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BEFORE THE IDAHO BOARD OF TAX APPEALS

DAME BROTHERS CO., LLC, Appellant, v. CANYON COUNTY, Respondent.	)))))))))))	APPEAL NOS. 16-A-1062 AND 16-A-1063 FINAL DECISION AND ORDER

INDUSTRIAL PROPERTY APPEALS

The appeals are taken from decisions of the Canyon County Board of Equalization denying protests of valuation for taxing purposes of properties described by Parcel Nos. 273300000 and 244890100. The appeals concern the 2016 tax year.

These matters came on for consolidated hearing November 7, 2016 in Caldwell, Idaho before Board Member Leland Heinrich. Attorney Elijah Watkins represented Appellant. Canyon County Chief Appraisal Supervisor 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 two (2) improved industrial properties.

The value decisions of the Canyon County Board of Equalization are modified.

FINDINGS OF FACT

The combined assessed values for the two (2) subject properties total $9,888,500. Of this total, $1,655,500 is attributed to the land and $8,233,000 is attributed to the improvements. Appellant requests the combined total be reduced to $5,000,001.

The subject properties (hereinafter "subject") include two (2) parcels which together

form an industrial manufacturing site used to manufacture hardwood and softwood stile and rail doors. The parcels are separated by Karcher Road in Nampa, Idaho. The south parcel is a 2.21 acre triangular shaped parcel, and the northern parcel is 19.24 acres. Combined the parcels total 21.45 acres which is all dedicated to the manufacturing operation. Subject is improved with six (6) manufacturing warehouses, a "break-room" building, an office building, and two (2) storage warehouses. Combined, the improvements total 323,037 square feet in size. The buildings, with the exception of a new building and the break-room, were built in the 1950's and 1960's. The break-room was built in 2001, and a new manufacturing building was constructed in 2015. Subject also includes a large gravel parking lot for employees.

Appellant described several major obstacles facing subject. First, most of the buildings are old and plagued with deferred maintenance issues. The estimate to repair just the asphalt, which is in rough shape, was $1.5 million. The anticipated cost to repair water lines was $27,000. The flooring in several buildings was described as being uneven and in general disrepair. Terraced concrete floors were poured in the places where the equipment needs to be level, as the floor itself is not level. The bathroom facilities are limited, and the parking lot is gravel. The new building is also lacking bathroom facilities and office space. The property was described as congested with inadequate space to get trucks in and out. Mainly forklifts are used to transport product around the facility. The movement of production was noted to be extremely limited due to the land-to-building ratio not being sufficient for movement. In all, Appellant estimated subject had approximately 15% obsolescence, as well as some additional functional obsolescence.

Appellant provided two (2) independent fee appraisal reports. The first appraisal was dated April 27, 2015 and prepared by CBRE, and had an effective "As-is" valuation date of April 15, 2015, and an "As Stabilized/Complete" valuation date of July 1, 2015. The As-Complete valuation was prepared as the new building was under construction at the time of the appraisal. The subject building's finishes were described in detail. Subject was considered a Class C + manufacturing facility. The cost of construction for the new building addition was estimated at roughly $3,000,000. The improvements were noted to be in fair to good overall condition. An overall effective age of 23 years was determined and the remaining economic life was estimated at 22 years. The appraiser determined the highest and best use for subject was its existing use as an industrial development. The appraiser opined in order to sell, subject would require a long listing time and it would likely not fetch even $6,000,000. It was suggested some buildings would need to be torn down in order to produce efficient operations, so trucks could easily access the buildings.

In the fee appraisal's analysis, land value was derived from three (3) land sales, and one (1) active listing. Using these market comparables, a land value of $1,300,000 was concluded. The sale given the most weight was a 5.85 acre property which sold in January 2015 for $322,370, or $1.15 per square foot.

The fee appraisal estimated the cost new for subject's improvements at $17.1 million. A depreciation allowance of 52%, or $8,208,000 was deducted and $1,300,000 land value was added. A negative adjustment of $1,050,000 was applied for the cost to complete. The rounded cost approach conclusion was $8,450,000 or $29.18 per square foot, inclusive of land.

In the sales comparison approach, the fee appraisal examined five (5) sales, and one (1) listing of improved industrial and manufacturing properties to compare with subject. The sales were all located in Idaho, with four (4) being in the general area of subject and one (1) located in eastern Idaho. The appraisal reported improvement sizes ranging from 48,342 to 476,485 square feet. The sale facilities were constructed between 1970 and 1995. Sale prices were between $615,000 and $11,125,000.

