

# Indianapolis, Indiana



Multifamily Housing Update

August 2010

## EXECUTIVE SUMMARY

**C**ircle City job trends improved year-to-date. Payroll employment data show that employers added 2,900 (0.3%) jobs in the twelve-month period ended in July, as compared to a -41,800 (-4.1%) job average monthly y-o-y decrease observed in 2009. Strong demand for business services was partially responsible for the improvement. Super-sector payrolls advanced 14,100 year-over-year in July, after falling -12,900 in the same month last year. Additionally, job conditions in the manufacturing and retail trade sectors improved as combined y-o-y job losses slowed from -16,100 in December to -500 in July.

Conversely, total employment figures, from the BLS's household survey, revealed persistent job attrition. Y-o-y job losses totaled -30,841 (-3.9%) in 2Q10. As a result, the metro unemployment rate was 9.3% in June, up from 8.9% from the same month a year ago.

On a seasonally-adjusted basis, the pace of payroll job formation accelerated slightly from 1,500 in 1Q10 to 1,700 in 2Q10. Based on preliminary data, job growth surged to 8,900 in July.

Although a downward revision to the July figure is probable, job growth in the third quarter is likely to outpace the 2Q10 advance. Indeed, based on the **RED CAPITAL Research (RCR)** econometric payroll model, non-seasonally adjusted job growth is forecast to total 1,500 (0.2%) in 3Q10 and 9,200 (1.0%) in 4Q10. As a result, annual job loss will total only -6,000 (-0.7%) this year and net job formation will total 15,500 (1.8%) in 2011 and 26,700 (3.0%) in 2012.

Housing prices and homes sales activity rose in the second quarter. The National Association of Realtors calculate median single-family home

price of \$129,900 in 2Q10, up 6.0% from the \$122,500 price observed in 2Q09. Likewise, the Indiana Association of Realtors report that metro home sales velocity advanced 15.1% y-o-y as 6,851 homes were sold from April to June.

Stout tenant demand gave rise to higher occupancy in the second quarter. Property managers net leased 998 units, outpacing the 620 units added to the rental stock from April to June. As a result, the metro occupancy rate rose from 90.0% in March to 90.4% in June. Leasing conditions were strong for Class-A and Class B/C rentals alike. Marcus & Millichap estimate that Class-A vacancy decreased 20 bps in the first six months of the year. Moreover, Class B/C vacancy decreased 70 bps from 11.0% in December to 10.3% in June.

Effective rent advanced 0.6% sequentially in 2Q10, marking the third consecutive quarterly gain. As a result, annual effective rent growth turned positive (+0.3%) the first time since 1Q09 (+1.0%). Concession levels fluctuated only slightly over the past year. The size of the average concession package was 5.8% of asking rent in 2Q10, down from 5.9% in 2Q09 and up from 5.7% in 1Q10.

After a four-year lull in construction -- when supply averaged 511 units per year -- developers were active in 2009 adding 1,639 units to the rental stock. Based on an August construction report, Reis were aware of 1,181 units scheduled for delivery this year, 797 units slated to debut in 2011, and 1,243 units with an estimated completion date in 2012.

Based on an assumed 7.8% going-in yield, **RCR** calculate an 8.9% expected rate of total return and a 3.39 risk-adjusted return. The figures rank 5<sup>th</sup> and 14<sup>th</sup>, respectively, among the **RED 50**.

## SNAP SHOT

	Y-o-y change	Projected YE 2010
Vacancy (9.6% - 2Q10)	↑ 110bps	↑ 10bps
Effective Rents (\$636 - 2Q10)	↑ 0.3%	↑ 1.3%
Cap Rate (N/A - 2Q10)	↔	↔
Employment (868.1m - 2Q10)	↓ 8.4m	↓ 6.0m

