



John Demaree, SIOR

## Experts weigh in on shaky market

*The last several months have been both exciting and perplexing for people in the real estate business in Indianapolis. A brand-new airport terminal and a new stadium for the Indianapolis Colts are driving development interest at the same time local real estate powerhouses such as Duke Realty Corp. and Lauth Property Group are laying off dozens of employees. Blockbuster deals involving Medco Health Solutions Inc. and Amazon.com bolstered the giant Anson project and several tenants lined up for the new Hamilton Town Center. But, simultaneously, the residential market faltered. Many believe a recession is looming. Five veterans of the industry shared their perspectives during IBJ's Power Breakfast April 11 at the down town Westin Hotel.*

The panelists:

John Demaree, chief financial officer of Indianapolis-based commercial real estate firm Summit Realty Group.

Mike Dilts, president and chief operating officer of Shiel Sexton, one of the city's largest construction firms. Donna Hovey, vice president for retail sales and leasing with the local office of Los Angeles-based real estate firm CB Richard Ellis.

Jon Owens, principal and senior vice president of office sales and leasing for the local office of St. Louis-based real estate firm Colliers Turley Martin Tucker.

Nick Weber, deputy mayor of economic and work force development for the city of Indianapolis.

The discussion was moderated by Cory Schouten, IBJ's real estate reporter and host of the Property Lines real estate blog at [propertylines.ibj.com](http://propertylines.ibj.com).

Following is an edited transcript of the discussion:

**IBJ:** *What does the future hold for commercial real estate and construction in Indianapolis?*

**OWENS:** That's a good question and I don't really know the answer, but I do know that in our business and probably the construction business we've resorted to some pretty basic marketing concepts.

(Owens and Dilts hold up signs that read "Will Lease For Food" and "Will Build For Food." Crowd laughs.)

If you talk to JP Morgan and people like that, we are in a recession. I think there's reason to believe that we here in our market are not at that point. I think we are fortunate to have some fundamental dynamics that are better here than in a lot of other markets, at least speaking from a commercial real estate perspective. You all might have a different opinion, but I think there is reason to believe that there are some aspects of recession in some parts of the country, I just don't happen to think that we're one of them.

**HOVEY:** I think I'd agree with that. There was a publication by Moody's first quarter of this year that articulated that Ohio and Kentucky and Illinois are at risk for recession. Michigan was definitely in recession, but Indiana was sort of holding its own, and I think if you look at some of the fundamentals at least of retail real estate, there have just not been those deep troughs yet. To Jon's point, 2008 is going to be a challenging year, but I don't think it's going to be an awful year. I think there's still a reasonable amount of activity going on.

**DILTS:** I just don't think you can be general about recession, [because] there are so many markets that I believe this room represents. If you're building spec houses, I think you're in a recession - you may be in a depression. If you're building hotels, you're in boom times. So I think you have to be careful with, "We're in a recession, so we're all doing terrible." We had a record year last year and this year will be equal or better, but we're in a lot of different markets, and so there are some that already have their money that are rolling. There are others that I think are really going to struggle and will struggle for a little bit of time, and I think that's more of a correction. I don't think it's a panic, unless you're maybe building spec houses.

**DEMAREE:** I would fully concur with Mike on that. It just depends on what business you're in. You know, if you're in transportation, your business may be off. If you're in housing, your business is going to be off. I think that we have strong leadership in this state, and I think the strong leadership that we have has helped us to diversify away from auto [manufacturing]. We have recently landed some very strong projects here in the Indianapolis area with the Medco deal and with Amazon.com [both at Allpoints at Anson in Whitestown], bringing over 2,500 jobs to the area.

**WEBER:** I'll just add a little bit to that. I think diversification is the key to the fact that Indianapolis isn't seeing the trough that so many others are seeing. Anecdotally, from the economic development standpoint of the city, we're seeing about as much traffic as we've seen in previous years. The folks are still coming in the door, they're - still talking to us about projects that they want to do in our community, and our staff is as busy as it's historically been. So, we're still seeing opportunities and they may be in different sectors, but they still exist.

