

# MARKETBEAT

## Indianapolis

### Office Q3 2019



#### INDIANAPOLIS OFFICE

##### Economic Indicators

	Q3 18	Q3 19	12-Month Forecast
Indianapolis MSA Employment	1.07M	1.08M	▲
Indianapolis MSA Unemployment	3.3%	3.2%	▲
U.S. Unemployment	3.8%	3.7%	▲

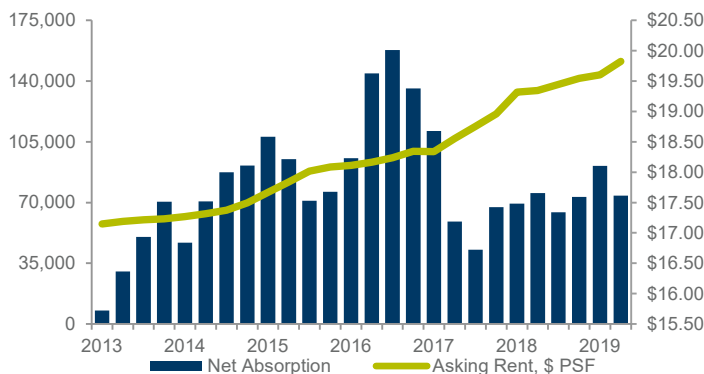
##### Market Indicators (Direct, All Classes)

	Q3 18	Q3 19	12-Month Forecast
Total Market Vacancy	16.4%	16.3%	▼
Net Absorption (sf)	62k	-176k	▲
Under Construction (sf)	602k	409k	▲
Average Asking Rent*	\$19.61	\$20.41	▲

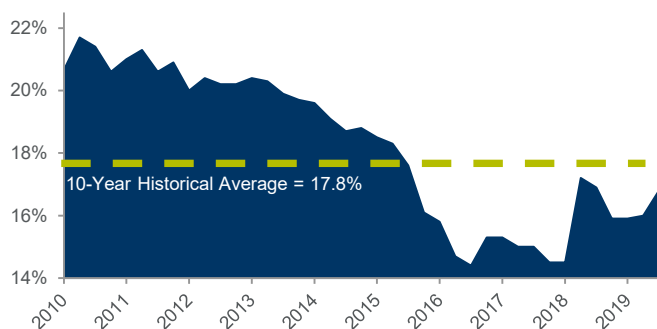
\*Rental rates reflect gross asking \$psf/year

##### Direct Net Absorption/Direct Asking Rent

###### 4-QTR TRAILING AVERAGE



##### Direct Vacancy



## Economy

The Indianapolis Metropolitan Statistical Area (MSA) labor market remained tight through the third quarter of 2019, with the unemployment rate declining 10 basis points (bps) year-over-year to 3.2%. The unemployment rate was unchanged from the second quarter of 2019 and was also well below the national unemployment rate of 3.7%. Additionally, total non-farm employment in the Indianapolis MSA increased nearly 0.6% from the third quarter of 2018, an increase of 6,000 jobs. The United States also saw a total non-farm employment increase of 1.4% from the third quarter of 2018, highlighting the tight labor market that exists nationally.

## Market Overview

The Greater Indianapolis office market posted negative 176,000 square feet (sf) of direct net absorption during the third quarter of 2019. This mainly stemmed from a number of large move outs and downsizes throughout the market, including State Farm and Fifth Third Bank. However, overall net absorption, which looks at absorption of both direct and sublease space, was slightly positive for the quarter, at 4,000 sf. Many of the large blocks of space that were marketed for sublease in recent quarters had leases commence during the third quarter, including eHealth at Lakefront 15 in the Keystone Crossing submarket and TradeRev at the Century Building in the Downtown submarket. Other large direct leases that commenced this quarter included the KAR Auction Services build-to-suit in the North/Carmel submarket, the Lids Inc. lease in the Northwest submarket, and the BraunAbility lease in the North/Carmel submarket. The North/Carmel and Northwest submarkets were also the only two submarkets to see positive net absorption for the quarter, at 57,000 sf and 46,000 sf respectively. Year-to-date (YTD) direct net absorption for the Indianapolis market is still positive at 72,000 sf and overall net absorption stands at 34,000 sf. While the direct market vacancy rate ticked up to 16.3% during the third quarter of 2019, it is still 10 bps lower than the third quarter of 2018 and well below the 10-year historical average of 17.8%.

