2023 Valuation Summary

Commercial Improved Property

Commercial improved property values in Jefferson County are established for ad valorem purposes using mass appraisal methods and commonly accepted appraisal practices. This includes the development and application of the three major approaches to value: the sales comparison (market) approach, the income capitalization approach, and the cost approach, which are defined as follows:

Sales comparison (market) approach *– the process of deriving a value indication for the subject property by comparing sales of similar properties to the property being appraised, identifying appropriate units of comparison, and making adjustments to the sale prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison.*

Income capitalization approach *– specific appraisal techniques applied to develop a value indication for a property based on its earning capability and calculated by the capitalization of property income.*

Cost approach *– a set of procedures through which a value indication is derived for the fee simple estate by estimating the cost new as of the effective date of the appraisal to construct a reproduction of (or replacement for) the existing structure, including an entrepreneurial incentive; deducting depreciation from the total cost; adding the estimated land value.*

Source: The Dictionary of Real Estate Appraisal Seventh Edition

Each of the three approaches to value are considered and one or more of the approaches are utilized to provide a value indication for the commercial improved universe of properties, as of the appraisal date set by State of Colorado statute. A description of the appraisal date and a definition of the type of value are below.

Appraisal date *- The date of appraisal is June 30 of the year preceding the year of general reappraisal. All applicable approaches to appraisal must be trended or adjusted to this date. Colorado statute § 39-1-105, C.R.S., provides that the date of assessment is to be January 1 each year and that all property is to be listed as it exists in the county where it is located on the assessment date.*

Source: Assessors' Reference Library Volume 3

Market value *- The most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.*

Source: Appraisal Institute

While mass appraisal differs from single-property appraisal in practice, the principles of the appraisal process are the same. In order to establish values for the population, mass appraisal valuation models are developed and tested for accuracy, equity, and compliance with State of Colorado statutory requirements.

The first step in the mass appraisal modeling process is the stratification of the universe of properties into homogenous groups which can be analyzed based on their physical, economic, and locational attributes. For commercial property, the population is stratified primarily by use, and then further broken down into unique market areas. Commercial neighborhoods are established by grouping properties together that feature similar economic utility, and which are influenced by similar forces of supply and demand. Once stratified into commercial market neighborhoods, the three approaches to value can be used to develop models for specific property types within defined market areas.

Market data is the foundation for developing mass appraisal valuation models. The models are generated using sales, income, and cost data from a variety of sources, and applicable to market conditions as of the appraisal date. Appraisal staff review and confirm all commercial real estate transactions in the county over the two-year reappraisal cycle and maintain a comprehensive inventory of sales information in the county database. Regional and national sales trends are also analyzed. Market lease rates, occupancy levels, property expenses, and investment data are collected via direct survey, industry publications, and the local multiple listing service. Additionally, actual income, expense, and rent roll information is regularly collected through the discovery process when assessments are appealed by property owners. This data is aggregated and relied upon for valuation purposes while maintaining the confidentiality of individual owners. Building labor and material cost data is primarily sourced through a national cost estimation service and adjusted for local conditions. A comprehensive list of market data sources used for the 2023 reappraisal is included in the Addenda to this summary.

Once the data collection process is complete, valuation models are developed for each commercial property neighborhood and subclass. The purpose of a valuation model is to quantify the information obtained in the data collection process into a formula that can be applied in mass. After analysis of the market data, appraisers identify what characteristics (variables) are most significant in driving value for a given neighborhood, then specify these variables as quantitative rates to generate a value indication for each property within the population.

First, the appropriate unit of comparison for each approach to value is determined. In commercial real estate this is typically price (or lease rate) per square foot. Similarly, the cost approach inputs are typically calculated on a per-square-foot basis. Once the unit of comparison is established, sales, income, and cost data can be quantified, and value contributors can be consistently applied to each property in the population based on the property’s square footage.

The process of identifying the most important property characteristics that contribute to value is referred to as model specification. By specifying property characteristic variables such as location/access, building type/size, age/condition, etc., model formulas can be applied to the population and values can be tested for reasonableness and equity. The quantitative process of fine-tuning the model formulas is referred to as calibration. During this step, variable rates are adjusted and refined to accurately reflect market conditions for a given property neighborhood as of the appraisal date. Additionally, these modeled values are measured for compliance with State of Colorado statutory requirements.

