

**BOARD OF EQUALIZATION
WASHOE COUNTY, NEVADA**

WEDNESDAY

9:00 A.M.

FEBRUARY 19, 2014

PRESENT:

James Covert, Chairman
John Krolick, Vice Chairman
James Brown, Member
Philip Horan, Member
Gary Kizziah, Member

Nancy Parent, County Clerk
Leslie Admirand, Deputy District Attorney

The Board of Equalization convened at 9:00 a.m. in the Commission Chambers of the Washoe County Administration Complex, 1001 East Ninth Street, Reno, Nevada. Chairman Covert called the meeting to order, the Clerk called the roll and the Board conducted the following business:

14-201E PUBLIC COMMENT

Agenda Subject: “Comment heard under this item will be limited to three (3) minutes per person and may pertain to matters on and off the Board agenda. Comments are to be made to the Board as a whole.”

There was no response to the call for public comment.

14-202E WITHDRAWN PETITIONS

The following petitions scheduled on today's agenda had been withdrawn by the Petitioners prior to the hearing:

Assessor's Parcel No.	Petitioner	Hearing No.
090-030-19	PANCAL 87 MOYA 193 LLC	14-0266
090-030-23	KTR STEAD LLC	14-0267
090-040-18	PANCAL 400 LEAR 190 LLC	14-0268
090-040-19	PANCAL 200 LEAR 301 LLC	14-0269
090-040-30	PANCAL 390 LEAR 195 LLC	14-0270
090-040-31	PANCAL 429 LEAR 191 LLC	14-0271
040-162-84	REA RENO LLC	14-0333
040-162-85	REA RENO 2 LLC	14-0334

14-203E CONTINUANCES

There were no requests for continuances.

14-204E CONSOLIDATION OF HEARINGS

The Board consolidated items as necessary when they each came up on the agenda.

14-205E PARCEL NO. 163-061-07 – RAHLVES & RAHLVES INC. – HEARING NO. 14-0051

A Petition for Review of Assessed Valuation was received protesting the 2014-15 taxable valuation on land and improvements located at 9790 Gateway Drive, Washoe County, Nevada.

The following exhibits were submitted into evidence:

Petitioner

Exhibit A: Letter and supporting documentation, 6 pages.
Exhibit B: Research and Forecast Report, 1 page.

Assessor

Exhibit I: Assessor's Hearing Evidence Packet including comparable sales, maps and subject's appraisal records, 16 pages.

On behalf of the Petitioner, Shannon Rahlves, was sworn in by County Clerk Nancy Parent.

On behalf of the Assessor and having been previously sworn, Howard Stockton, Appraiser, oriented the Board as to the location of the subject property.

Ms. Rahlves felt the property's current value should be \$3,115,037. She said there were three methods in determining a property's value: the sales approach; a cost approach; and, an income approach. She explained that she would focus this appeal on discrediting the sales approach and outlining why the income approach was the best way to determine the value of her parcel. Ms. Rahlves said value was represented on income, tenant-credit worthiness, lease length and risk. Through the *Real Estate Appraisal and Real Estate Principles Guide*, an appraiser had to determine how most buyers bought a type of property and which applicable appraisal method should be used. In the appraisal for her property, she said the Assessor's Office used the sales approach for valuation. Prior to filing the appeal, she spoke to the Appraiser about the valuation of her property. She was stunned by the \$1 million increase in the building valuation and asked for an explanation of that assessment. She was informed that the property was being compared to properties using dates from 2012 and 2013. Ms. Rahlves said one of

the comparables sold in 2013 for \$100 a square foot, had a cap rate of 11 percent, was 92 percent occupied, had asked \$1.75 per square foot, which was \$0.62 cents higher than her property, equating to an increased rental income of approximately \$350,000. She said another comparable was 100 percent triple-net leased, with a high-quality tenant, low cash flow and contractual upsides in the lease. She indicated that another comparable was built in 2005, sold in May of 2012, was 100 percent leased, and had a higher rental rate. The present rent in her building was \$1.13 a square foot, per month, which was lower than the current market. She said the \$1 million building improvement increase was inaccurate, and noted that the Appraiser did not take into consideration the year of the building, tenant's credits, lease length, low rent structures and risks.

