

# MARKETBEAT

## INDIANAPOLIS OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



2Q09

### ECONOMY

The Indianapolis office market continued its pattern of contraction during the 2<sup>nd</sup> quarter 2009. Unemployment in Indianapolis increased to 9.6%, but is expected to stabilize over the forecasted horizon. Statistical analysis suggests that Indianapolis will lag behind the national average in recovery, but the benefits of a reasonable cost structure to conduct business will attract businesses in the near future.

### OVERVIEW

Indianapolis Office continued with a climbing overall vacancy rate. The CBD market increased to 16.0% in the 2<sup>nd</sup> quarter, up 1.1% from 14.9% last quarter. The suburbs ended the 2<sup>nd</sup> quarter at 23.4%, up .8% from last quarter. We expect to see the CBD vacancy rate increase significantly in 3<sup>rd</sup> quarter, as 400,000+ square feet (sf) will be vacated by Safeco Insurance.

A prevailing trend in the Indianapolis office market is business owners being more meticulous in the due diligence process. Landlords are witnessing potential tenants surveying the market and their location needs at an earlier stage. Rental incentives, including rental abatement and stepped rents, have helped to retain and attract tenants.

As expected, leasing activity in the Indianapolis office market slowed significantly in the 2<sup>nd</sup> quarter. CBD leased 24,041 sf, only one-third of the space leased in the previous quarter. The suburbs pulled in 203,875 sf, less than half leased one year ago, but slightly higher than 1<sup>st</sup> quarter 2009. Virtually all leasing activity occurred in the northern submarkets (Castleton, Keystone Crossing, Meridian Corridor, Northwest), claiming a combined total of 147,305 sf – with the majority of activity, 79,272 sf, landing in the Meridian Corridor and Northwest submarkets.

As space vacates at a quicker pace than leased, the Indianapolis office market continues to battle negative overall absorption. Of the 480,144 sf negatively absorbed, the suburbs accounted for 362,061 sf, two-thirds of the market total. For a second straight quarter, the Keystone Crossing submarket was a key driver of the overall negative absorption. AIMCO and Indianapolis Life Insurance Company both vacated the Indianapolis market, leaving 60,000 sf in the Keystone Crossing submarket. Ace Mortgage also vacated its headquarters, releasing 30,000 sf in the West submarket. Cost-cutting and consolidation of company operations during these struggling economic conditions has led to the negative absorption numbers. When demand turns around, expect large companies to find quality space.

### FORECAST

The Indianapolis office market will contract slightly in the 3<sup>rd</sup> quarter as it trails months behind the national average in recovery. Subleasing will be an ever present trend with companies re-evaluating space requirements to retain financial stability. Education and healthcare growth could be catalysts for the Indianapolis office market as it works to stabilize toward year-end.

### BEAT ON THE STREET



“Caution and short-term flexibility continue to be the strategy for tenants and investors. Current market conditions will likely continue through this year. When employment increases, the Office market rate should increase significantly with minimal new inventory coming online.”

James C. Fasone  
Principal  
Office & Corporate Services

### ECONOMIC INDICATORS

	2008	2009F	2010F
National			
GDP Growth	1.1%	-3.0%	1.2%
CPI Growth	3.8%	-0.6%	1.7%
Regional			
Unemployment	5.1%	9.4%	10.4%
Employment Growth	-0.1%	-3.9%	-0.7%

Source: Moody's | Economy.com

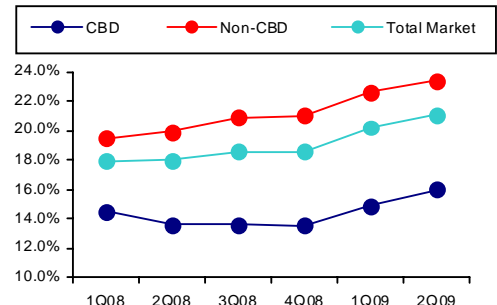
### MARKET FORECAST

**RENTAL RATES** may decrease slightly as landlords adjust to attract and retain tenants. ↓

**OVERALL VACANCY RATES** will likely increase as companies try to reduce inefficiency's within operations. ↑

**SUBLEASE INVENTORY** will continue to increase as companies shore up operations. ↑

### OVERALL VACANCY RATE TRENDS



### 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	779,611	18	29.4%	29.4%	5,070	0	0	(50,427)	\$18.14
Carmel	789,127	22	31.4%	31.4%	4,207	0	0	(5,633)	\$18.36
Castleton	2,215,116	48	30.8%	30.0%	84,036	0	0	(53,341)	\$19.71
East	556,296	18	31.2%	31.2%	2,619	0	0	(7,066)	\$16.76
I-69 / Shadeland	2,338,390	55	24.8%	17.4%	6,948	110,000	0	(171,961)	\$19.58
Keystone Crossing	4,114,807	59	22.7%	22.0%	88,766	0	0	(147,702)	\$20.15
Meridian Corridor	6,011,561	72	18.0%	17.5%	107,597	0	0	(113,109)	\$19.37
Midtown	1,328,229	31	8.7%	8.7%	39,849	0	0	74,398	N/A
Northwest	3,986,088	63	26.1%	23.2%	88,250	0	0	(120,812)	\$18.50
South	1,311,703	35	21.1%	20.5%	34,468	0	0	(117)	\$20.28
West	892,651	19	36.8%	35.8%	16,471	0	0	(31,942)	\$16.71
Non-CBD	24,323,579	440	23.4%	21.8%	478,281	110,000	0	(627,712)	\$19.31
CBD	10,640,548	72	16.0%	15.2%	99,226	0	0	(217,259)	\$19.63
<b>INDIANAPOLIS TOTAL</b>	<b>34,964,127</b>	<b>512</b>	<b>21.1%</b>	<b>19.8%</b>	<b>577,507</b>	<b>110,000</b>	<b>0</b>	<b>(844,971)</b>	<b>\$19.41</b>

\* Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

#### SIGNIFICANT 2Q09 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
1752 North Meridian Street	Midtown	Clarian - Ambulatory Care	32,000	B
9200 Keystone Crossing	Keystone Crossing	Yellow Pages Group, LLC	21,054	A
8415 Allison Pointe Boulevard	Castleton	Franklin University	20,000	A
11555 North Meridian Street	Meridian Corridor	Brown & Brown, Inc.	14,989	A
505 South Perry Road	West	Baseline Data Systems	7,800	A
5750 Castle Creek Parkway	Castleton	Communications Access Center for the Deaf	7,000	A
11405 Pennsylvania Avenue	Meridian Corridor	National City Bank	6,971	B
3610 River Crossing Parkway	Keystone Crossing	PK Developers	6,028	A

#### SIGNIFICANT 2Q09 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	BLDG CLASS
4670 Haven Point Boulevard	Keystone Crossing	Performance Services, Inc.	40,000	B

#### SIGNIFICANT 2Q09 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
N/A				

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION / RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Concourse at Crosspoint 1	I-69 / Shadeland	USA Funds	110,000	11/09



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

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