The following is a description of the mass appraisal methodology utilized in the 2023 reappraisal for commercial improved property neighborhoods in Jefferson County.

Retail

Multi-tenant retail and shopping center properties were valued primarily via the income approach, as buyers and sellers of this property type are typically investors. The sales comparison approach was also considered, with more weight given to this approach for single-tenant retail properties and condos, which are more often purchased by owner-users. Market data indicate that well-located retail properties command higher lease rates and exhibit higher occupancy levels. Properties with good visibility and access are most attractive to investors as they are considered low-risk assets. As a result, lower capitalization rates were applied to properties with desirable locations and stable occupancy. Income models were compared to the value indications from qualified sales on a per-square-foot basis as a test of reasonableness.

Big box retail properties feature larger building footprints and are typically leased on a long-term basis to corporate users. As a result, very few sales were determined to be reliable indications of value, and primary consideration was given to the income approach. Modeled lease rates were developed with consideration given to the size of the building improvement, as market data indicate that larger buildings tend to lease for less than smaller buildings on a per-square-foot basis. A range of capitalization rates were applied based on the effective age of the building and the quality of construction.

Restaurants were stratified into separate neighborhoods for fast-food properties (with a drive-thru) and stand-alone restaurants. Fast-food restaurants are predominately leased to corporate users on long-term leases. Sales of fast-food properties often represent a leased fee transaction and are not representative of the market value of the fee simple interest. As a result, very few qualified sales were available for analysis, and models were developed primarily using the income approach. Lease rates were adjusted based on the size of the building and capitalization rates were adjusted based on the quality of construction. Stand-alone restaurants were modeled with primary consideration given to the income approach and secondary consideration given to the sales comparison approach. Adjustments were made based on building size, age/condition, and quality of construction. Additionally, capitalization rates were adjusted upward for properties with less desirable locations. For newly constructed restaurant properties, the cost approach was employed. Based on market data and discussions with market participants, no Covid-19 adjustment was determined to be necessary for the 2023 reappraisal of restaurant properties.

Most bank properties were valued using the sales comparison approach with adjustments made for property characteristics such as location, building size, age/condition, and quality of construction. It was determined that the cost approach was a more appropriate value method for some bank properties which feature an atypical building size, or which exhibit functional obsolescence.

Auto service properties were valued with primary consideration given to the sales comparison approach and secondary consideration given to the income approach. Models included adjustments for location, building size, age/condition, and quality of construction. For newer auto service properties, the cost approach was used.

Some retail properties are bought and sold with significant business, personal, and non-real property included in the transaction. In order to estimate the value of the real estate only, an adjustment must be made for the value of all non-real property. When the value of this non-real property cannot be accurately estimated, the cost approach is the most reliable valuation method, as it considers only the property components classified as real property. For this reason, it was determined that the cost approach was the most appropriate method to value properties such as convenience markets, car washes, auto dealerships, and day cares.

Mall properties in the county were valued using the cost approach as this property type is complex and market data is scarce.

Office

The income approach was determined to be the most reliable method to value general office and medical office buildings. Market research indicates that older buildings tend to be leased on a gross rent basis while newer buildings are more often leased on a triple net basis. As a result, separate income models were developed to reflect this market trend. Office condominiums are typically purchased by owner-users. Therefore, the sales comparison approach was given primary consideration in valuing office condos.

Industrial

Most industrial properties, including single-user and multi-tenant properties, were valued giving primary consideration to the income approach and secondary consideration to the sales comparison approach. It was determined that industrial properties with higher than typical land-to-building ratios required a separate model which placed more weight on the market approach since the value of excess land is not fully captured via the income approach. Industrial condominiums are more often purchased by owner-users and the market approach was given primary consideration.

Mini warehouses (self-storage facilities) are income-producing properties which are typically purchased by investors. As a result, primary consideration was given to the income approach and the direct capitalization method was used. The market approach was also considered.

Hotels

Hotel properties are segmented into the following categories, based on the HOST STR Chain Scale: Upper Upscale, Upscale, Upper Midscale, Midscale, and Economy. Hotel values were established primarily via the market approach, using sale price per room (key) as the main unit of comparison, with sale price per square foot as a secondary test of reasonableness. When sufficient operating income and expense information was available, a pro forma income analysis was also used as a test of reasonableness. Not-branded motels are older properties that tend to be highly depreciated and exhibit functional obsolescence. Since a significant portion of the overall value for these properties is attributable to the land, not-branded motels were valued separately with primary consideration given to the cost approach.

