FINAL ADMINISTRATIVE DECISION
ILLINOIS PROPERTY TAX APPEAL BOARD

APPELLANT: IEC Properties, LLC
DOCKET NO.: 17-00947.001-C-3
PARCEL NO.: 13-02-201-001

The parties of record before the Property Tax Appeal Board are IEC Properties, LLC, the appellant, by attorney Ellen G. Berkshire of Verros Berkshire, PC in Chicago, and the Peoria County Board of Review by board of review members Greg Fletcher and Patrick O'Shaughnessy.

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 **Peoria** County Board of Review is warranted. The correct assessed valuation of the property is:

LAND:	$344,470
IMPR.:	$1,291,922
TOTAL:	$1,636,392

Subject only to the State multiplier as applicable.

Statement of Jurisdiction

The appellant timely filed the appeal from a decision of the Peoria County Board of Review pursuant to section 16-160 of the Property Tax Code (35 ILCS 200/16-160) challenging the assessment for the 2017 tax year. The Property Tax Appeal Board finds that it has jurisdiction over the parties and the subject matter of the appeal.

Findings of Fact

The parties appeared before the Property Tax Appeal Board by video conference using the WebEx virtual platform. No party objected to the hearing being conducted by video conference using the WebEx video conferencing format. For hearing purposes this was a consolidated proceeding for the 2017 and 2018 tax years identified by Property Tax Appeal Board Docket No. 17-00947.001-C-3 and Docket No. 18-03218.001-C-3. Separate decisions will be issued for the respective appeals as the parties and evidence differ for each appeal as will be fully explained in the respective decisions.

The subject property is improved with a two-story medical office building of masonry exterior construction with insulated fixed pane aluminum frame windows and a raised seamed metal panel roof containing 45,737 square feet of building area. The building was constructed in 2006. The first floor is improved with a central atrium configured as a reception area/waiting room, an optical shop, conference room, exam rooms, offices, two work-stations, small lab, small procedure room, Lasik room, storage rooms, and utility rooms. The second floor includes four washrooms, employee cafeteria and lounge, offices, marketing room, call center room, and storage rooms. Access to the second floor is by one elevator and two staircases. The building has roof-mounted HVAC units and is fully sprinkled with a wet system. There are a total of fourteen washrooms and two employee locker room areas. Flooring is a combination of commercial grade carpeting, ceramic tile, and vinyl tile. The walls are painted or vinyl covered drywall. The ceiling is a composed of an acoustic tile drop ceiling in a metal grid, part drywall, and part exposed ceiling structure. Site improvements include concrete sidewalks, 276 asphalt paved open parking spaces, overhead lighting, and a drive-up with overhead canopy. The subject site has 318,554 square feet or 7.31 acres of land area resulting in a land to building ratio of 6.96:1.

The appellant contends overvaluation as the basis of the appeal. In support of this argument the appellant submitted an appraisal estimating the subject property had a market value of $4,920,000 as of January 1, 2017. The appraisal was prepared by real estate appraisers Edward V. Kling, Donald P. DiNapoli, and Peter D. Helland, of RVG Commercial, LLC.

The appellant called at its witness Edward Kling who is the CEO and review appraiser for Cornerstone Realty Advisors. At the time of the appraisal, he was employed by RVG Real Valuation Group. Kling has been an appraiser for approximately 30 years and is licensed in Illinois, Wisconsin, Iowa, Indiana, and Michigan. The witness also has the MAI designation from the Appraisal Institute. Kling has appraised somewhere between 50 and 100 medical office buildings and hundreds of general office buildings. Kling has performed appraisal work throughout the entire state of Illinois and has done quite a few in the Peoria area in the last couple of years. He is frequently around Peoria and has seen all types of property between Galesburg, Peoria and the Quad Cities. Kling was accepted as an expert in real estate valuation and the appraisal was marked as Appellant Exhibit No. 1.

Kling testified the purpose of the appraisal was to estimate the market value of the property for ad valorem taxes in the State of Illinois with an effective date of January 1, 2017. He appraised the fee simple interest of the subject property, which includes the entire bundle of rights.

Kling inspected the subject property and reviewed plats, maps and the first floor and second floor plans that are included in the appraisal at pages 22 and 23. Kling described the subject improvements as a 45,737 square foot medical-type office building located on approximately a 318,000 square foot site. The owner-occupant is an eye clinic. He explained the building has three sides that don't really have any real window areas, just masonry construction. Kling did not know why the building has no windows or few windows on the east, north or west elevations. The witness described the front as having a nice fenestration, some windows, and you can see the atrium area. He stated the subject is an average quality building at best.

