

REPRESENTATIVE FOR PETITIONER: Christopher Condon, Tax Representative

REPRESENTATIVE FOR RESPONDENT: Marilyn Meighen, Attorney at Law

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**BEFORE THE  
INDIANA BOARD OF TAX REVIEW**

KN ENTERPRISES, LLC,	)	Petition Nos.: 53-005-21-1-4-00826-21
	)	53-005-22-1-4-00783-22
Petitioner,	)	
	)	Parcel No.: 53-05-31-303-005.000-005
v.	)	
	)	County: Monroe
MONROE COUNTY ASSESSOR,	)	
	)	Assessment Years: 2021, 2022
Respondent.	)	

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**December 23, 2024**

**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:

**INTRODUCTION**

1. KN Enterprises, LLC (“KN”) contested the 2021 and 2022 assessments of its office building in Bloomington. The parties offered competing valuation opinions from their respective appraisers—Peter Helland for KN and David Hall<sup>1</sup> for the Monroe County Assessor. We find Hall’s appraisals provide the most credible evidence to establish, by a preponderance of the evidence, the subject property’s true tax value for both years. Accordingly, we order the assessments changed to reflect his value conclusions.

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<sup>1</sup> Although an additional appraiser, Michael Lady, also signed the appraisal offered by the Assessor, Hall was the only one who testified. For simplicity, we will refer to it as Hall’s Appraisal.

## PROCEDURAL HISTORY

2. KN filed Form 130 notices contesting its 2021 and 2022 assessments on June 15, 2021 and June 15, 2022, respectively. The Monroe County Property Tax Assessment Board of Appeals (“PTABOA”) held hearings on September 7, 2021 and August 24, 2022, following which it issued final determinations on September 30, 2021 and September 9, 2022 valuing the subject property as follows:

Year	Land	Improvements	Total
2021	\$1,059,300	\$2,597,500	\$3,656,800
2022	\$1,059,300	\$2,598,500	\$3,657,800

3. KN timely filed Form 131 petitions with the Board for 2021 and 2022 on November 11, 2021 and September 22, 2022, respectively. Beginning on January 16, 2024, our designated Administrative Law Judge, David Smith (“ALJ”), held a two-day, in-person hearing on the petitions. Neither he nor the Board inspected the subject property.
4. Appraisers Peter Helland and David Hall testified under oath.
5. KN submitted the following exhibits:
- Petitioner Ex. 1: Appraisal Report prepared by Peter Helland
  - Petitioner Ex. 2: 2021 Form 131 petition
  - Petitioner Ex. 3: 2022 Form 131 petition
  - Petitioner Ex. 4: 2021 and 2022 Property Record Cards (“PRC”) for the subject property
6. The Assessor submitted the following exhibits:

- Respondent Ex. A: 2021 Appraisal Report prepared by David Hall
- Respondent Ex. B: Addenda to 2021 and 2022 appraisal reports
- Respondent Ex. C: 2022 Appraisal Report prepared by David Hall
- Respondent Ex. D: Construction plan for subject structure
- Respondent Ex. E: Marshall Valuation Service (“MVS”) documents
- Respondent Ex. F: LoopNet listing for 8330 Allison Pointe Trail, Indianapolis
- Respondent Ex. G: Offering Memorandum for 639 S. Walker St., Bloomington
- Respondent Ex. H: Offering Memorandum for 1312 Professional Boulevard, Evansville

7. The record also includes the following: (1) all pleadings, briefs, motions, and documents filed in these appeals; (2) all notices and orders issued by the Board or our ALJ; and (3) a transcript of the hearing<sup>2</sup>.

## FINDINGS OF FACT

### A. THE SUBJECT PROPERTY

8. The subject property is located at 104 S. Franklin Road in Bloomington, Indiana. It consists of a 26,560 square foot<sup>3</sup> freestanding office building and site improvements situated on 2.75 acres (119,851 SF) of land<sup>4</sup> adjacent to Interstate 69 in an area zoned as a mixed-use corridor. The subject property was built to KN's specifications and has been 100% owner-occupied by KN since construction was completed in 2005. *Tr. at 14, 16, 31, 153, 191-193; Pet'r Ex. 1 at Transmittal letter, 12, 15, 38, 41, 43; Resp't Exs. A and C at Transmittal letter, 2, 31, 42, 52-53, 55.*
9. The structure is a three-story, single-tenant office building constructed in 2005. It has a concrete slab foundation, a wood and steel frame with partial concrete block, a brick veneer with wood and stone trim, a pitched roof with dimensional asphalt shingles, a partial flat roof with a single-ply membrane roof cover, and a decorative cupola. The interior layout consists of a vestibule and lobby area, open workspace, private offices, conference rooms, restrooms, a small kitchen (1<sup>st</sup> floor), a kitchen/breakroom area (2<sup>nd</sup> floor), storage rooms, mechanical rooms, interior corridors, and vertical access areas (three stairwells and an elevator). The office areas are finished with carpeting, ceramic tile, vinyl wall coverings, drop ceilings with acoustical tiles, and recessed can lights. The third floor of the building was renovated in 2014 to convert attic space previously used as storage into offices. The building also has soundproofing/extra interior insulation, a natural gas backup generator, a dumbwaiter (non-operational), supplemental radiant floor

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<sup>2</sup> The transcript is bound in two volumes, but the pages are numbered consecutively from 1 to 380. We will cite to the transcript, without reference to the volume, using the following format: *Tr. at* (page number).

<sup>3</sup> Hall agreed that the building has a gross building area of 26,560 SF but he calculated its rentable area to be 25,521 SF. *Tr. at 149; Resp't Exs. A and C at 5, 52.*

<sup>4</sup> Although the subject parcel is 3.73 acres in total, both appraisers concluded that its usable land area was 2.75 acres because a portion of the site is a public road right-of-way/easement area. *Tr. at 16, 25, 148-149, 191-192; Pet'r Ex. 1 at 38; Resp't Exs. A and C at 2.*

heating (non-operational), an HVAC system, multiple hot water heaters, a sprinkler system, a separate fire suppression system for the computer room, an alarm system, and a video surveillance system. Accessory structures include canopy areas with decorative columns, a drive-thru canopy with a finished ceiling, sprinkler system, recessed can lights, a carport with eight covered parking spaces, and two enclosed garage spaces with overhead doors. The site improvements include heated concrete sidewalks (non-operational), 77-80 surface parking spaces, asphalt drives, concrete paving, an access gate, a perimeter fence, and professional landscaping. *Tr. at 14, 26-28, 153, 176, 197-201, Pet'r Ex. 1 at 42-43, 54-55; Resp't Exs. A and C at Transmittal letter, 53-54; 57; 116.*

10. The valuation dates for these appeals are January 1, 2021 and January 1, 2022. Ind. Code § 6-1.1-2-1.5(a). The subject property's 2020 assessed value was \$3,655,700 (\$953,400 for land and \$2,702,300 for improvements). The 2021 assessed value represents an increase in assessed value of less than 1% from 2020.

## **B. EXPERT OPINIONS**

### **1. Helland's Appraisal**

11. KN offered an appraisal report from Peter Helland, MAI, AI-GRS, a Senior Vice President at Newmark Valuation & Advisory. Helland has a Bachelor of Science Degree in Business Management from Purdue University, and he is a certified general real estate appraiser in Indiana, Iowa, Illinois, Kansas, Wisconsin, Missouri, Nebraska, and Minnesota. He has been a professional real estate appraiser for just under 19 years, and he earned his MAI and AI-GRS designations through the Appraisal Institute. The majority of Helland's appraisal work has involved office, retail, industrial, and multifamily, and he has appraised approximately 19 properties using the market value-in-use standard in the past 5 years. Helland's experience also includes offering testimony in depositions, town/county meetings, and state/board court proceedings. *Tr. at 11-12; Pet'r. Ex 1 at Addendum.*
12. On November 13, 2023, Helland performed both an interior and exterior inspection of the

subject property. He developed an opinion of the retrospective market value-in-use of the subject property's fee simple interest as of January 1, 2021 and January 1, 2022 using all three valuation approaches: the cost approach, the sales comparison approach, and the income capitalization approach. Helland certified that he appraised the subject property and prepared his report in conformity with the Uniform Standards of Professional Appraisal Practice ("USPAP"). *Tr. at 15-17; Pet'r. Ex 1 at 3-5, 12-14, 16-17.*

