Yardi® Matrix

Indianapolis: Suburbs Rise

Multifamily Report Winter 2018

Rent Growth Trails National Average

Health-Care Sector Leads Job Gains

Investors Compete for Value-Add Assets

Market Analysis

Winter 2018

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Heavy Demand Powers Development Surge

The apartment boom continues in Indianapolis, where demand remains high, spurred by demographic factors and a strong economic engine. However, the wave of new supply pushed occupancy down 30 basis points year over year at the end of 2017.

Employment growth was particularly strong in education and health services, which added 5,800 jobs in the 12 months ending in November. Tax credits and training grants from the Indiana Economic Development Corp. are also boosting tech hiring across the metro, especially along the Interstate 69 corridor in Fishers, where hundreds of new jobs are slated to be created over the next several years. Rent growth was strongest in the suburbs, with Greenwood leading the way. That area continues to attract new development, including a $259 million FedEx distribution center, which is set to employ about 450 people upon its completion in summer 2019. In fact, demographic expansion in Indianapolis' downtown core has slowed down over the past two years, in favor of fast-growing fringe submarkets.

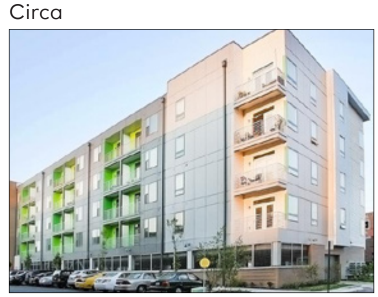
As rents continue to rise, more out-of-state buyers are competing for value-add assets across the metro, in turn pushing up property values. Positive economic trends and a relatively limited inventory of single-family housing in desirable locations is bound to continue underpinning multifamily demand. We expect rents to grow 3.0% in 2018.

Recent Indianapolis Transactions

Lake Castleton

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

Circa



City: Indianapolis
Buyer: JVM Realty
Purchase Price: $48 MM
Price per Unit: $184,615

Avery Point

City: Indianapolis
Buyer: Steadfast Cos.
Purchase Price: $42 MM
Price per Unit: $81,302

The Legend at Speedway

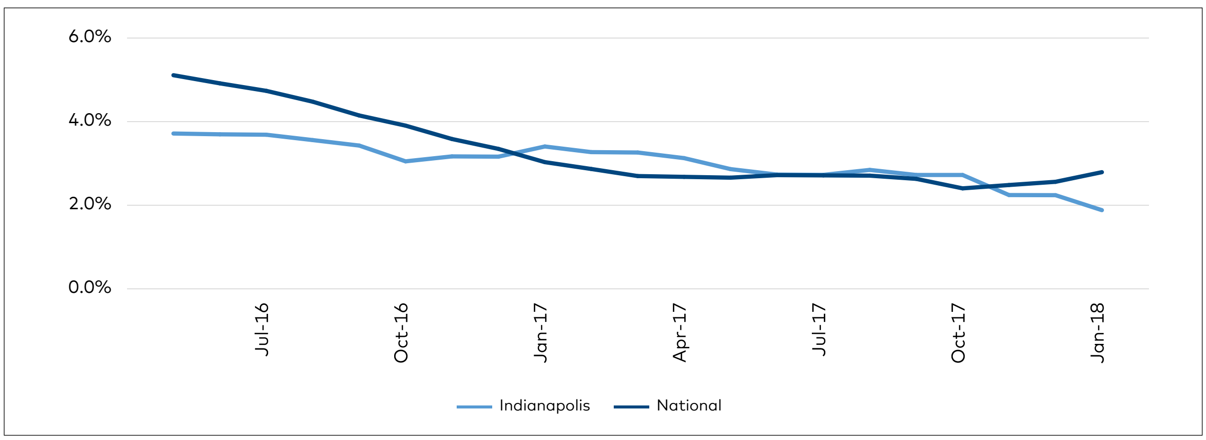
City: Speedway, Ind.
Buyer: Lighthouse Group
Purchase Price: $35 MM
Price per Unit: $45,983

