

# Meridian MarketWatch

YEAR END  
2006

INDUSTRIAL  
MARKET REPORT



A QUARTERLY REVIEW OF INDUSTRIAL MARKET ACTIVITY

Indianapolis, Indiana

**C**ompetition and speculation were the major factors for the overall market in 2006. A number of developers have entered key submarkets including Republic Development, Verus Partners and Cohen Asset Management competing with the usual suspects of Duke, Opus, Pizzuti, Pannatoni, Lauth, Precedent, First Industrial, Browning and Prologis. Each of these developers, due mostly to the active investment market, continue to deliver new modern bulk buildings to each of the key submarkets.

Another factor in 2006 was the influx of capital from outside of the state looking for investment in the industrial sector chasing portfolios and properties. Most notably, Blue Real Estate Group out of Beverly Hills, CA acquired a 17-building portfolio totaling 809,000 sq. ft. from Duke Realty Corporation. Many of these types of investors are finding better yields and see a more stable environment

than the larger markets. The cap rates that many of these national investors are accepting are pushing more local developers to consider selling long term holds and reinvest the capital mostly in the bulk market. The only potential threats to this trend would be a future rise in interest rates and/or a slowing demand in the bulk development sector.

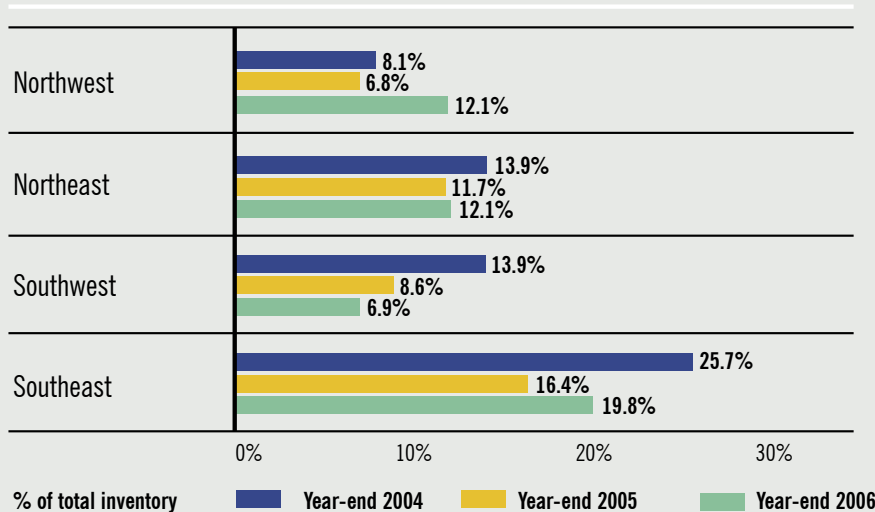
Luckily for greater Indianapolis, companies such as Ozburn-Hessey Logistics (OHL) have great faith in both the location and labor force and continue to expand their logistics presence. OHL alone accounted for 1.6 million sq. ft. of new leases in Plainfield which was 400,000 sq. ft. more than the five next biggest deals combined. Other notable transactions outside of Plainfield included Browning completing a 281,000 sq. ft. lease with Subaru in Whitestown and Coastal Partners leasing 260,000 sq. ft. to Kid Glove on the eastside of the city.

*continued on page 2*

## HOT TOPICS INDIANAPOLIS - INDUSTRIAL

- Precedent has completed a 594,000 sq. ft. modern bulk warehouse at Mt. Comfort Commercial Park. Additional development will include potential retail, office, and build-to-suit opportunities along with industrial facilities.
- Ozburn-Hessey Logistics continued their growth by expanding in Plainfield, absorbing 1.6 million sq. ft. of Type III space over three different buildings.
- Chicago-based The Alter Group and Indianapolis-based Lauth Property Group are both planning massive developments just west of Plainfield off of I-70 in Monrovia. The Alter Group is planning a 400-acre mixed-use development that would be largely industrial, following the great success of attracting distribution hubs to Plainfield. Lauth Property Group is planning a 550-acre industrial park that would also feed off the momentum.
- Verus Partners is planning two spec buildings in the new Saxony development in Noblesville. Saxony buildings 100 & 200 will be medium distribution buildings at 89,600 sq. ft. each. Both have ten year tax abatements in place, and are part of the Saxony Corporate Campus. The first building is well under construction.

