

Industrial Q2 2023

7.6%

Vacancy Rate

YoY
Chg12-Mo.
Forecast**1.9M**

Net Absorption, SF

**\$5.91**

Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS
Q2 2023**1.2M**Indianapolis MSA
EmploymentYoY
Chg12-Mo.
Forecast**2.7%**Indianapolis
Unemployment Rate**3.6%**U.S.
Unemployment Rate

Source: BLS, Moody's Analytics

ECONOMIC OVERVIEW: Job Growth Slows Through the First Half of 2023

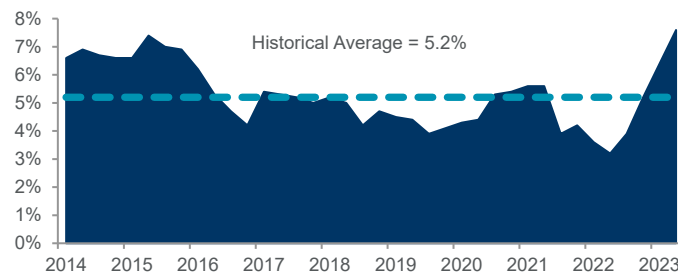
Nonfarm payroll employment continued to increase in the second quarter of 2023, with the U.S. economy adding 209,000 jobs in the month of June. Transportation and warehousing employment decreased by 7,000 in June while manufacturing employment rose by 7,000. However, job growth has slowed from 2022's pace. Through the first six months of 2023, monthly job growth has averaged 270,000, below the 399,000 monthly average recorded during the first half of 2022. The Federal Reserve raised the target federal funds rate once in the second quarter, at its May meeting, to the 5.00-5.25% range. The Federal Reserve held the federal funds rate constant at its June meeting, forgoing a rate increase for the first time since February 2022. The Federal Reserve's projections show an additional 50 basis points (bps) of rate hikes are expected during the second half of 2023. The Indianapolis unemployment rate remained unchanged quarter-over-quarter (QOQ) and year-over-year (YOY) at 2.7%, though employment in the region rose by 3.5% over the last year and is expected to increase over the next 12 months.

DEMAND: Tenant Demand Softens in the Second Quarter

Tenant demand softened during the second quarter in the Indianapolis industrial market, with overall net absorption totaling 1.9 million square feet (msf). This was the lowest quarterly overall absorption total since the first quarter of 2020. The East submarket powered these occupancy gains, recording 2.5 msf of overall net absorption, while three submarkets posted occupancy losses. Direct net absorption, which does not include occupancy changes from sublease space, was much higher in the second quarter, equaling 2.8 msf, as several vacant sublease spaces were added to the market. The amount of vacant sublease space nearly doubled QOQ and now accounts for 6.7% of overall vacant space. The overall vacancy rate for the market increased 120 bps QOQ and 440 bps YOY to 7.6%. This rise in vacancy was the result of both speculative construction completions not preleased and existing product returning to the market. The overall vacancy rate rose sharpest in the West submarket, which posted an 860-bps increase QOQ, to 11.7%. Three submarkets recorded quarterly declines in overall vacancy rates, the North, Northeast and South. Leasing velocity also moderated in the second quarter, with new leasing activity totaling 2.8 msf, a decline of 35.0% QOQ and 75.4% YOY. The Northwest submarket was the top submarket for new leasing, with nearly 1.3 msf of new leases signed. However, Subaru of America's lease of a build-to-suit (BTS) in Zionsville accounted for 1.1 msf of this activity. The East and Southwest submarkets posted the next highest new leasing totals, equaling 596,000 square feet (sf) and 442,000 sf, respectively. Through the first half of 2023, 7.1 msf of new leases have been signed, trailing the new leasing activity through the first half of 2022 by 8.6 msf.

