

MARKETBEAT INDIANAPOLIS



CUSHMAN &
WAKEFIELD

Office Q4 2022

19.3%

Vacancy Rate

YoY
Chg



12-Mo.
Forecast



-58K

Net Absorption, SF



\$21.44

Asking Rent, PSF



Overall, All Property Classes

ECONOMIC INDICATORS Q4 2022

1.1M

Indianapolis MSA
Employment

YoY
Chg



12-Mo.
Forecast



2.7%

Indianapolis MSA
Unemployment Rate



3.7%

U.S.
Unemployment Rate



Source: BLS, Moody's Analytics

ECONOMIC OVERVIEW: Layoffs Dominate Headlines but Employment Grows

News of layoffs dominated economic headlines during the fourth quarter, particularly in the tech sector, with numerous large employers announcing job cuts. Despite these headlines, the United States economy continued to register job gains, with total nonfarm payroll employment rising by 223,000 in the month of December. In total, nonfarm payroll employment increased by 4.5 million during 2022, an average monthly gain of 375,000. Professional and business services employment decreased by 6,000 in December and recorded an average monthly gain of 50,000 in 2022, almost half of 2021's monthly average of 94,000. Financial activities employment saw modest growth of 5,000 in December. The Federal Reserve raised the target federal funds rate seven times in 2022, from a range of 0.25-0.50% in March to 4.25-4.50% in December. This marks the highest federal funds rate in 15 years as the Federal Reserve works to lower decades-high inflation. The Indianapolis MSA continued to see positive employment momentum, with nonfarm employment rising 2.4% year-over-year (YOY). Employment is also forecasted to grow over the next 12 months as unemployment in the Indianapolis MSA continues to track below the U.S. unemployment rate.

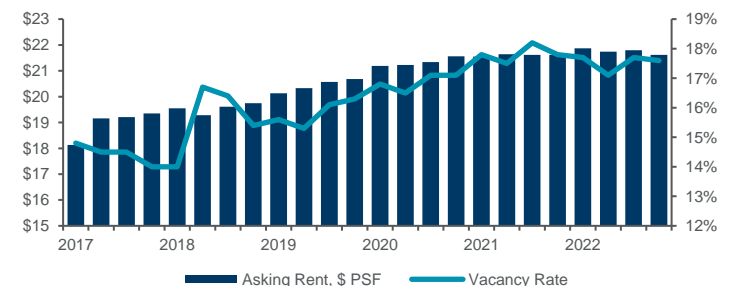
DEMAND: Increase in Vacant Sublease Space Leads to Occupancy Losses in 2022

The Indianapolis office market recorded negative 58,000 square feet (sf) of overall net absorption in the fourth quarter and negative 180,000 sf of overall net absorption in 2022 as a significant amount of vacant sublease space hit the market throughout the year. Vacant sublease space increased 12.1% quarter-over-quarter (QOQ) and 39.1% YOY as subleases became a larger share of overall vacant space in the market. Direct net absorption, which does not include occupancy changes from sublease space, was slightly positive in 2022, totaling 7,000 sf. The overall vacancy rate for the market remained stable QOQ at 19.3% and increased 20 basis points (bps) YOY. Year-over-year vacancy declines were largest in the West and Northeast submarkets, which saw decreases of 290 bps and 200 bps, respectively. New leasing activity topped 1.8 million square feet (msf) in 2022, with nearly 381,000 sf of new leases signed in the fourth quarter. North/Carmel fueled new leasing activity in the fourth quarter, accounting for 101,000 sf, or 26.5%, of all new leasing activity. There was a definite flight-to-quality by tenants in 2022, with demand for Class A space powering new leasing activity throughout the year. Nearly 1.1 msf of new leases signed in 2022 were in Class A buildings, equating to 58.4% of all new leasing activity for the year even though Class A space only accounts for 49.5% of the market inventory. As occupiers continue to re-evaluate their space needs, expect the flight-to-quality trend to persist.

