

BEFORE THE IDAHO BOARD OF TAX APPEALS

MARC BRINKMEYER,)	
)	
Appellant,)	APPEAL NO. 19-A-1201
)	
v.)	FINAL DECISION
)	AND ORDER
BONNER COUNTY,)	
)	
Respondent.)	
)	
_____)	

RESIDENTIAL PROPERTY APPEAL

This appeal is taken from a decision of the Bonner County Board of Equalization denying an appeal of the valuation for taxing purposes on property described by Parcel No. RP57N03W244650A. The appeal concerns the 2019 tax year.

This matter came on for hearing October 16, 2019 in Sandpoint, Idaho before Hearing Officer Cindy Pollock. Attorney Peter Smith IV appeared at hearing for Appellant. County Assessor Donna Gow represented Respondent.

Board Members David Kinghorn, Leland Heinrich and Kenneth Nuhn join in issuing this decision.

The issue on appeal concerns the market value of an improved residential property.

The decision of the Bonner County Board of Equalization is reversed.

FINDINGS OF FACT

The cumulative assessed value of the land is \$226,727, and the combined value of the improvements is \$3,968,878, totaling \$4,195,605. Appellant contends the correct market value is \$2,450,000.

The subject property, located to the west of Sandpoint, Idaho in the Hornby Creek area, is comprised of several land and improvement components. Subject's forty (40) total acres include thirty (30) acres assessed as forest land at \$17,130, a rural one (1) acre homesite

assessed at \$86,000, and the parcel's remaining nine (9) acres assessed as residential acreage at \$123,597. The grounds are extensively landscaped and manicured, and the surrounding timber provides privacy. The parcel is not located on the waterfront, nor does the property enjoy views of the Lake Pend Oreille.

Subject is improved with a 10,075 square foot log-style custom residence. The original residence was constructed in 1998 and was designed to include a daylight basement and main level. In 2002, significant additions were made, including expansions of the main and lower levels, and construction of an upper level master bedroom suite. The attached three (3) car garage includes 660 square feet of upper floor living space, accessible by a private exterior stairway.

Appellant pointed out negative characteristics of the subject residence, such as the lack of an elevator, and the different construction qualities between the original build and the remodel a few years later. It was noted the residence does not enjoy a grand entrance. Instead, the primary access is via the lower level, with stairs leading up to the main floor. It was claimed buyers in subject's price range would typically expect a bold main entrance space and an elevator to access the several floors.

The property is further improved with a pole building converted to residential use, and commonly referred to as the Carriage House. In its current configuration, the Carriage House is a two (2) story structure. The 2,268 square foot main level is finished into an office, gallery, and display room. The 1,728 square foot upper level contains a large open workroom, a private office, and two (2) bedrooms and two (2) bathrooms. The Carriage House is attached to the primary dwelling by a covered breezeway.

Subject's additional improvements include a large horse barn and a 2,178 square foot shop building. Because the horse barn was not being used for horses, Appellant's fee appraisal characterized the structure as having decreased utility for its current use as storage space. The shop building was constructed in 2017 and was noted to be functional and in good condition.

Appellant's presented an independent fee appraisal report prepared by a local appraisal firm. The retrospective appraisal estimated subject's value as of January 1, 2019, the relevant assessment date in this appeal. In developing an opinion of value, the appraisal considered information related to six (6) comparable sales of large high quality custom homes on acreage sites. None of the sales involved waterfront properties. Sale Nos. 1, 3 and 4 were located near subject, while the other sales were located somewhat farther away. The fee appraisal explained due to subject's unique physical characteristics, it was necessary to expand the geographic scope of the sales search to find a sufficient number of comparable sales.

The above sale residences ranged in size from 5,222 to 16,981 square feet and all were considered comparable to subject in terms of construction quality. Most of the sale properties also included separate guest houses and various outbuildings and other improvements. Sale prices ranged from \$1,475,000 to \$2,995,000. Each sale property was directly compared to subject and specific appraisal adjustments were made for property differences. The bulk of the adjustments were for residence size, age, design, and outbuildings. The appraisal determined adjusted sale prices ranging from \$1,964,225 to \$2,788,525.

