FINAL ADMINISTRATIVE DECISION
ILLINOIS PROPERTY TAX APPEAL BOARD

APPELLANT: Woodman's Food Market, Inc.
DOCKET NOS.: 15-04700.001-C-3 and 16-01289.001-C-3
PARCEL NO.: 12-11-152-002

The parties of record before the Property Tax Appeal Board are Woodman's Food Market, Inc., the appellant, by attorneys Michael Elliott and Panagiota Fortsas of Elliott & Associates, P.C. in Des Plaines; the Winnebago County Board of Review; and Rockford S.D. #205, intervenor, by attorney Robert A. Calgaro of Conde, Killoren, Bueschel & Calgaro in Rockford.

Based on the facts and exhibits presented in this matter, the Property Tax Appeal Board hereby finds **A Reduction** in the assessment of the property as established by the Winnebago County Board of Review for tax years 2015 and 2016 are warranted. The correct assessed valuation for each tax year of the property is:

2015

DOCKET NO	PARCEL NUMBER	LAND	IMPRVMT	TOTAL
15-04700.001-C-3	12-11-152-002	302,337	1,530,813	$1,833,150

Subject only to the State multiplier as applicable.

2016

DOCKET NO	PARCEL NUMBER	LAND	IMPRVMT	TOTAL
16-01289.001-C-3	12-11-152-002	302,337	1,531,913	$1,834,250

Subject only to the State multiplier as applicable.

For purposes of this appeal and pursuant to Property Tax Appeal Board Rule 1910.78 (86 Ill.Admin Code §1910.78), Docket No. 15-04700.001-C-3 was consolidated with Docket No. 16-01289.001-C-3 for purposes of oral hearing.

ANALYSIS

The subject property consists of a grocery store situated on 15.84 acres or approximately 689,947 square feet of land area described as an anchor parcel with 770 feet of frontage along Spring Brook Road and 382 square feet of frontage along McFarland Road. The subject warehouse grocery store operates as a Woodman’s Grocery Store and was built in 2000 using precast concrete and contains 209,174 square feet of building area. The subject has a land to building ratio of 3.30:1. The subject’s foundation consists of poured concrete and the subject features a flat rubberized membrane roof, gas fired heat and cooling throughout the entire building with cooled storage/display areas, a wet sprinkler system and two, six fixture restrooms. The property is located in Rockford, Rockford Township, Winnebago 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 $5,500,000 as of January 1, 2015 (Appellant's Exhibit No. 1) and $5,500,000 as of January 1, 2016 (Appellant’s Exhibit No. 4).[1]

As its witness, the appellant called Peter Helland, who has been appraising property since 2005. Helland testified that he has prepared between 60 and 70 appraisals per year and is licensed in Illinois, Wisconsin and Iowa. He has the Member of the Appraisal Institute (MAI) designation from the Appraisal Institute as well as the AI-GRS designation, which is a general review designation.[2]

Helland described a “big-box” store as typically being a single tenant retail building that generally ranges in size from 60,000 square feet to over 200,000 square feet of building area and can include smaller buildings from 25,000 to 60,000 square feet of building area as junior anchors, which can get lumped into the “big-box” category. Helland stated warehouse distributors are stores like Costco and Sam’s Club on the larger end of the spectrum with “super stores” like Meijer, Super Walmart and Target that are large in size, but not quite as large as the warehouse stores. Lower end stores would include hardware stores and department stores ranging from 75,000 to 80,000 square feet of building area.

Helland has appraised “big-box” stores for almost a decade and has previously testified in administrative hearings. Helland has appraised corporate accounts such as Jewel Osco, Home Depot, Farm & Fleet, Woodman’s and Kroger. Helland testified he was not aware of any “mega big-box” (stores over 160,000 square feet) fee simple sales in the greater Rockford Metropolitan Statistical Area (MSA) or far northwest suburbs of Chicago within the last six years. In addition, Helland is not aware of any being built without a tenant in place or being leased in that time period of six years.

Helland inspected the subject property on October 2, 2015 in order to estimate the market value of the fee simple interest in the subject as of January 1, 2015. Helland described market value as the most probable price in a competitive market that includes properties available to be purchased and available to be leased. He stated the standard of market value is the fee simple terms for this property type, for the intended use and purpose, and with that, its market occupancy of market rates (Appellant Exhibit No.1, page 4). When asked about the difference between market value and market price, Helland testified that basically market price is the factual record of the transaction and the market value is an estimate based on transactions, the

[1] The appellant utilized the same appraisal for both the 2015 and 2016 tax appeals with a 2015 Appraisal Report Addendum dated March 24, 2016 (Appellant’s Exhibit No. 2) and a 2016 Appraisal Report Addendum for a valuation date of January 1, 2016 (Appellant’s Exhibit No. 3).

[2] The parties stipulated that the appraisers in this hearing are recognized as experts in the field of real estate valuation. This stipulation was accepted by the Property Tax Appeal Board.

information, other income information and the cost approach. He stated they use the market prices and other data to come up with a market value. Helland testified the price paid for a property and market value may not be the same thing. Helland then generally described the Rockford MSA as bordering Wisconsin and being located immediately west of the Chicago MSA. Helland stated the subject's location is considered its own MSA, but, can include Stephenson County and Freeport to the west. Rockford MSA was described as essentially Winnebago County. On page 13 of his report (Appellant's Exhibit No. 1), Helland stated that as of January 1, 2015 the economic recovery in Rockford had been slower than other sections in Illinois. He described the outlook for the area as basically stagnant, no real growth, no further decline. He testified the area was stabilized at that time with little new development taking place in terms of new construction.

