

NORTH CENTRAL INDIANA

2ND HALF 2020 / 2021 OUTLOOK

MARKET OVERVIEW

The North Central region of Indiana is home to both St. Joseph and Elkhart Counties. St. Joseph County, also known as the South Bend Region, is comprised of South Bend, Mishawaka, and Granger, while Elkhart County includes Elkhart and Goshen.

Located on the border with Michigan, South Bend is the economic and cultural hub of a multi-county, two-state region known as Michiana. South Bend ranks as the fourth largest city in the state and is home to the University of Notre Dame along with five other colleges all within city limits. Health care, education, small business, and tourism are all key industries in South Bend in particular.

A driving force for tourism and the overall St. Joseph County economy is the University of Notre Dame, averaging \$17 million in visitor spending on home game weekends during football season. The University is also the number one employer in the North Central region employing 3,500.

Along with Notre Dame, the Michiana area boasts over a dozen institutions of higher education, including Holy Cross College, St. Mary's College, Grace College, Bethel University, Goshen College, Indiana University South Bend, Purdue Polytech, Ivy Tech, and more. A few other major employers in the South Bend area include SpartanNash / Martin's Super Markets, Saint Joseph Regional Medical Center (3,000), Beacon Medical Group (1,900), Press Ganey (945), and AM General LLC (800).

While primary industries in St. Joseph County include IT/data, healthcare, logistics / warehousing, and advanced manufacturing, South Bend's neighbor, the city of Mishawaka, is home to the second largest retail corridor in the state of Indiana, the Main Street & Grape Road Commercial Corridor.

Elkhart County's economy is largely driven by the manufacturing industry. The city of Elkhart specifically, is driven by the manufacturing of recreational vehicles and its related parts. Heavily impacted by this industry, Elkhart is often referred to as the "RV Capital of the World". Elkhart's RV industry began in 1936 and today the area is filled with RV manufacturers, dealers, service centers, and sellers of RV-related products. Elkhart County currently produces over 80% of all RVs built in the United States and the city's RV manufacturers, suppliers, and vendors create a \$9.5 billion impact on Indiana's economy.

Four of the top five major employers of this region are manufacturers of RVs or their components: Thor Industries employees (13,000+), Forest River (10,000), Lippert Components (5,500+), and Patrick Industries (2,900).

The North Central Indiana region provides an excellent environment to live, play, and work. The entire South Bend region boasts modest housing costs, with South Bend having been ranked as the second lowest cost of living in the country. St Joseph County was also ranked sixth in the nation for best business environment. The college-town atmosphere draws in new residents annually while the abundance of manufacturing in RV and other industries constantly creates new jobs and growth opportunities.

1. <https://southbendregion.com/main/economic-profile/>
2. <https://southbendregion.com/main/economic-profile/>
3. <https://www.elkhartcountybiz.com/existing-business/major-employers/>
4. <https://www.niche.com/places-to-live/c/st-joseph-county-in/rankings/>

DEMOGRAPHICS

482,116
Population

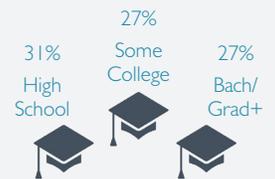


179,907
Households

\$55,947



Median Household
Income



Education

16,968



Total Businesses

275,531



Total Employees

Source: Esri

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INDUSTRIAL OVERVIEW

INDUSTRIAL DEMAND REMAINS STRONG, BUT LACK OF INVENTORY SLOWING TRANSACTIONS

Industrial activity has remained robust; however, low inventory is constraining the pace of transactions. Most users in the market are looking to expand their current footprint without selling their previous location. This, in turn, is causing little turnover in existing industrial or manufacturing facilities.

Future activity and the volume of transactions will be dictated by a continued lack of inventory in the market and how much new space gets constructed. To further complicate the lack of inventory in the market, a rise in labor, materials, and land values are all contributing to higher construction costs. Land values are up by 15-20%. These will all factor into future lease rates and not all tenants are looking to pay premium prices.

There were two spec buildings that were recently completed, Great Lakes Capital constructed a new facility on Dylan Drive, near U.S. Highway 31 just south of the Michigan border. The 166,000 square-foot building is their fourth spec building in 4 years. The other three facilities in the area that Great Lakes Capital has helped develop have all been leased. Holladay Properties also completed a 225,000 square-foot distribution center, which is devisable for multi-tenants, but ended up being leased out to a single use, Polywood, before the end of spec construction delivery.

