

# *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**



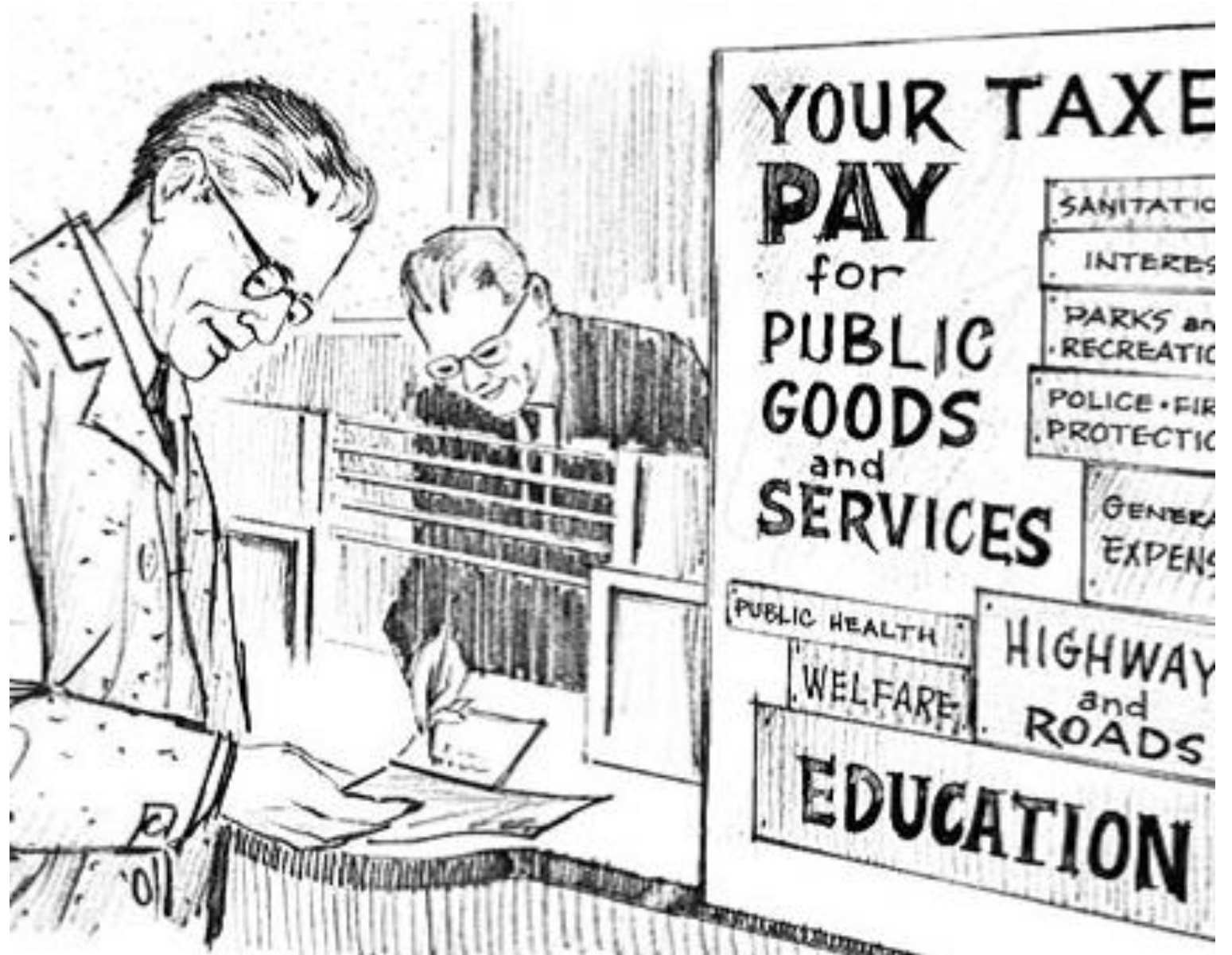
## **Real Property is defined in...**

- ❖ 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.

