3-31-2017

SSI Food Services, Inc. v. Canyon County

Idaho Board of Tax Appeals

BEFORE THE IDAHO BOARD OF TAX APPEALS

SSI FOOD SERVICES, INC., Appellant, v. CANYON COUNTY, Respondent.	)))))))))))	APPEAL NO. 16-A-1079 FINAL DECISION AND ORDER

INDUSTRIAL PROPERTY APPEAL

This appeal is taken from a decision of the Canyon County Board of Equalization denying the protest of valuation for taxing purposes of property described by Parcel No. 367640100. The appeal concerns the 2016 tax year.

This matter came on for hearing November 17, 2016 in Boise, Idaho before Hearing Officer Travis VanLith. Attorney Terri Pickens Manweiler represented Appellant at hearing. Chief Appraiser Brian Stender represented Respondent.

Board Members David Kinghorn, Linda Pike and Leland Heinrich participated in this decision.

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

The decision of the Canyon County Board of Equalization is modified.

FINDINGS OF FACT

The assessed land value is $538,830, and the improvements' value is $17,747,800, totaling $18,286,630. Appellant contends the correct total value is $6,500,000.

The subject property is a food processing plant located in Wilder, Idaho. The facility includes three (3) contiguous parcels totaling 28.12 acres in size. The subject parcel is 24.69 acres and is improved with several buildings. The “main plant” building, which totals 166,347 square feet, is comprised of office space, manufacturing space, frozen storage areas, refrigerated dock space, and some dry storage. The property is additionally improved with a separate low cost manufacturing building 21,000 square feet in size, as well as some other warehouse and storage buildings totaling roughly 27,000 square feet. The facility was originally constructed in 1989 and has been added to over the years. Appellant characterized the interior as “hodge podge” due to the various additions and renovations over the years. Though the facility is workable for its current use, Appellant explained it would be difficult and costly to convert the facility to another use.

Appellant purchased the subject facility in 2013 as part of a seven (7) plant purchase. The total purchase price was roughly $690 million, of which Appellant allocated $48.1 million to the physical plant assets, and the remainder to the investment or business value. A value of $11 million was attributed to the subject facility, however, Appellant doubted the property would sell for such a high price because of subject's rural location and the reconfiguration work which would need to be done to accommodate the needs of a potential buyer. Appellant regarded the $11 million allocation as more of an accounting value.

For value evidence, Appellant provided an independent fee appraisal with a January 1, 2016 effective date of valuation. The appraisal considered all three (3) approaches to value, however, discarded the cost approach because it was deemed too unreliable due to the large amount of functional and external obsolescence. In Appellant’s view, estimating subject’s obsolescence was too subjective to render a reliable value conclusion. The appraisal relied primarily on the sales comparison approach, with secondary weight given to the income approach.

Due to subject’s large size and the fact such facilities typically compete in the national marketplace, the appraisal considered sales and listings from across the country. Eleven (11) properties, of which seven (7) were recent sales and four (4) were active listings, were evaluated and compared to subject. The facilities ranged in size from roughly 145,000 to 612,000 square feet. Two (2) of the facilities were located in Idaho, one (1) in Buhl, and one (1) in Pocatello. The Idaho facilities were notably larger than subject, with the Buhl plant measuring approximately 612,000 square feet and the Pocatello facility measuring about 476,000 square feet. Overall sale/listing prices ranged from $948,000 to $17.5 million, or between $6.32 and $29 per square foot.

The fee appraisal adjusted the comparables for differences compared with subject such as location, age, conditions of sale, and other relevant factors. Adjusted price rates ranged from $7 to $31 per square foot. Though the Pocatello facility, at 476,485 square feet, was larger than subject, the appraisal regarded the plant as most comparable to subject on an overall basis. The Pocatello plant sold for $11,125,000, or $23 per square foot, in November 2014. The adjusted price was $29 per square foot. With primary weight given to the Pocatello sale, the appraisal concluded a value of $30 per square foot for subject, or a rounded total value of $6,500,000.

