BOARD OF ASSESSMENT APPEALS, STATE OF COLORADO 1313 Sherman Street, Room 315 Denver, Colorado 80203 Petitioner: **RED JUNCTION, LLC,** v. Respondent: **MESA COUNTY BOARD OF EQUALIZATION.**	
Attorney or Party Without Attorney for the Petitioner: Name: Michael J. Russell, Esq. Hoskin, Farina Aldrich & Kampf Address: P.O. Box 40 Grand Junction, Colorado 81502 Phone Number: (970) 242-4903 E-mail: mrussell@hfak.com Attorney Reg. No.: 16313	**Docket Number: 44008**
ORDER	

THIS MATTER was heard by the Board of Assessment Appeals on March 29, 2005, Sondra W. Mercier and Karen E. Hart presiding. Petitioner was represented by Michael J. Russell, Esq. Respondent was represented by Valerie J. Robison, Esq. Petitioner is protesting the 2004 actual value of the subject property.

PROPERTY DESCRIPTION:

Subject property is described as follows:

2325 West Ridges Road, Grand Junction
(Mesa County Schedule Nos. 2945-202-46-015, 2945-202-54-004, 2945-203-01-040, 2945-203-01-043, 2945-203-01-044, 2945-203-01-046)

The subject property is an 18-hole daily fee golf course with a clubhouse, maintenance building and parking lot located on approximately 204.4 acres.

ISSUES:

Petitioner:

Petitioner contends that despite the reduction in value previously granted by the Mesa County Board of Equalization, the Respondent does not fully recognize that golf courses are built as amenities that are, at best, a loss leader for the sale of residential lots. As an amenity, the golf course does not carry the value assigned.

Respondent:

Respondent contends that, although the subject may act as a loss leader for the sale of residential lots, it does not mean that such a significant reduction in value is warranted.

FINDINGS OF FACT:

1. Petitioner's witness, Mr. Jeffery M. Monroe, a Registered Appraiser with Tax Profile Services, Inc., testified that in valuing the subject, it was important to recognize that business value and personal property value has to be deducted to arrive at real estate value. He testified that, while the subject may be worth over $4 million in total value, only $2.5 to $2.8 million is attributable to the real estate. Mr. Monroe equated this valuation technique to that used in the valuation of management and labor intensive properties where the business is a major component of total market value. He indicated that this technique has been recognized in the hospitality or hotel industry, which deducts the business component and tangible personal property associated with the hotels to arrive at real estate value.

2. Mr. Monroe presented the following indicators of value:

Cost Approach:	$2,483,960.00
Market Approach:	$3,226,178.00
Income Approach:	$2,583,700.00

3. Mr. Monroe presented four land sales for comparison with the subject. All of Petitioner's comparables were sites that were assembled for future development of a residential golf course community located adjacent to the subject. The average price of the comparable sales was $8,778.00 per acre. Mr. Monroe indicated that the subject is now dedicated open space and deed restricted, with no potential for future development. He adjusted the sales price of the adjacent site downward to reflect the assemblage cost and loss of development rights, to arrive at an indicated value of $4,000.00 per acre. Mr. Monroe valued the maintained portion of the course (155 acres) at $4,000.00 per acre to arrive at a total land value of $620,000.00. Mr. Monroe placed no value on the

subject's remaining 49 acres – an area he described as out-of-bounds, un-maintained, wetlands, and rock outcroppings.

4. As shown on pages 15 and 16 of Petitioner's Exhibit C, Mr. Monroe presented a segregated cost analysis for the golf course construction. After depreciation, the indicated value for the 18-hole course was $3,216,486.00. He deducted 21 percent depreciation from the value the Mesa County Assessor assigned to the building improvements to arrive at an improvement value of $763,441.00. After adding the land, golf course and improvement values, Mr. Monroe applied a 46 percent deduction for economic obsolescence. He concluded to a total value of $2,483,960.00 for the subject property based on the cost approach.

5. Petitioner's witness presented two comparable sales in the market approach. Sale 1 was of King's Deer Golf Club located in Monument, Colorado. After a deduction for personal property, the indicated value was $150,000.00 per hole. Mr. Monroe reported that King's Deer Golf Club is surrounded by high-end residential development, and that the course sold for half of what it cost to construct. Sale 2 was the Eagle Trace Golf Course located in Broomfield, Colorado, which sold for $165,300.00 per hole after a deduction for personal property. Mr. Monroe testified that these sales set the range of value for the subject at $165,000.00 to $200,000.00 per hole gross. Mr. Monroe valued the subject at $200,000 per hole, less personal property and intangibles, to conclude to a total value of $3,226,178.00 or $179,232.00 per hole.

6. Mr. Monroe testified that he did not rely solely on the value indicated by the market approach, but that it did indicate that courses are selling for $0.40 to $0.60 on the dollar on the cost of construction. He further indicated that golf courses are purchased for their ability to generate revenue, but are initially built for their ability to help sell adjacent residential sites.