With respect to the site, approximately 40 feet to the east of the building is a water detention area which encompasses between 15 to 20 percent of the site.

Kling testified that the building is an extremely specialized configuration as an owner-user facility that is suited to a particular business. He was of the opinion the building is functional for the current intended user, the current owner, but for any other user significant adaptation would need to be done. He explained there appeared to be three waiting areas and a lot of very small exam rooms located throughout the building.

Kling rated the subject's location as average to below. He explained the subject is surrounded by a lot of agricultural properties. Referencing page 17 of Appellant Exhibit No. 1, the appraisal, Kling explained in testimony and in the report that to the north of the subject is vacant agricultural land, to the south is a vacant lot then a Susan G. Komen Breast Center, a hospice and a church. To the east is a Cancer Center and vacant agricultural land. To the west is vacant land and an apartment complex. Further southwest is a large Louisville Slugger Complex and further to the east is Mt. Hawley Airport. He testified that the subject's location is fairly remote and somewhat isolated between other buildings and the other commercial buildings that were developed about the same time as the subject property. The appraiser stated that Wood Sage Road dead-ends at the subject site.

Kling was of the opinion the highest and best use of the subject as vacant would be to hold for future development or for an owner-user development. The appraisal report at page 30 stated that the highest and best use of the site, as vacant, is office development.

The highest and best use as improved was determined to be the existing use by the current user. Kling testified that there would be considerable cost to adapt to an alternate user and it would be very difficult to find an alternate user for the subject property. The reports states at page 31 (Appellant Exhibit No. 1, page 31) that the current improvements are highly specialized and would likely require modification prior to an alternative medical user. The appraiser testified there is significant functional obsolescence realized and this will shorten the building's economic life dramatically.

Kling first testified about estimating the subject's land value that was used in the cost approach. In estimating the land value, the appraiser utilized six land sales located in Pekin, Dunlap, and Peoria. The comparables ranged in size from 36,155 to 124,146 square feet of land area. The sales occurred from May 2013 to March 2017 for prices ranging from $85,000 to $390,000 or from $2.27 to $5.26 per square foot of land area. Based on these sales Kling estimated the subject property had a land value of $3.00 per square foot of land area or $960,000, rounded.

Kling next estimated the replace cost new of the building improvements utilizing Section 15, page 22 in the Marshall and Swift Valuation Service for medical office buildings. The witness explained that the subject is somewhat unique in that three elevations of the building do not have windows and it appears to be mostly a brick box on the first level. In estimating the replacement cost new, the appraiser used a combination of the cost per square foot cost of class A and some low-class B because of the atrium area that is in the middle of the building. On page 38 of the appraisal report the appraiser estimated replacement cost new to be $160.06 per square foot of building area for a total estimated replacement cost new of $7,320,662.

Depreciation was calculated using the age/economic life method. Kling explained the subject's chronological age was 11 years as of the valuation date. The witness testified that due to the subject's specialized configuration and issues with the overall office market in general at the time, he added to the effective age approximately another 11 years to arrive at an effective age of 22 years. The appraiser also estimated the subject property had a typical economic life of 45 years.

Dividing the subjects effective age by the typical economic life resulted in depreciation of 48.9%, which was rounded to 50%. The depreciated value of the improvements was estimated to be $3,660,331.

With respect to the site improvements the appraiser estimated the paving had a cost new of $618,000 and the canopy, lighting, and landscaping had a cost new of $225,650, which were depreciated 60% and 50%, respectively, to arrive at a depreciated value of the site improvements of $360,000, rounded.

Adding the land value, the depreciated improvement value, and the depreciated site improvement value resulted in an estimated value under the cost approach of $4,980,000 or $108.80 per square foot of building area, including land.

Kling testified that entrepreneurial profit was not included in the cost approach because if you are building yourself a house you would not charge yourself entrepreneurial profit. Kling asserted the same is true of an owner-user facility such as the subject property. He also stated that soft costs are included in the costs used from the Marshall Valuation Service.

