

Real Estate Market Update

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WHAT AFFECTS REAL ESTATE VALUES?

- **Answer- Everything**
- Supply & effective demand (appreciation-depreciation)/inflation
- population and family size affects housing demand
- economic policy affects inflation which affects interest rates
- personal tastes, fads, emotional attachments can add value or create obsolescence in a home-e.g. sunset view, a tree, Formica counters
- technology affects farming productivity affecting yields & land prices
- hilly topography makes the west side more expensive to develop

WHAT AFFECTS REAL ESTATE VALUES?

Part 2

- government regulations, zoning, tax policy- RE tax caps
homes =1%, apartments = 2%, commercial/industrial = 3%
- education levels which affect income and buying power
- Disposable income levels which are a function of jobs, unemployment rates, public assistance, pension & social security payments, savings, income taxes
- infrastructure-interstates, local roads, utilities, airports, rail, pipelines, etc.
- and, here is one you may have heard of- location, location, location, i.e. city, neighborhood & specific site location

SOME PRIMARY ISSUES:

- 1) Improve our college graduation rates.**
 - 2) Create population growth.**
 - 3) Teach, retain and attract a young skilled labor force.**
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- 2) Fund the I-69 bridge.**
 - 3) Transition, as a region, away from mining and manufacturing to high tech, e.g. plastics valley, innovation, R&D, etc.**

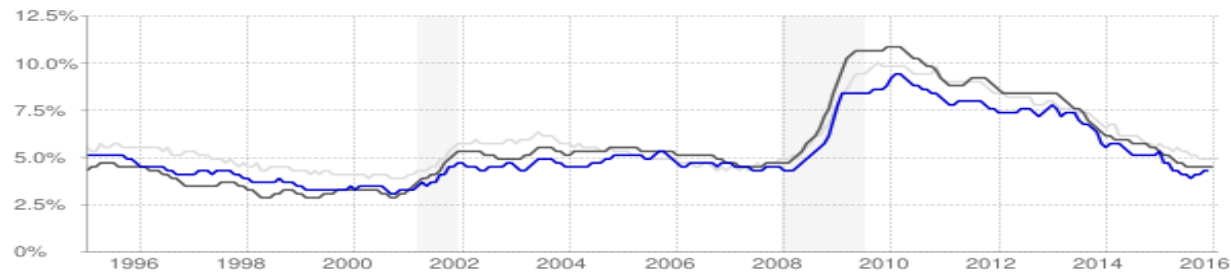
How much do we spend on real estate?

- Buying your home- Guidelines have varied, but mortgage payments can be over 25% of your income.
- Eating out- Rent on the restaurant's real estate is often 5% to 10% of food and beverage sales.
- Retail stores for clothes, appliances, personal items in non-anchor stores can be in the same range, but grocery store rent is 1% to 3% of sales.
- Real estate taxes, insurance, maintenance, etc.
- These compound at every stage from manufacturing to end user sales to pay for property amortization and expenses on the real estate
- **40% or more of your after tax dollars goes to support real estate costs in some form or fashion.**

The Tristate has a well diversified economic base. We are above average in:

- **manufacturing** employment because of our skilled labor, entrepreneurial spirit and our central location to most of the US population (median population center is in Pike Co)
- **Energy** production with abundant coal, oil, gas. Large power plants are here because of these resources and the Ohio River which provides cheap transportation and process water- some coal fired plants are now being converted to gas fired plants
- Productive **cropland** which provides feed for livestock.
- Good **healthcare, retail sales, education and entertainment facilities** on a per capita basis- we are self-sufficient
- Dr. Khayum, at USI, predicts in 2016 Evansville will see 2,500 new jobs, increases of 2.5% in output & 4.4% in income.
- Of course, we are affected by the national economy.