### INDIANAPOLIS INDUSTRIAL VACANCY



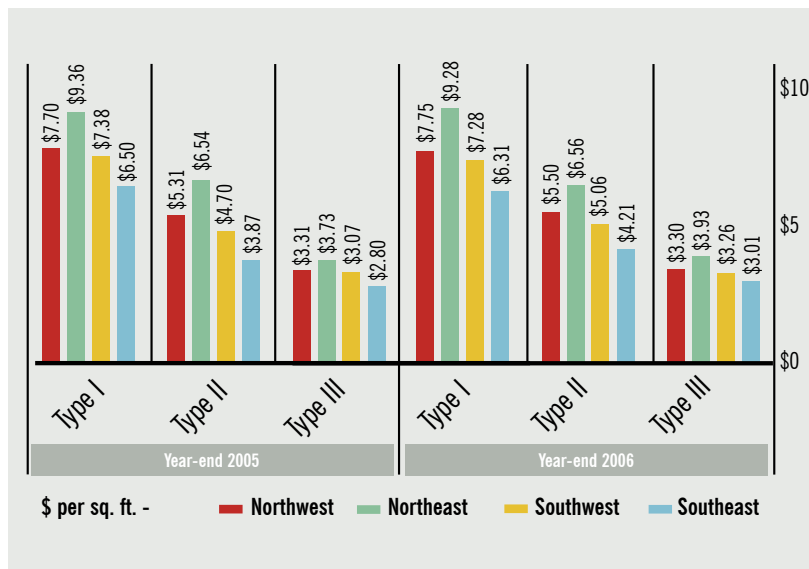
## INDIANAPOLIS INDUSTRIAL ASKING RENTS

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In the age of consolidation, competitors in the real estate business are also seeing benefits of working together under joint venture arrangements as seen with Duke Realty Corporation and Browning Investments joining forces to co-develop the All Points brand of industrial parks. All Points Midwest in the southwest submarket will have capacity of nearly 12.5 million sq. ft. and All Points at Anson in the northwest submarket will have the ability to accommodate 7.4 million sq. ft. Outside of the industrial development at Anson, Duke has completed the infrastructure to service office, residential and retail sectors on the balance of the 1,400 acres.

Other developers are working hard on their own large mixed-use developments such as Republic's Saxony development on the northeast side of town. To the benefit of Republic, Simon Malls is nearing completion of the first phase of the 1 million sq. ft. lifestyle mall near Saxony which will spur industrial and office development. Other developers, such as Lauth, are also considering large land purchases in outlying areas such as Monrovia. This demand for ground is pushing developers to consider a ground purchase prior to utilities being brought to the site.

2006 saw a number of notable manufacturing wins for the State of Indiana. Nestle announced early in the year that Anderson would be home to a new State-of-the-Art 880,000 sq. ft. distribution center, Greensburg attracted Honda Motor Corporation who will spend over \$560 million and will employ



over 2,000 and, last but not least, Subaru Toyota will expand their operations in Lafayette by over 800 workers.

The industrial bulk market will need a spike in demand to fill new Type III space currently under construction and planned for 2007. We may see a return to a tenant driven market in the modern bulk arena but plan on continued net absorption in the Type I and II sectors as long as the economy remains stable. Hopefully, 2007 will also see more manufacturing jobs retained and created in sectors such as healthcare, automotive plants and food services.