SPACE DEMAND / DELIVERIES



DIRECT VACANCY & ASKING RENT



INDIANAPOLIS

Office Q4 2022



CUSHMAN & WAKEFIELD

PRICING: Overall Asking Rents Decrease QOQ but Still See Yearly Increases

Overall asking rents posted a quarterly decrease of \$0.13, declining to \$21.44 per square foot (psf) gross. However, overall asking rents still increased \$0.03 YOY. Class A overall asking rents remained relatively stable YOY, increasing \$0.01 to \$23.86 psf, while Class B overall asking rents declined \$0.13 to \$18.79 psf. Keystone asking rents increased 5.3% YOY to \$24.82 psf, commanding the highest rents in the market and a 15.8% premium over the market average.

SUPPLY: Indianapolis Finishes 2022 with One Office Building Delivery

The Indianapolis office market delivered its first and only office building during the fourth quarter, a 54,000-sf build-to-suit (BTS) that serves as the new headquarters for Eight Eleven Group, a staffing company. As a result of this construction completion, the Indianapolis construction pipeline decreased to 183,000 sf across three buildings, two speculative projects and a BTS. Over 70% of the space in these buildings is already preleased as premium space in desirable locations is highly demanded by tenants. Looking ahead to 2023 and beyond, there are some proposed projects with the potential to kick-off construction, but the construction pipeline in the Indianapolis market should remain fairly limited with buildings that are fully leased or have substantial preleasing activity.

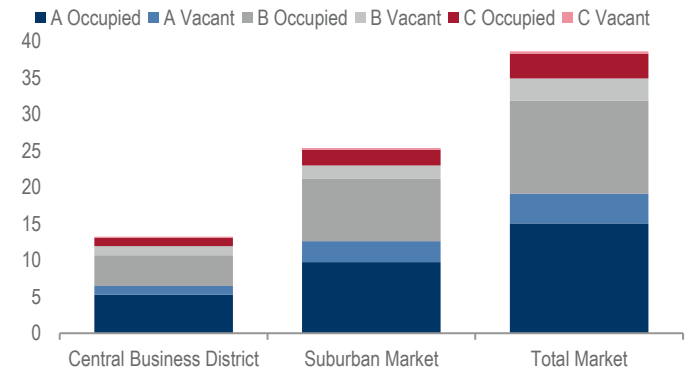
SALE ACTIVITY: Sales Velocity Slows in the Fourth Quarter

Office sales velocity slowed considerably in the fourth quarter, with only 179,000 sf of space trading hands. This was the lightest quarter of sales in 2022. Overall, nearly 2.3 msf of space traded hands in the Indianapolis market during the year. Investment sales were the bulk of activity, comprising 2.1 msf of all sales. The remaining 194,000 sf were user sales. The North/Carmel and Northeast submarkets led the market in sales activity in 2022, with 714,000 sf and 521,000 sf of sales, respectively. However, neither of those submarkets recorded any sales in the fourth quarter.

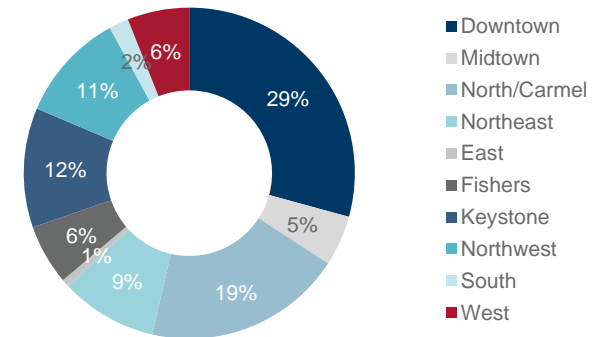
Outlook

- In 2023, the United States economy faces numerous headwinds, including a potential recession, rising interest rates, and high inflation. However, United States employment is still forecasted to increase over the next 12 months as the labor market has remained relatively tight.
- New leasing activity trailed slightly behind 2021's total and remains below pre-pandemic levels. As leases continue to expire and occupiers reevaluate their space needs, new leasing activity totals could be impacted further if tenants decide to downsize.
- Higher interest rates and economic uncertainty slowed office sales volume in 2022. If these trends continue in 2023, expect the level of office sales to remain muted.

