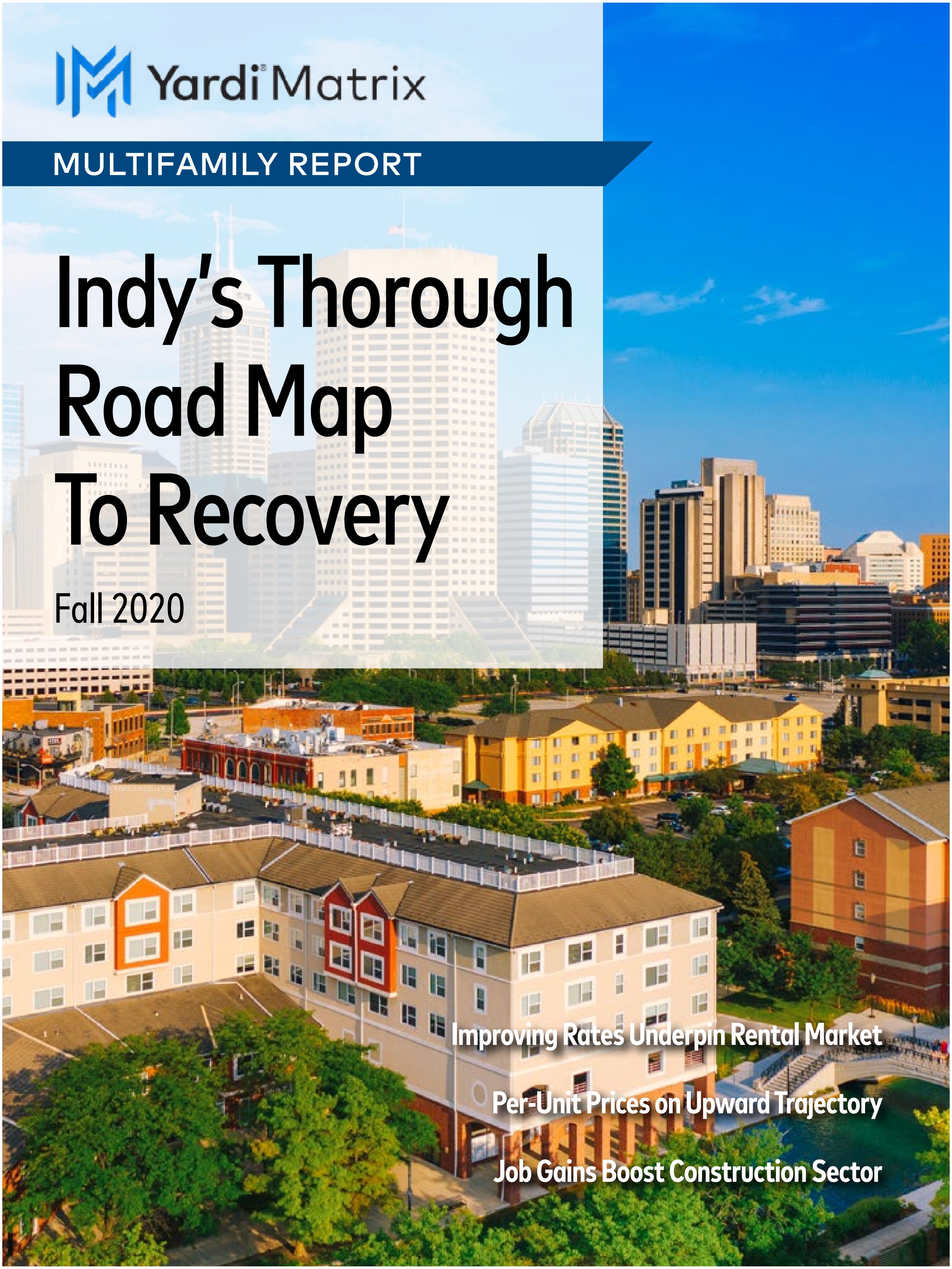

MULTIFAMILY REPORT

Indy's Thorough Road Map To Recovery

Fall 2020

Improving Rates Underpin Rental Market

Per-Unit Prices on Upward Trajectory

Job Gains Boost Construction Sector

INDIANAPOLIS MULTIFAMILY

Yardi Matrix

Underlying Fundamentals Pave the Way

As Indiana moved into the final stage of its overarching reopening plan, Indianapolis took a slightly different yet measured path to recovery, due to population density. Although the crisis has taken a toll on the economy, the metro's strong multifamily fundamentals have so far withstood the economic uncertainty. Rents in Indianapolis were up 0.4% to $966 on a trailing three-month basis as of September, below the $1,463 U.S. figure.

