Real Estate Market Update

Presentation to Evansville Downtown Rotary
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By

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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.
 - 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.

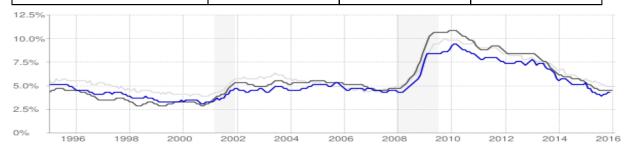
How much do we spend on real estate?

- 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 nonanchor 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		

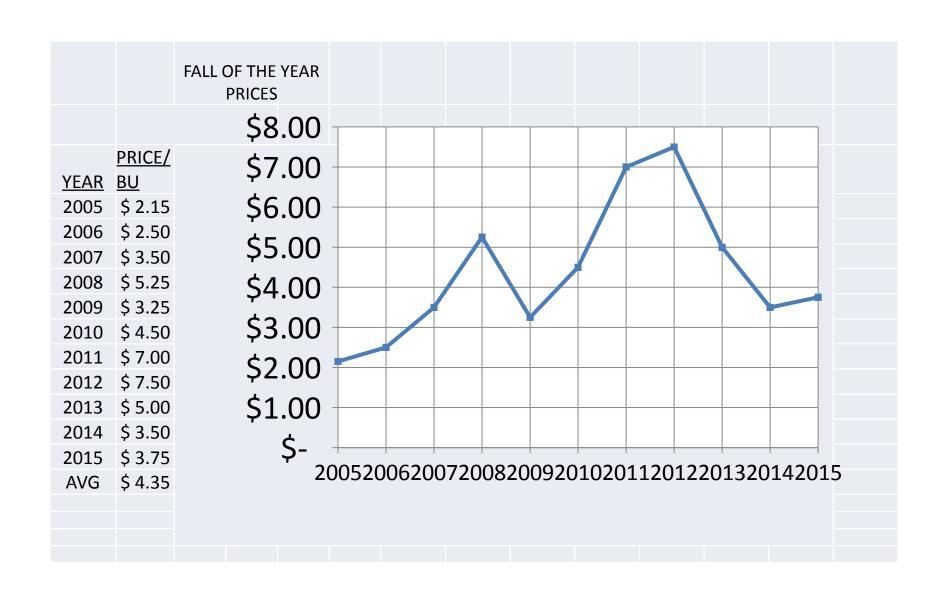


			NATION	
<u>ITEM</u>	EVANSVILLE	INDIANA		
Median HHd Income(2013)	\$46,547	\$49,446	\$53,657	
Retail Sales/Capita (2007)	\$21,043	\$12,406	\$12,960	
Wholesale Sales/Capita	\$19,901	\$10,254	\$13,091	
Population change 2013-14	0%	1.7%	3.3%	
4 yr degree or more*	18%	23%	29%	
* 2011 data				

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.



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**: <u>then</u>- retail/office center <u>now</u>-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 Petersburgh Rd and retail on N. First Av
- <u>now</u>- residential up to I-64, retail up Hwy 41 and North HS is finally north of Central HS

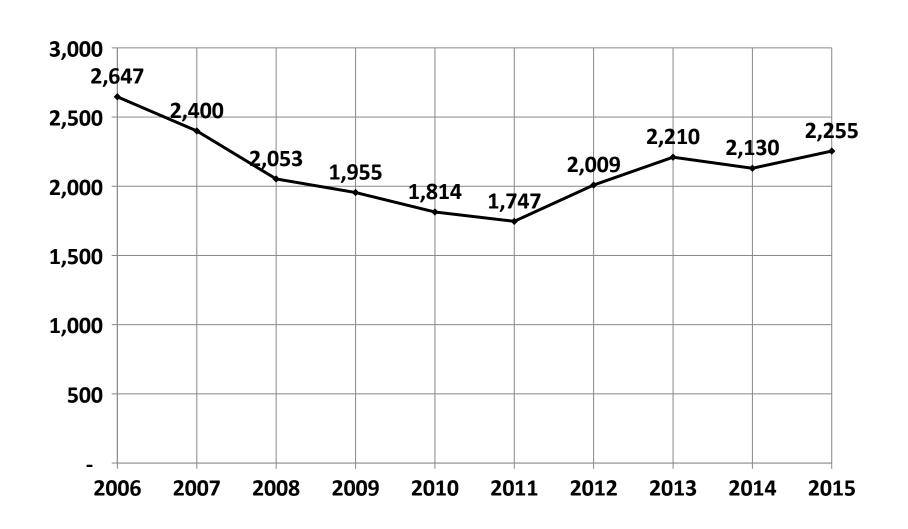
Typical Vacancy Rates-Depending on age, size & location

- 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.

