SPECIAL REPORT - 4Q 2020

INDIANAPOLIS OFFICE MARKET - SUBLEASE REVIEW

INSIGHTS INTO THE HEALTH OF THE INDIANAPOLIS OFFICE MARKET

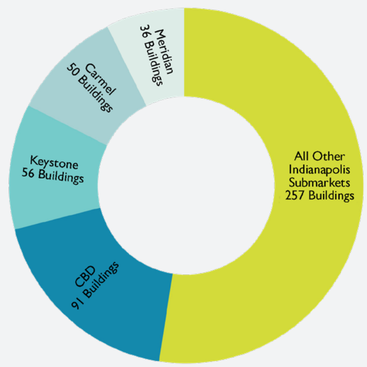
When the Coronavirus pandemic began to spread across the United States, the government mandated lockdowns and pushed significant portions of office workers into their homes to work remotely. The pandemic and the subsequent market crash cast uncertainty onto the health of companies. When it comes to office space, the health of the company and the amount of people needing office space determine how many square feet they lease from property owners. The uncertainty of company health and the ability to work-from-home (WFH) caused tenants and property owners to go into a "wait-and-see" mode when it came to make real estate decisions, like renewing a lease or lowering rents.

Indianapolis saw this "wait-and-see" mode when leasing velocity slowed down and the amount of space available for sublease increased between every quarter in 2020 by approximately 100,000 square feet.[1] The year ended with 402,127 square feet marketed for sublease in Indianapolis.[1] The volume of sublease space will most likely continue to grow as some tenants may be preparing to sublet their space but haven't yet. The volume of subleases in a market is an indicator of the health of the office market. Indianapolis's economy has fared better than most other U.S. metros during the pandemic[2], however, the recent surges in the amount of sublease space available signals an unhealthy Indianapolis office market.

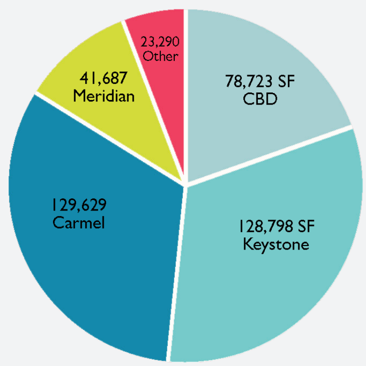
Additionally, of the 25 submarkets tracked in the Indianapolis MSA, four have the highest levels of sublease space listed as available. These submarkets are: The Central Business District (CBD), Keystone, Carmel and Meridian. Together, these submarkets make up 47.6% of the entire Indianapolis office market.[1] Since these markets have the highest levels of sublease space and make up a large portion of the office market in Indianapolis, Bradley chose to dive into these markets to see what was happening. Most of the markets show trends of supply and demand that favor tenants when it comes to lease negotiation.

**Bradley Company's criteria for inclusion in the office market data set: All multi-tenant, nonmedical, Class A, B, and C buildings, not owned or fully leased by government agencies or owner-occupied, 20,000 square feet and above.*

