

BEFORE THE IDAHO BOARD OF TAX APPEALS

HENDRICKS COMMERCIAL PROPERTIES,)	
LLC,)	
)	APPEAL NO. 25-A-1024
Appellant,)	
)	FINAL DECISION AND ORDER
v.)	
)	
ADA COUNTY,)	
)	
Respondent.)	
)	

COMMERCIAL PROPERTY APPEAL

This appeal is taken from a decision of the Ada County Board of Equalization denying an appeal of the valuation for taxing purposes on property described by Parcel No. R1013000987. The appeal concerns the 2025 tax year.

This matter came on for hearing November 25, 2025, in Boise, Idaho, before Hearing Officer Travis VanLith. Attorney Mary York appeared at hearing for Appellant. Ada County Chief Deputy Assessor Brad Smith 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 Ada County Board of Equalization is modified.

FINDINGS OF FACT

The assessed land value is \$6,004,800, and the improvements' value is \$81,861,000, totaling \$87,865,800. Appellant contends the correct total value is \$37,865,000.

Before discussing the merits of the case, it should be noted most of the parties' exhibit materials and all testimony provided at hearing were deemed confidential by the hearing officer and are subject to a protective order. Accordingly, this decision will broadly discuss the parties' respective appraisal analyses and related arguments but not share precise figures in most instances.

The subject property is a .92 acre commercial parcel located in downtown Boise, Idaho. The property is improved with an 8-story Four Diamond AAA rated full-service luxury hotel constructed in 2024. In addition to 122 guest rooms, of which twenty-two (22) are suites, the hotel includes roughly 4,750 square feet of meeting/banquet space across five (5) rooms, a fitness center, a business center, laundry service, and valet parking with a 51-space parking lot. Other amenities include a restaurant, a coffee shop, a rooftop bar, a lobby bar, and a beauty salon leased to a third-party operator. A temporary occupancy permit was issued by the City of Boise in May 2024, as two (2) floors of the hotel were still being finished. A full occupancy permit was issued a few weeks later, in June 2024.

Appellant disagreed with the subject property's nearly \$88,000,000 assessment and contended Respondent's use of subject's construction costs as the basis for the current assessed value was improper. In support of a lower valuation, Appellant offered an independent fee appraisal¹ report from September 2025, with a retrospective valuation date of January 1, 2025. The appraisal developed value estimates for the subject property using the three (3) recognized approaches to value. For the income approach, the appraisal offered an analysis using the discounted cashflow method and another utilizing

¹ The September 2025 appraisal was an updated version of an appraisal report from July 2025, a copy of which was entered into the record. The primary change in the September appraisal was a lower capitalization rate in the income approach, as well as additional supporting materials for inputs used in the several valuation models.

the direct capitalization method. For both methodologies, the appraisal developed estimates of subject's going-concern value under three (3) scenarios: (A) retrospective market value as of January 1, 2025, (B) prospective value upon stabilization with a date of valuation of January 1, 2027, and (C) hypothetical-based market value as though stabilized with a January 1, 2025, effective date of value.

In introducing its income approach models, the appraisal began with noting the supply of guestrooms in the local Boise market has increased in recent years and shared there are at least eight (8) new hotel properties currently in development. According to the appraisal, there are nearly 700 luxury and upper-upscale guestrooms in the Boise market. The reported occupancy rate of roughly 65% over the last two (2) years was noted to be somewhat lower than the 7-year average occupancy rate for the luxury hotel segment of the local market. The appraisal determined a stabilized occupancy rate for subject several percentage points higher than the reported 7-year average rate.

In considering subject's potential income, the appraisal evaluated Average Daily Rate (ADR) data for other hotel properties. The appraisal noted subject's ADR for 2024 was higher than the average ADR of the data set, but stated the reason was because the subject hotel did not begin operating until late May 2024, and it was not until the end of June that the hotel was fully operational. It was explained the first five (5) months of the year are typically the slowest and generate the least revenue, so the absence of data for the least active six (6) months of the year served to artificially inflate subject's ADR for 2024. That being said, the appraisal used subject's higher ADR in the Base Year (2024) of the revenue projection period in its discounted cash flow model, which ADR increased approximately 25% by 2030. After considering net operating data from several industry

sources, as well as subject's 2024 financial statements, the appraisal concluded a net operating income ratio of 18.3% for Year 1 (2025), and a ratio of 21.1% beginning in the year of stabilization (2027) and running throughout the projection period to 2034.

