

BOARD OF REVIEW & EQUALIZATION HEARING

2/28/2009

10:00A.M.

CABELA'S

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BUREAU OF RECORDS

President Wharton brought the meeting to order.

The first hearing we have scheduled is for Cabela's. Is there anyone here representing Cabela's? A Mr. Charles Young said I am from CBIZ, I represent Cabela's.

President Randy Wharton said the first thing I would advise you know that under the State Tax Law that you are here to give information about your property tax values, do you understand that you did have the right to an informal hearing with the Assessor prior to your hearing today. Mr. Young said yes, and we did have the informal with the Assessor. President Wharton said have you been informed that you will be rendered a decision by the Board of Commissioners in writing in a reasonable amount of time and if you do not agree with the ruling that we make that you have the right to appeal that to Circuit Court. Also the only information that you can appeal on is the evidence that you are bringing here today? Mr. Young said yes. President Wharton said at this time I would like everyone including the Assessor's office to stand to take an oath. President Wharton said does everyone swear the information you are about to give is the whole truth and nothing but the truth? Everyone said yes. President Wharton said I am going start with the people from Cabela's. Please state your name, title and where you are from and or who you work for.

My name is Charles Young and I am from the Kansas City office of CBIZ, an accounting firm we represent Cabela's and I have brought with me an appraiser, Mr. Doug Harold from Integra Realty Resources and he is from the Pittsburgh area and he wrote our appraisal report that we will be presenting today. President Wharton said to Mr. Young you are not a paid employee from Cabela's? Mr. Young said no I am paid a salary to representing Cabela's. No matter the outcome of this hearing I get paid the same. President Wharton asked the appraiser the same question? Mr. Harold said I do not get paid a salary I charge them a flat fee to do my appraisal, no contingency on the out come of this hearing. President Wharton asked the appraiser if he represented Cabela's in any other part of the country in any other hearings. Mr. Harold said no I don't. Mr. Charles Young said I do. Commissioner Sims said to Mr. Young so Cabela's is challenging every store in its chain? Mr. Young said about 75% of them. Commissioner Sims asked is that corporate policy or they evaluate them all and decided that there is 75% (interrupted by Mr. Young) and he said we started in 2008. Commissioner Sims said that is corporate policy. President Wharton started to ask if you have received any, then Commissioner Sim's interrupted and said its not based on a store by store evaluation that 75% of the Assessor's are wrong, it is just we are going to get a challenge all the time. Mr. Young said no we review each property individually for the fair market value. President Wharton said have you been to hearings in other states, have you received any rulings in any other states? Mr. Young said I can speak for Dundee, Michigan, all of the values are coming in about \$100.00 and \$130.00 a square foot. President Wharton said have you received rulings in your favor? A Mr. Hermes spoke up (he is with the same company but here for Target today) and said I have been at other Cabela's across the country and yes, they were in our favor and were reduced significantly. I currently have under appeal a store very similar to the one here. That one has been appraised at \$90.00 a square foot. I am in

negotiation mediation with the County to reduce that property to \$100.00 a square foot before the court of tax appeals in the State of Kansas. Hoffman Estates, Illinois the appraiser there and has come in a \$90.00 a square foot, Richfield, Wisconsin, somewhere around \$100.00 to \$120.00 a square foot and of course we have this one here today. Commissioner Sims asked does CBIZ if you prevail do you receive a contingent fee or commission on the reduction, Mr. Hermes said yes I think they do. President Wharton asked have you had to go to court on any of these yet. He said they have been filed in court but have been settled prior to a hearing. President Wharton said I would love to see the evidence.

Mr. Young said as I said I had an informal with the Assessor's office, at that time I had provided some comparable sales, in particular one in Wheeling, a Lowe's Store that had been \$87.00 a square foot. At that time the Assessor's value was based on costs, we agreed at that time I would find an appraiser to determine the value for the property and that is when I interviewed Mr. Harold for the project and I will now turn this over to Mr. Harold to go over the appraisal report with you. Mr. Harold said I have been in the appraisal business since 1991 going on eighteen years, I graduated from Penn State University with a degree in real estate, I am certified general appraiser in the State of West Virginia, Ohio and Pennsylvania and I have MAI designation from the Appraisal Institute. I am employed by Integra Realty Resources in our Pittsburgh office. I perform thousands of appraisals, mainly I do appraisals for finance institutions, for every Wall Street firm, Local and National banks, downtown office buildings, malls, etc. Like Mr. Young said they employed me to do the Cabala's property up in Triadelphia, West Virginia. This report was kind of short notice, I did not complete a full self contained narrative report, this is a summary appraisal report that summarizes all of my conclusions and the data that I used. I did inspect the property and took a tour of the property with the Store Manager and have seen the property. Basically the way we look at any kind of National Retail Chain store, you cannot focus on any type of local data. These properties are typically bought and sold by market participants who are national in scope typically either the retailers themselves or investors who are leasing the property to these retailers and the transactions that occur that are relevant to this type of property are national in scope, so the data that I am going to present is all national in scope. I have access to this data through our fifty three offices around the country through the Integra network, we collect data nationally. I looked at and considered all three approaches to value, sales comparison and income approach and cost approach. I have not developed a cost approach with this property and this is probably the biggest issue with a property like Cabela's. Cabela's is built for a very specific use. It typically costs a lot more to build a Cabela's store than any other big box store, and that was evident on the site inspection where I saw, the finishes in the store are at a much higher level than any other national big box retailer. They have specialized ceiling material, they have tongue and groove Wood along the ceiling, its one of the real limitations to the value is the size of the building at 180,000 square feet it becomes very specific to that users, because there are very few users that have stores that large. Also this building has a lot of FF & E (furniture, fixtures and equipment), and if you have been in the store you have seen the aquariums assuming that the aquariums are taxable, you also have some real estate components in that building that equipment that is in the building. You have alot of extra equipment, such as extra plumbing, electrical capacity built into that building, what we call that in the appraisal industry is defined as super adequacy, something that costs extra