Helland described the subject site as an anchor site of the neighborhood being the largest retail structure along the greater Perryville Road corridor. Helland described the subject site as slightly irregular in shape because of the two intersecting roads and a gas station out-lot that remains in place. In regard to functional obsolescence, Helland testified that warehouse stores, the size of the subject, typically have additional hookups for cooled storage, food prep that a grocery store would not have. Helland stated the construction style of the subject essentially mimics an industrial building with precast concrete and little ornamentation. Further, Helland stated the immense size of the subject does not lend itself to be subdivided as the depth of the subject building makes it difficult to subdivide beyond maybe two to four units.

When discussing external obsolescence, Helland testified that a number of grocery stores throughout Illinois had begun to struggle and were completely bankrupted and closed down. He stated the trend was towards discount retailers that had grocery and other goods such as Walmart, Target and so forth as well as high end specialized grocers like Whole Foods, Fresh Market and Trader Joe's. As for "big-box" stores, there was not the absorption of the stores that became available because of the increased competition from places like Amazon. Helland testified that while a number of retailers had buildings from 100,000 to 140,000 square feet, there were no active users of buildings or little market activity for buildings exceeding that size.

As to the subject, Helland reiterated that the warehouse style with limited façade detail and precast concrete walls would require extensive renovation by an alternate user. He stated the building depth of 320 to 335 feet limits the potential for dividing the building into smaller units of more than roughly 50,000 to 60,000 square feet.

Helland found the subject's highest and best use is the existing use of the improvements. As vacant, Helland found the highest and best use as vacant would be to hold for retail development because of its well-located site as an anchor site. He stated the subject has dual access from two roadways and has surrounding retail development along Perryville Road. However, the size of the parcel and the cost of development was not married with what someone could recover. Helland noted that the subject's highest and best use as improved is different from his highest and best use conclusion as vacant because a building of the subject's size and scope would be unlikely to be built there. He stated parcels of the subject's size in its location are typically a traditional-sized anchor building with a retail shopping center that accompanies it and profits from the added exposure, not a single 209,000 plus square foot owner/user building.

Helland developed the three traditional approaches to value to estimate the subject's market value. In developing the cost approach to value, Helland first examined land sales with three primary factors being sales within Winnebago County, comparable zoning/potential use and size. The next criteria used was recent sales. Helland testified that all sales were from April 2013 and December 2013, and he notes there was no significant market change between that time and January 1, 2015.

Helland utilized four land sales. Sale number 1 was located on Harrison Avenue in Rockford, which he found comparable to the subject as it has frontage along three roadways. Helland noted that land sale number 1 was a bank-owned Real Estate Owned (REO) sale and was not vacant at the time of sale and would require additional expense. Helland testified the bank-owned REO sale was typical for land sales at the time for this size of property. Helland adjusted land sale number 1 upward because of the added cost of redevelopment. Land sale number 2, also a bank-owned sale, had frontage along three roadways, is commercial-zoned land along Alpine Road in Rockford and has adjacent commercial development. Helland applied minimal negative adjustment to this sale. Land sale number 3 is a commercial-zoned property containing approximately 8-acres of land area in Roscoe. This sale is surrounded by residential development with primary road frontage. This sale did not have multiple road frontage. Helland stated this sale was near the high-end for vacant land sales. He made a minimal negative adjustment to this sale. Land sale number 4 was located in Machesney Park and was included because it was located on a secondary artery in Machesney Park with primary surrounding development being a mix of industrial and residential. Helland found the value of this property was enhanced because a Menard's was located just south of the property. Page 33 of Helland's report (Appellant's Exhibit No. 1), depicts four land sales ranging in size from 139,454 to 407,663 square feet of land area which sold from April to December 2013 for prices ranging from $140,000 to $550,000 or from $1.00 to $1.59 per square foot of land area. The comparables had adjusted sale prices ranging from $1.15 to $1.55 per square foot of land area. Helland opined an estimated unit value of $1.50 per square foot of land area was appropriate which resulted in an estimated land value for the subject of $1,035,000, rounded.

In developing the subject's replacement cost new, Helland testified he used Section 13, Class "C" of the Marshall & Swift Valuation Service. Base cost was determined to be $45.50 per square foot of building area with a $2.20 adjustment for sprinklers and canopy. A perimeter adjustment for economies of scale was applied along with a height, local and current multiplier, resulting in an estimate replacement cost new of $48.35 per square foot of building area. Multiplying this by the subject's size of 209,174 square feet of building area resulted in an estimated replacement cost new for the subject of $10,114,220 (Appellant's Exhibit No. 1, page 36).

Utilizing the subject's chronological age of 15 years, Helland testified he used an economic age/life method to estimate the subject's depreciation with economic life considered to be 25 years in total. Helland testified this was based on what he had seen in the market place based on sales, renovations and lease interests. Helland estimated the subject's depreciation to be 60%. Helland testified he included an Addendum to his 2015 report to include market extraction depreciation in his cost approach to value. Helland stated he included all six sales from his sales comparison approach to value and also three additional sales. Helland stated he used the recorded sales price of each transaction and utilized the building size and site size. He stated he multiplies the site size by the estimated land value to extract out how much of the sale price was related to the land.

