



Indianapolis

Office 21Q2

Key Takeaways

- New leasing activity returned in 21Q2 – up 52% from 21Q1.
- Occupancy losses were 65% smaller than the record negative absorption experienced last quarter.
- Vacancy rose to 17.7% but is far below the 2010 peak.
- Tenants are still adding sublease space options to the market, but many are also taking them back for their own use.



Companies Take Varying Approach on Workplace Return

The U.S. economy is more open than it has been since the onset of the pandemic. Local mask mandates have been mostly revoked, and nearly 70% of American adults are vaccinated for COVID-19. More workers are returning to the office, but remote work is still an ongoing reality facing many companies and building owners. New sublease availability, while slowing, is at record-high levels, and the full impact of pandemic-era work settings will linger as employers evaluate their policies. After a sluggish start to the year, leasing activity in the Indianapolis office market picked back up in 21Q2 amid growing confidence. Negative absorption still increased overall vacancy, but at a slower pace than 21Q1, and the 17.7% vacancy rate is much lower than its height following the Great Financial Crisis.

Market Indicators



Historic Comparison

| | 20Q2 | 21Q1 | 21Q2 |
|--|---------|---------|---------|
| Total Inventory (in Thousands of SF) | 40,288 | 41,332 | 41,537 |
| New Supply (in Thousands of SF) | 63.2 | 0 | 150.7 |
| Net Absorption (in Thousands of SF) | 192.0 | (270.6) | (93.6) |
| Direct Vacancy | 16.2% | 17.2% | 17.7% |
| Under Construction (in Thousands of SF) | 407.2 | 292.9 | 137.2 |
| Overall Asking Lease Rates (FSG) | \$21.41 | \$21.86 | \$22.12 |

Market Overview



Source: Colliers

New speculative and owner/occupant construction contributed to the climb in vacancy from 2018 to 2019, while the pandemic's effect on the market resulted in increased negative absorption and a spike in new vacancy since mid-2021. The rest of year is likely to see similar yet slowing trends.

Recent Transactions



Lease
10300 Kincaid Dr
I-69 | 47k SF



Lease
10333 N Meridian St
Meridian | 34k SF



Lease
301 Pennsylvania Pkwy
Meridian | 32k SF



Lease
11100 USA Pkwy
I-69 | 32k SF



Sale
2955 N Meridian St
Midtown | 190k SF



Sale
6612 E 75th St
I-69 | 87k SF

CBD

The downtown Indianapolis office market posted positive direct net absorption in 21Q1 for the first time since 2019, mostly as a result of two new, unique buildings completed along the CBD's perimeter: The Box Factory, anchored by Lewis Wagner LP, and The Union 601. Still, the downtown vacancy rate continued its climb, ending the quarter at 18.4%. Rolls Royce also announced plans to shift most of its Meridian Center employees on the south end of downtown to remote work, effectively adding 200K sf of vacancy by mid-2022 unless backfilled. Large occupiers are mixed on whether to shift remote, retain their footprint or a blend of both. While approximately half of downtown offices are still sitting empty, experts predict the percentage of workers back in seats will grow steadily over the next 12 months.

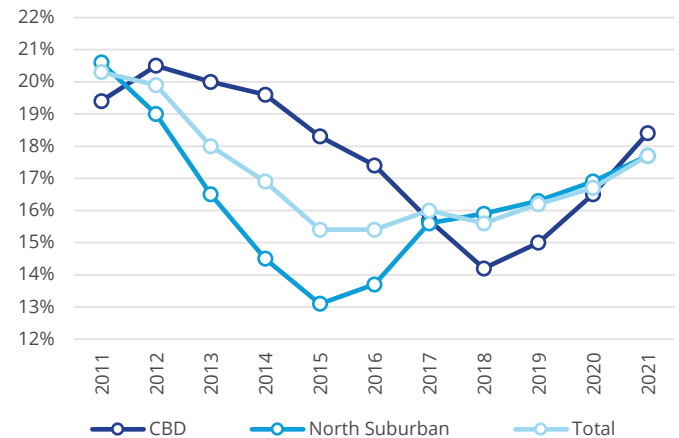
North Suburban

New leasing activity rebounded in 21Q2 – up 52% compared to 21Q1. The north suburban office market accounted for 73% of that activity. Two companies with existing footprints in the local market and in industries seeing a surge in demand as a result of the pandemic signed leases to increase their local footprints. Quantigen, a medical diagnostics company, announced plans to double its workforce in Fishers by leasing 46K sf at Gateway One. Kinetic Advantage, which specializes in floorplans for auto dealerships, will more than double its Carmel footprint at Three Meridian Plaza. The CEO of the latter cited the area's "educated workforce... and pro-business climate" for its expansion. Asking rents in north suburban properties rose 5.3% year-over-year to record-high levels, but rental costs are still well below the nationwide average. These dynamics and the increase in availability of space provide opportunities for recruiting users.

