

BEFORE THE IDAHO BOARD OF TAX APPEALS

IN THE MATTER OF THE APPEAL OF JAYCO,) APPEAL NO. 13-A-1194
INC. from a decision of the Twin Falls County)
Board of Equalization for tax year 2013.) FINAL DECISION
) AND ORDER

INDUSTRIAL PROPERTY APPEAL

THIS MATTER came on for hearing November 20, 2013, in Twin Falls, Idaho before Hearing Officer Cindy Pollock. Board Members David Kinghorn, Linda Pike and Leland Heinrich participated in this decision. Attorney Timothy Stover, and Appraisers Daniel Shively and Bill Hayes appeared at hearing on behalf of Appellant. Prosecutor Melissa Kippes, Assessor Gerry Bowden, and Appraiser Scott Erwin appeared for Respondent Twin Falls County. This appeal is taken from a decision of the Twin Falls County Board of Equalization denying the protest of valuation for taxing purposes of property described by Parcel No. RPT28250010010A.

The issue on appeal is the market value of an improved industrial property.

The decision of the Twin Falls County Board of Equalization is reversed.

FINDINGS OF FACT

The assessed land value is \$832,804, and the improvements' valuation is \$7,974,346, totaling \$8,807,150. Appellant requests the land value be increased to \$2,265,000, and the improvements' value be reduced to \$3,130,000, totaling \$5,395,000.

The subject property is an industrial site used to manufacture recreational vehicles. The parcel has a total of 68.75 acres, of which approximately half are dedicated to the active manufacturing operation. Subject is improved with two (2) manufacturing buildings constructed in 2007 and a small general-purpose shop building constructed in 2012. Combined, the improvements total 160,978 square feet in size. The property is also improved with both paved and graveled parking and yard storage areas. The property is located in southwest Twin Falls,

Idaho.

Appellant provided an independent, retrospective fee appraisal report with an effective valuation date of January 1, 2013. The appraisal characterized subject as unique for the area. The facility was described as well-suited for its intended purpose, though the roughly 160,000 square feet of manufacturing space was regarded as a super adequate improvement for Twin Falls. The large site was also cited as a contributing factor to the property's uniqueness. The appraisal indicated it would be unlikely that a second-generation user would use the property in the same manner as Appellant does. In the appraiser's opinion, a considerable sum would need to be spent to retrofit the facility to a new buyer's specific purpose.

While the fee appraisal considered all three (3) generally-accepted approaches to valuation, the income approach was ultimately discarded. The appraisal concluded the income approach was not applicable because subject is owner-occupied. Specifically, the appraisal indicated the income "approach does not reflect the primary analysis undertaken by a typical buyer and seller of the property class, an owner-user." (Appellant Exhibit No. 1, p. 24).

The appraisal first examined subject's land value which is comprised of two (2) distinct portions. The first 33.7 acre section, referred to as the primary site, encompasses the building, parking, and storage areas. The appraiser estimated about 5.66 acres of this area was unuseable due to a large irrigation canal which runs along the southern edge of the property. In the second section, the remaining 35.58 acres are undeveloped and remain mostly unused.

In support of the primary site area's valuation, four (4) vacant industrial acreage sales were considered. The parcels were between 8 and 90 acres in size and were situated in Twin Falls and Jerome counties. Sale No. 1 involved a 10-acre parcel which sold in January 2011

for \$880,000, or \$2.02 per square foot. Sale No. 2 concerned a 20.87 acre lot which sold in June 2011 for \$500,000, or \$0.55 per square foot. The third was a pending sale involving a 90-acre tract adjacent to subject. Appellant was the seller and reported a contract price of \$4,312,440, or \$1.10 per square foot.

The fourth sale, which was another pending sale, concerned an 8-acre parcel with a contract price of \$500,000. The appraisal adjusted the price upward by \$200,000 to account for the cost associated with subdividing the parcel and extending utilities to the site. Due to these considerations and the adjustment, the least amount of weight was placed on this latter sale. The main site appraisal made adjustments for differences compared to subject, such as exposure to Interstate 84, utilities, access to the interstate, and other physical attributes. A trend line model was developed, which indicated a value of \$1,294,202, or \$1.08 per square foot, for subject's primary site.

