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**BEFORE THE
INDIANA BOARD OF TAX REVIEW**

Lowe’s Home Centers, Inc., as taxpayer)	Petition Nos.:	53-012-14-1-4-00001
and lessee to Whitehall Pike LLC,)		53-012-15-1-4-00266-15
)		53-012-16-1-4-01531-16
Petitioner,)		53-012-17-1-4-01407-17
)		
v.)	Parcel No.:	53-04-36-405-009.000-012
)		
Monroe County Assessor,)	County:	Monroe
)		
Respondent.)	Assessment Years:	2014, 2015, 2016, 2017

March 29, 2019

FINAL DETERMINATION

The Indiana Board of Tax Review (“Board”), having reviewed the facts and evidence, and having considered the issues, now finds and concludes the following:

I. INTRODUCTION

1. The parties offered competing valuation opinions from their respective appraisers—Laurence G. Allen for Lowe’s Home Centers, Inc., and Wayne F. Johnson II for the Monroe County Assessor. Both appraisals have some probative value, but they also suffer from problems that detract from their overall reliability. After weighing the evidence, we find Allen’s cost approach, without his obsolescence deduction, to be the most persuasive evidence of the property’s true tax value.

II. PROCEDURAL HISTORY

2. Lowe’s contested its 2014, 2015, 2016, and 2017 assessments. The Monroe County Assessor and the Monroe County Property Tax Assessment Board of Appeals (“PTABOA”) determined the following assessments¹:

Year	Land	Improvements	Total
2014	\$4,163,300	\$5,232,200	\$9,395,500
2015	\$4,163,300	\$5,243,100	\$9,406,400
2016	\$4,163,300	\$4,833,300	\$8,996,600
2017	\$4,163,300	\$4,828,200	\$8,991,500

3. Beginning on March 26, 2018, our designated administrative law judge, Jacob Robinson (“ALJ”), held a five-day hearing on Lowe’s petitions. Neither he nor the Board inspected the property.
4. Laurence G. Allen, David Hall, and Wayne F. Johnson II testified under oath.
5. Lowe’s submitted the following exhibits:

Exhibit P-1: Appraisal Report prepared by Laurence Allen

¹ The parties agreed to forego a hearing before the PTABOA and appeal the 2016 assessment directly to us. See Ind. Code § 6-1.1-15-2.5(b)(1) (allowing a taxpayer and county assessor to agree to waive a determination by the county board and submit the dispute directly to the Board).

Exhibit P-1A:	Replacement pages to Exhibit P-1
Exhibit P-2:	Marshall Valuation Service pages
Exhibit P-3:	Excerpts from “The Appraisal of Real Estate”
Exhibit P-4:	Brett Harrington study, “A Qualitative Analysis of Big Box Sales Transactions”
Exhibit P-5:	Lowe’s property inspection report dated 6-24-2014
Exhibit P-6:	Lowe’s property inspection report dated 3-21-2017
Exhibit P-9A:	Graph of Wayne Johnson Rent Comparables-2014 Whitehall Rent Data
Exhibit P-9B:	Graph of Wayne Johnson Rent Comparables-2014 Whitehall Rent Data
Exhibit P-9C:	Graph of Wayne Johnson Rent Comparables-2014 Whitehall Rent Data
Exhibit P-9D:	Graph of Wayne Johnson Rent Comparables-Best Comparables
Exhibit P-10-A:	2011 Real Property Assessment Manual

6. The Assessor submitted the following exhibits:

Exhibit R-A:	Property record card for subject property
Exhibit R-B:	Appraisal Report prepared by Wayne Johnson
Exhibit R-D:	Original (uncorrected) pages 109 and 138 from Wayne Johnson’s Appraisal Report
Exhibit R-E:	Review Appraisal prepared by David Hall

7. The record also includes the following: (1) all pleadings, motions, briefs, and documents filed in these appeals, including the parties’ post-hearing briefs and proposed findings of fact and conclusions of law, (2) all orders and notices issued by the Board or our ALJ, and (3) the hearing transcript².

III. FINDINGS OF FACT

A. THE SUBJECT PROPERTY AND THE MARKET FOR BIG BOX PROPERTIES

8. The subject property is located at 350 N. Gates Drive in Bloomington. Its improvements include a 134,791 square foot big box retail store and associated site improvements

² The transcript is bound in five volumes, but the pages are numbered consecutively from 1 to 1,266. We will cite to the transcript, without reference to the volume, using the following format: *Tr. at (page number)*.

located on a 12.81-acre site in the Whitehall Crossing Planned Unit Development.³ The improvements were constructed in 1998 to Lowe's specifications. Lowe's leased and operated the property as a Lowe's brand home improvement store during the years on appeal. The intersection of Third Street and State Road 37 is a thriving commercial corridor. In addition to the Lowe's property, the northwest quadrant of that intersection includes 7 other national chain retailers, 3 national chain restaurants, and a national chain automotive service station. Other commercial developments at that intersection include national chain grocers, national chain discount retailers, and a large national chain cinema. Among the retailers in this vicinity are a Kohl's and a Kmart, which are often considered big box properties. The traffic counts were over 39,000 vehicles per day on SR 37 and over 34,000 vehicles per day on Third Street. In terms of commercial square footage, this location is Bloomington's largest commercial area, eclipsing the College Mall area. The area is 90% "built up," few sites are available, and new sites have been acquired through purchasing existing buildings for demolition. Just to the south, along SR 37, are a Menard's, Sam's Club, Rural King, and a Walmart Supercenter. *Ex. P-1 at 1; Ex. R-B at 8, 26, 28, 30-32, 71; Ex. R-E at 24; Tr. at 34-35.*

B. EXPERT OPINIONS

1. Allen's Appraisal

9. Lowe's offered an appraisal report from Laurence G. Allen, President of Allen & Associates Appraisal Group, Inc. He is an Indiana Certified General Appraiser and has been a Member of the Appraisal Institute ("MAI") for 35 years. Allen has appraised more than 100 big box stores in the last 20 years, including properties used by Lowe's, Home Depot, Menards, Walmart, Target, Kmart, Meijer, Kohl's, Cabela's, and Bass Pro Shops. He has also offered expert testimony regarding the value of big box stores approximately 10 times in the last four years. *Ex. P-1 at 104-105; Tr. at 18-29.*

³ That is the building area listed on the property record card and in Allen's appraisal report. *Ex. R-A at 2; Ex. P-1 at 1.* Johnson used a building area of 131,107 square feet. *Ex. R-B at 30, Tr. at 850.*

10. Allen developed an indicated value for the March 1, 2014, March 1, 2015, January 1, 2016, and January 1, 2017 assessment dates using all three approaches to value: the sales comparison approach, the income approach, and the cost approach. He valued the market value-in-use of the property's fee simple interest, and certified that his appraisal complies with the Uniform Standards of Professional Appraisal Practice ("USPAP"). *Ex. P-1 at 3-5, 9-10; Tr. at 31-34, 82.*

a. Allen's Research and Market Overview

11. The property is located in the Bloomington, Indiana Metropolitan Statistical Area ("MSA"), which includes the counties of Greene, Monroe, and Owen. Students of Indiana University-Bloomington ("IU") make up a large percentage of the MSA's population of just under 200,000 people, with student enrollment of approximately 46,000-48,000 during the years on appeal. Allen felt big box market participants would prefer to have more individual households than a large number of students because households have more disposable income and a greater need to spend money on home improvements. From 2010 to 2017, the MSA's population, households, and average household income grew at slower rates than the state and national averages. Total retail sales in the MSA during that period grew faster than the state averages, but slower than the national averages. The primary driver of the MSA's economic base is educational activities, with IU being the largest employer. From 2012 to 2017, employment for the area grew at a rate of 0.7% per year, but the labor force and employment levels remain below their pre-recession levels. *Ex. P-1 at 11-20; Tr. at 63-67.*

12. Allen defined the primary neighborhood as the area within a half-mile radius of the property. He examined the neighborhood's transportation infrastructure, amenities, demographics, and development trends. Allen noted that the neighborhood's population was relatively small, with a significant portion of the neighborhood devoted to commercial and industrial uses. A GE industrial plant closed during the assessment periods at issue and caused a major decrease in employment within the neighborhood. The neighborhood also saw the closure of a Marsh store during that time, and a Kmart on

the south side of the neighborhood is in the process of closing. Overall, Allen concluded that big box market participants would view the neighborhood as a good retail location in a desirable retail corridor. *Ex. P-1 at 23-24, 50; Tr. at 67-70.*

13. Retailers have big box stores built for them in a specific location because they consider it a location capable of producing sufficient retail sales to support a store and make a profit. Big box stores are not built on a speculative basis; they are built for a specific retailer's needs. National retailers prefer building their own stores to purchasing existing spaces because each retailer has a certain business plan and they want to maintain similar layouts across their properties to distinguish their brand. They are not motivated by the resale value of the real estate; the goal is to maximize their sales and profits for their brand. Typically, when a different user purchases a big box store it makes costly changes to reflect its own brand as well as its own specific marketing and sales needs. *Tr. at 71-77.*

14. According to Allen, the current use of the property and its highest and best use is retail. Allen stressed that he valued the property for its current retail use. He also valued the property as though it was vacant and available for lease in order to value its fee simple interest. If he valued the property subject to a lease, he would be valuing its leased fee interest, which would include the value of the property and the value of Lowe's credit to an investor. Allen explained that the difference in value between fee simple and leased fee is not attributable to the real estate—it stems from the tenant, the strength of their credit, and the specific lease terms. And existing leases are often above market because they were originally build-to-suit leases based on the original costs to construct a building to meet the specific needs of that retailer. *Ex. P-1 at 50-53; Tr. at 70-71, 78-81.*

b. Allen's Sales Comparison Approach

15. For his sales comparison approach, Allen limited his focus to sales transferring the fee simple interest in big box properties similar to the subject that were available for retail use. Because the market for such properties is regional, he did not limit his search to the Bloomington or Indiana markets. His search criteria included big box retail stores (which

he defined as 100,000 square feet or more) in the region that sold between 2011 and 2017. Allen avoided using junior box stores in his appraisal, which he referred to as “much smaller retail boxes,” because they fall within a different market than the larger big box stores. He explained that the market for larger big box stores is different from the market for junior box and smaller retail stores because there are more users and buyers participating in the market for smaller properties. *Ex. P-1 at 52-53; Tr. at 84-87.*

16. The six comparable sales Allen selected are as follows:

Property	Subject	Sale 1	Sale 2	Sale 3	Sale 4	Sale 5	Sale 6
Development	Lowe’s	Former Menards	Former Super K	Former Walmart	Former Lowe’s	Former Home Depot	Former Lowe’s
Location	Bloomington, IN	Schererville, IN	Portage, IN	Bloomington, IN	Brown Deer, WI	Holland Twp. MI	Aurora Twp. IL
Sale Date		Dec-12	Dec-11	Nov-12	Dec-13	Jan-14	Jan-12
Building Area (SF)	134,791	114,120	192,814	126,004	139,571	103,540	139,494
Year Built	1998	1996	1993	1994	2006	2006	2005
Rights Conveyed		Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple
Sale Price		\$6,225,000	\$7,175,000	\$2,350,000	\$4,000,000	\$1,750,000	\$4,000,000
Sale Price/SF		\$54.55	\$37.21	\$18.65	\$28.66	\$16.90	\$28.68
Population (5 Mile)	108,981	157,138	86,105	103,758	155,059	87,699	175,617
Households (5 Mile)	42,932	60,133	32,497	41,092	60,055	31,376	53,677
Median HH income (5 Mile)	\$35,739	\$65,000	\$53,009	\$33,975	\$47,105	\$51,935	\$56,516
Traffic count	37,888	38,060	30,935	30,599	27,900	26,100	45,600
Buyer’s use		Multi-tenant	Meijer	Rural King	Walmart	Multi-tenant ⁴	Food processing ⁵

Ex. P-1 at 53; Tr. at 87-121.

