BEFORE THE IDAHO BOARD OF TAX APPEALS

RIVERVIEW VENTURE, LLC, Appellant, v. KOOTENAI COUNTY, Respondent.	)	APPEAL NOS. 19-A-1040 &19-A-1041 FINAL DECISION AND ORDER

COMMERCIAL PROPERTY APPEAL

These appeals are taken from decisions of the Kootenai County Board of Equalization denying appeals of the valuation for taxing purposes of property described by Parcel Nos. CK298001005A and CK2980010060. The appeals concern the 2019 tax year.

These matters came on for hearing October 1, 2019 in Post Falls, Idaho before Board Member Kenneth Nuhn. Kirk Kappen appeared at hearing for Appellant. County Assessor Rick Houser 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 a 2-parcel apartment complex.

The decisions of the Kootenai County Board of Equalization are affirmed.

FINDINGS OF FACT

Appeal No. 19-A-1040 (Parcel No. CK298001005A)

The assessed land value is $1,677,010, and the improvements' value is $14,312,835, totaling $15,989,845.

Appeal No. 19-A-1041 (Parcel No. CK2980010060)

The assessed land value is $1,463,687, and the improvements' value is $12,690,221, totaling $14,153,908. Appellant contends the correct market value of both parcels is

$25,069,200.

The subject apartments (subject properties) are adjacent parcels located near the Spokane River in Coeur d'Alene, Idaho. Known locally as the Riverview Apartments, the parcels total roughly twelve (12) acres in size and are operated collectively as a single enterprise. The parcels are improved with multiple three (3) story apartment buildings. In total, the complex boasts 203 rental units with a variety of floor plans. Specifically, there are fifty (50) one bedroom, one bathroom units, thirty-two (32) two bedroom, one bathroom units, seventy-three (73) two bedroom, two bathroom units, and forty-eight (48) three bedroom, two bathroom units. In addition, the development includes 203 carports and sixty (60) garages.

Appellant's value evidence consisted of three (3) income approach models. The first used subject's actual lease rates to calculate a monthly potential gross income figure of $199,325. After annualizing the potential gross income, Appellant applied a 2% vacancy factor and a 28% expense rate to arrive at a net operating income of $1,687,724. This figure was capitalized at 6.75%, which yielded a value indication of $25,003,328 for the subject property.

The other (2) models were based strictly on subject's actual performance numbers for 2017 and 2018. The expense rates were somewhat higher in 2017 and 2018, at 31.22% and 29.82%, respectively. The 2017 model concluded a value of $23,108,415 using a 6.75% capitalization rate, and the 2018 model estimated the apartments' value at $25,069,200 using the same capitalization rate. Appellant emphasized the 2018 model, as it was based on the most recent twelve (12) month operating period.

Respondent considered all three (3) approaches to value, however, contended the income approach was the best indicator of value in this case. Based on surveys of local apartment operators, Respondent compiled income and expense data in an effort to identify market levels. This was the source of the 2% vacancy rate and the 28% expense rate used in the analysis. For the potential gross income figure, Respondent assigned different market rent rates to the various unit types in the development. An annual potential gross income of $1,536,000 was determined for Parcel No. CK298001005A and $1,360,104 for Parcel No. CK2980010060. After applying the referenced vacancy and expense rates, the respective effective net income figures were capitalized at 6.75%, which yielded value estimates of $16,063,219 for Parcel No. CK298001005A and $14,217,620 for Parcel No. CK2980010060, or a combined value of $30,280,840.

Respondent's sales comparison approach was based on six (6) recent sales of apartment complexes. The sale properties varied in terms of age, unit count, condition, amenities and other relevant characteristics. Sale prices ranged from $780,000 to $7,850,000. Respondent highlighted Sale No. 4 as most comparable to the subject apartments, primarily on the basis of age and quality. Respondent compared each sale property to the subject properties and made various appraisal adjustments to account for different property characteristics. The result were adjusted prices ranging from roughly $140,000 to $190,000 per unit. On a like basis, the subject apartments are assessed on average at approximately $146,000 for Parcel No. CK2980010060 and $150,000 per unit for Parcel No. CK298001005A.

Appellant challenged the comparability of the sales in general. Using Sale No. 4 as an example, Appellant highlighted the subject development is more than double the largest comparable sale, which has only 85 units. Sale No. 4 was even smaller, at 48 units. The aesthetics of Sale No. 4 are also different because, the complex is a series of eight (8) 6-

plexes, whereas the subject apartments are a collection of large three (3) story buildings. It was explained individual units in a 6-plex development are markedly different than those in a larger complex like subject.

