

MARKETBEAT

Indianapolis

Office Q3 2018



INDIANAPOLIS OFFICE

Economic Indicators

	Q3 17	Q3 18	12-Month Forecast
Indianapolis MSA Employment	1.05M	1.07M	▲
Indianapolis MSA Unemployment	3.3%	3.3%	▼
U.S. Unemployment	4.4%	3.9%	▼

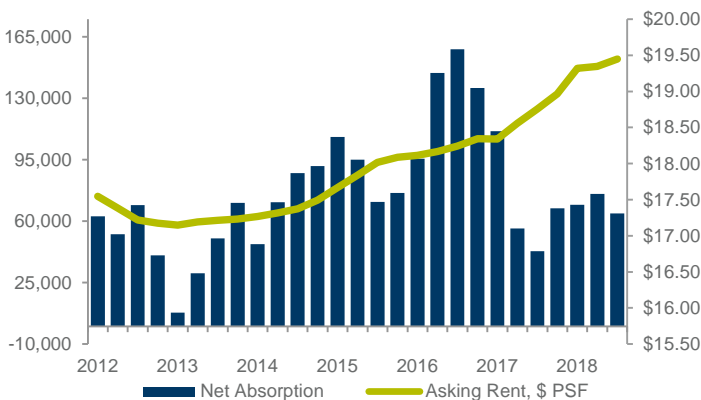
Market Indicators (Direct, All Classes)

	Q3 17	Q3 18	12-Month Forecast
Total Market Vacancy	14.5%	16.4%	▼
Net Absorption (sf)	96K	52K	▲
Under Construction (sf)	331K	602K	▲
Average Asking Rent*	\$19.21	\$19.61	▲

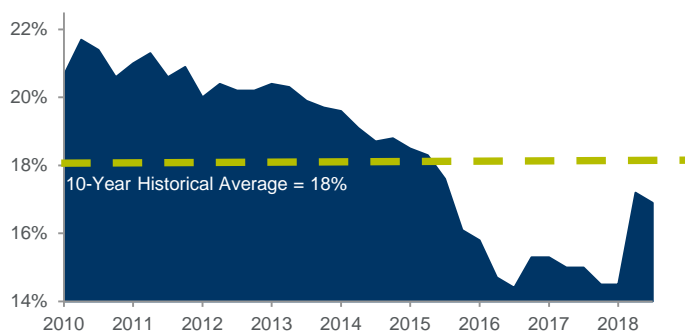
*Rental rates reflect gross asking \$psf/year

Direct Net Absorption/Direct Asking Rent

4-QTR TRAILING AVERAGE



Direct Vacancy



Economy

Indianapolis continued to show strong economic fundamentals as the third quarter of 2018 came to an end. The unemployment rate in the Indianapolis Metropolitan Statistical Area (MSA) rose 30 basis-points (bps) to 3.3%, slightly higher than the second quarter 2018 but still below the national rate of 3.9%. Indianapolis MSA job growth continues to rise, posting 21,800 jobs year-over-year (YOY) in the third quarter of 2018. The office-using job sector played a large role in job growth as the Professional and Business Services sector added 5,900 jobs YOY, while the Financial Activities sector tacked on another 1,400 jobs YOY. Both of these sectors combined, make up over 33% of the total job growth. One interesting trend impacting office-using demand is the relationship between unemployment and job openings. As of July 2018, on a national level, there were still more open jobs than there are unemployed people for only the second time in 20 years. This statistic can be seen on a local level in the Indianapolis MSA also. In July 2018, The Bureau of Labor Statistics reported that there were just over 40,000 jobs available while unemployment sits at 3.3%, or 36,300 people. While workers feel confident they can find better jobs, wages are likely to increase as companies look to retain and attract talent. These dynamics ultimately drive real estate decisions particularly in terms of amenities and space needs.

Market Overview

The Greater Indianapolis office market continues to attract occupiers, posting its 18th consecutive quarter of positive net absorption, totaling just over 52,000 square feet (sf). Indianapolis total market direct vacancy fell to 16.4% as the third quarter 2018 closed. Although absorption was greater during the second quarter of 2018, leasing activity was strong with nearly 700,000 sf of leasing activity, the most of any quarter in 2018. Strong absorption numbers should follow in subsequent quarters. The largest transaction of the quarter was Taft Stettinius & Hollister's 96,000 sf renewal and expansion downtown. Non-CBD submarket North/Carmel saw the largest absorption number of either positive or negative, totaling positive 40,000 sf.

Gross asking rents continued to climb as owners must balance new amenities to attract tenants with the need to maintain return on their investment. As Suburban markets continue to add high-quality Class A space, rents must justify those investments. Suburban asking rents have grown 3.8% YOY, coming in at an average asking rate of \$19.09 per square foot (psf).

