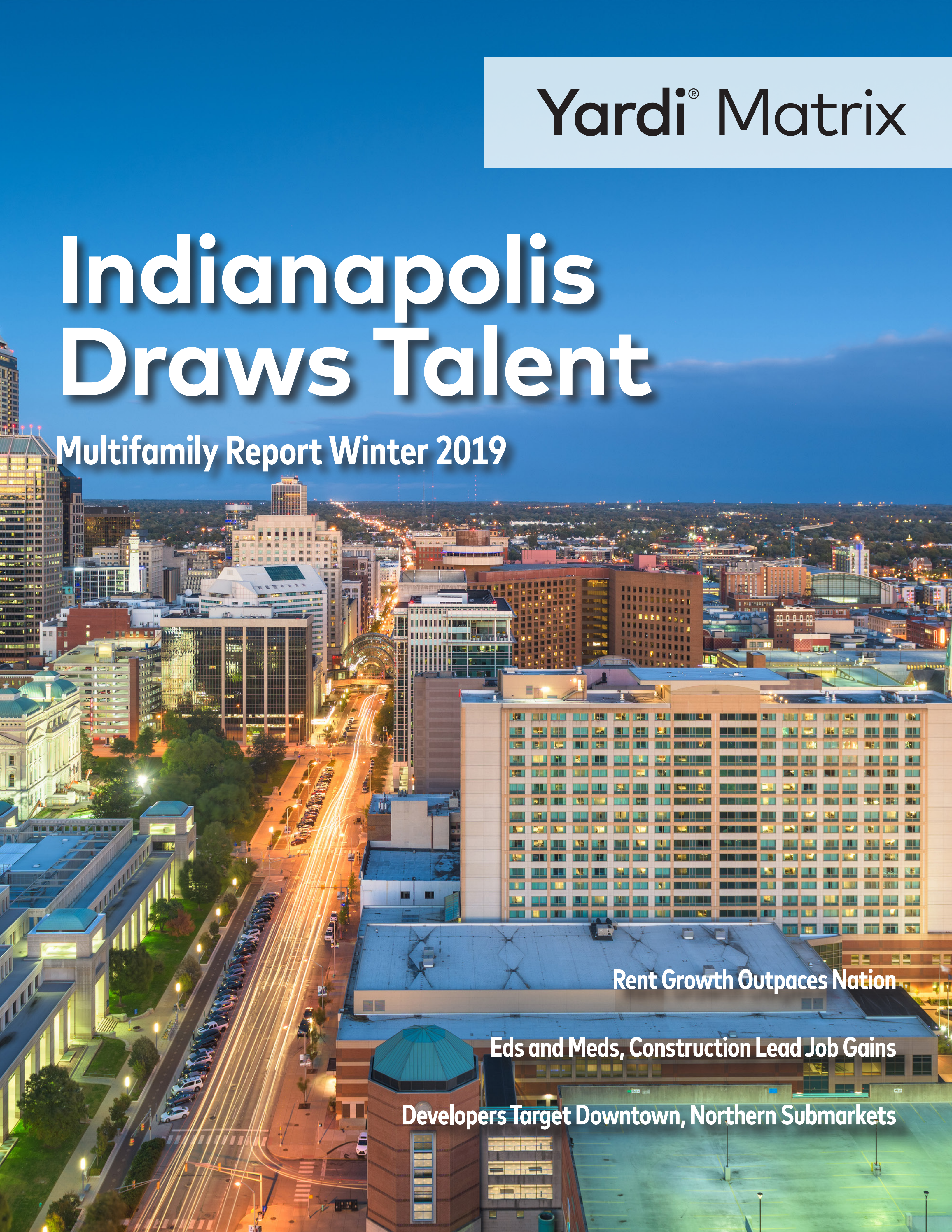
Yardi® Matrix

Indianapolis Draws Talent

Multifamily Report Winter 2019



Rent Growth Outpaces Nation

Eds and Meds, Construction Lead Job Gains

Developers Target Downtown, Northern Submarkets

Market Analysis

Winter 2019

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Demand Keeps Up With Supply

Multifamily demand is strong in Indianapolis, where favorable employment and demographic trends are putting upward pressure on occupancy and giving property owners leverage to raise rents.

