

YoY  
Chg

**18.8%**  
Vacancy Rate



**28K**  
Net Absorption, SF



**\$21.40**  
Asking Rent, PSF



Overall, All Property Classes

## ECONOMIC INDICATORS Q2 2021

Outlook

**1,058.9K**  
Indianapolis MSA  
Employment



**3.8%**  
Indianapolis MSA  
Unemployment Rate



**5.9%**  
U.S.  
Unemployment Rate



Source: BLS, Moody's Analytics

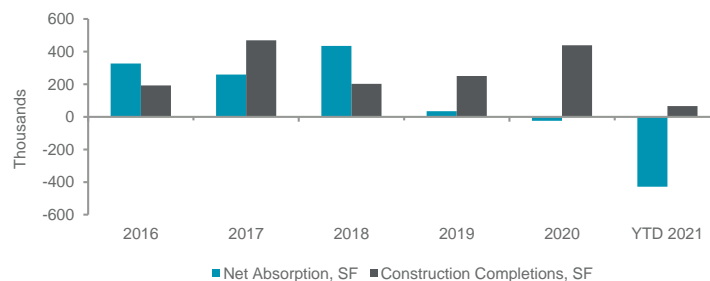
## ECONOMIC OVERVIEW: Economic Conditions Improve as Vaccination Access Increases

Economic conditions have continued to strengthen as the United States emerges from COVID-19 pandemic. The June jobs report showed that nonfarm payrolls increased by 850,000, which was significantly larger than the job gains seen in the previous two months. Leisure and hospitality employment led in job gains, with 343,000 new hires in June as COVID-19 restrictions continued to relax across the country. However, employment in leisure and hospitality is still down 12.9% from pre-pandemic levels, demonstrating that the labor market has not completely recovered yet. Other sectors that saw large job gains include public and private education, professional and business services, and retail trade, highlighting a broad-based economic recovery. The unemployment rate changed little in June and stands at 5.9%. While the unemployment rate has declined considerably since its recent high in April 2020, it still sits higher than its pre-pandemic reading of 3.5%. At 61.6%, the labor force participation rate has remained relatively stagnant since June 2020. The labor force participation rate is still down 1.7% from pre-pandemic levels. Vaccination eligibility has expanded greatly over the past several months, with everyone 12 years of age and older authorized to receive the vaccination. More than 158 million people are fully vaccinated in the United States, representing 47.8% of the total population. In addition, 55.3% of the population have received at least one dose.

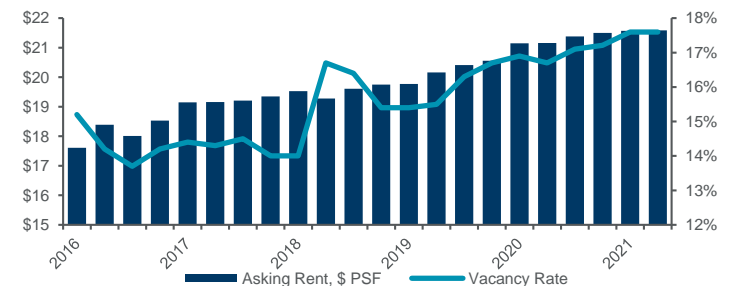
## DEMAND: Net Occupancy and Leasing Activity Rebound From Weak First Quarter

The Indianapolis market rebounded from its steep occupancy losses at the start of 2021, with 28,000 square feet (sf) of overall net absorption occurring in the second quarter. Occupancy gains were still muted as sublease space continued to hit the market. Direct net absorption, which does not include sublease space, was significantly more robust at 172,000 sf in the second quarter. The positive occupancy gains can largely be attributed to Round Room moving into 105,000 sf of space in the Fishers submarket and Aptiv's 81,000-sf lease commencing in the North/Carmel submarket. Leasing activity also recovered from a dampened first quarter, with 360,000 sf of new leases signed in the second quarter 2021 compared to the 175,000 sf of deals signed in the first quarter. Year-to-date leasing activity stands at 579,000 sf, which was still significantly lower than the 805,000 sf leased through the first half of 2020. As a result of diminished leasing activity, the overall market vacancy rate increased 170 basis points (bps) year-over-year (YOY) to 18.8%. Sublease space has continued to push the vacancy rate upwards, with 130,000 sf of vacant sublease space added to the market in the second quarter. Sublease vacancy now represents 1.3% of the overall vacancy in the market, rising 30 bps quarter-over-quarter (QOQ).

