

BEFORE THE IDAHO BOARD OF TAX APPEALS

VERTICAL VIEW, LLC,)	
)	
Appellant,)	APPEAL NO. 20-A-1088
)	
v.)	FINAL DECISION
)	AND ORDER
ADA COUNTY,)	
)	
Respondent.)	
)	
)	
)	

COMMERCIAL PROPERTY APPEAL

This appeal is taken from a decision of the Ada County Board of Equalization modifying an appeal of the valuation for taxing purposes on property described by Parcel No. R8257510035. The appeal concerns the 2020 tax year.

This matter came on for telephonic hearing November 6, 2020, before Hearing Officer Travis VanLith. Member Hart Beal appeared at hearing for Appellant. Chief Deputy Assessor Brad Smith represented Respondent.

Board Members Leland Heinrich, David Kinghorn, 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 Ada County Board of Equalization is affirmed.

FINDINGS OF FACT

The assessed land value is \$1,602,900, and the improvements' value is \$6,640,000, totaling \$8,242,900. Appellant agrees with the land value, however, contends the correct improvements' value is \$4,167,000, totaling \$5,769,900.

The subject property is a 3.59 acre commercial parcel situated off Interstate 84 in Meridian, Idaho. The property is improved with a 31,944 square foot single-tenant vertical climbing gym constructed in 2019.

Appellant characterized the subject building as unique to not just the local area, but also unique to Idaho. In order to achieve the desired sixty-five (65) foot wall height and to remain in compliance with the City of Meridian's fifty-five (55) foot height zoning restrictions, a twenty-five (25) foot basement had to be dug. To support the large free-standing wall inside the building, a concrete anchor measuring roughly thirty (30) feet wide and five (5) feet thick was required. Appellant reported the costs of the basement and anchor, at approximately \$3,000,000, were the most costly components of the construction. Appellant contended the specialized construction, while necessary to create the desired climbing gym, resulted in the facility being super-adequate compared to other climbing gyms. While acknowledging the cost to construct the subject facility was roughly \$10,000,000, Appellant argued cost does not necessarily equal market value, particularly where the higher costs to construct subject were atypical and unique to the subject project.

In support of its value position, Appellant offered an independent fee appraisal report with an effective "as-is" date of valuation of April 7, 2018, and an "at stabilization" valuation date of March 1, 2019, the anticipated completion date for the subject facility at the time the appraisal was performed. The appraisal report developed value estimates using all three (3) appraisal approaches. In its cost approach, the appraisal examined five (5) vacant commercial sales, including subject's purchase in March 2018 for \$1,564,950, or roughly \$10 per square foot. The remaining four (4) sale lots ranged in size from .66 to 3.87 acres. These sales occurred in 2016, 2017, and 2018, at prices ranging from \$375,000 to \$1,178,000, or from roughly \$6 to \$14 per square foot. With primary emphasis on subject's purchase price, the appraisal concluded a value of \$1,565,000 for subject's lot.

For subject's improvements, the appraisal compared the developer's estimated construction cost of roughly \$249 per square foot to cost rates published by Marshall Valuation Service. The appraisal reported cost rates for Average to Good Class S Fitness Center construction ranging from roughly \$95 to \$135 per square foot, and Average to Good Class S Office construction ranging from \$100.97 to \$145.40 per square foot. The appraisal also considered construction costs from a couple local fitness centers, as well as from several out-of-state climbing gyms, ranging from roughly \$100 to \$235 per square foot. Based on the cost information provided, the appraisal determined a replacement cost of \$8,190,000 for the subject facility. At this cost figure, it was estimated the subject facility would need to achieve a potential gross income of \$28.22 per square foot; however, in its income approach model, the appraisal concluded a market rent of \$18 per square foot. The appraisal argued the difference between these two (2) rates was evidence of the existence of super-adequacy, or external obsolescence, affecting the subject property. The appraisal calculated \$3,962,000 in external obsolescence, which was subtracted from the estimated replacement cost new of \$8,190,000, resulting in a depreciated improvement value of \$4,228,000. Adding the above-referenced land value, the appraisal concluded a value of \$5,793,000 for the subject property under the cost approach.

In its sales comparison approach, the appraisal considered seven (7) sales which occurred between 2014 and 2017. Four (4) of the sales concerned fitness centers located in Idaho, and three (3) involved office buildings from the Boise area. Sale prices ranged from \$725,000 to \$2,017,278, or from roughly \$106 to \$204 per square foot. Based on the sales data, the appraisal concluded a value of \$185 per square foot, or \$5,736,000, for the subject

property.

Lastly, the appraisal developed a value estimate for the subject property using the income approach. Six (6) lease comparables were considered to determine the lease rate used to calculate subject's potential gross income. Three (3) of the comparables were general fitness centers, and three (3) were professional office buildings. Lease rates ranged from roughly \$15 to \$26 per square foot. The appraisal determined a lease rate of \$18 per square foot for the subject property, or a potential gross income of roughly \$525,000. A 5% vacancy and collection loss factor and an 8% expense rate were applied against the potential gross income, yielding a net operating income figure of approximately \$460,000. The net operating income was capitalized at 8%, resulting in a final value estimate of \$5,730,000 for the subject property under the income approach.