On the cover: Photo by Jacek Sopotnicki/iStockphoto.com

Rent Trends

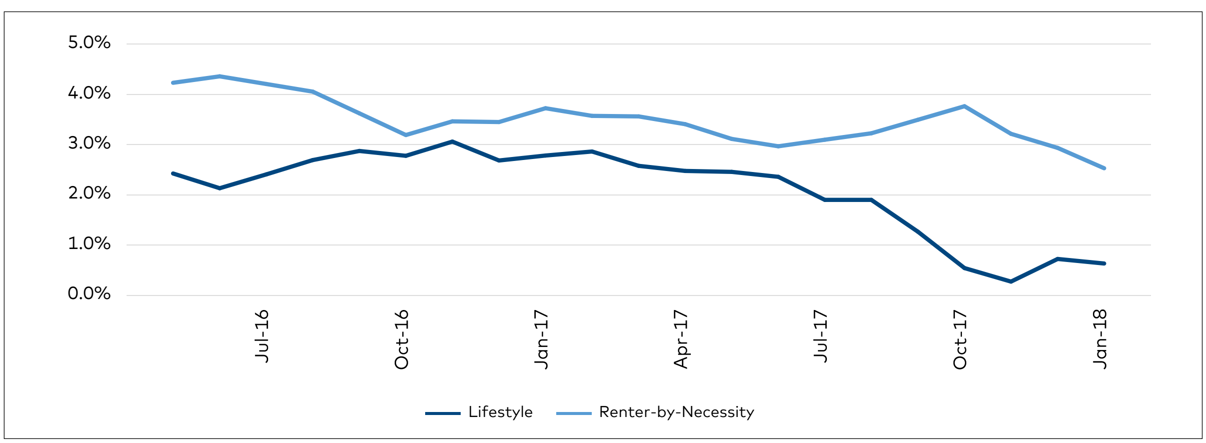
- Rents in Indianapolis rose 1.9% year-over-year through January, trailing the 2.8% national average. The metro's monthly rent stood at $866, well below the $1,362 U.S. figure. Occupancy in stabilized properties slightly declined year over year, down 30 basis points to 94.1% in December 2017, while more than 3,000 units were delivered throughout the year.
- Rents in the working-class Renter-by-Necessity segment rose 2.5% to $771, while Lifestyle rents rose only 0.6% to $1,116. Demand is strongest among young professionals and retirees looking to downsize. While downtown continues to be popular among renters, Indianapolis' urban population growth has slowed over the past two years, with more residents choosing to live in the suburbs. U.S. Census Bureau data shows that 13 of the 15 fastest-growing cities in Indiana were suburbs of Indianapolis. Whitestown led growth, followed by McCordsville, Bargersville, Westfield and Carmel.
- Rent growth was strongest in the suburbs, with Greenwood–West (4.6%) topping the list. Rents in Greenwood–East also rose significantly (3.0%), as the area is seeing a great deal of development, including a $259 million FedEx distribution center, which is slated to employ about 450 people upon completion in summer 2019. At the other end of the spectrum, rents decreased in areas that command the highest rates: Downtown (-0.6% to $1,401) and Carmel (-0.4% to $1,116).

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)