In a move to encourage tourism- and convention-related business, the Indianapolis City-County Council approved up to $155 million in bonds to expand the Indiana Convention Center. According to Visit Indy, the expansion will bring Indianapolis' capacity to bid on North America's top conventions from 75% to 82%. Due to the pandemic, more than 330 conventions were canceled, amounting to more than $600 million in lost economic impact.

As of September, 5,214 units were under construction in the metro, and developers added nearly 1,000 units to inventory year-to-date, as construction was deemed an essential service amid shelter-in-place orders. Some $373 million in multifamily assets traded in 2020 through September, marking a 13% decline compared to the same interval last year.

Market Analysis | Fall 2020

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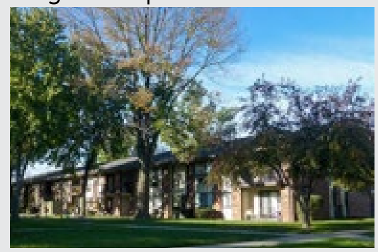
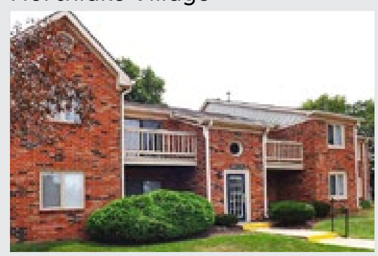
Recent Indianapolis Transactions

Kingston Square



City: Indianapolis
Buyer: Mendel Steiner
Purchase Price: $44 MM
Price per Unit: $84,130

Northlake Village



City: Noblesville, Ind.
Buyer: Birge & Held Asset Management
Purchase Price: $42 MM
Price per Unit: $120,996

Autumn Trails

City: Indianapolis
Buyer: Gray Capital
Purchase Price: $10 MM
Price per Unit: $59,717

Shelby's Crest

City: Indianapolis
Buyer: Greystone
Purchase Price: $9 MM
Price per Unit: $86,735

RENT TRENDS

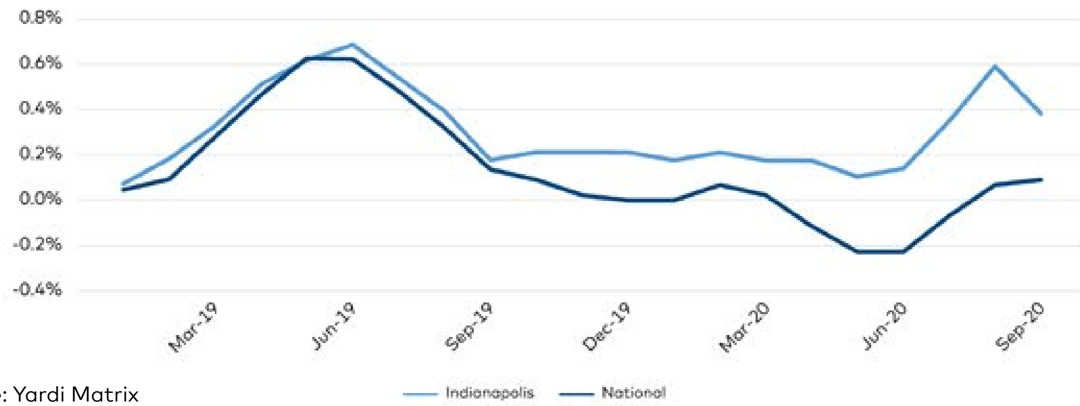
- Rents in Indianapolis were up 0.4% on a trailing three-month basis as of September, while the national average was up 0.1%. The average rent stood at $966, well behind the $1,463 U.S. figure. Gains have been consistent over the past three years, and rates have stayed on a positive trajectory despite the ongoing economic uncertainty. The August rate increase (0.6%) came close to June 2019's rate (0.7%), which marked the high point of the past 36 months.

- Rent evolution was even across the quality spectrum. Rates in the Lifestyle segment were up 0.5% on a T3 basis, to $1,236 as of September. The increase was due to an undersupply in completed upscale inventory—a little over 26% of the metro's stock targets high-income renters. Overall rents in the Renter-by-Necessity segment also improved—up by 0.3% to $857, following three years of consistent growth.