The appraisal estimated the value of subject's excess acreage using a similar approach as that used for determining the value of the primary site. The trend line model indicated a value of \$2,276,010, or \$0.76 per square foot, for subject's entire 68.75 acres. After subtracting the value attributable to subject's primary site, a value of \$970,000, or \$0.63 per square foot, was calculated for the excess area.

The appraisal next considered the value of subject's improvements using a cost approach. The two (2) manufacturing buildings were considered Average Class S Light Manufacturing improvements, and the general purpose shop building was valued as an Average Class S Light Industrial Shell structure. The various cost components and adjustments were detailed in the report. A replacement cost of \$9,543,600 was determined. Using the straight-line

depreciation, the appraisal determined a depreciation factor of 15%. The appraisal also applied a 61.5% obsolescence adjustment because “[u]nder any plausible second-generation use scenario the subject improvements are atypically large for the local market and reflect a superadequacy” (Appellant’s Exhibit No. 1, p. 67). The obsolescence factor was determined by a comparison of the cost and sales comparison approaches. In summary, Appellant’s cost approach for the primary portion of subject (land and improvements) determined a value of \$4,420,000, or \$27.46 per square foot.

The appraisal next considered the sales comparison approach. Information on ten (10) improved industrial sales was offered in this regard. Included were three (3) sales from Idaho, four (4) from Washington, and one (1) each from Oregon, Wyoming, and Colorado. The appraisal explained that large unique industrial facilities like subject are typically considered on a regional basis for purposes of valuation, the immediate area likely not having an abundance of comparable properties. The sales transpired between 2006 and 2012. Some of the older sale information included sales from subject’s immediate area. Most of the sale properties were situated in areas regarded as similar to Twin Falls, though a couple sales were located in more urban areas.

The fee appraisal made adjustments to the sale properties for differences compared to subject, support for which accompanied the analysis. Sale prices ranged from \$8.88 to \$51.70 per square foot, which after adjustments ranged from \$20.51 to \$37.49 per square foot. For subject’s primary site and improvements, the sales comparison approach determined a value indication of \$27.50 per square foot, or \$4,425,000.

In the final reconciliation, the appraisal relied primarily on the sales comparison approach.

The report stated the market was reasonably active for such type properties and that the sales comparison approach most closely reflected buyer behavior. The cost approach was given secondary weight due mainly to the high level of obsolescence involved. “As a result, the primary purpose of the cost approach is to serve as a benchmark to illustrate the difference between use value and market value, and in so doing, quantify the obsolescence attributable to the subject by comparing the physically-depreciated cost with the value indication developed in the sales comparison approach, and affirmed by our local market participant interviews.” (Appellant’s Exhibit No. 1, p. 84). It was further contended there exists an inherent obsolescence in industrial properties because it is less expensive to purchase an existing facility than to construct a new one. The final reconciled value for subject’s primary portion was \$4,425,000, to which a \$970,000 value for the excess land was added, resulting in a total value of \$5,395,000.

Respondent explained subject’s assessed value was determined through a trended investment cost approach. Such method examined original construction costs for subject’s various components and trended those costs forward using trend factors disseminated by the Idaho State Tax Commission. To the cost new estimates, Respondent applied depreciation factors which varied according to the age and economic life of the particular component being considered. Subject’s total depreciated improvement value was \$7,974,346 using this approach. Adding the total assessed land value of \$832,804, Respondent calculated a combined land and improvement value for the subject parcel of \$8,807,150.

Appellant noted Respondent’s cost approach conclusion was similar to that reached in the fee appraisal. The difference was in Appellant’s application of an extra obsolescence factor.

Respondent did not include such factor, though acknowledged obsolescence is typically included in a cost approach analysis. Respondent further remarked the method used in the fee appraisal for measuring such obsolescence was considered proper.

