

Office Marketwatch Report NAI Meridian

Midyear 2011

T

he employment picture is still the dominant driver as we

examine the midyear office market. Since our Year End 2010 market report, unemployment has dipped from approximately 9.8% to 9.2% according to U.S. Bureau of Labor Statistics. While moving in the right direction, this number has stagnated and not changed over the last several months. The office market requires a growing job market to decrease vacancies and increase rents. While several power centers across the country are experiencing growth the Midwest is basically unchanged from the end of last year.

The healthcare sector, however, is back in expansion mode and healthcare providers

are the bright spot in the new construction and multi-tenant office markets.

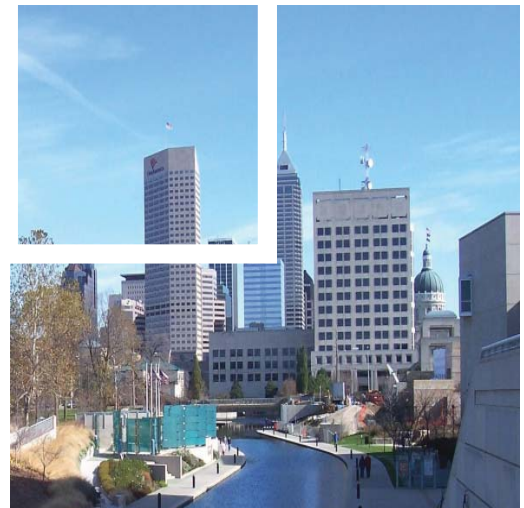
Additionally, positive absorption from high growth expansion of office users seems limited to a select few, healthcare, high tech or software related firms. Otherwise overall vacancies are generally flat at 22.18%; a change of -.37% from six months ago.

The investment market has picked up steam with several well known buildings up for sale. However, most multi-tenant buildings have not sold indicating that financing, values and underwriting criteria are still not in equilibrium. We also expect several troubled properties to go back to the lenders in the last half of 2011.

Hot Topics

- NAI and Meridian Real Estate, LLC team up to form NAI Meridian
- The new proposed FASB 13 rules are influencing large tenants' leasing decisions
- IU Health buys Gateway Plaza instead of developing a new building

Trends



Submarket Reports



Trending: Neutral

Keystone The Keystone submarket experienced solid leasing activity and some overall net absorption. Stonegate Mortgage completed a significant lease totaling approximately 28,000 sq. ft. at Precedent Office Park. That lease, coupled with other renewal activity in the park, resulted in net absorption of 28,000 sq. ft. through 2nd quarter 2011 despite a downsize by Zurich from 36,000 sq. ft. to 16,000 sq. ft.

Other notable transactions included Strayer University for 16,000 sq. ft. at River Road I, renewal by Arlington Roe for 21,000 sq. ft., expansion by Slingshot SEO for 11,600 sq. ft., and renewal by Flaherty & Collins by nearly 13,000 sq. ft., all at Keystone at the Crossing.

The pace of leasing activity remains positive (Citimark's Haverstick 1 & 2 buildings experienced a 10% increase in occupancy over the past six months) and with increasing confidence among businesses, desirable Keystone office properties should continue to slowly reduce vacancies, supported by excellent access to I-465 and retail amenities along the 86th Street corridor.



Precedent Office Park #81



Trending: Neutral

Downtown

City officials and hospitality owners are nervously waiting for an agreement to end

improvements, Georgia Street is getting a complete makeover between Conseco Fieldhouse and the new Convention Center expansion.

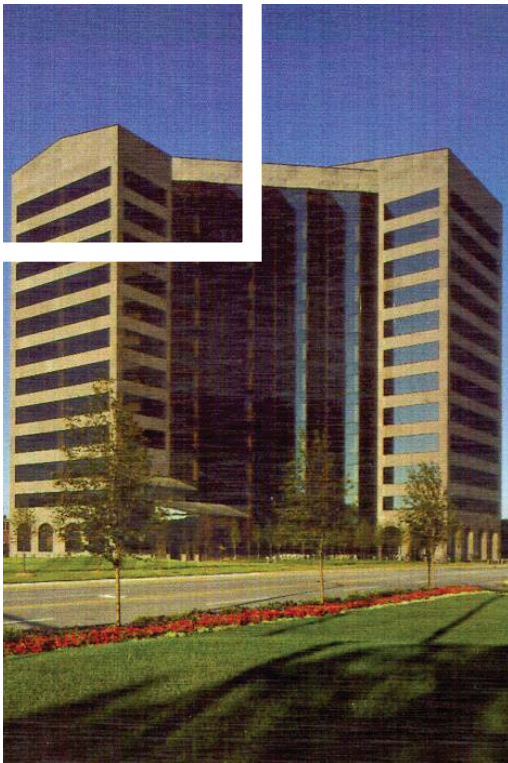
the NFL lockout to ensure the 2012 Super Bowl is held in downtown Indianapolis. We look forward to a spectacular Super Bowl if recent downtown improvements are any indication.

