

MARKETBEAT INDIANAPOLIS



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WAKEFIELD

Office Q2 2022

18.8%

Vacancy Rate

YoY
Chg



12-Mo.
Forecast



97K

Net Absorption, SF



\$21.48

Asking Rent, PSF



Overall, All Property Classes

ECONOMIC INDICATORS Q2 2022

1,113.9K

Indianapolis MSA
Employment

YoY
Chg



12-Mo.
Forecast



2.1%

Indianapolis MSA
Unemployment Rate



3.6%

U.S.
Unemployment Rate



Source: BLS, Moody's Analytics

ECONOMIC OVERVIEW: Labor Market Shows Gains but Faces Headwinds from Inflation

The labor market continued to post job gains in the second quarter, with nonfarm payroll employment increasing by 372,000 in the month of June. Monthly job gains in the second quarter averaged 383,000 as the labor market continued to recover the employment lost during the pandemic. However, nonfarm employment is still down 524,000 jobs from February 2020 levels. The professional and business services sector added 74,000 jobs during June and employment in the sector is up 880,000 jobs from pre-pandemic levels. Despite the labor market gains, the economy is facing headwinds from rising inflation, with the Consumer Price Index increasing 8.6% over the past year. The Federal Reserve raised the federal funds rate by 0.75 percentage points in June and is expected to raise rates again at its July meeting in attempt to tamp down on inflation. Unemployment in the Indianapolis MSA continued to tick down and currently stands at 2.1%, a 180 basis points (bps) decline year-over-year (YOY). Employment in Indianapolis increased 3.6% YOY and is expected to increase further over the next 12 months.

DEMAND: Positive Occupancy Gains and Leasing Velocity Led by Suburban Submarkets

The Indianapolis office market posted nearly 97,000 square feet (sf) of positive overall net absorption during the second quarter. Occupancy gains were largest in the North/Carmel submarket, which saw almost 92,000 sf of positive net absorption, and the Northeast submarket, which posted almost 32,000 sf of net absorption. Class A space comprised most of the occupancy gains, recording 81,000 sf of net absorption during the quarter. New leasing activity year-to-date (YTD) totaled over 897,000 sf during the first half of the year and surpassed the new leasing activity in the first two quarters of 2021 by 152,000 sf, highlighting an increased demand for new space so far in 2022. Leasing activity has continued to be heavily concentrated in suburban submarkets throughout 2022, with suburban submarkets seeing over 703,000 sf of new lease YTD. That equates to over 78.0% of all leasing activity YTD despite suburban submarkets accounting for only 65.0% of the market inventory. The direct vacancy rate, which does not include vacant sublease space, currently stands at 17.3% and has decreased 20 bps YOY. The overall vacancy rate has increased slightly YOY to 18.8%, the result of an increased amount of sublease vacancy added to the market over the last year. However, only 1.5% of the overall vacancy is from sublease space. Class A overall vacancy has decreased 50 bps quarter-over-quarter (QOQ) to 20.7% but is still tracking above the overall market vacancy rate. The North/Carmel and Northeast submarkets saw the largest QOQ vacancy declines, with decreases in overall vacancy of 120 bps and 100 bps, respectively.

SPACE DEMAND / DELIVERIES



DIRECT VACANCY & ASKING RENT



INDIANAPOLIS

Office Q2 2022



CUSHMAN & WAKEFIELD

PRICING: Asking Rents See QOQ Declines

Though both direct and overall asking rental rates saw QOQ declines, both have still seen YOY increases. Direct asking rents decreased 60 bps QOQ to \$21.72 per square foot (psf) gross and overall asking rents decreased 56 bps QOQ to \$21.48 psf gross. However, on a YOY basis, direct asking rents have risen 37 bps and overall asking rents have increased 19 bps. Class A overall asking rates declined 46 bps QOQ to \$23.85 psf gross but have stayed relatively flat YOY. The Keystone submarket once again saw the highest asking rental rates in the Indianapolis market, with asking rates averaging \$24.60 psf gross. Though this is a 77-bps decline QOQ, asking rates in that submarket are still up nearly 600 bps YOY.

SUPPLY: Construction Pipeline Remains Stable, New Projects on the Horizon

The Indianapolis office market saw no construction completions in the second quarter and has yet to deliver any new construction space during 2022. The construction pipeline currently stands at 112,000 sf, with additional projects slated to begin construction during the remainder of 2022 and a handful of additional proposed office buildings that could break ground in the upcoming years. Looking ahead, construction activity will likely remain focused on build-to-suits or in projects with significant preleasing activity.

