

Year End '16

Office Market Report



Our year end office market report shows some positive trends as well as certain areas where fundamental shortcomings continue to result in stagnant vacancy levels.

New construction has also increased reinforcing these positive trends.

Overall strength across all commercial real estate markets coupled with resolution of the recent national elections, strong economic and employment trends create a positive atmosphere for the office market heading into 2017.

Jeff Harris
President | **NAI Meridian**

Steady Leasing Activity and Strong Investment Sales Sum Up the 2016 Office Market.

The office market continued the gains we reported in our mid-year report.

Much of the activity was centered in the North Meridian, Keystone and CBD submarkets. These submarkets have been the perennial leaders for the past several years and possess the fundamental characteristics to remain the best submarkets.

New construction for Walker Research's 42,000 sq. ft. HQ building located at Keystone at the Crossing and Blue Horseshoe Solutions' 29,000 sq. ft. lease in a building under construction in Carmel highlight the suburban activity. While Milliman's 40,000 sq. ft. move to Market Tower (which just completed a major common area renovation) coupled with Salesforce's previously announced 200,000 sq. ft. lease at the Salesforce Tower further indicates the renewed interest in a quickly changing CBD environment. The improving living alternatives and amenities downtown are allowing companies to successfully recruit and retain a vibrant workforce.

With all the positive events noted there are still some headwinds as there has been over 350,000 sq. ft. of sublease space put on the market in the last half of 2016. A number of these subleases are for tracts of space over 50,000 sq. ft. and will negatively impact lease up time frames and rental rates for vacant direct lease spaces on the market.

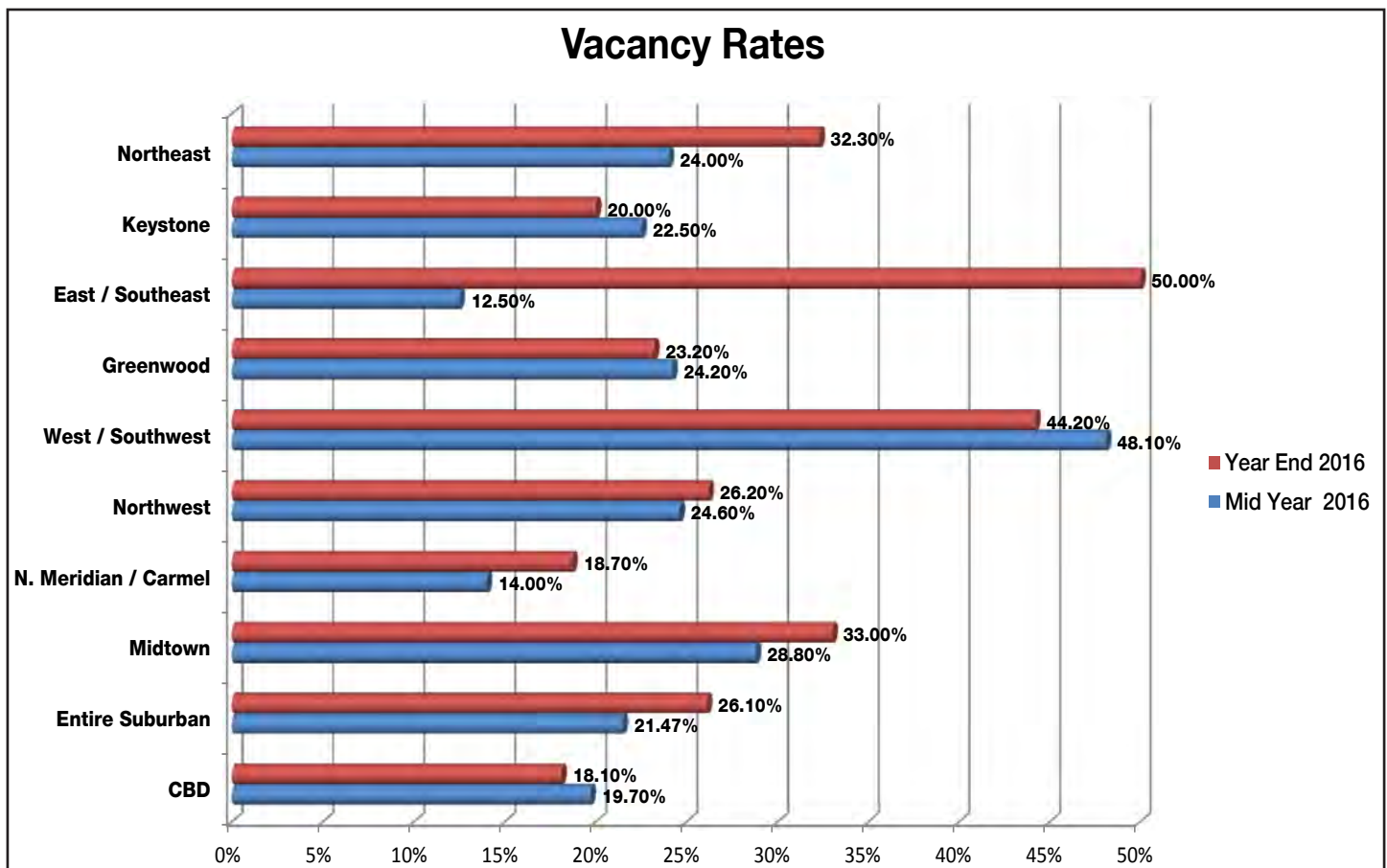
* The information contained herein has been given to us by sources we deem reliable. We have no reason to doubt its accuracy, however, we do not make any guarantees. All information should be verified before relying thereon.

