

Meridian

MarketWatch

YEAR-END
2003

OFFICE
MARKET REPORT

A QUARTERLY REVIEW OF OFFICE MARKET ACTIVITY

Indianapolis, Indiana

The close of 2003 seemed full of positive indicators for the new year. Third quarter GDP raced ahead 8.2%. Business investment was up 14%. The Dow Jones broke through 10,000, and consumer confidence jumped 10 points in only a month. Unfortunately, despite the improving economic picture, optimism from the Central Indiana commercial real estate community is guarded. The number one reason for concern: No new jobs!

While job growth traditionally lags recovery, the forecast for Indiana is especially grim. On a national level, 2.7

million jobs were lost from 2000 to mid-2003, nearly 400,000 of which have returned in recent months. The consensus projection for 2004 is that more than 2 million jobs will be added, bringing employment back to pre-recession levels. In contrast, during the same period, Indiana lost a disproportionate 180,000 jobs, has returned very few, and is projected to add a mere 28,000 in the coming year. Based upon that forecast, it will be very difficult for the office leasing market to prosper.

The positive signs that are being seen are that sublease and hold space have

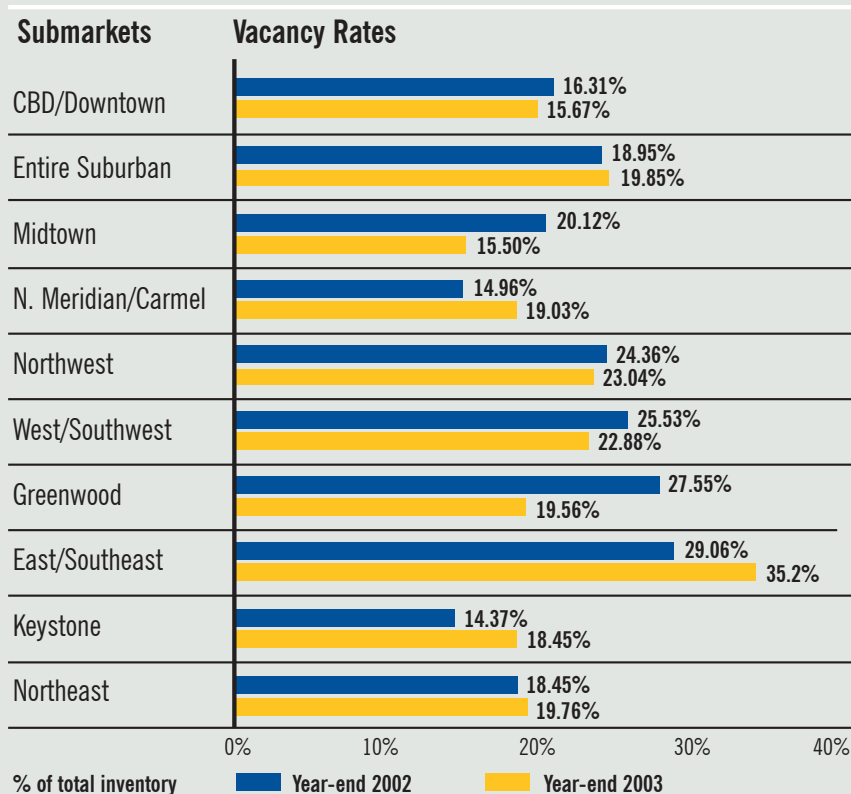
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HOT TOPICS

INDIANAPOLIS - OFFICE

- Year End 2003 vs. 2002 - Suburban Vacancy 19.9% vs. 18.9%
Net Absorption 51,066 vs. (26,300)
Rental Rates \$18.75 vs. \$20.25 / RSF.
- No new speculative construction over 10,000 sq. ft. is planned for 2004.
2003 new construction = 574,000 RSF.
- Single-story "Residential Type" new office buildings are becoming popular. These buildings are experiencing very low vacancy rates vs. other older, multi-story office product.
- City of Indianapolis narrowed the list of potential developers for the Market Square Arena site down to two. A final decision should be forthcoming in January or February.
- The North Meridian / Carmel corridor is facing dramatic vacancy increases with over 947,000 sq. ft. of vacant space.
- Thomson Consumer Electronics recently placed 72,000 sq. ft. of space for sublease in its North American headquarters building on North Meridian Street.

