

Indianapolis, Indiana

Multifamily Housing Update

March 2010

EXECUTIVE SUMMARY

Payroll employment trends remained weak in the fourth quarter. On a year-over-year basis, area employers eliminated -38,000 (-4.1%) jobs in 3Q09 and -35,200 (-3.9%) jobs in 4Q09. On the other hand, conditions in the business service super-sector improved in 4Q09. Professional, scientific and technical service firms reduced headcounts by -2,400 y-o-y, following a -2,800-job annual decline in 3Q09. Likewise, administrative support service providers eliminated -10,100 jobs y-o-y in 3Q09 and -4,400 jobs y-o-y in 4Q09.

Seasonally-adjusted payroll trends improved dramatically in 3Q09, but deteriorated in the fourth quarter. Indeed, headcounts declined at a -12,100-job quarterly pace from 4Q08 to 2Q09, and only -1,800 jobs were eliminated in 3Q09. Unfortunately, the pace of job losses accelerated to -7,400 from October to December.

Business sentiment improved in the second quarter. According to the March Manpower Employment Outlook Survey, 15% of area firms planned to add workers in 2Q10, slightly higher than the 9% share that expected to reduce staffs. By comparison, 12% of the respondents to the December survey (regarding 1Q10 hiring plans) anticipated increased staff levels and 7% expected to contract.

Our econometric model predicts that the pace of payroll job attrition will slow next year as -4,300 positions are eliminated from payrolls. Moreover, **RED CAPITAL Research (RCR)** predict that a recovery will begin in 2011 as a net of 14,600 (1.7%) jobs are created. By comparison, PNC Financial Services expect a similar loss of -6,000 (-0.7%) jobs in 2010 and a 15,000-job gain next year.

Home prices and sales activity im-

proved in the fourth quarter. The National Association of Realtors estimate that the metro median single-family home price advanced 11.3% y-o-y to \$111,500. By comparison, the median price rose at a 2.0% annual rate in 3Q09. With regard to sales velocity, the Indiana Association of Realtors report that 5,186 metro homes sold in 4Q09, up 16.1% from the comparable period of 2008.

At 89.9%, the metro apartment occupancy rate dipped below 90% for the first time since 2Q05. Weak demand was partially to blame. Tenants vacated 776 units in 4Q09 and 1,469 units in 2009. By comparison, developers completed 1,359 units over the year, but none in the fourth quarter.

The average effective rent increased \$1 (0.2%) sequentially, but was down -1.1% y-o-y to \$631 in 4Q09. Asking rent also advanced \$1 sequentially, but fell at a slower -0.9% annual rate. Property owners kept concessions low, averaging only 5.8% of asking rent in 4Q09, the equivalent of 0.7 months free-rent on a twelve-month lease.

Reis predict that apartment market conditions will deteriorate this year. The service forecasts a 20 basis point decrease in occupancy and a -0.5% drop in effective rent by year-end. The service has a less pessimistic view of 2011; predicting a 10 basis point decrease in occupancy, but a 0.5% increase in effective rent.

Real Capital Analytics calculate sales volume of \$294 million in 2009, down from \$245 million in 2008. The average price per unit was \$58,727 and the average cap rate was 8.5% in 2009. Based on an assumed 8.8% cap rate, **RCR** calculate a robust 7.8% expected rate of total return. As a result, the metro boasts the 15th highest measure of risk-adjusted return in the **RED** 50.

SNAP SHOT

	Y-o-y change	Projected 2010
Vacancy (10.1% - 4Q09)	↑ 230bps	↑ 20bps
Effective Rents (\$631 - 4Q09)	↓ 1.1%	↓ 0.5%
Cap Rate (8.2% - 4Q09)	↔	↑
Employment (879.5m - 4Q09)	↓ 35.2m	↓ 4.3m

KEY POINTS

- The metro vacancy rate spiked in the fourth quarter, owing to weak demand. Negative net absorption totaled -776 units during 4Q09, contributing to an 80 basis point sequential increase in vacancy from 9.3% in 3Q09 to 10.1% in 4Q09. Additionally, vacancy was up 230 basis points year-over-year as supply (1,359 units) outpaced demand (-1,469 units).
- Effective rent rebounded slightly in 4Q09. The figure increased 0.2% sequentially to \$631 in the fourth quarter. Consequently, the average effective rent declined at a more modest -1.1% annual rate, better than the -1.6% drop in the previous quarter.
- According to the National Association of Realtors, the median price of a single-family MSA home increased 11.3% year-over-year to \$111,500 in 4Q09. The Indiana Association of Realtors estimate that metro sales velocity rose 16.1% year-over-year as 5,186 homes sold in the fourth quarter.
- Real Capital Analytics identify 17 trades involving properties priced at or above \$5 million in 2009. Sales volume totaled \$294 million and the average price per unit was \$58,727.



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