

# Meridian

## MarketWatch

MIDYEAR  
2009

OFFICE  
MARKET REPORT

### A REVIEW OF OFFICE MARKET ACTIVITY

Indianapolis, Indiana

**T**he economic meltdown has a firm grip on the central Indiana office market. By all indications, vacancy rates are up and absorption is down. The credit markets are still not functioning normally which has diminished businesses ability to expand, innovate, or even operate. As expected with the unemployment rate increasing, businesses are not expanding or requiring additional office space and instead are placing large amounts of sublease space on the market.

These factors are placing negative pressure on rental rates which is good news for tenants but bad news for landlords. Landlords are finally realizing that tenant retention has to be top priority. As such, we are beginning to see aggressive concessions and incentives across the market. On top of this, the recent changes to the real estate tax formula, made

by the Indiana legislature, have increased property taxes on almost all commercial properties. These increases have further reduced returns for building owners and increased operating expense pass-throughs to existing tenants. Furthermore, the credit market requirements are making investing in commercial properties an expensive endeavor. Coupling the enhanced equity now required with stagnant or falling net operating income results in almost non-existent investment sales. Combine this with the general economic conditions and it has created additional concerns to owners and tenants alike.

With no signs of the economy improving for the foreseeable future, we do not forecast any material improvements to the central Indiana office market for the remainder of 2009.

### HOT TOPICS

INDIANAPOLIS - OFFICE

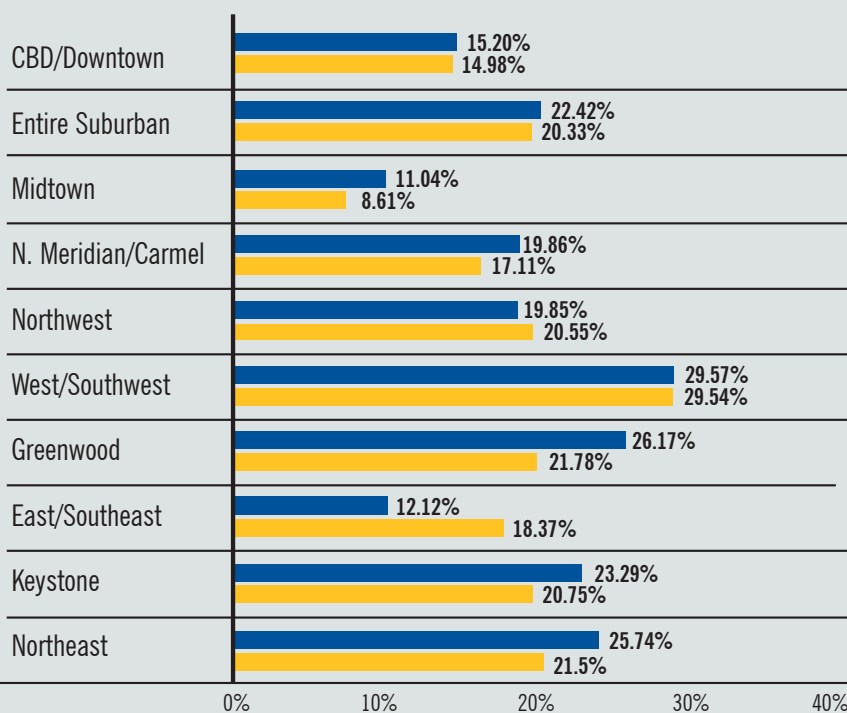
- Investment sales have come to a halt with few, if any, investment grade office sales taking place. However, sale/leaseback activity continues as companies seek to free up capital.
- Sublease space continues to pile up as tenants reduce their operating costs; another factor driving down rental rates.
- The economic climate has finally reached all sectors of the office market. Healthcare, the last to slow, has finally begun a pullback with several hospitals stopping or slowing their hospital expansions midstream.

