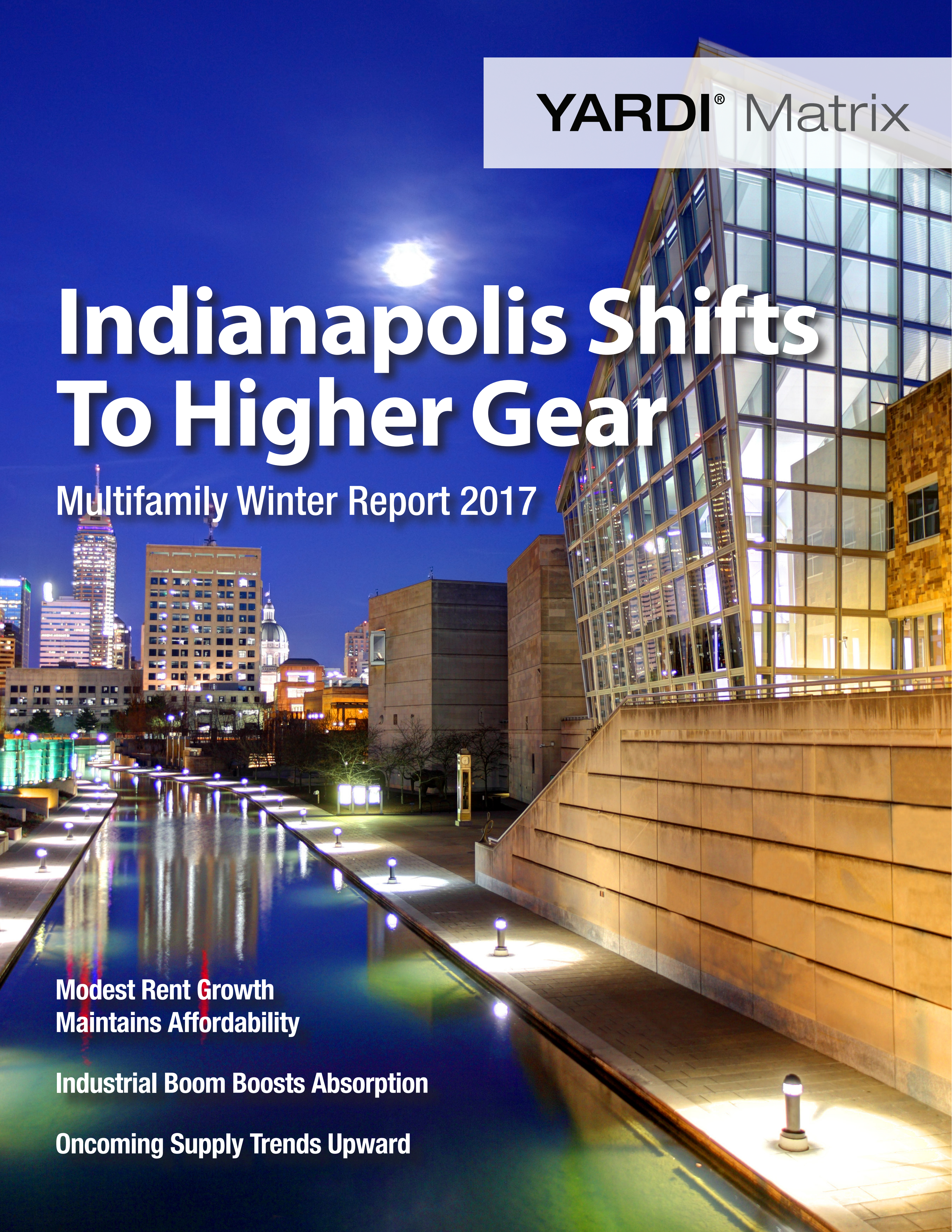
YARDI® Matrix



Indianapolis Shifts To Higher Gear

Multifamily Winter Report 2017

Modest Rent Growth Maintains Affordability

Industrial Boom Boosts Absorption

Oncoming Supply Trends Upward

Market Analysis

Winter 2017

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Opportunity Abounds in Indy

Albeit modest, the Indianapolis multifamily market is gaining momentum, offering plenty of room for growth. Company expansions and relocations are boosting job growth, fueling demand for apartments and driving up rents. Gains were highest in the trade, transportation and utilities sector, the locale's dominant industry. A strong business climate and a surge in the technology sector are also pushing employment to record highs.

