

Meridian

MarketWatch

YEAR-END
2004

OFFICE
MARKET REPORT

A QUARTERLY REVIEW OF OFFICE MARKET ACTIVITY

Indianapolis, Indiana

2004 left behind a trail of mixed indicators for the Indianapolis office market. Despite the beginnings of a robust national recovery, the Indianapolis market continues to feel the effects of a lagging Indiana economy. The overall Indianapolis office vacancy rate decreased slightly, and annual absorption for the combined downtown and suburban markets was positive at 569,000 square feet. However, despite the improving economic picture and positive absorption, optimism for the central Indiana office market remains guarded, and the question of which industry will drive growth

remains unanswered. Again, in 2004, the number one reason for concern: Lack of job growth!

However, despite a flat to slightly growing market, "positive momentum" has been the key phrase to describe the overall Indianapolis office market. There continue to be fewer than the average number of large users (15,000 square feet and higher) currently seeking space, but activity is steady for the medium-sized to smaller users. The number of companies exploring expansion is encouraging. Much of this activity is coming from the financial service

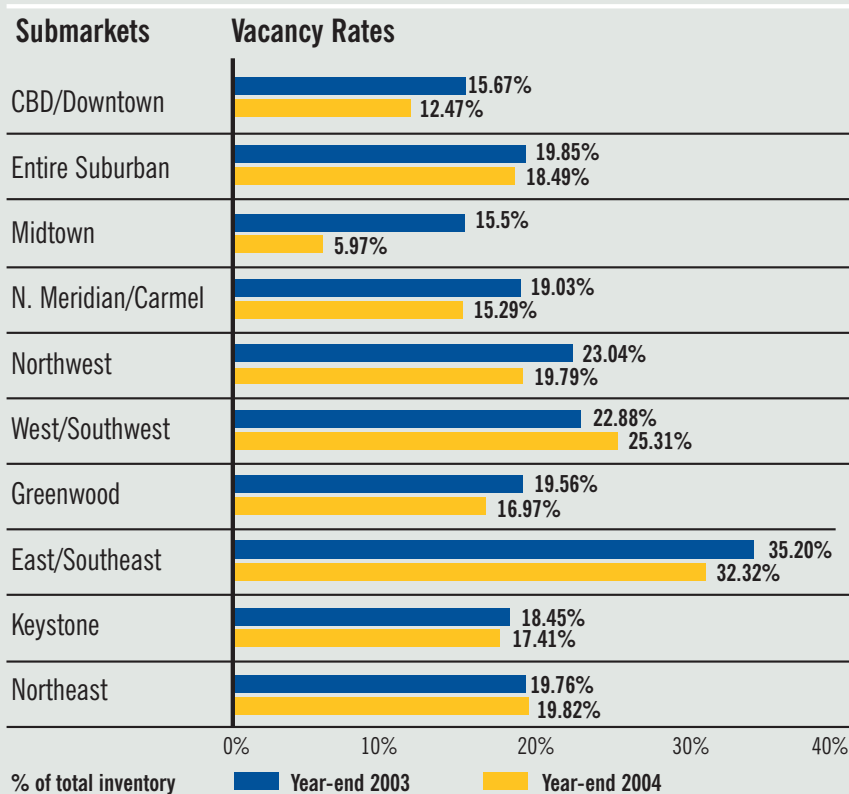
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HOT TOPICS

INDIANAPOLIS - OFFICE

- North Meridian/Carmel submarket enjoyed substantial recovery in 2004 with 259,000 sq. ft. of positive absorption.
- Simon broke ground on their new 220,000 sq. ft. corporate headquarters downtown, with completion scheduled for August 2006.
- Downtown vacancies fell under 12.5% in 2004, but the submarket will be challenged to fill large 50,000+ sq. ft. vacancies in Capital Center, One Indiana Square, First Indiana, Bank One Tower and National City Center in 2005.
- Large lease transactions in 2004: Roche Diagnostics – 144,000 sq. ft., Department of Homeland Security – 106,000 sq. ft., Firestone – 95,000 sq. ft., Autobase – 55,000 sq. ft., and CallTech – 52,000 sq. ft.
- American Family Insurance will lease approximately 45,000 sq. ft. and anchor Nine Parkwood Crossing (204,000 sq. ft.), to be built by Duke Realty Corporation for a January 2006 delivery date.
- The investment market continues to sizzle. There are more buyers than sellers. Well-leased investment properties are hard to find.

