CITY OF WAUWATOSA
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BOARD OF REVIEW

Wednesday, June 3, 2010 – 9:00 a.m.

PRESENT: Messrs. Benz, Duffey and Ms. Wakefield -3

ALSO
PRESENT: Mr. Miner, Assessor; Mr. Lenski, Deputy Assessor; Ms. Aldana, Asst. City Atty./HR Director; Ms. Ledesma, City Clerk

Mr. Benz in the Chair

Mr. Miner submitted the signed 2010 assessment roll to the Board, noting that it is complete except for the lists of corrections (per 70.43) and omitted (per 70.44) properties as submitted.

It was moved by Ms. Wakefield, seconded by Mr. Duffey
to accept the roll, the corrections, and omitted properties. -3

Stipulations and Determinations were read into the record reflecting changes to the 2010 assessments as a result of open book discussions and property inspections. Stipulations are executed because state statutes require that 15 days' notice before the start of the Board of Review be provided to property owners on changes to assessments. These changes occurred within that 15-day time period. By accepting these stipulations, they will become part of the 2010 assessment roll.

	From	To
2880 N. 112th Street, tax key #299-9969-03	$ 8,159,800	$ 5,486,000
2711-2722-2751 N. Mayfair Road, tax key #299-9979-01	$10,124,800	$ 9,236,300
2855 N. Mayfair Road, tax key #299-9988-00	$ 3,226,000	$ 2,463,500
2303 N. Mayfair Road, tax key #336-9994-06	$ 9,273,600	$ 7,603,400
2500 N. 124th Street, tax key #337-0167-00	$17,183,700	$15,181,700
10701 Research Drive, tax key #379-9999-06	$15,102,200	$14,868,000
10499 Innovation Drive, tax key #379-9947-00	$22,935,000	$17,344,500
7520 W. Blue Mound Road, tax key #406-0177-00	$ 2,145,400	$ 1,950,000

It was moved by Mr. Duffey, seconded by Ms. Wakefield
to accept the stipulations as presented. -3

Ms. Ledesma stated that the agent for property at 115 N. Mayfair Road (tax key #411-9974-01) has requested a telephone hearing before the Board in lieu of a face-to-face hearing. No reason was given for the request.

Ms. Aldana advised the Board that in cases of illness or disability, the Board may choose to grant such a request. However, it is not required to do so.

> It was moved by Mr. Duffey, seconded by Ms. Wakefield
> to deny the request for a telephone hearing. -3

No members of the public appeared to request the Board to accept property assessment objection forms that had not been timely submitted.

3900 N. 124th Street
258-0001-09

City Clerk Ledesma swore in Assessor Miner and Catherine Courteau, agent for Target Corporation, PO Box 9456, Minneapolis, Minnesota.

The assessed value as of January 1, 2010 was:	Land	$ 7,832,300
	Improvements	$ 9,334,400
	Total	$17,155,700

Catherine Courteau, 1000 Nicollett Mall, Minneapolis, stated the fair market value should be $13,516,799. This is different than what was reported on the objection form ($11,900,000). The store, 142,239 square feet, is located on a 12-acre parcel. The original store constructed on this site in approximately 1970 was torn down and rebuilt in 2009; this new store opened in October 2009. Construction costs were $120.48 per square foot. This property is located in an industrial area which contains a small pocket of retail. A former Jewel food store at 3850 N 124th Street has been vacant for approximately two years. There are some crime and theft issues at this store occurring at a higher rate than at other Milwaukee-area Target stores. The store employs its own guards as a result, as do two other Milwaukee-area stores.

Ms. Courteau stated that a two-way cost approach was done to support their opinion of value. The actual 2009 building costs, including demolition and site work, paid to the contractor totaled $7.8 million. It was difficult to break out certain costs (i.e., legal costs) specific to just this property as they are typically allocated across the company's development team.

A Marshall & Swift evaluation of costs was conducted in 2010; it arrived at an $8.2 million dollar value for the subject property. The differences between the $7.8 million dollar figure and the $8.2 million dollar figure can be attributed to legal, engineering, and architectural fees. The Target Corporation has an in-house development department that can achieve certain efficiencies designed to reduce costs.

