

# Meridian MarketWatch

MID YEAR  
2008

OFFICE  
MARKET REPORT

## A REVIEW OF OFFICE MARKET ACTIVITY

Indianapolis, Indiana

**A** tightening economy, increasingly stringent underwriting guidelines and general uncertainty about the markets characterize the current financial climate, but the Indianapolis office activity continues to transact at a reasonable pace. This is exemplified by the general disposition and mood of national uncertainty, and regional financial and employment instability that contrasts with our local businesses' cautious optimism. Indiana's regionally low unemployment rates, increased incoming foreign investment, innovation and growth from our second tier companies, coupled with our state's strong

fiscal position, will help Indiana lead the Midwest through a turbulent economy.

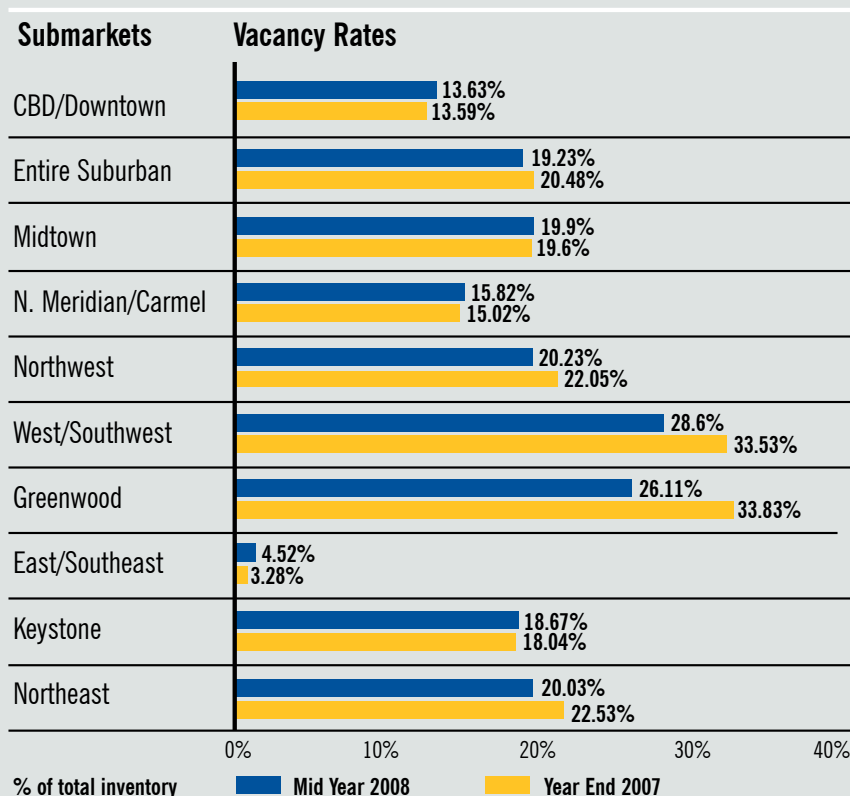
Major leases signed in the first half of 2008 include Sales Diesel leasing 28,000 sq. ft. at REI's Meridian Crossing, Defender Direct leasing 32,000 sq. ft. and Cripe Engineering leasing 21,000 sq. ft. at HDG Mansur's Precedent Office Park. Brightpoint leased 39,000 sq. ft. and Woolpert leased 23,700 sq. ft. at Duke's Woodland Corporate Park VI. Panattoni's City Center at Penn in Carmel welcomed Dealer Services Corporation, which leased 26,000 sq. ft. joining Allied Solutions who leased 36,000 sq. ft. late last year.

*continued on page 2*

## HOT TOPICS INDIANAPOLIS - OFFICE

- In the Americas, investment transaction volume is down 68% compared with last year. There is a disconnect in valuation as buyers are attracted to 2009 price levels and sellers are still demanding prices from 2007.
- The credit crunch and general slow down in the economy is forcing many developers to pull back on planned projects, which should allow the market to see a drop in vacancy as demand catches up with supply.
- Kite Realty and Coastal Partners have purchased Pan American Plaza and two adjacent ice skating rinks in downtown Indianapolis, adjacent to a Coastal Partners-owned office building. The partnership should be a good development opportunity across from the expanded convention center.
- Duke Realty's 120,000 sq. ft. River Road II, located in the Keystone at the Crossing submarket, is 55% preleased. Advantage Health Solutions will occupy 54,000 sq. ft., and AuthorHouse will occupy 12,000 sq. ft. River Road II is scheduled to be completed in mid-2008.
- Leasing activity in Indianapolis is down compared with last year. Tenants are looking for short-term leases and less expensive rental rates. The Indianapolis office market anticipates only a 0.7% growth in new inventory for 2008.

