



Office Q2 2020

YoY Chg

17.2%

Vacancy Rate



129K

Net Absorption, SF



\$21.16

Asking Rent, PSF



Direct, All Property Classes

ECONOMIC INDICATORS Q2 2019

YoY Chg

0.96M

Indianapolis MSA Employment



12.9%

Indianapolis MSA Unemployment Rate



13.0%

U.S. Unemployment Rate



Source: BLS, Moody's Analytics

The COVID-19 pandemic struck the U.S. in March 2020, late in the quarter but with enough time to have a significant impact on first quarter market fundamentals. In the second quarter of 2020, the U.S. economy felt its effects more fully, as government-mandated shutdowns along with shelter-in-place ordinances pushed the country deeper into recession. The situation remains very fluid. Access the most recent information specific to COVID [here](#).

ECONOMIC OVERVIEW: National and Local Economies Stunned by COVID-19 Pandemic

The first half of 2020 can best be described as extraordinarily unpredictable. Despite considerable economic momentum carried over from the end of 2019, the onset of the COVID-19 pandemic has caused one of the sharpest declines to an industrialized economy ever. The true impact on major economic indicators is still a moving target, but groups like the Bureau of Labor Statistics (BLS) openly detailed that preliminary statistics likely underestimate the actual state of affairs nationally. Even though the BLS reported unemployment rates spiking to a post WWII high of 14.7% in April 2020, it also anticipates those numbers will be revised in the coming months. Nevertheless, many economists believe that the nation has entered a recession even though two quarters of Gross Domestic Product (GDP) statistics have not been released to confirm consecutive quarters of GDP contraction, which is the traditional definition of a recession. The Bureau of Economic Analysis (BEA) reported a 5.0% decline in Real GDP during the first quarter of 2020, due in large part to a decline in consumer spending brought on by lock down measures aimed at slowing the spread of COVID. There were also drops in private inventory investment, exports, and nonresidential fixed investment.

DEMAND: Market Rebounds From a Lackluster First Quarter, Despite COVID-19 Effects

Not only has the onset of the "Great Lockdown" recession caused one of the sharpest economic contractions ever but it has also instigated a shift in commercial real estate activity. The COVID-19 environment has pushed many businesses to prioritize fiscal responsibility and protecting the well-being of their employees. This has led to a reevaluation of office real estate needs, in some cases triggering a decline in demand. Indianapolis, though, has yet to feel the negative effects of those decisions due in part to the positive leasing momentum of late 2019 and early 2020. The second quarter saw a significant rebound in net occupancy gains, absorbing nearly 130,000 square feet (sf) directly and just over 83,000 sf overall which brought year-to-date (YTD) levels back into positive territory. Most of the net absorption can be attributed to above average leasing activity of 1.1 million square feet (msf) of newly signed deals in the previous two quarters that took occupancy in the second quarter. Since the end of the year, leasing velocity has trailed off, with the first half of 2020 totaling only 808,000 sf. As the effects of COVID-19 reverberate deeper into the market, demand fundamentals are expected to decline in the coming quarters.

SPACE DEMAND / DELIVERIES



DIRECT VACANCY & ASKING RENT



INDIANAPOLIS

Office Q2 2020

PRICING: Asking Rents Still Trending Up, Growth May Level Off

Rental rates continued to experience an upward trend as year-over-year (YOY) rents grew by nearly 5.0% in the second quarter 2020. While the rental growth comes as a present sign of strong fundamentals over the past four quarters, rental growth may not be as strong in future quarters. Quarter-over-quarter rents grew only \$0.01 from the start of the year, signaling a pull-back in upward growth likely due to current pandemic conditions. Landlords, especially those which have seen occupancies drop due to the added financial strain COVID-19 has caused tenants, may look to soften rents and focus on filling vacancies in the coming quarters, ultimately leveling out YOY rental rate growth.

SUPPLY: Construction Completions Delayed Slightly, Still Expected for 2020

Thus far in 2020, 123,000 sf of new construction has been delivered with just over 520,000 sf of new product expected to deliver in future quarters. The second quarter was estimated to have a number of projects be completed, but ultimately some were pushed to future quarters due to slight delays in construction timelines and occupancies caused by COVID-19. As long as construction timelines track closely to revised delivery dates, the third quarter is expected to have a significant amount of deliveries, bringing the YTD total past 2019 levels.