For 2021, the Jefferson County Assessor applied an adjustment to stabilized hotel unit values ranging from -20% to -30% to account for the market value loss due to the Covid-19 pandemic. This was a short-term economic obsolescence adjustment applied to tax years 2021-2022. It was based on an in-depth study of data available through June 30, 2020. For the 2023 reappraisal, there was adequate data to complete the valuation based on sales which occurred during the pandemic-affected time period. An across-the-board adjustment to the stabilized unit values for economic obsolescence attributed to the Covid-19 pandemic was not applied; rather, the 2023 unit values are based on sales, all of which occurred during the pandemic-affected time period.

Apartments

State of Colorado statute requires that apartment properties be valued by the market approach. Due to the statutory restriction, the income and cost approaches to value may not be considered and are deemed a Jurisdictional Exception under the Uniform Standards of Professional Appraisal Practice. Apartments are valued on a per unit basis and broken into neighborhoods based on the number of units associated with the property. Neighborhoods are further stratified based on age, condition, amount of remodeling or renovation, and amenity level. Boarding rooms are valued on a per room basis.

Mixed Assessment

Mixed assessment properties include both residential and commercial uses. The two uses are classified separately and are assessed at different tax rates. Per State of Colorado statute, the residential portion of the property must be valued exclusively using the market approach, while all three approaches to value may be considered for the commercial portion. The commercial portion of these mixed assessment properties was valued consistently with the neighborhood its use is associated with.

Unique & Exempt

Some properties are extremely unique or have limited market activity. Many of these properties are tax exempt; however, statute mandates all real property be valued regardless of its exempt status. Properties in the unique category include government buildings, recreation properties, greenhouses, churches, golf courses, parking structures, and others. Due to a lack of reliable market data, these property types are valued via the cost approach.

Adequate sales data was available for mobile home parks and skilled nursing facilities. As a result, the market approach was applied to these property types.

Improved/Taxable Commercial Value Change by Tax Class from 2021 to 2023; Sale Date Range from 7/2020 - 6/2022

Classification	Sch Count	Median Prior Total Value	Median Total Current Value	Median Total Val / GBA	Median Value Change	Sale Count	Median TadjPrice	Median TadjPrice / GBA
1220- Multi-Units (4-8)	780	$717,600	$861,120	$223	20.0%	84	$1,036,500	$265
1225- Multi-Units (9+)	663	$3,590,400	$4,530,240	$232	20.0%	84	$3,181,000	$252
1500- Mixed Assessment	400	$639,534	$967,124	$170	31.3%	1	$2,044,000	$117
2212- Merchandising	1,371	$963,249	$1,133,400	$217	16.3%	68	$937,500	$246
2215- Lodging	47	$5,750,000	$6,821,850	$115	19.6%	2	$10,340,000	$161
2220- Offices	622	$943,314	$1,056,865	$126	7.4%	75	$1,555,000	$153
2225- Recreation	57	$1,132,075	$1,248,470	$99	12.7%	2	$1,328,300	$79
2230- Special Purpose	1,277	$889,375	$1,158,752	$270	18.9%	65	$1,050,000	$277
2235- Warehouse/Storage	769	$1,362,447	$1,725,400	$155	21.0%	52	$1,687,500	$200
2245- Commercial Condo	564	$183,623	$267,656	$185	19.0%	52	$301,000	$196
3212- Contracting/Service	5	$553,645	$810,547	$503	40.1%	2	$718,625	$496
3215- Manufacturing/Processing	115	$4,707,800	$5,249,500	$126	13.3%	7	$4,174,900	$235
3230- Industrial Condo	831	$196,500	$234,000	$180	18.1%	54	$353,850	$218
4280- All Other Ag	27	$229,999	$276,449	$13	0.5%			
Grand Total	**7,528**	**$800,400**	**$1,008,969**	**$200**	**20.0%**	**548**	**$1,150,000**	**$234**

Addenda

<u>2023 Reappraisal Sources</u>

The Boulder Group

CBRE

CoStar

Hoff & Leigh Retail Reports

Integra Realty Resources Publications

Jeffco Economic Report

Metro Denver Economic Development Indicator Reports

Lakewood CO Growth Initiative Report

Lowery Investment Survey (Formerly Burbach)

PwC Investor Surveys

Realty Rates

International Council of Shopping Centers

Marshall & Swift© Valuation Service

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