



**FINAL ADMINISTRATIVE DECISION
ILLINOIS PROPERTY TAX APPEAL BOARD**

APPELLANT: IEC Properties, LLC
DOCKET NO.: 18-03218.001-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; the Peoria County Board of Review by board of review member Greg Fletcher and the supervisor of assessments Dave Ryan;¹ and Dunlap Community Unit School Dist. No 323, intervenor, by attorney Christopher D. Oswald of Miller, Hall & Triggs, LLC in Peoria.

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: \$424,320
IMPR.: \$1,738,880
TOTAL: \$2,163,200

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 2018 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.

¹ Board of review member Patrick O'Shaughnessy appeared and participated in the hearing of the 2017 appeal but not in hearing of the 2018 appeal. To fully understand the evidence in the 2018 appeal, O'Shaughnessy's questioning of the appellant's witness in the 2017 appeal has been incorporated in the 2018 appeal.

At the beginning of the hearing of the 2018 appeal, the parties had a joint motion to incorporate the evidence and testimony provided in the hearing of the appeal for 2017 tax year under Property Tax Appeal Board Docket No. 17-00947.001-C-3 into the hearing for the appeal of the 2018 tax year under Property Tax Appeal Board Docket No. 18-03218.001-C-3. Accordingly, the testimony provided by the appellant's appraiser, Edward V. Kling, and the members of the board of review, in the hearing before the Property Tax Appeal Board in Docket No. 17-00947.001-C-3 is fully incorporated and set forth in the hearing associated with Property Tax Appeal Board Docket No. 18-03218.001-C-3.

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 (heating and cooling) 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 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.

The appraiser first estimated the subject's land value to be used in the cost approach to value. 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 the 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.

Under 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 basis than a very similar building with a two-story configuration. The negative adjustments to the comparables for location was because the of comparables' locations 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.

In this 2018 appeal the attorney for the intervenor, Christopher D. Oswald, cross-examined Kling. Kling testified that the subject building is in average condition and the location is somewhat remote. Using a satellite photo from Google Maps (marked as Intervenor Exhibit A for the record) the witness identified the location of the subject property, referenced as the Illinois Eye Center, and the dark area south of the building as the detention basin. The appraiser further indicated that the building labeled as Tamera S. Daily, APN, depicted southeast of the subject building looked like it would have been present when he reviewed the property. Kling could not recall if the building labelled OSF PromptCare was present when he reviewed the property. He believed the building designated as the hospice home was present when he reviewed the property but could not recall. The witness could not recall if the Grace Presbyterian Church was present at the time of his review of the property. Kling could not recall if the property west of the subject identified as Woodsage Apartments was present when he conducted the appraisal. He did recall the property identified as the Louisville Slugger Sports Complex, depicted in the lower left-hand corner of the image, as being near the subject property.

Kling was not sure whether the properties surrounding the subject have been subdivided for development or are simply agricultural land but did know that the field north of the subject is in hay.

Kling indicated these properties are owner-user type properties. He was of the opinion the subject's location was below average if you are looking for some type of synergy or relationship with people who need to know you are there. The appraiser asserted that, for a typical user, this is not a great location, the property does not have a lot of exposure or access, Wood Sage Road stops just past the water detention area on the subject site. Kling explained that the subject is somewhat isolated, there is a lot of property around the subject that is not developed, and an alternate user might be kind of hard to find due to location.

The appraiser identified Intervenor Exhibit B as a photograph of the subject property taken in October 2019. The appraiser maintained the subject was in average condition for its age. Intervenor Exhibit C was identified as OSF Owens Hospice Home located south of the subject property. Kling stated the condition of the location of this property would be the same as the subject.

Kling agreed that at page 27 of his appraisal the subject property was identified as being zoned N1, which provides for the operation of large institutional uses. The appraiser contends the

zoning does not change his perception of the highest and best use for the area. He reiterated his highest and best was a less specialized office as vacant and continued use as it is improved.

With respect to the land sales contained in the appraisal Kling agreed they were generally zoned commercial. The appraiser also agreed that the subject building would require heavy modifications for an alternative use. He also agreed that to build a facility like the subject property would cost more than an average office because of the specialized requirements like plumbing, electrical and mechanical. He agreed that the subject's more specialized construction would be beneficial to another medical user.

With respect to the comparable sales, Kling agreed most were used for general office spaces with comparable #6 being purchased for an eye clinic by the owner of the subject property. The appraiser was not specifically aware of the use of the space in the comparable sales.

With respect to the income approach to value Kling was shown a photograph marked as Intervenor Exhibit D and asked whether this was a photograph of building containing rental comparables #1 and #4 but he could not recall. He was asked if he would have been surprised if the rental comparable would have been a Handy Andy hardware store originally and replied he would have no idea what it was. Kling testified that as a specialized medical facility, if you found an exact user they may pay for that build-out. He contends that it would be hard pressed to find somebody that is going to pay for the subject's build-out, and it would be discounted considerably in terms of the lease rate. Kling stated you might find another medical user but not an exact duplicate and they are not going to pay in lease terms or in purchase price much more than they can find other general office space they can build out on their own in their market area.

With respect to the mortgage equity band of investment method of determining the capitalization rate contained on page 66 of the appraisal, Kling could not recall the local lenders he talked to about the financing for the subject property. Kling was also questioned about the market survey method of developing a capitalization rate on page 67 of his report and his use of date for retail properties. Kling did not know if the capitalization rate would be the same for retail properties as for medical properties.

