

MARKETBEAT

INDIANAPOLIS OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



3Q09

ECONOMY

As a strong selling point for our area, Indiana ranked 12th nationally in business tax climate and remains the front-runner state in the Midwest for business tax competitiveness, according to Tax Foundation's 2010 Business Tax Climate Index.

OVERVIEW

The market's overall vacancy rate increased by 1% in 3rd quarter 2009. On a good note, 6 of 12 submarkets posted decreasing vacancy rates. The suburbs' overall vacancy rate halted its rising trend and is now at 23%, a 0.4% decrease from last quarter's 23.4% vacancy rate. The overall vacancy rate for the CBD submarket is now 20%, up 4% compared to 16% last quarter. Contributing toward that increase, Safeco Insurance vacated 330,000 square feet (sf) from 500 N Meridian Street.

Overall leasing activity for 3rd quarter was slightly up from the previous quarter. Of the 307,658 sf leased this past quarter, roughly 37% (15,000 sf) occurred within the healthcare and education business sectors, predicted as upcoming areas of growth. Companies such as ITT, Clarian Health Partners, University of Phoenix, and MedTech College leased space in suburban submarkets this quarter.

The CBD submarket experienced an uptick in leasing activity with 30,395 sf leased in the 3rd quarter, compared to 24,041 sf leased in the 2nd quarter. Class A space lead leasing activity for the previous four quarters, but class B and C space comprised 70% of all leasing in the CBD this quarter. Conversely, the suburbs class A leasing accounted for 146,011 sf of the 277,263 sf leased, more than 50% of total leasing. The Meridian Corridor and Northwest submarkets continue to be the dominant markets for leasing activity. The Northwest submarket alone accounted for 67% of total suburban leasing, pulling in 100,867 sf. Two significant transactions within the Northwest submarket are the Internal Revenue Service (IRS) lease of 52,000 sf at 4030 Vincennes Rd. and the Clarian Bariatrics lease of 30,737 sf at 6640 Intech Blvd.

The Indianapolis office market has experienced negative overall absorption since 3rd quarter 2008. For the suburbs, absorption is the lowest since mid-year 2008, with only 56,361 sf negatively absorbed in 3rd Quarter. Of the total market's 491,899 sf of negative absorption, CBD accounted for 89% or 435,538 sf. A significant element in this dynamic can be attributed to the previously mentioned 330,000 sf of vacated space by Safeco Insurance, which is consolidating operations and relocating to Parkwood Crossing. Also, Regions Bank downsized its operations in One Indiana Square, adding another 39,000 sf of available downtown space.

FORECAST

The 4th quarter 2009 will continue to witness sublease inventory increase and companies consolidating operations. However, Indianapolis is quietly confident the office market will experience a slow and steady recovery in the 2nd half of 2010, assuming some of the activity seen now is executed. We look for vacancy rates and absorption to remain at current levels through the end of the year.

BEAT ON THE STREET



"Good deals ARE getting done! Globally, there is push by tenants to examine all real estate options to realize savings in the current environment. Tenants are upgrading facilities and yielding long-term reduction in occupancy costs. Landlords are being strategic in pursuit of credit-worthy tenants, offering attractive economic incentives."


Jon R. Jessup, CCIM
Chief Financial Officer
Investment & Corporate Services


ECONOMIC INDICATORS


| National | 2008 | 2009F | 2010F |
|-------------------|-------|-------|-------|
| GDP Growth | 0.4% | -2.6% | 1.8% |
| CPI Growth | 3.8% | -0.5% | 1.7% |
| Regional | | | |
| Unemployment | 5.1% | 9.4% | 10.4% |
| Employment Growth | -0.1% | -3.9% | -0.7% |

Source: Moody's | Economy.com

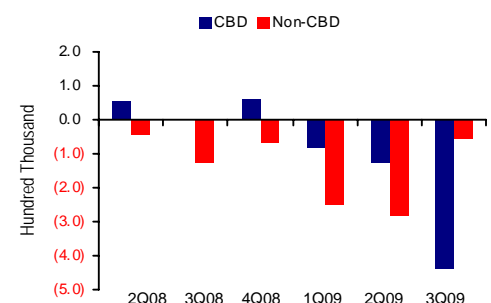
MARKET FORECAST

CBD OVERALL VACANCY will remain at current levels as no large vacancies are planned to come online. 

