BEFORE THE IDAHO BOARD OF TAX APPEALS

OTIS FOX, Appellant, v. KOOTENAI COUNTY, Respondent.	)))))))))))	 APPEAL NO. 22-A-1170 FINAL DECISION AND ORDER

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. PJ4120010040. The appeal concerns the 2022 tax year.

This matter came on for telephonic hearing November 3, 2022, before Hearing Officer Travis VanLith. Appellant Otis Fox was self-represented. Kootenai County Appraiser Robert Scott 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 $160,000, and the improvements' value is $733,760, totaling $893,760. Appellant contends the correct total value is $693,760.

The subject property is a .31 acre residential parcel located in the Syringa at Fieldstone subdivision in Post Falls, Idaho. The property is improved with a duplex constructed in 2013. The duplex units are each 1,076 square foot three (3) bedroom, two (2) bathroom models with attached two (2) car garages and covered back patios. Appellant utilizes one (1) of the duplex units as a personal residence and the other is rented for $1,100 per month.

Appellant disagreed with the sizable increase in subject's assessed value over the prior year and argued subject's smaller units should be valued lower than larger units in the neighborhood. Appellant provided Multiple Listing Service (MLS) data sheets for two (2) recent duplex sales from subject's neighborhood. All units in both duplexes were three (3) bedroom, two (2) bathroom models with attached two (2) car garages. The first sale duplex, constructed in 2008, totaled 2,367 square feet in size. Remarks on the MLS sheet reported upgraded eight (8) foot tall garage doors and upgraded kitchens with black quartz countertops and stainless-steel appliances. This property sold in October 2021 for $799,000. The next sale property concerned a 2,436 square foot duplex constructed in 2015. The units in this property, which sold in May 2021 for $799,000, were noted to have vaulted ceilings and spacious kitchens and pantries. The MLS sheet reported Unit A has upgraded flooring, trim and doors, and RV parking and described the unit as "one of the nicest duplex units on the market." Unit B was noted to be a standard unit. Appellant stressed the subject units have not been upgraded and were smaller than the sale units so should not be assessed higher.

Appellant further explained the subject property is somewhat unique because only one (1) side is used as a rental, whereas most duplexes in the neighborhood are fully rented. In fact, Appellant shared the subject property is currently operating at a loss and provided the 2021 Schedule E which reported annual income of $12,890 and operating expenses of $22,557, or a loss of $9,667. Appellant acknowledged the $1,100 per month lease rate for subject's rental unit was below market but explained the lower rate is intended to attract longer-term tenants and minimize turnover costs. As the subject property under-performs competing duplexes in the neighborhood, Appellant reasoned the assessed value should be lower than the better performing duplex properties in the area.

In more direct support for the petitioned value reduction, Appellant offered a retrospective fee appraisal report prepared by a local appraisal firm. The appraisal developed value opinions using all three (3) recognized appraisal approaches and the effective date of valuation was January 1, 2022. The appraisal estimated a value of $659,927 under the cost approach.

Moving to the sales comparison approach, the appraisal included three (3) duplex sales located within one (1) block of the subject property. All the sale units were three (3) bedroom, two (2) bathroom models, and each included attached two (2) car garages and back patios. Sale Nos. 1 and 2, both of which sold for $799,000, were the same two (2) sale duplex properties referenced by Appellant above. The remaining sale was a 2,510 square foot duplex constructed in 2015 with a March 2021 sale price of $701,033. The respective sale prices were first adjusted for date of sale at a rate of 1.67% per month to reflect pricing levels on January 1, 2022, the relevant date of valuation in this appeal. Further adjustments were made for differences in square footage, condition, and lot size. The result was adjusted prices for the three (3) sales of $824,300, $761,600, and $783,133, respectively. With primary emphasis on Sale No. 2, the closest in square footage to subject, the appraisal concluded a value of $784,000 in its comparative sales analysis.

Turning now to the income approach, the fee appraisal recognized subject's lease rate of $1,100 per month was below-market, so looked to rental data from three (3) nearby duplex properties. The first rent comparable was located adjacent to the subject property. The duplex units were each 1,218 square feet in size, one (1) of which is leased at $1,400 per month and the other at $1,500 per month. The remaining two (2) duplex properties are located one street distant from subject and are situated across the street from each other. Rent Comparable #2 was comprised of 1,183 square foot units with lease rates of $1,350 and $1,450 per month. Lastly, Rent Comparable #3 concerned 1,255 square foot units each with the same $1,400 monthly lease rate. Based on this rental income data, the appraisal concluded a market lease rate of $1,375 per month for each subject unit, or a total monthly gross income of $2,750. The appraisal applied a gross rent multiplier (GRM) of 285.09 and concluded a value of $784,000 for the subject property under the income approach.

