

# INVESTMENT FORECAST

Office  
Indianapolis

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

2022

## Hardest Hit Submarkets Record Strongest Recovery; National Buyers Drawn to Yield Potential

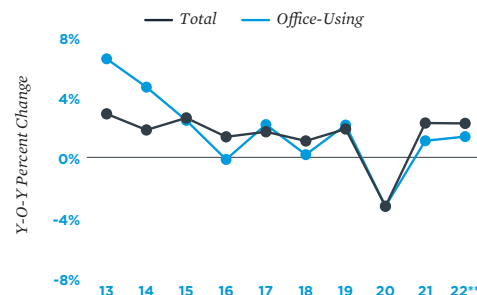
**Leasing activity ramping up, but uncertainty and risk remain.** The second half of last year showed a significant improvement in absorption when compared to challenging 2020 figures. Locales hardest hit by pandemic-induced tenant loss saw the strongest returns in leasing activity led by the Fishers submarket, where Quantigen committed to nearly 47,000 square feet and First Internet Bank completed its 120,000-square-foot headquarters. Additional northern suburbs including Carmel and the Meridian Corridor also recorded notable tenant gains followed by Downtown Indianapolis. Developers have followed demand into these suburbs, as most projects slated for 2022 completion are north of Interstate 465, with very little incoming space in the core. A wave of sizable speculative projects in the suburbs and uncertainty surrounding return-to-office plans by Salesforce and some of the metro's other largest employers, however, will prevent vacancy from tightening in 2022.

**Yield-motivated investors drive sales activity.** Cap rates exceeding those available in most Eastern and larger Midwestern markets have kept investors interested in Indianapolis. The Meridian Corridor, Fishers, Carmel and Keystone Crossing are recording the most transactions. Exchanges in these northern suburbs mostly involve older, sub-100,000-square-foot Class A and Class B assets, with cap rates typically between 6 percent and 7 percent. Per-square-foot entry costs in these submarkets are often near or higher than those observed in the CBD. Trades downtown have slowed slightly since the onset of the pandemic, with overall volume in 2021 being carried by the purchase of the Salesforce Tower for \$192 million. Core-located listings could represent an attractive opportunity for investors moving forward as first-year returns are around 50 basis points higher than in the northern suburbs. Investors looking to pay below-average entry costs may target the southwestern portion of the metro, stretching from University Heights to Avon.

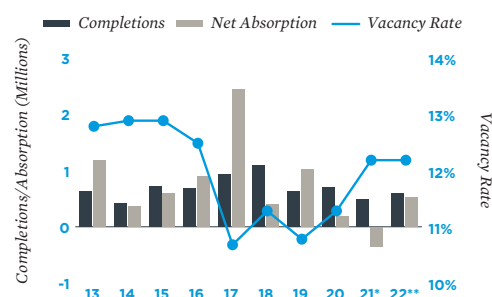
## 2022 Market Forecast

- Employment** ↗ A gain of 24,500 roles pushes total employment above the 2019 end-of-year figure, tacking on 3,500 office-using roles this year.  
up 2.3%
- Construction** ↗ Completions will increase slightly from the previous year's tally; however, delivery volume will still trail the trailing-five-year average by roughly 170,000 square feet.  
600,000 sq. ft.
- Vacancy** ■ The moderate volume of supply additions this year will steer prospective tenants to existing properties, preventing a shift in office availability that holds vacancy at 12.2 percent.  
no change
- Rent** ↗ The average asking rent will rise slightly to \$19.40 per square foot this year, as the metro's sizable inventory of sublease space prevents a more notable gain from occurring.  
up 0.6%
- Investment** ● Out-of-state buyers account for 80 percent of sales volume leading into this year; a figure that is likely to continue growing as the metro's yields are 50 basis points above the national average.

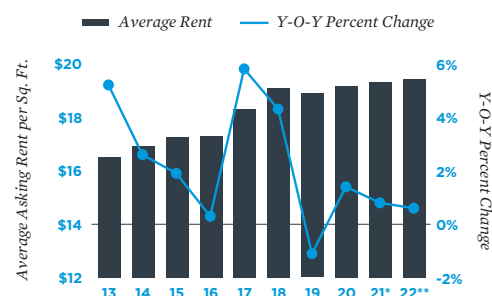
### Employment Trends



### Supply and Demand



### Rent Trends



\* Estimate; \*\* Forecast  
Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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Metro-level employment, vacancy and effective rents are year-end figures and are based on the most up-to-date information available as of December 2021. Effective rent is equal to asking rent less concessions. Average prices and cap rates are a function of the age, class and geographic area of the properties trading and therefore may not be representative of the market as a whole. Sales data includes transactions valued at \$1,000,000 and greater unless otherwise noted. Forecasts for employment and apartment data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guarantee, express or implied may be made as to the accuracy or reliability of the information contained herein. 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.