Ms. Rahlves remarked that her property had a low rent structure, early out options, short-term leases, financial instabilities and risk. She indicated that her 40,130 square foot Class A office building had been 100 percent empty between 2008 and 2010. She explained that concessions and adjustments were made to obtain a tenant in order to pay operating expenses. The adjustments included no pass through expenses and abnormal, below market rental rates. She said the rental income for 2013 was \$1.13 per square foot, whereas comparable Class A office buildings in the South Meadows area for the third quarter of 2013 were \$1.59 per square foot. She included that Class A, South Meadows office buildings for the fourth quarter of 2013 averaged \$1.61 per square foot. However, the rental income for her building was \$0.48 less per square foot per month. Ms. Rahlves commented there was a tenant in her building occupying a 12,000 square foot office space that was under State regulations and funding. It was stated within their lease if they did not receive adequate funding to occupy the space, they could vacate the office anytime without penalty. This created a risk; however, at the time of negotiating their lease, she decided to take that risk because the building had been empty for two years. She recommended the Board and the Assessor's Office review and assess the property's actual value by using the income approach. She said the total income for 2013 was \$542,621.70, and she noted that the vacancy factor was low at 4.5 percent where typically it was between 5 and 10 percent. She stated there was no such thing as a full building economically and vacancies had to be accounted for. She said savvy investors always underwrite a vacancy factor, which varied from property-to-property and market-to-market. Ms. Rahlves indicated for full buildings, investors usually took a 5 percent vacancy rate or the actual markets overall vacancy rate, whichever was higher. In noting her tenant's credit worthiness and her risk, she included only a 4 percent vacancy factor. She said the average vacancy for Class A office buildings in the South Meadows area in 2013 had been between 15 and 18 percent as noted in the forecast report.

Ms. Rahlves explained in taking her income, minus the vacancy, there was a total net operating of \$249,203.01. She researched the cap rates within the office market and found that cap rates for this particular property in the South Meadows area should be between 8 and 10 percent. She also calculated the cap rates for 2013 current sales, which averaged 11 percent. Ms. Rahlves said she took a conservative approach and chose an 8 percent cap which valued the building at \$3,115,037. She explained that Rahlves and Rahlves had diligently worked to attract tenants by offering low rents, no pass through expenses and working with each tenant individually through financially difficult times.

She outlined that the best approach to value commercial buildings was the income approach.

Ms. Rahlves requested the value for the building be \$3,115,037, which was arrived at by keeping the land at the current value of \$740,408 and readjusting the building value to \$2,374,629.

Member Horan inquired on the average length of a short-term lease. Ms. Rahlves replied that the average lease for most of the tenants was for two years. Member Horan asked if higher rates could be obtained with the current market. Ms. Rahlves replied that she would maintain lower rates in order to attract tenants.

Member Kizziah asked if the largest tenant had a 30-day notice to vacate. Ms. Rahlves indicated they could vacate without penalty at any time.

Member Horan commented if the Petitioner chose to sell the building, a marketing point could be the low rental rates with the ability to increase those rates, which could increase the value of the building.

Appraiser Stockton reviewed the sales comparison approach used in the analysis. He indicated that the subject property was a multi-tenant, Class A office building located in the south Reno sub-market, constructed in 1997 and currently 95 percent occupied. He said Improved Sale 1 (IS) was a multi-tenant office building in the same market, was 92 percent occupied at the time of sale, but the main tenant that occupied 58 percent of the building was scheduled to vacate. Appraiser Stockton said IS2 was an office building with 4,812 square feet of finished warehouse, occupied by a single tenant and similar to the subject parcel in location and quality. He stated that IS3 was a multi-tenant office building in the same market, superior to the subject parcel in building size and location; however, the main tenant, the University of Phoenix, was significantly reducing their square footage. Appraiser Stockton commented that the Land Sales ranged from \$3.75 to \$6.61 per square foot and, since they were all significantly larger than the subject parcel, an upward adjustment to the sales price per square foot was necessary, explaining that the land sales supported the subject's land value of \$6.50 a square foot. He said all the improved sales were South Meadows office buildings of similar quality and age. He noted that IS3 was a distressed sale and, although it had a higher occupancy at the time of sale, the University of Phoenix was significantly downsizing their footprint in the area. Appraiser Stockton said the sale prices reflected the distressed, high vacancy condition, which was why some obsolescence was removed from the subject property. He believed the sales comparison approach could be reconciled down to \$110 per square foot or \$4,483,490.

