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Indianapolis Office Insight Report

Q2 2021

AVANT
by AVISON YOUNG

Key takeaways



Economic conditions

- Indianapolis unemployment rate of **4.2 percent** as of April 2021 was back to 2015 levels with persistent downward pressure since May 2020.
- Historically new record labor market conditions were halted by the pandemic with nearly **163,409 job losses** between February and April 2020. Resiliency of market appeared quickly after initial shock of pandemic, however, as the economy has **added 16.3%** jobs since April 2020.



Recovery rate

- City vaccination rate of **38.1 percent** far below national average, however full MSA rate of **43.9 percent** on par with national trends; this may be preventing office-using workforce from fully returning to pre-COVID rates, showcasing lagging recovery of **4.0 percent** compared to general economy of Indianapolis of **2.9 percent**.



Office demand

- Leasing activity has paused, decreasing by **58.2 percent** compared with long-term historical averages.
- Negative absorption surpasses the lows of the early 2000's recession of **-2.6 percent** and global financial crisis **-1.9 percent**. Current trending does mirror the post dot-com recession, which experienced a significant upshoot to enter a new cycle.

Key takeaways



Office supply

- The Q2 2021 **vacancy rate** is a record high in terms of direct and total percentages at **23.4 percent**, as sublease rates trickle upward as well.
- The sublease market is still not at historical records, accounting for **5.6 percent** of all vacant space. However, with recent announcements by large tenants reevaluating their space needs, this number is expected to increase in the near-term.



Pricing trends

- Asking rents have **remained stable** since the beginning of COVID, however this is largely due to **inactivity** in the market. Landlords have not yet had large tenant considerations since the beginning of COVID, and with **increasing sublease space** entering the market, asking rents are expected to **decline in the near-term**.



Capital markets

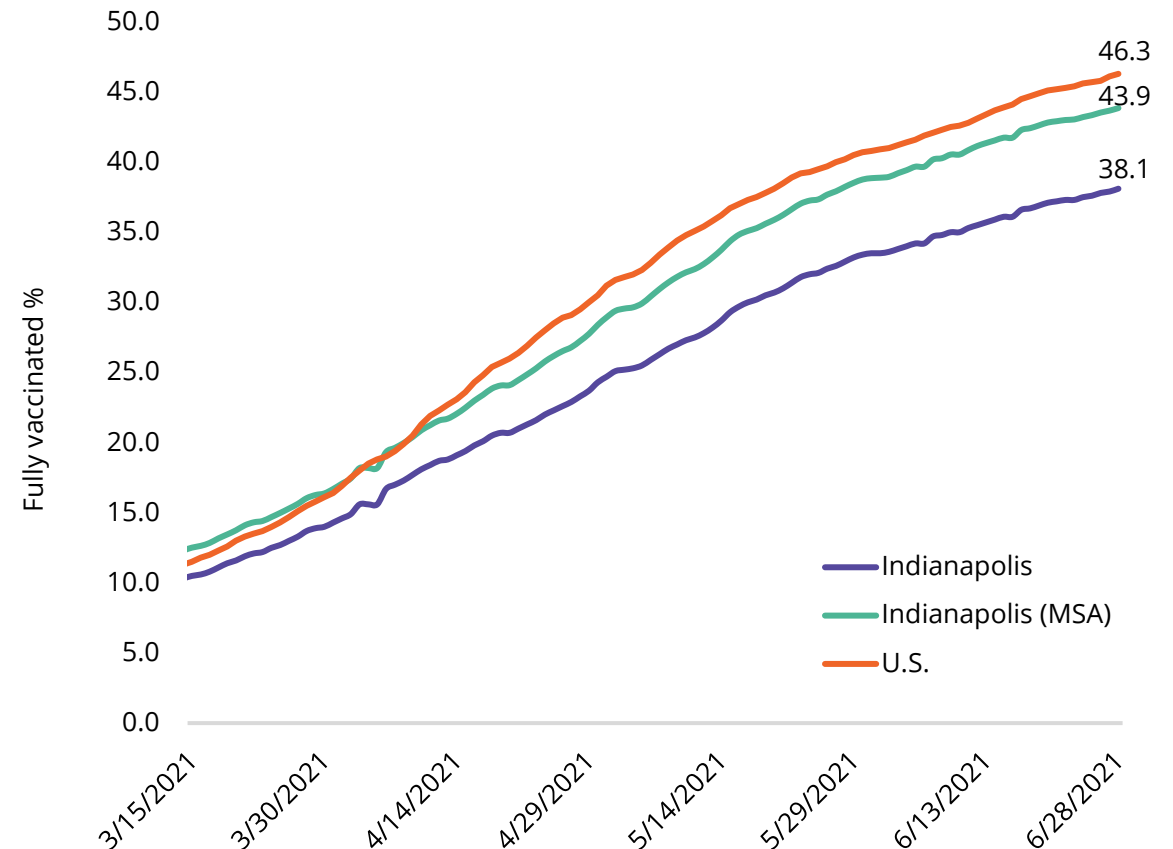
- Office sales activity has largely **temporarily halted** during the risk-pricing crisis, decreasing by an annualized rate of **24.2 percent** compared with the prior five-year average dollar volume.
- This decrease would be closer to an **85.0 percent** reduction, however, by the first quarter closing of Salesforce Tower for \$192.5M.

