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OFFICE OF THE ASSESSOR
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OVERVIEW OF THE RESIDENTIAL APPRAISAL PROCESS And Cost Valuation Report (CVR)

Introduction

The Thurston County Assessor's Office is responsible for assessing over 128,000 residential, commercial, and business personal property parcels for tax purposes as of January 1st each year. To complete this task, the Assessor utilizes a method of appraisal known as 'Mass Appraisal'; a widely accepted tool used by jurisdictions throughout the country.

Thurston County's utilizes a market-adjusted cost approach for our residential mass appraisal process. It is outlined in more detail later in this Overview, but essentially a land model is developed to determine land rates and influence adjustments. Then, the building cost tables received from CoreLogic (formerly Marshall & Swift) are calibrated to our local market. Field appraisers adhere to standard appraisal procedures when collecting site-specific, value driving property characteristics during their inspections, ensuring cost estimates are consistent among similar properties.

The data records for real property parcels are contained in our computer-assisted mass appraisal (CAMA) system, along with the land rate & land influence adjustments tables, and the building costs & depreciation tables. Together these tables calculate the cost estimate for each parcel based on its property characteristics. Residential properties are stratified into one of the 350 assessment neighborhoods (NBHDs) in the county based on location, property type and use. Sales within theses NBHDs are analyzed to determine the statistical measure needed to adjust the cost estimate for each parcel within a given NBHD to achieve fair market value. These NBHD influences are then loaded into our CAMA system and applied to each parcel based on NBHD, prop type, and use code.

Ratio studies are the final step to determine assessments are fair, equitable, and consistent countywide. The ratio is calculated by dividing the predicted assessed value by the time-trended sale prices within each NBHD. Overall ratios between 0.90 and 1.10 are considered reasonable.

Statutory Requirements for Property Assessments

Title 84 of the Revised Code of Washington (RCW) and Washington State Courts has established the legal parameters for the revaluation and assessment of real property.

- Property is to be appraised at 100 percent of its true and fair value in money, according to its highest and best use. *RCW 84.40.030; Bitney v. Morgan (1974) 84 Wash.2d 9*

- Fair market value is the amount that a willing and unobligated buyer is willing to pay a willing and unobligated seller. *Carkonenv. Williams (1969) 76 Wash.2d 617*
- Physical inspections of real property must be performed at least once every six years. RCW 84.41.041

Steps Used in the Valuation Process

Physical Inspections

The Assessor is required to reinspect 1/6 of the county each year, as stated in RCW 84.40.025:

RCW 84.40.025 - Access to property required.

For the purpose of assessment and valuation of all taxable property in each county, any real or personal property in each county shall be subject to visitation, investigation, examination, discovery, and listing at any reasonable time by the county assessor of the county or by any employee thereof designated for this purpose by the assessor.
In any case of refusal to such access, the assessor shall request assistance from the department of revenue which may invoke the power granted by chapter 84.08 RCW.

Reinspections are vital in assuring the accuracy of the property data. During the inspection, both land and building characteristics are reviewed to determine if there any errors on the record, and/or changes have occurred since the last reinspection cycle (e.g. view diminished or no longer visible from main living area, saltwater/lakefront access eroded, structures added/removed, condition issues, SF changes, etc.). There are layers in our CAMA mapping application that are not perfect (wetlands, high ground water, flood area, etc.), so if a parcel is restricted due to critical areas that are not mapped in our system, taxpayers will need to provide documentation indicating the extent of the encumbrance.

Advancements in aerial photography have made it possible for our office to utilize recent, high-resolution oblique pictometry as part of the reinspection process. Appraisers can measure structures and obtain condition information from these images when properties are easily viewed. This means appraisers will spend little to no time on your property except to get a photo of the residence. They will always come to the door and leave a card if entering your property, but if they can get a good photo from the street, you may not even know they were there.

Annual Revaluation of Property

As stated earlier, the Assessor utilizes a market-adjusted cost approach to value real property in Thurston county. The following explains this process in more detail:

1. DETERMINE LAND VALUES:

A valuation model is created with vacant land sales that are verified as a valid, arm's-length transactions, and occurred within the past 5 years. These sales are used to establish base land rates for the residential regions throughout the county. Land values are brought up to date annually by either updating the base land rates and/or by trending the rates applied to each neighborhood.

There are 3 main residential land models that are built each year:

- SF Model: Most parcels with a lot size of under 2 acres is valued by the square foot.
- ACRE Model: Mostly parcels 2 acres or more.
- FF model: Saltwater frontage parcels are typically valued by the front foot and effective depth.

