Downtown Indianapolis is a nationally recognized asset that is a source of pride for Hoosiers. Downtown has served as a key employment engine and the location of outstanding sporting facilities, great public spaces, thriving entertainment and commercial districts, and the host of Final Fours, the Super Bowl, and other national events and conventions. Until recently, downtown has primarily played a support-ive residential role. In the past few years, however, an increasing number of empty nesters (born between 1946 and 1964) and young millennials (born between 1977 and 2003) are choosing to live in downtown Indianapolis.

Much of the downtown residential market’s growth has been in the rental market. Between 2009 and 2012, the number of residential apartments increased from 3,590 to 4,738, while the rental vacancy rate decreased during that time period (Indianapolis Downtown, Inc., & Urban Initiatives, 2013). Sales of single family homes and condominiums have also increased in numbers (103 single family homes and condominiums sold in 2000 and 220 sold in 2012) and in price (MIBOR, 2013). From 2000 to 2012, the median sales price of homes and condominiums in downtown increased 50 percent and 87 percent, respectively, while the rest of Marion County saw only an 11 percent increase in median sales price during that time period. With an additional 3,541 rental units under construction or committed to be developed between 2014 and 2017, the downtown rental supply is expected to continue its expansion.

In response to this growth, Indianapolis Downtown, Inc. (IDI) engaged the IU Public Policy Institute (PPI) to analyze the downtown housing market, specifically the potential to absorb a number of newly constructed and under construction upscale apartment units, and identify the key factors that may affect the short- and long-term success of those units.

The changing downtown housing market
The downtown housing market in Indianapolis has been growing. Between 2000 and 2012, in addition to doubling the number of single family and condominium homes sold, nearly 1,200 new units have been added to the rental supply (Indianapolis Downtown, Inc., & Urban Initiatives, 2013).

Rental market
Between 2000 and 2012, the number of rental units in multi-units tracked by Tikijian Associates increased by 70 percent (up 1,959 units), while the number of vacant apartments only increased 14 percent, from 145 to 166 units (Figure 1) (Indianapolis Downtown, Inc., & Urban Initiatives, 2013). The vacancy rate for downtown residential rentals peaked at 10.6 percent in 2005, and dropped to a 12-year low of 3.5 percent in 2012. While the vacancy rate has decreased, rent, in 2012 dollars, increased, from a low of $1.12 per square foot in 2004-2006 to a high of $1.24 per square foot in 20121 (Figure 2) (Tikijjian Associates data as cited in Indianapolis Downtown, Inc., 2013).

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1 All conversions to 2012 dollars in this analysis are based on the CPI data provide by the U.S. Department of Labor, Bureau of Labor Statistics, using the All Urban Consumers, All Items categories. CPI accessed September 24, 2013 at ftp://ftp.bls.gov/pub/special.requests/cpi/cpiai.txt
Between 2000 and 2012, the sales-related downtown housing market underwent some significant changes in character. The number of transactions more than doubled, increasing from 103 in 2000 to 220 in 2012 (Figure 3), and during that period market transactions shifted away from single family homes towards condominiums. For the first three years, 2000 to 2002, the number of single family transactions outpaced condominium sales. Beginning in 2003, this relationship was reversed, with condominiums outselling single family homes (the sales of which remained relatively steady throughout the study period) (MIBOR, 2013).

Over the 12-year period, the average annual sales price, in 2012 dollars, for single family (detached) homes increased by nearly $34,000 and the average sales price of condominiums increased by nearly $82,000 (Figure 4). In 2005, the average sales price in the downtown area of a condominium exceeded the average sales price of a single family home for the first time during the time period. Since then, both the sales price of condominiums and the volume sold have surpassed these figures for single family homes. The average sales price for both single family homes and condominiums increased in the downtown market (15 percent and 44 percent, respectively) while the average price of a home decreased by 14 percent (in 2012 dollars) in all of Marion County.

A view of the housing market through census data

Although U.S. Census data are only available through 2011 (Table 1), it is more complete than both the Tikijian data, which are focused on multifamily complexes rather than individual rental units, and the MIBOR data, which are limited to sales that occur during the individual calendar years. For some variables, the census data seem to conflict with the other two sources. For example, the Tikijian and census data agree regarding the increase in...
in number of units, and Tikjian and MIBOR data agree that property values are growing (increases in mortgages, rents, and home values). Additionally, the census data and the Tikjian rental data both describe an increase in the number of vacant units, but the census data find an increase in the collective rental vacancy rate from 15 percent in 2000 to 19 percent in 2011, while Tikjian data suggest that by 2012, vacancy rates for rental units declined to 3.5 percent.