INDIANAPOLIS OFFICE VACANCY RATES



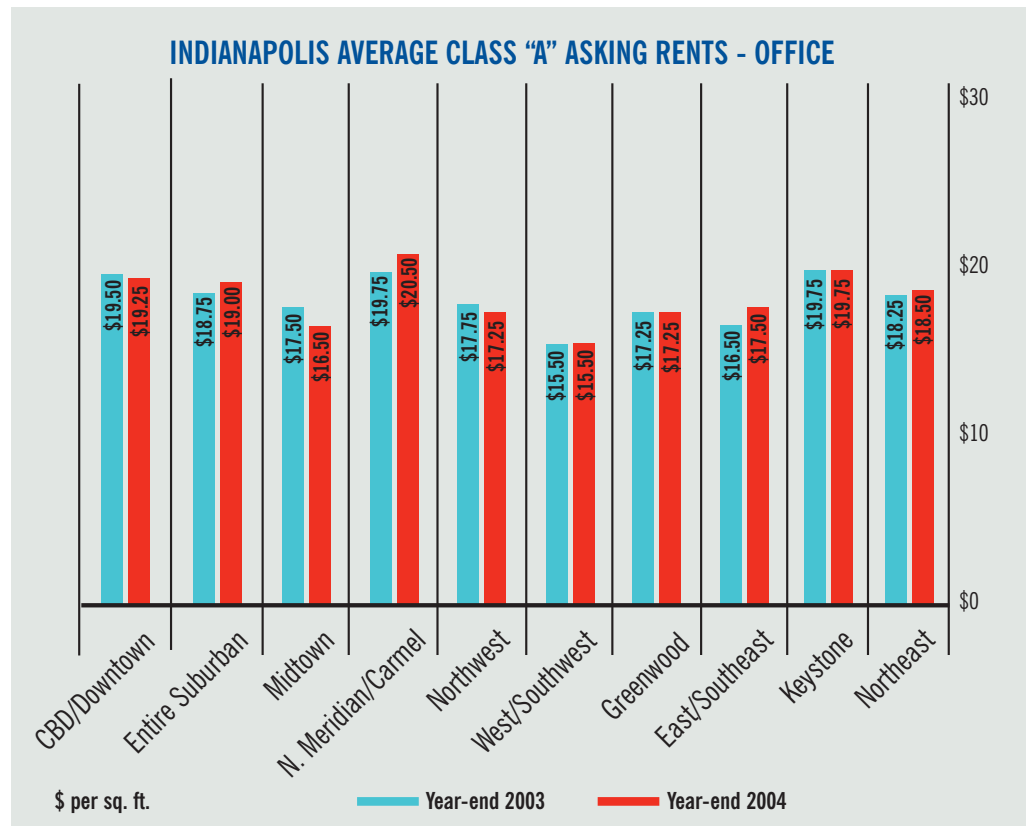
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and healthcare sectors. We anticipate that the Indianapolis office market is poised for a modestly positive 2005.

Overall hot topics for 2004 in the Indianapolis office market have been the continued lease up of suburban Class "A" space; the growth of medical office product and ventures to include the Clarian Hospital at Meridian & 122nd Streets, Lauth Property Group's announcement of a 90,000 square foot medical building just south of the Ritz Charles on Meridian Street; the aggressive lease-up of the North Meridian corridor; the grand opening of Clay Terrace with over 500,000 square feet of retail space; the growth of downtown residential/condo and hotel properties which includes the Conrad Hotel; and the notable lack of new construction by developers.

Turning to the major Indianapolis office submarkets, we note that the vacancy rate for the downtown office submarket declined again this year to 12.47%. Overall downtown office absorption during 2004 was positive at 206,949 square feet. Downtown developments that will have a positive impact on the office market were the announcement of a new Colts stadium, the expansion of the Convention Center on the current RCA Dome site, the continued construction of residential properties, and the announcement that Simon Property Group will remain downtown and build a new world headquarters. Large, Class "A" space vacancies in Capital Center, First Indiana, One Indiana Square, Bank One Tower, and the pending Simon vacancy in National City Center have been and will continue to be major challenges for this submarket.

