

An aerial photograph of a city street, likely in Indianapolis, showing a mix of brick and concrete buildings, a road with cars, and a large stadium-like structure in the background. The sky is overcast.

Yardi® Matrix

Indy Holds Steady Course

Multifamily Report Fall 2017

Rent Growth Outpaces U.S. Average

High Acquisition Yields Lure Investors

Construction Surge Looms

Market Analysis

Fall 2017

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Broad-Based Employment Fuels Demand

A healthy employment climate and a relatively affordable cost of living are drawing residents to Indianapolis, spurring demand for apartments and pushing up rents. However, due to a significant amount of new deliveries, the occupancy rate dropped 30 basis points in 12 months, reaching 94.4% in July.

The metro's steady economic growth is keeping the unemployment rate down—at 2.9% as of June, some 150 basis points below the U.S. average. The largest gains were in education and health and hospitality and leisure, followed by financial activities. Construction was also strong, with the list of active projects including the 120-key Ironworks Hotel Indy and Gershman Partners' Marietta on Mass office building. Indianapolis is among the nation's top cities for finding and maintaining a job, as evidenced in a new study compiled by job search website Glassdoor.

A wave of supply will test demand for apartments in downtown Indianapolis, an appealing core for Millennials and Baby Boomers. The rapidly growing area is slated to reach 30,000 residents by 2020, according to Downtown Indy Inc. Developers are also focusing on walkable neighborhoods in Hamilton County, which is expected to add some 4,000 jobs by 2025. On the sales front, Indianapolis' relatively high acquisition yields continue to draw investors, providing an alternative to peaking core markets. With fundamentals remaining steady, we expect rents to grow by 3.0% in 2017.

Recent Indianapolis Transactions

Lake Castleton



City: Indianapolis
Buyer: Sterling Group
Purchase Price: \$88 MM
Price per Unit: \$69,848

Summit at Keystone



City: Indianapolis
Buyer: Summit Equity Investments
Purchase Price: \$36 MM
Price per Unit: \$80,029

The Legend at Speedway



City: Speedway, Ind.
Buyer: Lighthouse Group
Purchase Price: \$35 MM
Price per Unit: \$45,983

The Monroe



City: Bloomington, Ind.
Buyer: Saban Capital Group
Purchase Price: \$31 MM
Price per Unit: \$123,968

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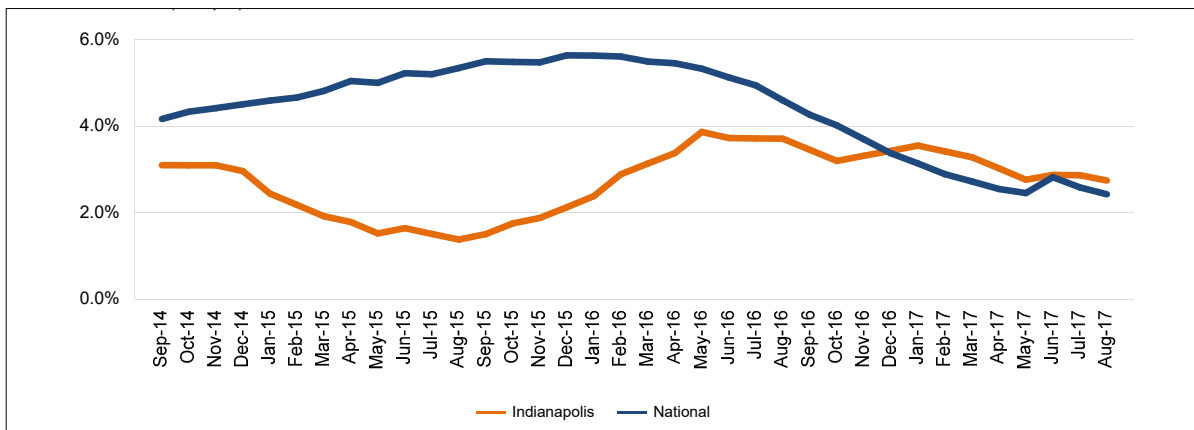
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Rent Trends

