



LATITUDE
COMMERCIAL



Annual Market Report



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▶ Letter From The President

The impact COVID-19 had on the commercial real estate market and the economy will make 2020 one of the most unforgettable chapters of our lifetimes. Global markets plunged as cases of the virus spread throughout the world. As companies closed their doors this led to significant sales decreases across most restaurant sectors. While we did see a slight drop in vacancy rates, the average price per square foot fell for the first time since 2016. This could be because many landlords were more willing to work with their existing tenants by deferring rent or modifying the lease term. There was a huge decrease in demand during 2020 for Sit down Restaurants, Hotels, and Office space.

The sales volume for Retail Properties went from \$196M in 2019 to \$117M in 2020 representing a 40% decrease in sales volume. While the volume was down significantly the average price stayed the same at \$1.7M. There were signs of improvement with Retail sales volume rebounding during the 4th quarter of 2020 with more than \$56.8M sold compared to \$52.5M sold in 2019. The average price per square foot for retail properties also dropped significantly going from \$200/SF in 2019 to \$148/SF in 2020.

Industrial sales volume took a significant decline in 2020 going from \$214M in 2019 to only \$52.2M in 2020. The price per square foot went from \$62/SF in 2019 to only \$35/SF in 2020. These numbers should not be viewed as any sort of warning sign as there was a significant decrease in available properties for sale during 2020 as compared to 2019. In fact, the 2020 4th Quarter Available SF for Industrial property is at the lowest level since they started recording these figures in 2005.

In 2020, the Office market saw significant increases in the price per square foot but saw the volume decrease significantly. The average sales price per square foot in 2020 was \$196/SF with \$39.4M in volume as compared to \$115/SF on \$89.2M in volume in 2019. Just as with Industrial and Retail, the Office market showed signs of optimism as we saw an increase in the Sales Volume during the 4th Quarter, going from \$22.4M in 2019 to \$25.3M in 2020.

COVID-19 has forever changed the way we do business. Will the closure of offices in Downtown Chicago push satellite office space to Northwest Indiana or will they continue to use the Zoom from home model? Will the growth of the home market help rebound a much-needed retail environment, or will the Amazon effect continue to push small retailers out of business? Does the stock market volatility continue to push investors into CRE investments or does that CRE market's low cap rate environment start to worry investors?

These are all complicated questions and only time will tell. Either way we are here to help. Thank you very much to our clients, customers, family, and friends. God Bless our area, country, and the rest of the world as we continue to fight this virus!




Aaron McDermott

CCIM, LEED GA

Sources:

Latitude Commercial Realty, GNIAR, CoStar Property®, & ESRI®

The information contained herein has been given to us by sources we deem reliable. We have no reason to doubt its accuracy, however, we do not make any guarantees. All information should be verified before relying thereon.



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► Retail Market Report

Vacancy and market rental rates for retail properties both decreased across Northwest Indiana in 2020. Vacancy rates at the end of 2020 are as low as they have been since Q2 of 2017 at approximately 5.2%. Market rental rates declined around the Region in 2020 as well with rates closing the year with an average price of \$12.90/SF. This again is the lowest Price PSF since Q2 of 2017.

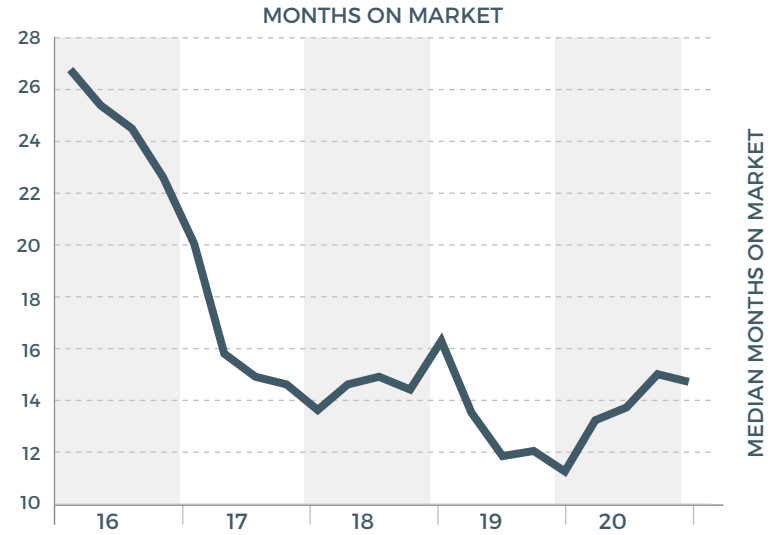
The sales volume took a significant hit in 20' compared to 19' with sales down drastically in the 1st, 3rd & 4th Qtr. The 3rd Qtr of 2020 was among the least sales volume in the last 5 years at roughly \$18M. 2020 produced the least amount of Sale Volume over the last 5 years at roughly 88M for the whole year. While volume was down significantly, the price PSF was at a 5-year high at the close of 2020, with it creeping over \$130/SF.

