

4Q23

Indianapolis Office Overview



NEWMARK

Market Observations

Economy

- While the region's labor market remains on relatively solid footing and the annual job growth rate has exceeded the national average, cracks are beginning to show amid persistently high inflation and increasing interest rates. Unemployment has crept up slightly after hitting its post pandemic low in April of 2023.
- The leisure/hospitality sector led all industries in regional annual job growth, underlining an industry still grappling with making up for pandemic losses amid a greater shift in spending from goods in favor of services. Office using sectors saw gains in Financial Activities and Business and Professional Services but significant losses in the Information sector.

Major Transactions

- Leasing activity was up compared to the first half of 2023. Deals were more in the mid-size range with one of the largest deals completed just under 50K SF in Carmel signed by Clinical Architecture.
- 571 Monon Lake Boulevard was purchased for \$229/SF by Typerion Holdings.

Leasing Market Fundamentals

- Negative absorption continued in the market this quarter totaling -325,000 SF. This pushed vacancy rates up to 26.0%. The market is recalibrating with vacancy expected to continue to rise over the next few quarters as the economy slows and construction deliveries outpace net absorption, reversing the trend of the last two years.
- There are currently four properties under construction in the market, the most in several quarters at 154,000 square feet. This quarter in Carmel, 111 South Rangeline Road broke ground for 56,400 square feet, the 18,800-square-foot 3rd floor is pre-leased.

Outlook

- Uncertainty reigns in the macroeconomic outlook. Occupiers and investors alike will approach deals with greater caution as a result, which will impact leasing and investment activity.
- Market vacancy will increase further as new construction also delivers.
- Rent growth, aggressive through all of 2022, has decelerated and will continue to cool throughout the year. This will vary on a submarket, size-range, and asset-type basis.

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1. Economy
 2. Leasing Market Fundamentals

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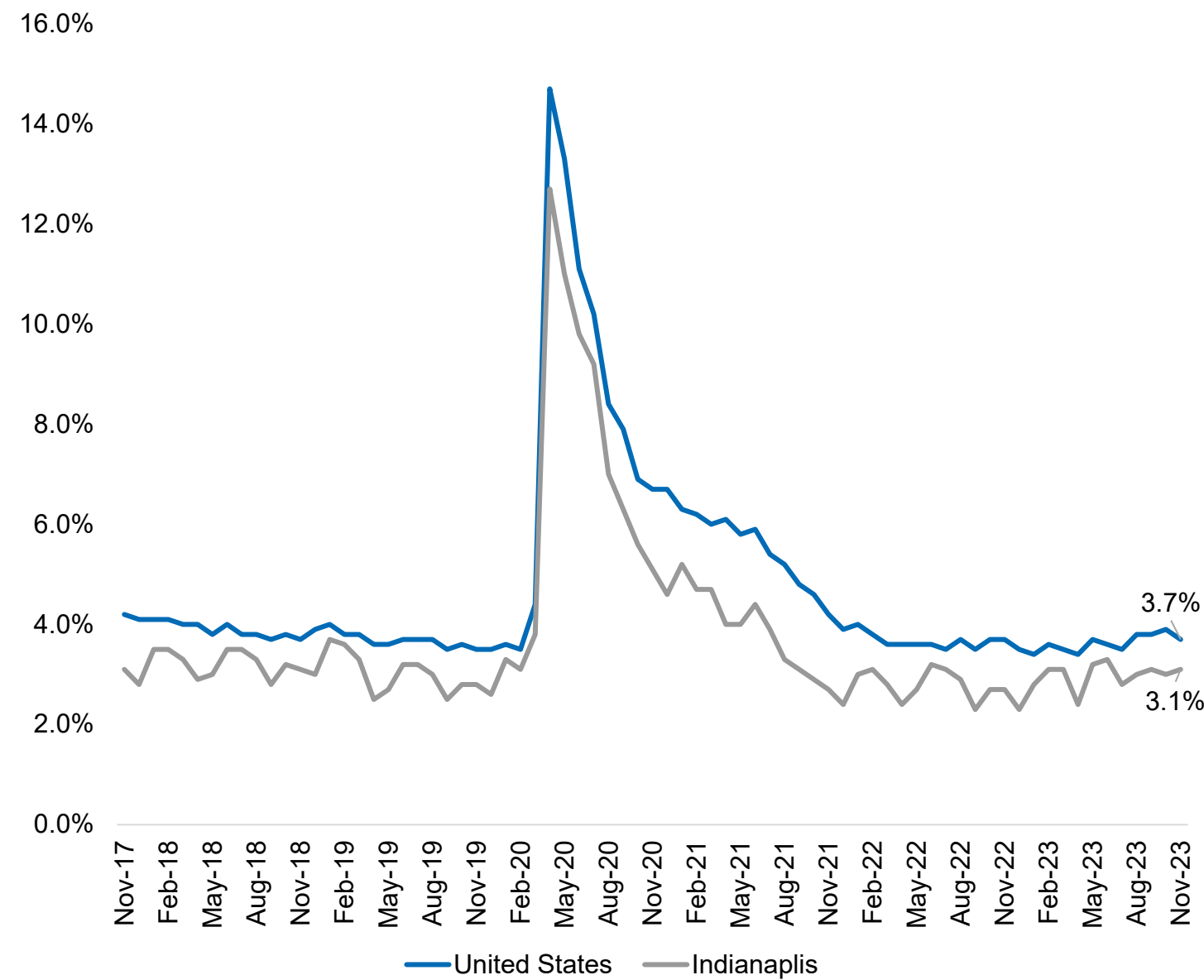
Economy



