# Yardi® Matrix

# Indianapolis Thrives

## Multifamily Report Summer 2018

**Rent Growth Modest, Set to Accelerate**

**Supply Targets Downtown, Northern Submarkets**

**Investors Focus on Value-Add, Infill Assets**

## Market Analysis
Summer 2018

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## Health Care, Tech Drive Growth

Multifamily demand remains strong in Indianapolis, sustained by favorable demographic trends and a thriving economy. The pool of talent coming from local universities and a reasonable cost of living and doing business continue to attract residents and employers to the area.

Education and health services led job growth in the 12 months ending in April. The region's health-care boom is spurred by projects such as the $1 billion Indiana University Health campus downtown or the upcoming $389 million regional health center in Bloomington. Professional and business services also gained jobs, boosted by an expanding tech sector, which is drawing top-tier companies and pushing office rents to all-time highs. The labor market is bound to continue its run, fueled by the 293 commitments the Indiana Economic Development Corp. secured from companies looking to grow in the state. The investments total $7 billion and 30,000 new jobs, the highest yearly commitment in the organization's history.

Apartment construction is intense in the city core and in the northern submarkets. Investors target value-add assets in infill locations, where acquisition yields can go as high as 7.5%. As of April, some 4,000 multifamily units were underway across the metro. Absorption is expected to keep up with the pace of new supply, generating a 2.7% rent growth for the year.
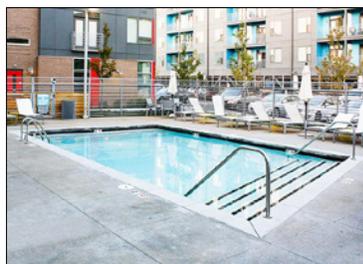
### Recent Indianapolis Transactions

Lake Castleton



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

The Cottages of Fall Creek



City: Indianapolis
Buyer: Pepper Pike Capital Partners
Purchase Price: $57 MM
Price per Unit: $75,184

Circa



City: Indianapolis
Buyer: JVM Realty
Purchase Price: $48 MM
Price per Unit: $181,132

Avery Point



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

## Rent Trends

- Rents in Indianapolis rose 1.4% year-over-year through May 2018, trailing the 2.0% national rate. The average rent stood at $877, well below the $1,381 U.S. figure. As more than 3,000 units were delivered in 2017, occupancy in stabilized properties declined to 94.0% as of April, down 70 basis points year-over-year and remaining below the 94.9% national average.

- Rents in the working-class Renter-by-Necessity segment rose 2.2% to $779, while Lifestyle rents increased by only 0.4%, to $1,133. A surge of new jobs coupled with population gains and robust household growth over the past year continue to sustain rental demand across metro Indianapolis.

- The submarkets that recorded the fastest rent growth are also among the most affordable: Mooresville (up 7.7% to $674) and Anderson (up 4.2% to $691). Rents also rose quickly in Bloomington–North (3.8% to $1,049) and Bloomington–West (3.6% to $1,019), close to an upcoming IU health campus.

- The metro's population growth is projected to continue outpacing the national average over the coming years, while the labor market is set to get a boost from the almost 300 commitments the Indiana Economic Development Corp. secured from companies looking to grow in the state. We expect multifamily demand in Indianapolis to remain strong, pushing up rents 2.7% in 2018.

