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

PAAB Docket No. 2017-100-00594C

Parcel No. 10-07-175-010

416 S Bell 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 May 23, 2018. Joshua Rhoads, director of property tax with DuCharme, McMillen & Associates, Inc. represented 416 S Bell LLC. City of Ames Attorney Mark Lambert represented the Board of Review.

416 S Bell LLC (Bell) owns a commercial property located at 416 S Bell Avenue, Ames. Its January 1, 2017 assessment was set at $6,839,000, allocated as $346,000 in land value and $6,493,000 in building value. (Ex. A).

Bell petitioned the Board of Review claiming its property's assessment was not equitable as compared with assessments of other like property and that it was assessed for more than the value authorized by law under Iowa Code sections 441.37(1)(a)(1)(a-b). The Board of Review denied the petition. Bell reasserted its claim of over assessment to PAAB.

General Principles of Assessment Law

PAAB has jurisdiction of this matter under Iowa Code sections 421.1A and 441.37A (2017). 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). However, the taxpayer has the burden of proof. § 441.21(3). This burden may be shifted; but even if it is not, the taxpayer may still prevail based on a preponderance of the evidence. *Id.*; *Richards v. Hardin County Bd. of Review*, 393 N.W.2d 148, 151 (Iowa 1986).

PAAB "makes its independent determination of the value based on all the evidence." *Compiano v. Bd. of Review of Polk Cnty.*, 771 N.W.2d 392, 397 (Iowa 2009). "Ultimately, the burden of proof is one of persuasion" which "comes into play after all of the evidence is introduced at hearing." *Id*. at 397 n.3. All evidence is to be considered. Iowa Code § 441.37A(3)(a).

Findings of Fact

The subject property is a one-story office building built in 1999. It has 61,734 square feet of gross building area and 158,200 square feet of paving. The site is 9.77 acres. Bell purchased the property in July 2007 for $6,284,600. (Ex. A).

Rhoads testified that at the time of purchase Bell was a tenant and a 50% owner of the property.

The record includes four appraisals. Bell submitted an appraisal completed by Peter Helland of RVG Commercial Real Estate Services, St. Charles, Illinois. (Ex. 1). The Board of Review submitted three appraisals completed by Gene Nelsen, Nelsen

Appraisal Associates, Inc., Urbandale, Iowa (Ex. B); Ames City Assessor Greg Lynch, (Ex. C); and David Troe, First National Bank, Ames, Iowa. (Ex. D).

Helland, Nelsen, and Lynch's appraisals were developed for ad valorem appeal purposes with effective dates of January 1, 2017. Troe's appraisal was developed for in-house lending purposes with an effective date of November 2017. Only Helland and Nelsen 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
Helland	$4,600,000	$4,600,000	$4,800,000	$4,600,000
Nelsen	$6,791,000	$6,680,000	Not Developed	$6,750,000
Lynch	$6,610,000	$6,660,000	$7,207,400	$6,839,000
Troe	$6,300,000	$6,115,500	Not Developed	$6,200,000

Helland Appraisal

Helland developed all three approaches to value, giving greatest consideration to his sales and income approaches. For this reason, we will forgo an analysis of his cost approach.

Helland describes the subject as flex-office space and testified the current owner finished it into effectively 100% office space after it was purchased in 2007. (Ex. 1, p. 16). The subject building is finished for a single-tenant use. However, Helland noted the property has four separate entrances, which would allow for future development into a four-tenant property, although this would require some remodeling. (Ex. 1, p. 23).

Helland testified that there were no sales of single-tenant, 60,000+ square foot office buildings in Ames. Therefore, he looked at some sales in the immediate subject market and some similar buildings in other markets. He relied on sales in Ames, Grimes, and Urbandale. The comparable properties range in gross building area (GBA) from 12,000 to 37,712 square feet. The sales occurred between December 2014 and May 2017 and ranged in price from $700,000 to $2,815,000. The following table is a summary of Helland's sales.

Comparable Sale	Sale Price	Sale Date	GBA	Site Size (Acres)	SP/GBA	Adjusted SP/GBA	Net Adjustment	Gross Adjustment[1]
Subject			61,734	9.76				
1 - 215 Alexander Ave, Ames	$700,000	Dec-14	12,000	2 .15	$58.33	$78.75	35%	
2 - 1152 SE Gateway Dr, Grimes	$2,164,540	Mar-15	36,380	4.39	$59.50	$71.40	20%	70%
3 - 301 Alexander Ave, Ames	$850,000	Jun-16	12,960	3.74	$65.59	$75.42	15%	26%
4 - 4432 NW Urbandale Dr, Urbandale	$2,800,000	Feb-16	38,655	3.29	$72.44	$72.44	0%	80%
5 - 100 S 16th St, Ames	$2,815,000	May-17	37,712	2.52	$74.64	$82.11	10%	>100%
6 - 4400 NW Urbandale Dr, Urbandale	$2,800,000	Jan-15	34,600	2.87	$80.92	$76.88	-5%	

Helland testified he relied on these sales to develop a linear regression model to support his gross building area adjustments, which he made to Sales 1 and 3. He acknowledged his analysis was crude and imperfect because of the limited number of data points. Helland did not adjust the remaining sales for size despite the fact they are roughly 50% smaller than the subject property.