Vaccination rates

43.9%

Share of total Indianapolis MSA population that is fully vaccinated

Indianapolis trails U.S. averages for proportion of overall population in terms of vaccination, as the Indianapolis economy continues to recover to pre-COVID levels. The lower-than-U.S. average vaccination rates could suggest why office-based labor has not recovered as swiftly as the overall Indianapolis economy.



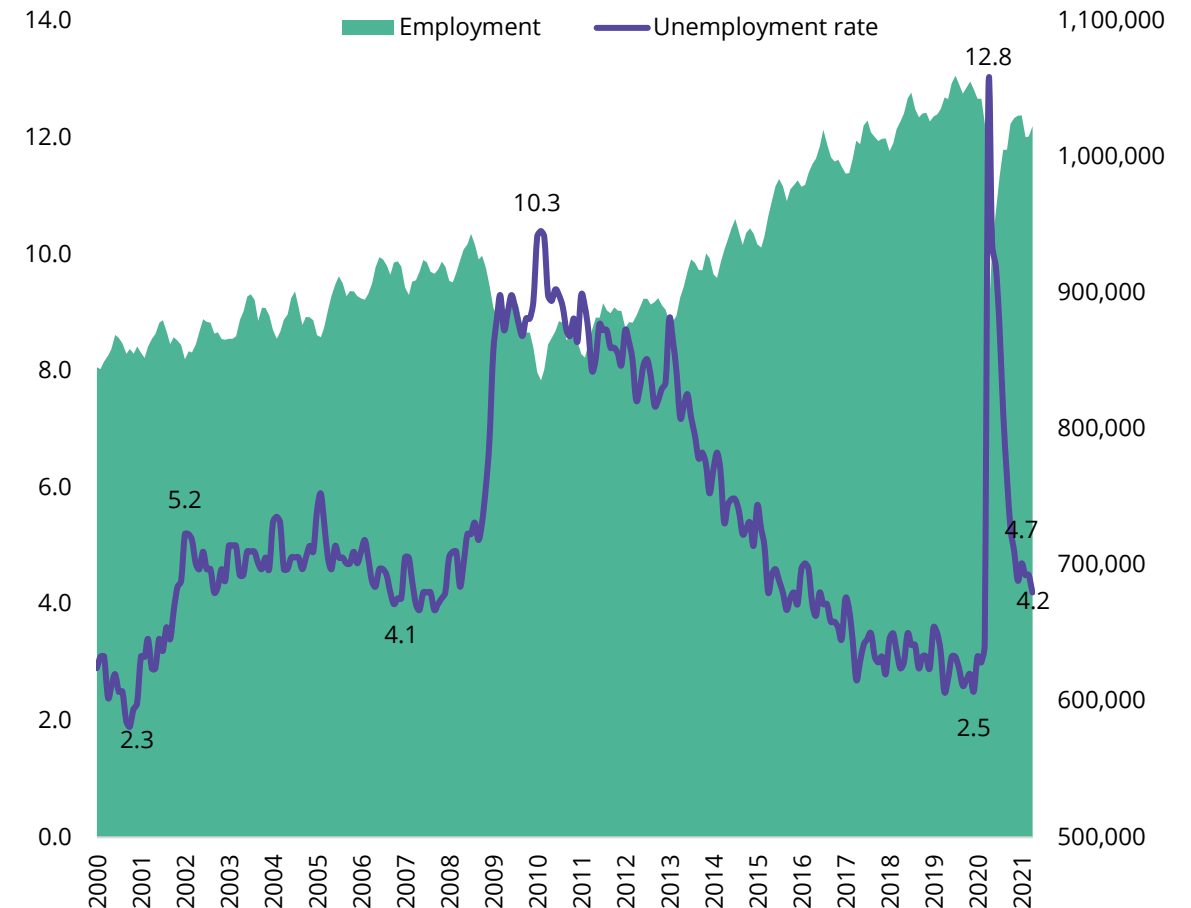
Source: CDC (Indianapolis defined as Marion County only)

Employment and unemployment rate

4.2%

Indianapolis unemployment rate as of April 2021, back to 2015 levels with persistent downward pressure since May 2020

Historically new record labor market conditions were halted by the pandemic with nearly 163,409 job losses between February and April 2020. Resiliency of market appeared quickly after initial shock of pandemic, however, as the economy has added 16.3% jobs since April 2020.



