

BEFORE THE IDAHO BOARD OF TAX APPEALS

SOUTH INTERCHANGE PROPERTIES, LLC,	)	
	)	
Appellant,	)	APPEAL NO. 24-A-1128
	)	
v.	)	FINAL DECISION AND ORDER
	)	
BONNEVILLE COUNTY,	)	
	)	
Respondent.	)	
	)	
	)	
	)	

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**COMMERCIAL PROPERTY APPEAL**

This appeal is taken from a decision of the Bonneville County Board of Equalization modifying the valuation for taxing purposes on property described by Parcel No. RPO4491001002O. The appeal concerns the 2024 tax year.

This matter came on for hearing November 4, 2024, in Idaho Falls, Idaho, before Board Member Doug Wallis. Attorney Isaac Eddington appeared at hearing for Appellant. Bonneville County Assessor Dustin Barron represented Respondent.

Board Members Leland Heinrich, and Kenneth Nuhn join in issuing this decision.

**The issue on appeal concerns the market value of an improved commercial property.**

**The decision of the Bonneville County Board of Equalization is modified.**

FINDINGS OF FACT

The original assessed land value was \$6,003,215, and the improvements' valuation was \$75,937,095, totaling \$81,940,310. The Bonneville County Board of Equalization (BOE) made no adjustment to the land value but reduced the value of the

improvements to \$42,702,238, for a total valuation of \$48,705,453. Appellant contends the correct total value is \$44,200,000.

The subject property is a 194 acre multi-use commercial parcel situated along Interstate 15, south of Idaho Falls, Idaho. The property was developed in 2014 to serve as the corporate headquarters for a large wellness company. There are four (4) primary components to the property: 1) main office, 2) distribution center, 3) light manufacturing facility, 4) vacant excess acreage.

The main office building totals approximately 292,010 square feet of above-grade space spread across three (3) levels, plus 60,502 square feet in the partially finished basement. The office building was described as unique with high quality interior finishes. In addition to typical open and private office space, the building also includes an 800-person conference room/event center, a large open atrium on the main level, an employee fitness center, and a large kitchen and lounge, among other amenities. The building also includes specialized R&D spaces and large storage areas.

The distribution center is a 150,197 square foot warehouse building with office space. The primary office is a two-story area along the eastern elevation of the building, and there are three (3) additional separately enclosed office spaces along the southern elevation. The office space occupies approximately 12% of the building. The 132,059 square foot warehouse space includes storage and conveyor/packaging areas.

The light manufacturing facility is a 38,289 square foot rectangular Class C concrete tilt-up building with a roughly twenty-five (25) foot clearance height constructed in 2009. In addition to a powder production area, the building includes offices, employee areas, labs, specialty rooms, and warehouse space.

The above improvements are scattered about the subject property, consuming roughly 67 of the parcel's 194 total acres. The remaining 127 acres are dedicated to active agricultural use and are assessed accordingly.

Both parties developed separate value conclusions for each of subject's four (4) component parts; however, the focus at hearing was almost entirely on the value of the main office building, because that was the primary source of disagreement between the parties' respective value positions. Accordingly, this decision will focus primarily on the parties' valuation of the main office building and associated acreage.

In support of a lower valuation for the subject property, Appellant offered an independent fee appraisal report with a retrospective valuation date of January 1, 2024. Due to the age of the subject improvements and the difficulty in accurately estimating all forms of depreciation, the appraisal did not develop a cost approach model, focusing instead on the income capitalization and sales comparison approaches.

The appraisal's income approach began with an evaluation of subject's potential gross income based on subject's roughly 292,000 square feet of above-grade space. Due to the lack of office buildings in excess of 100,000 square feet in the greater Idaho Falls area, the appraisal searched regionally for lease information on larger office buildings. The appraisal found two (2) lease comparables in Idaho and two (2) in neighboring Utah, ranging from approximately 25,000 to 58,000 square feet, with triple net lease rates from \$12.48 to \$20.32 per square foot. The appraisal adjusted the respective lease rates for differences in location, age, and quality compared to the subject property, and also included a 5% adjustment to account for subject's basement space, which the appraisal viewed as more of a storage amenity than leasable office space. The appraisal also

applied a 25% functional obsolescence adjustment to the lease comparables, as the subject building is uniquely designed for single-tenant use and includes a considerable amount of space dedicated to atypical use, such as the over-sized atrium and large event center, which are not leasable areas. The analysis yielded adjusted lease rates from \$5.01 to \$7.49 per square foot, with an average rate of \$6.65 per square foot. Placing added weight on the only Idaho Falls lease comparable, with an adjusted lease rate of \$7.49 per square foot, the appraisal concluded an overall lease rate of \$7 per square foot for subject's 292,010 square feet of above-ground area.

