

# Meridian

## MarketWatch

MIDYEAR  
2007

INDUSTRIAL  
MARKET REPORT



A BI-ANNUAL REVIEW OF INDUSTRIAL MARKET ACTIVITY

Indianapolis, Indiana

**D**evelopment and investment activity in Indianapolis industrial real estate remains strong despite a relatively slow start to 2007.

Indianapolis, which has been known as a location of choice for large, national distribution centers, has seen very little activity in that arena this year. The reasons aren't immediately clear. Our region still boasts one of the best transportation networks in the country, a proximity to the masses, a relatively low cost of doing business, an abundant supply of occupancy-ready real estate and favorable incentives for new and expanding businesses.

Perhaps one reason could be formidable competition from similar and neighboring markets. More and more, other Midwestern distribution markets are subscribing to the "build it and they will come" theory in terms of more speculative development and a greater number of new, speculative

developers. Cities like Cincinnati and Louisville which were once thought of as more "build-to-suit" markets have recently shown a liking for spec product. That trend certainly levels the playing field in terms of a tenant's speed to occupancy, which is an ever-shrinking time frame.

It is more likely, however, that factors outside of the real estate market have a greater impact on local demand. Rising fuel costs and downward pressure on lead-times have helped to push many industries away from the single (national) distribution center network. Instead, these trends would support a multiple (regional) distribution center network. In Indianapolis, this is evidenced by the size of the completed leases which make up absorption and the current tenant activity in the marketplace. The vast majority of both have been in the 100,000 sq. ft. to 300,000 sq. ft. size range indicating a propensity toward regional DC's.

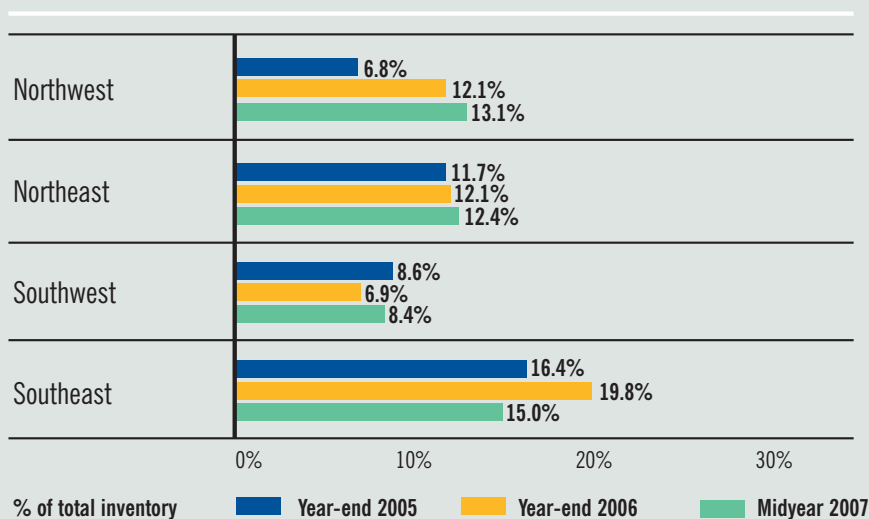
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### HOT TOPICS

INDIANAPOLIS - INDUSTRIAL

- Speculative construction activity is still high amidst relatively low demand, which puts downward pressure on rental rates.
- There is an estimated 2.5 million sq. ft. expected to be delivered by year-end in the Southwest submarket alone.
- KTR Capital Partners acquires 594,000 square foot distribution building in Mt. Comfort Commercial Park from Precedent Commercial Development.
- Baker & Taylor leases 500,000 sq. ft. in Park 100. Whitestown continues to deliver institutional bulk options as demand continues to stay flat.
- The Northeast submarket enjoyed a strong year posting the highest absorption level in the past five years. Speculative construction activity is also at a 5 year high in the Northeast submarket.
- The investment market is still strong but rising interest rates could place upward pressure on cap rates.
- Industrial facilities will likely be negatively impacted by the tax re-assessment in Marion County, making it difficult for landlords to compete on gross leases.