**a. Helland's Market Overview**

13. Helland began his economic analysis by researching economic data for the Bloomington Metropolitan Statistical Area ("MSA") through Moody's Analytics. He also completed a neighborhood analysis that looked at development trends in the surrounding neighborhood, access and traffic flow, land uses in a one-mile radius around the subject property, and demographics within a one-, three-, and five-mile radius around the subject property. He noted that while the subject property has frontage along I-69, it is not accessible directly from the interstate. Helland also performed an office market analysis. He classified the subject property as a Class B Low Rise Office Building for investment purposes. He then used market data from CoStar for the Bloomington MSA and the City of Bloomington to analyze occupancy rates and asking rents. From Q4 2019 to Q4 2021, the Bloomington MSA had vacancy rates ranging from a low of 2.1% (Q3 2020) to a high of 3.6% (Q2 2021). Over the same time period, the City of Bloomington had vacancy rates ranging from a low of 2.2% (Q3 2020) to a high of 3.8% (Q2 2021). After Q2 2021, vacancy rates in the Bloomington MSA and the City of Bloomington trended downward through Q4 2021. Helland concluded that vacancy rates in the subject property's market had been rising since the onset of the COVID 19 pandemic. He also concluded that the subject property's stabilized occupancy rate was 95%. *Tr. at 17-24, 128-129; Pet'r. Ex 1 at 18-35.*
14. Helland explained that the subject property has limited functional utility based on its single-tenant floor plan design. This fact limits its potential for multi-tenant use without significant renovation. Helland stressed that the fundamental difference between a

single-tenant and a multi-tenant building puts the subject property in a specific category. And because of the theory of substitution, a single-tenant building is not comparable to a multi-tenant building. The subject property would therefore have a different pool of potential buyers than a multi-tenant building. Helland determined the subject property's highest and best use by considering the uses that were legally permissible, physically possible, financially feasible, and maximally productive. He concluded that its highest and best use as vacant was for development of the site for office use. And as improved, Helland found the subject property's highest and best use to be its current use as an office structure. Based on his analysis of sales data of single-tenant office buildings of similar size, Helland concluded that the most likely buyer for the subject property (as vacant or improved) would be an owner-user. *Tr. at 29-30, 32-36; Pet'r. Ex 1 at 43, 46-48.*

**b. Helland's Cost Approach**

15. Helland began his cost approach by determining the value of the subject property's 2.75 acres of usable land using the sales comparison approach. He selected three comparable land sales located in Bloomington:

- Land Sale 1 (3704 West Jonathan Drive) - a 5.70-acre (248,292 SF) industrial site purchased in November 2022 for \$201,754/acre (\$4.63/SF).
- Land Sale 2 (5240 S. Victor Pike) - a 6.50-acre (283,140 SF) light industrial site purchased in November 2021 for \$138,462/acre (\$3.18/SF).
- Land Sale 3 (980 W. 17<sup>th</sup> Street) - a 3.24-acre (141,134 SF) commercial site (with an existing home that needed to be torn down) purchased in June 2018 for \$131,173/acre (\$3.01/SF) on which seven apartment buildings were subsequently developed.

*Tr. at 36-37, 40, 88-90; Pet'r Ex. 1 at 51.*

16. Helland adjusted his land sales for market conditions, location, size, shape, topography, and zoning. He made a -10% market conditions adjustment to Sale 3 because it sold prior to the added cost of construction due to limited loan availability for new development that followed the onset of the pandemic. The adjustment is "based on a 50-basis point change in risk relative to cap rate as well as a reasonable increase in overall retail [office] vacancy rate compared to levels prior to the pandemic." Helland based his

+10% zoning adjustment to Sale 2 on how limiting its zoning is compared to the others and was qualitative in nature as opposed to being quantified based on paired sales. Similarly, the adjustments for location, size, and shape were influenced by the subject property's interstate exposure, limited direct access, its shape, and development potential, but he did not have any paired sales available from which to quantify the adjustments. *Tr. at 40, 90-94; Pet'r Ex. 1 at 52.*

17. After adjustment, Sales 1, 2, and 3 had indicated prices of \$4.63/SF, \$4.61/SF, and \$3.39/SF, respectively. Helland used all three comparable land sales to develop his opinion of land value for the 2022 assessment year, but he only used Sales 2 and 3 for the 2021 assessment year because Sale 1 was not relevant to 2021 due to its November 2022 sale date. For 2021, he reconciled the adjusted prices of Sales 2 and 3 to a value of \$3.20/SF. For 2022, he placed emphasis on Sale 1, which was at the high end of his range of adjusted prices, and reconciled to a value of \$4.50/SF. Applying his reconciled values to the subject property's 119,851 SF of usable land produced indicated values of \$380,000 (rounded) for 2021 and \$540,000 (rounded) for 2022. *Tr. at 40, 46; Pet'r Ex. 1 at 52-53, 57-58.*
18. Helland relied on MVS to estimate the replacement cost new of the improvements. Using an "average" quality rating for a Class B low-rise office with MVS base costs of \$163.00/SF for 2021 and \$193.00/SF for 2022. Helland adjusted the base costs for sprinklers, ceiling height, perimeter, current cost, and local area and arrived at adjusted base costs of \$154.48/SF for 2021 and \$181.31/SF for 2022. Applying the adjusted base costs to his estimate of the building's square footage (26,560 SF) produced estimated costs new for the building of \$4,102,871 for 2021 and \$4,815,567 for 2022. Helland also included separate cost estimates for the landscaping, concrete paving, canopies (including the carport), asphalt paving, and fencing/gate, but he did not develop a separate estimate for the garage. He estimated the adjusted replacement costs new of these site improvements to be \$310,188 for 2021 and \$307,362 for 2022. This resulted in undepreciated replacement cost estimates of \$4,413,059 for 2021 and \$5,122,929 for 2022. *Tr. at 40-41, 46, 97-98, 330; Pet'r Ex. 1 at 54, 57.*

19. Helland excluded entrepreneurial profit. He explained that he would not expect any additional profit from building a single-tenant office building given the limited demand for buildings the size of the subject property and the impact from the pandemic. The subject property's building had a "small degree of functional obsolescence" due to the garage and the third-floor office space. There was also "external obsolescence in the marketplace" because there was less office space needed due to fewer people working in the office, which put downward pressure on value. But Helland applied no specific adjustments for functional or external obsolescence. Instead, he accounted for them in his calculation of physical depreciation by increasing the effective age for the building by one year over its actual physical age. *Tr. at 41-42, 45; Pet'r Ex. 1 at 55.*
20. He used the economic age-life method to estimate depreciation for the building and site improvements, including information about structures he has appraised in several other states to inform his opinion. Helland also noted that continued pandemic fallout effects on the office landscape renders the effective age largely unknown. Based on his estimate of the building's effective ages (17 years in 2021 and 18 years in 2022) and MVS's projection of a 40-year economic life, Helland applied depreciation of 45% to the primary improvements for both 2021 and 2022. For the site improvements, he applied age-life depreciation of 83.01% for both years. This resulted in total depreciated replacement costs for the building and site improvements of \$2,309,266 for 2021 and \$2,700,768 for 2022. Adding his land value conclusions to the total depreciated replacement costs for the building and site improvements produced indicated values of \$2,700,000 (rounded) for 2021 and \$3,200,000 (rounded) for 2022. *Tr. at 42-47; Pet'r Ex. 1 at 54-58.*

**c. Helland's Sales Comparison Approach**

21. Helland began his sales comparison approach for both years by searching for sales of comparable office properties. He selected the following eight sales of single-tenant properties from around Indiana:
- Sale 1 (8515 Bluffton Rd., Fort Wayne) – a 26,391 SF medical/off campus property built in 1992 on a 5.58-acre site that sold with an existing absolute net lease to a medical-related tenant in place in February 2019 for \$142.09/SF.

- Sale 2 (7500 E. Columbia St., Evansville) - a 60,529 SF low-rise property built-to-suit and leased to Shoe Carnival for use as its corporate headquarters in 2007 on an 8.66-acre site purchased from the original developer by Shoe Carnival in April 2019 for \$115.65/SF.
- Sale 3 (6330 Digital Way, Indianapolis) - a 35,376 SF medical/off campus property built in 2005 on a 7.43-acre site that sold in fee simple in November 2019 for \$110.24/SF. The buyer planned to use the property for owner-occupancy, and based on the projected renovation schedule, it anticipated a move-in date in September 2020 at the time of purchase.
- Sale 4 (3939 Vincennes Road, Indianapolis) - a 35,000 SF general purpose property built in 1986 on a 2.42-acre site that sold with an existing lease to the United States Postal Service in place in February 2021 for \$122.86/SF.
- Sale 5 (11201 USA Pkwy., Fishers) – a 54,999 SF low-rise property built in 1999 (renovated in 2015) on a 12.27-acre site that sold with an existing lease in place in April 2021 for \$161.46/SF. The lease was set to expire in May 2022 and the buyer planned to use the property for owner-occupancy.
- Sale 6 (6610 N. Shadeland Ave., Indianapolis) – a 22,944 SF 2-story property built in 1973 (renovated in 2012) on a 1.83-acre site that sold in fee simple in May 2021 for \$106.78/SF. The buyer planned to use the property for owner-occupancy.
- Sale 7 (8330 Allison Pointe Trail, Indianapolis) – a 47,630 SF low-rise property built in 1997 (renovated in 2012) on a 5.46-acre site that sold with an existing lease in place in September 2021 for \$130.97/SF. The lease was set to expire in 2022 and the buyer planned to use the property for owner-occupancy. The buyer subsequently offered two 15,800 SF spaces for sublease to tenants on LoopNet.
- Sale 8 (5939 Castle Creek Pkwy., Indianapolis) - a 20,522 SF low-rise property built in 1992 on a 2.76-acre site purchased in fee simple in November 2021 for \$146.18/SF. The buyer planned to use the property for owner-occupancy.

