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Midwest industrial insight report

Q3 2021

AVANT
by AVISON YOUNG



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U.S. and Midwest industrial drivers

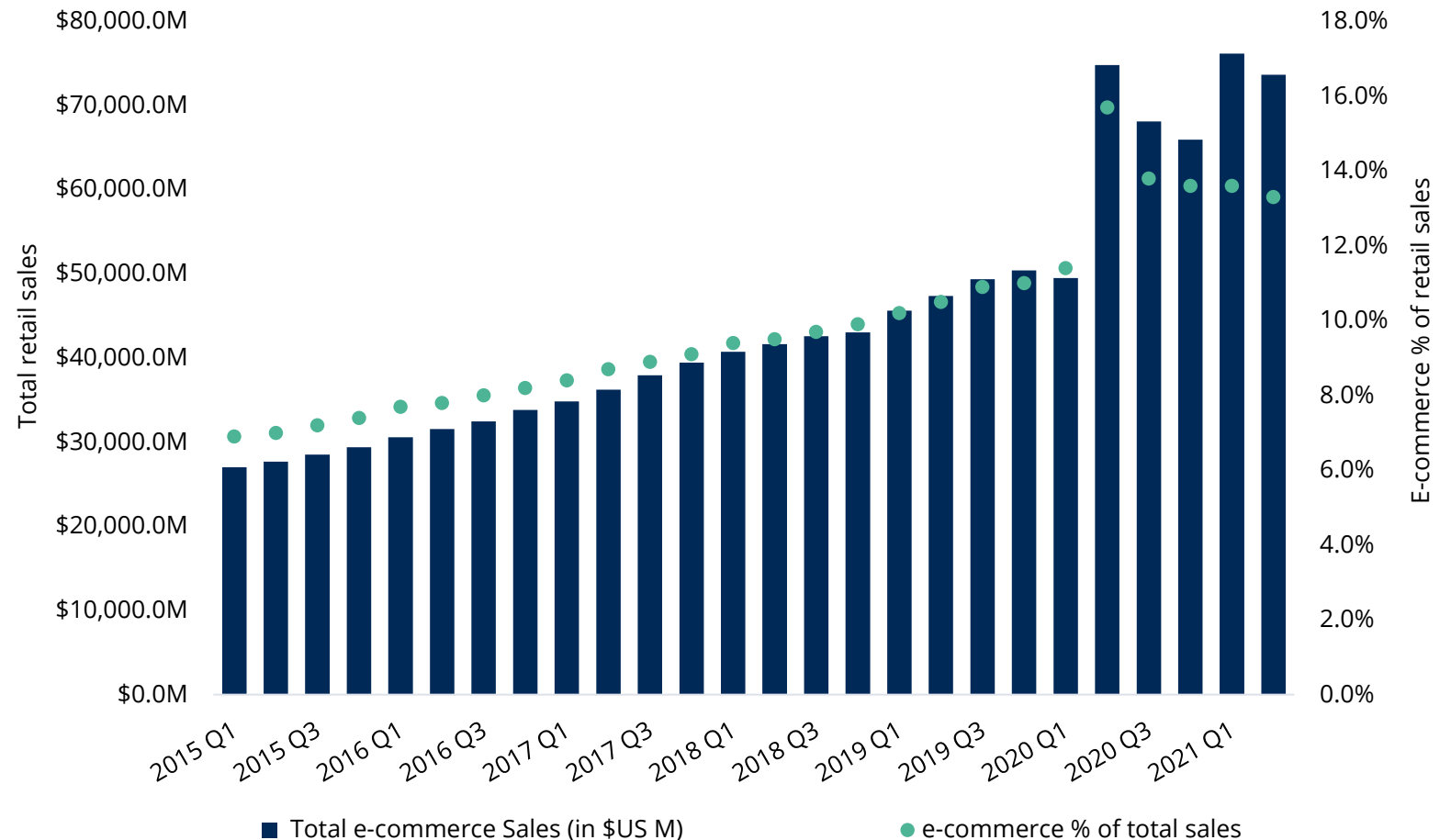
MIDWEST INDUSTRIAL INSIGHT REPORT
Q3 2021

U.S. total retail and e-commerce sales

13.3%

E-commerce share of overall retail sales in Q2 2021

Demand for e-commerce surged during the initial shock of lockdowns, driving industrial demand to record levels. As the economy begins to reopen, the rate of e-commerce growth is nearly double pre-COVID levels, suggesting accelerated e-commerce demand is sustainable.



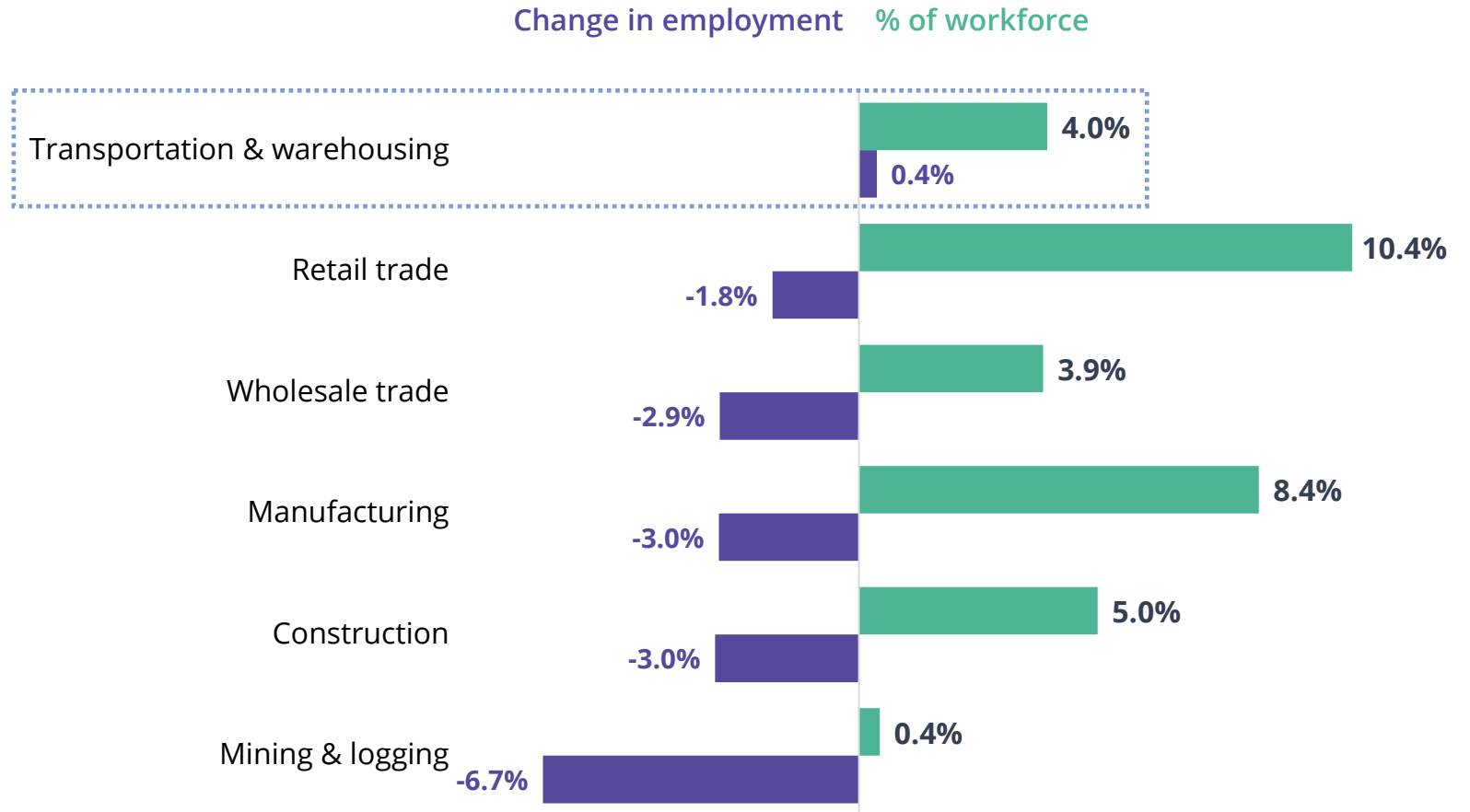
Source: Federal Reserve Bank of St. Louis
*Most recent update August 17, 2021

Industrial sector job gains and losses

+0.4%

Change in transportation and warehousing employment, February 2020 to July 2021

The transportation and warehousing employment sector has been resilient throughout the pandemic. Manufacturing, construction and wholesale trade comprise similar proportions of total U.S. employment but have contracted since February 2020.