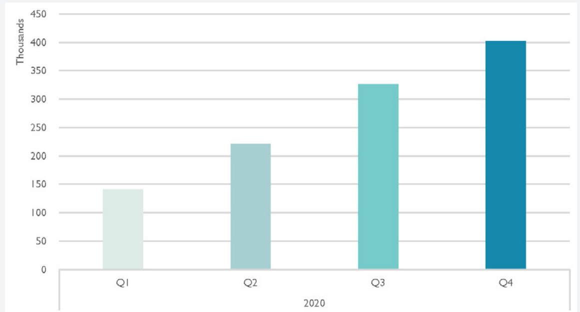
NUMBER OF PROPERTIES BY SUBMARKET



TOTAL SF AVAILABLE FOR SUBLEASE BY SUBMARKET Q4 2020



TOTAL SF AVAILABLE FOR SUBLEASE BY QUARTER 2020



Source: CoStar

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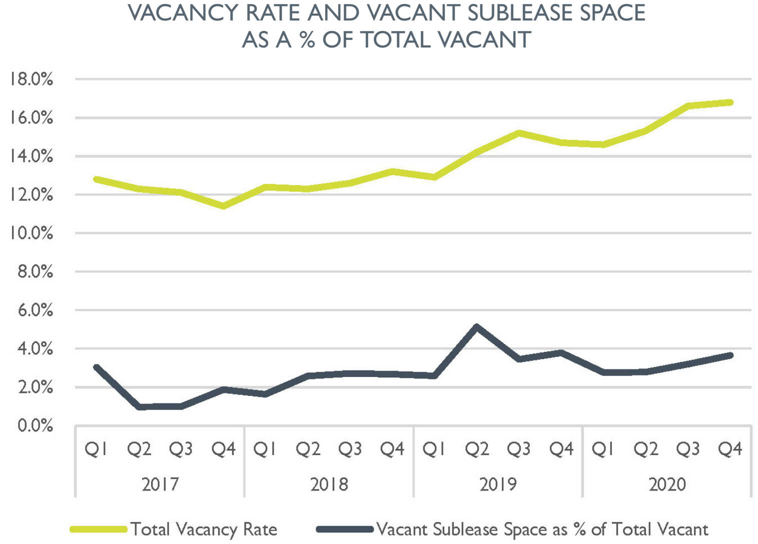
VACANCY RATES

Vacancy rates in Indianapolis have been rising over the past four years. The amount of vacant sublease space peaked in mid-2019 and is now steadily rising again.[1] The percent of vacant sublease space will continue to rise into 2022.

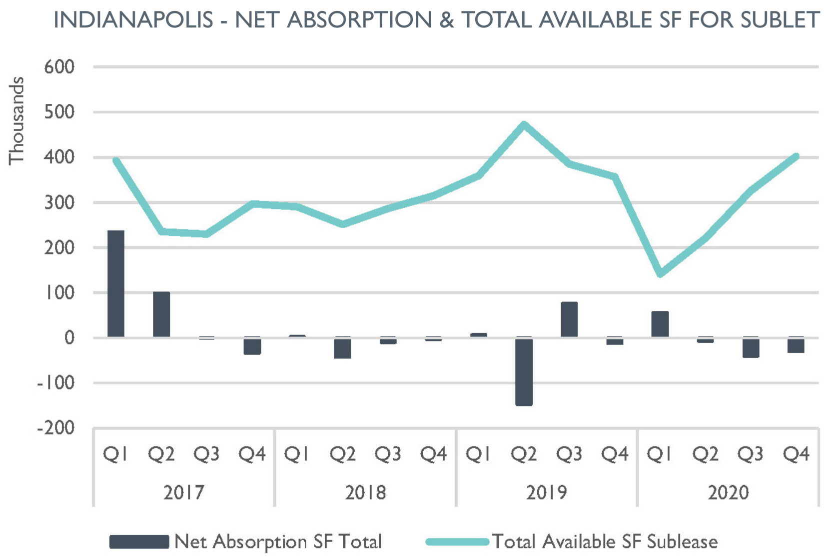


Source: CoStar

TRENDS IN VOLUME OF SQUARE FEET AVAILABLE FOR SUBLEASE

In Q1 2020, the amount of total available square feet for sublease in the office sector was at a 5-year low.[1] This is a result of the delay in executive decisions on office space, which is based on the health of the company and its growth forecast. In 2019, the market was at its best and executives chose to lease their office space, hence the decrease in the total available square feet for sublease between Q4 2019 and Q1 2020.[1]

Between Q1 2020 and Q4 2020, the Indianapolis office market saw a spike in the total available square feet for sublease as a reaction to the pandemic. The total amount of square feet available for sublease in Q4 2020 was slightly above where it was in Q4 2019 but below Q2 2019's numbers.[1] Over the past five years, there has been a general increase in the total available square feet for sublease.[1] The spike seen in 2020 is an indicator that there is more supply than demand for office space in Indianapolis.



Source: CoStar

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INDIANAPOLIS OFFICE MARKET - SUBLEASE REVIEW

SHADOW SPACE

Shadow Space Definition: Large blocks of underutilized office space that is leased or owned by larger users who are seriously reconsidering how they utilize office space.