7. In the income approach, Mr. Monroe used 2002 income information and deducted the cost of goods sold, actual expenses, and return on personal property capitalized at 12 percent to derive a Net Operating Income of $354,943.00. He then deducted personal property and business value to conclude to a total value of $2,583,700.00. Mr. Monroe based the deduction for personal property on the $47,122.00 value shown on the Personal Property Declaration, but the return on personal property was based on both leased and owned property. Mr. Monroe testified that he used 2002 income information as it was the best year reported and he felt that it provided the best indication of value. He further testified that the property's revenue and expenses were stabilized.

8. In cross-examination, Mr. Monroe testified that his opinion of value was based on all three approaches to value. He reported that the income approach generally provides the best indication of value and that it facilitates separation of tangible and intangible components. The cost approach allows the appraiser to determine the value of "like type" property, so that tangible elements do not have to be removed; however, this method does not allow the deduction of all intangibles. Finally, the market approach provides a range of values but requires deductions for both personal property and intangibles, which are difficult to quantify.

9. Petitioner is requesting a 2004 actual value of $2,800,000.00 for the subject property.

10. Respondent's witness, Mr. E. Nelson Bowes, a Certified General Appraiser, testified that he disagreed with portions of Mr. Monroe's analysis. Mr. Bowes does not believe that the subject's income is stabilized, which is why he did not include an income approach in his analysis. Mr. Bowes did not rely on the sales contained in Petitioner's market approach, as he believed that the Eagle Trace clubhouse was worth more, and that Jim Dignan, the listing broker for King's Deer Golf Club, indicated that the property sold for the loan balance or deed in lieu of foreclosure. Mr. Bowes agreed that golf courses are not worth what they cost to build.

11. Based on the cost approach, Respondent's witness presented an indicated value of $6,300,000.00 for the subject property.

12. Mr. Bowes presented five land sales ranging from 40 acres to 328.86 acres in size and from $6,875.00 per acre to $14,104.00 per acre in price. He testified that, while Sales1 and 2 occurred outside the 18-month base period, they show appreciation over time. Respondent's Sale 1 is the land assemblage adjacent to the subject, which was also used by the Petitioner. However, Mr. Bowes' data for the assemblage indicates 328.86 acres total, at a total purchase price of $11,890.00 per acre. Mr. Bowes reported that Respondent's Sale 2 had poor access and was inferior to the subject. Respondent's Sale 3 represented a subdivision that developed rapidly after the sale and is superior to the subject. Respondent's Sales 4 and 5 were assemblages with purchase prices of $6,875.00 per acre, but the properties are inferior to the subject. Mr. Bowes concluded to a value of $12,000.00 per acre multiplied by 204.04 acres, for a total land value of $2,400,000.00 (rounded).

13. In the cost approach, Mr. Bowes presented eight cost comparables, shown on Table 2 in Respondent's Exhibit 2. Comparables 1, 2 and 8 were completed outside the base period; no consideration could be given to these sales. The remaining comparables were adjusted for extraordinary development costs (steep site, rocks, water, railroad obstacles), a cost index, and location. Mr. Bowes concluded that the construction costs for the subject course would be $7,000,000.00, plus $700,000.00 for unallocated costs and $600,000.00 for course design fees. He valued the upper level of the clubhouse at $250.00 per square foot and the lower level of the clubhouse at $83.33 per square foot. He valued the maintenance building at $90.00 per square foot. The total reproduction cost was $11,100,000.00.

14. To calculate depreciation, Mr. Bowes relied on information from 10 sales that occurred between 1990 and 2004. Three of the sales occurred outside the base period and could not be considered. In his depreciation calculation, Mr. Bowes deducted the estimated land value at the time of sale from the sales price. He testified that the total depreciation could include functional issues, building depreciation and economic depreciation. All of the depreciation comparables were from the Denver market. Mr. Bowes concluded to 65 percent depreciation for all aspects. Mr. Bowes' conclusion of value based on the cost approach was $6,300,000.00 (rounded).

15. Mr. Bowes testified that his appraised values include personal property. He did not deduct personal property value or business value from the final indication of value. He testified that for golf courses, business value is part of the real estate value. He does not believe that golf courses have business value at this time, but maybe they did 30 years ago.

16. In cross-examination, Mr. Bowes acknowledged that he did not confirm that King's Deer was in foreclosure at the time of sale, but relied on information provided by the listing broker. He also testified that in analyzing comparable land sales, he had made no adjustment for the subject's deed restriction. Mr. Bowes reiterated that he did not include the income approach, as he did not believe that the subject was currently stabilized. Mr. Bowes believes that stabilized income will occur when the subdivision is sold out.

17. In redirect, Mr. Bowes acknowledged that his appraisal report cites that the subject's highest and best use is as a private club. He believes the value is equal between a private club and a public course. Mr. Bowes further testified that he did not break out personal property because it is taxable, and how the county divides it up is not important to him.