Sale 1 is located in the same industrial development as the subject and was purchased by REG Ames, LLC, who renovated it for office use. REG Ames, LLC is a related corporate entity to Bell. Helland identified Sale 1 as inferior construction to the subject property and also noted it is considerably smaller than the subject property.

Helland testified his linear regression analysis indicated a 6% difference between Sale 1 and the subject for differences in building size, which he rounded to a 5% downward adjustment. He also adjusted Sale 1 for differences in construction quality. This adjustment was based on the difference in the base cost of the subject's masonry finish compared to Sale 1's metal construction. Lastly, Helland adjusted the interior finish of Sale 1 upward based on differences in the economic ages between the two properties over their 40-year economic life.

Helland describes Sale 2 as having a similar building type to the subject property. However, it only has 5426 square feet of office finish compared to the subject, which has over 60,000 square feet of office finish. His testified his adjustment was based on

[1] Helland did not include gross adjustments in his appraisal report, but at hearing he testified regarding some sales' gross adjustments.

the cost to finish the remainder of Sale 2 to the same amount and quality of finish as the subject property. Helland believes Sale 2 is comparable to the subject property despite its minimal office finish because he adjusted for that difference.

Helland testified the base cost to build 100% office finish like the subject property is $113 per square foot. To adjust Sale 2, he first determined its cost was $73.50 per square foot, which suggested a 54% difference in cost from the subject property. Helland explained he estimated an 85% difference between the subject's and Sale 2's office space, and wanted to capture this difference in his adjustment. Therefore, he made a 45% upward adjustment to reflect the cost to cure to bring Sale 2 equal to the subject property.

He explained his age/condition adjustment was based on the age/life method of depreciation. The subject is an 18-year old building and Sale 2 is an 8-year old building. Helland took the 10-year difference in age and divided it by an economic life of 40 years to arrive at a negative adjustment of 25% for this element of comparison. All of the resulting adjustments reflect a net positive 20% adjustment to this sale. Helland did not report the gross adjustments, which calculate to 70% for Sale 2.

Helland gave Sales 1 and 2 the primary focus because of Sale 1's location in the subject's industrial park development and Sale 2's similar construction style.

Nelsen testified that Helland's Sale 1 was inferior to the subject property with its metal construction and metal roof. Moreover, he believed it required significant interior renovation to suit the needs of the new buyer. Nelsen also testified that he was very familiar with Helland's Sale 2 having appraised it twice, most recently in 2014 prior to its 2015 sale. He explained the existing office finish was good quality and comparable to the subject' finish. However, he was aware the building had been vacant for a length of time and the owners wanted to get rid of it. In his opinion, the sale price was somewhat distressed as a result.

Helland's Sale 3 is also located in the subject's industrial development. When it sold, it was a daycare facility. It was then remodeled into three office rental units by the new owner. In Helland's opinion, Sale 3 required only minimal renovation costs to change the restrooms and add some walls for offices. He explained he made adjustments for renovation of the interior, as well as an adjustment for Sale 3's metal panel design compared to the subject's masonry design. These adjustments total 20%. He also adjusted this sale downward by 6% for its building size. The net adjustments to this sale were 14%, which he rounded to 15%.

When questioned about the renovation cost adjustment, Helland explained he added $10 to the $91.79 base cost for the subject property to arrive at a cost of $101.79, which is a difference of 11%. Helland relied on the $10 per square foot renovation costs based on "his boss's experience who had renovated an office building to a daycare." In his opinion, the costs to renovate from daycare to office would be the same. He acknowledged he did not know the actual costs to convert the property.

Nelsen testified he would not have used Helland's Sale 3 and does not believe it is comparable to the subject property because it is significantly inferior to the subject and he believes the cost to convert from a daycare to an office are higher than opined by Helland.

