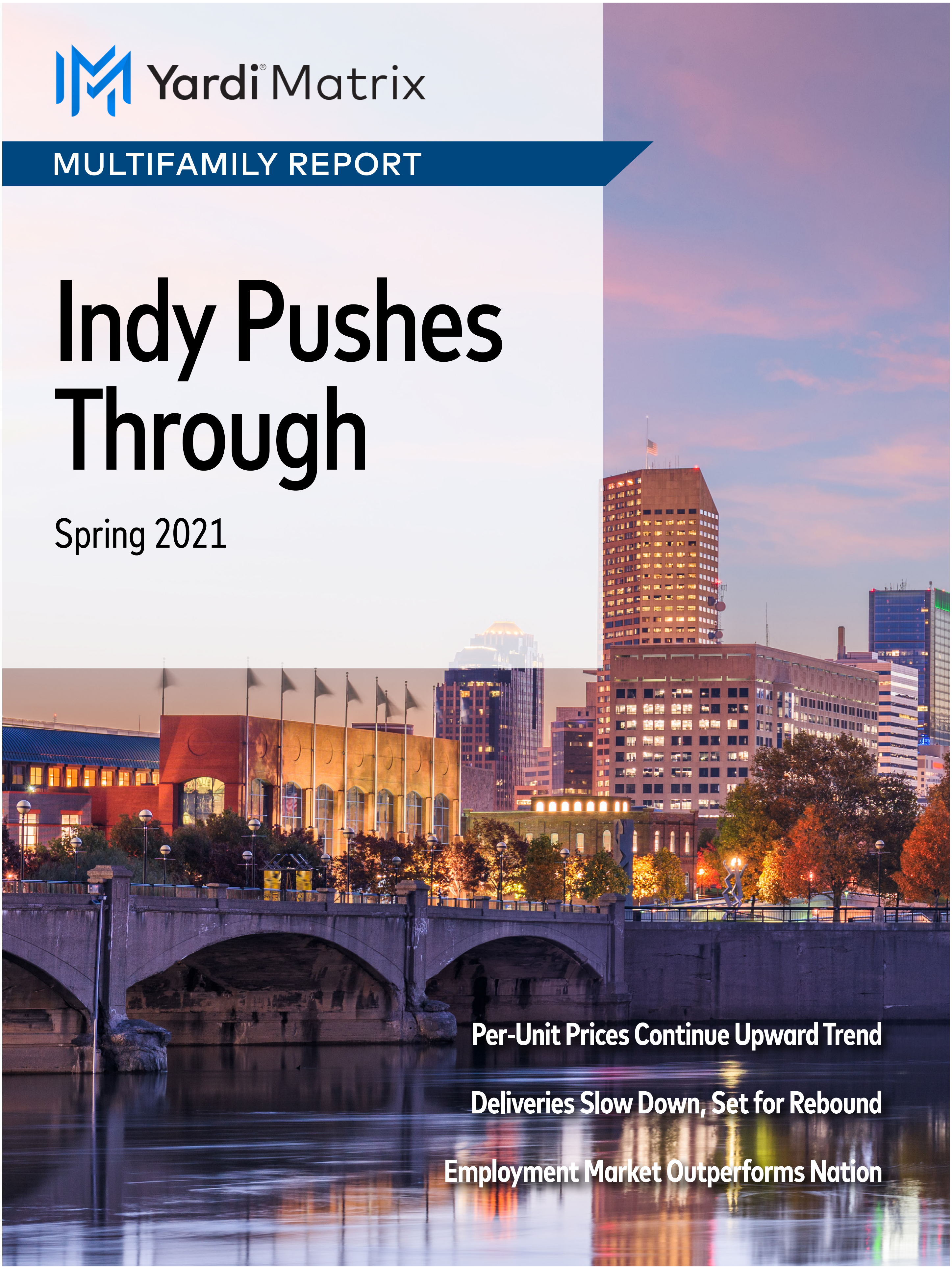
Yardi Matrix

MULTIFAMILY REPORT

# Indy Pushes Through

Spring 2021



**Per-Unit Prices Continue Upward Trend**

**Deliveries Slow Down, Set for Rebound**

**Employment Market Outperforms Nation**

# INDIANAPOLIS MULTIFAMILY

Yardi Matrix

## Rental Market Thrives During Challenging Year

A year into the COVID-19 pandemic, the Indianapolis economy and multifamily market has displayed far more resilience than initially expected. The metro's average rent recorded a 0.3% increase on a trailing three-month basis through February, to $877. This was in part thanks to the market's upscale segment, where a supply imbalance has kept demand healthy and rates on the rise. Year-over-year, the average overall Indianapolis rate was up 3.6% as of February—a strong performance considering the economic turmoil.

