Appraisal Institute®
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Hoosier State Chapter Newsletter

December 2019

York Pollert
Newsletter Editor

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Year in Review

Thank you to all our 2019 Hoosier State Chapter Officers, Directors, and Representatives

Hoosier State Chapter 2019 Officers

President: Ashley Johnson, MAI - Vice President: Erick Landeen, MAI

Secretary/Treasurer: Charles McCarty, MAI, ARA - Past President: Frank Robinson, SRA, AI-RRS

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Daniel D. Tudor, MAI - Kristi Lundquist, SRA, AI-RRS - Joanilla Barker - John Petkovsek

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Stephen Wagner, MAI, SRA, AI-GRS (Ex Officio, non-voting)

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Jason A. Tillema, SRA, AI-RRS - James Sitzman, SRA, AI-RRS

Regional Representative Alternates

1st Alternate: Jon Scheidt, SRA - 2nd Alternate: Luke A. Nordine, MAI

3rd Alternate: Lisa Meinczinger, SRA, AI-RRS - 4th Alternate: Sam Reid, SRA

2019 EXECUTIVE COMMITTEE

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Welcome to the 2020 Officers and Directors

Hoosier State Chapter 2020 Officers

President: Erick Landeen, MAI

Vice President: Charles McCarty, MAI

Secretary/Treasurer: Luke Nordine, MAI

Past President: Ashley Johnson, MAI

Directors at Large

Daniel D. Tudor, MAI

Kristi Lundquist, SRA, AI-RRS

Lisa Meinczinger, SRA, AI-RRS

James Sitzman, SRA, AI-RRS

Jason A. Tillema, SRA, AI-RRS

Jon Scheidt, SRA

Stephen Wagner, MAI, SRA, AI-GRS (Ex Officio, non-voting)

Region V Representatives

Eric Landeen, MAI (Ex Officio)

Charles McCarty, MAI (Ex Officio)

James Sitzman, SRA, AI-RRS (2019-2020)

Ashley Johnson, MAI (2020-2021)

Regional Representative Alternates

1st Alternate: Joanilla Barker

2nd Alternate: Kristi Lundquist, SRA, AI-RRS

3rd Alternate: Samuel Reid, SRA

4th Alternate: Lisa Meinczinger, SRA, AI-RRS

5th Alternate: Brian Woods

2020 EDUCATION CALENDAR

Date	Day of Week	Offering Name	Hrs	Location
Jan 23	Thursday	7-Hour USPAP Update Course	7	Fort Wayne
Feb 4	Tuesday	7-Hour USPAP Update Course	7	Goshen
Feb 10	Monday	7-Hour USPAP Update Course	7	Evansville
Feb 20	Thursday	7-Hour USPAP Update Course	7	Indianapolis
Feb 25-28	Tues - Fri	Basic Appraisal Principles	28	Indianapolis
Mar 3-6	Tues - Fri	Basic Appraisal Procedures	28	Indianapolis
Mar 9-10	Mon - Tues	15-Hour National USPAP Course	15	Indianapolis
Mar 11-12	Wed - Thurs	Real Estate Finance, Statistics & Valuation Modeling	14	Indianapolis
Mar 13	Friday	Supervisory Appraiser/Trainee Appraiser Course	4	Indianapolis
May 4-5	Mon - Tues	Residential Market Analaysis and H&B Use	14	Indianapolis
May 6-7	Wed - Thurs	Residential Site Valuation & Cost Approach	14	Indianapolis
May 12-15	Tues - Fri	Residential Sales Comparison & Income Approaches	28	Indianapolis
May 19-20	Tues - Wed	Residential Report Writing & Case Studies	14	Indianapolis
Jun 4	Thursday	How Tenants Create or Destroy Value	7	Indianapolis
Sep 11	Friday	Business Practices & Ethics	6	Indianapolis
Sep 15-18	Tues - Fri	General Appraiser Sales Comparison Approach	27	Indianapolis
Sep 22-25	Tues - Fri	General Appraiser Site Valuation & Cost Approach	28	Indianapolis
Sep 29-Oct 2	Tues - Fri	General Appraiser Income Appraoch/ Part I	27	Indianapolis
Oct 6-9	Tues - Fri	General Appraiser Income Appraoch/ Part II	27	Indianapolis
Oct 13-16	Tues - Fri	General Appraiser Market Analaysis and H & B Use	28	Indianapolis
Oct 20-23	Tues - Fri	General Appraiser Report Writing & Case Studies	28	Indianapolis
Oct 27-30	Tues - Fri	Basic Appraisal Principles	28	Indianapolis
Nov 2-5	Mon - Thurs	Basic Appraisal Procedures	28	Indianapolis
Nov 9-10	Mon - Tues	15-Hour National USPAP Course	15	Indianapolis
Nov 11-12	Wed - Thurs	Real Estate Finance, Statistics & Valuation Modeling	14	Indianapolis
Nov 13	Friday	Supervisory Appraiser/Trainee Appraiser Course	4	Indianapolis

