

# Meridian

## MarketWatch

YEAR END  
2009

OFFICE  
MARKET REPORT

### A REVIEW OF OFFICE MARKET ACTIVITY

Indianapolis, Indiana

It should come as no surprise that 2009 has ended with little positive news for owners and investors of office buildings. As we reported earlier this summer, vacancies continue to rise along with sublease availabilities and “dark space” (leased but not used).

The factors necessary to reverse these trends are still absent. Unemployment is still increasing and capital is scarce. Overall, the office market seems to have slowed or stopped its free-fall. However, deal flow is razor thin making it imperative for owners to renew all tenants whose leases are expiring. This will make for extremely long stabilization periods for owners to refill vacant space and at much higher costs than what renewals will cost. Additionally, decision timeframes seem to be extending as companies attempt to put off decisions as long as possible.

On the acquisition front, there have been few sales other than owner-occupied buildings.

Changes in ownership have occurred, however, as investors and second mortgage holders have lost properties and the first mortgage holders take control to protect their investment. In many instances this has placed the burden of requiring additional capital to stabilize and release the property on the first mortgage holders.

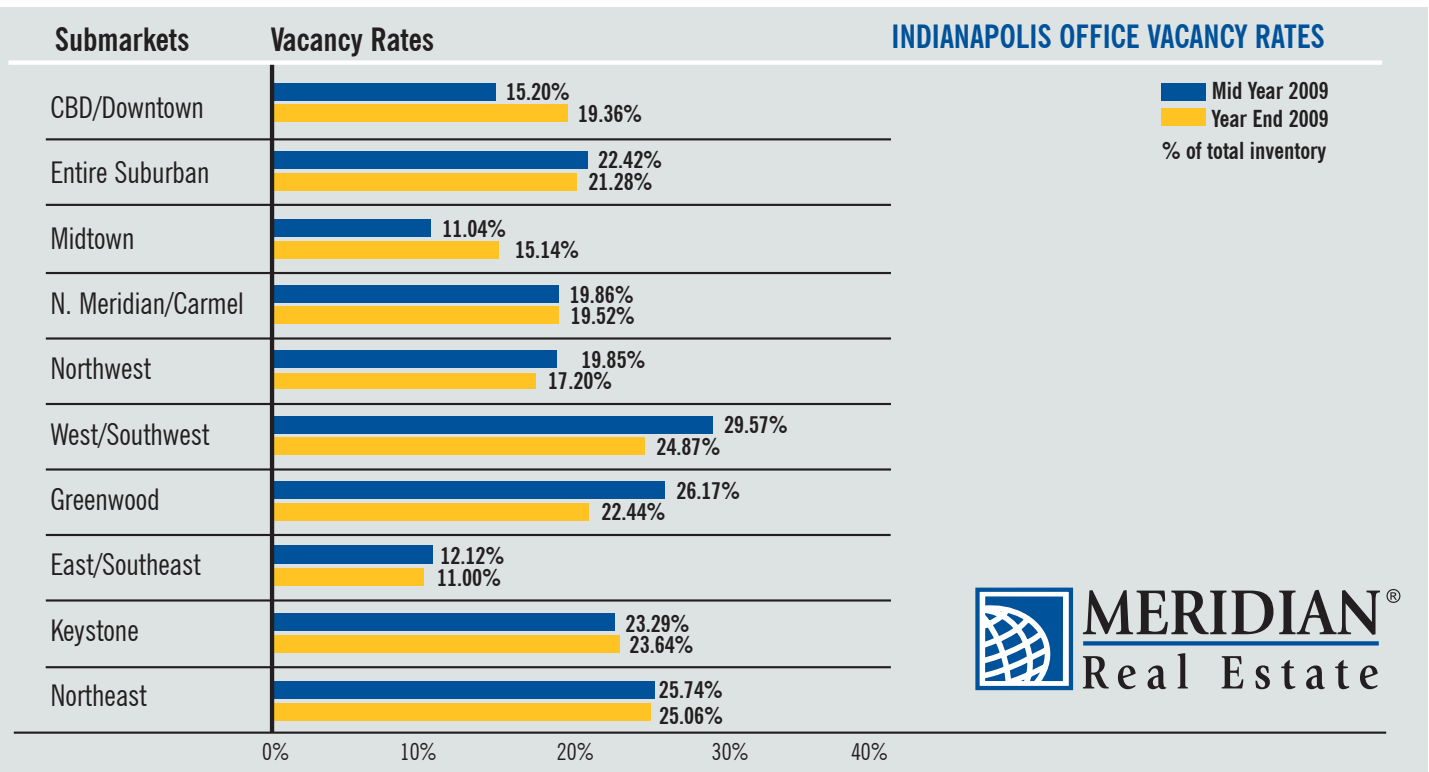
Recently we have experienced a trend in appraisals which, in Meridian’s opinion, has been under-valuing property, creating additional capital hurdles as buyers attempt to purchase properties.

