

Multifamily Metro Outlook:

Indianapolis - Q4 2021

Overview:

- The Indianapolis job market has successfully mitigated the economic impact of the virus. According to CoStar, Indianapolis lost approximately 130,000 jobs since the pandemic started and as of Q4 2021, approximately 145,000 of those jobs have since been recovered. As a result of the number of jobs added since the virus' arrival, the metro 's total job numbers are now 1.1% higher than they were in February 2020 (pre-pandemic).
- The apartment market has continued to curtail any negative impacts of the virus. During Q4 2021 the vacancy rate continued to tighten to approximately 4.5% and rent growth continues to perform admirably, expanding by 2% during the same period.

Market Strengths:

- One of the leading indicators leading the metro's recovery from the virus is the metro's above average demographic profile. Population growth is forecasted to keep outpacing the national average over the next five years at a rate of 0.9% annually compared to 0.5% nationally according to Moody's Analytics. Young professionals and relocating Midwesterners seeking job opportunities and a lower cost of living are expected to continue driving growth.
- Indianapolis offers numerous incentives to employers to bring their businesses to the metro. The metro's cost of business is -6% lower than the national average which will help the metro get back on their footing as employers will look to trim costs as a result of the virus.
- As a result of the ongoing pandemic, the Bioscience industry has emerged as a top industry within the Indianapolis metro. According to CoStar, top local Healthcare employer Eli Lilly and other employers have benefitted from the increased demand for prescription drugs and COVID-19 treatments. The end of 2020 saw profits rise by 40% for Eli Lilly compared to pre-pandemic quarters.
- The logistics industry has established itself as an economic pillar for the local economy. According to Moody's Analytics, the big players in the logistics industry are starting to expand their presence. For instance, UPS, FedEx, and Amazon have all increased their operations.
- Indianapolis has one of the highest industrial diversity scores in the country. According to Moody's Analytics, the metro's industrial diversity score of 0.76 ranks in the top 5% nationally. The lack of dependence on one sole sector to spur economic activity has helped the metro recover jobs quicker as the local economy benefits from economic activity in multiple sectors.

Market Weaknesses:

- Even though Indianapolis's metro is on the recovery track, there is some cause for concern as the recovery momentum has slowed recently. The rise of the Delta variant and now the Omicron variant of the virus has continued to be a thorn in the side of the Leisure and Hospitality services sector recovery. According to CoStar job growth during Q4 2021 was approximately 3.2% compared to 4.6% nationally reflecting the lagging rate of recovery in the metro after a torrid rebound period.
- According to Moody's Analytics, the metro will continue to face the challenge of retaining talent. Approximately 1/3 of Indianapolis' population has at least a bachelor's degree, but due to the metro's lower wages, migrating to a higher wage metro is a consistent and ongoing threat.
- Indianapolis successfully getting a hold on the virus coupled with the increased demand for single-family homes could potentially raise an issue for the local apartment sector. Since most of the jobs in the metro have been recovered, home prices in the metro are still very affordable. According to the National Association of Realtors, the national median sales price for a home as of Q4 2021 was approximately \$362,000 compared to \$269,000 in the Indianapolis metro during the same period. The silver lining for the apartment market is that single-family inventory remains low resulting in a lot of home seekers having to stay put in multifamily dwellings until they can find the right home to purchase.

Development:

- Since the beginning of 2016, a moderate number of rental units have come online, approximately 15,000 have been completed in this roughly 159,000-unit market. As of Q4 2021, nearly 5,400 units are underway and an additional 5,600 units are in the planning stages.

Outlook:

- Multifamily Outlook - Steady: Apartment fundamentals continue to improve, and the metro still boasts favorable demographic trends that will help demand stay level with the incoming supply. Additionally, the apartment market will benefit from the lack of new condo supply. By and large, the onset of the virus has not had much of an impact on the apartment market as the metro is one of the few metros to experience positive rent growth throughout the economic disruption.
- Economic Outlook - Stable: Prior to the arrival of the virus, the metro had consecutive quarters of above-average job growth which helped lure both top employers and migrants to the metro. Furthermore, the consecutive quarters of above-average growth set the metro up to mitigate any severe economic disaster from the virus. However, the quality of the jobs being added to the metro is an issue as more employers increase the hiring of low-wage jobs. Although, the recent establishment of a (Midwestern) tech hub is good news as it will improve the quality of jobs in the metro. Furthermore, a retiring baby boomer generation, single-family housing affordability and the on-going challenge or retaining top level talent, prevent this metro from receiving a higher rating.

