FINAL ADMINISTRATIVE DECISION
ILLINOIS PROPERTY TAX APPEAL BOARD

APPELLANT: Household Regional Processing
DOCKET NO.: 04-25445.001-I-3
PARCEL NO.: 07-12-300-012-0000

The parties of record before the Property Tax Appeal Board are Household Regional Processing, the appellant, by attorney Patrick C. Doody, of The Law Offices of Patrick C. Doody and Corey M. Novick of C. Michael Novick, LLC, Chicago; the Cook County Board of Review by Assistant State's Attorney Benjamin Bilton; and Palatine Township High School District #211 and Schaumburg Community Consolidated School District #54, by attorney Michael J. Hernandez of Franczek Radelet P.C. of Chicago, the intervenors.

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

LAND:	$568,800
IMPR.:	$421,200
TOTAL:	$990,000

Subject only to the State multiplier as applicable.

ANALYSIS

The subject property consists of a 260,001 square foot parcel improved with a one-story single tenant office building containing 50,263 square feet of building area built in 1969. The subject improvement was formerly an industrial building that was converted to a single tenant office building. The improvement's exterior is common brick and insulated metal panel. Interior finishes consist of carpet, painted or papered drywall, ceramic tile, and suspended acoustical tile ceilings. Site improvements include 80,000 square feet of asphalt pavement and concrete walk ways. The subject is located in Schaumburg Township, Cook County.

The appellant, through counsel, appeared before the Property Tax Appeal Board arguing that the fair market value of the subject is not accurately reflected in its assessed value. In support of this argument, the appellant submitted a complete summary appraisal report with an effective date of January 1, 2004 (Appellant's Exhibit 1) and presented the testimony of the appraisal's author, Terrence P. McCormick. McCormick testified he is a State of Illinois certified appraiser, holds the designation of Member of the Appraisal Institute (MAI), and has been employed as an appraiser for 30 years.

McCormick described the subject property and its environs. The witness testified he made a personal inspection of the property on April 27, 2005. McCormick testified the subject was appraised as fee simple for *ad valorem* tax purposes. The appraiser opined that the subject's highest and best use as vacant would be for industrial use and that continuation of its use as an office building is its current highest and best use. The subject's remaining economic life was estimated to be 30 years based on an economic life of 60 years.

Within the appraisal's discussion of the property's history, McCormick revealed that the subject property was part of a six property sale in November 2004 of which the subject was allocated a sale price of $7,550,000, or $150.21 per square foot of building area. The appraiser placed minimal consideration on this sale price as the subject was encumbered by a long term lease and it was part of a six property transaction.

To estimate a total market value for the subject of $2,750,000 as of January 1, 2004, McCormick employed the three approaches to value; the cost approach, the income capitalization approach and the sales comparison approach to value.

In the cost approach, the appellant's appraiser testified he first estimated a value for the subject's land utilizing the sales of six parcels located in the subject's general area which sold from April 2001 to April 2004. The parcels range in size from 58,376 to 214,272 square feet of land area and sold for prices ranging from $4.49 to $5.31 per square foot of land area. The appraiser adjusted the comparables location, size, configuration and other necessary items. After an analysis of the comparable land sales when compared to the subject, the appraiser estimated a unit value for the subject of $4.50 per square foot of total land area or $1,170,000, rounded.

McCormick testified that he viewed the subject parcel and determined based on field measurements and a review of survey maps that 71,761 square feet of the subject's total land area is excess land. The appraiser testified that the subject property has an actual land to building ratio of 5.17:1. Explaining that as the excess land is located at the rear of the subject parcel and has no street frontage or access, a discounted unit value per square foot of $3.50 was assigned to that portion of the subject's land. This calculation resulted in estimated land value for the excess land of $251,164 which would be added to the estimated values determined in the income capitalization and sales comparison approaches to value.

The adjustment of the land to building ratio to 3.75:1 was considered more appropriate for the subject's current use as a single tenant office building.

