

# Market Trends Analysis 2014

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John M. Thistlethwaite Interests, LLC



*Adapting to User Demand Keeps Retailers Thriving*

Fort Wayne, Indiana  
Real Estate Marketplace  
20th Annual Reporting

## The Counselors of Real Estate® 2014 Top Ten issues Affecting Real Estate

- 1. Energy:** The U.S. is becoming increasingly energy independent.
- 2. Jobs:** The job market is expected to remain strong in 2014.
- 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.
- 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.
- 5. Globalization:** In the next five to ten 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.
- 6. Water:** Global demand for fresh water is projected to exceed supply by 40 percent by 2030.
- 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.
- 8. Housing:** The housing market appears to be in recovery mode, but home ownership continues to lag.
- 9. Manufacturing:** Robotics, self-service kiosks and 3-D printing technologies are dramatically transforming manufacturing.
- 10. Agriculture:** Agriculture debt is near all-time lows, which has helped push farmland prices to all-time highs.

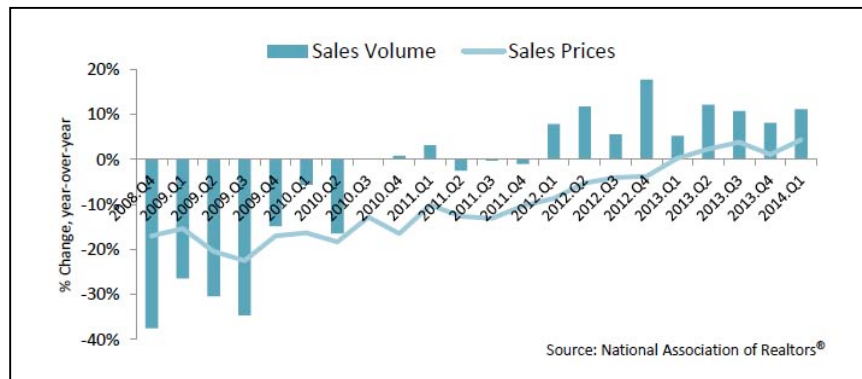


## Greetings in 2014:

Many wonder if 2014 is still framed as the 3<sup>rd</sup> real recovery year. It appears all segments of the real estate marketplace continue to recover from the 2007-2008 drop, but at a pace which has yet to bring activities back to pre-2007 levels.

The commercial sectors measured include retail, industrial, multi-family, hotels and office users---and the National Association of Realtors® shows a very positive upturn since 2008.

Sales Volume and Sales Price Trend for Commercial Properties--Nationally

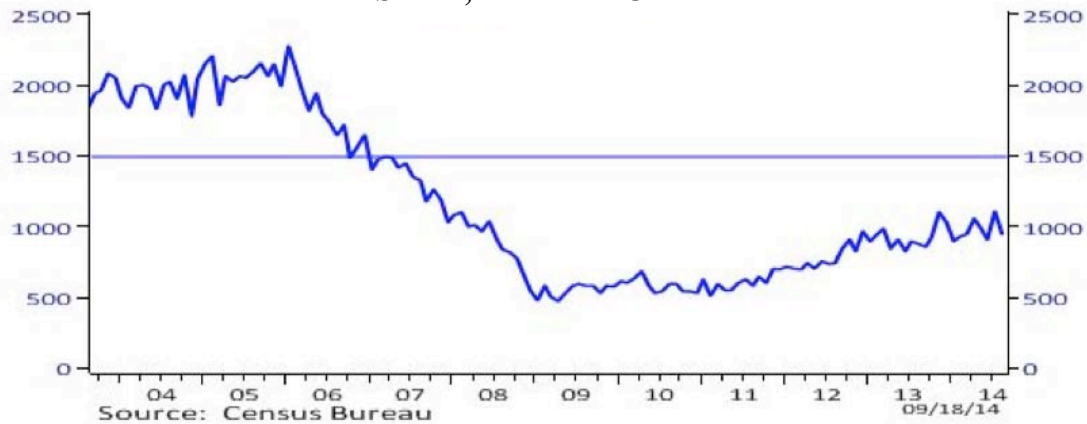


On a year-over-year basis, sales increased 11 percent in the first quarter, as prices rose 4 percent. Capitalization rates continued compressing with a 50 basis point decline, from an average of 8.7 percent in the fourth quarter 2013 to 8.2 percent in the first of this year. Multifamily properties recorded average capitalization rates, at 7.7 percent, followed by hotels, at 7.6 percent. Office and retail spaces posted identical cap rates of 8.0 percent, while industrial properties recorded capitalization rates of 8.1 percent.