## KEY POINTS

- Positive net absorption surged to 998 units in 2Q10, the largest quarterly total since 3Q00. As a result, vacancy fell 40 basis points from 10.0% in 1Q10 to 9.6% in 2Q10. Still, the second quarter vacancy rate was up 110 basis points year-over-year, owing to negative net absorption of 1,188 units in 2H09.
- Effective rent increased 0.6% sequentially in 2Q10, comparing favorably to the 0.2% advance observed in the previous quarter. Likewise, the average asking rent rose 0.7% from \$670 in 1Q10 to \$675 in 2Q10.
- As of August, Reis were aware of two properties under construction that are expected to open by year-end. An 150-unit property in the Hamilton County submarket is forecast to debut in October. The second property will add 96 units to the West submarket in October.
- According to Real Capital Analytics, sales volume totaled only \$6 million in 1H10 as only one transaction was completed. The asset sold for \$37,952 per unit. Marcus & Millichap calculate a median price per unit of \$29,400 in the twelve-month period ended in June.

## VACANCY TRENDS

- Positive net absorption of 998 units gave rise to a 40 basis point sequential decrease in the metro vacancy rate from 10.0% in 1Q10 to 9.6% in 2Q10. On the other hand, vacancy surged 110 basis points year-over-year as tenants vacated 897 units from July 2009 to March 2010.
- Marcus & Millichap report that vacancy among Class-A properties fell 20 basis points from 8.9% in December to 8.7% in June.
- Three (West, Hamilton County, and Far Northeast) of the metro's 13 submarkets experienced vacancy rates above 10% in the second quarter.
- Reis predict that vacancy will rise to 9.7% by year-end as supply (246 units) outpaces demand (133 units) in 2H10.

**RANK:** 37<sup>th</sup> out of 50

## RENT TRENDS

- Effective rent advanced 0.6% sequentially from \$632 in 1Q10 to \$636 in 2Q10. As a result, year-over-year effective rent growth metrics turned positive, advancing from -0.6% in the first quarter to 0.3%.
- Marcus & Millichap report that asking rent among Class-A properties increased 0.4% to \$749 in the first six months of 2010. By comparison, Class B/C asking rent advanced 0.9% to \$576 during the period.
- At 2.9%, the Far Northeast submarket generated the fastest pace of year-over-year effective rent growth in 2Q10.
- Reis predict that year-over-year effective rent growth will accelerate to 1.3% in 4Q10 and to 1.4% in 4Q11.

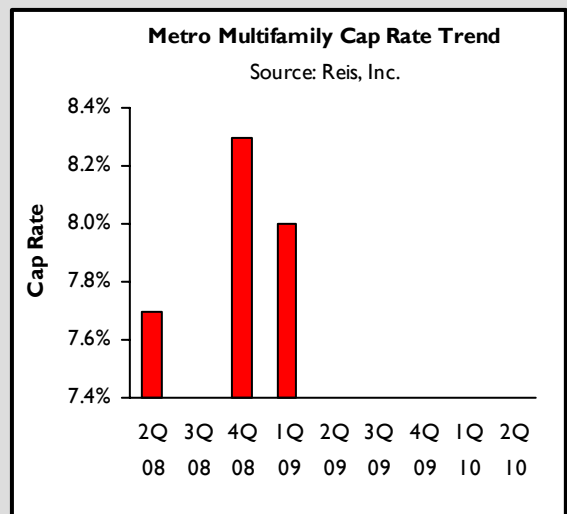
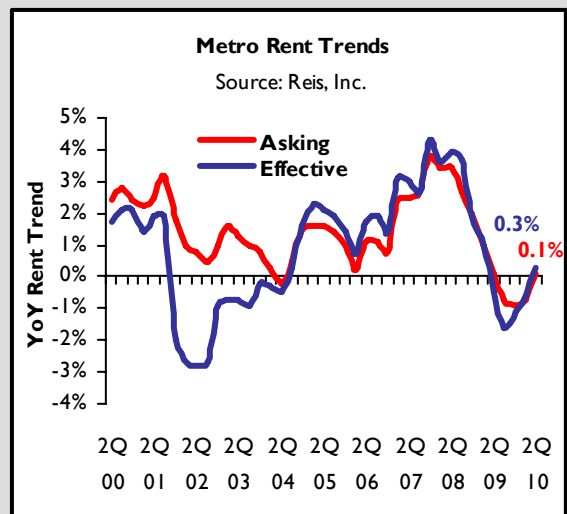
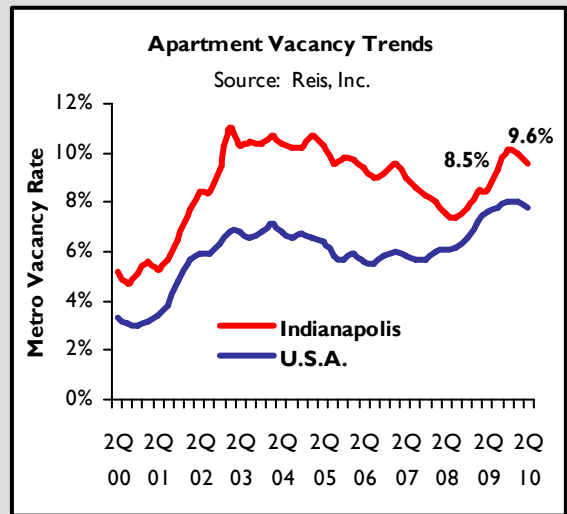
**RANK:** 24<sup>th</sup> out of 50