Education and health services led growth in the 12 months ending in September (5,700 jobs), boosted by the region's health-care building boom, which is also generating construction jobs. Projects underway include the $389 million Indiana University Health Regional Academic Center, which is set to bring a new hospital to Bloomington, along with academic and research facilities. In November, Central Indiana Orthopedics, in partnership with the city of Fishers, broke ground on the first medical office building within the 37-acre MedTech Park campus, while IU Health is planning a $1 billion consolidated campus downtown. The tech sector is also growing, with Salesforce, Infosys and Appirio attracting talent: Between 2014 and 2017, Indianapolis added 10,000 tech jobs, bringing the total to more than 31,100.

Multifamily investors mainly targeted value-add assets, with acquisition yields going as high as 10.0% for these properties. Meanwhile, developers focused on both downtown and rapidly growing suburbs of Hamilton County including Carmel, Fishers and Westfield–Noblesville, which have seen the greatest population hikes in Indiana between 2010 and 2017.

Recent Indianapolis Transactions

The Cottages of Fall Creek

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

The Park on Morton

City: Bloomington, Ind.
Buyer: The Preiss Co.
Purchase Price: $56 MM
Price per Unit: $365,132

Overlook at Valley Ridge

City: Indianapolis
Buyer: QVT Mount Auburn Capital
Purchase Price: $39 MM
Price per Unit: $120,370

Summerwood on Towne Line

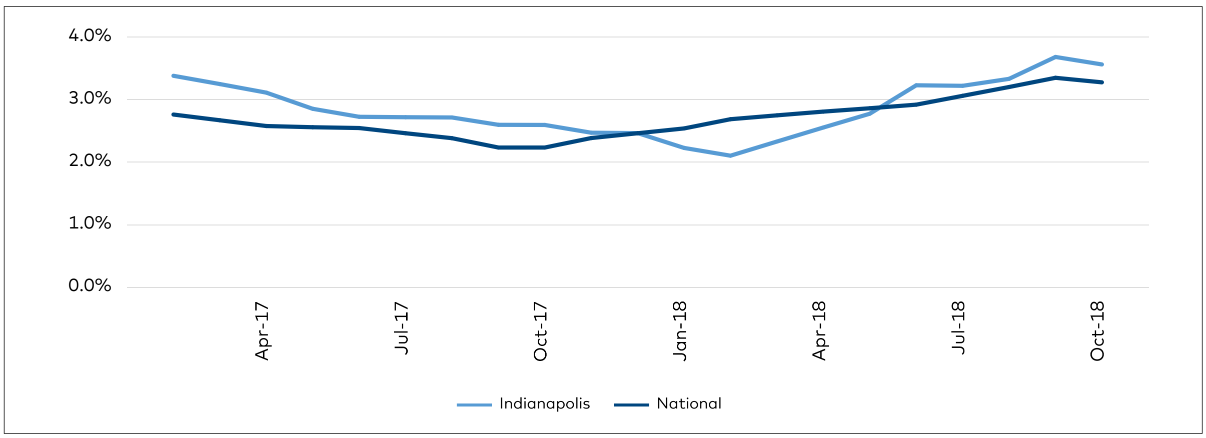
City: Indianapolis
Buyer: QVT Mount Auburn Capital
Purchase Price: $33 MM
Price per Unit: $108,879

