BOARD OF ASSESSMENT APPEALS, STATE OF COLORADO 1313 Sherman Street, Room 315 Denver, Colorado 80203 Petitioner: **NORTHGLENN APARTMENTS LLC,** v. Respondent: **ADAMS COUNTY BOARD OF EQUALIZATION.**	
Attorney or Party Without Attorney for the Petitioner: Name: William A. McLain, Esq. Address: 3962 S. Olive Street Denver, Colorado 80237 Phone Number: (303) 759-0087 Attorney Reg. No.: 6941	**Docket Number: 42016**

ORDER

THIS MATTER was heard by the Board of Assessment Appeals on February 2, 2004, Diane DeVries and Karen E Hart presiding. Petitioner was represented by William A. McLain, Esq. Respondent was represented by Jennifer Wascak Leslie, Esq.

PROPERTY DESCRIPTION:

Subject property is described as follows:

10648 Huron Street, Northglenn, Colorado
(Adams County Schedule Nos. 01719-10-3-04-008, 01719-10-3-04-009 and 01719-10-3-04-010)

Petitioner is protesting the 2003 actual value of the subject property, a multiple building apartment complex consisting of multi-story buildings constructed in 1969 with masonry veneer exteriors and shake roofs. The complex has a total of 252 apartment units consisting of 120 one-bedroom, one-bathroom apartments, and 132 two-bedroom, one-bathroom apartments. Amenities include swimming pools, laundry facilities and off-street parking.

ISSUES:

Petitioner:

Petitioner contends that the subject property can be described as a garden-apartment complex, but Respondent used sales of properties that have center hallways and elevators, which are not comparable properties to the subject. Additionally, the comparables used by Respondent to develop a Gross Rent Multiplier (GRM) were not comparable to the subject property. Petitioner used more comparable properties to develop a GRM, which was used to value the subject property according to the market approach. Respondent has overvalued the subject property.

Respondent:

Respondent contends that the subject property was correctly valued using the market approach to value. The GRM is a tool to measure the valuation approach confidence and should not be used to value the property; it is only a check of the value conclusion. Respondent's sales are more similar to the subject in number of units and physical characteristics including location and year of construction than Petitioner's sales.

FINDINGS OF FACT:

1. Petitioner's witness, Mr. Ronald Hambrick of Nadori Information Services Inc., testified that the subject property is a three-story garden type apartment development with a masonry brick exterior and shake shingle roofs. It was constructed in 1969. The complex was originally designed for 252 dwelling units: 120 one-bedroom, one-bathroom apartments and 132 two-bedroom, one-bathroom apartments. Five apartments are now used for other purposes such as maintenance rooms, office, and models; they will never be rented as apartments. There are 247 rentable units. They are garden apartments, which means that there is an entryway that provides access to the apartments from an exterior landing.

2. Based on the market approach using a Gross Rent Multiplier (GRM), Petitioner's witness presented an indicated value of $9,036,500.00 for the subject property.

3. Petitioner presented four comparable sales ranging in sales price from $1,500,000.00 to $3,300,000.00, with gross rent multipliers ranging from 4.34 to 4.94.

4. Mr. Hambrick used the GRM to value the subject property. Five of the units will never be leased and will not garner income. As of June 2002, 21 units were vacant. A gross rental income of $1,964,460.00 would be possible if the property were 100% leased. Page 6 of Petitioner's Exhibit A is a synopsis of the actual subject property's income statement. The "Concessions"

deduction includes free rent and the "Value" deduction includes partly reduced rents paid by employees. The net actual rental receipts, including prepaid rents, were $1,690,497.00.

5. Mr. Hambrick testified that he used four sales to extract a GRM. Two of the four sales are garden apartments, similar to the subject. Sale 1 is a 50-unit, one-story townhome designed complex. The GRM is 4.57. Sale 2 is a 50-unit townhome/rowhouse type of development with substantially smaller unit sizes than the subject. The GRM is 4.56, which is similar to Sale 1. Neither Sale 1 or 2 are comparable to the subject in physical characteristics; neither are garden apartments. However, they are comparable economically as they offer reasonably priced housing.

6. Mr. Hambrick testified that Sale 3 is a garden type development consisting of 36 units with a GRM of 4.94. Sale 4 is most comparable to the subject. It is dominated by 2-bedroom units and is superior to the subject in quality. The average apartment square footage is 887 as compared to the subject property's unit square footage of 675. Sale 4 sold with a GRM of 4.34.