Visit aihsc.org for our entire education schedule

For information regarding Licensing and Designation courses, visit http://www.myappraisalinstitute.org/education/HoosierState/

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Education Scholarship Information

Hoosier State Chapter Members:

Did you know there are scholarships available on a Chapter, Regional and National level?

Chapter Scholarship information can be found on the Hoosier State Chapter website under the EDUCATION Tab, or by going to http://aihsc.org/education/scholarships/.

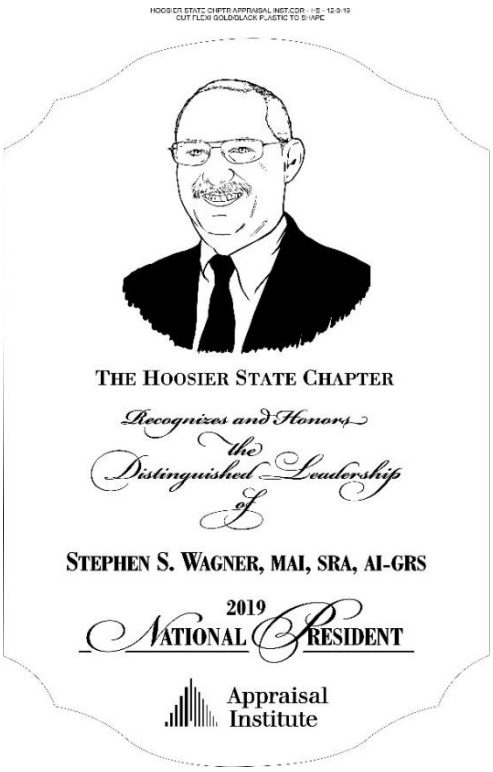
Installation Banquet Review

This year's event was held at the contemporary Alexander Hotel in the heart of downtown Indianapolis on Friday, December 13th. Paid valet parking was available, and guests were treated to a champagne toast prior to the dinner/program. Delicious passed hor D'oeuvres were enjoyed as was a specialty buffet.

We were honored to welcome back 2019 Appraisal Institute National President, Stephen S. Wagner, MAI, SRA, AI-GRS who shared his perspective on leadership.

All HSC past presidents in attendance were recognized as were Indiana State Board members who retired after years of service. Mark Rattermann, MAI, SRA presented a plaque to John S. Newlin and thanked him for his years of work on the State Board. Two chapter awards were presented. Hank Rassel, MAI presented the 2018 Richard E. Nichols Lifetime Achievement Award to Randy Scheidt, MAI, SRA and Mark Ratterman, MAI, SRA presented the 2019 Richard E. Nichols Award to Stephen S. Wagner, MAI, SRA, AI-GRS.

Three designations were awarded as Cyndi Gianneschi obtained her AI-GRS this year, and Steven McClelland got both his SRA and AI-RRS in 2019. Current HSC President Ashley Johnson, MAI recognized the 2019 Board of Directors, Regional Representatives and Committee chairs. Richard L. Borges II, MAI, SRA, AI-GRS, AI-RRS installed the 2020 HSC leadership. Prior to a fireside chat, Erick Landeen, MAI presented Stephen S. Wagner, MAI, SRA, AI-GRS with the following plaque which will be hung in the chapter classroom beside a similar one presented to Rick Borges in 2015.



