

Meridian

MarketWatch

MIDYEAR
2004

OFFICE
MARKET REPORT

A QUARTERLY REVIEW OF OFFICE MARKET ACTIVITY

Indianapolis, Indiana

The Indianapolis office market is finally showing some semblance of a recovery, both downtown and in the suburbs. The '80s haven't quite returned, but activity has picked up some -- primarily by smaller (under 10,000 square foot) to medium-sized (10,000 - 30,000 square foot) tenants.

Activity above 30,000 square feet is still well below that of previous years. The upper end of the market (50,000 - 100,000 square feet plus) is almost non-existent and has been that way for the past 12 months. We expect activity on the upper end of the market to pick up within the next 12 to 18 months, but to

remain below the average of the past 10 years.

Simon Property Group recently announced a new \pm 250,000 square foot, 12 to 14 story headquarters office project downtown on Capital Commons. Simon will relocate from National City Center, adding over 188,000 square feet to the downtown Class "A" office vacancies in 2007 when they relocate. Simon will receive \pm \$23 million in city and state incentives for this project, which is to be built by Duke Realty Corporation but owned by Simon.

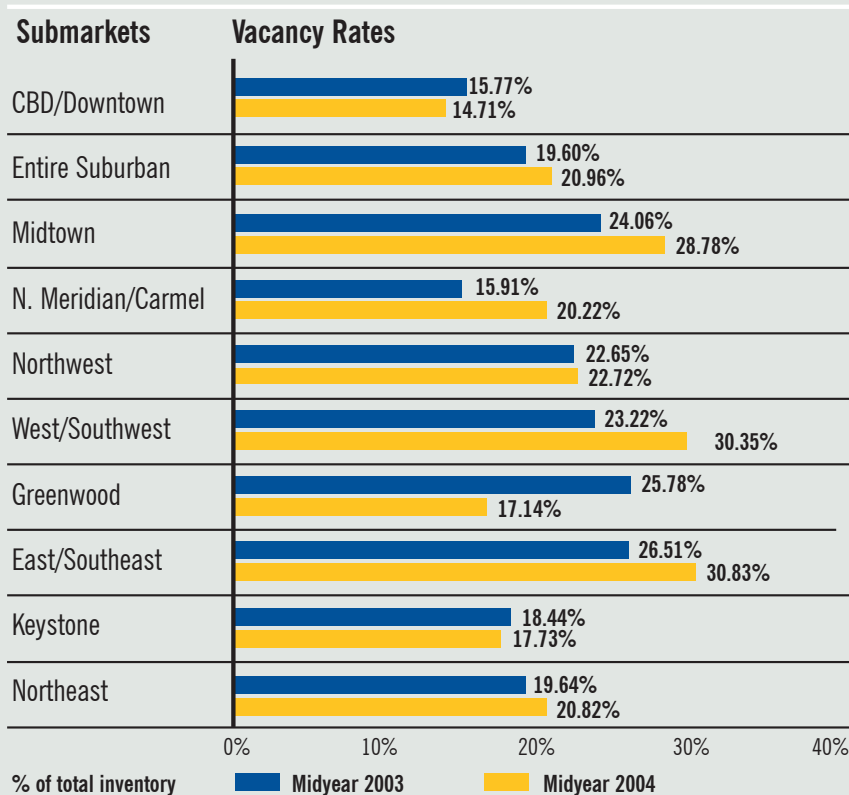
Other new downtown developments include Kite Companies' joint venture
continued on page 2

HOT TOPICS

INDIANAPOLIS - OFFICE

- Suburban sublease space availability is down to 550,000 sq. ft., compared to over 1,300,000 sq. ft. just 12 to 18 months ago.
- Simon Property Group will be staying downtown in a new \pm 250,000 sq. ft. headquarters building, to be built by Duke Realty Corporation and owned by Simon.
- Dick's Sporting Goods is purchasing Galyans. Galyans will leave behind a recently completed 100,000 sq. ft. headquarters office building in Plainfield.
- Lauth Property Group purchased Meridian Corporate Plaza, a 60,000 sq. ft. building on 19 acres. Lauth will move its headquarters into the existing building and offer the additional land for build-to-suits.
- Overall activity is up among smaller tenants, so 2004 should therefore end with positive absorption.
- Increased residential demand and office conversions to condominiums continue downtown.
- Downtown has the lowest vacancy rate of all submarkets.