IU Health purchased the Gateway Plaza building. They plan to occupy the building in its entirety. This removed 283,285 sq. ft. of space off the downtown multi-tenant building inventory.

Since our last report a number of significant events have positively impacted downtown. Rolls Royce Corp. consolidated their central Indiana workforce in two of the three Faris Campus buildings leasing 465,000 sq. ft. of office space.

Overall vacancies are 18.52%. Excluding the Rolls Royce lease, absorption was -208,147 sq. ft. with an additional 241,655 sq. ft. of sublease space on the market. Outside the Rolls Royce transaction the downtown submarket remains weak.

The city is investing heavily in downtown infrastructure for Super Bowl preparation. In addition to several other downtown road



Gateway Plaza

Submarket Reports



One Concourse

Northeast Some positive news for the Northeast submarket which has absorbed 106,567 sq. ft. in the first half of 2011. Relative to the rest of the Indianapolis market, Northeast has had an encouraging performance for the first half of 2011. Considering the slow economic recovery, the trend has been for tenants to downsize or relocate.

There has been some encouraging activity; as a couple of landlords have enjoyed some “wins” in their portfolios. Two floors have been leased up at One Concourse in Fishers totaling more than 50,000 sq. ft. by tenants such as USA Funds, Met Life and Stanley Security. Among other winners

is Western Select completing a large lease with ITT, a for profit educational use.

However, overall vacancy rates will keep rents stagnant, a persistent theme. The aggressive concessions will continue to come in the form of prolonged months of free rent in landlords’ attempts to maintain higher rates on the rent rolls. The investment market will be timid at best with equity requirements keeping leveraged buyers out of the game.



Trending: Neutral



Trending: Neutral

N. Meridian/Carmel An increase in vacancy of 200,000 sq. ft. occurred in the N. Meridian/Carmel submarket over the first half of 2011. This was partly the result of CSO Architects’ relocation to Keystone Crossing and vacating approximately 35,000 sq. ft. at Parkwood Crossing.

Significant lease transactions accomplished within the Meridian Corridor in the first half of 2011 include New York Life relocating across Meridian Street into 10,300 sq. ft. at One Penn Mark and PR Mortgage also at One Penn Mark occupying 13,000 sq. ft.

Additional deals of significance came in the form of renewals, including Baker Daniels, Liberty Mutual, James Allen Insurance, Merrill Lynch and Morgan Stanley. These transactions ranged in size from 10,000 sq. ft. to upwards of 40,000 sq. ft.

Should the overall office market continue to improve the latter half of 2011, the historically attractive N. Meridian/Carmel submarket should stand to be first in line to absorb forthcoming office demand. In the meantime, existing tenants will continue to seek value-added, alternative solutions in proximity to their existing locations to keep their existing landlord competitive.



One Penn Mark

No new construction activity has commenced. Although a continuing project worth noting is the Carmel City Center with additional office space planned for a second phase within the mixed use project.

Submarket Reports



Trending: Up

Northwest While not immune to market pressures, the Northwest submarket continues to be a bright spot of Indianapolis office leasing. Of the suburban markets, Northwest has enjoyed the highest absorption (+122,767

sq. ft.). Relative to the north side of Indianapolis there has been a large influx of tenants from either out of the market or other submarkets settling in the College Park and immediate area. These tenants are mostly for profit schools and healthcare related uses. And still, landlords in this submarket continue to be the most aggressive due to downsizing and thin market activity.

However, as we look ahead there should be little change in the behavior of landlords in the Northwest. As Ascension Health prepares to occupy a large portion of Fortune Park Eleven, several other large tenants are leaving the market or downsizing. This continues the pressure on landlords to maintain their aggressive proposals to speed up the releasing of vacant spaces.

