

# NORTH CENTRAL INDIANA

2ND HALF 2019

## MARKET OVERVIEW

St Joseph County is located in North Central Indiana, with a population of 266,931 people. The city of South Bend has a population of 103,831 and is the economic and cultural hub of a multi-county, two-state region.

South Bend ranks as the fourth largest city in the state and is home to the University of Notre Dame. The city of Mishawaka is home to the second largest retail corridor in the state of Indiana, and the entire region boasts modest housing costs, and more than a dozen institutions of higher learning. Primary industries include IT/data, healthcare, logistics / warehousing and advanced manufacturing.

## HIGHLIGHTS

### ECONOMIC INCENTIVES CONTINUE TO DRIVE GROWTH IN INDIANA'S NORTH CENTRAL REGION

Mayor Buttigieg's "Smart Streets" initiative has been the key driver behind the growth in downtown South Bend and St. Joseph County over the past several years. One of the most awaited projects, the East Bank apartment building located at 300 E. LaSalle, is back on track to be completed in 2020. Work on the project stopped in 1Q 2019 due the city's requirement to include a grocery store and pharmacy within the project. The \$45 million project is South Bend's largest downtown residential project. In addition to 144 apartments, the 10-story building will also offer office and retail space.

Increasing tourism continues to be a focus for the area. In support of this effort, Four Winds Casino has announced plans to build a 23-story hotel tower at its South Bend casino complex. In addition to new developments, the South Bend International Airport is upgrading its facility to accommodate an increase in passengers, new routes and larger planes. As part of a \$4 million project, the airport is expanding its parking lot and making interior upgrades. By the end of 2019, the airport will be track to serve more than 800,000 air passengers.

Over the past several years, a number of recently developed multifamily units have come online with the goal of attracting students attending Notre Dame. With the increased amount of on campus student housing options, along with the University's recently enacted policy requiring students to live on campus for three years, we anticipate a significant impact on the multifamily housing market in the coming months. Most notably, the housing units being built in Phase 2 of Eddy Street Commons and communities such as Harter Heights which are already experiencing increases in vacancy rates.

### ST. JOSEPH COUNTY

2019 Total Population	275,242
2024 Total Population	280,034
2019-2024 Pop Growth	0.35%
2019 Median Age	37.8
2019 Households	106,475
2024 Households	108,445
2019 Median HH Income	\$60,557
2019 Average HH Income	\$84,572

Source: Esri

### UNEMPLOYMENT RATE AUGUST '19

St. Joseph County	3.6%
Indiana	3.2%
United States	3.8%

Source: Hoosiers by the Numbers

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### INDUSTRIAL OVERVIEW

#### DEMAND FOR INDUSTRIAL CONTINUES TO DRIVE NEW DEVELOPMENT PROJECTS

Driven by increasing market rents and demand, the industrial sector continues to experience an increase in new development projects. From 3Q 2018 to 3Q 2019, average market rents per square foot have risen from approximately \$4.07 SF to over \$4.20 SF with trends continuing to pressure upward throughout 2020 according to data from CoStar.

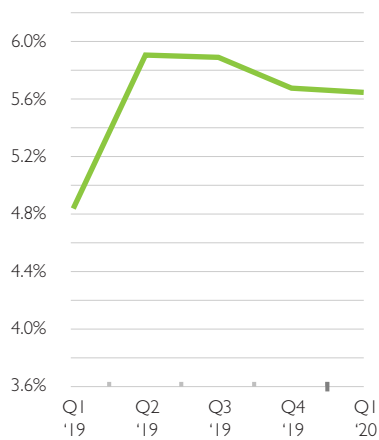
Taking into account current projects under construction, two new industrial projects, by Holladay Properties & Great Lake Capital, are expected to deliver over 390,000 square feet into the market by 2Q 2020. Those recent announcements and updates on industrial projects in St. Joseph County include:

