BEFORE THE IDAHO BOARD OF TAX APPEALS

DAVID AND CYNTHIA PEARSON,	)	
Appellants,	)	APPEAL NO. 22-A-1151
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. V63000040090. 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 David Pearson 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 $450,000, and the improvements' value is $2,272,719, totaling $2,722,719. Appellants agree with the land value, however, contend the correct value of the improvements is $1,409,493, for a total valuation of $1,859,493.

The subject property is a .498 acre parcel located on the Hayden Lake Country Club golf course in the Hayden Lake Country Club Estates subdivision, a desirable gated community in Hayden Lake, Idaho. The property is improved with a three (3) bedroom, four (4) bathroom residence constructed in 2004. The residence totals 8,384 square feet in size, with 3,533 square feet on the main floor, 1,318 square feet in the upper level, and 3,533 square feet in the unfinished basement. The total finished living area is 4,851 square feet. The residence also includes a 1,227 square foot three (3) car attached garage.

Appellants described some characteristics of the subject residence argued to negatively influence the market value compared to more recently constructed residences. Of primary concern was the value attributable to the unfinished basement, noted to have only seven (7) foot ceilings. According to Appellants, most residences in the area have crawl spaces instead of basements, so subject's large basement area is somewhat unique in the neighborhood. Appellants offered an opinion from a local builder concerning the construction cost differential between a crawl space and an unfinished basement approximately 3,500 square feet in size. The builder provided a rough estimate of an additional $50,000 to $55,000 cost to construct an unfinished basement compared to a crawl space. Though the specific assessed value of the basement was not apparent in the record, Appellants argued the area should be valued as basic storage space.

Appellants additionally highlighted the nearly twenty (20) year age of the subject residence and stressed no renovations have occurred since its construction in 2004. One concern in this regard was the roof, which Appellants estimate is nearing the end of its useful life and will soon need replacement. Also, while the kitchen was characterized as the “nicest room in the house”, Appellants shared the cabinets, extensive countertops, and appliances are old and dated compared to modern styles and finishes. The same was reported with respect to subject’s flooring, consisting of linoleum floor coverings in the bathrooms and laundry room and carpeting throughout much of the remaining living space. Only the kitchen and living room have hardwood flooring, as well as a hallway and the front entryway. Appellants noted contemporary materials and finishings for residences in subject’s class are typically superior; such as tile and granite in the kitchens, bathrooms, and showers; and hardwood floors throughout the other living areas. In Appellants’ view, the age of subject’s residence is not adequately reflected in the current valuation.

In support of a reduction in subject’s value, Appellants offered a comparative analysis of four (4) recent sales. The sale residences all had three (3) car garages and shared the same “good” condition rating as the subject residence. The sale residences were also similar in age, having been constructed from 2000 to 2004. All the sale lots closely approximated subject’s .498 acre size, with assessed lot values ranging from $450,000 to $465,000. None of the sale residences had basements.

Sale No. 1 concerned a four (4) bedroom, three and one-half (3½) bathroom residence with 3,844 square feet of finished above-ground living area. The property sold in June 2021 for $1,545,000. Sale No. 2 was the March 2021 purchase of the property two (2) doors south of subject for $1,344,750. The sale residence totaled 3,791 square feet of above-grade finished living area and consisted of four (4) bedrooms and three and one-half (3½) bathrooms. Next was the sale of a 3,971 square foot three (3) bedroom, two and one-half (2½) bathroom residence in August 2021 for $1,450,000. Sale No. 4

was a 4,176 square foot, four (4) bedroom, three and one-half (3½) bathroom residence with a July 2021 sale price of $1,500,000.

Appellants utilized the sale properties to develop a valuation analysis, however, instead of utilizing the reported sale prices, Appellants instead used the current assessed values of the respective sale properties. Appellants removed land values from each sale property's total assessed value, leaving a residual value indication for the remaining improvements. Appellants then divided the residual improvement value by the finished living area of each residence to calculate valuation rates ranging from $270 to $303 per square foot, or an average of $289 per square foot. Using the same methodology, Appellants calculated subject's 4,851 finished square feet are assessed at a rate of nearly $469 per square foot, which was unreasonable in Appellants' opinion against the lower assessment rates of the sale residences.

In concluding a final value estimate for subject, Appellants applied the average price rate of $289 per square foot to subject's finished living area and calculated a value of roughly $1,400,000. To this, Appellants added subject's land value of $450,000, plus $50,000 for the unfinished basement, resulting in a final value indication of $1,901,939, which Appellants argued was a more accurate estimate of the current market value. Appellants further pointed out the roughly $1.9 million value conclusion represented a 19% increase over the 2021 valuation, which is the same percentage increase between the roughly $1,345,000 price of Sale No. 2 in March 2021 and the current 2022 assessed value. Appellants viewed this as further support for the reasonableness of the $1,901,939 value conclusion.

