Yardi® Matrix

MULTIFAMILY REPORT

Indy Reopens Amid Solid Performance

Summer 2020

Rent Growth Persists in Upscale Segment

Transaction Activity Holds Through May

State Jobless Rate Below Nation

INDIANAPOLIS MULTIFAMILY

Yardi Matrix

Full Reopening Looms, Rental Market Endures

Although most industries have seen significant impact from measures taken to mitigate the pandemic, Indianapolis' rental sector recorded flat rent gains on a trailing three-month basis through May. Meanwhile, the U.S. rate was down 20 basis points. This was mainly due to the metro's upscale segment, where a supply imbalance has kept demand high and rents on the rise—up 0.3%.

However, the metro's economy as a whole is relatively vulnerable to fallout from the ongoing health crisis, due to a smaller share of well-insulated jobs compared to other U.S. metros. Although the state's 12.3% unemployment rate was 100 basis points lower than the national figure as of May, smaller employment shares in financial activities, government, and professional and business services mean that the metro's job market may continue to struggle. The state is engaged in a five-stage reopening plan, with the last phase permitting conventions, festivals and similar activities, pointing to some positivity this summer.

Transaction pace has actually been nearly on par with 2019, at $228 million, trailing the previous year's same five-month total by only $10 million. The average price per unit has also climbed, reaching $108,814, up $33,000 over 2019's average. With construction deemed an essential service during the lockdown, development activity was solid, with 4,293 units underway across the metro.

Market Analysis | Summer 2020

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On the cover: Photo by Sean Pavone/iStockphoto.com

Recent Indianapolis Transactions

Settlers Run

City: Danville, Ind.
Buyer: Spruce Capital Partners
Purchase Price: $38 MM
Price per Unit: $123,684

Saratoga Crossing

City: Plainfield, Ind.
Buyer: Spruce Capital Partners
Purchase Price: $33 MM
Price per Unit: $136,667

Parc Bordeaux

City: Indianapolis
Buyer: Cyclone Investment Group
Purchase Price: $16 MM
Price per Unit: $79,320

Barclay Square

City: Bloomington, Ind.
Buyer: Woodington Management
Purchase Price: $11 MM
Price per Unit: $ $75,650

RENT TRENDS

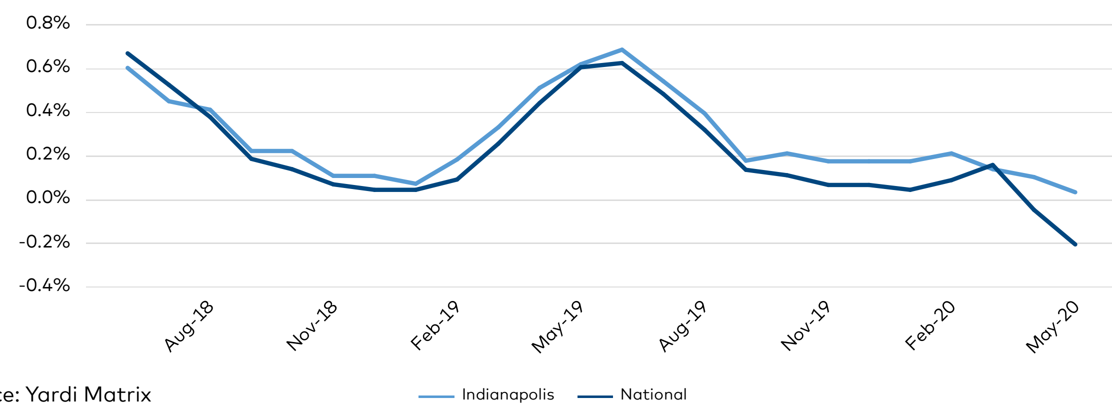
- Indianapolis rents remained flat on a trailing three-month basis as of May, while national rents slid 0.2%. The overall average in the metro was $948, more than $500 below the U.S. average.

