



2024 OFFICE MARKET REPORT NARRATIVE

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Fort Wayne, Indiana office fundamentals weakened again in 2024, compared with 2023 and 2022, as evidenced by negative absorption, increased vacancy and less new construction. The Fort Wayne office market statistics for the 12 months commencing with October 2023 and ending September 2024 had a negative absorption of 153,000 square feet compared to negative absorption of 56,000 square feet last year. The vacancy rate today is 13.66% and has increased steadily in the past three years from 9.21% in 2021 to 10.95% in 2022 and 12.3% in 2023.

These market trends are driven by fewer employees working in an office environment, causing companies to reduce their office footprint. Fort Wayne's office real estate environment mirrors the national marketplace but Fort Wayne is outperforming other Midwest markets. We anticipate that these trends will continue into 2025. Office demand will remain soft and owners will need to be aggressive with pricing and terms in order to attract and retain users.

Lease rates also decreased, in part because of elevated sublease activity, and tenant improvement dollars did not go as far as in previous years due to increased construction costs.

Class A Downtown office lease rates currently range from \$17.00 to \$21.00 per square foot, full service plus parking for existing buildings. By comparison, lease rates for new downtown developments are \$27.00 to \$30.00 per square foot full service. Class A Suburban lease rates are \$17.50 to \$19.50 per square foot full service and includes free surface parking.

AON/K&K Insurance at Electric Works, Centier Bank at 127 West Berry Street, and Nucor Harris Rebar at 2720 Dupont Commerce Court, signed new leases during the past year. Noteworthy owner-occupant deals include the STAR Financial relocation to their new headquarters at 215 West Main Street, the Trine University construction of a new building at 12817 Parkview Plaza Drive, and Aunt Millie's purchase of the former STAR Financial Operation Center at 6230 Bluffton Road. Education, healthcare, and public service agencies were the most active users in the market. New mixed-use downtown developments, such as the Riverfront at Promenade Park, The Pearl and The Lofts at Headwaters Park, have focused on residential and retail users, and generally have excluded an office component. In contrast to larger cities, we are not aware of REO delinquencies or distressed office properties in our market.

With respect to the office market in Fort Wayne, the following are The Zacher Company predictions for the next 12 months.

- Vacancy will increase at a slower pace and downsizing will be limited to companies with expiring leases
- The consequences of hybrid work will stay level as companies have adapted
- The trend of companies moving from suburban locations to downtown locations will continue
- Increasing vacancies will remain concentrated in older, traditional office buildings
- A lack of premium options with modern amenities, such as natural light, rooftop spaces, fitness centers, collaborative work areas, accessible dining and walkability will continue
- Tenants will fund build-out costs in exchange for lower rents
- Cap rates will remain elevated even though interest rates will come down; fewer transactions will be completed at current spreads as investors will take a more cautious approach
- Operating costs will continue to increase especially for insurance, utilities, cleaning and property taxes
- The office sector will remain less attractive relative to other asset classes and the office environment will continue to be more favorable for occupants compared to investors. The office market in Fort Wayne will not reach a point where opportunistic deals exist, because of an ongoing disconnect between user and owner expectations
- Premier downtown developments, including Electric Works, will continue to see positive momentum due to companies seeking high quality environments in order to attract and retain talent