In 2015, more than 220 domestic and global firms announced that they will locate or grow operations in Indiana. Together, these businesses intend to invest nearly $3.7 billion in their local operations and create 20,320 new Hoosier jobs in the coming years, according to the Indiana Economic Development Corp. Employers with the largest commitments include Salesforce, which aims to add 800 jobs in Indianapolis; Allied Solutions, which is set to bring 600 new jobs to Carmel; and MOBI Wireless Management, which plans to create 520 jobs in Zionsville.

Like most Midwest cities, Indianapolis does not command sky-high rents or eye-popping investment sales prices, but it offers investors higher acquisition yields than the nation's primary markets. Given the city's strong apartment absorption and low vacancy, developers continue to be active, especially downtown. This trend will likely continue, since the population in this particular submarket is expected to nearly double by 2018.

Recent Indianapolis Transactions

Cumberland Pointe

City: Noblesville, Ind.
Buyer: John S. Buckley Jr.
Purchase Price: $40 MM
Price per Unit: $118,650

82 Flats at the Crossing

City: Indianapolis
Buyer: Steven Plump
Purchase Price: $34 MM
Price per Unit: $145,474

Campus Corner

City: Bloomington, Ind.
Buyer: Saban Capital Group
Purchase Price: $32 MM
Price per Unit: $125,685

Maple Knoll

City: Westfield, Ind.
Buyer: Marquette Co.
Purchase Price: $27 MM
Price per Unit: $90,208

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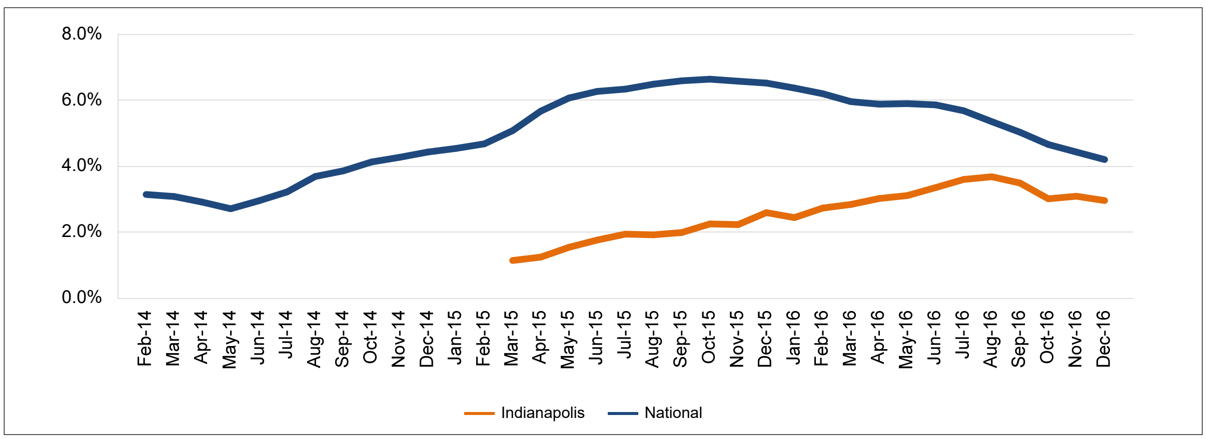
On the cover: Photo by Denis Tangney Jr/iStockphoto.com

