PROPERTY TAX APPEAL BOARD'S DECISION

APPELLANT: Holiday Inn-Crystal Lake
DOCKET NO.: 04-01353.001-C-2 and 04-01353.002-C-2
PARCEL NO.: 19-10-200-044 and 19-10-200-033

The parties of record before the Property Tax Appeal Board are Holiday Inn-Crystal Lake, the appellant, by attorney Jack E. Boehm, Jr. of Fisk Kart Katz & Regan, Ltd., in Chicago; the McHenry County Board of Review; and Algonquin Township, the intervenor, by attorneys James P. Kelly and Maura K. McKeever of Matuszewich, Kelly & McKeever, LLP, in Crystal Lake.

The subject property consists of two parcels totaling 817,491 square feet, or 18.767 acres. The site is improved with a part one-story and part six-story, masonry constructed, full service hotel, featuring meeting and banquet rooms and a bar and restaurant facilities, with a gross building area of 155,863 square feet and 197 guest rooms. The facility was constructed in 1989, with renovation occurring in 2001. Amenities include an indoor swimming pool, a spa, game room and an asphalt parking lot for approximately 500 cars. The subject is located in Crystal Lake, Algonquin Township, McHenry County.

Through its attorney, the appellant appeared before the Property Tax Appeal Board claiming overvaluation as the basis of the appeal. In support of this argument, the appellant submitted a summary appraisal with an effective date of January 1, 2004. The appraiser utilized all three traditional approaches in estimating a value for the subject of $12,650,000. The appellant's appraiser, Martin Siegel, was present at the hearing and was called to testify regarding the methods and techniques he employed in preparing the report.

Siegel testified he holds the MAI, or Member of the Appraisal Institute designation, that he has 14 years experience in commercial appraisal work and that he has performed appraisals of 10 to 12 hotel properties. Initially, Siegel stated he had misunderstood information received from the property owner regarding the number of parcels and total land area of the subject. Siegel testified he originally thought a third parcel

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

DOCKET NO.	PROPERTY NO.	LAND	IMPR.	TOTAL
04-01353.001-C-2	19-10-200-044	$870,675	$2,795,742	$3,666,417
04-01353.002-C-2	19-10-200-033	$351,228	$ 0	$ 351,228

Subject only to the State multiplier as applicable.

PTAB/MRT/3/09

containing approximately 3.57 acres, or 146,797 square feet, was excess land. Siegel clarified this issue during the hearing, testifying that the subject contains a total land area of 817,491 square feet, or 18.767 acres. At this point, the intervenor's counsel challenged the reliability of Siegel's appraisal and made a motion that Siegel's testimony regarding any change in the subject's land area be stricken from the record. The Hearing Officer reserved ruling on the point and allowed the testimony. The appellant's attorney responded that Siegel had stated in his report on page 12 that "The site area and building square footage were taken from information supplied by the client. We assume this information to be correct. Should it be found that the provided information is incorrect, we reserve the right to amend this report accordingly". For this reason, the Property Tax Appeal Board finds that Siegel's correction at the hearing of his original estimate of the number of parcels under appeal and the corresponding land area measurement will be considered. The Board's decision shall be based on the weight of the evidence. The Board finds the subject property is comprised of two parcels, 19-10-200-044 and 19-10-200-033, totaling 18.767 acres, or 817,491 square feet.

Siegel then testified he was aware the subject sold in December 2003, just prior to the assessment date of January 1, 2004. The sale was between related parties as a result of a merger of two subsidiaries and, after reviewing the Real Estate Transfer Declaration and contacting a representative of the property owner, Siegel determined this sale was not an arm's length transaction. For these reasons, he placed no weight on this sale in his report.

Siegel then testified the subject is the only full service hotel in the subject's market area. He consulted the STAR Report, published by Smith Travel Research, a leading publication in the hotel industry to obtain operating statistics of competitive properties in the subject's market. This report provides data on occupancy, Average Daily Rates (ADR), and revenue per available room (RevPAR).

