

MidYear'14

Office Market Report



INDIANAPOLIS, INDIANA

The Market

With the first six months of the year behind us we look forward with new found optimism and many opportunities. The commercial real estate markets are beginning to hit their stride with readily available access to capital. Buyers are back in the market and prices are on the rebound. Tenants are cautiously expanding as they begin to hire new employees. We believe this positive shift will lead to improved market conditions throughout the year.

-Jeff Harris
President | **NAI Meridian**

Optimism and activity return to the Indianapolis office market.

The Indianapolis office market has seen a material uptick in activity and momentum. For the first time since 2008, we are seeing employment growth and optimism from the office business sector. While this is positive news, it's industry specific with software, financial service and high tech sectors leading the way locally. This bodes well for the office sector which still has an abundance of vacant space to absorb. There has also been a shift in employee per square foot densities. Employers are using less space for more employees at a ratio not yet seen. This is putting a strain on parking availabilities and in some cases air conditioning loads. We do not foresee this as a temporary condition but a systematic shift that landlords will need to accommodate to stay competitive.

Market improvement is centered around the historically strong North Meridian and Keystone submarkets which currently have 11.25% and 13.1% vacancy, respectively. These are the two most active submarkets and reflect how newer buildings geographically situated near preferred housing, schools and shopping have attracted a substantial portion of office tenants.

While there is still more supply than demand, we are slowly absorbing the large vacancies in the market. Although medium to small users still have a wide selection of space to choose from, larger tenants are finding a very tight market in which new construction may be their only option.

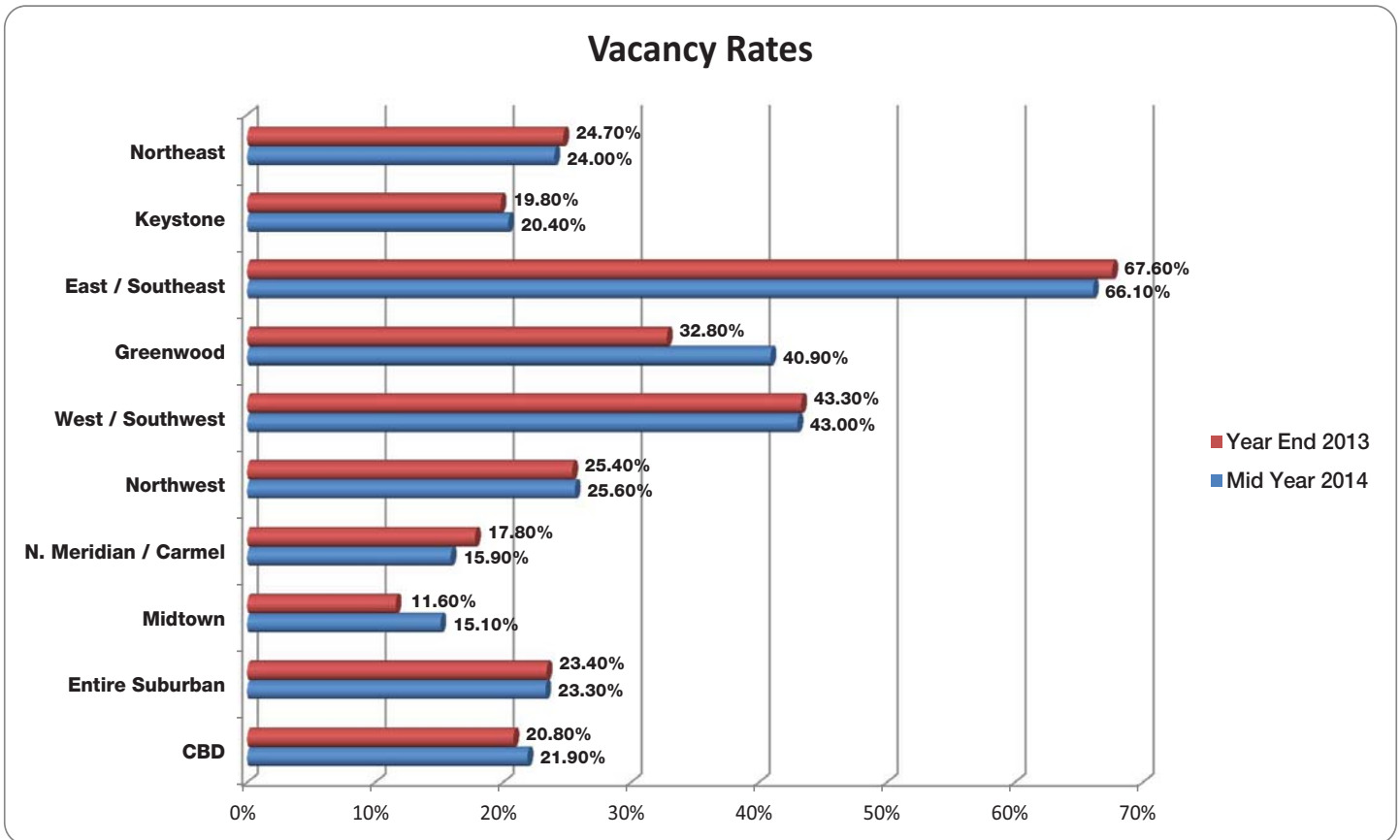
* The information contained herein has been given to us by sources we deem reliable. We have no reason to doubt its accuracy, however, we do not make any guarantees. All information should be verified before relying thereon.