An estimated reproduction cost new of $76.95 per square foot for the subject's 50,263 square foot improvement was based on the Automated Marshall Valuation Service, a nationally known costing service. Site improvements of pavement and concrete walks were estimated to be $160,000. This figure was added to the estimated reproduction cost to conclude a total cost for all the improvements of $4,027,687. Depreciation from all causes was estimated to be 60% or $2,416,612. McCormick testified the depreciation factor was based on an analysis of the sales which were used in the sales comparison approach. The estimated depreciation was deducted from the estimated total reproduction cost new to estimate a depreciated value for the subject's improvements of $1,611,075. The total land value was then added to estimate an indicated value through the cost approach of $2,780,000 rounded.

In testimony, McCormick briefly outlined the subject's lease terms. As of January 1, 2004, the subject property was encumbered by a first amendment to a lease dated December 2000; the amendment extended and changed the original triple net lease dated September 11, 1991. This first amendment extends from January 1, 2002 through December 31, 2012. The rent for the first year of the term was $12.00 per square foot on a triple net basis, or $604,800 annually. The rent increases 3% annually and as of January 1, 2004 the rent was $12.73 per square foot, triple net, or $641,592 annually. The appraisal indicated that minimal weight was placed on the contract rent for several reasons: length of the lease; the inclusion of a substantial tenant improvement allowance; the above market rent terms; and the certain environmental contamination being remediated by a prior owner/occupant of the premises.

In the income approach, McCormick testified he analyzed eight comparables; these spaces were being offered to the market on a gross rent basis. The properties were located in the same general area as the subject. As of January 2004, the available spaces ranged in size from 1,682 to 45,000 square feet of building area. The landlords were asking rents from $12.00 to $19.00 per square foot gross. All of the comparables were contained within multi-tenant office buildings. The appraiser opined the subject, due to its larger size, would fall towards the middle of the range. After consideration of the data and adjustments for age, condition, utility and location, the witness estimated that rent of $15.50 per square foot on a gross basis, or $779,077, would best represent the potential gross income (PGI) for the subject as of January 1, 2004. Vacancy and collection loss (V&C) of 10%, or $77,908, was estimated by examining other office buildings in the subject's market area. The deduction of the V&C resulted in an effective gross income (EGI) of $701,169 for the subject. The Building Owners and Managers Association (BOMA) Experience Exchange Report study along with the appraiser's experience with other similar properties were some of the sources of data to estimate expenses applicable to the subject. Excluding real estate taxes, the appraiser estimated that $5.75 per square foot of building area, or $289,012, was applicable for the subject. The estimated expenses were deducted from the EGI resulting in a net operating income (NOI) of $412,157 for the subject.

Several methods to estimate the capitalization rate were examined. The appraiser determined that the band of investment technique was the most reliable for a property such as the subject. After consideration of rate surveys, the appraiser indicated that the band of investment technique yielded an overall capitalization rate of 10.75%. The appraiser calculated an effective tax rate of 7.0%, which was added to establish a total capitalization rate of 17.5%. Dividing the NOI by the appraiser's total capitalization rate resulted in an indicated value for the subject of $2,355,183. As he previously testified, $251,164 was added for the excess land resulting in an estimated value for the subject under the income capitalization approach of $2,610,000, rounded.

The witness testified that he found adequate actual market data for properties similar to the subject to apply the sales comparison approach to value. To estimate a value for the subject through the sales comparison approach, McCormick testified he analyzed the sales of six properties located in the same general area as the subject. The properties consist of office buildings or industrial buildings with a high percentage of office space. The comparables contain from 20,000 to 60,000 square feet of building area and range in age from 15 to 42 years. The buildings have land to building ratio ranging from 1.61:1 to 3.46:1. The comparables sold from April 2001 to May 2004 for prices ranging from $685,000 to $3,765,000, or from $27.67 to $65.11 per square foot of building area. The witness testified that each sale was adjusted for date of sale, building size, age, land to building ratios, location, building type, market conditions, and other relevant items. McCormick testified that the two industrial properties he included are very similar to the subject as they are close in proximity to the subject and have higher than average percentages of office space. After his analysis, McCormick selected $50.00 per square foot of building area as a unit value for the subject, or an estimated market value of $2,513,150. To this figure, the witness testified, the estimated value of the excess land was added to estimate a total market value for the subject of $2,760,000, rounded, using the sales comparison approach to value.

When reconciling the three approaches to value, McCormick testified primary consideration was placed on the sales comparison approach to value; secondary consideration was given the income capitalization approach; and the least weight was placed on the cost approach to value. The appraiser's final estimate of value for the subject was $2,750,000 as of January 1, 2004.

