

YoY Chg

18.6%
Vacancy Rate ▲

-394K
Net Absorption, SF ▼

\$21.44
Asking Rent, PSF ▲

Overall, All Property Classes

ECONOMIC INDICATORS Q1 2021

Outlook

1,061.5K
Indianapolis MSA Employment ▲

4.4%
Indianapolis MSA Unemployment Rate ▼

6.0%
U.S. Unemployment Rate ▼

Source: BLS, Moody's Analytics

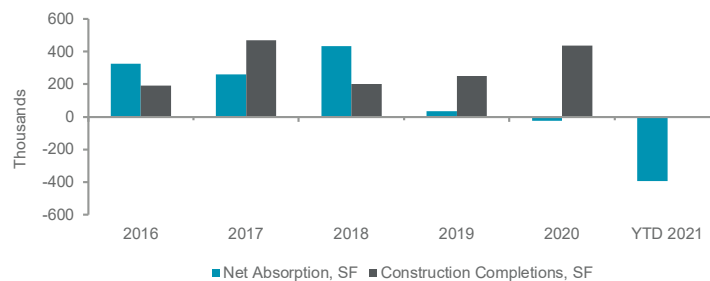
ECONOMIC OVERVIEW: Economic Recovery Apparent, Vaccination efforts continuing

The favorable economic conditions that began forming near the end of the 2020 has continued to gain momentum in the early part of 2021 as vaccination efforts gain pace and negative COVID-19 conditions turn positive. The March jobs report showed that nonfarm payrolls grew by 916,000 for the month which was way ahead of Dow Jones estimates of 675,000 jobs. The March gains were the largest since August 2020 when 1.58 million jobs were added. While the gains were broad-based, areas hit hardest by the pandemic such as leisure and hospitality jobs saw the largest growth at 280,000 new hires, a critical indicator to the restoration of the overall jobs market. Much of the growth is being supported by the reduction in COVID-19's influence on the economy. Many states and local municipalities are beginning to fully reopen their economies as daily positive COVID-19 cases trend dramatically lower since their peak in January. Much of the reduction can be attributed to vaccination efforts which are ahead of previous forecasted timelines and should begin hitting their stride as many states have reduced age restrictions to include individuals 16 years and older. As of April, roughly 18.5% of the total U.S. population have been fully vaccinated while 32% have received at least one dose.

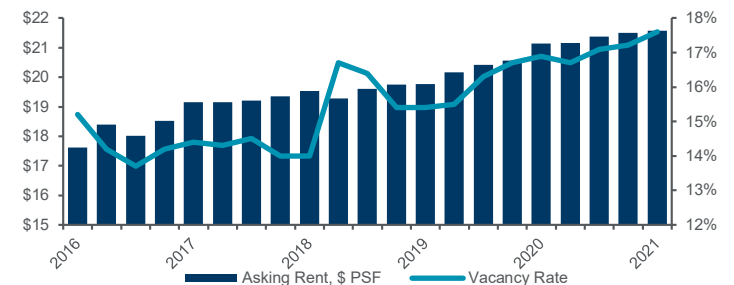
DEMAND: Net Occupancy Losses Due to Consecutive Shallow Leasing Activity, Recovery Forthcoming

Consecutive quarters with declining leasing activity finally caught up with the market as net absorption tanked for the first quarter of 2021. In total, nearly 395,000 square feet (sf) of space was given back to the market which marked the largest negative amount of net absorption since the onset of COVID-19. Leasing velocity for the first quarter tallied just over 175,000 sf which set another pandemic low compared to the previous low of 200,000 sf and is 245,000 sf off the pace experienced in first quarter 2020. Over the past four quarters, leasing activity has been on a gradual decline quarter-over-quarter (QOQ) as many occupiers delay long term leasing decisions or have adopted a work-from-home model. This has also caused vacancy rates to rise above 10-year average levels. Currently total market vacancy is up 122 basis points (bps) year-over-year (YOY) and resides at 18.6% overall. Sublease vacancy continues to rise across the market, doubling the amount of square footage vacant YOY. Sublease vacancy still only represents less than 1% of the overall vacancy in the market, though. Despite the less than appealing market fundamentals to start 2021, optimism continues to cultivate as vaccination efforts spread. Cushman & Wakefield's forecasting team predicts the second half of 2021 is when we will begin to see relatively normal activity return to the market as occupiers begin to make more long term investments in their reimagined real estate strategy while also taking advantage of the oversupplied market conditions.