### INDIANAPOLIS OFFICE VACANCY RATES



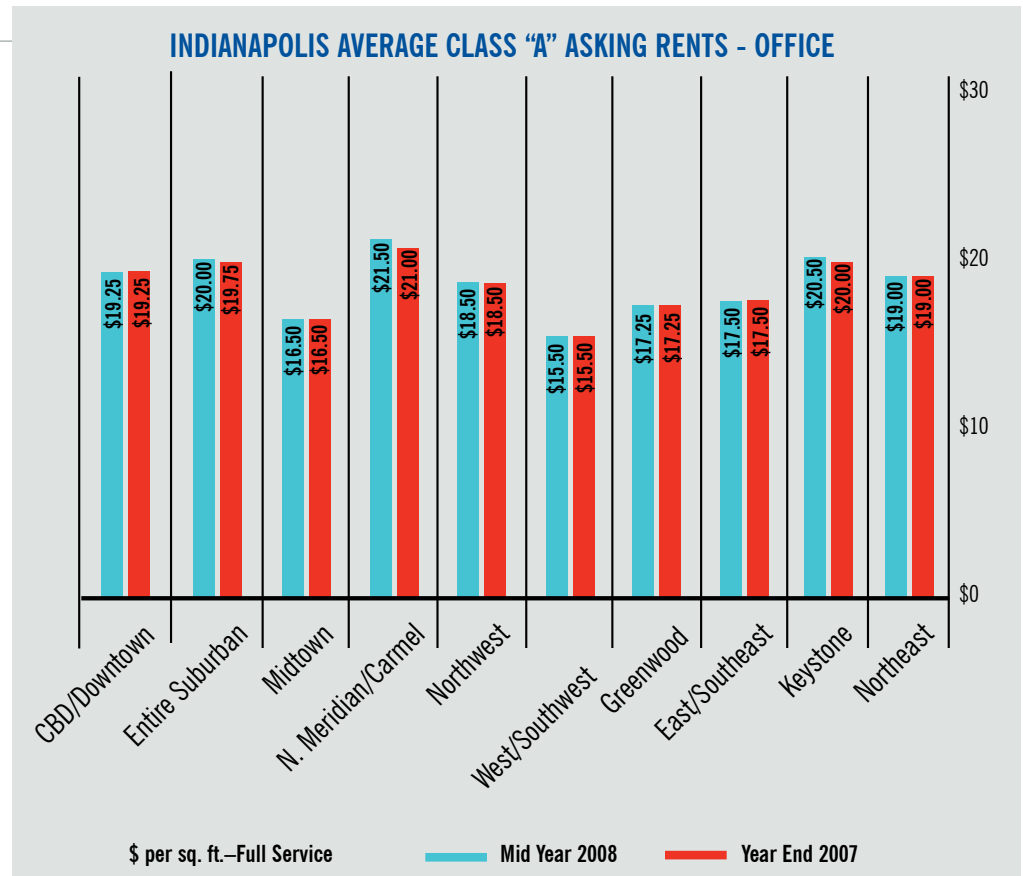
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Major construction projects nearing completion include Edgeworth-Laskey Properties' Lake Point 5, a six-story, 151,000 sq. ft. office building in the northeast submarket. And although not an "office project" by any stretch of the imagination, the completion of Lucas Oil Stadium this Fall is relevant in that it should have a ripple effect of further prompting refurbishment of, and attention toward, Central Business District office property. The upcoming Convention Center expansion and JW Marriott Complex slated for 2010 will have similar effects leading up to those major ground-breakings.

Regarding other new projects, two local developers submitted bids to redevelop the Ambassador Apartments adjacent to the Central Library. Buckingham Companies was selected based on their proposed mixed use redevelopment for the Ambassador Building, with street-level retail, commercial space and apartments. With completion of the Central Library, select infill projects continue to spur redevelopment plans on the north end of downtown. On the northeast side, Monarch Beverage Company Inc. plans to spend about \$38 million on the first phase of its new headquarters at 9347 E. Pendleton Pike. Another announcement has Browning Investments planning to break ground this summer on the \$10 million dollar project, which will include a hotel built by Dora Brothers Hospitality Corp. The project, Meridian & Main, at 131st and Meridian Streets, was previously owned by St. Christopher's Episcopal Church.