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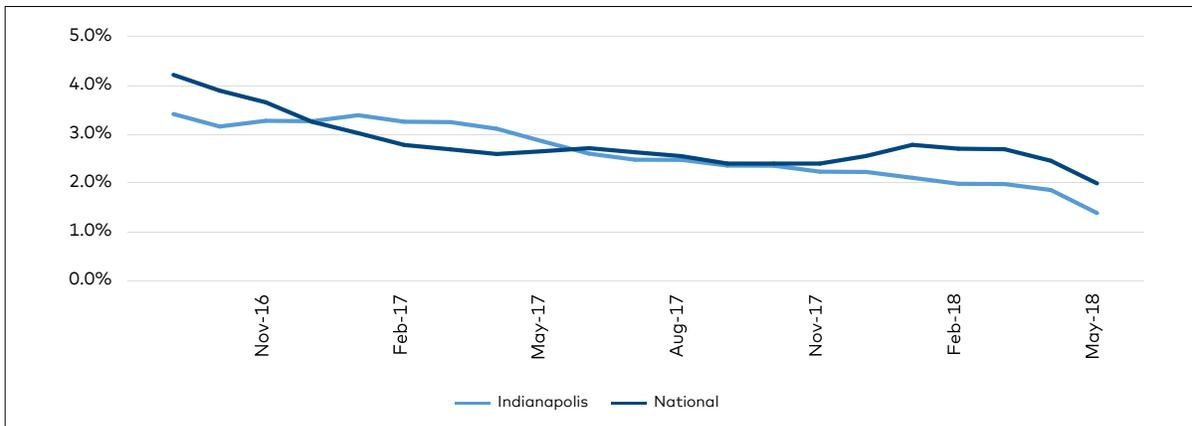


Source: YardiMatrix

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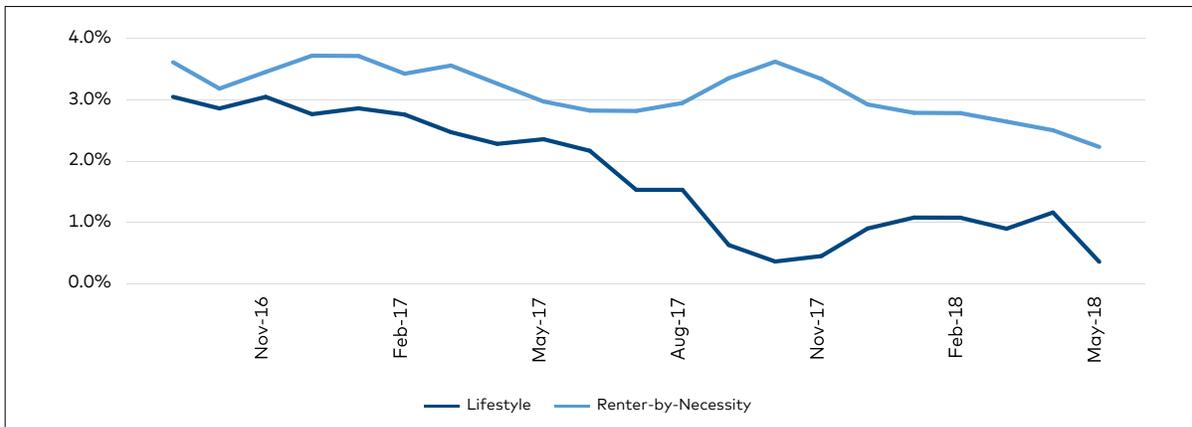


Source: YardiMatrix

## Economic Snapshot

- Indianapolis added 17,300 jobs in the year ending in March, a 1.3% increase trailing the 1.7% national growth. The unemployment rate slid to 3.0%, lower than the state's 3.2% and the 4.1% national figure.

- Growth was led by education and health services, which added 6,900 jobs. Aiming to help more students graduate from college and expand the local middle class, Indy Achieves has launched a new program that provides free tuition, books and fees for Marion County residents starting in 2019. The region's health-care boom is also driving growth, with projects ranging from full-service hospitals—such as the $1 billion Indiana University Health downtown campus or the $389 million regional health center in Bloomington—to a flurry of micro-hospitals, emergency rooms and urgent care centers.

- Professional and business services gained 5,900 jobs, boosted by the area's thriving tech scene. At the end of 2017, Indianapolis ranked fourth in the nation for technology job growth, after San Francisco, Charlotte and Pittsburgh, according to data from the U.S. Department of Labor. The local tech sector accounted for one-third of all job commitments made from mid-2017 through July 2018, more than any other industry. Joining Salesforce, IT giant Infosys is planning to hire 2,000 employees by 2021. Increased office space demand maintains steady leasing and investment activity, while asking rents rose 4.4% in 2017, the largest annual increase on record, according to Colliers International.