Appraiser Stockton said the potential growth income rate of \$1.35 per square foot was based on the rent roll and the typical rate in that market. He noted that the Petitioner had supplied data from Colliers International which asked for \$1.60 per square foot. He said a vacancy rate of 18 percent was used, which was supported by other brokerage surveys, as well as Colliers International. He explained that 35 percent was

used for the expense ratio and noted for buildings of this size and age, the expense ratio was 25 to 35 percent. He said he went to the higher end of the range, which left a net operating income of \$351,938 and used a 9.5 percent cap rate, which he felt was a fair and reasonable rate for the subject parcel. Appraiser Stockton said part of the appraisal process was reconciling the sales and income to determine which approach had more merit and stronger data, and then reconciling the two to arrive at a final value conclusion. He said IS1 and IS3 were the best comparable sales since they were of similar type, multi-tenant buildings, similar in quality and age and located in the same market. Appraiser Stockton recommended a reduction to increase the total obsolescence to \$1,089,862.

Member Krolick asked if the taxable value decreased last year for IS1 and also inquired on the vacancy for that comparable. Appraiser Stockton replied when that property was valued there was still a high occupancy. Member Krolick stated even with the high occupancy rate that building declined in taxable value. Appraiser Stockton stated that the land values were lowered for most of the South Meadows market and added there was obsolescence applied to all the office buildings in that area. He indicated that the obsolescence adjustment was maintained in the subject parcel. Member Krolick inquired on the percentage of obsolescence the subject parcel was receiving. Appraiser Stockton replied that the subject parcel was receiving 25 percent in obsolescence.

Chairman Covert said the Petitioner indicated that many of the costs had to be absorbed due to the competition in the market. He asked if the other lease agreements indicated that the tenants were consuming more of the expenses. Appraiser Stockton stated that was correct. Chairman Covert felt that a 35 percent expense ratio may be low. Appraiser Stockton explained that the 35 percent expense ratio was typical for a Class A office building in the South Meadows.

The Petitioner did not have a rebuttal.

The Chairman brought the discussion back to the Board.

Member Kizziah said he would lean toward the Petitioner's figures. Member Horan noted there were short-term leases on the property, which could be an advantage when selling the property. He said the other buildings were sold at a higher rate with the idea that the vacancy rates would increase. He felt there was some validity in the sales numbers.

Chairman Covert said he reviewed the income approach supplied by the Petitioner, modified some of the percentages, based on actual, and arrived close to the Appraiser's reduced value. He suggested reducing the improvement value to \$2,964,199.

With regard to Parcel No. 163-061-07, pursuant to NRS 361.357, based on the evidence presented by the Assessor's Office and the Petitioner, on motion by Member Kizziah, seconded by Member Krolick, which motion duly carried, it was ordered that the taxable land value be upheld and the taxable improvement value be reduced to

\$2,964,199, resulting in a total taxable value of \$3,704,607 for tax year 2014-15. The reduction was based on economic obsolescence. With that adjustment, it was found that the land and improvements are valued correctly and the total taxable value does not exceed full cash value.

**14-206E PARCEL NO. 025-021-20 – SMITHRIDGE PROPERTY LLC –
HEARING NO. 14-0122**

A Petition for Review of Assessed Valuation was received protesting the 2014-15 taxable valuation on land and improvements located at 770 Smithridge Drive, Washoe County, Nevada.

The following exhibits were submitted into evidence:

Petitioner

Exhibit A: Deed in Lieu of Foreclosure and Settlement Statement, 7 pages.

Assessor

Exhibit I: Assessor's Hearing Evidence Packet including comparable sales, maps and subject's appraisal records, 26 pages.

On behalf of the Petitioner, Dan Oster, was sworn in by County Clerk Nancy Parent.

On behalf of the Assessor and having been previously sworn, Dona Stafford, Appraiser, oriented the Board as to the location of the subject property.