* 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	136	8,023,077	15.7%	3.0%	18.7%	\$19.70	168,000
Midtown	24	1,588,493	32.8%	.2%	33.0%	\$15.36	0
East/Southeast	13	415,555	46.8%	3.2%	50.0%	\$13.14	0
Northeast	133	5,779,208	32.2%	.1%	32.3%	\$17.90	140,000
West/Southwest	39	1,811,177	43.3%	.9%	44.2%	\$15.91	0
Northwest	101	6,254,525	23.5%	2.7%	26.2%	\$17.92	0
Keystone	61	4,397,987	18.8%	1.2%	20.0%	\$20.28	54,000
Greenwood	60	1,514,813	22.7%	.5%	23.2%	\$17.37	0
CBD	79	13,311,677	17.6%	.5%	18.1%	\$19.49	0
INDIANAPOLIS	640	43,096,512	22.27%	1.35%	23.62%	\$18.57	362,000



Metrowide Statistics

Office Leasing

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

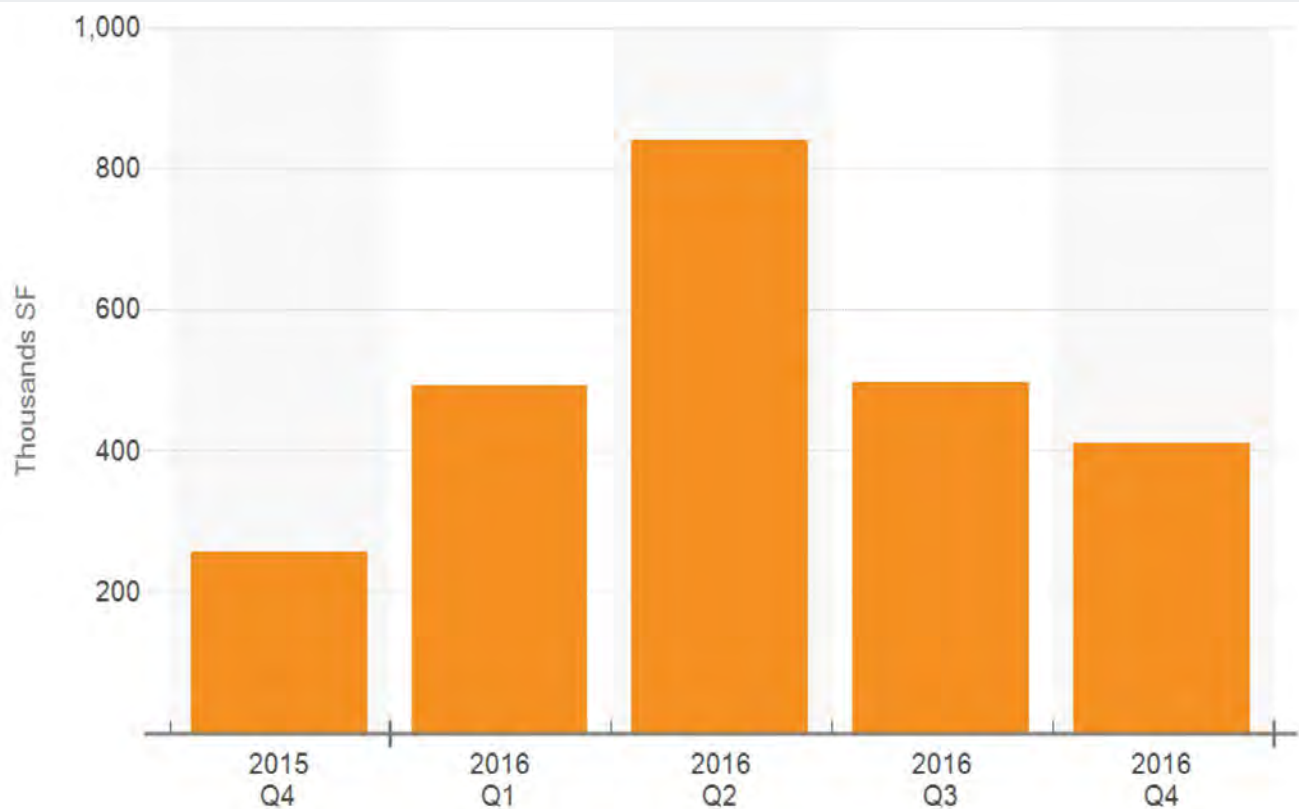
Total Net Absorption for All Markets Year End 2016 = 56,363
(Decreasing from 325,728 at mid year of 2016)

