FINAL ADMINISTRATIVE DECISION
ILLINOIS PROPERTY TAX APPEAL BOARD

APPELLANT: Perry Memorial Hospital
DOCKET NO.: 11-01624.001-C-3
PARCEL NO.: 16-16-452-015

The parties of record before the Property Tax Appeal Board are Perry Memorial Hospital, the appellant, by attorney John C. Isaacson, of Angel, Isaacson & Tracy in Princeton; and the Bureau 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 **Bureau** County Board of Review is warranted. The correct assessed valuation of the property is:

LAND:	$12,515
IMPR.:	$1,984,885
TOTAL:	$1,997,400

Subject only to the State multiplier as applicable.[1]

ANALYSIS

The subject property is improved with a four-story masonry constructed medical office building with brick veneer containing approximately 48,600 square feet of building area. The subject is attached to Perry Memorial Hospital. The subject is serviced by two elevators. The interior features a lobby and office on the ground floor, smaller lobbies of the elevator landings on the upper floors and offices arrayed around the exterior walls. The building was constructed in 1978 with various renovations occurring over time. The property is located in Princeton Township, Bureau County, Illinois.

[1] This decision represents the entire value of the subject property as represented by parcel number 16-16-452-015 exclusive of any exemptions which may apply.

The appellant, through counsel, appeared before the Property Tax Appeal Board contending overvaluation as the basis of the appeal. In support of its claim, the appellant offered an appraisal which estimated a value of $6,000,000, rounded, as of January 1, 2011. Appraiser, David Mark Nelson, was present at the hearing and provided oral testimony detailing the appraisal methodology and final value conclusion.

The appellant called as its first witness Rex Conger, president/CEO of Perry Memorial Hospital. Conger has been president for seven years. Conger testified that Perry Memorial Hospital is a publicly owned hospital. He explained that the subject was an addition to the hospital in 1978 as a separate building even though it is attached to the hospital. Conger testified that the subject is partially used by the hospital with 35.3% being leased to private persons.

During cross-examination, Conger testified they have been able to renovate some of the public spaces, but, the offices themselves have not been renovated. The offices are subject to leaseholds held by private doctors, as well as used by hospital staff. The doctors leasing the offices utilize the hospital for medical tests and surgeries.

David Mark Nelson, who is currently employed by the firm of Roy R. Fisher, Incorporated ("Fisher"), was next called as a witness. Nelson has been employed at Fisher for 21 years as a commercial appraiser. He appraises everything from small apartment buildings to large industrial buildings. He testified that his practice focuses heavily on multi-family type properties, with a secondary concentration in multi-tenant retail, and then medical. In Illinois, he typically works for assessing bodies in Rock Island County. Nelson has taken all of the coursework necessary to be a certified general appraiser in Iowa and Illinois and also has a license in Nebraska and Wisconsin.[2] Nelson further testified that he has completed all of the requirements toward an Member of the Appraisal Institute ("MAI") designation except for a demonstration report. He is a Certified General Real Estate Appraiser with the State of Illinois.

Nelson prepared a restricted appraisal report for property tax purposes to determine the fee simple interest of the subject property valued "As Is." Nelson testified that most of the data was gathered in-house from their normal work processes. His

[2] The parties stipulated to the witness as being an expert.

office works with Trinity Hospital System and with Genesis Hospital along with data gathered from medical office appraisals throughout the states of Iowa and Illinois. The appraisal depicts the cost approach and income approach to value was not developed because of the age of the improvements and because investors typically place a high reliance upon comparable sales. Based on his collection of data, Nelson prepared his sales comparison analysis.

In developing the sales comparison approach to value, Nelson utilized 11 sale comparables of medical office buildings. The eleven sales were located in Bloomington, Moline and Naperville Illinois and also in West Des Moines, Clive, Davenport, Waterloo, Ankeny and Bettendorf, Iowa. The sale comparables ranged in size from 6,194 to 101,296 square feet of building area and sold from July 2007 to March 2010 for prices ranging from $1,040,000 to $24,225,000 or from $102.56 to $289.69 per square foot of building area. The average size was depicted as 46,206 with an average sale price of $185.75 per square foot of building area. Nelson testified that that the characteristics typically used in comparison are the sale date, location, age, condition, design, basement area and level of finish. Nelson testified that 2011 was probably at the end of a very turbulent time economically; therefore, he did not feel there was any impetus for price increases. However, in the subject's class of property, they also did not see any deterioration in price. His reasoning was a lack of sales. Nelson stated surgical space tends to sell for more than general medical office space. Since many of the medical office buildings are purchased as investments, they also look at percentage of occupancy. Nelson's appraisal report depicts the comparables sales had superior locations, ranged in age from 1982 to 2008, consisted of one-story, two-story, condo or bi-level design and contained single or multiple tenants. Two had a full finished basement and one had parking. Seven were described as a medical office, two as a medical/surgical office and two as a medical imaging office. The comparables contained from below 50% being leased to 100% of the available space being leased. The subject was depicted as being built in 1978 as a four-story building with multiple tenants as a medical office with no basement and being 90% leased of the leased space available. Ten of the comparables were situated on lots ranging from 31,195 to 551,892 with land-to-building ratios ranging from 0.70:1 to 9.42:1.[3]