Under the cost approach, Siegel examined sales of four properties to determine the subject's land value. The comparables were located in Crystal Lake and Algonquin, range in size from 40,050 to 517,650 square feet and sold between August 2002 and August 2004 for prices ranging from $200,000 to $3,785,000 or from $4.51 to $6.62 per square foot of land area. Based on these sales, Siegel reconciled to a value of the subject's large parcel of $5.00 per square foot and the second parcel of $5.50 per square foot, resulting in a total value for the subject's land of $4,160,000.

Regarding the subject's improvements, Siegel relied on the Marshall Valuation Service. He broke down the subject into three sections; the hotel, the pool enclosure and the partially finished basement. After estimating the cost new of these areas and adding $250,000 for paving, signage, lighting, etc., and entrepreneurial profit of 12%, or $1,595,116, Siegel determined the subject's reproduction cost was $14,887,749. Regarding depreciation, he estimated the subject had an effective age of 12 years and a useful life of 50 years, resulting in physical depreciation of 25%, using the age-life method. Siegel testified the subject had no functional obsolescence, but determined the property suffered 10% external or economic obsolescence. He based this on an oversupply of hotel rooms in the subject's market area due to the construction of two new hotels, the close proximity of five competing hotels, as well as recessionary impact of the economy, which had curtailed business travel and leisure spending. Based on this analysis, Siegel subtracted 35% total depreciation, or $5,210,712, resulting in a depreciated cost of the subject's improvements of $9,677,037. He then added back $2,382,040 for furniture, fixtures and equipment (FF&E) and the land value of $4,160,000 to derive a total going concern value of $16,220,000. Siegel testified it is appropriate to deduct personal property and intangible business value from this total, resulting in a fee simple interest of the subject real estate by the cost approach of $12,585,000.

Siegel then discussed the income approach to value. He examined actual operating statistics of the subject for 2001, 2002 and 2003, demonstrating the ADR had dropped from $97.88 in 2001 to $85.82 in 2003 and occupancy had declined from 66.6% in 2001 to 61.9% in 2003, resulting in a decline in RevPAR from $65.19 in 2001 to $52.12 in 2003. In his market analysis, starting on page 24 of the appraisal, Siegel described how he consulted the *Korpacz Real Estate Investor Survey* (Korpacz) for the third quarter of 2004 and the STAR Report, published by Smith Travel Research. He also included a chart on page 27 from *The Pulse Report, Hotel and Motel Association of IL*, detailing occupancy rates and ADR's for the Chicago Metropolitan hotel market, including The Chicago North submarket, into which the subject falls. Siegel noted "Hardest hit were the Chicago Northwest submarket, and the Mid-Priced categories."

Siegel's report then examined the competitors to the subject hotel, which were mostly limited service hotels located in "close proximity to the Crystal Lake area" with room prices "reasonably close" to the subject. These competitors have a total of 542 rooms, and combined with reduced demand for hotel rooms in the subject's market area due to a recession in the travel industry, have "had a negative effect on overall occupancy in the market." Based on his research and these factors, Siegel concluded the subject would have an ADR of $87.50 with occupancy of 64%, resulting in a RevPAR of $56.00. The latter figure, multiplied by the number of days in a year, resulted in room revenue of $4,016,680. Siegel demonstrated on page 53 of his report that food and beverage revenue for the subject had declined from $2,990,496 in 2001 to $2,592,834 for 2003. He stabilized this revenue at $2,700,000.

