BEFORE THE IDAHO BOARD OF TAX APPEALS

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| IN THE MATTER OF THE APPEAL OF EQUINE ATHLETICS, INC. from a decision of the Latah County Board of Equalization for tax year 2013. | ) ) ) ) | APPEAL NO. 13-A-1176<br><br>FINAL DECISION AND ORDER |

**MIXED-USE PROPERTY APPEAL**

THIS MATTER came on for hearing November 8, 2013, in Moscow, Idaho before Board Member Linda Pike. Board Members David Kinghorn, Linda Pike and Leland Heinrich participated in this decision. Peter Beebe appeared at hearing for Appellant. Appraisers Jerry Coleman and Rod Wakefield appeared for Respondent Latah County. This appeal is taken from a decision of the Latah County Board of Equalization (BOE) denying the protest of valuation for taxing purposes of property described by Parcel No. RP42N05W356605A.

**The issue on appeal is the market value of an improved mixed-use property.**

**The decision of the Latah County Board of Equalization is modified.**

FINDINGS OF FACT

The subject property's total assessed value is $256,054, which is comprised of an improvement value of $217,800, and land value components of $1,254 for 8.71 acres of qualifying forest land, and $37,000 for one (1) acre of commercial ground assessed under the market value standard. Appellant requests the improvements' value be reduced to $159,105, with no other changes to the land values, for a total value of $197,359.

The subject property is a 9.71 acre parcel situated adjacent to Highway 95, roughly two (2) miles northwest of Potlatch, Idaho. The parcel is improved with a 20,880 square foot equine arena constructed in 2004. The structure is comprised of a 14,400 square foot indoor riding arena, 20 box stalls each roughly 144 square feet in size, two (2) bathrooms, a shower, wash rack, a large tack room with lockers, and a heated/cooled viewing area with a wet bar and office space. Appellant explained the commercial use of the facility does not generate a profit, though some boarding fees and minimal riding fees are charged for use of the arena. On multiple occasions Appellant has opened the facility for general public or other non-profit use at no cost to participants.

Offered in support of reducing subject's value was a recent sale of a similar horse arena-type property. The four (4) acre parcel, located in neighboring Nez Perce County, was improved with a 51,216 square foot indoor arena facility. While subject's lot is larger, Appellant remarked the arena improvement on the sale property was superior to subject's. Most notably, the sale arena was larger than subject's and included more value-adding amenities including: 30 boarding stalls, six (6) bathrooms, two (2) banquet rooms, bleacher seating, concession stands, and two (2) announcer stands. According to a Multiple Listing Service (MLS) summary sheet, the facility has also been used to host weddings, rodeo events, clinics, concerts, motor-cross, and other similar-type events. The property was on the market for more than one (1) year with an initial asking price of $499,000. The asking price was subsequently reduced to $280,000. The property went under contract on December 20, 2012 and closed on February 26, 2013 at $265,000.

Respondent noted subject was re-appraised for the current tax year as part of the Assessor's regular five-year revaluation program. During the course of this re-appraisal, it was discovered subject was listed for sale. In addition to noting the $310,000 asking price, Respondent noticed property amenities described in the listing flyer which were not included in the county's characteristics record.

Prior to the current tax year, subject's arena improvement had been assessed as a basic steel-frame shell. Respondent was unaware of interior finish completed after the basic shell was constructed. Adding the interior finish work caused the value of subject's arena to increase by roughly 80%.

Appellant explained the original builder had installed the framing needed to complete the interior components, which was part of the original agreed project cost of about $120,000. The subsequent finishing work was described by Appellant as basic, involving mostly dry wall installation. In Appellant's view, such finishing efforts did not justify the large increase in assessed value.

Respondent remarked all three (3) generally accepted approaches to value were processed. Two (2) sales were referenced in the sales comparison approach. The first was the same arena sale provided by Appellant. It was noted the parcel previously sold in August 2009 for $575,000. Respondent suggested the lower 2012 sale price of $265,000 may have been the result of seller duress[1], though acknowledged such opinion could not be verified.