Subleases

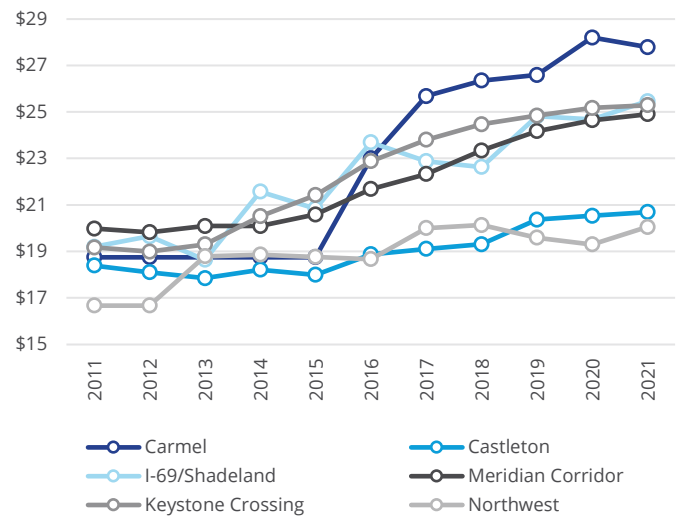
The remote work dynamic led to a jump in unused office space, causing sublease availability to more than double from pre-pandemic levels, but that trend may be slowing. Less than 50K sf of sublease square footage was added to the Indianapolis office market in 21Q2 – the least amount since the beginning of the pandemic. The average rental gap between sublease and direct asking rents is \$4.20, and with an average remaining term of 38 months, these sublease options in mostly furnished spaces may entice users unsure of their workforce's future. So far, not much sublease activity has materialized. Through 21Q2, 43K sf has been signed, and many users are opting to either withdraw their subleases entirely or reduce their offered footprints.

Direct Vacancy Rates



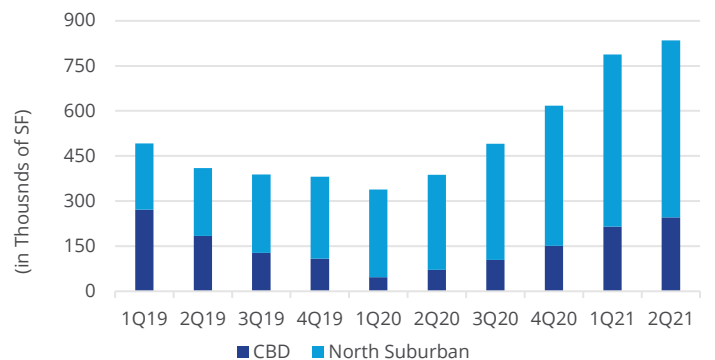
Source: Colliers

Class A Asking Rents (FSG)



Source: Colliers

Sublease Availability



Source: Colliers

Notable New User Transactions

Q2 2021

| Building Name, Address | Submarket | Tenant or Buyer | Transaction Type | Building Class | SF |
|---|-------------------|------------------------------|------------------|----------------|--------|
| 11201 USA Pkwy, Fishers | I-69/Shadeland | DEEM | User Purchase | A | 55,000 |
| Gateway One, 10300 Kincaid Dr, Fishers | I-69/Shadeland | Quantigen | New Lease | A | 46,589 |
| Three Meridian Plaza, 10333 N Meridian St, Indianapolis | Meridian Corridor | Kinetic Advantage | New Lease | A | 34,310 |
| Penn on Pkwy Two, 301 Pennsylvania Pkwy, Indianapolis | Meridian Corridor | South College of Indiana LLC | New Lease | A | 32,447 |
| Navient Campus, 11100 USA Pkwy, Fishers | I-69/Shadeland | Pendrick Capital Partners | New Lease | B | 31,759 |
| Two Parkwood, 310 E 96 th St, Indianapolis | Meridian Corridor | Carr Workplaces | New Lease | B | 25,553 |
| Park Avalon II, 6610 N Shadeland Ave, Indianapolis | I-69/Shadeland | YMCA of Greater Indianapolis | User Purchase | B | 22,944 |

