

Meridian

MarketWatch

MIDYEAR
2010

OFFICE
MARKET REPORT

A REVIEW OF OFFICE MARKET ACTIVITY

More of the same seems to summarize the office market since our Year End 2009 MarketWatch. Vacancies continue to grow as users continue to shrink their office footprints.

One alarming trend is the recent announcement by the U.S. Bureau of Labor Statistics showing productivity increasing at 3.6% annual rate, with unemployment staying in the 9.5% range. This does not bode well for employers hiring new employees.

Additionally, we continue to see a number of companies downsizing and/or consolidating locations as they adjust to the reality of becoming profitable in the current economy.

The lack of transactions in the market continues to put pressure on owners to renew tenants at almost any cost. Releasing vacant space in this market is a long term proposition,

as the overall vacancy and negative absorption indicated in the report show. Furthermore, we have over 1 million sq. ft. of sublease space on the market, adding more downward pressure on owners.

On a positive note, the markets are correcting themselves and beginning to slowly stabilize. We are beginning to see the acquisition market improve. There were several owner-occupied sales that occurred in the N. Meridian corridor. Additionally, there are several investment properties on the market which are drawing actual offers, although cap rates for these acquisitions are trending in the upper 9% range vs. the 7%-8% range we experienced in 2006-2008. The public and private education area is a strong sector in the office market and healthcare is once again in an expansion mode. Owners would be well served to pay attention to these sectors in the near term.

Indianapolis, Indiana

HOT TOPICS

INDIANAPOLIS - OFFICE

- The investment sales market seems to have stabilized with several properties sold and others receiving qualified offers.
- Education and healthcare are the two sectors actively absorbing office space.
- Sublease space still continues to negatively impact the overall market.

OFFICE TRENDS

MIDYEAR 2010

RATES 

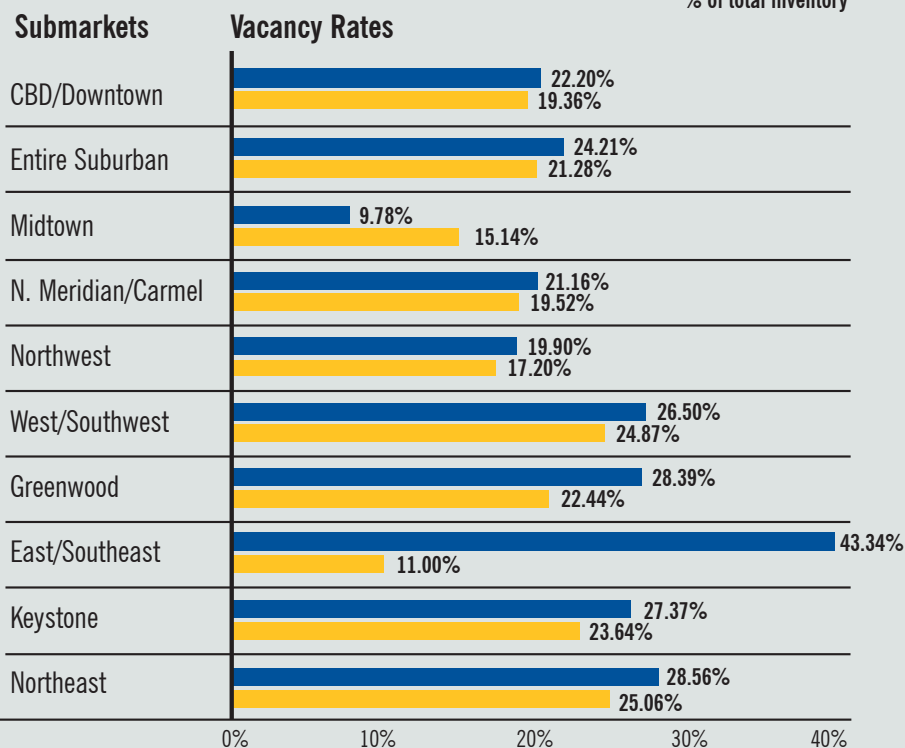
CONCESSIONS 

ABSORPTION 

VACANCY 

INDIANAPOLIS OFFICE VACANCY RATES

■ Mid Year 2010
■ Year End 2009
% of total inventory



Submarket Reports

Keystone Crossing



Notable transactions include
Arcadia Resources-18,000 sq. ft.

