



LATITUDE
COMMERCIAL



Annual Market Report



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▶ Letter From The President

2021 could be best described as renewed optimism. Coming out of the lockdown we saw retailers shutting down, offices closing, and the dramatic rise of food delivery services. Market demand and the rising cost of construction, materials and labor, and rising inflation are still a concern for many. Because of those reasons, combined with a record low interest rate environment, we saw significant increases in real estate prices across most sectors. Heading into 2022 as the material shortage loosens and the interest rates start to steadily climb, pricing may start to taper off a bit from the dramatic increases we have seen. There were some key bright spots for our area which included Industrial properties, multifamily assets and last were those properties that are least likely to encounter future distress. On the flip side indoor malls such as Southlake Mall should be viewed as the weakest asset class and are likely candidates for continued distress.

As you will see from the individual sector reports to follow, most of the sectors followed a similar theme. That being increases in prices, increases in rental rates, lower vacancy, and low sale volumes. The major contributing factors to this were the vast migration into the NWI area, the rising cost of labor and building materials, and the slow down in new construction. While there seems to be a lot of new construction happening throughout our area there still seems to be plenty of pent-up demand for commercial real estate. While retail sales volume was down significantly from 2021, we saw the market sale price per square foot was at an all-time high. We also saw dramatic increases in the market rent per square foot and vacancy dip down below 5% for most of 2021. While there are a number of new construction projects happening in Schererville, St. John, and Crown Point it may not be enough inventory to keep up with the demand for certain sectors within retail, particularly related to the high demand we have been seeing related to Quick Service Food users.

The Industrial market has been on a steep vertical climb in terms of the market sales price per square foot and in terms of the market rent per square foot. Both numbers saw dramatic increases during 2021 growing by more than 10% for both sales and rental rates. While the vacancy rates have gone to all-time lows, the sale volume for Industrial was at its lowest levels in 5 years. Again you can view this as a lack of inventory in the market. In 2021 we saw some significant

spec buildings finished and all filled within a very short timeline. We also saw two new Amazon Distribution Centers open up to accomplish the quality of their last mile delivery goals.

Again, thanks to the reoccurring themes, the office market saw an increase in market sale per square foot but unlike the other sectors the market rent per SF and vacancy rates did not fluctuate as dramatically. Sale Volume remained weak throughout 2021 as compared to years prior but since we did see the price go up that is an encouraging sign of a strong office market across the area. There were some very significant announcements such as the University of Chicago committing to a 116,000 SF medical facility and Franciscan breaking ground on the relocation of their St. Anthony's Hospital both in Crown Point. Munster saw two projects break ground with the newest Phase of Centennial Village starting and the Maple Leaf.

With chaos brings opportunities and any future market dips should be viewed as such. I am very optimistic about Northwest Indiana however the trends we are seeing here are also occurring outside a lot of the major MSA's. Will interest rates continue to climb and will that impact the demand and pricing? Does the supply of building materials improve and help level off some of the costs for new construction? All things to look for in 2022. There are always going to be opportunities out there, but you may have to act quickly. Otherwise, be patient for the right opportunity to come your way. There is one thing I always say to anyone asking about commercial real estate prices and that is "there is no such thing as bad real estate only bad pricing."




Aaron McDermott

CCIM, LEED GA

Sources:

Latitude Commercial Realty and add GNIAR Hallmark, 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 rates decreased while market rental rates for retail properties increased across Northwest Indiana in 2021. Vacancy rates at the end of 2021 are the lowest they have been in the last 5 years closing the year out at approximately 4.5%. Market rental rates continued its steady climb around the Region in 2021 as well with rates closing the year with an average price of \$13.90/SF. Marking more than a \$0.50 raise PSF over 4th qtr. of 2020. This again is the highest Price PSF in the last 5 years.