Already there is some functional obsolescence associated with the subject property in terms of design details linked to Target stores – the signature red tile, carpeting, etc., - that a new owner would remove.
In addressing the income approach, Ms. Courteau stated it is based on rents seen market wide. Some similar retail space in Milwaukee and Brookfield is renting for between $10 and $24 per square foot. Big box buildings similar in size to the subject property typically rent for $7-9 per square foot. The cap rate for power centers is 8.6%. Triple net rent figures were used. Operating expenses were considered in the 3-5% rate range. The indicated market value using the income approach is $12.5

million dollars. Ms. Courteau added that the adjacent vacant Jewel store affects the subject property also; it does not appear that it is being actively marketed

Ms. Courteau pointed out that the city's land value for this property is higher than what is often seen for this type of development. By using the Marshall & Swift 2010 indicated valuation ($8,206,849) and a land value of $10 per square foot, the 2010 indicated valuation is $13,516,799, still well below the assessor's figure of $17,155,700.

Mr. Miner presented the city's position, noting that values are set in accordance with Chapter 70 of the Wisconsin Statutes and the Wisconsin Property Assessment Manual. The Markarian hierarchy is observed when determining the appropriate valuation process to use. This property has 507,876 square feet with a building 143,402 square feet in size. The location of this property at the intersection of N. 124th Street and Capital Drive – an extremely busy intersection – was a factor in determining value.

The cost approach is a valid approach to use for this property inasmuch as it was newly built in 2009. Costs attributable to new construction were identified where possible. However, as Ms. Courteau had explained, some of these costs (i.e., costs of surveys, permits, site supervision, and architectural plans) are more difficult to separate because they may have simply been assigned to Target's in-house development department. The total cost of the work was $7.8 million dollars.

The assessed value of the old store in 2009 was $4,219,500. While it still had utility, it was deemed diminished enough to be rebuilt. The new store is about 10,000 square feet larger than the old. The city's CLT Univers program, used for setting commercial values, established a total assessed value of $17,155,700 as of January 1, 2010 for the subject property. The land value was established, in part, as a result of the high traffic count at this intersection; from a retailer's perspective, busier intersection are typically more highly sought.

There were not many sales of property in the 8-15-acre range to use for comparison purposes in either 2008 or 2009. Thus, there was limited data to draw from to determine land value. 2008 sales along Mayfair Road (1701, 1801, 2201, and 2215) were also redevelopment sites – similar to this property, though smaller in size. Mr. Miner noted that retail uses surround this property; manufacturing/industrial uses are several blocks away. A larger parcel (22.32 acres) at the northeast corner of N. 124th Street and W. Burleigh Street is not a good comparison because it was not an arm's length sale, nor was it exposed to the open market. Thus, the $10.71 per-square-foot cost is probably lower than it would have sold for without these other conditions existing.

Two other larger parcels (38+ acres and 23+ acres) on W. Burleigh Street are in industrial areas that sold in 2007 for redevelopment purposes. Those sales were in the $5-6 per-square-foot range with warehouse buildings in place. They will have considerably higher redevelopment costs because of the need to demolish these buildings. As well, the traffic count is lower at this location than that of the subject property's location. Mr. Miner pointed out that as of 2007, the combined annual average traffic counts at the subject property's location is 64,000 vehicles, higher than what is on Mayfair Road.

Mr. Miner explained the adjustments used to determine land value rates in different neighborhoods. Once a net land value per square foot is established, it is applied to the subject land .

Mr. Miner stated that staff did not rely on the income approach to establish value, but did, nevertheless complete the valuation exercise for the subject property. This method supports a value of $12.3 million dollars.

The sales approach was also of limited value due to the limited number of relevant transactions to consider. Even a national search yielded little. The 30,000-square foot Best Buy in Richfield sold in June 2008 for $8.2 million dollars. A Waukesha Gander Mountain, built in 2007 with 66,000 square feet, sold in August 2008 for $17.6 million dollars. Another property with a 301,000 square foot building in Pleasant Prairie built in 2005 and sold in October 2007 sold for $35,750,000. While not perfect matches with the subject property, they are indicative of what property sold for in the last few years.

Mr. Miner pointed out that the assessment change notice issued for the subject property reflects the construction of the new building; it further shows a decrease in the land value from 2009 ($8,380,600) to 2010 ($7,831,300).

Ms. Courteau reiterated that the area where this store is located has some issues in terms of vacancies. What once housed a Jewel food store – and was potentially to house an Aldi food store – is still vacant. The market itself changed drastically since the decision was first made to demolish the old store. She noted that traffic count itself does not guarantee a successful store; a former Target store in Kenosha closed in May 2009. It is on the market – on a busy intersection – for $3.2 million dollars ($30-33 per square foot), with no buyers.