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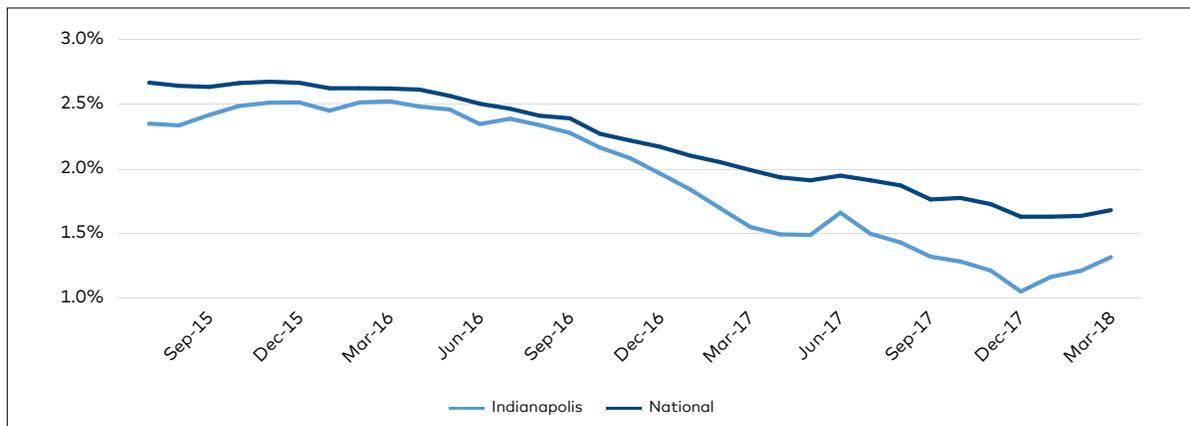


Sources: YardiMatrix, Bureau of Labor Statistics (not seasonally adjusted)

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

| Code | Employment Sector | Current Employment | | Year Change | |
| --- | --- | --- | --- | --- | --- |
| | | (000) | % Share | Employment | % |
| 65 | Education and Health Services | 181 | 15.2% | 6,900 | 4.0% |
| 60 | Professional and Business Services | 174 | 14.7% | 5,900 | 3.5% |
| 40 | Trade, Transportation and Utilities | 242 | 20.4% | 2,800 | 1.2% |
| 15 | Mining, Logging and Construction | 55 | 4.6% | 2,600 | 4.9% |
| 55 | Financial Activities | 73 | 6.1% | 2,000 | 2.8% |
| 80 | Other Services | 49 | 4.1% | 300 | 0.6% |
| 30 | Manufacturing | 105 | 8.8% | - | 0.0% |
| 90 | Government | 173 | 14.6% | -400 | -0.2% |
| 70 | Leisure and Hospitality | 119 | 10.0% | -1,200 | -1.0% |
| 50 | Information | 16 | 1.3% | -1,600 | -9.2% |

Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics
### Affordability

- The median home price in Indianapolis rose to $160,316 in 2017, a post-recession high. Owning continued to be more affordable than renting, with the average mortgage payment accounting for 12% of the area's median income, while the average rent equated to 17%.

- Indianapolis remains one of the most affordable cities in the U.S. for housing costs. A study conducted by financial technology company SmartAsset ranked the city at No. 12 nationally for most affordable housing, based on factors such as property taxes, homeowners' insurance and mortgage payments relative to median income.

