

<p><b>BOARD OF ASSESSMENT APPEALS, STATE OF COLORADO</b> 1313 Sherman Street, Room 315 Denver, Colorado 80203</p> <hr/> <p>Petitioner:</p> <p><b>MONTANA LLC</b></p> <p>v.</p> <p>Respondent:</p> <p><b>MONTROSE COUNTY BOARD OF EQUALIZATION</b></p>	<p><b>Docket No.: 45180</b></p>
<p><b>ORDER</b></p>	

**THIS MATTER** was heard by the Board of Assessment Appeals on March 29, 2006, Karen E. Hart and Lyle D. Hansen presiding. Petitioner was represented by Joel Thompson, Esq. Respondent was represented by Robert Hill, Esq. Petitioner is protesting the 2005 actual value of the subject property.

**PROPERTY DESCRIPTION:**

Subject property is described as follows:

**1417 East Main Street, Montrose, CO  
Montrose County Schedule Number 3767-224-07-014**

The subject property is a motel with a gross building area of 26,384 square feet. Comprised of two buildings constructed in 1970/1971 on a 100,972 square foot lot, the property has 68 rentable units, a manager’s apartment, a 524 square foot swimming pool, and a 58,500 square foot parking lot.

**FINDINGS OF FACT:**

1. Petitioner purchased the subject property and the adjoining vacant land in October 2004 for \$1,200,000. The vacant land is identified by a separate schedule number and is not part of this appeal.

2. The property was in poor condition at the time of purchase. Prior to the October 2004 purchase, the property had been the site of much drug trafficking, and an occupant had created a methamphetamine lab in one of the guest rooms. Shortly after Petitioner purchased the subject property, the gas company shut down the entire building due to high levels of carbon monoxide. The plumbing systems and swimming pool leaked and the sewer lines were in need of repair. The guest rooms were described as being “filthy” and foul smelling. Many of the rooms were not habitable. One of the buildings remained unoccupied due to problems with the heating system. In short, the subject property had a substantial amount of deferred maintenance.

3. Building renovations began in January 2005 and were completed in May 2005 at a cost of approximately \$480,000.

4. The hotel/motel business is seasonal in the Montrose area. The winter season runs from October through April. The summer season runs from May through September.

5. Petitioner’s witness, Mr. John Cordova, was employed at the subject property before and after it was purchased by Montana, LLC. Mr. Cordova indicated that room rates under the previous ownership varied from \$30 per night for long-term stays, \$49 per night in the summer and \$39 per night in the winter stays. Mr. Cordova estimated winter occupancy at 10% to 15% and summer occupancy at 60% to 65%.

6. Mr. John Hazen, a member of Montana, LLC, is a real estate broker and has owned and operated hotels/motels since the early 1990s.

7. Based on his experience, Mr. Hazen believes the subject’s summer room rates should have been approximately \$35 to \$37 per night and the winter room rates should have been approximately \$20 per night due to the poor condition of the property.

8. Mr. Hazen estimated occupancy at 4% to 6% while the building was being renovated. For the sake of comparison, Mr. Hazen indicated that hotel/motel occupancy in the area is typically 48% to 52% in the month of May.

9. If the property were in pristine condition, Mr. Hazen estimated that summer rates would range from \$45 to \$60 per night and that winter rates would be \$42 per night. Occupancy rates would be around 56% to 58%.

10. Mr. Hazen estimated that the subject property’s expenses will range from 65% to 67%.

11. Petitioner is requesting a reduction in value to \$680,000.00 for tax year 2005 based on the \$1,200,000 purchase price that, as shown in Petitioner’s Exhibit B, was allocated as follows:

Real Property	\$680,000
Goodwill	500,000
Personal Property	20,000

12. On further questioning, Mr. Hazen admitted that the \$500,000 value allocated to

goodwill was excessive. Typically, approximately 25% of the purchase price of a hotel/motel is allocated to goodwill. Given the condition of the subject property at the time of purchase, Mr. Hazen indicated that 10% to 15% would have been a more realistic allocation for goodwill.

