



The scheduled special meeting of the Cleveland County Equalization Board was called to order this 25th day of July 2019 at 10:00 a.m., in the conference room of the Cleveland County Office Building, Suite 200 by Chairman Larry Heikkila. Linda Atkins, Deputy County Clerk/Secretary, called roll and those present were:

Larry Heikkila, Chairman

Charles Thompson, Vice-Chairman

Bobby Cleveland, Member

Tammy Belinson, Secretary, was absent at roll call but entered the meeting shortly thereafter.

Others present were: Assistant District Attorney Abby Nathan, Linda Atkins, Mike Weddle, Billijo Ragland, Douglas Warr, Lisa Ward, Jay Dobson, Micha Breen, Dan Leonard and Russell Chronister.

After the reading of the minutes of the Special Meeting of July 15, 2019 and **Amended** Minutes of June 27, 2019, Charles Thompson moved to approve the minutes.

Larry Heikkila seconded the motion.

The vote was: Larry Heikkila, yes; Charles Thompson, yes; Bobby Cleveland, abstain.

Motion carried.

(Clerk's Note: Tammy Belinson officiated the signing of affidavits notarized by Lisa Ward.)

A. Business Items:

1. Chairman Heikkila called for discussion, consideration and/or action on the following letters of protest:

The necessary arrangements were made to facilitate a conference call between the Board of Equalization and Mr. Kyle Sheehan as follows:

- a. Kyle Sheehan, 1 N Lasalle Street, Suite 2100, Chicago, IL 60602, Tax Agent for Paradigm Norman Property, LLC, 1800 Beaumont, Norman, OK, Account No. R0148957, Campus Lodge ADDN PUD LT 1 BLK1, NC29; KYLE@FBTAX.COM. 312-782-5000.

Mr. Sheehan stated his name and profession. The Campus Lodge Apartments are being protested based on the income approach. These are off the main drag of 12th Avenue NE at 1800 Beaumont Square, Norman, and target college students. Campus Lodge was built in 2004 and currently has 191 units, with each unit having 4 bedrooms. The Assessor has a value of \$19,401,920 and they are requesting \$16,300,000 based on Market Value via Income Approach.

Bobby Cleveland said that on their Formal Appeal the request is for \$17,400,000 and asked why he has a different amount of \$16,300,000.

Mr. Sheehan asked if Mr. Cleveland had something different.

Mr. Cleveland said, "Yes, we do."

Mr. Sheehan said the amount he sent in a few days ago is his value request based on Income Approach. He said that “page 8” is the income approach and at the top right hand corner, the numbers of beds are 763 and rent by the bed at \$359 per month; annualized that is \$3,287,004 for total potential rental income. A nominal amount of extra income was added in the amount of \$100,000.00 for a potential gross income of \$3,387,004. Then a market vacancy factor is taken of 12% and then a free rent factor of 10%. On their website the Campus Lodge offers one month of free rent for an effective rental income of \$2,718,647. Total operating ratio of 40% and a replacement of \$125 per bed and comes to a net operating income of \$1,535,688. That amount does not include real estate taxes, so the cap rate was lowered 8% for a 9.41% capitalization rate for a market value via income approach of \$16,319,744. He stated that there are backup pages for each line item as outlined. Pages 10 and 11 are the income expenses for the last two years of the property. The property has taken a deferred maintenance of \$700,000 to \$900,000 per year. On page 13 is where they are deriving income approach. They are offering a gift card and \$359 per bed and when the student moves in they get one month free. Page 14 is the historical expense ratios for property without real estate taxes. Other pages are photos of the property. Page 19 is the Capitalization Rates from Integra Realty Resources. Page 20, Cap Rates and summary statistics in past years are provided by CoStar. The page 26 is the final value reconciliation derived in the report. Final value request is \$16,300,000.

Douglas Warr said that everything submitted up to this point shows their request is for \$17,400,000 and added that they are confused why the number has changed to such a lower amount. His office is not sure what has been provided to the Equalization Board members.

He said that the free rent offer is what is making the difference in request amount.

Douglas Warr said that he has several income approaches and, on all of them, he arrives at the same amount of \$17,400,000.

