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Experts see some growth

Real estate forecast suggests suburbia will continue to thrive in office, residential areas

By Madhusmita Bora
maddie.bora@indystar.com
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Paula Schaefer and her partners wanted to expand their law firm and investment portfolio.

So last March they moved Ruppert & Schaefer from its rental location Downtown and bought 3,200 square feet of space on 96th Street. The firm also added two employees.

"It's a good feeling to know that while we are able to work out of our space we are also improving our asset," she said.

The nine-employee Indianapolis firm was among a sizeable number of small and medium-sized companies that grew and relocated to larger spaces and to the suburbs last year, a trend that will continue in 2006, according to a report released by CB Richard Ellis, a commercial real estate firm.

The firm's Market Outlook report examined the retail, residential, commercial and industrial real estate landscape of Indianapolis and its suburbs, offering a peek into what to expect this year.

The report forecasts a decline in vacancies in the suburban office market, sustained investments in office buildings and the continued popularity of open-air shopping centers such as Plainfield's Metropolis.

Office real estate

The sizzling trend in the office-building sector in 2005 was the volume of investment, such as the one Schaefer and her partners made. That helped boost occupancy rates, also known as absorption rates.

"Even though the absorption rates were not stellar, there was tremendous interest in investing in office buildings," said David Reed, managing director at CB Richard Ellis.

Suburban offices buildings were hot commodities, with 25 percent of them trading hands in ownership or occupancy in 2005. The report suggests that might help drive a modest increase in rent after some flat years, but not everyone agrees.

Jeff Henry, a managing partner at Colliers Turley Martin Tucker, expects rents to stabilize.

"We anticipate that there will still be competition for tenants because of the new constructions in the marketplace," Henry said. "When the marketplace is competitive then there's no increase in rent."

The firm, which is releasing its real estate outlook next week, is predicting a slow recovery in the office sector with dwindling vacancies and newer construction.

CB Richard Ellis predicts Indianapolis will continue to attract outside investments in its office buildings because it's cheaper to set up and do business here than most cities on the coasts. Most of these investments will happen through private equity funds, pension funds and Tenant-in-Common funds, which are looking for stable investments, the report said.

Although suburban markets continue to be attractive by outpacing the Downtown area, this year the spotlight is on 160,000 square feet of contiguous space that will free up at the National City Center Downtown when mall giant Simon Property Group relocates to new headquarters nearby.

CB Richard Ellis also expects overall office employment to grow by 1.2 percent each year for the next two years.

Retail real estate

Mall walking and hanging out in the food courts soon may be out of style. Open-air shopping centers such as the 110-acre Metropolis, which opened last year, have become the latest buzz in the retail landscape. Industry experts say they expect to see more such centers pop up, such as Duke Realty's Marketplace at Anson, which is in Boone County, and Simon Property Group and Gershman Brown & Associates' Hamilton Town Center.

"They are here to stay," said Bill French, a vice president for Colliers Turley Martin Tucker.

French, like the Market Report, also predicts the arrival of more high-end tenants at Clay Terrace in Carmel and the Fashion Mall in Indianapolis. Already, upscale jewelry store Tiffany is scheduled to make a debut at the Fashion Mall this summer

Experts also predict continued growth of mid-size specialty retailers such as Best Buy, Michael's and Staples, which are discovering newer markets and relocating to newer stores.

Residential real estate

When Rob Gutermuth of Carmel was looking for a home last year, he didn't drive around looking for sale signs. Neither did he hire a real estate broker.

Instead he did it with the click of a mouse, from his house.

Internet-savvy consumers helped by low mortgage rates, helped deliver a fifth consecutive year of residential real estate sales growth to this region, according to a news release from the F.C. Tucker Co.

Last year's sales for the nine-county Central Indiana region bumped by 1.08 percent, with average home prices seeing a 5.1 percent hike.

"Central Indiana should experience another strong year in 2006," said Jim Litten, president of F.C. Tucker. "We have been blessed with a market that has no peaks or valleys and lots of available ground for growth."

CB Richard Ellis says Indianapolis will continue to see the proliferation of Tenants-in-Common investors in multi-family housing units in 2006. The company also anticipates a slowdown in single-family home sales, as prices gradually continue to climb.

Industrial real estate

Industrial vacancies in 2005 took a slight decline, a trend the Market Outlook expects to continue this year

Inexpensive transportation rates, location and competitive real estate costs will continue drawing national distributors to the area this year, experts say.

Currently there is 2.6 million square feet of construction in the industrial sector, according to the CB Richard Ellis report. This year is expected to bring 13 more projects, creating more than 5.7 million square feet of space.

"The developers are doing a good job balancing supply and demand," said Reed of CB Richard Ellis. "While there's good absorption because of companies relocating here, developers have not succumbed to the temptations to overbuild."