FINAL ADMINISTRATIVE DECISION
ILLINOIS PROPERTY TAX APPEAL BOARD

APPELLANT: Stanhope, LLC
DOCKET NO.: 07-29534.001-C-1
PARCEL NO.: 06-01-200-033-0000

The parties of record before the Property Tax Appeal Board are Stanhope, LLC, the appellant, by attorney Mitchell L. Klein, of Schiller Klein PC in Chicago; and the Cook County Board of Review.

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:	$ 332,299
IMPR.:	$1,472,221
TOTAL:	$1,804,520

Subject only to the State multiplier as applicable.

ANALYSIS

The subject property consists of a nine year old, six-story, 128 room limited service hotel containing approximately 76,488 square feet of building area. The improvement is situated on a parcel containing 109,309 square feet (2.51 acres) of land. The facility contains an exercise room and an indoor heated pool. The appellant, via counsel, argued that the market value of the subject property is not accurately reflected in the property's assessed valuation as the basis of this appeal.

In support of the market value argument, the appellant submitted an appraisal co-authored by Richard J. Kopacz and Gary M. Skish, and reviewed by Gary T. Peterson, of First Real Estate Services, Ltd. Kopacz and Skish are Illinois Certified General Real Estate Appraisers while Peterson holds an MAI designation. The firm's inspector, Mike Oliver, personally inspected the interior and exterior of the subject property. Based upon the analyses contained in the appraisal, the appraisers indicated the subject has an estimated market value of $4,715,000 as of January 1, 2007.

The appraisal report utilized the three traditional approaches to value, that is the cost approach, the income approach and the sales comparison approach, to estimate the market value for the subject property. The existing improvements are believed to represent the highest and best use of the site as improved. The appraisal also notes the sale of the subject in January 2005 for $8,000,000. As indicated in the appraisal analysis, this transfer included business value along with personal property and is not indicative of the market value of the real estate only.

Under the cost approach to value, the appraisers analyzed four land sales then estimated the value for the subject site at $985,000, rounded. The replacement cost new method using the Marshall and Swift Computerized Cost Estimate Program was utilized to determine a cost for the improvement of $6,560,000. The appraiser added entrepreneurial profit then depreciated the improvement by 44%, or a value of $3,857,857. The land value and depreciated value of the site improvements were then added back in to establish a value under the cost approach of $4,965,000, rounded.

Under the income approach to value, the appraisers analyzed the subject's historical revenue from nine months of 2004 through 2006 and market data from a hotel survey publication (HOST Study-2006) and relied heavily on the market data for limited-service hotels with more than 125 rooms operating in the subject's region.

Gross revenue from rooms in the subject property was established by multiplying together four factors: the average daily room rate (ADR) at $97.00, the market occupancy rate (68%); the number of days in the year (365); and the number of rooms, 128, in the subject property. Telephone and other revenue were added to yield a potential gross income of $3,144,542.

For expenses, department and undistributed expenses are the standard in the hotel industry as indicated in the appraisal. The appraisers compared the subject's actual departmental expenses to a survey of national expenses on a percentage basis. They stabilized the room expenses at 32% of the room revenue, the telephone at 200% of the telephone revenue, and other expenses at 20% of other revenue, which includes the subject's complimentary breakfast service. These departmental expenses totaled 33.7% of total revenue, or $1,049,648.

The appraisers then stabilized the undistributed expenses by comparing the subject's actual expenses and the market survey. These expenses include the following: general and administrative expenses; marketing fees; repair and maintenance; energy; insurance costs; franchise fees; and management fees. These expenses totaled 34% of total revenue, or $1,069,144.

Additional deductions made by the appraisers included a stabilized 1.5% of total revenue for replacement reserves, as well as $57,792 for start-up costs, which are required to make the hotel operational. In regards to the furniture, fixtures and equipment (FF&E), the appraisers reviewed surveys and publications to determine the market replacement costs for full-service hotels. As the subject is a limited-service hotel, the appraisers stabilized the FF&E costs for the subject at $5,500 per room, or $704,000. They then depreciated this value by 50% for a value of $352,000. The appraisal indicates that the operator is entitled to a return on the equipment because they spent that money in order to operate the business. Therefore, the return on the FF&E was calculated at $37,840 based on a rate of return of 10.75%.

The appraisers indicated the FF&E also qualifies for a return of the investment because of the periodic replacement of the items. The appraisers estimated a seven year life for the personalty. The replacement cost new value of $704,000, divided by the seven year economic life, indicated a return of FF&E of $100,571.

The appraisers did not deduct any business value for the subject due to its poor performance relative to comparable hotel properties in its market, as well as the industry in general. Accordingly, after deducting the departmental expenses, undistributed expenses, replacement reserves, start-up costs, and the return on and of FF&E, the appraisers indicated a net operating income attributable to the real estate only of $782,379.

