PROPERTY ASSESSMENT APPEAL BOARD
FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDER

PAAB Docket No. 2015-100-00094I

Parcel No. 10-06-390-010

GPT Ames Owner, LLC,

Appellant,

vs.

City of Ames Board of Review,

Appellee.

Introduction

This appeal came on for hearing before the Property Assessment Appeal Board (PAAB) on September 8, 2016. Daniel Manning, Sr. of Lillis O'Malley Law Firm, Des Moines, represented GPT Ames Owner, LLC (GPT). Assistant City Attorney Mark Lambert represented the City of Ames Board of Review.

GPT is the owner of an industrial warehouse located at 2825 E. Lincoln Way, Ames. The warehouse was built between 1999 and 2002 and has 576,476 square-feet of gross building area (GBA). There is approximately 1200 square feet of finished office space. The site is 23.76 acres. (Exs. 2-3, 6, A, and B).

The property's January 1, 2015 assessment was $26,200,000; allocated as $1,690,700 in land value and $24,509,300 in improvement value. GPT protested to the Board of Review claiming the property was assessed for more than the value authorized by law under Iowa Code section 441.37(1)(a)(1)(b). The Board of Review reduced the assessment to $24,200,000. GPT then appealed to PAAB, asserting the property's correct fair market value is $22,500,000.

General Principles of Assessment Law

I. Jurisdiction and Scope of Review

PAAB has jurisdiction of this matter under Iowa Code sections 421.1A and 441.37A (2015). PAAB is an agency and the provisions of the Administrative Procedure Act apply to it. Iowa Code § 17A.2(1). This appeal is a contested case. § 441.37A(1)(b). PAAB considers only those grounds presented to or considered by the Board of Review, but determines anew all questions arising before the Board of Review related to the liability of the property to assessment or the assessed amount. §§ 441.37A(1)(a-b). New or additional evidence may be introduced, and PAAB considers the record as a whole and all of the evidence regardless of who introduced it. § 441.37A(3)(a); *see also Hy-Vee, Inc. v. Employment Appeal Bd.*, 710 N.W.2d 1, 3 (Iowa 2005). There is no presumption that the assessed value is correct. § 441.37A(3)(a).

II. Property Assessment Valuation Under Iowa Law

In Iowa, property is to be valued at its actual value. Iowa Code § 441.21(1)(a). Actual value is the property's fair and reasonable market value. § 441.21(1)(b). Market value essentially is defined as the value established in an arm's-length sale of the property. *Id.* Sale prices of the property or comparable properties in normal transactions are to be considered in arriving at market value. *Id*. Conversely, sale prices of abnormal transactions not reflecting market value shall not be taken into account, or shall be adjusted to eliminate the factors that distort market value, including but not limited to foreclosure or other forced sales. *Id*.

The sales comparison method is the preferred method for valuing property. *Compiano v. Polk Cnty. Bd. of Review*, 771 N.W.2d 392, 398 (Iowa 2009); *Soifer*, 759 N.W.2d at 779; *Heritage Cablevision v. Bd. of Review of Mason City*, 457 N.W. 2d 594, 597 (Iowa 1990). "[A]lternative methods to the comparable sales approach to valuation of property cannot be used when adequate evidence of comparable sales is available to readily establish market value by that method." *Compiano*, 771 N.W.2d at 398. (emphasis added). However, where the market value of the property cannot be *readily* established using comparable sales, one can turn to other factors to determine the value. § 441.21(1)(b) (emphasis added); *Soifer*, 759 N.W.2d at 779. “Thus, a witness must first establish that evidence of comparable sales was not available to establish market value under the comparable sales approach before the other approaches to valuation become competent evidence in a tax assessment proceeding” *Id*. (citing *Soifer* 759 N.W.2d at 782); *Carlon Co. v. Bd. of Review of Clinton*, 572 N.W.2d 146, 150 (Iowa 1997).

The first step in this process is determining if comparable sales exist. *Soifer*, 759 N.W. 2d at 783. If PAAB is not persuaded as to the comparability of the properties, then it “cannot consider the sales prices of those” properties. *Id*. at 782 (citing *Bartlett & Co. Grain Co. v. Bd. of Review of Sioux City*, 253 N.W.2d 86,88 (Iowa 1977)). Whether other property is sufficiently similar and its sale sufficiently normal to be considered on the question of value is left to the sound discretion of the trial court or PAAB. *Id.* at 783 (citing *Bartlett & Co. Grain*, 253, N.W.2d at 94).

Here, GPT believes the subject’s fair market value cannot be readily established by the sales comparison approach while the Board of Review believes it can. For reasons that will be discussed, we conclude the subject’s fair market value cannot be readily established by the sales comparison approach alone and, thus, also consider the other approaches to value.