#### Submarkets

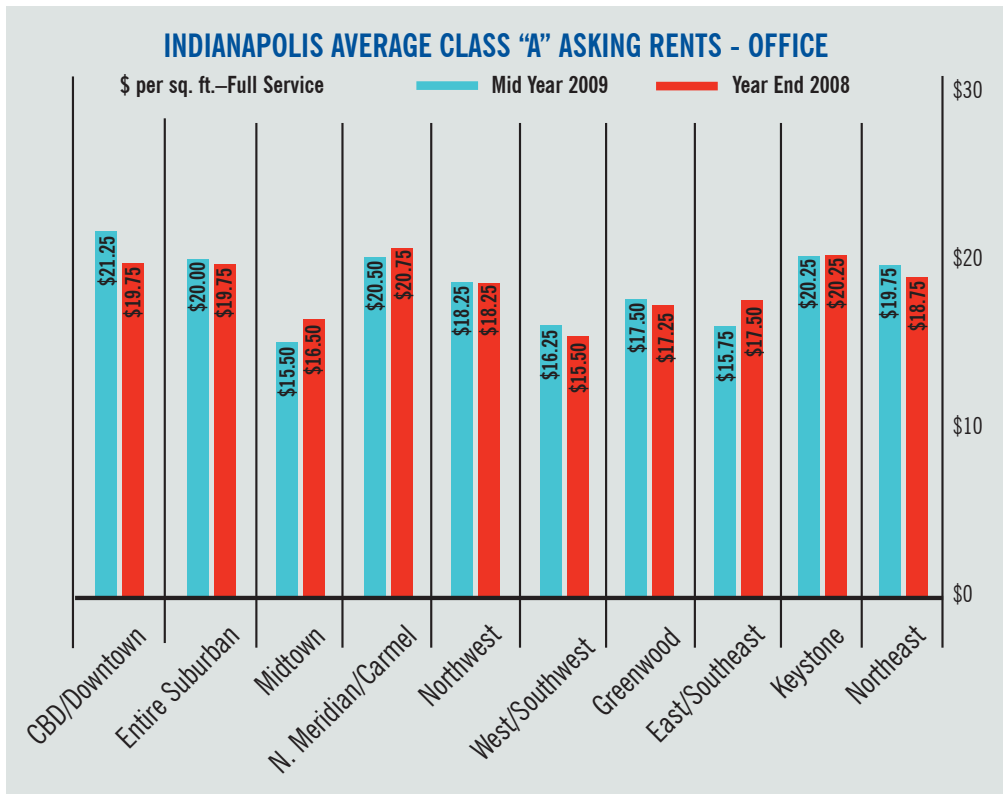
#### Vacancy Rates

#### INDIANAPOLIS OFFICE VACANCY RATES

■ Mid Year 2009  
■ Year End 2008  
% of total inventory



 **MERIDIAN**<sup>®</sup>  
Real Estate



### ABSORPTION SUMMARY

	CBD/Downtown	Entire Suburban	Midtown	N. Meridian/Carmel	Northwest	West/Southwest	Greenwood	East/Southeast	Keystone	Northeast
Year End 2008	(38,103) sq. ft.	220,442 sq. ft.	103,425 sq. ft.	82,096 sq. ft.	15,531 sq. ft.	61,617 sq. ft.	54,604 sq. ft.	(19,070) sq. ft.	(86,468) sq. ft.	112,332 sq. ft.
Mid Year 2009	(62,155) sq. ft.	(557,275) sq. ft.	(17,380) sq. ft.	(205,224) sq. ft.	3,019 sq. ft.	11,851 sq. ft.	(2,865) sq. ft.	920 sq. ft.	(115,419) sq. ft.	(249,506) sq. ft.