Medical activity remains solid with activity all over the Indianapolis metropolitan area. BremnerDuke is breaking ground on two southside medical office buildings totaling 22,000 and 16,000 sq. ft., which will accommodate St. Francis Primary Care's growth needs. Much further north, in Hamilton County, BremnerDuke, as well as St. Vincent, continue development at Exit 10 on I-69 in the expanding Fishers area. And to the northwest, BremnerDuke has linked up with Witham Health Services and St. Vincent to deliver a 43,500 sq. ft. medical facility within Anson, a 1,700 acre mixed-use development in southeast Boone County.

In terms of major sales, Kite has partnered with Sacramento, California-based Coastal Partners, LLC to purchase Pan American Plaza and two adjacent ice skating rinks from



Indiana Sports Corporation.

Sales activity may be lighter relative to the past several years, during which non-local investors entered the market. However, demand still exists for investment properties that demonstrate good initial yields and upward potential. Affecting the increasing length of time required for acquisition and disposition is greater lender and asset management scrutiny prior to and during the underwriting phase. Institutional and investment transactions came to a screeching halt with no deals of significance completed in this category for the first half of 2008. Issues that erupted in the lending standards from the sub-prime residential mortgages has transformed into an expansive credit crunch in the commercial sectors. The amount of capital available for placement corresponds closely to lenders' current portfolios. Institutions with lesser exposure to mortgage-backed securities appear in better position to consider placing debt with qualified borrowers.

Looking forward to the latter half of 2008, we expect transaction levels to be moderate by comparison to the same period last year, but consistent. Occupancy/vacancy numbers are not expected to fluctuate dramatically, but owners are digging in deep with concessions to retain those tenants with leases expiring. Many office tenants will maintain a "wait and see" stance with attention towards the upcoming presidential election, the economy, and business activity based on these, and other local and regional market forces.

# Submarket Reports

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

## Keystone Crossing



**BPG Properties, LLC, is offering 8500 Keystone Crossing for sale.**

Leasing activity through the first half of 2008 fell off considerably compared to the pace of 2007 and 2006. Activity and current deals in the submarket are down by nearly 40% and signed leases are down by nearly 50% over the previous years. Many of the tenants seeking space in today’s market are searching for “value” priced options, existing build-out and the lease term of one-three years to maintain flexibility. Some notable first half transactions are:

Tenant	Sq. Ft.	Park/Building
Cripe	23,155	The Precedent
Rockwell International	13,849	The Precedent
Regus	19,100	8888 KATC
Impact Networking	11,213	8888 KATC
Dunbar Cook & Shepard	10,597	Woodfield IV

Even with declining activity, we are not seeing a corresponding incline in vacancy rates due to the overall lack of new construction starts. Duke Realty is putting the finishing touches on River Road Two, a 124,000 sq. ft. speculative office building,

which is approximately 55% pre-leased to Advantage Health and AuthorHouse. The building is set to open August 1. BPG Properties is offering 8500 Keystone Crossing to the market for sale. 8500 Keystone at the Crossing is a recently renovated 100,000 sq. ft., five-story, Class “A” office building with occupancy at nearly 95%. Also included in this investment opportunity are the two retail outlot buildings for Jared’s, The Gallery of Jewelry and Fidelity Investments which sit on this site as well. Recently Arbor Lending Group took back in foreclosure Woodfield Crossing II and III from Premier Properties USA. Premier Properties had purchased this 379,000 sq. ft., two-building project for \$50 million or \$132/sq. ft. as part of its overall plans to redevelop the site. However, with Premier Properties in bankruptcy, Arbor has taken the project back.

Many tenants had braced for potential traffic delays as INDOT recently began repairs to the 82nd Street Bridge over White River. This project is expected to last until September and so far there are very few, if any, congestion delays while traffic is sharing one bridge. Simon continues to finalize its plans for an expansion of The Fashion Mall, with Nordstrom opening its store in fall 2008. Simon is planning to relocate and expand its Food Court, in addition to adding nearly 50,000 sq. ft. of retail space.

Leasing activity in the Northwest submarket remains slow when compared to the other north suburban Indianapolis submarkets. The Class “A” sector continues to attract larger deals and a few Class “B” buildings have seen steady activity of small to midsize tenants due to aggressive landlord concessions. The net absorption in the Northwest submarket was (12,000) sq. ft., due to the loss of Hartford Insurance to the N. Meridian corridor.

At INTECH Park, INTECH Three has seen steady activity while competing with new space at Woodland Corporate Park. GSA recently leased a 38,700 sq. ft. full floor at INTECH Three. The Class “A” building is nearly 70% full within six months of opening. INTECH Four is in its design phase and will likely move forward if Lauth is able to secure another major tenant at INTECH Three. Duke’s Woodland Corporate Park VI building is 100% leased.

