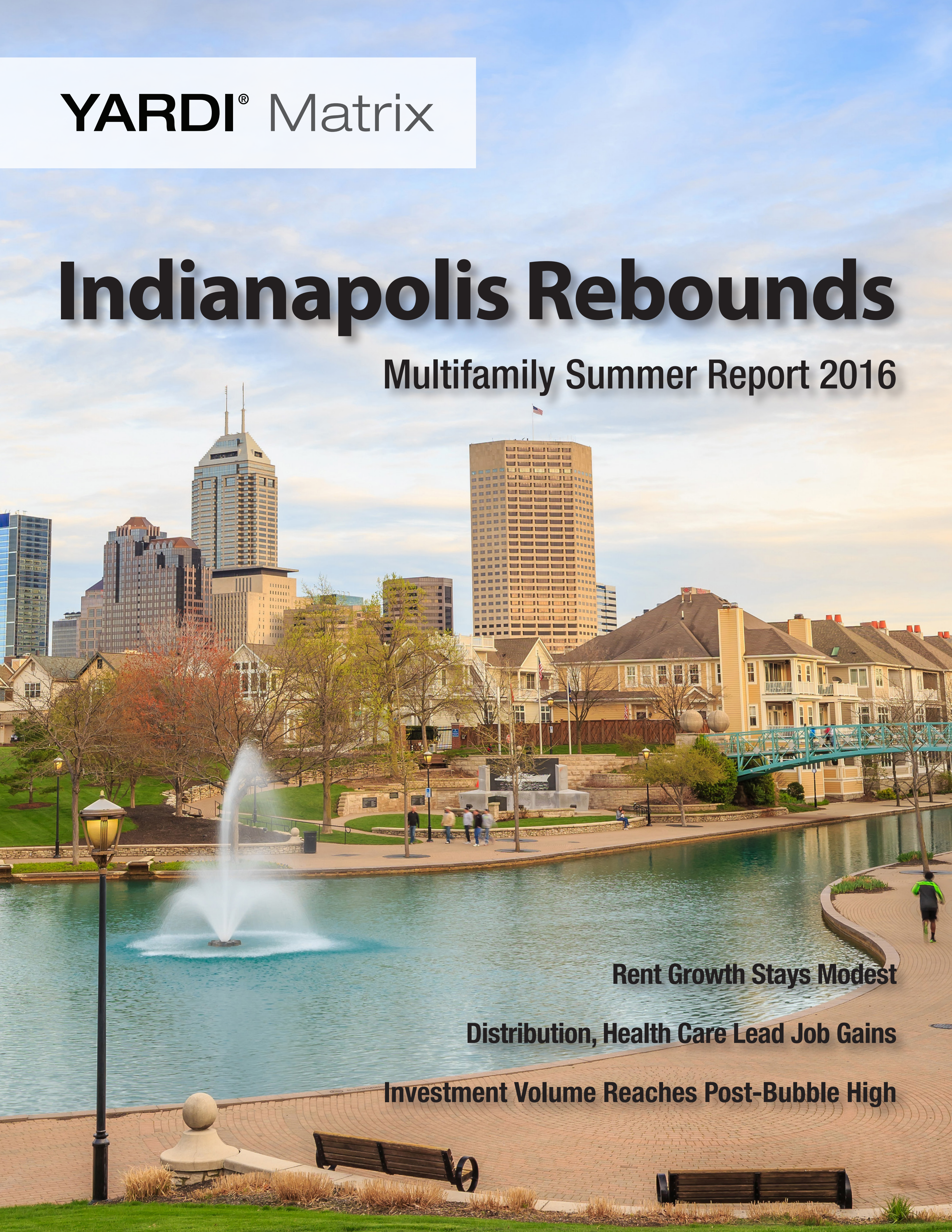
YARDI® Matrix

# Indianapolis Rebounds

## Multifamily Summer Report 2016



**Rent Growth Stays Modest**

**Distribution, Health Care Lead Job Gains**

**Investment Volume Reaches Post-Bubble High**

## Market Analysis

Summer 2016

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# Industrious Indianapolis' Road to Recovery

Benefiting from metro Indianapolis' strong employment gains, rising wages and relatively low cost of living, the local multifamily market is picking up the pace. Though the metro's job and rent growth trail the nation, sectors such as hospitality, health care, trade and transportation are adding jobs and fueling demand for apartments.