Median months on the market (for lease and sale) was at the lowest point of the last 5 years in Q1 of 2020 at roughly 11 months. While properties began to sit longer as 2020 progressed, it still finished Q4 at 15 months which is nearly half the time frame of Q1 2016 where the median months on market was nearly 27 months.

Retail Market Report

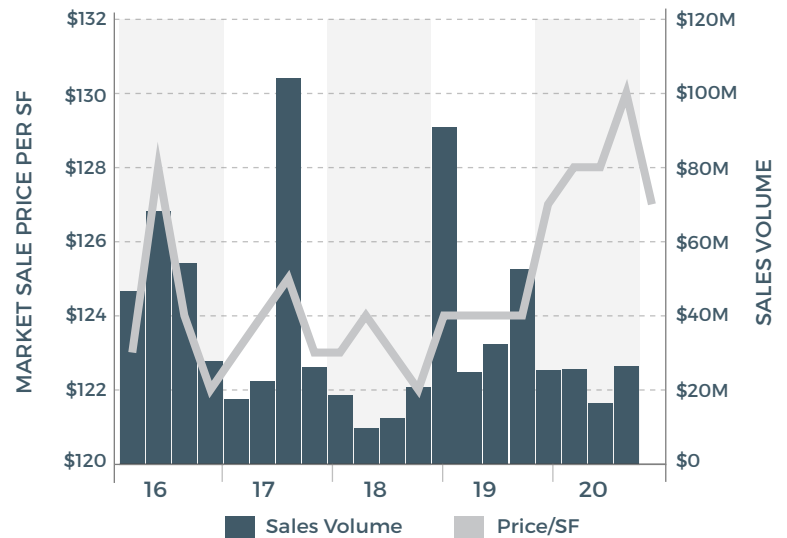
Months on Market

- Months on Market was at 5 year low in Q1 of 2020.
- Properties finished 2020 at 15 Months on Market
- Current Property time on Market nearly half the time as Q1 2016



Sales Volume & Market Sale Price PSF

- Sales Volume took significant hit in 2020 Compared to 2019.
- 2020 Produces the lease Sales Volume of last 5 years at 88M
- Price PSF was at 5 year high at end of 2020 at over \$130/PSF



Vacancy & Market Rent PSF

- Vacancy & Market Rental Rates decreased across NWI in 2020
- Vacancy Rates closed 2020 at a 3 year low of 5.2%
- Market rental rates closed 2020 at a 3 year low of an avg of \$12.90/SF





► Office Market Report

Vacancy and market rental rates for office properties remained strong for Northwest Indiana throughout 2020. The Region experienced a 5 year low in vacancy rates (approximately 5%) for commercial office space in Q1 of 2020. They finished the year with a vacancy rate around 6.4%. Average market rent per square remained consistent around \$19.40/psf until the end of the year, when it only slightly faltered below \$19.20/psf.

One area where Northwest Indiana saw a downturn is sales volume for commercial office buildings. The sales volume from Q1 to Q3 of 2020 was the lowest the Region had seen in a three-quarter period for at least five years. However, the Q4 sales volume outpaced all three of the other quarters combined. Per square foot sale prices have also been resilient throughout 2020.