**DILTS:** You know, if you're looking at pressure on prices, I think it's really on the materials side. I think we always find workers and we always find work. You can go into a lot of contractors' offices right now and they're as busy as they've ever been, so I think there are some people that may have put all of their eggs in one or two baskets that are low on work right now and maybe, maybe there's some price breaks on that, but I don't see labor going down and I think the volatility is all in materials. If China buys all of our steel, steel goes up;- concrete, etc. I don't see any price swings from the construction standpoint.

**IBJ:** *Anyone else want to weigh in on that one?*

**OWENS:** On the office side, I don't foresee we're going to see a lot of spec construction in '08 maybe in '09 - unless it's a project that's got some pretty significant preleasing done. I think one of the optimistic things about our market is we didn't overbuild to the degree that a lot of markets did, so we've had historically pretty healthy absorption, pretty consistent absorption. We've already had this year 126,000 square feet of positive absorption, which is a great start for 2008. We see activity kind of picking up in the second half of the year, so it's a good thing that we would fill up the existing inventory and, you know, that's a healthier way to really look at supply and demand. You know, in the past, there have been some periods of time where construction and development was not necessarily driven by demand, it was driven by the availability of funds, and there's a fundamental difference between now and then, and that I think will continue to be the case in the foreseeable future.

**WEBER:** First of all, with the opportunities, I think Indianapolis and central Indiana have some key areas that they can do very well in. Life sciences is one of them. There's been a huge investment in life sciences in the last 13 years in Indianapolis and I think we're projected to see another \$700-million-plus investment in the next five years. We could continue to do really well in that area. I think we have real opportunities in advanced manufacturing. How much of that we can capture in Indianapolis and capitalize on is going to be important, but that's the real key. To your point on the capital markets, it's a conversation I have with everyone who walks in my door, and we have a fairly honest conversation. We all know what the state of the situation is and how it's changed, but I'm not talking to people who are saying things can't be done. I'm talking to people who are saying, "Things have changed and here's how we want to address that."

From an investment property side, we're doing deals, we're open for business. It's just going to be a tough year this year and the credit market is driving that.

**DILTS:** We're right in the middle of some huge public projects. At the end of this year, you're going to have an airport done, a stadium done, and [an expansion of the] convention center starting up. We're not going to have all three going at one time, so [major projects] will dwindle a little bit, but there's still a lot of work. On the public side, there's a lot of money that's cued up that's ready to go. Now, certainly the Legislature and a lot of other things are going to start affecting school projects on a local level. We just saw one that got canceled on the south side. Well, I think that precedent's going to continue, but there are still opportunities out there.

I mentioned hotels before. There are some types of living spaces - hotel, dormitory at higher end and private end, assisted living, those types of things that are still a pretty hot market. I wouldn't say that market's at the beginning. I would say we're somewhere between halfway and maybe the second half of that market, and that's about a four-year window. We have hotel projects both here and all over the country that are just really, really hot right now. Those are a few that I think are still good markets.

**DEMAREE:** In terms of what we're doing at Summit, spec development has virtually stopped on the industrial side. Last year, there were over 7 million square feet constructed. This year, we're tracking an estimated 1 million square feet to be constructed.

I think you're going to see some developers in our market that have land positions, capital tied up in land positions; I think you're going to see perhaps some turnover there.

On the investment side, historically and here recently, the commercial mortgage-backed securities market made up 70 percent of

all debt in the investment market, and that market is completely dried up. So investment sales, generally speaking, are going to be on hold. The projects that are coming to the market are projects that the perception is that they either have tax issues or they have financing issues, refinancing issues.

Now, on the-leasing side, though we had 7 million square feet of new construction on the industrial market last year, we had only 1.2 million square feet of net absorption. On a positive note, for the first quarter of this year we've already had positive net absorption of 1.3 million and that does not include the Amazon.com deal which was just recently signed, which is 600,000 square feet.

I think this year's going to be a year of a lot of very good positive net absorption. There continues to be strong leasing, and the news is not all bad.

**DILTS:** You know, there's a couple others that I think apply maybe more to the builders and the designers, but the churches are still building and the gaming industry is still building. We're sinning and we're praying. I don't know what that says, but those are both hot and I guess maybe if you do a lot of this you gotta do that or vice versa, I don't know, but it's amazing how many of those projects there are.