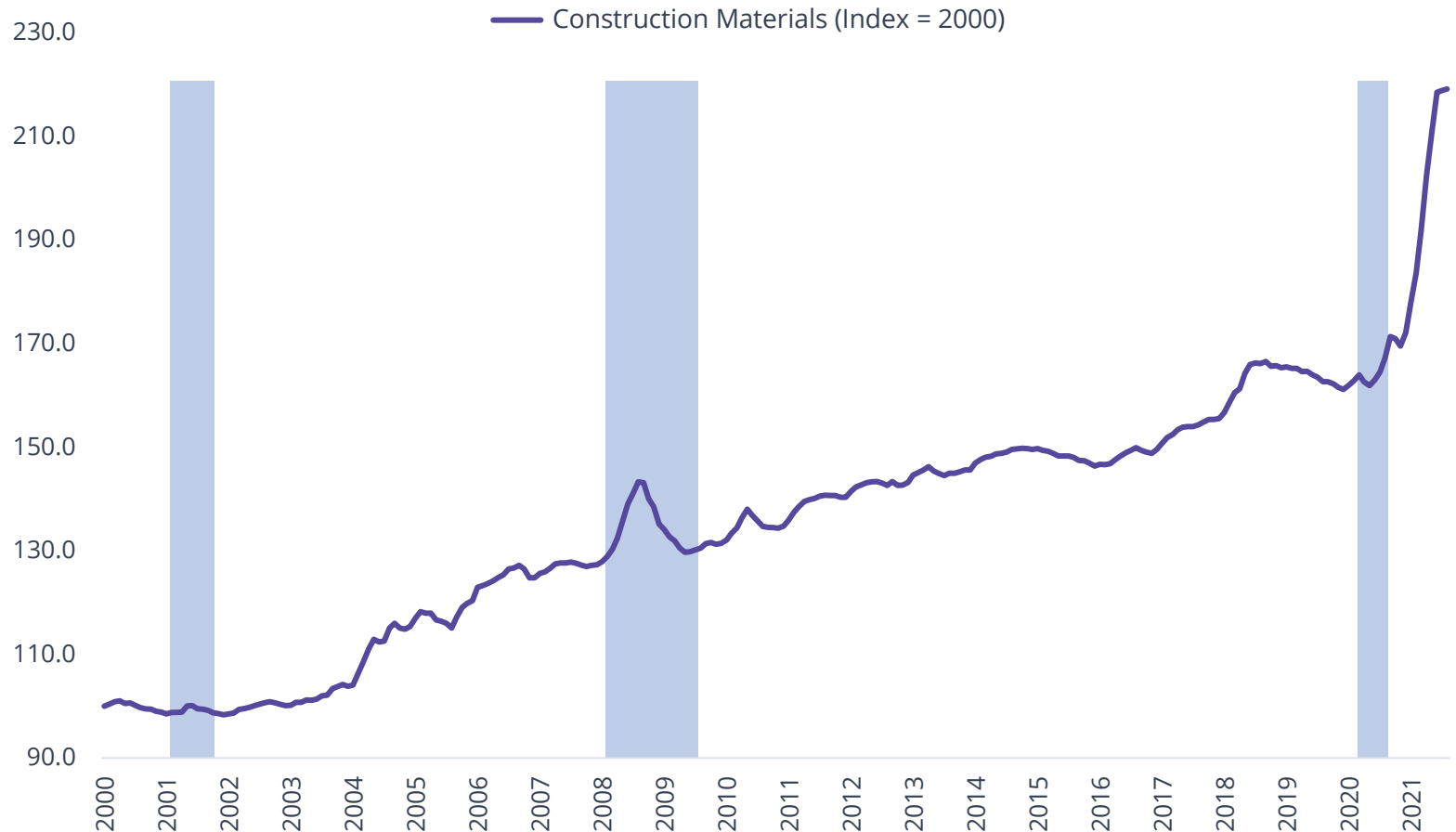
Note: Seasonally adjusted data.
Source: Bureau of Labor Statistics

Cost of construction materials

+35.3%

**Construction Material
Index cost from year-end
2020 to August 2021**

Construction material costs have surged to start 2021, applying upward pressure on industrial pro forma rents. However, recent activity in August and September suggest that pricing is poised to moderate to 2020 levels in the coming months.



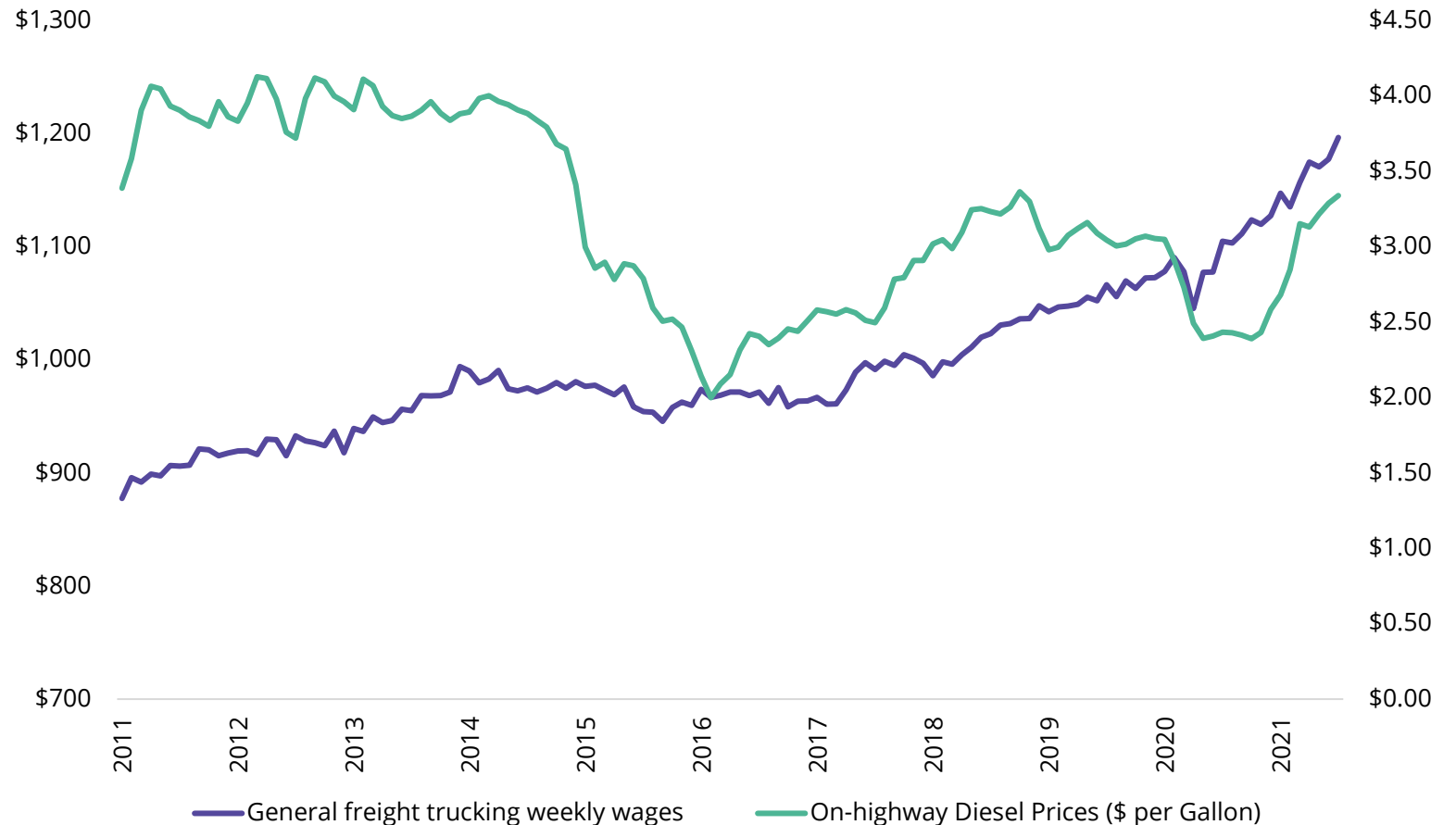
Source: Bureau of Labor Statistics

Fuel costs and freight trucking driver wages

+39.8%

**Diesel prices since
May 2020**

Rising diesel fuel prices and wage rates, for short- and long-haul trucking, are exacerbating pressures on shipping costs for companies that may have also faced international supply chain disruptions.



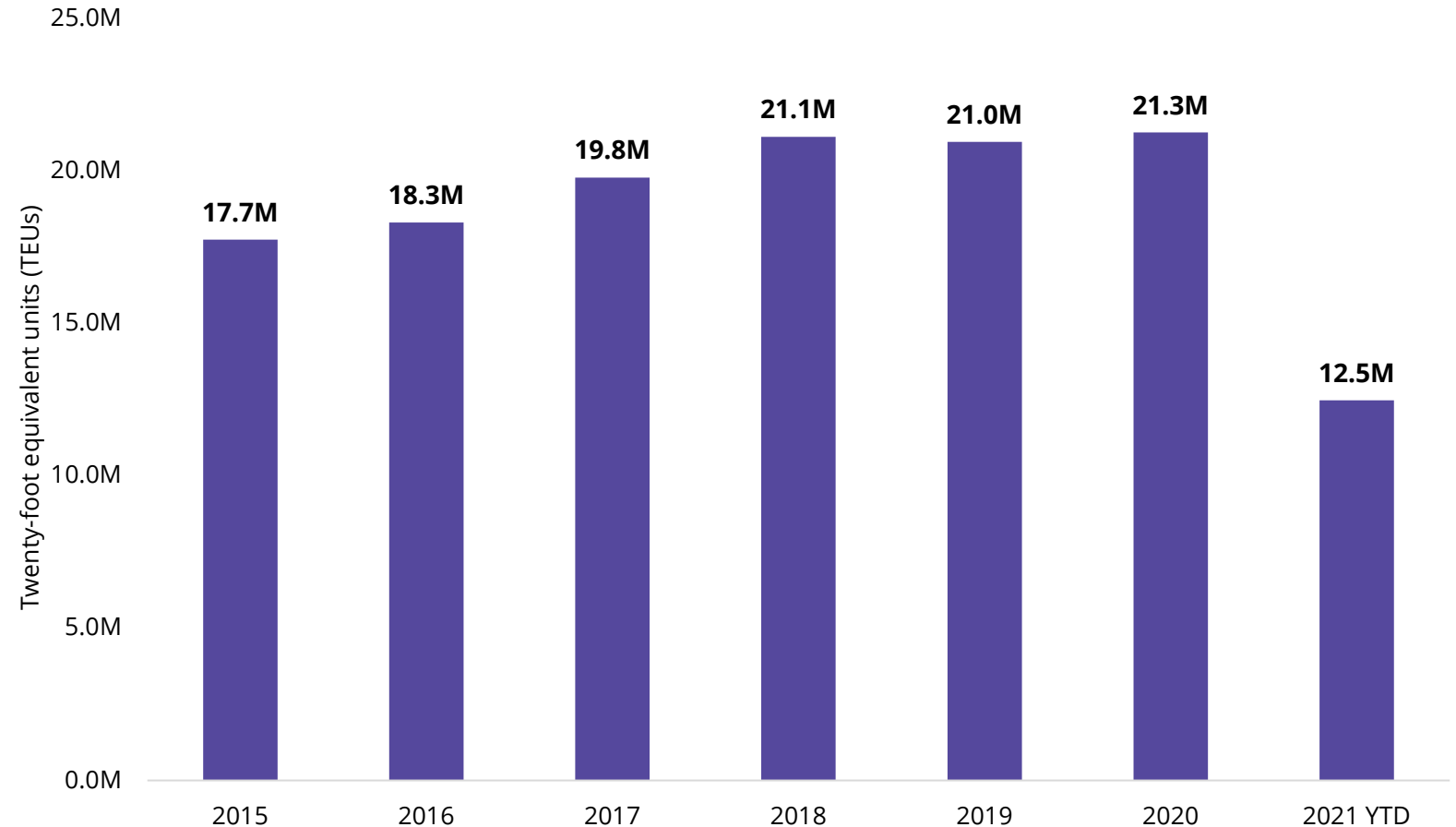
Source: Bureau of Labor Statistics, U.S. Energy Information Administration, AVANT by Avison Young