The turnaround graph for the single family residential sector isn't as impressive. The chart appearing on the following page serves to illustrate Housing Starts, Single Family Unit as tracked by the Census Bureau from 2004 thru 2014.

It is evident housing values, housing starts, housing inventory and rental residential dwellings still drive the economy....and this sector of the industry remains "unrecovered". The pent-up demand for new housing continues to grow, and some is being released, but slowly, in the present economy. The buyer's determination to "build a new house" needs a boost.

### National Housing Starts SAAR, Thousand Units

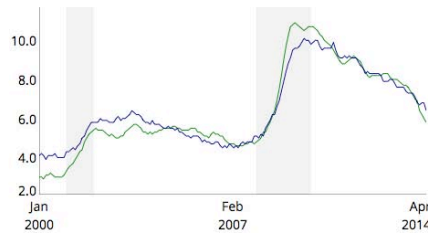


Locally, the Northeast Indiana Industrial Market shows the greatest strengths when comparing all of the commercial market sectors, with a reported overall vacancy in usable space of 6.94% according to the 2013 Industrial Survey by The Zacher Co.

Allen County Top 20 Employers				
List maintained by Community Research Institute, IPFW. <a href="http://www.ipfw.edu/cri">www.ipfw.edu/cri</a>				
RANK	TOTAL FTE	Company Name	ReportYr	NAICS
1	4,710	Parkview Health Systems	2011	6221
2	4,301	Lutheran Health Network	2011	6221
3	4,230	Fort Wayne Community Schools	2013	6111
4	3,909	General Motors	2013	3361
5	1,970	Lincoln Financial Group	2012	5241
6	1,814	City of Fort Wayne	2014	9211
7	1,605	Allen County Government	2010	9211
8	1,580	BFGoodrich	2011	3262
9	1,255	IPFW	2011	6113
10	1,165	ITT Exellis	2013	3342
11	1,150	Frontier Communications Corp.	2013	5171
11	1,150	B.A.E. Systems Platform Solutions	2013	3345
13	955	Vera Bradley	2012	3169
14	950	Raytheon Systems Co	2012	5417
15	825	Steel Dynamics	2011	3312
16	784	Norfolk Southern Corp	2011	4821
17	742	Northwest Allen County Schools	2014	6111
18	700	Sweetwater Sound	2014	5122
19	683	AWS	2014	6241
20	553	Edy's Grand Ice Cream	2012	3115

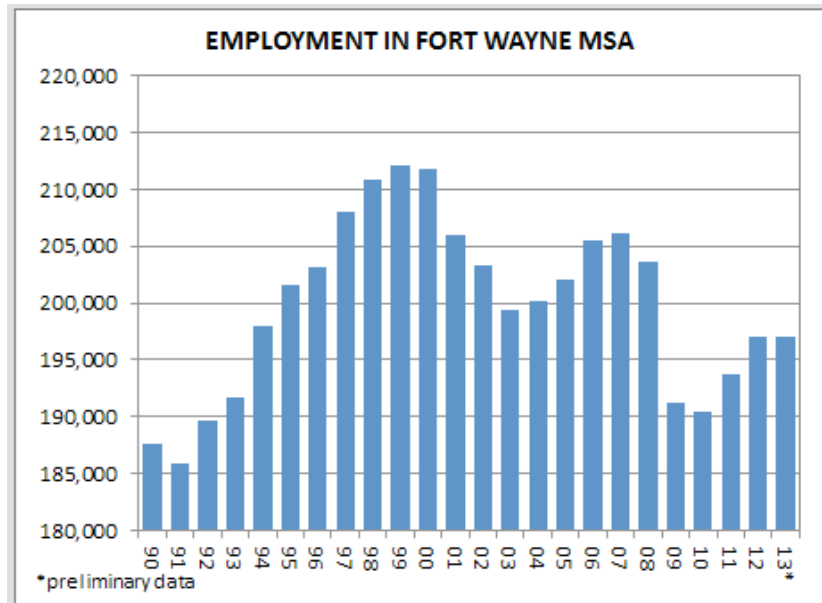
**Current unemployment in Allen County, Indiana is 5.7% as compared to 7.2% of the 2013 April workforce.**

