FINAL ADMINISTRATIVE DECISION
ILLINOIS PROPERTY TAX APPEAL BOARD

APPELLANT: Waukegan 2929 LLC
DOCKET NO.: 17-02584.001-C-1
PARCEL NO.: 08-30-402-008

The parties of record before the Property Tax Appeal Board are Waukegan 2929 LLC, the appellant, by attorney George N. Reveliotis, of Reveliotis Law, P.C. in Park Ridge; and the Lake County Board of Review.

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

LAND:	$44,124
IMPR.:	$214,749
TOTAL:	$258,873

Subject only to the State multiplier as applicable.

Statement of Jurisdiction

The appellant timely filed the appeal from a decision of the Lake 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 subject property contains two property identification numbers (PINs): 08-30-402-008 & 08-30-402-011.[1] The only parcel that is appealed is PIN 08-30-402-008. This parcel is improved with a two-story limited service hotel of masonry exterior construction and has stairway-only access (no elevator). The subject contains approximately 31,586 square feet of building area and has a total of 85 rooms. The hotel was built in 1983 and is approximately 33 years old. The property has a combined land area of 62,340 square feet and has a land-to-building ratio of 1.96:1. The property is located in Waukegan, Waukegan Township, Lake County.

[1] For clarification, the appraisal report includes the value of both PINs combined, although the appellant is only contesting the assessment for PIN 08-30-402-008. Each PIN has a separate land assessment; however, PIN 08-30-402-011 (which is not appealed) contains only land used as parking for the adjacent hotel with an assessment of $31,098.

The appellant contends overvaluation as the basis of the appeal. In support of this argument, the appellant submitted an appraisal report prepared by Donald P. DiNapoli and Edward V. Kling; both are Illinois State Certified General Real Estate Appraisers. DiNapoli performed the property inspection on March 25, 2017 and provided the value conclusion, and Kling provided data support and market opinions in a review capacity. The purpose of the appraisal was to estimate the fair cash value of the subject property for an *ad valorem* tax assessment appeal. The interest valued is the fee simple estate. The final conclusion was that the subject property (including both PINs) had a market value of $870,000 or $27.31 per square foot of building area, including land, or $10,235 per room, as of January 1, 2016.

DiNapoli determined the highest and best use of the property as improved was continued use as a limited service hotel. However, the appraiser noted that the subject's two-story design and stairway-only access does not meet current market demands. In addition, the easement granted to the adjacent Illinois Department of Motor Vehicles facility results in significant decreased utility and, therefore, there is functional obsolescence. In estimating the market value of the subject property, the sales comparison approach and the income capitalization approach to value were developed.

Under the sales comparison approach to value, the appraisers used six comparable sales, each described as limited service hotels located in South Holland, Elgin, North Chicago, Wheeling, Joliet, and Worth. The comparable sales ranged in size from 28,618 to 64,388 square feet of building area and range in age from 28 to 62 years old. The properties had site sizes ranging from 79,061 to 203,861 square feet of land area and have land-to-building ratios ranging from 1.70:1 to 5.12:1. The hotels ranged in the number of rooms from 74 to 147. The sales occurred from March 2013 to November 2015 for prices ranging from $902,500 to $1,925,000 or from $6,786 to $16,554 per room. The appraiser then made adjustments to the comparables for property rights (e.g. easements), sale conditions (e.g. compulsory sales), location (exposure to traffic), construction quality, land-to-building ratios, and age/condition. The adjusted prices range from $9,839 to $13,243 per room. After adjustments, DiNapoli estimated the subject property had a market value under the sales comparison approach of $1,020,000, or $12,000 per room. Using the U.S. Hotel Franchise Development Cost Guide, DiNapoli then estimated the value of personal property such as furniture, fixtures and equipment (FF&E) to be $204,000. After subtracting the FF&E, DiNapoli estimated the market value of the subject to be $820,000, rounded, or $9,647 per room using the sales comparison approach to value.

