

MARKETBEAT

Indianapolis

Office Q2 2019



INDIANAPOLIS OFFICE

Economic Indicators

	Q2 18	Q2 19	12-Month Forecast
Indianapolis MSA Employment	1.07M	1.08M	▲
Indianapolis MSA Unemployment	3.3%	3.3%	▼
U.S. Unemployment	3.9%	3.6%	▼

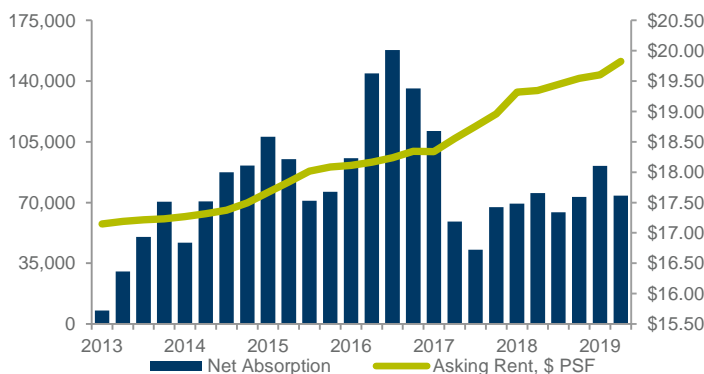
Market Indicators (Direct, All Classes)

	Q2 18	Q2 19	12-Month Forecast
Total Market Vacancy	16.7%	15.5%	▼
Direct Absorption (sf)	212k	11k	▲
Under Construction (sf)	548k	759k	▲
Average Asking Rent*	\$19.28	\$20.16	▲

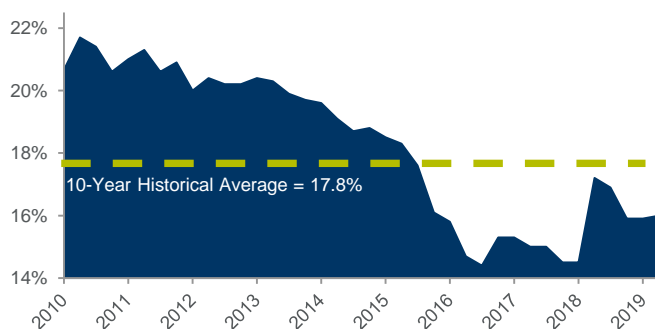
*Rental rates reflect gross asking \$psf/year

Direct Net Absorption/Direct Asking Rent

4-QTR TRAILING AVERAGE



Direct Vacancy



Economy

The strong Indianapolis labor market continued its positive momentum through the second quarter of 2019. The Indianapolis Metropolitan Statistical Area (MSA) unemployment rate stayed stable at 3.3%, the same rate as the second quarter of 2018. The unemployment rate also remained unchanged from the first quarter of 2019. The unemployment rate in Indianapolis is still lower than the national unemployment rate of 3.6%, highlighting the strength of labor conditions in the Indianapolis area. Total non-farm employment for the Indianapolis MSA is up 0.8% from the second quarter of 2018, an increase of almost 9,000 jobs. With unemployment at record lows, labor shortages are increasingly becoming a challenge, which means utilizing commercial real estate to help recruit talent will become more important as the labor market continues to tighten.

Market Overview

The Greater Indianapolis office market posted over 11,000 square feet (sf) of positive net absorption, which marks the 21st consecutive quarter of positive net absorption. While still positive, this absorption total was smaller than that of recent quarters. This mainly stems from Pearson vacating two floors at Parkwood Crossing, totaling over 84,000 sf, and no comparably large lease commencing during the quarter. The Keystone submarket led the market with over 37,000 sf of positive net absorption, the result of the Inktel lease commencing at 9200 Keystone Crossing, in addition to a handful of smaller leases. The Downtown submarket also had significant positive absorption during the quarter, totaling over 34,000 sf. Indianapolis total market direct vacancy remained well below the 10-year historical average of 17.8%, at 15.5% for the second quarter of 2019. Leasing activity picked up during the second quarter of 2019, totaling 506,000 sf. Over 350,000 sf of this total was from new leases. Downtown saw the most new leasing activity, with nearly 124,000 sf of the new leases occurring in this submarket. Through the first two quarters of 2019, leasing activity for the Indianapolis market totaled over 928,000 sf. The largest transaction signed during the second quarter was a new lease by the College of Biblical Studies at The Pyramids, totaling over 21,000 sf. In addition to the 21,000 sf Inktel lease in Keystone, Riley Bennett Egloff also subleased 20,000 sf of space in the Downtown submarket.