## INDIANAPOLIS INDUSTRIAL SUMMARIES - YEAR-END 2006

	Total Inventory	No. of Buildings	Vacancy Rate	Available Space	New Deliveries	YTD Absorption
Northwest	23,436,331 sq. ft.	175	12.08 %	2,831,062 sq. ft.	1,129,000 sq. ft.	(183,515) sq. ft.
Northeast	5,302,965 sq. ft.	89	12.08 %	640,338 sq. ft.	0 sq. ft.	(33,324) sq. ft.
Southwest	28,800,352 sq. ft.	106	6.93 %	1,997,033 sq. ft.	2,609,100 sq. ft.	2,830,141 sq. ft.
Southeast	14,384,147 sq. ft.	88	19.77 %	2,843,598 sq. ft.	1,294,000 sq. ft.	619,304 sq. ft.
Whole Market	71,923,795 sq. ft.	458	11.56 %	8,312,031 sq. ft.	5,032,100 sq. ft.	3,232,606 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.

Speculation was the name of the game for 2006 in the Northwest Submarket and does not seem to be slowing down going into 2007. The second generation Park 100 market stayed stable with a number of tenants renewing with a bit of rental appreciation and the Type I market picking up a bit of space.

The biggest announcement of the year was a joint venture by Duke Realty Corporation and Browning Investments for All Points at Anson. The planned 1,700-acre urban development known as Anson will include office, retail, civic, industrial and multi-family development. The industrial piece, All Points at Anson, will include approximately 10 million sq. ft. of modern bulk space with the first 630,000 sq. ft. facility ready for occupancy in the first quarter of 2007.

Also in the Type III market, Browning was successful in leasing 282,000 sq. ft. to Subaru in their Park 267 building, leaving approximately 218,000 sq. ft. still available. Verus Partners delivered their 5100 Indianapolis Blvd. building, adding an additional 624,000 sq. ft. with no current leases in place. Pannattoni entered the market purchasing a building-ready land site for approximately 500,000 sq. ft. between Browning's building and Pizzuti's land site.

The Park 100 market saw a number of notable transactions, including: Hellman Worldwide Logistics leasing 96,000 sq. ft. with Duke, Icon Transportation leasing 127,000 sq. ft. with Multi Employers Property Trust, and Distinctive Wine Cellars leasing 36,000 sq. ft. with First Industrial Realty Trust at Northwest Business Park. Notable Type II transactions included WLS remaining in 19,200 sq. ft. Duke Realty Corporation and McComb Window and Door relocating with Duke to 69,000 sq. ft.

Demand will definitely need to pick up in order to absorb the nearly 1.2 million sq. ft. of new space and back fill the two large vacancies in Park 100. The Type II market will remain stable and the Type I market will continue to improve. The 36 month outlook would show Anson and one other competitor possibly controlling the Whitestown market and possibly stabilizing rental rates.

## Northwest



650,000 sq. ft. currently available at AllPoints at Anson

## Northeast



89,000 sq. ft. Distribution Facility at Saxony Corporate Campus

The Northeast Submarket remained fairly stable overall from year-end 2005 to year-end 2006. A spike in Type II vacancy, however, has caused some concern with owners and developers going into 2007.

During 2006, Type II vacancy increased from 6.51% to 14.99% as an extra 150,000 sq. ft. came back to the market in the form of second and third-generation space. The parks accounting for the majority of this space were Hillsdale, Crosspoint and Hawthorne Park. Conversely, Type I and Type III vacancy decreased during 2006, indicating a strong leasing market in the flex and bulk warehouse product types. Assisting the health of the Type III market was IMMI's lease at Noblesville Commerce Center, as well as Stanley's expansion at North by Northeast.

New construction is still strong and pushing further north into Noblesville. Stanley completed a build-to-suit at Smithfield Farms with Panattoni who will also kick off a flex/medium distribution facility in 2007. Closer to I-69 (Exit 10), Verus is well underway with their speculative, 89,000 sq. ft. Type II building in Saxony. Perkins Specialized Transportation began construction of their 40,000 sq. ft. office/ flex headquarters within Saxony in 2006.

