



INDIANAPOLIS

KEY MARKET METRICS – 2020 EXPECTATIONS

Annual growth rates, estimated for year-end 2020 vs year-end 2019.

	OFFICE	RETAIL	INDUSTRIAL
Rental Growth	→	→	↑
Vacant Space	↑	↑	↓
Construction Levels	↑	↑	↑
Leasing Volume	↑	→	↑
Investment Volume	↑	→	↑

EXECUTIVE SUMMARY

- Industrial sector continues to show strength in absorption and growth in inventory.
- Suburban communities that are creating a sense of place remain attractive to a strong and diverse work force.
- Multi-family housing remains strong but signs indicate new inventory is slowing as we near market saturation.
- The technology sector continues to drive demand for office space in markets with live-work-play opportunities.
- Competition and demand for path-of-progress industrial land sites is at an all-time high.

Indianapolis continues to see robust growth in its industrial sector with over 10 million sf of new inventory being added in 2019. Remarkably, over 95% of this new inventory was immediately absorbed leaving the year-over-year vacancy just 40 basis points(bps) higher at 5.9%. Office inventory remains stable and demand remains relatively flat. A fundamental change in the amount of space utilization is driving demand to its lowest levels in a decade.

Office users continue to learn how their employees like to work. Flexible space, work from anywhere trends, and teaming spaces are impacting office demand. A 270 basis points up-tick in overall vacancy rate to 19.6% is a clear indicator that demand for office space is slowing, but certain submarkets are benefiting from the importance of 'quality of place' which is becoming increasingly ingrained in development across large urbanised areas and suburban communities. Suburban markets like Carmel, Westfield, Brownsburg, and Greenwood are all creating the physical environments to encompass broader societal goals including enabling economic mobility and community engagement. Attracting and retaining a quality work force that works in a variety of ways and a variety of hours have become more important and a clear driver in the office sector. While the Indianapolis CBD market remains stable, the suburban markets are commanding the highest rates psf at \$28.00 to \$30.00 full service for new construction in walkable communities.

Contrast with the demand drivers for industrial space where access to major interstate routes and easy access off and on these major routes provide near term benefits for last mile delivery and potential long-term benefits as autonomous

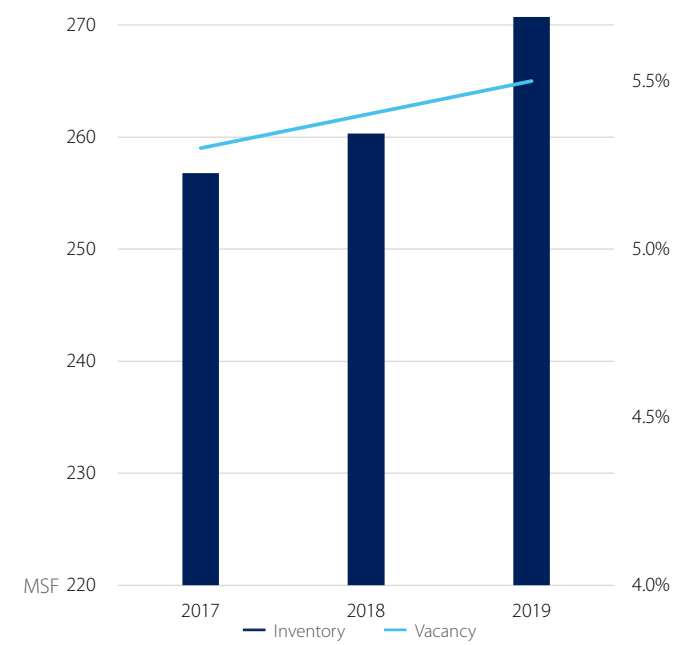
vehicle technology continues to gain momentum. Indianapolis is a benefactor of the logistics field as major interstates converge in area that can reach 75% of the US and Canadian population within a twelve-hour drive time. In addition, the volume of online purchasing has in turn led to a rise in reverse logistics, and therefore an increase in the number of 'return centres' needed to handle the return of merchandise. Indianapolis is uniquely positioned to capture its share of industrial demand from these current trends. Total competitive industrial inventory now exceeds 270 msf.

Multi-Family housing in the CBD is starting to slow down in response to a significant increase in inventory over the last five years. A total of 3,200 new units have been added since 2015. Class A product is trading at an aggressive capitalization rate that approaches the low 6% range on in place revenue and remains a favoured asset class. However, retail space remains suspect except for smaller boutique shops and restaurant uses that drive demand in urban areas or walkable communities mentioned above. The recently announced Bottleworks development will be a barometer for retail and mixed-use development. Located on the fringes of the Indianapolis CBD's Mass Avenue corridor, early indications suggest positive pre-leasing related to restaurant space, office space, hotel, and apartments in area that formerly served as a bus maintenance facility.

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TOTAL MARKET INVENTORY VS. VACANCY



Source: Avison Young