BEFORE THE IDAHO BOARD OF TAX APPEALS

LN CITY CENTER PLAZA, LLC, Appellant, v. ADA COUNTY, Respondent.	)	APPEAL NOS. 24-A-1069 through 24-A-1073 FINAL DECISION AND ORDER

COMMERCIAL PROPERTY APPEALS

These appeals are taken from decisions of the Ada County Board of Equalization denying appeals of the valuations for taxing purposes on properties identified by parcel number in Attachment A. The appeals concern the 2024 tax year.

These matters came on for hearing October 28, 2024, in Boise, Idaho, before Board Member Leland Heinrich. Attorney Terri Pickens appeared at hearing for Appellant. Ada County Deputy Prosecutor Aspen Compton-Hoyte 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 five (5) commercial condominiums.

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

FINDINGS OF FACT

Parcel No. R8886160250 (Appeal #24-A-1069)

The assessed value is $6,099,800. Appellant contends the correct value is $4,490,000. For purposes of this decision, this subject property will be referred to as Unit 500.

Parcel No. R8886160270 (Appeal #24-A-1070)

The assessed value is $6,099,800. Appellant contends the correct value is $4,490,000. This subject property will be referred to as Unit 600.

Parcel No. R8886160280 (Appeal #24-A-1071)

The assessed value is $6,099,800. Appellant contends the correct value is $4,490,000. This subject property will be referred to as Unit 700.

Parcel No. R8886160290 (Appeal #24-A-1072)

The assessed value is $5,151,600. Appellant contends the correct value is $4,010,000. This subject property will be referred to as Unit 800.

Parcel No. R8886160300 (Appeal #24-A-1073)

The assessed value is $5,151,600. Appellant contends the correct value is $4,010,000. This subject property will be referred to as Unit 900.

The subject properties are full plate office condominium units in a nine (9) story condominium development located in downtown Boise, Idaho. The subject units occupy the 5th through 9th floors of the building. The building was constructed in 2016, and all subject units are fully occupied by a single tenant on a 10-year lease which commenced in 2016. Subject Units 500, 600, and 700 are each 22,774 square feet in size, while Units 800 and 900 are each somewhat smaller, at 19,234 and 19,224 square feet, respectively.

Appellant disagreed with subjects' current assessed values and offered an independent fee appraisal in support of lower valuations. Due to the general inapplicability of the cost approach and limited local sales data for a reliable sales comparison approach, the appraisal emphasized the income approach. In estimating potential gross income, the appraisal considered six (6) office lease comparables located in or near the Boise downtown core within one-half (½) mile of subjects. Reported full service gross lease rates varied from $24.00 to $28.75 per square foot. The appraisal determined a lease rate of $26 per square foot for Units 500, 600, and 700. Due to the superior interior finishes, higher ratio of partitioned office space, and additional amenities afforded by Units 800 and 900, the appraisal concluded a higher lease rate of $27 per square foot.

In evaluating an appropriate vacancy rate, the appraisal relied on historical vacancy data for downtown multi-tenant office space. It was noted the 2023 vacancy rate of 12.4% was higher than the 9.9% rate in 2018, but below the peak rate of 15.1% for 2020. The appraisal determined a 12% vacancy rate for subjects, which is near the 11.7% three (3) year average downtown rate. The result was an effective gross income estimate of roughly $521,000 for subject Units 500, 600, and 700, and approximately $457,000 for Units 800 and 900.

The appraisal next looked at operating expenses. First considered were subjects' actual operating expenses for the last three (3) years, which ranged from $9.65 to $11.72 per square foot, or 34.1% to 38.5% of effective gross income. The appraisal also analyzed operating expense data from three (3) multi-tenant office buildings, as well as information from a portfolio of office buildings in the downtown core. Expense rates varied from $7.93 to $11.76 per square foot. Due to higher management costs associated with the subject properties, as well as the required condominium association dues, the appraisal relied on subjects' actual operating expenses and concluded an expense rate of $10.06 per square foot, or 44% of estimated effective gross income, for Units 500, 600, and 700, and a rate of $10.21 per square foot, or 43% of estimated effective gross income, for Units 800 and 900. Applying the expense rates to the effective gross income estimates yielded net operating income figures of $12.82 per square foot, or $292,039, for Units 500, 600, and 700, and $13.55 per square foot, or $260,676 and $260,513, for Units 800 and 900, respectively.