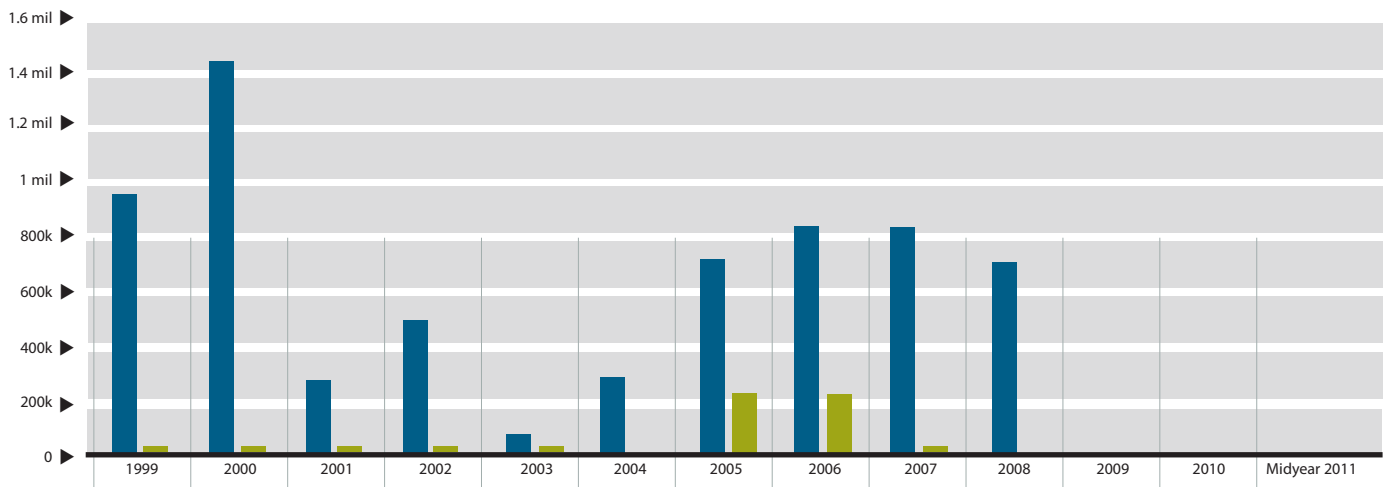
What does this mean? Compared to other suburban markets the Northwest will continue to tip the scale as the most generally aggressive submarket for Class A and B office space users. Downward pressures on rents and upward pressures on concessions will continue.