Indianapolis is a major transportation and distribution center for the Midwest, adding more than 10,000 jobs in this sector alone over the past year. Home to the nation's second-largest FedEx Express hub, it offers a central location that appeals to developers and investors alike. The metro is within a relatively short driving distance of much of the U.S. population, making it essential to companies such as Amazon, Walmart, Newegg or Ozburn-Hessey Logistics, which are expanding their presence in the region. Leisure and hospitality is another economic driver, with projects such as the $650 million American Place casino and retail complex proposed by Full House Resorts currently in the works. Numerous hotels have also sprung up close to the downtown area in the past year.

Multifamily demand is picking up, with a record number of units on tap to come online by the end of the year. However, the market's rent growth rate ranks among the nation's weakest, and our forecast calls for it to remain modest in 2016.

### Recent Indianapolis Transactions

The Village on Spring Mill

City: Carmel, Ind.
Buyer: Cornerstone Holdings
Purchase Price: $50 MM
Price per Unit: $125,000

Oaks of Eagle Creek

City: Pike, Ind.
Buyer: Birge & Held Asset Management
Purchase Price: $48 MM
Price per Unit: $75,949

Carmel Center

City: Carmel, Ind.
Buyer: NTS
Purchase Price: $41 MM
Price per Unit: $128,366

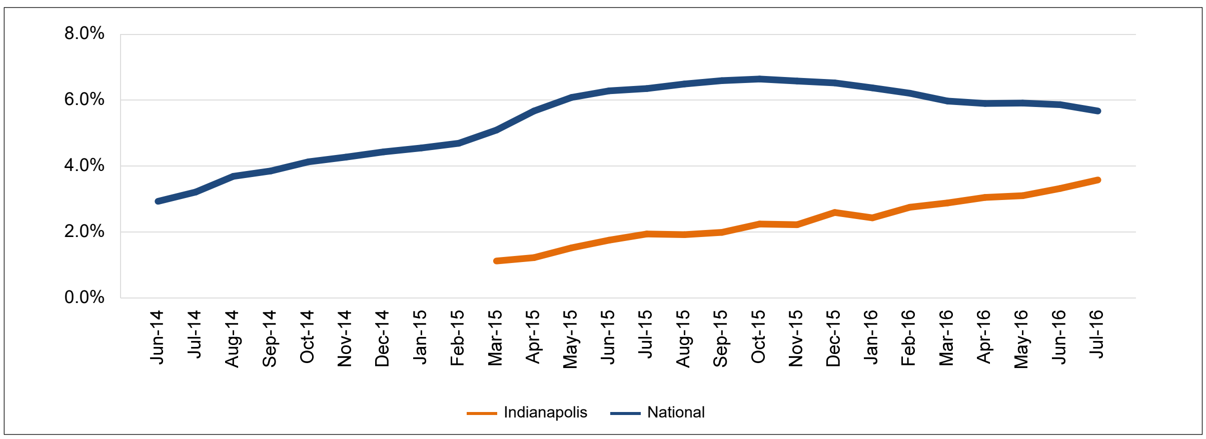
Cumberland Pointe

City: Noblesville, Ind.
Buyer: Buckley, Jr., John S.
Purchase Price: $40 MM
Price per Unit: $118,650

