Meridian MarketWatch

YEAR-END 2004

INDUSTRIAL MARKET REPORT

A QUARTERLY REVIEW OF INDUSTRIAL MARKET ACTIVITY

Indianapolis, Indiana

We are pleased to report that, in many respects, 2004 played out the way we had forecasted – with overwhelmingly positive results for the economy, the growth of existing companies, and the owners and users of real estate in Indianapolis. At this time last year, the world was still getting comfortable with the situation in Iraq and the Dow Jones Industrial Average was just showing signs of growth. However, a pending presidential election along with the Indiana gubernatorial election allowed a cautionary tone to remain. Even with all of that, the marketplace for Indianapolis industrial real estate continued its improvement and accelerated rapidly after election outcomes were determined.

Unemployment at year-end dropped to 4.9% in the greater Indianapolis area. While additional manufacturing jobs will be shed in 2005, the pace of layoffs will significantly decrease and should soon be outpaced by the creation of quality, skilled-labor jobs.

The Indianapolis industrial market place hung its survival over the past five years on modern bulk distribution development and tenant growth. The balance of activity in the market during that time focused on tenant retention, even at the expense of maintaining rental rate. However, 2004 was the year to buck that trend, as only a few significant deals occurred in the 200,000 + square foot range in modern bulk distribution (Type III) real estate (see submarket reports for transaction details.) The majority of the good news was realized by owners of smaller Type II and, in some cases, Type I

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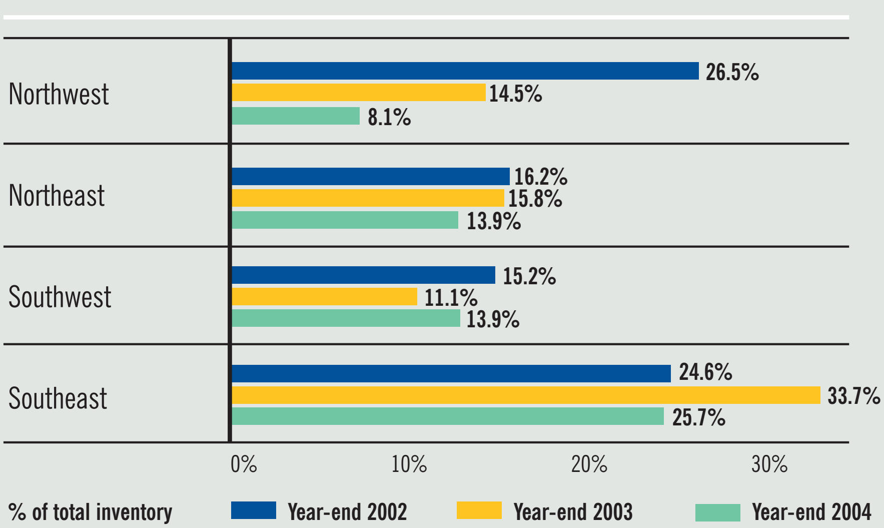
INDIANAPOLIS INDUSTRIAL VACANCY



HOT TOPICS

INDIANAPOLIS - INDUSTRIAL

- Coastal Partners acquires former BMG facility on the east side of Indianapolis at 6550 East 30th Street. Coastal seeks to redevelop the facility into a multi-tenant, warehouse/distribution and office park.
- Six Points Interchange and I-70 expansion is complete, providing new access to Plainfield and Indianapolis' future Midfield Terminal. This also spurs new real estate developments, including Sierra Gateway Park.
- ProLogis executes a 805,000 sq. ft. lease with Logisco/PepsiCo in Airtech III in Plainfield.
- ETA/NYK Logistics leases 126,000 sq. ft. from First Industrial Realty Trust in Jackson Park on the east side of Indianapolis.
- Saxony Business Park completes installation of park infrastructure, making sites ready at Exit 10 and I-69 for Class A industrial development.

