

Commercial Revalue

2010 Assessment roll

APARTMENTS

AREA 100

**King County, Department of Assessments
Seattle, Washington**

Lloyd Hara, Assessor

Client and Intended Use of the Appraisal:

*This mass appraisal report is intended for use only by the King County Assessor and other agencies or departments administering or confirming ad valorem property taxes. Use of this report by others is not intended by the appraiser. The use of this appraisal, analyses and conclusions is limited to the administration of ad valorem property taxes in accordance with Washington State law. As such it is written in concise form to minimize paperwork. The assessor intends that this report conform to the Uniform Standards of Professional Appraisal Practice (USPAP) requirements for a **mass appraisal report** as stated in USPAP SR 6-8. To fully understand this report the reader may need to refer to the Assessor's Property Record Files, Assessors Real Property Data Base, separate studies, Assessor's Procedures, Assessor's field maps, Revalue Plan and the statutes.*

The purpose of this report is to explain and document the methods, data and analysis used in the revaluation of King County. King County is on a six year physical inspection cycle with annual statistical updates. The revaluation plan is approved by Washington State Department of Revenue. The Revaluation Plan is subject to their periodic review.

Definition and date of value estimate:

Market Value

The basis of all assessments is the true and fair value of property. True and fair value means market value (Spokane etc. R. Company v. Spokane County, 75 Wash. 72 (1913); Mason County Overtaxed, Inc. v. Mason County, 62 Wn. 2d (1963); AGO 57-58, No. 2, 1/8/57; AGO 65-66, No. 65, 12/31/65). The true and fair value of a property in money for property tax valuation purposes is its "market value" or amount of money a buyer willing but not obligated to buy would pay for it to a seller willing but not obligated to sell. In arriving at a determination of such value, the assessing officer can consider only those factors which can within reason be said to affect the price in negotiations between a willing purchaser and a willing seller, and he must consider all of such factors. (AGO 65,66, No. 65, 12/31/65)

Retrospective market values are reported herein because the date of the report is subsequent to the effective date of valuation. The analysis reflects market conditions that existed on the effective date of appraisal.

Highest and Best Use

RCW 84.40.030 All property shall be valued at one hundred percent of its true and fair value in money and assessed on the same basis unless specifically provided otherwise by law.

An assessment may not be determined by a method that assumes a land usage or highest and best use not permitted, for that property being appraised, under existing zoning or land use planning ordinances or statutes or other government restrictions.

WAC 458-07-030 (3) True and fair value -- Highest and best use. Unless specifically provided otherwise by statute, all property shall be valued on the basis of its highest and best use for assessment purposes. Highest and best use is the most profitable, likely use to which a property can be put. It is the use which will yield the highest return on the owner's investment. Any reasonable use to which the property may be put may be taken into consideration and if it is peculiarly adapted to some particular use, that fact may be taken into consideration. Uses that are within the realm of possibility, but not reasonably

probable of occurrence, shall not be considered in valuing property at its highest and best use.

If a property is particularly adapted to some particular use this fact may be taken into consideration in estimating the highest and best use. (Sammish Gun Club v. Skagit County, 118 Wash. 578 (1922)) The present use of the property may constitute its highest and best use. The appraiser shall, however, consider the uses to which similar property similarly located is being put. (Finch v. Grays Harbor County, 121 Wash. 486 (1922)) The fact that the owner of the property chooses to use it for less productive purposes than similar land is being used shall be ignored in the highest and best use estimate. (Sammish Gun Club v. Skagit County, 118 Wash. 578 (1922))

Where land has been classified or zoned as to its use, the county assessor may consider this fact, but he shall not be bound to such zoning in exercising his judgment as to the highest and best use of the property. (AGO 63-64, No. 107, 6/6/64)

Date of Value Estimate

All property now existing, or that is hereafter created or brought into this state, shall be subject to assessment and taxation for state, county, and other taxing district purposes, upon equalized valuations thereof, fixed with reference thereto on the first day of January at twelve o'clock meridian in each year, excepting such as is exempted from taxation by law. [1961 c 15 §84.36.005]

The county assessor is authorized to place any property that is increased in value due to construction or alteration for which a building permit was issued, or should have been issued, under chapter 19.27, 19.27A, or 19.28 RCW or other laws providing for building permits on the assessment rolls for the purposes of tax levy up to August 31st of each year. The assessed valuation of the property shall be considered as of July 31st of that year. [1989 c 246 § 4]

Reference should be made to the property card or computer file as to when each property was valued. Sales consummating before and after the appraisal date may be used and are analyzed as to their indication of value at the date a valuation. If market conditions have changed then the appraisal will state a logical cutoff date after which no market date is used as an indicator of value.

Property rights appraised:

Fee Simple

Wash Constitution Article 7 § 1 Taxation: All taxes shall be uniform upon the same class of property within the territorial limits of the authority levying the tax and shall be levied and collected for public purposes only. The word "property" as used herein shall mean and include everything, whether tangible or intangible, subject to ownership. All real estate shall constitute one class.

Trimble v. Seattle, 231 U.S. 683, 689, 58 L. Ed. 435, 34 S. Ct. 218 (1914) "the entire [fee] estate is to be assessed and taxed as a unit"

Folsom v. Spokane County, 111 Wn. 2d 256 (1988) "the ultimate appraisal should endeavor to arrive at the fair market value of the property as if it were an unencumbered fee"

The definition of fee simple estate as taken from The Third Edition of The Dictionary of Real Estate Appraisal, published by the Appraisal Institute. “Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.”

