

MARKETBEAT

Indianapolis

Office Q2 2018



INDIANAPOLIS OFFICE

Economic Indicators

| | Q2 17 | Q2 18 | 12-Month Forecast |
|-------------------------------|-------|-------|-------------------|
| Indianapolis MSA Employment | 1.1M | 1.1M | ▲ |
| Indianapolis MSA Unemployment | 3.3% | 3.0% | ■ |
| U.S. Unemployment | 4.3% | 3.8% | ▼ |

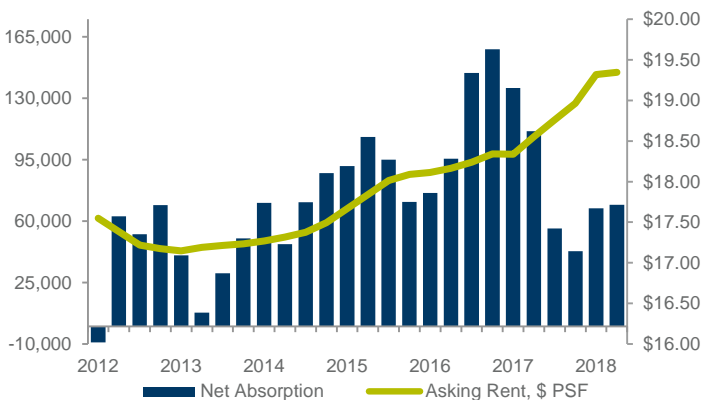
Market Indicators (Direct, All Classes)

| | Q2 17 | Q2 18 | 12-Month Forecast |
|-------------------------|---------|---------|-------------------|
| Total Market Vacancy | 14.5% | 16.7% | ▼ |
| Net Absorption (sf) | 35K | 80K | ■ |
| Under Construction (sf) | 463K | 568K | ▲ |
| Average Asking Rent* | \$19.16 | \$19.28 | ▲ |

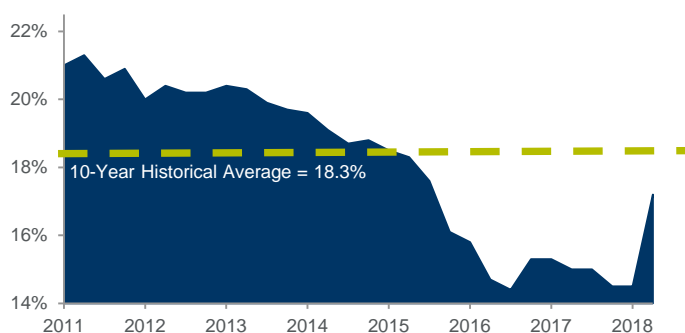
*Rental rates reflect gross asking \$psf/year

Direct Net Absorption/Direct Asking Rent

4-QTR TRAILING AVERAGE



Direct Vacancy



Economy

Indianapolis continued its positive outlook as the first half of 2018 came to a close. The second quarter of 2018 saw the unemployment rate for the Indianapolis Metropolitan Statistical Area (MSA) drop to 3.0%, 90 basis-points (bps) lower than the national rate of 3.9% and 30 bps lower than the second quarter of 2017. In fact, in the month of April the Indianapolis MSA reported a 2.8% unemployment rate, the lowest number in the last 10 years. Although historically low unemployment levels suggest a strong economy, tightened labor markets have forced occupiers and owners to adjust real estate strategies in order to attract talent. Additionally, wage growth is expected to increase as employers look to fill open positions. Nationally at the beginning of April there was on average one person unemployed for each available job. This highly unusual occurrence should contribute to rising wages. With that being said, Indianapolis continues to grow adding approximately 16,000 jobs year-over-year (YOY).