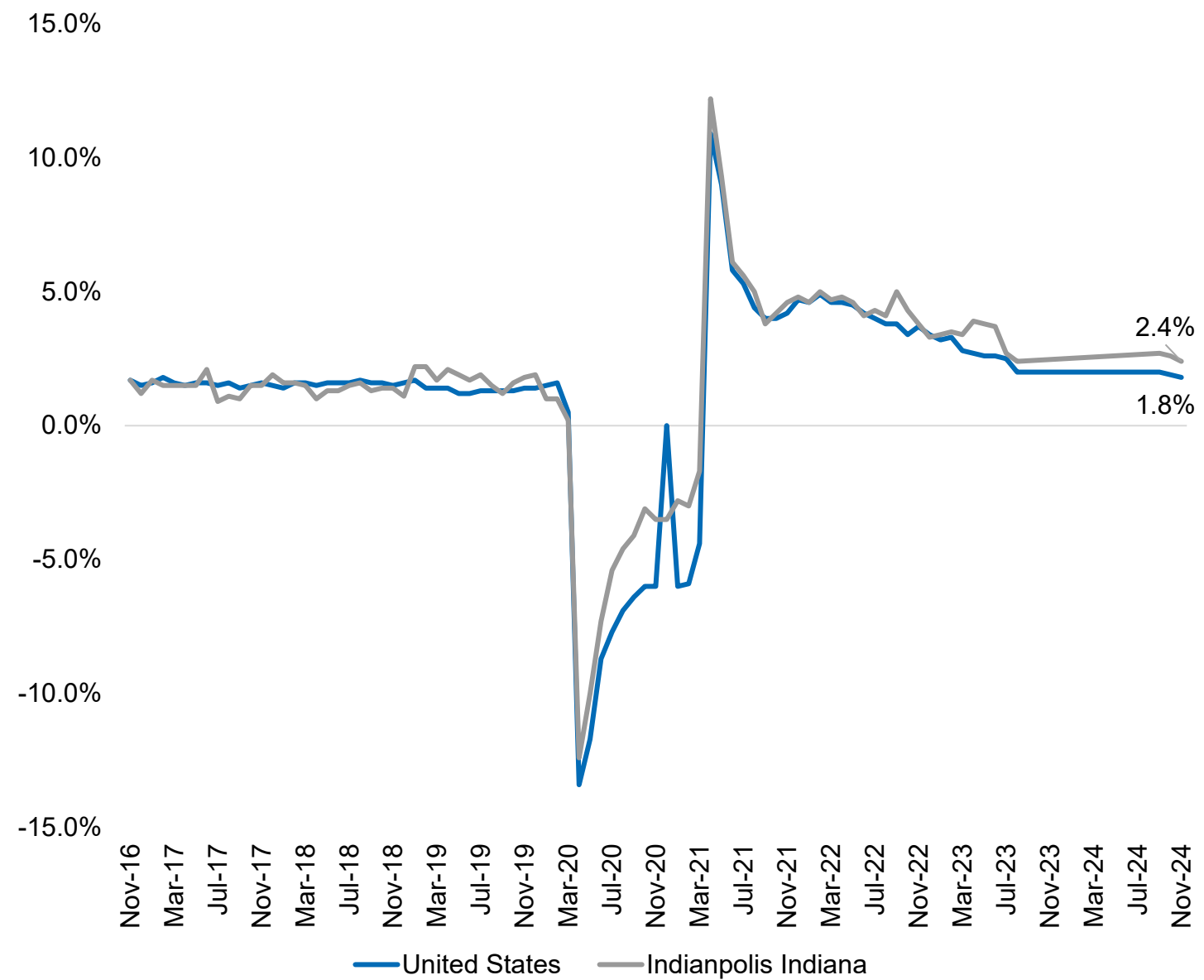
Metro Employment Trends Signal A Slowing Economy

While the region’s labor market remains on relatively solid footing and the annual job growth rate has exceeded the national average, cracks are beginning to show amid persistently high inflation and increasing interest rates. Unemployment has crept up