BEFORE THE IDAHO BOARD OF TAX APPEALS

TRACY WRIGHT, Appellant, v. BOISE COUNTY, Respondent.	APPEAL NO. 22-A-1252 FINAL DECISION AND ORDER

RESIDENTIAL PROPERTY APPEAL

This appeal is taken from a decision of the Boise County Board of Equalization denying an appeal of the valuation for taxing purposes on property described by Parcel No. RP083020000250. The appeal concerns the 2022 tax year.

This matter came on for telephonic hearing January 4, 2023, before Board Member Leland Heinrich. Attorney Andrea Rosholt appeared at hearing for Appellant. Boise County Assessor Chris Juszczak 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 rural residential property.

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

FINDINGS OF FACT

The assessed land value is $98,000, and the improvements' value is $906,772, totaling $1,004,772. Appellant contends the correct total value is $736,700.

The subject property is a 1.82 acre rural residential parcel located in the Wilderness Ranch subdivision roughly sixteen (16) miles south of Idaho City, Idaho. The property is improved with a one (1) story residence over a walk-out basement and an 855 square foot attached garage constructed in 2000. The residence consists of 1,866 square feet on the main level and 1,693 square feet of living area in the basement. The residence includes five (5) bedrooms, four (4) bathrooms, and two (2) kitchens.

Wilderness Ranch is a large rural subdivision with widely varied parcel sizes and topography. The development was noted to have more than 200 acres of common area. Some lots are as large as twenty (20) acres in size, but due to the steep mountainous topography have only small usable building areas. Improvements were also described as diverse in style, quality, and additional amenities.

Appellant purchased the subject property in April 2020 for $499,900, after a year or so on the market with an asking price of $510,000. Appellant noted the sale price was lower than the 2020 assessed value of $530,244. Since purchase, Appellant has made some improvements to the residence characterized as mostly cosmetic, including new carpets, new countertops in the kitchen and two (2) bathrooms, new paint and light fixtures, new kitchen appliances, new water pump, and two (2) new toilets and two (2) bathroom sinks. Appellant also emphasized the roof is leaking in several places so will soon need to be replaced. A roofing company quoted a price of roughly $36,000 for a composite shingle roof and $65,000 for a metal roof. Respondent contended the depreciation factor applied to subject's residence adequately accounted for the roof issues so no additional adjustment was needed.

Concerned with escalating market appreciation and rising construction costs, Appellant contacted the insurance company to ensure the policy coverage amount was adequate to replace the subject residence in the event of a casualty loss event. Appellant provided the insurance company with detailed information about the features, materials, and construction of the residence. The insurance company estimated a replacement cost of $638,700 for the subject residence, which Appellant noted was an increase of nearly $130,000 above the prior year's assessed value. In Appellant's view, the value of subject's residence should be reduced to match the replacement cost quoted by the insurance company, which equates to a total value of $736,700 for the property after adding the $98,000 assessed value of the land.

Appellant additionally offered information on three (3) sales from subject's subdivision located less than four (4) miles away. The sale residences were similar in design style, construction quality, and bedroom and bathroom count. The residences were constructed between 1987 and 2001 and all included attached two (2) car garages, as well as basements of varied levels of finish. Total sizes of the residences ranged from 3,046 to 4,994[1] gross square feet, and from 2,586 to 4,994 square feet in finished living area. Sale prices ranged from $750,000 to $1,335,000, or from $191 to $295 per square foot, after adjusting two (2) of the sales for land size and one (1) for a swimming pool.

Appellant applied the $213 per square foot average price rate of the above sales to subject's 3,559 square feet and calculated a value of roughly $760,000. This figure, Appellant stressed, did not include any consideration for subject's failing roof, so Appellant deducted 50% of the estimated roof replacement cost, which indicated a value between approximately $725,000 and $740,000. As this range bracketed the $736,700 value Appellant calculated using on the insurance company's replacement cost estimate, Appellant argued the value conclusion was reasonable and subject's assessed value should be reduced to match.