Note: Not seasonally adjusted data.
Source: Bureau of Labor Statistics

Office-using job gains and losses

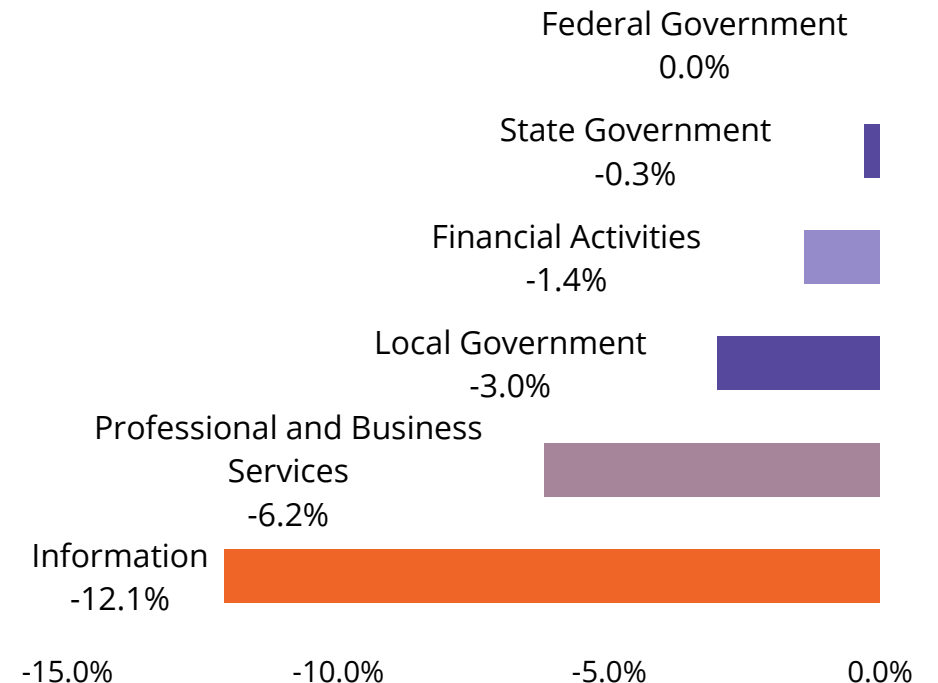
-4.0%

Change in office-using employment during the pandemic

Indianapolis MSA job losses have declined by 2.9% since the start of the pandemic, though office-using jobs contracted by 4.0%. This recession's impact on the MSA was severe and quick, however the resiliency of Indianapolis continues to exhibit positive momentum. The office-using labor market has been slower to recover, however signs are trending toward pre-COVID levels.

Total change in Indianapolis MSA* job gains/(losses)

