

GAO

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DENVER POST  
OFFICE

Estimate of Fair  
Market Value



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United States  
General Accounting Office  
Washington, D.C. 20548

Comptroller General  
of the United States

B-230501

March 11, 1988

To the President of the Senate and the  
Speaker of the House of Representatives

This report was mandated by Title IV of the Independent Agencies Appropriations Act, 1988, Public Law 100-202. This legislation, enacted December 22, 1987, requires us to estimate the fair market value of the main post office in Denver, Colorado. Our conclusions are summarized below and discussed in more detail in the appendix.

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## Background

The main post office in Denver, Colorado, will be transferred from the United States Postal Service (USPS) to the General Services Administration (GSA) for use as a courthouse by the U.S. Tenth Circuit Court of Appeals, with some space to be leased by USPS for its downtown post office. GSA estimated the fair market value of the property to be \$9.7 million, while USPS estimated it to be \$26.5 million. Because of a breakdown in negotiations regarding the amount of compensation USPS should receive from GSA for the property, Congress directed us to submit an estimate of fair market value which will be the basis for GSA to compensate USPS for the property.

The property is located on a full block of land in the central business district of downtown Denver. The improvements consist of a building, listed on the National Register of Historic Places, which has served as Denver's main post office since 1916, federal court house from 1916 to 1966, and home of the Tenth Circuit from 1929 until 1965. The building encloses 222,763 square feet of gross floor area, of which 152,346 square feet are the four floors above grade.

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## Results in Brief

We estimate that the fair market value of the land and improvements associated with the main post office in Denver, Colorado, is \$11,300,000. In arriving at this estimate, we evaluated the property appraisals obtained by GSA and USPS, and obtained assistance from an independent, professional real estate appraiser having expert knowledge of the Denver real estate market. In the course of our work, we concluded that the highest and best use for which the property is clearly adapted, and which is reasonably likely in the near future, is primarily as a courthouse with related office space.

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Office of the United States Courts; and other interested parties. We will also make copies available to others on request.

A handwritten signature in black ink that reads "Richard L. Fogel for". The signature is written in a cursive style.

Charles A. Bowsher  
Comptroller General  
of the United States

To arrive at our estimate of fair market value, we evaluated the property appraisals obtained by GSA and USPS. In evaluating the appraisals and developing our fair market value estimate, we were guided by the appraisal standards described in the Uniform Appraisal Standards for Federal Land Acquisitions, including the following:

Fair market value criterion. “ ‘Fair market value’ is defined as the amount in cash, or on terms reasonably equivalent to cash, for which in all probability the property would be sold by a knowledgeable owner willing but not obligated to sell to a knowledgeable purchaser who desired but is not obligated to buy. In ascertaining that figure, consideration should be given to all matters that might be brought forward and reasonably be given substantial weight in bargaining by persons of ordinary prudence, but no consideration whatever should be given to matters not affecting market value.”

Highest and best use. “The determination of the fair market value should include consideration of the highest and best use for which the property is clearly adapted. By highest and best use is meant either some existing use on the date of taking, or one which the evidence shows was so reasonably likely in the near future that the availability of the property for that use would have affected its market price on the date of taking and would have been taken into account by a purchaser under fair market conditions. . . . Normally, because of existing economic pressures, the existing use represents the highest and best use.”

Conjectural and speculative evidence. “In seeking to determine fair market value . . . in the words of the Supreme Court of the United States, ‘Elements affecting value that depend upon events or combinations of occurrences which, while within the realm of possibility, are not fairly shown to be reasonably probable, should be excluded from consideration. . . .’ ”<sup>1</sup>

We also retained the consulting services of Mr. Peter D. Bowes to assist us in our evaluation. He is an expert in the Denver real estate market; a member of the American Institute of Real Estate Appraisers and the American Society of Real Estate Counselors; and a principal in the Denver firm of Bowes and Company. The firm provides services in appraisal, counseling, research, purchase, sale, leasing, and financing regarding special purpose, retail, commercial, industrial, recreational, and other investment real estate. We and our consultant evaluated the

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<sup>1</sup>Olson v. United States, 292 U. S. 246, 257 (1934)

two possible categories—transferable and nontransferable. The transferable development rights (TDRs) represent that portion of the unused development rights that might be sold and transferred to another downtown site, an option available to registered historic buildings in Denver. The nontransferable development rights represent that portion of the unused development rights which remain with and might be used for further development of the site.