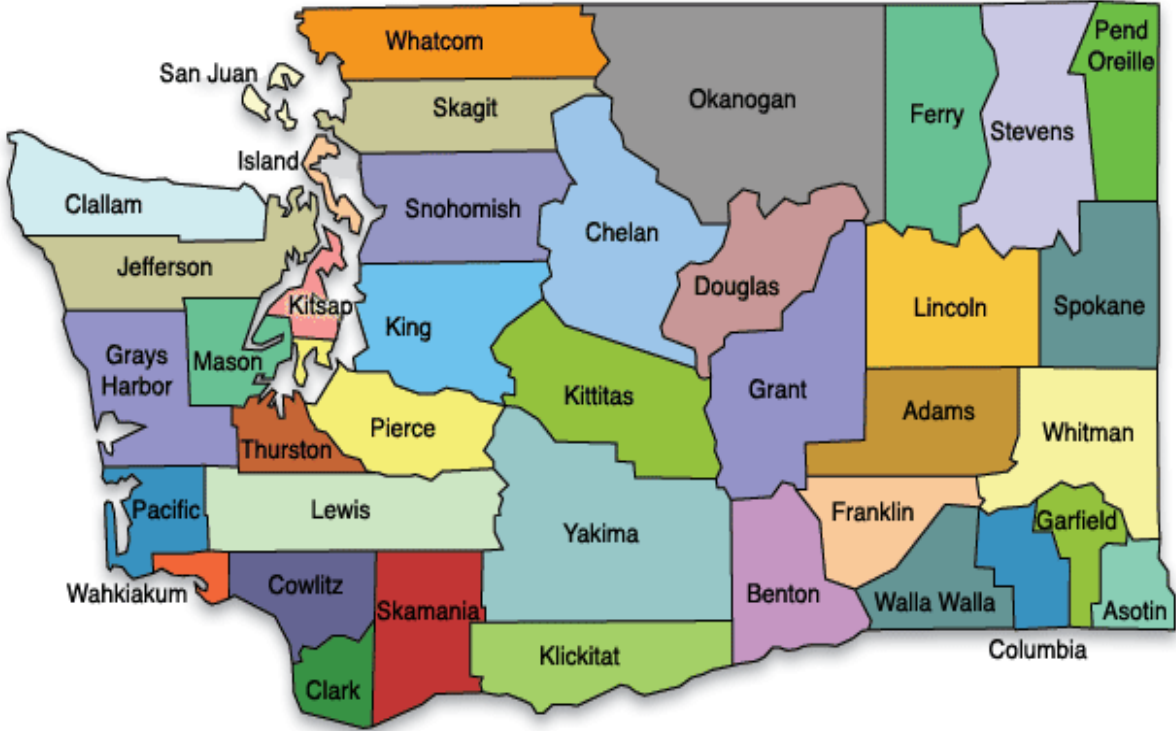


RCW 84.41.030

# Revaluation Plan

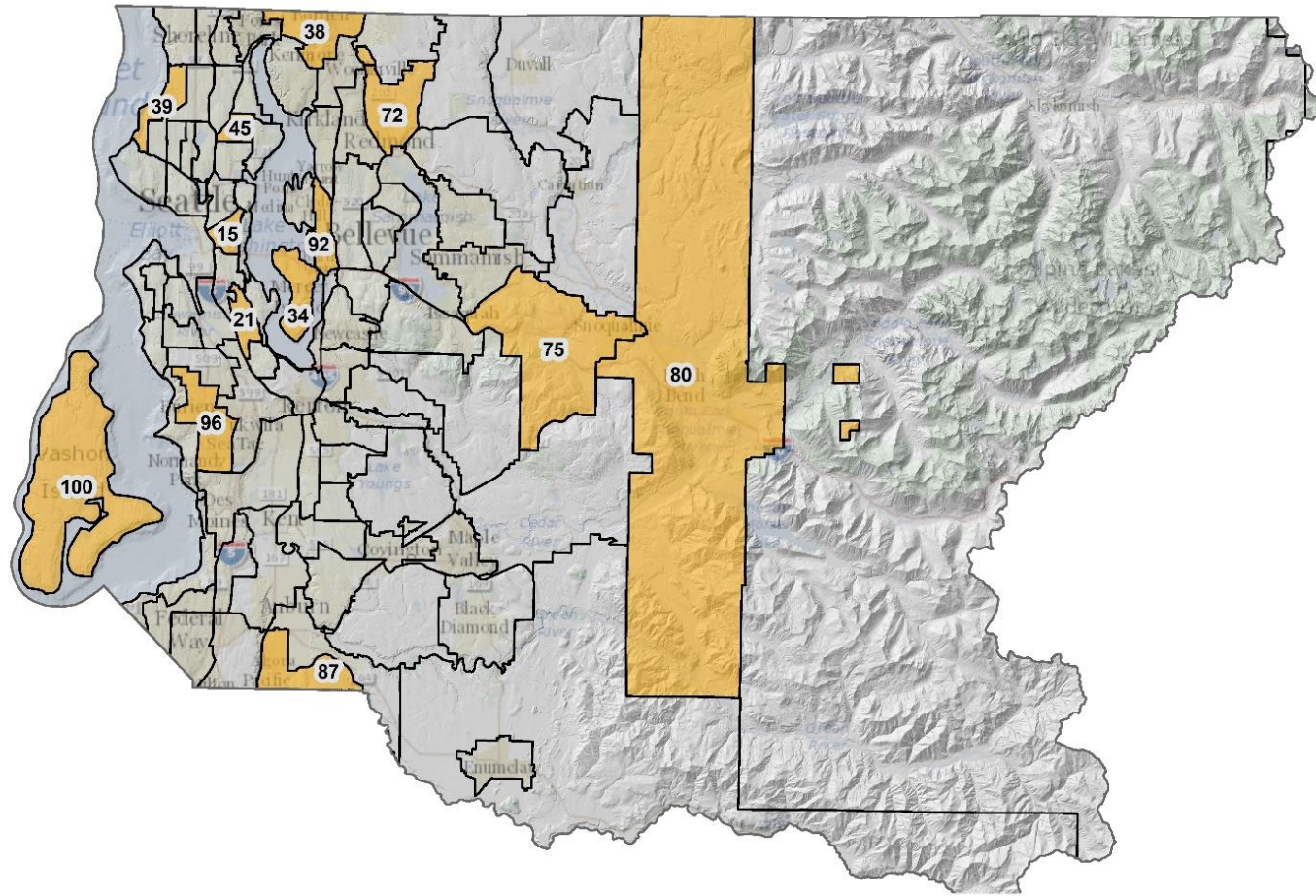
- ❖ Department of Revenue must approve prior to the first year of any revaluation and physical inspection cycle. (WAC 458-07-025)
- ❖ Plan & Assessment Objectives:
  - Uniformity in taxation
  - Standard of market value
  - Active and systematic program of revaluation on a continuous basis.
  - Efficient use of limited resources