Parkstone, a 200,000 sq. ft. Class “B” building (formerly The Quads) which traded in October, is midway through a multi-million dollar renovation. Parkstone II & III are complete and Parkstone I & IV will begin in July/August. Friedman Real Estate Group, purchased the property with the intent of stimulating activity through doing very aggressive deals. So far they have only seen deals in the 1,500-3,500 sq. ft. range, typical for Northwest Class “B” for some time.

## Northwest



**Duke’s newest building in Woodland Corporate Park VI is 100% leased.**

Commerce Park North has been a bright spot in the Northwest Class “B” submarket, absorbing nearly 40,000 sq. ft. of office and office flex space in the past six months—including Bardach Trophy & Awards—using aggressive deal terms in this time of lower demands. Contrary to the positive activity, Hartford Insurance vacated roughly 62,000 sq. ft. of Class “A” space in Fortune Park Eleven. The Hartford will be relocating to the North Meridian submarket. Parker Haffin also vacated approximately 31,000 sq. ft. in INTECH Ten.

## CBD/Downtown



500 N. Meridian has 200,000 sq. ft. available for lease.

The Downtown office market remains active with a variety of real estate transactions and construction projects underway.

On the office market side, several recent transactions have been announced: Locke Reynolds leased 56,000 sq. ft. at Capital Center South Tower. They are currently located in this building but will move out of their space and into the top floors of the building. Exact Target has leased 50,000 square feet at the newly renovated Gibson Building. This is an expansion for this rapidly growing tech company.

Construction continues to help revitalize the downtown, The Broadbent Company recently moved into the newly renovated 117 E. Washington Street featuring the new Brazilian steakhouse, Fogo De Chão, on the first floor.

Construction has also begun on the new 1,000-room Marriott Hotel at the corner of West and Washington Streets. On the east side of downtown work continues on the "Penn Centre", formerly Jefferson Plaza developed by Greg Allen. It is scheduled to be a multi-use building with Scotty's Brewhouse on

the first floor, office space on the third and fourth floors and condos on the top floors.

Lastly, Lucas Oil Stadium is on target to open in late August. The demolition of the RCA Dome should begin in late summer as well.

The Northeast Submarket lost some ground during the second quarter of 2008. Leasing activity was light throughout the suburbs, and although the forecast and reports from the first quarter seemed at the time to indicate a more productive quarter, at the end it did not come to fruition. Many tenants are delaying their real estate decisions due to concerns about economic growth and present economic conditions. An example is the decision by Roche Diagnostics to terminate their transaction with Sun Capital, owners of the Marsh Headquarters facilities. Roche had planned to move about 440 jobs to the supermarket chain's former headquarters as part of a major expansion after signing a ten year lease with Marsh's corporate parent, Sun Capital Partners. However, one noteworthy transaction is the recent lease expansion by Verizon for 14,277 sq. ft. at 9755 Crosspoint Boulevard in Fishers.

The after effects of the recent mortgage crisis are still evident. As the mortgage industry continues to take additional blows, this is reflective in our local northeast submarket by the continued trend of new sublease product as many small- and medium-sized mortgage firms continue to give up their office space.

There are currently a few significant speculative buildings near completion. Lake Pointe Center 5, which is scheduled for delivery in August by Edgeworth Laskey, adds a six-story, 150,000 sq. ft. office building to the northeast submarket. In addition, Prairie View at Crosspoint is near completion as well, delivering an additional 60,000 sq. ft. of single-office product in Phase I of the project. The buildings are designed in sizes of 6,000 sq. ft. to 8,000 sq. ft., with linear roof lines and cultured stone. Centre Properties plans to break ground on an 80,000-100,000 sq. ft., Class "A" building at 96th Street and Allisonville Road named River Place.

We see this level of activity lingering a little while longer. With the economy starting to settle as well as being an election year, the "wait and see" will likely be the standard through the end of the year.

## Northeast



World Headquarters of CMG Worldwide, Inc. is for sale or lease.

In the first half of 2008 the N. Meridian/Carmel submarket experienced a slowdown similar to the overall market. Tenants have been hesitant to make significant office space decisions while they ride out the current economic conditions and November elections. That said, there were a few notable deals completed in the first half of 2008:

<u>Tenant</u>	<u>Sq. Ft.</u>	<u>Park/Building</u>
Hartford Insurance Co.	60,000	Meridian Corporate Plaza III
Dealer Services	25,000	City Center at Penn
Hovde Dassow Deets	7,500	Meridian Tower

The lull in the economy and crippling capital markets has brought new construction in the corridor to a halt, but there are still large tracts of space available in the submarket. The former Standard Management building has been turned over to the lender and is now available for sale and reportedly under contract. In addition, there are large tracts of space available in:

- 1289 City Center Drive – 101,021 sq. ft.
- Parkwood II – 95,852 sq. ft.
- 111 Congressional – 100,053 sq. ft.
- Meridian Mark II – 24,356 sq. ft.
- 8802 N. Meridian – 49,000 sq. ft.