- Holladay Properties is constructing a 225,000 square-foot spec building located at 24605 Cleveland Road. The project is situated on 19.6 acres and offers a 6-year tax abatement in place as the city has focused efforts on building additional infrastructure to stimulate future industrial, office and commercial investment. The property is also adjacent to the Blackthorn Corporate Park and Development Area on the northwest side of South Bend in St. Joseph County. The centerpiece of the area is the Blackthorn Golf Course and Corporate Office Park.
- Great Lakes Capital broke ground in October 2019 on its fourth warehouse in four years at Portage Prairie. The 166,000 SF cross docked facility includes precast construction with 32-foot clear ceiling heights and is located on US 31 close to the Michigan state line. The project is expected to be complete by May 1, 2020 and is ideal for companies looking for a logistics or distribution center.
- A master plan for a new industrial complex just east of New Carlisle is expected to be presented to the county Redevelopment Commission by the end of this year. Early information indicates that the project will require roughly 7,200 acres of core development area, plus 22,000 acres of potential secondary development in Olive Township.
- In July 2019, Great Lakes Capital completed the development of GLC Portage Prairie II, a 210,000 square-foot warehouse which was 100% leased to ThyssenKrupp and Amazon prior to completion of construction.

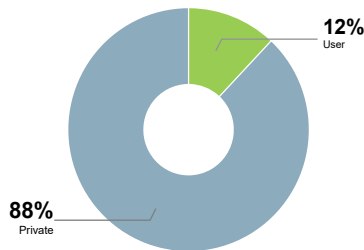
MARKET RENT PER SF\*



VACANCY RATE\*



SALES BY BUYER TYPE\*



\*Source: CoStar

### FORECAST

- The North Central industrial market will remain attractive to industrial users due to accessibility of highways, rail lines, and proximity to Chicago.
- Continued demand for industrial space is expected to spur development of more spec buildings in the area.
- Vacancy rates are expected to remain relatively flat into early 2020 even as new inventory enters the market.

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## 2ND HALF 2019

### OFFICE OVERVIEW

*NEW CONSTRUCTION AND REDEVELOPMENT PROJECTS CONTINUE TO LURE TENANTS AWAY FROM OLDER PROPERTIES*

The office market within St. Joseph County is experiencing a significant level of turnover which is driving up vacancy rates. Looking at the past 12 months, the market has seen an increase from 8.5% in 3Q 2018 up to 9.4% as of 3Q 2019. As new properties are being built, allowing for tenants to transition out of their current spaces to newer offices, the properties they have vacated have remained empty for extended periods. One example of this trend is the 5-story office building that is under construction in downtown South Bend. Once complete, tenants will move out of existing downtown offices increasing the amount of space available for lease. Currently, there is 20,000 square-feet of vacant space in Leighton Plaza, and over 10,000 SF of vacant office space in the Holladay building, over 60,000 square-feet in Jefferson Centre and an entire floor of approximately 8,000 square-feet available for lease in the Key Bank Building.

Following through with an announcement made in 1Q 2019, Bayer, the Germany-based pharmaceutical and agricultural company, began layoffs in November at its customer logistics service center in Mishawaka. The move will leave roughly 42,558 SF of unoccupied space by the end of 2020 and impact approximately 172 jobs.

Large office buildings with multiple tenants are not the only properties in downtown South Bend that are experiencing change. The South Bend Tribune recently announced that it is relocating to Union Station temporarily until their new offices in the Studebaker redevelopment is complete in early 2020. Developers are currently looking at this move as an opportunity to redevelop the three-story property that has been occupied by the Tribune since 1921.

