FINAL ADMINISTRATIVE DECISION
ILLINOIS PROPERTY TAX APPEAL BOARD

APPELLANT:	Marquardt School District No. 15
DOCKET NO.:	16-05866.001-C-3
PARCEL NO.:	02-36-408-021

The parties of record before the Property Tax Appeal Board are Marquardt School District No. 15, the appellant, by attorney Joel R. DeTella, of Hauser, Izzo, Petrarca, Gleason & Stillman, LLC in Flossmoor; the DuPage County Board of Review; and the Addison Fire Protection District, Addison Park District, Addison Public Library, and Village of Addison, intervenors, by attorney Scott L. Ginsburg of Robbins Schwartz Nicholas Lifton Taylor in Chicago.

Based on the facts and exhibits presented in this matter, the Property Tax Appeal Board hereby finds ***no change*** in the assessment of the property as established by the **DuPage** County Board of Review is warranted. The correct assessed valuation of the property is:

LAND:	$184,150
IMPR.:	$563,160
TOTAL:	$747,310

Subject only to the State multiplier as applicable.

Statement of Jurisdiction

The appellant timely filed the appeal from a decision of the DuPage County Board of Review pursuant to section 16-160 of the Property Tax Code (35 ILCS 200/16-160) challenging the assessment for the 2016 tax year. Prior to the hearing, the parties to this appeal filed a JOINT MOTION FOR DECISION ON EVIDENCE pursuant to 86 Ill.Admin.Code §1910.67(c) requesting that Property Tax Appeal Board render a decision in this matter based on the evidence in the record without conducting a hearing. The Property Tax Appeal Board finds that it has jurisdiction over the parties and the subject matter of the appeal.

Findings of Fact

The subject property consists of a one-story, multi-tenant, industrial/flex/retail building of masonry and fixed glass in metal frames exterior construction containing 42,341 square feet of building area. The building was constructed in 1998 on reinforced poured concrete foundation. The property has a land area of 2.72 acres or 118,406 square feet, reflecting a land-to-building ratio of 2.8:1. The subject property is located in Addison, Addison Township, DuPage County.

The appellant, Marquardt School District No. 15, contends the market value of the subject property is not accurately reflected in its assessed valuation and that the subject property is under-assessed. In support of this argument, the appellant submitted an appraisal report of the subject property prepared by Dale J. Kleszynski, a Certified General Real Estate Appraiser. The stated purpose of the appraisal was to "…estimate the retrospective market value of the fee simple estate in the subject property as of the effective date of value for a real estate tax appeal". The final conclusion was that the subject property had a market value of $3,275,000 or $77.35 per square foot of building area, including land, as of January 1, 2016.

As to the highest and best use of the property, Kleszynski determined that of the uses that are legally permissible, physically possible, and financially feasible, the current use as a multi-tenant/flex/commercial property appears to return the greatest value to the property and is therefore considered to be the maximally productive use of the subject, as improved. In estimating the market value of the subject property, Kleszynski developed the income capitalization approach and the sales comparison approach to value.

Although Kleszynski did not develop the cost approach to value due to the age of the improvement and, therefore, the need to apply assumptions related to the overall depreciation and/or obsolescence found in the subject property, he evaluated the subject site separate from the improvement. His stated reason for this is because "…the land component of the overall assessment is significant to the intended use of this appraisal and report in the real estate tax appeal". In his analysis of land sales, Kleszynski utilized five land comparable sales located in Addison, Glendale Heights, Hanover Park, Carol Stream, and Bloomingdale. The sites consist of four vacant lots and one partially improved site. The sites range in size from 132,989 to 352,444 square feet of land area. The land comparables sold from December 2012 to May 2015 for prices ranging from $600,000 to $1,748,500 or from $4.30 to $7.15 per square foot of land area. After considering adjustment to the comparable land sales for factors such as property rights conveyed, financing, condition of sale, time on the market, location, zoning, land area and physical characteristics/current use, the appraiser concluded the adjusted land value of the subject property to be $650,000.

Kleszynski then developed the income capitalization approach to value which is an analysis of comparable rentals to derive a net income stream that is then capitalized to estimate the subject's market value. The first step under this approach was to estimate the subject's market rent. The appraiser selected six rental comparables which he considered to be most similar to the subject property in order to determine the appropriate market rates and terms to be applied in the analysis of the subject property. The properties were located in Lombard, Hanover Park, Carol Stream, and Addison. The buildings range in size from 1,030 to 12,00 square feet of building area. No data on age and condition or land-to-building ratios was presented for the comparable rentals. Kleszynski noted that he did not have access to the rental data for the subject property. The rental data from the six rental comparables indicated that as of the effective date at issue, larger commercial space and industrial units in the subject area were leased or listed for lease at rates ranging from $5.50 to $20.01 per square foot of building area. Based on this information, Kleszynski derived the rental rate for the subject property at $8.00 per square foot of building area on a net basis, resulting in a potential gross rental income of $338,728.