The second approach developed was the income capitalization approach to value. This approach is based on the principal that the value of a property is indicated by the present worth of future benefits or the net return on the investment property. Under this approach, DiNapoli first obtained one-year occupancy data for the subject property as operated as a Howard Johnson hotel. The appraiser estimated the occupancy rate of the subject to be below the subject's market area standards due to unfavorable factors such as lack of elevator access, shared parking lot, and general condition of the building. The appraiser subject's marketing area had occupancy rates ranging from 60.1% to 69.3%; average daily rate (ADR) ranging from $45.59 to $142.65; and revenue per available room (RevPAR) ranging from $28.13 to $98.84. The subject's competitive set had an occupancy rate of 61.7%, an ADR of $45.59, and a RevPAR of $28.13. Based on the 85 rooms at an occupancy level of 32% and a daily room rate of $56.00, the DiNapoli estimated a daily income of $1,523 or an annual income of $555,968. Adding other operating revenue of $11,346, the appraiser arrived at a total income of $567,314.

Next, DiNapoli subtracted costs associated with rooms in addition to other operating costs which combined totaled $126,851; he also subtracted operating expenses consisting of administrative fees, marketing, franchise fees, maintenance, and utilities which totaled $167,925; and management fees, taxes, reserves for replacements, insurance, return **on** furniture, fixtures and equipment (FF&E), and return **of** FF&E, which totaled $131,141. The result was a net operating income of $141,397.

At the next step in the income approach to value, the appraiser calculated the capitalization rate using the market capitalization data supplied by PwC Real Estate Investor Survey and Real Estate Research Corporation. Applying the industry-standard formula to this data, DiNapoli arrived at the total capitalization rate of 0.1633 or 16.33%. Dividing the net operating income of $141,397 by the capitalization rate of 0.1633, the appraiser arrived at the market value for both Property Identification Numbers (PINs) combined under the income approach of $870,000, rounded, or $10,187 per room.

In reconciling the two approaches to value, DiNapoli concluded that although the sales comparison approach to value is typically considered to be a reliable indicator of value because it involves a simple feature-to-feature comparison and is a direct reflection of market value, this being a hotel, there is not enough information on the comparables in terms of the purchase agreements or income and expenses data that includes FF&E and business values. As a result, the income approach to value was given primary consideration because it reflects the actions of investors in the market for this type of property. The appraiser indicated that he was provided with recent operating statements for the subject property to substantiate the subject's income and expenses, as well as industry standards data which support the subject's market value and how investors typically value this type of property. After consideration of the factors involved in each of the approaches, the appraiser arrived at an opinion that the subject's market value, including both PINs, is $870,000 as of January 1, 2016.

Based on this evidence, the appellant's counsel requested the assessment of the Property Identification Number (PIN) under appeal be reduced to $262,974.

The board of review submitted its "Board of Review Notes on Appeal" disclosing the total assessment for the subject of $422,994. The subject's assessment reflects a market value of $1,276,000 or $15,012 per room and $40.40 per square foot of building area, land included, when using the 2017 three-year average median level of assessment for Lake County of 33.15% as determined by the Illinois Department of Revenue. The combined assessment of both Property Identification Numbers that comprise the subject property is $454,092 which reflects a market value of $1,369,810 or $16,115 per room or $43.37 per square foot of building area, land included.

In response to the appellant's evidence, the board of review submitted a brief asserting that the effective date of the appraisal is one year prior to the subject's January 1, 2017 assessment date at issue; the requested assessment reflects a lower market value than the appraisers' value conclusion; the appellant omitted one PIN for the vacant lot parcel which was included in the appraisal; appraised comparable #1 is an auction sale and is not an arm's length transaction; appraised comparable #2 had no buyer/seller representation and no detailed data associated with the transaction; comparable #3 (the parties' common comparable) sold again in December 2017; comparable #4 was a bank-owned real estate (REO) and sold without a listing broker; comparable #5 is another auction sale with substantial deferred maintenance; and comparable #6 was a transfer from a trust and does not appear to be an arm's length transaction; and finally that five of the six comparables utilized by the appraisers for the Market Data Analysis were located outside Lake County. The board of review submission also includes the property record cards and an aerial map of each of the parties' comparable sales.