On the cover: Photo by Sean Pavone/iStockphoto.com

Rent Trends

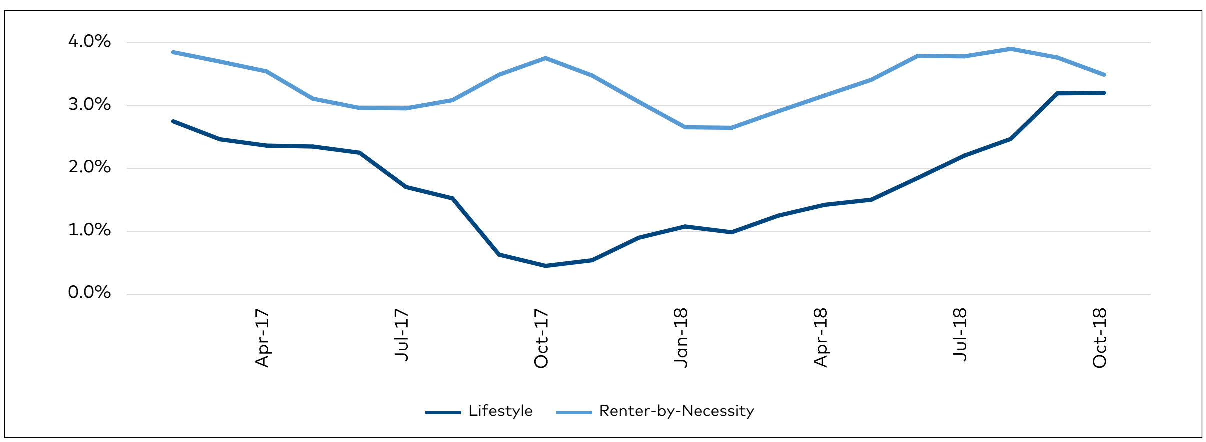
- Rents in Indianapolis rose 3.6% year-over-year through October, outpacing the 3.3% national rate. The metro's average rent stood at $902, below the $1,420 U.S. figure. Despite the delivery of more than 3,200 units in 2017 and another 1,177 units in 2018 through October, occupancy in stabilized properties increased, standing at 94.6% as of September, up 20 basis points year-over-year.
- Rents in the working-class Renter-by-Necessity segment rose 3.5% to $800, while Lifestyle rates went up 3.2%, to $1,160. Demand continues to drive rent growth, bolstered by employment gains and favorable demographic trends, including migrant Millennials drawn to the region's STEM-related jobs. Between 2010 and 2017, the metro's population increase due to migration exceeded 61,100 residents, according to BLS data, which also showed that 12 of the 15 fastest-growing cities in Indiana with a population of at least 5,000 residents were suburbs of Indianapolis.
- Rent growth was highest in suburban areas, with Shelbyville topping the list (up 8.2% to $743), followed by Mooresville (up 7.3% to $717), Lebanon (up 6.7% to $815), Bloomington–West (up 6.1% to $1,027) and Greenwood–West (up 5.8% to $952). Downtown commanded the highest rates, up 1.4% year-over-year to $1,412, followed by Carmel (up 4.2% to $1,165), Zionsville (up 3.2% to $1,148), Fishers (up 3.1% to $1,085), Bloomington–North (up 4.6% to 1,097) and Bloomington–East (up 0.8% to $1,054).

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)