Comparing the five (5) sales, and one (1) listing, the appraiser applied adjustments for conditions of sale, market conditions, age/condition, quality of construction, ceiling height, percentage of office finish, and land-to-building ratio as compared to subject. Adjusted sale prices were between $21.45 and $26.73 per square foot. The appraiser estimated the value of subject's improvements at $21.58 per square foot, or a rounded value of $6,250,000.

The fee appraiser reported the difficulty in valuing subject was factoring in the new building. Construction costs were approximately $3 million, which results in a cost number equal to 46% of the concluded overall market value. After seeking local advice, it was determined newer buildings should also be discounted. Therefore, the appraiser estimated $15.00 per square foot for the older buildings and $40.00 per square foot for the new building to determine a total value of $7,143,805, or $7,100,000 rounded.

The following values were specified in Appellant's first fee appraisal:

	"As Is" April 15, 2015	"As-complete" July 1, 2015
Cost Approach	$8,450,000	$9,500,000
Sales Comparison Approach	$6,250,000	$7,300,000
Reconciled Value	$6,250,000	$7,300,000

Lastly, the appraisal provided a net realizable "Go Dark" value for subject. The conclusion was based on marketing time at 3-months, sales costs of 3%, closing costs of .50%, and rents at a 9% return on cost. Expenses included taxes, insurance and maintenance, and profit was estimated at 15%. A $5,430,000 value conclusion was reached using this method.

The second fee appraisal report prepared by IRR had an effective valuation date of January 1, 2016. The report indicated subject was well-suited for its intended purpose, though not suitable for general use without extensive re-configuration. While the fee appraisal considered all three (3) generally-accepted approaches to valuation, the income approach was ultimately discarded. The appraisal concluded the income approach was not applicable because there is not an active rental market for similar properties which would permit the development of a reliable estimate of the property's income-generating potential.

In support of subject's land valuation, fourteen (14) vacant industrial and commercial acreage sales were considered. The parcels were between .73 and 23 acres in size and were situated in Canyon and Ada counties. Sale prices were between $1.20 and $5.10 per square foot. The fee appraisal made adjustments for general differences compared to subject. A trend line model was developed, which indicated a value of $1,640,000, or $1.75 per square foot for subject's land value.

The appraisal next considered the value of subject's improvements using a cost approach. Subject was evaluated as containing nine (9) primary improvements which comprise the bulk of subject's rentable area. Therefore, 315,376 square feet was used in the analysis. The various cost components and adjustments were detailed in the report. A

replacement cost new of $14,172,496 was determined. The fee appraisal determined an age-life depreciation factor of 56%. The appraisal also applied a 10% functional obsolescence adjustment, and a 15% external obsolescence factor. In summary, the cost approach for subject (land and improvements) determined a value of $6,200,000.

The fee appraisal then looked to the sales comparison approach. Information on fifteen (15) improved sales were offered. The sales included light manufacturing, warehouse, and storage facilities, all of which were located in Idaho. The sales transpired between 2009 and 2015. The sale properties were situated in Boise, Meridian, Caldwell, and Nampa.

The appraiser made adjustments to the sales for differences compared to subject, support for which was provided in the report. Sale prices ranged from $21.82 to $86.75 per square foot, which after adjustments ranged from $1.04 to $18.56 per square foot. The sales comparison approach determined a value of $12 per square foot, or $3,784,512, or a rounded value of $3,800,000.

In the final reconciliation, the second fee appraisal relied on the cost and sales comparison approaches to value. The approaches yielded widely divergent value conclusions. It was explained both approaches had strengths and weaknesses. When using the cost approach many of subject's buildings already had an effective age of 45 years, which is typically the economic life for similar type buildings. The fee appraisal noted "...estimates of depreciation are just that, estimates. This is the greatest weakness of this approach." The weakness of the sales approach was all the comparable sales were deemed superior to subject, which required large adjustments for comparison purposes. The biggest adjustments were for age, size, finished area and land-to-building ratio. The fee appraisal gave equal

weight to the approaches and reached a final value conclusion of $5,000,000 for subject.

Respondent reviewed both fee appraisals and argued both “were erroneous with the facts in determining square footage of the subject parcels, the market data used in their analysis, and the methodology used in reconciling their concluded values.” Respondent noted the first appraisal used a 289,587 square feet measurement in its analysis, and the second appraisal used 315,376 square feet. After measuring the subject property, Respondent contended the correct square footage is 323,037.

