

# MARKETBEAT

## INDIANAPOLIS INDUSTRIAL REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



2Q10

### ECONOMY

Lagging behind the nation in terms of recessionary outcomes, Indianapolis has begun experiencing some negative effects. Even as the unemployment rate increases gradually and the labor force expands, industrial production parallels the rest of the nation in its rebound. As we've reported before, central Indiana's well-diversified economy and low cost structure will attract new residents and businesses.

### OVERVIEW

The Indianapolis industrial market experienced a decline in leasing activity. The 1,071,936 square feet (sf) leased in second quarter 2010 was less than half the space leased last quarter. However, the average quarterly leasing activity in 2009 was 1,107,488 sf, so it appears this quarter's level is relatively on track year over year. With a combined 616,390 sf leased, the South and East submarkets accounted for 58% of total leasing in the second quarter. Southern Wine & Spirits leased and occupied 211,500 sf at 800 Commerce Parkway in the South submarket. With continued expansion in the East submarket, Welch & Wilson Properties leased 115,758 sf at 315 W New Road. Total year-to-date leasing is at 3.7 million square feet (msf), which is 43% more than the 2.6 msf leased at mid-year 2009.

Indianapolis overall absorption dropped in the second quarter, with 309,838 sf of negative absorption. The Northwest submarket contributed 304,330 sf of negative absorption, with companies such as Cantrell, Syncreon, and Fastenal vacating a combined total of 256,800 sf. Despite 58,747 sf of positive absorption, the South submarket experienced the largest vacancy of the second quarter with Amcor vacating 292,500 sf at 700 Commerce Parkway. Absorption was previously predicted to remain positive, with close to 1.4 million square feet (msf) of tenant occupancy slated for third quarter. However, Indianapolis is expecting an estimated 2.5 msf of bulk distribution space to be vacated yet this year, primarily in the Southwest submarket. Therefore, absorption will remain negative as large vacancies continue to hit the market.

Overall vacancy in the Indianapolis industrial market increased to 10.7% in the second quarter, a 20 basis point increase from first quarter. All but two submarkets either increased in vacancy or matched first quarter levels. The East submarket decreased its vacancy by 60 basis points to 10.6%, as healthy leasing activity and immediate occupancy played a major role in the drop. Conversely, the Northwest submarket increased its overall vacancy by 90 basis points to 11.5%, as multiple large and small tenants vacated space. Our overall vacancy this same time last year was at 10.0%. The relatively steady rate can be seen as favorable compared to other markets struggling to keep vacancies below 15.0%. Indianapolis should expect to see overall vacancy increase as it weathers the storm of large industrial users vacating space.

Two smaller build-to-suit projects were completed this past quarter. Expected 2010 completions include Zipp Speed Weaponry's 70,000-sf manufacturing facility in the third quarter. A notable project for the Indianapolis market is the first commitment to build in the once proposed I-70 West Commerce Park, located in the Southwest submarket. Johnson & Johnson has hired contractor Clayco to begin the ground work on a 1,049,980-sf build-to-suit facility in the park, due to open in mid-2011.

### BEAT ON THE STREET




"We are experiencing a new phenomenon in the modern bulk market – no new speculative construction and tenants vacating existing product. Historically, there were no negative offsets to absorption. Today our typical inventory of spec product has been replaced with newly vacated space in need of the next wave of users."  
Jeremy G. Woods CCIM, SIOR  
Executive Vice President  
Industrial Advisory Services


### ECONOMIC INDICATORS


National	2009	2010F	2011F
GDP Growth	-2.4%	3.1%	3.9%
CPI Growth	-0.3%	1.8%	2.1%
Regional			
Unemployment	8.4%	9.0%	9.2%
Employment Growth	-4.5%	-1.3%	1.0%

