

BEFORE THE IDAHO BOARD OF TAX APPEALS

KORU PROPERTIES, LLC,	)	
	)	
Appellant,	)	APPEAL NOS. 23-A-1226
	)	through 23-A-1229
v.	)	
	)	FINAL DECISION AND ORDER
PAYETTE COUNTY,	)	
	)	
Respondent.	)	
_____	)	

**COMMERCIAL PROPERTY APPEALS**

These appeals are taken from a decision of the Payette County Board of Equalization denying the appeals of the valuation for taxing purposes on properties described by Parcel Nos. F00000221765, F00000221760, F00000221775, and F00000221770. The appeals concern the 2023 tax year.

These matters came on for hearing November 27, 2023, in Payette, Idaho, before Board Member Leland Heinrich. Attorney Kyle Bastian appeared at hearing for Appellant. Payette County Assessor Sandra Clason 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 four (4) commercial properties.**

**The decisions of the Payette County Board of Equalization are reversed.**

FINDINGS OF FACT

Parcel No. F00000221765 - (Appeal No. 23-A-1226)

The assessed land value of this unimproved .42 acre parcel is \$155,043. Appellant contends the correct land value is \$130,000.

Parcel No. F0000221760 - (Appeal No. 23-A-1227)

The assessed land value is \$811,946, and the improvements' value is \$754,859, totaling \$1,566,805. Appellant contends the correct total value is \$810,000.

This subject property is a 1.97 acre commercial parcel improved with a light industrial building constructed in 2016. The building is wood frame construction with a metal roof and siding. The building is divided into two (2) tenant suites, each with 1,230 square feet of warehouse area and 930 square feet of office space on the ground floor with 590 square feet of office space above. For purposes of this decision, this subject property will be referred to as Building 3.

Parcel No. F0000221775 - (Appeal No. 23-A-1228)

The assessed land value is \$180,275, and the improvements' value is \$589,402, totaling \$769,677. Appellant contends the correct total value is \$530,000.

This subject property is a .44 acre commercial property improved with a light industrial building constructed in 2018. The single tenant building totals 4,500 square feet in size, with 1,700 square feet of office space on the main level and 1,600 square feet of warehouse area, plus 1,200 square feet of office space on the upper floor. This subject property will be referred to as Building 1.

Parcel No. F0000221770 - (Appeal No. 23-A-1229)

The assessed land value is \$153,594, and the improvements' value is \$512,600, totaling \$666,194. Appellant contends the correct total value is \$530,000.

This subject property is a .40 acre commercial property improved with a wood frame light industrial building with a metal roof and siding constructed in 2018. The single tenant building totals 4,500 square feet in size, with 1,700 square feet of office space on

the main level and 1,600 square feet of warehouse area, plus 1,200 square feet of office space on the upper floor. This subject property will be referred to as Building 2.

The subject properties are four (4) contiguous commercial parcels located in Fruitland, Idaho, totaling approximately 3.24 acres in size. Appellant purchased the subject properties together in an arm's-length transaction in April 2021 for \$1,755,000. The combined 2022 assessed values of the subject properties was \$2,794,618, which was reduced by the Payette County Board of Equalization (BOE) to \$2,121,286. For 2023, subjects' combined assessed value was \$3,218,817; however, a corrected assessment notice was issued for Building 2 (Parcel No. F0000221770) by the assessor's office, which reduced subjects' combined valuation to \$3,157,719. This corrected combined value was upheld by the BOE.

In support of a lower valuation, Appellant offered an independent fee appraisal of the subject properties from a local commercial appraisal firm with an effective date of valuation of January 1, 2023. The appraisal did not evaluate subjects together as a single property, but rather developed separate value estimates for each. Starting with the .42 acre vacant subject parcel, the appraisal analyzed three (3) commercial sales located in Fruitland, one (1) in nearby New Plymouth, and two (2) in neighboring Canyon County. The sale lots ranged in size from .19 to 2.73 acres and in sale price from \$75,000 to \$850,000, or from \$3.55 to \$9.06 per square foot. The appraisal compared each sale lot to the subject parcel and considered various qualitative adjustments, though no adjustments were ultimately made. The appraisal concluded a value of roughly \$7 per square foot, or \$130,000, for the unimproved subject parcel.