*Tr. at 47-50, 100-102; Pet'r Ex. 1 at 60-61; Resp't Ex. F.*

22. Helland considered adjustments to his comparable sales for property rights conveyed, financing terms, conditions of sale, market conditions, location, size, age/condition, site area, and building quality. He concluded no adjustments were necessary for financing terms or conditions of sale because none of the sales showed any form of favorable financing and because they were all arms-length transactions that were independently negotiated. However, he did make property rights adjustments to Sales 1 and 4. Although Sales 1 and 4 are leased fee sales, Helland felt they were relevant because they were purchased for office use. He also had the NOI and capitalization rates for both properties. That allowed him to compare those components to the market levels and

make appropriate adjustments by calculating the percentage change for both components and adding them together to get the net total adjustment. For example, the NOI for Sale 4 was \$9.60/SF while the subject property was at \$10.45/SF, necessitating an upward adjustment. But the capitalization rate for Sale 4 was 7.81% compared to Helland's capitalization rate conclusion for the market of 9%, requiring an even higher downward adjustment and a negative adjustment overall. *Tr. at 48-50, 102-103; Pet'r Ex. 1 at 62-65.*

23. Helland also made -10% market conditions adjustments to Sales 1, 2, and 3, which sold in 2019, due to the reduced demand for office space after the onset of the pandemic. He quantified his adjustment with "a 50-basis point change in risk relative to cap rates, as well as a change in vacancy to approximate at about a 10 percent loss attributable to sales that occurred prior to the pandemic." For his location adjustments, Helland considered the surrounding uses, residential demographics, office demand, and regional accessibility. He relied on a qualitative analysis because he did not have sufficient paired sales to quantify location adjustments and ultimately adjusted all but Sales 2 and 6. Helland also made positive qualitative adjustments for size to Sales 2, 5, and 7 due to the larger size of their buildings compared to the subject property's. And with the exception of Sale 5, all of his comparable sales received an age/condition adjustment that involved using a blend of both quantitative and qualitative analyses to reach the appropriate adjustment taking into consideration their year built, renovations, and condition. Additionally, Helland qualitatively adjusted Sales 1-5 for site area to address the contributory value of the land that transferred with the property. Finally, he adjusted Sales 1, 2, 3, and 7 for building quality, which he quantified by looking at the MVS cost manual and deciding how each of their buildings compared to the subject property's base cost. *Tr. at 50-54, 103-109; Pet'r Ex. 1 at 62-65.*
24. Helland used all eight Sales for the 2022 assessment year, but excluded Sales 6, 7, and 8 from his 2021 analysis because the sales were from mid- to late 2021. After adjustment, the five comparable sales Helland used for 2021 (Sales 1-5) had prices ranging from \$109.14/SF to \$114.87/SF, which he reconciled to a value of \$110.00/SF. For 2022,

Helland's eight comparable sales had adjusted prices ranging from \$109.14/SF to \$128.39/SF. He placed emphasis on Sales 6, 7, and 8 because they had the lowest adjustments and because they occurred after the onset of the pandemic, and reconciled to a value of \$115.00/SF. Multiplying Helland's reconciled values by the subject property's 26,560 SF building produced indicated values of \$2,900,000 (rounded) as of January 1, 2021 and \$3,100,000 (rounded) as of January 1, 2022. *Tr. at 54-56; Pet'r Ex. 1 at 62-65.*

**d. Helland's Income Capitalization Approach**

25. Helland relied on the direct capitalization method to develop his income capitalization approach. To estimate market rent for the subject property, he considered data and opinions from recent leases of comparable buildings and surveyed asking rents. Helland selected seven leases for office properties from around Indiana:

- Lease 1 (639 S. Walker Street, Bloomington) – a 21,864 SF medical/off campus property built in 1993 and 100% leased on a single-net basis to four medical office tenants in January 2021 for an unspecified term at a rental rate of \$12.49/SF (based on the NOI). The actual annual rents for the five office suites range from \$12.70/SF (1,020 SF office leased month-to-month) to \$15.30/SF for Methodist Sports Medicine's two suites (5,432 SF and 11,482 SF offices).
- Lease 2 (436 E. Washington Blvd., Fort Wayne) - a 15,000 SF medical/off campus property built in 1937 (renovated in 2016) and "approximately 100% leased" on a triple-net basis ("NNN") in November 2023 for a 60-month term at a rental rate of \$12.70/SF.
- Lease 3 (1173 Ignition Drive South, South Bend) - a 77,264 SF property built in 2020 and 100% leased on a NNN basis in April 2021 for a 144-month term at a rental rate of \$14.63/SF.
- Lease 4 (2525 N. Shadeland Ave., Indianapolis) - a 161,030 SF mixed-use, multitenant property built in 1951 (renovated 1973) of which 22,460 SF was leased on a modified gross basis in May 2020 for a 120-month term at a rental rate of \$12.86/SF.
- Lease 5 (1312 Professional Blvd., Evansville) – a 24,093 SF medical/off campus property built in 2000 and leased on a single-net basis in July 2020 for an unspecified term at a rental rate of \$12.52/SF (based on the average NOI for the building). When it sold in July 2020, the property was 100% leased to two medical tenants, with DaVita occupying 14,493 SF and Midwest Neurological occupying the remaining 9,600 SF. Midwest's lease ran from June 2019 to May 2024 and the rental rate was "at well-below market rates."
- Lease 6 (2656-2676 E. 2<sup>nd</sup> Street, Bloomington) – a 17,248 SF medical/off

campus, multitenant property built in 1974 (renovated 1980) of which 1,968 SF was leased on a NNN basis in October 2019 for a 60-month term at a rental rate of \$11.00/SF.

- Lease 7 (474 S. Landmark Avenue, Bloomington) – an 8,457 SF medical/off campus, multitenant property built in 1997 of which 1,500 SF was leased on a NNN basis in November 2018 for a 60-month term at a rental rate of \$15.95/SF.

*Tr. at 56-58, 112-119; Pet'r Ex. 1 at 66-72; Resp't Exs. G at 17, H at 8.*

26. Helland did not find sufficient leasing data for single-tenant office buildings because a lot of them are owner-user properties. So some of the comparable leases are single-tenant office buildings, while some are simply similar-sized rentals. Leases 1-5 were signed after the onset of the pandemic, while Leases 6 and 7 were signed prior to it. Leases 6 and 7 are also significantly smaller in size than the subject property and have “a fundamentally different user.” Nevertheless, Helland thought it was important to include them for informational purposes because they are located in Bloomington, and he wanted to understand the local market. *Tr. at 57-58; Pet'r Ex. 1 at 70-72.*
27. Before adjustment, Helland's seven comparable leases had rental rates ranging from \$11.00/SF to \$15.95/SF. He adjusted them for expense structure, market conditions (time), location/access/exposure, size, age/condition, and quality. The adjusted leases had rental rates ranging from \$11.27/SF to \$14.02/SF, and an average rate of \$12.77/SF. Helland noted that there would be downward pressure on the average asking rate reported by CoStar (\$13.51/SF) to account for the impact of concessions and demand. Helland conceded that he had not included any analysis of this issue in his appraisal report. And the subject property's single-tenant design and size led him to conclude to a rental rate slightly below the adjusted average of his comparable leases. Based on his analysis, Helland concluded to a market rental rate of \$12.00/SF for both 2021 and 2022. *Tr. at 58-59, 83; Pet'r Ex. 1 at 72-73, 85.*
28. Helland's concluded rental rate is net in nature. He therefore loaded his capitalization rate to account for real estate taxes. To account for utilities, insurance, repairs and maintenance, security, grounds, and cleaning and janitorial expenses that would be paid by the tenant in a net-lease agreement, Helland added \$2.60/SF for expense recoveries,

resulting in a total tenant revenue estimate of \$14.60/SF for both 2021 and 2022. He applied vacancy allowances of 10% for 2021 and 5% for 2022 and arrived at an effective gross income estimate of \$13.14/SF for 2021 and \$13.87/SF for 2022. Helland increased the vacancy allowance to 10% for 2021 (representing a six-month vacancy period over a five-year investment period) due to the uncertainty at the height of the pandemic. Next, he made deductions for operating expenses of \$3.39/SF for 2021 and \$3.42/SF for 2022. Helland developed the deductions using expense data for nine categories of operating expenses (insurance, utilities, repairs and maintenance, cleaning and janitorial, grounds, security, general and administrative, management, and other expenses) from five similarly sized office buildings in Indiana, Illinois, and Kentucky. Based on those estimates, Helland projected the subject property's stabilized net operating income ("NOI") to be \$258,925 (\$9.75/SF) for 2021 and \$277,442 (\$10.45/SF) for 2022. *Tr. at 59-62, 67; Pet'r Ex. 1 at 73-80, 84-86.*

