

YoY Chg 12-Mo. Forecast

22.0%

Vacancy Rate



-246K

Net Absorption, SF



\$21.42

Asking Rent, PSF



Overall, All Property Classes

ECONOMIC INDICATORS Q3 2023

YoY Chg 12-Mo. Forecast

1.2M

Indianapolis MSA Employment



2.9%

Indianapolis MSA Unemployment Rate



3.7%

U.S. Unemployment Rate



Source: BLS, Moody's Analytics

ECONOMIC OVERVIEW: Indianapolis Unemployment Continues to Track Below U.S. Average

The U.S. economy added 336,000 jobs during the month of September, surpassing the average monthly job growth of 267,000 over the past 12 months. Professional and business services employment increased by 21,000 while government employment rose by 73,000, greater than the average government job gains of 47,000 from the prior 12 months. The Federal Reserve raised the target federal funds rate once in the third quarter, at its July meeting, to the 5.25-5.50% range. However, rates were held constant at its September meeting, though projections indicate one additional rate hike in the remainder of 2023. The Indianapolis unemployment rate increased slightly quarter-over-quarter (QOQ) but remained stable year-over-year (YOY) at 2.9%, still tracking well-below the U.S. unemployment rate of 3.7%. Though unemployment in the region is expected to increase over the next 12 months, Indianapolis employment growth equaled 2.5% YOY and employment should continue to grow over the upcoming year as well.

DEMAND: Indianapolis Office Market Registers Occupancy Losses

The Indianapolis office market registered negative 246,000 square feet (sf) of overall net absorption in the third quarter, marking the fifth consecutive quarter of occupancy losses as large blocks of space continued to be added across the market. Occupancy losses were sharpest in the Fishers and Northeast submarkets, which posted overall net absorption totals of negative 98,000 sf and negative 93,000 sf, respectively. However, four submarkets—Midtown, East, Keystone, and Northwest— all recorded occupancy gains during the quarter. Overall net absorption was highest in the Northwest submarket, equaling 70,000 sf, with numerous leases commencing in the third quarter and no major vacancies added in the submarket. Third quarter new leasing activity totaled 433,000 sf and year-to-date (YTD) new leasing activity topped 1.3 million square feet with one quarter remaining. The North/Carmel submarket posted the highest quarterly new leasing total for the second straight quarter, equaling nearly 140,000 sf. YTD new leasing activity in the North/Carmel submarket is more than double that of all other submarkets at almost 406,000 sf. While new leasing activity has rebounded from a slow first quarter, activity still trails 2022's first three quarters of new leasing activity by 111,000 sf. The overall vacancy rate for the Indianapolis market in the third quarter rose 50 basis points (bps) QOQ and 230 bps YOY to 22.0%. Overall vacancy rates increased the most steeply QOQ in the Fishers and Northeast submarkets, equaling 380 bps and 250 bps, respectively. Vacancy rates declined QOQ in the Midtown, East, Keystone and Northwest submarkets.

SPACE DEMAND / DELIVERIES



DIRECT VACANCY & ASKING RENT



INDIANAPOLIS

Office Q3 2023



PRICING: Class A Asking Rents Post QOQ and YOY Gains

The Indianapolis office market recorded an average overall asking rent of \$21.42 per square foot (psf) gross in the third quarter, an increase of \$0.03 QOQ but a decline of \$0.08 YOY. Asking rents were highest in the Keystone and Downtown submarkets, equaling \$25.18 psf and \$23.48 psf, respectively. Class A overall asking rents climbed to record levels during the quarter, posting both QOQ and YOY gains, to \$24.19 psf. Downtown Class A asking rents recorded the largest QOQ increase, climbing 1.1%, to \$25.38 psf. South Class A asking rents posted the largest YOY growth, rising 15.0%, to \$21.56 psf.

SUPPLY: Construction Pipeline Highly Preleased

Three buildings totaling 180,000 sf were under construction in the Indianapolis office market during the third quarter. Though all buildings are being built on a speculative basis, 80.8% of the space under construction was already preleased as the flight-to-quality by tenants to newly constructed buildings persists. One building is expected to finish construction in the final quarter of 2023, 1st on Main in the North/Carmel submarket, that is 81.7% preleased. The remaining projects under construction, Bottleworks Building 13 and 111 S Rangeline Rd, are projected to be completed in 2024. In the upcoming quarters, anticipate most construction starts to be build-to-suits or speculative projects with significant preleasing activity.