INDIANAPOLIS OFFICE VACANCY RATES



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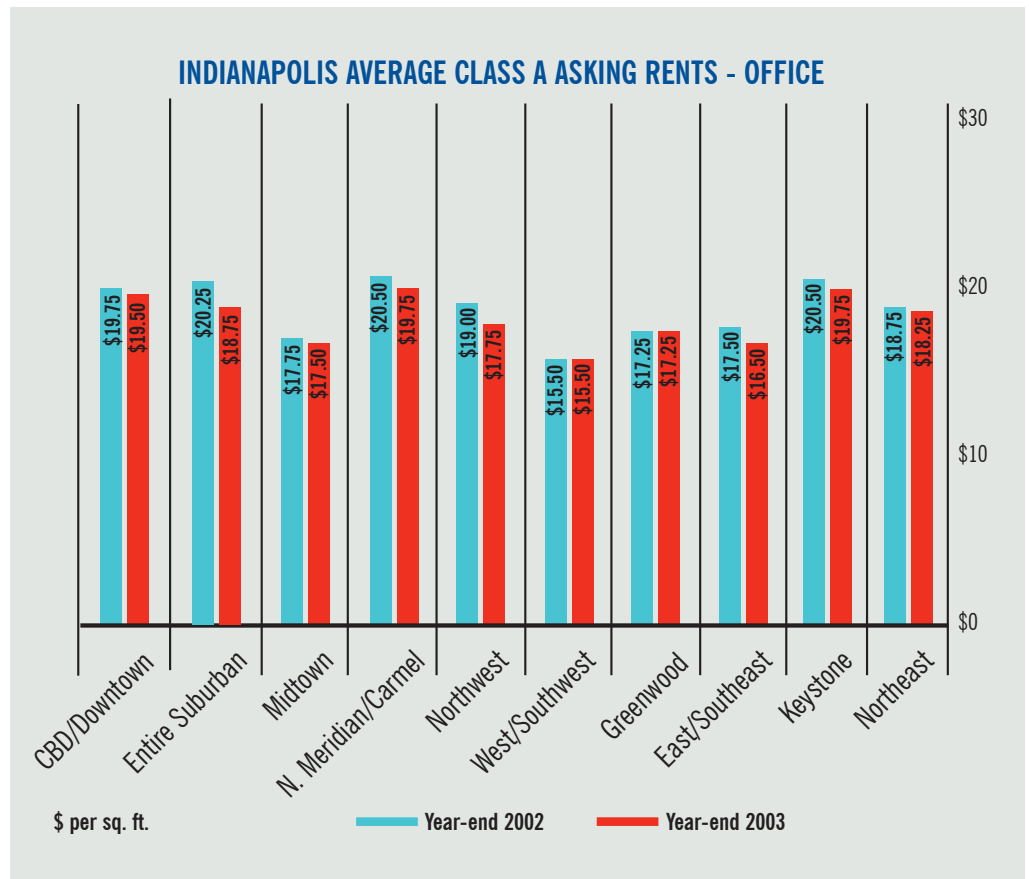
declined sharply in the last twelve months. Much in the same way that stockpiled inventories and excess capacity must be consumed in the manufacturing and service sectors prior to new hiring, sublease and underutilized space must become occupied or “burn off” before any significant new leasing activity.

Within the submarkets, the downtown office market held steady during 2003 ending a flat year with marginal net absorption. The majority of activity occurred with small-to-medium users with downward pressure on rental rates and an emphasis on tenant amenities. Class “A” buildings such as First Indiana Plaza, One Indiana Square and Market Tower have put forth particular efforts to lure tenants, adding upgrades like improved food service and fitness facilities, and have achieved excellent leasing activity.

The suburban office markets have seen some increase in vacancy with current rates hovering around 20% versus 19%

The positive signs that are being seen are that sublease and hold space have declined sharply in the last 12 months.

one year ago. The greatest factor influencing this trend is Indiana’s continued loss of jobs through corporate downsizing, relocations, bankruptcies, and mergers and acquisitions. Such



notable announcements in 2003 included Cardinal Health, Conseco, Escient, HQ Global Workplaces, Inland Container, Seurat, Thomson Consumer Electronics, and Union Acceptance Corporation.

