

# SPECIAL REPORT

## INDIANAPOLIS OFFICE SUBLEASE OVERVIEW

1<sup>ST</sup> HALF 2021

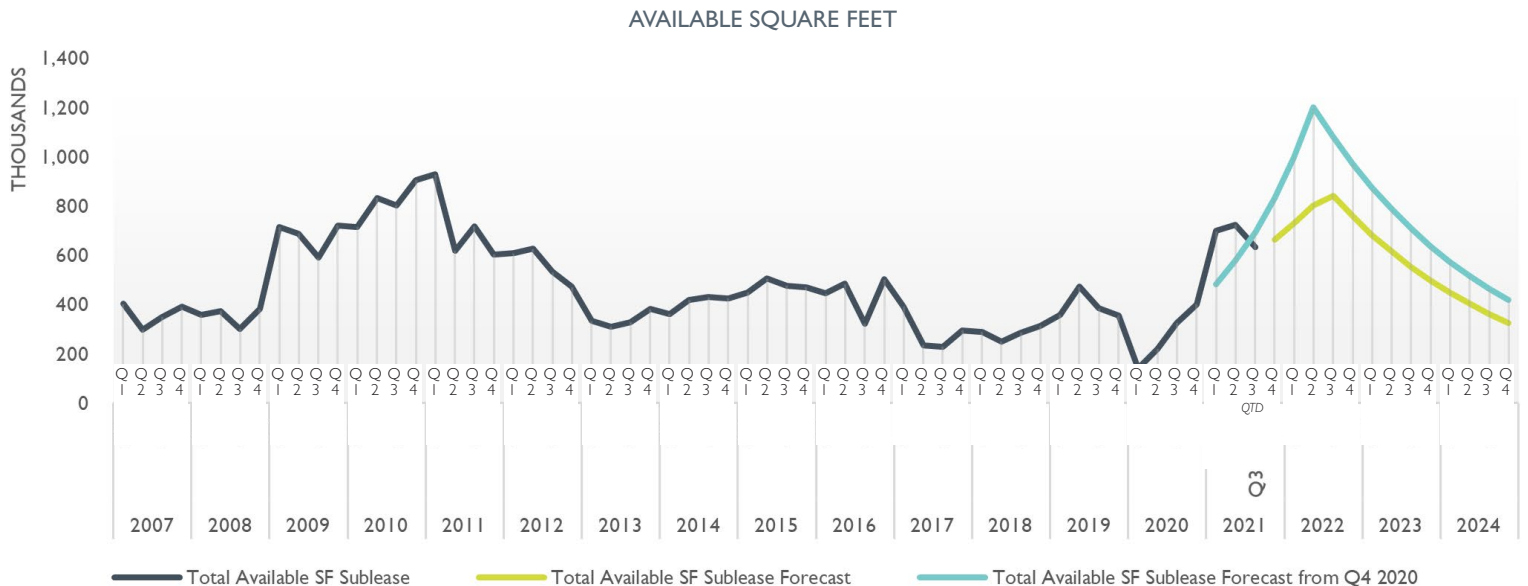
### TRENDS & HIGHLIGHTS IN THE SUBLEASE MARKET

As the pandemic continues to cause change into the latter half of 2021, companies are considering what to do about their office space. Some businesses are choosing to sublease their space to recoup some of the costs of leasing while they decide if they need office space and how much. In our previous report about subleases in Q4 2020 we looked at trends in four submarkets around Indianapolis: The Central Business District (CBD), Keystone, Carmel, and Meridian. We found that the submarkets were in a “wait-and-see” mode regarding whether to renew a lease, sign a new lease, or move out.

Some of the trends we discussed in our Q4 2020 sublease report were:

- » The “Wait-and-see” mode that the market was in
- » Working from home transforming how companies do business and how much office space companies will need in the future
- » Increasing levels of space available for sublease
- » Few leasing transactions in the office market
- » Shadow space creating the potential for underutilized office space to come on the market for lease, sublease, or for sale

Over the first half of 2021, companies started deciding what they wanted to do with their office space, and the market saw an increase of space available for sublease. In our last report about subleases, we predicted a large increase in space available for sublease in Indianapolis. We were correct in our prediction that the volume of sublease space would increase.



Source: CoStar

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This report features an additional, fifth submarket: Fischers. Each of the submarkets has seen changes in the amount of sublease space available.

