

BEFORE THE IDAHO BOARD OF TAX APPEALS

CARRIAGE CROSSING SHOPPING CENTER)	
NORTH, LLC,)	
)	APPEAL NO. 18-A-1024
Appellant,)	
)	FINAL DECISION
v.)	AND ORDER
)	
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 of property described by Parcel No. R8226820090. The appeal concerns the 2018 tax year.

This matter came on for hearing October 23, 2018 in Boise, Idaho before Board Member Leland Heinrich. Brian Price appeared at hearing for Appellant. Chief Deputy Assessor Brad Smith 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 Ada County Board of Equalization is modified.

FINDINGS OF FACT

The assessed land value is \$293,200, and the improvements' value is \$1,165,000, totaling \$1,458,200. Appellant contends the correct total value is \$1,070,571.

The subject property is a multi-tenant retail shopping strip situated across the street from an Albertsons in southeastern Boise, Idaho. The 9,120 square foot building, constructed in 2008, is situated on a 1.02 acre parcel.

Appellant contended subject's current assessed value is not supported by the property's actual performance over the past couple years. In concluding its value estimate for subject, Appellant developed three (3) alternative income approach analyses using different input factors. Under Scenario 1, Appellant used subject's actual income and expense figures, and a market-derived capitalization rate of 7.25%. This model indicated a value of \$858,151. The analysis for Scenario 2 relied on subject's average actual performance over the prior three (3) years. Again using a 7.25% capitalization rate, Appellant concluded a value of \$921,388. Lastly, Appellant developed Scenario 3, which used subject's actual income and expenses, along with a market vacancy and capitalization rate. The result was a value indication of \$1,282,992. These three (3) techniques were reconciled into a final value of \$1,070,571, which value Appellant petitioned be adopted for the current assessment.

Respondent highlighted subject's expenses and noted they were roughly triple the typical market expenses for retail properties in the area. According to market data, an 8% expense rate is more typical, whereas subject's expense rate is approximately 30%. Appellant explained subject's actual vacancy has been nearly 50% over the past several years. This lack of tenants means Appellant, as landlord/property owner, was responsible for the operating expenses related to the vacant space. However if such space was leased to a third party, the tenant would be responsible for the expenses.

Respondent likewise developed a value opinion using the income approach. However, rather than relying on subject's actual performance figures, or a historical average of the actual income and expenses, the inputs used were derived from typicals in the market. Supporting documentation for the various market rates were furnished. A market lease rate of \$14 per

square foot was used to calculate potential gross income, which was noted to be lower than the contract lease rates in place on the property. A vacancy and collection loss rate of 10% was used, as was an 8% expense rate. The net operating income was capitalized at 7.25%, resulting in a value indication of \$1,458,193.

Respondent additionally provided information concerning two (2) retail listings. The first listing was a 5,016 square foot retail building constructed in 2016 situated on a .304 acre lot. The asking price for this property was \$2,032,518. The other listing concerned a 1.421 acre parcel improved with a 16,960 square foot building constructed in 2006. This property was listed for \$3,264,200.

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, 2018 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. The three (3) generally accepted approaches for estimating market value of real property include the sales comparison approach, the income approach, and the cost approach. *Merris v. Ada*

Cnty., 100 Idaho 59, 63, 593 P.2d 394, 398 (1979). Due to its income-generating potential, commercial property is often valued using the income approach.

Both parties offered value estimates derived from the income approach. The parties' respective analyses were mostly similar with regard to the inputs used, with the exception of the expense rate. Appellant relied on subject's actual expenses, whereas Respondent used a market-derived typical expense rate of 8%. Where the goal of assessment for the purpose of taxation is to find a property's market value, a strong consideration of marketplace data is proper appraisal practice. And in this regard, Respondent's use of market-derived input factors was generally well received by the Board. However, while we agree the broader market should feature prominently in developing an opinion of value, some consideration should also be afforded a property's actual performance in some instances, such as here.

In this case, subject's actual vacancy rate has been nearly 50% over the past three (3) years, despite active and extensive efforts to market the property to potential tenants. This higher vacancy rate has in turn caused the owner's share of expenses to be substantially higher than typical market levels because it must pay the necessary expenses associated with the vacant space, which expenses would otherwise be paid by the leasing tenant. The parties could not identify the cause of subject's high and prolonged vacancy rate, but it is apparent the subject property has been atypically impacted by some outside factor. The situation does not appear to be a random anomaly, as the higher vacancy has persisted for several consecutive years. In the Board's judgment, some consideration should be given to subject's unique situation in this case.

Pursuant to Idaho Code § 63-511, Appellant bears the burden of proving error in subject's

valuation by a preponderance of the evidence. Though we find Appellant did adequately demonstrate subject's valuation is high, we did not find support for the value petitioned by Appellant because the analysis used to develop the value largely ignored current market rates for similar property. Given the evidence presented in this matter, with heavy emphasis on market rates plus some consideration for subject's actual performance, we find a market value of \$1,334,800 is fair and reasonable.

The decision of the Ada County Board of Equalization is modified to reflect a total value of \$1,334,800, with \$1,041,600 attributable to the improvements, and \$293,200 to the land.

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 market value to \$1,334,800, as detailed above.

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 4th day of January, 2019.