III. Burden of Proof

Initially, the burden of proof in an assessment protest rests with the taxpayer, who “must establish a ground for protest by a preponderance of the evidence.” *Compiano v. Polk Cnty. Bd. of Review*, 771 N.W.2d 392, 396 (Iowa 2009). However, if the taxpayer “offers competent evidence by at least two disinterested witnesses that the market value of the property is less than the market value determined by the assessor, the burden shifts to the board of review to uphold the assessed value.” *Id*. at 396-397; § 441.21(3). Failure to shift the burden of proof is not equivalent to satisfying the burden of proof. *Id*. at 397. “Ultimately, the burden of proof is one of persuasion,” which “comes into play after all the evidence is introduced at hearing.” *Id*. at 397 n. 3.

In the case, GPT called two witnesses: GPT employee Anthony Nelson and Appraiser Michael Olson. Nelson served as a fact witness. Only Olson valued the subject property within the construct of section 441.21(1)(b).

We conclude GPT has failed to shift the burden of proof. However, GPT's claim does not fail for this reason. Rather, GPT retains the burden to prove the subject property is over assessed based on a preponderance of the evidence when the record is viewed as a whole.

IV. Claim of Over Assessment

In an appeal alleging the property is assessed for more than the value authorized by law under Iowa Code section 441.37(1)(a)(1)(b), the taxpayer must show: 1) the assessment is excessive and 2) the subject property's correct value. *Boekeloo v. Bd. of Review of Clinton*, 529 N.W.2d 275, 277 (Iowa 1995).

Findings of Fact

In support of its claim, GPT submitted an appraisal by Michael Olson, The Olson Group, Urbandale. (Ex. 3). Kyran (Casey) Cook of Cook Appraisal, Iowa City, completed an appraisal for the Board of Review. (Ex. B). The Board of Review also submitted an appraisal completed by John Bouhan and Eric Enloe, Integra Realty Resources (IRR), Chicago, commissioned by GPT when it was considering purchasing the property in 2014. (Ex. C). Olson and Cook testified at the hearing. The following table summarizes the appraisers' approaches to value and their respective conclusions.

Appraiser	Sales Approach	Income Approach	Cost Approach	Final Opinion of Value
Olson	$21,920,000	$23,150,000	$22,670,000	$22,500,000
Cook	$25,940,000	$23,300,000	$25,950,000	$25,150,000
IRR	$26,500,000	$26,500,000	N/A	$26,500,000

The IRR appraisal concludes a leased-fee value as of April 2014 rather than a fee-simple value as of the assessment date. For this reason, we do not find the final opinion of value in the IRR appraisal relevant to the question before us. However, some information contained in that appraisal is useful in analyzing the reliability of the two remaining reports.

Both Olson and Cook completed all three approaches to value: cost, sales comparison, and income, and gave weight to all three approaches in their final opinion of value.

Sale History of the Subject Property

GPT, a Real Estate Invesment Trust (REIT), purchased the subject property in July 2014 for $26,500,000, from another private REIT. (Ex. 6). “A REIT is a corporation or trust that combines the capital of many investors to acquire or provide financing for all forms of real estate. A REIT serves much like a mutual fund for real estate.” APPRAISAL INSTITUTE, THE DICTIONARY OF REAL ESTATE APPRAISAL 160 (5TH ED. 2010). It is not unusual for a REIT purchase to include multiple properties in a portfolio, which is the case here. The subject property was one of three properties purchased in a single transaction for a total of $69,000,000. (Ex. 6). The other two properties included in the purchase, located in Georgia and North Carolina, were also warehouse properties like the subject.

The parties disagree regarding whether the subject property’s sales price should be considered in determining its fair market value. GPT asserts the original assessment was based in large part on the purchase price. It further asserts the sale should not be considered as it involved a REIT.

Anthony Nelson testified the property was purchased very early in the REIT’s acquisition cycle. At that point, he asserted GPT was willing to pay a slight premium for the subject property because of its desire to acquire the other two properties in the portfolio, which were occupied by single, good-credit tenants with a net-lease and located in “NFL Cities.” Nelson testified the structure of the sale also benefitted GPT’s decision to purchase the property. Nelson explained the prices were established for the properties in what GPT considered the portfolio-level price, which evaluates the risk of each asset combined with the back-and-forth negotiation in an off-market deal.

Nelson explained if GPT were to sell this property “today” the challenges include two tenants that occupy roughly half of the building with leases set to expire at the end of 2016. Neither tenant has taken their renewal options. Moreover, Nelson testified the third tenant, who is also the top credit tenant in the building, is potentially considering subleasing about a third of their space. For these reasons, he asserts it would be difficult to value the building. He opined they would sell the property for $20,000,000 to $22,000,000.

City of Ames Assessor Greg Lynch testified for the Board of Review. Lynch explained that as part of his analysis, he was aware of the subject sale in 2014 and contacted the listing real estate broker, Dick Powell, in October 2014. Lynch explained Powell indicated the subject had good tenants, with the main tenant having seven-years left on its lease; and that the sale was arms-length and "at market". Based on this conversation, Lynch believed it to be a good sale to include in his analysis.

