

Indianapolis Industrial posts first quarter of negative absorption in three years.

▼ -310,682

SF Net Absorption

▲ 9.8%

Vacancy Rate

▼ \$5.90

NNN / Lease Rate

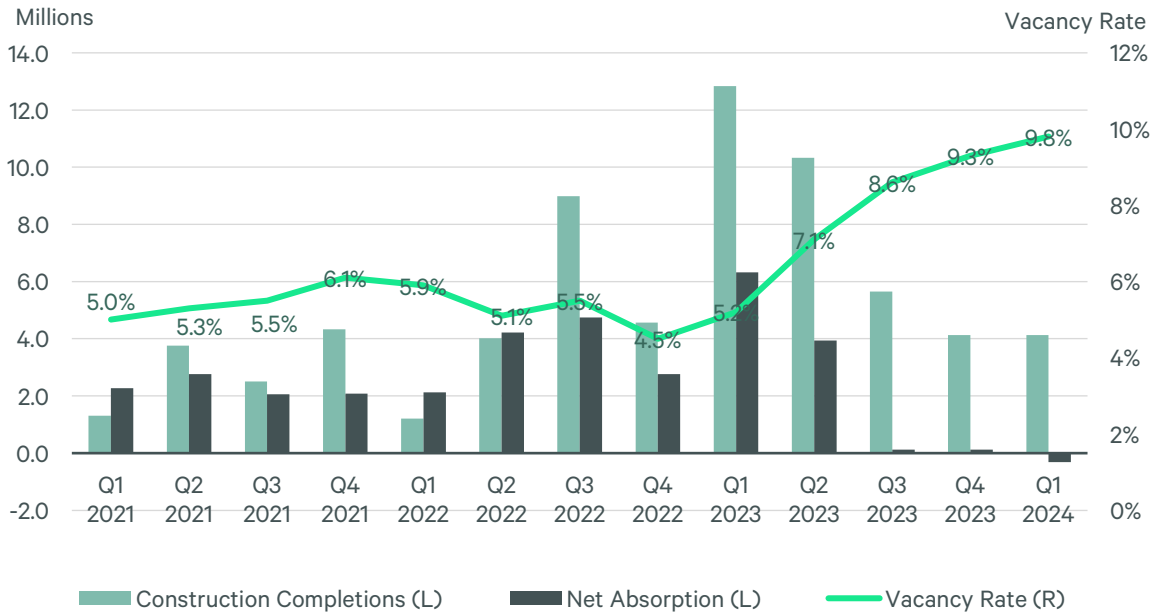
▼ 3.3 MSF

SF Under Construction

Note: Arrows indicate change from previous quarter.

- Net absorption in Indianapolis took a downward turn in the first quarter of 2024, with a total of -310,682 SF. This represents a significant drop from the fourth quarter, which had remained relatively flat at 124,000 SF.
- The historic supply of vacant speculative product that has delivered in the past year continued to put upward pressure on vacancy across the metro. Vacancy increased by an additional 50 bps (0.50%) to 9.8% in the first quarter.
- Average asking rates decreased by \$0.08 to \$5.90 in the first quarter. This is the 1st quarter of decline since Q3 2020 primarily attributed to an increase in speculative supply which is driving increased concessions and putting pressure on rates.
- Leasing activity declined this quarter to 2.5 MSF, a decline of 0.8 MSF over the final quarter of 2023.

FIGURE 1: Indianapolis Construction Completions, Net Absorption, and Vacancy Rates



Source: CBRE Research, Q1 2024

Construction

Currently, there are 8 Industrial projects under construction in Indianapolis totaling 3.3 MSF down 1.6 MSF over the final quarter of 2023.

New product under construction continues to contract, particularly product that is speculative in nature. Just over 30 MSF of new product was delivered in 2023 across 68 new Industrial buildings. This historic level of new construction increased the size of the Indianapolis Industrial market by 9.5%.

While new product is needed to replace older Industrial stock across the metro, this large increase in speculative product has continued to place upward pressure to vacancy reaching the highest it has been in three years at 9.8% this quarter. Conversely asking rates have begun to experience downward pressure due to excess inventory, rates dropped by \$0.08 to \$5.90 this quarter.