Unemployment Rate	December 2015	Month/Mo	Year/Year
National	5.0%	0.0	-0.6
Indiana	4.6%	+0.1	-0.9
Evansville	4.3%	0.0	-0.8



ITEM	EVANSVILLE	INDIANA	NATION
Median HHd Income(2013)	\$46,547	\$49,446	\$53,657
Retail Sales/Capita (2007)	\$21,043	\$12,406	\$12,960
Wholesale Sales/Capita	\$19,901	\$10,254	\$13,091
Population change 2013-14	0%	1.7%	3.3%
4 yr degree or more*	18%	23%	29%
* 2011 data			

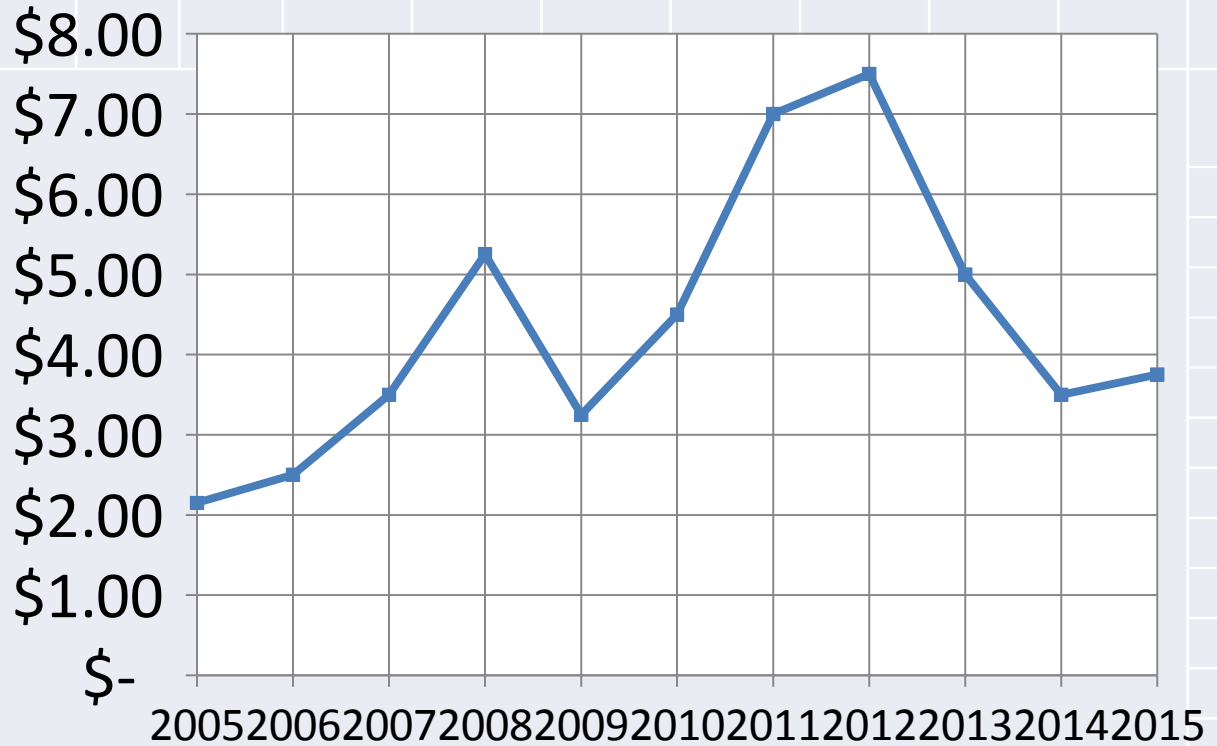
National Economy Overview

Federal Reserve Beige Book, Dec.2015, for the St. Louis District, of which we are a part, reports for our area that:

- Economic activity is increasing.
- There are possible upward forces on wages.
- Retail sales are improving.
- Banking is stable without any new crises.
- Automotive parts suppliers are busy.
- Primary metals are suffering a bit due to imports. New data also indicates manufacturing is in decline due to the strong dollar and low oil prices.
- Crop prices are low.
- Interest rates are low, but rising.

