

KEY TAKEAWAYS

- Demand for Indianapolis office spaces has waned, particularly in 4 & 5 Star categories, contributing to a net negative absorption of 210,000 SF, highlighted by CNO Financial Group's sublease for 125,000 SF.
- Despite market softness, Indianapolis maintains competitive rent levels at \$22/SF, experiencing a modest annual rent growth of 1.2%, supported by its strategic location and economic diversity.
- Construction activity continues with 1.5 million SF underway, mostly pre-leased in the CBD and Midtown, including a significant 250,000-SF medical office facility set to complete in summer 2024.



VACANCY RATE

9.6%



MARKET ASKING RENT GROWTH

1.9%



12 MO DELIVERIES IN SF

317K

IMPACT OF MARKET DYNAMICS ON OFFICE REAL ESTATE ACTIVITY IN INDIANAPOLIS

As of mid-2024, Indianapolis' office market faces challenges with vacancy rates rising to 9.5% and a negative net absorption of -210,000 square feet over the past year. High-end properties saw significant losses, while lower-tier properties experienced some positive absorption. Only 120,000 square feet of new space were added, with 1.5 million square feet still under construction. The largest recent leases include Hanzo Logistics' 267,500 square feet in Plainfield and Locations Services' 28,360 square feet in Keystone Crossing. Overall availability is at 10.9%, with notable weaknesses in the Meridian Corridor and Keystone Crossing. Despite national struggles, Indianapolis benefits from a diverse tenant base, including agribusiness, logistics, manufacturing, IT, life sciences, and sports industries. Rent growth has slowed to 1.3% and may turn negative by early 2025, with effective rents further impacted by concessions. Investment activity has declined, with \$193 million in sales over 200 transactions, affected by high interest rates and market uncertainty.

MARKET INDICATORS

1,289,568

SQ FT UNDER
CONSTRUCTION

11.1%

AVAILABILITY
RATE

\$21.96

MARKET ASKING
RENT

KEY INDICATORS

ANNUAL TRENDS

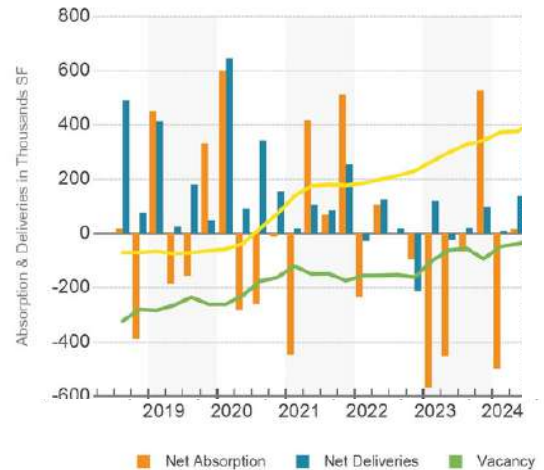
12 MONTH HISTORIC AVERAGE

	12 MONTH	HISTORIC AVERAGE
Vacancy Change	↑ 0.2%	↑ 9.0%
Net Absorption SF	(5.3K)	739,144
Deliveries SF	317K	1,068,971
Market Asking Rent Growth	1.9%	1.3%
Sales Volume	\$176M	\$316.1M

Current Quarter	RBA	Vacancy Rate	Market Asking Rent
4 & 5 Star	27,427,900	15.4%	\$24.65
3 Star	47,860,873	9.1%	\$22.25
1 & 2 Star	36,213,809	5.9%	\$19.47
Market	111,502,582	9.6%	\$21.96

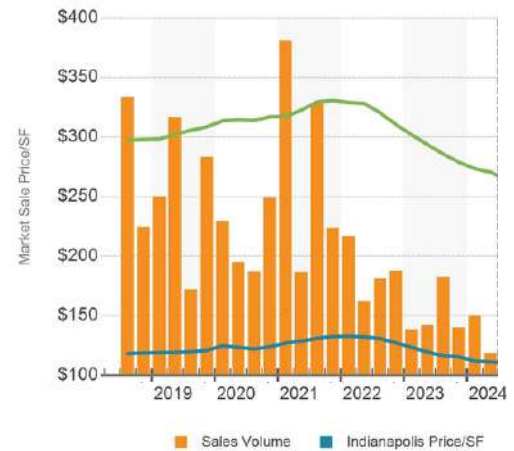
LEASING

Indianapolis' office market has faced a downturn, with negative demand in four of the past five quarters and 200,000 square feet of office space returned to the market in the past year. The 4 & 5 Star category was hit hardest, losing 450,000 square feet. Businesses are downsizing, significantly impacting market fundamentals. Notably, CNO Financial Group signed a sublease for 125,000 square feet in Carmel, relocating from a 420,000-square-foot campus. Despite softened demand, financial and insurance firms like Epic Midwest Insurance continue to drive office leasing. However, overall net absorption has declined, raising vacancy rates by 80 basis points to 9.4%. The highest vacancy is in the 4 & 5 Star segment at 14.3%, while the lowest is in the 1 & 2 Star segment at 5.9%. If current conditions persist, softened demand is expected to continue, though limited development keeps vacancy rates slightly below the national average.