slightly after hitting its post pandemic low in April of 2023.

Unemployment Rate, Seasonally Adjusted



Nonfarm Payroll Employment, Non-Seasonally Adjusted, 12-Month % Change



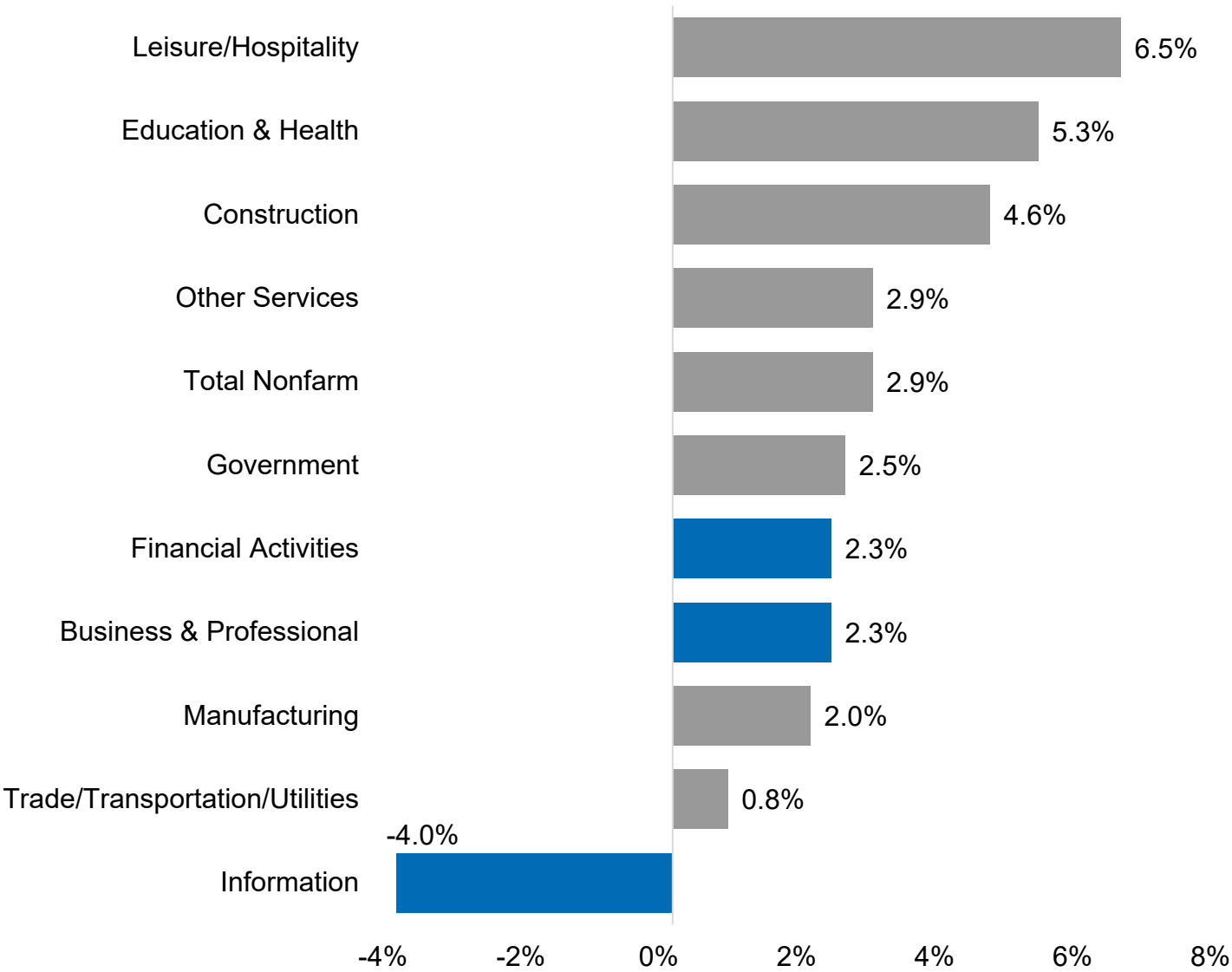
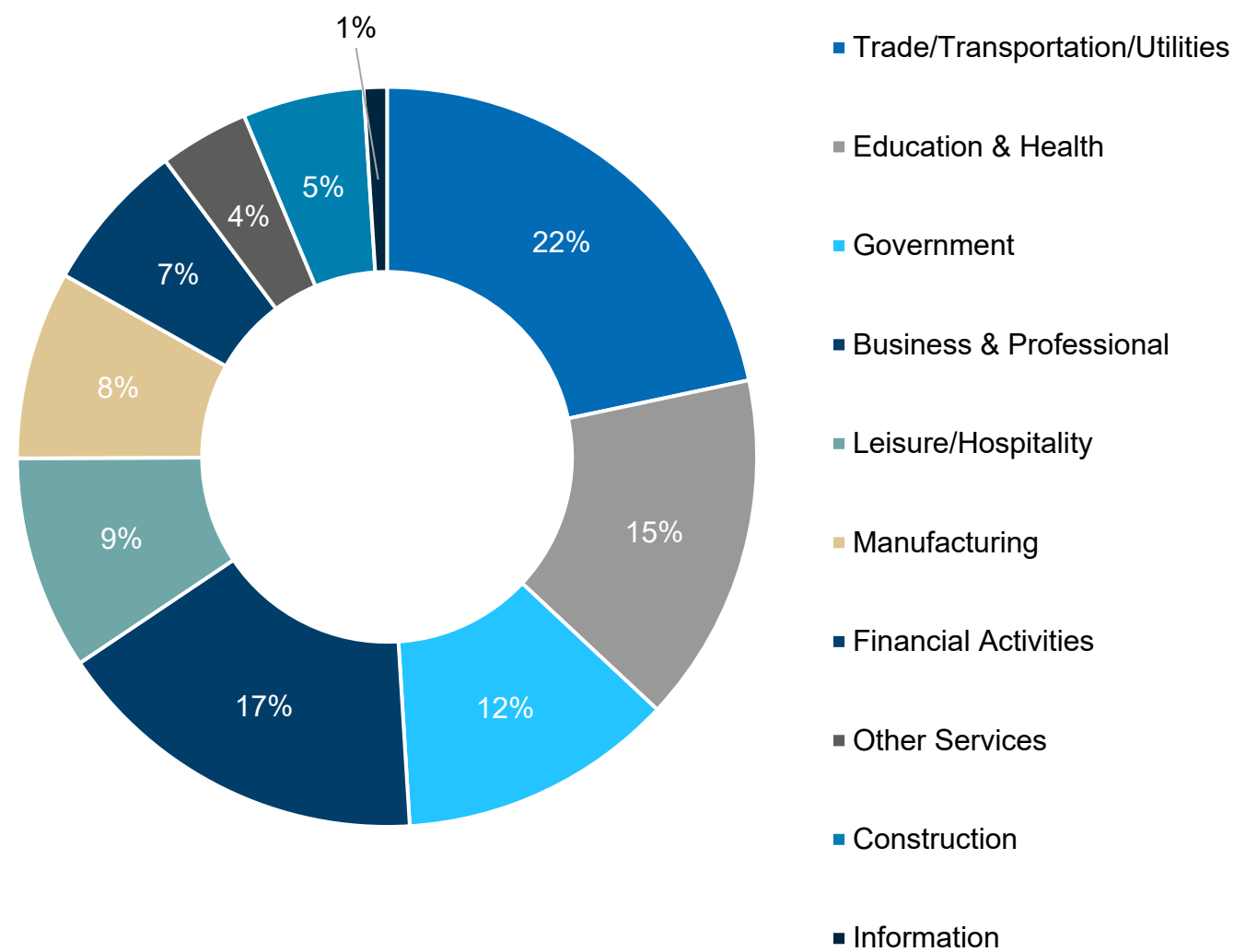
Source: U.S. Bureau of Labor Statistics, Indianapolis-Carmel-Anderson, Indiana