## Rent Trends

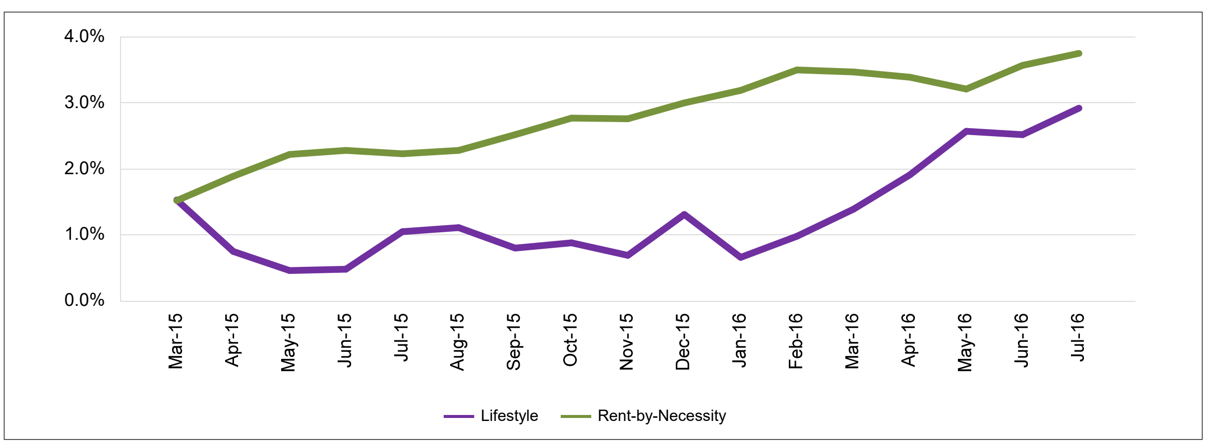
- Rents in Indianapolis grew 3.7% year-over-year through July, trailing the 5.7% national average. Monthly rental rates rest at $811, more than $400 shy of the $1,217 recorded at the national level.
- Rates in the Rent By Necessity segment rose 3.8% year-over-year, up to an average of $734, while rents in the Lifestyle segment grew 2.9% to $1,020. Rental rates in the higher-end Lifestyle segment remain significantly higher than those in the Rent By Necessity segment, driving demand for more affordable, mid-range assets.
- Most of the submarkets that registered the highest rent growth are located outside the city core: Westfield-Noblesville (7%), Indianapolis-Franklin (6.5%), Indianapolis-Lawrence (4.3%), Fishers (4.2%) and Indianapolis-Perry East (4.1%). These submarkets are in high demand among renters due to the large number of parks and nature preserves, large employment centers and a plethora of leisure and entertainment options, including the Klipsch Music Center and the 400-acre Grand Park sports complex.
- Though multifamily demand is picking up, this slow-growth Midwestern market is likely to keep trailing the nation's rent growth rate. We expect rents to expand by 3.5% at year-end 2016.