In developing the capitalization rate, the appraisers examined two methods, direct capitalization and the band of investment technique. In the direct capitalization method, they reviewed the Korpacz Real Estate Investor Survey as well as the Real Estate Research Corporation Survey for hotel properties and indicated a capitalization rate ranging from 7.0% to 11.5%. Through the band of investment technique, the appraisers derived a 10.0% capitalization rate. They then reconciled these approaches to determine an overall rate for the subject of 9.75%. This rate, added to the tax load factor of 6.84% due to ad valorem taxation, yielded an overall loaded capitalization rate of 16.59%. Dividing the net operating income by the loaded capitalization rate resulted in an indicated value for the subject under the income approach of $4,715,000, rounded.

Under the sales comparison approach, the appraisers analyzed the sales of five limited-service hotel properties located within the subject's market. The properties contain between 40,000 and 110,146 square feet of building area and between 55 and 200 rooms. The comparables sold from May 2005 to August 2007 for prices ranging from $298.00 to $727.00 per square foot of building area, including land, or $31,849 to $38,182 per room. The appraisers adjusted each of the comparables for pertinent factors. Based on the similarities and differences of the comparables when compared to the subject, the appraisers estimated a value for the subject under the sales comparison approach of $35,000 per room, or $4,480,000, rounded.

In reconciling the three approaches to value, the appraisers placed primary emphasis on the income approach to value. This approach is based on parameters derived from the marketplace, both current and forecasted, and is considered to be the most reliable for hotel properties. As hotel sales are complex transactions and include business value and FF&E, each sale is difficult to quantify, according to the appraisal. As such, the sales comparison approach was included in the analysis but given less weight. The appraisers then arrived at a final estimate of value for the subject as of January 1, 2007 of $4,715,000.

The board of review submitted "Board of Review-Notes on Appeal" wherein the subject's total assessment was $1,904,519. This assessment reflects a market value of $5,011,892 using the level of assessment of 38% for Class 5a property as contained in the Cook County Real Property Assessment Classification Ordinance. The board also submitted raw sales information on a total of five comparables that sold between June 2006 and August 2008 for prices ranging from $3,400,000 to $13,300,000, or from $35,051.55 to $97,794.12 per room. No adjustments were made for location, size, age or amenities. In addition, the board of review submitted a map showing the location of the sales comparables in relation to the subject property.

They also included a copy of a recorded special warranty deed confirming the sale date and price of the subject property. As a result of its analysis, the board requested confirmation of the subject's assessment.

At hearing, the appellant's attorney, Mitchell Klein, reaffirmed the evidence previously submitted through testimony elicited from one of the appellant's appraisers, Gary M. Skish. Mr. Skish provided credible testimony regarding the contents of the appraisal. He testified extensively as to the methodology used in the income approach, as well as the other two approaches used in the appraisal. Mr. Skish also testified that the appraisal discussed the sale of the subject, but it included business value and personalty, therefore, it was not considered to be a reflection of the market value of the real estate only. He testified he considered the sale and all sales used in the sales comparison approach, but they were given little weight in his analysis as the income approach, based on historical operating expenses combined with market data, was the most reliable indicator of value.

After hearing the arguments and considering the evidence in the record, the Property Tax Appeal Board finds that it has jurisdiction over the parties and the subject matter of this appeal.

When overvaluation is claimed, the appellant has the burden of proving the value of the property by a preponderance of the evidence. <u>Cook Cnty. Bd. of Review v. Prop. Tax Appeal Bd.</u>, 339 Ill. App. 3d 529, 545 (1st Dist. 2002); <u>National City Bank of Michigan/Illinois v. Prop. Tax Appeal Bd.</u>, 331 Ill. App. 3d 1038, 1042 (3d Dist. 2002) (citing Winnebago Cnty. Bd. of Review v. Prop. Tax Appeal Bd., 313 Ill. App. 3d 179 (2d Dist. 2000)); 86 Ill. Admin. Code § 1910.63(e). 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. Calumet Transfer, LLC v. Prop. Tax Appeal Bd., 401 Ill. App. 3d 652, 655 (1st Dist. 2010); 86 Ill. Admin. Code. § 1910.65(c). Having considered the evidence presented, the Board finds that a reduction is warranted.

In determining the fair market value of the subject property, the Board finds the best evidence to be the appellant's appraisal. The appellant's appraisers utilized the three approaches to value in determining the subject's market value. The Board finds this appraisal to be persuasive for the appraisers: have experience in appraising; personally inspected the subject property and reviewed the property's history; estimated a highest and best use for the subject property; utilized appropriate market data in undertaking the income approach to value; corroborated the income approach using the sales comparison approach to value; and lastly, supported the income and sales approach with reliable market data. The Board gives no weight to the board of review's comparables as the information provided was raw sales data with no adjustments made for location, size, date of sale, age, land-to-building ratio, or other related factors. Therefore, the Board finds that a reduction in the subject's market value to the appellant's request is warranted.

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: June 21, 2013

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.