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

PAAB Docket No. 2017-101-00188C

Parcel No. 181/00800-403-001

Kohl's,

Appellant,

vs.

City of Cedar Rapids Board of Review,

Appellee.

Introduction

This appeal came on for hearing before the Property Assessment Appeal Board (PAAB) on January 14, 2019. Attorney Deborah Tharnish represented Kohl's. Cedar Rapids Assistant City Attorney Patricia Kropf represented the Board of Review.

ALEFF LLC, doing business as Kohl's/Unit 2, owns a commercial property located at 3030 Wiley Boulevard SW, Cedar Rapids. The property's January 1, 2017 assessment was set at $6,677,200. (Ex. B).

Kohl's petitioned the Board of Review claiming the subject 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 modified the assessment to $6,490,500, allocated as $2,399,200 in land value and $4,091,300 in improvement value. (Exs. A & B). Kohl's reasserted its claim to PAAB.

Findings of Fact

The subject property is a retail store built in 2012. It has 55,532 square feet of gross building area (GBA) and a 3588-square-foot truck well with two overhead doors. The 4.41-acre site is also improved with 79,000 square feet of paving. (Ex. A).

Store Manager Nicole Smith testified for Kohl's and provided a history and background of the subject property's operations. Smith has been with Kohl's since 2010, and has been managing the subject store since April 2015.

Smith testified that from 2014 to 2016 sales at the subject property have steadily increased. However, she indicated that when considering only the foot traffic sales, or brick-and-mortar sales, there has been a decline in transactions. Essentially, the on-line purchases picked up at the store have caused the sales increase. Smith also discussed neighboring developments, the lack of upkeep on an adjoining lot, and store visibility.

Smith did not offer any testimony about the January 1, 2017 fair market value of the subject property.

The record includes two appraisals. Kohl's submitted an appraisal completed by Thomas Scaletty, Mainland Valuation Services, Lenexa, Kansas. (Ex. 4). The Board of Review submitted an appraisal completed by Dennis Cronk, Cook Appraisal, Iowa City, Iowa. (Ex.D). Both appraisers are qualified to appraise the property and testified at 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
Scaletty	$3,890,000	$3,670,000	$3,780,000	$3,820,000
Cronk	$4,775,000	$4,790,000	$4,790,000	$4,780,000

<u>Scaletty Appraisal</u>

Scaletty included nine properties for his sales comparison analysis.

Scaletty testified that he was estimating the value of the subject property as "if Kohl's tried to sell it." He was not interested in the possibility that Kohl's might sell it with a long-term lease, but rather if it were sold to another user or buyer that may occupy it, possibly renovate it to a different use, or tear it down. Scaletty focused his search on big-box stores between 30,000 to 100,000 square feet located in Iowa.

His analysis included three categories of sales: build-to-suit/leaseback sales; second-generation, leased-fee sales; and fee simple sales. (Ex. 4, pp. 50-51).

Scaletty excluded sales that were build-to-suit/leasebacks. He explained the build-to-suits are built specifically for a tenant to their specifications. This is what he believes Kohl's does. A sale leaseback is where an owner builds a building to their own specifications and then generates a lease, which in turn is sold to an investor. He testified that these types of sales may or may not be market driven, rather he asserts they are simply based on building costs or the amount of income the owner wants to generate from the sale. While he acknowledged these sales may reflect market rents, he believes caution should be used in relying on them. Moreover, Scaletty believes the long-term leases to credit-worthy tenants result in sale prices much greater than other fee-simple sales. He does not believe it is possible to extract the impact of a tenant's credit and the length of the lease from the sale price.

Scaletty describes second-generation sales as similar to build-to-suit sales because they are also driven by the negotiated lease rate and the creditworthiness of tenants. However, if a tenant leases the space "as is" then he believes it may provide a good indication of market value. (Ex. 4, p. 51).

In Scaletty's opinion, fee simple sales are the most ideal transaction, which he identified as a transaction involving properties that were vacant at the time of sale, or soon to be vacant. In his opinion, there are "plenty of good fee simple sales." He testified that his search was focused on sales from a retail occupant to another similar user. He acknowledged the purchaser of such a facility is often a buyer or tenant of lower quality. Additionally, he noted these properties are often purchased by investors that renovate them for future lease making them second-generation sales. (Ex. 4, p. 51).

Scaletty believes his analysis values the subject property in its current use, because he is searching for single-tenant retail sales. However, this contradicts his earlier testimony that he was valuing the subject property based on it being sold to another user or buyer that may occupy it, possibly renovate it to a different use, or tear it down. We note the latter two of these options would result in a use different than that of the subject property as of its January 1, 2017 assessment date. Scaletty acknowledged that the sale of a property with a long-term vacancy prior to the transaction is not the

best sale and it may set the floor of market value but he does not believe they should be ignored.

Based on the described criteria, Scaletty relied solely on second generation sales sold subject to leases and sales of vacant properties, all of which are summarized in the following table. (Ex. 4, pp. 53-59).

Address	Owner/Occupant at Time of Sale[1]	Sale Date	Sale Price	Building Area (SF)	Sale Price/SF	Adjusted SP/SF
Subject	Kohl's			55,532		
1 - Lawrence, KS	Former JCPenney	Jun-17	$4,500,000	79,828	$56.37	$74.22
2 - Crestwood, MO	Former Best Buy	Apr-16	$2,545,256	44,870	$56.73	$69.43
3 - Urbandale, IA	Hy-Vee Training Cntr	Mar-16	$3,600,000	81,936	$43.94	$65.62
4 - Clinton, IA	Former Target	Aug-15	$2,055,000	89,182	$23.04	$37.14
5 - Omaha, NE	Former Bag N Save	Aug-15	$3,800,000	67,077	$56.65	$70.70
6 - Omaha, NE	Former Bag N Save	Jul-15	$2,405,972	53,114	$45.30	$57.08
7 - Omaha, NE	Hobby Lobby	Apr-15	$5,000,000	66,937	$74.70	$86.28
8 - West Des Moines, IA	Former Dahl's	Mar-15	$3,500,000	55,386	$63.19	$79.62
9 - Clive, IA	Former Dahl's	Mar-15	$2,800,000	44,500	$62.92	$79.28

The comparable properties were built between 1975 and 1998, compared to the subject property that was built in 2012. On average, Scaletty's sales are 22 years older than the subject property and he reported all as in inferior condition. He made across the board, upward age/condition adjustments ranging from 20% to 50%. (Ex. 4, p. 59). Scaletty estimated the sales had effective ages ranging from 15 to 30 years and his age/condition adjustments were based on the age/life method of each sale compared to the subject property at an annual rate of 2%. (Ex. 4, p. 55).