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

CBD 63,540

Suburbs <7,177>

Leasing Activity Year End 2016



Citywide Statistics

All Classes of Office Space

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

2nd Qtr. 16 **vs.** 4th Qtr. 16



NET ABSORPTION



VACANCY RATE



CONSTRUCTION



ASKING RATES

4th Qtr. 15 **vs.** 4th Qtr. 16



NET ABSORPTION



VACANCY RATE

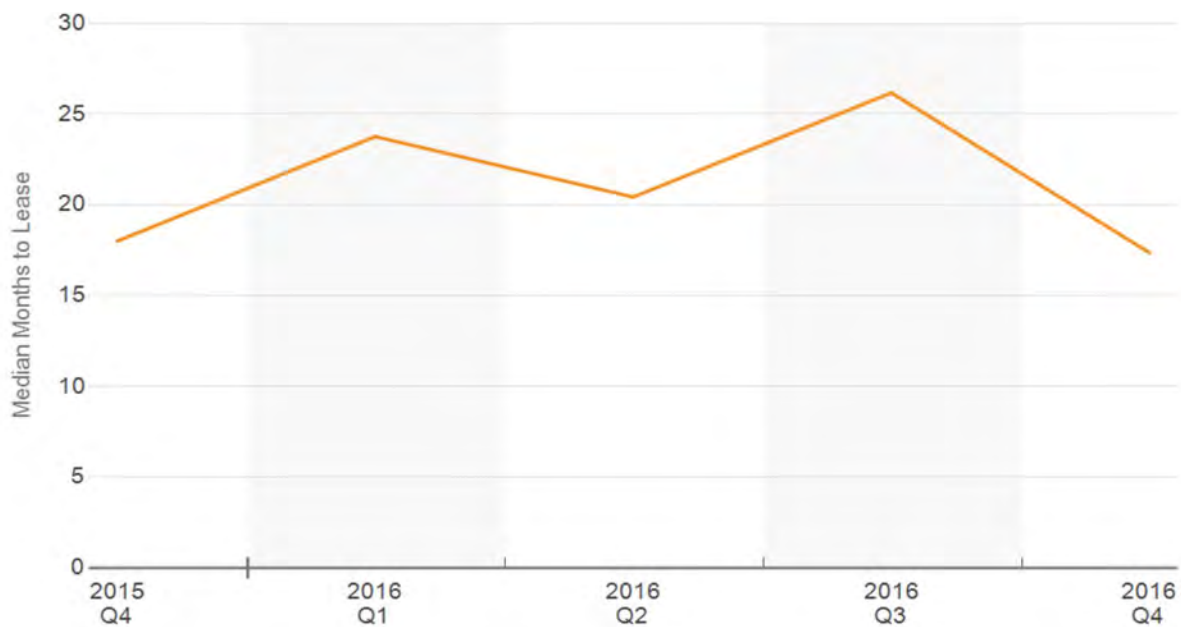


CONSTRUCTION



ASKING RATES

Months to Lease Year End 2016



Metro Indy Overview

Vacancy

- Ticked up to 26.1% in the suburbs at the end of Q4 2016.
- CBD vacancy decreased to 18.08% down from 19.7% at the end of Q2 2016.
- Absorption was mixed market-wide with <7,177> sq. ft. in the suburbs and 63,540 sq. ft. in the CBD for Year End 2016.

Rental Rates

(Building Classes A & B Combined)

