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APPRAISAL 101: THE MARKET CONDITIONS ADJUSTMENT

Making a market conditions adjustment is common and a generally accepted appraisal practice. Douglas County has considered the market conditions adjustment in the appraisal process for several decades and it is now shown differently in the Comparable Sales Report.

Changes in market conditions account for the economic principle of change – the concept that market value is never constant because physical (environmental), economic, governmental, and social forces are at work to change the property and its environment.¹

Market Conditions – An element of comparison in the sales comparison approach; comparable properties can be adjusted for differences in the points in the real estate cycle at which the transactions occur.

Sometimes called a *time adjustment* because the differences in dates of sale are often compared, although that usage can be misleading because property values do not change merely as the result of the passage of time.²

Market Condition Adjustment – A factor to reflect price changes in relation to the time the property sold and the date of valuation.

These factors account for changes in market conditions between the time a comparable property sold and the effective date of the appraisal.³

All counties in Kansas utilize the same appraisal software (Assessment & Tax Pro, by Tyler Technologies). Members of the Kansas County Appraisers Association and staff from the Kansas Department of Revenue, Property Valuation Division work together on an enhancement committee that collaborates with the software vendor to resolve issues regarding functionality, equity, and transparency.

In 2023, enhancements to the appraisal software included new options for handling market condition adjustments. Previous methods were often difficult to explain and had various limitations and challenges. All valuation processes include testing for accuracy to ensure credible appraisal results are achieved.

This new format provides better explainability and transparency for the appraisal process, while aligning with conventional appraisal methodology. The County’s comparable sale reports have been revised so the market conditions adjustments are handled similarly to what a property owner would see in a bank appraisal, which also considers a market conditions adjustment.

Fannie Mae Appraisal Form 1004 (Used for Bank Appraisals)

FEATURE	SUBJECT	COMPARABLE SALE # 1	
Address			
Proximity to Subject			
Sale Price	\$		\$
Sale Price/Gross Liv. Area	\$	sq. ft.	\$
Data Source(s)			
Verification Source(s)			
VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	+(-) \$ Adjustment
Sale or Financing Concessions			
Date of Sale/Time			

Comparable Sale Grid (Used in County’s Appraisal Software)

Parcel ID
Quick ref
Address
Neighborhood
Sale Date
Sale Price
Market Conditions Adjustment
Mkt Cond. Adjusted SP - 1/1/24

¹ Property Assessment Valuation, Third Edition, International Association of Assessing Officers, 2010, page 17

² The Dictionary of Real Estate Appraisal, Sixth Edition, The Appraisal Institute, 2015, page 139

³ IAAO Glossary for Property Appraisal and Assessment, Third Edition, International Association of Assessing Officers, 2021, page 73

Sale and Resale Analysis Examples

Changes in market conditions are best analyzed by comparing a previous and current sale price of the *same property*. The formula for determining market condition changes is:

$$\text{Current Sale Price} - \text{Prior Sale Price} = \text{Change in Value}$$

$$\text{Change in Value} \div \text{Prior Sale Price} = \% \text{ Change in Value}$$

$$\% \text{ Change in Value} \div \# \text{ of Months Between Sales} = \% \text{ per Month.}$$

This formula is applied to multiple properties that have previously sold and recently resold to obtain several data points. These data points reflect what the overall change in market price has been over a period of time.

Below are some examples of actual residential properties that sold/resold between 2022 and 2023 in Douglas County.

Neighborhood Code	Year Built	Sale Date	Sale Price	Total Change & Annual Change	Monthly Change
635.0	1991	9/9/2022	\$160,000	15.6%	
635.0	1991	10/30/2023	\$185,000	13.7%	1.1%
686.0	2001	1/3/2023	\$245,000	4.5%	
686.0	2001	6/16/2023	\$256,000	10.0%	0.8%
635.0	1977	10/5/2022	\$235,000	16.8%	
635.0	1977	4/20/2023	\$274,500	31.1%	2.6%
707.0	2022	10/21/2022	\$335,000	6.0%	
707.0	2022	10/16/2023	\$355,000	6.1%	0.5%
634.0	1975	10/3/2022	\$385,000	1.3%	
634.0	1975	4/5/2023	\$390,000	2.6%	0.2%
615.0	1994	3/1/2023	\$390,000	1.3%	
615.0	1994	12/15/2023	\$395,000	1.6%	0.1%
627.0	2003	10/11/2022	\$1,780,000	6.1%	
627.0	2003	11/8/2023	\$1,889,000	5.7%	0.5%
Median				6.1%	0.5%
Average				10.1%	0.8%
Conclusion					0.5%

The following grid shows the sale/resale of two new houses in 2020 versus the subsequent sales in 2022 and 2024.

Neighborhood Code	Year Built	Sale Date	Sale Price	Total Change & Annual Change	Monthly Change
676.0	2020	4/27/2020	\$503,000	14.3%	
676.0	2020	5/3/2022	\$575,000	7.1%	0.6%
676.0	2020	11/18/2020	\$525,000	19.0%	
676.0	2020	2/2/2024	\$625,000	5.9%	0.5%
Conclusion					0.5%

The data indicates residential home prices are typically increasing at a rate of 0.5% per month.

Market Conditions Adjustment Application in 2024

For the valuation of residential property in the 2024 tax year, a majority of the county’s market study and conclusions took place during the months of July through September 2023, while the effective date of value is January 1, 2024. In order to meet the requirements of the statutory timeline, sale data from the last three months of the year are difficult to include in the analysis.

As a result, the market conditions adjustment is applied to sales that are more than six months prior to the effective date of January 1, 2024, or before July 1, 2023. In other words, the most recent sales that occurred within six months of the valuation date are not adjusted for market conditions. A market conditions adjustment of 0.5% per month is applied to sales that occurred prior to July 1, 2023.