Mr. Sheehan said, “Let me do some quick math. I guess that I don’t know what you have in front of you. I apologize.”

Mike Weddle said this is student housing and rents by the bedroom. They only have four bedroom units. In basis for comparison, they look at is the price per unit. They are unable to do that on this property because it looks a little skewed because it’s all four bedrooms. According to his field card, they are at \$19,401,920 and a square footage of 291,306 consisting of 192 units. On the second page he provided a map showing the distance between the Campus Lodge and the University of Oklahoma. It is one of the closer ones to campus. It was built in 2004, built for \$66.60 square foot. At the bottom of the page are comparable properties in the county. The reason that he choose not to lower the value is because it would create an inequity among these properties. On the last two pages is a breakdown of an income approach using the numbers provided to

him by Mr. Sheehan of the property. Gross potential rent, \$3,828,165, and comes out to \$418.00 per month for bedroom. Gross income of the property, minus the vacancy with miscellaneous income comes to \$3,482,386. Taking out the major expense, the reoccurring day to day, deferred maintenance, normally no one spends \$700,000 per year on deferred maintenance. On the stapled page, he listed the expenses that delve into a figure of \$1,878,770. So, look at that as 53.95% expense ratio. He is coming up with a net operating expense of \$1,643,476 and the information given to him from CoStar, has a high 6.4% cap rate and add the 8.01% cap rate to that it is \$20,018,428. That amount comes from all the information provided to him.

Larry Heikkila said the value on his OTC 976 is \$19,400,000.

Mike Weddle said that the information that Mr. Sheehan provided to him came up with the \$20,000,000 value. Based on that and the equity stand point and the information provided to him there is no basis for lowering the assessed value.

Mr. Sheehan responded by saying that he sent in his Informal Protest in May 2019 and then he received a notification letter of “no change”.

Douglas Warr said that if he was interested in buying this property, the first he would do is look at the rents; the typical expenses and the vacancies. He would not want to just look at one apartment. As a rule management can have an affect on the value. That’s why you don’t go just off the income based on that one thing. It’s better to have information on other properties.

Kyle Sheehan said that this building is the only one of its kind and there is nothing else but the 4 bedroom units. It is a unique property. He didn’t use cap rates from the Norman area.

Douglas Warr said that they try to use the cap rates from Norman and added that Oklahoma City is a very large metropolitan area and a cornucopia of differences.

Larry Heikkila moved **no change** in the current evaluation of \$19,401,920.

Charles Thompson seconded the motion.

The vote was: Larry Heikkila, yes; Charles Thompson, yes; Bobby Cleveland, no. Motion carried.

b. Dan Leonard, Tax Agent, appeared in person for the following:

1.) Turnberry Apts, LLC, 1911 Twisted Oak Dr, Norman, OK 73071, Account No. R40435, Oakhurst 7 Lot 1 Blk 22, NC29;

2.) Brookhollow Apts, LLC, 965 Biloxi Drive, OK 73071, Account No. R27421, Brook Hollow Blk 1, NC29; and

3.) Brookhollow Apts, LLC, 1019 Biloxi Drive, Norman, OK 73071, Account No. R30209, Colonial Estates 2 Lots 1-2 Blk 9, NC29.

Dan Leonard said, “Good morning.”

Chairman Heikkila said, “Mr. Leonard, if you will introduce yourself and tell us your protest, please.”

Dan Leonard said, “I am Dan Leonard, I am the agent for the property our protest is over the market value based on income.”

Mike Weddle represented the County Assessor’s Office.

Charles Thompson said, “That is lower than all of your comps.”

Bobby Cleveland said, “When you guys were discussing this same information, was anything any different?”

Mr. Weddle said that Mr. Leonard did send me more information.

Larry Heikkila asked if that lead him to a different conclusion.

Mike Weddle said that it did not.

Larry Heikkila asked Mr. Leonard to rebut that if he pleased.

Dan Leonard said that the data he has confirm his value request.

After a brief discussion, Bobby Cleveland moved to **table**.

Charles Thompson asked why Mr. Cleveland made the motion to table.

Bobby Cleveland said that he wanted to look at the cap rate.

Charles Thompson said that he was going to recommend lowering this.

