



Annual Market Report 2023

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▶ Letter From The President

2023 ended the year with some easing from the Federal Reserve when they held key interest rates steady for the third straight quarter. The committee members also set the table for multiple cuts to come in 2024 hopefully signaling a decline in inflation. Speaking of that, inflation slowed significantly from all-time highs of almost 9% in 2022 to 3.4% at the end of December. By comparison, the annual CPI gain in December 2022 was about 6.4%. The US unemployment rate remains strong at 3.7% only a slight increase from the end of 2022 which was at 3.4%. Indiana’s rate of unemployment also increased from 3.1% at the end of 2022 to 3.7%, which is the highest the rate has been in more than two years.

Despite the national rhetoric of office being the black sheep of commercial asset classes, our market remains very strong. There has been a white-collar exodus from major markets like Chicago that still has not fully taken effect. Suburbs of Chicago, like our area, are the beneficiaries of the work-from-home “trend.” Employers still want their employees in the office and may start to find smaller regional offices outside of the major Central Business Districts. According to a report by Cushman Wakefield, for the third consecutive year, net absorption was negative 3.5 Million SF in 2023. While that was down from the negative 19M SF in 2022, there have not been many signs of slowing down with the vacancy rate at 23.5%. Meanwhile in Northwest Indiana, Office Vacancy Rates remain low ending the year at 5.6% overall. That was up from a low of 4.5% in Q1 but Market Asking Rates continue to grow. Sales Volume for Office space was incredibly low which also saw Market Sale Price PSF drop significantly. While at first glance this could be worrisome as we saw pricing fall to near 2019 levels, but I believe this is due to the low inventory of higher-class properties for sale.

Even with the “Amazon effect” taking its toll on Retailers, our market continues to flourish. Strong migration into NW Indiana and low inventory again helped Retail landlords with low vacancy rates and rising market asking rents. Vacancy rates at the end of 2023 were up marginally from 4.0% to just under 4.2%, while market rents increased from an average of \$16.97 to \$17.40. Sales Volume decreased throughout the year down from a total of \$122.9M in 2022 to slightly over \$100M in 2023, a decrease of 18%. However, the price per square foot continued to increase from \$145 PSF at the end of 2022 to \$150 PSF at the end of 2023. We see the trend of increasing rates to continue due to the lack of new product, the high demand for retail property, and the high cost of construction in 2024.

At no time has Northwest Indiana had so much speculative Industrial property delivered to the market in this short of a period. In the last 12 months over 2.4M SF of Industrial space has been delivered to the market and the majority of that is speculative. Highlighted by Crow Holdings 3 spec buildings of 1.38M, 576K, and 260K SF at the Silos at Sanders Farm in Merrillville. Because of the delivery of those spaces alone, we have seen vacancy rates rise significantly from 6.3% up to 9.25% at the start of 2024. Normally when you see vacancy rates climb so significantly you would see a pullback in asking rents. However, rates continued to rise from \$7.28 PSF at the beginning of 2023 to \$7.61 PSF to the start of 2024. In addition to Crow Holdings spec buildings, we have two cold storage warehouses under construction. First, U.S. Cold Storage Inc. broke ground on a 245,000 SF warehouse in Lowell, and Core X Partners broke ground on a 450,000 SF warehouse in Crown Point. While the market has been strong for available properties for lease, owner-users were still struggling to find available properties to purchase in 2023. We went from a Sales Volume of 91.9M SF sold in 2022 to only 51.4M in 2023, a dramatic decrease of 44%. With little new inventory of owner-user parks or buildings projected in 2024, we should continue to see the trend of little Volume with increasing pricing throughout 2024.

You should expect the trend of increasing pricing and limited availability of properties in 2024. With the exception of Industrial, our area is not seeing a large growth of new speculative construction happening at this time. The Fed signaling rates decreasing is a good sign but with the upcoming election this year, you can expect some instability in the market. While all this might sound rather gloomy, other markets are seeing it much worse. None of this should be unexpected as the old adage “don’t fight the Fed” remains meaningful. With some decreases in interest rates, construction prices stabilizing, and the supply chain back to normal we hope to see more development happening.



