

# MARKETBEAT

## INDIANAPOLIS OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



4Q08

### ECONOMY

The Indianapolis Office Market fared surprisingly well in a year that watched many office markets suffer from economic effects. Of seven Midwest office markets, Indianapolis was second best in terms of 2008 leasing activity, relative to the size of each market. This continued success in spite of a dismal economic period underscores the attractiveness, stability and diversification of the Indianapolis MSA.

In addition to the recent completion of the new 1.2 million square foot (msf) Indianapolis International Airport terminal, Indianapolis continues to roll out upgrades that will attract tourists and convention business. These efforts include: significant expansion to the Indiana Convention Center, construction of the 1,000-room downtown JW Marriot Hotel, addition of several notable restaurants downtown, and launch of a public transit system.

### OVERVIEW

The CBD and non-CBD markets continued the inverse trend as the overall vacancy rate rose again in non-CBD to 21.0% while it decreased slightly in the CBD to a three-year low of 13.5%. While the top tier class A buildings in the CBD remain full, the challenge over the next few years will be filling the large vacancies in the other class A buildings. In addition, the 400,000+ square feet (sf) that Safeco plans to vacate downtown will certainly affect vacancy rates in 2009. The non-CBD market saw several significant renewals as 2008 came to a close. However, the velocity of new deals in the suburbs decreased from previous quarters.

Another important factor that suppressed vacancy rates was limited construction completions during 2008. Only one notable office building came online in the fourth quarter. The 44,000-sf Signature Building in Greenwood was completed in December. As developers scaled back construction projects, their cautious approach helped maintain our Office Market's healthy vacancy performance. One project commenced this quarter as the 110,000-sf building broke ground at the Concourse at Crosspoint Park, a five-building master planned park located along the I-69/Shadeland corridor.

Leasing activity for the Indianapolis Office Market was below average for the quarter. While the leasing activity slowed significantly in the CBD to 33,250 sf for the fourth quarter, the non-CBD held steady at 362,759 sf of leasing activity in the same period.

Year-to-date overall absorption ended 2008 at a negative 62,854 sf for the entire Indianapolis office market. A major factor contributing to negative absorption was the volume of sublease space that was made available throughout 2008. Marsh Headquarters, consisting of 92,000+ sf, accounts for a substantial portion of the sublease space released in the market. While the new sublease spaces drove up the overall vacancy rate, these spaces may provide opportunities for tenants in the market to get office space at discounted rates.

### FORECAST

While the Indianapolis Office Market is well balanced with a diverse group of industries, expect companies to remain conservative through 2009 as economic conditions recover. Expect to see more sublease space hit the market in 2009 and new construction projects to remain on hold. Another likely trend to continue in 2009 is tenant's electing to renew their spaces early in an effort to reduce rental rates.

### BEAT ON THE STREET



"Tenants will monitor how the uncertain credit markets impact deal terms and, depending on their flexibility, may delay significant real estate decisions until 2010."

Rebecca Baer  
Director  
Office Advisory Services

### ECONOMIC INDICATORS

National	2007	2008
GDP Growth	2.0%	1.2%
CPI Growth	2.9%	4.2%
Regional		
Unemployment	3.7%	5.9%
Employment Growth	1.3%	0.8%

Source: Moody's | Economy.com

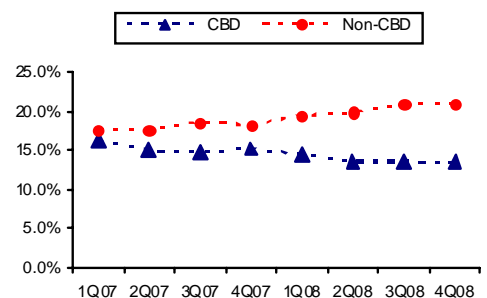
### MARKET FORECAST

**OVERALL ABSORPTION** in the office market will likely decrease in 2009 as companies move forward with caution. ↓

**OVERALL VACANCY RATES** for Office will remain unchanged in early-2009 due to limited construction and activity. ↔

**CONSTRUCTION** projects remain on hold as developers monitor office market activity. ↔

### 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	752,891	17	21.1%	21.1%	72,859	0	0	40,879	\$16.25
Carmel	789,127	22	27.5%	27.5%	13,526	0	0	(134,108)	\$18.75
Castleton	2,229,355	49	28.8%	28.5%	120,378	0	151,000	(124,845)	\$20.45
East	568,296	19	21.2%	21.2%	16,277	0	0	(32,423)	\$17.60
I-69 / Shadeland	2,365,009	55	18.1%	13.6%	145,122	110,000	18,983	(55,466)	\$19.23
Keystone Crossing	4,275,615	60	18.8%	18.0%	231,094	0	170,763	3,576	\$20.19
Meridian Corridor	5,939,324	72	17.0%	16.6%	349,910	0	0	47,538	\$19.23
Midtown	1,349,775	31	12.3%	12.3%	15,000	0	0	(17,841)	\$15.35
Northwest	3,857,738	61	24.7%	23.8%	236,150	0	154,000	47,268	\$18.76
South	1,209,469	33	20.8%	20.8%	56,421	0	66,000	(5,708)	\$20.52
West	918,116	21	37.1%	37.1%	84,985	0	0	21,018	\$18.73
Non-CBD	24,254,715	440	21.0%	20.2%	1,341,722	110,000	560,746	(210,112)	\$19.50
CBD	11,136,744	74	13.5%	12.7%	460,601	0	0	147,258	\$19.51
<b>INDIANAPOLIS TOTAL</b>	<b>35,391,459</b>	<b>514</b>	<b>18.6%</b>	<b>17.8%</b>	<b>1,802,323</b>	<b>110,000</b>	<b>560,746</b>	<b>(62,854)</b>	<b>\$19.50</b>

\* Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

#### SIGNIFICANT 2008 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
201 North Illinois Street	CBD	Locke Reynolds LLP	56,400	A
505 South Perry Road	West	Rolls-Royce Fighter Engine Team	50,000	A
7365 Interactive Way	Northwest	Brightpoint Inc.	39,685	A
6510 Telecom Drive	Northwest	General Services Administration	38,700	A
115 West Washington Street	CBD	Veolia Water	37,000	A

#### SIGNIFICANT 2008 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	BLDG CLASS
One & Two Park Fletcher	Airport	Indianapolis Dougherty Commercial Properties	165,042	A
8330 Woodfield Crossing Boulevard	Keystone Crossing	Charles Schwab	160,808	A
505 South Perry Road	West	ECP South Perry Road LLC	100,000	A
310 East 96th Street	Meridian Corridor	Indiana Insurance Company	95,852	A
1752 North Meridian Street	Midtown	London Witte Group	84,343	A

#### SIGNIFICANT 2008 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
7365 Interactive Way	Northwest	Interactive Intelligence	154,000	3/08
8415 Allison Pointe Boulevard	Castleton	Speculative	151,000	9/08
9045 River Road	Keystone Crossing	Advantage Health	120,000	7/08

#### 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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