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| <p>BOARD OF ASSESSMENT APPEALS, STATE OF COLORADO 1313 Sherman Street, Room 315 Denver, Colorado 80203</p> <hr/> <p>Petitioner:</p> <p>HANOVER RESOURCES INC.,</p> <p>v.</p> <p>Respondent:</p> <p>ARAPAHOE COUNTY BOARD OF EQUALIZATION.</p> | <p>Docket Nos.:</p> <p>58367 & 60937</p> |
| <p>ORDER</p> | |

THIS MATTER was heard by the Board of Assessment Appeals on October 24, 2012, Diane M. DeVries and Brooke B. Leer presiding. Petitioner was represented by Kendra L. Goldstein, Esq. Respondent was represented by George Rosenberg, Esq. Petitioner is protesting the 2011 (Docket No.: 58367) and 2012 (Docket No.: 60937) actual value of the subject property.

Subject property is described as follows:

**8400 East Prentice Avenue, Greenwood Village,
Arapahoe County, Colorado
County Schedule No. 2075-16-1-08-004**

The subject property is a 15 story multi-tenant office building located in the Denver Tech Center (DTC) in the south Denver metropolitan area. It was built in 1982 and is a good quality, attractive building in an excellent area. The building contains 184,472 net rentable square feet. The land area is 3.61 acres. The building has surface parking and underground parking.

Petitioner's appraiser, Mr. Brad A. Weiman, MAI, testified at the hearing. He applied all three approaches to value the property. The value conclusions from the approaches were in a relatively tight range. The most weight was given to the conclusion from the income capitalization approach. Mr. Weiman concluded to a market value of the subject as of June 30, 2010 of \$12,600,000 or \$68.30 per rentable square foot.

Petitioner's appraiser used four sales of office buildings to compare to the subject property. Sale 2 was described as a distressed sale that had excess land. Sale 3 is a two-story smaller building, with an owner-occupied second floor and first floor rented out to multiple tenants. The Board finds that the better sales to compare to the subject are Sales 1 and 4. The adjusted sale price of these two sales is \$91.62 and \$72.79 per square foot, or an average of \$82.20 per square foot.

Using the income capitalization approach, Petitioner's appraiser applied a market rate of \$17.50 per square foot. Data used to conclude at this market rate was based on other rental properties in the subject area and also leases that had been signed at the subject during the valuation period. The emphasis was placed on rents entered in close proximity to the June 30, 2010 valuation date. The Board finds that the three best rent comparables are rents 1, 2 and 5. They are located within the subject area and are similar in age to the subject. The actual leases cited in Petitioner's report were at \$18.50 per square foot for rent comparables 1 and 2, and rent comparable 5 had an asking price of \$18.50. The actual rents at the subject signed in early 2010 ranged from \$16.50 to \$18.00 per square foot. The Board concludes to a market rent for the subject at \$18.00 per square foot.

Petitioner's value analysis also included income from parking and storage, as well as the vacancy and collection loss rate of 10 %; all of these values considered reasonable by the Board. The expenses applied were \$9.00 per square foot and did not include the real estate taxes. From the data presented in both appraisal reports at the hearing, the Board finds the expenses applied by Petitioner's appraiser to be high per square foot for a fee simple market value. The repairs and maintenance expenses and the general and administrative expenses are higher than those in the industry.

Petitioner's witness applied an 8.25% capitalization rate with a rate for the tax load at 3.18%. The mill levy was incorrectly applied in Petitioner's report. The correct mill levy for 2009 applied at a 29% ratio would result in a 3.0% rate. The Board concluded that a capitalization rate of 8.5% is more reasonable to apply to the subject based on the data presented. The emphasis is placed on the three sales in the subject area that occurred between April 2009 and May 2010 with overall rates ranging from 8.01% to 8.86%. The Board concluded that the capitalization rate, including taxes, of 11.50% is most reasonable for the subject.

The Board finds Petitioner's conclusion of \$12,600,000 to be below market value for the subject based on the reasoning presented above with the market rents being low and the expenses being high.