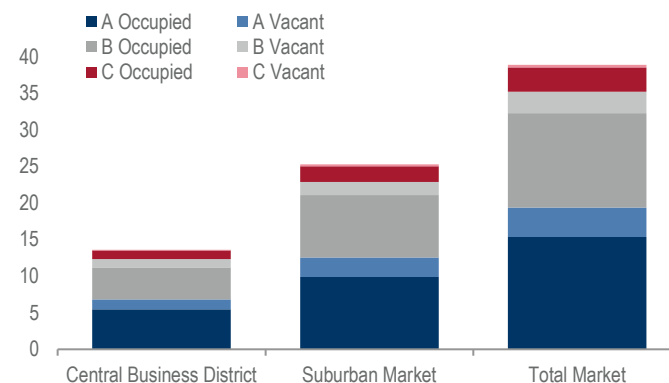
SALE ACTIVITY: Sales Activity Tops 1.4 MSF Through the First Half of 2022

Through the first two quarters of 2022, over 1.4 million square feet (msf) of office space has traded hands in the Indianapolis office market. Nearly all the sales activity has been in suburban properties, with 20 of the 21 sales located in suburban submarkets. The largest sale from the second quarter was The Pyramids, a three-building office park in the Northwest submarket comprising almost 340,000 sf, selling to KennMar. Another office park that sold in the second quarter was the Executive North Office Park, a four-building Class C park totaling nearly 90,000 sf, which sold to Executive North Nora LLC.

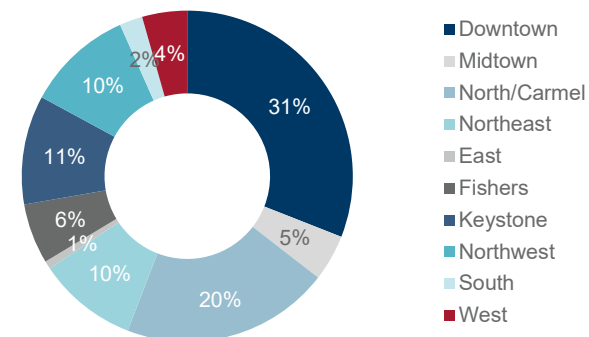
Outlook

- Though economic fundamentals such as the unemployment rate and job growth remain favorable, rising inflation remains a major challenge to economic growth. The Federal Reserve lowered their projection for U.S. economic growth from 2.8% to 1.7% at their June meeting.
- The space available for sublease continues to track well above pre-pandemic levels, offering tenants the opportunity to lease space that is listed at lower asking rental rates than direct space. However, as sublease terms expire, these spaces will become direct vacancies.
- The Indianapolis office market has seen robust new leasing activity through the first two months of 2022. However, tenants decreasing their overall footprints when renewing or moving buildings remains a major headwind and may lead to increased vacancies going forward.

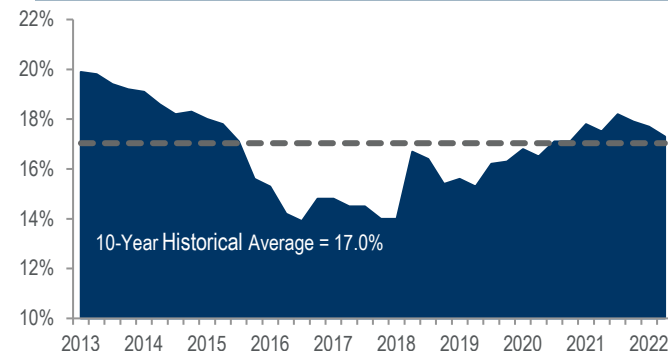
LEASING DEMAND BY CLASS OF SPACE (MSF)



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	11,796,082	216,276	2,046,553	19.2%	28,673	-122,609	175,181	0	\$23.58	\$25.12
Midtown	1,843,689	0	330,561	17.9%	-53,004	-50,480	18,776	53,615	\$15.63	N/A
East	510,750	8,158	49,255	11.2%	6,908	862	3,050	0	\$16.14	N/A
Fishers	2,238,911	67,473	362,458	19.2%	-5,528	-5,005	87,517	0	\$20.95	\$22.08
Keystone	4,111,602	61,523	716,463	18.9%	-7,574	56,285	104,177	0	\$24.60	\$25.85
North/Carmel	8,158,629	74,406	1,413,377	18.2%	91,510	93,010	187,071	58,266	\$22.97	\$24.85
Northeast	3,189,594	19,000	692,053	22.3%	31,614	61,374	162,328	0	\$18.50	\$20.45
Northwest	3,783,828	49,272	713,923	20.2%	-1,516	-12,614	97,237	0	\$18.37	\$19.76
South	1,429,911	0	164,428	11.5%	13,646	3,520	46,101	0	\$18.26	\$21.11
West	1,891,692	79,482	241,893	17.0%	-7,835	74,456	15,681	0	\$16.03	\$16.98
Class A	19,407,640	310,435	3,715,212	20.7%	80,971	-119,748	485,287	111,881	\$23.85	
Class B	15,870,297	257,651	2,674,297	18.5%	1,820	182,315	341,235	0	\$18.76	
Class C	3,676,751	7,504	341,455	9.5%	14,103	36,232	70,597	0	\$16.87	
TOTAL	38,954,688	575,590	6,730,964	18.8%	96,894	98,799	897,119	111,881	\$21.48	\$23.85