3600 Woodview Trace

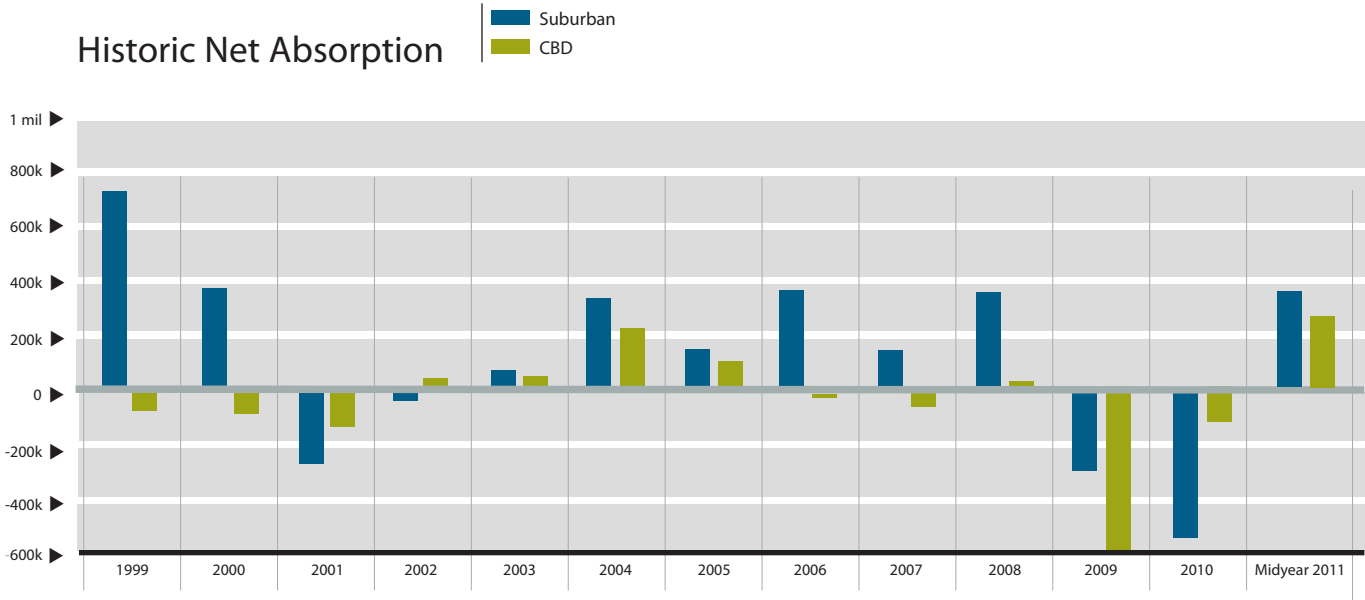
Historic New Construction

■ Suburban Construction
■ CBD Construction

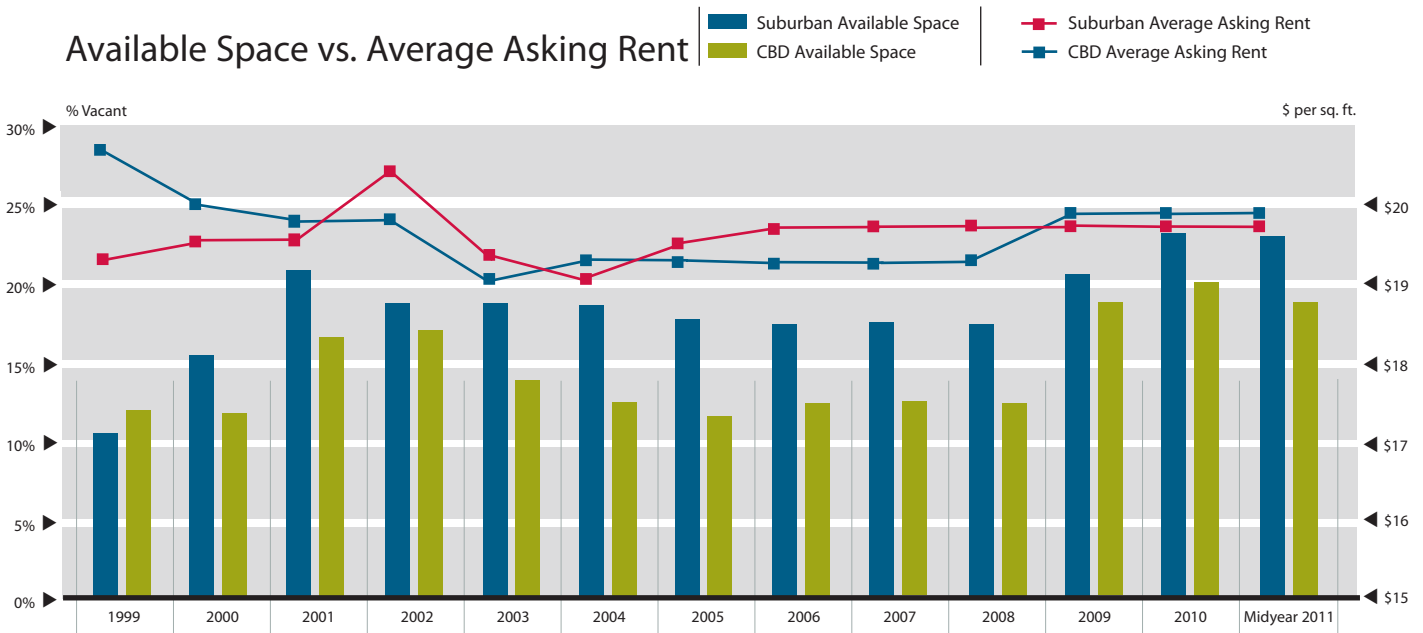


Market Statistics

Historic Net Absorption

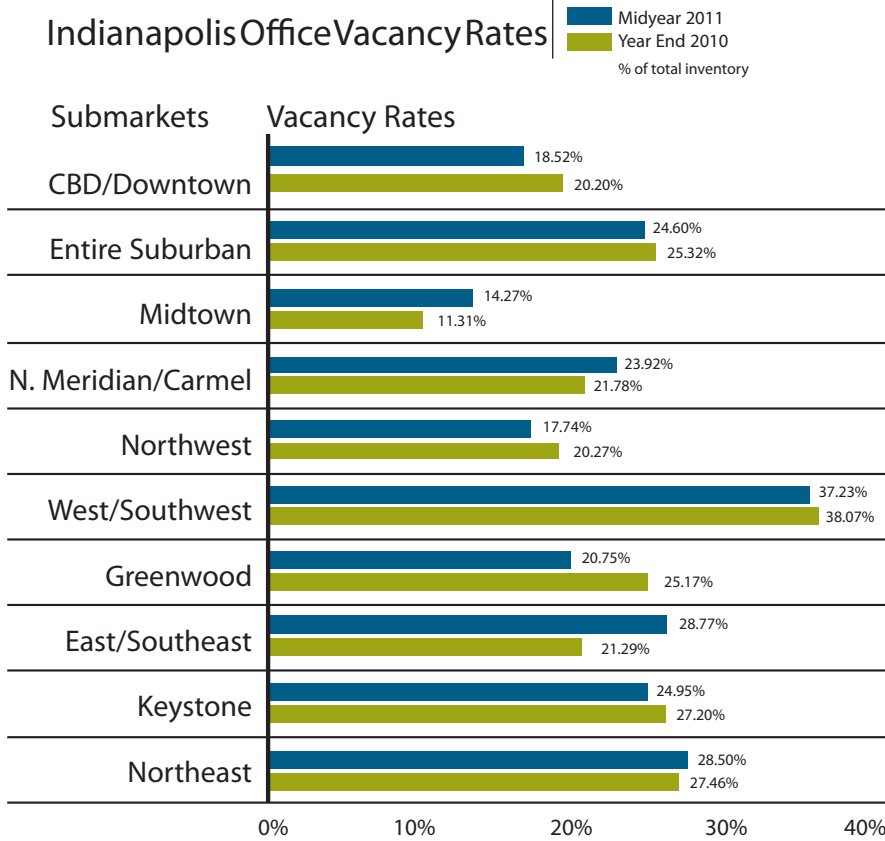


Available Space vs. Average Asking Rent



Market Statistics

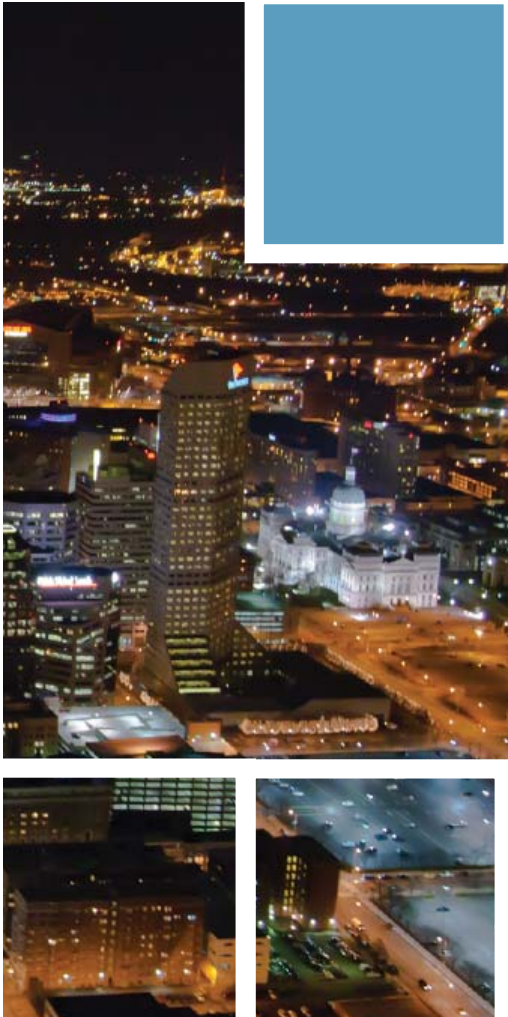
Indianapolis Office Vacancy Rates