- To offset pandemic-sparked rental woes, a $25 million assistance program was set up by the city of Indianapolis. A separate $40 million program was established for Indiana residents living outside of Marion County. The state's eviction moratorium expired on Aug. 14.

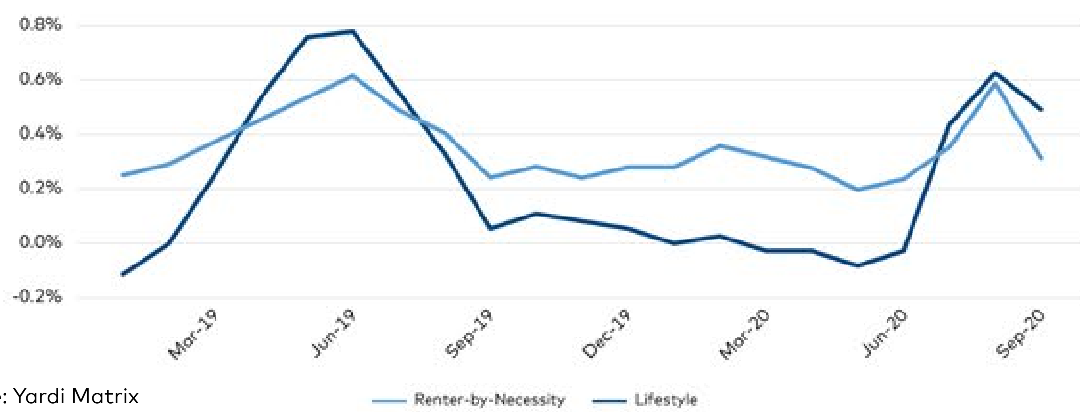
- Bloomington–North (14.7% to $1,163), Plainfield/Brownsburg/Avon (7.1% to $1,103) and Franklin (6.4% to $835) led rent growth in the 12 months ending in September. Rents in Indianapolis–Downtown—the priciest submarket—improved 3.5% to $1,470.

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

- As of August, unemployment in Indiana stood at 6.4% and at 6.5% in metro Indianapolis, 190 basis points below the national figure. The rate in Indianapolis peaked at 13.3% in April. Compared to other Midwestern markets, Indianapolis' August unemployment was below metros such as Cincinnati (8.0%), St. Louis (7.9%) and Kansas City (7.3%).

- As of late September, the state moved to Stage 5 of its reopening plan, the final phase of "Back on Track Indiana." However, due to population density, the state's capital and largest city will maintain certain restrictions and take a slower path toward reopening.

- In the 12 months ending in July, a combined 44,900 jobs were lost in the metro—education and health services was the most affected sector (-6.4%), down 11,700 positions, closely followed by manufacturing (-10%), down 10,900 jobs. Construction was the only industry to post gains—3,800 jobs were added, for a 6.2% uptick.

- From mid-March through Sept. 27, Indiana paid out its entire $1.2 billion unemployment trust fund, according to the Indiana Department of Workforce Development. In addition, Indiana DWD paid a separate $3.8 billion in federal unemployment benefits during the same seven-month period to 682,000 unique claimants.

Indianapolis Employment Share by Sector

		Current Employment	
Code	Employment Sector	(000)	% Share
15	Mining, Logging and Construction	65	5.6%
55	Financial Activities	77	6.6%
50	Information	14	1.2%
90	Government	149	12.9%
60	Professional and Business Services	175	15.1%
80	Other Services	48	4.1%
70	Leisure and Hospitality	123	10.6%
40	Trade, Transportation and Utilities	239	20.6%
30	Manufacturing	98	8.5%
65	Education and Health Services	170	14.7%

Sources: Yardi Matrix, Bureau of Labor Statistics

Population

- The metro gained 181,890 residents over the past decade, for a 9.6% uptick, well above the 6.1% U.S. rate.

