

BEFORE THE IDAHO BOARD OF TAX APPEALS

CRIFE DISTRIBUTING, LLC,	)	
	)	
Appellant,	)	APPEAL NO. 23-A-1019
	)	
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 denying an appeal of the valuation for taxing purposes on property described by Parcel No. O1029438550. The appeal concerns the 2023 tax year.

This matter came on for hearing October 11, 2023, in Boise, Idaho, before Board Member Leland Heinrich. Member Debbie Cripe appeared at hearing for Appellant. Ada County Chief Deputy Assessor Brad Smith represented Respondent.

Board Members Leland Heinrich, Kenneth Nuhn, and Doug Wallis join in issuing this decision.

**The issue on appeal concerns the market value of a commercial property.**

**The decision of the Ada County Board of Equalization is affirmed.**

FINDINGS OF FACT

The assessed improvements' value is \$1,717,000. Appellant contends the correct value is \$700,000.

The subject property is comprised of three (3) commercial leasehold buildings situated on tax exempt land owned by the City of Boise Airport Authority near the airport.

The largest subject improvement is a 12,400 square foot Class D warehouse constructed in 1965 in below average condition with roughly 2,000<sup>1</sup> square feet of inventory storage on a partial second floor and 448 square feet of office space on the first floor. The second warehouse building is 10,000 square feet in size, constructed in 1980, and was characterized as being in average condition with no significant deferred maintenance. The third improvement is a 4,800 square foot metal dry storage building constructed in 1978. There are no utilities to the building, but it was described as being in average condition.

Appellant detailed some of subject's assessment history since purchasing the property for \$280,000 in 2004. The assessed value in 2005 was \$283,800, which increased steadily to \$613,600 for the 2021 assessment year. For 2022, the property was reappraised, which caused the assessed value to nearly triple, to \$1,724,000. The 2023 valuation is slightly lower, at \$1,717,000, but in Appellant's view still far exceeds the market value of the property.

Appellant was primarily concerned with the dramatic increase in subject's valuation for 2022, which was anomalous compared to the relatively steady rate of increase over the prior seventeen (17) years. Appellant also noted none of its other six (6) warehouse properties in the Treasure Valley experienced similar jumps in assessed value, including one (1) located near the subject property. Appellant questioned whether adequate consideration was given to the poor condition of the subject improvements and the fact they are situated on leased land.

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<sup>1</sup> Respondent explained the inventory storage and office spaces were discovered during a recent inspection of the building so were not included in the current valuation. These areas will be added to future assessments of the property.

For value evidence, Appellant offered an email from a local commercial broker regarding potential listing prices for the subject property. In the broker's opinion, an asking price between \$700,000 and \$750,000 would be reasonable if the ground lease could be extended roughly 6.5 years through January 2030. And if the lease could be extended an additional 15 to 20 years, the broker suggested an asking price in the range of \$900,000 to \$950,000. The broker further opined the property could potentially generate \$11,000 to \$12,000 per month on a triple net (NNN) basis if Appellant itself were to extend the ground lease through January 2030 and lease the buildings to a new tenant. Appellant, however, expressed no interest in assuming a landlord role and insisted the buildings could not be sold for the roughly \$1,700,000 assessed value.

Appellant additionally referenced a nearby airplane hangar property that was completely renovated a few years ago. Details concerning the specific renovation work to the hangar were not shared, though Appellant characterized the building as brand new. According to Appellant, the current assessed value of the hangar building is approximately \$3,600,000. Appellant argued it was unrealistic that the market value of the subject buildings, which are in poor condition, is only about one-half ( $\frac{1}{2}$ ) the value of the "new" hangar building.

Respondent explained the local commercial real estate market has experienced considerable appreciation the last several years, which has caused notable increases in assessed values. The increase in subject's assessed value for the 2022 year was the result of Respondent's reappraisal of the property, which took into account recent market activity. Respondent further commented that Appellant's other warehouse properties located in Ada County did not experience similar levels of increase because they have

not yet been reappraised, though increases were expected when such reappraisal does occur.

In determining subject's current assessed value, Respondent relied on an income approach analysis. An income model was developed for each of the three (3) subject buildings. Despite local lease data for Class D buildings indicating an average lease rate of \$0.65 per square foot NNN, Respondent's income model utilized a rate of \$0.565 for the subject buildings due to their below average condition. Respondent applied a 4% vacancy and collection loss factor, as well as a 5% operating expense rate, resulting in a combined net operating income estimate of roughly \$170,000. The net operating income was capitalized at 6.5%, which was noted to be above market due again to the condition of the subject buildings. The result was an overall valuation of nearly \$2,600,000 for the entire property, including the underlying land.

