



The Idaho Association of Assessment Personnel

Promoting Education • Communication • Excellence

## From the President

As I am winding down the year as serving on the board of IAAP I look back on some of our accomplishments and a few of the issues we as professional appraisers have had to deal with this past year. I would guess that at the top of the list of issues that caused us heartburn this year would have to be the economic state of the real estate market not only in our state but nationwide. It is difficult to convince the public that their assessed value can remain the same or in some cases, go up in value when all they hear is that the real estate market is going in the tank. To complicate matters, in a declining market, in ad valorem appraisal we have to gather sales info from the year prior and apply that to the current year. In visiting with some of the appraisers around the state it sounds as though overall it has been a difficult year explaining this concept.

I am pleased for the support that counties have shown to IAAP. Even in these tough economic times, our membership has grown a bit this year from 262 members to 284 members. We have been able to keep our membership dues reasonable and

the value of belonging to a statewide professional group is well worth the \$15 per year. Remember this is your organization and it remains only as good as those involved in it. An IAAP membership application is on page 8.

We had the opportunity to hold a local class in Moscow that provided some valuable information to appraisers from Latah and Nez Perce counties. Because the class was small, Cliff McLean was able to give some real one-on-one teaching and the topic was both timely and relevant to those attending.

We were able to put out an updated Peer Directory this year. I know that many of us from appraisers to assessors to tax commission folks have commented on how valuable of a resource this has been to them.

In closing, I wish to thank those that have helped make this a successful year for IAAP. To begin with I am ever so grateful for those that have

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Summer 2009 Edition

# News

# IAAP Officers



## President

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jcoleman@latah.id.us



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## Past President

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BradBovey@co.nezperce.id.us

# IAAO Rep News

As an IAAO Representative, I am considered the “eyes, ears and voice” of the organization. IAAO considers its Reps some of its most important members. Wow, that is a lot to comprehend.

My column in the IAAP newsletter is one way that I can tell you about what is happening with IAAO, and that is what I try to do. Another way I can be of help is to take your concerns to the attention of IAAO. Or, if you are in need of some specific information, I will help you find what you need. If there is anyway I can assist, please let me know. Of course, one of the perks of being a rep is that I can offer you half price first year membership to IAAO. There is a membership application on page 4.

IAAO will be celebrating its 75<sup>th</sup> Anniversary at the annual conference in Louisville, Ky Sept. 13 – 16, 2009. As always, the conference will be filled with fun and educational offerings. Attend if you can, you won't regret it.

I have been mentioning the 75<sup>th</sup> anniversary in several newsletters, so when I came across an essay about the history of IAAO, I thought I would share a little of that history. It seems things began after the stock market crash of 1929. Foreclosures and property tax delinquency were abundant. Many taxpayer groups were formed and protested property taxes.

In an effort to address the concerns of taxpayers, some assessor's met at the annual conference of the Municipal Finance Officers Association in 1934. One of the leaders of organizing the assessors was John C. Donehoo, who recognized the need of a professional organization to aid assessors in performing their duties. This new organization was named National Association of Assessing Officers. Mr. Donehoo was the first president. In 1959 the organization's name was changed to International Association of Assessing Officers because of the growth of membership outside of the USA.

This historical information was taken from an article titled 75 Years of IAAO – A History by J. Wayne Moore. The article has much more information and can be found at [www.iaao.org](http://www.iaao.org). Please visit the site and read the essay. It is very interesting.

And remember, if you have any concerns that I can help you with, please contact me.

Susan Ripley  
[sripley@latah.id.us](mailto:sripley@latah.id.us)  
208-892-4569

# News from IAAO

by Alan Dornfest

## Foreclosure anyone?

It's been an eventful spring in terms of IAAO activities. One of the most significant items under discussion and debate is what to do about all of the foreclosure related sales cropping up in ever increasing numbers throughout the U.S. Much of the debate has centered on whether these sales can or should be used in everything from reappraisal models to ratio studies. This "hot" topic absorbed the entire spring meeting of the Technical Standards Committee on which I serve. It gets even more heated when we start talking about "short sales" in which the price paid is less than the mortgage balance, with banks forgiving the difference. So far, the prevailing view is that, while all of these sales may be "outliers" when they are rare events, once they become significant portions of the market, they cannot be ignored. After all, wouldn't other property sellers be forced to lower their prices if foreclosure related sales were at lower prices and were dominating the local market?