**WEBER:** MSA is something that we inherited as a project that had a little bit of dust on it, frankly. The [requests for proposals] had gone out last year and the responses have come back. And, when we went through them, we recognized that significant time had passed and the market had changed since those had been put out in the street. Our goal was to determine what the level of interest was from the folks who had replied and to have just conversations about that and we've been in that process since.

I can tell you the MSA site we see as a valuable opportunity for the east side of downtown, particularly coupled with the announcement about a month ago concerning the schedule for the removal of the on-ramp off of Market Street which would again open up the east side.

With MSA coming down and the on-ramp going away, we really have a dynamically different east side downtown, so we see the value in that spot and trying to come up with the concept that's going to work there - one that the market and the development community can support. It's one of those things that I probably spend time every week on. Where it is I can't really handicap, but it is something that we're actively pushing.

***IBJ:** Anyone else with thoughts? Is it likely that we'll need to wait on the capital markets to do something with the site?*

**OWENS:** Certainly, with the magnitude of the capital that would be required to do something there, that's an impact. There probably isn't a better site to develop as it relates to the downtown market, but you don't want to do something that isn't going to be well-thought-out. At the end of the day, you want to make sure it's successful because it is such a prominent area and would have such a large impact on what happens with that general area, Lockerbie, East Market Street. You want to make sure that whatever happens there is done right.

Clearly, the ability to go out and finance something that is as significant as that is going to be a lot tougher today. There's always been a lot of talk about the city coming up with subsidy for that project - and I think all the bidders to date have asked for subsidy. And, at least my opinion is, it's probably a tough project to do without some subsidy in some way, shape or form. Do we have to wait? We'll see. Clearly, that's a great site for something.

***IBJ:** Nick, that probably begs the question of you: What sort of subsidies would the city be willing to put on the table to make it happen?*

**WEBER:** I think that's going to be part of the conversations. We have not told anybody what we would or wouldn't do. We know what's been asked, we know what's part of all of the previous deals, but we also recognize the change in the climate. So, we're just having these conversations so we can understand what folks are thinking about and, like Jon said, what's the best potential for this prime site and is there a way to make this work that really helps that part of downtown, helps the community and revitalizes those two half blocks into something very meaningful for the community.

**OWENS:** That's a good question. We haven't seen as big an impact in the sublease market as we did in the early [part of the decade]. With the dot-com bust, we saw an incredible amount of sublease space come on the market. The Marsh situation is isolated, I think. Aside from that, we haven't seen yet a lot of sublease space come on the market, except for some smaller pockets.

In terms of, are we overbuilt? no, at least I don't believe so. Our first-quarter numbers showed a vacancy rate overall of about 18 percent. You look at other Mid-western markets and they're a lot worse. We're not going to see a bunch of spec construction go up. I think it's a good thing we're going to have - if we have a healthy year in '08 into '09 - of solid absorption.

As we tick that vacancy rate down into the mid- and low-teens and the capital markets kind of restructure themselves, then you might see somebody contemplate building or putting up office space, but I don't think it's going to be on a spec basis. I think there will have to be some serious consideration given to some preleasing - 20, 30; 40 percent - before somebody's going to put a shovel in the ground.

**HOVEY:** Well, I can't address whether they'll be able to untangle it, but certainly they've got the knowledge of the community. They've got the institutional fortitude to be able to do it. I think it's a fabulous site when you consider how close it is in proximity to the new stadium and to the hotels. There are many restaurant concepts that are not in the Indianapolis market and downtown would be the likely location for them think it will be a very good project for downtown Indianapolis.

*IBJ: What would you guys like to see there?*

**HOVEY:** I don't think there's probably going to be a lot of room for apparel. The mall really has the apparel segment of retail contained, so without any kind of large anchor, I think it's going to be mostly restaurants and probably a hotel site.