## SPACE DEMAND / DELIVERIES



## DIRECT VACANCY & ASKING RENT



# INDIANAPOLIS

Office Q2 2021



## PRICING: Asking Rents Decline Slightly as Sublease Space Continues to Hit the Market

Overall asking rental rates declined slightly in the second quarter, dropping \$0.04 QOQ to \$21.40 per square foot (psf) gross. However, this still represents a 1.1% growth YOY from the second quarter of 2020. The decline in asking rental rates can largely be attributed to sublease space that has continued to hit the market, as direct asking rental rates increased \$0.02 QOQ and saw 1.7% YOY growth. Both Class A and Class B asking rental rates saw their YOY growth trajectories decline or stay flat from the first quarter of 2021. While Class A asking rates rose \$0.02 QOQ, the YOY growth rate declined from 2.7% in the first quarter 2021 to 1.9% in the current quarter. Similarly, Class B asking rates increased \$0.04 QOQ but the YOY growth rate stayed flat from the first quarter 2021 at 0.9%. Expect negative pressure on asking rental rates to continue until demand activity returns to normal.

## SUPPLY: New Office Space Completed Downtown

There was one new construction delivery during the second quarter, the 66,000-sf Union 601 in the Downtown submarket. This is the third building in the tech hub, Union Campus. In addition, renovations were completed on The Box Factory, a redeveloped industrial space also in the Downtown submarket. This project added an additional 90,000 sf to the Downtown office supply. Currently, three projects totaling 278,000 sf are under construction with over 78% of the space preleased. All three projects are located in suburban submarkets and are build-to-suit in nature. While there are numerous proposed projects in the pipeline, we expect these projects to need significant preleasing activity to break ground.

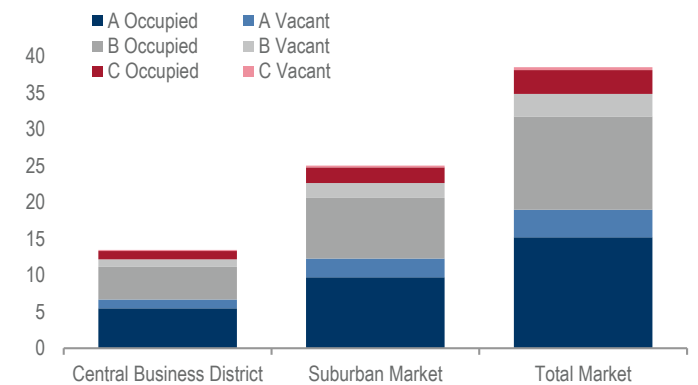
## SALE ACTIVITY: Sluggish Sales Activity Continued in the Second Quarter

Sales activity continued to be muted in the second quarter, with just over 475,000 sf of space trading hands. The notable sales of the quarter included the sale of the 190,000-sf United Way Building in the Midtown submarket to New City Development and the acquisition of Heritage Park I by HJH Investments. Those two sales accounted for over half of all space traded during the second quarter. Though the first half of 2021 saw sluggish sales activity, the second half of 2021 should be a turning point as market fundamentals continue to improve.

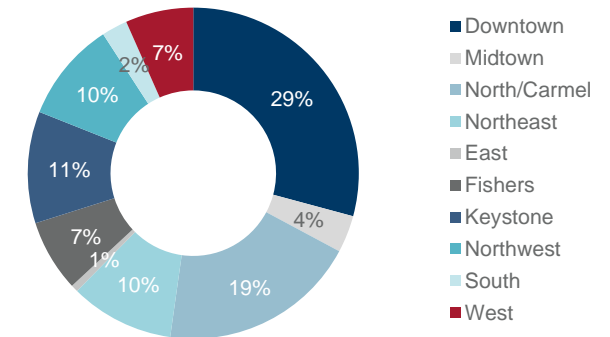
## Outlook

- Economic outlook improved in the second quarter of 2021 with significant job gains across numerous sectors of the economy and 47.6% of the U.S. population being fully vaccinated against COVID-19.
- The Indianapolis office market rebounded from the large occupancy losses seen in the first quarter and saw 28,000 sf of positive overall net absorption. Leasing activity also rebounded, with 360,000 sf of new leases signed in the second quarter. Overall vacancy is still up 170 bps YOY and currently stands at 18.8%.
- Rental rates dipped \$0.04 to \$21.40 psf as sublease space with lower asking rates represented an increased share of vacant space in the market. Negative asking rent pressure will persist until demand activity trends back to normal.
- The first new construction project of 2021 was completed in the second quarter adding 66,000 sf of new space to the market. 278,000 sf of space is currently under construction with any additional projects likely needing significant preleasing activity to begin construction.
- The first half of 2021 saw sluggish sales activity, but sales pace is expected to pick up as market conditions recover.