FALL OF THE YEAR
PRICES

<u>YEAR</u>	<u>PRICE/ BU</u>
2005	\$ 2.15
2006	\$ 2.50
2007	\$ 3.50
2008	\$ 5.25
2009	\$ 3.25
2010	\$ 4.50
2011	\$ 7.00
2012	\$ 7.50
2013	\$ 5.00
2014	\$ 3.50
2015	\$ 3.75
AVG	\$ 4.35



Local Overview by Sector

Construction industry is improving

- Home starts are slow, but increasing (few new subs)
- Apartments are stronger: CBD, senior living, 2BR burbs
- Retail is stronger with grocery, hotels, restaurants & small strip centers on far north, east and infill
- Industrial- slow but improving, some retrofit-Coke to Haier, some relo, land available, I-69 bridge needed
- Office- adaptive reuse, i.e. SS&C in Sterling.

Nationally- Today 2/3's of residential starts are apartments & it was ¼ pre-recession. Only 35% of USA live in apartments. Millennials are slow to buy. Today 32% are first time buyers vs 40% traditionally.

Good time to buy with low interest rates and rising prices.

40 years of change from 1976 to 2016

***Downtown:** then- retail/office center

now-office/residential/entertainment center

***Eastside:** then- residential with retail on Green River between Washington & Division

now- retail on Green River up to Lynch + Burkhardt

***Westside:** then- older residential and retail on W. Franklin

now- far west new residential and retail on W. Lloyd

***Northside:** then- residential up to Petersburg Rd and retail on N. First Av

now- residential up to I-64, retail up Hwy 41 and North HS is finally north of Central HS

