

## Industrial Q1 2023

6.5%

Vacancy Rate

YoY  
Chg12-Mo.  
Forecast

4.0M

Net Absorption, SF



\$5.84

Asking Rent, PSF



Overall, Net Asking Rent

ECONOMIC INDICATORS  
Q1 2023

1.2M

Indianapolis MSA  
EmploymentYoY  
Chg12-Mo.  
Forecast

2.7%

Indianapolis  
Unemployment Rate

3.5%

U.S.  
Unemployment Rate

Source: BLS, Moody's Analytics

## ECONOMIC OVERVIEW: Job Gains Continue, Unemployment Rate Shows Minimal Change

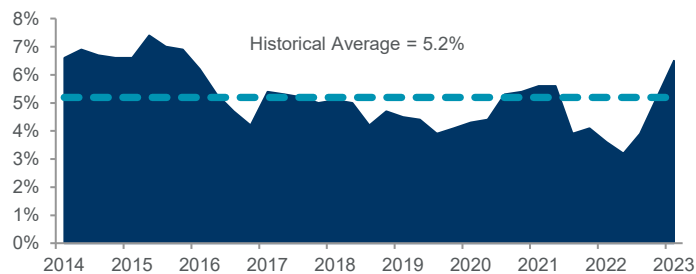
The United States economy continued to add jobs in the first quarter of 2023, with total nonfarm payroll employment increasing by an average of 345,000 during the first three months of the year. Nonfarm payroll employment climbed by 236,000 in March, the lightest month of job gains since the start of the year. Transportation and warehousing employment rose by 10,400 in March, while manufacturing employment rose by 10,000 during the month. The Federal Reserve raised the target federal funds rate twice in the first quarter, at its February and March meetings, to the 4.75-5.00% range. Despite turmoil in the banking system, the Federal Reserve has indicated it is still committed to getting inflation back to its targeted 2.0% range, though only one hike to the federal funds rate is expected in the remainder of 2023. The U.S. unemployment rate was 3.5% in March and has remained relatively unchanged since 2022. The Indianapolis unemployment rate stayed stable quarter-over-quarter (QOQ) at 2.7% but has increased by 50 basis points (bps) year-over-year (YOY). However, employment in the Indianapolis edged higher by 3.2% YOY and is expected to continue to rise over the next 12 months.

## DEMAND: Tenant Demand Remains Robust Following Record Year

Tenant demand remained robust in the first quarter of 2023 following a record year for the Indianapolis industrial market. Nearly 4.0 million square feet (msf) of space was absorbed, identical to last year's first quarter absorption total. Geographically, the Northwest submarket fueled these occupancy gains, recording 2.5 msf, or 63.8%, of the overall net absorption. The South submarket also posted strong net absorption, totaling 872,000 square feet (sf). Modern bulk led all property types in overall net absorption, accounting for 93.8%, or 3.7 msf, of the overall net absorption in the first quarter. New leasing activity was also strong in the first quarter, with 4.2 msf of space leased. The Northwest submarket was also the top submarket for new leasing activity, with 1.7 msf of deals inked. The South and Southwest submarkets also posted noteworthy new leasing totals, equaling 948,000 sf and 939,000 sf, respectively. While only three new leases over 500,000 sf were signed in the first quarter, eight new leases in the 100,000 sf to 500,000 sf range were signed as this midsize segment has yielded more demand activity over the past few quarters. Meanwhile, the overall market vacancy rate climbed 130 bps QOQ to 6.5%. This was mainly the product of a substantial amount of speculative construction completions in the first quarter, not existing tenant move-outs. Despite the increase in the market vacancy rate, three submarkets still posted QOQ declines. The Southeast submarket recorded the largest vacancy decline, dropping 90 bps QOQ to 5.2%. The Northwest submarket vacancy rate declined 80 bps QOQ and the Downtown submarket vacancy rate decreased 40 bps QOQ.