Using the sales comparison approach to value, the appraiser testified that in selecting comparable sales he had to consider the somewhat remote location of the subject property and the search was expanded geographically and chronologically to try to take in more comparable data that would be relevant to the subject property. The appraiser utilized eight comparables sales located in Peoria, Palos Heights, Woodridge, Naperville, Washington and Plainfield in developing the sales comparison approach to value. Seven of the comparables are described as being medical office buildings and one comparable (#4) is described as a general office building. Photographs of the comparables in the appraisal appear to depict one-story, two-story, or four-story buildings. The comparables range in size from 8,170 to 54,108 square feet of building area. The buildings range in age from 11 to 32 years old with comparable #5, the oldest building, being renovated in 2009. These properties have sites ranging in size from 34,848 to 149,302 square feet of land area with land to building ratios ranging from 2.17:1 to 10.03:1. The sales occurred from June 2013 to January 2017 for prices ranging from $820,000 to $6,585,000 or from $68.03 to $138.59 per square foot of building area, including land. Elements of comparison used to adjust the comparables included property rights conveyed, financing terms, sale conditions, date of sale, location, building size, land-to-building ratio, construction quality, and age/condition. The appraiser calculated adjustments to the comparables that ranged from -15% to +30% resulting in adjusted prices ranging from $88.44 to $127.91 per square foot of building area, land included. Based on these sales the appraiser arrived at an estimated market value of $108.00 per square foot of building area, including land, for a total value of $4,940,000.

The appraiser testified that comparables #1, #3, #4, are single tenant buildings; comparable #7 was a multi-tenant building at the time of sale but converted to an owner-occupied unit; and the remaining comparables are multi-tenant buildings. The appraiser also indicated that comparable sale #2 was Real Estate Owned (REO) at the time of sale. According to the appraiser they spoke to somebody at the bank concerning comparable #2 and were told that the leases in place were all short-term in nature and the tenants were in the process of going somewhere else. The appraiser also testified that comparable #6 was purchased by the same user as the subject property's ownership.

The appraiser identified an error with the adjustment to comparable #6 stating the land-to-building ratio should have been a positive adjustment for an inferior land-to-building ratio relative to the subject property. The appraiser also identified an error with the adjustment to comparable #8, the comparable should have had a negative adjustment for the smaller building size relative to the subject property. The appraiser made negative adjustments to comparables #1, #3, #4, #6, #7 and #8 for superior one-story utility as one-story buildings are typically more expensive to build on a price per square foot than a very similar building with a two-story configuration. The negative adjustments to the comparables for location was because the of comparables' location in close proximity to more thriving retail, office, or mixed-use type districts where there is more traffic and exposure whereas the subject is isolated and somewhat remote. The appraiser also testified that there was no adjustment for those sales that occurred in 2013 because the office market had been bad for the last 10 to 12 years and there had been no change in the office market between 2013 and 2017 in the subject's area. Kling also testified that about this time frame Caterpillar had announce they would be moving and there was a shock to the Peoria economy when Caterpillar sent their executives and engineering crews to Chicago. The appraiser further stated he used qualitative adjustments to the sales rather than quantitative adjustments because of the lack of data to extract exact adjustments from the market, therefore, qualitative adjustments seemed the better way to go.

The first step in developing the income approach to value was to estimate the market rent associated with the subject property. The appraiser identified seven comparable rentals located in subject's immediate market area of Peoria that ranged in size from 12,000 to 37,439 square feet of building area. The comparables had leases commencing from August 2012 to July 2016 with five comparables having terms that expire from June 2016 to September 2024. The rentals ranged from $13.55 to $19.50 per square foot on a gross basis with the tenants responsible for utilities. Kling estimated the subject's market rent to be $18.00 per square foot on a gross basis resulting in a potential gross income of $823,266. The appraiser testified that a gross lease basis was typical of office buildings at this time as it was a tenant's market and the gross basis limits what their rent will be and takes out any potential for rent escalation over taxes that may change drastically. The appraiser utilized a vacancy and collection loss of 10% of potential gross income or $82,327, which was deducted to arrive at an effective gross income (EGI) of $740,939. Kling reasoned that the subject property is a very specialized building and if goes dark, the tenant or owner leaves, the property will be on the market quite a while. The appraiser next estimated expenses for management (5% of EGI or $37,047); insurance at $.45 per square foot of building area or $20,582; maintenance of $1.50 per square foot of building area or $68,606; reserves for replacement of structural items of $.50 per square foot of building area or $22,869; resulting in total expenses of $153,103 or approximately 21% of EGI. Deducting the total expenses from the EGI resulted in a net operating income (NOI) of $587,837.

