

NORTHWEST INDIANA MARKET

1ST QUARTER 2019

MARKET OVERVIEW

The Northwest Indiana region continues to benefit from its business-friendly environment and proximity to the Chicago market. Because of this, the region is seeing a growth in new companies and residents locating in the area. Several cities and towns have begun investing heavily in key areas in hopes of transforming their communities.

Several mixed-use developments are under construction in Valparaiso, LaPorte, Whiting, and Portage. These projects are expected to bring more than 1,000 new residential units, and quality new ground-floor retail space to the market.

To assist with the growth occurring in northwest Indiana, transportation developments are underway. The South Shore's \$764 million West Lake Corridor project is expected to reach high-growth areas in Lake County, as well as create a faster, less expensive, and more reliable form of transportation to the Chicago market and surrounding areas.

QUARTERLY HIGHLIGHTS

ENCOURAGING SIGNS OF ECONOMIC GROWTH EMERGED IN 2018

Northwest Indiana is experiencing its strongest economic growth in more than a quarter century. The Northwest Indiana Coincident Index, which measures the current economy and forecasts future growth, stood at 110.0 in February 2019, according to Indiana University Northwest. The latest is only a sliver above the 109.9 where it had plateaued since September 2018 but nonetheless is a record.

The Northwest Indiana Index is based on similar analysis published by the Federal Reserve Bank. The baseline of 100 is the average of all months in 2007, the year the most recent economic cycle peaked. The index dipped to 94.7 in April 2009 but has traveled a largely upward trajectory since. ⁽¹⁾

The index, released in April, parallels other upbeat news from 2018. A decades-long migration of jobs from well-paying goods-producing industries to lower-paying service industries reversed. Steelmaking drove the turnaround but manufacturing and construction contributed. This wasn't the only good news. The Region's economy, the second-largest in Indiana, grew at a 2.9% annualized rate during the first three quarters, a significant increase. ⁽²⁾

Northwest Indiana's integrated steel mills continued to be fired by manufacturers turning out cars, appliances and heavy machinery. Mill capacity remains a solid 80% to 90%—rates sufficient enough to bring additional production online elsewhere in the nation.

There are signs the momentum could be moderating. In its Beige Book report in April, the Federal Reserve Bank of Chicago cited a "noticeable decline" in the number of its contacts in the Chicago Fed district—which includes the northern half of Indiana—hiring production workers.

A recession or unfavorable trade policies could dampen the bright spots of steelmaking, manufacturing and construction.

The region is also experiencing higher unemployment rates than the state or national average. The figures are not seasonally adjusted and unemployment rates sometimes increase in strong labor markets due to workers who reenter the job market search.

(1) <https://www.iun.edu/business/nwi/coincident.htm>

(2) <https://www.ibrc.Indiana.edu/ibr/2018/outlook/gary.html>

LAKE, PORTER, LAPORTE COUNTIES

2018 Total Population	771,815
2023 Total Population	779,544
2018-2023 Pop Growth	0.03%
Median Age	39.5
2018 Households	295,946
2023 Households	296,657
2018 Median HH Income	\$55,744
2018 Average HH Income	\$72,779

Source: Esri

UNEMPLOYMENT RATE MARCH '19

Lake County	6.9%
Porter County	4.9%
LaPorte County	5.6%
Indiana	3.9%
United States	3.9%

Source: Hoosiers by the Numbers

HOUSING MARKET MARCH '19

Lake County	
Median Home Value	\$148,300
Y-O-Y Increase	8.2%
Median Listing Price	\$189,200
Porter County	
Median Home Value	\$203,000
Y-O-Y Increase	7%
Median Listing Price	\$249,900
LaPorte County	
Median Home Value	\$147,300
Y-O-Y Increase	13.1%
Median Listing Price	\$189,900

Source: Zillow

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INDUSTRIAL OVERVIEW

LACK OF SUPPLY IS DRIVING VACANCY DOWN AND LEASE RATES UP

The trend, which started in 2018, is expected to continue into the near future and possibly beyond.

