

**BOARD OF ASSESSMENT APPEALS,
STATE OF COLORADO**

1313 Sherman Street, Room 315
Denver, Colorado 80203

Docket No.: 58980

Petitioner:

ST. PAUL PROPERTIES, INC

v.

Respondent:

ARAPAHOE COUNTY BOARD OF EQUALIZATION.

ORDER

THIS MATTER was heard by the Board of Assessment Appeals on December 17, 2012 MaryKay Kelley and James R. Meurer presiding. Petitioner was represented by Richard G. Olona, Esq. Respondent was represented by George Rosenberg, Esq. Petitioner is protesting the 2011 actual value of the subject property.

The testimony for Docket No. 58969 has been incorporated into Docket No. 58980 for purposes of this hearing.

Subject property is described as follows:

**6060 S. Willow Dr., Greenwood Village, CO
Arapahoe County Parcel No. 2075-21-1-19-001**

The property consists of a three story office building located in the Greenwood Village submarket of Arapahoe County. According to the parties, the building contains 130,998 rentable square feet and was constructed in 1980. Approximately 27% of the building consists of a three story atrium and common areas. Lot size is 6.36 acres. The subject was originally designed and constructed as a multi-tenant building; however, was 100% owner occupied as of the valuation date. The building was renovated in 1998, and is reported to be in overall average to above average condition considering its age and construction quality.

Respondent assigned a value of \$12,500,000 for tax year 2011. Petitioner is requesting a value of \$6,500,000 for tax year 2011.

Petitioner presented the following indicators of value:

Cost:	N/A
Market	\$7,859,880
Income:	\$6,209,193

Based on the market and income approaches, Petitioner concluded to an indicated value of \$6,500,000 for the subject property.

Petitioner's witness, Mr. Todd Stevens, presented a market (sales comparison) approach that included four comparable sales ranging in sales price from \$1,600,000 to \$4,650,000 and in size from 40,915 square feet to 91,550 square feet. After adjustments were made, the sales ranged from \$34.18 to \$77.41 on a per square foot basis. The major adjustments to the comparable sales consisted of location, leasing, physical characteristics, and square footage. Petitioner reconciled the adjusted sales at \$60.00 per square foot resulting in an indicated value of \$7,859,880.

Petitioner also presented an income approach to derive a value of \$6,209,193 for the subject property. A direct capitalization model was used and consisted of income estimated at \$15.00 per square foot full service gross (FSG). A long term vacancy and collection factor was estimated at 15% and expenses including management fees were estimated at \$916,086. The net operating income of \$754,139 was then capitalized at a 12.15% overall rate (including tax load) resulting in an indicated value of \$6,209,193 via the income approach. Petitioner's witness indicated that the income approach received the greatest amount of consideration relative the final conclusion of value.

Petitioner argued that Respondent did not take into account physical characteristics of the building, including condition, the ability to accommodate multiple tenants, and the lack of efficiency relative to the common areas. Petitioner further argued that Respondent's sale comparables and the income data, including rental rates, vacancy, and expenses were not reflective of the characteristics of the subject building.

Respondent presented the following indicators of value:

Cost:	N/A
Market	\$12,837,000
Income FSG:	\$12,765,000

Respondent concluded to an indicated value of \$12,800,000; however, is supporting the Board of Equalization value of \$12,500,000.

Respondent's witness, Mr. Jeffrey Hamilton, a Certified General Appraiser with the Arapahoe County Assessor's Office, presented a market approach that included five comparable sales ranging in sales price from \$3,880,000 to \$28,277,700 and in size from 46,854 square feet to 166,745 square feet. The major adjustments to the comparable sales were for building quality and condition and level of leasing. Respondent reconciled the adjusted sales at \$98.00 per square foot resulting in an indicated value of \$12,837,000 via the market approach.

In addition, Respondent presented an income approach. A direct capitalization model was used and consisted of income estimated at \$18.00 per square foot full service gross (FSG). A long term vacancy and collection factor was estimated at 5% and expenses including management fees were estimated at \$792,538. The net operating income of \$1,447,528 was then capitalized at a 11.33% overall rate (including tax load) resulting in an indicated value of \$12,776,063. Petitioner's witness testified that he valued the building as if it were single tenant, and that the income approach received the greatest amount of consideration relative the final conclusion of value. Mr. Hamilton cross-checked his full service capitalization model with a triple net expense model and reconciled to a value via the income approach of \$12,765,000.

Respondent's witness further testified that the common areas of the building should be considered as an amenity to the property and that the property was in good condition and located in a prime location with exposure to Interstate 25. Mr. Hamilton further testified that the highest and best use for the building was considered as single tenant use and that Petitioner's valuation analysis appeared to lack the necessary detail, analysis, and support to conclude to a supportable conclusion of value.

The significant differences between Petitioner's and Respondent's estimates of value were the comparables used and adjustments to the comparables in the market approach and the estimate of the appropriate market rent and expenses in the income approach. The parties also differed relative to the single as opposed to multi-tenant use of the subject.

After careful consideration of the testimony and exhibits presented in the hearing, the Board concurs with the parties that the income approach should be given the most weight relative to the final opinion of value. After review of the variables found in both the exhibits and testimony used by both Petitioner and Respondent, the Board concludes that a \$18.00 FSG rental rate, 10% vacancy factor, \$6.50 per square foot in expenses and a 11.33% overall rate including tax load most accurately reflect the economic characteristics of the subject building. The \$18.00 FSG rental rate and the \$6.50 per square foot of estimated expenses is based on supportable data found in Respondent's appraisal report. The 10% vacancy factor is a blended rate based on data found within both Petitioner's and Respondent's reports. Both parties agreed to the overall rate. These variables are reflected in the direct capitalization model found below:

Gross Income			
Rentable Space	130,998 sf	\$18.00	\$2,357,964
Total Gross Income	<u>130,998</u>		<u>\$2,357,964</u>
Vacancy Factor	10.00%		\$235,796
Effective Gross Income			<u>\$2,122,168</u>
Expenses	130,998 sf	\$6.50	\$851,487
Net Operating Income			<u>\$1,270,681</u>
Overall Rate			<u>11.33% inc tax load</u>
			<u>\$11,215,186</u>
Indicated Value			<u>\$11,215,186</u>
per square foot			<u>\$85.61</u>

ORDER:

Respondent is ordered to reduce the 2011 actual value of the subject property to \$11,215,186.

The Arapahoe 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 Section 24-4-106(11), C.R.S. (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 Section 24-4-106(11), C.R.S. (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.

Section 39-8-108(2), C.R.S.



DATED and MAILED this 16th day of January, 2013.

BOARD OF ASSESSMENT APPEALS

A handwritten signature in black ink that appears to read "MaryKay Kelley".

MaryKay Kelley

A handwritten signature in black ink that appears to read "James R. Meurer".

James R. Meurer

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

A handwritten signature in black ink that appears to read "Milla Crichton".