From there, he used the remaining improvement value and took the estimated replacement cost, which is the size of each building and multiplied it by the estimated replacement cost per square foot of each building. Helland stated the difference equates to dollars of accrued depreciation or the cost to build new and how much total dollar depreciation had occurred over the lifespan. He then looked at the chronological age of each building and divided that number by the percent of depreciation for each property. Helland found that the trend indicated that buildings between 35 and 39 years of age had between a 2.6% and 2.7% annual rate of depreciation with 24-year-old buildings having an annual deprecation rate of 3.75%. Helland found 16-year-old buildings had an annual depreciation rate of 4%. From this analysis, Helland testified he added the subject's estimated land value of $1,035,000 to the estimated replacement cost new of $10,114,220, less 60% depreciation of $6,068,532 to arrive at a depreciated value of the improvements of $4,045,688. Contributory site value improvements ($528,000) for paving, lighting, signage, fencing and landscaping were added which indicated an estimated value for the subject by the cost approach of $5,600,000, rounded, or $26.77 per square foot of building area, including land (Appellant's Exhibit No. 1, Page 39).

Helland next developed the sales comparison approach to value. Helland testified he looked for sales in the entire Rockford MSA concentrating on the largest sales of retail single tenant structures. Helland utilized six sales in the Rockford market. The six sale comparables were located in Loves Park, Machesney Park and Rockford. They ranged in age from 24 to 39 years old and were situated on sites ranging from 4.02-acres to 14.67-acres or from 175,100 to 638,938 square feet of land area. The comparables had land-to-building ratios ranging from 4.08:1 to 6.40:1. The comparables sold from May 2011 to April 2015 for prices ranging from $675,000 to $1,000,000 or from $6.73 to $23.28 per square foot of building area, including land. After making various adjustments for property rights, sale conditions, location, building size, construction quality and age, the comparables had adjusted unit prices ranging from $10.10 to $23.54 per square foot of building area, including land. (Appellant's Exhibit No. 1, page 53)

Helland also examined four additional sales from the western fringe of the Chicago market MSA. The sales were located in Woodstock, Aurora, Crystal Lake and Oswego. These comparables ranged in size from 66,000 to 141,325 square feet of building area and were constructed from 1981 to 2007. These comparables sold for prices ranging from $2,832,500 to $4,000,000 or from $25.83 to $48.48 per square foot of building area, including land. The sale dates for these comparables were not provided. Helland also provided four listings of big box retail warehouse buildings within north central Illinois. The listings were located in Rockford Freeport, Elgin and McHenry and ranged in size from 41,817 to 118,107 square feet of building area. The listings were built from 1910 to 1992 and had list prices ranging from $295,000 to $3,900,000 or from $7.05 to $33.74 per square foot of building area, including land. Helland testified that the additional sales information and listings were provided to support his market valuation since his original six sales comparables required significant positive adjustments due to age. Helland stated that based on his adjusted primary sales in the Winnebago County market as well as the additional sales and listings, he felt comfortable at his estimation for the subject of $25.00 per square foot of building area. Helland testified that they also gave significant consideration to the total sales price to conclude his estimated value under the sales comparison approach of $5,200,000. Helland noted that the six primary sales he used transacted between $675,000 and $1,000,000. Helland stated the subject's market value exceeded anything that had been purchased in the Rockford market in the four years leading up to the valuation date. (Appellant Exhibit No. 1, pages 55, 56)

Helland next developed an income capitalization approach to value. Helland noted the subject is an owner/user property, so there was no contract rent in place. Helland testified he examined his records for the largest retail leases of any recent vintage in similar MSA's but had none that exceeded 100,000 square feet in size in Winnebago County. They had a smaller building with a five-year lease for $9.50 gross per square foot, but the building was less than 40,000 square feet in size. Helland utilized four other sales located in Normal, Bloomington, Aurora, Rockford and St. Charles. All of the rental comparables ranged in size from 39,450 to 109,890 square feet of building area and rented on either a net or gross lease from $4.00 to $9.50 per square foot of building area. Helland's report depicts an adjusted rental range from $3.00 to $5 per square foot of building area (page 59, Appellant's Exhibit No. 1). Helland then opined a rental rate of $4.50 gross/economic basis per square foot of building area for the subject was appropriate. Helland testified that the former Home Depot in Aurora leased for a slightly higher price than his estimate, but, he felt it was the most recent relevant rental rate.

Helland determined a 10% vacancy rate was appropriate based on the general 5-year leases with a six-month marketing time, which equated to 10% of the lease term. Based on the subject's historical data and his knowledge of the expense levels for similar properties, Helland utilized 3% for management expenses ($25,415), insurance costs of $0.05 per square foot ($10,459), common area maintenance at $0.25 per square foot ($52,294), reserves for replacements of $0.10 per square foot and legal/accounting expenses of $5,000. Helland's report depicts the subject's potential gross income of $941,283 from which he subtracted 10% vacancy and collection losses of $94,128 to arrive at an estimated effective gross income of $847,155. He then deducted total expenses of $114,084 to arrive at an estimated net operating income for the subject of $733,070. (Appellant's Exhibit No. 1, page 62)