- While the plateau in rent growth could indicate general moderation, the by-quality-segment breakdown paints a different picture. Rents in the upscale Lifestyle segment rose 0.3% to an average of $1,230, while the working-class Renter-by-Necessity segment saw a 0.1% slide to $837. The significant spread between the two also points to the supply imbalance in Indianapolis, where less than a third of rental stock is in Lifestyle properties.

- The overall average occupancy rate in stabilized properties stood at 93.7% in April, significantly lower than the national figure, and down 70 basis points year-over-year. With the bulk of incoming inventory geared to the undersupplied and overperforming Lifestyle category, woes may continue for the working-class segment, where the bulk of economic fallout is visible.

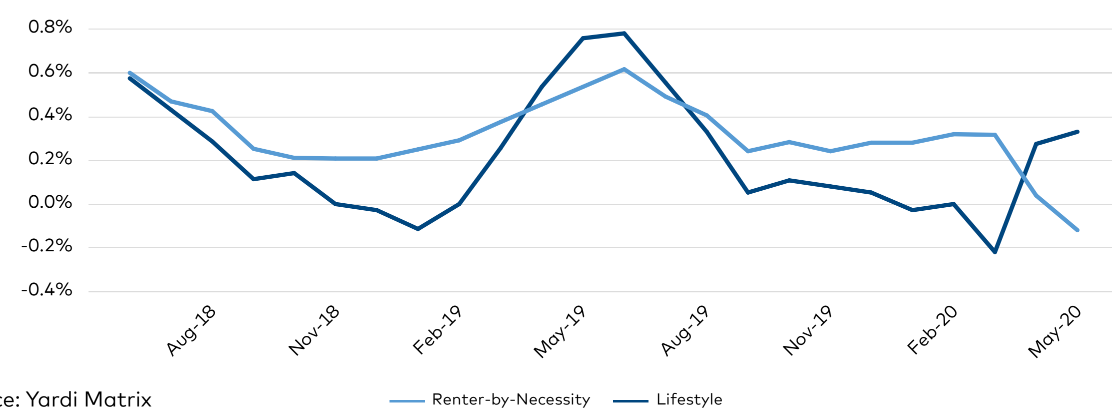
- Despite ongoing struggles, some submarkets posted strong rent performance year-over-year through May; Bloomington-North (up 15.8%), Franklin (7.1%), Plainfield/Brownsburg/Avon (5.7%) and Lawrence (5.2%) led the way.

Indianapolis vs. National Rent Growth (Trailing 3 Months)



Source: Yardi Matrix

Indianapolis Rent Growth by Asset Class (Trailing 3 Months)



Source: Yardi Matrix

ECONOMIC SNAPSHOT

- According to preliminary unemployment numbers from the Bureau of Labor Statistics, Indiana's jobless rate was 12.3% in May, 100 basis points below the U.S. rate.

- Through the 12 months ending in March, employment growth had already been affected, clocking in at just 0.7%—half the U.S. rate. Lockdown measures taken to contain the effects of the COVID-19 outbreak had a swift impact on leisure and hospitality, which took the brunt of losses in the short term.

- Indianapolis' economic profile places it in the bottom half of major U.S. markets when it comes to its share of durable employment in the face of the economic fallout. Based on its combined share of financial activities, professional and business services, and public sector jobs, Indianapolis heavily trailed metros such as Lansing, Mich., Washington, D.C., San Francisco, and Austin, viewed as better-insulated against coming woes.

- With the state engaged in its five-stage reopening plan, the local economy is expected to see some relief, with businesses looking to restart activity and curb the downward trend.

Indianapolis Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
65	Education and Health Services	187	15.5%
15	Mining, Logging and Construction	60	5.0%
90	Government	178	14.7%
55	Financial Activities	77	6.4%
60	Professional and Business Services	174	14.4%
50	Information	15	1.2%
70	Leisure and Hospitality	124	10.3%
80	Other Services	50	4.1%
30	Manufacturing	105	8.7%
40	Trade, Transportation and Utilities	240	19.9%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The metro gained 70,000 residents between 2016 and 2019, a 3.4% uptick, more than double the U.S. figure.