### Indiana Unemployment Rate (SA)



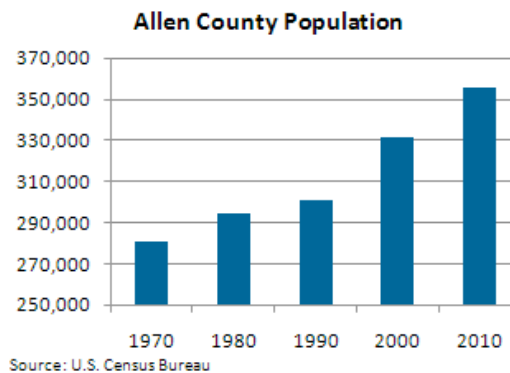
**5.7**

April 2014 Unemployment Rate (SA)



Allen County Population	
1970	280,455
1980	294,335
1990	300,836
2000	331,849
2010	355,329
Source: U.S. Census Bureau	

Population Growth, 2000-2010	
Allen County	7.1%
Indiana	6.6%
Source: U.S. Census Bureau	



# Highlights of 2014 Activities

- **Downtown Riverfront Development/Ash Brokerage Building**

Capitalize on Northeast Indiana's waterways by developing downtown Fort Wayne's riverfront, which would serve as a catalyst for future development throughout the region, expand the area's tourism and cultural footprint, and weave together multiple aspects of quality of life: recreation and trails, arts and culture, large scale attractions and urban living. The Ash Brokerage Office and Residential Complex has started construction.

- **University of Saint Francis hires architect for downtown project**

The University of Saint Francis has awarded a contract for its downtown campus project to Fort Wayne architecture and engineering firm Design Collaborative.

- **Fort Wayne apartment complex sold**

A California real-estate investment trust has acquired Oak Crossing, a 222-unit Fort Wayne apartment complex completed just last year. \$26 million or 117,000/unit.

- **BAE starts \$46 million aviation electronics manufacturing center on Airport Expressway**

The 334,000 sq. ft. building will be sold to ElmTree Funds II and leased back following completion by the end of 2015.

- **Apartments planned for Randall Building**

Indianapolis-based RealAmerica Development LLC said it soon will open 44 one- and two-bedroom apartment lofts inside the Randall Building in downtown Fort Wayne. Intentions to develop the Superior Lofts on W. Superior Street have also been announced.

- **Tim Hortons restaurant chain plans to open 15 stores in NE Indiana marketplace.**

The Canadian food service provider and Joe and Dough, local franchisees, plan to open the initial stores in the Allen County War Memorial Coliseum, Lutheran Hospital, near Sport One/Parkview Ice House Arena and a free standing unit near IPFW.

# Consumer Confidence: Highest in Nearly Seven Years

Posted in Economist Commentaries, by Lawrence Yun, PhD., Chief Economist and Senior Vice President, NAR on September 9, 2014

- Consumers are feeling much better and more confident in recent months: the consumer confidence index in August rose to the highest mark in nearly seven years. Such a trend could lead to improvement in home sales and boost demand for retail commercial spaces.
- Numerically, the index hit 92.4. The last time it was that high was right before the financial market crisis in October 2007 when the unemployment rate was very low at 4.7 percent (versus today's unemployment rate of 6.1 percent). The index, however, is still shy of 100, where at least half of Americans would be saying that the economy is generally moving in the right direction.
- For home buying, it is not only about financial capacity and mortgage rates. Confidence also matters. People need to feel they will be better off in the future in order to make a major expenditure. The index that captures only the future expectations was 90.9, also nearing the crucial 100 marker.
- The very strong, high stock market has driven total household net worth to an all-time high. However, only about 10 percent of Americans have meaningful exposure to the stock market. Therefore the stock market is not the best gauge of economic sentiments of the middle class. In contrast, the consumer confidence index covers a whole swath of people across all income spectrums and therefore this index is much better in assessing the mood of normal Americans.



