

YoY Chg

18.0%
Vacancy Rate



-65K
Net Absorption, SF



\$21.38
Asking Rent, PSF



Overall, All Property Classes

ECONOMIC OVERVIEW: Economic Recovery Stirring, Growth On the Horizon?

The end of the year continued to yield more favorable economic conditions as vaccination hopes blossomed and government intervention helped ease economic hardships of many individuals and businesses. The week ending December 26th saw weekly initial jobless claims fall to a seasonally adjusted 787,000, marking the second consecutive decline from a three-month high set in early December when surging COVID-19 cases caused many authorities to reimpose economic restrictions to halt mass spread. Current levels remain higher than any level recorded pre-pandemic. The 2021 economy will start the year with a shot in the arm as the new \$900 billion COVID-19 relief bill will add back in a \$300-a-week unemployment supplement and extend two pandemic-specific programs assisting self-employed individuals and others not normally eligible for jobless claims as well as individuals who exhausted other jobless benefits. While the prospective for the economy in late 2021 remains positive, there are still many challenges ahead that the economy and labor market must circumnavigate including the surging hospitalization rates and a newly discovered COVID-19 variant. Until vaccines are widely available to the greater population the economy will remain stymied.

DEMAND: Year Ends Negative Overall, Signs of Recovery Apparent

Despite headwinds, Indianapolis showed its resilience ending with roughly negative 25,000 square feet (sf) of net absorption, a reasonable amount compared to national averages. Three of four quarters in 2020 experienced negative net occupancy gains with the fourth quarter tallying the largest amount at negative 65,000 sf. Leasing activity also posted its lowest level of the year in the fourth quarter as only 195,000 sf of leases were signed, down year-over-year (YOY) by 595,000 sf. A slowdown in leasing velocity was a prime contributor to upward pressure on vacancy rates throughout 2020 with a 100-basis point (bps) increase YOY settling at 18.0% overall. An increase in sublease availability, which sits at 0.75% currently, also played a key role in rising overall vacancy rates. From the start of the pandemic to the end of 2020 the sublease rate rose by 28-bps, or approximately 110,000 sf. While the new year is not a reset button with regards to the current challenges the market is facing, optimism is beginning to build as vaccine distribution begins to rollout across the globe. Top health officials estimate vaccinations could provide “herd immunity” by as early as the third quarter of 2021 giving way to optimism that a return to normalcy by year-end would have positive implications for the office market.

ECONOMIC INDICATORS Q4 2020

YoY Chg

1,066.1K
Indianapolis MSA Employment



5.3%
Indianapolis MSA Unemployment Rate



6.7%
U.S. Unemployment Rate



Source: BLS, Moody's Analytics

SPACE DEMAND / DELIVERIES



DIRECT VACANCY & ASKING RENT



INDIANAPOLIS

Office Q4 2020



PRICING: Asking Rents continue to Grow but Slower, Class B Rental Growth a Bright Spot

In general, rental rates continued an upward trend with the fourth quarter realizing a weighted average gross rental rate of \$21.38 per square feet (psf) for the market, but the pace at which rental rates grew throughout 2020 tapered. Put in perspective, total market gross rents YOY grew 3.9% in the fourth quarter 126-bps below the rent growth in the first quarter. Similarly, Class A rent growth in the fourth quarter of 2020 trailed first-quarter growth by 138-bps. In general, a positive but declining YOY rental growth rate indicates that most landlords are holding rents at current levels. To the contrary, rents saw a revival in Class B properties with YOY growth rate in the fourth quarter at 5.5% up 285-bps from the first quarter of 2020. This is likely due to the increase in quality priced space coming back to the market. If vaccination optimism renews market demand, we can expect YOY rental rate growth to resume its upward trajectory at a faster pace than the market is currently experiencing.

SUPPLY: Deliveries Skew Demand Metrics, New Starts Dependent on Preleasing

The fourth quarter experienced just over 28,000 sf of new construction delivered, bringing the year-to-date (YTD) total to just over 438,000 sf. Construction deliveries helped provide a bright spot in the market for 2020 as nearly 88% of space delivered was preleased, propping up net absorption figures for the year. Four projects remain in the current construction pipeline totaling 344,000 sf with all expected to deliver to the market in 2021. Three of the projects are build-to-suit in nature and account for nearly 80% of the total pipeline square footage. For the foreseeable future, we expect new construction projects to struggle breaking ground without significant preleasing activity.