- Throughout the cycle, Indianapolis' expansion was boosted not only by natural population growth but also by consistent immigration and domestic migration.

Indianapolis vs. National Population

	2016	2017	2018	2019
National	323,071,342	325,147,121	327,167,434	328,239,523
Indianapolis Metro	2,005,404	2,026,723	2,048,703	2,074,537

Sources: U.S. Census, Moody's Analytics

SUPPLY

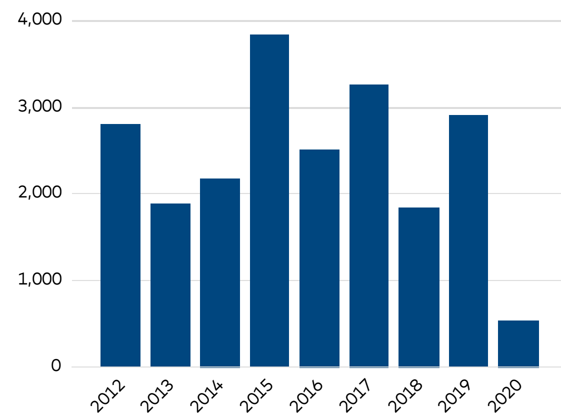
- There were 4,293 units under construction in Indianapolis in May. Of those, 3,509 are slated for delivery by year-end. Incoming stock will predominantly favor the Lifestyle segment, with only 185 units catering to the Renter-by-Necessity or affordable housing sectors.

- Another 15,800 units were in the planning and permitting stages across metro Indianapolis. With construction deemed essential during the lockdown in Indiana, projects have moved ahead through the pandemic, but NMHC data has already pointed to significant delays for roughly 50% of projects in the U.S.

- With the average occupancy rate in stabilized assets at 93.7% as of April, the metro is significantly trailing the U.S. figure. The rate is down 70 basis points year-over-year—a steep drop-off. With the bulk of rental units in the metro consisting of properties built before 2000, recently completed Lifestyle communities had a demand advantage. The occupancy rate in stabilized properties in the segment was 93.8%, 10 basis points higher than the working-class segment.

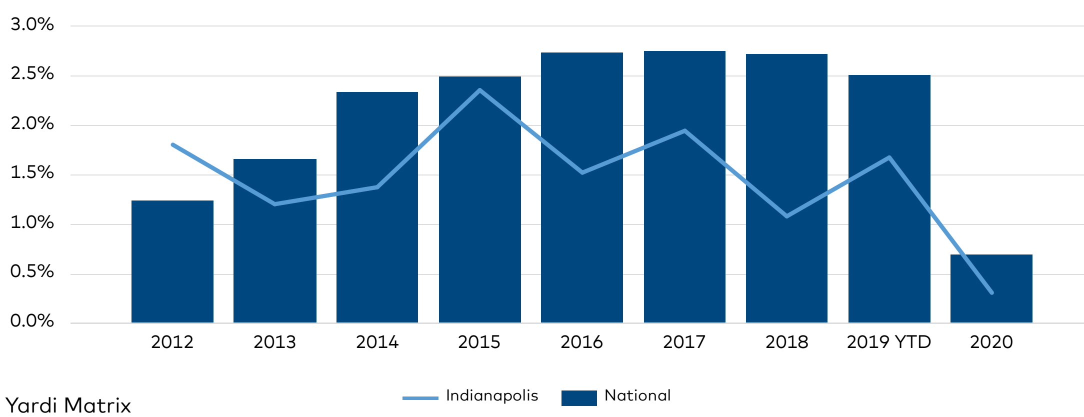
- Developers are heavily targeting core sites, with more than a third of all units underway in the metro going up in the Downtown (1,043 units) and Center (509 units) submarkets. The largest project under construction not taking shape in these submarkets is VER at Proscenium, in Carmel. The 224-unit community is being developed by Anderson Birkla Investment Partners.