The sales volume leveled out to approximate 3-year averages around 30M per quarter except for Q2 seeing significantly less volume closing out at roughly 20M. The 3rd qtr. of 2021 saw the least sales volume since qtr. 3 of 2018. While volume was down as a whole compared to 2020, price per square foot continued to soar. The price PSF was at a 5-year high at the close of 2021, with it creeping just over \$150/SF. Marking a more than \$15/psf jump from the close of 2020.

Median months on the market (for lease and sale) saw a 4 year high in Q2 of 2021 at roughly 17.5 months. The longest months on the market since Q1 of 2017. Retail properties did begin to move quicker the second half of 2020 with it closing out Q4 at roughly 15 months, which is exactly where we were to close out 2020.

Retail Market Report

Months on Market

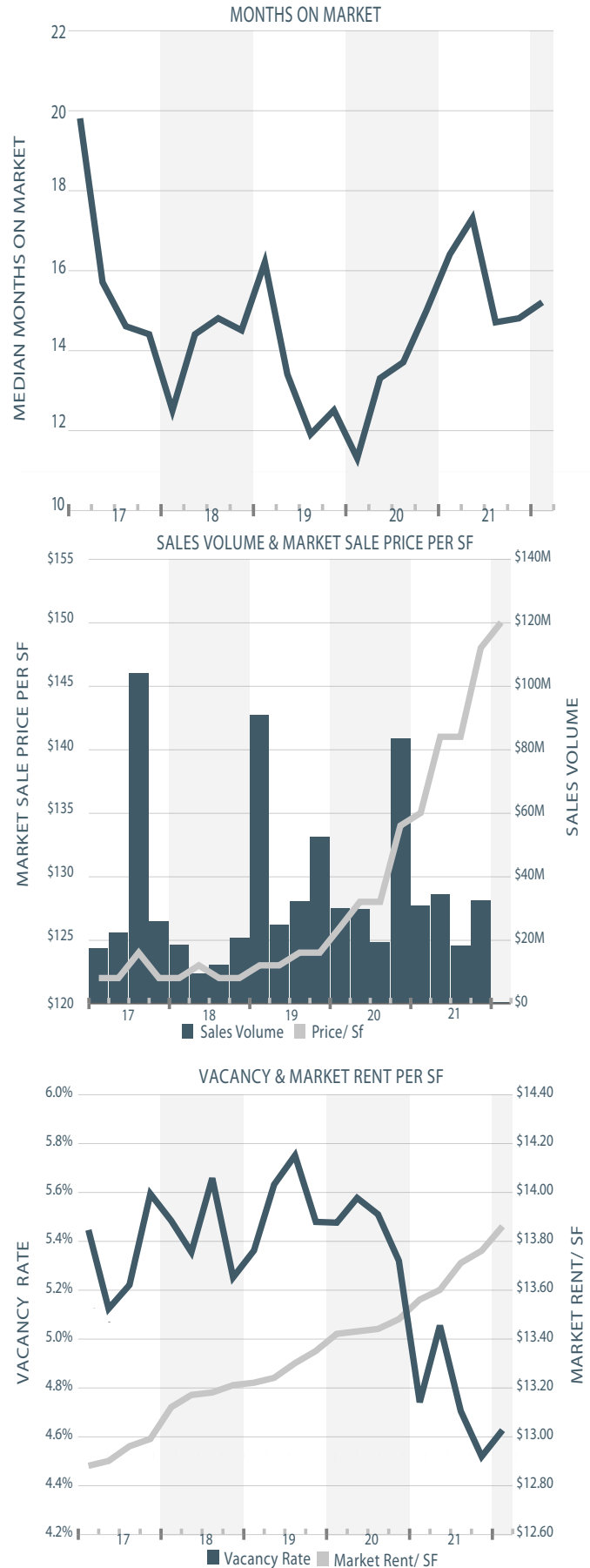
- Months on Market was at a 4- year high in Q2 of 2021 at 17.5 months.
- Q2 was the longest months on market since Q1 of 2017
- Current time on market is 15 months which is the same it finished in 2020

Sales Volume & Market Sale Price PSF

- Sales Volume as a whole in 2020 was down slightly compared to 2020.
- Price PSF was at a 5-year high to end 2021 at over \$150/PSF
- 2021 Price PSF closed out at more than \$15/PSF than we ended 2020.