Appellants additionally challenged the comparability of the four (4) sale properties Respondent used in support of subject's assessed value at the board of equalization hearing. With the exception of Sale No. 2, which was the same property located a couple doors down from subject also included in Appellants' analysis, it was argued none of the sale residences were similar to the subject residence. It was noted all three (3) had superior condition ratings of "excellent" and all were newer builds, having been constructed in 2017, 2019, and 2021. Appellants performed a similar analysis of these sales as described earlier based on their respective assessed values. After removing the assessed values of the sale lots and other improvements, Appellants calculated valuation rates of $413, $441, and $445 per square foot for the respective sale residences. Based on these rates for new residences, Appellants argued the $469 per square foot rate Respondent determined for subject's twenty (20) year old residence with an inferior condition rating was illogical.

Respondent disagreed with Appellants' valuation methodology, particularly the lack of adjustments for finished living area and garage size. Respondent also questioned Appellants' use of sales outside subject's subdivision, which in Respondent's view, were located in less desirable neighborhoods. Appellants countered a garage size adjustment was not necessary in this particular analysis because all four (4) sale properties included three (3) car garages similar in size to subject's three (3) car garage. With respect to Respondent's neighborhood concerns, Appellants explained any locational influences were already reflected in the respective land assessments and therefore once those land values are removed from the total valuations, location is no longer a factor with respect to the remaining improvement values.

Respondent explained subject's current valuation was the result of a market trend factor developed using sales from subject's neighborhood during 2021. Subject's specific neighborhood, referred to by Respondent as Geo-Economic Area (GEO) 3741, consists of thirty-eight (38) total parcels, thirty-five (35) of which are buildable. Of the remaining three (3) parcels, two (2) are street parcels and one (1) is a common area lot. Respondent reported two (2) sales from GEO 3741 during 2021, which were used to set 2022 values for the entire neighborhood. In simple terms, Respondent calculated the difference between the two (2) sale prices and the respective assessed values and concluded notable upward adjustments were needed to bring the values to current 2022 levels. Respondent did not share the average increase in the GEO, but subject's current valuation is nearly 70% above the 2021 value.

In support of subject's specific valuation, Respondent offered a comparative analysis of six (6) recent sales. Four (4) were the same sales provided during the BOE hearing discussed by Appellants earlier, and two (2) were new. Sale No. 2 was the same sale of the property two (2) doors down from subject, while the remaining sale properties were located between approximately two (2) and seven (7) miles away in different GEOs. Four (4) of the sale residences had superior condition ratings of "excellent" and only two (2) included basements, both of which were finished. Four (4) of the sale properties also included additional shops and outbuildings, which subject does not have. With the exception of Sale No. 2, which was constructed in 2004, the sale residences were constructed from 2015 to 2021. In terms of above-grade finished living area, the sale residences ranged in size from 2,386 to 3,791 square feet. The low sale price in the group was $1,295,000 for Sale No. 6 and the high was $2,250,000 for Sale No. 5.

Respondent first applied an upward 2.5% per month time adjustment to the respective sale prices to reflect current pricing levels. Further adjustments were made for differences in property characteristics compared to subject such as finished living area, location, condition, and basement space, among others. After all adjustments, which ranged from roughly +25% to +80% on a net basis, Respondent calculated adjusted sale prices from $2,147,342 to $2,793,766. Based on the range indicated by the adjusted sale prices, Respondent opined subject's current valuation of $2,722,719 was reasonable and should remain undisturbed.

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 sales comparison approach, the cost approach, and the income approach comprise the three (3) primary methodologies for determining the market value of real property. *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 subject and makes adjustments for differences in property characteristics.

Both parties developed comparative valuation models using multiple recent sales, which efforts were much appreciated by the Board. That being said, there were some concerns with the comparability of the sale properties, as well as aspects the methodologies utilized by the parties. To start, only two (2) of the nine (9) sale residences in the record had basements, both of which were notably smaller than subject's 3,533 square foot basement space, and both of which were finished. Also, subject's above-grade finished living area well exceeded that of all the sale residences. In all, it was apparent to the Board subject's residence is atypically large for the neighborhood and perhaps the broader marketplace.

Setting aside the size component, there were other key differences between the sale residences and subject. For instance, four (4) of Respondent's six (6) sale residences had superior condition ratings of "excellent" versus subject's "good" rating. Also, five (5) of Respondent's sale residences were effectively new construction, ranging from two (2) to seven (7) years old, whereas the subject residence is nearly twenty (20) years old. Age and condition are important characteristics, particularly when evaluating an older improvement like the subject residence, with its dated interior materials and finishes and a roof nearing the end of its useful life, among other age-related conditions. Respondent's sale residences were superior in both age and condition, which required sizeable adjustments for purposes of comparison with subject. Appellants' sale residences, by contrast, all shared the same "good" condition rating, and all were built within four (4) years of the subject residence, thereby eliminating the need for large qualitative adjustments. In short, Appellants' sale residences shared more similarities with subject than those offered by Respondent.