Indianapolis Completions (as of May 2020)



Source: Yardi Matrix

Indianapolis vs. National Completions as a Percentage of Total Stock (as of May 2020)

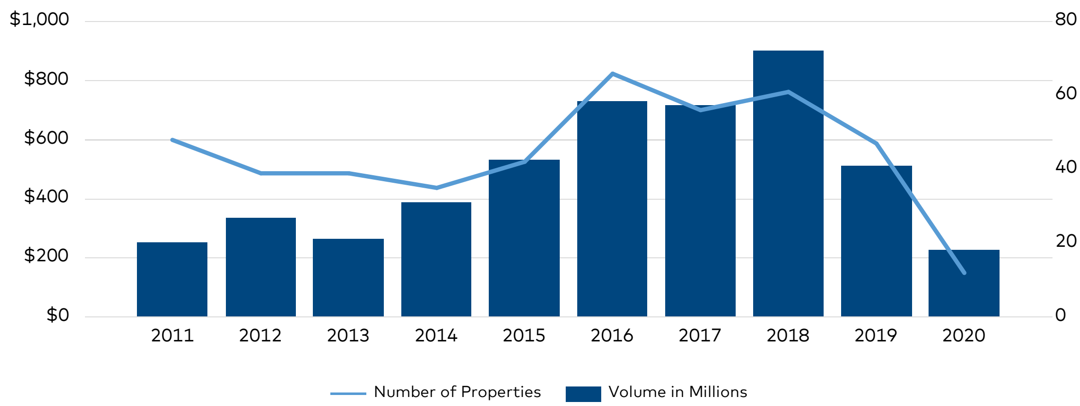


Source: Yardi Matrix

TRANSACTIONS

- Multifamily investment totaled $228 million in Indianapolis through the first five months of 2020, just $10 million lower than the total volume recorded for the same interval last year.
- Despite a health crisis-induced slowdown in deal velocity, $160 million in rental assets had already traded during the year's first quarter, which has supported the metro's investment total.
- Per-unit prices were inflated this year, with the average at $108,814, some $33,000 higher than the 2019 average.
- New York-based Spruce Capital Partners was the most active buyer in the metro this year, having acquired a four-property suburban portfolio from Hampshire Properties for $133 million in February. The portfolio consists of 1,024 units.

Indianapolis Sales Volume and Number of Properties Sold (as of May 2020)



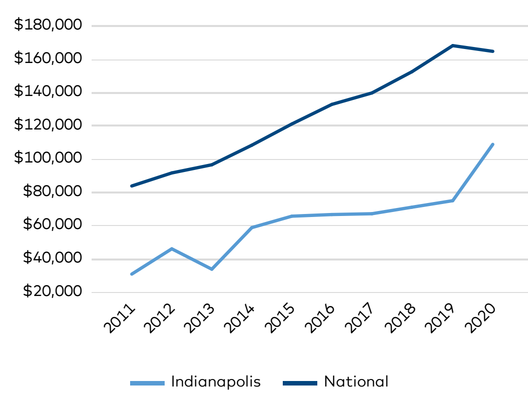
Source: Yardi Matrix

Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Plainfield/Brownsburg/Avon	133
Perry East	52
Lawrence	46
Warren	44
Wayne West	40
Greenwood-West	40
Bloomington-West	37

Source: Yardi Matrix
[1] From June 2019 to May 2020

Indianapolis vs. National Sales Price per Unit



Source: Yardi Matrix

TOP 5 MIDWESTERN MARKETS FOR MULTIFAMILY TRANSACTIONS

MULTI-HOUSING NEWS

data by Yardi Matrix

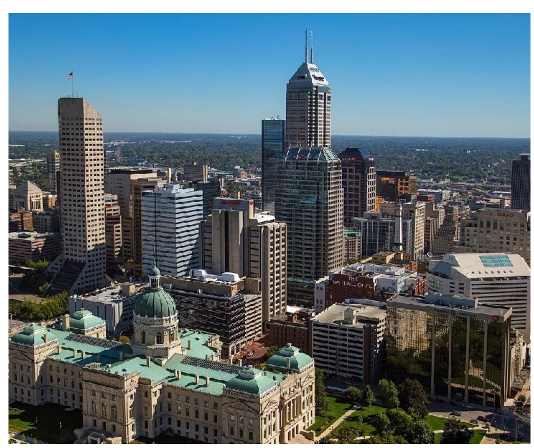
By Jeff Hamann

The first quarter of 2020 was fairly active for multifamily investors in the Midwest, with a little more than $1.5 billion in deals closing through the end of March, according to Yardi Matrix data. While this shows a notable drop from the $2.4 billion from the same period last year, the number of deals was relatively stable as investors predominantly shifted focus toward value-add acquisitions in metros with lower price points.