Notable Investment Sale Transactions

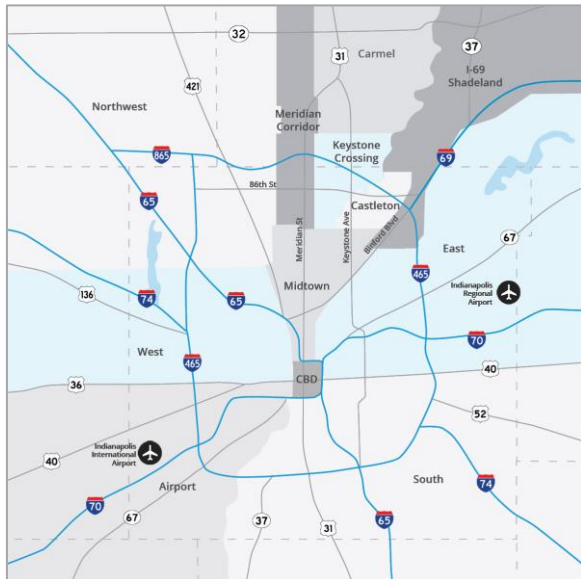
Q2 2021

| Building Name, Address | Submarket | Buyer | Seller | Building Class | SF |
|---|----------------|----------------------|--------------------------|----------------|---------|
| 2955 N Meridian St, Indianapolis | Midtown | New City Development | Capitol Equities | B | 189,884 |
| Heritage Park I, 6612 E 75 th St, Indianapolis | I-69/Shadeland | HJH Investments | Alidade Capital | B | 87,165 |
| Waterfront V, 2831 Waterfront Pkwy, Indianapolis | West | ACRE Capital | IN Waterfront Office LLC | B | 52,992 |
| 12175 Visionary Way, Fishers | I-69/Shadeland | Visionary Cove LLC | Citimark | B | 51,747 |
| The Academy Building, 429 E Vermont St, Indianapolis | CBD | Shook Realty Group | Health Foundation LLC | B | 30,436 |

Notable Construction Projects

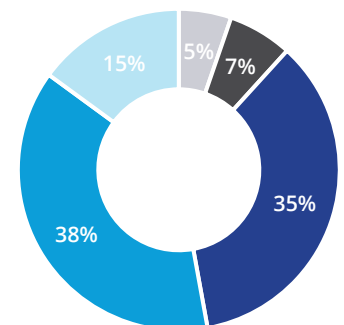
Q2 2021

| Building Name, Address | Submarket | Major Tenants | Construction Status | Construction Type | SF |
|--|-------------------|--------------------------------------|---------------------------|-------------------|---------|
| First Internet Bank HQ, 8701 E 116 th St, Fishers | I-69/Shadeland | First Internet Bank (owner/occupant) | Under Construction - 21Q4 | Build-to-Suit | 168,000 |
| Zotec Partners HQ, 1 Zotec Way, Carmel | Meridian Corridor | Zotec Partners (owner/occupant) | Under Construction - 21Q3 | Build-to-Suit | 120,000 |
| The Box Factory, 1411 Roosevelt Ave, Indianapolis | CBD | Lewis Wagner LLP, Gray Capital | Completed - 21Q2 | Speculative | 84,709 |
| SEP HQ, 16080 Westfield Blvd, Carmel | Meridian Corridor | SEP | Under Construction - 21Q4 | Build-to-Suit | 70,200 |
| The Union 601, 601 S Meridian St, Indianapolis | CBD | {the study} | Completed - 21Q2 | Speculative | 66,000 |
| Crew Carwash HQ, 11700 Exit 5 Pkwy, Fishers | I-69/Shadeland | Crew Carwash | Under Construction - 21Q3 | Build-to-Suit | 40,000 |



YTD Leasing Activity Distribution

- CBD - Class A
- CBD - Class B/C
- North Suburban - Class A
- North Suburban - Class B/C
- Other Submarkets - All Classes



Source: Colliers



| Submarket | Inventory SF | Overall Vacancy Rate | Direct Vacancy Rate | Qtr. New Supply SF | Under Construction SF | Qtr Lease Activity SF | Qtr Overall Net Absorption SF | Qtr Direct Net Absorption SF | Direct Asking Rent FSG | Class A Asking Rent FSG |
|--------------|-------------------|----------------------|---------------------|--------------------|-----------------------|-----------------------|-------------------------------|------------------------------|------------------------|-------------------------|
| CBD | | | | | | | | | | |
| A | 6,552,371 | 19.8% | 19.2% | 0 | 0 | 3,203 | (29,145) | (29,008) | \$25.57 | N/A |
| B | 5,372,464 | 21.4% | 18.1% | 150,709 | 0 | 23,932 | (49,929) | 47,031 | \$22.98 | N/A |
| C | 824,069 | 13.8% | 13.8% | 0 | 0 | 2,430 | (2,930) | (2,930) | \$17.97 | N/A |
| TOTAL | 12,748,904 | 20.1% | 18.4% | 150,709 | 0 | 29,565 | (82,004) | 15,093 | \$24.35 | N/A |

