

MARKETBEAT

Indianapolis

Office Q1 2017



INDIANAPOLIS OFFICE

Economic Indicators

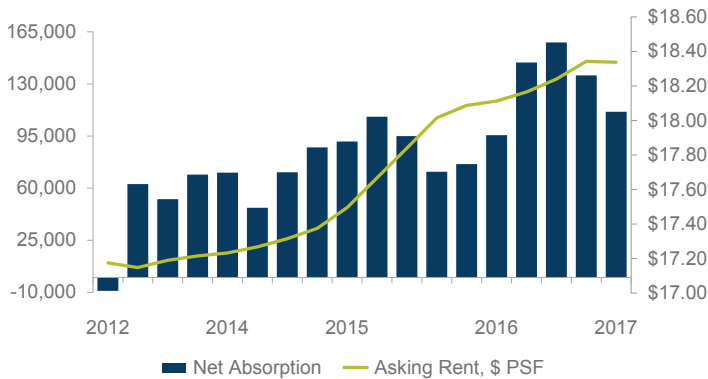
	Q1 16	Q1 17	12-Month Forecast
Indianapolis MSA Employment	1037.03K	1059.5K	▲
Indianapolis MSA Unemployment	4.3%	3.7%	▼
U.S. Unemployment	4.9%	4.8%	▼

Market Indicators (Overall, All Classes)*

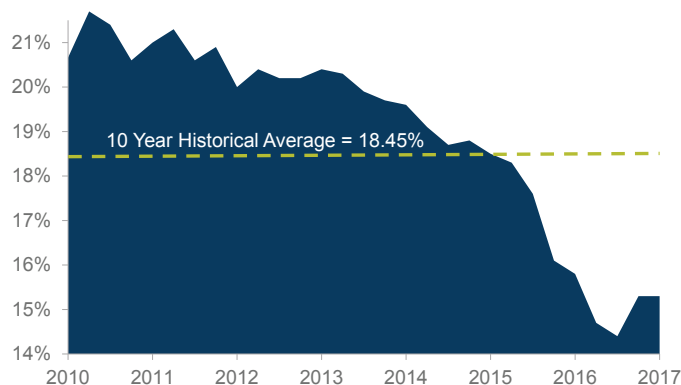
	Q1 16	Q1 17	12-Month Forecast
Vacancy	15.3%	14.8%	▼
Net Absorption (SF)	107,945	21,151	▼
Under Construction (SF)	211,000	481,000	▲
Average Asking Rent**	\$17.56	\$18.13	▲

**Rental rates reflect net asking \$psf/year *Stats are not reflective of U.S. Overview tables

Overall Net Absorption/Overall Asking Rent 4-QTR TRAILING AVERAGE



Overall Vacancy



Economy

The Indianapolis economy remains one of the Midwest's top performers with total nonfarm employment rising by 1.7% since Q1 2016 and the unemployment rate, at 4.2%, tracking 30 basis points (bps) below the national average. Across Central Indiana and around the state, the tech sector continues to garner attention and attract capital. In 2016, Indiana experienced a banner year for state tech-related venture capital deals with 33 firms receiving funding, the most since 2000. Further investments locally are likely given how strongly Indianapolis-based start-ups continue to perform. Indianapolis is positioned well to attract firms and talent. With Salesforce's occupancy of Salesforce Tower in Q2 2017, and the growth of co-working spaces within the market, Indianapolis is creating an environment that will be increasingly attractive to tech-related occupiers of all sizes.

Market Overview

The Greater Indianapolis office market posted 21,152 sf of positive net absorption to start off the year in 2017. This marks the 12th consecutive quarter in which the Indianapolis office market posted positive absorption. The Central Business District (CBD) accounted for 15,227 sf of net absorption in Q1 2017, to begin the year with a modest start. Look for more movement in the coming quarters with regards to the CBD as owners are investing aggressively in renovations in many of the office spaces Downtown. The greatest YTD suburban occupancy gains occurred in the Northwest (+29,912 sf) as IU Health signed a new lease to occupy 25,719 sf at the recently renovated INTECH 10. This is just one of the many examples where owner investment has paid dividends. Fishers began the year with a meek start experiencing 11,704 sf in net absorption.