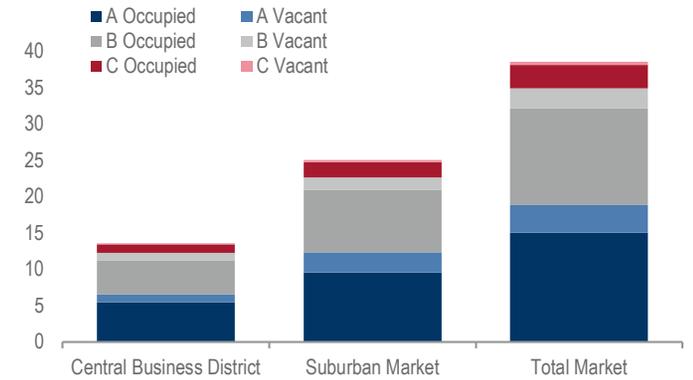
SALE ACTIVITY: Overall Sale Activity Down in 2020, User Sale Proved Dynamic

Overall sale activity dipped in 2020 with just over two million square feet (msf) sold this year which tracked nearly 1.2 msf behind 2019 levels. Of the two million square feet sold roughly 1.3 msf was sold to investors and 775,000 sf was sold to users. In the fourth quarter most of the 386,000-sf of sale activity came in the form of user sales with nearly 310,000 sf selling to occupiers. The most notable sale that occurred in the fourth quarter included the combined sale of The Lexington, The Buick, and their adjoining land parcels in the Midtown submarket. The entire package, including 99,760 sf and 3.37 acres in total, sold to Indiana University Health for an undisclosed price.

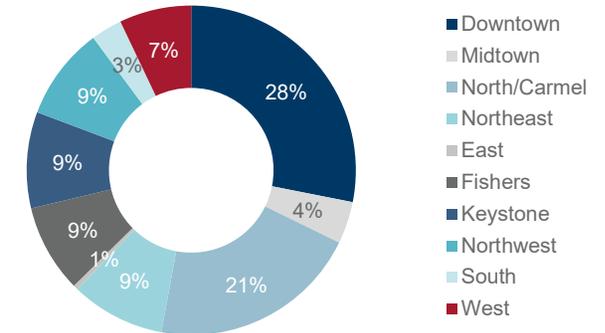
Outlook

- While the prospective for the economy in late-2021 remains positive, there are still many challenges ahead that the economy and labor market must circumnavigate including remain surging hospitalization rates and the newly discovered COVID-19 variant. Until vaccines are widely available to the greater population the economy will remain stymied.
- The Indianapolis office market ended the year where most expected it to be, down, but far from out as the market showed its resilience ending the year minorly scathed despite demand activity being a shell of what it was in 2019. Vaccination hopes bring optimism that 2021 will be the year to return to normalcy and ultimately support the recovery of the office market.
- Rents continued to rise, albeit at a slower pace. If vaccination optimism renews market demand, we can expect YOY rental rate growth to resume its upward trajectory at faster pace than the market is currently experiencing.

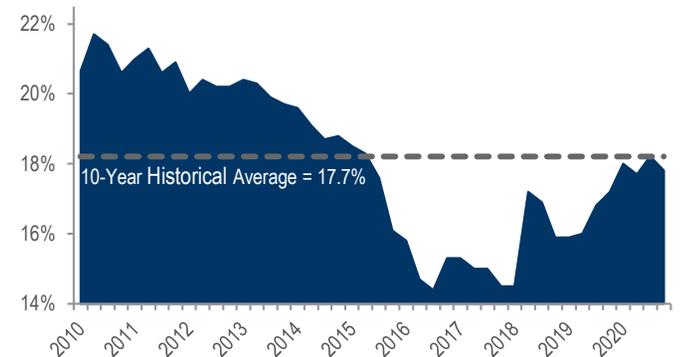
LEASING DEMAND BY CLASS OF SPACE (MSF)



VACANT SPACE BY SUBMARKET



DIRECT VACANCY RATE VS. 10 YEAR HISTORICAL AVERAGE



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Downtown	11,711,819	98,354	1,855,943	16.7%	-81,944	-50,300	217,063	66,000	\$23.73	\$25.53
Midtown	1,836,204	3,667	283,852	15.7%	3,317	1,054	50,591	0	\$16.55	\$15.40
East	510,538	0	33,270	6.5%	-852	24,583	3,853	0	\$15.41	N/A
Fishers	2,043,877	0	601,255	29.4%	18,635	130,563	81,925	208,000	\$21.50	\$22.57
Keystone	4,108,371	42,640	614,704	16.0%	-80,855	-57,660	189,915	0	\$23.65	\$24.45
North/Carmel	8,059,668	104,292	1,333,533	17.8%	56,040	-89,706	281,224	70,000	\$23.09	\$24.62
Northeast	3,186,958	19,725	622,943	20.2%	-8,718	-64,808	80,111	0	\$18.57	\$20.48
Northwest	3,788,471	12,368	622,712	16.8%	11,179	112,500	194,445	0	\$18.15	\$19.96
South	1,429,911	3,045	209,424	14.9%	-4,659	8,168	80,810	0	\$18.53	\$20.48
West	1,891,692	0	492,450	26.0%	23,019	-38,758	50,337	0	\$15.21	\$16.82
Class A	18,807,904	166,070	3,593,438	20.0%	-92,344	68,167	728,536	344,000	\$23.74	
Class B	16,071,103	108,898	2,650,477	17.2%	23,586	-106,292	381,348	0	\$19.12	
Class C	3,688,502	9,123	426,171	11.8%	3,920	13,761	120,390	0	\$15.38	
TOTAL	38,567,509	284,091	6,670,086	18.0%	-64,838	-24,364	1,230,274	344,000	\$21.38	\$23.74