The metro's employment pool contracted by 18,600 positions last year—down 2.7%—recording losses in six of 10 sectors. As of the week ending March 13, some 18,000 jobless claims were filed throughout Indiana, up from 9,237 the previous week, in a sign that economic uncertainty is far from clear. However, the number of people receiving unemployment benefits in the state was down 6.3% as of March 6, compared to the previous week, to 64,983.

Nearly 2,400 units came online in Indianapolis in 2020, almost a quarter fewer than the previous year. Developers were working on 4,114 units across the metro as of February, equal to 2.3% of existing stock. In line with other affordable inland metros sporting a diversifying talent pool, we expect multifamily demand to ride out the pandemic, pushing Indianapolis rents up 3.5% in 2021.

### Recent Indianapolis Transactions

**Harrison Point**

City: Indianapolis
Buyer: Varia US Properties
Purchase Price: $22 MM
Price per Unit: $63,450

**Estates of Creekside**

City: Indianapolis
Buyer: Ardizzone Enterprises
Purchase Price: $16 MM
Price per Unit: $85,000

**Mariners Village**

City: Indianapolis
Buyer: Cyclone Investment Group
Purchase Price: $15 MM
Price per Unit: $62,295

**Aspen Chase at Eagle Creek**

City: Indianapolis
Buyer: Amity Cos.
Purchase Price: $9 MM
Price per Unit: $66,538

---

## Market Analysis | Spring 2021


Contacts

**Jeff Adler**
Vice President & General Manager of Yardi Matrix
*Jeff.Adler@Yardi.com*
(303) 615-3676

**Ron Brock, Jr.**
Industry Principal, Matrix
*JR.Brock@Yardi.com*
(480) 663-1149 x2404

**Jack Kern**
Director of Research and Publications
*Jack.Kern@Yardi.com*
(800) 866-1124 x2444

Author

**Razvan Cimpean**
Senior Associate Editor


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

## RENT TRENDS

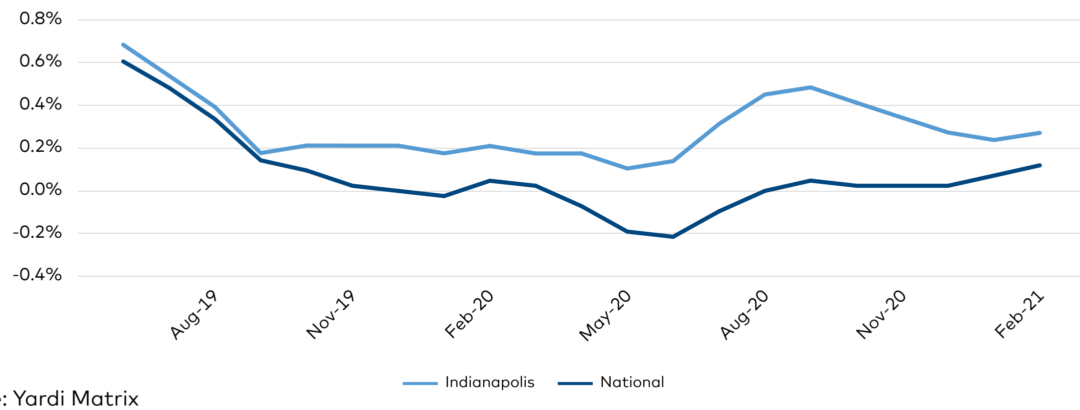
- Indianapolis rents rose 0.3% to $988 on a trailing three-month (T3) basis through February. Renter-by-Necessity rates increased 0.3% to $877, while Lifestyle figures were up 0.2% to $1,254. Ongoing volatility has dented fundamentals, but the metro has consistently outperformed U.S. averages since the onset of the pandemic. Year-over-year through February, the overall Indianapolis rate advanced 3.6%, while the national figure contracted 10 basis points, to $1,399.