Using the mortgage equity band of investment method to develop a capitalization rate, Kling estimated the debt amount would be based on a 70% loan to value ratio, a 5% fixed interest rate, and a 20-year amortization, with refinancing required after 5 years, which would result in a mortgage constant of .0860. The equity investment was 30% with an anticipated return of 10%. Using these estimates the appraiser arrived at a capitalization rate by the band of investment of 9.02%. Kling also developed an overall rate from the debt coverage ratio of 8.73%. As a final method the appraiser conducted a market survey using Situs RERC's report for the fourth quarter of 2016 that reported average pre-tax yield capitalization rates for tier 1 and tier 2 properties of 8.7% and 9.5%, respectively. Based on these methods the appraiser arrived at a capitalization rate of 9.00%. To this the appraiser added 3.0% for the effective tax rate to arrive at a total capitalization rate of 12%. Capitalizing the NOI of $587,837 by the capitalization rate of 12% resulted in an estimated value under the income approach of $4,900,000, rounded.

In reconciling the three approaches to value the appraiser gave equal weight to the sales comparison approach to value and the income approach to value. The cost approach was used as a check against the other two approaches to value and given secondary consideration. The appraiser arrived at an estimated market value of $4,920,000 as of January 1, 2017.

Kling was of the opinion there was no significant market changes as of January 1, 2017, and January 1, 2018, in the subject's market for this type of property. The appraiser was not aware of any physical changes in the property between January 1, 2017, and January 1, 2018.

The appellant requested the subject's total assessment be reduced to $1,639,836 to reflect the appraised value.

Under cross-examination by board of review member Patrick O'Shaughnessy, Kling acknowledged that his rental comparables #1 and #3 are located in the same building. Kling further testified he would not be surprised if four of the five comparables located in downtown Peoria were mostly law offices. The appraiser indicated that comparable #2 was a medical space but did not know the tenant. Kling agreed the subject property is used as an eye clinic and some surgery is performed at this location. He also agreed that other medical buildings are scattered throughout the area.

With respect to the sales comparison approach Kling asserted that comparable #1 was purchased for use as a single tenant medical facility and its use as a methadone clinic, as suggested by O'Shaughnessy, would not have any relevance. The witness testified their research identified comparable sale #3 as being owner occupied and he had no knowledge if other tenants were in the building. Kling also stated that he was looking at the subject property as owner-user office building and if placed on the market the property would have limited alternative users. He explained the highest and best use of the subject is its current use but that is not what the building would sell for if the current tenant is not in place.

Under questioning by the Property Tax Appeal Board, the appraiser acknowledged that comparable sales #2, #5, #7 and #8 were leased fee sales but explained that the leases were short term, less than 12 months, and would not have much of a negative impact. Kling testified that he did not see the individual leases, but the leases were on the way to expiring at the time of purchase. He asserted that he would not need to look at the leases if he knew they were terminating shortly, however, if the leases were long term he would need to have specific lease knowledge. With respect to the income analysis the source of expenses was other properties he was familiar with, however, there was no support for these items in the appraisal.

The board of review submitted its "Board of Review Notes on Appeal" disclosing the total assessment for the subject of $2,225,680. The subject's assessment reflects a market value of $6,691,762 or $146.31 per square foot of building area, land included, when using the 2017 three-year average median level of assessment for Peoria County of 33.26% as determined by the Illinois Department of Revenue.

In support of its contention of the correct assessment the board of review submitted information on four comparable sales located in Peoria and Forsythe. The comparables are improved with one-story, two-story or three-story medical office buildings of brick construction that range in size from 10,168 to 56,532 square feet of building area. The buildings were constructed from 1991 to 2008. The comparables have sites ranging in size from 1.25 to 3.37 acres or from approximately 54,450 to 146,797 square feet of land area resulting in land to building ratios ranging from 2.75:1 to 5.36:1. Comparables #1, #3 and #4 have one tenant with comparable #3 being described as a long-term care hospital. Comparable #2 was reported to have five tenants. The sales occurred from February 2015 to July 2017 for prices ranging from $2,835,000 to $30,200,000 or from $164.52 to $534.21 per square foot of building area, land included. To document the comparables the board of review submitted copies of such documents as the property record card, a listing, the PTAX-203 Illinois Real Estate Transfer Declaration and the PTAX-203-A Illinois Real Estate Transfer Declaration Supplemental Form A.

Board of review member Greg Fletcher testified that the comparables are medical offices with three being located in Peoria. He further asserted that two have buildings that are larger than the subject building and two have buildings smaller than the subject building. Fletcher also stated that the sales sold within three years of 2017, the assessment year in question. Fletcher argued that the board of review comparable sales are a little bit better than the appellant's comparables although there are not as many.