Bobby Cleveland withdrew his motion to table.

Charles Thompson moved to lower to set the value at \$2,500,000.

Bobby Cleveland seconded the motion.

The vote was: Larry Heikkila, yes; Charles Thompson, yes; Bobby Cleveland, yes.

Motion carried.

Douglas Warr said, “There is actually two accounts on this property. It’s not just one account. I am not sure if we just discussed “B2” on the agenda or “B3”.

Larry Heikkila said “You are talking about the \$920,700?”

Douglas Warr said, “Their request was for \$2.9.”

Larry Heikkila said, “We came to \$2.5.”

Douglas Warr said, “\$2.5 and \$2.5?”

Larry Heikkila said, “No total.”

Douglas Warr said, “You are lower than they have requested.”

Charles Thompson said, “No, it’s in between.”

Douglas Warr said, “They are requesting \$2.9 is that correct?”

But you can if you want. You can go higher than the Assessor or lower than the property owner. I think it is confusing because we have two accounts for one property. Two legal descriptions are together. The whole complex sits...”

Dan Leonard said “Split that on two parcels.”

Charles Thompson said “Are we straight on that? I am going on this sheet here, \$2,673,000 and then \$2.2”

Douglas Warr said, “Yeah, then he wants for the total complex, he said in both accounts \$2.9. He had to do an Informal for each. There are two parcels. It is like a house that sets on two lots. The apartment sets on two lots.

Bobby Cleveland said, “He recommended \$2.5, that’s what you meant. You are getting us confused, Doug.”

Douglas Warr said, “I will sit down and be quiet.”

Larry Heikkila said, “We have another meeting and will take a recess. It will not take long.” (Chairman Heikkila referred to the Excise Board Meeting @ 11:00 am.)

Larry Heikkila moved, seconded by Charles Thompson, to **recess** the meeting at 10:55 a.m.

The vote was: Larry Heikkila, yes; Charles Thompson, yes; Bobby Cleveland, abstain.

Motion carried.

At 11:05 A.M., Larry Heikkila called for a quorum call and to **reconvene** the meeting.

Larry Heikkila, Chairman
Bobby Cleveland, Vice-Chairman
Charles Thompson, Member

Chairman Heikkila said, “Let’s start back up on Brookhollow Apartments. Let me find my agenda.”

Bobby Cleveland said, “Right here.”

Larry Heikkila said, “Mr. Leonard.”

Mr. Leonard said he is withdrawing his protest on the following:

- 1.) Turnberry Apts, LLC, 1911 Twisted Oak Dr, Norman, OK 73071, Account No. R40435, Oakhurst 7 Lot 1 Blk 22, NC29;

Larry Heikkila moved to **accept** Mr. Leonard’s petition to withdraw his protest on the Turnberry Apartments. Charles Thompson seconded the motion.

The vote was: Larry Heikkila, yes; Bobby Cleveland, yes; Charles Thompson, yes.

Motion carried.

Jeffrey D. Knight, P.O. Box 3327, Bentonville AR 72712 Tax Agent for JC Penny Properties Inc. 2400 S Service Road Moore OK 73160 Account No Ro161577 Shops at Moore Lot 2, MC2.

Jeffrey Knight appearing on behalf of JC Penny to protest based on the appraised value and gave each Board member an appraisal of the property. Last month, he had a discussion on the value of the improvements and stated it is overvalued when it comes to custom built property such as JC Penny. His estimate of value that he had with the Assessors’ at the Informal was \$20 per square foot. That is the basis of the \$3.8 million dollar figure stated on his original protest. However; today, he is suggesting a value of \$4.64 million or \$45 per square foot based upon the appraisal that the Board has before them.

The Board was provided with OTC 976 Forms.