- Rents rose year-over-year through February across nearly all submarkets. Wayne West led growth with the average rate standing at $927—up 10.2%—followed by Plainfield-Brownsburg-Avon (9.4% to $1,147). Suburban submarkets with consistent construction activity in recent years reported some of the sharpest upticks.

- Meanwhile, in downtown Indianapolis, the average rate was still contracting, dipping 2.7% year-over-year through February, to $1,415. But as the only submarket with a higher average rent than even the metro's overall Lifestyle segment, the city core faced tougher challenges than the rest of the market. This trend, which has been apparent across many U.S. metros, is bound to continue, at least in the near term.

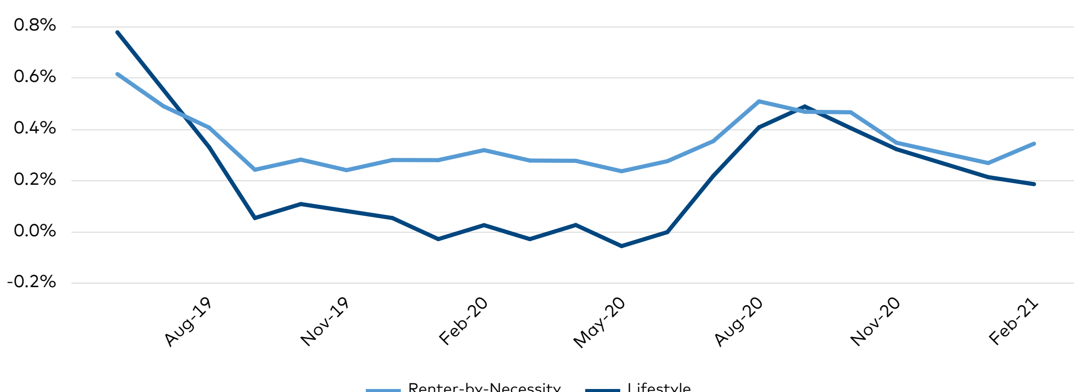
- As an affordable inland market that faced relatively less economic turmoil than gateway cities, Indianapolis is on track to benefit from larger overall trends. We expect the average Indianapolis rent to increase 3.5% in 2021.

**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

- Thanks to its strong construction, trade and transportation, and office-using employment sectors, metro Indianapolis lost only 18,600 jobs in 2020. That marked a 2.7% decline, well above the -6.8% national contraction. After reaching a record 13.3% last April, the metro's unemployment rate dropped to 4.6% by January, according to preliminary Bureau of Labor Statistics data. And while that's below the 6.2% national rate, it is still 140 basis points above the figure from 12 months prior.

- Four employment sectors reported upticks last year, led by construction, which rose 9.3% and added 5,500 positions. However, increases for the others were more modest, ranging from 0.9% to 1.7%. Meanwhile, the manufacturing and information sectors each contracted by 7.4%, losing 9,000 positions combined, followed by government (6.2%) and other services (-4.8%).

- In the longer run, an economic rebound could be linked to an accelerating vaccine rollout. By the end of March, Indiana had broadened its criteria for COVID-19 vaccination eligibility to include everyone 16 and older. Going into April, one in four Hoosiers had already received at least one dose, with 16% of the population fully vaccinated.

### Indianapolis Employment Share by Sector

| | | Current Employment | |
|---|---|---|---|
| Code | Employment Sector | (000) | % Share |
| 15 | Mining, Logging and Construction | 64 | 5.3% |
| 40 | Trade, Transportation and Utilities | 256 | 21.3% |
| 60 | Professional and Business Services | 181 | 15.0% |
| 55 | Financial Activities | 77 | 6.4% |
| 50 | Information | 14 | 1.2% |
| 70 | Leisure and Hospitality | 120 | 10.0% |
| 80 | Other Services | 47 | 3.9% |
| 65 | Education and Health Services | 178 | 14.8% |
| 30 | Manufacturing | 98 | 8.1% |
| 90 | Government | 167 | 13.9% |

Sources: Yardi Matrix, Bureau of Labor Statistics

## Population

- Indianapolis continued its decade-long upward demographic trend in 2019, adding 25,834 residents.