Assumptions and Limiting Conditions:

1. *No opinion as to title is rendered. Data on ownership and legal description were obtained from public records. Title is assumed to be marketable and free and clear of all liens and encumbrances, easements and restrictions unless shown on maps or property record files. The property is appraised assuming it to be under responsible ownership and competent management and available for its highest and best use.*
2. *No engineering survey has been made by the appraiser. Except as specifically stated, data relative to size and area were taken from sources considered reliable, and no encroachment of real property improvements is assumed to exist.*
3. *No responsibility for hidden defects or conformity to specific governmental requirements, such as fire, building and safety, earthquake, or occupancy codes, can be assumed without provision of specific professional or governmental inspections.*
4. *Rental areas herein discussed have been calculated in accord with generally accepted industry standards.*
5. *The projections included in this report are utilized to assist in the valuation process and are based on current market conditions and anticipated short term supply demand factors. Therefore, the projections are subject to changes in future conditions that cannot be accurately predicted by the appraiser and could affect the future income or value projections.*
6. *The property is assumed uncontaminated unless the owner comes forward to the Assessor and provides other information.*
7. *The appraiser is not qualified to detect the existence of potentially hazardous material which may or may not be present on or near the property. The existence of such substances may have an effect on the value of the property. No consideration has been given in this analysis to any potential diminution in value should such hazardous materials be found (unless specifically noted). We urge the taxpayer to retain an expert in the field and submit data affecting value to the assessor.*
8. *No opinion is intended to be expressed for legal matters or that would require specialized investigation or knowledge beyond that ordinarily employed by real estate appraisers, although such matters may be discussed in the report.*
9. *Maps, plats and exhibits included herein are for illustration only, as an aid in visualizing matters discussed within the report. They should not be considered as surveys or relied upon for any other purpose.*
10. *The appraisal is the valuation of the fee simple interest. Unless shown on the Assessor's parcel maps, easements adversely affecting property value were not considered.*
11. *Personal property is assessed as part of the real property value. This policy is set forth in a February 7, 1994 memorandum and applies only to apartments in King County.*
12. *Items which are considered to be “typical finish” and generally included in a real property transfer, but are legally considered leasehold improvements are included in the valuation unless otherwise noted.*
13. *The movable equipment and/or fixtures have not been appraised as part of the real estate. The identifiable permanently fixed equipment has been appraised in accordance with RCW 84.04.090 and WAC 458-12-010.*

- 14. I have considered the effect of value of those anticipated public and private improvements of which I have common knowledge. I can make no special effort to contact the various jurisdictions to determine the extent of their public improvements.*
- 15. Exterior inspections were made of all properties in the physical inspection areas (outlined in the body of the report) however; due to lack of access and time few received interior inspections.*

Scope of Work Performed:

Research and analyses performed are identified in the body of the revaluation report. The assessor has no access to title reports and other documents. Because of legal limitations we did not research such items as easements, restrictions, encumbrances, leases, reservations, covenants, contracts, declarations and special assessments. Disclosure of interior home features and, actual income and expenses by property owners is not a requirement by law therefore attempts to obtain and analyze this information are not always successful. The mass appraisal performed must be completed in the time limits indicated in the Revaluation Plan and as budgeted. The scope of work performed and disclosure of research and analyses not performed are identified throughout the body of the report.

CERTIFICATION:

I certify that, to the best of my knowledge and belief:

- *The statements of fact contained in this report are true and correct*
- *The report analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.*
- *I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved.*
- *I have no bias with respect to the property that is the subject of this report or to the parties involved.*
- *My engagement in this assignment was not contingent upon developing or reporting predetermined results.*
- *My compensation for completing this assignment is not contingent upon the development or reporting of predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.*
- *My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.*
- *The area(s) physically inspected for purposes of this revaluation are outlined in the body of this report.*
- *The individuals listed below were part of the “appraisal team” and provided significant real property appraisal assistance to the person signing this certification.*
- John Berg: Development of apartment model for valuation and appeal responses, physical inspection, data collection, sale verification, new construction, valuation, appeal responses and attending hearings.
Loren Greenwalt: Physical inspection, data collection, sale verification, new construction, valuation, appeal responses and attending hearings.
Robert Schuler: Physical inspection, data collection, sale verification, new construction, valuation, appeal responses and attending hearings.
Kent Walter: Physical inspection, data collection, sale verification, new construction, valuation, appeal responses and attending hearings.
- *The appraiser signing this report performed the following functions:* Developed parameters to use in the apartment model for valuation of apartment properties, physical inspection, data collection, sale verification, new construction, valuation, appeal responses and attending hearings.

Executive Summary Report

Appraisal Date: **01/01/2010**

Specialty Name: **Apartments**

Sales - Improved Summary:

Number of Sales: 709

Range of Sale Dates: 01/02/2007 – 12/30/2009

Sales – Ratio Study Summary:

	Mean Assessed Value	Mean Sale Price	Ratio	COV
2009 Value	\$3,529,000	\$3,630,400	.972	14.07%
2010 Value	\$3,298,800	\$3,630,400	.909	16.25%
Change	-\$230,200	0	-.063	+2.18%
%Change	-6.5%	0	-6.5%	+15.5%

*COV is a measure of uniformity, the lower the number the better the uniformity.

Sales used in Analysis: All improved sales that were verified as fair market transactions were included in the analysis.

The Ratio Study Summary indicates a weighted mean ratio that is within the IAAO recommended standards. All other performance measures are also within IAAO guidelines.

Population - Parcel Summary Data:

	<i>Land</i>	<i>Improvements</i>	<i>Total</i>
2009 Value	\$9,495,258,200	\$16,355,099,900	\$25,850,358,100
2010 Value	\$9,510,678,200	\$14,288,145,500	\$23,798,823,700
Percent Change	+0.2%	-12.6%	-7.9%

Number of Parcels in the Population: 11,953.

Conclusion and Recommendation:

We recommend posting the recommended values in this report for the 2010 Assessment Roll.

Analysis Process

Effective Date of Appraisal: 01/01/2010

Date of Appraisal Report: 06/29/2010

The following appraiser is responsible for the valuation for this specialty area:
Rick Davison. See the Certification section for those who assisted.