Helland described Sales 4 and 6 as multi-tenant flex office space and industrial buildings. He reports them as having the same construction quality as the subject, but lacking the same amount of office finish. These Sales have 15,000 and 21,300 square feet of office finish respectively compared to the subject with over 60,000 square feet of office finish. Sales 4 and 6 are neighboring buildings that sold about one year apart. Helland testified they were not "part of the same deal." However, both properties were purchased by the same buyer. (Ex. 1, p. 41 & 45). As adjoining land purchases or properties to be operated as a unit, these sales could be abnormal transactions under Iowa law that may require adjustment. Iowa Code § 441.21(1)(b).

Nelsen does not believe Sale 4 or 6 are comparable to the subject because of the differences in office space. He estimated the cost of building out the additional office space would be roughly $40-$50 per square foot. Moreover, there would be additional costs to punch out windows where existing warehouse space is presently located.

When questioned about his "0% adjustments" to Sale 4, Helland reported he made three adjustments to Sale 4 resulting in a *net* adjustment of 0%. He made a 33% upward adjustment for the amount of office space following the same methodology he used for Sale 2. He also made a 5% upward adjustment for the land-to-building ratio. The sum of these two upward adjustments is 38%, which he rounded to 40%. He then made a downward 42% adjustment for Sale 4's superior location; rounding it down to 40% for his calculation of the net adjustment. His unreported gross adjustment is 80%.

Helland acknowledged Sale 5 was a car dealership compared to the subject's office building use, but he included it for "informational" use. He recognized it is not the same construction style but it was a sale of the largest building in Ames that Helland was able to locate. He included it "because it was a large building that sold for a high amount of money." In his opinion, this helps support his opinion of value for the subject property of over $4,000,000. When questioned about his inclusion of this sale, Helland testified he gave it limited consideration admitting its gross adjustments *exceeded* 100%, including a location adjustment of 75%. He reported a 10% net adjustment.

Helland acknowledged the listing broker told him Sale 5 was listed for redevelopment, which PAAB notes is effectively a land sale. In his opinion, the sale price reflected some value to the improvements because the building continues to be used.

Nelsen testified that the Sale 5 seller represented it as a land sale. Nelsen also stated he was consulted by a client to determine the value of this land for their possible use.

Helland explained he presented only the net adjustments to the comparable sales but has the individual line adjustments retained in his office file. He explained it is his practice to only provide qualitative analysis in his written report, although he testified he did adjust the sales quantitatively.

His conclusion of value by the sales comparison approach is $4,600,000.

Turning to his income approach, Helland relied on five leases from the Ames market that originated between July 2012 and December 2014.

The leased office space of these rentals ranged from 1688 to 14,300, with the majority of the leases being for office spaces of less than 7000 square feet. (Ex. 1, p. 51). Helland testified that he adjusted the leases in the same manner he adjusted his sales for the sales comparison approach. However, he does not provide the analysis in his report. He notes his opinion of market rent is also the same as the largest office space (Lease 5) that he relied on for his analysis. PAAB notes Lease 5 still has 75% less office space than the subject property. Ultimately, Helland opined a market rent for the subject property of $12.00 per square foot on a gross basis. The subject property has a lease of $11.17 per square foot on a net basis that began in 2007. (Ex. 1, p. 50).

Helland relied on a gross rent basis for his income approach, isolating the real estate tax burden into his capitalization rate.

Helland noted CoStar[2] reported the actual Ames office market has a 2.2% vacancy rate and the subject's neighborhood vacancy rate is 2.8%. (Ex. 1, p. 13 & 52). Despite this Helland used a vacancy rate of 10%, based in part, on his opinion that the typical expectations of an investor would be to have a five-year lease term, which he asserted would most likely require a six-month marketing time. After estimating expenses, Helland arrived at a net operating income (NOI) of $521,344. (Ex. 1, p. 54).

Helland reported a lack of local capitalization rate comparables, so he relied on CoStar surveys and the mortgage equity band of investment. (Ex. 1, p. 55). He reported Midwest suburban office and flex [space] capitalization rates range from 8.8% to 9.2% respectively. He also noted the closest comparable market to Ames is Omaha, which indicated a 7.5% capitalization rate for the fourth quarter of 2016. After developing the band of investment, Helland selected a capitalization rate of 8.5%. He concluded a loaded capitalization rate of 11.35%, which included the effective tax rate of 2.85%. (Ex. 1, p. 57). His conclusion of value based on the income approach is $4,600,000.

Giving most consideration to the sales and income approaches to value, Helland reconciled a final opinion of value for the subject property of $4,600,000, as of January 1, 2017.

<u>Nelsen Appraisal</u>

Nelsen relied on the sales comparison and income approaches to value. He determined the cost approach was not necessary based on the age of the building and

[2] CoStar is a provider of commercial real estate information and analytics.

because he did not believe buyers would consider it in their decision to purchase the property.