In support of its contention of the correct assessment, the board of review submitted information on four comparable sales, as the parties one common comparable property sold twice.[2] The board of review comparable sale #1 is the same property as the appraiser's comparable sale #3. The common comparable is located in North Chicago and comparables #2 and #3 are located in Waukegan and Gurney, respectively. The comparables consist of two-story or three-story hotels ranging in size from 30,000 to 69,570 square feet of building area and range in room numbers from 64 to 99 rooms. The buildings were built from 1962 to 1999 and range in age from 17 to 54 years old. The properties have sites ranging in size from 131,551 to 183,388 square feet of land area; they have land-to-building ratios ranging from 4.62:1 to 5.27:1; and are located from .20 of a mile to 3.88 miles from the subject property. The comparables sold from March 2013 to December 2017 for prices ranging from $1,100,000 to $3,100,000 or from $35.71 to $86.50 per square foot of building area, including land or from $11,111 to $47,692 per room/unit. The property information provided by the Lake County Board of Review indicates that board of review comparable sale #1 was sold as an investment property and that no capitalization rate or sale conditions were provided. Further, the information regarding board of review comparable #2 indicates that this property was not advertised on the market and there were no brokers involved in the transaction.

Based on this evidence and argument, the board of review requested confirmation of the subject's assessment.

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 appellant submitted an appraisal report and the board of review submitted four comparable sales, including one property which sold twice, in support of their respective positions before the Property Tax Appeal Board. The Board gave less weight to the value conclusion arrived by the

[2] The board of review comparable #1/appraiser's comparable #3 sold in March 2013 for $1,100,000 and again in December 2017 for $2,595,000.

appellant's appraiser under the sales comparison approach to value due to the lack of information about the income, expenses, FF&E, and business value associated with the sales.

The Board gave less weight to board of review comparable sale #1 due to this building being sold as an investment property and that no capitalization rate or sale conditions were provided which calls into question the arm's-length nature of this transaction. Similarly, the Board gave less weight to board of review comparable sale #2 which was not advertised on the market and there were no brokers involved in the transaction which also calls into question the arm's-length nature of the transaction. Lastly, the Board gave less weight to board of review comparable sale #3 based on its location in Gurnee being in a different market area from the subject which is located in Waukegan; its dissimilar 3-story design compared to the subject's 2-story style; its land size of 183,388 square feet of land area being approximately three times larger than the subject's 62,340 square feet of land area; its building size of 69,570 square feet of building area being more than double that of the subject's 31,856 square feet of building area; and its newer age relative to the subject. As a final point, the board of review provided little information with respect to the income, expenses, FF&E and business value associated with the sales.

Based on this record, the Board places primary emphasis on the income approach to value developed by the appellant's appraisers. The income approach to value was given primary weight by the appraisers, was well supported, well reasoned, and was more credible and persuasive than the comparable sales submitted by the parties. The appraisers obtained and analyzed recent operating financial statements for the subject property to substantiate the subject's income and expenses. They also applied industry data from cited sources including vacancy rates, hotel accommodations in the subject's market area, and capitalization of net operating income to support the market value conclusion. The appraisers' income approach to value details how investors typically value hotel property and included a detailed analysis of market data. The report is dated April 22, 2017 which is proximate to the subject's January 1, 2017 assessment date at issue. The appraisers' value opinion based on the income approach to value is further supported by the subject's functional obsolescence due to a lack of an elevator in a two-story hotel, as well as a shared parking lot (easement) with the adjacent Department of Motor Vehicles facility.

In contrast, the board of review did not provide any analysis of room rates, vacancy and collection loss or expenses used to calculate the net operating income. Moreover, the board of review did not challenge any of the data or analysis developed by the appraisers in the income approach to value. The board of review provided raw data of three comparable sales without making any adjustments for differences when compared to the subject.

In summary, after considering the evidence in this record, the Board finds the best evidence of market value was the appellant's appraisal estimating the property had a market value of $870,000. The record reflects that the appraisal report includes both PINs that comprise the subject hotel. The Board finds both PINs should have a combined total assessment of $289,971. The PIN under appeal should have a total assessment of $258,873 ($289,971 – $31,098).

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 18, 2020

Mauro M. Glorioso

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

Waukegan 2929 LLC, by attorney:
George N. Reveliotis
Reveliotis Law, P.C.
1030 Higgins Road
Suite 101
Park Ridge, IL 60068

COUNTY

Lake County Board of Review
Lake County Courthouse
18 North County Street, 7th Floor
Waukegan, IL 60085