29. To develop a direct capitalization rate, Helland reviewed the capitalization rates from two of the single-tenant, leased fee sales he used in his sales comparison approach. They had reported capitalization rates of 5.87% and 7.81%, and an average rate of 6.84%. He also analyzed four investor surveys from Newmark, PwC, Situs RERC, and RealtyRates. The surveys had capitalization rates ranging from 7.52% to 8.70%. Helland gave the least weight to the PwC and RealtyRates surveys because they are national surveys, and the subject property would not be considered a national investment property. It is a Class B property within the Midwest, so he gave the most consideration to the Newmark and Situs RERC surveys. Helland also reviewed capitalization rate data from seven additional Class B, multitenant office sales from Indiana (three of which exceeded 70,000 SF in size) that closed from late 2020 to early 2022. They had capitalization rates ranging from 8.00% to 10.83%, and an average rate of 9.13%. Finally, he performed a band of investment analysis that produced an indicated capitalization rate of 9.25% (rounded), and a debt coverage ratio analysis that resulted in a 9.13% capitalization rate. Helland placed the most weight on the Newmark and Situs RERC surveys and the seven Class B, multitenant office sales, while his band of investment and debt coverage ratio

analyses provided secondary support. He went with a slightly higher capitalization rate for 2021 than 2022 due to the heightened level of uncertainty at the onset of the pandemic, and ultimately selected unloaded capitalization rates of 9.25% for 2021 and 9.00% for 2022. *Tr. at 62-66; Pet'r Ex. 1 at 81-83, 85.*

30. Helland then loaded his respective capitalization rates to account for the portion of taxes the owner/landlord would be responsible for during periods of vacancy. He did so by taking the subject property's 2.029% tax rate, multiplying it by the vacancy rates he used for 2021 (10%) and 2022 (5%), and adding the results to his base capitalization rates. This produced loaded capitalization rates of 9.46% for 2021 and 9.10% for 2022. Dividing Helland's NOI estimates by his loaded capitalization rates resulted in indicated values of \$2,700,000 (rounded) as of January 1, 2021, and \$3,000,000 (rounded) as of January 1, 2022. *Tr. at 66-67; Pet'r Ex. 1 at 83-86.*

#### **e. Helland's Reconciliation**

31. Helland gave primary consideration to the sales comparison approach because he was valuing a single-tenant office property and he had timely single-tenant sales data from properties purchased for continued single-tenant office use. He gave secondary weight to his income capitalization approach due to the wealth of market lease data from Bloomington and across Indiana for similarly sized office buildings, comparable expense data, and well-supported vacancy and capitalization rates. Helland only gave "supporting consideration" to his cost approach because it is not a direct reflection of market participants and the only way to account for the market's impact in the cost approach is in the calculation of depreciation. Based on his analyses, Helland reconciled to final value conclusions of \$2,800,000 as of January 1, 2021, and \$3,100,000 as of January 1, 2022. *Tr. at 67-69; Pet'r Ex. 1 at 87-88.*

## **2. Hall's Appraisals**

32. The Assessor offered appraisal reports from David Hall, MAI, AICP, and Managing Director of Integra Realty Resources-Indianapolis. He has a bachelor's degree in landscape architecture from Ball State University and an MBA from Ohio State

University. Hall is a licensed Indiana Certified General Real Estate Appraiser, and he has been a commercial real estate appraiser for 19 years. Hall has performed over 1,000 appraisals, many for property tax purposes, and he also has experience appraising commercial office properties. He performed appraisals of the retrospective market value-in-use of the subject property's fee simple interest as of January 1, 2021 and January 1, 2022, and certified that he prepared them in conformity with USPAP. *Tr. at 144-147; Resp't Ex. B Addenda A at 3.*

33. Hall prioritized the concept of "continuation of use" in his search for comparable properties looking for properties that had been and would continue to be single-tenant office space. He drew information from several sources including CoStar, LoopNet, Claritas, Environics Analytics, InterFlood, and Integra's own property database accumulated from properties across the country over many years. Hall used the same data for both 2021 and 2022. *Tr. at 155-156, 158, 355.*
34. While Hall did not perform an appraisal review, he identified several general appraisal principles that were brought into issue by Helland's appraisal of the subject property. Hall noted that Helland used leased fee sales among his sales comparables. Hall cited to the Appraisal of Real Estate ("ARE") that provides a specific procedure for a market rent analysis on other comparable properties that compares contract rent to market rent to validate whether the comparable's rent is above or below market rent. He stated that it is difficult to perform and support this type of analysis, and the ARE does not identify analysis of NOI and capitalization rates as a substitute for market versus contract rental rate analysis. Hall further stated that the use of multi-tenant properties in the appraisal process brings in certain complications and uncertainties, which can make the sales less representative of the subject property. Hall acknowledged Helland's testimony of the possibility that multi-tenant properties reflect other influences such as free rent, rent concessions, and other enticements but Hall's research did not find those terms in the comparable properties he used or generally, and he believes that those concessions are much more likely in multi-tenant than single-tenant properties. *Tr. at 171-172, 242-249, 282-284.*

35. Hall also noted that Helland used medical office properties as part of his comparables. He opined that while medical properties are certainly within the general category of office properties, they constitute a specific sub-set of office properties. Medical properties are typically built and equipped for use differently than basic office property. Specifically, medical properties generally have much enhanced plumbing and electrical systems to accommodate the equipment and needs of a medical practice. Hall also stated that medical properties are economically different than just strict office properties, usually resulting in different rental rates and expense structures. Hall also acknowledged Helland's theory regarding the effect of COVID on the market but stated that he was unable to find much if any evidence of such an effect in his research of single-tenant office comparables. *Tr. at 174-175, 341, 364-366.*

**a. Hall's Market Overview**

36. Hall developed an economic and demographic analysis to help him understand the characteristics of the subject property's market area and the market in which it competes. However, he clarified that this analysis does not factor directly into valuation but informs him in the process by showing trends and other factors that contribute to adjustments. He described Monroe County as growing at a slightly lower rate than the average for the State of Indiana. A 4.3% drop in employment from 2019 to 2020 was noted which was likely impacted by the onset of COVID. In 2021, Monroe County had a modestly increasing population; increased employment of 7.7% over the past decade; a lower per capita Gross Domestic Product than the remainder of the State possibly attributable to the student population; decreasing unemployment, especially in 2022; and a median household income 5.1% lower than the Indiana average, again likely attributable to the student population. All of these factors tend to positively impact values. *Tr. at 161-162, 296-297, 308, 322-323, 368-369; Resp't Ex. A and C at 16-22.*
37. At the neighborhood level, Hall explained that the subject property is in a mixed commercial use area consistent with its current zoning sitting adjacent but without access to Interstate 69. This exposure was also considered a favorable factor to the property's

value as this would tend to draw customers from a smaller area, and he defined the subject property's primary trade area as a five-mile radius around it with Indiana as its secondary market. The subject property has good vehicular access and fair linkages to public transportation. The surrounding neighborhood is well-established and includes a mix of retail, office, medical office, industrial, multifamily, and single-family uses. *Tr. at 163-164; Resp't Exs. A and C at 24-28.*

38. Hall also developed a market segmentation analysis to help him understand the subject property and the market in which it competes. He determined that there were substantial differences between single and multi-tenant properties as well as office versus medical properties. The first analysis looked at trends for single-tenant office properties between 10,000 and 50,000 SF within a 5-mile radius. This returned a total of 18 properties. The second analysis broadened the search area to the entire State of Indiana which returned 863 total properties. Hall found vacancy rates dove sharply shortly before the onset of COVID and noted a lack of increased vacancy post-COVID. His 2022 study also found that market rent had increased over 2021. Hall found no data specifically referencing concessions such as free months of rent or other potential incentives in the leasing process. Hall noted that the local and State property groups reflected the same trends, specifically a steady 2.3% increase in market rent growth, low vacancy rates, some fluctuation in capitalization rates, and recent increases in sale prices. The property groups returned in his search may contain a small number of medical office properties. *Tr. at 167-191, 299-300, 324-330; Resp't Exs. A and C at 30-41.*

39. Because Hall was determining the subject property's market value-in-use, which is reflective of its current use, a determination of its highest and best use was not necessary but was nonetheless completed for comparative purposes. He determined the property's current market value-in-use as office space and its highest and best use were consistent. Hall found no evidence of external obsolescence but did find evidence of functional obsolescence in the form of superadequacy based on included attributes (radiant heat flooring, a private garage, dumbwaiter, heated sidewalks, etc.) that would not normally

be sought by tenants. Hall noted without conclusion that future remote work trends could impact demand. *Tr. at 159-161, 194-214, 342, 363; Resp't Exs. A and C at 56-90.*

**b. Hall's Cost Approaches**

40. Hall began his cost approach by valuing the subject property's land using the sales comparison approach. He searched the Bloomington area for vacant land for redevelopment with 1-5 acres in mixed zoning use areas with fee simple sales from 2018 to the effective dates. He selected the following five Bloomington area land sales for his analysis:

- Land Sale 1 (1918 W. 3<sup>rd</sup> Street) - a 2.33-acre commercial site purchased in May 2018 for \$5.40/SF for development of a Culver's restaurant.
- Land Sale 2 (2105 S. Liberty Drive) - a 1.05-acre commercial site purchased in March 2019 for \$8.20/SF for development of a freestanding Starbucks.
- Land Sale 3 (400 W. 17<sup>th</sup> Street) - a 1.00-acre commercial site purchased in June 2019 for \$11.02/SF for development of a freestanding retail store.
- Land Sale 4 (3590 W. State Road 46) - a 3.40-acre commercial site comprised of two contiguous parcels purchased in February 2020 for \$4.46/SF for development of a financial institution.
- Land Sale 5 (1901 W. 3<sup>rd</sup> Street) - a 5.43-acre commercial site comprised of three contiguous parcels purchased in June 2020 for \$4.65/SF for development of a storage facility.