Effect on the Market: It provides more market options for a tenant and improves the negotiating position of the tenant.

Example: There is a top 5 insurance company in the Midwest with a 240,000 square foot presence in Indianapolis. Due to the pandemic, they disposed of 1,000,000 square feet in the Midwest. They now have 120,000 square feet in Indianapolis that they are utilizing at 50% capacity. This means there is 60,000 square feet that is potentially available to another tenant.

Two Parkwood / Source: CoStar

Importance: It brings the full picture into view during a discussion with a client and gives the potential tenant an edge at the negotiation table.

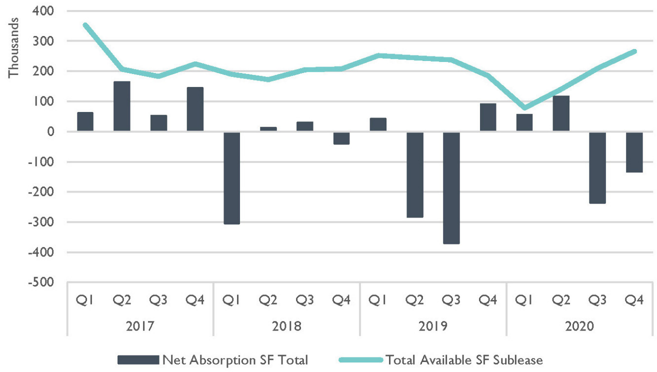
INDUSTRIES THAT SUBLEASE THE MOST SPACE

Industries that are currently subleasing the most office space include the advertising/marketing, finance, insurance, real estate, law, and tech sectors, according to NREI.[3] Indianapolis' major industries are life sciences, advanced manufacturing, agricultural, tourism, insurance, and technology. There is a high potential for more sublease space to become available due to the "wait-and-see" approach that tenants and property owners are taking.

TRENDS FOR THE SEPARATE CLASSES

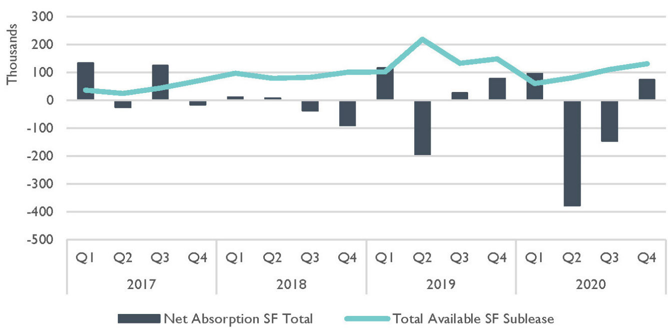
Similar to the overall Indy office market, Class A office saw a large decrease in the total available square feet for sublease between Q4 2019 and Q1 2020 and saw a large increase between Q1 and Q4 2020.[1] This trend is similar for Class B offices, however, Class A saw a greater leap in square feet available for sublease.[1] This may be because Class A rents are generally higher than Class B, making Class A less attractive in an economic downturn.

INDIANAPOLIS CLASS A
NET ABSORPTION & TOTAL AVAILABLE FOR SUBLET



Source: CoStar

INDIANAPOLIS CLASS B
NET ABSORPTION & TOTAL AVAILABLE FOR SUBLET



Source: CoStar

The CBD, Keystone, Carmel, and Meridian submarkets were selected for further examination because they are the major office markets around Indianapolis, and they had the most concentration of sublease space available compared to other submarkets in the metro area.

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INDIANAPOLIS OFFICE MARKET - SUBLEASE REVIEW

CBD SUBMARKET

The Central Business District (CBD) of Indianapolis is home to hundreds of companies, including Simon Property Group, Cummins, Eli Lilly & Co., Anthem, 143 tech companies, and 23 breweries/wineries/distilleries.[4] According to an article in the IBJ, Downtown Indianapolis typically sees 155,000 people working within its borders.[5] The CBD became a virtual dead-zone due to the pandemic and may take a few years to recover its former office worker population.

