

20.4%
Vacancy Rate



-383K
Net Absorption, SF



\$21.44
Asking Rent, PSF



Overall, All Property Classes

ECONOMIC INDICATORS Q1 2023

1.2M
Indianapolis MSA Employment



2.7%
Indianapolis MSA Unemployment Rate



3.5%
U.S. Unemployment Rate



Source: BLS, Moody's Analytics

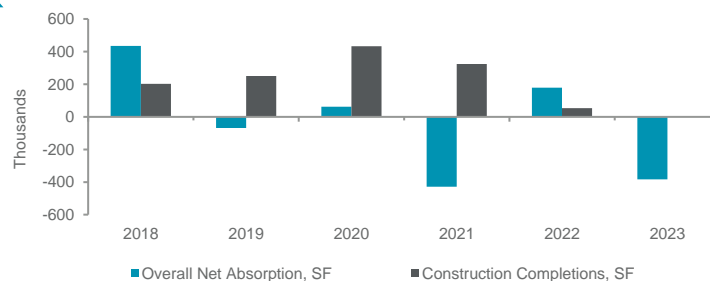
ECONOMIC OVERVIEW: Job Gains Continue, Unemployment Rate Shows Minimal Change

The United States economy continued to add jobs in the first quarter of 2023, with total nonfarm payroll employment increasing by an average of 345,000 during the first three months of the year. Nonfarm payroll employment increased by 236,000 in March, the lightest month of job gains of the year. Government employment increased by 47,000 in March, while professional and business services employment rose by 39,000 during the month. The Federal Reserve raised the target federal funds rate twice in the first quarter, at its February and March meetings, to the 4.75-5.00% range. Despite turmoil in the banking system, the Federal Reserve has indicated it is still committed to getting inflation back to its targeted 2.0% range, though only one hike to the federal funds rate is expected in the remainder of 2023. The U.S. unemployment rate was 3.5% in March and has remained relatively unchanged since 2022. The Indianapolis unemployment rate stayed stable quarter-over-quarter (QOQ) at 2.7% but has increased by 50 basis points (bps) year-over-year (YOY). However, employment in the Indianapolis MSA increased by 3.2% YOY and is expected to continue to rise over the next 12 months.

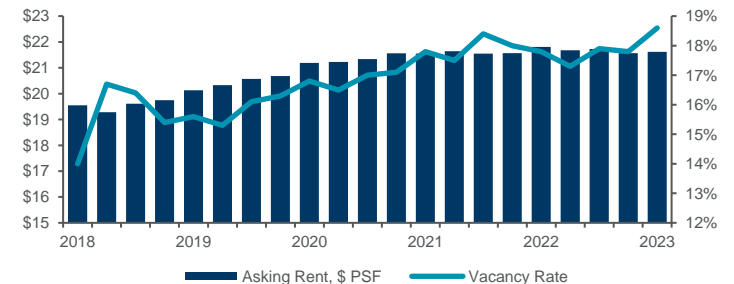
DEMAND: Majority of Occupancy Losses in Class B Properties

The Indianapolis office market posted occupancy losses in nine of its ten submarkets to start off 2023, with overall net absorption totaling negative 383,000 square feet (sf) in the first quarter. Numerous sizeable blocks of space were vacated throughout the market, with Class B space recording the brunt of the occupancy losses, equating to negative 294,000 sf. The corresponding change in the overall market vacancy rate was an increase of 90 bps QOQ and 130 bps YOY to 20.4%. The only submarket with a QOQ vacancy decline was Midtown, though the North/Carmel, Northeast, and South submarkets all posted YOY vacancy decreases. Class A vacancy increased only 50 bps QOQ, while Class B vacancy rose by 160 bps QOQ. The amount of vacant sublease space continued to climb, increasing 7.7% QOQ to 695,000 sf. Sublease space comprised nearly 8.8% of overall vacancy in the first quarter of 2023, compared to just 2.5% in the first quarter of 2020. New leasing activity totaled 282,000 sf in the first quarter, the lightest quarter of leasing since the first quarter of 2021. Downtown was the top submarket for new leasing, with nearly 61,000 sf of new deals inked. The South and Keystone submarkets posted the next highest new leasing totals, equaling 53,000 sf and 46,000 sf, respectively. New leasing activity was relatively split between Class A and B buildings, with 135,000 sf of new leases signed in Class A properties and 129,000 sf of new leases inked in Class B properties.