McCormick further testified that in his opinion there would be no significant change in value between 2004 and 2006. At the conclusion of his direct testimony, McCormick testified that he was confident that he developed the best estimate of the most probable price the subject property would bring between willing and able buyers and sellers if the subject was offered on the open market as of January 1, 2004.

During cross-examination, McCormick testified that the information regarding the subject's 2004 sale was obtained from *CoStar Comps*. He also reiterated his testimony that at the time of sale, the subject was encumbered by a long term lease to the appellant. The witness testified that he was aware that although not currently used as an industrial property, the subject property is being assessed as an industrial property. He also testified that he made necessary adjustments to his land sale comparables for any increase in values from date of sale to the effective date of the appraisal.

McCormick testified that when a fee simple interest is being appraised primary emphasis is placed on market rent not contract rent. In the subject's case, the contract rent far exceeded market rent as of January 1, 2004. When being cross-examined regarding the capitalization rate in the income approach to value, McCormick testified he believed that his overall rate was appropriate for the time and market.

McCormick was cross-examined regarding each of the sales and the adjustments utilized in the sales comparison approach to value. The witness indicated his confidence in the comparability of the sales and reiterated the reasoning behind any adjustment made to the comparables.

The intervenors, Palatine Township High School District #211 and Schaumburg Community Consolidated School District #54, through counsel, appeared before the Property Tax Appeal Board arguing that the subject's 2004 assessment should be maintained. In support of this argument, the intervenors submitted a brief and copies of *CoStar Comps* sale summary reporting sheets for five sales. The comparable properties are industrial buildings built from 1969 to 1992. The comparables range in size from 8,984 to 372,002 square feet of building area and in land size from 60,984 to 317,552 square feet. These sales occurred from August 1999 to June 2002 for prices ranging from $650,000 to $7,192,755, or from $63.94 to $178.09 per square foot of building area.

The board of review submitted its "Board of Review Notes on Appeal" wherein the subject's 2004 final total assessment of $1,400,227 was disclosed. These assessments reflect a fair market value of $3,889,519 or $77.38 per square foot of total building area land included, when the Cook County Real Property Assessment Ordinance level of assessments of 36% for Class 5B industrial property is applied.

In support of the 2004 assessment, the board of review submitted a memorandum dated January 16, 2006, and *CoStar Comps* sale summary reporting sheets on four properties. The memorandum indicated the sales of these properties in the subject's area suggested an unadjusted range of from $78.27 to $119.92 per square foot of building area. The writer did not appear at the hearing to explain the similarities and/or differences between the comparables and the subject or to be cross-examined. The comparable properties are multi-tenant office buildings built from 1979 to 1986. The comparables range in size from 39,259 to 65,000 square feet of building area and in land size from 137,900 to 317,552 square feet. These sales occurred from March 2002 to March 2005 for prices ranging from $3,085,500 to $7,795,000, or from $78.27 to $119.92 per square foot of building area. Based on the foregoing, the board of review requested confirmation of its assessment.

After hearing the testimony and considering the evidence, the Property Tax Appeal Board finds it has jurisdiction over the parties and the subject matter of this appeal. The issue before the Property Tax Appeal Board is the determination of the subject’s market value for ad valorem tax purposes.

When market value is the basis of the appeal, the value of the subject property must be proved by a preponderance of the evidence. Winnebago County Board of Review v. Property Tax Appeal Board, 313 Ill.App.3d 179, 728 N.E.2d 1256 (2nd Dist. 2000). Proof of market value may consist of an appraisal, a recent arm's length sale of the subject property, recent sales of comparable properties, or recent construction costs of the subject property. (86 Ill.Adm.Code §1910.65(c)).

The Property Tax Appeal Board finds the testimony and appraisal of Terrence McCormick to be the most credible evidence in the record of the subject's fair market value. McCormick prepared an appraisal consisting of the three traditional approaches to value; the cost approach, the sales comparison approach, and the income approach to value

The Board first finds McCormick's determination that the subject's highest and best use is its continuation as an office building to be the most credible in the record.