The IAAO website ([www.iaao.org](http://www.iaao.org)) has an exposure draft document, currently being developed by the Research Committee, entitled *A Guide to Foreclosure-Related Sales & Verification Procedures*, which addresses many of the related issues faced by appraisers. As of this writing, the Guide had not yet been finalized and I know that IAAO would encourage your review and comments. Later, we will be looking to this Guide to enhance areas of our Standards that discuss sales screening and validation, and possibly other issues.

## Visit from the IAAO President

In my tenure with the Tax Commission, Idaho has been privileged on several occasions with visits from IAAO presidents. The first of these visits (and perhaps the first visit of any IAAO president at any time to Idaho) occurred during the assessors' midwinter conference in 1982. At that time, Ian McClung (a personal friend of mine who very recently passed away), came to Boise and spoke to our assessors. I attended that session and thought that this was quite an experience. Later, it was my added privilege to serve on my first IAAO committee – Assessment Standards – under Ian's chairmanship. I can personally attest to the

dedication to professionalism and our profession that Ian embodied.

Like Ian, our current IAAO president, Josephine Lim, is from Canada. While Ian spent much of his career in Toronto, Ontario, he spent the last twelve years as city assessor for Calgary, Alberta, not so very far from our border. Josephine hails from Victoria, British Columbia, where she worked for BC Assessment, the organization responsible for assessing property throughout the province. Josephine has vast assessment and appraisal experience and impeccable academic credentials as well, with a PhD in mathematics from the University of British Columbia. I have known Josephine for many years, visited her in Victoria, and served with her on the IAAO Board. I was delighted to hear recently that Josephine would

*...wouldn't other property sellers be forced to lower their prices if foreclosure related sales were at lower prices and were dominating the local market?*

be visiting Idaho and would be the luncheon speaker at the IAAP sponsored luncheon on July 28 during Summer School. Josephine's professional dedication makes her an apt successor to the legacy of Ian McClung. As IAAO President, she also wants and needs to hear from us and to learn from us how to continue to ensure that IAAO provides the best services practicable to our appraisers and assessors. I hope you will attend the luncheon and take this opportunity to meet and visit with Josephine.

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## From the President Continued from page 1

contributed articles, it is the lifeblood of our newsletter and it is always good to hear from various perspectives. It has been my privilege to have had a very supportive board that has worked well together and has had the best interest of our members as their focus. Kayla Bovey, who publishes our newsletter, thanks for your magic of taking the raw material I send you and turning it into a very professional and attractive newsletter. A special thanks to Jan Barnard at the state tax commission for being so supportive of IAAP and being so darn easy to work with. My best wishes to the new board and I have every confidence that next year all the challenges will be met and surpassed!

Jerry Coleman  
IAAP President

## IAAO MEMBERSHIPS

### Regular Membership

is available to: all officers, officials, and employees of a governmental authority or jurisdiction who have any or all of their duties related to property valuation, property tax administration, or property tax policy; all persons engaged as individuals, or employees of an organization, who exclusively spend their time to provide professional services to governmental officers, officials, or offices of a governmental authority or jurisdiction in support of the property valuation, property tax administration, or property tax policy functions. Professional services do not include the providing of hardware, software, equipment or the sale of either goods or services to governmental agencies.

### Associate Membership

is available to: all officers, officials or employees of governmental agencies who do not have any duties directly involved in property valuation, property tax administration, or property tax policy; all officers, administrators, employees and enrolled students of educational institutions; individuals involved in or interested in property valuation, property tax administration, or property tax policy; any member of any organization, group, or association, whether local, regional, national, or international, interested in property valuation, property tax administration or property tax policy.

### Affiliate Membership

is open to groups or associations of public officials, employees or citizens interested in property valuation for property tax purposes, property tax administration and property tax policy. (For application and information please contact: membership@iaao.org)

### Dues are payable in advance.

Please complete this application and return with payment of dues: If paying by credit card, please provide the information requested below and fax to 816/701-8149.