When considering the difference in vacancy rates, it is important to remember that there are two key differences between the census data and the data supplied by Tikjian. The first is that the 2011 census data set is an estimate based on a sample. The second is that the Tikjian data track only major apartment complexes and the census estimates vacancy rate based on all units (both owner-occupied homes as well as all rental units). Interpreting the data in regard to these key differences, a possible conclusion is that while the downtown housing market is indeed growing, some of the older units that are remnants from a less competitive market, are now at a disadvantage when competing with new housing opportunities provided by the newly constructed complexes, such as the Cosmopolitan on the Canal and CityWay.

![Figure 3: Total sales of single family homes and condominiums in downtown Indianapolis, 2000-2012](image)

![Figure 4: Change in sales price of single family homes and condominiums in downtown Indianapolis, 2000-2012 (2012 dollars)](image)
Who are the new residents in downtown Indianapolis and the rest of Marion County?

Part of the analysis of the residential market in downtown Indianapolis must be to examine who is driving the demand for downtown housing. Typical housing market studies are often limited to county-to-county migration data from the Internal Revenue Service, but Indianapolis Downtown, Inc., persuaded the developers of many of the newer downtown apartment complexes to share with PPI aggregated data regarding the previous places of residence of their tenants for the purposes of this analysis. The next sections report data from this survey (Developer data, May/June 2013).

Who is moving downtown?

While the census data can provide us with a big picture view of how the changing downtown housing market is affecting the area’s demographics, Indianapolis Downtown, Inc., identified several apartment/condominium projects for inclusion in a short survey about the residents of these new properties. The developers provided information regarding the number of households in their facilities, and some demographic data regarding age, income, previous place of residence (most commonly by zip code), and profession. These data were not identifiable by resident, and once obtained were aggregated for the downtown area, so as not to be identifiable by residential property either. The following discussions include only the respondents to this survey in these identified properties – not downtown residents generally.

Most of the surveyed apartment complex residents were either in the baby boomer or millennial generations, and many work in life sciences, education, finance, or a technical field such as engineering. Thirty-eight percent of the respondents lived in other states or, in a few cases, other countries, prior to moving to downtown, and their average annual household income was $90,807 (Figure 5). An additional 26 percent moved downtown from other Indiana counties, and their average household income was $81,042. Even the residents that moved downtown from within Marion County (36 percent of respondents) are relatively high income earners ($61,172 average household income versus the 2011 median household income in Marion County of $30,926) (Figure 5).

Out-of-state migrants to downtown Indianapolis. As previously stated, 38 percent of respondents moved to downtown apartment complexes from outside Indiana. These out-of-state newcomers (which include a modest number of households that migrated from other countries) reported an average household income of $90,807 and a median household income of $60,000. The median age of these respondents was 30, and in 45 percent of the responding households from out-of-state the oldest person in the household was under 30, and in only 18

![Figure 5: Average downtown household income by previous place of residence, 2013](source: Developer data, May/June 2013)

<table>
<thead>
<tr>
<th>Measure</th>
<th>2000</th>
<th>2011</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total housing units</td>
<td>9,869</td>
<td>11,649</td>
<td>18%</td>
</tr>
<tr>
<td>Vacant units</td>
<td>1,470</td>
<td>2,281</td>
<td>55%</td>
</tr>
<tr>
<td>Occupied units</td>
<td>8,399</td>
<td>9,368</td>
<td>12%</td>
</tr>
<tr>
<td>Owner-occupiers</td>
<td>1,833</td>
<td>2,239</td>
<td>22%</td>
</tr>
<tr>
<td>Percent of units owner-occupied</td>
<td>(22%)</td>
<td>(24%)</td>
<td></td>
</tr>
<tr>
<td>Renters</td>
<td>6,566</td>
<td>7,129</td>
<td>9%</td>
</tr>
<tr>
<td>Percent of units renter-occupied</td>
<td>(78%)</td>
<td>(76%)</td>
<td></td>
</tr>
<tr>
<td>Mortgage (gross)*</td>
<td>$1,491</td>
<td>$1,852</td>
<td>24.2%</td>
</tr>
<tr>
<td>Rent (gross)*</td>
<td>$736</td>
<td>$813</td>
<td>10.5%</td>
</tr>
<tr>
<td>Median home value*</td>
<td>$196,458</td>
<td>$264,902</td>
<td>34.8%</td>
</tr>
</tbody>
</table>

*In 2012 dollars
Source: U.S. Census (2011)

Notes:
The categories are not comprehensive. This information is from the developer data that include only selected downtown residential apartment/condominium properties.
Those included in the from other Indiana counties category are not included in from other states category.
percent of these households was the oldest householder age 50 or greater. The most common occupations of those who moved downtown from outside Indiana were in life sciences (34 percent), education (27 percent), business (22 percent), and technology/engineering (10 percent).