## OVERALL VACANCY

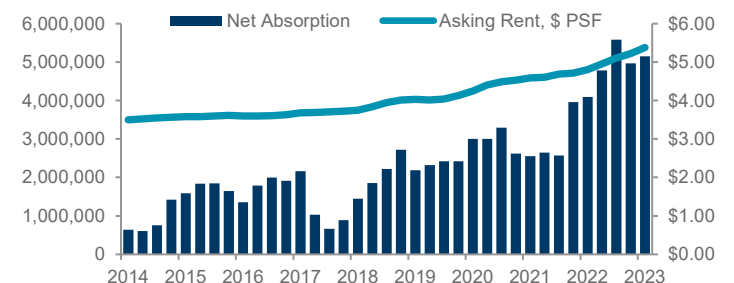
MARKET VACANCY CURRENTLY ABOVE HISTORICAL AVERAGE



Source: Cushman &amp; Wakefield Research

## OVERALL NET ABSORPTION &amp; ASKING RENT

4-QTR TRAILING AVERAGE





## Industrial Q1 2023

**SUPPLY: Highest First Quarter Completion Total Ever**

The Indianapolis industrial market delivered nearly 8.2 msf of space in the first quarter, the highest first quarter delivery total on record for the market. This was also the 3<sup>rd</sup>-largest first quarter delivery total of all U.S. Markets tracked by Cushman & Wakefield Research. Construction completions were distributed throughout the market, with the East, Northwest, South and Southwest submarkets all delivering more than 1.0 msf of space. Nearly 83.5% of the construction completions were modern bulk buildings. The construction pipeline dipped below for 20.0 msf for the first time since the first quarter of 2021 and currently stands at 19.7 msf, a decline of over 6.6 msf QOQ and 16.8 msf YOY. The East submarket has the most space currently under construction, totaling 6.9 msf, which is more than double the next closest submarket. However, a build-to-suit for Walmart accounts for 2.2 msf of the East submarket pipeline. Over 28.9% of the Indianapolis construction pipeline is currently preleased, a decline of 170 bps QOQ but still an increase of 890 bps YOY. With most of the space under construction slated to deliver before the end of the year, 2023 should be another banner year for construction completions, with a delivery total similar to last year's record. However, the construction pipeline should continue to moderate in the upcoming quarters as financing new projects becomes more difficult and construction starts trail construction completions.

**PRICING: Overall Asking Rates Increase 12.8% YOY**

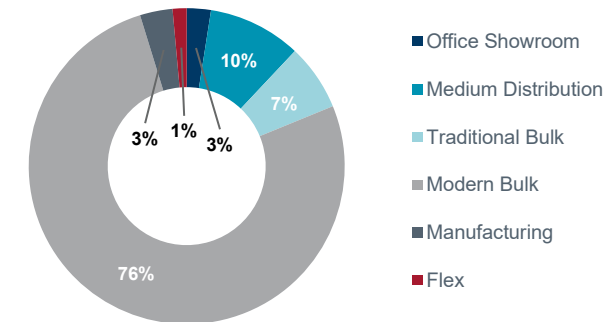
Overall asking rental rates continued to push upwards in the Indianapolis market, rising 5.0% QOQ and 11.3% YOY to \$5.84 per square foot (psf) triple net (NNN). The Downtown and North submarkets posted the highest QOQ growth rates, with asking rents growing by 36.2% and 12.8%, respectively. Modern bulk asking rates increased by 3.5% QOQ and 13.0% YOY to \$5.04 psf NNN, while medium distribution asking rates rose by 7.8% QOQ and 31.0% YOY to \$7.31 psf NNN.

**Outlook**

- The labor force participation rate is still trailing behind its pre-pandemic levels, with the labor force participation rate currently 62.4%, below the 63.3% participation rate recorded in February 2020. It remains unlikely that the labor force participation rate will recover fully in the near term because much of the current shortfall can be attributed to a high level of retirements since the start of the pandemic.
- Average asking rents have increased QOQ and YOY in most submarkets as new product with higher building costs has been added to the inventory. While asking rents are anticipated to continue to climb higher, these increases should moderate as demand decelerates slightly over the upcoming years.