* Source: NAI Meridian and CoStar Property®

Market Overview Report

Total Market Statistics

SUBMARKET	# BLDGS.	TOTAL RBA (SF)	DIRECT AVAILABLE (%)	SUBLET AVAILABLE (%)	TOTAL AVAILABLE (%)	TOTAL AVERAGE RATE (\$/SF/YR)	UNDER CONSTRUCTION (SF)
N. Meridian	143	8,038,761	14.8%	1.1%	15.9%	\$17.97	0
Midtown	26	1,549,661	12.9%	2.2%	15.1%	\$15.13	0
East/Southeast	12	434,617	66.1%	0%	66.1%	\$16.02	0
Northeast	130	5,512,113	22.0%	2.0%	24.0%	\$16.89	0
West/Southwest	36	1,696,914	43.0%	0.0%	43.0%	\$14.98	0
Northwest	83	5,194,948	24.7%	.09%	25.6%	\$16.33	0
Keystone	58	3,701,011	19.3%	1.1%	20.4%	\$18.43	0
Greenwood	51	980,290	40.1%	.08%	40.9%	\$15.43	0
CBD	90	12,972,121	20.5%	1.4%	21.9%	\$18.46	0
INDIANAPOLIS	629	40,350,779	22.86%	1.6%	24.46%	\$16.94	0



Metrowide Statistics

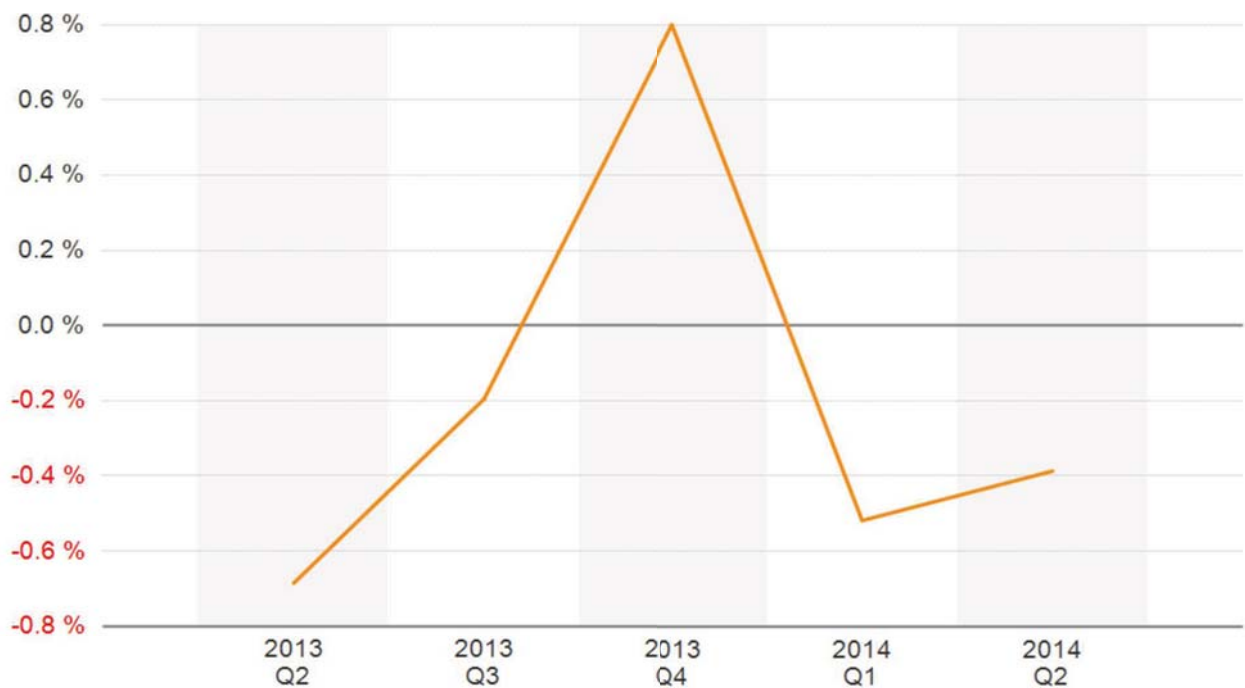
Office Leasing

Absorption: Measure of Demand in Square Footage for Office Space
(All Office Space)