# Transition to Annual Valuation



Revaluation Area is the whole county





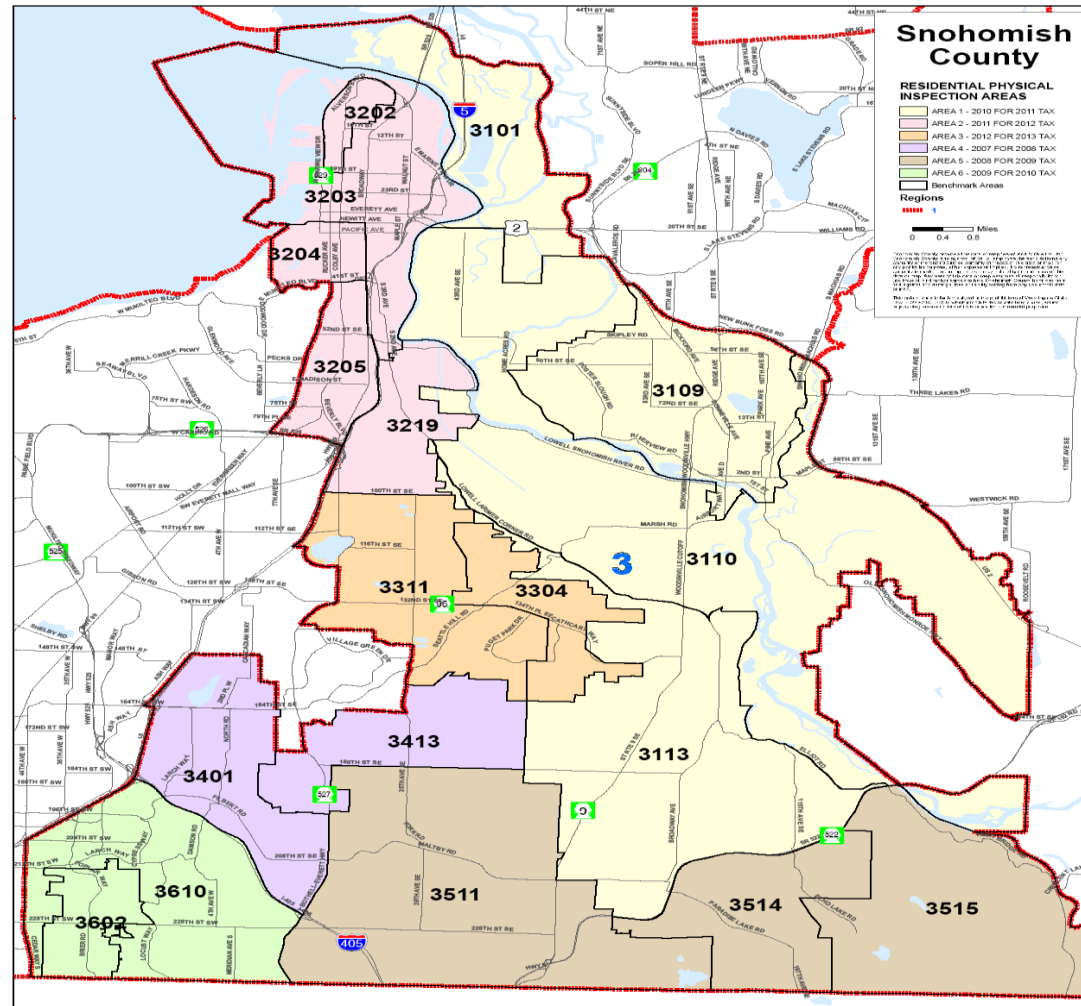
## 2020 Residential Area Physical Inspection

### Physical Inspection



- 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
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# 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.



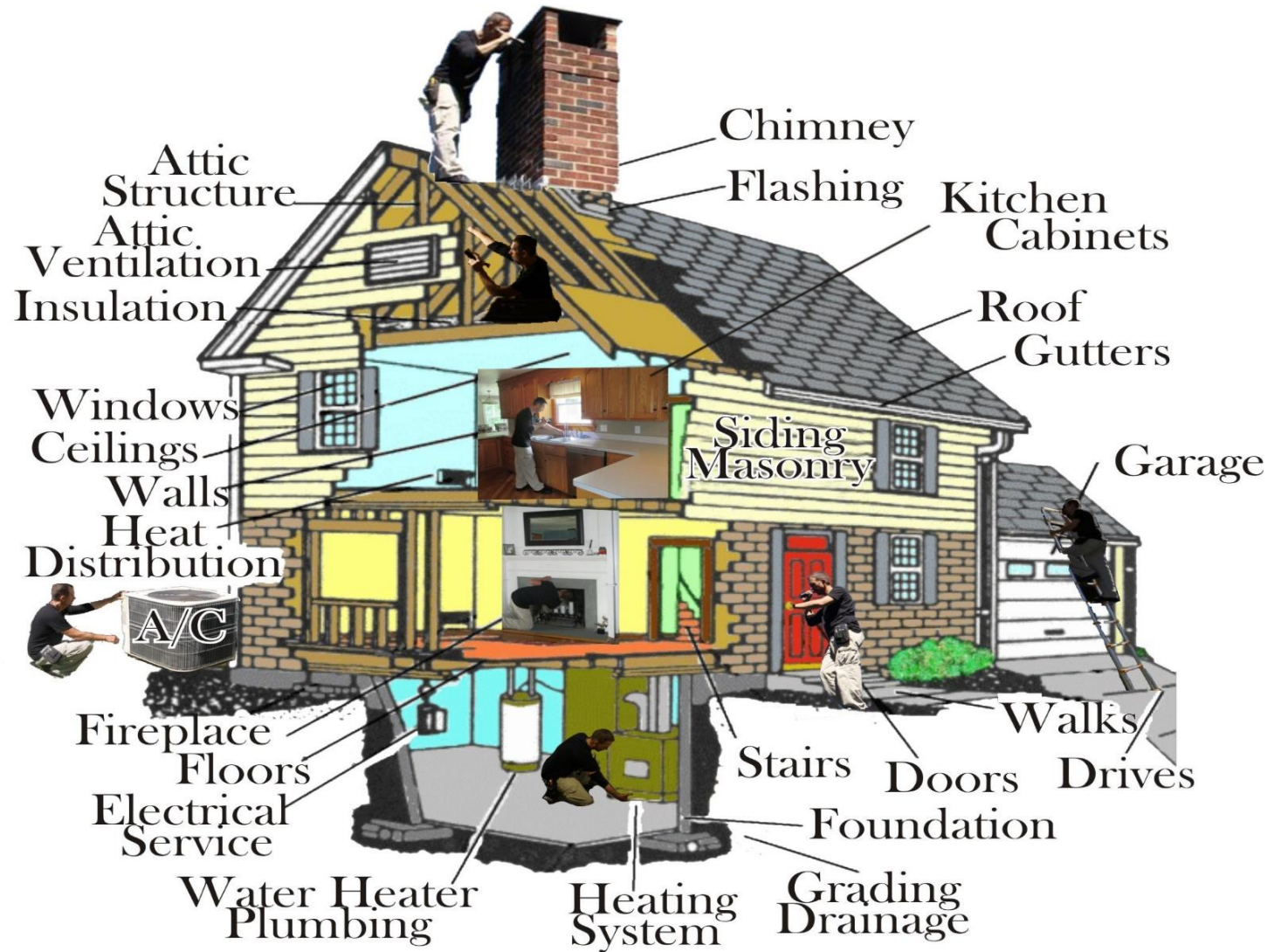
# Advantages Con't...

- ❖ 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

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## 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 Cost New Less Depreciation  
(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.