Typical Vacancy Rates-

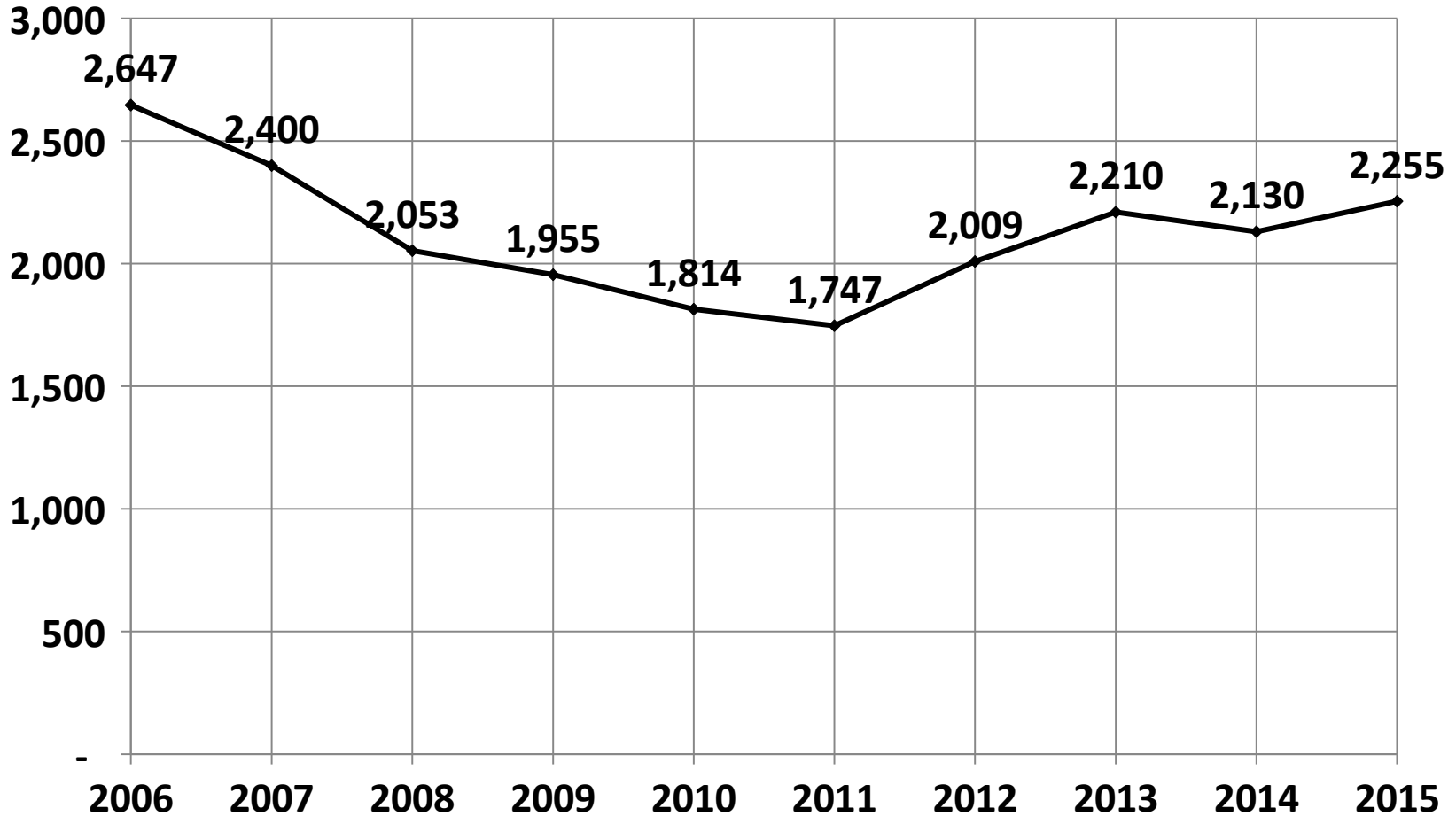
Depending on age, size & location

- Office- Local 15% to 25%, National 15% to 20%
- Retail- 10% to 15%, National 8% to 12%
- Industrial- 10% to 30%, National 10% to 15%
- Apartments- 3% to 10%, National 4% to 6%
- All are declining, except apartments are stable to increasing slightly since they are at minimal “frictional” vacancy with some new supply.