To estimate vacancy and credit loss, the appraiser used the *CoStar* database which indicated that vacancy rate for properties like the subject ranged from 3.0% to 8.0% as of January 1, 2016. Based on this data, in addition to his review of the rental data "located elsewhere in [his] report", Kleszynski concluded that a blended vacancy and collection loss rate of 15% or $50,809 (13.0% vacancy rate and 2.0% collection loss) is appropriate in the evaluation of the subject property. Subtracting the vacancy and collection loss from the potential gross income, the appraiser arrived at an effective gross income of $287,919.

Kleszynski next subtracted $224,895 for expenses which includes $152,661 for property taxes, $19,053 for insurance, $10,077 for management fees, $31,756 for common area maintenance, $2,879 for other expenses, and $8,468 for reserves for replacements. Applying Expense Ratio (Expenses/EGI) of 78.11% and Net Expense ratio of 18.04% after expense reimbursement of $172,950, resulted in a Net Operating Income (NOI) of $235,974.

The final step under the income approach is to estimate the capitalization rate to be applied to the subject's net income. To arrive at the capitalization rate, Kleszynski used publishing indicies such as *Korpacz, Appraisal Institute* data, and *PricewaterhouseCoopers, LLP Investor Survey* which depicted overall capitalization rates for flex space investments ranging from 5.75% to 9.00%. Using the Band of Investment method, the appraiser applied a mortgage interest rate of 4.75% with a 25-year amortization, a loan-to-value ratio of 75% and an equity return of 8.5% which resulted in a capitalization rate of 7.25%, rounded. Applying this capitalization rate to the net operating income of $235,974 resulted in an estimated market value for the subject of $3,250,000, rounded, under the income approach to value.

As an additional analysis, Kleszynski estimated the net income for the subject property by excluding the real estate taxes from the normal expenses. In this process, he adjusted the capitalization rate or "loaded" it to reflect the impact of the statutory assessment level of 33.33%, Illinois equalization factor of 1.0716, and the tax rate for the subject's location of 12.1439% resulting in a loaded factor of .0434, rounded. Added to the basic rate of .0726 which was derived from the Band of Investment analysis, resulted in a loaded capitalization rate of .1160. Applying this rate to the net operating income of $388,635 resulted in a market value for the subject property of $3,350,000, rounded, using the loaded capitalization rate.

Kleszynski also developed the sales comparison approach as part of this appraisal assignment. He noted that this approach relies upon the principle of substitution which is based on a concept that a willing buyer would not pay more for a property than they would pay for a property with similar characteristics and location. As a result, he noted that the sales approach to value is the most reliable indicator of market value because it reflects the actions of buyers and seller in the market. In this approach, the appraiser utilized five "leased fee" sales meaning that "[e]ach sale used in this analysis was fully or partially leased when purchased reflecting the transfer of the leased fee interest". The comparable sales are located in Lombard, Carol Stream, Bensenville, and Itasca. The appraiser verified the sales as arm's-length transactions through public records. The land sizes range from 111,078 to 1,219,680 square feet of land area which were improved with industrial, industrial/flex, or retail buildings that were built from 1979 to 1997. The structures range in size from 47,376 to 123,182 square feet of building area. The comparables have land-to-building ratios ranging from 2.34:1 to 9.90:1. The sales of the comparables occurred from April 2014 to January 2016 for prices ranging from $3,520,000 to $9,200,000 or

from $62.51 to $111.32 per square foot of building area, including land. Next, Kleszynski considered qualitative adjustments to the comparable sales for property rights, financing, sale conditions, date of sale, location, size/land-to-building ratio, construction/quality, age/condition and other/utility matters when compared to the subject property.
With regard to the adjustment for property rights, Kleszynski contended in the appraisal report that when properties are leased at market rates and terms, the value of the leased fee and the value of the fee simple interest are the same. However, in the grid analysis, the appraiser made "downward" adjustments to four of the five comparable sales each of which conveyed leasehold interests indicating that the comparable sales are superior to the subject property in terms of property rights conveyed, as the subject property was appraised as a fee simple interest meaning that no leases are conveyed.[1] The adjustment process resulted in an estimated unit value for the subject of $78.00 per square foot of building area, including land, and market value of $3,300,00, rounded, under the sales comparison approach to value.

In reconciling the three approaches to value, Kleszynski placed primary consideration on the sales comparison approach. Kleszynski noted that the income approach to value was given secondary or supportive consideration because he did not have access to any leases encumbering the subject property as of the effective date at issue and, therefore, he concluded that the analytical technique under the income approach to value is "weakened" due to the limited information available to him about the actual and historic operation of the subject as an income-producing property. The appraiser arrived at a reconciled estimate of market value of $3,275,000 as of January 1, 2016. (Kleszynski appraisal report, p. 60)

Based on this evidence, the appellant, Marquardt School District No. 15 requested an increase in the subject's total assessment based on the appraised value.

The board of review submitted its "Board of Review Notes on Appeal" disclosing the total assessment for the subject of $747,310. The subject's assessment reflects a market value of $2,244,848 or $53.15 per square foot of living area, land included, when using the 2016 three-year average median level of assessment for DuPage County of 33.29% as determined by the Illinois Department of Revenue.