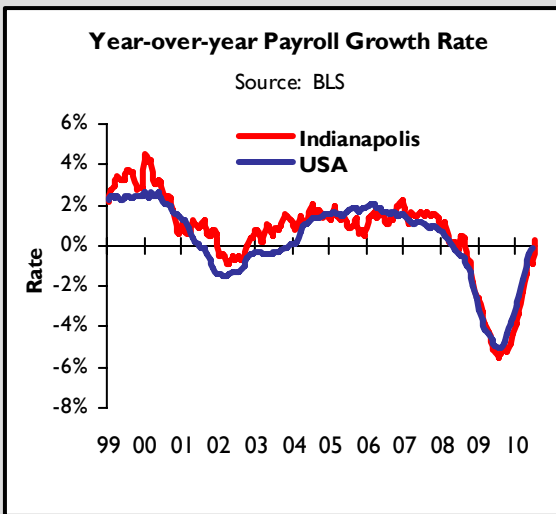
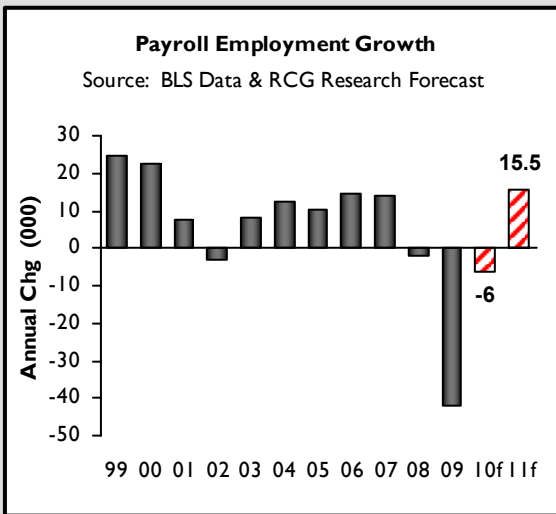
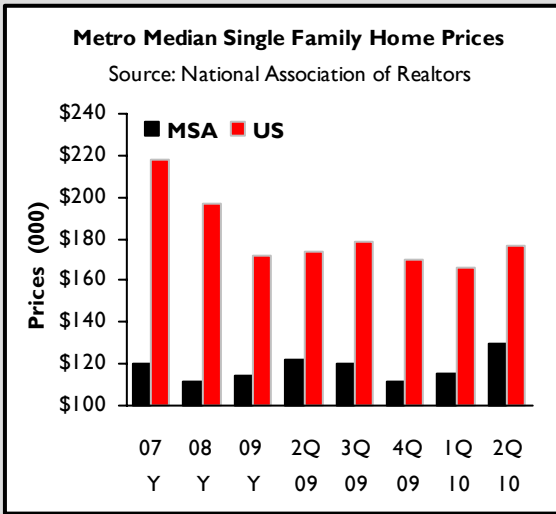
## PROPERTY MARKET & CAP RATE TRENDS