Expect some of these large tracts to be filled by year end by prospects such as Liberty Mutual, Oxford Financial Bowen Engineering and Software Engineering Professionals. Landlords such as Duke are making hard presses to fill their vacancies by offering generous concessions to start the lease term, while other landlords sit content to wait out the market and fill their spaces without reducing their asking rents.

## N. Meridian/Carmel



Two Parkwood Crossing has 95,852 sq. ft. vacant, but could be sold to a user soon.

## Commentary by Ross Reller

The massive housing bill gives the Department of Treasury an unprecedented “blank check” to place a floor on the price of housing in the United States and it increases the debt ceiling by \$800 billion to insure that the U.S. Treasury has the funds to do

so. Prudent borrowers who followed the rules and never missed a payment are bailing out imprudent lenders and borrowers.

Much of the crisis can be blamed on lenders diverging from the simple determinant that has guided them for years in evaluating a borrower’s ability to repay their mortgage: their INCOME. In many parts of the United States, median wage earners were unable to afford the median priced home. Lenders came up with exciting ways to enable this to occur in the higher priced housing markets such as Las Vegas. Eventually reality set in and the new homeowners discovered that their monthly income was insufficient for them to ever “own” their community’s median priced home.

Back in central Indiana, our median home prices and median wages stayed closely aligned. For example, The Center for Housing Policy reported in 2004 that the percentage of working family homeowners paying more than HALF THEIR INCOME for housing in Indianapolis was 5.8%. In Los Angeles, it was 32%, in New York it was over 24%, and in Chicago, 13%! So Congress has stepped in and said that housing prices in these inflated markets may never be aligned with median wages. And as lenders strengthen underwriting, home ownership just became a lot less affordable for many. We believe a national floor on housing unrelated to an area’s median wages benefits Indianapolis and presents an interesting scenario for our local recovery.

Whether you live in Noblesville or Mooresville, your downtown commute is less than 30 minutes. For most office workers the drive time is less than 15 minutes. If you are a first-time home buyer you have geographical options. This holds true for the move up and luxury home buyers too. And we believe geographical choice, coupled with affordability, presents central Indiana with a strategic advantage in attracting employers. Prudent corporate executives will evaluate why they are based in markets with housing prices that are artificially inflated by the recent housing bailout bill. Rather than succumb to the wishes of their employee’s demands for higher wages to support the home prices, many employers will get out the roadmap, hire a consultant, and evaluate the markets that have a sparkling new international airport and public library, professional football and basketball teams, a world-class symphony orchestra, best-practices health care, thriving universities, and a ready supply of attractive and affordable housing for employees at ALL wage levels. Central Indiana just might be a coiled spring in this scenario. It will start quietly with a few leading edge employers that agree good workers should enjoy home ownership without sacrificing everything else. And it just might snowball into a significant resurgence. We have the infrastructure. We have ample and affordable utilities and land for growth. Bring it on.