Through midyear 2010, leasing activity in the Keystone submarket continues to be relatively slow with an absorption of -50,697 sq. ft. The vacancy rate is 24.9%, an increase 1.26% from year end 2009. Landlords are realizing they must increase concessions and expect lower rents to attract what few tenants are in the market.

There have only been a handful of deals in the Keystone market; as such, landlords are aware of the market and are being extremely aggressive to maintain current tenants as well as attract new ones. As companies continue to downsize and achieve maximum efficiency in their spaces, the abundance of sublease space remains a drag on the market. Blend and extend continues to be a theme as tenants reduce costs in exchange for additional term. Another concession being offered by landlords to retain their current tenants is free rent. With the market continuing to produce somewhat stagnant results, the conditions will remain very favorable for tenants to negotiate and renegotiate their leases for maximum efficiency.

Congestion has been a detriment to this submarket as construction crews continue the widening of I-465 and soon the redevelopment of the Keystone interchange

will commence. Looking forward, these major changes to the main arteries of the Keystone submarket will vastly improve the flow of traffic, making not only the major parks more accessible but also the submarket as a whole.

Other notable transactions in the Keystone submarket include Arcadia Resources at 18,000 sq. ft., and three tenants at The Precedent (Hanover Insurance, Honeywell and Paychex) have downsized and renewed.

On a bright note, Dow AgroSciences is expanding its Northwest global headquarters by adding a 175,000 sq. ft. research and development facility and a 14,000 sq. ft. greenhouse. As part of its multi-year expansion, more than 550 jobs will be created. Additionally, Tau Kappa Epsilon Fraternity has relocated and expanded into a 26,000 sq. ft., Class A office building at 7439 Woodland Drive. The other large expansion includes Republic Airways growth at College Park Plaza into sublease space. Absorption of this space will be a comfort to landlords as it can no longer be used as negotiating leverage against direct deals.

After seeing a flurry of larger deals by schools, government and IT firms in the second half of 2009, the Northwest submarket has returned to relatively modest levels of activity. Several larger tenants have vacated space or downsized and put more than 112,000 sq. ft. of space back on the Northwest market keeping rent growth in check for many landlords as they continue to compete for a small pool of tenants. And, as seen in previous years, activity continues to be dominated by deals in the 2,500-5,000 sq. ft. range. The Northwest absorption is a -2.75% (-112,148 sq. ft.) year to date.

Northwest



Republic Airways expands into
sublease space at College Park
Plaza.

ABSORPTION SUMMARY

	CBD/Downtown	Entire Suburban	Midtown	N. Meridian/ Carmel	Northwest	West/ Southwest	Greenwood	East/ Southeast	Keystone	Northeast
Mid Year 2010	(209,155) sq. ft.	(500,627) sq. ft.	11,615 sq. ft.	(113,058) sq. ft.	(112,147) sq. ft.	(1,925) sq. ft.	(46,575) sq. ft.	0 sq. ft.	(50,697) sq. ft.	(176,225) sq. ft.
Year End 2009	(616,445) sq. ft.	(362,773) sq. ft.	(13,943) sq. ft.	(240,714) sq. ft.	114,991 sq. ft.	85,576 sq. ft.	22,674 sq. ft.	3,539 sq. ft.	(127,227) sq. ft.	(221,612) sq. ft.

N. Meridian/Carmel



Dauby O'Connor purchased 501 Congressional Boulevard.

Given the presence of some of the city's largest spaces under lease, recent conventional thinking about the N. Meridian/Carmel submarket has pointed toward a reckoning of sorts. So it comes as little surprise that some of this market's larger tenants are trending toward consolidation. Case in point, AT&T has indicated it will terminate its lease at Parkwood and relocate to its downtown facility. Whether a negotiating mechanism or not, tenants are assessing any "right sizing" that is possible in the market. American Family Insurance, also located in Parkwood Crossing, has gone out to the market to explore exactly what level of concessions it can leverage in this environment.