- Real Capital Analytics identify only one transaction that closed in the first six months of 2010. The asset sold for \$6 million or \$37,952 per unit.
- Marcus & Millichap report a median price per unit of \$29,400 in the twelve-month period ended in June. The source reports that cap rates for stabilized assets were close to 8.5% at mid-year.
- CB Richard Ellis report that cap rates for stabilized Class-A properties ranged from 6.25% to 7.0% in August. Similarly, yields for stabilized Class-B assets ranged from 7.0% to 7.5%.
- At an assumed 7.8% going-in yield, **RCR** calculate an 8.9% expected rate of total return, ranking fifth highest among the **RED 50**. Moreover, the market boasts the 14<sup>th</sup> highest measure of risk-adjusted return.

## NOTABLE TRANSACTIONS

Property Name	Property Class	Date of Transaction	Total Price (in millions)	Price per unit	Estimated Cap Rate





## DEMOGRAPHICS & HOUSING MARKET

- Population growth decelerated slightly from 1.4% in 2008 to 1.3% in 2009. Tactician Corporation predict that the metro population will advance at a 1.4% compound average annual rate between 2009 and 2014.
- According to the National Association of Realtors, the median price of a single-family MSA home increased 6.0% year-over-year from \$122,500 in 2Q09 to \$129,900 in 2Q10.
- HousingTracker.net calculate a \$144,925 median asking price for single-family homes and condos in July, down -2.8% year-over-year. Additionally, the source notes that inventory of homes and condos for-sale rose 6.2%.
- The Indiana Association of Realtors report that metro home sales velocity advanced 15.1% year-over-year as 6,851 homes sold in 2Q10.

## EMPLOYMENT TRENDS

### Non-Seasonally Adjusted

- The pace of year-over-year job attrition decelerated sharply from -27,700 (-3.2%) in 1Q10 to -8,400 (-0.9%) in 2Q10. Moreover, employers created 2,900 (0.3%) jobs in the twelve-month period ended in July.
- Business service employers generated strong job growth in recent months. The super-sector created 14,100 jobs year-over-year in July, as compared to a -12,900-job decrease in the same month last year. Additionally, job losses among manufacturing workers slowed from -10,500 jobs year-over-year in December to only -1,200 jobs year-over-year in July.
- The metro unemployment rate was at or above 9% for five of the first six months of 2010. By comparison, the rate previously had not exceeded the threshold in the 20-year BLS data series.

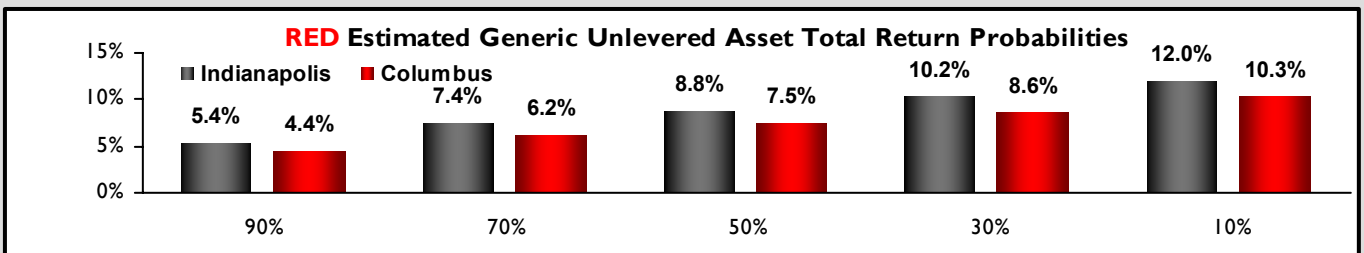
### Seasonally-Adjusted

- On a seasonally-adjusted basis, metro employers created 1,700 jobs in the second quarter, moderately better than the 1,500-job increase observed in 1Q10. Preliminary data show that 8,900 jobs were added in July, as compared to a -2,300 job decrease in the same month last year.