**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

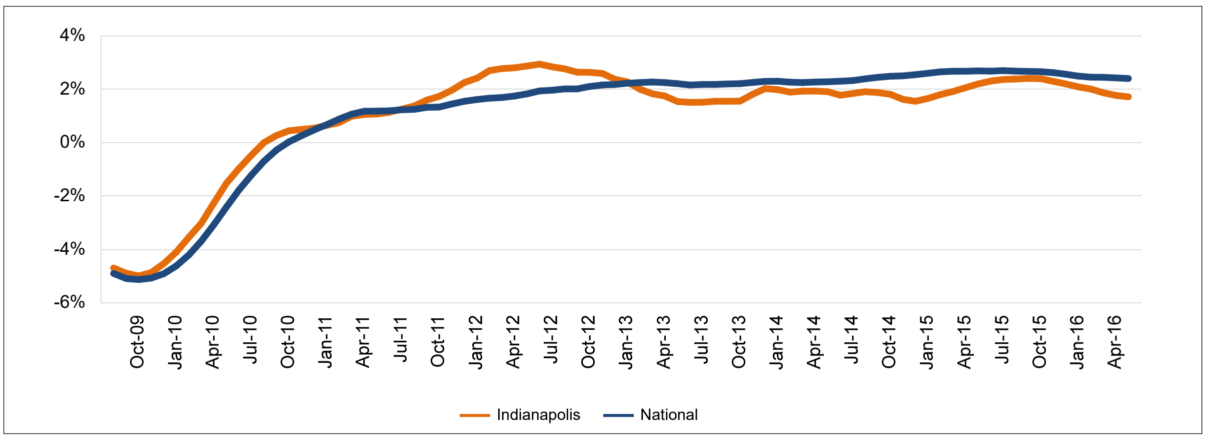
## Economic Snapshot

- Indianapolis added 23,100 jobs during the 12 months ending in May 2016, a 1.7% change year-over-year and below the 2.4% national average. By job category, performance was extremely mixed. The government, professional and business services and information segments lost a combined 8,900 jobs, while other sectors such as trade, education and health care and finance saw significant gains. Meanwhile, the unemployment rate dropped to 4.0%, well below the 4.9% national average.

- Job growth was led by the metro's dominant industry—trade, transportation and utilities—which added 10,500 new jobs. The metro's industrial market is booming, with more than 4.5 million square feet of space either coming online over the past year or currently under construction. New projects are driven by a need for modern facilities, warehouse space for retailers and positive absorption. Companies such as Knight Transportation, Raytheon, HSA Commercial and Telamon are planning to expand or break ground in Indianapolis.

- Major initiatives such as the $1.2 billion Indy Connect transit system—a plan to create a modern network of bus rapid transit lines, bikeways and walkways crisscrossing the metro—are underway with an eye toward spurring growth. The state is also moving forward with its $400 million "Major Moves 2020" construction program, which entails the expansion of four-lane interstates across Indiana.

### 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 | % |
| 40 | Trade, Transportation, and Utilities | 243 | 21.0% | 10,500 | 4.5% |
| 65 | Education and Health Services | 169 | 14.6% | 5,800 | 3.5% |
| 55 | Financial Activities | 71 | 6.1% | 3,200 | 4.7% |
| 15 | Mining, Logging, and Construction | 52 | 4.5% | 1,400 | 2.8% |
| 70 | Leisure and Hospitality | 124 | 10.7% | 1,100 | 0.9% |
| 30 | Manufacturing | 104 | 9.0% | 1,000 | 1.0% |
| 80 | Other Services | 50 | 4.3% | 100 | 0.2% |
| 50 | Information | 17 | 1.5% | -600 | -3.4% |
| 90 | Government | 164 | 14.2% | -2,200 | -1.3% |
| 60 | Professional and Business Services | 162 | 14.0% | -6,100 | -3.6% |

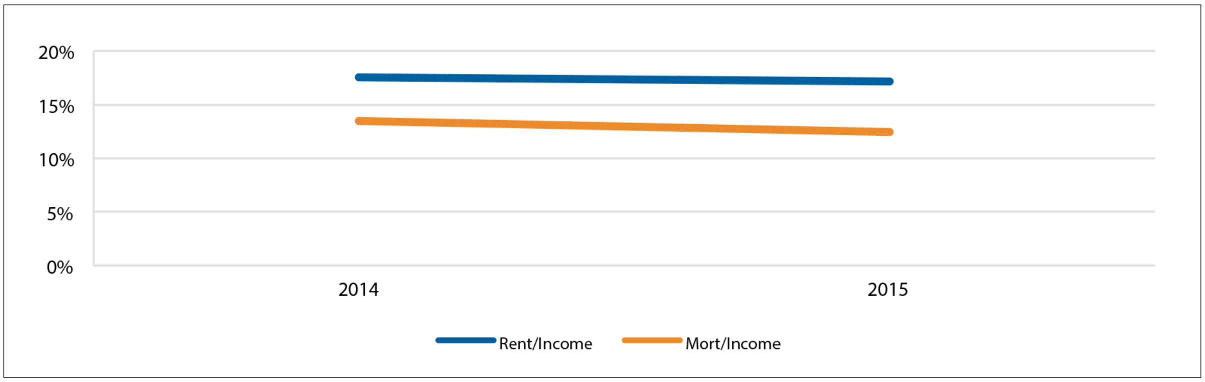
Sources: YardiMatrix, Bureau of Labor Statistics

