Meridian MarketWatch

MIDYEAR 2004

INDUSTRIAL MARKET REPORT

A QUARTERLY REVIEW OF INDUSTRIAL MARKET ACTIVITY

Indianapolis, Indiana

Seven quarters and counting (one could argue eight!) As we close out midyear 2004, the Indianapolis industrial real estate market continues to produce positive trends for yet another quarter. The last few quarters were dominated by accelerated velocity in the Northwest and Southwest submarkets, and while they continue to charge ahead with positive absorption and new developments, the Northeast and Southeast submarkets are now clearly in the hunt to prove the nation's economic recovery is still on track.

What are the trends in the Northeast and Southeast submarkets? In the Northeast, Crosspoint Business Park has eclipsed 98% occupancy, with deals including Micro-Link's lease of 8,800 square feet. Across I-69, North by Northeast realized positive net absorption with Shorr Packaging, which grew their Indianapolis distribution center by nearly 33% to 58,000 square feet. The latest land sales in Saxony Park at Exit 10 to Community Hospital and Indiana Wesleyan University will spur development of additional headquarters and regional medical / service centers along the I-69 corridor. Heading southeast to the Shadeland Avenue corridor, First Highland signed a major lease with Pratt Corporation at the former Maytag facility. First Industrial continues its success in Indianapolis by leasing up Shadeland Manufacturing and Distribution Centre, currently at 93% occupancy. The most compelling story is in Mt. Comfort, as Precedent Real Estate Services' existing portfolio is now 100% occupied, having

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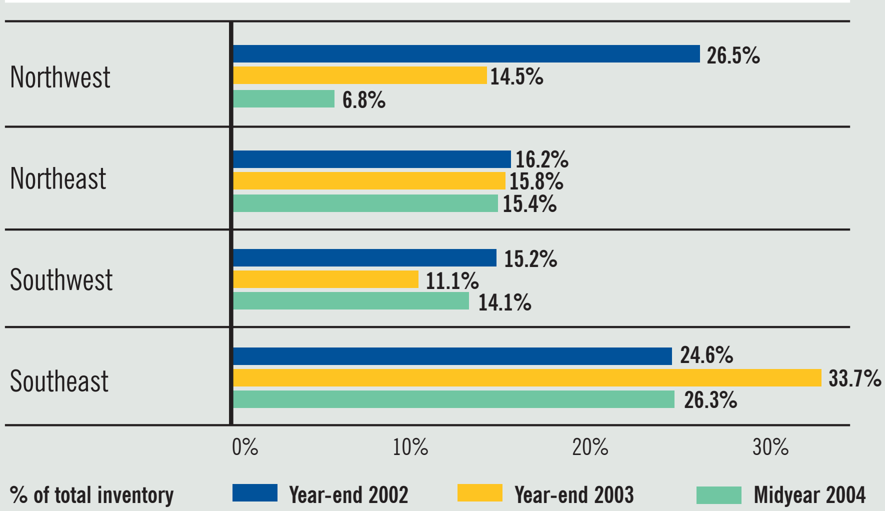
INDIANAPOLIS INDUSTRIAL VACANCY



HOT TOPICS
INDIANAPOLIS - INDUSTRIAL

- Advantis Medical signed a lease for 40,800 sq. ft. with Browning Investments in Building 200 at South Tech Business Park. The building is now 50% occupied.
- Pratt Corporation completes lease for 220,000 sq. ft. with Boston-based First Highland Corporation at the former Maytag plant, 3035 N. Shadeland Avenue. The building will undergo an extensive renovation in order to house the graphic & printing company's headquarters.
- The Indianapolis Airport Authority announces a lease with AAR Aircraft Services, Inc. for 250,000 sq. ft. of the 1.1 million sq. ft. former United Airlines maintenance hub. AAR reports that it intends to initially hire approximately 200 employees to staff its operation.
- Office/flex properties (Type I) continue to maintain a high vacancy level, reflecting their connection to a soft demand in the office market.
- Occupancy in Type II (warehouse/ distribution space) in Park 100 climbs to almost 95%.