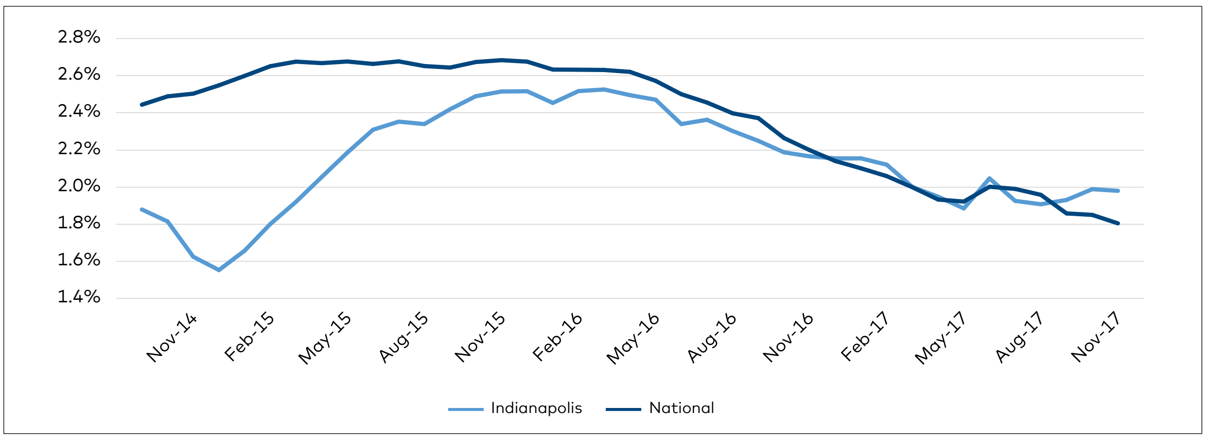


Source: YardiMatrix

Economic Snapshot

- Indianapolis added 18,700 jobs in the year ending in November, a 2.0% increase that outpaced the nation's 1.8%. Unemployment was 3.1%, lower than the state's 3.7% and the 4.1% national figure.
- Education and health services led growth (5,800 jobs). Health care continues to expand: Hendricks County welcomed a $50 million hospital in Brownsburg, as well as the St. Vincent health-care facility in Plainfield. Indiana University Health is planning an $83 million expansion of West Hospital in Avon, while Riverview Health is set to build new centers across Carmel, Fishers and the Nora area of Indianapolis.
- Tax credits and training grants are boosting hiring, especially along the I-69 corridor in Fishers, where many tech-centric companies plan to create hundreds of jobs over the next several years. These include Aggressively Organic, a start-up which sells hydroponic growing kits (200 jobs), as well as BrainForest, which uses technology to determine causes of mental illness (185 jobs).
- The office market also benefits from the tech sector's growth, having posted record rent hikes last year, according to Colliers International. Downtown absorption was strong, with Salesforce's move into Salesforce Tower and InfoSys occupying space in OneAmerica Tower causing CBD vacancy to drop below the suburban rate.

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	%
65	Education and Health Services	178	14.7%	5,800	3.4%
55	Financial Activities	77	6.4%	4,900	6.8%
15	Mining, Logging and Construction	59	4.9%	3,600	6.5%
90	Government	177	14.6%	2,700	1.5%
40	Trade, Transportation and Utilities	249	20.5%	2,100	0.9%
30	Manufacturing	105	8.7%	1,200	1.2%
80	Other Services	51	4.2%	1,200	2.4%
50	Information	16	1.3%	-700	-4.1%
60	Professional and Business Services	179	14.8%	-1,000	-0.6%
70	Leisure and Hospitality	122	10.1%	-1,100	-0.9%