In the final reconciliation, the appraisal placed the most weight on the value conclusion reached in the sales comparison approach as it "reflects current activity in the market and has the best quality data available." The value indications under the cost and income approaches were "given little consideration since the sales comparison approach has superior data." Ultimately, the appraisal concluded a value of $784,000 for the subject property, though Appellant argued the cost approach, which yielded a value estimate of roughly $660,000 should be given more consideration.

Respondent characterized Appellant's fee appraisal report as "pretty good," but disagreed with certain aspects of the analysis. Of chief concern was the 1.67% per month, or 19.98% annual time adjustment utilized in the sales comparison approach. Respondent noted the Idaho real estate market in general was cited by multiple government and industry sources as one of the fastest appreciating markets in the United States during 2021. The Coeur d'Alene MLS reported a county-wide increase in median sale price of 35%, with a 33% price appreciation rate for Post Falls specifically. Respondent used a 30% annual, or 2.5% per month time adjustment, in its sales analysis. In discussing the time adjustment factor, the appraisal stated "the neighborhood 2-4 family market suffered a declining median sales price in 2021. However, the over all [sic] market showed significant strength." Given these conflicting indicators, the appraisal resolved to use a lower time adjustment rate than the overall Kootenai County market rate.

Respondent was also critical of the GRM factor the appraisal utilized in its income approach model. Respondent stated the appraisal used a GRM of 155[1], which was from 2017, instead of a GRM factor of 270 based on the 2021 sales from subject's neighborhood. The lower GRM was noted to produce a lower value conclusion, which Respondent regarded as below market.

Respondent explained the subject property is located in geo-economic area (GEO) 2296, which is comprised of fifty-nine (59) parcels from .26 to .38 acres improved with "fair" to "average" quality duplex and triplex units. Respondent characterized the subject property as typical in the GEO. In terms of value evidence, Respondent provided the sales data for the same three (3) sales from subject's neighborhood included in Appellant's

[1] It was unclear why Respondent believed a GRM factor of 155 was utilized because the appraisal on page 3 used a GRM of 285.09, which was applied to the monthly market gross income total of $2,750.

appraisal report. No direct comparisons with the subject property were made, but Respondent calculated time-adjusted sale prices of $873,760, $950,810, and $850,935. Subject's current assessed value is $893,760. Though the approach was considered, Respondent did not regard the sales comparison approach as the best indicator of value for the subject property.

Respondent instead preferred the income approach because duplexes in subject's neighborhood are typically used as rental properties. Rather than the GRM method used in Appellant's appraisal report, Respondent utilized the gross income multiplier (GIM) method. GIM factors were calculated for each of the three (3) sale properties from subject's neighborhood using Respondent's time-adjusted sale prices of $950,810, $873,954, and $850,935, along with estimated 2022 annual market rents of $33,600, $33,600, and $23,400, respectively. Respondent determined GIM factors of 26.60, 26.60, and 32.30 for the respective sale properties. Respondent concluded income approach values of $893,760 for two (2) of the sales, which is precisely the same as subject's current assessed value. Respondent calculated an income approach value of $755,820 for the remaining property in the model. Based on the indications from the income approach, Respondent maintained subject's current assessed value is reasonable.

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 to 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 the differences in property characteristics between subject and the sale properties.

The parties disagreed on which valuation method was most appropriate for determining the subject's property value. Appellant advocated for the cost approach, Respondent preferred the income approach, and Appellant's appraisal report emphasized the sales comparison approach. The Board understands Appellant's preference for the cost approach, as it produced the lowest indication of value for the subject property. The cost approach, however, is not generally considered the most reliable valuation approach for a property like subject which was constructed nearly ten (10) years ago. Typically, the cost approach is reserved for newly constructed improvements or highly unique or special-purpose properties for which there are few comparable sales, if any. The inherent subjectivity in accurately estimating depreciation increases with the age of the improvements and weakens the reliability of the resulting value conclusion. For a property like subject, the cost approach serves better as a check of reasonableness of the value conclusions reached under the other valuation approaches than as the primary valuation methodology. In this case, where the parties developed value opinions using the income and sales comparison approaches based on recent market data, the Board did not place much emphasis on the cost approach.

Turning now to the income approach, both parties relied on the same three (3) sales from subject's immediate neighborhood in their respective income models, but the methodologies differed. The income approach in Appellant's fee appraisal was a typical straightforward analysis. Rather than using subject's actual contract rent of $1,100 per month, which was noted to be below market, the appraisal looked to the monthly rental income of the sale properties of $2,900, $2,800, and $2,800 per month and concluded a potential gross monthly rental income of $2,750 for the subject duplex. The appraisal's use of market rent was consistent with Property Tax Administrative Rule 217 which disallows the use of contract rent. IDAPA 35.01.03.217.03. The monthly income figure was multiplied by a GRM of 285.09, which yielded a value indication of $784,000 for the subject property.