Rent Trends

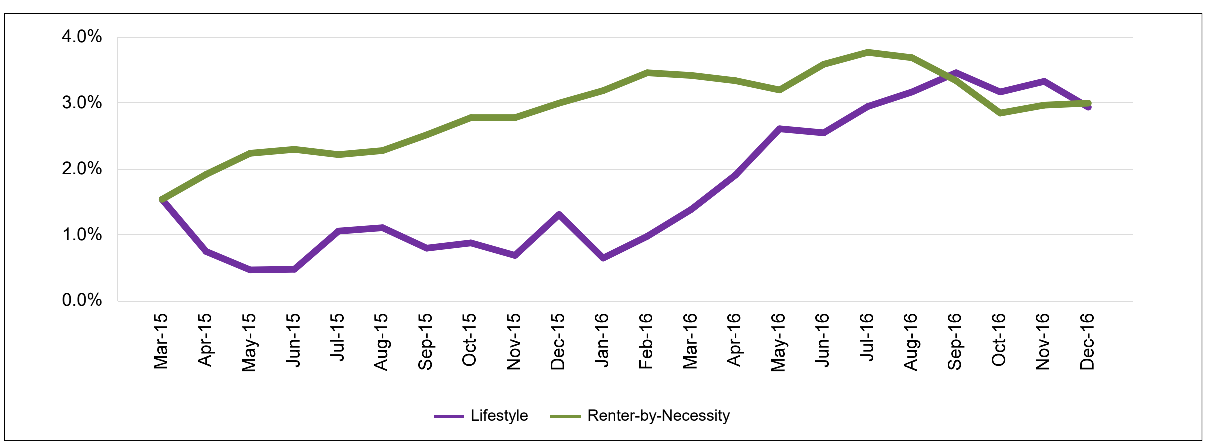
- Rents in Indianapolis rose 3% year-over-year through December, lagging the 4% national growth rate. Monthly rents stood at $816, significantly below the $1,210 national average. Demand was strong, fueled by steady employment growth and positive demographics. Rents in the working-class Renter-by-Necessity segment rose 3% to $745, in line with the Lifestyle segment, which advanced by 2.9% to $1,007 during the same period. Overall, rent growth slightly decelerated since July, mirroring the national trend.
- Submarkets with the highest rent increases included areas outside the city core such as Franklin, Westfield–Noblesville, Perry East, Lawrence and Warren. Since downtown was a focal point for the luxury apartment construction boom in Indianapolis over the last five years—the Wholesale District and Monument Circle neighborhoods, for instance—most Millennials and working-class renters chose more affordable housing in the suburbs.
- Downtown living for higher-income Hoosiers remained a bargain compared to some other Midwest cities. Demand was healthy, due in part to more tech employers adding jobs. The Indiana University–Purdue University Indianapolis (IUPUI) campus also contributes to demand in the downtown multifamily market, as more college students opt to live on or near campus.

Indianapolis vs. National Rent Growth (Sequential 3-Month, Year-Over-Year)



Source: YardiMatrix

Indianapolis Rent Growth by Asset Class (Sequential 3-Month, Year-Over-Year)