For the second quarter in a row, there were no new construction projects delivered. Expect to see the bulk of under construction building delivered in the later part of the year. As a result of no new deliveries and modest absorption numbers, the overall market vacancy levels saw no movement in the quarter to stay at 14.8%.

Investment activity came out of the Q4 2016 small dip in activity and continued the momentum we saw in 2016, as nearly 1 million square feet (msf) of office space traded hands during Q1 2017 in Indianapolis. The beginning of the year saw a few notable properties trade hands. Group

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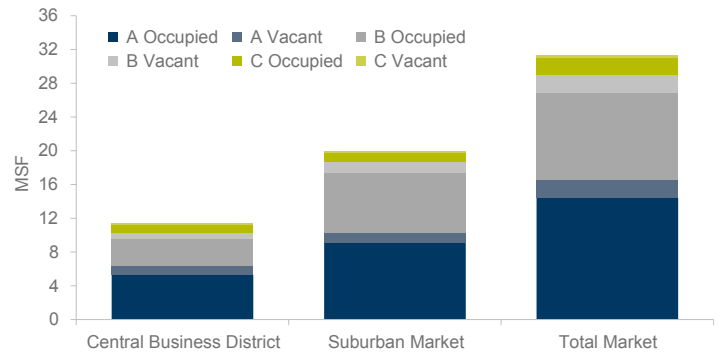
RMC Corporation, based out of New York, purchased the Hamilton Crossing portfolio (five buildings, 548,333 sf) from Duke Realty Corporation. Group RMC is now the largest owner of suburban office space in Indianapolis and this acquisition marks their fourth suburban office investment in Indianapolis. Their portfolio totals over 1.8 msf. Duke inches closer to shedding all of its traditional office portfolio and to date has sold greater than \$6.5 billion in office assets. Yet to sell in Indianapolis for Duke is the Woodland portfolio located in Northwest submarket.

Circle Tower (113,750 sf) was recently purchased by Level Office, based out of Chicago, marking the change of ownership of another prominent Downtown office tower. The strategy is to invest in capital improvements for the historic building as they plan on updating the amenities of the tower to attract professional service firms, which make up the bulk of their tenants in other markets, in addition to giving local small business and entrepreneur's access to amenities they might lack in competing office spaces. This acquisition continues to support the reemergence of Downtown as a prime destination for tenants to move from the suburbs. Expect a rise in asking rates at Circle Tower just as we saw after capital improvements were made to Market Tower.

The office construction pipeline is full of build-to-suit oriented projects, many of which contain speculative suites that will hit the market over the course of 2017. Of the nearly 500,000+ sf of office space currently under construction, over half is build-to-suit, with just over 218,000 sf of speculative space scheduled to become available as we progress into 2017.