MERIDIAN® Real Estate

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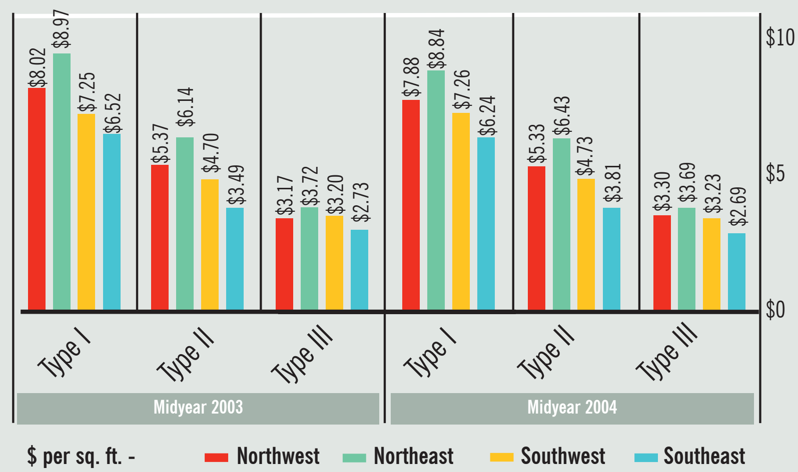
leased 184,000 square feet of distribution space to Formica Corporation and sold one of their Type II facilities. Precedent is now constructing 315,000 square feet of space for additional distribution clients. Lauth Property Group's acquisition of more than 100 acres in Greenwood for future development adds to the fact that the Northeast and Southeast submarkets are back as well.

What's been happening in the Northwest and Southwest side of town? A great deal! Available space for users from 50,000 square feet to 100,000 square feet is now in limited supply. Vacancy in these developments hovers at 9.3%, down from 11.09% at year-end. Even the smaller, Type II product is moving at a steady pace. ProLogis is now at over 98% occupancy for the first time at Airport Business Center. New trends in the market are probably most evident in Type II, with the development of Sierra Gateway Park by Sierra Crest Equities. Located at the new entryway to Plainfield (formerly Six Points Road, now Ronald Reagan Parkway) and the airport's future Midfield Terminal, Sierra Gateway offers the first product type of its kind in this submarket for 7,000 square foot to 100,000 square foot users of flex and office / warehouse space.

INDIANAPOLIS INDUSTRIAL ASKING RENTS



What's missing? In short, big-box deals. The market has eight first-generation facilities of at least 300,000 square feet either recently completed or slated for completion in the next 90 days, yet the largest new lease (non-build-to-suit) in the area since October 2003 was 184,000 square feet leased to Formica Corporation.* However, history indicates this marketplace has all the fundamentals and when the regional and national DC requirements return to the Midwest, Indianapolis will get its fair share.

The market's positive momentum should continue for the balance of 2004. The upcoming presidential election coupled with the Federal Reserve's eminent increase of short-term interest rates will firm up the marketplace even more, placing tenants' emphasis more on quality of space and speed of securing it, rather than the emphasis of the past three to four years on the search for the lowest cost alternative. Investors and developers should experience increased values in their projects as a result.

*Based on the *Indianapolis Business Journal*'s list of Major Leases and Sales, July 5, 2004.

INDIANAPOLIS INDUSTRIAL SUMMARIES - MIDYEAR 2004

	Total Inventory	No. of Buildings	Vacancy Rate	Available Space	New Deliveries	Absorption
Northwest	21,437,333 sq. ft.	158	6.81 %	1,459,169 sq. ft.	90,000 sq. ft.	1,750,680 sq. ft.
Northeast	5,367,202 sq. ft.	90	15.41 %	826,921 sq. ft.	36,294 sq. ft.	(16,883) sq. ft.
Southwest	18,542,528 sq. ft.	79	14.05 %	2,604,602 sq. ft.	1,506,879 sq. ft.	751,846 sq. ft.
Southeast	11,541,905 sq. ft.	84	26.34 %	3,039,900 sq. ft.	442,737 sq. ft.	1,159,715 sq. ft.
Whole Market	56,888,968 sq. ft.	411	13.94 %	7,930,592 sq. ft.	2,075,910 sq. ft.	3,645,358 sq. ft.

SURVEY PARAMETERS

Property surveyed is 10,000 square feet and above, Class A & B, not owner occupied.

Type I: Service Center / Office Warehouse - demised between 1,800 and 20,000 square feet; clear height less than 18 feet; 50% to 80% tenant finish.

Type II: Medium Distribution / Manufacturing - demised between 7,500 and 50,000 square feet; clear height less than 24 feet; 15% to 50% tenant finish.

Type III: Bulk Distribution - demised from 50,000 square feet and up; clear height is 24 feet and higher; finish is less than 15% (typically 5%).