Nelsen, who has lived and worked in the central Iowa market for over thirty years, testified Ames is a very healthy market. He described the location of the subject property as generally situated just west of I-35 and north of Highway 30. (Ex. B, p. 30). He also noted the subject has some vacant land that could be used for expansion or potentially sold to another user. (Ex. B, p. 33).

Like Helland, Nelsen testified the building was set up to be easily re-developed into a four-tenant property. Nelsen noted the subject property is finished as office space, with a small laboratory. (Ex. B, p. 50). Additionally, Nelsen explained there had been recent updates to the property between 2014 and 2016, which included upgrades to the restrooms and shower/locker rooms; lab renovations; office and auditorium remodeling; and new rubber coating on the roof. (Ex. B, p. 51). The total cost of the renovations was roughly $791,000. The actual age of the subject property is 18 years. Based on the renovations, Nelsen opined an effective age of 12 years.

Nelsen testified about his selection of comparable sales. The subject property is an office building set in an industrial/office park setting, which in his experience is commonplace. Therefore he looked for properties that were 100% office or perhaps had some warehouse space. He noted that all of his comparable sales have at least 79% office space. This results in fewer adjustments for this element of comparison. Nelsen testified there are few buildings of similar use and size as the subject property in Ames; therefore, he expanded his search to similar locations of the suburban Des Moines market. He further testified the subject was unique in that is was large for Ames, but that it is not overly large for the market area. In Nelsen’s opinion, while Ames is a unique market, it is similar, proximate, and comparable to the suburban areas of Des Moines.

Nelsen relied on five sales that occurred between June 2014 and April 2016, ranging in price from $850,000 to $10,250,000. (Ex. B, p. 57). The following table is a summary of Nelsen’s sales. (Ex. B, p. 63).

Comparable Sale	Sale Price	Sale Date	GBA	SP/GBA	Adjusted SP/GBA	Net Adjustment	Gross Adjustments
Subject			61,734				
1 - 12000 Ridgemont Dr, Urbandale	$8,245,000	Nov-15	75,000	$109.93	$113.23	3%	11%
2 - 4201 Corporate Dr, WDM	$1,850,000	Apr-16	30,786	$60.09	$107.08	62%	64%
3 - 8101 & 8191 Birchwood Ct, Johnston	$10,250,000	Jun-14	94,738	$108.19	$111.44	3%	34%
4 - 8001 Birchwood Ct, Johnston	$5,700,000	Jul-15	45,500	$125.27	$112.74	-10%	32%
5 - 1606 S Duff Ave, Ames	$850,000	Aug-16	9,860	$86.21	$108.62	26%	57%

Nelsen did not believe any of the comparable properties he submitted required location adjustments based on his appraisal experience in the subject market.

Sale 1 is an office building located in an industrial neighborhood in Urbandale and it is 100% finished like the subject property. The sale price of this comparable was adjusted downward $500,000 to reflect an adverse lease condition which included some free rent periods. (Ex. B, p. 58). Nelsen acknowledged this was an error; an adverse lease should have been adjusted upward. Correcting this error would result in a higher adjusted sale price.

Sale 2 required a condition of sale adjustment because it had been 100% vacant for a lengthy period prior to the sale. Nelsen testified he had previously appraised Sale 2 and it was “functionally unique.” Nelsen explained it is an office building like the subject but was dated and built in two different sections creating some layout concerns for users. He estimated the buyer’s renovation costs were likely between $30 and $40 per square foot to modernize the space. He also noted some leaking windows but this was a relatively minor issue. When questioned about his 20% age/condition adjustment and 30% quality/design adjustment, Nelsen reiterated his prior testimony and added the property had low ceiling height compared to the subject’s higher ceiling height and more modern utility.

Sales 3 and 4 are flex buildings located in Johnston. Both sales were part of a three-building package. Sale 3 included two of the three buildings and Sale 4 included the third building. Similar to our critique of Helland, as adjoining land purchases or properties to be operated as a unit, these sales could be abnormal transactions under

Iowa law that may require adjustment. Iowa Code § 441.21(1)(b). Nelsen appraised this project so he was very familiar with the properties. Nelsen testified the three-building project was negotiated together but that one building (Sale 4) transferred one year later than the other two buildings (Sale 3).

Helland testified he did cursory research on Sales 3 and 4. He was critical of Sale 3 asserting it was not a fee simple sale because it was an investment purchase of two buildings. He explained he was not able to verify income details from either the buyer or seller. In his internet research, Helland testified it was his belief Sale 3 was occupied by tenants that would require medical office space which is more costly to build-out and would therefore result in higher rents. He also asserts there was a cell-tower on the sites which could potentially generate income although he was unable to verify if it actually was. Helland had similar criticisms of Sale 4. Nelsen explained that he had recently appraised Sales 3 and 4 and that there was no medical space in the building. He also testified the cell tower income had very little to no effect on the transaction.