Olson reviewed the history of the subject sale, testifying it involved multiple properties, was not a cash sale, and it involved stock and an assumption of roughly a $17,000,000 dollar debt. (Ex. 3, p. 10). For these reasons, he does not believe that the 2014 sale of the subject reflected its fair market value. When questioned why a REIT would pay more than fair market value for a property, Olson testified he believes when a REIT purchases multiple properties in a portfolio they are able to spread their expenses around with less duplication. He believes the IRR appraisal report bears this out by reporting much lower expenses in their income approach. Olson conceded it is reasonable that a REIT would have additional expenses because of its federal regulatory requirements, but that he did not see those expenses considered in the IRR appraisal report.

Cook believes the subject's sales price fits in the market and is not out of line with other sales.

A. Storage Warehouse vs. Distribution Warehouse

The subject property has thirty-one docks doors and five drive-in bays and both parties agree the subject property is a Class C warehouse. (Ex. 3, p. 25 & 48; Ex. B, p. 22 & 30). The parties disagree as to whether the subject property should be valued as a storage warehouse or distribution warehouse for purposes of the cost approach.

GPT and its witnesses assert the subject property should be considered a storage warehouse. Anthony Nelson, GPT's Vice President of Asset Management, testified the building is set up in pods and this is not typical for a modern day distribution facility. He stated that ideally the building design for a distribution warehouse would be one that is completely cross-docked. He believes the building's pod design is more akin to a storage warehouse even if it used for distribution.

GPT's appraiser Michael Olson asserts the subject property is a storage warehouse and valued it as such in his cost approach. Olson bases this opinion on the fact that the subject property only has 1200 square feet of office space, or 0.2% of the GBA. Olson testified that *Marshall Valuation Service* (MVS) identifies storage warehouse buildings as having between 3-12% office finish. On cross examination, Olson acknowledged office space is not the only factor to consider in making a determination between a storage warehouse and distribution warehouse, but he maintained it is a primary factor in making a determination.

GPT also submitted a document apparently from MVS. (Ex. 10). The document indicates warehouses in general "are designed primarily for storage and that an amount of office space commensurate with the quality of the building is included in the costs." (Ex. 10). The document indicates storage warehouses typically have 3-12% of total area for office space, distribution warehouses typically have 15-30%, and mega warehouses (properties over 200,000 square feet) only 1-5%. (Ex. 10). Interestingly, neither party contends this is a mega warehouse even though it falls within those parameters.

The Board of Review's appraiser, Kyran "Casey" Cook, expressed an opinion contrary to Olson. Cook agreed with Olson that office space is a factor in determining the type of warehouse, but stated it is one characteristic of many to be considered; others include availability of dock-high doors and the ability to get in/out of the building. Cook noted that in a distribution warehouse the goods are moved in and out frequently, resulting in a number of "turns" (in/out) of the inventory. He testified the number of "turns" is significant at the subject property. Cook further testified that in order to accomplish a flow of goods, a building requires docks on both sides, which the subject has, to allow inventory to come into the warehouse and then out the other side. Comparatively, a storage warehouse does not have this feature.

The appraisal completed by Integra Realty Resources (IRR) for the purchase of the subject property in 2015 was submitted by the Board of Review. Although no appraiser testified regarding the report, the appraisers conclude therein that the subject property is a distribution warehouse.

Finally, it appears both appraisers used comparable sale properties identified as distribution warehouses in their sales comparison approaches. Notably, at least one sale used by both appraisers, referred to as the Toro sale located at 5500 SE Delaware, Ankeny, was identified as a distribution warehouse by both Olson and Cook. This property has only 1.4% of the building devoted to office space. (Ex. 3, p. 74; Ex. B, p. 33). Moreover, the appraisers did not make adjustments in their sales comparison approach for storage versus distribution warehouses; and they did not distinguish between these property types when selecting comparables to establish the market rent.

The Dictionary of Real Estate Appraisal defines both storage warehouses and distribution warehouses. APPRAISAL INSTITUTE, THE DICTIONARY OF REAL ESTATE APPRAISAL 224 (5th ed. 2010). A storage warehouse is defined as "a structure that is designed and used for the storage of wares, goods, and merchandise; considered obsolete by distribution building standards and is used for inventories with low turnover or dead storage." Conversely, a distribution warehouse is defined as "a storage building designed to promote the logistical movement of goods. Special emphasis is placed on providing adequate loading facilities and easy truck ingress and egress. Modern distribution buildings feature 24-foot minimum clear height and typically one or more dock-high doors for every 10,000 square feet."

At the end of the day, we recognize this dispute primarily affects the conclusions of the cost approach only.