Vacancy & Market Rent PSF

- Vacancy rates decreased while Market Rental Rates increased across NWI in 2021
- Vacancy Rates closed 2021 at a 5 year low of approximately 4.5%
- Market rental rates closed 2021 at a 5 year high with an avg of \$13.90/SF



► Office Market Report

Vacancy and market rental rates for office properties remained stable for Northwest Indiana throughout 2021. The Region went into the year with a vacancy rate around 5.4% and ended at 5.5%. Vacancy rates for the last three years have peaked in the summer, although only between 6 and 6.5%. Average market rent per square remained consistent around \$19.50 per square foot throughout the year, with a slightly less than 2% dip in the summer months. Despite the global market instability and supply line issues, the Northwest Indiana office real estate market has remained stable for the duration of the pandemic.

One area where Northwest Indiana saw a downturn is sales volume for commercial office buildings. Excluding the sale of the Symphony Chesterton building (which closed for \$20,000,000 in April), Northwest Indiana office sales did not surpass the 10 million dollar mark for any of the four quarters of the year. This is a stark contrast to even 2020, where sales surpassed the 30 million dollar mark in Q4 alone. Despite the lower volume of sales, price per square foot has continued to rise, finishing the year at \$129. We feel the biggest reason for the lack of sale volume is the low market supply of Office Buildings.

Median months on the market (for lease and for sale) continued to rise throughout 2021. The year began with office properties in NWI sitting on the market a median of 14 months. By the end of Q4, that median had risen to just under 20 months. The median has been on a steady rise since Q1 of 2020. The current median months an office building sits on the market is the highest it has been since Q2 of 2017.



Office Market Report

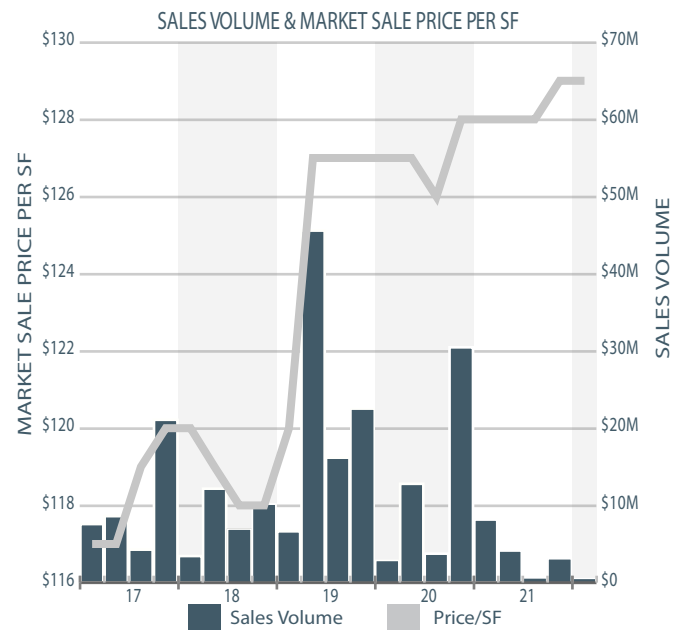
Months on Market

- The current median time an office building sits on the market is the highest it has been since Q2 of 2017
- Time on market continued to rise steadily throughout 2021, starting at 14 months and finishing at 20 months
- The NWI Office market hasn't seen a decline in median time on market since Q1 of 2020