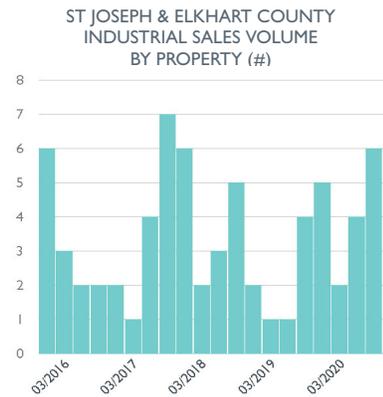
Elkhart has long been a strong industrial performer due to the RV industry and the health of the RV market is considered a bellwether for the manufacturing industry. RVs have experienced strong sales in 2020 as people look for safer vacation and travel options during the pandemic. Some manufacturers are completely sold out of stock and pushing deliveries of new vehicles into 2021. Ultimately Elkhart may be starting to stabilize as many manufacturers have already expanded capacity. While Elkhart has had a strong workforce, this growth and expansion is putting constraints on future growth. Especially in key submarkets, thus pushing some manufacturers to consider more regional submarkets for future growth.

Some notable projects include:

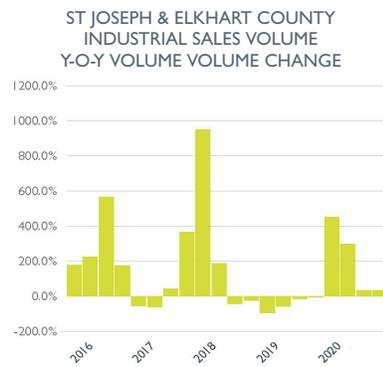
- Ameri-Kart Corp. is expanding in Bristol to consolidate its operations in Michigan and Indiana. The company is building a new \$10 million 234,000 square-foot facility that will create approximately 210 new jobs. The project is projected for completion in early 2021. Ameri-Kart makes plastic parts for a variety of industries, including recreational vehicles.
- Barletta Boat Co. is investing \$7 million to expand production at their Bristol location. This pontoon boat manufacturer's expansion is a result of an increase in demand. The project is scheduled for completion in January and will create 250 new jobs.
- VersaTube, which manufactures DIY steel buildings, such as sheds, barns, and car ports opened a new 22,000 square-foot facility in Elkhart earlier this year. The company has also experienced higher sales volumes during the pandemic and is already considering expansion plans next year.

TRENDS

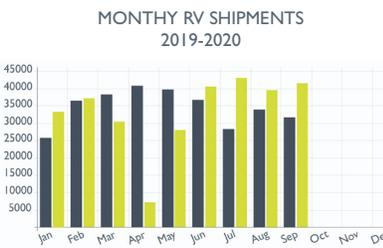
- Market demand is expected to continue outpacing inventory.
- The lack of inventory will be the biggest story in 2021.
- Rising construction costs could impact new spec building construction.
- Industrial rents will likely hold steady.
- The region could see further interest from Amazon and other distributors looking for space to fill in last-mile delivery in their distribution networks.
- Land pricing has hit all-time highs with large price gaps ranging from \$40,000 up to \$75,000 per acre. The higher land values are driving up development costs due to a lack of quality options.
- Quality industrial buildings that hit the market will continue to see quick turnover.



Source: Real Capital Analytics



Source: Real Capital Analytics



Source: RV Industry Association (RVIA)

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OFFICE OVERVIEW

OFFICE DEMAND REMAINS SLOW, WITH A LACK OF OFFICE USERS SEEKING SPACE IN THE MARKET

The office market in North Central Indiana was trending slower before the virus impacted the market. An uptick is not expected soon as the area has more office space available than new users expanding in the market. Additionally, South Bend has two new large buildings coming online that some tenants already in the market are planning to move into, leaving behind significant vacancies. The vacancy rate in smaller offices remains lower, so it is anticipated that some owners may decide to demise larger spaces for smaller tenants. We may also see owners decide to renovate or redevelop properties to attract tenants.