Submarket Reports

Statistics on all submarkets are located in the table at the bottom of page 2.

Northwest

Pizzuti leases 497,860 sq. ft. to Stonepath Logistics in Whitestown.

The Northwest submarket experienced strong recovery in the first half of 2004. With the strengthening economy and landlords continuing to entice tenants with low rates and rent abatement, this submarket is enjoying the lowest vacancy it has seen in over five years - 6.81%. Some deals that have helped lower this vacancy have been relatively short-term leases, so some of the space leased recently could come back on the market rather quickly.

Pizzuti Companies' 497,860 square feet speculative distribution facility in Whitestown, which had been completed but vacant for over 18 months, leased to Stonepath Logistics. Duke Realty Corporation continues to thrive in this submarket, pre-leasing 300,000 square feet to Aurora Parts in Lebanon and successfully completing several transactions in Park 100, including 115,200 square feet leased to Ryder Logistics, 90,400 square feet renewed to Prime Source Food Services, and McGraw Hill leasing 66,000 square feet. Prologis leased 64,000 square feet to Butler McDonald and 86,000 square feet to Gander Mountain. MEPT completed two notable transactions in North by Northwest; 70,400 square feet leased to Exel Logistics and 41,000 square feet leased to the Kent H. Landsberg Company. Duke has presented a plan to county officials for an 1,800 acre mixed-use development park in southeastern Boone County, and may begin purchasing land for the development's first phases within the next few months.

The Type II deals completed in the Northwest submarket included Red Bull Cheever Racing subleasing 28,800 square feet from IKON Office Solutions and Supreme, LTD leasing 8,400 square feet from Duke Realty Corporation. Browning Investments completed the largest flex transaction, with Suros Surgical leasing 26,043 square feet in Browning's Northwest Technology Center. Another notable flex deal completed in the first half of 2004 was CalPERS leasing 14,100 square feet to Video Images. Many other landlords, including Duke Realty Corporation, see flex product as the biggest challenge for the remainder of 2004.

Northeast

First Industrial purchased and renovated Fairfield Business Park.

The Northeast submarket has remained relatively stable through midyear 2004. While there were very few notable lease transactions, overall vacancy still managed to decrease to 15.41% (down 30 basis points from year-end 2003.)

Type I product suffered slightly during the first two quarters of 2004. Due to low interest rates, some tenants (Mike's Carwash, for instance) have elected to vacate their multi-tenant leased space and purchase or construct their own facilities. However, landlords have largely been successful in retaining tenants in a relatively soft market. Both Micro-Link Technologies (8,180 square feet) and Frakes Engineering (22,700 square feet) signed renewal leases earlier this year. Improvement within this market segment will rely on filling large vacancies at Exit 5, Hillsdale and Castle Point. Availabilities in these parks alone represent over 200,000 square feet of office / warehouse vacancy. Type II vacancy improved to a historical low of 3.90%, due in large part to the lease activity at the new Uptown Village and Hillsdale. Type III product remained steady but is expected to improve during the second half of the year. In particular, Shorr Packaging announced their expansion into 57,000 square feet at North by Northeast.

Investment activity in 2004 has been limited to First Industrial's acquisition of Fairfield Business Park and Park Plaza. As part of a redevelopment effort, First Industrial hopes to stimulate leasing activity in these parks which should also help improve the overall health of the Type I product.

The outlook in the Northeast submarket for the balance of the year is favorable. Leasing activity is high and, as interest rates rise, smaller tenants will focus on leasing institutional quality facilities versus investing in non-core assets such as real estate.

Southwest

Opus completes construction and sale of a ±740,000 sq. ft. facility for Brylane. First Industrial purchased the investment.

Southwest Indianapolis showed much activity within the middle market sector as smaller companies sought out the deals and incentives only offered to bulk users in past quarters. Many of the deals, ranging from 20,000 to 40,000 square feet, were completed with reduced, long-term rates, aggressive rent abatement and flexible lease terms. As many business owners have acknowledged, this is quite a different market than just a few years ago.

Among all landlords that hold middle market product in the Southwest submarket, key vacancies have certainly haunted Duke Realty Corporation over the past year. Regardless of how slowly economic recovery seems to trickle into Indianapolis, momentum still seems to be shifting toward a bright year-end.