To determine an appropriate capitalization rate, the appraisal consulted a number of sources, including recent hotel sales, investor surveys, band of investment technique, as well as average capitalization rate data for the general Boise hotel market and the local luxury hotel submarket. In all, capitalization rates varied from 6.50% to 9.25%. Taking into account ". . . subject's new construction and good/excellent quality and condition," the appraisal determined a capitalization rate toward the lower end of the indicated range, at 7.0%, prior to loading the 0.91% tax rate. In similar fashion, the appraisal concluded stabilized terminal capitalization and discount rates of 7.75% and 9.25%, respectively, prior to loading. The appraisal's discounted cash flow model concluded a *hypothetically-based market value as though stabilized* estimate as of January 1, 2025, of \$46,100,000 for the subject property, which included the value of the furniture, fixtures, and equipment (FF&E).

In simple terms, the appraisal's direct capitalization income model developed an estimate of subject's market value by dividing the stabilized year's (2027) net operating income determined in the above discounted cash flow model by the same 7.91% loaded capitalization rate. This yielded a *prospective value upon stabilization* (January 1, 2027) value indication of roughly \$49,000,000. The appraisal adjusted this figure to account for the interim cash flows between the present and the future date of stabilization and concluded a *retrospective market value* of roughly \$45,000,000 as of January 1, 2025.

In reconciling the indicators from the income models, the appraisal placed primary emphasis on the *hypothetical-based market value as though stabilized* value of \$46,100,000 concluded in its discounted cash flow analysis. The appraisal regarded the discounted cash flow method as the most appropriate because it “mirrors the methodology used by investors of this type of property.”

Turning to the sales comparison approach, the appraisal noted the absence of any sales of truly comparable hotel properties in the local marketplace. Therefore, the appraisal expanded the geographic scope to surrounding states in search of relevant sales data. Stating a belief that a national investor would be the most likely purchaser of a luxury hotel property like subject, the appraisal characterized its consideration of sales outside the local market as appropriate and consistent with accepted appraisal practice. A total of six (6) recent hotel sales were identified: one (1) in Washington, two (2) in Colorado, and three (3) in Idaho. Sale prices varied from approximately \$195,000 to \$380,000 per room. After adjustments for market conditions, the appraisal determined adjusted sale prices from roughly \$220,000 to \$405,000 per room. Based on the adjusted price data, the appraisal estimated a value of \$400,000 per unit for the subject hotel. However, because the subject property had not yet achieved stabilization, the appraisal discounted the interim cash flows between the present and the future date of stabilization and concluded a *retrospective market value* estimate of \$44,700,000 for the subject property as of January 1, 2025.

Lastly, the appraisal estimated subject’s value using the cost approach. This began with a sales analysis to determine the value of subject’s .91 acres. Three (3) local sales and two (2) active listings were included in the analysis, a couple of which were improved

with old commercial buildings at the time of sale. Sale/asking prices ranged from \$3,050,000 to \$7,794,000, or from roughly \$105 to \$204 per square foot. The appraisal determined adjusted prices from approximately \$100 to \$204 per square foot and concluded a value of \$140 per square foot, or \$5,600,000, for the subject lot.

For subject's improvements, the appraisal first sought to identify a replacement cost new estimate for the building. Using Marshall Valuation Service (MVS) cost data for a full-service hotel, the appraisal started with a base rate of roughly \$311 per square foot. After applying various refinements, adjustments, and multipliers, an adjusted base rate of nearly \$335 per square foot was determined. The appraisal next added indirect and soft costs to arrive at a final total replacement cost new of approximately \$60,000,000 for the subject hotel. However, because subject's actual construction costs were roughly 60% higher than suggested by MVS, the appraisal utilized subject's higher cost figures for its cost model.

The appraisal next considered any applicable depreciation. For physical depreciation, the appraisal employed the age/life method, also referred to as straight-line depreciation. This methodology divides the economic life of an improvement by the age of that improvement. Here, the appraisal used a 45-year economic life for the subject hotel and an age of one (1) year, which calculated to 2.2% in physical depreciation.

No functional obsolescence was noted, but the appraisal found subject suffered from economic obsolescence. To measure the economic obsolescence, the appraisal first multiplied the depreciated cost of the subject building plus the land value by the 7.91% loaded capitalization rate utilized in the earlier income approach analysis to calculate the amount of net operating income necessary to make the subject project financially feasible.

Next, the appraisal subtracted the estimated net operating income at stabilization from the “feasible” net operating income figure, then divided the difference by the 7.91% capitalization rate, which calculated to roughly 54% in economic obsolescence for the subject property.