Aaron McDermott, CCIM LEED GA

Co- Founder, President

Sources:

CoStar Property®, ESRI®, Indiana Department of Workforce Development, and US Department of Labor.

The information provided was based on data for Lake, Porter, and LaPorte Counties in Indiana herein referred to as “Northwest Indiana” within the report. 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. Materials and information from any source, whether written or verbal, that may be furnished for review are not a substitute for a party’s active conduct of its own due diligence to determine these and other matters of significance to such party.

► Retail Report

Median months on the market (for lease and sale) saw a significant decline to start the year, reaching a level that we haven't seen since Q1 2020. We saw a small spike in Q3 that brought the time on market to 11.9 months. The average months on market ended 2023 at 10.8 months which is one of the lowest levels we've seen to finish the year in the past 5 years.

Sales volume in 2023 started the year strong going just above \$38M in Q1 which beat the previous two Quarters of 2022. Sales volume finished 2023 just above \$23M beating the previous 2022 year by nearly \$11M. Price Per SF on the other hand has continued the rapid growth and reached a 5-year high of \$150 PSF in Q3. It slowly saw a decline from there but finished 2023 at around \$149 PSF which is higher than the past 5 years' final quarter.

Retail Vacancy Rates in Northwest Indiana experienced a modest increase from their five-year low in Q4 2022. The rate remained stable from Q2 through Q4, ending the year just under 4.2%. Meanwhile, Market Rent Per Square Foot in the Region area maintained its five-year upward trajectory, achieving an average price of \$17.40 PSF. This represents an approximate \$0.43 increase per square foot compared to Q4 2022.

Retail Market Report

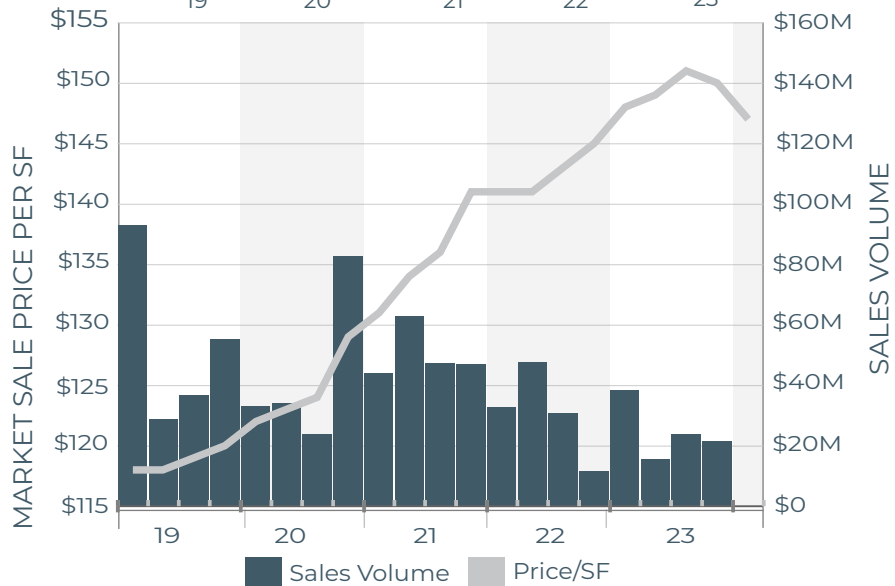
Months on Market

- Months on Market started 2023 at 10.1 months which was the lowest we've seen since 1Q 2020
- Q3 Months on Market saw a sharp increase from the previous quarter reaching a high of roughly 11.9 months
- Current time on market finished the year at 10.8 months



