

# MARKETBEAT

## INDIANAPOLIS OFFICE REPORT

A CUSHMAN & WAKEFIELD ALLIANCE RESEARCH PUBLICATION



2Q10

### ECONOMY

Despite reported job growth, the unemployment rate is still gradually increasing. A fuller recovery of the Indianapolis office market isn't expected to take hold until real and sustained private-sector employment gains are seen, likely at the latter part of 2010 or early 2011.

### OVERVIEW

Climbing to 22.7%, the Indianapolis office market experienced a 0.5% increase in the overall vacancy rate second quarter 2010. The suburbs were a main contributor, as the rate swelled to 23.6%. The Meridian Corridor witnessed the highest jump, with its rate rising to 19.2%, up by 1.7%. The suburbs should experience a decrease in vacancy when AIT Laboratories expands into the 90,000-square foot (sf) Woodland Corporate Center IV early 2011, which the company purchased this quarter.

Overall vacancy for the CBD remained constant from the previous quarter and continues to rest at 20.7% in second quarter 2010. There has been a 4.7% increase from the recorded rate of 16.0% in second quarter 2009, which is the result of large users consolidating space during the financial crunch. CBD vacancy will continue to be impacted, specifically as it relates to Eli Lilly's plan to downsize its workforce at the Faris Office Campus and PNC's decision to release 82,500 sf of sublease space at 101-115 W Washington St in the PNC Center.

Leasing activity in the CBD slowed significantly with 35,083 sf leased in second quarter 2010. This is only 17.5% of the total 200,371 sf leased in first quarter 2010. The largest deal signed was a 5,637-square foot sublease deal completed by 3DT Holdings at Capitol Center North. As current activity stands, the CBD should see a few potential large deals be completed in the upcoming quarters. The suburbs witnessed 157,109 sf of leasing in the second quarter. For a consecutive quarter, the Keystone Crossing submarket remains the strongest in leasing with 57,213 sf leased. The Meridian Corridor and Keystone Crossing submarkets accounted for 70% of all suburban leasing. Watch for leasing to increase in the Life Sciences sector as Indianapolis continues to attract new and promote expansion of these companies.

Overall absorption for second quarter for the office market was a negative 403,456 sf. The suburbs accounted for 90% (365,474 sf) of the negative absorption. This in part is due to Conesco vacating 103,607 sf at 11799 N College Ave in the Meridian Corridor submarket. The other contributing submarket is Keystone Crossing, where Dauby O'Conner & Zaleski vacated 30,000 sf at 9025 N River Rd to occupy a building it purchased at year-end 2009. Although these vacancies will produce a negative impact on Indianapolis statistics, it increases the city's opportunities to land large office users looking to relocate headquarters to a cost-efficient location.

### BEAT ON THE STREET



"While the office market has remained steady this year, Landlords and Sellers continue to offer aggressive incentive packages and creative deal structures to gain a competitive edge. These unique approaches developed during an economic downturn will benefit all parties in the long run."

Tim Norton, SIOR  
Executive Vice President  
Office & Site Acquisition 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

**OVERALL VACANCY** will increase as Eli Lilly vacates 2 buildings (350,000 sf) at the Faris Office Campus downtown.



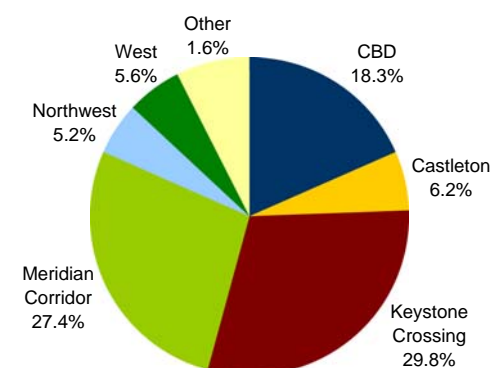
**LEASING ACTIVITY** will start trending upward as tenants initiate final real estate decisions.



