

MARKETBEAT INDIANAPOLIS

Office Q4 2021



CUSHMAN &
WAKEFIELD

YoY
Chg

19.4%

Vacancy Rate



164K

Net Absorption, SF



\$21.36

Asking Rent, PSF



Overall, All Property Classes

ECONOMIC INDICATORS Q4 2021

Outlook

1,077.7K

Indianapolis MSA
Employment



3.0%

Indianapolis MSA
Unemployment Rate



4.2%

U.S.
Unemployment Rate



Source: BLS, Moody's Analytics

ECONOMIC OVERVIEW: Labor Market Sees 12 Consecutive Months of Job Growth

One of the main economic stories of 2021 was the "Great Resignation", which saw millions of workers voluntarily quit their jobs in search of higher wages and better working conditions. In November, a record 4.5 million workers quit their jobs. Workers in industries most impacted by the COVID-19 pandemic, including healthcare, food service, and transportation saw the greatest number of workers quit. The December jobs report showed an increase of 199,000 non-farm jobs and the labor market has seen the 12 consecutive months of job growth as the economy continued to recover from the pandemic throughout 2021. Looking forward into 2022, the emergence of the Omicron variant has the potential to slow job gains in certain industries, though it is still too early to tell the impact this variant might have on the economy. Employment in the Indianapolis MSA has been particularly resilient throughout 2021, with the unemployment rate declining 230 basis points (bps) year-over-year (YOY) to 3.0%, below the national unemployment rate of 4.2%.

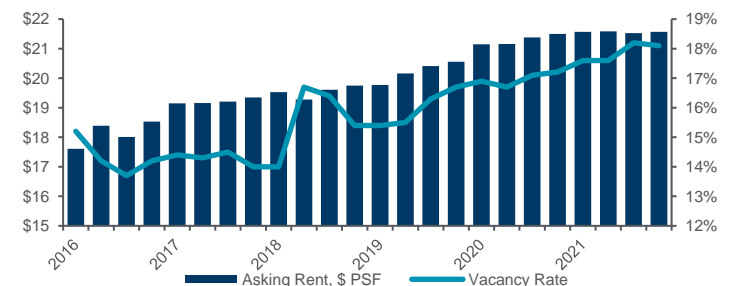
DEMAND: Leasing Activity Recovers from a Slow 2020 but Still Below Pre-Pandemic Levels

The Indianapolis office market saw net occupancy gains to end 2021, with 164,000 square feet (sf) of positive overall net absorption in the fourth quarter. This was largely due to the completion of two build-to-suit (BTS) buildings, in addition to other large tenant move-ins during the quarter. However, the market still saw negative overall net absorption of 372,000 sf for the year as tenants vacated and downsized large blocks of space throughout 2021. Leasing activity bounced back after a slow 2020, with 1.9 million square feet (msf) of new leases signed during the year. This surpasses 2020's leasing activity by nearly 700,000 sf but is still below pre-pandemic leasing levels. The Keystone submarket has seen strong leasing activity in 2021, with 318,307 sf of new leases signed, which was 17% of all new leases signed despite the Keystone submarket only accounting for 11% of total market inventory. Overall, the suburban market saw more favorable new leasing activity than the CBD market did. Nearly 76% of all new leasing activity occurred in the suburbs despite the suburban submarkets containing only 65% of total inventory in the market. The overall vacancy rate increased slightly quarter-over-quarter (QOQ), rising 10 basis points to 19.4%. This was due to a slight uptick in the amount of sublease space on the market, as the direct vacancy rate declined 10 bps QOQ to 18.1%. The Fishers submarket saw the largest vacancy decline YOY by a wide margin, with the overall vacancy rate for the submarket decreasing 990 basis points to 19.5%. The overall vacancy rate for the Indianapolis market has increased 140 bps YOY, with the current vacancy rate sitting well-above the 10-year historical average of 17.0%. With the uncertainty of COVID-19 persisting nearly two years into the pandemic, companies will likely continue to adapt their real estate needs in an ever-changing workplace environment.