*Tr. at 215-218, 304; Resp't Exs. A and C at 93-96.*

41. Hall used the same five comparable Land Sales for the 2021 and 2022 assessment years, and except for market conditions/age which were adjusted for 2022, all his adjustments were the same for both years. Comparable Sales 4 and 5 occurred during COVID. After reviewing CoStar data for the office sector within a 5-mile radius of the subject property, Hall applied market conditions adjustments to each comparable Sale at an average annual rate of 2% resulting in adjustments of between 1 and 5% for each property in 2021 and 3 and 7% in 2022. He made a -25% location adjustment to Sale 3 because of its superior location adjacent to the Bloomington central business district and the campus of Indiana University. Sale 2 received a -10% access/exposure adjustment due to superior access to Interstate 69, and +10% adjustments were made to the remaining four sales due to

inferior access/exposure. Hall noted that the two largest parcels sold for the lowest unit prices while the two smallest sold at higher prices. Hall also made size adjustments of -30% to Sales 2 and 3; a +30% adjustment to Sale 5; and a +10% adjustment to Sale 4 due to differences in their site sizes relative to the subject property's site. *Tr. at 216, 219-225, 304; Resp't Exs. A and C at 97-105.*

42. Hall's 2021 adjusted comparable Land Sales had adjusted per acre prices ranging from \$222,857 to \$286,657, with an average price of \$258,162. And for 2022, the land sales had adjusted prices ranging from \$227,143 to \$292,333, with an average price of \$263,178 (rounded). Hall gave the primary weight to Sales 1, 2, 4, and 5 for 2021 with an adjusted average price of \$247,323. Sale 3 was given less weight due to its need for significant location adjustment. This resulted in reconciled per acre values of \$250,000 for 2021 and \$260,000 for 2022. Applying his reconciled values to the subject property's 2.75-acres of land resulted in indicated values of \$690,000 (rounded) for 2021 and \$720,000 (rounded) for 2022. *Tr. at 226-227, 305; Resp't Exs. A and C at 105-106.*
43. Hall used MVS to estimate the replacement cost new of the improvements. He based his estimate for the subject property's building on the unit cost for a Class D office building of "good" quality which resulted in base square footage value of \$158.00 per MVS. Hall stated that his 2021 and 2022 appraisals were largely identical with the exception that for 2022 the age/condition and depreciation adjustments were amended to allow for the additional year of age on the structure. The valuation standards used for 2022 were changed to reflect value for the appropriate period. Hall noted that he used the MVS January 1, 2022 values for 2022 which increased significantly from 2021 due to material price increases, increased labor costs, and supply chain issues. He applied "average" MVS values to the canopies; carports; garage; parking lots; asphalt drives; and concrete paving. Based on MVS's "good" quality rating, Hall selected a base cost for the office building of \$152.79/SF for 2021 and \$180.70 for 2022. After applying values for the canopies, carports, and garage, he determined final estimated costs new for the building of \$4,404,035 for 2021 and \$4,961,303 for 2022. Hall included an adjustment of 5% for indirect costs for what he determined to be "average" quality structure and site

improvements that totaled to \$181,740 for 2021 and \$207,213 for 2022. Because the subject property would typically be developed by an owner-user thereby reducing the risk associated with a speculative development, Hall elected to exclude entrepreneurial profit from his replacement cost estimates. His estimated costs resulted in total replacement costs new for the building and site improvements of \$4,585,775 for 2021 and \$5,416,581 for 2022 before depreciation. *Tr. at 228-233, 302, 305-306, 330, 340-341; Resp't Exs. A and C at 53-55; 107-111; E at 2, 5-9, 11, 12, 14, 17, 18, 20, 21, 24-27.*

44. Hall concluded that no external or locational obsolescence impacted the subject property for either year. However, the property did suffer minor functional obsolescence from superadequacy due to the presence of excessive soundproofing, heated sidewalks (not functioning), backup electrical power, a dumbwaiter, supplemental radiant floor heating, a decorative cupola, and additional restrooms. He used the economic age-life method to estimate depreciation due to physical deterioration. Based on his inspection of the subject property, Hall determined that the building's effective age was consistent with its actual age on each assessment date (16 years in 2021 and 17 years in 2022). For a Class D office building of "good" quality, MVS estimates the typical life span to be 50 years. Dividing the building's effective ages by its projected lifespan of 50 years produced depreciation estimates of 30.6% for 2021 and 32.8% for 2022. Hall also calculated depreciation for the parking lots, asphalt drives, and concrete paving with effective ages of 4, 4, and 6 years for 2021 and 5, 5, and 7 years for 2022, with common economic lives of 8, 8, and 12 years. After estimating the effective age of the parking lots, asphalt drives, and concrete paving, he followed the same process to arrive at depreciation estimates for the site improvements of 50% for 2021 and 61.9% for 2022. *Tr. at 152, 175-176, 234-237; Resp't Exs. A and C at 113-120.*
45. Applying Hall's depreciation estimates for the building and site improvements resulted in depreciated replacement costs for the subject property of \$3,150,000 (rounded) for 2021 and \$3,580,000 (rounded) for 2022. Adding in his respective land value conclusions to the depreciated replacement costs for the building and site improvements and after

making negative leasing commission adjustments,<sup>5</sup> Hall produced indicated values of \$3,650,000 (rounded) for 2021 and \$4,100,000 (rounded) for 2022. *Tr. at 237-239, 296, 308-309; Resp't Exs. A and C at 120-122.*

**c. Hall's Sales Comparison Approaches**

46. Hall started his sales comparison analyses by searching for fee simple sales of 10,000 to 50,000 SF single-tenant office structures in Bloomington and Indiana generally built in the 1990s or later and sold between 2016 and 2021. He specifically avoided leased-fee sales as those can attract different kinds of buyers and require adjustment through a very specific procedure described in *The Appraisal of Real Estate* which can be difficult to perform. Hall identified four sales of office buildings in Bloomington but concluded that three would not be suitable comparables as one was multi-tenant; one was built more than 30 years prior and surrounded by agricultural use property; and one included compensation for a permanent right-of-way. He then selected the following five sales for use in both valuation years:

- Sale 1 (44 Main Street, Evansville) - a 16,014 SF two story single-tenant office built in 1990 on a 0.41-acre site purchased in May 2016 for \$103.03/SF.
- Sale 2 (1036 S. Rangeline Road, Carmel) - a 39,679 SF office building built in 2006 on a 1.00-acre site purchased in November 2016 for \$141.13/SF.
- Sale 3 (10500 Crosspoint Blvd., Indianapolis) - a 26,392 SF office building built in 1996 on a 4.55-acre site purchased in June 2018 for \$170.51/SF.
- Sale 4 (420 N. Walnut Street, Bloomington) - a 19,792 SF office building built in 2008 on a 0.40-acre site purchased in November 2019 for \$176.84/SF.
- Sale 5 (5939 Castle Creek Pkwy N., Indianapolis) a 20,522 SF two-story office building built in 1992 on a 2.76-acre site purchased in November 2021 for \$146.18/SF.

*Tr. at 241-249, 309; Resp't Exs. A and C at 123-129.*

47. Hall began his adjustments by applying market conditions adjustments to each comparable sale at an average annual rate of 2% based on his analysis of survey data for single-tenant office buildings located within a 5-mile radius of the subject property in Bloomington MSA which produced adjustments ranging from 0-9% for 2021 and 0-11%

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<sup>5</sup> The leasing adjustments totaled \$192,409 for 2021 and \$204,921 for 2022. *Resp't Ex. A at 121-122; C at 121-122.*

for 2022. He made location adjustments of +5%, -15%, -10%, -10% and -10% to Sales 1 through 5, respectively, after considering population, annual population growth, and average household income for each comparable sale. He concluded that no access/exposure adjustments were necessary for Sales 1 and 5 given their good corner and adjacent street access and good visibility. However, he rated Sales 2 and 4 as inferior to the subject property and applied a +5% adjustments because of interior location and traffic count, respectively and made a -10% adjustment to Sale 3 which he viewed as superior due to excellent interstate access. Hall found that no adjustments were necessary for quality of construction citing minimal differences. He also applied age/condition adjustments calculated by applying 1% per year of difference between the effective ages of the Comparable Sales and the effective age of the subject property. These adjustments ranged from -5 to +14% in 2021 and from -6% to +13% in 2022. *Tr. at 250-260; Resp't Exs. A and C at 132-139; B at 77.*

48. For 2021, Hall's comparable sales had adjusted prices ranging from \$124.66/SF to \$164.14/SF, with an average price of \$146.75/SF. Sale 1 was given less weight due to its distance from the subject property and its being the oldest Sale. For 2022, the Sales had adjusted prices ranging from \$125.81/SF to \$165.52/SF, with an average price of \$147.39/SF. Hall ultimately selected an indicated value of \$150.00/SF for both 2021 and 2022, resulting in indicated values of \$3,870,000 (rounded) for 2021 and \$3,880,000 (rounded) for 2022 after having positively adjusted each year for depreciated parking structures.<sup>6</sup> *Tr. at 261-262, 296, 311; Resp't Exs. A and C at 139-141.*