OVERALL VACANCY

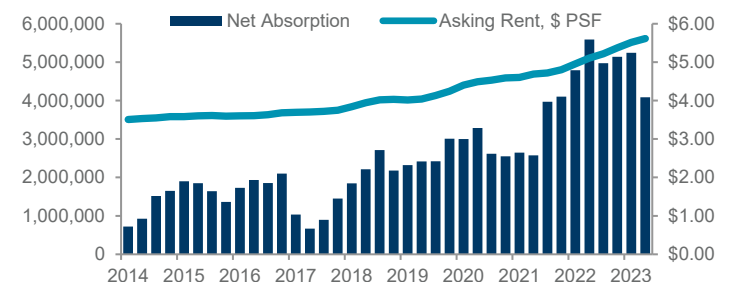
MARKET VACANCY CURRENTLY ABOVE HISTORICAL AVERAGE



Source: Cushman & Wakefield Research

OVERALL NET ABSORPTION & ASKING RENT

4-QTR TRAILING AVERAGE





SUPPLY: Deliveries Top 15 MSF Through the First Half of 2023

The Indianapolis industrial market posted the highest second quarter delivery total on record with over 7.0 msf of space delivering. This is following a record first quarter of construction completions. Through the first half of 2023, 15.3 msf of space was delivered, a 91.0% increase from 2022's first half delivery total and the highest first half delivery total ever in the Indianapolis industrial market. Six of the nine submarkets recorded more than 1.0 msf of construction completions in the first half of 2023. The East submarket delivered the most space so far this year, totaling 5.0 msf, including a 2.2 msf BTS, in the second quarter. The Northwest and South submarkets also recorded sizeable construction completion totals, equaling 2.7 msf and 2.5 msf, respectively. However, as product is completed and starts have slowed, the construction pipeline is continuing to shrink and now stands at 14.8 msf. This is the less than half of what the pipeline was one year ago, when nearly 32.0 msf was under construction. The Northwest submarket currently leads in construction activity, with 3.2 msf of space under construction. This marks the first time since the third quarter of 2020 that the East submarket is not the top submarket for space under construction. In the latter half of 2023, expect construction starts to remain limited amid a difficult financing environment and a significant amount of vacant construction completions from the past couple of years.

PRICING: Overall Asking Rates Increase 7.3% YOY

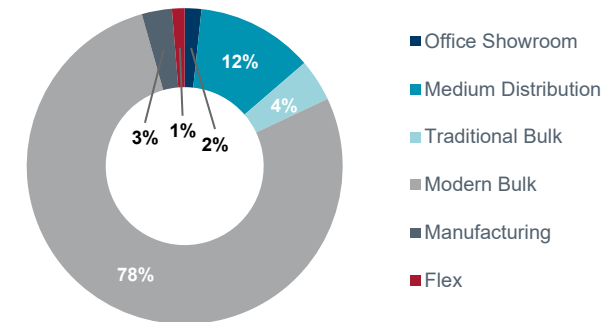
Asking rates continued to rise in the second quarter of 2023, albeit at a slower pace than the past several quarters. Overall asking rents increased 1.5% QOQ and 7.3% YOY to \$5.91 per square foot (psf) triple net (NNN). Comparatively, asking rents rose 5.0% QOQ and 12.2% YOY in the second quarter of last year. Rent growth was most pronounced in the South and Southwest submarkets, which posted QOQ growth rates of 10.8% and 7.2%, respectively. Among property types, traditional bulk recorded the highest quarterly growth rate, with asking rents increasing 8.7% QOQ to \$6.77 psf NNN.

Outlook

- Despite economic uncertainty and headlines of layoffs across various industries, the U.S unemployment stayed stable YOY at 3.6% in the second quarter, near historic lows. However, the unemployment rate is expected to rise over the next year as job growth slows.
- Demand has cooled from the record levels recorded last year, with YTD overall net absorption declining 39.8% and YTD new leasing activity dropping 54.9% from 2022's first half totals. With a record amount of construction completions over the last 18 months, the market has a significant amount of new space available for lease and vacancy levels over the next several quarters will be dependent on how quickly this space is leased up.