Helland testified they extracted capitalization rates from larger sales of retail properties in central and western Illinois which were primarily shopping centers. The sales were located in Sterling, Savanna, Rockford and Ottawa and sold or were listed from September 2013 to January 2014 for prices ranging from $2,266,337 to $3,650,000. The comparables ranged in size from 43,913 to 70,521 square feet of building area and had capitalization rates ranging from 8.00% to 10.28%. Helland noted the active listing in Rockford has a capitalization rate of 9.8%. Helland testified they also examined RERC fourth quarter 2014 sale data. The report depicted third-year retail across the Midwest ranged from 9.6% to 9.7% for investment grade properties. From these factors, Helland opined an overall capitalization rate of 9.5% was appropriate. Helland testified that the band of investments method at 9.38% also supported his estimation. Using the local tax rate of 14.982% and multiplying it by the assessment ratio of 33.33% derived an effective tax rate of 4.99% which was added into the base rate of 9.5% for a total gross capitalization rate of 14.49%. Applying this to the subject's estimated net operating income resulted in an estimated income approach to value for the subject of $5,100,000. (Appellant's Exhibit No. 1, pages 63 – 65)

In reconciliation, Helland testified that primary consideration was given to the sales comparison approach to value because the subject is a single tenant owner/user property and because this approach had the most data available for him. Helland stated supporting consideration was given the cost approach to value based on the four local land sales which depicted a compelling land value from 2013. Helland testified he was comfortable with his depreciation model and felt it was well supported based on market activity. Based on a lack of local rental data for properties the size of the subject, secondary consideration was given the income approach to value. Based on reconciliation of the three approaches to value, Helland estimated the subject's market value as of January 1, 2015 at $5,500,000. (Appellant's Exhibit No. 1, page 66)

Helland testified that for 2016, he also estimated the subject market value to be $5,500,000 as shown in his additional report (Appellant's Exhibit No. 4) which was prepared in August of 2016. Helland stated he was looking for additional sales data, land sale data, rental comparables capitalization and vacancy data that occurred from the previous valuation date of January 2015 to the added valuation date of January 2016. Helland testified they came across some additional improved sales he felt were relevant. Helland stated they did not find any compelling capitalization rate data that had changed nor new vacancy rate data. Helland testified they did not have any additional rentals and did not have additional relevant vacant land sales. Helland stated the new data was improved sales. Helland found the former American TV & Appliance building located in Rockford as being of primary relevancy. The building contains 118,307 square feet of building area, is situated on 461,649 square feet of land area and was 24 years old. The comparable sold in September 2015 for $3,200,000 or $27.05 square feet of building area, including land.[3] Helland further testified they adjusted this comparable because American TV & Appliance had closed its 11 stores across multiple states which reflected their motivation to sell. In addition, this comparable was adjusted for its location along State Street which was offset by its age. Helland testified that the American TV & Appliance was in a superior location when compared to the subject.

Helland also supplemented his 2016 valuation data with supporting sales of "big-box" retail warehouse stores in Kane County. Helland stated a former Target store near Spring Hill Mall sold for $16 per square foot of building area, including land in July 2015. Further, in July 2015 a former Walmart store along Randall Road in Elgin, 118,548 square feet in size, sold for $2,000,000 and had a projected $1,500,000 renovation for a net sale of $29.52 per square foot of building area, including land. Additional sales also included a former Dominick's store, which was 15 years old and sold for $32 per square foot of building area, including land in April 2016. Helland's report, page 1 of his addendum, depicts that in April 2016 Farm & Fleet purchased a former Lowes store in Elgin with just under 140,000 square feet of building area, that was 10 years old, sold for approximately $38 per square foot of building area. (Appellant's Exhibit No. 4, page 1) Helland testified this comparable had been vacant for five years prior to its sale. Helland stated this comparable was superior to the subject in location because the traffic count was considerably higher with a number of affluent subdivisions nearby and most notably, it being adjacent to Menard's and Meijer along a primary corridor. Helland reiterated that these additional sales supported his January 1, 2016 estimate of $5,500,000 or $25 per square foot of

[3] Helland testified that the unit price of $24.75 was in error based on a miscalculation of including the mezzanine area. This amount was corrected to reflect $27.05 per square foot of first floor building area, including land.

building area for the subject given the size and location of the subject on McFarland in Rockford. (Appellant's Exhibit No. 4, page 11)

During cross-examination, Helland testified that the subject does not have the traffic flow that sale number 1 has, which is why he felt that age was a much more important factor in his adjustments. Helland stated comparable sales numbers 2 and 3 were included informationally because of their size and scope of their existence in the market, even though they are not stand-alone properties. Helland then confirmed his adjustments for his vacant land sales based on questions from board of review representative, Thomas Ewing. Helland testified that if the subject were divided up into 3 separate sections, it would leave three 70,000 square foot units that would be longer than they would be wide. Helland testified that in regard to his adjustments for his comparable sales, the data in Rockford for a one-to-one comparison was not that good. So, he utilized qualitative measures and weighted them in terms of their overall impact. When asked why he did not gross up the net leases, Helland explained that the reason he used gross instead of net was to capture the impact of the 14.982% tax rate. Helland testified that he needed a gross rental rate because the net lease is a pass-through wherein the tenant would pay the taxes. Helland testified that he took the lease that he was most familiar with at $4.82 gross, knowing that it was the largest building lease that he had, and with the subject being larger in an inferior location and based on traffic exposure, he knew he was going to be less than $4.82 at $4.50 per square foot of building area.

