

Yardi® Matrix

# Indianapolis: Room for Growth

Multifamily Report Spring 2019

Rent Growth on Par With US Average

Developers Target Hamilton County

Investment Volume Hits Cycle Peak

## Market Analysis

Spring 2019

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## Development Set to Regain Momentum

Favorable demographic trends and economic growth have kept multifamily demand relatively healthy in Indianapolis, with year-over-year rent growth at 3.2% as of March, on par with the U.S. average.

Education and health services led growth in the 12 months ending in February, with the addition of 4,100 jobs. The expansion is likely to continue, boosted by a flurry of new developments, including the \$389 million Indiana University Health Regional Academic Center in Bloomington, Ball State University's Health Professions complex in Muncie, as well as the new MedTech Park campus in Fishers. Hiring in the technology sector could also receive a boost, with Infosys breaking ground on its U.S. Education Center on the city's West Side in November, moving ahead with its goal to add 3,000 jobs by 2023.

Investors pushed the multifamily transaction volume to a cycle peak of \$880 million last year. Development activity is slated to pick up this year, with 4,052 units underway as of March and a total of 2,070 units expected to come online in 2019. The uptick in deliveries is slated to put further pressure on occupancy in stabilized assets, which dropped to 93.9% as of February. Nonetheless, we expect the average Indianapolis rent to advance 3.2% in 2019.

## Recent Indianapolis Transactions

### Connect Apartment Homes



City: Indianapolis  
Buyer: Emma Capital  
Purchase Price: \$39 MM  
Price per Unit: \$79,545

### Carmel Woods



City: Carmel, Ind.  
Buyer: Barratt Asset Management  
Purchase Price: \$34 MM  
Price per Unit: \$107,962

### The Lodge at Trails Edge



City: Indianapolis  
Buyer: Birge & Held Asset Management  
Purchase Price: \$22 MM  
Price per Unit: \$80,970

### Harbour Town

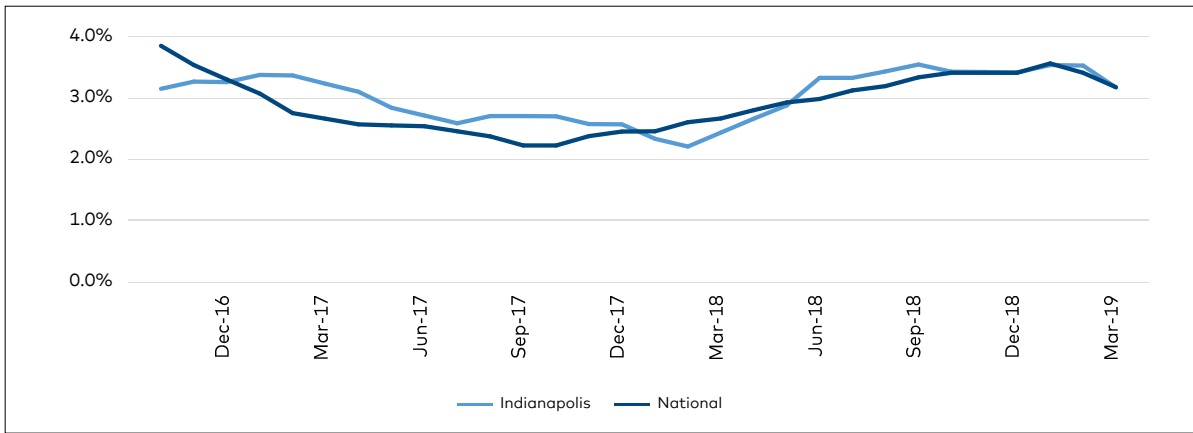


City: Noblesville, Ind.  
Buyer: Muesing Management  
Purchase Price: \$10 MM  
Price per Unit: \$97,436