[1] There was some variance in the size figures reported by the parties. For example, Appellant reported a total of 3,559 square feet of finished area for the subject residence and 4,994 square feet for Sale No. 3, whereas Respondent's records reflected 3,381 finished square feet for subject and 3,918 square feet for Sale No. 3. As Respondent's records enjoy a presumption of correctness, the Board will utilize Respondent's measurements for all conflicting size figures.

Respondent described the 2021 Boise County real estate market as historic in terms of sales activity and price appreciation. After studying the available sales data, Respondent determined a 36% annual, or 3% per month, rate of appreciation. Against this backdrop, Respondent offered two (2) comparative sales models in support of subject's assessed value. The first was comprised of three (3) vacant lot sales from subject's Wilderness Ranch subdivision. Sale No. 1 was a 1.67 acre lot which sold in September 2021 for $189,760. Applying the 3% per month time adjustment to the sale price, Respondent reported a time-adjusted price of $221,760. As this sale lot included well and septic amenities, Respondent deducted $32,000 and calculated an adjusted price of $113,629 per acre. Sale Nos. 2 and 3 were both unimproved lots so the sale prices were only adjusted for date of sale. Sale No. 2 was the September 2021 purchase of a 1.87 acre lot for $70,000, and Sale No. 3 concerned a 2.28 acre lot with an August 2021 sale price of $89,000. Respondent found respective time-adjusted sale prices of $82,950 and $107,987, or $44,358 and $47,363 per acre. Respondent calculated an average price rate of $68,450 per acre for the sale lots and pointed out subject's 1.82 acres are assessed lower, at $49,451 per acre.

Respondent's second sales analysis included four (4) improved residential properties. Sale No. 1, located outside subject's subdivision, concerned a 2,401 square foot single-level residence constructed in 2018 on a 2.02 acre lot. This property sold in June 2021 for $749,000. Sale No. 2 was an 8.78 acre parcel in subject's subdivision improved with a two (2) story residence over a walk-out basement constructed in 1994. The residence was comprised of 1,881 square feet of above grade area and 627 square feet of living space in the basement. This property sold for $650,000 in June 2021. Sale No. 3 was the $1,335,000 purchase in July 2021 of a one (1) story residence with a walk-out basement situated on a 17.18 acre tract in subject's subdivision. This sale residence, constructed in 1987, included 2,037 square feet of above grade space and 1,881 square feet of finish in the basement. Lastly, Sale No. 4 concerned a 5.97 acre parcel in subject's subdivision improved with a 2010 residence comprised of 1,966 square feet on the main floor and 1,956 square feet of finished area in the walk-out basement. This property sold in August 2021 for $1,180,000.

Respondent first adjusted the sale prices 3% per month to reflect pricing levels on January 1, 2022. Next, each sale property was directly compared to subject and appraisal adjustments were made for differences in key characteristics such as finished living area, age, acreage, and outbuildings. After all adjustments, Respondent concluded respective adjusted sale prices for the four (4) sales of $968,304, $748,550, $1,328,610, and $1,235,440, with an average adjusted price of $1,070,226. Respondent maintained subject's current assessed value of $1,004,772 was supported by the sales analysis.

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 sales comparison approach, the cost approach, and the income approach comprise the three (3) primary methods for determining market value. *Merris v. Ada Cnty*., 100 Idaho 59, 63, 593 P.2d 394, 398 (1979). Residential property is commonly valued using the income approach, which in basic terms compares recent sales of similar property to subject and makes adjustments for differences in key property characteristics.

Appellant did not develop an opinion of subject's value using one (1) of the above appraisal approaches, but instead relied on a replacement cost estimate for subject's residence furnished by an insurance company. Concerned with rising construction costs, Appellant contacted the insurance company to verify the coverage amount was sufficient to replace the dwelling in case of a casualty loss event. After reviewing the physical details of the subject residence, the insurance company concluded a replacement cost estimate of $638,700, to which Appellant added subject's $98,000 assessed land value to arrive at total opinion of value of $736,700.