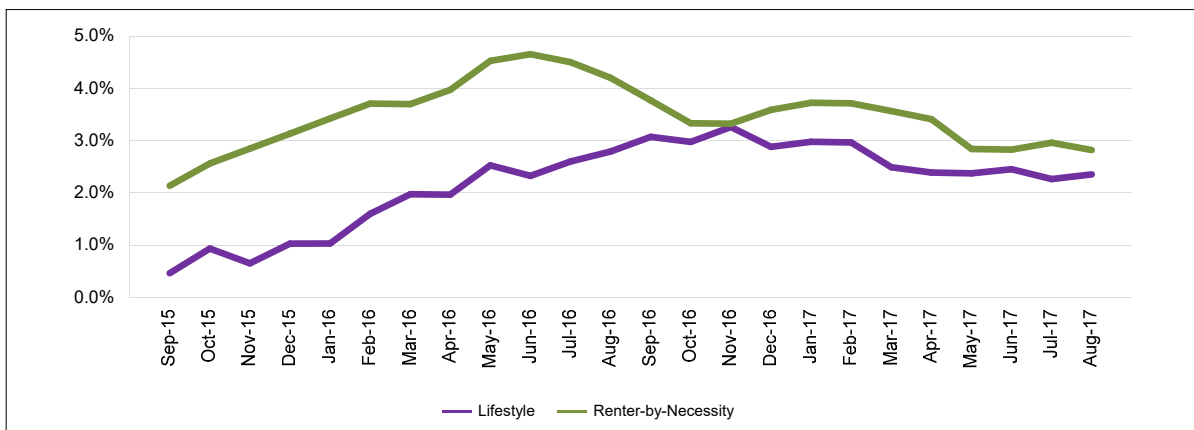
- Rents in Indianapolis rose 2.7% year-over-year through August, outperforming the 2.4% national average. The monthly rent stood at \$862, well below the \$1,352 U.S. figure.
- Rents in the working-class Renter-by-Necessity segment rose 2.8% to \$764, while Lifestyle rents rose 2.4% to \$1,128. Occupancy for Renter-by-Necessity properties was 94.4% as of July, with occupancy for Lifestyle assets close behind, at 94.3%. Job growth in high-paying sectors such as health care and technology continues to bolster demand for luxury units in Indianapolis, especially in pedestrian-friendly neighborhoods offering cultural and retail amenities.
- Submarkets with the largest year-over-year rent increases as of August included Mooresville (5.5%), Shelbyville (4.7%), Greenwood–East (4.6%), Bloomington–West (4.5%) and Bloomington–East (4.4%). Nevertheless, the metro’s rental market remains affordable, as only five submarkets surpassed the \$1,000 mark: Downtown (\$1,415 per month), Zionsville (\$1,141), Carmel (\$1,125), Fishers (\$1,057) and Bloomington–East (\$1,047).
- Despite a deluge of new units coming online this year, continued employment and population gains are bound to sustain demand. Yardi Matrix expects rent growth to reach 3.0% in 2017.

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)

