

CARMEN Commercial Real Estate's Q1 Indianapolis Office Market Report

The Indianapolis office real estate market is undergoing notable shifts amidst changing economic conditions and evolving workspace preferences. This report provides a detailed overview of key market metrics, including office space deliveries, tenant demand, absorption rates, vacancy trends, and rental growth.

Market Overview and Industry Composition

Office employment in Indianapolis has increased by approximately 2.1% over the past year, indicating resilience and potential for growth in the local economy.

Indianapolis benefits from a diverse range of office-using tenants, including industries such as agribusiness, logistics, manufacturing, information technology, life sciences, and sports. Notably, the presence of institutions like the NCAA headquarters and the Indianapolis Motor Speedway adds to the market's stability and diversity. Despite nationwide weaknesses in the office sector, Indianapolis has outperformed many markets, particularly coastal tech-oriented cities.

The market's diverse industry composition serves as a buffer against external economic pressures, contributing to its relative stability compared to other markets.


Leasing Trends and Sublease Activity

Indianapolis' office market has witnessed seven consecutive quarters of negative demand, reflecting a trend of businesses downsizing and reducing their office space requirements.

Notably, sublease activity has been prominent, with significant transactions recorded, such as CNO Financial Group committing to 125,000 square feet of sublease space in Carmel. Despite a slight decline in the total amount of sublet space available, subleasing remains a prevalent strategy for businesses looking to optimize their real estate portfolios.


Financial and insurance firms continue to drive demand for office space, contributing to leasing activity despite overall market challenges. Rising vacancy rates across different quality segments suggest broad-based challenges in filling office space, with implications for leasing dynamics and market stability.

Office Space Deliveries Overview:




Indianapolis witnessed limited new office space additions in the past year, with only 200,000 square feet delivered. However, ongoing construction projects totaling approximately 1.4 million square feet hint at future inventory growth. Despite challenges, this level of development underscores investor confidence in the market's potential. Yet, the low delivery rate compared to ongoing construction might create a temporary supply-demand imbalance.

Tenant Demand and Absorption Trends:



Indianapolis' office market faced four consecutive quarters of negative net absorption, signaling reduced tenant demand. Brief positive demand in the last quarter hinted at a potential shift. Subleasing activity, exemplified by a significant 58,856 square foot lease, is on the rise. Despite specific positive leasing activities, overall net absorption remains negative, especially in localized submarkets.

Vacancy Rate Dynamics:



Indianapolis' office vacancy rate rose to 9.4% in the past year, surpassing the 10-year average of 8%. This increase reflects deteriorating market fundamentals amidst economic uncertainty. Notably, higher vacancy rates were observed in 4 & 5 Star properties. Occupancy weakness is concentrated in specific submarkets like the Meridian Corridor and Keystone Crossing.

Looking Ahead

Indianapolis' office market faces a complex landscape characterized by shifting demand dynamics, rising vacancy rates, and evolving rental trends. Despite recent challenges, the market retains several strengths, including a diverse tenant base and ongoing development activity.

However, the persistence of negative net absorption and the potential for softening rent growth underscore the need for adaptive strategies among landlords and investors. Moving forward, stakeholders must closely monitor market indicators, such as tenant demand patterns and absorption

trends, to navigate uncertainties effectively. Moreover, fostering collaboration and innovation within the local business community can help position Indianapolis as a resilient and dynamic office market in the face of ongoing economic shifts and evolving workspace preferences.

By leveraging its unique strengths and embracing adaptive approaches, Indianapolis can navigate current challenges and lay the groundwork for sustained growth and resilience in the years ahead.