



Yardi® Matrix

Indianapolis Expands

Multifamily Report Fall 2019

Government Leads Employment Gains

Investors Focus on Value-Add Plays

Rent Growth Outpaces National Average

Market Analysis

Fall 2019

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Household Creation Fuels Demand

Spurred by robust population growth and household creation, Indianapolis' rental demand is keeping up with supply. Rents rose 4.1% year-over-year as of October, outpacing the 3.2% national rate, while occupancy in stabilized assets was almost flat over 12 months, at 94.4% as of September.

Government led job growth, with the addition of 6,300 positions. Education and health services gained 4,100 jobs, fed by a flurry of projects. Upcoming developments include the \$389 million Indiana University health center in Bloomington and a \$130 million orthopedic hospital in Carmel. Construction hiring has received a boost from new infrastructure and school projects. Manufacturing will also flourish, thanks in part to Eli Lilly and Co.'s \$400 million investment at the Lilly Technology Center, which is expected to create 100 highly skilled jobs.

Multifamily investors seeking higher acquisition yields than those in primary markets targeted Class B and C assets, pushing the average price per unit to \$79,690, a cycle high but well below the \$162,889 national average. Developers have been active in the downtown area, but have also focused on Westfield–Noblesville and Carmel. Deliveries totaled 2,260 units in 2019 through October, while another 4,646 units were underway. Absorption is expected to keep up, sustained by favorable demographic trends.

Recent Indianapolis Transactions

Copper Chase at Stones Crossing



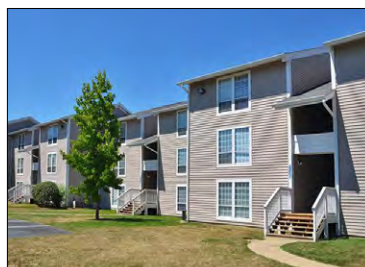
City: Greenwood, Ind.
Buyer: Legacy Real Estate Development
Purchase Price: \$40 MM
Price per Unit: \$133,446

Southport Crossing



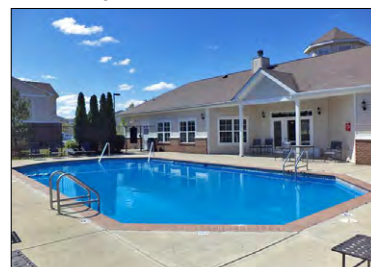
City: Indianapolis
Buyer: Besyata Investment Group
Purchase Price: \$33 MM
Price per Unit: \$101,992

Astoria Park



City: Indianapolis
Buyer: Besyata Investment Group
Purchase Price: \$33 MM
Price per Unit: \$69,787

Echo Ridge

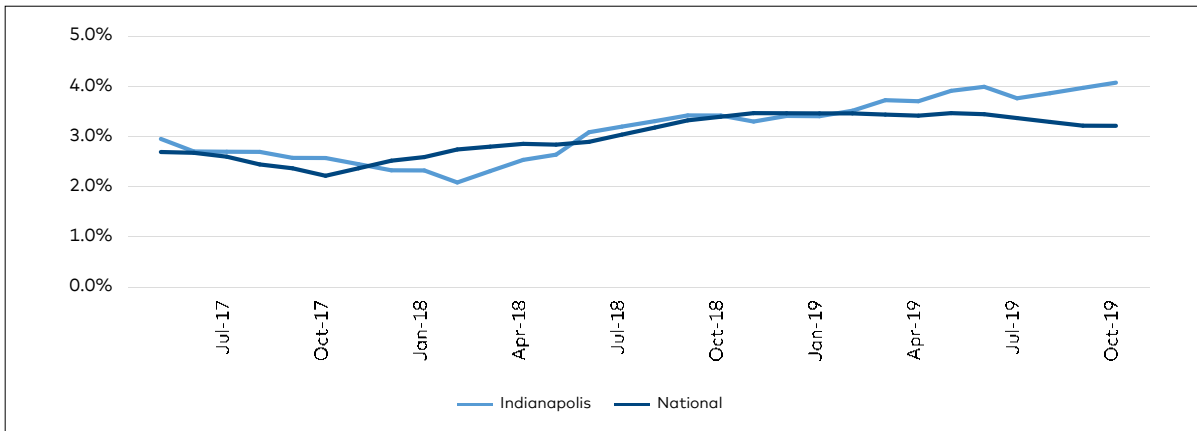


City: Indianapolis
Buyer: Hamilton Point Investments
Purchase Price: \$20 MM
Price per Unit: \$98,317