## Rent Trends

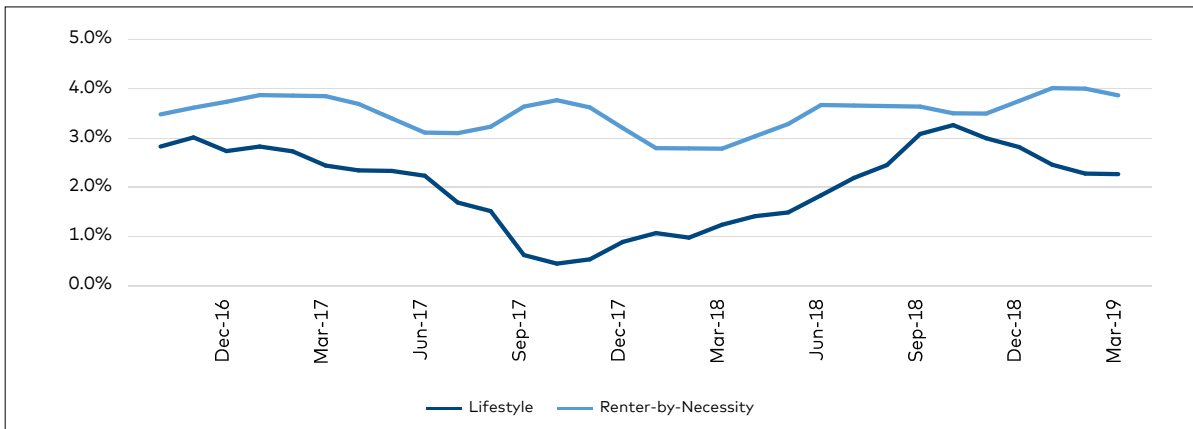
- Rents in Indianapolis rose 3.2% year-over-year through March, in line with the national rate. The metro's average rent stood at \$911, well below the \$1,430 U.S. figure. Following the delivery of more than 1,600 units in 2018, occupancy in stabilized properties dropped just 10 basis points over 12 months, to 93.9% as of February.
- Rents in the working-class Renter-by-Necessity segment rose 3.9% to \$807, while Lifestyle rates were up 2.3%, to \$1,174. In the context of an improving economy, demand is slated to remain relatively healthy across asset classes in the longer run, as the metro is bound to be the state's primary source of population growth for the foreseeable future. The Indiana Business Research Center projects that the 11-county region's population will exceed 2.5 million by 2050, with Hamilton County leading growth. With 2,070 units slated to come online in 2019, we expect the average Indianapolis rent to advance 3.2% for the year.
- Rent gains were highest in Franklin (5.9%), Lebanon (5.4%), Indianapolis–Wayne West (5.4%), Indianapolis–Washington West (4.8%), Indianapolis–Warren (4.7%) and Westfield–Noblesville (4.5%). Rates in downtown Indianapolis, the priciest submarket, were up 10 basis points to \$1,429, while Bloomington–North rents rose 1.7% to \$1,159.