The next step in the appraisal’s cost analysis was to develop estimates for the site improvements and the FF&E associated with the subject hotel. Starting with a replacement cost new estimate of \$55 per square foot for the site improvements, the appraisal concluded a total replacement cost new of nearly \$1,930,000 after adding 25% for indirect costs and applying a 10% entrepreneurial profit factor. Using an economic life of fifteen (15) years and an effective age of two (2) years, the appraisal calculated 13% in physical depreciation for subject’s site improvements. Applying the same 54% economic obsolescence factor determined earlier, the appraisal concluded a depreciated cost estimate of approximately \$2,500,000² for the site improvements.

Using an economic life of seven (7) years and an effective age of one (1) year, the appraisal calculated 14.3% in physical depreciation for the FF&E and a depreciated value of just over \$8,000,000. The appraisal did not apply an economic obsolescence factor to the FF&E.

Lastly, the appraisal added the depreciated values of the building and site improvements to calculate a total depreciated value of approximately \$46,000,000 for subject’s improvements. After adding the land and FF&E values, the appraisal’s cost

² The appraisal mistakenly added the 54% economic obsolescence figure to the replacement cost new estimate instead of subtracting. As a result, the appraisal’s final calculations reflected roughly \$2,500,000 as the depreciated value of the site improvements instead of a value of roughly \$765,000 had the economic obsolescence been deducted as the appraisal intended.

model concluded a *retrospective market value* of \$61,200,000 for the subject property as of January 1, 2025.

In its final reconciliation of value indicators, the appraisal placed primary emphasis on its discounted cash flow model. The analysis concluded a *hypothetical-based market value as though stabilized* value of \$46,100,000 for the subject property as of January 1, 2025. However, as that figure included the value of the FF&E, which should be excluded, Appellant removed the FF&E and calculated a total taxable value of \$37,865,000 for the subject property. Appellant requested subject's assessed value be reduced accordingly.

Respondent was critical of Appellant's appraisal report in several respects. According to Respondent, operating expense ratios for hotel properties typically run at 70% to 74% of gross income, whereas Appellant's appraisal used a nearly 80% expense rate. Respondent also contended the appraisal utilized higher discount and reversionary capitalization rates in its income models than suggested by independent industry publications, which skewed the value conclusion downward.

Another of Respondent's concerns was the appraisal's use of the age/life method for estimating subject's physical depreciation instead of MVS depreciation schedules. Respondent noted the age/life method depreciates a property all the way to 100%, which fails to account for the recapture value at the end of the improvement's useful life. Respondent shared that using the MVS depreciation schedules with a one (1) year effective age for the subject building and a sixty (60) year economic life, the indicated physical depreciation is 0%.

Most concerning to Respondent, however, was the 54% economic obsolescence factor the appraisal determined in its cost approach model. Respondent acknowledged

subject may suffer some short-term economic obsolescence due to its uniqueness in the local marketplace, but without data by which to reasonably estimate the amount of such potential obsolescence, Respondent maintained it was inappropriate to make an adjustment. Respondent further noted that an appraisal of the subject property from July 2022, prior to construction, observed no economic obsolescence and made no such adjustment. In Respondent's view, it was unreasonable that subject's market value as of January 1, 2025, was less than one-half ($\frac{1}{2}$) the actual construction costs from just six (6) months prior.

In support of subject's current assessed value, Respondent explained all three (3) approaches to value were considered, but due to the absence of any local sales of comparable hotel properties, a comparative sales model could not be developed. Respondent likewise did not analyze subject's value under the income approach because the property had only a few months of operating history as of January 1, 2025, and there was no available data from comparable hotels, so there was nothing from which to develop a reliable estimate of net operating income.

As a result of the lack of data necessary for the other approaches, Respondent instead utilized the cost approach, with subject's actual development costs as reflected on the building permits issued by the City of Boise serving as the starting point. To the total reported construction costs, Respondent applied 5% for soft costs and a 10% entrepreneurial profit factor, resulting in a value of \$81,861,000 for the improvements. Because the building was roughly six (6) months old as of January 1, 2025, Respondent maintained there was no depreciation.

Respondent's cost model continued with an analysis of subject's land value. Seven (7) commercial land sales from 2021, 2022, and 2023 were examined. The sale parcels varied in size from .18 to .89 acres, and in price from \$1,900,000 to \$7,750,000, or from roughly \$186 to \$242 per square foot. Respondent pointed out subject's assessed land value of roughly \$6,000,000, or \$150 per square foot, was less than indicated by the land sales.

