

Multifamily Metro Outlook:

Indianapolis - Q2 2023

Overview:

- After consecutive quarters of above-average job growth, job growth in the Indianapolis metro has come back down to earth. According to CoStar, for the period ending Q2 2023, job growth in the metro expanded by approximately 1.9% which was slightly above the national average of 1.7%.
- Apartment fundamentals in the metro are recovering after a period of softness. Although vacancies are up compared to their best levels reached in late 2021 and early 2022, they are now back level with pre-pandemic levels at nearly 6.25% for the period ending Q2 2023. Furthermore, rent growth has rebounded strongly and was nearly 1.25% for the period ending Q2 2023.

Market Strengths:

- One of the factors benefitting the metro is a favorable demographic profile. Population growth is forecasted to keep outpacing the national average over the next five years at a rate of 0.9% compared to 0.4% nationally. Additionally, the prime renting cohort (ages 20-34) is expected to expand at nearly 0.4% in the metro versus -0.4% nationally as young professionals and relocating Midwesterners seeking job opportunities and a lower cost of living are expected to continue driving growth.
- Indianapolis has one of the highest industrial diversity scores in the country. 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.
- The Manufacturing sector has been a bright spot for the metro and has been outperforming the national average. For the period ending Q2 2023 Manufacturing in the metro expanded by 1.8% compared to 0.4% nationally. According to Moody's Analytics, the metro will benefit from both automobile and pharmaceutical manufacturing over both the short-term and long-term as the metro catches up with pent-up demand for automobiles as supply chain issues continue to ease. Pharmaceutical manufacturing will aid in the long-term growth of the local sector as the industry does not outsource production as frequently as other types of manufacturing.
- Eli Lilly, one of the metro's top employers continues to perform well and churn out record profits. According to CoStar after benefitting greatly from COVID-19 antibody treatments and vaccines, the company is now achieving top revenues as a result of the increased demand of top diabetes drugs.

Market Weaknesses:

- One of the top employment sectors that spearheaded much of the recovery in the metro was the Logistics sector. However, as a result of the current economic environment, much of the consumer behavior that benefitted the Logistics sector has now changed course. According to CoStar, employment in the sector is now down nearly -0.7% year-over-year as demand for parcels and packages has declined due to changing consumer behavior.

Development:

- A modest number of apartments have been delivered to the metro since 2017 as nearly 17,000 have completed. Furthermore, there are approximately 8,000 units underway in the pipeline and nearly 12,000 additional units in the planning stages.
- Condo development is also progressing at a slow place. Since 2017, a small number of condos have been completed, with a scant amount in the pipeline scheduled to deliver through 2025.

Outlook:

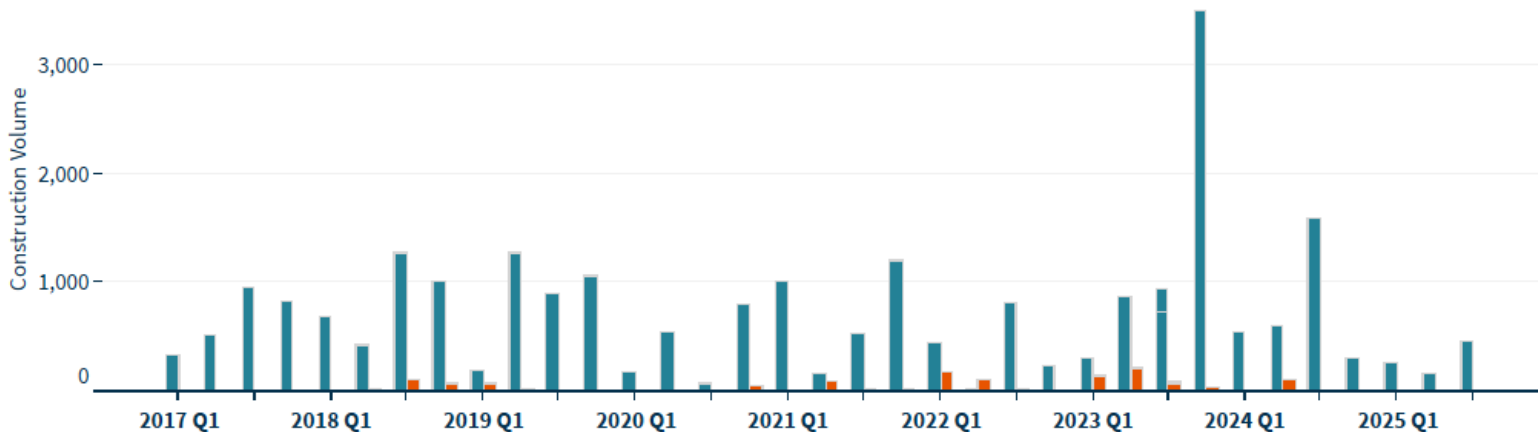
- Apartment fundamentals are beginning to recover and return to levels seen in 2019. Furthermore, the metro is benefitting from a slowdown in deliveries which has helped eased vacancies. Longer-term a well diversified economy, strong job market, and favorable demographic trends will aid in absorption of new supply.
- Indianapolis' economy has slowed as inflationary pressure continues and job growth slows. Although the metro's low business costs are attractive, ongoing concerns around talent acquisition and retainment continues to curb new business investment. Likewise, the quality of the jobs being added to the metro is becoming more of an issue, as more employers increase hiring in sectors concentrated with more low-wage jobs. However, employment industries such as Biosciences and Pharmaceutical Manufacturing should continue to balance the quality of jobs in the metro.