Siegel then discussed expenses. He consulted the *HOST Report*, also published by Smith Travel Research, as well as operating expenses for the subject. Siegel indicated the subject maintains four primary revenue departments: rooms, food and beverage, telephone and other. Historically, room expenses at the subject runs between 20% and 23% of room revenue. The 2003 HOST report shows the average for full service hotels was 27%. Siegel used the subject's actual figure of 23%. Food and beverage expenses at the subject have run between 56% and 66% of food and beverage revenue. The 2003 HOST report shows the average expense for this category at 76.1%. Siegel estimated this expense for the subject at 65% of food and beverage revenue. Regarding telephone expense, the subject had ranged between 38% and 72% for the past three years. Siegel noted the HOST report shows the average telephone expense for full service hotel properties is 74.1%. Since most guests now use cell phones, he stabilized this expense at 70% of associated revenue. Undistributed and Other expenses for the subject averaged 18% to 26% of total revenue for the past three years. The HOST report indicated 24.6% for this expense and Siegel stabilized the expense for the subject at 24% of total revenue.

Regarding management and franchise fees, Siegel indicated the subject has had management fees of 3% to 4% of gross revenues. He noted that nationally, this fee ranges from 1.0% to 4.0%. He estimated that a management fee of 2.0% of gross revenues was appropriate for the subject. Regarding franchise fees, Siegel found the subject pays 3% to 4%. Nationally, franchise fees run from 2.1% to 3.5% with an average of 2.8%. However, he stated this average is low because of "a large proportion of properties which pay no franchise fee." For this reason, Siegel found a franchise fee of 4% was appropriate for the subject.

Siegel next examined fixed expenses of Insurance and Replacement Reserves. He noted the HOST report shows the average insurance expense for full service hotels was 1.3% of total revenues. He stabilized this expense at 1%, $72,017. He noted that replacement reserves are a budget allocation, by which dollars are set aside each year to pay for future capital expenditures such as HVAC units, parking lot resurfacing, roof repair, etc. The Korpacz and HOST reports indicate these items average 4.0% and 1.9%, respectively. Siegel found 2% of total revenue was appropriate for this expense.

Next, Siegel considered a market-derived capitalization rate based on a review of published surveys and forecasts. He consulted the *Semi-Annual National Full Service Hotel Market Survey*, published by Korpacz. This source indicated that "going-in" overall capitalization rates for full service hotels ranged from 7.5% to 12.00%, averaging 9.88%. For this reason, the appraiser relied on the Band of Investment Technique.

The appraiser determined that, based on the subject's location, age, size, overall condition and design, a mortgage in the amount of 70% of total value, with an interest rate of 7.5%, a loan term of 5 years and a 20-year amortization, was appropriate. This resulted in a mortgage constant of 9.67%. Remaining capital typically comes from an equity investor. Siegel consulted Korpacz, determining that an annual equity return of 12% was sufficient to induce investment. These components resulted in an overall rate of 10.50%, rounded. Next, the appraiser determined the property tax load factor, since property taxes were not included in stabilized expense estimates. The load factor, comprised of the assessment ratio of 33.33%, a 1.07 equalization factor and a tax rate of 7.5869%, came to 0.0271, or 2.71%. When added to the base capitalization rate, this resulted in a loaded capitalization rate of 13.21%. Capitalization of the stabilized net operating income of $2,044,892 at 13.21% produced a going concern value of $15,480,000. Siegel deducted $1,475,000 for personal property and $2,160,000 for intangible business value, then added excess land value of $810,000, resulting in an indicated value for the subject by the income approach of $12,655,000.

Siegel testified that, after realizing the third parcel he originally considered was not excess land, he determined it would be inappropriate to include an adjustment for the excess land and the equalization factor and that it would also be necessary to adjust the going concern value as well. Siegel testified the going concern value should be increased by $220,000 to $15,700,000. Subtraction of the personal property and intangible business value figures detailed above then resulted in a corrected value estimate by the income approach of $12,065,000.