Highest and Best Use Analysis

As if vacant: Market analysis of this area, together with current zoning and current anticipated use patterns, indicate the highest and best use of the majority of the appraised parcels as commercial use. Any opinion not consistent with this is specifically noted in our records and considered in the valuation of the specific parcel.

As if improved: Based on neighborhood trends, both demographic and current development patterns, the existing buildings represent the highest and best use of most sites. The existing use will continue until land value, in its highest and best use, exceeds the sum of value of the entire property in its existing use and the cost to remove the improvements. We find that the current improvements do add value to the property, in most cases, and are therefore the highest and best use of the property as improved. In those properties where the property is not at its highest and best use, a token value of \$1,000.00 is assigned to the improvements.

Standards and Measurement of Data Accuracy: Each sale was verified with the buyer, seller, real estate agent or tenant when possible. Current data was verified and corrected when necessary via field inspection.

Special Assumptions and Limiting Conditions

All three approaches to value were considered in this appraisal.

The following Departmental guidelines were considered and adhered to:

- Sales from 01/02/2007 to 12/30/2009.
- Sales were adjusted for time to the appraisal date of 01/01/2010.

- This report intends to meet the requirements of the Uniform Standards of Professional Appraisal Practice, Standard 6.

Identification of the Area

Name or Designation: Area 100, Apartments

This report contains data pertinent to the revalue of Apartment properties. The Specialty Area is 100. It encompasses all of King County. The Specialty Area is divided into neighborhoods. The neighborhood numbers and names are listed in the table below. Almost all of the apartments in King County are in the Urban Growth Area which is the western portion of the county lying west of a north-south line passing through Lake Sammamish.

Neighborhood Number	Name	Neighborhood Number	Name
5	Downtown	220	Delridge
10	Regrade	225	Junction
15	Lower Queen Anne	230	Alki / Fauntleroy
20	South Lake Union	235	Admiral
30	International	240	Des Moines
35	Central District	245	Burien
	Madison Park /		
40	Leschi	250	Boulevard Park
45	Queen Anne	255	Sea Tac
50	North Queen Anne	270	Federal Way
55	Westlake	285	Auburn South
60	Roanoke	290	Auburn North
65	Capitol Hill East	295	Algona
			Enumclaw / Black Diamond
70	Belmont	300	Kent Valley
75	Magnolia	305	Covington / Maple Valley
80	Interbay	310	Renton
85	First Hill	315	Benson / East Hill
90	Greenwood	320	Tukwila
95	Lake City	325	Renton Highlands
100	Northgate	330	Mercer Island
110	University	340	Issaquah
115	Wallingford	350	Kennydale
125	Wedgewood	355	Bellevue West
130	Fremont	360	Bellevue East
135	Leary	365	Kirkland
140	Ballard East	370	Totem Lake
145	Ballard West	380	Bothell
150	Greenlake	385	Kenmore
155	Phinney	400	Shoreline East
160	Seward Park	415	Shoreline West
165	Skyway	420	Woodinville
170	Rainier Valley	425	Redmond
175	Beacon Hill	430	Carnation
185	Georgetown	440	Duvall
195	White Center	460	Snoqualmie
200	Highland Park	465	Vashon
205	Westwood	475	Low-Income
215	High Point	900	

Boundaries:

The properties are located throughout King County.

Maps:

Neighborhood maps are in the Map section of this report. The first five maps show the general location of the neighborhoods. The other maps show detailed boundaries of the neighborhoods. More detailed Assessor's maps showing individual parcels are located on the 7th floor of the King County Administration Building.

Area Description:

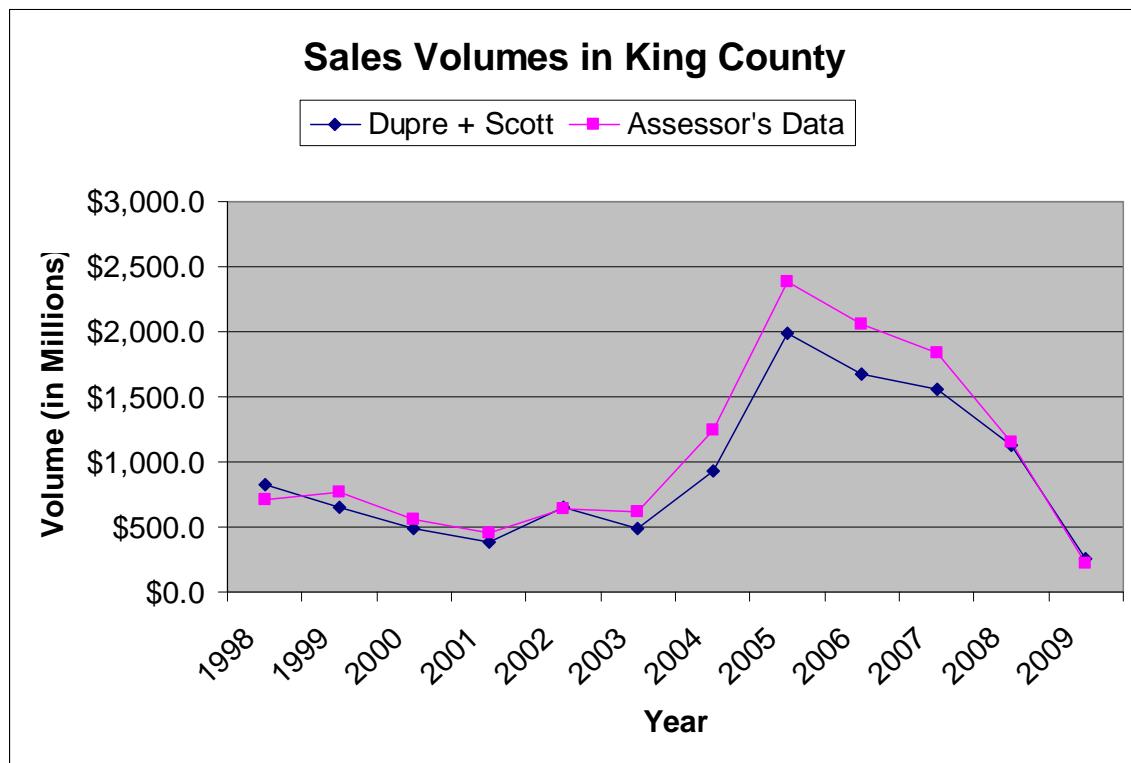
The apartment specialty includes apartments with 4 or more units, condominium complexes that are operated as rentals, some mixed use properties with commercial area less than 25% of the total net rentable area, and vacant land parcels that are associated with apartments. Apartments subject to low-income restrictions are coded as neighborhood 900 regardless of where they are physically located. The valuation methodology for the low-income apartments is different from that used with other apartments. The methodology is described in the state Department of Revenue's *Low-Income Housing Valuation Guide*.