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Downtown has also seen an increase in asking rents, although not as large as 3.0% YOY, leaving the current asking rate at \$21.38 psf. As long as construction prices remain high, rents in Indianapolis will continue to rise at a moderate pace as owners respond to increased capital demands.

Two projects of note kicked off construction towards the latter half of the third quarter of 2018. In the Suburban market, Duke Realty Corporation announced that they would be building an 80,000-sf headquarters just east of the Fashion Mall at Keystone on the former Champps restaurant site. With a major tenant now signed, construction was announced for one of the proposed office buildings apart of Bottleworks downtown.

FOR THE 18TH CONSECUTIVE QUARTER, THE GREATER INDIANAPOLIS OFFICE MARKET POSTED POSITIVE ABSORPTION TOTALING OVER 55,000 SQUARE FEET.

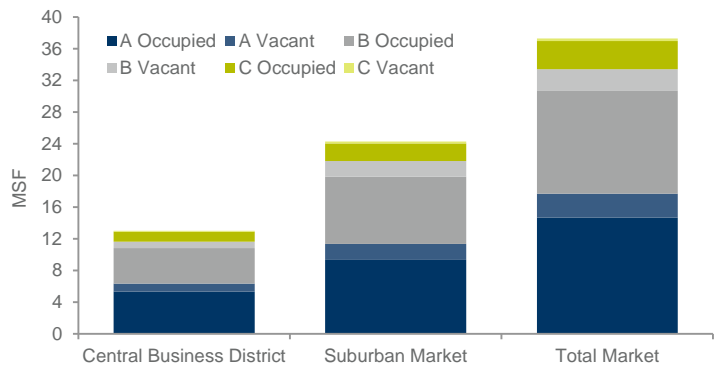
High Alpha has committed to take 41,000 sf in the mixed use building that will also include retail and residential. Both projects included, Indianapolis ended the third quarter of 2018 with 602,000 sf of office space under construction

Outlook

- As of July 2018, on a national level, there are still more open jobs than there are unemployed people for only the second time in 20 years.
- While workers feel confident they can find better jobs, wages are likely to increase as companies look to retain and attract talent, ultimately driving real estate decisions such as amenities and space needs.
- Gross asking rents continue to climb as owners must balance new amenities for tenants and continued return on their investment.
- Investment activity is expected to remain strong as investors look to place a surplus of capital in stable markets such as Indianapolis.

