

Year End '15

Office Market Report



With the year now over, it is time to recap the commercial office market. We continue to experience weaker demand due to downsizing, increased density of employees in the work space and the replacement of certain jobs by technology. Mixed use developments centered near desirable housing and road infrastructure continue to drive higher occupancy and rental rates for office buildings located within these areas. We expect these conditions to be long-term drivers that will influence the market for an extended period.

Jeff Harris
President | **NAI Meridian**

Steady as she goes keeps the office market moving forward.

The office lease market, while steady, has not been able to consistently break through to positive net absorption for an extended period of time.

While the Keystone and North Meridian submarkets continue to tighten, the rest of the market still suffers from high vacancies which drives concessions upward and rents downward in these submarkets. Couple this with employers increasing the density of employees per square foot and the use of technology to replace occupations makes positive office space growth difficult. One example of the markets difficulty in generating long-term net positive absorption is Roche Diagnostics' current corporate HQ expansion on the I-69 corridor which will entail vacating 193,000 sq. ft. of space at 10300 Kincaid Drive.

On the investment sales front, 2015 was an active year with a number of buildings trading both downtown and in the suburbs.

- GPI Properties sold a 5 building, Class B portfolio totaling 207,000 sq. ft. in the North Meridian submarket.
- Citimark sold Castle Creek 1 & 2, 133,000 sq. ft. Class B office buildings at the end of 2015.
- Privately owned 130 E. Washington, 203,000 sq. ft. Class B office building was purchased by Onward Investors.
- A partnership managed by Zeller Realty sold 36 S. Pennsylvania Street (The Century Building) a 153,000 sq. ft. Class B office building to Hendricks Commercial Properties.

The distressed properties inventory was low in 2015. However, we predict an increased inventory in 2016 as certain assets currently in receivership make their way to the disposition phase.

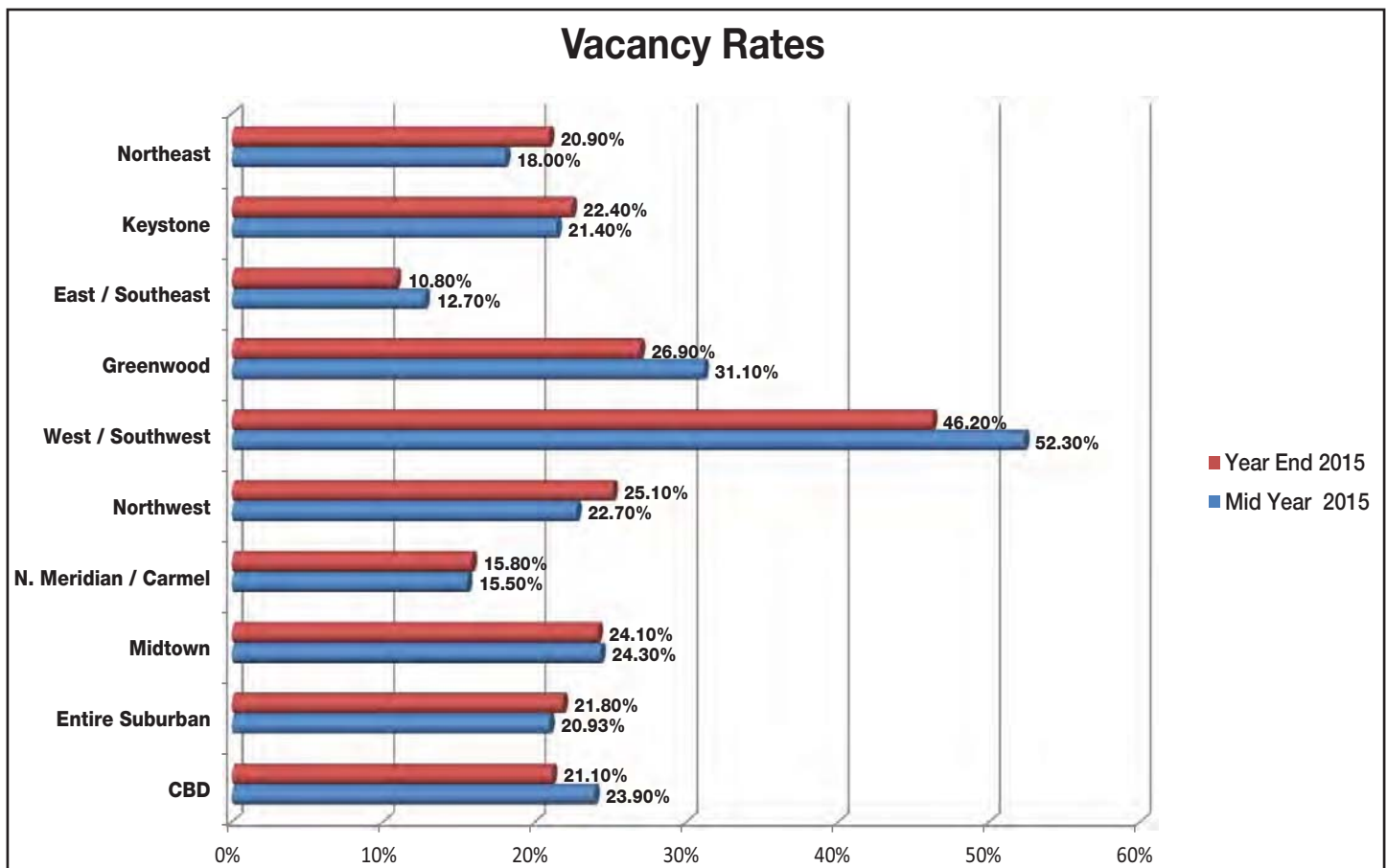
* The information contained herein has been given to us by sources we deem reliable. We have no reason to doubt its accuracy, however, we do not make any guarantees. All information should be verified before relying thereon.