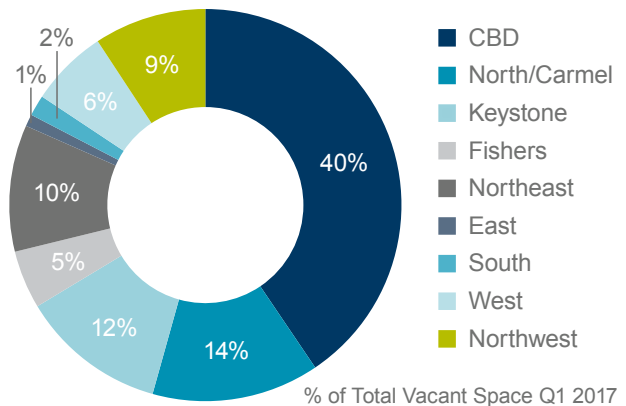
Market Comparison

LEASING DEMAND BY CLASS OF SPACE



Vacant Space by Submarket

VACANCY AS A PERCENT OF INVENTORY

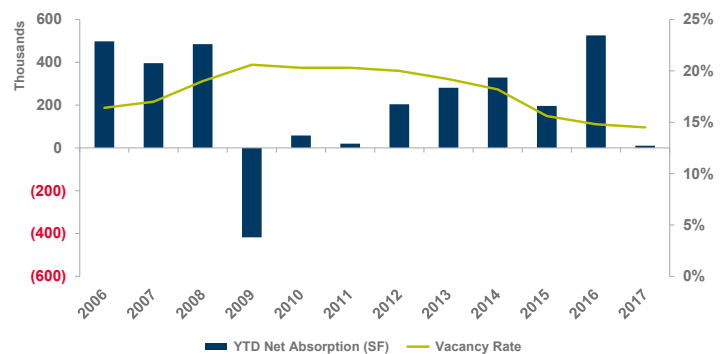


Outlook

- Investment activity came out of the Q4 2016 small dip in activity and continued the momentum we saw in 2016, as nearly 1 msf of office space traded hands during Q1 2017 in Indianapolis.
- Newly renovated commercial office space in Downtown continues to support the reemergence of the CBD as prime destination for tenants to move from the suburbs as well as pay dividends for owners due to increased asking rates.
- Of the nearly 500,000+ sf of office space currently under construction, over half is of the build-to-suit variety, with just over 218,000 sf of speculative space scheduled to become available as we progress into 2017.

Net Absorption and Vacancy Trends

OVERALL MARKET: CHANGE IN NET ABSORPTION AND VACANCY



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SUBMARKET	TOTAL BUILDINGS	INVENTORY	SUBLET VACANT	TOTAL VACANT	VACANCY RATE	CURRENT NET ABSORPTION	YTD NET ABSORPTION	U/C	AVG. ASKING RENT (ALL CLASSES)	AVG. ASKING RENT (CLASS A)
Downtown	67	10,555,512	48,454	1,812,443	17.2%	12,889	12,889	43,000	\$20.59	\$22.08
Midtown	12	837,573	0	51,716	6.2%	2,338	2,338	0	\$17.74	\$21.00
North/Carmel	88	6,420,756	40,531	639,225	10.0%	(12,207)	(12,207)	217,000	\$19.52	\$21.31
Keystone	51	4,000,020	15,617	546,706	13.7%	7,156	7,156	80,000	\$20.18	\$21.64
Fishers	23	1,007,637	0	259,323	25.7%	11,704	11,704	141,000	\$17.84	\$22.50
Northeast	72	3,089,123	12,611	474,514	15.4%	584	584	0	\$17.48	\$19.11
East	6	238,130	0	45,093	18.9%	(34,288)	(34,288)	0	\$13.50	\$14.15
South	23	819,802	2,500	78,122	9.5%	3,873	3,873	0	\$16.04	\$20.75
West	26	1,111,764	0	291,686	26.2%	(809)	(809)		\$14.10	\$16.97
Northwest	42	3,228,289	0	420,278	13.0%	29,912	29,912	0	\$16.56	\$18.98
INDIANAPOLIS MARKET TOTALS										
Class A	111	16,626,402	92,096	2,195,423	13.2%	37,090	37,090	481,000	\$21.14	
Class B	243	12,332,480	26,617	2,065,600	16.7%	4,559	4,559	0	\$16.84	
Class C	56	2,349,724	1,000	358,083	15.2%	(20,497)	(20,497)	0	\$15.23	
INDIANAPOLIS TOTALS	410	31,308,606	119,713	4,619,106	14.8%	21,152	21,152	481,000	\$18.13	

Office asking rents converted to Full Service
Stats are not reflective of U.S. Overview tables

Select Lease Transactions Q1 2017

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
12115 Visionary Way	113,750	Citimark Management Co.	Sale	Fishers
799 Knue Road	60,000	Royal United Mortgage	Renewal	Northeast
10 West Market Street	36,437	USA Funds	Lease	Downtown
6640 Intech Boulevard	25,719	IU Health	Lease	Northwest
RCR Technology Group	19,139	251 North Illinois Street	Renewal	Downtown
Industrious	18,237	350 Massachusetts Avenue	Lease	Downtown
Cushman & Wakefield	17,623	1 American Square	Lease	Downtown
Benesch, Friedlander, Coplan & Arnoff	18,585	1 American Square	Renewal	Downtown
General Services Administration	13,741	151 North Delaware	Renewal	Downtown