Market Overview

The Greater Indianapolis office market continues to attract occupiers, posting its 17th consecutive quarter of positive net absorption totaling just over 80,000 square feet (sf). Indianapolis direct vacancy rose to 16.7% as we hit the mid-way point of the year, largely due to a change in internal reporting structure. Despite the reported rise in vacancy, fundamentals remain strong as positive absorption generally reflects lower vacancy. Although absorption was greater during the second quarter of 2018 compared to the first quarter of 2018, leasing activity was relatively cool. Renewals were the name of the game as occupier's concerns over rising construction costs affect tenant improvements, diminishing occupier's interest to move. The largest transaction of the quarter was Defenders, Inc. 112,014 sf renewal in their three spaces on Priority Way South Drive in the Precedent Office Park. The Keystone submarket had the most significant absorption movement totaling negative 105,289 sf as both State Farm and Yellow Pages vacated their spaces.

Submarkets like North/Carmel, Fishers and Keystone continue to compete with Downtown in terms of gross asking rents. As these suburban markets compete for occupiers, the demand for new and remodeled space has impacted asking rents. While Class A space Downtown remains the highest of any submarket with an average asking rent of \$22.87 per square foot (psf) on a full

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service basis. The North/Carmel submarket is reported at \$22.83 psf, nearly a 7% YOY increase. The Keystone Submarket is not far behind, reporting a Class A asking rate of \$22.31 psf.

Projects under construction continued to move towards completion dates anticipated in second half of the year, however no major projects were completed in the second quarter of 2018. Of notable activity, KAR Auctions Services kicked off the construction of its 250,000 sf Carmel headquarters, bringing the total number of projects under construction to 567,000 sf. As for proposed projects, the much anticipated Bottleworks development is expected to get underway during the second half of the year.

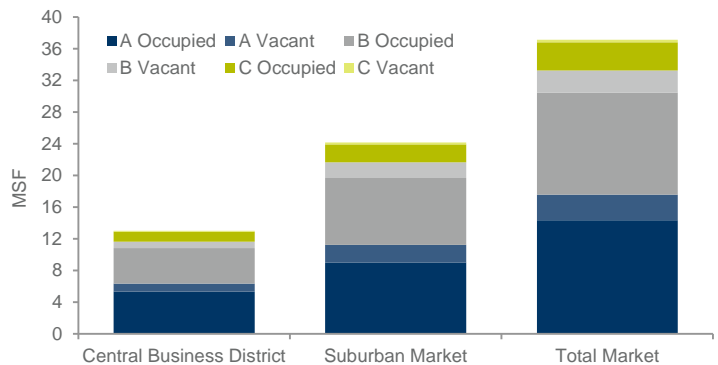
FOR THE 17TH CONSECUTIVE QUARTER, THE GREATER INDIANAPOLIS OFFICE MARKET POSTED POSITIVE ABSORPTION TOTALING OVER 80,090 SQUARE FEET.

Although capital sentiment remains positive, investment activity slowed during the second quarter of 2018. While investors remain interested in the Indianapolis market, especially Downtown Class A/B assets, few transactions were actually closed. The most notable sale in the second quarter of 2018 was The Campus at Westfield, purchased for \$16,175,000 by Real Capital Solutions. Expect capital to continue to be placed in Indianapolis as we head toward the end of 2018.

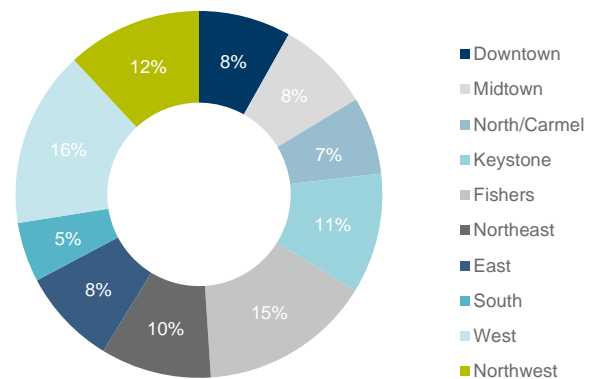
Outlook

- As unemployment rates remain low, expect wages to creep up as employers seek to acquire and retain top talent.
- Rising construction costs will continue to affect tenant improvement costs and influence occupier's decisions to renew or seek new space as lease terms expire.
- Owners will continue to focus on lifestyle-oriented amenities to attract tenants.
- Investment activity is expected to remain strong particularly in the CBD as people continue to migrate Downtown.