Median months on the market (for lease and for sale) hit a 4-year peak at 14 months in Q4 of 2020. The median had remained below this mark since Q3 of 2017. The median had been on a steady decline from over 30 months in Q1 of 2016 to a low of 8 months in Q2 of 2019. During 2020, the median months on market for commercial office space in the Region rose consistently during each quarter. The current median time for properties on the market remains unchanged at 14 months during Q1 of 2021.

Office Market Report

Months on Market

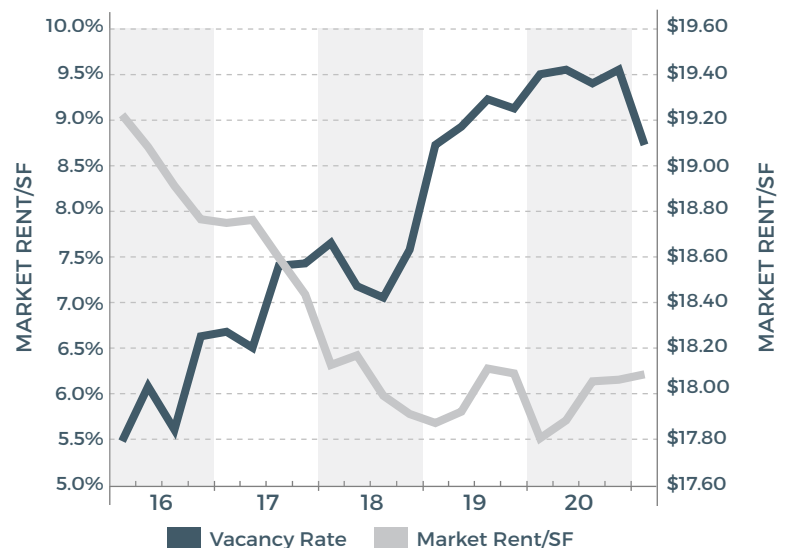
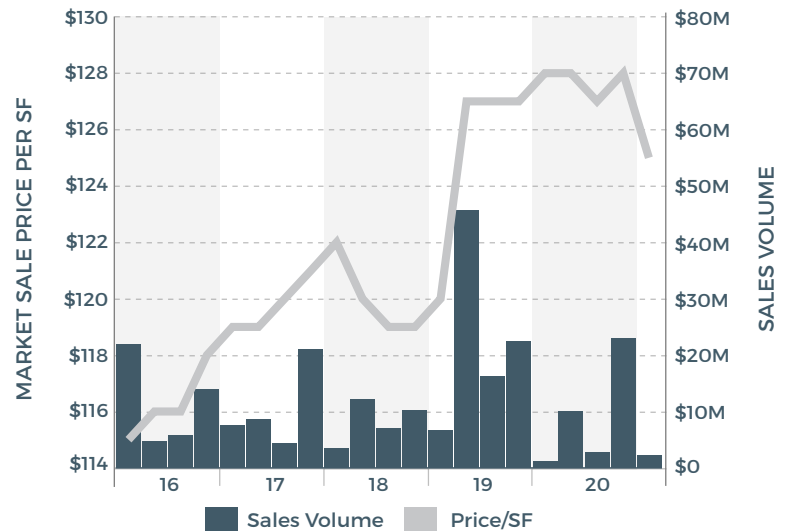
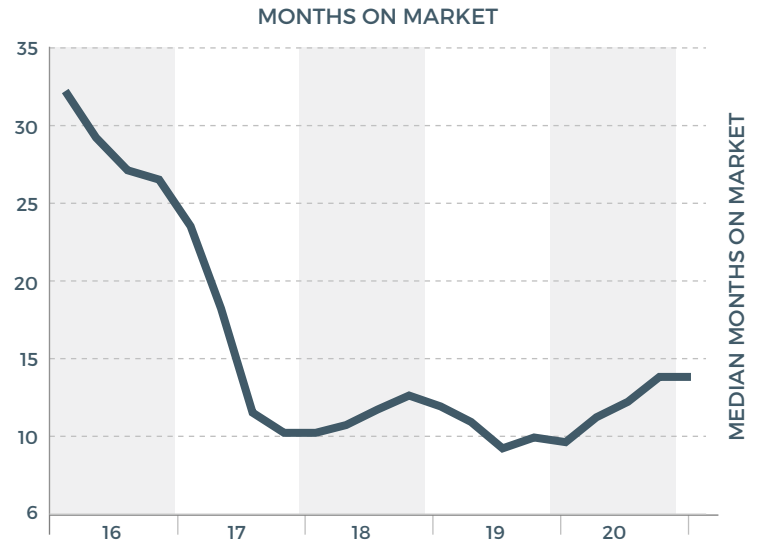
- NWI office vacancy rates remained low throughout 2020 despite the impact of COVID
- From Q1 2020 to Q4 2020 office vacancy rose from 5% to 6.4%
- Average office market rent only dropped 20 cents/psf in 2020