| | | | | | | | | | | |
|-----------------------|-------------------|--------------|--------------|----------|----------------|----------------|-----------------|-----------------|----------------|------------|
| North Suburban | | | | | | | | | | |
| A | 12,670,772 | 21.2% | 19.0% | 0 | 97,200 | 137,140 | 23,761 | 56,289 | \$24.08 | N/A |
| B | 8,981,750 | 17.2% | 16.5% | 0 | 40,000 | 123,718 | (113,798) | (117,254) | \$19.11 | N/A |
| C | 604,233 | 6.0% | 6.0% | 0 | 0 | 0 | 5,213 | 5,213 | \$15.22 | N/A |
| TOTAL | 22,256,755 | 19.2% | 17.7% | 0 | 137,200 | 260,858 | (84,824) | (55,752) | \$21.84 | N/A |

| | | | | | | | | | | |
|-----------------------|-------------------|--------------|--------------|----------------|----------------|----------------|------------------|-----------------|----------------|----------------|
| All Submarkets | | | | | | | | | | |
| CBD | 12,748,904 | 20.1% | 18.4% | 150,709 | 0 | 29,565 | (82,004) | 15,093 | \$24.35 | \$25.57 |
| Airport | 1,126,373 | 29.6% | 29.6% | 0 | 0 | 8,190 | 1,436 | 1,436 | \$15.79 | \$16.75 |
| Carmel | 1,162,707 | 6.9% | 6.1% | 0 | 27,000 | 13,362 | 29,888 | 29,888 | \$24.93 | \$27.79 |
| Castleton | 2,163,000 | 26.9% | 25.4% | 0 | 0 | 6,892 | (28,644) | (2,597) | \$19.21 | \$20.69 |
| East | 966,169 | 10.0% | 10.0% | 0 | 0 | 1,800 | (18,139) | (18,139) | \$16.84 | N/A |
| I-69 / Shadeland | 3,234,267 | 19.0% | 17.4% | 0 | 40,000 | 6,269 | 59,212 | (60,631) | \$22.81 | \$25.46 |
| Keystone Crossing | 4,419,172 | 17.8% | 15.0% | 0 | 0 | 29,303 | (71,022) | (49,521) | \$24.57 | \$25.29 |
| Meridian Corridor | 7,234,236 | 20.6% | 19.3% | 0 | 70,200 | 175,128 | (45,047) | (64,942) | \$22.97 | \$24.90 |
| Midtown | 2,189,018 | 12.0% | 12.0% | 0 | 0 | 9,717 | (41,298) | (41,298) | \$15.52 | N/A |
| Northwest | 4,043,373 | 17.8% | 17.1% | 0 | 0 | 29,903 | (29,211) | (29,211) | \$18.67 | \$20.05 |
| South | 1,259,012 | 15.8% | 15.4% | 0 | 0 | 10,206 | 7,912 | 1,990 | \$18.01 | \$21.98 |
| West | 990,670 | 19.5% | 19.5% | 0 | 0 | 21,574 | 3,102 | 3,102 | \$16.76 | N/A |
| TOTAL | 41,536,901 | 19.1% | 17.7% | 150,709 | 137,200 | 312,345 | (213,815) | (93,568) | \$22.12 | \$24.35 |

| | | | | | | | | | | |
|---|------------|-------|-------|---------|---------|---------|-----------|-----------|---------|---------|
| Indianapolis Quarterly Comparison and Totals | | | | | | | | | | |
| 21Q2 | 41,536,901 | 19.1% | 17.7% | 150,709 | 137,200 | 312,345 | (213,815) | (93,568) | \$22.12 | \$24.35 |
| 21Q1 | 41,332,079 | 18.3% | 17.2% | 0 | 292,902 | 285,408 | (323,865) | (270,688) | \$21.86 | \$24.24 |
| 20Q4 | 41,052,607 | 17.6% | 16.7% | 0 | 292,902 | 311,524 | (187,420) | (106,195) | \$21.55 | \$24.17 |
| 20Q3 | 40,949,845 | 17.3% | 16.7% | 251,470 | 252,902 | 279,175 | 1,350 | 33,130 | \$21.44 | \$24.02 |
| 20Q2 | 40,288,014 | 16.8% | 16.2% | 63,180 | 407,172 | 445,101 | 159,077 | 192,000 | \$21.41 | \$24.06 |

FOR MORE INFORMATION
 James Winkler
 Director – Market Research
 Indianapolis
 +1 317 713 2131

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