Under further cross-examination from the Property Tax Appeal Board, Kling explained that the functional obsolescence due to the subject's specialized nature was handled by adding 11 years to the subject's chronological age. He indicated that functional obsolescence was approximately 25% of replacement cost new.

Under re-direct Kling testified other permitted uses under the N1 zoning set forth on page 27 of the appraisal include assisted living, museums, library, police, fire stations, day care, colleges, vocational trade schools, medical facilities, offices, bed and breakfast, restaurants, and retail sales. Article 12.-N1 Institutional District zoning requirements was submitted by the Intervenor and accepted as Intervenor Exhibit E.

With respect to location Kling agreed the subject property is located less than 1½ miles from the Shoppes at Grand Prairie Development in North Peoria, the largest retail development in the entire Peoria area, along Route 91. He asserted, however, there are a lot of contractor yards, equipment yards, and material yards along the roadway.

The board of review submitted its "Board of Review Notes on Appeal" disclosing the total assessment for the subject of \$2,203,430. The subject's assessment reflects a market value of \$6,620,883 or \$144.76 per square foot of building area, land included, when using the 2018 three-year average median level of assessment for Peoria County of 33.28% 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. Fletcher 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.

The board of review also adopted the appraisal submitted by the Intervenor and requested the assessment be increased to reflect the market contained in the School District's appraisal of \$9,375,000. (Transcript p. 296.)

In support of its contention of the correct assessment the Intervenor, Dunlap Community Unit School Dist. No 323 (hereinafter Intervenor or School District) called as its witness Dale

Kleszynski. Kleszynski is president of Associated Property Counselors, LTD and is a professional real estate appraiser (State of Illinois Certified General Appraiser) with the MAI and SRA designations from the Appraisal Institute. The witness has been an appraiser since 1977 and has appeared before the Property Tax Appeal Board more than 20 times. He has appraised various types of property from residential as well as commercial including special purpose facilities such as hospitals, medical centers, surgery centers, and industrial properties. The witness has experience with both medical properties and general office properties. The witness stated he has average or above average familiarity with the Peoria area as he has appraised properties from approximately Springfield to the northern border of Illinois. He also has visited the subject property. The witness was accepted as a real estate valuation expert.

The School District's appraiser described the subject site as having 318,554 square feet of land located at the corner of Route 91 and Wood Sage Drive. The building is a part one and part two-story specialized eye clinic with 45,737 square feet of building area, which he would call a surgicenter and treatment center. He explained the subject building is basically divided into a waiting area, and treatment areas that he would call surgical areas. Additional features include an optical area that has some retail space, an employee area, and a call center on the second floor.

He described the location as a developing medical campus with users that are medical in character. Kleszynski was of the opinion the subject is well located to north of the intersection of War Memorial Drive and Interstate 274. He testified that the campus area is designed to feature high quality and specialized medical applications for local patients that need their services. The witness opined that the subject is a destination traffic location as everything is basically by appointment with few drop-in or impulse visits. Other offices in the vicinity of the subject property were OSF PromptCare, OSF Hospice, and the Illinois Cancer Center.

Kleszynski prepared a narrative appraisal for the subject property with an effective date of January 1, 2018, which was marked and accepted as Intervenor Exhibit F. The appraiser considered the subject to be above average in terms of condition and site location. He considered the immediate vicinity to be basically emerging in the sense the trend of development is away from the intersection of War Memorial Drive and Interstate 274 north to where the subject property is located. Beyond the subject property is an abundance of agricultural land where the highest and best use has not been changed from agricultural. The appraiser considered the uses surrounding the subject institutional in character because they are large operations that are used for medical care.

The School District's appraiser determined the highest and best use of the property as vacant is to be developed in accordance with the current N1 zoning classification. He determined the highest and best use of the subject as improved is for the continued use as a specialized surgicenter/procedure center that services the eye care industry or the eye care medical field. He stated the subject property is a build-to-suit facility designed to serve its purpose.

Kleszynski developed the three approaches to value in estimating the market value of the subject property. The School District's appraiser first developed the cost approach to value with the initial step being estimating the land value. The appraiser identified five comparable land sales located in Peoria, Morton, Pekin, Washington, and East Peoria. The comparables ranged in size

from 64,904 to 459,122 square feet of land area or from 1.49 to 10.54 acres. The sales occurred from November 2013 to November 2017 for prices ranging from \$400,000 to \$1,450,000 or from \$3.16 to \$6.95 per square foot of land area. Kleszynski determined each comparable would require an upward adjustment for elapsed time or market conditions at the time of sale. The appraiser determined each comparable required a downward adjustment because of their superior location and a downward adjustment for zoning as each was zoned for commercial, business or retail use. The appraiser also determined land comparable sale #1 would require an upward adjustment due to its larger size relative to the subject property. Comparable land sales #2 through #5 are smaller in size relative to the subject and required downward adjustments for land area. The appraiser's qualitative adjustments are contained on page 37 of his report, which disclosed adjusted prices ranging from \$3.78 to \$5.20 per square foot of land area. The appraiser estimated the subject site had an estimated land value of \$4.00 per square foot of land area or \$1,275,000.