As explained more fully in the following sections, although the GSA and USPS appraisals agreed on the quantity and value of the used development rights, they disagreed about the unused development rights. We disagreed with both appraisals regarding the used development rights and TDRs, but agreed with the GSA appraisal regarding the nontransferable unused development rights.

## Used Development Rights

The GSA and USPS appraisals agreed that the existing building consumed 152,346 square feet of the site's total development rights. GSA valued the used development rights at around \$20 per square foot, or approximately \$3,000,000 in total, while we calculated that USPS valued the rights at \$17.50 per square foot, or about \$2,700,000. Neither appraisal, however, valued the open space, such as the exterior courtyards and open arcades, stemming from the architectural design of the building. In our opinion, this resulted in an undervaluation of the used development rights. Our consulting appraiser agreed, but pointed out that there is no precise way to value such open space. He said that although the GSA appraisal of \$20 per square foot was valid without valuing the open space, in his judgment the value per square foot should be increased to \$40 to incorporate the value of the open space, while the total number of square feet valued should remain at about 152,000, the same square footage used by GSA and USPS.

We agreed with our consultant that the open space should be valued. Given the absence of an accepted methodology for establishing such a value, however, we decided to apply the GSA rate of \$20 per square foot to the number of square feet of unenclosed plaza and arcade. The USPS appraisal established that this open space consumed approximately 47,000 square feet. Thus, we placed a value of \$20 per square foot on a total of 199,000 square feet (152,000 + 47,000) of used development rights for a total estimated fair market value of \$4,000,000 (rounded).

historic building while retaining all of the historic building's principal features. Based on this assumption, the USPS appraisal placed a value of \$16,800,000 on the nontransferable unused development rights according to our calculations. Conversely, the GSA appraisal concluded that the highest and best use of the property is its existing use without further development. Therefore, the GSA appraisal, in effect, valued the non-transferable unused development rights at zero.

We agree with the GSA appraiser's conclusion. We believe there are several reasons why the USPS determination of highest and best use is unrealistic at this time. The reasons relate to the impossibility of predicting what, if any, kind of new development will occur.

First, the office space market in Denver's central business district, as well as throughout the metropolitan area, is depressed. Vacancy rates have increased sharply in recent years as shown in table I.2.

**Table I.2: Office Space Vacancy Rates in Denver's Central Business District 1980-1986**

Year	Figures in thousands		Vacancy rate (year end)
	Approximate vacant space in square feet (year end)	Approximate total supply in square feet (year end)	
1980	211	10,541	2%
1981	123	12,258	1%
1982	1,454	14,542	10%
1983	2,955	18,471	16%
1984	3,832	20,171	19%
1985	4,898	20,408	24%
1986	6,220	20,733	30%

Source: An Appraisal of U.S. Post Office and Federal Building 1823 Stout Street Denver, Colorado, Joseph Farber and Company, Inc. (1987) p 8

Table I.2 shows that by the end of 1986 there were approximately 6.2 million square feet of vacant space in the central business district for a vacancy rate of approximately 30 percent. Further, of the 6.2 million vacant square feet available at the end of 1986, approximately one million square feet was available in the only three existing buildings of comparable size (in excess of 50 stories) to that proposed in the USPS evaluation. These three buildings had vacancy rates ranging from 12 to 47 percent.

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Second, the USPS appraisal indicated that USPS had determined the architectural and structural feasibility of constructing a 55-story multi-use building rising out of the interior courtyard. However, the appraisal did not contain any evidence of further interest on the part of USPS or any other party in constructing such a building.

Finally, the anticipated public outcry against building an office tower rising out of the historic structure's interior courtyard could, in our opinion, effectively prevent such additional development. The building was originally designed and constructed as a court house, post office, and federal building, and was used for that purpose until 1966 when the federal courts were moved to a new facility across the street. Current plans call for renovating the two original courtrooms on the second floor and constructing additional courtrooms on the first floor. After examining the building and discussing the proposal with an official of the state historical society, we concluded that there would be considerable public pressure to retain the historic features and scale of the current property, and that such pressure would likely prevent further development.

For these three reasons, we believe it is possible, but not reasonably probable, to expect that additional floor space will be constructed on the site as proposed in the USPS appraisal. In our opinion, this expectation is too speculative and conjectural to be included in an estimate of fair market value at this time. Consequently, we agreed with the GSA appraisal and valued at zero those development rights which will remain with the site and cannot be sold or otherwise transferred.