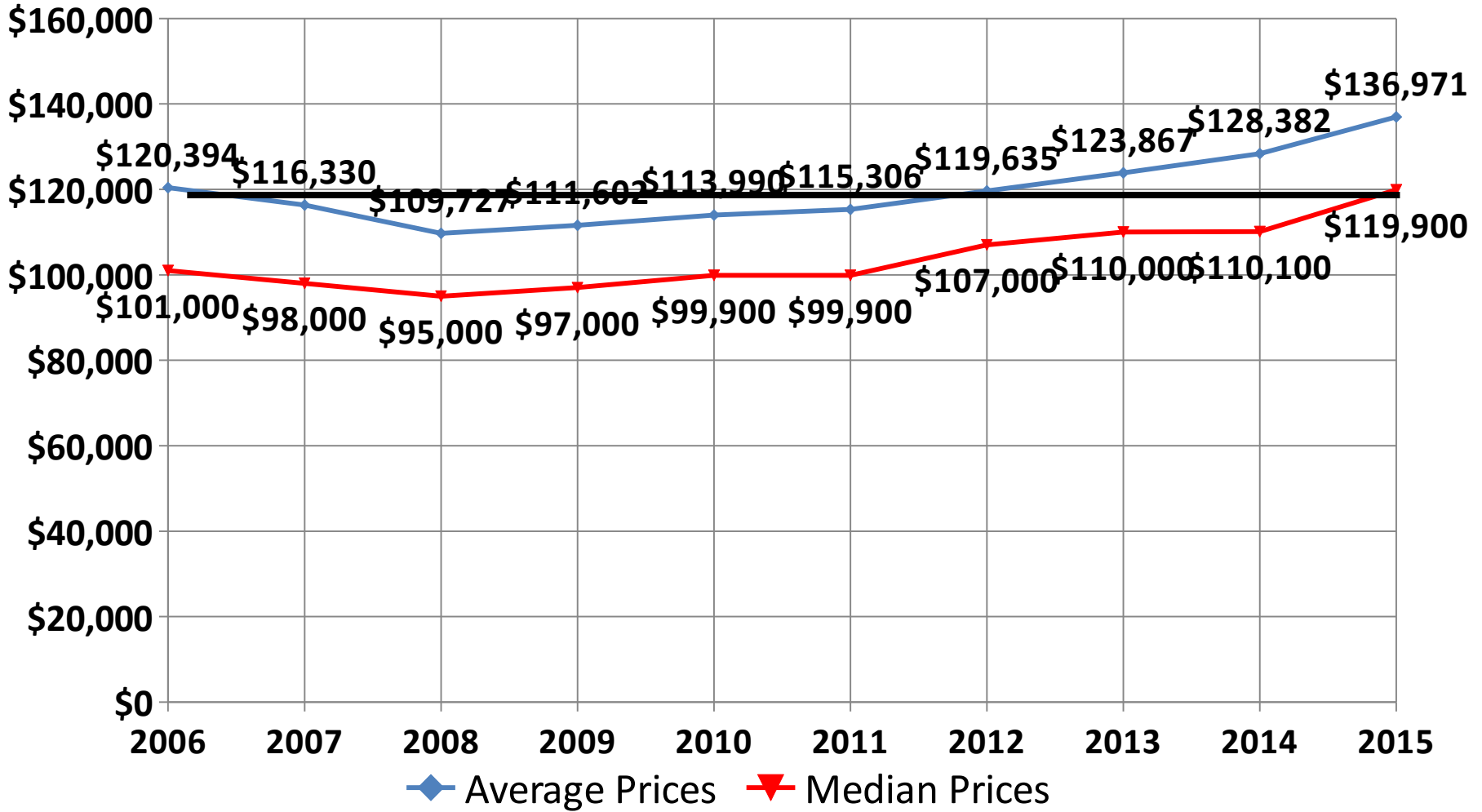
Vanderburgh Co. MLS Home Sales

					\$100,000- \$ 199,999	\$200,000- \$ 299,999	\$300000 - \$ 499,999	\$ 500,000 AND UP	DOM AVG	DOM MED
YEAR	# SOLD	AVG \$	MED \$	<\$100,000						
2006	2,647	\$120,394	\$101,000	1307	1024	225	73	21	69	44
2007	2,400	\$116,330	\$98,000	1230	894	194	67	15	72	46
2008	2,053	\$109,727	\$95,000	1084	754	146	59	10	94	64
2009	1,955	\$111,602	\$97,000	1014	723	157	53	8	94	56
2010	1,814	\$113,990	\$99,900	912	672	174	50	6	100	62
2011	1,747	\$115,306	\$99,900	875	649	147	63	13	108	72
2012	2,009	\$119,635	\$107,000	944	783	195	76	11	92	56
2013	2,210	\$123,867	\$110,000	1020	864	229	80	17	88	48
2014	2,130	\$128,382	\$110,100	957	851	208	93	21	83	42
2015	2,255	\$136,971	\$119,900	907	937	285	99	27	79	44
current listings		651	equals	104	day supply.	High end is oversupplied, mid to low is undersupplied				

of Home Sales/Yr: Vand. Co. 2006-2015



Home Sold Prices: Vand. Co. 2006 to 2015

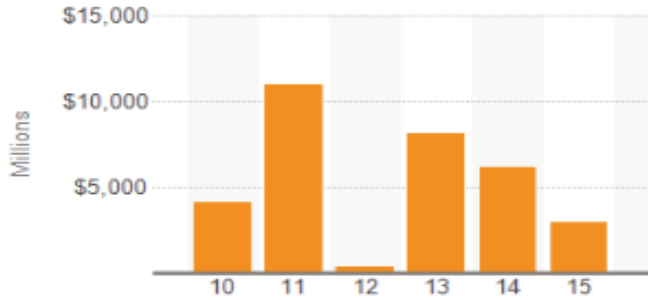


Commercial R.E. Sales: 5 Yr Trend

Prices/Sq Ft Graph

 [1Y](#) [3Y](#) [5Y](#) [10Y](#) [All](#)