Sales Volume & Market Sale Price PSF

- Sales volume for commercial office buildings hit a 5-year 3 quarter low in 2020
- Office building sales volume recovered in Q4
- Sale prices stayed resilient throughout 2020

Vacancy & Market Rent PSF

- Months on market had been in a steady decline from 2016 to 2019
- Months on market rose during each quarter of 2020
- Months on market hit a 4-year peak towards the end of 2020



► Industrial Market Report

The Industrial market continues to stay very active in Northwest, IN with one of the main reasons being the proximity to Chicago and Indiana's tax rates compared. The Industrial Rent PSF was at a 5-year high of \$6.65 in 2016 and has gone up and down finishing 2020 around \$6.40 SF. The Vacancy rate started 2016 around 4.75% and has steadily risen over 5-years finishing 2020 around 7.5%.

The Sales volume in the 4th quarter of 2019 was the highest Northwest, IN has seen in 5-years. The trend continued into the 1st quarter of 2020 where the sales volume closely matched rates from the 2nd quarter 2018. Sales price Per SF started around \$35 PSF in early 2016 and has consistently gone up to an average of \$48 PSF at the end of 2020. We anticipate this trend to continue to stay around this number if not continue going up.

The Median months on market for Industrial hit a 5-year low in the 1st quarter of 2020 when it was roughly 7 months. The median had been on a strong decline from a high of 23 months in the 2nd quarter of 2017. The median spiked a bit in the 2nd quarter of 2020 but then remained relatively flat throughout the rest of the year. The median finished 2020 around 9 months which matched the 2nd quarter of 2019.

Industrial Market Report

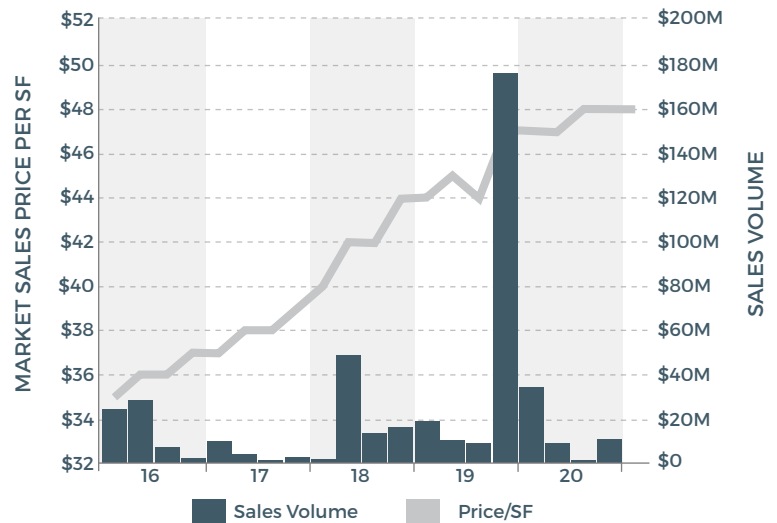
Months on Market

- Months on market hit a 5-year low in the 1st Quarter of 2020
- We saw a slight increase in the 2nd Quarter of 2020 and then flattened out throughout the rest of the year
- The 5-year high was in the 2nd Quarter of 2017