On a positive note, the third quarter was the strongest quarter in 2019 for leasing activity, with 934,000 sf of leases signed. This includes 622,000 sf of new leasing activity and 311,000 sf of renewals. Nearly half of the top 25 largest leases of 2019 were signed in the third quarter. Through the first three quarters of 2019, there has been nearly 2.3 million square feet (msf) of leases signed. The largest lease transactions included a 83,000-sf renewal by Bose McKinney Evans at the Salesforce Tower in the Downtown submarket, a 45,000-sf renewal by Travelers Insurance in the North/Carmel submarket, and a 44,000-sf sublease by TradeRev in the Downtown submarket.

Continuing the trend from recent quarters, gross asking rents in the Indianapolis market have kept pushing upward, with the Indianapolis total market gross asking rental rate hitting \$20.41 per-square-foot (psf) in the third quarter of 2019. That is a \$0.25 psf increase from the second quarter of 2019 and an \$0.80 psf increase from the third quarter of 2018. Suburban rents saw an increase of \$0.53 psf from the second quarter of 2019 and are up \$1.06 psf from the third quarter of 2018, a rise of nearly 6%. Class A rates rose \$0.31 psf quarter-over-quarter to \$22.80 and have increased \$0.69 psf year-over-year.

**AS EMPLOYERS INCREASINGLY USE REAL ESTATE AS A DIFFERENTIATOR TO ATTRACT AND RETAIN TALENT, EXPECT ASKING RENTS TO CONTINUE TO RISE**

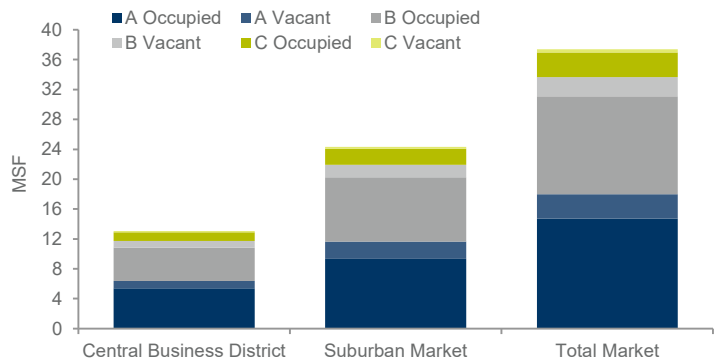
After numerous large properties traded hands over the last couple of years, the third quarter saw little in the way of investment transactions. The largest sale of the quarter was of 89,000 sf of space at 7240 and 7330 Shadeland Station to Physician's Realty Trust.

Two new office construction projects were completed during the third quarter of 2019, a build-to-suit for KAR Auction Services and an owner-occupied build-to-suit for Merchants Bank, both in the North/Carmel submarket. No construction projects commenced during the quarter, though there are numerous proposed projects set to begin in the upcoming quarters or once there is significant preleasing activity. With the completion of a couple of projects pushed into 2020, there are no additional projects slated to finish construction in the fourth quarter of 2019. However, with 409,000 sf of space currently under construction, there will be new supply coming online in 2020 and beyond.

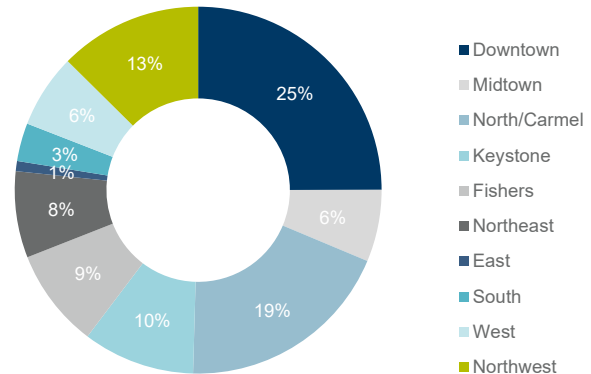
**Outlook**

- The Downtown, North/Carmel, and Keystone submarkets have attracted 75% of the leasing activity in 2019 YTD; expect other large blocks of space in these submarkets to be filled by tenants desiring a live-work-play environment
- As new construction space begins to hit the market in the coming quarters, anticipate asking rents for Class A space to continue to push higher as these spaces command a premium over older spaces with less rich amenity bases