17. All of the comparable sales were single-tenant freestanding big box retail stores purchased for continued retail use. And with the exception of Sales 1 and 5, single tenants occupied the properties after sale. Their unadjusted sales prices ranged from \$16.90 to \$54.55 per square foot. *Ex. P-1 at 53; Tr. at 87-89.*

⁴ This was sold for \$1.25 million in September 2013 to Rural King but was sold for \$1.75 million to a developer for multi-tenant use.

⁵ The purchaser has expanded to include a restaurant and market.

18. Allen considered transactional adjustments to the comparable sales for expenditures after sale, property rights, financing terms, conditions of sale, and market conditions. He also considered characteristic adjustments for arterial attributes, demographic attributes, and age/condition. Transactional adjustments adjust the sales price of the comparable property to reflect the normal market price for that property, while characteristic adjustments adjust for differences between the comparable property and the subject property. *Ex. P-1 at 61-69; Tr. at 125-127.*

19. Adjustments for expenditures after sale reflect the cost the buyer and seller anticipate the buyer expending after purchase to remedy deficiencies in the property. Because sellers want to get market price for their properties, they are unwilling to discount sales prices for capital expenditures made by buyers to reconfigure a store to fit their specific branding and business plan. The 14th Edition of *The Appraisal of Real Estate* explains that “[t]he relevant figure is not the actual cost that was incurred but the cost that was anticipated by both the buyer and seller,” which can be discovered by verifying the sale with the parties to the transaction. Deferred maintenance adjustments are handled similarly, and “the appraiser should make sure that the buyer and seller were aware of any items needing immediate repair.” Thus, the fact that the buyer spends money on a property after buying it does not mean that the sales price must be adjusted to reflect those expenditures—it has to be a cost that both the buyer and seller thought was necessary. *Ex. P-1 at 61; Ex. P-3 at 412-413; Tr. at 124-130.*

20. Allen evaluated his comparable sales to determine whether any expenditure after sale adjustments were necessary. He inspected each of the properties and interviewed either one of the parties to the transaction or a participating broker. Based on his review, Allen concluded that none of his comparable sales required adjustments for expenditures after sale. Allen acknowledged that the buyer in Sale 2 bought a new roof and a new HVAC system after purchasing the property and that he did not adjust for those expenditures. He explained that the property was in good condition at the time of sale and did not need a

new roof or HVAC system, so the seller did not discount the sales price. *Ex. P-1 at 61; Tr. at 130-134.*

21. Allen also concluded that no property rights adjustments were necessary. Sales 1 and 6 sold with restrictive covenants that prevented certain future retail uses. However, after researching the issue, Allen determined that these restrictions did not affect the sales prices. Therefore, he did not need to make an adjustment for the restrictive covenants. And his other four comparables were all fee simple sales with no difference in the property rights conveyed. *Ex. P-1 at 55, 60-61; Tr. at 134-135.*

22. Allen provided two examples of when condition of sale adjustments might be appropriate: 1) where the seller is forced to conduct a quick sale that might not produce the maximum market value; and 2) where the sale is to an adjacent property owner who might pay a premium over market value to acquire the property as part of an assemblage. He evaluated his comparable sales and determined that adjustments for condition of sale were not appropriate. Sales 1 and 3 were a former Menards and a former Walmart. In both instances, the retailers developed bigger stores nearby. Allen explained that he did not make condition of sale adjustments for these two sales because the new locations make the original locations more desirable due to the increased retail activity they draw to those corridors. *Ex. P-1 at 61; Tr. at 135-141.*

23. The purpose of a market conditions adjustment is to bring all of the comparable sales to what they would have sold for if they had sold on the relevant valuation date. Allen looked at a variety of different indicators to identify the changes going on in the market, including unemployment trends in Indiana and the Bloomington MSA, trends in asking prices for retail properties, and trends in retail sales from around the country. He also reviewed changes in retail rental rates, retail occupancy, and capitalization rates in Indiana, along with changes in the Consumer Price Index (“CPI”). Values were fluctuating, but remained relatively stable over the period covered by Allen’s appraisal. He concluded that market conditions for properties like the subject had been improving

slightly, with year-over-year changes increasing from a low of 0.75% in 2012 to a high of 3.00% in 2017. He applied those adjustments for the time between the pro-rated dates of sale and the respective valuation dates, rounding his adjustments to the nearest full percent. *Ex. P-1 at 62-68; Tr. at 141-148.*

24. Regarding adjustments for arterial attributes, Allen concluded that Sales 1 and 6 were superior in terms of access, visibility, and traffic, making their locations superior for retail use. He therefore adjusted those two sales downward by 10%. Allen determined that the remaining comparable sales' arterial attributes were similar to the subject and required no adjustments. For his demographic attributes adjustments, Allen considered the population, household counts, and median household incomes within a 5-mile radius of each property. After considering those demographics, he concluded that the subject is similar to Sale 3 and inferior to the remaining comparable sales. He therefore made downward adjustments for demographic attributes ranging from 5% to 20% to all of the sales except Sale 3. Allen explained that he did not make separate location adjustments because his adjustments for arterial and demographic attributes serve that purpose. *Ex. P-1 at 68; Tr. at 149-157.*

25. Allen also considered adjusting his comparable sales for their age and condition. In general, someone will pay more for a newer building than an older building. He compared the age of the buildings from his comparable sales at the time they sold to the age of the subject on each date of value. Allen concluded that no adjustment was necessary for Sale 1; Sales 2 and 3 needed small upward adjustments; and Sales 4, 5, and 6 needed downward adjustments. He quantified this adjustment by using an adjustment factor of 1% per year for the difference in ages, applying that factor to the total sales price per square foot. Allen had two reasons for adjusting by 1% instead of 3% per year (reflecting 100-year and 30-year adjusted lives, respectively). First, he explained that the adjustment is applied to a price per square foot that includes the price for the building and the land. But land does not depreciate at the 3% rate and likely gets more valuable over time. Second, buyers of big box stores expect to make changes to the properties to fit

their business models, so differences in age have less effect on purchase prices. *Ex. P-1 at 69; Tr. at 157-160.*

26. Finally, Allen determined that no adjustments were necessary for differences in size because the subject and the comparable sales all fall within the 100,000-200,000 square foot range. Although smaller buildings generally sell for a higher price per square foot, all other things being equal, Allen has not found such a difference for properties with 100,000 to 200,000 square feet. *Tr. at 160-162.*
27. With these adjustments, Allen arrived at adjusted sales prices ranging from \$13.99/SF to \$39.67/SF, producing an average of \$25.48/SF for the March 1, 2014 assessment date. Those prices increased over time due to a general increase in real estate values and the net increase produced by his downward adjustments for age and upward adjustments for market conditions. Those increases resulted in average prices of \$25.71/SF, \$26.19/SF, and \$26.86/SF for the 2015, 2016, and 2017 assessment dates, respectively. *P-1 at 69-71; Tr. at 162-163.*
28. As a supplement to his sales comparison analysis, Allen reviewed four additional fee simple sales and three listings for big box stores. He did not use the sales as comparables because their sale date, property size, market size, or location did not meet his selection criteria. And he did not use them to derive indicated values. The four sales included a former Home Depot (a prior sale of Sale 5), two former Lowe's stores, and a former Target. The three listings included two former Walmart stores and a former Target. These additional sales and listings ranged from \$12/SF to \$38/SF. His reason for including such information was to "show that there's a lot of activity with big-box stores and the activity is within a certain price range." Allen felt they were generally supportive of his adjusted sales prices. *Ex. P-1 at 71-72; Tr. at 163-167.*
29. Allen also referenced a study of big box transactions prepared by Brett A. Harrington of the International Appraisal Company. Harrington's study analyzed 106 fee simple sales

of big box properties. Allen relied on the study to show that there is an active national market for big box properties. It also indicates that these properties generally sell for an average price of \$27.73/SF, which is similar to Allen’s concluded value for the subject. *Ex. P-1 at 72; Ex. P-4; Tr. at 168-169.*

30. Each of Allen’s comparable sales had similarities to the subject, with some being more similar in terms of date of sale, size, location, or age. Allen gave a great deal of consideration to Sale 3 in particular, the former Walmart property in Bloomington, finding it to be the most comparable to the subject in terms of location and very comparable in both age and size. On the other hand, Sale 1 received less consideration because it was purchased for multi-tenant use, not single tenant use. Allen primarily relied on Sales 2, 3, 4, and 5. His conclusions under the sales comparison approach closely reflected the average of his adjusted comparables:

Assessment Date	Concluded Value/SF	Concluded Value (rounded)
March 1, 2014	\$25.00	\$3,370,000
March 1, 2015	\$25.50	\$3,440,000
January 1, 2016	\$26.00	\$3,500,000
January 1, 2017	\$27.00	\$3,640,000

Ex. P-1 at 73; Tr. at 170-172.

c. Allen’s Income Approach

31. Allen also developed an income capitalization approach using the direct capitalization method. He began by estimating market rent for the subject property. From there he developed and deducted for vacancy and collection loss to arrive at a stabilized estimate of effective gross rental income. Allen then deducted his estimate of normal operating expenses to arrive at an indicated net operating income (“NOI”). Next, he developed a capitalization rate to capitalize the stabilized NOI into a value for the subject. *Ex. P-1 at 74; Tr. at 173.*

32. The income approach is the most applicable approach when you have an income-producing property and you are valuing the leased fee interest. Here, however, Allen was valuing the fee simple interest, so he could not rely on the subject's actual rental rate because it was the result of a built-to-suit lease. Allen explained that built-to-suit leases are the result of negotiations between the developer and the lessee that occur before the building is constructed. Thus, built-to-suit transactions are not exposed to the market; they operate as financing devices. He also explained that because built-to-suit properties are constructed to a particular tenant's specifications, they offer higher utility than an existing property that was not designed for that tenant. Those factors result in built-to-suit leases having substantially higher average rents than leases negotiated on the open market. *Ex. P-1 at 74-75; Tr. at 173-180.*
33. To estimate market rent, Allen relied on data from leases of 12 stores used as single-tenant retail properties. The stores range in size from 60,000 to 108,900 square feet and were not built-to-suit. Their leases are all triple-net and commenced between April 2003 and March 2013. Before adjustment, their rental rates ranged from \$3.00/SF to \$6.00/SF. Allen considered adjustments for the same factors he relied on in his sales comparison approach, including the size of their markets, traffic patterns, and visibility. He was unable to verify tenant improvements, which he acknowledged would lower the market rent indicators. Because his comparable leases were older, Allen also considered and reviewed five comparable leases for similar properties in the region. Their lease rates ranged from \$3.00/SF to \$6.39/SF, producing an average rent of \$4.53/SF. Based on his analysis, Allen concluded to triple-net market rental rates that were below the average: \$3.75/SF for March 1, 2014; \$4.00/SF for March 1, 2015; \$4.00/SF for January 1, 2016; and \$4.25/SF for January 1, 2017. *Ex. P-1 at 75-78; Tr. at 173-195.*
34. To account for vacancy and credit loss, Allen reviewed a CoStar survey of average retail vacancy rates for properties over 15,000 square feet in the Bloomington MSA and the State of Indiana, adjusting for the fact it included some smaller-sized retail properties.