MERIDIAN® Real Estate

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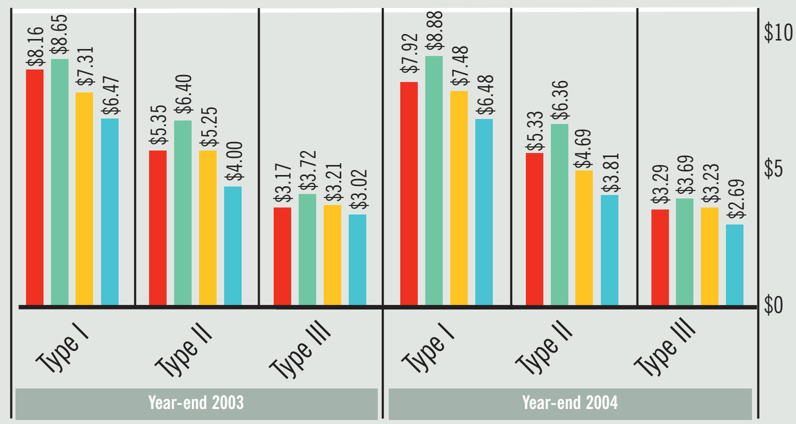
real estate. Owners of Type II (mid-size office/warehouse space) product are running out of product to lease. In the Northwest submarket, occupancy has increased to a five-year high of 92%. The Southeast submarket shed nearly 10% (1,300,000 square feet) of its vacancy with over 1.8 million square feet of absorption. The Southeast also had the most positive turnaround of any submarket for smaller, Type I spaces being leased.



Probably the most prevalent indicator that our market is very strong rests in the aggressive "pioneer" attitude of investors toward new development. Significant "raw ground" development projects started in 2004 included the 40-acre Sierra Gateway Park, the first of its kind in Plainfield. Also included was Lauth's acquisition of 280 acres in Greenwood for Southpoint Business Park – construction on 668,000 square foot Building I is scheduled to begin in spring of 2005. Both projects are 100% speculative. In another area of speculation, three older, former manufacturing buildings were acquired by investors as "redevelopment" projects. Totaling more than 2 million square feet, the Maytag, BMG, and Olin Brass facilities required significant risk by their purchasers – risk that would only be assumed in a market place ripe for new tenant deals.

To the most important question – What is in store for 2005? We expect more of the same good outcomes. There are fewer national uncertainties (primarily the presidential election) to contend with, so more buyers and users are leaving the sidelines to enter the marketplace, which in turn fuels growth. Big areas to keep an eye on: Nearly eight new modern bulk facilities stand vacant across the market (including three planned for third quarter 2005 completion) and their owner/developers are betting on a return of the same marketplace they thrived in during 2003. Another area surrounds the I-70 and Six Points Interchange as the Indianapolis Airport's Midfield Terminal continues construction. "What will this trade corridor look like and how quickly will it take hold?" is the critical question for several developers already in the market and others searching for a play on yet-to-be-controlled land. Finally, keep an eye on Duke's Anson development in the Northwest submarket and Republic's Saxony Business Park in the Northeast submarket, as both developers enter a key year in establishing these new trade corridors.

INDIANAPOLIS INDUSTRIAL SUMMARIES - YEAR-END 2004

	Total Inventory	No. of Buildings	Vacancy Rate	Available Space	New Deliveries	Absorption
Northwest	22,227,331 sq. ft.	159	8.08 %	1,795,390 sq. ft.	779,204 sq. ft.	2,103,663 sq. ft.
Northeast	5,207,819 sq. ft.	89	13.89 %	723,375 sq. ft.	36,294 sq. ft.	86,663 sq. ft.
Southwest	19,333,346 sq. ft.	82	13.90 %	2,687,151 sq. ft.	2,513,474 sq. ft.	1,675,892 sq. ft.
Southeast	12,648,547 sq. ft.	83	25.65 %	3,243,951 sq. ft.	1,368,390 sq. ft.	1,881,317 sq. ft.
Whole Market	59,417,043 sq. ft.	413	14.22 %	8,449,867 sq. ft.	4,697,362 sq. ft.	5,747,535 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.