Multifamily Apartment Pipeline

Apartments & Condos/Townhomes: Units Completed and Underway

Apartments | Condos



Source: Dodge Data & Analytics SupplyTrack Pipeline

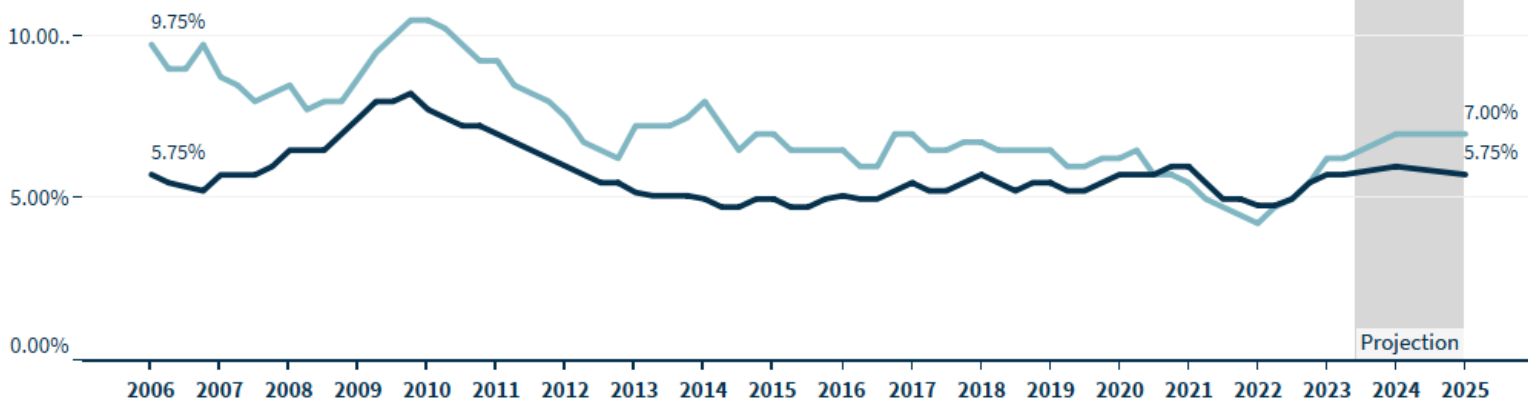
Multifamily Vacancy & Rent Estimates

Vacancy Rates

Indianapolis | National

Q2 2023 Vacancy Rate:

6.25%



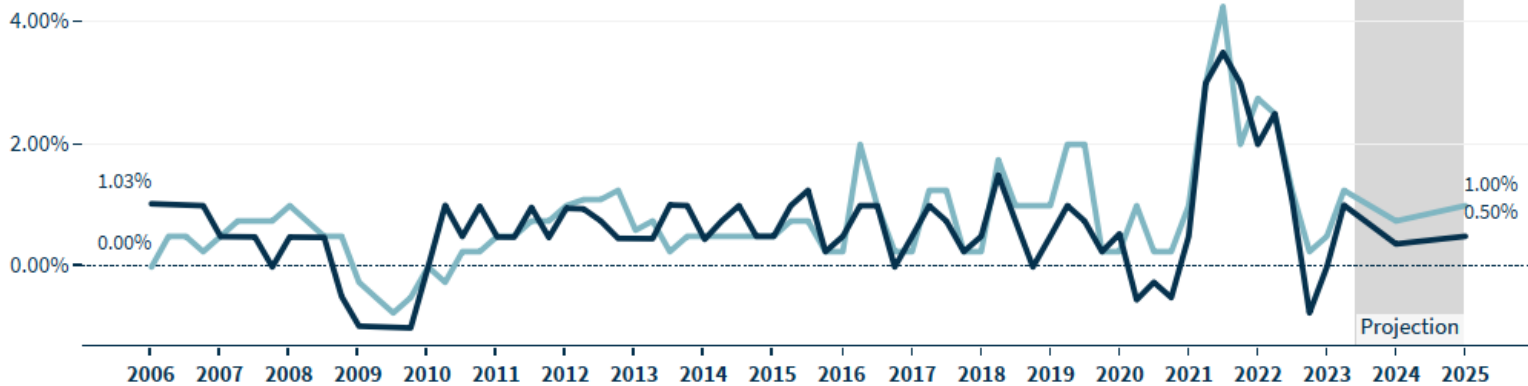
Projection

Asking Rent Growth

Indianapolis | National

Q2 2023 Asking Rent:

\$1,200

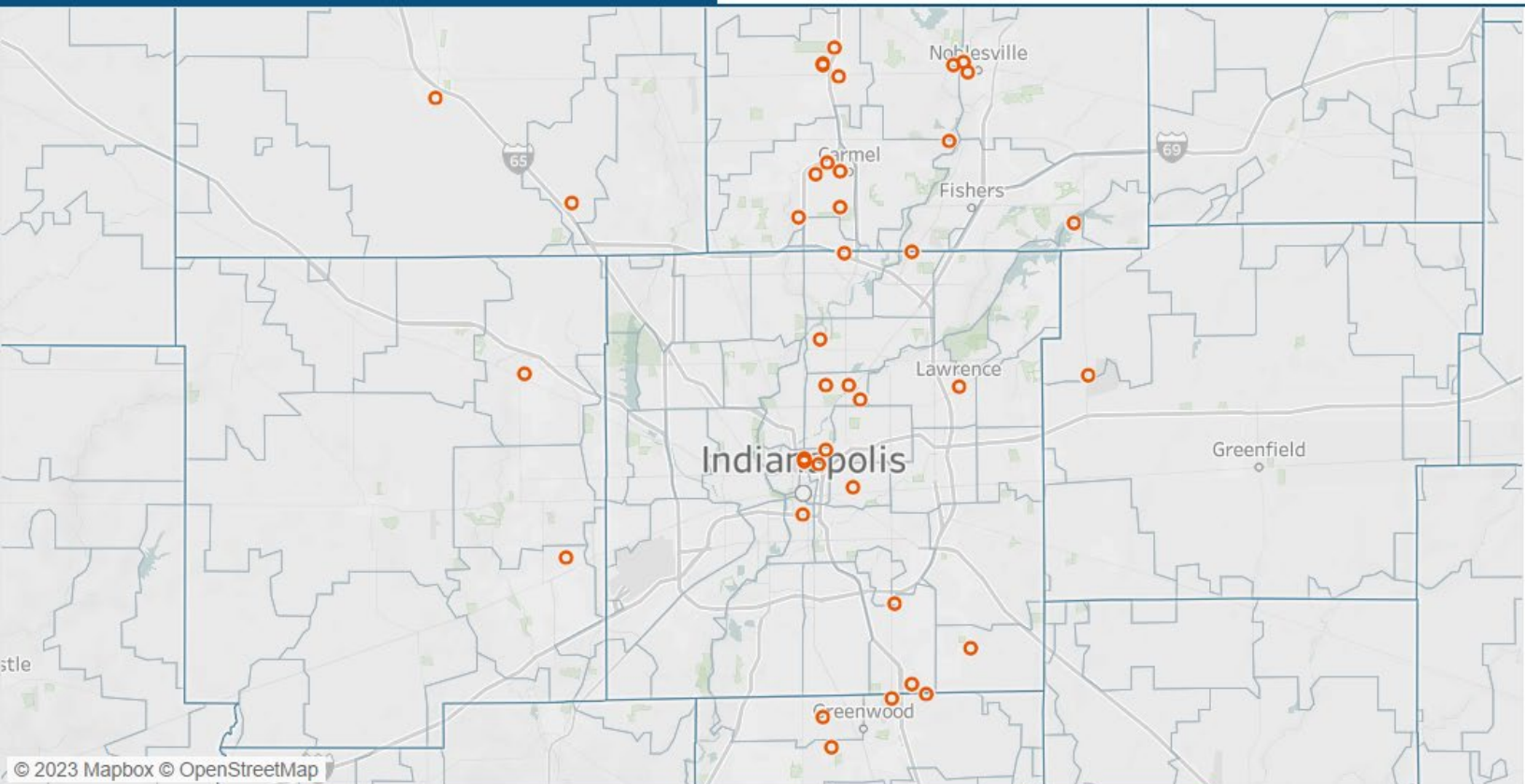


Projection

Source: Fannie Mae Multifamily Economics and Research



Multifamily Construction: Bidding & Underway



<i>MultiHousingSubmarketName</i>	<i>Apartments</i>	<i>Units</i>
Carmel/Hamilton County	16	3,962
Downtown Indianapolis	4	310
Eagle Creek	1	100
East Indianapolis	5	566
Far West Indianapolis Suburbs	1	293
Greenwood/Johnson County	4	1,273
Lawrence	2	216
Northeast Indianapolis	2	608
Southeast Indianapolis	3	542
Southwest Indianapolis	1	269
Grand Total	39	8,139

Source: Dodge Data & Analytics SupplyTrack Pipeline



Multifamily: ESR Team

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Multifamily Economics and Market Research Team

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Sources Used

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

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