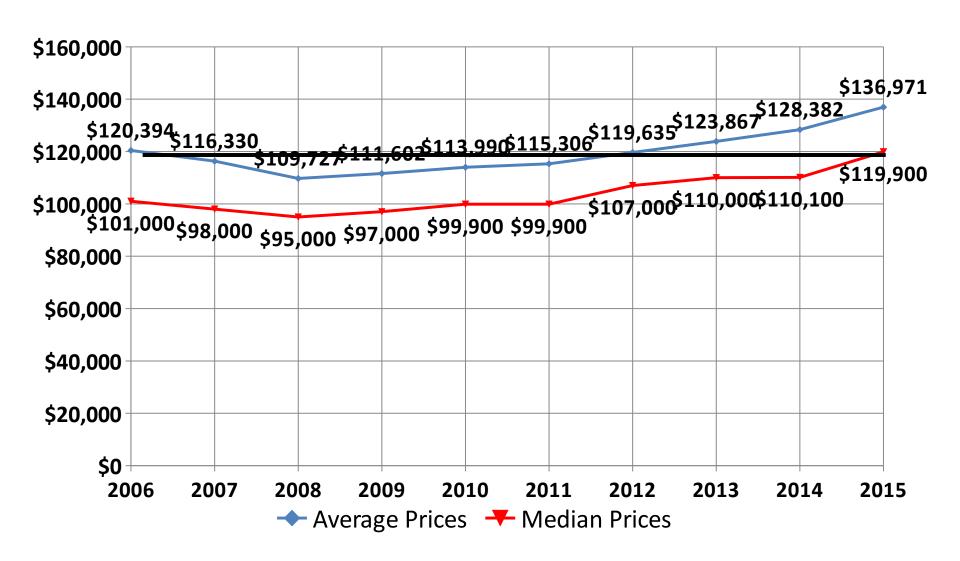
Vanderburgh Co. MLS Home Sales

					\$100,000-	\$200,000-	\$300000 -	\$ 500,000	DOM	DOM		
<u>YEAR</u>	# SOLD	AVG \$	MED\$	<\$100,000	•	\$ 299,999	\$ 499,999	AND UP	<u>AVG</u>	MED		
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		
curre	ent				day	High end is	s oversuppl	ied, mid to	low i	S		
listin	gs	651	equals	104	supply.	undersupp	olied	undersupplied				

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



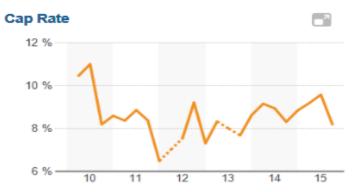
Home Sold Prices: Vand. Co. 2006 to 2015

