

MARKET REPORT

INDUSTRIAL

Indianapolis Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS



2H/19

Investors Target Spacious Facilities Near Airport as Air Freight Volume Increases

Plainfield warehouses continue to draw interest amid FedEx expansion plan. Indianapolis' central location and access to multiple interstate highways has established the metro as a logistical warehousing hub. More recently, air freight operations at the airport have increased, in large part due to FedEx's \$1.5 billion expansion plan, announced in 2018. As FedEx activity at the airport amplifies, companies who rely on FedEx services are actively seeking out properties nearby. Leasing activity for warehouses in this locale spiked over the past year, specifically in large-scale facilities. Since July 2018, more than a dozen leases have been signed or renewed in Plainfield alone, with an average square footage of 134,000. Of these, the largest move-ins have been from transportation services companies Expeditors and Alan Ritchey Inc., which are moving into properties greater than 250,000 square feet. As the expansion plan takes shape and volume coming through the airport increases over the next few years, the area's space demand will continue to strengthen, and asking rent prices will grow as available space near the airport becomes limited.

Developers and investors shift focus to large-scale industrial facilities. Increasing demand for larger spaces is likely refining construction patterns, as every completed project in 2019 was larger than 65,000 square feet. A massive 1 million-square-foot speculative project is under construction within Hendricks Gateway, which is a recently created industrial park in Plainfield. GDI companies developed Hendricks Gateway for \$120 million to provide space on a speculative basis, in anticipation of the growing need for e-commerce warehousing. Demand for large spaces will continue to grow in the metro; however, vacancy will rise until newly built speculative projects gain tenants. Investors also favored larger properties over the past four quarters ended in June, as transaction velocity remained consistent with the previous period yet the average size of traded properties grew 78 percent to 148,000 square feet. Intense bidding for industrial assets metrowide dropped the average first-year yield 30 basis points to 7.6 percent over the past 12 months.

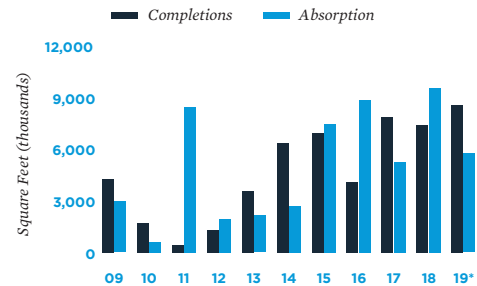
2019 Market Forecast

- Employment** up 1.7%  Job creation escalates in 2019 as roughly 18,000 new positions are added, following a conservative 2018 in which 5,000 payrolls were created.
- Construction** 8.5 million sq. ft.  Industrial developers remain active, bringing 1.2 million more square footage to market in 2019 than in the previous year. The majority of completions have been centered around the airport.
- Vacancy** up 90 bps  After a 100-basis-point contraction in 2018, vacancy rate rises to 5.3 percent in 2019, as large-scale, unoccupied speculative projects are added to inventory.
- Rent** up 6.2%  In 2019, average asking rent reaches \$4.13 per square foot. Limited space availability for new development along major interstate routes allows existing owners to lease new tenants at higher rents.
- Investment**  Buyers will target distribution and warehousing near the airport, or along major interstate highways. Larger properties that can hold a substantial volume will become more valuable with increasing e-commerce space demand.

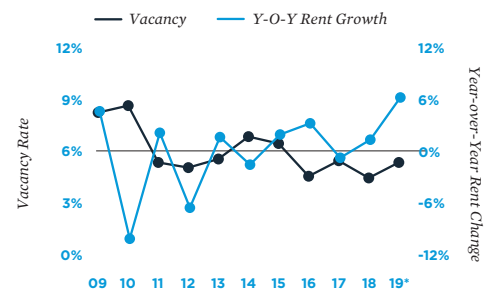
Employment vs. Retail Sales Trends



Industrial Completions



Asking Rent and Vacancy Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; Moody's Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of September 2019. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and industrial data are made during the third quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. 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.