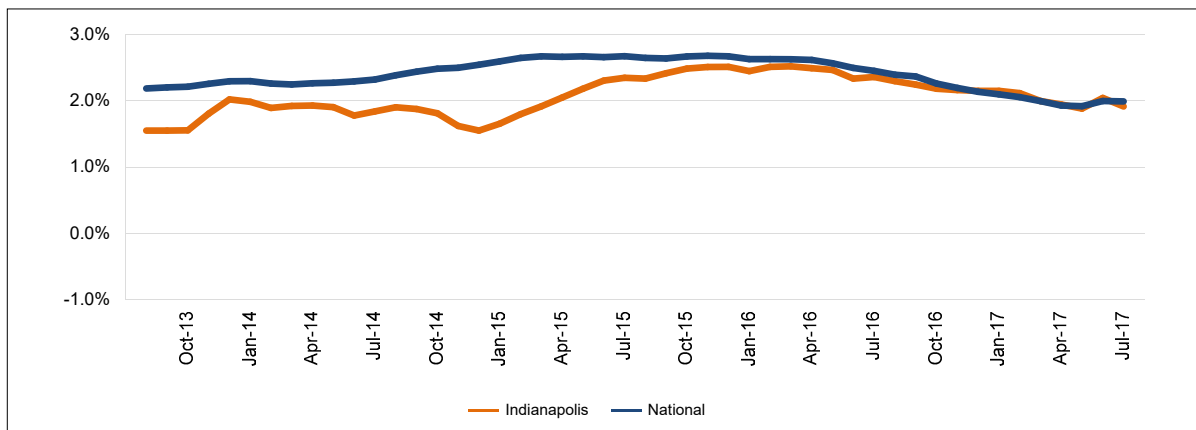


Source: YardiMatrix

Economic Snapshot

- Indianapolis added 19,600 jobs in the year ending in July, a 1.9% year-over-year increase, slightly below the 2.0% national average. Unemployment in Indianapolis stood at 2.9% as of July, reflecting the state's constricting labor market, which had an unemployment rate of 3.1%, significantly lower than the 4.6% national figure.
- Growth was led by education and health services, which added 5,600 jobs. The local health-care industry is robust, as few jobs were affected by the struggling U.S. diabetes market. Roche Diagnostics, which has nearly 3,500 employees in Indianapolis, laid off just 42 workers in its Diabetes Care division. The company recently completed the first phase of a \$300 million development, which included five new buildings. Eli Lilly, which had 11,312 workers in Indianapolis as of June, has recorded higher-than-expected sales of its diabetes drugs.
- A construction surge is expected, especially in Westfield, where three large projects have been approved: Aurora, a revived 314-acre development set to include residential, retail, office, hotel and light industrial uses; The Depot at Spring Mill Station, slated to deliver 134,000 square feet of office and retail space; and Scofield Farms, a 143-acre neighborhood of up to 235 homes.
- According to CBRE, the metro's office market absorbed 234,000 square feet of space in the second quarter, marking the second-highest total over the past three years, with asking rents across Indianapolis still on the rise.

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)

Code	Employment Sector	Current Employment		Year Change	
		(000)	% Share	Employment	%
65	Education and Health Services	173	14.7%	5,600	3.3%
70	Leisure and Hospitality	129	11.0%	4,700	3.8%
55	Financial Activities	75	6.4%	3,800	5.3%
15	Mining, Logging and Construction	60	5.1%	3,100	5.5%
40	Trade, Transportation and Utilities	244	20.7%	1,800	0.7%
30	Manufacturing	106	9.0%	1,700	1.6%
80	Other Services	51	4.3%	1,600	3.2%
50	Information	17	1.4%	-400	-2.3%
90	Government	149	12.7%	-700	-0.5%
60	Professional and Business Services	172	14.6%	-1,600	-0.9%

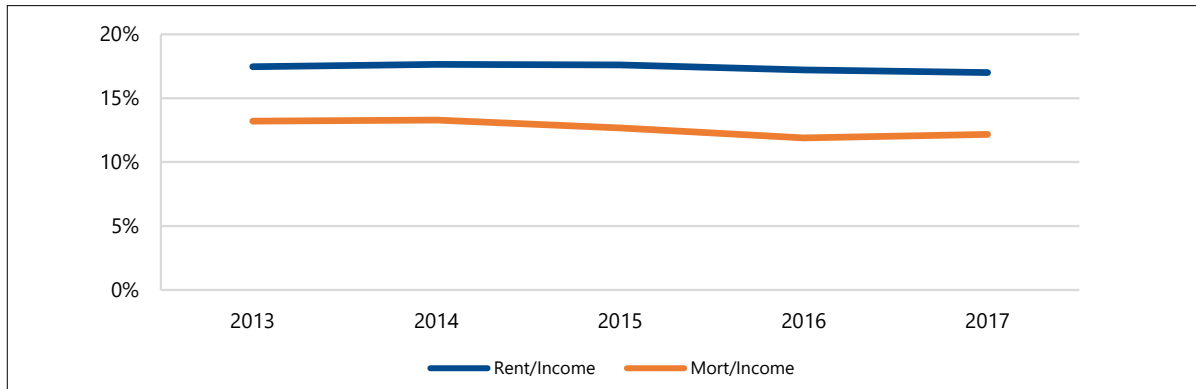
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