Sources: YardiMatrix, Bureau of Labor Statistics

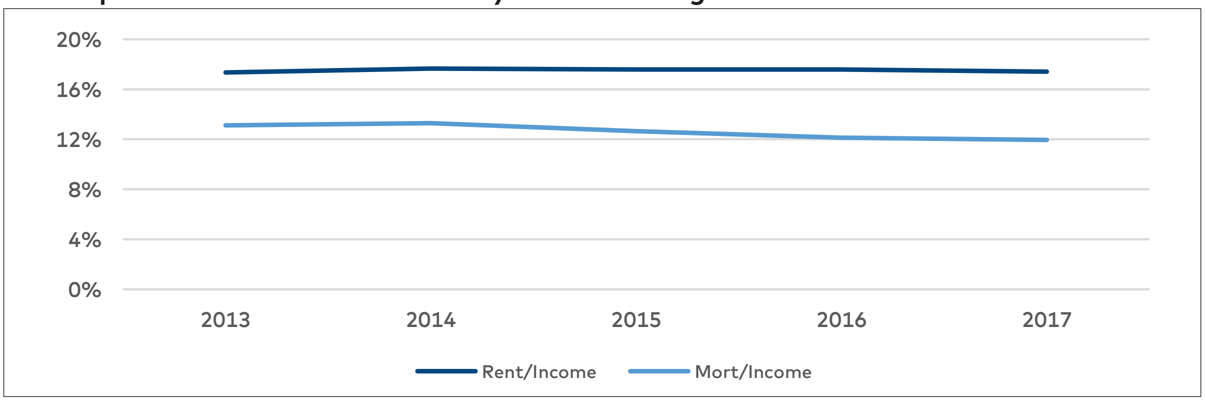
Demographics

Affordability

- At roughly $154,000, the median home price remained virtually flat in 2017. Owning continues to be more affordable than renting, with the average mortgage payment accounting for 12% of the area's median income, while the average rent equates to 17%.

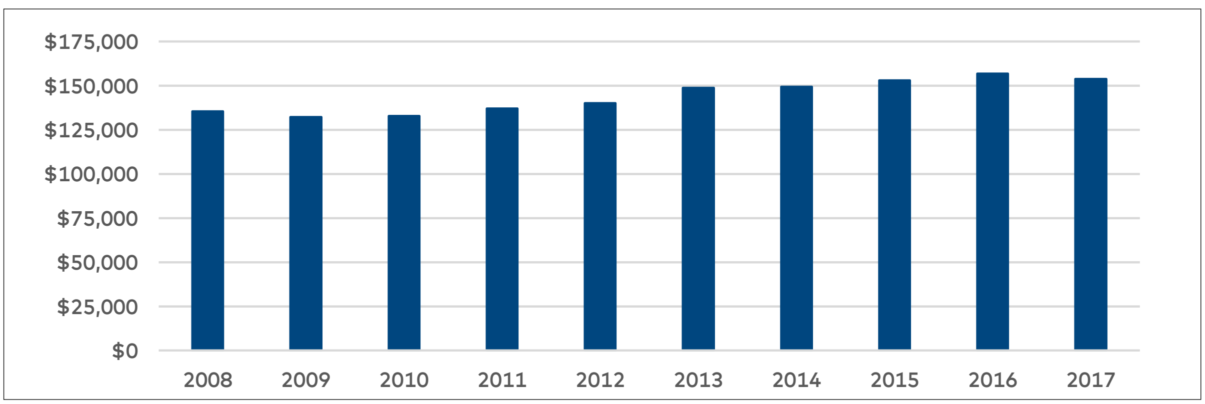
- The region's housing costs continue to be one of the lowest among major U.S. metros. However, a tight for-sale housing inventory in or near the city core is pushing would-be homeowners toward the suburbs, which continue to thrive, adding new residents at a faster pace than the core. Carmel, for instance, added 2,977 people in 2017, more than any other Indiana city.

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, representing a 0.9% increase, outpacing the 0.7% national average.

- The metro added more than 75,000 residents between 2012 and 2016.

Indianapolis vs. National Population

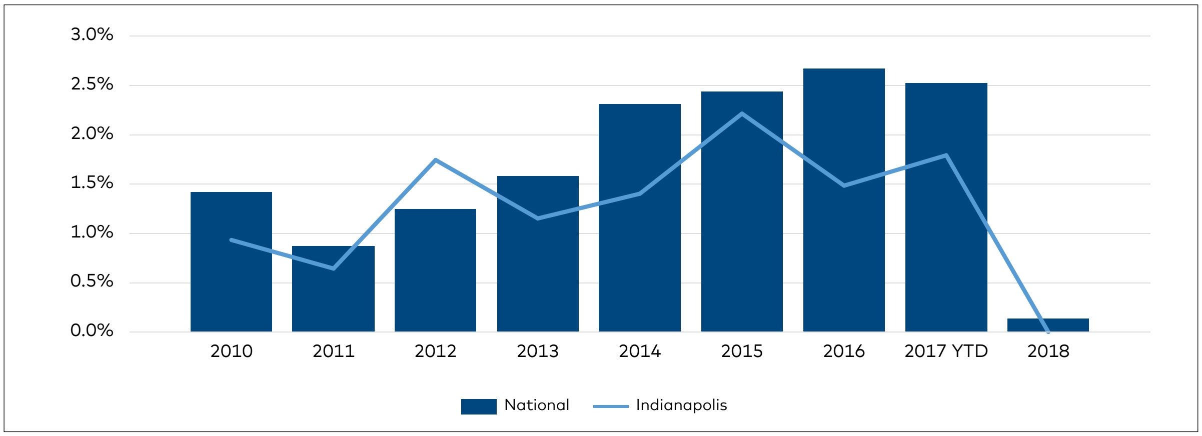
	2012	2013	2014	2015	2016
National	313,998,379	316,204,908	318,563,456	320,896,618	323,127,513
Indianapolis Metro	1,928,964	1,953,043	1,971,060	1,986,542	2,004,230