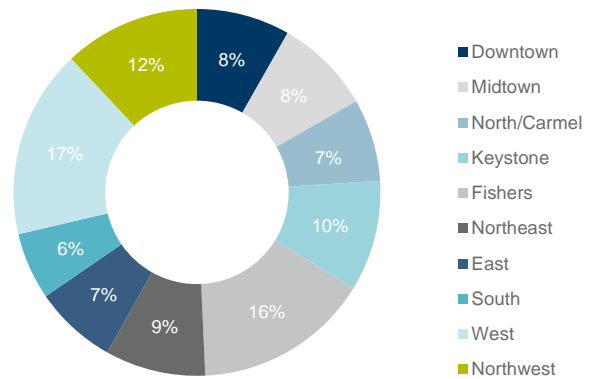
Market Comparison

LEASING DEMAND BY CLASS OF SPACE



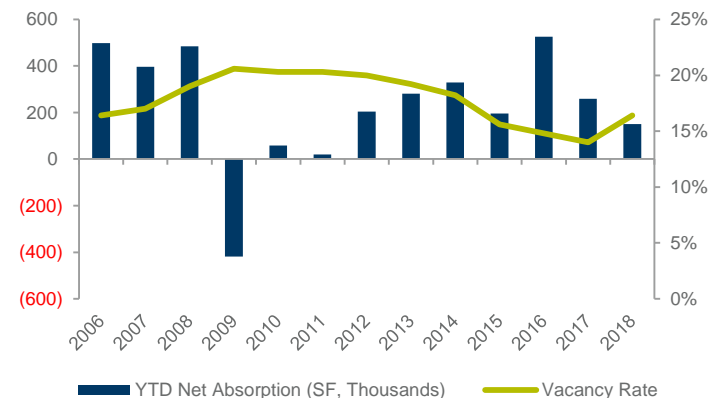
Vacant Space by Submarket

VACANCY AS A PERCENT OF INVENTORY



Net Absorption and Vacancy Trends

OVERALL MARKET: CHANGE IN NET ABSORPTION AND VACANCY



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SUBMARKET	TOTAL BLDGS	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	DIRECT VACANCY RATE	CURRENT QTR DIRECT NET ABSORPTION (SF)	YTD DIRECT NET ABSORPTION (SF)	UNDER DIRECT CNSTR (SF)	AVERAGE ASKING RENT (ALL CLASSES)*	DIRECT AVERAGE ASKING RENT (CLASS A)*
Downtown	84	11,370,001	69,217	1,637,312	14.4%	1,876	17,065	61,470	\$21.28	\$23.13
Midtown	34	1,627,664	0	241,941	14.9%	0	10,834	0	\$16.69	\$22.50
North/Carmel	103	7,427,944	28,619	944,103	12.7%	39,898	109,312	427,600	\$21.25	\$23.58
Keystone	55	4,130,371	74,841	704,266	17.1%	-2,201	(-78,743)	73,000	\$21.81	\$22.54
Fishers	41	1,904,360	2,095	517,595	27.2%	-24,379	13,922	40,000	\$19.55	\$20.61
Northeast	75	3,191,748	19,972	494,423	15.5%	5,774	33,492	0	\$17.58	\$19.31
East	16	537,806	0	68,513	12.7%	15,805	34,191	0	\$14.74	\$0.00
South	49	1,401,063	0	145,112	10.4%	307	10,285	0	\$17.05	\$21.23
West	45	1,863,129	2,027	542,795	29.1%	13,471	28,513	0	\$14.57	\$16.88
Northwest	58	3,841,781	0	807,120	21.0%	-3,339	-27,039	0	\$18.47	\$20.65
INDIANAPOLIS MARKET TOTALS										
Class A	134	17,710,921	149,340	3,035,195	17.1%	75,528	109,933	602,070	\$22.11	
Class B	309	15,710,302	47,431	2,735,167	17.4%	-18,881	60,703	0	\$17.49	
Class C	117	3,874,644	0	332,818	8.6%	-4,077	-19,719	0	\$14.76	
TOTAL	560	37,295,867	196,771	6,103,180	16.4%	52,570	150,917	602,070	\$19.61	

*Rental rates reflect gross asking \$psf/year **Leasing activity does not include renewals

Key Lease Transactions Q3 2018

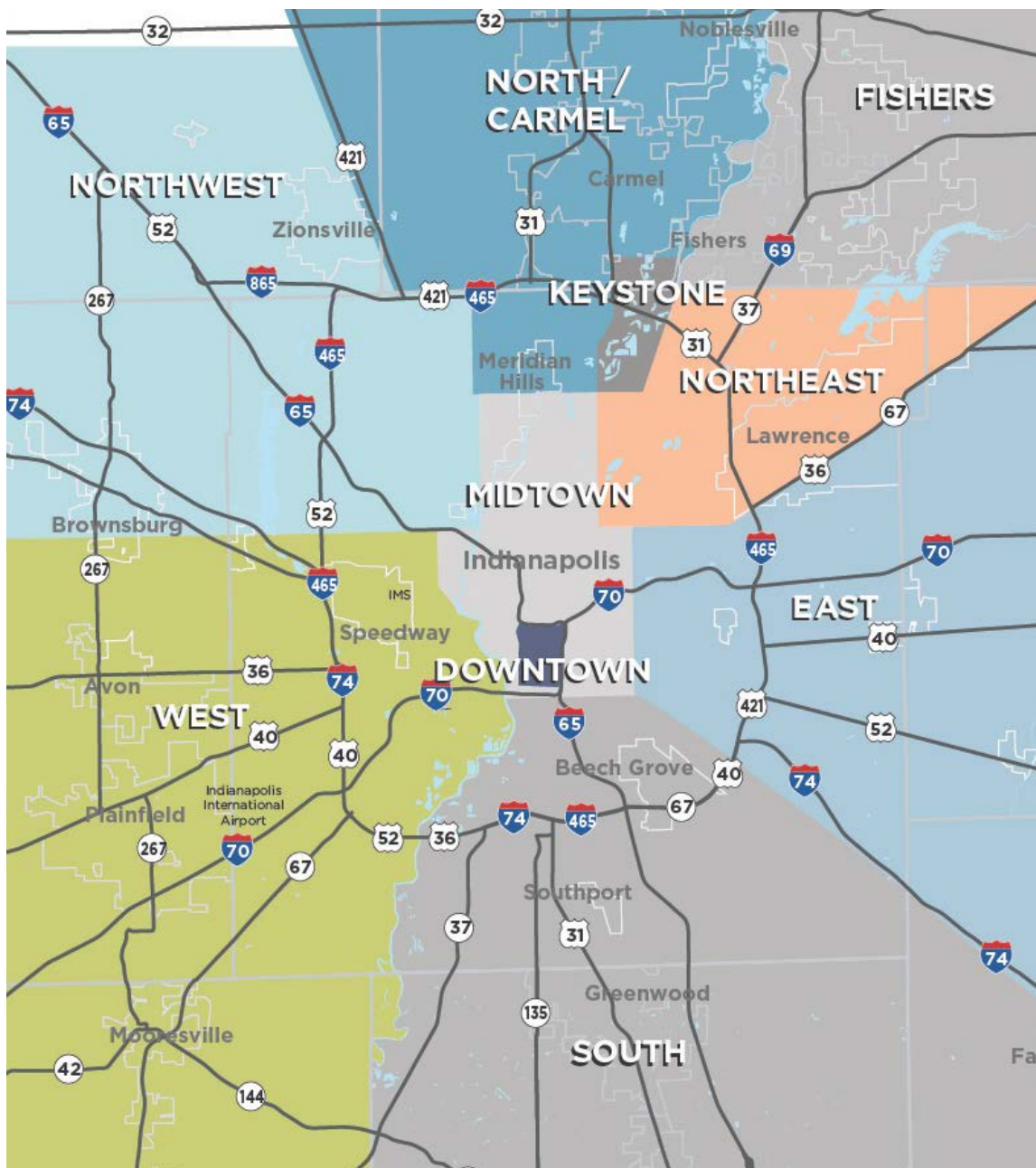
PROPERTY	SF	TENANT	TRANSACTION TYPE	SUBMARKET
211 N Pennsylvania St.	95,839	Taft Stettinius & Hollister	Renewal/Expansion	Downtown
8711 River Crossing Blvd.	78,000	Duke Realty Corp.	Lease	Keystone
830 Massachusetts Ave.	41,470	High Alpha	Lease	Downtown
1289 City Center Dr.	36,000	Univita Health	Lease	North/Carmel