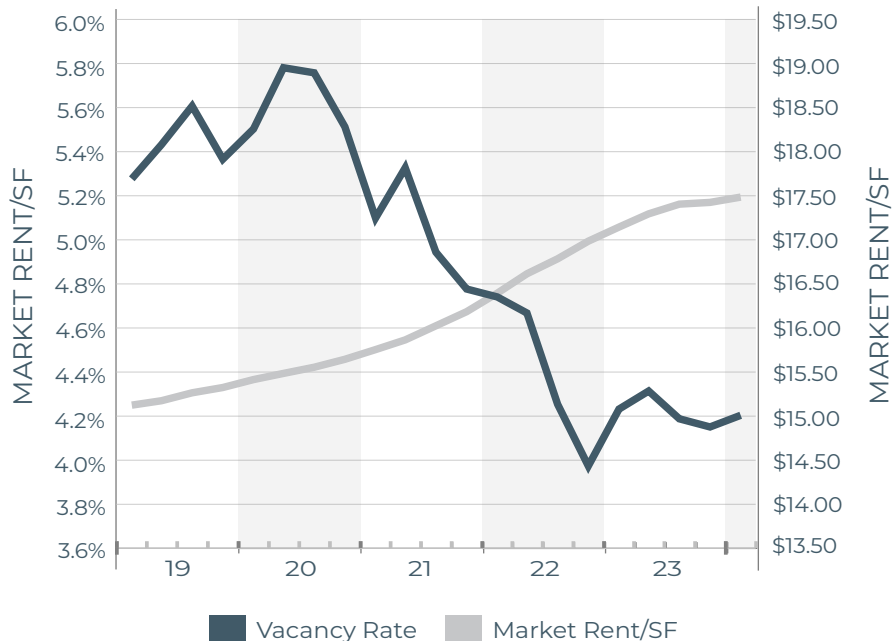
Sales Volume & Market Sale Price PSF

- Sales Volume started 2023 very strong reaching just above \$38M in Q1 which beat the previous two quarters of 2022
- Price PSF reached a 5 year-high of \$150 PSF at its peak in Q3
- Price PSF slowly started to decline from its high finishing 2023 around \$149 PSF



Vacancy/Market Rent PSF

- Vacancy Rates marginally increased in 2023, fluctuating between 4.0% and 4.31% throughout the year. Concurrently, Market Asking Rent per Square Foot in the Northwest Indiana area exhibited a consistent upward trend.
- Vacancy Rates experienced a modest increase in the first quarter but concluded 2023 at a level comparable to the start of the year at approximately 4.2%.
- Market Asking Rent per Square Foot began the year 2023 at \$16.97 PSF and closed at a five-year peak of \$17.40 PSF.



► Office Report

Median months on the market (for sale and lease) for commercial office space remained consistent throughout 2023. The year began with properties sitting on the market an average of 12 months, a significant improvement from January 2022 when properties averaged 17 months on the market. By the end of 2023, the pace at which office properties were leased or sold changed very little, with properties sitting on the market for slightly over 11 months on average. This is the steadiest and most consistent year for office properties in the last 5 years.

A couple of areas where Northwest Indiana saw a downturn in the commercial market are sales volume and sale price per square foot on office buildings. The first two quarters of 2023 began strong, with Q1 office sales coming in at \$12M and Q2 office sales coming in at \$16M. A steep decline is reflected in Q3 and Q4, the total sales are the lowest seen in 5 years. Q3 total office sales volume was \$½M and Q4 was \$2M. Price per square foot on sales had a decline in 2023 from \$122 PSF average to \$116 PSF. The decline in price per square foot was a smaller margin in 2023 than in 2022, with the average price per square foot dropping from \$130 PSF to \$122 PSF.

Throughout 2023 we saw an increase in vacancy rates from 4.5% to 6%, with a small dip in Q3. Heading into 2023 the vacancy rates for office space were at a 10-year low. Since 2018 the vacancy rate has stayed consistent between 4.5% to 6.5%. In 2023 office space in all surrounding Chicagoland suburbs had an average vacancy rate of 14.5%, with the exclusion of Northwest Indiana, which shows the office demand is still present in NWI. The market rent per square foot remained consistent, staying around \$19.60 for the year. Despite the global market instability and high inflation, the Northwest Indiana office real estate market has remained stable throughout 2023.