Such movement will help to define the market for the last half of 2010 as few larger office leases have occurred in the first half of the year. Because of high office product concentration in this submarket, these transactions may even be "market setting" cases in terms of how building owners will compete. Typically this submarket accounts for a fair volume of leasing activity; however, that has not been the case lately. Statistically, this is supported by roughly -1.5% absorption (-107,000 sq. ft.) since our Year End 2009 report.

Sale activity remains fairly light as investment valuation methods remain somewhat a moving target. Combined with a continuation of stringent underwriting by lenders, few buildings have traded. Exception to this trend is the purchase by Dauby O'Connor of 501 Congressional Boulevard from Duke Realty, and the purchase by Sandor Development of the 56,000 sq. ft. Standard Management building located at 10689 N. Pennsylvania Street; however, it should be noted these were owner occupied transactions. As expected, hardly any new construction has started. Carmel City Center continues to evolve, and ITT has infrastructure work underway to expand its location by 20,000 sq. ft. at Hamilton Crossing.

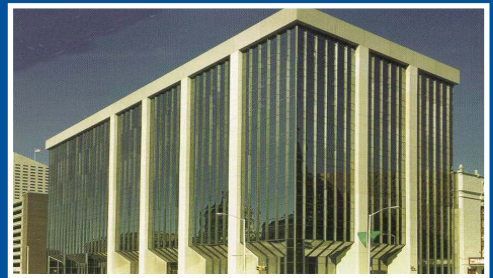
The downtown market is showing some stabilization even in this challenging environment. Vacancy has increased from 19.36% to 22.20% since our Year End 2009 report. M&I Plaza recently leased approximately 70,000 sq. ft. to a civilian division of the U.S. Marine Corps. The building had been hovering in the 70% vacant range. With this deal, a big dent has been put in this number.

The State of Indiana continues to downsize their office footprint downtown. They are aggressively consolidating agencies in to the State Office Building and reducing outside office space. The Indiana Teachers Retirement Fund purchased One North Capitol and has been moving state office users into its vacant space.

Private and public colleges and universities continue the search for downtown locations and have become one of a few positive trends downtown. However, parking needs for these users create a challenge to students and owners.

The hotel and convention industry continues its robust growth. The Convention Center expansion is on schedule to be complete by December. The JW Marriott Hotel complex has partially opened with a total completion date schedule for February of 2011.

CBD/Downtown



The Indiana Teachers Retirement Fund purchased One N. Capitol.

INDIANAPOLIS OFFICE MARKET SUMMARIES YTD

	Total Inventory	No. of Buildings	Class "A" Vacancy	Class "B" Vacancy	Overall Vacancy	Vacant Space	2010 New Construction
CBD/Downtown	12.7 million sq. ft.	85	25.07 %	17.68 %	22.20 %	2.8 million sq. ft.	0 sq. ft.
Entire Suburban	22.2 million sq. ft.	363	22.49 %	24.90 %	24.21 %	5.3 million sq. ft.	0 sq. ft.
Midtown	989,878 sq. ft.	16	5.85 %	11.19 %	9.78 %	96,827 sq. ft.	0 sq. ft.
North Meridian/Carmel	7.4 million sq. ft.	105	16.42 %	27.45 %	21.16 %	1.5 million sq. ft.	0 sq. ft.
Northwest	4.0 million sq. ft.	49	16.42 %	20.53 %	19.90 %	812,072 sq. ft.	0 sq. ft.
West/Southwest	1.2 million sq. ft.	25	46.36 %	28.75 %	26.50 %	334,377 sq. ft.	0 sq. ft.
Greenwood	766,430 sq. ft.	17	29.13 %	30.15 %	28.39 %	217,565 sq. ft.	0 sq. ft.
East/Southeast	59,420 sq. ft.	3	n/a	64.34 %	43.34 %	25,755 sq. ft.	0 sq. ft.
Keystone	4.0 million sq. ft.	54	28.38 %	24.32 %	27.37 %	1.1 million sq. ft.	0 sq. ft.
Northeast	4.6 million sq. ft.	94	34.04 %	22.93 %	28.56 %	1.3 million sq. ft.	0 sq. ft.