For the Indianapolis suburban market, we note that the suburbs overall finished strong near the end of 2004. The suburban office market vacancy rate decreased modestly to 18.49%



during the year. Suburban office absorption during the year was a positive 362,070 square feet. Significant transactions in the suburbs included Roche Diagnostics (144,000 square feet), Autobase (55,000 square feet) in Meridian Tower, Suros Surgical (26,000 square feet) in Northwest Technology Center, Firestone (95,000 square feet) in Parkwood Crossing Two and the Department of Homeland Security (106,000 square feet) in INTECH Two.

Looking forward to 2005, we are optimistic because the Indianapolis office market vacancy rate is manageable and the developers and financial industry are disciplined, especially when compared to other cities. Current large deals in the market include TTE, Walker Information, MetLife, Ingersoll-Rand and Powerway. Anticipated stories going forward into 2005 include the groundbreaking in January for Parkwood Crossing Nine by Duke Realty; additional medical office buildings in the North Meridian Corridor; the potential for higher property taxes for downtown office buildings; and the impact of Governor Mitch Daniels' new administration.

Submarket Reports

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

Keystone Crossing



Indianapolis Life leased 14,700 sq. ft. in 9200 Keystone Crossing.

The Keystone Crossing submarket was not especially vibrant during 2004. The vacancy rate started out at 18.45% and ended up at 17.41%. The Keystone Crossing submarket suffers from the general lack of deals, particularly in comparison to its closest competitor, the North Meridian/Carmel submarket, due to fewer large tracts of vacant space and build-to-suit sites to choose from.

Duke Realty was able to vacate 3520 Commerce Crossing in anticipation of landing Simon Property Group's new headquarters. Now that Simon has opted to stay in the downtown submarket, this vacant site offers an outstanding large-scale build-to-suit opportunity for tenants looking for 40,000 to 200,000 square feet.

Most of the deals done this year are tenants simply switching places within this submarket. Two new tenants to the submarket that completed deals during 2004 are Indianapolis Life in 14,700 square feet and A.G. Edwards in 12,000 square feet, both at 9200 Keystone Crossing. Myers & Stauffer P.C. relocated from 8555

River Road to The Precedent into 25,000 square feet for one of the biggest deals in this submarket in 2004. There are very few large tracts of vacant space, with the largest being 55,000 square feet located in the 9100 Keystone Crossing building. Walker Information has recently offered their entire 90,000 square feet for sublease at The Precedent as they consider their long-term options for new space.

This submarket still has more amenities than any other submarket. This, combined with the high-quality owners and office buildings, make this submarket as attractive as any other in Indianapolis. However, it trails the North Meridian Corridor in the occupancy war because recently all of the larger tenants have opted to locate there for new construction and better access.

The Northwest submarket continues to lag behind all other north suburban submarkets. While market fundamentals continue to improve, the Northwest submarket ended 2005 with a vacancy rate of 19.79%. This submarket had 77,000 square feet of positive absorption in the fourth quarter.

Within the Northwest submarket, the only new construction to occur was at Browning's Northwest Technology Center. The newest building within Northwest Technology Center, a 26,000 square foot office/flex building, was quickly leased to Suros Surgical in the third quarter. This success has spurred Browning to move forward with up to 104,000 square feet of new speculative one-story office/flex space.

Several notable transactions occurred in the fourth quarter of 2004:

- The Pyramids, a 345,000 square foot, three-building complex, sold to Sterling America. Sterling America plans a \$4 million renovation of the property.
- One College Park leased 13,927 square feet to Amerisure Insurance Company.
- One College Park leased 13,158 square feet to IU Health, Inc.
- Woodview Trace leased 17,500 square feet to CIPROMS, bringing Woodview Trace to 100% occupancy.
- The Department of Homeland Security leased 106,612 square feet in INTECH Park.

All of the tenants in these notable lease transactions moved from other, competing buildings within this submarket.

These moves between buildings within the submarket reflect an overall market trend. Newer, well-maintained buildings are succeeding at the expense of older, Class "B" and "C" buildings. For example, The Pyramids have a vacancy rate near 50%, The Quads near 45% and Lakeside at College Park near 42%.

Northwest



One College Park leased over 27,000 sq. ft. to IU Health and Amerisure.