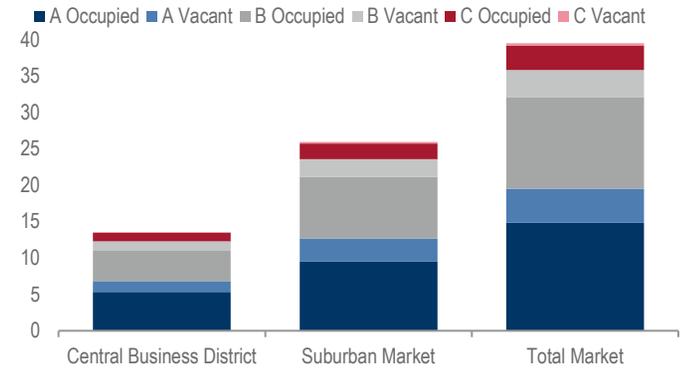
SALE ACTIVITY: User Sales Dominate in the Third Quarter

Office sales activity remained muted in the third quarter, with 290,000 sf of sales recorded across five buildings. User sales dominated activity during the quarter, accounting for four sales and 246,000 sf of the space that traded hands. The Keystone submarket led in activity, posting 176,000 sf of sales across three buildings. The largest sale of the quarter was First Merchants Bank's purchase of the 73,000-sf 8711 River Crossing Blvd for its new regional headquarters. The purchase price of \$18,500,000, or \$253.42 psf, was also the highest purchase price recorded during 2023. YTD sales activity totaled nearly 913,000 sf, less than half of 2022's sales activity through the first three quarters as higher interest rates have continued to cause a pullback in sales transactions.

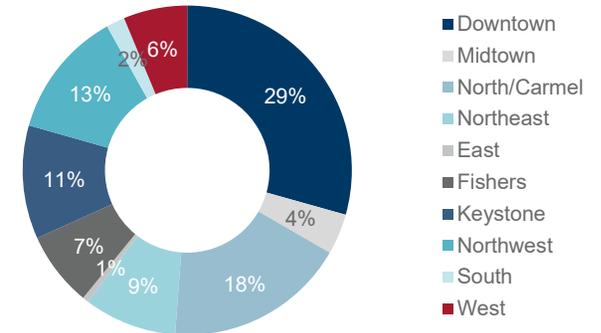
Outlook

- The Federal Reserve revised their real GDP growth projections at their September meeting upwards to 2.1%. This is more than double what their estimate was in June, as economic activity has remained stronger than anticipated. Real GDP growth in 2024 is expected to be slower, with the Federal Reserve's outlook currently standing at 1.5%.
- The amount of vacant sublease space declined 1.4% QOQ but remains substantially elevated compared to historical levels. However, nearly 308,000 sf of new sublease leasing activity has been recorded YTD and coupled with expiring subleases shifting to direct vacancy, the growth of vacant sublease space in the market should continue to slow.

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	11,704,610	223,026	2,338,304	21.9%	-89,785	-132,502	190,789	94,266	\$23.48	\$25.38
Midtown	1,897,304	0	348,019	18.3%	10,994	17,738	45,928	0	\$15.90	N/A
East	509,446	24,240	27,961	10.2%	2,697	-16,831	10,180	0	\$14.71	N/A
Fishers	2,644,748	68,947	572,610	24.3%	-98,314	-18,377	73,714	0	\$21.85	\$23.67
Keystone	4,106,618	117,052	855,233	23.7%	29,038	-99,301	189,304	0	\$25.18	\$26.03
North/Carmel	8,188,629	118,442	1,437,302	19.0%	-48,224	-83,465	405,749	85,952	\$23.27	\$25.45
Northeast	3,237,224	31,753	764,952	24.6%	-92,849	-101,017	94,531	0	\$18.91	\$21.16
Northwest	3,984,108	331,482	760,589	27.4%	70,001	-252,027	187,783	0	\$18.09	\$19.90
South	1,431,040	0	159,169	11.1%	-4,564	-15,661	39,297	0	\$18.14	\$21.56
West	1,875,495	31,404	515,604	29.2%	-25,476	-52,100	105,906	0	\$15.84	\$16.49
Class A	19,531,792	616,777	4,066,757	24.0%	-235,490	-428,175	771,760	180,218	\$24.19	
Class B	16,382,776	329,569	3,400,974	22.8%	-50,677	-356,952	492,575	0	\$18.48	
Class C	3,664,654	0	312,012	8.5%	39,685	24,434	78,846	0	\$17.22	
TOTAL	39,579,222	946,346	7,779,743	22.0%	-246,482	-753,543	1,343,181	180,218	\$21.42	\$24.19

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
5420 W Southern Ave, Indianapolis	West	Belcan Engineering Group	25,653	Renewal*
11611 N Meridian St, Carmel	North/Carmel	Clinical Architecture	23,935	Expansion
11611 N Meridian St, Carmel	North/Carmel	Clinical Architecture	23,507	Renewal*
8888 Keystone Crossing, Indianapolis	Keystone	Ren	21,817	New

