BEFORE THE IDAHO BOARD OF TAX APPEALS

TRAIL CANYON, LLC, Appellant, v. CARIBOU COUNTY, Respondent.	)	APPEAL NO. 18-A-1002 FINAL DECISION AND ORDER

COMMERCIAL PROPERTY APPEAL

This appeal is taken from a decision of the Caribou County Board of Equalization modifying an appeal of the valuation for taxing purposes of property described by Parcel No. 10000121502. The appeal concerns the 2018 tax year.

This matter came on for hearing August 29, 2018 in Soda Springs, Idaho before Board Member David Kinghorn. Attorney Ron Kerl appeared at hearing for Appellant. Attorney Doug Wood 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 Caribou County Board of Equalization is modified.

FINDINGS OF FACT

The assessed land value is $129,260, and the improvements' value is $3,113,837, totaling $3,243,097. Appellant contends the correct market value is $2,182,494.

The subject property is a 22,200 square foot national brand auto dealership situated on a 12.1 acre parcel in Soda Springs, Idaho. Subject’s land was assessed and valued as 3.5 acres of commercial frontage, with the roughly 8.5 remaining acres to the rear valued as excess land.

The newer dealership improvements were constructed in 2017. The building interior consists of shop and service areas, as well as showroom and sales areas. The building also houses a parts department and service desk.

Appellant claimed an inequity existed when comparing subject with other commercial properties located throughout the county. Appellant explained most other commercial properties in subject's area were assessed at an average rate of around $69 per square foot, while subject was being assessed for approximately $140 per square foot.

Appellant provided a fee appraisal with a stated effective valuation date of March 5, 2018. All three (3) approaches to value were initially considered in the preparation of the appraisal. The appraisal noted the cost approach provided a good estimate of value from the basis of concluding land and improvement values. Looking at the sales comparison approach, it was determined the approach did not offer a stable source of value, as only one (1) sale over $1,000,000 had taken place in the last five (5) years. The appraisal also reported the income approach was not a good valuation tool for subject's property type, because such an analysis here would be based too much on specific management and business practices.

The fee appraisal did look to four (4) sales of vacant land from 2004 to 2017 in support of subject's assigned land value. Three (3) of the sales had average price rates between $0.88 and $1.50 per square foot. The remaining sale was a 12.84 acre parcel which sold in December 2011 for $130,000, or $10,124 per acre. The fee appraisal determined a land value for subject's commercial frontage (3.5 acres) of 152,460 square feet at $1.00 per square foot for a value of $152,460. The so-called excess land toward the rear of 8.6 acres was valued at $2,000 per acre, or $17,200. Therefore the final land value determined was $169,660. The appraisal noted its land valuation was similar to subject's assessed land value.

Appellant discussed several commercial properties located in subject's general area, as well as some located in nearby counties. The appraisal looked specifically to the assessed values of other auto dealerships, as well as other commercial buildings, to compare with the newer subject. One (1) of these properties was located in close proximity to subject, while the others were located in different counties. Three (3) of these commercial properties were auto dealerships. The assessed values for all five (5) of the selected properties ranged from $443,740 to $2,037,547. The appraisal broke down the other assessments between property components to facilitate a comparison with subject's. The appraisal noted subject's values should be near the top of the comparables range because the age and quality of subject is superior.

In Appellant's cost analysis, a 10% depreciation allowance for physical deterioration and "extravagance" was applied to the highest cost rate of $95 per square foot for office and showroom areas. A cost new of $65 per square foot was used for shop area and a rate of $3 per square foot was used for paving. A 10% physical depreciation rate was typically applied to improvements, however the asphalt paving was depreciated by 15%. Under the cost approach, a value of $2,012,834 was determined for the improvements, for a total valuation of $2,182,494 including the land value. Per testimony, subject's recent development cost totaled about $3,900,000.

Respondent also attempted to consider the sales comparison, income, and cost approaches to value in arriving at a final conclusion of value. Ultimately, the cost approach was deemed the most reliable due to a lack of recent comparable sales, as well as a lack of income information. Respondent maintained as subject was recently constructed, the cost approach was the most appropriate method of valuation. Respondent generally agreed with the practice of looking at the assessed values of like commercial properties to compare with subject. However, Respondent focused its consideration on newer auto dealerships.