Mr. Knight said the original statement of value of \$3.8 million dollars is \$36.00 per square foot. What he is suggesting today is the \$45 per square foot that is supported by the appraisal before them. He would touched on some of the high

points of the appraisal. In particular on page “59” which addresses highest and best use and the conclusion of the appraiser is the highest use and best use of the valuation methodology that was used. He is sure that they are familiar with the three approaches to value. The appraiser choose not to use the cost approach, his reasons were that approach was unreliable based upon the age of the facility and the obsolesces in custom built facilities and the lack of use in the cost approach. In situations like this, the emphasis is on the sales comparison approach, which is beginning on page “61”. It reaches the conclusion of value on pages 76 and 78 and they draw on 5 comparable properties, all three simple sales and the value was \$4,640,000. The income approach starting on page “79” with the conclusion on “92” is \$4,650,000 the reconciliations on those two approaches are \$4,640,045.02. His biggest challenge in assessing these types of properties was finding the availability of sales that are comparable. From his experience there are a lot more sales on lease properties or income producing property and property that are free of any encumbrances. He said that this is a fee simple sale. The Assessor is comfortable with the value as is and some of those changes made and he can appreciate that. That is his reason for getting the appraisal. The appraisal focuses on if JC Penny were to sell that building. They are not leasing it. It is not subject to an operating lease. They are owner operated, opposed to the sales that he believes the Assessor brought forward. He thinks it is an operating value, regardless of who owns the property, because they are operating with the terms of the lease. Likewise, when you purchase a lease, you are not only acquiring the land and the improvements, you are also acquiring the revenue streams. From that underlying lease, that is not a comparable sale in this instance because if you want this it could be gone the next day and two and no income on that building. You just get the sticks and the bricks, if you will. He believes that the appraisal is much more applicable than the rationale that he approached it from in his talks with the Assessor. He added that this is how he spent his time since the Informal Appeal was presented.

He said that he presented comps and sales to the Assessor at the Informal Appeal. However, they were not the same sales he is presenting today in his appraisal.

They did have a similar discussion, but he had different information.

Douglas Warr said that the appraisal was just provided to them today and it will take some time to look through. He requested time to review the appraisal to see if it affects their value

Bobby Cleveland moved to **table**. Larry Heikkila seconded the motion.

The vote was: Larry Heikkila, yes; Bobby Cleveland, yes; Charles Thompson, yes.
Motion carried.

d. Micha Breen appeared to protest: 13155 Noel Road, Ste 100, Dallas, TX 75240, for SSC Norman VH Apartments LLC, 3201 13th Place, Norman, OK, Account No. R0166075, Campus Crest Lot 1 Block 3, NC29; \$16,729,000. Micha Breen presented that this is property built in 2013 for Student Housing and is struggling and needs a reduction to \$16,728,812 based on the occupancy rate and income approach. The expense rate ran very high on this property and the actuals have gone into the negative.

Mike Weddle provided his information on the property and the reason for the no change in value at the Informal Appeal. The assessed value is \$17,342,775. Charles Thompson moved to lower it to \$17,000,000. Larry Heikkila seconded the motion. The vote was: Larry Heikkila, yes; Bobby Cleveland, yes; Charles Thompson, yes. Motion carried.

e. Micha Breen, presented for the following: 13155 Noel Road, Ste 100, Dallas, TX 75240, for PEP-VIRTUS Norman, 2657 Classen Blvd, Account No. R0142878, Crimson Park Pud Lot 1 Block 1, NC29;

She said that this is a Performa protest on Crimson Park; it should average \$20,300,000 by looking at occupancy and performance. This one, the actual vacancy was 33%; she wanted to bring that to everyone's attention. It is the same story of suffering as a result of an over built market. So they are struggling to keep these rented to student.

Mike Weddle presented his reason for the assessment and said that the field card shows a value of \$23,809,420. It was built in 2005, has 268 units, but it is student housing. Nothing matters, because it is bedrooms that matters. It has 275,586 square feet. Each unit is assessed at \$88,841.00. He presented comparable to illustrate his reason for giving this a "no change" in the Informal Appeal because they are in line with everything going on in that area. The last page is an income approach that he did on the property and you will see how it is broken down with 792 bedrooms at 8.16% cap rate and that is including the tax rate for Norman of 1.47%. They get \$500 per bed, all bills paid. Miscellaneous income is \$344,000 with an effective gross income of \$4,245,600 and then with the expenses of 55% which is pretty fair for student housing for this type and this age, bills are paid and fully furnished. It has an NOI of \$1,910,520, which gives a value of \$23,413,235 which is \$29,000. It doesn't match up with the number that he has, but to illustrate that on income approach they are not too far.