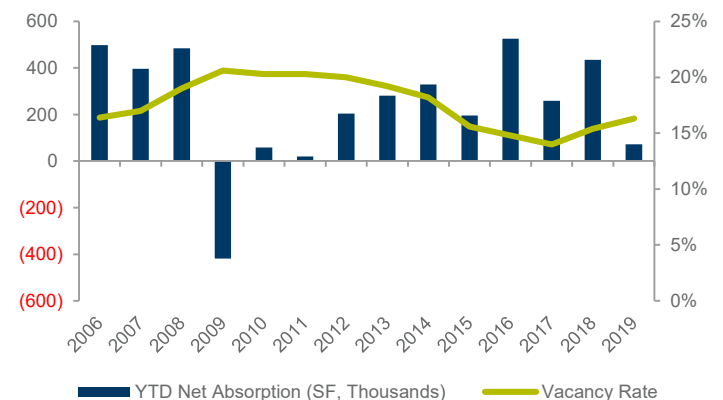
**Market Comparison**  
 LEASING DEMAND BY CLASS OF SPACE



**Vacant Space by Submarket**  
 VACANCY AS A PERCENT OF INVENTORY



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



**MARKETBEAT**  
**Indianapolis**  
Office Q3 2019



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	83	11,236,188	123,411	1,519,018	13.5%	-72,229	23,027	151,470	\$21.94	\$23.54
Midtown	35	1,831,916	3,667	385,747	21.1%	-57,550	-58,900	0	\$16.82	\$22.50
North/Carmel	105	7,675,055	66,276	1,163,654	15.2%	57,052	91,048	100,000	\$22.56	\$24.67
Keystone	54	4,030,371	0	600,322	14.9%	-20,160	28,157	78,000	\$23.46	\$24.33
Fishers	40	1,883,877	0	530,992	28.2%	-23,769	22,509	80,000	\$20.20	\$20.65
Northeast	74	3,175,514	13,950	472,430	14.9%	-22,079	6,252	0	\$17.80	\$19.25
East	15	510,538	0	54,293	10.6%	-1,500	-15,430	0	\$14.38	\$0.00
South	49	1,401,063	0	204,310	14.6%	-68,205	-62,332	0	\$18.42	\$22.89
West	45	1,863,129	0	395,763	21.2%	-13,351	9,130	0	\$14.52	\$16.75
Northwest	57	3,786,781	2,537	765,831	20.2%	46,241	28,607	0	\$18.52	\$20.56
<b>INDIANAPOLIS MARKET TOTALS</b>										
Class A	137	18,001,430	97,976	3,193,675	17.7%	22,428	79,841	409,470	\$22.80	
Class B	307	15,662,104	101,936	2,467,060	15.8%	-161,503	25,989	0	\$17.89	
Class C	113	3,730,898	9,929	431,625	11.6%	-36,475	-33,762	0	\$15.54	
<b>TOTAL</b>	<b>557</b>	<b>37,394,432</b>	<b>209,841</b>	<b>6,092,360</b>	<b>16.3%</b>	<b>-175,550</b>	<b>72,068</b>	<b>409,470</b>	<b>\$20.41</b>	

