

BEFORE THE IDAHO BOARD OF TAX APPEALS

FIVE ONE INVESTMENT CO,	)	
	)	
Appellant,	)	APPEAL NO. 24-A-1246
	)	
v.	)	FINAL DECISION AND ORDER
	)	
CASSIA COUNTY,	)	
	)	
Respondent.	)	
	)	
_____	)	

**COMMERCIAL PROPERTY APPEAL**

This appeal is taken from a decision of the Cassia County Board of Equalization denying an appeal of the valuation for taxing purposes on property described by Parcel No. RPBOV01005006A. The appeal concerns the 2024 tax year.

This matter came on for hearing November 12, 2024, in Burley, Idaho, before Board Member Doug Wallis. General Partner Tom King appeared at hearing for Appellant. Cassia County Assessor Martin Adams 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 Cassia County Board of Equalization is modified.**

FINDINGS OF FACT

The assessed land value is \$248,600, and the improvements' value is \$806,893, totaling \$1,055,493. Appellant contends the correct total value is \$418,000.

The subject property is a 1.13 acre improved commercial parcel located in Burley, Idaho. Subject is one (1) of four (4) contiguous parcels comprising the Overland Retail Center. The

subject parcel is improved with a single-story building constructed in 1968, with 30,184<sup>1</sup> square feet on the main floor and 7,760 square feet in the basement. The building includes three (3) suites: one (1) with 17,739 square feet of leasable space, and two (2) with 4,916 leasable square feet each. Of the remaining parcels in the retail center, two (2) are improved and one (1) is a parking lot parcel.

Appellant disagreed with the roughly 67% increase in subject's assessed value and questioned whether the current valuation was reflective of market value. Appellant explained subject had recently experienced some vacancy difficulties. In particular, the lease for the roughly 17,700 square foot suite expired in early 2023, leaving the space empty for approximately nine (9) months of the year. It was noted a new lease commenced in mid-January 2024, but there were notable costs related to attracting the new tenant. Specifically, roughly \$47,000 was spent to install tenant improvements, as well as approximately \$8,000 in leasing commissions, which represented actual, but atypical expenses for 2023. Appellant estimated it would take eighteen (18) months to recapture the atypical expenses.

In support of a lower valuation for the subject property, Appellant developed a comparative sales model. Rather than a traditional direct comparison model, Appellant utilized a net operating income multiplier methodology. Appellant shared information on nine (9) retail sales from across Idaho. The analysis focused on the three (3) sales of multi-tenant retail properties most similar in age to subject. The three (3) sale buildings, which ranged in gross building area from 17,814 to 96,840 square feet, all sold during 2021. Sale prices stretched from \$850,000 to \$8,000,000, or from roughly \$48 to \$90 per square foot. Using the 2022 and 2023 profit and loss statements for the entire retail center, Appellant calculated an overall net operating income (NOI) of \$1.20

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<sup>1</sup> Appellant calculated a size figure of 28,626 square feet on the main floor and a leasable area of 27,571 square feet.

per square foot. Appellant divided this rate into the reported NOIs for the respective sale properties to calculate NOI multipliers ranging from 3.32 to 5.64. Appellant then divided each sale price rate by the respective NOI multiplier, which yielded NOI value indications ranging from \$14.36 to \$17.36 per square foot for the sales. Appellant concluded an NOI rate of \$16 per square foot for subject's shopping center, which, after applied to the subject building, resulted in a value of \$441,136.

Appellant next applied an adjustment for parking, as the subject parcel has only six (6) parking spaces. Appellant noted current zoning ordinances require one (1) parking space for every 300 square feet of building area, which means subject should have nearly 100 parking spaces. Though the rationale was unclear, Appellant contended that, "[a]t a minimum, the small parking parcel value must be included, deducted from the subject appeal value." Appellant Ex. 1, p. 24. So, Appellant removed the \$22,800 assessed value of the parking lot parcel from the above-indicated value of roughly \$441,000. This resulted in a final value conclusion of \$418,336 for the subject property, which in Appellant's opinion, represented the best estimate of the current market value.

Respondent explained the cause of subject's large increase in assessed value was due to updates made to the Marshall and Swift (M&S) cost tables in the ProVal assessment software used by the assessor's office. In support of subject's current assessed value, Respondent developed value opinions using all three (3) approaches to value. Though details were not shared, Respondent's cost approach yielded a value of \$1,097,526 for the subject property.

Respondent next offered income approach analyses using three (3) different lease rates. Support for the lease rates was not provided, but the lowest annual rate, at \$4 per square foot, was referred to as "Distressed." The mid-rate, at \$8 per square foot, was titled "Some

deficiencies” and the highest rate, at \$11 per square foot, was labeled “New/modernized.” Each income model utilized the same 15% vacancy, 2% management, 7% maintenance, and 6.97% loaded capitalization rates. The “Distressed” model indicated a value of \$1,090,713 for subject, the “Some deficiencies” model concluded a value of \$2,430,026, and the “New/modernized” model determined a value of \$3,434,511.