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**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	<u>\$ 50,000</u>
RCNLD (Improvement Value)	\$100,000
Plus Land Value	<u>\$ 40,000</u>
<b>Total Property Value (or Market Value)</b>	<b><u>\$140,000</u></b>

# 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%

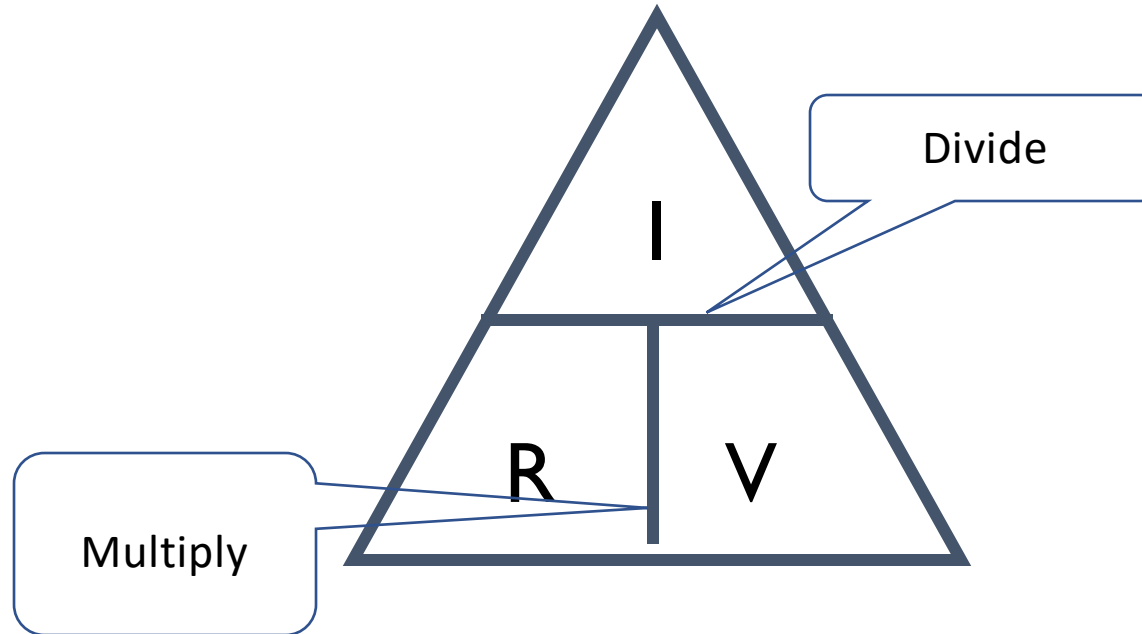
**= Capitalization Rate (sum of components)**  
**8.5%**

## The “IRV” Equation

$$I = R \times V$$

$$R = I \div V$$

$$V = I \div R$$



# The Income Approach

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## 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

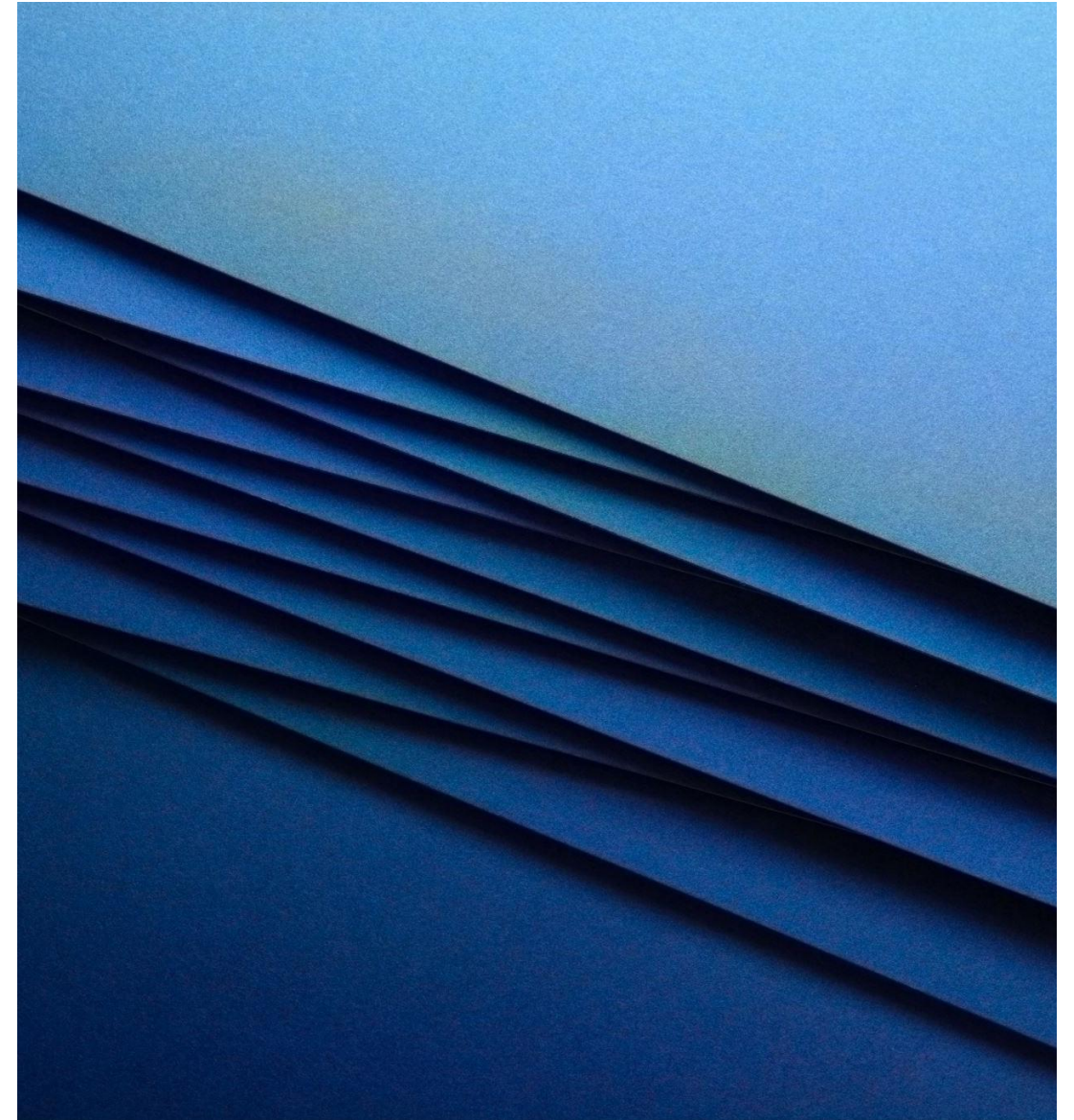
- ❖ Subject characteristics
  - Design, Construction Type, Quality, Square Footage, Age, Location, etc.
  