Five Year Metro Area Growth Forecast

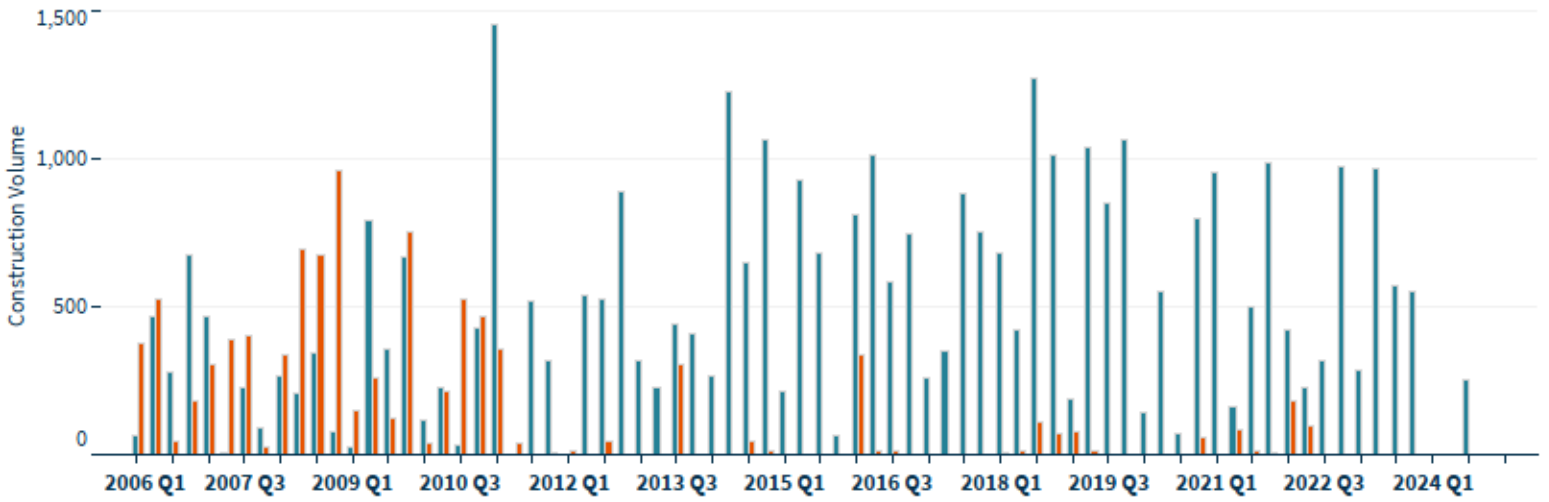
	Q4 2021	Q4 2026	Indianapolis (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	2,121	2,221	0.92%	0.47%
Households (000s)	841	905	1.47%	0.90%
Renting Cohort (Ages 20-34) (000s)	445	456	0.50%	-0.30%
Total Employment (000s)	1,079	1,142	1.15%	1.08%
Median Household Income	\$64,359	\$75,553	3.26%	3.30%
Median SF Home Price	\$268,122	\$284,316	1.18%	1.93%
Net Migration	11,973	11,502		