Catalyst III, a Great Lakes Capital development, is under construction and is planned to deliver in the first half of 2021. The 83,000-square-foot building is in Ignition Park, just south of downtown South Bend. Catalyst III will be the new home for Press Ganey headquarters. They will vacate their current space in the River Glen Office Park. Another notable project, the new Barnes & Thornburg building in downtown South Bend opened in November, adding over 64,000 square-feet of space to the market. Barnes & Thornburg's previous space was in the 1st Source Bank Center. It's likely that both company's former spaces will remain vacant for a while, with few other large office users looking in the market.

Mid-West Family Broadcasting is another office user making a move within the market. The company plans to move four radio stations back to South Bend from Mishawaka, purchasing a building at 316 E. Monroe Street. The 18,000 square-foot building has been vacant for several years. Midwest plans extensive renovations to the building, a total investment of \$2.5 million. The company is seeking a tax abatement from the city. They will leave 16,000 square-feet of space on Douglas Road in Mishawaka at their previous location.

Landlords have been aggressive in cutting deals with the expectation of increased Class A vacancy in the market, along with a significant amount of existing Class B and C inventory, which will likely remain on the market for a while. Deals may include TI allowances, rate-drops, or even free rent. Tenants who are looking to upgrade their current offices should be able to find good opportunities.

Another impact on the office market in the region is the merger of South Bend Clinic and Allied Physicians that took place earlier this year. A few months before the merger, the South Bend Clinic, Allied Physicians of Michiana and South Bend Orthopedics purchased Unity Hospital in Mishawaka. The South Bend Clinic and another group of medical providers, including Allied Physicians, formed a new healthcare network to compete in the market and to lower rising healthcare costs. The merger and upheavals in the healthcare system are leading to office moves. Some doctors are now moving offices out of hospitals and into more convenient and visible locations to attract more patients. In some cases, they're taking office space, while some are moving into retail centers or into retail corridors.

The office sector remains in limbo as most companies take a wait and see approach to office moves. Some are putting out sublease space until there is a better understanding of how long the virus will continue to impact the economy. Others are considering changes to office layouts from open concept to more private offices.

TRENDS

- Asking rents haven't started to decline, but are expected to fall in 2021.
- Some tenants may seek to sublease space later this year, which may create bargain deals for other users.
- Office demand is slow, but was slow in this market prior to the virus. Office deals will continue to trail other sectors of commercial real estate.
- A few new projects have added more space to the market and created lateral moves for some tenants who upgraded to new space, leaving their former spaces vacant.
- Vacancies may increase as some companies evaluate how much space they need while employees work from home.
- The market isn't likely to see much activity in new office developments. Rising construction costs and too much inventory will restrict new projects.

SOUTH BEND CBD VACANCY RATES BY PROPERTY



Source: Bradley Company

SOUTH BEND CBD ASKING RENT RANGE



Source: Bradley Company

SOUTH BEND CBD ASKING RENTS BY PROPERTY



Source: Bradley Company

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RETAIL OVERVIEW

RETAIL IS A LITTLE SLOWER THAN BEFORE THE PANDEMIC, BUT ACTIVITY IS GETTING BACK ON TRACK

While the initial lockdown measures caused significant pain in the retail and restaurant sectors, some concepts and operators are actively looking for space or opportunities in the market. Some owners are looking for deals to upgrade their location. Landlords are willing to make deals to get new tenants or renegotiate with current tenants in effort to stave off new vacancies. Some aggressive deals are happening, and we are seeing increased rent relief for struggling tenants.

Discount and dollar stores are still doing deals throughout the market. This sector is projected to remain strong as cash-strapped consumers seek less-expensive options.

Restaurants are increasingly in search of drive-thru locations, smaller dining rooms, and designated parking spaces for easy carry-out options. Some have also sought patios or rule-changes that allow for more outdoor dining. Unfortunately, more restaurants are at risk as we go into the winter months where outdoor dining will be a challenge with many owners stating that carryout business will not be sufficient. We could also see more lockdown orders if the virus continues to spread. While more restaurants will likely close, ghost kitchens are also on the rise and could help fill some less desirable space since they don't rely on visibility. Ghost kitchens are on the rise nationally and are expected to open more locations in the local market.