*Renewals not included in leasing statistics

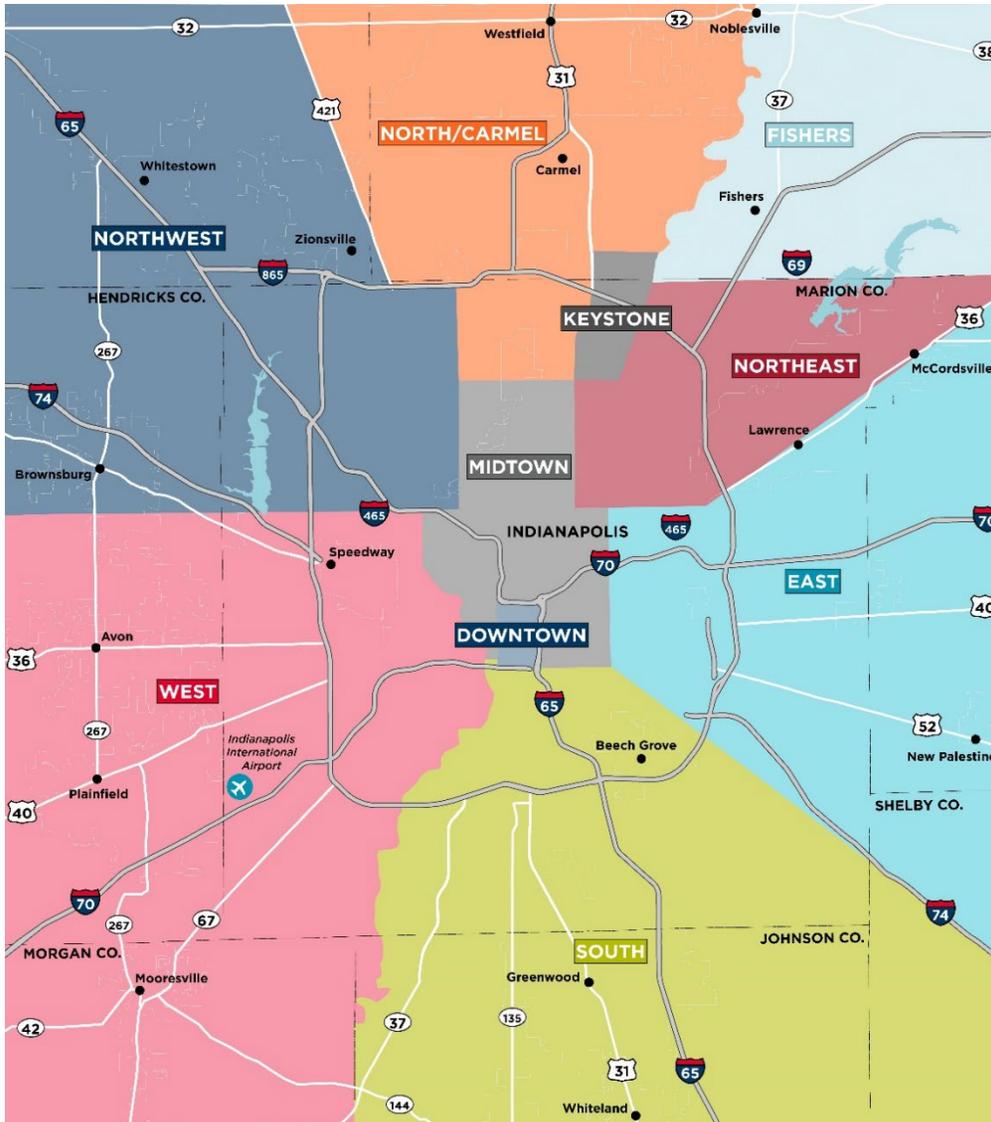
KEY SALES TRANSACTIONS Q3 2023

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
8711 River Crossing Blvd, Indianapolis	Keystone	Prologis First Merchants Bank	73,000	\$18,500,000/\$253.42
3610 River Crossing Blvd, Indianapolis	Keystone	PK Partners Lucas Oil Products	45,677	\$9,500,000/\$207.98

INDIANAPOLIS

Office Q3 2023

OFFICE SUBMARKETS



MAGGIE TILLOTSON

Senior Research Analyst

Tel: +1 317 352 6368

maggie.tillotson@cushwake.com

CUSHMAN & WAKEFIELD

One American Square, Suite 1800

Indianapolis, IN 46282 | USA

Tel: +1 317 634 6363

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