## Demographics

### Affordability

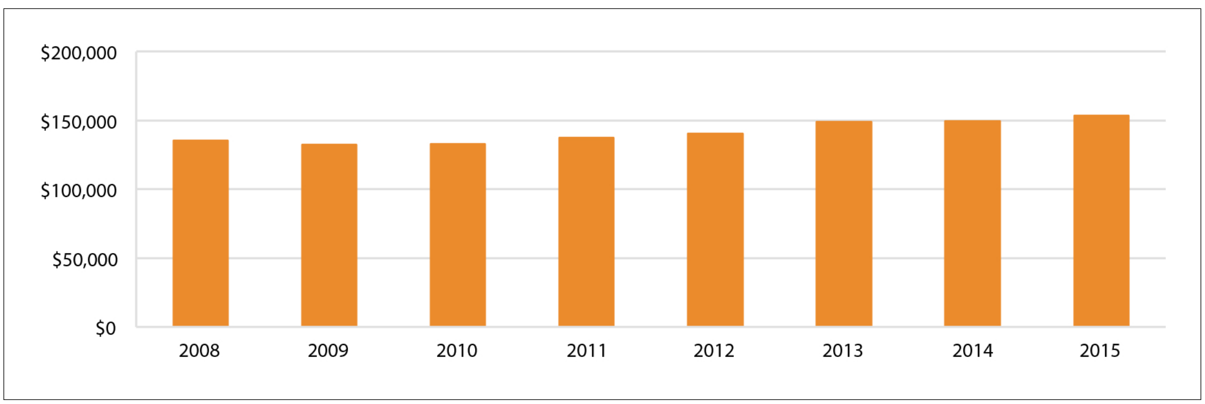
- Median home prices in Indianapolis have been steadily increasing over the past eight years, reaching $153,268 in 2015, the highest point in the current cycle. Average rents climbed to $785, comprising 17% of income, while mortgages equaled 12%.
- Indianapolis remains one of the most affordable metros in the U.S., although home values and rents are rising at rates above the growth in household 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

- The metro's population grew 4.1% between 2011 and 2015, well above the 3% national rate.
- Indianapolis added more than 16,900 new residents in 2015, a 0.9% increase.

**Indianapolis vs. National Population**

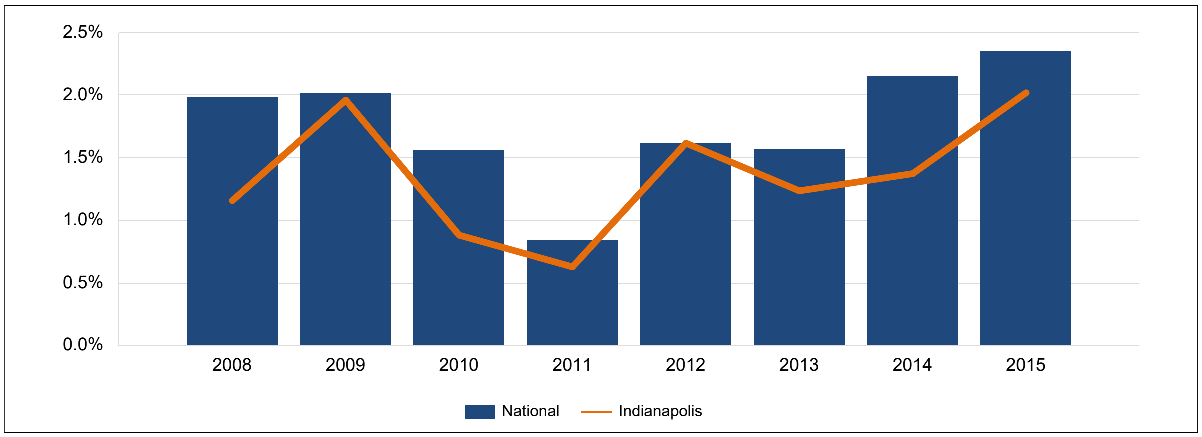
| | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|
| National | 311,718,857 | 314,102,623 | 316,427,395 | 318,907,401 | 321,418,820 |
| Indianapolis-Carmel-Anderson, IN Metropolitan Statistical Area | 1,910,355 | 1,929,052 | 1,953,277 | 1,971,861 | 1,988,817 |