CBD/Downtown



Simon will vacate 188,000 sq. ft. in National City Center in 2006.

The tracts of large vacant spaces in the multi-tenant office market in the Central Business District have continued to force landlords to make tenant-friendly deals. Most of the major high rises have large vacant tracts, which the landlords are anxious to lease.

2004 was stocked full of major announcements from a variety of different groups. The Central Business District scored a big win when Simon Property Group announced that they would remain downtown. Simon will vacate National City Center in 2006 and relocate across Capitol Avenue to a new Duke Realty-developed build-to-suit located at Capitol Commons Park. This move will create 188,000 square feet of vacancy in National City Center, and it is rumored that the building will be put on the market for sale in early 2005.

The year ended with the major announcement of a new Colts stadium and expanded convention center. Both projects are expected to give both the Indianapolis and the state a huge boost going into the second half of the decade. That, coupled with the

multitude of residential developments occurring and the expected boom of the life sciences initiative, has created a noticeable level of optimism for the Central Business District in the coming years.

Notable leases include the long-term renewals of the law firm Hall Render, Indiana Hospital Association, and Blue & Company at the AUL Tower, totaling approximately 70,000 square feet.

Available sublease space in the Central Business District is down to 378,881 square feet. Vacancies are lower in the CBD than in all other submarkets at 12.47%.

The Northeast market has seen solid activity in comparison to other suburban markets. In particular, there have been four trends that characterize this submarket.

ABSORPTION: Overall market absorption has slowly increased, and long-standing developments like Zeller / ING's Castleton Park and New Boston Citimark's Northeast Business Center outperformed the market to post positive absorption and position themselves to be sold. Castleton Park sold in December to Brascan Real Estate Opportunity Fund, and Northeast Business Center is currently on the market.

I-69 CORRIDOR GROWTH: The I-69 corridor has continued to demonstrate it will be a vibrant corridor for development, with retail development at the 116th Street overpass and the mixed-use Saxony development adjacent to the S.R. 238 overpass. Saxony is a 700 acre residential, office and retail development positioned to take commercial development closer to the growing number of rooftops in eastern Hamilton County.

NEW CONSTRUCTION: The primary type of new construction has continued to be single-story, garden office buildings and retail strip centers that accommodate the population growth in Oaklandon, McCordsville, Fortville, Geist and Fishers. The service sector is extending out into suburban neighborhoods to become more accessible to the population growth.

MEDICAL OFFICE MARKET: The medical office market has been bolstered with the construction and subsequent expansion of the Heart Hospital of Indiana and the construction of Community Health Network's 25-acre medical office building in the Saxony development. That, coupled with the consistent growth in smaller outpatient offices and dental offices, has further fueled single-story medical office development. Developers such as Duke Realty and Lauth Property Group have expanded construction services to take advantage of increased construction activity in the medical market.

Northeast




Zeller/ING sold 1.1 million sq. ft. Castleton Park to Brascan Real Estate Opportunity Fund.

While the North Meridian/Carmel corridor was burdened with increased vacancies and negative absorption in 2003, 2004 brought significant market recovery. This submarket is typically the most desirable suburban submarket due to its location and the amount of new construction available. This year tenants have flocked to the Class “A” buildings that have been leased at rates typically seen in the Class “B” buildings.

At the beginning of 2004, two of the most prominent buildings in the corridor, Meridian Tower and Meridian Corporate Plaza II, were 100% vacant. The year closed with Meridian Tower 85% occupied and Meridian Corporate Plaza II, the new Lauth Property Group headquarters, 100% owner-occupied. The absorption occurring at those two buildings, along with several large deals in Duke’s signature park, Parkwood Crossing, have led to positive absorption in the corridor.

Major developments in the North Meridian corridor include the opening of Clay Terrace, which features more than 500,000 square feet of high-end retail and more than 75,000 square feet of Class “A” office space. Also, Lauth is starting construction on the first of two buildings named North Meridian Medical Pavilion, which will add 85,000 to 170,000 square feet of Class “A” medical office product to the market. This development is located north of the new Clarian Hospital and is currently under construction at 122nd and North Meridian Streets. Due to the success of Parkwood Crossing, Duke will break ground on Parkwood Nine in January 2005 with American Family Insurance (45,000 square feet) as the anchor. This 204,000 square foot multi-tenant building will be ready for occupancy January 2006.