### Indianapolis Rent vs. Own Affordability as a Percentage of Income
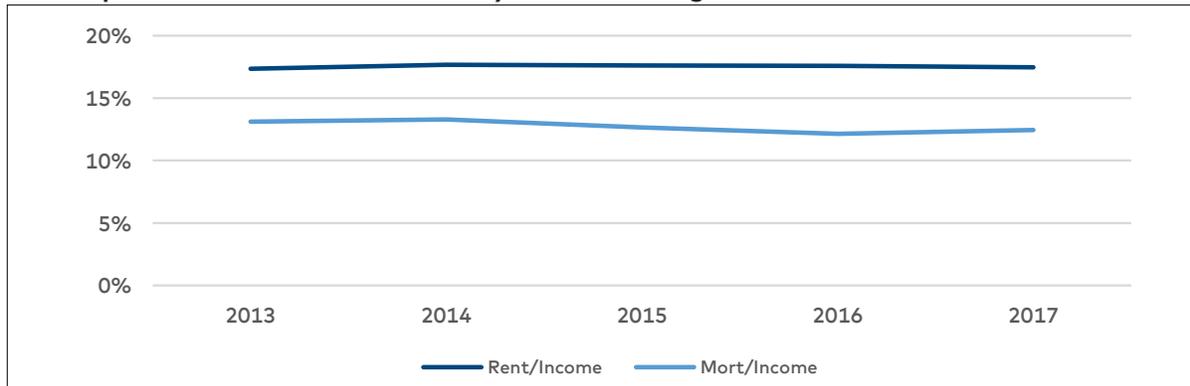


Sources: YardiMatrix, Moody's Analytics

### Indianapolis Median Home Price
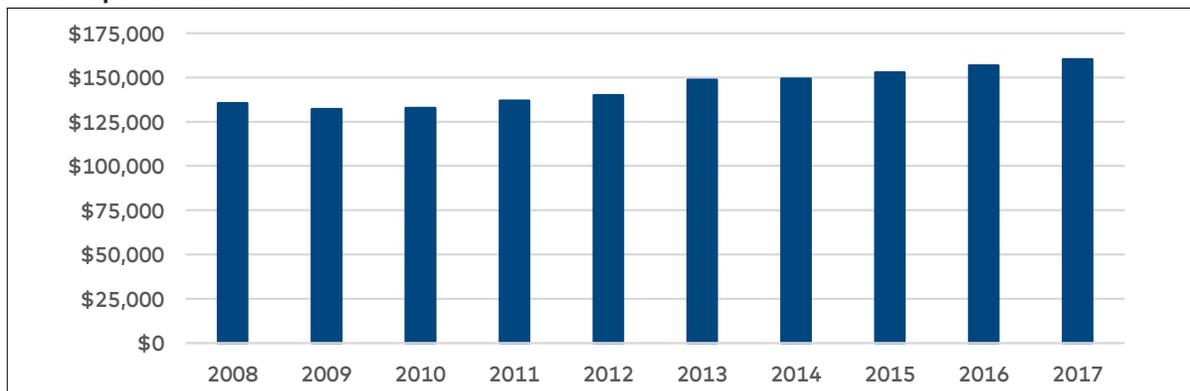


Source: Moody's Analytics

### Population

- Metro Indianapolis gained 23,000 residents in 2017, a 1.1% increase, outpacing the 0.7% national growth.

- The metro added 75,401 residents between 2013 and 2017, representing a 3.9% population increase.

### Indianapolis vs. National Population

|  | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| National | 316,234,505 | 318,622,525 | 321,039,839 | 323,405,935 | 325,719,178 |
| Indianapolis Metro | 1,953,213 | 1,970,850 | 1,986,872 | 2,005,612 | 2,028,614 |

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

## Supply

- Three multifamily properties totaling 267 units were delivered in Indianapolis this year through April, in addition to the 3,022 units that came online in 2017, representing 1.8% of stock. Most of the new deliveries were high-end. Some 1,900 units are expected to come online during the whole of 2018.

- More than 4,000 units were under construction as of May, while another 12,000 were in the planning and permitting stages. Sustained by favorable employment and demographic trends, the upcoming supply additions are not expected to surpass demand, which will continue to drive rent growth.