He also reviewed the subject market and had conversations with real estate brokers. Although the average retail vacancy rate in Bloomington is 5-7%, the vacancy rates for big box stores like the subject are usually higher due to the longer time involved in re-leasing large retail stores. Allen therefore determined that the subject's vacancy rate would be higher than the market average, and concluded to a vacancy and credit loss estimate of 10%. *Ex. P-1 at 78-79; Tr. at 195-199.*

35. Based on his reviews of two surveys of shopping centers in the Midwest and comparable expense statements, and his experience with other retail developments, he estimated common area maintenance ("CAM") expenses of \$1.50/SF and insurance expenses of \$0.10/SF as of March 1, 2014. He then trended those estimates to the 2015-2017 assessment dates using the CPI index. Allen also identified the unreimbursed operating expenses, which included a management fee of 3% of the effective gross income and a reserve for replacement of \$0.25/SF. After applying the reimbursements, accounting for vacancy and credit loss, and deducting expenses from his rental income conclusions, Allen estimated the subject's NOI to be \$380,185 as of March 1, 2014; \$409,648 as of March 1, 2015; \$409,127 as of January 1, 2016; and \$437,080 as of January 1, 2017. *Ex. P-1 at 79-81; Tr. at 199-204.*
36. Allen explained that his goal was to estimate an overall rate to value a fee simple interest, as opposed to a leased fee interest. Because the leased fee interest does not have the additional risk and expenses associated with not having a tenant in place, a leased fee cap rate is generally lower. To develop a capitalization rate, Allen used the band-of-investment technique, investor surveys, and market-derived capitalization rates from five leased-fee big box stores with short remaining lease terms. Based on this information, he selected a capitalization rate of 10.00% for all of the assessment dates. Allen then loaded the cap rate with the owner's share of the property taxes during times of vacancy. After applying the loaded rate to his estimated NOI for each year, he arrived at the following value conclusions under the income approach:

Assessment Date	Concluded Value (rounded)
March 1, 2014	\$3,710,000
March 1, 2015	\$4,000,000
January 1, 2016	\$3,990,000
January 1, 2017	\$4,260,000

Ex P-1 at 82-86; Tr. at 206-213.

d. Allen’s Cost Approach

37. Allen also estimated the subject’s value using the cost approach. He started by estimating the land value using comparable land sales. He searched for sales in the Bloomington MSA, but had to expand his search due to the limited number similar sales. He ultimately selected six land sales from across Indiana that were purchased for retail development, including one from Bloomington. And three of the six sales were purchased for development into big box stores—a Menards, a Walmart, and a Lowe’s. The properties ranged in size from 8.66 to 23.77 acres and sold for prices ranging from \$86,605 to \$183,312/acre, with an average price of \$135,514/acre. *Ex P-1 at 87; Tr. at 214-224.*
38. Allen considered adjustments for the same factors as in his sales comparison approach, but he did not make quantitative adjustments. He placed the most weight on the three sales purchased for big box stores, and concluded to a market value that correlated to his average: \$135,000/acre for 2014. He then used a market conditions adjustment to arrive at a concluded value per acre for 2015-2017. Multiplying his per acre value conclusions by the subject’s 12.81 acres resulted in concluded land values of \$1,730,000 as of March 1, 2014; \$1,760,000 as of March 1, 2015; \$1,810,000 as of January 1, 2016; and \$1,860,000 as of January 1, 2017. *Ex P-1 at 87-88; Tr. at 225-227.*

39. To estimate the replacement cost of the building, Allen referred to cost data supplied by Marshall Valuation Service (“MVS”). He classified the subject as a low/average cost Class C Warehouse Discount Store and selected a building cost estimate of \$49.83/SF (\$44.13/SF cost, plus \$2.00/SF for sprinklers and \$3.70/SF for HVAC).⁶ Next, Allen applied adjustments for story height, perimeter, and local and current cost multipliers to his base building cost estimate. Finally, after applying time adjustments to reflect the dates of value, Allen arrived at replacement cost estimates for the building of \$6,880,976 for 2014; \$6,987,791 for 2015; \$6,984,516 for 2016; and \$7,092,590 for 2017. *Ex P-1 at 88; Ex P-1A at 1; Tr. at 227-231.*
40. Allen’s calculation of site improvement costs included estimates for asphalt and concrete associated with the parking lot, landscaping, and canopies. Allen adjusted the base costs using local and current cost multipliers and time adjustments, producing replacement cost estimates for the site improvements of \$1,729,178 for 2014; \$1,756,020 for 2015; \$1,755,197 for 2016; and \$1,782,356 for 2017. *Ex P-1 at 89; Tr. at 231-232.*
41. In addition to the hard costs, Allen determined that he should add a construction management fee of 5% to his building and site cost estimates, which is the normal market cost for that service. That fee reflects the overhead and profit for a management firm to oversee the construction of the building and site improvements. *Ex P-1 at 89; Ex P-1A at 2; Tr. at 232-233.*
42. Allen relied on the age/life method to estimate depreciation due to physical deterioration. The subject building was between 16 and 19 years old during the relevant years and MVS indicated that its useful life was 30 years. Dividing the building’s age by its useful life for each of the years produced depreciation estimates ranging from 53.3% in 2014 to 63.3% in 2017. Allen found the site improvements to be between 8 and 11 years old

⁶ Allen made two errors in his original estimate of improvement costs: 1) he forgot to add the cost of a sprinkler system; and 2) he used the cost for an average quality store instead of the midpoint between a low and an average quality store. Lowe’s submitted an exhibit with the corrected values for those two items and the resulting amendments to Allen’s cost approach calculations. *See Ex. P-1A.*

during the relevant years. Although MVS lists various ranges for the useful lives of the different types of site improvements, Allen determined that 15 years was a reasonable estimate of their useful life. Using those numbers produced depreciation estimates ranging from 53.3% in 2014 to 73.3% in 2017. Allen applied his depreciation estimates to the building and site improvements for each year on a straight-line basis and calculated total physical depreciation of \$4,821,687 for 2014, \$5,264,029 for 2015, \$5,628,883 for 2016, and \$6,084,702 for 2017. *Ex. P-1 at 90-91; Ex. P-1A at 2-3, Ex. P-2 at 2-3; Tr. at 233-38.*

43. To demonstrate that obsolescence affects big box stores like the subject, Allen offered a comparison of leases of built-to-suit buildings and leases of existing buildings using the lease information from his income approach. According to Allen, it demonstrates that rents for existing buildings were about 36% lower than rents for buildings that were built-to-suit. Allen also presented an analysis involving the extraction of obsolescence from the sales of five Source Club retail properties that closed down either before opening for business or within a few months thereafter. He analyzed the original cost to develop each store compared to its subsequent sales price. Because the stores were brand-new, the loss in value was not related to physical deterioration, but obsolescence. Allen explained that the obsolescence stems from the fact that buyers of big box stores do not pay full replacement cost for an existing store because they want to redevelop the building to make it look like their brand. *Ex. P-1 at 91-93; Tr. at 245-257.*

44. As additional support for the existence of obsolescence in the market for big box stores, Allen included information on four fee simple sales of big box stores where the original price paid for the vacant land was close to what the property sold for with improvements. He also discussed 10 examples where the buyer of a big box store decided to demolish the improvements and redevelop the properties. Finally, Allen consulted with an architectural/construction firm that specializes in the modification of big box stores for new users. According to the firm, the costs and fees associated with renovating an existing store to fit a buyer's specific store layout and corporate image range from \$15 to

\$53/SF before accounting for architectural and engineering fees, which can increase the base cost by another 25-50%. *Ex. P-1 at 93-96; Tr. at 258-260, 266-270.*

45. Allen quantified the obsolescence affecting the subject by capitalizing deficient income. This method involves estimating the income necessary to support the value of the property without obsolescence and subtracting the economic rent developed in the income approach. The difference is the rent loss due to obsolescence, which is capitalized to determine total obsolescence. Using this method and information developed in his cost and income approaches, Allen calculated obsolescence estimates of \$2,106,914 for 2014, \$1,657,455 for 2015, \$1,358,355 for 2016, and \$832,506 for 2017. For 2014, his obsolescence adjustment was approximately 23% of the replacement cost new, which is at the lower end of the range shown by his market research. *Ex. P-1 at 94-95; Ex. P-1A at 3; Tr. at 260-266.*
46. Adding Allen’s land value conclusions to the depreciated replacement costs of the building and site improvements produced the following value conclusions under the cost approach:

Assessment Date	Concluded Value (rounded)
March 1, 2014	\$3,840,000
March 1, 2015	\$4,020,000
January 1, 2016	\$4,000,000
January 1, 2017	\$4,250,000

Ex P-1A at 4; Tr. at 270-271.

e. Allen’s Reconciliation

47. In his reconciliation, Allen identified the sales comparison approach as the primary indicator of value. He noted that there is an active market for big box properties, and he considers the sales comparison approach to be the best indicator of a property’s fee

simple interest. Allen assigned less weight to his income approach because the primary market for the subject (when valuing the fee simple interest) would be a user rather than an investor. And he gave the least weight to his cost approach because the depreciation calculations make it less reliable. It is also not an approach used by buyers of big box properties. Allen’s final value conclusions were as follows:

Assessment Date	Concluded Value
March 1, 2014	\$3,460,000
March 1, 2015	\$3,580,000
January 1, 2016	\$3,620,000
January 1, 2017	\$3,800,000

Ex. P-1 at 99-100; Tr. at 271-273.

2. Hall’s Review Appraisal

48. The Assessor offered a review appraisal report from David Hall, MAI, AICP.⁷ He is an Indiana Certified General Real Estate Appraiser and Managing Director of Integra Realty Resources-Indianapolis. Hall produced a review of Allen’s appraisal in accordance with Standard 3 of USPAP. The purpose of his review was to develop opinions regarding 1) the appropriateness of Allen’s analyses; 2) the credibility of Allen’s opinions and conclusions; and 3) whether or not Allen’s appraisal is misleading. He was also reviewing it for completeness, accuracy, adequacy, relevance, reasonableness, and credibility. Hall inspected the subject property and reviewed the information in Allen’s report along with information that was publicly available. He did not develop his own opinion of value or market value-in-use. *Ex. R-E at Addendum A; Tr. at 392-393, 403-406.*

⁷ Although an additional appraiser, Michael C. Lady, also signed the review appraisal offered by the Assessor, Hall was the only one who testified. For simplicity, we will refer to it as Hall’s.

a. Review of Allen's Research and Market Overview

49. Hall found Allen's general description of the subject to be adequate and accurate. However, he criticized Allen for not presenting a full market segmentation analysis. Specifically, Allen's report does not consider or analyze occupancy trends for the subject, substitute properties, or warehouse discount stores in the Bloomington MSA or other markets. Hall also felt that Allen failed to address the availability of substitute properties or to provide analysis of the rental rates and occupancy trends for warehouse discount stores in Bloomington. The 14th Edition of The Appraisal of Real Estate does not require occupancy trends to be analyzed in a market segmentation analysis. However, his own search for big box retail properties along the State Road 37 corridor located seven properties (including the subject) falling within the size range of Allen's comparable sales. Hall felt that the exclusion of their occupancy trends, which he characterized as highly relevant, compromises the credibility of Allen's report. *Ex. R-E at 17, 22-25; Tr. at 407, 413-420.*

b. Review of Allen's Sales Comparison Approach

50. In his review of Sale 1, Hall cited concerns with Allen's failure to adjust the sales price upward for expenditures after sale. According to Hall, the 14th Edition of The Appraisal of Real Estate says expenditure after sale adjustments account for expenditures anticipated by the buyer at the time of sale. Sale 1 was vacant at the time of sale and required significant modifications, improvements, and additions to achieve the buyer's desired utility as evidenced by discussions he had with the buyer and officials from the town of Schererville, along with Hall's inspection of the property. He also had concerns with the lack of an upward adjustment for conditions of sale given that excess retail space (a new Menards store down the street) was creating a supply issue. Hall further questioned whether Menards was typically motivated. And he criticized Allen for making a downward adjustment for arterial attributes. Based on his review of their respective public road frontage, points of access, and traffic counts, Hall felt the

information suggested that either no adjustment or a slight upward adjustment would have been more appropriate. Finally, Hall thought Allen's adjustment rate for age and condition was inconsistent with his estimate of depreciation in the cost approach. *Ex. R-E at 28-35; Tr. at 428-459.*