Absorption in bulk inventory, specifically within Plainfield, is catching up with supply. Inventory levels have started to build in anticipation of recovery, and warehouse space is now being snatched up as quickly as it was built in years past. A couple of key vacancies still exist, however, as Airwest III in Plainfield and Eagle IV in Brownsburg remain empty.

First Industrial has entered the investment arena in Plainfield with the acquisition of the new ±740,000 square foot Brylane building. The acquisition marks First Industrial's strategy of focusing on the popular bulk market to diversify from their east-side holdings.

Overall, market activity is promising, even throughout the summer months. We expect first quarter momentum to pick up again in the third and fourth quarters of this year. Rates will begin to shift upward as demand catches up with supply. The year-end turn will surely drive speculative construction and push the first half of 2005 into full gear.

Southeast

Formica leased 184,000 sq. ft. at Mt. Comfort Commercial Park.

The Southeast submarket has seen an increase in leasing activity through midyear 2004, indicated by the more than 1.1 million square feet of absorption for the year thus far. Landlords have gotten very creative in structuring deals in an effort to fill vacancies, and their aggressiveness has paid off with several key vacancies being leased.

In the bulk market, Formica Corporation leased 184,000 square feet at Precedent Companies' Mt. Comfort Commercial Park, which filled the balance of the building. Precedent is currently constructing an additional 315,000 square feet on the building which will hit the market later this year. In Greenwood, Quadrangle completed construction of a 447,000 square foot bulk building and has leased 156,000 square feet to Amcor PET Packaging USA.

In the Type II market, Browning Investments has been busy leasing space at their South Tech park to tenants such as Sterilization Cassettes and National Cabinet Outlet. Precedent has leased a portion of their Mt. Comfort Type II product to Blue Arc Engineering.

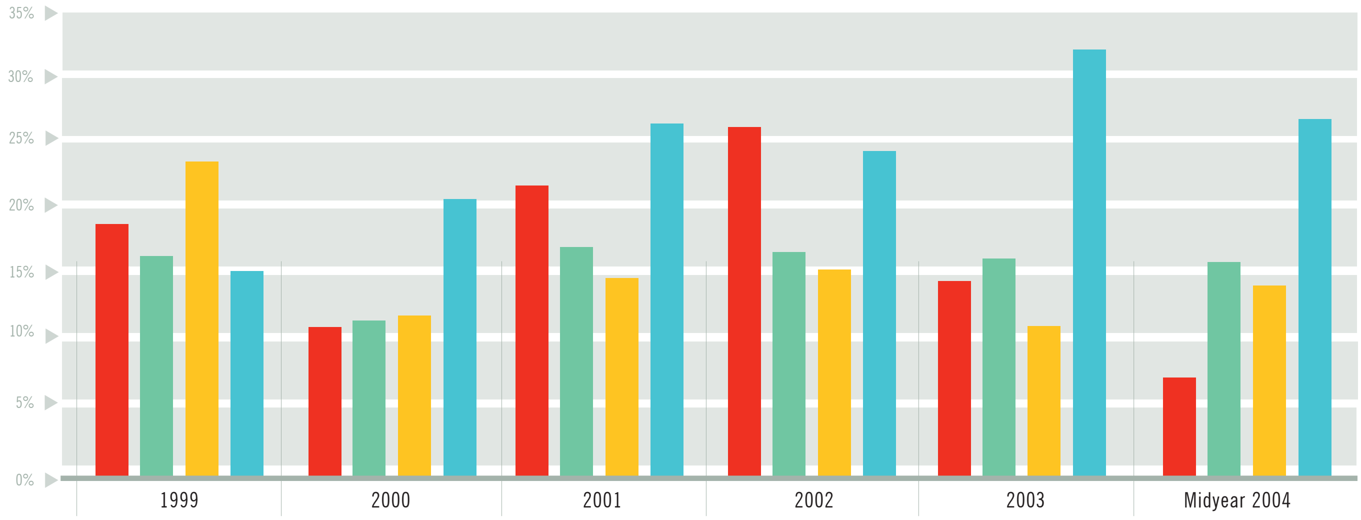
Type I product has been very active in the last six months as well. Vacancy rates have dropped from 30% to 23% in the last 90 days. First Industrial has seen multiple deals at Jackson Industrial Park, Brookville Business Park and Lincoln Business Park. Many of the leases are new companies setting up locations in Indianapolis or existing companies that are expanding.

