INVESTMENT FORECAST

Retail

Indianapolis

IPA INSTITUTIONAL PROPERTY ADVISORS

2022

Favorable Macro Trends Boost Indianapolis' Outlook; Investors Search For Safety Amid Sales Volume Lift

Mild construction clears the path for continued improvement. Indianapolis is set to close 2022 with more staff on payrolls than its pre-pandemic figure; retail employment, however, has already surpassed its February 2020 high by more than 3,000 positions. This divergence is due to a comparatively strong retail performance during the pandemic, aided by an unemployment rate near the lowest of all major United States metros entering this year. Retailers absorbed over 850,000 square feet last year, compressing metrowide vacancy to 5.1 percent, equaling the 2019 rate. Powered by these trends, retail sales growth is projected to land above the national pace in the coming year, pointing toward additional demand by retailers. At the same time, rising construction costs and limited remaining lots in the core and neighborhoods to its north have led developers to pull back considerably. This will be just the second time in the last nine years with a scheduled completion volume below 500,000 square feet. The small pipeline, with few speculative projects, should benefit existing properties.

Lower-risk assets draw strongest interest amid period of record-breaking volume. The metro has seen deal flow hold up well since the health crisis began, deviating from national trends with regard to trading volume following the pandemic's start. Limited closures and the expansionary behaviors of retailers in the metro likely played a role in stable investor confidence during that period. East County has seen the most transactions of late, with the majority of these being single-tenant assets occupied by pandemic-resilient tenants, such as Dollar General, Wendy's and Walgreens. Cap rates on these trades are in the mid-to-high 5 percent range. The submarkets near the north side of Interstate 465 see sizable deal flow, due to the nearby affluent suburbs. Single-tenant buildings here record yields roughly 50 basis points higher than similar trades in the east. The multi-tenant assets that have changed hands are spread across the metro, but often involve strip centers. First-year yields are in the mid-7 percent area, but swing up to 150 basis points based on tenant roster.

2022 Market Forecast

Employment up 2.3% — The metro will add 24,500 jobs before the end of the year. This tally is an advancement from the 20,000 roles added in 2021.

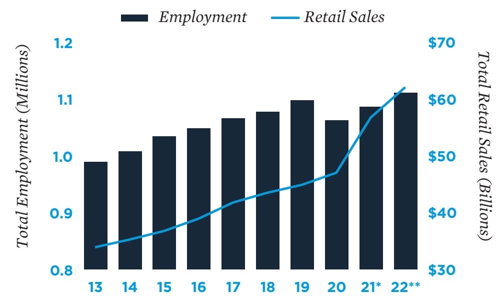
Construction 240,000 sq. ft. — Developers ease deliveries in 2022 compared to the more than 500,000 square feet added last year, as well as the five-year trailing average of nearly 750,000 square feet finalized.

Vacancy down 30 bps — Strong tenant demand amid mild development will allow a drop in the vacancy rate to 4.8 percent by year-end. This decrease matches the 30-basis-point reduction logged last year.

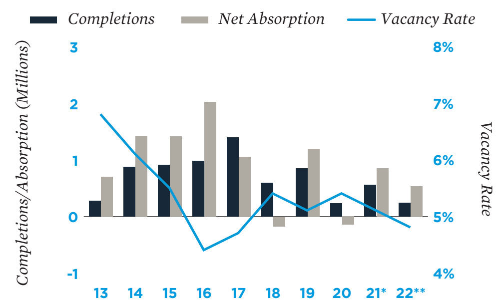
Rent up 2.8% — After climbing nearly 6 percent last year, the average asking rent reaches $14.75 per square foot in 2022. This is a slower pace than last year, but above the last decade's annual average.

Investment — While the East County submarket is already heavily targeted, investment activity could increase as the city pledged to spend $3.5 million on improvements as its next "lift Indy" neighborhood.

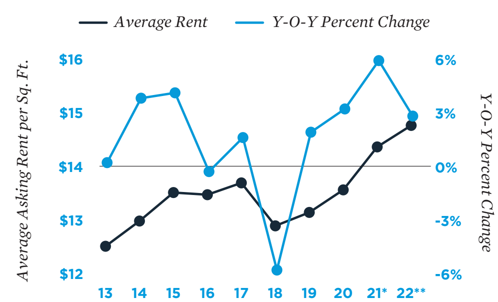
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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