

<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>BAYLOR PROPERTIES LLLP,</b></p> <p>v.</p> <p>Respondent:</p> <p><b>DOUGLAS COUNTY BOARD OF EQUALIZATION.</b></p>	<p><b>Docket Nos.: 45588 &amp; 47009</b></p>
<p><b>ORDER</b></p>	

**THIS MATTER** was heard by the Board of Assessment Appeals on January 8, 2008, Debra A. Baumbach, Karen E. Hart, and Lyle D. Hansen presiding. Petitioner was represented by Richard Olona, Esq. Respondent was represented by Michelle B. Whisler, Esq. Petitioner is protesting the 2005 and 2006 actual value of the subject property.

The Board consolidated Docket Nos. 45588 and 47009.

**PROPERTY DESCRIPTION:**

Subject property is described as follows:

**6415-6455 Business Center Drive, Highlands Ranch, Colorado  
Douglas County Schedule No. R0388765**

The subject property is known as the Highlands Ranch Verizon Business Center. The building is a one-story commercial office building containing a total of 108,970 square feet of gross floor area and 106,000 square feet of rental building area. The building was constructed in 1995 and remodeled in 1998. The building is situated on a 12.01 acre site. The building is presently leased by VerizonBusiness OnNet DSL and is utilized as a call center for that tenant.

Petitioner presented the following indicators of value:

Market:	\$7,950,000.00
Cost:	N/A
Income:	\$6,885,611.00

Based on the market approach, Petitioner presented an indicated value of \$7,950,000.00 for the subject property.

Petitioner presented four comparable sales ranging in sales price from \$3,800,000.00 to \$40,000,000.00 or \$59.98 to \$154.21 per square foot of building area and in size from 63,352 to 419,090 square feet. After adjustments were made the sales ranged from \$64.18 to \$84.82 per square foot of building area.

Petitioner placed minimal weight on the market approach as an indication of value for the subject property, testifying that the comparable sales utilized in the analysis were not truly comparable to the subject property. The Board concurs. The subject property is unique in that it involves a former Big Box Retail Center converted into single-tenant office space. Comparable Sale 1 is an older and smaller multi-tenant office building. Comparable Sale 2 is an older and smaller multi-tenant office building with superior location in the Denver Technological Center. This property also has a covered parking structure. Comparable Sale 3 is a larger single-tenant office building that included a covered parking structure and excess land. Comparable Sale 3 received tax incentives from the State of Colorado and Douglas County for property acquisition. This property was also one hundred percent vacant at time of sale. Comparable Sale 4 is a newer multi-tenant office building located on a golf course.

Petitioner did not accomplish a cost approach.

Petitioner presented an income approach to derive a value of \$6,885,611.00 for the subject property.

In the income approach, Petitioner presented seven comparable office rentals ranging in gross rental rates from \$14.00 to \$18.00 per square foot. Five of the comparable office rentals had a range of gross rental rates from \$16.26 to \$16.75 per square foot. Petitioner concluded to a gross rental rate of \$16.50 per square foot for the subject property. All of the comparable office building rentals were multi-tenant occupancy, Class A and B office quality, and located in the southeast Denver suburban area. All of the leases were consummated during the base period.

Petitioner applied a vacancy allowance of 10%; a management fee of 5%; an office expense of \$5.75 per square foot; operating, maintenance, and reserves of 5%; and a capitalization rate of 11.78% to derive a value indication of \$6,885,611.00.

Petitioner gave the income approach the most weight as an indication of market value for the subject property. The Board concludes that Petitioner's economic rent analysis utilized office rental comparables that are not comparable to the subject property. All seven of the comparable office

rentals were multi-tenant office properties, whereas, the subject property is a single-tenant office property and intended for occupancy by a single-user.

Petitioner is requesting a 2005 and 2006 actual value of \$7,000,000.00 for the subject property.

Respondent presented the following indicators of value:

Market:	\$11,333,000.00
Cost:	N/A
Income:	\$11,230,000.00

Based on the market approach, Respondent presented an indicated value of \$11,333,000.00 for the subject property.

Respondent presented three comparable sales ranging in sales price from \$6,000,000.00 to \$12,500,000.00 or \$90.00 to \$168.00 per square foot of gross building area and in size from 39,500 to 100,550 square feet. After adjustments were made the sales ranged from \$104.00 to \$136.00 per square foot of gross building area.