Finally, many landlords and tenants are taking advantage of what we call “blend & extend”, whereby tenants are extending their lease terms in exchange for a rent reduction from their landlord. We believe this a strategic and time sensitive strategy given the current economic climate and the probability it will not improve for an extended period of time.

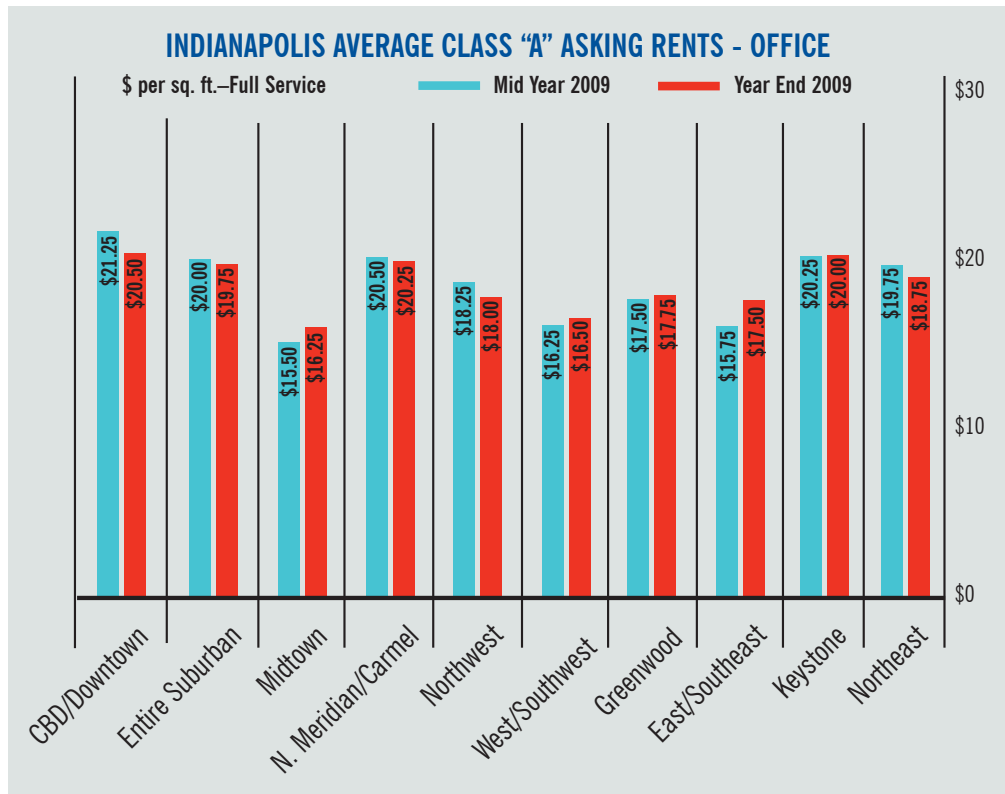
### HOT TOPICS INDIANAPOLIS - OFFICE

- Sublease and “dark space” (leased but not used) causes downward pressure on owners, to the benefit of tenants.
- Lilly may move employees back to its main campus, potentially bringing several large tracts of space to the market.
- Low appraisals are complicating a difficult acquisition market, adding another hurdle to purchase transactions.
- Government leases have accounted for much of the positive office leasing over the past six months.