The first half of 2010 was stagnant in the Northeast, as the submarket posted an absorption of -76,225 sq. ft. By adding the 49,000 sq. ft. St. Vincent office building on USA Parkway to our inventory – the market effectively had an absorption of -76,225 sq. ft. This building added 49,000 sq. ft. of both inventory and vacancy to Meridian's totals.

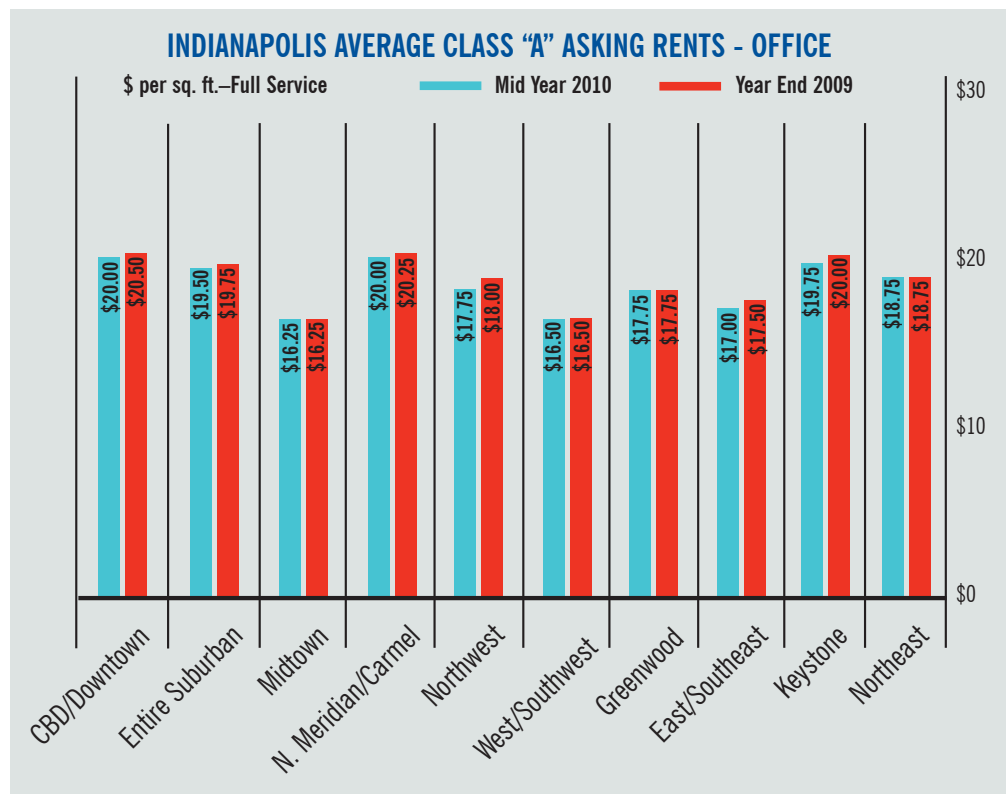
A portion of the negative absorption was Centex Homes (and subsidiaries) vacating both Lake Pointe Center 2 and the Indianapolis market. Smaller pockets of space came back to the submarket in Castle Creek IV and Heritage Park III. No significant new tenants absorbed space in the Northeast after an active 2009 year end.