Scaletty considered Sales 1 and 6 to be similar in location to the subject property. In his opinion, Sale 4 has an inferior location and it was therefore adjusted upward 20%. He adjusted the remaining six sales downward 10% to 20%, asserting they have superior locations compared to the subject.

When asked if any of the comparable properties had deed restrictions, Scaletty testified he was unaware but he would have asked the parties involved in the

[1] With the exception of Sales 3 and 7, Scaletty reported the owner/occupant of each sale *prior* to the transaction; these occupants subsequently vacated the property. The reported owner/tenant for Sales 3 and 7 occupied the space after the sale.

transactions during his verification process. He acknowledged it is common for big-box stores to have deed restrictions, noting Target, Walmart, and HyVee all typically sell with restrictions. In his opinion, a deed restriction could have a wide-ranging impact on value from minimal to significant.

Scaletty explained the buyer purchased the land lease for Sale 1 and JC Penney "walked away from the improvements," which were then included in the sale. He did not know why JC Penney chose to abandon the property, but he acknowledged it had been closing stores all over the country. In Scaletty's opinion, while the purchaser was technically acquiring the leased-fee interest of the site, because the buildings were included in the sale, he believes it effectively represents a fee-simple sale. And he asserts there is no indication the buyer paid more for the property because the improvements were included. In his opinion, the sale price is similar to his other comparable properties. Therefore he does not believe the circumstances of the sale affected the transaction.

In Scaletty's opinion, when Sale 1 transferred it was an operating JC Penney store with similar interior finish and the same type of retail as Kohl's. However, he also reported the HVAC and roof were original and were either in need of replacement or nearing the end of their useful life. (Ex. 4, Addendum B, Comp Number 1). Additionally, he testified, the buyer spent several million dollars converting the property from a single-tenant to a three-tenant property and then spent a significant amount of additional money on tenant improvements. Scaletty did not adjust the sale price for the improvements made; asserting that when it sold it was similar to the subject property.

Sale 2 was a Best Buy that was purchased and converted to a Planet Fitness, a 24-hour gym. In his opinion, this represents a retail to retail sale.

Scaletty testified that Sale 3 had been vacant for ten years. Documents included in the Board of Review Certification indicate it was formerly a K's Merchandise. He acknowledged that because it was vacant for so long, it was not the best sale. Nevertheless, he asserts it should not be ignored and considered the conditions of sale "typical." It was built in 1989, making it significantly older than the subject and, as a result, Scaletty made an upward 50% adjustment to this sale for its age/condition. (Ex.

4, p. 59). He testified that Hy-Vee purchased the property and uses it as a training facility, as well as possibly a food preparation or order fulfillment center. Because he is unaware of exactly what occurs at the site, he was unwilling to rule it out as not having any retail use.

Sale 4 was Target that was purchased by a local investor who leased 55,000 square feet of the nearly 90,000 square foot building to Hobby Lobby. Scaletty confirmed the remainder of the building is vacant. It is the lowest priced sale in record, at less than $25 per square foot. It also has the lowest adjusted sale price of roughly $37 per square foot. (Ex. 4, p. 59).

Sale 5 and 6 were Bag and Save grocery stores located in Omaha.

Sale 5 was purchased by the owner of an adjacent strip shopping center for potential future redevelopment; in the interim it is being leased for retail. (Ex. 4, Addendum B, Comp Number 5). Scaletty testified the owner of the property is marketing it for lease and it is currently occupied by a short-term tenant.

Sale 6 was renovated for owner-occupancy with approximately $400,000 of improvements. Scaletty adjusted this sale price for the improvements made after the sale. (Ex. 4, p. 54).

Scaletty reported Hobby Lobby purchased Sale 7, which had been owned by U-Save Foods[2], with the intent to owner occupy. The property was under “complete renovation” including a new façade. Scaletty did not report the anticipated or actual renovation costs that would have been incurred by the purchaser/user. (Ex. 4, Addendum B, Comp Number 7).

Sales 8 and 9 were Dahl’s grocery stores that Scaletty believed were both operating at the time of sale. It was well known that Dahl’s was struggling financially at the time of these sales. Scaletty testified that he was aware of the “writing was on the wall” that Dahl’s was heading towards bankruptcy. He could not recall if either property was an ordered sale as the result of bankruptcy, but an ordered sale was likely imminent. Documents Kohl’s filed in its protest to the Board of Review specifically

[2] U-Save Foods was also the seller of Sales 5 and 6, which were operating as Bag and Save grocery stores. (Ex. 4, Addendum B Comp Number 5 and Comp Number 6).

identify that Sale 8 was a “Bankruptcy Sale, Redevelopment Project.” (Board of Review Certification). Despite this, he believes the sales were not distressed because they sold while the tenant was still occupying the property and therefore he did not adjust them for conditions of sale.

Scaletty testified that Sale 8 was purchased by Kum & Go, a regional convenience store chain that desired the corner portion of this site. This was its motivation for purchasing the property, as they did not have a use for the building. After the purchase, Kum & Go built a convenience store on the corner and, according to Scaletty, leased out the existing improvements to multiple tenants. While it leased out the improvements, Kum & Go also listed the property for sale. He expressed uncertainty, but believes it may have since sold.

Scaletty identified Sale 9 as a foreclosure sale on his comparable summary sheet. (Ex. 4, Addendum B, Comp Number 9). Sale 9 was redeveloped with a Natural Grocers on the corner. He reported the buyer was unsure what the final use of the existing improvements will be. (Ex. 4, Addendum B, Comp Number 9).