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
6510 Telecom Drive., Indianapolis		Vyne Dental	22,544	New Lease
300 N Meridian, Indianapolis		BGBC Partners LLC	18,036	Renewal*
1320 City Center Drive, Carmel		Renewal By Anderson	18,015	Renewal*/Expansion
12147 N Meridian Street, Indianapolis		Priority Physicians	13,875	New Lease
101-115 W Washington Street, Indianapolis		Sharpen Technologies	12,857	Renewal*

*Renewals not included in leasing statistics

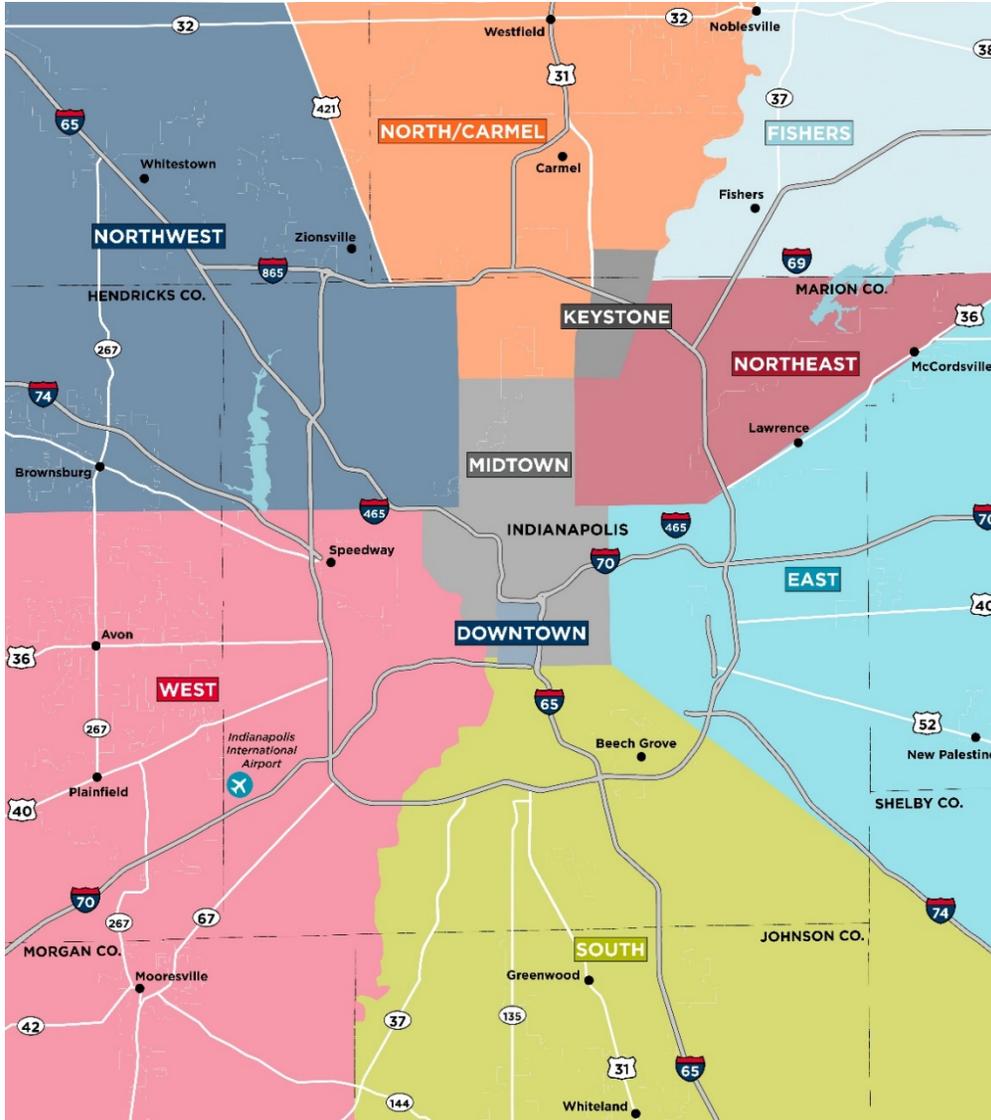
KEY SALES TRANSACTIONS Q4 2020

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
1200 & 1302 N Meridian Street, Indianapolis	Midtown	Indiana University Health 1300 Lexington Partners LLC	99,760	Undisclosed
310 E 96 th Street, Indianapolis	North/Carmel	Twenty Lake Management Kittle Property Group	97,617	Undisclosed
571 Monon Drive, Carmel	North/Carmel	Balke Brown Transwestern Ambrose Property Group	77,739	Undisclosed

INDIANAPOLIS

Office Q4 2020

OFFICE SUBMARKETS



MATT NIEHOFF

Senior Research Analyst

Tel: +1 317 639 0460

matt.niehoff@cushwake.com

CUSHMAN & WAKEFIELD

One American Square, Suite 1800

Indianapolis, IN 46282 | USA

Tel: +1 317 634 6363

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