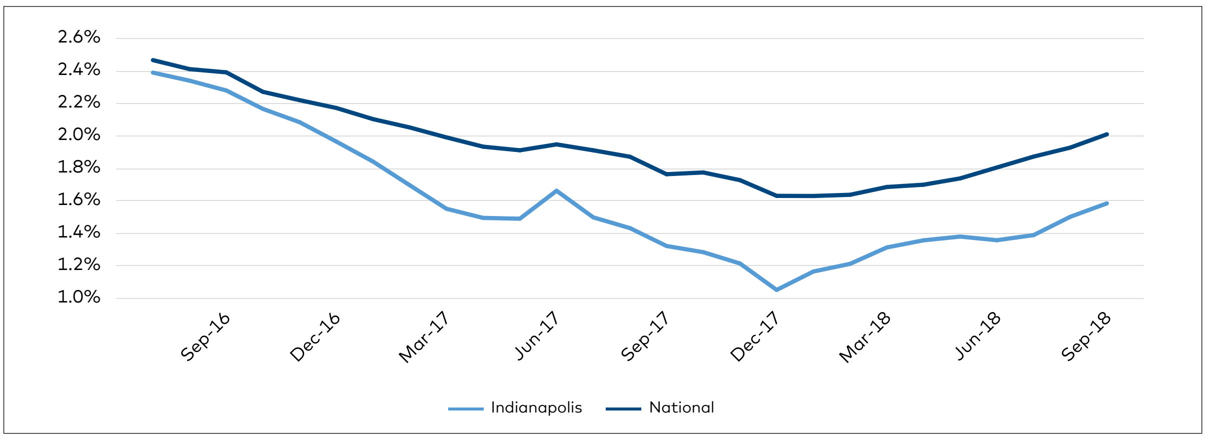


Source: YardiMatrix

Economic Snapshot

- Indianapolis added 23,400 jobs over the 12 months ending in September, a 1.6% year-over-year increase, trailing the 2.0% national average. Following nationwide trends, the unemployment rate declined in 2018, clocking in at 3.5% as of August, below the 3.9% national average.
- Education and health services led growth, adding 5,700 jobs. In January, construction began on the $389 million Indiana University Health Regional Academic Center in Bloomington, which will include a new hospital and academic and research facilities. In November, Central Indiana Orthopedics, in a partnership with the city of Fishers and construction manager Envoy Inc., broke ground on the first medical office building within the 37-acre MedTech Park campus situated near 136th Street and Interstate 69. Upcoming health-care projects include the $1 billion Indiana University Health downtown campus, as well as the $130 million orthopedic center Franciscan Health is planning in Carmel.
- Mining, logging and construction recorded the fastest expansion, up 9.2% with the addition of 5,300 jobs. The metro's building boom also included about 4,300 multifamily units and 568,000 square feet of office space underway as of October. Trade, transportation and utilities added 4,900 jobs, followed by professional and business services (4,700). Salesforce, Infosys and Appirio are attracting tech talent, as are industry programs such as TechPoint's Indy Tech Fellowship and the SportsTech Accelerator.

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	183	15.1%	5,700	3.2%
15	Mining, Logging and Construction	63	5.2%	5,300	9.2%
40	Trade, Transportation and Utilities	248	20.4%	4,900	2.0%
60	Professional and Business Services	181	14.9%	4,700	2.7%
90	Government	175	14.4%	3,200	1.9%
30	Manufacturing	107	8.8%	1,700	1.6%
55	Financial Activities	74	6.1%	1,400	1.9%
80	Other Services	49	4.0%	600	1.2%
50	Information	15	1.2%	-800	-5.0%
70	Leisure and Hospitality	120	9.9%	-3,300	-2.7%

Sources: YardiMatrix, Bureau of Labor Statistics

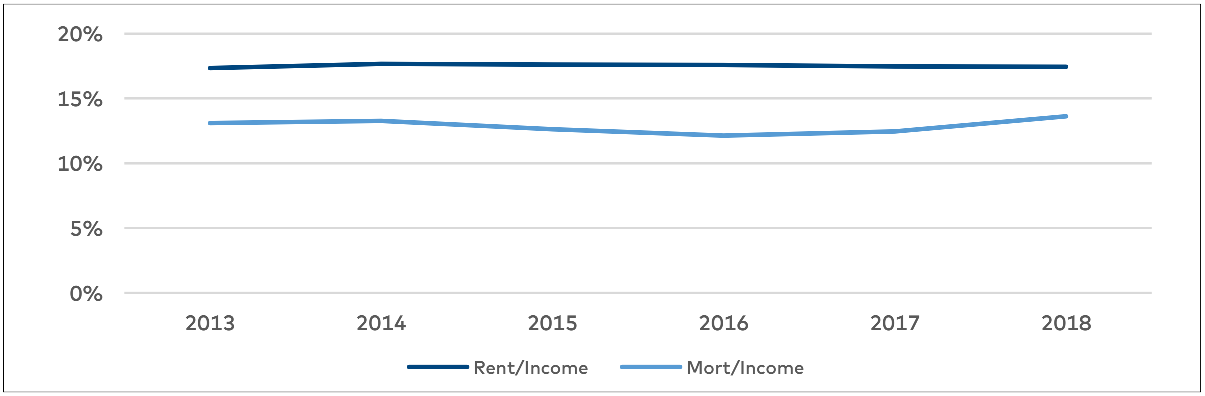
Demographics

Affordability

- The median home price in Indianapolis rose to a cycle peak of $172,435 in the first half of 2018, up 7.6% since 2017 and 30% above the 2009 figure. The average rent accounted for 17% of the area's median income, while the average mortgage payment equated to 14%.

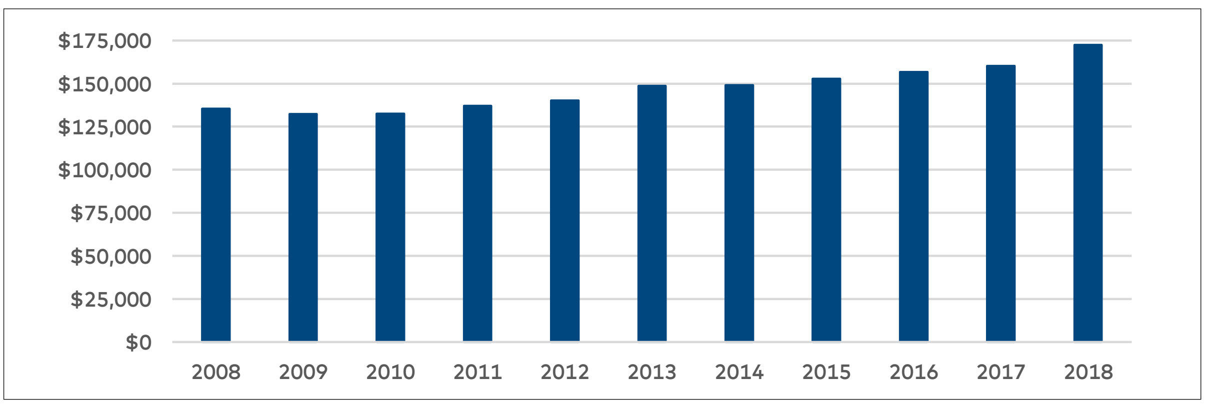
- Indianapolis has one of the most affordable housing markets among the nation's major cities. However, as the economy strengthens and residential construction remains slow by historical standards, an imbalance between the rising demand for single-family homes and a small inventory of available properties is fueling a surge in prices, which could affect affordability in the future.