\*Rental rates reflect gross asking \$psf/year

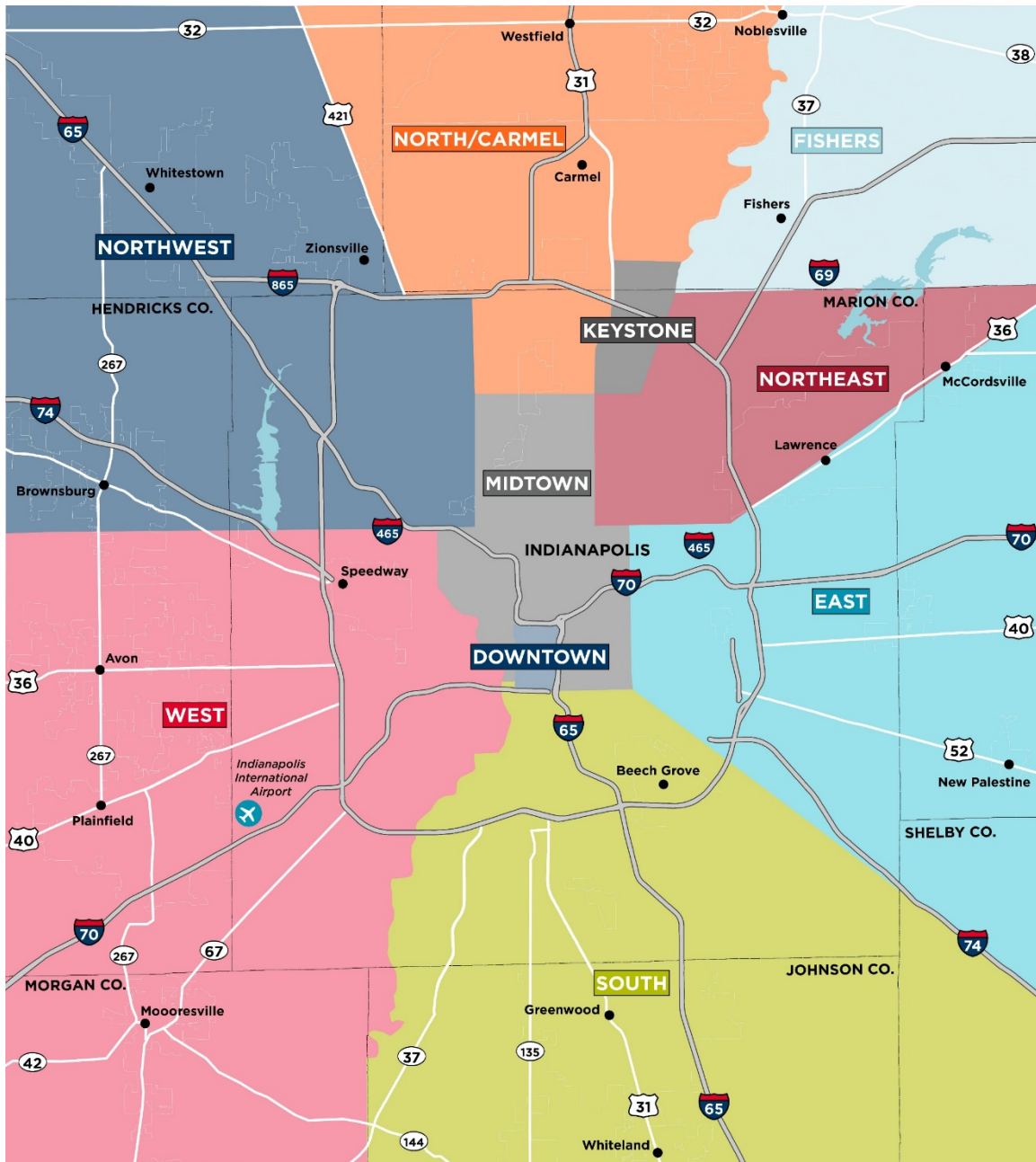
**Key Lease Transactions Q3 2019**

PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
111 Monument Circle	83,490	Bose McKinney Evans	Renewal	Downtown
280 E 96 <sup>th</sup> St	44,658	Travelers Insurance	Renewal	North/Carmel
36 S Pennsylvania St	44,128	TradeRev	New Lease	Downtown
301 Pennsylvania Pkwy	36,217	Orbis Education Services	New Lease	North/Carmel

**Key Sales Transactions Q3 2019**

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
7240/7330 Shadeland Station	88,562	AEW Capital/Physicians Realty Trust	Unknown	Northeast
8945 N Meridian St	25,434	Waterpark Place Associates/GBV LLC	\$1,850,000/\$72.74	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](http://www.cushmanwakefield.com) or follow [@CushWake](https://twitter.com/CushWake) on Twitter.