BEFORE THE IDAHO BOARD OF TAX APPEALS

THE VILLAS AT RIVERVIEW, LLC, Appellant, v. KOOTENAI COUNTY, Respondent.	APPEAL NO. 19-A-1039 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. CK298001002A. The appeal concerns the 2019 tax year.

This matter came on for hearing October 2, 2019 in Post Falls, Idaho before Board Member Kenneth Nuhn. Kirk Kappen appeared at hearing for Appellant. Kootenai County Assessor Rich 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 $242,392, and the improvements' value is $7,818,640, totaling $8,061,032. Appellant contends the total value is $7,330,988.

The subject property, locally known as The Villas at Riverview apartments, is located in Coeur d'Alene, Idaho. The 3.12 acre parcel is improved with eight (8) multi-level 6-plex buildings constructed in 2015. The overall development totals forty-eight (48) units, comprised of sixteen (16) 2-bedroom, 1 bathroom units, and thirty-two (32) 2-bedroom, 2 bathroom units.

Each unit includes a garage.

Appellant developed three (3) income approach models to estimate subject's market value. The first model relied on subject's actual potential gross income, to which a 2% vacancy rate and a 28% expense rate were applied. The result was a net operating income figure of $447,830, which was capitalized at 6.75%. This model yielded a value conclusion of $6,634,521.

Appellant's second income model relied on subject's actual 2018 income and expense figures. Subject's annual net operating income was $635,262 and expense rate was 21.45%. The same 6.75% capitalization rate was applied to subject's net operating income, which resulted in a value indication of $7,392,932.

Appellant's final income model was developed using subject's actual 2017 income and expense numbers. In this model, an expense rate of 23.15% was applied to subject's annual net income of $598,923. After capitalizing the net operating income at 6.75%, the model estimated subject's value at $6,819,111.

Respondent considered all three (3) approaches to value, however, emphasized the income approach as the best method for estimating subject's market value because it is an income-producing property. In this regard, Respondent stressed the importance of using market rents in valuing subject, not contract rents. Respondent's starting point was a potential gross income figure of $1.17 per square foot, or $776,832, to which 2% vacancy and 28% expense rates were applied. Capitalizing net income of $548,133 at 6.75%, Respondent concluded a value of $8,120,484 for subject under the income approach.

Respondent also developed a sales comparison analysis. Six (6) sales from 2017 and

2018 were included in the model. Overall, the sale properties were widely varied in characteristics; particularly age, condition, and unit count. Sale prices ranged from $780,000 to $7,850,000. Sale No. 4 was regarded as most similar to subject. This property had the same number of units and was similar in terms of gross living area. It also shared a similar 6-plex design with subject. The property sold for $7,850,000, or $176,625 per unit. Each sale property was compared to subject and adjustments were made for differences in property characteristics, plus a 1% per month upward time adjustment. Adjusted sale prices ranged from $144,890 to $196,167 per unit.

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 three (3) primary methods for determining market value include the sales comparison approach, the cost approach, and the income approach. *Merris v. Ada Cnty.*, 100 Idaho 59, 63, 593 P.2d 394, 398 (1979). The income approach is commonly used to estimate the value of income-producing properties because such properties are typically transacted in the marketplace based on their potential income production.

As the parties noted, the cost approach is not the best indicator of value despite subject's newer construction because the current demand for housing in the local market is high and therefore the market value of a typical apartment complex is higher than 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 strongest 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. Admittedly, Sale No. 4 shared many physical characteristics with subject, but in the broader analysis, it represents only a single data point. Due to the overall dissimilarity between subject and the sale properties, the Board placed minimal weight on the sales comparison approach.

As for the income approach, Appellant offered three (3) different models, and Respondent developed one (1). Two (2) of Appellant's income models were based on subject's actual income and expense data. One (1) model relied on subject's 2017 financial performance and the other was based on 2018 numbers. While the Board appreciated Appellant's efforts, an analysis based solely on a property's actual income and expense figures does not represent the best evidence of market value. An estimate of market value necessarily requires consideration of the larger marketplace, not just the performance of a single operator. A property's actual performance figures should certainly be a part of the analysis, however, data from the broader market must also be included. For this reason, the Board placed less weight on Appellant's two (2) income models based on subject's actual income and expense data.

The parties' remaining income approach analyses were better received by the Board. Both used the same market rates for vacancy and expenses, and both utilized the same 6.75% capitalization rate. The difference in the parties' respective models was the amount of potential gross income. 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 exceeded the median rates for each unit type. The following table lists the 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
2 bedroom, 1 bathroom	$1,050	$1,149
2 bedroom, 2 bathroom	$1,200	$1,357

Applying the above rates to subject's specific unit mix, the median annual effective income would be $697,536 using the median rates, compared to $761,295 using Respondent's rates. It was not clear why Respondent chose the lease rates it did, but in both instances the rate used was somewhat higher than the respective median market rate and appreciably higher than subject's actual lease rates. Respondent cited a housing report published in late

2018 by Washington State University which reported an overall average lease rate of $1.13 per square foot for newer apartments, yet subject was assessed at an overall effective rate of $1.17 per square foot. Affording some additional weight to subject's actual rent figures and the housing report cited by Respondent, the Board finds a modest adjustment appropriate 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 $7,291,576, which includes the income Respondent determined was attributable to subject's 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 subject's value to $7,291,576, of which $242,392 is attributable to the land, and $7,049,184 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.