Loaded import container volumes

+24.0%

Change in cargo volumes,
H1 2020 vs. H1 2021

Through June, loaded imports at major U.S. seaports are up significantly over the same period last year. While activity in 2020 was impacted by the pandemic, freight flows this year have been marred by supply chain disruptions at ports.



Note: Includes Los Angeles, Long Beach, New York / New Jersey, Savannah, Virginia, Houston, Charleston, Oakland, Seattle / Tacoma, Miami, Baltimore, Jacksonville ports.
Source: individual port authority websites



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Indianapolis market fundamentals

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Key industrial takeaways



Economic conditions

- Essential workers, a logistics hub and a sharp but entrenched rise in e-commerce spending have helped bring Indianapolis unemployment figures down to **3.7 percent**. Other supply chain shocks throughout 2021 have done little to impede growth in leasing fundamentals, especially for Class A space.
- Local employment in Manufacturing rose by **5,500 jobs** since July 2020 as of August. Additional industrial job gains have remained steady this year, with the transportation, warehousing & utilities sector up **2.8%** since July 2020.



Inflation rate

- Midwestern consumer prices have been increasing sharply as the regional economy fully reopened. Midwestern food prices spiked by **5.2%** in year-over-year in September, and **CPI less food & energy** increased by **4.0%**.



Industrial demand

- Overall leasing activity has been robust throughout the pandemic, currently sitting at **+144.1 percent** of the long-term annual average of the last 20 years of historical data.
- At **12.0M sf** through the first three quarters, aggregate 2021 net absorption could outpace the historic totals set over the past two years.

Key industrial takeaways



Industrial supply

- As national, regional and local logistics and e-commerce businesses continue to expand throughout the market, developers are working to meet demand. Through the third quarter, there were **32 properties** larger than 40,000 sf totaling **17.9M sf** under construction in the market.
- The Q3 2021 total vacancy rate of **5.2%** for Indianapolis is approaching historic record lows, falling by **245 basis-points** from the **high in 2009**.



Pricing trends

- Base rents have increased by **22.4 percent** since 2015 and have continued a steady upward trajectory.
- After softening just prior to the pandemic, market rents continue their upward trend, clocking in at **\$4.37/psf** at the end of the third quarter.



Capital markets

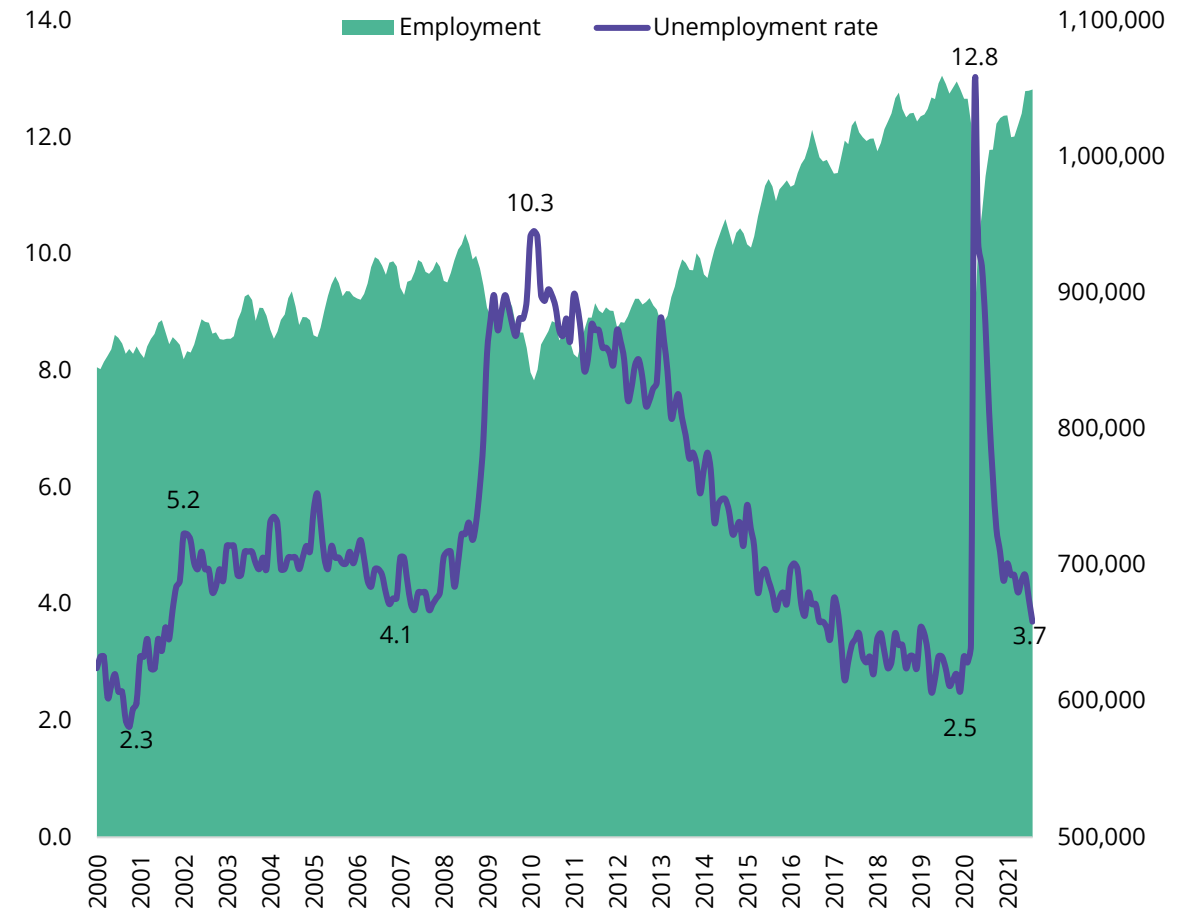
- Indianapolis Industrial investment activity surges to **\$1.3B year-to-date** as investors are attracted to the sector fundamentals largely benefited from the COVID environment.
- 2021 is **outpacing** the five-year average through the first three quarters of sales transaction activity by **65.5%**.
- It also translated into higher valuations for Indianapolis industrial assets, with a **74.8 percent** higher per-square-foot rate than the trailing five-year average, to \$77/psf through the first three quarters of 2021.

Employment and unemployment rate

3.7%

Indianapolis unemployment rate as of August 2021, dipping below 4.0% for first time since COVID

Historically tightened labor market conditions were temporarily paused by the pandemic with 163,409 job losses between February and April 2020. However, Indianapolis' employment has since surged, and now has nearly 7,000 more employed than just prior to the pandemic.



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Industrial job gains and losses

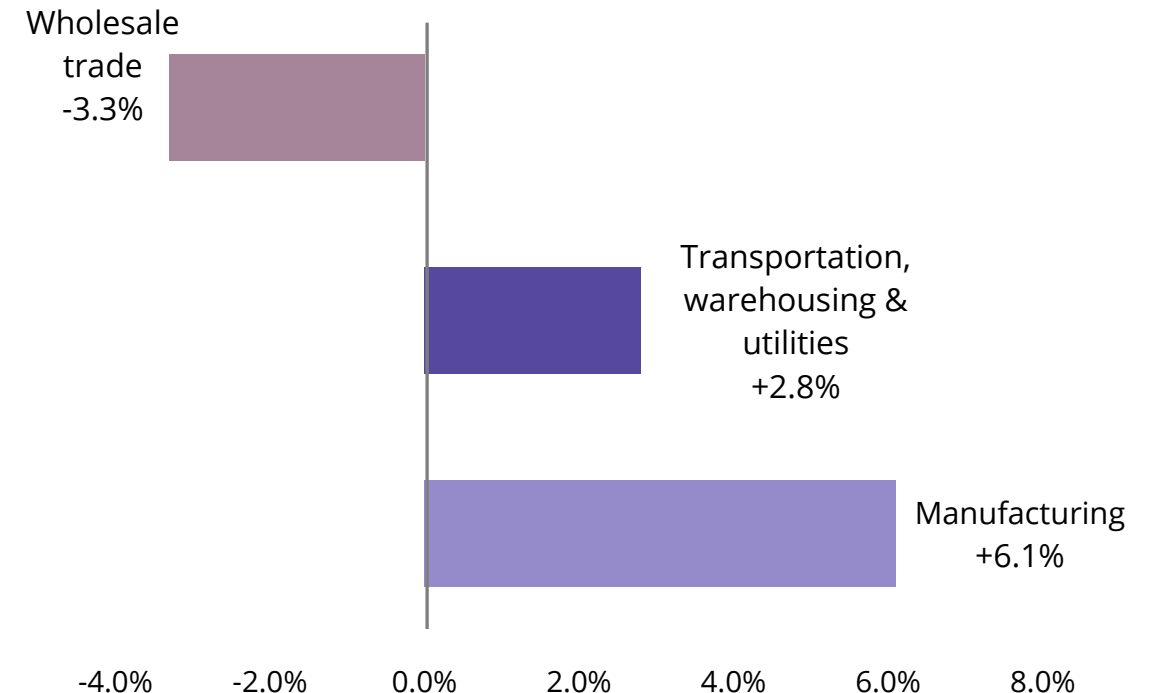
+3.9%

Change in industrial employment from July 2020 to August 2021

The Indianapolis metro area has experienced job additions totaling 3.9% in the last year, especially in the critical areas of manufacturing, and transportation and logistics. These job gains have remained steady in 2021, with the Manufacturing sector up 6.1% through the third quarter.