Office Market Report

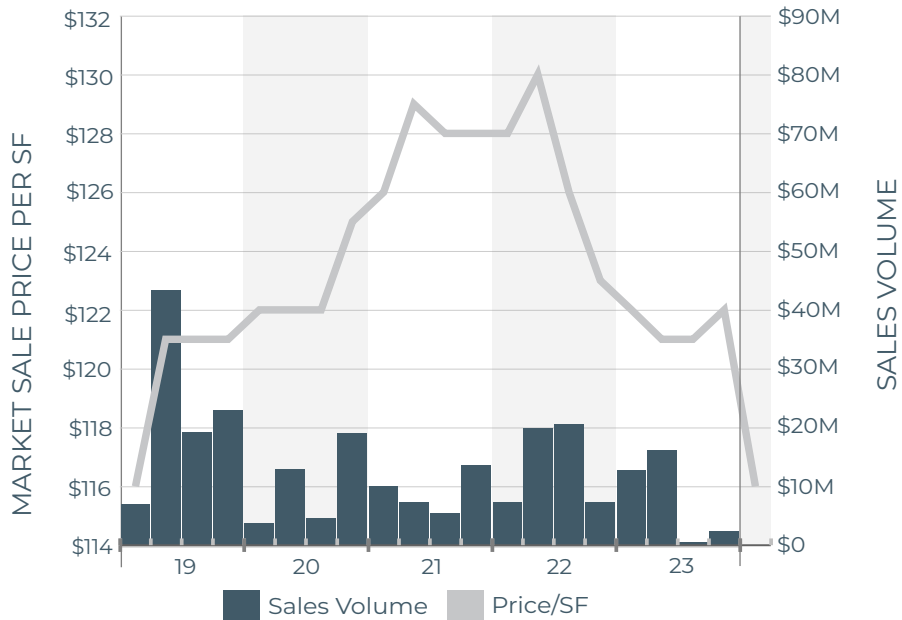
Months on Market

- The office market remained consistent throughout 2023
- Average time on the market to sell or lease an office property dropped very slightly from January to December
- Average time on the market is now at the same level it was in early 2019



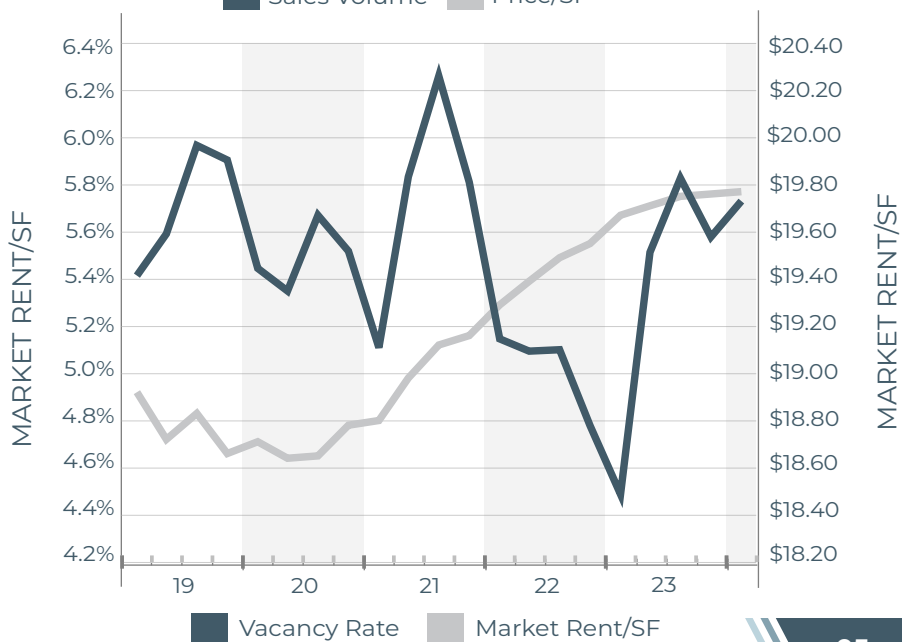
Sales Volume & Market Sale Price PSF

- The price PSF of sales peaked going into Q4 surpassing \$122, sales volume peaked in Q2 at 16M and significantly dropped into Q3 and Q4.
- Sales volume had the largest drop in the last 10 years from Q1 to Q4.
- Despite the decline in sales volume the price PSF remained steady.