Other trends seen in the submarkets as a result of prevailing conditions are softening rents and increased concessions in the suburbs and downtown. At this time, the North Meridian corridor continues to see the highest asking rents, although that position may well be relinquished by year end. With no new speculative construction set for 2004, this break in construction, combined with much lower levels of sublease space and continued economic recovery, should make 2004 a much better year than 2003.

Submarket Reports

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

Northwest



Eli Lilly and Company backfilled this 120,000 sq. ft. building that was vacated by Acterna.

Market activity in the Northwest submarket continues to be slow. The vacancy rate for year end fell slightly to 23% with year-end positive absorption of over 41,000 square feet. Compared to the overall suburban vacancy rate of 19.85%, the Northwest submarket continues to lag behind other north suburban markets.

The most significant story for 2003 continued to be the overall downturn in central Indiana's tech economy along with some headquarters relocations. At Woodland Crossing, Interactive Intelligence placed 17,000 square feet of their headquarters facility on the market for sublease. INTECH Park saw the closing of Seurat, the downsizing of Covance, the bankruptcy of Acterna, and the downsizing and sale of Escient. Within College Park/Fortune Park, Made2Manage relocated to the North Meridian submarket and then sold. Inland Container relocated to Austin, Texas and placed their 120,000 square foot headquarters facility on the market for sale or lease.

A bright spot in the Northwest submarket was the backfilling by Eli Lilly and Company of the space Acterna vacated in INTECH Park. While Lilly's leasing of 140,000 square feet was a significant development, it unfortunately did not add to the overall positive absorption for year-end 2003.

Market activity increased in the Keystone Crossing submarket during the fourth quarter of 2003. However, the vacancy rate climbed from 17.4% to 18.5% from the third to fourth quarter due to several large relocations and downsizings. The increase in activity can be attributed to a slow but steady rebound in the economy as well as the continued attractiveness of this amenity-rich submarket. Notable additions to the submarket's amenities in the fourth quarter include the opening of Saks Fifth Avenue in the Fashion Mall and the opening of Eddie Merlot's upscale restaurant on 96th Street near The Precedent.

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. We are now seeing all of the major landlords in this submarket get more aggressive on rental rates and concessions. Now is a good time for tenants to take advantage of the soft market and consider upgrading or re-engineering their space needs in conjunction with a lease extension.

Significant lease transactions in this submarket included:

- Ryland Homes leasing 15,000 square feet in 9025 North River Road.
- Indianapolis Life Insurance Company leasing 14,766 square feet in 9200 Keystone Crossing.
- Createc Corporation leasing 12,161 square feet in 8888 Keystone Crossing.
- New England Life leasing 9,500 square feet in 8888 Keystone Crossing.
- DeVry Institute leasing 8,702 square feet in 9200 Keystone Crossing.
- General Casualty Company renewing for 31,566 square feet in 8555 Keystone Crossing.

Keystone Crossing



Indianapolis Life Insurance Company leased 14,706 sq. ft. at 9200 Keystone Crossing.

Northeast



Centex Homes recently relocated to 16,000 sq. ft. in Lake Pointe Center 2.

The Northeast submarket showed some positive absorption during the second and third quarters of 2003. The submarkets overall absorption for 2003, however, is still down at (21,568) square feet. The vacancy rate for the submarket remains high at 19.76% with 793,305 square feet of vacancy in a 4,000,000 square foot submarket.

Significant developments in the Northeast submarket include the completion and occupancy of the Forum Credit Union's major expansion at Exit Five and Irwin Mortgage's new 125,000 square foot corporate headquarters building in Delaware Park at 106th Street & I-69. Another success story is Paragon Properties' construction and leasing of two 30,000 square foot office / flex buildings at 86th Street and I-69. Indy Office Solutions led the occupancy of these two buildings leasing 20,000 square feet in the third quarter of this year. Centex Homes moved from 8,000 square feet in Heritage Park to 16,000 square feet in Lake Pointe Center at Allison Pointe.