### INDIANAPOLIS OFFICE VACANCY RATES



 **MERIDIAN**  
Real Estate



### ABSORPTION SUMMARY

	CBD/Downtown	Entire Suburban	Midtown	N. Meridian/Carmel	Northwest	West/Southwest	Greenwood	East/Southeast	Keystone	Northeast
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.
Year End 2009	(616,445) sq. ft.	(362,773) sq. ft.	(13,943) sq. ft.	(240,714) sq. ft.	114,991 sq. ft.	85,576 sq. ft.	22,674 sq. ft.	3,539 sq. ft.	(127,227) sq. ft.	(221,612) 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.	85	21.20 %	16.10 %	19.36 %	2.4 million sq. ft.	0 sq. ft.
Entire Suburban	22.7 million sq. ft.	357	19.70 %	23.93 %	21.39 %	4.8 million sq. ft.	0 sq. ft.
Midtown	1.0 million sq. ft.	17	1.97 %	14.03 %	15.14 %	151,000 sq. ft.	0 sq. ft.
North Meridian/Carmel	7.3 million sq. ft.	101	14.83 %	27.85 %	19.52 %	1.4 million sq. ft.	0 sq. ft.
Northwest	4.22 million sq. ft.	53	11.78 %	19.36 %	17.40 %	735,000 sq. ft.	0 sq. ft.
West/Southwest	1.3 million sq. ft.	28	38.51 %	30.37 %	24.87 %	342,000 sq. ft.	0 sq. ft.
Greenwood	856,000 sq. ft.	22	25.14 %	23.73 %	22.44 %	192,000 sq. ft.	0 sq. ft.
East/Southeast	234,000 sq. ft.	7	n/a	17.34 %	11.00 %	25,000 sq. ft.	0 sq. ft.
Keystone	4.2 million sq. ft.	56	25.12 %	22.02 %	23.64 %	999,000 sq. ft.	0 sq. ft.
Northeast	4.4 million sq. ft.	91	30.79 %	22.48 %	25.41 %	1.1 million sq. ft.	0 sq. ft.

# Submarket Reports

## Keystone Crossing



Ryland Homes renewed 11,000 sq. ft. at Duke's River Road building.

Leasing activity continues to be relatively slow in the Keystone submarket with a net absorption of -127,227 sq. ft., a change of 34% from a year ago. While there have been a few notable deals in Keystone, landlords are acutely aware of the market and following the trends of other landlords in being aggressive to maintain current tenants. Two of the major Keystone landlords have different approaches to maintaining rental income. All of this is making the Keystone submarket more tenant-responsive than in previous more stable years.

Keystone at the Crossing has reacted to the market conditions by lowering rates by \$1.00/sq. ft. across the board. It has also set a strategy to offer more aggressive concessions than were previously necessary when new tenants were abundant. The occupancy in this park has remained relatively unchanged since last quarter, which is both a sign of slow activity and a testament to KATC's ability to maintain tenants in tough conditions.

The other major office park, The Precedent, has instead developed a deal by deal "do what it takes" mentality to maintaining and attracting tenants. This has been evidenced by 33,000 sq. ft. of new leasing in the second half of the year. L'Acquis leased 10,000 sq. ft. and relocated from Parkwood. Despite many shrinking businesses, Defender Direct expanded by 23,000 sq. ft. in the park. The Precedent hopes that recent remodeling of Buildings 74 & 75 will also make the office park more appealing.

Other notable deals in the Keystone submarket include:

- Five River Crossing (formerly The 8555 Building) acquisition by PK Partners and the signing of Ent & Imler in about 15,000 sq. ft. on the second floor;
- Noble Consulting leased 10,378sq. ft. in Sourwine's 8365 Keystone building; and
- Ryland Homes renewed 11,000 sq. ft. at Duke's River Road building.