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, a 1.1% increase, outpacing the 0.7% national growth.
- The metro gained 75,401 residents between 2013 and 2017 for a 3.9% demographic expansion.

Indianapolis vs. National Population

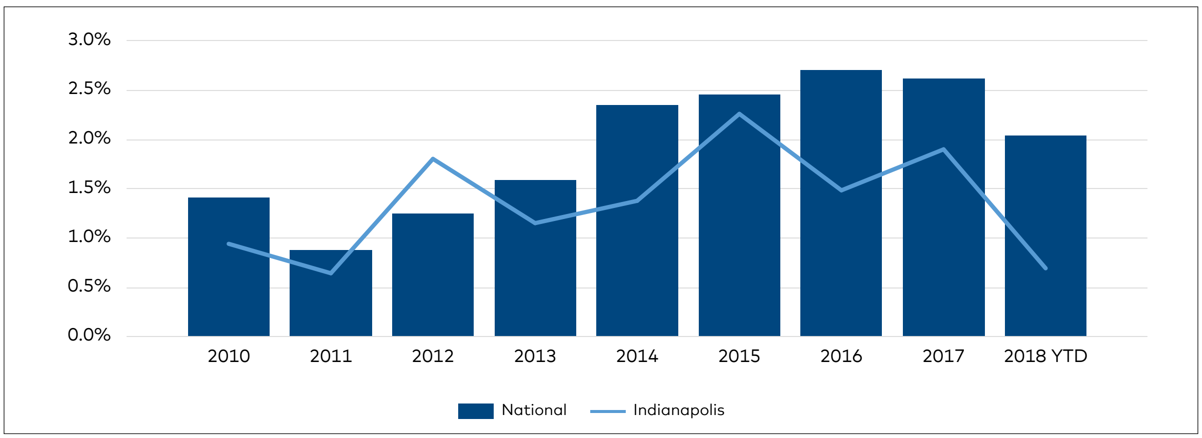
	2013	2014	2015	2016	2017
National	316,234,505	318,622,525	321,039,839	323,405,935	325,719,178
Indianapolis Metro	1,953,213	1,970,850	1,986,872	2,005,612	2,028,614

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

Supply

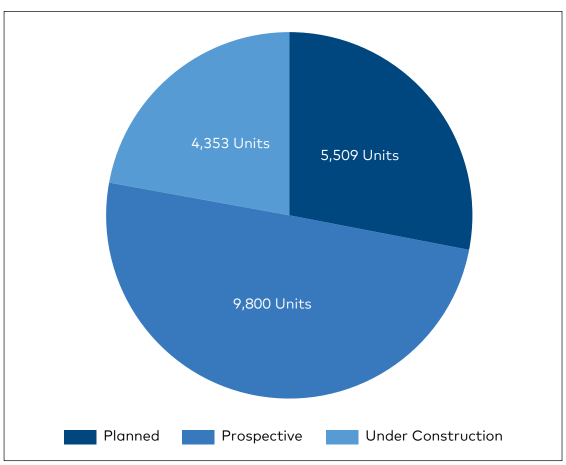
- Nine communities totaling 1,177 units were completed this year through October. Most of these properties cater to Lifestyle renters, in both urban and suburban locations.
- More than 4,300 units were under construction as of October, while another 15,300 units were in the planning and permitting stages. New stock is being absorbed quickly and occupancy is on the rise, up 20 basis points over 12 months to 94.6% as of September. Demand is expected to keep up with new supply, boosted by population growth and employment gains in high-paying industries such as health care and technology.
- Developers are mainly focusing on fast-growing submarkets such as Plainfield/Brownsburg/Avon, which had 1,054 units underway as of October, followed by Indianapolis–Downtown (1,039 units), Carmel (716 units), Indianapolis–Center (390 units), Fishers (345 units) and Westfield–Noblesville (270 units). Hamilton County—which includes the cities of Carmel, Fishers, Noblesville and Plainfield—saw the fastest population growth in Indiana between 2010 and 2017, up 17.1% and by far outpacing the state's 2.7% average.

