

BEFORE THE IDAHO BOARD OF TAX APPEALS

FAC LAKE TOWER, LLC,)	
)	
Appellant,)	APPEAL NO. 25-A-1011
)	
v.)	FINAL DECISION AND ORDER
)	
KOOTENAI COUNTY,)	
)	
Respondent.)	
)	
_____)	

COMMERCIAL PROPERTY APPEAL

This appeal is taken from a decision of the Kootenai County Board of Equalization denying an appeal of the valuation for taxing purposes on property described by Parcel No. C180000F001A. The appeal concerns the 2025 tax year.

This matter came on for telephonic hearing October 22, 2025, before Board Member Leland Heinrich. MAI Appraiser Desiree Flanary appeared at hearing for Appellant. Kootenai County Appraiser Jason Farris represented Respondent.

Board Members 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 Kootenai County Board of Equalization is modified.

FINDINGS OF FACT

The assessed land value is \$1,211,207, and the improvements' value is \$13,225,629, totaling \$14,436,836. Appellant agrees with the land value but contends the correct value of the improvements is \$11,388,793, for a total value of \$12,600,000.

The subject property is a 41-unit mid-rise apartment building situated on a .63 acre parcel in downtown Coeur d’Alene, Idaho. The ten (10) story building was constructed in 1973 and has been periodically updated throughout the years. The gross building area totals 85,146 square feet, of which 56,172 square feet are leasable. As of January 1, 2025, twelve (12) units had been fully renovated, with future renovations intended for the remaining units. The following table details the unit mix in the building.

Unit Type	Unit Size (SF)	Unit Count	Total Rentable Area (SF)
1-bed / 1-bath	953	7	6,671
2-bed / 1.5-bath	1,200	15	18,000
2-bed / 2-bath	1,429	13	18,577
Penthouse (2-bed / 2-bath)	2,154	6	12,924
TOTAL		41	56,172

Appellant shared some of subject’s history and the events leading to the property’s purchase in mid-2025. The original developer of the property retained ownership until passing away in 2021. Ownership passed to the developer’s widow, who elected to sell the property. Confidential marketing efforts began in late 2024, and an appraisal of the property was completed in December 2024, which formed the initial pricing guidance of \$13,480,000. Three (3) offers were received on the property ranging from \$12,800,000 to \$13,100,000. On January 27, 2025, Appellant submitted a formal purchase offer of \$13,000,000. During the ensuing due diligence period, the purchase price was adjusted to \$12,500,000, and a purchase and sale agreement

was executed on March 3, 2025. In Appellant's opinion, the \$12,500,000 purchase price represented the best evidence of subject's current market value.

In addition to subject's purchase price, Appellant also developed sales comparison and income approach models in support of a lower assessed value. Appellant's comparative sales model analyzed eight (8) sales of low- and mid-rise apartment buildings, including subject's purchase. Because subject is unique in the marketplace, particularly its downtown location, there were no local comparable sales, so the analysis expanded the geographic scope and included sales from Southwestern Idaho and nearby Spokane, Washington. The sale buildings, which varied in height from two (2) to five (5) stories, ranged in net rentable area from 8,250 to 100,170 square feet. Unit counts ranged from fifteen (15) to sixty-three (63), with average unit sizes from 550 to 1,675 square feet. Sale prices varied from \$3,250,000 to \$21,800,000, or from \$216,667 to \$346,032 per unit. Placing emphasis on the two (2) sales with the highest unit counts, as well as subject's purchase, Appellant's sales model concluded a value of \$12,500,000 for subject, or approximately \$305,000 per unit.

Appellant next offered two (2) income approach analyses. The first was a pro-forma model using market rates. Because subject's rents are above market average, the analysis relied heavily on subject's actual rates to calculate a potential rental income figure of roughly \$1,520,000. After applying a 16% vacancy and collection rate and adding income from parking, lease income from a cellular tower on the roof of the building, and income from other sources, the analysis determined an effective gross income of nearly \$1,190,000. A 35% operating expense ratio was applied, resulting in

a net operating income figure of \$771,571. Capitalizing the net income at 6% yielded a value estimate of \$12,860,000, or \$313,659 per unit for the subject property.