The next year will be an important one in the Northeast submarket. The Marsh headquarters remains on the market with close to 150,000 sq. ft. available, and other significant vacancies include the 49,000 sq. ft. St. Vincent's building on USA Parkway and the 80,000 sq. ft. still available at Edgeworth Laskey's One Concourse building. From an employment standpoint, Forum Credit Union, Roche, Sallie Mae, Universal Music and Wiley Publishing constitute over 30% of the Northeast market. With no positive absorption pressure coming from outside, this submarket's strength will be tied closely to the growth or contraction plans of those tenants and a few others. Concessions will likely increase and rental rates decrease along the I-69 corridor as it adjusts to increased vacancy and any discouraging news coming out of the submarket's largest employers. Furthermore, landlords who have faced many consecutive quarters of sluggish leasing activity will chase any prospective tenants more aggressively.

Northeast

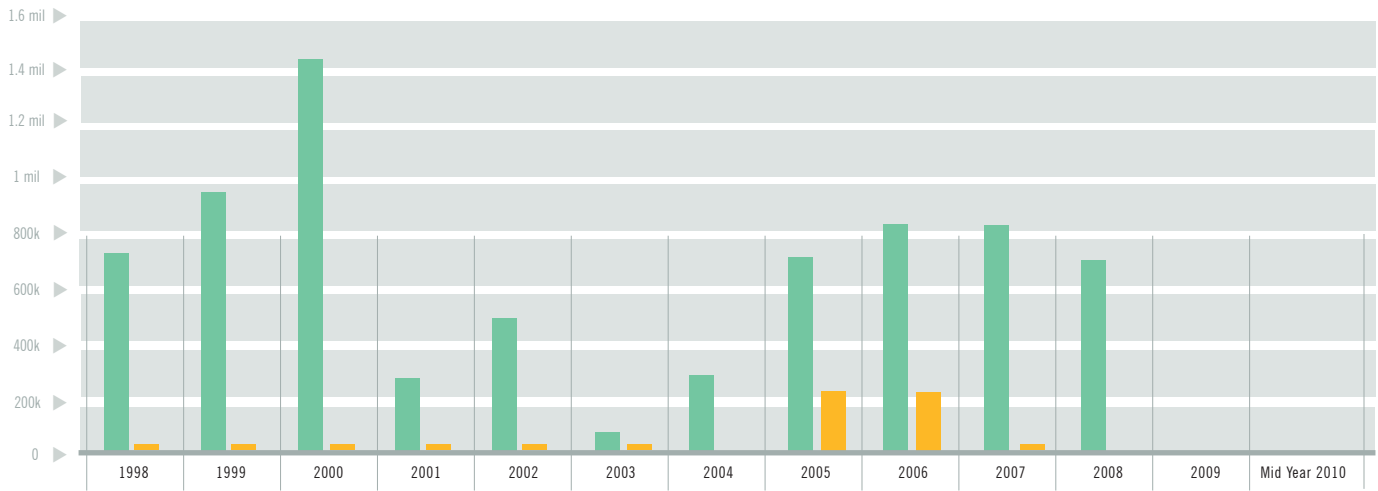


St. Vincent's building on USA Parkway has 49,000 sq. ft. available.