#### INDIANAPOLIS INDUSTRIAL VACANCY



## INDIANAPOLIS INDUSTRIAL ASKING RENTS

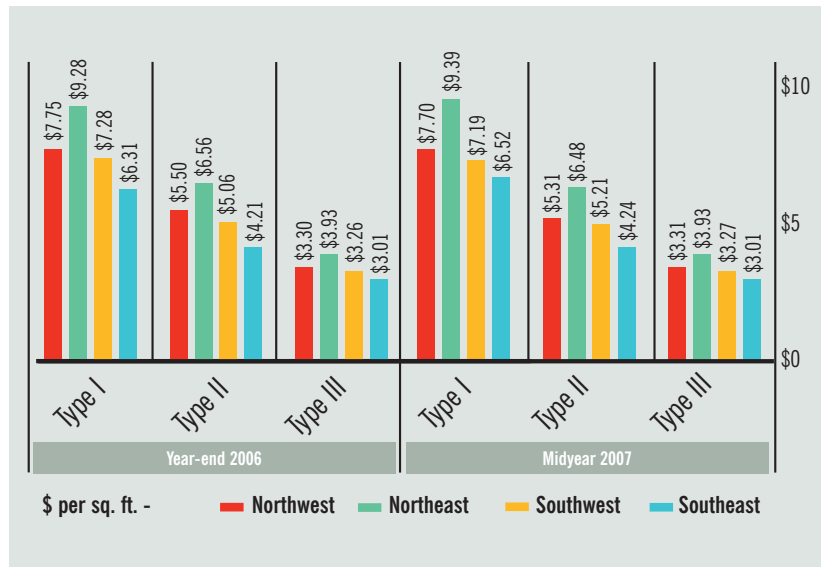
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Less demand from the mega DC's doesn't necessarily translate into a slowdown in development and investment activity. There is an estimated 3.5 million sq. ft. currently under construction and expected for delivery by Year End 2007 in the Type III (modern bulk) product type alone.

Developers are also turning toward newer submarkets where land is less expensive but where development already has somewhat of a track record. Such is the case with the Mt. Comfort area. Five developers have over 650 acres of land earmarked for Type III product. One-third of this product is already owned while the balance is under contract and in the normal due diligence process including rezoning.

In one of the most intriguing and compelling examples of investment interest, two acquisitions totaling 1.26 million sq. ft. have taken place this year for bulk facilities prior to any leasing activity: KTR's purchase of Precedent's Mt. Comfort Commercial Park – Building 105 and IDI's purchase of Lauth's Southpointe One in Greenwood. These purchases follow Cohen Asset Management's acquisition of the vacant Alter One building (440,000 sq. ft.) in Plainfield last year and demonstrate the eagerness by investors to have a foothold in the Indianapolis industrial marketplace.

Leasing activity in the smaller, Type I and II product types remains steady. The lack of new construction in these sectors has helped keep rates up and vacancies down. That said, there is certainly a trend for new, high-finish, Type II product in the Northeast submarket including new projects by First



Industrial, Verus and Panattoni in Saxony and Noblesville Business Park. There is reason to believe that prospective tenants will look in these areas as a new alternative to more traditional developments on East 96th Street and at Exit 5.

The outlook for the remainder of 2007 is still somewhat uncertain. There will definitely be an ultra-aggressive pursuit of deals over 400,000 sq. ft. by developers as these prospects are fewer and farther between. Also look for more speculative investment activity in the vacant and partially-vacant Type III facilities which allow the local developer to eliminate future downtime risk and focus on alternative projects. Finally, with increasing new spec product and rising taxes, expect earlier renewals at favorable terms with large tenants as owners will not want these 2nd and 3rd generation spaces back.

## INDIANAPOLIS INDUSTRIAL SUMMARIES - MIDYEAR 2007

	Total Inventory	No. of Buildings	Vacancy Rate	Available Space	YTD New Deliveries	YTD Absorption
Northwest	23,436,331 sq. ft.	176	13.11 %	3,073,108 sq. ft.	1,254,573 sq. ft.	1,012,527 sq. ft.
Northeast	5,302,965 sq. ft.	89	12.35 %	654,953 sq. ft.	0 sq. ft.	17,385 sq. ft.
Southwest	29,852,052 sq. ft.	109	8.38 %	2,501,071 sq. ft.	1,051,700 sq. ft.	465,533 sq. ft.
Southeast	14,384,147 sq. ft.	88	14.95 %	2,150,283 sq. ft.	594,000 sq. ft.	1,287,315 sq. ft.
Whole Market	72,975,495 sq. ft.	462	11.48 %	8,379,415 sq. ft.	2,900,273 sq. ft.	2,782,760 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.