B. Appraisers' Cost Approaches

The appraisers' cost approaches to value resulted in conclusions set forth in the table below. Both appraisers valued the land using vacant sales and MARSHALL VALUATION SERVICE (MVS) to value the improvements. Olson gave equal weight to all three approaches in his reconciliation of value, whereas Cook only gave the cost approach 20% weight.

Appraiser	Cost Approach
Olson	$22,670,000
Cook	$25,950,000

1. Olson's Cost Approach

Olson used four central Iowa land sales for his opinion of site value. (Ex. 3, p. 34-42). Olson testified the sales all had some similarities to the subject and were located in industrial areas. He adjusted the land sales for differences to arrive at an opinion of site value of $1.50 per-square-foot, or $1,550,000. (Ex. 3, p 43-46).

Address	Sale Date	Sale Price	Site Size	Sale Price/SF	Adjusted Price/SF
5500 SE Delaware Ave, Ankeny	4/2012	$1,837,120	1,302,630	$1.41	$1.55
2809 & 2825 Wakefield Cir, Ames	11/2009	$364,650	288,700	$1.26	$1.26
1120 Adventureland Dr, Altoona	11/2013	$1,127,200	613,907	$1.84	$1.66
NE 54th Ave, Des Moines	11/2014	$875,000	435,600	$2.01	$1.71

Olson's Sale 2 (2809 & 2825 Wakefield Circle) is problematic. First, he apparently miscalculated his adjustments and the correct adjusted price per square foot should be $1.32, not $1.26 as he reported. Moreover, Olson was unaware that Sale 2 included a restrictive agreement that set a "land price ceiling" for sale of that site, which may be lower than the fair market value of a competing site. (Ex. F, p. 4). Olson's conclusion of $1.50 per-square-foot for the subject's land is due at least in part in his reliance on Sale 2. This is evidenced by the fact that the other three adjusted sales prices are all above his conclusion. Considering that Sale 2 involved a restrictive price agreement, we must question Olson's conclusion of land value and, in turn, his conclusion of value by the cost approach.

Olson's replacement cost new (RCN) of the improvement value is $27,245,853 (rounded). (Ex. 3, p. 48). As previously noted, this was based, in part, on Olson's conclusion that the property was a storage warehouse. We note that Olson failed to include costs for the climate controlled systems (HVAC) in the warehouse, sprinklers, and dock-high doors; failing to account for these items results in an artificially deflated RCN. He deducted physical depreciation based on the age/life method, concluding 26.7%; or $7,541,643 (rounded). He found no functional or external obsolescence. This analysis resulted in a depreciated cost of the improvements of $20,704,211 (rounded). (Ex. 3, p. 49-50).

Lastly, Olson added in the depreciated value of the site improvements and land value to arrive at an opinion of value by the cost approach of $22,670,000 (rounded). (Ex. 3, p. 51).

2. Cook's Cost Approach

Cook relied on four central Iowa land sales for his opinion of site value. (Ex. B, p. 27-29). He adjusted the land sales for differences to arrive at an opinion of site value of $2,157,000. (Ex. B, p 29).

Address	Sale Date	Sale Price	Site Size	Sale Price PSF	Adjusted Price PSF
SE Four Mile Rd, Ankeny	7/2014	$1,250,000	582,186	$2.15	$2.15
1120 Adventureland Dr NE, Altoona	11/2013	$1,127,200	613,907	$1.84	$2.02
Grimes Blvd @ 19th, Grimes	5/2015	$1,350,000	519,235	$2.60	$2.60
NE 66th Ave, Ankeny	3/2015	$4,128,000	2,268,413	$1.82	$2.18

GPT was critical of Cook's land Sale 3 located in Grimes because it believed he incorrectly calculated the sale price per-square-foot. Cook explained he reported the sale price on a per-square-foot of *useable area*, or $2.60 per-square-foot, because the property included a water-retention area that was essentially unusable. (Ex. B, p. 27-29). Cook concluded the proper unit of comparison is useable area to useable area, not simply the site size, some of which cannot be improved. GPT also asserts Sale 3's location on Highway 141, which it believes is one of the most active development areas in the state, is unadjusted for location. Cook notes that the subject has exposure to

I-35, and a short distance to access. Ultimately, Cook concluded a site value of $2.10 per-square-foot; or $2,157,000 (rounded). GPT was critical of this conclusion because it was higher than the assessed value of the site, $1,690,700. However, we note that IRR concluded a site value of $2.50 per-square-foot; or $2,600,000 rounded and GPT was silent on those conclusions.