- The consistent expansion has been mostly buoyed by natural population growth, 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

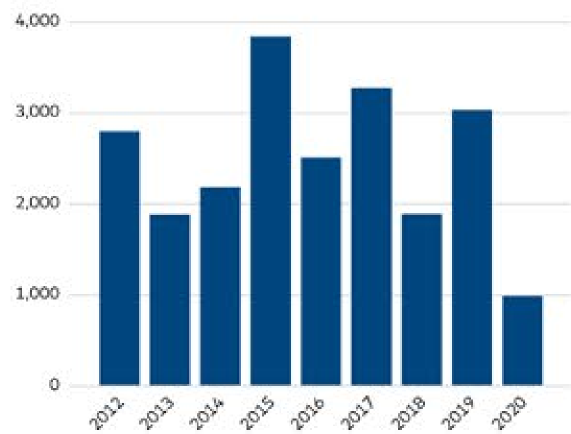
- Indianapolis had 5,214 units under construction as of September, with 95% of those geared toward high-income renters. More than half of the underway units are scheduled for delivery by year-end, while 42% of the pipeline is expected to come online in 2021. Although construction was deemed essential during lockdowns, delays may still occur due to supply chain disruptions and material costs. Units in the planning and permitting stages (a combined 16,000) are likely to face setbacks, as well.

- Developers added 989 units to inventory year-to-date, equal to 0.6% of total stock and 100 basis points below the U.S. figure. New deliveries exclusively favored the Lifestyle segment. Since 2012, developers have added an average 2,600 units to inventory each year, with completions peaking at 3,841 in 2017. So far, this year's deliveries would mark a cycle low for the metro.

- Developers broke ground on some 1,800 units across 11 properties this year through September. Despite recent difficulties, construction starts in 2020 were only 13% below the figure during the same interval last year, when developers broke ground on a total of 2,051 apartments across 15 communities.

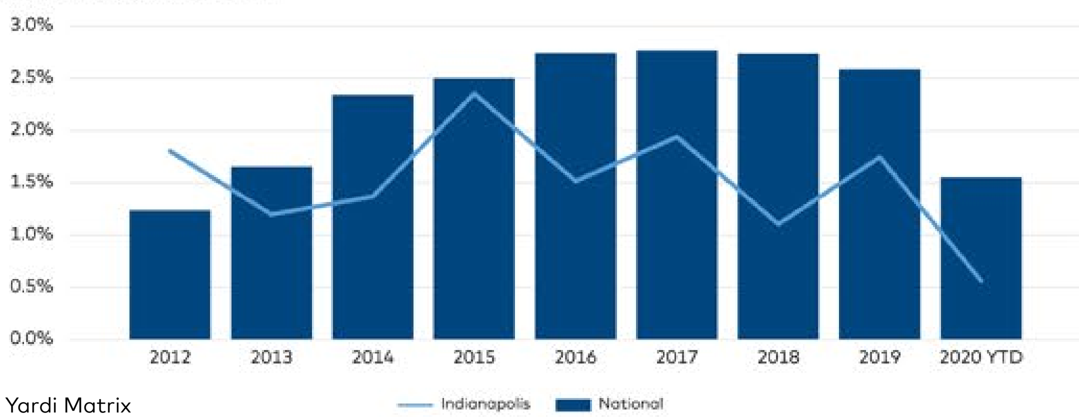
- Downtown (1,093 units) led development as of September, accounting for 21% of the total pipeline. Westfield–Noblesville (969 units) and Fishers (874 units) rounded out the top three. Buckingham Cos.' Residences at CityWay Phase II (402 units) in Downtown was the metro's largest development underway.

Indianapolis Completions (as of September 2020)



