BOARD OF ASSESSMENT APPEALS, STATE OF COLORADO 1313 Sherman Street, Room 315 Denver, Colorado 80203 Petitioner: **MCBRIDE ASSOCIATES LLC,** v. Respondent: **DENVER COUNTY BOARD OF EQUALIZATION.**	**Docket No.: 45713 and 46699**

ORDER

THIS MATTER was heard by the Board of Assessment Appeals on May 8, 2007, Karen E. Hart and MaryKay Kelley presiding. Petitioner was represented by Kenneth S. Kramer, Esq. Respondent was represented by Max Taylor, Esq. Petitioner is protesting the 2005 and 2006 actual values of the subject property.

Dockets 45713 and 46699 were consolidated for the purpose of this hearing.

PROPERTY DESCRIPTION:

The subject property is described as follows:

200 West Warner Place, Denver, Colorado
Denver County Schedule No. 02222-00-022-000

The subject property, built in 1971, is a 207-room, nine-story Best Western hotel with five meeting rooms, a restaurant, and a bar. It is located on the northwest corner of the intersection of Interstate 25 and Interstate 70. The only current direct access is via an Interstate 25 exit, because the Interstate 70 ramp closed several years ago. Respondent assigned a value of $4,175,600.00 for 2005 and 2006. Petitioner is requesting a value of $2,000,000.00 for each of tax years 2005 and 2006.

INCOME APPROACH:

Both Petitioner and Respondent relied on the income approach to value. Petitioner presented actual income and expenses, referencing Stephen Rushmore, MAI, and Erich Baum: "If the subject property is an existing hotel, then its past operating performance is generally used to establish future projections." Stephen Rushmore & Erich Baum, *Hotels & Motels: Valuations and Market Studies* 246 (Appraisal Institute 2001). Respondent presented market based data, consistent with the Division of Property Taxation's ("DPT") Appraisal Standards Education Program: "Most of the data used in the income approach is derived from the market, which reduces the need for unsupportable, subjective judgment." Division of Property Taxation Appraisal Standards Education Program, *Appraisal 215: Hotel Motel Valuation* 26 (2004).

	Petitioner*	Respondent
Average Daily Rate	$46.62	$60.00
Occupancy Rate	53.63%	55.0%
Income		
Room Income (207 rooms)	$1,905,824.00	$2,493,320.00
Food & Beverage	481,447.00	673,200.00
Other	244,988.00	199,470.00
Total Annual Income	$2,632,259.00	$3,365,990.00
Expenses		
Operating Expenses	$2,420,803.00	$2,625,470.00
Deductions		
Depreciation	(97,535.00)	
Real Estate Taxes	(81,236.00)	
Total Operating Expenses	$2,242,030.00	$2,625,470.00
Return of Personal Property	$ 78,968.00	$ 134,640.00
Return on Personal Property	15,547.00	17,900.00
Total Annual Expenses	$2,336,545.00	$2,778,010.00
Net Operating Income	$ 295,715.00	$ 587,980.00
Capitalization Rate	13.5%	13.5%
Indicated Value	$2,190,481.00	$4,355,400.00

Average Daily Rate (ADR) and Occupancy Rate

Petitioner's average daily rate ("ADR") from 2001 through 2004 ranged from $43.21 to $49.77 and reflected both commercial contract clients ($28.00 to $35.00 ADR) and walk-up/reservation customers ($49.00 to $65.00 ADR). Actual occupancy rates ranged from 48.90% to 58.63%, with commercial contract clients accounting for as much as 75-80% of the occupancy. The

* Petitioner's figures are averages of actual subject property data for years 2001 through 2004.

subject property's ADR, estimated to be $49.00, reflected the greater percentage of occupancy from commercial contract clients.