Vacancy/Market Rent PSF

- Vacancy and Market Rental Rates both increased throughout 2023 with Market Rent tapering off going into Q3 and Q4
- Vacancy rates increased from 4.5% in Q1 to end the year at 6%
- We saw a steady increase in vacancy rates and a small increase in rent PSF



► Industrial Report

At no time has Northwest Indiana ever had speculative Industrial property delivered to the market in this short of a period. Over 2.4M SF of Industrial space was delivered to the market with over 2M being built in Merrillville alone. This was highlighted by Crow Holdings 3 spec buildings of 1.38M, 576K, and 260K SF at the Silos at Sanders Farm in Merrillville. Because of the delivery, we saw some of the metrics for Industrial change significantly. Those being the charts for the Vacancy Rate and the Market Asking Rate.

Vacancy Rates for Industrial buildings started 2023 at 6.31% and after delivering those spec buildings started 2024 at an estimated 9.26%. However, market asking rates continue to rise at a steady pace. They started 2023 at an average of \$7.28 PSF and ended 2023 at \$7.61 PSF. Signaling property owners' confidence in a still strong leasing market for Industrial space.

The months on market remained at 5-year lows starting off the year at 5.8 months and ending the year at 7.7 months. These were well below the highs of 2021 when we saw the average up to a laborious rate of 18.6 months in Q3 of that year. The availability of industrial buildings for sale is the primary factor for these low numbers as evidenced by the low sales volume.

Sales Volume ended 2022 at 91.9M SF sold and ended 2023 with only 51.4M, which was a dramatic decrease of 44%. With little new inventory of owner-user parks or buildings projected in 2024, we should continue to see the trend of little Volume with increasing pricing throughout 2024.

Industrial Market Report

Months on Market:

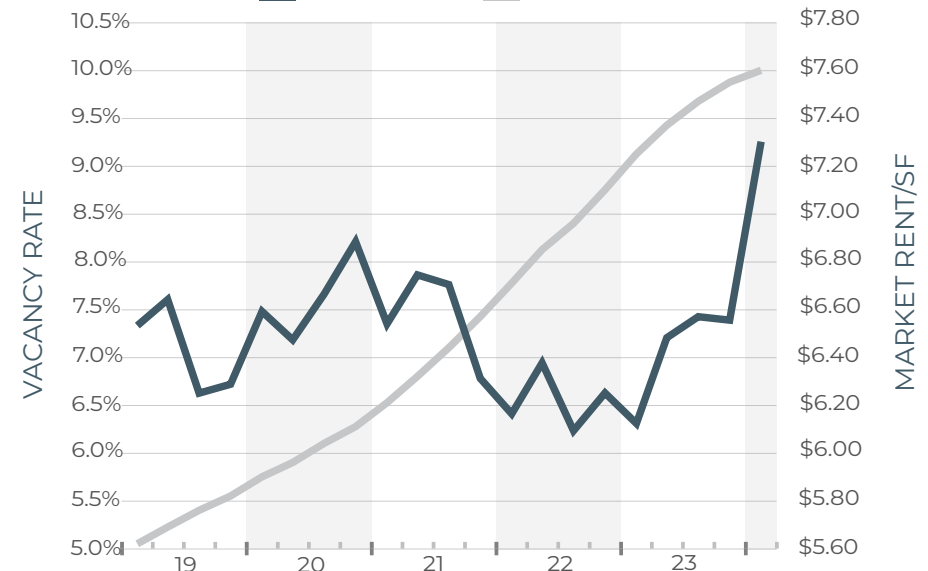
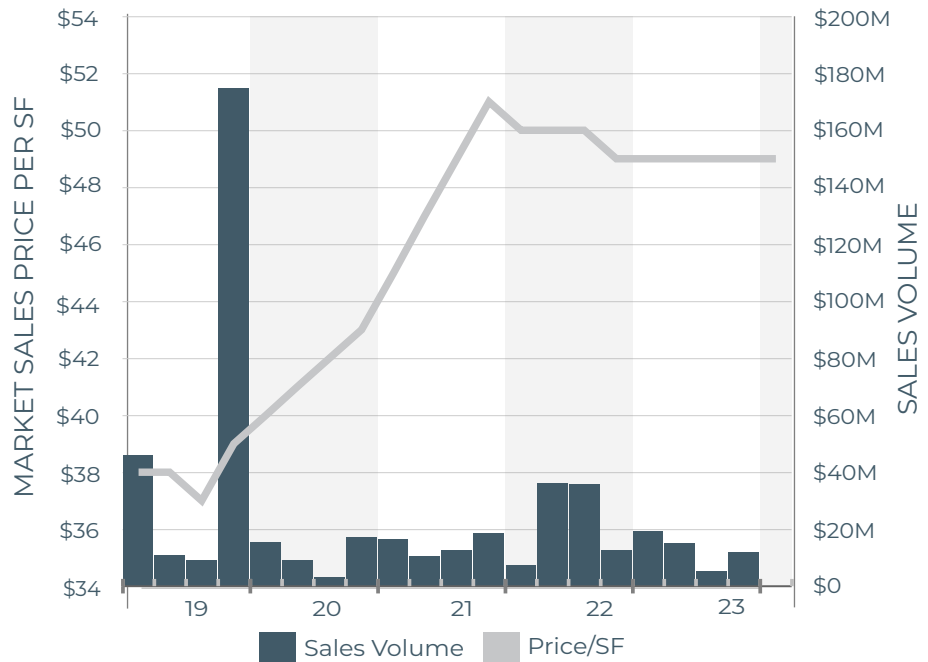
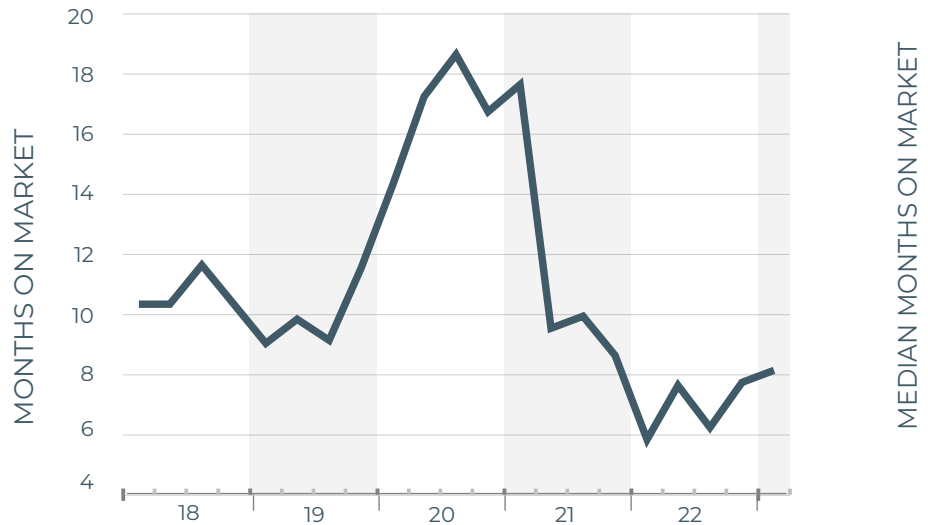
- Started the Year at 5.8 Months
- Only 7.7 Months in Q4
- Lack of Available properties for sale; a driver for quick turnaround

Sales Volume and Market Sale Price PSF

- Sales Volume of 51.4M in 2023 compared to 91.9M in 2022
- Price of \$49/SF in Q1 and ended at \$47/SF
- Very few Owner-User buildings available

Vacancy/Market Rent PSF

- Vacancy of 6.31% in Q1 and started at 9.26% in 2024
- Market Asking Rents Increasing from \$7.28 to \$7.61 in Q4
- Vacancy Climbing with New Spec deliveries in 2023





► Investment Report

The Federal Reserve ended 2023 with continued easing of key interest rates for the third straight quarter. The committee members have stated they plan for multiple cuts in 2024, which could give some stability to Cap Rates. However, our market has remained at strong pricing levels because of confidence in the local economy and a lack of inventory. Cap Rates in Q1 of 2023 started off at 7.36% and ended Q4 at 8.07%. While we saw a spike up to 8.79% in Q2, an upward national trend of Cap Rates was also seen nationally throughout the year.