51. Hall cited several concerns with Sale 2, the sale of a former Kmart to Meijer. He felt Allen should have made an upward adjustment for expenditures after sale to account for the parking lot resurfacing, a new roof, and some portion of the remodeling work Meijer did to reflect their brand. He further characterized the sale of the property as a distress sale due to Kmart's financial distress, which should have prompted Allen to make an upward adjustment for conditions of sale. The information Hall reviewed in relation to the sale's access, visibility, and traffic counts suggested to him that Allen should have made an upward adjustment for arterial attributes. Hall also disagreed with Allen's downward adjustment for the demographic attributes, finding that either no adjustment or a small upward adjustment was more appropriate based on inferior population and household demographics as compared to the subject. And he repeated the same criticism regarding Allen's age and condition adjustment. *Ex. R-E at 36-42; Tr. at 459-484.*

52. Regarding Sale 3, Hall believed there had been expenditures after sale for a remodeling program completed by the buyer a few months after purchase that warranted an upward adjustment. Hall also disagreed with Allen's assessment of its conditions of sale based on the extended period of vacancy prior to sale and the excess of supply in the market caused by the construction of the new Walmart Supercenter less than a quarter mile away. Additionally, Hall disagreed with Allen's assessment of Sale 3's arterial attributes. He felt Allen should have made an upward adjustment based on Sale 3's inferior access, visibility, and traffic counts. He also repeated the same criticism regarding Allen's age and condition adjustment. *Ex. R-E at 43-48; Tr. at 484-495.*

53. Hall evaluated Sale 4 and concluded that an adjustment for expenditures after sale was required due to post-sale work done to replace exterior wall finishes, remove a lumber

loading canopy, and add 15,400 square feet to the building. The post-sale work also included replacement of the HVAC system, the sidewalks, a portion of the roof, and some concrete slab replacement. In Hall's opinion, these expenditures should have led Allen to make an upward adjustment. He further argued that an upward adjustment for conditions of sale was appropriate based on a newspaper article that refers to the area surrounding Sale 4 as a ghost town. Given the store closures, Hall thought it unlikely that Lowe's was typically motivated when selling the property and that it may have been under some duress at the time of sale. Hall also felt Sale 4's access and traffic counts were inferior to the subject and would justify an upward arterial attribute adjustment. He also reiterated his criticism of Allen's age and condition adjustment. *Ex. R-E at 49-56; Tr. at 495-508.*

54. Hall determined that Sale 5 needed an upward adjustment for expenditures after sale based on post-sale improvements shown in various photographs he reviewed. Those photos showed a different exterior façade on the building. Hall also thought that an entrance vestibule was demolished, new storefront windows were installed, and the front exterior wall was modified with new masonry columns. He also felt an upward adjustment for conditions of sale was needed due to the low occupancy and financial distress of the Westshore Mall and a newspaper article that refers to the surrounding area as a ghost town. The article also explains that a clothing store in the mall was relocating down the U.S. 31 corridor next to Sale 5. Additionally, he highlighted access issues related to 1) the property's lack of direct access to the main street; 2) visibility issues caused by the outlots; and 3) the property's lower traffic counts. He felt these issues supported an upward adjustment for arterial attributes. Hall also repeated his criticism of Allen's age and condition adjustment. *Ex. R-E at 57-63. Tr. at 508-516.*
55. Following his review of Sale 6, Hall thought an upward adjustment for expenditures after sale was appropriate based on the modifications he assumed the buyer would make to add food processing space, restaurant space, and full-service market areas for their desired use. He also determined that an upward adjustment for conditions of sale was required to

account for Lowe's financial distress as evidenced by its decision to close more than 20 stores. This apparent financial distress made Hall question Allen's characterization of Lowe's as being typically motivated. However, Hall acknowledged that Lowe's was still building 10 to 15 new stores per year. Hall further questioned Allen's downward adjustment for arterial attributes. Hall felt the property's road frontage and limited access caused by the two "right-in, right-out" access points was offset by its higher traffic counts to the point that no adjustment was necessary. Finally, Hall repeated his criticism regarding Allen's age and condition adjustment. *Ex. R-E at 64-69. Tr. at 516-525.*

56. Hall's review led him to question the credibility of Allen's value conclusions under the sales comparison approach. According to Hall, Allen's value conclusions rely on the hypothetical condition that the subject is vacant and available for lease, when Lowe's leased and occupied it on all of the valuation dates. Hall stated that the sales comparison approach "fundamentally values the property as if vacant and available for lease," and that he had no objection to the use of fee simple or vacant sales. He nevertheless faulted Allen for not making an adjustment for the difference between vacancy and occupancy. Hall also found insufficient support for the majority of Allen's adjustments. Based on his review, Hall expected net upward adjustments to all six of Allen's sales. Under that scenario, the only credible conclusion Hall could draw is that the market value-in-use of the subject must be higher than the unadjusted sales prices for those sales. *Ex. R-E at 26-27, 70-71; Tr. at 420-425, 525-539.*

c. Review of Allen's Income Capitalization Approach

57. Hall started his review of Allen's income approach by discussing Allen's market rent estimates. He criticized Allen for the lack of analysis regarding potential adjustments to Allen's 12 rent comparables for arterial attributes, demographic attributes, age and condition, size, and tenant improvements. With regard to size adjustments, Hall explained that his analysis of the rent comparables showed no relationship between building size and rental rate. He therefore found insufficient support for Allen's statement that there was an inverse relationship between size and rent. As for tenant

improvements, Hall faulted Allen for his lack of analysis. He similarly questioned the absence of analysis and research into rent concessions. Hall also highlighted Allen's apparent concession that his market rent estimates have limited reliability due to the use of smaller and older big box leases. *Ex. R-E at 72-74; Tr. at 539-547.*

58. Hall found insufficient support for Allen's 10% deductions for vacancy and credit loss. Allen relied on a survey that captures vacancy and credit loss for all rental properties over 15,000 square feet in the Bloomington MSA and the State of Indiana. However, Allen described the subject as a warehouse discount store and as a big box retail store, leading Hall to question the relevance of a survey that includes properties as small as 15,000 square feet. He felt Allen should have provided some analysis of the occupancy rates for substitute big box properties located in Bloomington. *Ex. R-E at 74-75; Tr. at 547-549.*
59. Allen concluded that the subject property is a warehouse discount store best suited to a single occupant/user, but he relied on survey data from shopping centers to develop reimbursable operating expenses. Hall found the use of such data to be inappropriate because shopping centers are multi-tenant buildings with a variety of space sizes and types. Hall also noted that the 14th Edition of *The Appraisal of Real Estate* advises appraisers to investigate data from income-producing properties of the same type in the same market. *Ex. R-E at 75; Tr. at 549-551.*
60. On the issue of capitalization rates, Hall found Allen's attempt to distinguish between a leased-fee and a fee simple cap rate confusing. Hall is unfamiliar with the term "fee simple cap rate," which he testified does not appear in the 14th Edition of *The Appraisal of Real Estate*. And he found no support for the additional risks Allen attributes to a fee simple interest (the need to find a tenant, negotiate a lease, and provide an allowance for tenant improvements) because those risks are only present when a property is vacant. If an appraiser is valuing a property as vacant, then he should make deductions for lease-up costs in the income and cost approaches. *Ex. R-E at 75-77; Tr. at 551-554, 559-561.*

61. Hall also criticized Allen's band-of-investment method for its reliance on survey data that covered a broad spectrum of retail properties, including property types that tend to be much smaller and dissimilar to a warehouse discount store. He also found Allen's failure to identify the projections that were most applicable or the weight he assigned to them troubling. Given those issues and the wide range of rate indications the band-of-investment method produced, Hall concluded it was insufficient to support Allen's cap rate conclusions. He raised similar issues with the investment surveys Allen considered. Hall was also critical of Allen's market-derived cap rates because cap rates are impacted by far more variables than just the remaining lease terms. Based on his review, Hall found the credibility of Allen's value conclusions under the income approach to be compromised. *Ex. R-E at 75-77; Tr. at 554-559, 561.*

d. Review of Allen's Cost Approach

62. First Hall reviewed the land valuation. He noted that none of Allen's six comparable land sales came from the subject's neighborhood, which Allen defined as the area within a half mile of the subject property. Hall was concerned that Allen failed to analyze locational differences or any other elements of comparison such as arterial and demographic attributes, and instead simply relied on an average of the unadjusted sales prices to reach his concluded unit value. *Ex. R-E at 78; Tr. at 561-563.*

63. Hall expressed a general concern regarding the lack of adjustments for differences between Allen's six comparable land sales and the subject. When discussing the individual land sales, Hall criticized Allen for not making upward adjustments to Sales 1 and 2 because of their inferior access. He also questioned whether Sale 2 was an appropriate comp because its irregular shape and smaller size might not support a big box store. Hall took issue with Sale 3 due to its inferior road frontage and access characteristics, which he thought required an upward adjustment. While he believed it was reasonable to include Sale 4 as a land comp, he felt Allen should have made an adjustment to reflect the fact that it is not located along the State Road 37 corridor. He also thought Sale 4 needed an upward adjustment to account for its inferior arterial

attributes. For Sales 5 and 6, Hall cited the lack of discussion of the economic trends and the age of the sale as concerns. Hall also complained about the lack of details provided for Sale 6. The information in Allen's report was insufficient for him to even identify the site in the county records, which prevented Hall from analyzing characteristics that might have affected sales price. *Ex. R-E at 78-86; Tr. at 563-568, 572-573.*

64. Hall also briefly discussed the sale of a Walmart Supercenter in the Bloomington MSA that sold for \$205,000/acre in 2004. Hall stopped short of saying that Allen should have used it as a comparable land sale, but he thought Allen should have explained why his land value conclusion of \$135,514/acre was so much lower than the Walmart sale. After completing his review of Allen's land sales, Hall concluded that the omission of upward adjustments to Sales 1-4 for arterial attributes paired with the lack of upward adjustments to Sales 5 and 6 for dates of sale undermined Allen's value conclusions. *Ex. R-E at 86; Tr. at 570-572, 574.*
65. Next, Hall discussed Allen's selection of an improvement cost falling between the low and average costs reported by MVS. According to Hall, the characteristics of the subject are consistent with MVS's description of an average cost building. However, he acknowledged that appraisers must use their judgment to align the descriptions in MVS's cost tables with the property being appraised. And like Allen, he has picked values falling between categories before. He ultimately expressed no opinion as to the appropriateness of Allen's selected improvement cost. *Tr.at 574-576.*
66. Although Hall agreed that Allen's methodology is consistent with contemporary appraisal practice and guidance from the 14th Edition of The Appraisal of Real Estate, he identified a number of weaknesses with Allen's obsolescence adjustment. Allen's calculation of an obsolescence adjustment relied on his estimate of market rent and cap rate conclusion developed in the income approach. Hall explained that changes to either value would alter the obsolescence estimate. Because Hall had found a lack of support for both when reviewing Allen's income approach, he had the same concerns with Allen's obsolescence

adjustment. He also questioned the relevance of the information Allen included regarding examples of big box stores that were demolished for redevelopment. In Hall's opinion, the fact that properties reach the end of their useful life and are razed for redevelopment does not mean one should presume that obsolescence exists across the board in every market area. With respect to the study of the Source Club sales Allen presented, Hall questioned whether Allen had sufficiently researched the reason why the properties sold for a fraction of their original construction cost. In his opinion, it was not compelling evidence of obsolescence. *Ex. R-E at 87; Tr. at 576-582.*