The smaller, garden-style office buildings developed by Shamrock Builders at 96th & Hague Road and also at 116th & Cumberland Road have continued to attract the small professional and medical office user. Rates in these unique properties have held at around \$16.50 to \$17.50 per square foot net of utilities and janitorial. On the other hand, significant vacancies in the five major office parks -- Castle Creek, Allison Pointe, Castleton Park, Heritage Park, and Shadeland Station -- have put downward pressure on rates. Some of these properties are offering significant free rent periods and reduced rental rates, creating effective rates of less than \$16.00 full-service in some cases.

With the exception of a few small buildings changing hands in the last couple of quarters, there has been very little sales activity in the submarket. Heritage Park II has been listed for sale by the owner, Magnum Resources, following a successful lease-up campaign.

The Central Business District continues to experience a strong trend in businesses wanting to own and occupy downtown buildings. Recent notable transactions include RJE Interiors purchasing and renovating the former Sink & Edwards building, Browning Day's purchase and renovation of the former Design Print building and Riley Bennett & Egloff's purchase and renovation of the former State Life building are examples of this trend.

The biggest story going into 2004 is the City's much awaited decision on the redevelopment direction of the former Market Square Arena site. Current plans call for a mix of residential and retail, both of which should have a positive long-term impact on the entire downtown market. The other major story is the ongoing redevelopment of properties between 16th Street, the IUPUI campus, and the downtown canal. Projects in that area include several facilities related to the Life Sciences Initiative, the State's new crime lab across I-65 from Methodist Hospital, several other medical-related use facilities, as well as the redevelopment of Buggs Temple on the canal into a multi-tenant retail facility to serve the many new employees coming to the area.

The investment sale market also continues to bring in new owners to downtown. Landmark Center was recently purchased in the third quarter by Litchfield Advisors and Pan Am Plaza was purchased by a partnership made up of some of the principals associated with Sierra Crest.

Finally, the multi-tenant office market still has a number of large tracts of space that remain on the market which continue to put pressure on the rents landlords are asking. This "tenant's market" is helping downtown office users reduce their current occupancy costs or upgrade to a nicer building while maintaining occupancy costs.

CBD / Downtown



Landmark Center was recently purchased by Litchfield Advisors.



N. Meridian/Carmel



Meridian Corporate Plaza will be auctioned off by Clarian in February, 2004.

2003 ended with the North Meridian / Carmel corridor suffering from increased office vacancies and negative absorption. With this submarket being the largest, most active and desired submarket in Indianapolis, its current decline will have a ripple effect on the other suburban submarkets.

Despite the addition of the Indiana Heart Hospital and the start of construction on Clarian's Women and Children's Hospital there has not yet been a rush of other medical users to establish a presence in the North Meridian / Carmel corridor. It is still hoped that the growth of medical use facilities will supplement the downward trend in the office market.

The trend toward the end of 2003 was downward pressure on rental rates in the North Meridian / Carmel corridor. It is our expectation that this trend will continue through 2004. Adding to the concerns in this submarket are instances of some tenants wanting to leave the North Meridian / Carmel corridor in favor of the amenity-rich Keystone Crossing submarket.

Finally, as far as investment activity is concerned, Clarian will be conducting a sealed bid for Meridian Corporate Plaza in February. This property, located at I-465 and Meridian, includes a 60,000 square foot office building situated on 19 acres of land, all of which is visible from I-465. Also, several land parcels are for sale or development in this submarket, including 8.8 acres owned by Conesco at 119th and Meridian Streets.

The key submarket vacancies that will continue to impact the North Meridian corridor are:

| <u>Office Building</u> | <u>Sq. Ft.</u> | <u>Date Available</u> |
|--------------------------------|----------------|-----------------------|
| ● Meridian Tower | 150,000 | Immediately |
| ● Parkwood Four | 100,000 | Immediately |
| ● Parkwood Two | 90,000 | March 1, 2004 |
| ● 550 Congressional Blvd. | 85,000 | Immediately |
| ● Clay Terrace (146th & US-31) | 75,000 | October 2004 |
| ● Parkwood Eight | 60,000 | Immediately |
| ● Meridian Corporate Plaza | 60,000 | Spring 2004 |
| ● Hamilton Crossing III | 55,000 | March 1, 2004 |
| ● Meridian Mark II | 55,000 | Immediately |
| ● Thomson Consumer Electronics | 75,000 | Immediately |