Rent Trends

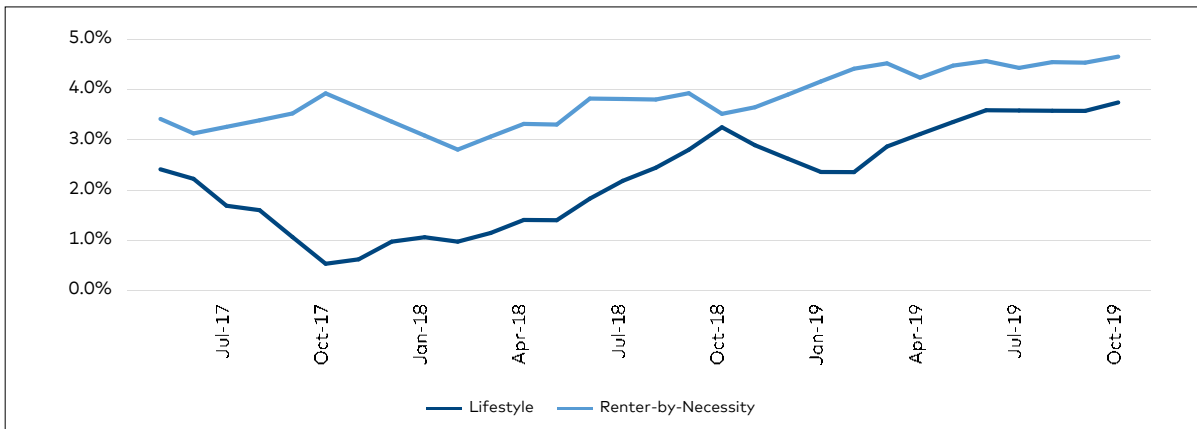
- Indianapolis rents rose 4.1% year-over-year through October, outpacing the 3.2% national rate. The metro's average rent stood at \$944, well below the \$1,476 national figure. Despite the delivery of 1,840 units in 2018 and another 2,260 units in the first 10 months of 2019, occupancy in stabilized properties remained in a tight band, at 94.4% as of September, dropping just 10 basis points over 12 months.
- Rents in the working-class Renter-by-Necessity segment rose 4.7% to \$832, while Lifestyle rates increased 3.7% to \$1,220. Household creation, steady employment growth and above-trend population gains are driving rental demand in Indianapolis, especially in walkable, live-work-play developments. In 2018, net in-migration accounted for much of the 1.1% uptick in the metro's population, bringing the share of millennials to nearly 22% of the total number of residents.
- Suburban submarkets recorded some of the highest rent hikes, including Greenwood–East (7.7% to \$868), Indianapolis–Decatur (7.3% to \$938), Indianapolis–Lawrence (6.6% to \$838), Greenwood–West (6.3% to \$992) and Westfield–Noblesville (6.2% to \$1,073). Rents in Muncie, which draws many in-state movers, dropped 1.0% to \$875. Indianapolis–Downtown (up 0.8% to \$1,432) remained the metro's priciest submarket, followed by Carmel (3.1% to \$1,209), Bloomington–North (4.1% to \$1,187), Fishers (4.8% to \$1,150) and Zionsville (3.1% to \$1,148).

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)