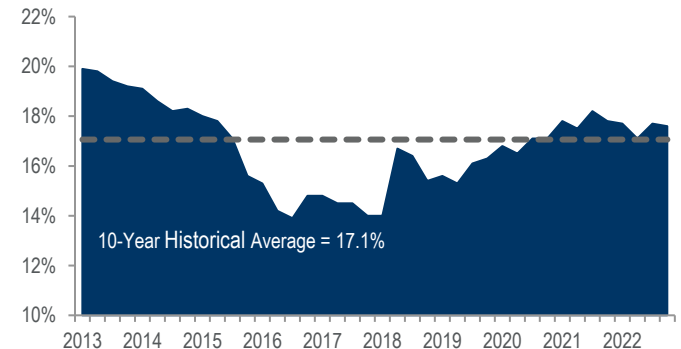
LEASING DEMAND BY CLASS OF SPACE (MSF)



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	11,328,711	231,898	1,952,981	19.3%	-20,176	-201,128	459,309	94,266	\$23.36	\$24.94
Midtown	1,897,304	0	367,761	19.4%	57,642	-37,763	36,348	0	\$15.60	N/A
East	510,750	5,144	51,144	11.0%	-6,939	-1,027	24,486	0	\$18.85	N/A
Fishers	2,294,748	67,473	371,908	19.1%	37,990	-14,455	141,549	0	\$21.58	\$22.66
Keystone	4,106,618	158,278	714,298	21.2%	-86,474	-38,305	205,838	0	\$24.82	\$26.21
North/Carmel	8,158,629	69,842	1,380,344	17.8%	-9,658	129,387	437,083	88,266	\$23.23	\$25.25
Northeast	3,189,594	2,500	705,028	22.2%	32,931	64,899	226,598	0	\$19.06	\$21.41
Northwest	3,783,828	30,694	765,463	21.0%	8,468	-45,576	180,417	0	\$18.56	\$19.89
South	1,429,911	0	143,508	10.0%	1,716	20,132	86,513	0	\$16.97	\$17.42
West	1,904,055	98,370	353,182	23.7%	-73,665	-55,721	34,937	0	\$15.93	\$16.42
Class A	19,114,023	403,973	3,651,929	21.2%	69,742	-252,587	1,071,269	182,532	\$23.86	
Class B	15,801,011	260,226	2,808,406	19.4%	-108,761	33,121	599,595	0	\$18.79	
Class C	3,689,114	0	345,282	9.4%	-19,146	39,909	162,214	0	\$16.91	
TOTAL	38,604,148	664,199	6,805,617	19.3%	-58,165	-179,557	1,833,078	182,532	\$21.44	\$23.86

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
9025 River Road, Indianapolis	Keystone	American Structurepoint	98,447	Expansion/Renewal*
900 E 96 th Street, Indianapolis	North/Carmel	Old National Bank	45,077	Expansion/Renewal*
8777 Purdue Road, Indianapolis	Northwest	Total Quality Logistics	30,929	Expansion/Renewal*
500 E 96 th Street, Indianapolis	North/Carmel	Kimley-Horn & Associates	29,737	New

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q4 2022

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
4150 N Keystone Avenue, Indianapolis	Midtown	Starwood Capital Group Government Investment Partners	97,451	Unknown
6855 Shore Terrace, Indianapolis	West	Valley Equity Group LLC Shore Terrace MOB LLC	44,000	\$3,525,000/\$80.11

[illegible]

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