Some new to the market concepts will open by the end of this year or early in 2021, Such as Mission BBQ, Raising Cane's, I Heart Mac & Cheese, and Aspen Tap House which is taking a building formerly occupied by Scotty's Brewhouse. Once these new to market restaurants open up we expect to see an even higher volume of traffic on the Main Street & Grape Road Commercial Corridor.

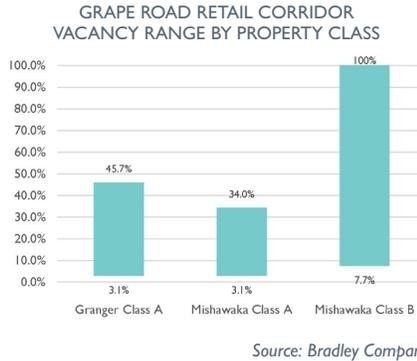
The University Park Mall continues to face challenges. The former Sears space as well as several small shop and restaurant vacancies make these struggles apparent to the public. Similar to national trends, there are fewer tenants looking to relocate to indoor malls. This property could see a redevelopment in the coming years.

All retail corridors in the market are seeing about the same level of interest with all suffering from closures. Eddy Street Commons, which serves the University of Notre Dame, has had a few closures, such as Livery which became a Bru Burger Bar and Bar Bici. New tenant announcements have offset some of the closures. Trader Joe's was announced as the anchor for Phase III of the project which will likely generate interest from other tenants. Trader Joe's offers a regional draw to its stores. When they open it could be a boom for the entire development. It could also put pressure on another project in downtown South Bend, 300 East LaSalle, which is planning to add a grocery store.

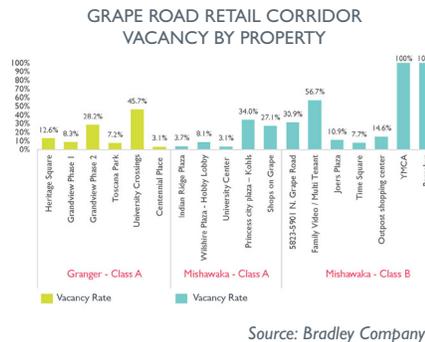
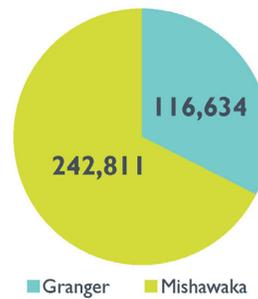
Retail in Elkhart County is holding steady, though they have also seen some larger vacancies. The JCPenney at Concord Mall is scheduled to close, leaving the mall with two empty anchor stores. Some good news for downtown Elkhart though, as Martin's opened their new store in the Riverfront District. The project includes a mix of residential and retail.

TRENDS

- More retail and restaurant closures are expected, especially if the virus spread leads to another lockdown order.
- Retailers and restaurants that are well-funded are finding good deals in the market with landlords willing to be aggressive and offer concessions.
- Restaurants will struggle through the colder weather and another virus surge. Expect to see more ghost kitchens popping up to fill demand.
- Owners may have to redevelop some retail properties to attract tenants or convert the property to another use.
- Tenants will continue to have a lot of leverage in lease negotiations.



GRAPE ROAD RETAIL CORRIDOR
GRANGER VS MISHAWAKA
VACANCY BY SQUARE FOOT



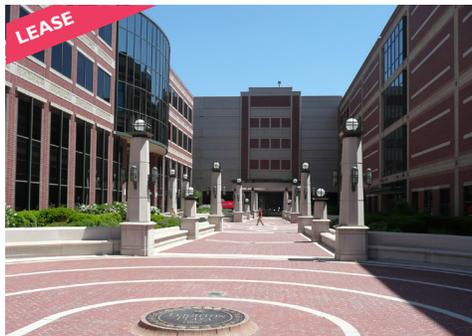
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ERSKINE VILLAGE
1290 E IRELAND ROAD, SOUTH BEND, 46614

- 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



SBDV IV - UNDER CONSTRUCTION
NORTH DYLAN DRIVE, SOUTH BEND IN 46628

- 166,500+/- SF Industrial spec building (370' x 450')
- Multi-tenant with ability to demise down to 40,000+/-SF
- Cross docking capable: 12 dock doors/levelers and 4 drive-in doors specified on east and west sides. Block-outs for additional doors to accommodate tenant needs. Expandable to 30 docks and 6 drive-in doors.

BROKERAGE



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