Scaletty included a list of other big-box, fee simple sales in the region and the State of Iowa. (Ex. 4, p. 58). We note many of the sales include Dahl’s, American TV & Appliance, Toys R Us, and JC Penney, all of which were publicly known to be struggling financially and facing bankruptcy. He testified that he included these as additional support for his analysis.

In his reconciliation, Scaletty dropped the high and low end of the adjusted sales prices, which resulted in an average adjusted value of $70.85 for the remaining seven comparable properties. (Ex. 4, p. 57). Although he testified that he does not rely on the average adjusted value, he did conclude an opinion of $70.00 per square foot. In his opinion, Sales 1, 2, 8, and 9 were the best sales, which had adjusted sale prices ranging from $69.43 to $79.62. He then rounded downward to reflect the remaining sales that had lower adjusted values, and concluded a January 1, 2017 opinion of market value of $3,890,000. (Ex. 4, p. 57).

We note Scaletty did not make any “conditions of sale” adjustments in spite of the unusual circumstances under which several sales transactions took place. He also

did not make post-sale expenditure adjustments to some of his sales even though he indicated those properties underwent renovations or conversions after purchase.

Similar to his sales comparison analysis, Scaletty excluded “first generation” space, which would be build-to-suit/sale leasebacks, in his income approach. In his opinion, build-to-suit or sale/leaseback properties should not be considered because they are not constructed speculatively and therefore would reflect an inflated market value. In his opinion, tenants only do this to “get their special spot” or “their special store” and believe they can generate the necessary sales volume specific to their business model.

Scaletty selected leases for retail spaces that had minimal renovation. (Ex. 4, p. 62). He testified that if he was aware a lease had significant tenant improvements made by the owner, he backed the cost out to arrive at a base “as is” rent.

Scaletty relied on six big-box properties to establish a market rent for the subject property. All of the properties are located in Iowa and the building areas ranged from roughly 28,000 to 150,000 square feet, but three were only partially leased. (Ex. 4, pp. 64-68). Lease Comparable 2 was a listing and multi-tenanted. Scaletty testified he included the listing because he lacked other relevant lease data from Iowa. His lease comparables are summarized in the following table.

Lease Comparable	Year Built	Building Size (SF)	Actual Net Rentable (SF)	Tenant	Adjusted Base Rent
1 - Council Bluffs	2009	80,022	80,022	At Home	$5.34
2 - Davenport	1968	90,052	37,358	Listing	$4.85
3 - Clive	1994	28,232	28,232	Salvation Army	$7.01
4 - Cedar Rapids	1970/2014	149,993	57,679	Hobby Lobby	$7.62
5 - Cedar Rapids	1970/2014	149,993	25,061	Home Goods	$6.43
6 - Clive	1991	90,000	90,000	At Home	$6.58

Like his comparable sales, the majority of Scaletty’s comparable leases are much older than the subject property. They were built between 1968 and 2009, with five of them built prior to 1995. With the exception of the one sale built in 2009, he adjusted them all upward by 5% to 20% for age/condition. (Ex. 4, p. 67).

Scaletty testified that he backed out any known tenant improvements that were completed on a property because he was estimating the “as is” rent for the subject property.

Lease Comparable 1 was a former ShopKo that closed in 2017. The tenant, At Home, took the property “as is” and reportedly spent $2,500,000 on renovations prior to occupancy. (Ex.4, p. 64 & Addendum C, Comp Number 1). Consistent with his “as is” value premise, he made no adjustment for tenant improvements. Scaletty testified this property has been for sale and may have recently sold with the At Home lease in place.

Lease Comparable 2 was a listing. It was a single-tenant big-box property that had been converted to multi-tenant use. Current tenants include Harbor Freight and Stefanini, Inc. (Ex.4, p. 64 & Addendum C, Comp Number 2). This property was built in 1968 and Scaletty acknowledged it was not a good comparable.

Lease Comparable 3 is leased by the Salvation Army. It is unclear how Scaletty arrived at the effective rent rate of $7.64 per square foot. He reported the property has a triple-net rent, which means the tenant is responsible for all expenses, including taxes. He reported an increasing rent per five-year option, with the lowest contract rent being $9.80 per square foot, which appears to include the $2.41 per square foot that was estimated for the 2014 taxes and insurance. (Ex. 4, p. 64 & Addendum C, Comp Number 3). He also indicates the landlord paid for tenant improvements, but does not identify the amount paid or make an adjustment.

Lease Comparables 4 and 5 are located at Collins Crossing in Cedar Rapids. Collins Crossing has approximately 150,000 square feet of GBA. Comparable 4 is occupied by a Hobby Lobby, which rents roughly 57,500 square feet. Comparable 5 is occupied by Home Goods, which rents roughly 25,000 square feet. Collins Crossing was originally built in 1970, but was completely renovated in 2014. (Ex. 4, p. 65 & Addendum C, Comp Numbers 4 & 6[3]). He indicates the tenants paid for improvements and then adjusted each of these comparables downward for tenant improvements.

Lease Comparable 6 is occupied by an At Home. It was a former K-Mart that closed in 2014. Scaletty reported that At Home spent $3,900,000 or $43.33 per square

[3] Addendum C transposed the labeling for Rent Comparable 5 and Rent Comparable 6.

foot on renovations. For this comparable, he did not make any adjustment for tenant improvements.

From his adjusted range, Scaletty selected a lease rate of $6.75, whereby the tenant is responsible for all operating expenses. (Ex. 4, p. 68).

Scaletty acknowledged there was not much vacancy in the market. But because it is a single-tenant property, he asserts it can take a while to lease. He explained a 10-year lease and 1-year marketing period would indicate a 9% vacancy. He estimated a 10% vacancy, which also accounts for credit loss. (Ex. 4, p. 68).

Rather than excluding taxes, as is typical for ad valorem valuation, Scaletty estimated the real estate taxes based on his value estimate of $3,890,000 by the sales comparison approach and included this in his income stream. He then deducted the same tax estimate as an expense, concluding a net operating income (NOI) of $312,120. (Ex. 4, pp. 68-70).