Douglas Warr made the point that they use three factors in determining value, cost, sales and income approach. When you do that you can come up with different values.

After a brief discussion by the Board, Larry Heikkila moved, seconded by Charles Thompson to set the value at \$22,000,000 after examining the other comps in the area and rounding up the figures.

The vote was: Larry Heikkila, yes; Bobby Cleveland, yes; Charles Thompson, yes. Motion carried.

f. Jay Dobson appeared for Charles Duggan, P.O. Box 530292, Mountain Brook, AL 35253-0292, Phone Number: (205) 592-2112, ACC OP (Brooks Street), LLC, #R0176247, Callaway House Apartments, 333 E Brooks Street, Norman, OK.

Jay Dobson introduced himself and stated he is here today to protest the Callaway House Apartments. In March, they protested the 2018 assessment of this property

and that the Board should be familiar with the Callaway House. This is the very same property and they are back again for 2019. They all know that this town has been over built in student housing and he doesn't think that is any big secret. Mr. Duggan was here in March and he brought the chief financial officer with him of ACC and they were very honest and they said that when they budgeted this project they simply made a mistake. The income that is being generated doesn't support the amount of capital that they spent to build that project. It is a nice property and nice location, but it is about the income. A willing buyer will look at income not how much they spent on the property. They will always say 'let me look at your income'. The assessor had the same financials that they are presenting today. The income approach prepared by the Callaway House, they cannot get the rents they anticipated for the rents. He would even say that the rest of student housing are having the same problems. The students get to live in nice places and not pay extra since they are over built. Second page is the assertion that the value should be \$43,000,000. The value should be applied to 2018 and 2019. The next sheet is a spread sheet updated for this year. Please focus on the bottom of page properties that are here in Norman four properties relatively new on the last column to the far right that is the value per bed student housing is leased largely per bed. He asked what the value per bed is. Park a student in a bedroom at \$34,000; \$35,000; and \$29,000 and that may be lower since Ms. Breen came in here. This is what the Assessor is valuing this at and they would expect to be valued the same way. The assessor has valued the Callaway House at \$76,000 per bed. That is 225% more than the average. That is more than double and it makes it hard to compete. He said that this is for you to look at and to consider. It is persuasive when you look at what is out there. The conversation was they need a full year, well, now they have a full year the Callaway House is a \$43,000,000 property right now. He asked them to please value it at that amount.

Douglas Warr said the Callaway House is doing fine. It has a prime location. He provided aerial views of all the parking space, parking garage and cut outs for pool and green belt areas to get fresh air. There is only one other apartment that compares and that is the Millennium. They built their own parking garage and put in covered parking, one property around Embassy Suites and these are like student housing. These types at the university have a common living area and then rent by the bed. Most are four bedrooms and an individual bath, but there is a different pay by the bed so the other comps there is one they consider the Millennium located on Lindsey and east of Classen. This map does not go that far, it does not have that good location, which is the biggest factor for everything. They are the nicest in Cleveland County with lots of amenities offering free tanning, BBQ pits and is almost like a little city. Stillwater has about three or four. This one is advertised to be 15 steps to the Campus. After looking at the property, it is so close. They built some housing by the OU swimming pool and built some more housing and vacancy happened because they either went to Callaway. They do three types of approaches to evaluate a property. It cost \$75 million to build. Cost approach on new property is used because they don't know the income approach. Mr. Dobson presented they have 19% vacancy and he has