Though facilities like subject are not typically leased, the appraisal did find some lease information toward developing an income approach valuation. The appraisal considered lease information on fourteen (14) food processing facilities. The leased properties ranged in net rentable area from approximately 69,000 to 695,000 square feet, and lease rates varied from $2.50 to $6.95 per square foot. The appraisal concluded a lease rate of $3.25 per square foot for subject, which was noted to be 85% of the median indicated by the lease comparables. Due to subject's rural location and distance from Interstate 84, the appraisal determined a downward adjustment was needed, so utilized a lease rate less than the median rate. Vacancy and expense rates were described as typical for larger facilities like subject leased on a triple net basis. Applying a 9.5% capitalization rate to the net operating income, the appraisal determined a rounded total value of $6,100,000 for subject.

In reconciling the two (2) value indications, the appraisal explained primary weight was afforded the sales comparison approach due to the relatively large number of recent sales and listings of similar type property. The income approach was characterized as the weaker of the two (2) approaches in this case so was used primarily to test the reasonableness of the conclusion reached under the sales comparison approach. The final value conclusion was $6,500,000.

Respondent likewise considered all three (3) approaches to value, and also like Appellant, relied on two (2) in developing its value conclusion. The income approach was excluded due to a lack of leasing information for industrial food processing plants. Respondent equally weighted the values reached in both the cost and sales comparison approaches.

Respondent's cost approach first developed a land value estimate based on four (4) sales of vacant industrial and agricultural parcels. The sales varied in size from 5.85 to 50 acres. Sale prices were between $311,359 and $1,513,000, or between $0.69 and $1.35 per square foot. Respondent applied a 2% per month upward time adjustment, which resulted in adjustments to the sale prices ranging from 10% to 40%. Respondent also made adjustments for size/shape and location. Gross adjustments ranged from 35% to 90%. Adjusted sale prices were between $0.80 and $0.95 per square foot. Respondent concluded a value of $0.80 per square foot, or

$845,000, for subject's land.

Turning to the value of the improvements, Respondent relied strictly on local cost data obtained from the relatively recent construction of four (4) industrial facilities in Idaho. Respondent explained higher construction costs are typically associated with manufacturing/office space, compared to lesser costs for dry or cold storage areas. As such, Respondent contended it was necessary to separately value the storage areas apart from the rest of the main plant. For the cold storage area, Respondent relied on cost data from the 2009 construction of a local cold storage facility. Construction costs were roughly $1.9 million, or $95 per square foot. Respondent used a rate of $101 per square foot for cold storage space in its analysis. Though details were not shared, Respondent stated construction costs for dry storage in the local area run approximately $50 per square foot.

Using the above rates for the cold and dry storage areas, Respondent adjusted the local cost data. Construction costs prior to removing values for cold and dry storage areas ranged from $21,953,370 to $157,039,103. After removing the cold and dry storage values, adjusted costs were between $21,653,370 and $124,113,103, or from $202 to $536 per square foot. Using these four (4) data points, Respondent performed a linear regression analysis. Based on subject's size, Respondent concluded a replacement cost new (RCN) estimate of $480 per square foot, or $34,855,200 for subject's manufacturing/office area. After applying physical depreciation factors, Respondent determined a total depreciated cost for the main plant of $27,972,693, which breaks down as follows:

Area Description	RCN	Depreciation	Depreciated Cost
Manufacturing/Office	$480/sf	32%	$326.40/sf

Low-cost mfg.	$95/sf	24%	$71.78/sf
Cold storage	$75/sf	40%	$45.00/sf
Dry storage	$50/sf	53%	$23.75/sf

Though the source of the information used to determine value rates was unclear, Respondent valued the other portions of the subject facility as follows:

Description	RCN	Depreciation	Depreciated Cost
Low-cost mfg.	$95/sf	24%	$71.78/sf
Dry storage	$50/sf	5%	$47.50/sf
Grease Separator	$50/sf	46%	$27.14/sf
Generator Bldg.	$50/sf	40%	$30.00/sf
Equip. Storage	$18/sf	33%	$12.00/sf
Warehouse 1	$22/sf	53%	$10.27/sf
Warehouse 2	$20/sf	17%	$16.67/sf
Warehouse 3	$25/sf	23%	$19.17/sf

Adding the above values together, Respondent calculated a total physical depreciated cost value of $29,774,000, or roughly $138 per square foot on an overall basis.