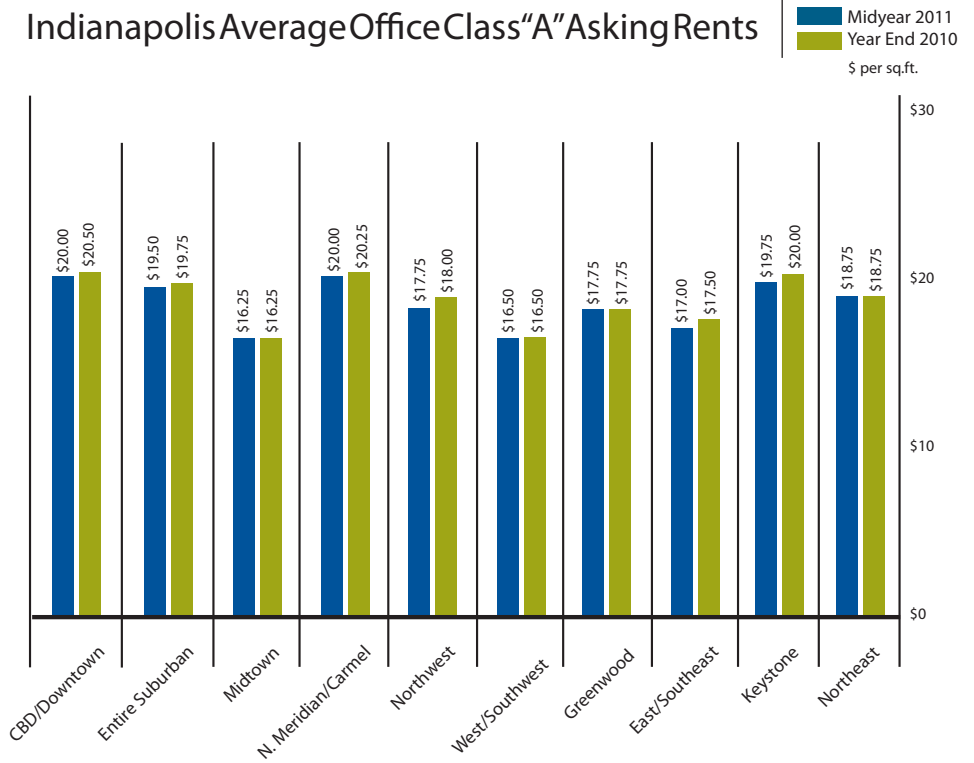
Absorption Summary

| | CBD/Downtown | Entire Suburban | Midtown | N. Meridian/Carmel | Northwest | West/Southwest | Greenwood | East/Southeast | Keystone | Northeast |
|---------------|-------------------|-------------------|------------------|--------------------|------------------|------------------|------------------|-----------------|------------------|-------------------|
| Midyear 2011 | 256,853 sq. ft. | 390,310 sq. ft. | (15,831) sq. ft. | 18,241 sq. ft. | 122,767 sq. ft. | 24,911 sq. ft. | 33,435 sq. ft. | 0 sq. ft. | 84,389 sq. ft. | 106,567 sq. ft. |
| Year End 2010 | (100,330) sq. ft. | (560,971) sq. ft. | 15,115 sq. ft. | (173,874) sq. ft. | (79,496) sq. ft. | (44,722) sq. ft. | (27,064) sq. ft. | (8,620) sq. ft. | (72,310) sq. ft. | (170,000) sq. ft. |