* 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	139	7,791,387	14.4%	1.4%	15.8%	\$18.63	0
Midtown	25	1,519,976	21.8%	2.3%	24.1%	\$14.77	0
East/Southeast	11	2,035,927	10.8%	0%	10.8%	\$13.87	0
Northeast	134	7,087,866	20.1%	.8%	20.9%	\$16.23	0
West/Southwest	41	1,807,387	46.2%	0%	46.2%	\$14.88	0
Northwest	87	5,438,155	24.3%	.9%	25.1%	\$17.61	0
Keystone	66	4,411,891	20.3%	2.1%	22.4%	\$18.98	100,000
Greenwood	52	1,239,837	26.6%	.3%	26.9%	\$16.09	0
CBD	84	12,662,044	19.3%	1.7%	21.1%	\$19.41	0
INDIANAPOLIS	639	44,004,065	20.7%	1.1%	21.15%	\$18.01	100,000



Metrowide Statistics

Office Leasing

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

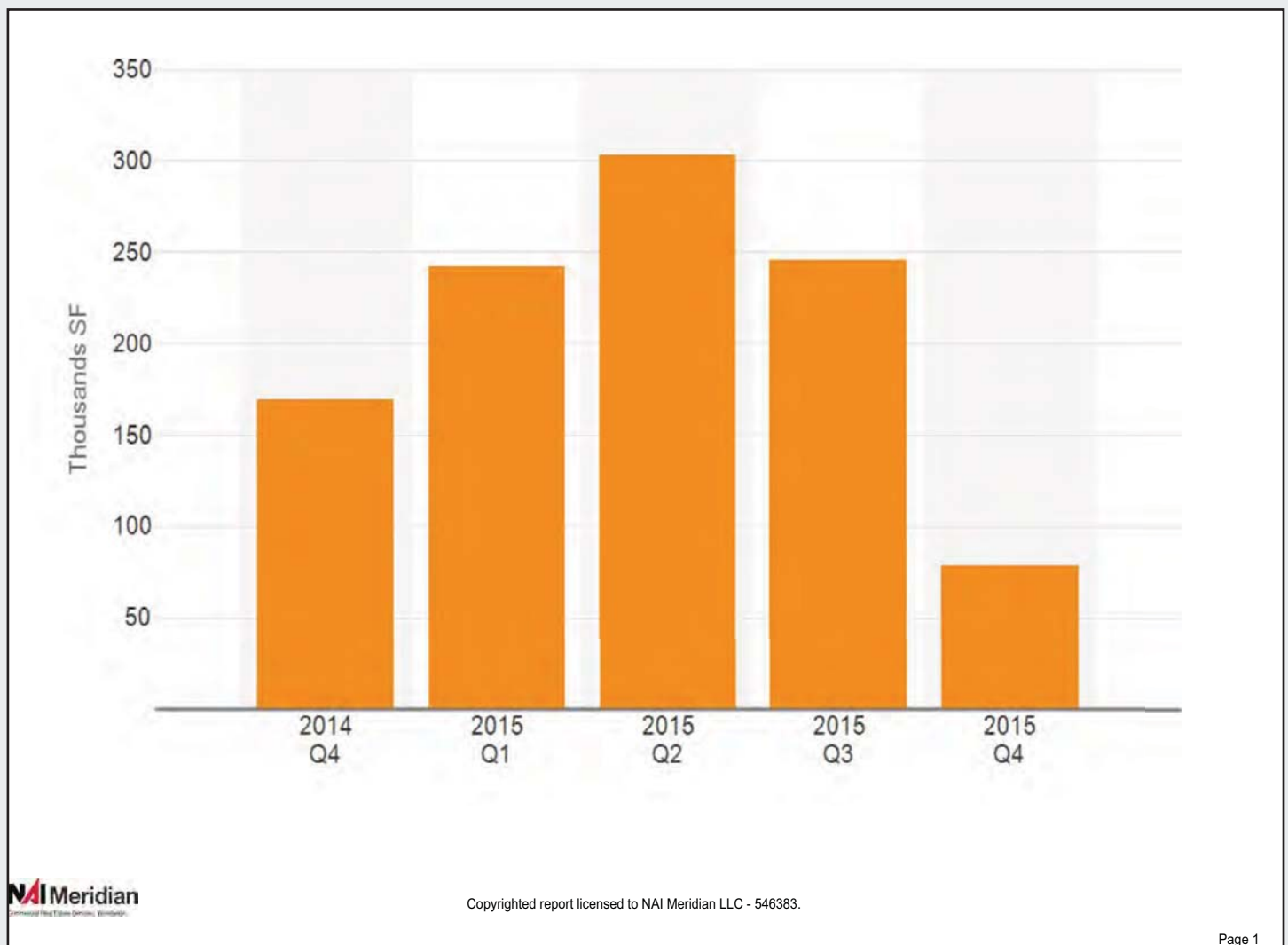
Total Net Absorption for All Markets Year End 2015 = <68,413>
(Down from <141,064> at the end of 2Q 2015)