Notable land parcels available for sale or development in this submarket are:

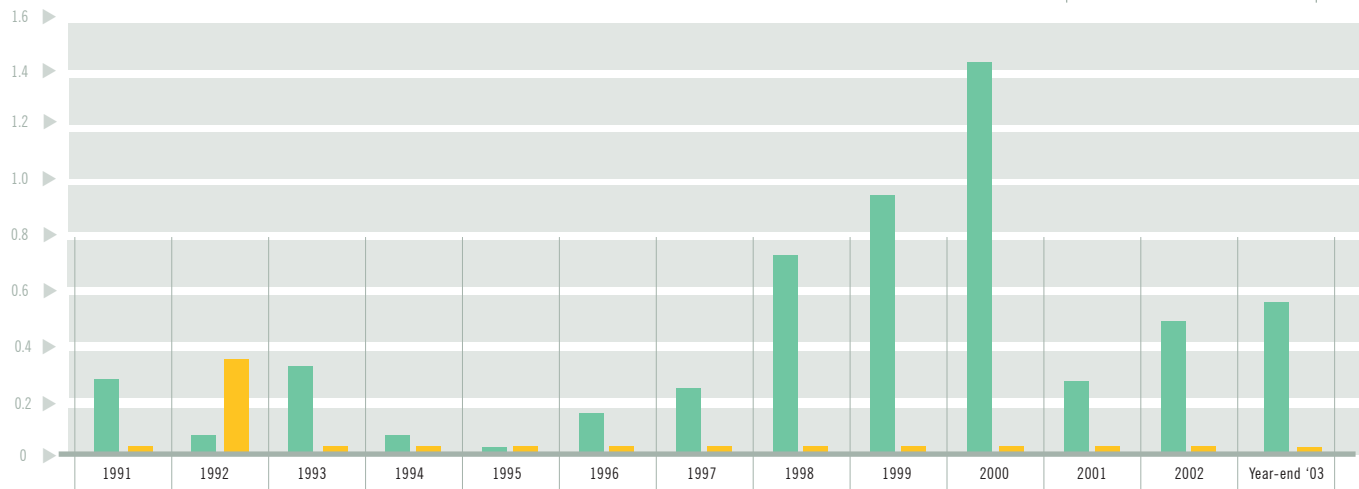
| | <u>Size</u> | <u>Location</u> |
|--------------------------------------|---------------|--|
| ● St. Christopher's Church | ± 13 acres | 129th and Meridian |
| ● Landmark at North Meridian (Opus) | 24 acres | 126th and Meridian |
| ● Carmel Science and Technology Park | Various sizes | 116th and Pennsylvania |
| ● Conesco | 20 acres | 120th and Pennsylvania |
| ● Conesco | 8.8 acres | 119th and Meridian |
| ● Meridian Corporate Plaza | 19 acres | Northeast corner of I-465 and Meridian |

INDIANAPOLIS OFFICE MARKET SUMMARIES 2003

| | Total Inventory | No. of Buildings | Vacancy Rate | Vacant Space | New Construction Underway | Absorption |
|-----------------------|--------------------|------------------|--------------|----------------------|---------------------------|------------------|
| CBD/Downtown | 10,707,801 sq. ft. | 67 | 15.67 % | 1,681,082 sq. ft. | 0 sq. ft. | 25,760 sq. ft. |
| Entire Suburban | 19,512,764 sq. ft. | 283 | 19.85 % | 3.83 million sq. ft. | 574,000 sq. ft. | 51,013 sq. ft. |
| Midtown | 843,143 sq. ft. | 15 | 15.50% | 130,000 sq. ft. | 0 sq. ft. | 21,010 sq. ft. |
| North Meridian/Carmel | 5,305,471 sq. ft. | 63 | 19.03 % | 1,010,335 sq. ft. | 427,000 sq. ft. | (38,124) sq. ft. |
| Northwest | 3,064,320 sq. ft. | 33 | 23.04 % | 706,010 sq. ft. | 0 sq. ft. | 41,656 sq. ft. |
| West/Southwest | 980,721 sq. ft. | 12 | 22.88 % | 224,404 sq. ft. | 0 sq. ft. | 32,878 sq. ft. |
| Greenwood | 1,014,994 sq. ft. | 25 | 19.56 % | 198,554 sq. ft. | 30,000 sq. ft. | 8,527 sq. ft. |
| East/Southeast | 410,204 sq. ft. | 6 | 35.23 % | 144,525 sq. ft. | 0 sq. ft. | (14,871) sq. ft. |
| Keystone | 3,879,117 sq. ft. | 48 | 18.45 % | 715,619 sq. ft. | 0 sq. ft. | 21,505 sq. ft. |
| Northeast | 4,014,794 sq. ft. | 82 | 19.76 % | 793,305 sq. ft. | 117,000 sq. ft. | (21,568) sq. ft. |