- Downtown had 1,331 units underway, followed by Plainfield/Brownsburg/Avon (865 units), Carmel (383 units) and Fishers (354 units), where household formation is intense. The larger projects feature a mixed-use component or the ability to leverage existing area amenities, while smaller ones, boosted by the limited availability of land adjacent to the city core, display more variability in design and layout.

- The $135 million second phase of Buckingham Cos.' CityWay mixed-use development, which is set to bring 400 units by September 2019, ranked as the metro's largest multifamily project as of April.

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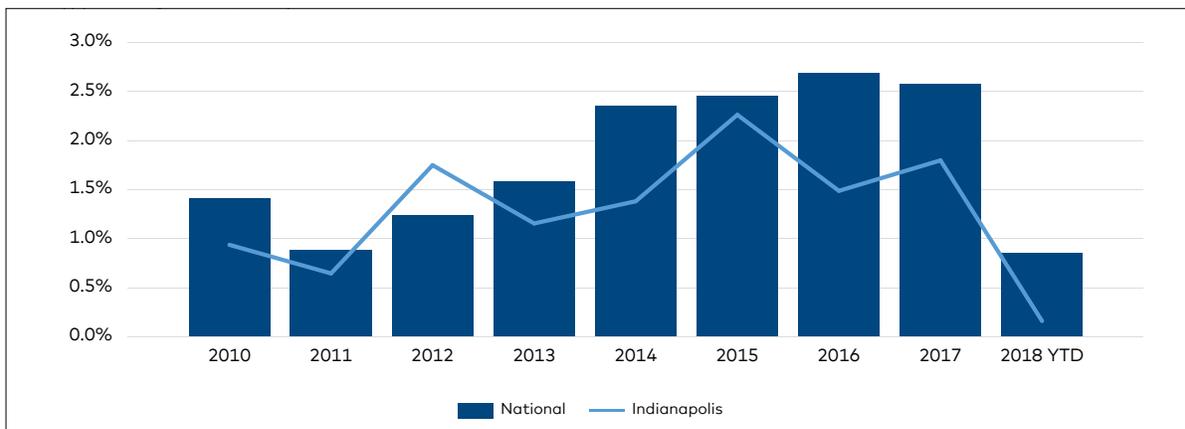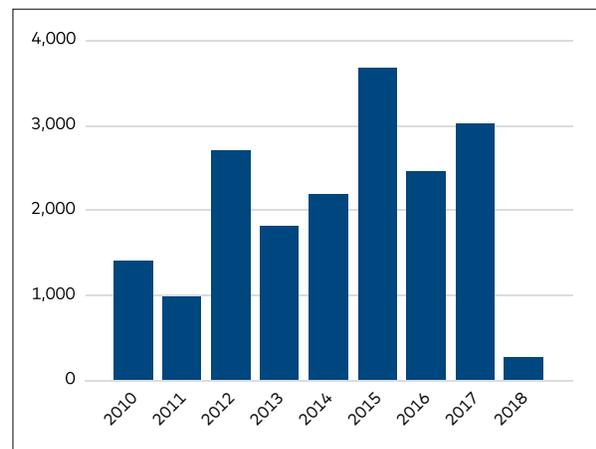


Source: YardiMatrix

**Development Pipeline** (as of May 2018)
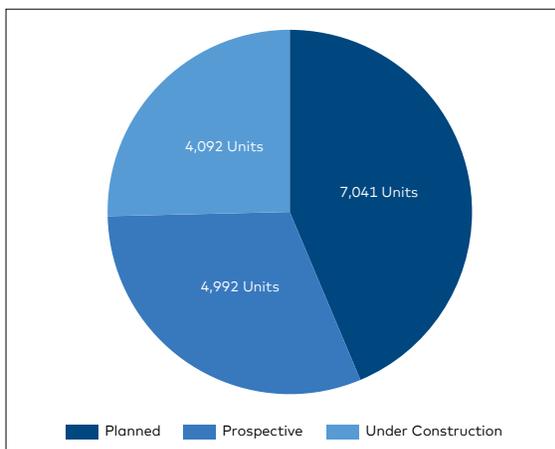


Source: YardiMatrix

**Indianapolis Completions** (as of May 2018)



Source: YardiMatrix

## Transactions

- More than $220 million in multifamily assets changed hands during the first four months of 2018, most of which were in the Renter-by-Necessity category. In 2017, some $614 million in properties traded, marking a cycle peak, at an average per-unit price of $69,214, below the $139,879 national average.