Kleszynski utilized internal files and the Marshall & Swift Cost Service to estimate the cost new of the improvements. He explained in the report that the base cost to construct an Average to Good Class B Medical Office and treatment facility is \$195.00 per square foot of building area. Adjustments were made to the base cost for number of stories, building height, building shape (perimeter), location, and current costs for material and labor, resulting in an adjusted price of \$196.03 per square foot of building area and a replacement cost new of \$8,965,895. The appraiser then added \$450,000 for site preparation and improvements. He also added \$239,772 for soft costs such as engineering, architectural and permits. A final component was an entrepreneurial profit of 12% of cost new or \$1,158,680. Kleszynski explained in the report (Intervenor Exhibit F, page 40) that entrepreneurial profit is the coordination component of value and reflects the profit necessary for the developer to undertake the management, responsibility and risks of construction associated with the subject property. Based on conversations with developers active in the construction of building improvements throughout the Chicagoland market that suggested a profit of 10 to 30 percent is often achieved, he selected 12.0%. Summing the components resulted in a total cost new of \$10,814,347.

Next Kleszynski estimated physical depreciation associated with the building using the age/life method with an effective age of 10 years and an economic life of 55 years resulting in 18% or \$1,874,609 in physical depreciation. Site improvements were estimated to have an effective age of 10 years and an economic life of 30 years resulting in 33% or \$168,000 depreciation. The appraiser also attributed 5% functional obsolescence due to the atrium located in the subject building resulting in an additional deduction of \$515,517. The appraiser estimated the depreciated value of the improvements to be \$8,256,221. To this Kleszynski added the land value to arrive at an estimated value under the cost approach of \$9,530,000, rounded.

With respect to entrepreneurial profit the appraiser explained that in the Marshall & Stevens Cost Manual, there are profitability lines that are tied to the contractors' estimates. However entrepreneurial profit is a reflection of the effort that is made in order to reward the owner for the work to construct the property, which he equated to "sweat equity." Kleszynski opined that it is an incorrect appraisal technique to avoid entrepreneurial profit as a line item. The appraiser also testified that depreciation was based not only on the subject's chronological age but on his observation that the property is a well-maintained medical facility.

Kleszynski next developed the income approach to value. The first step was to estimate the market rent attributable to the subject property. The appraiser testified he maintains a database of medical leases based on work he has done on specific properties and information exchanged with other appraisers active in the particular market area. He stated that typical leases associated with highly specialized medical service structures are proprietary in character and in instances developed based on an agreement with the parties that it will remain confidential. The appraiser selected six confidential leases and used a survey from the CoStar database. He further explained that medical office leases oftentimes are long term in character, being in excess of ten years with numerous options to extend. Additionally, the rent would reflect not only the specialized characteristics and construction costs associated with a property like the subject but oftentimes include equipment units in the leases that are recaptured on a short-term basis. Kleszynski looked at both types of leases to extract the short-lived items that should not be included in real estate and apply only a rental rate that would reflect the bricks and mortar aspect of the property. The witness stated that the confidential locations are highly specialized and in many instances superior to the subject property containing surgicenters with air cleaners and specialized equipment from a power perspective. These comparables would require downward adjustments in order to reflect those physical characteristics of the property.

The confidential properties were described as being located in Davenport, Iowa and central Illinois. The six comparables that were deemed confidential ranged in size from 7,000 to 20,000 square feet of building area with five being built from 1996 to 2008. Each property has a medical tenant. Five comparables have lease dates from July 2014 to December 2018 with terms ranging from 2 to 10 years. The rents ranged from \$31.68 to \$42.84 per square foot on a net basis. The survey included five comparables that range in size from 1,900 to 23,000 square feet of building area with lease dates ranging from August 2014 to August 2019. The rents ranged from \$14.00 to \$22.75 per square foot of building area on a net, semi-net, gross, and modified gross basis. Based on these comparables the appraiser estimated the subject property would have a market rent of \$18.00 per square foot of building area on a net basis resulting in a potential gross income (PGI) of \$823,266. According to the appraiser when leased on a net basis the tenant pays the base rental, individual utilities, and a pro-rata portion of the real estate taxes, insurance, and common area maintenance. The owner is responsible for the expenses associated with vacancy, reserves, miscellaneous items and management fees.

Kleszynski next determined a blended vacancy and collection loss rate of 7% of PGI or \$57,629 using CoStar analytics that included approximately 1,400,000 square feet of medical office space in Peoria, Bloomington and Champaign metropolitan markets. Deducting the vacancy and collection loss from PGI resulted in an effective gross income (EGI) of \$765,637. Expenses, including real estate taxes, insurance, management, common area maintenance (CAM), reserves, and miscellaneous expenses, totaling \$407,869 or 53.27% of EGI were deducted. The appraiser then determined that reimbursements to the owner totaling \$333,082 were to be added to arrive at a net operating income (NOI) of \$690,851.

In estimating the capitalization rate Kleszynski considered the CoStar Survey that indicated an overall capitalization rate for medical office space in the Peoria, Bloomington and Champaign metropolitan markets at 7.40%. The appraiser also considered published sources and stated that PricewaterhouseCoopers, LLP Investor Survey as of the effective date of the appraisal reported overall rates for the National Medical Office Buildings Market ranged from 4.50% to 10.00%

with an average of 6.9%. Using the band of investment technique with a loan to value ratio of 75%, a mortgage interest rate of 5.25% with a 25-year term, an equity ratio of 25% and an equity return of 8%, the appraiser arrived at a capitalization rate of 7.40%. The appraiser capitalized the NOI using a capitalization rate of 7.4% to arrive at an estimated market value of \$9,335,000.