Gross asking rents continued to climb in the second quarter of 2019. The Indianapolis total market gross asking rental rate rose to \$20.16, an \$0.88 increase from the second quarter of 2018 and a \$0.39 increase from the first quarter of 2019. Class A space saw a \$0.32 increase in the average gross asking rate from the first quarter of 2019 and a \$0.75 increase from the second quarter of 2018.

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While the second quarter of 2019 was generally quiet for investment activity, the Keystone at the Crossing office complex closed in late June. The campus consists of nearly 1.1 million-square feet of Class A office space across five buildings in the popular Keystone submarket. Heritage Park III, an 86,000-sf Class B building in the Northeast submarket, also traded in the second quarter.

WHILE NO NEW CONSTRUCTION HAS BEEN COMPLETED YET IN 2019, FOUR BUILDINGS ARE EXPECTED TO BE DELIVERED BY THE END OF THE YEAR

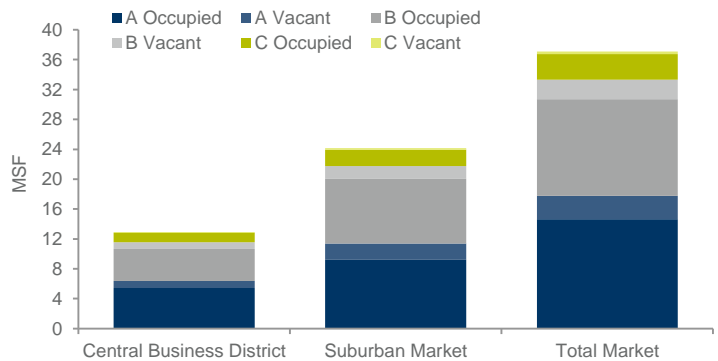
One new office construction project began during the second quarter of 2019, a headquarters building for Flexware in Fishers. This project is a build-to-suit for Flexware and also contains additional space to be leased to other tenants. There are currently eight projects under construction in the Indianapolis market totaling over 759,000 sf of space, all set to deliver in 2019 and 2020. While most of the projects under construction at the midway point of the year are build-to-suits, there are two speculative buildings under construction with additional speculative buildings proposed and set to get underway once preleasing activity begins.

Through the second quarter of 2019, the Indianapolis office market continued to exhibit positive momentum. Despite low vacancy and rising rents, leasing activity was strong through the first two quarters of 2019. With a majority of leasing activity consisting of new leases, this space will be absorbed throughout the remainder of 2019.

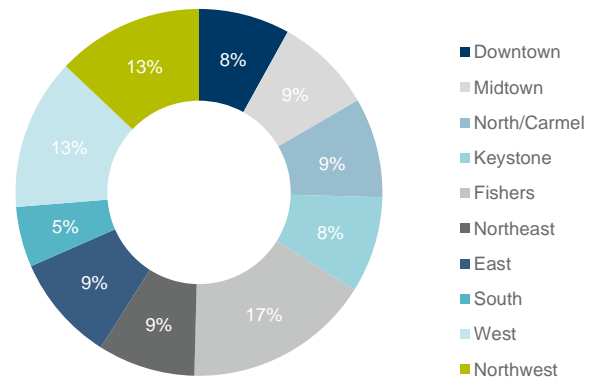
Outlook

- Gross asking rents have increased by \$0.88 year-over-year and are expected to keep pushing upward as tenants increasingly demand building amenities and updates in order to attract talent in a tight labor market
- Though there are numerous large blocks of space currently on the market or set to be vacated soon, the demand for these spaces should be competitive, with several tenants currently in the market with large space requirements
- There are four construction projects totaling over 436,000 sf forecasted to be completed in 2019, consisting of one speculative project and three build-to-suits