N. Meridian/Carmel



Meridian Tower went from 0% occupied to 85% in 2004.

<u>Building</u>	<u>1/2004 Sq. Ft. Available</u>	<u>12/2004 Sq. Ft. Available</u>	<u>Major Deals</u>
Meridian Tower	142,000	28,000	Autobase, CBTS
Parkwood II	90,000	0	Firestone
Parkwood VIII	60,000	0	Smith Barney
Hamilton Crossing III	55,000	3,366	Krieg Devault, Blue & Co.
Clay Terrace (<i>opened 4th qtr. 2004</i>)	75,000	46,500	Estridge Group
Meridian Corporate Plaza	60,000	0	Lauth
Thomson Consumer Electronics (<i>sublease</i>)	75,000	15,000 (<i>pending</i>)	Backfilled, small deals

NEW ROADS: We are currently monitoring a large number of parcels that promise to have their values enhanced by new public roadway improvement projects. An outer beltway surrounding I-465 is taking shape in Hendricks County as the Ronald Reagan Parkway/AmeriPLEX Parkway, in Hamilton County as 146th Street, and in Hancock County as Olio Road/Mount Comfort Road. We anticipate these corridors will experience impressive amounts of new commercial development once these roadways are completed and utilities are available.

Area Land

PERMITS: Obtaining development entitlements is taking 30-50% more time than in prior years, as municipalities ensure that the impact of each new development on the overall infrastructure of the community is understood prior to granting permits. Some of the most contentious political battles are occurring in nearly everyone’s backyard, as new project proposals are of a scale unimagined by planners and neighbors. We are also seeing many communities revise their comprehensive land use maps to incorporate changes in market demand and community sentiments.

TREND SHIFT: Almost overnight, we have witnessed a shift in the development arena from local builders and developers to developers with regional and national capabilities and the ability to execute larger and more sophisticated projects. The securitization of real property by Wall Street has aided in this shift. Fortunately, Indianapolis is home to some of the best developers in the country and a major outpost for many headquartered elsewhere.

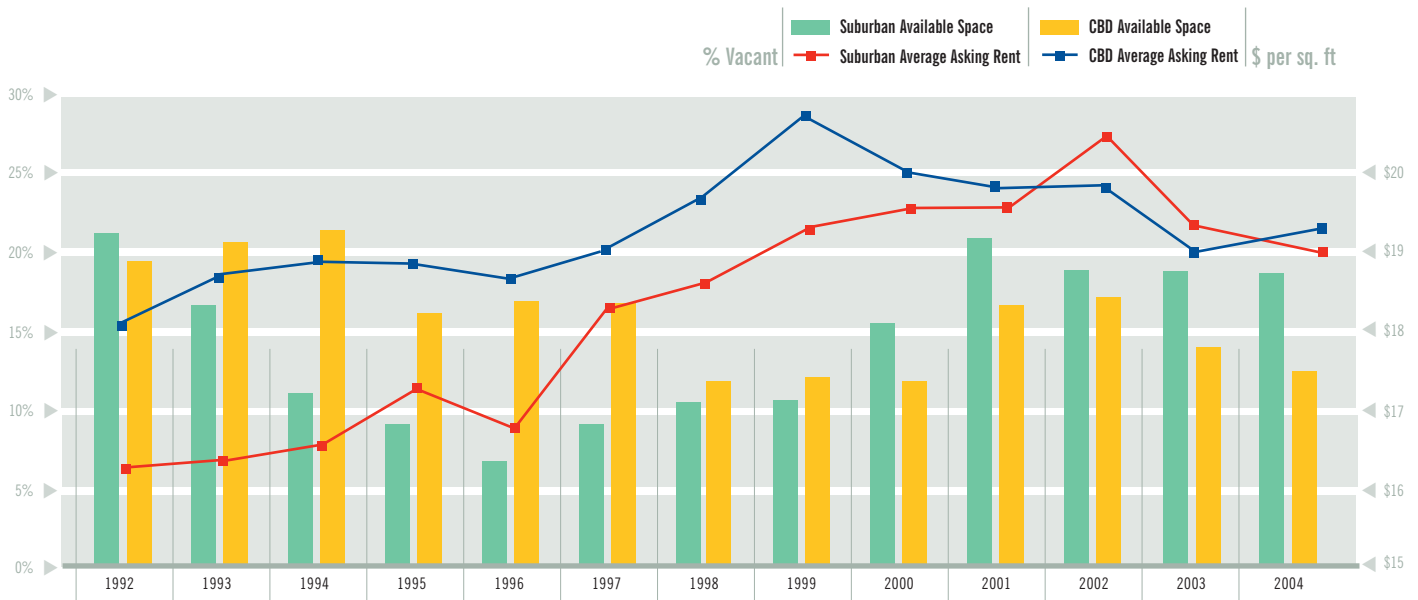
INDIANAPOLIS OFFICE MARKET SUMMARIES YTD