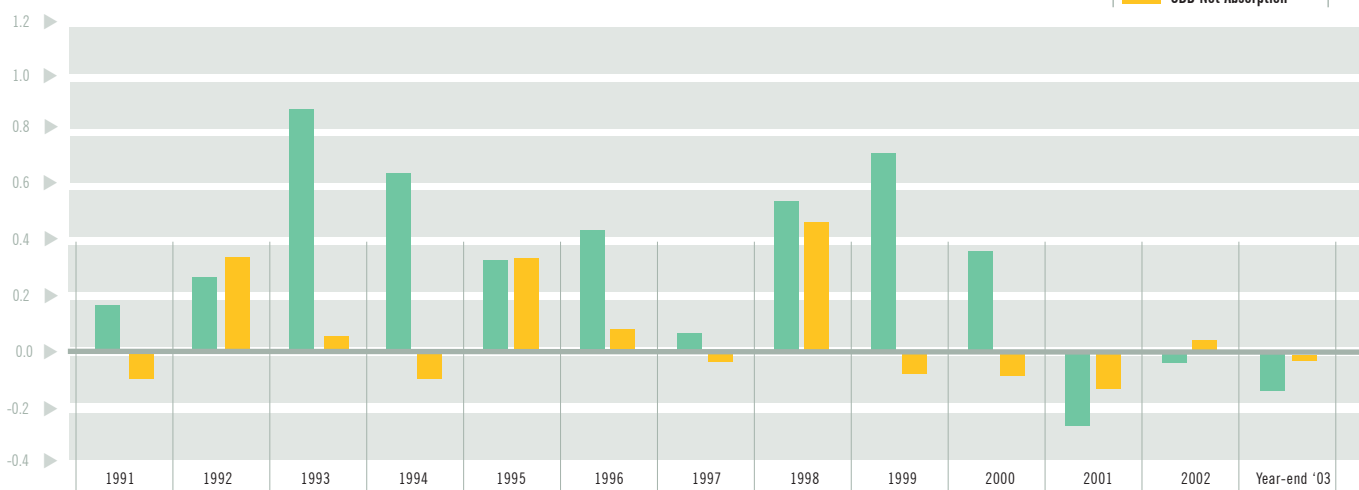
HISTORIC NEW CONSTRUCTION

MILLION SQ. FT.



