FINAL ADMINISTRATIVE DECISION
ILLINOIS PROPERTY TAX APPEAL BOARD

APPELLANT: Woodman's Food Market
DOCKET NO.: 12-00897.001-C-3 through 12-00897.002-C-3
PARCEL NO.: See Below

The parties of record before the Property Tax Appeal Board are Woodman's Food Market, the appellant, by attorney Joanne Elliott, of Elliott & Associates, P.C. in Des Plaines; and the Kane County Board of Review.

Based on the facts and exhibits presented, the Property Tax Appeal Board hereby finds ***a reduction*** in the assessment of the property as established by the **Kane** County Board of Review is warranted. The correct assessed valuation of the property is:

DOCKET NO	PARCEL NUMBER	LAND	IMPRVMT	TOTAL
12-00897.001-C-3	15-06-155-008	1,123,453	1,444,759	$2,568,212
12-00897.002-C-3	15-06-252-004	233,188	0	$233,188

Subject only to the State multiplier as applicable.

ANALYSIS

The subject property consists of an anchor grocery store situated on 598,079 square feet of land area. The subject warehouse grocery store operated as a Woodman's Grocery Store was built in 2006 using precast concrete and contains 240,507 square feet of building area. The subject has a land to building ratio of 2.49:1. The property is located in North Aurora, Aurora Township, Kane County, Illinois.

The appellant appeared through counsel before the Property Tax Appeal Board arguing that the fair market value of the subject was not accurately reflected in its assessed value. In support of this argument, the appellant submitted an appraisal prepared by Certified General Real Estate Appraisers Edward V. Kling and Peter D. Helland of Real Valuation Group, LLC, estimating the subject property had a market value of $8,400,000 as of January 1, 2012 (Appellant's Ex. 1).

As its witness, the appellant called Peter Helland, who has been appraising property since 2005. Helland testified that he has prepared over 100 appraisals and specifically worked with Jewel/Osco throughout Chicago and appraised approximately 12 of their stores along with 15 Farm and Fleets across northern and central Illinois and southern Wisconsin. Helland stated he has also done work for Home Depots and for banks. He is currently writing his demonstration appraisal for his MAI designation from the Appraisal Institute on a big-box retail store.

Helland described the subject site as an anchor site in a retail subdivision set back on Orchard Road on 13.73 acres. The subject has frontage along three roads and is surrounded by outlots, many of which are currently vacant. The subject was described as having second tier visibility because it is off the roadway. The outlots have first tier visibility along the roadway. Helland testified the subject is improved with a 245,507 square foot big box grocery store/warehouse building. Helland described the subject as having a couple of doors to get groceries in and out of the warehouse section and as having two glass entrances for customers.

Helland testified the subject has functional obsolescence because buildings the size of the subject are not typical for a grocery store like the subject with food preparation areas or cooled storage areas. Helland testified that those areas would not provide a lot of utility to an alternate user unless they were a grocery store. In addition, Helland testified that the size of the subject also presents an issue, because no other retailers in the Chicagoland area use buildings this size on a single tenant basis. Helland further testified that with the depth of the subject's structure and warehouse construction style, it would require significant renovations to be changed for multi-tenant use. Helland also reported that the subject suffers external obsolescence in that as of January 1, 2012 the Kane County market in general was suffering from one of the highest vacancy rates in the Chicagoland area according to RARC and many other reports. Helland described North Aurora as a smaller community in Kane County located on the north side of Aurora, south of Batavia. It is mostly commercial ventures along Orchard Road and Randall Road with numerous newer subdivisions. Helland testified there remains numerous vacancies with some subdivisions not completed in addition to having no retail development north of the subject along Orchard Road. Helland described the area as being built expecting residential growth to come, but, when it did not, many ventures were not built.

Helland testified he did not develop a cost approach to value because there were not any land sales of approximately 14 acres in close enough proximity to the subject.

The first approach to value developed by Helland was the sales comparison approach. Helland researched the Chicagoland collar counties for the largest big-box retail properties he could find in terms of transactions within a two-year period of the valuation date while focusing on the age of the property as best he could. Helland described comparable sale #1 as a former warehouse property of similar design and construction in Carol Stream. This comparable was broken up into three units with two of the units being leased and the third unit being vacant. Comparable sale #1 was purchased in March 2011 and contains 106,440 square feet of building area. This sale was purchased for $1.83 million or $17.19 per square foot of building area, including land. The property's lender, Bank of America, took the property back and listed the property on the open market for 24 months prior to its purchase. This sale was adjusted for financing, being a bank owned property, and for its age of 19 years old at time of sale. Helland testified that even though this sale was significantly smaller than the subject, he did not adjust for size because he could not prove in the market, based on the size of the subject, the veracity of what adjustment was required.