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

## Supply

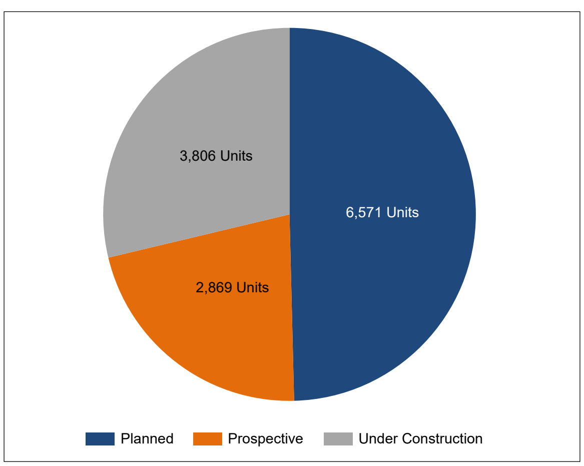
- Some 3,100 units came online during the past year in the metro, the most in the current cycle. The new supply added a modest 1.9% to stock, below the 2.4% national average.
- More than 13,200 multifamily units are currently in the pipeline, with 3,800 already under construction and 6,500 in the planning stages. The boost in construction is fueled by strong demand for apartments in the downtown area and a 94.1% occupancy rate for stabilized properties.
- Development is mostly concentrated in core submarkets located in or around Downtown Indianapolis, a desirable destination for young professionals or baby boomers looking to live near retail, entertainment and employment centers. The submarkets with the most units underway are Westfield-Noblesville (1,001 units), Indianapolis-Downtown (942), Carmel (487) and Indianapolis-Center (457).
- Some of the largest projects currently under development in the metro include the 368-unit Flats at 146 in Westfield-Noblesville, the 334-unit Millstone of Noblesville and the 292-unit 360 Market Square in Downtown Indianapolis—all scheduled for completion in 2017.