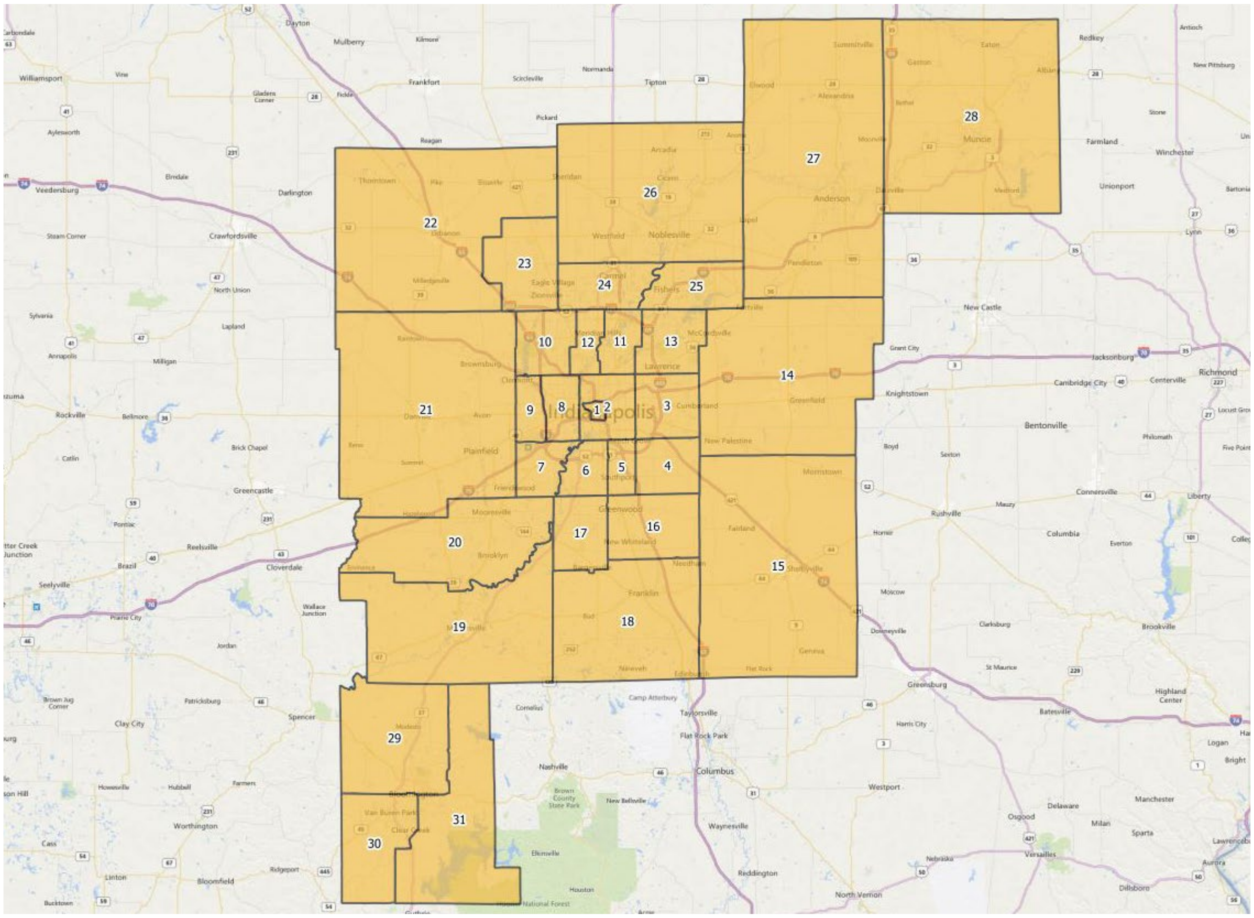
Rank	Market	Transaction Volume Q1 ($MM)	Units Sold	Submarket With Highest Volume
1	Chicago	$300.4	2,651	Highland Park-Libertyville
2	Twin Cities	$284.9	2,172	Brooklyn Park
3	Indianapolis	$211.6	2,168	Plainfield/Brownsburg/Avon
4	St. Louis	$172.5	1,865	St. Charles
5	Kansas City	$142.2	4,219	Overland Park-Southwest