HISTORIC NEW CONSTRUCTION

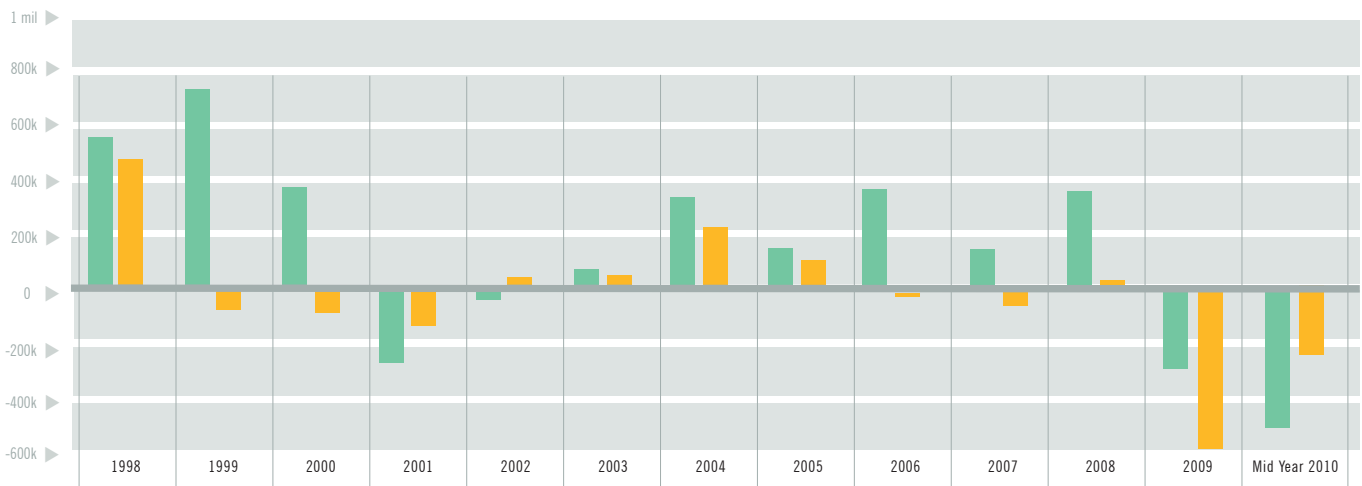
Suburban Construction
CBD Construction



HISTORIC NET ABSORPTION

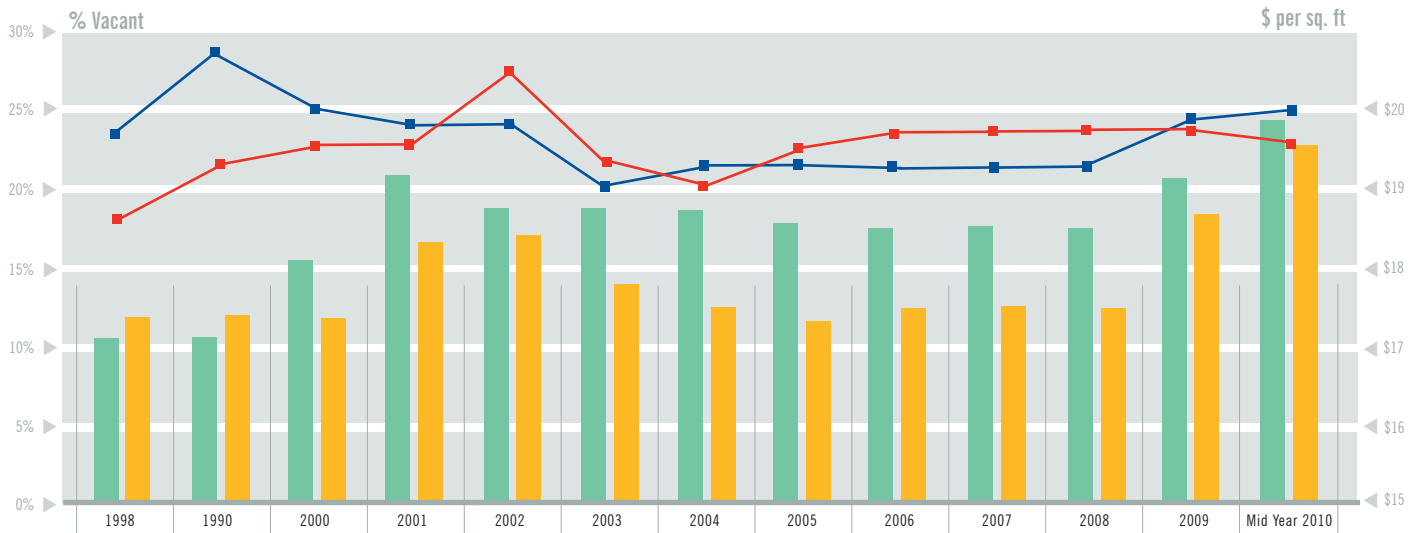
Suburban Net Absorption
CBD Net Absorption

MILLION SQ. FT.