	Total Inventory	No. of Buildings	Class "A" Vacancy	Class "B" Vacancy	Overall Vacancy	Vacant Space	2004 New Construction
CBD/Downtown	10.92 million sq. ft.	72	10.96 %	14.51 %	12.47 %	1.36 million sq. ft.	0 sq. ft.
Entire Suburban	19.55 million sq. ft.	295	12.77 %	22.98 %	18.49 %	3.61 million sq. ft.	289,600 sq. ft.
Midtown	1.00 million sq. ft.	16	0 %	7.64 %	5.97 %	60,000 sq. ft.	0 sq. ft.
North Meridian/Carmel	5.46 million sq. ft.	73	11.46 %	18.70 %	15.29 %	835,000 sq. ft.	103,000 sq. ft.
Northwest	3.33 million sq. ft.	38	12.01 %	31.14 %	19.79 %	659,000 sq. ft.	100,000 sq. ft.
West/Southwest	1.21 million sq. ft.	15	26.65 %	29.65 %	25.31 %	307,000 sq. ft.	0 sq. ft.
Greenwood	1.09 million sq. ft.	25	14.99 %	16.48 %	16.97 %	184,000 sq. ft.	26,000 sq. ft.
East/Southeast	375,000 sq. ft.	5	n/a	34.27 %	32.32 %	121,000 sq. ft.	0 sq. ft.
Keystone	3.89 million sq. ft.	49	13.84 %	22.10 %	17.41 %	677,000 sq. ft.	0 sq. ft.
Northeast	4.20 million sq. ft.	90	14.60 %	19.57 %	19.82 %	833,000 sq. ft.	69,600 sq. ft.

