

# CENTRAL INDIANA

## 2ND HALF 2020 / 2021 OUTLOOK

### MARKET OVERVIEW

Central Indiana comprises a 9-county region which includes Boone, Hamilton, Madison, Hancock, Shelby, Johnson, Morgan, Hendricks, and Marion counties. Indianapolis, also called “Indy”, is the state capital and is the largest city in Indiana. In 1970, the governments of Marion County and the city of Indianapolis consolidated into a city-county form of government. Over the past decade, the Central Indiana area has experienced rapid growth and is now home to approximately 2 Million residents.

The interconnected highways and railroads around the Indianapolis metro earned Indiana its motto “The Crossroads of America.” Multiple major highways, including I-70, I-69, I-65, and I-74 are linked around Indy by I-465 and provide access to 60% of the U.S. population within a 12-hour drive (Indy Chamber). National railroads are connected by Union Station in downtown Indianapolis. The Indianapolis International Airport adds to the City’s connectivity. The airport is the 2nd largest Fed-Ex air hub in the world and handled over 1 Million metric tons of air cargo handled in 2019, according to the Indiana Economic Development Corporation and Indy Chamber, respectively.

Additionally, the City’s connectivity allowed for the growth of its thriving agricultural, life sciences, advanced manufacturing, and technology industries. Central Indiana is home to large corporations including: Eli Lilly (10,005), Roche Diagnostics (4,500), IU Health (23,187), Community Health Network (11,328), Amazon (5,000), FedEx (5,000), Simon Property Group (4,800 in the US), Allison Transmission (2,500), Cummins (58,000 globally), Salesforce (1,700), Infosys (3,000), Rolls-Royce (4,000), and the city (77,249), state (33,520), and federal governments (16,918), per the Indy Chamber. These large employers coupled with the hundreds of thousands of small employers across the 9-county area total over 1 Million jobs in Central Indiana per the Indy Chamber. These jobs had an average wage of \$54,051 in 2019.

Indianapolis is also called “The Racing Capital of the World.” It is home to the Indianapolis Motor Speedway which hosts the annual Indianapolis 500, Brickyard 400, and Red Bull Air Race. Other magnets for tourism include pro sports teams, like the Indianapolis Colts and Indianapolis Pacers. The Indiana Convention Center also attracts many large conventions such as Gen Con and The National FFA Convention & Expo. Gen Con attracts about 70,000 attendees, generates a \$70 Million economic impact, and is the largest event hosted by the Convention Center, according to the Indianapolis Business Journal. Additionally, The Children’s Museum of Indianapolis consistently ranks within the top museums to visit in the country and in North America. Per the Indy Chamber, in 2017, there were 28.8 Million visitors to Central Indiana who supported the \$5.4 Billion tourism industry.

Indiana houses multiple world-class universities with high-ranking programs. Several of these are within an hour and a half drive of Indianapolis or are located in the city: Indiana University – Purdue University Indianapolis (IUPUI) (34,699 students), Indiana University – Bloomington (46,723 students), Purdue University (46,806 students), Rose-Hulman Institute of Technology (2,313 students), Butler University (5,306 students), Marian University (4,449 students), University of Indianapolis (6,830 students), and Ball State University (27,369 students), per the Indy Chamber. According to the U.S. News and World Report, 2020, Purdue has the #1 Undergraduate and Graduate Biological/Agricultural Engineering Program, Indiana University has the #1 Graduate Public Affairs Program, Butler University is the #1 Regional College in the Midwest, and Rose-Hulman has the #1 Undergraduate Engineering Program (where no doctorate is offered) in the US. These universities help feed the employment need in Central Indiana.

Per the Indiana Economic Development Corporation’s (IEDC) website, Indiana is ranked #1 in State Infrastructure (CNBC 2019), #1 in number of pass-through highways (IEDC), #2 in Best states for long-term fiscal stability (US News and World Report, 2018), #2 in Property Tax Index (The Tax Foundation, 2019), and in the Top 5 U.S. States for Business (Chief Executive, 2019). Central Indiana is home to suburban cities that maintain high rankings in quality of life. Fishers, a booming tech hub, ranked #3 in MONEY’s Top 10 Best Places to Live in 2019. Carmel, an arts, culture and entertainment hub ranked #1 in Niche’s Best Places to Live in Indiana in 2020, 2019, and 2018. Central Indiana is filled with vibrant companies, cities, and citizens.