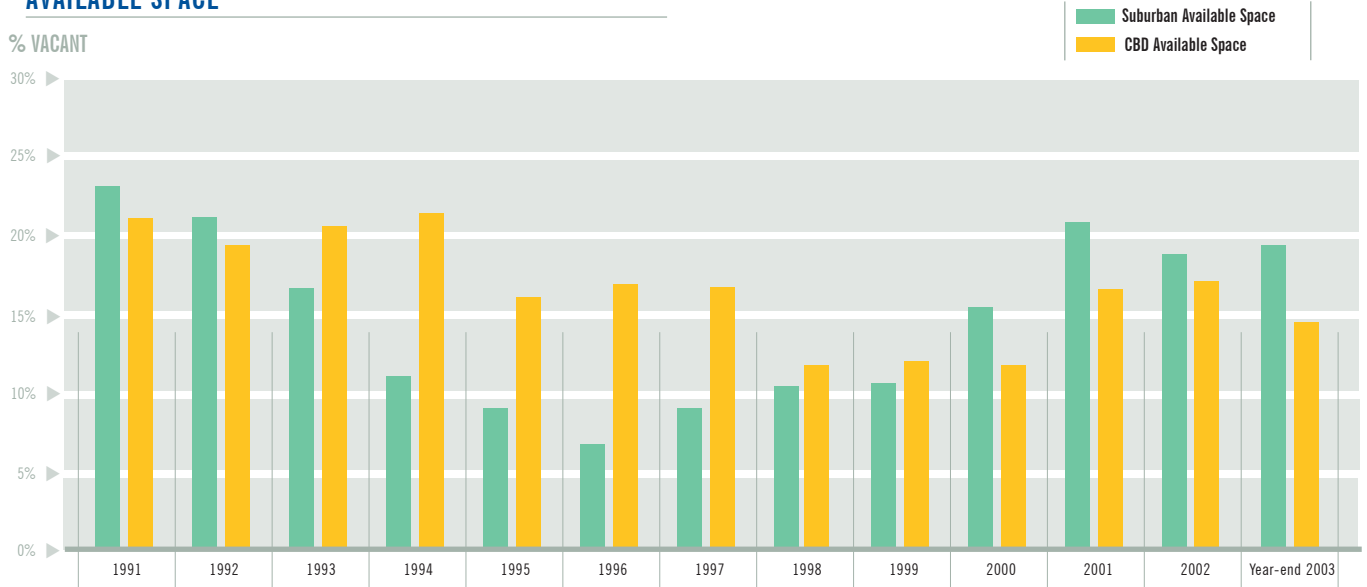
HISTORIC NET ABSORPTION

MILLION SQ. FT.