The Northeast Submarket has traditionally been a strong Type I submarket and there is no reason to believe that will change anytime soon. Another area of strong growth appears to be the build-to-suit market including owner-users, freestanding leases and pre-lease construction. New land availability along 146<sup>th</sup> Street and surrounding the Exit 10 interchange will help to fuel this growth as well as amenities such as Simon's new 1 million sq. ft. open-concept mall opening later in 2007.

Finally, we anticipate 2007 will be a healthy market across the board. The Type II market should rebound as most of the vacant 258,000 sq. ft. could be absorbed fairly easily throughout the year. Still, look for aggressive rental rates and concessions offered by landlords of this product type for the first half of the year.

## Southwest



OHL leased 812,000 sq. ft. at Airtech at the end of 2006

Despite overall demand being somewhat off-pace in 2006, the Southwest Submarket showed improvement across the board in terms of lower vacancy, moderate net absorption and even some rental appreciation. Demand will need to pick up in 2007 as a large supply of new, speculative construction will challenge the well-being of the Southwest bulk marketplace.

Ozburn-Hessey Logistics led the new leasing market by a wide margin accounting for over half of net absorption for the year. With OHL's expansion of Airwest VII and new operations at Plainfield #8 and Airtech, over 1.6 million sq. ft. was leased in all. Other notable leases during the year include: Brightpoint: 321,000 sq. ft., Guitar Center's expansion: 268,000 sq. ft., Foxconn: 259,000 sq. ft., Prime Distribution: 244,000 sq. ft. and FedEx: 180,000 sq. ft..

Investment sale activity was again strong. One highlight was in Park Fletcher, a 17-building portfolio totaling 809,000 sq. ft. by Duke Realty Corporation to Blue Real Estate out of Beverly Hills, CA. The portfolio was 87% occupied at the time of sale. Other large sales include a 2-building, 794,000 sq. ft. asset to Transpacific Development and Opus North Corporation's disposition of Buildings V, VI and VII (1,378,000 sq. ft.) to 854 Golf Lane LLC. Demonstrating the aggressive nature of industrial buyers, Cohen Asset Management purchased an empty 440,000 sq. ft. building from Alter Group upon completion of construction on pure speculation of future leasing.

The hot investment and capital markets have, in part, contributed to more favorable lease terms for tenants. In particular, additional tenant improvements and move concessions have been more readily available due to the developer's ability to recapture these expenses from the upside of the sale. These concessions allow the landlord a higher net rental rate while granting the tenant present value advantages as well as capital preservation.

The low market vacancy rate and stable rental rates could unfortunately be the calm before the storm. With nearly 4 million sq. ft. of speculative bulk space currently planned or under construction, 2007 will bring a new set of challenges to the Southwest submarket. In response to the new competition, look for landlords to continue to offer attractive move-in concessions and free rent and possibly expect a slight, short-term drop in net rental rates.

Leasing activity in the Southeast Submarket was extremely active in 2006 despite overall leasing activity in the market being slower than normal. Older distribution buildings were the main benefactors of the activity. We expect the activity level to remain high going into 2007 as there are already 4-5 tenants looking for at least 150,000 sq. ft. in this submarket.

Overall vacancy crept up from year-end 2005, however, the increase can be attributed to the completion of two new Type III bulk warehouse buildings. Lauth Property Group completed Southpoint One, a 668,000 sq. ft. facility located in Greenwood, and Precedent Commercial Development recently finished construction on Mt. Comfort Building 105, a 594,000 sq. ft. building located in the Mt. Comfort Commercial Park. The Type I vacancy rates ended slightly below 10%, which is down from 11% the year before. Vacancy rates in Type II product decreased over 4%, ending the year at 11.59%.