Helland then reiterated that his vacancy rate was determined because the subject is an owner occupied/single tenant property, which would mean either 100% occupancy or zero. For his analysis, marketing time for a building of the subject's size was estimated at 6 months based on estimates from the brokerage side of his office. Leases for re-developed property were on five-year terms. His estimate utilized 6 months marketing divided by 60 months of lease to derive a 10% vacancy rate for a single tenant building based on his market experience. Helland testified that in his sales comparison approach to value, he placed most emphasis on the sales located on Indian Trail, Aurora and Oswego because of their size when compared to the subject. Helland agreed that two of his comparable sales in Machesney Park, were located in Tax Increment Financing (TIF) districts which generally means they have been declared blighted areas. Helland stated he gave those sales significant positive adjustments and that they were generally chosen based on their size when compared to the subject, however, he would not give them primary consideration in his analysis.

During re-direct examination, Helland explained that he did not make market adjustments for the time period from 2011 to 2015, even though the market was increasing, because during that time period a number of store closings were occurring. Helland stated that some things improved while other factors were negative. Helland testified that Real Estate Owned (REO) sales improved, but the demand for junior anchors and large anchors got worse. Helland did not examine the subject as being subdivided based on its highest and best use as a single tenant owner. However, if the subject went dark, there were no single tenant users in the market looking to rent or buy 210,000 square foot buildings in the Rockford MSA.

Based on this evidence and testimony, the appellant requested the subject's assessment be reduced for both the 2015 and 2016 tax years to reflect a market value of $5,500,000.

The board of review submitted its "Board of Review Notes on Appeal" wherein its final assessments of the subject property for tax year 2015 of $2,676,399 and for tax year 2016 of $2,399,760 were disclosed. The subject's assessments reflect estimated market values of $8,030,000 or $38.39 per square foot of building area including land when applying Winnebago County's 2015 three-year average median level of assessments of 33.33% and $7,195,682 or $34.40 per square foot of building area including land when applying Winnebago County's 2016 average three-year median level of assessments of 33.35% as determined by the Illinois Department of Revenue. At hearing and in support of the subject's assessment, the board of review stood on the documentary evidence in the record and called no witnesses.

Counsel for intervenor, Rockford School District #205, called John C. Nelson, a Certified General Appraiser, as its first witness. Nelson has the MAI designation from the Appraisal Institute. He has been engaged in appraisal work for 33 years and has had his MAI designation for 2.5 years. Nelson has appraised residential, commercial, scale residential, agricultural, industrial, commercial office and commercial retail properties. Nelson has appraised "big-box" stores similar to Menard's and Target and shopping centers anchored by "big-box" stores. Nelson described "big-box" stores as having over 100,000 square feet of building area. Nelson generally works in the entire northern Illinois area and in Winnebago County, with auxiliary work in Boone, DeKalb, Jo Daviess, Whiteside, Lee and Ogle Counties. Nelson prepared an appraisal of the subject property with a valuation date of January 1, 2015 (Intervenor's Exhibit No. 1) and an addendum to that report with a valuation date of January 1, 2016 (Intervenor's Exhibit No. 2).

Nelson conducted an inspection of the subject property that was limited to the interior public areas and the exterior of the building along with site improvements. Nelson testified he sought comparable sales information and market information to lead to a highest and best use for the subject property. Nelson stated he sought comparable sales of land vacant and land ready for development as well as comparable sales of "big-box" stores. Nelson testified he found local land sales that were eventually developed for "big-box" use, which he considered to be of prime importance in his analyses of both highest and best use and of land value. Nelson found a limited number of sales in the local area that were REO and distressed sales, and therefore, he conducted a broader search for sales of improved properties that included Kentucky, Missouri and Iowa.

Nelson was able to find sales in McHenry County, which he considered comparable to the subject. Nelson concluded the subject's highest and best use to be a continuation of the "big-box" retail use. Nelson described the subject as a single-story mega grocery store containing 209,174 square feet of building area with an upper mezzanine office area. Nelson stated the subject is situated on approximately 16 acres essentially at the corner of McFarland Road and Spring Creek Road in the northeast quadrant area of Rockford. Nelson testified the subject is located along Perryville Road with County Highway 11 frontage that is the most recently developing commercial district in the Rockford area over the last 15 years.

Nelson prepared a cost approach to value and a sales comparison approach to value for the subject property. Nelson stated his vacant land sales were of the scale to allow for development of commercial "big-box" stores and were eventually occupied by "big-box" stores in excess of 100,000 square feet of building area. Nelson's land sale No. 1 is located on the northeast corner of Perryville Road and Rote Road and is approximately 0.9 miles south of the subject property. Land sale No. 1 sold for $5,900,000 or $7.32 per square foot of land area. Nelson stated this property contained 805,686 square feet of land area and sold in April 2014. Sale No. 2 is located in Machesney Park and contains 794,578 square feet of land area which sold in October 2013 for $2,759,400 or for $3.47 per square foot of land area. This sale was sold to Meijer Stores, Limited. Sale No. 3 is located in Rockton and contains 913,018 square feet of land area and sold in June 2011 to Farm & Fleet of DeKalb for $2,328,500 or for $2.55 per square foot of land area. Nelson testified this sale is located along a fairly low traffic count intersecting street and is a neighboring property to a Walmart store. After making various adjustments to the land sales for location, size, sewer/water, zoning, topography and utility. Nelson opined indicated unit values ranging from $3.22 to $4.06 per square foot of land area, which indicated an estimated unit price for the subject of $3.55 per square foot of land area or $2,450,000. (Intervenor's Exhibit No. 1, pages 31 - 33)