Under cross-examination Fletcher agreed that the board of review comparable sales had tenants and were leased at the time of sales. The board of review had no information about any of the leases. He also agreed that comparable #1 had not been advertised for sale as disclosed on the PTAX-203 Illinois Real Estate Transfer Declaration. Fletcher did not know anything with respect to a May 2017 sale of comparable #2. The witness also agreed that comparable #3 is a 50-bed hospital. Fletched did not believe that comparable #4 had two tenants and stated the building has a single use by a bleeding disorder company. The property transferred with two deeds and Fletcher testified there were two previous owners and had two different businesses. The witness also agreed there were no adjustments made to the comparables by the board of review. Fletcher did not know how the original assessment of the subject property was calculated. The witness further testified that he did not prepare the grid analysis submitted by the board of review, the analysis was prepared by other board of review members.

In closing the board of review was of the opinion the assessment of the subject property was correct.

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 met this burden of proof and a reduction in the subject's assessment is warranted.

The subject property has a total assessment $2,225,680, which reflects a market value of $6,691,762 when using the 2017 three-year average median level of assessment for Peoria County of 33.26% as determined by the Illinois Department of Revenue. The appellant submitted a narrative appraisal estimating the subject property had a market value of $4,920,000 as of January 1, 2017. The board of review provided information on four comparable sales in support of its contention of the correct assessment.

On this record, the Board finds the best evidence of market value to be the appraisal and testimony of real estate appraiser Edward V. Kling presented by the appellant. The appellant's appraiser developed the three traditional approaches to market value in arriving at an estimated market value of $4,920,000 as of January 1, 2017. Using the cost approach the appraiser estimated the market value to be $4,980,000; using the sales comparison approach the appraiser arrived at an estimated market value of $4,940,000; and using the income approach to value the appraiser arrived at an estimated market value of $4,900,000. In reconciling the three approaches to value the appraiser gave equal weight to the sales comparison approach to value and the income approach to value with secondary consideration given the cost approach to value.

The Board finds the board of review did not present any evidence that challenged or refuted the appellant's appraiser's estimate of the subject's land value. No evidence was presented by the board of review to challenge or refute the appellant's appraiser's calculations under the cost approach such as the replacement cost new, depreciation attributed to the improvements or the depreciated value of the site improvements. Similarly, the board of review presented no evidence to challenge or refute the appellant's appraiser's calculations under the income approach to value for such elements as market rent, potential gross income, vacancy and collection loss, the effective gross income, expenses, the net operating income or the capitalization rate used to capitalize the net operating income into an indication of value.

The board of review did provide information on four comparable sales, however, unlike the appellant's appraiser, the board of review did not attempt to adjust the comparables for differences from the subject property. Additionally, the record disclosed that board of review comparable sale #1 was not advertised for sale, which undermines or calls into question whether this was an arm's length transaction reflective of fair cash value. The Board further finds that board of review comparable #3 was used as a 50-bed long term hospital, which is a significantly different use than the subject property as a medical office building. Furthermore, the documentation on comparable #3 provided by the board of review stated the tenant fully occupies the building with an investment double net lease that commenced September 4, 2009, with a 15-year initial term through 2024 with five, 5-year renewal options with 10% rental increases every 5 years. The board of review made no analysis of the long-term lease and the impact it may have had on the purchase price. The Board finds comparable sale #3 was a leased fee purchase for an investment and may not truly reflect the fair cash value of the real estate. The Board finds the sales comparison approach to value contained in the appellant's appraisal together with the testimony provided by the appellant's appraiser, which outlined the adjustment process to account for differences of the comparables from the subject property, is more credible than the unadjusted sales data provided by the board of review.

In conclusion, based on the evidence and testimony presented by the parties in this appeal, the Board finds the subject property had a market value of $4,920,000 as of the January 1, 2017. Since market value has been established the 2017 three-year average median level of assessments for Peoria County of 33.26% as determined by the Illinois Department of Revenue 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. 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: August 23, 2022

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

AGENCY

State of Illinois
Property Tax Appeal Board
William G. Stratton Building, Room 402
401 South Spring Street
Springfield, IL 62706-4001

APPELLANT

IEC Properties, LLC, by attorney:
Ellen G. Berkshire
Verros Berkshire, PC
225 West Randolph
Suite 2950
Chicago, IL 60606

COUNTY

Peoria County Board of Review
Peoria County Courthouse
324 Main Street
Peoria, IL 61602