Total Net Absorption for Mid Year 2014 = <283,045>
(Down from 231,303 in the 4Q 2013)

Absorption was weak in the first half of 2014 which followed along with a weak economy and negative GDP numbers.

Absorption as a Percentage of Inventory



Citywide Statistics

All Classes of Office Space

Office Space Statistical Changes Year-over-Year and Quarter-over-Quarter

2nd Qtr. 13 **vs.** 2nd Qtr. 14



NET ABSORPTION



VACANCY RATE



CONSTRUCTION



ASKING RATES

1st Qtr. 14 **vs.** 2nd Qtr. 14



NET ABSORPTION



VACANCY RATE

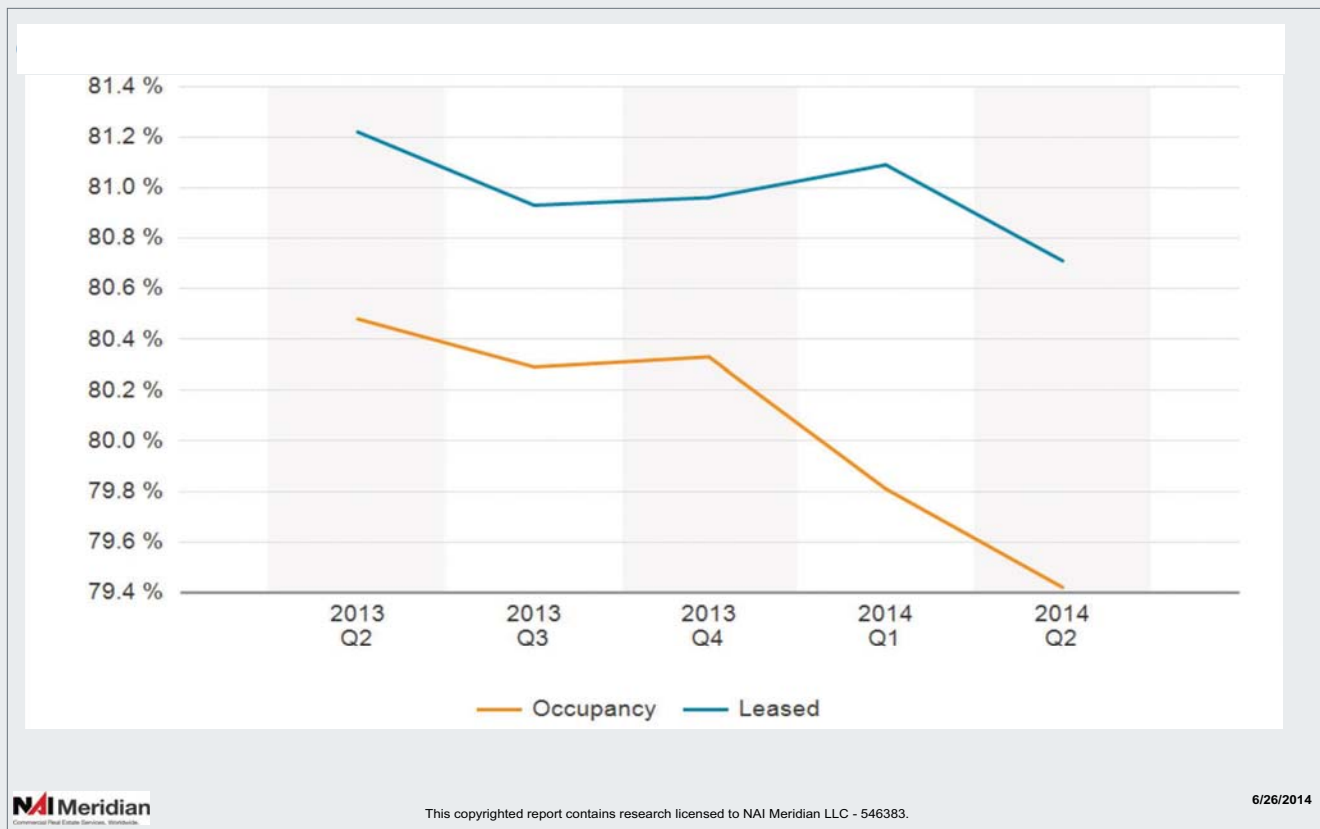


CONSTRUCTION



ASKING RATES

Occupied & Percent Leased since 2Q 2013



Metro Indy Overview

Vacancy

- Remained at 23.33% in the suburbs at the end of Q2 2014.
- CBD vacancy increased to 21.9% up from 20.80% at the EOY 2013.
- Absorption was negative market-wide with -38,219 sq. ft. in the suburbs and -92,363 sq. ft. in the CBD for Q2 2014.

Rental Rates

(Building Classes A & B Combined)

- Landlord concessions such as free rent, construction allowances, etc. are on the decline in the well leased buildings and increasing in the high vacancy submarkets.

New Construction

(Building Classes A & B Combined)

- With the exception of Concourse Two being developed by Edgeworth Laskey in the northeast submarket speculative office development is non-existent.
- Interactive Intelligence continues to grow and has announced a 112,500 sq. ft. pre-leased office building on the northwest side.

