PROPERTY TAX APPEAL BOARD'S DECISION

APPELLANT: A + J Real Estate Investment Corp.
DOCKET NO.: 04-01129.001-C-2
PARCEL NO.: 12/905

The parties of record before the Property Tax Appeal Board are A + J Real Estate Investment Corp., the appellant, and the Rock Island County Board of Review.

The subject parcel consists of 53.93 acres located in Coal Valley Township, Rock Island County. The subject parcel is improved with a mobile home park that was built in the 1960's and is licensed to have 451 pads. The subject property is commonly known as Candlelight Mobile Home Park. Only 250 of the 451 pads are used in the operations because many pads are deteriorated and cannot support dwellings. The site is also improved with five other concrete block or wood and concrete bock structures that range in size from 384 to 1,280 square feet. Two buildings are leased to a photography studio and a lock shop, while two other buildings are used for the mobile home park office and storage. The use of the fifth building, if any, was not disclosed.

The appellant appeared before the Property Tax Appeal Board through its president, Walter Blackard, claiming overvaluation as the basis of the appeal. In support of this claim, the appellant submitted an appraisal prepared by Douglas C. Nelson, who was called as the appellant's expert valuation witness. Nelson is a state licensed appraiser and holds a M.A.I. (Member of the Appraisal Institute) designation. Nelson was accepted as an expert valuation witness to provide opinion testimony before the Board without objection.

Using two of the three traditional approaches to value, Nelson estimated a fair market value for the subject property of $650,000 as of January 1, 2003. The appraisal was marked as Appellant's Exhibit 1.

(Continued on Next Page)

Based on the facts and exhibits presented, the Property Tax Appeal Board hereby finds **a reduction** in the assessment of the property as established by the **Rock Island** County Board of Review is warranted. The correct assessed valuation of the property is:

LAND:	$	94,213
IMPR.:	$	170,027
TOTAL:	$	264,240

Subject only to the State multiplier as applicable.

PTAB/NOV.07/BUL-6548

The appraiser first provided testimony in connection with the historical background of the property and appraisal methodology. Nelson testified the subject property is located in a 100-year flood plain. As a result, the dwellings within the park must be elevated at least four or five feet above grade versus conventional mobile homes that are elevated approximately three feet. Additionally, the appellant purchased the subject property out of bankruptcy for $100,000 in 1995.

The appraisal report discussed the subject property's highest and best use as vacant and as improved. As vacant, Nelson concluded the subject's industrial zoning allows many types of businesses. He concluded it was physically possible to fill parts of the front of the site along Highway 6 for industrial or commercial use. Nelson determined it would be physically possible to fill the balance of the site, but would not be financially feasible. Therefore, Nelson concluded the subject's maximum productivity would be for commercial and industrial development phased over several years. As improved, Nelson concluded the subject's highest and best use is its continued operation as a mobile home park. Nelson determined the subject's operating expenses are high but have resulted in a reasonably stable income stream. He also concluded major reinvestment to upgrade aging infrastructure is not warranted by general market trends and property management should continue as is without major new investment until a higher and better use of the site becomes apparent.

The appraiser first utilized six land sales to estimate the subject's land value as if vacant and unimproved. These properties range in size from 5 to 300.135 acres with industrial or residential zoning. They sold from March 1999 to January 2004 for sale prices ranging from $53,480 to $870,392 or from $1,999 to $39,003 per acre. After considering adjustments to the comparables for differences to the subject, the appraiser concluded the subject property has an estimated market value of $5,000 per acre or $270,000, rounded.

The appraiser next analyzed sales of mobile home parks located in Moline or East Moline, Illinois and the Iowa communities of Muscatine, Bettendorf, and Davenport. Six of the comparables had reported occupancy rates ranging from 80% to 100% with four comparables having reported operating expense ratios ranging from 38% to 63%. The mobile home parks contain from 15 to 216 mobile home pads. They sold from April 1998 to September 2004 for prices ranging from $57,000 to $1,950,000 or from $3,800 to $11,250 per mobile home pad. After adjusting the sales for items such as permanent dwellings, financing, floodplain location, and the lack of environmental contamination like the subject, the appraiser concluded a value range for the subject from $2,250 to

$3,000 per mobile home pad, or a final value conclusion ranging from $560,000 to $750,000.