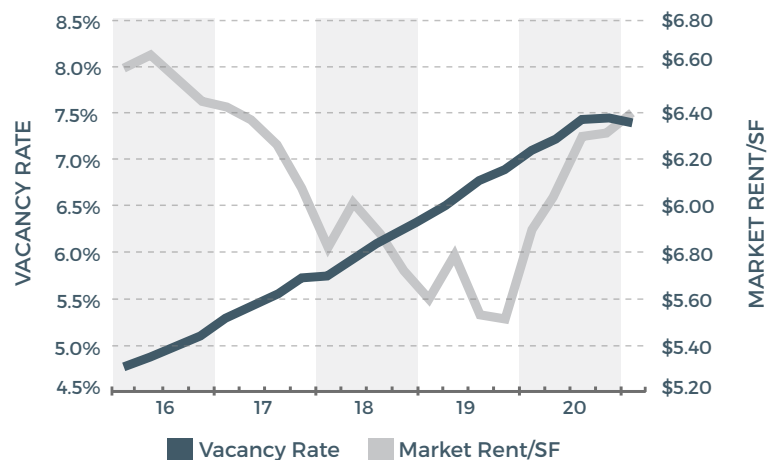
Sales Volume & Market Sale Price PSF

- Price PSF has consistently gone up since the 1st Quarter of 2016
- Sales Volume hit a 5-year high in the 4th Quarter of 2019
- Price PSF finished around \$48 PSF at the end of 2020



Vacancy & Market Rent PSF

- Market Rent PSF finished 2020 near \$6.40 PSF
- Vacancy Rate finished around 7.5% which matched the 2nd Quarter of 2017
- Vacancy rate has slowly increased since 2016





► Investment Market Report

The Commercial Real Estate Investment sales volume in Northwest Indiana started out the 1st Quarter of 2020 on a record pace. Total volume in the 1st Quarter was just over \$74.8M, up from the 2019's record 1st Quarter of \$63.6M representing a 17% increase. Due to COVID-19 pandemic, 2nd Quarter Volume came in just above \$76.5M in Volume compared to \$103M in 2nd Quarter of 2019 representing a 25.8% decrease year over year. 3rd Quarter activity saw those numbers plummet down to \$36.2M which was the 2nd lowest Total Sales Volume in the past 5 years for Investment Real Estate.

Cap Rates continued its steady rise from a low of 7.29% in the 2nd Quarter of 2019 to 9.35% in the 1st Quarter of 2020. While Sales Volume was down significantly during Q2 & Q3, the Cap Rates started to lower from the 9.35% to 7.70% at the end of the 4th Quarter. This can be viewed by more investors purchasing only higher quality assets during this time.

The Buyer types during 2020 saw the most drastic change. The trade area usually sees a steady flow of Institutional and REIT/Public Buyers, but during 2020 those numbers were down significantly. Those Investor types purchased over \$280M worth of investments during 2019 to see those numbers drop to \$47.6M during 2020. However Private investment increased during 2020. During 2019 Private investors purchased \$184M worth of investments but over \$201M during 2020.

Cumulative Sales Volume for 2020 ended just over \$327M compared to just under \$511M during 2019. While the Cumulative Sales Volume for the year was down significantly in 2020 compared to 2019 the 4th Quarter Sales indicated investors were coming back into the market for property to purchase. The vaccine being rolled out and a low interest rate environment should maintain strong and steady Investment Real Estate sales for 2020.

Investment Market Report

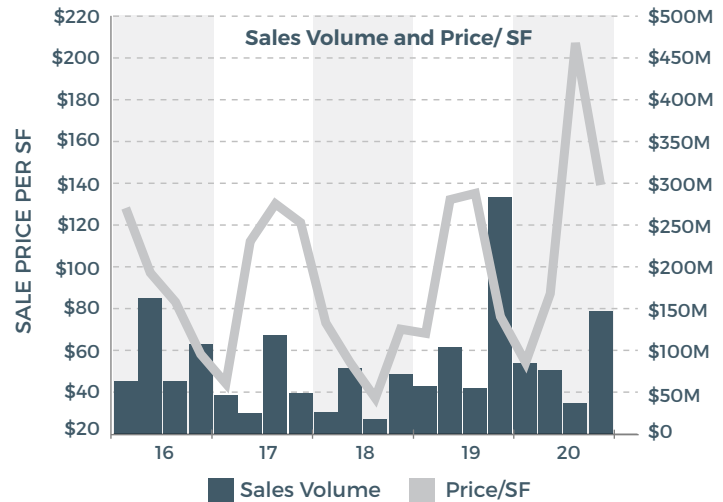
Cap Rate

- 2nd Highest Average Cap Rate (9.35%) in Q1 2020
- Q2 - Q3 Saw slight increase in Cap Rates due to inactivity
- Q4 2020 Dropped to median levels at 7.78%