Regarding the sales comparison approach, Siegel examined five sales of full service hotel properties within the Chicago market. Siegel reiterated the importance of using full service hotels as comparables because they offer food and beverage service, as well as banquet and meeting spaces like the subject. The comparables were located in Northbrook, Mundelein, Skokie and Arlington Heights, Illinois. Sales no. 2 and 3 were Holiday Inns like the subject. Siegel testified there were no sales of full service hotels in McHenry County. The comparables sold between November 1999 and May 2004 for prices ranging from $4,255,000 to $11,064,254 or from $17,367 to $47,222 per unit. The appraiser made adjustments to the comparables for sale date, location, condition and other factors. After adjustments, the comparables had per unit sales prices of $58,000 to $62,000. Based on this analysis, he selected $60,000 per unit for the subject, which, when multiplied by the subject's 197 rooms, resulted in a value for the subject by the sales comparison approach of $11,820,000.

In concluding his testimony, Siegel stated he placed most weight on the income approach because of the income producing nature of the subject property, with secondary emphasis on the sales comparison approach. The appraiser noted his revisions to the income approach and sales comparison approach due to the excess land issue and reiterated the final estimate of value by the income approach was $12,065,000.

Siegel was cross examined by Jan Hervert, member of the board of review. Hervert questioned the appraiser regarding the use and locations of the land comparables used in the cost approach. Siegel acknowledged one sale was of land used for farming, two sales were in industrial or business park locations and that one sale was less than an acre in size. Hervert recalled Siegel's original consideration of a third parcel as excess land as being sufficient to invalidate the appraisal and asked that the entire appraisal report be excluded from consideration by the Property Tax Appeal Board. The Hearing Officer denied the request.

Hervert questioned Siegel further regarding the cost approach. Siegel acknowledged he meant to state he used the term replacement cost, not reproduction cost, in his appraisal. Hervert then asked the witness why he included a subtraction for intangible business value in the cost approach. Siegel responded he thought there was clearly some intangible value in the development of a full service hotel when "external economic obsolescence is a viable deduction." Finally, Hervert asked the appraiser if overall capitalization rates in the range of 7% to 9% were more typical in the market, to which Siegel replied "For hotels, no."

Siegel was then cross examined by the intervenor. After clarifying some issues regarding the correct land size of the subject of 18.767 acres, the intervenor asked the appraiser if there was an error in the total square footage of approximately 17,000 square feet of the subject building if the partial basement is included, to which Siegel agreed. The intervenor then asked the witness if this error would result in a lower estimated replacement cost for the building, to which Siegel also agreed. The intervenor then questioned Siegel regarding his classification of the subject building as a class C, average quality structure. Siegel acknowledged he characterized the subject as having steel framing with concrete floors. The intervenor asked the appraiser if this is more typical of a class B structure, rather than class C, to which Siegel disagreed. The intervenor next questioned the witness regarding the Real Estate Transfer Declaration documenting the subject's December 2003 sale. Siegel agreed both parties to the transaction had the same phone number and address. He testified he had contacted one of the attorneys involved in the sale who indicated it was a transfer between related parties and was a merger as well. Notwithstanding these points, the intervenor asked Siegel if the answers to several other questions on the transfer declaration were marked "yes", including one question as to whether the parties agreed the net consideration for real property was "A fair reflection of the market value on the sale date of the property", to which the appraiser agreed. Siegel agreed the net consideration on the sale was greater than his appraised value of the subject, but disagreed that the sale price represented the subject's actual value.

The intervenor then questioned Siegel regarding his income approach. Questions included why Siegel used a franchise fee of 4%, when he testified the franchise fee for the years he examined ranged from 3% to 4%. Siegel stood by his use of the 4% figure. The intervenor also asked the appraiser if his original claim of approximately three acres of excess land would affect the sales comparison approach. Siegel replied that he based his estimate on a per room basis, rather than a per square foot basis, so the point is irrelevant.

On redirect examination, Siegel testified regarding the sale of the subject, noting that it was not exposed to the market and thus was not an open market transaction. Siegel acknowledged his characterization of the subject's 3 acre parcel was incorrect and that it should be removed from the sales comparison and income approaches. Finally, Siegel testified the best method to value the subject was the income approach because it is a full service hotel and reiterated his contention that the final value of $12,065,000 was appropriate.