Though not used in issuing the original assessment, Respondent developed a sales comparison approach to further support subject's value. Four (4) industrial sales from Idaho and three (3) from Utah, which occurred in 2012 and early 2013, were considered. Respondent reported lot sizes between zero and 15.21 acres, and improvement sizes ranging from 14,856 to 145,000 square feet. The sale facilities were constructed between 1972 and 2009. Sale prices were between \$384,550 and \$6,059,375. Respondent removed the assessed land values, leaving improvement residual values ranging from \$20.74 to \$73.33 per square foot.

Using the four (4) sales, Respondent determined rate adjustments to account for differences in size, location, and condition as compared to subject. The sales were adjusted downward for size and location by \$20.27 and \$9.15 per square foot, respectively. An upward adjustment of \$9.15 was applied for condition. Adjusted sale prices were between \$9.62 and \$43.91 per square foot. Respondent then estimated the value of subject's improvements at \$33.19 per square foot, or \$5,342,859.

Appellant questioned the consideration of several of Respondent's sales. First it was noted three (3) of the sales involved improvements built in the 1970s. Appellant also objected to the smaller sizes of the sites and improvements compared to subject. Concern was also expressed with a couple sales located in areas more urban than Twin Falls.

CONCLUSIONS OF LAW

This Board's goal in its hearings is the acquisition of sufficient, accurate evidence to

support a determination of fair market value, or as applicable exempt status. This Board, giving full opportunity for all arguments and having considered all testimony and documentary evidence submitted by the parties in support of their respective positions, hereby enters the following.

Idaho Code § 63-205 requires all taxable property be assessed annually at market value on January 1 of the relevant tax year. Market value is defined in Idaho Code § 63-201 as,

“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.

There are three (3) primary methods for determining market value: the income approach, the cost approach, and the sales comparison approach. *Merris v. Ada County*, 100 Idaho 59, 63, 593 P.2d 394, 398 (1979). Both parties developed cost approach and sales comparison approaches. Neither provided an income approach. Appellant considered the income approach inapplicable in this instance due to subject’s use as owner-occupied. Reasoning for Respondent’s exclusion of the approach was not shared.

The parties’ sales comparison approaches each considered multiple industrial property sales. The sales involved property situated in Idaho and some located in surrounding states. Between the parties, the sale properties varied widely in terms of square footage, acreage, age and condition.

Both parties made value adjustments for differences between the sale properties and subject. Appellant determined adjusted sale prices between \$22 and \$33 per square foot. Respondent reported adjusted sale prices between \$9.62 and \$43.91 per square foot. Appellant’s sales comparison approach concluded a value rate for subject’s primary site and the

improvements of \$27.50 per square foot. Respondent's analysis concluded a value rate of \$33.19 per square foot for subject's improvements.

The Board appreciated the abundance of sales information offered by the parties. Admittedly subject is something of a unique property, so finding good comparable sales is difficult. These difficulties were evidenced in the sales considered by the parties.

Appellant's sales involved properties located in five (5) different western states. The appraisal made adjustments for notable differences between subject and the sale properties and provided support for the adjustments. The Board's concern, however, is net adjustments ranged from -38% to 164%. The large adjustments indicated a high level of dissimilarity.

The Board likewise viewed Respondent's sales with some caution. The Board's primary concern was the size of the sale properties in comparison to subject. The largest sale site was only 15.21¹ acres, and only two (2) of the industrial improvements exceeded 100,000 square feet of structure size. Additionally, the majority of the sale facilities were more than 15 years older than subject. Again, large adjustments were needed to allow comparison with subject. It is generally understood that the more adjustments needed, the less reliable the value conclusion. The Board noted Respondent used a zero-acre land size for one (1) of its higher-priced sales. This resulted in a 100% allocation of the pricing to the improvements which skewed the indicated range of values upward. Removing this one sale from the analysis reduced the mean price by roughly \$2 per square foot, which is significant on a large-sized facility.

Despite the issues noted above, the parties' sales information comprise a good portion

¹Respondent considered subject as having a 23.78 acre site in its sales comparison analysis, rather than the tract's total 68.75 acres. No explanation was provided for use of the smaller acreage figure.

of the market value evidence presented in this case. While the evidence should be considered in the determination of subject's fair market value, secondary weight was assigned to the sales information, while primary weight was afforded the cost approach.