In determining a capitalization rate, Scaletty analyzed improved sales that consisted of built-to-suit, single-tenant net lease sales with significant credit and lease terms and other shopping center sales with varying lease terms. The average capitalization rate from the sales he examined was 8.76%. (Ex. 4, p. 71). None of the sales from which Scaletty extracted capitalization rates are from Iowa and all of the properties are older than the subject. There is also a significant range in size between 12,214 square feet and 280,000 square feet. Several of the properties are used for multi-tenant purposes and others are experiencing occupancy issues. As a whole, we do not find these to be a comparable set from which a reliable capitalization rate can be derived.

Scaletty noted longer lease terms and occupancy correspond to lower capitalization rates and the tenant's creditworthiness also impacts the capitalization rate. He also relied on investor surveys and yield rate analysis. (Ex. 4, pp. 74-75).

Based on these methods, Scaletty selected a capitalization rate of 8.5%. We note this rate is higher than every category indicated by the investor survey as of the 4th quarter of 2016. Because he expensed taxes, he did not load the capitalization rate and concluded an opinion of value of $3,670,000 based on this analysis. (Ex. 4, p. 76).

Recognizing, that for ad valorem purposes, taxes are typically excluded as an expense, Scaletty also calculated an income approach relying on this methodology. After removing the taxes from his expense, he calculated an NOI of $325,194. He applied a loaded capitalization rate of 8.80% to arrive at an opinion of value of $3,690,000. (Ex. 4, p. 77).

His final conclusion of value by the income approach, as of January 1, 2017, was $3,670,000 rounded. (Ex. 4, p.78).

To begin his cost approach, Scaletty analyzed and adjusted three land sales all located in the greater Cedar Rapids market. (Ex. 4, pp. 43- 45). The sales occurred between December 2012 and October 2017. All of the land sales were four to five-and-a-half times larger than the subject site. PAAB notes larger site sizes would typically have a lower price per square foot. APPRAISAL INSTITUTE, THE APPRAISAL OF REAL ESTATE 366, 585 (14th ed. 2013); INT'L ASSOC. OF ASSESSING OFFICERS, PROPERTY ASSESSMENT VALUATION 176, 249 (3d. ed. 2010). Although Scaletty made minor adjustments to the sales prices, using all larger sites could result in artificially low adjusted sales prices.

Scaletty reported Land Sale 1 as having 777,110 square feet (17.84 acres), but he admitted the buyer was required to dedicate a portion of this site to the City. Additionally, Scaletty was aware there was a plant nursey on the subject site, which was likely demolished, but he did not include any demolition costs in his analysis of the sale price.

Scaletty admitted there was a reporting error to Land Sale 2 in the comparison analysis grid. Land Sale 2 was reported as having a sale price of $6,200,000, when the actual adjusted sale price was $7,700,000, which accounts for $1,500,000 in demolition costs. (Ex. 4, p. 43 & 45). Correcting this error would result in a change from the sale price per square foot from $5.76 to $7.15; and its adjusted sale price per square foot would be $7.22. Scaletty acknowledged this correction would change his opinion of value upward.

He concluded an opinion of site value, as of January 1, 2017, of $1,120,000 rounded. (Ex. 4, p. 45).

Scaletty relied on MARSHALL VALUATION SERVICE (MVS), a national cost manual, in developing his replacement cost new (RCN). He testified that he relied on the cost associated with an average to good quality, Class C Discount Store. After adjustments, he determined a base cost for the building of $78.21 per square foot. He then included parking, landscaping, soft costs, and 10% entrepreneurial profit to arrive at an RCN of $5,457,028, or $98.27 per square foot (Ex. 4, p. 49).

He estimated a 5-year effective age and a 40-year economic life resulting in $588,004 depreciation to the long-lived items. He also deducted $188,250 in physical depreciation of short-lived items. Scaletty does not believe the subject suffers from any functional obsolescence but asserts there is significant external obsolescence of over $2,000,000. His January 1, 2017 conclusion of value by the cost approach is $3,780,000 rounded. (Ex. 4, p. 49).

Scaletty justified his significant external obsolescence adjustment because he does not believe it is feasible to develop the subject property, as improved, purely on a speculative basis. In his experience, big-box improvements like the subject property are always built with a tenant-in-hand to justify the development costs. He testified that big-box tenants typically build their own improvements, noting that Kohl's has its own layout that suits its needs.

His estimate of obsolescence is based on the difference between the physically depreciated RCN of the improvements compared to his estimate of value by the sales comparison and income approaches. Scaletty acknowledged this was a circular method of analysis and if his sales comparison and income approaches were incorrectly developed, it would affect his conclusions by the cost approach. He gives the cost approach minimal consideration as a result.

In Scaletty's opinion, the sales comparison approach is the best way to estimate the fee simple value of the subject property. He reconciled the three approaches to value, and testified that he gave 70% weight to the sales comparison approach and 30% weight to the income approach. He gave no consideration to the cost approach because of the significant external obsolescence. His final opinion of value as of January 1, 2017, is $3,820,000.

Cronk Appraisal

Cronk testified the subject property is located on a tertiary arterial road on the southwest side of Cedar Rapids. There are several big-box stores in the area, including a Menards and both Target and Walmart superstores. Additionally, Westdale Mall has been undergoing redevelopment over the last several years including the demolition of portions of the mall, the addition of new retail strip centers, and a hotel.

The following table summarizes the five improved properties Cronk relied on for his sales comparison analysis. (Ex. D, pp. 34-36). All of Cronk's sales were located in Iowa.

Address	Occupant	Sale Date	Sale Price	Building Area (SF)	Sale Price/SF	Adjusted SP/SF
Subject	Kohl's			55,532		
1 - Cedar Rapids	Hy-Vee	Nov-16	$13,001,228	87,464	$148.65	$84.73
2 - Ankeny	Hy-Vee	Jan-16	$9,382,120	86,833	$108.05	$82.12
3 - Cedar Falls	Kohl's	Dec-12	$8,050,000	88,064	$91.41	$91.41
4 - Cedar Rapids	Hy-Vee	Nov-14	$11,000,000	81,453	$135.05	$93.18
5 - Burlington	Hobby Lobby	Jun-15	$2,800,000	55,600	$50.36	$75.54

Cronk relied on sales of properties that were occupied. (Ex. D, pp. 34, 36). Of these, three were occupied by the original users. (Ex. D, p. 34). He testified that Sale 4 was a sale/leaseback, which means the owner/occupant sells the property to a buyer and leases it back.

