BEFORE THE IDAHO BOARD OF TAX APPEALS

BEL CIELO APARTMENTS, LLC, Appellant, v. KOOTENAI COUNTY, Respondent.	APPEAL NO. 19-A-1038 FINAL DECISION AND ORDER

COMMERCIAL 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. P705031040AA. The appeal concerns the 2019 tax year.

This matter came on for hearing October 1, 2019 in Post Falls, Idaho before Board Member Kenneth Nuhn. Kirk Kappen appeared at hearing for Appellant. Assessor Richard Houser 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 commercial property.

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

FINDINGS OF FACT

The assessed land value is $771,702, and the improvements' value is $14,990,924, totaling $15,762,626. Appellant contends the total value is $11,573,205.

The subject property is a 5.36 acre parcel known as the Bel Cielo Apartments in Post Falls, Idaho. The property is improved with several three (3) story multi-unit apartment buildings. The ninety-six (96) unit complex is comprised of 24 one (1) bedroom, one (1) bathroom units, 4 two (2) bedroom, one (1) bathroom units, 53 two (2) bedroom, two (2) bathroom units, and 15 three (3) bedroom, two (2) bathroom units. The property also includes thirty-six (36) garages. Construction of the development concluded in April 2018.

Appellant offered two (2) valuation models using the income approach. In the first model, Appellant used subject's actual potential monthly rent of $96,500 to calculate the annual potential income figure. To this, Appellant applied Respondent's own 2% vacancy rate, 28% expense rate, and 6.75% capitalization rate. The result was a value indication of $12,104,960 for subject.

In Appellant's second income model, subject's actual income and expense data was used for the various inputs. Appellant highlighted the income and expense data was based on the last eight (8) months of 2018 and was annualized for purposes of this analysis. Subject's 0% vacancy rate was applied, as was the actual expense rate of 34.16%. The net operating income figure was capitalized at the same 6.75% rate used in the above model, resulting in a value indication of $11,753,205. Appellant explained there were a couple factors which contributed to subject's higher expense rate. First, water and sewer fees in Post Falls is higher than in other areas in which Appellant owns and operates apartment complexes. Second, the per unit expense rate for a 96-unit complex like subject is higher than a larger complex with a couple hundred units.

Respondent explained all three (3) approaches to value were considered, though primary weight was given to the income approach. The cost approach was deemed unreliable in this instance due to the high demand for apartments in the current marketplace, which has led to higher rents and market value for the apartment complex in excess of the cost to construct the facility.

For the sales comparison approach, Respondent offered an analysis of six (6) apartment sales from 2017 and 2018. The sales ranged in age from 1968 to 2016 and were widely varied in unit counts, ranging from 10 to 85. Respondent made adjustments for these and other differences in property characteristics between subject and the sale properties, resulting in adjusted sale prices ranging from $136,890 to $188,167 per unit. The analysis indicated a value for subject of $15,762,624, or $164,194 per unit. The sales comparison approach was used primarily by Respondent as a test of reasonableness for the value indicated by the income approach.

In discussing the income approach, Respondent stressed the need to use market rates in the analysis rather than subject's actual income and expense figures. Respondent explained its market rents were derived from surveys sent to apartment owners. Using different market rates for subject's various unit types, Respondent calculated a potential annual gross income amount of $1,512,168. Respondent applied a 2% vacancy rate, a 28% expense rate, and a 6.75% capitalization rate. The analysis yielded a value conclusion of $15,807,196.

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 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, 2019 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 represent the three (3) primary methods for determining market value. *Merris v. Ada Cnty.*, 100 Idaho 59, 63, 593 P.2d 394, 398 (1979). Income-producing properties are often valued using the income approach because such properties are typically transacted in the marketplace based on the potential income production of the property.

The parties agreed, and the Board concurs, the cost approach was not the best indicator of market value in this instance due to the reality that in the current local market the value of a typical apartment complex exceeds the cost of construction. The sales comparison approach can be useful in valuing a commercial property. However, in this case the approach was not found by the Board to represent the best evidence of market value. The six (6) sale properties were widely varied in age, quality, condition, size, and overall property characteristics, thus necessitating many adjustments for purposes of comparison with subject. Respondent's sales comparison analysis was weighed less heavily than the value indicators from the parties' income approach models.

The parties supported their respective value positions primarily based on the income approach. In this regard, Appellant offered two (2) valuation models, and Respondent developed one (1). The difference in Appellant's models was the second model was based on eight (8) months of subject's actual income and expense data, which was annualized. Though the Board understands Appellant's position regarding the use of subject's actual performance numbers in developing an opinion of value, accepted appraisal practice requires consideration of the broader market to develop a reliable estimate of market value. A property's specific performance should certainly be factored into the analysis, but it should not alone form the basis for a value estimate. For this reason, the Board afforded less weight to the value indication derived using subject's actual income and expense data.

The parties' remaining income models were better received by the Board. The respective analyses used identical vacancy, expense, and capitalization rates. The sole source of divergence was in the potential gross income figures. Appellant's potential gross income total was based on subject's actual rental rates, whereas Respondent's figure was calculated using higher market rates. For the same reason expressed above, the Board was hesitant to rely too heavily on subject's actual numbers without some strong consideration for the broader marketplace. That being said, the rental rates used by Respondent were above the median rates for each unit type. The following table is a breakdown of median monthly market rates for different apartment units and the rates used by Respondent in its income model.

Unit Type	Median Market Rate	Respondent's Rate
1 bedroom, 1 bathroom	$1,063	$1,079
2 bedrooms, 1 bathroom	$1,050	$1,149
2 bedrooms, 2 bathrooms	$1,200	$1,357
3 bedrooms, 2 bathrooms	$1,425	$1,427

Applying the above rates to subject's specific unit mix, the annual effective income would be $1,376,244 using median rates, compared to $1,485,816 using Respondent's rates. Though a breakdown similar to the above was not provided, Appellant testified subject's lease rates are generally below the median rates reflected in the table, but all are within the range of market rates reported by Respondent for each unit type. It was not clear why Respondent chose the lease rates it did, but each rate used was somewhat higher than the respective median market rate and appreciably higher than subject's actual lease rates. Affording some additional weight to subject's actual rent figures and the market ranges reported by Respondent, the Board finds a modest adjustment warranted in this particular instance.

Appellant bears the burden of proving error in subject's valuation by a preponderance of the evidence. Idaho Code § 63-511. Based on the totality of the evidence, the Board finds the burden of proof satisfied. Specifically, the Board found good cause to calculate subject's potential gross income using median market pricing levels, rather than the higher rates used in Respondent's analysis. The result is a reduced value of $14,661,804, which includes the income Respondent determined was attributable to subject's thirty-six (36) garages. The decision of the Kootenai 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 decrease in total value to $14,661,804, with $771,702 attributable to the land, and $13,890,102 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 6th day of January, 2020.