FIGURE 2: Historic Construction Trends (MSF)

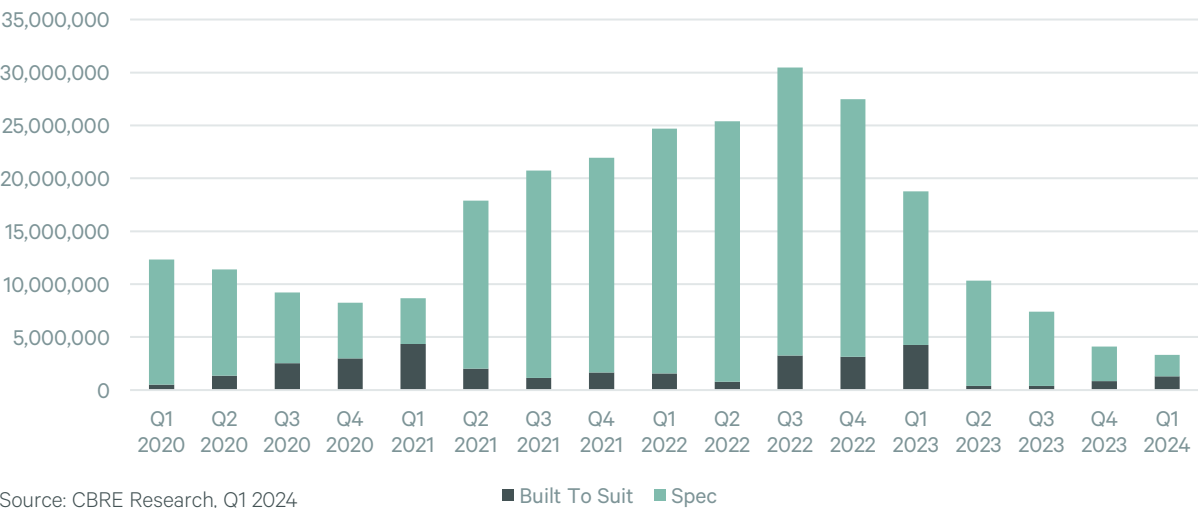
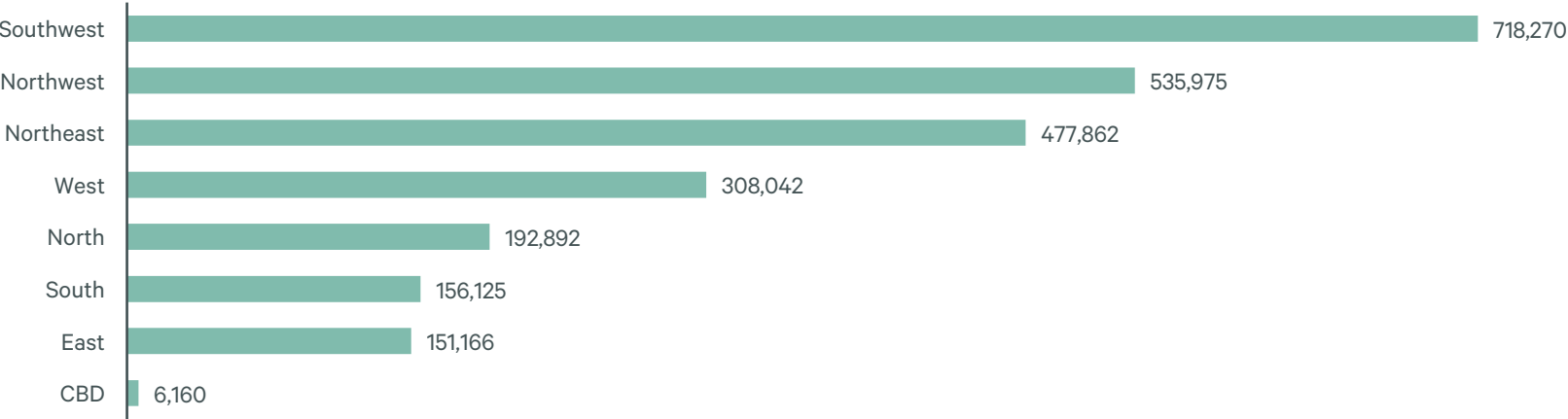


FIGURE 3: Leasing Transactions by Submarket (Sq. Ft.)