The Northwest real estate submarket continues to see deliveries in the Whitestown market in speculative Type III development with little demand in sight. The deliveries of Verus and All Points at Anson leave approximately 1.4 million sq. ft. of available institutional-grade product. Hopefully, the second half of 2007 will see an increase in demand.

Even though the demand is a bit sluggish for the first half of 2007, Opus North Corporation will soon deliver a 400,000 sq. ft. facility known as Whitestown Business Center. This facility can accommodate 200,000 sq. ft. to 400,000 sq. ft. users which currently there are more deals in this size range than deals over 500,000 sq. ft. Looking ahead, many other developers may deliver facilities in this size range as companies consider smaller distribution centers on a regional basis.

Duke Realty Corporation continues to do well in the Lebanon and Park 100 markets. The most noteworthy being Hachette Books taking an additional 300,000 sq. ft. to a total of 812,000 sq. ft. in their Lebanon Business Park. Deals in the Park 100 portfolio included 504,000 sq. ft. leased to Baker & Taylor, MKM leasing 311,600 sq. ft., Piper Logistics leasing 300,000 sq. ft. including 150,000 sq. ft. expansion, Fastenal leasing 51,600 sq. ft., Flutes expansion/renewal of 208,000 sq. ft., and Hewlett Packard renewing 419,046 sq. ft. Notable Type II deals in the Park 100 portfolio include Kokusai at 24,000 sq. ft. and Wayne Taylor Racing leasing 18,000 sq. ft..

First Industrial has seen an uptick at Northwest Business Park with a number of transactions including Window Solutions, Contour Hardening and the expansion of St. Vincent's for a long term commitment for 25,000 sq. ft.

The Anson project, as noted before with All Points at Anson, is in full swing. It is the developers hope that retail amenities could be delivered later this year which may spur additional office and owner user development once completed.

## Northwest



Verus delivered a 624,000 sq. ft. spec building earlier this year

## Northeast



Northparke One at Saxony  
70,000 sq. ft. Building  
Available 4th Quarter 2007

The Northeast submarket remained fairly stable overall from year-end 2006 to midyear 2007. The spike in vacancy that we saw in the Type II market last year has stabilized as there have been no new major second and third generation spaces coming back onto the market as was the case last year.

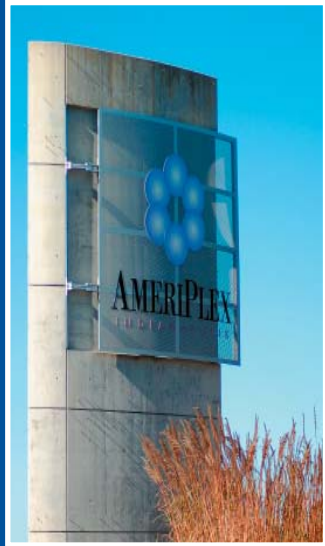
Although the first half of 2007 saw no major changes in vacancy rates across the board, there is still a major disparity in the vacancy rates of Type I and Type II as compared to Type III. Type III vacancy remains strong with only 3.08% while Type I (14.12%) and Type II (15.49%) remain rather high.

New construction remains strong in the NE submarket and is continually pushing its way further North and into Noblesville. Right now the activity is high at Saxony Business Park with three major projects coming to the market in the form of both spec and BTS. First Industrial has two of those projects with one being a 70,000 sq. ft. spec building called Northparke One that will be available in the 4th quarter this year. First Industrial is also under construction with a "sister building" to Northparke One which is leased to Helmer, Inc. The third major project in Saxony is a 35,000 sq. ft. BTS office/flex building for Perkins Specialized Transportation that will also be completed later this year.

Along the I-69 corridor off of 86th street Costal Partners is redeveloping the former Deflecto building. The project will consist of two existing buildings and a new 24,000 sq. ft. building. The total project size will be 163,447 sq. ft. and will sit on 7 acres of land. This marks one of the first major industrial redevelopment projects in a submarket typically known for newer product.