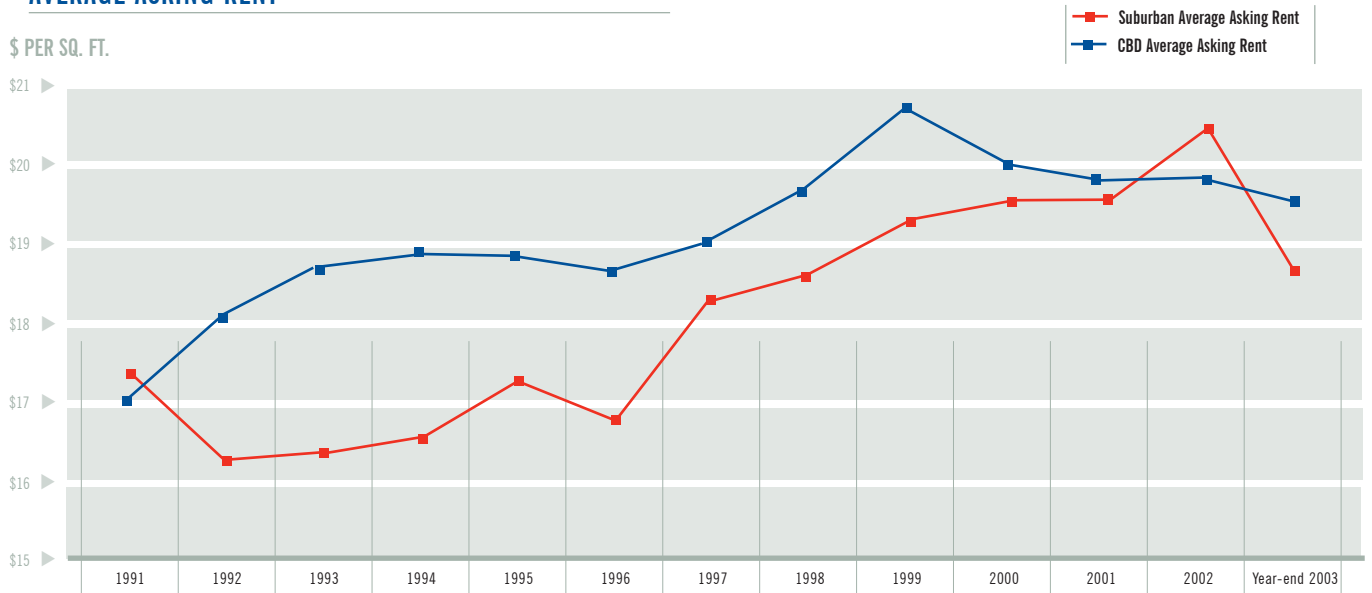




AVAILABLE SPACE



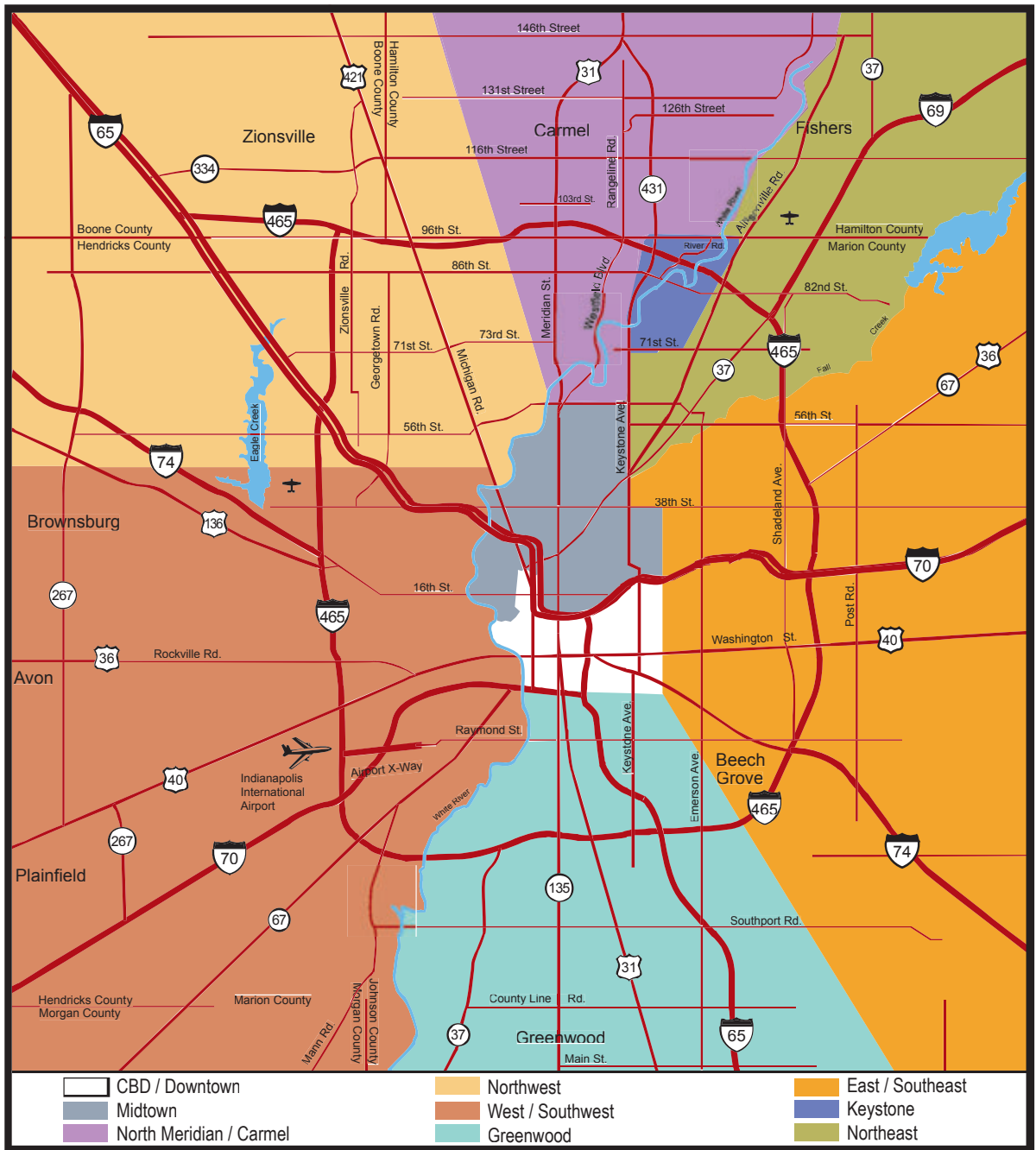
AVERAGE ASKING RENT





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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