ABSORPTION SUMMARY

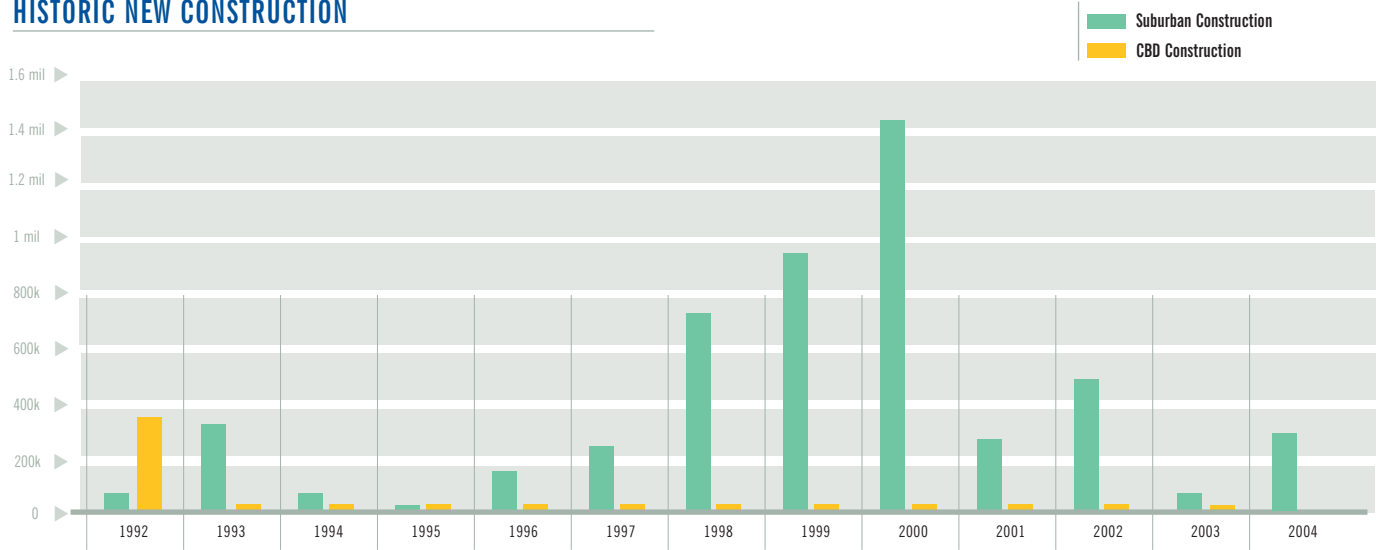
	CBD/Downtown	Entire Suburban	Midtown	N. Meridian/Carmel	Northwest	West/Southwest	Greenwood	East/Southeast	Keystone	Northeast
1st Quarter	(8,442) sq. ft.	37,081 sq. ft.	11,756 sq. ft.	(26,703) sq. ft.	9,795 sq. ft.	(86,403) sq. ft.	37,058 sq. ft.	0 sq. ft.	90,283 sq. ft.	1,295 sq. ft.
2nd Quarter	56,545 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	36,684 sq. ft.	204,181 sq. ft.	22,238 sq. ft.	45,918 sq. ft.	17,466 sq. ft.	62,537 sq. ft.	(19,465) sq. ft.	0 sq. ft.	37,843 sq. ft.	59,882 sq. ft.
4th Quarter	111,060 sq. ft.	308,100 sq. ft.	206,589 sq. ft.	215,754 sq. ft.	77,440 sq. ft.	(1,395) sq. ft.	21,266 sq. ft.	4,000 sq. ft.	9,015 sq. ft.	(17,980) sq. ft.
Year-to-Date Total	206,949 sq. ft.	362,070 sq. ft.	250,934 sq. ft.	259,100 sq. ft.	46,931 sq. ft.	(90,200) sq. ft.	60,302 sq. ft.	22,075 sq. ft.	52,078 sq. ft.	11,784 sq. ft.