VACANT SPACE BY PRODUCT TYPE

PERCENTAGE OF TOTAL VACANT SPACE



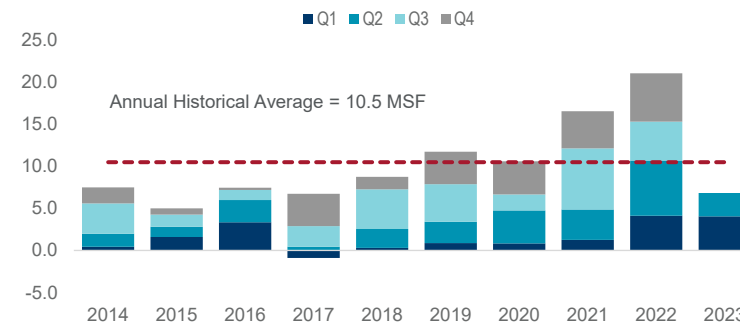
MANUFACTURING EMPLOYMENT

INDIANAPOLIS-CARMEL-ANDERSON MSA



HISTORICAL DIRECT NET ABSORPTION

INDIANAPOLIS CONTINUES THE STREAK OF STRONG ABSORPTION



MARKETBEAT INDIANAPOLIS



Industrial Q2 2023

MARKET STATISTICS

SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION (SF)	YTD OVERALL NET ABSORPTION (SF)	UNDER CNSTR (SF)	CURRENT QTR CONSTR COMPLETIONS (SF)	YTD CONSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT*
Downtown	165	9,587,008	0	256,293	2.7%	-9,299	29,501	0	0	0	\$7.72
East	546	61,003,140	113,357	8,123,539	13.5%	2,525,886	2,682,518	2,878,439	3,648,336	4,972,015	\$4.96
North	129	5,779,587	32,247	263,181	5.1%	3,793	-46,588	169,544	0	20,360	\$9.90
Northeast	310	18,622,606	83,160	977,542	5.7%	15,923	-21,493	1,442,800	0	327,910	\$8.16
Northwest	541	73,120,687	225,034	3,777,227	5.5%	182,768	2,955,534	3,164,481	633,465	2,720,133	\$6.68
South	169	31,700,698	924,370	2,523,899	10.9%	-115,191	756,916	2,966,644	0	2,501,078	\$6.18
Southeast	272	18,722,997	0	1,447,200	7.7%	13,475	283,265	1,027,643	915,600	1,031,100	\$5.11
Southwest	585	100,758,692	336,171	4,381,548	4.7%	-703,986	-529,958	2,951,717	124,560	1,672,473	\$5.94
West	158	18,787,003	0	2,194,117	11.7%	28,267	235,735	239,157	1,696,593	1,990,307	\$4.44
Property Type											
Office Showroom	499	14,438,553	23,884	414,403	3.0%	90,158	57,790	49,000	0	0	\$10.09
Medium Distribution	1,060	68,572,948	327,222	2,744,183	4.5%	-51,249	845,539	543,600	1,022,385	2,373,382	\$7.52
Traditional Bulk	139	35,276,126	238,121	867,961	3.1%	72,713	-182,593	0	0	0	\$6.77
Modern Bulk	273	152,226,301	1,113,612	18,799,209	13.1%	1,956,608	5,696,493	13,419,181	5,996,169	12,831,994	\$5.07
Manufacturing	563	55,105,258	11,500	779,029	1.4%	-61,041	-51,738	828,644	0	30,000	\$6.11
Flex	255	8,878,003	0	331,961	3.7%	-57,753	-12,261	0	0	0	\$9.98
Transport	86	3,585,229	0	7,800	0.2%	-7,800	-7,800	0	0	0	-
INDIANAPOLIS TOTALS	2,875	338,082,418	1,714,339	23,944,546	7.6%	1,941,636	6,345,430	14,840,425	7,018,554	15,235,376	\$5.91

*Rental rates reflect weighted net asking \$psf/year

KEY LEASE TRANSACTIONS Q2 2023

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
CR 550 S & SR 267, Zionsville	1,119,056	Subaru of America	New Lease	Northwest
945 Monument Dr, Lebanon	962,459	Subaru of America	Renewal*	Northwest
2209 Stafford Rd, Plainfield	600,576	Cross Road Centers, LLC	Renewal*	Southwest
4255 S 500 E, Whitestown	369,499	Rockwell Automation	Renewal*	Northwest

*Renewals not included in leasing statistics

KEY INDUSTRIAL DELIVERIES Q2 2023

PROPERTY	SF	CONSTRUCTION TYPE	COMPLETION DATE	SUBMARKET
5300 W 500 N, Mt Comfort	2,229,480	BTS	2Q 23	East
9201 N Frontage Rd, Fairland	915,600	Speculative	2Q 23	Southeast
10015 Archer Dr, Brownsburg	826,771	Speculative	2Q 23	West

