

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

1313 Sherman Street, Room 315
Denver, Colorado 80203

Docket No.: 66378

Petitioner:

MILLER INTERNATIONAL INC,

v.

Respondent:

ADAMS COUNTY BOARD OF EQUALIZATION.

ORDER

THIS MATTER was heard by the Board of Assessment Appeals on February 8, 2016, James R. Meurer and Sondra W. Mercier presiding. Petitioner was represented by Richard G. Olona, Esq. Respondent was represented by Kerri A. Booth, Esq. Petitioner is protesting the 2015 actual value of the subject property.

Both parties stipulated to admitting Mr. Gary Petterson, Certified General Appraiser with the Adams County Assessor's Office, Mr. Richard Mosier, Certified General Appraiser with MacTaggart and Mosier, Inc., and Mr. Todd J. Stevens with Stevens & Associates, Inc. as expert witnesses. Petitioner's Exhibit 1 and Respondent's Exhibit A were admitted into evidence.

Subject property is described as follows:

**8500 Zuni Street, Federal Heights, Colorado
Adams County Schedule No. R0059544**

The subject is an owner-occupied office warehouse with a total net rentable area of 157,501 square feet based on Petitioner's description. It is situated on a 7.94-acre site. The building (partially two-story) was originally constructed in 1971, and includes office space, retail outlet store, and storage. The building also includes an employee gym and cafeteria. Finished area represents 34% of the total building size. The building has a freight elevator, but no passenger elevator to the second floor. Some renovation, including a new lobby area and roof were completed in mid-2015, indicating required maintenance as of the January 1, 2015 assessment date. The finished office area and second floor bathrooms had not been renovated as of the assessment date.

Petitioner presented the following indicators of value:

Market:	\$3,937,525
Cost:	Not applied
Income:	\$3,001,784

Petitioner is requesting an actual value of \$3,200,000 for the subject property for tax year 2015. Respondent assigned a value of \$6,992,703 for the subject property for tax year 2015.

Petitioner's witness, Mr. Stevens, considered the cost approach but determined that it was not applicable in the valuation of the subject. Mr. Stevens presented a market approach consisting of six comparable sales ranging in sale price from \$1,900,000 to \$11,000,000 and in size from 82,380 to 386,153 square feet, indicating an unadjusted range of \$23.06 to \$42.04 per square foot. After adjustments were made, the sales indicated a range of \$16.14 to \$32.05 per square foot. A value of \$25.00 was applied to indicate a value of \$3,937,525 based on the market approach.

Petitioner presented an income approach to derive a value of \$3,001,784 for the subject property. Mr. Stevens analyzed seven leases that transacted between April 2012 and February 2014 that ranged in size between 43,162 and 151,023 square feet, indicating a range in rates of \$2.00 to \$2.95 per square foot net of expenses. Gross rental revenue was projected at \$315,002 based on a net rental rate of \$2.00 per square foot.

A vacancy rate of 10% was applied representing a deduction of \$31,500. An additional 10% was deducted to reflect owner's operating, maintenance and reserve costs to conclude to net income of \$255,152. A capitalization rate of 8.5% was applied to indicate a value of \$3,001,784 based on the income approach.

Mr. Stevens testified that the subject suffered from obsolescence including insufficient dock-high and drive-in doors, and low ceiling height. Placing greater reliance on the income approach, Mr. Stevens concluded to a value of \$3,200,000 for the subject.

Respondent presented the following indicators of value:

Market:	\$7,200,000
Cost:	\$7,500,000
Income:	\$5,750,000

Respondent's witness, Mr. Richard Mosier, presented eleven sales ranging in sale price from \$1,900,000 to \$5,200,000 and in size from 62,900 to 167,797 square feet to indicate an unadjusted range of \$19.31 to \$63.55 per square foot. Mr. Mosier testified that the square footage of Sale 3 was 87,000; however, no additional corrections or adjustments were made to the analysis of this sale.

After adjustments were made, the sales ranged from \$31.23 to \$67.64 per square foot. Each sale was assigned a weight of 1 through 11, with sales 1, 7 and 8 given the greatest reliance. Based

on this data, Mr. Mosier concluded to a value of \$45.57 per square foot equal to \$7,182,971, rounded to \$7,200,000.