INDIANAPOLIS OFFICE VACANCY RATES



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with Mansur Development to build a Conrad Hilton Hotel and upscale residential condominiums at Washington and Illinois Streets.

Potential downtown property sales include Anthem's 213,000 square foot headquarters building on the market for sale to a potential net leased investor. Two Market Square, a 206,000 square foot Class "A" building, is also currently on the market.

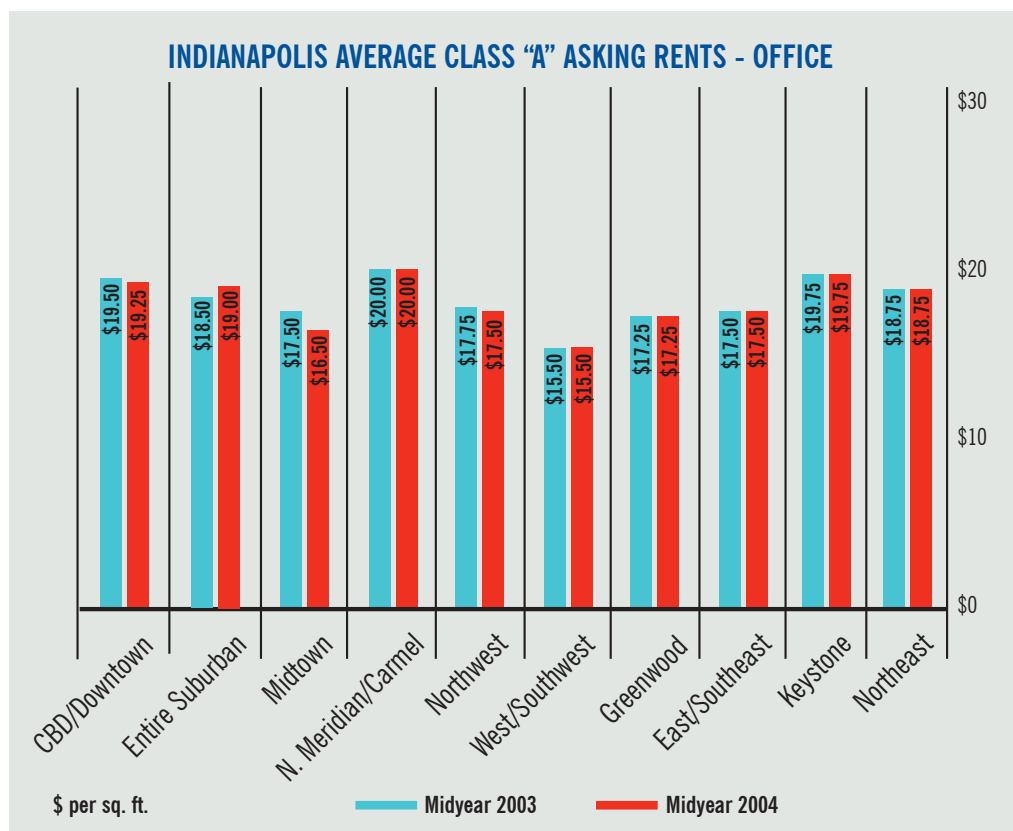
In the suburbs, Kite Companies announced they will build two 95,000 square foot medical office buildings, one of which will be anchored by Midwest Eye Institute, on land formerly controlled by OPUS at 126th and Meridian Streets. Opus has retained rights to develop another office building on the remaining land.

Lauth is developing Clay Terrace at 146th Street and U.S. 31 in Carmel, which is a 450,000 square foot upscale "lifestyle" retail center with 75,000 square feet of office space. The property is scheduled to be completed in October 2004. Full-service asking rental rates for the offices at Clay Terrace are \$19.75 per square foot, which includes a \$22.00 per square foot build-out allowance. Almost all of the available office space is on the second floor above retail space.

Firestone is contemplating a consolidation into 100,000 square feet at Duke Realty's Two Parkwood Crossing. Firestone is scheduled to vacate facilities at Hamilton Crossing (33,000 square feet) and Meridian Technology Center (30,000 square feet) in November of this year.