Installation Banquet Review (continued)

It was a delightful evening of networking, find dinning, celebrations and memories! Please mark your calendars for the 2020 banquet which is scheduled for Thursday, December 3rd at the versatile Cunningham Event Center in Plainfield!

Hoosier State Chapter

2019 Annual Golf Outing Review

The 2019 Indianapolis Chapter Golf Outing was a success with many prizes won! A flat screen tv, Apple AirPods, 4 Indiana Pacer tickets and many more prizes were given away. The National President of the Appraisal Institute, Stephen Wagner, MAI, SRA, AI-GRS was able to attend even with his busy schedule. Attendance was down this year for the golf outing. So, please if at all possible, try to make it to the Indianapolis Chapter Golf Outing next year. The 2020 golf outing is currently being planned; Greg Witkowski is still working on deciding the course, but it looks like the outing will be in June in 2020.

2019 Annual Golf Outing

Thank You to the Sponsors!

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LaVonne & Rick Borges – Trophies

Indiana Pacers & Donnie Walsh – 4 Pacer tickets

Valuation Magazine (3rd Quarter 2019 Issue)

The distribution revolution

The rapid growth of e-commerce is transforming industrial real estate and creating opportunities for appraisers

by Peter Haapaniemi

When Amazon expanded its product offerings beyond books, many observers saw how online business could change the way people shopped. But few foresaw the profound impact that virtual stores would have on the physical world of industrial real estate.

E-commerce has been a key driver of the industrial real estate boom, which has seen low vacancy rates, rising rents and increasing property values. In a report covering 14 strategic U.S. markets, real estate firm CBRE noted that demand for industrial space over the past six years has outstripped supply by 89 million square feet.

While the sector's growth has slowed in recent months, demand remains strong. During the second quarter, the vacancy rate for industrial properties remained steady, even though more than 65 million square feet of new space was completed, according to real estate firm JLL. The firm reports that pre-leasing rates for new facilities rose from 43.1% to 57% during the quarter. A report from consulting firm Deloitte notes that demand for industrial real estate is expected to grow by 850 million square feet by 2023.

"There has been unprecedented activity in the industrial sector," says Robert J. Vodinelic, MAI, senior managing director and Industrial/Logistics Specialty Practice leader for Newmark Knight Frank Valuation & Advisory.

Vodinelic says appraisers need to understand the drivers behind growth and the potential opportunities it presents. For those who keep close tabs on the evolution of the market, he says, "it's a very good time for appraisers to be in the sector."

Driving the growth

"In most major markets, we've seen vacancy rates that have dropped to historic lows, particularly for class A–type distribution centers," Vodinelic says. Indeed, national vacancy rates for industrial property have dropped to about 5%, more than 3% lower than they were five years ago. In many places, availability is even tighter. "In some markets, there may be a 1% vacancy rate — and a lot of that might be frictional vacancies that happen as tenants move in and out and leave a property vacant for a brief time," he explains.

NKF reports that in Los Angeles, the vacancy rate is 1.1%, and in Orange County, California, it is 3%. In the 40 markets tracked by NKF, none recorded a double-digit vacancy rate during the second quarter.

Demand for industrial real estate is expected to grow by 850 million square feet by 2023, according to consulting firm Deloitte.

Rents followed the growth pattern, of course. The average asking rental rate has increased from just over $5.50 per square foot triple net to $7.37, according to NKF. Rates have increased every quarter since mid-2011.

It essentially boils down to supply lagging behind demand. In many areas, construction was cut back in the wake of the recession. Additionally, in some key markets, especially coastal ports, there has been a lack of available space in which to add distribution facilities.

"There is certainly new construction, but not at a rate that outpaces demand growth," says Jerry Gisclair II, MAI, national client director at Colliers International. "Costs continue to expand and are prohibitive in most markets, limiting the rate that supply can be added. There is a natural economic governor to new supply."

When facilities are built, users or investors typically snap them up. "The velocity of transactions has really increased," says Steven V. Graham, MAI, chairman of Graham & Co. in Birmingham, Alabama. "Builders can basically sell product as they get it completed. It's almost as if they get a certificate of occupancy one day and they're closing the next."