#### **d. Hall's Income Capitalization Approaches**

49. Hall also completed an income capitalization approach using the direct capitalization method. To estimate market rent, he looked for single-tenant office buildings in Indiana with 10,000 to 50,000 SF built after 1990 with lease commencement dates from 2015 to 2021. Hall avoided build-to-suit, leasebacks, and related party transactions as they pose complications and may not reflect market lease value. Because many office buildings

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<sup>6</sup> The contributory value of the parking structures was \$46,000 for 2021 and \$47,000 for 2022. *Resp't Ex. A at 140-141; C at 140-141.*

with these attributes are owner-occupied, Hall had limited comparable rental data to work with, and he was only able to find four comparable leases fitting his search criteria, with a variety of lease expense provisions:

- Comparable Lease 1 (431 E. Colfax Avenue, South Bend) - a 22,636 SF two-story single-tenant office building built in 1990 and leased to PeopleLink beginning in January 2015 for a 120-month term at a rental rate of \$10.00/SF under an absolute net agreement.
- Comparable Lease 2 (1663 S. Liberty Drive, Bloomington) - a 51,735 SF two-story office building built in 2000 and leased to Author Solutions originally in 2011 which lease was renegotiated in September 2015 for a 120-month term at a rental rate of \$14.73/SF as a triple net lease with landlord provision of \$2,000,000 of renovations.
- Comparable Lease 3 (1310 E. 96<sup>th</sup> Street, Carmel) - a 11,303 SF office building built in 2005 with an owner-occupied first floor and the second floor leased to Lucas Oil Products with three months rent-free beginning in May 2021 for a 63-month term at a rental rate of \$19.00/SF over the entire period adjusted to a \$14.00/SF triple net rate if the first floor is leased to a new tenant.
- Comparable Lease 4 (15755 North Pointe Blvd., Noblesville) a 11,087 SF single-tenant office building built in 2007 and triple net leased to Lighthouse Autism Center in November 2021 with two five-year renewal options for an original 88-month term at a rental rate of \$16.00/SF.

*Tr. at 269-272, 312; Resp't Exs. A and C at 142-146.*

50. To determine if adjustments were necessary, Hall looked at expense structure, conditions of lease, market conditions, location, access/exposure, size, quality of construction, and age/condition for both years. He concluded Lease Comparables 1, 2, and 4 reflected normal triple net or absolute net expense terms. Comparable 2 required adjustment for improvements made by the owner and Comparable 3 requiring a downward adjustment for its full-service lease. He did not need to adjust for expense structure, expenses/tenant improvement allowance, or conditions of lease. To account for the various lease-start dates, Hall applied market conditions adjustments to each comparable lease at an average annual rate of 2% based on his analysis of survey data for office buildings located in Indiana. This resulted in adjustments to Comparables 1 (12%) and 2 (11%) with no adjustments to 3 and 4 for 2021, and adjustments to Comps 1 (+14%), 2 (+13%), and 3 (+1%), with no adjustment to Comparable 4 for 2022. Hall made a -5% location

adjustment to Comparable 1 for proximity to the Central Bloomington business district. He also made a -10% location adjustment to Comparable 3 after considering the population, annual population growth, and median household incomes within a 5-mile radius. Hall then made a -15% location adjustment to Comparable 4 due to superior population growth and average income. Hall determined only a +5% access/exposure adjustment was necessary to Comparable 3 for distance to the interstate. The remaining properties required no access adjustment. He also made size adjustments of +10% to Comparable 2, and -5% to Comparables 3 and 4, respectively. *Tr. at 272-277, 312-314; Resp't Exs. A and C at 147-155.*

51. Hall adjusted Comparable 2 by +10% for quality of construction and found that none of the other properties required adjustment. He determined no physical characteristic adjustments to be necessary. Hall also applied age/condition adjustments at a rate of 1% per year of difference between the comparables' effective ages and the subject property's effective age, resulting in 2021 adjustments to Comparables 3 and 4 of +1% and -1% respectively, and +10% to Comparable 1. Hall made 2022 adjustments of +9% for Comparable 1, -1% for Comparable 2, no adjustment for Comparable 3, and -2% for Comparable 4. *Tr. at 278, 314; Resp't Exs. A and C at 156-157.*
52. For 2021, Hall's comparable leases had final adjusted rents ranging from \$11.76/SF to \$14.48/SF, and an average rental rate of \$12.90/SF. For 2022, the rental rates ranged from \$11.86/SF to \$14.62/SF, and had an average rental rate of \$12.92/SF. Based on his analysis of comparable rents, Hall ultimately concluded to a market rent of \$13.25/SF for 25,521 SF for 2021 and 2022, producing potential gross rent estimates of \$338,153/year for both years. *Tr. at 278-279; Resp't Exs. A and C at 157-158.*
53. Because the subject property and comparable leases all share the same triple-net expense structure in which the tenant is responsible for paying taxes, insurance, utilities, and repairs/maintenance, Hall projected no expense reimbursements. Based on his market segmentation analysis, Hall applied 5% deductions for vacancy and collection loss for both 2021 and 2022. He also deducted 2.70% for management expenses in both years.

Additionally, Hall applied expense deductions for replacement reserves at rates of \$0.24/SF for 2021 and \$0.23/SF for 2022. He applied the deductions to his potential gross rent estimates which produced NOI estimates of \$306,198 (\$12.00/SF) for 2021 and \$306,463 (\$12.01/SF) for 2022. *Tr. at 279-280, 315-316; Resp't Exs. A and C at 158-161.*

54. To select appropriate capitalization rates, Hall reviewed CoStar surveys, investor surveys, comparable sales, and band of investment method. Hall concluded that the capitalization rate should not be loaded because that would not be generally applicable in single-tenant lease situations and noted that RealtyRates.com provided asking as opposed to concluded capitalization rates. Hall used the same three comparable sales for 2021 and 2022 with capitalization rates of 8.08%, 9.07%, and 10.54% with an average of 8.58%. The CoStar surveys from Q1 2021 and Q1 2022 had average cap rates for office structures in the 5-mile radius around the subject property of 9.58% and 9.54%, respectively, and average cap rates for office properties in Indiana with 10,000-50,000 SF of 9.32% and 9.17% for 2021 and 2022 respectively. The Net Lease Report reported average cap rates for office properties of 6.95% and 6.70% for Q1 2021 and Q1 2022, respectively, while PwC reported average cap rates for the national net lease market of 7.55% and 6.02% for secondary office versus suburban office space for 2021, and 7.49% and 6.13%, respectively, for 2022. Hall also used the band of investment method to derive a capitalization rate using market data from RealtyRates.com, which produced a cap rate of 7.46% for 2021 and 7.66% for 2022. He gave equal weight to all methods used and concluded to a cap rate of 8.25% for both 2021 and 2022, which rates Hall concedes fell closer to the capitalization rates for national grade properties as opposed to local capitalization rates. He acknowledged that the subject property is not a national grade property. Hall then made leasing commission adjustments of \$192,409 for 2021 and \$204,921 for 2022 and removed parking structure values of \$46,000 and \$47,000 respectively. He then capitalized his NOI estimate for 2021 by his 8.25% capitalization rate after adjustment for lease commissions and parking structure value, which produced a stabilized value of \$3,570,000 (rounded) for 2021. He did the same for 2022 which

produced a stabilized value of \$3,560,000 (rounded). *Tr. at 284-291, 296, 316-319, 351-353, 359-360; Resp't Exs. A and C at 162-168; B at 60, 63, 77, 81.*

**e. Hall's Reconciliations**

55. Hall gave primary weight to the cost and sales approaches and secondary weight to the income capitalization approach because of the limited availability of comparable rental data. He ultimately reconciled to final values of \$3,750,000 for 2021 and \$4,000,000 for 2022. *Tr. at 149-150, 294, 296, 319; Resp't Exs. A and C at 169-170.*

**CONCLUSIONS OF LAW AND ANALYSIS**

**A. BURDEN OF PROOF AND VALUATION STANDARD**

56. The “overarching goal” of Indiana’s property tax appeal system “is to measure a property’s value using objectively verifiable data.” *Westfield Golf Practice Ctr., LLC v. Wash. Twp. Assessor*, 859 N.E.2d 396, 399 (Ind. Tax Ct. 2007).
57. Generally,<sup>7</sup> an assessment issued by an assessing official is presumed to be correct for purposes of an appeal. 2021 REAL PROPERTY ASSESSMENT MANUAL at 3. The taxpayer has the burden to prove “that the assessment was incorrect” with evidence of “what the correct assessment should be.” *Abraytis v. Porter Cnty. Assessor*, 220 N.E.3d 77, 80 (Ind. Tax Ct. 2023).
58. “To rebut the presumption that an assessment is correct, a taxpayer must make a prima facie case by presenting probative evidence to the Indiana Board.” *Wigwam Holdings LLC v. Madison Cnty. Assessor*, 125 N.E.3d 7, 12 (Ind. Tax Ct. 2019) (emphasis added). A party may achieve this evidentiary standard by presenting “relevant market data, such as evidence of actual construction costs, certain sales or assessment data, or any other data compiled in accordance with generally accepted appraisal principles.” *Howard County Assessor v. Kokomo Mall*, 14 N.E.3d 895, 899 (Ind. Tax Ct. 2014); 2021 REAL PROPERTY ASSESSMENT MANUAL at 2-3.