**OWENS:** How about an ESPN Zone?

**HOVEY:** We'll work on that for you, all these boys up here.

*IBJ: And a quick follow-up for Mike. I know you work with the Sports Corp. - any way you would tell us what Kite paid for that ground?*

**DILTS:** I have no idea and, if I did, I wouldn't tell you.

**WEBER:** I think the first challenge to the property tax issue was to bring some certainty to the issue - whether we've achieved that certainty immediately or whether that's going to take a little time to work out. I think clearly the hope is to allow folks to have some understanding, whether they like the amount or not, that this is going to be the situation going forward. We didn't have that stability here in Indiana and that was very difficult.

Clearly, we have a tax disparity in Marion County versus the surrounding counties and that is an issue that we have to deal with in terms of economic development. It's not something that has an easy fix and it probably doesn't have a property tax fix. It has other fixes that we can address, other things that we need to work on, whether it be the idea of proximity - that's the thing that I think we need to sell more than anything is the proximity to places that you have here in Indianapolis versus some of the surrounding counties - but also some of the heavy initiatives that Indianapolis can bring to bear.

We have a great concentration, although it is bleeding out of the county, of life sciences resources. We have a great base of advanced manufacturing, logistics. The airport is in Marion County, we need to recognize that and work from those things.

So the tax thing is going to be a challenge, but I think our key is going to be maximizing, through a strategic effort, our advantages. From the folks that I've talked to and the conversations that I've had, I think that's an area that we haven't maximized very well and that's something that we need to do. I'm very pleased that the mayor named the board to Indianapolis Economic Development Inc., which is going to help with this process. I think these are folks who are going to be important leaders in this effort and I'm looking forward to that part.

*IBJ: To the other panelists, do you have advice for what the mayor ought to do to address this?*

**WEBER:** I'm always open to advice.

**DEMAREE:** Well, I think that over the next 12 to 18 months, there's going to be a lot of time spent in determining whether the second reassessment is an accurate reassessment. As I look across it at properties that we're involved with, there are a few that seem to be fairly assessed, but there's an awful lot that just don't make any sense in terms of assessment based on market value. So, I think that there's going to be a logjam of appeals and maybe the mayor can help to expedite that process.

When we get through that process and everything really is fairly assessed, I think at that point we'll have a higher degree of certainty. And then the next step will be, how do these new tax levels affect the gross rents that are charged in buildings and how will the tenants react to these adjusted rent levels? And then you compare that to some of the surrounding counties.

**DEMAREE:** Well, last year, you could say we were overbuilt, but this year we're not really going to see a whole lot of new construction. I think the story in '08 is that the excess that we had in '07 is going to be backfilled in '08. The first quarter of this year, we had 1.3 million square feet of positive net absorption - that's more than we had in total for 2007, so I think that by the end of this

year we're going to see some equilibrium there. And, if the capital markets begin to shift in '09, we'll be ready to build more.

The industrial market here is really driven by the big boxes - big-box distribution -and so much of that is a timing issue. We're not a market where there's a lot of build-to-suit. There's some, but, typically speaking, if you want to lease space you've got to put spec on the market. I think that by the end of '08 we'll have reached the point where developers can justify going out and building spec and hopefully by then the credit markets will have loosened up a bit to where they can do that more readily.

**DEMAREE:** I think that Indianapolis is caught up in the credit market reality of today. The perception in the market is that if you're going to the market today, you either have a tax issue or you have a debt issue, and so it probably isn't a real good time to be a seller, and if you're on the buy side, everybody's looking at the market and everybody's licking their chops. The folks that are well-capitalized, they're viewing this market as the market of opportunity, and so you've got a lot of people kind of standing on the sidelines waiting for when the opportunity's going to be there, and no one really wants to be the first to step out there and start buying.

Who's going to set the market? I think there's a lot of people looking around seeing who is going to be the group that steps up and starts to buy, so there's a little bit of the chicken or the egg on that side. In terms of Indianapolis being attractive, it probably is not as attractive right now as in the East or the West coasts where your rents typically tend to go up a little quicker. Indianapolis tends to have fairly steady, stabilized rent growth and that certainly will affect how we stack up to some of these other markets.

