

MARKETBEAT

INDIANAPOLIS OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



4Q09

ECONOMY

The Indianapolis Office market struggled during 2009, as did many other markets throughout the Midwest. Fortunately, employment in Indianapolis may have stabilized with a reported 8.2% November unemployment rate. Indianapolis metro employment is recovering slightly faster than the State and holding up better than the national average.

OVERVIEW

The Indianapolis market's overall vacancy reversed its three quarter upward trend, with the fourth quarter ending at 22%, a 0.1% decrease from the third quarter. However, the number of new deals decreased from previous quarters. After the large jump to a 20% overall vacancy rate last quarter, the CBD was able to decrease its rate and close out the year at 19.7%. The CBD has experienced a 6.2% increase in overall vacancy since the reported 13.5% rate at year-end 2008. As stated in our earlier report, the exit of 330,000 square feet (sf) by Safeco adversely impacted the CBD vacancy rates in 2009.

The suburbs flattened out and remained at a 23% overall vacancy rate from 3rd to 4th quarter 2009. The last time the vacancy rate reached 23% or more was in the first half of 2004. The suburbs also experienced its fair share of businesses consolidating. Compared to the 21% overall vacancy rate at year-end 2008, there was a 2% increase throughout the year leading to year-end 2009. The primary contributing factors were the following businesses vacating space in the suburbs: CP Morgan (40,000 sf), AIMCO (40,000 sf), Ace Mortgage (30,000 sf), and the Indianapolis Life Insurance Company (20,000 sf).

Leasing activity in the CBD pulled in its second best quarter for the year, with 66,203 sf leased in the last three months of 2009. However in the CBD, year-to-date leasing in 2009 totaled 219,005 sf, less than half that of the 460,600 sf total leased in 2008. Suburban leasing witnessed its lowest quarter of activity for 2009, with 251,562 sf leased. The suburbs attracted 1,158,467 sf of total leasing in 2009, a difference of 183,255 sf, compared to the 1,341,722 sf total leased in 2008. Early renewals and space consolidation were a regular leasing trends this year. Expect leasing in the healthcare and education business services to remain a common theme in 2010.

For the fourth quarter, the Indianapolis market experienced a positive absorption of 41,494 sf – the first overall positive absorption since mid-year 2008. However, the year's total overall absorption closed at a negative 1,086,538 sf. Large amounts of vacated space discussed previously, coupled with large sublease vacancies, contributed to the negative overall absorption. Sublease vacancies increased by 156,518 sf from 2008 to 2009. Marsh Headquarters vacated another 55,000+ sf, along with Open Solutions (29,000 sf), and Bindley Capital (25,000 sf). The increase of sublease space will provide opportunities for tenants seeking discounted rates on office space.

FORECAST

The Indianapolis office market is far from a full recovery, but moving in the right direction. Many financial firms are in the beginning stages of recovery since downsizing and the Indianapolis banks' regional focus has benefited the states rebound. As a reasonable cost structure still remains in Indianapolis, expect expansion in the education, government, and healthcare to underline a slow road to recovery.

BEAT ON THE STREET



“Through 2009, it has been encouraging to see that many parties involved in the process have been creative – bringing new approaches to the table to get things done. Considering the 2010 economic forecast, we'll see more of these same resourceful approaches.”

William M. Ehret, SIOR
Chief Executive Officer
Office & Corporate Services

ECONOMIC INDICATORS

National	2008	2009F	2010F
GDP Growth	0.4%	-2.5%	2.3%
CPI Growth	3.8%	-0.4%	1.7%
Regional			
Unemployment	5.1%	8.6%	9.5%
Employment Growth	-0.1%	-3.5%	-1.1%

Source: Moody's | Economy.com

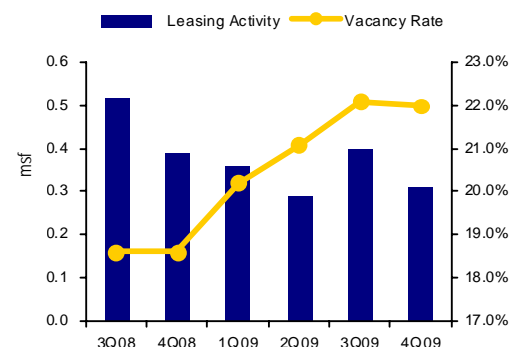
MARKET FORECAST

OVERALL VACANCY will remain at current levels before trending downward in the second half of 2010. ⇄