Appellant challenged Respondent's reliance on the cost approach for subject's assessment and stressed that cost does not necessarily equal value. In Appellant's view, the income and sales comparison approaches are more reliable indicators of the market value of an income-producing property. Appellant also pointed out Idaho's property tax administrative rules, specifically Rule 217 (IDAPA 35.01.03.217), requires the assessor to consider all three (3) of the recognized approaches to value when determining market value for assessment purposes. Appellant additionally cited two (2) prior decisions of the Idaho Supreme Court, one (1) from 1958 and one (1) from 1971, which effectively held that while construction costs may be used as a factor for determining market value, they should not constitute the sole basis for valuation. Here, Appellant contended Respondent relied solely on the cost approach, which was improper.

Lastly, Appellant was critical of Respondent's references to the 2022 appraisal of the subject property. Appellant stressed the appraisal was three (3) years old and was done prior to construction of the subject hotel. Further, Appellant noted the appraisal relied primarily on sales and income data from 2019 and 2020, prior to the pandemic during markedly different market conditions than exist presently. In all, Appellant did not

regard the 2022 appraisal as a reliable indicator of the subject property's 2025 market value and urged the Board to adopt a similar 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, 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. The sales comparison approach, the cost approach, and the income approach comprise the three (3) primary approaches for determining market value. *Merris v. Ada Cnty.*, 100 Idaho 59, 63, 593 P.2d 394, 398 (1979).

Characterized as the nicest hotel in the county, the subject property is undoubtedly unique in the local marketplace. On the one hand, subject's uniqueness lends itself to the cost approach because there are no comparable local hotel properties from which to obtain relevant income and sale price data. On the other hand, the subject property sits alone atop the local luxury hotel landscape, which carries certain risks from an investor

viewpoint that are best measured through the income or sales comparison approaches. The subject property certainly presents a difficult appraisal assignment.

Appellant's primary concern centered on Respondent's reliance solely on a cost approach model based on subject's construction costs. In this regard, Appellant cited *Title & Tr. Co. v. Bd. of Equalization*, 94 Idaho 270 (1971) and *In re Farmer's Appeal*, 80 Idaho 72 (1958), a couple of Idaho Supreme Court decisions that held, while costs may be a factor, they are not controlling, and that reliance solely on historic construction costs was an invalid valuation methodology. The instant case, however, is distinguishable from those referenced by Appellant. In *In re Farmer's* the assessor assessed³ commercial properties in 1956 using a replacement cost manual/guide developed by the state tax commission using cost data from 1937 to 1941 and indexed to future years. In other words, the assessor was using cost data from fifteen (15) years prior to the date of assessment, which is stale by any reasonable standard. Here, subject's construction cost data is only six (6) months old, so there are no concerns with the freshness of the data.

The Court in *Title & Trust* referenced the decision in *In re Farmer's* and clarified the rationale in that decision was not that cost of construction could not be used, but that "cost of construction is one element of value [and] other factors must also have been considered." *Title & Trust* at 277. In the instant case, Respondent ultimately relied on the cost approach, and subject's cost of construction specifically, but that was due to a lack of sales and income data for local comparable hotel properties, not because Respondent failed to consider the other approaches to value, as was the case in *Title & Trust*.

³ Assessment standards were different in 1956. Instead of the full market value standard used today, the assessor in *In re Farmer's* assessed commercial properties at 13% of actual cash value, a common practice throughout Idaho at the time.

While the Board understands Appellant's concerns with Respondent's reliance on the cost approach to value subject, an income-producing property, it was understandable under the circumstances here. The subject property is a newly constructed luxury hotel with no true peers in the local marketplace. There are simply no local sales of comparable hotel properties, so Respondent was unable to perform a sales comparison analysis. The absence of comparable hotel properties in the local market likewise prevented Respondent from developing an income model because no market lease data was available. And, because the subject hotel only commenced operations in mid-2024, there was only six (6) months of operating history leading up to the 2025 assessment date, which is not enough operating history to develop a reliable income model. The Board agrees income-producing property is commonly valued using the income and/or sales comparison approaches, but we found Respondent's reliance on the cost approach reasonable in this instance and not violative of the requirement in Rule 217 (IDAPA 35.01.03.217) of the property tax administrative rules that all three (3) approaches to value be considered when appraising property for purposes of assessment.