As the subject property consists of only buildings, Respondent backed out \$870,500 for the value attributable to the underlying land, which was calculated based on a 4:1 building-to-land ratio and a valuation rate of \$8 per square foot. This yielded an indicated value of \$1,717,000 for the improvements, with \$782,700, \$631,400, and \$302,900 attributable to the respective subject buildings from largest to smallest in size. Given the lower lease rate and the higher capitalization rate utilized in the income model and that there is approximately 4,000 square feet of space not reflected in the property record and thus not assessed, Respondent considered subject's current assessed value reasonable.

Though not used in subject's valuation, Respondent provided information concerning four (4) sales of Class C warehouses from 2021 to illustrate the difference in

value compared to Class D warehouses. The sale warehouses were constructed from 1971 to 1994 and ranged in size from 10,050 to 50,015 square feet. Sale prices stretched from \$1,800,000 to \$7,750,000, or from \$141 to \$197 per square foot. By contrast, the subject property is collectively assessed as a Class D warehouse property at \$95 per square foot, assuming the land was included, which was the case with the sale properties. Respondent emphasized subject's valuation was considerably lower than the indicated range for Class C warehouse properties.

### 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, 2023, 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 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). Commercial property is commonly valued

using the income approach because such properties are typically traded in the marketplace based on their income-producing potential.

Though Appellant disagrees with the current valuation, Appellant's primary concern was the significant jump in assessed value for 2022, which contrasted sharply with the relatively steady rate of increase the property experienced since 2005. While the Board understands the surprise caused by the 2022 increase, Idaho requires all taxable property be assessed at market value each year regardless of the rate of increase needed to achieve such market value. And as has been well publicized, the real estate market in Idaho generally, and Ada County specifically, experienced historic levels of appreciation in recent years, which in turn has caused assessed values to increase at remarkable rates. The relevant issue, however, is not the rate of increase for any particular property, but whether the property is assessed at market value.

Determining market value necessarily requires an analysis of recent market data, which is the fundamental weakness in Appellant's value position. No sales, rental information, or other market data was offered in support of Appellant's \$700,000 value claim. Rather, Appellant simply provided an email from a local real estate broker which estimated a value of \$700,000 to \$750,000 for the subject property assuming the ground lease with the Airport Authority could be extended an additional six and one-half (6½) years beyond the current term, or a value of \$900,000 to \$950,000 if the lease was extended a guaranteed fifteen (15) to twenty (20) years. No details or supporting market data was provided for the value opinions, so it is unknown how the broker determined the value estimates or what factors were considered. Without some support for the value indications, the Board placed little weight on the broker's opinion.

The Board was similarly unpersuaded by the assessment information referenced by Appellant regarding the lesser rates of increase experienced by other warehouse properties in the Treasure Valley also owned by Appellant, as well as the valuation of a nearby remodeled hangar. A comparison of assessed values is not a recognized appraisal approach and generally not regarded as the best evidence of current market value. And absent a claim of disuniformity or inequitable assessment, assessed values of other properties are not particularly relevant to the question of whether subject's assessed value is at market. With respect to uniform assessment, the Idaho Supreme Court expressed,

While the courts will not attempt to correct mere mistakes or errors of judgment on the part of the assessor or board of equalization, where intentional, systematic discrimination occurs, either through undervaluation or through overvaluation of one property or class of property as compared to other property in the county, the courts will grant relief.

*Anderson's Red & White Store v. Kootenai Cnty.*, 70 Idaho 260, 264, 215 P.2d 815, 817 (1950).

Nothing in the record suggested subject's current assessed value was the result of different assessment treatment. Quite the opposite: Respondent endeavored to value the subject property according to its actual and functional use as a Class D warehouse property in below-average condition in a highly desirable commercial location near the airport. This was evidenced by Respondent's use of a below-market lease rate and a higher capitalization rate, both contributing to a lower value conclusion for the subject property. Without sales of similar warehouse properties or other relevant market data indicating a lower value, the Board was strained to find subject was over-assessed for 2023.

Idaho Code § 63-511 places the burden on Appellant to establish subject's valuation is erroneous by a preponderance of the evidence. Given the record in this matter, the Board did not find the burden of proof satisfied. Appellant did not offer any recent market data in support of a lower valuation, whereas Respondent developed an income model utilizing information gleaned from the marketplace. In all, Respondent's analysis was found to provide the best evidence of subject's market value in this instance. Accordingly, 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 8<sup>th</sup> day of February, 2024.