Cronk testified that he searched for occupied sales so that he could value the subject property as it is currently used. He acknowledged that it is sometimes necessary to rely on vacant sales but they would require adjustment. In his opinion, the majority of vacant sales are distressed and the property owner has holding costs and if they have not been able to find a tenant they are inclined to get rid of the property. In this case, he was able to identify five sales of occupied big-box stores with retail use.

Sales 1, 2, and 4 were all occupied by Hy-Vee, which Cronk identified as a high-quality tenant. He believes Sales 1 and 4 had slightly above-market rents but that Sale 2 rent was near market rates. All of the sales had lower capitalization rates reflecting the reduced risk associated with this tenant. Based on the individual circumstances of each

property, he adjusted those downward 19% to 38%. Cronk testified his adjustments are based on differences between the leases on properties with credit-worthy tenants and what he has determined are market lease and capitalization rates. Cronk further explained his Percent Occupied adjustment on page 36 of his appraisal. (Ex. D, p. 36). Kohl's was critical of Cronk for not showing how he actually arrived at these adjustments.

Sale 1 sold in 2016 as part of a package with five other stores and had ten years remaining on its lease. (Ex. 1, p. 34). Kohl's questioned the use of a package sale. Cronk acknowledged it wasn't preferable to use package sales, but the sale prices had been allocated based on the lease information and he believed the allocations were reasonable.

Sale 2 was built in 1994 with a significant addition and remodel in 2004, which included a new lease. It sold subject to the 2004 lease.

Sale 3 is a Kohl's that was purchased by a REIT. (Ex. D, - Comparable Improved Property No. 3 - following p. 36). Kohl's questioned his use of this sale asserting that REITs are only interested in an income stream. Cronk agreed, explaining that is generally why all investment properties are purchased, whether it is a REIT or a local investor that is purchasing the property. He testified this property was leased for around $6.00 per square foot, although he does not know if this was the original lease rate or if it was increased rate from an option. He considered the lease and capitalization rate to be at or near market and made no adjustment for the lease. (Ex. D, p. 36). In his opinion, the sale price was consistent with what an occupied property would sell for.

Sale 4 is another local Hy-Vee that was purchased along with a Hy-Vee gas station/convenience store across the street, and as part of a package of multiple stores. Cronk testified he included the size of the convenience store in the GBA and when comparing them to properties that lacked a convenience store did not believe an adjustment was warranted. In Kohl's opinion a convenience store would typically have higher rents and sale prices on a per square foot basis. Cronk explained Kohl's analysis would be true for a stand-alone convenience store, but not on a grocery store sale that included a convenience store.

Cronk explained Sale 5 is a Hobby Lobby that is part of a larger retail center, although it is separately parceled. Hobby Lobby renegotiated a reduced rate on its lease just prior to the sale. He considered the capitalization rate to be at or near market. (Ex. D, p. 36). He thought the lease rate may be slightly below market, but did not make an adjustment. It is located in a smaller community and its improvements are the oldest in Cronk's analysis.

After adjustments, the sale prices ranged from $75.54 to $93.18 per square foot. The subject property is a relatively new store that has been well-maintained and in good condition, as well as being located in an area experiencing growth. Additionally, Sale 3, which is also operating as Kohl's was near the upper end of the adjusted range. Based on this, Cronk determined a price per square foot of $86.00 for the subject property and concluded a January 1, 2017 opinion of value of $4,775,000 by the sales comparison approach. (Ex. D, p. 36).

In his income approach, Cronk analyzed the leases of five comparable properties to establish a market rent for the subject property. (Ex. D, p 38). All five comparable leases are located in Cedar Rapids, and two of them are located across the street from the subject property.

The following table is a summary of his lease comparables.

Lease Comparable	Year Built	Building Size (SF)	Net Rent	Tenant	Adjusted Rent
1 - Westdale Mall	2016	40,400	$10.12	Burlington Coat Factory	$8.61
2 - Collins Road	Not Reported	27,600	$9.50	TJ Maxx	$8.08
3 - Oakland Road NE	1995/2012	81,453	$8.10	Hy Vee	$8.10
4 - Collins Road	1991	57,679	$8.00	Hobby Lobby	$7.60
5 - Westdale Mall	2016	22,000	$10.80	Ross Dress for Less	$8.64

Leases 1 and 5 are located across the street from the subject in Westdale Mall but Cronk considered them to have a superior location because of the higher visibility to traffic on Edgewood Road. Both of these properties were built to suit for the tenants. In Kohl's opinion, their location and visibility results in higher rent and they should not be considered. Cronk disagreed. He explained the leases would have been based on cost,

which is an indication of value. For this reason, simply because a property is built-to-suit does not mean the lease rates are above market value. Although he acknowledged there would be a premium for a build-to-suit property, which is indicated by both adjusted leases setting the upper end of his range, he believes he accounted for that by reconciling to the lower end of the range.

Cronk testified Lease 2 was the renewal of a lease in an existing building.

Lease 3, a sale/leaseback, included a convenience store also located on the site. In his opinion, this comparable did not require an adjustment because it was a sale/leaseback. Kohl's asserted the Appraisal Institute's THE APPRAISAL OF REAL ESTATE (14th ed.) suggests that you should not use sale/leasebacks to determine market rent. Cronk acknowledged he was aware of this suggestion and testified the 14th edition also has a disclaimer regarding this issue. While he probably would not use this comparable in the future, he believes there is no support in this case for an adjustment.

Lease 4 was a former K-Mart that was extensively renovated and divided for multiple tenants. The lease reported is for one tenant in that building. Scaletty also relied on this lease but made tenant improvements. (Scaletty Lease Comparable 4). Cronk testified he did not make an adjustment for tenant improvements but acknowledged this property was significantly inferior to the subject in age/condition and his adjustment for this reflects the owner's finish allowance.

After adjustments, the leases ranged from $7.60 to $8.64 per square foot; four of the adjusted leases were above $8.00 per square foot. From his adjusted range, Cronk selected a lease rate of $8.00, whereby the tenant is responsible for all operating expenses. (Ex. D, p. 38).

