BOARD OF ASSESSMENT APPEALS, STATE OF COLORADO 1313 Sherman Street, Room 315 Denver, Colorado 80203 Petitioner: LODGE PROPERTIES INC., v. Respondent: EAGLE COUNTY BOARD OF EQUALIZATION.	Docket No.: 62711

ORDER

THIS MATTER was heard by the Board of Assessment Appeals on April 15, 2014, Diane M. DeVries and Brooke B. Leer presiding. Petitioner was represented by Mark T. Barnes, Esq. Respondent was represented by Christina Hooper, Esq. Petitioner is protesting the 2013 actual value of the subject property.

Subject property is described as follows:

174 Gore Creek Drive, Vail CO
Eagle County Schedule No. R065032

The subject property is an 80-room resort hotel located at the base of the Vail ski area. The property was built in 1962 and has been added on to and remodeled since then. Additional rooms were added in 1998, referred to as the "International Wing." The hotel is described as having alpine character and western charm. In 2008, as part of a project known as the Front Door, 6 luxury guests suites were added and a full service spa was added. The subject property also has a business center, executive offices, outdoor hot tubs and pools, fitness center, two restaurants including Elway's and Cucina Rustica. The property has underground and surface parking.

The property owner is Lodge Properties, Inc., a subsidiary of Vail Corporation which owns and controls the subject Lodge at Vail. The subject hotel operator is also the manager of the Lodge Apartment Condo Association (LACA). There are 85 rooms that are privately owned residential condominiums that are part of this association. These condo units are not part of the subject valuation, however some of the units are part of a rental pool at the subject hotel and income and expenses for these rental units are reflected in the financials provided by Vail Corp.

Mr. Josh Davis, Regional Manager of Finance for Vail Corp, Beaver Creek and Vail, assisted Ms. Sullivan, MAI in extracting the revenue and expenses associated with the condo rental pool units out of the hotel financials.

Petitioner's analysis concludes that the property suffers from significant physical depreciation because of its age. It does not have air conditioning, ceilings are low, corridors are narrow and the rooms are in need of renovation. Whereas Respondent considered the subject property to be in good to excellent condition and suffer no physical depreciation.

The property is operated by RockResorts, which is a subsidiary of Vail Resorts. Total square footage of the subject according to Eagle County is 63,947 square feet of heated area. Total property area including basement parking, patio porch and decking areas is 79,409 square feet. The land area associated with the hotel is 2.094 acres.

The personal property is taxed separately from the real estate and the value of Petitioner's reported personal property was stipulated at $2,448,920. The value concern at the hearing was for the real estate only. Petitioner is requesting an actual value of $7,900,000 for the subject. Ms. Jodi Sullivan of Duff and Phelps, prepared a valuation analysis based on an analysis of the actual income and expenses reported in the Vail Corp. financials.

Ms. Sullivan included some sales information from the Vail area but no specific conclusions per room value were derived from the sales. Rather, she used two sales, the Limelight and St. Regis to aid in the selection of overall capitalization rates to apply to the net operating income projected. Her analysis was based on the actual income and expenses from the property adjusted for the rental pool condo exclusion. She summarized trends at the Lodge at Vail as to occupancy, Average Daily Room rates (ADR) and Revenue Per Available Room (RevPAR). The occupancy and room rates have declined in general since 2008. In her opinion the subject was not as desirable to many of their former guests because they felt it was dated and inferior to some of the newer properties that have come on line in the past several years. Ms. Sullivan concluded that the income and expenses were stabilized at the subject and the upside was limited as of the June 30, 2012 valuation date. She concluded to an ADR of $312.00 and 55% occupancy. The actual expenses were generally applied however estimates were made for room expenses, food and beverage, general and administrative, reserves and management expenses. Ms. Sullivan concluded to a net operating income of $967,128 for the subject as of June 30, 2012.

Ms. Sullivan did not prepare an independent appraisal report but rather a valuation analysis. She did not testify as an appraiser but as a property tax consultant. She was somewhat unfamiliar with some of the expense categories when questioned and relied significantly on Mr. Davis's expertise and preparation of the financials for the subject with which he was very familiar.

Respondent's main witness was Mr. William Hopping, MAI, who specializes in appraising hotel properties. He provided an independent appraisal of the subject property and used both the Sales Comparison and the Income Capitalization Approaches with the primary emphasis on the Income Approach. An appraiser of Eagle County, Mr. Ryan Kane, assisted Mr.

Hopping in the preparation of the report. Mr. Kane testified at the hearing also. Mr. Hopping's report is in conformity with USPAP.

Mr. Hopping included four sales of improved properties. The sales were adjusted for RevPAR in comparison to the subject. The adjusted sales ranged from $282,410 for the Snake River Lodge and Spa in Teton Village, WY to $396,109 for the JW Marriott in Cherry Creek in Denver. The sales were used primarily for the capitalization rates which ranged from 3.9%, Snake River Lodge to 6.4%, JW Marriott. Mr. Hopping testified that there had been few hotel sales over the past several years and even fewer good comparables to the subject. Mr. Hopping concluded at $324,200 per room for the subject or $26,000,000, rounded. He also used the room revenue multiplier from the sales to conclude to a value of $22,000,000, rounded. His conclusion by the Sales Comparison Approach was $23,000,000. These conclusions included the personal property value.