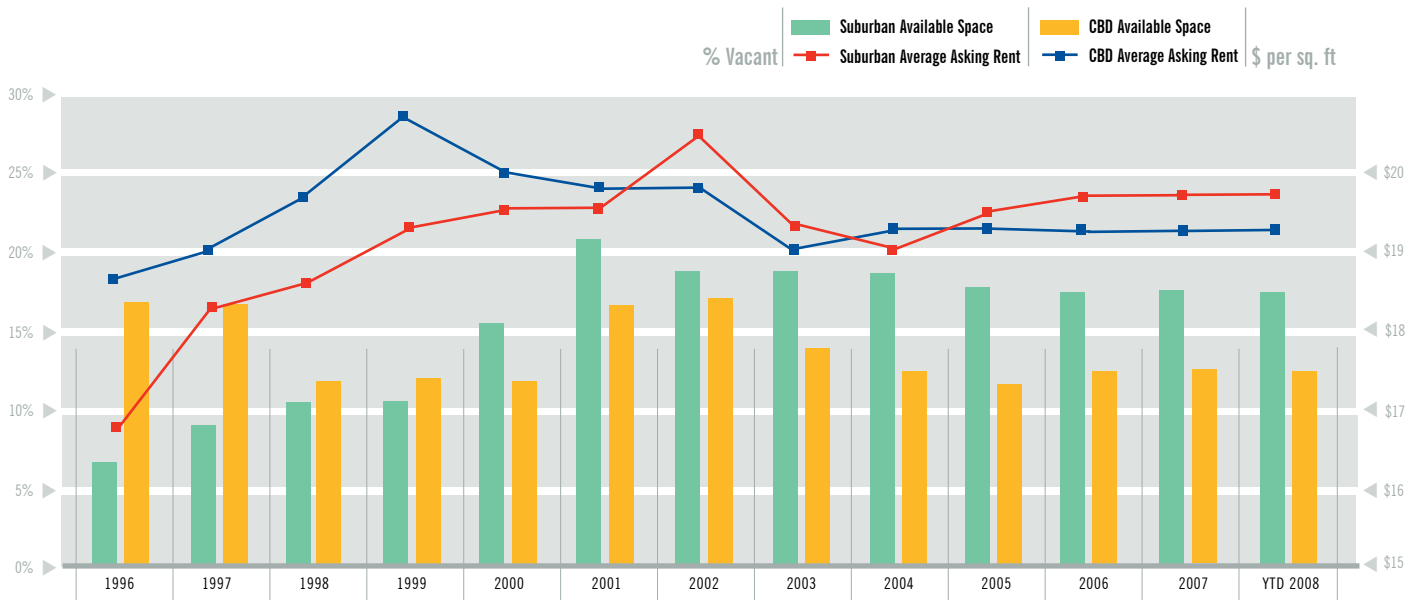
## INDIANAPOLIS OFFICE MARKET SUMMARIES YTD

	Total Inventory	No. of Buildings	Class "A" Vacancy	Class "B" Vacancy	Overall Vacancy	Vacant Space	2007 New Construction
CBD/Downtown	12.0 million sq. ft.	81	14.6 %	14.2 %	13.6 %	1.63 million sq. ft.	0 sq. ft.
Entire Suburban	21.0 million sq. ft.	310	12.7 %	24.85 %	19.2 %	4.0 million sq. ft.	702,000 sq. ft.
Midtown	971,000 sq. ft.	15	21.3 %	7.38 %	19.9 %	195,000 sq. ft.	0 sq. ft.
North Meridian/Carmel	6.7 million sq. ft.	84	10.3 %	23.3 %	15.8 %	1.07 million sq. ft.	390,000 sq. ft.
Northwest	3.5 million sq. ft.	41	10.0 %	33.6 %	20.2 %	721,000 sq. ft.	151,343 sq. ft.
West/Southwest	1.13 million sq. ft.	15	71.3 %	28.6 %	28.6 %	370,000 sq. ft.	0 sq. ft.
Greenwood	1.02 million sq. ft.	25	7.91 %	30.2 %	26.1 %	193,000 sq. ft.	40,000 sq. ft.
East/Southeast	105,000 sq. ft.	3	n/a	0 %	4.5 %	1,250 sq. ft.	0 sq. ft.
Keystone	3.95 million sq. ft.	49	16.3 %	22.1 %	18.6 %	737,000 sq. ft.	121,000 sq. ft.
Northeast	4.2 million sq. ft.	92	17.0 %	21.1 %	20.3 %	849,000 sq. ft.	151,000 sq. ft.