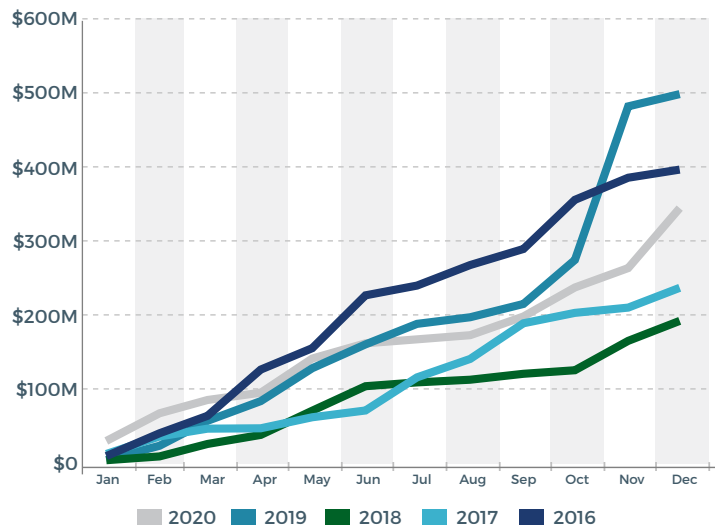
Sales Volume & Market Sale Price PSF

- Q3 Sales Volume was near 5-Year low but \$207/SF was the highest Price/SF
- Q4 2019 to Q1 2020 saw a 70% decrease in Volume and 28% Price/SF
- Q4 2020 Sales Volume was the 3rd Highest in 5-Year period



Cumulative Sales Volume

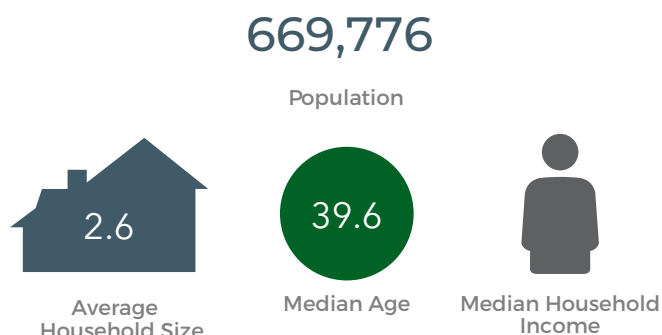
- January - March Cumulative Sales Volume was 5-Year High
- During peak of Closures (May - September) Volume remained nearly flat