Appellant's second income model relied on subject's actual 2024 income and expense data. The net rental income was approximately \$975,000, which after adding income from other sources, such as parking and the cellular tower, resulted in an effective gross income figure of roughly \$1,022,000. The itemized operating expenses totaled approximately \$405,000, which equated to a 40% expense rate. After capitalizing the net operating income at 6%, the model concluded a value of \$10,278,201 for subject, or roughly \$250,000 per unit.

Appellant lastly offered an independent appraisal of the subject property commissioned in connection with the 2025 purchase. The appraisal's sales comparison approach analyzed five (5) apartment sales located in Spokane which transpired between December 2022 and December 2024. The sales varied in design, with unit counts ranging from nineteen (19) to ninety-seven (97). Sale prices ranged from \$5,291,000 to \$21,500,000, or from \$221,649 to \$327,419 per unit. After applying time adjustments, the appraisal made adjustments for location, quality, age/condition, amenities, and average unit size. The result was adjusted prices from \$283,920 to \$332,754 per unit. A value of \$12,700,000, or roughly \$310,000 per unit, was indicated for the subject property.

The appraisal next developed a direct capitalization income approach. In determining an appropriate rental rate for each unit type, the appraisal compared subject's rates to five (5) lease comparables, two (2) of which were located within a couple miles of subject. It was noted subject's overall average actual contract rent of

\$2,194 per month lagged behind the average asking rate of \$2,648 per month. Based on the lease comparables, the appraisal concluded an overall average rate of \$2,567 per month for subject's forty-one (41) units, which was approximately 14.5% higher than subject's average contract rental rate. A 5% market vacancy rate was determined, and after adding other income of nearly \$32,000, the appraisal calculated an effective gross income of approximately \$1,100,000. The itemized operating expenses totaled 30.3% of effective gross income, resulting in a net operating income figure of roughly \$755,000. After evaluating several sources, the appraisal concluded a 6% market capitalization rate, which yielded a value conclusion of \$12,600,000, or \$307,317 per unit for the subject property.

In reconciling the value indicators, the appraisal placed greatest emphasis on the income approach, because the approach is prioritized by investors in the marketplace. Accordingly, the appraisal concluded a value of \$12,600,000 for the subject property as of March 11, 2025.

Respondent pointed out subject's purchase was in May 2025, so argued it was untimely for purposes of the current assessment. Respondent also questioned whether subject's \$12,500,000 purchase price was at market. Respondent contended the fact a \$13,100,000 purchase offer was made on the subject property was evidence the market saw more value in the property than reflected by the sale price. Appellant clarified its initial purchase offer was \$13,000,000, a figure that was ultimately reduced to \$12,500,000 during the due diligence period. Appellant maintained the purchase price was at market level.

Respondent explained an income approach model was broadly used to assess subject and other apartment properties in the county. Standard inputs into the model reportedly included a 7% vacancy rate, a 35% operating expense rate, and a capitalization rate of 6.5%, with income representing the only variable factor. In support of the standard model, Respondent referenced two (2) recent sale prices, one (1) with an indicated monthly rental rate of \$2.21 per square foot and another with an indicated rate of \$2.11 per square foot. No details regarding the sale properties were shared. According to Respondent, plugging those respective rates into the income model yielded value conclusions nearly identical to the respective sale prices, which, in Respondent's opinion, validated its standard income model. Respondent contended the \$1.90 per square foot monthly rate, or an annual rate of \$22.80 per square foot, utilized to value the subject property was reasonable.

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, 2025, 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. There are three (3) approaches to value: 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 often valued using the income approach because such property is typically traded in the market based on its potential to produce income.

Appellant's primary evidence in support of a lower valuation was subject's \$12,500,000 purchase on May 29, 2025. While the Board agrees a recent purchase of the property being evaluated is a strong indicator of that property's market value, subject's purchase occurred nearly six (6) months after January 1, 2025, which is the relevant date of valuation in this appeal. Estimating the value of a property as of a particular date is necessarily dependent on sales and market data from prior to the date of valuation, because information from beyond such date is unavailable to market participants at the time. Though Appellant's initial offer of \$13,000,000 was made just a couple weeks after January 1st, and the purchase and sale agreement for \$12,500,000 was signed in March 2025, the sale did not close until May 2025, which renders it untimely for purposes of establishing subject's market value on the assessment date.