Source: Moody's | Economy.com

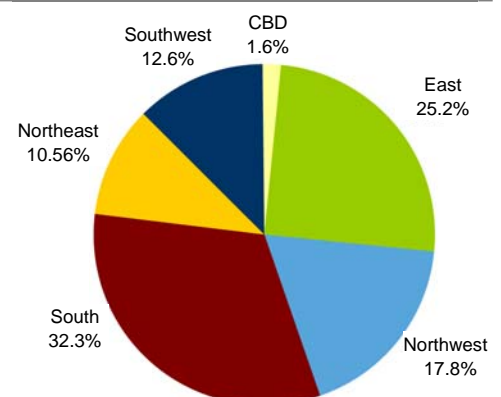
### MARKET FORECAST

**ABSORPTION** will drop in to the negative, as 2.5 msf is expected to vacate. 

**VACANCY RATE** will increase as leasing activity and occupancy cannot balance out the large vacancies. 

**LEASING ACTIVITY** will likely remain constant, as there are still many potential tenants in the market. 

### YTD Submarket Leasing Activity Submarket % OF TOTAL



### MARKET / SUBMARKET STATISTICS

MARKET / SUBMARKET	INVENTORY	NO. OF BLDGS	OVERALL	YTD	UNDER CONSTRUCTION	YTD	YTD	YTD	Direct Weighted Average Net Rental Rate *		
			VACANCY RATE	LEASING ACTIVITY**		CONSTRUCTION COMPLETIONS***	DIRECT ABSORPTION	OVERALL ABSORPTION	MF	W/D	FLEX
CBD	23,787,172	277	11.3%	61,078	0	0	(43,570)	(43,570)	\$1.47	\$2.27	\$3.46
East	34,571,267	298	10.6%	739,628	0	65,000	324,935	320,735	\$2.48	\$2.68	\$4.54
Northeast	17,619,940	269	9.8%	218,534	0	25,800	(190,829)	(204,618)	\$5.22	\$4.20	\$8.10
Northwest	47,133,101	404	11.5%	530,859	89,200	0	(547,165)	(465,040)	\$2.77	\$3.08	\$5.96
South	17,744,963	192	13.6%	761,634	60,577	64,115	208,295	208,295	\$2.09	\$2.99	\$7.50
Southwest	67,016,670	387	9.4%	1,403,613	1,049,980	0	249,319	249,319	\$2.36	\$3.13	\$3.82
<b>TOTAL</b>	<b>207,873,113</b>	<b>1,827</b>	<b>10.7%</b>	<b>3,715,346</b>	<b>1,199,757</b>	<b>154,915</b>	<b>985</b>	<b>65,121</b>	<b>\$2.11</b>	<b>\$3.02</b>	<b>\$5.92</b>

\*Rental rates reflect \$psf/year. \*\*YTD Leasing Activity includes only new leases, no lease renewals. \*\*\*YTD Construction Completions does not include expansions.  
 MF = Manufacturing W/D = Warehouse/Distribution FLEX = Combination Office & Warehouse/Manufacturing

### MARKET HIGHLIGHTS

#### SIGNIFICANT 2Q10 LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	PROPERTY TYPE
800 Commerce Parkway	South	Southern Wine & Spirits	211,500	Warehouse/Distribution
2801 North Morton Street	South	Carter Lumber	135,132	Warehouse/Distribution
315 West New Road	East	Welch & Wilson Properties	115,758	Warehouse/Distribution
2525 North Shadeland Avenue	East	Waste Alternatives of Indiana (WRRRC, LLC)	84,500	Warehouse/Distribution
5002-5032 West 79th Street, Building 62	Northwest	International Paper	65,600	Warehouse/Distribution
17435 Tiller Court	Northwest	CPS, Inc.	64,800	Warehouse/Distribution
851 South Columbia Road	Southwest	Maintenance Supply	50,000	Warehouse/Distribution
5621-5647 Dividend Road	Southwest	DMS	25,805	Warehouse/Distribution
8132-8148 Woodland Drive, Building 64	Northwest	Global Granite	25,600	Warehouse/Distribution
8530-8700 East 33rd Street	East	Trademark	22,500	Flex

#### SIGNIFICANT 2Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	PROPERTY TYPE
420 South Kitley Avenue	East	Virginia Kay's	35,185	Warehouse/Distribution

#### SIGNIFICANT 2Q10 CONSTRUCTION COMPLETIONS

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
2101 Musicland Drive	South	Premium Composite Tech. N. America BTS	64,155	5/10
9880 Douglas Floyd Parkway	Northeast	Therametrics Technology	25,800	4/10

#### SIGNIFICANT PROJECTS UNDER CONSTRUCTION

BUILDING	SUBMARKET	MAJOR TENANT	SQUARE FEET	COMPLETION DATE
SR 39 & I-70 W - 70 West Commerce Park	Southwest	Johnson & Johnson BTS	1,049,980	4/11
5315 Walt Place	Northwest	Zipp Speed Weaponry	70,000	7/10
Mays Chemical Company	South	Mays Chemical Company	60,577	10/10



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\*Market terms & definitions based on BOMA and NAIOP standards. This report contains information available to the public and has been relied upon by Cushman & Wakefield on the basis that it is accurate and complete. 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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