Puget Sound Apartment Economic Conditions

The recession continues to influence the apartment market. The crisis in the banking industry has made financing very difficult, so sales volume has dropped precipitously. According to a seminar given by Integra in April, 2010 loan-to-value ratios rose from a historic range of 55% to 75% to ratios as high as 100%. That gave investors the ability to buy even more property causing prices to increase. The high loan-to-value ratios left very little room for error. Eventually the whole thing came crashing down. The widespread failure in the housing market also affected the commercial market. The unrealistically low capitalization rates evident in 2007 and 2008 have started rising but are still lower than the typical rates one expects to see over the long term. Getting financing is still problematic. Jerry Ascierto writing for the GVA Kidder-Mathews newsletter of 01/15/2010 predicted the real estate market will hit bottom around the end of 2010, at which time values will be 40% below the high point in mid-2007. He believes multi-family will be the first segment of the market to recover. The Korpacz Real Estate Investor Survey (4th Qtr, 2009) reports that market participants are modeling declines in rent for the initial year in their discounted cash flow analyses.

The Northwest tends to lag as much as a year behind the rest of the country in economic cycles. Robin Sidel and Peter Lattman writing in the *Apartment Realty Advisor* (June, 2010) state that the situation is worsening with northwest banks. Six Washington banks have failed in 2010 and about one-fourth of Washington banks are operating under regulatory scrutiny. The banking industry in much of the rest of the country is stabilizing. Analyzing apartment sales does not give a clear picture of the apartment

market. The sales volume has dropped dramatically (see the graph below) and the variability in sale prices among those properties that did sell is greatly increased. Many of the properties that sold for high prices are high-quality properties with stable occupancy and income stream. There is competition to buy these properties, particularly if financing is not a problem. Some of the low sales are probably sellers who are highly motivated to sell. Most potential sellers are waiting a few years, if they can, before selling. *The Dupre + Scott Apartment Advisor* predicts that 2011 will see the fewest new apartment units coming on line in 50 years. The region is expected to add new jobs during 2010. These two things will create a demand for apartments. However, the apartment market will weather some tough times before that happens. Rents are expected to continue to fall during 2010. In 2012 net operating income is predicted to rise dramatically (20% increase from mid-2012 through 2014).



Source: King County Department of Assessments sales data and *The Dupre + Scott Apartment Investment Report*.

The Puget Sound basin contains most of the people, jobs, and property value in the state. The four central Puget Sound counties, King, Kitsap, Pierce, and Snohomish, have 55% of the people in Washington and two-thirds of the total assessed value. King County alone has 29% of the people and 42% of the assessed value.

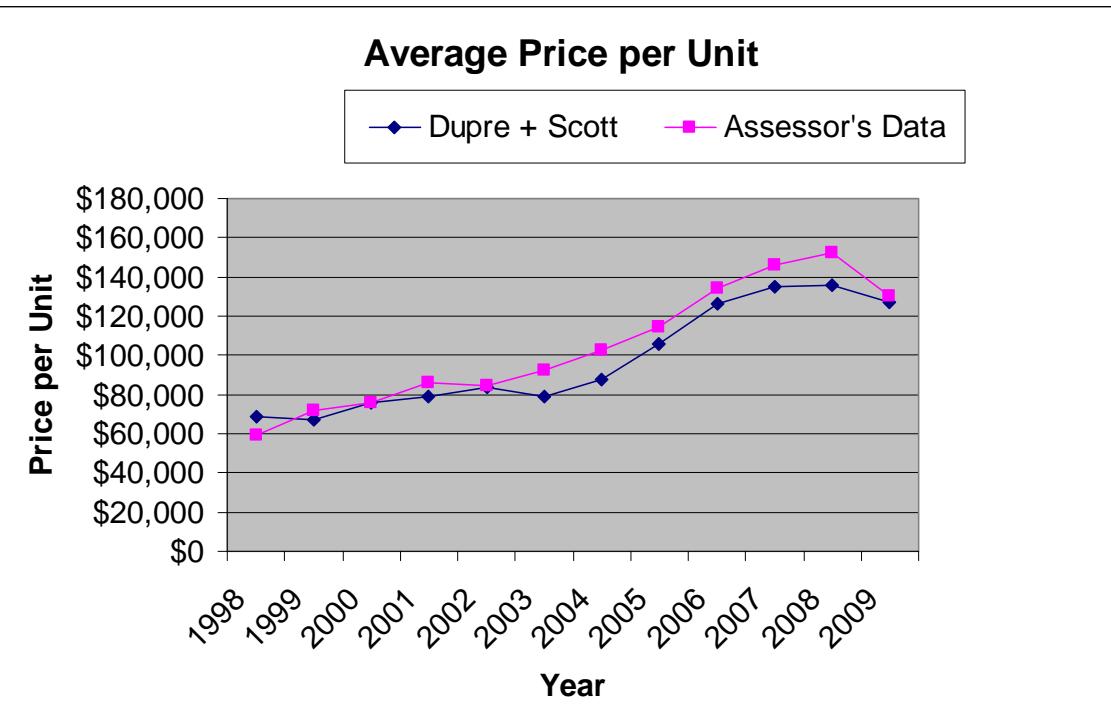
King County consists of 2,134 square miles, about the size of Delaware. There are 39 incorporated cities in the county. According to the 2009 King County Annual Growth Report, the 2009 population of King County was estimated at 1,909,300. It is the

fourteenth most populous county in the United States. The population increased 19% during the 1980's; 15% during the 1990's; and 10% from 2000 through 2009.