**OVERALL ABSORPTION** is expected to remain negative due to significant space vacated in the CBD.



### YTD Submarket Leasing Activity Submarket % OF TOTAL



### MARKET / SUBMARKET STATISTICS

MARKET/ SUBMARKET	INVENTORY	NO. OF BLDGS	OVERALL VACANCY RATE	DIRECT VACANCY RATE	YTD LEASING ACTIVITY	UNDER CONSTRUCTION	YTD CONSTRUCTION COMPLETIONS	YTD DIRECT ABSORPTION	YTD OVERALL ABSORPTION	DIRECT WTD. AVG. CLASS A GROSS RENTAL RATE*
Airport	752,891	17	20.3%	20.3%	0	0	0	(17,501)	(17,501)	\$16.25
Carmel	785,215	22	29.7%	29.7%	2,694	0	0	16,108	16,108	\$18.40
Castleton	2,273,116	49	34.2%	33.4%	44,218	0	0	(50,934)	(55,420)	\$19.49
East	634,483	19	27.9%	27.9%	45,746	0	0	40,969	40,969	\$17.74
I-69 / Shadeland	2,460,390	57	26.9%	19.2%	14,387	0	0	(21,642)	(45,141)	\$20.56
Keystone Crossing	4,117,262	60	24.6%	22.5%	124,937	0	0	(41,408)	(88,832)	\$20.20
Meridian Corridor	5,975,126	74	19.2%	18.8%	76,927	0	0	(119,835)	(122,155)	\$19.21
Midtown	1,328,989	31	8.1%	7.2%	0	0	0	(8,000)	(20,457)	N/A
Northwest	3,992,329	65	22.6%	19.6%	54,980	0	0	(63,619)	(68,257)	\$17.70
South	1,368,971	38	20.1%	19.9%	1,714	0	0	(19,371)	(21,771)	\$21.29
West	992,625	22	38.4%	35.9%	15,741	0	0	(7,294)	(25,722)	\$17.05
Non-CBD	24,681,397	454	23.6%	21.7%	381,344	0	0	(292,527)	(408,179)	\$19.30
CBD	10,764,040	76	20.7%	20.2%	235,454	0	0	(174,773)	(171,408)	\$20.25
<b>INDIANAPOLIS TOTAL</b>	<b>35,445,437</b>	<b>530</b>	<b>22.7%</b>	<b>21.2%</b>	<b>616,798</b>	<b>0</b>	<b>0</b>	<b>(467,300)</b>	<b>(579,587)</b>	<b>\$19.61</b>

\* Rental rates reflect \$psf/year

### MARKET HIGHLIGHTS

#### SIGNIFICANT 2Q10 NEW LEASE TRANSACTIONS

BUILDING	SUBMARKET	TENANT	SQUARE FEET	BLDG CLASS
9025 North River Road	Keystone Crossing	Strayer University	16,024	A
9200 Keystone Crossing	Keystone Crossing	N/A	14,646	A
250 East 96th Street	Meridian Corridor	American Surety	10,737	A
9229 North Delegates Row	Keystone Crossing	Hanover	9,646	A
9100 Keystone Crossing	Keystone Crossing	Cyrca	9,175	A
14390 Clay Terrace Boulevard	Meridian Corridor	Amica Insurance	9,000	A
3500 DePauw Boulevard	Northwest	The Art Institute of Indianapolis, LLC	8,245	A
2629 Waterfront Parkway	West	Hanson Engineers	6,852	B
11495 Pennsylvania Avenue	Meridian Corridor	BitWise Solutions, Inc.	6,794	B
251 North Illinois Street	CBD	3DT Holdings	5,637	A

#### SIGNIFICANT 1Q10 SALE TRANSACTIONS

BUILDING	SUBMARKET	BUYER	SQUARE FEET	BLDG CLASS
7820 Innovation Drive	Northwest	AIT Laboratories	90,000	A
600 East Carmel Drive	Carmel	Yeager of Carmel, LLC	40,458	A

#### SIGNIFICANT 1Q10 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
N/A				



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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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