### INDIANAPOLIS OFFICE MARKET SUMMARIES YTD

	Total Inventory	No. of Buildings	Class "A" Vacancy	Class "B" Vacancy	Overall Vacancy	Vacant Space	2009 New Construction
CBD/Downtown	12.5 million sq. ft.	84	12.92 %	16.56 %	15.20 %	1.9 million sq. ft.	0 sq. ft.
Entire Suburban	22.3 million sq. ft.	357	19.73 %	25.67 %	22.42 %	5.0 million sq. ft.	0 sq. ft.
Midtown	1.06 million sq. ft.	17	0 %	12.33 %	11.04 %	117,000 sq. ft.	0 sq. ft.
North Meridian/Carmel	7.1 million sq. ft.	100	15.49 %	27.04 %	19.86 %	1.4 million sq. ft.	0 sq. ft.
Northwest	4.06 million sq. ft.	48	15.08 %	25.64 %	19.85 %	808,000 sq. ft.	0 sq. ft.
West/Southwest	1.2 million sq. ft.	23	39.01 %	34.83 %	29.57 %	357,000 sq. ft.	0 sq. ft.
Greenwood	927,000 sq. ft.	25	11.41 %	29.46 %	26.17 %	242,000 sq. ft.	0 sq. ft.
East/Southeast	234,000 sq. ft.	7	n/a	5.85 %	12.12 %	28,000 sq. ft.	0 sq. ft.
Keystone	4.2 million sq. ft.	56	24.58 %	21.91 %	23.29 %	985,000 sq. ft.	0 sq. ft.
Northeast	4.5 million sq. ft.	98	28.45 %	24.11 %	25.74 %	1.2 million sq. ft.	0 sq. ft.



# Submarket Reports

## Keystone Crossing



Woodfield Crossing I is home to Charles Schwab who will occupy it in its entirety (160,000 sq. ft.).

Leasing activity has still not recovered to levels seen in 2007 and is maintaining similar depressed levels as seen in 2008. Vacancy rates are at 23.29% from 19.00% this time last year and 18.04% from 2007. However, landlords are attempting to hold rents steady at a range of \$18.50-\$23.50/RSF.

An abundance of sublease space continues to hit the market as companies shrink and attempt to minimize occupancy costs. Furthermore, new tenants and existing renewals are attempting to secure shorter lease terms and trying to be extremely efficient with the space they take. Notable transactions are:

Yellow Pages Group has leased 21,054 sq. ft. in 9200 Keystone Crossing.

Charles Schwab will soon be moving from their Crosspoint location to the 160,000 sq. ft. Class "A" Woodfield Crossing I building and occupy it in its entirety. The current occupant, American Funds, will be occupying its own campus setting at Opus Landmark at Meridian.

Leasing activity is slow in the Northwest submarket as it is in other parts of the city. The net absorption during the first half of 2009 was 3,000 RSF. Marquis deals still seem to elude this submarket, and like in other areas of Indianapolis, tenants are looking for shorter terms and less space.

On a positive note, Bernardin, Lochmueller and Associates leased 21,531 sq. ft. at the Klipsch building, which now has only 10,300 sq. ft. available. Also, Fortis College, a California-based institution, secured a 10-year lease at Parkstone for approximately 31,000 sq. ft.

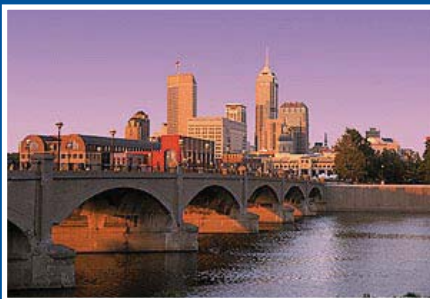
In early 2009, a few of the Northwest landlords sat on the sidelines as the credit crunch affected their ability to fund tenant improvements. As of midyear, those landlords are back in play. It should be noted that tenant improvement dollars are not being spent as freely as they were in late 2007 and early 2008. Improvements are being quoted on a deal-by-deal basis based on actual construction required.

## Northwest



Bernardin, Lochmueller and Associates leased 21,531 sq. ft. at the Klipsch building.

## CBD/Downtown



Much of the positive downtown news continues to be centered around the convention and hotel industries. The convention expansion is well underway following the demolition of the RCA Dome with an anticipated completion date of late December 2010. In addition, the new Marriott Place Indianapolis hotel complex is rising along the west side of downtown and is projected to be completed in early 2011.

The work on re-skinning of One Indiana is ongoing. Once the new exterior is in place the difficult task of removing the original exterior will take place from the inside of the building. However, on a positive note, Regions Bank recently renewed at One Indiana.

Overall, the downtown office market is slow with no positive absorption. The economic downturn has led to numerous sublease spaces being put on the market by tenants who have or need to downsize. Also M & I Plaza, which is

approximately 70% vacant, has begun to actively market its space now that the primary mortgage holder has regained control.