Sale 5 is the only office building transaction Nelsen was able to locate within Ames. It is an older building that required renovation.

Nelsen adjusted the sales for differences concluding an adjusted range of value between $107.08 and $113.23. (Ex. B, p. 63). He identified the line adjustments and net adjustments in his report. Although he did not report the gross adjustments, they are easily calculated based on the information he provided. He concluded an opinion of value of $110 per square foot, or $6,791,000 by the sales comparison approach. (Ex. B, p. 67).

Turning to the income approach, Nelsen estimated market rents based on listings, as well as actual leases, in the Ames area. Nelsen testified that his office has recently appraised the estates of two prominent real-estate owners, which included numerous office buildings in Ames. As a result, he has the actual lease data for all of those properties. In addition, his office has appraised a 98,000 square foot office building near the Research Park by the Iowa State Campus, which also gave him access to actual recent lease data in the Ames market.

All of the leases are net leases, which Nelsen noted is how the market predominantly rents. The building sizes ranged from roughly 10,000 to 84,000 square feet with a predominance of multi-tenant. The lease rates ranged from $8.50 per square foot to $22.00 per square foot; the majority of the lease rates are between $10.00 and $15.00 per square foot. (Ex. B, p. 68). Nelsen gave most consideration to the last three actual leases noted in the "Ames table", which include two properties with building sizes over 50,000 square feet. He concluded an opinion of net market rent of $11.00 per square foot. (Ex. B, p. 69). In Nelsen's opinion, if he were to determine the gross rent, he would need to add taxes at $2.95 per square foot and maintenance at $1.50, which would result in a gross rent of $15.50 per square foot. There may be additional expenses which would increase the gross rent to $16.50 per square foot.

Nelsen noted the subject property has less than 5% physical vacancy but considering other expenses that vacancy causes he estimated 5% for his operating statement. After expenses, Nelsen concluded an NOI of $622,303. (Ex. B, p. 70).

Nelsen relied on a mortgage-equity technique, as well as investor surveys in determining a capitalization rate. His mortgage-equity analysis resulted in a capitalization rate estimate of 9%. He noted the Situs RERC investor surveys he relied on are specific to a Midwest market including Des Moines and Omaha. The survey included data for larger Central Business Districts, as well as smaller suburban markets. His office contributed to the surveys.

The RERC survey indicated a going-in capitalization rate for second-tier suburban investment properties of 8.2%. (Ex. B, p 72-74). Although Nelsen concluded an overall capitalization rate of 9%, he testified he could have considered something slightly lower and between his two analyses at 8.5%. The loaded capitalization rate of 9.32% is used to arrive at a conclusion of value by the income approach of $6,680,000. (Ex. B, p. 75). Bell was critical of Nelsen's effective tax rate, asserting he did not include the rollback factor. Nelsen testified that if it was not considered and needed to be factored in, the indicated capitalization rate would have been less and the value from the income approach would be higher.

Giving most consideration to the sales approach to value, Nelsen reconciled a final opinion of value of $6,750,000, as of January 1, 2017. (Ex. B, p. 76).

Lynch Appraisal

Lynch developed all three approaches to value and arrived at a final opinion of market value of “at least” $6,839,000, which is the actual January 1, 2017 total assessed value. (Ex. C, p. 11). Lynch’s sales comparison and income approach conclusions are $6,610,000 and $6,660,000 respectively. Only his cost analysis indicates a value greater than the January 1, 2017 assessment.

Lynch submitted three sales from Ames, one of which was the 2007 sale of the subject property. (Ex. C, p. 6). Given more recent sales in the record, we do not find it necessary to rely on a 2007 sale to establish the 2017 market value of the subject property.

The remaining two sales Lynch relied on are located in Ames, but they have building sizes of 12,000 square feet and 9860 square feet compared to the subject’s 61,734 square foot building. (Ex. C, p. 6). Lynch adjusted both of the sales upward by 32% and 26% to reflect the subject’s superior lab area. Floor plans found in the other appraisals in the record suggest the Lab space is minimal in relation to the gross building area and no other appraiser in the record considered this an element of comparison that required an adjustment in the sales comparison approach. However, we do note Nelsen reported the lab space as being “less than 10% of the overall building, but does contribute to the building as a whole and would warrant a higher rent than would otherwise be achieved without the presence of lab space.” (Ex. B, p. 69).

Lynch’s Sale 1 at 215 Alexander Ave. was also used by Helland. Lynch arrived at an adjusted sales price for this property of $88.82 compared to Helland’s $78.75.