In his cost approach analysis for the subject's improvement, Nelson costed the subject on the basis of possible substitution rather than costing it at the higher supermarket, mega supermarket cost. Nelson testified he used the normal mega warehouse cost which does not include heating and cooling and no sprinkler or fire suppressant system. Nelson derived a cost of the building of $57.59 per square foot of building area and calculated a deduction for lack of food service normally found in a mega warehouse store to arrive at a total replacement cost new of $11,732,570. (Intervenor's Exhibit No. 1, pages 31 - 33)

Nelson estimated physical depreciation of 34%, functional obsolescence of 10% with economic obsolescence of 25% to arrive at a total depreciated cost for the subject of $5,204,233. Nelson then added depreciated site improvements of $481,075 and his estimated land value of $2,450,000 which indicated a value for the subject of $8,220,929 or $8,220,000, rounded. (Intervenor's Exhibit No. 1, pages 33 - 35)

In developing his sales comparison approach to value, Nelson utilized four comparable sales. The sales were located in Rockford, McHenry, Woodstock and O'Fallon. The comparables ranged in size from 95,420 to 141,436 square feet of building area and sold from August 2013 to September 2015 for prices ranging from $2,100,000 to $6,700,000 or from $22.01 to $47.37 per square foot of building area, including land. Nelson testified very few sales were found in the Rockford area. Nelson stated there is a fairly extreme differential in the economic and marketing conditions between the west side of Rockford versus the northeast quadrant of Rockford. Nelson adjusted the comparables for location, building area, site, quality, age, condition, features, parking ratio and economic conditions to arrive at adjusted sales prices ranging from $31.39 to $37.27 per square foot of building area, including land which indicated an estimated value for the subject of $34.35 per square foot of building area, including land or $7,200,000. Nelson's report depicts sale No. 4 was a leased fee sale. Nelson gave primary consideration to sale No. 1 based on its market location in relation to the subject. Sales No. 2 and No. 3 received significant consideration being located in a far western Chicago suburban area. Sale No. 4 received least consideration as it was a leased fee sale and was considered least similar to the subject. (Intervenor's Exhibit No. 1, pages 37 - 47)

Nelson also considered leased fee sales in Portage, Indiana; Greensburg, Indiana and his sale No. 4 in O'Fallon. Nelson considered these sales set the upper limit of value for the subject. The leased fees sales sold from August 2014 to December 2016 for prices ranging from $6,930,000 to $14,084,500 or from $53.31 to $76.74 per square foot of building area, including land. Nelson testified he did not prepare an income approach to value for the subject because he felt it was not appropriate for a property type which is primarily for fee simple ownership owner-occupied property. (Intervenor's Exhibit No. 1, page 49)

Nelson further testified that he prepared a 2016 addendum to his original report with a valuation date for the subject as of January 1, 2016. Nelson found the January 1, 2016 valuation was consistent with his estimated value as of January 1, 2015 utilizing additional data. The additional data consisted of a "big-box" Lowes store sale shortly after January 1, 2016. This one-story masonry property is located in Elgin, and contains 136,280 square feet of building area. The comparable is situated on a 708,286 square foot site. Nelson testified the comparable is located in a superior area in a higher demographic area of west Elgin on a well-traveled roadway. Nelson stated the property was vacant for 5-years and was influenced by a very restrictive deed that named several stores that could not be sold to. Nelson testified the deed restrictions almost demanded the sale be made to Farm & Fleet. Nelson made a significant adjustment for the deed restrictions. Nelson opined the fair market value for the subject as of January 1, 2016 as $7,200,000. (Intervenor's Exhibit No. 2)

During cross-examination, Nelson stated he wrote 3-4 appraisals for properties over 100,000 square feet of building area in the five years prior to the valuation dates in these appeals. Nelson stated that if he could not verify a sale, he would not put that in his report. Nelson admitted that he did not inspect his comparable number 4 located in O'Fallon. Nelson further admitted that the purchaser for his sales number 1 and number 2 paid additional monies for road improvements but could not answer where in his report the additional purchase fees were reported. Nelson admitted he used the Illinois Department of Transportation method to allocate unit values for buildings, including land. Nelson further admitted that someone told him that it was a violation of USPAP, however, he explained that he had never received objection for his methodology when in a court proceeding. Nelson agreed that prior to the hearing, it was not acknowledged that he used the Illinois Department of Transportation's standards in preparing his sales comparison approach to value. Nelson agreed that a reader of his sales comparison approach analysis would have a difficult time following his adjusted indicated unit prices. Nelson further admitted that for sale number 2, his statement of "no adjustment" for location was in error, however, it would not change his final opinion of value. Nelson agreed that his sale number 3 included two sale transactions with two different buildings, which he lumped together as one sale. Nelson testified his sale number 4 was a leased fee sale. Nelson admitted that he did not research market rents to determine if the lease for sale comparable number 4 was reflective of market rents. Nelson could not recall why he used a 2016 Marshall and Swift report for his multipliers in his 2015 valuation.

For his 2016 addendum report, Nelson admitted that he made no adjustments for the Lowes store even though the City of Elgin provided a tax incentive rebate of approximately $800,000 to $1,000,000 per year. Nelson agreed that the tax rebate from the City of Elgin would affect the market value of that sale. Nelson admitted that as of January 1, 2015, the subject was not receiving any tax rebates.