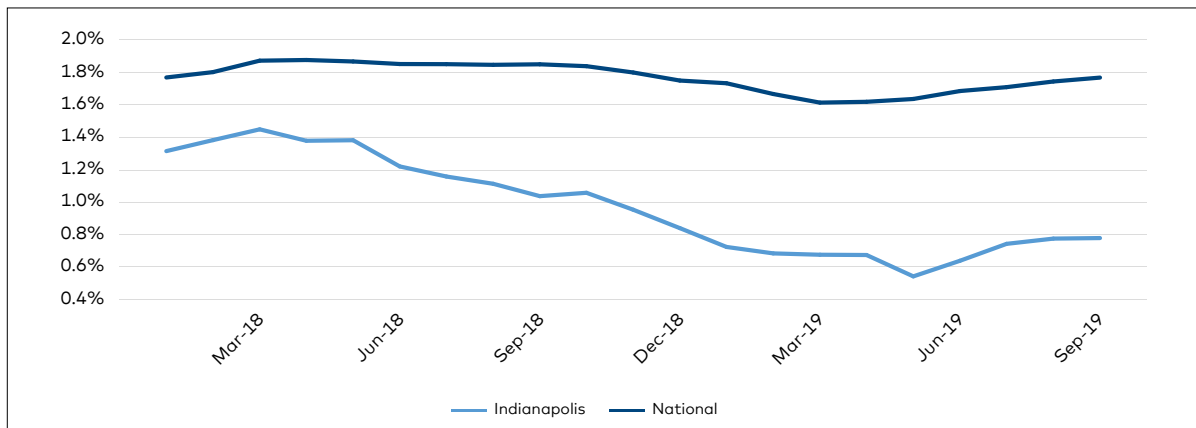


Source: YardiMatrix

Economic Snapshot

- Indianapolis added 11,400 jobs in the 12 months ending in September, a 0.8% increase that trailed the 1.8% national rate. The metro's unemployment rate stood at 3.0% as of August, below the 3.7% national average.
- Government led growth, with the addition of 6,300 jobs. Education and health services gained 4,100 positions, spurred by a health-care construction boom initiated by universities, health systems and regional hospitals. In October, Indiana University celebrated the topping out of its \$389 million IU Health Regional Academic Health Center in Bloomington. The center will provide a new hospital and health sciences, education and research facilities. Franciscan Health is also planning an orthopedic hospital and medical office building in Carmel, with an estimated cost of \$130 million.
- Construction gained 3,200 jobs, boosted by new infrastructure projects including the \$79 million conversion of 27 miles of State Road 37 to Interstate 69, from Martinsville to Indianapolis; and \$63 million in additions and renovations to the Eastwood and Westlane middle schools in Washington Township. We expect the manufacturing sector (1,500 jobs) to expand further, in part due to Eli Lilly and Co., which is investing \$400 million in its manufacturing facilities at the Lilly Technology Center campus, which will create 100 highly skilled jobs.

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	%
90	Government	182	15.0%	6,300	3.6%
65	Education and Health Services	185	15.2%	4,100	2.3%
15	Mining, Logging and Construction	61	5.0%	3,200	5.5%
30	Manufacturing	107	8.8%	1,500	1.4%
40	Trade, Transportation and Utilities	245	20.1%	100	0.0%
70	Leisure and Hospitality	124	10.2%	100	0.1%
50	Information	14	1.2%	-600	-4.1%
80	Other Services	49	4.0%	-900	-1.8%
55	Financial Activities	73	6.0%	-1,200	-1.6%
60	Professional and Business Services	178	14.6%	-1,200	-0.7%

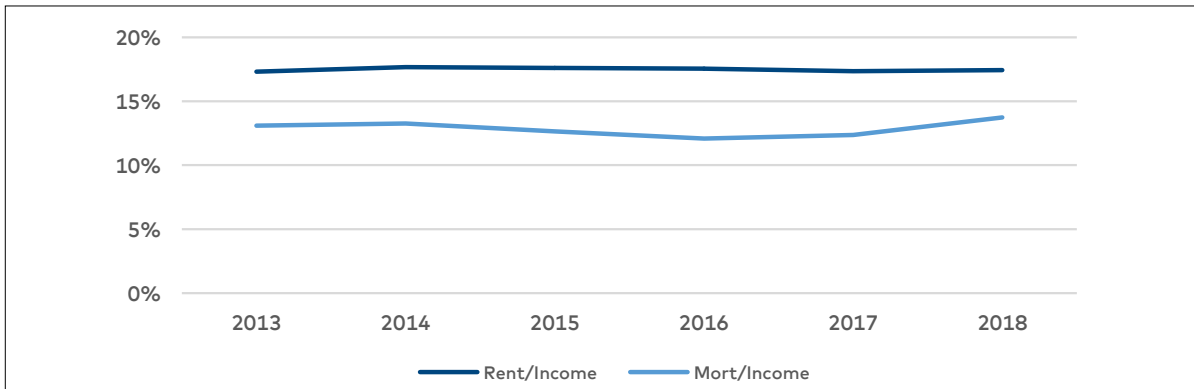
Sources: YardiMatrix, Bureau of Labor Statistics