Respondent gave equal weight to the market approach as an indication of value for the subject. The subject property is unique in that it involves a former Big Box Retail Center converted into single-tenant office space. Comparable Sale 1 is a newer single-tenant office/warehouse building. Comparable Sale 2 is a former King Soopers with no office finish. Comparable Sale 3 is a smaller multi-tenant medical office building. The Board does not consider these three sales as good comparables because of the difference in building use; therefore, they are not truly reflective of the utility of the subject property improvements. The Board gave no weight to Respondent's market approach as an indication of value for the subject property.

Respondent did not accomplish a cost approach.

In the income approach, Respondent presented three comparable office rentals ranging in triple-net rental rates from \$11.44 to \$14.50 per square foot. Respondent concluded to a triple-net rental rate of \$11.50 per square foot for the subject property. Comparable Rental 1 was a newer multi-tenant three-story office building. Comparable Rental 2 was a newer single-tenant industrial flex/office building. Comparable Rental 3 was a newer retail super market.

Respondent applied a vacancy allowance of 5%, no management fee, a reserves and replacement expense of 3%, and a capitalization rate of 10.0% to derive a value indication of \$11,230,000.00.

Respondent relied on the income approach to indicate a value of \$11,230,000.00 for the subject property.

Respondent assigned an actual value of \$12,482,019.00 to the subject property for tax year 2005 and an actual value of \$12,481,008.00 to the subject property for tax year 2006. Respondent is recommending a reduction in value for tax years 2005 and 2006 to \$11,230,000.00.

Petitioner presented sufficient probative evidence and testimony to prove that the tax years 2005 and 2006 valuation of the subject property were incorrect.

The Board considered the income approach to be the most reliable indication of value for the subject property. The Board placed primary weight upon Respondent's comparable rental rate. Respondent's rental comparables included single-tenant occupancy on a triple-net basis like the subject property; the rental comparables also have similar physical building characteristics. The Board agreed with Petitioner's conclusion of a vacancy rate of 10% as being more reflective of office vacancy in the area. The Board concluded the rental rate of \$11.50 per square foot on a triple-net basis, a vacancy rate of 10%, a 3% expense rate, and an 11% capitalization rate. Petitioner's capitalization rate analysis included three comparable office building sales in the south suburban Denver area with a range of 9.7% to 12.24% and with an average overall capitalization rate of 10.65%. The Board concluded the capitalization rate at 11% to reflect the risk associated with office vacancy in the area.

The Board concluded that the 2005 and 2006 actual value of the subject property should be reduced to \$9,675,000.00.

### **ORDER:**

Respondent is ordered to reduce the 2005 and 2006 actual value of the subject property to \$9,675,000.00.

The Douglas County Assessor is directed to change his records accordingly.

### **APPEAL:**

If the decision of the Board is against Petitioner, Petitioner may petition the Court of Appeals for judicial review according to the Colorado appellate rules and the provisions of Colorado Revised Statutes ("CRS") section 24-4-106(11) (commenced by the filing of a notice of appeal with the Court of Appeals within forty-five days after the date of the service of the final order entered).

If the decision of the Board is against Respondent, Respondent, upon the recommendation of the Board that it either is a matter of statewide concern or has resulted in a significant decrease in the total valuation of the Respondent county, may petition the Court of Appeals for judicial review according to the Colorado appellate rules and the provisions of CRS section 24-4-106(11) (commenced by the filing of a notice of appeal with the Court of Appeals within forty-five days after the date of the service of the final order entered).

In addition, if the decision of the Board is against Respondent, Respondent may petition the Court of Appeals for judicial review of alleged procedural errors or errors of law within thirty days of such decision when Respondent alleges procedural errors or errors of law by the Board.

If the Board does not recommend its decision to be a matter of statewide concern or to have resulted in a significant decrease in the total valuation of the respondent county, Respondent may petition the Court of Appeals for judicial review of such questions within thirty days of such decision.

Colo. Rev. Stat. § 39-8-108(2) (2007).

**DATED and MAILED** this 6<sup>th</sup> day of February 2008.

**BOARD OF ASSESSMENT APPEALS**

*Debra A. Baumbach*

Debra A. Baumbach

*Karen E. Hart*

Karen E. Hart

*Lyle D. Hansen*

Lyle D. Hansen

This decision was put on the record

**FEB 06 2008**

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

*Heather Heinlein*

Heather Heinlein