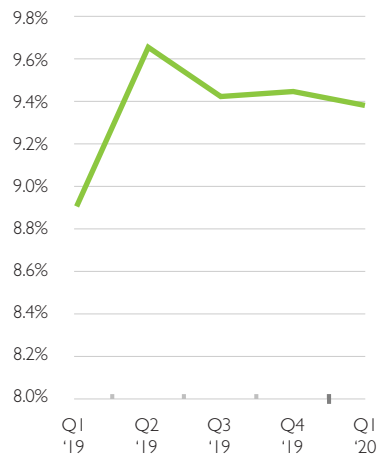
Renovations of the former Studebaker auto plant's building 113, part of four buildings encompassing the 1.2 million square-feet of the former Studebaker campus, will be complete in early 2020. The Studebaker buildings are part of the Renaissance District, which will become a modern tech park in downtown South Bend, capitalizing on the already complete fiber-optic data infrastructure at Union Station. Tax increment financing from the city and funding from the state's Regional Cities program have helped fuel the project. The Tribune will occupy 15,000 square-feet of the first floor of Building 113 bringing it to about 80% occupancy. Existing tenants in building 113 include Purdue Polytechnic Institute; F Cubed, a biotech startup; EnFocus, a consulting firm; LEA Professional, an amplifier and audio tech company; and South Bend-Elkhart Regional Partnership, an economic development nonprofit.

Great Lakes Capital recently broke ground on a new \$16 million office building in Ignition Park. The 84,000 square-foot project known as Catalyst III will be occupied by Press Ganey. The project is expected to be complete by February 2021.

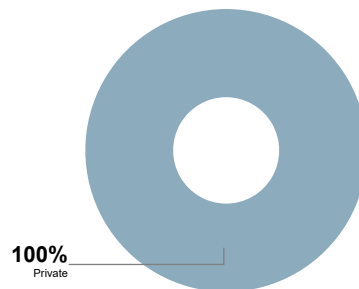
MARKET RENT PER SF\*



VACANCY RATE\*



SALES BY BUYER TYPE\*



\*Source: CoStar

### FORECAST

- Rental rates are expected to increase slightly into 2020 but may begin leveling off once additional inventory is introduced into the market
- While vacancy rates appear to be holding steady into early 2020, expectations are that rates will begin increasing and projects currently under construction are complete.
- Larger more dated spaces may take longer to lease for the foreseeable future.

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### RETAIL OVERVIEW

**NEW PROJECTS BRING NEW LIFE TO THE RETAIL SECTOR IN SOUTH BEND BUT THE MAJORITY OF GROWTH CONTINUES TO OCCUR OUTSIDE OF THE CITY**

While significant development and redevelopment projects continue in downtown South Bend, the majority of growth within the retail sector is occurring outside of the city. Vacancy rates have continued to climb since 2018 and are forecasted to increase further by the end of the year. As of 3Q 2018, the vacancy rate was 2.3% compared to 3.4% as of 3Q 2019.

The increase in vacancy rates is driving market rents down and offering tenants the opportunity to relocate or expand businesses to new locations. For example, in September, Menards relocated its store on the south side of South Bend into a new “mega store” facility located on a 5.4 acre site at 4640 S. St. Joseph St. near the corner of U.S. 31 and Ireland Road. The location previously included the former Sears Essentials store, three adjacent residential properties, four vacant parcels and the southernmost portion of the Gurley-Leep Ford dealership.

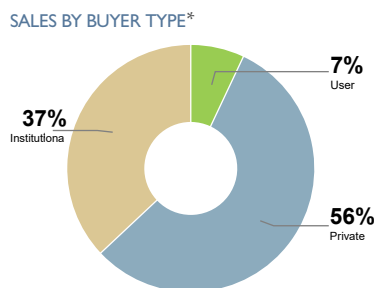
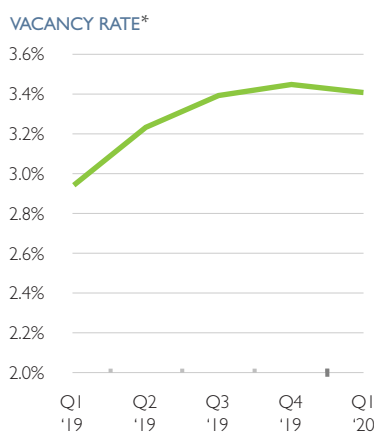
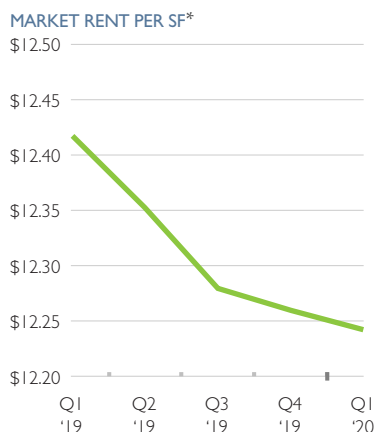
With the relocation of the Menards mega store, traffic has increased within the Ireland Road corridor and is generating interest from new retailers. Erskine Village for example, which began losing major tenants such as DSW Designer Shoe Warehouse in 2017, recently added two new restaurants. Sawyer, Michigan based Greenbush Brewing Company is opening its first location within Erskine Plaza, in a space attached to the Martin’s grocery store, near the U.S. 31 and U.S. 30 intersection. Jersey Mikes Subs is also opening a new location on the south side of the city at 315 W. Ireland Road.