Respondent presented market based ADR and occupancy rates, contending that the subject property's actual rates were affected by poor management. According to DPT's Appraisal Standards Education Program: "If the subject property is currently under poor management, the appraiser is justified in projecting improved operating results based on competent management." Division of Property Taxation Appraisal Standards Education Program, *Appraisal 215: Hotel Motel Valuation* 27 (2004). Respondent compared the subject property's 2004 actual revenue per available room ("REVPAR") of $25.59 to the $43.68 median REVPAR for eight chain hotels in Denver County in 2004 (Respondent's Exhibit 1 at 34). Respondent also compared the subject property to the Holiday Inn across the street, which experienced the same locational obsolescence yet had a 70% higher REVPAR. Respondent based the subject property's $60.00 ADR estimate on income potential. It was supported by an adjusted ADR of $60.82 for an unnamed northwest Denver hotel (Petitioner's Exhibit A at 34) and Wheaton Research data and forecasts showing an ADR of $88.61 in 2003 and $87.90 in 2004 for full service hotels, and $51.45 in 2003 and $51.45 in 2004 for limited service hotels (Respondents Exhibit 2 at 1-A, 2-A).

The Board placed greater reliance on Petitioner's actual data, which reflected the property's age, external obsolescence, and marketing history. Respondent provided no evidence that the subject property would attain figures comparable to higher REVPARs, or to the Holiday Inn, which has greater name recognition, superior marketing, and better access. Furthermore, Petitioner's witness, Mr. Craig McBride, managing member of McBride Associates LLC, has worked in the motel/hotel business for nearly twenty years and has owned nine motel properties. The Board is not persuaded that the subject property had incompetent management. An ADR of $50.00 is considered reliable. Petitioner's actual 2003 and 2004 occupancy rates support an occupancy rate of 55%.

Income

Petitioner presented actual income data for years 2001 through 2004.

Respondent calculated income using market rates and guidance set forth in the DPT's Hotel Motel Valuation Workshop. The room income was calculated by multiplying $60.00 ADR by 207 rooms for 365 days at a 55% occupancy rate for a total of $2,493,320.00. The food and beverage income was 27% of the room income, which correlated with Petitioner's figures between 24% and 27% and was supported by market data. The other income was market based at 8% of room income, in comparison with Petitioner's figures between 12-15% with telephone revenue and 11-14% without telephone revenue.

Petitioner's actual income data was more convincing. The Board finds that food and beverage income at 27% of room income, and other income at 12% of room income to be reliable.

Expenses

Petitioner presented actual expenses which averaged 85% of total income. Respondent calculated market-derived expenses at 78%. The Board finds that Respondent's expenses were not supported and that Petitioner's actual expenses are more convincing.

Return of Personal Property

Petitioner applied 3% of total income for the return of personal property. Petitioner derived the percentage from the average 2004 winter reserve for replacement per USRC Hotel Investment Survey, which was 4.2% with a range of 3% to 5%. It was also the rate used by Respondent in the Board of Equalization hearing. Respondent applied 4% of total income as the return of personal property without support. The Board finds that Petitioner's 3% return of personal property was supported and reflected the absence of major renovations.

Return on Personal Property

Both parties applied a 13% rate of return on personal property. Petitioner based its calculation on the Denver Assessor's 2005 actual personal property valuation of $119,591.00. Respondent used the 2004 actual personal property value of $137,727.00. The Board finds the 2004 figure more convincing, resulting in a value of $17,900.00.

Capitalization Rate

Both parties used a capitalization rate of 13.5%.

Recalculation

Petitioner presented sufficient probative evidence and testimony to prove that the subject property was incorrectly valued for tax years 2005 and 2006. Using the Board's findings, as stated above, the indicated value for the subject property is $2,434,600.00.

Income	
Room Income	$2,077,763.00 ($50 ADR and 55% occupancy)
Food & Beverage	560,996.00 (27% of Room Income)
Other	249,332.00 (12% of Room Income)
Total Annual Income	$2,888,091.00
Expenses	
Operating Expenses	$2,454,877.00 (85% of Total Annual Income)
Return of PP	86,643.00 (3% of Total Annual Income)
Return on PP	17,900.00
Total Annual Expenses	$2,559,420.00
Net Operating Income	$ 328,671.00
Capitalization Rate	13.5%
Indicated Value	$2,434,600.00

ORDER:

Respondent is ordered to reduce the 2005 and 2006 actual value of the subject property to $2,434,600.00.

The Denver 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 29th day of June 2007.

BOARD OF ASSESSMENT APPEALS

Karen E Hart

Karen E. Hart

MaryKay Kelley

MaryKay Kelley

STATE OF COLORADO
SEAL
BOARD OF ASSESSMENT APPEALS

This decision was put on the record

JUN 28 2007

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

Heather Heinlein

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