At this point, the board of review renewed its motion to strike the appellant's appraisal, which was denied by the Hearing Officer.

The board of review submitted its "Board of Review Notes on Appeal", wherein the subject property's total assessment of $4,500,000 was disclosed. The subject has an estimated market value of $13,513,514, as reflected by its assessment and McHenry County's 2004 three-year median level of assessments of 33.30%.

The intervenor requested the subject's 2004 assessment be increased to reflect a market value of $15,500,000, based on an appraisal performed by Neil Renzi, who holds the MAI designation from the Appraisal Institute. Renzi was called as a witness and testified he has been appraising real estate since 1969 and that he has appraised approximately 50 hotel properties. Renzi was tendered and accepted as an expert.

Renzi first defined market value as "the most probable price a property should bring in a competitive open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming that the price is not affected by undue stimulus." He also defined real estate as "All interests, benefits and rights inherent in the ownership of physical real estate along with the rights with which the ownership of real estate is endowed." Referring to the subject's sale on December 4, 2003 for $19,400,000, Renzi noted an allocation on the Real Estate Transfer Declaration of $1,671,359 for personal property, resulting in a price for the real estate of $17,728,641. The witness opined that this net sale price represented market value because the parties to the transaction indicated on the transfer declaration that it reflected market value.

Renzi opined the highest and best use of the subject property would be commercial, consistent with its zoning and that the existing hotel "would be a good proposed use on that site." In his cost approach, Renzi examined four sales and one sale offering to estimate a value for the subject's land. Three of the sales and the offering were in Crystal Lake and one was in Lake in the Hills. The comparables range in size from 143,312 to 1,001,880 square feet. Comparables 1 through 4 sold between November 2002 and December 2004 for prices ranging from $1,505,480 to $6,010,000 or from $5.49 to $10.50 per square foot of land area. Comparable 5, the sale offering, had an asking price of $999,000 or $6.81 per square foot. Renzi adjusted the comparables for differences when compared to the subject and estimated the subject's land value at $5.50 to $6.00 per square foot, or $4,750,000 rounded.

Regarding the subject's improvements, Renzi testified he consulted the Marshall Valuation Service Cost Manual and considered the subject to be a class B structure of average to good quality. He based this on the subject's steel framing with concrete floors and fireproofing and determined a base replacement cost of $135.00 per square foot. He made various adjustments to reflect sprinklers, and applied certain multipliers that included multi-story, perimeter, current cost, local area and comparative cost multipliers. This resulted in an adjusted replacement cost new of $133.00 per square foot or $19,791,996. The witness estimated physical deterioration at 30% and external obsolescence at 15%, deriving total accrued depreciation of $8,906,398. To the depreciated value of the improvements, Renzi added entrepreneurial profit of 8%, or $870,848, based on his experience and judgment, and a depreciated value of the site improvements of $100,000, also based on his judgment. After adding back the land value, he estimated a total value for the subject by the cost approach of $16,600,000.

Under the sales comparison approach, Renzi acknowledged there were no other full service hotels in the subject's area and selected five comparables located in Schaumburg, Rosemont, Vernon Hills, Crystal Lake and Hoffman Estates, Illinois. He testified it was important to examine properties that were similar in age when compared to the subject, but only comparable 2, the Rosemont Suites in Rosemont, was a full service hotel like the subject. Renzi testified his comparables 3, 4 and 5 required substantial upward adjustments because they were limited service hotels that lacked many of the subject's amenities. The five comparables sold between August 1999 and December 2003 for prices ranging from $2,750,000 to $42,950,000 or from $42,610 to $131,655 per room, net of FF&E (furniture, fixtures and equipment). The comparables were adjusted for such factors as contribution of the FF&E component, number of rooms, age, overall location, amenities and condition, as well as "the inclusion of good-will within the sales prices." Based on his adjusted comparables, Renzi concluded an applicable unit value of $85,000 per room, which, when multiplied by the subject's 197 rooms, yielded a value estimate for the subject of $16,745,000. He then determined a franchise fee and allocated management fee for the subject of $412,800 were appropriate, which he capitalized at 25%, resulting in an indicated going concern adjustment of $1,651,200. Once this adjustment was subtracted from the combined market value of the real estate and going concern estimate of $16,745,000, Renzi determined an estimated market value of the subject by the sales comparison approach of $15,100,000.

