BEFORE THE IDAHO BOARD OF TAX APPEALS

CITIGROUP TECHNOLOGY, INC.,	)	
Appellant,	)	APPEAL NO. 23-A-1112
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. R7909850392. The appeal concerns the 2023 tax year.

This matter came on for hearing December 18, 2023, in Boise, Idaho, before Board Member Leland Heinrich. Attorney Robert Faucher 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 an improved commercial property.

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

FINDINGS OF FACT

The assessed land value is $8,397,500, and the improvements' value is $30,477,500, totaling $38,875,000. Appellant contends the correct total value is $25,250,000.

The subject property is 16.07 acre commercial parcel located in south Meridian, Idaho. The property is improved with a three (3) story 176,788 square foot commercial building constructed in 2005. The building, which serves as a large call center, was designed for single tenant use and has historically been occupied as such. The second and third floors are mostly open spaces for cubicles, with some private offices, restrooms, and storage areas. The first floor contains a lobby, a large corporate-style cafeteria with a commercial kitchen, a fitness center, seven (7) large training rooms, an open meeting area, some offices and cubicle spaces, and a storage area with a loading dock.

Appellant purchased the subject property for $24,000,000 in 2018 with the intent to own and occupy the building for the long term. The plan changed, however, with the COVID-19 pandemic, as Appellant discovered much of the call center work could be done by employees from home. Most employees transitioned to a remote work model and ceased coming to the office. Appellant estimated only roughly fifty (50) employees were using the building at the end of 2022.

Due to the fractional usage of the building, Appellant decided to sell the subject property and began exploring options toward that end. Appellant engaged a local broker to market the property for sale on the open market. Connected with this effort, the broker developed a Broker's Opinion of Value report which estimated a value of $21,050,000 for the subject property.

Appellant also obtained an independent fee appraisal of the subject property. The appraisal developed value estimates using the sales comparison and income approaches. In its income model, the appraisal identified eight (8) comparable office rental properties from Boise and Meridian. The buildings ranged in net building area from roughly 65,000 to 147,000 square feet, with lease rates from $16.79 to $25.90 per square foot. The appraisal emphasized subject's similarities with Rent Comparable No. 7 with a lease rate of $18[1] per square foot, as it was similar in age and was also designed as a call center. The appraisal concluded a market lease rate of $17.50 per square foot for subject, which was used to calculate a potential rental income. The appraisal also looked to the local marketplace for appropriate vacancy and expense rates. A 10% vacancy rate was utilized, and operating expenses were estimated at $7.08 per square foot, or an overall operating expense ratio of approximately 32%. The result was a net operating income of nearly $2,600,000 which, after being capitalized at 7%, yielded a value indication of roughly $36,800,000 for the subject property.

The $36,800,000 figure represented a prospective stabilized value of the property as of August 22, 2024. The appraisal, however, also determined a lower present "as-is" value. Due to the rather large size of the subject building and its design as a call center with open floor plans, the appraisal anticipated the most likely future use was a multi-tenant office building. It was explained converting the current single-user design into a multi-tenant office building would require notable expense, both in terms of the necessary tenant improvements to physically alter the floor plans into multi-tenant suites and in the lost rent during the lease up period to fill the building with tenants. The appraisal estimated a marketing time of eighteen (18) months, with nearly $5,700,000 in lost rent during that time. To this, the appraisal added approximately $7,300,000 in tenant improvements, as well as 5% in leasing commissions and 10% profit. This yielded a rounded total lease-up cost of $15,100,000. The lease-up costs were removed from the stabilized value

[1] The $18 per square foot lease rate is for roughly 21,000 square feet of space. There is a separate 7,108 square foot space in the building leased at $18.50 per square foot.

conclusion, which resulted in an as-is value for subject of $21,700,000 as of February 22, 2023.

For the sales comparison approach, the appraisal identified seven (7) sales which transpired during 2021 and 2022. Due to the lack of similarly sized buildings in the local area, only one (1) of the sale properties was located in Boise. The other sale properties were in Arizona, Colorado, Oregon, Washington, and Utah. The sale buildings ranged from roughly 88,000 to 241,000 square feet in net rentable area. Sale prices stretched from $16,000,000 to $55,650,000, or from roughly $204 to $255 per square foot. The appraisal adjusted the sales for differences in property characteristics compared to subject, resulting in adjusted sale prices from approximately $205 to $247 per square foot. A rate of roughly $225 per square foot was determined for the subject property, which equated to a value of $38,500,000. As this figure represented the prospective stabilized value of the property, the appraisal then removed the estimated lease-up costs determined above in the income approach and concluded an as-is value of $23,400,000, as of February 22, 2023, in its sales comparison approach.