- ❖ Comparable sales data & characteristics
  - Valid Sale
  - Invalid Sale



**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

**COST MODEL**

**VARIABLES**

**CONSTANT**

**COEFFICIENTS**

**PREDICTED VALUE**

**UNIFORM RESIDENTIAL APPRAISAL REPORT** File No. 9565H

Valuation Section

ESTIMATED SITE VALUE = \$ 50,000

ESTIMATED REPRODUCTION COST-NEW OF IMPROVEMENTS:

Dwelling 2,014 Sq. Ft. @ \$ 65.00 = \$ 130,910

Interior & exterior features = 28,000

Garage/Carport 611 Sq. Ft. @ \$ 30.00 = 18,330

Total Estimated Cost New = 207,220

Less:

Depreciation Physical Functional External = 4,885

Depreciated Value of Improvements = 197,835

\*As-is\* Value of Site Improvements = 1,000

INDICATED VALUE BY COST APPROACH = \$ 248,835

Comments on Cost Approach (such as, source of cost estimate, site value, square foot calculation and for HUD, VA and FHA, the estimated remaining economic life of the property): COST SOURCES: Marshall & Swift Residential Cost Handbook, local builders and suppliers; land value via comparative analysis & the extraction method. Site value includes the cost of the well and septic systems & clearing. See addenda for discussion of unimproved land value.

SQUARE FOOTAGE CALCULATIONS SHOWN MAP/SKETCH/ADDENDA.

ITEM	SUBJECT	COMPARABLE NO. 1	COMPARABLE NO. 2	COMPARABLE NO. 3
Address	7541 Cox Drive	13100 Floral Lane	9121 Brewsters Drive	8701 Paine Road
Proximity to Subject	3/1 Kimberly Manor	3H/5 Robin Hill #2	1 Mountain Terrace Exts. #2	5 Mountain Vale
Sales Price	NA	\$ 237,000	\$ 247,000	\$ 232,000
Price/Gross Living Area		\$ 118.86 /sq ft	\$ 124.00 /sq ft	\$ 111.54 /sq ft
Date and/or Verification Source				
VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	DESCRIPTION	DESCRIPTION
Sales or Financing Concessions	Conv.: 0 points	Conv.: 0 points	Conv.: 0 points	Conv.: 0 points
Date of Sale/Time	Average	Average	Average	Average
Leasehold/Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple
Site	36,800 sf/Avg	78,757 sf/Avg	55,000 sf/Avg	51,977 sf/Avg
View	Average	Average	Good	Good
Design and Appeal	TS+Bsm/Avg	Inv. TS/Avg	TS+Bsm/Avg	1.5 story/Avg
Quality of Construction	Average	Average	Average	Average
Age	2/1-2 eff	2/1-2 eff	2/1-2 eff	2/1-2 eff
Condition	Avg/Repairs	Average/None	Average/None	Average/None
Above Grade	Total: Bdrms: Baths	Total: Bdrms: Baths	Total: Bdrms: Baths	Total: Bdrms: Baths
Room Count	7 3 2	5 2 1.75	6 3 2.75	6 3 2
Gross Living Area	2,014 Sq. Ft.	1,994 Sq. Ft.	1,992 Sq. Ft.	2,080 Sq. Ft.
Basement & Finished	1 0 0	0 0 0	2 0 0	0 0 0
Rooms Below Grade	637/50%F	Crawl space	786/85%F	Crawl space
Functional Utility	Average	Average	Average	Average
Heating/Cooling	GHWB/FirRad	GFA	GFA/Fir Rad't	GFA
Energy Efficient Items	Assumed std.	Assumed std.	Assumed std.	Assumed std.
Garage/Carport	Garage 2 BI	Garage 2 BI	Garage 2 BI	Garage 2 BI
Porch, Patio, Deck	767 sf of dk	292 sf of dk	272 sf of dk, Pch	364 sf of dk, Pch
Fireplace(s), etc.	1 fireplace	1 woodstove	1 woodstove	1 woodstove
Fence, Pool, etc.	As noted on Page 1.	Inferior	Inferior	Inferior
Other amenities				
Net Adj. (total)	+	-	-	-
Adjusted Sales Price of Comparable	\$ 243,300	\$ 245,500	\$ 245,500	\$ 239,100

Comments on Sales Comparison (including the subject property's compatibility to the neighborhood, etc.): See addenda. Additional comparable sales analyzed on the following page.

NOTE: Square footage differentials of less than 50 square feet are not adjusted, as they are imperceptible to the eye and are market responsive.

ITEM	SUBJECT	COMPARABLE NO. 1	COMPARABLE NO. 2	COMPARABLE NO. 3
Date, Price and Data Source, for prior sales within year of appraisal:	None	None	None	None

Analysis of any current agreement of sale, option, or listing of subject property and analysis of any prior sales of subject and comparables within one year of the date of appraisal: I am not aware of any prior sales of the subject or the comparable sales within the past 12 month period, except as may be noted above.

INDICATED VALUE BY SALES COMPARISON APPROACH = \$ 240,000

INDICATED VALUE BY INCOME APPROACH (if Applicable) Estimated Market Rent \$ NA Mo. x Gross Rent Multiplier NA = \$

This appraisal is made  "as is"  subject to the repairs, alterations, inspections or conditions listed below  subject to completion per plans & specifications.

Conditions of Appraisal: No conditions this report. See addenda for further comments.

Final Reconciliation: Sales Comparison Analysis is considered to be the best indicator of value, and is supported by the Cost Approach. The Income Approach is deemed inapplicable due to limited sale-rental data for single family residences.

The purpose of this appraisal is to estimate the market value of the real property that is the subject of this report, based on the above conditions and the certification, contingent and limiting conditions, and market value definition that are stated in the attached Freddie Mac Form 438/FNMA form 1004B (Revised 6/93).

(WE) ESTIMATE THE MARKET VALUE, AS DEFINED, OF THE REAL PROPERTY THAT IS THE SUBJECT OF THIS REPORT, AS OF May 22, 2000

(WHICH IS THE DATE OF INSPECTION AND THE EFFECTIVE DATE OF THIS REPORT) TO BE \$ 240,000

APPRaiser (ONLY IF REQUIRED): [Redacted] Did Not

Inspector (ONLY IF REQUIRED): [Redacted] Inspect Property

State: [Redacted] State: [Redacted]

Freddie Mac Form 70 6/93 PAGE 2 OF 2 Form UA2 - "TOTAL 2000 for Windows" appraisal software by a la mode, inc. - 1-800-ALAMODE Fannie Mae Form 1004 6-93

A residential fee appraisal is a cost and market model.