Total change in Indianapolis MSA* job gains/(losses)

July 2020 to August 2021



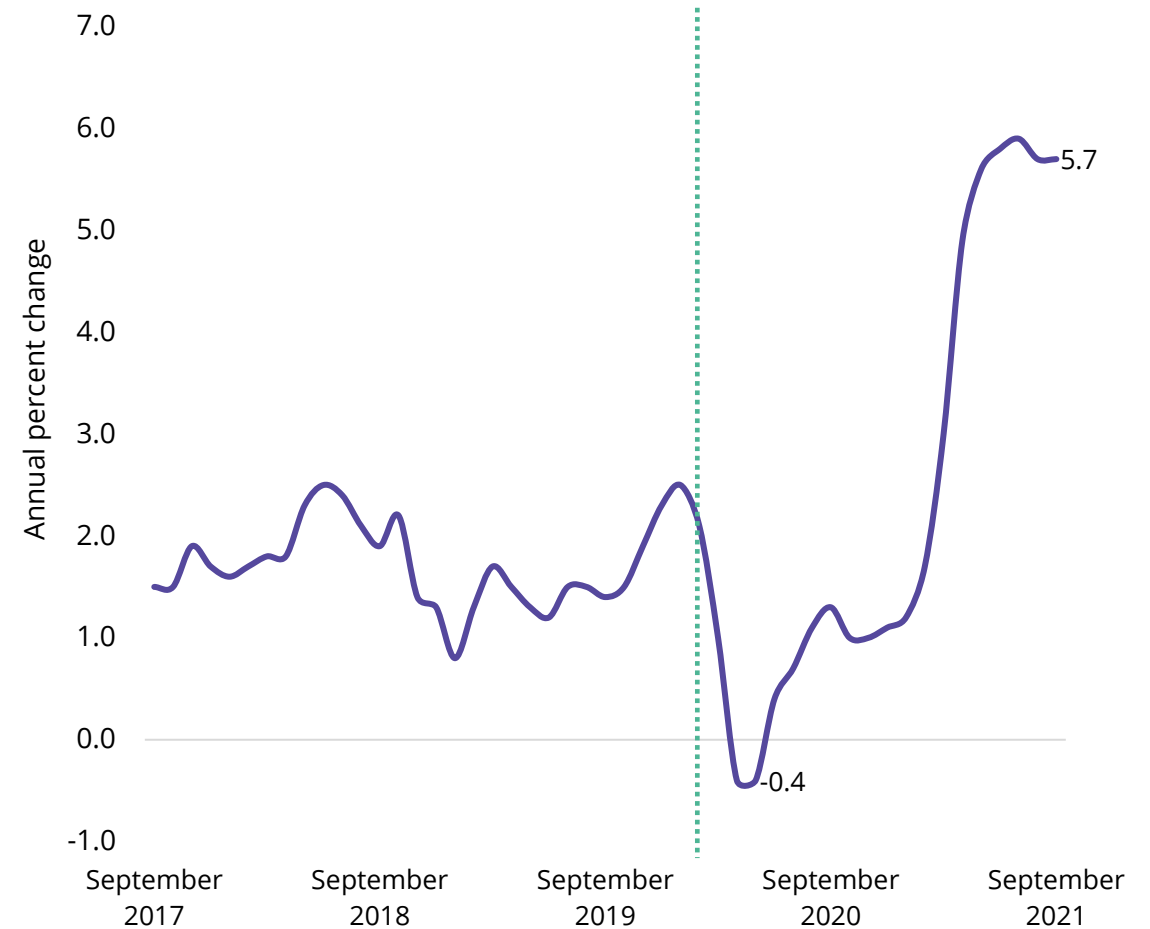
Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Inflation rates

+4.8%

Year-over-year change in Consumer Price Index for the Midwest, all items

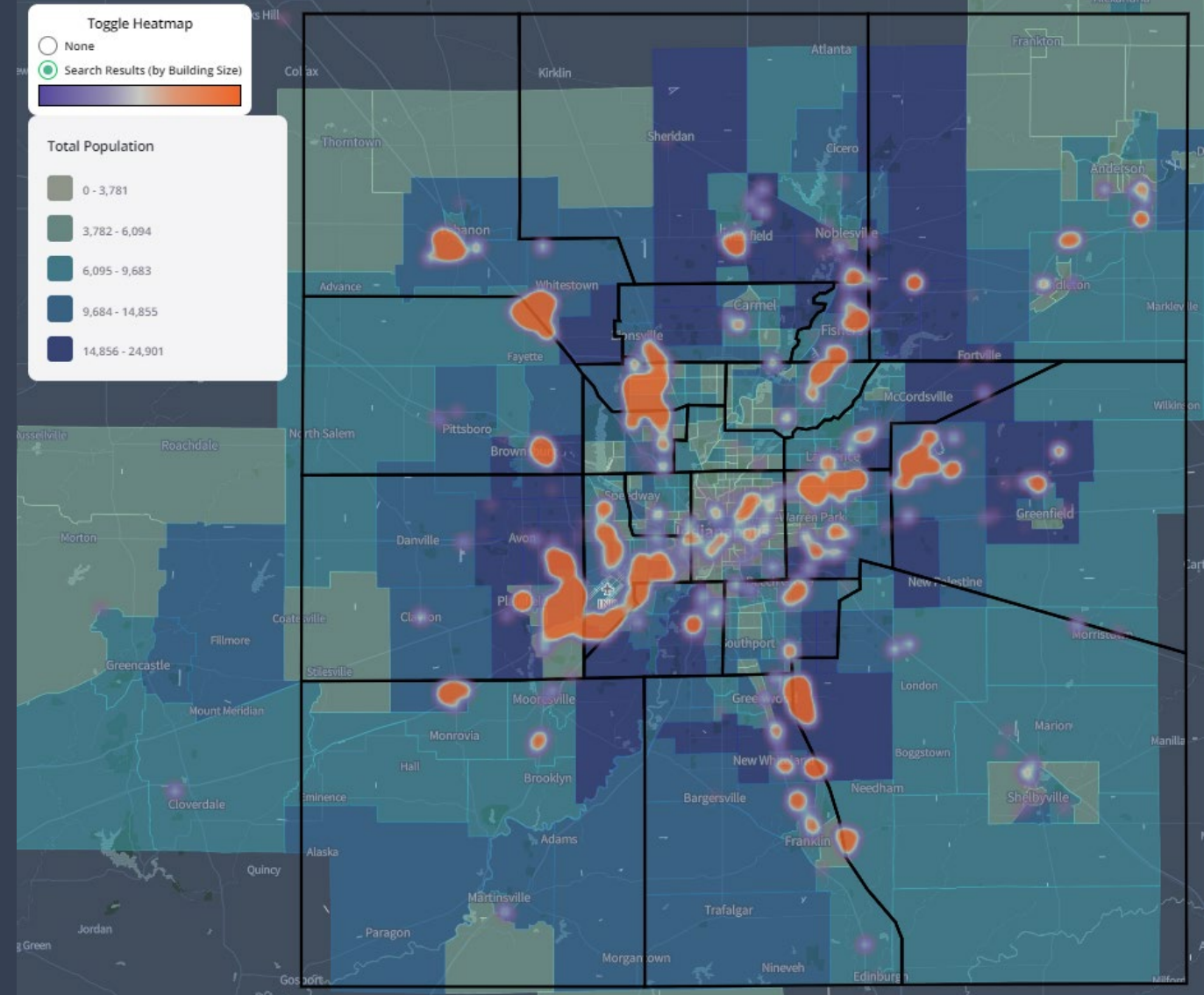
Midwestern consumer prices have been increasing sharply as the regional economy fully reopened. Despite stabilizing this summer, lingering supply chain disruptions and severe weather have impacted many sectors and could keep inflation at higher-than-normal levels. Midwest food prices spiked by 5.2% in year-over-year in September, and CPI less food & energy increased by 4.0%.