SPACE DEMAND / DELIVERIES



DIRECT VACANCY & ASKING RENT



INDIANAPOLIS

Office Q1 2021



PRICING: Asking Rents Begin Signs of Descent, Discounted Sublease Space to Blame

Overall, all class rental rates began the year down \$0.02 from pricing realized at the end of 2020, settling at \$21.44 per square foot (psf) gross. The current rate still represents a 1.6% growth YOY in rental rate averages but is well off the 4.2% YOY average growth experienced in fourth quarter 2020. Both Class A and Class B rents saw their YOY growth trajectories cut as compared to the previous quarter with Class B rents suffering the largest blow. Overall Class B rents declined \$0.21 QOQ and saw the YOY growth rate drop from 6% in the fourth quarter 2020 to 0.9% in the current quarter. The negative pressure on Class B rents can be attributed to the nearly 90,000 sf of discounted sublease space that hit the market in the first quarter. Class A rents, however, fared better, but still not great. Overall Class A rents increased \$0.08 QOQ and saw the YOY growth rate drop from 4.1% in the fourth quarter 2020 to 2.7% in the current quarter. Negative pressure on rents will continue to be apparent despite asset class until we see normal demand activity resume. Expect rents to find their cyclical low at some point in mid to late 2021 and begin their rebound before the end of the year.

SUPPLY: No New Deliveries, New Starts Dependent on Preleasing

While no new construction was delivered to begin the year, all projects currently in the construction pipeline are expected to delivery in 2021. Currently, four projects totaling 344,000 sf are under construction with just over 75% of space preleased. Three of the projects are build-to-suit in nature and account for nearly 80% of the total pipeline square footage. For the foreseeable future, we expect new construction projects to struggle breaking ground without significant preleasing activity.

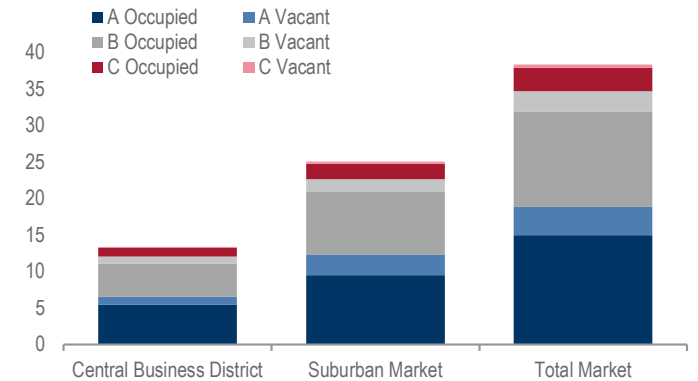
SALE ACTIVITY: Salesforce Tower Trades Hands, Activity Sluggish but Improve by Year End

Sale activity started 2021 on a positive note as Indiana's largest office tower, Salesforce Tower traded hands. Oklahoma City-based Square Deal Capital made their second significant investment in the Indianapolis CBD purchasing Salesforce Tower and the attached Circle Building from California-based Hertz Investment Group for \$192.5 million or nearly \$182 per square foot. The sale accounted for over 1 million square feet (msf) of the 1.2msf of sales activity for the quarter. Other notable sales to start 2021 include the sale of the two building Pennwood Office complex to Kirby Real Estate and Fortune Park 7 to Lin Family Group. Expect the first half of 2021 to continue to have sluggish or below potential sales activity as the fundamentals of the market continue to work themselves out. The second half of 2021, though, should provide a turning point or slight improvement to sales activity.

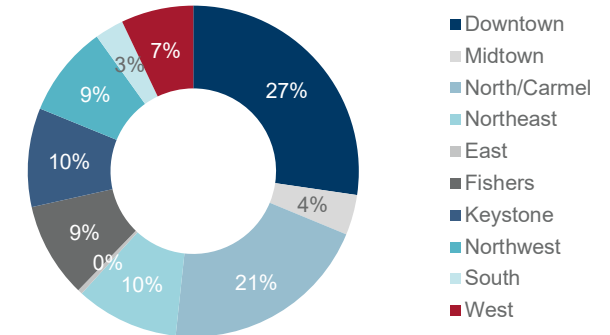
Outlook

- The favorable economic conditions that began forming near the end of the 2020 has continued to gain momentum in the early part of 2021 as vaccination efforts gain pace and negative COVID-19 conditions turn positive. For positive economic sentiment to continue to grow, the overall influence of COVID-19 on the openness of the economy will need to continue to reduce.
- The Indianapolis office market started the year giving back nearly 395,000 sf of space as leasing velocity sets a new pandemic-era low point with just over 175,000 sf of activity. Due to net occupancy losses, overall vacancy is up 122 bps YOY residing at 18.6%.
- Rents fell off \$0.02 as compared to fourth quarter 2020 due in part to the influx of discounted sublease space that was vacated in the first quarter. Class B particularly effected overall average market rents with \$0.21 decline QOQ because of a nearly 90,000 sf increase in new sublease space introduced to the market in the first quarter.

