

BEFORE THE IDAHO BOARD OF TAX APPEALS

RONALD WILLIS HARTMAN TRUST,)	
)	
Appellant,)	APPEAL NO. 22-A-1041
)	
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. 0337000236A0. The appeal concerns the 2022 tax year.

This matter came on for hearing October 31, 2022, in Post Falls, Idaho, before Board Member Kenneth Nuhn. Trustee Ronald Hartman appeared at hearing for Appellant. Kootenai County Appraisal Manager Troy Steiner 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 affirmed.

FINDINGS OF FACT

The assessed land value is \$1,009,131, and the improvements' value is \$1,026,754, totaling \$2,035,885. Appellant contends the correct land value is \$325,000, and the improvements' value is \$1,325,400, totaling \$1,650,400.

The subject property is a 1.173 acre parcel located in the Kidd Island area of the Harbor View Estates subdivision on the northern section of Lake Coeur d'Alene, situated roughly thirteen (13) miles south of Coeur d'Alene, Idaho. The property is improved with a three (3) bedroom, three and one-half (3½) bathroom residence constructed in 2020. The main floor is 2,120 square feet in size and the walkout basement totals 2,019 square feet, of which 995 square feet are finished. The residence also includes a 968 square foot attached garage.

Appellant's primary concern centered on the \$1,000,000 assessed value of subject's homesite acre, which increased roughly 425% over the 2021 valuation. The remaining .173 acres are assessed at \$9,131. In support of its value claim, Appellant offered an independent fee appraisal report prepared by a local appraiser with a January 1, 2022, effective date of valuation. In its sales comparison approach, the appraisal evaluated four (4) sales: three (3) from subject's subdivision and one (1) from a competing development roughly one (1) mile west of subject. The sale lots from the subdivision were similar in size to subject, ranging from 1.01 to 1.35 acres, while the outside sale lot was .16 acres in size. All the sale properties were noted to enjoy views of the lake.

Sale No. 1 involved a 3,188 square foot four (4) bedroom, three and one-half (3½) bathroom two-story residence constructed in 2004. This property sold in December 2021 for \$1,202,200. Sale No. 2 concerned a 2,428 square foot ranch-style residence with no basement constructed in 1991. This three (3) bedroom, two and one-half (2½) bathroom residence was purchased for \$1,400,000 in January 2021. Sale No. 3 was the August 2021 purchase of a two (2) bedroom, one and one-half (1½) bathroom residence for \$1,650,000. The residence was a two-story design with 2,392 above-grade square feet

and 1,276 square feet in the finished basement. Lastly, Sale No. 4 was a two (2) bedroom, two (2) bathroom ranch-style residence constructed in 2020 with 2,370 square feet on the main floor and a 323 square foot finished basement. This property sold in October 2021 for \$1,500,000.

Each sale property was compared to subject, and appraisal adjustments were made for differences in property characteristics such as finished living area, condition, basement square footage, and garage size. Gross adjustments ranged from 2.5% to 15.9%, resulting in adjusted sale prices from roughly \$1,260,000 to \$1,650,000. The appraisal's sales comparison model concluded a value of \$1,650,000 for subject.

The appraisal additionally developed an opinion of value utilizing the cost approach. Using a national cost manual adjusted to the local marketplace, a replacement cost minus depreciation figure of approximately \$1,325,000 was determined for subject's improvements. The \$325,000 value attributed to subject's 1.173 acres was concluded based on nine (9) vacant lot sales from the subdivision which transpired during 2021. The sale lots ranged from .79 to 6.16 acres in size, with sale prices stretching from \$174,900 to \$625,000. The cost approach estimated a total value of \$1,650,400 for the subject property.

Respondent disagreed with several aspects of Appellant's appraisal report, particularly the final value conclusion. First, Respondent questioned the rate of adjustment used by the appraisal for differences in finished living area between subject and the sale residences. Respondent highlighted the appraisal's cost approach determined a value of \$405 per square foot for subject's residence, yet the adjustment rate utilized for size differences in the sales comparison approach was only \$40 per

square foot. More concerning to Respondent, however, was the lack of time adjustments to the respective sale prices. Respondent noted Kootenai County was one of the fastest appreciating real estate markets in the United States during 2021, so viewed the appraisal's failure to time-adjust the reported sale prices as improper.

To counter Respondent's criticism concerning a time-adjustment factor, Appellant provided a list of seven (7) sales which transpired between October 1, 2021 and January 1, 2022. Four (4) of the sale properties sold less than their respective asking prices after open market listing periods extending from 65 to 312 days. Appellant argued the lower sale prices demonstrated a declining market during the 4th quarter of 2021, not the 2.5% per month upward price trend asserted by Respondent. Appellant also reported a similar trend during the 1st quarter of 2022 based on three (3) properties which also sold below asking price. In Appellant's opinion, no time adjustments were necessary for sales which occurred near the end of 2021.

Respondent additionally disagreed with the vacant lot sales Appellant's appraisal relied on to develop an opinion of subject's land value. Respondent explained subject's neighborhood, referred to as Geo-Economic Area (GEO) 5401, is comprised of 167 total parcels. Each parcel is assigned to one (1) of four (4) available land valuation tables based on its specific characteristics. Land Legend 1, the lowest land legend in the model, is for interior subdivision lots with no view. Land Legend 4, by contrast, is reserved for premier lots with "Excellent" views of the lake, like the subject property. While located in subject's GEO, Respondent reported seven (7) of the nine (9) sale lots in the appraisal report were in lower land legends and thus should not have been used to estimate subject's land value. Respondent further noted subject's subdivision includes many

steeply sloped parcels which require substantial site preparation costs before a residence can be erected. In other words, the sale prices represent prices paid for raw land, not lots with developed building sites. As such, Respondent did not regard the lot sales as reliable indicators of subject's land value.

