Optimism and activity return to the Indianapolis office market.

The Indianapolis office market maintained its optimism and momentum we reported in our MidYear report. Based on federal employment statistics, office users continued to add employees which is always a critical component to a healthy office market. The trend of more employees per square foot continues as a part of companies becoming more efficient. This and the accompanying parking increase continues to create problems for landlords with tight parking ratios.

While the office market is improving we saw a stronger 3rd quarter leasing activity vs. 4th quarter. Additionally, while activity is up net absorption is down with a negative <148,739> in the suburbs and a negative <145,345> in the CBD. This confirms the use of less space and fewer office users trend we have been reporting.

While demand is improving we still have an abundance of space to absorb. As such, there is currently no new speculative office construction underway.

Although we have an abundance of space available there are few large tracts of space for users needing them. This condition is fueling new construction as a plausible option for large corporate users.

Lastly, we are seeing a decline in the number of buildings in receivership as most have exited receivership and are back on the market with new well capitalized owners.
## Total Market Statistics

<table>
<thead>
<tr>
<th>SUBMARKET</th>
<th># BLDGS</th>
<th>TOTAL RBA (SF)</th>
<th>DIRECT AVAILABLE (%)</th>
<th>SUBLET AVAILABLE (%)</th>
<th>TOTAL AVAILABLE (%)</th>
<th>TOTAL AVERAGE RATE ($/SF/YR)</th>
<th>UNDER CONSTRUCTION (SF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>N. Meridian</td>
<td>143</td>
<td>8,270,804</td>
<td>14.7%</td>
<td>1.2%</td>
<td>15.9%</td>
<td>$18.50</td>
<td>0</td>
</tr>
<tr>
<td>Midtown</td>
<td>27</td>
<td>1,591,974</td>
<td>15.6%</td>
<td>2.2%</td>
<td>17.8%</td>
<td>$14.31</td>
<td>0</td>
</tr>
<tr>
<td>East/Southeast</td>
<td>11</td>
<td>400,245</td>
<td>61.8%</td>
<td>0%</td>
<td>61.8%</td>
<td>$15.08</td>
<td>0</td>
</tr>
<tr>
<td>Northeast</td>
<td>132</td>
<td>7,236,214</td>
<td>17.8%</td>
<td>1.5%</td>
<td>19.2%</td>
<td>$17.17</td>
<td>0</td>
</tr>
<tr>
<td>West/Southwest</td>
<td>40</td>
<td>1,865,769</td>
<td>49.0%</td>
<td>0%</td>
<td>49.0%</td>
<td>$15.26</td>
<td>0</td>
</tr>
<tr>
<td>Northwest</td>
<td>82</td>
<td>5,088,681</td>
<td>21.8%</td>
<td>.08%</td>
<td>22.6%</td>
<td>$14.43</td>
<td>0</td>
</tr>
<tr>
<td>Keystone</td>
<td>61</td>
<td>3,797,615</td>
<td>20.6%</td>
<td>.09%</td>
<td>21.5%</td>
<td>$18.68</td>
<td>0</td>
</tr>
<tr>
<td>Greenwood</td>
<td>56</td>
<td>1,158,415</td>
<td>33.8%</td>
<td>0%</td>
<td>33.8%</td>
<td>$15.49</td>
<td>0</td>
</tr>
<tr>
<td>CBD</td>
<td>89</td>
<td>12,621,917</td>
<td>22.2%</td>
<td>1.8%</td>
<td>24.0%</td>
<td>$18.86</td>
<td>0</td>
</tr>
<tr>
<td><strong>INDIANAPOLIS</strong></td>
<td>642</td>
<td>43,690,673</td>
<td>20.66%</td>
<td>1.23%</td>
<td>21.89%</td>
<td>$16.75</td>
<td>0</td>
</tr>
</tbody>
</table>

### Vacancy Rates

- **Northeast**: Year End 2014 - 19.20%, Mid Year 2014 - 24.00%
- **Keystone**: Year End 2014 - 21.50%, Mid Year 2014 - 20.40%
- **East / Southeast**: Year End 2014 - 61.80%, Mid Year 2014 - 66.10%
- **Greenwood**: Year End 2014 - 33.80%, Mid Year 2014 - 40.90%
- **West / Southwest**: Year End 2014 - 49.00%, Mid Year 2014 - 43.00%
- **Northwest**: Year End 2014 - 22.60%, Mid Year 2014 - 25.60%
- **N. Meridian / Carmel**: Year End 2014 - 15.90%, Mid Year 2014 - 15.90%
- **Midtown**: Year End 2014 - 17.80%, Mid Year 2014 - 15.10%
- ** Entire Suburban**: Year End 2014 - 21.00%, Mid Year 2014 - 23.30%
- **CBD**: Year End 2014 - 24.00%, Mid Year 2014 - 21.90%
Metrowide Statistics
Office Leasing

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

Total Net Absorption for Year End 2014 = <293,724>
(Up from <130,582> at the end of 2Q 2014)
Overall absorption was weaker in the suburbs but stronger in the downtown submarket in 4Q 2014.

Absorption as a Percentage of Inventory EOY 2014
Citywide Statistics
All Classes of Office Space

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

2nd Qtr. 14 vs. 4th Qtr. 14

- NET ABSORPTION
- VACANCY RATE
- CONSTRUCTION
- ASKING RATES

4th Qtr. 13 vs. 4th Qtr. 14

- NET ABSORPTION
- VACANCY RATE
- CONSTRUCTION
- ASKING RATES

Occupied & Percent Leased EOY 2014

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Metro Indy Overview

Vacancy

- Ticked down slightly to 21% in the suburbs at the end of Q4 2014.
- CBD vacancy increased slightly to 22.2% up from 21.09% at the end of Q2 2014.
- Absorption was negative market-wide with <148,739> sq. ft. in the suburbs and <145,345> sq. ft. in the CBD for EOY 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 Carmel and Keystone submarkets and increasing in the high vacancy Northwest and Northeast submarkets.

New Construction

(Building Classes A & B Combined)

- With the exception of Concourse Two, which recently opened in the northeast submarket, speculative office development is non-existent.
- Lids is constructing a new 150,000 sq. ft. office building for their use in the new Creekside Corporate Park on the south side of Zionsville.

Sublease Space

- In the last 6 months, inventory of sublease space available citywide has been increasing in class A & B buildings.

Distressed Properties

- Inventory of high vacancy or over leveraged properties has dramatically decreased, adding to the available office space back on the market.

<table>
<thead>
<tr>
<th>Year</th>
<th>Downtown</th>
<th>Suburban</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>17%</td>
<td>18%</td>
</tr>
<tr>
<td>2006</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>2007</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>2008</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>2009</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>2010</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>2011</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>2012</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>2013</td>
<td>17%</td>
<td>17%</td>
</tr>
<tr>
<td>2014</td>
<td>17%</td>
<td>17%</td>
</tr>
</tbody>
</table>
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.
Year End ’14
Indianapolis Office Market Report

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