Turning to the three (3) improved subject properties, the appraisal included seven (7) light industrial sales in its comparative sales model. One (1) of the sale properties was located in New Plymouth, four (4) were located in Canyon County, and two (2) were located across the state border, in Ontario, Oregon. The sale properties varied in lot size from .20 to 3.26 acres. The sale buildings were constructed from 1987 to 2022 and ranged from 2,500 to 22,380 square feet in size. Sale prices varied from \$210,000 to \$3,948,650, or from roughly \$82 to \$243 per square foot. Again, the appraisal considered various qualitative adjustments to the sales for comparison with the subject properties, but none were applied. Based on the price rates, the appraisal concluded a rate near the middle of the range at \$115 per square foot for Buildings 1 and 2. For the larger Building 3, the appraisal concluded a value of \$800,000, of which roughly \$263,000 was attributable to the excess land associated with the 1.97 acre parcel.

The appraisal next developed value estimates using the income approach. Leases for seven (7) light industrial properties located in Canyon and Ada counties were analyzed. Lease rates varied from \$0.90 to \$1.36 per square foot for light industrial buildings ranging from 3,952 to 22,380 square feet in size. Based on the lease rates, the appraisal found a reasonable range for the subject buildings from \$0.90 to \$1.04 per square foot and concluded an overall blended rate of \$0.95 per square foot to calculate the potential gross income. For Buildings 1 and 2, the appraisal determined a potential gross income of approximately \$50,000, and the gross income for the larger Building 3 was nearly \$76,000. A 5% vacancy rate was used, as was a 4% management expense rate. After deducting all operating expenses, the appraisal calculated a net operating income figure of roughly \$38,000 for Buildings 1 and 2, which after capitalized at 7.15%,

yielded value conclusions of \$530,000 each. For Building 3, an approximate net operating income of \$59,000 was capitalized at 7%, resulting in a value conclusion of \$810,000.

In reconciling the value indications reached under the sales and income approaches, primary emphasis was afforded the income approach because in the appraisal's opinion, the most likely purchaser of the subject properties would be an investor, and investors generally prefer the income approach. Appellant contended the values concluded by the appraisal report represented the best evidence of subjects' market values and petitioned the Board to reach the same conclusion.

Respondent explained subjects' current valuations were the result of trending applied to the cost approach. According to Respondent, commercial land values throughout the county were doubled<sup>1</sup> for 2023 and improvements were trended upward by 25%<sup>2</sup>. Though the cost approach was used to determine subjects' assessed values, Respondent also developed value opinions using the income and sales comparison approaches. Respondent's income model determined annual gross income totals for each subject property and capitalized those income figures at 7.94%. No vacancy factor was applied, nor did the analysis deduct any expenses. Respondent's income analysis concluded a combined value of roughly \$1,940,000 for the subject properties.

For its sales comparison approach, Respondent provided information on four (4) commercial sales located in Fruitland. Sale No. 1 concerned a 2,880 square foot commercial building constructed in 2008 which sold for \$600,000 in December 2021. Sale No. 2 was the December 2021 purchase of a 10,180 square foot commercial building

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<sup>1</sup> The assessed land values for the improved subject properties roughly doubled, but the land value of the vacant subject parcel increased 50% over the 2022 valuation.

<sup>2</sup> The improvement values for Building 1 and Building 3 increased by roughly 32% and Building 2 increased 18%.

constructed in 2000 for \$1,575,000. Sale No. 3 was a 4,180 square foot building constructed in 2019 which sold for \$805,000 in May 2020. Sale No. 4 was a 16,200 square foot building which first sold for \$820,000 in August 2019 and sold again in March 2021 for \$2,300,000 after being remodeled, though details of the renovation were not shared. Respondent applied a .039% per day time adjustment factor to the respective sale prices to reflect pricing levels on January 1, 2023. The result was time-adjusted sale prices from \$606,413 to \$2,574,622, or from roughly \$155 to \$228 per square foot. Overall, the subject properties are assessed at \$211 per square foot, which was reasonable in Respondent's view.

#### 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).

Both parties developed value opinions using recognized appraisal methodologies, though there were considerable differences between the respective analyses. Appellant's sales comparison approach was comprised of seven (7) commercial sales. While the sales data was appreciated, there were some concerns. First, three (3) of the sales occurred in April 2023, and one (1) closed in June 2023, roughly four (4) and six (6) months after the relevant date of valuation in this appeal of January 1, 2023. Typically, a value opinion is developed using sales and market data from prior to the date of valuation because information from after the date of valuation is unknown to market participants at the time.