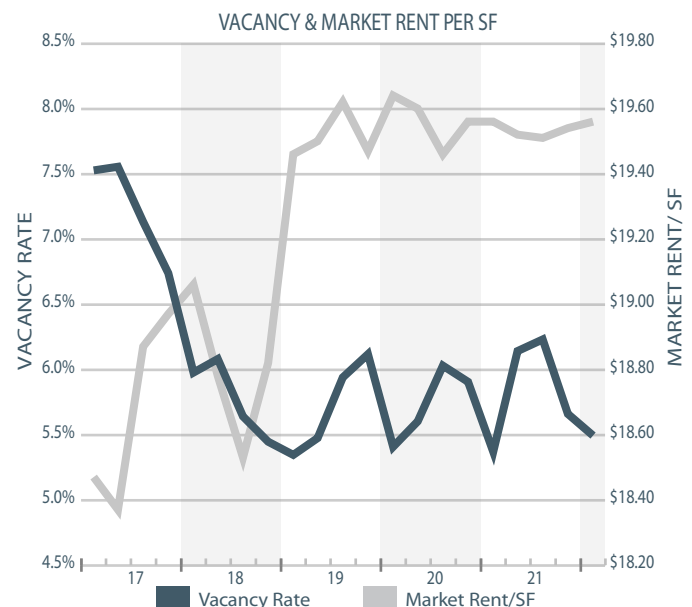
Sales Volume & Market Sale Price PSF

- Excluding a single 20 million dollar transaction, sales volume for commercial office buildings in NWI failed to surpass the 10 million dollar for a single quarter
- Sales volume dipped it's lowest in Q3 but showed a recovery in Q4
- Despite lower sales volumes, prices continued to rise



Vacancy & Market Rent

- Vacancy and Market Rental Rates remained consistent throughout NWI in 2021
- Office vacancy rates slightly peaked in the summer months but ended the years at nearly the same rate they started
- Average rental rates also ended the year at nearly the same place they started



► Industrial Market Report

The industrial market has been on an upward trajectory for the past several years and 2021 was no different. There are many reasons for this rapid industrial market growth but one that stands out is Indiana becoming a haven to Illinois and Michigan business owners. Due to Indiana's low tax rates and cost of doing business we've seen tremendous growth throughout NWI. The industrial Rent PSF continued to climb throughout 2021 finishing the year around \$7.15/PSF. The Vacancy Rate closed out 2021 nearly at a 5-year low of 5.25%.

The Market Sale Price Per SF has continued to accelerate higher making a 5-year high of \$53/PSF. Since 2017, we've seen over a 40% increase in Market Sale Price Per SF. Sales Volume was down compared with prior years in Northwest, Indiana with the highest levels seen in late 2019 at around \$180 million. Q4 of 2021 finished off just shy of \$10 million in Sales Volume. Similar to other sectors, we feel this was due to a lack of supply on the market.

In Q2 of 2021, Months on Market hit the highest levels since Q3 of 2017 which was roughly 14 months. Months on Market were stagnant through Q2-Q3 of 2021 sitting at a range of 13-14 months until Q4 saw this trend break sending the Months on Market close to levels from Q1 of earlier this year.



Industrial Market Report

Months on Market:

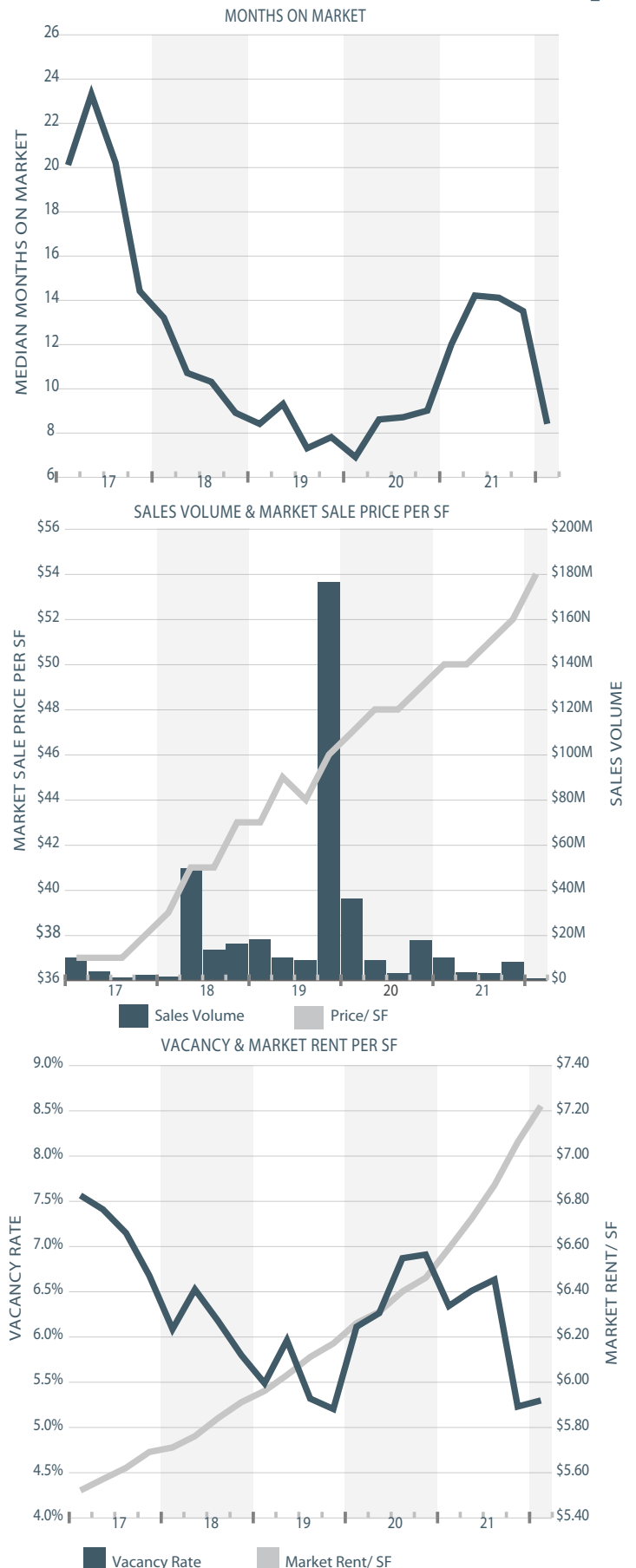
- Months on Market hit a peak of about 14 months in Q1 of 2021 from levels not seen since Q3 of 2017.
- In Q3-Q4 of 2021, we saw levels quickly return to the highs of 2020.
- Months on Market rose by nearly 40% in Q1 from the 2020 highs.

Sales Volume & Market Sale Price PSF

- Price PSF reached a 5-year high in Q2, Q3 and Q4 of 2021 at around \$53 PSF.
- Sales volume has seen a steady decline year over year since Q4 of 2019.
- Sales Volume hit a 5-year high in Q4 of 2019.

Vacancy & Market Rent PSF

- Due to supply and demand issues, 2021 saw the highest Market Rent/SF in a 5-year sample size.
- Vacancy Rates nearly returned to lows not seen since Q4 of 2019.
- In this 5-year span, Market Rent/SF has averaged an annual increase of around 6%. From 2017-2021, Market Rent/SF has increased by around 30%.





► Investment Market Report

The Commercial Real Estate Investment sales volume in Northwest Indiana started out slow in the 1st Quarter of 2021 compared to years prior record pace. Total volume in the 1st Quarter was just under \$34M, down significantly from the near record setting previous quarter's volume of just over \$241M representing a staggering 85% decrease in volume. Investors are typically in a rush to close before the end of the year so just like any year end of the year sales out pace the 1st quarter results. However, this number was an indicator of the future pace of sales during the year. Total Investment Sales Volume for the year ended just under \$268.5M for the year down sharply from 2021's \$447.7M.

While the volume overall was way down the pricing steadily rose throughout the year ending at all-time highs for our area. Cap Rates saw a small spike in one quarter but then continued its downward trend to an all-time low of 6.67% in the 4th Quarter of 2021. Last year still marked a seller's market due to the high demand for CRE Investments, low interest rate environment, and lack of inventory. All these factors contributed to an average sale price per square foot of \$120 per square foot up from 2020's average of \$107 psf.