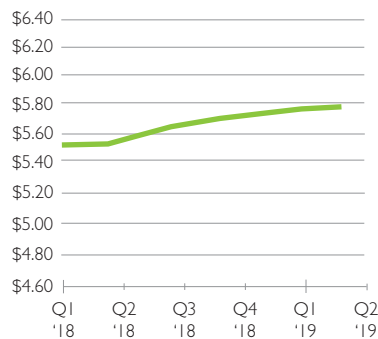
As is the case on a national level, lease rates for industrial properties are extremely low compared to other sectors of commercial real estate, thus driving vacancy rates down. This trend which began in 2018 is expected to continue through much of 2019. As of 1Q 2019, the vacancy rate was 5.4% compared to 5.7% 12 months prior. Lease rates also rose to \$5.77 per square foot, up 4.15% from \$5.54 in 1Q 2018.

Investment into the region as well as new development projects have supported a strong jobs market in the construction sector. In fact, no other employment sector in Northwest Indiana has seen a greater increase. Construction jobs rose 10.7% in February, to 16,600, from the same month in 2018. Weather can heavily influence the job category, and the government does not adjust for seasonal fluctuations, making comparisons of January and February 2019 difficult. Still, the year-over-year growth in construction was dramatic and significantly more than in any other sector in the region.

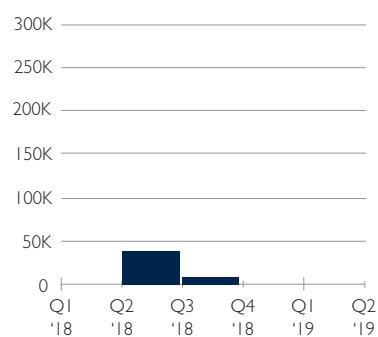
Some upcoming projects:

- ArcelorMittal is investing \$140 million on the 80-inch hot strip rolling mill in its Burns Harbor mill on the Lake Michigan shoreline in Porter County.
- LaPorte County lands national developer for a \$24MM Facility Reuse expected to add 125 new jobs and \$4.1MM in payroll by working in cooperation with NorthPoint Development on a purchase, rehabilitation and reuse of a 680,000 square foot cold and dry storage facility located outside of Westville, IN. Recent activity included leasing of 380,000 square feet to Dollar General for a regional food distribution center investing an additional \$8MM.
- Developers are breaking ground for a \$40 million, 105,000-square-foot data center at the site of the former State Line Generating Plant in Hammond. The center is designed to serve national companies like Amazon and Hulu and will be cooled with Lake Michigan water and breezes. The developers might eventually invest up to \$200 million in 400,000 square feet. The project moved to Indiana after failing to get traction in Illinois.
- The widespread industrial investment is driving residential development. In downtown Portage, the Promenade at Founders Square mixed-use project is well underway. Four of nine planned buildings are complete and fully leased.

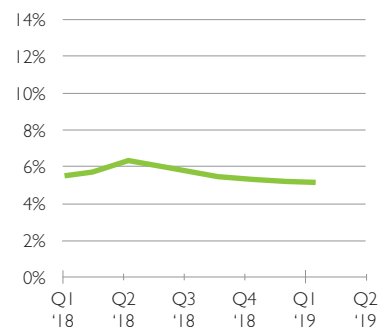
MARKET RENT PER SF*



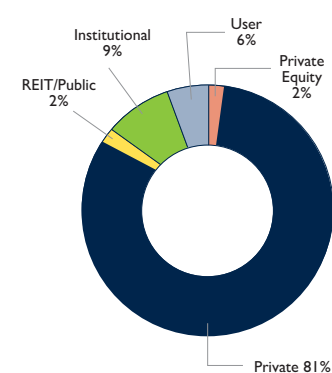
CONSTRUCTION STARTS IN SF*



VACANCY RATE*



SALES BY BUYER TYPE*



*Source: CoStar

FORECAST

- Lease rates for industrial properties are expected to continue increasing in 2019.
- With limited new inventory coming on line, vacancy rates are forecast to remain low throughout the remainder of the year.
- Private owners will continue to be primary sellers of industrial and flex properties in this market in 2019.

NORTHWEST INDIANA MARKET

IST QUARTER 2019

OFFICE OVERVIEW

LIMITED SUPPLY CONTINUES TO PUT DOWNWARD PRESSURE ON VACANCY RATES

Demolition of two office towers eliminated square footage, thereby pushing down the vacancy rate. The reality on the street, however, is that vacancies are expected to rise despite some new projects being half-leased prior to completion.

