BEFORE THE IDAHO BOARD OF TAX APPEALS

DENISE HALL,	)	
Appellant,	)	APPEAL NO. 22-A-1143
v.	)	FINAL DECISION AND ORDER
KOOTENAI COUNTY,	)	
Respondent.	)	

RESIDENTIAL PROPERTY APPEAL

This appeal is taken from a decision of the Kootenai County Board of Equalization denying an appeal of the valuation for taxing purposes on property described by Parcel No. HJ3460030050. The appeal concerns the 2022 tax year.

This matter came on for hearing October 11, 2022, in Post Falls, Idaho, before Board Member Kenneth Nuhn. Appellant Denise Hall was self-represented. Kootenai County Chief Deputy Assessor Benjamin Crotinger represented Respondent.

Board Members Leland Heinrich, Kenneth Nuhn, and Doug Wallis join in issuing this decision.

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

The decision of the Kootenai County Board of Equalization is modified.

FINDINGS OF FACT

The assessed land value is $200,000, and the improvements' value is $407,125, totaling $607,125. Appellant contends the correct land value is $150,000, and the improvements' value is $350,000, totaling $500,000.

The subject property is a .19 acre residential parcel located in the North Ramsey Estates 1st Addition subdivision in Hayden, Idaho. The property is improved with a 2,063 square foot single-level residence constructed in 2007. The residence includes three (3) bedrooms, two (2) bathrooms, and an attached two (2) car garage.

Appellant was concerned with the nearly 50% increase in subject's assessed value over the prior year and questioned whether adequate consideration was given to several negative influences in the neighborhood. As subject's subdivision has no Covenants, Conditions, and Restrictions (CC&Rs) in place, Appellant noted some properties have fallen into disrepair or have become otherwise unsightly. Appellant offered photographs of properties from the broader neighborhood depicting abandoned cars, numerous vehicles parked along streets, dead lawns, uncontrolled weeds, and various other undesirable sights. Appellant also highlighted stacks of rusted equipment and junk piled on the neighbor's property noted to diminish the view from the rear of the subject residence. In Appellant's opinion, the various negative neighborhood conditions are not reflected in subject's current assessed value.

In support of reducing subject's valuation, Appellant offered an analysis of four (4) sales located within roughly one-half (½) mile of subject. All the sale residences were three (3) bedroom, two (2) bathroom designs with attached two (2) car garages. Sale No. 1 was the $469,000 purchase of the property across the street from subject in October 2021. The property was a .25 acre lot improved with a 1,778 square foot residence constructed in 2006. Sale No. 2 concerned a 1,668 square foot residence from 1996 situated on a .31 acre lot in a nearby subdivision noted by Appellant to have active CC&Rs. This property sold in August 2021 for $450,000. Next was the May 2021 sale of a 1,762 square foot residence constructed in 2004 for $475,000. This .22 acre parcel was located in a neighboring subdivision with no CC&Rs. Lastly, Sale No. 4 was a .27 acre parcel around the corner from subject improved with a 1,740 square foot residence constructed in 2003 which sold in June 2021 for $520,000. Appellant compared each sale property to subject and made adjustments for differences in property characteristics such as age, square footage, condition, fireplace count, and flooring. The result was adjusted sale prices from approximately $490,000 to $537,000.

Appellant also disagreed with Respondent's methodology for applying time adjustments to sale prices. Appellant acknowledged the local real estate market during 2021 was aggressively appreciating, but contended prices started to decline toward the end of the year. Appellant argued Respondent's use of a flat monthly appreciation rate of 2.5% per month failed to recognize price fluctuations in the market, particularly later in the year when Appellant stated prices were declining. Appellant also questioned whether a time adjustment was even appropriate in light of the "already inflated market that was in bidding wars and folks were getting higher prices than what comps were comping to." In Appellant's view, price levels were already artificially high, so adding a time adjustment further exacerbates the pricing issue. Though Appellant disagreed with using a time adjustment, Appellant did include time adjustments for the above-described sales, resulting in time-adjusted sale prices from roughly $542,000 to $615,000.

Respondent first discussed the rapid appreciation in the Kootenai County real estate market over the prior few years, noting it has been widely recognized as one of the fastest appreciating markets in the nation. The U.S. Federal Housing Finance Agency ranked the State of Idaho as the 3rd fastest appreciating market in the nation during 2021, with a state-wide price appreciation rate of 27%. Respondent cited several additional industry sources which reported median price increases in Kootenai County from roughly 38% to 50%, depending on specific neighborhood. The Coeur d'Alene Multiple Listing Service reported an increase of 38.6% in Hayden, where the subject property is located. Based on its own analysis of thousands of sales across the county, Respondent determined a more conservative appreciation rate of 30% and used this rate in its analysis below.