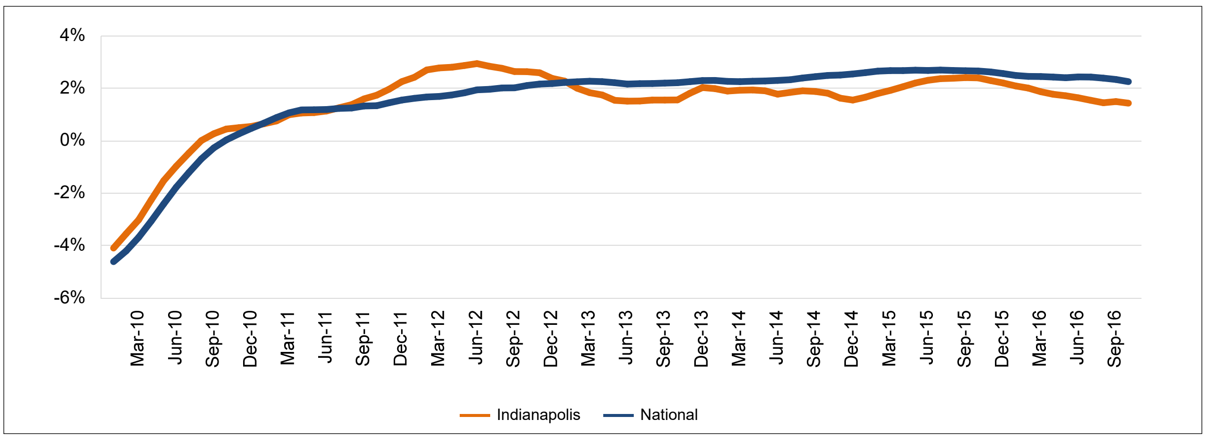


Source: YardiMatrix

Economic Snapshot

- Indianapolis added 14,700 jobs through October, representing a lackluster 1.4% year-over-year increase when compared to the 2.3% national average. Nevertheless, in November, the state's unemployment rate plummeted to 4.2%, its lowest level since 2001, a trend that may result in slower job gains. Indiana also reported the lowest unemployment rate in the region.
- Trade, transportation and utilities led in job gains, making 6,000 hires. The nation's boom in industrial development reverberated in Indianapolis, which saw record absorption in 2016. Increased distribution also spurred demand for more trucking services. Recent expansions included Old Dominion Freight Line's new terminal in Brownsburg and Knight Transportation's new regional operations center in Plainfield.
- An annual report from Develop Indy showed that 227 companies recorded location or expansion initiatives last year, involving nearly $3.7 billion in investment and 20,000 upcoming jobs. Still, this is less than the previous year, when 323 companies pledged more than 26,000 new jobs from investments totaling over $4.7 billion.
- Tech firms also flourished, attracted to the well-educated and highly skilled labor pool provided by the local universities. Salesforce, Knowledge Services, Octiv and Scale Computing led the way in job creation last year, pushing the city's office vacancy rate down to a 10-year low of 15.5% in 2016's third quarter, according to CBRE.

Indianapolis vs. National Employment Growth (Year-Over-Year)



Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

Indianapolis Employment Growth by Sector (Year-Over-Year)

		Current Employment		Year Change	
Code	Employment Sector	(000)	% Share	Employment	%
40	Trade, Transportation and Utilities	243	20.8%	6,000	2.5%
55	Financial Activities	72	6.2%	3,900	5.7%
65	Education and Health Services	171	14.6%	3,500	2.1%
90	Government	170	14.6%	2,100	1.3%
15	Mining, Logging and Construction	55	4.7%	1,800	3.4%
30	Manufacturing	104	8.9%	800	0.8%
70	Leisure and Hospitality	122	10.4%	500	0.4%
80	Other Services	50	4.3%	300	0.6%
50	Information	17	1.5%	-300	-1.7%
60	Professional and Business Services	165	14.1%	-3,900	-2.3%

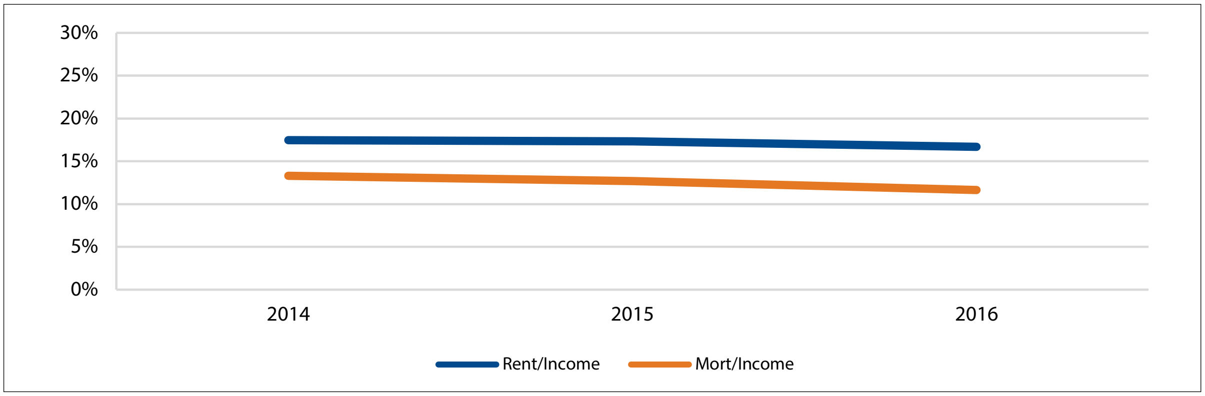
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

