

MARKET REPORT

OFFICE

Indianapolis Metro Area

IPA

INSTITUTIONAL
PROPERTY
ADVISORS

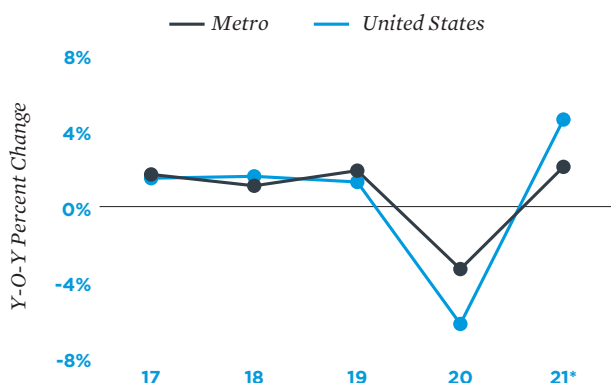
4Q/21

Indianapolis Properties Prove Durable; Risk-Averse Buyers Most Active

Office market stabilizes in metro. Overall, office fundamentals held relatively sturdy during the health crisis, with vacancy rising by only a fifth as much as the national rate last year. The metro largely avoided stringent lockdowns and the suburban nature of the inventory kept buildings generally open. Compared with other major cities, the central business district in Indianapolis is considerably less densely populated. This has helped keep vacancy in the CBD under 10 percent through June, with metrowide availability just over 12 percent, below the long-term average. Due to the low construction pipeline and more office firms with smaller locations, the market is not anticipated to struggle nearly as much in the coming months regardless of the impact of COVID-19 variants.

Local employers reaffirm roots. The turnaround in payrolls has been relatively swift locally, benefiting offices. By year-end, overall employment is expected to be within 1.6 percent of the February 2020 level. The metro's centralized position makes it ideal for logistics firms and manufacturers, which also maintain office footprints. Rolls-Royce already has a local staff of approximately 4,000 and is anticipated to add more jobs in the near future as it begins work on a new \$500 million Air Force contract. Salesforce, another prominent local employer, has plans to relocate some staff here from other metros, which may help offset a partial attrition due to hybrid work.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2021 Outlook



**22,000
JOBS**

will be created

EMPLOYMENT:

Employers will expand payrolls by 2.1 percent this year, recovering 60 percent of the jobs lost during 2020. Traditional office-using sectors will hire 3,500 workers, adding 1.4 percent to headcounts.



**580,000
SQ. FT.**

will be completed

CONSTRUCTION:

Development will be limited, and most of the new construction already has leasing commitments. Stock will only expand by 0.6 percent, keeping competition from new supply relatively muted.



**90
BASIS POINT**

increase in vacancy

VACANCY:

Office vacancy will climb to 12.1 percent in 2021, following a 50-basis-point rise last year. The rate will be at the highest level since the end of 2016 but is still sufficiently tight to keep operators from notably adjusting rents.



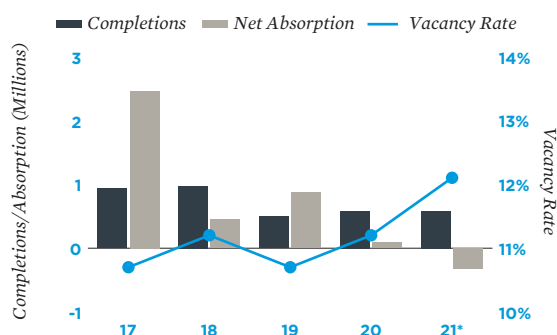
**0.8%
INCREASE**

in asking rent

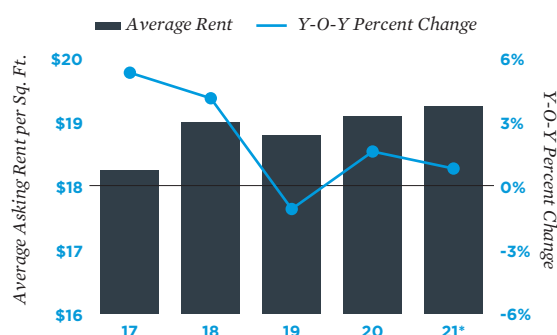
RENT:

Asking rents will tick up modestly to \$19.25 per square foot on average this year as more high-quality space comes online. Vacancy below the long-term average will also prevent the need for operators to expand tenant improvements with new leases.

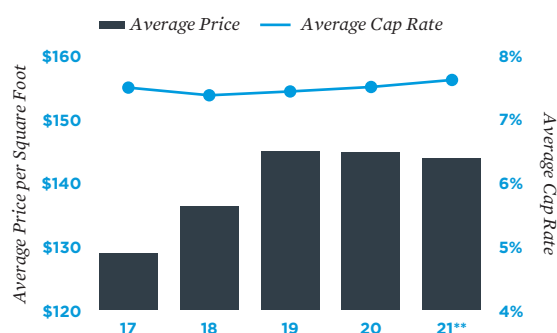
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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2Q21 — 12-Month Period



CONSTRUCTION

644,000 sq. ft. completed

- The pace of development is relatively soft in the metro, and an uptick is unlikely in the near future.
- Only 440,000 square feet is under construction, representing just 0.5 percent of existing inventory. More than 70 percent of that space had leasing commitments in place as of October.



VACANCY

150 basis point increase in vacancy Y-O-Y

- At midyear, vacancy was only at 12.1 percent, below the pre-health-crisis high recorded at the end of 2016.
- Class A vacancy climbed 280 basis points to 17.7 percent over the past 12 months ended in June. In the Class B/C arena, the rate has only ticked up 90 basis points in the past year to 9.5 percent.



RENT

0.2% increase in the average asking rent Y-O-Y

- The average asking rent for available space was \$19.16 per square foot at the end of the spring period.
- Class B/C average asking rent retreated 0.1 percent annually to \$17.54 per square foot, though the rate only slipped 2 cents in the second quarter. Class A rent climbed 0.3 percent annually.

Investment Highlights

- Investors returned to the market in this year's opening period, though activity has since waned as buyers sought assets in other markets where the recovery appears to be more brisk. The prospect of value-add opportunities in the South shifted the focus of some capital away from the steady Indianapolis market.
- The average price for an office property dipped 1 percent to \$144 per square foot, though valuations have remained relatively stable since 2019. Investors are expected to increase activity in the metro as interest rates rise and more secure assets are targeted.
- First-year returns inched up to 7.6 percent during the yearlong period ending in June, a 10-basis-point rise. The average cap rate has remained in a narrow range since 2016, moving from 7.6 percent to 7.4 percent during the most recent trough. Barring a significant change in market dynamics, major pressure upward or downward on first-year returns is not anticipated until at least 2022.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Note: Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: IPA Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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