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

Supply

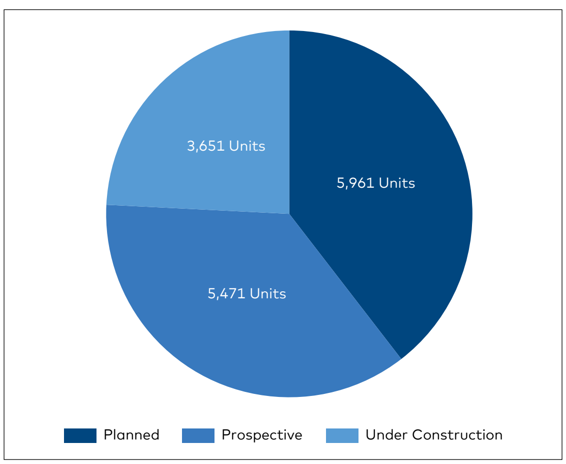
- More than 3,000 units came online in 2017 in Indianapolis, representing 1.8% of total stock and surpassing the previous year's supply level. Roughly 2,400 units were delivered in 2016.
- The pipeline is significant, with 3,651 units under construction as of January and more than 11,400 in the planning and permitting stages. Employment growth, rising incomes and household formation are expected to contribute to the fast absorption of new units.
- Downtown had, by far, the highest number of apartments under way (1,450 units), followed by Plainfield/Brownsburg/Avon (529 units), Carmel (382 units), Fishers (354 units) and Westfield–Noblesville (315 units).
- Hendricks Commercial's $260 million Bottleworks, a mixed-use project at College and Massachusetts avenues, serves as a catalyst of core development. Rising at the site of a former Coca-Cola bottling plant, the development is slated to include a 136-key West Elm hotel, retail, apartments, condos and a movie theater. Buckingham Cos.' 400-unit CityWay Phase II and TWG Development's 334-unit The Whit, which are both located downtown, are the metro's largest communities under construction.

Indianapolis vs. National Completions as a Percentage of Total Stock (as of January 2018)



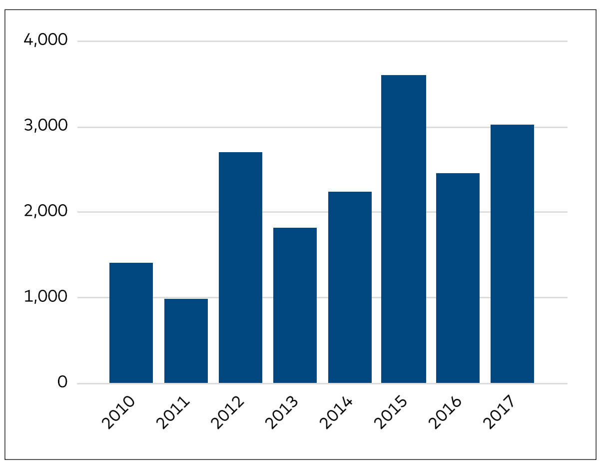
Source: YardiMatrix

Development Pipeline (as of January 2018)



Source: YardiMatrix

Indianapolis Completions (as of January 2018)