**OWENS:** Well, I think from an office perspective, we've always been viewed by investors as a very stable environment. The last couple of years, we've seen an array of acquisitions by East Coast and West Coast private equity firms that were willing to pay more aggressive cap rates on income-producing properties than local and regional buyers. That was a phenomenon that I think was happening all across the country, and, to be honest, it bailed out a lot of people who weren't realizing rent growth but were able to cash out at a higher price than they would have otherwise.

Now things, obviously, have changed. Our Investment Services Group is very busy. I think they're gearing up for kind of the next wave of acquisitions. It's been slow here for a few months, but once the capital markets shake out, you're going to see that activity pick up again.

Indianapolis is still viewed by the investment community as a very stable and also a predictable kind of market. You're not going to see a big spike up or down in the value. As we come out of this, I think Indianapolis will be viewed even more favorably by the investment community. The type of buyer might change, maybe shift a little bit away from the private-equity money to some of the more institutional kind of buyers. REITs might get back into the market, but I see things picking up here in the second half of the year into '09.

**DEMAREE:** Jon, the other challenge right now on the underwriting side with local investment product is the whole property tax issue - how that will affect the underwriting of that project and in particular make it difficult projecting rents.

**OWENS:** Right.

**DEMAREE:** If yesterday the taxes for this building were a dollar and today they're \$3, that gets passed on to the tenant and depending on what building it is - and different buildings were affected in different ways - it just makes the whole underwriting a challenge in terms of projecting rents.

**WEBER:** You know, that's an issue that obviously has been kicked around with the Legislature and it's a state issue as I understand it more than anything because of the licenses. The horse tracks have obviously crossed that threshold. That is not a conversation I have been a part of to this point. I have been in Union Station recently for the mayor's "State of the City" address. It's a beautiful facility. I hope everybody has an opportunity to go in the near future. I'm not a betting person, so I'm not going to take that on.

**IBJ:** *Another question about downtown. The U.S. Postal Service Distribution site sits immediately east of the new Lucas Oil Stadium. Should this site be redeveloped? What would be a good fit?*

**HOVEY:** It's a logical site to redevelop. I don't know how you get your arms around the ownership, etc., but with its proximity to the stadium and, you know, there's going to be an underserved population that will need services as a result of that stadium in terms of restaurants and shopping and probably housing. It's a great site, I just don't know how you unravel it. Maybe I'll ask some of my developer friends.

**DEMAREE:** Well, I think in today's climate, that question is something you pose two, three years out perhaps, but it's not a today question.

**IBJ:** *And a final downtown question: Let's talk about the residential market. I know none of you specifically work in residential, but*

*we've got a question from the audience about whether downtown still has residential momentum.*

**WEBER:** The numbers that I've seen are pretty attractive for downtown residential. The rental vacancy rate is about half what it is citywide. For downtown it's under 5-percent vacancy. The market may be moving a little bit slower, but prices are staying steady and in the "for sale" arena downtown, prices have ticked up a bit. So I think there is a market for housing downtown.

**HOVEY:** I think that there's always a correction in the market, and I think that's what you're seeing with some of the developers locally. Companies that have shareholders and earnings to make on a quarterly basis are doing what they need to to tighten their belts.

I think that if you went to any city the size of Indianapolis, you'd probably find a developer with a story similar to what we read in our newspapers. And I think there needs to be some credit given, because if we didn't have developers who kind of put their necks out there sometimes, we wouldn't have some of the projects that we have.

Plainfield's a great example. You know, when [Premier Properties USA Inc. CEO] Chris White went out to Plainfield, people thought he was nuts, but it's a fabulous market. There's strong fundamentals, there's strong household income and

You know what? They made it happen and I'm glad they made it happen.

I think it's unfortunate what happened, but I don't know that there's any developer that's sitting here in the audience that hasn't had a lien filed against them. Maybe not as many, but certainly has had a lien filed against them. You know, I think we need to remember the good rather than concentrating on bad. I think the firms that are doing layoffs understand what happens in a cycle. When I first started my commercial real estate career, the veterans reminded us that when it got bad, that "this is an opportunity." You figure out how to shed something so you can pick up something else.

**DILTS:** These layoffs, that kind of thing, don't rattle me as much as if they're going out of business. It's not as big of a problem] if a project gets delayed or something gets pushed back. It's all part of the crystal ball process.

