


CARMEN Commercial Real Estate's Q1 Indianapolis Industrial Market Report

The Indianapolis industrial real estate market presents a dynamic landscape characterized by significant growth, evolving demand patterns, and shifting industry compositions. This report offers a comprehensive analysis of key market indicators, including delivery trends, demand dynamics, vacancy rates, and rental growth.

Market Overview and Industry Composition




Indianapolis' industrial sector has experienced substantial growth in recent years, with significant inventory increases compared to the national average. The market's development focus has been on properties over 500,000 square feet, representing the majority of recent deliveries.

This emphasis has led to a dichotomy where large industrial sites remain vacant while smaller-bay vacancies remain tight. Despite vacancy increases, the market has seen a rise in rents, albeit at a decelerating pace. The city's average rents have been lower than other major markets, allowing landlords to gradually escalate rents amid market challenges.

Trends and Activity

Industrial leasing activity in Indianapolis has declined significantly over the past year, with a notable drop in leasing volume compared to previous years. Logistics properties have historically dominated top leases, although a significant lease renewal by Adidas at a manufacturing facility stands out as the largest lease signed recently.



Despite this, net absorption remains below historical averages, primarily driven by leasing in logistics space. Economic headwinds suggest that the gap between supply and demand may continue to widen, particularly in the 500,000-square-foot and larger segment.




Delivery Overview

The industrial market in Indianapolis has witnessed a substantial increase in construction activity, resulting in significant inventory additions. However, recent completion of speculative projects has led to an increase in vacancy rates. The majority of the industrial space under construction is still available for lease, indicating potential future challenges in absorbing this new inventory. Notably, the completion of several large properties in 2023 has contributed to the current high vacancy rates.

Demand and Absorption

Over the past 12 months, industrial leasing activity has declined, resulting in net absorption well below historical trends. Leading submarkets for tenant demand include Far Boone County and Hancock County, although leasing activity has been insufficient to fill the new space coming online. Despite robust leasing in logistics properties, overall net absorption remains below historical averages, suggesting ongoing challenges in absorbing available industrial space.



Vacancy and Market Outlook

Industrial vacancy in Indianapolis surged by 330 basis points to 8.9% in the spring of 2024, driven by decelerating demand and continued delivery of speculative projects. Despite resilient leasing activity, vacancies persist, with several newly delivered properties remaining at 100% vacancy. The market faces challenges as elevated vacancy rates and ongoing construction projects contribute to a potentially oversupplied landscape.

Looking Ahead

Looking ahead, Indianapolis' industrial real estate market is poised for a period of recalibration and adjustment as stakeholders navigate evolving economic conditions and shifting market dynamics. While the decline in construction starts since late 2022 offers a glimmer of hope for vacancy rate stabilization or tightening by late 2024, challenges loom large, particularly in the form of elevated interest rates. These higher rates not only constrain the feasibility of initiating new projects but also impact financing and investment decisions, potentially slowing down market activity.

Moreover, the slowdown in leasing activity, coupled with ongoing economic headwinds, underscores the need for resilience and adaptability among market participants. Despite these challenges, there is a sense of cautious optimism permeating the market, driven by the belief that the industrial sector will gradually stabilize as construction activity adjusts to align with demand dynamics. This adjustment period presents opportunities for strategic positioning and innovative approaches to leasing,