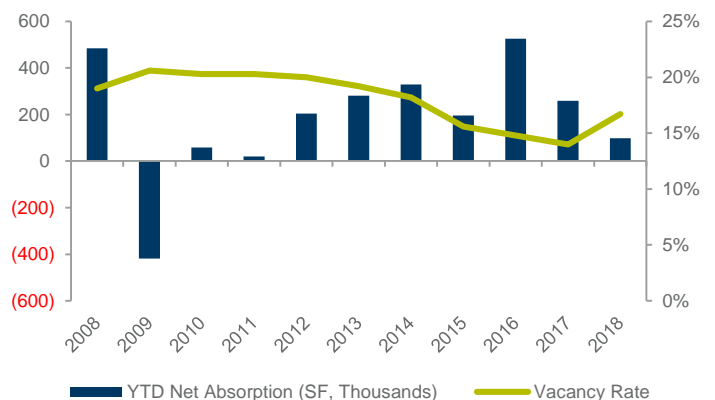
Market Comparison
 LEASING DEMAND BY CLASS OF SPACE



Vacant Space by Submarket
 VACANCY AS A PERCENT OF INVENTORY



Net Absorption and Vacancy Trends
 OVERALL MARKET: CHANGE IN NET ABSORPTION AND VACANCY



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| SUBMARKET | TOTAL BLDGS | INVENTORY (SF) | SUBLET VACANT (SF) | DIRECT VACANT (SF) | DIRECT VACANCY RATE | CURRENT QTR DIRECT NET ABSORPTION (SF) | YTD DIRECT NET ABSORPTION (SF) | UNDER DIRECT CNSTR (SF) | AVERAGE ASKING RENT (ALL CLASSES)* | DIRECT AVERAGE ASKING RENT (CLASS A)* |
|-----------------------------------|-------------|-------------------|--------------------|--------------------|---------------------|--|--------------------------------|-------------------------|------------------------------------|---------------------------------------|
| Downtown | 84 | 11,370,001 | 41,361 | 1,654,741 | 14.6% | 57,438 | 15,189 | 20,000 | \$21.07 | \$22.87 |
| Midtown | 34 | 1,627,664 | 0 | 239,205 | 14.7% | 0 | 10,834 | 0 | \$16.68 | \$22.50 |
| North/Carmel | 99 | 7,210,822 | 22,889 | 881,346 | 12.2% | 72,985 | 69,414 | 507,600 | \$19.99 | \$22.83 |
| Keystone | 55 | 4,130,371 | 83,122 | 784,421 | 19.0% | (105,289) | (76,542) | 0 | \$21.58 | \$22.31 |
| Fishers | 40 | 1,863,360 | 19,523 | 505,651 | 27.1% | 26,055 | 38,301 | 40,000 | \$19.54 | \$20.49 |
| Northeast | 77 | 3,272,022 | 6,441 | 571,320 | 17.5% | 19,491 | 21,718 | 0 | \$17.68 | \$18.92 |
| East | 16 | 537,806 | 0 | 81,793 | 15.2% | 0 | 18,386 | 0 | \$14.29 | \$0.00 |
| South | 50 | 1,437,258 | 0 | 135,394 | 9.4% | 0 | 9,978 | 0 | \$16.08 | \$18.10 |
| West | 45 | 1,863,129 | 2,027 | 519,526 | 27.9% | 9,950 | 15,042 | 0 | \$14.47 | \$17.00 |
| Northwest | 58 | 3,841,781 | 2,940 | 818,738 | 21.3% | (540) | (23,700) | 0 | \$18.28 | \$20.63 |
| INDIANAPOLIS MARKET TOTALS | | | | | | | | | | |
| Class A | 131 | 17,559,921 | 142,058 | 3,089,798 | 12.1% | (14,626) | 34,405 | 567,600 | \$21.74 | |
| Class B | 310 | 15,719,649 | 43,245 | 2,758,833 | 17.6% | 96,866 | 79,584 | 0 | \$17.11 | |
| Class C | 117 | 3,874,644 | 0 | 343,504 | 8.9% | (2,150) | (15,642) | 0 | \$14.75 | |
| TOTAL | 558 | 37,154,214 | 185,303 | 6,192,135 | 16.7% | 80,090 | 98,347 | 567,600 | \$19.28 | |

*Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q2 2018

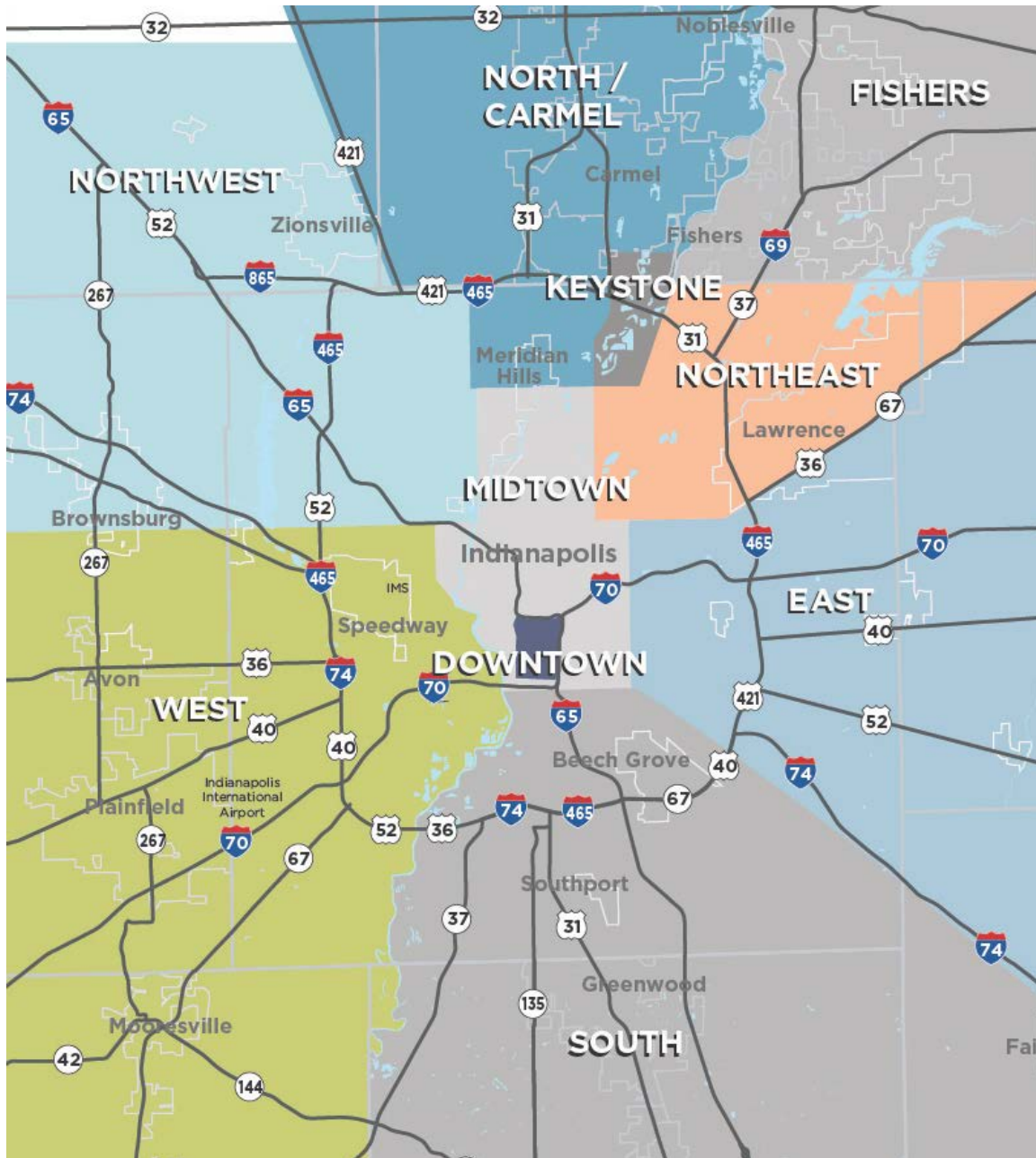
| PROPERTY | SF | TENANT | TRANSACTION TYPE | SUBMARKET |
|-------------------------------------|---------|-------------------------------|---------------------|-----------|
| 3750, 3685, 3939 Priority Way S Dr. | 112,041 | Defenders, Inc. | Renewal | Keystone |
| 151 N Delaware | 67,177 | Marion County Public Defender | Renewal & Expansion | Downtown |
| 9025 River Rd. | 66,990 | American Structurepoint Inc. | New Lease | Keystone |
| 30 S Meridian St. | 56,494 | Carrier Corporation | New Lease | Downtown |