Under the income approach, Renzi first described the steps in the income analysis. Then he analyzed five competing hotels located in Crystal Lake, Algonquin and Elgin. He interviewed hotel staff of these properties regarding historic daily room rates, occupancy rates, amenities, level of renovation, etc. The appraiser also consulted *The Host Study – 2004*, compiled by Smith Travel Research, the *Smith Travel Accommodations Report* (STAR) and the *Korpacz Real Estate Investor Survey - First Quarter 2004.* Renzi placed primary emphasis on *The Host Study - 2004.* He used the subject's actual historical performance to provide the primary basis by which he determined the subject's stabilized operations. After consulting The Host Study – 2004 and the subject's occupancy levels for 2001, 2002 and 2003, Renzi stabilized the subject's occupancy at 64%. In determining an average daily rate (ADR) for the subject, the appraiser analyzed the quoted rates for the five competing hotels listed above, consisting of a Comfort Inn, two Country Inn and Suites properties, a Holiday Inn Express and a Holiday Inn & Suites.

Renzi testified that he reviewed the *Korpacz Survey*, but relied more heavily on historical data from his own files and experience in appraising hotel properties. However, Renzi acknowledged he also relied on income information regarding the subject from Siegel's appraisal. Based on these data, he concluded a daily room rate for the subject of $88.00, which was less than the three-year average for the subject of $91.54. Renzi then multiplied the number of rooms times 365 days, times 64% occupancy, times the ADR of $88.00, which developed room revenue of $4,050,000, rounded. The appraiser then examined other sources of revenue for the subject property, such as food and beverages, telephone and miscellaneous minor departments for 2001, 2002 and 2003. Based on this analysis Renzi concluded a total stabilized gross revenue for the subject of $7,242,000, or $36,761 per room.

Regarding expenses, Renzi first examined the subject's historical expenses, including labor costs for various departments. He reviewed *The Host Study – 2004,* which indicated an average departmental expense of 42.8% for full service hotels in the east north central sub-market, in which the subject is located. He then stabilized this expense at $13,604 per room, or $2,680,000.

Renzi then examined administrative and general expenses, citing the subject's 2001, 2002 and 2003 actual expenses for this category. He stabilized the subject's expense at $2,500 per room, or $493,000. Additional expenses included sales and marketing, which the appraiser stabilized at $2,500 per room, or $433,000, after determining the subject's historical performance differed from the *HOST Study* average of $2,834 per room for full service hotels. Regarding utilities, Renzi stabilized this expense for the subject at $1,800 per room or $355,000. For operations and maintenance expense, the appraiser found the subject averaged $1,759 per room over the three years mentioned above and that the HOST Study indicated $2,148 per room. He stabilized this expense at $1,750 per room or $345,000. Regarding a franchise fee, Renzi testified the *HOST Study* found full service hotels in the east north central sub-market had such fees of approximately 4.5% of stabilized total revenues. He therefore used $326,000 for this expense. For management expense, Renzi claimed 3% of collected revenues, or $217,000, was appropriate for the subject. For miscellaneous expenses, Renzi estimated $250 per room, or $50,000 per year, rounded. The witness estimated Insurance expense at $39,000 and Replacement reserves at $30,000. After deducting the above expenses, Renzi estimated the subject's Net Operating Income (NOI) at $2,214,000, before allowing for FF&E. The appraiser estimated FF&E at $12,000 per room for 197 rooms, or $2,364,000. Figuring a 10% return on investment plus a 10% return of investment, Renzi deducted $472,800 for FF&E, resulting in NOI from the real estate of $1,741,200.