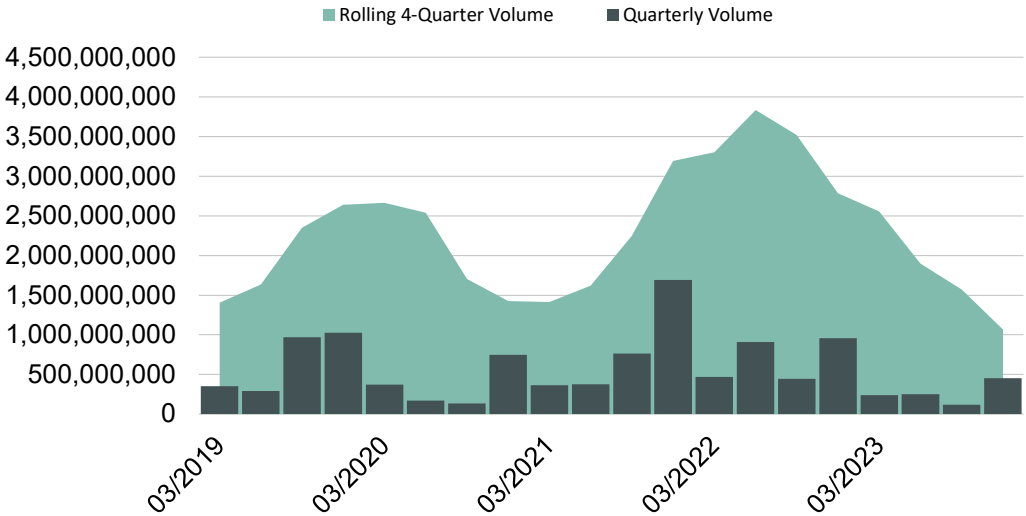


Leasing and Sales Activity

The Indianapolis market experienced a shift in absorption dynamics in Q1 2024. While the previous quarter saw a relatively flat absorption of 124,000 SF, this quarter saw a decrease in leasing activity. Tradewinds Holding Co. secured a new lease of 169,544 SF, Fiber Global also initiated a new lease of 102,296 SF, and Kittles followed with a new lease of 94,415 SF. Users under 200,000 SF in size continue to be particularly active, representing 88% of transactions in Q1 2024. Large deals, in contrast, represent a smaller share of overall leasing activity at 12%.

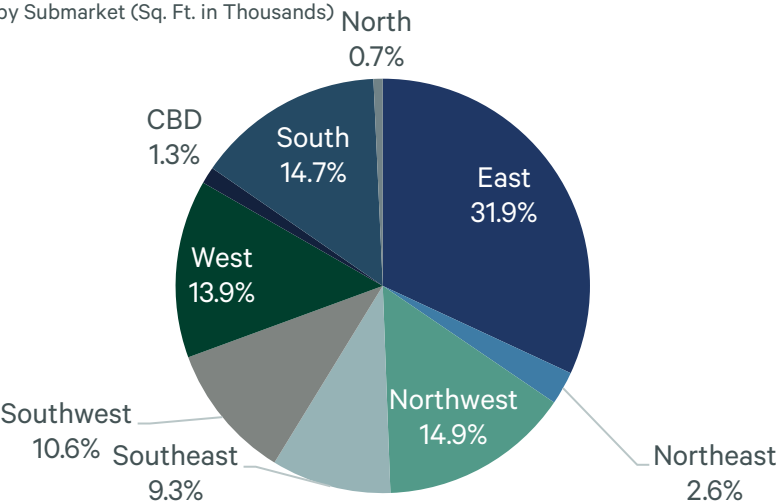
The Federal Reserve again elected to not lower short term investment rates during the March FOMC meeting but alluded to three future rate cuts in the coming calendar year.