Land sales are also used in Multiple Regression Analysis (MRA) models to statistically quantify the effect some land influences have on value. If the model indicates the results are significant and well supported, an adjustment is applied to parcels with the influences such as Wetlands, Views, Nbhd Appeal, Dirt/Gravel Roads, etc. Other influences like Steep Topography, Restrictions, Economic, and Easement have adjustments that vary from parcel to parcel and are measured and applied based on appraiser judgement.

2. DETERMINE REPLACEMENT COST NEW (RCN) OF BUILDINGS:

The RCN is calculated to determine the cost to replace a structure, based on its current characteristics (building style, quality, square footage, fixtures. etc.), by using the most recent cost tables that have been calibrated to our local market. These tables are updated yearly in order to capture the changing costs of building materials and labor from year to year.

Each year, building cost rates are obtained from the nationally recognized valuation service, Marshal & Swift (now CoreLogic). Most rates are based on the cost per square foot for different building styles and qualities of construction. The rates are further broken down by value-driving building components, such as main and upper floor living areas, basements, garages, porches, decks, plumbing fixtures, heat type, and other accessory improvements.

The building cost rates are applied uniformly throughout the county, so if identical structures exist anywhere in the county, they will have the same cost estimate.

3. DETERMINE DEPRECIATION OF BUILDINGS:

Physical depreciation is the loss in value due to physical deterioration of a structure. Building style, quality, and age of a structure are the main factors that determine the rate at which it will depreciate. Remodels, additions, and a higher level of maintenance & upkeep tends to stave off depreciation and increases the economic life of a structure.

Depreciation is measured in the market by comparing sale prices of older homes with their replacement cost new. The difference between these two values reflects the “loss in value” due to depreciation. In other words, all things being equal, newer homes have more value and buyers will generally pay more for a new residence than an older, dated one.

4. APPLY NEIGHBORHOOD ADJUSTMENT:

The last step in our market-adjusted cost approach is to apply neighborhood adjustments to both the land and building cost values in order to achieve 100% fair market value. Location is still the biggest driver in real estate, so on a neighborhood-by-neighborhood basis, recent valid sales are compared to their final cost values. This analysis produces the appropriate adjustments needed for in each neighborhood to be assessed at fair market value. Often the adjustments are the same for both land and building, but there are cases where sales indicate that more value should be attributed to the land or vice-versa, but the total value is the goal when assessing improved properties. Ratio studies are conducted to make sure the values are compliant with appraisal standards.

MASS APPRAISAL PROCESS APPLIED TO YOUR PARCEL

The attached **Cost Valuation Report (CVR)** shows how this process was applied to your property. It contains parcel-specific property data, the cost estimates of the land and improvements, and the final value estimate (assessed value). The information is broken into six sections:

SECTION 1: Provides the parcel land information and includes lot size, applied land rate (value per square foot or acre), size adjustment (accounts for economies of scale), and the resulting base value. Applicable land influences and corresponding adjustments are then applied, resulting in the adjusted cost land value.

SECTION 2: Contains the characteristics of the stick-built residence(s) or manufactured home(s) on the parcel. The main drivers for residential structures include square-footage, quality, condition, and age. Components such as attached garages, porches, decks, fireplaces, heat type, plumbing fixtures, fireplaces, and more also contribute to value and are itemized in this section. These elements are added together to determine the replacement cost new (RCN) of the residence. Deprecation is then applied (indicated as % Good) to the RCN to come up with the replacement cost new, less depreciation (RCNLD).

SECTION 3: Identifies the detached structures on the parcel (e.g. garages, carports, barns, shops, etc.). A similar calculation as residences is applied to determine the RCNLD of these outbuildings.

SECTION 4: Summarizes the individual cost estimates for Sections 1 – 3.

SECTION 5: The neighborhood adjustment is applied to the land & building (if improved) cost estimates to arrive at the final, fair market value estimate (assessed value). These adjustments are derived by comparing the cost estimates to the time-trended sale prices of similar property types within your assessment neighborhood.

The ***Neighborhood Sales Listing*** contains the valid sales of similar property types within your assessment neighborhood (assessment region for manufactured homes on land) that were used to determine the neighborhood adjustments.

The listing contains up to five years of arms-length sales and provides the pertinent data on the sale parcels (sale date, sale price, address, lot size, etc.). It is important to note that not all arms-length sales are good indicators of market value. Some buyers pay far more than market value, and others get incredible deals. These sales are considered ‘outliers’ and are not useful in our sales analysis since they don’t represent what a typical buyer would pay. Too many outliers can skew the assessment results, so every effort is made to identify and remove from the dataset.