### DEMOGRAPHICS

2,034,728

Population



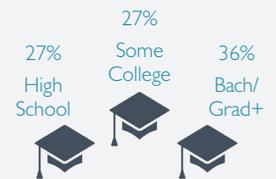
790,307

Households

\$61,305



Median Household Income



Education

66,206



Total Businesses

1,011,041



Total Employees

Source: Esri

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### INDUSTRIAL OVERVIEW

WAREHOUSE AND DISTRIBUTION ARE IN HIGH DEMAND THROUGHOUT THE METRO WITH MAJOR PROJECTS ANNOUNCED THIS YEAR

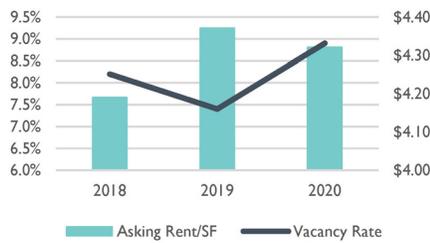
Thanks to Indianapolis' connectivity that includes interstates, rail lines, and the second largest FedEx hub, the Indianapolis metro continues to be in high demand for warehouse and industrial users. As of the end of the third quarter Reis is reporting the industrial vacancy rate at 8.9% with an asking rental rate of \$4.32, trending up from 7.4% while asking rental rate is trending down from \$4.37 in 2019. Net absorption for the year is at 1,561,000 square-feet with completed projects coming in at 5,374,000 square-feet.

Warehousing, nationwide, has been very successful and Indianapolis is following those trends. Asking rental rates have increased 0.5% from Q3 of 2019 to be \$4.51 per square-foot but the vacancy rate has increase 160 bps up to 12%. Bradley speculates that the absorption rate is -456,000 square-feet in Q3 due to the construction completions and companies pausing on making real estate decisions due to the Covid-19 pandemic as well as the impact from the results of the recent election. The year to date absorption is still at 265,000 square-feet. We are seeing quite a bit of construction and development continuing in the market. The Indianapolis Business Journal is reporting Mohr Capital, a Texas based developer, has plans to spend upwards of \$325 million to build a 7 million square-foot logistics park in Whiteland. Cooper Tire has already planned to lease 1 million square-feet for their distribution center.

Major headlines in the Indianapolis market include one major transaction and one development. Mainstay Manufacturing Solutions Inc, located in Brownsburg, has been acquired by Indiana Material Handling Products Inc. The acquisition was closed on September 30th and has plans to move Mainstay's operations as well as their employees to IMH facilities in Indianapolis. Early in September Milwaukee Tool made news on the South of Indianapolis, in Greenwood, with plans to invest over \$6 million to open a warehouse and tool repair center off of Southtech Dr. They plan to open and begin operating in March of 2021.

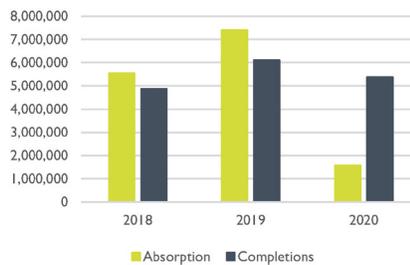
Inside Indiana Business reported earlier this year that Amazon planned to open a 615,000 square-foot fulfillment center in Greenfield. The building has been completed and operations began in the middle of October. INCOG Biopharma Services has announced plans to construct their global headquarters in Hamilton County, which will include their first manufacturing facility. The planned 60,000 square-foot building will be located in Fishers.

INDUSTRIAL ASKING RENT & VACANCY



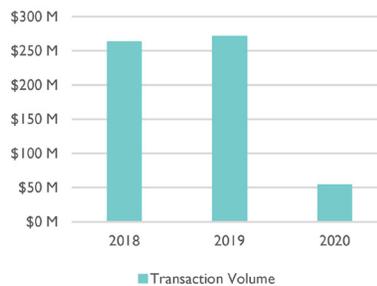
Source: Reis

INDUSTRIAL ABSORPTION TRENDS



Source: Reis

INDUSTRIAL TRANSACTION VOLUME



Source: Reis

### TRENDS

- Rental rates should decrease in warehousing by year end but increase back up to \$4.43 by 2022.
- Industrial vacancy may continue to see increases into 2021.
- Industrial asking rental rates have been increasing over the last few years and are expected to see some volatility but should level off by 2022.