Salesforce Tower / Source: CoStar

CONSTRUCTION

Bottleworks is a massive mixed-use development under construction on Mass Ave. It includes office space in multiple development phases with High Alpha taking a large portion of Building 14/15's 41,470 square feet.[6] The Union 601 is almost complete with a total of 66,000 square feet. 22,000 square feet is designated as start-up space, and the building is 66% pre-leased.[7]

VACANCY RATES

Since Q3 of 2018, vacancy rates have been consistently rising to reach 14.9% in Q4 2020.[1]

NET ABSORPTION

Net absorption varied between positive and negative between 2017 and 2020, ending with a surge of negative net absorption in Q4 2020.[1] In 2017, the CBD saw a rise in net absorption due to its popularity from the downtown revival occurring at that time. Companies moved from the Meridian submarket to the CBD.

RENTS

Rental rates have been increasing since Q1 2017 and reached a peak in Q3 2020.[1]

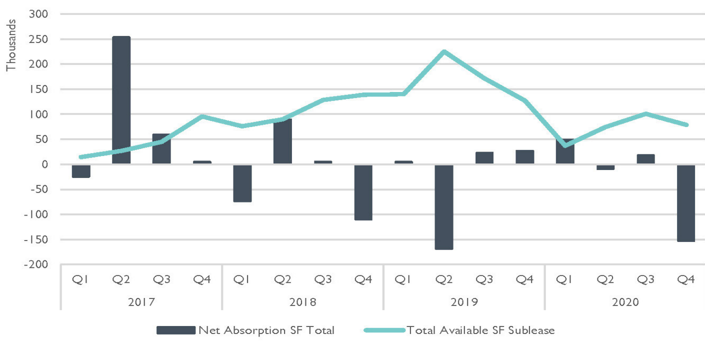
SUBLEASE SPACE

The CBD submarket saw an increase in the amount of square feet available for sublease between 2017 and 2019[1], most likely due to rent increases sparked by CBD popularity from its revival in the mid-2010's. Between Q3 and Q4 2020, the level of sublease space available decreased, and there was a large volume of negative net absorption.[1] This means that there will most likely be more sublease space coming on the market because more space is becoming available than can be filled.

INTELLIGENCE

Rising levels of square feet on the market for sublease, large volumes of negative net absorption, and high rents, indicate a declining demand for the CBD. Lower demand for space makes the CBD a tenant's market, in which tenants have a stronger position when negotiating a lease.

CBD - NET ABSORPTION & TOTAL AVAILABLE SF FOR SUBLET



Source: CoStar

13,125,873
Square Feet of Office

91
Buildings

20% Sublease
of all available space
in Indianapolis

14.9%
Q4 2020 Vacancy

66,000
Square Feet
Under Construction

Source: CoStar

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INDIANAPOLIS OFFICE MARKET - SUBLEASE REVIEW

KEYSTONE SUBMARKET

The Keystone submarket is located on the Northeast side of Indianapolis below Carmel and Fishers. This submarket is well-known for the 717,000 square foot[8] Fashion Mall at Keystone, owned by Simon Property Group and the office parks located to the North and Southwest of the mall. The daytime workforce population is about 33,000 employees.[9] Some of the major industries that call Keystone home include Finance, Insurance, Real Estate, Retail, and Tech.[9]

The Walker Building / Source: CoStar

CONSTRUCTION

Duke Realty Co. moved out of a leased space in Carmel into their newly built HQ in Keystone in Q2 2020.[10]

VACANCY RATES

Vacancy rates were hovering around 15% between late 2018 and through mid-2019. In Q4 2020, the submarket saw a jump from Q3's 16.4% to 18.2%.[1]

NET ABSORPTION

Between Q1 2017 and Q4 2020, net absorption fluctuated from positive to negative and stayed negative the last three quarters of 2020.[1]

RENTS

Rents were high going into 2020 but still around the same price point they were in 2018 and 2019.[1]

SUBLEASE SPACE

The amount of square feet available for sublease in the Keystone submarket has steadily risen since Q2 2019. Between Q3 and Q4 2020, the square feet available for sublease jumped 114.9%. A jump like this was last seen during the Great Recession.[1]

INTELLIGENCE

High vacancy rates, negative net absorption, and increasing sublease space indicate a waning demand for the Keystone submarket. This shows that the submarket is a tenant's market and is becoming ripe for companies to negotiate or re-negotiate a lease or sublease.