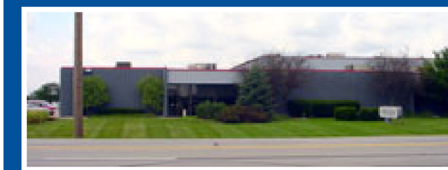
Type II: Medium Distribution / Manufacturing - demised between 7,500 and 50,000 square feet; clear height less than 24 feet; 15% to 50% tenant finish.

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



Bosma Institute for the Blind purchased the 52,000 sq. ft. former Hoosier Photo headquarters.

The Northwest submarket experienced strong recovery in 2004 and the outlook for 2005 is even brighter. In terms of vacancy, in the fourth quarter we saw a decline from 6.81% to 6.41%, exclusive of Lebanon, while Lebanon vacancy ticked up to 8.08% due to new building construction. This put occupancy at a five-year high and the market is making the turn from a strong tenant's market to a landlord-driven market.

On the whole, the majority of the strong recovery in the Northwest submarket occurred during the fourth quarter. The largest delivery was Duke Realty Corporation's completion of a 684,209 square foot distribution facility, pre-leasing half of the facility to Aurora Parts. The only noteworthy Type II or III transaction was Xpedx's lease of 64,000 square feet from ProLogis. The most noteworthy disposition that took place during the year was the sale of the 52,000 square foot former Hoosier Photo headquarters to Bosma Institute for the Blind. Type I activity included First Industrial leasing a portion of Northwest Business Park to Risk Management Services.

For the first time in over five years, developers such as Browning and Duke are considering construction of speculative Type II and III product near or in Park 100. Two significant confidential projects for 2005 will most likely be nearly 50% pre-leased. This is a strong economic indication that the Northwest submarket has made a complete recovery from its low of 2001.

The most noteworthy announcement of 2004 was Duke Realty Corporation taking control of approximately 1,800 acres near Lebanon. This planned urban development known as Anson will include office, retail, civic, industrial and multi-family development. It is expected that most of the infrastructure will be completed by the end of 2005. The total project, which will take more than 20 years to complete, will have a valuation in excess of $750,000,000.

Northeast

Shorr Packaging relocated & expanded within North by Northeast and leased 57,000 sq. ft.

The Northeast submarket has, for the most part, remained status quo over the past year in terms of new construction and rental rate appreciation. However, there have been a few positive signs indicating that this submarket is benefiting from the economic recovery, just at a slower pace.

The year's most encouraging indicator has been the overall reduction in vacancy. The entire submarket dropped nearly 200 basis points to 13.9%. Most of the vacant space is still made up of smaller, flex and office/warehouse (Type I) product, but even that segment of the market showed signs of recovery with a positive net absorption of 54,000 square feet. This improvement is due in large part to leasing activity at the new Castle Point facility and some of the locally-owned buildings around Castleton and Carmel.

Mid-sized warehouse (Type II) and larger distribution facilities (Type III) also made significant gains in occupancy levels. Most of the absorption came from existing tenants expanding rather than new tenants to the market. For instance, Shorr Packaging relocated from 43,000 square feet to 57,000 square feet at North by Northeast, which allowed Gardner Denver to expand into the former Shorr space. Patriot Products, a new spin-off of Pro-Guard Industries, also leased 35,000 square feet at First Industrial's Noblesville Commerce Center accounting for true, positive absorption.

Finally, building owners should approach 2005 with cautious optimism. Type III vacancy could increase to well over 20% as a result of lease rollover. As such, landlords will need to be particularly aggressive with tenants in sizes between 30,000 and 50,000 square feet, as supply greatly outweighs demand. Economic recovery coupled with relatively low interest rates will hopefully generate new and growing small tenants to Type I buildings. However, tenant improvement allowance and free rent concessions are still necessary as these smaller companies will need start-up capital to fuel their own businesses.

Southwest

PepsiCo leased 800,000 sq. ft. from ProLogis in Airtech Park.

