

MARKETBEAT

INDIANAPOLIS OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



1Q08

ECONOMY

While the job growth rate in the office-using sectors has slowed over the past few months, the percentage of office users in the Indianapolis area is still higher than the national average. Indianapolis continues to serve as a viable option for businesses, due to the low cost of living and low cost of doing business.

The local tax reassessment is certainly something to monitor over the next year. During the first quarter of 2008, taxes were reassessed in the area in order to cap the taxes for a given property. This will serve as a challenge for building owners and tenants alike as they adjust to the new tax structures.

Mortgage companies and banks down-sized operations near the end of 2007 and into 2008. However, several companies are expanding, such as Fusion Alliance (adding over 100 jobs) and Roche Diagnostics (adding roughly 340 jobs), to help create a positive net job growth in the Indianapolis area.

OVERVIEW

The CBD overall vacancy rate is down nearly 1.8% from the beginning of 2007 as existing tenants continue to expand and new tenants, such as Veolia Water, move operations to the Indianapolis area. Overall vacancy rate for the Indianapolis office market is currently at 17.9%. New construction brought online over the past year increased the current overall vacancy rate for the entire office market, up 0.7% from first quarter of 2007. The current overall vacancy rate for the market is still healthy, down more than 2.5 percentage points from first quarter of 2005.

Two notable office buildings brought online in the first quarter are Duke's Interactive Intelligence building in Woodland Corporate Park, and River Crossing Three located adjacent to the Keystone Crossing office park. As seen with these two buildings, new construction will not likely commence until there is substantial pre-lease activity to help developers reduce risk.

Direct weighted average rental rate for class A space in the Indianapolis suburbs has decreased to \$19.28 per square foot (psf) from \$19.77 psf in the fourth quarter of 2007. As newly-constructed space becomes occupied, resulting vacancies in older class A space drive the weighted average down, as they demand a lower rate. One of the best valued central business districts in the country, the Indianapolis CBD class A direct weighted average rental rate remained nearly the same at \$20.15 psf.

Investment activity in the market was limited to one significant transaction. Dougherty Commercial Properties bought the two-building Park Fletcher office complex, which totals 165,042 sf. With the uncertain capital markets, look for investment activity in the office market to be limited throughout 2008.

FORECAST

There is currently only one significant speculative building under construction. This slowdown will enable vacancy rates to recover in 2008, assuming healthy leasing activity resulting in positive absorption. Look for the job growth to contribute toward strong leasing activity throughout 2008.

BEAT ON THE STREET


"Developers halt on speculative construction was well aligned with the slowdown in the economy. This will allow the Indianapolis office market vacancy rates to recover in 2008 as tenants fill space in existing buildings."


– 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%

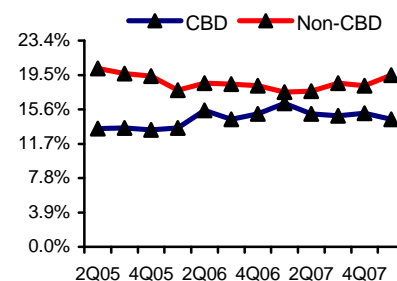
MARKET FORECAST

OVERALL VACANCY RATE inched up again in first quarter 2008, but should recover as speculative construction slows and leasing activity continues. 

DIRECT ASKING RENTAL RATES for Class A space decreased slightly from fourth quarter 2007 as high-end Class A space was absorbed this quarter 

CONSTRUCTION: Rising overall construction costs and current supply of available space may limit the amount of projects that break ground in 2008. 

OVERALL VACANCY RATES



MARKET / SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS.	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
Airport	688,986	15	26.0%	25.5%	4,552	0	0	1,123	\$16.00
Carmel	840,001	23	11.6%	10.8%	2,231	0	0	(6,289)	\$18.75
Castleton	1,935,355	44	21.2%	21.2%	14,205	151,000	0	(44,594)	\$17.75
East	470,254	17	17.6%	17.6%	0	0	0	(7,176)	\$17.60
I-69 / Shadeland	2,207,483	48	14.8%	13.5%	165,200	0	18,983	21,599	\$18.61
Keystone Crossing	4,130,627	58	18.4%	17.2%	75,100	120,000	50,763	(59,218)	\$20.02
Meridian Corridor	6,039,204	73	17.3%	16.9%	32,005	0	0	1,975	\$19.72
Midtown	1,235,040	27	9.3%	9.3%	0	0	0	1,844	\$17.00
Northwest	3,510,374	52	23.6%	23.4%	13,073	0	154,000	67,711	\$19.15
South	1,124,899	30	23.8%	23.8%	989	22,000	0	(15,572)	\$19.79
West	889,941	20	42.7%	42.4%	0	0	0	(1,694)	\$18.93
Non-CBD	23,072,164	407	19.5%	18.9%	307,355	293,000	223,746	(40,291)	\$19.28
CBD	10,421,928	66	14.5%	13.9%	112,642	0	0	(29,577)	\$20.15
INDIANAPOLIS TOTAL	33,494,092	473	17.9%	17.4%	419,997	293,000	223,746	(69,868)	\$19.54

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 1Q08 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
9800 Crosspoint Boulevard	I-69/Shadeland	Roche Diagnostics	148,000	A
201 North Illinois Street	CBD	Locke Reynolds	56,400	A
115 West Washington Street	CBD	Veolia Water	37,000	A
3939 Priority Way South Drive	Keystone Crossing	Cripe, Inc.	23,156	A
8888 Keystone Crossing	Keystone Crossing	HQ Global Workplaces, Inc.	19,905	A
5635 West 96th Street	Northwest	American Cancer Society	17,500	B

SIGNIFICANT 1Q08 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PURCHASE PRICE
One & Two Park Fletcher	Airport	Dougherty Commercial Properties	165,042	N/A

SIGNIFICANT 1Q08 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
7365 Interactive Way	Northwest	Interactive Intelligence	154,000	3/08
3610 River Crossing Parkway	Keystone Crossing	Star Bank	50,763	1/08

SIGNIFICANT PROJECTS UNDER CONSTRUCTION/RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Lake Point Center Five	Castleton	Speculative	151,000	6/08
9035 River Road	Keystone Crossing	Advantage Health Solutions	120,000	4/08



For further information, contact our Research Department:

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

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