Lynch concluded a market rent of $10 per square foot. When explaining market rent, Lynch noted the owner would be responsible for expenses during vacancy, which would indicate he was estimating a net rent. (Ex. C, p. 9). He did not submit any explanation of how he arrived at this conclusion. After vacancy and collection loss, as well as expenses, Lynch concluded an NOI of $542,420. He then opined a loaded capitalization rate of 8.14%. Again, Lynch did not provide an explanation of how he determined the capitalization rate. His conclusion by the income approach is $6,660,000. (Ex. C, p. 10).

Troe Appraisal

Troe's appraisal was developed for in-house lending purposes with an effective date of November 2017. Troe is an appraisal officer for First National Bank, which was also the lender underwriting a mortgage loan on the subject property. (Ex. D, p. 2). Like Nelsen, Troe did not develop the cost approach to value, and relied on the sales and income approaches.

Troe described the City of Ames as having steady growth during the past several years with an expectation of stability and growth in the future. (Ex. D, p. 16). He noted that while the subject property is currently occupied by a single-tenant, it was designed to accommodate three tenants. (Ex. D, p. 34).

Troe described the site as having 3 acres of excess/surplus land that could potentially be sold or retained for future expansion. (Ex. D, p. 38).

Troe relied on three sales that occurred between December 2014 and December 2016. After adjusting the sales for market conditions (time), the adjusted sale prices range from $4,131,000 to $11,690,050. (Ex. D, p. 45). The following table is a summary of the sales.

Comparable Sale	Adjusted Sale Price	Sale Date	GBA	SP/GBA	Adjusted SP/GBA	Net Adjustment	Gross Adjustment
Subject			61,734				
1 - 1200/1250 SW State St, Ankeny	$4,131,000	Dec-16	26,136	$158.06	$99.58	-37%	53%
2 - 2325 SW State St, Ankeny	$4,028,000	Dec-14	20,618	$195.36	$107.45	-45%	55%
3 - 6600 Westown Pkwy, WDM	$11,690,050	Mar-16	91,412	$127.88	$108.70	-15%	45%

Troe adjusted all three sales for a superior location compared to the subject property asserting they were all located in larger communities with a greater demand for similar improvements. (Ex. D, p. 46). His adjustments ranged from 15% to 25%. PAAB notes this opinion contradicts Nelsen's opinion. Nelsen did not believe any of the comparable properties he submitted, which were also in the suburban central Iowa market, required location adjustments.

Sale 2 was a fee simple sale. Sales 1 and 3 were leased fee sales. Troe did not adjust for any differences in the property rights and did not explain why an adjustment was unnecessary.

Sale 1 consisted of two buildings selling for a single use and price. It was 100% leased at the time it sold with thirteen tenants. (Ex. D, p. 49). The lease terms were not reported.

Sale 2 was less than 90% occupied at the time of sale and was purchased by a local investor. Troe reported that 12,000 square feet of space was leased on a net basis for $13.50 per square foot with $30 per square foot of tenant improvement allowance. Roughly 5000 square feet of office space was rented at $24 per square foot on a gross basis and included rent escalators. (Ex. D, p. 50).

Sale 3 was nearly 97% occupied at the time it sold, with average rents at $11.00 per square foot and remaining lease terms of three to seven years. (Ex. D, p. 51).

Troe adjusted the sales for differences in location, gross building area, age/condition, land/building ratio, and the quality/functional utility of the finished space. Based on the photos and legal descriptions all of the properties were built for office use.

Troe submitted a comparable lease table summary, as well as some asking rents. The triple net leases range from $10.71 to $15.57 per square foot, with an average of $13.63 per square foot. The asking rents range from $11.50 to $12.50 per square foot; however, all of the leases are for office space less than 14,000 square feet with the majority of the space being less than 8,000 square feet. Troe concluded "that the subject property's current lease rate and terms are at market" and estimated a net market rent of $10.00 per square foot for the subject property. (Ex. D, p. 55). However, this statement, which appears to assert that $10 per square foot is both the current rent and the market rent conflicts with earlier statements in his report noting the subject "was not occupied" and that discussions with representatives of the property owner indicate that it will be "occupied by an affiliate" at some point in the future. (Ex. D, p. 53). PAAB notes that although Troe indicated a market rent of $10.00 per square foot on a net basis, he applied a rent per square foot of $9.25 in his operating income analysis. After vacancy and collection loss, as well as expenses Troe concluded an NOI of $428,575. (Ex. D, p. 56).

Relying on the market data (Sales 1 and 3), as well as the band of investment and realtor surveys, Troe determined a capitalization rate of 7.25%. (Ex. D, p 57-59). His conclusion by the income approach is $6,115,500, which includes surplus land. (Ex. D, p. 59).