Job Growth Driven in Large Part by Services Still Making Up for Pandemic Losses

The leisure/hospitality sector led all industries in regional annual job growth, underlining an industry still grappling with making up for pandemic losses amid a greater shift in spending from goods in favor of services. Office using sectors saw gains in Financial Activities and Business and Professional Services but losses in the Information sector.

Employment by Industry, November 2023

Employment Growth by Industry, 12-Month % Change, November 2023

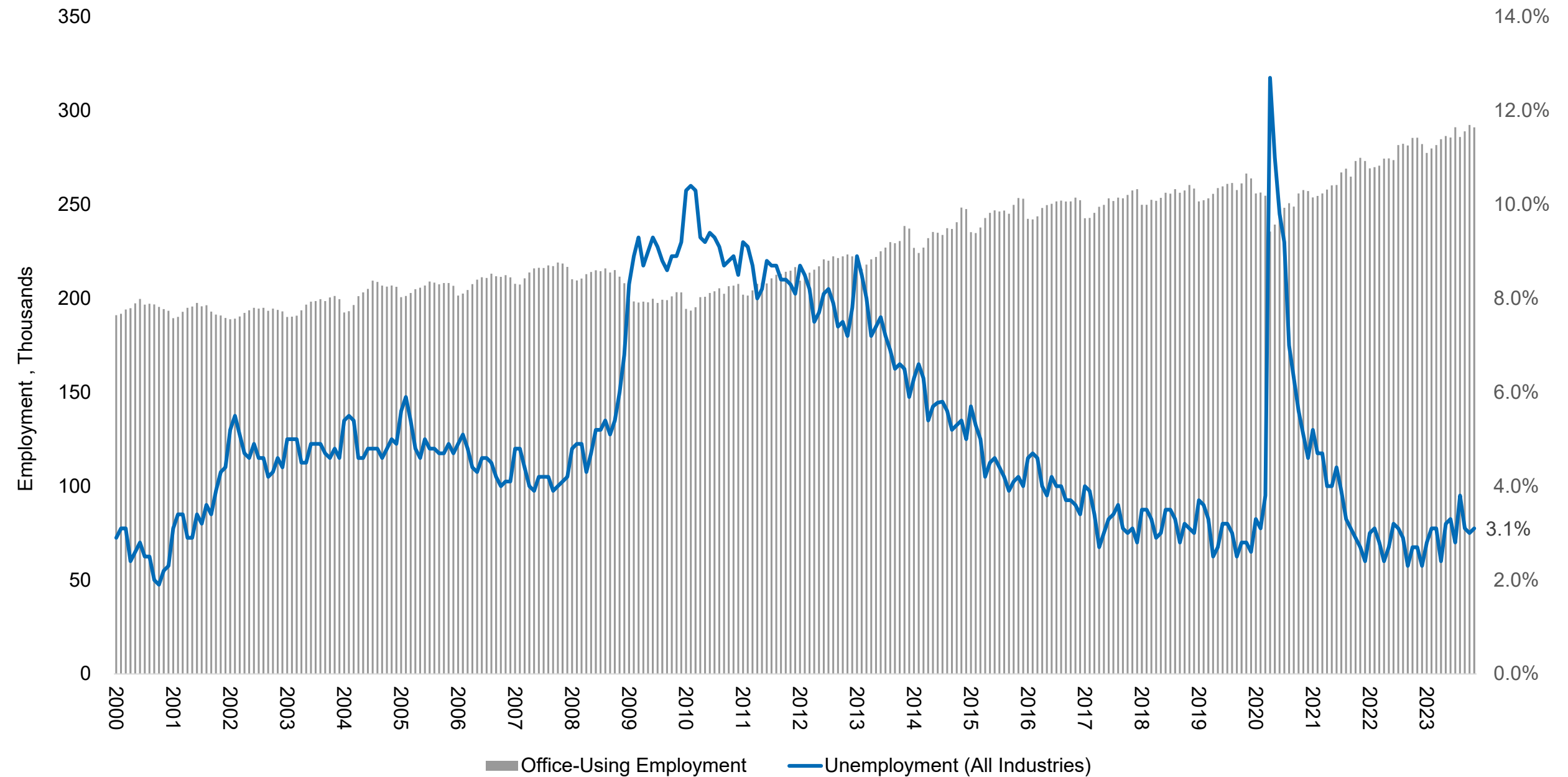


Source: U.S. Bureau of Labor Statistics, Indianapolis-Carmel-Anderson, Indiana

Overall Office-Using Employment Has Rebounded

The number of office jobs has rebounded and surpassed pre-pandemic levels while overall unemployment in Indianapolis remains lower than the national average thanks to a diverse economy.

Office-Using Employment* and Unemployment Across All Industries



Source: U.S. Bureau of Labor Statistics, Indianapolis-Carmel-Anderson, Indiana
Note: November 2023 data is preliminary
*Office-using employment includes employment in the following industry sectors: Professional & Business Services, Financial Activities and Information.

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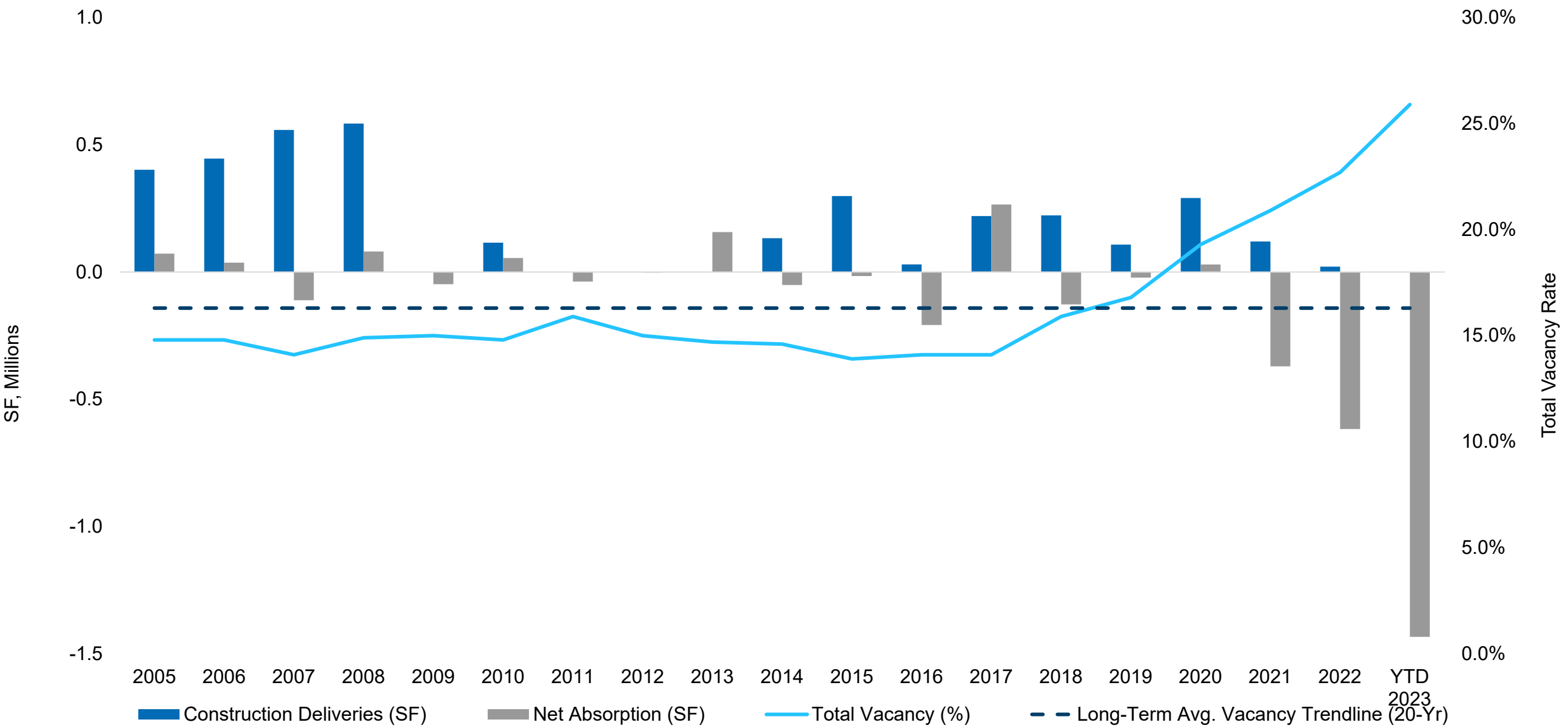
Leasing Market Fundamentals



Vacancy Rises as Construction Deliveries Outpace Net Absorption

The vacancy rate climbed again this quarter to a new high of 25.9%, a 30-basis point increase from last quarter due to significant negative absorption.