Cook estimated the RCN of the building improvements using MVS. He identified the subject property as a “Class C Average *Distribution* Warehouse Building.” (Emphasis Added). (Ex. B, p. 30). Cook determined the RCN of the improvement value is $35,101,599. (Ex. B. p. 32). He deducted physical depreciation based on the age/life method, concluding 33.33%; or $11,700,533; which he states considers functional utility. He did not apply any additional functional or external obsolescence adjustments. This analysis resulted in a depreciated cost of the improvements of $23,401,066. (Ex. B, p. 32). Lastly, Cook added in the depreciated value of the site improvements and land value to arrive at an opinion of value by the cost approach of $25,950,000 (rounded). (Ex. B, p. 32).

3. Analysis & Conclusion

The differences between Cook’s description of the subject property as a distribution warehouse and Olson’s description as a storage warehouse result in differences in the estimated base cost of the improvements.

As noted earlier, the appraisers also had other points of difference in their valuation of the subject improvements that account for differences in their per-square-foot valuations of the subject improvements.

One difference between the two appraisals is the property’s HVAC system. Olson asserts only the office portion of the subject property is heated/cooled. Cook, however, testified that the remainder of the building is temperature controlled and referenced a picture of eight heating/cooling plants in the warehouse. (Ex. B, p. 6). Cook stated the intent of the units is to keep the temperature of the building between 55 degrees in the winter and 85 degrees in the summer, so the employees working in the area can be somewhat comfortable. He acknowledges it is not the same as an air-conditioned office space, but it is a controlled environment. Cook explained that most warehouse spaces have hanging gas-fired burners that heat the space, whereas this is a considerable step-up and offers a competitive edge to the subject property. When questioned whether temperature control in the warehouse would add value, Olson testified it would.

Based on the aforementioned differences, Cook's total replacement costs are more than 20% higher than Olson's.

While PAAB is persuaded the subject property is more akin to a distribution warehouse than a storage warehouse, this issue only impacts the cost analysis. We could put this concern aside by giving merit to both arguments and averaging the Olson's storage warehouse base costs with Cook's distribution base warehouse costs. But even doing this PAAB has noted inaccuracies in Olson's appraisal as well as his failure to account for some of the valuable features that make his conclusion of value by the cost approach less reliable as compared to Cook's analysis. Specifically, we are concerned with his opinion of site value, as it seems to be based, in part, on a sale that had a "land price ceiling." Moreover, Olson failed to account for features such as the heating/cooling, sprinklers, and dock-high doors, which would increase his costs by $5.03 per-square-foot; or roughly $2,900,000. As a result, we find Olson's cost approach likely undervalues the subject.

Considering a blended base cost for both appraisers' cost analysis, Cook's conclusions would be slightly lower than his reported value of $25,950,000. Without reinventing the cost approaches of both appraisers, we find it sufficient to recognize the value of the subject property by the cost approach would reasonably be no less than $24,000,000, and not more than $25,950,000.

C. Income Approach

1. Olson's Income Approach

To complete the income approach, Olson relied on the rents of four central Iowa warehouse properties to establish the market rent of the subject property. (Ex. 3, p. 55-63). He adjusted the properties for differences to arrive at a market rent of $3.75 per-square-foot net (tenants paying all expenses), or an annual market rent of $2,163,285. (Ex. 3, p. 66). He estimated vacancy, management, and a reserve for replacement to be deducted as expenses to arrive at a net operating income (NOI) of $1,829,057 (rounded). (Ex. 3, p, 67). The final step in the income approach is to determine the capitalization rate. In arriving at a capitalization rate, Olson relied on a mortgage equity analysis. He reconciled an indicated capitalization rate of 7.9%. (Ex. 3, p. 68-71). He testified that he did not load the capitalization rate, because the tenants are paying the expense, so he considers this in the vacancy. We note this is not typical methodology when valuing a property for ad valorem purposes. His conclusion of value, based on the direct capitalization income approach is rounded to $23,150,000. (Ex. 3, p. 72).

2. Cook's Income Approach

To complete the income approach, Cook relied on the rents of five Iowa warehouse properties to establish the market rent of the subject property. (Ex. B, p. 37). He adjusted the properties for differences to arrive at a market rent of $3.60 per-square-foot, or an annual market rent of $2,075,313. (Ex. B, p. 37). He estimated vacancy, management, and a reserve for replacement to be deducted as expenses to arrive at a NOI of $1,745,228. (Ex. B, p, 39). The final step in the income approach is to determine the capitalization rate. In arriving at a capitalization rate, Cook relied on a mortgage equity analysis. He reconciled an indicated capitalization rate of 7.25%; which he then loaded for taxes to arrive at a tax capitalization rate of 7.49% (Ex. B, p. 41). His conclusion of value, based on the direct capitalization income approach is rounded to $23,300,000. (Ex. B, p. 42).

3. Analysis & Conclusion

Both appraisers arrived at nearly identical conclusions, and have similar market rents and overall expenses. Olson testified that because the tenants are paying the taxes, in lieu of loading the capitalization rate, he accounts for this in his vacancy. We note the total vacancy he applied in his income analysis is 7%; 5% for vacancy and 2% for vacancy related expenses. (Ex. 3, p. 67). This is *lower* than Cook's of 8.3%. Additionally, despite not loading his capitalization rate for taxes, his rate is still higher than Cook's: 7.9% compared to 7.49%. A higher capitalization rate results in lower values.