Under the income approach to value, the appraiser used the subject's actual income and expenses from the years 1996 through 2002. Based on the subject's actual income data reported by the taxpayer, the appraiser concluded the subject property has a stabilized gross annual income of $640,000. Expenses for administration, which includes a management fee, wages, administrative costs, telephone and advertising, were stabilized at 21% or $134,400. Operating expenses for supplies, utilities, rubbish, and water/sewer were stabilized at 28% or $179,200. Maintenance expenses for repairs and wages were stabilized at 28% or $179,299. Insurance costs of $30,000 and miscellaneous expenses of $5,700 were also deducted. The stabilized expenses totaled $528,500 resulting in a net operating income of $111,500.

The appraiser used two sales of mobile home parks contained in the appraisal report as an indicator of the appropriate capitalization rate of 12.08% and 12.65%. Adding 2% or 3% to account for the subject's environmental concerns, flooding potential and the need for onsite management, the appraiser developed an overall capitalization rate of 14% or 15%. Including a tax load factor of 2.65%, the appraiser concluded an appropriate capitalization rate of 16.65% and 17.65%. Capitalizing the subject’s stabilized net operating income of $111,500 by both rates, the appraiser concluded the subject property has a fair market value under the income approach ranging from $630,000 to $670,000, rounded.

In reconciling the valuation methods, the appraiser indicated the land value estimate of $270,000 assumes no significant environmental costs. As improved, the appraiser indicates the subject's site will require remediation for the environmental contamination. Thus, the appraiser testified the land value is speculative. The sales comparison approach was given little weight due to the subject's poor condition, flood plain location, and environmental concerns, which only provides a general guidance, not a definitive opinion of value. The appraiser gave the income approach to value primary weight due to the seven year operating history and the motivation of a typical buyer using actual income and expenses information. As a result, the appraiser concluded the subject property has a fair market value of $650,000 as of January 1, 2003. Based on this evidence, the appellant requested a reduction in the subject's assessment.

Under cross-examination regarding the income approach, the appraiser testified the administrative expenses were based upon A + J Development's tax returns filed with the Internal Revenue Service by Mr. Blackard. The appraisal report lists management

fees for the subject ranging from a low of $77,100 in 1998 to a high of $165,000 in 2001, with a management fee of $146,000 in 2002. The appraiser agreed the management fee seemed unreasonable, and therefore reduced it to 21% in developing the stabilized expenses. The appraiser opined the subject property required more management than a typical mobile home park. He testified Blackard is constantly at the subject property fixing and monitoring the water system or dealing with local law enforcement and the Environmental Protection Agency officials.

The appraiser agreed administrative expenses increased from a low of 19% to 21% between 1996 and 1999 to 30% in 2002. The appraiser acknowledged Blackard himself is receiving the increased salary. Nelson was questioned if he researched other mobile home parks to determine whether his salary was reasonable before this expense was stabilized at 21%. Nelson testified he probably looked at the general guidelines and information regarding mobile home parks, but he did not have the data available at the hearing nor was the data contained in the appraisal report. Nelson agreed he did not survey other mobile home parks in the area to determine a typical management fee. Nelson also testified the miscellaneous expenses should have been labeled as service contracts. Nelson also testified the expenses utilized were reflective of the market, noting the expense ratios of the comparable sales ranged from 38% to 63%. He testified the subject's expense ratio (83%) is higher than these properties, but is justified given its unusual nature (intense management, location in a flood plain, and environmental problems).

The appraiser also pointed out Blackard is required to monitor an abandoned fuel oil system, which is the cause of the environmental contamination. The appraiser explained at one time the mobile homes were heated by fuel oil with delivery by piping placed underground to each trailer pad. Page 12 of the appraisal indicates the Illinois and United States Environmental Protection Agency have been monitoring the subject for several years. In 1994 and 1995, the site was found to have a contaminated water system that was thought to have the potential for severe ground water pollution. After considerable expense, it was determined that there was fuel oil in the soil, but not to the extent as originally contemplated. One portion of the site is considered a "brown field site" requiring remediation. Nelson testified there has been a requirement for some clean-up, but Blackard is allowed to operate the mobile home park as is. Nelson was not aware of any expense to the taxpayer for clean-up or if any remediation has occurred.