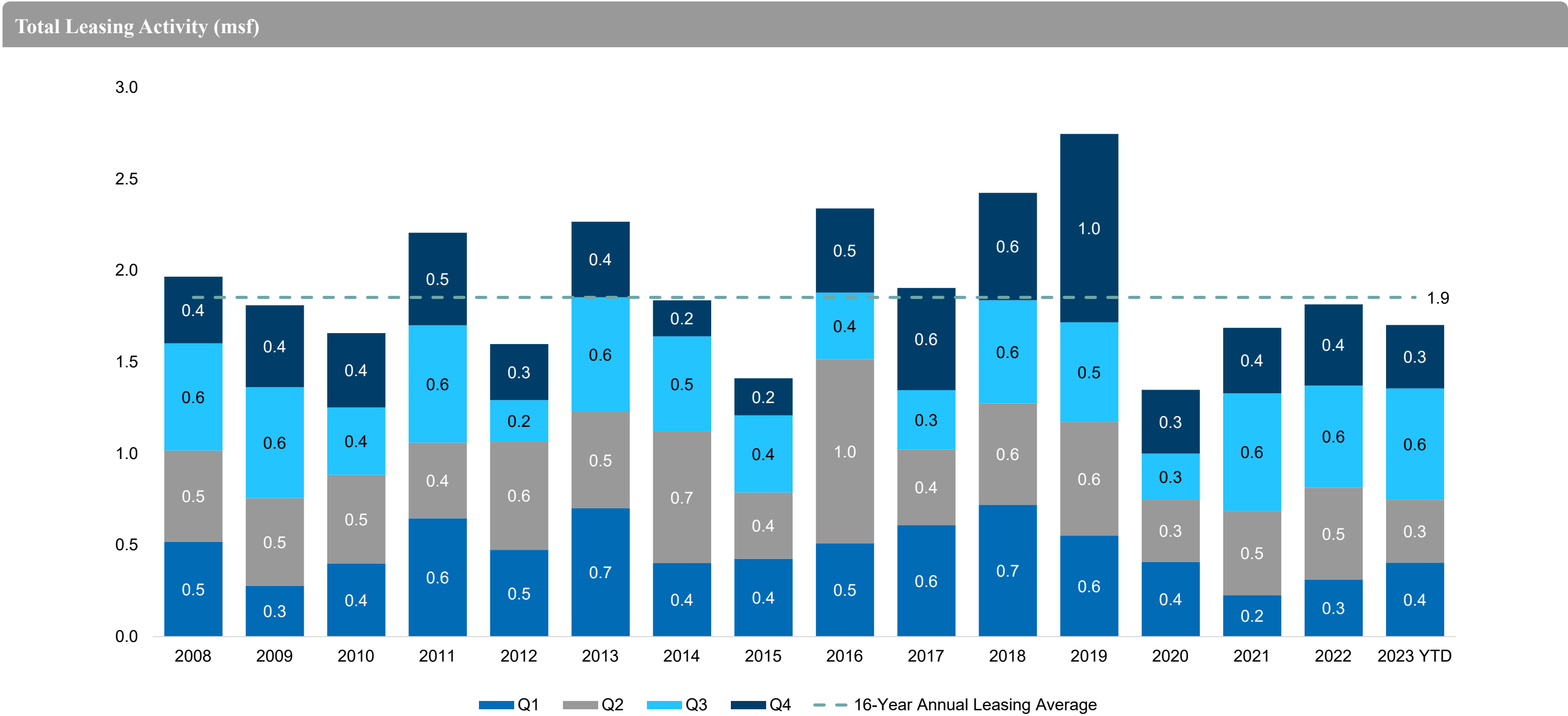
Historical Construction Deliveries, Net Absorption, and Vacancy



Source: Newmark Research

Leasing Activity Slows Following Strong Third Quarter

Demand for space has been muted in the office market and that was reflected in the fourth quarter as leasing volume was half of what it was in the third quarter and remains below the 16-year average.

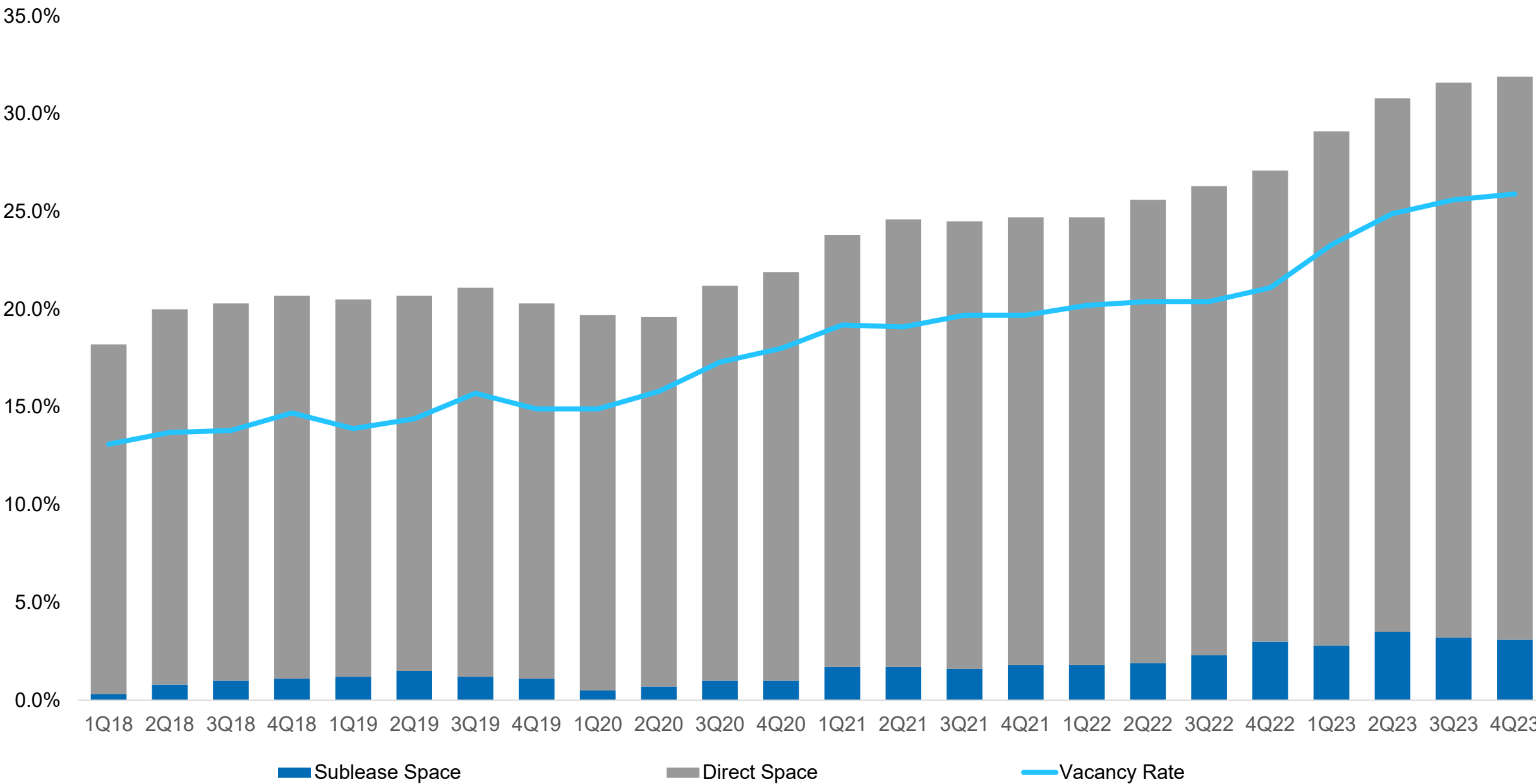


Source: Newmark Research, CoStar

Availability Continues to Increase While Tenant Demand Drops

Like many office markets in the U.S. the availability and vacancy rates in the Indianapolis office market have increased as tenants continue to struggle with bringing employees back into the office and shrink their footprints as a result.