Look for pricing to start to level off during the year for CRE Investments. As the interest rates start to climb so should cap rates. However, since there doesn't seem to be a slowdown in the migration into Northwest Indiana climbing so will investor money. 96% of all the buyers for these assets came from outside of Northwest Indiana.

Investment Market Report

Cap Rate

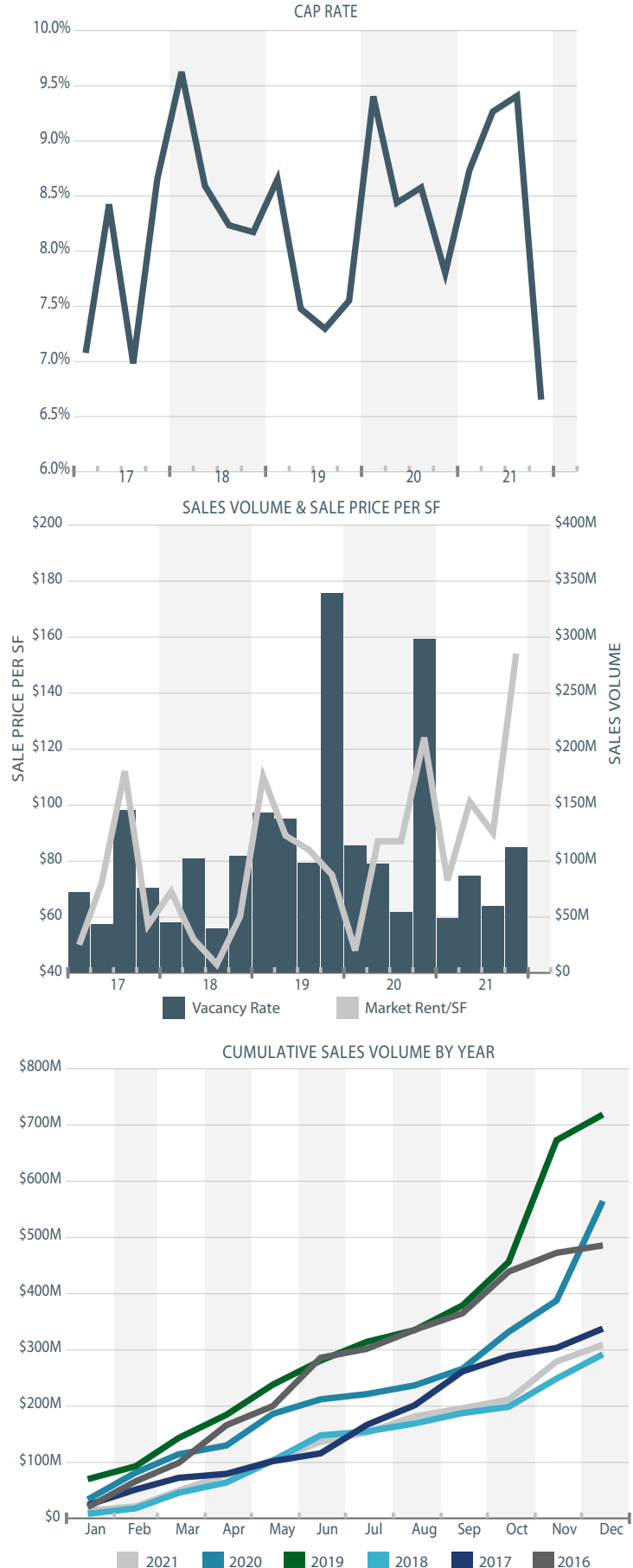
- Q1 – Q2 saw a slight increase in Cap Rates
- Q3 – Q4 reached an all-time low of 6.67%
- Overall Cap Rates for the year were an all-time low

