INVESTMENT FORECAST

OFFICE

Indianapolis Metro Area

IPA | INSTITUTIONAL PROPERTY ADVISORS

2020

Subdued Development Preserves Low Vacancy; Investors Follow Tech to the Suburbs

Strong pre-leasing and technology expansion maintain tight conditions. Robust demand for office space will be met with limited deliveries this year, pushing vacancy downward. Less than 600,000 square feet of inventory is scheduled to be finalized in 2020, representing a steep decline from the peak just two years ago. Of the projects coming online, over 75 percent of the space is pre-leased. The initial phase of Infosys' 125,000-square-foot campus is the largest development slated for 2020. Future phases will add an additional 675,000 square feet, with the company planning to employ 3,000 workers upon finalization. This project should be a catalyst for more construction in the airport area in the future. Infosys' commitment to Indianapolis portrays the broader trend of technology corporations steadily moving into the market and expanding. This will create a tailwind in office absorption going forward. Tenants are often seeking strategically located spaces that give them a competitive advantage in hiring skilled labor amid record-low unemployment. Suburbs north of the core with convenient access to Interstate-465 are garnering their attention and should outperform over the long term.

Suburban assets appeal to local and out-of-state investors. The vacancy rate has consistently dropped, remaining 200 basis points below the national average for the majority of this cycle. As a result, investor sentiment remains high, and aggressive bidding resulted in noteworthy appreciation over the past year. Buyers are targeting Class C assets near the airport for value-add opportunities, anticipating elevated demand as the Infosys development brings more attention to the area. Out-of-state buyers favor high-quality suburban assets north of the core, such as Keystone and Fishers. Buyers seeking medical office assets are active in southern suburbs, particularly Greenwood and Beech Grove. Several trades materialized here toward the end of 2019, providing initial returns in the mid-6 to low-7 percent range.

2020 Market Forecast

Employment up 0.7% — The rate of growth matches the previous year as employers add 7,500 positions in 2020.

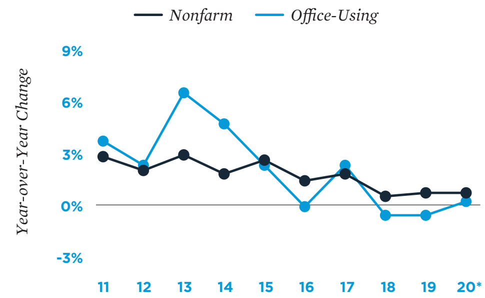
Construction 568,000 sq. ft. — Deliveries surpass last year's total by 48,000 square feet yet fall below the cycle average. Roughly one-third of the developments underway are in Fishers.

Vacancy down 20 bps — Demand for office space remains robust amid a construction decline, supporting a drop in vacancy to 10.5 percent. This will be the lowest year-end rate of the current cycle.

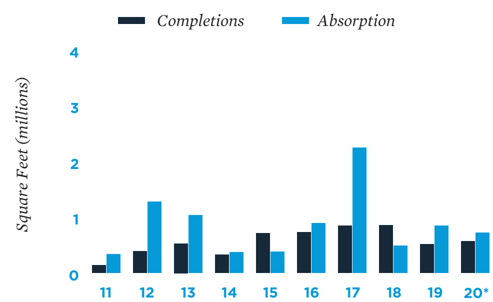
Rent up 1.9% — The 1.1 percent drop registered in 2019 is overturned as the average asking rent moves up to $19.16 per square foot this year.

Investment — Carmel and Fishers remain at the top of investor wish lists. Steep pricing and aggressive bidding could encourage some buyers to target value-add plays elsewhere.

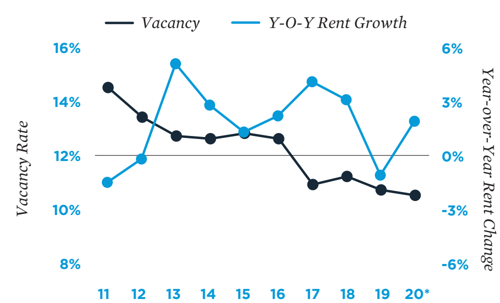
Employment Trends



Office Supply and Demand



Vacancy and Rent Trends



* Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

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Metro-level employment, vacancy and asking rents are year-end figures and are based on the most up-to-date information available as of December 2020. Asking rent is based on the full-service marketed rental rate. 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 office data are made during the fourth quarter and represent estimates of future performance. No representation, warranty or guaranty, 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.