## ABSORPTION SUMMARY

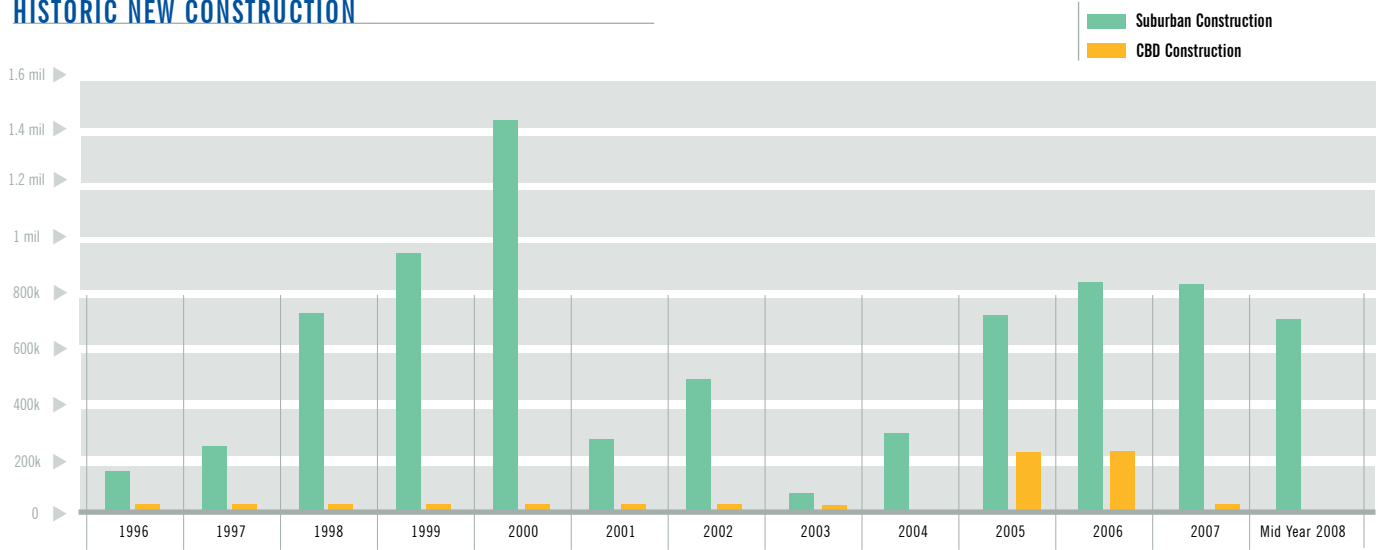
	CBD/Downtown	Entire Suburban	Midtown	N. Meridian/Carmel	Northwest	West/Southwest	Greenwood	East/Southeast	Keystone	Northeast
1st Quarter	83,425 sq. ft.	321,813 sq. ft.	(3,040) sq. ft.	111,605 sq. ft.	28,349 sq. ft.	29,833 sq. ft.	(5,093) sq. ft.	600 sq. ft.	22,526 sq. ft.	133,993 sq. ft.
2nd Quarter	(39,618) sq. ft.	(4,488) sq. ft.	100 sq. ft.	18,459 sq. ft.	(12,712) sq. ft.	26,324 sq. ft.	15,457 sq. ft.	(1,670) sq. ft.	(54,520) sq. ft.	4,174 sq. ft.
3rd Quarter	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
4th Quarter	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
YTD Total	43,807 sq. ft.	317,325 sq. ft.	(2,940) sq. ft.	130,064 sq. ft.	(15,785) sq. ft.	56,157 sq. ft.	10,364 sq. ft.	(1,070) sq. ft.	(31,994) sq. ft.	138,167 sq. ft.