Throughout 2004, mid-sized distribution (Type II) momentum drove much of the deal activity witnessed in the Southwest submarket. However, few of the deals produced positive absorption within Type II inventory. Vacancy trends remained static as many tenants upgraded in functionality to newer facilities that offered improved loading and more cubic space. Rates were also key incentives for tenants to make moves. Free rent and incentive packages peaked in 2004 for the Type II tenant – something that traditionally was reserved for larger bulk users.

The bulk market was certainly not as active in 2004 as in years past. Deals like PepsiCo's acquisition of 800,000 square feet at Airtech were few and far between, leaving bulk developers cautiously optimistic in planning future speculative product. However, this sentiment only fueled speculative development of mid-sized distribution with the construction of Holladay Properties' Midway Building and Sierra Crest's development of Sierra Gateway Park.

Panattoni, Duke and Lauth are next in line with their existing bulk product in Plainfield and Brownsburg, respectively. This is sure to offer the next large tenant an aggressive deal in a competing crossfire. ProLogis is not far from a competing stake in bulk, laying plans to develop its next facility in Airtech Park to be delivered by the second quarter of 2005. Anticipation is certainly leaning toward a full economic recovery in the coming months.

Overall, 2004 set the stage in the Southwest submarket for a shift back to stabilized lease rates, stingier incentives and continued success in bulk. Type II momentum will be sure to follow as more product comes online. The game to market these facilities to willing and able tenants will become increasingly important as the competition continues to concentrate in a product-abundant market.

Southeast

Precedent leased 221,000 sq. ft. to SAS Distributors in Mt. Comfort Commercial Park.

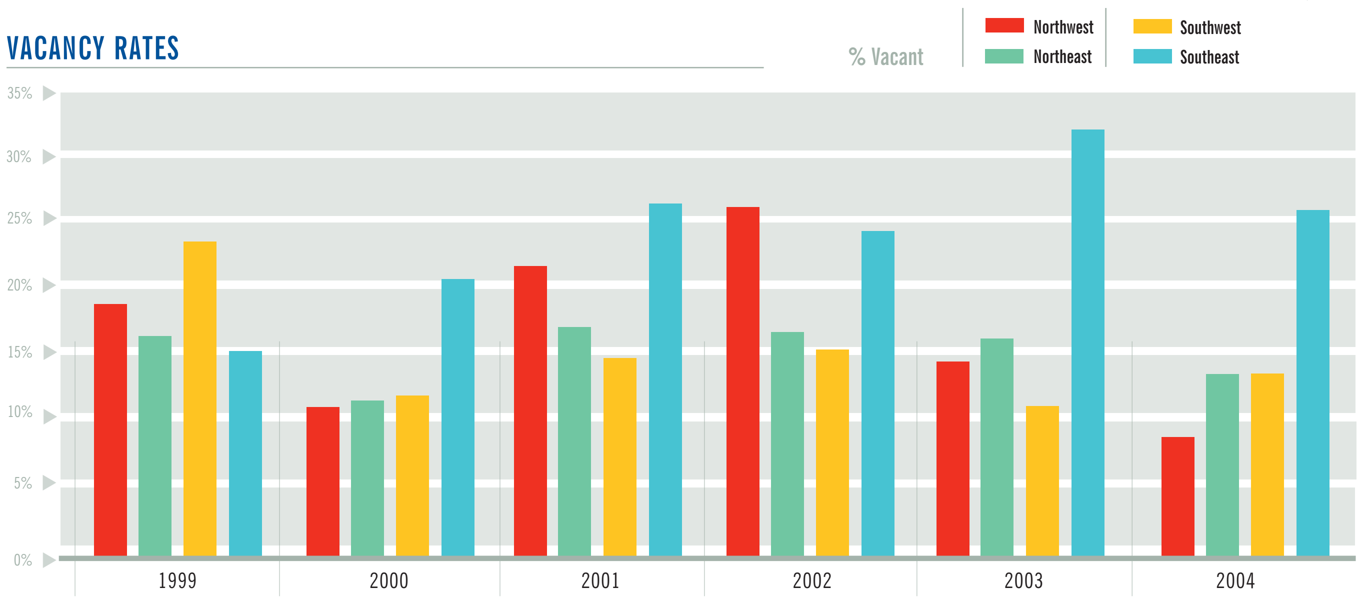
Activity in the Southeast submarket has remained strong all year for every industrial product type. Type I product was the biggest gainer, as vacancy was reduced from over 26% at year-end 2003 to just over 14% at year-end 2004. Business parks such as Jackson Industrial Park, Brookville Business Park and Shadeland Business Park were recipients of numerous new leases.