67. Hall criticized Allen for not identifying any flaws affecting the subject property that would be defined as functional obsolescence. Allen described the subject as typical of modern construction and consistent with market norms, and felt that another retail user could use it. The subject also falls within the size range of Allen's comparable sales and other big box stores in Bloomington, and it has the same basic rectangular shape. After taking the subject property's physical characteristics, design, and materials into account, Hall found no support for any finding of obsolescence attributable to the building or the real estate. He also saw no indication that the subject was impacted by external obsolescence, with Allen reporting increases in retail sales, population, households, employment and GDP from 2010 through 2017. There were also no detrimental land uses or adverse conditions such as toxic waste affecting the location. And if there were obsolescence within the broader market for big box properties, Hall expected to see it reflected in the local market. *Ex. R-E at 87-90; Tr. at 582-588.*
68. Finally, Hall explained that Allen's 10% deduction for vacancy and credit loss in his income approach results in a stabilized occupancy projection of at least 90%. Because Allen made no deduction for lease-up costs, his cost approach values the fee simple interest at stabilized occupancy and at market rent. Thus, the value derived from the cost approach is inconsistent with the value derived from the sales comparison approach, which values the subject as vacant. *Ex. R-E at 90; Tr. at 588-589.*

3. Johnson's Appraisal

69. The Assessor offered an appraisal report prepared by Wayne F. Johnson II, founder of First Appraisal Group, Inc. He has been an Indiana Certified General Appraiser since 1992, and an Indiana Real Estate Broker since 1984. Johnson has held the RA and MAI designations from the Appraisal Institute since 1987 and 1996, respectively. Johnson is also an active member of various professional organizations related to appraisal practice, including the Hoosier State Chapter of the Appraisal Institute. He serves as an advisory board member for the IU Center for Real Estate Studies, which is associated with the IU Kelley School of Business. Johnson is also a member of the Indiana Real Estate Appraiser Certification Board. In his 26 years of appraisal experience, he has appraised numerous types of properties for a variety of clients. Last year, his firm completed 200 appraisals, 175 of which were commercial appraisals. *Ex. R-B at 186; Tr. at 794-809, 820.*
70. Johnson's appraisal estimates the property's true tax value for the March 1, 2014, March 1, 2015, January 1, 2016, and January 1, 2017 assessment dates. He used all three approaches to value: the cost approach, sales comparison approach, and the income approach. Johnson valued the fee simple interest and certified that his appraisal complies with USPAP. *Ex. R-B at 8-9, 11, 15-16, 18, 181; Tr. at 813-814, 821.*

a. Johnson's Research and Market Overview

71. From 2014 to 2017, the national economy was in the process of recovering from the 2008-2010 recession and saw relatively stable growth. The national retail market for net-leased properties remained active and vacancies trended downward. The economic cycle for big box retail (stores exceeding 50,000 square feet per Johnson's definition) peaked in 2006 as the national retailers reached saturation, with the addition of nearly 170 million square feet of space that year. In contrast, only 60 million square feet of big box space was under construction as of July 2017, most of which is concentrated in urban areas. Indiana's growth largely tracked the national trends, but at a slower rate. *Ex. R-B at 49-51, 57-58; Tr. at 845, 857-860.*

72. Johnson did not use the Bloomington MSA. He instead identified the subject's market area as including an area similar to Economic Growth Region 8, which includes the counties of Brown, Daviess, Greene, Lawrence, Martin, Monroe, Orange, and Owen. Bloomington is the largest city and employment center in the market area. Region 8 saw increasing population and per capita income and decreasing unemployment during the relevant years. Most of the subject's retail customers come from this market area, but buyers for properties of this type would include national and international buyers, not just local buyers. While Johnson researched sales of buildings occupied by national brands, he did not locate any relevant sales that excluded intangible value associated with a lease (i.e.—leased-fee, built-to-suit, and sale-leaseback transactions). *Ex. R-B at 13, 59-71; Tr. at 817-819, 860-865.*
73. He considered Monroe County and Bloomington to be the subject's submarket. The submarket has low income primarily due to IU's student population, but the student population has become more affluent in the last five years. Monroe County's population and households have been increasing, and real estate in the area has seen appreciation of 2-3% per year. Johnson described the subject's district as the I-69 corridor, including the Whitehall shopping area and Liberty Drive area. The traffic count information for the district shows it is a busy area, but he did not consider traffic counts to be a significant factor in his analysis. *Ex. R-B at 72-88; Tr. at 862-863, 869-879.*
74. Johnson characterized Bloomington as a very small market with three primary retail areas—College Mall, Downtown, and Whitehall. The subject is located on the west side of Bloomington at the north end of the Whitehall shopping center area, a large commercial area with retail strip centers and larger retail stores. The area is over 90% built up and has few vacant sites available for development. He felt that having so much retail located in the Whitehall area created a lot of synergy, but he considers the College Mall area to be superior. *Ex. R-B at 26; Tr. at 812, 848-850.*

75. Johnson determined that the subject's highest and best use is the same as its current use—commercial retail. He also stated that there is no difference between the subject's market value and true tax value. *Ex. R-B at 93; Tr. at 879-880.*

b. Johnson's Income Capitalization Approach

76. Johnson developed a fee simple value using the income approach. He avoided doing a leased-fee valuation by making sure the lease rates were within the market range. The method he used involved estimating the market rent for the property to develop an annual income stream. From that income, he subtracted the anticipated vacancy and collection loss to produce an estimate of the property's effective gross income. He then deducted the expenses (excluding those paid by the tenant) to arrive at a market-derived estimate of the property's NOI. Finally, Johnson converted the NOI into a stabilized value by dividing it by a capitalization rate, which is a mathematical relationship between income and value. *Ex. Tr. at 884-886.*

77. To determine market rent, Johnson reviewed 11 leases from properties located in Whitehall Plaza. They include two home goods stores, a dollar store, a religious store, an appliance store, a card shop, an art supply store, a pet store, a shoe store, an office supply store, and a bookstore. Their sizes ranged from 4,495 square feet to 31,465 square feet, and they had a median rental rate of \$10.38/SF from 2014-2017. Despite their varying sizes, he felt they were the best indications of rent because they are in the same shopping center as the subject. Location is extremely important, and using leases from the same location reduces adjustments for frontage, visibility, parking, and access. Johnson acknowledged that, all else being equal, smaller leased areas usually have higher rents per square foot. He would have preferred to use three big box leases near the subject, but he did not locate any. Rather than expand his search for rent comparables to areas outside of Bloomington and Monroe County, he felt it was better to select rent comparables from the immediate area and try to adjust for size differences. *Ex. R-B at 139-154; Tr. at 886, 889-891, 899-900.*

78. Johnson walked through each property and spoke with the property owner and the tenants. He also obtained a copy of each lease and verified the terms of the leases with the property owner. He then compared the leases for differences in order to determine what a normal rate would be. His market rent summary shows the unadjusted averages, medians, highs, and lows for each year. Johnson then charted the lease rates for each property against their total square footages. The resulting trend line shows that as the size of the space gets bigger, the rent gets cheaper. *Ex. R-B at 152-153; Tr. at 892-893.*
79. Recognizing that the 11 leases from Whitehall Plaza were “extremely small,” he also reviewed a second set of 10 leases for retail properties in the Bloomington area with higher square footages. They include three grocery stores, two furniture stores, a pet store, a deli, a farm and home store, and a fitness club. Their sizes range from 7,500 square feet to 62,000 square feet, but only one of them is larger than 50,000 square feet (#18—a built-to-suit Kroger store). Many of them are not freestanding stores, and two of them are located in Ellettsville (#’s 16 and 17), which Johnson described as an inferior area. He also disclosed that the rate for #19 was an asking rate. Their rental rates ranged from \$4.57/SF to \$14.00/SF. Johnson did not develop averages, medians, highs, and lows for each year. He simply used them to try to gauge the market rent for a large space, which he concluded would be in the lower part of the range. *Ex. R-B at 155-159; Tr. at 894-899.*
80. Johnson also included a survey of Bloomington leases over 2,000 square feet compiled by CoStar Analytics. The survey relied on data from 22 leases in the Bloomington market, which Johnson acknowledged was insufficient for pulling averages. He nevertheless included it because many people use it. Additionally, Johnson reviewed the asking rates for regional comparable leases of large spaces to get a grasp on an appropriate size adjustment. The leases were for properties in Bloomington, Fishers, Martinsville, Indianapolis, and Seymour. They ranged in size from 2,200 square feet to 119,250 square feet, and had an average asking rate of \$10.42/SF. *Ex. R-B at 161-162; Tr. at 902-903.*

81. Johnson relied on the larger comparable leases, selecting eight from his set of Whitehall Plaza leases and four from his set of larger leases in the Bloomington area. From those leases, he concluded to market rental rates \$6.50/SF for 2014; \$6.55/SF for 2015; \$6.60/SF for 2016; and \$6.70/SF for 2017. *Ex. R-B at 164, 174-177; Tr. at 903-904.*
82. To develop an estimate for vacancy and collection loss, Johnson reviewed survey rates for retail centers in Bloomington. The average vacancy rates were 11% in 2012 and 9.3% in 2015. Johnson relied heavily on this local data and concluded to a vacancy and collection loss estimate of 7%. He also consulted CoStar reports tracking vacancies at the national level and comparing average rental rates and vacancy rates for retail, using them as a check of reasonableness. *Ex. R-B at 165-167; Tr. at 904-906.*
83. Johnson assumed the tenant would pay the fixed expenses such as taxes and insurance based on the typical triple-net lease structure. A landlord would be responsible for operating expenses related to management, general and administrative expenses, and reserves. Based on his review of leases and discussions with property managers, he estimated management fees of 5%, general and administrative expenses of 1%, and a reserve allowance of 2%, all calculated as a percentage of effective gross income. Johnson's data ultimately produced NOI estimates of \$729,139 for 2014; \$734,747 for 2015; \$740,356 for 2016; and \$751,573 for 2017. *Ex. R-B at 167-168, 174-177; Tr. at 906-910.*
84. In developing his capitalization rate, Johnson used the band-of-investment method, multiple market surveys, and market abstractions from two retail shopping centers in Bloomington. The band-of-investment method produced a blended rate of 8.527%. He also reviewed several market surveys created by RealtyRates.com, PwC, CoStar, and the Boulder Group, but he did not rely on them heavily. His first market extraction used an eight-unit retail center that sold in August 2014 and produced an overall rate of 7.8% based on its 2015 operating expenses. He developed his second market extraction from a

retail strip center with an oil change facility. Based on the actual expenses from 2010, it had an overall rate of 7.5%. Johnson relied primarily on the local rates and selected a capitalization rate of 8.25% for all of the assessment dates. He did not load his rate to account for the owner's share of property taxes during periods of vacancy, which is an accepted appraisal practice. Although he has seen it done both ways, he felt his cap rate was a little bit high. If he had loaded the rate, his concluded values would be less than \$200,000 different. Applying his cap rate to his estimated NOI for each year produced the following value conclusions under the income approach:

Assessment Date	Concluded Value (rounded)
March 1, 2014	\$8,835,000
March 1, 2015	\$8,900,000
January 1, 2016	\$8,975,000
January 1, 2017	\$9,100,000

Ex. R-B at 169-177; Tr. at 910-917.

c. Johnson's Sales Comparison Approach

85. Johnson gave less importance to the results of his sales comparison approach because of the lack of sales involving large retail properties in the Bloomington area. In his opinion, location within the Monroe County market area is among the most important aspects of comparability. He could find large retail properties in other markets, but he found it difficult to quantify adjustments for differences in location given the small and unique nature of the Bloomington market. While he knows how to make location adjustments, he did not think they would be reliable enough to produce a credible valuation. *Tr. at 918-920, 938-940.*

86. He was aware of a former Walmart (now a Rural King) located approximately one mile from the subject that Allen used as a comparable sale. Johnson chose not to use it as a comparable sale because he had concerns regarding the conditions of the sale and the

physical condition of the property itself. Specifically, the property sold in 2005 with restrictions preventing its use by businesses that compete with Walmart or Sam's Club. And the only access to the property is by easement over the neighboring Sam's Club property. Additionally, from 2006 to 2012, vandals stripped the property of copper and stole its air conditioning units, and homeless people had been living in it. *Tr. at 926-929.*

