

**BOARD OF ASSESSMENT APPEALS,
STATE OF COLORADO**
1313 Sherman Street, Room 315
Denver, Colorado 80203

Docket No.: 67943

Petitioner:

ST. PAUL PROPERTIES, INC.,

v.

Respondent:

DENVER COUNTY BOARD OF EQUALIZATION.

ORDER

THIS MATTER was heard by the Board of Assessment Appeals on July 13, 2016, Diane M. DeVries and James R. Meurer presiding. Petitioner was represented by Richard G. Olona, Esq. Respondent was represented by Charles T. Solomon, Esq. Petitioner is protesting the 2015 actual value of the subject property.

The subject property is described as follows:

**4350 Kearney St. Denver, CO
Denver County Schedule No. 01202-00-119-000**

Petitioner and Respondent stipulated to admission of witnesses as experts, and admission of all exhibits. The parties also agreed to incorporate testimony from Docket No. 67969 into this hearing.

The property consists of a single-story industrial building located in the Northeast Park Hill submarket of the City and County of Denver. The subject building contains 91,290 square feet and was approximately 26% occupied as of the valuation date. The building is pre-cast masonry panel construction, was constructed in 1973, and is rail-served. Ceiling height is reported to be 22 feet, the building is sprinklered, and there are 14 overhead doors. Office finish is 3,225 square feet which represents approximately 4% of gross building area. Lot size is 148,406 square feet or 3.41 acres resulting in a land to building ratio of 1.63:1, and zoning is I-B (Industrial) through Denver County. The building is reported to be in overall average condition with minimal updating since construction.

Petitioner is requesting an actual value of \$2,500,000 for the subject property for tax year 2015. The Board of Equalization's (BOE) assigned value is \$4,165,700. Respondent provided an appraisal reflecting a value of \$4,047,000 for tax year 2015 and is requesting a reduction in actual value to that amount.

Petitioner presented the following indicators of value:

Cost:	Not Developed
Market	\$2,764,800
Income:	\$2,503,343

Petitioner did not provide a cost approach indicating that this approach would not be appropriate for a property of this vintage.

Petitioner's witness, Mr. Todd Stevens, President of Stevens and Associates Cost Reduction Specialists, Inc. developed a market (sales comparison) approach that included four comparables ranging in sales price from \$1,900,000 to \$5,100,000 and in size from 82,380 square feet to 127,300 square feet. Sales prices on a per square foot basis ranged from \$23.06 to \$40.06, and all of the sales were industrial buildings, two of which (Nos. 2 and 4) were considered to be in similar locations. The major adjustments to the sales consisted of conditions of sale, location, age, economic characteristics (leasing), physical characteristics, and excess land. Petitioner made no adjustment for date of sale. After adjustments were made, the sales ranged from \$20.71 to \$34.96 on a per square foot basis. With emphasis on all of the comparables, Mr. Stevens concluded to a final value of \$30.00 per square foot or \$2,764,800 for the subject land and improvements.

Mr. Stevens also presented an income approach to support his concluded value. A direct capitalization model was used, and consisted of gross income of \$3.25 per square foot triple net or \$296,693 based on a review of the rental comparables, as well as a lease executed at the subject during the base period for \$3.25 per square foot NNN. A long term vacancy and collection loss was estimated at 25% based on a review of published sources and vacancy in the building of approximately 74% as of the valuation date. Non-reimbursable expenses were estimated at 10% of effective gross income. The net operating income of \$200,267 was then capitalized at an 8.0% overall rate derived from published sources, which resulted in the indicated value of \$2,503,343 via the income approach.

The income approach was given the greatest amount of consideration in the concluded value of \$2,500,000. Mr. Stevens argued that the variables, specifically the vacancy and overall rate in the income approach were not reflective of the subject as of the valuation date, and that Respondent applied variables inconsistently in both the market approach and income approach. Mr. Stevens also argued that no time adjustment was necessary for the comparables used in the market approach given their dates of sale and market conditions for industrial properties in this location during the base period.