As a check the appraiser estimated the subject's rent on a gross basis and adding a tax load factor to the capitalization rate. The rent would include the base rent of \$18.00 per square foot and the projected real estate taxes, insurance, and common area maintenance that would be passed on to the tenant resulting in a PGI of \$1,181,419. Deducting vacancy and collection loss of 7% of PGI resulted in an EGI of \$1,098,720. Deducting expenses including insurance, management, common area maintenance (CAM), reserves, and miscellaneous expenses, resulted in a net operating income of \$971,251. The appraiser calculated the effective tax rate to be 2.99% which was added to the capitalization rate of 7.4% to arrive at a loaded overall capitalization rate of 10.40%. Capitalizing the NOI resulted in an indicated value of \$9,340,000.

Based on these two calculations the appraiser arrived at an estimated market value under the income approach of \$9,335,000.

The final approach to value developed by the appraiser was the sales comparison approach. Kleszynski searched State of Illinois and tried to find comparable sales with specialized office spaces that had either a complete or a heavy medical presence within the structure. The comparables he located were leased fee sales, but he asserted that adjustments were made because of the nature of the sales and the types of properties involved that allowed him to identify the fee simple value of the subject property. The appraiser identified six comparable sales located in Forsyth, Sycamore, Moline and Bloomington. Each comparable was used as a medical office building. The buildings were one story, two story, or part one and part two story structures were built from 1990 to 2015 and ranged size from 21,140 to 49,589 square feet of building area. The comparables have land-to-building ratios ranging from 2.60:1 to 4.36:1. Comparables #1, #5 and #6 were multi-tenant buildings with comparables #2, #3 and #4 being single tenant buildings. Comparables #2 and #6 were identified as sale-leaseback transactions. Comparable #5 was part of a two-property portfolio sale. The sales occurred from April 2016 to August 2019 for prices ranging from \$4,900,000 to \$18,200,000 or from \$196.27 to \$522.64 per square foot of building area, including land.

Kleszynski determined each comparable would require a 25% downward adjustment for property rights conveyed due to being leased fee transactions and items, such as short-lived equipment or business components, included in the transaction. All sales were considered arm's length transactions and no adjustments were made for condition of sale. Sales #1, #2, #3 and #4 required upward adjustments for elapsed time and/or market conditions. The appraiser determined each comparable was superior to the subject in location and made a downward adjustment accordingly. Each comparable has a land-to-building ratio that was inferior to the subject necessitating an upward adjustment. Comparables #1 and #6 were determined to similar to the subject in size and required no adjustment but comparables #2, #3, #4 and #5 were smaller than the subject and required downward adjustments. Each comparable has superior zoning than the subject and require a downward adjustment for this element. After making qualitative adjustments the adjusted prices ranged from \$131.25 to \$334.43 per square foot of building area, including land. The appraiser noted that the average price was \$329.39 per square foot of

building area including land and the median price was \$305.18 per square foot of building area including land. The appraiser estimated the subject property had a market value of \$205.00 per square foot of building area including land for an indicated value under the sales comparison approach of \$9,375,000.

Kleszynski testified that he verified the sales through appraisers that had been involved with the transactions and used public records to confirm the prices paid for each transaction.

In reconciling the three approaches to value the appraiser indicated all were given supportive weight and arrived at an estimated market value for the subject property of \$9,375,000 as of January 1, 2018.

Kleszynski testified he did not use any comparable sales or rental comparables that were general office space because they are not similar to the subject property and don't carry the same physical characteristics and specialized uses that are found in the subject property. He explained that the data he selected best represent the physical and economic characteristics of the subject property and chose to use those rather than more generalize office uses or more generalize office uses. He was of the opinion the most likely purchaser and occupant of the subject property would be an eye clinic for a similar use and would perform the procedures that occur at the subject property.

Under cross-examination Kleszynski agreed that the appraisal lists Caterpillar as one of the major employers in the area but did not include any information on the relocation of Caterpillar. With respect market trends contained in the Area Data section contained on page 11 of the appraisal, Kleszynski marked both increasing and stable for vacancy trend but testified that he identified the vacancy trend as stable. Additionally, under the present land use section the appraiser indicated 0% was used as retail and 70% as vacant land.

Kleszynski agreed his land sale #1 was developed into an auto dealership, land comparable #2 was purchased for retail development, land sale #3 is located in a heavily commercial area and land sale #5 was purchased for commercial development. The witness further testified that the comments with respect to land sale #4 being an outlot of the subject subdivision was in error. He agreed that land sales #1, #3, #4 and #5 were all developed for commercial use and comparables #1 and #4 are across from extensive commercial applications. He agreed that none of the land comparables have agricultural land to the north, none have the same zoning as the subject, each comparable has superior zoning as the subject, and are more mature in terms of development when compared to the subject.

Kleszynski testified that in estimating the cost of the improvements he used reproduction cost. The witness stated in appraisal parlance there is a difference between the replacement cost and reproduction cost and the numbers he placed in the cost approach are related to the reproduction cost. In using reproduction cost the appraiser explained the subject building was built 11 years ago and the components from the property, with the exception of technological issues, would be relatively the same as they were 12 years ago.

