BEFORE THE IDAHO BOARD OF TAX APPEALS

STRONG TIMBER, LLC, Appellant, v. BONNEVILLE COUNTY, Respondent.	APPEAL NO. 18-A-1242 FINAL DECISION AND ORDER

COMMERCIAL PROPERTY APPEAL

This appeal is taken from a decision of the Bonneville County Board of Equalization modifying an appeal of the valuation for taxing purposes on property described by Parcel No. RPA30531060070. The appeal concerns the 2018 tax year.

This matter came on for hearing November 28, 2018 in Idaho Falls, Idaho before Hearing Officer Cindy Pollock. LLC Member Sam Cook represented Appellant at hearing. County Assessor Blake Mueller 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 Bonneville County Board of Equalization is modified.

FINDINGS OF FACT

The assessed land value is $254,166, and the improvements' value is $1,278,584, totaling $1,532,750. Appellant contends the correct total value is $1,050,000.

The subject property is a .99 acre commercial parcel situated near the Grand Teton Mall in Idaho Falls, Idaho. The property is improved with a two (2) story, brick veneered multi-tenant office building constructed in 1993. According to Respondent’s records, the gross area of the office building is 25,219 square feet.

Appellant first questioned the size of subject's building as reflected in Respondent's records. Appellant contracted the services of a professional land surveying company to survey the subject property. An ALTA/NSPS survey was completed which reported a total land area of 42,360 square feet, of which 12,243 square feet is consumed by the building footprint. Appellant next engaged a local architecture firm to render an exact blueprint of the existing office building. The architectural renderings indicated the building is comprised of 21,078 total square feet, of which 15,782 square feet represents the net rentable area. This latter measurement is after removing non-rentable space like stairwells and common areas, as well as areas of the building with no rentable second floor space, such as the gym. Appellant contended these measurements were more accurate than the figures contained in Respondent's records.

Respondent reported measuring the subject building on two (2) separate occasions in recent months. According to Respondent, certain areas of the building were not accessible during the first measurement effort. After the second measurement, Respondent concluded a net rentable area of 18,737 square feet.

Appellant next highlighted subject's purchase in July 2018 for $1,050,000 in an arm's-length transaction. It was noted subject was listed on the open market beginning in January 2018 and after roughly four (4) months, the seller received two (2) separate purchase offers at the same price. Ultimately, Appellant's offer was accepted. Appellant acknowledged subject's purchase occurred in mid-2018, however, maintained the property's value would have been the same on the January 1, 2018 assessment date.

In addition to subject's purchase price, Appellant offered an independent fee appraisal which was commissioned by the seller prior to subject's purchase. The effective date of the appraisal was March 14, 2018. The appraisal did not develop an opinion of value using the cost approach due to the limited number of nearby vacant land sales, as well as the difficulty in accurately estimating all forms of depreciation on the twenty-five (25) year old building.

The fee appraisal's sales comparison approach considered three (3) sales of larger office properties in the area. For the unit of comparison, the appraisal used net rentable area instead of gross building area. According to the appraisal, gross building area is considered the best for smaller office buildings with little common area. However, because subject is a larger office building with substantial common areas, using net rentable area was deemed most appropriate. The appraisal indicated subject's net rentable area is 14,920 square feet.

Sale No. 1 in the fee appraisal concerned an office building constructed in 1981 with a net rentable area of 27,133 square feet. The property sold in January 2012 for $1,950,000, or $71.87 per square foot. Sale No. 2 was a 1986 office building with 7,990 square feet of net rentable area. This property sold in December 2017 for $536,000, or $67.08 per square foot. Sale No. 3 was an office building with a net rentable area of 18,808 square feet. The property sold in April 2013 for $1,800,000, or $95.70 per square foot.

The fee appraisal directly compared each sale property above to the subject and made adjustments for various factors such as location, age, quality, and other relevant attributes of office property. The adjusted sale price of Sale No. 1 was $75.81 per square foot, and adjusted price rates of $73.58 and $80.69 per square foot were determined for Sale Nos. 2 and 3, respectively. Primary weighting was afforded the sales with the least amount of adjustment. A value of $1,135,000, or roughly $76 per square foot was concluded for subject under the sales comparison approach.

Turning to the income approach, the fee appraisal explained it is more common in older office spaces for the landlord to pay most of the building's expenses, particularly in a larger multi-tenant building. As such, the appraisal used gross lease rates in its income approach. Looking at subject's actual gross leases, the appraisal noted the rates varied from $0.68 to $1.17 per square foot. The appraisal also provided lease information for eight (8) competing office buildings, seven (7) of which were rented pursuant to gross lease agreements. The comparable lease rates varied from $0.68 to $1.20 per square foot. Though subject's actual average lease rate is $1.01 per square foot, the appraisal concluded a slightly higher average market lease rate of $1.09 per square foot. This yielded a potential gross income of $195,154 for subject. A vacancy rate of 11% was used, which represented the mid-range vacancy rate for somewhat aged, good quality multi-tenant office buildings in the marketplace. The appraisal estimated annual expenses totaling roughly $76,000 per year, which expenses included real estate taxes, insurance, utilities, management, and professional and miscellaneous expenses. In determining the capitalization rate, fifteen (15) commercial sales were examined. The sales indicated rates ranging from 7.6% to 9.5%. Because subject is located in a larger sized town and the building has been well maintained, the appraisal concluded a capitalization rate of 8%. The result was an indicated value for subject of $1,055,000.