Although leasing activity remains slow around the city, the northwest submarket is finally seeing its fair share of activity from larger users of 15,000 sq. ft. and above. Historically, smaller deals in the 2,000-5,000 sq. ft. range accounted for most of the activity northwest. While smaller deals are still churning, landlords are encouraged by the submarket's ability to attract and maintain larger tenants, offering heavily discounted rates and strong concessions. Subleases continue to cloud the northwest occupancy picture. Absorption was at 114,991 sq. ft., compared to 15,531 sq. ft. from a year ago.

4030 Vincennes Road, the former Inland Container building, has seen a recent turnaround after years of complete vacancy. This 123,000 sq. ft. building is now 78% occupied, thanks to the IRS and Sanford Brown College. Both tenants are scheduled to move in early 2010.

Intech Park has also seen increased activity by leasing 34,832 sq. ft. to the US Customs Office in Intech 3. Clarian Health also negotiated at 30,737 sq. ft. lease in Intech 10.

Parkstone has seen a flurry of leases allowing it to raise rates as occupancy rises. Fortis College, Amedesys and IS Group have accounted for more than 40,000 sq. ft. of leasing in this 200,000 sq. ft. complex.

Still with this activity there is better than 395,000 sq. ft. of sublease space available northwest, which will continue to put downward pressure on new lease rates as landlords try to compete for tenants. Also noteworthy, Meridian Real Estate, LLC has been selected as the new listing agent for 3600 Woodview Trace. This 71,000 sq. ft. Class A office building is now on the open leasing market.

## Northwest



Meridian Real Estate, LLC has been selected as the listing agent for Woodview Trace.

Similar to other submarkets, N. Meridian/Carmel activity was relatively light in the second half of 2009. Prevailing economic conditions caused many office tenants to focus on ratcheting down occupancy cost wherever possible. As a result, some relocations and a reasonable amount of renewal transactions occurred. A fair amount of sublease space exists, as well as “dark space” (leased but not used).

Some owners have stepped forward with stronger incentives. Whether deal points are in line with the competition is relative to each owner’s product and philosophy. From the tenant perspective, those able to project space needs more comfortably into the future will find nice leverage during negotiations.

Attractive office opportunities exist in numerous buildings at any given time and within this desirable submarket, these spaces will ultimately lease as businesses find greater stability and more return to growth oriented platforms. Overall, the N. Meridian/Carmel submarket remains consistent in terms of a fairly balanced supply and demand relationship.

No major new construction projects have taken root. Ongoing projects include the Capital Companies site at 126th and Meridian and the Carmel City Center site.

## N. Meridian/Carmel



**Meridian Corporate Plaza I is now available for lease.**

## CBD/Downtown



**The Convention Center has lured back several large conventions that had previously left due to inadequate space.**

The downtown office market continues to struggle as its vacancy percentage increased over 4% points from our midyear report. Much of this increase is related to tenants downsizing or going out of business. There is also a significant amount of sublease space that is also available.

On a bright note, the 1,000 room JW Marriott Hotel recently had their “Topping Out” ceremony signaling the completion of the vertical construction. Construction for this large project is on time and scheduled to open in February 2011. Additionally, the Convention Center expansion has lured back several large conventions that had previously left due to inadequate space.

Safeco Insurance completed their relocation from 500 N. Meridian to the suburbs, placing an additional 300,000 sq. ft. on the downtown market. M&I Plaza has had difficulty in releasing its space given the overall lack of demand.

In an attempt to cut costs, The State of Indiana is actively trying to move agencies back into the State Office Building to reduce their overall space use. We anticipate little change to the vacancy rates downtown through 2010.

The Northeast submarket remained fairly active, although at a tentative pace. Government was a big driver with National Government Services Inc. leasing 150,000 sq. ft. of office space at various locations throughout Castleton Park.

Castleton Park picked up a new, 33,000 sq. ft. tenant, as Aurora Bank relocated its call center operations to 5920 Castleway West Drive from Heritage Park on E. 75th Street. Franklin College leased roughly 20,000 sq. ft. at I-465 & Allisonville Road, Lake Pointe 5, Edgeworth-Laskey’s new building.