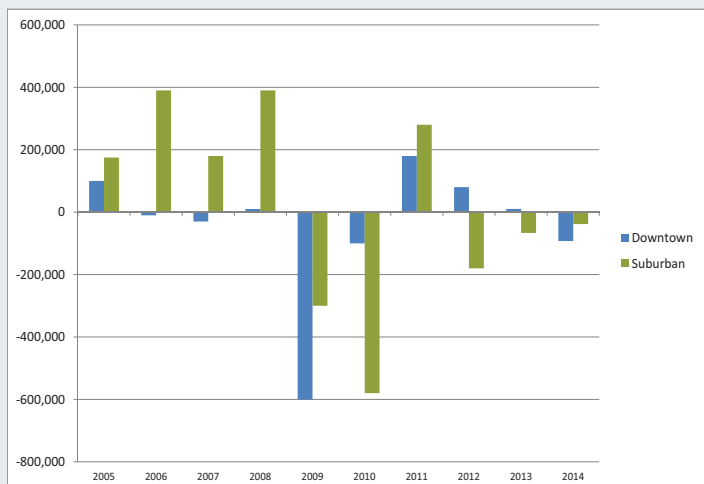
Sublease Space

- In the last 12 months, inventory of sublease space available citywide has decreased in class A & B buildings.

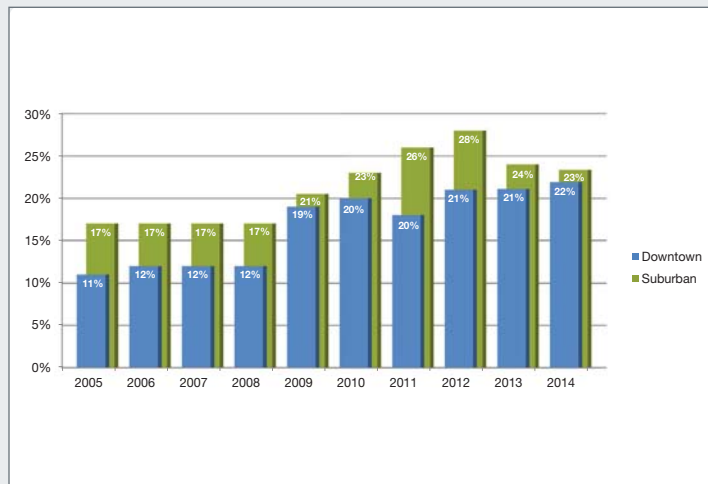
Distressed Properties

- These high vacancy or over leveraged properties are finally being disposed of, unlocking space options with new, well-capitalized owners.

Historic Net Absorption



Available Space



Absorption (Net)

The change in occupied space in a given time period.

Available Square Footage

Net rentable area considered available for lease; excludes sublease space.

Average Asking Rental Rate

Rental rate as quoted from each building's owner/management company. For office space, a full service rate was requested; for retail, a triple net rate requested; for industrial, a NN basis.

Building Class

Class A Product is office space of steel and concrete construction, built after 1980, quality tenants, excellent amenities & premium rates. Class B product is office space built after 1980, fair to good finishes & wide range of tenants.

Direct Vacancy

Space currently available for lease directly with the landlord or building owner.

Market Size

Includes all existing and under construction office buildings (office, office condo, office loft, office medical, all classes and all sizes, both multi-tenant and single-tenant, including owner-occupied buildings) within each market.