- Between 2016 and 2019, the metro's population rose by 3.4%—or nearly 70,000 residents. That's more than double the 1.6% U.S. growth rate.

### 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

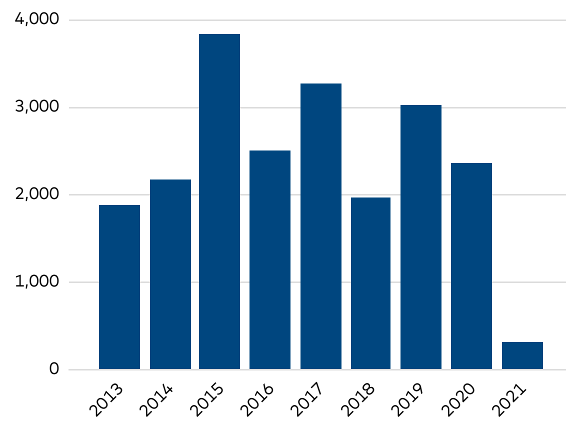
## SUPPLY

- Indianapolis had 4,114 units under construction as of February, equal to 2.3% of the metro's existing stock and roughly half the 5.4% national average. More than 3,000 units could reach completion as early as the end of 2021. However, delays brought by supply chain disruptions, surging construction costs and overall economic volatility are likely to continue slowing down the pipeline. Additionally, some 17,000 units were in the planning and permitting stages as of February.

- With Indiana classifying residential development as critical during its stay-at-home order, 2020 completions were down only 22% compared to the previous year, reaching 2,361 units. That's still nearly 20% above the 2018 figure. In the Westfield-Noblesville submarket, Justus Cos. delivered last year's largest completion—the 300-unit Promenade. Meanwhile, Indianapolis-Center led all submarkets in deliveries, with three projects totaling 458 apartments, including Strategic Capital Partners' 208-unit fully affordable Riverview.

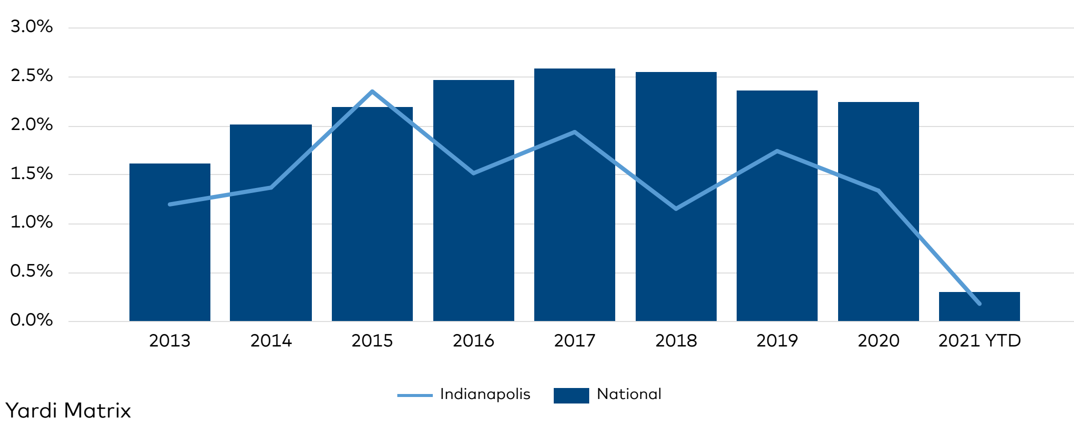
- After completing the first phase of The Residences at CityWay in downtown Indianapolis in 2013, Buckingham Cos. is working on the second phase, projected to come online in the second quarter. Both properties are situated within an Opportunity Zone. At build-out, Phase II will be the submarket's fourth-largest community to date. In total, four projects are expected to come online in the submarket this year, totaling more than 800 units—the highest level in five years.