Source: Moody's

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



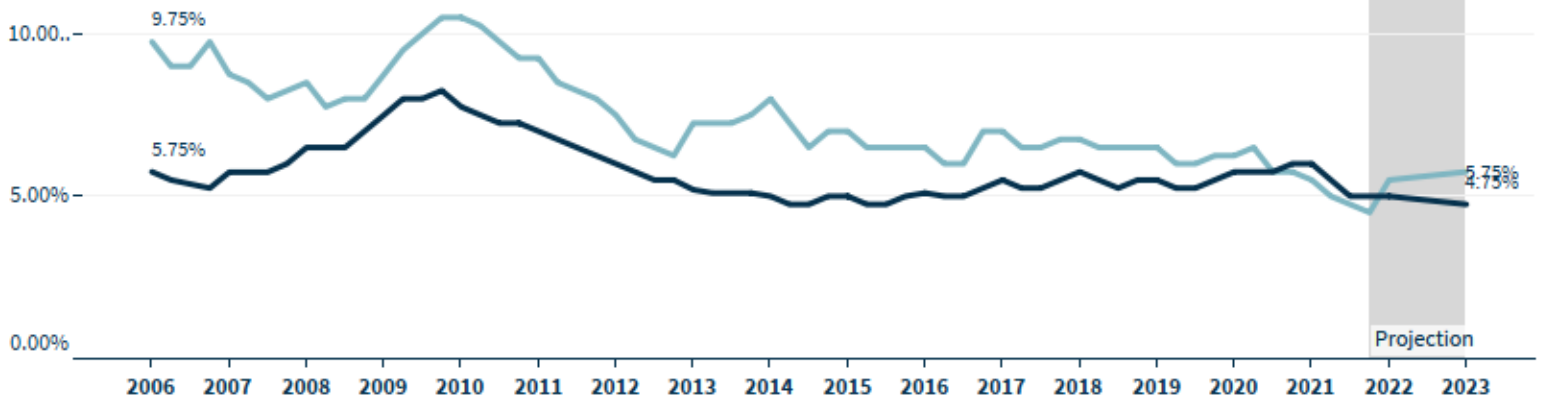
Vacancy & Rent Composite Estimates

Vacancy Rates

Indianapolis | National

Q4 2021 Vacancy Rate:

