor will place the additional value on the assessment roll for that year.

- If the taxpayer disagrees with the value after the improvement has been removed or after subsequent new construction is added, they can file an appeal with the BOE.

- Questions?