Cronk estimated a total vacancy/rent loss of 7%, as compared with Scaletty's 10%. Cronk explained the subject property has been 100% occupied since its development in 2012; it is located in a moderately high traffic area with good visibility and access; it is at the edge of the city limits; and overall there is very little vacant big-box space in Cedar Rapids as of January 1, 2017. The foregoing information, as well as a review of published sources indicating a strong demand for retail space in Cedar

Rapids with new tenants expected to enter the market in 2016 and 2017, formed Cronk's opinion on the estimated vacancy/rent loss rate. (Ex. D, p. 39).

After considering expenses, Cronk concluded a NOI for the subject property of $383,388. (Ex. D, p. 41).

Cronk relied on the mortgage-equity (band of investment), market extraction, and investor surveys. (Ex. D, pp. 41-42). The following table is a summary of his conclusions based on these techniques.

Method	Low	High
Mortgage-Equity	7.69%	8.19%
Market Extraction	6.00%	8.90%
PwC RE Investor	6.00%	6.10%

He gave most consideration to the mortgage-equity analysis, noting the investor surveys were based on a net income so it would set the lower end of the range because the subject property's pro-forma does not reflect taxes. (Ex. D, p. 42). Based on this analysis, Cronk believes a capitalization rate of 7.75% is reasonable. After accounting for the effective tax rate, he concluded a loaded capitalization rate of 8.00% rounded. His January 1, 2017 conclusion of value by the income approach was $4,790,000. (Ex. D, p. 43).

In his cost approach, Cronk analyzed and adjusted four land sales ranging in size from 4.8 acres to 19.9 acres and all located in the greater Cedar Rapids market. Three of the sales occurred in 2014 and one sold in October 2017. (Ex. D, pp. 28-30). Cronk identified all of the land sales as having a superior location compared to the subject property. He testified his opinion was based on higher traffic counts and median household incomes of these sites compared to the subject site.

Land Sale 1 was the most similar in size and appeal to the subject property and its only adjustment was for location. (Ex. D, p. 29).

Land Sales 2 and 3 were adjacent properties that were eventually assembled. Because the two sites were separately negotiated and involved two different sellers, Cronk did not believe they needed to be combined into a single transaction. He believes the buyer would have moved ahead with developing the larger parcel (Sale 3), even if

he had not been able to acquire the smaller parcel (Sale 2). Both parcels were improved at the time of sale and the sale prices were adjusted to reflect estimated demolition costs. Land Sale 2 was triangular in shape and adjusted upward for this factor. (Ex. D, p. 29). Scaletty also relied on these sales (Scaletty Land Sale 2) but reported them as a single transaction in his analysis. As previously discussed, Scaletty's analysis failed to account for the demolition costs associated with these sales. (Ex. 4, p. 45).

Land Sale 4 was the most recent retail development sale. The buyer was required to dedicate 3.36 acres to the City of Hiawatha for an arterial road expansion. Its price was also adjusted to reflect estimated demolition costs. (Ex. D, p. 29). Scaletty also relied on this sale (Scaletty Land Sale 1). (Ex. 4, p. 45).

After adjustments, Cronk's land sales indicated a value per square foot from $6.34 to $7.23. Cronk reconciled to $7.00 per square foot and concluded an opinion of site value, as of January 1, 2017, of $1,340,000 rounded. (Ex. D, p. 30). In his opinion, the buyers overpaid for the subject site when it was purchased for $2,000,000 in 2016. (Ex. A).

Like Scaletty, Cronk relied on MVS for his cost data and considered the subject property a Class C Discount Store. However, Scaletty considered the subject to be of average to good quality, whereas Cronk determined it was average quality. Cronk concluded a total RCN, including landscaping and site improvements, of $4,082,881. (Ex. D, p. 32). The difference in quality of construction results in Cronk's RCN conclusion being roughly $1,375,000 less than Scaletty's RCN conclusions.

Cronk also estimated a 5-year effective age for the subject improvements but concluded a 35-year economic life compared to Scaletty's 40-year economic life. Cronk estimated the economic life of the landscaping and other site improvement (parking) to be 15 years. After applying depreciation and adding the land value, Cronk concluded a January 1, 2017 opinion of value of $4,790,000 rounded by the cost approach. (Ex. D, p. 33).

Cronk did not identify any functional or external obsolescence. He noted the subject is a newer building, built to average quality standards, with good energy efficiency and a low maintenance exterior. Moreover, it is located at the edge of a major

retail area that is experiencing growth and demand for retail space. He explained that while an argument may be made there is obsolescence associated with the size of the building for subsequent users; it is typical for the current use and the current user. Cronk developed his opinions for ad valorem purposes and therefore he valued the property "as occupied." He reported that he did not consider the current occupant of the property "but rather the property as occupied by a similar user of a large retail space with the characteristics of the subject property." His January 1, 2017 opinion of value, by the cost approach, was $4,790,000. (Ex. D, p. 33).

Cronk reconciled the three approaches to value. He gave all of the approaches some consideration, but most weight was given to the sales comparison approach. He believes the cost approach is relevant and gave it some consideration because the subject is relatively new. He also believes the income approach provides a strong indicator of value because the income is based on all local data. His final opinion of value as of January 1, 2017, is $4,780,000. (Ex. D, p. 44).

Kohl's was critical of Cronk's value opinion asserting big-box properties are not built speculatively. Similar to Scaletty, Cronk agreed, but asserts they continue to be built therefore they are considered feasible by the developers and tenants in hand.

Analysis & Conclusions of 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).

Under Iowa law, there is no presumption that the assessed value is correct.

§ 441.37A(3)(a). Under section 441.21(3), the party contesting the assessment generally has the burden of proof. § 441.21(3)(b)(1). "The burden of proof is one of persuasion" based on all the evidence. *Compiano v. Bd. of Review of Polk Cnty.,* 771 N.W.2d 392, 397 (Iowa 2009). The taxpayer may still prevail if it establishes its claims by a preponderance of the evidence. *Id*. at 396.

Here, Kohl's asserts that the subject property is assessed for more than authorized by law, as provided under Iowa Code section 441.37(1)(a)(1)(b). In an appeal alleging the property is assessed for more than the value authorized by law, 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).