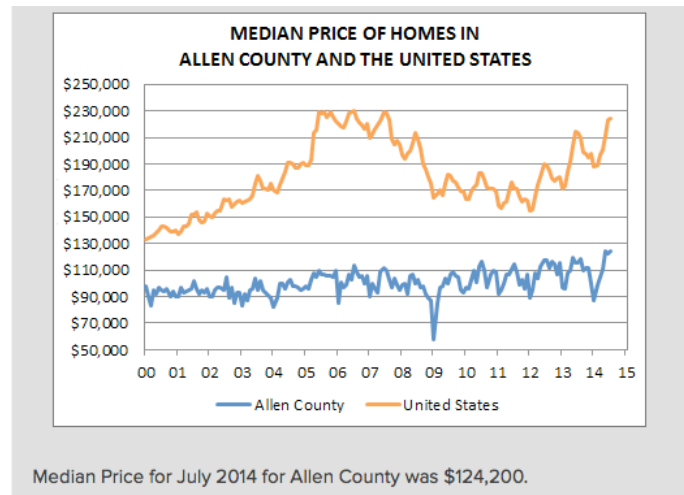
**Residential Subdivision Development  
Listed by Number of Developments, Number  
of Lots and Number of Acres Platted in Allen County, Indiana  
1998-2014**

<u>Year</u>	<u># Developments</u>	<u># Lots</u>	<u># Acres</u>
1998	44	1,608	797
1999	46	1,675	921
2005	34	1,313	634
2006	26	1,218	526
2007	17	443	314
2008	3	132	58
2009	4	101	30
2010	9	323	145
2011	9	298	150
2012	10	344	166
2013	20	551	277

**January to June  
6 Month Year-to-Date Comparisons for 2006 to 2014**

2006 (6 mos.)	17	806	359
2007 (6 mos.)	10	243	112
2008 (6 mos.)	4	158	72
2009 (7 mos.)	1	23	6
2010 (8 mos.)	5	175	109
2011 (9 mos.)	9	265	121
2012 (6 mos.)	4	140	85
2013 (6 mos.)	6	148	58
2014 (6 mos.)	3	123	51

*Source: Allen County Department of Planning Services*





**Allen County House Sales Activity  
as Reported by Upstate Alliance of Realtors  
Multiple Listing Service, Inc. 2002-2014**

	<u>#Properties Sold</u>	<u>Median Sale Price</u>	<u>Total Dollar Volume</u>	<u>Average Days On The Market</u>	<u>Year End Inventory</u>
2002	4,626	\$ 97,000	\$534,353,178	43	\$257,773,678
2003	5,184	\$ 97,000	\$558,365,996	83	\$288,073,254
2005	5,525	\$105,000	\$673,338,465	88	\$372,668,209
2006	5,616	\$102,500	\$670,805,959	97	\$375,815,476
2007	5,001	\$103,000	\$594,302,822	98	\$342,267,406
2008	4,439	\$ 97,000	\$494,059,050	112	\$347,287,000
2009	4,555	\$ 98,000	\$513,282,433	109	\$309,078,002
2010	4,192	\$104,000	\$504,138,660	<u>Months Supply</u>	\$283,216,290
2011	4,045	\$103,900	\$493,552,420	5.6	\$255,889,566
2012	4,492	\$110,000	\$494,120,000	4.4	\$195,500,000
2013	5,041	\$111,000	\$559,551,000	4.5	\$196,581,000

**January to June  
6 Month Year-to-Date Comparisons for 2005-2014**

2005	2,670	\$104,900	\$316,718,244	93	
2006	2,773	\$ 98,900	\$319,856,625	98	
2007	2,569	\$102,000	\$298,923,764	104	
2008	2,190	\$100,000	\$249,936,116	115	
2009	1,949	\$100,000	\$215,381,721	118	
2010	2,381	\$103,000	\$279,217,336	108	
2011	1,875	\$103,500	\$225,325,148	<u>Months Supply</u>	\$372,795,000
2012	2,148	\$107,500	\$207,801,553	6.5	\$327,021,118
2013	2,418	\$109,900	\$265,738,200	4.9	\$217,717,500
2014	2,379	\$110,000	\$261,690,000	4.8	\$230,102,600



Source: The Upstate Alliance of REALTORS® Multiple Listing Service Inc.