# CENTRAL INDIANA

## 2ND HALF 2020 / 2021 OUTLOOK

### OFFICE OVERVIEW

OFFICE IS IN A HOLDING PATTERN AS COMPANIES PUT OFF MAJOR DECISIONS UNTIL AT LEAST NEXT YEAR

Per Reis, the Indianapolis office market is comprised of 33.6 million square feet in six geographic concentrations. The Q3 vacancy rate for Indianapolis is 20.2%, a 20-point increase from Q3 2020 and Q3 2019. The Q3 average asking rent in Indianapolis is \$19.97/SF. This is an increase of 0.3% from Q2 and a 1.0% increase from Q3 2019. Asking rent is expected to fall 2.7% in 2020 and fall 0.2% in 2021. Effective rents are expected to decline 6.4% in 2020 and fall 1% in 2021.<sup>1</sup> Vacancy rates are expected to increase in the near- to mid-term due to softening market fundamentals.

Notable deliveries of office buildings include the 100,000 SF Agora at the Proscenium. Notable sales include 1776 N Meridian St (61,011 SF) and Three Woodfield Crossing (264,357 SF), both in the North/Carmel submarket.

The pandemic and the push to work from home are causing both landlords and tenants to go into a “wait-and-see” mode. Company executives are evaluating their economic outlook and the costs and benefits of having their employees work remotely. So, companies are reluctant to renew or sign a new lease, and landlords are reluctant to decrease their asking rents.

This “wait-and-see” mode is evidenced by a slowdown of leasing velocity and an increase in the amount of space available for sublet by 100,000 SF per quarter for the past three quarters. The Q3 amount of vacant SF to sublet is 187,623 SF, which is above the historical average of 150,000 SF and has been trending upwards the past three years. The total available SF for sublet is 326,128 SF, which includes spaces that will become available within the next few months. Major portions of sublet space are in the CBD, Carmel, and Fishers.<sup>2</sup>

The office provides a space for the sharing of company culture and ideas and can enable high productivity and collaboration. A Boston Consulting Group article showed that about 40% of employees across the globe moved to remote working during the pandemic and that 56% of those who transitioned to remote working were less productive in collaborative tasks than before the pandemic.<sup>3</sup> Companies need productive collaboration and will most likely return to a physical office environment when it's safe to do so.

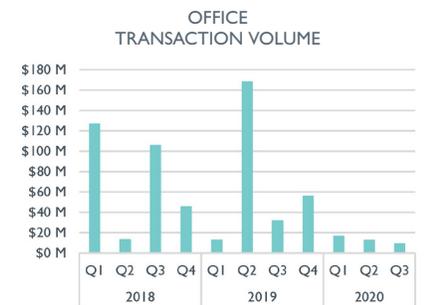
Several large employers announced that their employees will work from home indefinitely or until sometime in 2021, however, 99.9% of the businesses in the United States are small businesses.<sup>4</sup> The trend for large employers may not be the trend for small businesses. Nevertheless, large employers will have a greater impact on the office market due to the amount of square feet they absorb.



Source: Reis



Source: CoStar



Source: Reis

### TRENDS

- Due to market uncertainty and softening of market fundamentals, the “wait-and-see” mode will continue through the end of 2020.
- Indianapolis office jobs are expected to have a net decline in 2020 but add back some jobs in 2021. Indianapolis should recoup all its lost office jobs by 2022.<sup>2</sup>
- The annual net absorption for 2020 is expected to be negative. Annual net absorption for 2021 is expected to be positive.
- Inventory is expected to stay flat through the end of 2020 and through most of the year in 2021. This will increase the vacancy rate near year-end 2021.<sup>1</sup>

1. Reis

2. CoStar \* Data set of buildings: 20,000SF+, multi-tenant and/or non-owner occupied, non-government owned, non-medical office.

3. Boston Consulting Group: <https://www.bcg.com/en-us/publications/2020/valuable-productivity-gains-covid-19>

4. Small Business Administration: <https://cdn.advocacy.sba.gov/wp-content/uploads/2020/06/04/44224/2020-Small-Business-Economic-Profile-US.pdf>

# CENTRAL INDIANA

## 2ND HALF 2020 / 2021 OUTLOOK

### RETAIL OVERVIEW

RETAIL IS UNDERGOING A MAJOR TRANSFORMATION AS BANKRUPTCIES CONTINUE TO LEAVE BEHIND VACANCIES

Per Reis, the Indianapolis retail market is comprised of 14.4 million square feet in five geographic concentrations. During Q3 2020, the metro's asking rent dropped from \$15.90 in Q2 to \$15.88 in Q3. This is a -0.1% change QOQ and -0.38% change YOY. The asking rent growth rate of the metro's submarkets over the past 12 months has been mixed, with cumulative change rates ranging from 1.1% (Southeast) to -0.9% (Northeast).