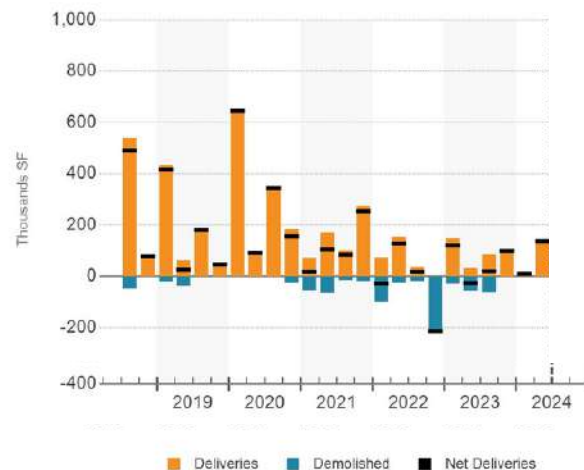
SALES

Annual sales activity in Indianapolis' office market has hit a decade low at \$188 million from 210 transactions. Despite this, well-leased properties with investment-grade leases and healthcare-related assets are experiencing less pricing deterioration. Investment-grade leases have a credit rating of BBB or higher. The current sales volume is primarily driven by 3 Star properties, which accounted for \$114 million. Indianapolis office properties trade at a discount compared to larger markets like New York and Boston, with recent cap rates between 8% and 10%. 2 and 3 Star properties represent nearly 63% of sales volume over the past year. Notable transactions include Lowe's sale of Intech 12 for \$8.7 million and Landmark Recovery's sale of three medical offices to STORE Capital Corporation for \$12.6 million. Medical office assets remain in demand, accounting for about 23% of sales volume. Recent sales include Echo Real Estate Capital's purchase of Three Penn Mark medical office for \$7.38 million at a 7.55% cap rate, and the fully leased Park Avalon I medical office for \$1.8 million.



CONSTRUCTION

Development activity in Indianapolis remains robust, with 1.8 million square feet of office space delivered over the past five years and an additional 1.5 million square feet currently underway, representing 1.3% of inventory. Many of the largest recent deliveries have been build-to-suit properties, such as Allison Transmission's 109,000-square-foot Innovation Center completed in 2022. This facility, located on the company's Speedway campus, consolidates about 300 engineering employees and includes open and private office space, a vehicle display area, conference rooms, and a café. The development pipeline has expanded to nearly 1.5 million square feet, the highest level in the past decade. Despite concerns about potential oversupply, several mitigating factors include a high pre-leasing rate, with only 4% of space available, and development spread across nine submarkets. The CBD and Midtown submarkets account for about 63% of current construction. The largest project underway is a 250,000-square-foot medical office facility for Indiana University Health at 1501 N Capitol Avenue, expected to be completed in summer 2024.



RECENT SIGNIFICANT SALES

Property Name and Address	Yr Built	Bldg SF	Price	Price SF	CapRate	Sale Date
1 The Campus at Westfield 2100 E 196th St	1987	302,821	\$18,500,000	\$61	-	9/29/2023
2 Midtown III 571 Monon Blvd	2018	77,793	\$17,850,000	\$229	-	9/27/2023
3 10500 Kincaid Dr	2003	127,000	\$10,000,000	\$79	-	2/5/2024
4 Three River Crossing 3610 River Crossing Pky	2008	49,959	\$9,500,000	\$190	-	8/11/2023
5 Intech 12 6620 Network Way	2000	140,368	\$8,705,750	\$62	-	2/1/2024
6 Three Penn Mark 11455 N Meridian St	1984	33,174	\$7,825,000	\$236	7.6%	11/22/2023
7 Walker Plaza 719 Indiana Ave	1985	21,000	\$7,200,000	\$343	-	10/10/2023
8 Two Woodfield 8440 Woodfield Crossing...	1987	125,458	\$5,700,436	\$45	13.0%	11/29/2023
9 Central Indiana Cancer C... 6845 Rama Dr	2002	19,928	\$4,800,000	\$241	-	3/28/2024
10 2375 E 116th St	2021	7,031	\$4,700,000	\$668	-	7/27/2023
11 6866 W Stonegate Drive 6866 W Stonegate Dr	2015	14,642	\$4,700,000	\$321	-	3/28/2024
12 1405 Broad Ripple Ave	1955	12,400	\$3,950,366	\$319	-	3/6/2024
13 409 Massachusetts Ave	1900	4,078	\$3,857,000	\$946	7.3%	10/2/2023
14 FAA Building 1201 Columbia Rd	2008	34,880	\$3,523,600	\$101	-	4/26/2024
15 5100 Charles Ct	2007	22,364	\$3,101,890	\$139	-	3/1/2024
16 Building 2 1040 S Greenwood Spring...	2006	18,994	\$2,872,800	\$151	-	8/21/2023
17 Broad Ripple Tower 6100 N Keystone Ave	1968	82,350	\$2,320,584	\$28	-	9/19/2023
18 8766 South St	2007	8,336	\$2,232,500	\$268	-	5/16/2024
19 Waterplace Park 8935 N Meridian St	1980	23,292	\$2,200,000	\$94	-	7/31/2023
20 11740 Brooks School Rd	2004	10,000	\$2,200,000	\$220	-	4/1/2024

