



## The CRE 2014 Top Ten Issues Affecting Real Estate

Energy, jobs, and the far-reaching influence of the Millennial generation are the issues that will have the most significant impact on real estate both near- and long-term, according to The Counselors of Real Estate® organization ([www.cre.org](http://www.cre.org)).

The report, developed annually by The Counselors of Real Estate External Affairs Committee, considers independent research, qualitative interactive feedback from members via polling at the association's spring conference, and a member survey. David J. Lynn, Ph.D., CRE, CEO and founder, Lynn Capital Management; and K.C. Conway, CRE, chief economist USA, Colliers International, lead the committee and the development of the 2014 Top Ten Issues Affecting Real Estate list.

### Top Ten issues Affecting Real Estate in 2014

**1. Energy:** The U.S. is becoming increasingly energy independent. Changes in U.S. energy production are impacting jobs, income growth and the quality of life—key determinants of real estate value and successful investment. The mix of energy types produced—crude oil, natural gas and alternatives such as wind and solar energy—provides investment opportunity and risks.

The impact of energy production changes varies by state and community depending on access to resources, regulatory trends

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and other factors; however, many communities involved in increased energy production are experiencing a jobs boom with related housing and services growth for workers.

Uncertainty in the energy sector created by dueling reports from environmentalists and the oil and chemical companies provide investors with opportunities. The potential for relatively low natural gas prices (now one-fifth the cost of Europe and Asia) in combination with other factors has improved the outlook for manufacturing and could significantly advance the expansion of rail, shipbuilding and related industries should gas exports increase.

**2. Jobs:** The job market is expected to remain strong in 2014. If the U.S. economy grows by the forecasted 2.8%, the number of new jobs likely to be added will continue to number 200,000 to 250,000 per month. Strong job creation is expected to have a positive impact on the residential and multifamily sectors. The types of jobs being offered should move up the quality scale, raising average wages and boosting purchasing power for consumers as well as the ability of landlords to extract rents.

Demand for office space may also increase, but employers continue to pare per-employee space

requirements, carefully considering space needs because of changing technology and noting the younger workforce's preference for living in cities and working in open format workspaces.

However, job reductions in retail and branch banking, largely due to changes in consumer behavior and online technology, will take a toll on housing, may benefit the apartment sector and could negatively impact commercial real estate. Service sector jobs may absorb some of those displaced.

Communities and neighborhoods that once valued big-box stores may be well served by courting schools, physical therapy services and even independent and assisted living facilities for senior citizens drawn to a retail/lifestyle/entertainment environment.

**3. The Millennials:** The Millennial generation, born after 1980, represents 27 percent of the U.S. adult population—and their influence is far-reaching. This group is the first to fully embrace new technology, including the Internet, eCommerce, mobile communications and social media. Their practices are poised to change the way society interacts, receives information, shops and lives.

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Millennials show a strong preference for urban living and working, and value mass transit and “work, live, play” communities where residents of all ages, ethnicities, and income brackets live side by side. They carry high levels of student loan debt, drive fewer cars, marry later, and often choose smaller living spaces than the typical homes in the suburbs that appealed to their parents a generation ago. Their preferences are already having an effect on both city and suburban residential, multifamily, office and retail sectors.

**4. Healthcare:** A wide range of newly constructed healthcare facilities will be needed to treat the large numbers of newly insured Americans under the Affordable Care Act. Providers will increase market share by constructing specialized consultative care or treatment facilities, many in non-urban locations, providing wide-ranging services at a considerably lower cost.

Some big-box stores are being converted to house clusters of medical offices in “medical malls.” Considerable consolidation of hospital and healthcare organizations is underway, with an enormous impact on real estate—mergers and acquisitions create both excess properties and an increased demand for updated facilities.

These new entities are building satellite healthcare centers and urgent care and diagnostic facilities. Pharmacy chains are installing wellness clinics in stores, and some large employers are building health clinics within their companies.

All of these factors will spur development of different forms of housing and expanded retail centers, serving not only an aging population but those seeking access to the medical assistance and products to which they are now entitled.



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**5. Globalization:** In the next five to 10 years, expect a remaking of the global supply chain emanating from eCommerce and expansion of the Panama Canal, advancing technology, availability and cost of energy, and political strife. As traditional pathways for goods and materials change—decoupled from political boundaries and increasingly automated—the resulting “efficiency” will potentially cause widespread labor strife from Europe to Asia, and even to the U.S. West Coast.