As to the CBRE appraisal’s analysis of the cost approach, Respondent disagreed with the conclusions reached. First, if the $32.81 square foot conclusion was applied to the correct square footage of 323,037, the value conclusion as of July 1, 2015, would have been approximately $10,600,000. Time trending this value to the 2016 assessment date at 1% per month, a value of $11,236,000 was indicated. Second, looking at the sales comparison approach, Respondent estimated a value of $31.50 per square foot using the two (2) older sales, which Respondent noted was the same rate it used in valuing the older buildings. Adding this value to the $3,165,000 cost of the new building, Respondent calculated a total value of $11,430,000.

Looking to the IRR appraisal, Respondent argued the cost approach conclusion diminished the report’s reliability, “due to subjective estimates of depreciation.” Further, Respondent declared the obsolescence factor was used to artificially reduce the value conclusion. The functional and external obsolescence conclusions were argued to be unwarranted and lacking support. Respondent found the sales used in this report, which took place prior to 2012, to be “irrelevant and difficult to apply adjustments.” The adjustments were

argued to be too high for determining a reliable value conclusion. Lastly, Respondent argued the reconciled opinion of value of $5,000,000 did not pass the test of reasonableness. Using the $5,000,000 value conclusion, minus the fee appraisal's approximate land value of $1,640,000, would leave an improvement's only value of $3,360,000, or $10.40 per square foot. Deducting the cost of the new manufacturing warehouse of $3,165,000 left the remaining square footage of the older buildings valued at $195,000 or $0.74 per square foot. In Respondent's opinion, this was an unreasonable conclusion.

Respondent explained typically the cost approach is most applicable for valuing industrial properties of specialized use. However, because subject's improvements were mostly built prior to 1970, Respondent contended the cost approach on the older square footage is unreliable.

Respondent developed a sales comparison approach to support subject's value. Fourteen (14) industrial/manufacturing sales, which occurred between 2012 and early 2016, and one (1) listing were considered. The properties were all located in Idaho, and most were located in close proximity to subject. Respondent reported lot sizes between 1.52 and 34.13 acres, and improvement sizes ranging from 16,000 to 243,353 square feet. The sale facilities were constructed between 1907 and 2011. Sale prices were between $480,000 and $10,376,405, or between $13.96 and $68.87 per square foot.

Respondent determined rate adjustments to account for differences in size, age, utility, and condition compared to subject. Adjusted sale prices were between $21.27 and $42.08 per square foot. Applying a rate of $31.50 per square foot to the 263,037 square feet contained in the older buildings, Respondent calculated a value of $8,285,000. The new

building was valued at $3,165,000, resulting in a total value of $11,450,000, inclusive of land.

Respondent also developed a value indication using the income approach. The analysis considered rental properties deemed most comparable to subject. Eleven (11) industrial properties located in Nampa were considered. The total leaseable area ranged between 26,732 and 170,000 square feet. Blended monthly lease rates varied between $0.25 and $0.43 per square foot. The analysis concluded a market lease rate of $0.34 per square foot for subject. Respondent derived an effective gross income estimate of $1,317,934. Also factored in was a 10% vacancy rate and an operating expenses of 9%. An 8.5% overall capitalization rate was applied, which resulted in a total value of $12,698,700. Respondent noted a lease-up analysis was not necessary in this instance because "as of the January 1, 2016 lien date, a potential investment buyer would be purchasing the subject property with a tenant in place."

Respondent reconciled the above value indications by allocating 50% weight to both the sales comparison and income approaches, and no weight to the cost approach. In Respondent's judgment, the above weighting yielded an accurate value conclusion of $12,000,000.

As to the land valuation, Respondent noted the IRR appraisal came to a land value conclusion of $1,640,000, which was near its own land value conclusion of $1,655,000. At hearing, the parties' agreed to stipulate to Respondent's land valuation of $1,655,000.

Appellant argued Respondent's valuation contained flaws. Two (2) of the four (4) sales heavily relied on by Respondent were noted to have material issues or discrepancies. One (1) sale was said to be purchased without the buyer knowing some of the issues, such

as poor flooring, low ceiling height, and some buildings contained only three (3) walls. The second sale was noted to be highly superior to subject. Lastly, Appellant challenged Respondent's analysis regarding subject's ability to be converted into a multi-tenant property. Appellant explained the way the buildings were situated around the property, as well as the lack of restroom facilities and office space, did not lend itself to multi-tenant use. Respondent maintained these issues did not change the value conclusion.

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.

There are three (3) primary methods for determining market value: the income approach, the cost approach, and the sales comparison approach. *Merris v. Ada County*, 100 Idaho 59, 63, 593 P.2d 394, 398 (1979). Both parties' looked at all three (3) approaches, however, in the end each relied on just two (2).

As to the land valuation, after presenting evidence and noting similar values, the parties agreed to a combined land value of $1,655,500.