KEYSTONE - NET ABSORPTION & TOTAL AVAILABLE SF FOR SUBLET

Source: CoStar

4,587,664
Square Feet of Office

56
Buildings

32% Sublease
of all available space
in Indianapolis

18.2%
Q4 2020 Vacancy

73,000
Square Feet
Completed

Source: CoStar

SPECIAL REPORT - 4Q 2020
INDIANAPOLIS OFFICE MARKET - SUBLEASE REVIEW

CARMEL SUBMARKET

The Carmel submarket is on the North side of Indianapolis and is home to over 100,000 people with 12% population growth.[9] Prominent industries in the area are Health Services, Finance, Insurance, Professional Services, and Scientific & Tech Services.[9] Carmel hosts the headquarters of CNO Financial Group, Allegion, Allied Solutions, Delta Faucet, KAR, MISO Energy, and many others.[11]

CONSTRUCTION

The Agora at the Proscenium, a 98,626 square-foot mixed-use development delivered in the second half of 2020 and was 75% pre-leased.[12] The Holland & Playfair Building is still under construction and is set to open in Q2 2021. It will have 27,000 square feet of co-working space run by Industrious.[13] Lot One is a proposed mixed-use development in the final planning phase. It will have a parking garage wrapped by 4 condos, 70 apartments, and 60,000 square feet of office. Construction should start in early 2021.[14]

The Agora at The Proscenium / Source: CoStar

VACANCY RATES

The Carmel submarket saw a 6.2% vacancy rate in Q1 2017. Between Q1 2017 and Q2 2019, the vacancy rate rose steadily and made a large jump between Q2 and Q3 2019. The vacancy rate reached a peak in Q3 2020 at 18.8%.[1]

NET ABSORPTION

Net absorption between Q1 2017 and Q4 2020 fluctuated between positive and negative. The past 3 quarters saw positive net absorption in the Carmel submarket.[1]

RENTS

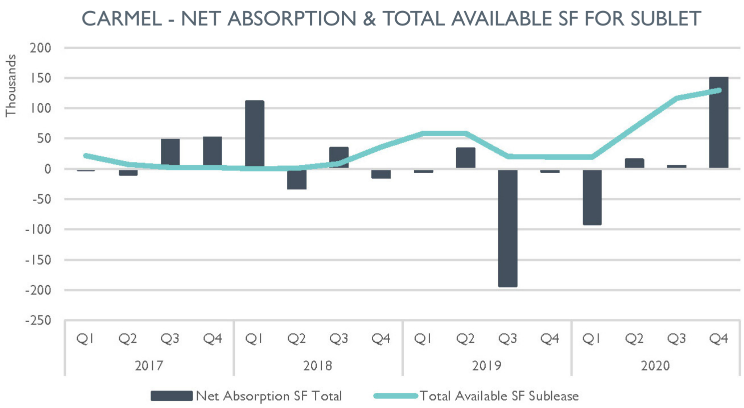
Rent rates in Carmel have continuously risen over the years. In Q3 and Q4 2020, rents were at an all-time high.[1]

SUBLEASE SPACE

Carmel's volume of square feet available for sublease has increased significantly between the beginning of 2020 and the end of 2020. Since Q1 2018, there has been an upward trend in the amount of square feet available for sublease.[1]

INTELLIGENCE

Carmel is a popular market with a growing economy and new developments that delivered in 2020 or will deliver in 2021. Due to its popularity, indicated by positve net absorption, demand is high for the area, making it a property owner's market.