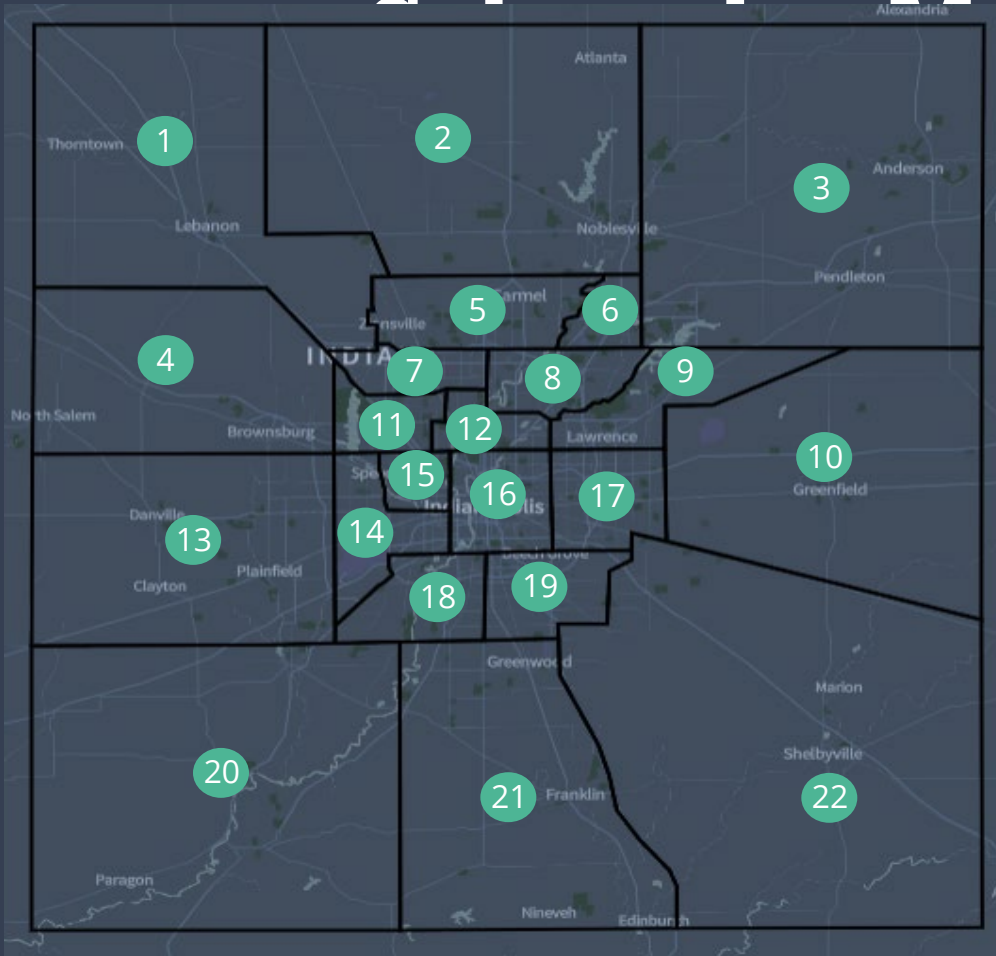
Note: Not seasonally adjusted data. Indiana is not part of CPI; Midwest area used for analysis.
Source: Bureau of Labor Statistics

Indianapolis Industrial Inventory Heatmap

Source: AVANT by Avison Young, ESRI



Indianapolis Industrial

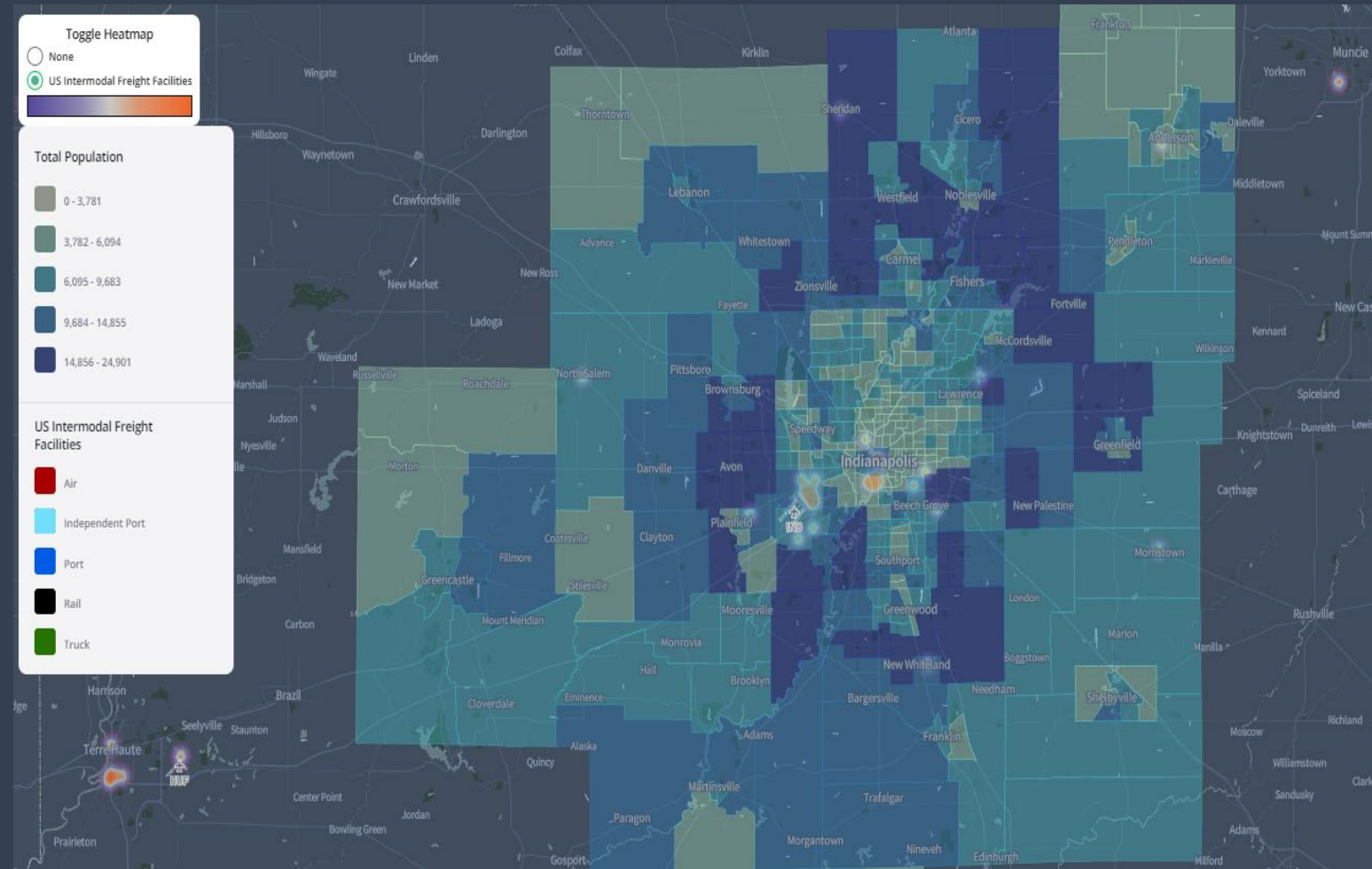


| | Submarket | Total Inventory | Total Construction |
|----|-------------|-----------------|--------------------|
| 1 | Lebanon | 20.9M sf | 1.1M sf |
| 2 | Noblesville | 2.6M sf | 160.0K sf |
| 3 | Pendleton | 4.2M sf | 0.0M sf |
| 4 | Brownsburg | 13.3M sf | 235.9K sf |
| 5 | Carmel | 2.0M sf | 0.0M sf |
| 6 | Fishers | 3.8M sf | 0.0M sf |
| 7 | Park 100 | 17.3M sf | 148.6K sf |
| 8 | Castleton | 3.2M sf | 0.0M sf |
| 9 | Lawrence | 2.1M sf | 0.0M sf |
| 10 | Hancock | 10.7M sf | 6.0M sf |
| 11 | Guion | 3.6M sf | 0.0M sf |

| | Submarket | Total Inventory | Total Construction |
|----|-------------------|-----------------|--------------------|
| 12 | MIL | 44.1K sf | 0.0M sf |
| 13 | Plainfield | 45.7M sf | 2.4M sf |
| 14 | Airport | 19.0M sf | 0.0M sf |
| 15 | Speedway | 579.1K sf | 0.0M sf |
| 16 | Downtown | 7.1M sf | 0.0M sf |
| 17 | East | 14.2M sf | 0.0M sf |
| 18 | SR 37 | 3.3M sf | 127.6K sf |
| 19 | Franklin Township | 2.5M sf | 0.0M sf |
| 20 | Morgan | 5.5M sf | 2.1M sf |
| 21 | Greenwood | 8.9M sf | 577.2K sf |
| 22 | Shelby | 13.2M sf | 3.8M sf |