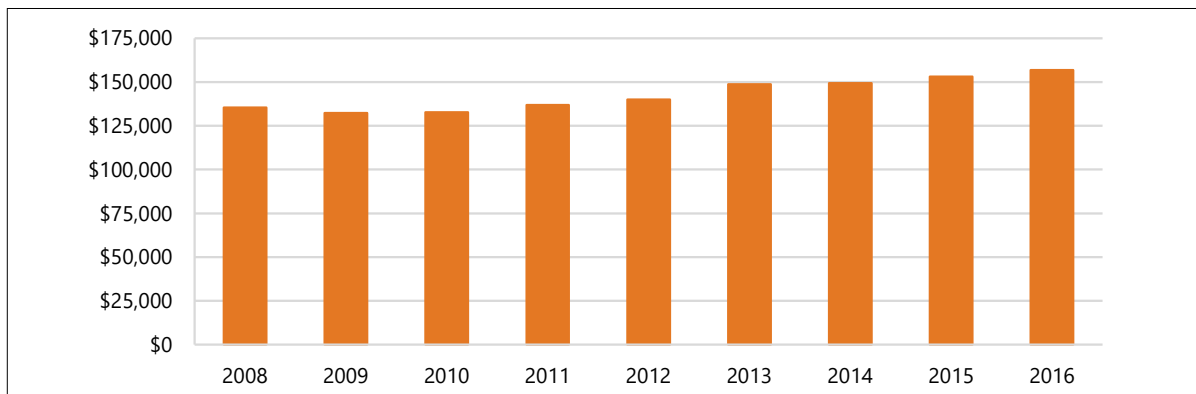
- The median home price climbed to \$159,514 in 2017's first half, reaching a post-recession high. Owning continues to be more affordable than renting, with mortgages accounting for 12% of the area median income, while the average rent equated to 17%. The region's housing cost is among the lowest of major U.S. metros.
- A broad coalition of city leaders, nonprofits and brokers launched the Great Places 2020 initiative, aiming to revitalize six neighborhoods by 2020, the city's bicentennial. The transformation, which will initially target Englewood Village, River West and Maple Crossing, incorporates housing and business investment strategies that helped other neighborhoods take off, including Fountain Square, Fall Creek Place and St. Clair Place.

Indianapolis Rent vs. Own Affordability as a Percentage of Income



Sources: YardiMatrix, Moody's Analytics

Indianapolis Median Home Price



Source: Moody's Analytics

Population

- Indianapolis added 17,688 residents in 2016, a 0.9% increase, 20 basis points above the national average.
- The metro's population has grown by more than 75,000 since 2012.

Indianapolis vs. National Population

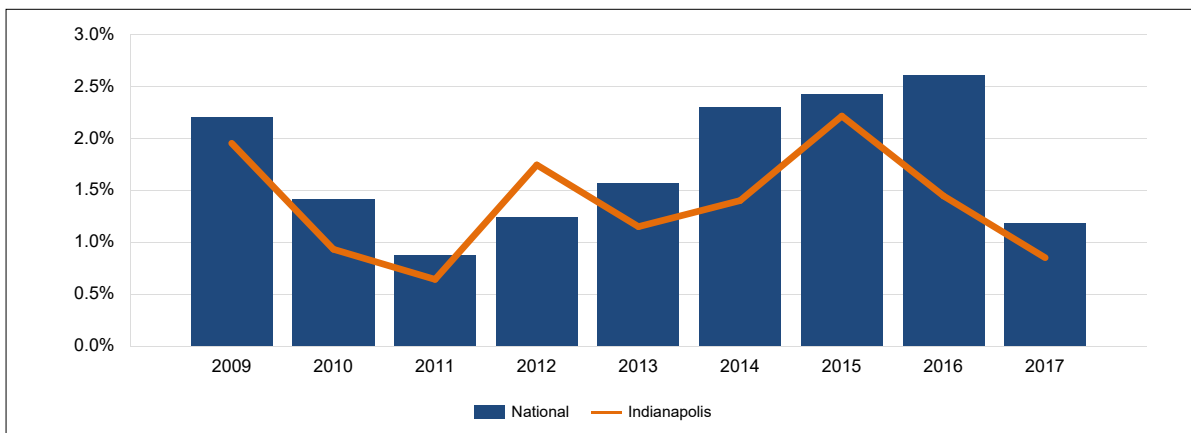
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Indianapolis Metro	1,928,964	1,953,043	1,971,060	1,986,542	2,004,230

