

Year End '18

Office Market Report



INDIANAPOLIS, INDIANA

The Market

The flat market we called in our mid year report continued through year end for 2018. Overall the market experienced negative net absorption in the last half of the year.

While the overall economy remains strong (albeit slowing) it has not translated into an increased velocity for positive absorption market-wide.

Construction costs continue to increase creating additional pressure on landlords returns. We do not expect construction costs to moderate in 2019.

New single tenant, build-to-suits and corporate downsizing will continue to add space to the market and will be a big influencer in 2019 and should result in rents being flat throughout the coming year.

Jeff Harris
President | **NAI Meridian**

Moderate Leasing Activity and Downsizing Leads to Negative Net Absorption Market-Wide.

The last half of 2018 ended with moderate activity. Negative overall absorption continues to drive market fundamentals with <70,029> in the suburbs and <52,764> in the CBD. Downsizing and consolidation are still significant drivers in the office market.

Our most recent survey of large tracts of vacant space shows 17 properties with 40,000 sq. ft. or more of space containing over 1.8 million sq. ft. This does not include the 180,000 sq. ft. building KAR will vacate this year when they occupy their new headquarters currently under construction.

This availability will allow tenants to drive better lease terms and place additional pressure on landlords to offer greater incentive to successfully compete for these larger tenants.

Overall the CBD is still the stronger submarket. The lack of new office construction and the desire by employees to be near the night life, restaurants, and housing is a significant factor in office leasing downtown.

Investment sales remain strong especially the multi-family and office markets. While the industrial market is very active with little vacancy sales were moderate in 2018.



Hamilton Crossing VI

* 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®

Market Overview Report

Total Market Statistics

Submarket	Inventory SF	Under Construction SF	12 Mo Net Absorption SF	Vacancy Rate	Market Rent SF	Market Sale SF	Market Cap Rate
CBD	13.3 M 0% Prior Period 13.3 M	0 - Prior Period 0	(243 K) -172.1% Prior Period 337 K	13.8% +1.8% Prior Period 12%	\$22.59 +4.0% Prior Period \$21.72	\$130 +1.6% Prior Period \$128	8.3% +0.1% Prior Period 8.2%
Midtown	1.7 M 0% Prior Period 1.7 M	0 - Prior Period 0	(94.9 K) -7640.0% Prior Period (1.2 K)	23.4% +5.5% Prior Period 17.9%	\$18.48 +3.6% Prior Period \$17.83	\$124 +3.1% Prior Period \$121	8.3% 0% Prior Period 8.3%
N. Meridian	9 M +5.8% Prior Period 8.5 M	0 -100% Prior Period 492 K	380 K +297.6% Prior Period (193 K)	14.1% +0.5% Prior Period 13.6%	\$22.15 +4.9% Prior Period \$21.13	\$153 +2.0% Prior Period \$150	7.7% +0.1% Prior Period 7.6%
Keystone	4.2 M 0% Prior Period 4.2 M	0 - Prior Period 0	(77.5 K) -1228.2% Prior Period 6.9 K	18.7% +1.9% Prior Period 16.8%	\$22.51 +4.6% Prior Period \$21.51	\$152 +0.9% Prior Period \$151	7.6% +0.1% Prior Period 7.5%
Northeast	5 M 0.5% Prior Period 5 M	0 -100% Prior Period 6.3 K	39.5 K +151.6% Prior Period (76.5 K)	18.8% -0.4% Prior Period 19.2%	\$19.11 +4.4% Prior Period \$18.31	\$141 +1.6% Prior Period \$139	7.6% 0% Prior Period 7.6%
Northwest	5.5 M 0% Prior Period 5.5 M	0 - Prior Period 0	(39.2 K) +79.1% Prior Period (188 K)	18.0% +0.7% Prior Period 17.3%	\$18.33 +3.5% Prior Period \$17.70	\$122 +1.9% Prior Period \$120	7.8% +0.1% Prior Period 7.7%
West/Southwest	1.8 M 0% Prior Period 1.8 M	0 -100% Prior Period 28.5 K	(3.5 K) -105.3% Prior Period 67.6 K	22.0% +1.4% Prior Period 20.6%	\$15.23 +3.6% Prior Period \$14.69	\$108 +3.4% Prior Period \$105	7.8% 0% Prior Period 7.8%
East/Southeast	392 K 0% Prior Period 392 K	0 - Prior Period 0	(66.3 K) -210.6% Prior Period (21.3 K)	47.2% +16.9% Prior Period 30.3%	\$15.07 +4.3% Prior Period \$14.45	\$130 +4.4% Prior Period \$125	7.8% -0.1% Prior Period 7.9%
Greenwood	1.5 M 0% Prior Period 1.5 M	0 - Prior Period 0	(189) K -2349.3% Prior Period (7.7 K)	21.1% +12.5% Prior Period 8.6%	\$20.12 +4.0% Prior Period \$19.34	\$132 0% Prior Period \$132	7.8% +0.1% Prior Period 7.7%