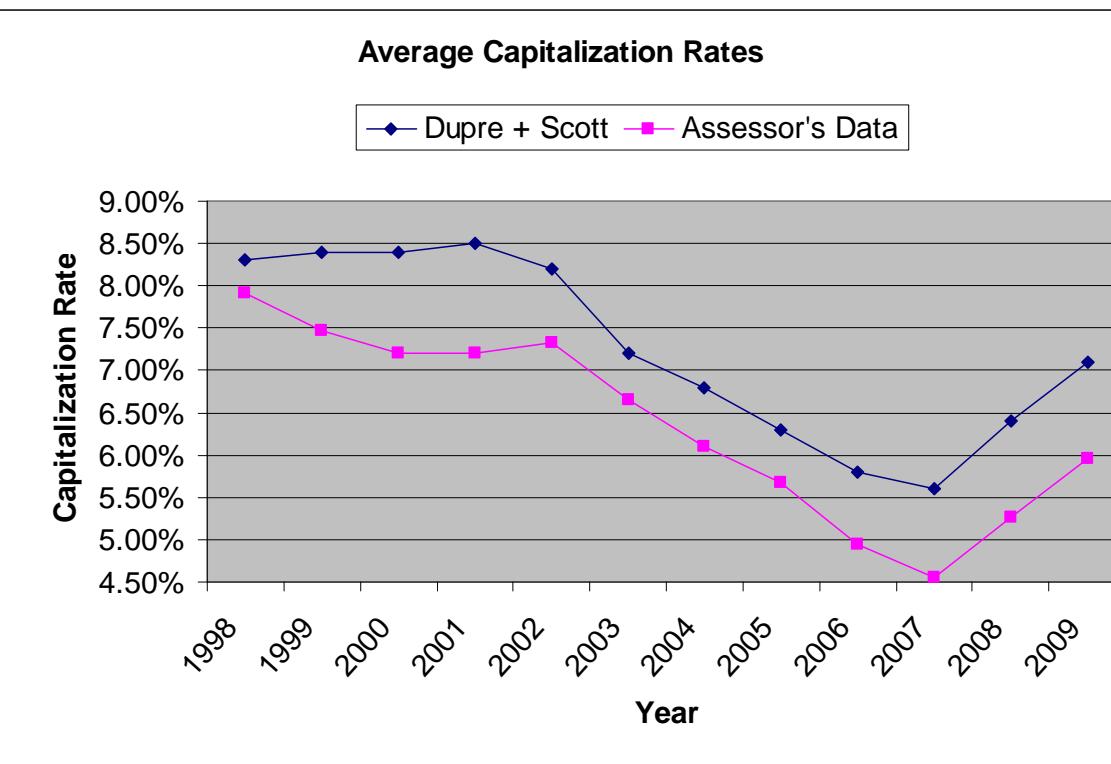
There are a total of 742,237 housing units in the county of which 274,994 are two or more units. In the apartment specialty (which does not include duplexes and triplexes) there are 220,221 units. There are a total of 11,952 account numbers assigned to the apartment specialty. Of these, 475 are land parcels associated with apartment properties. Another 2,837 are account numbers for individual condominium units associated with the 231 condominium complexes that are included in the apartment specialty. Subtracting the land parcels and individual condo units results in 8,640 apartment properties in King County. These numbers represent a small decrease in the number of properties in the apartment specialty for the second year running. This is due to the number of apartments that have converted to condominiums. New construction has not kept pace with the loss of units to condominium conversions. The *Dupre + Scott Apartment Investment Report* indicates an average sale price per unit for 2009 of \$127,030 in the county. An analysis of the Assessor's sales data shows the average price per unit paid in King County was \$130,122 in 2009. The difference in the Assessor's figures and some of the published figures is the fact that the Assessor includes properties down to 4-units and also mixed use properties. Most publications address larger properties only. Of the 53 sales in the Assessor's database for 2009, 7 were between \$200,000 and \$299,000 per unit and none were higher than \$300,000. This is in sharp contrast to the year before when 4 were between \$300,000 and \$399,000, and 2 were over \$400,000. The average price per unit began to drop in 2008.

Nationally, *Korpacz Real Estate Investor Survey* (4th Qtr, 2009) noted capitalization rates averaging 8.03%. In King County, The *Dupre + Scott Apartment Investment Report* shows an average capitalization rate based on anticipated income of 7.10% for 2009. The Assessor's data indicates an average capitalization rate of 5.96% for 2009. Following are graphs showing the average price per unit and average capitalization rate by year. Each graph has two lines, one representing data from *The Dupre + Scott Apartment Investment Report* and the other representing the Assessor's database.

Within the King, Pierce, Snohomish tri-county area King County generally has the highest values and lowest capitalization rates. King County capitalization rates average about 75 basis points lower than Pierce County and 30 basis points lower than Snohomish County. This is based on data in the *The Dupre + Scott Apartment Advisor* covering the years 2002 through 2009.