The breakdown of total absorption between the Suburbs and the CBD was:

CBD <57,424>

Suburbs <10,991>

Leasing Activity Year End 2015



Citywide Statistics

All Classes of Office Space

Office Space Statistical Changes Year-over-Year and Last Half over First Half

2nd Qtr. 15 **vs.** 4th Qtr. 15



NET ABSORPTION



VACANCY RATE



CONSTRUCTION



ASKING RATES

4th Qtr. 14 **vs.** 4th Qtr. 15



NET ABSORPTION



VACANCY RATE

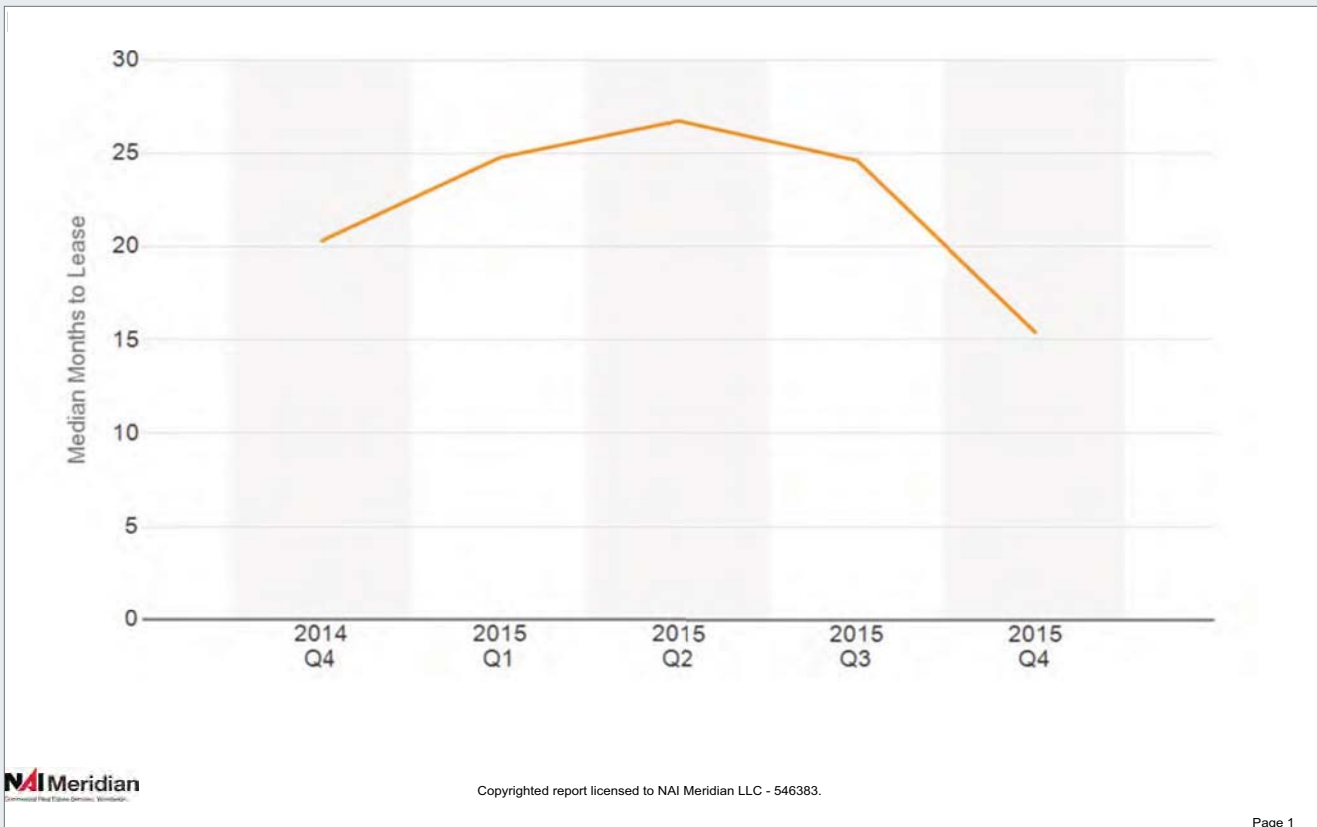


CONSTRUCTION



ASKING RATES

Months to Lease Year End 2015



Metro Indy Overview

Vacancy

- Ticked up slightly to 21.8% in the suburbs at the end of Q4 2015.
- CBD vacancy decreased slightly to 21.1% down from 23.9% at the end of Q2 2015.