money to build but the market will not pay for it. So there is no one outside of the current user that will pay for those extra costs, so if the building were to sell any potential buyer would not be willing to pay for that extra stuff. They would sooner build their own building at their at a much lower cost than pay for something that their not going to use. Because this building in particular has so much super adequacy built into it, we did not develop a cost approach and analyze it that way. What we did do is establish a developed a sales comparison approach, where we looked at generally big box stores, and if this building were to ever sell it would be mostly for its sheer size, there is just not that many tenants in the market looking for a building that large, maybe a warehouse user, but they would want to pay less than a retail user. So you look at the building in terms of who you could sell it to. It is not your standard square box store like your Wal Mart or Target or Lowe's or Home Depot, it is broken up a little bit, and it has some characteristics that are not typical for the market. But what we feel is that it would likely sell to someone along that line probably a retailer that would specialize in some type of clothing, because of the design of the building. Identifying a specific user of that nature would be difficult because you have like your JC Penney and your Kohl's. Commissioner Sims said Bass Pro might. Mr. Harold said I talked to the property manager about that and I talked to the manager about that, and Bass Pro would never buy a Cabela's store, it is their direct competition to that. They have their own design, there is a stigma to that, if they would come in and buy a building from Cabela's since they are big competitors. Commissioner Sims asked do we know how much it cost to build that building. Mr. Harold said I think \$213.00 a square foot. Mr. Harold said when we get to Target hearing you will see the difference in the square footage, it is about \$40.00 to \$50.00 a square foot. I did by the way to see if any of the Cabela's had went out of business and I could not find any across the United States. Mr. Young asked if he could approach the Commissioner's, they said yes. He said every state is different so I always check to see how property tax law works. This is property tax law in the State of West Virginia, it states that fair market value is a true value that a willing and unobligated buyer (inaudible) to a willing and unobligated seller. Mr. Harold said I tried to determine who would be the most likely buyer and I could only determine big box retailers. Commissioner Sims said you have that the Wheeling Lowe's Store sold for \$10,000,000.00, I was not aware that sold, was that an arms length transaction on the open market. Mr. Harold said to the best of my knowledge it was. The chart on page seven summarizes all the transactions. Commissioner Sims asked the Assessor's if they knew that. The assessor's office said yes. Mr. Harold said on the back of the report you will see an individual write up on each one of the sales. President Wharton asked what if there was a store looking for super adequacies, would they pay for them. Mr. Harold said cost does not equal value, it would depend on what the user you're talking about and what it would cost them to build, if they could go out and buy a store and then build it the way they want, which ever is cheaper. You also have to look at what these tenants can afford to pay. These big box retailers they have general rules of thumb what they can afford to pay for real estate, it is typically a percentage of what their sales would be. Like Cabela's, their trade area would be much larger than Lowe's etc. Cabela's and Bass Pro are very unique, they have this trade area, they able to generate sales that are in excess of what anyone can generate, and they can afford to offer this, because of the revenue they are generating. I cannot think of any other retailer other than Bass Pro that has that type of drawing power that has this unique need for this building. I look at value and what this property would sell for. My opinion would be a big box retailer. With the benefit of the

doubt I went to the high end of the range at \$123.00 a square foot, it was in Winston-Salem, North Carolina, it was a Lowe's my concluded value was \$125.00 a foot. The range in value that these sales indicate is for a low of \$66.00 to a high of \$123.00 with an average of about \$95.00 a square foot. I am recognizing that it is a nicer building, quite honestly I think I am giving the benefit of the doubt because realistically I think this building would sell at the low end of the range only because when you look at Lowe's, Home Depots, there is a bigger audience of buyers for them. You are not talking about a handful of buyers for this store; obviously the smaller a demand for a particular piece of real estate typically would lower the price. I could reasonably argue that this would sell at the bottom of this range, only because there are not many buyers out there, I kind of gave the benefit of the doubt and went to the high end of the range. It is a judgment call from an appraisal perspective. I am independent third party and that is my opinion based on my experience. Commissioner Sims asked have you put any per acre value as part of the value of it. Mr. Harold said I did not in this particular piece of property. Within the target appraisal I did. The Cabela's land area is much larger on a land to building ratio than typical retailer because they need a huge parking lot. Commissioner Sims asked what kind of per acre value would you put on that land. Charles Young said there is also a difference between excess land and surplus land. Excess that would be developing pad sites to put restaurants and