Demographics

Affordability

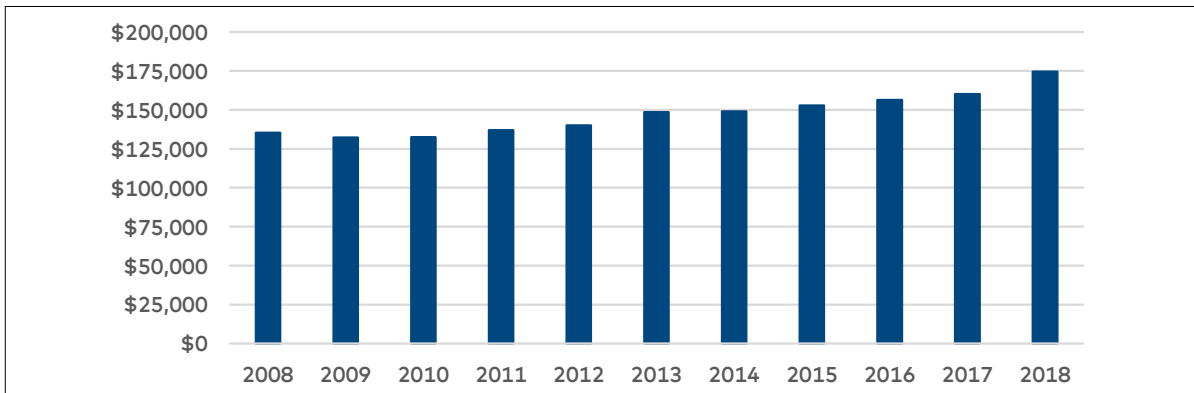
- The median home price in Indianapolis rose to a cycle peak of \$174,481 in 2018, up 8.9% since 2017 and 32% above the 2009 price. The average mortgage payment accounted for 14% of the area median income, while the average rent equated to 17%.
- Despite a shortage of lower-quality homes, the metro's housing sector remains healthy and affordable to residents coming from other large MSAs. In recent years, the greatest number of out-of-state movers to Indianapolis came from Chicago, where the average rent stood at \$1,557 as of October, while the median home price in 2018 was \$235,080.

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 gained 21,980 residents in 2018, for a 1.1% increase, and a rate above the 0.6% national average.
- Between 2014 and 2018, the metro's population rose by 77,887 residents, representing a 4.0% increase.

Indianapolis vs. National Population

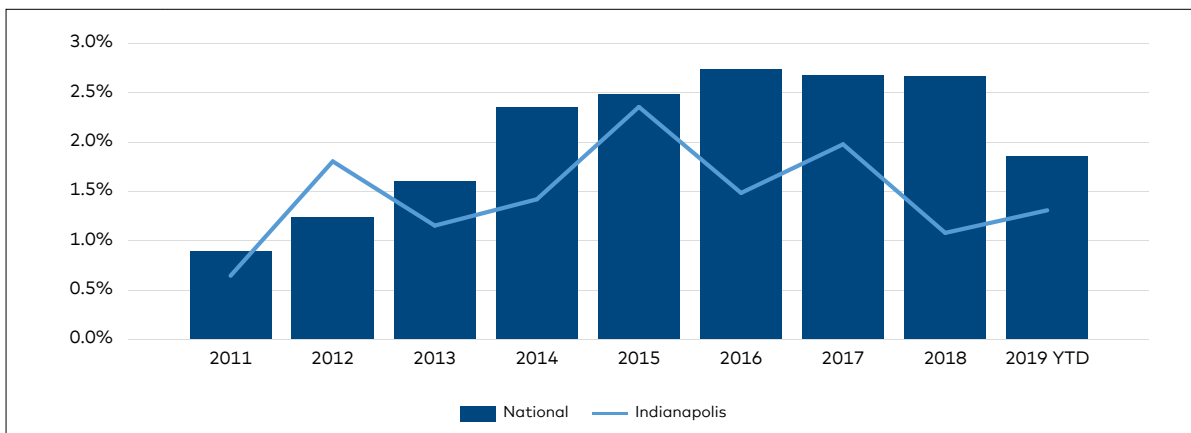
	2014	2015	2016	2017	2018
National	318,386,421	320,742,673	323,071,342	325,147,121	327,167,434
Indianapolis Metro	1,970,816	1,985,844	2,005,404	2,026,723	2,048,703