Type II product saw vacancy decrease by 6%, as tenants such as Advantis Medical, Inc. (which expanded and took 40,000 square feet in Browning's South Tech Park,) leased space. Also in Greenwood, United Natural Foods recently purchased a 273,000 square foot distribution center from Patillo Properties, which swallowed up a large vacancy that had been haunting this submarket. Precedent Real Estate was active in Mt. Comfort Commercial Park as they sold a 70,000 square foot Type II building to Cambria, which is a tenant new to the market. Precedent also found success as they leased 184,000 square feet to Formica Corporation and another 210,000 square feet in the bulk building to SAS Distributors, another tenant new to Indy. These two deals were enough for Precedent to begin preparing the pad for a new 800,000 square foot building to be built in 2005.

One of the most significant transactions to occur was the acquisition of the 590,000 square foot former BMG call center/distribution center by Coastal Partners, LLC. This redevelopment will add additional competition to an already very competitive market.

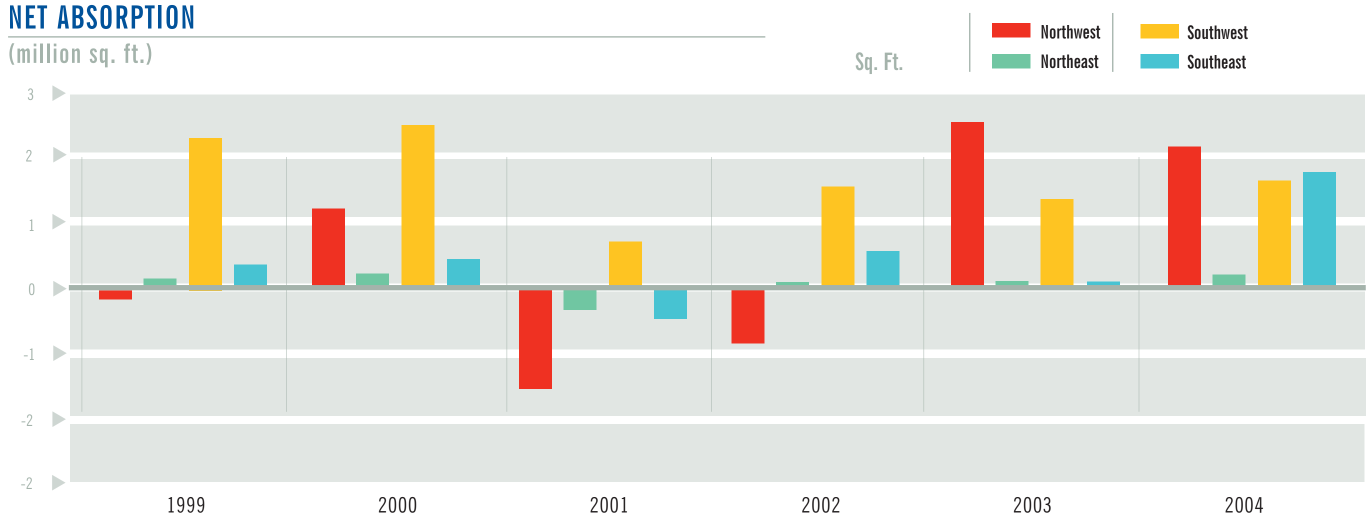
Outlook for 2005 shows a continuation from 2004. Activity levels are high and rates are starting to stabilize or even increase in smaller product, which is a real indicator of a healthy market.

VACANCY RATES



NET ABSORPTION

(million sq. ft.)