Metrowide Statistics

Office Leasing

Absorption: Measure of Demand in Square Footage for Office Space (All Office Space)

Total Net Absorption for All Markets Year End 2018 = <122,793>
(decreasing from <401,183> at mid year 2018)

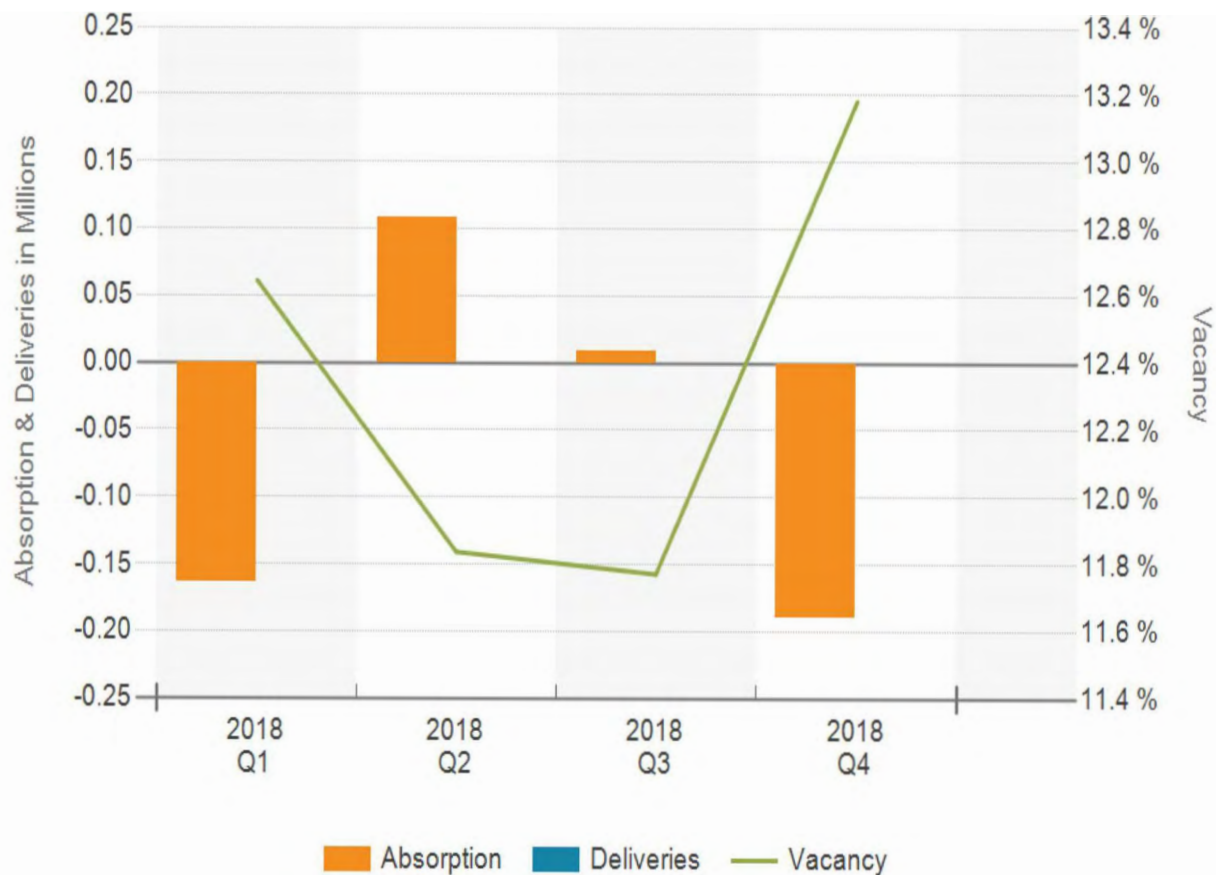
The breakdown of total absorption between the Suburbs and the CBD was:

Suburbs <70,029>

CBD <52,764>

CBD Absorption/Deliveries/Vacancy Year End 2018

Absorption, Deliveries, Vacancy



Citywide Statistics

All Classes of Office Space

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

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



NET ABSORPTION



VACANCY RATE



CONSTRUCTION



ASKING RATES

4th Qtr. 17 **vs.** 4th Qtr. 18



NET ABSORPTION



VACANCY RATE



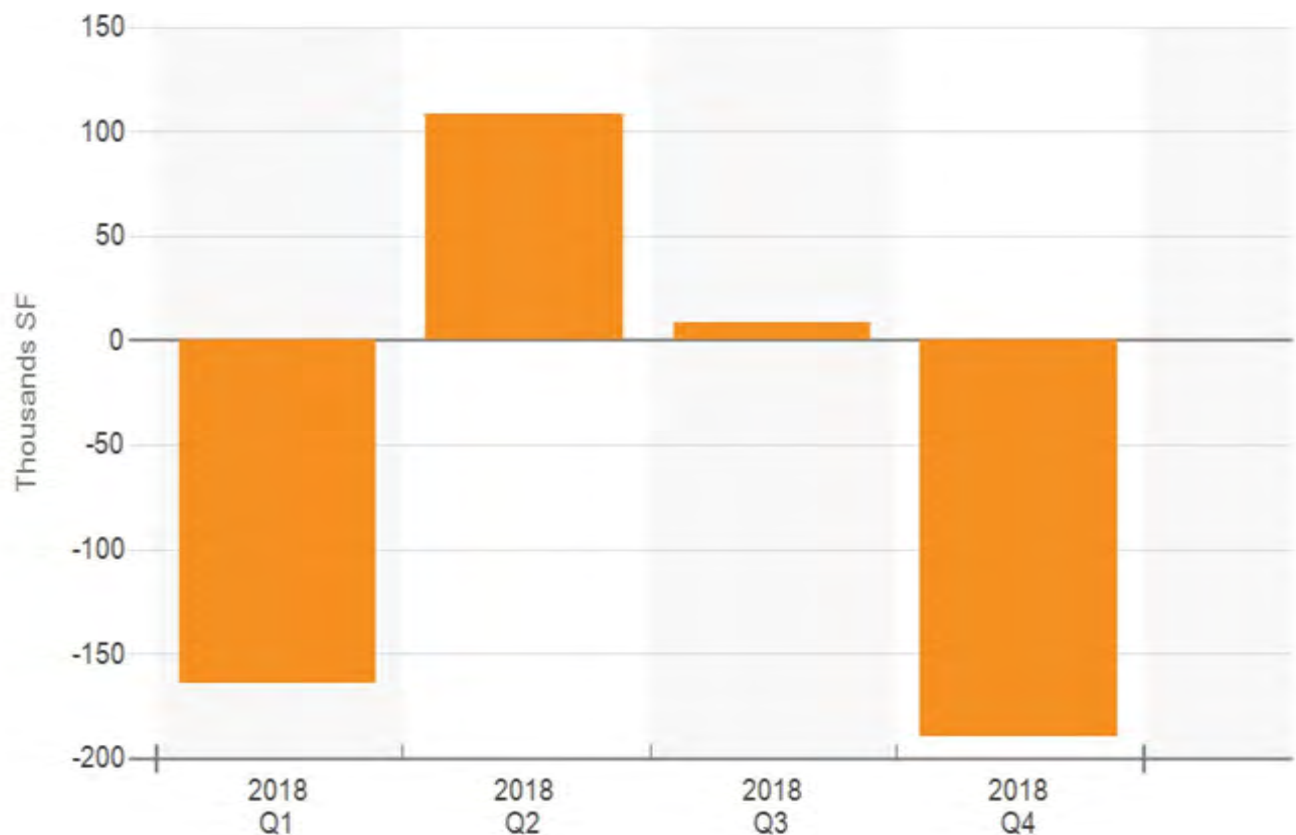
CONSTRUCTION



ASKING RATES

CBD Net Absorption Mid Year 2018

Net Absorption



Metro Indy Overview

Office
Leasing

Vacancy

- Increased to 25.15% in the suburbs at the end of Q4 2018.
- CBD vacancy slightly increased to 17.26% for Q4 2018 up from 16.40% at the end of Q2 2018.
- Absorption was weak market-wide with <70,029> sq. ft. in the suburbs and <52,764> sq. ft. in the CBD for Year End 2018.