Respondent presented the following indicators of value:

Cost:	\$4,203,900
Market	\$4,200,253
Income:	\$3,893,627

Respondent's witness, Mr. Thomas Brennan, an Ad Valorem Appraiser with the Denver County Assessor's Office, developed a cost approach; however, gave it minimal weight in the conclusion of value due to the age of the property. The witness also indicated that there was a lack of emphasis on a cost approach by purchasers or investors of properties of this type. Mr. Brennan concluded to a land value at \$3.50 per square foot or \$519,420.

Mr. Brennan developed a market approach that included four comparables ranging in sales price from \$2,400,000 to \$5,384,000 and in size from 49,950 square feet to 150,001 square feet. Adjusted for date of sale, sales prices on a per square foot basis ranged from \$33.50 to \$49.01, and all of the sales were industrial buildings located in the same or similar locations. The major adjustments to the sales consisted of date of sale, building size, age, condition, utility, wall height, office finish, and land to building ratio. After adjustments were made, the sales ranged from \$42.55 to \$53.42 on a per square foot basis. With emphasis on all of the comparables, Mr. Brennan concluded to a final value of \$46.01 per square foot or \$4,200,253 for the subject land and improvements.

Mr. Brennan also developed an income approach to support his conclusion of value. A direct capitalization model was used, and consisted of gross income of \$3.66 per square foot triple net or \$334,121 based on a review of five rental comparables. A long term vacancy and collection loss was estimated at 5% based on a review of published sources. Non-reimbursable expenses were estimated at 8.0% of effective gross income. The net operating income of \$292,022 was then capitalized at a 7.5% overall rate derived from published sources which resulted in the indicated value of \$3,893,627 via the income approach.

Respondent placed equal weight on the market and income approaches in arriving at the concluded value of \$4,047,000. Mr. Brennan argued that Petitioner did not adjust for date of sale or wall/ceiling height in their market approach, and that the variables, specifically the vacancy rate, used by Respondent in the income approach were not supportable within the market.

Petitioner presented sufficient probative evidence and testimony to prove that the tax year 2015 valuation of the subject property was incorrect.

After careful consideration of the testimony and exhibits presented in the hearing, the Board concludes that the income approach should be given primary weight relative to the final opinion of value for an industrial property of this type, size, and vintage. After review of the variables found in the exhibits and testimony used by both Petitioner and Respondent, the Board recalculates the direct capitalization model as follows:

Gross Income	Square footage 91,290 sf @ \$3.25	\$296,693
Total Gross Income		\$296,693
Vacancy Factor	@ 10.00%	\$29,669
Effective Gross Income		\$267,023
Expenses NNN psf	@ 10.00%	\$26,702
Net Operating Income		\$240,321
Overall Rate		7.50%

Relative to the above recalculated model, the Board concludes, based on the data and testimony, that a \$3.25 triple net rental rate as reflected in the lease signed during the base period on the subject is most indicative of the market rent for this type of industrial space. Both parties' data, as well as the occupancy, age, and location of the subject were reviewed to conclude to a "long term" vacancy rate of 10%. Also, the data and testimony provided by both parties was used to estimate non-reimbursable expenses at 10%. Petitioner used a 8.0% overall rate and Respondent used a 7.5% rate. The Board concludes that a 7.5% overall rate is most supportable based on the published sources and testimony provided by Respondent.

ORDER:

Respondent is ordered to reduce the 2015 actual value of the subject property to \$3,205,000.

The Denver 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-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).

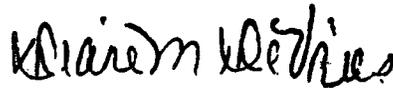
In addition, if the decision of the Board is against Respondent, Respondent may petition the Court of Appeals for judicial review of alleged procedural errors or errors of law within thirty days of such decision when Respondent alleges procedural errors or errors of law by the Board.

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 3rd day of August, 2016.

BOARD OF ASSESSMENT APPEALS

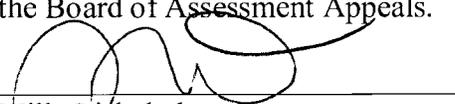


Diane M. DeVries



James R. Meurer

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



Milla Lishchuk