In the final reconciliation, the appraisal equally weighed the value indications reached under both appraisal approaches, as market participants typically consider both methodologies for an income-producing property like subject. Ultimately, the appraisal concluded a prospective stabilized value of $37,000,000 for the subject property, and an as-is value of $22,000,000.

With the above value indicators in mind, Appellant listed the subject property for sale on the open market, but with no specified asking price. In mid-2023, Appellant received a purchase offer of $24,000,000 from a prospective buyer intending to utilize the building for its own corporate headquarters. Appellant made a counteroffer and a purchase and sale agreement was executed for $25,250,000 in June 2023. Despite remaining a single-tenant building, the purchaser expected to incur notable costs reconfiguring the building to accommodate its specific intended use and to update the interior finishes. Appellant argued the roughly $25,000,000 purchase price represented the best evidence of subject’s current market value, as it was the result of negotiations between two (2) sophisticated and unrelated parties and petitioned the Board to reduce subject’s assessed value accordingly.

Respondent stressed the purchase and sale agreement was not executed until mid-June, or roughly six (6) months after the January 1, 2023, date of valuation, and the sale was not expected to close until November 2023, approximately eleven (11) months after the relevant valuation date. Respondent also disagreed with the appraisal concluding an as-is value for the subject property instead of a stabilized value. Respondent contended the vacancy caused by Appellant’s fractional usage of the subject building was a temporary condition resulting from a management decision specific to the subject property and was not representative of the local market for office buildings. Respondent argued that to promote uniformity and equity in assessment, it is necessary to value commercial property as if stabilized, with certain exceptions not applicable here.

Though Respondent relied on the income approach to value the subject property, information concerning four (4) office building sales and one (1) active listing was also offered. The sale buildings ranged from roughly 62,000 to 92,000 square feet in size and all had been remodeled to some degree since 2017. The properties sold from January 2017 to March 2021 for time-adjusted prices ranging from $13,440,000 to $17,980,000, or from $186 to $254 per square foot. The active listing concerned a roughly 90,000 square foot office building with an asking price of approximately $23,450,000, or $260 per square foot. Respondent pointed out subject's assessed value equates to $220 per square foot based on the nearly 177,000 square foot overall area, which was less than the stabilized value of roughly $225 per square foot concluded by Appellant's appraisal using a leasable area of approximately 171,500 square feet.

For the income approach, Respondent identified five (5) lease comparables located in Meridian. The office buildings ranged in size from roughly 30,000 to 122,000 square feet, with lease rates from $22.00 to $23.50 per square foot on a full-service basis[2]. Respondent utilized a triple net lease rate of $16.80 per square foot to calculate subject's potential gross income at nearly $3,000,000. Based on third-party resources, Respondent used a market vacancy rate of 5% and a 7% operating expense rate. After capitalizing the roughly $2,600,000 net operating income figure at 6.75%, Respondent concluded a value of $38,874,489 for the subject property. Respondent again noted the similarities with Appellant's appraisal, which determined a net operating income figure within 2% of Respondent's and reached a similar stabilized value conclusion.

Appellant argued Respondent's stabilized valuation approach failed to accurately estimate the market value of the subject property on January 1, 2023, particularly because only a portion of the building was being utilized. Appellant also contended Respondent erred in failing to consider any lease-up costs needed to reconfigure the building and to bring it up to stabilization. Appellant maintained the appraisal report better

[2] One (1) of the reported lease rates was $18.45 per square foot on a triple net basis, which according to the parties roughly equates to a $24.45 full-service rate.

addressed the stabilization issue, resulting in a more accurate estimate of subject's market value on the assessment date than the value determined by Respondent.

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 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). Commercial property is typically valued using the income approach or the sales comparison approach, or a combination of both.