Though Respondent did offer a cost approach, it was deemed the least reliable indicator of value. It was explained the current demand for apartments is high, which in turn allows owners an opportunity to increase rents. This increases the income-producing potential of an apartment complex above and beyond the cost to construct the apartments. For this reason, Respondent did not advocate reliance on the cost approach.

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 in fee simple interest, 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, 2019 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) primary methods for determining market value include the sales comparison approach, the cost approach, and the income approach. *Merris v. Ada Cnty.*, 100 Idaho 59, 63, 593 P.2d 394, 398 (1979). The income approach is commonly considered to estimate the value of income-producing property because such property is typically transacted in the marketplace based on its potential future income.

The parties both relied on the income approach to develop their respective opinions of value, however Respondent also considered value estimates using the cost and sales comparison approaches. Though the Board appreciated Respondent's efforts to develop multiple valuation models, the cost and sales comparison approaches were not found to be the strongest evidence of market value. The cost approach was deemed a poor value indicator because available market data shows the market value of an apartment complex in the current marketplace exceeds the cost to construct such a complex. And the sales comparison approach was afforded minimal weight due to the dissimilarity between the sale properties and the subject development. The sale properties were vastly different, thus necessitating large adjustments for purposes of comparison with subject. A prevalent line of thought in appraisal is the more adjustments needed, the less reliable the result.

The parties' respective income approach analyses were better received by the Board. Two (2) of Appellant's income models were based on subject's actual income and expense data. One (1) model relied on 2017 financial performance and the other was based on 2018 numbers. While the Board appreciated these efforts, an analysis based solely on a common property type's actual income and expense figures did not represent the best evidence of market value. An appraisal of market value requires a full consideration of market rent. Such estimate of market value necessarily requires consideration of the larger marketplace, not just the performance of a single operator. A property's actual performance figures should certainly be a part of the analysis, however, data from the broader market must also be included. For this reason, the Board placed less weight on Appellant's two (2) income models where the subject apartments' actual income and expense data was used.

In the parties' remaining income modeling, both used the same vacancy, expense, and capitalization rates. The divergence between the parties' models was in the estimate of potential gross income. As noted Appellant's potential gross income was based on the subject apartments' actual rental rates, whereas Respondent's figure was calculated using a higher estimate derived from broader marketplace rates. For the same reason expressed above, the Board was hesitant to rely too heavily on the subject apartments' actual numbers without some strong consideration of the broader marketplace. In this regard, the Board compared the rental rates used by Respondent to the median monthly rental rates collected from the survey data, as follows:

Unit Type	Median Market Rate	Respondent's Rate
1 bedroom, 1 bathroom	$1,063	$1,010
2 bedroom, 1 bathroom	$1,050	$1,044
2 bedroom, 2 bathroom	$1,200	$1,218
3 bedroom, 2 bathroom	$1,425	$1,288

A breakdown of the subject apartments' actual rents per unit type was not in record, however, based on Appellant's potential gross income figure, it is apparent the rates charged are near the bottom of the ranges reported by Respondent. The reason for the apparent lower rents was not well developed, though Appellant did present testimony that the rates charged at the subject complex are aimed at minimizing vacancy. In any event, based on the above table, it is difficult to find support for an adjustment in subjects' assessed values. With the exception of the two (2) bedroom, two (2) bathroom units, Respondent income approach used rents below the reported median rates in the broader and competitive marketplace. In short, Respondent's valuation model was not found to be aggressive or otherwise unfair in the assessment of the subject apartments.

Idaho Code § 63-511 places the burden on Appellant to prove error in subjects' valuations by a preponderance of the evidence. Given the record in this matter, we did not find the burden of proof satisfied. Appellant's valuation model was deemed too dependent on actual rents, whereas Respondent's analysis also gave consideration to the broader market, which in the Board's view represents good appraisal practice. Without more information concerning why the subject apartments appear to be slightly under-performing in terms of lease rates, the record was insufficient to support the market value petitioned by Appellant.

Based on the above, the value decisions of the Kootenai County Board of Equalization are affirmed.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the value decisions of the Kootenai County Board of Equalization concerning the subject parcels be, and the same hereby are, AFFIRMED.

DATED this 14th day of January, 2020.