Although we recognize Olson's methodology of developing the income approach on a net basis has some merits, and all the appraisals in the record relied on comparable properties that were leased on a net basis, we find a preference in ad-valorem valuation is to load the capitalization rate. Despite this, in this case, we find both appraisers' conclusions are complimentary. We give both consideration and find $23,225,000 to be a fair and reasonable estimate of the subject's market value by the income approach.

D. Sales Comparison Approach

1. REIT Sales

GPT asserts REIT sales should not be considered in valuing the subject property.

Olson testified that REITs often purchase properties like the subject and tend to pay a premium.

Cook asserts that it is the sale price that is the indicator of market value, not whether it was purchased or sold by a REIT. In his opinion, it was reasonable to use REIT sales in the sales comparison approach.

We note that both appraisers considered at least two comparable sales that apparently were REIT purchases: 5500 SE Delaware Avenue, Ankeny, (Toro) and 3915 Delaware Avenue, Des Moines (Delaware). (Ex. 3, p, 74-75, 78-79, 83; Ex. B, p. 33, and unnumbered pages following p. 35). Despite Olson's testimony that he would not consider REIT sales, he in fact did and did not make any quantitative adjustment for this factor in his analysis.

GPT's insistence that REIT sales not be used in the sales comparison approach appears to be much ado about nothing. Neither appraiser took into consideration, in analyzing comparable sales, which of those sales were purchased by a REIT, other than Olson testifying he did not use a property directly north of the subject as a comparable sale for this reason. As previously noted, however, both considered at least two comparable sales that apparently were REIT purchases (Toro and Delaware Avenue) and made no adjustment for this factor.

2. Appraisers' Sales Comparison Approaches

Olson relied on four comparable sales located in central Iowa. (Ex. 3, p. 74-82). The following table is a summary of the sales. Olson adjusted the sales for differences in GBA, age/condition, quality, and site size. He concludes an opinion of value of $38.00 per-square-foot, or $21,920,000 (rounded) by the sales comparison approach. (Ex. 3, p. 85).

Comparable	Sale Price	Sale Date	Gross Building Area (GBA)	Year Built	Price/SF	Adjusted Price/SF
1 - 5500 SE Delaware Ave, Ankeny	$22,470,240	Dec-12	449,400	2012	$50.00	$41.47
2 - 1825 NE 66th Ave, Des Moines	$26,564,750	Feb-14	857,109	2003	$30.99	$36.07
3 - 3915 Delaware Ave, Des Moines	$8,838,000	Nov-14	181,492	1988	$48.70	$37.79
4 - 4121 Dixon St, Des Moines	$14,675,000	Oct-13	603,502	1976-79	$24.32	$38.00

Cook relied on five comparable sales located in Iowa. (Ex. B, p. 33). The following table is a summary of the sales.

Comparable	Sale Price	Sale Date	Gross Building Area (GBA)	Year Built	Price/SF	Adjusted Price/SF
1 - 2825 E Lincoln Way, Ames	$26,250,000	Jul-14	576,476	2002	$45.54	$45.54
2 - 520 Bell Ave, Ames	$14,282,294	Sep-14	251,183	2000	$56.87	$50.05
3 - 3915 Delaware Ave, Des Moines	$8,838,000	Nov-14	181,492	1988	$48.70	$45.29
4 - 5500 SE Delaware Ave, Ankeny	$22,470,240	Dec-12	449,400	2012	$50.00	$42.15
5 - 2900 Research Pkwy, Davenport	$26,125,842	May-12	552,960	2002	$47.25	$46.77

Olson and Cook used two of the same sales: 5500 SE Delaware Avenue, Ankeny, and 3915 Delaware Avenue, Des Moines. Their adjusted value per-square-foot for the property located at 5500 SE Delaware Avenue is within $1 of each other.

However, the two differ approximately $7.50 in adjusted value on the sale of 3915 Delaware Avenue. Olson notes the discrepancy in their opinions on this sale is primarily the GBA adjustment he applied, which Cook did not.

Olson believes his Sale 2 (1825 NE 66th Avenue, Des Moines) is one of the best sales available because a REIT was not involved and it was not a leased-fee sale. The tenant purchased the property from the landlord for a negotiated price. We note a sale from a tenant to a landlord is not typically recognized in appraisal methodology as a sale representing market value, which generally assumes a buyer and seller with typical motivations. § 441.21; APPRAISAL INSTITUTE, THE APPRAISAL OF REAL ESTATE 410-11 (14th ed. 2013). In the case of a tenant to landlord transaction, one or both parties may have motivations to accept below market value or pay more than market value based on their positions at the time of sale. This is supported by Cook's analysis of the sale. Cook criticized Olson's use of this sale noting it had previously sold in March 2007 for effectively the same price it sold for seven years later in 2014. Cook testified that when it sold in 2014, it had a contract rent of $2.74 per-square-foot, which he believes was a below-market rent. Further investigation by Cook revealed that Bridgestone bought out their lease based on what they were paying. Because they purchased the property at below-market rent, Cook asserts the resulting sale price was below market and this explains why it sets the lower end of the range.