Though the parties developed value estimates using the typical approaches, Appellant emphasized subject's roughly $25,000,000 purchase price in June 2023 as the best evidence of current market value. The Board agrees the recent arm's-length sale of the property is generally regarded as strong evidence of that property's market value, but there were some concerns in this instance. Subject's sale was undoubtedly an arm's-length transaction between unrelated parties, but it did not occur until mid-June, roughly six (6) months beyond the relevant date of valuation in this matter. Appellant argued there were no statutes or rules prohibiting this Board from considering sales which occur after the assessment date and therefore subject's purchase price should not be disregarded.

While the Board is unaware of any specific legal prohibitions against considering sales after the date of valuation, logically, such sales should not be considered. Determining market value as of a particular date necessarily requires analysis of sales and other market data which existed prior to such date of valuation. Naturally, information from after the valuation date is unknowable to market participants who are setting marketplace values leading up to the relevant date using information available at the time. A possible exception might be a property that had been listed for sale on the open market prior to the date of valuation but sold relatively soon thereafter. In that instance, the property's listing information and potential value indications would have been available to market participants as of the date of valuation. Here, the subject property was listed for sale roughly one (1) month after the assessment date and sold more than six (6) months after the relevant date, neither of which were known or knowable to market participants on January 1, 2023, and therefore should not form the basis for determining subject's market value in this case.

Appellant's other value indicators included a Broker Opinion of Value report of roughly $21,000,000 and an independent fee appraisal report with a value conclusion of $22,000,000. Both reports had effective dates of valuation after January 1, 2023.

However, where the analyses were based on sales and market information from prior to January 1st, they are relevant indicators and did factor into the Board's consideration of subject's market value. By comparison, Respondent's income model concluded a value of $38,875,000, or approximately $220 per square foot, and the time-adjusted sales data suggested values between $186 and $260 per square foot.

Though the parties' respective valuation models concluded widely disparate estimates of value, the analyses were strikingly similar, particularly the inputs into the income approaches. The only material difference between the parties' value conclusions was that Respondent's represented a stabilized value, whereas Appellant's value conclusions represented non-stabilized values, or "as-is" values. Appellant argued an as-is value is most appropriate for the subject property because most of the building was not being utilized due to changes in Appellant's business workplace model. Respondent contended the under-utilization, or vacancy, of the subject property was transitory in nature and was the result of Appellant's particular circumstances, which Respondent maintained was not indicative of the broader commercial office market. The Board agrees.

As of January 1, 2023, subject was an owner-user property, owned and used by Appellant for Appellant's specific business purposes. The entirety of the building was available for Appellant's use. The underutilization, or "vacancy," of the building was a management decision stemming from a shift in Appellant's operations and was not caused by high vacancies or other weaknesses in the broader market. In other words, any vacancy, to the extent any true vacancy existed, was the direct result of Appellant's own management decisions. It cannot, therefore, reasonably be used as the basis for adjusting subject's assessed value downward, as assessed values are determined based on information from the market, not just a single property.

The lease-up issue was the Board's biggest concern with respect to Appellant's valuation models, as each were based on the assumption the subject property would be remodeled into a multi-tenant building, which would require considerable tenant improvements. The assumption was not unreasonable given that Appellant's intention at the time the analyses were performed was to continue to occupy 40,000 square feet, or nearly 23%, of the building after the property was purchased. This assumption, however, is unreasonable with respect to the status of the subject property on January 1st, which was an owner-user property, 100% occupied by Appellant, even if the entirety of the building was not being actively utilized. In this respect, the stabilized values determined by Appellant's valuation models better reflected the status of the subject property on the assessment date.

While a lease-up cost analysis may be appropriate in certain situations, such as a newly constructed multi-tenant commercial building, the Board did not find it appropriate for the subject property under the circumstances presented here. Therefore, Appellant's remaining value indicators were stabilized values of $36,800,000 and $38,500,000 under the income and sales comparison approaches, respectively. These values are remarkably similar to subject's assessed value of $38,875,000, so rather than demonstrate error, Appellant's value conclusions serve more to support the assessed value.

Pursuant to Idaho Code § 63-511, Appellant bears the burden of establishing 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. Subject's assessed value was found to be reasonably supported by Respondent’s analysis, which also closely approximated Appellant’s stabilized value conclusions. 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 11th day of April, 2024.