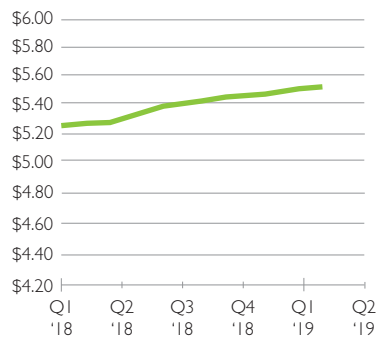
The declining vacancy rate bottomed in early 2019 but is expected to increase gradually for the next few years, according to CoStar. The vacancy rate of 6.6% in 1Q 2019 was down from the prior quarter mostly due to razing of the golden-colored Twin Tower office buildings, which eliminated 305,699 square feet from the market.

Demand is brisk, however. Occupancy rates will rise in the next several quarters as new projects open, but many developers have lined up substantial tenant counts prior to deliveries. One example is Cardinal Campus Highland, which has three buildings under construction totaling over 55,000 square feet; half the space is already spoken for.

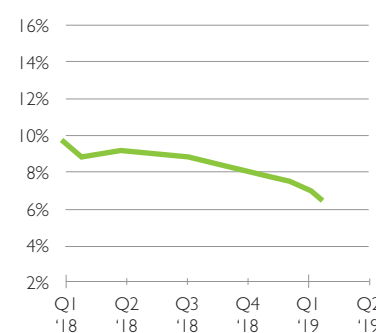
In health care, Community Health Systems of Brentwood Tennessee is building a \$125 million hospital in LaPorte to replace the existing facility. The project will be finished by the end of 2020 and retain 1,000 jobs. NorthShore Health Systems has started construction of new administrative offices and an expanded clinic at Sterling Creek in Portage. The project will double the size of the clinic and eventually employ about 190 people compared to the current 80. ⁽¹⁾

(1) https://www.nwintimes.com/nwi-continues-to-see-new-businesses-come-in-with-more/article_73751513-6747-56f9-aac4-

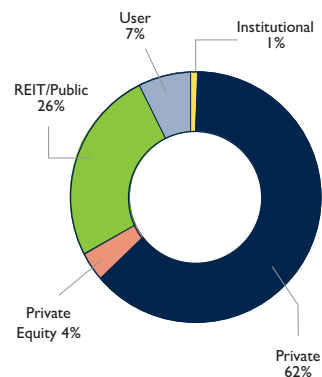
MARKET RENT PER SF*



VACANCY RATE*



SALES BY BUYER TYPE*



*Source: CoStar

FORECAST

- Expect vacancy rates to rise slightly over the next few quarters as new inventory comes to market.
- New development projects in the Hammond area will create opportunities for new businesses to enter the market and increase jobs.
- There is a potential for an increase in the amount of office properties for sale due to continued interest from buyers such as REITs, public funds and private equity investors.

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RETAIL OVERVIEW

NEW CONSTRUCTION OF RETAIL PROPERTIES HAS BEEN STEADY IN THE WAKE OF STORE CLOSINGS

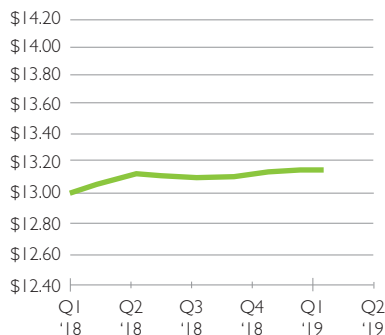
Similar to national trends, vacancy rates have been trending upward for the past several quarters not only due to big-box store closings, but also due to new inventory entering the market. Retailers such as Toys “R” Us, Sears and Kmart were just a few brand names responsible for driving vacancy rates up to 5.7% as of 1Q 2019. However, compared to 1Q 2018’s rate of 5.6%, new store openings helped to offset significant increases. Brands expanding in the market include At Home, Burlington Coat Factory, Dicks Sporting Goods, Buona Beef, McAllister’s, Pita Pit, Rosatti’s Pizza and numerous restaurants in Centennial Village. Belle Tire, a Michigan-based premium tire and auto care shop, is opening two stores in Valparaiso.

Long-term, expectations are that the rate will continue to climb as inventory continues to increase.