87. Johnson selected three comparable sales for use in his sales comparison analysis. Sale 1 was a 30,102 square foot freestanding retail appliance store located on a 2.71-acre site in Bloomington. It sold for \$1,200,000 (\$39.86/SF) in January 2015. After sale, the buyer converted it into a mini-warehouse. Sale 2 was a 14,570 square foot (with 4,650 square feet below grade) hardware store located on a 1.039-acre site in Ellettsville. It sold for \$778,000 (\$53.40/SF) in August 2015. Sale 3 was a 43,446 square foot former Marsh grocery store located on a 4.62-acre site on the south side of Bloomington. It sold at auction for \$2,420,000 (\$55.70/SF) in December 2007. *Ex. R-B at 122-130, 132-135; Tr. at 920-925.*
88. He considered adjustments to each of his comparable sales for property rights, financing terms, condition of sale, market conditions (date of sale), location, size, and condition. Johnson ultimately made no adjustments for property rights, financing terms, or condition of sale. He adjusted all three comparable sales for date of sale to reflect appreciation in the local real estate market. His location adjustments take into consideration the physical location of each property, along with their access and visibility characteristics. Sales 1 and 2 received positive adjustments based on their inferior locations. Because all of the comparable sales are significantly smaller than the subject, Johnson applied negative adjustments to reflect the inverse relationship between size and price. For purposes of his age and condition adjustments, he treated each comparable sale's actual age and effective as being equal. He then applied adjustments of 2% per year to each comparable sale's sales price based on a 50-year economic life. Johnson admitted that he had to make more adjustments than he would prefer. *Ex. R-B at 131-135; Tr. at 929-931.*

89. The adjustments produced adjusted sales prices ranging from \$51.66/SF to \$66.30/SF for 2014. Johnson placed more weight on Sales 2 and 3 because they required fewer net adjustments, and he selected an indicated value of \$65.00/SF for the March 1, 2014 assessment date. He applied the same methodology for the remaining years, resulting in indicated values of \$66.00/SF as of March 1, 2015, \$66.75/SF as of January 1, 2016, and \$67.00/SF as of January 1, 2017. *Ex. R-B at 132-135; Tr. at 931-933.*
90. Johnson performed a check for reasonableness by comparing his concluded values to data CoStar compiled from 12 big box retail sales in the region. The median and average prices for those sales were \$61.51/SF and \$66.30/SF, respectively. Johnson admitted that they likely included leased-fee sales. He would also exclude the Fort Wayne sale from the dataset because it was a sheriff's sale, but he maintained that it had little impact. He also presented CoStar data for the Indianapolis retail market from 2017. Johnson felt the CoStar data generally confirmed the reasonableness of his concluded values. *Ex. R-B at 136-137; Tr. at 933-936.*
91. Johnson applied his indicated values for each year to the building's square footage to arrive at the following final value conclusions under the sales comparison approach:

Assessment Date	Concluded Value (rounded)
March 1, 2014	\$8,525,000
March 1, 2015	\$8,650,000
January 1, 2016	\$8,750,000
January 1, 2017	\$8,785,000

Resp. Ex. R-B at 137.

d. Johnson's Cost Approach

92. Johnson also valued the subject using the cost approach. He used the sales comparison approach to develop his land valuation. As with his other approaches, he focused on

selecting comparable land sales from Bloomington. He tried to find larger land sales allowing for retail use, but there were very few local sales near the assessment dates. *Ex. R-B at 94; Tr. at 946-947.*

93. Johnson selected three local land sales that are smaller than the subject's site. Sale 1 is directly behind the subject on a secondary street in Whitehall Crossing. The site includes a large triangular area of unusable land. The buyer improved the site with a 3,626 square foot bank building that is currently occupied by IU Credit Union. Sale 2 is a very small outlot located at the entrance to Whitehall Crossing. At the time of sale, it was improved with an ATM. The ATM was demolished and replaced with a 4,080 square foot retail building that is currently occupied by Mattress Firm. Sale 3 was part of the original Whitehall Crossing PUD. It is located off a secondary street and is subject to an access easement. The buyer purchased the site for a new motel. The properties ranged in size from 0.50 to 3.33 acres and sold for prices ranging from \$187,688 to \$600,000/acre. *Ex. R-B at 95-102, 105; Tr. at 947-951.*
94. He considered adjustments for the same characteristics used in his sales comparison approach. He made date of sale adjustments to all three comparable sales. Johnson applied upward adjustments of 15% to Sales 1 and 3 to account for their inferior locations behind the subject on secondary streets. And Sale 2 received a downward adjustment of 15% based on its superior location at the front of Whitehall Crossing. He also made downward size adjustments of 10% to Sales 1 and 3 and 20% to Sale 2. Additionally, Johnson applied an upward adjustment of 10% to Sale 1 for its inferior site topography. After adjustment, he concluded to per acre values of \$300,000 for 2014; \$305,000 for 2015; \$312,000 for 2016; and \$320,000 for 2017. Multiplying those indicated values by the subject's 12.81 acres produced land value conclusions of \$3,850,000 as of March 1, 2014; \$3,900,000 for March 1, 2015; \$4,000,000 for January 1, 2016; and \$4,100,000 as of January 1, 2017. *Ex. R-B at 104-108, 110; Tr. at 951-952, 955-957, 960.*

95. Johnson reviewed seven additional sales in the Whitehall Crossing area to check his adjustments. He compared their time-adjusted prices per acre to the indicated per acre values from his comparable sales to see if his adjustments were reasonable. The sales closed between 2002 and 2012 and sold for prices ranging from \$135,012 to \$1,339,795/acre. Johnson felt he could have included Sales 6 and 7 as comparable sales, but elected not to because the sales were older. Due to his large size and location adjustments, he also reviewed five retail land sales from central Indiana that are more similar in size to the subject. The sales occurred between 2013 and 2015 and sold for an average unadjusted price of \$322,229/acre. Overall, he thought that the information from the additional sales supported his adjustments. *Ex. R-B at 109-110; Tr. at 952-960.*
96. Like Allen, Johnson used MVS to develop a replacement cost for the subject property. He selected the Class C Low Cost Warehouse Discount Store classification. He refined the base cost by adding in the costs for sprinkler and HVAC systems. He applied multipliers for story height, perimeter, and local and current costs. Additionally, Johnson added 2% for soft costs and 10% for entrepreneurial incentive. He also added in the cost of the 25,163 square feet of canopy, which also received a refinement for the sprinkler system. Johnson's calculations produced replacement cost estimates for the building of \$7,065,288 for 2014; \$7,133,903 for 2015; \$7,135,371 for 2016; and \$7,190,043 for 2017. *Ex. R-B at 111-117; Tr. at 962-969.*
97. Johnson calculated physical depreciation using the age/life method. Because he did not see major improvements or changes to the building since its date of construction, he determined the building's actual and effective ages were the same. He decided accrued depreciation from all forms was 2% per year. He then multiplied this annual depreciation rate by the age of the building for each year, resulting in accrued depreciation estimates of 32% for 2014; 34% for 2015; 36% for 2016; and 38% for 2017. Applying those estimates to his replacement cost estimates for the building produced total physical depreciation estimates of \$2,260,892 for 2014; \$2,425,527 for 2015; \$2,568,734 for 2016; and \$2,732,216 for 2017. Johnson saw no basis for functional or external

obsolescence because the subject is just a big warehouse box and the local market conditions were good. *R-B at 118-119; Tr. at 969-976.*

98. For site improvements, Johnson estimated the costs for parking, lighting, striping, aprons, landscaping, roads, curbing, sidewalks, pads, drainage, and fencing. The total cost new for these site improvements was \$1,218,675 before depreciation. Johnson applied straight-line depreciation based on the improvements actual ages and an expected life of 25 years, resulting in replacement cost estimates of \$438,723 for 2014; \$389,976 for 2015; \$341,229 for 2016; and \$292,482 for 2017. *Ex. R-B at 120; Tr. at 974-975.*
99. Adding Johnson's land value conclusions to the depreciated replacement costs of the building and site improvements produced the following value conclusions under the cost approach:

Assessment Date	Concluded Value (rounded)
March 1, 2014	\$9,100,000
March 1, 2015	\$9,000,000
January 1, 2016	\$8,900,000
January 1, 2017	\$8,850,000

Resp. Ex. R-B at 120. Tr. at 976.

e. Johnson's Reconciliation

100. Johnson developed all three approaches to value, but he placed the greatest weight on his income approach because the subject is an investor-owned property. He thought that his local lease data was good, but acknowledged that the size of his comparable leases was a weakness. Similarly, he believed that the size disparities between the subject's site and his comparable land sales' sites weakened his cost approach. The subject is also nearing an age where the cost approach becomes irrelevant. Nevertheless, he felt it had some merit because his sales comparison approach was the weakest approach in this case.

After reconciling the three approaches, Johnson reached the following final value conclusions:

Assessment Year	Concluded Value
March 1, 2014	\$8,825,000
March 1, 2015	\$8,850,000
January 1, 2016	\$8,875,000
January 1, 2017	\$9,000,000

Resp. Ex. R-B at 178-179. Tr. at 821, 977-978.

IV. ANALYSIS AND CONCLUSIONS OF LAW

A. OBJECTIONS

101. During the course of the hearing, our ALJ ruled on multiple objections to questions posed to witnesses. Most of those objections dealt with the form of the questions or with claims that certain questions went beyond the scope of the prior examination. We need not revisit those objections, and we adopt our ALJ's rulings.
102. Lowe's offered Allen as an expert appraiser witness with expertise in the valuation of big box stores. The Assessor did not object to Allen being qualified as a valuation expert, but did object to him being recognized as a big box expert because no designation exists for such a specific form of appraisal. Our ALJ recognized Allen as an expert, but took the big box expert designation under advisement. We first note that the Board does not create appraisal designations. The subject property contains a big box store. Thus, for Allen's opinions to be persuasive, he would need to demonstrate expertise in the valuation of big box stores. We conclude that his qualifications and experience demonstrate that he is an expert in this particular area.

103. Lowe's objected to the admission of the Assessor's Exhibit R-H (a screenshot of data obtained from Data USA) and any related testimony. Lowe's argued 1) the Assessor did not exchange it prior to Hall's deposition; 2) the data it reflects is from 2018, making it irrelevant to the valuation dates at issue; and 3) Hall did not rely on the document in reviewing Allen's appraisal. The Assessor maintained that she exchanged the document in compliance with the case management plan and there was no intent to mislead or withhold evidence. She further argued that it had some relevance as an indicator of trends in the areas for the 2017 valuation date. Our ALJ sustained the objection and excluded the document and any testimony related to it based on the Assessor's failure to exchange it prior to Hall's deposition. We adopt our ALJ's ruling.

B. BURDEN OF PROOF

104. Generally, a taxpayer seeking review of an assessing official's determination has the burden of proof. Indiana Code § 6-1.1-15-17.2 creates an exception to that general rule and assigns the burden of proof to the assessor in two circumstances—where the assessment under appeal represents an increase of more than 5% over the prior year's assessment, or where it is above the level determined in a taxpayer's successful appeal of the prior year's assessment. I.C. § 6-1.1-15-17.2(b), (d).

105. Lowe's stipulated that it has the burden of proof for the 2014 assessment year. However, in a case like this, where both parties offered USPAP-compliant appraisals prepared by qualified experts, the question of who has the burden is largely theoretical. We must weigh the evidence to determine which party presented the most credible and reliable opinion of the subject property's true tax value for each year.

C. TRUE TAX VALUE

106. Indiana assesses property based on its "true tax value," which is determined under the rules of the Department of Local Government Finance ("DLGF"). I.C. § 6-1.1-31-5(a); I.C. § 6-1.1-31-6(f). True tax value does not mean "fair market value" or "the value of

the property to the user.” I.C. § 6-1.1-31-6(c) and (e). The DLGF defines “true tax value” as “market value-in-use,” which it in turn defines as “[t]he market value-in-use of a property for its current use, as reflected by the utility received by the owner or by a similar user, from the property.” 2011 REAL PROPERTY ASSESSMENT MANUAL 2. Evidence in an assessment appeal should be consistent with that standard. For example, USPAP-compliant market value-in-use appraisals often will be probative. *See id; see also, Kooshtard Property VI, LLC v. White River Twp. Ass’r*, 836 N.E.2d 501, 506 n.6 (Ind. Tax Ct. 2005).