**Trends in Housing 2014:**

Initial year of real recovery for house sales was 2013 according to most. New house construction remains at 731 permits for Allen County and 108 for The City of Fort Wayne in 2013 compared to 1,751 permits in 2005 and 1,976 permits in 1999. New lot development remains stalled. With low interest rates and low unemployment, there is no better time to buy or upgrade single family dwellings. The local marketplace is just starting to show signs of satisfying the last 3 or 4 years of pent-up demand with some modest increased in house building activity.

## Retail Space Vacancy Rate Estimates Fort Wayne Area

**2013 Overall Market Vacancy: 14.7%**  
**2013 Total Sq.Ft. in Marketplace Surveyed: 13,987,250**

### North/West Quadrant

	CBRE			Zacher Co.		
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
All Space*	17.3%	16.8%	16.5%	9.2%	9.70%	7.9%

### South/East Quadrant

	CBRE			Zacher Co.		
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
All Space*	15.3%	24.1%	15.8%	32.31%	28.0%	31.4%

### North/East Quadrant

	CBRE			Zacher Co.		
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
All Space*	12.5%	15.1%	12.9%	26.0%	22.0%	17.4%

### South/West Quadrant

	CBRE			Zacher Co.		
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
All Space*	10.5%	13.9%	9.4%	12.0%	10.7%	10.2%

Sources: 2010 by CBRE Sturges and (\*) 2011, 2012 & 2013 by The Zacher Co.

## Retail Space Rental Rates—by Retail Center Type Fort Wayne Area 2001-2012

<u>Estimated Vacancy</u>							<u>2012 Rates</u>			
							<u>Low</u>	<u>High</u>	<u>Eff Avg.</u>	
<u>2001</u>	<u>2002</u>	<u>2005</u>	<u>2007</u>	<u>2009</u>	<u>2009</u>	<u>2012</u>				
11%	8%	6.0%	18%	18%	18.0%	14.0%	Downtown	\$ 7.00	\$12.00	\$ 9.50
2.7%	3.5%	5.0%	10%	10%	10.0%	14.0%	Neighborhood Center	\$ 5.00	\$18.00	\$11.50
7%	5.5%	3.0%	13.7%	13.7%	13.7%	15.0%	Regional Malls	\$10.00	\$35.00	\$22.00
							Community Center	\$ 6.00	\$22.00	\$14.00

Source: NAI Harding Dahm & Company 2012 Real Estate Planning Guide

### **Trends in Retail Properties 2014:**

Both rental and vacancy rates are stabilizing. New construction is receiving market acceptance of \$17.00 per sq.ft. and older space is about \$11.00. The days of \$25.00 per sq.ft. rents have passed us.

## Multifamily Residential Occupancy Estimates Allocated by Units and Occupancy Percentage Fort Wayne Market Area

	<u>ALL UNITS</u>		<u>CONVENTIONAL</u>		<u>SUBSIDIZED UNITS</u>	
	<u>Total Units</u>	<u>%Occupancy Reported</u>	<u>Total Units</u>	<u>%Occupancy Reported</u>	<u>Total Units</u>	<u>% Occupancy Reported</u>
March 1991	9,160	90.53%				
February 1992	5,765	83.9%				
July 1997	16,343	94.25%				
Sept 1998	20,038	97.70%				
December 1999	17,077			88.73%		94.98%
December 2000	18,776	89.31%	15,484	88.03%	3,292	95.41%
March 2003	16,899	89.44%	14,175	88.04%	2,724	96.81%
June 2004	16,971	88.78%	14,513	87.98%	2,458	93.57%
March 2005	18,338	87.47%	15,591	86.43%	2,747	93.45%
March 2007	18,183	91.76%	15,194	91.41%	2,989	95.16%
June 2008	13,667	94.86%				
December 2008	15,189	91.12%	13,739	90.63%	1,450	95.79%
April 2009	13,700	91.97%	12,604	91.64%	1,096	95.89%
June 2009	14,315	89.13%	13,097	88.41%	1,218	96.88%
April 2010	15,011	94.12%	13,807	90.32%	1,204	97.84%

*Source: Apartment Association of Fort Wayne and Northeastern Indiana*

2011	17,479	91.2%	<i>(end of 2010)</i>
2012	17,336	92.4%	<i>(end of 2011)</i>
2013	17,086	93.7%	<i>(end of 2012)</i>

*Source: Tikijian Associates- Multihousing Investment Advisors*



### **Trends in Multifamily Properties 2014:**

Huge jumps in rents. New units are asking and getting \$1,500-\$1,700 monthly. New construction will take up un-served demand quickly. A good 15 year run in apartments profitability. Take caution in over-supply.

