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Developer isn't waiting for market's recovery

By Katie Maurer

Flaherty & Collins plows ahead; rivals prefer to lay low

Times are tough for the Indianapolis apartment market, but those at Flaherty & Collins apparently haven't gotten the memo.

Despite the highest market-wide vacancy rate in five years, the locally based apartment manager and developer is plowing ahead with seven new projects totaling more than 1,100 units.

"The multifamily market right now is what we consider soft, so yes, it is a lot to have under development when the market is soft," said CEO Dave Flaherty, who co-founded the firm with President Jerry Collins in 1993.

But if and when the market rebounds, Flaherty & Collins plans to have plenty to offer to prospective renters.

"There is a lead time from when you start a development to when it actually comes to a fruition of one to two years," Flaherty said. "If you wait for the market to get really good, you may be two years into the cycle before you see anything."

"We are developing in a soft market, but as our properties are built out and ready to lease, we're planning on the market being a little bit stronger. Plus, we're really particular on where we build. Indianapolis as a whole is considered soft, but there's still good pockets where the market is not so soft. Those are the areas we're targeting," Flaherty said.

The company has largely steered clear of the booming Fishers area, for instance.

"There are parts of the market--the [Interstate] 69 corridor probably being the best example--where [landlords have to make] a lot of concessions. We've kind of stayed away from that area," Collins said.

Competitors applaud Flaherty & Collins for its ambitious game plan, but don't go so far as to say it's a tack they would embrace.

"It's an aggressive strategy that's outside most people's risk parameters," said Jim Thomas, executive vice president of AMLI Residential Properties, a Chicago-based multifamily development firm with several Indianapolis properties. "I think most people are waiting for more tangible proof of improving fundamentals."

AMLI is close to finishing a 320-unit project called AMLI at Carmel Center and is planning another 91 units for the small AMLI at Old Town Carmel. Other than that, the company's local drawing board is blank.

"I think that explains our views on the market," Thomas said. "I've been here 13 years and it's the toughest I've seen. It's as tough as any of us have seen in our careers."

The overall vacancy rate in the Indianapolis apartment market reached 10.4 percent in 2002, said George Tikijian, senior vice president and multifamily specialist with the local office of CB Richard Ellis, a commercial real estate firm based in Los Angeles.

"It's pretty tough right now," Tikijian said, citing job losses throughout 2001 and 2002 that have kept a lid on apartment demand. At the same time, the relative affordability of entry-level single-family homes has also depressed the apartment market, he noted, convincing many to eschew a monthly rent payment in favor of a mortgage that is the same or slightly higher.

Flaherty & Collins has garnered attention as the most active developer in today's market, according to Tikijian. "They have more new deals in the works than anybody else," he said.

But even without guarantees of an economic resurgence, Flaherty & Collins is comfortable with its development pipeline.

“We’re not totally dependent on the economy turning around,” Flaherty said. “Our deals work economically even if these conditions stay the same as they are now. They just get a lot better if the market improves.”

Flaherty and Collins formed their partnership near the end of the last real estate slump. It was 1993 when they both left the commercial real estate firm Revel Cos., where Collins was a property manager and Flaherty was a broker.

At first, the partners concentrated on property management services for other multifamily communities. They made their first foray into development in 1996 with a 272-unit complex in Greenfield.

Flaherty & Collins ranked fourth on IBJ’s most recent list of the largest Indianapolis-area multifamily property management firms. Its management portfolio of 5,257 units includes both market-rate and affordable apartments.

Its current project roster includes apartment communities on the south, west and east sides.

Plans call for a much broader geographic territory starting next year.

“We’re very aggressively seeking to get into other cities,” Flaherty said. “We haven’t started building yet, but we hope to have at least one to two other developments in other cities next year.”