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



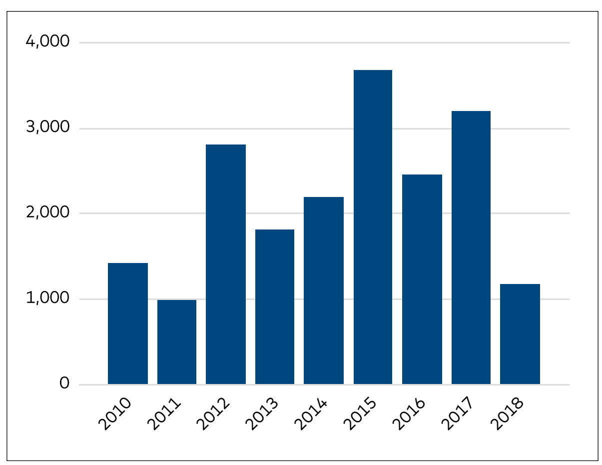
Source: YardiMatrix

Development Pipeline (as of October 2018)



Source: YardiMatrix

Indianapolis Completions (as of October 2018)

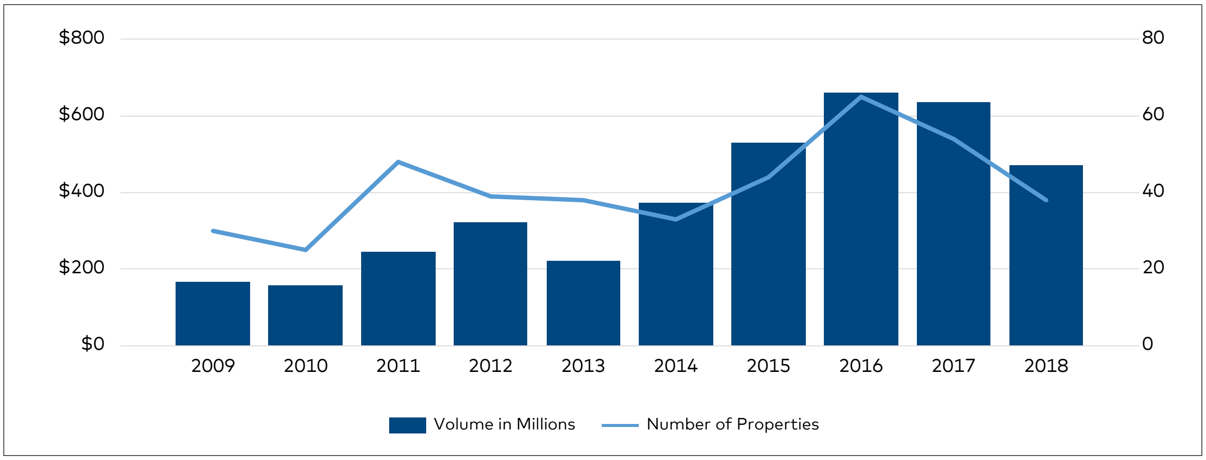


Source: YardiMatrix

Transactions

- Nearly $472 million in multifamily assets changed hands in Indianapolis this year through October, at an average price per unit of $75,308, a post-recession high but well below the $152,579 national figure. In 2017, about $636 million in assets traded at an average of $68,650 per unit.
- Investors mostly focused on Renter-by-Necessity assets, with acquisition yields typically starting in the 5.0% tranche for stabilized communities in both infill and suburban locations and going as high as 10.0% for Class C properties with a value-add component.
- Pepper Pike Capital Partners' acquisition of The Cottages of Fall Creek, a 753-unit community in Northeast Indianapolis, ranked as the metro's largest multifamily transaction in the 12 months ending in October. Shamrock Communities sold the property for $56.6 million, or $75,184 per unit.