Comparable sale #2 was the largest sale Helland could find in the market. It is located just south of the subject with equal distance to Interstate 88 as the subject. Sale #2 contains 139,494 square feet of building area and was seven years old, similar to the subject. This property was sold by Lowes to be renovated for a food processing grocery marketplace, which did not come to fruition. This property was purchased in January 2012 for $4,000,000 or $28.68 per square foot of building area, including land. Helland testified no adjustments were made to this sale and it was given primary weight.

With regards to comparable sale #3, Helland testified it was a large retail showroom warehouse which sold in December 2009 for $5 million or $43.48 per square foot of building area, including land. Helland testified the purchase included a Tax Increment Financing (''TIF'') agreement with Orland Park to secure a Meijer store at the location. Sale #3 is located in Cook County which Helland acknowledged had higher taxes; however, he thought this was offset by the rebate given from the TIF. Because of this, Helland made no sale condition adjustment for this sale.

According to Helland, improved sale #4, a grocery store which sold in August 2011 for $3 million or $49.18 per square foot of building area, including land was one of the largest single-tenant grocery store sales in the market at the time of his report. This sale is also located in Cook County and is a leased fee sale. Helland gave this sale the least weight in his analysis.

Sale #5, a former Home Depot Expo Design Center sold in December 2010 for $6.15 million or $58.85 per square foot of building area, including land was purchased and renovated and included $729,000 in sales tax rebates over five years. Sale #5 was considered to be in a better location than the subject. This sale was given a negative adjustment based on the sales tax rebate and its superior location.

The unadjusted sales prices ranged from $1,830,000 to $6,150,000 or from $17.19 to $58.85 per square foot of building area, including land. After making adjustments to the comparables, the adjusted prices ranged from $24.07 to $45.25 per square foot of building area, including land.

During direct examination, Helland testified that in reconciling his opinion of value for the subject, he utilized sales statewide for the largest buildings he could find in addition to looking at Wal-Mart buildings that were significant in size. After considering that information, Helland opined that sale #2 was the closest comparison to the subject because it is essentially in the subject's neighborhood; it's the largest sale in the subject's market area, is similar in age and it's sale date is close to the valuation date. This sale sold for $28.68 per square foot of building area, including land. After considering and giving weight to other large sales in Carol Stream, Orland Park and Vernon Hills, Helland came to a conclusion for the subject's value of $35 per square foot of building area was appropriate. Helland acknowledged the only comparable he adjusted for size was comparable #4 which was one quarter the size of the subject.

In regards to his income approach to value, Helland testified he basically used market data from 2009 going forward. Helland examined the largest leases he had throughout Chicagoland for properties such as grocery stores, big box stores, market retail stores and anchor units. Helland then went through each rental comparable's use during cross examination. The net rents ranged from $4 to $10 per square foot of building area, with gross rents ranging from $5.60 to $14.85. Helland acknowledged he opined a final conclusion of rent for the subject of $5 per square foot of building area. Helland explained his opinion was based on rental #5, a former Home Depot in Aurora. Helland testified this rental was located just off I-88 with significantly more retail development and with it being half the size of the subject, he felt the subject's rental rate had to be lower.

Based on questioning, Helland briefly testified regarding his income approach to value. Applying $5 gross rental per square foot to the subject, Helland used a 10% vacancy and credit loss based on retail vacancy in Kane County and with the subject being a single user. Helland then applied a 3% management fee, insurance, replacement reserves, legal and accounting fees for the subject's property type. Based on this data, Helland opined a net operating income for the subject of $986,902.

Helland then used a base capitalization rate of 8%. Based on recently transferred properties in Chicago with leases in place, he found capitalization rates ranging from 7.12% to 15%. Helland testified that the 15% capitalization rate was on an REO which he did not feel was reflective of the current marketplace. In addition, he felt the 7.12% rate was below all the market surveys in the area and was based primarily on the tenant in place. Helland also considered closed transactions throughout additional counties. Helland further considered multi-tenant buildings which came in from 8.1% to 9.8%. He then looked at active listings of large scale retail developments in the local area and found rates of 8.37%, 8.13% and 10.3%. Helland explained that multi-tenant buildings have less risk. The band of investment method indicated 8.09%, the debt coverage ratio indicated 7.63% and the 2012 First Quarter Market Surveys indicated capitalization rates were 7.8% to 8.5% for first tier retail properties, with second tier properties ranging from 9.1% to 9.2%. Based on this data, Helland felt 8% was reasonable given the subject's age, location and single tenant nature. After applying a tax load of 2.91%, which was added to the 8% capitalization rate and applied to the net operating income, it resulted in a rounded conclusion for the subject of $9,000,000 utilizing the income approach to value.