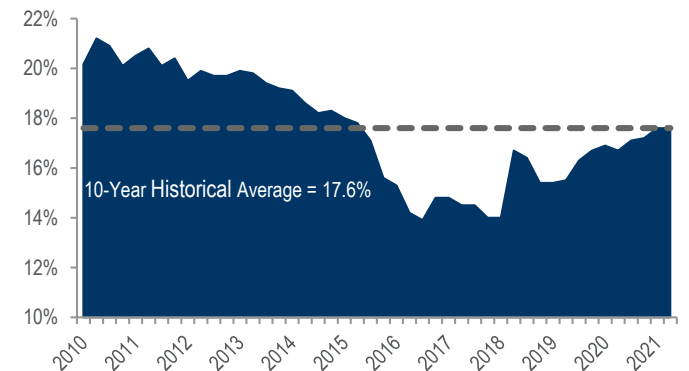
## LEASING DEMAND BY CLASS OF SPACE (MSF)



## 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	11,636,752	189,856	1,927,530	18.2%	-7,907	-211,625	70,241	0	\$23.61	\$25.39
Midtown	1,836,204	0	262,912	14.3%	5,398	52,106	14,949	0	\$16.65	N/A
East	510,538	0	50,014	9.8%	-1,050	-16,744	750	0	\$16.06	N/A
Fishers	2,050,911	53,419	455,984	24.8%	149,548	90,906	81,339	208,000	\$21.43	\$23.05
Keystone	4,108,371	131,374	660,125	19.3%	-103,146	-141,748	58,702	0	\$23.21	\$24.97
North/Carmel	8,065,550	41,830	1,366,233	17.5%	14,370	-38,751	179,495	70,000	\$23.12	\$24.93
Northeast	3,186,589	42,388	695,483	23.2%	-23,352	-107,571	42,213	0	\$18.51	\$20.27
Northwest	3,788,471	35,986	676,112	18.8%	-36,899	-75,772	54,889	0	\$18.49	\$20.04
South	1,429,911	0	182,813	12.8%	11,388	25,676	30,854	0	\$18.18	\$19.08
West	1,891,692	0	481,490	25.5%	19,749	-4,373	45,304	0	\$15.32	\$16.75
<b>Class A</b>	<b>18,966,647</b>	<b>186,798</b>	<b>3,578,420</b>	<b>19.9%</b>	<b>234,714</b>	<b>103,564</b>	<b>351,195</b>	<b>278,000</b>	<b>\$23.90</b>	
<b>Class B</b>	<b>15,869,288</b>	<b>298,932</b>	<b>2,784,711</b>	<b>19.4%</b>	<b>-233,887</b>	<b>-526,529</b>	<b>156,796</b>	<b>0</b>	<b>\$19.02</b>	
<b>Class C</b>	<b>3,669,054</b>	<b>9,123</b>	<b>395,565</b>	<b>11.0%</b>	<b>27,272</b>	<b>-4,931</b>	<b>70,745</b>	<b>0</b>	<b>\$15.35</b>	
<b>TOTAL</b>	<b>38,504,989</b>	<b>494,853</b>	<b>6,758,696</b>	<b>18.8%</b>	<b>28,099</b>	<b>-427,896</b>	<b>578,736</b>	<b>278,000</b>	<b>\$21.40</b>	<b>\$23.90</b>

\*Rental rates reflect full service asking

## KEY LEASE TRANSACTIONS Q2 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
10300 Kincaid Drive, Fishers	Fishers	Quantigen LLC	46,589	New Lease
10333 N Meridian Street, Indianapolis	North/Carmel	Kinetic Advantage LLC	34,310	New Lease
301 Pennsylvania Parkway, Indianapolis	North/Carmel	South College of Indiana, LLC	32,447	New Lease
11100 USA Parkway, Fishers	Fishers	Phoenix Financial Services	31,759	New Lease
8777 Purdue Road, Indianapolis	Northwest	Total Quality Logistics	23,521	Renewal