Available Space and Tenant Demand as Percent of Overall Market

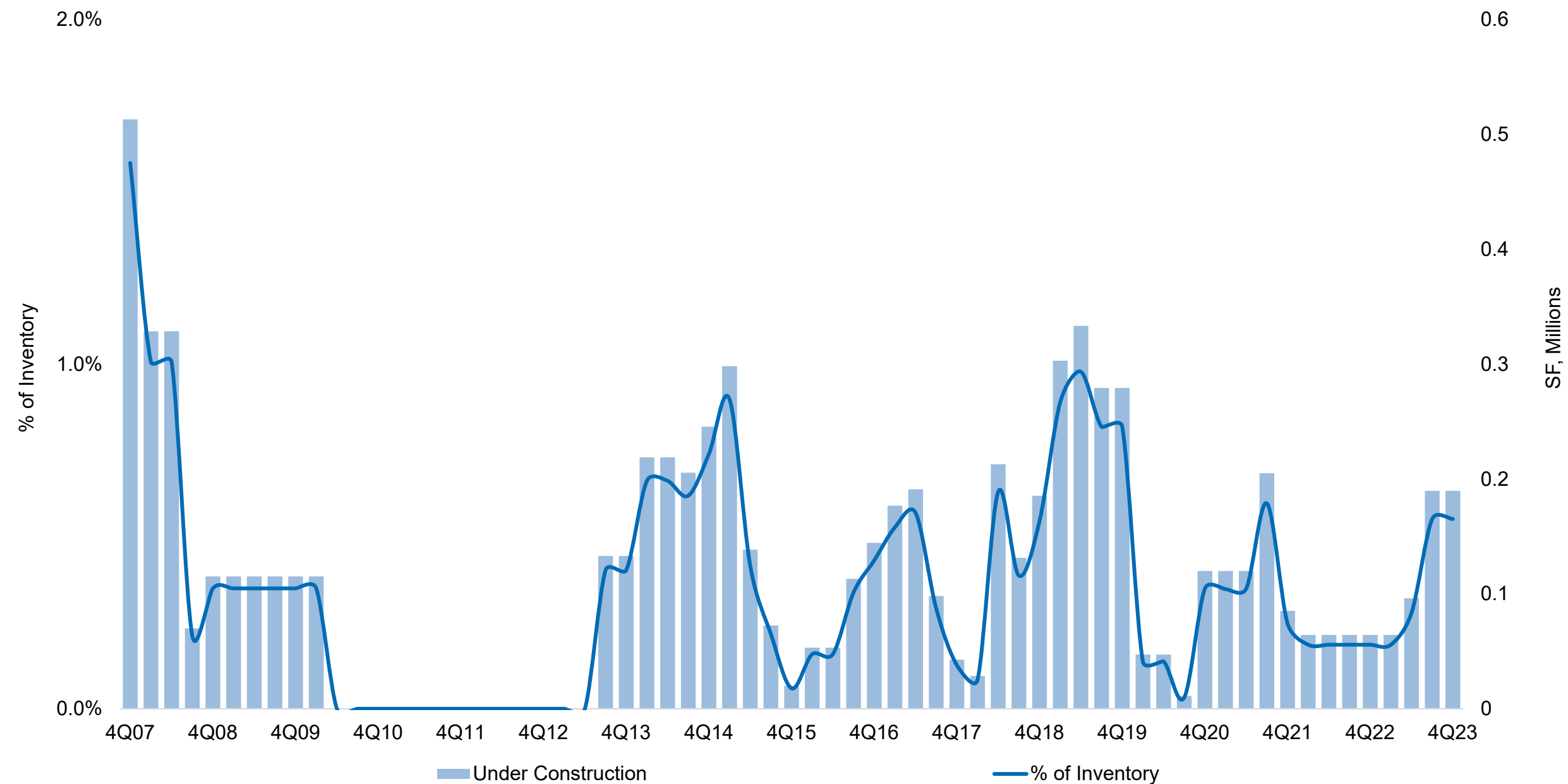


Source: Newmark Research

Square Footage Under Construction Double From Previous Quarter

There was no change in the amount of square footage under construction this quarter.