### 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)

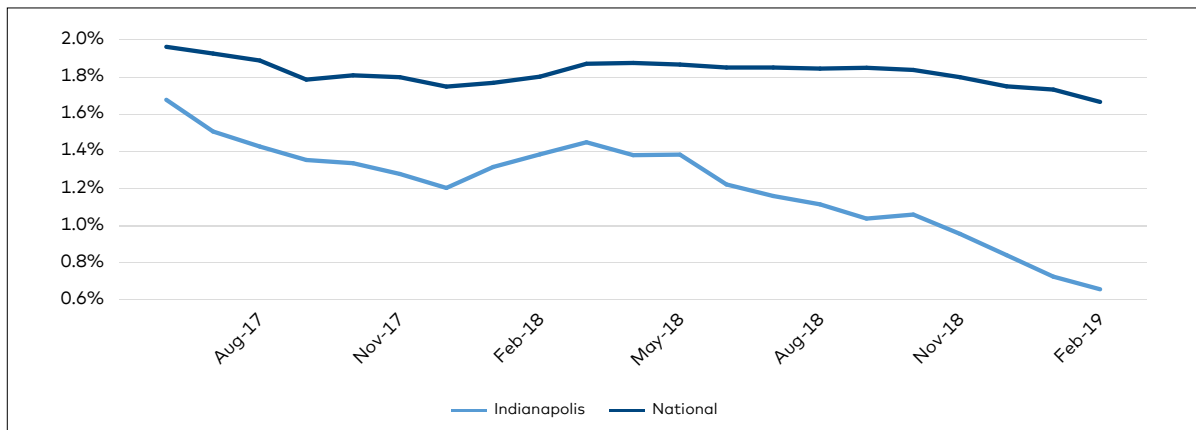


Source: YardiMatrix

## Economic Snapshot

- Indianapolis added 8,700 jobs in the 12 months ending in February for a 0.7% expansion in the context of a tight job market, well below the 1.7% national average. The metro's unemployment rate stood at 3.7% as of January, above the state's 3.5% but below the 4.0% national rate.
- Education and health services led growth, with the addition of 4,100 jobs. The expansion will likely continue, boosted by a flurry of projects initiated by universities, health systems and regional hospitals. The list includes the \$389 million Indiana University Health Regional Academic Center in Bloomington, which is set to bring a new hospital, along with IU's health sciences, education and research facilities. The 735,000-square-foot development is scheduled to open in 2020. Ball State University is building a \$62 million Health Professions complex in Muncie, set to house its new College of Health, while Central Indiana Orthopedics is developing the new MedTech Park campus in Fishers.
- Manufacturing gained 2,600 jobs. The list of companies expanding in the region includes Greenleaf Foods, which plans to build a 230,000-square-foot plant in Shelbyville and add 460 jobs. Metal Powder Products is relocating a manufacturing division from Ohio to Noblesville, aiming to generate 80 new jobs by 2020. Tech hiring is also set to get a boost, with Infosys building a reskilling center on the city's West Side.

### 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	183	15.4%	4,100	2.3%
90	Government	176	14.8%	2,600	1.5%
30	Manufacturing	107	9.0%	2,600	2.5%
15	Mining, Logging and Construction	53	4.5%	1,900	3.7%
40	Trade, Transportation and Utilities	241	20.3%	1,800	0.8%
80	Other Services	51	4.3%	1,100	2.2%
60	Professional and Business Services	173	14.6%	300	0.2%
50	Information	14	1.2%	-1,100	-7.1%
55	Financial Activities	72	6.1%	-1,800	-2.4%
70	Leisure and Hospitality	116	9.8%	-2,800	-2.4%

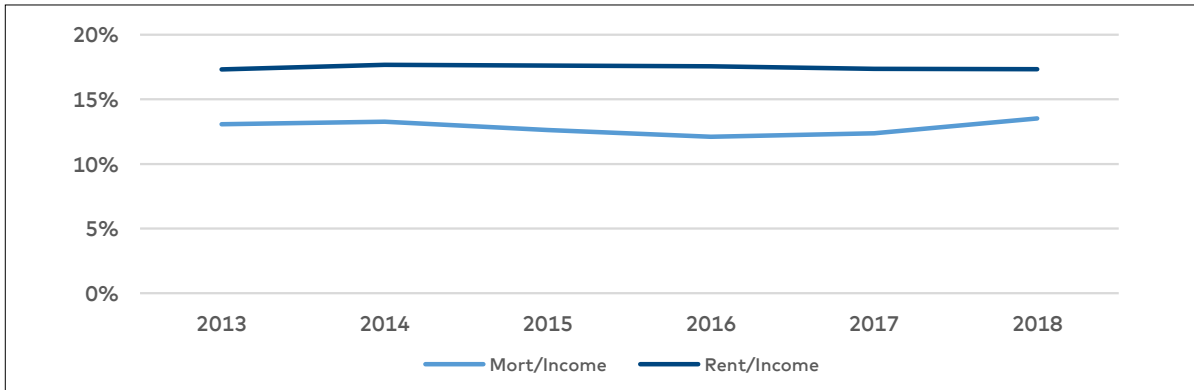
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