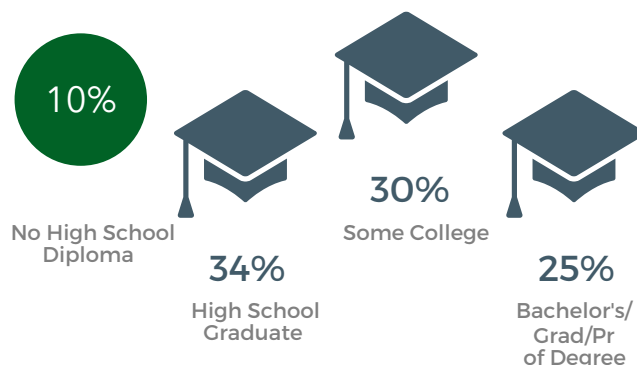
► Market Facts

Lake and Porter County, IN

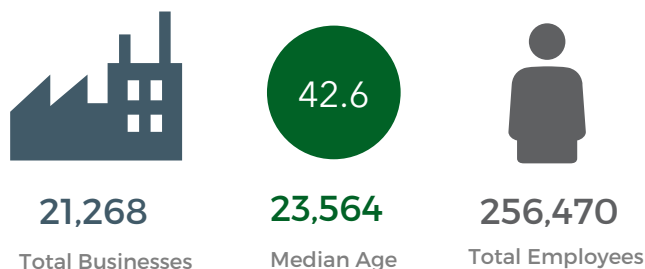
KEY FACTS



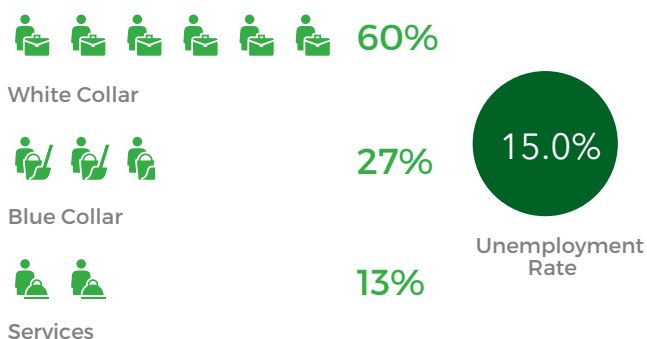
EDUCATION



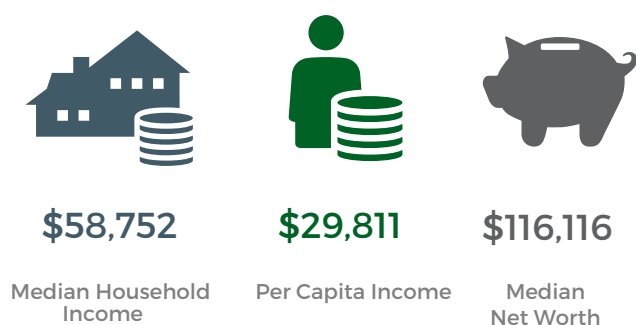
BUSINESS



EMPLOYMENT



INCOME



HOUSEHOLDS BY INCOME

The largest group: \$50,000 - \$74,999 (17.2%)
The smallest group: \$200,000+ (4.1%)

Indicator▲	Value	Diff	
<\$15,000	9.8%	-0.4%	
\$15,000 - \$24,999	9.8%	+0.1%	
\$25,000 - \$34,999	9.8%	-0.2%	
\$35,000 - \$49,999	13%	-0.9%	
\$50,000 - \$74,999	17.2%	-2%	
\$75,000 - \$99,999	14.1%	+0.2%	
\$100,000 - \$149,999	16.1%	+1.9%	
\$150,000 - \$199,999	6.1%	+1.2%	
\$200,000+	4.1%	+0.1%	

Bars show deviation from **Indiana**

► Sales Transactions

Significant Office Sales Transactions:

Property	Sale Date	Sales Price	Square Feet	Price/SF
85 E US Hwy 6 (Part of Portfolio), Valparaiso, IN	10/13/2020	\$20,000,000	52,800	\$378.79
10120 Calumet Ave, Munster, IN	5/30/2020	\$8,350,000	24,918	\$335.10
730 45th Ave, Munster, IN	9/29/2020	\$2,650,000	24,295	\$109.08
201 W 89th Ave, Merrillville, IN	10/16/2020	\$5,150,000	16,350	\$314.98

Significant Retail Sales Transactions:

Property	Sale Date	Sales Price	Square Feet	Price/SF
10711-10839 Randolph St, Crown Point, IN	6/25/2020	\$6,093,750	99,949	\$60.97
651 W US Highway, 30 Schererville, IN	3/19/2020	\$6,017,700	15,120	\$398.00
9601 Indianapolis Blvd, Highland, IN	10/26/2020	\$6,000,000	14,093	\$425.74
303-399 E 81st Ave., Merrillville, IN	10/1/2020	\$4,800,000	18,215	\$263.52

Significant Industrial Sales Transactions:

Property	Sale Date	Sales Price	Square Feet	Price/SF
475 Superior Ave (Part of Portfolio), Munster, IN	2/21/2020	\$11,674,163	450,173	\$25.93
4407 Railroad Ave East Chicago, IN	2/27/2020	\$22,000,000	550,391	\$39.97
7900 Melton Rd, Gary, IN	12/21/2020	\$6,850,000	142,500	\$48.07
2333 W 25th Ave, Gary, IN	10/30/2020	\$6,900,000	50,000	\$138.00

Significant Multifamily Sales Transactions:

Property	Sale Date	Sales Price	Square Feet	Price/SF
2217 Tanglewood Dr, Hammond, IN	5/21/2020	\$33,500,000	384	\$87,239.00
3801 County Line Rd, Portage, IN	9/14/2020	\$13,813,800	550	\$25,116.00
1735 W 5th Ave, Gary, IN	6/2/2020	\$10,400,000	249	\$41,767.00
621 W 39th Pl, Hobart, IN	1/14/2020	\$10,350,000	144	\$71,875.00

Significant Land Sales Transactions:

Property	Sale Date	Sales Price	Square Feet	Price/SF
400 E Division Rd, Valparaiso, IN	11/23/2020	\$3,120,000	3397680	\$0.92
3310 Laporte Ave, Valparaiso, IN	11/6/2020	\$2,619,500	912582	\$2.87
950 North & Rt 49, Chesterton, IN	10/30/2020	\$1,605,000	3484800	\$0.46
10609 W 205th Ave, Lowell, IN	6/1/2020	\$1,200,000	6751800	\$0.18



► Terminology

Holdover Clause:

A lease clause requiring that if the tenant stays beyond the end of the lease without notice, the Landlord then has the right to increase the rental rate by a stipulated amount. I have seen this as low as 110% of the previous month's rent. However, I have also seen tenant's that have signed leases with as high as 200% of the previous month's rent. This is meant as a deterrent to not informing your landlord of your intentions and the reason why it is typically dramatically higher than exercising an option to renew.

Force Majeure:

is a French term that literally means "superior force." Until the most recent events of the COVID pandemic this was typically defined as events like acts of God (e.g., earthquake, tornado or flood), terrorism, or war. COVID could possibly be defined as within this clause. The interpretation could be applicable especially if the force majeure clause contains a "catch-all" statement. Even without it the clause could apply to certain obligations between the parties.

Gross Lease

The landlord pays directly all operational and ownership costs connected with the building in a gross lease. These typically include property taxes, property insurance, and any number of expenses including but not limited to maintenance, landscaping, repairs, trash removal, and utilities. In a full-service lease, which is something very typical with US General Service Administration (GSA) leases and co-op spaces, the tenant pays one amount to the landlord on a monthly basis that includes all the items detailed above and can include utilities, phone systems, janitorial, and more. Landlords with gross leases must absorb all tax and insurance increases, repairs of short- and long-lived items, and capital expenditures over the entire term of the lease.

Double-Net (NN):

Typically, a Net-Net lease means in addition to the base rent, the tenant pays for property taxes, property insurance, and the landlord pays for maintenance, utilities, repairs, and capital expenditures. A double-net lease is sometimes referred to as a modified gross lease.

Triple-Net (NNN):

A triple-net lease calls for the tenant to assume all expenses of operating a property, including fixed and variable expenses and any common area maintenance that might apply, potentially including HVAC, plumbing, and electric systems. However, the landlord remains responsible for structural repairs, utility lines to the property, and sometimes site improvements, such as parking, landscaping, and site lighting.

Cap Rate:

Short for "capitalization rate," the cap rate refers to the ratio of Net Operating Income (NOI) to property asset value. For example, a building with a NOI of \$100,000 valued at a 8.00% Cap Rate is worth: $100,000 / 0.08 = \$1,250,000$

Letter of Intent (LOI):

A document outlining the preliminary commitment of one party to do business with another. The LOI outlines the terms of a prospective deal. LOIs are similar in content to term sheets and tend to be non-binding.

Load Factor (Loss Factor):

A load factor is a metric that compares the amount of space a tenant pays, referred to as Rentable Square Feet for, in a commercial lease versus the amount of space they actually use, referred to as Usable Square Feet.



► Our Team



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