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

### Review local real estate trends

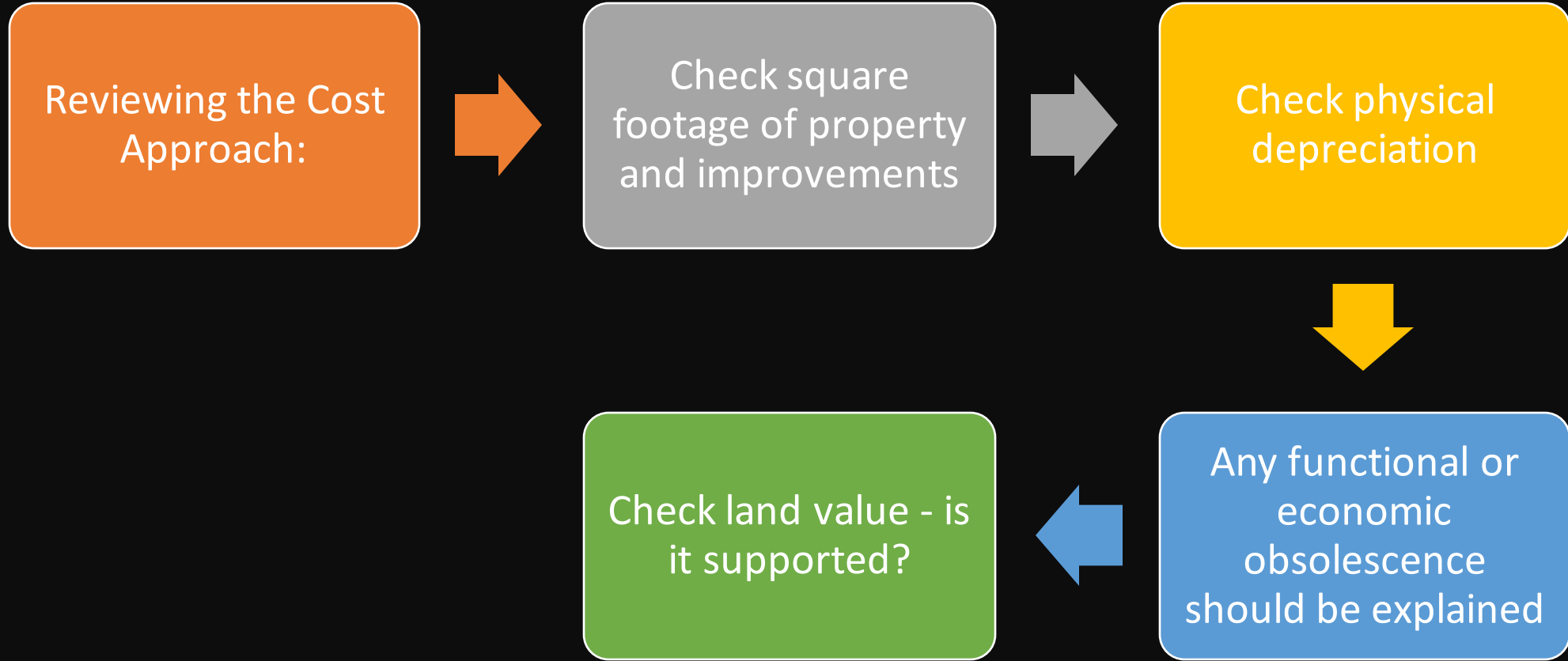
- Look for rapid changes in value, up or down
- Be familiar with general market movement

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

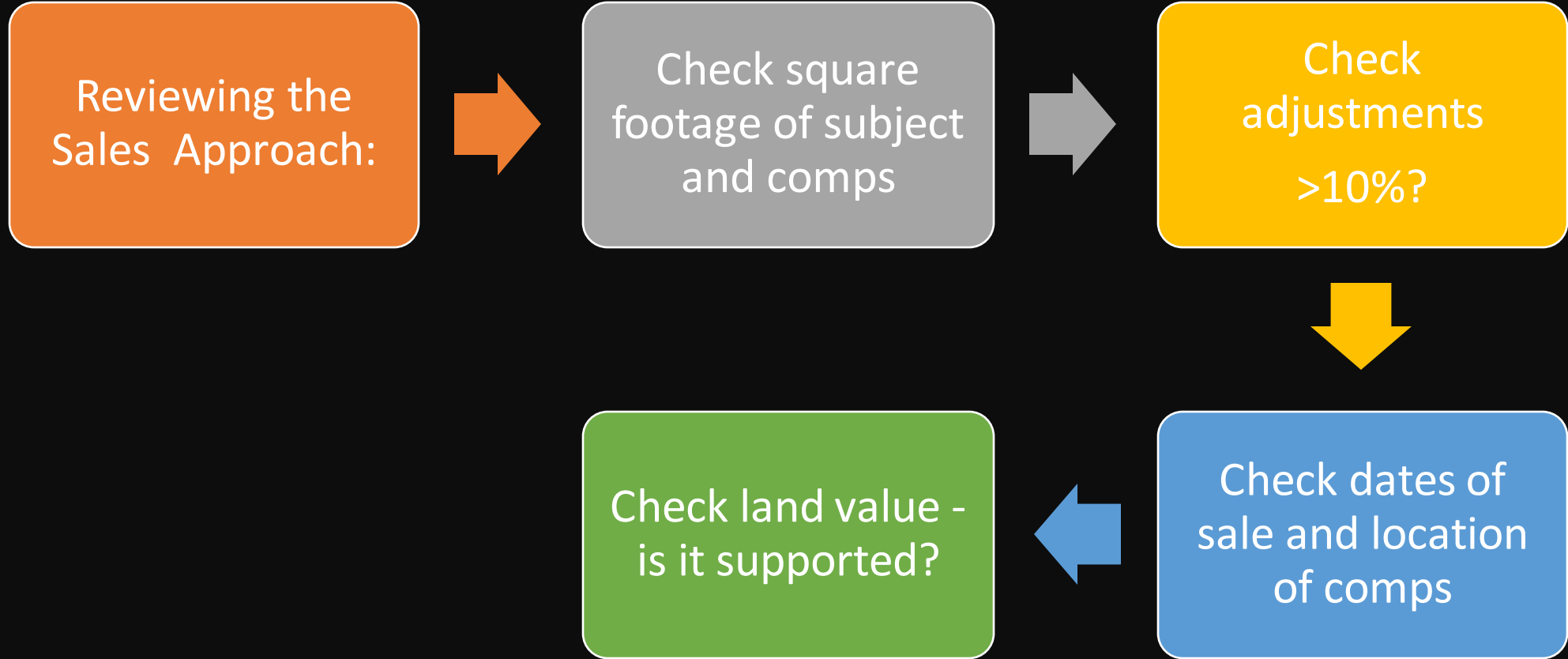
Assessor will usually have market trends