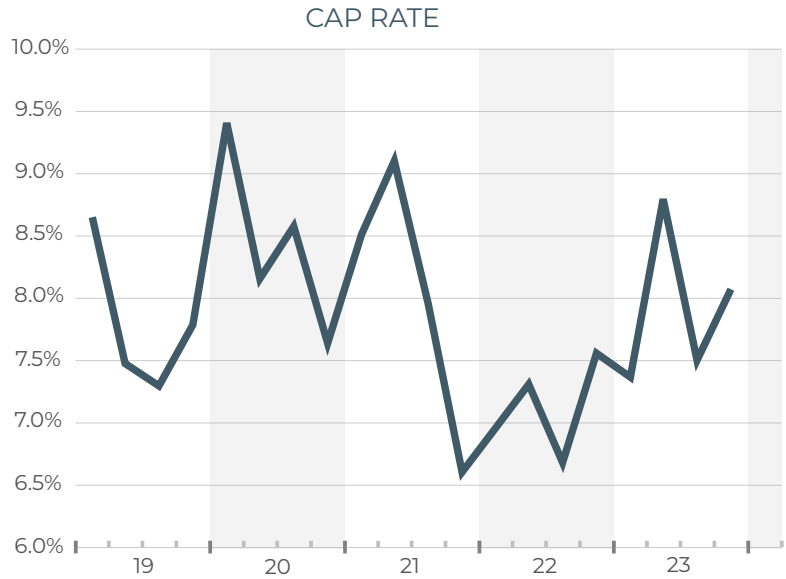
The slowing Sales Volume trend continued with the Investment Real Estate sector in Northwest Indiana. 2022 saw an estimated \$412.84M worth of Investment property change hands while 2023 saw only \$203.16M, a sharp decrease of 50.79%. While the Sales Price PSF in Q3 had a large increase up to \$179/SF, that was triggered by a few larger sales that skewed the numbers in Q3 because of the lowest sales volume in 5 years of only \$25.32M during those 3 months. These sales price PSF figures can be dramatically skewed with higher quality selling more often than lower quality assets, thereby inflating the overall price per square foot of sales.

With interest rates projected to decrease in 2024, we should start to see sales volume increasing and pricing increasing as well. However, we have a contested and highly “erratic” Presidential race coming up which may put some instability in the markets during the 2nd half of the year.

Investment Market Report

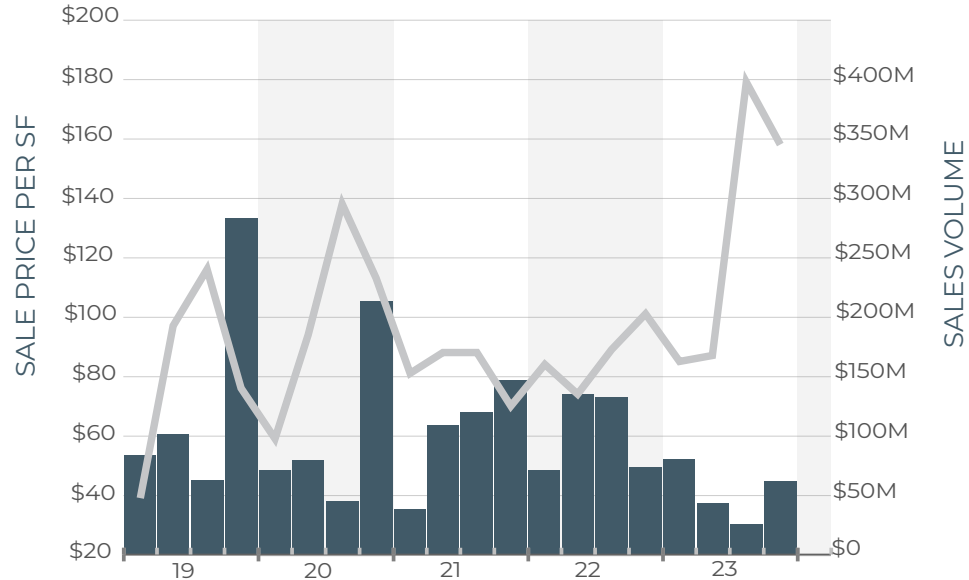
Cap Rate

- Followed an expected increase during the year due to rising interest rates
- Q1 Cap Rates averaged 7.36% and ended up at 8.07%
- Cap Rate peaked at 8.79% in Q2