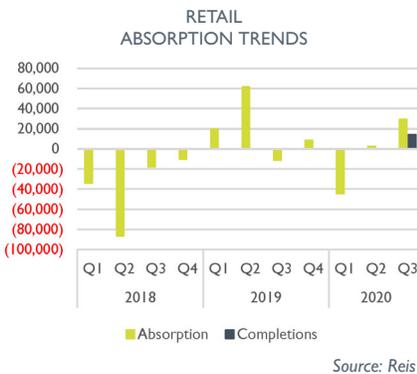
From Q1 through Q3 2020, net absorption was negative 13,000 SF. The net absorption for Q3 was 29,000 SF. The vacancy rate fell from 16.5% in Q2 to 16.4% in Q3, according to Reis data.

Per Real Capital Analytics data, notable sales include two big-box properties at 5178 W Pike Plaza Road (165,834 SF) at \$5.5 Million and 10859 E Washington Street (135,998 SF) at \$2.65 Million, per Real Capital Analytics. Total sale transactions YTD total 1,331,814 SF, which is a negative 33.1% YOY change. Total SF sold in Q3 was 679,891 SF, which is a negative 34.6% YOY change. The average price per SF is \$107 YTD, a negative 33.0% change and the average cap rate is 8.1%, a negative 591 bps change.

The COVID-19 pandemic increased the pace of evolution within the retail sector. Before the pandemic, retailers were beginning to file for bankruptcy due to the disruption of e-commerce and developers were starting to transform shopping centers into alternate uses. Since the pandemic began, many traditional retailers like Stein Mart, JCPenney, and New York & Company have declared bankruptcy.

When the pandemic and resulting lockdowns set in, e-commerce moved to offer its convenience and safety, pulling shoppers away from traditional retail to online shopping and curbside pickup.

However, traditional brick-and-mortar stores are not obsolete. ICSC's research on the coming holiday shopping season suggests that 81% of U.S. adults will shop in a physical store due to the desire to handle products before purchasing and the immediacy of the purchase.<sup>1</sup>



### TRENDS

- Traditional retail properties will see more entrepreneurial activity around transforming those properties with alternate uses, such as medical office, senior housing, and warehousing/distribution.
- This coming shopping season, ICSC forecasts e-commerce to grow by 25%, demonstrating e-commerce's continued trend of disrupting traditional brick and mortar retail locations.
- Reis estimates that annual net total absorption will be negative square feet for 2020. As a result, the vacancy rate will drift upward.
- Per Reis, between now and year-end 2020 asking rents are expected to decline, while effective rents will fall at a greater rate than asking rents. Thereafter, Reis projects that asking rent growth will remain negative during 2021 and 2022.

<sup>1</sup> International Council of Shopping Centers (ICSC): <https://www.icsc.com/news-and-views/icsc-exchange/icsc-forecasts-increased-spending-longer-holiday-shopping-season>

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**RETAIL/INDUSTRIAL FOR SALE**  
8640-8800 BROOKVILLE ROAD | INDIANAPOLIS, IN

- +/- 24.65 acres with three buildings (26,575 SF, 15,480 SF & 16,800 SF)
- Majority of the site is paved
- Zoned C-5 & I-4
- Several access points on Brookville Road and Post Road
- Signalized intersection



**FORMER MACY'S - MUNCIE MALL**  
3201 N GRANVILLE AVE | MUNCIE, IN 47303

- Flexible Space With Recessed Dock
- High Visibility
- Easy Access
- Divisible - 3 entrances off parking lot and 1 entrance off mall



**DELAWARE CROSSING**  
10100 & 10150 LANTERN RD | FISHERS, IN 46037

- Have your office close to home, restaurants and shopping
- Convenient and abundant parking
- On-site ownership/management
- Timeless neoclassic architecture. Lots of windows
- Easy access to I-69 and I-465

# BROKERAGE



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