MARKET REPORT

Retail

Indianapolis Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

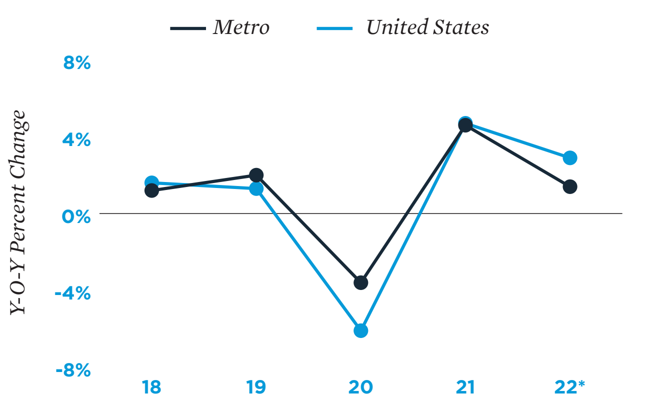
3Q/22

Market Hits Records in Vacancy and Rent Growth; Far North Suburbs Bolstered by National Chains

Historically low completions support hot retail market. Supply additions during the 12-month period through June were down over 30 percent compared to the previous year, and nearly 60 percent below the equivalent span ending in 2020. Slower construction is helping bolster retail market fundamentals, as expanding businesses have fewer available floor plans to choose from. For the seventh straight quarter, net absorption remained positive from April through June, which supported a 100-basis-point drop in vacancy year-over-year to a rate of just 4.0 percent. Furthermore, the average asking rent was up more than 7 percent annually at midyear, augmenting the 6 percent rise logged during the same span of 2021. As heightened demand will continue to strengthen market fundamentals, the 2022 rent lift is projected to be the strongest on record.

Conditions tightening in far northern submarkets. Vacancy in suburban counties north of the CBD have experienced robust compression as of late. The Far North Hamilton County and Hancock County submarkets had year-over-year vacancy contractions of 160 and 190 basis points, respectively, in the second quarter of 2022. Bolstered by national chain lease-ups for restaurants and department stores, low availability in these locales have raised asking rents by double-digit percentages over the past year. The construction pipeline in these submarkets remains light, and most proposed projects here are scheduled to be completed after 2022, which should keep vacancy tight in the near term.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook

15,000 JOBS *will be created*

EMPLOYMENT:

Indianapolis employment gains will slow compared to the 2021 recovery metric, expanding by 1.4 percent for the year. Growth is being led by the trade, transportation and utilities sector, which has added over 11,000 jobs since 2019, a 5.1 percent increase.

220,000 SQ. FT. *will be completed*

CONSTRUCTION:

Completions slow this year, increasing total inventory by just 0.2 percent. With future uncertainty surrounding consumer spending amid inflation, developers have taken a more passive stance in Indianapolis.

80 BASIS POINT *decrease in vacancy*

VACANCY:

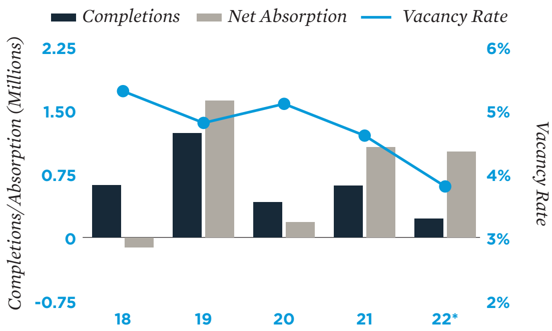
With greater tenant competition for available space amid low construction, vacancy in the metro will compress to 3.8 percent. Backed by continued strong absorption, this would be the market's tightest availability on record.

6.3% INCREASE *in asking rent*

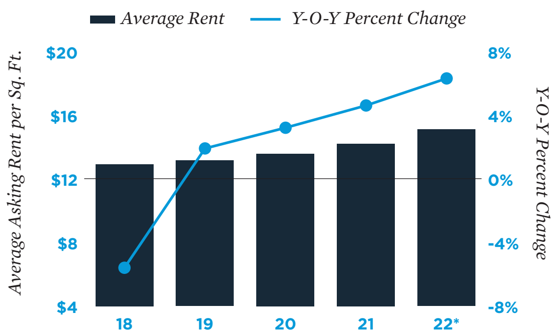
RENT:

Significant year-over-year rent growth will carry on in the second half of the year, as the average asking rate reaches $15.10 per square foot. Single-tenant space will lead this surge, as such rents expanded rents 8 percent annually as of the second quarter.

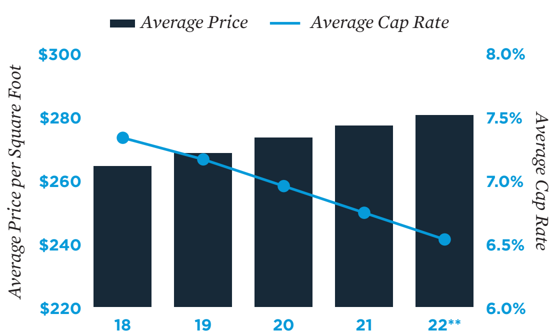
Supply and Demand



Rent Trends



Sales Trends



** Forecast ** Through 2Q*

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: $250

2Q 2022 - 12-Month Period

CONSTRUCTION

324,000 sq. ft. completed

- Completions in the first half of 2022 neared just 65,000 square feet, the lowest of any opening two quarters in any calendar year on record.
- Additions came to the market in merely three of Indianapolis' 15 submarkets over the previous 12 months ending in June, within Hancock and Madison counties, as well as Carmel.

VACANCY

100 basis point decrease in vacancy Y-O-Y

- Strong absorption over the previous seven quarters caused vacancy to reach its lowest point on record in the second quarter at 4.0 percent.
- Single-tenant vacancy has declined 120 basis points since the year-end 2021 metric to 3.9 percent, double the magnitude of the multi-tenant drop, which fell to 4.3 percent.

RENT

7.3% increase in the average asking rent Y-O-Y

- The average asking rent exceeded $15 per square foot in the second quarter of the year, as high demand conditions continue to hold availability tight.
- Northern counties reported strong double-digit rent growth rates year-over-year, while comparatively Downtown has experienced asking rates contract by 1.7 percent as retailers seek suburban expansion.

Investment Highlights

- Strong market fundamentals and investor yields amid low inventory additions over the previous 12 months ending in June supported growing buyer demand in Indianapolis. Trade velocity jumped roughly 30 percent across the board and over 70 percent for multi-tenant space. Moving forward, high inflation, paired with a stubbornly flat local median income, raises questions regarding near-term retail spending, which could factor into investors' decision making later this year.
- Retail sale prices rose 1.9 percent over the yearlong period to $280 per square foot, on average. This coincided with a 30-basis-point drop in the mean cap rate to 6.5 percent, the market's lowest on record. Single-tenant price hikes bolstered this growth, as entry costs reached $352 per square foot and the average cap rate dropped 20 basis points to 6.2 percent.
- Locales with the most number of trades over the previous four quarters consisted of Hendricks and Lawrence/East County, making up nearly 25 percent of all transactions. Furthermore, transactions in Lawrence/East County roughly doubled compared from the previous yearlong period. Both of these areas experienced sharp apartment vacancy compression over the previous year, indicating potential for higher retail foot traffic.