Mr. Oster noted that he was the Broker of Record for NAI Alliance, had practiced commercial brokerage for the past 10 years and was the broker on this specific property for the past four months. He indicated that the note on the property was purchased at a public auction in August of 2013 and sold for a Deed in Lieu of Foreclosure. Since the new owners had taken over the property, he said only one new tenant had signed a lease at a rental rate of \$0.45 triple-net; however, another tenant had left during that same time frame. He said a number of leases for existing tenants were modified by lowering the rent to incentivize them to remain in the building. He stated that he had served four, Five-Day pay or Quit notices on tenants, which had elected to pay their rents, but it was clear they were on the edge of vacating. Mr. Oster noted that an income approach was completed, but added that the Assessor's Office stated the value was \$2.58 million and used a vacancy factor of 15 percent; however, industrial flex properties had a vacancy peak in excess of 30 percent. He felt the vacancy rate for industrial flex properties should be in the 18 to 20 percent range, but the Assessor's Office used a 15 percent adjustment factor in this case.

Chairman Covert asked if the Petitioner was requesting the Board reduce the total value to \$2,205,000. Mr. Oster stated that was correct.

Member Kizziah asked if there was a breakdown on the proposed land and improvement values. Mr. Oster replied that the total value requested was \$2,588,598. Chairman Covert asked if the Petitioner was satisfied with the value placed on the land. Mr. Oster stated that he was comfortable with the land value. Due to the high vacancy, he noted that obsolescence was the most compelling factor.

Appraiser Stafford said the subject property consisted of two industrial flex buildings with a total of 42,050 square feet and approximately 70 percent office and 30 percent warehouse space. She said Improved Sale (IS)1 and IS2 were industrial flex buildings, older than the subject parcel and offered less than half of the finished area of the subject. She said those factors made those comparables notably inferior to the subject parcel. Appraiser Stafford stated that IS3 was a bank-owned, neighborhood shopping center and offered a larger degree of finished area, but was older and did not offer the quality or curb appeal as the subject. However, this comparable was considered slightly superior to the subject because of the large degree of finished area. Based on the analysis of the sales comparison approach, Appraiser Stafford concluded that the subject parcel had a value of \$70 per square foot or \$2,943,500.

Chairman Covert asked if the location of IS1, IS2 and IS3 were comparable to the subject parcel. Appraiser Stafford replied they were inferior locations.

Appraiser Stafford said no income expense or vacancy information for the subject parcel was provided by the Appellant. Because no lease data was provided, she discovered that the asking rents from NAI Alliance, using a rate of \$0.57 per square foot, which was slightly less than asking price rent, would produce a potential gross income estimate of \$287,622. The vacancy and collection rate of 15 percent was estimated for the subject using market data, deducting the estimated vacancy and credit loss of \$43,143 from the potential gross income of \$287,622. This resulted in an effective gross income of \$244,479. Appraiser Stafford said the expenses were estimated using a triple-net lease with most expenses passed onto the tenant and a reduction of 10 percent for unreimbursed expenses due to a higher vacancy. She said by deducting the estimated expenses of \$24,448, it resulted in a net operating income of \$220,031. A cap rate of 8.5 percent was selected from the Industrial Cap Rate Analysis that resulted in an indicated value via the income approach of \$2,588,598. Appraiser Stafford concluded that the properties, such as the subject parcel, were usually bought and sold for the income they produced, for that reason the income approach was believed to provide the best indication of value for the subject. She recommended that the improvement value be reduced from \$2,666,356 to \$1,568,315 for a total land and improvement value of \$2,588,598.

In rebuttal, Mr. Oster disagreed with the analysis on IS3 since that building may appear similar, but had the parking ratio required allowing for a retail-type use, enabling an owner the ability to garner higher rents. He felt that sale was not applicable to the subject parcel. He noted that the Appraiser did not have the benefit of the vacancy data, but indicated there was a 40 percent vacancy in the building at the time of sale and, despite reducing the rental rates, there had not been a significant change in

that vacancy rate. Mr. Oster said there was much weight put on the improvements in the building, but argued anything over a 20 percent improvement in an industrial flex unit was an impediment to leasing. He said \$2.2 million was closer to the purchase price and felt that was a better reflection of value for the market.

Member Kizziah asked if the new owners had added any additional capital improvements. Mr. Oster replied as prospective tenants toured the building, a tenant improvement contribution was offered.

Chairman Covert brought the discussion back to the Board.

Member Horan stated that he supported the reduction proposed by the Assessor's Office.