Another concern was with the locations of the sale properties, as only one (1) was situated in Payette County. The others were located in notably larger cities in Ada County, Canyon County, and across the river in Ontario, Oregon. Expanding the geographical scope in search of sales is acceptable in the absence of local comparable sale properties, though location adjustments are often necessary. The appraisal made no location adjustments. In fact, the appraisal made no adjustments for any differences in property characteristics between the subject properties and the sales, which was somewhat atypical in the Board's experience.

Respondent's sales model was better received where it focused on local sales data. That being said, no direct comparisons between subjects and the sales were attempted, and no adjustments were made for differences in property characteristics. Also, all of the sales occurred prior to 2022, so therefore required sizeable time

adjustments to bring the prices to current market levels. This was particularly the case with Sale No. 3, which closed in May 2020. Carrying a time-adjustment factor over multiple years can be problematic for numerous reasons. Market trends are rarely linear, but instead tend to fluctuate over the course of a year, so applying a flat time-adjustment factor over an extended period can greatly skew the results. It was also not clear how Respondent's time-adjusted price data, which varied from roughly \$155 to \$228 per square foot, correlated to the assessed values of the subject properties from approximately \$159 to \$241 per square foot.

The Board had some of the same concerns with respect to the parties' income approach analyses. Again, Appellant's appraisal did not rely on lease rates from subjects' local market, as all of the seven (7) properties were located outside Payette County. The appraisal adjusted the reported lease rates for differences between lease types because most of the leases were on a NNN basis, whereas subject is leased under modified gross terms. No other adjustments, however, were made, despite considerable differences in size and age. That being said, the other inputs into the income model, such as the operating expenses and capitalization rate, were more typical.

Respondent's income analysis was somewhat peculiar to the Board. First, it was unclear how Respondent determined subjects' lease rates, which varied from \$4.42 to \$12.19 per square foot. Second, the model utilized a 0% vacancy rate and 0% operating expenses. In other words, Respondent simply capitalized subjects' gross income, which is an unfamiliar methodology to the Board. In any event, Respondent concluded a combined value of approximately \$1,942,000 for the subject properties, which contrasts



sharply with the \$3,157,719 assessed value determined through its trended cost approach analysis.

In looking at the various value indicators in the record, the Board was strained to find support for subjects' combined assessed value of \$3,157,719. Not only does the combined assessed value far exceed any sale price reported by either party, with the exception of one (1) sale in Canyon County for nearly \$3,950,000, but the parties' respective income models both concluded a value of roughly \$2,000,000. Commercial property is typically traded in the marketplace based on its potential to generate income, which is why the income approach is often prioritized by investors. The Board certainly understands Respondent's reliance on a trended cost approach methodology for general assessment purposes given its broad applicability, but in light of the parties' other value indications in this case, it is apparent to the Board the methodology produced erroneous results with respect to subjects' assessed values.

Pursuant to Idaho Code § 63-511, Appellant bears the burden of proving error in subjects' valuations by a preponderance of the evidence. Given the record in this matter, the Board found the burden of proof satisfied. Most persuasive to the Board was the parties' income models, both of which reached nearly the same value conclusion. The decisions of the Payette County Board of Equalization are reversed to reflect a reduction in the combined valuation of the subject properties to \$2,000,000.

#### FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the Payette County Board of Equalization concerning the subject parcels be, and the

same hereby are REVERSED, to reflect a combined assessed value of \$2,000,000, as follows:

Parcel No. F0000221765 - (Appeal No. 23-A-1226)

Land:	\$130,000
<u>Improvements:</u>	<u>N/A</u>
Total:	\$130,000

Parcel No. F0000221760 - (Appeal No. 23-A-1227)

Land:	\$263,000
<u>Improvements:</u>	<u>\$547,000</u>
Total:	\$810,000

Parcel No. F0000221775 - (Appeal No. 23-A-1228)

Land:	\$135,000
<u>Improvements:</u>	<u>\$395,000</u>
Total:	\$530,000

Parcel No. F0000221770 - (Appeal No. 23-A-1229)

Land:	\$122,000
<u>Improvements:</u>	<u>\$408,000</u>
Total:	\$530,000

IT IS FURTHER ORDERED, pursuant to Idaho Code § 63-1305, any taxes which have been paid in excess of those determined to have been due be refunded or applied against other *ad valorem* taxes due from Appellant.

Idaho Code § 63-3813 provides that under certain circumstances the above-ordered values for the current tax year shall not be increased in the subsequent assessment year.

DATED this 8<sup>th</sup> day of April, 2024.