[3] Comparable sale #4 is described as a condominium unit on the 3rd floor of a medical office building.

Nelson testified that primary consideration was given to the fact that Princeton, Illinois is a significantly smaller, less affluent, less populated dense market than all of the sales. He stated the Des Moines sales are a market of over a half million population; Bloomington is larger; Quad Cities is 250,000 to 350,000 with Naperville being suburban Chicago. He considered Princeton to be markedly inferior in terms of a market to choose. He then looked at age and adjusted downward from a building that was built in 1978 with many of the sales being less than 10 years old. Nelson testified that the subject has a functional problem relative to its four-story design as compared to a one-story design. He testified that single tenant buildings, built to suit, tend to sell for more. He also adjusted the comparables downward for any full basements and surgical space. Nelson testified that he found sales #5 and #6 of particular interest based on size. He testified that these two sales were older and are located in markets at the bottom of the range. Nelson stated that these two sales sold when they were 60% occupied. Nelson felt these two sales represented the best indicators of the low end of the value range for the subject at $102 and $117 per square foot of building area. Nelson testified that he directly confirmed both of these sales. Nelson stated sale #7 in Davenport Iowa is right next to Genesis Hospital, which he considered to be similar to the subject's locational characteristic. He agreed it was not attached liked the subject is to Perry Memorial Hospital, but, it is right across the street. He felt sale #7 would be superior to the subject to an investor or purchaser, and thus, used this property to set the top end of the value range for the subject at approximately $133 per square foot of building area.

When asked why he did not apply the income approach to value, Nelson testified that the income approach is very difficult to apply in rural markets where there is not comparable lease data that he could look at to acquire market rents. Nelson testified that many of his in-house leases have components that are business relationships with the doctors or other relationships wherein internal data has some information included that would have to be extracted. Nelson testified that it becomes very subjective. Nelson testified that the subject is managed with the hospital, so there is no dedicated expense stream. Nelson also found it problematic to estimate the risk associated with owning a building in Princeton, Illinois versus the larger markets where there is more demand and less risk. He stated that making so many subjective adjustments erodes the reliability of the income approach.

Nelson did not include the cost approach to value because of the several subjective estimates that would be required. Nelson testified that the subject does not have a dedicated piece of land and he would have had to allocate a portion of the parking to the subject because it shares parking with the hospital complex. Nelson also found it problematic that there were few, if any, land sales in the Princeton, Illinois market similar to the subject's size. From an improvement standpoint, Nelson said it would be problematic to estimate physical deterioration for a building built in 1978. He estimated the effective age of the subject to be approximately 20 years, useful life to be 50 to 55 years indicating a 35% to 40% deduction just for physical deterioration. In addition, he found functional issues associated with the four-story design. He found the subject has some excess common area with functional issues related to the parking lots and use of the parking lots. These issues would require a deduction for functional obsolescence. Nelson testified that the rents in Princeton, Illinois would be one-half of what they were in Ankeny, Iowa or Bloomington, Illinois, which would require an additional deduction for economic obsolescence. Nelson testified the above reasons are why he stayed away from the cost approach. Based on this evidence, the appellant requested a reduction in the subject's assessment commensurate with the estimate of value contained within the appraisal report.

During cross-examination, Nelson testified that from his perspective and from USPAP's perspective, a restricted appraisal means that his appraisal is restricted to the uses that are defined in his report, working with the property tax assessment. Nelson further testified that he would not want this appraisal going to his accountant for financial statement purposes or to a bank to borrow money. Nelson stated that his report was compliant with the restricted report limitations. In justifying his lack of preparing an income approach to value, Nelson testified there are several problems with that approach for the subject. First is the inability to estimate market rent, then vacancy. Nelson opined that both of these estimates would have been weakly supported. In addition, Nelson testified that all of the leases are gross leases and it would be problematic to estimate expenses of utilities, maintenance and reserve allowances along with cleaning services. Nelson pointed out that the majority of his comparables were net leases where the expenses are passed through to the tenant.