Source: Yardi Matrix

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



Source: Yardi Matrix

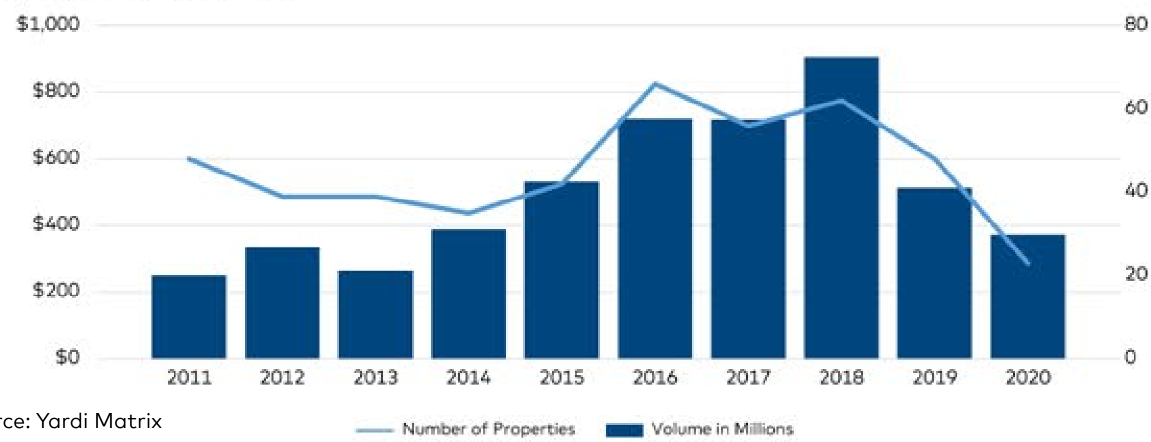
TRANSACTIONS

- Some $373 million in multifamily assets traded in 2020 through September, a 13% decline compared to the same interval last year. The modest drop in deal volume comes on the heels of robust sales activity between 2010 and 2018. After peaking at $905 million in 2018, transaction velocity moderated in 2019 ($514 million) and was further inhibited by the health crisis.

- A total of 5,258 units sold year-to-date at an average per-unit price of $99,722. Although well below the $163,150 U.S. rate, the 2020 average marks a cycle high of the last decade. Prices have consistently improved each year since 2013.

- In the first quarter of 2020, investors targeted the Lifestyle segment—65% of units sold were in upscale communities. However, the pandemic shifted investor interest—80% of units sold in the second quarter were in the RBN segment. The $44 million July sale of the 523-unit Kingston Square was one of the largest deals year-to-date.

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



Source: Yardi Matrix

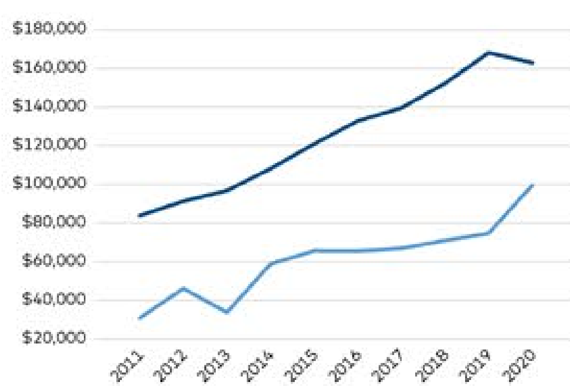
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Plainfield/Brownsburg/Avon	133
Indianapolis-Warren	91
Westfield-Noblesville	70
Indianapolis-Lawrence	53
Bloomington-West	50
Indianapolis-Perry East	19
Bloomington-North	18

Source: Yardi Matrix

[1] From October 2019 to September 2020

Indianapolis vs. National Sales Price per Unit



Source: Yardi Matrix

EXECUTIVE INSIGHTS

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MHN MULTI-HOUSING **NEWS**

An Insider's View on Multifamily Development in Indianapolis

By Adina Marcut

Underpinned by an affordable cost of living, Indianapolis makes a perfect location for both real estate investors and residents, according to Milhaus Vice President of Development Brad Vogelsmeier. In this interivew, he reveals what his investment strategy includes—considering the pandemic-mandated changes in the business environment—and also explains why he expects Indianapolis and other secondary markets to continue to perform well going forward.

How has your vision on development been altered by the health crisis?

I believe this pandemic has confirmed the notion that we crave community and social interaction, two things that have drawn people to cities for years, and will continue to during and after the pandemic. Not that these things can't be achieved in a suburban or rural setting, but the diversity and authenticity of city life can't be replicated in my mind.

Does it change the way we design our cities? Absolutely, but cities play a critical role in enhancing our overall quality of life both for those who have the ability to choose where they want to live, and, more importantly, for those who don't.

What was the biggest challenge you've had to overcome since the onset of the coronavirus outbreak?

The unknown, much like everyone else. Capital markets were very skittish at the onset of everything in March, well into the second quarter. It took a lot of focus and

diligence to keep development projects moving forward, keep our onsite teams safely operating and make sure residents' needs were also being addressed.

Has the pandemic impacted your access to construction financing?

We are fortunate to have built a lot of strong and transparent lending relationships over the years. Over-communication has been critical to keeping our projects moving forward and we've still been able to close construction loans on 1,360 units—$222 million of construction debt—this year.

Are there any positive trends you've seen in Indianapolis' multifamily sector in the past few months?