Sales Volume & Market Sale Price PSF

- Every quarter (except Q1 2023 vs. Q1 2021) was down compared to the previous Year to Date Quarters
- Sales Prices Increased from \$87/SF in Q1 to \$141/SF in Q4
- Sales Volume peaked at only \$80.76M in Q1



Cumulative Sales Volume

- Lowest Sales Volume in the last 5 years of only \$203.16M
- Down 50%.37 from previous low of \$409.33M in 2020
- Fed easing of rates would help spur activity

► Market Facts

KEY FACTS

790,179

Population



Average Household Size

40.6

Median Age

\$67,247

Median Household Income

EDUCATION

8%

No High School Diploma



37%
High School Graduate



29%
Some College



26%
Bachelor's/Grad/Prof Degree

BUSINESS



25,722

Total Businesses



317,705

Total Employees

EMPLOYMENT



White Collar

58%



Blue Collar

28%



Services

14%

Unemployment Rate

4.7%

INCOME



\$67,247

Median Household Income



\$36,352

Per Capita Income



\$168,382

Median Net Worth

ANNUAL HOUSEHOLD SPENDING



\$1,905

Apparel & Services



\$213

Computers & Hardware



\$3,192

Eating Out



\$5,904

Groceries



\$6,711

Health Care

► Sales Transactions

Significant Office Sales Transactions:

Property	Sale Date	Sales Price	Square Feet	Price/SF
2602 Valley Dr, Valparaiso, IN	6/12/2023	\$705,000	5,365	\$131.41
450 Vale Park Rd, Valparaiso, IN	12/20/2023	\$675,000	5,866	\$115.07
2688 DeKalb St, Lake Station, IN	11/17/2023	\$450,000	13,501	\$33.33
5250 Hohman Ave, Hammond, IN	6/16/2023	\$416,456	13,242	\$31.45

Significant Retail Sales Transactions:

Property	Sale Date	Sales Price	Acres	Price/SF
1551 US 30, Valparaiso, IN	8/29/2023	\$4,500,000	4.83	\$226.68
1794 W 81st Ave, Merrillville, IN	1/16/2023	\$4,465,475	3.29	\$253.72
2405 US 30 Valparaiso, IN	3/9/2023	\$2,200,000	4.55	\$95.41
545 Ridge Road, Munster, IN	11/9/2023	\$520,000	0.48	\$201.86

Significant Industrial Sales Transactions:

Property	Sale Date	Sales Price	Square Feet	Price/SF
923 W US Hwy 20, Michigan City, IN	6/28/2023	\$6,200,000	189,902	\$32.65
6610 Sheperd Ave, Portage, IN	9/28/2023	\$3,124,533	18,064	\$172.97
9702 W US 30, Wanatah, IN	11/1/2023	\$2,070,000	182,200	\$11.36
9450 Mississippi St, Crown Point, IN	11/16/2023	\$1,650,000	12,000	\$137.50
616 Progress St, Munster, IN	5/19/2023	\$1,240,000	11,756	\$105.48

Significant Multifamily Sales Transactions:

Property	Sale Date	Sales Price	Units	Price/Unit
210 Westwind Dr, Michigan City, IN	7/25/2023	\$7,150,000	108	\$66,203
402 W 14th St, Hobart, IN	3/14/2023	\$4,500,000	80	\$56,250
101 Chicago St, Valparaiso, IN	1/19/2023	\$3,400,000	34	\$100,000
5230 W Ridge Rd, Gary, IN	7/31/2023	\$2,144,625	53	\$40,464

Significant Land Sales Transactions:

Property	Sale Date	Sales Price	Acres	Price/Acre
2801 Calumet Ave, Valparaiso, IN	11/28/2023	\$8,350,000	6.45	\$1,294,573
12510-12612 Delaware Pky, Crown Point, IN	2/22/2023	\$3,832,500	57.06	\$67,166
Division Rd, Valparaiso, IN	9/27/2023	\$2,200,000	21.69	\$101,429
325 E State Road 2 Valparaiso, IN	5/26/2023	\$2,100,000	79.00	\$26,582

► 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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