In regards to location, Nelson testified that he saw a moderate pattern in price per square foot based on the proximity of the

medical centers to the hospital; however, he did not find it was a straight line relationship. Nelson further testified that sales #5 and #6 were inferior to the subject on an overall basis based on their occupancy being less than 60% at the time of sale. Nelson felt the subject falls to the low end of the data set, but it does not fall outside of the data set.

In response to a question, Nelson found that properties were less valuable as the size of the jurisdiction declined. As an example, Nelson pointed to Waterloo, Iowa, which is the smallest market and has the lowest price per square foot. Nelson testified once again, that proximity of a medical center to a hospital is a characteristic to be considered, however, the overriding characteristic is the fact the subject is located in Princeton, Illinois, as compared to a larger market where the sales come from. When asked about sale comparable #4 being similar in location to the hospital as the subject, Nelson testified that downward adjustments would need to be made to sale #4 based on its size, location in relation to Princeton, Illinois, as well as its attached parking garage compared to the subject's open space parking. Nelson believed after all of the adjustments to sale #4, it would fall into the value range he landed on.

When looking for comparable sales, Nelson found the most important feature was for a medical use property that had sold, as the data set was very limited. Next, he was looking for arm's length sales. Nelson testified that his office verified the sales either with a participant grantor/grantee attorney or with an appraiser involved in the transaction. Nelson acknowledged that his appraisal report did not clearly set forth the market similarities between the subject market area of Princeton, Illinois with the markets in Davenport, Ankeny, Waterloo and Bettendorf, Iowa. Nelson considered the Bloomington/Normal market to be much larger than the subject with a stronger employment base. In comparing markets, the first thing Nelson considers is the population. In comparing the sales he used in his report, Nelson testified that the most similar to Princeton is sale #6 in Waterloo because it is the smallest metro area of all the sales he used, tends to be a blue collar community and has a great deal of agricultural influences. Next, he considered the market areas for sales located in Davenport, Moline and Bettendorf to be similar markets. Nelson felt the Bloomington sale is more dissimilar to the subject than the Des Moines sales #2, #3 and #8 in terms of market area. Nelson testified that he found the Naperville market to be most dissimilar to the Princeton market in terms of

comparability. Nelson further testified that the correlation between the sales in Iowa and Illinois are absolutely uniform as the same participants are playing in both of those markets.

The board of review submitted its "Board of Review Notes on Appeal" wherein its final assessment of the subject totaling $2,992,665 was disclosed. The subject's assessment reflects a market value of approximately $8,989,682 or $184.97 per square foot of building area, including land, using the 2011 three-year average median level of assessments for Bureau County of 33.29% as determined by the Illinois Department of Revenue.

In support of its assessment the board of review submitted a two page letter discussing a review of the appellant's appraisal, the cost approach and income approaches to value and a copy of the subject's property record card.

Thomas Sweeney, Chief County Assessment Officer of Bureau County, testified that his office reviewed the appellant's evidence and found that the sales used by the appellant were the same sales his office found to corroborate the cost approach used to value the subject. Sweeney testified that the Marshall & Swift analysis has proven to be very accurate when it comes to cost approaches. Sweeney further testified that the relationship of income, overall rates and values provided a range for the subject from $7,400,000 to $15,800,000, which he acknowledged was a fairly wide range, however, the subject's estimated market value of approximately $9,000,000, as reflected by its assessment is around the median. Sweeney felt the cost approach was supported by the income approach.

The board of review's submission of evidence depicts the board of review utilized five comparable sales submitted by the appellant. The sales were located in Bloomington, Moline, Bettendorf, and Ankeny. They were depicted as having overall lease rates ranging from $14.50 to $26.47 with values ranging from $9,726,175 to $15,823,677. Sweeney testified that since they saw no detailed adjustments in the appellant's rental comparables, they presumed they were of the same utility. Sweeney testified that they saw no justification for a locational adjustment. Looking at the median range of values of $185.61, $187.53 and $192.64 projected a tight range of values in the middle range. Sweeney opined that the subject's market value of $190.07 per square foot of building area fit nicely. Sweeney reiterated that all three approaches to value corroborated one another. Based on this evidence, the board of review requested confirmation of the subject's assessment.