**Indianapolis Completions** (as of February 2021)




Source: Yardi Matrix

**Indianapolis vs. National Completions as a Percentage of Total Stock** (as of February 2021)




Source: Yardi Matrix

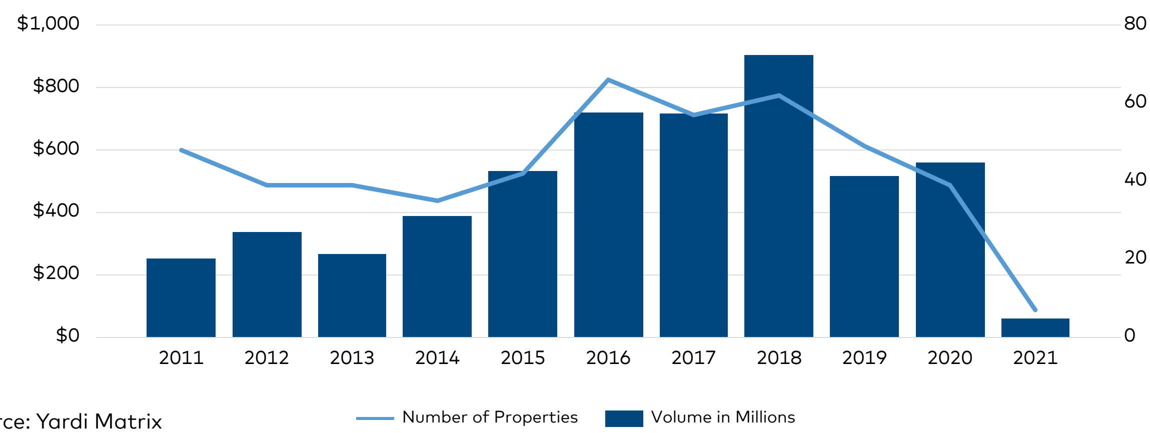
## TRANSACTIONS

- In a rare example across U.S. markets, transactions actually inched up in 2020, reaching nearly $560 million, above the $516 million recorded in 2019. During a stormy year, Indianapolis ticked most of the right boxes that put many investors at ease—an undersupplied, inland secondary market with a diversifying workforce and affordable cost of living.

- The average per-unit price continued its upward trend in 2020, rising 30.3% from the previous year, to $97,067. Of the 36 properties that traded in the 12 months ending in February, 24 were in the Renter-by-Necessity category, while 12 were Lifestyle assets.

- While Westfield-Noblesville led transaction volume with $117.9 million, or 26.7% of the metro's total, the bulk of investment was concentrated within city limits in the 12 months ending in February. In total, 21 assets changed hands for more than $235 million in Indianapolis proper.

**Indianapolis Sales Volume and Number of Properties Sold** (as of February 2021)




Source: Yardi Matrix

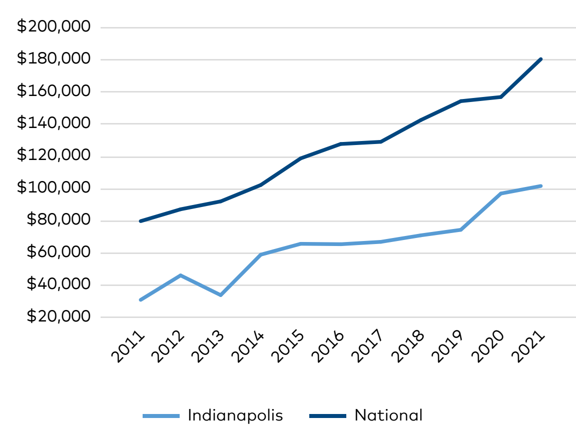
**Top Submarkets for Transaction Volume[1]**

| Submarket | Volume ($MM) |
|---|---|
| Westfield-Noblesville | 118 |
| Indianapolis-Perry East | 56 |
| Indianapolis-Warren | 51 |
| Indianapolis-Washington East | 43 |
| Zionsville | 38 |
| Indianapolis-Lawrence | 37 |
| Indianapolis-Franklin | 26 |

Source: Yardi Matrix

[1] From March 2020 to February 2021

**Indianapolis vs. National Sales Price per Unit**




Source: Yardi Matrix

EXECUTIVE INSIGHTS

Brought to you by:

MULTI-HOUSING NEWS

# Which Midwest Markets Are Investors Turning To?

By Laura Calugar

With few exceptions, Midwest markets have navigated pandemic-induced difficulties better than initially expected, which is why many investors view them as a viable alternative to high-priced gateway markets. Cushman & Wakefield Vice Chairs Hannah Ott and George Tikijian shed light on buyer demand across the nation's heartland, and reveal their strong suits and vulnerable spots.