Lastly, Respondent provided an analysis of eleven (11) local sales. Other than size, sale price, and closing date, no details concerning the sale properties were shared. The sale buildings ranged in size from roughly 3,100 to 10,000 square feet and were sold between May 2020 and December 2022. Sale prices ranged from \$135,000 to \$450,000, or from roughly \$35 to \$72 per square foot. Respondent applied the average price rate of \$50.49 per square foot to subject’s 30,184 square feet and calculated a value of \$1,523,853.

In reconciling the various value indicators, Respondent placed all weight on the cost approach. Respondent explained that while it regarded the income approach value of nearly \$2,700,000 as accurate, “using this value would not be consistent with any other commercial property in the county.” Respondent Ex. 1, p. 3, ¶ 4. Respondent disfavored the sales comparison approach due the absence of any local retail sales approaching subject’s size. Given the limitations expressed with regard to the income and sales comparison approaches, Respondent characterized the cost approach as the best indicator of subject’s current market value.

#### 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 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).

What was apparent from the record is that subject’s size is not common in the local market, as evidenced by Respondent’s local sales, the largest of which concerned a 10,000 square foot building, as well as the absence of any Burley sales in Appellant’s analysis of larger retail buildings. While the Board appreciated the parties’ efforts to develop valuation models for an admittedly unique property, there were some concerns.

Appellant developed a comparative sales model using an NOI multiplier methodology. Though the general methodology was sound, the analysis was based on the NOI of the entire shopping center, not just the subject property. In other words, the analysis considered subject as a nearly 65,000 square foot building, rather than subject’s actual size of closer to 30,000 square feet. An argument could be made all four (4) parcels in the shopping center should be valued as a single unit, but Appellant only appealed one (1) parcel. So, it was somewhat curious

to the Board that Appellant's analysis evaluated the entire shopping center, which results were then simply applied to the subject parcel.

The Board's other principal concern with Appellant's analysis was the parking adjustment made in the final step. The Board agrees that on a stand-alone basis, subject's number of parking spaces are certainly inadequate, but the subject property is one (1) of four (4) parcels comprising the larger retail center, one (1) of which is a parking lot parcel adjacent to subject. There are a sufficient number of parking spaces across the shopping center, all of which are freely accessible to anyone visiting the center. Visitors to the subject property are not restricted to the six (6) parking spaces along the storefront. Though the record was not well developed in this regard, it is unlikely the subject parcel could be sold separately from the remainder of the shopping center, which means customers to the subject building can park anywhere in the shopping center. In other words, subject's parking "issue" is more theoretical than a reality, and in the Board's view, no special parking adjustment is warranted.

The Board also had some concerns with Respondent's valuation of the subject property. Respondent already cited the weaknesses in its income and sales comparison approaches as the basis for not relying on the approaches, so there is no need to address those further. The Board understands the availability of local commercial market data to Respondent is limited, which contributes to the difficulty in accurately estimating the value of a somewhat unusual property like subject. Indeed, it was the insufficiency of market data regarding comparable properties that caused Respondent to abandon the income and sales comparison approaches. That being said, it is not common, in the Board's experience, to rely solely on the cost approach to value a commercial property. Such property is typically traded in the marketplace based on

its potential to produce income, so market participants often rely on the income or sales comparison approaches.

Respondent's reliance on the cost approach was further curious given that subject was constructed in 1968. The cost approach is typically reserved for recently constructed buildings, as the inherent difficulty in accurately estimating all forms of depreciation increases at an accelerating rate as the age of the building climbs. Respondent did not share any details regarding its cost approach so the depreciation factor applied to the subject building, which is approaching six (6) decades in age, was unknown. In any event, it was the lack of details such as these which ultimately served to undermine the Board's confidence in the reliability of Respondent's analysis. And lastly, it was not lost on the Board that the nearly \$1,100,000 value produced by Respondent's cost model was more than double any of the eleven (11) local sale prices reported by Respondent, which is cause on its own to question the accuracy of Respondent's cost model.

As the party bringing forth this appeal, the burden is with Appellant to establish subject's valuation is erroneous by a preponderance of the evidence. Idaho Code § 63-511. Though the Board found subject's valuation overstated, we did not find sufficient support for the value petitioned by Appellant. Despite the Board's concerns with aspects of Appellant's sales model, it was ultimately found to represent the more reliable indicator of subject's market value in this particular instance. As such, the Board will accept the conclusion reached by Appellant's analysis, without the parking adjustment, and will reduce subject's assessed value to \$441,136. The decision of the Cassia County Board of Equalization is modified accordingly.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the Cassia County Board of Equalization concerning the subject parcel be, and the same hereby is, MODIFIED to reflect a decrease in subject's assessed value to \$441,136, with \$192,536 attributable to the improvements and \$248,600 to the land.

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 value for the current tax year shall not be increased in the subsequent assessment year.

DATED this 26<sup>th</sup> day of February, 2025.