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

Supply

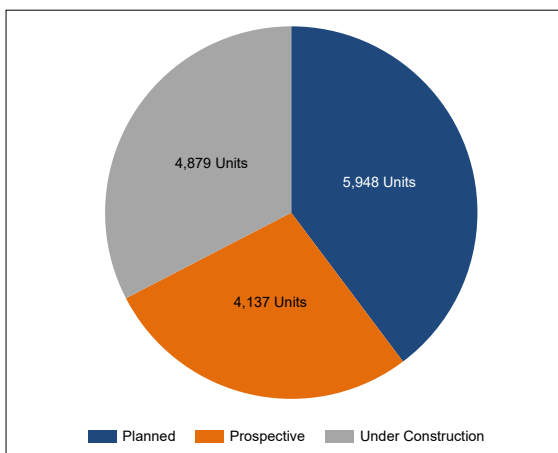
- More than 1,400 apartments came online in Indianapolis this year through August. The pace of completions is expected to accelerate, leading to a total of 3,363 new units by the end of 2017, surpassing last year's supply level of 2,391 new units.
- Development activity remains high, with 4,800 units under construction as of August and another 10,000 units on the drawing board. Absorption is expected to keep up with the pace of new supply, sustained by broad-based employment gains, household formation and continued population growth.
- A new wave of deliveries will test demand for apartments in downtown Indianapolis, where more than 1,500 units were under construction as of August. Developers are also focusing on walkable neighborhoods in Hamilton County, an area expected to generate 4,000 new jobs by 2025. In Carmel, where 500 units were nearing completion as of August, more than 1,000 jobs have been announced by Allied Solutions (600), NextGear Capital (200), Work Here (161), Lumavate (93) and MISO (84).
- CityWay Phase II was the largest multifamily project underway as of August. Buckingham Cos., which also built the first phase, is adding 400 units, as well as office and retail space to the downtown development.

Indianapolis vs. National Completions as a Percentage of Total Stock (as of August 2017)



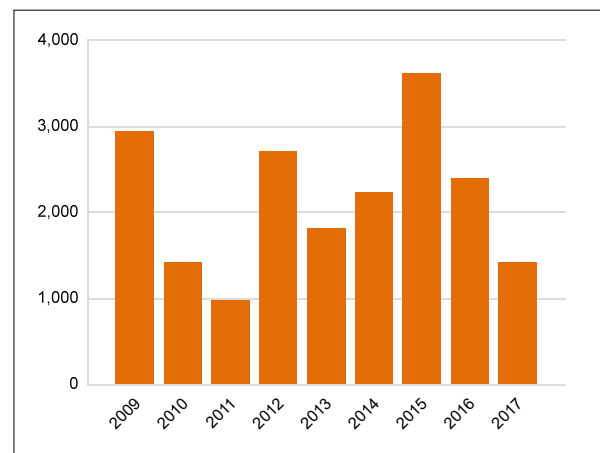
Source: YardiMatrix

Development Pipeline (as of August 2017)



Source: YardiMatrix

Indianapolis Completions (as of August 2017)