107. Regardless of the method used to prove true tax value, a party must explain how its evidence relates to the property’s value as of the relevant valuation date. *O’Donnell v. Dep’t of Local Gov’t Fin.*, 854 N.E.2d 90, 95 (Ind. Tax Ct. 2006). For 2014, 2015, 2016 and 2017, the valuation dates were March 1, 2014, March 1, 2015, January 1, 2016 and January 1, 2017, respectively. Ind. Code § 6-1.1-2-1.5(a).

108. In Indiana “each assessment and each tax year stands alone” and the Board “evaluates each property's value based on its specific facts and circumstances.” *CVS Corp. v. Monroe Cty. Assessor*, 83 N.E.3d 1286, 1292 (Ind. Tax Ct. 2017). The Board is “not bound to reach the same conclusions regarding the persuasive value of an appraiser's reports and valuation methods for different tax years or different properties.” *Id.* The Tax Court has held that the “valuation of property is an opinion and not an exact science.” *Monroe Cty. Assessor v. SCP 2007-C-26-002, LLC*, 62 N.E.3d 478, 482 (Ind. Tax Ct. 2016). Therefore, “it is up to each party to convince the Indiana Board why its opinion . . . is more probative.” *Id.* Furthermore, the Board must determine what portions of an appraisal are supported by the evidence:

The Indiana Board is Indiana's property valuation and assessment expert. Consequently, when the Indiana Board ascertains . . . that parts of an appraisal are not probative, it should not then accept those parts of the appraisal to value the property.

Marion County Assessor v. Wash. Square Mall, LLC, 46 N.E.3d 1, 14 (Ind. Tax Ct. 2015).

D. VALUATION EVIDENCE

1. Allen's opinion of value

109. We find that Allen failed to establish a probative value under the sales or income approaches. Allen's cost approach met a minimum standard of credibility, however, his obsolescence adjustments were unsupported. We find that Allen's cost approach, absent the obsolescence adjustments, provides a credible and probative valuation of the property.

a. Allen's Sales Comparison Approach

110. Allen concluded that big box market participants would view the subject's immediate neighborhood as a good retail location in a desirable retail corridor. Hall generally agreed with Allen's selection of comparable sales, but took issue with his adjustments and conclusions of value. The Board agrees with Hall that Allen failed to credibly adjust his comparables and chose an unsupported unit of value.

111. Allen's premise is that big box stores, including the subject property, are built-to-suit and consequently have features that are of utility only to the original owner-occupant. The most likely purchaser, a big box retailer, would have to expend sums on interior and exterior renovations in order to make it built-to-suit as to the new owner's specifications. We agree that the re-sale value of a big box property lies in its location, the condition of the improvements, and their suitability for the purchaser's intended use. However, Allen fails to persuade us that his valuation reflects the subject property's location and condition.

112. As for Comparable #1, the purchaser converted it to multi-tenant use. This calls into question its continued viability for a big box occupant. We agree with Hall that Allen's characteristics adjustments were excessive and unsupported.

113. As for Comparable #2, we agree with Hall that to the extent the roof and parking lot were in worse condition than the subject property, Allen should have included adjustments for those conditions. More importantly, the demographic downward adjustment was completely unsupported because the subject property had significantly higher households and population. Additionally, Allen did not adjust for the subject property's superior traffic count.
114. As for Comparable #3, we must begin to question Allen's credibility due to his failure to investigate and make appropriate adjustments. Because the property was vacant for 6 years, Allen should have investigated further and identified how its marketability differed from the subject property. The testimony that the former Walmart was stripped and occupied by vagrants likewise calls into question the comparability of its location and condition. Hall persuasively showed that the arterial attributes of the subject property were obviously superior and Allen failed to adjust accordingly.
115. As for Comparable #4, after-sale expenditures included both demolition and expansion, and Allen should have analyzed the degree to which the condition of the shell compared to the subject property. We find Hall's testimony persuasive, and the closure of the nearby regional mall, Target, and Walmart reflect market conditions that are not comparable to the subject property. Allen failed to investigate and make appropriate adjustments.
116. As for Comparable #5, the purchaser converted it to multi-tenant use. This calls into question its continued viability for a big box occupant. To the extent that the shell was not usable (i.e., did not have the same utility) for the purchaser's use, we agree with Hall that Allen should have made an adjustment. Moreover, Hall's research regarding the failing nearby mall merits further investigation. While a failing nearby mall does not establish a lack of comparability, we do find that its location in a much smaller town should have been further investigated. Moreover, Allen should have adjusted upward (not downward) for demographics, as the subject property was superior in regard to

population and households. Likewise, the subject property had a substantially higher traffic count, and Allen made no adjustment.

117. As for Comparable #6, this property was not converted to a comparable big box or typical retail use.
118. We might overlook most of these errors individually, and perhaps collectively, had Allen chosen a per unit value that reflected the desirability of the subject property relative to his comparables. But Allen valued the subject property at roughly the average for each year on appeal. The Board has already concluded that this location is not average. National big box and junior big box retailers are competing in this location. This is a successful growing area. It is not believable to suggest that the sale of an isolated former Walmart, tucked away behind a Sam's Club, and vacant for 6 years, is a good gauge of the value of the subject property, surrounded by several national retail and restaurant chains. At best, Comparable #3 is the basement. Yet Allen dives even lower with Comparable #5 in a smaller town with a dying mall to weight the average even lower. In the final analysis, Allen concludes on a value nearly identical to his Comparable #4, which is located in a struggling suburb of Milwaukee at a site where the nearby mall and two other successful national big box stores have closed. This differs substantially from Allen's description of the subject property: "a good retail location in a desirable retail corridor." We do not find Allen's conclusion of unit value to be logical or credible or supported by the evidence. Allen has failed to present a credible valuation under his sales comparison approach.

b. Allen's Income Approach

119. Allen relied on a recent study that indicated that 72% of fee simple sales of big box properties were purchased for occupancy as a big box retail property or conversion to an alternative use. Accordingly, the market is dominated by owner/user purchasers. Conversely, only a small percentage of the fee-simple purchasers are speculative investors. As for leased-fee purchasers, "[v]irtually all of the leased fee sales" reflect investors seeking a long-term, low-risk income stream based more on the credit-

worthiness of the tenant than the “location, size, condition, and/or utility of the property.” Because he disregards build-to-suit leases, Allen’s market rent data came from leases where the landlord was an atypical investor, and the tenant was an atypical tenant. *Ex. P-5 at 9.*

120. Allen noted that the markets for big box sales and big box rents react differently. Allen considered the age of a building to be less significant for a lease. He also observed that in properties of over 80,000 s/f, size did not impact unit sale price, but there was an inverse relationship between size and rent. From this, we conclude that the market for big box stores reacts differently than other retail properties, including what Allen described as smaller junior box stores. Allen freely admitted that “there is not a lot of leasing activity for existing big box stores especially for the size of the subject property.” *Ex. P-1 at 75-76; Tr. at 84-87*
121. In reviewing Allen’s income approach, his rent comparables⁸ are notable. Unlike his sales comparison approach, only one of his comparables might be considered a national chain big box: a Kohl’s. All but one of the buildings were older than the subject property, over half were at least a decade older, and one was built in 1965. All but two of the leases were prior to the Great Recession, and none reflected the improved economy during the years at issue. Allen did not disclose the lease terms for 3 comparables, and the only short-term leases actually expired prior to the years on appeal. More than half were substantially less than 100,000 square feet and none were greater than 110,000 square feet. Most of the leases were for the type of properties that Allen considered junior boxes and that he intentionally excluded from his sales comparison analysis.
122. Allen cobbled together the best evidence of market rent he could find, but we are persuaded that there is insufficient market evidence to establish an income approach from his lease comparables. “Virtually all” big box leases are built-to-suit and Allen declined

⁸ As Allen did not use the first four in his lease summary because they were built-to-suit, they are omitted from our analysis. *See Ex. P-1 at 75.*

to consider them in an income approach. He admitted that his use of smaller and older big box leases was less reliable than if he had used more similar comparables. None of his lease comparables have tenants similar to the purchasers in Allen's sales comparison approach. Allen has failed to persuade us that if the subject property were vacant, it would be leased to a Bounce City or Value City Renewal or a similar tenant. These leases do not reflect the national tier tenants that currently surround the subject property.

123. Additionally, it is not sufficient to merely opine that because most of the leases are smaller, an inverse relationship of size to rent compensates for the differences in size and age. Hall presented evidence that the inverse relationship was not reflected in Allen's comparables. The basis of Allen's time adjustments was not disclosed. And his increases for later years do not reflect the 30%⁹ increase in asking rates in Bloomington between 2013 and 2016.
124. Finally, as with Allen's comparable sales analysis, we are not persuaded that this property is average, let alone, below average. Allen placed this location well-below the rent for a Goodwill store on Washington Street and a Garden Ridge on Lafayette Road in Indianapolis. In bolstering his market rent, he cited leases from places like Clive, Iowa and Ballwin, Missouri, with no effort to explain why these leases were chosen and how these locations might remotely compare to the top commercial spot in Bloomington, Indiana.¹⁰
125. Once again, we might have overlooked the shortcomings of Allen's analysis had he concluded on a market rent value that rationally reflected the desirability of the subject property's location relative to his lease comparables. We conclude that Allen failed to present a probative valuation based on the income approach because there is insufficient

⁹ The asking rents from Bloomington went from just below \$9 to \$12. *Ex. P-1 at 77.*

¹⁰ Those rents were actually higher than half of Allen's build-to-suit leases. Perhaps the MSAs of Des Moines and St. Louis have stronger real estate demand than the MSAs of Indianapolis and Chicago, but these comparables raise more doubt than support regarding Allen's analysis.

evidence of comparable leases. Because Allen's market rent estimate is not credible, we need not further address his income analysis.

c. Allen's Cost Approach

126. The Assessor made a number of criticisms of Allen's land valuation. Hall questioned whether Sale 2 was an appropriate comp given that its irregular shape and smaller size might not support a big box store. We agree that the parcel's shape appears to be less than ideal, and it was not purchased for use as a big box store. However, we note that Sale 2 increases the average price of Allen's comparable sales. And Allen ultimately placed the most weight on the three sales that were purchased for big box stores. Consequently, we do not find its inclusion particularly troubling. The same is true for Sale 6, though we find it perplexing that Allen failed to include sufficient details for Hall to even identify the site.
127. Hall also briefly discussed the sale of a Walmart Supercenter in the Bloomington MSA that sold for \$205,000/acre in 2004. Hall argued that Allen should have explained why his land value conclusion of \$135,514/acre was so much lower. Given the 10-year gap in time between the sale and the first valuation date, and the fact that that period included three years of recession, we find that this criticism is insufficient to challenge the credibility of Allen's land valuation. Likewise, we find that Allen's cost estimates are supported after his corrections.
128. We take issue with Allen's obsolescence adjustments. As for the lease comparison, Allen fails, once again, to establish the comparability of the properties. Only two of the build-to-suit leases are over 100,000 square feet. None of the "obsolete" leases is anywhere near the size of the 180,000 square foot Walmart. Comparing the Kohl's to the Kohl's results in a range as low as 11% rather than 36%.¹¹

¹¹ The Warsaw Kohl's rent is \$6.39 and the Columbus Kohl's rent is \$5.13, a ratio of 89%.