With regards to his final reconciliation, Helland testified that in the sales comparison approach, he had five sales, four of which were immense in size, but still roughly half the size of the subject. Helland testified he liked the Lowes sale (sale #2) based on date of sale, size and location. Helland testified he had and utilized many secondary sales to check his range and felt very strong about his sales comparison approach. In the income approach to value, Helland felt he had a number of rentals, two of which were immense in size, and one of which was in the Aurora market. Based on this data, Helland felt very strongly about the rental rate used and the expenses and vacancy applied. In terms of using the income approach versus the sales comparison approach, Helland testified that he had the issue of trying to figure out the vacancy of a building of the subject's size, along with an appropriate capitalization rate for a building of the subject's size. Helland testified he felt more comfortable with the sales comparison approach given that a building of the subject's size is typically going to be purchased by an owner/user, not an investor as he had in three of the five sales. Based on this, Helland concluded a value for the subject of $8,400,000 or $35 per square of building area, including land.

During cross-examination, Helland testified that big box retail start at approximately 50,000 square feet and can go up to 140,000 square feet in size. Helland testified that Woodman's built the biggest. He acknowledged the only comparable adjusted for size was sale #4, which he did not give much weight to in his analysis. Helland again stated the potential user of the subject building is essentially Woodman's; however, it could be used as a warehouse or divided up, at a significant cost, hence functional obsolescence. Helland reiterated his comparable sale #1 was an REO sale, which required a positive adjustment. When asked about his opinion of value ($8,400,000) being outside of the range as established in the sales comparison approach ($1,800,000 to $6,150,000), Helland explained that he utilized and applied a unit price per square foot of each sale.

Turning to the income approach to value, Helland admitted most single tenant net leased properties are generally net lease. When asked why he used rental comparables with gross rents Helland explained that for the purpose and function of his report, he had to isolate the tax burdens and did so by finding what people are willing to pay on a gross basis. Helland testified that every net lease has a certain dollar amount, for common area, maintenance, real estate taxes and insurance. He read a majority of the leases and knew exactly what they were paying for those expenses; therefore, he knew the total dollar amount that the tenants were willing to pay. From this, Helland stated he could then leave out the real estate taxes out of the expenses and gross up to the capitalization rate. As an example, Helland stated his comparable #1 had a net rent of $6 per square foot, which computes to a gross economic rent rate of $9.50. Helland testified that his net rent is the base rent. The $3.50 difference in comparable #1 is for real estate tax, insurance and common area maintenance. Helland explained that the numbers came from the actual leases and includes all pass through expenses that the tenant pays. Helland admitted that he did not break out the individual expenses in his report when he grossed up the base rent.

During re-direct, Helland testified that in a triple net lease, most everything is paid by the tenant, including property taxes. In a pure gross lease, the tenant makes one check to the landlord and the landlord pays all expenses from utilities, common area maintenance, insurance and taxes. In his report, Helland used the base rent from the actual leases and grossed them up based on what each tenant was required to pay for based on the signed lease. For the properties he did not have the lease for, he got the information from the market in that area. Helland explained that the purpose of grossing up the rents was to isolate the real estate tax burden. Helland testified that the grossed up rents all include the property tax burdens and when he estimated net income, that estimated net income is without subtracting out the property tax expense.

Helland testified that he did not prepare a cost approach to value because he could not find suitable land sales based on the subject’s size. Helland further explained that after October 2008 there was a period of time that nobody purchased land to build on. Helland further explained that even if he had smaller land sales, which he would have made adjustments to, he still would have functional issues and depreciation, which are highly speculative. Helland explained that he did not use the Vernon Hills sale utilized by the board of review, because it was a multi-tenant building, he only used single tenant properties. Even though the range of rental comparables was $5.60 to $14.85, Helland still used $5.00 per square foot of building area for the subject, based on rental #5 which came in at $5.60 per square foot of building area. Helland reiterated the subject could not be higher than this superior rental. Helland testified that the best rental comparables in his report were, in order, rental #5, #8 and #3. Helland further testified that all of his sales were arms-length transactions, including the leased fee because it was at market rate.

Based on the evidence submitted, the appellant requested an assessment commensurate with the final opinion of value as found in Helland's appraisal of $8,400,000.