Even if timeliness was not an issue, there was some question whether subject's purchase price was at market level. While the seller received three (3) offers on the property, the appraisal noted, ". . . the subject was never openly marketed [and] the [purchaser was] introduced off market through a local broker relationship." The

appraisal further shared the subject property was initially under contract for \$13,000,000, which was negotiated down to \$12,500,000, “. . . [as] a result of observations in the market, an increase in earnest money, and an expedited closing.” These factors, particularly the lack of open marketing and limited exposure to the market, add some level of concern to the transaction and whether the purchase price reflected the full market value of the property.

In addition to the above concerns, the Idaho Supreme Court has cautioned against over-reliance on one (1) sale. "In any single individual transaction there are many variables which are dependent upon the peculiar aspects of the transfer and which affect the price agreed upon by the parties. Market value, therefore, is generally established by numerous sales of the same or comparable property and, although the price paid for property may be admissible to prove its market value, that fact alone is not conclusive." *Gillingham v. Stadler*, 93 Idaho 874, 878, 477 P.2d 497, 504 (1970). In this case, there is an abundance of other timely value indicators, so it is unnecessary to focus on subject's 2025 purchase price.

Appellant also offered an independent appraisal of the subject property with an effective date of valuation of March 11, 2025. While the date of valuation is beyond January 1, the appraisal utilized sales and other market data from prior to the assessment date, which information is timely and should be considered. In a comparative analysis comprised of five (5) apartment sales, the appraisal estimated a value of \$12,700,000 for the subject property. The appraisal also concluded a \$12,600,000 value estimate in its income approach.

In addition to the value indications developed by the appraisal, Appellant also offered a separate valuation report that included a sales comparison analysis and two (2) income approach models. Appellant's sales approach yielded a value estimate of \$12,500,000. Appellant's pro forma income model indicated a value of \$12,860,000, while the income model utilizing subject's actual income and expense figures concluded a value of \$10,278,201. While consideration should be given to subject's actual data, Idaho's property tax administrative rules state that, for purposes of assessment, the income approach, ". . . must use market rent, not contract rent." IDAPA 35.01.03.217.04. There are times when contract and market rent may be the same, but such does not appear to be the case here, where the income model utilizing subject's contract rents produced the lowest estimate of the property's market value.

Respondent championed its income model with standard vacancy, expense, and capitalization rates as the most reliable method for valuing an apartment property like subject. In this regard, Respondent referenced a couple of recent sales and stated its standard income model yielded value conclusions nearly identical to the respective sale prices. While the standard rates utilized in Respondent's model appear generally reasonable and roughly consistent with the various income models provided by Appellant, the source of the \$1.90 per square foot monthly rental rate used to estimate subject's potential gross income is unknown, as Respondent offered no discussion or other support for the rate. As income is the only variable in Respondent's model, using an appropriate rental rate is critical to producing a reliable result. However, with nothing to support the rental rate used in Respondent's income model, the Board was unable to evaluate whether the rate was proper. What is clear, however, is that

Respondent's analysis produced the highest value estimate of any valuation model in the record by a notable margin, which suggests the rental rate was somewhat aggressive.

Overall, the parties presented a range of value estimates for the subject property, from roughly \$10,280,000 to \$14,500,000. Given the above-stated concerns with the respective analyses that produced the lowest and highest value indicators, it is apparent, in the Board's view, subject's market value lies somewhere between. In this particular instance, the Board finds a value of \$12,750,000 reasonable and supported by the market data in the record.

Pursuant to Idaho Code § 63-511, the burden is with Appellant to establish subject's valuation is erroneous by a preponderance of the evidence. The Board found the burden of proof satisfied but did not find adequate support for the value petitioned by Appellant. Instead, the Board will reduce subject's assessed value to \$12,750,000. The decision of the Kootenai County Board of Equalization is modified accordingly.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the Kootenai County Board of Equalization concerning the subject parcel be, and the same hereby is, MODIFIED, to reflect a decrease in total assessed value to \$12,750,000, with \$11,538,793 attributable to the improvements and \$1,211,207 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 9th day of January, 2026.