In considering an appropriate vacancy rate, the appraisal noted overall vacancy rate data for eastern Idaho showed a downward trend over the prior several years, with an average total vacancy of 4.1% for office buildings. National and regional investor survey data showed higher vacancy rates, ranging from 7.1% to 18%. Given subject's atypically large size for the local marketplace and the likelihood the building would have to be demised to accommodate multiple tenants, the appraisal determined a 12% vacancy and credit loss factor for its income model, which calculated to an effective gross income of roughly \$1,800,000.

As the earlier-concluded lease rate was triple net, the only operating expenses in the appraisal analysis were for management and structural reserves. A 5% management rate was concluded, as was a 2% factor for structural reserves. After operating expenses, the net operating income was a little over \$1,600,000.

The appraisal's capitalization rate analysis included consideration of twenty (20) regional office sales, including a couple in eastern Idaho. The sale buildings ranged from approximately 20,000 to nearly 340,000 square feet in size. Reported capitalization rates

varied from 5.00% to 11.00%, with an average of 7.40%. The appraisal also cited data from industry sources indicating upward trending in capitalization rates. Giving consideration for subject's rural location and atypical physical characteristics, the appraisal determined a capitalization rate of 8.00%, which yielded a value conclusion of \$20,900,000 for the office building and accompanying 41.47 acres.

Similar to the lease comparables in the income approach, the appraisal had to expand the geographical parameters to find sales of larger office buildings for its comparative sales model. Sale No. 1 was the August 2022 purchase of a roughly 197,000 square foot building in Albuquerque which previously served as a corporate campus for \$10,600,000. Sale No. 2 concerned an approximately 44,000 square foot office building in Idaho Falls with a September 2023 purchase price of \$9,600,000. Sale No. 3 was a roughly 78,000 square foot building in Chubbuck which sold for \$11,610,000 in April 2019. Lastly, Sale No. 4 was the March 2023 purchase of an approximately 336,000 square foot office building in Spokane for \$24,886,429. After adjustments for location, size, age, functional utility, and amenities, the appraisal calculated adjusted sale prices from \$51.04 to \$82.49 per square foot, with an average price rate of \$67.71 per square foot. The appraisal emphasized Sale No. 1 because it was the only other corporate office campus property in the data set and required the fewest adjustments. The sales comparison approach indicated a value of \$65 per square foot, or \$19,000,000, for the subject office building.

In the final reconciliation, the appraisal equally weighted the value indicators from the income and sales comparison approaches and concluded a value of \$20,000,000 for subject's main office building.

Though Appellant did not discuss the values of subject's remaining components at hearing, those valuations and related analyses were included in the appraisal report. Employing the same general methodologies as used for the main office building, the appraisal report concluded a value of \$15,400,000 for the distribution center, \$4,600,000 for the light manufacturing facility, and \$4,200,000 for the 121.32 acres of excess land. The total value conclusion for the subject property was \$44,200,000.

Respondent likewise developed value estimates for the main office building using the income and sales comparison approaches. Respondent began with a breakdown of the interior spaces in the office building. Of the building's 352,512 total square feet, Respondent determined 180,995 square feet were dedicated to traditional office use and 171,517 square feet were used for other purposes, such as the cafeteria, fitness center, and underground loading dock. Respondent separately valued the office space and the non-office space. A site size of 63.37 acres was utilized for the main office building.

To estimate the potential gross income for the office space, Respondent considered seven (7) local lease rates. The lease comparables ranged in size from approximately 8,000 to nearly 112,000 square feet. Respondent reported triple net lease rates from \$11.40 to \$26.56 per square foot. Respondent highlighted the \$12.83 per square foot lease rate for the largest lease comparable in the group and applied the same rate to subject's nearly 181,000 square feet of office space. The result was a potential gross income figure of roughly \$2,300,000.