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<sup>7</sup> KN has not claimed the burden should shift under Indiana Code § 6-1.1-15-17.2 (repealed 2022).

59. Consequently, there are two prongs in the standard for establishing a prima facie case for rebutting an assessment. A party must first present “objectively verifiable, market-based evidence” of the property’s value. *Piotrowski v. Shelby Cty. Assessor*, 177 N.E.3d 127, 132 (Ind. Tax Ct. 2021) (citing *Eckerling v. Wayne Twp. Ass’r*, 841 N.E.2d 674, 677-78 (Ind. Tax Ct. 2006)). Second, the taxpayer must show that the valuation analysis has comported with “generally accepted appraisal principles.” *Grabbe v. Duff*, 1 N.E.3d 226, 229 (Ind. Tax Ct. 2013).
60. Under the first prong, market-based evidence may include “sales data, appraisals, or other information.” *Peters v. Garoffolo*, 32 N.E.3d 847, 849 (Ind. Tax Ct. 2015). “Taxpayers and assessing officials alike must rely on objectively verifiable data to support their valuation positions.” *DuSablon v. Kaufman*, 160 N.E.3d 587, 595 (Ind. Tax Ct. 2020).
61. Under the second prong, evidence is considered consistent with “generally accepted appraisal principles” if it conforms to practices “recognized in the appraisal community as authoritative.” *Meijer Stores Ltd. P’ship v. Boone Cnty. Assessor*, 162 N.E.3d 26, 32 (Ind. Tax Ct. 2020) (citing the definition in 50 IAC 30-2-4). “Conclusory statements” are insufficient to establish that an estimate of value is based on accepted appraisal principles. *Long v. Wayne Twp. Assessor*, 821 N.E.2d 466, 470 (Ind. Tax Ct. 2005); *Marinov v. Tippecanoe County Ass’r*, 119 N.E.3d 1152, 1156 (Ind. Tax Ct. 2019) (holding that arguments that “another property is ‘similar’ or ‘comparable’ simply because it is on the same street are nothing more than conclusions [and] do not constitute probative evidence”).
62. For most real property types, neither party may rely on the mass appraisal “methodology” of the “assessment regulations” to establish a prima facie case. *P/A Builders & Developers, LLC v. Jennings County Ass’r*, 842 N.E.2d 899, 900 (Ind. Tax Ct. 2006). This is because the “formalistic application of the procedures and schedules” from the Department of Local Government Finance’s (“DLGF”) assessment guidelines lacks the market-based evidence necessary to be establish a specific property’s market value-in-use. *Piotrowski*, 177 N.E.3d at 133.

63. The Tax Court has long held that “the most effective method to rebut the presumption that an assessment is correct is through the presentation of a market value-in-use appraisal, completed in conformance with the Uniform Standards of Professional Appraisal Practice (USPAP).” *Kooshtard Prop. VI, LLC v. White River Twp. Assessor*, 836 N.E.2d 501, 506 fn. 6 (Ind. Tax Ct. 2005). Thus, an appraisal from a qualified appraiser is sufficient to make a prima facie case unless shown to be “inconsistent with the evidence or the requirements of the law.” *Marion Cty. Assessor v. Kohl’s Ind., LP*, 179 N.E.3d 1, 15 (Ind. Ct. App. 2021). An appraisal is not reliable if there are “wide-ranging disparities” between the appraisal and “the valuation standards and assumptions underlying Indiana’s assessment guidelines.” *Wigwam Holdings LLC*, 125 N.E.3d at 12. Likewise, an appraiser’s opinion “must be based upon facts.” *Marion County Assessor v. Wash. Square Mall, LLC*, 46 N.E.3d 1, 12 (Ind. Tax Ct. 2015).
64. The Board must determine as a threshold issue whether a party has established a prima facie case. *Wigwam Holdings LLC*, 115 N.E.3d at 536 (holding that the Board’s “statutory duty, as the finder of fact,” is to review “the probative value” of the evidence); *Madison Cnty. Assessor v. Sedd Realty Co.*, 125 N.E.3d 676, 680 (Ind. Ct. App. 2019).
65. If a party succeeds in making a prima facie case, then the Board proceeds to “weigh the evidence before it and determine the market value-in-use of the subject property.” *Marion Cnty. Assessor v. Square 74 Assocs., LLC*, (Ind. Tax Ct. 2024).
66. The Board must “identify the preponderance of evidence that supports its ultimate finding and state why it supports that finding.” *Madison Cnty. Assessor v. Kohl’s Ind., LP*, 2024 WL 5002114 (citing I.C. § 6-1.1-15-4(j)). The Supreme Court has described the “preponderance-of-the-evidence standard” as simply “more likely than not.” *Geels v. Flottemesch*, 243 N.E.3d 1069, 1071, (Ind. 2024).
67. Like any trier of fact, the Board “must weigh the evidence, draw any reasonable inferences, resolve conflicts in the evidence, determine the credibility of witnesses and decide in whose favor the evidence preponderates.” *Ferdinand Furniture Co. v. Anderson*, 399 N.E.2d 799, 805 (Ind. Ct. App. 1980). It is not uncommon for a trier of

fact in real estate disputes to be “faced with two qualified experts who presented diametrically opposed opinions, supported by extensive reports and reasoning.” *Crider v. Crider*, 15 N.E.3d 1042, 1059 (Ind. Ct. App. 2014). It is up to the trier of fact to “judge the credibility of the battling expert witnesses.” *Id.* at 1059 (quoting *Goodwine v. Goodwine*, 819 N.E.2d 824, 830 (Ind. Ct. App. 2004)).

68. The Tax Court has held that the “valuation of property is an opinion and not an exact science.” *Monroe Cty. Ass’r v. SCP 2007-C-26-002, LLC*, 62 N.E.3d 478, 482 (Ind. Tax Ct. 2016). If “parts of an appraisal are not probative,” the Board “should not then accept those parts of the appraisal to value the property.” *Wash. Square Mall, LLC*, 46 N.E.3d at 14. The Board is not required “to choose one appraisal report’s opinion of value over another’s opinion of value” and may adjust a value “based on other evidence in the record.” *CVS Corp. v. Monroe Cnty. Assessor*, 83 N.E.3d 1286, 1291, (Ind. Tax Ct. 2017).

**B. PRIMA FACIE EVIDENCE**

69. As recounted in the factual findings above, KN presented the testimony of Helland, who is an experienced and capable appraiser whose USPAP-compliant appraisal applied all three appraisal approaches in valuing the subject property. While the Assessor raised a number of challenges and criticisms to Helland’s choices and conclusions, which are addressed in detail below, we do not find that his opinions are so inconsistent with the evidence or requirements of law to render them unreliable. We find that Helland’s opinions of value are grounded on market-based evidence and comport with generally accepted appraisal principles. In the absence of any other evidence, Helland’s expert USPAP-compliant-appraisal would be sufficient to rebut the assessments and establish the true tax value of the property.
70. We now turn to the Assessor. As recounted in the factual findings above, the Assessor presented the testimony of Hall, who is an experienced and capable appraiser whose USPAP compliant appraisals applied all three appraisal approaches in valuing the subject property. While KN raised a number of challenges and criticisms to Hall’s choices and

conclusions, which are addressed in detail below, we do not find that his opinions are so inconsistent with the evidence or requirements of law to render them unreliable. We find that Hall's expert opinions of value are grounded on market-based evidence and comport with generally accepted appraisal principles. In the absence of any other evidence, Hall's USPAP-compliant appraisals would be sufficient to rebut the assessments and establish the true tax value of the property.

71. The Board must now, as trier of fact, weigh the evidence before it and choose values that, more likely than not, reflect the true tax value of the subject property.

## **C. VALUATION EVIDENCE**

### **1. Helland's Appraisal**

72. We find a number of the criticisms raised by the Assessor regarding Helland's appraisal have merit, and these flaws weaken the overall credibility of KN's evidence.

#### **a. Helland's Cost Approach**

73. We begin with the Assessor's criticisms of Helland's cost approach. The Assessor argued Helland's three comparable sales were flawed: none of them were zoned consistent with the subject property, two sales were used for industrial development, and Land Sale 2 had an existing structure that required removal before building could begin. The Assessor also noted that the comparable sales properties were more than twice the size of the subject. Helland also only considered three comparable sales for 2022 and two for 2021. Because the characteristics of Helland's comparable sales differed from the subject property and required more speculative adjustments, his conclusions have diminished reliability.
74. The Assessor criticized Helland's lack of explanation and support for his decision to classify the subject structure as Class B and "average" construction quality. We agree the subject property has amenities that suggest a quality that would exceed many office buildings. However, Helland's per square foot cost estimate is fairly similar to Hall's.

75. More compelling is the Assessor's challenge to Helland's depreciation calculation, and related to it, Helland's contention that the COVID pandemic's impact on market trends rendered it impossible for him to reliably determine the subject property's effective age. This conclusion by Helland is difficult to follow, logically suspect, and casts significant doubt on the credibility of his entire appraisal.
76. Lastly, the Assessor asks us to reject the external obsolescence adjustment Helland applied to account for pandemic-related supply chain issues which caused an increase in construction and development costs. We agree that Helland failed to develop and support that argument with evidence. This is a recurring theme throughout Helland's appraisal where he makes adjustments attributed to the COVID pandemic without identifying reliable data in support.
77. Based on these flaws identified by the Assessor, we find that Helland's cost approach has marginal reliability as an estimate of the subject property's true tax value.