**VACANT SPACE BY PRODUCT TYPE**

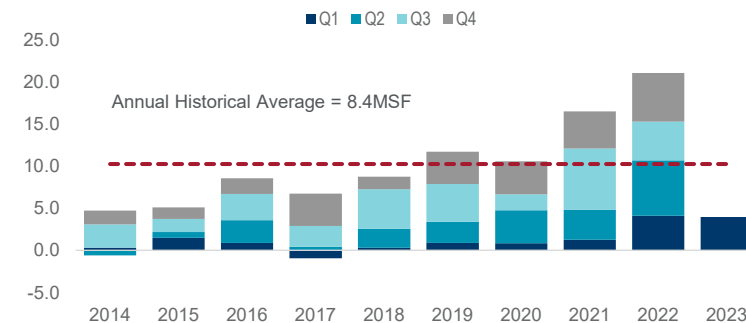
PERCENTAGE OF TOTAL VACANT SPACE

**MANUFACTURING EMPLOYMENT**

INDIANAPOLIS-CARMEL-ANDERSON MSA

**HISTORICAL DIRECT NET ABSORPTION**

INDIANAPOLIS CONTINUES THE STREAK OF STRONG ABSORPTION



# MARKETBEAT INDIANAPOLIS



## Industrial Q1 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 CNSTR COMPLETIONS (SF)	YTD CNSTR COMPLETIONS (SF)	OVERALL WEIGHTED AVG NET RENT*
Downtown	166	9,620,086	0	246,994	2.6%	38,800	38,800	0	0	0	\$9.70
East	543	57,367,433	280,503	7,023,971	12.7%	-29,784	-29,784	6,862,330	1,323,679	1,323,679	\$4.99
North	129	5,779,103	5,615	290,306	5.1%	-50,381	-50,381	169,544	20,360	20,360	\$9.93
Northeast	310	18,602,475	70,360	1,013,112	5.8%	-34,771	-34,771	1,007,184	327,910	327,910	\$8.09
Northwest	536	72,456,898	397,360	3,356,133	5.2%	2,540,837	2,540,837	3,076,302	2,056,668	2,056,668	\$6.36
South	173	32,899,223	338,580	3,508,668	11.7%	871,507	871,507	2,966,644	2,501,078	2,501,078	\$5.73
Southeast	271	17,807,397	0	545,075	3.1%	269,790	269,790	1,500,420	115,500	115,500	\$5.86
Southwest	583	100,566,878	129,531	3,761,542	3.9%	172,128	172,128	2,149,448	1,547,913	1,547,913	\$5.51
West	153	17,091,113	0	474,701	2.8%	207,468	207,468	1,935,750	293,714	293,714	\$4.38
Property Type											
Office Showroom	500	14,448,586	51,091	478,460	3.7%	-57,775	-57,775	0	0	0	\$10.37
Medium Distribution	1,053	67,576,677	233,980	1,812,141	3.0%	848,438	848,438	2,942,378	1,350,997	1,350,997	\$7.31
Traditional Bulk	140	35,312,126	555,144	901,917	4.1%	-533,572	-533,572	0	0	0	\$5.98
Modern Bulk	268	147,287,158	338,580	16,048,250	11.1%	3,739,885	3,739,885	16,338,244	6,835,825	6,835,825	\$5.04
Manufacturing	562	55,081,292	11,500	704,303	1.3%	-20,697	-20,697	387,000	0	0	\$6.25
Flex	256	8,917,195	31,654	275,431	3.4%	9,315	9,315	0	0	0	\$9.77
Transport	85	3,567,572	0	0	0.0%	0	0	0	0	0	-
<b>INDIANAPOLIS TOTALS</b>	<b>2,864</b>	<b>332,190,606</b>	<b>1,221,949</b>	<b>20,220,502</b>	<b>6.5%</b>	<b>3,985,594</b>	<b>3,985,594</b>	<b>19,667,622</b>	<b>8,186,822</b>	<b>8,186,822</b>	<b>\$5.84</b>

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

### KEY LEASE TRANSACTIONS Q1 2023

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
475 S Mt Zion Rd, Lebanon	615,600	Caterpillar Inc.	New Lease	Northwest
8677 Logo Athletic Ct, Indianapolis	599,152	Adidas Group	Renewal*	East
5635 N Graham Rd, Whiteland	513,722	Turn 14 Distribution	New Lease	South
850 N Graham Rd, Greenwood	456,000	Neovia Logistics Services	Renewal*	South

