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## **Apartments make room for investors**

Indiana market lures West Coast buyers

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George Waymire flies into Indiana at least once a month.

Not for family or pleasure. But to shop for apartment complexes that would make a sensible buy for investors back on the West Coast.

The Washington state resident is not alone.

In the past 12 to 18 months, others like him from places such as California and Utah descended on Indiana to shop for property. So far they have bought at least six apartment complexes from Evansville to West Lafayette. The new arrivals are making the real estate market more competitive and eventually could push up property prices and values, some experts say.

Most of the buyers are small investors who have banded together and formed groups called tenants in common. They have pooled their money from selling other properties and reinvested their earnings to defer paying taxes.

Tenants in common is a well-known phenomenon on the West Coast. But soaring property values in recent years have priced some of those groups out of their home turf, sending them in force to middle America.

In Indiana, they are buying everything from offices to industrial spaces, and most recently apartment complexes. In many cases they never visit the properties they buy, but hire third-party managers like Waymire's company to track their investments.

Since January 2005, these investors have bought at least six Indiana apartment properties estimated at more than \$117 million.

"Most of our investments are seven- to 10-year holds," said Waymire, a vice president of acquisition and development for Wilkinson 1031, which has properties in Iowa and Indiana. "This is a solid market where the growth rate is not a sharp or steep incline like the California market but rather a gradual incline over the duration of the hold."

That's what makes real estate in Indiana attractive for buyers, Waymire said. Nationwide, these investors have been active almost five years. Since 2001, 59 such investor groups have bought 642 properties. More than one-third of the transactions closed in the first three quarters of 2005, according to Omni Brokerage, which specializes in advising tenant-in-common investments.

That adds up to a lot of real estate value. Last year, the equity for these investors was estimated at \$3.59 billion.

Indiana and other midwestern cities were late to arrive on these investors' radar because of the booming real estate market along the coasts, experts said.

They raced to buy properties in California and Florida, holding on to them in the hope of quickly tripling or quadrupling their investments. That created increased competition in the marketplace, pushing up demand and driving up prices.

Why are the investors flocking here? Because properties are more affordable and the return on investment is higher. Expensive properties on the coasts don't reap the same returns.

"It's a very yield-driven market," said Scott Richter of California-based Evergreen Realty Group, a TIC that has holdings in Kansas City, Florida, California and Arizona. "The yields at the coasts are not as good as they are in the Midwest."

That's one of the mantras that brokers at commercial real estate services firm CB Richard Ellis use when pitching Indiana to the TICs.

"The other reason is there's growth here now," said Steve LaMotte, vice president of the multi-housing properties group for CB Richard Ellis. "And their arrival has coincided with our economic recovery."

LaMotte cited statistics to back up his claim: 8,600 jobs created in the last year in the Indianapolis metropolitan statistical area; 7,500 new households were added to the market; and occupancy rates in apartment complexes climbed 1.4 percent.

But TICs are not easy customers.

"They are somewhat limited in what they can buy," said Scott Pollom, principal and vice president at Colliers Turley Martin Tucker. "They like newer and nicer products that they can sell back to subscribers, and they have to have properties that are debt-free."

And there isn't a huge pool of such properties floating around, experts say.

Many of the out-of-state investors have enough resources to outbid local investors. Some experts say these investors already are beginning to drive up property prices in the area, forcing a few among them to shy away from investing here.

Richter of Evergreen Realty Group agrees.

"We are still looking in that market, but the pricing is being driven to a point where we are less comfortable," he said.

Part of that has to deal with lack of population growth when compared with California cities.

"Without population growth, investing in apartments is risky," he said.

LaMotte, however, is optimistic that the tenant-in-common trend here has only begun and will continue to blossom in the next 18 months. Among other things, he reasons that TICs know their investment will be safe here in the Hoosier heartland.

"There was never a housing bubble here, and so there's no bubble to burst," he said.