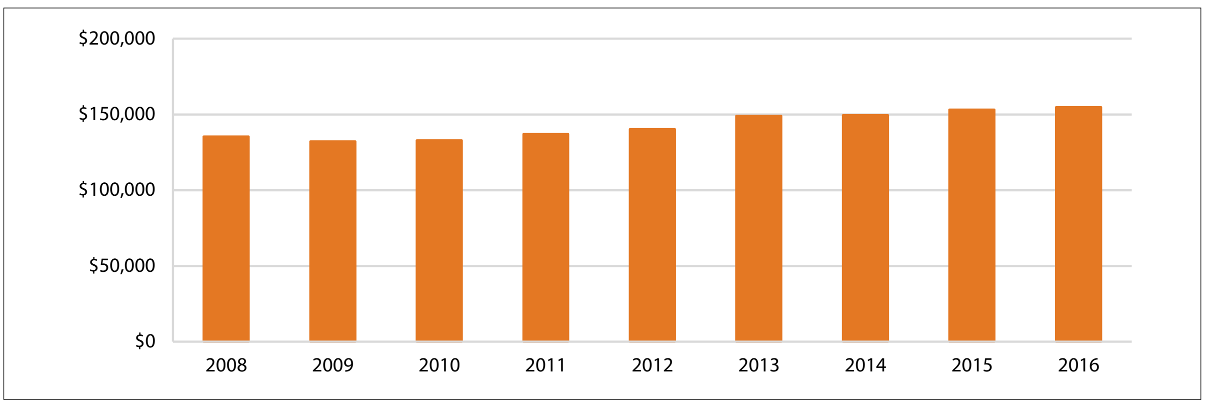
- The median home price in Indianapolis reached $154,717 in 2016, the highest level in recent years. Owning remained more affordable than renting, as mortgages accounted for 12% of the area median income throughout the year. Meanwhile, the average rent, which reached $816 as of December, accounted for 17% of the area median income.
- The upcoming job commitments, which were announced throughout the state in 2016, boast the highest wages in recent years. According to the Indiana Economic Development Corp., the average hourly wage for the planned new jobs is $25.43, higher than the $24.87 figure recorded in 2015.

Indianapolis Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Indianapolis Median Home Price



Source: Moody's Analytics

Population

- The metro's population grew by 16,900 residents in 2015, a 0.9% increase, slightly above the national rate of 0.8%.
- Since 2011, Indianapolis has added more than 78,400 inhabitants.

Indianapolis vs. National Population

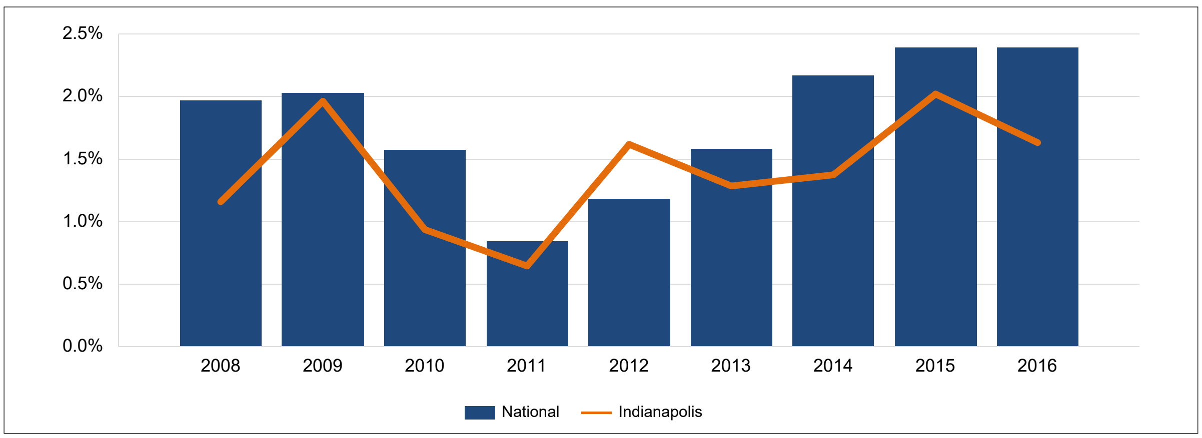
	2011	2012	2013	2014	2015
National	311,718,857	314,102,623	316,427,395	318,907,401	321,418,820
Indianapolis-Carmel-Anderson, IN Metropolitan Statistical Area	1,910,355	1,929,052	1,953,277	1,971,861	1,988,817