In rebuttal, Appellant called Michael S. MaRous, president of MaRous & Company as its witness. MaRous & Company is an Illinois corporation specializing in real estate valuation consulting. MaRous has worked at MaRous & Company for 38 years. He is a General Certified Real Estate Appraiser in six or seven states including Illinois and holds the MAI designation with the Appraisal Institute and has an SRA designation along with a CRE counselor's designation. MaRous testified he writes approximately 250 – 400 appraisals per year, primarily in the Chicago area and throughout the State of Illinois. He also does significant work in Iowa, Wisconsin and Minnesota. MaRous was retained to review the 2015 Davidson and Associates appraisal report of the Woodman's Food store and prepared a review report marked as Appellant's Exhibit No. 6. He also prepared a review of the 2016 Davidson and Associates appraisal report of the Woodman's Food store marked as Appellant's Exhibit No. 7.

MaRous testified that a "big-box" store is basically a large, fairly flexible, generally concrete or brick structure with junior sizes ranging from 25,000 to 30,000 square feet, mid-level from 50,000 to 75,000 and then "big-box" being anything over 100,000 square feet in size. For buildings over 150,000 square feet in size, they were considered large "big-box." MaRous stated these structures generally have exposed ceilings and that Target, Kohl's and Woodman's do not, however, they drop their ceilings with wide-based sizes, concrete floors, significant store depths and generally single tenant retailers. MaRous began appraising "big-box" stores 35 years ago throughout central Illinois and the Chicago area. He has appraised Sam's Walmart's, Kohl's, Woodman's, Jewels, Dominick's, Lowes, Home Depot's, Costco's, Macy's, Marshall Field's and Best Buy. MaRous stated he has interviewed market participants to understand what was driving the market, supply and demand, function and trends. MaRous testified that Amazon and e-commerce are changing the entire focus of the industry. MaRous testified that some retailers just could not compete and is causing an over supply of space. From 2011 to 2015, MaRous stated Rockford was typical with 150,000 people with the metro area being stable, however, they were faced with the same issues of older supply and were vulnerable to spaces in the market. MaRous stated that from 2011 to 2016, there were no sales of "big-box" stores over 160,000 square feet. He also stated there were no leases for a single tenant, and that if anything, they were broken up into smaller units.

When asked if the subject would sell, MaRous stated that he could not see any buyers. Buyers such as call centers have moved out to Cambodia, India and Canada. Further, he stated churches buy these structures, but usually want higher ceilings for the congregation. MaRous felt the subject would be difficult to sell because stores such as Meijer's and Walmart typically want their own layout and depth. He stated most retailers want from 50 to 100 feet deep in depth. MaRous testified that it would cost $30 to $60 per square foot to divide the subject up, which would include de-mising the walls, separate HVAC and separate electric. He stated that removing the ceiling would require redoing the lighting, electric, sprinklers and HVAC. In addition, repainting would cost approximately $12 to $18 a square foot and at 200,000 square feet would cost $2.5 to $4.0 million just to get to an 18 square foot of ceiling height. MaRous did not believe Meijer's would want to buy the subject as they prefer their own layout. MaRous stated the subject has secondary visibility on two smaller streets with a traffic count a little over 9,000 cars per day.

MaRous' report depicts that the Nelson report draws no attention to the subject's extremely large building area and provides no analysis of the market dynamics that impact "big-box" retail, particularly a building in excess of 200,000 square feet with an average building depth of 330 feet. Further, the two market approaches utilized by Nelson do not adequately represent or reflect the market-tested and market-proven dynamics that impact an oversized "big-box" retail store like the subject. Therefore, MaRous opined the value opinion of the subject property in Nelson's report was not credible or market supported.

MaRous found Nelson's land sale No. 1 was superior to the subject and understated. MaRous also opined that a downward adjustment should have ben made to sale No. 2 based on its superior location. MaRous found that Nelson's report was relatively minimal in regard to the land sales data by not providing PIN numbers and not providing sale verification, particularly for sale No. 1 and sale No. 2 which involved the same seller and buyer. MaRous could not verify the two sales. MaRous found that the reported $3,300,000 tax incentive and a $689,000 tax abatement for sale No. 1 was not reported by Nelson nor analyzed. Further MaRous stated Nelson did not analyze why sale No. 1 sold for over two times the unit price of sale No. 2 when the two parcels appeared to be very similar. MaRous opined Nelson did not give the appropriate consideration to the land sales for their respective out-lot parcels and, therefore, the opinion of value conclusion of $3.55 per square foot is overstated and the estimated land value estimate of $2,450,000 was too high.

Further, MaRous found Nelson's functional obsolescence was far too low given the subject's extremely large "big-box" retail building size. MaRous' report depicts that Nelson's value conclusion vis-a-vie the cost approach of $8,220,000 is equivalent to $39.30 per square foot for the 209,174 square feet of building area, including land, which he found was significantly higher than could be supported using proper appraisal techniques. He found the cost approach presented by Nelson was not reliable as the land value was overvalued and functional obsolescence extremely low.