By implication, the Board of Review appears to agree the subject's assessment is excessive. It did not contend that PAAB should affirm the assessment. Rather, it asked PAAB to adopt Cronk's valuation, which is roughly $1.7 million less than the current assessment. Therefore, we conclude our only remaining task is to determine the property's correct value. *Compiano*, 771 N.W.2d at 397 ("[T]he court makes its independent determination of the value based on all the evidence.").

In Iowa, property is assessed for taxation purposes following Iowa Code section 441.21. Iowa Code subsections 441.21(1)(a-b) require property subject to taxation to be assessed at its actual value, or fair market value. *Soifer v. Floyd Cnty. Bd. of Review*, 759 N.W.2d 775, 778 (Iowa 2009).

> *"Market value"* is defined as the fair and reasonable exchange in the year in which the property is listed and valued between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and each being familiar with all the facts relating to the particular property.

§ 441.21(1)(b).

In determining market value, "[s]ales prices of the property or comparable property in normal transactions reflecting market value, and the probable availability or unavailability of persons interested in purchasing the property, shall be taken into consideration in arriving at market value." *Id*. Using the sales price of the property, or sales of comparable properties, is the preferred method of valuing real property in Iowa.

Id.; *Compiano*, 771 N.W.2d at 398; *Soifer*, 759 N.W.2d at 779 n. 2; *Heritage Cablevision v. Bd. of Review of Mason City*, 457 N.W.2d 594, 597 (Iowa 1990). "[A]bnormal transactions not reflecting market value shall not be taken into account, or shall be adjusted to eliminate the effect of factors which distort market value . . . ." § 441.21(1)(b). Abnormal transactions include, but are not limited to, foreclosure or other forced sales, contract sales, discounted purchase transactions, or purchases of adjoining land or other land to be operated as a unit. *Id*.

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." *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).

"A party cannot move to other-factors valuation unless a showing is made that the market value of the property cannot be readily established through market transactions." *Wellmark, Inc. v. Polk Cnty. Bd. of Review*, 875 N.W.2d 667, 682 (Iowa 2016). Where PAAB is convinced comparable sales do not exist or cannot *readily* determine market value, then other factors may be used. § 441.21(1)(b); *Compiano*, 771

N.W.2d at 398 (citing *Soifer*, 759 N.W.2d at 782); *Carlon Co. v. Bd. of Review of City of Clinton*, 572 N.W.2d 146, 150 (Iowa 1997); § 441.21(2). If sales cannot readily establish market value, "then the assessor may determine the value of the property using the other uniform and recognized appraisal methods," such as income and/or cost. § 441.21(2).

[A]ssessors are permitted to consider the use of property as a going concern in its valuation. *Riso v. Pottawattamie Cnty. Bd. of Review*, 362 N.W.2d 513, 517 (Iowa 1985). In *Maytag Co. v. Partridge*, 210 N.W.2d 584 (Iowa 1973), an expert opined that the assessed value of Maytag's machinery should be based on its secondary resale value. The Iowa Supreme Court rejected that approach, noting "the rule is that an assessor must also consider conditions existing at the time and the condition of the property in which the owner holds it." *Id*. at 589. When an assessor values property as a going concern, "he is merely following the rule that he must consider conditions as they are." *Soifer*, 759 N.W.2d at 788 (quoting *Maytag Co.*, 210 N.W.2d at 590). The assessor is "recognizing the effect of the use upon the value of the property itself. He is not adding on separate items for good will, patents, or personnel." *Id*.

The Iowa Supreme Court recently reaffirmed this principle in *Wellmark, Inc. v. Polk County Board of Review*. 875 N.W.2d 667. In that case, Wellmark's experts valued the single-occupant corporate headquarters "by using an analysis of multitenant office buildings," reasoning that a purchaser would likely convert the property to a multitenant use. *Id*. at 671. In evaluating the theories of value-in-use and value-in-exchange pertaining to Wellmark's property, the Iowa Supreme Court adopted the view that "value should be based on the presumed existence of a hypothetical buyer at its current use." *Id*. at 683. The Court rejected Wellmark's experts' opinions valuing the property as a multitenant office building and, instead, concluded the property should be valued based on its current use as a single-occupant office building. *Id*. at 682-83.

"[T]he proper measure of the value of property is what the property would bring if sold in fee simple, free and clear of any leases." *I.C.M. Realty v. Woodward*, 433 N.W.2d 760, 762 (Iowa Ct. App. 1988) (emphasis added); *Merle Hay Mall v. City of Des Moines Board of Review*, 564 N.W.2d 419 (Iowa 1997); *Oberstein v. Adair Cnty. Bd. of*

Review, 318 N.W.2d 817 (Iowa Ct. App. 1982). The Iowa courts have repeatedly held that unfavorable leases should not be used to lower assessments. *Merle Hay Mall*, 564 N.W.2d 419 (holding that an unfavorable lease does not reduce a property's assessed value); *Oberstein*, 318 N.W.2d at 819.

In support of its position, Kohl's submitted an appraisal completed by Thomas Scaletty. The Board of Review offered its own appraisal by Dennis Cronk. The appraisers' conclusions are summarized in the table below.

Appraiser	Sales Approach	Income Approach	Cost Approach	Final Opinion of Value
Scaletty	$3,890,000	$3,670,000	$3,780,000	$3,820,000
Cronk	$4,775,000	$4,790,000	$4,790,000	$4,780,000

Kohl's argues that sales-leaseback transactions cannot be relied on in valuing the subject property under Iowa law and therefore PAAB should not rely on Cronk's appraisal. Although Kohl's does not specify the source of that assertion, it may be relying on language in *City of Atlantic v. Cnty. Bd. of Review of Cass Cnty*., 234 N.W.2d 880 (Iowa 1975). In an unusual case of a city arguing the Assessor had undervalued a new supermarket, the Iowa Supreme Court agreed that a sale-leaseback transaction involving the supermarket was not a normal sale under Iowa Code section 441.21(1). *Id*. at 884. It then affirmed the Assessor's valuation well-below the sales price. *Id*. Notably, the city does not appear to have tried to adjust the sales price of the supermarket to eliminate any factor distorting market value.