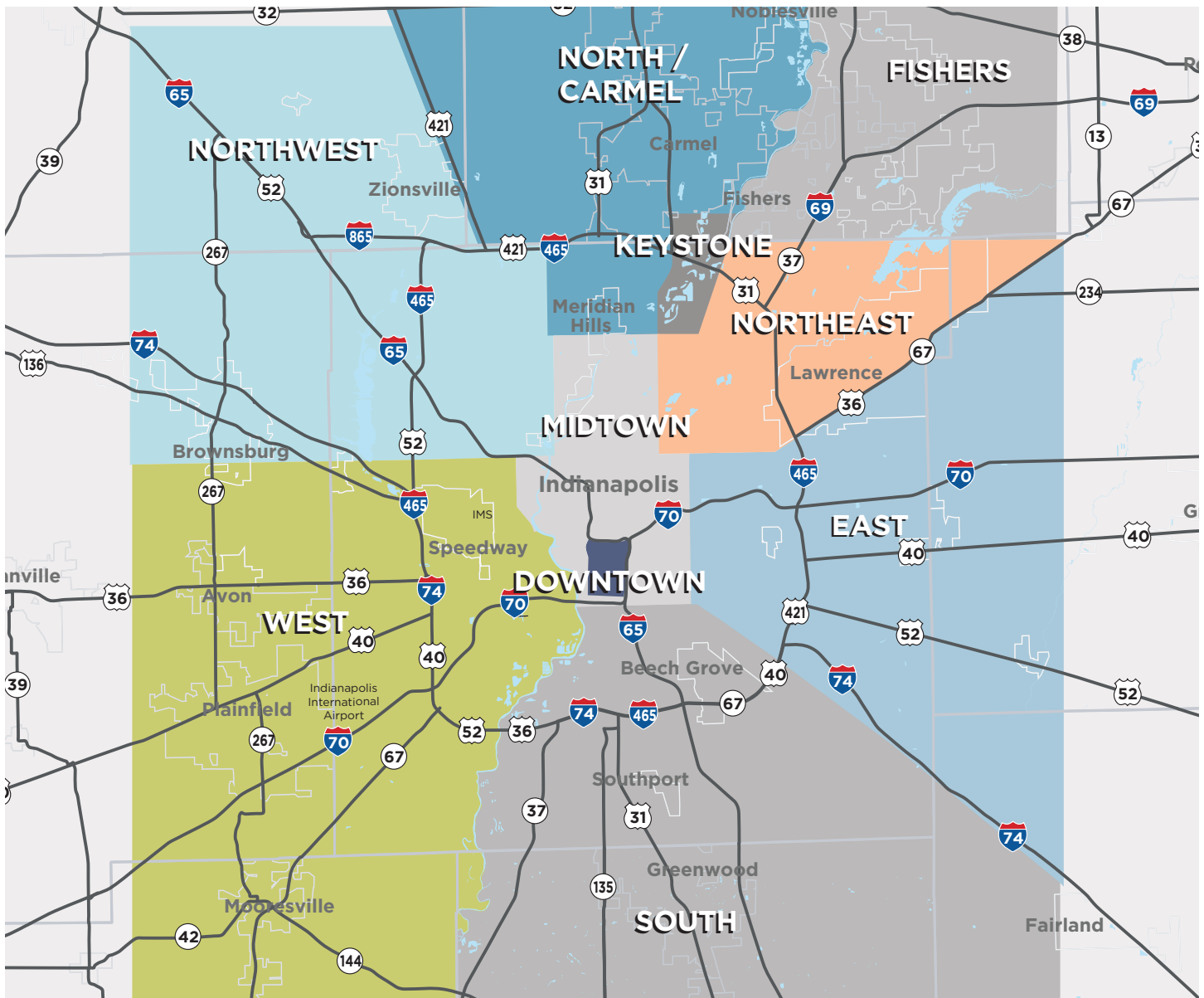
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OFFICE SUBMARKETS INDIANAPOLIS



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