## AVAILABLE SPACE VS. AVERAGE ASKING RENT



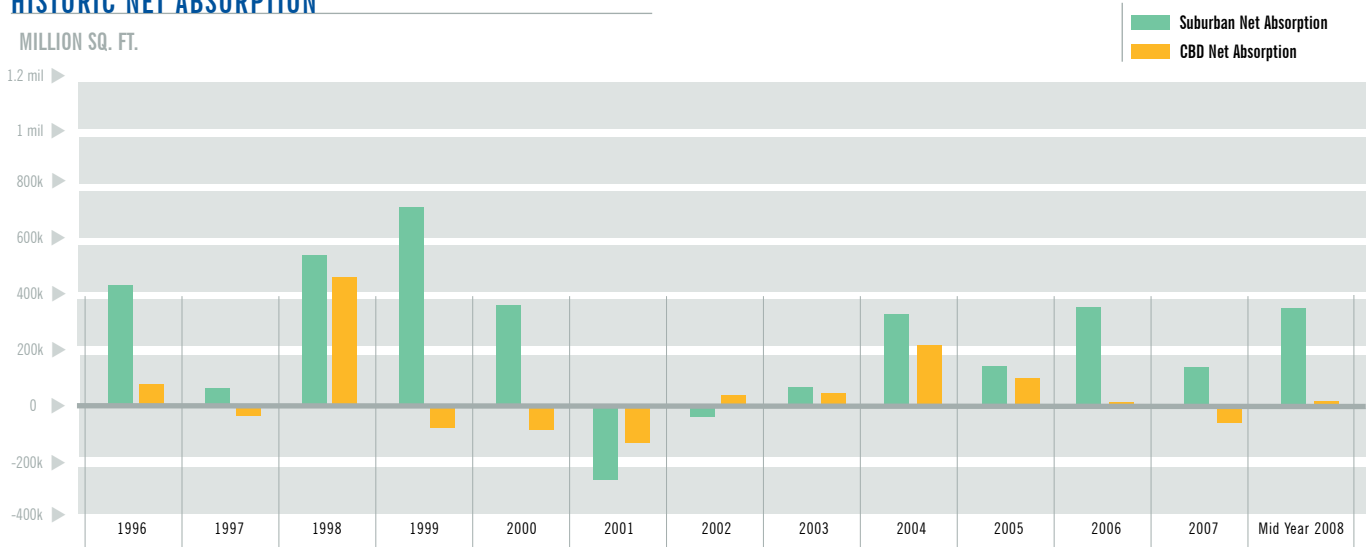


### HISTORIC NEW CONSTRUCTION



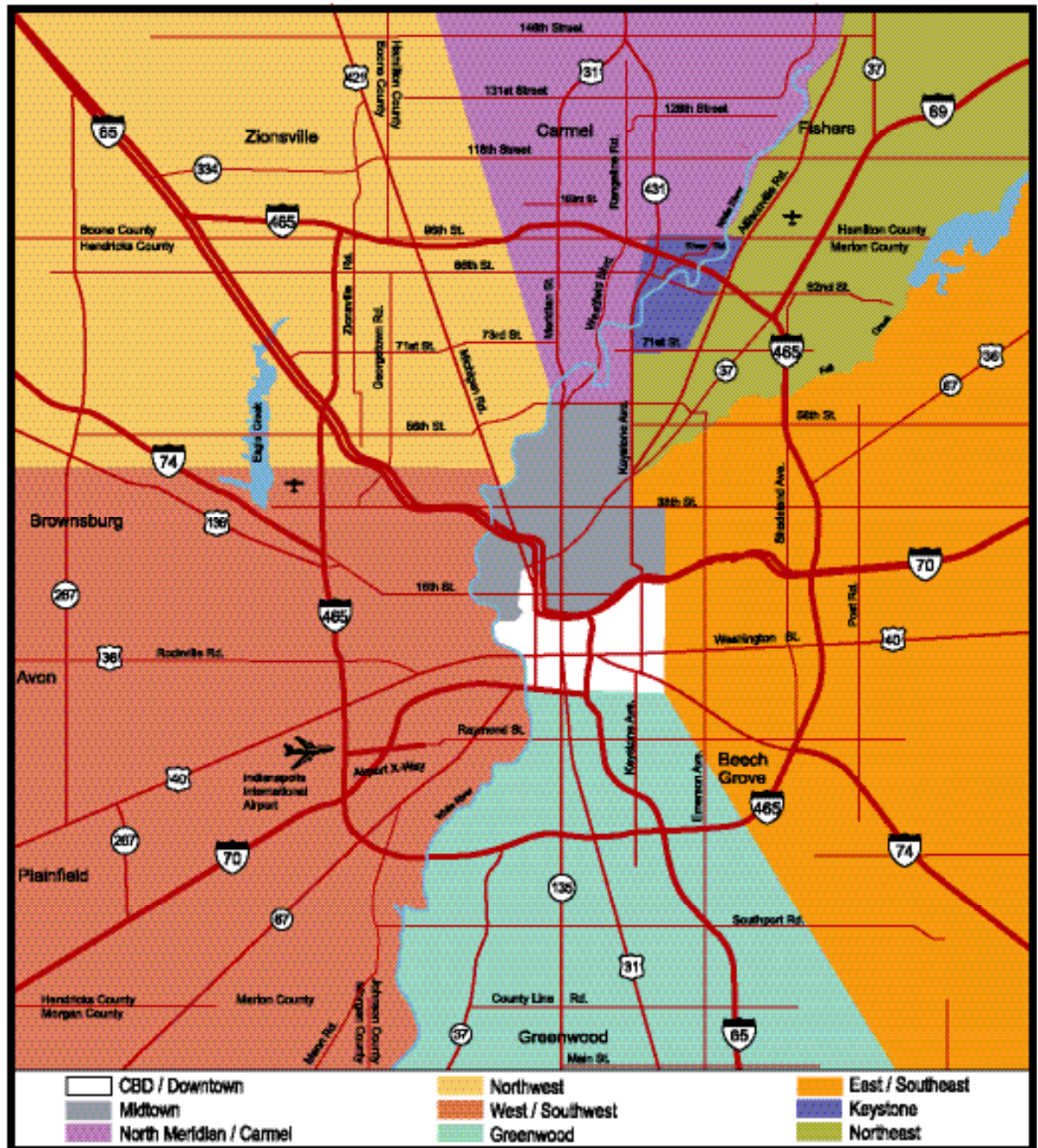
### HISTORIC NET ABSORPTION

MILLION SQ. FT.



# Submarket Map

INDIANAPOLIS - OFFICE



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

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