FIGURE 5: Investment Sale Volume



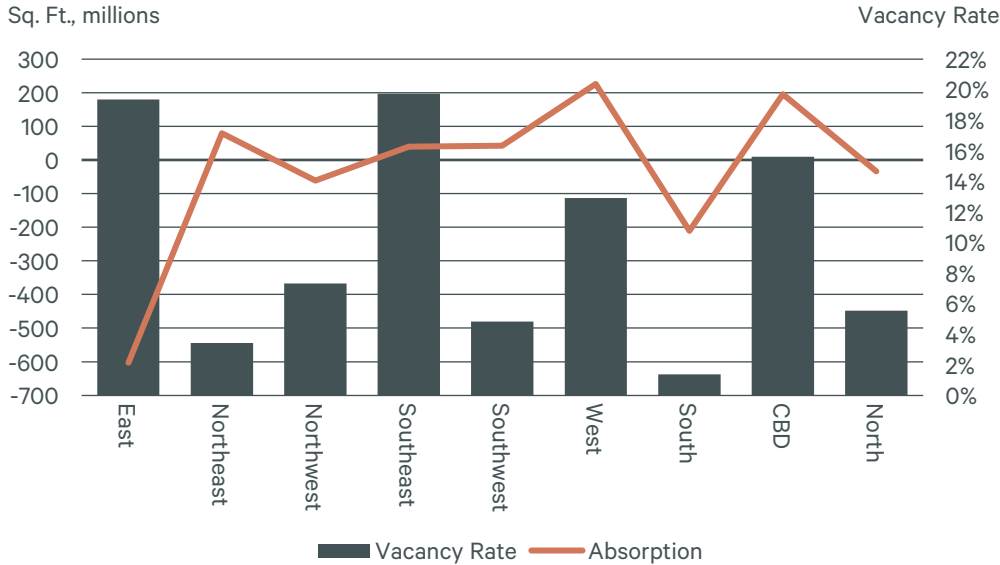
Source: Real Capital Analytics

FIGURE 4: Vacant Space by Submarket (Sq. Ft. in Thousands)



Source: CBRE Research, Q1 2024

FIGURE 6: Net Absorption by Submarket (Sq. Ft.) and Vacancy Rate by Submarket



Source: CBRE Research, Q1 2024

FIGURE 8: Market Statistics

Market	Net Rentable Area (SF)	Vacancy Rate (%)	Q1 2024 Net Absorption	Under Construction	Average Lease Rate
East	57,657,235	19.4%	- 602,681	1,296,594	\$5.43
Northeast	26,487,813	3.4%	79,765	0	\$8.80
Northwest	71,262,189	7.3%	- 61,430	1,119,056	\$6.10
Southeast	16,550,427	19.7%	39,792	0	\$5.52
Southwest	76,934,734	4.8%	42,247	0	\$5.12
West	37,664,032	12.9%	226,100	826,687	\$6.29
South	33,594,847	1.4%	- 210,634	0	\$4.56
CBD	32,837,498	15.6%	195,422	0	\$6.36
North	4,550,723	5.5%	- 34,100	87,000	\$13.84
Total	357,539,498	9.8%	- 325,519	3,329,337	\$5.90

Source: CBRE Research, Q1 2024

FIGURE 9: Key Lease Transactions

Transaction Type	Size (SF)	Tenant	Address	Submarket
New Lease	169,544	Tradewinds Holding Co.	20220 Fenside Crossing	North
New Lease	102,296	Fiber Global	10255 Archer Dr	West
New Lease	94,415	Kittles	11500 E 146 th St	Northeast
Renewal	51,681	Schneker	5220 5250 W 76 th St	Northwest
New Lease	49,977	Continental Café	851 Columbia Rd	Southwest