The Chicago metro area was the most common out-of-state previous address for the survey respondents in the downtown apartment complexes. Over 4 percent of all the respondents previously lived in Chicago. Their median household income was $60,000 and the mean household income was $138,000. The median age (of the oldest householder) was 40, and the oldest person in nearly 50 percent of these households who moved from Chicago was younger than 30 years old. The most common occupations reported by these respondents were in the life sciences (34 percent of all who reported an occupation), education (27 percent), and business (22 percent).

The second most common previous address for out-of-state residents was the Cincinnati-Dayton metro area at 4 percent of all residents. Their median income was $60,000 and the mean $79,000. The median age of the oldest member of the household was 28.

Three additional Midwestern metro areas—Milwaukee, Louisville, and Detroit—were each the previous location of approximately 2 percent of all households. Those who moved to downtown from Milwaukee reported a median income of $60,000 and a mean income of $74,000. The median age of the oldest householder was 26. Those who previously lived in Louisville reported a median income of $59,000 and a mean income of $61,000. The median age of the oldest householder was 27. Downtown residents that moved from Detroit reported a median household income of $55,410 and a mean of $78,656. The median age of the oldest householder was 29.

The New York and Washington, DC, metro areas were the two largest non-Midwestern responses by residents regarding previous addresses. The over 2 percent of the households who previously resided in New York City reported a median income of $48,000 and a mean income of $79,902. The median age of the oldest householder was 28. The 2 percent of all households at the downtown apartment complexes from Washington, DC, reported a mean income of $70,149 and a median of $68,000. The median age of the oldest householder was 30.

**Migrants to downtown Indianapolis from other Indiana counties.** As previously stated, 26 percent of responding households who currently live in the participating downtown apartment complexes moved there from elsewhere in Indiana (outside Marion County). The average household income of those that migrated from another Indiana county was $81,042 and the median was $57,800. The median age of the oldest householder was 27 and 61 percent were under 30, while 21 percent were age 50 or more. The most common occupations were in life sciences (18 percent), business (11 percent), and technology/engineering (9 percent).

The two counties reported as previous location by the respondents most often are suburbs of Marion County—Hamilton and Johnson counties (Figure 6). Hamilton County (26 percent) was the most common previous address for households that moved from within Indiana but outside Marion County to downtown. The average household income of those moving downtown from Hamilton County was $78,724 and the median was $50,350. The median age of the oldest householder was 27, and 65 percent were under 30, while 17 percent were age 50 or more. The most common occupations among these respondents were in business (53 percent) and life sciences (20 percent).

Johnson County (12 percent of those households that moved from within Indiana but outside of Marion County) is the second most common response for Indiana migrants to downtown. The average household income of those moving to downtown Indianapolis from Johnson County was $103,556 and the median was $84,420. The median age of the oldest householder was 48 (which is much older than most other national and statewide previous places), only 28 percent were under 30 and 43 percent were 50 or older. Business is the primary occupation field (45 percent) and life sciences and education each represent 14 percent of those in this group who reported occupations.

Lake and Porter counties in northwest Indiana (a Chicago suburb not included in the Chicago area metro total reported in the previous section) only account for 11 percent of those respondents who previously resided in Indiana (but not in Marion County) and moved to a downtown apartment complex. However, this group of new residents represents the highest average household income ($112,078) and median household income ($109,996). Counterintuitively, given the high incomes, the median age of the oldest householder was only 27, 67 percent were under 30 and 14 percent were over 50. The three most common occupational areas among this group were education (28 percent), business (23 percent), and life sciences (23 percent).

