

MARKETBEAT

INDIANAPOLIS INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



1Q08

ECONOMY

While the state of the national economy remains relatively unstable, the local Indianapolis economy continues to grow in 2008. A report by *Moody's | Economy.com* shows the states surrounding Indiana are in a recession or "at-risk" for a recession, while the Indianapolis MSA is actually in a state of economic expansion. This is further supported by the job growth in the Indianapolis MSA, where over 12,000 jobs have been added over the past year. In addition to a prospering economy, Indianapolis' low costs of doing business and low cost of living continue to attract businesses looking to relocate their operations here.

OVERVIEW

The Indianapolis industrial market is currently carrying a large amount of newly-constructed speculative space. Consequently, the overall vacancy rate is currently 10.2%, up nearly 4.5% from a year ago. Again, this increase is almost entirely due to the over 7.0 million square feet (msf) of new construction in 2007 – nearly all speculative. While numerous lateral relocations by Indianapolis companies have helped to fill the newly-constructed space, these relocations have left behind older less functional space. The market will require expansions and new entrants to the market to fill the key vacancies in order to effectively drive strong direct net absorption in 2008.

Following record leasing activity in the fourth quarter 2007, the first quarter 2008 brought nearly 1.9 msf of leasing activity. There was a shift in the type of deals signed to-date 2008 as well. The majority of leasing activity was comprised of deals in the 30,000–200,000-sf range. This underscores a continued downward trend in the size of transactions typically seen in the marketplace which, in the past, have included 250,000-sf plus deals.

The market absorbed over 1.3 msf of space this quarter, primarily due to expansion and relocation of several companies. Prime Distribution moved from Stout Field to AllPoints Midwest to occupy 646,000 sf, which will be expanded to nearly 1.2 msf by 2009. Positive absorption is fundamental for future development and developers have all but halted new speculative construction in the Indianapolis industrial market. While several projects are in the pipeline, developers will likely wait until existing inventory is absorbed before initiating new construction.

Investment activity was limited to a few transactions totaling roughly 1.0 msf of space sold. Investors continue to take a cautious approach and are much more diligent and selective in their pursuits due to the credit crunch and uncertainty of financial markets.

FORECAST

With leasing activity up and a higher velocity of users in the market, expect 2008 to see positive absorption and decreasing vacancy rates. The lack of new construction will allow the market to balance itself. Another possible trend for the industrial market will be a shift toward hybrid-bulk buildings as a way to meet demand for smaller space requirements. Rising diesel fuel costs, at a current average of \$4 a gallon, have impacted logistics providers' models. Multiple smaller facilities, closer to consumers, may trump past models of fewer, larger facilities. Green building technologies will continue to find their way into industrial requirements of developers and tenants alike.

BEAT ON THE STREET


"The slow-down in speculative construction should allow the Indianapolis industrial market's vacancy rate to recover assuming positive net absorption through 2008. Expect the next wave of construction to reflect the new trends of industrial requirements – green buildings and smaller space requirements."


– Matt Waggoner, Market Research Analyst


ECONOMIC INDICATORS

National	2006	2007	2008F
GDP Growth	2.9%	2.2%	1.5%
CPI Growth	3.2%	2.8%	3.0%
Regional			
Unemployment	4.4%	4.1%	4.4%
Employment Growth	1.4%	1.3%	0.6%

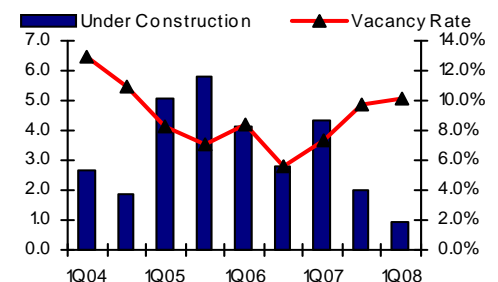
MARKET FORECAST

LEASING ACTIVITY is still healthy and will likely continue this trend through 2008. 

DIRECT ABSORPTION totaled more in the first quarter than in all of 2008 at roughly 1.3 msf. 

CONSTRUCTION decreased substantially from 2007 due to an over-supply of newly-constructed industrial product and rising construction costs. 

OVERALL VACANCY RATE VS. SF UNDER CONSTRUCTION



MARKET / SUBMARKET STATISTICS

MARKET / SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	MF	W/D	FLEX
CBD	23,540,760	263	8.7%	42,158	0	0	(507,422)	\$0.75	\$1.66	\$6.00
East	31,550,251	285	6.2%	303,965	245,200	0	212,683	\$2.25	\$2.94	\$4.01
Northeast	15,323,260	221	8.2%	311,886	0	0	19,081	\$4.95	\$5.06	\$7.03
Northwest	45,881,809	386	11.9%	957,295	698,000	38,000	261,817	\$5.00	\$2.82	\$7.02
South	16,099,335	173	15.9%	92,320	0	161,280	(102,614)	\$1.49	\$2.81	\$6.96
Southwest	67,078,910	376	10.4%	167,596	0	1,296,795	1,451,114	\$1.75	\$3.18	\$5.84
TOTAL	199,474,325	1,704	10.2%	1,875,220	943,200	1,496,075	1,334,659	\$1.58	\$2.96	\$6.50

*Rental rates reflect \$psf/year

MF = Manufacturing W/D = Warehouse/Distribution FLEX = Combination Office & Warehouse/Manufacturing

MARKET HIGHLIGHTS

SIGNIFICANT 1Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
500 South Enterprise Boulevard (Lebanon)	Northwest	National Distribution Centers	229,501	Warehouse/Distribution
5100 South Indianapolis Road (Whitestown)	Northwest	Pitney Bowes Inc.	182,000	Warehouse/Distribution
1105 East Northfield Drive (Brownsburg)	Northwest	Synder's of Hanover	176,000	Warehouse/Distribution
6887 West 350 North (Mount Comfort)	East	Adidas	162,000	Warehouse/Distribution
9910 North by Northeast Boulevard (Fishers)	Northeast	Newgistics	95,985	Warehouse/Distribution
900 Commerce Parkway West Drive (Greenwood)	South	Nestle Waters North America	80,320	Warehouse/Distribution

SIGNIFICANT 1Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
7900 Rockville Road	Southwest	Equity Industrial Partners Corporation	617,212	N/A
6003 Guion Road	Northwest	Fastenal Company	434,501	N/A
4333 West 71st Street	Northwest	Century Properties XV	178,200	N/A

SIGNIFICANT 1Q08 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
AmeriPlex Park BTS	Southwest	Gatorade/PepsiCo	1,100,000	3/08
255 Transfer Drive	Southwest	Genco	177,600	1/08
7535 Company Drive	South	Speculative	100,800	2/08

SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Medco Anson BTS	Northwest	Medco Health Solutions	318,000	2/08
AllPoints Anson Building 14	Northwest	ASI Limited	280,000	4/08
6825 West CR 400 North (Mount Comfort)	East	N/A	245,200	5/08
8431 Georgetown Road	Northwest	Goodwill Industries	100,000	8/08



For further information, contact our Research Department:

Summit Realty Group
111 Monument Circle Suite 4750
Indianapolis, IN 46204
317.713.2100
www.SummitRealtyGroup.com

*Market terms & definitions based on BOMA and NAIOP standards.

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