Ms. Courteau added that the Wauwatosa K-Mart sells many of the same products Target does. While that store is older, the value is $6.8 million dollars, or approximately $70 per square foot. That is a big difference from the $119+ per square foot assessment for the Target store. Comparable Target stores in the Milwaukee metro area are assessed at between $70 and $85 per square foot. The Target store in West Allis – built in 2006 – is assessed at $10.7 million dollars ($82.37 per square foot). The Franklin store opened in 2008 and the 2009 assessment is $9.5 million dollars (about $78.00 per square foot).

Mr. Miner countered that the 2009 assessment for the old store was a total of $12,599,500. If the city were to use the applicant's opinion of value ($13.5 million dollars), that would represent an increase of only $4-500,000 for a building that cost $7.8 million dollars to build. He further opined that the land values of other metro Target stores do not make sense in Wauwatosa.

Ms. Courteau pointed out that they had contested the land value for this store in years past. It continues to have the highest value of any store in the metro area. The land value should be in line with the land values in other suburbs. Across the street in Brookfield at the DDR Center the land value is $6 per square foot, versus $15 per square foot for the Target property. She added that the assessor's office could not come up with a value higher than $12 million dollars using the income approach. Yet the assessed value is over $17 million dollars. Even a reduction to Target's opinion of value ($13.5 million dollars) means they are still assessed much higher than the Wauwatosa K-Mart.

Mr. Miner pointed out that the K-Mart store was constructed in 1969. Target is much newer and has better finishes. It is not a valid comparison despite the similar product mix.

Ms. Courteau reiterated her opinion that land values in Wauwatosa are much higher compared to surrounding communities. Some of the Milwaukee Target store locations, for example, are assessed at $3-6 per square foot for land values. The Target Corporation would not have purchased the Wauwatosa parcel for $15 per square foot had it been acquiring the site now. She again pointed out that the income approach for valuation supports only a $12.5 million dollar figure.

The hearing was declared closed.

Ms. Wakefield noted that much of the assessor's land valuation process appears predicated upon traffic counts; she questioned the apparent difference in land valuation between the subject property and the retail properties across the street in Brookfield. She opined that K-Mart was not a good comparison to the subject property.

Mr. Duffey stated he felt constrained by the presumption of correctness of the assessor's valuation as required by state statutes. There are unquestionably subjective differences in the opinion of value; however, there is not enough evidence presented to overcome the presumption of correctness.

Mr. Benz agreed that K-Mart was not a valid comparison for the subject property. He also speculated that the property across the street may have suffered somewhat as a result of the then-Brookfield mayor's negative comments about it a few years ago.

Ms. Courteau commented that their West Allis store has access comparable to the Wauwatosa store, but has a lower land value. The now-vacant Kenosha store is on a very busy intersection, but there are no offers to purchase pending.

It was moved by Mr. Duffey, seconded by Ms. Wakefield
to sustain the assessor's valuation. -3

2450 N. 117th Street
337-0116-00

Ms. Wakefield was excused. Mr. Rice took her place on the Board.

City Clerk Ledesma swore in Deputy Assessor Lenski, appraiser Cari Chabron, and petitioner Stephen Adamczyk,

The assessed value as of January 1, 2010 was:	Land	$104,000
	Improvements	$289,000
	Total	$393,000

Ms. Chabron stated that the estimated fair market value ratio at 103% is $381,600.

Mr. Adamczyk stated his opinion of value is $330,000. This is based upon the state code that says the best indication of assessed value is the recent sale of the subject property. Mr. Adamczyk purchased the house in 2009 for $300,000; it was an arm's length sale. The property was listed on MLS on the open market; his offer was the highest submitted and was accepted. This indicates the fair market value. Mr. Adamczyk added that three similar properties in the same neighborhood sold for between $265,000 and $317,000.

Ms. Chabron stated that the owner contacted the assessor's office prior to the Board of Review and requested a review of his assessment. This was done and the total assessed valuation was lowered from $475,800 to $393,000, a reduction of $82,800 that represents 17% of the original value.

The subject property is a newer ranch with aluminum siding, deck, newer driveway, two-car garage, updated bathrooms (2 ½), four bedrooms with hardwood floors, a master suite addition in 2004, sun room, updated kitchen, and a marble-floored foyer/library, and is situated on a large lot.

Ms. Chabron pointed out that the property was on the market just 18 days, very atypical for an arm's length sale in this market (94 days is typical). The buyer had to be pre-approved by Countrywide Home Loans. Furthermore, the sales history of the property indicates that it was sold at a sheriff's sale in January 2009. The bank sale occurred in April 2009 to Mr. Adamczyk. This was not an arm's length sale inasmuch as the seller (the bank) was under some pressure to dispose of it.