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SUBMARKET INVENTORY

Submarket	Vacancy Rate	Sublet Available %	Available SF Total	Market Asking Rent/SF	Market Asking Rent Growth	Inventory SF	12 Mo Net Absorp SF	Market Sale Price/SF	12 Mo Sales Vol	Market Cap Rate
CBD	11.5%	9.97%	3,531,403	\$23.12	2.0%	26,892,539	-79,136	\$111	\$8,416,178	10.6%
Carmel	7.4%	9.12%	916,030	\$25.37	2.3%	8,815,481	136,632	\$137	\$37,835,856	10.4%
Midtown	4.8%	6.54%	388,588	\$21.02	1.7%	6,986,169	-52,595	\$98	\$9,251,440	10.9%
Fishers/Geist	8.5%	13.85%	466,031	\$23.47	2.4%	5,427,994	195,020	\$134	\$18,437,500	10.7%
Keystone Crossing	16.9%	11.09%	1,291,666	\$23.49	2.3%	5,751,152	120,326	\$120	\$15,200,436	10.3%
Meridian Corridor	24.4%	11.59%	1,331,409	\$23.73	2.1%	5,294,275	-378,138	\$117	\$4,050,000	10.9%
Lawrence/East County	2.4%	0.71%	144,407	\$21.20	1.5%	5,810,346	-8,411	\$100	\$8,486,000	10.8%
Greenwood	5.4%	0.86%	209,874	\$21.33	1.8%	2,816,524	-16,938	\$157	\$6,039,688	10.9%
College Park	18.2%	0.63%	933,839	\$20.57	1.8%	4,116,638	-227,328	\$105	\$5,708,012	10.6%
Castleton	13.9%	1.49%	602,707	\$20.87	1.9%	4,205,880	-66,018	\$102	\$0	10.5%
Edgewood/South County	2.8%	1.68%	124,934	\$20.40	1.6%	3,825,292	101,747	\$108	\$1,410,000	11.0%
Park 100	12.2%	23.80%	446,411	\$21.22	2.3%	3,558,423	83,013	\$106	\$10,205,750	10.7%
Speedway	6.2%	3.87%	302,533	\$18.90	1.1%	3,681,763	17,513	\$91	\$2,170,000	10.9%
Far North Hamilton Cnty	0.8%	7.17%	39,070	\$21.57	2.3%	2,710,227	323,257	\$114	\$21,597,112	11.3%
Anderson/Madison Cnty	10.1%	6.04%	374,346	\$18.79	1.3%	3,195,159	-50,159	\$95	\$2,310,000	11.1%
Uptown	6.2%	0.00%	234,523	\$21.35	0.9%	3,026,343	-49,513	\$99	\$7,780,950	10.9%
Hendricks County	6.0%	22.03%	175,549	\$21.30	1.6%	2,736,641	5,511	\$101	\$4,786,100	10.9%
North Shadeland	5.7%	11.57%	168,633	\$19.65	1.3%	2,607,754	-1,579	\$97	\$1,995,000	10.7%
Airport	15.0%	17.76%	349,554	\$18.14	1.5%	2,232,536	-219	\$97	\$0	11.0%
Boone County	7.5%	11.68%	164,325	\$21.57	1.4%	2,016,471	-5,355	\$109	\$8,676,890	10.8%
Beech Grove/SE County	6.9%	0.00%	157,144	\$20.68	0.7%	1,431,097	-36,261	\$115	\$280,000	11.2%
Hancock County	2.0%	0.00%	36,881	\$20.20	1.5%	1,460,391	-7,049	\$105	\$212,000	11.0%
Far South Johnson Cty	1.4%	0.00%	17,245	\$18.58	1.4%	986,378	2,822	\$126	\$700,000	10.9%
Morgan County	0.8%	17.89%	11,823	\$18.84	1.0%	823,384	-2,115	\$82	\$0	11.4%
Shelby County	3.7%	0.00%	36,260	\$17.55	0.7%	650,973	-4,225	\$90	\$600,000	11.2%
Putnam County	2.2%	0.00%	33,377	\$19.92	0.6%	275,687	-6,077	\$84	\$309,000	11.9%
Brown County	0.0%	0.00%	0	\$20.69	1.8%	103,133	0	\$102	\$0	11.1%

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