While the industrial market overall has been healthy, growth largely is due to demand for distribution facilities. "There's growth in areas such as R&D and manufacturing, but it's secondary to the distribution component, which is the primary driver of industrial demand growth," says Gisclair. "Growth has definitely been about the distribution of goods."

Stacey S. Nicholas, MAI, senior managing director at Integra Realty Resources in Louisville, Kentucky, agrees. "We have a lot of manufacturing activity here, but recently it's been all about distribution," she says. The area has a long history with logistics and transportation because UPS has a global hub there, it's within a day's drive of half the U.S. population, and it sits at the junction of three interstate highways. "We've seen a few million-square-foot distribution buildings go in. Rents continue to increase, values continue to go up, and cap rates are decreasing," she says. "Louisville is running out of developable land. The new construction is happening on the periphery."

The key driver behind the boom in distribution is, of course, e-commerce. More companies are selling products online, and customer expectations for fast delivery have increased. In response, companies are building their distribution networks to operate more efficiently and get products closer to customers.

The most prominent example of this trend, by far, is Amazon, which is expanding its distribution network to support its growing business and fast-delivery capabilities. Since 2012, the company's network has grown from 41 distribution facilities in the U.S. to 424 distribution facilities encompassing more than 155 million square feet, according to MWPVL International, a supply chain consulting firm. Another 60 facilities totaling 29.4 million square feet are in the works.

Amazon is big, but it's not alone. Online sales have become key to most retailers, and Walmart, Best Buy, Chewy and Ikea, to name just a few of the larger ones, are driving demand for distribution facilities. Grocers such as Kroger and Safeway also are joining the fray, as their online ordering and in-store pickup services increase the need for refrigerated warehouse space.

These trends have caught the attention of large investors, which are putting more money into industrial real estate. "Big investor groups are now heavily participating in the industrial sector, and they're getting more invested every day," says Vodinelic. In June, *The Real Deal* magazine reported that Blackstone acquired for $18.7 billion a portfolio of some 1,300 U.S. warehouses, which the magazine said was "among the largest industrial real estate deals ever completed."

"Wall Street has become enamored with industrial," says Graham. "They like that it is very straightforward in terms of ownership and operational issues, compared with multifamily and office properties." In addition, industrial tenants are often on long-term leases. "That's very attractive to institutional investors, because they can park their money and know they'll get a set return for a good length of time," he says.

Different markets, different dynamics

From a national perspective, the story is clearly e-commerce–driven growth. But different factors come into play in different areas, and appraisers should be aware of the local nuances behind the big picture.

For example, in Southern California — traditionally a top distribution market — demand has been intense because California is a populous state and companies are vying for distribution space to reach consumers. A lack of available real estate combined with regulatory hurdles for new construction has constrained new supply. "The cost of construction has gotten to be prohibitive," Vodinelic says. He explains that these factors have led to "rent growth of 7% to 10% a year, along with increased pricing pressure and cap rates as low as the 3% to 4% range."

High costs in top-tier industrial markets are creating a ripple effect and driving growth in secondary markets. For example, in the Phoenix and Las Vegas areas, the industrial markets are "on fire," says John Kirby II, MAI, regional leader and managing director of Cushman & Wakefield of Arizona Valuation & Advisory group — and California is a key driver of that growth. Phoenix and Las Vegas are both a short drive from Southern California markets, and they offer lower costs and available land. "In L.A., where can you find land to build a large distribution center that might require 40-acre parcels and where it makes economic sense to store goods?" says Kirby. "You can't. So you come here."

As a result, Phoenix and Las Vegas are seeing something of a distribution building boom. "It's like, 'If you build it, they will come,'" says Kirby. "We've seen a lot of large spec buildings go up, and they are leased within a year." He notes that over the past 20 years, the annual industrial absorption rate in the Phoenix area was 5.1 million square feet. "We're now going into our sixth consecutive year of 8 million square feet. We're about 3 million square feet above our 20-year average," he says.

In Florida, growth has been enhanced by the widening of the Panama Canal in 2016, which enables bigger ships and more cargo to come into ports, says Kenneth W. Brown, MAI, SRA, AI-GRS, director at CBRE's Valuation and Advisory Services group in Boca Raton, Florida. At the same time, he says, "we're running out of land in South Florida, and prices have become quite lofty."