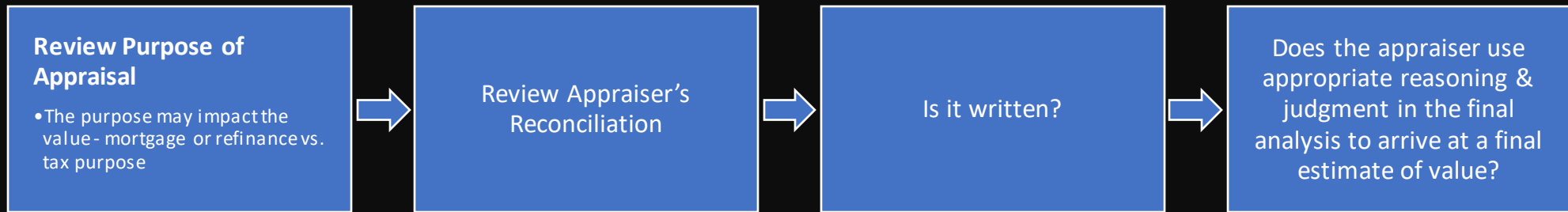
Fee appraisal should discuss market information in narrative portion and relate it to the subject

- Review approaches used, are they appropriate for the subject property?
- Cost and market approaches generally used for single family homes, duplexes, townhomes, condominiums.









# 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.

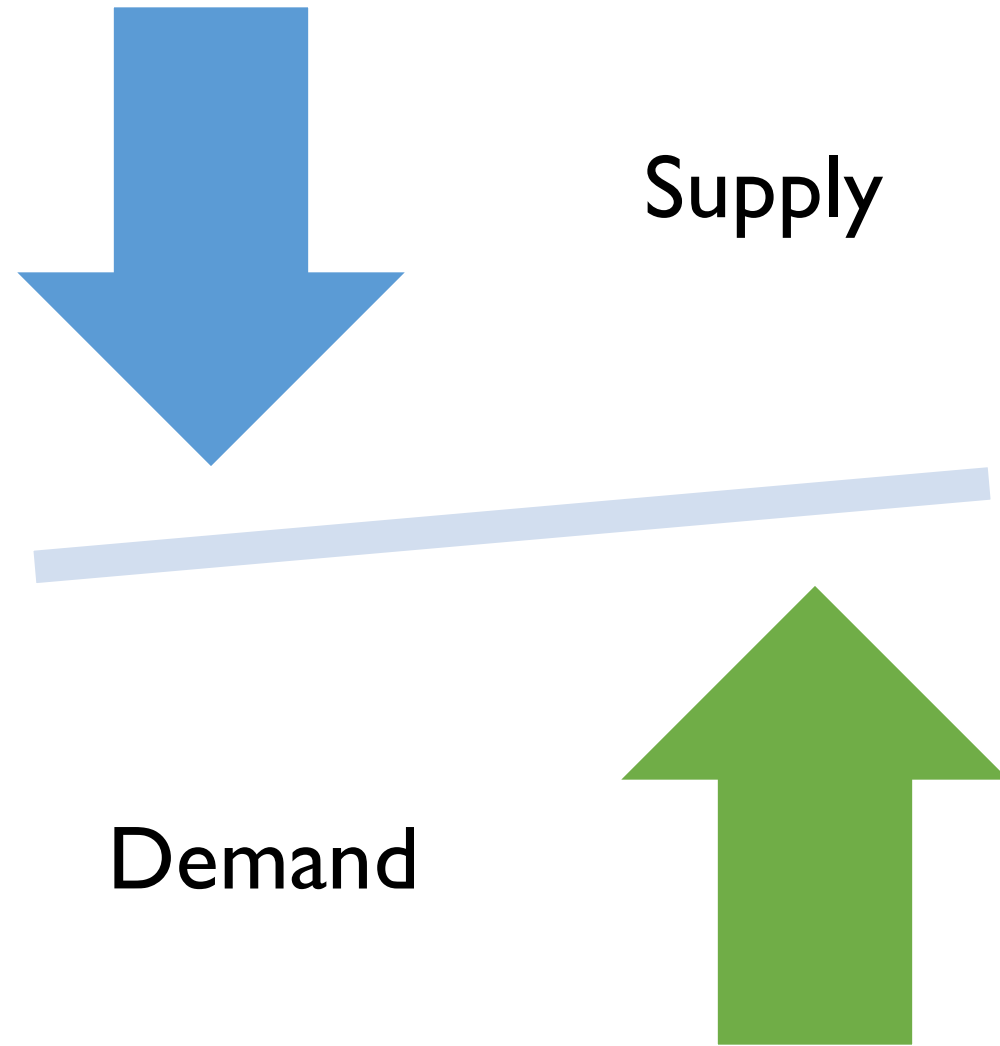
# Mass Appraisal

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:

