

BEFORE THE IDAHO BOARD OF TAX APPEALS

POST FALLS RV CAMPGROUND, LLC,	)	
	)	
Appellant,	)	APPEAL NO. 24-A-1249
	)	
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 modifying the valuation for taxing purposes on property described by Parcel No. PK117002002A. The appeal concerns the 2024 tax year.

This matter came on for hearing October 17, 2024, in Post Falls, Idaho, before Board Member Kenneth Nuhn. Mayson Douglass appeared at hearing for Appellant. Kootenai County Appraisal Manager Johnathon “Scott” Larson 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 Kootenai County Board of Equalization is modified.

FINDINGS OF FACT

The assessed land value was \$4,707,440, and the improvements' value was \$3,020,753, totaling \$7,728,193, which was reduced by the Kootenai County Board of Equalization to a total valuation of \$7,439,641. Appellant contends the correct total value is \$6,260,000.

The subject property is a thirteen (13) acre industrially-zoned site which operates as a 129-space RV Campground in Post Falls, Idaho. The property is improved with a total of 6,235 square feet of clubhouse/recreational space constructed in 2022. Other improvements include restroom facilities, a shower, a storage garage, and a utility shed. Among other amenities, the park features a seasonal pool, propane station, dump station, dog park, playground, coin-operated laundry, and sewer/water hookups at all sites.

In support of a lower valuation, Appellant offered an independent retrospective appraisal of the subject property with a January 1, 2024, effective date of valuation. The appraisal developed value opinions using all three (3) valuation approaches, starting with the cost approach. Four (4) recent vacant industrial lot sales were analyzed to determine the value of subject's 13.0 acres. Sale No. 1 concerned a 3.31 acre lot in Post Falls which sold for \$1,150,000, or \$7.98 per square foot, in September 2023. Sale No. 2 was the December 2023 purchase of a 2.52 acre parcel in nearby Liberty Lake, Washington, for \$900,000, or \$8.20 per square foot. Sale No. 3 was a 10.06 acre site in Spokane, Washington which sold in October 2022 for \$3,560,000, or \$8.12 per square foot. Lastly, Sale No. 4 concerned a 1.66 acre lot in Liberty Lake purchased in August 2021 for \$375,088, or \$5.19 per square foot. After applying transactional and physical adjustments where appropriate, the appraisal concluded adjusted price rates from \$4.27 to \$7.87 per square foot, and a land value of \$6.40 per square foot, or a rounded value of \$3,630,000 for the subject property.

In considering the value of subject's improvements, the appraisal utilized Marshall Valuation Service for its cost data. For direct costs, the appraisal determined a cost of \$750,000 for the park's site improvements and a cost new estimate of \$13,000 per RV

pad site, which was reduced to \$10,035 per site after applying modifiers for the number of spaces and gross area per space. The appraisal utilized a 5% indirect cost rate and entrepreneurial profit of 10%. As subject was constructed in 2022, the appraisal used a 4% physical depreciation rate, with no functional or economic obsolescence observed. The result was a depreciated improvement cost estimate of \$2,257,102, which, after adding the above land value conclusion, yielded a total value of \$5,890,000 for subject.

The appraisal next developed a comparative sales model. Due to the absence of any recent RV campground sales in subject's immediate area, the appraisal expanded the geographical scope to find relevant sales. Four (4) such sales were identified in Washington, Oregon, and southern Idaho. Sale No. 1 concerned a 14.29 acre campground with 30 RV pads which sold for \$1,450,000, or \$48,333 per pad, in October 2023. Sale No. 2 was the January 2023 purchase of a 127-pad campground on a 10.05 acre site for \$5,400,000, or \$42,520 per pad. Sale No. 3 was a 10.84 acre campground with 73 RV pads with an October 2022 sale price of \$4,934,832, or \$67,600 per pad. Sale No. 4 involved a 7.62 acre parcel with 57 pads which sold for \$1,990,000, or \$34,912 per pad, in April 2022. After adjusting for dates of sale, as well as adjustments for differences in property characteristics compared to subject, the appraisal determined adjusted sale prices from \$44,513 to \$64,863 per pad. The sales comparison model concluded a value of \$50,000 for each of subject's 129 pads, or a total value of \$6,450,000.

Lastly, the appraisal offered an income approach analysis. In estimating the potential gross income, the appraisal evaluated nine (9) RV park/campground properties in subject's general area. The comparable parks ranged in pad count from 55 to 190, with daily rental rates varying from \$34 to \$107 per night, and monthly rates from \$513 to \$781

per month. The appraisal considered the comparable rental data against subject's 2023 rental income and prepared a pro-forma income projection, with a potential gross income estimate of roughly \$2,100,000, or \$16,500 per pad. An occupancy rate of 46% was projected, resulting in an effective gross income of approximately \$980,000.

For operating expenses, the appraisal considered four (4) expense comparables located in Washington and Oregon. The comparable parks had between roughly 45 and 130 pads, with expense ratios ranging from 35% to 47%. Subject's 2023 operating expense rate was 47.9%, but because subject has only one (1) year of operational data, the appraisal's pro-forma analysis sought to estimate stabilized expenses. Based on the available data, the appraisal's pro-forma projected a 53% expense rate for subject, which the appraisal contended was appropriate considering the comparables' expense data did not include management fees or replacement reserves. The pro-forma concluded a net operating income of roughly \$455,000, which was noted to be lower than subject's actual net operating income of nearly \$500,000.