**TOTAL MEMBERSHIP DUES** \$ \_\_\_\_\_

For information about an accredited membership designation, go to [www.iaao.org](http://www.iaao.org).

VISA      Cardholder Name (Print) \_\_\_\_\_  
 MasterCard  
 AMEX      Card Number \_\_\_\_\_ Expiration Date \_\_\_\_\_

If paying by check, please make check payable to IAAO in U.S. Funds and mail to: IAAO, P.O. Box 504183, St. Louis, MO 63150-4183 (The returned check charge is \$25.00)



# INTERNATIONAL ASSOCIATION OF ASSESSING OFFICERS MEMBERSHIP APPLICATION

Half-price referral application



Name \_\_\_\_\_ Title \_\_\_\_\_  
 Jurisdiction/Firm \_\_\_\_\_  
 Office Street Address \_\_\_\_\_  
 Office City \_\_\_\_\_ Office State/Province/Country \_\_\_\_\_ Office ZIP/Postal Code \_\_\_\_\_  
 Office Phone \_\_\_\_\_ Office Fax \_\_\_\_\_ Office E-mail \_\_\_\_\_  
 Home Street Address \_\_\_\_\_  
 Home City \_\_\_\_\_ Home State/Province/Country \_\_\_\_\_ Home ZIP/Postal Code \_\_\_\_\_  
 Home Phone \_\_\_\_\_ Home Fax \_\_\_\_\_ Home E-mail \_\_\_\_\_

Send mail to:  Office  Home  Check here if you do not have an e-mail address or do not wish to provide an e-mail address. *E-mail is a vital link between IAAO and it's members. It is IAAO policy not to sell, rent, or distribute e-mail addresses.*

**Susan Ripley**

Person referring applicant (if anyone) \_\_\_\_\_  Check here if you are an elected official.

*I hereby apply for membership in the International Association of Assessing Officers and agree to comply with the requirements of the IAAO Code of Ethics and Standards of Professional Conduct. If accepted for membership, I will abide by the IAAO Constitution, pay the established dues, and comply with the Code and Standards.*

Signature \_\_\_\_\_

Date \_\_\_\_\_

Please indicate if you have been convicted of a felony or crime of office which may reflect on your ability to abide by the IAAO Code of Ethics and Standards of Professional Conduct.  Yes  No

Office use only:  
**H91RZ**

Proration schedule

Prices are quoted in US dollars and are subject to change. Prices are guaranteed through 12.31.09

Date Application Received	January - March	April - June	July - September	October - December
Regular Member	\$87.50	\$65.63	\$43.75	\$87.50
Associate Member	\$90.00	\$67.50	\$45.00	\$90.00

**\*\*Join in the 4th quarter and don't pay again until Jan. 1, 2011. Enjoy as much as 3 months free**

### Councils and Sections Interest Areas

(you may join more than one at no additional charge)

- Public Utility Section       Mapping and GIS Section  
 Computer Assisted Appraisal Section       Personal Property Section  
 State and Provincial Council       Tax Collection Council  
 Metropolitan Jurisdiction Council

# Distressed Sales: Anomaly or Market Value?

by Alan Smith

(Originally Printed in the May 2009 Edition of Fair and Equitable Magazine)

The issues arising from the dramatically shifting real estate market are becoming more and more evident as time passes and market data are gathered and analyzed. Issues range from fairness and equity of taxation to the definition of a distressed transaction. One of the most pressing issues is how assessor's offices across the country are treating distressed transactions in their formulation of market value. Should distressed sales be used as a measure of market value? Typically—by both appraisal standards and statutory requirements—the answer is clear: distressed sales are not a true measure of market value. In fact, Idaho Code clearly reflects this ideology in its definition of market value:

*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. [I.C. § 63-201(14)]*

From this definition it seems clear that a distressed sale should not be used directly in establishing the market value of a property. However, as real estate markets have declined, it has been argued that the market can be so affected by the presence of distressed sales that real market values may not be that different from distressed sale prices.