After applying a 12% vacancy rate to the potential gross income, Respondent calculated an effective gross income of approximately \$2,000,000. And Respondent's 20% operating expense factor yielded a net operating income of roughly \$1,600,000.

Respondent applied a 6.63% capitalization rate and calculated a value of \$24,657,689 for the portions of the subject building dedicated to office use.

Respondent then developed a sales comparison analysis for the office space based on eight (8) office sales from across the county which occurred between June 2018 and September 2023. The sale buildings, constructed from 1995 to 2014, varied in size from 5,554 to 49,782 square feet. Sale prices ranged from \$876,000 to \$9,600,000, or in residual price rate from roughly \$131 to \$201 per square foot, after removing assessed land values from the respective sale prices. Respondent used a rate of \$138.15 per square foot to calculate a value of \$26,712,969 for the building's office space. In the final reconciliation, Respondent equally weighted the value indications from both approaches and concluded a value of \$25,685,329 for the office space in subject's main office building.

Respondent next developed an income model for subject's 171,517 square feet of non-office space. To estimate an appropriate potential gross income, Respondent considered lease information on seven (7) local storage warehouse properties. The warehouses were constructed between 1978 and 2016 and ranged in leasable area from 11,000 to roughly 63,000 square feet. Lease rates varied from \$5.00 to \$11.81 per square foot. Respondent applied the average lease rate of \$6.32 per square foot to subject's non-office space and calculated a potential gross income figure of nearly \$1,100,000.

Respondent utilized a 5% vacancy factor and an operating expense rate of 20%. The result was a net operating income of nearly \$825,000. Using the same 6.32% capitalization rate, Respondent calculated a value of \$12,425,799 for subject's non-office space.

Respondent's sales comparison approach for the non-office space included consideration of four (4) local storage property sales. Sale No. 1 was a 20,030 square foot warehouse property developed in 1978 and 1985, which sold in January 2021 for \$1,100,000. Sale No. 2 concerned the February 2019 purchase of a 12,258 square foot storage warehouse constructed in 2006 for \$850,000. Sale No. 3 was a 16,478 square foot storage warehouse which sold in December 2021 for \$1,150,000. Sale No. 4 was the August 2018 sale of a 107,214 square foot warehouse constructed in 1991 for \$3,500,000. After removing land values, Respondent calculated residual price indications for the improvements from \$20.84 to \$62.95 per square foot. Respondent applied the average price rate of \$48.69 per square foot to arrive at a value of \$10,059,673 for subject's non-office space.

In its final reconciliation, Respondent assigned 50% weight to the income approach, 40% to the sales comparison approach, and 10% to the cost approach, though details of the latter were not shared. After the final weighting, Respondent concluded a value of \$12,765,442 for subject's non-office space. Adding this value to the \$25,685,329 value determined for the office space yielded a total value of \$38,450,771 for subject's main office building.

Similar to Appellant above, Respondent did not offer discussion regarding the remaining components of subject's total valuation, but did provide summaries of the analyses. After equally weighting the income and sales comparison approaches, Respondent concluded a value of \$10,791,060 for subject's distribution warehouse, and \$3,248,220 for the light manufacturing facility. Summing the above values, plus the value

of excess acreage and other improvements, yielded a total value of nearly \$55,000,000. The total value ordered by the BOE is \$48,705,453.

### 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). Due to its potential to produce income, commercial property is commonly valued using the income approach, though market participants also often give consideration to the sales comparison approach.

The parties employed generally similar methodologies, both in terms of the valuation approaches used and in individually analyzing subject's major components. That being said, there were some notable differences in the parties' respective valuation

models which led to widely divergent value conclusions. In the income approach, the key departures were in the parties' lease and capitalization rates. Due to the lack of local lease data for larger office buildings, Appellant's appraisal included lease comparables outside the local market. However, despite the appraisal's efforts to find market data for large office buildings, all the lease comparables were significantly smaller than subject and required 20% to 25% size adjustments. And while the Board agrees a functional adjustment is appropriate to account for subject's non-office space, there was some concern with the rather aggressive 25% functional obsolescence adjustment used in the appraisal.