not seen that because it is 100% occupied currently going into the next school year, but he allowed 2% vacancy. They do sign you up for a 12 months lease. A lot of times they don't get that in most places. They are not going to be full when they are open January 18; they do incentives and give free rent and gift cards. A lot of times, businesses will do incentives and that is good. So they are using 19% vacancies and he has 2% vacancy. A lot of apartments have had students to leave and go to the Callaway House which explains their vacancies. He feels that it will remain that way in the future. As far as miscellaneous income, they rent 650 parking spaces; and they have administration fees from filling out applications and different things and he estimated that around \$400,000, and Mr. Dobson did \$478,000 additional income. So his estimation was less than that. Effective gross income for that all is \$1.4 million. Percentages for expenses will vary on properties. He estimated \$69.5 million on income and a total value of \$70.0 million. He said that they estimated their expenses higher than he did. Weighting cost approach is heavier right now since they are starting up in 2018-19. It is full and they now have 4 years income in 2019. New property is hard on some of the cost. The Millennium is the only comparable property, which is down here on the bottom, appraised for less. It is in poor location and less income from a year ago and is 50% vacant. Callaway stole their students. He presented a Handout made by the owners of the property which are part of American College Campus. They have properties all over the place. Some do well and some don't. They own multiple properties all over the United States and they have shareholders. This is ACC, the Callaway House is one of these properties, and this is their 2017 Annual report, this is 2018, and it shows on here, they talk about, in 2017; 915 beds; project cost \$90.7 million; and have invested in this property for 2017-2018. The report on the Callaway listing talks about initial cost and shows what they paid for the land and structure and personal for a total invested \$91.254 million in the property. They are very good at what they do and they do an extensive market study with over \$90.0 million invested. They are only asking for a \$70.0 million value on the tax rolls. He doesn't think they made a \$50.0 million dollar mistake.

Mr. Dobson said they had two people from Callaway House here last year that said they made a mistake and they are all true. They paid \$78.0 million to construct that and he wishes that he did not have to be here today. He wishes for a lot of things were better in this market and thinks it would be good for everyone; but, the students would have to pay higher rents. Mr. Warr did a Performa; it is not based on actuals. Vacancy will go down in the summer time and added that the expenses are not correct. Mr. Warr did not add in real estate taxes and Mr. Warr severely under estimated expenses. College kids tear stuff up. Mr. Dobson reinforced his figures to show why he disagrees with the Assessor on value. He said they are being assessed 30% higher than the Millennium which is their only comparable property.

Doug Warr said they talked about the vacancy rate. He interviewed the staff at Callaway House and it was completely full. Mr. Duggan admitted it is full and there is only about a two week gap in leases. That is why he went with 2%

vacancy. The Millennium is appraised for less; it is fair, because it is half full and struggling. It had poor management and their new management may bring improvements. In closing he said the Callaway House gets higher rents. Mr. Warr said that they are saying that they made a \$50.0 million dollar mistake. We think a fair value is \$70.0 million; they are too good at their business to make a \$50.0 million mistake. They spent \$90.0 million to build doesn't think they made a mistake.

Mr. Dobson said that even with a market study it is impossible to predict the future.

Charles Thompson said that he is glad they are here and recommended that the County help them by reducing the value to \$60.0 million. The county can go up when the market is better. He said if there is any way to do this it would be fair. Larry Heikkila said that he came up with that same figure.

Mr. Warr stated it is full; it is not an empty apartment complex.

Charles Thompson moved to lower to \$60,000,000 by compromising the figures between the \$43,000,000 and \$70,000,000 for an average.

Bobby Cleveland seconded the motion.

The vote was: Larry Heikkila yes; Bobby Cleveland, yes; Charles Thompson, yes.
Motion carried.

B. No Board Members discussion.

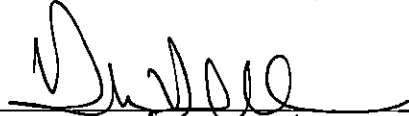
C. No Public Comments at this time.

D. There being no further business to come before the Board, Larry Heikkila moved, seconded by Bobby Cleveland, to **adjourn** the meeting at 12:33 P.M.

The vote was: Larry Heikkila, yes; Bobby Cleveland, yes; Charles Thompson, yes.
Motion carried.

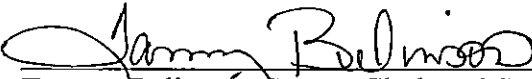
(Clerk's Note: Agenda was posted on July 22, 2019 @ 10:21 AM.)

**CLEVELAND COUNTY EQUALIZATION BOARD
CLEVELAND COUNTY, OKLAHOMA**



Larry Heikkila, Chairman

ATTEST:



Tammy Belinson, County Clerk and Secretary to the Board

Minutes Prepared by: 

Deputy County Clerk