## Analyzing the Market

Market value in and of itself is a subjective term, and its development requires the consideration of many factors. Regardless of whether a cost-based assessment system or advanced statistical modeling is used, accurate characteristic data are essential to the process of developing market value. Moreover, identification of geo-economic market areas is essential to stratify sales data for analysis and trending—after all, *location is everything*. Adequate sales

sampling and normality of the sample are also factors that ad valorem appraisers must consider to ensure accurate trending is applied to a given market area. Development of market value is generally problematic for appraisers for several reasons: a lack of market activity, prevalence of distressed sales, or sales disclosure rules that inhibit sales sampling.

As a result of this market environment, assessor's offices are continually faced with the question of whether or not they can, or should, use distressed sales in determining market value for tax purposes. Not surprisingly, opinions on this matter vary widely, and a great deal of debate surrounds the amount or proportion of distressed transactions necessary to *become the market*. Clearly, there is no exact answer to this question, and the determination of true market value may be more convoluted than appraisal standards or statutory requirements dictate.

## Understanding Effects of Distressed Sales

Therefore, rather than trying to resolve the issue of how many distressed sales are needed or what proportion is necessary for them to become market value, this article presents an illustration of their effects on a market area. I use as an example a market area that has experienced, and continues to experience, an ever-increasing population of distressed transactions. Throughout this example, *arm's-length* transactions are those that meet the previously defined conditions of market value, and *distressed sales* are those transactions that do not.

In the subject market there were 1,004 total sales over an 18-month period, representing a sample size

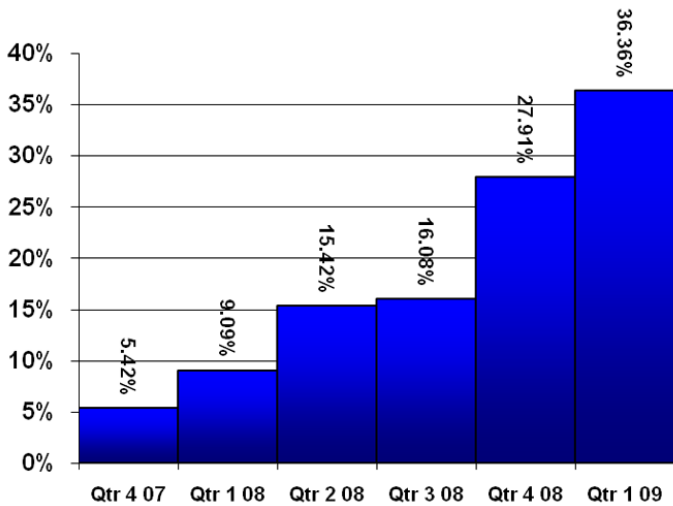
*One of the most pressing issues is how assessor's offices across the country are treating distressed transactions in their formulation of market value.*

of approximately 14 percent of the total number of improved properties in this area. Of the total of 1,004 sold properties, 129 were distressed and the other 875 were *arm's-length* transactions. While these numbers

alone are a telling indication of the presence of a distressed market, it is not until these sales are arrayed and analyzed that the actual effects of distressed transactions on a market area are seen.

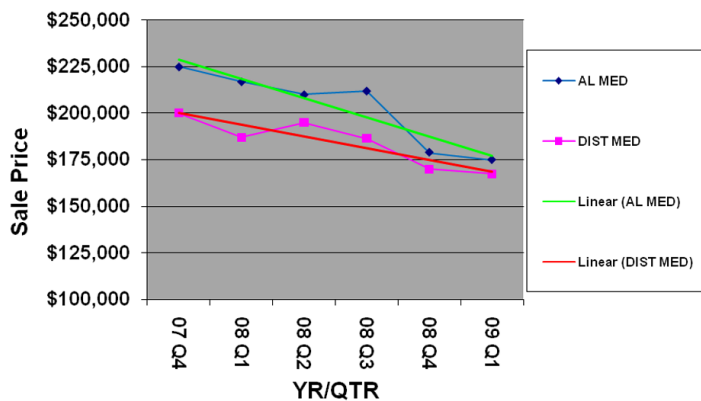
Figure 1 shows distressed transactions as a percentage of total sales, clearly demonstrating the ever-increasing trend of distressed sales within this market. In fact, more than 36 percent of all transactions in this market area were, by definition, distressed in the first quarter of 2009.

