

BEFORE THE IDAHO BOARD OF TAX APPEALS

MACDONALD FAMILY TRUST,	)	
	)	
Appellant,	)	APPEAL NO. 18-A-1008
	)	
v.	)	FINAL DECISION
	)	AND ORDER
KOOTENAI COUNTY,	)	
	)	
Respondent.	)	
	)	
	)	
	)	

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**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. V00000185280. The appeal concerns the 2018 tax year.

This matter came on for hearing October 25, 2018 in Coeur d'Alene, Idaho before Hearing Officer Cindy Pollock. Trustee Don MacDonald represented Appellant at hearing. Assessor Mike McDowell represented Respondent.

Board Members David Kinghorn, Leland Heinrich and Kenneth Nuhn 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 \$1,422,976, and the improvements' value is \$546,440, totaling \$1,969,416. Appellant contends the correct land value is \$935,531, and the improvements' value is \$447,620, totaling \$1,383,151.

The subject property is a .575 acre parcel with 112.5 waterfront feet on the southwestern shores of Hayden Lake. The property is improved with a 5,989 square foot residence constructed in 1970, with an effective age indicating a year built of 1995. The three (3) bedroom

residence has a construction quality rating of “good +” and a condition rating of “good”. Other improvements include wood decking, a boat dock, and a 50-step staircase leading to the beachfront.

Subject’s specific neighborhood stretches roughly .85 miles long and is comprised of 51 parcels, all of which are waterfront. The central focal point of the neighborhood is Hayden Lake County Club, which was originally opened in 1907. The neighborhood was characterized as one of the most desirable in the county. Parcels in this area are predominantly level, however, there are some variances in topography and beach access, primarily between the parcels situated in the northern portion of the neighborhood and those in the southern section. Northerly situated parcels typically have a steeper topography which requires stairs to access the beach. Whereas the southern parcels are mostly flat with direct access to the beach. Subject is located north of the country club and stairs are required to access the beachfront.

Appellant questioned the methodology and the data used to determine subject’s current assessed value. Specifically, Appellant contended the two (2) neighborhood sales from 2016 used to develop the base land valuation rate applied to the neighborhood for 2017 were atypical transactions and should not have been used. Appellant stated the out-of-state buyers were wealthy and determined to purchase property on Hayden Lake regardless of price, which resulted in sale prices above market value levels. Appellant provided opinion letters from three (3) local realtors, all of whom opined the 2016 sales referenced by Appellant were not typical and the sale prices were likely above market. Accordingly, Appellant argued these 2016 sales should be excluded from any valuation analysis concerning subject.

For value evidence, Appellant provided information on one (1) neighborhood sale from

2017. The sale parcel, located roughly one-half ( $\frac{1}{2}$ ) mile from subject, was .866 acres in size with 95 front feet on the lake. The 1,974 square foot residence was constructed in 1936, though was last updated approximately twenty (20) years ago. The property sold in April 2017 for \$1,075,000. Appellant contended this sale should be used to determine subject's assessed land value.

Respondent disagreed that the above 2017 sale should be used in developing subject's valuation because in Respondent's view, the sale was not an arm's-length transaction. It was noted the property was pre-sold at the time of listing. Following a conversation with the buyer, Respondent discovered the buyer purchased the property the same day the realtor sent an email notifying her the property was coming on the market. The buyer further reported the prior owner had fallen behind on taxes and had let the property fall somewhat into disrepair. The buyer also expressed she believed she received a "good deal" on the property, and further that the assessed value of roughly \$1,400,000 was reasonable given the condition of the property at the time of purchase. In Respondent's opinion, this sale was an outlier compared to other recent sales in the area and should therefore not factor into subject's current valuation.

Respondent detailed the recent valuation history of subject's neighborhood and how the base land value rate was determined. It was explained each parcel around the lake is physically inspected every five (5) years. Through the inspections, a site rating is assigned to each parcel based on eight (8) specific physical attributes. After determining a base valuation rate throughout the neighborhood, value adjustments are made according to a parcel's specific site rating.

The last physical reappraisal of subject's neighborhood was in 2012 for the 2013 tax year.

Due to a lack of sales, assessed land values remained steady for the next several years, until they were increased for the 2017 assessment year. The increase was caused by two (2) sales from subject's immediate neighborhood. Sale No. 1, situated adjacent to subject, was a .397 acre parcel with 74.99 waterfront feet. The property was improved with a 7,158 square foot multi-level residence constructed in 2009. The property was further improved with a smaller guesthouse constructed in 1879, which was one (1) of the original settlement cabins to the area. Respondent reported the guesthouse had been updated since its initial construction, though not to modern standards. The property, with an asking price of \$3,500,000, sold in August 2016 for \$3,200,000. Sale No. 2 concerned a .438 acre parcel with 65 front feet on the lake. The property was located south of the country club, approximately one-half ( $\frac{1}{2}$ ) mile from subject and was improved with a 3,428 square foot residence which had been remodeled and added to several times since its original construction in 1910. It was noted the property has been on and off the market since 2013, at which time the asking price was \$1,860,000. The asking price was reduced in 2014 to \$1,795,000. The property was on the market again in 2016 and sold in October for \$1,685,000. Based on these two (2) sales, Respondent concluded the assessed land values in subject's area were too low. A new base land valuation rate of \$16,350 per front foot was developed using these sales and applied to all parcels in the neighborhood, with adjustments made according to a parcel's individual site rating and amount of frontage.