- Landlord concessions such as free rent, construction allowances, etc., are on the decline in the well leased CBD, Carmel and Keystone submarkets and increasing in the high vacancy Northwest and Northeast submarkets as those markets struggle to fill vacant space.

New Construction

(Building Classes A & B Combined)

- A 60,000 sq. ft. spec office building is under construction on N. Meridian Street
- Walker Research's new 54,000 sq. ft. HQ building under construction at Keystone at the Crossing
- Lids new 150,000 sq. ft. office building opened in May 2016.
- Allied Solutions' new 108,000 sq. ft. building in Midtown Carmel scheduled to open in Q4 2017.

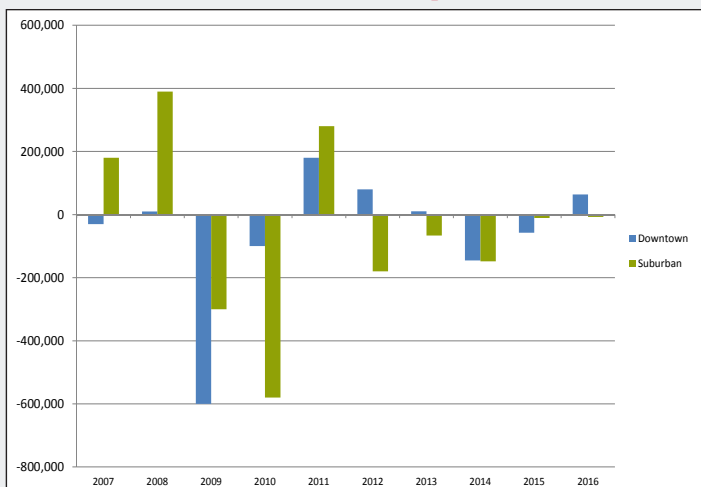
Sublease Space

- Inventory of available sublease space citywide has been increasing.

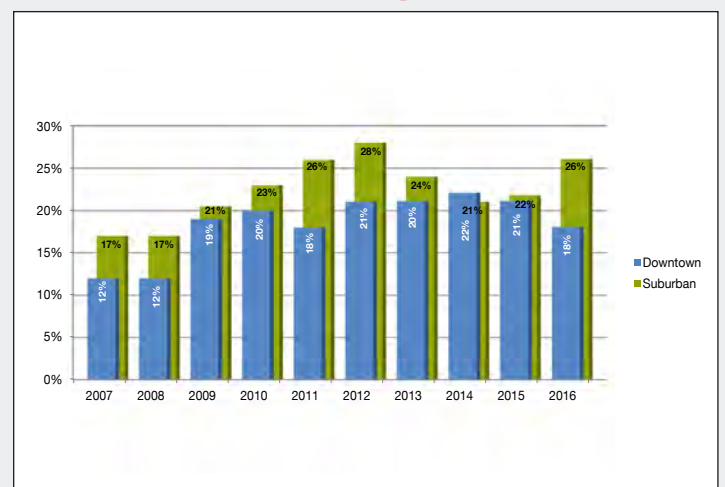
Distressed Properties

- Inventory of high vacancy or over leveraged properties continues to remain constant but we still expect a new wave of properties to hit the market should the anticipated increase in loan rates occur.