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

Supply

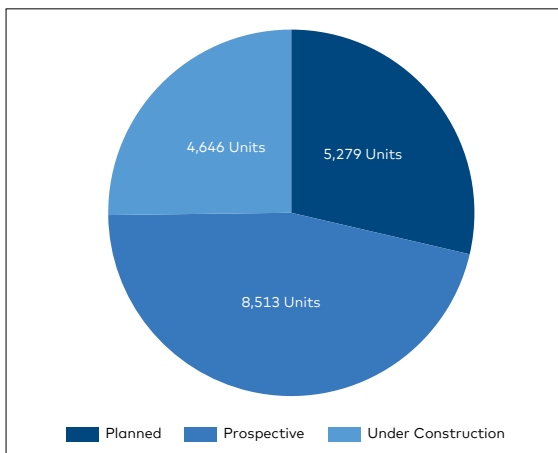
- More than 4,600 units were underway in Indianapolis as of October, one-third of which are situated in Opportunity Zones. Most of the new projects cater to Lifestyle renters. Only two properties, offering a combined 130 units, will be fully affordable. Developers completed 2,260 units in 2019 through October, representing 1.3% of total stock, below the 1.9% national average.
- Multifamily deliveries reached a cycle peak in 2015 when 3,841 units, or 2.4% of stock, came online, and 2019 will produce a similar quantity of new supply. The metro's pipeline as of October also included 13,792 units in the planning and permitting stages. Absorption is expected to keep up, sustained by favorable demographic trends, especially in Hamilton County. Infill live-work-play developments in walkable neighborhoods are the most popular among renters, especially in the downtown area, Broad Ripple and Carmel.
- Developers are active in Indianapolis–Downtown, the metro's priciest multifamily submarket, which had 1,025 units underway as of October, and an average rent of \$1,432. Indianapolis–Center (647 units) comes in second, followed by the Westfield–Noblesville (645 units) suburbs and Carmel (641 units).

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



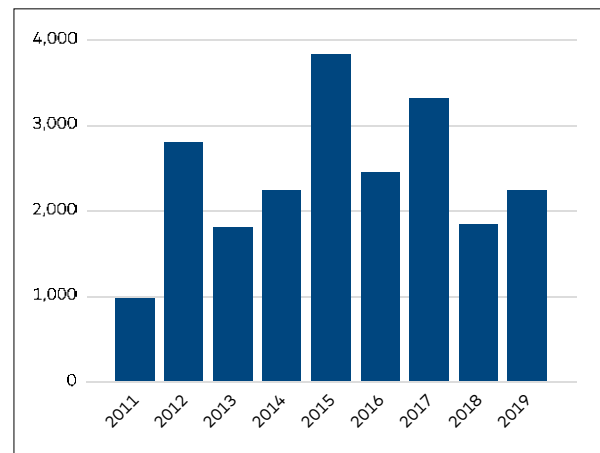
Source: YardiMatrix

Development Pipeline (as of October 2019)



Source: YardiMatrix

Indianapolis Completions (as of October 2019)