In regard to Nelson's sales comparison approach to value, MaRous found that the downward adjustments for size were far too small. MaRous opined that the magnitude of the understatement of building size adjustments was significant enough on its own to render Nelson's reported opinion of value unreliable. MaRous strongly disagreed with Nelson's methodology based on the land values of the respective underlying improved sales with positive adjustments because the improved sales were superior to the subject property. MaRous found the no evidence was presented to support the supposed difference in land values between the improved sales and the subject property. The MaRous review report depicts improved sale No. 1 utilized by Nelson contains two smaller approximately 9,000 square foot tenant spaces, which would have a much higher unit value than the subject. MaRous stated these units would appeal to a much larger market and would command a much higher rental rate than a larger "big-box" space. Therefore, since they were superior to the subject, they would require a downward adjustment, whereas Nelson made a positive adjustment because the two spaces were vacant.

In regard to improved sale No. 2, a former Target store, MaRous found it had a superior finish, a more attractive façade and significantly less store depth than the subject. In addition, sale No. 2 had direct frontage on a major arterial in an area of significant modern retail development. MaRous found no justification or support that the unit sale price for sale No. 2 of $22.01 per square foot of building area would support an adjusted unit price of $34.42 per square foot of building area for the subject property. MaRous felt Nelson should have given more deference to size as opposed to age for improved sale No. 3. MaRous found improved sale No. 4 used in Nelson's analysis was inappropriate because it was located 300 miles from the subject in O'Fallon. Further, sale No. 4 was a leased fee sale with an existing income stream with a triple A tenant.

MaRous' report depicts the three fee-simple improved sales in Nelson's report reflect an over value range from $2,100,000 to $3,357,000 or an average sale price of $2,885,667. MaRous found the overall estimated value of $7,200,000 for the subject property was double the top of his valuation range and approximately 2.5 times the average sales price. MaRous testified that Nelson should have included an adjustment grid in his 2016 report, same as he did in his 2015 report. MaRous found the Lowes store sale in the 2016 Nelson report to a far superior location with higher traffic counts which is attached to a shopping center with strong demographics in a very modern retail district. MaRous would make a downward adjustment to this sale based on location. He stated Nelson should have adjusted for the sales tax rebate reported to be worth $2.5 million.

CONCLUSION OF LAW

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 reductions in the subject's assessments for 2015 and 2016 are 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 assessments for the 2015 and 2016 tax years.

The appellant submitted an appraisal estimating the subject property had a market value of $5,500,000 as of January 1, 2015 and January 1, 2016. The Winnebago County Board of Review submitted various data and a 2012 appraisal report for a Woodman's Food Market located in Janesville Wisconsin, without supporting testimony. The board of review failed to support its estimated 2015 market value of $8,030,000 or $38.39 per square foot of building area including land and its estimated 2016 market value of $7,195,682 or $34.40 per square foot of building area including land, with any other substantive evidence.

The Board finds the appellant submitted credible appraisals prepared by Helland which supported the estimated final opinions 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. On the other hand, the Board finds Nelson on behalf of the intervening taxing district did not adequately support his adjustments or methodology within his appraisal report nor through his testimony. The Board finds his testimony was evasive, defensive and not verifiable, and therefore, not credible from which a reliable indicator of value could be ascertained.

The evidence depicts all three appraisers, Helland, Nelson and MaRous agreed that the sales comparison approach is the best approach to value for the subject property. It was well established that generally speaking, smaller buildings sell for higher unit prices and require a downward adjustment when compared to the subject. It was further generally agreed that stores in the far northwest suburbs of Chicago are generally superior retail locations when compared to stores in Rockford, and also require a downward adjustment. Both valuation appraisers utilized a sale on State Street in Rockford. In addition, both appraisers analyzed the Lowe's sale in Elgin, however, they disagreed over the appropriate adjustments. The Board gives little weight to Nelson's sale No. 4, which is a leased fee sale in O'Fallon. The Board finds Nelson did not adequately analyze this sale. The Board questions the utilization of adjustments using IDOT condemnation techniques as Nelson did, which was predicated on relative land sale values for which he failed to include the land values for three of his four comparable sales. The Board further finds the quantitative adjustments utilized by Nelson were not well supported in his appraisal report or explained in his testimony. The evidence depicts Nelson's base cost in his cost analysis may be incorrect wherein he added an additional $4.97 for heating and air-conditioning which was shown to be already included in the base cost by Marshall & Swift (see Appellant's Exhibit No. 7).

Further, the Board gives little weight to the evidence submitted by the board of review in support of the subject's assessments as the written evidence was not supported at hearing with testimony from the preparer of said evidence. The Board finds the evidence from the board of review was not subject to cross examination nor presented for verification upon review.

Based on the above analysis, the Board finds the best evidence in this record of the subject's market value are the appellant's appraisals prepared by Helland which estimates the subject's market value of $5,500,00 as of January 1, 2015 and as of January 1, 2016. Since market values have been determined, the 2015 three-year average median level of assessments of 33.33% and the 2016 average three-year median level of assessments of 33.35% for Winnebago County shall apply, respectively.

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. Pursuant to Section 1910.50(d) of the rules of the Property Tax Appeal Board (86 Ill.Admin.Code §1910.50(d)) the proceeding before the Property Tax Appeal Board is terminated when the decision is rendered. The Property Tax Appeal Board does not require any motion or request for reconsideration.

Chairman

Member

Member

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: July 16, 2019

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 or years of the same general assessment period, as provided in Sections 9-125 through 9-225, 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 such subsequent year or years 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 OR YEARS. A separate petition and evidence must be filed for each of the remaining years of the general assessment period.

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.

PARTIES OF RECORD

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