SPACE DEMAND / DELIVERIES



DIRECT VACANCY & ASKING RENT



INDIANAPOLIS

Office Q4 2021



CUSHMAN & WAKEFIELD

PRICING: Overall Asking Rents Stay Stable from the Third Quarter

Overall asking rental rates stayed flat QOQ, ending the year unchanged from the third quarter at \$21.36 per square foot (psf) gross. Class A overall asking rates dipped \$0.04 from the third quarter to \$23.86, while Class B asking rates remained unchanged at \$18.87 and Class C asking rates increased 3.2% QOQ. Direct asking rental rates saw a slight rise, increasing \$0.04 from the third to quarter to \$21.57. Overall asking rates have seen a slight decline YOY, decreasing 9 bps; however, Class A overall asking rates have increased 50 bps YOY as tenants continue to flock to premium space to attract and retain employees.

SUPPLY: Two Build-to-Suits Completed in the Fourth Quarter

Two BTS properties were completed in the fourth quarter, a 70,000-sf headquarters for Software Engineering Professionals in Westfield and a 148,000-sf headquarters for First Internet Bank in downtown Fishers. The First Internet Bank building also has space available for lease for additional tenants. No new buildings commenced construction in the fourth quarter and only one building, a 54,000-sf BTS for Eight Eleven Group, is currently under construction. Looking forward to 2022, expect the Bottleworks Building 13 to commence construction during the year as the Lumina Foundation has signed a 24,000-sf lease to take the top floor. Additional projects may also begin construction with preleasing activity.

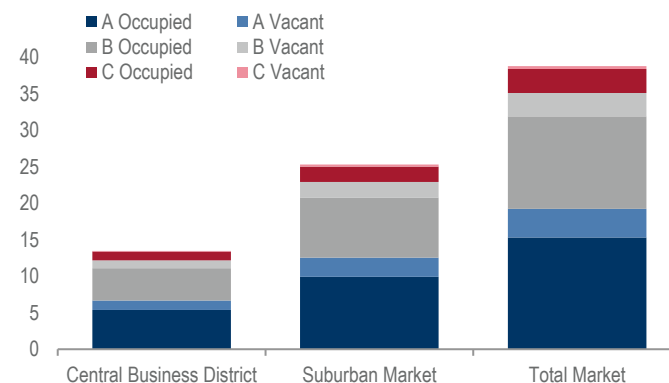
SALE ACTIVITY: Sales Activity Rebounds in 2021

Sales activity rebounded significantly in 2021 after a slow 2020. Over 3.2 msf of space traded hands during the year, 1.0 msf higher than the 2.2 msf of space sold in 2020. Of the 3.2 msf sold in 2021, over 3.0 msf was sold to investors and the remaining 182,000 sf was sold to users. Sales activity was muted in the fourth quarter, but 2021 still saw one of the largest office sales in Indianapolis on record, with the Salesforce Tower and Circle Building selling for \$192.5 million, a price per square foot of \$182. Expect properties to continue to trade hands in 2022 and beyond as the market recovers from the pandemic.

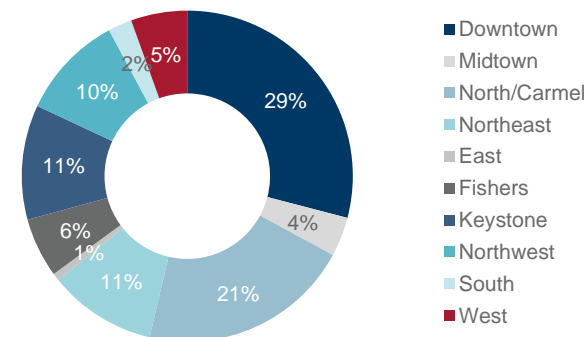
Outlook

- The labor market has proved resilient in the face of numerous headwinds over the past two years, seeing 12 consecutive months of job growth. The United States unemployment rate currently sits at 4.2% and the outlook is for the rate to drop further in the coming quarters.
- New leasing activity increased by 58% in 2021 following the sluggish leasing activity seen in 2020. The suburbs showed particularly robust leasing activity, especially in the Fishers, Keystone, and North/Carmel submarkets.
- Construction completions in 2021 totaled 324,000 sf, with nearly 80% of the new space in BTS properties. This trend is likely to continue in the coming years as most new construction projects require significant preleasing activity to start.
- The space available for sublease continues to track well above pre-pandemic levels, offering tenants the opportunity to lease space that is listed at much lower asking rental rates than direct space.