AVAILABLE SPACE VS. AVERAGE ASKING RENT



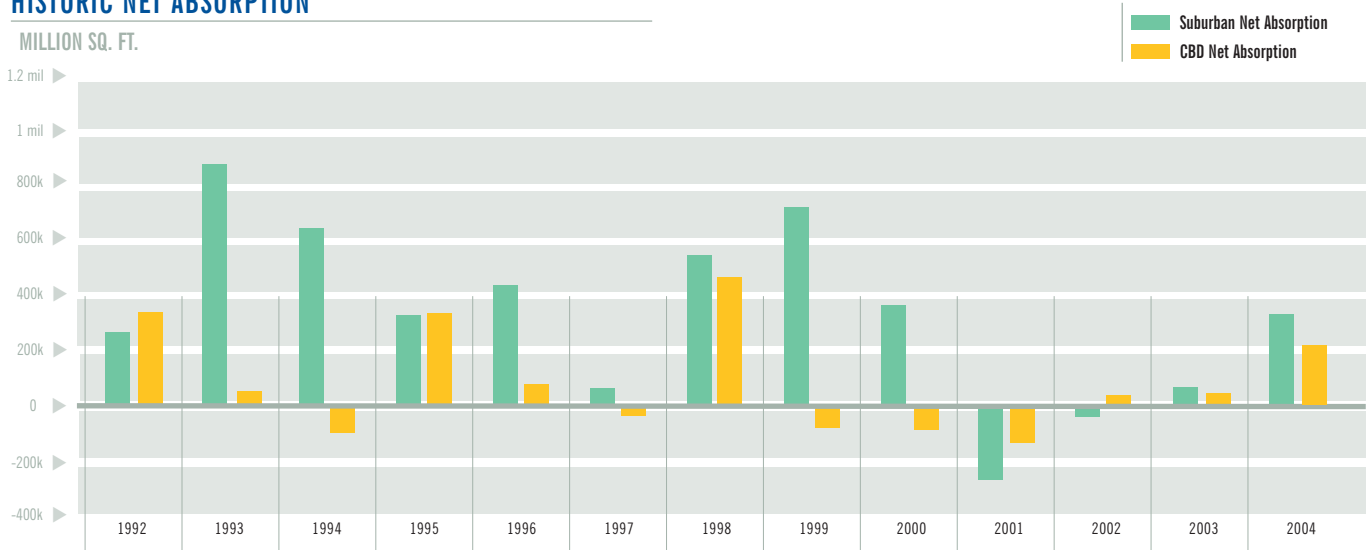


HISTORIC NEW CONSTRUCTION



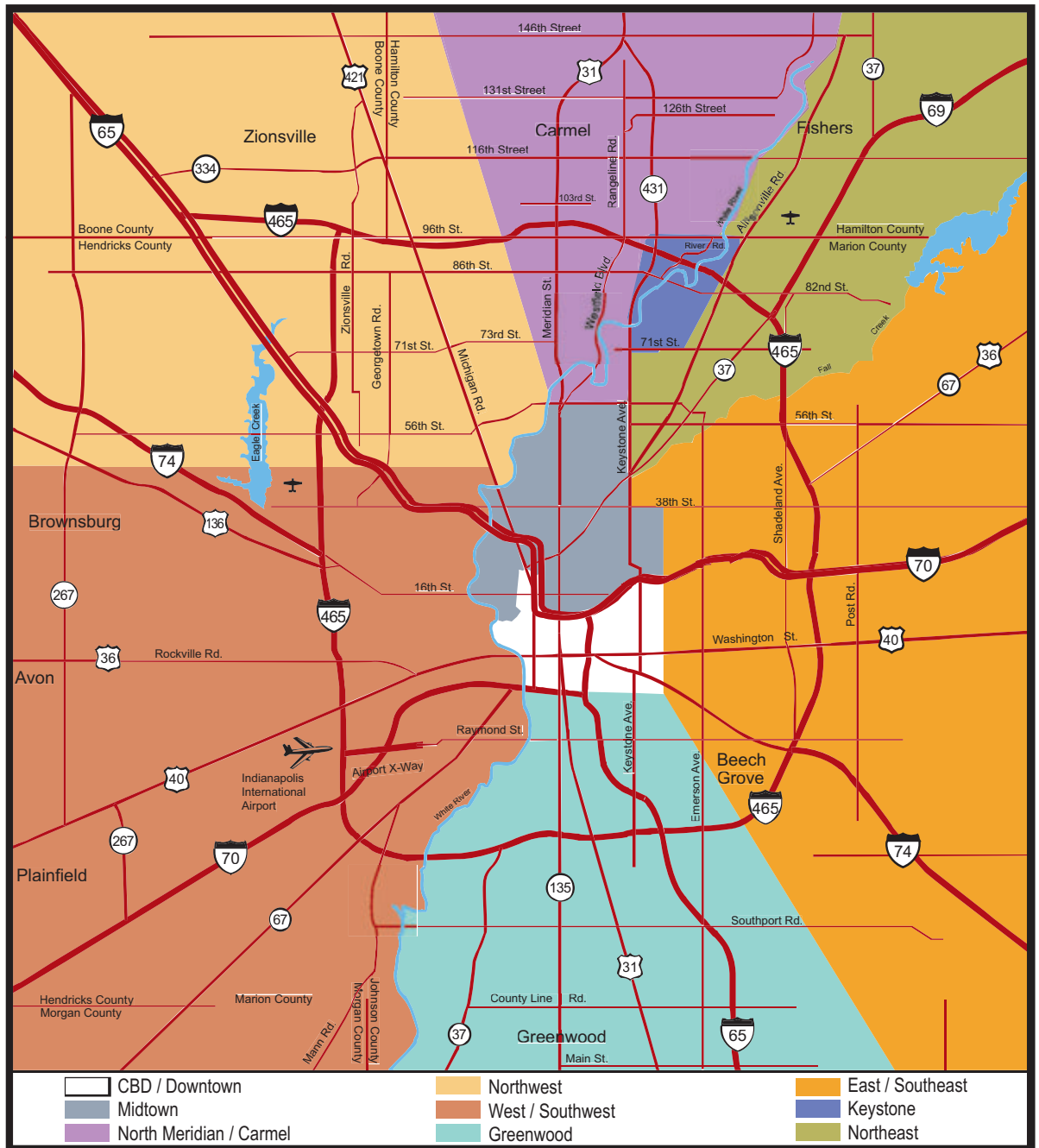
HISTORIC NET ABSORPTION

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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