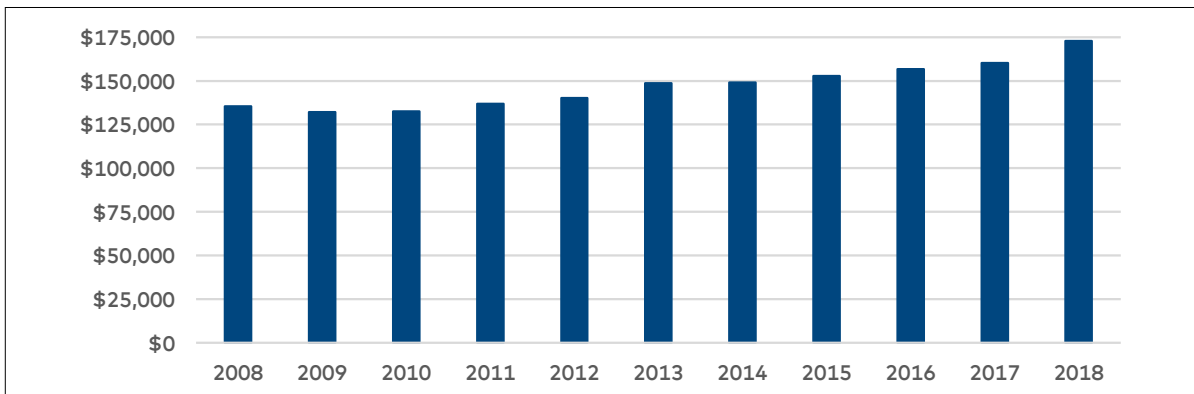
- The median home price in Indianapolis rose to a cycle peak of \$172,868 in 2018, up 7.9% since 2017 and 30.7% above the 2009 figure. Last year, the average rent accounted for 17% of the area median income, while the average mortgage payment equated to 14%.
- Indianapolis remains one of the most affordable cities in the U.S. for housing costs. In 2018, however, housing affordability hit a 10-year low due to rising prices, higher interest rates, low inventories and increased development costs. Sales of existing homes fell for the third straight month in February 2019, according to MIBOR Realtor Association data.

### 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 added 23,000 residents in 2017 for a 1.1% increase, outpacing the 0.7% U.S. rate.
- The metro gained 75,401 residents between 2013 and 2017 for a 3.9% demographic expansion.

### Indianapolis vs. National Population

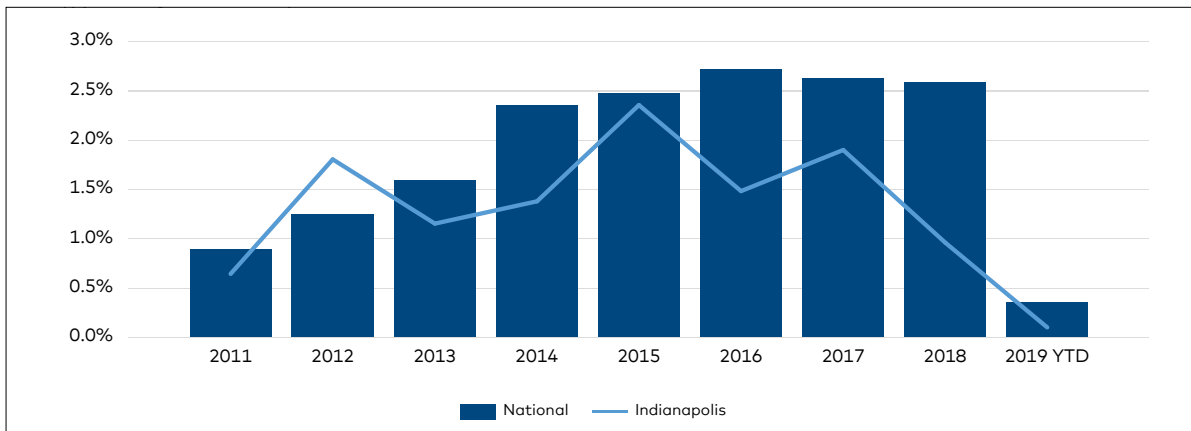
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Indianapolis Metro	1,953,213	1,970,850	1,986,872	2,005,612	2,028,614