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.

New Construction

(Building Classes A & B Combined)

- A 80,000 sq. ft. spec office building is under construction in Fishers.
- A new 36,000 sq. ft. mixed-use office/retail building just opened in midtown Carmel.
- KAR's new 250,000 sq. ft. headquarters located at 106th and US 31 is under construction with a Q2 2019 projected completion.

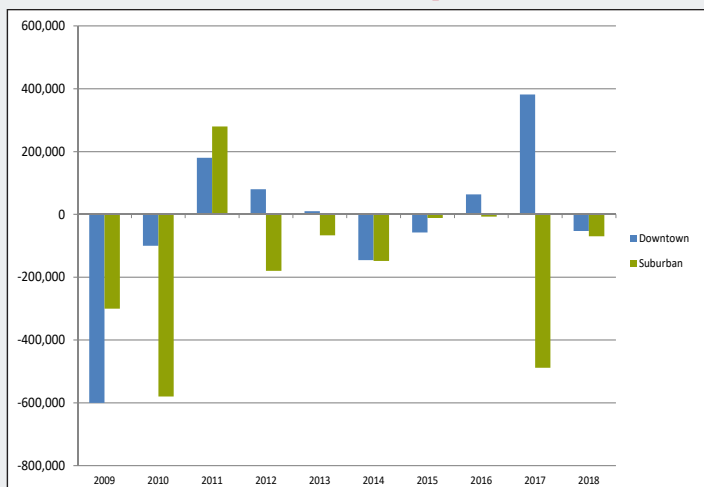
Sublease Space

- Inventory of available sublease space city-wide continues to remain steady at +/- 1.0%.

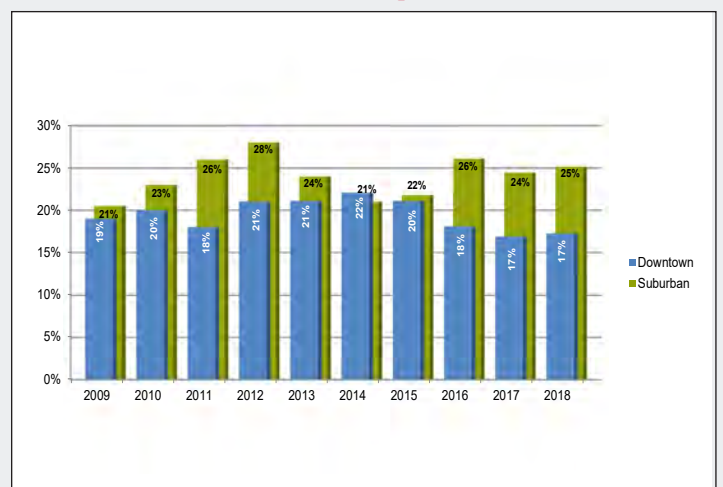
Investment Sales

- BMO Plaza traded for \$65 million to a partnership led by Redico.
- Zeller Realty Group closed on Capital Center for \$62 million.