In its final reconciliation, the appraisal gave secondary weighting to the value estimate reached in the cost approach, due primarily to the appraisal's conclusion subject suffers from notable external obsolescence. Equal weighting was afforded to the value estimates under the sales comparison and income approaches, resulting in a final "at stabilization" value conclusion of \$5,372,000.

Respondent disagreed with several aspects of Appellant's appraisal report. With respect to the cost approach, Respondent noted the appraisal provided cost rates for a Class S building; however, subject is a Class B building, which has a longer expected useful life and roughly 40% higher construction costs. In addition, Respondent pointed out the appraisal made no adjustments to the cost comparables for age, construction type, height, or shape. Respondent similarly criticized the lack of adjustments to sales and lease comparables in the

appraisal's sales comparison and income approach models. The general lack of adjustments rendered the appraisal's final value conclusions unreliable in Respondent's view.

Agreeing the subject property is singularly unique in the area, Respondent argued the best evidence of market value was the cost to construct the facility. As a special use property, Respondent reported there were no comparable properties from which to develop a valuation model or to otherwise derive a reliable value estimate. Therefore, Respondent relied on the building permit value filed for the subject facility, which totaled \$8,300,000. However, as the subject property was not occupied until late January 2020, the improvements were assessed as partially complete, at \$6,640,000, which Respondent contended was reasonable given the uniqueness of the subject facility.

CONCLUSIONS OF LAW

This Board's goal in its hearings is the acquisition of sufficient, accurate evidence to support a determination of market value in fee simple interest, or, as applicable, a property's 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, 2020, in this case. Market value is always estimated as of a precise point in time. Idaho Code § 63-201 provides the following definition,

“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 approaches 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 market value of commercial property; however, because operations at the subject property began after the January 1, 2020, assessment date and there are no comparable climbing facilities in the area, there is no income information from which to develop an income approach valuation model. The sales comparison approach is also problematic because there are no comparable sales of premier climbing gyms in Idaho. The lack of comparable sales was apparent in Appellant's fee appraisal, which used common general gym and office building sales in its sales comparison approach model. More problematic than the sales used in the appraisal was the lack of adjustments to the sales for characteristics such as location, age, time of sale, and other key differences compared to subject. The lack of adjustments, in the Board's view, was a critical weakness in the appraisal's sales comparison approach.

The Board was also not confident in the results reached in the appraisal report's income approach. The lease comparables used concerned common climbing gyms and professional office buildings. Neither of these property types is similar to the subject property, a specialized climbing gym. Compounding the issue of dissimilar property types was the absence of adjustments to the lease comparables in the analysis. In all, the Board did not place much weight on the value estimate reached by the appraisal report's income approach.

What remains is the cost approach. The cost approach is often used for recently constructed or special-use properties. In the case at bar, the subject property is both recently

constructed and special-use, so the cost approach is an appropriate valuation method. While Appellant's fee appraisal did develop a cost approach model, it was based on construction costs of dissimilar building types, which undermined the reliability of the value estimate reached thereunder. Because subject is such a unique facility, which required specialized construction techniques to achieve the desired result, the Board finds the best indicator of value in this case is subject's actual construction costs.

Appellant argued subject's actual construction costs do not represent the current market value of the property. In Appellant's view, the specialized methods required to construct the building resulted in superadequacy, and therefore subject's market value is less than the actual cost to construct. Though it is possible subject suffers from some level of superadequacy, i.e. external obsolescence, there is no way to measure the superadequacy due to the lack of comparable climbing gyms in the area and no operating history for the subject property. Without reliable support, the Board was disinclined to make any superadequacy adjustment in this case.

Pursuant to Idaho Code § 63-511, the Appellant bears the burden of establishing error in subject's valuation by a preponderance of the evidence. Given the record in this matter, the Board did not find the burden of proof satisfied. There were too many questions with various aspects of the appraisal report offered by Appellant to rely on the final value conclusion reached therein. In the end, due to the uniqueness of the subject facility and the lack of comparable properties, the Board found subject's actual construction costs the best indicator of value in this instance. The reported total cost to construct the subject facility was \$8,560,074. However, because the building was not in use as of January 1, 2020, the current

assessed value of the improvements is somewhat lower, at \$6,640,000. Adding the land value of \$1,602,900 results in a total valuation of \$8,242,900, which in this particular instance the Board finds reasonable and supported.

Based on the above, the decision of the Ada County Board of Equalization is affirmed.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the Ada County Board of Equalization concerning the subject parcel be, and the same hereby is, AFFIRMED.

DATED this 8th day of March, 2021.