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

Supply

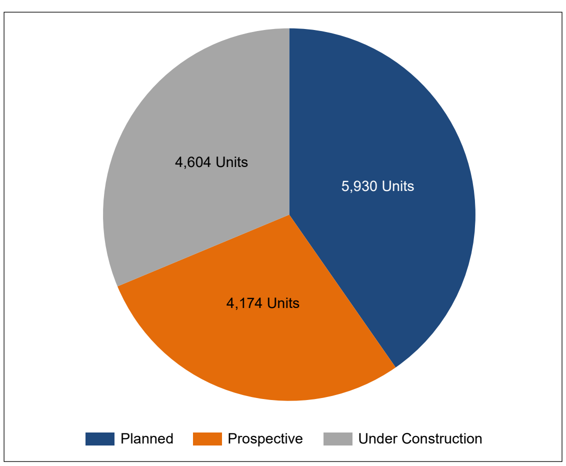
- About 2,700 units came online in Indianapolis in 2016, a slight decline from 2015, when more than 3,270 units were delivered. The oncoming supply represents a 1.6% growth rate, trailing the 2.4% national average.
- Construction in Indianapolis has lagged the national trend for the past four years, but the pipeline is significant, exceeding 14,700 units. Of these, approximately 4,600 apartments were under construction as of December, while another 10,100 units were in various planning stages.
- The submarkets of Westfield–Noblesville, Downtown and Carmel saw the greatest number of completions in 2016. Given the large number of units scheduled for delivery in the near future, the Indianapolis multifamily market may see a slight uptick in vacancy, while rents will continue to grow, although at a slower pace.
- Over the past five years, thousands of apartments have been added downtown, while rents have grown by about one-third. Many new rental buildings have few vacancies, even if these amenity-rich units are often more expensive than older apartments. The building spree also comprises student-focused projects near the IUPUI campus, where more than 1,000 units are in the pipeline. Demand will continue to rise, since the downtown population is expected to nearly double to 34,000 people by 2018, according to Develop Indy.

Indianapolis vs. National Completions as a Percentage of Total Stock (as of December 2016)



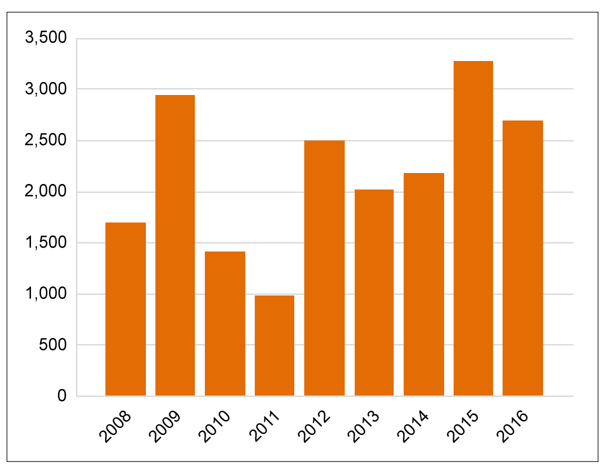
Source: YardiMatrix

Development Pipeline (as of December 2016)



Source: YardiMatrix

Indianapolis Completions (as of December 2016)