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



Source: YardiMatrix

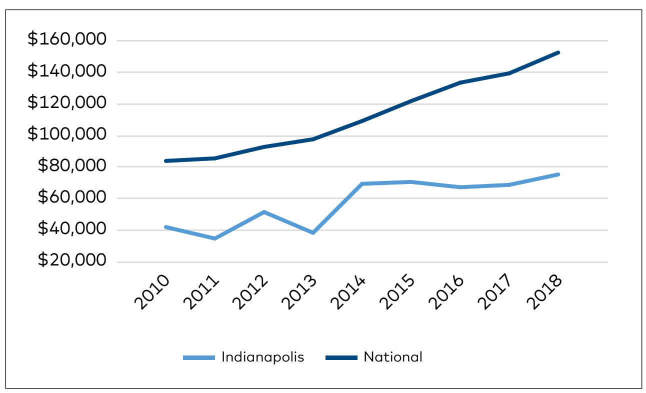
Top Submarkets for Transaction Volume[1]

Submarket	Volume ($MM)
Indianapolis–Lawrence	158
Bloomington–North	85
Indianapolis–Pike	58
Indianapolis–Downtown	48
Indianapolis–Washington West	40
Indianapolis–Franklin	39
Plainfield/Brownsburg/Avon	39
Indianapolis–Perry East	36

Source: YardiMatrix

[1] From November 2017 to October 2018

Indianapolis vs. National Sales Price per Unit



Source: YardiMatrix

News in the Metro

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Indianapolis Community Lands Refinancing

The Embassy Group, the owner of the 163-unit community, acquired Oak Park from Morgan Properties in August 2015.

JAE Property Group Buys Indy Community

The company purchased an 89-unit garden-style asset from Barratt Asset Management, which had acquired the property in 2016 for $1.8 million.

Local Investor Buys 248-Unit Indy Community

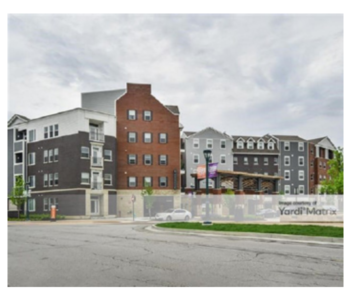
Ardizzone Enterprises paid more than $12 million for the asset. U.S. Bank, the seller, had foreclosed on the property in 2016.

Tikijian Associates Arranges $122M Portfolio Sale

The seller acquired Westlake, Woods Edge, Wind Drift, Villa Nova and Riverwood back in 2009 in a portfolio sale. The buyer plans to renovate and rename the properties.

Indianapolis Mixed-Use Gets $104M

HFF arranged the floating-rate loan for Flaherty & Collins Properties, which used the proceeds to retire construction debt. Heitman originated the loan on behalf of an affiliate.



J.C. Hart Acquires 102-Unit Indianapolis Community

Built in 2016, The Flats at Switch offers more than 9,800 square feet of retail space and was more than 90% occupied as of June.

Executive Insight

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What's Ahead for Indianapolis

By Jeff Hamann

John Hart Jr., president of J.C. Hart Co., provides insights into the metro's development and investment scene. With approximately 1,200 units delivered so far this year and more than 4,400 units under construction, according to Yardi Matrix data, Indianapolis' development scene is picking up steam. Job growth, particularly in the health-care and tech sectors, is driving housing demand, as the city added more than 23,000 jobs over the past year.

Given J.C. Hart's strong history in the market, how would you characterize Indianapolis' multifamily development sector?

Market occupancies remained stable from 2017 through to 2018, and year-over-year rent growth is positive at a moderate level. The market overall remains strong, although some product or submarkets are showing some concessions and/or oversupply.

How have multifamily assets in the Indianapolis market performed in the past 12 months compared with the year before?

Year-over-year rent growth for our portfolio has been just under 2% over the last 12 months. Same-store occupancies have also remained the same during that period.

In what ways have shifts in renter demand impacted development trends across the metro?

(There have been) shifts to infill sites with walkable live-work-play types of

locations. Downtown, Broad Ripple, Carmel and other submarkets see this trend.

Tell me about one of your current multifamily developments. How does it stand out compared to similar product?

Penrose on Mass has 236 units, 40,000 square feet of retail and a 359-space underground public and reserved parking garage catering to young professionals and aging Baby Boomers. The building spans a triangular half-city block in one of the trendiest areas of Indianapolis. The integrated garage and retail along the triangular site make it one of the most unique sites in the city.