18. Respondent assigned an actual value of $4,137,498.00 to the subject property for tax year 2004.

CONCLUSIONS:

1. Petitioner presented sufficient probative evidence and testimony to prove that the tax year 2004 valuation of the subject property was incorrect.

2. Respondent's witness, Mr. Bowes, testified that his valuation included both real and personal property; as such, Respondent provided no clear indication of value for the subject real estate. In addition, the Board was convinced that Respondent's land value was based on sales of development sites that are far superior to the deed-restricted status of the subject.

3. Ms. Robison objected to the admission of Petitioner's Exhibit C pursuant to § 12-61-702 C.R.S., the statutory definitions related to real estate appraisers and appraisal reports. Mr. Monroe responded that he is a disinterested third party, not a consultant, and that Petitioner's Exhibit C is an opinion of value, not an appraisal. The Board accepted Mr. Monroe as an expert in the valuation of golf courses. The Board further admitted Petitioner's Exhibit C for the data contained therein. The Board finds that whether or not Exhibit C is an "appraisal" pursuant to § 12-61-702 (2.5) is not relevant to its admissibility before the Board, except as it affects the weight placed on the various elements of the exhibit. The Board did not place any weight on the overall conclusion of value contained in Petitioner's Exhibit C. The Board accepted Mr. Monroe as an expert and relied on his testimony and specific data elements contained in Exhibit C to assist in making an informed decision regarding the correct value of the subject property.

4. The Board was convinced that the income approach is a reliable method for valuing golf courses. While it is likely that future revenue will increase as a result of overall economic growth in the adjacent subdivision and the Grand Junction marketplace, a review of the subject's past financial performance indicates little change. The Petitioner's reliance on 2002 income and expense information is reasonable, as it reflects the subject's best year of performance to date, and is reasonable within market parameters.

5. The Board finds Petitioner's deduction for return on personal property to be unsupported. While it is reasonable for the deduction for return on personal property to include leased property as well as personal property that is owned, Petitioner failed to provide support of the value of leased property for the Board's consideration. The Board adjusted the deduction for return on personal property to reflect a 12 percent return on the personal property owned and reported at $47,000.00, equaling a deduction of $5,654.00 from gross income. Consequently, the resulting net operating income is $403,289.00. Capitalized at 12 percent, the value of the subject including personal property is $3,360,742.00. The deductions for return of personal property and business value as calculated by the Petitioner appear reasonable, indicating a real estate value for the subject of $2,986,598.00 based on the income approach.

6. As a test of reasonableness, the Board reviewed Petitioner's cost analysis. While the depreciated cost for the course and buildings appears reasonable, the Board disagrees with Petitioner's argument regarding the exclusion of acreage that is out-of-bounds, un-maintained, wetlands, and rock outcroppings. Wetlands, rock outcroppings and un-maintained roughs add to the overall playing conditions of the course, and should be included in the value. The Board finds Petitioner's per acre land value reasonable and recalculated the land value at $4,000.00 per acre for the total 204 acres to arrive at an indicated land value of $816,000.00. Further, while both parties convinced the Board that golf courses (including the subject property) suffer significant economic obsolescence, Petitioner incorrectly applied economic obsolescence to the land as well as the improvements. The Board's recalculated Petitioner's cost approach as follows:

Improvement Costs Less Physical Depreciation	$ 763,441.00
Golf Course Improvements Less Physical Depreciation	$3,216,486.00
Total Costs Less Physical Depreciation	$3,979,927.00
Less Economic Obsolescence at 46%	($1,830,766.00)
Total Depreciated Cost	$2,149,160.00
Plus Land Value	$ 816,000.00
Value under the Cost Approach	$2,965,160.00

7. The value indicated by the revised income approach appears reasonable based on the revised cost analysis.

8. As a further test of reasonableness, the Board reviewed Petitioner's market approach, which provided a range in value of $2,700,000.00 to $3,200,000.00 after deductions for personal property or $150,000.00 to $177,800.00 per hole. Although there was much discussion regarding the use of the two sales presented, the Board determined that they provided some indication of value. Both courses are well-located and suffered economic obsolescence. While the Board did not rely on these two sales to establish the value of the subject property, they do indicate that the value concluded for the subject via the income approach, at $2,986,598.00 or $165,922.00 per hole, is reasonable.

9. The Board concluded that the 2004 actual value of the subject property should be reduced to $2,986,598.00.

ORDER:

Respondent is ordered to reduce the 2004 actual value of the subject property to $2,986,598.00.

The Mesa County Assessor is directed to change his/her records accordingly.

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 5th day of May 2005.

BOARD OF ASSESSMENT APPEALS

Karen E. Hart

Sondra W. Mercier

This decision was put on the record

MAY 04 2005

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

Penny S. Lowenthal

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SEAL
BOARD OF ASSESSMENT APPEALS

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