Respondent, on the other hand, relied exclusively on local sales data in determining its lease rate. Again, none of the lease comparables in the data set approached subject's atypically large size, and despite other clear differences in property characteristics, no adjustments were made to the lease comparables. Also, Respondent's reliance on the \$12.83 per square foot lease rate of the largest building in the group was somewhat concerning given the building was significantly smaller than subject's main office building, and the lease commenced in 2014 under drastically different market conditions. At the very least, economies of scale would suggest a lower lease rate for subject's considerably larger size.

As for the parties' capitalization rates, Appellant's appraisal again included a consideration of regional sales data. The appraisal's concluded 8.00% capitalization rate for subject was near the middle of the indicated range from 5.00% to 11.00%. The source of Respondent's 6.63% capitalization rate, however, was not apparent in the record, as no rates were shared for any of the local office sales.

While Respondent's focus on local market data for its income model was understandable, subject's main office building is atypically large for the local market and includes a notable amount of non-office space. There is simply nothing comparable in the local market. It was unclear what consideration was given to subject's size, as Respondent simply used the reported lease rate for the largest lease comparable, even though it was roughly one-half ( $\frac{1}{2}$ ) the size. In fact, no adjustments were made to any of the lease comparables despite the glaring differences compared to the subject property.

The Board was also concerned with the absence of any support for Respondent's 6.63% capitalization rate used in the income model for the main office building. It is noteworthy that the rate represents the fourth lowest rate of the twenty (20) sales the appraisal utilized in its capitalization rate analysis. Most of those properties, however, were located in larger markets where generally lower capitalization rates are expected, which suggests a somewhat higher capitalization rate would be appropriate for subject. In any event, the lack of support for Respondent's capitalization rate was concerning from the Board's perspective.

Lastly, the Board found Respondent's methodology for valuing the interior spaces of the main office building somewhat curious. In addition to a large amount of traditional office space, the building also includes a considerable amount of non-office space. While this non-office space certainly contributes to the overall value of the building, it is not the type of space that lends itself to traditional leasing terms, like office space. Even assuming these spaces could be rented out, such rentals would be inconsistent and on a short-term basis. Respondent recognized the space contributes less value so used lease rates from storage warehouses, which are some of the lowest rates available, but the methodology

is flawed because it assumes the non-office space is leased full-time. So, while the warehouse lease rate Respondent used is much lower than the rate for office space, it still results in an unachievable gross income figure for the non-office space, because much of the space is not truly “leasable” in the normal context of the income approach. Subject’s non-office space presents a unique appraisal situation that requires special consideration, which was not captured in Respondent’s income model.

What is clear from the record is that the subject property, and the main office building in particular, is singular in the local market for multiple reasons. The Board appreciated the parties’ efforts in analyzing the value of such a unique property, and the Board also understands Respondent was restricted to the limited amount of available local market data, which was particularly inadequate with respect to subject’s main office building. Appellant’s appraisal overcame this obstacle by supplementing local data with regional market data, which the Board found consistent with accepted appraisal practices and appropriate in the context of this valuation assignment. In all, the Board found the appraisal represented the more thorough consideration of the subject property and its likely value in the current marketplace.

Idaho Code § 63-511 places the burden on Appellant to establish subject’s valuation is erroneous by a preponderance of the evidence. Given the record in this matter, the Board found the burden of proof satisfied. Though the Board had concerns with aspects of both parties’ analyses, Appellant’s appraisal report was judged to represent the superior analysis in this instance so the Board will adjust subject’s assessed value accordingly.

Based on the above, the decision of the Bonneville County Board of Equalization is modified.

#### FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the Bonneville County Board of Equalization concerning the subject parcel be, and the same hereby is, MODIFIED, as detailed below:

Main Office Building (includes 41.35 acres):	\$20,000,000
Distribution Center (includes 17.47 acres):	\$15,400,000
Light Manufacturing Facility (includes 7.00 acres):	\$ 4,600,000
<u>Excess Acreage (121.32 acres):</u>	<u>\$ 4,200,000</u>
Total Assessed Value	\$44,200,000

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

DATED this 3<sup>rd</sup> day of March, 2024.