We're always predicting staff [levels] for two and three years out. All of a sudden, when the market shifts like what we've all seen, you have to adjust.

You need the infrastructure so you're ready to build a project, and you can't just add the people the day the project starts, so it's a real delicate balance. These kind of layoffs seem like a huge deal, but that's just one or two projects shifting a little bit, so I don't think it's alarming. You hate to see it, but I think it's just part of the cycle.

**OWENS:** That was the key I was going to elaborate on. It's a cyclical business, always has been. In the good times, when things are going well, you've got to beef up your staff. In the last three years, we've had a very strong development community in this area, much more so than a lot of other cities our size, and I don't think this is anything more than a blip for these guys, with maybe one exception. But, in the big picture, when the cycle is [down] like it is now, any business would have to make adjustments, and that's all we're seeing now. When things pick up again, I think you'll see these developers beef up their employment again, and we'll be hopefully headed toward a better market.

**DEMAREE:** They're downsizing for different reasons. In two of the examples (Duke and Lauth), they're being proactive, they're downsizing because of strategic reasons. In the third example (Premier), it's reactive, they're downsizing because they've got no other choice, the ship's sinking.

**HOVEY:** I think the other important point about both Duke and Lauth is to consider their geographic region the last five years and how much broader they've gotten. They've got a bigger machine from a corporate DNA standpoint that helps drive their strategy, so I think it's probably a good move.

**DEMAREE:** Oh, I think it's a very good move on their part. Again, they're acting strategically, they're looking at their business plan and they're seeing where their growth is. They're seeing where their opportunity is, they're seeing where their exposure is, and so they're adjusting their business plan accordingly. That may be slightly different than how Bob Lauth may have addressed things years ago. He's learned from the past, and he's got a great team around him and I think they're doing the right thing.

**IBJ:** *Pretty much everyone in this room probably knows someone affected by these layoffs. What are their prospects? Are they landing at other companies locally?*

**DILTS:** I think some. We've certainly had a few people come to our doorstep. Sometimes, it's tough to move from, just speaking from a construction standpoint, from a commercial to a residential or a residential to a commercial, but I think there are voids to fill out there.

**DEMAREE:** We just hired a fellow from Lauth on the marketing side and he's been a great addition for our team. We're real pleased to have him.

**DILTS:** From a construction standpoint, there isn't a project we do - public, private, church, it doesn't matter - that the "green" conversation isn't upfront and people aren't asking about it. It's in all of the vocabulary, and a lot of that we've all done for a number of years, but now there are metrics put to it. It's the right thing to do. Sustainability is what buyers want, it's what the tenants in the space want, and it has become mainstream. We all have to understand how to price it, how to design it, and how to build it because it will be involved in everything we do from here on out.

**DEMAREE:** Yeah, it's here to stay, that's for sure.

**OWENS:** It's getting traction every day. People are getting more knowledgeable about what the requirements are, what the related costs to get to certain levels of LEED certification are, and everybody has maybe a little different take on what they are trying to achieve, but yeah, it's going to continue.

**HOVEY:** Retailers are using it, and it's not simply a marketing ploy. They're committed to it, they make their suppliers be committed to it and those people that are building for them be committed to it. I think it is here to stay.

**WEBER:** I see "green" aspects in development ideas that come across my desk pretty frequently, probably not every time, not every project, but generally it's often worked in and highlighted in some fashion.

***IBJ:** Will it become a matter of policy for the city to encourage or mandate that sort of inclusion?*

**WEBER:** I don't know if we're to that point yet in determining whether it's going to be a matter of policy, but it is one of those things that is becoming part of the conversation that we're having and I think we're appreciative of seeing it in projects.

**DEMAREE:** It's probably going to have a quicker impact on the office market than the industrial market, and given the state of new construction in the office market, it may be a little slower to come. Indiana, in terms of the number of LEED projects either done or in the pipeline, is significantly behind some of our neighboring states, but this is not a trend - this is the future for commercial development.