During cross examination, Sweeney acknowledged that his office opined there is only 20% depreciation to the subject improvement. Sweeney testified that the useful life of the subject improvements was somewhere around 50 years. Sweeney agreed the subject was built in 1978 and it was 35 years old in 2011. However, he did not agree that straight line depreciation applied here because of the maintenance and upkeep. Sweeney testified that he was relying on the modernization of the subject building. Even though the subject building is 35 years old that is built with a 50-year life expectancy, Sweeney felt the subject had 80% of its economic life remaining. Sweeny testified that he inspected the subject and consulted with contractors in general to validate his cost figures. Sweeney testified that he used the Marshall & Swift Cost Manual to estimate the subject's value. Sweeney acknowledged that he did not consult with any of the actual contractors regarding the cost to build the subject. Sweeney admitted that he had not seen any of the leases at Perry Memorial Hospital. In his market value analysis, Sweeney testified that he made no adjustments for population. Sweeney testified that it had not been proven otherwise that the rental rates for properties located in large populations would not be similar to those in Princeton, Illinois. Sweeney agreed that he did not know what the market rents were in the Quad Cities. Sweeney further testified that the subject's assessment increased from $37,300 in 2010 to $98,784 in 2011. Sweeney was unable to explain why the subject's assessment substantially increased in 2011 other than to testify that the subject's assessment in 2010 was improper. Sweeney stated that for his market approach to value, he used the median range of values for the sales found in the appellant's appraisal report with no adjustments. Sweeney admitted that the subject's land size is not recorded on the subject's property record card. His office relies upon the mapping department to come up with a value. Upon inquiry, Sweeny testified that the subject is situated on 1.759 acres of land. Sweeney acknowledged that subject's land assessment was carried over from the last time land was evaluated, 10 years ago, and was carried forward by equalization. Sweeney agreed that if an error occurred ten years ago, the subject's land assessment error, if any, would be compounded. Sweeny testified that the time frame was more likely 12 years ago wherein individual land evaluations occurred, however, his office analyzes the sales they do have which indicated their values are good. Sweeney further testified that he used Marshall & Swift to configure the material costs; however, he did not use Marshall & Swift to calculate remaining economic life. Sweeney

agreed that his calculation of remaining economic life was a subjective adjustment. Sweeney acknowledged that Marshall & Swift provides straight line depreciation schedules; however, he felt the hospital had been remodeled and updated. Sweeney testified that his income approach wherein the median values were used, validated his cost approach, which he placed primary reliance on.[4]

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 the appeal. The Board further finds the evidence in the record supports a reduction in the subject's assessment.

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 (3rd Dist. 2002). The Board finds the appellant has met this burden of proof and a reduction in the subject's assessment is warranted.

The appellant's appraisal estimated a value of $6,000,000 as of January 1, 2011. The board of review's assessment for the subject property reflects a market value of approximately $8,989,682 or $184.97 per square foot of building area, including land, using the 2011 three-year average median level of assessments for Bureau County of 33.29% as determined by the Illinois Department of Revenue. Nelson, the appellant’s appraiser, utilized the sales comparison approach to estimate the subject’s value. The board of review utilized the three traditional approaches to value when estimating the market value of the subject property; however, the three approaches as submitted to the Property Tax Appeal Board, were not well supported. The board of review primarily relied on the cost approach to value.

The courts have stated that where there is credible evidence of comparable sales these sales are to be given significant weight as evidence of market value. In Chrysler Corporation v. Property Tax Appeal Board, 69 Ill.App.3d 207 (1979), the court held that significant relevance should not be placed on the cost approach or income approach especially when there is market data

[4] At hearing the board of review was ordered to produce the page used from the Marshall & Swift Cost Manual to value the subject property along with various sales declaration sheets.

available. In Willow Hill Grain, Inc. v. Property Tax Appeal Board, 187 Ill.App.3d 9 (1989), the court held that of the three primary methods of evaluating property for the purpose of real estate taxes, the preferred method is the sales comparison approach. Since there is credible market sales are contained in the record, the Board placed most weight on this evidence.

