

2024 INDUSTRIAL MARKET REPORT NARRATIVE

ZACHER COMPANY INDUSTRIAL REVIEW AND FORECAST FOR NORTHEAST INDIANA

While historically strong, the momentum of the industrial market in northeast Indiana has slowed relative to the preceding five years, as evidenced by barely positive net absorption and an increase in vacant space. The overall forecast for 2024 projects that industrial demand will continue to be challenged, due to an uncertain economic outlook.

The industrial market statistics for the calendar year 2023 reflect a positive absorption of 414,000 square feet. By comparison, absorption in 2022 and 2021 was 2.7 million and 1.9 million square feet respectively. As of January 1, 2024, the vacancy rate was 3.83%, an increase from 2.91% a year ago. There were 2 million square feet of new industrial space constructed in 2023. This marks the sixth consecutive year that at least 2 million square feet of new industrial space have been added to the Northeast Indiana marketplace.

The scarcity of industrial buildings available for purchase, and high cost to construct new alternatives, resulted in historically high sale prices for existing buildings.

Cap rates increased due to the impact of rising interest rates which resulted in few significant industrial real estate transactions for investors.

Lease rates increased but the rate of increase was slower than in previous years. There are currently 11 vacant or proposed spec buildings for lease. Four have been available for over a year.

Notable industrial real estate sales and lease transactions by users in 2023 include:

- The EV battery supplier, SH America, purchased a 150,000 square foot spec building on Hitzfield Court across from the Fort Wayne GM Plant
- Inteva Products expanded from 300,000 square feet to 400,000 square feet in Bluffton
- Dekalb Metal Finishing purchased 134,000 square feet on South Grandstaff Drive in Auburn
- Van's Home Center constructed 100,000 square feet on State Road 8 in Auburn

Notable projects, either under construction or proposed at the beginning of 2024, include:

- Google will develop a 3 to 4 billion dollars, twelve building data center on approximately 900 acres on the southeast side of Fort Wayne
- Teijin Automotive Technologies has constructed a second 160,000 square foot plant in Huntington
- The Ford Meter Box Company has an expansion of 300,000 square feet under construction in Wabash
- Novae/Sure-Trac Trailers constructed a 148,000 square foot production facility in Markle
- Red Gold is adding 126,000 square feet in Geneva
- Dryer's Ice Cream is expanding again by 55,000 square feet in Fort Wayne

Entering 2024, encouraging factors for Northeast Indiana include:

- 11 available or proposed spec buildings of various sizes which will accommodate market demand
- A strong entrepreneurial ecosystem
- Community supported spec building incentives

Challenges for 2024 include:

- Economic uncertainty with respect to a soft landing verses a mild recession
- High interest rates and lingering inflation
- A shortage of shovel-ready industrial land with adequate utilities
- Ohio and Michigan have become more competitive in attracting new industrial projects, which resulted in the loss of several opportunities for Northeast Indiana

Accordingly, our forecast is as follows:

- Industrial demand will continue to be challenged due to an uncertain economic outlook
- Less new spec building construction will occur until the current available spec buildings are sold or leased
- Total construction will be lower as compared to the previous six years
- There will be increased demand for smaller industrial spaces of 20,000 square feet or less
- The investment market will improve due to multiple anticipated interest rate cuts and industrial properties will remain a favored asset class
- Sale prices will continue to increase, however, lease rates will be level or will slightly decrease
- The consumer adoption of electric vehicles has slowed which will have both a negative impact on the EV supplier base and a positive impact on the established internal combustion engine suppliers

You can find more information in our full industrial report on our website at www.zacherco.com.