Staff Report for 2022 State Board of Equalization

October 6, 2022

File No: 2022-FARGO-PREYLOCK

Prepared By: Property Tax Division

County or City: City of Fargo

Appellant: Preylock Fargo LLC

Issue: Appeal of the commercial property valuation

Summary: Preylock Fargo LLC requests a reduction in valuation on Parcel number 01-8760-00100-000, located at 3737 44th Ave. N, Fargo.

Analysis: The 2022 assessed value for this parcel is $119,297,000. Preylock Fargo LLC requests a reduced assessed value of $96,132,154. Preylock raises three issues, first that the second level mezzanine is personal property and should not be assessed as real property. Next, Preylock asserts that the values assessed for the land and heating (HVAC) system are incorrect.

The warehouse is located on a newly annexed 107.46-acre parcel with an assessed land value of $8,192,000, or a value of $1.75 per square foot. Twenty-eight commercial properties in proximity to the Preylock property are also valued at $1.75 per square foot. The analysis of comparable properties indicates that the land value is consistent with the area, and the subject property is properly assessed.

Consideration was given to the three approaches to value. The cost approach was deemed the most appropriate. The income approach is not applicable, as this property is not income producing. The sales approach cannot be used due to a lack of sales of comparable properties.

On August 15, 2022, Property Tax Division staff conducted an onsite visit of the 1,079,000 square foot warehouse. The warehouse contains a 250,498 square foot mezzanine. There is another area on top of the mezzanine, that is a 239,990 square foot storage level. Preylock contends this storage level is not real property.

The Property Tax Division inspected the mezzanine and storage level to determine whether they were properly assessed as real property. The mezzanine has a concrete floor which is supported by steel beams sunk into the concrete floor below. The steel beams that support the mezzanine also support the roof of the warehouse. In contrast, the storage level has a wooden floor which is supported by hollow metal posts bolted only to the mezzanine floor.

N.D.C.C. § 57-02-04 establishes the following three-part test for determining whether items pertaining to the use of a structure are classified as real or personal property:

1. Are items constructed as an integral part of the structure or building?

   The storage level is not constructed as an integral part of the building. The storage level is only supported by hollow metal posts bolted to the mezzanine floor, making the storage area removable. In addition, the floor of the storage level is made of removable wood.

2. Are items essential for the support of the structures or buildings?

   The warehouse was constructed with concrete H-beams from the floor to the ceiling of the building. The storage level is not affixed to these beams and is not essential for the support of the building. The storage level is only bolted to the mezzanine floor and could be disassembled and removed without impacting the support or structure of the warehouse.
3. Are items removable without materially limiting or restricting the use of such structures or buildings?

Based on the above facts identified in numbers 1 and 2, the storage level can be removed without materially limiting or restricting the use of the building as a warehouse. The storage level does not have a concrete floor. Removing the storage level would not limit the use of the building as a warehouse facility, cause any structural damage to the building, and would not be economically unfeasible.

For the above reasons, the storage level is personal property, not real property. Therefore, the assessment of the property must be reduced by the value of the storage level.

City of Fargo Assessor, Mr. Michael Splonskowski, and Preylock representative, Mr. Johnny Deeds, both provided a cost approach using the Marshall and Swift commercial valuation program.

The City of Fargo’s cost approach included a per square foot cost of $19.99 for HVAC Package Unit providing heating and cooling. However, heating costs were already included in the base cost of the building. The Property Tax Division staff’s cost approach indicates a per square foot cost of $6.04 for cooling. The Property Tax Division’s review indicates the assessment value of the HVAC system identified in the 2022 assessment must be reduced because heating costs were already included in the base cost of the building.

Based on the Property Tax Division staff’s analysis, the land assessment has been valued properly, the HVAC system has been valued incorrectly, and that the storage level has been incorrectly classified as real property. A total reduction in the improvement assessment of $14,800,165 is determined.

**Recommendation:** Direct Cass County to decrease the improvement assessment of parcel number 01-8760-00100-000 by 13%; resulting in an approximate total assessment of $104,496,835.