Ms. Chabron further noted that this property sold for $530,000 in September 2005 and for $429,500 in October 2003. This area of the city is unique; lots are large, homes are distinctive, and comparables are limited in number. There are few modified ranches that have sold recently. Hence, the comparables (ranches) cited by staff have been hand-adjusted to account for differences.

Ms. Chabron observed that the comparables cited by the property owner have significant differences from the subject property – different styles, smaller lots, and one is a two-family home.

Mr. Adamczyk argued that it cannot be assumed that the bank was under pressure to sell this property. The bank would not have been required to pay taxes on it for another eight months.

Responding to a question by Mr. Duffey concerning bank sales, Mr. Lenski stated that staff does review the amount of time a property is on the market, as well as the MLS listing, and whether it fits in with other bank sales in the area. While it *may* be considered an arm's length sale, there are other factors that must also be taken into consideration.

Mr. Lenski added that having a property sell for $330,000 that sold for $530,000 less than five years ago seems to indicate a larger fall in the general market than what actually occurred (when comparing other sales that occurred during the same time period). When the property owner came in for review of the property with staff, listings after January 1, 2010 were examined – something not typically done – in an effort to help establish the value.

Mr. Rice expressed some confusion since the Board has always been told that an actual sale of the subject property is the best indication of value.

Mr. Adamczyk stated that an appraiser retained by Countrywide performed an appraisal before he, Adamczyk, qualified for the mortgage with Countrywide. He did not see the results of the appraisal, however, since he did not pay for it. Mr. Adamczyk further stated that he installed hardwood floors in the sun room and in the master bedroom prior to closing, as a house with sub-flooring was unacceptable for mortgage-granting purposes.

The hearing was declared closed.

Mr. Duffey stated he was troubled by the sale prices for this property in 2005 and in 2003 compared to the 2009 sale price; this appears to be a nice property, in good shape, with many features. He credited the assessor's office with using comparable sales and listings in an effort to set values.

Mr. Rice expressed concern with the arm's length sale concept as it applies to this particular sale. Mr. Adamczyk was under self-imposed pressure to purchase a house, and Countrywide wanted to recover its money.

Mr. Benz concurred with Mr. Rice, and also expressed concern that the buyer had to obtain the mortgage through Countrywide or the offer would not be accepted. That condition does not make it seem like an arm's length sale.

> It was moved by Mr. Duffey to sustain the assessor's valuation. –

Mr. Benz relinquished the chair to Mr. Rice so he could second the motion.

> Motion seconded by Mr. Benz. Ayes 2, Noes 1 (Rice)

Mr. Rice relinquished the chair to Mr. Benz.

The meeting recessed at 11:50 a.m. until 1:30 p.m.

The Board reconvened at 1:30 p.m. with Messrs. Duffey, Rice, and Benz present. Also present, Mr. Kesner, City Attorney, Messrs. Miner and Lenski

2323 N. Mayfair Road
336-9994-07

City Clerk Ledesma swore in Assessor Miner and Messrs. Jeff Keierleber, owner, 13555 Bishops Court, Brookfield, and agent Steve Cooper, same address.

The assessed value as of January 1, 2010 was:	Land	$4,291,100
	Improvements	$4,581,900
	Total	$8,873,000

Mr. Keierleber stated his opinion of value is $5,054,000. This property was purchased in December 2007; since then, there has been a substantial decline in the real estate market in the area. It was assessed at $10,931,000 at that time.

In 2007, the property's income was $2,272,000, with operating expenses of $1,253,000. Net operating income that year was just over one million dollars. The cap rate for the subject property at the time of purchase was in the mid 9's, and would have been the cap rate for comparable properties. The subject property is older and not sprinklered. Mr. Keierleber stated that they were involved in a 1031 exchange and may have paid a bit more.

In 2008, occupancy dropped somewhat and the make-up changed. This happened again in 2009 – not unusual given the economic climate in the country. Total income in 2008 went from $2.2 million dollars to $1.7 million dollars. 2009 income was barely $500,000.

In 2009 income dropped to $1.5 million dollars. This was caused, in part, because existing tenants were willing to stay only if rents were reduced, and rents for new tenants would not reach levels seen in 2005-07 because of the glut of available rental property. Additionally, new tenants wanted the option of an ‘early out’ if their businesses did not go as planned.

Rents are down and there are fewer tenants; however, expenses are fixed for the most part (i.e., snow plowing, heat, lighting, etc.). Operating expenses in 2007 were $1.250 million dollars, $1.43 million dollars in 2008 and $1 million in 2009.