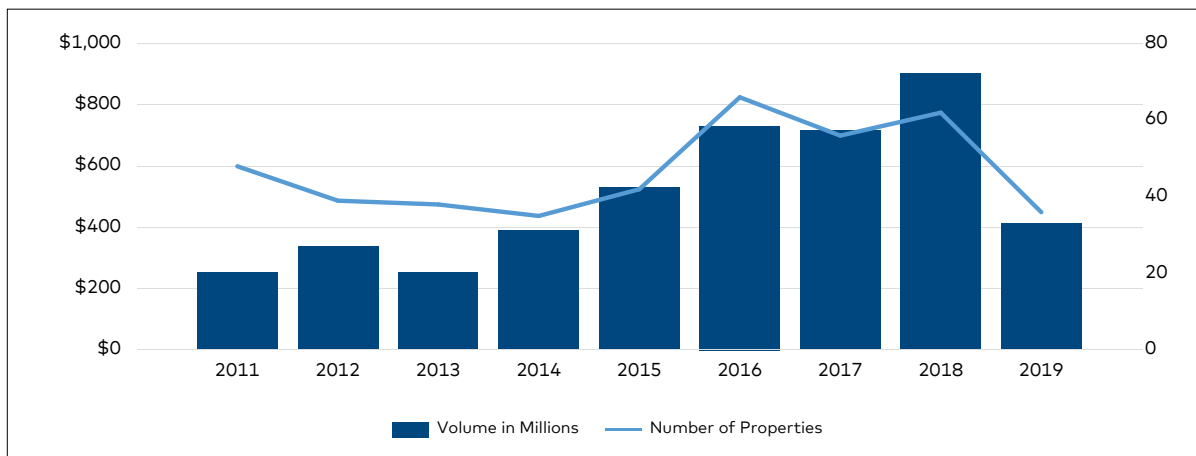


Source: YardiMatrix

Transactions

- Nearly \$411 million in multifamily assets traded in Indianapolis in 2019 through October, at an average price per unit of \$79,690; this marked a new cycle high, but was still well below the \$162,889 national average. Investment sales peaked at \$905 million in 2018.
- Investors seeking higher acquisition yields than those in primary and secondary markets mostly targeted Class B and Class C assets in both infill and suburban locations, where yields can reach as high as 10.0%.
- Legacy Real Estate Development's \$39.5 million acquisition of Copper Chase at Stones Crossing, a 296-unit Class A community in Greenwood, ranked as the metro's largest multifamily deal of 2019 through October. Herman & Kittle Properties sold the property at \$133,446 per unit.

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



Source: YardiMatrix

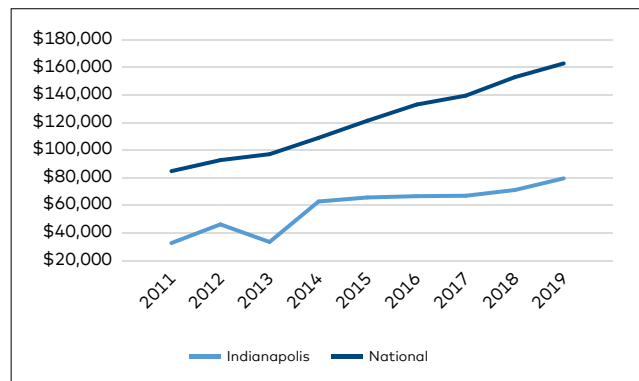
Top Submarkets for Transaction Volume¹

Submarket	Volume (\$MM)
Indianapolis–Washington West	104
Indianapolis–Washington East	74
Indianapolis–Lawrence	74
Indianapolis–Wayne East	70
Indianapolis–Pike	68
Westfield–Noblesville	51
Indianapolis–Perry East	40

Source: YardiMatrix

¹ From November 2018 to October 2019

Indianapolis vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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Suburban Property Sells for \$61M

A BHI Senior Living affiliate acquired the community. Cushman & Wakefield's Allen McMurtry, David Kliewer and Paul Carr assisted the seller in the transaction.



Scenic Housing Lands Fannie Mae Refi

Hunt Real Estate Capital has provided the loan for Sugar Mill Creek Townhomes in Evansville.



Berkadia Arranges Community Sale

Director Chris Bruzas and Senior Managing Director Alex Blagojevich represented the seller, Barrett Asset Management, in the deal.



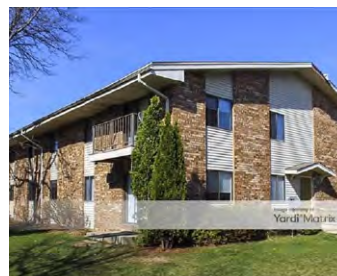
The Annex Group Breaks Ground On Affordable Project

Together with T&H Investment Properties, the company has begun work on Union at Washington, a 51-unit community reserved for low-income residents in Kokomo.