Respondent's appraiser, Mr. Jeffrey Hamilton, Colorado Certified General Appraiser and an employee of the Arapahoe County Assessor's Office, testified regarding his opinion of value for the subject. Mr. Hamilton concluded a market value for the subject at \$17,000,000 or \$92.80 per square foot based on a net rentable area of 183,195 square feet. He testified that a conference room and some storage space had not been included in the subject's total square footage. The Board applied Petitioner's slightly higher net rentable square footage of 184,472. Mr. Hamilton's value conclusion based on the subject's 184,472 square feet is \$92.15 per square foot.

Respondent's appraiser applied the sales comparison and the income capitalization approaches to value the subject property. The conclusions were:

Sales Comparison Approach: \$18,135,000
Income Capitalization Approach: \$15,715,000

The appraiser testified that the most weight was given to the conclusions from the income approach to estimate a market value for the subject. The conclusion at \$17,000,000 is actually slightly above the average of the two approaches so this is inconsistent with the testimony given at the hearing. The Board finds that the value conclusion of \$17,000,000 or \$92.80 per square foot is higher than a reasonable market value for the subject as of June 30, 2010.

Three comparable sales were presented within Respondent's sales comparison approach, the unadjusted sale prices ranging from \$89.11 to \$151.95 per square foot. Comparable 3 was also used in Petitioner's report and was considered a distressed sale that included excess land. Comparable 2 in Lakewood was also used in Petitioner's report. Respondent's adjusted price for comparable 2 was \$97.73 per square foot. Respondent's comparable 1 sold for \$151.95 per square foot. Respondent's adjusted price for comparable 1 was \$98.77 per square foot. This building is newer than the subject and little information was provided in the report to support the 35% net adjustment to the sale price. With few sales to consider, one sale distressed, another outside the subject area and another with a significant adjustment, the Board gave little weight to the conclusion from Respondent's sales comparison approach which was significantly above the conclusion from the income approach.

Respondent applied a market rent at the subject of \$18.85 per square foot; this rate included other income such as parking/storage, etc. This value was based on data from actual leases signed at the subject in late 2009 and early 2010. Considering the leases from 2010, the average rate is about \$17.75 per square foot. Data from other buildings in the subject area suggested a rate of \$18.83 per square foot; not all of the data was verified according to the testimony from Mr. Hamilton. Other market data was considered from Costar and Ross. The ranges quoted for asking rates were pertinent to Class A buildings. The Board finds that the subject building likely competes better with good Class B buildings because of the 1982 year of construction and the asking rates of \$20.00 to \$21.00 are too high for the subject. The Board concludes a market rental rate for the subject, not including other income, at \$18.00 per square foot. This is similar to the adjusted rate applied by Respondent.

The expenses applied by Respondent's appraiser are at \$6.68 per square foot excluding taxes. This is less than the expenses applied by Petitioner at \$9.00. The Board applied an expense rate at \$8.00 per square foot based on adjusting some of the actual expenses to reflect the industry standard for expenses for a fee simple interest market value.

The overall capitalization rate applied by Respondent was 8.75% excluding a load for taxes. The Board applied a rate of 8.5%.

The values applied by the Board, based on revisions to data presented from both of the appraisal reports is:

Market rent-\$18.00
Other income- \$150,000
Vacancy-10%
Expenses-\$8.00
Capitalization rate- 11.50%

Applying these parameters suggests a value conclusion for the fee simple interest of the subject at \$14,327,565, or \$77.67 per net rentable square foot. The most weight is placed on the conclusions from the income capitalization approach. As a test of reasonableness, the Board refers to Petitioner's comparable sales 1 and 4, averaging \$82.50 per square foot after adjustment. This value applied to the subject's net rentable area of 184,472 square feet, suggests a value of \$15,220,000, rounded. Giving some consideration to this average value per square foot, but placing the most weight on the conclusions from the income capitalization approach, the Board concludes the value level from the CBOE at \$14,450,000 is reasonable and supported by the data presented within.

ORDER:

Respondent's value of \$14,450,000 is supported and upheld by the data presented.

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-five 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-five 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.

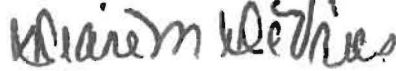
If the Board does not recommend its decision to be a matter of statewide concern or to have resulted in a significant decrease in the total valuation of the respondent county,

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 20th day of November, 2012.

BOARD OF ASSESSMENT APPEALS

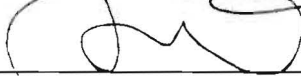


Diane M. DeVries



Brooke B. Leer

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



Milla Crichton