The appraisal's capitalization rate analysis included a consideration of ten (10) sales between 2020 and 2023, as well as published investor survey data and interviews with market participants. The sales suggested a capitalization rate range from 5.21% to 10.74%, while the investor survey reported ranges from 7.04% to 16.24%. Market participants indicated capitalization rates between 6.00% and 8.00%. The appraisal concluded a 7.25% capitalization rate for subject, which, when applied to the net operating income, yielded a value conclusion of \$6,280,000, or \$48,682 per pad, for the subject property.

In the final reconciliation, though the appraisal considered the cost and sales comparison approaches useful indicators of subject's value, primary emphasis was placed on the income approach. The appraisal therefore concluded a value of \$6,260,000 for subject as of January 1, 2024.

Respondent likewise developed estimates of subject's market value using all three (3) valuation approaches. Details concerning inputs into the cost approach were limited, but Respondent concluded a value of \$2,732,201 for subject's improvements. In support of subject's assessed land value of \$4,707,440, Respondent offered information on four (4) vacant lot sales and five (5) active listings. Sale No. 1 was a 14.89 acre parcel which sold in October 2023 for \$6,500,000. Sale No. 2 concerned a 1.24 acre lot with an August 2022 sale price of \$418,612. Sale No. 3 concerned the August 2023 purchase of a 1.77 acre parcel for \$1,542,024. The final sale was the February 2024 purchase of a .64 acre lot for \$300,000. The active listings concerned parcels ranging in size from 1.07 to 12.36 acres with asking prices from roughly \$935,000 to \$4,435,000. After applying size and location adjustments, Respondent calculated adjusted sale prices from \$7.36 to \$18.98 per square foot, and asking prices from \$8.24 to \$19.00 per square foot. Subject's current land value is \$8.31 per square foot.

Respondent's sales comparison analysis was a re-worked version of the sales model developed in Appellant's appraisal report. Respondent utilized the same transactional adjustments as the appraisal, but changed the adjustment for number of pads, which resulted in higher adjusted price rates from approximately \$49,600 to \$71,700 per unit. Respondent then multiplied the individual price rates by subject's 129 pad count and calculated adjusted sale prices from roughly \$6,400,000 to \$9,250,000.

Utilizing the average price rate of \$57,418, Respondent concluded a value of \$7,407,027 for subject.

Respondent next offered an income approach model. In estimating the potential gross income, Respondent utilized subject's published daily rental rates for the different pad sizes and determined an overall per-pad rate of \$99.30 per night. Respondent applied this rate to the peak seasonal period from April through September, or 182 days. A 29% discounted rate of \$70.53 per night was applied to the remaining 182 days from October through March. Based on these rates, Respondent calculated rental income of roughly \$4,075,000, to which subject's actual other income of \$27,457 was added, resulting in a potential gross income of approximately \$4,100,000. Applying the same 56% vacancy rate as utilized in Appellant's appraisal, Respondent determined an effective gross income of roughly \$1,800,000

For operating expenses, Respondent relied on subject's actual 2023 expenses but made some adjustments. Specifically, Respondent removed roughly \$24,000 in bank charges, as well as nearly \$34,000 for property taxes, as Respondent claimed these expenses were improper to include in an income approach analysis. This resulted in a operating expense rate of 41.22%, which, after applied to the effective gross income, yielded a net operating income of approximately \$1,000,000.

Respondent's model included an 11.0% tax-loaded capitalization rate, though it was unclear how the rate was determined. After capitalizing the above net operating income, Respondent concluded a value of \$9,643,644 for the subject property.

In the final reconciliation, Respondent regarded the cost approach as the best indicator of current market value because subject is a recently developed property and there is a general lack of comparable local sales.

Though not used in its analysis, Respondent also offered a current listing for an RV park located in Homedale, Idaho. The listed park included 63 units spread across roughly 4.25 acres along the Snake River. The pro-forma financial analysis included with the listing materials reflected an average nightly rental rate of \$41.27, a 30% vacancy rate, an operating expense rate of 35.95%, an 8.32% capitalization, and an asking price of \$5,200,000.

Appellant challenged the methodology Respondent employed to determine the potential gross income figure used in its income model. More specifically, Appellant criticized Respondent's use of subject's daily rate from the peak summer season and the lack of consideration for the notably lower monthly rates, which represents the primary source of subject's rental revenue. In this regard, Appellant shared subject's daily and monthly rental rates for the spring, summer, and fall/winter seasons. In each season, the daily rental rates for each pad size are roughly double the respective monthly rates. Despite the significantly lower monthly rental rate, the total monthly rental income for each season far exceeds the revenue generated from the nightly rental rates. For example, the fall/winter 2023 season generated \$739 in daily rental income at an average rate of \$81 per night, and \$7,300 in monthly rental income at an average rate of \$28 per night. Appellant contended that by effectively ignoring the dramatically lower monthly rental rates, despite monthly rentals representing the primary source of revenue, Respondent's

income model produced an unachievable potential gross income figure, and ultimately an unrealistic value conclusion.