In its reconciliation of the sales analysis, the appraisal afforded the most weight to Sale Nos. 1, 2, 3 and 5 because they were regarded as most similar to subject. Sale No. 6 was

given less weight due to the larger difference in size and lack of similar outbuildings. Sale No. 4 was afforded less weight because it was the lowest priced sale with the smallest residence and fewest number of outbuildings. In the final analysis, the appraisal concluded a market value of \$2,450,000 for subject.

Respondent physically inspected subject in July 2018. This resulted in grading changes for the residence and Carriage House. It was explained the assessor's office had added two (2) additional construction grades to its scale in an attempt to better capture the market value of high-end custom homes in the county. In subject's case, the grade for the main residence was changed from "excellent" to "VI", and the Carriage House grade was changed from "good" to "very good". Other changes to the property record included additional pavement, the addition of a new outbuilding, and the removal of a pole building which was actually situated on a separate parcel, not subject.

In considering subject's valuation, Respondent segregated subject's main residence from the Carriage House and valued each individually. For the main residence, Respondent offered information on three (3) recent sales. The sale residences, constructed in 2008, 2011 and 2013, varied in size from 2,746 to 6,639 square feet. Lot sizes were not shared, nor were details concerning other associated improvements. Sale prices ranged from \$1,725,000 to \$2,675,000. From the sale prices, Respondent removed assessed values of the land and other improvements. The prices were then adjusted to account for differences in age, square footage, and garage size between subject and the sale properties. The result was adjusted sale prices ranging from \$2,816,862 to \$3,421,831.

Appellant challenged the comparability of the sales presented by Respondent. To begin,

Sale No. 1 was noted to be a waterfront parcel. Appellant further highlighted the sale residences were notably smaller than subject and all were newer construction. Respondent contended location was irrelevant in the analysis because the focus was on the value of the residence and the cost to construct the improvements does not vary between locations. It was also noted the assessed land values were removed from the respective sale prices, which was argued to account for value attributable to location.

Turning to the value of subject's Carriage House, Respondent's appraisal relied on two (2) sales. Sale No. 1 was a waterfront parcel improved with a 2,160 square foot custom residence constructed in 1999. The property sold in July 2018 for \$659,000. Sale No. 2 was a 2,001 square foot residence constructed in 2018. Though not a waterfront parcel, the property did enjoy lake access. This property sold in July 2018 for \$643,000. Similar to the analysis above for subject's main residence, Respondent removed assessed value for the land and other improvements from the respective sale price. Adjustments were then made for age, square footage, and garage size, resulting in adjusted sale prices of \$353,098 and \$375,922.

Appellant was critical of Respondent's method for valuing the Carriage House. First, it was noted the Carriage House is attached to the main residence and could not be separately sold, whereas the sales are fully independent residences. Also, it was noted the Carriage House is a converted pole building, not a custom residence like the sales offered by Respondent. Appellant took issue with Respondent's method of independently valuing each of subject's improvements, then simply summing those values to arrive at a total. Appellant argued the property as a whole should be considered and compared to recent sales with similar improvements and general characteristics.

CONCLUSIONS OF LAW

This Board's goal in its hearings is the acquisition of sufficient, accurate evidence to support a determination of fair market value in fee simple interest, or as applicable exempt status. This Board, giving full opportunity for all arguments and having considered all the testimony and documentary evidence submitted by the parties, hereby enters the following.

Idaho Code § 63-205 requires taxable property be assessed at market value annually on January 1; January 1, 2019 in this case. Market value is defined in Idaho Code § 63-201, as,

“Market value” means the amount of United States dollars or equivalent for which, in all probability, a property would exchange hands between a willing seller, under no compulsion to sell, and an informed, capable buyer, with a reasonable time allowed to consummate the sale, substantiated by a reasonable down or full cash payment.

Market value is estimated according to recognized appraisal methods and techniques. The three (3) primary methods for valuing real property include the sales comparison approach, the cost approach, and the income approach. *Merris v. Ada Cnty.*, 100 Idaho 59, 63, 593 P.2d 394, 398 (1979). Residential property is commonly valued using the sales comparison approach, which analyzes recent sales of similar property and considers adjustments for differences in physical attributes and other relevant factors.

Both parties offered value opinions using variations of the sales comparison approach. Admittedly, subject is a large unique property which presents difficult appraisal challenges. The parties' efforts in developing value opinions for such a unique property were appreciated by the Board. That being said, the Board found Appellant's appraisal report the better indicator of value in this case.