With regard to Parcel No. 025-021-20, pursuant to NRS 361.357, based on the evidence presented by the Assessor's Office and the Petitioner, on motion by Member Brown, seconded by Member Horan, which motion duly carried, it was ordered that the taxable land value be upheld and the taxable improvement value be reduced to \$1,568,315, resulting in a total taxable value of \$2,588,598 for tax year 2014-15. The reduction was based on obsolescence. With that adjustment, it was found that the land and improvements are valued correctly and the total taxable value does not exceed full cash value.

**14-207E PARCEL NO. 163-073-04 – BP CAPITAL I LLC –
HEARING NO. 14-0132**

A Petition for Review of Assessed Valuation was received protesting the 2014-15 taxable valuation on land and improvements located at 9475 Double R Blvd., Washoe County, Nevada.

The following exhibits were submitted into evidence:

Petitioner

None.

Assessor

Exhibit I: Taxable Value Change Stipulation, 1 page.

No one offered testimony on behalf of the Petitioner.

No one offered testimony on behalf of the Assessor.

With regard to Parcel No. 163-073-04, pursuant to NRS 361.345 based on the stipulation signed by the Assessor's Office and the Petitioner, on motion by Member Horan, seconded by Member Kizziah, which motion duly carried, it was ordered that the stipulation be adopted and confirmed and that the taxable land value be upheld and the

taxable improvement value be reduced to \$1,887,921, resulting in a total taxable value of \$2,835,000 for tax year 2014-15. With that adjustment, it was found that the land and improvements are valued correctly and the total taxable value does not exceed full cash value.

14-208E PARCEL NO. 006-183-41 – KEYSTONE INVESTMENT HOLDINGS LLC – HEARING NO. 14-0331

A Petition for Review of Assessed Valuation was received protesting the 2014-15 taxable valuation on land and improvements located at 801 W 5th Street, Washoe County, Nevada.

The following exhibits were submitted into evidence:

Petitioner

Exhibit A: Assessor's quick info, 1 page.

Assessor

Exhibit I: Taxable Value Change Stipulation, 1 page.

No one offered testimony on behalf of the Petitioner.

No one offered testimony on behalf of the Assessor.

With regard to Parcel No. 006-183-41, pursuant to NRS 361.345 based on the stipulation signed by the Assessor's Office and the Petitioner, on motion by Member Horan, seconded by Member Kizziah, which motion duly carried, it was ordered that the stipulation be adopted and confirmed and that the taxable land value be upheld and the taxable improvement value be reduced to \$156,834, resulting in a total taxable value of \$936,000 for tax year 2014-15. With that adjustment, it was found that the land and improvements are valued correctly and the total taxable value does not exceed full cash value.

14-209E PARCEL NO. 013-453-55 – SHOPPERS SQUARE INVESTMENT HOLDINGS LLC – HEARING NO. 14-0335

A Petition for Review of Assessed Valuation was received protesting the 2014-15 taxable valuation on land and improvements located at 395 E Plumb Lane, Washoe County, Nevada.

The following exhibits were submitted into evidence:

Petitioner

Exhibit A: Assessor's quick info, 1 page.

Assessor

Exhibit I: Assessor's Hearing Evidence Packet including comparable sales, maps and subject's appraisal records, 16 pages.

Exhibit II: Taxable Value Change Stipulation, 1 page.

No one offered testimony on behalf of the Petitioner.

No one offered testimony on behalf of the Assessor.

With regard to Parcel No. 013-453-55, pursuant to NRS 361.345 based on the stipulation signed by the Assessor's Office and the Petitioner, on motion by Member Horan, seconded by Member Kizziah, which motion duly carried, it was ordered that the stipulation be adopted and confirmed and that the taxable land value be upheld and the taxable improvement value be reduced to \$635,582, resulting in a total taxable value of \$1,041,630 for tax year 2014-15. With that adjustment, it was found that the land and improvements are valued correctly and the total taxable value does not exceed full cash value.

14-210E BOARD MEMBER COMMENTS

There were no Board member comments.

14-211E PUBLIC COMMENT

There was no response to the call for public comment.

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10:05 a.m. There being no further hearings or business to come before the Board, on motion by Member Horan, seconded by Member Krolick, which motion duly carried, the meeting was adjourned.

JAMES COVERT, Chairman
Washoe County Board of Equalization

ATTEST:

NANCY PARENT, County Clerk
and Clerk of the Washoe County
Board of Equalization

*Minutes prepared by
Stacy Gonzales, Deputy Clerk*