The other sale considered by Respondent was characterized as somewhat unique for the area. The property sold in August 2007 as an unimproved bare parcel for $180,000. Since that time, a 3,600 square foot general purpose building had been erected on the site. The 43.15 acre property sold again in July 2013 for $270,000. Respondent removed the land value, which was the 2007 sale price, and the onsite improvement values, to arrive at a value of $68,200, or $18.94 per square foot for the sale improvement. Respondent noted subject's arena was assessed at a rate of $10.43 per square foot, or $217,000.

Respondent provided comparable sales from Latah and Nez Perce counties which were

[1]The MLS summary sheet provided by Appellant reported that the sale terms were "cash" and "conventional", and specifically that the transaction was not a short sale.

considered in the sales comparison approach. Details regarding the sales and the specific analysis used was not provided to the record. The reported value indication from the approach was $70,282, or $3.37 per square foot.

Pertaining to Respondent's cost and income approaches, few specific and supporting details were shared with the record. However the final value conclusions under each approach were reported. Respondent's cost approach was derived from the Marshall & Swift cost manual, to which a local cost modifier was applied. The cost approach estimated the value of subject's arena at $352,012, or $16.68 per square foot. The income approach conclusion was $158,289, or $7.58 per square foot, and was reportedly derived using market rent.

Respondent reconciled the above value indications by allocating 40% weight to both the cost and income approaches, and 20% weight to the sales comparison approach. The latter approach was given less weight because sales of similar property have been historically rare. In Respondent's judgment, the above weighting yielded a reasonable value conclusion and it was contended subject's assessment at $10.43 per square foot was likewise reasonable.

## 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, or as applicable exempt status. This Board, giving full opportunity for all arguments and having considered all testimony and documentary evidence submitted by the parties in support of their respective positions, hereby enters the following.

Idaho Code § 63-205 requires all taxable property be assessed annually at market value on January 1 of the relevant tax year; January 1, 2013 in this case. Idaho Code § 63-201(15) defines market value as follows.

> "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.

There are three (3) generally accepted approaches to value: the cost approach, the income approach, and the sales comparison approach. *Merris v. Ada County*, 100 Idaho 59, 63, 593 P.2d 394, 398 (1979). Both parties provided information related to at least one (1) of the above approaches.

Appellant presented information on a recent sale of an arena-type property. The sale property's land area was about half the size of subject's, but the arena itself was more than double subject's. Appellant described the sale arena as superior to subject in terms of quality, as well as the number and diversity of the included amenities. After being listed on the market for more than one (1) year, the property went under contract in December 2012 and closed in February 2013 for $265,000. Respondent suggested the sale price was distressed, particularly when compared to the prior 2009 sale of this property for $575,000.

Whether the comparable sale was distressed is certainly relevant. The issue here is Respondent was unable to offer any evidence to support the conclusion of distress. To the contrary, the only evidence offered on the topic indicated the sale was not distressed. The MLS summary sheet characterized the transaction as a conventional cash sale. The lengthy listing time further suggests the seller was not under an undue pressure to sell. Given these factors, the sale was regarded by the Board as a typical arm's-length transaction.

In a retrospective value question, such as here, typically only that information which existed prior to the time of valuation is considered. Stated differently, the Board normally relies on comparable sales information which occurred prior to January 1. As applied to the above sale, however, the record showed a purchase contract was signed in December 2012, with the eventual closing occurring in February 2013. There was no indication the contracted price changed in the time leading up to the closing. In this particular instance, the Board found the pricing associated with the contracted sale could be considered as evidence of current market value.