Respondent next provided a broad overview of its assessment process and appraisal methodology. As location and general neighborhood character are key drivers of market value, Respondent's model first identifies specific market neighborhoods based on similarities among the properties and the fact they compete for a similar pool of buyers. Respondent refers to these defined areas as geographical neighborhoods (GEOs). In general, Respondent uses sales data from a GEO to establish valuations throughout that particular GEO. The subject property is one (1) of 1,437 parcels spread across several subdivisions which comprise GEO 3201. Respondent reported a total of 100 sales from GEO 3201 during 2021.

In support of subject's current valuation, Respondent offered a comparative analysis of four (4) recent sales. Three (3) of the sales were located in subject's GEO 3201 and one (1) was located in the adjacent GEO 3202, characterized by Respondent as a highly similar "sister" GEO comprised of 971 parcels with 115 sales during 2021. Sale No. 1 was the same property around the corner from subject also reported by Appellant which sold in June 2021 for $520,000. The sale residence was similar to subject's residence in age, quality, condition, design, and bedroom and bathroom count, among other characteristics. Due to the overall similarity with the subject property, the only adjustment Respondent made in its comparative analysis was for the smaller 1,740 square foot size of the sale residence. Respondent also applied an upward 2.5% per month time adjustment to the sale price to reflect pricing levels on the controlling January 1, 2022, date of valuation. After both adjustments, Respondent calculated an adjusted sale price for Sale No. 1 of $616,750.

Respondent's Sale No. 2, located in a nearby subdivision in subject's GEO, was a 1,578 square foot residence which sold in February 2021 for $475,000. Just as the prior sale property, Sale No. 2 was also adjusted only for size and date of sale, yielding an adjusted sale price of $625,917.

Sale No. 3 was the only property in the group located outside subject's GEO, and it too was characterized as highly similar to the subject property, though the 2,228 square foot residence was newer and had a larger garage. This property sold in April 2021 for $600,000, with an adjusted price of $719,250.

Respondent's final sale property was the same sale across the street from subject also included in Appellant's sales analysis. This 1,778 square foot residence sold in October 2021 for $496,000. Again, the only adjustments were for size and date of sale, resulting in an adjusted sale price of $542,490. Based on the value range indicated by the adjusted sale prices, Respondent maintained subject's current valuation of $607,125 was reasonable.

Respondent additionally developed a comparative analysis using the seven (7) sales Appellant provided at the board of equalization hearing, three (3) of which were included in the revised analysis presented here. Due to the high degree of similarity to the subject property, Respondent applied minimal adjustments to the sale prices, other than the 2.5% per month time adjustment. The three (3) sale prices were $475,000, $496,000, and $520,000, with adjusted sale prices of roughly $580,000, $545,000, and $615,000, respectively.

In response to Appellant's concerns regarding the impact of an unsightly neighborhood parcel on the market values of surrounding properties, Respondent identified four (4) recent sale properties situated adjacent to unkempt parcels. The first was a .19 acre parcel improved with a 2,522 square foot residence constructed in 2005 with a July 2021 sale price of $545,500 and a time-adjusted price of $620,506. The property was located adjacent to the City of Hayden's maintenance shop, which has vehicles and equipment in various states of disrepair scattered about the property. Next was the August 2021 purchase of a .20 acre parcel improved with a 1,879 square foot residence constructed in 2016 for $575,900, with a time-adjusted sale price of $644,048. The property was located next to a parcel owned by a concrete company and has various shed structures, shipping containers used for storage, and semi-truck trailers on the property. Sale No. 3 concerned a .13 acre lot improved with a 1,300 square foot residence constructed in 2005. This sale property, situated adjacent to an active large concrete and asphalt pit, sold in October 2021 for $363,400, with a time-adjusted price of $390,165.

Though not used to develop subject's valuation, Respondent additionally offered information on a sale which transpired in April 2022 for $755,000. The .22 acre parcel is improved with a 1,921 square foot residence constructed in 2015 and is located next to a mobile home rental property and another storage facility owned by the same concrete company which also owns the property adjacent to Sale No. 1. Based on these sales, Respondent concluded there was no identifiable negative impact on market value resulting from close proximity to unappealing neighborhood parcels in the current marketplace. In Respondent's opinion, subject's market value has not been affected by the piles of debris and disabled vehicles on the neighboring property and others in the area, so no adjustment was warranted.

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, 2022, in this case. Market value is always estimated as of a precise point in time. 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 approaches to estimate the market value of 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 in simplistic terms compares recent sales of similar property to the subject property and makes appraisal adjustments for differences in key property characteristics.