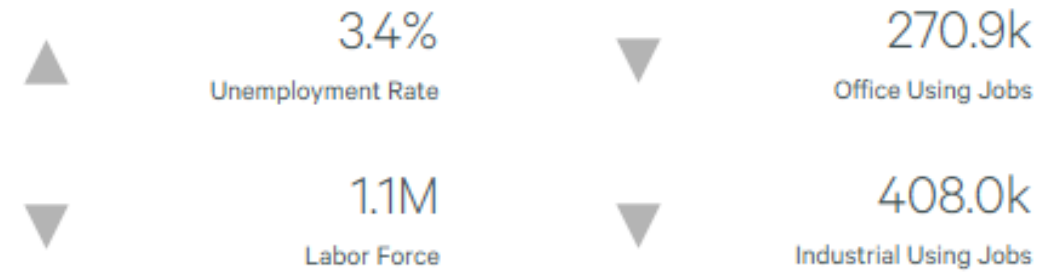
Source: CBRE Research, Q1 2024

Economic Outlook

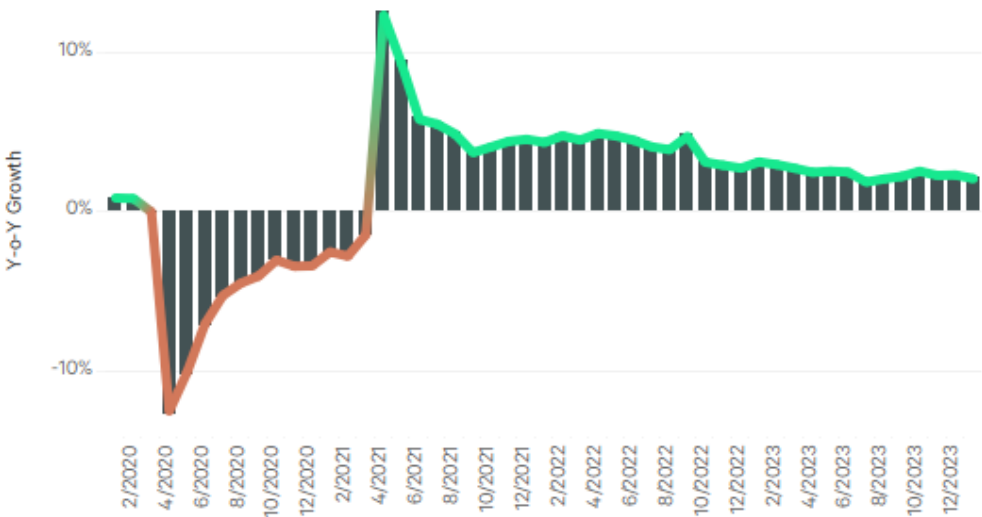
Continued economic growth paired with the Fed signaling more accommodative policy all suggests the U.S. economy is heading toward a ‘soft landing’. GDP growth should be less than half 2023’s pace when growth topped 3%. Reasons for the slowdown include a more prudent consumer and much weaker hiring. This latter issue is most acute within interest rate sensitive sectors, such as tech start-ups and goods manufacturing. Notable exceptions include investment in EV and microchip production capacity.

More caution from businesses means a good chunk of recent hiring came from publicly funded sectors (e.g., education, healthcare, state & local governments). A key exception is leisure & hospitality, driven by continued demand for discretionary services. With many private firms on the sidelines the job openings rate declining to 5.5% from its peak of 7.8% in 2022. This has also meant the pace of wage growth has cooled, but not enough to see inflation fall quickly to 2%. With unemployment remaining below 4% and high-capacity utilization, CPI is unlikely to return to target until 2025.

The Fed will likely make three, 25 basis point cuts this year. This outlook is putting downward pressure on longer-term rate expectations, providing some optimism for real estate capital markets, but the recovery will only begin after the first cut is actually delivered. Better than expected growth over the last 18 months has been helpful in holding real estate vacancy down, notably in the industrial, retail and multifamily sectors.