In addition to the arena sale, Respondent referenced a property which sold twice within the span of a few years. The 43.15 acre parcel reportedly sold as unimproved property in August of 2007 for $180,000. When the property sold again in July 2013 for $270,000, it had been improved with a 3,600 square foot general purpose building. Respondent removed the land and onsite improvement values, and calculated a building residual value of $68,200, or 18.94 per square foot, for the general purpose building.

Unlike the arena sale, which was under contract prior to the lien date, there was no indication the price involved in Respondent's second sale was settled before, or even near, the assessment date. The sale reportedly closed in July 2013, or roughly seven (7) months after the effective date of valuation. On the information in record, the Board did not find this latter July 2013 sale relevant to the question of subject's market value on January 1, 2013.

Respondent explained the basis for the increase in the value of subject's improvements was the discovery that the interior of the arena had been finished. Prior to the current assessment, the building was valued as a basic shell. Respondent learned of the interior work through information included in subject's listing sheet when the property was on the market toward the end of 2012. Appellant reported no purchase offers were received during the listing and that subject is no longer for sale on the open market.

While it would have been preferable to reflect any new value at the time the interior finishing work was completed, the Board finds no error in Respondent including it in the current assessment. A key aspect of determining market value is accurately defining the property being considered. To this end, all of subject's features and components should be included in the valuation.

Respondent incorporated a consideration of all three (3) appraisal approaches into its final value conclusion. The cost approach indicated a value for subject's arena of $352,012, or $16.86 per square foot. The sales comparison approach value conclusion was $70,282, or $3.37 per square foot. And $158,289, or $7.58 per square foot, was the value indicated in the income approach. Respondent allocated 20% weight to the sales comparison approach and 40% each to the income and cost approaches. The result was a value of $217,800, or $10.43 per square foot, for subject's arena improvement.

The Board appreciates Respondent's effort to offer a value indication from all three (3) approaches to value. A concern, however, was the lack of accompanying detail. Respondent provided little to no explanation or documentation detailing how each of the approaches was processed. It was not clear which sales were included in the sales comparison approach or how they were compared to subject. The cost approach information was restricted to a verbal reference to the Marshall & Swift cost manual and a local cost modifier. Likewise, support for the input factors used in the income approach was absent in the record. It was also not clear whether the income and sales comparison approach conclusions reflected only subject's improvements, or if the land component was included in the reported per square foot rate.

Overall, the Board was left with a certain level of uncertainty regarding Respondent's appraisal.

Despite the concern expressed above, the parties did provide sufficient evidence from which a value decision can be made. Of the different value indicators presented, one (1) stood out as something of an outlier. Respondent's cost approach estimated a value of $16.86 per square foot for subject's arena. This is more than double the $7.58 per square foot indicated under the income approach, and five (5) times more than the $3.37 per square foot Respondent determined under the sales comparison approach. Indeed, the only timely sale in the record, with accompanying details about the transaction, had a sale price of $5.17 per square foot including the land. In the Board's view, it was apparent the cost approach should be given the least amount of consideration in this instance.

Admittedly, subject presents a difficult appraisal question. There was not an abundance of recent equine arena sales in the area. Nor is there much income information available for such a property. We found the best evidence of current market value was evident in the sale information provided by both parties; primarily because the pertinent details were included so it could be compared to subject. The Board also placed significant weight on the Respondent's income and sales comparison approaches. These approaches yielded values similar to the price level of the arena sale. Given these factors, the Board is satisfied the value of subject's improvements is overstated. The Board will reduce the value of subject's arena improvement to $7.70 per square foot, or $160,776, with no changes made to subject's land values. The decision of the Latah County Board of Equalization will be modified accordingly.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the

Latah County Board of Equalization concerning the subject parcel be, and the same hereby is, MODIFIED to reflect the following values:

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| Forest land (8.71 acres) | $ 1,254 |
| Rural commercial tract (1 acre) | $ 37,000 |
| Commercial improvements | $160,776 |
| Total value | $199,030 |

IT IS FURTHER ORDERED that 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.

DATED this 21st day of March, 2014.