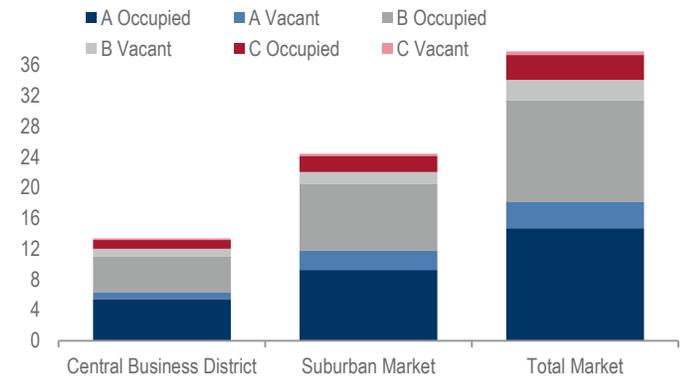
SALE ACTIVITY: Investment Sale Activity Slow, User Sale Activity Up

The first half of 2020 has lacked the volume of investment sale activity compared to the first half of 2019. Six months into the year, just over 530,000 sf had traded hands as compared to nearly 1.3 msf that sold in the first half of 2019. With market fundamentals in limbo, many investors have been “pencils down” until more clarity into the market presents itself. To the contrary, user sale activity is tracking well ahead of 2019 levels. Almost 450,000 sf of space has sold to users in 2020 as compared to 122,000 sf in the first half of 2019. Significant transactions include Round Room’s purchase of 10300 Kincaid, a 193,000 sf office headquarters building formerly occupied by Roche Health Solutions, and Knowledge Services purchase of the former Marsh headquarters, a 150,000-sf office building located in the Fishers submarket.

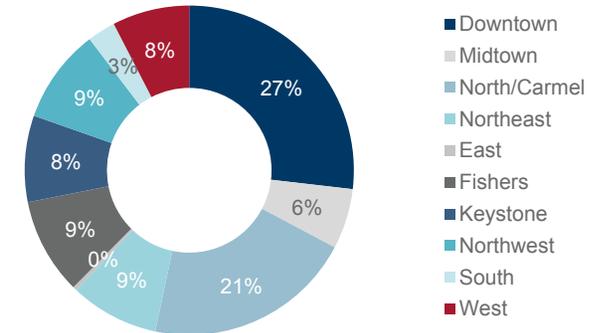
Outlook

- The current economy’s rapid plummet caused by COVID-19 has been especially volatile. The timeline of economic recovery is expected to be just as unpredictable.
- Net absorption metrics rode the coattails of previous leasing velocity in the second quarter 2020. Future leasing demand, though, is expected to continue its melancholy pace as many occupiers reevaluate their real estate solutions to combat the effects of COVID-19.
- New construction activity in the market is forecasted to pick up as delayed construction timelines have pushed new deliveries into the third and fourth quarters of 2020, eclipsing 2019 new construction delivery volumes.
- Investment sale activity has seemingly been paused in the first half of 2020 but could find traction in the coming quarters as clarity on the direction of the market becomes apparent.
- Expect slight softening in rental rates in the coming months as landlords try to attract and retain current or future occupants during the COVID-19 environment.

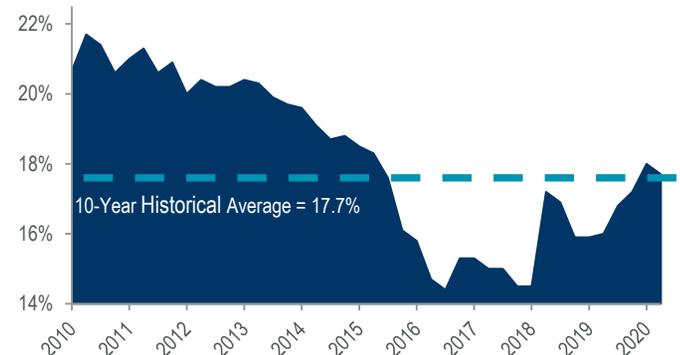
LEASING DEMAND BY CLASS OF SPACE (MSF)



VACANT SPACE BY SUBMARKET



DIRECT VACANCY RATE VS. 10 YEAR HISTORICAL AVERAGE



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	DIRECT VACANCY RATE	CURRENT QTR DIRECT NET ABSORPTION	YTD DIRECT ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	DIRECT AVG ASKING RENT (ALL CLASSES)*	DIRECT AVG ASKING RENT (CLASS A)*
Downtown	11,549,189	36,003	1,773,724	15.4%	-26,695	-87,091	106,057	217,470	\$23.81	\$25.50
Midtown	1,831,916	3,667	395,659	21.6%	-6,823	-5,623	23,996	0	\$17.10	\$22.50
North/Carmel	7,675,110	123,154	1,263,508	16.5%	38,307	-109,754	124,314	100,000	\$23.19	\$25.09
Keystone	4,108,371	37,393	534,480	13.0%	15,184	105,467	113,071	0	\$24.02	\$25.01
Fishers	1,928,877	5,303	632,546	32.8%	39,701	53,380	148,068	203,000	\$20.94	\$21.76
Northeast	3,175,625	9,645	580,318	18.3%	-40,519	-15,701	60,676	0	\$18.38	\$20.43
East	510,538	0	25,548	5.0%	24,985	32,305	2,525	0	\$14.31	N/A
South	1,401,063	3,045	183,323	13.1%	22,539	10,947	51,375	0	\$18.83	\$22.36
West	1,872,776	0	511,509	27.3%	-6,669	-47,147	40,085	0	\$14.50	\$17.21
Northwest	3,788,580	0	626,400	16.5%	68,951	110,388	138,405	0	\$18.48	\$20.11
Class A										
Class A	18,127,395	185,288	3,401,739	18.8%	137,373	108,942	496,688	520,470	\$23.67	
Class B										
Class B	15,983,752	23,799	2,660,187	16.6%	-31,518	-57,706	234,084	0	\$18.74	
Class C										
Class C	3,730,898	9,123	465,089	12.5%	23,106	-4,065	77,800	0	\$15.26	
TOTAL	37,842,045	218,210	6,527,015	17.2%	128,961	47,171	808,572	520,470	\$21.16	\$23.67