Energy will continue to influence globalization as energy dominance by the Middle East decreases. More U.S. energy production could disrupt manufacturing activity in Europe and Asia, adding to labor strife and a possible return to protectionism.

Historically, political strife has been the primary impediment to globalization. Unresolved wars in Afghanistan and the Middle East, the situation in Ukraine and continued volatility in resource-rich areas, such as Africa, could put globalization into hibernation.

An additional factor is increasing manufacturing technology, which has the potential to revolutionize production, warehousing and purchasing over the next decade. The reality of 3-D printing technology is perhaps the most significant development, with its ability to produce on-site goods and materials to exact specifications without manufacturing plants or inventory warehouses.

**6. Water:** Global demand for fresh water is projected to exceed supply by 40 percent by 2030. While water scarcity is a reality in much of the

developing world—where 780 million people have no access to clean water; 2.5 billion have no access to modern sanitation; and over three million die each year from water, sanitation and hygiene-related causes—the U.S. will likely experience serious water shortages as well. Aging water infrastructure, droughts (particularly in the Southwest) and reduced water deliveries to agriculture have the potential to cause water-related economic problems.

A number of states face severe water challenges. Las Vegas’ Lake Meade, which supplies 100% of the city’s water needs, is projected to have a 50% chance of drying out by 2025. A 2013 U.S. government report showed that groundwater depletion in the U.S. for the years 2000 to 2008 was nearly three times greater than the average rate of depletion for the preceding 108 years—from 1900 to 2008.

Some future projections project 1.8 billion people living in regions with confirmed water scarcity by the year 2025. The implications for real estate are enormous, affecting land value, community desirability, future viability and investment. Consider also that China is home to 20% of the world’s population but only 7% of its fresh water. Water may become a political issue as well as a health issue in a relatively short timeframe.

**7. Capital Markets:** This issue is included in the Top Ten list for the second year in a row. The availability of capital to commercial real estate from 2014 to 2017 will be vital to the health of the industry. The enticement of riding a high-yield wave is luring capital back into real estate,

with investment in a wide variety of choices, from agricultural land to commercial mortgage backed securities. A new round of commercial refinancing will begin this year, with an estimated \$360 billion in permanent securitized loans needing to be refinanced by year end 2017.

While the sheer numbers are larger than the volume that matured between 2010 and 2012, the quality is different, with much of this wave suburban in nature where there is an oversupply of properties.

Action by the Federal Reserve will affect the market as investors await extraction of Quantitative Easing, scheduled to be completed before year end. The question is whether or not we are headed for another “bubble.”

**8. Housing:** The housing market appears to be in recovery mode, but home ownership continues to lag. While Case Schiller reports home prices rising by about 13% over last year, not all areas of the U.S. experienced encouraging price increases.

Despite moderate growth in the economy, U.S. Census data reflects the lowest rate of home ownership since 1995. Credit is again tight, but as the job market improves, home purchases are expected to increase. The multifamily sector may feel downward pressure caused by transition from renting to buying. At the same time, an avalanche of new multifamily units is becoming available as a result of boom development in that sector over the past few years.

**9. Manufacturing:** Robotics, self-service kiosks and 3-D printing technologies are dramatically transforming manufacturing. The effect on commercial real estate is accelerated at a more rapid and dynamic pace than previously thought, with unintended consequences.

Manufacturers, ports and supply

chains are embracing automation to increase efficiency and reduce labor costs. For example, a modern auto or textile manufacturing facility utilizing new technology may employ just 20% of the labor force of a predecessor plant a decade ago. Robotics applied to retail services and self-service kiosks are replacing workers in call centers, banks, fast food and retail locations, resulting in erosion of the Labor Participation rate and a smaller working population in the U.S.

**10. Agriculture:** Agriculture debt is near all-time lows, which has helped push farmland prices to all-time highs. Livestock prices are at similar highs with “producing” animal numbers near all-time per-capita lows. The outlook for land values is mixed, with “more productive” farmland, primarily irrigated, expected to show moderate increases.

Ranchland prices are expected to strengthen after lagging behind the feed grain and vegetable-producing lands. High water yielding, irrigated farmland areas such as those found in the northwest Panhandle of Texas, Brazos River Bottom and in Kansas and Nebraska appear to hold long-term opportunity, but investors should note the strong land prices in the heartland and Midwest, as valuations cannot continue to increase at the same pace. The recent passage of the Agricultural Act of 2014 (“Farm Bill”) will help stabilize agricultural returns as well as rural property values.