7. Mr. Hambrick testified that the GRM is the most effective way to express value for apartment buildings. Investors pay less attention to a price per unit than the effect of the multiplier on value; it is an income indicator. The GRM accounts for all factors to value. The per unit sales prices of the comparable sales vary from $30,000.00 to $48,611.00. The per square foot sales prices ranged from $38.75 to $80.59 per square foot. This wide variance in per unit/per square foot sales price supports the use of the GRM rates, which are more similar. The estimate of value using the GRM method ranged from $8,525,800.00 to $9,704,400.00. He selected a 4.6 GRM for the subject property, which is an average of the four comparable sales' GRMs. He concluded to a subject property value of $9,036,500.00.

8. In cross-examination, Mr. Hambrick testified that he accounted for the units that were not rentable at the subject property by accounting for the revenue loss. A change of management would likely continue the alternate uses of the office, maintenance rooms, model, etcetera rather than apartment units. He valued all 252 units as if they were rentable. However, it is highly unlikely that five units will ever be rented. The office and model are critical to the building. He cannot speak to the need for the maintenance shops. He has never seen an apartment complex that did not have a rental office. This complex does not have a separate maintenance building. All of the comparables have fewer units, but that is not critical as he used the GRM method, which removes the subjectivity of adjustments. He admitted that there could be an economy of scale for expense items for different complexes with varying unit numbers. He divided the sales price by the rent potential of the comparables as of June 30, 2002 to calculate the GRM as if all of the units were 100 percent leased; he did not account for rent concessions or vacancies in his calculations.

9. In cross-examination, Mr. Hambrick testified that he investigated the sales that Respondent used to value the subject property for this hearing and did not consider them comparable. Mr. Hambrick's company represents the comparable properties used in his report. Physically, Sale 4 is most comparable to the subject property, though it is superior in location. It is located in Arvada in Jefferson County at 53rd and Carr in a quiet residential neighborhood. His basis for calling it the most comparable sale is that it is a garden type development and was built in 1973, similar to the subject's 1969 year of construction; it is most comparable physically. He does not have statistics to determine favorability for garden level versus non-garden level type apartments.

He does not believe that Respondent's comparable with elevators or comparables with center hallways should have been used to value the subject property; they are physically not comparable to the subject.

10. Upon questioning by the Board, Mr. Hambrick testified that he did not analyze the actual subject property rents to determine if they were market rents.

11. Petitioner is requesting a 2003 actual value of $9,036,500.00 for the subject property.

12. Respondent's witness, Mr. Vernon Penton, a Certified General Appraiser with the Adams County Assessor's Office, presented an indicated value of $11,585,400.00 for the subject property, based on the market approach.

13. Respondent's witness presented three comparable sales ranging in sales price from $5,950,000.00 to $17,150,000.00 and in size from 91,650 to 312,124 square feet. After adjustments were made, the sales ranged from $8,940,634.00 to $12,319,391.00.

14. Mr. Penton testified that he has inspected the subject property on numerous occasions; the latest visit was in December 2003. It is located off Huron at approximately 106th. The neighborhood is mixed with residential and commercial uses. The subject backs to a number of commercial properties. There is a lake across the street, which is surrounded by residential properties. It is a reasonably desirable location. The property consists of 21 brick-veneer, frame constructed buildings, laid out in a pod construction. There are seven buildings surrounding a central courtyard with a pool, maintenance facility and park-like setting. There are three pools and three laundry/meeting facilities. The buildings were constructed in 1969 and are three stories in height. The subject is in above average condition. The entry halls are from a breezeway access versus a center hall access. The building is typical for its age for apartment complexes in Adams County.

15. Mr. Penton testified that he used the market approach to value the subject property. The GRM can be used as a tool in the market approach to check the validity of value conclusions. The GRM is by definition the highest potential rent a property can generate, divided into the sales price. It accounts for vacancies, rent concessions, etcetera in the sales price; there is no adjustment to the potential gross rent. Respondent's GRM is higher than the Petitioner's. His 2002 rents for the subject are the asking rents without concessions, vacancy or maintenance units; there are no adjustments for potential rents. To use the GRM, one should use properties that have a similar number of units as the subject.