### Indianapolis vs. National Completions as a Percentage of Total Stock (as of July 2016)



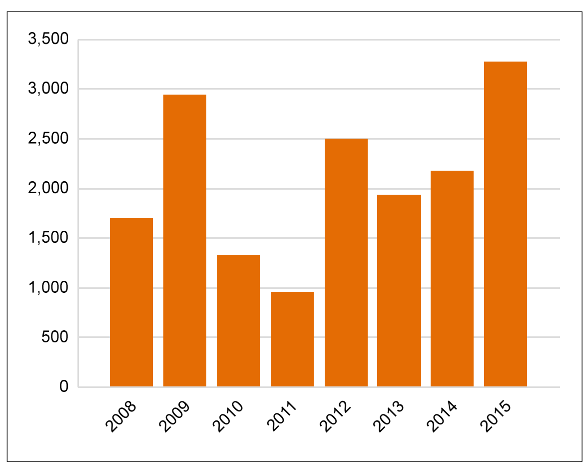

Source: YardiMatrix

### Development Pipeline (as of July 2016)




Source: YardiMatrix

### Indianapolis Completions (as of July 2016)

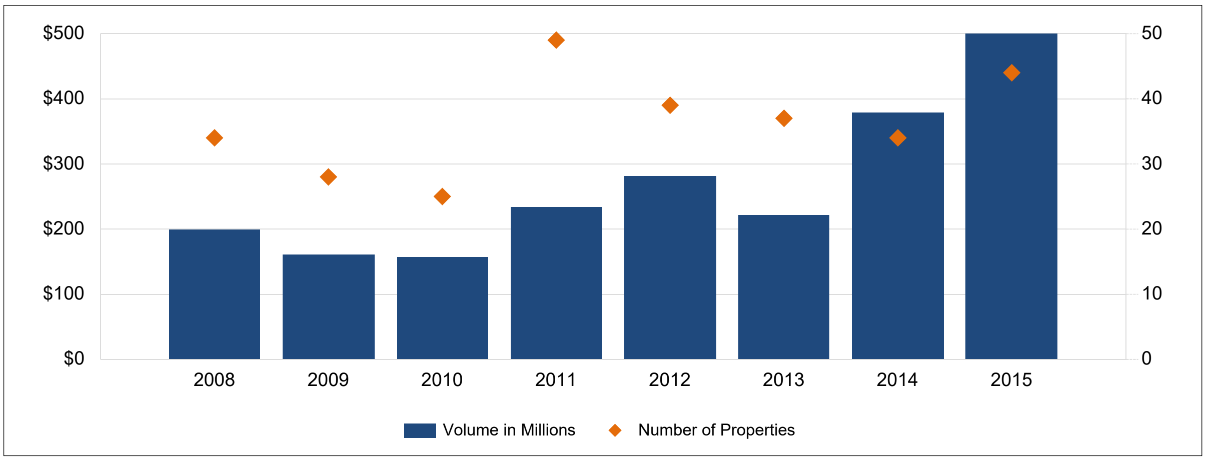



Source: YardiMatrix

## Transctions

- Some $500 million of properties changed hands in Indianapolis in 2015, the highest number in the current cycle. Out-of-state investors are drawn to the metro by the higher yields compared to primary markets, and its growth potential as an industrial and business hub for the Midwest.
- The average price per unit reached $72,666 in 2015, another all-time high for the metro, yet well below the national average of $117,256. Yields for stabilized properties are in the mid-6% range, which is the lowest point since 2007, yet still 100-200 basis points higher than Class A properties in more liquid markets.
- The largest transaction in the past year was the $50 million sale of The Village on Spring Mill, a 400-unit apartment community in Westfield-Noblesville that traded at $125,000 per unit. The sale price was 36% higher than the last time the asset traded, back in 2006.

### Indianapolis Sales Volume and Number of Properties Sold (as of July 2016)




Source: YardiMatrix

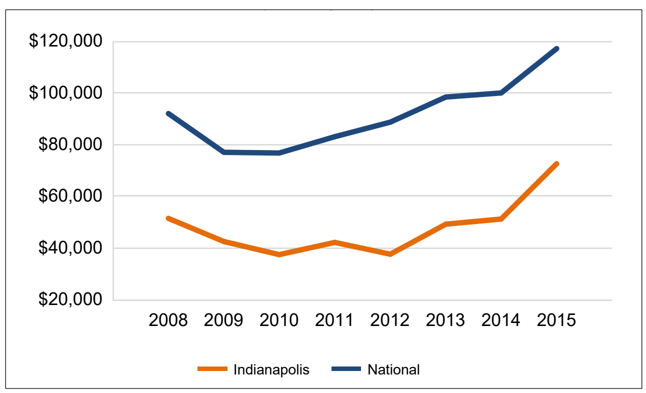
### Top Submarkets for Transaction Volume[1]

| Submarket | Volume ($MM) |
|---|---|
| Westfield-Noblesville | 117 |
| Indianapolis-Pike | 111 |
| Fishers | 49 |
| Indianapolis-Wash. east | 45 |
| Carmel | 41 |
| Indianapolis-Wayne east | 26 |
| Indianapolis-Warren | 25 |
| Indianapolis-Perry east | 23 |