(Interruption) Mr. Harold answered Commissioner Sims question by saying \$375,000.00 an acre. Commissioner Sims asked do we know if Applebee's bought the land from Cabela's. Mr. Harold said he did not know. I also did an income approach, I looked at comparable rents, and what the market rent would be for this building if it were leased. I came up with about \$8.50 a square foot based on the comparables, typically buildings that are lease to big box retailers typically have strong credit in the market, and typically are leased in a way where the tenant is responsible for all expenses which is why I did not deduct any expenses in my income approach. The comparable rents are all absolute net type deals and then I have a chart there summarizing some cap rates to determine what the appropriate cap rate would be. These are three properties that are not sold yet, but are listed for sale. In today's environment the listings are more relevant than they once have been since the current economy is changing literally from day to day. So I did recognize the date of value is before July 1, 2008. I capitalized that at 6 ¾% at the \$8.50 rent, and that indicates a value of \$22,700,000.00. President Wharton thanked Mr. Harold.

Assessor Kathie Hoffman said I would like to turn this over to Jeff Prettyman and Jeff said because of Cabela's uniqueness I felt that an income approach nor a sales approach, a sales approach can apply, I was not given any income approach so that left me with cost approach, I compared it to other buildings, used the figures that I had to work with and that is how I came up with the value. I'm under what actual construction costs were. I had to use cost approach because there is nothing like a Cabela's has sold anywhere. Their complaint here that says compared value estimate is excessive compared to sales of similar properties in the market place, well there is not any. The subject property suffers from external economic (inaudible) which means the store is not appropriate for where it is anymore, the only way that Cabela's would not be appropriate for where it is that if they moved to Interstate 70 someplace else. It is a big box retail right along an interstate highway and I totally disagree with this amount of \$22,700,000.00. It seems unusual that you would expend \$38,000,000.00 to end up with a \$22,000,000.00 company. It does not make any sense to me. I have an excerpt from Cabela's 2007 annual

report, on the back of it; it talks about \$43,000,000.00 of retired bonds so there was a lot of money into this. President Wharton asked Jeff what do you have it on the books for. Jeff said \$52,332,200.00. Mr. Young said that is down from \$53,304,500.00 because they sold some acreage. Jeff said yes approximately 12 acres. President Wharton said they would be taxed on 60% of that? How much do you have the land on for? Mr. Young said I have the sales budgeted from 2007, 2008 actually, the difference is about 9% or 10% and I asked Cabela's what does that represent? (Inaudible too many people speaking at once) the rest of it goes down to operations, salaries, expenses, utilities, management, (Interrupted) President Wharton said if I'm running this store and I want to set the bar real high, I could budget any number I want to, or I could put that out there for the management to chase and I come in less than budgeted I can develop this scenario. Mr. Young said Mr. Harold is not a show for the taxpayer, I met Mr. Harold right before this hearing, he does not work for Cabela's and this report is completely independent. Mr. Harold said I want to stress to you I do appraisals mostly for financing and I cannot have an appraisal sitting out in the world that has me doing one type of scenario for a tax appeal and another type of scenario for financing, because I have been subpoenaed to show all of the appraisals for financing and then the goal was to prove to value it less when I was doing it for a tax appeal. President Wharton said we understand, we do not think that you sold your opinion. President Wharton said the only thing I want to make sure goes on record is that you say there are super adequacies in your building and then use things that do not have super adequacies as comparables to reduce your property taxes. Mr. Harold said you have to understand that there are real estate values and business value, Cabela's has a business model. I was asked to appraise the real estate. Commissioner Sims said I want to ad one thing, you guys are hired to do this, but for Cabela's to come into a community that gave them sixty acres and did a TIF so that they could pay for their building to come in and ask for their property values to be lowered is a little bit galling. I hope you will report that back to them. Mr. Young said we did speak with them in reference to that but they said they wanted to continue with the hearing. President Wharton said we do still like the Cabela's people. Administrator Stewart said in case this goes to Circuit Court I want to enter into record an email from Kathy Foster who is a real estate manager for Cabela's valuing the land at \$12.00 a square foot which comes out to \$522,720.00 an acre and I believe we have it on roughly at \$503,000.00. Hearing ended.