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

## Supply

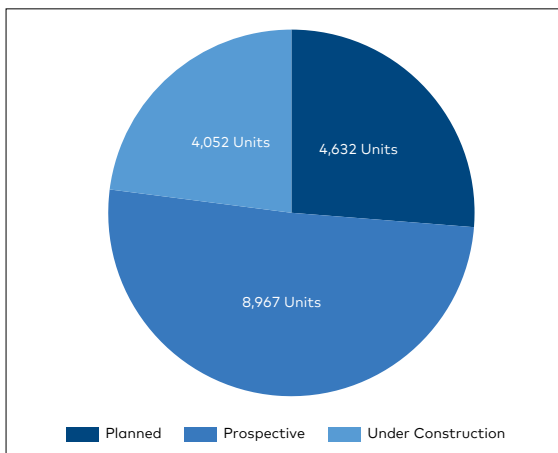
- Developers completed 1,636 units last year, representing 1.0% of total stock, well below the 2.6% national average. The annual forecast for 2019 is 2,070 units, equating to 1.2% of stock, with one 172-unit Class A community already coming online in Brownsburg in the first quarter.
- A total of 4,052 units were under construction across the metro as of March, 1,452 of them in designated opportunity zones. As the area's growing economy and well-paying technology and business services jobs continue to attract young professionals, absorption of new high-end apartments should remain healthy. Mixed-use communities in walkable neighborhoods are especially popular among renters. However, an uptick in deliveries this year is expected to put some pressure on occupancy, also keeping rent growth in check.
- Downtown Indianapolis, the metro's most expensive multifamily submarket, led the construction pipeline as of March, with 970 units underway. Development is also intense in Carmel (940 units), which recorded rapid demographic growth over the past decade, followed by Plainfield/Brownsburg/Avon (783 units).