February 2020 to April 2021



Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Office-using employment

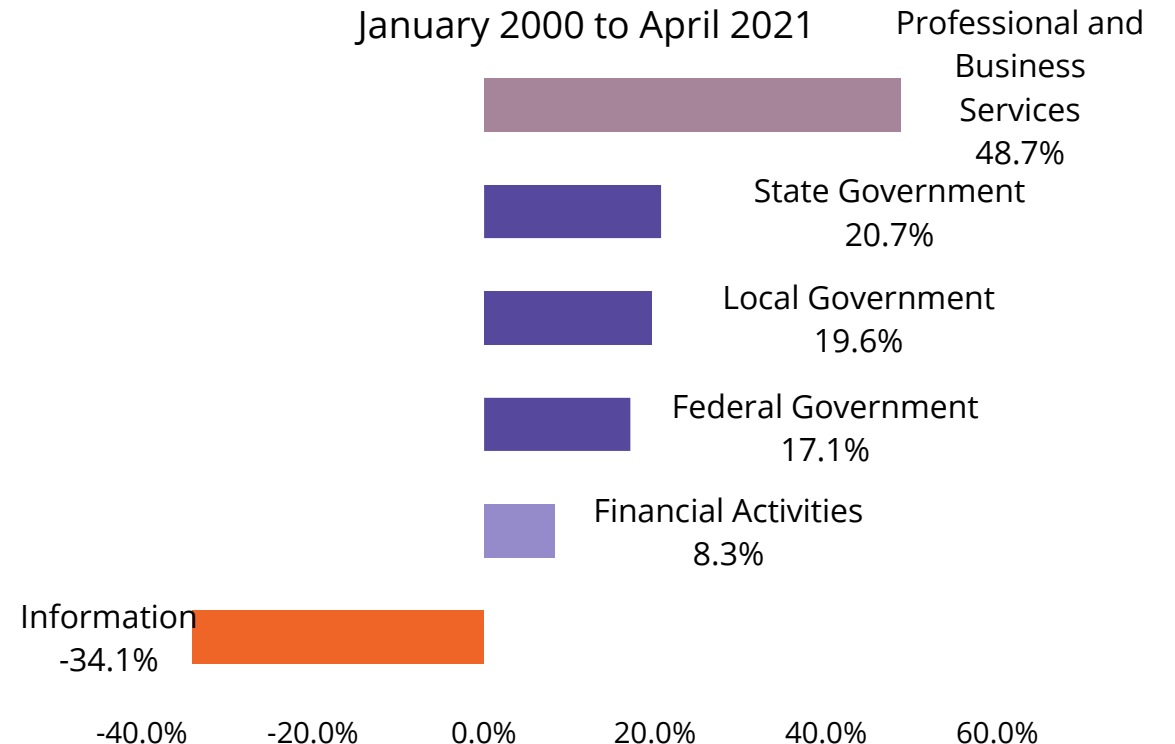
+24.4%

Total change in office-using employment since 2000

The Indianapolis office economy has gotten more diversified in recent cycles, with astonishing growth in the Professional and Business Services sector. Mergers & Acquisitions of formerly Indianapolis headquartered Information companies has reduced this industry's proportion of total employment, however.

Total change in Indianapolis MSA* job gains/(losses)

January 2000 to April 2021



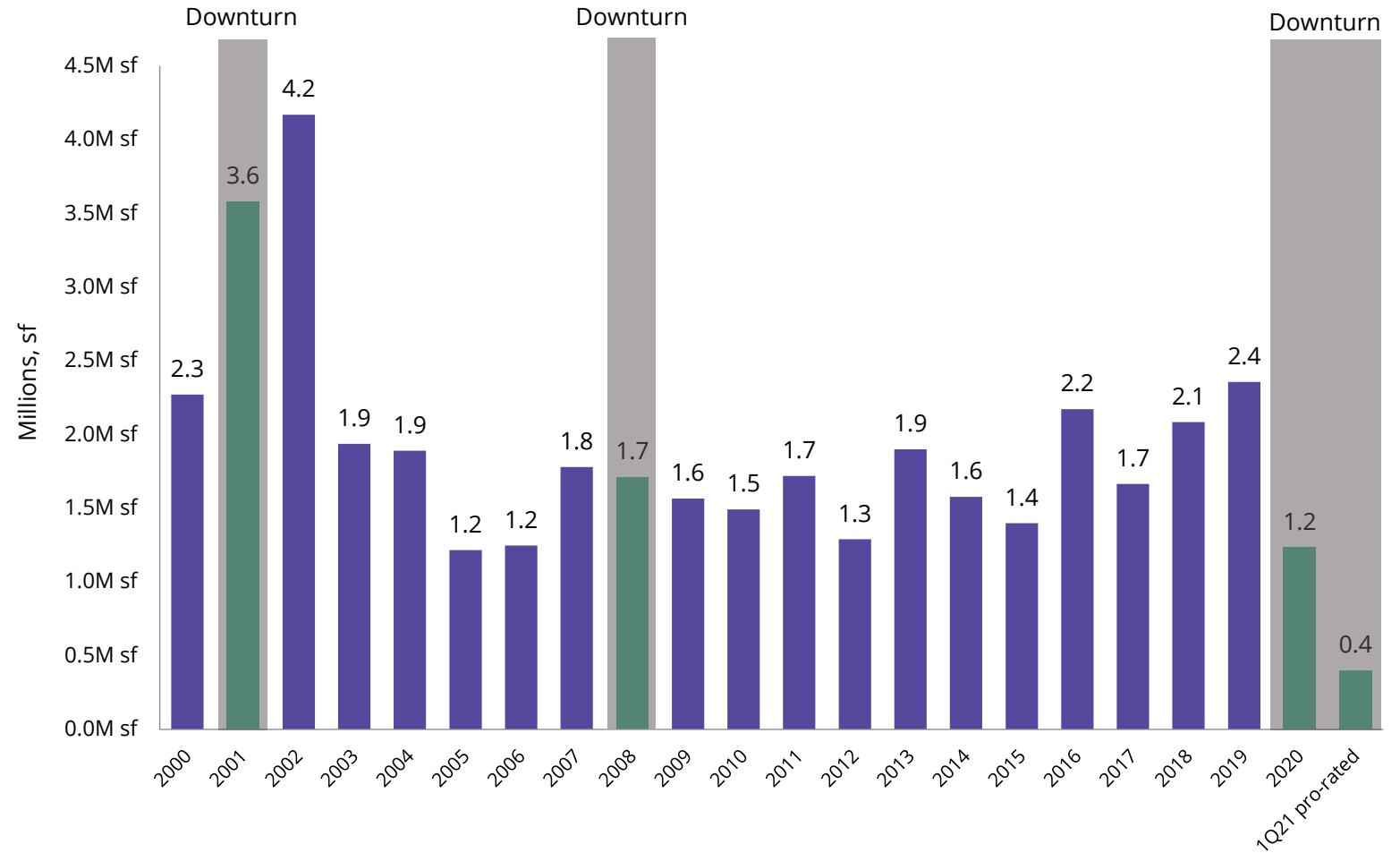
Note: Not seasonally adjusted data. Metropolitan statistical area.
Source: Bureau of Labor Statistics