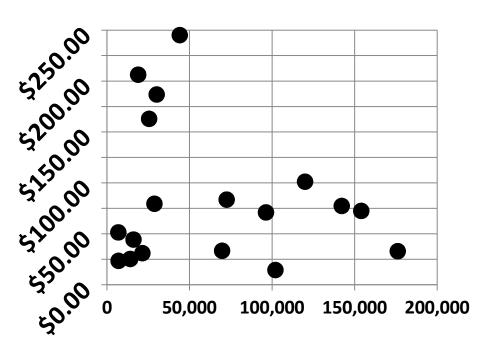


Commercial R.E. Sales: 5 Yr Trend Prices/Sq Ft Graph









COMPARISON OF HOUSING AND ECONOMIC INDICATORS BY LOCATION

Source: US Census 2007-2013 data compiled by David Matthews Associates

Top 5	Bottom 5											
				in 2013 dollars				per capita	per capita	per capita	Hotel/motel	2013 Bldg
	2014	% change	2009-13 Median	2009-13 Median	House Value/	2009-2013	% College	2,007	2007 Mfg	Wholesale	& Food Sales	Permits
City/County	Population	2013-2014	Home Value	hhld Income	Income	Ownership %	Graduates	Retail Sales	Shipments	Sales 2007	2007/capita	per 1000 pop
USA	318,857,056	3.3%	\$176,700	\$53,046	3.33	64.9%	28.8%	\$12,990	\$ 16,683	\$13,091	\$1,925	3.1
Indiana	6,595,855	1.7%	\$122,800	\$48,248	2.55	70.0%	23.2%	\$12,408	\$ 33,639	\$10,254	\$1,769	2.7
Evansville	120,346	0.0%	\$90,000	\$35,839	2.51	53.7%	18.0%	\$21,043	\$45,992	\$19,901	\$3,547	na
Vanderburgh Co	182,006	1.3%	\$112,900	\$43,540	2.59	63.6%	22.6%	\$17,308	\$35,425	\$16,620	\$2,840	1.7
Warrick Co	61,149	2.4%	\$146,300	\$62,351	2.35	83.3%	27.2%	\$5,794	na	\$6,743	\$603	5.3
Posey Co	25,540	-1.4%	\$127,900	\$58,750	2.18	85.0%	20.5%	\$10,225	na	\$13,575	\$671	1.8
Gibson Co	33,759	0.8%	\$104,400	\$49,329	2.12	77.8%	16.1%	\$13,501	na	na	\$1,140	3.0
Dubois Co	42,345	1.1%	\$133,200	\$54,780	2.43	78.2%	18.9%	\$18,509	na	\$12,528	\$1,388	2.5
Vigo Co, IN(Terra Haute)	108,175	0.3%	\$91,600	\$40,692	2.25	63.9%	21.2%	\$15,780	\$32,965	\$5,400	\$1,807	1.7
Henderson Co,KY	46,467	0.5%	\$99,400	\$41,940	2.37	68.0%	16.4%	\$14,669	na	\$11,729	\$1,178	1.5
Allen Co, IN (Ft Wayne)	365,918	3.0%	\$112,700	\$49,370	2.28	69.8%	26.3%	\$13,667	\$53,952	na	\$1,504	2.4
Marion Co. IN (Indy)	934.243	3.4%	\$118,000	\$42,334	2.79	55.8%	27.4%	\$14,748	\$26.047	\$16.891	\$2,407	1.4
Lawrence Co, MO (a)	38,023	-1.6%	\$93,700	\$39,334	2.38	72.9%	15.4%	\$11,171	\$16,008	\$1,676	\$539	0.1
Stephenson Co.IL (b)	46,435	-2.7%	\$101,800	\$43,472	2.34	71.8%	17.9%	\$10,285	\$19,492	\$10,349	\$965	0.4
Muhlenberg Co, KY	31,207	-0.9%	\$79,500	\$38,105	2.09	79.1%	11.3%	\$8,444	na	na	\$871	0.0
Peoria Co. IL	187,319	0.4%	\$123,200	\$50,712	2.43	65.5%	28.9%	\$13,250	\$26,432	\$8.594	\$1,832	1.2
McLean Co, IL (1)	174,061	2.6%	\$157,200	\$62,089	2.53	67.3%	42.8%	\$13,607	\$14,816	\$30,503	\$1,931	3.9
Winnebago Co (2)	288,542	-2.3%	\$123,400	\$47,072	2.62	66.9%	21.2%	\$12,943	\$27,425	\$9,097	\$1,567	0.2
Dane Co, WI (3)	516,284	5.8%	\$228,800	\$61,721	3.71	59.5%	46.6%	\$14,976	\$13,497	\$11,705	\$1,776	5.5
Hamilton Co, OH (4)	806,631	0.5%	\$144,400	\$48,593	2.97	59.5%	33.7%	\$12,419	\$31,054	\$16,154	\$2,217	1.1
Kalamazoo Co, MI	258,818	3.4%	\$136,700	\$45,775	2.99	64.7%	34.0%	\$11,481	\$28,653	\$4,664	\$1,602	1.9
Lexington/Fay Co, KY	303,428	4.3%	\$165,800	\$48,398	3.43	55.2%	40.1%	\$16,635	\$10,089	\$14,641	\$1,601	na
Davidson Co, TN (5)	668,347	6.7%	\$167,500	\$47,335	3.54	54.7%	35.9%	\$17,029	\$10,993	\$17,869	\$3,296	6.0
Montgomery Co, AL	226,189	-1.4%	\$122,900	\$44,790	2.74	61.4%	31.5%	\$14,351	\$35,177	\$14,482	\$1,781	2.1
Sarasota Co, FL	396,962	4.6%	\$175,000	\$49,052	3.57	74.5%	30.8%	\$15,181	\$3,443	\$3,931	\$2,127	4.6
King Co, WA (6)	2,079,967	7.7%	\$377,300	\$71,811	5.25	58.2%	46.6%	\$20,002	\$17,977	\$19,732	\$2,634	5.9
Denver (city), CO	649,495	8.2%	\$249,100	\$50,313	4.95	50.2%	42.9%	\$11,810	\$7,991	\$22,973	\$3,509	na
Charlotte (city) NC	792,862	7.8%	\$170,500	\$52,375	3.26	56.3%	39.8%	\$15,084	\$11,347	\$19,614	\$2,658	na
San Diego (city)CA	1,355,896	4.2%	\$437,400	\$64,058	6.83	47.9%	41.7%	\$12,735	\$9,580	\$16,172	\$3,802	na
Bamstable,MA (7)	214,914	-0.5%	\$366,700	\$60,526	6.06	79.0%	39.1%	\$17,878	\$2,481	na	\$4,146	2.8
New York City	8,405,837	2.8%	\$492,800	\$52,259	9.43	32.2%	34.5%	\$9,411	\$2,428	\$17,515	\$2,629	na
(a) between Spfld/Joplin			·									
(1) Bloomington/Normal	(2) Rockford, IL	(3) Madisor	n (4) Cincinnati									
(5) Nashville	(6) Seattle	(7) Cape Co										

- 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

- <u>Location</u>- 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.
- <u>Transportation</u>- I-69 will definitely be an enhancement. **We need that bridge!**
- <u>Downtown Evansville-</u> 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 1-69 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!