Key Sales Transactions Q3 2018

PROPERTY	SF	SELLER/BUYER	PRICE / \$PSF	SUBMARKET
201 & 251 North Illinois St.	646,032	Zeller Realty Group/Hertz Investment Group	\$62,000,000/\$96	Downtown
500 & 550 North Meridian St.	334,506	Naya USA Investments/Ambrose Property Group	\$37,000,000/\$110	Downtown
136 East Market St.	54,923	Everwood Hospitality Partners/Hotel Capital	\$5,000,000/\$91	Downtown

OFFICE SUBMARKETS

INDIANAPOLIS



Methodology

Cushman & Wakefield's quarterly estimates are derived from a variety of data sources, including its own proprietary database and historical data from third party data sources. The market statistics are calculated from a base building inventory made up of office properties deemed to be competitive in the Central Indiana marketplace. Older buildings unfit for occupancy or ones that require substantial renovation before tenancy are not included in the competitive inventory. The inventory is subject to revisions due to resampling. Vacant space is defined as space that is available immediately or imminently after the end of the quarter. Sublet space still occupied by the tenant is not counted as available space. The figures provided for the current quarter are preliminary and all information contained in the report is subject to revisions based on additional data received.

New Statistical Series

To ensure the highest level of data integrity, Cushman & Wakefield periodically undertakes a comprehensive, quantitative and qualitative, review of all office inventory in the Central Indiana marketplace. During Q2 2018, Cushman & Wakefield Research conducted an extensive review of the office market and transitioned to a new data series.

Explanation of Building Characteristics

Class A: Most prestigious buildings competing for premier office users with above average rents. High quality standards, well-located. Typically steel and concrete construction, built or renovated after 1980, quality tenants, excellent amenities & premium rents.

Class B: Buildings competing for wide range of office users with average rents. These buildings do not compete with Class A space. Typically built or renovated after 1960, with fair to good finishes & for a wide range of tenants.

Class C: Buildings competing for tenants requiring functional space at below market rents.

Existing Office Inventory: In general, includes existing competitive buildings but does not include 85% or greater owner-occupied, government, retail, industrial, medical or educational buildings. Inventory base square footage includes all competitive buildings that are classified as office. In the case of medical, note that medical tenants in an office building do not preclude the

building's inclusion in statistics. The rule is that a medical building is built for the purpose of housing solely medical occupants and is often in an area dominated by medical uses such as hospitals or clinics. On average, the national minimum standard for inclusion in statistics is 20,000 square feet and while this may vary slightly by market, each market is required to incorporate a minimum threshold.

About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global real estate services firm that delivers exceptional value by putting ideas into action for real estate occupiers and owners. Cushman & Wakefield is among the largest real estate services firms with 48,000 employees in approximately 400 offices and 70 countries. In 2017, the firm had revenue of \$6.9 billion across core services of property, facilities and project management, leasing, capital markets, valuation and other services. To learn more, visit www.cushmanwakefield.com or follow [@CushWake](https://twitter.com/CushWake) on Twitter.