Office leasing activity

-58.2%

**2020-pro-rated 2021 vs.
prior 20-year annual
average leasing activity**

There is no modern precedent for the post-COVID slowdown in leasing activity—not 2001 nor 2008—due to the sudden change in office occupiers' future workplace strategies and the 2020 recession.

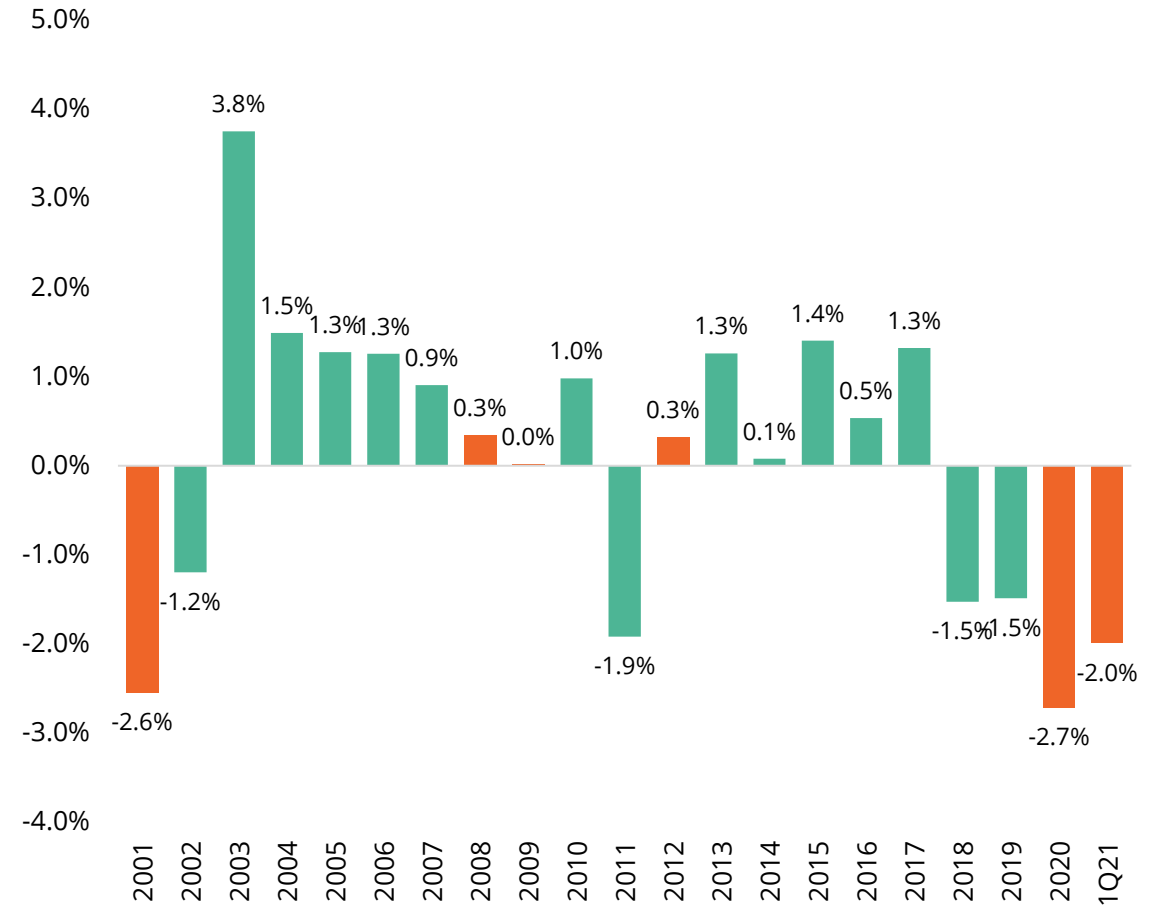


Source: AVANT by Avison Young

-4.7%

Net absorption as a percentage of inventory, 2020 through Q2 2021