The Board of Review noted that Olson's Sale 4 (4121 Dixon Street, Des Moines) was adjusted upward 25% for age/condition and 25% for quality, for a total of a 50% upward adjustment and questioned him regarding the comparability and reliability of this sale to the subject. Cook notes this is an older property with much lower rents than the subject property. He is not convinced it competes with the subject's more modern building. Olson admitted it was a weaker and less reliable comparable as a result of the adjustments.

The Board of Review questioned Olson on his rationale for not including a sale located immediately north of the subject property at 520 Bell Avenue, which was considered by Cook. Olson testified that he did not use the sale because it was a REIT transaction involving multiple properties.

Cook's Sale 1 (2825 E Lincoln Way, Ames) is the subject property. Cook believes it is important to look at the subject sale to test its sale price per-square-foot against other sales to determine if it is a fair market sale price and not influenced by being a REIT purchase. Cook was aware that the $17,000,000 mortgage at 5% was assumed by GPT as part of the purchase, which was slightly above market rates of 4.5% at that time. However, comparing this sale to other market sales, he did not see any undue influence, upward or downward, to the sale price per-square-foot. Moreover, based on conversations with the listing broker, Dick Powell, Cook believed it was a cash-equivalency sale.

Cook's Sale 2 (520 Bell Avenue, Ames) is located immediately north of the subject. Cook notes that while the building is smaller than the subject, it is still considered a large building in the market. It is 23% air-conditioned, some unfinished mezzanine space, and the finished area is about 4% of the total. Because of its location and many similar features to the subject, Cook believed it was not a sale he could ignore. We agree. GPT was critical of Cook for not making an adjustment for the differences in GBA. Cook asserts he considered the size of this property within his overall analysis, and did not feel compelled to make an adjustment because many of the features of this property compared to the subject were offsetting. GPT noted that the buyer of this property was also a REIT. Cook admitted that he did not have specific terms of the sale.

Both Cook and Olson relied on the sale located at 3915 Delaware Avenue, Des Moines. Cook testified it has 9.2% office space, 24 foot wall height, and he considers it a distribution warehouse because of the number of dock doors. Cook adjusted this sale downward for the significantly higher amount of finished space. Similar to its critique of Cook's Sale 2 (520 Bell Avenue, Ames), GPT questioned why Cook did not make an adjustment for the smaller GBA of this sale. Cook's response was the same as his rationale for not adjusting Bell Avenue for its smaller GBA.

Cook's Sale 4 (5500 SE Delaware Avenue, Ankeny) was also used by Olson (Sale 1). Cook testified this is a distribution warehouse, 80% dock-high floors, 29-foot wall height, and 1.4% of the building is devoted to offices. This was a REIT sale. Cook did not know the terms of the sale. He confirmed the sale price from the Declaration of Value (DOV). PAAB notes that Olson also did not adjust this sale, despite it being a REIT transaction. It is unknown if he chose not to adjust it despite being a REIT transaction; or knew it was a REIT and chose not to adjust it. If the former is correct, then it further demonstrates the difficulties of analysts being able to confirm the intricate details and specific properties that may be part of a REIT transaction. If the latter is correct, it indicates that a REIT transaction is a reasonable representation of the fair market value; and would also suggest that the subject sale represents market value.

Lastly, Cook included Sale 5 (2900 Research Parkway, Davenport), which is located in a newer industrial development in Davenport. It has less than 2% office finish, 32 foot clearance height, 75 truck docks, and John Deere has a 15-year lease $2.53 per-square-foot with an escalation clause. GPT also asserts this was a REIT purchase. Cook was unclear as to whether the Grantee, listed as ARCP JDDPTIA01, LLC, was a REIT. Again, PAAB finds this demonstrates the difficulties in determining when a transaction has REIT involvement.

After adjusting the sales for differences, Cook concludes an opinion of value of $45.00 per-square-foot, or $25,940,000 (rounded) by the sales comparison approach. (Ex. B, p. 35).

3. Analysis & Conclusion

The sales comparison approach is the preferred method of valuation under Iowa law. Having fully considered the foregoing evidence, we conclude that while there are sales available to develop a sales comparison approach, there are concerns about the reliability of the data. Specifically, REITs are the primary seller and purchasers of properties comparable to the subject, and there is a disagreement amongst professionals as to whether this may or may not reflect the fee-simple fair market value of the properties. In the end, both parties relied on REIT sales either knowingly or unknowingly.