The board of review presented its "Board of Review Notes on Appeal" wherein the subject's total final assessment of $4,494,624 was disclosed. Based on the subject's assessment and utilizing the 2012 three-year median level of assessments for Kane County of 33.35%, the subject property has an estimated fair market value of $13,477,133 or $56.04 per square foot of building area, including land.

In support of the subject's assessment, the board of review submitted limited information on 11 comparable sales as reported by CoStar. The board of review presented no testimony in support of the sales, but rather requested the evidence stand as submitted. Three of the sales were also used in the appellant's appraisal.

The comparables were located in Downers Grove, Carol Stream, Aurora, Willowbrook, South Elgin, Schaumburg, Vernon Hills, Calumet City and Chicago Heights, Illinois. Ten of the comparables were built from 1971 to 2011; no age was provided for one comparable. The buildings ranged in size from 100,773 to 188,899 square feet of building area. The comparables were situated on parcels ranging in size from 300,795 to 1,083,285 square feet of land area. The properties sold from December 2010 to May 2013 for prices ranging from $1,830,000 to $26,362,45924,986,000 or from $17.35 to $195.20 per square foot of building area, including land.

During cross examination, the board of review admitted that CoStar is not 100% accurate and is of questionable accuracy often. The appellant also pointed out that board of review comparable sales #4 and #9 were part of bulk portfolio sales.

After hearing the testimony and reviewing the record, the Property Tax Appeal Board finds that it has jurisdiction over the parties and the subject matter of this appeal. The Board finds that a reduction in the subject's assessment is warranted.

The appellant contends the assessment of the subject property is excessive and not reflective of its market value. When market value is the basis of the appeal the value of the property must be proved by a preponderance of the evidence. National City Bank of Michigan/Illinois v. Illinois Property Tax Appeal Board, 331 Ill. App. 3d 1038 (3rd Dist. 2002). The Board finds the evidence in the record supports a reduction in the subject's assessment.

The appellant submitted an appraisal estimating the subject property had a market value of $8,400,000, as of January 1, 2012. The Kane County Board of Review submitted limited information to support its estimated market value of $13,477,133.

Based on the board of review's admission that CoStar reports are questionable at best, the Board gave little weight to the evidence submitted by the board of review which consisted entirely of CoStar reports without supporting documentation and/or testimony. The Board further finds the appellant submitted a credible appraisal prepared by Helland and supported the estimated final opinion of value with testimony. The Board finds Helland made logical adjustments to the comparables where appropriate and verified his data with market participants, brokers and/or owners.

The Board finds the best evidence in this record of the subject's market value is the appraisal prepared by Helland which estimates the subject's market value of $8,400,000 as of January 1, 2012. Since market value has been determined, the 2012 three-year average median level of assessments for Kane County of 33.35% shall apply.

This is a final administrative decision of the Property Tax Appeal Board which is subject to review in the Circuit Court or Appellate Court under the provisions of the Administrative Review Law (735 ILCS 5/3-101 et seq.) and section 16-195 of the Property Tax Code.

Chairman

Member	Member
Acting Member	Member

DISSENTING:

C E R T I F I C A T I O N

As Clerk of the Illinois Property Tax Appeal Board and the keeper of the Records thereof, I do hereby certify that the foregoing is a true, full and complete Final Administrative Decision of the Illinois Property Tax Appeal Board issued this date in the above entitled appeal, now of record in this said office.

Date: April 22, 2016

Clerk of the Property Tax Appeal Board

IMPORTANT NOTICE

Section 16-185 of the Property Tax Code provides in part:

"If the Property Tax Appeal Board renders a decision lowering the assessment of a particular parcel after the deadline for filing complaints with the Board of Review or after adjournment of the session of the Board of Review at which assessments for the subsequent year are being considered, the taxpayer may, within 30 days after the date of written notice of the Property Tax Appeal Board's decision, appeal the assessment for the subsequent year directly to the Property Tax Appeal Board."

In order to comply with the above provision, YOU MUST FILE A PETITION AND EVIDENCE WITH THE PROPERTY TAX APPEAL BOARD WITHIN 30 DAYS OF THE DATE OF THE ENCLOSED DECISION IN ORDER TO APPEAL THE ASSESSMENT OF THE PROPERTY FOR THE SUBSEQUENT YEAR.

Based upon the issuance of a lowered assessment by the Property Tax Appeal Board, the refund of paid property taxes is the responsibility of your County Treasurer. Please contact that office with any questions you may have regarding the refund of paid property taxes.