**Indianapolis vs. National Completions as a Percentage of Total Stock** (as of March 2019)



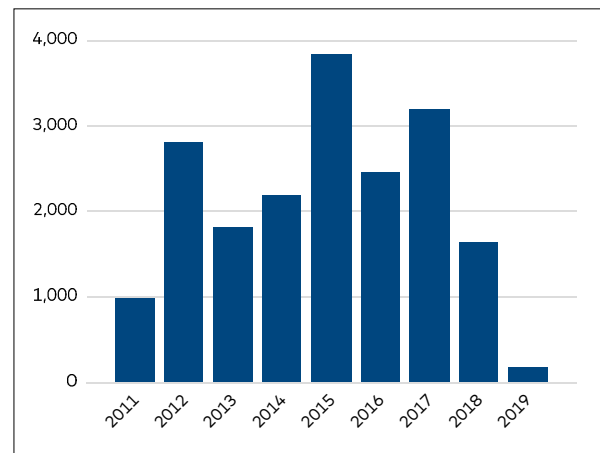
Source: YardiMatrix

**Development Pipeline** (as of March 2019)



Source: YardiMatrix

**Indianapolis Completions** (as of March 2019)

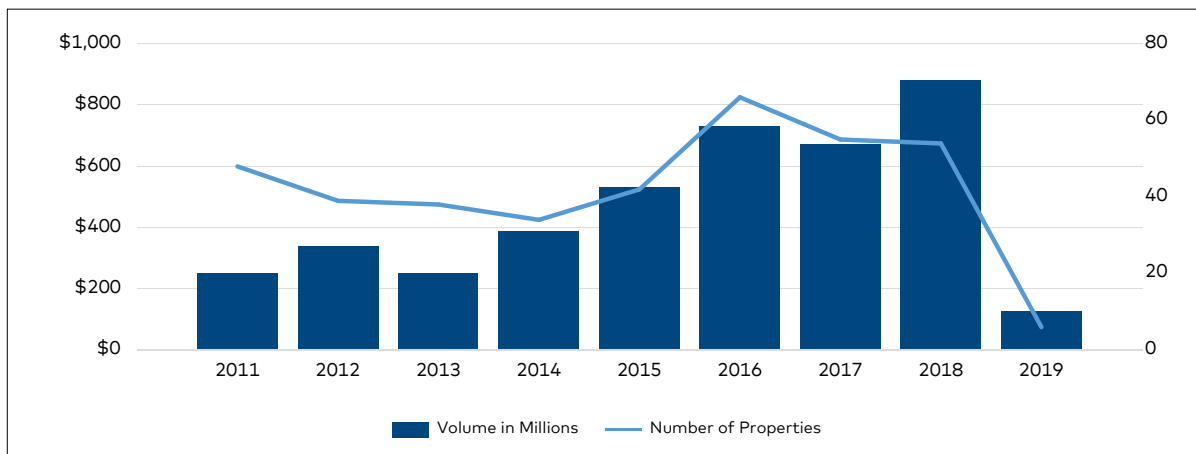


Source: YardiMatrix

## Transactions

- Investment volume in Indianapolis hit a strong cycle peak last year, reaching \$880 million. A total of 54 properties sold at an average per-unit price of \$71,255, significantly below the 153,928 U.S. figure. During 2019's first quarter, six workforce properties sold for \$127 million, or \$84,595 per unit.
- Attracted by the market's relatively steady fundamentals and high returns, investors continued to mostly focus on assets with a value-add component, with acquisition yields going as high as 10.0% in the case of Class C communities.
- Emma Capital's acquisition of The Courts in Indianapolis–Washington West, which was built in two phases in 1967 and 1973, ranked as the metro's largest deal of the first quarter. The company paid \$38.5 million, or \$79,545 per unit, for the 484-unit property, which it rebranded as Connect Apartment Homes.

### Indianapolis Sales Volume and Number of Properties Sold (as of March 2019)



Source: YardiMatrix

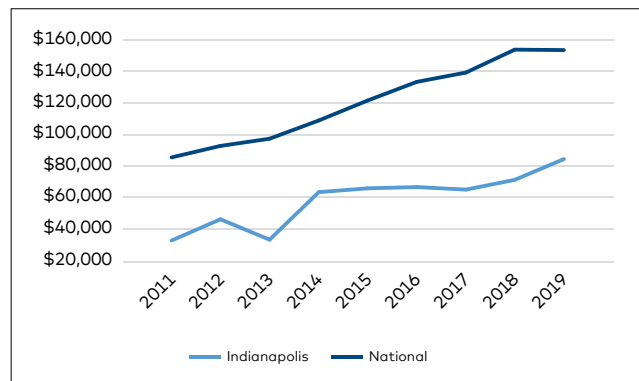
### Top Submarkets for Transaction Volume<sup>1</sup>

Submarket	Volume (\$MM)
Indianapolis–Washington West	156
Indianapolis–Pike	103
Indianapolis–Lawrence	95
Indianapolis–Wayne East	81
Indianapolis–Washington East	69
Bloomington–North	56
Indianapolis–Franklin	55

Source: YardiMatrix

<sup>1</sup> From April 2018 to March 2019

### Indianapolis vs. National Sales Price per Unit



Source: YardiMatrix

## News in the Metro

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### CS Acquisition Group Sells 272-Unit Community

The Lakewood, N.J.-based company sold a 16-building multifamily asset in Beech Grove to a private investor. The property was 95 percent occupied at the time of sale.



### Suburban Indy Asset Changes Hands

The buyer, Muesing Management, secured more than \$7 million in short-term financing from Merchants Bank of Indiana to fund the acquisition.



### Emma Capital Grows IN Presence With \$39M Buy

The Toronto-based company expanded its footprint in the city to 1,829 units with the acquisition of two apartment communities in the Washington West submarket.



### Berkadia Arranges IN Community Sale

Managing Director Alex Blagojevich and Director Chris Bruzas of Berkadia completed the sale on behalf of both the buyer and the seller.



### JVM Completes Indianapolis Reno

The community underwent major renovations, including a new pet-washing station, an upgraded fitness center, a coworking lounge, a redesigned clubhouse and new furniture for the pool.