Negative absorption from 2020 to 2Q21 has totaled 1.3 million sf, totaling -4.7% of the existing stock. This negative absorption significantly surpasses the lows of the early 2000's recession (-2.6%) and global financial crisis (-1.9%). Current trending does mirror the post dot-com recession, which experienced a significant upshoot to enter a new cycle.



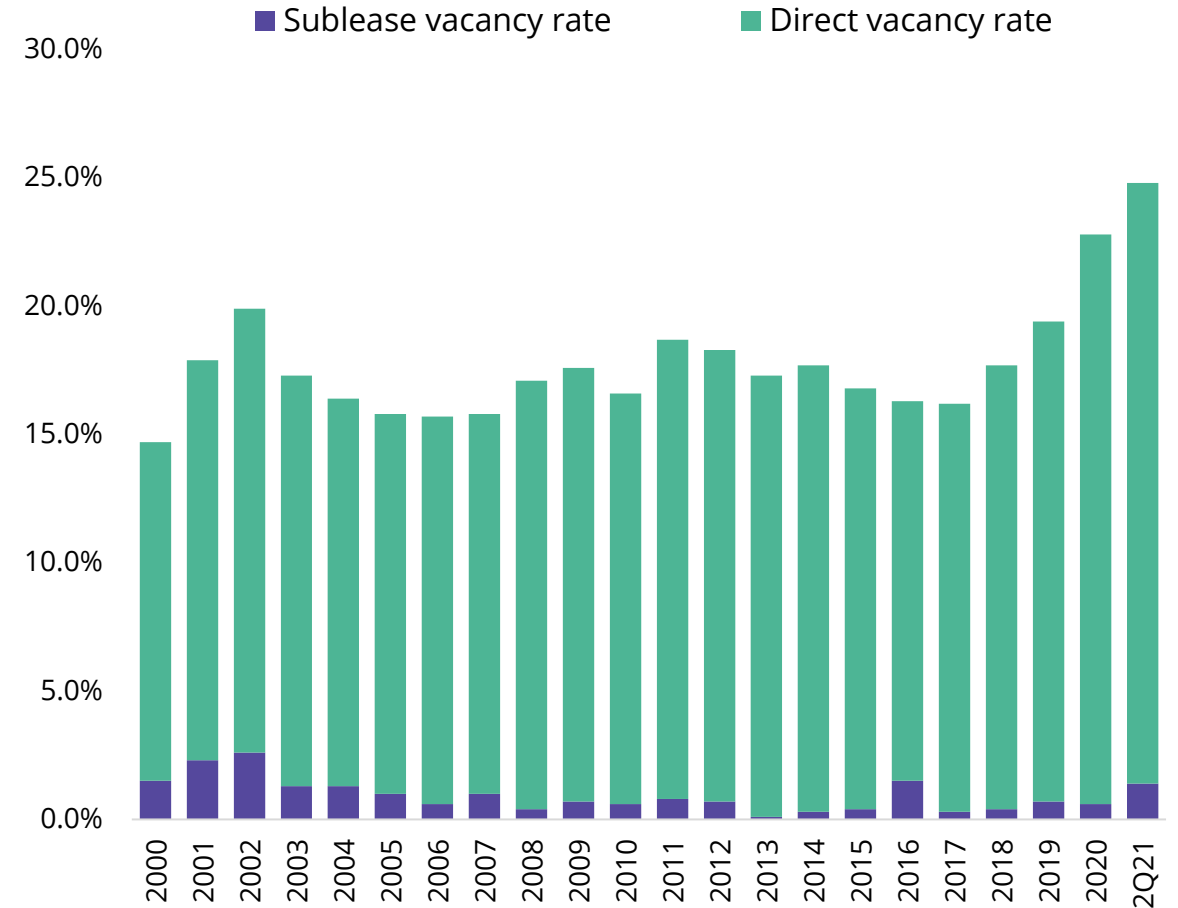
Source: AVANT by Avison Young; 20.0K sf building min.