For its capitalization rate analysis, the appraisal first considered eight (8) sales located in Boise, Meridian, and Eagle. The buildings ranged in size from approximately 19,000 to 145,000 square feet and were sold between 2019 and 2023. Sale prices stretched from $4,200,000 to $69,500,000, with reported capitalization rates from 5.21% to 7.00%. Because most of the local sales data was several years old, the appraisal also considered nine (9) more recent regional sales, which ranged in size from roughly 38,000 to 260,000 square feet. Sale prices ranged from $5,700,000 to $54,000,000, with capitalization rates from 6.92% to 8.50%. The appraisal determined a capitalization rate of 6.50% for subjects, which was noted to be lower than the average national rate of 6.78% reported for the end of 2023, and the 7.6% average rate for the western region. After capitalizing the net operating income estimates, the appraisal concluded a market value of $4,490,000, or $197 per square foot, for subject Units 500, 600, and 700, and $4,010,000, or $208 and $209 per square foot, for Units 800 and 900, respectively.

Though developed primarily as a check of reasonableness for the conclusion reached under the income approach, the appraisal also offered a sales comparison analysis. Three (3) local sales and three (3) regional sales were included in the analysis. The sales concerned two (2) and five (5) story multi-tenant office buildings with net leasable areas ranging from roughly 19,000 to 220,000 square feet. All the sales closed during 2023 for prices ranging from $4,200,000 to $47,500,000, or $182 to $317 per square foot. Citing the lack of directly comparable properties, the appraisal performed a regression analysis based on net operating income per square foot. The result was an indicated value of $4,440,000, or $195 per square foot, for subject Units 500, 600, and 700, and $3,940,000, or $205 per square foot, for Units 800 and 900.

In its final reconciliation, the appraisal regarded the income approach as the most accurate measure of subjects' market values so assigned full weight to those value indications. The result was a value conclusion of $4,490,000 for subject Units 500, 600, and 700, and $4,010,000 for Units 800 and 900. In Appellant's view, the appraisal represented the best indicator of subjects' current market values, and subjects' respective assessed values should be reduced accordingly.

Before introducing its income approach model, Respondent clarified that inputs into its analysis were on a triple net basis, as opposed to the full-service gross (FSG) rates utilized by Appellant's appraisal. According to Respondent, triple net lease rates are typically used in its valuation models for newer buildings because that is how the leases are often expressed in the marketplace. Respondent explained the end result should be the same whether using triple net or FSG lease rates, as there is an algebraic formula to convert figures between the two (2) lease types, but pointed out inputs into the respective models are widely divergent.

Respondent first analyzed lease rates for multi-tenant office properties in the downtown core. The buildings in the data set had leasable areas ranging from approximately 2,000 to 23,000 square feet and all were either constructed in or had been renovated since 2014. FSG lease rates varied from $19.50 to $33.00 per square foot. Respondent concluded a flat lease rate across all subject units of $20 per square foot on a triple net basis, or an FSG rate of $28.18 per square foot.

Based on the vacancy rates for same above lease comparables, as well as a February 2024 downtown vacancy rate of 9.11% published by an industry resource, Respondent used a vacancy rate of 10% in its model. Applying the vacancy rate to the earlier potential gross income estimate calculated to an effective gross income of $409,932 for subject Units 500, 600, and 700, and $346,212 for Units 800 and 900.