All these factors are creating downward pressure on rental rates and will continue for the foreseeable future until companies begin to add employees and create a need for more office space.

Sublease space is prevalent throughout the city and evidenced in this submarket by Meridian Tower. At nearly 143,000 sq. ft. in size, sublease space available among tenants accounting for roughly 47,000 sq. ft., or 33% of the building. Charter One's 20,000 sq. ft. space taken over by First Merchants at Three Meridian Plaza also points toward these increased opportunities.

Notable construction projects include Capital Companies' ongoing development at the northeast corner of 126th and Meridian Streets. The second-phase of the campus, slated for completion early 2010, includes a second office building and a mail processing center, totaling 175,000 and 32,000 sq. ft., respectively.

Browning's forthcoming development, Meridian & Main further supports the Meridian Corridor's standing as one of the most desirable office submarkets. The mixed-use project offers medical and general office buildings, as well as supporting retail and hospitality opportunities.

Roadway improvements slated for US 31 will undoubtedly invigorate what has, and will continue to be, strong interest in the North Meridian/Carmel submarket. Non-office activity involves the development of a 119-room, Staybridge Suites by Hotel Development Services, LLC situated on Pennsylvania just north of 106th Street. Transactions of note for the first half of 2009 included:

	<u>Sq. Ft.</u>	<u>Location</u>
Brown & Brown	12,300	Two Penn Mark, 11555 N. Meridian Street
Infectious Disease of Indiana	10,000	Three Penn Mark, 11455 N. Meridian Street
National City Private Client Group	7,000	Pennwood Plaza, 11405 N. Pennsylvania Street
Indiana Area United Methodist Church	12,500	Two Meridian Corporate Plaza, 301 Pennsylvania Parkway
CorVel Corporation	12,000	Two Meridian Corporate Plaza, 301 Pennsylvania Parkway
Hylant Group	17,000	Two Meridian Corporate Plaza, 301 Pennsylvania Parkway

## N. Meridian/Carmel



Hylant Group leased 17,000 sq. ft. in Two Meridian Corporate Plaza.

## Northeast



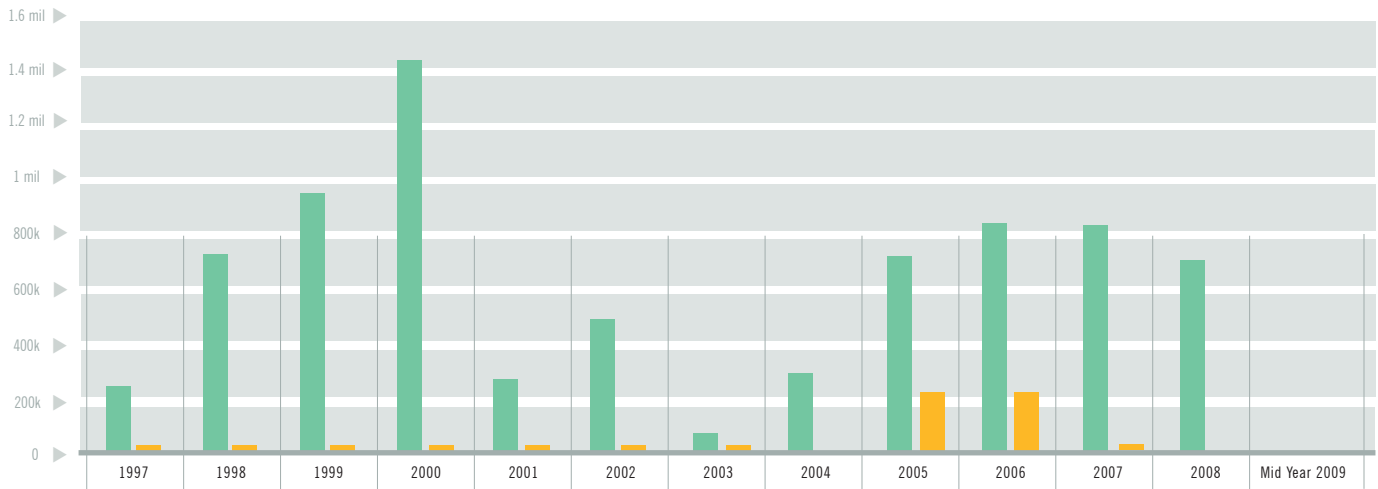
Royal United Financial Services, LLC leased 17,968 sq. ft. at 7999 Knue Road.