First, with regard to the individual property characteristics, Respondent valued a 2,883 square foot mezzanine in its analysis. This mezzanine improvement was determined based on subject's original building plans. At hearing, Appellant offered testimony that there was no mezzanine on the subject property. In the absence of the mezzanine, Respondent requested this Board remove the $79,513 value attributed to the mezzanine improvement.

Turning to the value of the remaining improvements, Respondent considered the local cost data available from the recent construction of subject, as well as a consideration of the assessed values and constructions costs of two (2) national brand auto dealerships built in 2017, as well as the assessed value of two (2) older auto dealership facilities located in nearby counties. Respondent explained Appellant in valuing the newer subject was looking to a variety of commercial properties, some of which were over 30-years old or much smaller than subject. In Respondent's opinion Appellant's selected properties were not comparable with subject in age, quality of construction, or functional use. Further, Respondent reported some of the properties Appellant compared to had not been re-assessed in over four (4) years.

Using the Marshall & Swift cost service, Respondent valued subject's various components under a cost approach. The building was considered a class 2 building indicating a cost new rate of $136.50 per square foot. Respondent added to this the cost for pavement and flat concrete work plus some light poles, to determine a final cost approach value, inclusive of land, of

$3,470,151.

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. There are three (3) primary methods for determining market value, 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). Both parties sought to consider all three (3) approaches, however, both ultimately presented only a cost approach.

Appellant's cost approach was part of an independent fee appraisal with a valuation date of March 5, 2018. This date is roughly three (3) months after the pertinent January 1, 2018 assessment date. Further, Appellant's appraiser was judged to rely significantly on a consideration of the assessed values of older and dissimilar commercial properties in deriving his market value estimate. Information on the physical characteristics on these comparison properties was thin in the record, but they did not appear to be new like the subject. Respondent argued persuasively the comparison properties were not similar or comparable with subject because of age, size, and actual use differences. We note the fee appraiser went out wide geographically for reference points, yet failed to provide information on two (2) competing auto dealerships built the same year as subject; in fact one of these also new dealerships was nearly identical to subject in terms of the size of the improvements.

Subject was recently constructed for approximately $3,900,000. The record did not present evidence on any instances of significant construction troubles or cost overruns. Against this backdrop, the Board is strained to find good market-based support for the fee appraisal's final value conclusion of $2,182,494. In essence, the Board found Appellant asking for a reduction of over $1,700,000 based in large part through a comparison to the assessed values of older or dissimilar commercial properties, often located in different counties.

Respondent offered a cost approach to value based largely on the Marshall & Swift cost service to support its value position. Using the summation approach the final value inclusive of land was $3,470,151. Other than including value for a mezzanine, discussed below, the Board did not find error in Respondent's cost approach. The value evidence was well supported and reliance on this indicator in this instance was called for and reasonable.

In appeals to this Board, the burden is on Appellant to prove error in subject's assessed value by a preponderance of the evidence. See Idaho Code § 63-511. As to subject's improvements value, this burden was not satisfied, at least as relates to the value claim on appeal. Appellant's value analysis was found to be narrowly focused on a comparison of assessed values of older or non-similar properties. A comparison of assessed values is not a recognized appraisal approach to market value. We found a lack of due consideration was given to the actual recent costs to build the subject improvements. On the other hand, Respondent's value estimate was largely derived from a traditional cost approach. Although, Respondent might have provided more details relating to its cost approach, in the Board's judgment the analysis still represented the best evidence of current market value in this case. The final value presented was higher than the value determined by the board of equalization, however where a higher value was not petitioned for, the Board will not consider an increase in value under the circumstances.

Given the sworn testimony of Appellant's witness, the Board is satisfied some adjustment to subject's improvement value is warranted. This is undertaken to correct property characteristics pertaining to the mezzanine. The mezzanine improvements were assessed at $79,513. Accordingly, the decision of the Caribou County Board of Equalization is modified to reflect a removal of the mezzanine value. Subject's improvement valuation is therefore reduced to $3,034,324, with no change to the land value, for a total market value of $3,163,584.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the Caribou County Board of Equalization concerning the subject parcel be, and the same hereby is, MODIFIED to reflect a decrease in the improvements' value to $3,034,324, with no change to land value of $129,260, resulting in a market value of $3,163,584.

DATED this 14th day of February, 2019.