Appellant's fee appraisals developed the cost and sales comparison approaches. Neither provided an income approach. Appellant considered the income approach inapplicable in this instance due to subject being owner-occupied and there not being an active leasing market for this type of property. Appellant argued it was highly unlikely subject

could be converted to a multi-tenant building or converted to individual units, as Respondent suggested.

Respondent, on the other hand, chose to develop the sales comparison and income approaches. The income approach was analyzed by looking to both single-use and multi-tenant leases. We find subject does not lend itself to being compared to a multi-tenant property as the layout is not configured for such, and we find subject could not be used as a multi-tenant building without a great deal of cost and modification.

Appellant detailed the use and limitations of subject regarding the lack of movement around the facility due to the inadequate land-to-building ratio. Further, the minimal bathroom facilities, the lack of water, uneven floors, low clearance and overall deteriorated condition was described and analyzed in great detail. Taken together, these factors suggest a substantial amount of obsolescence.

Both parties' sales comparison approaches considered multiple industrial property sales. The sales involved property situated in Idaho. Between the parties, the sale properties varied widely in terms of square footage, acreage, age and condition. Both parties made value adjustments for differences between the sale properties and subject. Overall, Appellant's fee appraisals determined adjusted sale prices between $1 and $27 per square foot. Respondent's sales comparison approach concluded a value rate for subject's improvements of $31.50 per square foot. The Board appreciated the abundance of sales information offered by the parties. Clearly subject is a unique industrial property. Both parties had professional opinions of comparable properties and key differences regarding adjustments when comparing subject to each of the sales.

Respondent offered fourteen (14) sales of industrial properties for support of its value conclusion. Among these sales we found only three (3) were near the $10,000,000 price range derived for subject. The higher priced sales were newer in age and had superior amenities. We are strained to find good comparability with subject. Further, eight (8) out of eleven (11) sales were multi-tenant properties which is not comparable to subject and its current use. The Board finds this analysis fell short of being useful. Subject lacks adequate access around the buildings, and proper bathroom facilities to adapt to a multi-tenant property.

Key differences in the parties' respective analyses were the obsolescence factor, and the value of newly constructed building. The Board agreed with the fee appraisals' adjustments due to subject's extraordinary obsolescence, and found this consideration should be a major part of the analysis. The Board found the sales in the IRR appraisal better reflect the subject property. Further, we found the adjustments made to the sales were appropriate. The analysis looked directly to the deferred maintenance issues, the asphalt deterioration, the water lines, the lack of clearance in many of the buildings, the uneven floors in buildings, and the overall lack of movement around the facility. We found the $12 per square foot conclusion was best suited for the older subject buildings given their condition. Thus, the Board will use this price per rate for the older improvement's. However, where both fee appraisals fell short was the valuation of the newly constructed building. The indicated cost to construct was over $3 million, and the Board found more consideration should have been afforded to this building. As is typical, the Board found the market value does not reflect that same dollar for dollar as the initial cost. In record, we found both fee appraisals provided

support in its cost analysis for the new building addition. We find the newly constructed building contributes $2,500,000 to the overall value indication.

In appeals to this Board, the burden rests with Appellant to prove error in subject's assessed valuation by a preponderance of the evidence. Idaho Code § 63-511. The Board is satisfied the burden of proof was met in this instance, however we did not fully agree with the total value conclusion reached by Appellant.

Overall, Appellant's valuation was found to be better supported. Given the totality of the evidence presented, the Board found the IRR appraisal's detailed analysis and sales information some of the best evidence in record. However, the land valuation must be factored in, as well as the value attributable to the newly constructed building. The Board found the new building's cost was a close representation of its added value. This recent sizable investment reflects the newest improvements on subject. From the record it appears the new building is being utilized for its intended purpose, and as such we find its valuation cannot reasonably result in dimes on the dollar. In consideration of this recent construction, we have determined a contributory value of $2,500,000. The Board will therefore modify the decision of the Canyon County Board of Equalization and reduce subject's total assessed value to $7,311,944.

FINAL ORDER

In accordance with the foregoing Final Decision, IT IS ORDERED that the value decisions of the Canyon County Board of Equalization concerning the subject parcels be, and the same hereby are, MODIFIED to reflect decreases as follows:

Appeal No. 16-A-1062		Appeal No. 16-A-1063		Combine Values	
Parcel No. 273300000		Parcel No. 244890100		Both Parcels	
Land	$240,670	Land	$1,414,830	Land	$1,655,500
Improvements	$422,364	Improvements	$5,234,080	Improvements	$5,656,444
Total	$663,034	Total	$6,648,910	**Total**	**$7,311,944**

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 10th day of April, 2017.