13. Respondent presented the following indicators of value:

Market:	\$2,290,000
Cost:	\$1,900,000
Income:	\$2,440,000

14. Based on the market approach, Respondent presented an indicated value of \$2,290,000 for the subject property.

15. Respondent presented four comparable sales ranging in sales price from \$575,000 to \$2,175,000 (\$26,136 to \$44,388 per unit) and in size from 22 to 49 motel units. No adjustments were made to the comparable sales. After deducting \$86,520 for personal property, \$50,000 for business value and \$240,000 for deferred maintenance, the indicated value of the subject was concluded at \$2,290,000 or \$32,254 per unit.

16. Minimal reliability was placed on Respondent's market approach. The sales were not adjusted for time or differences in physical characteristics, and none of the sales were comparable to the subject in room count.

17. Respondent used a state-approved cost estimating service to derive a market-adjusted cost value for the subject property of \$1,900,000. The land was valued at \$757,000 (\$7.50 per square foot) based on six comparable sales ranging in price from \$328,400 to \$2,110,000 and in size from 35,500 to 271,422 square feet. After adjustments for location, assemblage, frontage and size, the sales ranged from \$6.48 to \$9.55 per square foot. After depreciation, the value of the improvements was estimated at \$1,145,291.

18. The value derived from the cost approach does not provide a good indication of value for the subject property due to its age and condition. Furthermore, a potential investor would rely more heavily on the values indicated in the income approach and the market approach if adequate comparable sales existed.

19. Respondent's income approach was calculated based on 71 units, an average daily rate of \$60, 65% occupancy, 45% vacancy and collection loss, and 65% operating expense ratio to derive a net operating income of \$298,320. After applying an 11% capitalization rate, and deducting \$30,321 for reserves and \$240,000 for deferred maintenance, Respondent concluded to an indicated value of \$2,440,000 based on the income approach.

20. The value concluded in Respondent's income approach was not reliable. The subject property has 68 (not 71) rentable units. The \$60 average daily rate used was not substantiated and was determined to be excessive for the area based on Mr. Hazen's experience in the hotel/motel industry. In addition, a single "average daily rate" does not accurately reflect the different seasonal rates offered in the hotel/motel marketplace. Respondent's 65% occupancy rate does not accurately

reflect the local market or the impact of the subject property's condition.

21. Respondent assigned an actual value of \$1,894,170 to the subject property for tax year 2005.

22. Based on the evidence and testimony presented, the value of the subject property was calculated as follows:

Summer Rate	\$35
No. of Days	<u>153</u>
Subtotal	\$5,355
Winter Rate	\$20
No. of Days	<u>212</u>
Subtotal	\$4,240
No. of Units	68
Potential Gross Income	\$652,460
Occupancy Rate	56%
Vacancy and Collection Loss	\$287,082
Effective Gross Income	\$365,378
Operating Expenses at 65%	\$237,496
Net Operating Income	\$127,882
Business Value (5% EGI x 11%)	\$2,010
Return on Personal Property (\$86,520 x 11%)	\$9,517
Adjusted Net Operating Income	\$116,355
Capitalization Rate	11%
Indicated Value	\$1,057,773

**CONCLUSIONS OF LAW:**

Petitioner presented sufficient probative evidence and testimony to prove that the tax year 2005 valuation of the subject property was incorrect.

**ORDER:**

Respondent is ordered to reduce the 2005 actual value of the subject property to \$1,057,773.

The Montrose County Assessor is directed to change his/her records accordingly.

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**APPEAL:**

Petitioner may petition the Court of Appeals for judicial review within 45 days from the date of this decision.

If Respondent alleges procedural errors or errors of law by this Board, Respondent may petition the Court of Appeals for judicial review within 30 days from the date of this decision.

**DATED and MAILED** this 19<sup>th</sup> day of May 2006.

**BOARD OF ASSESSMENT APPEALS**

*Karen E Hart*

Karen E. Hart

*Lyle D Hansen*

Lyle D. Hansen

This decision was put on the record

**MAY 19 2006**

I hereby certify that this is a true and correct copy of the decision of the Board of Assessment Appeals.

*Penny S Lowenthal*  
Penny S Lowenthal