- This year through April, investors mostly targeted value-add assets in infill locations, for which acquisition yields can go as high as 6.75% for Class B and 7.5% for Class C properties.

- The Sterling Group's acquisition of Lake Castleton, a 1,261-unit community on the northeast side of Indianapolis, ranked as the metro's largest multifamily transaction in the 12 months ending in April. The company and partner Virtus Real Estate paid $88 million, or $69,848 per unit, to purchase the 90-acre property, which is adjacent to Community North Hospital and close to downtown and Broad Ripple.

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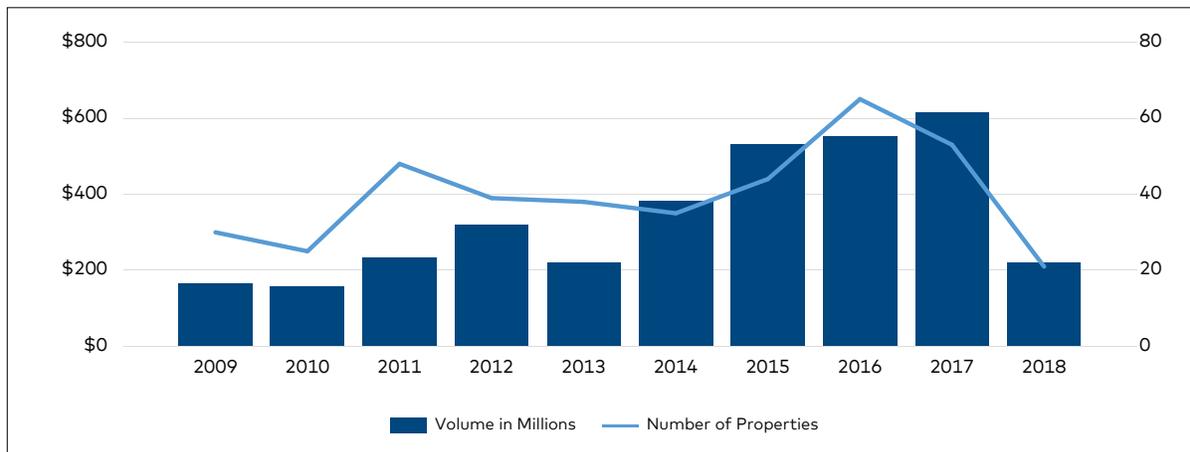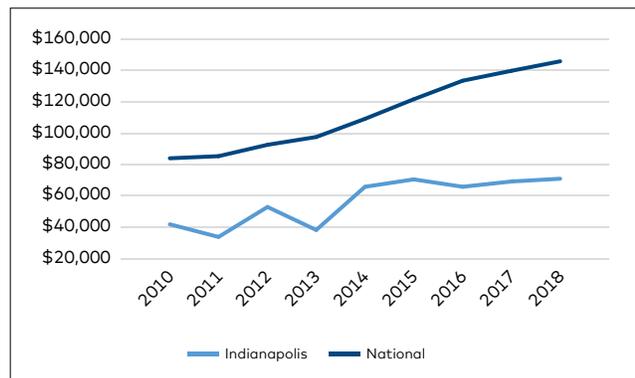


Source: YardiMatrix

### Top Submarkets for Transaction Volume[1]

| Submarket | Volume ($MM) |
|---|---|
| Indianapolis–Lawrence | 227 |
| Indianapolis–Downtown | 80 |
| Indianapolis–Washington East | 75 |
| Plainfield/Brownsburg/Avon | 31 |
| Indianapolis–Pike | 24 |
| Indianapolis–Perry East | 24 |
| Indianapolis–Wayne East | 23 |
| Indianapolis–Warren | 16 |

Source: YardiMatrix
[1] From May 2017 to April 2018

### Indianapolis vs. National Sales Price per Unit



Source: YardiMatrix

### Asset Campus Expands Student Housing Management Portfolio

The company has acquired St. Joe Place, a 144-unit community that serves students at Ivy Tech Community College and Purdue University-Fort Wayne.