Source: AVANT by Avison Young

Freight rail & intermodal facilities



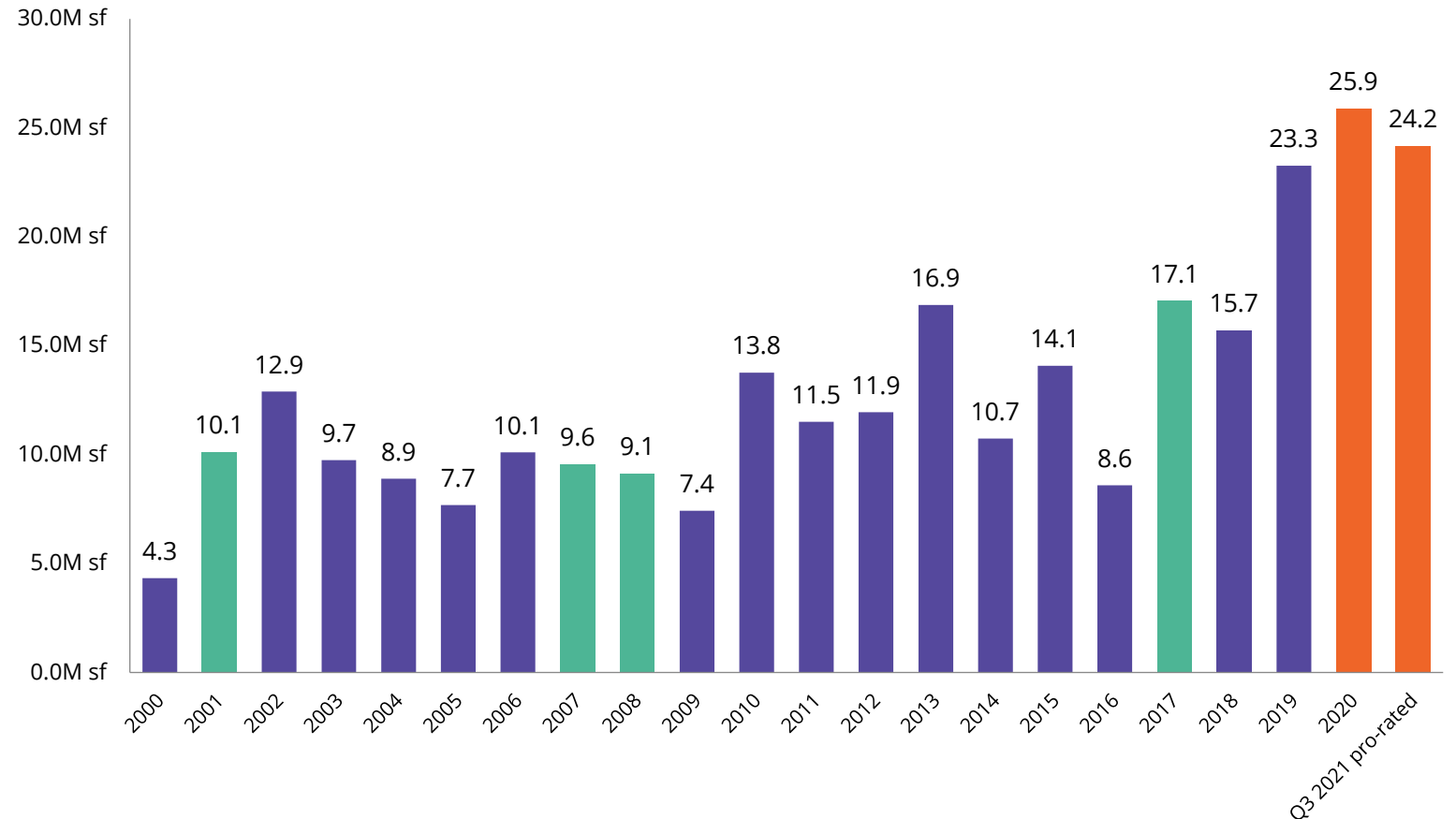
Source: AVANT by Avison Young, ESRI
Intermodal facilities are clustered around seaport submarkets and major throughout corridors, with Class I rail lines providing connectivity throughout the country

Industrial leasing activity

+144.1%

**2020-pro-rated 2021 vs. prior
20-year annual average
leasing activity**

Leasing has not let up during the pandemic and is projected to be near the historic high set in Indianapolis in 2020.



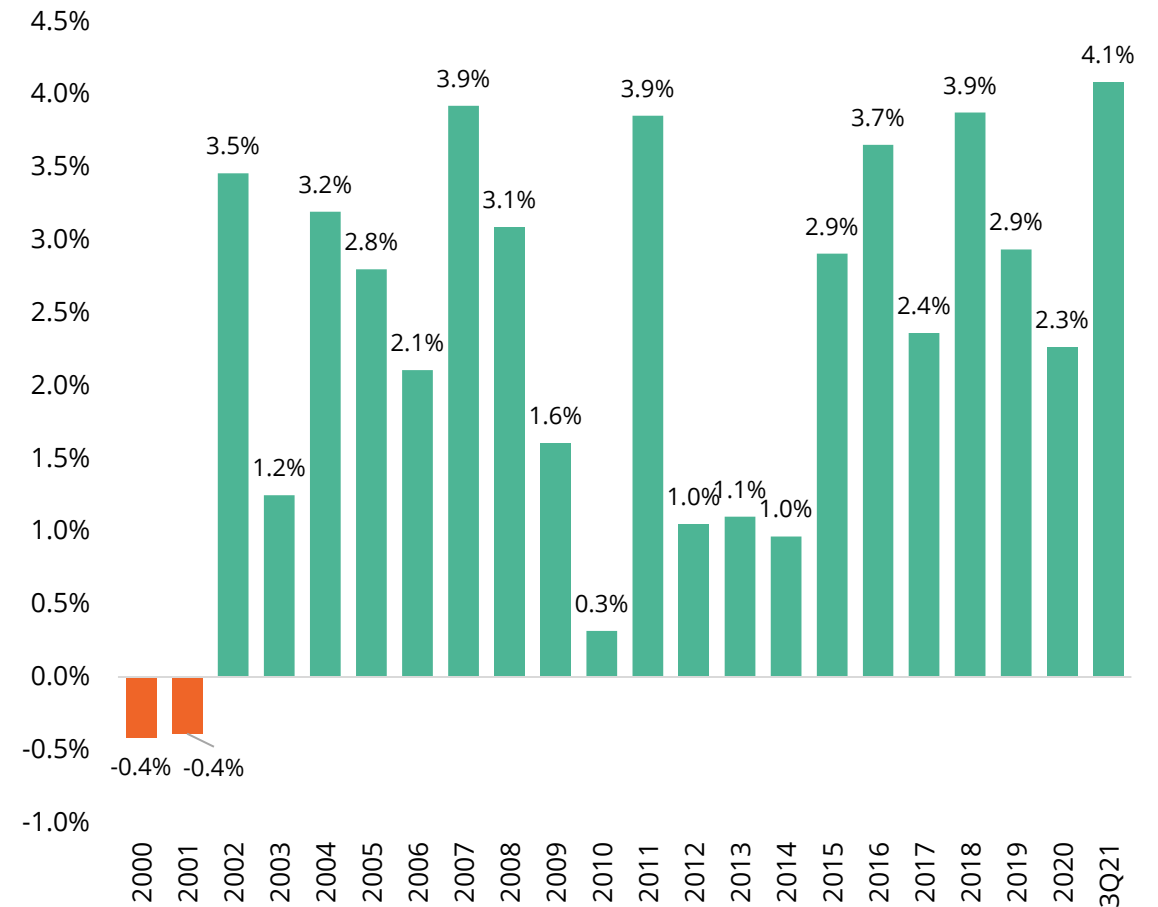
Source: CoStar

Industrial net absorption

6.4%

Net absorption as a percentage of inventory, 2020 through Q3 2021

Absorption through the third quarter remains extremely healthy and far higher than the historic average. The market is healthily digesting new development as demand continues to gravitate to high-quality new development. At 12.0 million sf through the first three quarters, aggregate 2021 net absorption could set a new record for the market by year-end.



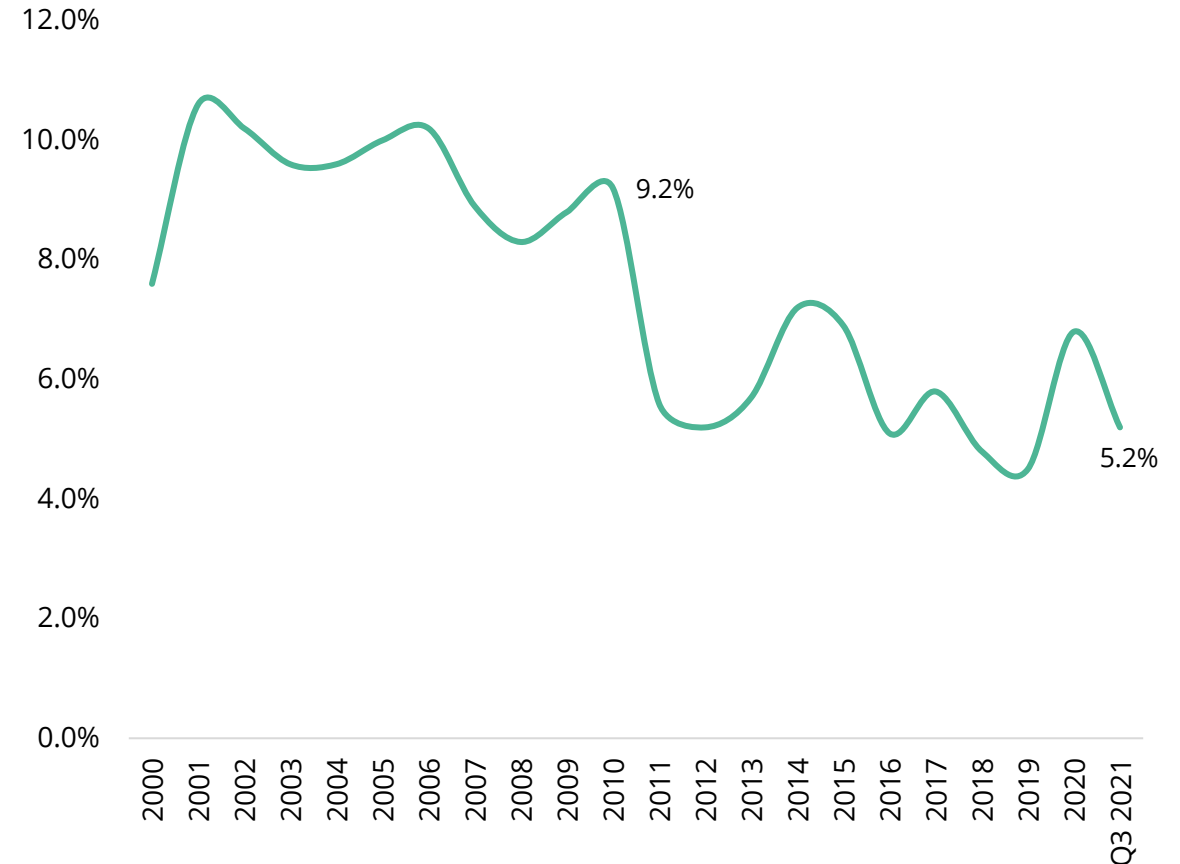
Note: Absorption is measured as the year-over-year change in occupied square feet.
Source: CoStar

Industrial vacancy rate

5.2%

Downward trending
vacancy in Q3 2021

The Q3 2021 total vacancy rate is approaching pre-pandemic record lows, falling by 245 basis-points from the high in 2009. Average asking rents have increased 24.9% over that same time period, underscoring how industrial demand has outstripped supply in Indianapolis.