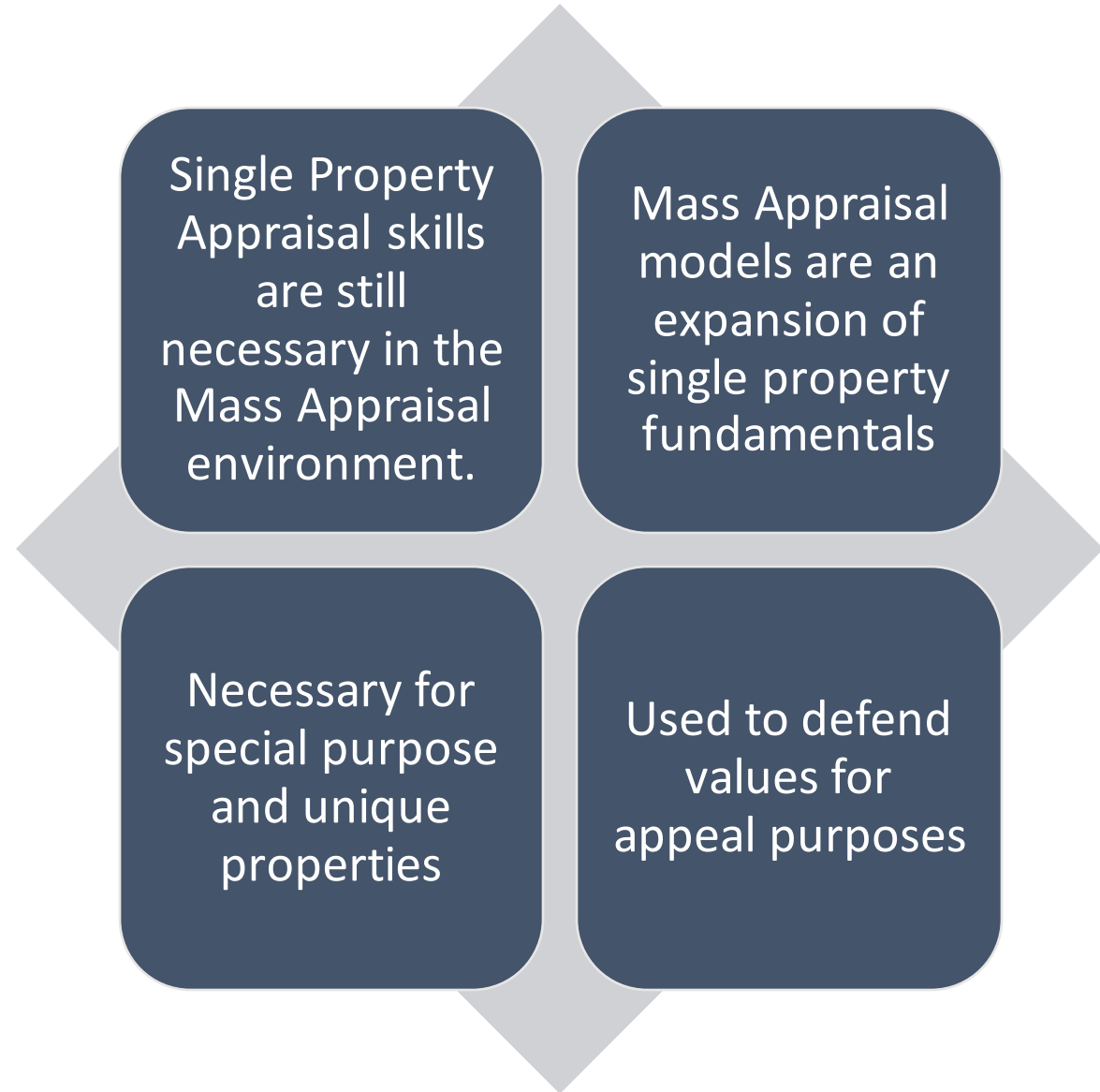
- Standardized procedures
- Valuation models
- Testing

❖ Successful implementation requires:

- Trained Staff
- Technology – Hardware, Software, GIS



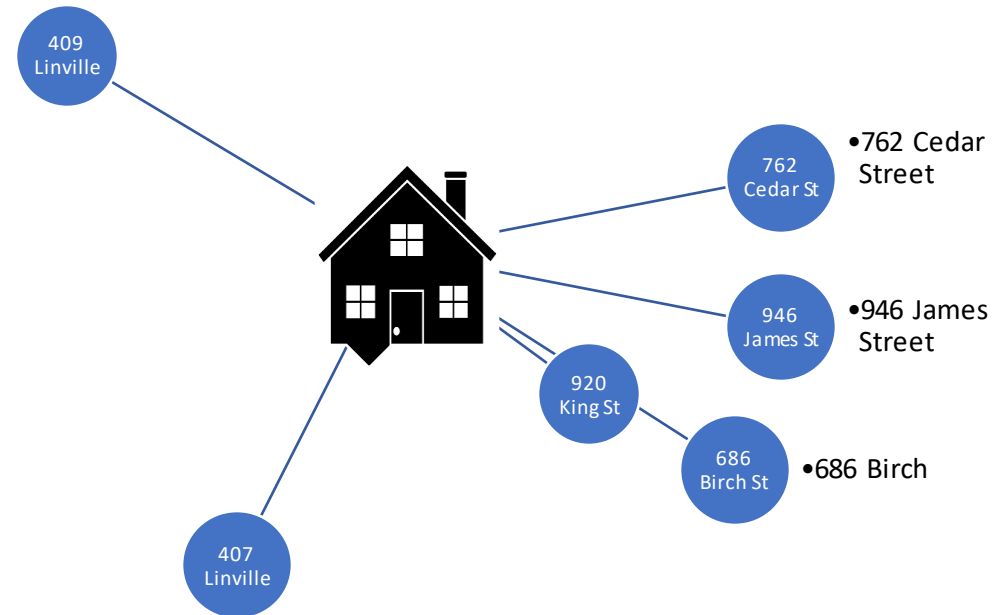
# Mass Appraisal



# 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

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- 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

$$(120 \times \text{SQFT}) + (3000 \times \text{CPORT}) + (9,000 \times \text{BSMT}) + (\$12,000 \times \text{BTH})$$

**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**

$$\text{Imp Value} = (\$120 \times \mathbf{1,200}) + (\$3000 \times \mathbf{2}) + (\$9,000 \times \mathbf{0}) + (\$12,000 \times \mathbf{1.5})$$

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

$$= \$168,000 \text{ Improvement Value}$$

# Example of Land Model

$$\text{Land} = (\$20,000 + (\$1000 \times \text{ACRE})) \times (\text{VIEW})$$

**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).

$$\text{Land} = (20,000 + (1000 \times 15)) \times 1.25$$

$$= (\$20,000 + \$15,000) \times 1.25$$

$$= (\$35,000) \times 1.25$$

$$= \$43,750 \text{ Land Value}$$

# 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. 31<sup>st</sup>, 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?



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