Mr. Keierleber stated they also looked at the recent sales of office buildings. A property on Enterprise Road in Brookfield with a similar tenant base, for example, sold recently for $5.8 million dollars; it was 91% occupied. The subject building, in contrast, is 54% occupied. They attempted to adjust for some differences between the buildings, but the difference in occupancy is difficult to reconcile. If they could, however, they felt their building would be worth $6.175 million dollars. He also clarified that the amount listed on their objection form for the opinion of value on January 1 should be $6.173 million dollars, not $8,173,000 as listed. They do feel, however, that the amount should be $5,054,000 as stated previously.

Mr. Miner stated that he gave the 2007 sale of the subject property some weight in determining value, noting that the sale also included the adjacent hotel and parking structure. The subject property is a six-story office building with a finished lower level and many, many small rental spaces. The building is in good repair and is well maintained.

Mr. Miner agreed that when valuing this property from an income approach, $5,054,000 is a reasonable number. However, the income approach is only one tool to establish value; the recent sale must also be considered. Using the cost approach with the CLT Univers system yields a higher value – over $22 million dollars. Due to the age of the property, however, the cost approach is less relevant.

Staff also valued this property using the income approach, and considered factors such as the current asking rental rates, the current vacancy rate, typical expenses, and a cap rate of 10.84%. The value for this approach was $7, 996,000.

Mr. Miner further noted that the December 2007 Real Estate Transfer Return form submitted to the assessor’s office reported that the fee paid to do so was based upon a value of $21,334,000 for the real estate transferred. Of this figure, staff allocated $11.5 million for this property and $7.8 million on the adjacent Radisson Hotel.

As a point of information, Mr. Miner noted that his office did not cite the Enterprise Road property sale for analysis of comparable sold properties.

The subject property last sold for about $92 per square foot and was 89% occupied at the time. Mr. Miner pointed out that the 2009 assessed value for the subject property was $10,931,200; it was reduced in 2010 by nearly 19% to $8,873,000.

In response to a query about valuing a building based upon its potential, Mr. Miner suggested that a buyer looking at the current vacancy rate (about 50%) will analyze what potential revenue that unused space can generate. Mr. Miner acknowledged that many owners are battling high vacancy rates and steady expenses; those whose buildings are cash-flowing better are not contacting the assessor's office concerning revaluations.

Mr. Keierleber argued that he did give weight to the 2007 sale price of this property, but also noted that with the collapse of the real estate market since then, the sales price is much less relevant to this discussion. They paid a 10% cap rate when they purchased the property, and it was assessed with a 10% cap rate. While a building's vacancy rate can be considered in terms of its potential, one must also consider that expiring leases will likely be re-signed only if terms are more favorable to tenants than they were in the past.

The hearing was declared closed.

Mr. Duffey stated he was struggling with the 2007 sale price versus the owner's opinion of value today. Neither does he see a clear path to the assessor's value for this property. He is disinclined to agree with the value reached using the income approach, as the assessor seems to be discounting the expenses the owner has incurred. The cap rate used by the owner is reasonable, as they realize there is income potential for this property.

Mr. Rice opined that "potential" is a challenging terms to use when valuing property. He stated he was comfortable with the assessor arriving at a value of $7,996,000 using the income approach. This is still a desirable property. Giving the actual sales price significant weight now seems inappropriate due to the drastic changes in the market since December 2007.

Mr. Benz questioned whether new/renewing leases have any escalation clauses. Mr. Keierleber responded negatively, stating that if they are used, they don't apply for the first few years. Mr. Benz added that he was comfortable with Mr. Rice's analysis of value.

> It was moved by Mr. Rice to lower the assessor's valuation to $7,996,000. Ayes 2, Noes 1 (Duffey).

By applying the aggregate level of assessment of 103% for Wauwatosa for 2010, the total assessed value of the property is $8,235,900.
BREAK 3:00 – 3:05 p.m.

6110 W. Blue Mound Road
384-0475-00

6413-21 W. North Avenue
345-0186-00

6423-27 W. North Avenue
345-0189-00

6429-31 W. North Avenue
345-0190-00

6435-39 W. North Avenue
345-0191-00

Mr. Miner approached the Board and explained that he and the property owner met during the preceding break and have agreed to postpone the hearing for these five properties at present. The property owner provided additional information to the assessor's office very recently that ought to be reviewed in greater detail.

The Board agreed to the postponement as suggested.

There being no further hearings, the Board recessed at 3:07 p.m. until June 10, 2010. It was noted for the record that the Board was in session on June 3 for more than the statutorily required two-hour period. No late objection forms were submitted for consideration.

Carla A. Ledesma
Secretary to the Board

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