In the cost approach, the Board finds that McCormick used six comparable parcels to estimate a land value for the subject. While smaller than the subject, McCormick adjusted the comparables and selected a land unit of value that fell at the low end of the range of the smaller land comparables. The Board finds that McCormick's adjustments were reasonable and credible. Furthermore, neither the board of review nor the intervenor submitted any evidence to refute the appraiser's analysis.

When estimating a reproduction cost new for the subject's improvements, McCormick performed a thorough examination of the subject and based his estimate of reproduction cost new on recognized cost and valuation sources. The Board finds that neither the board of review nor the intervenor presented any evidence to refute the appraiser's calculation of the cost new or depreciation.

In the income approach, McCormick analyzed eight rent comparables located in same general area as the subject. The Board finds that the appraiser's adjustments to the comparables were coherent and logical. In addition, each step followed by the appraiser in the income approach was rational and easily understood. The Board finds that McCormick's selection of the capitalization rate followed accepted practices. The Board finds that neither the board of review nor the intervenor presented any evidence to refute the appraiser's calculations of market rent, vacancy and collection loss, expenses or the capitalization rate.

McCormick developed a sales comparison approach using improved comparables with similar attributes as the subject property. The Board finds that McCormick's use of the comparables sales approach composed of industrial and office buildings an appropriate selection of comparable properties. The sales comparison approach is the preferred method when assessing real property for taxation purposes and should be used when market data are available. Cook County Board of Review v. Illinois Property Tax Appeal Board, 384 Ill.App.3d 472, 480, 894 N.E.2d 400, 323 Ill.Dec. 633 (1st Dist. 2008) McCormick testified he accorded the sales comparison approach to value substantial weight. The Board finds that McCormick's selection and examination of sales that occurred were near the assessment date at issue and were very similar: in use; in size; and in age to the subject. The Board finds that the adjustments made to the appellant's sales comparables are reasonable.

The Board also finds that the addition of $251,164 for excess land to the value estimated in both the income approach and the sales comparison appropriately increased the subject's estimated market value on the date at issue.

The Board finds that the appellant's appraiser's reconciliation of the three approaches to value followed the reasoning set forth in his testimony and appraisal.

The Property Tax Appeal Board places diminished weight on the intervenor's evidence. The intervenor presented a brief and raw data from the sales of some properties. The Board finds that the intervenor failed to present any analysis concerning the suggested comparables' similarity or dissimilarity to the subject. Further, there are no adjustments to the sales for time of sale, conditions of sale, condition of the buildings, location, size, or any other factor used in a conventional comparative analysis. Additionally, the intervenor failed to provide any independent documentation or testimony verifying the correctness of the *CoStar Comps* information. The Property Tax Appeal finds that the intervenor's submission of the unrefined sales data is to be given diminished weight.

The Property Tax Appeal Board places diminished weight on the board of review's evidence. The board of review presented what appears to be an in-house memorandum summarizing raw data from the sales of multi-tenant office buildings. The Board finds that the memorandum lacked analysis concerning the suggested comparables' similarity or dissimilarity to the subject. Further, there are no adjustments to the sales for time of sale, conditions of sale, condition of the buildings, location, size, or any other factor used in a conventional comparative analysis. Additionally, the board of review failed to provide any independent documentation or testimony verifying the correctness of the *CoStar Comps* information, nor did it provide the property record cards for the subject property and the comparables to assist the Board in its evaluation of the comparability of the properties. The Property Tax Appeal finds that the board of review's submission of the raw sales data is to be given diminished weight.

With regard to the subject's 2004 sale, the Board finds that there is no testimony or evidence in the record indicating the transaction was arm's length in nature.

In conclusion, the Board finds the appellant's appraiser presented the most credible testimony and most persuasive evidence of the subject's market value as of the assessment date at issue. Based on the foregoing analysis, the Property Tax Appeal Board finds the subject property had a market value of $2,750,000, as of January 1, 2004. Since the fair market value of the subject has been established, the Board finds that the Cook County Real Property Assessment Classification Ordinance level of assessments of 36% for Class 5B properties shall apply and a reduction is accordingly warranted.
Lbs/09

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.

Donald R. Crit

Chairman

K. L. Fern

Member

Frank J. Huff

Member

Mauro Glorioso

Member

Walter R. Gorski

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: October 28, 2009

Eileen Castrovillari

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.