**Northeast Indiana Industrial Space Inventory  
and Vacancy Estimates  
2009-2010-2011-2012-2014**

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
Total Space Inventoried sq.ft. in Regional Industrial Survey	78,212,693	87,418,951	93,215,356	94,829,768	98,340,965
Estimate of Vacant Space sq.ft.	9,551,298	8,446,767	6,259,648	6,726,541	5,837,314
Vacancy Rate	12.21%	9.66%	6.6%	6.84%	5.82%

Net absorption in 2013 was 2,909,062 sq. ft. The total vacant area was 5,837,000 sq. ft. Net absorption in 2012 was a substantial increase from 2011 and was 3,801,531 sq. ft. as compared to 2011 total of 1,607,824 sq. ft. which was a significant turnaround from the reported negative absorption of 3,462,815 sq. ft. experienced in 2010.

Source: The Zacher Company

**Trends in Industrial Properties 2014:**

The industrial sale prices are increasing and the vacant space is measured to be 5.82% of the total 98,340,965 sq. ft. by The Zacher Co. and is “about as good as it gets” presently.

The pent-up demand has been unleashed, it appears. The build-leaseback market should become more active in comparison to prior years.

**Northeast Indiana Industrial Development and Retention  
Trends by Number of New Projects, Expanded Projects  
Monetary Investment and Influence on Jobs  
1993-2012**

<u>Year</u>	<u># Projects</u>	<u>New/Expansions</u>	<u>\$ Invested</u>	<u>#New Jobs</u>	<u>Jobs Lost Due To Plant Closing/Downsizing</u>
1993	91	24/67	\$180,000,000	3,000	634
1994	109	24/85	\$914,000,000	4,600	1,147
1995	126	30/96	\$624,000,000	3,460	1,398
1998	113	19/94	\$504,000,000	2,589	3,198
1999	133	33/100	\$423,000,000	3,509	954
2002	145	25/120	\$294,000,000	2,014	2,700
2003	106	34/72	\$272,505,721	1,962	2,811
2004	151	44/107	\$323,988,377	3,428	1,238
2005	162	38/124	\$700,969,873	4,691	2,129
2006	159	39/120	\$1,013,072,049	3,855	2,860
2007	158	46/112	\$750,885,225	2,625	1,721
2008	145	37/108	\$250,015,984	2,853	4,368
2009	154	54/100	\$207,563,981	4,089	3,042

Source: Northeast Indiana Development/Lincoln Schrock

2010	126	126	\$320,800,000	4,533	1,413
2011	157	18/139	\$870,000,000	4,747	933
2012	130	10/117	\$524,000,000	3,000	548

Source: Community Research Institute, Northeast Regional Partnership



### Office Buildings with Vacancies Inventory 2013

<u>Area Sector</u>	<u>Total Office Sq. Ft.</u>	2013 <u>Sq.ft. For Sale For Lease</u>	2013 <u>Vacancy Rate</u>	2010 <u>Vacancy Estimates</u>	2011 <u>Vacancy Estimates</u>	2013 <u>Vacancy Estimates</u>
<i>Downtown</i>	5,589,638	502,114	9.0%	9.62%	11.07%	9.0%
<i>Northeast</i>	2,251,681	714,512	31.7%	19.65%	35.33%	31.7%
<i>Northwest</i>	1,519,947	143,138	9.4%	12.28%	11.13%	9.4%
<i>Southeast</i>	983,793	180,750	18.4 % \$	41.42%	15.85%	18.4%
<i>Southwest</i>	<u>2,606,793</u>	<u>603,465</u>	<u>22.3%</u>	<u>22.68%</u>	<u>29.86%</u>	<u>23.2%</u>
<i>TOTAL</i>	12,951,852	2,143,979	16.6%	16.42%	19.57%	16.6%



#### **Trends in Office Properties 2014:**

Suburban office space continues to lead the vacancy reportings. The Southeast and Southwest areas continue to report the highest vacancy percentages, but improving over prior years. Class B office space continues to receive about \$11 to 14 per sq. ft. on a full service lease basis. Another 2 or 3 years of minimal construction will allow the office sector to become attractive once again to investors.