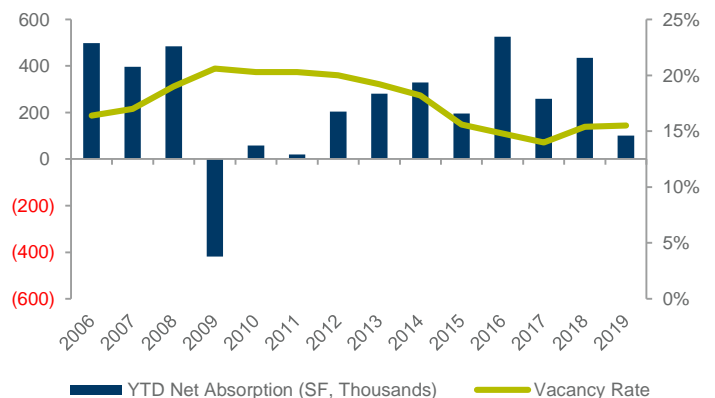
Market Comparison
LEASING DEMAND BY CLASS OF SPACE



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	11,285,406	194,623	1,494,846	13.2%	34,227	67,223	151,470	\$22.06	\$24.15
Midtown	35	1,638,716	0	232,176	14.2%	15,786	12,323	0	\$17.05	\$22.50
North/Carmel	104	7,430,084	65,804	1,075,155	14.5%	-57,001	-74,399	450,000	\$21.79	\$24.36
Keystone	55	4,083,371	59,806	570,619	14.0%	37,037	43,560	78,000	\$22.35	\$23.27
Fishers	40	1,883,877	0	512,324	27.2%	5,769	44,651	80,000	\$19.58	\$19.74
Northeast	75	3,191,436	7,342	451,613	14.2%	-339	15,204	0	\$17.91	\$19.27
East	15	510,538	0	79,235	15.5%	-17,172	-13,930	0	\$14.70	\$0.00
South	49	1,401,063	0	122,883	8.8%	-8,598	-462	0	\$18.74	\$23.10
West	45	1,863,129	0	409,753	22.0%	13,889	14,966	0	\$14.43	\$16.75
Northwest	57	3,786,781	2,537	806,176	21.3%	-12,395	-8,122	0	\$18.74	\$20.66
INDIANAPOLIS MARKET TOTALS										
Class A	136	17,756,459	137,456	2,998,903	16.9%	-11,668	-3,688	759,470	\$22.49	
Class B	309	15,551,026	182,727	2,421,214	15.6%	24,306	122,627	0	\$17.82	
Class C	114	3,766,916	9,929	334,663	8.9%	-1,435	-17,925	0	\$16.14	
TOTAL	559	37,074,401	330,112	5,754,780	15.5%	11,203	101,014	759,470	\$20.16	