While there were differences between the appraisers in the sales they selected for analysis as well as the adjustments they applied, we find both analyses are generally reasonable. However, Olson relied on a sale (1825 NE 66th Avenue, Des Moines) between a tenant and landlord, and based on Cook's analysis of it, we question whether it represents a fair market value. In this case the tenant was able to buy-out the lease and purchase the property based on below-market rents; resulting in what appears to be a below-market sale price and, arguably, a leased-fee value. Olson did not adjust for this factor, and considered it "one of the best sales available." This sale set the lower end of his range, and it appears he simply averaged the adjusted values of his four sales to arrive at his value conclusion of $38.00 per square foot.

We also note that despite differences between the two appraisers' analyses, they both relied on the Toro sale (5500 SE Delaware Avenue, Ankeny) and both arrived at an adjusted value of this sale of roughly $42 per square foot. This adjusted value, of what appears to be the most comparable property in the record, is at the high end of Olson's range and the low end of Cook's range. Giving it the most consideration, we find a fair and reasonable value of the subject property by the sales comparison approach is $24,212,000 (rounded), which is only slightly higher than simply averaging the conclusion of both appraisers.

Conclusion

Olson considered all of the approaches to value. He testified that most weight was given to the income approach because it is an income-driven property. He also believes the cost approach is a strong indicator of value. He reasserts the sales comparison approach is difficult to develop because many sales represented a leased-fee transaction reducing the reliability of this approach. He reconciles the three approaches to an opinion of $22,500,000, as of January 1, 2015. Despite testifying that he gave the income approach the most consideration, we note his final opinion is very near the average of three approaches.

Cook gave some weight to all of the approaches to value. He gave 20% emphasis on the cost approach, because there is a lot of warehouse space being built – which impacts the marketability of the subject property that would compete with the new construction. Cook gave most consideration to the sales comparison approach because in his opinion he had five comparable sales, including the subject, with overall minimal adjustments required, resulting in a reliable range of value. For this reason, he has a lot of confidence in the sales comparison approach and gave it 50% weight. Cook believes the income approach is also a viable indicator of value because of the available data to examine the market rents. He gave the income approach 30%. He reconciles the three approaches to an opinion of $25,150,000, as of January 1, 2015.

GPT believes the subject's fair market value cannot be readily established by the sales comparison approach alone, and thus the other approaches to value must be considered. On the other hand, the Board of Review contends that the sales comparison approach can establish the subject's value without turning to the other approaches. Here, both appraisers relied, in part, on REIT sales, either knowingly or unknowingly, and it has been suggested REIT sales may not be reflective of market value. At the same time, the appraisers did not rely solely on the sales comparison approach to value in reconciling to their final value conclusions. For these reasons, we find the subject's fair market value cannot readily be established by the sales comparison approach alone and must examine the other value approaches.

Typically, PAAB finds the cost approach a relevant approach, specifically in property like the subject that is of modern construction with no functional or external obsolescence noted. However, in this case there is disagreement regarding the type of warehouse, which would directly impact the base costs used in this analysis. Moreover, we find there is ample market data available to develop the income and sales comparison approaches, which were both developed and heavily relied on by both Olson and Cook. For these reasons, we do not give consideration to the cost approach and rely solely on the income and sales comparison approaches.

Olson gave his sales comparison analysis 33% weight and Cook gave his sales comparison analysis 50% weight. Likewise, both appraisers developed the income approach and arrived at near identical conclusions. Moreover, we note that market participants would place considerable weight on the income analysis as this is primarily purchased as an income producing asset. Therefore, we give equal weight to the sales comparison and income approaches to value and find a reasonable, fair estimate of the subject's market value is $23,718,500.

	Value Conclusion	Weight Assigned	Extension
Sales Comparison Approach	$24,212,000	0.50	$12,106,000
Cost Approach	$24,000,000 to $25,950,000	0.00	$0
Income Approach	$23,225,000	0.50	$11,612,500
		Conclusion	**$23,718,500**

Order

IT IS THEREFORE ORDERED that the City of Ames Board of Review's action is modified to $23,718,500.

This Order shall be considered final agency action for the purposes of Iowa Code Chapter 17A (2015). Any application for reconsideration or rehearing shall be filed with PAAB within 20 days of the date of this Order and comply with the requirements of PAAB administrative rules. Such application will stay the period for filing a judicial review action. Any judicial action challenging this Order shall be filed in the district court where the property is located within 20 days of the date of this Order and comply with the requirements of Iowa Code sections 441.38; 441.38B, 441.39; and Chapter 17A.

Karen Oberman

Karen Oberman, Presiding Officer

Stewart Iverson

Stewart Iverson, Board Chair

C Valley

Camille Valley, Board Member

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