The Southeast submarket has historically seen a higher vacancy rate compared to the rest of the industrial market; however, the leasing activity seen thus far in 2004 indicates that the submarket is on the rebound and all indications point to the activity continuing into next year.

VACANCY RATES

% Vacant

Northwest | Northeast | Southwest | Southeast

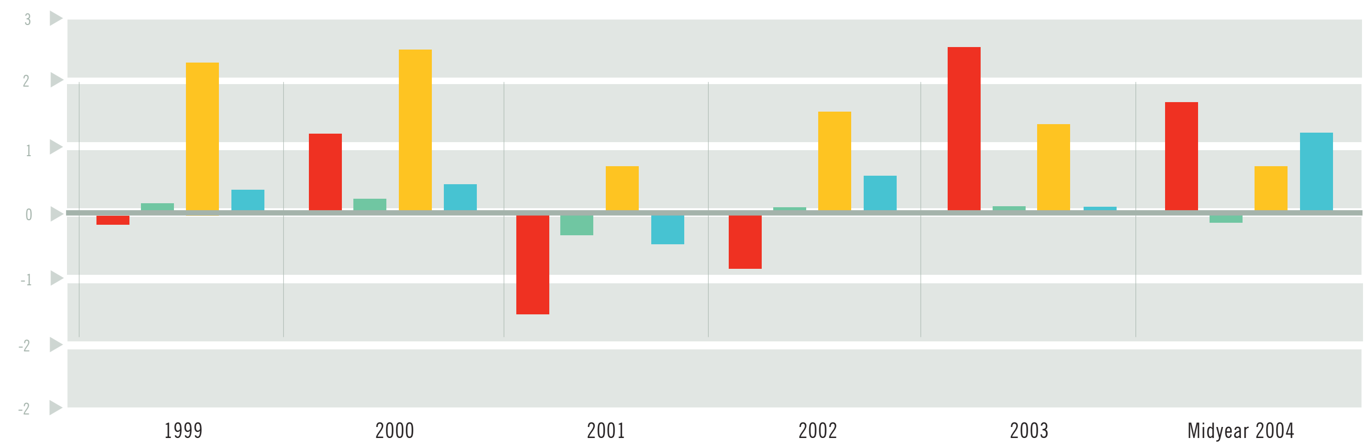


NET ABSORPTION

(million sq. ft.)

Sq. Ft.

Northwest | Northeast | Southwest | Southeast

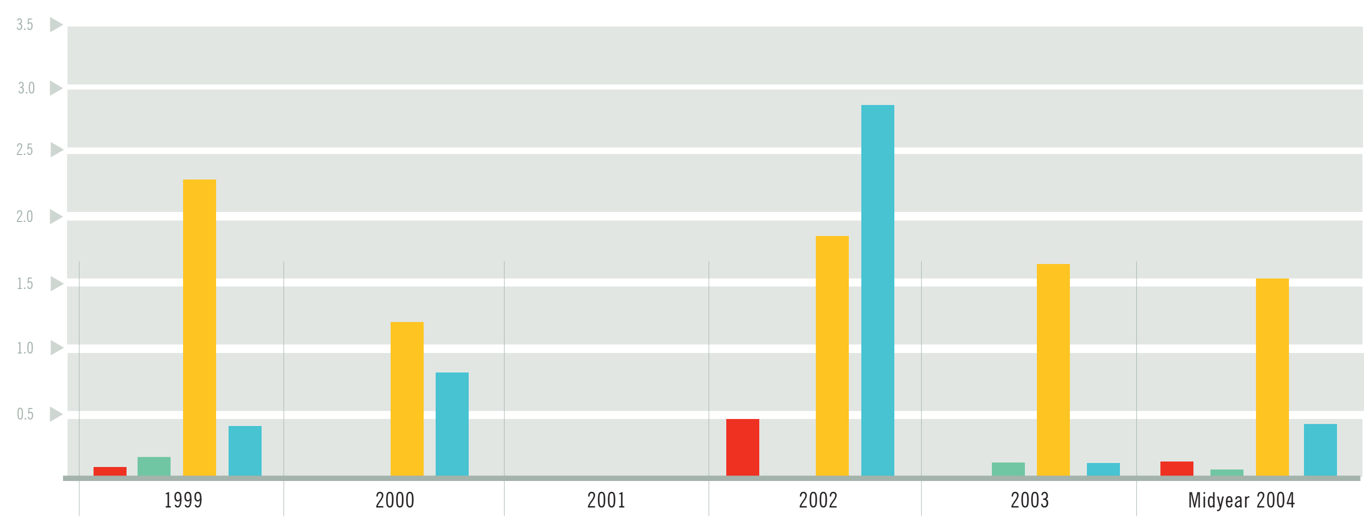


NEW CONSTRUCTION

(million sq. ft.)