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Currently, U.S. consumers spend an average of 6.8% of their income on food, lower than in many other countries, partly due to higher average wages in the U.S. For example, in Canada it is 9.6%, in Pakistan 50%.

## Conclusion

Many other issues were suggested, but, of course, we have limited our list to the 10 issues we believe will have the greatest impact on real estate in 2014 and the years that immediately follow. We hope identifying these issues and their implications motivates productive discussion of how individuals, companies, and governments should respond to these and other changes in the investment environment that simultaneously challenge our industry while creating opportunities for growth. ❖

Please direct comments to:

- David Lynn, CRE, chair, 2014 External Affairs Committee, davidjlynn01@gmail.com
- K.C. Conway, CRE, vice chair, 2014 External Affairs Committee, kc.conway@colliers.com
- Mary Fleischmann, president and CEO, The Counselors of Real Estate mfleischmann@cre.org

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To learn more about The Counselors of Real Estate, visit the organization’s website at <http://www.cre.org>.



# TEAM Projects



TEAM's Fred Chmura, AAS, and Ed Crapo AAS, ASA, CFA, will work with Scott Teruya, AAS, administrator of the Maui County, Hawaii, Department of Finance Real Property Assessment Division.

## TEAM Consulting Partners with Maui County

By Ed Crapo, AAS, ASA, CFA

TEAM Consulting is proud to announce that Maui County, Hawaii, has selected us to partner in an evaluation of their policies and procedures with the goal of submitting a successful application for the prestigious IAAO Certificate of Excellence in Assessment Administration.

Fred Chmura, AAS, and Ed Crapo AAS, ASA, CFA, will be the primary TEAM partners working with Scott Teruya, AAS, administrator of the Maui Department of Finance Real Property Assessment Division and his professional team.

The vision of the Maui Department of Finance Real Property Assessment Division states:

We are a professional organization that provides a user-friendly website, accurate, uniform and transparent assessments that

adhere to industry standards in mass appraisal practice. We are committed to being a leader in real property assessment practice, mapping, data integration, customer service, employee development and retention, fostering open communication and team spirit.

Division Administrator Scott Teruya, AAS, and his team reflecting the spirit of this vision statement, have implemented new technologies, improved processes, and committed to professional staff development over the last several years. Having made these improvements, TEAM is looking forward to the opportunity to work with members of the Maui County Assessment Division to achieve the recognition their efforts deserve. ❖



## Travel Squad

TEAM associates continue to move about the country. In the second quarter of 2014, we have been in Arkansas, Georgia, Virginia, Louisiana, New Mexico, Kansas, Indiana, New Jersey, South Dakota, Texas, Oklahoma and the Province of Nova Scotia.

**Looking for a workshop, series of workshops or professional assistance for your location?** Visit our website at <http://www.teamconsulting.cc/>.

## Texas Appraisal District Praises TEAM's Work



Shawn Coker,

TEAM is honored to have had the opportunity to work with Shawn Coker, RPA, CCA, chief appraiser/ chief administrator for the Grayson

Central Appraisal District in Sherman, Texas. The services TEAM provided were outlined in the April issue of the newsletter. In the following letter, Coker describes his experiences working with TEAM's Rick Stuart.

July 8, 2014

We hired TEAM Consulting, LLC, specifically Rick Stuart, after getting to know him in several of the IAAO courses that he taught. The expanse of various appraisal knowledge, assessment office skills and extensive experience demonstrated during these courses intrigued me.

In an effort to better my appraisal district, I engaged TEAM to perform some internal studies and also to appraise/defend valuations of hotel/motels. As you know, administrators are extremely busy, and to test and monitor all facets of an assessment/appraisal office without hindering daily operations is difficult. That is where TEAM came in.

The internal studies that Rick performed included a test of our comparable sales and equity grids in our computer assisted mass appraisal system (CAMA) to include accuracy, adjustment formulas/ percentages and applications. Also reviewed and analyzed was how to most efficiently develop and maintain the residential cost schedules of our outdated data.