SUBURBAN OVERALL VACANCY will increase as a 110,000 sf speculative building is planned for completion. 

OVERALL ABSORPTION will flatten out and remain steady as new activity won't likely occupy space until latter 2010. 

OVERALL ABSORPTION CBD vs. NON-CBD



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 | 30.3% | 30.3% | 5,070 | 0 | 0 | (56,964) | \$18.21 |
| Carmel | 790,215 | 22 | 32.6% | 32.6% | 13,682 | 0 | 0 | (15,745) | \$18.32 |
| Castleton | 2,215,116 | 48 | 30.6% | 29.9% | 120,777 | 0 | 0 | (50,272) | \$19.86 |
| East | 556,296 | 18 | 32.6% | 32.6% | 4,019 | 0 | 0 | (16,268) | \$17.63 |
| I-69 / Shadeland | 2,338,390 | 55 | 22.8% | 15.7% | 43,113 | 110,000 | 0 | (128,117) | \$19.91 |
| Keystone Crossing | 4,114,807 | 59 | 24.8% | 24.0% | 111,280 | 0 | 0 | (232,986) | \$20.16 |
| Meridian Corridor | 6,051,561 | 74 | 17.9% | 17.4% | 205,728 | 0 | 0 | (122,551) | \$19.74 |
| Midtown | 1,328,229 | 31 | 9.1% | 9.1% | 39,849 | 0 | 0 | 69,398 | N/A |
| Northwest | 3,986,088 | 63 | 23.4% | 20.1% | 189,117 | 0 | 0 | (12,783) | \$18.33 |
| South | 1,331,832 | 36 | 19.3% | 18.8% | 54,476 | 0 | 0 | 10,177 | \$19.85 |
| West | 965,905 | 21 | 35.3% | 34.4% | 16,471 | 0 | 0 | (31,942) | \$16.71 |
| Non-CBD | 24,458,050 | 445 | 23.0% | 21.5% | 803,582 | 110,000 | 0 | (588,053) | \$19.31 |
| CBD | 10,595,062 | 72 | 20.0% | 19.2% | 129,621 | 0 | 0 | (648,544) | \$19.64 |
| INDIANAPOLIS TOTAL | 35,053,112 | 517 | 22.1% | 20.8% | 933,203 | 110,000 | 0 | (1,236,597) | \$19.50 |

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 3Q09 NEW LEASE TRANSACTIONS

| BUILDING | SUBMARKET | TENANT | SQUARE FEET | BLDG CLASS |
|-----------------------------|-------------------|------------------------------|-------------|------------|
| 4030 Vincennes Road | Northwest | Internal Revenue Service | 52,000 | B |
| 1289 West 122nd Street | Meridian Corridor | ITT | 46,000 | A |
| 6640 Intech Boulevard | Northwest | Clarian Bariatrics | 30,737 | A |
| 550 Congressional Boulevard | Meridian Corridor | Liberty Mutual Insurance Co. | 11,549 | B |
| 7999 Knue Road | Castleton | University of Phoenix | 11,475 | A |
| 1530 American Way | South | MedTech College | 10,955 | A |
| 6602 East 75th Street | I-69 / Shadeland | Fischer Homes | 8,757 | B |
| 10500 Kincaid Drive | I-69 / Shadeland | USA Funds | 8,017 | A |

SIGNIFICANT 3Q09 SALE TRANSACTIONS

| BUILDING | SUBMARKET | BUYER | SQUARE FEET | BLDG CLASS |
|------------------|-----------|-------------------|-------------|------------|
| 8675 Purdue Road | Northwest | Westfield Outdoor | 18,000 | B |

SIGNIFICANT 3Q09 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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