PROPERTY TAX APPEAL BOARD'S DECISION

APPELLANT: Donald Rodney
DOCKET NO.: 05-00490.001-C-1
PARCEL NO.: 99-09-351-008

The parties of record before the Property Tax Appeal Board are Donald Rodney, the appellant, by attorney Robert W. McQuellon III of Peoria and the Knox County Board of Review.

The subject property consists of 93,218 square feet or approximately 2 acres has been improved with five buildings of wood frame construction with metal siding consisting of a total of 29,296 square feet which contain a total of 334 mini-warehouse storage rental units. The buildings were constructed at various times between 1990 and 1996. The property is located in Galesburg Township, Galesburg, Illinois.

The appellant appeared through counsel before the Property Tax Appeal Board claiming that the fair market value of the subject property is not accurately reflected in its assessed valuation. The appellant disputes only the improvement assessment and the appellant amended the petition to accurately reflect the square footage of the improvement to 29,296 square feet. The sole market value estimate offered by the appellant in support of the petition was developed by Robert W. McQuellon Jr., M.B.A., of Real Estate Appraisers & Consultants, who utilized only the income capitalization approach to value in his analysis of the subject property to estimate that the subject property had a market value of $555,675 as of January 1, 2005 and therefore should have a total assessment of no more than $185,225.

In support of this overvaluation claim, the appellant called as its only witness McQuellon Jr., who holds the designation of a registered professional member from the National Association of Real Estate Appraisers (NAREA) and has extensive experience as a real estate broker in the Peoria area. He testified that he has an undergraduate degree, B.S., in aerospace engineering and a Masters degree in Business Administration both from St. Louis

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Based on the facts and exhibits presented, the Property Tax Appeal Board hereby finds *no change* in the assessment of the property as established by the **Knox** County Board of Review is warranted. The correct assessed valuation of the property is:

LAND:	$	15,650
IMPR.:	$	214,650
TOTAL:	$	230,300

Subject only to the State multiplier as applicable.

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University. He also testified that he does real estate consulting work and appraisal, and has specialized in real estate tax appeal work in the State of Illinois since 1986. McQuellon Jr. did not testify that he possessed any appraisal designations nor did he profess to be a real estate appraiser. He was, however, tendered as an expert witness and, although specifically asked by the Hearing Officer, no objection was raised by the board of review.

After having conceded that no assessment equity evidence was submitted by the appellant to the Property Tax Appeal Board, the sole basis of the instant appeal set forth in the appellant's Commercial Appeal petition was "Recent Appraisal." The purported recent appraisal prepared by McQuellon Jr. consists of three-typed pages, the first of which includes summary assessment data including a contention that the subject improvement consists of 34,832 square feet of building area, a one-page generic section entitled analysis consisting of legal citations and quotes from various cases, and McQuellon Jr.'s entire income analysis was set forth on a half-page to which was attached eight pages consisting of a plot plan map, six pages of portions of a federal tax return, and a map depicting the location of the subject property. The last page of the report consists of the education and real estate experience possessed by McQuellon Jr.

The witness testified that the subject property's owner provided him with the 2004 Profit and Loss Schedule which reflected a total gross income of $135,628. McQuellon Jr. asserted that he reviewed this income and did an analysis of this income with a deduction of 2004 operating expenses (less mortgage, interest and depreciation) of $68,947 for a net operating income of $66,681. He then applied a capitalization rate of 12% to the subject's stated net operating income based on a survey of some capitalization rates in the central Illinois area for this type of mini-warehouse building property. While the capitalization rate may seem high, McQuellon Jr. testified that with a mini-warehouse with no long term leases given the quality and durability most investors would require that type of return on investment in order to purchase this type of property. Based on this capitalization rate, McQuellon Jr. then came up with an indicated value of $555,675 for the subject property. McQuellon Jr. testified that an income producing property such as the subject was typically valued based on the quality and durability of the income stream; in this case, the buyer paid more as the subject sold for $704,000 in May 2000, however, the income for the property now is less than at the time it was purchased.

Based on McQuellon Jr.'s testimony, his estimate of indicated value of the subject property was developed from the actual 2004 income and expense data of the subject property. Based on this

evidence, the appellant requested a reduction in the subject's assessment to $185,225.

On cross-examination, McQuellon Jr. indicated that the expenses include the principle mortgage payment, but deduction was made for interest and depreciation. On examination by the Hearing Officer, McQuellon Jr. acknowledged that he did not gather any market derived data to prepare his income analysis. Also on examination, McQuellon Jr. expounded upon the capitalization rate data which he considered from the Peoria/Bloomington area of about six warehouses and mini-warehouse sales where the buildings ranged in size from 20,000 to 50,000 square feet where the capitalization rate came in although 12% was admittedly at the high end of the range shown by the data, but would be appropriate for an investor to consider purchasing in the Galesburg area market.

The record in this appeal also contains "Board of Review Notes on Appeal" wherein the subject's final assessment of $230,300 was disclosed. The subject's assessment reflects a market value of $689,521 using the 2005 three-year median level of assessments for Knox County of 33.40% as calculated by the Illinois Department of Revenue. In further support of the current assessment, the board of review reiterated that the subject property was last purchased in May 2000 for $704,000.