Rick spent time gathering data

*continued on next page*

on where we are, where we need to go, and how to implement the necessary changes. Having an outside view and analysis helped to alleviate the pressures of taking this task on internally. We will be moving forward this year with something that has needed attention for over a decade. In that end, we will be more accurate and reliable in our data.

Hotel/motels have been a source of frustration and litigation in our district for many years. I attended a workshop that Rick taught and decided to hire him to appraise and defend the 2014 values. In doing so, Rick exceeded my expectations. Part of the goal was for TEAM to provide us with the method of gathering and analyzing data, developing multiple models, testing against known sales and leaving us with instructions on how to internally continue this process. With this project, we have found where we can improve our values for defense as well as cut down on costly litigation.

I am very appreciative that I have found a tool in TEAM that I can go to for almost any concerns with my office. The professionalism and interaction was exceptional. We will certainly continue to attend Rick's classes/seminars and look for TEAM again whenever issues arise. I will gladly serve as a reference if needed.

Sincerely,

Shawn Coker, RPA, CCA  
Chief Appraiser/ Chief Administrator  
Grayson Central Appraisal District  
Sherman, Texas 75090  
[www.graysonappraisal.org](http://www.graysonappraisal.org) ❖



Maryland courthouse on auction block resembles old armory.

## This is different

By Fred Chmura, AAS

There is an auction on July 22 to be held by Tranzon Auction on the property pictured above. You may notice it has a courthouse-type of appearance. See the details below:

- 100% fully-leased district courthouse with \$369,000+ rental income from State of Maryland
- Well-built property has been fully redeveloped and is well-maintained
- 22,901 approximate net rentable square feet with vacant garage structure suitable for future conversion to office use
- Very stable tenant base — state and county agencies

The building actually looks like an old armory building that was common in the northeast. There was one of these very near to where

I grew up and use to park my state vehicle in my very early days of state service.

Built to house local units of the states' volunteer militia, armories served as arms storage facilities, clubhouses for the militiamen, and civic monuments symbolizing a state's determination to preserve domestic law and order through military might.

Most armories date from the last quarter of the nineteenth century, when the National Guard was America's primary domestic peacekeeper during the post-Civil War era of labor-capital unrest. Together, the nation's armories chronicle the history of the volunteer militia, from its emergence during the early Republican Era, through its heyday during the Gilded Age as the backbone of the American military system, to its early twentieth-century role as the nation's primary armed reserve force. ❖



**IAAO Annual Conference**  
**August 24 – 27, 2014**  
**Sacramento, CA**

<http://conference.iaao.org>

# Another AAS Success Story

Linda Phillips, AAS, received the Assessment Administration Specialist designation in February 2014. Phillips is the Assessor for Tippecanoe County in Lafayette, Indiana. She has held that position for three years.

Phillips attended Purdue University and earned bachelors and master's degrees. She is a member of the Wabash Valley Trust for Historic Preservation board of directors, past president of Friends of the Downtown, a member of the Tippecanoe County Historical Association board of directors, and a volunteer for 4-H and Civic Theatre. Phillips received the West Central District Assessor of the Year award. She is also known as

the "sequin queen" as she designs costumes for the Civic Theatre in her spare time. Phillips joined IAAO in 2011.

Linda was part of the group that attended the TEAM sponsored AAS Case Study Review Workshop held last December in Houston. ❖

—*Reprinted with permission from IAAO and Christopher Bennett*

## **Congratulations, Linda!**

And thank you for participating in TEAM's AAS Case Study Workshop in Houston last December.

The next live AAS Case Study Review Workshop is August 4–6, 2014, in Toledo, Ohio. See program details and registration form on

"I was pleased to learn that I passed the AAS Case Study Exam. Your review course was extremely helpful in prepping for the exam and I would heartily recommend it to anyone planning to take the exam. I thought in general that the study materials the class went over were representative of the material on the exam."

—*Linda Phillips, Tippecanoe County (Originally published in the Feb. 2014 newsletter)*

page 7. You can also use TEAM's AAS Case Study Review material as a self-study guide. Or if you prefer to sponsor a workshop in your area, contact Rick Stuart, CAE, [rstuart17@cox.net](mailto:rstuart17@cox.net). ❖



## Cap Rate Workshop Now Available

TEAM Consulting, LLC has developed a new workshop, "Development of Capitalization Rates." This one-day workshop created by Marion Johnson, CAE, and Rick Stuart, CAE, deals with that pesky and difficult subject of capitalization rates.