Other major suburban office deals completed this quarter include CallTech Communications leasing over 50,000 square feet of space in the call center formerly occupied by Charles Schwab in Fishers.

Some institutional investors may reevaluate their positions in the Indianapolis office market in favor of other office markets where they see quicker recovery. This will create opportunities for savvy local buyers who have a strong leasing and/or property management capability to potentially acquire build-



ings as these institutions reallocate their portfolio dollars elsewhere.

ING, along with Zeller Realty, has elected to sell Castleton Commercial Park, which includes 36 buildings totaling 1.1 million square feet. This is after the attempted piecemeal sales of individual office properties over the past year. The theory behind piecemeal sales was that a space user will pay more for an empty building than an investor. However, with rising interest rates and an increased occupancy percentage, the owners have decided to put this entire asset on the market.

Heritage Park II (84,000 square feet) in the Northeast submarket is rumored to be under contract to an out-of-town buyer. Inland Paperboard is still trying to sell their former 121,000 square foot northwest-side headquarters facility for \$7.2 million.

By effectively shutting off major new office developments for the past two years, the Indianapolis office market is slowly moving toward recovery despite anemic tenant demand on the upper end of the market. Smaller tenants are slowly filling up the existing product. It does not appear that any major developer is anxious to build a large new suburban office building without an anchor tenant.

Submarket Reports

Statistics on all submarkets are located in the table at the top of page 6.

Keystone Crossing



3520 Commerce Crossing was vacated in anticipation of a build-to-suit for Simon.

Market activity again increased in the Keystone Crossing submarket during the second quarter of 2004. However, the vacancy rate climbed from 16.3% to 17.7% from the first to second quarter due to several large relocations and downsizings. The increase in activity can be attributed mostly to small-to-medium sized users, as well as the slow but steady rebound in the local economy. Another factor in favor of this submarket continues to be the many amenities for office users. Notable additions to the amenity-rich submarket in the second quarter include the opening of Camille's on 96th Street near The Precedent and the announcement of a newly relocated TGI Fridays' restaurant for the old Cattle Company site near the Fashion Mall.

Although we anticipate a steady, slow decline in the submarket's vacancy rate and available sublease space over the next 12 months, we continue to see downward pressure on rental rates and/or beneficial terms for credit-worthy tenants. The major landlords in this submarket have gotten more aggressive on rental rates, concessions, and/or "value-added services". No new speculative construction is in progress or planned for this submarket.

Significant lease transactions in this submarket included:

- Hoosier Enterprises leasing 14,698 square feet at 9455 Delegates Row.
- Gene B. Glick Company leasing 14,512 square feet at 8425 Woodfield Crossing.
- BSA LifeStructures expanding by 11,804 square feet at 9365 Counselors Row.
- Bradford-Scott expanding by 11,742 square feet at 9449 Priority Way West Drive.
- Simon Property Group opted out of Keystone at the last minute, leaving the building and the site Duke Realty Corporation vacated at 3520 Commerce Crossing available. The building is likely to be torn down and the site offered for build-to-suit.
- PK Partners has two build-to-suit sites left at River Crossing; 35,000 square feet on I-465 and 180,000 square feet on the lake.

While the Northwest submarket continues to suffer from corporate relocations such as the vacancy of the Inland Container building (121,000 square feet) and Made2Manage Systems' space at the Quads (40,000 square feet) there are some positive signs emerging. Overall suburban sublease space is down to 550,000 square feet. This is an extremely positive factor, as the Northwest submarket has historically contained the lion's share of available sublease space. The lowering of overall available sublease space allows landlords to compete for tenants on a more level playing field. However, landlords are lowering rates to focus on filling vacancy and creating cash flow.

There also continues to be an increased interest in office/flex space, a type of product that combines office space with the flexibility of warehouse storage at a lower lease rate than traditional office space. Browning's Northwest Technology Center has been one of the Northwest submarket's bright spots. With Suros Surgical's lease of Tech Three, a 26,000 square foot flex building, Browning has announced that they will begin development of three new speculative flex buildings totaling approximately 104,000 square feet. Additionally, Browning has announced that they will be relocating their offices from downtown to Northwest Technology Center.