SPACE DEMAND / DELIVERIES



DIRECT VACANCY & ASKING RENT



INDIANAPOLIS

Office Q1 2023

PRICING: Class A Asking Rents Increase QOQ and YOY

In the first quarter, overall asking rents in the Indianapolis market posted a \$0.12 YOY decrease to \$ 21.44 per square foot (psf) gross. However, Class A overall asking rents increased on both a quarterly and yearly basis, rising \$0.23 QOQ and \$0.16 YOY to \$24.12 psf. The Keystone submarket commanded the highest average asking rents for the fifth straight quarter, with asking rents increasing \$0.35 QOQ and \$0.33 YOY to \$25.14 psf. Class A asking rents were also highest in the Keystone submarket at \$26.35 psf, a 9.2% premium over the average Class A asking rent for the entire Indianapolis market.

SUPPLY: Construction Pipeline Stays Stable

The Indianapolis construction pipeline stayed unchanged in the first quarter, with three buildings totaling 183,000 sf currently under construction. Two of these buildings are projected to deliver in 2023, adding 88,000 sf of new space to the market. Both buildings are located in the North/Carmel submarket in the Midtown Carmel area. In addition, there are two buildings currently under renovation in the Downtown submarket which are both expected to be completed in 2023. These properties will add an additional 244,000 sf of modern office space to the inventory. With the flight-to-quality trend persisting in the Indianapolis office market, these updated and amenitized buildings should be desirable to tenants looking for differentiated space.

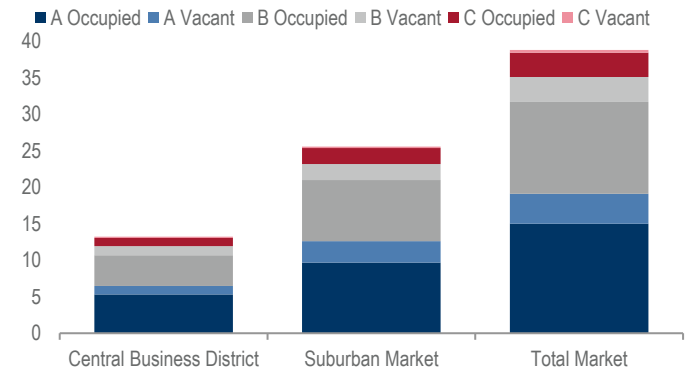
SALE ACTIVITY: Downtown and Class B Dominate First Quarter Sales Activity

Office sales velocity remained subdued to start 2023, with 189,000 sf of space trading hands in the first quarter. Three of the five sales were in the Downtown submarket, accounting for nearly 140,000 sf of the sales activity. The largest of these sales was the 52,000-sf Morrison Opera House at 47-49 S Meridian St, which sold for \$4,100,000 to INC Investments LLC. Allen Plaza at 1 Virginia Ave also sold during the first quarter for an undisclosed sales price. All five sales from the quarter were also in Class B properties.

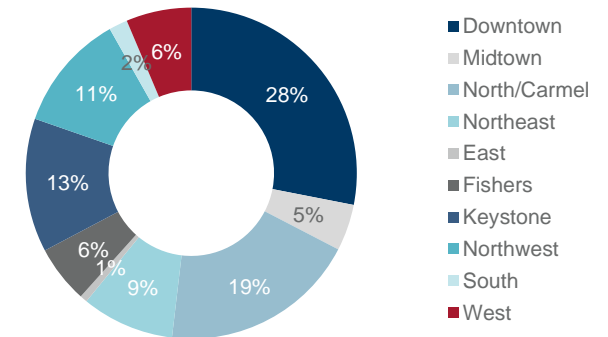
Outlook

- Employment still needs to recover further to reach its pre-pandemic levels, with the labor force participation rate currently 62.4%, below the 63.3% participation rate recorded in February 2020.
- Demand activity was muted to begin 2023, with the first quarter's new leasing total trailing behind 2022's first quarter total. To offset recent occupancy losses, leasing velocity needs to increase.
- Office sales volume was slow to start 2023, with high interest rates and economic uncertainty remaining a major drag on activity. If these trends persist, sales velocity will likely remain at lower levels than seen in previous years.