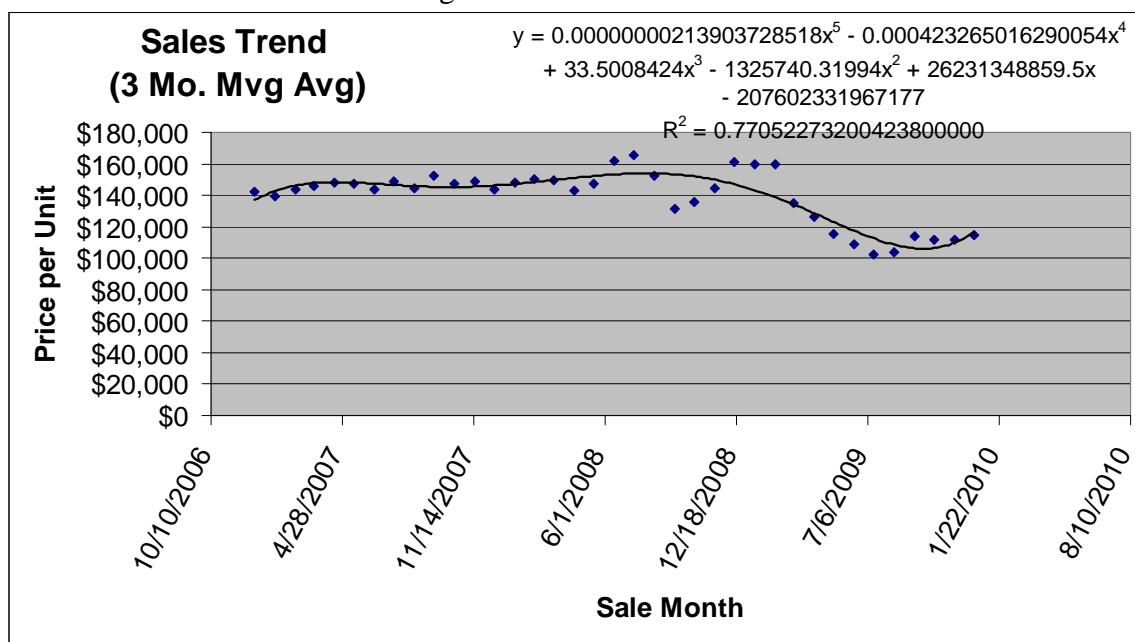


Source: *The Dupre + Scott Apartment Investment Report* and the King County Department of Assessments database.



Source: *The Dupre + Scott Apartment Investment Report* and the King County Department of Assessments database.

The Assessor's data shows generally higher prices per unit and consistently lower capitalization rates than the Dupre + Scott data because the Assessor's data includes properties down to 4 units. One would expect those properties to sell for higher prices per unit and at lower capitalization rates. The monthly average price per unit is graphed below. A three-month moving average is used in order to smooth the data. The polynomial shown was used to adjust the comparable sales used in the model for time. The price levels remained more or less level until mid-2008 when they began going down. That continued until mid-2009 when they leveled off and perhaps began going up. That remains to be seen as 2010 figures become available.



Source: King County Department of Assessments sales data.

There is considerable variation in value within the county. The highest values and lowest capitalization rates usually tend to be in Seattle (e.g., Downtown, Capitol Hill, Queen Anne). The lowest values and highest capitalization rates are often found in south King County. Capitalization rates can be a full point higher in the south end. Some east side areas (e.g., Bellevue, Kirkland, and Redmond) approach Seattle value levels. The table below shows some of the differences among three regions of the county as well as Pierce and Snohomish County. The information for Pierce and Snohomish are from *Dupre + Scott* publications which only address properties of 20 or more units. Data is for 2009 except for numbers marked with an *. Those include 2008 data because there was not enough 2009 data. Some of the data does not follow the usual pattern. The average capitalization rate for the east region is lower than Seattle, the average GIM is higher, and the average rent is higher. Even the capitalization rate shown for the south region is lower than Seattle. The neighborhoods included in the three regions of King County are as follows:

- King-Seattle 005 – 155; 225 – 235; 415, 420
- King-South 160 – 220; 240 – 330; 440 – 475
- King-East 340 – 400; 425, 430

	Avg Sale Price/Unit	Avg Cap Rates	Avg G I M's	Avg Rents	Avg Year Blt	Avg Numb of Units
King – Seattle	\$154,212	5.8%	11.1	\$1229	1956	18
King - South	\$108,570	5.7%	9.5 *	\$880	1973	26
King – East	\$131,624	5.3% *	12.2 *	\$1267	1979	53
Pierce	\$64,361	6.4%	7.1	\$816	N/A	N/A
Snohomish	\$85,231	6.1%	8.5	\$898	N/A	N/A

Source: Assessor's Data and *Dupre + Scott*

* Includes 2008 data.

Physical Inspection Identification:

The physically inspected neighborhoods were neighborhoods 015, 045, 050, 055, 215, 220, 225, 230, 235, 285, 290, 340, 345, 355.

Preliminary Ratio Analysis

A ratio study was done using the values in place for the 2009 assessment year. The results are in the addendum, Ratios Using 01/01/2009 Assessed Values.

Scope of Data

Land Value

Land Sales, Analysis, Conclusions

The geographic appraiser in the area in which the specialty apartment property is located is responsible for the land value used by the apartment specialty appraiser. See appropriate area reports for land valuation discussion.

Improved Parcel Total Values:

Sales Comparison Approach model description

The sales comparison approach or market approach is one of the indications of value applied to the properties in the apartment valuation model. Sale spreadsheets are found in addendum "Area Sales". In the apartment valuation model the appraiser can select individual comparable sales as an indicator of value. An automated selection of sales is also available in the model. The macro that is used to select sales uses the Minkowski distance metric and considers neighborhood, number of units, commercial area, year built, and average unit size. A multiple regression analysis is performed on the sales in the county and is used as an indicator of value.