Sales Volume & Market Sale Price PSF

- Q4 had the highest Sale Volume just over \$120M
- Sales Volume never went over \$130M/quarter for the first time in 9 years
- The \$144 Price/SF was highest price/sf quarter since 2013

Cumulative Sales Volume

- The Cumulative Sales Volume never went higher than 3rd overall in the last 5 years
- Overall Sales Volume was flat due to lack of inventory



► Market Facts

KEY FACTS

675,098

Population



2.6

Average
Household Size

39.9

Median Age

\$60,249

Median Household
Income

EDUCATION

9%

No High
School
Diploma



36%

High School
Graduate



30%

Some College



25%

Bachelor's/Grad/Prof
Degree

BUSINESS



21,794

Total Businesses



264,079

Total Employees

EMPLOYMENT



61%

White Collar



28%

Blue Collar



12%

Services

6.1%

Unemployment
Rate

INCOME



\$60,249

Median Household
Income



\$30,922

Per Capita Income



\$158,310

Median Net Worth

ANNUAL HOUSEHOLD SPENDING



\$1,869

Apparel &
Services



\$141

Computers &
Hardware



\$3,297

Eating Out



\$4,803

Groceries



\$5,731

Healthcare

► Sales Transactions

Significant Office Sales Transactions:

Property	Sale Date	Sales Price	Square Feet	Price/SF
8605 Broadway Ave, Merrillville, IN	12/23/2021	\$3,725,000	15,735	\$237
8488 Georgia St Merrillville, IN	11/18/2021	\$3,100,000	20,000	\$155
501-525 W 84th Dr Merrillville, IN	9/9/2021	\$2,950,000	42,230	\$70
14785 W 101st Ave Dyer, IN	1/8/2021	\$2,145,000	29,014	\$74

Significant Retail Sales Transactions:

Property	Sale Date	Sales Price	Square Feet	Price/SF
2000-2164 45th St, Highland, IN	6/17/2021	\$12,100,000	35,207	\$344
1600 Pioneer Trl, Chesterton, IN	3/18/2021	\$8,530,000	62,500	\$136
1500-1550 US 41, Schererville, IN	3/12/2021	\$6,500,000	90,000	\$72
300-330 Ridge Rd, Munster, IN	8/3/2021	\$4,390,000	37,691	\$116

Significant Industrial Sales Transactions:

Property	Sale Date	Sales Pri	Square Feet	Price/SF
899 E 99th Court, Merrillville, IN	3/9/2021	\$2,958,500	52,412	\$56
2200 Memorial Pky, Valparaiso, IN	3/2/2021	\$5,350,000	80,000	\$67
1019 E Summit St, Crown Point, IN	12/26/2021	\$1,900,000	37,962	\$50
325 Tech Dr, Chesterton, IN	5/19/2021	\$1,800,000	30,440	\$59

Significant Multifamily Sales Transactions:

Property	Sale Date	Sales Price	Number of Units	Price/ Unit
8118 International Dr, Crown Point, IN	11/11/2021	\$55,000,000	432	\$127,315
1101 Evans Ave, Valparaiso, IN	11/30/2021	\$3,925,000	49	\$80,102
136 Main St, Hobart, IN	8/16/2021	\$1,835,000	24	\$76,458
9613 1/21/2 Farmer Dr, Highland, IN	11/22/2021	\$1,800,000	12	\$150,000

Significant Land Sales Transactions:

Property	Sale Date	Sales Price	Acres	Price/ Acre
9527 Broadway Ave, Merrillville, IN	9/22/2021	\$4,687,500	26.08	\$179,735
5900 Coca Cola Ave, Portage, IN	12/15/2021	\$3,925,000	46.27	\$84,828
1012 E 109th Ave, Crown Point, IN	9/30/2021	\$3,300,000	53.79	\$61,350
10927 Parrish Ave, St. John, IN	10/1/2021	\$1,000,000	34.40	\$29,070



► 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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