Three counties that have major universities Monroe (Indiana University), Tippecanoe (Purdue University), and St. Joseph (Notre Dame University) also were named often as previous addresses for the respondents (a combined 27 percent of all households that moved downtown from within Indiana but outside of Marion County). As might be expected, those who move downtown from these college communities tend to be very young—the median age of the oldest householder 24, and 75 percent are under 30. Their average household income was $84,381 and the median was $55,500. Business was the most common occupation field (34 percent), education-related work was the second most common (29 percent), and life sciences was third (15 percent).
Three other Indiana counties represent previous addresses of at least 5 percent of the households that previously resided in Indiana but not in Marion County. These are Vanderburgh, Hendricks, and Allen.

Intra-Marion County migration. Thirty-six percent of the responding residents of downtown apartment complexes resided elsewhere in Marion County prior to moving to their current location. Movement from two downtown zip codes (46202 and 46204) represents 16 percent of all respondents among the current residents of the downtown apartment complexes (over 6 percent and over 9 percent, respectively). A third zip code (46220), which includes Broad Ripple, provides an additional 2 percent of the responding residents, more than either the Detroit, Louisville, or Milwaukee metro areas.

According to the respondents for whom zip code 46204 was the prior residence, the median age of the oldest household was 27 and 51 percent were under 30, while an additional 22 percent were 50 or older. This group’s mean household income was $99,000 and the median $54,000. Education services (27 percent), business (25 percent), and life sciences (18 percent) were the primary occupations.

Respondents who previously lived in the 46202 zip code had a mean household income of $73,000 and the median was $48,000. The median age of the oldest household was 27 and 56 percent were under 30 years of age (an additional 22 percent were 50 or older). Life sciences was the most common occupation group (29 percent), followed closely by education (24 percent) and business (18 percent).

Residents of the apartment complexes that moved from Broad Ripple (zip code 46220) have much in common with those from the two downtown zip codes—the mean household income was $88,000 and the median $56,000. The two most common occupations of these households were business (33 percent) and life sciences (28 percent). The median age of the oldest householder was also 27 and 62 percent

![Figure 6: Percent of respondents from Indiana moving to downtown Indianapolis by previous county of residence in Indiana (excluding Marion County), 2013](image)

Source: Developer data, May/June 2013

Note: A small percentage of respondents were from rural counties across the state.

![Map 1: Marion County, Downtown Indianapolis, and zip codes 46202, 46204, and 46220](image)

Note: There are several definitions of “downtown.” The red line in this map represents the boundaries used in this analysis.
were under 30. None of the oldest householders that moved downtown from this zip code were over the age of 50.

Who is moving into Marion County?
The Internal Revenue Service collects data that enable us to track county-to-county migration patterns. In 2010, 18,841 households relocated to Marion County. The data are provided annually and report the number of households, the number of tax exemptions, and taxable income. The data are limited to intra-U.S. migration.

Migrants to Marion County from outside Indiana. In 2010, according to IRS data, 5,075 households (28 percent of new residents to Marion County) migrated to Marion County from other states, while 13,046 (72 percent) migrated to Marion County from other Indiana counties. While there are many similarities between these data and the occupant data shared by the developers, a few national metropolitan areas not in the developer data do appear in the IRS data. This suggests that the downtown housing market (as represented by the apartment complexes sharing occupancy data) are not as effective in attracting migrants from Los Angeles, Atlanta, Phoenix, Tampa, Columbus, Dallas, and St. Louis, as they are from the other metro areas (Figure 7) (Internal Revenue Service, 2010; calculations by IU Public Policy Institute).

Migrants to Marion County from other Indiana counties. In 2010, the Indianapolis MSA counties (not including Marion), collectively, were responsible for 62 percent of all intra-Indiana migration into Marion County (Figure 8). Indiana counties that are not identified by the census as being a part of a metropolitan area were collectively responsible for 9 percent of all intra-Indiana migration into Marion County. Two northwest Indiana counties that are part of the Chicago MSA (Lake and Porter) provided 5 percent of all migrants, and Monroe, Allen, and Tippecanoe counties each generated 3 percent of the in-migrations. The other major college counties of St. Joseph (Notre
The changing demographics of downtown Indianapolis

The new downtown residents are beginning to have an impact on the overall demographics of downtown Indianapolis as reported by census data. Between 2000 and 2011, the population of downtown grew by 5.5 percent (1,072 individuals) compared to a countywide growth rate of less than 1 percent. Household income (in 2012 dollars) in downtown grew by over 43 percent, while decreasing about 1 percent for all of Marion County from 2000 to 2011. Additionally, the share of the over 25 population with an educational attainment of a Bachelor’s degree or higher increased from 25 percent to 43 percent for the downtown area from 2000 to 2011 (U.S. Census, American FactFinder; retrieved August 2013).