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
5920 Castleway West Drive, Indianapolis	Northeast	Johnson Controls	40,441	New Lease
800 E 96 th Street, Indianapolis	North/Carmel	Morgan Stanley	37,138	Renewal
10194 Crosspoint Boulevard, Fishers	Fishers	Backhaul Direct	27,598	Sublease

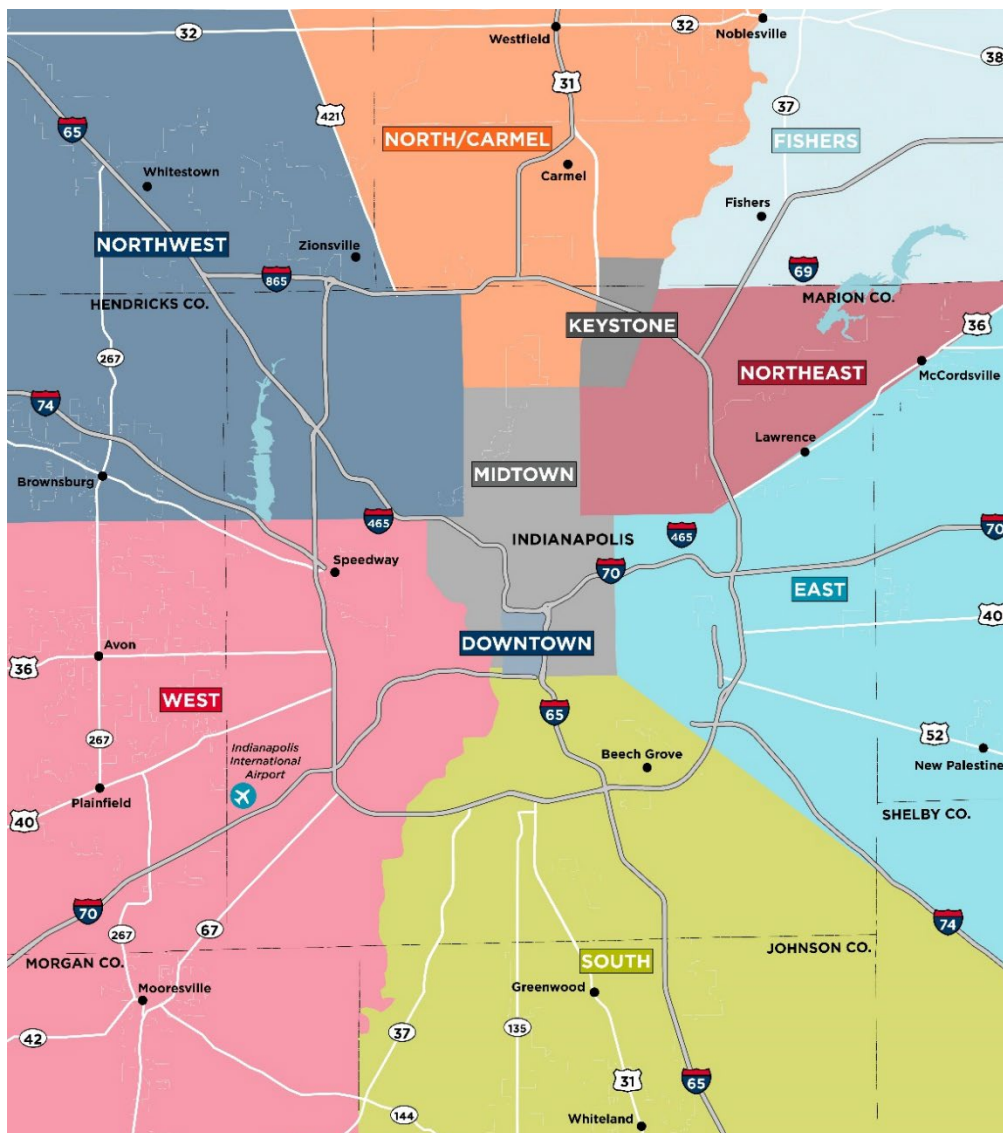
*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q2 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
3500 DePauw Boulevard, Indianapolis	Northwest	Sterling Equities KennMar	339,774	\$17,000,000/\$50.03
911-941 E 86 th Street, Indianapolis	North/Carmel	Holland Associates LP Executive North Nora LLC	89,801	\$8,250,000/\$91.87
972 Emerson Parkway, Greenwood	South	Miramar Tuscan Hills LLC GMR Greenwood Emerson LLC	23,600	\$6,125,000/\$259.53



OFFICE SUBMARKETS

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