LEASING ACTIVITY will continue to remain at current levels before increasing in the second half of 2010. ⇄

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

OVERALL LEASING ACTIVITY vs. 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. CLASS A GROSS RENTAL RATE*
Airport	779,611	18	30.6%	30.6%	8,670	0	0	(59,534)	\$18.07
Carmel	790,215	22	33.5%	33.5%	23,108	0	0	(22,680)	\$18.36
Castleton	2,273,116	49	32.4%	31.7%	168,874	0	0	(109,441)	\$19.56
East	556,296	18	33.5%	33.5%	19,343	0	0	(22,467)	\$17.78
I-69 / Shadeland	2,468,390	57	25.1%	18.4%	57,320	0	130,000	(84,568)	\$20.59
Keystone Crossing	4,114,807	59	23.0%	22.0%	195,233	0	0	(162,360)	\$20.17
Meridian Corridor	6,051,561	74	17.9%	17.6%	282,205	0	0	(127,140)	\$19.74
Midtown	1,328,229	31	9.3%	9.3%	42,944	0	0	66,565	N/A
Northwest	3,986,088	63	21.7%	18.6%	271,223	0	0	54,480	\$18.36
South	1,331,832	36	20.1%	19.5%	66,276	0	0	288	\$18.82
West	965,905	21	35.0%	34.3%	23,271	0	0	(29,340)	\$16.71
Non-CBD	24,646,050	448	23.0%	21.5%	1,158,467	0	130,000	(496,197)	\$19.41
CBD	10,631,062	73	19.7%	19.1%	219,005	0	0	(590,341)	\$19.63
INDIANAPOLIS TOTAL	35,277,112	521	22.0%	20.8%	1,377,472	0	130,000	(1,086,538)	\$19.49

* Rental rates reflect \$psf/year

MARKET HIGHLIGHTS

SIGNIFICANT 2009 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
4030 Vincennes Road	Northwest	Internal Revenue Service (GSA - IRS)	50,160	B
1289 West 122nd Street	Meridian Corridor	ITT	46,000	A
5920 Castleway Drive	Castleton	Aurora Bank	33,383	B
1752 North Meridian Street	Midtown	Clarian - Ambulatory Care	32,000	B
4030 Vincennes Road	Northwest	Sanford Brown College Health Midwest	31,348	B
6640 Intech Boulevard	Northwest	Clarian Bariatrics	30,737	A
9001 Wesleyan Road	Northwest	Fortis College	27,646	B
7551 Shelby Street	South	Street Links Appraisers	22,000	B
101-115 West Washington Street	CBD	Pricewaterhouse Coopers	21,945	A

SIGNIFICANT 2009 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	BLDG CLASS
8555 North River Road	Keystone Crossing	PK Partners	75,545	A
9550 Zionsville Road	Northwest	L & R Acquisitions LLC	67,267	B
501 Congressional Boulevard	Meridian Corridor	Dauby O'Conner & Zaleski	57,444	B
1047 Virginia Avenue	CBD	Tegaen Properties	56,444	B

SIGNIFICANT 2009 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
Concourse at Crosspoint 1	I-69 / Shadeland	USA Funds	110,000	10/09

SIGNIFICANT PROJECTS UNDER CONSTRUCTION / RENOVATION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
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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. This report contains information available to the public and has been relied upon by Summit Realty Group and Cushman & Wakefield on the basis that it is accurate and complete. Summit Realty Group/Cushman Wakefield accepts no responsibility if this should prove not to be the case. No warranty or representation, express or implied, is made to the accuracy or completeness of the information contained herein, and same is submitted subject to errors, omissions, change of price, rental or other conditions, withdrawal without notice, and to any special listing conditions imposed by our principals.

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