Respondent's income approach was somewhat unique in that the model blended the sales comparison and income approaches together; however, it was not entirely clear how the methodology worked. Respondent stated the computer system automatically computes "income approach" values using adjusted sale prices and a GIM factor Respondent enters into the system, though how the GIM factor is determined was not apparent in the record. Respondent's model produced some curious results, with the same income approach value conclusion of $893,760 for two (2) of the sale properties, which matches subject's current assessed value exactly, despite subject's smaller size and older age. An income approach value of $755,820 was concluded for the third sale property, but it appeared this data point was largely ignored in favor of the higher value indications.

One concern from the Board's perspective is the higher value conclusions in Respondent's analysis were for the two (2) oldest sales, to which significant time adjustments were applied. Generally, the more adjustments applied to a sale price, the less reliable the value conclusion becomes. Also, Respondent's time adjustment rate is a broad county-wide adjustment factor, so does not necessarily reflect market activity in any specific neighborhood, even though there can be notable variances between locations. This is the difficulty in blending the two (2) valuations approaches, as both approaches utilize different methodologies to develop value opinions. In any event, where the mechanics behind Respondent's blended valuation model were unclear, the Board was hesitant to rely too strongly on the value conclusion reached thereunder.

More favorably received by the Board was Appellant's appraisal's sales comparison approach. The analysis included three (3) duplex sales from 2021, all situated in subject's immediate proximity. Two (2) of the properties sold at the same $799,000 price, both of which were updated prior to sale and both of which were assigned higher condition ratings in the appraisal than the subject duplex. The third sale duplex, which sold for $701,033, was the largest at 2,510 square feet, but shared the same condition rating as subject. With the exception of the time adjustments applied to both the March and May sales, the appraisal made relatively minor adjustments for differences in physical characteristics, which suggests a high degree of similarity with subject. In fact, the only physical adjustments were for square footage, condition, and lot size, as the remaining characteristics of the sale duplexes were largely the same as the subject property.

Respondent disagreed with the appraisal's 1.67% per month time adjustment rate and contended its 2.5% per month rate more accurately reflected the price appreciation during 2021. The appraisal explained the lower rate was due to conflicting price data between the performance of the general market and the rental market for two (2) to four (4) units. According to the appraisal, sale prices in subject's rental market declined somewhat during 2021. Though not evidence of a price decline, the two (2) most recent duplex sales, one (1) in May and one (1) in October, both sold for $799,000, which does not indicate rapidly appreciating prices in subject's specific neighborhood. Of course, these represent only two (2) data points so are insufficient on their own to disprove the accuracy of Respondent's time adjustment factor, but they nonetheless sharply conflict with the 30% rate Respondent applied to the sales.

While the appraisal's time adjustment may arguably be a little conservative, there was more to the analysis than simply adjusting the prices for date of sale. The appraisal also made adjustments for differences in property characteristics. Respondent's consideration of the sale duplexes, on the other hand, did not go beyond the time-adjusted sale prices. The Board agrees the sale properties are generally similar to subject, but there are differences, most notably the superior conditions of the two (2) updated duplexes. In all, the Board preferred the appraisal's analysis, where it was more directly focused on the subject property and its specific characteristics compared to recent duplex sales from the neighborhood.

In looking at the various value indications, the Board was strained to find support for subject's current valuation of $893,760. None of the sale prices in the record approached subject's assessed value, with the highest sale price roughly $100,000 less, at $799,000. The only indication of value above subject's assessed value was Respondent's Sale No. 2, but that was only after applying a roughly $150,000 time adjustment. The Board also had difficulty balancing the 90% increase in subject's total assessed value with the 56%, 59%, and 61% increases in the assessments of the three (3) sale properties. Nothing in the record indicated the subject property was unique or otherwise superior to the sale duplexes so as to justify a markedly higher rate of increase. Respondent did not address the issues, but it appears to the Board something is amiss with respect to subject's assessment.

Idaho Code § 63-511 places the burden on Appellant to establish subject's valuation is erroneous by a preponderance of the evidence. Given the record in this matter, the Board found the burden of proof satisfied. In the end, Appellant's appraisal report, particularly the sales comparison approach, was found to represent the most reliable evidence of subject's market value. This conclusion is further strengthened in light of the 90% increase in subject's assessed value compared to all three (3) sale properties, which increased in assessed value by roughly 60%. This disparity alone justifies a reduction in subject's valuation. As the appraisal was judged the superior valuation model in this case, the Board will accept the $784,000 value concluded therein.

Based on the above, the Kootenai County Board of Equalization is modified as detailed below.

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 subject's assessed value to $784,000, with $160,000 attributable to the land and $624,000 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 that under certain circumstances the above ordered value for the current tax year shall not be increased in the subsequent assessment year.

DATED this 24th day of April, 2023.

IDAHO BOARD OF TAX APPEALS