### CENTRAL BUSINESS DISTRICT

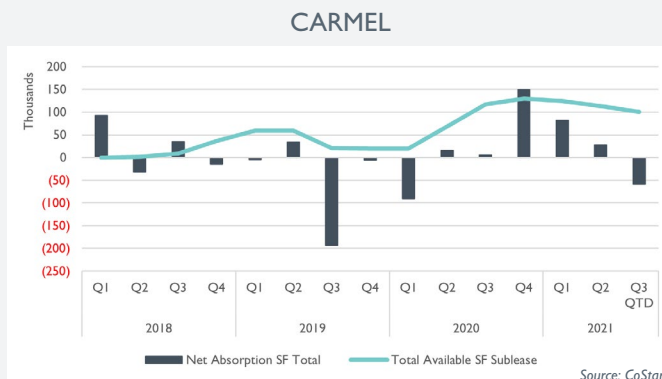
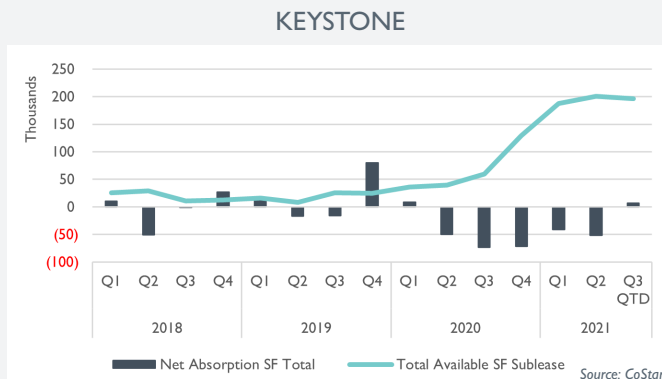
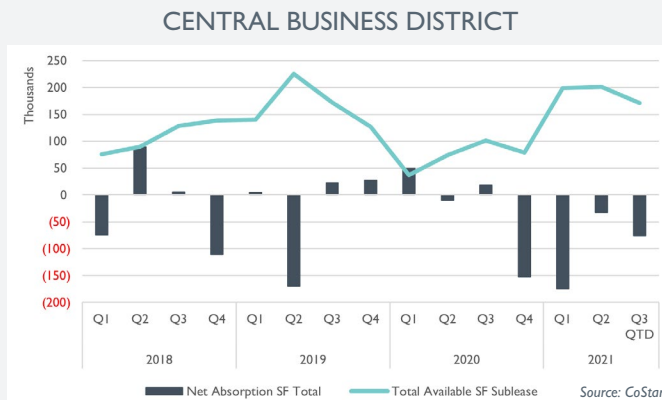
- » Over 100,000 square feet became available for sublease
- » Negative net absorption demonstrates a lessened demand for space in the CBD
- » The trend of negative net absorption continued from Q4 2020 into Q2 2021
- » Q3 2021 is projected to have negative net absorption and slightly less sublease space available
- » Some notable subleases in the CBD include:
  - › The Gibson Building at 433-445 N Capitol Ave. (64,549 square feet)
  - › The Century Building at 36 S Pennsylvania St. (44,128 square feet)

### KEYSTONE

- » The amount available for sublease jumped between Q4 2020 and Q1 2021 and has plateaued
- » Negative net absorption indicates lessened demand for this submarket
- » The second half of 2021 is expected to see the continuation of high levels of sublease space available on the market due to uncertainty in the market

### CARMEL

- » Carmel had a large volume of sublease space come on the market during the latter half of 2020 and large positive net absorption
- » Since our last report, Carmel has filled some of its sublease space but still has about 100,000 square feet on the market
- » We project that Carmel will experience more negative net absorption in the latter half of 2021 with a steady level of sublease space available due to uncertainty in the market



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### MERIDIAN

- » The Meridian submarket has experienced large volumes of negative net absorption through 2020 and the first half of 2021
- » Only a small portion of sublease space has come on the market compared to the volume of negative net absorption
- » A low level of sublease space available is forecasted for the latter half of 2021, but may shoot up as leases come to an end or more companies in a long-term lease decide to sublease and move locations

### FISHERS

A new submarket has joined the list of submarkets under review for large portions of space available for sublease. That submarket is Fishers. Between our Q4 2020 report and this one, Fishers went from 0 to 89,514 square feet available for sublease. Some of the spaces available as of this writing are:

- » The Stanley Security Headquarters at 8350 Sunlight Drive (52,000 square feet)
- » Two Concourse at 10194 Crosspoint Boulevard (27,598 square feet)
- » The Visionary I Building at 12115 Visionary Way (9,916 square feet)

Historically, Fishers has seen little sublease space on the market, so it is likely the space will be filled fast. Additionally, Fishers is a popular area, and this popularity will bring tenants to fill the vacancies within the next couple of quarters. These vacancies will most likely be filled with Tech-related companies due to Fishers being a Tech hub.

### UNHEALTHY OFFICE MARKET

The current high levels of space for sublease in the Indianapolis market indicate a continuation of the trend of an unhealthy Indianapolis office market. An unhealthy office market means a few things:

- » Lower demand for office space than usual due to market uncertainty caused by the pandemic.
- » Fewer leases being signed per quarter and higher vacancy rates.
- » Price per square foot expectations by the tenant not matching the expectations of the landlord.
- » More concessions given to tenants to entice them to lease.

### MERIDIAN



### FISHERS



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In this unhealthy office market, some new trends are emerging along with some previously mentioned trends continuing.