Noting the transmittal date of the appraisal was August 1, 2005 for the 2003 valuation report and the transmittal date of the board of review's appraisal report was January 14, 2005, Nelson

testified he did not remember if he reviewed the appraisal prepared by Kevin Pollard on behalf of the board of review. The board of review pointed out the strikingly similarities with respect to data, methodology utilized in both reports, but the divergence in the final value conclusions.

The board of review submitted its "Board of Review Notes on Appeal" wherein the subject's assessment of $271,973 was disclosed. The subject's assessment reflects an estimated market value of $823,412 using Rock Island County's 2004 three year median level of assessments of 33.03%.

In support of the subject's assessment, the board of review submitted an appraisal prepared by Kevin M. Pollard, who was called as an expert valuation witness. Pollard is a state licensed appraiser and holds the M.A.I. designation. Pollard was accepted as an expert valuation witness to provide opinion testimony before the Board without objection.

Using two of the three traditional approaches to value, Pollard estimated a fair market value for the subject property of $800,000 as of January 1, 2003.

The appraiser first utilized five land sales to estimate the subject's land value. Three of the land sales were also used by the appellant's appraiser. The comparables range in size from 5 to 122.95 acres. They sold from November 2000 to January 2004 for prices ranging from $10,080 to $600,000 or from $1,999 to $39,002 per acre. After considering adjustments to the comparables for differences to the subject, the appraiser concluded the subject property has an estimated market value of $5,000 per acre or $270,000, rounded, identical to the land value determined by Nelson.

The appraiser next analyzed sales of mobile home parks located in East Moline, Illinois and the Iowa communities of Muscatine and Davenport. These three sales were also used by the appellant's appraiser. They sold from April 1998 to September 2004 for prices ranging from $450,000 to $1,950,000 or from $5,072 to $11,250 per mobile home pad.

Sale 1 is located approximately 35 miles from the subject and is also improved with a single-family residence and a rental home. The appraiser indicated the seller estimated a value of the residences to be $150,000, resulting in a net selling price of $7,500 per mobile home pad. Pollard considered the sale inferior in location, but superior in condition and occupancy with a rate of 93%. Pollard indicated sale 2 included three residences and 43 mobile homes with an estimated value of $350,000, which results in a net sale price of $7,407 per mobile home pad. The

appraiser considered the location to be similar, but in much better condition with an occupancy rate of 81.5%. Therefore, a much lower per pad value would be indicated for the subject. Sale 3 included a storage building with a manager's apartment above with a 92% occupancy rate. Thus, Pollard concluded the indicated sale price is much higher than the subject would command.

After adjusting the comparables for differences to the subject in location, occupancy, and condition, as well as considering the subject's location in a flood plain and market perception, the appraiser concluded a value for the subject of $3,383 per mobile home pad or $845,750 under the sales comparison approach.

Under the income approach to value, the appraiser reconstructed the subject's actual income and expenses for the five years that preceded the appraisal's January 1, 2003 valuation date. The data was obtained from an appraisal completed for the owner of the mobile home park and was assumed to be correct. The appraiser calculated 245 pads were being rented for $185 per month for a total of $543,900 annually. The lock shop was rented for $225 per month or $2,700 annually. No rental information was available for one building, though it was thought to be vacant. Thus, Pollard calculated the subject's potential gross income to be $546,600. However, the gross income reported for 2002 was $639,700, which is significantly higher. Pollard opined the difference in these amounts is attributable to other fees charged to tenants such as water and sewer. Therefore, the appraiser relied on the reported amount of $639,700 for the subject's stabilized potential gross annual income.

The appraiser indicated expenses appear to be reasonable over the five year period, with two distinct exceptions. Management fees increased steadily from 1998 through 2001, but slightly decreased in 2002 to $146,000, which represents 22.82% of the gross income. Pollard opined the management fee was excessive especially since there was a $40,300 administrative cost in addition to the management fee. Pollard noted the management fees in 1998 and 1999 were $74,200 and $77,100, respectively, or 12.86% and 12.38% of the gross annual income. Pollard indicated the 12.86% and 12.38% management expense is much closer to the typical fee for the subject's type of property. Thus, Pollard used an allowance of 12.5% or $79,963 for a management fee. Pollard testified the other exception in the expense category was maintenance wages. In 2002, the total was $140,400, which was much higher than the previous four years, which ranged from $87,600 to $117,700. Pollard assumed these costs were due to the constant maintenance required to monitor and repair problems with the water, sewer and fuel systems as well as park and road maintenance. As a result, Pollard used administrative expenses totaling $126,963.