Source: YardiMatrix

[1] From August 2015 to July 2016

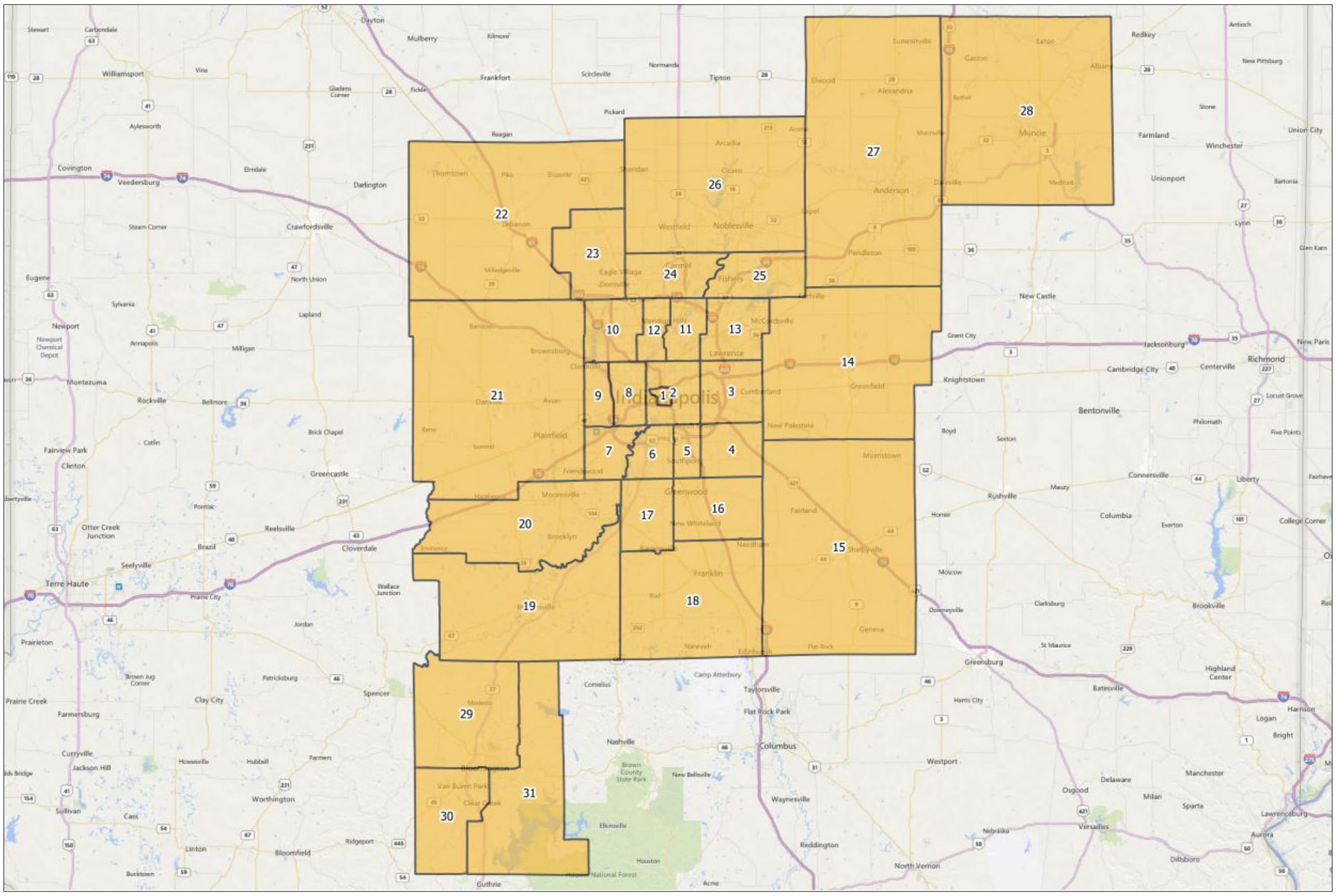
### Indianapolis vs. National Sales Price per Unit




Source: YardiMatrix

Indianapolis photo by benkrut/iStockphoto.com

## Indianapolis Submarkets




| Area # | Submarket |
|---|---|
| 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 |
| 17 | Greenwood - West |
| 18 | Franklin |
| 19 | Martinsville |

| Area # | Submarket |
|---|---|
| 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.