Office Under Construction and % of Inventory

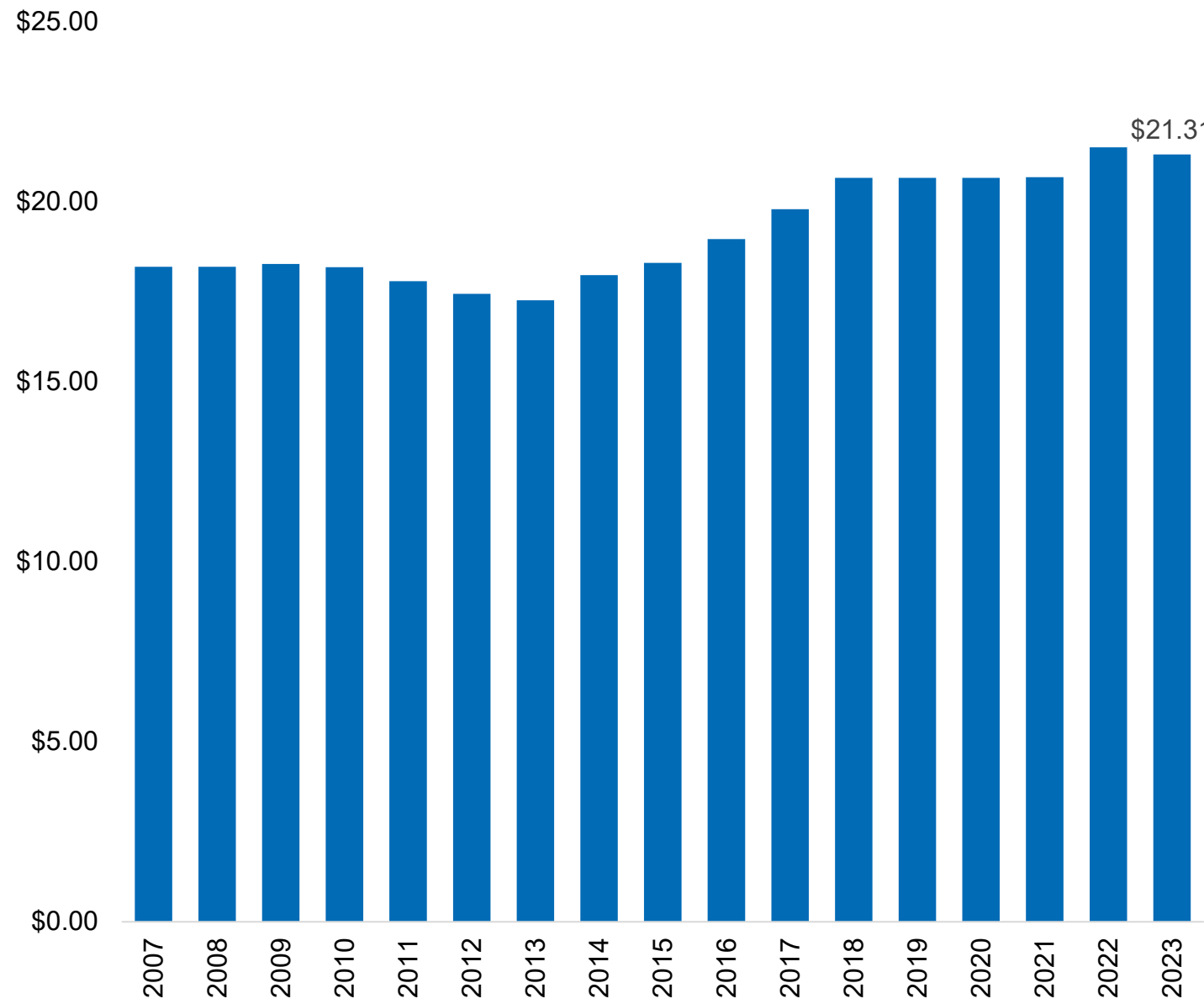


Source: Newmark Research, CoStar

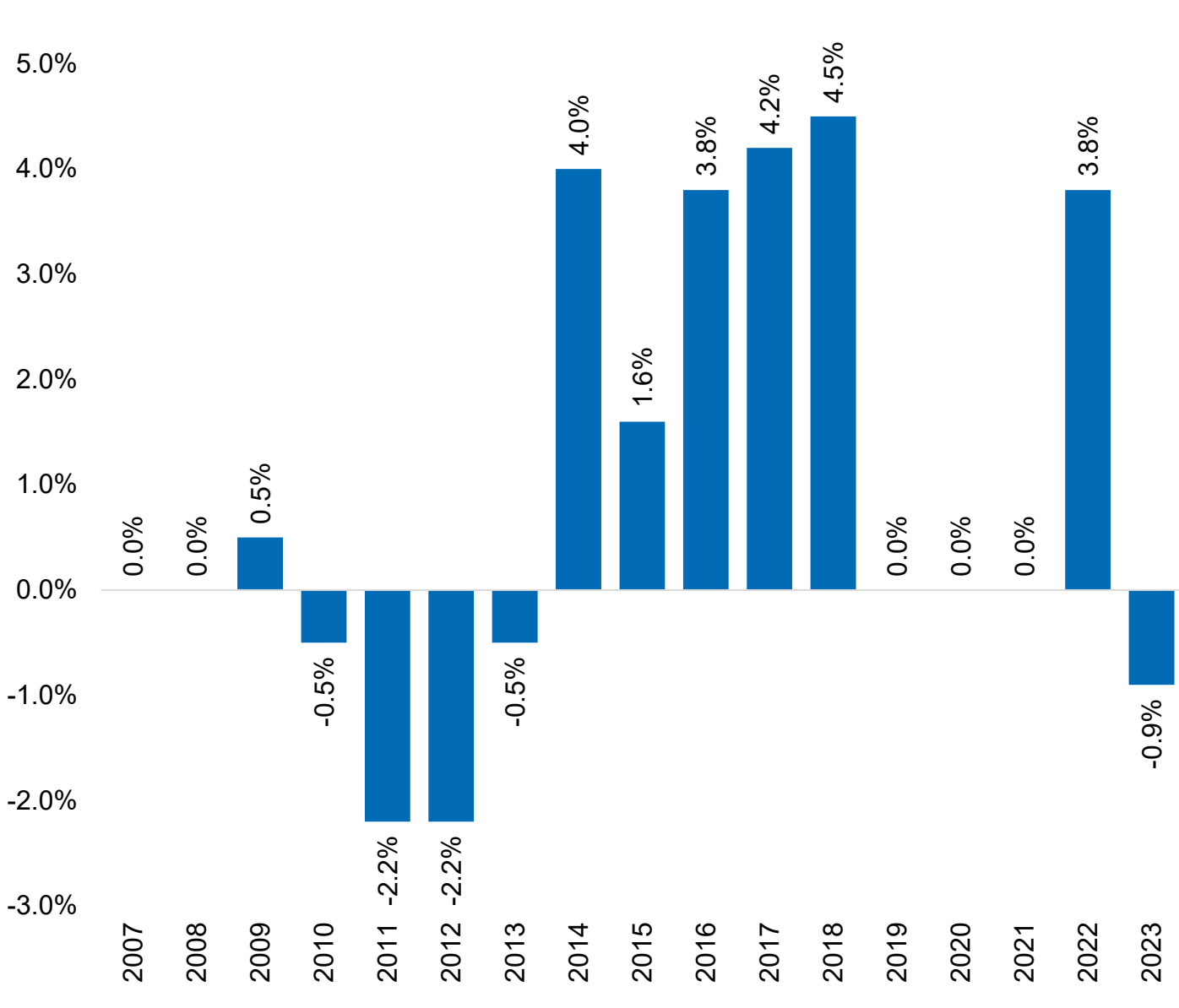
Rents Fall Slightly, Still Up Year-Over-Year

Overall asking rates fell this quarter to \$21.31 after increasing last quarter.