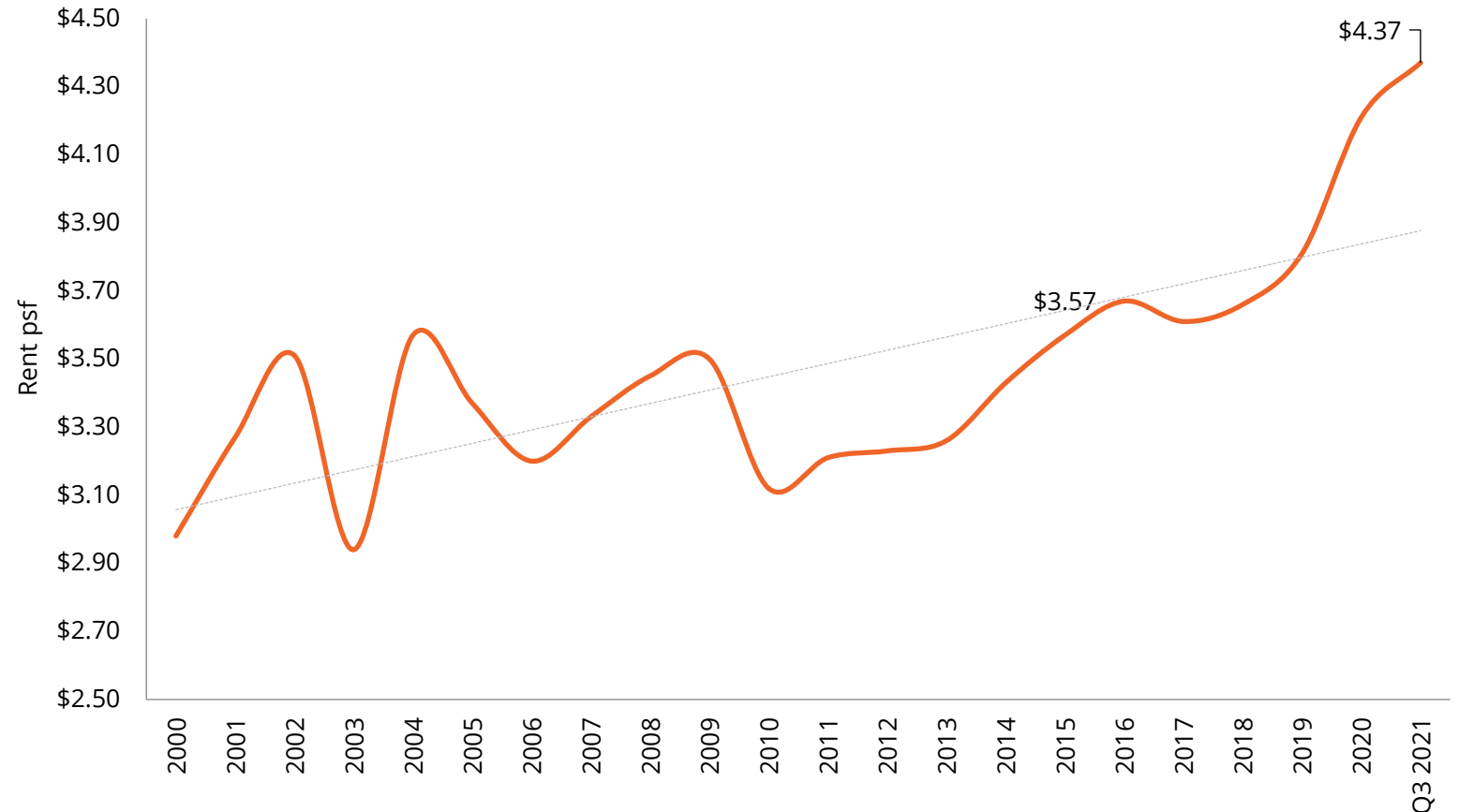
Source: CoStar

Base rents

+22.4%

Indianapolis industrial base rents since 2015

Base rents initially softened slightly in the beginning of COVID but are surging past pre-pandemic pricing. The overall trend upward since 2015 has increased by 22.4% over the last six years.



Source: AVANT by Avison Young

Industrial development pipeline

86 properties

Proposed, under construction
or under renovation

30.1M sf

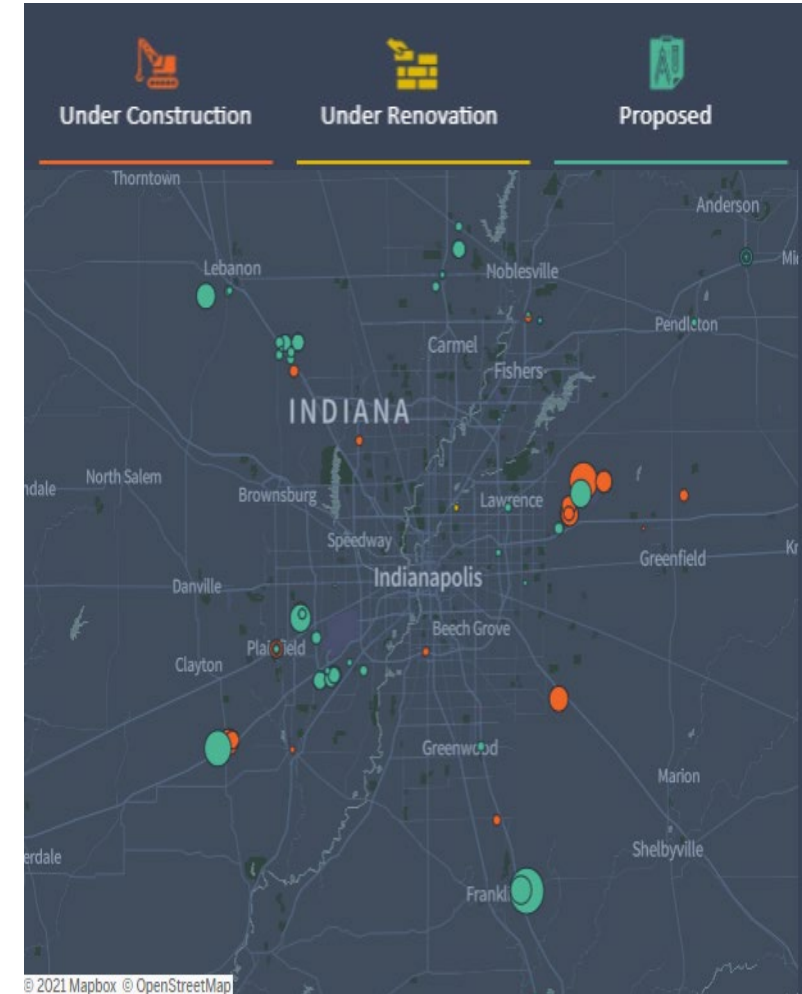
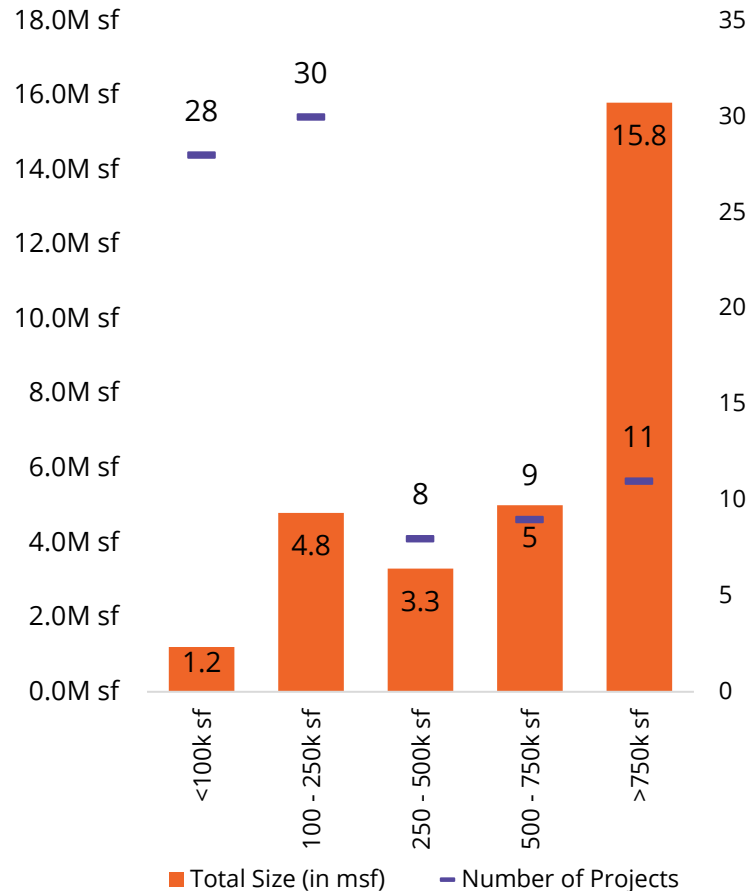
proposed or under
construction