### Peak Campus To Manage 2 Indianapolis Properties

Greyhound Village and University Lofts are owned by Strategic Capital Partners and add 780 beds to the management company's portfolio.

### Multifamily Community With 753 Units Trades in Indianapolis

Shamrock Communities sold The Cottages of Fall Creek to Pepper Pike Capital Partners. The new ownership will make a significant capital investment in the asset.

### Essex Realty Group Brokers IN Community Sale

Mayfield Apartments, a 52-unit, garden-style community near Valparaiso University in Porter County, changed hands for $2.7 million.

### Radco Acquires 1,400 Units in Suburban Indianapolis

A major private capital player, the company financed the acquisition using its private capital platform, as well as debt provided by BBVA Compass.

### JV Buys 152-Unit IN Student Housing Community

The Park on Morton campus offers 6,000 square feet of additional retail space and serves students attending Indiana University.

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# Top 10 Multifamily Completions in Indianapolis

By Roxana Baiceanu

Despite two strong years for inventory growth, demand for new units has continued to grow across the metro, putting pressure on builders. Overall, rental projects have stayed moderate in size—up to 250 units.

As in several other large metros, rent growth in Indianapolis has slowed down over the past few months. Meanwhile, average rents ($877) continue to significantly trail the national average of $1,381. The affordable rents, paired with a surge in job creation, especially in the technology sector, have led to an increase in population, as well. As a result, rental demand remained high across the metro.

| Property Name | City | Submarket | Owner | Unit Count |
|---|---|---|---|---|
| Sunrise on the Monon | Indianapolis | Carmel | Old Town Design Group | 256 |
| The Vue | Indianapolis | Indianapolis–Downtown | Herman & Kittle Properties | 249 |
| The Olivia on Main | Carmel, Ind. | Carmel | Keystone Construction | 203 |
| Quarry at River North | Indianapolis | Indianapolis–Washington East | Gene B. Glick Co. | 196 |
| Lux on Capitol | Indianapolis | Indianapolis–Downtown | Scion Group | 196 |
| Echo Park | Bloomington, Ind. | Bloomington–West | H. M. Mac Development & Construction | 153 |
| The Coil | Indianapolis | Indianapolis–Washington East | Browning Investments | 151 |
| Monon Lofts | Indianapolis | Indianapolis–Center | TWG Development | 142 |
| The Congress at Library Square | Indianapolis | Indianapolis–Downtown | Buckingham Cos. | 111 |
| The Annex on Tenth | Indianapolis | Indianapolis–Center | Annex Student Living | 216 |

## Sunrise on the Monon

Sunrise on the Monon is the largest project to be completed in Indianapolis during the last 12 months. Construction was funded via a $28.4 million loan secured by First Merchants Bank. An Old Town Design Group development, the 31-building community provides 256 units featuring one- and two-bedroom layouts. In May, the property was more than 91 percent occupied, as monthly rents varied between $1,100 and $2,000. Located at 1501 Starcross Lane, Sunrise on the Monon offers access to Interstate 465 and The Fashion Mall at Keystone.

