So far this year has mirrored last as negative net absorption is still a drag on the office market.

The cost of construction continues to significantly outpace the rate of inflation. These increases are putting a real dent in investment returns for office owners.

The bullish stock market, overall positive economic news, and expanding jobs report has yet to materially translate into filling vacancies.

We continue to expect technology to pressure overall occupancy market-wide as employers continue to leverage it along with coworking space and mobile office options.

Jeff Harris
President | NAI Meridian

INDIANAPOLIS, INDIANA
The Market

Negative Absorption Still A Drag On The Office Market.

The first half of 2019 saw steady activity. However, net absorption remained negative overall as the office market can not overcome the downsizing and vacancy pressures currently in existence.

The suburban net absorption came in at <573,303> and the CBD net absorption was <74,398>. The market experienced a number of large tenants leave the market along with significant downsizing which left numerous large tracts of space available.

At last count we had over 40 buildings with at least 30,000 rentable square feet of contiguous available space market-wide.

However, the “flight to new construction” continues for those employers looking to create a better, more efficient work space to compete for the best employees in a competitive job environment.

Employers recognize the need for open and collaborative space design to meet the expectations of younger, more tech savvy employees.

Investment sale activity was moderate with Keystone at the Crossing and South Park Business Center trading in late June.

9200 Keystone Crossing

* The information contained herein has been given to us by sources we deem reliable. We have no reason to doubt its accuracy, however, we do not make any guarantees. All information should be verified before relying thereon.

* Source: NAI Meridian and CoStar Property®
<table>
<thead>
<tr>
<th>Submarket</th>
<th>Inventory SF</th>
<th>Under Construction SF</th>
<th>12 Mo Net Absorption SF</th>
<th>Vacancy Rate</th>
<th>Market Rent SF</th>
<th>Market Sale SF</th>
<th>Market Cap Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>CBD</td>
<td>13.4 M</td>
<td>0</td>
<td>(234 K)</td>
<td>14.0%</td>
<td>$23.44</td>
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<tr>
<td>Midtown</td>
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<td>$18.85</td>
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<td>N. Meridian</td>
<td>9.1 M</td>
<td>0</td>
<td>253 K</td>
<td>12.4%</td>
<td>$22.47</td>
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<td>Keystone</td>
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<tr>
<td>Northeast</td>
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<tr>
<td>West/Southwest</td>
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<td>Greenwood</td>
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<td>$20.16</td>
<td>$133</td>
<td>8.1%</td>
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</tbody>
</table>
Absorption: Measure of Demand in Square Footage for Office Space (All Office Space)

Total Net Absorption for All Markets Mid Year 2019 = 647,701
(increasing from 122,790 at year end 2018)

The breakdown of total absorption between the Suburbs and the CBD was:
- Suburbs 573,303
- CBD 74,398

CBD Absorption/Deliveries/Vacancy Mid Year 2019
Citywide Statistics
All Classes of Office Space

Office Space Statistical Changes First Half and Last Half and Year-Over-Year

4th Qtr. 18 vs. 2nd Qtr. 19

- NET ABSORPTION
- VACANCY RATE
- CONSTRUCTION
- ASKING RATES

2nd Qtr. 18 vs. 2nd Qtr. 19

- NET ABSORPTION
- VACANCY RATE
- CONSTRUCTION
- ASKING RATES

CBD Net Absorption Mid Year 2019

CoStar

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Metro Indy Overview

Vacancy
- Decreased to 23.70% in the suburbs at the end of Q2 2019.
- CBD vacancy increased to 22.00% for Q2 2019 up from 17.26% at the end of Q4 2018.
- Net absorption was weak market-wide with <573,303 sq. ft. in the suburbs and <74,398 sq. ft. in the CBD for Mid Year 2019.

Rental Rates
(Building Classes A & B Combined)
- Landlord concessions such as free rent, construction allowances, etc., are increasing in the suburban submarkets as those markets struggle to fill vacant space. Due to the number of 40,000 sq. ft. tracts of space in the market, we expect rates to be flat in 2019 and concessions from Landlords competing to fill these vacancies to increase.
- Higher construction costs are offsetting some flexibility Landlords have in handing out concessions.

New Construction
(Building Classes A & B Combined)
- Zotec Partners announced a new 120,000 sq. ft. office building in Carmel.
- BW Development announced The Ellipse. A 46,000 sq. ft. speculative office building in Fishers.
- Agora at the Proscenium, a 100,000 sq. ft. speculative office is under construction in Carmel.

Sublease Space
- Inventory of available sublease space city-wide has shrunk from 1.08% at year end to .79% mid year.

Investment Sales
- Keystone at the Crossing sold for an estimated $142 million to a pair of investment groups, DRA Advisors and M&J Wilkow.
- A partnership led by Gershman Partners purchased 151 N. Delaware Street and 251 E. Market Street in downtown Indianapolis.

Historic Net Absorption

Available Space
Absorption (Net)
The change in occupied space in a given time period.

Available Square Footage
Net rentable area considered available for lease; excludes sublease space.

Average Asking Rental Rate
Rental rate as quoted from each building’s owner/management company. For office space, a full service rate was requested; for retail, a triple net rate requested; for industrial, a NN basis.

Building Class
Class A Product is office space of steel and concrete construction, built after 1980, quality tenants, excellent amenities & premium rates. Class B product is office space built after 1980, fair to good finishes & wide range of tenants.

Direct Vacancy
Space currently available for lease directly with the landlord or building owner.

Market Size
Includes all existing and under construction office buildings (office, office condo, office loft, office medical, all classes and all sizes, both multi-tenant and single-tenant, including owner-occupied buildings) within each market.

Overall Vacancy
All physically unoccupied lease space, either direct or sublease.

SF/PSF
Square foot/per square foot, used as a unit of measurement.

Sublease
Arrangement in which a tenant leases rental property to another, and the tenant becomes the landlord to the subtenant.

Sublease Space
Total square footage being marketed for lease by the tenant.

Sublease Vacancy
Space currently available in the market for sublease with an existing tenant within a building acting as the landlord.
Mid Year ’19
Indianapolis Office Market Report

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