Respondent was unaware of subject's monthly rental rates at the time its income approach analysis was performed but maintained it was proper to use the daily rates because the "highest and best use" dictates that the absolute highest potential income should be used in estimating potential gross income. In Respondent's view, it is a business decision to offer monthly rentals instead of nightly, and therefore subject's monthly rents should not be considered.

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). Commercial property is commonly valued using the income approach because such property is typically traded in the marketplace based on its potential to produce income.

Both parties developed income approach models, though weighted them differently in their respective final reconciliations, with Appellant placing primary emphasis on the income approach and Respondent giving no weight to the approach. Overall, the Board appreciated the parties' efforts in analyzing subject's market value using all three (3) approaches, but there were concerns with various aspects of the analyses. Most notable were the parties' widely divergent value indications despite using the same basic methodologies.

The differences began with the cost approach. Both parties utilized recent vacant lot sales to estimate subject's land value, though most involved notably smaller parcels. There was some question concerning the comparability of the land sales shared by Respondent, as only one (1) of the adjusted price rates was lower than subject's land value of \$8.31 per square foot, while the remaining three (3) price rates were \$10.30, \$15.63, and \$18.98 per square foot. It was not apparent how the sales correlated to subject's assessed land value. The land sales included in Appellant's appraisal report had a tighter adjusted price range from \$4.27 to \$7.87 per square foot, but the majority of the sales were located in different cities and two (2) of the sales occurred prior to 2023, so represented somewhat stale data.

The biggest difference between the parties' respective cost models was the value of subject's improvements. Though some of the cost figures appeared somewhat suddenly without much description, Appellant's appraisal offered detailed explanations

for most inputs into the cost model. Respondent, by contrast, shared few details regarding its cost figures. And no details were provided regarding the highest-valued improvement labeled simply “MISC” with a valuation of \$1,654,683. Without more details, the Board was strained to meaningfully evaluate Respondent’s cost model or make any comparisons with the cost analysis included in Appellant’s appraisal.

As neither party advocated the sales comparison approach as the best indicator of subject’s value, the Board sees little benefit in contrasting the parties’ respective sales models, so we turn instead to the income approach. The biggest point of disagreement between the parties’ income models was the potential gross income. Because subject has only one (1) full year of financial data, Appellant’s appraisal developed a pro-forma financial analysis which considered nine (9) rent comparables to determine a market rental rate for subject and an estimate of potential gross income. Respondent, by contrast, simply applied subject’s highest reported nightly rental rate for the summer season to 182 days of the year and a 29% lower rate to the remaining 182 days of the year. No consideration was given to rental rates from competing RV parks, nor to the fact that the majority of subject’s income is generated through monthly rentals, which rates are roughly 50% of the nightly rental rates. It was also unclear how Respondent arrived at a 29% discount factor for the non-peak rates. Subject’s lower monthly rates were also consistent with the rates reported for the rent comparables in Appellant’s appraisal, all of which reflected steeply discounted monthly rates compared to the daily rates. In the Board’s view, Respondent’s failure to consider subject’s monthly rental rates was a fatal flaw in its income model.

Contrary to Respondent's assertion, estimating potential gross income in the income approach does not mean determining the absolute highest possible income; it is instead intended to represent the market's expectation of the likely gross income for the particular property type. And despite Respondent's argument to the contrary, estimating potential gross income is unrelated to highest and best use, which, it should also be noted, is different than the actual and functional use standard by which property is valued for assessment purposes in Idaho. See Idaho Code § 63-208. It was also not lost on the Board that the roughly \$9,600,000 conclusion reached by Respondent's income approach equates to a value of nearly \$75,000 per pad at the subject property, which far exceeds any individual sale price in the record and is roughly \$20,000 per unit higher than the average price rate of all the sales. The figure is also far in excess of any other value conclusion reached by any of the other approaches developed by either party. In other words, Respondent's income approach conclusion was the outlier in the data set and was therefore disregarded in the Board's final consideration of subject's market value.

The Board understands Respondent's reliance on the cost approach due to subject's age and agrees the cost approach can produce a meaningful estimate of value for recently constructed improvements, but market participants overwhelmingly favor the income approach when evaluating income-producing property. Also, Respondent shared few details regarding the valuation of subject's improvements, and it was unclear how subject's land value correlated to Respondent's limited sales data. In short, the Board was hesitant to rely too heavily on Respondent's cost approach, particularly given the other indicators in the record.

The burden of establishing error in subject's valuation by a preponderance of the evidence is Appellant's to bear. Idaho Code § 63-511. Given the record in this matter, the Board found the burden of proof satisfied. In all, Appellant's appraisal was judged to represent the stronger indicator of subject's current market value in this instance, as it emphasized an income approach model driven by market-based inputs.

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

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 subject's total assessed value to \$6,260,000, with \$4,707,440 attributable to the land and \$1,552,560 to the improvements.

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 14th day of February, 2025.