Both parties developed traditional sales comparison models, which efforts were much appreciated by the Board. The respective comparative analyses shared several similarities. For instance, both utilized four (4) recent sales of generally comparable residential properties from the neighborhood, both used the same 2.5% per month time adjustment, and the individual appraisal adjustment rates closely approximated each other. This was best illustrated in the parties' respective analysis the two (2) sale properties from subject's subdivision which were included in both models: the property across the street from subject and another located around the corner on Sally Street. The property across the street sold for $496,000 at the end of October 2021. Appellant concluded an adjusted sale price of $542,625, which is nearly identical to Respondent's adjusted price conclusion of $542,490. The price difference was similarly negligible in the case of the June 2021 sale of the Sally Street property around the corner for $520,000. Appellant's analysis yielded an adjusted sale price of $615,035, and Respondent's model estimated an adjusted price of $616,750. Where the parties' respective analyses produced nearly indistinguishable results and required minimal appraisal adjustments, these two (2) sales properties featured prominently in the Board's consideration of subject's current valuation.

Less favored by the Board were the remaining two (2) sales from both parties' data sets. Though the general property characteristics were representative of subject, these sale properties were located in different subdivisions and required the most adjustment, both in number and total amount adjustment. Not surprisingly, the two (2) sales in Appellant's analysis represented the lowest adjusted sale prices in the record and Respondent's two (2) adjusted sale prices were the highest. Though there are likely multiple contributing factors, the data set in this instance suggests the market recognizes some difference between subject's subdivision and the subdivisions from which the other sale properties are located. In any event, given the large adjustments the parties made to these four (4) sales, the Board placed little weight on these data points.

Appellant questioned Respondent's time adjustment and the appropriateness of a flat monthly rate despite fluctuations in the market, particularly where recent sale prices have been "artificially inflated" by aggressive purchasers. Though the Board understands Appellant's argument concerning the accuracy of a flat monthly time adjustment rate, there is not enough information in the record to break down market fluctuations on a monthly or weekly basis. A variable time adjustment may produce somewhat different results, but such differences are likely to be minimal, especially the further the sale date is from the relevant date of valuation. Regardless, Appellant did not identify a more appropriate time adjustment or otherwise demonstrate error in the 30% annual rate, or 2.5% per month, Respondent utilized in its analysis.

As for the "inflated" sale prices mentioned by Appellant, it is well known Idaho in general and Northern Idaho in particular have experienced unprecedented market growth and price appreciation over the last couple years. In the end, whether "inflated" or not, the reported sale prices are the actual prices paid in the marketplace, and because the sales comparison approach fundamentally relies on recent sale prices, these higher prices must be used to estimate subject's current market value.

While the Board found no error in Respondent's time adjustment factor itself, Respondent's sales model underscores the importance of utilizing sales near the date of valuation. For example, Sale No. 2 was the lowest reported price in Respondent's sales group at $475,000; however, its adjusted price of approximately $625,000 represented the second highest adjusted price in the record. The reason for the large adjustment was primarily due to the February 2021 date of sale, which required a 26.67% overall time adjustment, or a whole dollar adjustment figure in excess of $125,000. Respondent's analysis produced a similar result for Sale No. 3, where the April 2021 sale price of $600,000 was increased roughly $135,000, equating to an overall time adjustment factor of roughly 23%. Though the Board does not doubt the mathematical accuracy of the time adjustments applied to these sale prices, such large adjustments, on a percentage basis, serve to undermine the accuracy and credibility of the resulting value conclusion. Selecting sales near the date of valuation minimizes the risk of error in the time adjustment factor itself and its application to the sale prices, particularly in a fluctuating market. This further reinforces the Board's strong reliance on the two (2) more recent sales from subject's immediate neighborhood.

Pursuant to Idaho Code § 63-511, Appellant bears the burden of establishing error in subject's valuation by a preponderance of the evidence. Given the record in this matter, the Board found the burden of proof satisfied, though did not find sufficient support for the $500,000 value petitioned by Appellant, given that the value claim is more than $40,000 below any of the adjusted sale prices reported by the parties. Based on the two (2) sales from subject's subdivision, with particular emphasis on the late October sale across the street, the Board finds a valuation of $579,225 reasonable under the circumstances here. The decision of the Kootenai County Board of Equalization is modified accordingly.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the Kootenai County Board of Equalization concerning the subject parcel be, and the same hereby is, MODIFIED to reflect a decrease in total valuation to $579,225, with $200,000 attributable to the land and $379,225 to the improvements.

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 under certain circumstances that the above ordered value for the current tax year shall not be increased in the subsequent assessment year.

DATED this 23rd day of February, 2023.