

Multifamily Metro Outlook:

Indianapolis - Q4 2020

Overview:

- The local Indianapolis job market has successfully mitigated the economic impact of the virus. According to Reis Inc., Indianapolis lost approximately 130,000 jobs since the pandemic started and as of Q4 2020, approximately 110,000 of those jobs have since been recovered, which puts the metro amongst the top 5 (out of 82) that Reis tracks.
- The apartment market has continued to curtail any negative impacts of the virus. During Q4 2020 the vacancy rate fell to approximately 5.75 percent and rent growth was approximately 0.25 percent compared to -0.50 percent during the same period.

Market Strengths:

- One of the leading indicators as to why the metro should be able to mitigate the impact of the virus is due to 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 1.0 percent annually compared to 0.5 percent 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 percent 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 business-friendly climate in the metro, Professional and Business services sector payrolls have outperformed their previous peaks (locally and nationally) as high-wage white collar jobs have not been severely impacted in the metro.
- 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 percent 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:

- Prior to the arrival of COVID-19, the Indianapolis metro had recaptured and expanded upon all the jobs lost during the recession. However, there has been some concern in the metro about the type of jobs added during the expansion. According to CoStar, much of the job growth in the metro can be attributed to low-wage jobs which were also the kind of jobs that have been lost as a result of the virus.
- 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 2020 was approximately \$300,000 compared to \$230,000 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 2014, a moderate amount of rental units have come online, approximately 19,000 have been completed in this roughly 157,000-unit market. As of Q4 2020, nearly 2,600 units are underway and an additional 6,000 units are in the planning stages.

Outlook:

- 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 during the economic disruption.
- 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

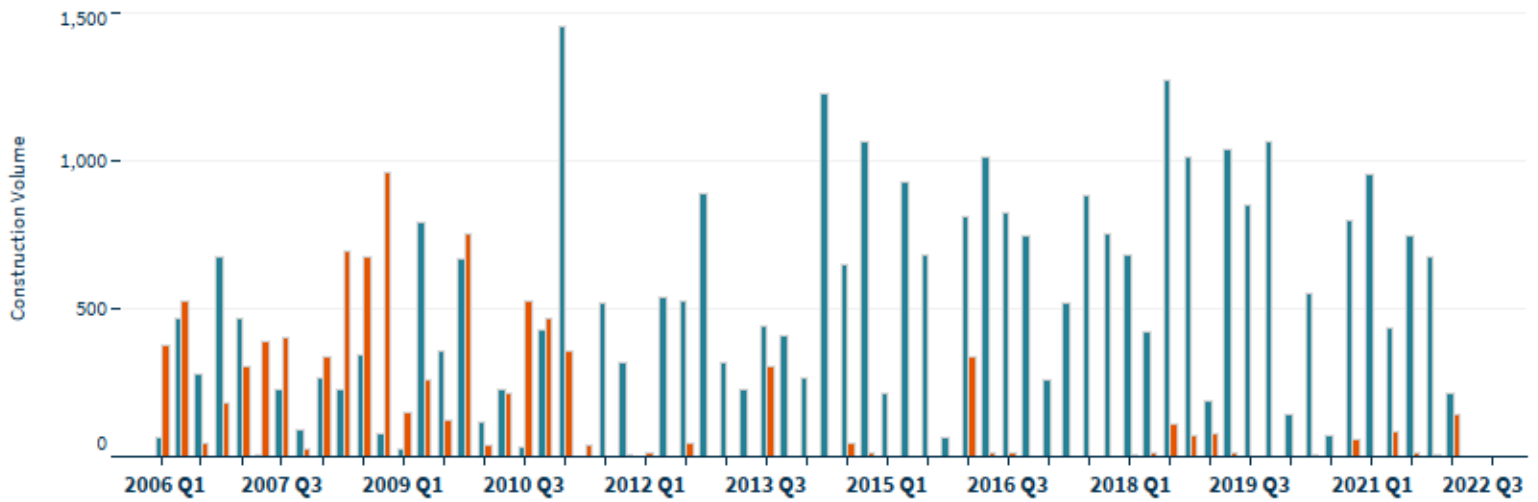
	Q4 2020	Q4 2025	Indianapolis (5-Year Annual Average Change)	National (5-Year Annual Average Change)
Population (000s)	2,108	2,215	1.00%	0.52%
Households (000s)	820	906	2.00%	1.41%
Renting Cohort (Ages 20-34) (000s)	441	459	0.77%	-0.26%
Total Employment (000s)	1,070	1,163	1.68%	1.71%
Median Household Income	\$66,573	\$74,042	2.15%	2.83%
Median SF Home Price	\$243,636	\$282,502	3.00%	4.30%
Net Migration	11,839	11,877		