Leasing activity for the most part in the northeast corridor has been quiet. Effective rental rates have continued to decrease with motivated landlords offering longer periods of free rent combined with aggressive rates and other concessions, such as generous build-out allowances, to attract and retain tenants. Many landlords are currently willing to accommodate tenant requests for downsizing, lower rent mid-term and numerous other concessions. One of the highlight transactions for the Northeast submarket is the signing of Royal United Financial Services, LLC leasing 17,968 sq. ft. at 7999 Knue Road in Castleton. The highlight for new construction on the Northeast side is the near completion of Crosspoint Business Park in Fishers. The Edgeworth-Laskey project is approximately 110,000 sq. ft. and one of the first anchor tenants is USA Funds leasing approximately 30,000 sq. ft.

The healthcare sector is still committed to the Northeast submarket with St. Vincent Northeast MOB coming online and expanding their services with an on-site pharmacy, lab, and rehab services in addition to their emergency department with a full-service imaging center. St. Vincent Northeast, MOB continues to add new tenants to their roster, the latest member is the Indiana Hand Center leasing space within the St. Vincent Medical Center providing hand and shoulder rehabilitation center for their patients.

### HISTORIC NEW CONSTRUCTION

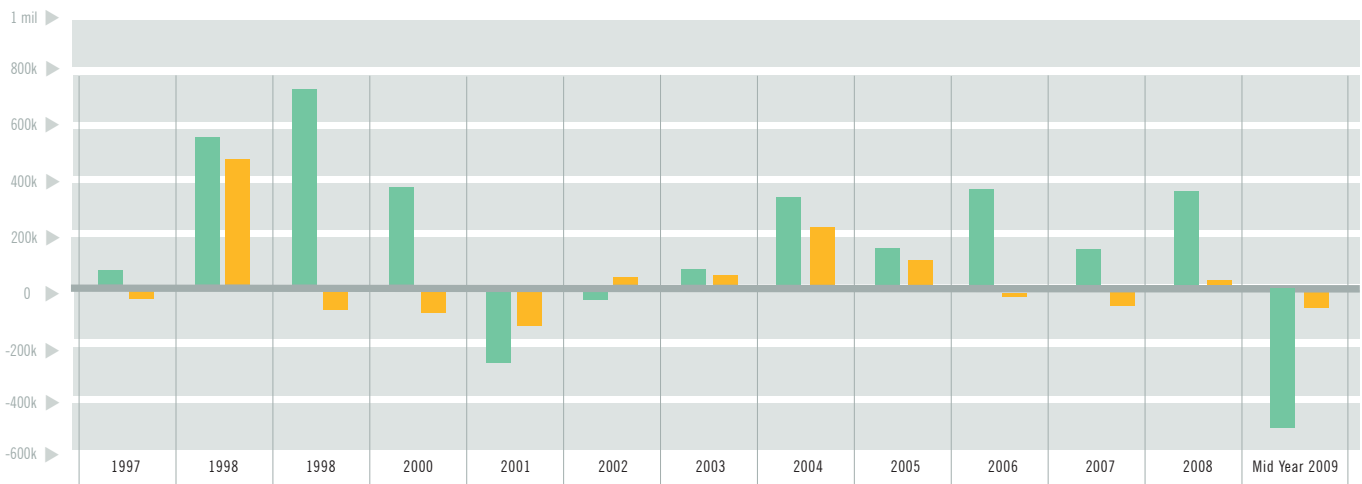
Suburban Construction  
CBD Construction



### HISTORIC NET ABSORPTION

Suburban Net Absorption  
CBD Net Absorption

MILLION SQ. FT.



### AVAILABLE SPACE VS. AVERAGE ASKING RENT

Suburban Available Space  
CBD Available Space  
Suburban Average Asking Rent  
CBD Average Asking Rent