I don't want to speak for anyone else, but personally, I'm getting up to speed on all the aspects of LEED, and there is a big learning curve to go through. But 12 months from now, 24 months from now, we're all going to be much, much further down the curve because, again, this is something that it's not just a trend, it's reality for today and that's a good thing.

**DILTS:** I have brochures with me. Some of the development things that we've done over the last couple of years have been through partners and we've been able to handle the construction and assist with some of the design. We think for us, as far as our growth, it gives us another market that we can control.

That project was born out of a relationship we had with the person who had that property, and I think that certainly condos - we can all read that condos are tough right now. We love that site. I live on the near-north side in the Meridian-Kessler area, and I love Broad Ripple, and I love being downtown, and I love getting to work at Ninth and Capitol in five minutes, and, if you like to shop, I think it appeals to a lot of people.

[Demand] is going to be slower than it was. If this market was hot right now, I think it would be going very well. The pre-sales are going pretty good, but it's going to be probably 30-percent slower than what we anticipated when we first started. But I love the place and I love the site and, please, everybody, come out and visit.

**DEMAREE:** Yes. To a certain degree, I think that the smaller lenders haven't been affected by having large portfolios in housing and they're not subject to shareholder approval or disapproval. The large banks are still certainly players, but the smaller banks today in particular I think are much more active players in certain arenas. I know we're looking to them much more strongly today than we might have two years ago.

**OWENS:** It's all about evaluating the risk and the reappraisal of risk right now in what the entire financial market is going through in terms of financing commercial projects and otherwise. To the extent that the local banks have the resources to fund and finance a significant project, you know, they're going to weigh the risks involved and have to make a decision if they want to jump into that arena. Some of the local banks have already done that, but we'll see if they regret that.

**HOVEY:** Anecdotally, we had the International Council of Shopping Centers Indiana Idea Exchange last month and we had a number

of bankers there, a number of bankers who were looking for projects to fund. They were smaller banks, they're not the ones that you read in the newspaper every day, so I think that you're likely to see that particularly on some smaller projects.

**DEMAREE:** The big news for this year, I think, you've got a handful of different options that you could point to. Whether it's the credit markets or property taxes or the economy, you know, the developer layoffs and challenges there. In terms of, what will we be talking about next year, I think we'll be talking about a much healthier development market. I think that, come '09, the credit markets will have loosened up and I think that much of the overbuilt state of our market at the end of '07 will have had a chance to stabilize. I think in '09 we'll be back on track with new product development, and I think I'm looking ahead to better times.

**DILTS:** I think from a building standpoint, through 2010, there's great work. I think on the other side of 2010, if Wishard gets going, that will be good, but I think it's a little bit challenging for us. As much as 30 percent of our growth will be out of state, maybe more. Our volume won't go down, but I think a lot more growth will be - we won't be able to drive to it, we'll have to fly to it - but as we follow trends around the country, we'll continue to look at that. We opened an office in Charlotte for those various reasons. So I would say it's still going to be very good here. I can't see a company like us doubling unless we go out of Indiana.

**HOVEY:** I think 2008 will be steady, rents are sort of bouncing along, certain submarkets are good - the south side is good, the northwest is good, Hamilton County rents are good. But until housing catches up and people/consumers let go of their discretionary dollars, it's going to be a tough 2008, and I think some of that will continue from the retail sector through a little bit of 2009.

**OWENS:** You know, I think 2008's going to be a year that we see the completion of some very important public projects: This airport project's phenomenal, it's going to come on line later this year; the completion of Lucas Oil Stadium and the new home of the Colts; and then you've got the expansion of the Indiana Convention Center.

I'm not sure the public realizes the importance of this Convention Center and the impact it has on our economy, so we're going to be looking at '09 and 2010 for the expansion. You've got multiple developments that are on the board that maybe, you know, are in a hiccup stage here in 2008, but again I see things picking up and the capital markets shaking themselves out and more positive things happening going into '09.

**WEBER:** I think the big projects coming on line will be a big key for 2008. I think those will in part drive business deals in Indianapolis. You're going to see opportunities, you're going to see growth. The first quarter of the projects that we've been working on have yielded nice results, pretty consistent results.

I think that's going to continue for the rest of the year and you'll see Indianapolis do well.