Sales comparison calibration

If individual comparable sales are selected they are placed in a sales grid for comparison with the subject. The comparable sales are adjusted for age, number of units, unit size, quality, condition, view, pool, commercial area, and location. The adjustments are a result of analyzing paired sales, the coefficients used in the multiple regression equation described below, and to a lesser degree the averages of the various characteristics in relation to one another. The results from the above techniques are tempered by the history of the adjustments used in prior years. In addition, the appraiser may exercise judgment in the application of adjustments in order to reflect market reaction to differences in characteristics. Some of the adjustments do not follow a pattern consistent with what one might expect. For example, the adjustments for age do not assume that newer apartments are always more valuable than older ones. Apartments built in the 1920's are considered to be more valuable than apartments built in the 1950's. The adjustment for number of units assumes that as the number of units increases, the price per unit decreases. However, in larger complexes that does not hold true. Price per unit tends to be higher than in the smaller complexes.

Multiple regression analysis was performed on the sales in the county. The results are shown below. 746 sales were used in determining the parameters of the equation described below. 17 sales were excluded as outliers. Continuous variables were converted to natural logarithms.

Description of some of the independent variables:

Nbhd_Rank	A number representing the relative value level of a neighborhood. They range from 0.62 to 1.73.
Pcnt_Comm	The percentage of the building net rentable area that is commercial area expressed as a whole number, not a decimal.
Pcnt Vu times Scalar	This variable is the product of the percentage of units with a view times the view scalar which is a number that represents the relative value of a particular type of view. View scalars range from 0.95 to 1.14. The view scalar is also modified to reflect the quality of the particular view.

Dependent Variable	Nat. Log. Of Trended \$/Unit	Rows Processed	763
Number Ind. Variables	12	Rows Filtered Out	17
R2	0.711		
Adj R2	0.7062		
Coefficient of Variation	0.0172	Rows Used in Estimation	746
Mean Square Error	4.01E-02		
Square Root of MSE	0.200155		
Ave Abs Pct Error	1.346		

Regression Equation Section						
Independent Variable	Regression Coefficient b(i)	Standard Error Sb(i)	T-Value to test H0:B(i)=0	Prob Level	Reject H0 at 5%?	Power of Test at 5%
Intercept	-77.6396	16.5505	-4.691	0	Yes	0.9968
Elevator	0.1783	0.031	5.755	0	Yes	0.9999
Nat. Log. Of Avg Unit Size	0.4417	0.0341	12.969	0	Yes	1
Nat. Log. Of EY	11.3743	2.1886	5.197	0	Yes	0.9994
Nat. Log. Of Nbrhd_Rank	1.0826	0.034	31.843	0	Yes	1
Nat. Log. Of Pcnt_Comm	0.0848	0.017	4.987	0	Yes	0.9988
Nat. Log. Of Pcnt_Vu_times				0.043		
Scalar	0.0816	0.0404	2.021	7	Yes	0.5243
				0.165		
Below Avg Qual.	-0.0497	0.0357	-1.389	1	No	0.2845
1 to 4 Units	0.1565	0.0234	6.703	0	Yes	1
				0.012		
5 to 9 Units	0.0579	0.0231	2.506	4	Yes	0.7074
20 to 49 Units	-0.1453	0.0267	-5.448	0	Yes	0.9998
50 to 99 Units	-0.1757	0.0399	-4.403	0	Yes	0.9927
				0.009		
100 to 999 Units	-0.0837	0.0323	-2.59	8	Yes	0.7356

The table below compares the data of the sales with the data of the entire apartment population. For the most part the sales sample was representative of the population. The exceptions are average number of units, % of properties with pools, and % of properties with elevators.

Characteristic	Population	Sales Sample
Average Year Built	1964	1965
Effective Year	1987	1988
Average Number of Units	25	32
Average Unit Size	781	779
Average Quality	4.2	4.3
Average Condition	3.2	3.3
% with Commercial Space	5%	4%
% with View	24%	24%
% with Pools	6%	9%
% with Elevator	11%	9%

Cost Approach model description

Cost estimates are automatically calculated via the Marshall & Swift Valuation modeling system. Depreciation was based on studies done by Marshall & Swift Valuation Service. The cost was adjusted to the western region and the Seattle area. The Marshall & Swift cost calculations are automatically calibrated to the data in the Real Property Application. Because of the difficulty in accurately determining the depreciation of older apartment properties, this approach to value was given the least weight in the final reconciliation of values. Cost estimates were relied upon for valuing on-going new construction where comparable sales data and/or sufficient income and expense information is not available.

Cost calibration

The Marshall & Swift Valuation modeling system which is built in the Real Property Application is calibrated to the region and the Seattle area.

Income Capitalization Approach model description

The income approach is an estimate of market value based on the quality and quantity of income a property is expected to generate. A capitalization rate is used to convert the net operating income into a value.

Income approach calibration

The potential gross income for each property is determined primarily from the rent information found in the addendum labeled “Rent Comps”. Published reports were also considered. The rents used in the model were determined primarily by multiple regression analysis. The results are in the table below. 6,060 rents were used in determining the parameters of the equation described below. 55 rents were excluded as outliers. Continuous variables were converted to natural logarithms.

Description of some of the independent variables:

Listed		Whether the rent is an asking rent. If it is coded as a 1, an actual rent is coded as 0.
Nbhd_Rank		A number representing the relative value level of a neighborhood. They range from 0.62 to 1.73.
Quality Excellent	Codes	5 = Average Good; 6 = Good; 7 = Good Excellent; 8 = Excellent

Dependent Variable	Nat_Log_Trended_Ren		Rows Processed	6115
Number Ind. Variables	t	16	Rows Filtered Out	55
R2	0.7935			
Adj R2	0.793			
Coefficient of Variation	0.0219	Rows Used in Estimation	6060	
Mean Square Error	2.25E-02			
Square Root of MSE	0.149861			
Ave Abs Pct Error	1.708			