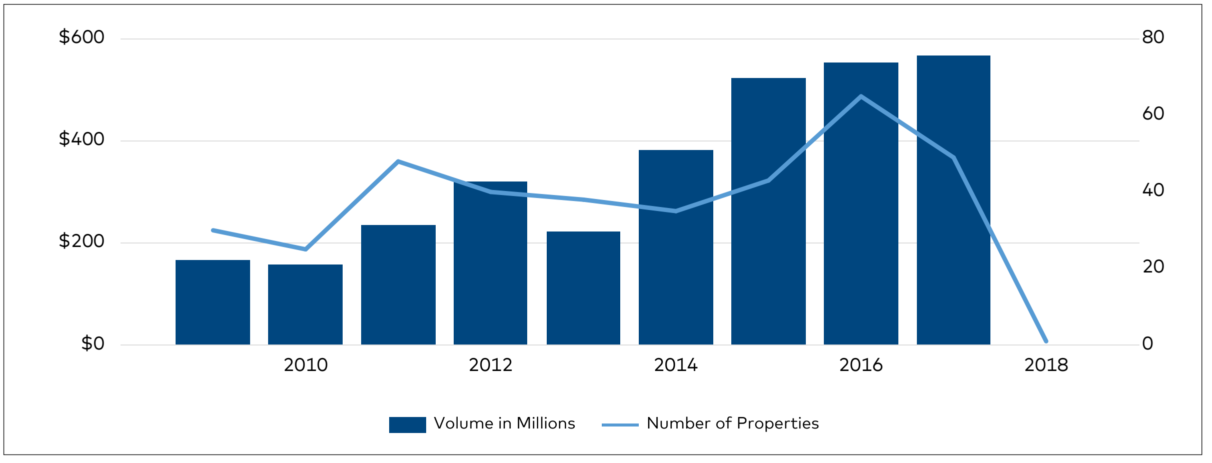


Source: YardiMatrix

Transactions

- Nearly $570 million in multifamily assets changed hands in Indianapolis last year. Per-unit prices rose slightly, to $67,255, but remain well below the $138,167 national average.
- As a growing number of residents are choosing to live in the suburbs, investors are seeking more value-add opportunities in these areas, where acquisition yields can be as high as 9.0% for Class C assets.
- The Sterling Group's purchase of Lake Castleton, a 1,261-unit community on the northeast side of Indianapolis, ranked as the metro's largest multifamily transaction in 2017. The company partnered with Virtus Real Estate to acquire the property for $88 million, or $69,848 per unit. Spanning 90 acres, Lake Castleton is adjacent to Community North Hospital and provides convenient access to Downtown, Castleton, Broad Ripple, Fishers and Keystone at the Crossing.

Indianapolis Sales Volume and Number of Properties Sold (as of January 2018)



Source: YardiMatrix

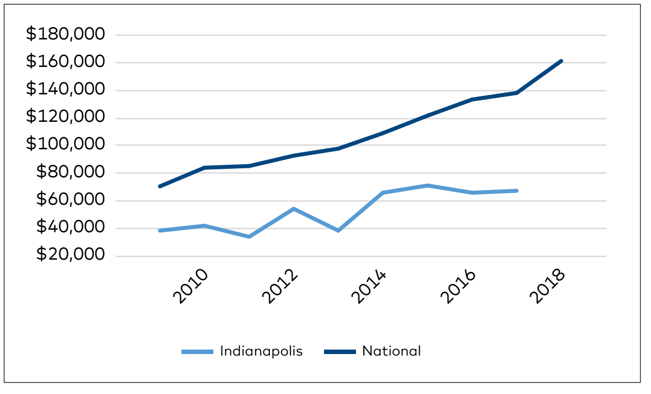
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Indianapolis–Lawrence	170
Indianapolis–Washington East	93
Indianapolis–Downtown	68
Indianapolis–Pike	39
Indianapolis–Wayne East	35
Indianapolis–Wayne West	31
Indianapolis–Perry East	31
Plainfield/Brownsburg/Avon	31