4.50%

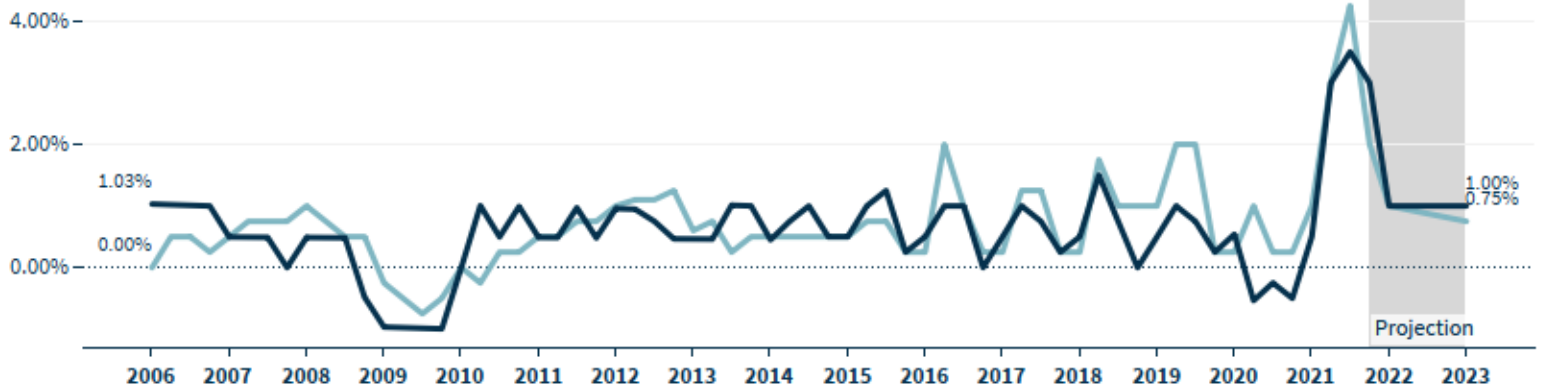


Asking Rent Growth

Indianapolis | National

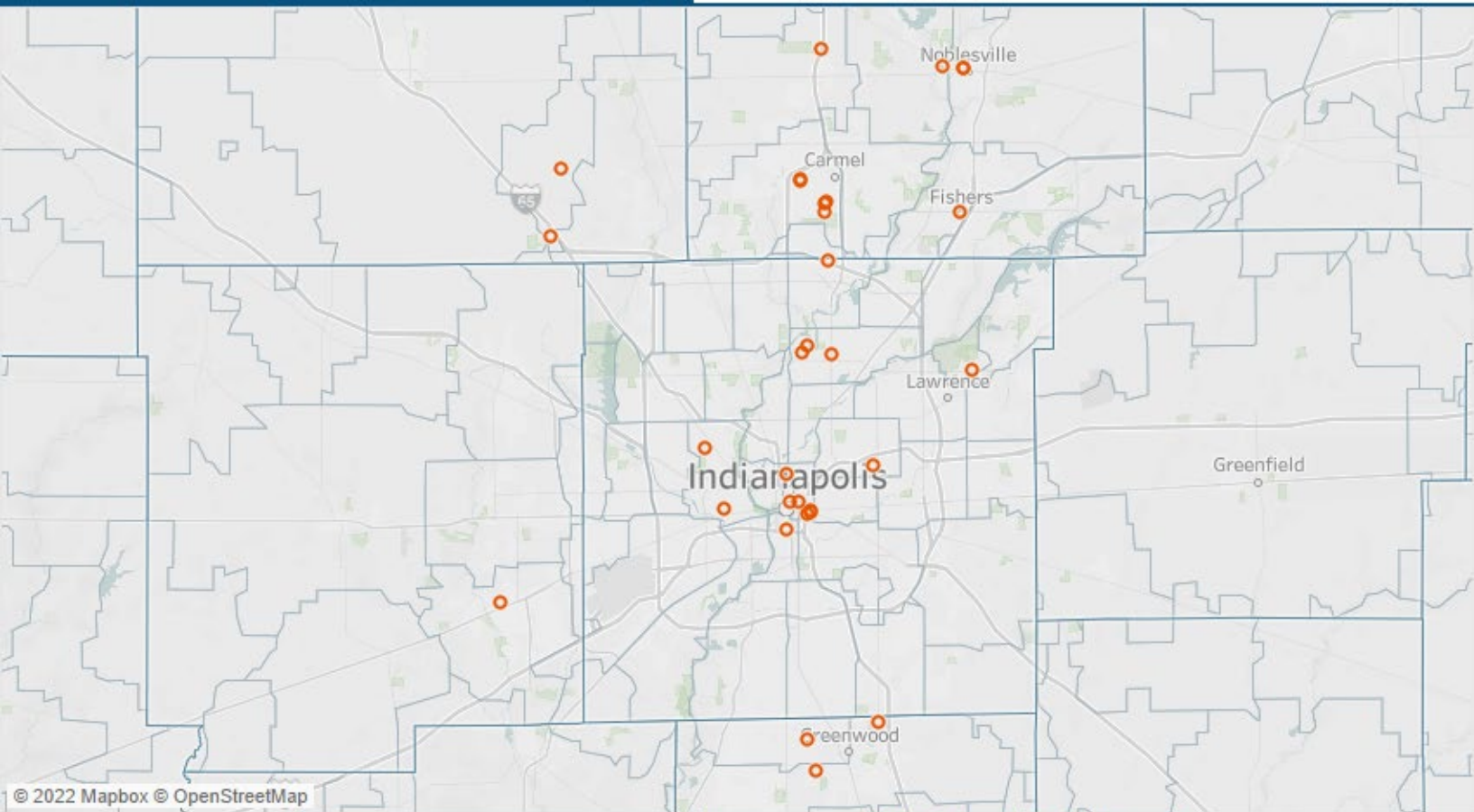
Q4 2021 Asking Rent:

\$1,060



Source: Multifamily Economics and Research

Construction: Bidding & Underway



<i>TWR Submarket Name</i>	<i>Projects</i>	<i>Building Units</i>	<i>Building Area SF</i>
Carmel/Hamilton County	12	2,081	2.43M
Downtown Indianapolis	6	717	0.79M
East Indianapolis	1	15	0.01M
Far West Indianapolis Suburbs	1	296	0.40M
Greenwood/Johnson County	3	865	1.22M
Lawrence	1	261	0.23M
Northeast Indianapolis	4	691	0.53M
Southwest Indianapolis	1	269	0.31M
West Indianapolis	2	220	0.25M
Grand Total	31	5,415	6.17M

Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

- Moody's Economy.com
- REIS
- CoStar
- Real Capital Analytics
- RealPage
- Dodge Data and Analytics SupplyTrack Pipeline
- Axiometrics
- CBRE-Econometric Advisors
- Yardi

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