BEFORE THE IDAHO BOARD OF TAX APPEALS

THOMAS AND JANICE STROM, Appellants, v. BONNER COUNTY, Respondent.	APPEAL NO. 19-A-1026 FINAL DECISION AND ORDER

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. RP003630040030A. The appeal concerns the 2019 tax year.

This matter came on for hearing October 18, 2019 in Sandpoint, Idaho before Hearing Officer Cindy Pollock. Appellants Thomas and Janice Strom were self-represented. Bonner County Chief Deputy Assessor Dina Brown 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 assessed land value is $84,750, and the improvements' value is $771,252, totaling $856,009. Appellants contend the correct market value is $650,000.

The subject property is a .836 acre parcel located near the Priest Lake Golf Course. The property enjoys some limited views of the golf course, but is not situated on any of the course fairways. Subject is improved with a 4,781 square foot multi-level high quality custom residence constructed in 2006. The property has a 1,116 square foot attached garage.

Appellants purchased subject in 2016 for $440,000 in an arm's-length transaction. At the time of purchase, subject's assessed value was $377,006. Since that time, subject's assessment has increased by nearly $480,000, to $856,009. In Appellants' view this increase is not supported by the recent local real estate market.

In terms of subject's golf course neighborhood, Appellants described a trend in the marketplace toward smaller and newer residences. It was reported newer homes in the neighborhood were in the 1,500 square foot range where the market demand was strong. By contrast, subject is a 4,781 square foot residence constructed more than ten (10) years ago. Appellants contended subject's larger size and older age compared to newer smaller homes was not adequately considered in subject's valuation.

Turning to value evidence, Appellants offered an independent fee appraisal of subject's market value. This appraisal report was authored by a local appraisal firm. Though a larger list of all non-waterfront sales from the Priest Lake area was included in the report, the appraisal analysis focused on seven (7) recent sales and two (2) active listings. Three (3) of the sales were located in subject's same golf course community, while the others were located in different locations, some near other golf courses. The three (3) sales from subject's neighborhood concerned residences less than one-half (½) subject's size, which is the reason the appraisal expanded the geographical scope to find comparable sales. Overall, the sale properties were generally representative of subject in terms of design, quality, condition and amenities. Sale prices ranged from $349,000 to $750,000. The appraisal compared each sale property to subject and made appraisal adjustments for differences in property characteristics. The result was a range of adjusted prices from $448,000 to $723,400. The fee appraisal concluded a market value of $650,000 for subject as of January 1, 2019.

Support for Respondent's value position included an analysis of three (3) sales which occurred during 2018. In selecting sales to analyze, Respondent focused on those with residences similar to subject in quality and condition. None of the sale properties were located in subject's area. Sale No. 1 concerned a 1.042 acre parcel situated along the Pend Oreille River in Sagle, Idaho, which sold for $905,000. The property was improved with a 4,062 square foot residence constructed in 2006, as well as other improvements. Sale No. 2 was a 4,619 square foot residence situated on a 2.745 acre parcel with 159 waterfront feet on Lake Pend Oreille, which sold for $1,625,000. Sale No. 3, which closed at $1,500,000, involved a .818 acre lot improved with a 5,504 square foot residence constructed in 2005.

In its sales analysis, Respondent removed the respective assessed values for land and other improvements to arrive at residual price indication for each sale residence. From these price points, Respondent made further adjustments for construction quality, residence size, and garage square footage. The result was price indications for the subject residence of $772,558, $714,776, and $670,422. On a like basis, subject's residence is assessed for $750,435.

Appellants objected to Respondent's use of waterfront sales. It was noted waterfront parcels often command a premium price in the market. Appellants cited the fee appraisal report which included a list of all non-waterfront sales in the Priest Lake area from 2017 and 2018, and pointed out there was only one (1) sale at $750,000, with all other sale prices at $500,000 or well below. In Appellants' view, subject should not have been compared to waterfront sales.

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, 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 determining market value 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 often valued using the sales comparison approach, which approach in general terms analyzes recent sales of similar property and considers adjustments for differences in property characteristics compared to the subject.

Both parties relied on sales to support their respective value positions, though the underlying analyses were vastly different. Appellants offered into evidence an independent fee appraisal report which estimated subject's market value using a traditional sales comparison approach. This analysis considered seven (7) sales and two (2) active listings. Though there were some considerable differences between subject and the sale properties in terms of square footage and lot size, other key factors such as quality, condition, design, non-waterfront location and other amenities were generally similar. The fee appraisal compared each sale property to subject and made appraisal adjustments for property differences. In the final reconciliation, the appraisal concluded a value of $650,000 for subject.

Respondent likewise relied on recent sales information, though how the sales data was analyzed was notably different. Rather than looking to sales in subject's area, Respondent selected its data based on the quality and condition ratings of the sale residences. The result was three (3) waterfront sales were chosen. In an attempt to account for the location differences, Respondent simply removed the assessed land values from the respective sale prices. The resulting figures were then adjusted further by removing the assessed values of other improvements associated with each sale. The result was deemed the residual price indication for the sale residences themselves. These price indications were further adjusted for differences compared to subject's residence.

While the Board understands Respondent's basic sales analysis, the general extraction methodology is problematic from an appraisal standpoint.

It is well understood location is a primary value factor for a particular property. Therefore it should be considered prominently in a proper appraisal analysis. The problem with Respondent's simple extraction of assessed land values from respective sale prices is the failure to recognize a residence does not transact in such fashion. Land and improvements are typically purchased as a single unit. Location affects the overall value of a property, both the land and the improvements situated thereon. For this reason, it is important to consider proximate sales when available, or to make market-based adjustments to account for differences in location. Respondent's contention location does not matter when valuing improvements was unpersuasive.

Another issue with Respondent's extraction method is the size of the adjustments required. This is illustrated by Sale Nos. 2 and 3 in the analysis, which sold for $1,625,000 and $1,500,000, respectively. In extracting the assessed land and other improvement values, Respondent removed $819,858 from the price of Sale No. 2, and $655,818 from Sale No. 3. The residuals were then further adjusted. In the end, the adjusted prices of both sales were only roughly 44% of their respective sale prices. With such large adjustments, questions of comparability are apparent and the reliableness of the resulting value conclusion is undermined.

Idaho Code § 63-511 places the burden on Appellants to demonstrate error in subject's valuation by a preponderance of the evidence. We found the burden of proof satisfied in this instance. Appellants provided an independent fee appraisal of the subject property, which appraisal was based on numerous sales and other market data. The appraisal analysis was found to be reasonable and typical of a traditional sales comparison approach. By contrast, Respondent's extraction methodology, which was not representative of a typical sales comparison approach, was not particularly well received by the Board.

Based on the above, the decision of the Bonner County Board of Equalization is reversed, thereby lowering subject's market value assessment to $650,000.

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 subject's improvements to $565,250, with no change to the land value of $84,750, resulting in a total value of $650,000.

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 Appellants.

Idaho Code § 63-3813 provides under certain circumstances that the above ordered value for the current tax year shall not be increased in the subsequent assessment year.

DATED this 6th day of January, 2020.