Northwest



Suros Surgical leased 26,000 sq. ft. from Browning Investments at Northwest Technology Center.

CBD / Downtown



**Woodard, Emhardt, Naughton,
Moriarty & McNett renewed in
55,597 sq. ft. at Bank One Tower.**

The most exciting story in 2004 has been the multitude of residential developments in the Central Business District. The hottest condominium development continues to be the Residences at Market Square located on the old Market Square Arena site. With residential demand in the Central Business District accelerating, the developers announced that the twin towers will be 29 stories as opposed to the original plan of 22. The additional floors will add approximately 17 units. Other news involving downtown residential includes the ground breaking of the new five-star Conrad Hotel at the corner of Washington and Illinois and several older buildings, such as the Jillian's Building at 141 S. Meridian Street, being redeveloped into condos. The demand for residence downtown should give the Central Business District office market a lift in the coming years.

The multi-tenant office market in the Central Business District continues to show large vacancies across the board. This "tenant's market" has put pressure on landlords to make increasingly aggressive deals. Simon Property Group announced their intentions to move out of National City Center in 2007. This move will create 188,000 square feet of vacancy at National City Center, which has historically been near capacity. Few notable transactions in the Central Business District have occurred in this decelerating market; however, Woodard, Emhardt, Naughton, Moriarty & McNett recently agreed to a long-term renewal at the Bank One Tower.

Clarian Health Partners announced that Lauth Property Group has been chosen to develop the 400,000 square foot life sciences development at 10th Street and Senate Avenue. Construction of the new development, which is expected to add momentum to the already booming BioCrossroads (Central Indiana's life sciences initiative) is set for 2005.

Finally, the investment sale market continues to show momentum. Market Tower, one of Indianapolis' tallest buildings, is rumored to be in the final stages of a sale while the Anthem Building on the circle is also rumored to be placed on the market in the coming months.

The Northeast submarket, which essentially ranges from 71st to 126th Street between Allisonville and Cumberland Road, showed a negative 31,413 square feet of absorption during the second quarter of 2004. This submarket's trend since 2002 has been very flat. The vacancy rate for the submarket remains high at 20.82% with 874,000 square feet of vacancy in the nearly 4 million square foot submarket.

Significant developments in the Northeast submarket during these two quarters include:

- Med Tech College entered the submarket and leased 18,000 square feet in Heritage Park.
- Acordia leased approximately 9,000 square feet at 7400 Shadeland Avenue.
- Roche Diagnostics backfilled the 144,750 square foot building at 10300 Kincaid Drive previously occupied by Bank One.
- Disetronic Medical Systems leased 37,792 square feet in Exit Five One, 11800 Exit Five Parkway, Fishers.

The Northeast submarket continues to be dominated by the activity of smaller tenants looking for neighborhood style, at-your-door parking and office buildings for lease or purchase. The major office parks such as Heritage Park, Castle Creek, Allison Pointe, and Shadeland Station showed very little change in their availability. Rates continue to spiral downward, with Castleton Park now advertising at \$14.95 in the Class "B" buildings and \$15.95 in Class "A" Buildings 15 and 40.

Northeast



**Roche Diagnostics subleased
144,750 sq. ft. from Bank One.**

In general, activity is up in the North Meridian corridor with the majority of tenants actively seeking space in the 5,000 to 12,000 square foot range. The second quarter ended with a vacancy rate of 20.22% compared to 19.03% just six months ago at year-end 2003. Absorption was positive at 24,131 square feet. We are still predicting over 100,000 square feet of positive absorption in this submarket by year-end 2004. Rental rates remain flat and concessions are still favoring the tenant due to some of the remaining larger vacancies in the corridor.