Maintenance and repairs as well as other expenses were stabilized at $190,000 each, which are very close to the actual amounts reported by the taxpayer. As a result, the appraiser calculated the subject's net operating income to be $132,737.

The appraiser used two sales of mobile home parks contained in the appraisal report as an indicator of the appropriate capitalization rate of 12.08% and 12.65%, respectively. In order to attract a potential investor in its present condition, a higher rate would be necessary. Therefore, Pollard selected an overall capitalization rate of 14%. Including a tax load factor of 2.65%, the appraiser determined an appropriate capitalization rate of 16.65%. Capitalizing the subject’s stabilized net operating income of $132,737 by rates of 16.65%, the appraiser concluded the subject property has a fair market value of $800,000, rounded, under the income approach.

In reconciling the valuation methods, the appraiser gave the income approach to value the greatest weight because generation of net income is paramount in an investment decision. Thus, the subject's operating history would be a major consideration. The appraiser indicated the sales comparison approach provides a higher value, but only a general indicator of value could be developed due to the limited amount of data available. As a result, the appraiser concluded the subject property has a fair market value of $800,000 as of January 1, 2003.

Under examination regarding the income approach, the appraiser testified the income portion was based on the actual data provided by the appellant, but the expense portion was based on an analysis of other mobile home parks he had previously appraised. He also testified that in his experience of appraising mobile home parks, management fees did not exceed 15% of the gross annual income, and in at least two instances, the management fee was less than 10%.

Under cross-examination, Pollard was questioned extensively regarding the subject's land value as if vacant, considering the cost to remove infrastructure, fuel lines, water lines and the like, although both appraisers concluded identical land values of $270,000 or $5,000 per acre. However, Pollard testified the $5,000 per acre value is extremely conservative and would probably be worth $20,000 to $25,000 per acre if the land was clean and ready for use. Pollard agreed the subject is located in a flood plain. Pollard testified he would not be surprised that some portions of the subject property could need in excess of 10 feet of fill to rise above the flood plain. Pollard agreed none of the improved comparables have contamination problems.

With respect to the 12.5% administrative fee, Pollard testified that amount was based on interviews with mobile home park owners and the subject's historical data. The appraiser agreed administrative expenses purportedly increased from a low of 19% to 21% between 1996 and 1999 to 30% in 2002.

After hearing the testimony and considering the evidence, the Property Tax Appeal Board finds that it has jurisdiction over the parties and the subject matter of this appeal. The Property Tax Appeal Board further finds a reduction in the assessment of the subject property is warranted.

The appellant argued the subject property is overvalued. When market value is the basis of the appeal, the value must be proved by a preponderance of the evidence. Winnebago County Board of Review v. Property Tax Appeal Board, 313 Ill.App.3d 179, 183, 728 N.E.2d 1256 (2nd Dist. 2000). The Illinois Supreme Court defined fair cash value as 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). The Board finds the evidence in the record supports a reduction in the subject's assessment.

In support of the overvaluation claim, the appellant submitted an appraisal and testimony from the appraiser estimating the subject property has a fair market value of $650,000 as of January 1, 2003. The board of review submitted an appraisal and testimony from an appraiser estimating the subject property has a fair market value of $800,000 as of January 1, 2003. Both appraisers relied primarily on the income approach to value to support their final value conclusions.

The Board finds the best evidence of the subject's fair market value is the appraisal submitted by the board of review. The Board finds the board of review's appraiser provided competent, professional, and logical testimony in support of his appraisal methodology, data used within two of the three traditional approaches to value, the adjustment process, and final value conclusion.

The Board further finds this appeal hinges on the income approach to value developed by both appraisers. Though the Board recognizes this is a reasonable approach to value for an income producing property, the Board finds neither appraiser developed the income approach using market derived rental comparables to determine whether the subject property's actual income and expenses are reflective of the market. It is the capacity for earning income, rather than income actually derived, which

reflects "fair cash value" for taxation purposes. Springfield Marine Bank v. Property Tax Appeal Board, 44 Ill.2d 428, 431 (1970). However, this record contained some market derived income and expense data. For example, the appellant's appraisal contained expense ratios on four of the comparable sales, which ranged from 38% to 63% of their purported gross annual incomes. This data does not support either appraiser's expense ratio for the subject of 83% as calculated by the appellant's appraiser or 79% as calculated by the board of review's appraiser.

