Indianapolis Office Market

Office Fundamentals Drag in Indianapolis

Overview

The economic turbulence occurring in the U.S. has challenged the office market, already struggling with post-pandemic pressures such as opposition to returning to the office. Indianapolis saw absorption increase this quarter as some company's decisions from the last several quarters to downsize or eliminate office space occurred. Absorption levels dropped to just under negative 800,000 square feet driving vacancy rates up to 25.7%.

Leasing activity this quarter was the lowest it has been in three quarters, in part because of average deal size shrinking. This trend has been observed in office markets across the U.S. Growth has been limited to smaller footprint companies, whereas tenants that are over 50,000 square feet have been contracting as the work-from-home trend shows no signs of reversing. This trend also directly relates to the rise in sublease space that has been seen over the last 12 months. Indianapolis currently has 1.3 million square feet of available sublease space.

Spaces that have been successful are high-quality spaces in newer or top-quality buildings. Additionally spec suites that are ready for tenants are also moving quickly.

As seen across most of the U.S., the investment sales market in Indianapolis hit a speed bump in the first quarter of 2023 with only $26.2 million in sales, an 83.0% decline year-over-year.

Current Conditions

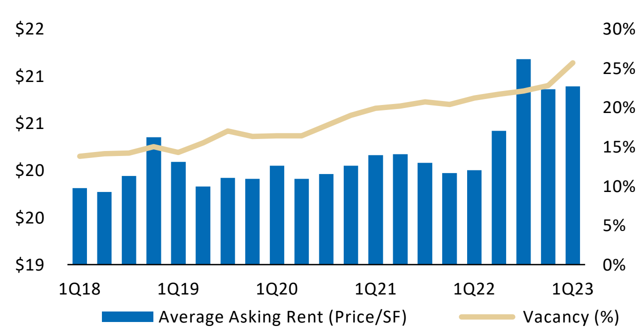
- Vacancy rates rose this quarter to 25.7%, a 240-basis point increase from last quarter.
- This jump in vacancy was driven by the most negative absorption seen in a single quarter for Indianapolis since the pandemic started with -795,754 SF.
- Sales transactions were muted in 1Q, as borrowing rates and future economic uncertainty have discouraged downtown investment.

Market Summary

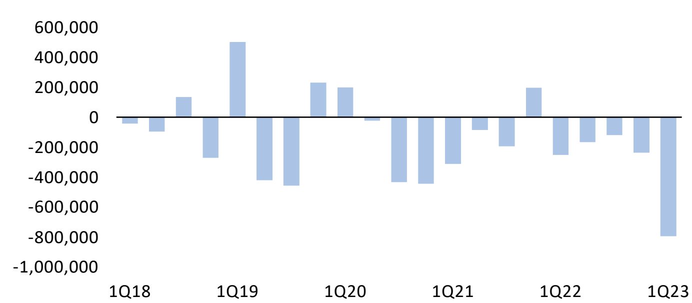
	Current Quarter	Prior Quarter	Year Ago Period	12-Month Forecast
Total Inventory (SF)	34.6M	34.6M	34.6M	↑
Vacancy Rate	25.7%	23.5%	21.9%	↑
Quarterly Net Absorption (SF)	(795,754)	(236,559)	(251,703)	↓
Average Asking Rent/SF	$20.89	$20.86	$20.00	↑
Under Construction (SF)	438,550	438,550	219,497	↓

Market Analysis

ASKING RENT AND VACANCY RATE



NET ABSORPTION (SF)



Metro Lease Transactions

Tenant	Market	Building	Type	Square Feet
Byrider	Carmel	12722-12802 Hamilton Crossing	Renewal	26,000
Harsco	CBD	550 Meridian St	New Lease	26,000
Kainos Software	CBD	111 Monument Cir	New Lease	10,500
Clean Earth LLC	CBD	550 N Meridian St	New Lease	10,200
Chubb Limited	CBD	1 American Sq	Renewal	5,500

Metro Sale Transactions

Buyer	Market	Building	Price Per SF	Square Feet
KeyBank	Uptown	6100 N Keystone Ave	$11.50	82,350
Merchants Pointe Associates	CBD	Morrison Opera	$75	53,000
ALO Property Group	Meridian	9075 N Meridian St	$162	15,000
Charles Van Buren Group LLC	Carmel	9777 N College Ave	$142	25,200

Submarket Statistics

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Class A Asking Rent (Price/SF)	Class B Asking Rent (Price/SF)	Total Asking Rent (Price/SF)
Carmel	10,301,850	103,650	24.3%	(143,737)	(143,737)	$23.82	$20.34	$22.99
Castleton	1,858,210	-	31.9%	(55,183)	(55,183)	$20.66	$17.52	$18.54
CBD	10,419,115	218,500	24.7%	(266,170)	(266,170)	$26.21	$20.89	$24.39
East	513,333	-	16.6%	(11,339)	(11,339)	$24.75	$15.27	$16.94
Keystone	4,206,641	-	25.6%	(168,693)	(168,693)	$23.48	$19.34	$23.03
Midtown	1,508,218	-	22.2%	(6,774)	(6,774)	$26.82	$16.27	$16.89
Northwest	3,383,172	-	28.9%	(321)	(321)	$20.07	$17.64	$18.09
South	1,930,754	-	27.0%	(88,182)	(88,182)	$17.83	$16.50	$16.78
West	1,328,793	-	30.8%	(55,355)	(55,355)	$16.75	$14.86	$15.50
Metro Total	**35,450,086**	**322,150**	**25.7%**	**-795,754**	**-795,754**	**$22.27**	**$17.63**	**$20.89**

Economic Conditions

The 2023 global economy continues to face challenges in the face of prevailing inflation, persisting increases in the federal funds rate, and recent shocks to the banking industry. The collapse of Silicon Valley Bank and Signature Bank in March has placed a spotlight on other regional banks across the country who are vulnerable to similar bank runs relative to larger institutions. These shocks in the banking industry will have direct negative implications for the commercial real estate industry, which was already facing capital constraints, by tightening the debt markets even further. As small and mid-size banks comprise a significant share of commercial real estate loans across the country, a slowdown in originations may mean a significant decrease in property construction and investment in the months ahead, pushing the economy even closer to a recession.