Several notable transactions occurred during the second quarter:

- Firestone is anticipated to lease approximately 100,000 square feet in Two Parkwood Crossing from Duke Realty Corporation. However, they will vacate two \pm 30,000 square foot buildings, also within the North Meridian corridor, for a positive net absorption of 40,000 square feet.
- Meridian Tower has leased approximately 50,000 square feet since the beginning of the year and proposals are out on over 75,000 square feet for additional prospects.
- Four Parkwood Crossing filled the majority of its vacancy by signing First DataBank in 28,000 square feet and Monster.com in 23,000 square feet.
- Due to their continued growth, Lauth Property Group purchased Meridian Corporate Plaza, an existing 60,000 square foot building which sits on 19 acres. Lauth will move its corporate headquarters from its current location to the existing Meridian Corporate Plaza office building. Lauth's free-standing corporate headquarters building at 9777 N. College of 25,200 square feet is currently available for sale or lease.
- Thomson Consumer Electronics initially indicated they would make available 75,000 square feet for sublease but has since whittled that down, now only offering 11,000 square feet for sublease.

The North Meridian corridor is finally starting to see a spike in the demand for medical/office space. The majority of this demand is in large build-to-suits for practice groups and surgery centers. Visible and accessible land sites in the North Meridian corridor are still readily available, with sites such as Conseco's 8.8 acres at 119th & Meridian Streets and St. Christopher's church site of 16 acres at 129th & Meridian Streets currently on the market.

Investment activity was minimal during the second quarter. Three Penn Mark Plaza was offered as a sealed bid auction, but did not sell due to lack of interest from prospective buyers. The only other activity was the aforementioned purchase of Meridian Corporate Plaza office building and the purchase of 19 acres by Lauth Property Group. Several buildings are available for sale in the corridor, including 105,000 square foot 550 Congressional Boulevard being offered by Conseco and Lauth Property Group's headquarters at 9777 N. College Avenue which went out for sealed bid with bids due back August 13, 2004.

N. Meridian/Carmel



Lauth's 25,200 sq. ft. headquarters building is out for sealed bid sale or lease.

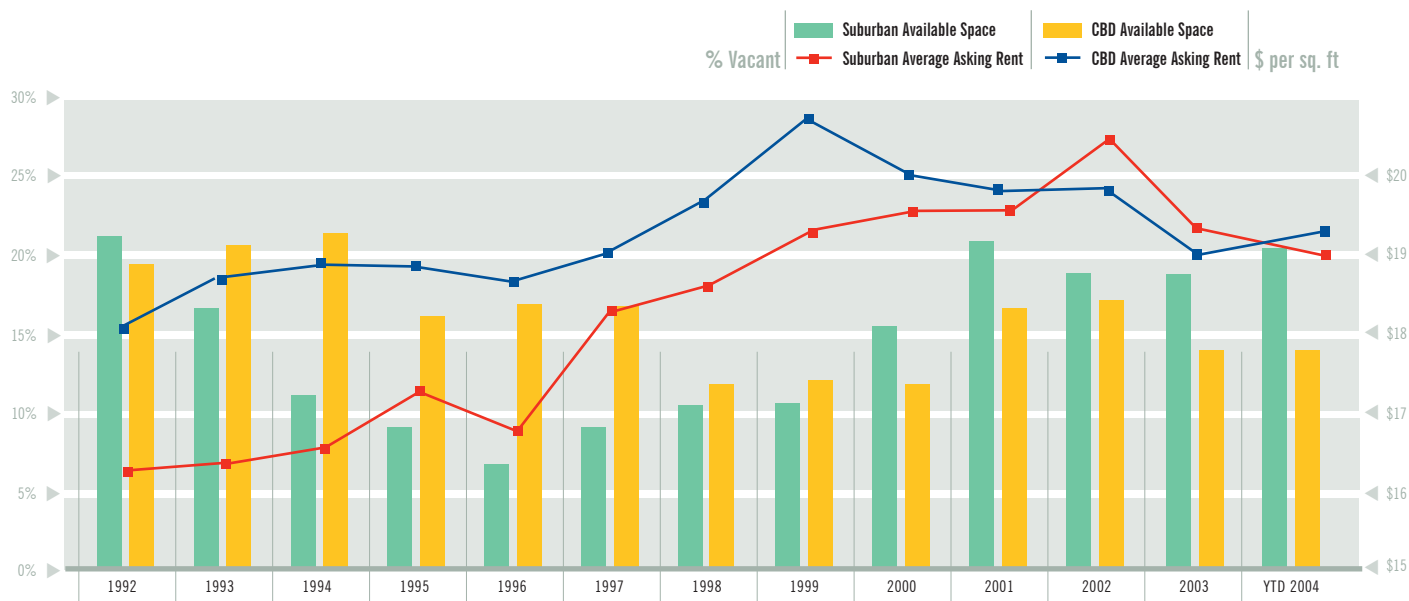
INDIANAPOLIS OFFICE MARKET SUMMARIES YTD