Regarding determination of an overall capitalization rate, Renzi's appraisal claimed "informed lenders, brokers and investors" informed him that a 75% loan to value mortgage and a 25% equity contribution were appropriate combined with a 6.5% mortgage rate at 25 years amortization and a five-year call provision. Renzi testified he consulted First Chicago Bank, LaSalle Bank and a private bank to obtain this mortgage information, but did not include specific data from these sources in his appraisal report. Renzi calculated an overall rate of 8.58%, to which he added a tax load factor of 2.5%, resulting in a "loaded" capitalization rate of 11.08%. Employing these data, the appraiser estimated the subject's market value by the income approach at $15,700,000.

In reconciling the three approaches to value, Renzi emphasized the income and sales comparison approaches in estimating the subject's market value at $15,500,000.

During cross examination, Renzi agreed that 70% of the hotel appraisals he performed were for taxing districts, the City of Chicago and the County of Cook. He also acknowledged all the comparable hotel sales in his appraisal of the subject, except one, were limited service hotels. Renzi also acknowledged the Real Estate Transfer Declaration documenting the subject's December 2003 sale indicated the subject was exposed to the market for "zero" months. Renzi further acknowledged the difference between his NOI for the subject of $2,214,000 (before FF&E) and Siegel's was $169,108. Renzi agreed his report did not quote any published periodicals or sources in deriving his capitalization rate, nor did he include in his addenda, quotes he obtained from the lenders he referred to in his testimony.

In redirect examination, Renzi testified he relied on comparable sales of hotels that were more similar in age to the subject, even though all but one were not full service hotels. Renzi acknowledged Siegel's appraisal used $144,000 for reserves for replacement, while Renzi used $30,000 for this item and that the difference between the two figures would result in lower NOI in Siegel's approach.

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 Board further finds a reduction in the subject property's assessment is warranted. The appellant contends the market value of the subject property is not accurately reflected in its assessed valuation. When market value is the basis of the appeal the value of the property must be proved by a preponderance of the evidence. National City Bank of Michigan/Illinois v. Illinois Property Tax Appeal Board, 331 Ill.App.3d 1038 (3^{rd} Dist. 2002). The Board finds the appellant met this burden of proof and a reduction in the subject's assessment is warranted.

The Board will first consider relevance of the December, 2003 sale of the subject for $19,400,000. The Board notes the sale was between related parties as a result of a merger of two subsidiaries. After reviewing the transfer declaration and contacting a representative of the property owner, Siegel determined this sale was not an arm's length transaction. The Board also notes Renzi admitted under cross examination that the transfer declaration indicated the subject was not exposed to the market. The Board finds the Illinois Supreme Court, in Springfield Marine Bank v. Property Tax Appeal Board, 44 Ill.2d. 428, (1970), found that a contemporaneous sale of property between parties dealing *at arm's-length* is a relevant factor in determining the correctness of an assessment and is practically conclusive on the issue of whether an assessment is reflective of market value (emphasis added). The Board further finds Property Assessment Valuation, a handbook for assessing officials published by the International Association of Assessing Officers, states on page 21 that:

> Market value is the most probable price expressed in terms of money that a property would bring *if exposed for sale in the open market in an arm's-length transaction* between a willing seller and a willing buyer, both of whom are knowledgeable concerning all the uses to which it is adapted and for which it is capable of being used (emphasis added).

The Board finds that based on the facts in the instant appeal, the December, 2003 sale of the subject was between related parties and was not exposed to the market. For these reasons, the sale was not an arm's-length transaction and cannot be relied upon as a valid indicator of market value for the subject as of its January 1, 2004 assessment date. The Board therefore accords this sale no weight.

The Board finds the appellant and the intervenor submitted appraisals into the record and both appraisers testified regarding their respective reports. Neither appraiser gave significant weight to the cost approach. Siegel acknowledged he had originally considered a third subject parcel as excess land. However in testimony, he corrected this error, stating it had no effect on his income approach because he used a per room basis of valuation, rather than a per square foot basis.