Iowa Code section 441.21(1) does not categorically reject all abnormal sales. Rather, it specifies that if an abnormal sale is used it shall be adjusted to "eliminate the effect of factors which distort market value." § 441.21(1)(b). In *Hy-Vee, Inc. v. Dallas Cnty. Bd. of Review*, the Board of Review's appraiser relied on sales-leaseback transactions and testified he made "relevant adjustments." 2017 WL 4937892 *1 (Iowa Ct. App. Oct. 1, 2014). The District Court ultimately found his valuation most reliable, and that decision was upheld by the Court of Appeals. *Id*.

The APPRAISAL OF REAL ESTATE indicates that "If the sale of a leased property is to be used as a comparable sale in the valuation of the fee simple estate of another

property, the comparable sale can only be used if reasonable and supported market adjustments for the differences in rights can be made." APPRAISAL INSTITUTE, THE APPRAISAL OF REAL ESTATE 406 (14th ed. 2013). It gives the following example:

> For example, consider the appraisal of the fee simple estate in real estate that is improved with an office building. A similar improved property was fully leased at the time of sale, the leases were long-term, and the credit ratings of the tenants were good. To compare this leased fee interest to the fee simple estate of the subject property, the appraiser must determine if the contract rent of the comparable property was above, below, or equal to market rent. [] If the market rent for office space is $25 per square foot net and the average contract rent for the comparable property is $20 per square foot net, then the difference between market and contract rent is $5 per square foot.

Id.

"In comparing properties that are encumbered by long-term leases or are essentially fully leased with quality tenants, the appraiser must recognize that these leased properties may have significantly less risk than a competitive property that has shorter-term tenants at market rental rates." *Id*. at 407. However, "the reverse may be true in expanding markets" where sufficient tenants are available for shorter-term leases at higher rental rates. *Id*.

Here, Cronk made adjustments to his leased fee sales recognizing differences in rents and risk. We believe his treatment of these sales is consistent with recognized appraisal methodology and Iowa law.

In contrast, Scaletty's selection of sales and lack of adjustments thereto is not consistent with section 441.21(1). We find Sales 1, 3, 8, and 9 are abnormal sales and Scaletty made no adjustments to account for factors that distort their market value. Sale 4 is an outlier, as both its adjusted and unadjusted sale prices are well-below all of the other properties. Sale 5 was purchased by the adjacent property owner for potential redevelopment. We would give these sales no consideration.

Scaletty made no post-sale expenditure adjustment to Sale 7, despite the fact that he knew the property was converted from a grocery store to a Hobby Lobby. "A knowledgeable buyer considers expenditures that will have to be made upon purchase of a property because those costs affect the price the buyer agrees to pay." THE

APPRAISAL OF REAL ESTATE 412. These expenditures can include, but are not limited to, costs to demolish and remove a portion of the improvements and costs for additions or improvements to the property. *Id*. "The relevant figure is not the actual cost that was incurred but the cost that was *anticipated* by both the buyer and seller." *Id*. (emphasis added). Without adjustment, we do not find this to be reliable indicator of the subject's value.

His remaining sales (2 and 6) were transactions wherein the use was slightly changed – they have adjusted sale prices slightly less than his indicated value of $70.00 per square foot. In this case, we find Cronk's sales comparison approach more persuasive than Scaletty's. In particular, Cronk's sales showed continued retailed use, which enhances the persuasiveness of his evidence. *Hy-Vee*, 2014 WL 4937892 at *5 ("Kenney's selection of properties that continued to operate as grocery stores enhances rather than undermines the persuasiveness of his evidence.").

While our concerns about Scaletty's sales comparison approach are sufficient for us to conclude his opinion of value is unreliable, we note other concerns with his income and cost approaches. In his income approach, we do not believe the sales data on which he extracted capitalization rates result in a reliable indication of the subject's market capitalization rate. Moreover, his selected capitalization rate significantly exceeds the rate indicated by Fourth Quarter 2016 investor surveys.

We also believe his tenant improvement adjustments to estimate market rent were not consistently applied and may not reflect market actions. "Extensive tenant improvements can influence contract rent." THE APPRAISAL OF REAL ESTATE 474.

> "When capital expenditures that are not accounted for in the asking rent are made by the lessor, reimbursement may be accomplished through marginally higher rent that amortizes the lessor's expenditures over all of part of the lease period. If capital expenditures are made by the tenant, the lessor may reduce the tenant's rent for all or part of the lease term as compensation for such tenant expenditures. In many retail environments, the rents vary directly with the level of build-out provided to the tenant. When using these leases as comparable data, the level of build-out supplied with the rent is an important element of comparison."

Id.

Using Scaletty's Lease Comparable 6 as an example, Scaletty identified that At Home paid $3.9 million for tenant improvements. Scaletty, however, did not make any adjustment to account for the effect these tenant improvements had on the lease rate. For Comparables 4 and 5, Scaletty made downward adjustments for improvements paid for by tenants even though the cost of tenant improvements would have been accounted for in the negotiated lease rate. That is to say, if he was valuing the property as a going concern, he should have made an upward, not a downward, adjustment to their rental rate.

By the manner in which he did or did not make tenant improvement adjustments and from his own testimony, Scaletty arrived at the value that does not reflect the current use value required by Iowa law.

Conversely, we find Cronk's market rent comparables are more similar to the subject property and more accurately reflect the subject's going concern value. All of the properties are located in the Cedar Rapids market and better demonstrate continued retail use. As a whole, we find his income approach more persuasive than Scaletty's.

Lastly, Scaletty's cost approach relies on an external obsolescence adjustment based on the value indications in his sales and income approaches. As we do not find either his sales or income approaches persuasive, we conclude his cost approach is not either.

Based on the foregoing, we find Cronk's appraisal to be the persuasive and reliable indication of the subject property's correct fair market value as of January 1, 2017.

Order

PAAB HEREBY MODIFIES the City of Cedar Rapids Board of Review's action and orders the January 1, 2017 assessment for the subject property be set at $4,780,000.

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 Office

Camille Valley, Board Member

Copies to:

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City of Cedar Rapids Board of Review by eFile

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