The market is dynamic and real estate is generally a lagging indicator. Properties which sold at the height of the previous peak in 2008 sold for less during the recession years, which bottomed in 2013, before the market started to recover. Over the last five years the market has continued to gain without any cyclical downturn, especially the significant increases that occurred the past two years. This fluctuation in the market requires that adjustments for time be made to the older sale prices to bring them to the 1/1/2023 levels. More information on residential time trends is provided on the last page of this document.

Neighborhood Ratio Statistics show the results of the revaluation for your neighborhood. These statistics are based on a comparison of the final assessed values of homes that have sold in arm’s-length transactions to their time-trended sale prices. The ratios are indication of the accuracy and uniformity of the assessed values.

These ratios are based on properties which are fully taxable; so, sales of partial construction, special use & exempt parcels, and other conditions not fully reflective of market value are removed. We utilized the most conservative outlier removal process, which resulted in less than 2% of the sales removed. Several statistical measures are used to test accuracy in the mass appraisal process and ensure values are compliant with Department of Revenue requirements and the standards & guidelines set forth by the International Association of Assessing Officers (IAAO). The two most significant measures are the Coefficient of Dispersion (COD) and the Price Related Differential (PRD). These terms and others are defined in the Glossary on the following page.

ADDITIONAL INFORMATION REGARDING YOUR ASSESSMENT

- As you review the CVR, it is important to remember that while there may be fluctuations between the allocation of land and building values from one year to the next, property taxes are based on total value and the goal is for that value to be fair and equitable.

- The percentage of increase to your property value is not a direct correlation to the percentage of increase to your taxes. Property taxes are budget based with most entities in your tax code area (TCA) having the ability to increase their budgets by 1% each year. Voter approved levies also make up a significant amount of total property taxes. The Property Tax Analysis Tool on the upper left of the Assessor's homepage has more information about property tax and distribution.

GLOSSARY OF ASSESSMENT TERMS

COD		Coefficient of Dispersion (COD) is an overall measure of uniformity. It is the average deviation from the median ratio expressed as a percentage. Should be 10% or less for homogeneous platted areas, 15% or less for rural areas; 20% or less for land only and for manufactured homes.
EFF-YR-Built		Effective Year Built; indicates condition of improvement
FN		Finished
Mean (average)		Average ratio of assessed value to sales price for the group of listed sales
Median (middle)		Middle value of assessed value to sales price ratios arrayed from low to high; half will be higher, and half will be lower than the mid-point.
Weighted Mean		Calculated by dividing the sum of assessed values by the sum of sales prices. Also known as aggregate ratio; it gives greater weight to higher value properties.
% Good		Percent Good; adjustment for depreciation of RCN Phys. = Physical "wear and tear" (based on age & condition) Func. = Functional obsolescence of structure Econ. = Economic. Value affected by outside influence
PRD		Price Related Differential (PRD) measures assessment uniformity within a range of sale prices. It is calculated by dividing the mean by the weighted mean. A PRD between .98 and 1.03 indicates that the high-value and low-value parcels are assessed uniformly.
RCN		Replacement Cost New
RCNLD		Replace Cost New Less Depreciation
SFLA		Square Footage of Living Area

RESIDENTIAL TIME TRENDS

Following the significant growth in the real estate market over the past couple years, it began to stabilize towards the end of 2021. There was a slight dip in 2022 (most likely due to rising interest rates), that quickly rebounded by the beginning of the year.

In the first quarter of 2021, the median price for single-family homes was $431,600. It then rose to $494,900 in first quarter of 2022. The median home price for the first quarter 2023 was $474,900. This does not mean that all values are dropping this year (even though some properties will see a decrease) but instead of the 20% median changes over the past couple years, 2023 value changes overall are around 0% to 5%.

The table below contains the time-trend factors to apply to the older sale prices to reflect market conditions as of January 1, 2023. For example, a sale that occurred in December 2019 and sold for $425,000 would require a multiplier of 1.388 to be applied to the sale price, resulting in an adjusted sale price of $589,900.

Keep in mind, a single sale price is a fact and an indication of value but is not a totally conclusive of value. A single sale does not make a market. Most people learn from common experience and observation that some individuals get good deals, while others may not.

Time Period	Time Factor	Time Period	Time Factor
2018_Q1	1.553	2020_Q3	1.255
2018_Q2	1.499	2020_Q4	1.216
2018_Q3	1.478	2021_Q1	1.156
2018_Q4	1.484	2021_Q2	1.062
2019_Q1	1.460	2021_Q3	1.027
2019_Q2	1.419	2021_Q4	1.015
2019_Q3	1.405	2022_Q1	0.961
2019_Q4	1.388	2022_Q2	0.920
2020_Q1	1.348	2022_Q3	0.951
2020_Q2	1.307	2022_Q4	1.000