Source: YardiMatrix

[1] From January 2017 to December 2017

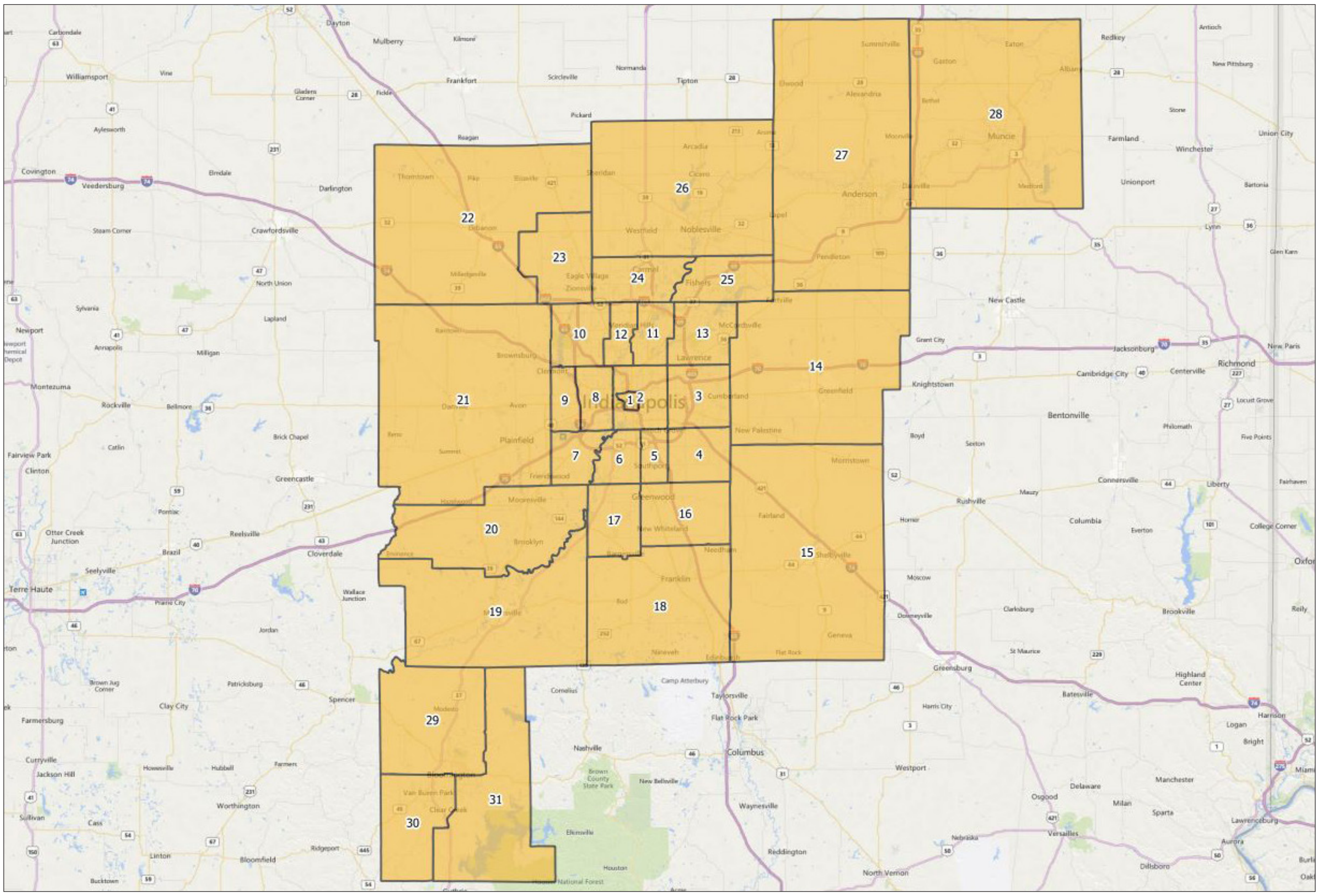
Indianapolis vs. National Sales Price per Unit



Source: YardiMatrix

Indianapolis image by Davel5957/iStockphoto.com

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.