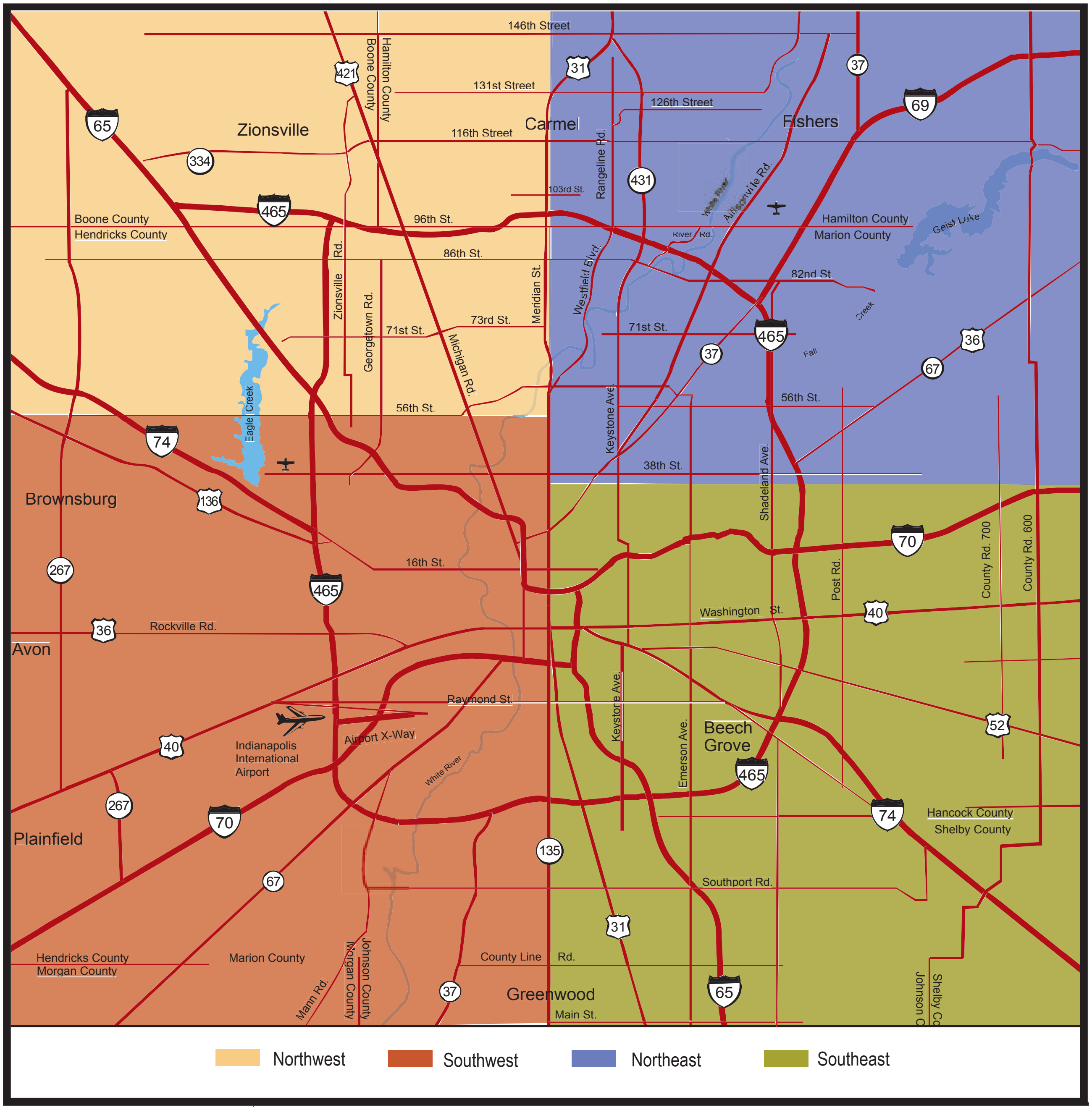
Sq. Ft.

Northwest | Northeast | Southwest | Southeast



Submarket Map

INDIANAPOLIS - INDUSTRIAL



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