With respect to entrepreneurial profit, the appraiser contends that an owner-occupier of a building expects to realize a profit upon completion of the construction. Kleszynski was asked to

read a section from the Appraisal of Real Estate 14th Edition stating, “As a market derived figure, an estimate of entrepreneurial profit or entrepreneurial incentives is only as reliable and precise as available market data warrants.” The appraiser did not use any information on local available market data in the appraisal to support his estimate of entrepreneurial profit. The witness also read a second section from the Appraisal of Real Estate 14th Edition stating, “However, the entrepreneurial profit might only be realized years after the property is built when it sells to a similar owner-occupant at a premium because the property is suitable and immediately available unlike new construction or conversion of a different property.” The appraiser agreed the subject property is occupied by the owner that built the property in 2006. The pages from the Appraisal of Real Estate 14th Edition, was marked and accepted as Appellant Exhibit No. 3.

With respect to the rental comparables #1 through #6 the appraiser indicated the information was confidential and he was prohibited from giving information with respect to the address, name of the landlord, name of the tenant, and extension options in the lease. The appraiser further indicated that he would have to review his files, which are confidential, to determine if he has information on the comparables related to rent abatements, whether there is a CAM cap, if the tenant has signage rights, and if the tenant can assign the lease or sublet the space. The appraiser agreed that he did not provide a redacted summary page for lease comparable #6, which was an internal error. The appraiser also stated that he does not have any photographs of the confidential buildings for publication.

With respect to the rental comparables the appraiser made no adjustment for location but adjusted for condition, construction, area leased, equipment, specialize procedure areas and utility. The appraiser indicated that there are a multitude of variables that have to be factored in making the determination of what the ultimate lease rate is. He agreed that those factors are not disclosed for the confidential rental comparables in the appraisal and the details about the appraiser’s adjustments to the comparables are not disclosed in the chart highlighting the comparables on page 49 of his report.

With respect to the CoStar rentals highlighted on page 49, the appraiser agreed that the comparables are smaller than the subject and are representative of smaller units within multi-tenant office buildings. Additionally, the CoStar information does not disclose the length or term of the lease for each comparable.

Kleszynski described the subject improvement as specific office space for the use that is ongoing at that location and is not general medical office space that would be occupied by a general practitioner. He testified that the vacancy rate taken from the CoStar was a melding of general and specialized medical office buildings in their database. He did not know how many specialized office spaces, how many of the medical office spaces were connected to hospitals, how many medical office buildings with over 40,000 square feet were in the survey, how many properties were specialized eye clinics, or how many were single tenant office buildings over 40,000 square feet without reviewing the survey and identifying them specifically.

The Intervenor’s appraiser stated that reimbursable expenses contained on page 54 of the appraisal included real estate taxes, insurance and common area maintenance (CAM). The reimbursable expenses totaling \$333,082 is the single tenant’s pro-rata share, which excludes the vacancy and collection loss. The real estate tax estimate was based on his appraised value of

\$9,375,000. To arrive at the reimbursable expenses, he added the real estate taxes of \$280,400, insurance of \$20,582, and CAM expenses of \$57,171 and then subtracted 7% of that total to account for vacancy and collect loss to arrive at \$333,082.

The potential gross income on page 56 of his appraisal includes the expense reimbursement for real estate taxes, insurance and CAM expenses, which would be the amount the occupant would pay. The real estate tax component was \$280,400, approximately \$83,000 more than the actual taxes in 2018. The subject's gross rent on page 56 equates to \$25.83 per square foot of building area. The appraiser agreed that the subject's gross rent would be higher than the net rent on a per square foot basis. The witness agreed that the purpose of loading the capitalization rate in the income approach is to accommodate the exclusion of the real estate tax expense. He asserted, however, including the real estate taxes as income in the analysis on page 56 and also using a loaded capitalization rate is more consistent application of the math.

With respect to comparable sale #1, Kleszynski agreed the property sold in 2016 and was remodeled in 2014 and 2015, although not mentioned in the report. He also agreed this property is a multi-tenant building located near a mall. He thought the building had three tenants with two of the tenants being non-medical. The witness further indicated he would not be surprised if CoStar reported the comparable as having nine tenants and further indicated the occupancy rate was high. He agreed this building was constructed as a build-to-suit multi-tenant office building for Decatur Memorial Health Foundation. He also stated the photograph depicts a two-story building and the description of the building on page 58 as a one-story building was incorrect (Transcript pp. 273-274).

Comparable #2 was identified as a sale-leaseback built in 2015 and sold in 2016. Kleszynski testified this was a build-to-suit eye clinic that had specialized features to accommodate the needs of the occupant. The witness did not know whether the owner-operator had a relationship with the developer for financing the sale leaseback. The appraiser did not have a copy of the lease but testified it was a long-term lease with "bumps" in the lease. He further indicated that in a long-term lease in place with a sale-leaseback, the buyer is taking the income stream into consideration but is also acquiring the full bundle of rights. The appraiser indicated the lease had some bumps and that may have included some of the equipment located in the building.

With respect to improved comparable sale #3, Kleszynski recalled the transfer declaration indicated the property had not been advertised for sale and was fully leased at the time of sale. The witness testified that he did not have a copy of the lease but his recollection this property had a long-term lease of ten years.

With respect to comparable #4, the appraiser agreed this was a leased fee. He was aware this comparable had a basement but was not sure if it was fully finished. Kleszynski agreed this property is located across from a hospital and there is retail in this location but did not know who the "big box" users are. The witness agreed this property is located near a hospital.