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
7440 Woodland Dr., Indianapolis	Northwest	Golden Rule Life Insurance	200,000	Renewal*
950 N Meridian St., Indianapolis	Downtown	DCX Technology	47,280	Renewal*
5555-5587 W 73 rd St., Indianapolis	Northwest	TriMedx	35,167	New Lease
6640 Intech Blvd, Indianapolis	Northwest	Indiana University Health	30,737	Renewal*
600 E 96 th St., Indianapolis	North/Carmel	Northwestern Mutual	28,722	New Lease

*Renewals not included in leasing statistics

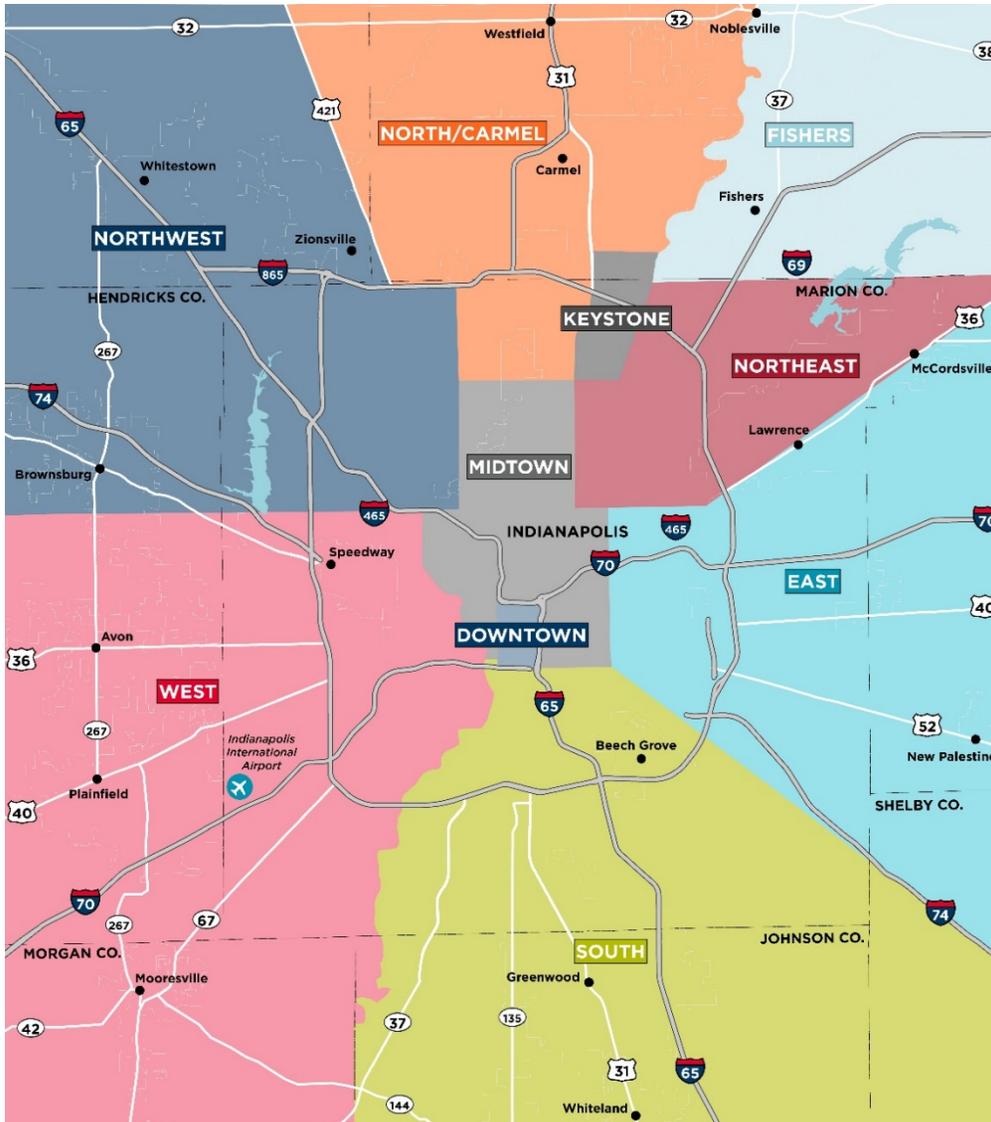
KEY SALES TRANSACTIONS Q2 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
10300 Kincaid Dr., Fishers	Fishers	Round Room	193,000	\$13.6M/\$71

INDIANAPOLIS

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OFFICE SUBMARKETS



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