# Indianapolis Submarkets
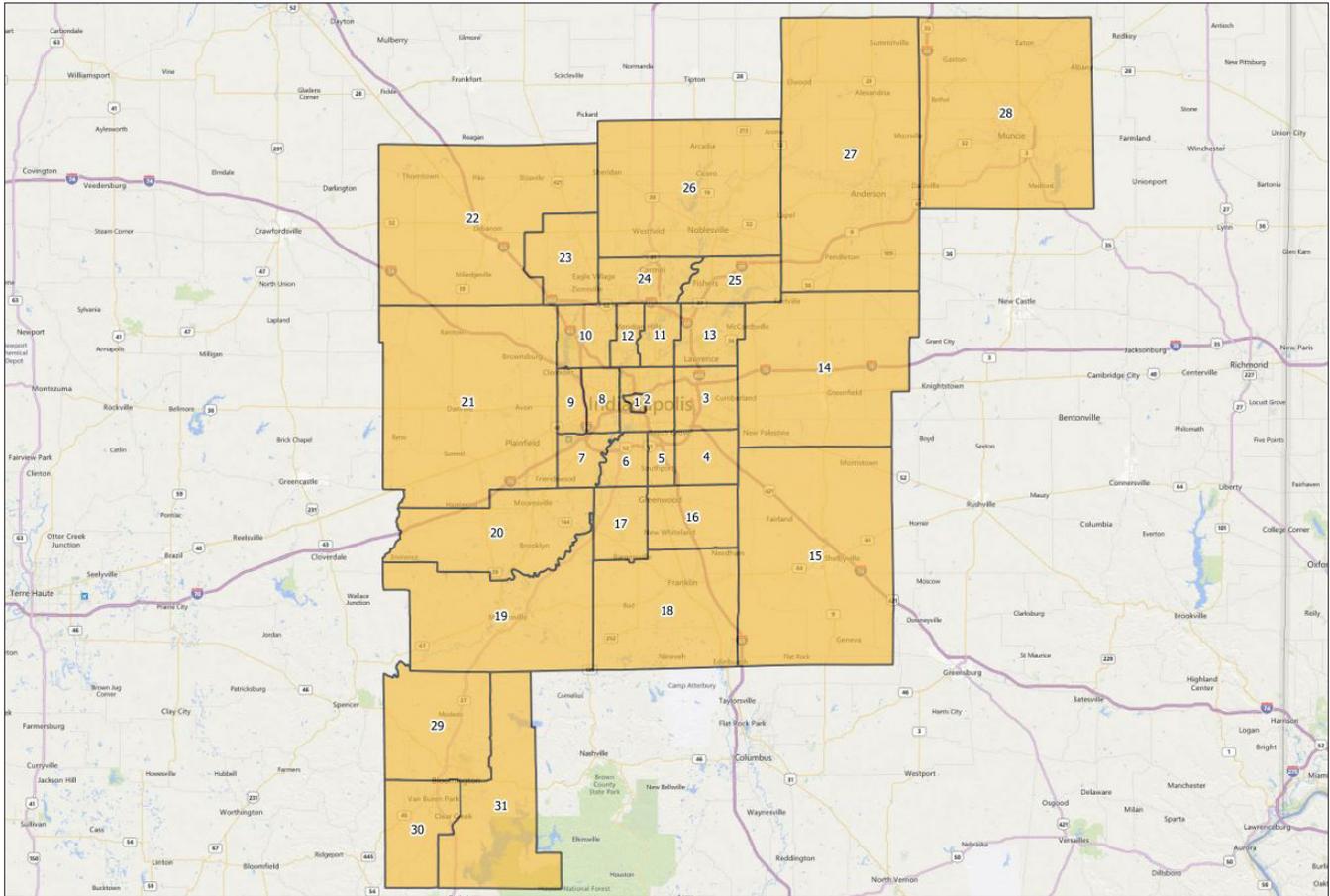


| Area # | Submarket |
|--------|-----------|
| 1 | Indianapolis–Downtown |
| 2 | Indianapolis–Center |
| 3 | Indianapolis–Warren |
| 4 | Indianapolis–Franklin |
| 5 | Indianapolis–Perry East |
| 6 | Indianapolis–Perry West |
| 7 | Indianapolis–Decatur |
| 8 | Indianapolis–Wayne East |
| 9 | Indianapolis–Wayne 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.