The Intervenor's appraiser agreed that comparable sale #5 was part of a portfolio transaction that was leased at the time of sale. He was not aware if there was a permit to remodel the property prior to the sale. The witness did not have a copy of the lease and did not recall if the lease provided an abatement for the remodel that was going to occur. He would classify this as a

specialized medical building due to the dialysis procedure occurring in the building. He agreed this is a one-story building located on an out-lot of a hospital.

Kleszynski agreed that comparable #6 was a multi-tenant building that was a leased fee subject to a sale-leaseback. He was not aware that the buyer remodeled parts of the building immediately after the sale but that would not have surprised him. He also would not be surprised that this comparable had a full finished basement with 11,500 square feet. The appraiser did not have copies of the actual leases for the property.

The appraiser agreed that he did not know the specific rents that were paid on a per square foot basis for the comparable sales. The appraiser explained that the 25% negative adjustment to the comparables sales was for the leased fee; furniture, fixtures and equipment (FFE); and business consideration. The witness also agreed that the existence of a lease and the encumbrance on a property would have an impact on what is paid. The amount paid for property that is leased for 5-year versus a 20-year lease would depend on what the leases said. Kleszynski stated that the best-case scenario would be to have a copy of the actual lease contract so that calculations can be precisely made.

Under redirect examination Kleszynski read an addition statement from the Appraisal of Real Estate 14th Edition, Appellant Exhibit No. 3, discussing entrepreneurial profit stating, "Nevertheless, most market areas have typical or appropriate range of expected reward that can be determined through market research, usually through interviews with developers and other market participants about anticipated acceptable and actual levels of profit achieved in the market."

Conclusion of Law

The parties contend the market value of the subject property is not accurately reflected in its assessed valuation. Except in counties with more than 200,000 inhabitants that classify property, property is to be valued at 33 $\frac{1}{3}$ % of fair cash value. (35 ILCS 200/9-145(a)). Fair cash value is defined in the Property Tax Code as "[t]he amount for which a property can be sold in the due course of business and trade, not under duress, between a willing buyer and a willing seller." (35 ILCS 200/1-50). The Supreme Court of Illinois has construed "fair cash value" to mean what the property would bring at a voluntary sale where the owner is ready, willing, and able to sell but not compelled to do so, and the buyer is ready, willing, and able to buy but not forced to do so. Springfield Marine Bank v. Property Tax Appeal Board, 44 Ill.2d 428 (1970). 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). 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 evidence in the record supports a reduction to the assessment of the subject property.

The subject property has a total assessment of \$2,203,430, which reflects a market value of \$6,620,883 or \$144.76 per square foot of building area, land included, when using the 2018 three-year average median level of assessment for Peoria County of 33.28% as determined by the

Illinois Department of Revenue. The appellant contends the subject property is overvalued for assessment purposes and submitted an appraisal prepared by Edward V. Kling estimating the subject property had a market value of \$4,920,000 as of January 1, 2017. The appellant requested the subject's assessment be reduced to \$1,639,836 to reflect the appraised value presented by Kling. The School District contends the subject property is undervalued for assessment purposes and present an appraisal prepared by Dale J. Kleszynski estimating the subject property had a market value of \$9,375,000 as of January 1, 2018. The board of review provided information on four comparable sales to support its position. Board of review comparables sales #1 and #2 were the same comparable sales contained in the School District's appraisal as comparable sales #3 and #2, respectively. The board of review requested also adopted the School District's appraisal and accordingly requested the subject's assessment be increased to reflect a market value of \$9,375,000.

Initially, the Property Tax Appeal Board gives little weight to the comparables sales analysis provided by the board of review. As noted, the board of review submitted information on four comparable sales, however, unlike the appellant's appraiser or the Intervenor'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. Furthermore, as previously stated, two of the four sales used by the board of review were contained in the Intervenor's appraisal and the Intervenor's appraiser attempted to adjust these comparables to make them more equivalent to and be more reflective of the subject property.

The record contains two appraisals submitted by the appellant and the Intervenor for the Board to consider in determining the correct assessment of the subject property. In the absence of a "contemporaneous sale between parties dealing at arm's length" that would practically be conclusive on the issue of market value, valuation methods are employed to estimate a property's fair market value. Cook County Board of Review v. Property Tax Appeal Board and Omni Chicago, 384 Ill.App.3d 472, 894 N.E.2d 400, 407 (1st Dist. 2008). There are three basic valuation methods, the sales comparison approach, the income capitalization approach and the cost approach. Id. Both appraisers developed the three traditional approaches to value, which will be reviewed in turn as the Board makes its determination of the correct assessment for the subject property for the 2018 tax year.

Both appraisers are in agreement as to the physical description of the subject site and the subject building. The appraisers appear to be in agreement with the highest and best use of the subject property as vacant: Kling stating the highest best use of the site as vacant is office development, and Kleszynski finding the highest and best use of the site as vacant if for immediate

development in accordance with the current zoning classification. The appraisers are also in agreement with the highest and best use of the property as improved: Kling is of the opinion that the existing use and improvements constitute the highest and best use of the site as improved, and Kleszynski concluding that the highest and best use of the subject property as improved is the current medical office and treatment facility that is occupied by an owner or tenant.

