

MARKET REPORT

Office
Indianapolis Metro Area

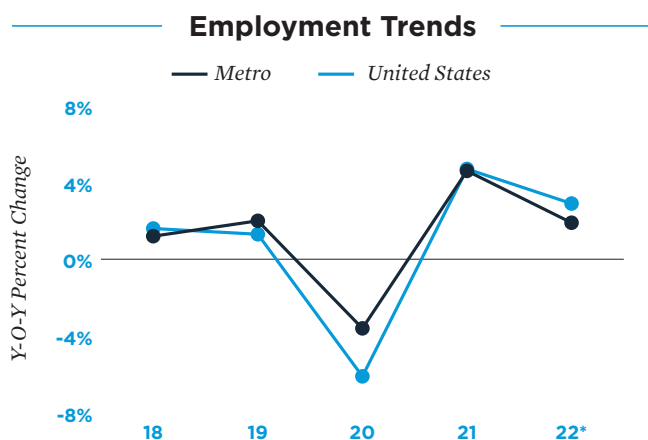
IPA
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PROPERTY
ADVISORS

2Q/22

Suburban Office Hub Garners Elevated Attention; CBD Positioned for Improvement

Firms migrating to the suburbs. The largest suburban submarket in the metro by inventory, Northeast County, registered a 30-basis-point drop in vacancy during the first quarter. Spanning the three-month period, tenants absorbed over 140,000 square feet of space. Positive local demand enabled the overall suburban vacancy rate to slide 20 basis points to its lowest point since mid-2020. During the remainder of this year, Northeast County will add just 60,000 square feet of new space, nearly half of which was pre-leased as of mid-May. This sets the table for further near-term vacancy compression that should aid the metro's overall availability, which is expected to be among the Midwest's lowest.

Metro claims regionally-low CBD vacancy. Minimal construction activity in downtown this year and a returning population to the core suggest conditions in the CBD may improve in the near term. Indianapolis' Downtown already reports the second-lowest core vacancy rate among major U.S. markets, and the lowest among Midwest metros, at 10.1 percent. While availability increased over the last six quarters, the core shows signs of long-term stability. Larger leases are once again being executed, highlighted by Spot Logistics' 42,000-square-foot commitment in February. Marginal movement in the average asking rent downtown has also begun to attract companies seeking proximity to skilled labor pools and urban amenities. Moving forward, this has the potential to combat the effects of firms withdrawing from the area.



* Forecast

Sources: BLS; CoStar Group, Inc.

Office 2022 Outlook



**21,600
JOBS**

will be created

EMPLOYMENT:

Indianapolis' unemployment rate reached a record low of 2.1 percent in April. The lack of available labor will force traditional office-using firms to recruit from outside the metro with greater frequency during the remainder of this year.



**320,000
SQ. FT.**

will be completed

CONSTRUCTION:

Construction will reduce to its lowest level since 2011. Most of the properties slated for delivery are Class A, and over 60 percent of this space was pre-leased as of mid-May. Northeast and Southeast County will see the majority of supply additions.



**30
BASIS POINT**

decrease in vacancy

VACANCY:

Tempered development will guide companies into existing buildings. Declining availability across all property tiers will allow vacancy to compress to 11.2 percent this year, with tenants absorbing nearly 600,000 square feet of space.



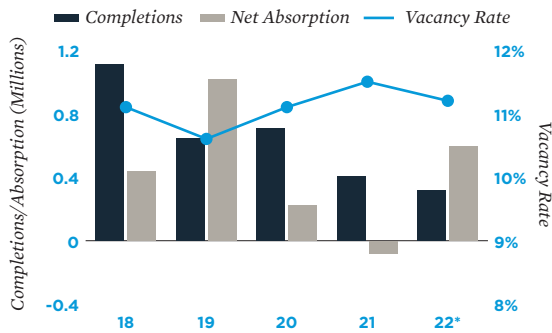
**0.6%
INCREASE**

in asking rent

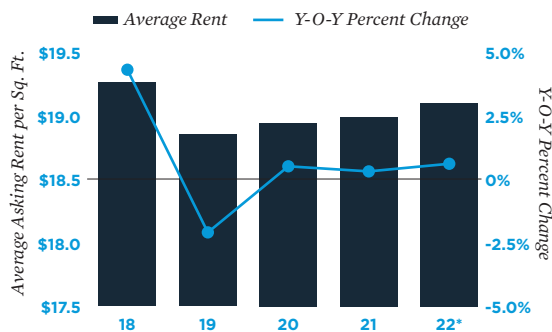
RENT:

The average asking rent remains below the prior high logged in 2018 as Indianapolis records a third straight year of nominal growth. At \$19.10 per square foot, the metro's mean market rate is 35 percent below the national average.

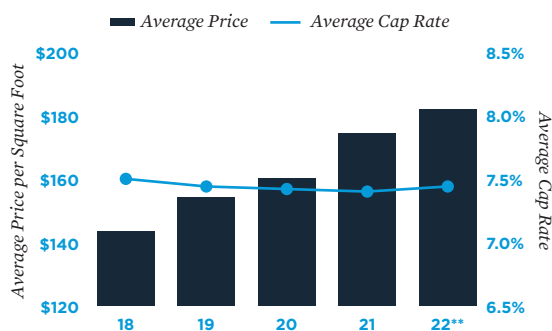
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

514,000 sq. ft. completed

- Delivery volume over the four quarters ended in March surpassed the prior period by almost 400,000 square feet, growing inventory by 0.6 percent.
- Over 140,000 square feet came online in the first quarter of 2022. Most of these additions were delivered in Northeast County, where an additional 60,000 square feet was underway as of June.



VACANCY

40 basis point decrease in vacancy Y-O-Y

- Driven by a 110-basis point drop in suburban availability, the metro's overall vacancy rate fell to 11.5 percent in March.
- Northeast County availability tumbled 180 basis points, compressing vacancy to 13.8 percent. This was the largest drop in availability among submarkets with at least 4 million square feet of inventory.



RENT

0.1% decrease in the average asking rent Y-O-Y

- Indianapolis ended the first quarter with a mean marketed rent of \$19.00 per square foot, as nominal movement in both suburban and CBD asking rates were observed during the past 12 months.
- Suburban asking rates landed at \$17.51 per square foot in March, well below the \$21.16 per square foot mean reported in the CBD.

Investment Highlights

- The metro's average sale price in the trailing 12 months preceding April rose 11 percent to \$182 per square foot. Surprisingly, the mean reported cap rate remained at 7.4 percent.
- Investor confidence in the market is slowly returning as property fundamentals improve amid steady cap rates. Although transaction velocity increased during the yearlong period compared to the previous span, it remained below pre-pandemic levels of deal flow. Private buyers are notably active and are driving deal flow in the \$1 million to \$10 million price tranche, where trading increased by nearly 40 percent over the past 12 months compared to the prior year.
- Northeast County posted one of the highest transaction totals among metro submarkets, as investors responded to heightened local tenant demand. Excluding portfolio transactions, smaller suburban properties accounted for most of the recent deal flow. Pricing for these assets varies widely, with newer properties occasionally trading in the high-\$200 per square foot range. Investors acquiring Class B assets paid an average of \$140 per square foot in this area.

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. 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: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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