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Written by: Katie Maurer

Apartment industry facing taxing times

By Katie Maurer

Landlords cope with higher property reassessments, low mortgage rates that make homes more affordable

For the local apartment industry, 2003 is taking on Biblical proportions.

Already plagued with stubbornly low demand for rental units, more expensive insurance premiums and higher utility costs, landlords now must cope with soaring property taxes on Indiana apartment complexes.

"It's probably as challenging a market as anybody has seen for 20 years or more. I can't imagine it will get terribly more difficult," said George Tikijian, who leads the Indiana Multi-Housing Properties Group for commercial real estate brokerage CB Richard Ellis.

The tax increases, a result of the state's recently overhauled system, mean some landlords are paying almost twice as much. As they scramble to lure tenants to their complexes, passing those higher costs on to renters isn't an option, so for now, owners are just trying to dig in and weather the storm.

"It's a tough market and a bad time to get whacked with pretty big increases," said Jim Thomas, executive vice president of AMLI Residential Properties Trust in Indiana. "In a stronger market we might be more willing to test the limits of recouping property tax increases."

The property tax hit varies from one apartment community to the next. Generally, older properties are stomaching larger increases, but few are escaping a higher bill altogether.

"Based on our data, we are seeing taxes go from a slight decrease in some properties to an 80-percent and 100-percent increase in others," said Brian Poore, vice president of locally based Real Estate Tax Consultants Inc., an affiliate of apartment company Gene B. Glick Co.

The average apartment complex tax bill is about 26 percent higher, according to Poore.

The older the property, the bigger the increase, said Jerry Collins, president of locally based Flaherty & Collins Inc., one of the city's largest apartment management firms. As more new complexes are built, the older ones will see a higher burden, he predicted.

Most of the increase is coming from dramatically higher assessed values. Most tax rates have fallen, but not enough to soften the 90-percent higher assessed values. According to Poore's calculations, values on some properties have sky- rocketed as much as 140 percent.

Apartment owners are taking their case to tax officials and appealing the assessed values on their properties. The results to date have been encouraging, said Poore, who represents landlords around the state.

"We're appealing almost every case we look at," he said. "So far, the few cases we have gotten through the process have been successful. The assessors have gone through a lot of education and are a lot more willing to make adjustments."

Poore hasn't completed any appeals in Marion County and is still waiting to see how local assessors react.

As the appeal process unwinds, landlords will continue to hope for better fundamentals in the apartment industry. The biggest thorn in their side continues to be the availability of relatively inexpensive starter homes and other single-family housing.

As long as financing remains cheap and builders continue their work at a blistering pace, many Hoosiers will opt for a monthly mortgage payment that builds equity over monthly rent, experts said.

The effect of the single-housing market is reflected in apartment statistics. The overall vacancy rate for local rental units was 11.2 percent in the second quarter, up from 8.8 percent a year ago, according to Marcus & Millichap's National Multi-Housing Group.

There are about 110,000 apartments in Indianapolis, meaning some 12,000 are empty.

Vacancies will likely see additional pressure from what some see as an overzealous pace of new apartment construction. More than 2,200 units are expected to be delivered to the market this year, following 2,100 units last year. Easing construction activity is expected, with Marcus & Millichap forecasting about 1,500 units for delivery in 2004.

To cope with the falling demand for apartments, owners are keeping a lid on rents and offering generous concessions to prospective tenants. In the first quarter of this year, CB Richard Ellis found that about half of the market's landlords were offering deals ranging from $53 to $154 in monthly savings for a year's lease.

Some landlords are offering unusual incentives. Denver-based AIMCO--which owns more than 30 apartment complexes in central Indiana, including Somerset Lakes and Lake Castleton Arms--offers a program called HomePlanner that promises to pay $500 to $1,500 in closing costs for residents who agree to stay in AIMCO properties before buying a home.

The average rent for an Indianapolis-area apartment was $785 in the first quarter, virtually unchanged from $782 two years earlier, according to CB.

The inability to raise those rents for the time being will be more of a hardship for some owners than it will be for others, Tikijian said.

"It depends upon the type of owner," he said. "If it is an institutional-type owner, they'll just accept lower yields. If it's an over-levered individual, they will try to sell, refinance it or default."

Selling is not a bad option. Market watchers said there is a healthy trade in apartment complexes these days thanks to affordable financing for buyers, and sales prices have held up fairly well. According to Marcus & Millichap, the median price so far this year amounts to $24,000 per unit, down 1.4 percent from 2002.