With respect to the estimated land value, Kling arrived at an estimated market value of \$3.00 per square foot of land area or \$960,000 while Kleszynski estimated the subject site had a value of \$4.00 per square foot of land area or \$1,275,000. Both appraisers relied on comparable land sales to arrive at their respective opinions of market value. However, the Board finds the more credible estimate of land value was presented by Kleszynski, as his report detailed the adjustment process used to arrive at the land value, which included his qualitative adjustments to each land sale for time, location, zoning, and size. (Intervenor Exhibit F, page 37.) Kling provided no explanation in the report concerning the adjustments he considered when evaluating the land sales but simply stated, "After adjustment the sales indicate a range from \$2.66 per square foot to \$3.39 per square foot. This is considered a reasonable range of unit value for the subject with the greatest consideration given to the middle of this range." (Appellant Exhibit No. 1, page 35.) Based on this record the Board finds the subject site had a market value of \$1,275,000 as of January 1, 2018.

With respect to estimating the value of the improvements using the cost approach to value, both appraisers indicated they used the Marshall and Swift Cost Service. However, Kling testified he utilized replacement cost new while Kleszynski testified he used reproduction cost new. Replacement cost new includes material, labor, overhead that would be incurred in constructing an improvement having the same utility to its owner as a subject improvement, without necessarily reproducing exactly any particular characteristic of the subject. The replacement cost concept implicitly eliminates all functional obsolescence for the value given, thus only physical depreciation and economic obsolescence need to be subtracted to obtain replacement cost new less depreciation. Glossary for Property Appraisal and Assessment, International Association of Assessing Officers, 1997, p. 120. Reproduction cost new is the cost of constructing a new property, reasonably identical (having the same characteristics) with the given property except for the absence of physical depreciation, using the same materials, construction standards, design, and quality of workmanship, computed on the basis of prevailing prices and on the assumption of normal competency and normal conditions. Glossary for Property Appraisal and Assessment, International Association of Assessing Officers, 1997, pp. 120-121. Kling's appraisal specifically identified his use of the replacement cost new and provided the differing definitions for reproduction cost and replacement cost. (Appellant Exhibit No. 1, page 37.) Conversely, Kleszynski's report at page 39 stated in part, "The following is a summary of the cost to **replace** (emphasis added) the subject building and site improvements" However, during the hearing he testified he used reproduction cost new. Additionally, his report does not provide the definition for either the replacement cost or the reproduction cost new. The differences in identifying the technique used to calculate cost new and the lack of construction cost new definitions in the report detracts for the credibility of Kleszynski's calculations. After considering the two estimates of cost new of the building improvements, the Board gives more weight to Kling's estimated replacement cost new of \$7,320,662 or \$160.06 per square foot of building area. The Board further finds, based on the testimony of Kleszynski, that an

entrepreneurial profit of 12% of replacement cost new or \$878,479 should be added to arrive at a total replacement cost new of \$8,199,141.

Both appraisers used the age/live method of determining depreciation. Kling estimated the subject had physical age of 11 years while Kleszynski estimated the subject had an effective age of 10 years. Kling estimated the subject had an economic life of 45 years while Kleszynski of 55 years. Neither appraiser provided a clear indication of the source or method used to calculate the economic life of the subject building. Therefore, the Board finds the subject property has an effective age of 11 years and an economic life of 50 years resulting in physical depreciation of 22% of replacement cost new. The Board finds there was no support for Kling's deduction of an additional 25% for functional and external/economic obsolescence. Kling did not break out the depreciation associated with functional obsolescence or for external/economic obsolescence but simply lumped the two components together by adding 11 years to the subject's effective age. The Board gives this methodology little weight. Additionally, using replacement cost new should eliminate all functional obsolescence. The Board further accepts Kling's estimate of the cost new of the site improvements of \$843,650 and their depreciated value of \$360,000, rounded. Based on this record the Board finds the subject property had a replacement cost new of \$8,199,141. Deducting 22% for depreciation results in a depreciation cost new of the building improvements of \$6,285,330. Adding the depreciated value of site improvements of \$360,000 and the land value of \$1,275,000 results in an estimated value under the cost approach of \$7,920,330 which equates to \$173.17 per square foot of living area, including land.

With respect to the income approach to value, Kling arrived at an estimated market rent of \$18.00 per square foot of building area on a gross basis using information on seven rental comparables. Kleszynski estimated the subject property had a market rent of \$18.00 per square foot of building area on a net basis, or, alternatively, \$25.83 per square foot of building area on a gross basis. The Board gives less weight to Kleszynski's estimate of market rent as six of the rental comparables he used were described as being "confidential" and provided little information within the report that would allow this Board to truly evaluate the quality, validity and reliability of the comparables to establish the market rent for the subject property. Kleszynski's appraisal did contain a summary of rental data from CoStar Comps with leased areas ranging in size from 1,900 to 23,000 square feet and rents ranging from \$14.00 to \$22.75 per square foot of building area. These rentals are supportive of Kling's estimate the subject had a market rent of \$18.00 per square foot of building area on a net basis for a potential gross income of \$823,266.

With respect to the estimated vacancy and collection loss, Kling provided no data to support his conclusion of 10% of PGI as the vacancy and collection loss deduction associated with the subject property. Conversely, Kleszynski's report referenced a survey from CoStar analytics that included approximately 1,400,000 square feet of medical office space in Peoria, Bloomington and Champaign metropolitan markets establishing a vacancy and collection loss of 7.0% of potential gross income. The Board finds Kleszynski's estimate of vacancy and collection loss is better supported. Deducting the vacancy and collection loss of 7% from potential gross income results in an effective gross of income of \$765,637.