In reconciling the above two (2) approaches to value, the fee appraisal concluded a final value of $1,070,000 as of March 14, 2018.

Respondent developed value estimates using all three (3) approaches to value. Though details were not provided, there was a reported value of $2,033,346 under the cost approach.

The sales comparison approach estimated a value of $1,906,767. In both these approaches, Respondent used its measurement of subject's gross size of 25,219 square feet. Turning to the income approach,18,737 square feet was used, which is the amount of net rentable area Respondent had calculated. Vacancy and expense rates of 12% and 20%, respectively, were used. The net operating income was capitalized at 10%, which rate was noted be loaded to account for the future real estate taxes. Respondent's income approach indicated a value of $1,519,586.

The three (3) value indications were weighted in reconciliation, with 60% weighting afforded the income approach, and 20% each for the cost and sales comparison approaches. The final value concluded in Respondent's appraisal was $1,699,774.

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 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, 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 sales comparison approach, the cost approach, and the income approach represent the three (3) accepted methods for estimating the market value of real property. *Merris v. Ada Cnty.*, 100 Idaho 59, 63, 593 P.2d 394, 398 (1979). See also IDAPA 35.01.03.217.

Before the ultimate question of subject's current market value, we will address the issue of subject's rentable space. Appellant contended subject's gross size is roughly 21,078 square feet, of which 15,782 square feet represents the net rentable area. These figures were the result of work completed by a local professional land surveying company, as well as, a local architecture firm. Respondent reported its appraiser had visited the property twice during 2018 for purposes of measuring the building, and determined a gross building area of 25,219 square feet, with 18,737 square feet of net rentable space.

Respondent's property characteristics records are presumed to be correct, so the burden is with Appellant to prove any claimed error. For building measurements, these are often done consistent with the method directed by the valuation service being used in a particular circumstance. On review here, the Board finds Appellant did sufficiently prove a different square footage should be used. Appellant engaged the services of two (2) local professional companies to survey the property and render an exact blueprint of the existing building. Copies of the reports produced by these local professionals were provided in the record. The reports show the measurements for the various portions of the building, specifically the interior common areas and the amount of net rentable area. Respondent, on the other hand, provided no specific measurements or any other evidence to substantiate the figures reflected in its records and used in its valuation analysis. Based on the information in the record, the Board finds Appellant's position regarding subject's net rentable area is better supported.

We turn now to subject's valuation. While the Board appreciated the information provided by the parties, there were some notable concerns. Appellant's primary value evidence consisted of a fee appraisal prepared for the prior owner of the subject property, as well as subject's purchase in July 2018. Though the information and analysis contained within the appraisal report was generally well received by the Board, the effective date of valuation was March 14, 2018. This was more than three (3) months after the January 1, 2018 assessment date. The appraisal also did not measure subject's fee simple interest. Subject's purchase was also well beyond the relevant valuation date. An informed buyer and seller could not have known of this information on the valuation and assessment date of January 1, 2018. As a result, the Board is unable to rely on the value conclusion reached in the fee appraisal, as well as subject's purchase price. The market data however would be timely for consideration in the next assessment cycle.

The Board likewise had concerns with some of the information offered by Respondent. Most notably, details and supporting data for Respondent's valuation models were mostly absent. This was particularly evident with regard to the cost and sales comparison approaches, with the subject's gross building size being the only information provided other than the respective value conclusions. No information concerning the sales used in the sales comparison approach was provided. Nor were any details of the cost approach provided, such as the depreciation factor. Without the supporting data, the Board was reluctant to place much weight on these particular value indications.

More details were provided for Respondent's income approach, however, again there was no supporting evidence for the inputs used in the analysis. Respondent simply stated the income, expense, and capitalization rate figures were market rates, but offered nothing to substantiate the assertions. It was difficult for the Board to confidently rely on this analysis without more information to support the factors which resulted in the value conclusion.

Though the fee appraisal conclusion offered by Appellant was untimely with respect to the effective date of valuation, the information contained within the report was often timely. In addition, the appraisal also provided detailed information concerning the sales and other inputs used in both the sales comparison and income approaches. Further, the analysis itself was found to be representative of recognized appraisal practices and the associated adjustments were reasonable in the Board's experience. That being said, there was a discrepancy in the amount of net rentable area reported in the appraisal report when compared to the blueprint rendering discussed above. The appraisal used 14,920 square feet, whereas the architecture firm determined a net rentable area of 15,782 square feet. Having already found the measurements reflected in the architecture firm's report more supported and credible, it is necessary to account for this "extra" square footage in determining a fair estimate subject's current market value. Making this size adjustment indicates a value of roughly $1,125,000, which given the evidence provided in this matter, is a reasonable and supported value in the Board's view, for January 1, 2018.

Pursuant to Idaho Code § 63-511, Appellant bears the burden of proving error in subject's valuation by a preponderance of the evidence. We find the burden of proof satisfied in this instance. Appellant provided market value information that was relevant, timely, and thoroughly detailed, whereas specifics concerning Respondent's information and analysis were mostly absent in the record. Based on the evidence provided, we find subject's value should be reduced.

Given the above, the decision of the Bonneville County Board of Equalization is modified to reflect a decrease in subject's 2018 assessment to $1,125,000.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the Bonneville County Board of Equalization concerning the subject parcel be, and the same hereby is, MODIFIED to reflect a decrease in value to $1,125,000, with $870,834 attributable to the improvements and $254,166 to the land.

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 19th day of February, 2019.

IDAHO BOARD OF TAX APPEALS