Mr. Hopping testified that the property owner's representative identified four properties as direct competitors of the subject to compare room rates: Vail Marriott, Vail Cascade, Sonnenalp and Sebastian. These properties all have spa facilities and are considered full service, luxury hotels. Mr. Hopping concluded that RevPAR gained in the first six months of 2012. He concluded to a projected average daily room rate of $290.00 and an occupancy of 60% based on historical performance and expected penetration.

Income and expenses were projected using data from the subject adjusted to June 30, 2012. A custom Host report was used based on data submitted by participating hotels including the subject, Sonnenalp, Park Hyatt Beaver Creek and the Four Seasons in Vail. Mr. Hopping compared each expense category from the market data to the historical subject revenue and expense data. Mr. Hopping concluded to a projected net operating income for the subject of $1,113,000.

The Board found valid arguments from both Petitioner and Respondent in estimating the income and expenses for the subject. Petitioner had slightly lower revenue projections than Respondent, about 4%. The total expenses projected were similar, with Respondent being about 3% higher. The biggest difference in the two analyses was the capitalization rate used. Petitioner used an 8.0% rate and Respondent a 4.5% rate, both excluding the tax load.

The Board was not convinced from the testimony or the evidence provided that either party applied an appropriate capitalization rate. Petitioner had two sales from which rates were derived, the Limelight and the St, Regis, both in Aspen. Petitioner's rates derived were 8.02% for the Limelight and 11.33% for the St. Regis. Respondent used both sales as well to abstract rates, with the Limelight at 4.6% and the St Regis at 5.1%. The big discrepancy was in income projected in relation to the sales price. Mr. Hopping used the trailing 12 month income data and Ms. Sullivan used the projected income. The Board finds that neither sale is a good comparison to the subject to abstract rates. The Limelight was in financial distress before the sale and the St. Regis rate was based on limited information. The Aspen market is predominantly a luxury resort area but has different clientele with less competition for rooms than Vail and therefore is a hard comparison to use for sales and overall rates. Unless the sales data can be confirmed with the buyer and/or seller, it is difficult to know what the buyer was anticipating and or expecting. The large difference in the way the overall rates were calculated between parties is evidence of how difficult it is to use sales from another market and understand the motivations of the buyer and seller.

The Board reviewed the market reports and information submitted by each party. Much of the data overlapped. The stability of the Vail market along with the prestige location of the subject, would suggest that rates at the lower end of the data provided would be reasonable. The lower end of data from Ms. Sullivan's report suggested a 6.0% rate is applicable. Mr. Hopping had five sources he referenced and the lower end of that data ranged from 5.0% to 6.1%. From the data presented, the Board concluded that a 6.0% rate is appropriate to apply to the subject's projected net operating income.

Referring to the data below, the revenues and expenses from both parties is presented. The numbers are rounded to the nearest thousandth dollar from each party's report. As discussed, both parties had valid support for the income and expenses they applied and the data applied was relatively close in range. The Board favored Mr. Hopping's independent analysis; he prepared an appraisal report that followed USPAP. He used data from the subject and also compared it to data in the surrounding market as to expenses and revenues. The Board applied Mr. Hopping's net operating income (NOI) in the table below at $1,113,000; a more appropriate capitalization rate of 6.0% was applied to the NOI.

	Sullivan (000)		**Hopping (000)**		**Apply**
ADR	$312		$290		
Occupancy	55%		60%		
Total Revenue	$8,178		$8,523		
Department Expenses	$3,872		$4,073		
Undistributed operating Expenses	$2,725		$2,680		
Fees	$245		$256		
Income Before Fixed Expenses	$1,336		$1,514		
Insurance	$42		$60		
Reserves	$327		$341		
NOI	$967		$1,113		$1,113
Capitalization Rate	8.00%		4.50%		6.00%
Tax rate	1.36%		1.36%		1.36%
Total rate	9.36%		5.86%		7.36%
Value, in thousands	$10,332		$18,993		$15,122

The value conclusion is estimated at $15,122,000. This includes personal property of $2,448,920. Estimated value of the Lodge at Vail, real estate only, as of June 30, 2012, is $12,673,080 or $12,673,000, rounded.

Petitioner presented sufficient probative evidence and testimony to prove that the tax year 2013 valuation of the subject property was incorrect.

The Board concludes that the 2013 actual value of the subject property should be reduced to $12,673,000.

ORDER

Respondent is ordered to reduce the 2013 actual value of the subject property to $12,673,000.

The Eagle County Assessor is directed to change his/her 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-nine 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-nine 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 28th day of May, 2014.

BOARD OF ASSESSMENT APPEALS

Diane M. Devries

Brooke B. Leer

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

Milla Lishchuk