

MARKET REPORT

Multifamily
Indianapolis Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

3Q/22

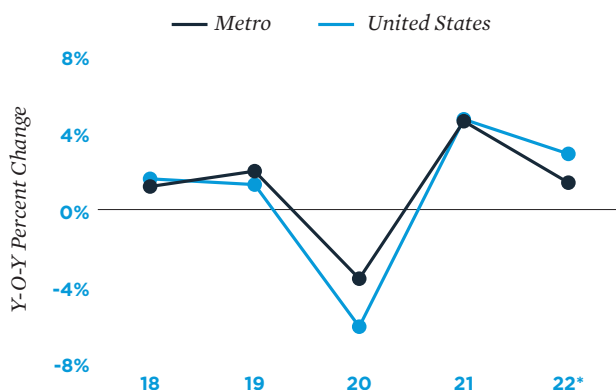
Narrow Pipeline and Increasing Corporate Investment Mitigate Climbing Vacancy

Despite rising vacancy, long-term renter demand prospects solid.

With the metro's central location cementing it as an important transportation node, Indianapolis has taken on a bevy of office and warehouse leases this year from logistics firms seeking to expand their presence in the market. The metro is also home to a rapidly expanding innovation sector, with more than \$166 million invested into Indianapolis-area tech companies in the second quarter of 2022 alone. Though some of these employers are slowing their hiring velocity, as fears of an economic downturn come to the forefront, current investments are setting the stage for diverse job growth moving forward, stimulating demand across apartment tiers.

Limited deliveries aid existing property performance. Climbing availability should be mitigated by a small amount of deliveries this year, with completions projected to be the lowest in over a decade. Further softening the impact of new supply, builders are pursuing parcels in sparsely developed portions of the market's more affluent northern suburbs. Roughly 75 percent of units scheduled for finalization in 2022 will come online in Carmel-Hamilton County. Home to a number of suburban amenities, as well as reasonable commute times to the urban core, this locale represents an attractive destination for new arrivals to the metro. Additionally, home price appreciation outpaced rent growth during the 12-month period ended in June, making suburban units a financially responsible option for an increasing number of renters priced out of homeownership.

Employment Trends



* Forecast

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

Multifamily 2022 Outlook



**15,000
JOBS**

will be created

EMPLOYMENT:

Though hiring velocity has been inconsistent month-to-month, the overall annual trajectory of the metro's employment base is expected to remain firmly positive. Indianapolis employers will expand staffing counts by 1.4 percent in 2022.



**1,100
UNITS**

will be completed

CONSTRUCTION:

Developers are on track to finalize the fewest units since 2011, expanding apartment supply by just 0.7 percent. This year's delivery schedule is confined to a limited number of suburban properties, averaging roughly 180 doors each.



**70
BASIS POINT**

increase in vacancy

VACANCY:

Unit availability is expected to reach 3.8 percent by the end of the year. Still, this figure is 140 basis points below the year-end 2019 rate, and the second lowest recorded in the market since at least 2000.



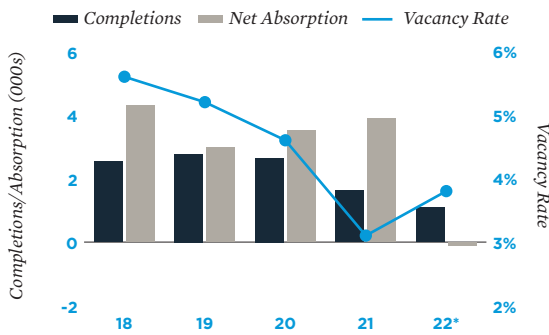
**7.4%
INCREASE**

in effective rent

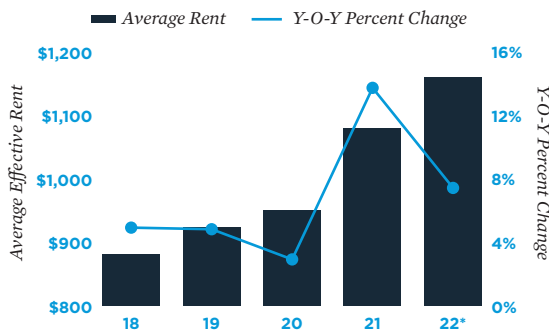
RENT:

Vacancy remaining well below previous cyclical norms will translate to a second year of robust rent growth. The average effective rate will rise to \$1,160 per month this year, roughly 26 percent ahead of the 2019 rate.

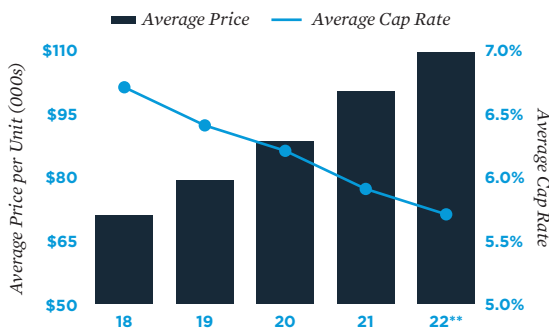
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

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

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2Q 2022 - 12-Month Period

CONSTRUCTION

1,570 units completed

- Supply additions during the yearlong period ended in June expanded inventory by 0.9 percent. Completions during the first half of 2022 eased to just half the number of finalizations recorded in the previous six months.
- Builders were most active in Carmel-Hamilton County, where nearly 1,000 units were brought online, growing local stock by 3.8 percent.

VACANCY

90 basis point decrease in vacancy Y-O-Y

- Vacancy fell to a record low of 2.6 percent during the first quarter before ending June at 3.3 percent, a rate well below pre-pandemic levels.
- As health restrictions ameliorated and urban amenities came back to life, a 580-basis-point vacancy compression was observed in the CBD, bringing unit availability here back down to 5.0 percent.

RENT

15.4% increase in the average effective rent Y-O-Y

- Effective rents posted the fastest growth on record during the trailing year ended in June, closing out the span at \$1,152 per month on average.
- All submarkets with inventories exceeding 5,000 units reported double-digit rent growth during this period. Rates in East Indianapolis reported the fastest gains, surging 18.9 percent to an average of \$938 per month.

Investment Highlights

- The 2021 calendar year brought an unprecedented flurry of multifamily investment activity, which continued early into this year. Transaction velocity, however, appears to be moderating in reaction to rising interest rates. Nevertheless, institutions are still pursuing larger-scale Class B assets, especially in Indianapolis proper and the metro's first-ring suburbs.
- A 16 percent surge in pricing over the trailing year ended in June, the most rapid movement in market history, brought the average per unit price to \$109,400. Aggressive bidding also compressed the mean cap rate 30 basis points during this period to 5.7 percent, the second-lowest mark among major Midwest markets.
- Downtown Indianapolis and Carmel-Hamilton County have the highest Class A rents in the market. Nevertheless, average upper-tier rates in these locations are below \$1,600 per month, which should help preserve demand as many households rebalance their budgets amid inflation.
- At midyear 2022, Class A vacancy was down the most relative to June 2021 in Downtown and East Indianapolis. The urban core also ranked near the top of the market for its Class B vacancy drop, as pandemic headwinds fade.