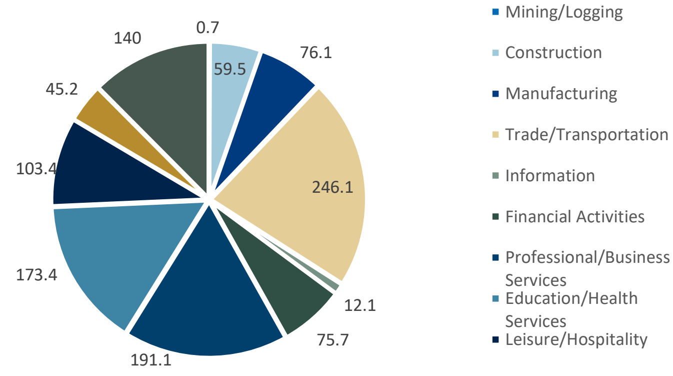
The Indianapolis Metro's variety of industries, including manufacturing, healthcare, logistics and professional services, saw unemployment increase from 2.2% in December to 2.8% in January. This rate was still significantly below the national average, which was 3.6% in February. Like the rest of the U.S., consumer consumption has increased in the last few years, driving warehouse employment higher. Indianapolis is home to the world's second-largest FedEx Express hub and division headquarters for CSX Transportation, which both employ a substantial number of residents.

Manufacturing is one of the region's largest industries, accounting for 17.0% of the total employment, thanks to employers such as Eli Lily and Company, Rolls-Royce, Red Gold and Roche Diagnostics. Some of the largest office-using companies include Salesforce, JP Morgan, Genesys and Indiana Sports Corp.

After contracting in 2020, the Indianapolis GDP has increased each year since. Thanks to the diversified industry list in Indianapolis, the economy was able to recover quickly after the depths of the pandemic, with certain sectors like pharmaceuticals and information making up for the slower recovery in tourism and hospitality.

Employment by Industry

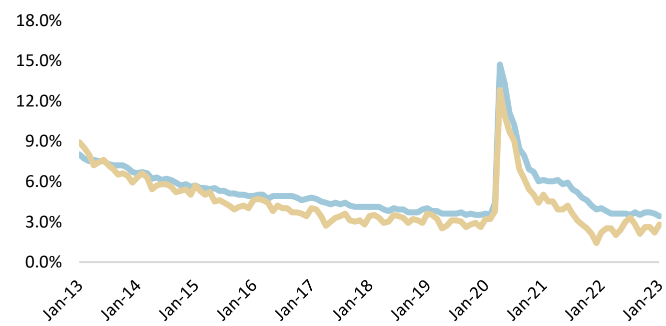
INDIANAPOLIS, Employment Per 1,000



Source: U.S. Bureau of Labor Statistics

Unemployment Rate

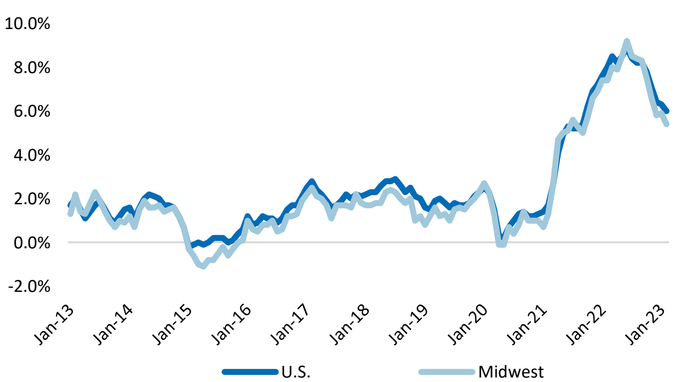
SEASONALLY ADJUSTED, FEBRUARY 2023



Source: U.S. Bureau of Labor Statistics

Consumer Price Index (CPI)

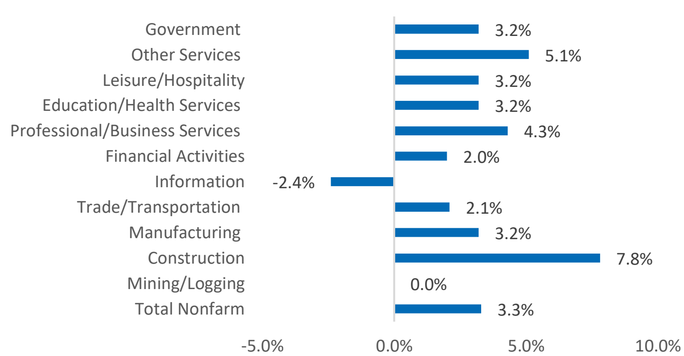
ALL ITEMS, 12-MONTH % CHANGE, NOT SEASONALLY ADJ.



Source: U.S. Bureau of Labor Statistics

Employment Growth By Industry

INDIANAPOLIS, February 2023, 12-MONTH % CHANGE



Source: U.S. Bureau of Labor Statistics

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