Respondent reported twelve (12) sales from subject's GEO during 2021, four (4) of which were assigned to Land Legend 4. Based on a comparison of the sale prices to the respective 2021 assessed values, Respondent determined values in the neighborhood needed to be increased to reach market levels. A market trend factor was applied throughout the subdivision, though the specific factor was not shared. Subject's assessed value increased approximately 226% over the prior year, from \$898,926 to \$2,035,885.

In more direct support of subject's current valuation, Respondent developed a sales comparison model using three (3) sales from GEO 5401. Sale Nos. 1 and 3, with prices of \$1,400,000 and \$1,650,000 were also used in Appellant's appraisal report. The remaining sale property was a three (3) bedroom, two and one-half (2½) bathroom residence constructed in 1994 with a total of 2,392 square feet spread evenly between the main floor and the finished basement. Situated on 1.348 acres, this property sold in August 2021 for \$1,650,000. After applying a 2.5% per month time adjustment to each sale price, as well as appraisal adjustments for differences in size, quality, condition, and other characteristics, Respondent concluded adjusted sale prices of \$1,922,230, \$2,922,030, and \$1,916,730 for the three (3) sale properties, respectively. Subject's current assessed value is roughly \$2,000,000, which Respondent highlighted was near the bottom of the range indicated by the adjusted sale prices.

CONCLUSIONS OF LAW

This Board's goal in its hearings is the acquisition of sufficient, accurate evidence to support a determination of market value in fee simple interest or, as applicable, a property's 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, 2022, in this case. Market value is always estimated as of a precise point in time. Idaho Code § 63-201 provides the following definition,

“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 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). 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 property characteristics between subject and the sale properties.

Both parties developed traditional sales comparison models, which were generally well received by the Board. There were, however, some concerns with aspects of the parties' analyses. First was the absence of any time adjustments to the sale prices in Appellant's sales comparison approach. It has been well-publicized that Idaho in general,

and Kootenai County specifically, experienced one of the fastest appreciating real estate markets in the entire country during 2021. The Multiple Listing Service (MLS) reported a 35% increase in median sale price across Kootenai County and a 36% increase in the Coeur d'Alene/Dalton area. Respondent concluded a more conservative 30% annual appreciation rate based on its study of sales activity in the county. In any event, the local real estate market was rapidly increasing during 2021, and the appraisal report's failure to adjust the sale prices for date of sale was viewed as a fatal flaw by the Board. Such was the case with respect to Sale No. 2 which occurred roughly eleven (11) months prior to the assessment date of January 1, 2022. By not time-adjusting this sale price, the appraisal effectively made an extraordinary assumption the market was flat throughout 2021, which stands in stark contrast to the rapid price appreciation reported by numerous industry and government sources. The Board was disinclined to accept the appraisal's unsupported extraordinary assumption there was no market appreciation during 2021.

There were also some questions regarding the comparability of the lot sales used in the appraisal report's cost approach. According to Respondent, only two (2) of the nine (9) sale lots were considered Land Legend 4 parcels, though it was not apparent the two (2) to which Respondent was referring. In addition to being raw undeveloped lots at the time of sale, which will likely require site preparation work before they can be developed, the sale lots varied widely in size, from .79 to 6.16 acres, and in price, from \$125,700 to \$600,000. In concluding a \$325,000 land value for subject's 1.17 acres, the appraisal gave primary weight to the January 2021 sale of a 2.23 acre lot for \$325,0000. It was unclear why the appraisal concluded a price near the middle of the range given the fact the subject lot is a premier view lot in the subdivision. Also, with no time adjustment to

this sale price from eleven (11) months prior to the relevant date of valuation, nor any adjustment for the sale lot being nearly twice the size of the subject lot, it was difficult for the Board to accept the \$325,000 value the appraisal concluded for the subject's land.

Respondent's sales comparison model was generally better received by the Board, though there were a couple areas of concern. First was the nearly 40% net adjustment applied to Sale No. 1. Typically, such a high level of adjustment would indicate a material degree of dissimilarity with the subject property. However, in this instance, nearly two-thirds ($2/3$) of the net adjustment was attributable to the time adjustment to bring the January 2021 price to current market level. Other than the sale residence's lack of a basement, it shared many key characteristics with subject, so the remaining adjustments were relatively minor. The comparability of Sale No. 2 was also questionable in the Board's view. In addition to the lot being more than triple the size of the subject lot, the sale residence was higher quality and appreciably larger than subject's residence. And with a sale price of \$3,000,000, roughly double every other reported price in the record, the sale is an outlier in the data set and should be viewed cautiously. Despite these questions of comparability, Respondent's valuation model generally adhered to accepted standards of appraisal practice, particularly with respect to the time adjustments, and therefore was found the more reliable indicator of subject's value in this instance.

Pursuant to Idaho Code § 63-511, Appellant bears the burden of demonstrating error in subject's valuation by a preponderance of the evidence. Given the Board's concerns with key aspects of the appraisal's cost and sales comparison models, the burden of proof was not satisfied in this case. Where two (2) of the three (3) adjusted price rates closely approximated subject's current assessed value, the Board was

persuaded the valuation is reasonably consistent with recent market activity in the neighborhood.

Based on the above, the decision of the Kootenai County Board of Equalization is affirmed.

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, AFFIRMED.

DATED this 31st day of March, 2023.

IDAHO BOARD OF TAX APPEALS