

BEFORE THE IDAHO BOARD OF TAX APPEALS

JUSTIN OLESON,	)	
	)	
Appellant,	)	APPEAL NO. 22-A-1175
	)	
v.	)	
	)	FINAL DECISION AND ORDER
BINGHAM COUNTY,	)	
	)	
Respondent.	)	
	)	
	)	
	)	

**RESIDENTIAL PROPERTY APPEAL**

This appeal is taken from a decision of the Bingham County Board of Equalization denying an appeal of the valuation for taxing purposes on property described by Parcel No. RP7042100. The appeal concerns the 2022 tax year.

This matter came on for hearing October 3, 2022, in Blackfoot, Idaho, before Board Member Leland Heinrich. Appellant Justin Oleson was self-represented. Bingham County Assessor Donovan Harrington 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 Bingham County Board of Equalization is affirmed.**

FINDINGS OF FACT

The assessed land value is \$29,890, and the improvements' value is \$69,000, totaling \$98,890. Appellant contends the correct total value is \$80,322, with no allocation specified between land and improvements.

The subject property is a .44 acre rural residential parcel located several miles east of Blackfoot, Idaho. The parcel is improved with a three (3) bedroom, one (1) bathroom

single-level residence. It was estimated the 984 square foot dwelling was constructed in 1920, with a couple additions reported over the years.

Appellant detailed some unique characteristics of the subject residence, as well as some items of deferred maintenance argued to negatively impact the property's market value. While the residence technically includes three (3) bedrooms, Appellant described the rooms as "tiny," particularly the "back" bedroom. Appellant also highlighted the poor insulation and noted the residence is heated with a fireplace and small electric space heaters. Appellant further reported a sinkhole had recently developed in the driveway, which must be addressed. Appellant speculated the sinkhole was likely caused by an old septic tank removed some years ago because the hole was not properly filled before the driveway was installed. Lastly, Appellant expressed the opinion the residence would likely not pass an inspection and would not sell, which means the only value is in the .44 acre lot.

Appellant additionally questioned the methodology Respondent used to value the subject property. Appellant argued an income approach analysis should be used to determine subject's value, not the sales comparison approach Respondent utilized because the property is used as a rental. Appellant reported a monthly rental rate of \$550 per month for the subject property and, using the Gross Rent Multiplier (GRM) method with a multiplier factor of approximately 12, concluded a value of \$80,322, which Appellant regarded as a more accurate reflection of subject's current market value.

Respondent explained its standard valuation methodology utilizes the sales comparison approach to value single-family residential property for purposes of assessment, not an income approach as advocated by Appellant. Respondent further

shared the income approach is reserved for multi-family, income-producing properties and is not used for single-family residential parcels because such properties are not typically traded in the marketplace based on their potential to generate income. As such, Respondent relied on recent sales to develop subject's current valuation.

Prior to the hearing before the Bingham County Board of Equalization, Respondent reviewed the characteristics of the subject residence and concluded a downward adjustment of \$10,335 was in order for various deferred maintenance items and the generally poor overall condition of the improvements. This resulted in subject's original valuation of \$109,225 being reduced to \$98,890.

In support of subject's reduced value, Respondent provided information about three (3) sales of single-level residences from late 2021. Sale No. 1 concerned a .50 acre parcel improved with a 1,048 square foot residence constructed in 1948 with a 394 square foot detached garage. The property sold in late October for \$228,000. Sale No. 2 was a 1,094 square foot residence from 1895 with no garage situated on a 2.50 acre lot. The property sold for \$220,000 in November. Lastly, Sale No. 3 was the \$225,000 purchase in late December of a 2.50 acre parcel improved with a 932 square foot residence constructed in 1950 with no garage. Respondent remarked if the two (2) larger sale lots were adjusted to one-half ( $\frac{1}{2}$ ) acre lots like subject, the adjusted sale prices would be roughly \$202,000 for Sale No. 2 and \$207,000 for Sale No. 3. Respondent emphasized subject's current valuation is more than \$100,000 less than the adjusted sale prices which in Respondent's view, demonstrated significant consideration was given to the poor condition of the subject residence.