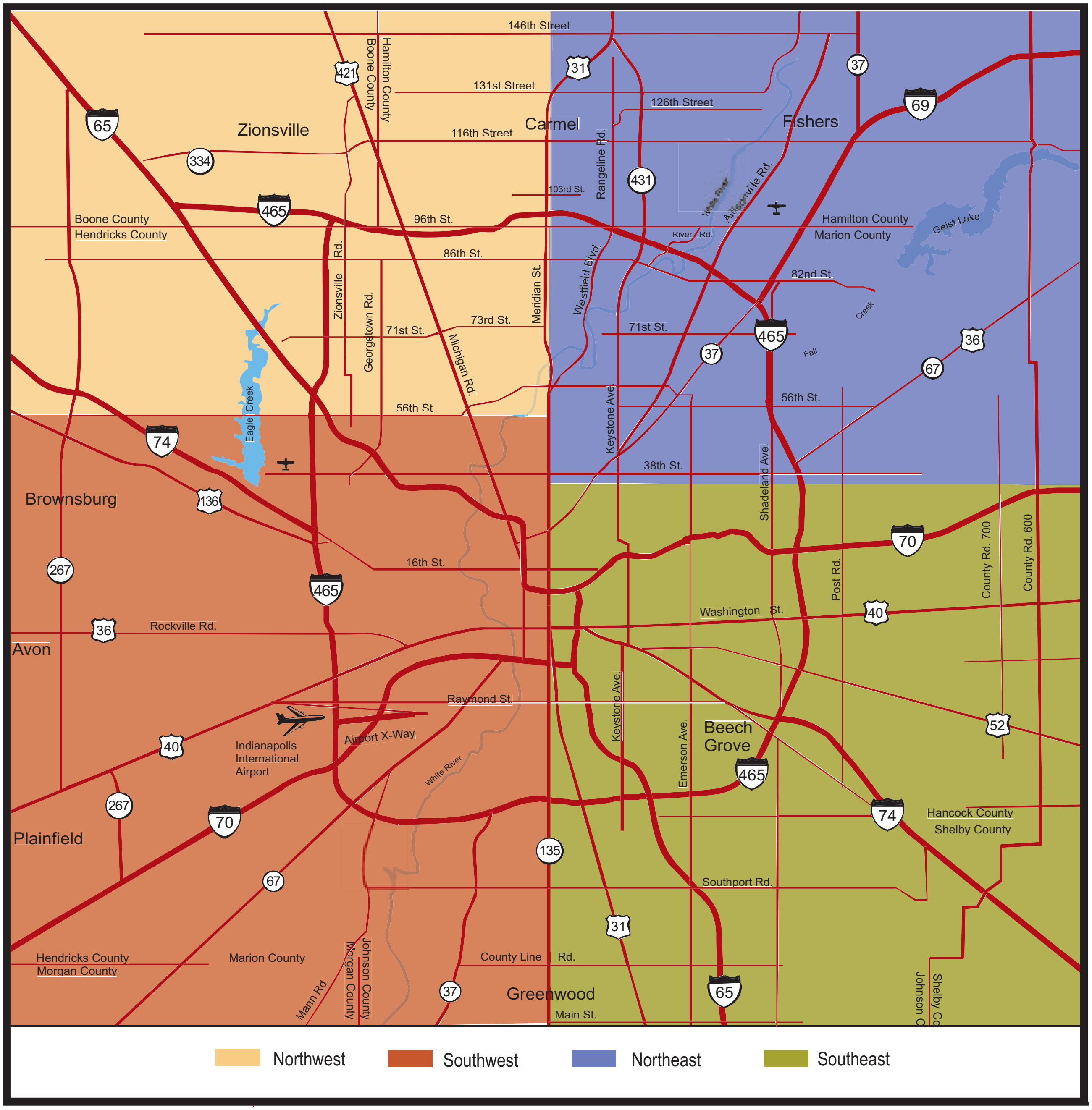


NEW CONSTRUCTION

(million sq. ft.)

Submarket Map

INDIANAPOLIS - INDUSTRIAL



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