

# MARKET REPORT

Retail  
Indianapolis Metro Area

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

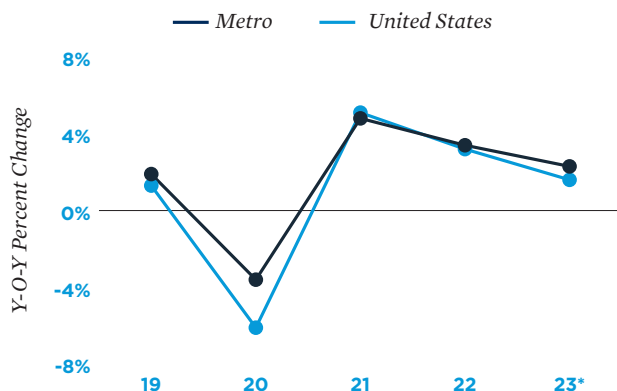
4Q/23

## In-Migration Trends Support Strong Retail Fundamentals, Particularly in Northern Areas

**Population growth aids marketwide tenant demand.** In 2023, net in-migration in Indianapolis will surpass 14,000 new residents for a second consecutive year. This gain is partially attributable to the metro's expanding economy amid notable job growth through August. Reflecting the high levels of retailer competition, Indianapolis' average asking rent has risen 22 percent over the three years trailing June 2023, the second-largest gain among major Midwestern markets in that span. Although this trend was more prominent within the single-tenant segment, multi-tenant demand has also increased substantially. The property type entered July with a vacancy rate of 2.7 percent, its lowest measure on record.

**Northern residential popularity bolsters retail fundamentals.** Housing trends in Uptown, the Meridian Corridor and Carmel have coincided with increasing retail tenant demand here. Since 2019, the volume of apartment stock here increased more than 15 percent through September 2023, far exceeding all other submarkets. This influx attracted retailers, helping it record an all-time low 3 percent retail vacancy rate entering July. In conjunction with consistent population inflows metrowide, the corridor should continue to see tight conditions. A marginal long-term retail development pipeline accompanies roughly 4,000 new apartment units anticipated to complete across 2024 and 2025, increasing demand for retail goods nearby while guiding prospective tenants to existing stock.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Retail 2023 Outlook



**26,000  
JOBS**  
*will be created*

### EMPLOYMENT:

The local employment base increases by 2.3 percent in 2023, lifting total employment 75,600 positions above the pre-pandemic count. Nearly one-third of roles added in 2023 will be in traditionally office-using industries.



**350,000  
SQ. FT.**  
*will be completed*

### CONSTRUCTION:

This year's 0.3 percent inventory growth rate matches 2022 and 2013 as the lowest on record. Of the minimal development, a nearly even number of projects will be accounted for by multi- and single-tenant spaces.



**20  
BASIS POINT**  
*increase in vacancy*

### VACANCY:

Following a 100-basis-point drop to its lowest measure on record last year, vacancy lifts marginally to 3.6 percent in 2023. This minor increase allows the rate to stay well below its 5.8 percent long-term average.

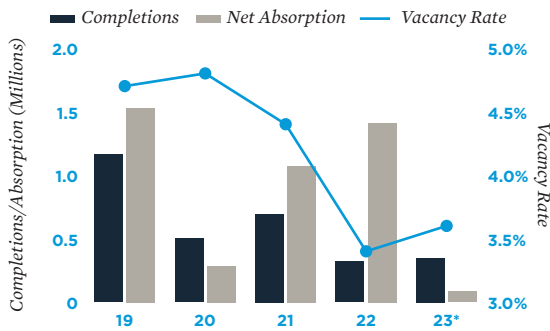


**3.1%  
INCREASE**  
*in asking rent*

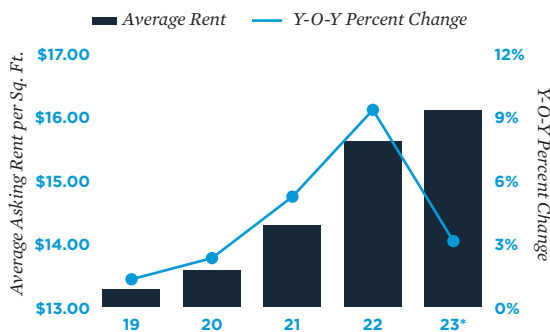
### RENT:

A lift to the market's vacancy rate will accompany a slowed pace of rent growth this year after 2022's 9.3 percent gain. Nevertheless, Indianapolis' average asking rent increases to \$16.10 per square foot.

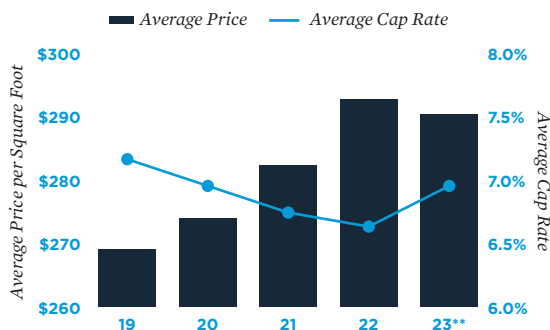
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

## 2Q 2023 - 12-Month Period



### CONSTRUCTION

**429,000 sq. ft. completed**

- Three-fourths of completions over the 12-month interval ended in June were single-tenant spaces. A large portion of this segment's deliveries were within the northeastern portion of Marion County.
- Hancock County led all Indianapolis submarkets in inventory growth during the prior four quarters, with local supply increasing by 1.2 percent.



### VACANCY

**30 basis point decrease in vacancy Y-O-Y**

- Metro vacancy reached a record-low 3.4 percent in December 2022. Following this achievement, the rate slightly lifted to 3.5 percent in June.
- A 70-basis-point drop year-over-year to multi-tenant vacancy brought the segment's rate to a record low of 2.7 percent in June. Meanwhile, the single-tenant measure dipped 10 basis points to 3.9 percent.



### RENT

**4.1% increase in the average asking rent Y-O-Y**

- The single-tenant average asking rate improved to \$16.55 per square foot in June amid a 9.3 percent gain year-over-year.
- Substantial single-tenant rent growth bolstered the metro's overall gain, lifting its average asking rate to \$15.97 per square foot. Improvements were most notable in the Far South and Far West County submarkets.

## Investment Highlights

- Transaction velocity continued to pull back throughout the initial nine months of the year amid elevated interest rates. Preliminary data for the third quarter suggests activity reached its lowest point since the onset of the pandemic. Eased rate hikes by the Federal Reserve, with a June skip, and strong asset class fundamentals aided some activity. Looking past the third quarter, another pause in September supports further interest rate stabilization, potentially re-engaging investors moving forward.
- Single-tenant deals have been widespread, with more than 70 percent of trades noted across seven metro submarkets through August. These investors frequently targeted auto repair shops, fast food assets and restaurants.
- Substantial net absorption in recent quarters and a record-low segment vacancy rate prompted more investors to pursue multi-tenant assets as of late. Accounting for over 65 percent of metrowide activity in the second quarter, this matched its largest share of deal flow in a three-month span since before 2019. A notable portion of these trades through the first nine months of the year were in east Marion County, where segment vacancy stood at 1.6 percent in June, spurring double-digit annual rent growth.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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