In further support of the requested value, Appellant provided information on three (3) improved residential sales from subject's subdivision. The sale residences were generally representative of subject in terms of design, bedroom and bathroom count, and quality. There was some variance in gross square footage, which according to Appellant, ranged from roughly 3,000 to 5,000 square feet. The lot sizes were also widely varied, stretching from 4.5 acres to 46 acres. Two (2) of the sale residences were somewhat older than subject's residence, having been constructed in 1987 and 1989, and all the sale properties included additional improvements such as outbuildings, hot tubs, and pools. After adjusting the sales for acreage, Appellant calculated adjusted sale prices from $191 to $295 per square foot. Applying the average price rate to subject's square footage, minus 50% of the estimated replacement cost of the roof, Appellant determined a price range from approximately $725,000 to $740,000. As the insurance value plus the assessed land value fell within the range indicated by the sales, Appellant argued subject's value should be reduced accordingly.

Though the Board understands Appellant's contention with respect to the insurance value of subject's dwelling, insurance values are not typically considered the best indicators of current market value, particularly as the age of the improvements increases. And while the Board appreciated Appellant's sales information, there was no analysis of the data and no direct comparisons to the subject property. The only adjustment was for the larger acreages of two (2) of the sale properties, though it was not entirely clear how that adjustment was determined and applied. The lack of adjustments was found problematic in this case because there were significant differences in property characteristics between subject and the sale properties.

Even more concerning was the lack of time adjustments to the sale prices. Idaho was one of the fastest appreciating real estate markets in the United States during 2021, and Boise County was no exception, with Respondent reporting a 3% per month price appreciation rate. Interestingly, time-adjusting Appellant's sale prices at 3% per month yields an adjusted price range from approximately $820,000 to $1,535,000, with an average price of roughly $1,150,000. This closely approximates the $1,070,226 average adjusted price Respondent calculated in its analysis. The absence of any consideration for the unprecedented market conditions during 2021 was found to be a fatal flaw in Appellant's analysis.

Respondent's sales models were better received by the Board, where they more closely adhered to accepted standards of appraisal practice. The three (3) lot sales from subject's subdivision had an average sale price of $68,450 per acre. Subject's land value is $49,451 per acre, which does not appear overstated against the adjusted price rates of the unimproved sale lots.

The Board also appreciated Respondent's efforts at a direct comparative analysis in its second valuation model. The sale properties confirmed the parties' description of Wilderness Ranch as a highly diverse subdivision, as there were notable differences compared to the subject property, particularly in terms of lot size and finished living area. Respondent did identify these and other important differences in property characteristics, though heavy adjustments were needed for purposes of comparison with subject, as evidenced by gross adjustments ranging from 35% to 57%. Adjustment percentages in this range typically indicate a high degree of dissimilarity between subject and the sale properties, but such is not necessarily the case in a rapidly changing real estate market. If the 3% per month time adjustment were excluded, the range of Respondent's gross adjustments drops to a low of 21% and a high of 37%. Overall, while there were some questions of comparability between subject and the sale properties, the Board found Respondent's comparative sales analysis represented the superior appraisal methodology in this instance.

While the Board preferred Respondent's valuation analysis, we were not convinced adequate consideration was given for the condition of subject's roof. Appellant reported leaks in several places and testified to water intrusion issues during the winter of 2021. In other words, the roof is not just nearing the end of its useful life, it has reached that end, so must be soon replaced. A roof is a major component of a dwelling, and its condition can greatly influence a property's market value. And where subject's roof is actually failing, value is undoubtedly negatively impacted. In short, the Board found some additional consideration for subject's failing roof was warranted here.

In accordance with Idaho Code § 63-511, the burden is with 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, but did not find adequate support for the valuation petitioned by Appellant. Instead, given the poor condition of the roof, the Board will reduce the value of subject's improvements to $866,772.

Based on the above, the decision of the Boise County Board of Equalization is modified.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the Boise County Board of Equalization concerning the subject parcel be, and the same hereby is, MODIFIED to reflect a decrease to $964,772, with $98,000 attributable to the land and $866,772 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 26th day of April, 2023.

IDAHO BOARD OF TAX APPEALS