Troe gave both the sales and income approaches some consideration and concluded a final opinion of value of $6,200,000 as of November 2017. (Ex. D, p. 60).

Analysis & Conclusions of Law

416 Bell, LLC asserts its property is over assessed.

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 the City of Clinton*, 529 N.W.2d 275, 277 (Iowa 1995).

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*. If sales are not available to determine market value then "other factors," such as income and/or cost, may be considered. § 441.21(2).

The first step in this process is determining if comparable sales exist. *Soifer v. Floyd Cnty. Bd. of Review*, 759 N.W.2d 775, 783 (Iowa 2009). 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.” *Id*. at 783 (citing *Bartlett & Co. Grain*, 253 N.W.2d at 94). Similar does not mean identical and properties may be considered similar even if they possess various points of difference. *Id*. (other citations omitted). “Factors that bear on the competency of evidence of other sales include, with respect to the property, its ‘[s]ize, use, location and character,” and, with respect to the sale, its nature and timing. *Id*. (other citations omitted). Sales prices must be adjusted “to account for differences between the comparable property and the assessed property to the extent any differences would distort the market value of the assessed property in the absence of such adjustments”. *Id*. (other citations omitted). “[A] difference in use does affect the persuasiveness of such evidence because ‘as differences increase the weight to be given to the sale price of the other property must of course be correspondingly reduced.’” *Soifer*, 759 N.W.2d at 785 (quoting *Bartlett & Co. Grain*, 253 N.W.2d at 93).

The record includes four appraisals. Three were completed for ad valorem purposes as of the January 1, 2017 assessment date. The Troe appraisal was submitted by the Board of Review and was completed for in-house mortgage lending purposes with an effective date of November 2017. Three of the appraisals (Helland, Nelsen, and Troe) conclude values less than the subject’s current assessment.

First we address the Lynch appraisal, which was the only one in the record to conclude a value “at least” at or above the current assessment. Lynch relied on three sales, one of which was the 2007 transaction of the subject property. We do not find it necessary to rely on a 2007 sale given the number of more recent sales in the record. Moreover, there is some indication the subject’s sale may have involved a tenant/partial owner of the building, which may have affected the sales price. Lynch’s two remaining sales are significantly smaller than the subject property, and for that reason we question their comparability to the subject. Because the appraisal lacks any additional comparable sales, we find its conclusion of value by this approach unreliable.

Lynch also developed the income approach, but he provided no support for his market rent or capitalization rate conclusions.

As a whole, we find the reliability of Lynch's analysis limited, and we give it no consideration.

We also decline to give any consideration to Troe's appraisal. We question the adjustments Troe made in his report, and he did not testify before PAAB. Therefore, he could not be questioned regarding his analysis or findings. Of note, Troe made downward location adjustment of 15% to 25% to all of his sales, asserting they were in superior markets. However, Nelsen, who has been appraising in the central Iowa market for nearly thirty years, provided credible testimony that no such location adjustment would be necessary in the suburban central Iowa market. We therefore find Nelsen's testimony to be more persuasive than Troe's written analysis. We also note errors in Troe's report including a slight disparity between his estimated market rent of $10.00 per square foot compared to his calculation of the effective gross income which was based on $9.25 per square foot.

This leaves us with the Helland and Nelsen appraisals. Both appraisers developed the sales and income approaches to value. Only Helland also completed the cost approach. Helland arrived at the same conclusion of value by both the sales comparison and income approaches and appears to have given all consideration to these two values. Nelsen gave primary consideration to the sales comparison approach and little to no weight to the income approach. For these reasons, we do not believe it is necessary, in this case, to rely on the cost approach and decline any analysis of it.

Helland submitted six sales, all of which were smaller than the subject property and of inferior construction and quality. Many of the sales were warehouses that required significant adjustments to compensate for the subject property's nearly 100% office finish. One of Helland's comparables reflected a land sale. Overall, we find the properties Helland submitted lack sufficient comparability to the subject property for reliable analysis.

Further, Helland chose to report his analysis in a qualitative method, although he testified to quantitative adjustments. Despite Helland's testimony, without the data presented at hearing it is difficult for us to determine the reliability of the overall analysis. PAAB has routinely noted that qualitative analysis diminishes our ability to determine the credibility of adjustments that would aid in determining the comparability and resulting reliability of the sales.