Respondent used a state-approved cost estimating service to derive a market-adjusted cost value for the subject property of \$7,500,000. Five sales were analyzed to determine land value of \$3.04 per square foot for the 406,415 square foot site, to produce a land value estimate of \$1,235,502, rounded to \$1,250,000. Total replacement cost new for East and West Buildings and Site Improvements was estimated at \$14,483,061 using Marshall Valuation Service's data. Roof maintenance costs of \$633,630 were deducted along with \$8,193,895 in depreciation to indicate a depreciated value of \$6,289,166. The addition of land value produced a value indication of \$7,539,166 using the cost approach. This value conclusion was rounded to \$7,500,000.

Respondent used the income approach to derive a value of \$5,750,000 for the subject property. Rental information for seven properties was analyzed to determine a rental rate of \$4.50 per square foot for the subject equal to potential gross income of \$709,322 based on a building size of 157,627 square feet. Mr. Mosier testified that although market surveys indicated a vacancy for the subject's northwest sector of over 10.8%, vacancy for owner occupied properties was lower, estimated at 5%. Effective gross income was estimated at \$673,855. A deduction of \$43,781 was taken to reflect expenses relative to owner's share during vacancy, leasing fees, and reserves for replacement. Net operating income was calculated as \$630,075. A tax loaded capitalization rate of 11.0% was applied to indicate a value of \$5,727,954, rounded to \$5,750,000.

After placing the greatest reliance on the market approach, Mr. Mosier concluded to a value of \$7,000,000 for the subject. Respondent asked the Board to uphold a value of \$6,992,703, as was assigned to the subject property for tax year 2015.

After consideration of all three approaches to value, the Board finds that limited reliance can be given to the cost approach due to the age of the subject property. Using the market and income approaches, Petitioner presented sufficient probative evidence and testimony to prove that the tax year 2015 valuation of the subject property was incorrect.

First, the Board was convinced that the subject suffered from an inferior location in a residential area with secondary access to a major arterial. The building was shown to be negatively affected by deferred maintenance, particularly concerning the roof, along with poor access for loading, inferior ceiling height, and an atypically high percentage of buildout compared to most warehouse buildings in the market.

Mr. Stevens presented information concerning six building sales that were adjusted for differences from the subject to indicate a value of \$3,937,525. Seven leases were relied on in the income approach. Both the vacancy rate and capitalization rates were well supported by market data, which produced a value of \$3,001,784 using the income approach. The Board was convinced that Petitioner's sales and leases were more representative of the subject for location, condition, and features, with adequate consideration given for differences compared to the subject.

Respondent's analysis gave insufficient consideration to the obsolescence, location and condition of the subject. The Board found Respondent's comparable sales and leases to be superior to the subject with insufficient adjustments made in the sales comparison and rental market analysis. Although Mr. Mosier's Industrial Market Overview (Exhibit A, pages 7-9) suggests vacancy above 10% for the subject's specific market sector, a deduction of 5% was applied within the income approach. The Board did not find support for Respondent's 5% vacancy adjustment.

Errors within Mr. Mosier's report called into question the credibility of the analysis. Mr. Mosier was inconsistent in applying the deduction for deferred roof maintenance of \$6.00 per square foot (\$633,630) in the cost approach while making no comparable adjustment in the income or sales comparison approaches. Finally, a net rental rate was applied in the income approach and no deduction for expenses was made; yet, a tax loaded capitalization rate was applied to the resulting net operating income.

For these reasons, the Board concludes that the actual value of the subject property should be reduced to \$3,200,000.

ORDER:

Respondent is ordered to reduce the 2015 actual value of the subject property to \$3,200,000.

The Adams County Assessor is directed to change 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.

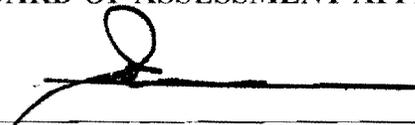
If the Board does not recommend its decision to be a matter of statewide concern or to have resulted in a significant decrease in the total valuation of the respondent county, Respondent may

petition the Court of Appeals for judicial review of such questions within thirty days of such decision.

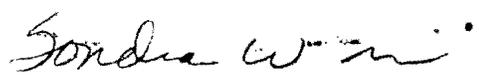
Section 39-8-108(2), C.R.S.

DATED and MAILED this 4th day of March, 2016.

BOARD OF ASSESSMENT APPEALS

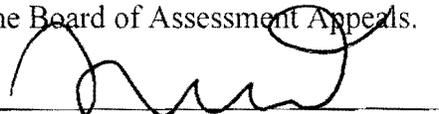


James R. Meurer



Sondra W. Mercier

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



Milla Lishchuk