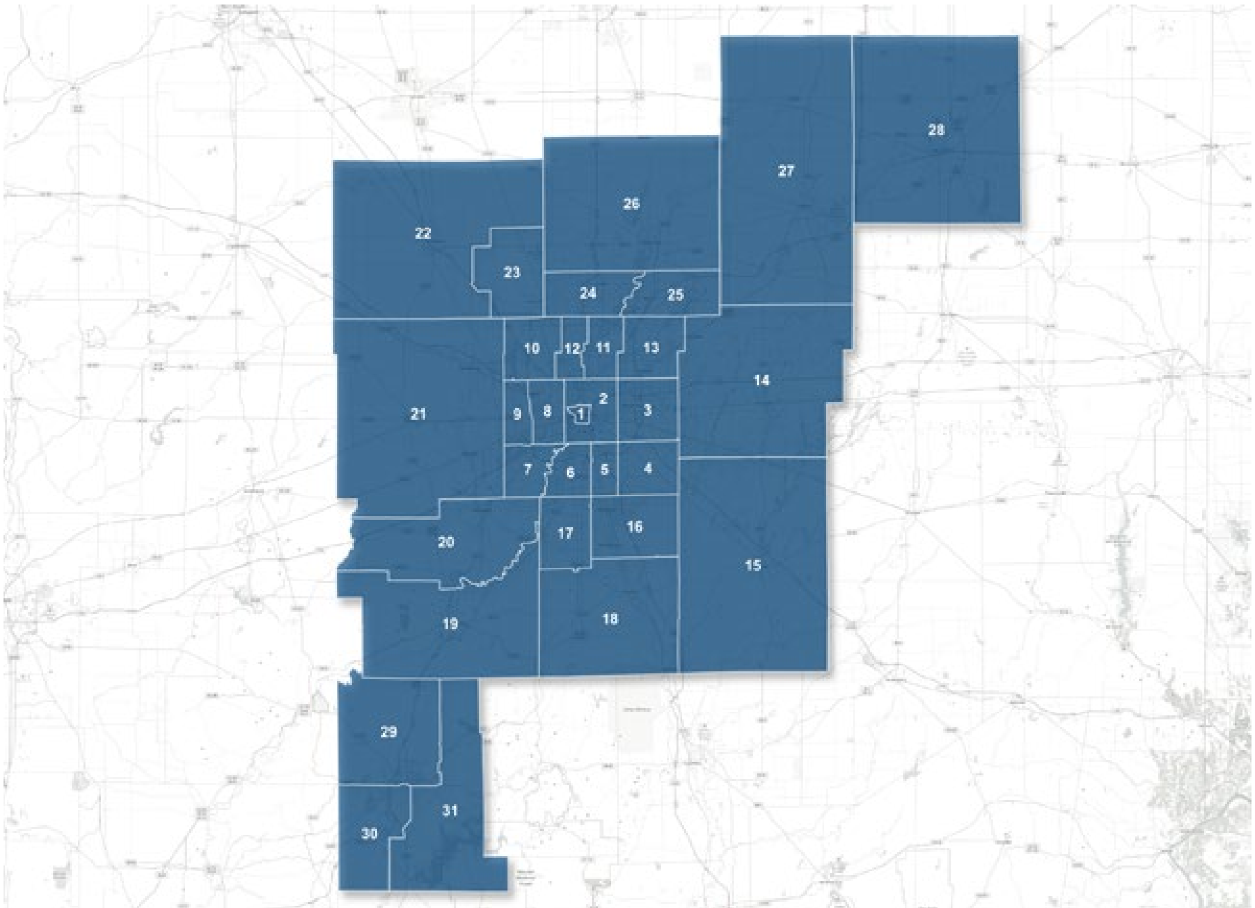
Our investment focus has been primarily on secondary markets. By nature, the cost of living is generally much more affordable, and employment is more stable in these locations than in larger coastal or gateway markets. With the evolving remote work atmosphere, we've actually seen a lot of in-migration into secondary markets over the last six months as people seek a more affordable location, but one that still has a similar quality-of-life benchmarks and amenities to larger cities.

What features will be most prevalent in multifamily development going forward?

We have spent a lot of time focusing on shifting resident preferences and staying ahead of trends, but I think COVID-19 has created what many will see as necessities, not preferences, moving forward in urban living.

(Read the complete interview on multihousingnews.com.)

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 September 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 September 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, September 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.

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