NHI Venture Buys Senior Housing Portfolio for \$128M

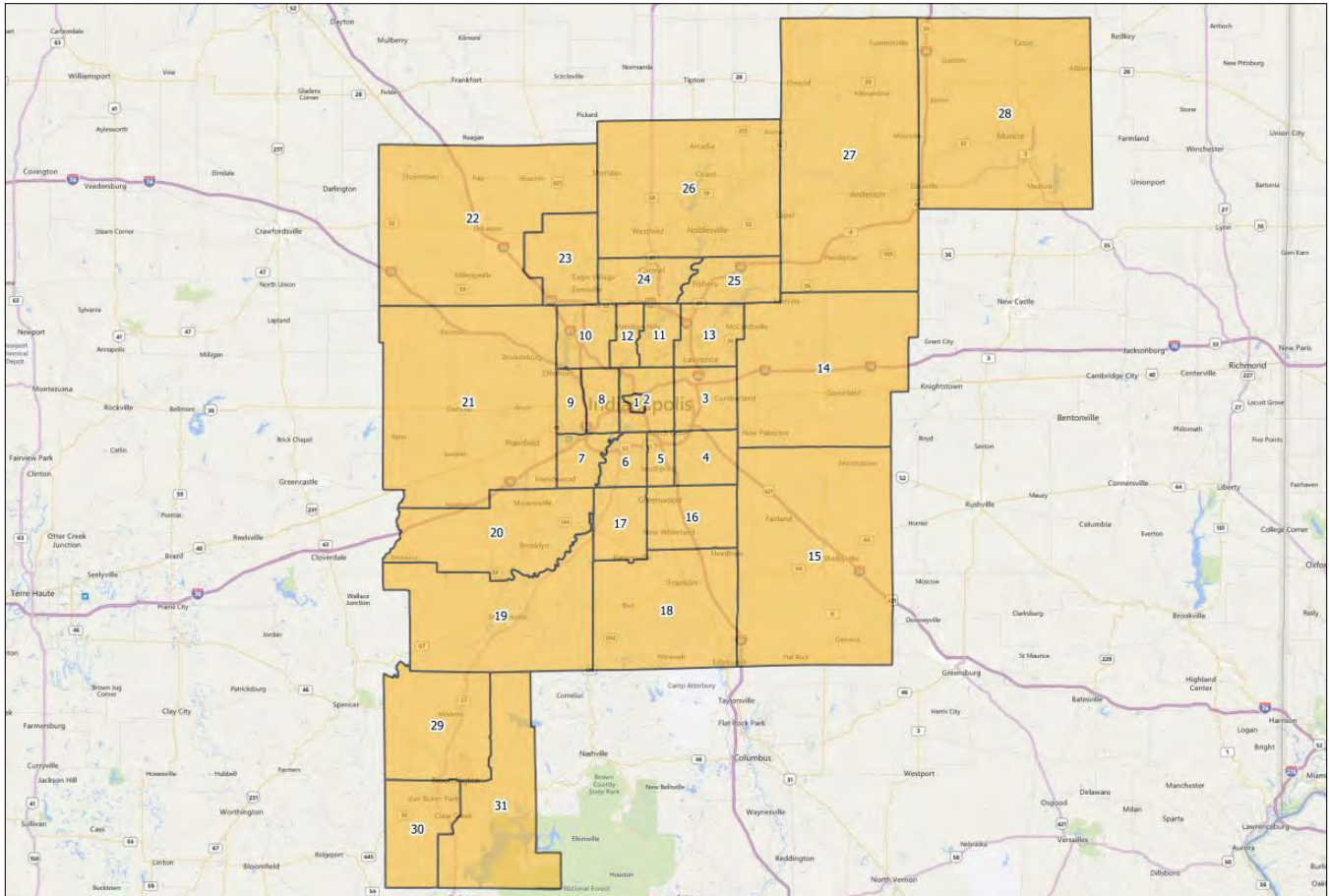
The REIT has acquired six communities across three states, totaling nearly 600 units of independent and assisted living and memory care facilities.



Berkadia Brokers Sale of 261 Units In the Midwest

The company's Chicago investment sales team facilitated two deals comprising 128 units in Milwaukee and a 133-unit property in Indianapolis.

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	Mooreville
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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