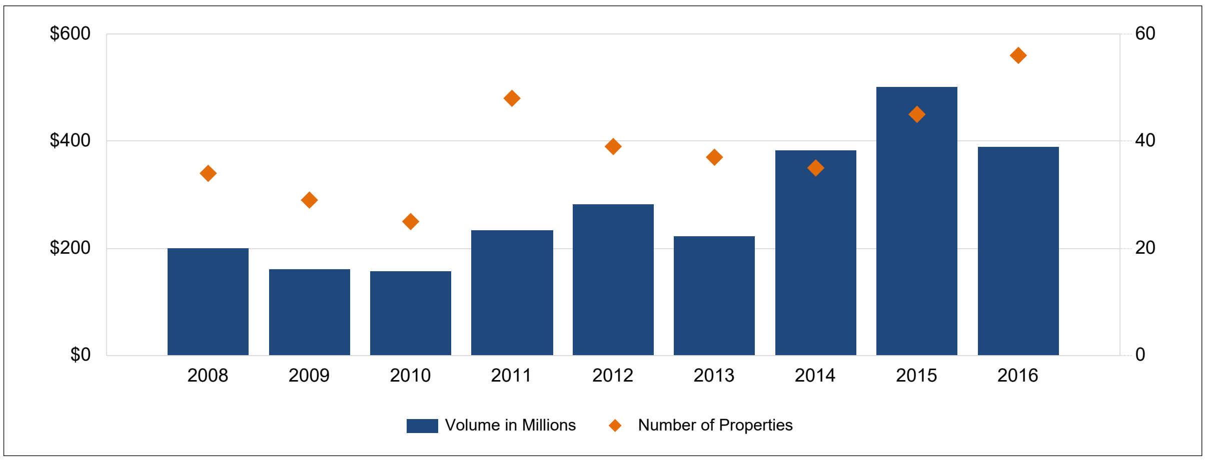
Source: YardiMatrix

Transactions

- Nearly $390 million in properties changed hands in 2016, a slight decline from the previous year, when the transaction volume hit a post-recession high at some $501 million. In 2016, the price per unit also decreased from nearly $72,000 in 2015 to $65,311, which was about half the national average of $130,186.

- Indianapolis offers higher returns than the nation's primary markets. During the first half of 2016, acquisition yields for stabilized assets were as low as 5.25% for Class A assets and 5.5% for Class B properties, while cap rates for Class C assets were about 7.0%. The $40 million sale of Cumberland Pointe, a 336-unit community in Noblesville, ranked as last year's largest transaction. This submarket is increasingly attractive, due to investments such as the Grand Park Sports Campus, upgrades to U.S. Route 31 and the impending Chatham Hill mixed-use development.

Indianapolis Sales Volume and Number of Properties Sold (as of December 2016)



Source: YardiMatrix

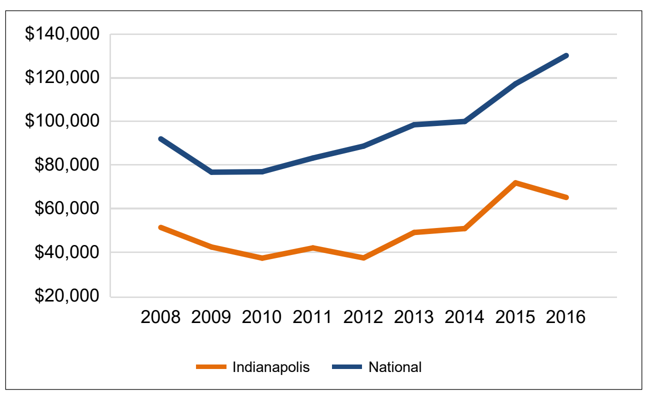
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Westfield–Noblesville	67
Indianapolis–Washington East	62
Indianapolis–Pike	60
Bloomington–East	32
Plainfield/Brownsburg/Avon	25
Indianapolis–Lawrence	22
Indianapolis–Wayne East	19
Indianapolis–Warren	19