In support of its contention of the correct assessment, the board of review through the township assessor submitted information on three comparable sales located in Itasca, Hanover Park and Aurora. The comparables are improved with stand-alone retail (strip-center) or storefront/office buildings of various exterior construction. The buildings were constructed from 1986 to 2008 and range in size from 21,596 to 44,300 square feet of building area. The comparable sales have sites ranging in size from 96,703 to 226,512 square feet of land area and have land-to-building ratios ranging from 4.48:1 to 5.69:1. The comparables sold from March 2013 to March 2015 for prices ranging from $1,200,000 to $1,640,000 or from $37.02 to $55.57 per square foot of building area, including land. Each property was purchased as an investment, and sales #2 and #3 were bank-owned real estate (REO) properties at the time of purchase. Based on this evidence, the board of review requested confirmation of the subject's assessment.

[1] Although the appraiser made no property rights adjustments to comparable #4 in the grid analysis, both the grid and the property information sheet for this sale depicts property rights conveyed as a "leased fee" estate, as are all of the remaining comparable sales.

Conclusion of Law

The appellant contends the market value of the subject property is not accurately reflected in its assessed valuation. When market value is the basis of the appeal the value of the property must be proved by a preponderance of the evidence. 86 Ill.Admin.Code §1910.63(e). Proof of market value may consist of an appraisal of the subject property, a recent sale, comparable sales or construction costs. 86 Ill.Admin.Code §1910.65(c). The Board finds the appellant did not meet this burden of proof and an increase in the subject's assessment is not warranted.

The appellant, Marquardt School District No. 15, submitted an appraisal report estimating the subject property had a fair market value of $3,275,000 as of January 1, 2016. The board of review submitted information on three comparable sales in support of their respective positions before the Property Tax Appeal Board.

The Property Tax Appeal Board gave little weight to the appraiser's final value conclusion. The sales comparison approach was given primary consideration by the appellant's appraiser in determining final value conclusion. However, in each of the five comparable sales, the buyer acquired a leased fee interest in the property with each property having variable number of existing tenants. The Board finds unpersuasive the appraiser's contention that when properties are leased at market rates and terms, the value of the leased fee and the value of the fee simple interest are the same. The Board finds that there is nothing in the record to indicate the rental rates or the terms of the leases for the comparable sales used by Kleszynski. The Board further finds that if the sale of a leased property is to be used as a comparable sale in the valuation of the fee simple interest in another property, the comparable sale is most reliable if a reasonable and supportable market adjustment for the difference in rights can be made, i.e., to compare the lease fee interest to the fee simple interest in the subject property in order to determine if the contract rents of the comparable property was above, below or equal to market rent. (*See Final Administrative Decision of the Illinois Property Tax Appeal Board* Docket No.: 15-05646.001-I-3 *Citing Appraisal of Real Estate,* 13th edition, 2008, page 323). Based on Kleszynski's use of leased fee sales without a full examination of the leases calls into question whether the sales he used represented fee simple values as leases can have direct impact on the purchase price. The Board finds Kleszynski, therefore, made "downward" adjustments to the comparable sales based on subjective data without evidence of market support in the record.

Additionally, the Board finds that by not examining the leases encumbering the **subject property**, Kleszynski acknowledged that the analytical technique under the income approach to value is "weakened" due to the limited information available to him about the actual and historic operation of the subject as an income-producing property. The Board finds that these factors detract from and undermine Kleszynski's final value conclusion. However, the Property Tax Appeal Board will analyze the parties' sale comparables and give them appropriate weight.

The parties submitted a total of eight comparable sales with varying degree of similarity to the subject in support of their respective positions. The only vacant property (i.e., not encumbered by existing leases(s)) is the board of review comparable #3. The Board gave less weight to appellant's appraiser's comparables #1 and #2, along with board of review comparables #2 and #3 due to their sales in 2013 and 2014 being less proximate in time to the January 1, 2016 assessment date at issue and therefore less likely to be indicative of market value than the other sales in the record. The board of review comparables #2 and #3 are also bank-owned real estate (REO) properties which calls into question the arms-length nature of their transactions. The Board also gave less weight to the appraiser's comparable sale #4 based on its building size of 123,182 square feet and site size of 1,219,680 square feet, both of which are significantly larger when compared to the subject's 42,341 square feet of building area and 118,406-square foot site.

The Board finds the best evidence of market value to be the appraiser's comparables #3 and #5, along with board of review comparable #1. The Board finds these three comparables to be most similar to the subject in terms of current use/utility, location, age, building size, and land-to-building ratio. These three comparables also sold more proximate to the subject's assessment date at issue than the remaining comparables in the record. These three best comparables in the record sold from February 2015 to January 2016 for prices ranging from $1,200,000 to $4,600,000 or from $55.57 to $74.30 per square foot of building area, including land. The subject's assessment reflects a market value of $2,244,848 or $53.15 per square foot of building area, including land, which falls within the range established by the best comparable sales in the record on an overall value basis and slightly below the range on a per square foot basis. After considering adjustments to the comparables for building size, current use, and property rights conveyed, the Board finds that subject's assessment is reflective of the property's fair cash value as of January 1, 2016 and no change in the subject's assessment is justified.

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: December 15, 2020

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.

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