A few notable leases completed in 2006 include Commodity Logistics: 81,000 sq. ft. at Kitley Road, TWS: 60,000 sq. ft. at Shadeland Manufacturing and Distribution, CVS: 280,000 sq. ft. in multiple buildings and Kid Glove Service: 250,000 sq. ft. in the former BMG building. The logistics industry continues to be a vital part of the overall Indianapolis real estate market.

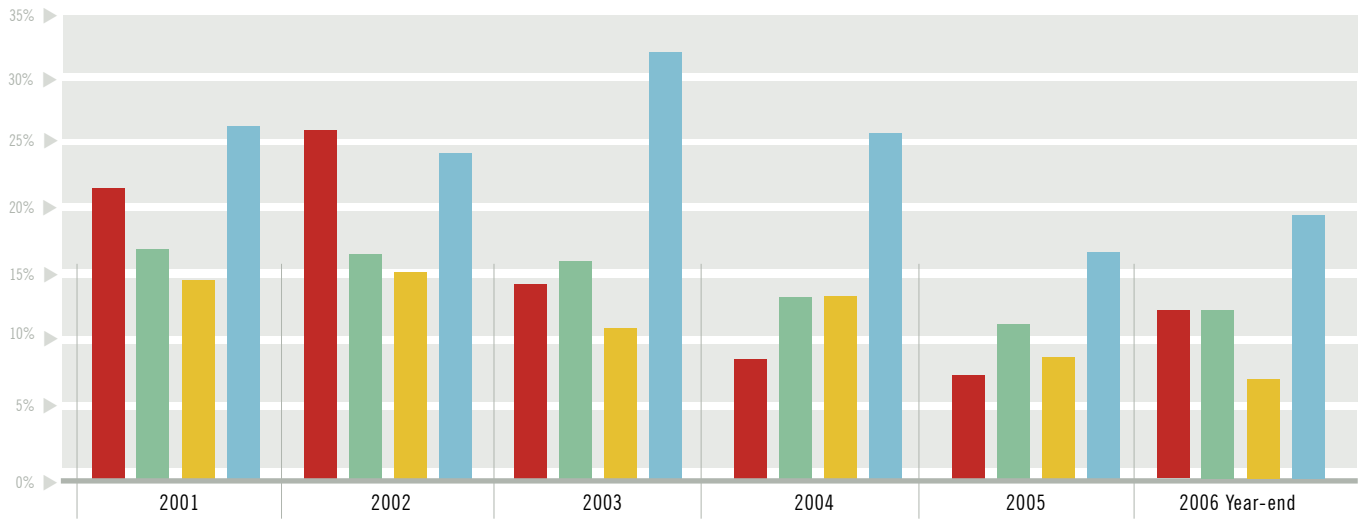
While two new bulk buildings were completed this year, 2007 is projected to be slower on the construction horizon. At this point, the only new construction scheduled in 2007 is a 295,000 sq. ft. Type II building located in Precedent South Business Park, which is being built by Precedent. There are a couple of key vacancies that need to be filled this year: Southpoint, Mt. Comfort and the former Cosco/Dorel building. With the overall activity level being strong this early in the year, it appears as though it can be accomplished, which also means that landlords can continue increasing lease rates as the market tightens.