Finally, the balance of 2007 should remain a healthy market for all types of product and we should not see any significant rise in vacancy rates. Still, with the Type I and Type II vacancy rates remaining a little high, look for aggressive rental rates and concessions from landlords to help absorb some of the vacancy that came back to the market in late 2006.

## Southwest



AmeriPlex has landed two large, high-profile deals in the 2nd Quarter

The Southwest submarket is currently holding steady despite a relatively slow first half of 2007. With two new large deliveries, vacancy only slipped slightly and net absorption remained positive. However, the outlook is uncertain for the balance of the year.

Only the Type I product saw minor improvement in vacancy rates. Both Type II and Type III suffered increases in vacancy. Tenants such as Lear Jet and Columbus Container left third-generation spaces behind in the Type II product type. While the increase in Type III vacancy was primarily due to the delivery of Eagle Five in Brownsburg and Republic's Plainfield Distribution Center which collectively added over 1 million square feet to the inventory.

Significant new leases include Sunrise Medical (260,000 sq. ft.), BD&A (150,000 sq. ft.) and MD Logistics' expansion (120,000 sq. ft.). Perhaps the most notable renewal in the Southwest submarket was Hitachi renewing their 450,000 sq. ft. lease with Duke in Plainfield I.

A major build-to-suit highlight was the long-awaited announcement of Quaker's (Gatorade) 105-acre land closing at AmeriPlex which will kick-off the development of their consolidated distribution center (estimated at 1.2 million square feet). One week following the Quaker land closing, Holladay Properties also announced a partnership with the Purdue Research Foundation to build a 78-acre Purdue Accelerator Park at AmeriPlex. While the new technology park will primarily include office, hotel and conference space, there will also be up to 150,000 sq. ft. of new industrial "flex" product developed which is a noteworthy addition to the Southwest Type I sector.

Even with these exciting new announcements, it will be a cautious outlook for the remainder of the year in the Southwest submarket. There is approximately 2.5 million square feet of new, Type III product currently under construction and expected to be delivered by year end. Absent any significant leases or pre-leases, this could more than double the current vacancy there. Expect strong competition among landlords for deals over 300,000 sq. ft. and look for a possible new willingness to demise larger bulk buildings for even smaller tenants.

The Southeast submarket has seen strong activity through the midway point of 2007. While Type I and Type II vacancy rates have remained fairly unchanged, the vacancy rate for Type III space is 16.9%, down from from 24.9% at year-end 2006. The main reason for this decrease is due primarily to a couple of deals that were completed in Pattillo Industrial Partners building located in Precedent South Business Park. Both Quaker and Caterpillar signed deals that took the building to 100% occupancy levels.

Also in Greenwood, Precedent is under construction with a new "Hybrid" building (294,388 sq. ft.) which is scheduled to be completed later this summer. Another interesting deal to occur in Greenwood was Atlanta based IDI's acquisition of the 668,148 sq. ft. vacant building at Southpoint Business Park from Lauth. IDI has been in the Indianapolis market before and this acquisition gets them back into the Indy market.

In Mt. Comfort, a similar acquisition occurred when New York based KTR Capital Partners acquired a vacant, speculative 594,000 sq. ft. facility from Precedent Real Estate. This is KTR's first acquisition in the Indianapolis market. In addition to KTR's purchase, Lauth and University Loft are under construction for a building University Loft will occupy. The overall activity in the Mt. Comfort market has picked up on the speculative side as a number of developers are looking for land positions in the area and Verus Partners has already announced they are working on a 228 acre parcel near the Mt. Comfort Airport.