### Forecast

- Based on the RCR econometric payroll model, which assumes strong domestic economic growth in 2012, Indianapolis employers will add 15,500 (1.8%) jobs in 2011 and 26,700 (3.0%) jobs in 2012, following a modest -6,000 (-0.7%) job decrease this year.
- Economy.com project similar growth of 20,230 (2.5%) net new jobs in 2011 and 29,500 (3.6%) new jobs in 2012.

RANK: 17<sup>th</sup> out of 50

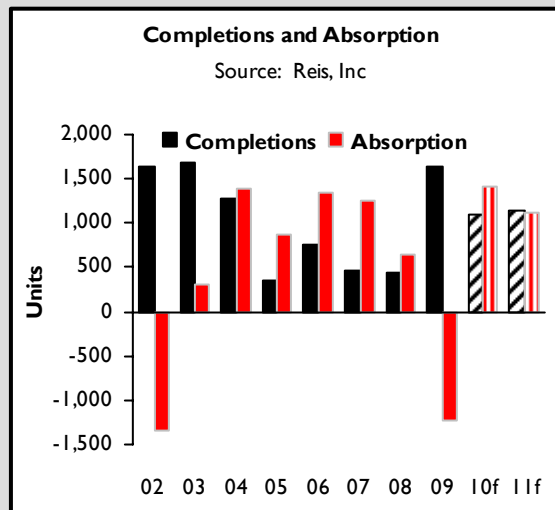


## SUBMARKET TRENDS

Submarket	Effective Rent			Physical Vacancy		
	2Q09	2Q10	Change	2Q09	2Q10	Change
Southwest	\$604	\$601	-0.4%	7.8%	7.8%	Unchg
Southeast	\$607	\$614	1.1%	8.7%	9.9%	120 bps
West	\$562	\$548	-2.5%	11.3%	13.0%	170 bps
Near Northwest	\$579	\$578	-0.1%	8.7%	7.5%	-120 bps
Far Northwest	\$635	\$632	-0.5%	7.0%	6.4%	-60 bps
East	\$541	\$547	1.1%	6.2%	8.8%	260 bps
Castleton	\$699	\$716	2.5%	7.7%	8.4%	70 bps
Far Northeast	\$539	\$554	2.9%	9.0%	11.0%	200 bps
Central	\$802	\$799	-0.3%	3.1%	8.1%	500 bps
Boone / Hendricks	\$784	\$786	0.2%	8.1%	8.6%	50 bps
Hancock / Shelby	\$592	\$599	1.2%	10.5%	8.0%	-250 bps
Hamilton County	\$795	\$783	-1.5%	9.3%	13.0%	370 bps
Johnson County	\$616	\$614	-0.3%	8.7%	7.2%	-150 bps
<b>Metro</b>	<b>\$634</b>	<b>\$636</b>	<b>0.3%</b>	<b>8.5%</b>	<b>9.6%</b>	<b>110 bps</b>

## SUPPLY TRENDS

- Apartment developers completed five apartment properties, totaling 1,158 units, in the first eight months of 2010. The largest property, containing 402 units, was completed in the Hamilton County submarket.
- Recently completed properties experienced strong absorption. A 280-unit property that opened in the Hamilton County submarket in December was 62.9% occupied in June, equating to a 25 unit-per-month absorption rate. Additionally, the final c/o was issued for a 402-unit Hamilton County property in June. According to Reis, the property was already 58.0% occupied.
- Seven projects (1,224 units) were under construction in August. Two of the properties (246 units) are scheduled to open later this year, four properties (728 units) are expected to debut in 2011 and the final property (250 units) will open in 2012.



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