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

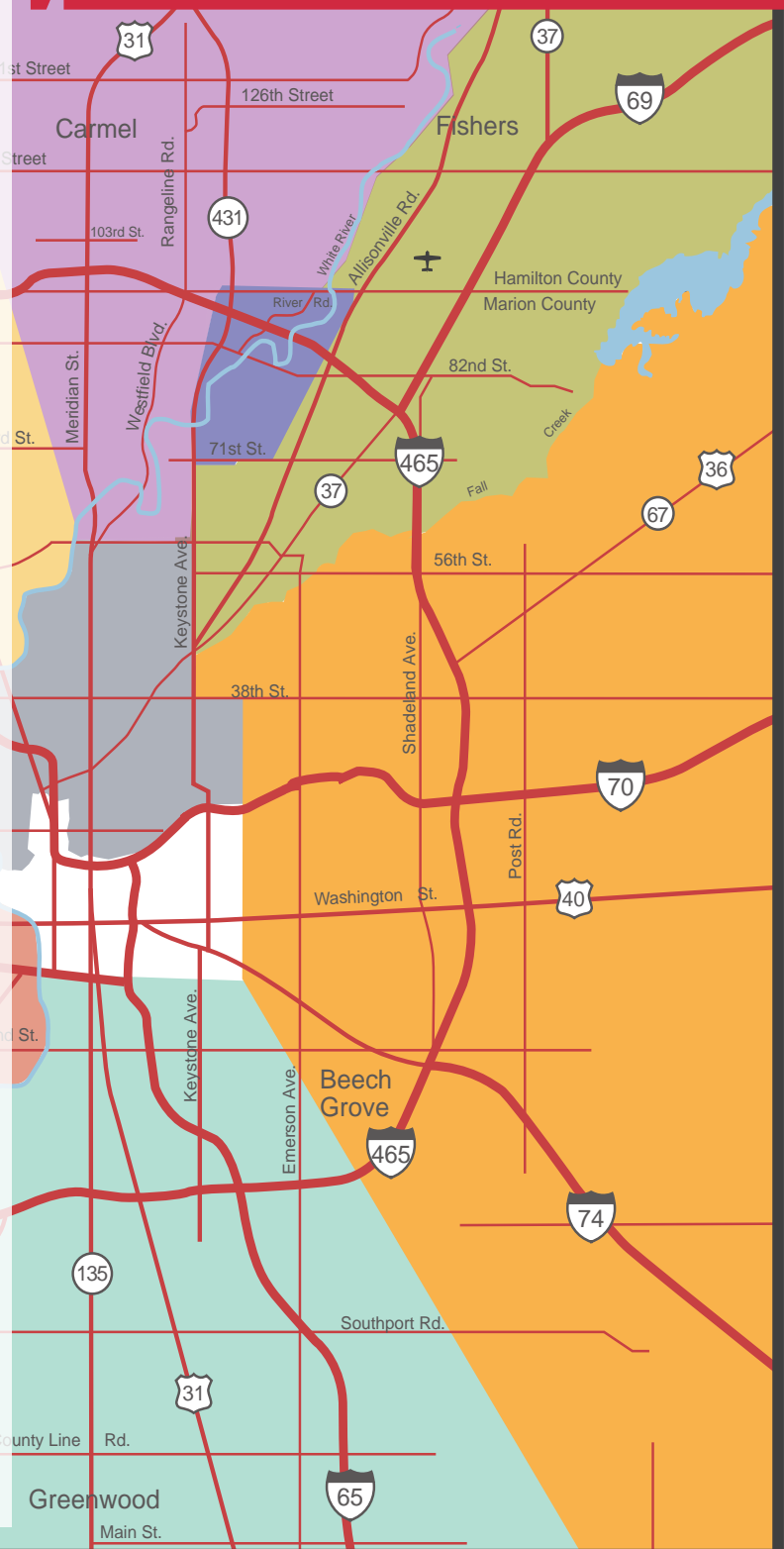
Arrangement in which a tenant leases rental property to another, and the tenant becomes the landlord to the subtenant.

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.



- CBD / Downtown
- Midtown
- North Meridian / Carmel
- Northwest
- West / Southwest
- Greenwood
- East / Southeast
- Keystone
- Northeast

Year End '18

Indianapolis Office Market Report

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