Vacancy rate

23.4%

Record high Indianapolis vacancy as of Q2 2021

The Q2 2021 vacancy rate is a record high in terms of direct and total percentages, as sublease rates trickle upward as well. Asking rents continue to remain resilient, however this could be an aspect of limited activity in the leasing environment, as near-term availabilities appear to be on their way to the market.



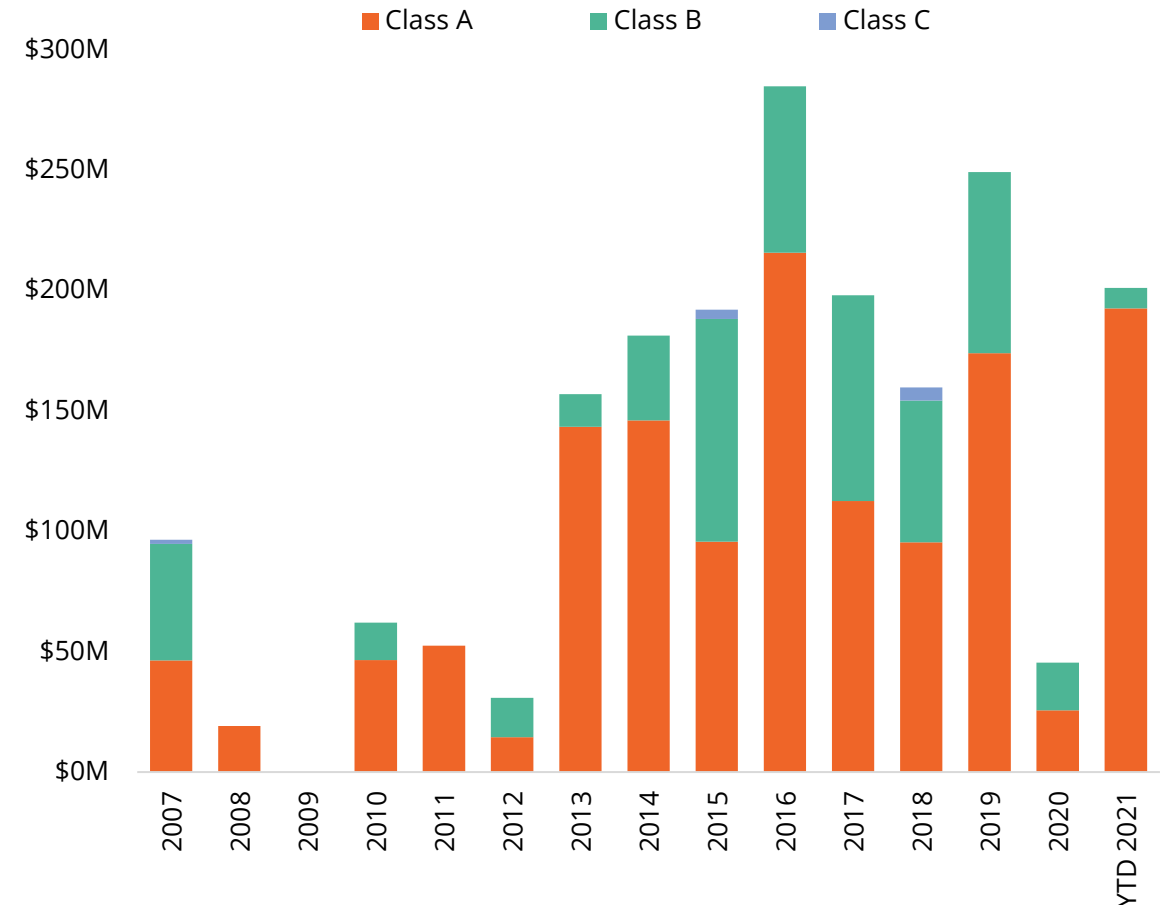
Source: AVANT by Avison Young

Office investment dollar volume

\$164.3M

Indianapolis office dollar volume 2020 to present

Office sales activity has temporarily paused during the risk-pricing crisis, decreasing by an annualized rate of 24.2% compared with the prior five-year average dollar volume. This is largely distorted, however, by the first quarter closing of Salesforce Tower for \$192.5M.