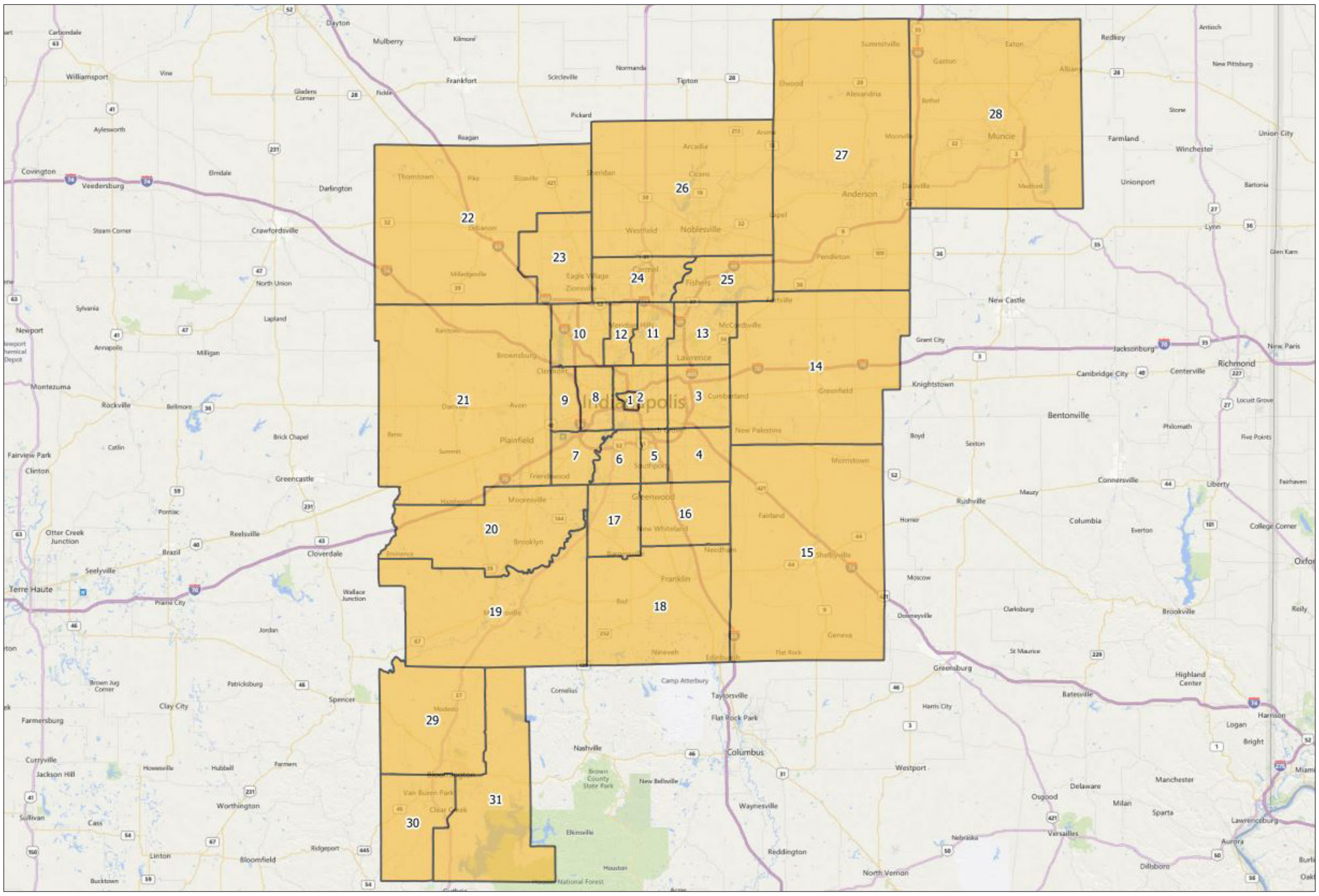
Which of Indianapolis' submarkets do you anticipate will be the hottest in terms of investment and development over the next year?

Downtown Indianapolis (and near downtown) remains attractive, but also suburban downtown/walkable locations on the north side in Carmel, Zionsville, Noblesville and Fishers.

What challenges and opportunities do you foresee in Indianapolis over the next year?

The steady supply of new product in downtown, Carmel and Fishers potentially creating an oversupply situation could be a challenge. While demand has kept pace, job growth will be important to help with the absorption of new product.

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.