*How do you see the Midwest multifamily market now, a year into the pandemic?*

Ott: With the exception of Chicago, Midwest multifamily markets have held up remarkably well. Chicago's issues stem from the property-tax situation there and a host of other issues—it's not just the pandemic.

*How have multifamily investors across the Midwest reacted to the health crisis?*

Tikijian: There's tremendous buyer demand and opportunity. Investors who previously focused on coastal markets, especially New York and New Jersey, shifted focus to more stable locales, and that's benefited markets such as Indianapolis; Cincinnati; Louisville, Ky.; Kansas City, Mo.; Columbus, Ohio, and Nashville, Tenn.

As interest rates declined, the superior yields that properties in these cities provide further propelled Midwest multifamily. Cap rates declined in 2020 and they'll continue to go down slightly in 2021. As investors grow uncomfortable with the prices in major gateway markets, the Midwest will be viewed as an attractive alternative.

Hannah Ott *(left)* and George Tikijian*(right)*

*What are the strengths of the Indianapolis multifamily market?*

Ott: Indianapolis has a number of things going for it. No. 1: The state of Indiana has been very well-run fiscally. Even with a decline in tax revenue, we still have state budget surpluses. That helps drive demand for commercial property in Indiana. Indianapolis also has a diverse employment base with significant life sciences and logistics clusters—two areas of the economy that have performed extremely well.

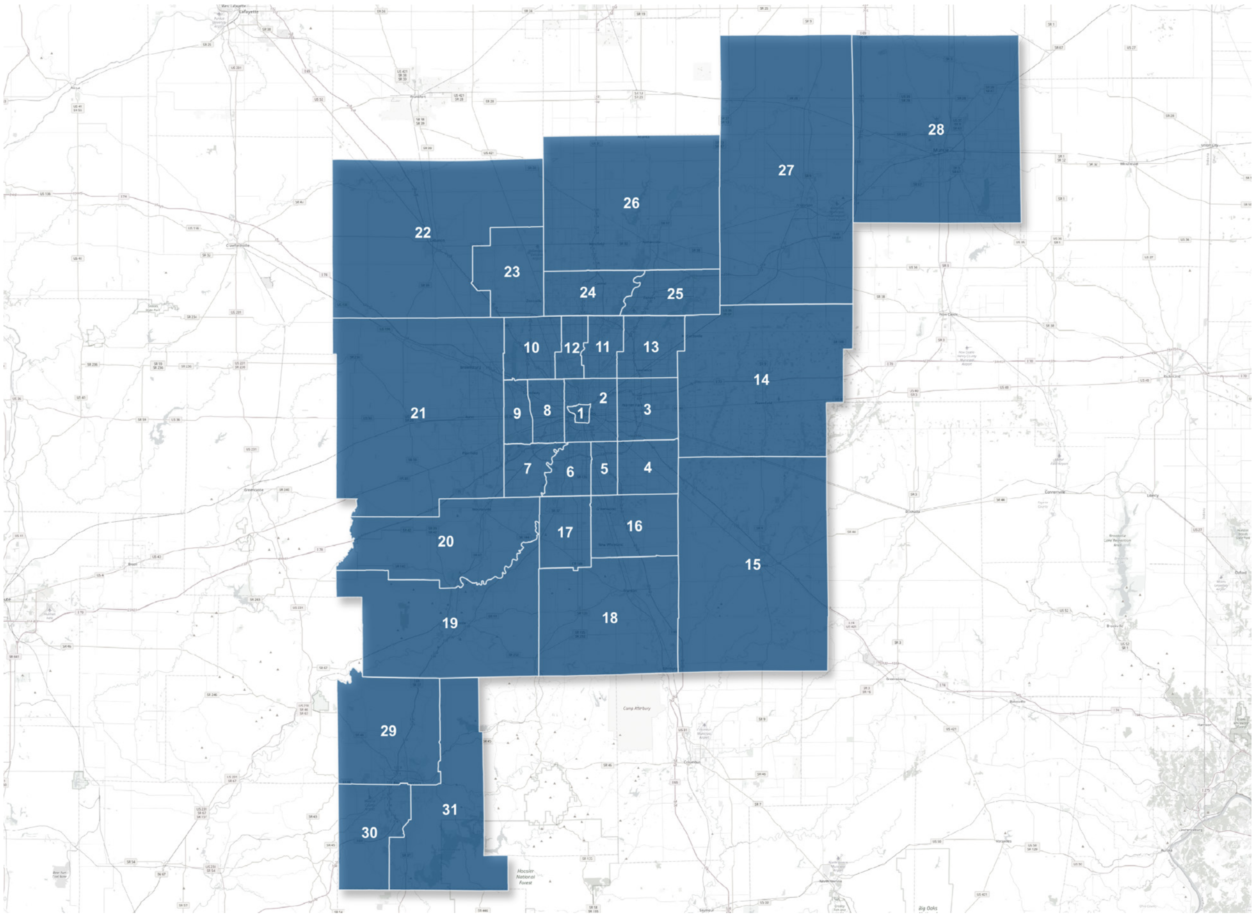
If you just looked at investment sales volume, rent growth, cap rates and other factors, you wouldn't know there's been a pandemic in Indianapolis—with one exception being some softness in the central business district, which had record new development leading into the crisis.