As evidence in support of the current assessment, the board of review submitted a grid analysis consisting of three comparable mini-warehouse facilities ranging from two to nine buildings per property. The Galesburg Township assessor was called to testify regarding this equity grid and these three suggested comparables. The comparable mini-storage facilities ranged in size from 8,100 to 27,345 square feet of building area and ranged in number of storage units from 44 to 148 units. The buildings were constructed between 1980 and 2004, although the township assessor disagreed with the data in the grid as to comparable number two contending that all of these concrete block buildings were constructed in 1980, rather than from 1980 to 1986 as stated on the grid. The grid analysis appears to have attempted to convert the assessment values into fair market values at perhaps a ratio of 3.06 which was not explained by the board of review; in any event, these comparables are said to have fair market values ranging from $201,090 to $542,280 or from $19.83 to $24.82 per square foot including land. Through this same calculation method, the board of review indicates that the subject has a fair cash value of $746,790 or $25.49 per square foot including land.

On the basis of the appellant's requested reduction in assessment, the township assessor testified that the subject property's per square foot assessment, if the appeal were granted in full, would be less than board of review comparable number 2

which is a significantly older improvement than the subject property and of different construction than the subject. On the basis of these comparisons, the board of review requested confirmation of the assessment and estimated the fair market value of the subject as of the assessment date of $746,790.

On cross-examination, the township assessor acknowledged that board of review comparable number three with 27,345 square feet of building area is the most similar comparable in size and age to the subject property. The township assessor also acknowledged on cross-examination that board of review comparable number 3 had a combined land and improvement assessment of $19.83 per square foot of building area whereas the subject property had a combined land and improvement assessment of $25.49 per square foot of building area. On re-direct, the township assessor indicated these two similar properties differed significantly in location one being in a commercial area and one not being in a commercial area and also in the size of the individual storage units which differ substantially as comparable number three has rental units utilized for boat storage purposes. However, on re-cross-examination, the township assessor acknowledged that the difference in location between the subject and board of review comparable number three was reflected in the land assessment where the subject had a land assessment of $.51 per square foot and comparable number three had a land assessment of $.20 per square foot, but also reflected in the improvement assessment.

After reviewing the record 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 no reduction in the subject property's assessment is warranted.

The appellant argued the subject property's assessment was not reflective of its fair market value. 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); National City Bank of Michigan/Illinois v. Illinois Property Tax Appeal Board, 331 Ill. App. 3d 1038 (3rd Dist. 2002); *Official Rules of the Property Tax Appeal Board*, 86 Ill. Admin. Code Sec. 1910.63(e). The Board finds the appellant has not overcome this burden even though the board of review failed to address the appellant's market value evidence when it submitted equity comparables.

The Board finds the appellant attempted to establish a fair market value for the subject property using the income approach to value. The appellant's sole witness calculated the fair market value for the subject property to be $555,675. The Board gives this value conclusion little weight. The Board finds the

appellant's valuation witness used the subject's actual income for 2004 as reported for taxation purposes and also utilized the subject's actual expenses as reported for 2004 for taxation purposes to arrive at the subject's purported net operating income. The Board finds the appellant's argument that the subject's assessment is excessive when applying an income approach based on the subject's actual income and expenses unconvincing and not supported by evidence in the record.

The Board finds the appellant's witness failed to demonstrate the subject's actual income and expenses are reflective of the market through the use of rental comparables in the income analysis. Although actual rental income may be a relevant factor in determining the value of a property from an investor's standpoint, 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). To demonstrate or estimate the subject's market value using an income approach, as the appellant's consultant attempted, one must establish through the use of market data the market rent, vacancy and collection losses, and expenses to arrive at a net operating income reflective of the market and the property's capacity for earning income. Further, the appellant must establish through the use of market data a capitalization rate to convert the net income into an estimate of market value. Since the appellant failed to demonstrate the subject's potential annual income was reflective of the market or its capacity to earn income, the Board accords the appellant's estimate of fair market value little weight.

Furthermore, the appellant offered no credible market data to support the expenses utilized in the income analysis. The expense calculation was highly problematic in that it had virtually no explanation other than being derived from the subject owner's profit and loss statements provided to McQuellon Jr. In summary, the appellant's evidence prepared by McQuellon Jr. is the subject's actual income and expenses with application of a capitalization rate to determine fair market value. There was no evidence from McQuellon Jr. that he stabilized the subject's income and expenses for a three-year period. Moreover, the witness did not use the reserves for replacements method to account for any capital expenditures over a fixed period of time. The appellant did not demonstrate through an expert in real estate valuation that the subject's actual income and expenses are reflective of the market. Finally, the witness' qualifications as a valuation expert, specifically in the field of appraising, were minimal at best. Therefore, the appellant's market value estimate for the subject property using the income analysis prepared by McQuellon Jr. was given little weight. And, as a final point, the Board finds the evidence disclosed the

subject property was purchased in May 2000 for a price of $704,000, which is supportive of the subject's assessment.

As a result of this analysis, the Board finds the appellant failed to demonstrate that the subject property was overvalued by a preponderance of the evidence and no reduction is warranted. In conclusion, the Board finds the appellant failed to establish overvaluation by a preponderance of the evidence and therefore, the Board finds the subject's assessment as established by the board of review is correct and no reduction is warranted.

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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 21, 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.