Respondent next considered whether subject suffered from functional or economic obsolescence issues. Pointing to subject's production history, Respondent concluded there was no economic obsolescence adjustment needed. Again noting subject is an operational plant, Respondent contended there are no functional issues affecting the plant's ability to operate. That being said, Respondent did find a 10% functional obsolescence adjustment related to the potential capability of making future expansions to the facility. After the obsolescence adjustment, Respondent determined a combined improvements' value of $26,769,600, and a land value of $845,000, for a total value of $27,614,600.

For the sales comparison approach, Respondent relied on information concerning four (4) improved industrial sales from 2014. Sale No. 1 was formerly a 345,974 square foot computer manufacturing facility located in Nampa. The property sold for $7,435,560. After purchasing the property the buyer converted the facility into a food processing plant, which Respondent estimated cost roughly $20 million. Sale No. 2 was a 200-acre tract in Ontario, Oregon, of which fifty (50) acres were dedicated to supporting the prior food processing operation. At the time of sale, the plant had been out of operation for two (2) years. The facility includes roughly 60,000 square feet of manufacturing space, 61,000 square feet of cold storage, and 161,000 square feet of dry storage. The property sold for $10,745,000. Sale No. 3 was an active beverage distribution facility at the time of purchase. The 243,353 square foot facility was constructed in 2004. The property sold for $10,376,405. Lastly, Sale No. 4 was the same Pocatello sale used in Appellant's fee appraisal. The 476,485 square foot food processing plant sold for $11,125,000. Though details were not provided, Respondent contended the buyer spent roughly $25 million in tenant improvements after the purchase.

Respondent analyzed the four (4) above sales and made adjustments to the sale prices for differences compared to subject. The first adjustment was an upward 1% per month time adjustment to bring the sale prices current to the January 1, 2016 assessment date. Respondent also made "sale condition" adjustments, though it was not clear why or how the specific adjustments were determined. These adjustments increased the sale prices from between $7,435,560 and $11,125,000 to between $10,632,851 to $15,130,000. Respondent's other adjustments were for size, location, building quality, and tenant improvements. The result was adjusted sale prices ranging from roughly $26,866,000 to $34,500,000, or from $81 to $112 per square foot. Respondent concluded a value of $100 per square foot, or $18,017,000, for subject's manufacturing, office, and cold storage areas. Adding a value of $524,000 for the auxiliary improvements yielded in a total value conclusion of $18,541,000.

Giving equal weight to both approaches, Respondent's final reconciled value conclusion was $23,000,000. Subject's current total assessed value is $18,286,630.

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, 2016 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 considered all three (3) approaches, however, relied on two (2) in reaching their respective value conclusions.

Admittedly, subject is a unique industrial property so finding its market value represents a difficult appraisal assignment. As such, it is not surprising the parties came to markedly different value conclusions. While the Board appreciated the parties' efforts in developing their value opinions, we found some notable issues with both parties' analyses.

Appellant's fee appraisal focused on the sales comparison and income approaches. The cost approach was deemed too unreliable due to subject's older age and the lack of support for accurately estimating potential functional and economic obsolescence. The appraisal's sales comparison approach considered information related to eleven (11) recent sales and active listings. Though this is a good amount of information, four (4) of the properties considered were active listings. Actual sales are preferred in the sales comparison approach. Also, nine (9) of the properties considered sold well below the $6.5 million value concluded for the subject property, which indicates the considered properties were mostly inferior to subject. To account for this, the appraisal applied some large adjustments in order to make the properties comparable to subject. It is well understood the more adjustments made to sales or listings, the less reliable the value conclusion becomes. Overall, the Board was reluctant to rely too heavily on the fee appraisal's sales comparison approach.