Source: CoStar

3,499,924
Square Feet of Office

50
Buildings

32% Sublease
of all available space
in Indianapolis

14.5%
Q4 2020 Vacancy

98,626
Square Feet
Completed

27,000
Square Feet
Under Construcion

Source: CoStar

SPECIAL REPORT - 4Q 2020
INDIANAPOLIS OFFICE MARKET - SUBLEASE REVIEW

MERIDIAN SUBMARKET

The Meridian Submarket is just South of Carmel and encompasses the office market around Meridian Street between 86th Street and 106th Street. Approximately 18,000[9] employees work in this area. Some of the top industries found here are Health Services, Professional Services, Finance, Insurance, and Tech.[9] Major companies in the market include Katz, Sapper & Miller LLP and Liberty Mutual Insurance.

CONSTRUCTION

No major construction projects.

VACANCY RATES

In Q1 2017, vacancy in the Meridian Corridor submarket was at 8.2% and was at 20.6% in Q4 2020. Through the years between Q1 2017 and Q1 2020, the vacancy rate rose steadily. The pandemic caused large leaps in vacancies between quarters in 2020 to end up at 20.6%.[1]

NET ABSORPTION

Net absorption for the Meridian submarket was negative 11 times out of the past 16 quarters. The last 7 consecutive quarters were in the negative.[1] Rising vacancy rates and negative net absorption indicate an unhealthy Meridian Corridor submarket.

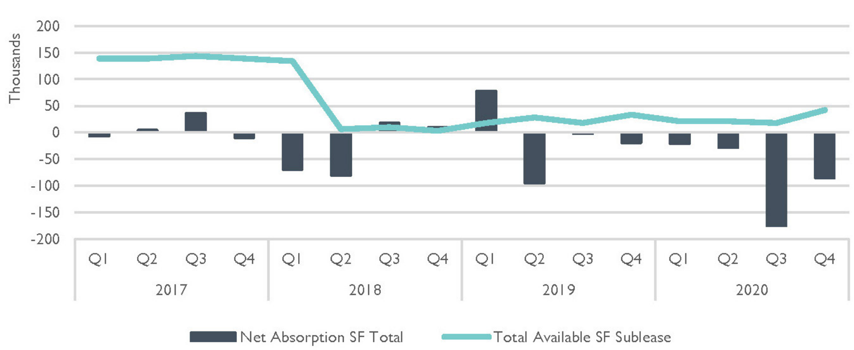
SUBLEASE SPACE

The amount of sublease space available in the Meridian submarket has been on an upward trend since Q4 2018. The current amount of sublease space available in Q4 2020 is less than half the amount seen in 2017.[1] The Meridian submarket saw high levels of square feet available for sublease in 2017[1] due to companies moving from there to the CBD.

INTELLIGENCE

It took a couple of years for the volume of square feet for sublease to reach its peak in the Great Financial Crisis. It is most likely that the Meridian submarket will experience a similar trend. Increased vacancy, rising square feet available for sublease, negative net absorption, and the ability to work from home indicate decreasing demand and a market tilted in favor of companies looking to lease space.

MERIDIAN - NET ABSORPTION & TOTAL AVAILABLE SF FOR SUBLET



Source: CoStar

3,083,877
Square Feet of Office

39
Buildings

10% Sublease
of all available space
in Indianapolis

22.6%
Q4 2020 Vacancy

No Major
Construction
Projects

Source: CoStar

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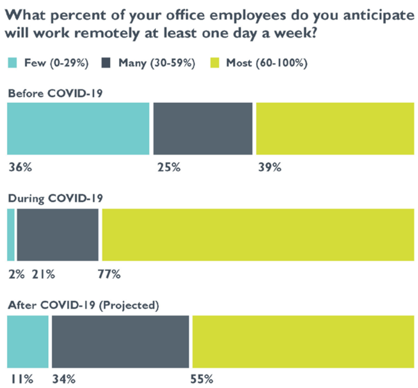
INDIANAPOLIS OFFICE MARKET - SUBLEASE REVIEW

WORK FROM HOME TRENDS

The idea of working from home (WFH) is not new, but the amount of people working from home jumped dramatically due to the pandemic. In 2019, about 5.8% of employees in Indianapolis worked from home, per the US Census Bureau. According to a study done by Pricewaterhouse Coopers (PwC) in June 2020, 55% of United States employers believe that most of their office employees will work from home at least one day per week after the pandemic is over.[15] A survey taken by the Indiana Chamber of Commerce showed that 22% of Indiana employers plan for their employees to work remotely in the future.[16] This means that companies may need less office space. Even before the pandemic, companies used office space about half the time during the working hours.[17] Considering that many employers and employees know they can effectively work from home a few days a week, there is most certainly going to be a rise in the number of employees working remotely after the pandemic. In turn, companies may lease less office space post-pandemic because not every employee will be in the office at the same time.