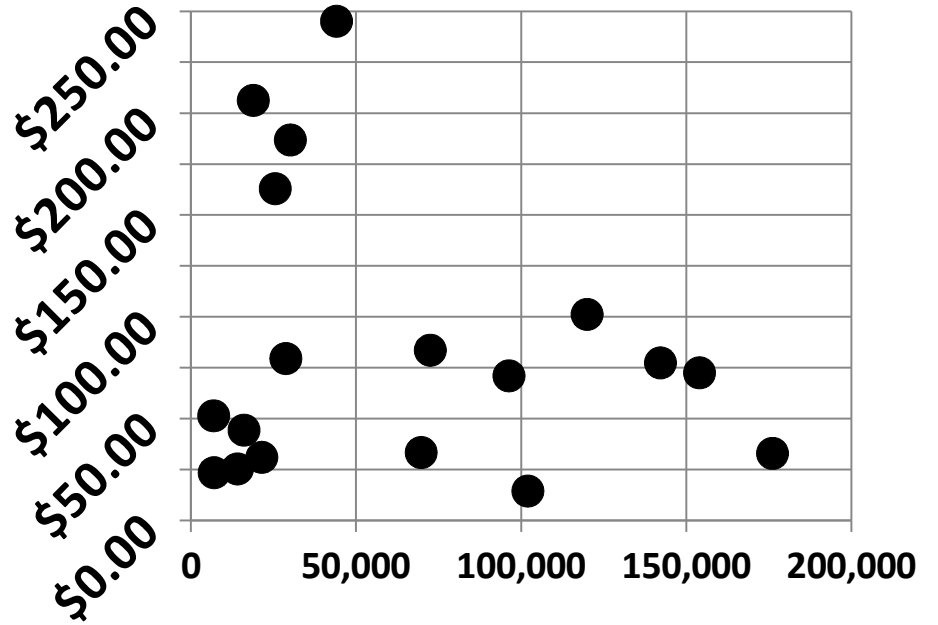
Sales Volume



Average Sale Price Per SF



Cap Rate



- The factors rated as most important are:
 - Availability and cost of skilled labor
 - Training programs
 - Highway and airport accessibility
 - Shipping cost
 - State & local incentives, tax exemptions, tax rate
 - Available land & buildings and their costs
 - Proximity to markets and suppliers
 - Fast track permitting
 - Energy availability and costs

The Future

- Location- We benefit from a central location to almost all markets- this won't change, but population center is moving south and west.
- Water- We have the Ohio River and plenty of drinking and process water. Room for growth.
- Transportation- I-69 will definitely be an enhancement. **We need that bridge!**
- Downtown Evansville- Med School, hotel, new housing & Tropicana/LST relo underway with a 2 to 4 year completion. New Master Plan. All good.
- So, our region's long term prospects look good.

CHALLENGES-

1) Can we enhance our ability to retain, attract and teach a skilled and young labor force?

2) How can we market our area to create population growth? Are we attractive as a community to Millennials?

3) Do we have the political ability to get the I-69 bridge built in the next 5 years?

4) Can we successfully transition as a region away from mining and manufacturing to high tech? Plastics valley, innovation, R&D, etc?

5) Can we enlarge our SMSA by regaining Gibson and Hopkins Counties lost in 2013?

YES WE CAN!

**EVANSVILLE IS A GREAT PLACE
TO LIVE & WORK!**

PASS IT ON!