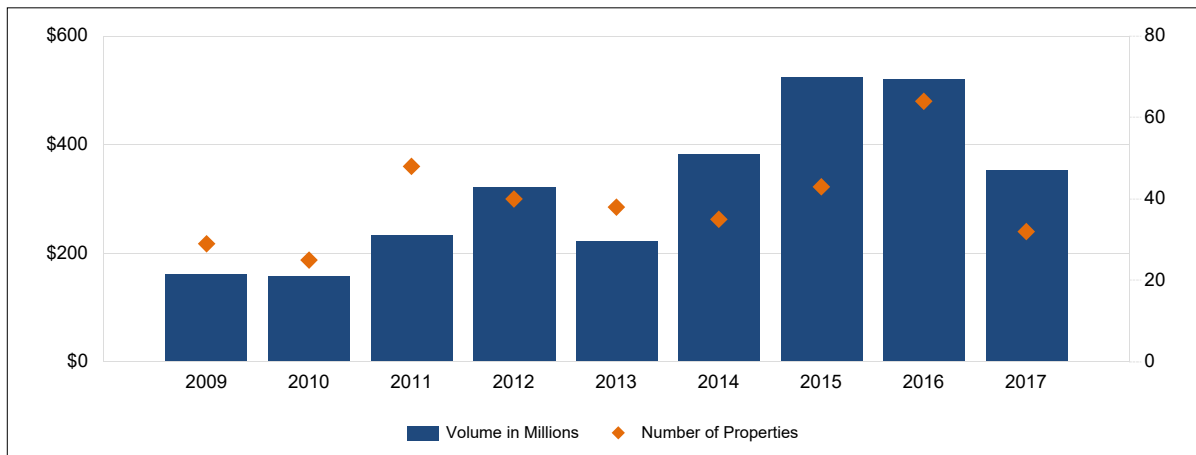


Source: YardiMatrix

Investment Transactions

- This year through August, \$351 million in multifamily assets changed hands in Indianapolis, mostly in the Renter-by-Necessity segment. The average price per unit was \$58,884, slightly lower than last year's figure and significantly below the \$133,537 national average.
- The wave of upcoming inventory will continue to provide investment opportunities to buyers seeking higher returns than those found in core markets. Acquisition yields start in the 5.0% range for stabilized Class A properties and can go as high as 6.5% for well-located, value-add assets within the same category.
- The Sterling Group's acquisition of Lake Castleton, a 1,261-unit community on Indianapolis' northeast side, ranked as the largest deal of the year. The company partnered with Virtus Real Estate to buy the asset for \$88 million, or \$69,848 per unit. Lake Castleton is adjacent to Community North Hospital and close to downtown.

Indianapolis Sales Volume and Number of Properties Sold (as of July 2017)



Source: YardiMatrix

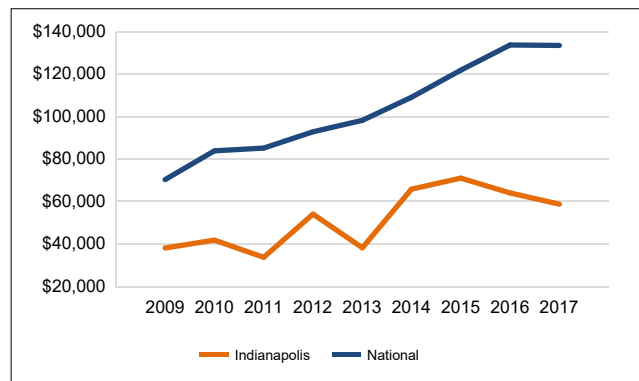
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Indianapolis–Lawrence	122
Indianapolis–Wayne West	60
Indianapolis–Wayne East	59
Indianapolis–Washington East	57
Indianapolis–Pike	50
Bloomington–East	31
Indianapolis–Perry East	27
Indianapolis–Warren	18

Source: YardiMatrix

¹ From August 2016 to July 2017

Indianapolis vs. National Sales Price per Unit





Source: YardiMatrix


Read All About It!