\*Renewals not included in leasing statistics

### KEY INDUSTRIAL DELIVERIES Q1 2023

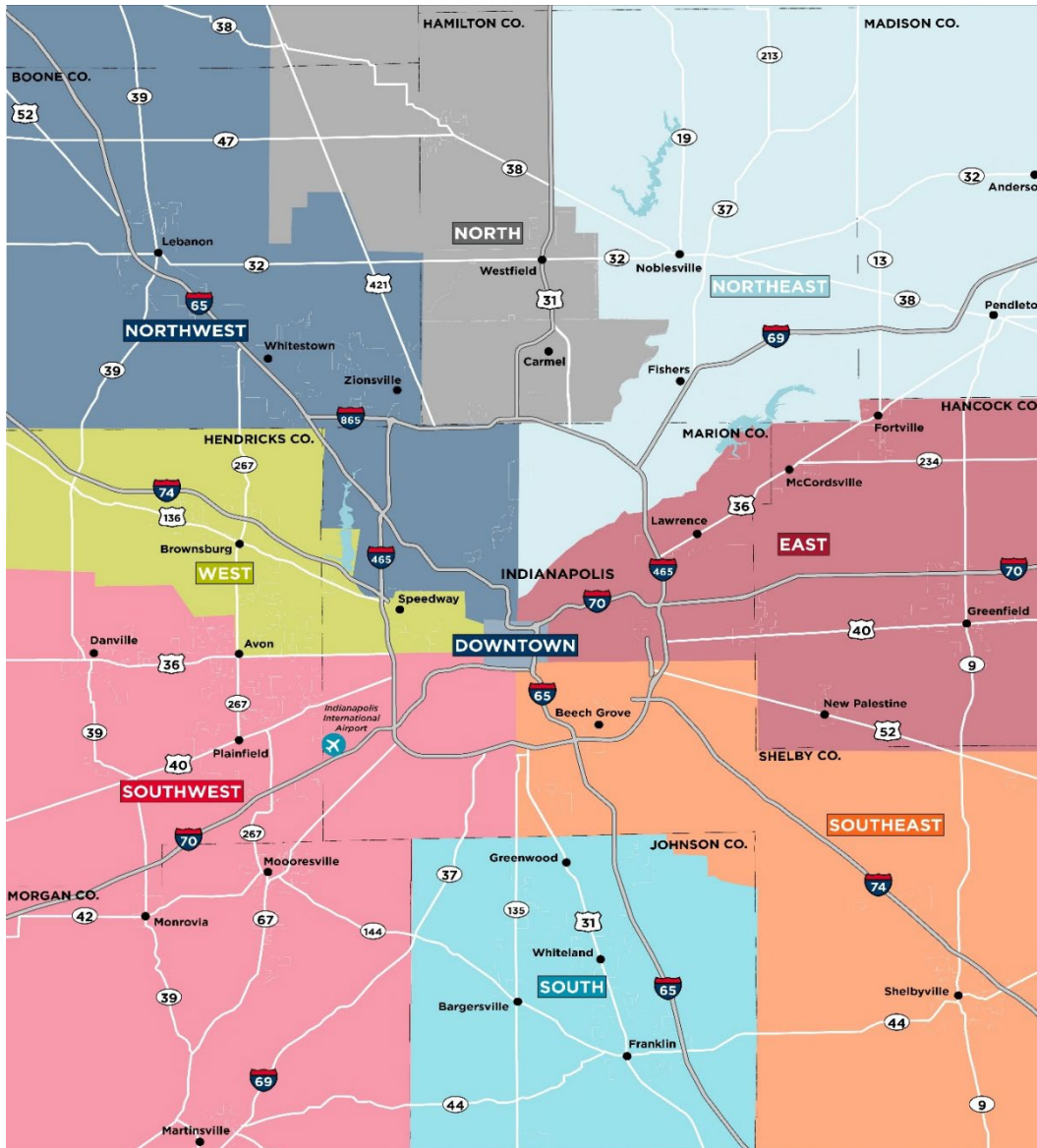
PROPERTY	SF	CONSTRUCTION TYPE	COMPLETION DATE	SUBMARKET
5741 N Graham Rd, Whiteland	1,057,350	Speculative	1Q 23	South
7366 CR W 350 N, Mt Comfort	1,005,776	Speculative	1Q 23	East
1322 Ronald Reagan Pkwy, Avon	712,800	Speculative	1Q 23	Southwest



## Industrial Q1 2023

## INDUSTRIAL SUBMARKETS

## INDIANAPOLIS

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