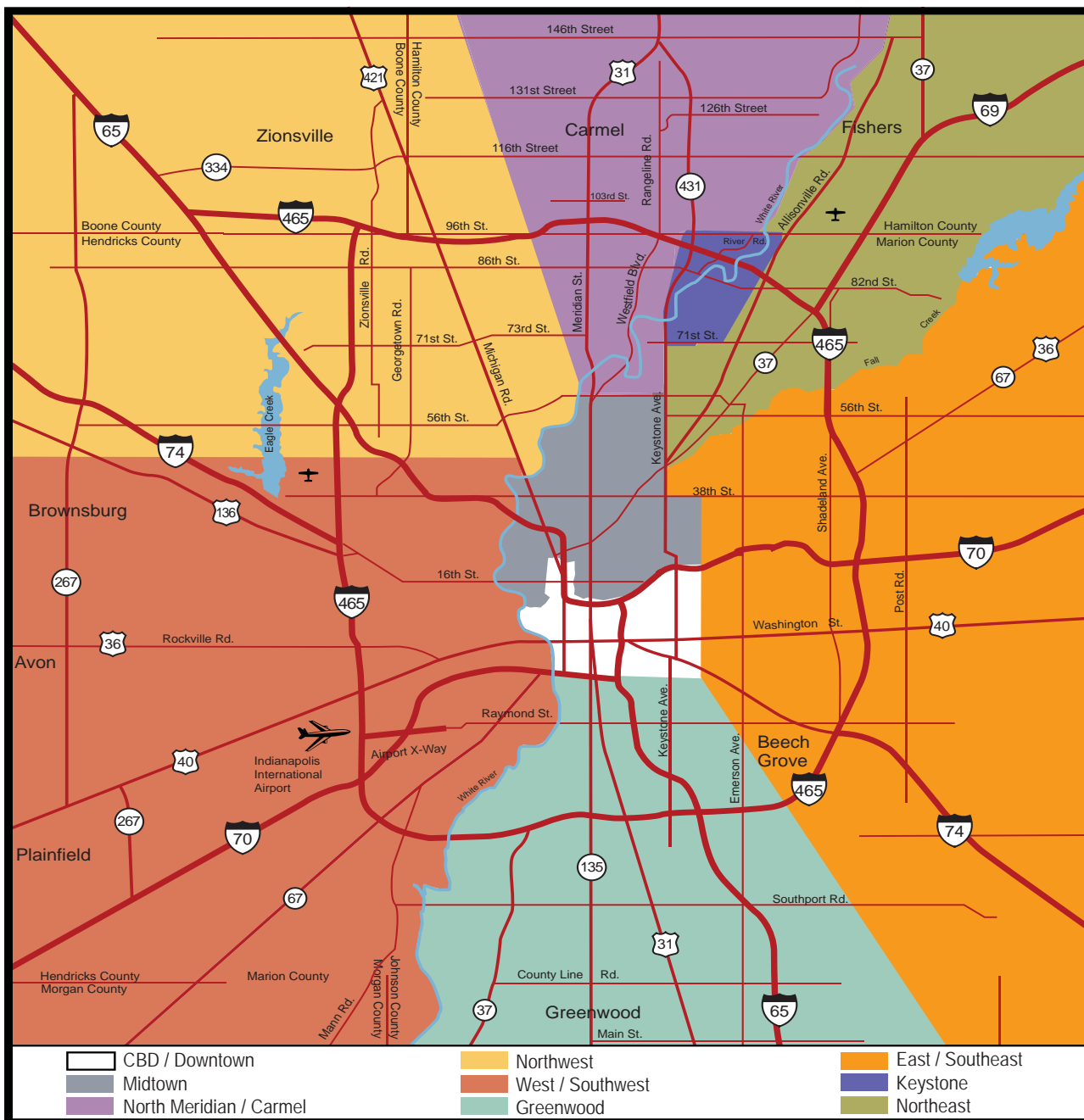
AVAILABLE SPACE VS. AVERAGE ASKING RENT

Suburban Available Space
CBD Available Space
Suburban Average Asking Rent
CBD Average Asking Rent



Submarket Map

INDIANAPOLIS - OFFICE



Meridian MarketWatch is a publication detailing current and historical real estate news and trends in Indianapolis, Indiana.

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