Market Statistics



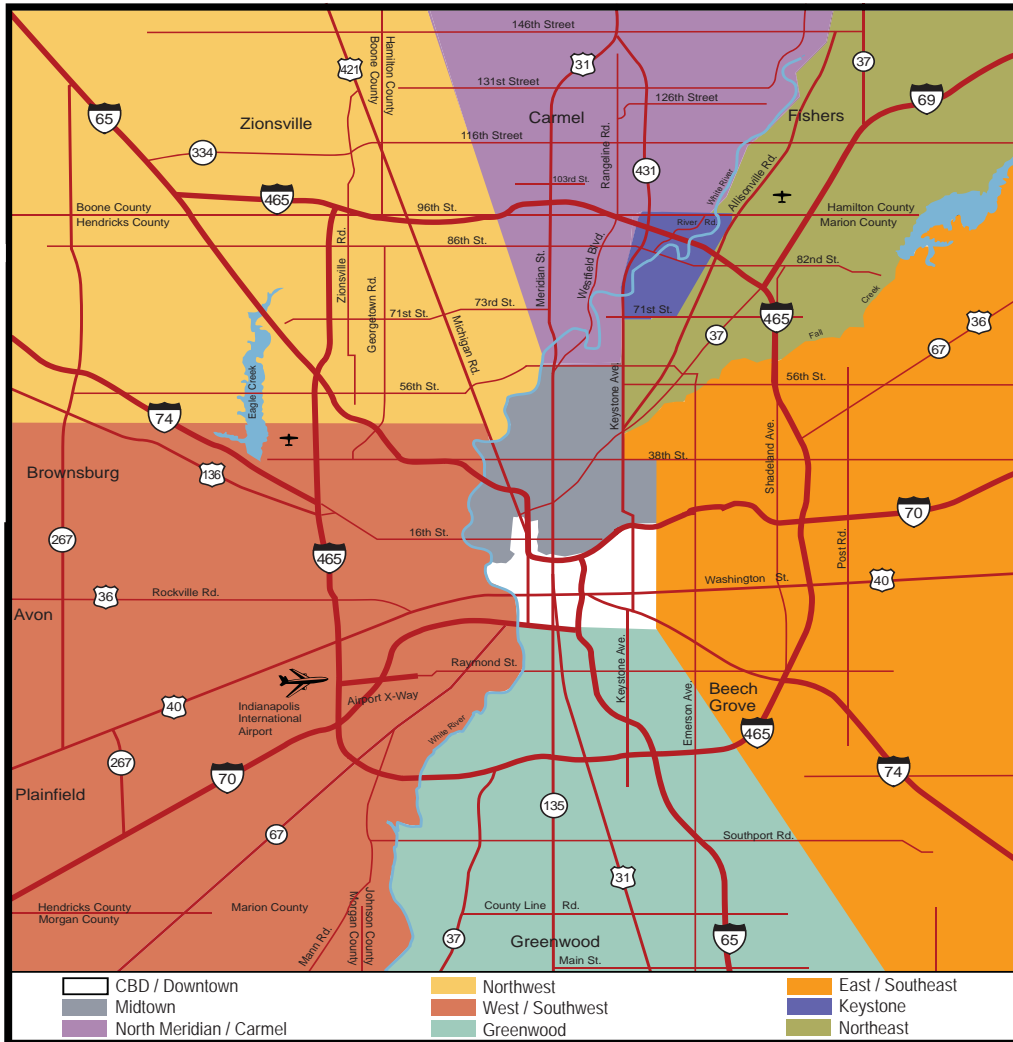
Indianapolis Average Office Class "A" Asking Rents



Indianapolis Office Market Summaries YTD

| | Total Inventory | No. of Buildings | Class "A" Vacancy | Class "B" Vacancy | Overall Vacancy | Vacant Space | 2011 New Construction |
|--------------------|----------------------|------------------|-------------------|-------------------|-----------------|---------------------|-----------------------|
| CBD/Downtown | 13.3 million sq. ft. | 86 | 20.78 % | 15.91 % | 18.52 % | 2.4 million sq. ft. | 0 sq. ft. |
| Entire Suburban | 22.9 million sq. ft. | 375 | 19.81 % | 28.04 % | 24.60 % | 5.6 million sq. ft. | 0 sq. ft. |
| Midtown | 877,379 sq. ft. | 15 | 5.85 % | 17.84 % | 14.27 % | 125,160 sq. ft. | 0 sq. ft. |
| N. Meridian/Carmel | 7.7 million sq. ft. | 111 | 20.06 % | 28.74 % | 23.92 % | 1.8 million sq. ft. | 0 sq. ft. |
| Northwest | 4.1 million sq. ft. | 54 | 8.91 % | 22.98 % | 17.74 % | 730,546 sq. ft. | 0 sq. ft. |
| West/Southwest | 1.2 million sq. ft. | 22 | 45.65 % | 39.25 % | 37.23 % | 472,014 sq. ft. | 0 sq. ft. |
| Greenwood | 793,369 sq. ft. | 16 | 25.62 % | 25.25 % | 20.75 % | 164,619 sq. ft. | 0 sq. ft. |
| East/Southeast | 29,960 sq. ft. | 1 | n/a | 28.77 % | 28.77 % | 8,620 sq. ft. | 0 sq. ft. |
| Keystone | 4.0 million sq. ft. | 55 | 23.38 % | 25.58 % | 24.95 % | 1.0 million sq. ft. | 0 sq. ft. |
| Northeast | 4.9 million sq. ft. | 101 | 24.66 % | 29.29 % | 28.50 % | 1.4 million sq. ft. | 0 sq. ft. |

Submarket Map



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