 Priam Capital Acquires
2nd Indianapolis Office Building

 Tikijan Secures
\$37M Indianapolis Community

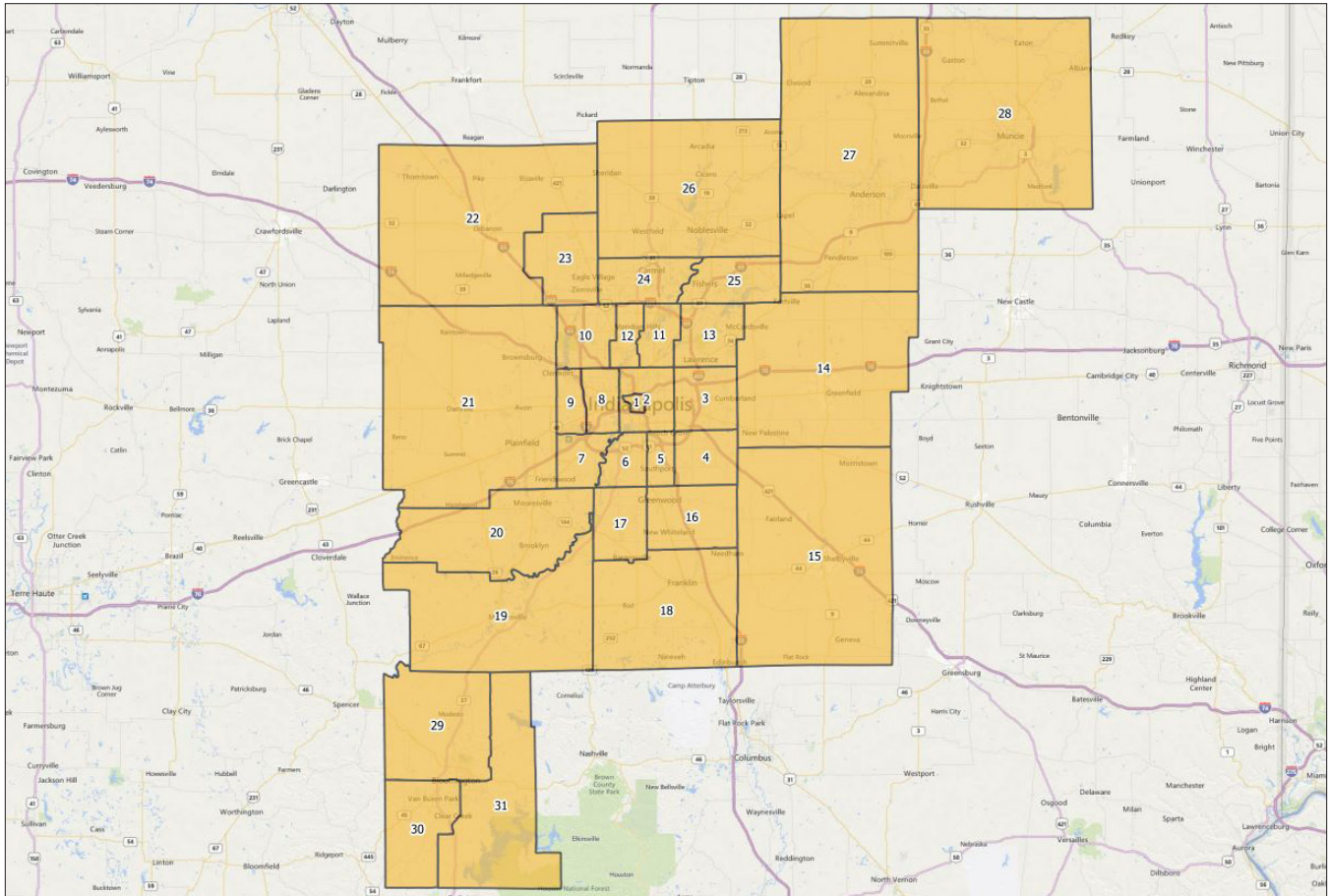
 Colliers Brokers
2 Indianapolis Industrial Deals

 Covenant Buys
\$30M Indianapolis Community

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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.

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