In his income approach, Siegel relied on several sources commonly used in valuing hotel properties. These included The *Korpacz Real Estate Investor Survey* (Korpacz) for the third quarter of 2004, The 2003 *HOST Report*, published by Smith Travel Research, the *STAR Report*, also published by Smith Travel Research, and *The Pulse Report, Hotel and Motel Association of IL*, detailing occupancy rates and ADR's for the Chicago Metropolitan hotel market, including The Chicago North submarket, into which the subject falls. The Board finds Siegel's reliance on these sources is appropriate and supports his income approach. Renzi, on the other hand, testified that while he reviewed the *Korpacz Survey*, he relied more heavily on historical data from his own files and his experience in appraising hotel properties. The Board finds that, notwithstanding Renzi's considerable experience, Siegel's references to, and reliance on published sources within the real estate valuation field in general, and the hotel segment in particular, lend more credence to Siegel's income approach. Additionally, the Board finds Siegel calculated his allowance for replacement reserves as a percentage of income, following the *HOST Report*. Regarding selection of a capitalization rate, Siegel's appraisal cited Korpacz, which indicated the average capitalization rate for hotels like the subject was 9.88%. Siegel testified his use of 10.5% was appropriate because the subject is the only full service hotel in its area, must compete with numerous limited service hotels in its neighborhood and is distant from areas of significant development. Further, the Board finds that when determining his capitalization rate, Siegel consulted the *Semi-Annual National Full Service Hotel Market Survey*, published by Korpacz, whereas Renzi relied on "informed lenders, brokers and investors" but did not include supporting data from these sources in his appraisal report. Finally, the Board finds sources such as the *Semi-Annual National Full Service Hotel Market Survey* are more indicative of the actual full service hotel market than the undocumented appraisal references and testimony submitted by Renzi.

Regarding the sales comparison approach, the Board finds Siegel examined five sales of full service hotel properties within the Chicago market. Siegel testified it was important to use full service hotels as comparables because they offer food and beverage services, as well as banquet and meeting spaces like the subject. The comparables were located in Northbrook, Mundelein, Skokie and Arlington Heights, Illinois. Sales 2 and 3 were Holiday Inns like the subject. Siegel testified there were no sales of full service hotels in McHenry County. Renzi, on the other hand, included only one full service hotel, which is located close to O'Hare International Airport, in his sales comparison approach. In addition, he acknowledged he had to make significant adjustments to four comparables because they were limited service hotels, which demonstrates their high degree of dissimilarity when compared to the subject. Renzi justified his selection of comparables by testifying they were more similar in age when compared to the subject, which he considered an important factor.

The Board finds both appraisers relied most heavily on the income approach, supported by the sales comparison approach. The Board finds Siegel's income approach was logical and systematic, was well supported by reliable industry sources and further, that his testimony regarding this approach was credible and confident. Renzi relied more heavily on his experience, which is considerable, and his contacts with lenders, brokers, and the like. However, Renzi failed to document these sources and support them adequately within his report and by his testimony. Regarding the sales comparison approaches in both appraisals, the Board finds all of Siegel's comparable sales were full service hotels, with two comparables being Holiday Inn's like the subject. Conversely, Renzi's comparables sales, with one exception, were limited service hotels, which are inferior in design and amenities when compared to the subject and required significant adjustments for these and other reasons. Based on the foregoing analysis, the Property Tax Appeal Board finds the best evidence in the record of the subject's market value is found in Siegel's appraisal and that the appellant has met its burden of proving overvaluation by a preponderance of the evidence. Therefore, the Board finds the subject's market value as of its assessment date of January 1, 2004 was $12,065,000. Since market value has been established, McHenry County's 2004 three-year median level of assessments of 33.30% 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.

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: March 20, 2009

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.