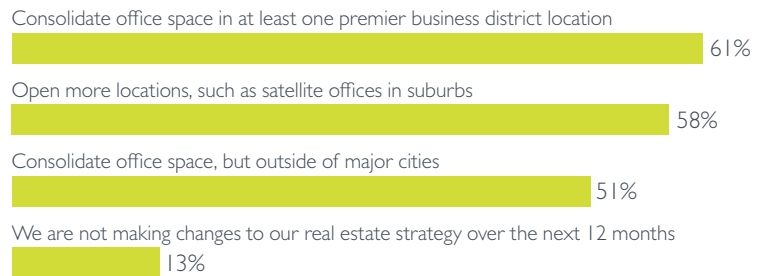
Q4 2020 REPORT	CURRENT TRENDS THROUGH Q3 2021
Companies were in a “wait-and-see” mode and not signing new leases or moving to a new location	Companies are coming out of their “wait-and-see” mode
Working from home is transforming how companies do business and how much office space companies will need in the future	Hybrid work continues and companies are adopting practices to facilitate it after the pandemic has passed
Increasing levels of space available for sublease	High levels of sublease space available similar to that seen in 2011 and 2012 as the market was recovering from the Great Recession
Few leasing transactions in the office market	Leasing activity is beginning to recover at varying rates depending on the submarket
Shadow space creating the potential for underutilized office space to come on the market for lease, sublease, or for sale	Lessened chance for shadow space to come on the market as companies have started making their real estate decisions

### WORK FROM HOME

Working from home was and is a huge trend for office workers and its impact is still up for debate. Not all employees want to be remote while some employees are quitting if they can't be fully remote. According to an Axios article, 40% of recent college graduates and current college students want to work fully in-person and 39% want a hybrid option. Young people want to be in the office for the community, mentoring, and office amenities.<sup>1</sup> More experienced employees are going in the opposite direction and wanting more remote work because of the freedom it provides. Gallup projects that about 10 million Americans are seriously considering quitting their jobs and becoming freelance, remote workers because of the flexibility it offers.<sup>2</sup> Employers are losing great employees due to being inflexible with their remote work policies. With the bifurcation of where different generations of employees want to work comes uncertainty in how much office space companies will choose to occupy.

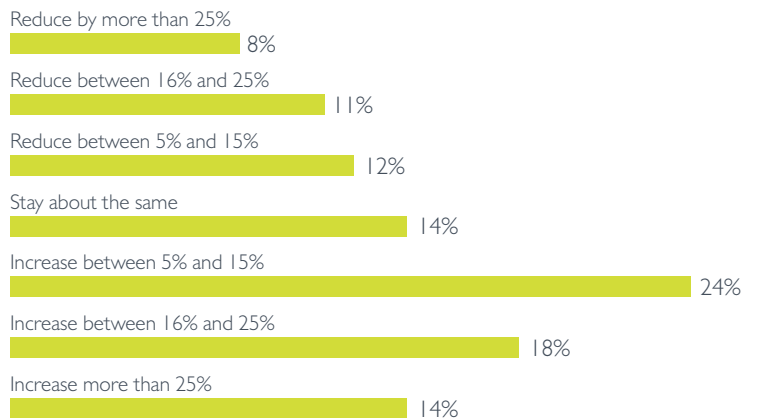
A PricewaterhouseCoopers (PwC) survey done at the beginning of 2021 shows a mix of companies expanding the amount of office space they have or consolidating it. 70% of the interviewed executives are expecting to keep the same amount of space or increase the amount of office space they need over the next three years.<sup>3</sup> Due to the long-term nature of office leases, the office market may have a while to go before they see companies leasing up these larger spaces.

### Real estate strategy in transition as companies anticipate multiple changes



Q: What changes are you making to your real estate strategy in the next 12 months?  
Source: PwC US Remote Work Survey | January 12, 2021, Base: 128 US executives

### Some executives expect to need more office space over the next three years due to rising headcount and social distancing needs



Q: How do you anticipate your total office space needs will be different three years from now?  
Totals do not add up to 100% due to rounding  
Source: PwC US Remote Work Survey | January 12, 2021, Base: 128 US executives



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### VACCINATIONS & DELTA VARIANT IMPACT ON LEASING

With the Delta Variant going through the population and a good portion of Americans remaining unvaccinated, more uncertainty is making its way into the real estate market. In reaction to the uptick of COVID cases, companies are delaying their return to the office<sup>4</sup> or returning to previous COVID-related restrictions such as wearing masks. There is not yet a visible sign that the Delta Variant is causing companies to change the amount of office space they have or put their space up for sublease. The recent and projected surges of COVID cases is only a short-term obstacle to overcome compared to the long-term characteristics of office leases and office space decisions.

### SECOND HALF OF 2021

So, subleases do tell a story. They vary by city. Indianapolis and Indiana are faring better than many cities nationally due to a relatively robust economy—and strong fundamentals: Low costs to do business, low taxes, central location, good infrastructure, pro-business government/regulations, and a hardworking, lower-cost labor force than larger cities nationally. We have subleases here—but companies are not fleeing in droves. We will have our share of market adjustments, but subleases will not be a meaningful long-term issue. They will be opportunities for those savvy tenants who move quickly to take advantage of the significant benefits they offer.

### OUR TEAM



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4. Google, Twitter Among Employers Pushing Back Return to Office Due to Delta Variant," Bisnow, July 29, 2021, <https://www.bisnow.com/national/news/office/google-twitter-office-return-delayed-delta-variant-109703>