**Figure 1. Distressed transactions as percentage of total sales**



The effects of this increasing population of distressed transactions are shown in figure 2, where median sale prices for arm’s-length and distressed transactions are arrayed and compared by quarter. Analysis of the trend lines clearly shows the market effect of distressed sales. In fact, based on this graphic, it could easily be argued that distressed sales are a reflection of, or are very close to, current market value, at least in this market area.

**Figure 2. Median sale price analysis: Comparison of distressed and arm’s-length transactions**

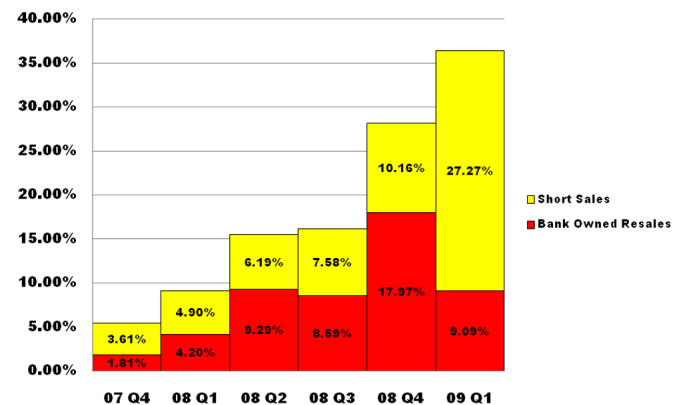


This analysis begs the question, If this market is distressed, what are the effects on the overall market area, the jurisdiction, or the greater geo-economic area? Second, what is the driving force behind these distressed sales, and is there a way to explain the broad disparity among distressed sales? Answering these questions requires more in-depth analysis, on both the micro- and macro-market levels. Depending on the proportion and distribution of distressed sales, there could be far-ranging impacts on the greater real estate market, including a general deterioration of real estate values across a much broader area. This effect can be tested by analyzing all market areas and measuring the frequency of distressed sales by geo-economic area. Moreover, stratification of distressed sales by type, while comparing sale price or ratio trends of each across sample populations, can shed light on the driving forces of distress in a market.

**Distinguishing between Short Sales, REOs, and Arm’s-Length Transactions**

Figure 3 shows the proportion of distressed sales in this sales population by type: bank-owned resales and short sales. Note the relatively even proportion of short sales in all but one of the six quarters, suggesting that short sales may be only part of the driving force behind sale prices in this market. Typically speaking, there are inherent differences between bank-owned resales and short sales. Short sales are an agreement on the part of the lending institution to accept a portion of what is owed on the property, which may or may not be a fair reflection of market value. However, bank-owned resales, if they are marketed by a realtor, or through a multiple listing service for a time period considered to be an average exposure to the market, will likely be very close to fair market value in this type of market. Given the inherent differences in these transaction types, and the relatively even distribution of distressed sale types within this sample population, one may expect a difference in sale price level between short sales and bank-owned resales.

**Figure 3. Type of distressed transactions as percentage of total sales**



# Market Analysis Class

by Jerry Coleman

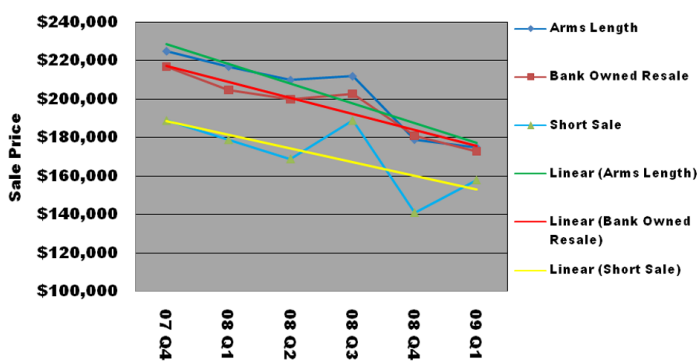
On April 16 and 17 of this year, IAAP sponsored a Market Analysis for Appraisers – Excel class in Moscow. Cliff McLean from the State Tax Commission taught the class for 14 hours of continuing education credits. One of the missions of IAAP is to support education for appraisers. During these difficult economic times for counties, what a great opportunity to have a class in your area, so a minimal amount of travel and those expenses associated with traveling; gas, motel and meals, and you can have a class tailored to some



Several appraisers listen attentively to Cliff McLean during the IAAP sponsored Market Analysis for Appraisers Excel class held in Moscow April 16 and 17, 2009.