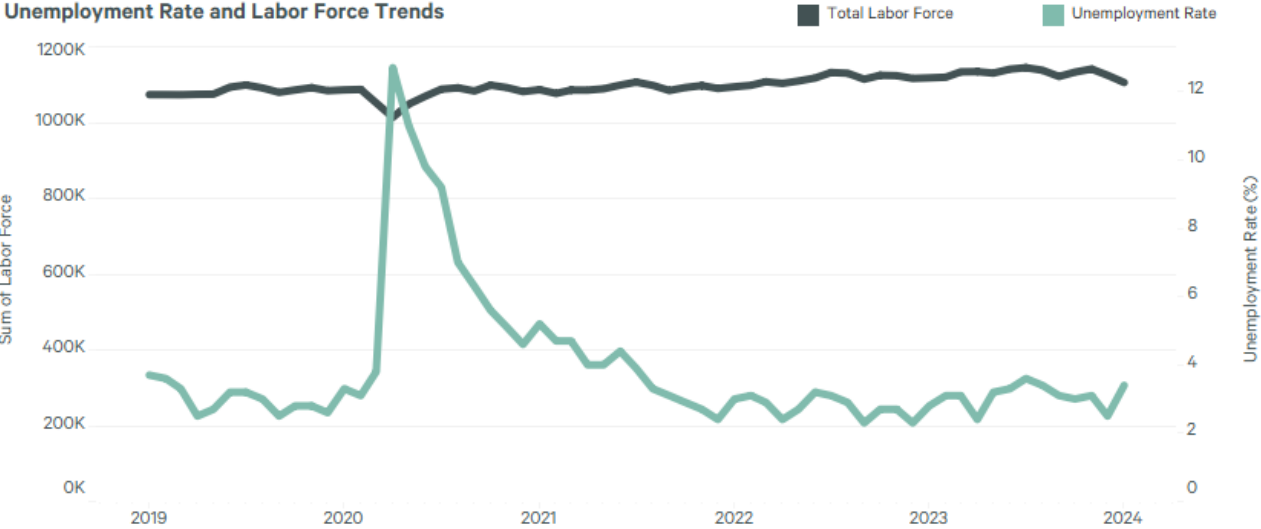


Job Growth - Year over Year Trend

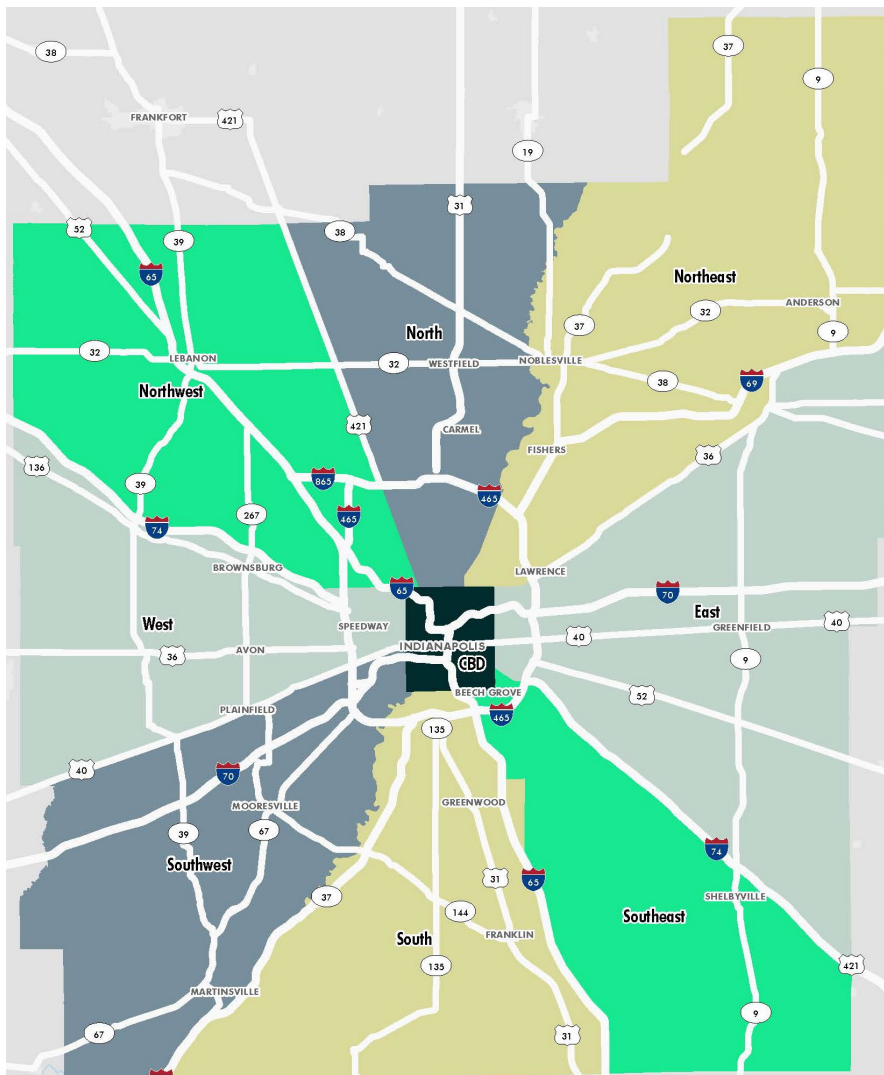


Source: US BLS January 2024

Unemployment Rate and Labor Force Trends



Market Area Overview



Definitions

Available Sq. Ft.: Space in a building, ready for occupancy within six months; can be occupied or vacant. Availability Rate: Total Available Sq. Ft. divided by the total building Area. Average Asking Lease Rate: A calculated average that includes net and gross lease rate, weighted by their corresponding available square footage. Building Area: The total floor area sq. ft. of the building, typically taken at the “drip line” of the building. Gross Activity: All sale and lease transactions completed within a specified time period. Excludes investment sale transactions. Gross Lease Rate: Rent typically includes real property taxes, building insurance, and major maintenance. Net Absorption: The change in Occupied Sq. Ft. from one period to the next. Net Lease Rate: Rent excludes one or more of the “net” costs (real property taxes, building insurance, and major maintenance) typically included in a Gross Lease Rate. Occupied Sq. Ft.: Building Area not considered vacant. Vacancy Rate: Total Vacant Sq. Ft. divided by the total Building Area. Vacant Sq. Ft.: Space that can be occupied within 30 days.

Survey Criteria

Includes all industrial buildings 50,000 sq. ft. and greater in size.. Buildings which have begun construction as evidenced by site excavation or foundation work.

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