In addition to measures based on census data, Community Tapestry data from ESRI (a nationally recognized geographic information system company) provide a household-level perspective on who lives downtown. These data are typically used by companies, agencies, and organizations to identify promising markets and more precisely target their best customers. This is made possible through what ESRI calls segmentation or the grouping of people based on similar tastes, lifestyles, and behaviors (60 total attributes are used). ESRI creates 65 market segments based on their expert use of census data and a wide variety of public and private data sources that are more current. These 65 segments are then aggregated into 12 Life Mode groups, which for the purposes of this analysis will be known as human capital clusters (http://www.esri.com/data/esri_data/tapestry).

According to these data, there are three primary types of downtown household segments in Indianapolis, and they all fit within the profile of those residing within the new apartment complexes (as described through the developer survey data)—Metro Renters, Dorms to Diplomas, and Metropolitans.

The largest ESRI-defined group is Metro Renters. When viewed nationally, this group is described by ESRI as having high levels of household income, being employed in professional or managerial jobs, and with preferences for diversity in both the workplace and the neighborhoods in which they reside. Over 33 percent of this group have a college degree and 50 percent are attending or have attended college. Among the amenities they prefer are upscale shopping, live concerts and theater, exercise (including biking and running), and non-chain restaurants. They are connected to each other, work, and information primarily through smart phones and tablets.

The second largest group of downtown households is labeled Dorms to Diplomas, and as the name suggests, most are young and currently enrolled in college. Those that are working while attending classes tend to work in the service sector and though household incomes for this group are relatively low, they have additional funding through student loans and parental support. This group enjoys similar amenities to Metro Renters, including live concerts and theater, though they are more likely than Metro Renters to attend or rent movies. They also are connected to each other and information via smart phones and tablets. Their more limited incomes result in a preference for inexpensive dining or store-prepared food.

The smallest group of the three, Metropolitans, tend to be older and more settled than either Metro Renters or Dorm to Diploma households. This group represents the baby boomer element. They are well educated with 30 percent with college degrees and 45 percent have attended or are attending college. They work in professional and managerial positions and have similar entertainment and exercise preferences to the other two groups (especially concerts, theater, and movies), but are less common users of smart phones and tablets. Many prefer laptop or desktop computers to stay connected.

Expected new multifamily housing in the downtown market

Indianapolis Downtown, Inc., in partnership with Urban Initiatives provided PPI with a list of new multifamily residential projects that were completed in 2011 and 2012 (1,571 units), as well as those that are either under construction or far enough along in the development process that coupled with the reputation of the developer are very likely to occur (Figure 9). Over the next five years, 3,541 rental units are expected to be added to the market. According to Tikijian Associates, there are currently 4,738 occupied apartment complex units in downtown Indianapolis, with an average household size of 1.4 persons. The expected 3,541 new units in 2013 and beyond represent an increase of 82 percent in total apartment complex units tracked by Tikijian. If the household size remains the same, the population in downtown multifamily units will increase by 5,285 persons (Indianapolis Downtown, Inc., & Urban Initiatives, 2013).

Will the market support the new developments identified by IDI?

Typically, one might look only at past trends to estimate market capacity, but long-term market trends are a function of what has occurred in the past and does not consider changing lifestyle preferences of baby boomers as they become empty nesters and of the emerging millennial generation. National surveys, including one cited by P.U.M.A., find that the desire of college graduates to live in cities has increased from 60 percent in 2000 to 94 percent in 2010 (P.U.M.A., 2013) and the vast majority of the residents of the new apartment complexes fit either the under 30 (millennial) or over 50 (baby boomer/empty nester) generations.

Dame), Delaware (Ball State), and Vigo (Indiana State) each generated 2 percent (Internal Revenue Service, 2010; calculations by IU Public Policy Institute).
Given these factors, PPI identified seven factors to evaluate the potential success or failure of the new developments:

- Long-term population change
- Short-term absorption rates
- MIBOR survey of housing preferences
- National data regarding changes in housing preferences of millennials and empty nester/baby boomers
- Demographics of the millennial and empty nester/baby boomer generations
- In-migration patterns
- Comparison to other downtown housing markets

Based on these analyses, we have also identified critical short- and long-term risk factors with the potential to affect future market performance that must be carefully monitored.