For operating expenses, Respondent cited data for six (6) multi-tenant office buildings and one (1) single-tenant building, with leasable areas ranging from roughly 26,000 to 260,000 square feet. Operating costs varied from $5.71 to $7.73 per square foot on an FSG basis, with an average of $7.09 per square foot, or 36% of effective gross income. Respondent utilized a 7% triple net operating expense rate, or the FSG equivalent of $8.50 per square foot, or 34% of effective gross income, which yielded net operating income figures of $381,237 for subject Units 500, 600, and 700, and $321,977 for Units 800 and 900.

Respondent sourced its capitalization rate data from local sales, as well as reports published by several local brokerages. Nineteen (19) general office and multi-tenant office sales were included in the data set, with capitalization rates from 5.26% to 6.22%. The three (3) cited commercial brokerages reported average late 2023 Boise MSA capitalization rates of 6.0%, 6.8%, and 6.1%. Due to subject's relatively newer age, Respondent used a 6.25% capitalization rate in its income model, resulting in value conclusions of $6,099,800 for subject Units 500, 600, and 700, and $5,151,600 for Units 800 and 900.

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, 2024, 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 because such property is typically transacted in the marketplace based on its potential to produce income.

Both parties relied on the income approach to develop estimates of subjects' current market values. The parties' employed the same direct capitalization methodology, though the inputs into Respondent's model were expressed in triple net lease terms, while Appellant's appraisal used FSG figures. Generally similar lease and vacancy rates were utilized by the parties, so the biggest differences in the respective analyses were in the operating expenses and capitalization rates.

Regarding the operating expenses, Respondent disagreed with the appraisal's reliance on subjects' actual expenses. It was curious to Respondent that the appraisal used market rents, market vacancy, and a market capitalization rate, but used subject's actual expenses, which were noted to be appreciably higher than nearly all the other expense data in the record. Appellant countered that Respondent's expense comparables were outdated and represented more of a broad average for general office space, with no particular focus on subjects' specific office type, resulting in understated operating expenses. As such, Appellant argued consideration should be given to subject's actual operating expenses.

Though there are certain instances in which emphasis should be given to actual operating expense figures, such as in the case of a highly unique or specialized property for which there is limited or no available market data, the Board was not persuaded similar circumstances exist here. While subjects' condominium building is relatively new and does contribute a unique visual aesthetic to the downtown landscape, at its core, the building is simply a mid-rise office tower. And given the fact subject is of relatively recent construction, it was not clear why subjects' expenses were so much higher than all the expense comparables in the record except for a building constructed in 1978, for which higher expenses are to be expected. In short, subjects' expenses appear to be atypically high for the local marketplace, but the reason is not apparent. In any event, where the ultimate question is market value, it reasonably follows that the valuation model used to resolve the market value question should be dependent on market-derived rates and inputs, not outliers, as appears to be the case with subjects' operating expenses. In this regard, the Board preferred Respondent's income model, where it utilized an operating expense ratio developed from the market.

The other material difference between the parties' income models was the respective capitalization rates, with Respondent utilizing a 6.25% rate and Appellant's appraisal a 6.50% rate. The capitalization rates were derived from a plethora of local and regional sales data, as well as local, regional, and national capitalization rate data published by several reliable industry sources. Though both parties' capitalization rates were well within the range indicated by the various market sources, the Board ultimately preferred Respondent's rate of 6.25% because it was more firmly focused on local sales data, and, as noted by both parties, the Boise market has been uniquely resilient compared to most others in the region. For this reason, the Board found slight preference should be given to Respondent's local capitalization rate data.

Idaho Code § 63-511 places the burden on Appellant to establish subjects' valuations are erroneous by a preponderance of the evidence. The Board did not find the burden of proof satisfied in this instance. Overall, the Board was persuaded Respondent's valuation model represented the stronger indication of subjects' market values, particularly where it was driven by local data sources from the marketplace. The decisions of the Ada County Board of Equalization are affirmed.

FINAL ORDER

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

DATED this 7th day of February, 2025.