*How do you expect the region's multifamily market to perform this year?*

Ott: Most buyers and participants expect another year of strong performance, though many buyers are underwriting with expectations of slower rent growth. A number of potential transactions were sidelined in 2020. That's one reason we expect more transactions in 2021, even though 2020 had considerable volume.

Tikijian: Rising interest rates are a possible speed bump, but they could just as well make certain sellers more anxious to get deals done.

## 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 December 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 December 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, December 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 |

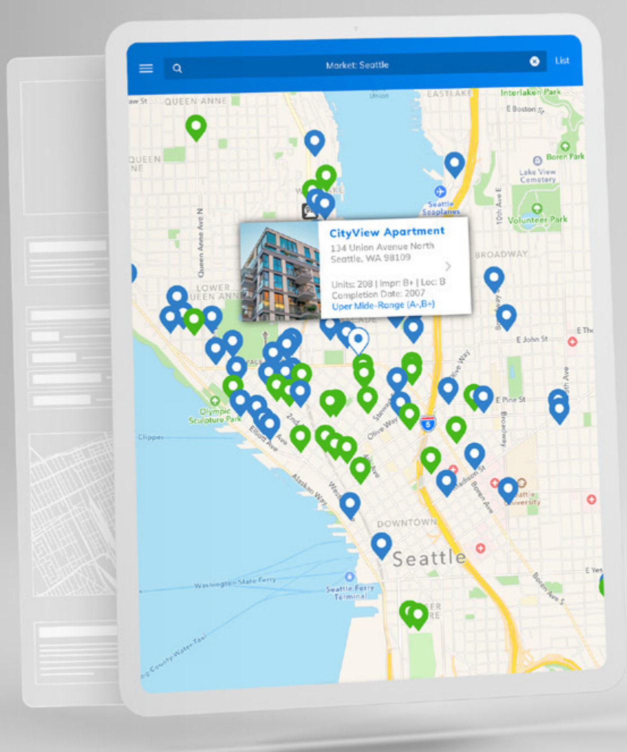
The value in application of the Yardi® Matrix Context rating is that standardized data provides consistency; information is more meaningful because there is less uncertainty. The user can move faster and more efficiently, with more accurate end results.

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.

# Yardi® Matrix

Power your business with the industry's leading source for originating,
pre-underwriting and managing assets for profitable loans and investments.




**Yardi Matrix Multifamily** provides accurate data on **19+ million units,** covering over **90% of the U.S. population.**

## Key features

- Pierce the LLC every time with true ownership and contact info
- Leverage patented improvement and location ratings, unit mix, rental, occupancy and current manager information
- Gain complete new supply pipeline information at the asset, competitive set and market level
- Find acquisition prospects based on in-place loans, maturity dates, lenders and originators
- Access exclusive aggregated and anonymized residential revenue and expense comps

See how we can help you achieve your investment goals.
Request a personalized demo at yardimatrix.com/**contact-us**

(800) 866-1144 | yardimatrix.com/multifamily



YARDI