As neither appraiser provided much by way of documentation or references to market surveys to document the expenses in each report, the Board gives equal weight to the estimated expenses

and finds the expenses to be deducted from the effective gross income to be as follows: management - \$35,750, insurance - \$20,282, CAM - \$62,889, reserves - \$17,152, and miscellaneous \$3,914, resulting in total expenses of \$139,987. Deducting the expenses results in a net operation income of \$625,650.

The Board further finds the better practice in estimating the market value for ad valorem tax purposes is to develop an effective tax rate to be used in the capitalization rate rather than to use real estate taxes as an expense under the income approach to value.

With respect to the capitalization rate, the Board finds that Kleszynski's overall loaded capitalization rate of 10.4% is better support with reference to market as it contains reference to market surveys and a calculation of the effective tax rate. Capitalizing the net income of \$625,650 using a capitalization rate of 10.4% results in an estimated value under the income approach of \$6,016,000, rounded.

The final approach to value developed by the two appraisers was the sales comparison approach to value. Kling utilized eight comparable sales that sold from June 2013 to January 2017. The Board finds that five of the eight sales used by Kling occurred in 2013 and 2014, between approximately four years and five years prior to the January 1, 2018 of the assessment year at issue. The three sales contained in Kling's appraisal that sold most proximate in time to the assessment date include sales #4, #5 and #6. These three comparables sold from June 2015 to January 2017 for prices ranging from \$1,177,000 to \$6,585,000 or from \$105.64 to \$124.95 per square foot of building area. His report and testimony focused on the sale of general office buildings rather than sales of medical office buildings with a similar highest and best use as the subject property. Additionally, Kling's adjustments to the comparables are not well supported or documented. The report contains generalized statements about purported adjustments to the comparables and concluded the sales have adjusted prices ranging from \$91.84 to \$127.91 per square foot of building area with a mean adjusted value of \$104.95 per square foot of building area. The appraiser gave greatest consideration to the middle of the adjusted range in arriving at an estimated value of \$108.00 per square foot of building area. Due to the fact that five of the sales are relatively dated with reference to the assessment date at issue and there is a lack of discussion concerning the adjustment process for each of the individual properties, little weight is given Kling's estimate of value under the sales comparison approach. The Board, however, will give some weight to Kling's comparable sales #4, #5 and #6 with unadjusted unit prices ranging from \$105.64 to \$124.95 per square foot of building area, including land.

The Intervenor's appraiser's comparable sales were more similar to the subject property than those provided by Kling and appear composed of properties improved with medical office buildings with a similar highest and best use as the subject property. These comparables sold from April 2016 to August 2019 for prices ranging from \$4,900,000 to \$18,200,000 or from \$196.27 to \$522.64 per square foot of building area, including land. The evidence and testimony disclosed, however, the comparables were leased at the time of sale, two were sale-leasebacks, and one comparable had not been advertised. The Intervenor's appraiser did not have the leases associated with the comparable sales and the appraiser did not know the specific rents paid for the comparable sales. The appraiser did make a blanket 25% downward adjustment to the comparable sales for the property rights – leased fee nature of the sales, however, the Board finds this was somewhat subjective and not supported by any analysis of the lease terms associated

with the sales. The fact that each sale was a leased-fee and the appraiser did not review the leases to determine more precisely what adjustments, if any, needed to be made, detracts from the weight that can be given the conclusion of value under the sales comparison approach to value developed by Kleszynski. However, unlike Kling, Kleszynski did set forth the adjustment process in his report disclosing the qualitative adjustments made to each comparable for various factors such as market condition/trends, location, land-to-building ratio, gross building area, zoning, use and condition, which does add more credibility to his analysis relative to Kling. The adjusted prices ranged from \$131.25 to \$334.43 per square foot of building area, including land. The best improved comparable sale in Kleszynski's appraisal with respect to location appears to be comparable sale #3, that sold in September 2016 for a price of \$4,900,000 or \$198.27 per square foot of building area, including land, which the appraiser adjusted to \$131.25 per square foot of building area, including land.

After considering the sales comparison approach to value developed by each appraiser, giving slightly more credence to the sales and analysis developed by the Intervenor's appraiser, the Property Tax Appeal Board finds the subject property had an indicated value under the sales comparison approach of \$145.00 per square foot of building area, including land, for a total value of \$6,630,000, rounded.

Based on the evidence in this record the Board calculated the estimates of value using the three traditional approaches to be: cost approach - \$7,920,330, income approach - \$6,016,000, and the sales comparison approach - \$6,630,000. Most weight is given to the income approach to value and the sales comparison approach to value. The Board gives less weight to the cost approach to value due to the difficulty in calculating the replacement cost new and the depreciation. After reviewing the three approaches to value developed by the two appraisers and considering the adjustments to the various approaches in each appraisal due to quality of the data, the analysis in each appraisal and the testimony of each appraiser, the Board finds the subject property had a market value of \$6,500,000 as of January 1, 2018, which is less than the market value reflected by the subject's assessment of \$6,620,883. Since market value has been determined the 2018 three-year average median level of assessments for Peoria County of 33.28% 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: _____

CERTIFICATION

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

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