Key Sales Transactions Q2 2018

| PROPERTY | SF | SELLER/BUYER | PRICE / \$PSF | SUBMARKET |
|---------------------------|-----------|---|---------------------|--------------|
| Former GM Stamping Plant | 103 Acres | Ambrose Property Group/Racer Trust | Undisclosed | Downtown |
| Campus at Westfield | 302,821 | Real Capital Solutions/ORIX | \$16,175,000/\$53 | North/Carmel |
| Community Westview Campus | 287,607 | Saturday Evening Post Society/Indianapolis Osteopathic Hospital | \$7,000,000/\$24.34 | Midtown |

OFFICE SUBMARKETS

INDIANAPOLIS



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About Cushman & Wakefield

Cushman & Wakefield is a leading global real estate services firm that delivers exceptional value by putting ideas into action for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with 48,000 employees in approximately 400 offices and 70 countries. In 2017, the firm had revenue of \$6.9 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or. The infofollow @CushWake on Twitter.

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Methodology

Cushman & Wakefield's quarterly estimates are derived from a variety of data sources, including its own proprietary database and historical data from third party data sources. The market statistics are calculated from a base building inventory made up of office properties deemed to be competitive in the Central Indiana marketplace. Older buildings unfit for occupancy or ones that require substantial renovation before tenancy are not included in the competitive inventory. The inventory is subject to revisions due to resampling. Vacant space is defined as space that is available immediately or imminently after the end of the quarter. Sublet space still occupied by the tenant is not counted as available space. The figures provided for the current quarter are preliminary and all information contained in the report is subject to revisions based on additional data received.

New Statistical Series

To ensure the highest level of data integrity, Cushman & Wakefield periodically undertakes a comprehensive, quantitative and qualitative, review of all office inventory in the Central Indiana marketplace. During Q2 2018, Cushman & Wakefield Research conducted an extensive review of the office market and transitioned to a new data series.

Explanation of Building Characteristics

Class A: Most prestigious buildings competing for premier office users with above average rents. High quality standards, well-located. Typically steel and concrete construction, built or renovated after 1980, quality tenants, excellent amenities & premium rents.

Class B: Buildings competing for wide range of office users with average rents. These buildings do not compete with Class A space. Typically built or renovated after 1960, with fair to good finishes & for a wide range of tenants.

Class C: Buildings competing for tenants requiring functional space at below market rents.

Existing Office Inventory: In general, includes existing competitive buildings but does not include 85% or greater owner-occupied, government, retail, industrial, medical or educational buildings. Inventory base square footage includes all competitive buildings that are classified as office. In the case of medical, note that medical tenants in an office building do not preclude the

building's inclusion in statistics. The rule is that a medical building is built for the purpose of housing solely medical occupants and is often in an area dominated by medical uses such as hospitals or clinics. On average, the national minimum standard for inclusion in statistics is 20,000 square feet and while this may vary slightly by market, each market is required to incorporate a minimum threshold.

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