The other key comparability issue raised by the parties was with respect to the locations of the sales. Respondent was critical of Appellants' use of sales outside subject's subdivision, or GEO 3741. This criticism was curious to the Board given five (5) of Respondent's own six (6) sale properties were likewise located outside GEOs. This should not be surprising, however, because there were only two (2) sales from subject's subdivision during 2021, which is an insufficient number data from which to develop a credible valuation model. In such circumstances, sound appraisal practice is to expand the geographical scope of the search outside the subdivision to identify additional sales of like property. Both parties did precisely this, so the Board was less concerned with the inclusion of outside sales. It was not, however, lost on the Board Appellants' sale properties were located near or on the golf course within walking distance of the subject property, whereas Respondent's sales were located several miles away. Also, the assessed land values of Appellants' three (3) outside sales were each only $15,000 higher than subject's land value of $450,000, meaning Respondent itself recognizes little value difference between the two (2) neighborhoods.

Though Appellants' sale properties were found generally more comparable, the Board had concerns with a couple aspects of the accompanying analysis. First, the starting point for Appellants' value calculations was not the sale prices, but rather the current total assessed values for the sale properties. The price paid for a property advertised on the open market in an arm's-length transaction between unrelated parties is presumed to be the market value of the property at that point in time. This is why proper appraisal practice relies on sale prices, not assessed values. Substituting the sale prices into the respective equations reduced the average price rate for the sale residences from $289 per square foot down to $253 per square foot.

The other concerning aspect of Appellants' analysis was the value attributed to subject's basement. Appellants offered a letter from a builder which estimated a $50,000, or $14.15 per square foot, lower cost to construct a crawl space versus a basement of subject's size. Whether the reported $50,000 cost differential is accurate is of little relevance here because the comparison is flawed. The difference between a crawl space and a basement is not just the additional materials needed to construct a basement. Rather, the spaces have two (2) completely dissimilar uses and afford entirely different utility to the owner, including the potential for a basement to serve as living space. There is simply no comparison between the two (2), so to try to impute a value of one (1) using the cost of the other is not a valid methodology for purposes of establishing market value. Stated simply, the $50,000 basement adjustment Appellants utilized was wholly insufficient to reflect the contributory value of subject's basement, even though the space is unfinished.

There was one other piece of value evidence largely overlooked by the parties: Appellants' purchase of the subject property in mid-October 2020 for $1,650,000. Generally, the recent sale of the property in an arm's-length transaction is considered the best evidence of market value. This is particularly true with respect to a unique property for which there are few comparable properties. Given the sales in record here, the subject property is certainly unique in several key regards, so perhaps the recent purchase price should receive more consideration. The issue, of course, is the sale occurred fourteen (14) months prior to relevant the January 1, 2022, date of valuation in this appeal, and therefore would require a substantial time adjustment to bring the sale price current. While sales near the valuation date are preferable, accepted appraisal practice does allow older sales to be considered, provided appropriate adjustments are made. And in the case of limited or no recent comparable sales data, it may be necessary to expand the search to included older sales. There was nothing in the record concerning market price appreciation during 2020, but applying the 2.5% per month time adjustment rate Respondent developed for 2021, calculates to a time-adjusted sale price of roughly $2,200,000 for the subject property.

In looking at all the various value indicators in this matter, it is difficult to accept subject's current valuation of $2,722,719 is an accurate reflection of the property's current market value. To begin, with the highest reported sale price being $2,250,000, none of the prices in the record approach subject's assessed value, not even Respondent's recently constructed custom residences with excellent condition ratings and additional outbuildings. The only indicators near the $2.7 million mark are the adjusted prices Respondent calculated for its two (2) highest priced sales, but that required gross adjustments of approximately 50% to both sale prices, which are notable adjustment levels by prevailing appraisal standards. In all, it was not apparent to the Board how Respondent arrived at subject's current valuation when there were no comparable sales near that price point.

Next, if subject's GEO is as unique as insisted by Respondent, then it would follow that primary reliance should be on recent sales from within the specific neighborhood.

There were reportedly only two (2) sales in the GEO during 2021, though details for only one (1) was shared at hearing. This was the $1,344,750 sale in March 2021 of the property a couple doors down from subject with a 3,791 square foot residence constructed in 2004 like subject and with the same “good” condition rating. After more than 60% in gross adjustments, Respondent concluded an adjusted price of roughly $2,100,000. Of course, proper appraisal does not typically rely on a single sale, but it is striking the only value indicator from the GEO falls far short of subject’s current assessed value.

With 8,384 total square feet, the subject residence is undoubtedly uniquely large, both in terms of the 4,851 square feet of above-ground living area, and the oversized 3,533 square foot basement. The unmatched size alone makes for a difficult appraisal assignment, so the parties’ widely disparate value conclusions was not unusual. In the final analysis, the value evidence presented was not found to adequately support subject’s current valuation of roughly $2,700,000.

In appeals to this Board, Idaho Code § 63-511 places the burden on Appellants 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, though did not find sufficient support for the value petitioned by Appellants. With primary consideration given to subject’s October 2020 purchase and the 2021 sale from subject’s subdivision, and lesser weight afforded the other sales information, the Board will reduce subject’s current valuation to $2,150,000. 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 reduction in subject's total valuation to \$2,150,000, with \$450,000 attributable to the land and \$1,700,000 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 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 27th day of March, 2023.

IDAHO BOARD OF TAX APPEALS