The Board finds the appellant's appraisal is the best evidence in this record of the subject's market value and is better supported by the record herein. The Board gave little weight to the cost approach to value relied upon by the board of review. Sweeney testified that he relies upon the mapping department to come up with a value. Sweeney acknowledged that subject's land assessment was carried over from the last time land was evaluated, 12 years ago, and was carried forward by equalization. Upon questioning, Sweeney agreed that if an error occurred ten years ago, the subject's land assessment, if in error, would have been compounded. Sweeney further testified that he used Marshall & Swift to calculate the subject's material costs, however, he did not use Marshall & Swift to calculate depreciation, but rather relied upon what he termed as a "subjective adjustment." The board of review submitted the calculations of their cost analysis. At hearing, Sweeney was order to submit the Marshall & Swift cost analysis page used to value the subject property.[5] After receiving the requested submission, The Board finds the board of review was unable to produce the requested document, but rather, submitted an updated cost analysis page from Marshall & Swift which indicated values higher than that used by the board of review. Therefore, the Board finds the calculations in the cost analysis as submitted by the board of review are not credible and not supported in this record. The Board further finds this additional submission of evidence does not corroborate the cost analysis submitted by the board of review. The Board finds the board of review's cost analysis is not supported by the evidence in this record and is therefore given little weight in its analysis. For the income approach, Sweeney testified that he looked at the median range of values of $185.61, $187.53 and $192.64 in the middle range. Sweeney opined that the subject's $190.07 per square foot of building area fit nicely. The record depicts the data came from the appellant's submission of evidence (comparable sale characteristic sheets) and not from the transfer income sheets as testified too by Sweeney. The board of review failed to submit the transfer income sheets as ordered. Therefore, this evidence was given little weight in the Board's analysis as the

[5] Additional evidence and argument was submitted without request and will not be considered in this decision.

Board finds this evidence is not supported by market data, but rather, from a characteristic statement as prepared by the appellant's appraiser, Nelson.

The Board further finds the board of review made no adjustments to the sale comparables to account for the differences between the comparables and the subject. At hearing, Sweeney argued that it had not been proven that properties in larger metropolitan areas, with more densely populated communities, required higher rents than Princeton, Illinois, however, the board of review presented no evidence to dispute this claim. The Board finds the appraiser's claim that properties located less densely population area to be of lesser value is credible based on the data in this record. Nelson found that properties were less valuable as the size of the jurisdiction declined. As an example, Nelson pointed to Waterloo, Iowa which is the smallest market and has the lowest price per square foot. Further, Nelson gave this characteristic primary consideration when adjusting his sales, given the fact that Princeton, Illinois is a significantly smaller, less affluent, a less densely populated market than all of the sales in this record. Further, Sweeney did not adjust the comparables for size, design, age, date of sale and/or exterior. He simply relied upon the median range.

The Board finds the appellant's appraisal is supported with corroborating testimony and data to justify the final value conclusion. The appraisal presented depicts 11 comparable sales. The sales range in size from a 6,194 square foot condominium unit in a medical building attached to a hospital complex to a 101,296 square foot free standing building leased to a single tenant. The sales prices ranged from $1,040,000 for the condominium to $24,225,000 for the larger building. The primary unit of comparison used was the price per square foot. Nelson testified that this unit of comparison is most used by the investors in the market. The sales ranged in prices from $102.56 to $289.69 per square foot of living area, including land. Nelson made no adjustment for market conditions because he believed market conditions for properties like the subject remained stable over the last five years. He did find, however, a key factor was location. A majority of the sale comparables were located in larger population markets and required substantial downward adjustments. Nelson also made downward adjustments to the comparables for age when compared to the subject. In his testimony, Nelson explained that larger buildings have fewer buyers, which limits their market

potential. He found the subject sales bracketed the subject property.

Another adjustment made by Nelson was for design. He found the subject's four-story design to be less functional for its intended operation, and therefore a downward adjustment was made for this characteristic. Nelson also adjusted the comparables downward for basements, as according to his testimony, adds to the comparable's value, while the subject does not have a basement. Nelson made another adjustment for level of finish. His appraisal depicts specialty finishes for surgical or imaging services required a downward adjustment because he found these were superior to a general medical office building, such as the subject. The Board finds that while all of the comparables were not necessarily similar to the subject in size, design, location and/or other features, these differences were logically adjusted for in estimating the subject's final value and well explained.

Since the board of review failed to refute the subject's market value estimate as established by the appellant with substantive documentary evidence supported by market data, the Board finds the preponderance of the evidence herein supports a reduction. Nelson's report included a detailed description of the comparables and a narrative analysis of the adjustment process. The Board finds Nelson used clear and logical adjustments to estimate the subject's market value using the sales comparison approach. For these reasons, the Board gives more weight to the conclusion of value contained in Nelson's sales comparison approach which supports his overall value conclusion.

In conclusion, the Property Tax Appeal Board finds the appellant submitted the best evidence regarding the subject's fair market value. Thus, the Board finds the manifest weight of the evidence herein depicts the subject property had a market value of $6,000,000 as of January 1, 2011. Since market value is established, the 2011 three-year median level of assessments for Bureau County of 33.29% 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 21, 2014

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.