In response, companies are often turning their attention farther north up the coast, such as the Port of Virginia, or farther inland. "We're starting to see inland ports being developed," Brown says. "We have one on the books for the Lake Okeechobee area, which is very far inland."

High ceilings, modern lighting, strong floors and extensive truck parking are among the features distribution companies want for their buildings.

In Alabama, industrial market growth has been modest compared with other parts of the Southeast, but it's growing, nevertheless. "Over the past year, we've continued to see cap rate compression here," says Graham. While e-commerce is behind some of that growth, much of it is tied to manufacturing and the increase in automotive suppliers in the area.

"Almost every auto manufacturer now has some kind of plant in the surrounding states," Graham adds. "We have a lot of Tier 1 and Tier 2 auto suppliers that provide just-in-time delivery to the manufacturers. Automotive has been a major contributor to the health of our industrial market."

Here again, rising costs in other markets — even distant ones — are pushing companies and investors to different areas. "In the Southeast, we're the beneficiary of folks from California who are selling on a cap rate of 4 and come here and buy on a 6 or 7 and think it's a great party," says Graham. He adds that "there's a huge amount of 1031 exchange trades," which allow investors to defer paying capital gains taxes when another like-kind property is purchased. "That contributes to the overall pace of the market and the cap rate compression here."

What companies want

In addition to driving growth, e-commerce is driving changes in the types of buildings that companies and investors seek out.

"We're seeing continued increases in ceiling heights," says Graham. "They're often well over 30 feet high because cubic footage is becoming almost as important as square footage." That extra height allows companies to stack goods higher so they can get more product into the same footprint.

Cross-docking capabilities are important for distribution companies, as are extensive truck parking and smooth, strong floors to accommodate automated warehousing equipment and heavy loads. As warehouses grow larger, says Graham, "people want newer, modern lighting, because energy efficiency is important. Many of the larger industrial leases are net leases, and the tenant is covering their own utilities, so it's in their interest to get that right on the front end."

Distribution companies have long favored locations close to highways and within a day's drive of their markets, and that is even truer in the age of e-commerce. The push for faster deliveries means more interest in "last mile" distribution facilities that are used for final delivery of goods. These facilities often are smaller and older class B properties located in urban areas. "They're not always the most functional facilities, but they have incredible locations for last-mile service," says Vodinelic.

In some cities, the need for such facilities is driving the conversion of older sites; in other cities, such as Seattle and New York, it's driving the construction of new multistory distribution space.

Adapting to a changing market

As the industrial real estate boom continues, appraisers need to hone their approaches to the market. To begin with, says Graham, "appraisers need to be aware of market trends and need to understand who is making purchases, what they are purchasing and what's driving it."

Vodinelic sees an opportunity for appraisers to acquire and leverage new skills. "They should consider specializing, because there are so many distinctive sectors in industrial — segments such as last-mile delivery facilities, refrigerated warehouses, even manufacturing specialties like chemical processing facilities. Appraisers who take that leap and gain specialized knowledge will have a leg up on their competition."

Brown says it's important that appraisers understand evolving client needs. "Industrial clients, especially the more sophisticated ones, may need something other than a traditional report," he says. His firm does a fair amount of work for real estate investment trusts in the form of assessments that support financial quarterly reporting. "These investors know what they have and don't need everything explained to them, so they don't need a traditional report," Brown says. "What they do need is to understand the value. We do quarterly restricted reports for them, with no inspection, and then once a year we may provide a comprehensive report with a full inspection."

That kind of approach presents an opportunity for the industry, says Gisclair. Usually, the appraisal of industrial buildings "is pretty simple," he says. "But large industrial owners may have 500 industrial buildings and have to roll all their valuations and cash flow models into one portfolio for periodic valuations. So, as an industry, we have to figure out how to design a more efficient model to accomplish this — how to simplify our process and deliver what they need efficiently and consistently."

Overall, says Vodinelic, "the opportunities are tremendous for appraisers in the industrial segment. It's just a matter of being willing to take on the challenge."