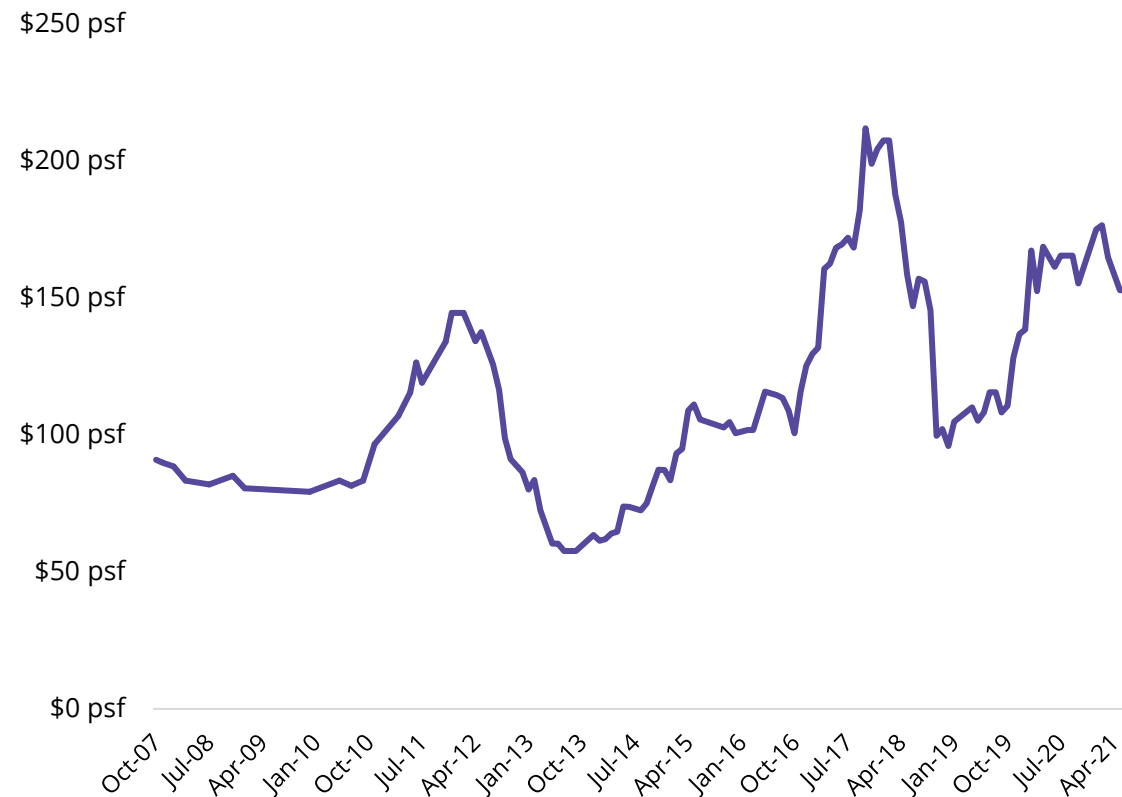
Source: AVANT by Avison Young, RCA

Office asset pricing

-10.4%

Indianapolis office pricing from February 2020 to present

Pricing has softened slightly during the pandemic as investors have adopted more conservative underwriting approaches, decreasing from \$167 psf in February 2020 to \$153 psf in June. However, asset pricing has trended relatively flat since the pandemic, indicating a potential stabilization.



Source: AVANT by Avison Young
RCA

Looking forward



Here's what we can expect

- Recent announcements by some of the **largest employers** in Indianapolis will add **increased pressure** to the office market:
- **Rolls Royce** is giving back two-thirds of their total office space (~**270.0K sf**) due to COVID-related reevaluation of remote workforce
- **Eli Lilly** is not planning a workforce **full office return** until **September**
- **Salesforce** will allow hybrid work **indefinitely**, leaving **uncertainty** on their future office space needs.
- The city of Indianapolis completed a **new Justice Center** which opens in **Fall, 2021**; this moves the correctional jail from CBD to nearby suburb, with courts scheduled to open in 2022. Currently there are around **100.0K sf** of “public defender’s offices/prosecutors offices/bail-bondsmen/public attorneys” offices in CBD. This move will likely alter office use and activity in this area by 2022. There is **no real office inventory** where Justice Center is being moved to, so many law offices are waiting to see what happens.
- **Large positive trend** in market is the recent accouchements of **inbound Biotech/Pharmaceutical** users aggregating around the **Fishers area**. This may lead to a clustering of Life Science users in the Indianapolis area.



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A photograph of a person jogging on a wide, paved path. The path is lined with black lampposts that have white globe lights. In the background, a city skyline is visible under a clear blue sky. The person is wearing a blue jacket and dark pants, and is running away from the camera.

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Let's talk

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