	Total Inventory	No. of Buildings	Class A Vacancy	Class B Vacancy	Overall Vacancy	Vacant Space	2004 YTD New Construction
CBD/Downtown	11.04 million sq. ft.	73	11.47 %	16.74 %	14.71 %	1.62 million sq. ft.	0 sq. ft.
Entire Suburban	19.57 million sq. ft.	296	17.46 %	21.86 %	20.96 %	4.10 million sq. ft.	214,600 sq. ft.
Midtown	1.00 million sq. ft.	16	0 %	39.38 %	28.78 %	289,000 sq. ft.	0 sq. ft.
North Meridian/Carmel	5.46 million sq. ft.	73	20.18 %	20.33 %	20.22 %	1.10 million sq. ft.	28,000 sq. ft.
Northwest	3.33 million sq. ft.	38	19.17 %	29.47 %	22.72 %	756,000 sq. ft.	100,000 sq. ft.
West/Southwest	1.21 million sq. ft.	15	0 %	36.31 %	30.35 %	368,000 sq. ft.	0 sq. ft.
Greenwood	1.09 million sq. ft.	25	19.16 %	10.41 %	17.14 %	186,000 sq. ft.	26,000 sq. ft.
East/Southeast	410,000 sq. ft.	6	n/a	32.50 %	30.83 %	126,000 sq. ft.	0 sq. ft.
Keystone	3.87 million sq. ft.	49	14.82 %	20.97 %	17.73 %	686,000 sq. ft.	0 sq. ft.
Northeast	4.20 million sq. ft.	90	14.96 %	20.36 %	20.82 %	874,000 sq. ft.	69,600 sq. ft.

ABSORPTION SUMMARY

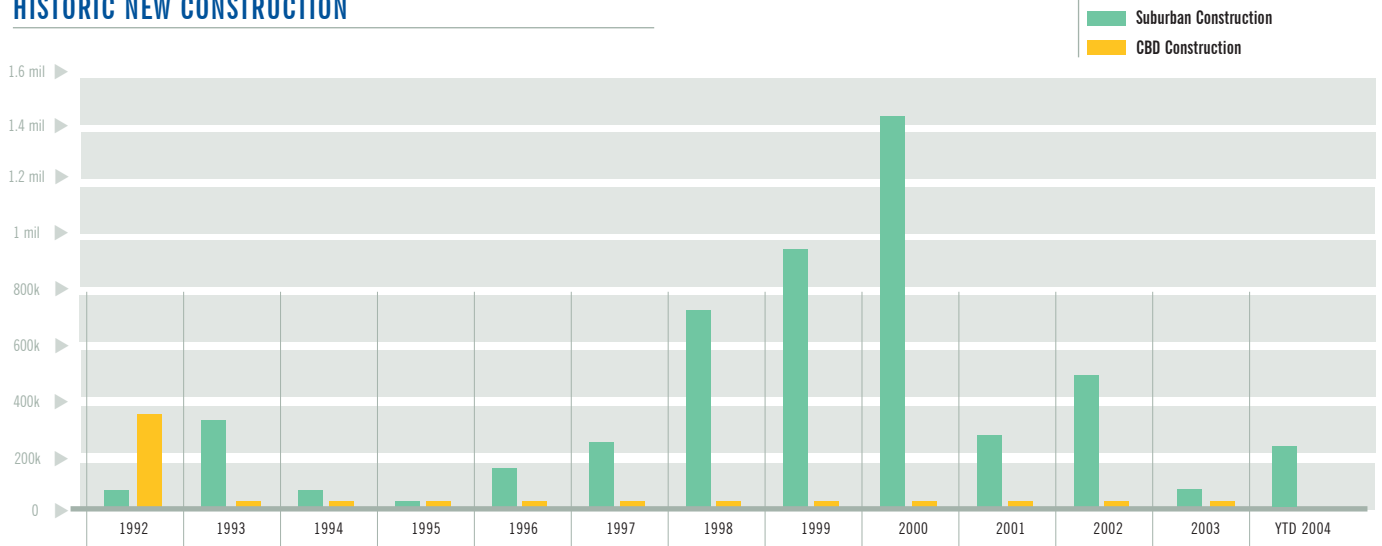
	CBD/Downtown	Entire Suburban	Midtown	N. Meridian/Carmel	Northwest	West/Southwest	Greenwood	East/Southeast	Keystone	Northeast
1st Quarter	(8,442) sq. ft.	37,081 sq. ft.	11,756 sq. ft.	(26,703) sq. ft.	9,795 sq. ft.	(86,403) sq. ft.	37,058 sq. ft.	0 sq. ft.	90,283 sq. ft.	1,295 sq. ft.
2nd Quarter	56,545 sq. ft.	(142,774) sq. ft.	10,351 sq. ft.	24,131 sq. ft.	(59,081) sq. ft.	(63,095) sq. ft.	21,433 sq. ft.	18,075 sq. ft.	(52,834) sq. ft.	(31,413) sq. ft.
3rd Quarter	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
4th Quarter	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Year-to-Date Total	48,103 sq. ft.	(108,628) sq. ft.	22,107 sq. ft.	(2,572) sq. ft.	(50,377) sq. ft.	(151,342) sq. ft.	58,501 sq. ft.	18,075 sq. ft.	37,449 sq. ft.	(30,118) sq. ft.