## Southeast



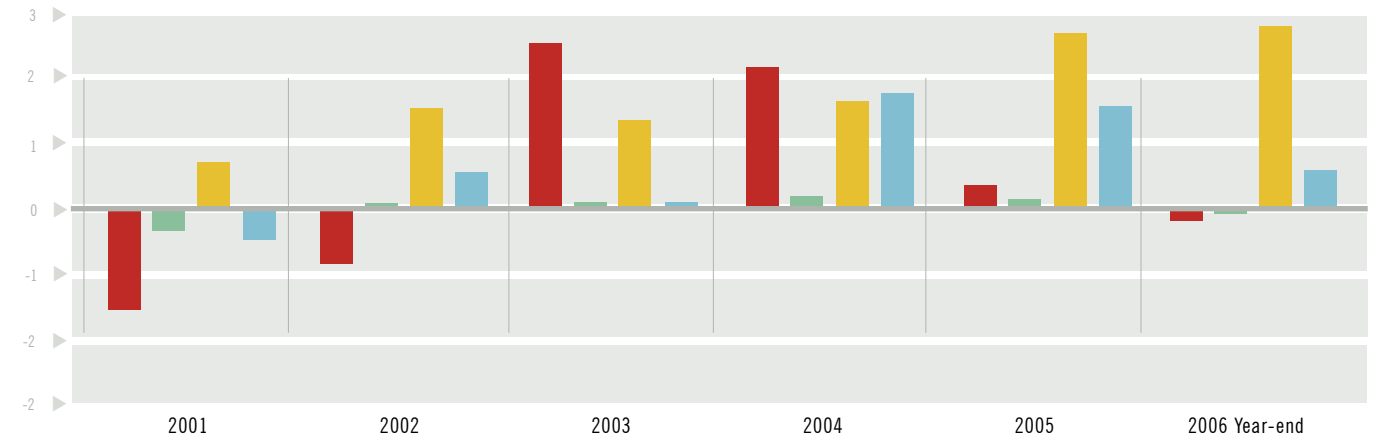
TWS recently signed a lease for 60,000 sq. ft. at Shadeland Manufacturing & Distribution Center

### VACANCY RATES



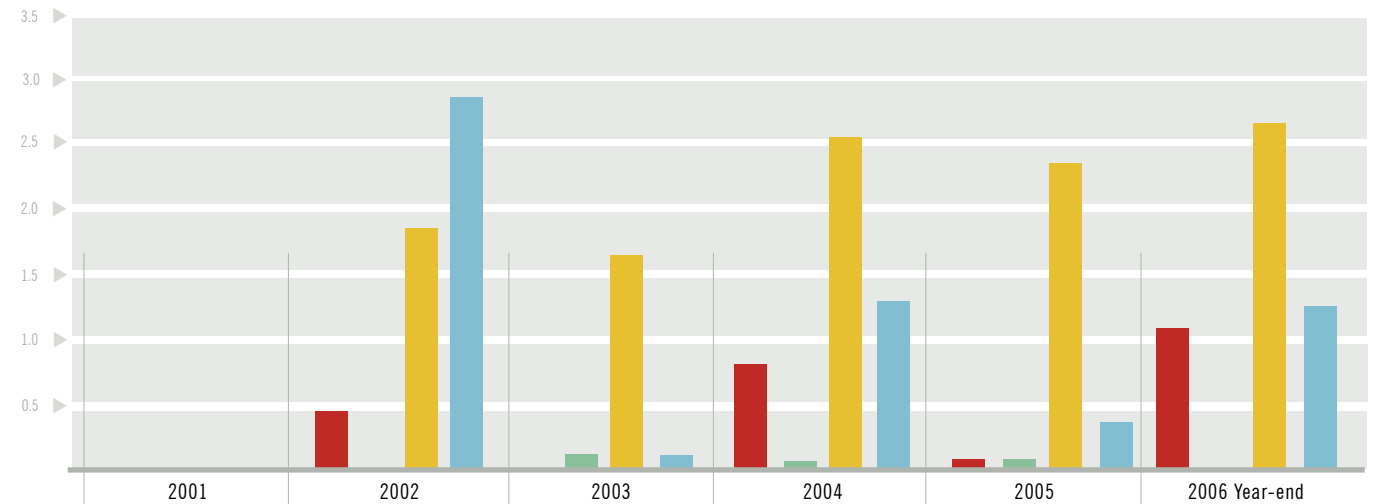
### NET ABSORPTION

(million sq. ft.)