## Building Permits Listed By Category Allen County and City of Fort Wayne 1998-2014

Allen County	Single Family Residential		Commercial	
	# Permits	Estimated Cost	# Permits	Estimated Cost
1998	1,732	\$274,206,059	64	\$ 45,923,030
1999	1,817	\$302,796,145	59	\$ 57,125,848
2003	1,623	\$298,121,205	46	\$ 56,390,913
2004	1,476	\$286,344,952	43	\$ 50,989,804
2005	1,452	\$282,681,366	35	\$ 61,453,854
2006	911	\$182,416,246	33	\$ 61,219,520
2007	700	\$147,066,895	29	\$ 51,932,708
2008	485	\$ 96,135,116	30	\$ 34,428,483
2009	371	\$ 70,274,012*	15	\$758,567,818
2010	584	\$110,206,011	20	\$ 16,059,660
2011	500	\$100,107,641	12	\$ 80,726,297
2012	597	\$136,559,449	14	\$ 46,968,516
2013	731	\$167,853,007	17	\$ 14,041,698
2010 (6 mos)	313	\$ 57,829,167	14	\$15,408,237
2012 (4 mos)	164	\$ 37,242,249	2	\$ 739,710
2013 (6 mos)	353	\$ 75,554,058	7	\$ 9,123,357
2014 (6 mos)	315	\$ 75,690,565	10	\$24,270,000
City of Fort Wayne				
1998	188	\$20,656,079	50	\$ 27,290,188
1999	159	\$18,679,009	57	\$ 55,049,104
2003	295	\$41,176,040	69	\$ 46,693,404
2004	292	\$39,292,456	65	\$ 84,675,201
2005	299	\$44,338,103	72	\$ 60,407,728
2006	225	\$34,309,669	62	\$ 65,601,595
2007	167	\$26,858,549	52	\$ 68,584,951
2008	136	\$19,255,464	62	\$118,374,046
2009	92	\$14,291,629*	28	\$ 29,748,727
2010	78	\$12,132,505	32	\$ 24,692,336
2011	180	\$26,199,522	30	\$ 57,306,155
2012	92	\$19,189,425	40	\$ 83,237,976
2013	108	\$23,012,385	42	\$ 75,005,508
2012 (4 mos.)	26	\$ 6,046,250	8	\$ 21,847,496
2013 (6 mos.)	57	\$ 11,563,381	19	\$ 49,671,837
2014 (6 mos)	24	\$ 5,091,602	14	\$ 45,676,373

\* 2009 understated by building department  
actual permits for city and county totaled  
679 with \$123,042,260 in dollar volume

Source: Homebuilders Association of Fort Wayne

2014.Q2 Survey Highlights

- 64% of commercial REALTORS® closed a sale.
- Sales volume rose 7% from a year ago.
- Sales prices increased 3% year-over-year.
- Cap rates averaged 8.3% during Q2.14
- Leasing volume advanced 4% from previous quarter.
- Leasing rates increased 3% over previous quarter.
- Concession levels declined 5% on a quarterly basis.
- Inventory shortage topped the list of current challenges, followed by a tie between pricing gap and local economies.
- The estimated average transaction stayed level at \$1.4 million in Q2.14



Source: National Association of REALTORS®

**Local and statewide economic conditions are good and serve as the generator of demand for most of the local real estate offerings in the Fort Wayne marketplace. The continuing survey results by The Zacher Co., Upstate Alliance of Realtors, Home Builders Association and Tikijian Associates contribute reliability to the market observations; and we are appreciative of these accurate annual efforts.**

**Disclaimer:**

It is our intention to provide accurate information regarding the subject matter discussed in this Market Trends Analysis reporting. It is distributed to clients with the understanding this report is based on the opinion of John M. Thistlethwaite Interests, LLC and is not to be considered as rendering legal, accounting, appraisal, counseling or investment advice or services.

**John M. Thistlethwaite Interests, LLC**

*Market Studies and Valuations Performed in More Than 300 Cities and 37 States Nationwide*

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