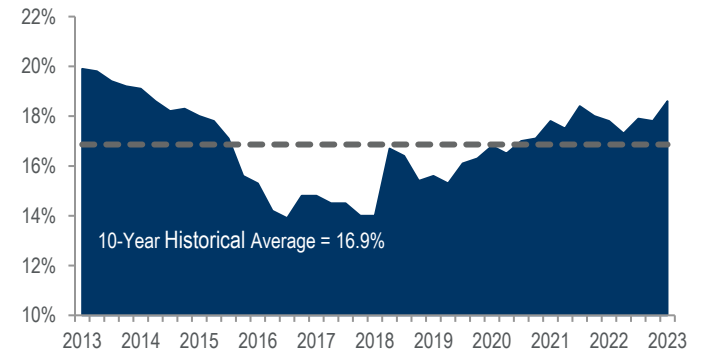
LEASING DEMAND BY CLASS OF SPACE (MSF)



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 | 11,328,711 | 204,739 | 2,016,880 | 19.6% | -17,777 | -17,777 | 60,784 | 94,266 | \$23.39 | \$25.07 |
| Midtown | 1,897,304 | 0 | 359,160 | 18.9% | 6,597 | 6,597 | 12,121 | 0 | \$15.92 | N/A |
| East | 510,750 | 5,144 | 51,576 | 11.1% | -432 | -432 | 503 | 0 | \$18.54 | N/A |
| Fishers | 2,294,748 | 34,238 | 411,354 | 19.4% | -6,211 | -6,211 | 7,965 | 0 | \$21.88 | \$23.25 |
| Keystone | 4,106,618 | 203,049 | 830,391 | 25.2% | -152,243 | -152,243 | 45,525 | 0 | \$25.14 | \$26.35 |
| North/Carmel | 8,158,629 | 91,885 | 1,430,911 | 18.7% | -78,280 | -78,280 | 41,567 | 88,266 | \$22.97 | \$25.30 |
| Northeast | 3,189,594 | 5,883 | 710,820 | 22.5% | -15,151 | -15,151 | 19,336 | 0 | \$19.15 | \$21.43 |
| Northwest | 3,983,828 | 130,694 | 778,032 | 22.8% | -109,981 | -109,981 | 38,129 | 0 | \$18.36 | \$20.04 |
| South | 1,430,411 | 0 | 143,676 | 10.0% | -168 | -168 | 2,679 | 0 | \$16.41 | \$17.42 |
| West | 1,904,055 | 19,212 | 484,920 | 26.5% | -9,123 | -9,123 | 52,898 | 0 | \$16.07 | \$17.06 |
| Class A | 19,114,023 | 397,753 | 3,702,889 | 21.5% | -79,776 | -79,776 | 135,463 | 182,532 | \$24.12 | |
| Class B | 16,001,011 | 297,091 | 3,140,132 | 21.5% | -294,390 | -294,390 | 128,641 | 0 | \$18.64 | |
| Class C | 3,689,614 | 0 | 374,699 | 10.2% | -8,603 | -8,603 | 17,403 | 0 | \$17.34 | |
| TOTAL | 38,804,648 | 694,844 | 7,217,720 | 20.4% | -382,769 | -382,769 | 281,507 | 182,532 | \$21.44 | \$24.12 |

*Rental rates reflect full service asking | Net absorption not reflective of U.S. MarketBeat Tables

KEY LEASE TRANSACTIONS Q1 2023

| PROPERTY | SUBMARKET | TENANT | RSF | TYPE |
|---------------------------------------|-----------|-----------------------------|--------|--------------------|
| 101-115 W Washington St, Indianapolis | Downtown | Indiana Chamber of Commerce | 28,784 | Expansion/Renewal* |
| 111 Monument Circle, Indianapolis | Downtown | Ernst & Young | 20,377 | Renewal* |
| 9225 Priority Way W Dr, Indianapolis | Keystone | Creative Bus Sales | 15,811 | New |
| 7661 N Perimeter Rd, Indianapolis | West | BDP International | 14,199 | Sublease |

*Renewals not included in leasing statistics

KEY SALES TRANSACTIONS Q1 2023

| PROPERTY | SUBMARKET | SELLER / BUYER | SF | PRICE/\$ PSF |
|-----------------------------------|-----------|--|--------|---------------------|
| 47-49 S Meridian St, Indianapolis | Downtown | Bodner-Opera House LLC INC Investments LLC | 52,019 | \$4,100,000/\$78.82 |
| 1 Virginia Ave, Indianapolis | Downtown | Jefferson Plaza LLC One Virginia LLC | 48,990 | Unknown |