The Board is also cognizant of the provision of Idaho Code § 63-208(2) that the appraisal rules promulgated by the Idaho State Tax Commission, ". . . shall, to the extent practical, require the use of reproduction or replacement cost new less depreciation as opposed to historic cost less depreciation . . . in establishing the market value of depreciable property." Here, the subject property was constructed roughly six (6) months prior to the lien date, so the construction costs Respondent utilized represented current costs, not historic. MVS itself encourages the use of known costs for newly constructed local improvements in favor of its own cost tables. And lastly, it was not lost on the Board

that the cost approach analysis in Appellant's own appraisal report was based on subject's actual construction costs. To sum, the Board took no issue with the parties' use of subject's recent construction costs in their respective cost models.

That being said, the Board did find Respondent's cost model lacking with respect to potential economic obsolescence affecting the subject property, which was another criticism leveled by Appellant. As the nicest hotel in the county, it is not unreasonable to conclude the subject property may be somewhat overbuilt, or super-adequate, for the local market. Respondent agreed there was likely some degree of economic obsolescence, but in light of subject's limited operating history was of the opinion there was not enough data to develop an accurate obsolescence estimate. Certainly, a longer operating history would make for a stronger analysis, but from the operating data that is available, it is apparent the subject property has not achieved peak performance, at least not yet. This is unsurprising, however, as the subject hotel is new to the local hotel landscape and has not had much time to establish a positive reputation and grow its customer base.

Appellant's appraisal sought to measure economic obsolescence by subtracting subject's estimated net operating income at stabilization from the "feasible" net operating income, then capitalizing the difference. The feasible net income refers to the amount of income the property would need to generate for an investor to justify the roughly \$100,000,000 depreciated cost of the improvements plus the value of the land. The analysis concluded a 54% economic obsolescence factor for the subject property. While the Board understands the appraisal's math, a lot of subjective and speculative variables were necessary to reach the result, most notably the net operating income and

capitalization rate. As of the assessment date, the subject property had only been operating for roughly six (6) months, which makes revenue projections rather speculative. Add to this the lack of any comparable luxury hotel properties in the local market and there is nothing against which to test the reasonableness of the projected net operating income estimated by Appellant's appraisal.

Though the subject property may not be operating at the level envisioned by Appellant, at least through the first six (6) months, a 54% economic obsolescence factor is incredible by any reasonable measure. Appellant is a sophisticated investor specializing in revitalizing historic buildings across the country. In fact, Appellant typically does not purchase just a single property in a community but rather invests in multiple local properties with the goal of creating "environments where businesses flourish, jobs are created and communities are transformed." Indeed, in addition to the subject property, which is new construction, Appellant also owns three (3) historic buildings in the downtown core. Short of a catastrophic economic or other type event, which did not occur in this case, it is difficult to accept that Appellant missed the mark by such a margin with respect to its investment in the subject property. In short, the Board did not find the 54% economic obsolescence factor in Appellant's appraisal a credible estimate for the subject property, a six (6) month old luxury hotel.

As for the appraisal's sales comparison and income approach analyses, most of the data used to develop those models was from outside the local Boise hotel market and the broader Idaho market. And the data that was locally sourced concerned decidedly inferior hotel properties, so was effectively excluded in the appraisal's analyses. A scarcity of relevant market data was the same challenge Respondent faced when considering the

sales comparison and income approaches, as there is simply nothing comparable to the subject property in the local market. The bulk of the data used by the appraisal was from outside the local area, yet no location adjustments were made in the sales comparison approach, and it was not apparent how or if the data was adjusted for location in the income approach.

Given subject's unique place in the local marketplace, the lack of comparable sales, and only six (6) months of operating history, the Board viewed the cost approach as a reasonable valuation method in this instance. Though the 54% economic obsolescence factor proffered by Appellant's appraisal was not found credible, Respondent conceded there is likely some level of obsolescence, so some level of adjustment is warranted.

Pursuant to Idaho Code § 63-511, Appellant bears the burden of proving subject's assessed value is erroneous by a preponderance of the evidence. Given the record in this matter, the Board finds the burden of proof satisfied but did not find sufficient support for the value petitioned by Appellant. Weighing all the evidence and various indications of market value, the Board finds a total value of \$70,000,000 reasonable and appropriate for the subject property in this particular instance. The decision of the Ada County Board of Equalization is modified accordingly.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the Ada County Board of Equalization concerning the subject parcel be, and the same hereby is, MODIFIED, to reflect a decrease in total assessed value to \$70,000,000, with \$63,995,200 attributable to the improvements and \$6,004,800 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 18th day of March, 2026.