Moreover, Helland only reported the net adjustments to the sales, knowing that several of the properties required significant line and gross adjustments. Only showing net adjustments without gross or line adjustments for context can be misleading. For example, Helland reported Sales 4 and 5 as having 10% and 0% net adjustments respectively. However, he testified that Sales 4 and 5 had 80% and *in excess* of 100% gross adjustments, which were unreported in his written analysis. Although not reported in his appraisal, Helland testified that Sale 5 required a single-line adjustment of 75%. Without context, the sale would appear to have more comparability to the subject than actually exists. The Appraisal Institute states:

> "[T]he gross adjustment amount can be a significant factor in the reconciliation of various value indications. . . . [L]ess accuracy may be attributable to the comparable property that required the large adjustment as a percentage of the sale price. . . . The magnitude of net adjustments is often a less reliable indicator of accuracy. *The net adjustment figure may be misleading because the appraiser cannot assume that any inaccuracies in the positive and negative adjustments will cancel each other out*." (Emphasis added).

APPRAISAL INSTITUTE, THE APPRAISAL OF REAL ESTATE 393-394 (14th ed. 2013).

For this reason we find Helland's report is, on its own, misleading. Considering his testimony, divulging the actual line and gross adjustments, we find the properties Helland submitted lack sufficient comparability to the subject property to arrive at reliable conclusions.

Conversely, Nelsen submitted five sales, all of which had at least 79% office space, resulting in fewer adjustments for this element of comparison. Nelsen testified there are few buildings of similar use and size as the subject property in Ames; therefore he expanded his search to similar locations of the suburban Des Moines market. Based on his years of experience working in this market he concluded location adjustments were not warranted.

Nelsen's comparable sales were more similar in overall size to the subject property's 61,734 square feet of gross building area, with three of them having gross building area between 45,500 and roughly 95,000 square feet. Gross adjustments ranged between 11% and 64%. Sale 2 had the highest gross adjustments of 64%. Nelsen described it as “functionally unique” and dated, requiring age/condition and quality/design adjustments of 20% and 30% respectively. Sale 5 required 57% gross adjustments; however, it was the smallest building and had the lowest sale price in Nelsen’s analysis of $850,000. Both Sales 2 and 5 set the low end of the range before and after adjustments.

Reviewing all of the sales in the record, we find Nelsen’s comparable sales to be the most similar to the subject overall, with adjusted values ranging from roughly $107 to $113.25 per square foot. Although not without flaw, we find Nelsen’s sales comparison analysis to be the most credible in the record.

Both Helland and Nelsen also developed the income approach to value. The following table is a summary of their conclusions.

Appraiser	Gross Rent	Net Rent	Vacancy/Collection	NOI	Capitalization Rate
Helland	$12.00		10%	$521,344	11.35%
Nelsen		$11.00	5%	$622,303	9.00%

Helland is the only appraiser in the record to rely on a gross rent to develop his income analysis. Nelsen testified that the market predominantly rents on a net lease basis therefore that is how he analyzed the subject property. Although we ultimately give their appraisals no weight, we do note that both Lynch and Troe also offered an opinion of net rent. Moreover, both Lynch and Troe opined a net rent per square foot of $10.00, which is similar to and supports Nelsen’s net rent. Nelsen was critical of Helland’s opinion of gross rent. In Nelsen’s opinion if the net rent is $11 per square foot, the gross rent which must consider taxes, maintenance, and other additional expenses would likely range from $15.50 to $16.50 per square foot.

Helland also had the highest vacancy rate and capitalization rate in the record. Despite the subject property itself having low vacancy and the immediate market area having vacancy of less than 5%, Helland’s income analysis was based on a 10% vacancy rate. Nelsen’s rate of 5% is more in line with the actual vacancy rate in the area. Lynch and Troe also had lower vacancy rates of 5% and 8% respectively.

Lastly, Helland's overall capitalization rate is also the highest in the record but this is due in part to his decision to rely on gross rents rather than net rents. His capitalization rate of 8.5% is within the range of the other appraisers who developed their analyses on a net rent basis. Regardless, by underestimating the gross rent and over estimating vacancy, Helland undervalued the subject property.

Based on the foregoing, we conclude Helland's appraisal is an unreliable indicator of the subject property's market value. We further conclude Nelsen's appraisal and final opinion of value is the most persuasive evidence in the record of the subject property's actual value as of January 1, 2017. Therefore, we find there is sufficient and credible evidence in the record showing the property's fair market value as of January 1, 2017 is less than its current assessment.

Order

PAAB HEREBY MODIFIES the City of Ames Board of Review's action to $6,750,000.

This Order shall be considered final agency action for the purposes of Iowa Code Chapter 17A (2017).

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, Presiding Officer

Camille Valley, Board Member

Stewart Iverson, Board Chair

Copies to:

Joshua Rhoads by eFile

City of Ames Board of Review by eFile

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