- Absorption was negative market-wide with <10,991> sq. ft. in the suburbs and <57,429> sq. ft. in the CBD for Year End 2015.

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 River Crossing North (100,000 sq. ft.), which broke ground earlier this year in the Keystone submarket, speculative office development is non-existent.
- Lids new 150,000 sq. ft. office building, currently under construction, is scheduled to open in January 2016.

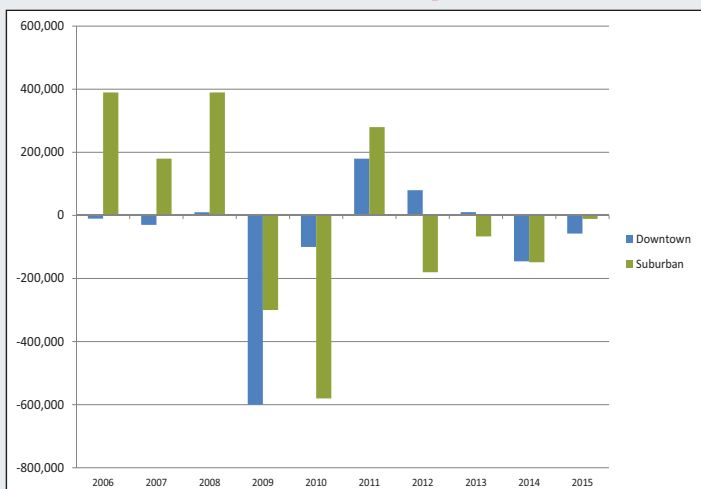
Sublease Space

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

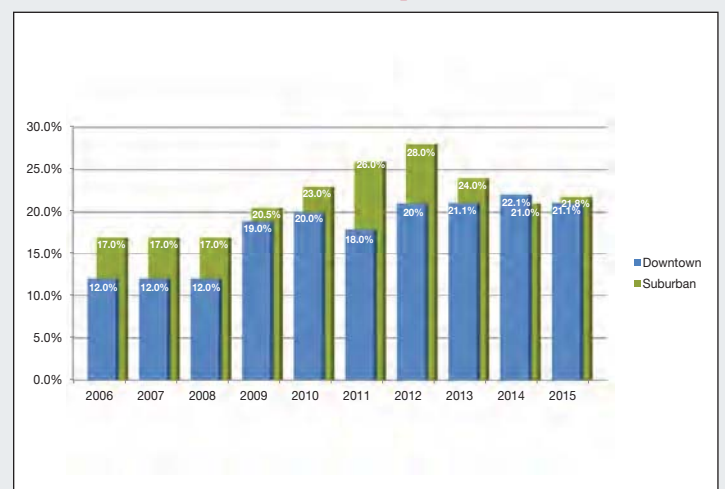
Distressed Properties

- Inventory of high vacancy or over leveraged properties continues to be flat but we expect a new wave of properties to hit the market in 2016.