**Workshop Summary:** When using the income approach to estimate the value of real estate, one of the components that will need to be determined by the assessor/appraiser is the capitalization rate. This workshop will explore the difference between capitalization rates used in direct capitalization and yield capitalization. We will discuss the difference between an overall capitalization rate, a land capitalization rate, and a building capitalization rate along with some other common terms used in capitalization rates discussion, such as unloaded versus loaded capitalization rates and terminal capitalization rates.

If you would like to purchase a copy of the material, you can go to the TEAM website at [www.teamconsulting.cc](http://www.teamconsulting.cc). If you would like to set up this up as a workshop, please contact Fred Chmura, AAS, at [fchmura@teamconsulting.cc](mailto:fchmura@teamconsulting.cc) or Rick Stuart, CAE, at [rstuart17@cox.net](mailto:rstuart17@cox.net).

## Meet Our TEAM

- Brent Bailey, ASA
- Kishin Bharwani
- Fred Chmura, AAS
- Ed Crapo, CFA, ASA, AAS
- Keith Cunningham, PhD
- Pete Davis
- George Donatello, CMS
- Lynn Gering
- Marion Johnson, CAE
- Kim Lauffer, RES, RMA
- Dan Muthard
- Richard Norejko, CMS
- Henry Riley, CAE
- Pam Ringer
- Ron Schultz, CFA
- Rick Stuart, CAE
- Ken Voss, MAI, SRA, CAE

**TEAM**  
Consulting LLC

[www.teamconsulting.cc](http://www.teamconsulting.cc)

# AAS Case Study Review

## August 4 – 6, 2014 • Toledo, Ohio

*Hurry! Enrollment closes July 21, 2014*

### Review of materials necessary for success:

- ✓ USPAP overview
- ✓ Definitions and principles
- ✓ Tax rates and levies
- ✓ Cost Approach
- ✓ Sales Comparison Approach
- ✓ Income Approach
- ✓ Role of the Assessor
- ✓ Effective Assessment System
- ✓ Ratio Study refresher
- ✓ Practice Exam

### *There is a final examination*

**Instructor:** Robert Graham, AAS, IAAO Senior Specialty Instructor. Retired Stark County Chief Appraiser (25 years). Member IAAO Talent Pool and IAAO Ohio State Representative.

**Workshop Fee & Enrollment:** The workshop fee is \$600, which includes all necessary materials needed for the class. Materials will be mailed as soon as payment is received. To register for this 3-day workshop, complete and return the enrollment form along with your payment in full.

- Each student is required by IAAO to apply for the Case Study EXAM and Proctor Form (\$275)
- Necessary forms will be sent upon enrollment

**Email Enrollment:** Attach this completed form to an email to [OhioAdValorem@neo.rr.com](mailto:OhioAdValorem@neo.rr.com). A seat will be held for you pending the payment of your registration fee.

Name \_\_\_\_\_

County/Title \_\_\_\_\_

Address \_\_\_\_\_

City \_\_\_\_\_ State \_\_\_\_\_ ZIP \_\_\_\_\_

Phone \_\_\_\_\_

Email \_\_\_\_\_

**Registration Fee:** \$600

Make check payable to: Ohio Ad Valorem School

### Recommended Prior Courses

Most of following courses should be complete: 101, 102, 300, 400, 402

**Statistical Calculator Recommended.** HP10bii will be featured, but any brand /model is acceptable. Understand its use!

### Cancellation Policy

Cancellations after the delivery of workshop materials will receive a refund minus \$100. If the class is cancelled for any other reason, the full registration fee will be refunded.

### Education Credit

This workshop is designed to prepare an AAS candidate for the required Case Study Exam. It does NOT earn Qualifying or CE credit in any form.

### Location & Time

The workshop will be held 9:00 a.m. – 5:00 p.m daily at:

Lucas County Administrative Offices  
One Government Center  
Toledo, OH 43604

### Hotels

*There are several nearby listed on the web*

### Questions

Contact: [OhioAdValorem@neo.rr.com](mailto:OhioAdValorem@neo.rr.com)  
Robert Graham, AAS: 330-935-2997

### Mail your registration form & check to:

Ohio Ad Valorem School  
Robert P Graham II, Coordinator  
12762 Osborne Ave NE  
Alliance, OH 44601-9731

**Enrollment closes July 21, 2014**