\*Renewals not included in leasing statistics

## KEY SALES TRANSACTIONS Q2 2021

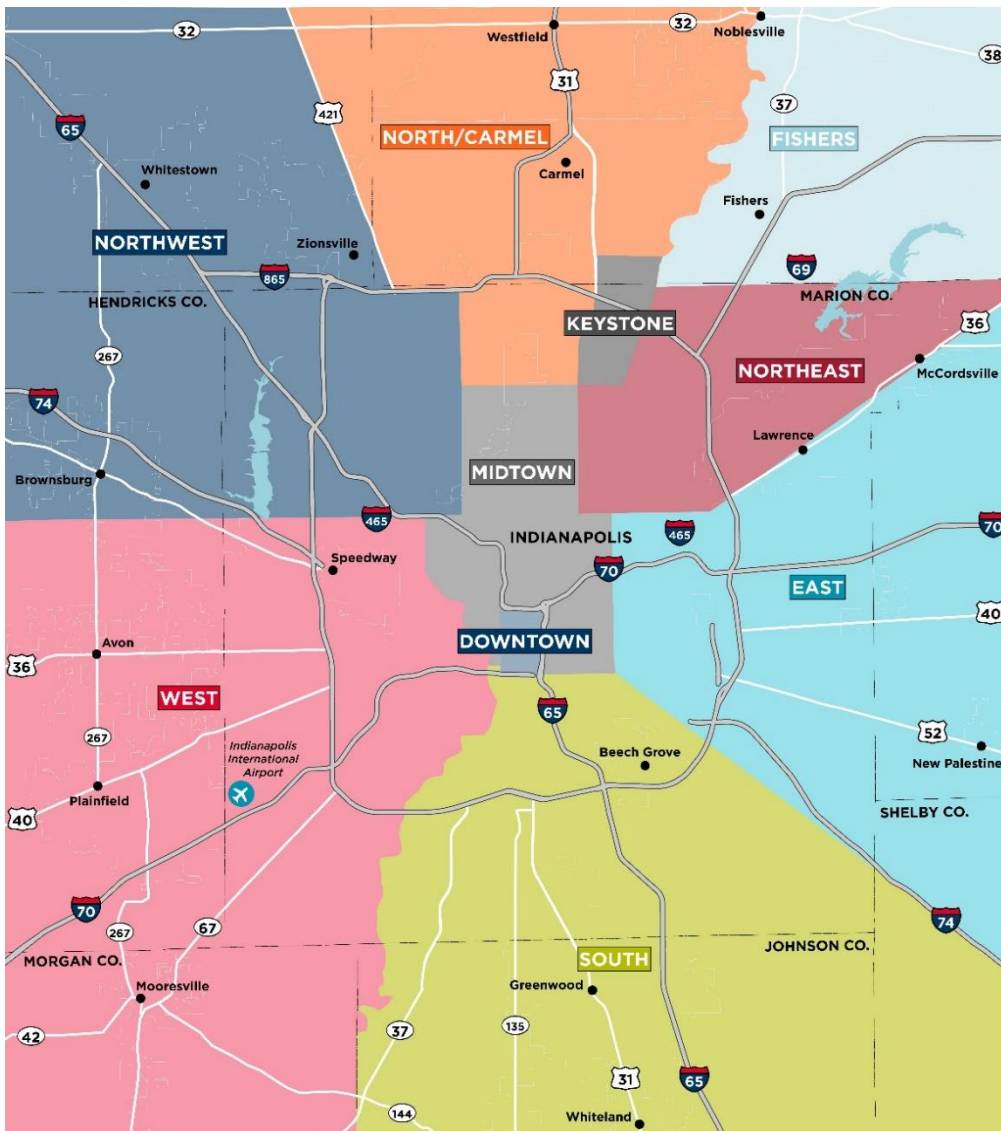
PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
2955 N Meridian Street, Indianapolis	Midtown	Capitol Equities Realty   New City Development	189,884	Unknown
6612 E 75 <sup>th</sup> Street, Indianapolis	Northwest	Coastal Partners   HJH Investments	84,000	\$8,605,000/\$102.44



# INDIANAPOLIS

Office Q2 2021

## OFFICE SUBMARKETS



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