For the 2018 assessment year, all Hayden Lake parcels were physically reappraised. Physical characteristics of each parcel were verified and updates to property records were made where necessary. A new base valuation rate of \$16,500 per front foot was developed for 2018. This base rate was applied to the first 75 front feet of each parcel, which was noted to represent

the typical amount of beachfront in the neighborhood. Subject's first 75 front feet were assessed at the base rate, while the remaining 37.5 front feet were valued at \$5,500 per front foot. An additional 10% downward adjustment was also applied to the 37.5 front feet because subject has more frontage than what is typical for the area. Subject's overall average land value rate is roughly \$12,648 per front foot.

Respondent additionally developed a sales comparison analysis using all three (3) sales detailed above and two (2) active listings. Sale prices were time adjusted from their respective sale dates to reflect pricing levels on the January 1, 2018 assessment date. Respondent determined a 9% annual rate of price level increase for calendar year 2016 and a 10% upward rate for 2017. These adjustment rates were applied to the respective sale prices. The analysis further directly compared subject to the properties on the grid and the sale prices were adjusted to account for differences, such as, square footage, garage size, docks, and other relevant characteristics. Adjusted prices ranged from \$1,602,554 to \$3,371,495. Respondent's sales comparison approach concluded a value of \$2,500,000 for subject, which was noted to be higher than the actual current assessed value.

#### 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 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, 2018 in this case. 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) approaches for determining market value. *Merris v. Ada Cnty.*, 100 Idaho 59, 63, 593 P.2d 394, 398 (1979).

The parties agreed there were only three (3) sales from subject's neighborhood during 2016 and 2017, however, disagreed on which of these sales should be used to determine the base land valuation rate for the area. Appellant contended both sales from 2016 should be excluded because the sale prices were above market. It was argued the buyers in both transactions were atypically motivated to purchase and were willing to pay whatever price necessary to acquire the properties. By contrast, Respondent identified the 2017 sale as the outlier in the data set and further suggested it was not an arm's-length transaction, thus resulting in a price below market.

Though not everything is known about the conditions surrounding the 2017 sale, the Board is inclined to agree with Respondent's characterization of the transaction as being non arm's-length in nature, or at least not typical in the market. First, the property was pre-sold at the time it went on the market, so it was not exposed to the open market. Respondent spoke with the buyer who explained the property was purchased the same day the realtor informed the buyer the property was coming on the market. There was also some concern with the motivations of the seller because reportedly the taxes on the property were in arrears, and there

were deferred maintenance issues. Lastly, the sale price itself appears to be an outlier when compared to the other sales data in the record. Respondent's reticence to place much weight on this sale was found to be reasonable given the somewhat unusual circumstances surrounding the sale.

The Board was not persuaded the 2016 sales should be excluded as petitioned by Appellant. Contrary to Appellant's assertion the buyers were willing to pay any price and therefore ended up paying too much, the record reveals the buyers in both instances paid less than the respective asking prices. In the Board's experience, price negotiations between the buyer and seller are indicative of a typical arm's-length transaction in which both parties are guarding their own interests. And in the case of both 2016 sales the buyers negotiated sale prices below the asking prices. The Board finds no good cause to exclude the 2016 sales information.

In all, the Board was not convinced Appellant's value position best represented subject's current market value; particularly where such position disregarded two-thirds (2/3) of the available sales data and instead relied solely on a single 2017 sale. Even if there were no questions concerning the arm's-length nature of the 2017 sale, the Board would be reluctant to reduce subject's land value based on only one (1) sale. Indeed, the sales comparison approach requires consideration of multiple recent sales of similar and proximate property. "[M]arket value' can not be established by a single arm's length transaction in which a unique property . . . is sold for cash . . . 'market value' becomes an important standard of measurement in the valuation of property only after there have been numerous sales or exchanges of similar property." *Janss Corp. v. Bd. of Equalization of Blaine Cnty.*, 93 Idaho 928, 931, 478 P.2d 878,

881 (1970). This consideration of the broader market was apparent in Respondent's sales comparison analysis, in which all three (3) sale properties were compared to subject and individual adjustments made for differences. Respondent's analysis represented a more traditional sales comparison approach and was found in this instance to be superior to the analysis offered by Appellant.

In appeals to this Board, Appellant bears the burden of demonstrating error in subject's valuation by a preponderance of the evidence. Idaho Code § 63-511. Based on the above, we did not find the burden of proof satisfied. Subject's valuation was developed using recognized appraisal techniques and was supported by recent market value evidence. No error in subject's assessed value was demonstrated. As such, 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 18<sup>th</sup> day of January, 2019.