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## Improvements Valuation

The GSA appraisal estimated a discounted present value of \$3,200,000 for the building using the income approach.<sup>2</sup> The USPS appraisal indicated that the inefficiency and functional obsolescence of the building, and the substantial oversupply of office space in the market, make it inappropriate to use the income approach. The USPS appraisal thus used the cost approach wherein an indication of value is arrived at by estimating the building's depreciated reproduction cost.<sup>3</sup> The cost approach used by USPS resulted in an estimated value of \$5,800,000. We concur in USPS's choice of approach and the resulting value.

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<sup>2</sup>The income approach involves an analysis of discounted net income converted into an estimate of the present value of the site as an income producing property.

<sup>3</sup>Depreciated reproduction cost is based on the current cost of reproducing the building. From that cost is deducted all forms of depreciation (physical, functional, and economic) to arrive at an estimate of present value.

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Unused Development Rights -  
Transferable

A 1982 Denver city ordinance permits owners of historic structures in downtown Denver to sell and transfer TDRs to other downtown sites. The maximum allowable TDRs represent the difference between the maximum allowable building floor area (total development rights) and the actual floor area (used development rights). Thus, owners of historic buildings can receive value for their underdeveloped property while preserving their historic buildings.

Both the GSA and USPS appraisals estimated the TDRs to have a present value of about \$3.80 per square foot. The GSA appraisal, assuming that the present use of the site was the highest and best use and that there would be no further development of the site, estimated TDRs to total about 916,000 square feet, for an estimated value of \$3.5 million. The USPS appraisal, assuming that the highest and best use would involve construction of a 55-story building on the site, calculated the number of TDRs remaining after maximum practicable development of the site to be about 323,000 square feet with an estimated value of \$1.2 million.

We disagreed with both the GSA and the USPS appraisals of the TDRs. The Denver city ordinance places certain limitations on the quantity of TDRs that can be transferred. The GSA appraisal recognized but did not quantify these limitations in valuing the TDRs. The USPS appraisal considered the Denver ordinance, but the USPS assumption regarding the highest and best use of the building resulted in understating the square footage available for TDRs.

The Denver ordinance provides that a structure that receives TDRs may not be enlarged by more than 25 percent of its basic maximum floor area. Thus, the amount that can be sold and transferred to any given site varies with the lot size. Further, according to the USPS appraisal, because of building height and space design limitations, only sites smaller than a half block would need to purchase TDRs, and in amounts of no more than 100,000 square feet each. The ordinance stipulates that a transferor is limited to a maximum of four transfers. Given this, we concluded that the TDRs for the Denver Post Office would involve a maximum of 400,000 square feet. To that footage we applied the same rate used in the GSA and USPS appraisals (\$3.80) and arrived at an estimated present value of about \$1,500,000 (400,000 X \$3.80 rounded).

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Unused Development  
Rights - Nontransferable

As previously mentioned, the USPS appraisal concluded that the highest and best use of the property would be to construct a 1.2 million square foot, 55-story multi-use tower rising out of the interior courtyard of the

assumptions, approaches, and limiting conditions of the GSA and USPS-obtained appraisals of Denver's main post office building. In addition, we asked the consultant to determine if the appraisers' conclusions were valid and adequately supported; to advise us of his estimate of the fair market value of the property based on data contained in the GSA and USPS appraisals; and to assist us in arriving at our estimate of the fair market value of the property.

## Estimates of Market Value Vary Widely

The January 1987 independent appraisals of Denver's main post office building obtained by GSA and USPS were far apart. GSA estimated the fair market value to be \$9,700,000, while USPS estimated it to be \$26,500,000. The wide variance was due primarily to differing opinions about the highest and best use of the property. We estimate the fair market value of the property to be \$11,300,000. The GSA, USPS, and GAO estimates are compared in table I.1, followed by our analysis.

Table I.1: Estimates of Fair Market Value

	GSA	USPS	GAO
<b>Land</b>			
Used development rights	\$3,000,000	\$2,700,000 <sup>a</sup>	\$4,000,000
Unused development rights			
Transferable	3,500,000	1,200,000	1,500,000
Nontransferable		16,800,000 <sup>a</sup>	
<b>Total Land</b>	<b>6,500,000</b>	<b>20,700,000</b>	<b>5,500,000</b>
<b>Improvements</b>	<b>3,200,000</b>	<b>5,800,000</b>	<b>5,800,000</b>
<b>Totals</b>	<b>\$9,700,000</b>	<b>\$26,500,000</b>	<b>\$11,300,000</b>

<sup>a</sup>GAO calculated these values on the basis of information in the USPS appraisal

## Land Valuation

The estimated fair market value of the land at the Denver main post office site is primarily based on the value of the development rights associated with that site. The value of the development rights primarily depends on assumptions made about the highest and best use of the site.