The Board was similarly concerned with Respondent's sales comparison approach. Respondent provided information regarding four (4) sales from 2014, however, one (1) of the sales involved a beverage distribution facility, which the parties agree is not comparable to subject. The remaining sales were food processing properties more similar to subject's property type, however, their comparability to subject was questionable as evidenced by the magnitude of Respondent's adjustments which overall ranged from roughly +300% to +480%. Respondent contended the adjustments were proper because at the time the industrial properties were sold, they were in need of significant reconfiguration and updating work to become active food processing operations. Respondent simply took the total costs, the sources of which are unknown, of the tenant improvements for each sale and added them to the respective sale prices, which in the case of Sale Nos. 1 and 4 were reportedly $20 million and $25 million, respectively.

While we understand Respondent's concern with the sale properties not being operational at the time of sale, the adjustment analysis is flawed. Though no details at all were shared regarding the work done to the sale properties after they were purchased, it is reasonable to assume the renovations included more than just the minimum work needed to begin operations. Respondent's analysis completely disregarded the fact the sale properties were likely superior to subject after the renovations were finished. In essence, Respondent compared subject to new state-of-the-art food processing plants, even though subject is an older facility with noted deficiencies. To not adjust, or even consider adjustments in this regard was difficult for the Board to accept.

Appellant's income approach was generally well received by the Board, though there were a few concerns. The parties agreed special-use industrial properties like subject are not typically leased to unrelated entities. Rather, such properties are typically owner-occupied and operated. This makes the rental-based income approach more difficult because there is not a lot of information concerning appropriate lease rates. Appellant's appraisal did find a number of leased industrial facilities, however, the level of comparability between the lease comparables and subject was somewhat questionable. There was also a lack of support for the 15% downward adjustment made to the median lease rate to account for subject's rural location, though the other components of the income approach appeared reasonable and well supported.

Turning to Respondent's cost approach, the Board had serious concerns. Most troubling was Respondent's reliance solely on recent construction costs from only four (4) local industrial facilities. The Board agrees it is proper to consider local construction costs, however, in this case Respondent failed to consider anything else. This is particularly problematic when exactly one-half (½) of Respondent's data points to a RCN of roughly $475 per square foot, and the average of the other two (2) data points is approximately $213 per square foot. On its face the data is conflicting, and Respondent did not attempt to adjust or otherwise account for the obvious differences. It is apparent to the Board the two (2) higher cost facilities consist of more than just "four walls and a floor" as characterized by Respondent. Of course with no details regarding the work done or the level of interior finish, it is impossible for the Board to understand the reason for the widely divergent cost numbers. Of further concern was Respondent's attempt to develop a linear regression model using just these four (4) sales. A regression model based on so few data points fails even minimum standards of statistical reliability.

Though the Board did have some serious concerns with portions of Respondent's cost approach, we did find other aspects of the analysis appropriate and well supported. Specifically, Respondent's consideration of the different components of the subject facility was well received by the Board. Subject, and industrial property in general, is typically comprised of several components, each contributing differently to the total value of the property. Subject's low-cost manufacturing spaces, the cold and dry storage areas, and the auxiliary buildings were evaluated individually and value estimates were derived using cost data involving similar type construction. We found such individualized consideration of subject's various components proper.

Idaho Code § 63-511 places the burden on Appellant to prove error in subject's assessed value by a preponderance of the evidence. In this instance, the Board finds the burden of proof satisfied, however, did not find adequate support for the petitioned value. As detailed above, the Board skeptically viewed various aspects of the parties' respective analyses. Though we are satisfied subject's assessed value is overstated, we believe subject's market value is higher than the $6.5 million concluded by Appellant.

Based on the above, the decision of the Canyon County Board of Equalization is modified to reflect a total value of $10,000,000 for the subject property.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the decision of the Canyon County Board of Equalization concerning the subject parcel be, and the same hereby is, MODIFIED to reflect a decrease in the value of the improvements to $9,461,170, with no change to the $538,830 land value, for a total value of $10,000,000.

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 31st day of March, 2017.