New restaurants appear to be leading the backfill of vacant space throughout St. Joseph County. A few announcements of note include:

- Porto’s Peri Peri restaurant, an Illinois-based spicy chicken restaurant announced that it will filling a vacancy at Heritage Square that was once occupied by Primal Kitchen at 7130 Heritage Square Drive.
- Center Stage Pizza, recently opened at Lincoln Way West in South Bend, offers a unique atmosphere where guests can bring their laptop, grab a slice of pizza, sit on couches and watch music videos.
- The Prized Pig, a well-known local barbecue restaurant, reopened at 114 Lincoln Way East in downtown Mishawaka.
- Table 97, a new restaurant offering 20 to 30 different items including Philly cheese steak eggrolls, poutine with a house-made Guinness gravy and a variety of burgers will take over space formerly occupied by the Main Street Grille located at 112 N. Main St. in downtown Mishawaka.
- Chick-fil-A also announced it will begin construction on a new location at 3703 Portage Ave. The site was the former location for Applebee’s which closed in June 2018.

As news of well-known retailers going out of business remains abundant, brand-name restaurant chains are beginning to follow-suit. Granite City closed in October within the University Park Mall as part of abrupt closures across Illinois and Indiana. Over time however, these locations may find new occupants which is a trend that is beginning to happen within sites previously occupied by big-box retailers. For instance, Ollie’s Bargain Outlet plans to open in the former Toys R Us building in Mishawaka at 6011 N. Grape Road by April 2020.

Additional good news within the sector includes the opening of Half Price Books in October. Located at 5610 Grape Road, this will be the seventh store in Indiana, with others located in Fort Wayne, Indianapolis and Bloomington.



\*Source: CoStar

### FORECAST

- Expect the retail vacancy rate to rise slightly through the end of 2019.
- Market rents are expected to continue their trend downward well into 2020 given the amount of inventory available for lease.
- Mixed use projects with retail will add to the existing inventory over the next year. The Mill at Ironworks Plaza will add 13,213 square-feet of retail space in Q3 when it opens in downtown Mishawaka. Eddy Street Commons Phase II will open in summer 2020.

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ERSKINE VILLAGE, 1290 E IRELAND RD, SOUTH BEND, 46614

- Easy access to and visibility from the US 20 / 31 Bypass
- 500,000 SF+ power center anchored by Target and Kohl's
- Co-tenants include: Old Navy, TJ Maxx, Ross, PetSmart and more
- Traffic counts in excess of 40,650 ADT



LEIGHTON PLAZA, 130 S MAIN STREET, SOUTH BEND, IN 46601

- 1,319 SF to 16,819 SF suites available in a premier Class A office space
- Proximal to the St. Joseph County Courthouse, County City Building and Federal Building
- Attached underground parking garage
- Professional tenant mix including Old National Bank, Donnell Systems, and Graham Allen Partners



630 E. BRONSON ST., SOUTH BEND, IN

- 30,921± SF total building
- Located in Monroe Business Park
- 240V electrical service
- ADA accessible
- Municipal utilities

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