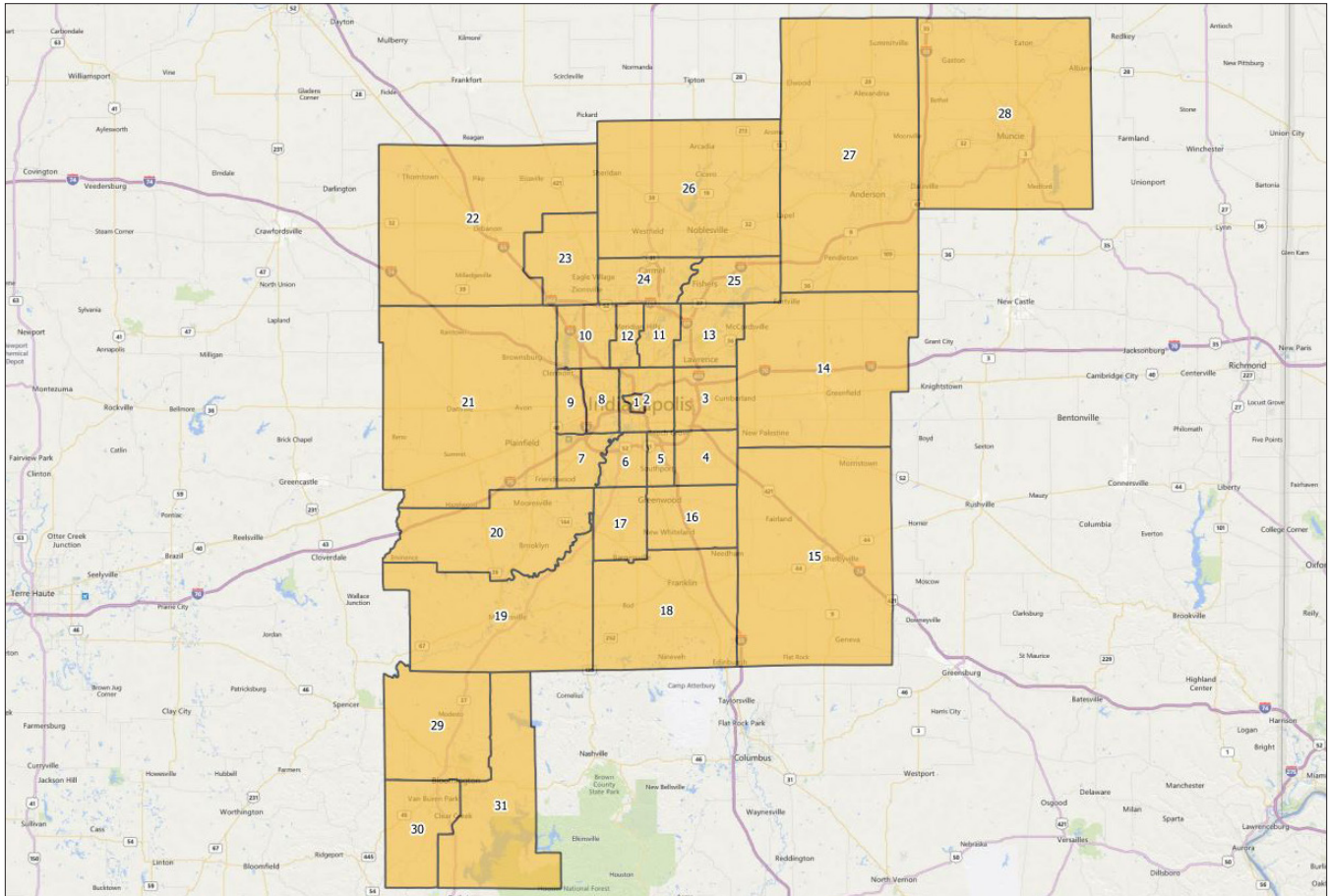


### Greystone Secures \$32M Refi for IN Property

The 304-unit pet-friendly residence is situated close to Metropolis Mall and various other shopping, dining and entertainment venues.



## 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

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## 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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