### NEW CONSTRUCTION

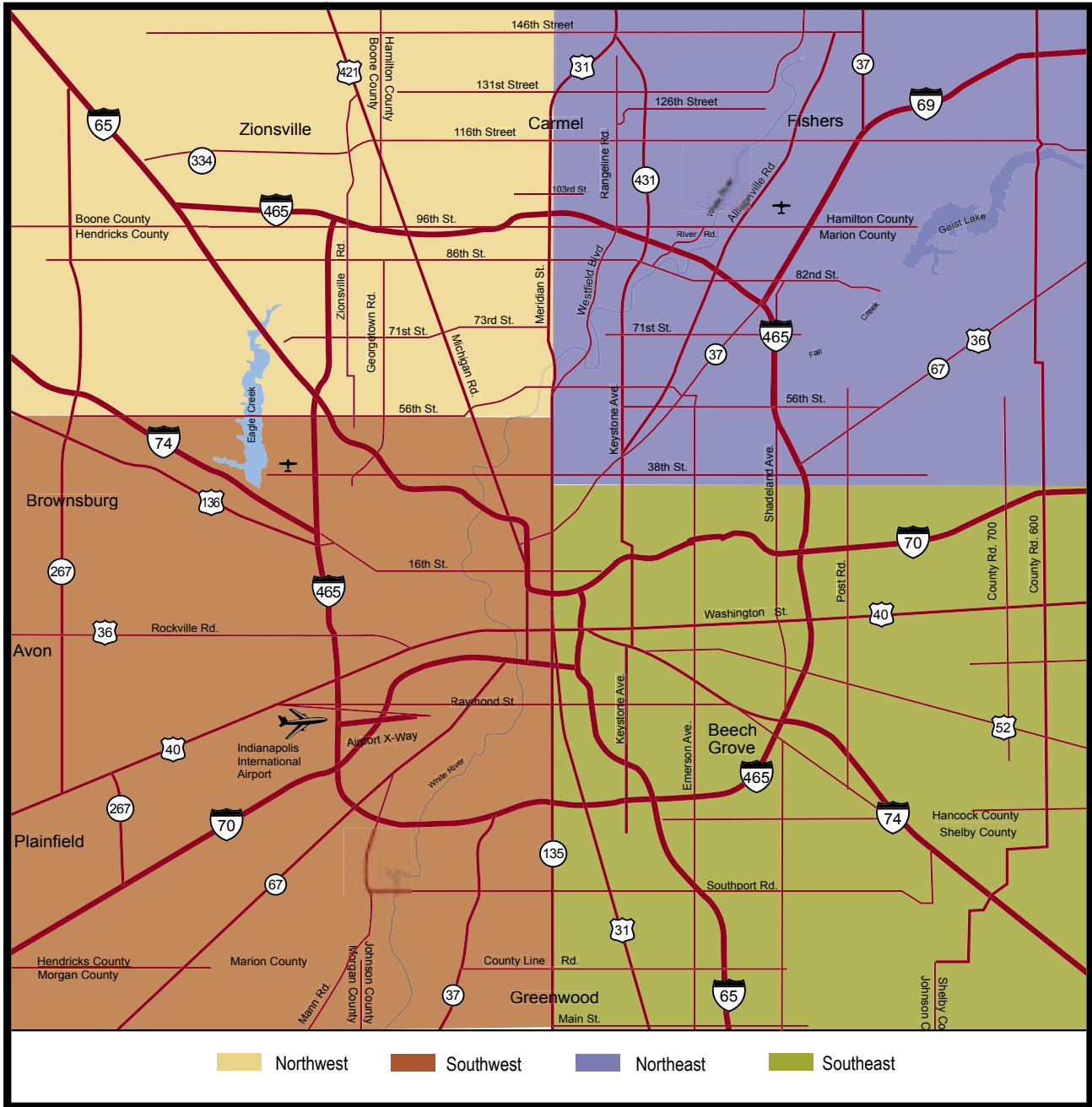
(million sq. ft.)





# 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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