Source: Moody's

SupplyTrack Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



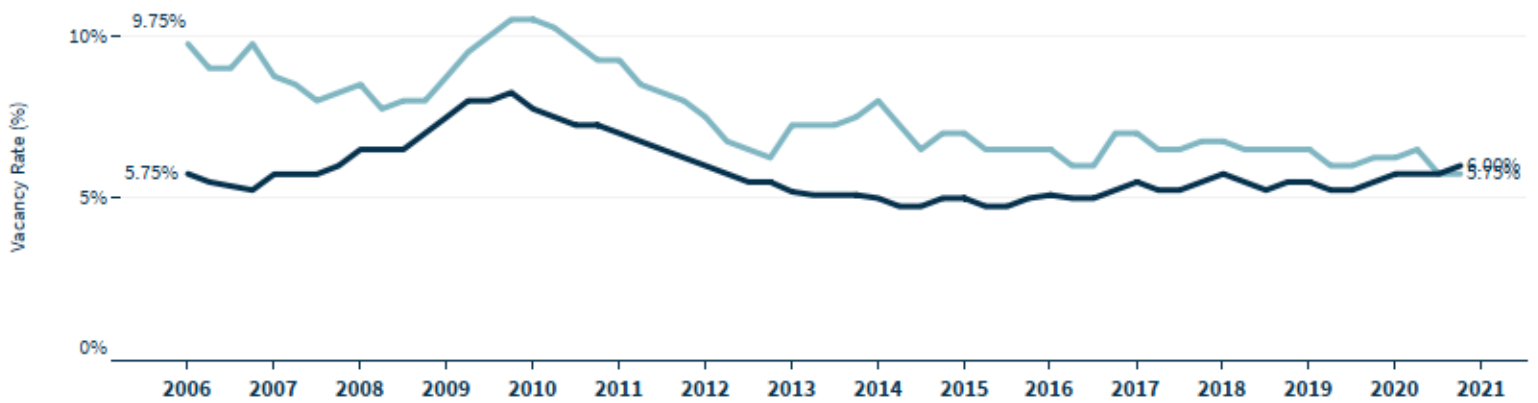
Vacancy & Rent Composite Estimates

Vacancy Rates

Indianapolis | National

Q4 2020 Vacancy Rate:

5.75%

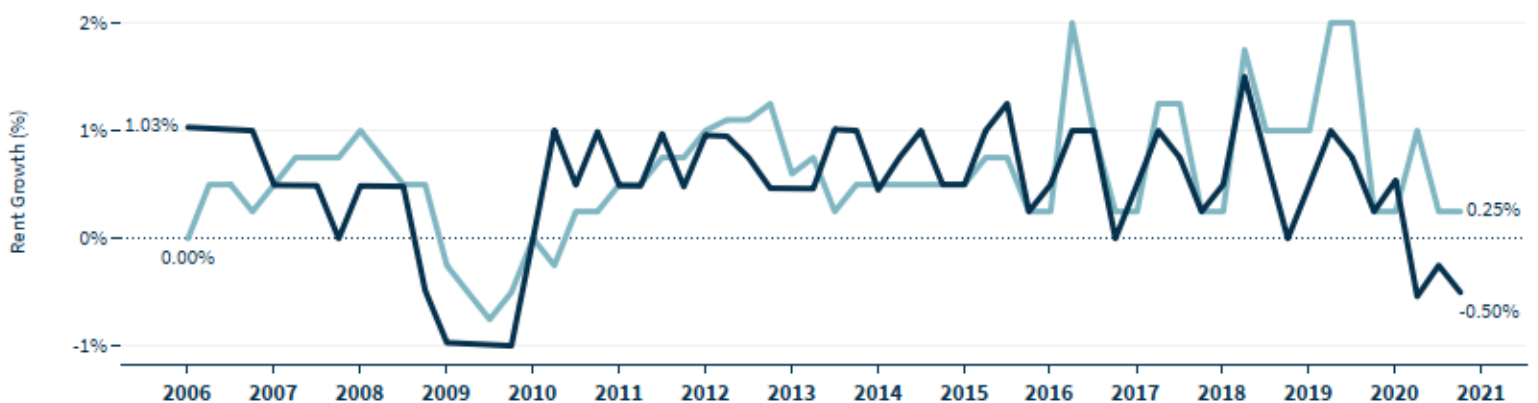


Asking Rent Growth

Indianapolis | National

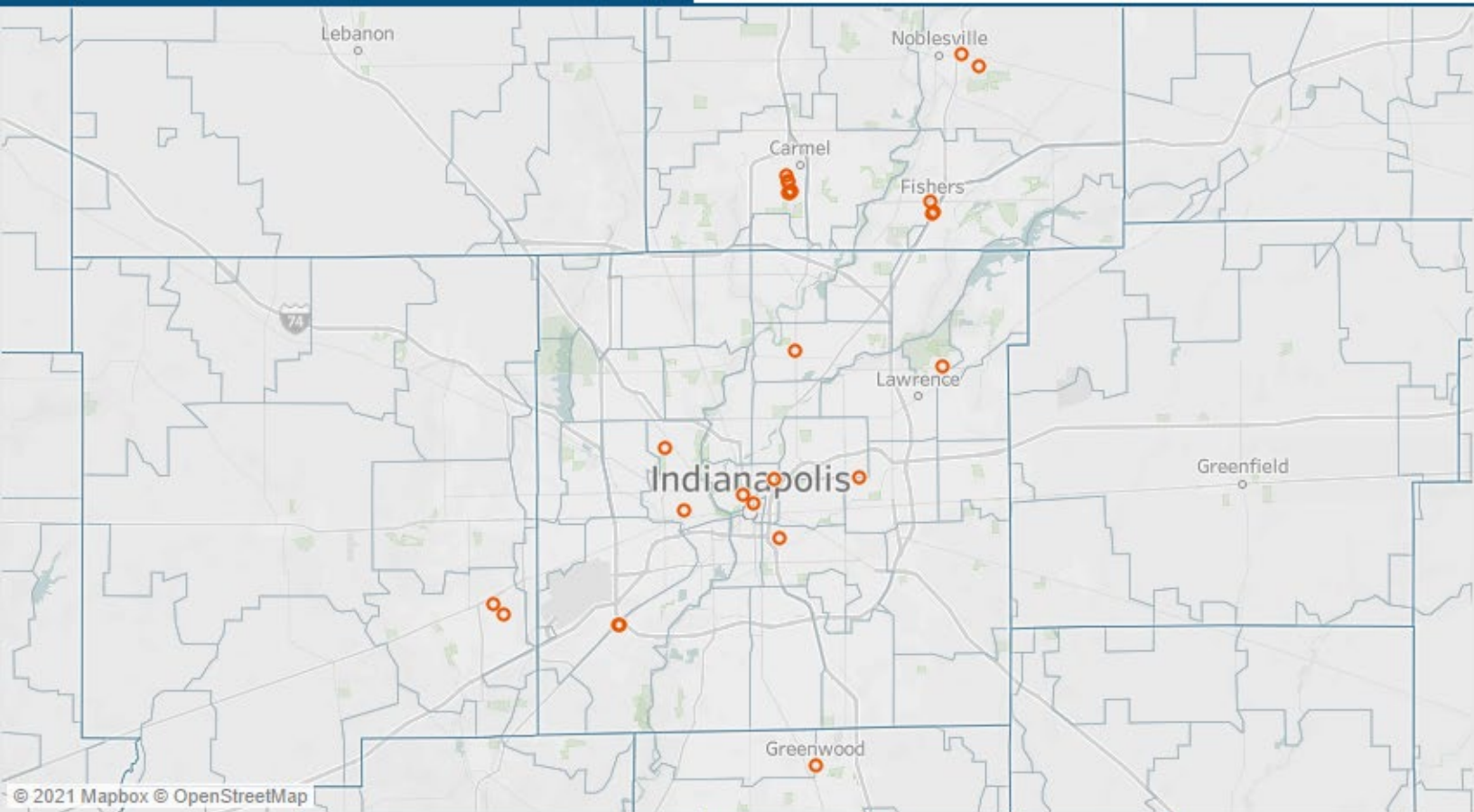
Q4 2020 Asking Rent:

\$940



Source: Multifamily Economics and Research

Construction: Bidding & Underway



<i>Sub-Market</i>	<i>Projects</i>	<i>Units</i>	<i>Sq. Ft. (M)</i>
Carmel/Hamilton County	12	875	1.23M
Downtown Indianapolis	3	680	1.14M
East Indianapolis	1	30	0.02M
Far West Indianapolis Suburbs	2	112	0.13M
Greenwood/Johnson County	2	11	0.02M
Lawrence	1	261	0.23M
Northeast Indianapolis	1	267	0.25M
Southeast Indianapolis	1	103	0.15M
Southwest Indianapolis	2	44	0.03M
West Indianapolis	2	220	0.25M
Grand Total	27	2,603	3.44M

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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