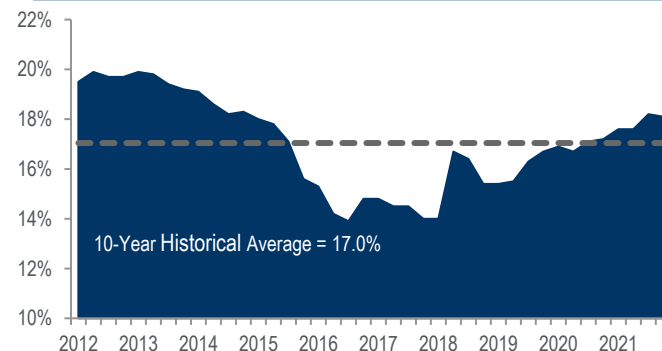
LEASING DEMAND BY CLASS OF SPACE (MSF)



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	11,636,752	164,027	2,016,643	18.7%	7,858	-298,310	384,334	0	\$23.76	\$25.39
Midtown	1,843,689	0	288,223	15.6%	-22,139	26,795	77,309	53,615	\$15.59	N/A
East	510,538	8,158	46,822	10.8%	2,340	-21,710	5,080	0	\$16.18	N/A
Fishers	2,238,911	44,349	392,569	19.5%	160,117	351,281	174,305	0	\$21.26	\$22.96
Keystone	4,111,602	91,398	749,513	20.5%	-54,493	-181,601	318,307	0	\$23.57	\$25.12
North/Carmel	8,140,822	76,945	1,480,321	19.1%	22,272	-76,139	451,386	0	\$22.77	\$24.69
Northeast	3,189,594	32,615	759,460	24.8%	8,408	-164,012	160,234	0	\$18.34	\$20.37
Northwest	3,788,471	26,127	739,637	20.2%	19,603	-118,175	150,722	0	\$18.80	\$20.15
South	1,429,911	1,800	172,927	12.2%	-12,671	38,362	78,730	0	\$18.44	\$21.25
West	1,891,692	31,820	381,034	21.8%	32,963	71,302	120,419	0	\$15.78	\$16.75
Class A	19,233,142	171,057	3,751,417	20.4%	149,644	220,443	973,722	53,615	\$23.86	
Class B	15,872,301	296,878	2,898,147	20.1%	-1,187	-602,641	735,522	0	\$18.87	
Class C	3,676,539	9,304	377,585	10.5%	15,801	9,991	211,582	0	\$16.40	
TOTAL	38,781,982	477,239	7,027,149	19.4%	164,258	-372,207	1,920,826	53,615	\$21.36	\$23.86

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q4 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
111 Congressional Boulevard, Carmel	North/Carmel	Shepherd Insurance Company	32,720	Expansion/Renewal
9100 Keystone Crossing, Indianapolis	Keystone	AdTalem Global Education	30,744	Renewal
9465 E Counselors Row, Indianapolis	Keystone	Regus	26,300	Renewal
820 Massachusetts Avenue, Indianapolis	Downtown	Lumina Foundation	23,700	New Lease

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS YTD 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
111 Monument Circle, Indianapolis	Downtown	Hertz Investment Group Square Deal Investment Management	1,057,877	\$192,501,878/\$181.97
101 W 103 rd Street, Indianapolis	North/Carmel	Carmel Indy Holdings Real Capital Solutions	320,000	\$66,343,566/\$207.32
6612 E 75 th Street, Indianapolis	Northeast	Coastal Partners HJH Investments	84,000	\$8,605,000/\$102.44

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