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

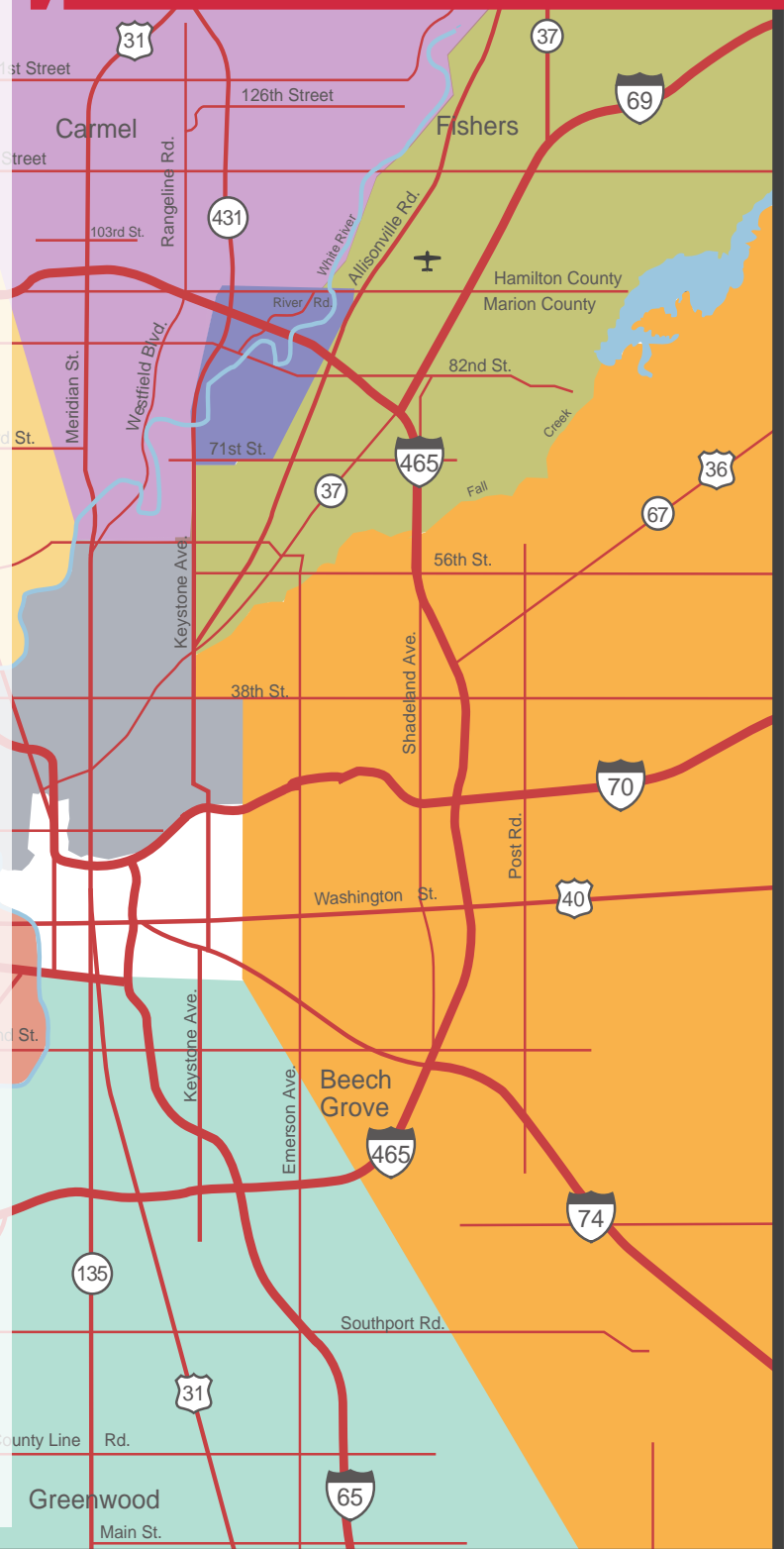
Arrangement in which a tenant leases rental property to another, and the tenant becomes the landlord to the subtenant.

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	Northwest	East / Southeast
Midtown	West / Southwest	Keystone
North Meridian / Carmel	Greenwood	Northeast

Year End '16

Indianapolis Office Market Report

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3502 Woodview Trace
Suite 250
Indianapolis, Indiana 46268
tel 317 875 8888
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