The Board further finds both appraisers acknowledged the subject's administrative fees, particularly the management fee, were unreasonable and not typical for mobile home parks. The Board finds both appraisers reduced the administrative fees within the income approach. Additionally, the board of review's appraiser researched the large increase in management fees over the years and determined they were outside the market norms. The board of review's appraiser used a management fee of 12.5%, which the Board finds to be more appropriate and better supported by the subject's own historical income and expenses as reported by the taxpayer. The subject's management fee alone ranged from $74,200 to $87,300 or from 12.3% to 17.6% of its gross annual income from 1996 to 1999. In contrast, the subject's management fee between 2000 and 2002 ranged from $122,000 to $165,000 or from 19.6% to 26% of its gross annual income. The Board finds these higher management fees are unreasonable and not supported.

The Property Tax Appeal Board further finds this record is void of any evidence to support the additional "administrative costs", which were deducted as expenses under administrative fees. The Board finds there is no credible evidence or documentation to support this administrative deduction in addition to the large management fee. Finally, in reviewing the subject's income and expense data contained in both appraisal reports, the Board finds it highly problematic from an income approach analysis that as the subject's gross annual income steadily increased from 1996 to 2002, with all other expenses somewhat stabilized, the management fee, the administrative cost, and maintenance wages increased at a much higher rate. The Board finds these unsupported deductions from the subject's gross income unjustly resulted in an overall lower net operating income.

The Board further finds the limited, but actual market data contained in both appraisal reports supports the board of review's appraiser's final value conclusion, which further undermines the appellant's appraisal. The courts have stated that where there is credible evidence of comparable sales these sales are to be given significant weight as evidence of market value. In Chrysler Corporation v. Property Tax Appeal Board, 69 Ill.App.3d 207 (1979), the court held that significant relevance

should not be placed on the cost approach or income approach especially when there is market data available. In Willow Hill Grain, Inc. v. Property Tax Appeal Board, 187 Ill.App.3d 9 (1989), the court held that of the three primary methods of evaluating property for the purpose of real estate taxes, the preferred method is the sales comparison approach. Both appraisal reports contain three common sales of mobile home parks. They sold for net prices ranging from $5,072 to $7,500 per mobile home pad. Based on the subject's condition and location in a flood plain, the Board finds Pollard's value conclusion of $3,383 per mobile home pad or a fair market value of $845,750 is well justified. In this same context, the Board finds Nelson's value conclusion of $2,600 per mobile home pad using the final value conclusion of $650,000 is less persuasive.

After hearing the testimony and observing the demeanor of the witnesses, the Board finds the board of review presented the more credible and thus a better indicator of the subject’s fair market value.

With respect to the environmental contamination issue, first, the Board finds neither appraiser is an expert in the valuation of contaminated property, although both appraisers attempted to competently account for the contamination problem within each approach to value. Second, no remediation has occurred on the subject property. Third, the subject property is functioning as a mobile home park. Thus, the contamination does not appear to impact the leasable pads due to the increasing income since 1996. Furthermore, the vacancy issue appears to arise from the subject's poor condition and location of the property rather than stigma associated with the contamination issue. As a result, the Board gave these aspects of the appellant's argument little weight.

In conclusion, the Property Tax Appeal Board finds the best evidence of the subject's fair market value presented in this appeal is the appraisal submitted by the board of review estimating a market value of $800,000. The subject's assessment reflects an estimated market value of $823,412, which is slightly higher than the best evidence of value. Therefore, the Board finds a reduction in the subject's assessment is warranted. Since fair market value has been established, the 2004 three-year median level of assessments for Rock Island County of 33.03% shall apply.

DOCKET NO.: 04-01129.001-C-2

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.

Chairman

Member

Member

Member

Member

DISSENTING:

C E R T I F I C A T I O N

As Clerk of the Illinois Property Tax Appeal Board and the keeper of the Records thereof, I do hereby certify that the foregoing is a true, full and complete Final Administrative Decision of the Illinois Property Tax Appeal Board issued this date in the above entitled appeal, now of record in this said office.

Date: December 7, 2007

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 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 the subsequent year 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.

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.