The parties' respective cost approaches concluded similar values for subject's improvements, but there were some notable differences in the processes. Appellant's appraisal first sought to develop subject's land value. In this regard, two (2) land sales from 2011 and two (2) pending sales were considered. Lot sizes were between 8 and 90 acres and sale prices ranged from \$500,000 to \$4,312,400, or from \$0.55 to \$2.02 per square foot. After adjustments, the fee appraisal reported adjusted price rates between \$0.72 and \$2.01 per square foot. The appraisal concluded the value of subject's primary area of 27.51 acres at \$1.08 per square foot, or \$1,295,000. The additional or excess acreage was valued at \$0.63 per square foot, or \$970,000.

Respondent did not offer support, nor otherwise explain its land value of \$832,804 for subject's entire 68.75 acres. Without any specific land value evidence or argument, it is difficult for the Board to accept Respondent's land value. Admittedly there were some comparability issues related to Appellant's land sales, but the appraisal did attempt to minimize those concerns by making adjustments. Respondent did not contest the fee appraisal's land value analysis, nor did the Board find unusual or improper considerations or adjustments. Under the circumstances here, the Board is strained to find a better-supported land value opinion than that offered by Appellant.

Next we will consider subject as improved and address subject's improvements specifically. Due to subject's uniqueness and relatively newer age, the cost approach was

viewed as the most reliable method for estimating subject's improvements value. Though there was some variance in terms of the individual input factors used in the parties' respective cost models, the replacement cost new conclusions were very similar. Respondent concluded a total replacement cost new estimate of \$9,927,943, and the fee appraisal concluded \$9,543,600. The depreciated values were also similar, with Respondent reporting a value of \$7,974,346 and Appellant arriving at a value of \$8,112,060.

While the parties arrived at similar cost approach conclusions up to a point, it was the last step in the fee appraisal's model which caused the results to widely diverge. Appellant's appraisal applied a 61.5% downward adjustment to account for subject's external obsolescence. Per the appraisal, "as a purpose-built facility, the subject is well suited to its current use, but under any reuse scenario (i.e. second-generation use) the subject's lot and buildings are atypically large for the local market and reflect a superadequate improvement for most users and uses." (Appellant's Exhibit No. 1, cover letter, p. 2).

To measure the extraordinary obsolescence, the fee appraisal compared the difference between the depreciated value conclusion developed in the cost approach and the value determination from the sales comparison approach. Though no similar adjustment was included in its cost approach, Respondent acknowledged that measurable obsolescence should be removed. Respondent further agreed the methodology applied in the fee appraisal was proper.

In appeals to this Board, the burden rests with Appellant to prove error in subject's assessed valuation by a preponderance of the evidence. Idaho Code § 63-511. The Board is satisfied the burden of proof was met in this instance.

A key difference in the parties' respective final values was the extra obsolescence factor

used in Appellant's cost approach and appraisal. Respondent agreed such an obsolescence measurement should be a part of the analysis if possible, and further indicated the general method used in the fee appraisal was proper. Given that the parties agree a consideration of any extraordinary obsolescence should be included in the cost approach analysis, and where only Appellant's appraisal did this, the Board will accept the fee appraisal's conclusion on this point.

Overall, Appellant's valuation was found to be better supported. The land value conclusion was much higher than Respondent's, but it fit nicely within the parameters indicated by the industrial land sales. Given the totality of the evidence presented, and placing primary weight on the cost approach, the Board will reverse the decision of the Twin Falls County Board of Equalization and reduce subject's total assessed value to \$5,395,000.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the Twin Falls County Board of Equalization concerning the subject parcel be, and the same hereby is, REVERSED to reflect a decrease in subject's 2013 assessment as follows:

Land (68.75 acres)	\$2,265,000
Improvements	<u>\$3,130,000</u>
Total	\$5,395,000

IT IS FURTHER ORDERED that 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.

DATED this 25th day of March, 2014.