**Reasons to doubt**

Between 2000 and 2011, the population in downtown Indianapolis grew by 1,072 individuals, or only 5.5 percent over those 12 years. Between 2014 and 2017, there are expected to be 3,541 new apartment units added to the downtown market. In effect, it is expected that the number of downtown housing units added in the next four years will be over twice the number of people added between 2000 and 2011. If the household size of 1.4 stays constant, then the population of downtown would need to increase by nearly 5,000 residents to support the new units without increasing vacancy rates. A second concern, is related to the great recession of 2008 and its impact on home buying behaviors. Critically, how much, if any, of the increase in demand for rental units is a short-term response to the diminished expectation of equity growth resulting from homeownership and, correspondingly, if the purchasing market improves will rental demand diminish?

**Reasons to be optimistic**

There are many more reasons to be optimistic about the ability of downtown to absorb the new units. While long-term historical population trends do not appear sufficient to fill the new residences, recent history provides a different perspective.

Over the past two years, 1,571 new units have been added to the multifamily data tracked by Tikijian, while nominal rents increased by 5 cents per square foot between 2010 and 2012. The downtown census data suggest that vacancy rates for all units (both homes and apartments) increased from 15 percent in 2000 to 20 percent in 2011. While the increase in vacancies of all units may cause some concern about the effect of the new units tracked by Tikijian on the existing units, the MIBOR data indicate that the median sales price of single family homes downtown increased while decreasing in the rest of Marion County.

MIBOR recently completed a random survey (MIBOR, 2012) of Indiana households within the MIBOR service area\(^2\) that included questions such as:

1. Which of the following best describes the place you currently live?
   - rural area
   - small town
   - suburban neighborhood with houses only
   - suburban neighborhood with mix of houses, shops, and businesses
   - urban residential neighborhood with mix of houses and apartments
   - downtown city with mix of office, apartments, and shops

\(^2\)MIBOR’s service area includes, Boone, Hancock, Hamilton, Hendricks, Johnson, Marion, Morgan, Shelby, Brown, Putnam, and Montgomery counties.
2. If you could live anywhere you wanted, in which of the following locations would you most like to live?

- rural area
- small town
- suburban neighborhood with houses only
- suburban neighborhood with mix of houses, shops, and businesses
- urban residential neighborhood with mix of houses and apartments
- downtown city with mix of office, apartments, and shops

When analyzed on a county by county basis, and considering both those that wish to move away from downtown and those that wish to move into downtown, a net of over 28,000 more households reported preferring downtown city living though not currently living downtown (Figure 10). The question simply listed downtown as a possible choice, not downtown Indianapolis specifically. Thus, it is possible that a respondent in Hendricks County may have meant downtown Danville rather than downtown Indy. However, over 28,000 households preferred downtown, and many fit one of the two primary demographics of the developer data—younger than 30 years old or older, wealthier empty nester/baby boomers. It is reasonable to assume that at least 3,541 of the 28,000 potential downtown households within the MIBOR service area were stating a preference for downtown Indianapolis. This result suggests there will be enough central Indiana demand to fill the number of expected new downtown apartment units to be added to the market.

Assuming the same mix of previous addresses of the households in the new units as shown in the developer data, only 1,665 of the 28,000 potential households would be needed to occupy the same share of new apartment units. If more than 1,665 households in the MIBOR survey area moved to these new multifamily units in downtown Indianapolis, then the share of new residents from the rest of Indiana and out-of-state needed to occupy the new units would be reduced.

As a point-in-time local survey, the MIBOR survey likely underrepresents the combined impact of major demographic shifts of the millenials and empty nester/baby boomers. The demand for downtown housing by empty nester/baby boomers is not likely to peak until the mid-2020s. For example, the first wave of baby boomers reached the age of 65 in 2011, and the last will turn 65 in 2029. The millenials, born between 1977 and 1994, are now becoming independent (the largest number reaching age 22 occurred in 2012), which means that only recently have large numbers been entering the non-student housing market, and the last of the millennials will not reach 30 years of age until 2024 (Doherty & Leinberger, 2010). By 2040, the number of seniors in Indiana will have doubled and the number of people between ages 18 and 24 will increase by 7 percent (IBRC, 2012, calculations by PPI), suggesting a growing number of potential residents for downtown housing by these two key groups.