*Rental rates reflect gross asking \$psf/year

Key Lease Transactions Q2 2019

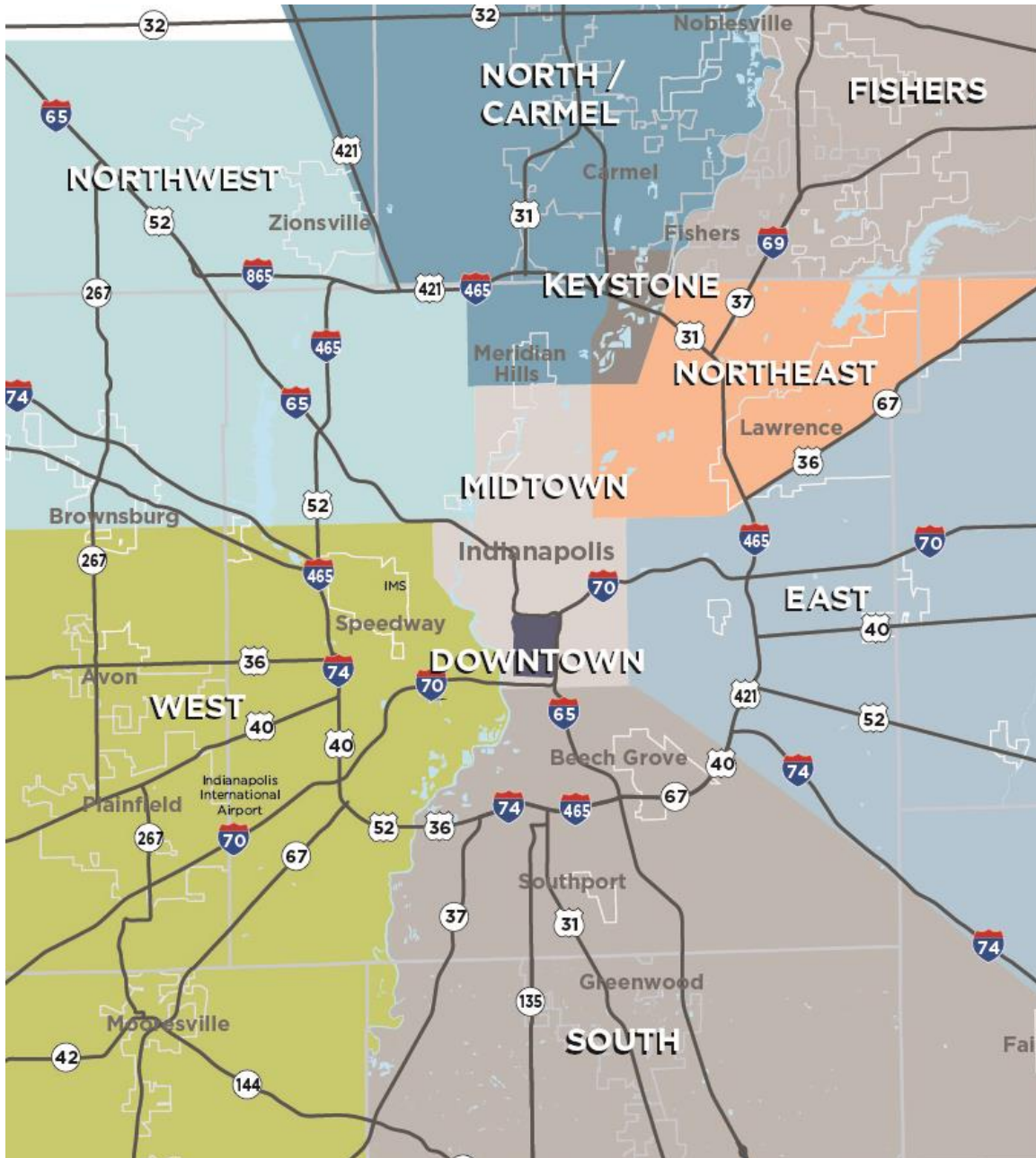
PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
3500 DePauw Blvd	21,509	College of Biblical Studies	New	Northwest
9200 Keystone Crossing	21,000	Inktel	New	Keystone
500 N Meridian St	20,000	Riley Bennett Egloff	New	Downtown
719 Indiana Ave	19,616	The Trustees of Indiana University	Renewal	Downtown

Key Sales Transactions Q2 2019

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
Keystone at the Crossing Office Park	1,047,936	Equus Capital Partners/DRA Advisors and M&J Wilkow Properties	Undisclosed	Keystone
Heritage Park III	86,000	Alidade Heritage III/CP Heritage III	Undisclosed	Northeast
9240 N Meridian St	52,000	9240 North Meridian LLC/Carrie Kaminski	\$3,950,000/\$75.96	North/Carmel

OFFICE SUBMARKETS

INDIANAPOLIS



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.

About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with approximately 51,000 employees in 400 offices and 70 countries. In 2018, the firm had revenue of \$8.2 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 follow [@CushWake](https://twitter.com/CushWake) on Twitter.