The appraisal's valuation model was based on six (6) recent sales of large custom estates. The fee appraisal included a detailed accounting of the attributes and characteristics associated with each sale property. Each sale property was individually compared to subject and appraisal adjustments were made to account for differences, such as residence size, age, design, outbuildings, lot size, and other characteristics. The analysis yielded an indicated range of value from \$1,964,225 to \$2,788,525. After weighing the different indicators, the appraisal concluded a market value of \$2,450,000 for subject as of January 1, 2019. Overall, the Board found the appraisal's analysis of the sales reasonable and typical of a traditional sales comparison approach.

Respondent's analysis, on the other hand, was not as well received by the Board. The first concern centered on the methodology itself. Rather than analyzing sales which represented subject's characteristics on an overall basis, Respondent attempted to value subject's main residence and Carriage House in independent valuations, and then add the values together. To accomplish this, Respondent found sales with residences considered similar in construction grade to subject's and simply removed assessed value for the land and other improvements. After extracting assessed value, Respondent assigned the remaining value to the sale residence and compared it to subject's residence. While we understand the extraction methodology, it is not a recognized appraisal approach for large custom improvements because it fails to recognize how such property is bought and sold in the marketplace, as a single unit, not as individual components.

The same reasoning holds true for Respondent's method of individually valuing subject's main residence and the Carriage House. These improvements are physically

attached on the same parcel of land and are, for practical purposes, incapable of selling as individual components. The Carriage House is a secondary dwelling, not the primary residence as is the case with the sales relied upon by Respondent. It was not found to be the best practice here to value each improvement individually, then simply sum the two (2) value estimates together for a total value. From the record and the Board's related experience, this is not how such property is commonly valued and transacted in the marketplace.

In addition to its methodology, there were notable concerns regarding the comparability of the sales utilized in Respondent's analysis. Several of the sales were waterfront parcels. Respondent argued location was irrelevant in its analysis of the value attributable to improvements. We disagree. While the cost of construction could be similar in different locations, cost does not necessarily equate to value. Value is a broader concept which considers all aspects of a particular property which might affect market value. And one of the key considerations in this regard is location, which is well understood to represent a primary driver of market value. This is evident in Respondent's own sales data, with the waterfront parcel representing the highest sale price. Failing to account for location can be a fatal appraisal flaw in the Board's view, because it ignores the significant impact location has on the overall market value of a real property parcel.

Lastly, the Board was concerned with the comparability of the sales Respondent utilized. Even in the absence of location adjustments, the other adjustments to the sales compared to subject's main residence were significant. Indeed, Sale No. 3 was adjusted upward 184%. With such large adjustments, questions of comparability were apparent in the Board's view. The sales used to analyze the value of subject's Carriage House were adjusted

much less, however, they too differed in a couple key respects. First, none of the sale residences were converted pole buildings. Rather, they were both designed and constructed as higher end custom residences. Second, the sale residences are stand-alone properties, not secondary dwellings attached to a main residence. Lastly, one (1) of the sales was a waterfront parcel and another had lake access. None of these factors were found to be adequately considered in Respondent's analysis.

In appeals to this Board, Appellant bears the burden of demonstrating error in subject's valuation by a preponderance of the evidence. Idaho Code § 63-511. Given the evidence presented in this matter, we found the burden of proof satisfied. Appellant's appraisal report thoroughly considered subject's property characteristics. The accompanying analysis supported the conclusion subject's assessed value is too high. Accordingly, the decision of the Bonner County Board of Equalization is reversed to reflect a value of \$2,450,000 for the subject property.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the Bonner County Board of Equalization concerning the subject parcel be, and the same hereby is, REVERSED to reflect a decrease in the value of the improvements to \$2,223,273, with no change in the land value of \$226,727, for a total value of \$2,450,000.

IT IS FURTHER ORDERED, pursuant to Idaho Code § 63-1305, any taxes which have been paid in excess of those determined to have been due be refunded or applied against other *ad valorem* taxes due from Appellant.

Idaho Code § 63-3813 provides that under certain circumstances the above ordered

value for the current tax year shall not be increased in the subsequent assessment year.

DATED this 20th day of December, 2019.