Market Conditions Adjustment for Date of Sale Prior to January 1, 2024 Effective Valuation Date

Month Sale Occurred	Dec 23	Nov 23	Oct 23	Sep 23	Aug 23	Jul 23
Adjmt Applied	None	None	None	None	None	None
Month Sale Occurred	Jun 23	May 23	Apr 23	Mar 23	Feb 23	Jan 23
Adjmt Applied	0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
Month Sale Occurred	Dec 22	Nov 22	Oct 22	Sep 22	Aug 22	Jul 22
Adjmt Applied	3.5%	4.0%	4.5%	5.0%	5.5%	6.0%
Month Sale Occurred	Jun 22	May 22	Apr 22	Mar 22	Feb 22	Jan 22
Adjmt Applied	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%

Once the sales are adjusted to a current market perspective, then the data can be analyzed to determine the value influences of location, size, number of bedrooms, number of bathrooms, garage features, basement features, and other property amenities.

These features are analyzed by market area and are organized into the valuation models for residential property.



TESTS FOR ACCURACY

Part of the mass appraisal process is testing for accuracy. These tests are performed at Douglas County (and all Kansas Counties):

- On the previous tax year’s values;
- During the calibration of current value models; and
- After the current tax year’s values are posted.

This statistical process involves comparing the county’s values with the respective sale prices of the same properties, known as a *sales ratio study*. Market conditions change over time and these tests gauge value accuracy at different checkpoints along the valuation timeline.

Sales Ratio Terminology

In order to measure accuracy of values, some statistics must be calculated:

Sales Ratio
The percent of value in relation to actual sale price.
Formula: Value ÷ Sale Price

Median
A measure of central tendency. The value of the middle number in a range of prices arrayed by value (low to high).

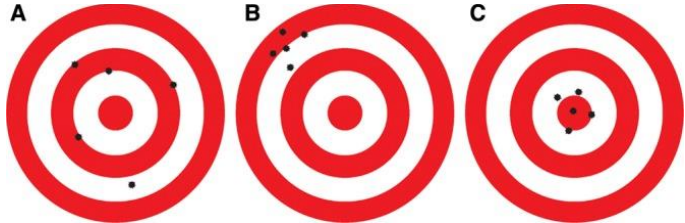
State Requirement: 90% – 110%

Coefficient of Dispersion (COD)
Expresses as a percentage the average deviation of the ratios from the median; Indicates uniformity (tightness of accuracy).

State Requirement: Less than 20%.

Another way of looking at COD – how close to the bullseye were the values?

Illustration



- A) Median of sales near the middle of prices, but most sales off the mark resulting in high COD.
- B) Values have a tight cluster, but values are too high and far from the median (high COD).
- C) Values are near the bullseye (median near 100%) and have a tight cluster (low COD).

Price-Related Differential (PRD)
A statistical measure of vertical property tax equity. The PRD is calculated by dividing the mean ratio by the weighted mean ratio in a ratio study. If the result exceeds 1.03, assessments are considered regressive. If the result is less than 0.98, assessments are considered progressive.

State Requirement: 0.98 – 1.03

One of the goals in property assessment is uniformity across all price points, which results in a fair property tax system. PRD reveals whether this has been achieved.

Douglas County Sales Ratio Performance

Values established by the Douglas County Appraiser’s Office for single-family residential property consistently fall within the state requirements for accuracy. The state requirements are in alignment with assessment industry standards.

These are “blind” tests, where the values are estimated *prior* to January 1 and compared to actual sale prices *after* January 1. The Property Valuation Division (PVD) of the Kansas Department of Revenue oversees the County’s work for compliance with state law. The results of the PVD annual sales ratio study are shown below.

State Ratio Study - Dg Co	2018	2019	2020	2021	2022	Prelim 23
Residential						
Median	93.9%	94.2%	93.9%	92.2%	93.1%	91.3%
Coefficient of Dispersion	8.2%	7.3%	8.0%	10.3%	9.2%	8.7%
Price Related Differential	1.00	1.06	1.00	0.99	1.00	1.01
# of Sales	238	286	284	245	256	256

The following sales ratio study was developed in-house using residential sales that have occurred after January 1, 2024 and were compared to the County’s 2024 values.

2024 Values	Cost Value	Sales Value	MRA Value	Final Value
Residential				
Median	99.5%	99.6%	98.8%	99.4%
Coefficient of Dispersion	10.1%	5.3%	5.8%	4.0%
Price Related Differential	1.00	1.01	1.01	1.00
# of Sales	201	201	201	201

Sales for the first three months of 2024 indicate the County’s values are accurate and in line with actual sale prices.

 **2024 VALUE APPEALS**

As of April 8, 2024, the Appraiser’s Office has scheduled 1,053 appeals, which is down from 1,129 appeals in 2023 and 1,191 appeals in 2022, but still higher than the 12-year average of 801 appeals.

A total of 121 appeals for the 2024 tax year have been processed to-date, with 61% receiving adjustments to their value. Historical results range from 41% to 52% of those appealed receiving value adjustments in the appeal process, with an 11-year average of 47%.

 **STAFF HIGHLIGHTS**

Eldon Kottwitz has received the Registered Mass Appraiser (RMA) designation from the Kansas Department of Revenue, Property Valuation Division. The RMA requirements include passing 230 hours of tested coursework, two case study exams, and the county appraiser eligibility exam, as well as having over 6,000 experience hours in appraisal. Congrats, Eldon!

We are pleased to announce the hiring of John Dawson to fill the role of Appraisal Manager. Welcome to the team, John!