

BEFORE THE IDAHO BOARD OF TAX APPEALS

COTTONWOOD VILLAGE, LLC,)	
)	
Appellant,)	APPEAL NO. 17-A-1059
)	
v.)	FINAL DECISION
)	AND ORDER
BONNER COUNTY,)	
)	
Respondent.)	
_____)	
)	
)	

COMMERCIAL PROPERTY APPEAL

This appeal is taken from a decision of the Bonner County Board of Equalization denying the protest of valuation for taxing purposes of property described by Parcel No. RPR00000260680A. The appeal concerns the 2017 tax year.

This matter came on for hearing September 26, 2017 in Sandpoint, Idaho before Hearing Officer Cindy Pollock. LLC Manager Michael McGranahan appeared at hearing for Appellant. Assessor Jerry Clemons represented Respondent.

Board Members David Kinghorn, Leland Heinrich and Kenneth Nuhn join in issuing this decision.

The issue on appeal concerns the market value of an improved commercial property.

The decision of the Bonner County Board of Equalization is affirmed.

FINDINGS OF FACT

The assessed land value is \$83,475, and the improvements' value is \$420,345, totaling \$503,820. Appellant contends the correct total value is \$415,000.

The subject property is a 1.674 acre commercial property located in Priest River, Idaho. This multi-use property is comprised of an office/retail building consisting of four (4) units, together with two (2) residential duplexes and twelve (12) mini-storage units.

Appellant purchased the property in 2014 for \$415,000. It was noted the property had

been on and off the market for roughly eight (8) years at varying asking prices. At the time of Appellant's purchase the asking price was \$450,000. Since purchasing the property Appellant has made some improvements, including re-paving the parking lot and installing new windows. Appellant characterized the local commercial market as generally weak, and as such, it was argued subject's current market value was the same as when the property was purchased in 2014.

Appellant provided a return on investment (ROI) analysis comparing subject's ROI to those of two (2) other local commercial properties sold during 2016. One of the sales concerned a 100-unit mini storage property which sold for \$275,000. The other sale involved a 6-plex facility with a price of \$195,000. Using subject's actual income from January 2017 of \$3,380 and September 2017 of \$2,906, and a hypothetical monthly mortgage payment of \$1,527, Appellant calculated an ROI for subject of 4.4% for January and 3.2% for September. In similar fashion, Appellant estimated the income and expense figures for the mini-storage and the 6-plex properties and derived ROIs of 13.6% and 11.4%, respectively. In Appellant's view, subject's lesser ROI supported a reduction in the current assessed value.

Respondent explained starting back in 2010 a 25% downward adjustment was applied to all commercial and industrial properties in Priest River due to the weak economic climate at the time. The adjustment was removed for the current year as a result of five (5) commercial sales which occurred during 2016. This uptick in the local commercial sales activity was regarded by Respondent as strong evidence commercial values were on the rise and there was no longer a need for the 25% economic adjustment.

In support of subject's current value, Respondent offered an income approach analysis

using market rents and market expenses. Because subject has three (3) distinct uses, Respondent analyzed each component separately. The net operating income (NOI) for subject's retail space was calculated using a \$0.75 per square foot lease rate, a vacancy rate of 10%, and an expense rate of 30%. The result was a net operating income (NOI) of \$16,330 for the retail space. For the mini-storage units, rental rates of \$49 and \$59 per unit were used, together with a 5% vacancy rate and a 20% expense rate, resulting in an NOI of \$6,092. The NOI conclusion of \$18,354 for the duplexes was calculated using a monthly rental rate of \$575 per unit, a 5% vacancy rate, and a 30% expense rate. Respondent summed the NOI figures and applied an overall market-derived capitalization rate of 8%, resulting in a total value conclusion of \$509,700. Respondent remarked this was actually higher than subject's current assessed value.

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 taxable property be assessed at market value annually on January 1; January 1, 2017 in this case. 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.

Market value is estimated according to recognized appraisal methods and techniques. There are three (3) approaches for determining the market value of real property; the sales

comparison approach, the cost approach, and the income approach. *Merris v. Ada County*, 100 Idaho 59, 63, 593 P.2d 394, 398 (1979). Commercial property, due to its income-producing potential, is often valued using the income approach.

Appellant did not use the above-referenced approaches to value. Rather, Appellant relied on ROI calculations for subject and two (2) recently-sold commercial properties, based in turn on hypothetical financing conditions and estimated income and expenses. While Appellant's efforts were appreciated, it was not clear to the Board how the ROI figures correlated to market value or how such analysis otherwise supported a lower market value for the subject property. As such, minimal weight was afforded the ROI analysis.

The Board was likewise unpersuaded subject's 2017 value should match the 2014 purchase price of \$415,000. First, sale price information from 2014 is somewhat stale for purposes of estimating the property's January 1, 2017 market value, particularly with no adjustment made for time of sale. Further, although specific cost information was not shared, Appellant reported updating the subject property including re-paving the parking lot and replacing windows. Such improvements, in the Board's experience, are costly and typically add some value to the property, thereby increasing the market value.

Respondent relied on the income approach as support for subject's valuation, which was generally well received by the Board. The analysis separately considered the individual uses of the subject property, which are notably distinct. Market-derived rental and expense rates were used to estimate subject's total NOI, to which a market capitalization rate was applied. On the whole, Respondent's analysis was found by the Board to be supported and consistent with recognized appraisal practices and appropriately based on information derived from the

marketplace, which embodies principles of sound appraisal practice.

In appeals to this Board, the burden of proving error in subject's assessed value is with Appellant. Idaho Code § 63-511. Based on the evidence submitted, we did not find the burden of proof satisfied in this case. Respondent's valuation was based on a recognized valuation approach and the value conclusion appeared reasonable and well-supported. Accordingly, the decision of the Bonner County Board of Equalization is affirmed.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the Bonner County Board of Equalization concerning the subject parcel be, and the same hereby is, AFFIRMED.

DATED this 13th day of November, 2017.