Critically, it is not just the increase in the size of these two generations that provides a reason to be optimistic about downtown’s housing market. The convergence of these two generations and their changes in preferences, specifically a national trend towards living in and near city centers, means that not only will there be growing numbers of empty nesters and coming-of-age millenials, but both groups seem to have a preference for downtown living, and renting rather than buying. A study by the Wall Street Journal found that 88 percent of the millennial generation want to live in a downtown area, which means that eventually there could be up to 70 million more households nationally that want to live in a downtown (see P.U.M.A., 2013).

Locally (within the Indianapolis MSA), population projections for the 20-24 age group suggest a nine percent
increase between 2010 and 2020, and an additional four percent increase between 2020 and 2030. Projections suggest the over 65 age group will grow much faster, 42 percent between 2010 and 2020, and 38 percent between 2020 and 2030 (IBRC, 2012). The Indianapolis commercial real estate division of Cassidy Turley predicts that vacancy rates are expected to continue to decline while rents increase in spite of the new construction (Tolliver, 2013).

Households that move into the new housing units from out-of-state represent 38 percent of the current occupants, and the supply of in-migration to Marion County (based on the IRS data) has remained consistent. In 2011, 5,075 household migrated to Marion County from outside Indiana. On average over the past three years, 5,590 households have migrated to Marion County annually. In order for out-of-state householders to continue to occupy the new units in the same proportion as they do in the existing multifamily units in the Tikijian data, they will need to occupy 1,275 units, or an average of 255 per year. This requires an annual capture rate of five percent of the households migrating into Marion County from other states. If changing tastes represent a 10 percent increase in that average capture, an additional 25 out-of-state households per year would be seeking downtown housing.

Comparing downtown housing in similar markets may also help to understand the potential success of the new apartment units. Using the Census On-the-Map software we compared Indianapolis to similar regional markets and found that only 0.6 percent of those who worked in downtown Indianapolis also reside downtown, while 1.2 percent or more of Des Moines, Rochester, and Milwaukee’s downtown workers reside downtown. To increase its share of metro area workers who reside downtown to comparable rates of these other metro areas, then an additional 5,621 downtown Indianapolis workers need to reside downtown. This shift alone could fill the projected increase in rental units.

Key investments to support downtown housing
During a roundtable discussion with multifamily apartment complex developers (arranged by IDI), the developers stressed that certain factors were required to support continued expansion of the downtown housing market. The following were some of the key factors:

- A continued sense that downtown is safe and clean
- The continued development of and support for public spaces and events
- Usable trails (including the Canal, Cultural, and Monon trails)
- Additional elements of connectivity—most frequently mentioned were bike and car sharing programs
- Appropriate retail amenities and grocery stores

In addition to the factors from the roundtable, the ESRI tapestry data suggest needs for the following:

- Continued support of live theater and concerts
- Support of a wide range of dining opportunities (independent foodie restaurants for affluent millennial and empty nesters and inexpensive chains for the student population)
- Additional exercise facilities
- A downtown wifi network

Among the factors that could undermine the growth of the downtown housing market are a downturn in job growth—especially in life sciences and education—and rent increases outpacing increases in wages. In the long term, 15 to 20 years from now, as the empty nester generation becomes smaller and as millennials begin to move from single person and childless households to having children, two concerns will arise. The first is a mismatch between the type of product currently being developed—the one or two bedroom roommate apartment—and the larger unit likely desired by families. The second concern is the perceived quality of the school district serving downtown Indianapolis.

Conclusion
While it is impossible to predict the ability of the downtown housing market to absorb the new developments identified by IDI with absolute certainty, many factors suggest reasons to be optimistic. Following are some of the key factors that support the ability to absorb the new units:

1. Recent absorption rates, lower vacancy rates, and higher rents
2. Continuing growth in the key demographics who are consuming similar units currently (younger than age 30 and the senior population)
3. The national and local (MIBOR) trends among millennials and empty nesters towards downtown living and walkable neighborhoods
4. Downtown Indianapolis currently captures a much lower share of downtown workers than many other metro area downtowns, and, thus, does not appear from a comparative perspective to be near a saturation point

Finally, there is an element of risk aversion behavior in the multifamily housing development world, which is not as pronounced in the single family housing industry. The single family suburban market developers (companies such as CP Morgan and Ryland) are publicly traded and focus on short-term shareholder return. The developers of the downtown apartment complexes are private firms, typically investing their own wealth into the project and, as a result, they are likely to become more cautious if there should be evidence of a slowing downtown market.
References