Overall Vacancy

All physically unoccupied lease space, either direct or sublease.

SF/PSF

Square foot/per square foot, used as a unit of measurement.

Sublease

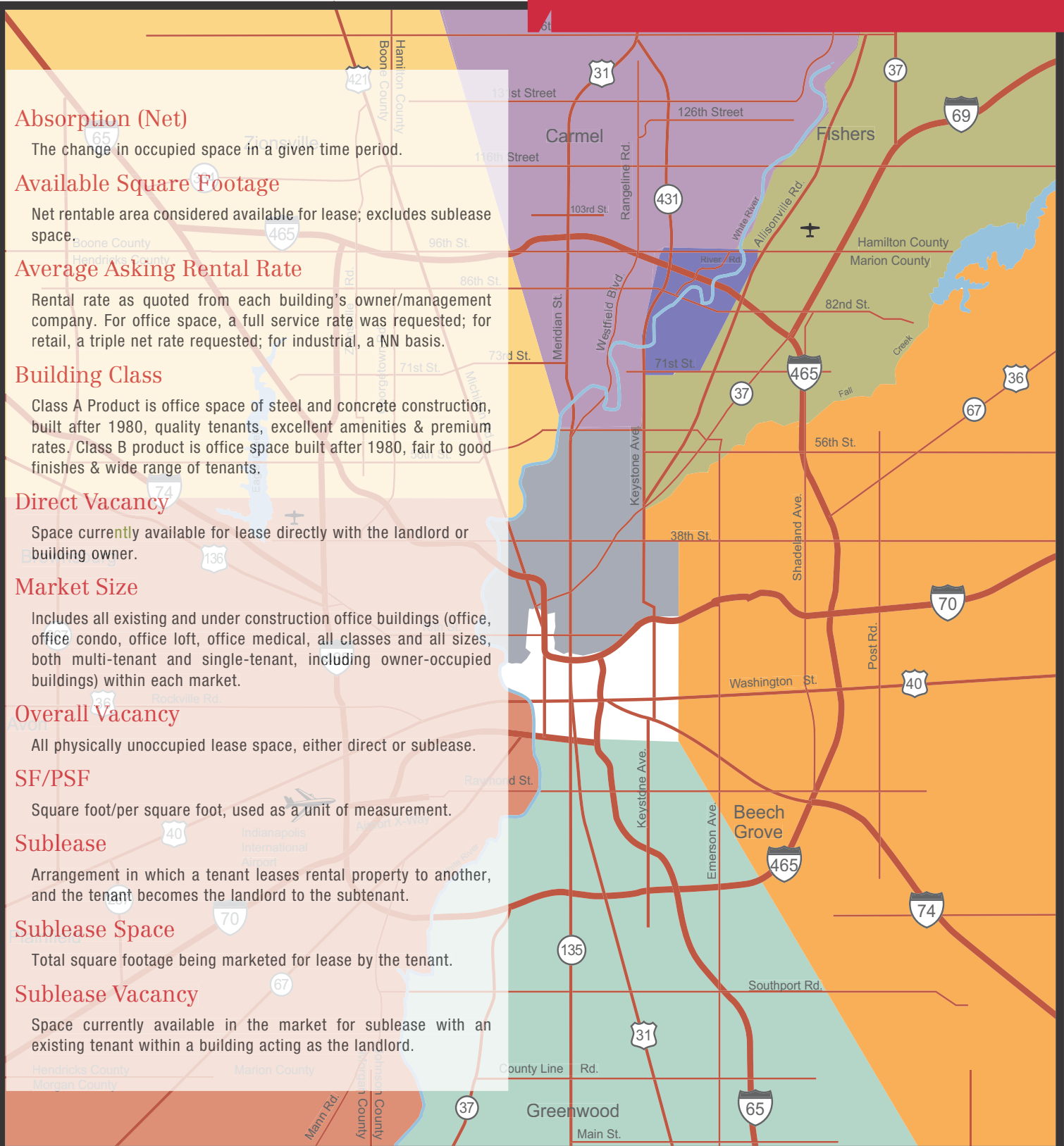
Arrangement in which a tenant leases rental property to another, and the tenant becomes the landlord to the subtenant.

Sublease Space

Total square footage being marketed for lease by the tenant.

Sublease Vacancy

Space currently available in the market for sublease with an existing tenant within a building acting as the landlord.



- CBD / Downtown
- Midtown
- North Meridian / Carmel

- Northwest
- West / Southwest
- Greenwood

- East / Southeast
- Keystone
- Northeast

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Indianapolis Office Market Report

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