## 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 for estimating the 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). The sales comparison approach is commonly used in the valuation of a residential property. In general terms, the approach examines recent sales of similar property and considers differences in the property characteristics between subject and the sale properties.

Appellant did not utilize the sales comparison approach to develop an opinion of value for the subject property, relying instead on an income approach using a gross rent multiplier factor. Appellant argued the subject property was purchased with the intention of serving as a rental property and therefore it is an income-producing property for which the income approach should be used for the valuation. While the Board understands

subject was purchased to be used as a rental property, and is in fact used for such purpose, this does not necessarily mean the income approach is the appropriate methodology from which to derive a value estimate. As noted by Respondent, single-family residential properties are not commonly transacted in the market based on the property's income-producing potential. Rather, the typical buyer of a single-family residential property is primarily interested in the property's fitness for residential use.

The general character or property type is important because it generally dictates how the property will be sold and the pool of potential buyers. The primary goal in determining market value is to estimate the likely price a property will command in the market against a pool of peer properties. In the case of the subject property, it was developed as a single-family residential parcel and will likely be evaluated on that basis by a potential purchaser. The fact the property can also serve as a rental unit that produces income to Appellant does not in itself transform the basic character of the property from residential to commercial. The Board was not persuaded subject should be characterized as a commercial property and valued using the income approach.

Another issue with Appellant's insistence on the income approach is Respondent does not collect rental data on single-family residential properties, so there is no marketplace leasing information from which to develop an income approach. Appellant shared subject's monthly rental rate; however, the income approach requires the use of market rent. Rule 217 of Idaho's Property Tax Administrative rules reads in relevant part, "The appraisal procedures, methods, and techniques using the income approach to determine the market value for assessment purposes of income producing properties *must use market rent, not contract rent.*" IDAPA 35.01.03.217.03 (emphasis added). Even

if it were permissible to rely solely on subject's \$550 monthly rental rate, Respondent reported the rate was below market for the area, which necessarily means using subject's actual rental income would produce a below-market value conclusion under the income approach. Lastly, the Idaho Supreme Court expressed,

Although different types of property are by their nature more amenable to valuation by one method of appraisal than another the touchstone in the appraisal of property for *ad valorem* tax purposes is the fair market value of that property, and fair market value must result from application of the chosen appraisal method. An arbitrary valuation is one that does not reflect the fair market value or full cash value of the property and cannot stand, notwithstanding the fact that it may be the result of application of one of the approved methods of appraisal set out in the State Tax Commission Regulations. There is no one factor which can be said to be the key to the proper appraisal of taxable property.

*Merris v. Ada Cnty.*, 100 Idaho 59, 63, 593 P.2d 394, 398 (1979) (emphasis in original).

So, while the income approach advocated by Appellant is an approved method of appraisal, there is insufficient market data in the record to develop a credible value estimate using the approach. Accordingly, Appellant's income approach modeling did not factor in the Board's consideration of subject's market value.

Respondent's comparative sales information was better received by the Board. Though a traditional sales comparison approach analysis was not developed in which the sale properties were directly compared to the subject property and adjustments made for differences in property characteristics, the sale properties were generally comparable to subject in many key aspects, including size, design, and age. Details concerning the conditions of the sale residences were not shared, but with subject's total assessed value equating to less than one-half ( $\frac{1}{2}$ ) of each of the three (3) sale prices, the Board was strained to find support for a further reduction in subject's valuation.

Idaho Code § 63-511 places the burden on Appellant to establish error in subject's valuation by a preponderance of the evidence. In short, where Appellant's income approach analysis was deemed unreliable, the Board did not find the burden of proof satisfied. As such, the decision of the Bingham County Board of Equalization is affirmed.

#### FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the Bingham County Board of Equalization concerning the subject parcel be, and the same hereby is, AFFIRMED.

DATED this 8<sup>th</sup> day of February, 2023.