

square foot shop. The property is additionally improved with forty (40) covered RV storage spaces.

Appellants disagreed with the increase in subject's assessed value and contended the current valuation of roughly \$1,000,000 was unrealistic and unsupported. Appellants referenced a March 2021 valuation analysis from a realtor who concluded a value from \$558,000 to \$563,000 for the subject property, though details of the analysis and the data used were not shared. According to Appellants, the realtor updated the value conclusion for 2023 to \$650,000, which Appellants viewed as a more reasonable valuation.

Appellants also offered information on two (2) active commercial listings in town. The first was a 3,271 square foot commercial building in downtown Council with potential use as a multi-tenant office or retail space. This property was initially listed for sale in January 2023 for \$248,000, which was then reduced to \$225,000 in July 2023. The other listing was for an 8,120 square foot commercial building in New Meadows with an adjoining retail shop, five (5) leased offices, as well as a two (2) bedroom, one (1) bathroom apartment. Also included in the \$1,299,000 asking price was the barbeque restaurant business; the associated liquor license; and the furniture, fixtures, and equipment.

Appellants further contended the subject property does not generate enough income to justify the current valuation. According to Appellants, the retail and shop space is leased for \$750 per month and the RV storage generated roughly \$15,500 in revenue during 2022. Appellants reported an annual net operating income of \$19,140 for 2022. Appellants acknowledged subject's lease rates were below market so expect higher income for 2023 after increasing the rates.

Respondent explained the increase in subject's assessed value was the result of trending applied to commercial values for 2023, though details of the sales or market data used for such trending were not shared. In support of subject's valuation, Respondent offered a cost approach analysis which separately examined the retail shop, the attached shop, and the RV storage buildings. The analysis concluded a combined replacement-cost-new-minus-depreciation estimate of roughly \$330,000. To this, a 283% trend factor was applied, which yielded a value of \$931,282 for subject's improvements. After adding the land value of \$69,403, Respondent concluded a total valuation of \$1,000,685.

Though Respondent relied on the cost approach, Respondent did also prepare a valuation analysis using the income approach. Respondent determined a gross income figure of \$57,000 using a 0% vacancy factor. From this, Respondent removed 16% for operating expenses, which yielded a net operating income of nearly \$48,000. The net operating income was capitalized at 6.5%, resulting in a value indication of \$736,615, of which Respondent allocated \$69,403 to the land and \$667,212 to the improvements.

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 commonly valued using the income approach or the sales comparison approach.

Appellants questioned the roughly 70% increase in subject’s assessed value over the prior year. Respondent alluded to general commercial market trends and the need to increase values as the reason for the increase in subject’s value, but provided nothing specific in this regard. Nor did Respondent offer any direct market data or sales in support of subject’s current valuation. Rather, Respondent provided a segregated cost approach analysis, to which a heavy trend factor was applied.

The cost approach is not typically used to estimate the market value of commercial property, as commercial property is generally traded in the marketplace based on its income potential. Nor is the approach particularly well-suited for valuing older improvements due to the inherent difficulty in accurately estimating appropriate depreciation. Here, however, given the lack of commercial sales and rental data in subject’s local marketplace, Respondent’s reliance on the methodology is understandable. That being said, there were concerns from the Board’s perspective. Chief in this regard was the 283% trend factor, for which no support was offered. This trend factor nearly tripled the value of the improvements from \$329,256 to \$931,282.

Without more information regarding the trend factor, the Board was hesitant to rely heavily on Respondent's cost approach model.

Respondent additionally developed an income approach model, which was generally better received by the Board, as subject is an income-producing property. Appellants shared some income data for subject, but the lease rates were admittedly below market, so it would be inappropriate to rely on these figures for the analysis. Respondent's income model was reportedly based on market rent and expense information, which is consistent with accepted standards of appraisal. This analysis concluded a value of \$736,615 for the subject property. This valuation is more reasonable in the Board's view, particularly given the absence of any comparable sales near the \$1,000,000 mark.

The burden of establishing error in subject's valuation by a preponderance of the evidence is Appellants' to bear. Idaho Code § 63-511. In weighing the record in this matter, the Board found the burden of proof satisfied and will reduce subject's total valuation to \$736,615. The decision of the Adams County Board of Equalization is modified accordingly.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the Adams County Board of Equalization concerning the subject parcel be, and the same hereby is, MODIFIED, reducing the total valuation to \$736,615, with \$69,403 attributable to the land and \$667,212 to the improvements.

DATED this 13th day of March, 2024.