**b. Helland's Sales Comparison Approach**

78. The Assessor's primary challenge to Helland's sales comparison approach is his inclusion of leased-fee sales as comparable sales. For 2021, three of Helland's five comparable sales were leased-fee, and for 2022, four of his comparable sales were leased-fee. While Hellman adjusted the sale prices for two of the comparable sales by looking at their existing leases, NOI, and capitalization rates, he did not have that data for the other properties. We credit Hall's testimony that, as indicated in the Appraisal of Real Estate, leased-fee sales should only be used as comparable sales if the appraiser has adjusted for any differences between the contract and market rent lease rates. *See also, Grant County Assessor v. Kerasotes Showplace Theatres, LLC*, 955 N.E.2d 876, 882 (Ind. Tax Ct. 2011). We agree with the Assessor's arguments and find that the reliability of the data supporting Helland's sales comparison approach is significantly undermined by his use of leased-fee sales without providing evidence demonstrating that their rental rates reflected market rent.

79. We find the Assessor's challenges to Helland's use of medical office properties as comparable sales less compelling. Both Appraisers testified that medical office properties typically have distinct built-in layout design differences and additional plumbing and fixtures, but neither established they occupied different market segments or required significant adjustments.<sup>8</sup>
80. However, we wholly agree with the Assessor that Helland's adjustments for market conditions based on the COVID pandemic are entirely unsupported. We do not find Helland's testimony regarding the prevalence of rent concessions and increases in vacancy rates justify his adjustments, particularly in the absence of supporting data. As noted before, Helland's opinion of value is largely influenced by his convictions regarding the impact of the COVID pandemic, which we reject because he failed to persuasively support his adjustments.
81. For the reasons listed above, we find Helland's sales comparison approach to be marginally reliable as to the value of the subject property.

**c. Helland's Income Capitalization Approach**

82. We agree with the Assessor's contention that Helland's income approach is flawed because it relies predominantly on multi-tenant leased properties to value the subject property, which is not suitable for multi-tenant use. We do not doubt Helland would have used more single-tenant leases if he had found them. Both appraisers agreed there were considerable differences between single-tenant and multi-tenant office structures. Helland's income approach also relied on leases for buildings ranging in size from 1,500 SF to 77,264 SF to value the subject property, which is 26,560 SF. We credit the Assessor's argument that Helland failed to meaningfully adjust for the differences in size

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<sup>8</sup> As for the Assessor's critiques of other adjustments, such as the larger acreage in Sales 2 and 7, and the build-to-suit nature of the sale for development of a Shoe Carnival store, we find these cast little doubt on Helland's sales comparison approach.

and types of properties. This detracts from the reliability of Helland's income approach.<sup>9</sup>

83. As for Helland's selection of market rent, he was influenced by his perception of downward pressure from the COVID pandemic on rental rates reflected in weak demand and rent concessions. We agree with the Assessor that Helland failed to provide credible evidence supporting his theory or quantifying an adjustment to account for it. Accordingly, we find that Helland's market rents were not well-supported.
84. As with the other approaches, we agree that substantial flaws in Helland's income approach detract from its reliability as a gauge of the subject property's true tax value.

#### **d. Conclusion**

85. As stated with specificity above, we credit many of the Assessor's criticisms of Helland's valuation approaches and conclude that the significant flaws and weaknesses identified by the Assessor diminish the credibility of his opinions of value.

### **2. Hall's Appraisal**

86. We now turn to Hall's appraisal. For the reasons set forth below, we find that the criticisms raised by KN fail to substantially impeach Hall's analysis, and Hall offers a more credible, thorough, and reliable conclusion of value.

#### **a. Hall's Cost Approach**

87. We begin by rejecting KN's contention that the potential presence of medical office properties in Hall's market segmentation analysis detracts from its credibility. KN's own expert relied substantially on medical office properties.
88. Likewise, we are unable to accept KN's criticism of Hall for not including substantial increases in material, transportation, and supply costs in the MVS 2022 tables as an

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<sup>9</sup> The Assessor's other criticisms are less troublesome: Helland's use of medical office property leases, unsupported adjustments, lack of information about expenses, and applied vacancy rates do not cast serious doubts on his opinion of value.

external obsolescence deduction. KN defined external obsolescence as a “form of depreciation caused by factors not on the property itself, such as environmental, social, or economic forces.” KN’s argument here is difficult to follow. As a matter of logic, the fact that COVID-related inflationary pressures are making it more expensive to construct a building is a poor basis to conclude a cost approach valuation is too high. If the argument is that the relative costs to build have risen so high that most businesses would lease or buy an existing building instead, then the theory of substitution would apply as evidenced by lower values indicated in the income and sales comparison approaches. We are not persuaded by any precedential authority or appraisal theory that Hall was required to apply an obsolescence adjustment as described by KN here.

89. In contrast to Helland’s cost analysis, Hall credibly identified the subject property as Class D office with good construction, and an MVS average lifespan of 50 years for depreciation purposes and supported his classification and age/life choice with an analysis of MVS standards and his detailed inspection of the structure. Likewise, Hall’s cost approach was more thorough than Helland’s, valuing the carports and the attached garage. Hall also took care to make functional obsolescence adjustments based on features considered super-adequate.
90. In summary, we find Hall’s methods, detail, process, and analysis resulted in a credible and reliable valuation under the cost approach.

#### **b. Hall’s Sales Comparison Approach**

91. KN raised few concerns about Hall’s sales comparison approach at trial or in its brief. Hall identified five sales, including one from Bloomington, and he considered three other Bloomington sales that were not comparable but helpful. All of Hall’s comparable sales were single-tenant properties of relatively similar size to the subject property. We have little difficulty concluding that Hall used reliable comparable sales in his analysis.
92. Overall, Hall’s methodology contained more details and thoughtful analysis<sup>10</sup> than

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<sup>10</sup> Hall’s meticulousness included an adjustment to account for the carport and attached garage.

Helland's. Consequently, we find that Hall's sales comparison approach credibly and reliably established the strongest support for his valuation of the subject property.

**d. Hall's Income Capitalization Approach**

93. We credit KN's criticism that Hall's capitalization rate improperly reflected national market rates rather than local and state market rates. Hall admitted that the subject property is not national grade and that his rate tended toward those of the cited national rates which may have been caused by looking at asking capitalization rates rather than actual rates. Hall's final cap rate of 8.25% (for both years) reflects a selection between the nationally derived rates (7.46% and 7.19%) and the more locally and regionally derived cap rates (9.58% and 9.32%). In contrast, Helland selected rates of 9.25% and 9.0%. Although Hall's rates fell within the range of rates shown by the market data, we find that Helland offered a more credible selection of capitalization rates. Hall's choice of capitalization rates weakens the credibility his valuation under the income approach.
94. We also find KN's criticisms of Hall's lease selections compelling. Hall identified only four leases from Indiana. One lease appears to be multi-tenant, another involved substantial landlord renovation investments, and a third made the landlord responsible for more expenses than a typical triple-net lease, all of which cast doubt on their reliability to estimate a market rent for a single-tenant office building. We do not share KN's complaints about the size of the leased buildings, particularly when the size of KN's comparable leases varied so greatly. Most critically, Hall offered little explanation as to why the market rent he selected was higher than the average of his adjusted leases. Yet, Hall's market rent was still within the range of the evidence he relied upon. Overall, we find Hall's income approach to be marginally credible in valuing the subject property.

**D PREPONDERANCE OF THE EVIDENCE**

95. As trier of fact, we find by a preponderance of the evidence that Hall was a more credible expert witness whose analysis was more detailed and reliable than Helland's analysis. As

detailed in specificity above, the Assessor cast substantial doubt on all three of Helland's appraisal approaches through a number of specific points, and we accordingly found all three estimates of value to have only marginal credibility. In contrast, KN successfully cast doubt only on Hall's income approach, which was still found to be marginally credible, and failed to rebut Hall's other two approaches. Moreover, Hall's sales comparison approach offers strong support for the subject property's value.


96. Accordingly, the Assessor has met its burden of proof by a preponderance of evidence to establish the true tax value of the subject property through Hall's opinion. We find, by a standard of more likely than not, that the true tax value of the subject property for the 2021 assessment is Hall's reconciled opinion of value—\$3,750,000.
97. Because of the value just determined for 2021, the 2022 assessment did not increase by more than 5%, and KN retains the burden of proof for 2022.
98. For the reasons detailed above, we find that Hall's opinion of value was more credible and reliable than Helland's. Accordingly, the Assessor has met its burden of proof by a preponderance of evidence to establish the true tax value of the subject property through Hall's opinion. We find, by a standard of more likely than not, that the true tax value of the subject property for the 2022 assessment is Hall's reconciled opinion of value—\$4,000,000.

## FINAL DETERMINATION

In accordance with the above findings of fact and conclusions of law, we order the 2021 assessed value changed to \$3,750,000 and the 2022 assessed value changed to \$4,000,000.

ISSUED: DECEMBER 23, 2024

  
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>.