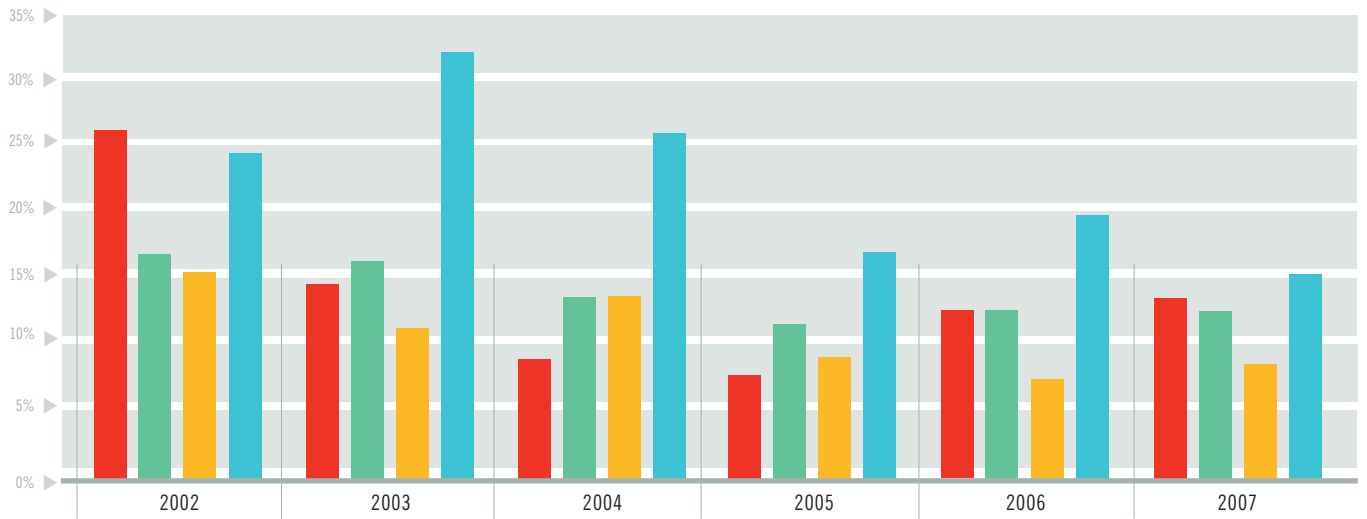
The outlook for the remainder of the year looks strong for the Type III market as several tenants are actively looking for space in excess of 100,000 sq. ft. Type I and II product should remain fairly flat throughout the remainder of 2007.

## Southeast



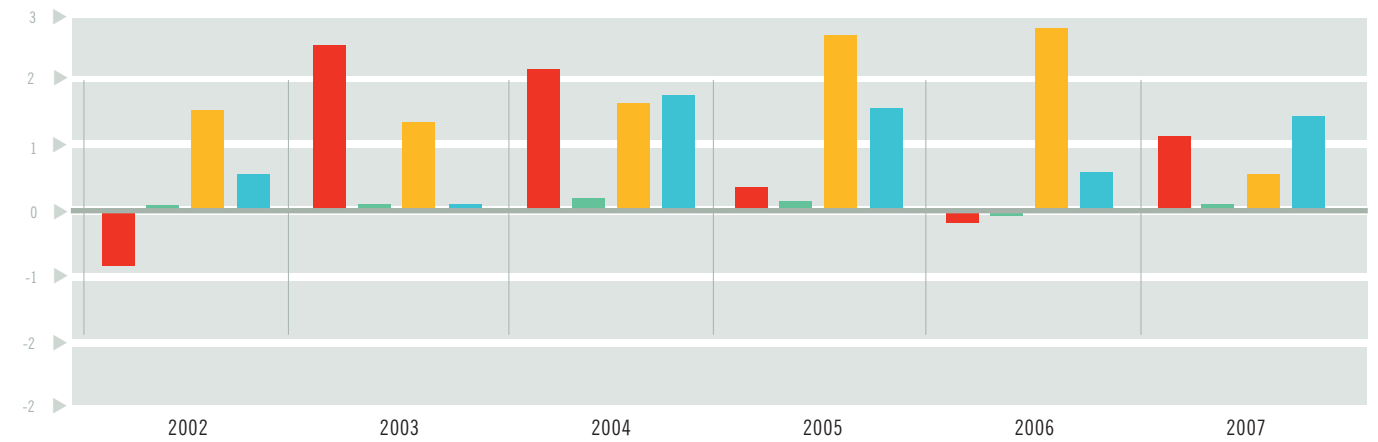
Mt. Comfort Commercial Park - 105  
594,000 sq. ft. facility acquired by  
New York based KTR Capital Partners

### VACANCY RATES



### NET ABSORPTION

(million sq. ft.)



### NEW CONSTRUCTION

(million sq. ft.)