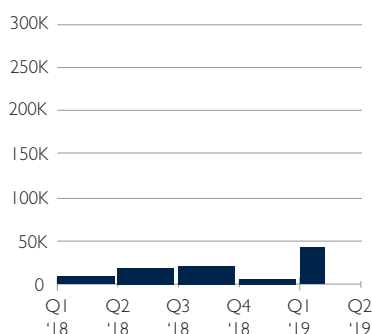
Liquidators are doing a land office business across the nation helping retailers wring the most value from inventories as they close stores. As of mid-April, retailers had announced plans to close 5,994 stores, more than the 5,854 in all of 2018. Financially solid retail companies are unloading locations as leases expire and struggling companies such as Payless Shoe Source are closing stores as they file bankruptcy. The consensus is that consumers will reward retailers that offer better experiences than online or that compliment online shopping options; all else is doubtful. ⁽¹⁾

(1) https://www.nytimes.com/2019/04/12/business/retail-store-closings.html?utm_source=newsletter&utm_medium=email&utm_campaign=newsletter_axiosfutureofwork&stream=future

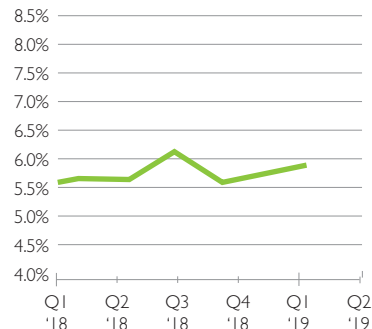
MARKET RENT PER SF*



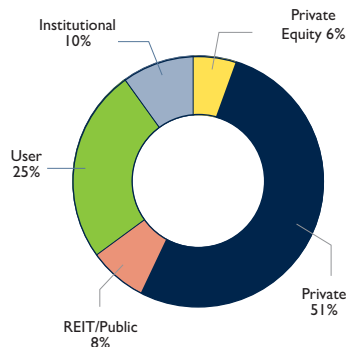
CONSTRUCTION STARTS IN SF*



VACANCY RATE*



SALES BY BUYER TYPE*



*Source: CoStar

FORECAST

- Expect vacancy rates to continue climbing as new inventory comes to market and consumers opt for online purchases.
- Look for new construction to be more heavily weighted towards multi-tenant properties versus single-tenant.

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**CLEVELAND AVE. & MEIJER DR.,
MICHIGAN CITY, IN**

- 2+ acres shovel ready land available
- 400± feet of frontage along Cleveland Avenue with excellent visibility
- Adjacent to many retailers including: Meijer, Lowes, Big R Store & Menard's



1414 STATE ROAD 2, LAPORTE, IN

- Net leased 7,200 SF free standing building
- Excellent visibility on State Road 2
- Located on an outlot of the Maple Lane Mall with the availability to create access to the mall parking lot



DEER TRAIL LAND, SCHERERVILLE, IN

- Three shovel-ready sites located on US-30 in the heart of Schererville
- Easy access from both lanes of US-30 east of Austin Ave., and from Austin Ave.
- 41,000 VPD in the shadow of the Residences at Deer Creek, an upscale assisted living facility



3518 SHEFFIELD AVE., HAMMOND, IN

- 225,000 SF proposed warehouse to be demised into 50,000 SF units
- TI and office buildout included in competitive base rent
- Convenient access to I-90, I-94, and downtown Chicago



**WESTFIELD COMMONS SOUTH:
101-109 W. 79TH AVE., MERRILLVILLE, IN**

- 9,072 SF multi-tenant office building
- Conveniently located off of Broadway (SR 53) at 79th Avenue, just north of US 30 near the I-65 interchange
- Brick exterior with attractive curb appeal



**PARK 84: 251-397 W. 84TH DRIVE,
MERRILLVILLE, IN**

- 31,187 SF multi-tenant professional office building
- 8,000 SF pad expansion available
- Conveniently located in the Merrillville CBD just 3 blocks south of US 30



**80TH PLACE PLAZA:
7950-7990 BROADWAY, MERRILLVILLE, IN**

- 30,642 SF multi-tenant strip center ideal for retail and office users
- Lighted intersection provides convenient access
- Features frontage along both 80th Place and Broadway



**BROADFIELD SQUARE NORTH:
8906-8939 BROADWAY, MERRILLVILLE, IN**

- 17,058 SF multi-tenant office building built in 1987
- Located next to Methodist Hospital Southlake
- 85% occupied with a diverse mix of tenants



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