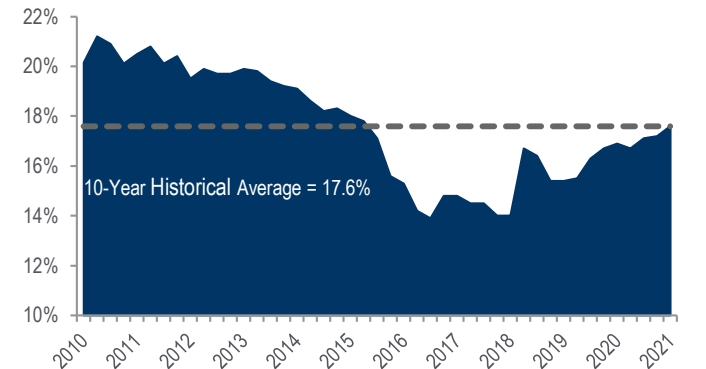
LEASING DEMAND BY CLASS OF SPACE (MSF)



VACANT SPACE BY SUBMARKET



DIRECT VACANCY RATE VS. 10 YEAR HISTORICAL AVERAGE



MARKET STATISTICS

SUBMARKET	INVENTORY (SF)	SUBLET VACANT (SF)	DIRECT VACANT (SF)	OVERALL VACANCY RATE	CURRENT QTR OVERALL NET ABSORPTION	YTD OVERALL ABSORPTION (SF)	YTD LEASING ACTIVITY (SF)	UNDER CNSTR (SF)	OVERALL AVG ASKING RENT (ALL CLASSES)*	OVERALL AVG ASKING RENT (CLASS A)*
Downtown	11,481,043	174,807	1,767,918	16.9%	-186,183	-186,183	29,885	66,000	\$23.74	\$25.54
Midtown	1,836,204	3,667	275,927	15.2%	48,695	48,695	170	0	\$16.54	\$15.40
East	510,538	0	32,520	6.4%	750	750	750	0	\$15.42	N/A
Fishers	2,050,911	52,000	608,798	32.2%	-59,517	-59,517	7,098	208,000	\$21.90	\$23.12
Keystone	4,108,371	56,847	630,114	16.7%	-37,210	-37,210	26,650	0	\$23.66	\$24.32
North/Carmel	8,063,998	41,830	1,414,056	18.1%	-55,673	-55,673	56,777	70,000	\$23.13	\$24.88
Northeast	3,186,589	12,388	704,104	22.5%	-88,668	-88,668	11,530	0	\$18.61	\$20.61
Northwest	3,788,471	23,786	611,582	16.8%	-1,673	-1,673	29,674	0	\$18.32	\$19.95
South	1,429,911	0	201,445	14.1%	11,024	11,024	10,342	0	\$18.30	\$20.48
West	1,891,692	0	502,960	26.6%	-25,843	-25,843	2,438	0	\$15.14	\$16.75
Class A	18,810,938	167,914	3,712,038	20.60%	-135,168	-135,168	94,073	344,000	\$23.88	
Class B	15,869,288	188,288	2,602,801	17.60%	-224,783	-224,783	62,916	0	\$18.98	
Class C	3,667,502	9,123	434,585	12.10%	-34,347	-34,347	18,325	0	\$15.03	
TOTAL	38,347,728	365,325	6,749,424	18.6%	-394,298	-394,298	175,314	344,000	\$21.44	\$23.88

*Rental rates reflect full service asking

KEY LEASE TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	TENANT	RSF	TYPE
10330 N Meridian Street, Indianapolis	North/Carmel	Flywheel	18,854	New Lease
8888 Keystone Crossing, Indianapolis	Keystone	iA Rx	12,272	New Lease
201 S Capitol Avenue, Indianapolis	Downtown	Bradley & Associates, P.C.	12,070	Renewal
6100 W 96 th Street, Indianapolis	Northwest	Centria Healthcare	12,000	New Lease
3500 DePauw Boulevard, Indianapolis	Northwest	Cultivate Cowork Solutions	11,692	Renewal & Expansion

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q1 2021

PROPERTY	SUBMARKET	SELLER / BUYER	SF	PRICE/\$ PSF
111 Monument Circle, Indianapolis	Downtown	Hertz Investment Group Square Deal Investment Management	1,057,877	\$192,501,878/\$181.97
11405 & 11495 Pennsylvania St, Carmel	North/Carmel	Kimmel Square LLC Kirby Real Estate	77,004	\$10,500,000/\$136.36
3939 Vincennes Road, Indianapolis	Northwest	Tower Investments Group Lin Family Group LLC	35,000	\$4,300,000/\$122.86