Regression Equation Section						
Independent Variable	Regression Coefficient b(i)	Standar d Error Sb(i)	T-Value to test H0:B(i)= 0	Prob Level	Reject H0 at 5%?	Power of Test at 5%
Intercept	-103.575	4.7644	-21.739	0	Yes	1
Elev=1	0.1108	0.0051	21.724	0	Yes	1
Listed=1	0.0554	0.0044	12.578	0	Yes	1
Nat_Log_EY	14.1052	0.6291	22.421	0	Yes	1
Nat_Log Nb_Rnk	0.6023	0.0089	67.465	0	Yes	1
Nat_Log Unit Size	0.4872	0.0129	37.821	0	Yes	1
Qual_5_6=1	0.0123	0.0046	2.692	0.0071	Yes	0.768
Qual_7_8=1	0.0715	0.0173	4.137	0	Yes	0.9853
Tenant_Paid_Heat=1	-0.1412	0.0158	-8.966	0	Yes	1
ViewUnknown=1	0.0188	0.005	3.745	0.0002	Yes	0.9629
View=1	0.0697	0.0137	5.105	0	Yes	0.9992
Studio=1	-0.0265	0.0084	-3.172	0.0015	Yes	0.8873
2bd1ba=1	0.0328	0.0064	5.115	0	Yes	0.9992
2bd2ba=1	0.0936	0.0075	12.535	0	Yes	1
3bd1ba2ba=1	0.1434	0.01	14.296	0	Yes	1
3bd3ba=1	0.2397	0.0175	13.709	0	Yes	1

Parking income ranging from \$15 to \$130 per space per month is used in the income approach. It varies depending on the type of parking and the neighborhood. Laundry income of \$85 per unit per year is added to properties with common laundry. Other miscellaneous income is also added. It is an estimate of typical amounts received for such things as vending machines, forfeited deposits, NFS charges on returned checks, and late fees. Rates ranging from \$100 to \$375 per unit per year were used.

For mixed-use properties typical commercial rents, vacancy, and overall rates were determined by accessing the income tables used by the geographic area appraisers. Commercial rents used in the apartment income model ranged between \$2.50 and \$60.00 per square foot per year, triple net. There are a few warehouse spaces that were assigned rents ranging from \$2.50 to \$16.00.

Vacancy and credit loss rates ranging from 5% to 11% were included in the income approach. They vary by neighborhood. Five-year averages were used to avoid short-term spikes in the vacancy rates. The primary source of vacancy and credit loss information is *The Dupre + Scott Apartment Vacancy Report*.

Capitalization rates ranging from 5.1% to 8.4% were used. They were adjusted for quality, condition, the size of the apartment complex, and the region of the county. The average capitalization rate in the Seattle area and the eastside was 5.9% (81% of the properties were between 5.5% and 6.5%). The average rate in the south end was 6.9% (70% of the properties were between 6.5% and 7.5%). The lowest rates were for fourplexes, newer properties, and properties in the Seattle area. Highest rates were for older properties and properties in the south end. The exception would be many of the properties built in the 1920's which tend to be high-value properties and therefore have low capitalization rates. Capitalization rate information is obtained from buyers and sellers, *CoStar Company*, and *The Dupre + Scott Apartment Investment Report*.

Expenses ranged from \$2,804 to \$8,613 per unit per year. The average was \$4,759 per unit (69% of the properties were between \$4,200 to \$5,400). The expenses were adjusted for quality, condition, the size of the apartment complex, and the region of the county. A component for real estate taxes is included which can be several hundred dollars to \$2,000 or more for high-value properties. Commercial triple net expenses are also included in the unit expenses. Expense information is obtained from information submitted with appeals and *The Dupre + Scott Apartment Expense Report*.

The indicated values obtained by the income approach were compared with sale prices of sale properties. If the indicated values of a particular category of apartment or neighborhood deviated significantly from the sale prices, the income model is recalibrated. This is done by applying an adjustment factor to the rents.

An indicated value is also calculated using gross income multipliers. This approach is typically given little weight.

Reconciliation and/or validation study of calibrated value models including ratio study of hold out samples.

The Appraiser made a review of the appropriateness of the application of the valuation models before final value was selected for each parcel. Typically, 40% to 50% of the properties are valued without direct appraiser involvement. A default value, usually the weighted value or sometimes the previous value, is placed into ready to post status. These are properties that lie within certain parameters; for example, value change within a certain range, properties not involving multiple parcels, and no recent board decision. On the other properties each appraiser has several choices of value indicators; income approach, gross income multiplier approach, multiple regression equation, individual comparable sales (optional), cost approach, and a weighted value which is a combination of the above indicators. The appraiser may choose any one of the indicators or a value that lies between two indicators. The appraiser can change parameters used in the income approach, such as, rent, expenses, vacancy and credit loss, and capitalization rate. Appraisers made the determination of value based on the appraiser's judgment of the appropriateness of the method for each property. For quality control purposes an administrative review of the selected values was made by Kent Walter, Senior Appraiser.

Model Validation

Total Value Conclusions, Recommendations and Validation:

Appraiser judgment prevails in all decisions regarding individual parcel valuation. A value is selected based on general and specific data pertaining to the parcel, the neighborhood, and the market. The Appraiser determines which available value estimate is appropriate and may adjust for particular characteristics and conditions as they occur in the valuation area.

Application of the total value model, described above, results in little change in the equity between individual properties. The ratios, COV, COD, and the PRD are all within IAAO guidelines. See the ratio study using proposed values for a complete explanation of the changes between the 2009 assessment and the 2010 proposed assessment.

The total assessed value for the 2009 assessment year for Area was \$25,850,358,100. The total recommended assessed value for the 2010 assessment year is \$23,798,823,700. Application of these recommended values for the 2010 assessment year results in a total change from the 2009 assessments of -7.9%. It is recommended the proposed values are posted.

ADDENDA

Neighborhood Maps

Ratios Using 01/01/2009 Assessed Values

Ratios Using Proposed Valuations

Rents

Sales

List of Parcels Physically Inspected

List of Parcels in Annual Update Areas

Assessor's Memo