INDIANAPOLIS

Indiana's capital saw more than $210 million in closed multifamily deals in the first three months of the year, a noteworthy gain of 8.4 percent compared to the beginning of 2019. Investors overwhelmingly targeted assets in suburban submarkets—only one of the 10 properties sold was within Indianapolis city limits. Hampshire Properties' $133 million disposition of a 1,024-unit portfolio in the western suburbs marked the largest deal of the quarter. Newmark Knight Frank provided buyer Spruce Capital Partners with $102 million in Fannie Mae acquisition financing.



INDIANAPOLIS SUBMARKETS



Area No.	Submarket
1	Indianapolis–Downtown
2	Indianapolis–Center
3	Indianapolis–Warren
4	Indianapolis–Franklin
5	Indianapolis–Perry East
6	Indianapolis–Perry West
7	Indianapolis–Decatur
8	Indianapolis–Wayne East
9	Indianapolis–Wayne West
10	Indianapolis–Pike
11	Indianapolis–Washington East
12	Indianapolis–Washington West
13	Indianapolis–Lawrence
14	Greenfield
15	Shelbyville
16	Greenwood–East

Area No.	Submarket
17	Greenwood–West
18	Franklin
19	Martinsville
20	Mooresville
21	Plainfield/Brownsburg/Avon
22	Lebanon
23	Zionsville
24	Carmel
25	Fishers
26	Westfield–Noblesville
27	Anderson
28	Muncie
29	Bloomington–North
30	Bloomington–West
31	Bloomington–East

DEFINITIONS

Lifestyle households (renters by choice) have wealth sufficient to own but have chosen to rent. Discretionary households, most typically a retired couple or single professional, have chosen the flexibility associated with renting over the obligations of ownership.

Renter-by-Necessity households span a range. In descending order, household types can be:

- *A young-professional*, double-income-no-kids household with substantial income but without wealth needed to acquire a home or condominium;
- *Students,* who also may span a range of income capability, extending from affluent to barely getting by;
- *Lower-middle-income ("gray-collar") households,* composed of office workers, policemen, firemen, technical workers, teachers, etc.;
- *Blue-collar households,* which may barely meet rent demands each month and likely pay a disproportionate share of their income toward rent;
- *Subsidized households*, which pay a percentage of household income in rent, with the balance of rent paid through a governmental agency subsidy. Subsidized households, while typically low income, may extend to middle-income households in some high-cost markets, such as New York City;
- *Military households*, subject to frequency of relocation.

These differences can weigh heavily in determining a property's ability to attract specific renter market segments. The five-star resort serves a very different market than the down-and-outer motel. Apartments are distinguished similarly, but distinctions are often not clearly definitive without investigation. The Yardi® Matrix Context rating eliminates that requirement, designating property market positions as:

Market Position	Improvements Ratings
Discretionary	A+ / A
High Mid-Range	A- / B+
Low Mid-Range	B / B-
Workforce	C+ / C / C- / D

The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

The Yardi® Matrix Context rating is not intended as a final word concerning a property's status—either improvements or location. Rather, the result provides reasonable consistency for comparing one property with another through reference to a consistently applied standard.

To learn more about Yardi® Matrix and subscribing, please visit www.yardimatrix.com or call Ron Brock, Jr., at 480-663-1149 x2404.