16. Regarding Respondent's comparables, Mr. Penton testified that he looked for sales with comparable number of units, location, age, on-site employees for maintenance, etcetera. Respondent's Comparable 1 consists of 100 units in multiple two- and three-story buildings with a central hall, for which he made an adjustment. It has a single swimming pool, clubhouse, laundry facility, independent maintenance shed, and off-street parking. It is comparable to the subject in number of units.

17. Respondent's Comparable 2 is located on Pecos and 70th; has interior hallways; is all

brick veneer construction, which is similar to the subject; consists of five, four-story buildings; has long flag driveways; and is located behind McDonald's. It is located in a residential area, backing to commercial properties. It is the best comparable.

18. Comparable 3 is located in close proximity to the subject, on the same side of the highway. It consists of frame construction with brick appointments and is a mix of two-story plus garden level apartments. There is a clubhouse with indoor and outdoor pools and maintenance shops. It is a larger land parcel, which is superior to the subject; it has a more park-like setting than the subject.

19. Regarding Petitioner's report, Sale 1 is a Section 8 project with rent subsidies, which affects the highest gross rent potential. Sale 2 is senior housing with reduced rents. Sale 4 is located in Jefferson County in a superior location.

20. Mr. Penton testified that he used the asking rents on all of the comparables, which were divided into the sales price to calculate the GRM. He does not understand why there is a difference in the subject property's GRM, as Petitioner testified he used the same rents. He does not believe rent restricted properties are comparable to the subject. He concluded to a value of $11,585,400.00.

21. In cross-examination, Mr. Penton testified that his interior hall adjustment came from analysis of previous sales and the comparable sales; he made a two percent adjustment. He did not adjust Comparable Sale 2 for the elevators, as the value is offset by the lack of a swimming pool and other amenities.

22. Mr. Penton reiterated that Respondent's Comparable 2 is most comparable to the subject, even though it has a center hall and is an elevator served, four-story building complex.

23. Respondent assigned an actual value of $11,252,300.00 to the subject property for tax year 2003.

CONCLUSIONS:

1. Respondent presented sufficient probative evidence and testimony to prove that the subject property was correctly valued for tax year 2003.

2. Respondent's witness presented a well-organized and well-documented appraisal report. Respondent's comparable sales were more similar to the subject in scale than Petitioner's sales. Respondent's witness calculated a value using the sales comparison approach and appropriately adjusted the selling prices for differences in physical characteristics. He then calculated the Gross Rent Multipliers (GRMs) for each of the sales and used the concluded GRM to determine a value as a test of reasonableness for the sales comparison approach value conclusion.

3. Petitioner's witness presented a value based on the gross rent multiplier calculation. This calculation is a method of comparison contained within the market approach to value and

should be used as an accuracy measure of the direct sales comparison value conclusion. It is not a valuation methodology in and of itself.

4. For the gross rent multiplier to be an accurate measure, it must be derived from properties that are similar in economic characteristics, including similar scale and expense ratios. The Board was not convinced that two of Petitioner's properties were economically similar to subject, based on their reduced scale and potentially affected rent contracts as Section 8 and senior housing complexes. All of Petitioner's comparables were substantially smaller in apartment counts than the subject property, the largest consisting of 96 units. Respondent's comparables were more similar in apartment numbers and bracketed the subject property's 252 apartments, ranging from 100 to 345 units. Neither party produced written documentation of the expense ratios of the comparable properties. The Board gave less weight to the GRM methodology towards value, but found Respondent's value conclusion via the direct sales comparison approach to be supported by Respondent's GRM calculation.

5. After careful consideration of all of the testimony and evidence presented, the Board concluded that Respondent's appraisal report should be given most weight and affirms Respondent's assigned value of $11,252,300.00.

ORDER:

The petition is denied.

APPEAL:

Petitioner may petition the Court of Appeals for judicial review within 45 days from the date of this decision.

If Respondent alleges procedural errors or errors of law by this Board, Respondent may petition the Court of Appeals for judicial review within 30 days from the date of this decision.

DATED and MAILED this 18th day of March, 2004.

BOARD OF ASSESSMENT APPEALS

Diane M. DeVries

Diane M. DeVries

Karen E. Hart

Karen E. Hart

This decision was put on the record

MAR 18 2004

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

Penny S. Lowenthal

Penny S. Lowenthal

STATE OF COLORADO SEAL BOARD OF ASSESSMENT APPEALS

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