14.7%

share of industrial
inventory

Hancock

Submarket with most ground-broken
projects at 9



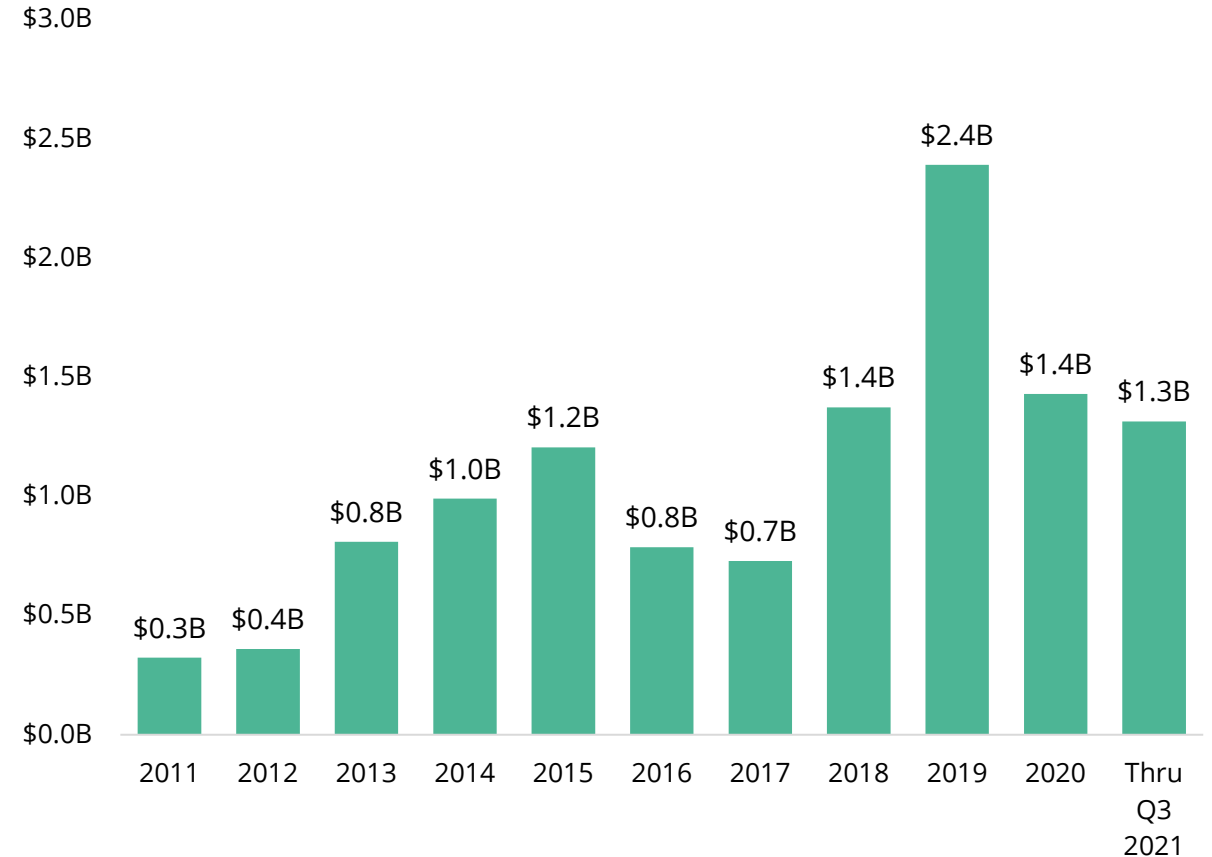
Source: AVANT by Avison Young

Investment dollar volume

\$1.3B

Industrial dollar volume,
year-to-date 2021

Indianapolis industrial sales volumes through Q3 2021 have the warehouse & logistics sector outpacing the five-year average through the first three quarters of activity by 65.5%. Over that same time period, the fourth quarter accounts for 38.6% of total annual volumes, and a strong finish to the year is expect to boost volumes further.



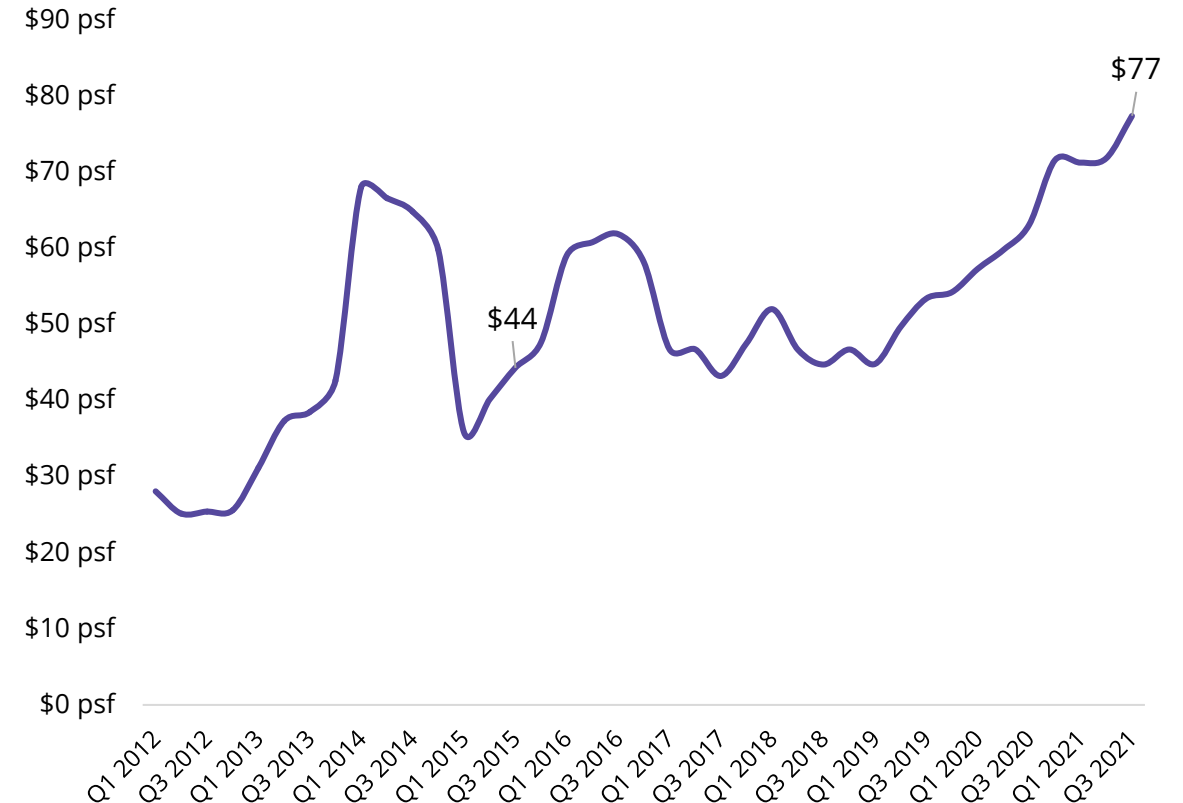
Source: AVANT by Avison Young
RCA

Industrial asset pricing

+74.8%

**Indianapolis industrial pricing,
Q3 2015 to Q3 2021**

Pricing for Indianapolis industrial assets has continued to accelerate since 2015, and particularly since the pandemic, as an influx of investors seek exposure to properties that can accommodate the rise of e-commerce distribution.



Source: AVANT by Avison Young
RCA (4-Quarter Moving Avg.)

Indianapolis 2021 Key Leasing & Speculative Projects

Top Leases

| | Tenant | Address | Location | Lease size | Lease Type |
|---|--------------------------|---------------------------------|--------------|------------|------------|
| 1 | Stryker Corporation | Westpoint Boulevard | Clayton | 646,000 | New |
| 2 | Confidential Group | 4857 N. Ronald Reagan | Brownsburg | 513,586 | New |
| 3 | Life Sciences Logistics | 2128 Gateway Point | Monrovia | 443,077 | New |
| 4 | XPO Logistics | 5490 Industrial Court | Whitestown | 364,000 | Renewal |
| 5 | ThyssenKrupp | 1110 Smith Road | Plainfield | 328,403 | New |
| 6 | Langham Logistics | 5355 W. 74 th Street | Park 100 | 306,000 | Renewal |
| 7 | Langham Logistics | 4995 Perry Worth Road | Whitestown | 187,000 | New |
| 8 | South Atlantic Packaging | Pendleton Pike/I-465 | Indianapolis | 127,609 | New |

Speculative Projects

| | Developer | Address | Location | Total Size (in s.f.) | Est. Delivery |
|---|------------------------|---------------------------|------------|----------------------|---------------|
| 1 | Stonemont Financial | Lebanon Business Park | Lebanon | 615,600 | Nov 2021 |
| 2 | CT Realty | I-70 Logistics Park | Greenfield | 805,000 | Jan 2022 |
| 3 | Ambrose Property Group | Plainfield Logistics Park | Plainfield | 474,000 | Jan 2022 |
| 4 | Jones Development | Whiteland Exchange Bldg 5 | Whiteland | 979,000 | Feb 2022 |
| 5 | GDI Construction | Franklin Business Park | Franklin | 954,370 | Mar 2022 |

Source: AVANT by Avison Young



Get in touch



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Let's talk

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