129. As for the extraction of obsolescence for sales, we note that the range is 14% to 56%. These sales, all dated to 2000 and earlier, fail to establish an accepted rate of obsolescence. Allen also failed to attribute any depreciation to the improvements, which skews his analysis. This analysis is insufficient to establish a guiding principle regarding obsolescence and big box stores.
130. As for the recently built and sold big box stores, Allen compared the sale price to the original purchase price for the land. The appropriate comparison is the value of the land on the sale date, which Allen did not estimate. Additionally, if the property is in a distressed location, as may be the case with the dying malls in the Holland, Michigan and Milwaukee, Wisconsin properties, land values may have dropped precipitously.
131. As for the demolished building analysis, it is merely a summary of examples where a purchaser decided to demolish the structure. Interestingly, in 7 of the 9 examples, the purchase prices were greater than Allen's concluded value for the subject property. And that is without including the cost of demolition. Allen's analysis does not establish a gauge for obsolescence. The willingness of big box stores to spend \$8M to \$10M to demolish an "average to good" store reveals the importance of location, a real estate characteristic that Allen has failed to appropriately consider throughout his appraisal.
132. As for Allen's cost of modification analysis, his interview with an architect stated that retrofitting a big box store for features unique to the buyer might be as high as \$53/SF, plus up to 50% more for architectural fees. We note that Allen's entire building improvement cost for the subject property was only \$55/SF.¹² This establishes nothing regarding the rate of obsolescence, and it detracts from his credibility.
133. These prior demonstrations were not used to calculate obsolescence. Allen used a capitalization of deficient income to actually calculate obsolescence. This process incorporated Allen's projections of income from his comparable lease analysis. As we

¹² \$7,433,332 / 134,791 = \$55.

have already rejected Allen's income approach, we must likewise conclude Allen's obsolescence deductions are unpersuasive and unsupported.

134. Finally, Hall complained that the value derived from Allen's cost approach is inconsistent with the value he derived using the sales comparison approach. This inconsistency is premised on Allen's failure to deduct for lease-up costs in the cost approach, which allegedly results in the improper valuation of the fee simple interest at stabilized occupancy and at market rent. But Allen relied on data from MVS to determine the subject's reproduction cost new, which Johnson later testified does not include lease-up costs. *Tr. at 1065*. We do not find it was necessarily an error for Allen not to include lease-up costs.
135. We conclude Allen's cost approach is minimally probative, if his obsolescence adjustment is excluded.

2. Johnson's opinion of value

136. Having found that Allen prepared a credible appraisal of the subject property, we now turn to Johnson's appraisal to determine whether it successfully supports the Assessor's values or rebuts Allen's final value conclusions. Like Allen, he analyzed the value under all three generally accepted appraisal approaches, but he largely relied on data from dissimilar properties in a misguided effort to use data from properties within the subject's immediate area. The support and adjustments he offered to shore up the inherent weaknesses in his underlying data were simply insufficient to redeem it. We conclude that Johnson's valuation approaches suffer from major flaws that significantly detract from their reliability and credibility.

a. Johnson's Income Approach

137. Johnson relied on 11 leases from properties in Whitehall Plaza to determine his market rent estimate. They included a variety of general retail tenants and ranged in size from

4,495 square feet to 31,465 square feet. Thus, none of his comparable leases are within his own definition for big box retail—stores containing 50,000 square feet or more.

138. Recognizing that the Whitehall Plaza leases were “extremely small,” he included a set of 10 leases for retail properties in the Bloomington area with sizes ranging from 7,500 square feet to 62,000 square feet. But these leases only included one property above 50,000 square feet, and it was originally built-to-suit for use as a Kroger store. Many of the leases are not for freestanding stores, and two of them are located in Ellettsville, an area Johnson described as inferior. And one of the rents was actually an asking rate.¹³
139. Johnson also included a CoStar survey of Bloomington leases, but the survey included information on leases as small as 2,000 square feet. And Johnson acknowledged that the limited number of properties covered by the survey was insufficient for calculating averages. Johnson’s review of asking rates for six leases contains the only data from an area outside of Monroe County. But they are asking rates, not consummated leases, leading us to question their worth. And even here, Johnson included data from two properties smaller than 50,000 square feet.
140. Johnson adjusted for size by placing emphasis on the data from the larger comparable leases—eight from Whitehall Plaza and four from the Bloomington area. However, only one of the narrowed set even falls within Johnson’s defined size range for big box retail, and it was the lease for the built-to-suit Kroger store. Moreover, Johnson admitted that none of his comparable leases would be a substitute for the subject property. *Tr. at 1185*. We also note that his concluded market rental rates (from \$6.50/SF to \$6.70/SF) are lower than the rental rates for all of the Whitehall Plaza properties that Johnson selected as his primary comparable leases. And the fact that they are more in line with the lease rates for the four larger Bloomington properties serves as a vivid illustration of the

¹³ We decline Lowe’s invitation to find that Johnson intentionally manipulated the scale of his chart of comparable leases. However, we agree it provides little support for his rent conclusions. *See Pet’r Proposed Findings at 72-73*.

general concept Johnson himself acknowledged—all else being equal, leases for smaller spaces usually have higher rents (i.e., leases for larger spaces usually have lower rents).

141. We find Johnson’s decision to select leases based on their proximity to the subject rather than expanding his search to locate properties of an appropriate size significantly diminishes his credibility. And after considering the other problems plaguing his market rent data such as the inclusion of a built-to-suit lease and his reliance on asking rates, we conclude the reliability of his income approach is substantially impaired when even the starting point is not reliable or credible.
142. Johnson’s estimate for vacancy and collection loss relied on survey rates for retail centers in Bloomington that indicated average vacancy rates were 11% in 2012 and 9.3% in 2015. While this local data undoubtedly has some relevance, only five of the data points are from properties exceeding 50,000 square feet. And Johnson acknowledged that most, if not all of the properties were multi-tenant shopping centers. *Tr. at 1187*. Although Johnson’s 7% vacancy and collection loss estimate falls within the average retail vacancy rates of the data Allen reviewed for Bloomington (5-7%), we credit Allen’s conclusion that the vacancy rates for big box stores are usually higher due to the longer time involved in re-leasing them.
143. Given that Johnson primarily relied on his local data to develop his capitalization rate, we take no particular issue with Johnson’s use of market surveys. However, in developing the inputs for his band-of-investment calculation, Johnson failed to ask the local lenders he spoke with about mortgage rates for freestanding big box properties. *Tr. at 1195-96*. And he did not consider any other market data. *Id. at 1196*. Further, his market extractions used an eight-unit retail center and a retail strip center with an oil change facility, neither of which are a reasonable substitute for the subject property. *Tr. at 1199*. Finally, Lowe’s used the following statement contained in the 14th Edition of The Appraisal of Real Estate to question the reliability of Johnson’s cap rate development:

An overall capitalization rate provides compelling evidence of value when a series of conditions are met: 1. Data must be drawn from properties that are physically similar to the property being appraised and from similar (preferably competing) markets. When a comparable property has significant differences, it may be afforded less weight or may be discarded entirely.

P-3 at 495; Tr. at 1200. We find merit in all of Lowe's criticisms and conclude that Johnson failed to provide adequate support for his concluded capitalization rate.

144. As discussed above, most of the data Johnson relied on was from dissimilar properties. And he failed to convince us that he properly accounted for the many differences. Consequently, we find Johnson's conclusions under the income approach largely unreliable.

b. Johnson's Sales Comparison Approach

145. We wholly agree with Johnson's decision to place the least weight on the results of his sales comparison approach. The same problems that beleaguered his selection of appropriate data in his income approach permeate this approach as well. Similar to what we previously discussed, Johnson's inability to locate sales involving big box retail properties in the Bloomington area should have prompted him to expand his search to other comparable markets. Despite its issues, we do not agree with his decision to ignore the former Walmart (Allen's Sale 3). And his myopic focus on choosing sales from the Monroe County market led to the inclusion of sales that he admitted could not serve as substitutes for the subject:

- Sale 1 has 30,102 square feet and a 2.71-acre site;
- Sale 2 has 14,570 square feet, of which 4,650 square feet is below grade, and sits on little more than an acre of land; and
- Sale 3 has 43,446 square feet and a 4.62-acre site.

Tr. at 1085, 1086, 1087. We conclude their use as comparable sales significantly detracts from the reliability of Johnson's sales comparison approach.

146. Johnson admitted that his check for reasonableness used data from CoStar that likely included leased-fee sales. The median and average prices for those sales were \$61.51/SF and \$66.30/SF, respectively. Given his admission, his check does more to call his indicated values (ranging from \$65.00/SF and \$67.00/SF) into question than it supports them, further detracting from the approach's reliability.

c. Johnson's Cost Approach

147. Similar to the problems we have discussed in the other two approaches, Johnson's focus on selecting comparable land sales from Bloomington hampered his ability to present credible results. Although they are extremely close to the subject, he admitted none of the three land sales he chose (which ranged in size from 0.50 to 3.33 acres) could support a big box retail store. *Tr. at 1035*. And he provided insufficient support for his meager size adjustments. We conclude that his land value is not reliable or credible.

148. Like Allen, Johnson used MVS to develop his replacement cost estimate. But when calculating depreciation, Johnson ignored the 30-year useful life estimation provided by MVS. Instead, he applied accrued depreciation of 2% per year, which translates into a useful life of 50 years. Johnson offered no basis for his 2% rate or the resulting 50-year life estimation. We therefore conclude his calculations likely underestimated depreciation by a significant amount.

149. Johnson saw no basis for adjustments for functional or external obsolescence due to the basic nature of big box structures and the local market conditions. We are not persuaded that an obsolescence adjustment was necessary, particularly in light of Allen's difficulty in quantifying it. We also credit Allen's contention that big box stores are not built on a speculative basis, which also raises the question of whether Johnson's 10% entrepreneurial incentive adjustment was appropriate.

150. Johnson admitted that the size disparities between the subject's site and his comparable land sales' sites weakened his cost approach. We wholly agree. Taken together with the

other issues we have discussed, we ultimately conclude that Johnson’s cost approach is minimally reliable at best.

E. WEIGHING THE EVIDENCE

151. Allen analyzed the subject property’s value using all three generally accepted valuation approaches. His sales comparison approach, which served as his primary indicator of value, was not credible. Likewise, his income approach was not credible. Lastly, his cost approach was minimally credible, absent his deduction for obsolescence.
152. Johnson appropriately addressed the strengths and weaknesses of his valuation approaches. Unfortunately, the weaknesses relating to his reliance on data from dissimilar properties were pervasive and the support he offered to account for the differences was insufficient to persuade us that his conclusions were very reliable.
153. We have two imperfect appraisals, neither of which is completely devoid of probative value. After weighing the evidence, we conclude that Allen’s cost approach, after adding back in his obsolescence deduction, is the value best supported by the evidence before us.

	2014	2015	2016	2017
Cost Approach Estimate	\$ 3,840,000	\$ 4,020,000	\$ 4,000,000	\$ 4,260,000
Obsolescence	\$ 2,106,914	\$ 1,657,455	\$ 1,358,355	\$ 832,506
	\$ 5,946,914	\$ 5,677,455	\$ 5,358,355	\$ 5,092,506

V. CONCLUSION

154. We conclude that Allen’s cost approach, less obsolescence is the subject property’s true tax value. We therefore order the assessments under appeal changed to the following values:

Assessment Date	Concluded Value
March 1, 2014	\$5,946,914
March 1, 2015	\$5,677,455
January 1, 2016	\$5,358,355
January 1, 2017	\$5,092,506

This Final Determination of the above captioned matter is issued by the Indiana Board of Tax Review on the date written above.

Chairman, Indiana Board of Tax Review

Commissioner, Indiana Board of Tax Review

Commissioner, Indiana Board of Tax Review

- APPEAL RIGHTS -

You may petition for judicial review of this final determination under the provisions of Indiana Code § 6-1.1-15-5 and the Indiana Tax Court’s rules. To initiate a proceeding for judicial review you must take the action required not later than forty-five (45) days after the date of this notice. The Indiana Code is available on the Internet at <<http://www.in.gov/legislative/ic/code>>. The Indiana Tax Court’s rules are available at <<http://www.in.gov/judiciary/rules/tax/index.html>>.