

MARKET REPORT

Multifamily

Indianapolis Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

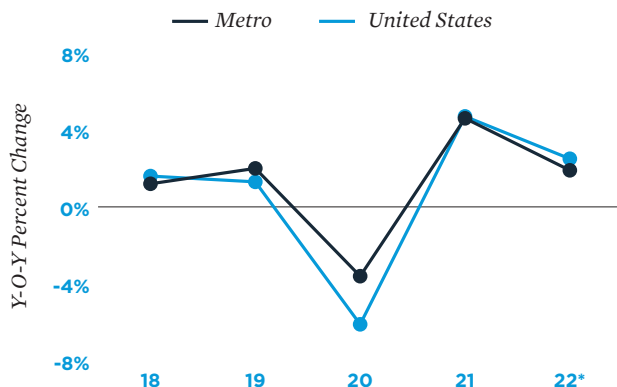
2Q/22

Expanding Populace, Moderating Pipeline Set Metro For Historically Tight Vacancy

Widespread demand fuels record-low availability. As Indianapolis' population continues to expand at a steady rate, the growth of the 20- to 34-year-old cohort is fostering a rising need for available apartments. This is reflected in recent vacancy fluctuation, as availability in the metro compressed by 250 basis points over the past two years ended in March. Demand has improved in the suburbs lately, as vacancy outside the core was a record-low 3.0 percent at the onset of 2022. The historically strong rate of household formation slated to occur this year suggests tightening will persist in suburban submarkets. Absorption in the CBD also notably advanced in 2021, with availability falling 410 basis points. As residents continue to return to downtown offices this year, further recovery in the core can be anticipated.

Absorption outpaces supply amid construction pullbacks. Outside factors, such as the supply of materials and labor shortages, led to a limited number of unit deliveries in the first quarter of this year – a trend that will continue through the end of 2022. Currently, builders have more than 4,000 units under construction in the metro, with roughly 40 percent of these rentals expected to be delivered by year-end. This will translate to an annual delivery volume that trails the prior five-year average by 2,300 units. The moderation in near-term supply additions suggests Class A vacancy will remain historically low in the near term, potentially increasing the amount of project proposals.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.; RealPage, Inc.

Multifamily 2022 Outlook



**21,600
JOBS**

will be created

EMPLOYMENT:

Indianapolis' job count will increase by 1.9 percent during 2022. While this annual pace of increase trails the national mark, the local unemployment rate falls below the pre-pandemic recording of 3.0 percent this year, signaling economic stability in the metro.



**1,500
UNITS**

will be completed

CONSTRUCTION:

Delivery volume tempers from last year, but still increases inventory by 0.8 percent. Suburban completions represent over 80 percent of this year's supply additions, with projects concentrated in the city of Carmel and Hamilton County.



**90
BASIS POINT**

decrease in vacancy

VACANCY:

Vacancy will reach a record low this year as renters absorb nearly 3,000 units, compressing availability to 2.2 percent. Consistent demand for apartments will allow leasing velocity to outpace completions for a seventh consecutive year.



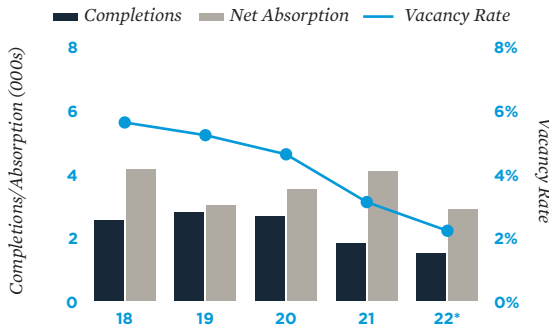
**8.7%
INCREASE**

in effective rent

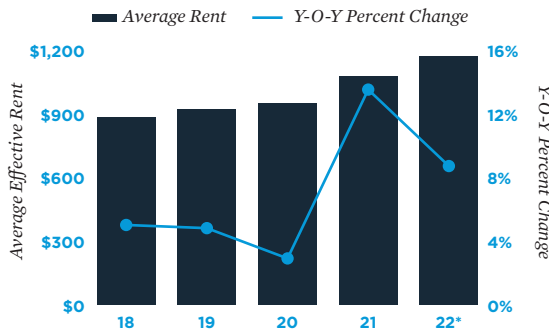
RENT:

Following a 13.5 percent advancement in rents last year, the metro's average effective rate will reach \$1,172 per month by the fourth quarter. The annual rate of increase anticipated in 2022 nearly doubles the metro's trailing 10-year mean annual change.

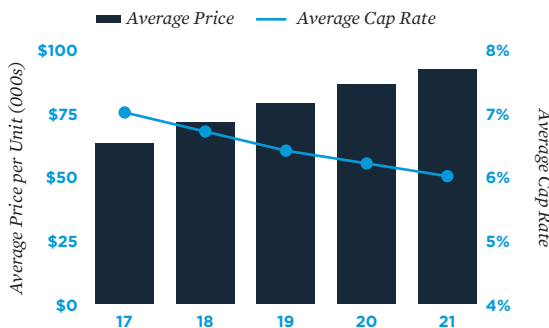
Supply and Demand



Rent Trends



Sales Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Price: \$250

1Q 2022 - 12-Month Period

CONSTRUCTION

1,791 units completed

- Delivery volume during the past 12 months ending in March grew stock by 1.0 percent. Carmel-Hamilton County and Greenwood-Johnson County added the most new units.
- Approximately 260 units were completed in the first quarter of 2022, representing roughly 15 percent of the rentals coming online this year.

VACANCY

220 basis point decrease in vacancy Y-O-Y

- Renters absorbed approximately 5,300 units over the past 12 months, lowering vacancy to 2.6 percent — the metro’s tightest rate on record.
- All submarkets registered vacancy compression over the past four quarters, with Downtown Indianapolis recording a 710-basis-point drop that lowered unit availability to 4.2 percent.

RENT

14.8% increase in the average effective rent Y-O-Y

- Rent growth remained elevated into the first quarter, as the average effective rent reached \$1,101 per month. All but two of the metro’s 13 submarkets noted double-digit rent gains over the past year.
- With a sub-2 percent vacancy, Greenwood-Johnson County saw an 18.7 percent spike over the past 12 months, lifting its average rent to \$1,077.

Investment Highlights

- Transaction velocity increased last year, demonstrating investors’ confidence in the metro. Class B trading drove deal flow, with these mid-tier deals primarily occurring in the suburban submarkets of Lawrence and Southside Indianapolis. Both locales are a 20-minute drive from downtown and home to average effective rents that trail the metro mean, making them attractive destinations for commuters seeking a lower cost of living.
- The average price per unit last year landed at just over \$90,000, up 7.0 percent from 2020. Still, Indianapolis’ mean sale price remains notably lower than the national average, despite metro pricing rising by more than 80 percent during the past seven years.
- The average cap rate dipped 20 basis points in 2021 to 6.0 percent, due to a competitive bidding environment. Of the Midwestern markets, Indianapolis has one of the tightest cap rates, but also maintains an average price per unit lower than half the other markets in the region. These lower entry costs counter some of the challenges associated with a lower cap rate.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.