AVAILABLE SPACE VS. AVERAGE ASKING RENT



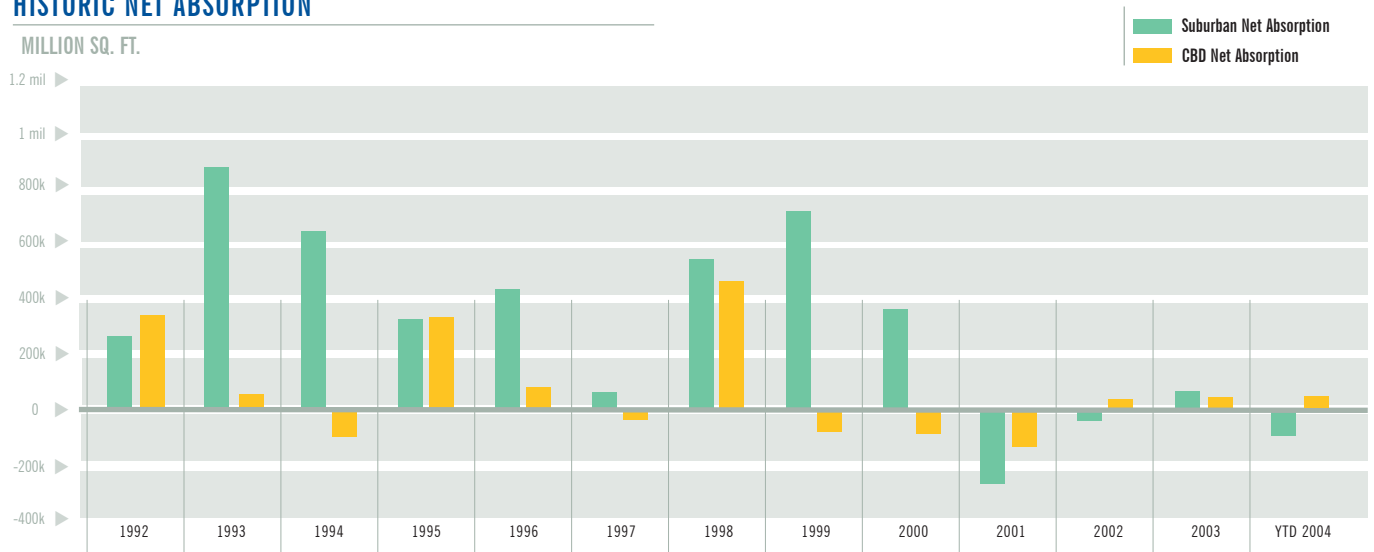


HISTORIC NEW CONSTRUCTION



HISTORIC NET ABSORPTION

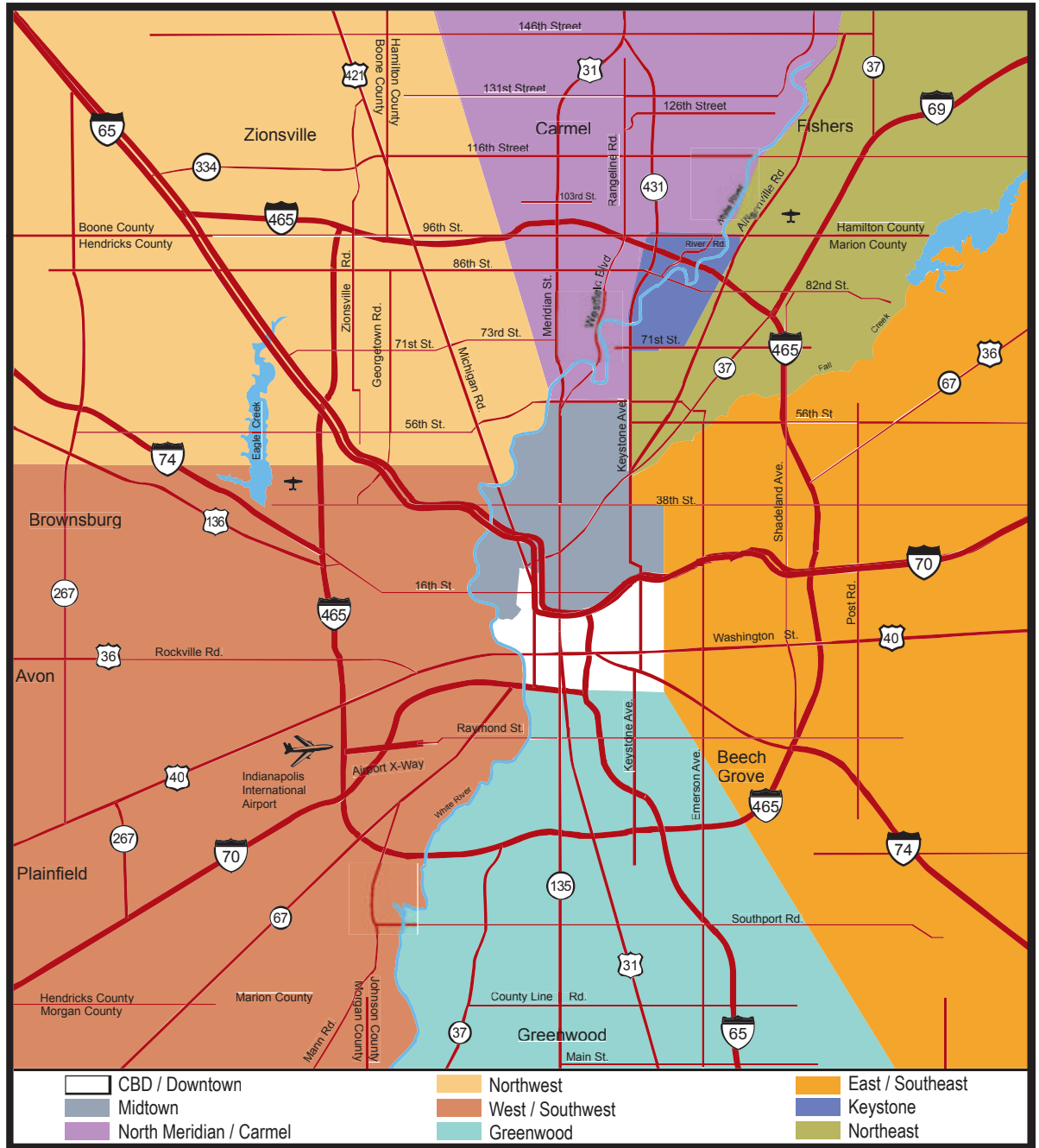
MILLION SQ. FT.





Submarket Map

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Meridian MarketWatch is a quarterly publication detailing current and historical real estate news and trends in Indianapolis, Indiana.

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