Source: PwC US Remote Work Survey June 25, 2020 Base: 120 US executives

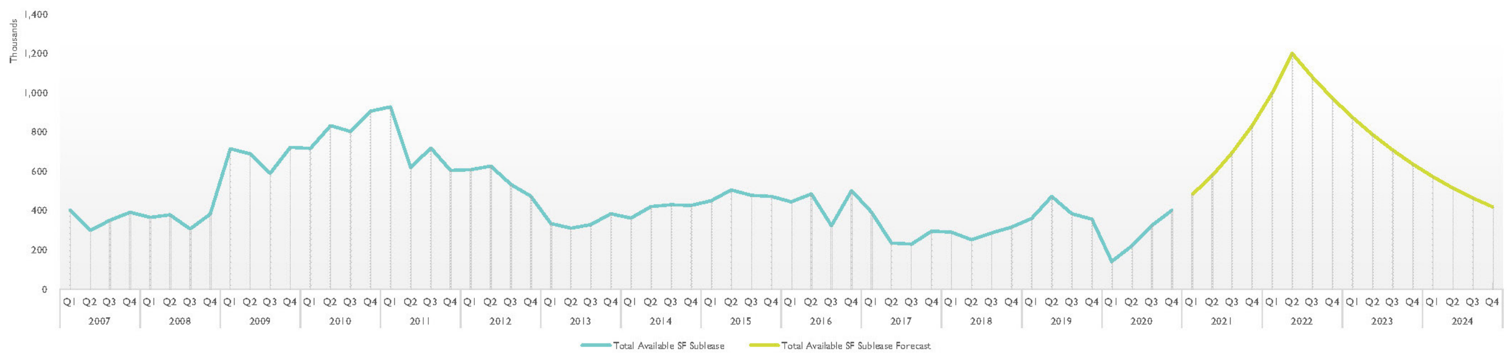
OFFICE OUTLOOK

Distribution of vaccines against the Coronavirus started in late December 2020 and will take time to reach a majority of the general public. The U.S.'s collective conscience will take time to heal, meaning that people may not be so quick to jump back into the routine of going to the office every day, even with a vaccine. Since companies know that a fully remote or hybrid approach works for some of its employees, employers may be more apt to allow for remote work after the pandemic ceases. This means that the amount of square feet occupied by companies may diminish, leaving more room for subleases and vacant space.

Overall, a large amount of sublease space came on market between Q1 and Q4 2020. The amount of space available for sublease in Q4 2020 is comparable to what was seen in mid-2019. The real estate market is historically known to lag the financial markets, as seen during the Great Recession. The Q4 2020 levels of sublease space available was not close to the levels seen between 2008 and 2010 in Indianapolis. However, the office market may be lagging the financial markets and may spike again because of the current market uncertainty and recession.

In this case, Bradley believes that there will be a large increase in sublease space available between now and mid-2022, and a subsequent, gradual decrease thereafter. This would follow the trend seen in the Great Recession and represents the lag in the real estate market as well as a shift in the market to a more hybrid WFH/In-Office approach to work. It also follows the "wait-and-see" trend that the Indianapolis market has been experiencing regarding companies' decisions to sublease, renew or move to a new space. It follows the "wait-and-see" mode by projecting that employers will make their decisions throughout 2021.

INDIANAPOLIS TOTAL AVAILABLE SQUARE FEET SUBLET FORECAST



Source: CoStar (Historical) Bradley Company (Forecast)

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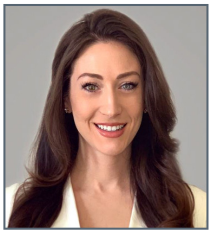

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