Figure 4 shows the median sale price by quarter for arm's-length transactions, short sales, and bank-owned resales. The difference between bank-owned resales and arm's-length transactions is much smaller than that between arm's-length transactions and short sales. However, the key factor in the small difference between arms-length transactions and bank-owned resales is the fact that the average marketing period only deviated by a maximum of nine days between the two populations over the sample quarters. Meanwhile, short-sale properties averaged 63 days on the market over the sample time period, a full 37 days less than that of the average arm's-length transaction.

**Figure 4. Median sale price analysis: Comparison of distressed transactions stratified by type**



## Geospatial Analysis

Another useful tool for analysis involves mapping sales, while geocoding the distressed sales in general or by type, so their occurrence can be arrayed geospatially. Geospatial analysis, if employed with a time metric, can show locational trends of distressed transactions that would not be evident in any other method of analysis. By arraying data geographically, the question of whether distressed markets are localized should be easily answered.

## Summary

Overall, the process of stratifying and analyzing distressed transactions revolves around a diligent program of sales validation. Without sales validation, this type of analysis is much more difficult if not impossible. While this article is not meant to resolve the debate over true market value, it does provide some insight into the effects of distressed sales on typical transactions within a given market area. Moreover, it shows the propensity of sales levels between arm's-length and distressed transactions to be similar in markets with large proportions of distressed sales. Most importantly, it demonstrates the necessity of identifying, stratifying, and analyzing distressed market transactions to determine their effect on the overall market.

issue that your county is dealing with. Jan Barnard at the State Tax Commission is terrific to work with as to getting us continuing education credits and she has a lot of great suggestions to help plan and put together a class. If you have some computer use needs, I have a terrific source for you, Nora Abbott of Software Assistants, has taught classes here in Latah County and is willing to design a class to your individual needs and take classes to other counties. For additional info, please contact me and I will put you in touch with Nora. If you have any questions, please contact one of the IAAP board members.



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## Membership Application

Name \_\_\_\_\_

Address \_\_\_\_\_

County/Agency \_\_\_\_\_

Job Title \_\_\_\_\_

Areas of specialization

- Manufactured Homes
- Commercial
- Residential
- Other \_\_\_\_\_
- Personal Property
- CAMA
- Mapping

Dues are \$15 per year, renewable January 1 of each year. Send to:  
Alan Smith, Treasurer  
190 E Front Street Suite 107  
Boise, ID 83702

### **Purpose of IAAP**

The purpose of this organization is to benefit and enhance the evaluation and appraisal process of each assessing jurisdiction across the state of Idaho. To strive toward better communications between Assessors, Appraisers, and the State Tax Commission. To support education and seek practical answers to common appraisal problems. To address existing and forthcoming legislation and keep members aware of new laws and their impact. And to advance the concept of excellence and equity in the Ad Valorem appraisal process.



# Who said there's no **FREE LUNCH?**



*The Idaho Association of Assessment Personnel*

## *PROMOTING*

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Join us for the  
annual general membership meeting.  
This year's meeting will be held during a free  
luncheon sponsored by IAAP.

When: Tuesday July 28, 2009  
11:30 am—1:30 pm

Where: Cascade Conference Room, Holiday Inn, Boise

Why: You have to eat and it's free!

The Guest Speaker is  
Dr. Josephine Lim, PhD, RI  
From Victoria, British Columbia  
President of IAAO



Dr. Josephine Lim

For the sake of planning:  
If you plan on attending the luncheon,  
please call or email:  
Jerry Coleman at 208-892-4570;  
jcoleman@latah.id.us  
or  
Alan Smith at 208-287-7200;  
asmith@adaweb.net

The IAAP annual meeting is held in conjunction with the STC summer school. Jan Barnard is informing all instructors of the event so that attending the luncheon shouldn't be an issue