There are two types of development rights—used and unused—that must be considered in arriving at an estimated land value. The used development rights represent that portion of the total development rights consumed by the above grade gross floor area of the existing structure. The unused development rights can fall into one or both of

# Fair Market Value of Denver's Main Post Office

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## Introduction

As early as 1984, it became apparent that the U.S. Court of Appeals for the Tenth Circuit was outgrowing its quarters in the Federal Court House in Denver, Colorado. The Federal Court House also houses the U.S. District Court for the District of Colorado and the U.S. Marshal, whose space needs have also expanded. The Federal Court House can no longer satisfy the courtroom and office space needs of these tenants. GSA studied the situation and concluded that moving the U.S. Court of Appeals for the Tenth Circuit to Denver's main post office building would be the most desirable long-term solution.

The main post office building, a monumental four-story and basement structure completed in 1915, sits on a full block across the street from the Federal Court House. It contains 222,763 gross square feet of space, of which 152,346 square feet are accounted for by the four floors at and above ground level (above grade). The structure is listed on the National Register of Historic Places. The first floor houses the main post office (downtown station). The second floor contains federal agencies' offices, one judge's chambers, and a courtroom of the District Court. The third and fourth floors contain office space for USPS administrative staff, postal inspectors, and the postmaster. The building served as Denver's Federal Court House from 1916 to 1966, and was the original home for the U.S. Court of Appeals from 1929 to 1965.

Attempts to negotiate a sale between GSA and USPS were unsuccessful, largely because the independent appraisals of the property obtained by GSA and USPS differed greatly. As a result of the breakdown in negotiations between the two agencies and the desirability of moving the U.S. Court of Appeals into the main post office building, Congress enacted legislation to transfer the property from USPS to GSA for the use and benefit of the Tenth Circuit, with some space to be leased by USPS for its downtown post office. In addition, the legislation directed us to submit an estimate of fair market value for the property. This value will be the basis for GSA to compensate USPS for the property.

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## Objectives, Scope, and Methodology

Title IV of the Independent Agencies Appropriation Act, 1988, Public Law 100-202, enacted December 22, 1987, says:

"The General Accounting Office shall, within 60 days after the date of enactment of this act, submit an estimate of the fair market value of the main post office in Denver, Colorado, located at 1823 Stout Street to the General Services Administration, the Congress of the United States, the United States Postal Service, and the Administrative Office of the United States Courts."

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## Analysis

The GSA and USPS independent appraisals of the value of the property were as of January 1987. The two appraisals differed significantly for one basic reason—differences of opinion about the highest and best use of the property.

The USPS appraiser concluded that the highest and best use of the property would be the construction above the existing structure of a 1.2 million square foot, 55-story building which USPS said could contain some combination of office, hotel, retail, and multi-family residential space. The appraiser recognized that such a proposed development of the site would require acceptable concurrences from city, state, and federal agencies because the building is registered as a historic landmark. However, the appraiser also recognized that the existing surplus of office space in Denver made it impossible for him to predict exactly when downtown Denver office space needs would reach a level sufficient to spur such new development.

The GSA appraiser concluded that the highest and best use of the property is the preservation of its existing use, and valued it accordingly. The appraisal report states that the probability of obtaining approval to raze or materially alter the existing building is highly unlikely, and therefore hypothetical and speculative, since public opposition to demolition of buildings with historic landmark designation is frequently intense.

We also concluded that the highest and best use of the property is as a courthouse with related office space. We recognize that further development of the site, including the construction of a 55-story multi-use building, as envisioned by USPS, is possible, but we believe that such potential development is too speculative and conjectural to be included in an estimate of fair market value at this time. Our belief is based on two primary reasons. First, the current depressed office space market in Denver makes it impossible to predict if or when major new development of the type suggested by the USPS appraisal might occur. Second, we believe there is a high probability that public opposition to building a 55-story structure over the historic structure could prevent such development.

We did not obtain official agency comments because of the limited time we had to complete our analysis and report the results to the designated parties. Copies of this report are being sent to appropriate House and Senate committees; the Administrator of General Services; the Postmaster General, United States Postal Service; the Director, Administrative