Source: YardiMatrix

[1] From January 2016 to December 2016

Indianapolis vs. National Sales Price per Unit



Source: YardiMatrix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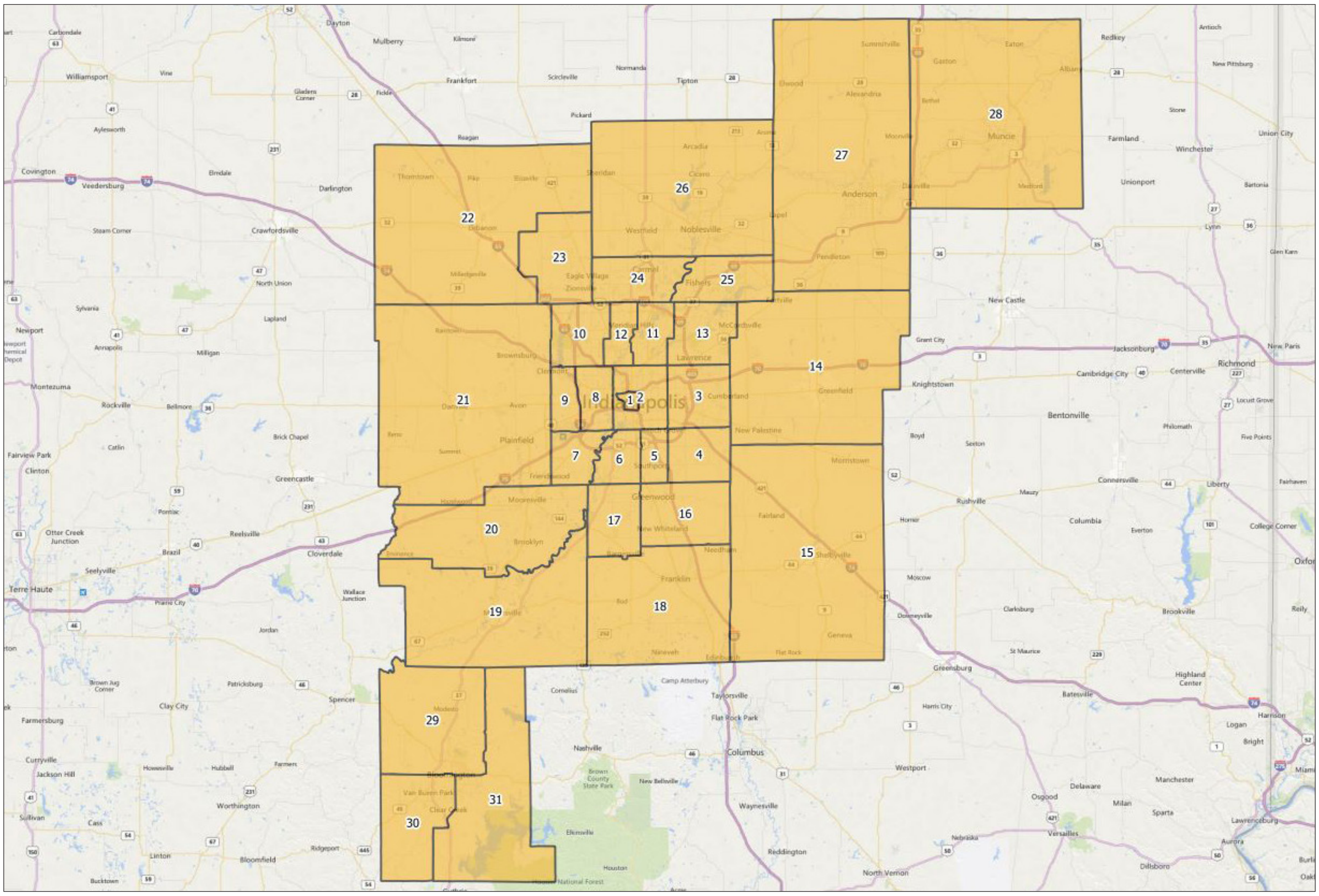
Indianapolis Submarkets



Area #	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 #	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.

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