

BEFORE THE IDAHO BOARD OF TAX APPEALS

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|--------------------|---|---------------------------|
| SHJH SHELLEY, LLC, | ) |                           |
|                    | ) |                           |
| Appellant,         | ) | APPEAL NOS. 24-A-1131 and |
|                    | ) | 24-A-1132                 |
| v.                 | ) |                           |
|                    | ) | FINAL DECISION AND ORDER  |
| BINGHAM COUNTY,    | ) |                           |
|                    | ) |                           |
| Respondent.        | ) |                           |
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**COMMERCIAL PROPERTY APPEALS**

These appeals are taken from decisions of the Bingham County Board of Equalization denying appeals of the valuations for taxing purposes on properties described by Parcel Nos. RP2151400 and RP2151600. The appeals concern the 2024 tax year.

These matters came on for hearing October 24, 2024, in Blackfoot, Idaho, before Board Member Doug Wallis. Mark Hill appeared at hearing for Appellant. Bingham County Assessor Donovan Harrington 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 two (2) adjacent improved commercial properties.**

**The decisions of the Bingham County Board of Equalization are affirmed.**

## FINDINGS OF FACT

### Parcel No. RP2151400 (Appeal No. 24-A-1131)

The assessed land value is \$70,000, and the improvements' value is \$2,297,300, totaling \$2,367,300. Appellant contends the correct total value is \$2,152,208<sup>1</sup>.

### Parcel No. RP2151600 (Appeal No. 24-A-1132)

The assessed land value is \$70,000, and the improvements' value is \$4,242,200, totaling \$4,312,200. Appellant contends the correct total value is \$3,920,395<sup>2</sup>.

The subject properties are adjacent commercial parcels located in Shelley, Idaho. Along with an adjoining parking lot parcel that was not appealed, the subject properties collectively operate as an apartment complex. There are a total of fifty-four (54) units spread across three (3) buildings, each of which are three (3) stories. The unit mix is comprised of twelve (12) 1-bedroom units, thirty (30) 2-bedroom units, and twelve (12) 3-bedroom units. For purposes of this appeal, the entire apartment complex will be referred to as the subject property.

Appellant contended subject's current assessed value does not accurately reflect the property's value in the marketplace. According to Appellant, vacancies at the subject complex were higher in 2023 than in previous years. Historically, Appellant stated subject has maintained a vacancy rate of 4% to 5%, but for 2023, the rate increased to 8.5%. In Appellant's view, the increased vacancy rate, and resulting decrease in revenue, has negatively impacted the market value of the subject complex.

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<sup>1</sup> At hearing, Appellant contended the current combined market value of the entire apartment complex, comprised of the two (2) parcels under appeal here and one (1) adjoining parking lot parcel which was not appealed, is \$6,136,242. The \$2,152,208 figure for Parcel No. RP2151400 reflects the parcel's proportionate share of the combined value of the three (3) parcels.

<sup>2</sup> The same methodology described in footnote 1 was used to calculate the \$3,920,395 figure for Parcel No. RP2151600.

In support of a lower valuation, Appellant developed an income approach model using subject's actual 2023 income and expense figures. Applying an 8.5% vacancy rate to the potential gross income, Appellant calculated an effective gross income of roughly \$740,000. Appellant utilized a 38% expense rate, though details concerning the operating expenses included in the overall rate were not shared. The result was a net operating income figure of approximately \$460,000, to which a 7.5% capitalization rate was applied, yielding a value conclusion of \$6,136,242 for the subject complex. Appellant contended subject did not achieve the performance level suggested by the assessed value and argued its income model better reflected the property's current market value.

Respondent developed two (2) income approach models for the subject complex. The first analysis included Parcel No. RP21514000 and the adjacent parking lot parcel not currently under appeal. Respondent relied on advertised rental rates in the local market for different unit types to calculate a potential gross income of roughly \$280,000. The 7% vacancy rate was described as a standard market rate Respondent routinely utilizes in its income models for this property type. Respondent explained its source for the 30% operating expense rate used in the analysis was from a similar apartment complex located in Rexburg. A capitalization rate of 7.5% was applied to the net operating income of approximately \$170,000, resulting in a value indication of \$2,297,300 for the improvements. After adding \$140,000 for the combined land value of the two (2) parcels, Respondent's income model concluded a total value of \$2,437,300.

Respondent's second income model, developed for Parcel No. RP2151600, utilized the same inputs as the above model, except the potential gross income figure because the unit mix was different. After capitalizing the net operating income of

approximately \$320,000 at 7.5%, Respondent calculated an indicated value of \$4,242,200 for the improvements, and the final value conclusion was \$4,312,200 after adding \$70,000 for the underlying land.

In an effort to more closely approximate subject's actual income and expense data, Respondent re-worked the above income models using different inputs. On the income side, Respondent utilized subject's most recent rental rates, which somewhat increased the potential gross income estimates. The same 7% vacancy factor was used, and the operating expense ratio was increased to 35%. This yielded lower net operating income figures than the earlier models. Respondent also applied a lower 6.5% capitalization rate to the net operating income based on an extracted capitalization rate of 6.28% from the December 2022 purchase of a twenty (20) unit rental complex located a couple blocks from subject. The result was a combined total value of \$7,549,700 for the subject development, which Respondent highlighted was higher than the combined current assessment of \$6,749,500.

#### 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). The income approach is commonly used by market participants to estimate the value of commercial property, as it is typically transacted in the marketplace based on its potential to generate income.

Both parties offered value opinions derived from the income approach, which efforts were appreciated by the Board. Both models followed the same general methodology, but inputs into Appellant’s model were taken from subject’s actual income and expense data, whereas Respondent’s inputs were developed from the market. Both parties utilized the same 7.5% capitalization rate, so the substantive difference was in the operational inputs into the respective models. On this issue, the Idaho Property Tax Administrative Rules instruct that when the income approach is used “. . . to determine market value for assessment purposes of income-producing properties, [the assessor] must use market rent, not contract rent.” IDAPA 35.01.03.217.04 (emphasis added). While there may be some exceptions to the rule, such as a unique special-use property for which there is no local market data, the subject property is not such a property type. Therefore, the rules require use of market rent to estimate subject’s value using the income approach. And where Respondent’s was the only income model in the record

developed using market rents and other market-derived inputs, it was found by the Board to represent the best evidence of subjects' market value in this instance.

The burden of demonstrating error in subjects' assessed valuations by a preponderance of the evidence is Appellant's to bear. Idaho Code § 63-511. Where Appellant's valuation analysis was based on the subject complex's actual rents in contravention of the requirement to use market rents, the Board did not find the burden of proof satisfied. As such, the decisions of the Bingham County Board of Equalization are affirmed.

#### FINAL ORDER

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

DATED this 23<sup>rd</sup> day of December, 2024.