BEFORE THE IDAHO BOARD OF TAX APPEALS

SHJH SHELLEY, LLC, Appellant, v. BINGHAM COUNTY, Respondent.	APPEAL NOS. 23-A-1146, 23-A-1147, and 23-A-1148 FINAL DECISION AND ORDER

COMMERCIAL PROPERTY APPEAL

These appeals are taken from decisions of the Bingham County Board of Equalization denying appeals of the valuation for taxing purposes on properties described by Parcel Nos. RP2151400, RP2151500, and RP2151600. The appeals concern the 2023 tax year.

These matters came on for hearing October 10, 2023, in Blackfoot, Idaho, before Board Member Doug Wallis. Managing Member Scott Harris appeared at hearing for Appellant. Bingham County Assessor Donavan Harrington represented Respondent.

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

The issues on appeal concern the market values of three (3) commercial properties.

The decisions of the Bingham County Board of Equalization are affirmed.

FINDINGS OF FACT

Parcel No. RP2151400 (Appeal 23-A-1146)

The assessed land value is $70,000, and the improvements' value is $1,944,900, totaling $2,014,900. Appellant contends the correct land value is $50,000, and the improvements' value is $1,500,000, totaling $1,550,000.

Parcel No. RP2151500 (Appeal 23-A-1147)

The assessed land value of this unimproved lot is $70,000. Appellant contends the correct value is $50,000.

Parcel No. RP2151600 (Appeal 23-A-1148)

The assessed land value is $70,000, and the improvements' value is $3,699,900, totaling $3,769,900. Appellant contends the correct land value is $50,000, and the improvements' value is $2,827,500, totaling $2,877,500.

The subject properties are three (3) contiguous parcels in Shelley, Idaho, totaling roughly 2.09 acres in size. The properties are operated together as a multi-family apartment complex, offering one (1), two (2), and three (3) bedroom units. The properties are improved with three (3) separate, three (3) story buildings constructed in 2019 with a total of fifty-four (54) units.

Appellant's primary concern was subjects' current assessed values when compared to assessments of other nearby similar type properties. In this regard, Appellant provided limited assessment information on three (3) local apartment complexes. The first was a 68-unit development situated across three (3) parcels totaling 7.0 acres in size with an assessed value of approximately $3,900,000, or $57,000 per unit. Next was an 80-unit complex on a 9.22 acre parcel with an assessed value of nearly $3,300,000, or $41,000 per unit. Lastly, Appellant reported an 18-unit complex on a 1.0 acre lot with an assessed value of approximately $880,000 or $49,000 per unit. By comparison, the subject development is assessed at approximately $5,850,000, or $108,000 per unit, which Appellant argued was excessive. Respondent commented that the referenced complexes were appreciably older than the subject development and were generally not comparable.

Appellant additionally contended subjects' land values were inequitable with other nearby land values. Specifically, Appellant highlighted the land assessments for two (2) adjacent lots at $50,000 each compared to the $70,000 assessed land value for each subject parcel. Appellant argued subjects' land values should each be reduced to the $50,000 figure. Respondent stressed Appellant purchased the subject lots for $70,000 each a couple years ago, so maintained the current valuations of $70,000 were reasonable, regardless of the referenced assessments.

Appellant additionally developed an income approach valuation model using the subject development's income and expense data for 2022. A total operating income figure of roughly $700,000 was determined after applying a vacancy factor. From this, operating expenses were removed, yielding a net operating income of nearly $235,000. The net operating income was capitalized at 7%, resulting in a total value of approximately $3,300,000, which in Appellant's view, represented the better estimate of subjects' current market value. Respondent pointed out the operating expenses included mortgage interest and debt expense, which should have been excluded.

In support of subject's assessed value, Respondent emphasized the income approach. The source of the $738,000 income figure used in the model was unclear, but the 15% vacancy and rent loss factor was reportedly derived from the market. In similar fashion, Respondent utilized a market-derived rate of 30% for the operating expenses, resulting in a net income figure of roughly $420,000. This was capitalized at 7.5%, which yielded a total improvement value of $5,640,000. After adding the $210,000 combined land value of the subject lots, Respondent concluded a total market value of approximately $5,850,000 for the apartment complex and argued subjects' combined assessed value of $5,854,800 was reasonable by comparison.

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 sales comparison approach, the cost approach, and the income approach comprise the three (3) primary methods for determining market value. *Merris v. Ada Cnty*., 100 Idaho 59, 63, 593 P.2d 394, 398 (1979). Commercial property is often valued using an income approach, as such property is typically traded in the marketplace based on its income-producing potential.

Before examining the parties' respective income approach models, the Board will briefly address Appellant's claims that subject's assessment was inequitable. To begin, a comparison of assessed values is not a recognized appraisal method and is typically not regarded as the best evidence of current market value. Even if this were not the case, where Appellant shared only acreage, unit count, and assessed values for just three (3) local apartment complexes, there were too few details concerning the referenced properties, such as unit mix, size, age, construction quality, and other characteristics to make any meaningful comparisons with the subject complex. There was also a wide spread in unit count from 18 to 80, which further complicated comparisons with the subject development. In short, the Board was not persuaded the subject properties were inequitably assessed given the limited information provided on the issue.

Looking next to the parties' respective income approach models, there were some concerns with both. To begin, nearly 60% of the operating expenses included in Appellant's model were for mortgage interest and debt expense, which should have been excluded from the analysis. Interestingly, removing these expenses from the calculation yields an operating expense ratio of 28%, which nearly approximates the 30% expense ratio Respondent determined from the market. Appellant's model also failed to include any value for the subject lots. Adding subjects' land values and removing the mortgage and debt expenses from the analysis, increases the value conclusion from approximately $3,350,000 to $7,400,000.

Appellant contended the mortgage interest expense included more than just interest payments so it should not be completely removed. Appellant, however, was unaware of what other expenses may have been included in the figure, nor was Appellant able to offer an estimate of how much of the reported mortgage interest expense should be removed. But even if 60% of the mortgage interest expense is removed, the value conclusion comes in at roughly $5,960,000, which is still above the current assessed value.

Respondent's income approach was better received by the Board where it emphasized market rates for inputs into the model over subject's actual income and expense data. Utilizing market rates is generally regarded as more reliable for estimating market value because it effectively removes from the analysis any influence on a particular property's value caused by management's over- or under-performance compared to the market. It was also not lost on the Board that Respondent's market-derived vacancy rate of 15% and a market expense ratio of 30% produced a lower value conclusion than if subject's 7% actual vacancy rate and 28% expense ratio were used. Respondent was likewise conservative in utilizing a 7.5% capitalization rate, which was higher than the 7.0% rate Appellant used in its own analysis, and notably higher than the 6.28% rate calculated for the recent multi-tenant sale reported by Respondent. In all, the Board found no error in Respondent's reliance on the income approach, nor the value conclusion reached thereunder.

The burden of proving error in subjects' valuations by a preponderance of the evidence is Appellant's to bear. Idaho Code § 63-511. Given the record in this matter, the Board did not find the burden of proof satisfied. Respondent's income model more closely adhered to accepted methodologies, and the inputs into the model were market-based and demonstrated to be reasonable. Accordingly, the decisions of the Bingham County Board of Equalization are affirmed.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decisions of the Bingham County Board of Equalization concerning the subject parcels be, and the same hereby are, AFFIRMED.

DATED this 10th day of January, 2024.