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

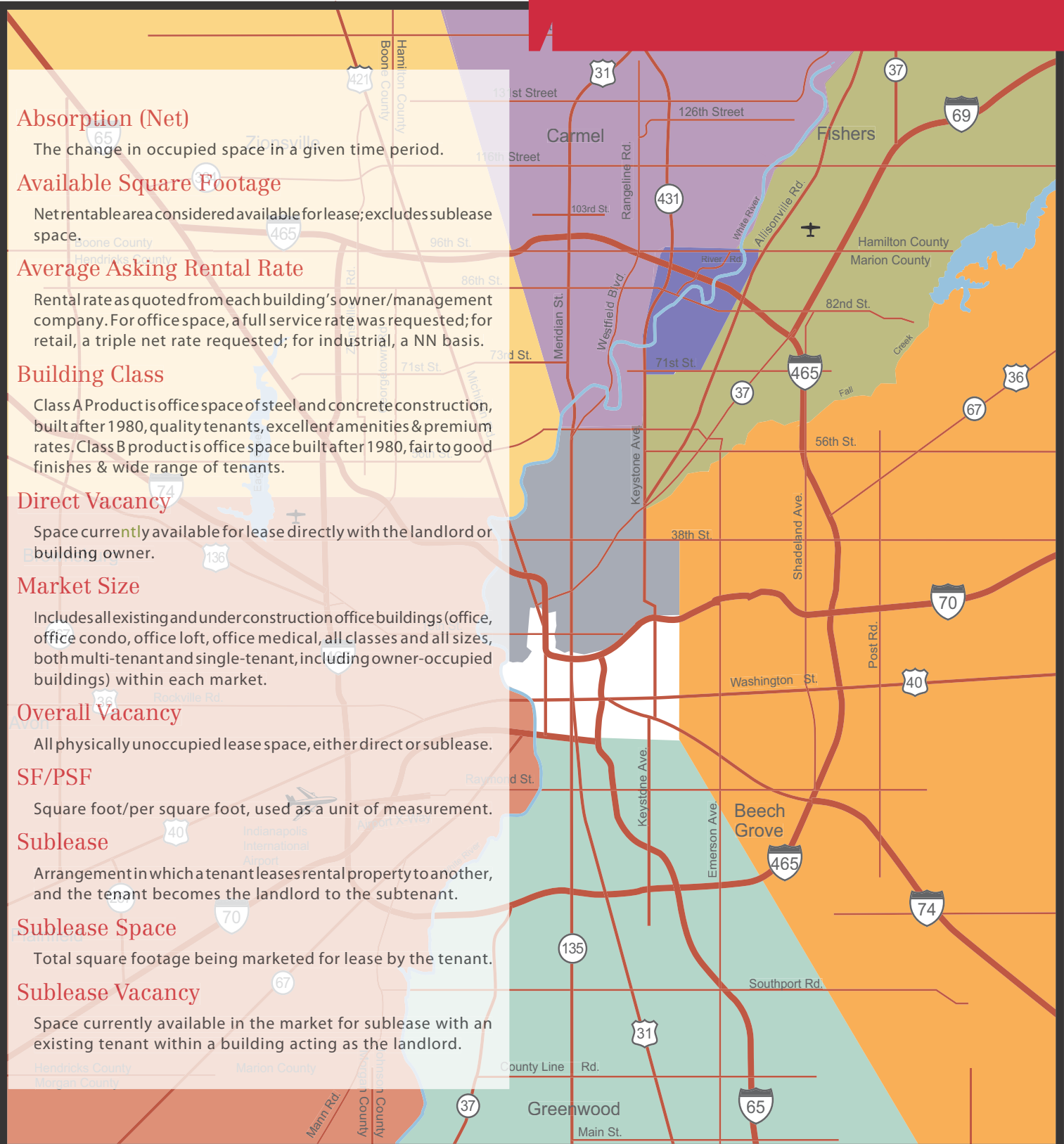
Arrangement in which a tenant leases rental property to another, and the tenant becomes the landlord to the subtenant.

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

Year End'15

Indianapolis Office Market Report

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