Office Average Asking Rent, \$/SF, FS



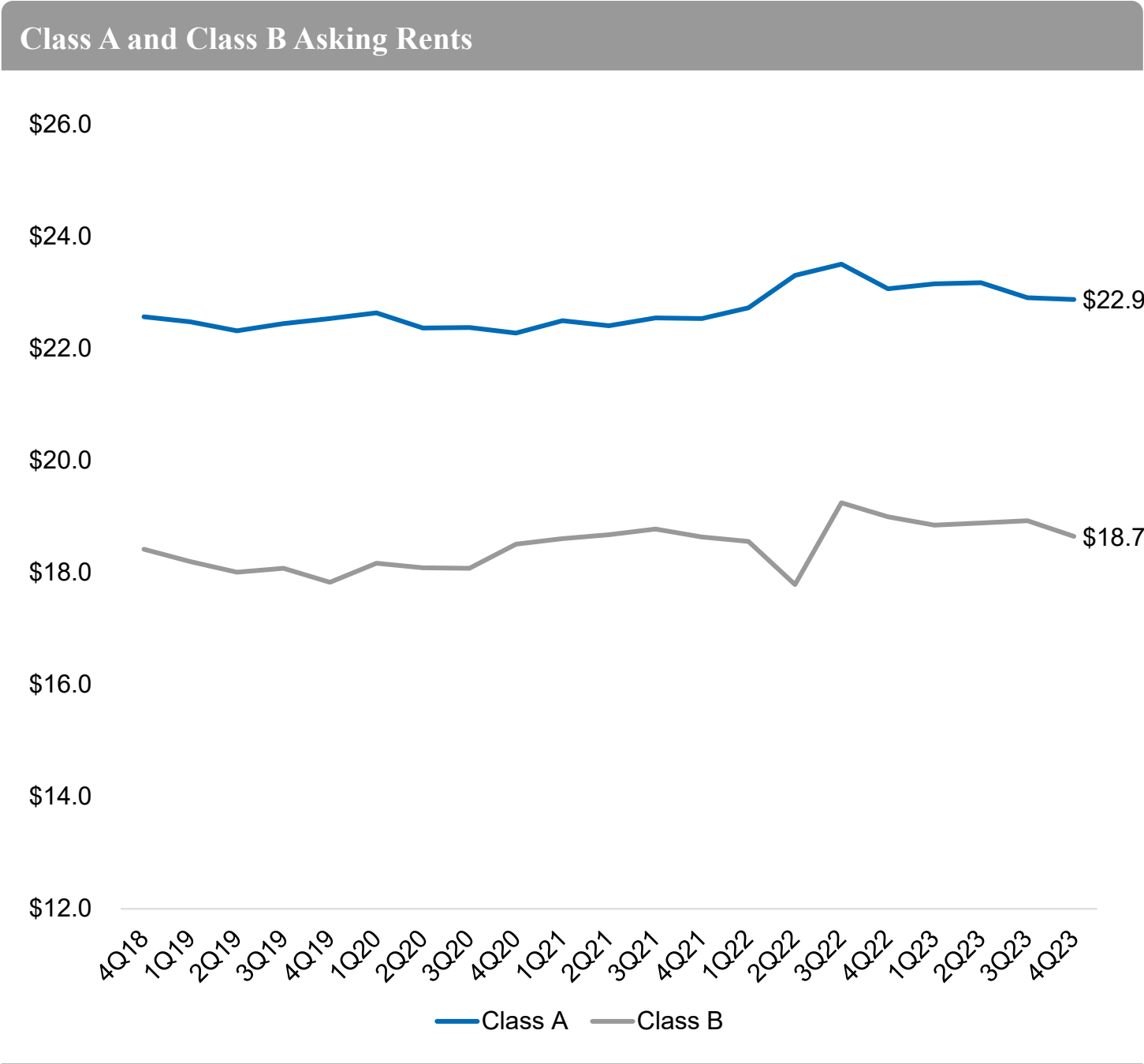
Year-over-Year Asking Rent Growth Rate



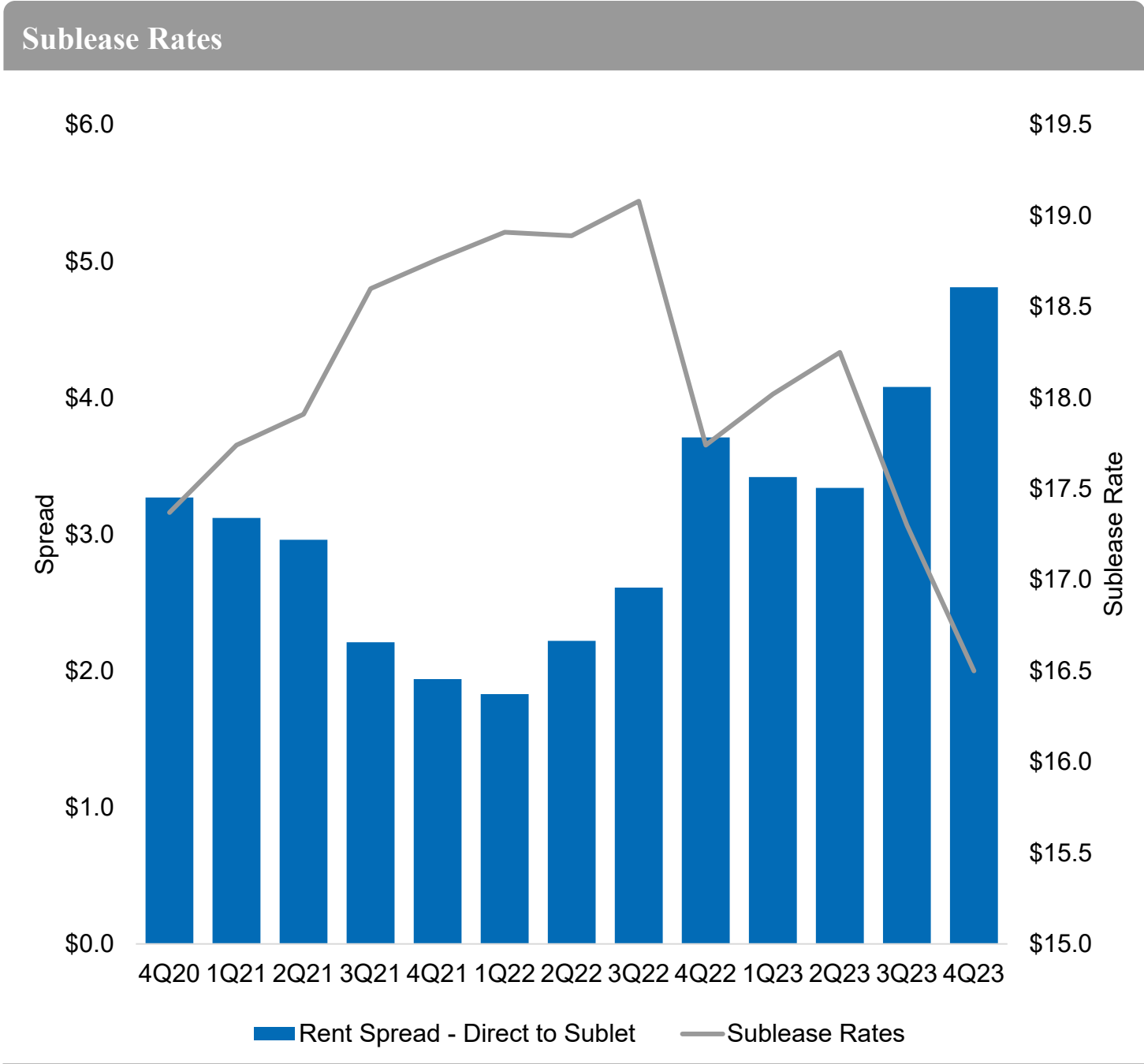
Source: Newmark Research, CoStar

Asking Rents March On

In past cycles, asking rents have adjusted downward to account for depressed demand; however, asking rents have largely held value since the onset of the pandemic. Some rent compression is being experienced among major markets, but secondary and tertiary markets continue to appreciate. As sublease availability has increased over the last 18 months asking rates have fallen while direct rates have held relatively steady, widening the gap between direct and sublease rates.



Source: Newmark Research, CoStar



Leasing Activity Falls Short in 4Q23

Transaction sizes were smaller this quarter, contributing to an overall decline in leasing volume for 2023.

Notable 4Q23 Lease Transactions				
Tenant	Building(s)	Submarket	Type	Square Feet
Community Hospital	11911 N Meridian St.	Carmel	Direct	40,000
VonLehman CPA & Advisory	5975 N. Castle Creek Pky.	Castleton	Direct	10,200
American Health Network	10995 Allisonville Rd.	Castleton	Direct	10,000

Notable 4Q23 Sale Transactions				
Buyer	Building(s)	Seller	Price/SF	Square Feet
Echo Real Estate Capital	11455 N. Meridian St.	Carrie Elizabeth Kaminsky	\$235.88	33,174
Bruce Wishard	8440 Woodfield Crossing Blvd.	Neyer Properties	\$45.44	125,458
CEC of Indiana	8071 N. Township Line Rd.	Ventas, Inc.	\$31.87	26,353

Source: Newmark Research, CoStar

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