The new complex for the FBI Field Office was awarded to Ohio-based Fedcar Company Ltd., which plans to build the new campus on 14 acres near I-465 and Allisonville Road (adjacent to Costco). The site will include upwards of 110,000 sq. ft. of space—a nearly 100% increase over the organization’s current downtown offices at the Minton-Capehart Federal Building.

To the far northeast, the medical office segment continues to grow, albeit with a far more conservative pace. Clarian Saxony is back on track with construction efforts at Exit 10 and I-69 and a medical office building (approximately 100,000 sq. ft.) will compliment the hospital facility, slated to open in Spring of 2011. The submarket saw negative absorption (- 221,612 sq. ft. year to date) based upon 91 properties tracked.

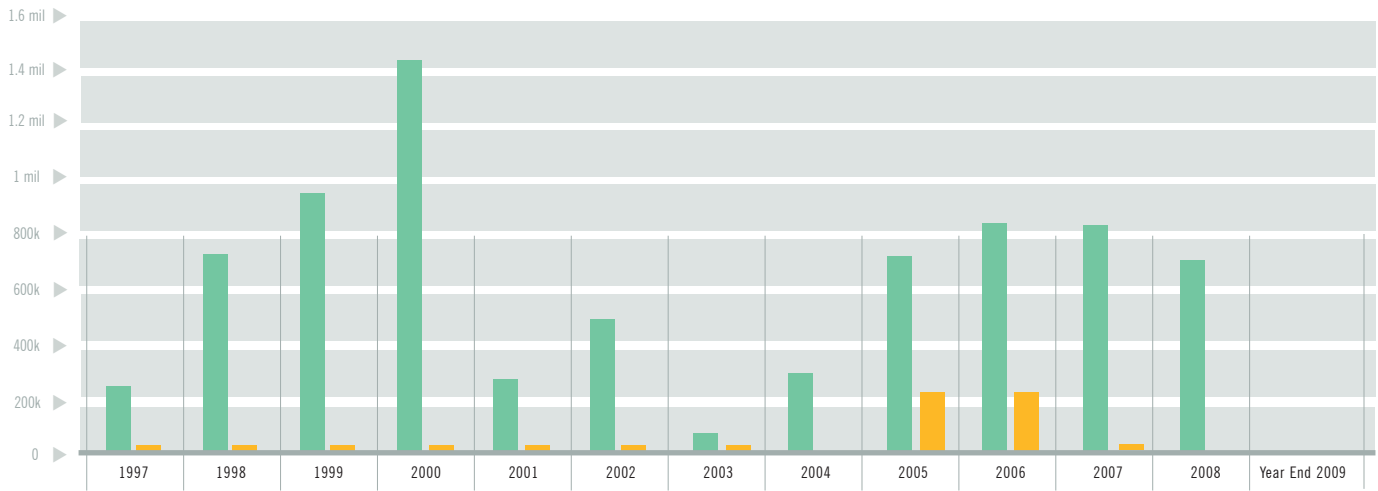
## Northeast



**National Government Services leased 150,000 sq. ft. in Castleton Park.**

### HISTORIC NEW CONSTRUCTION

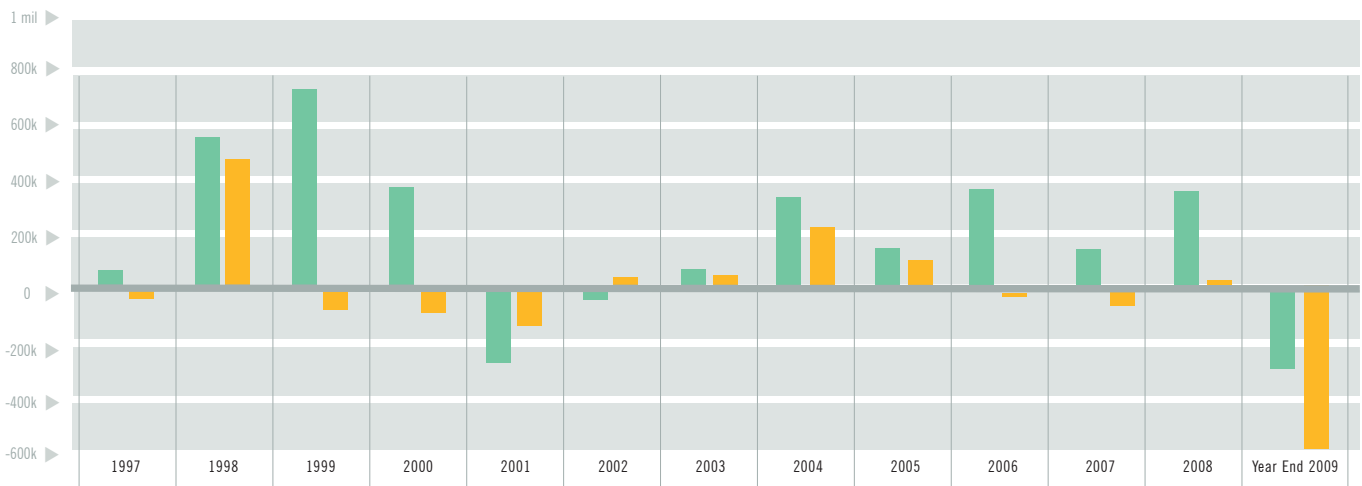
Suburban Construction  
CBD Construction



### HISTORIC NET ABSORPTION

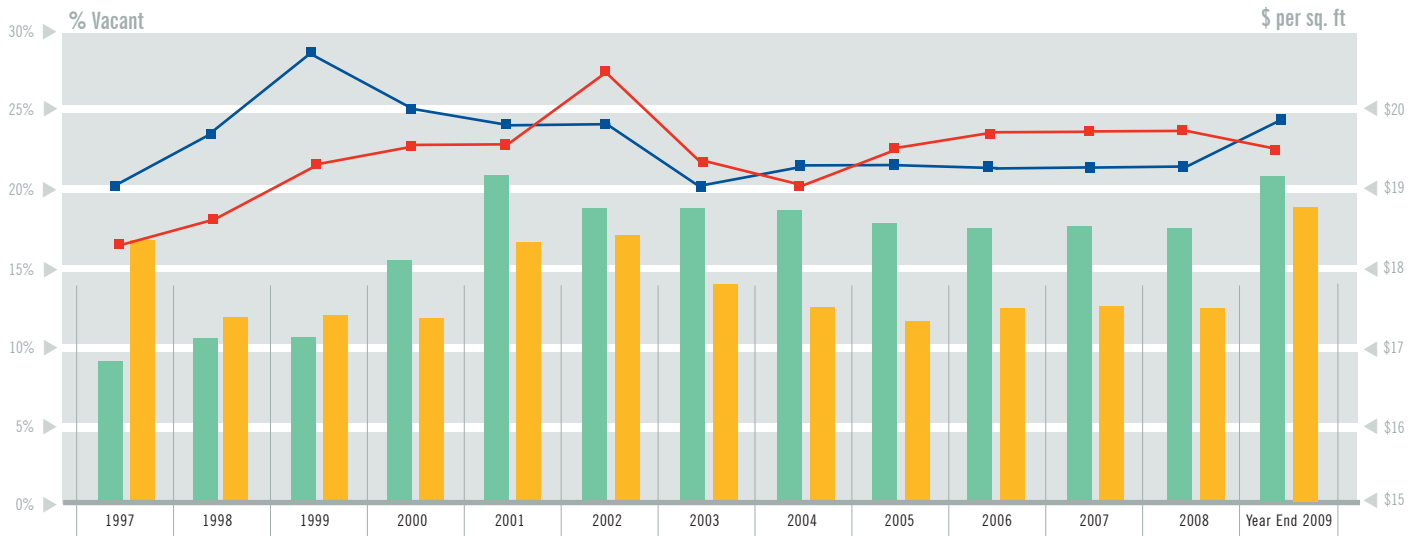
Suburban Net Absorption  
CBD Net Absorption

MILLION SQ. FT.



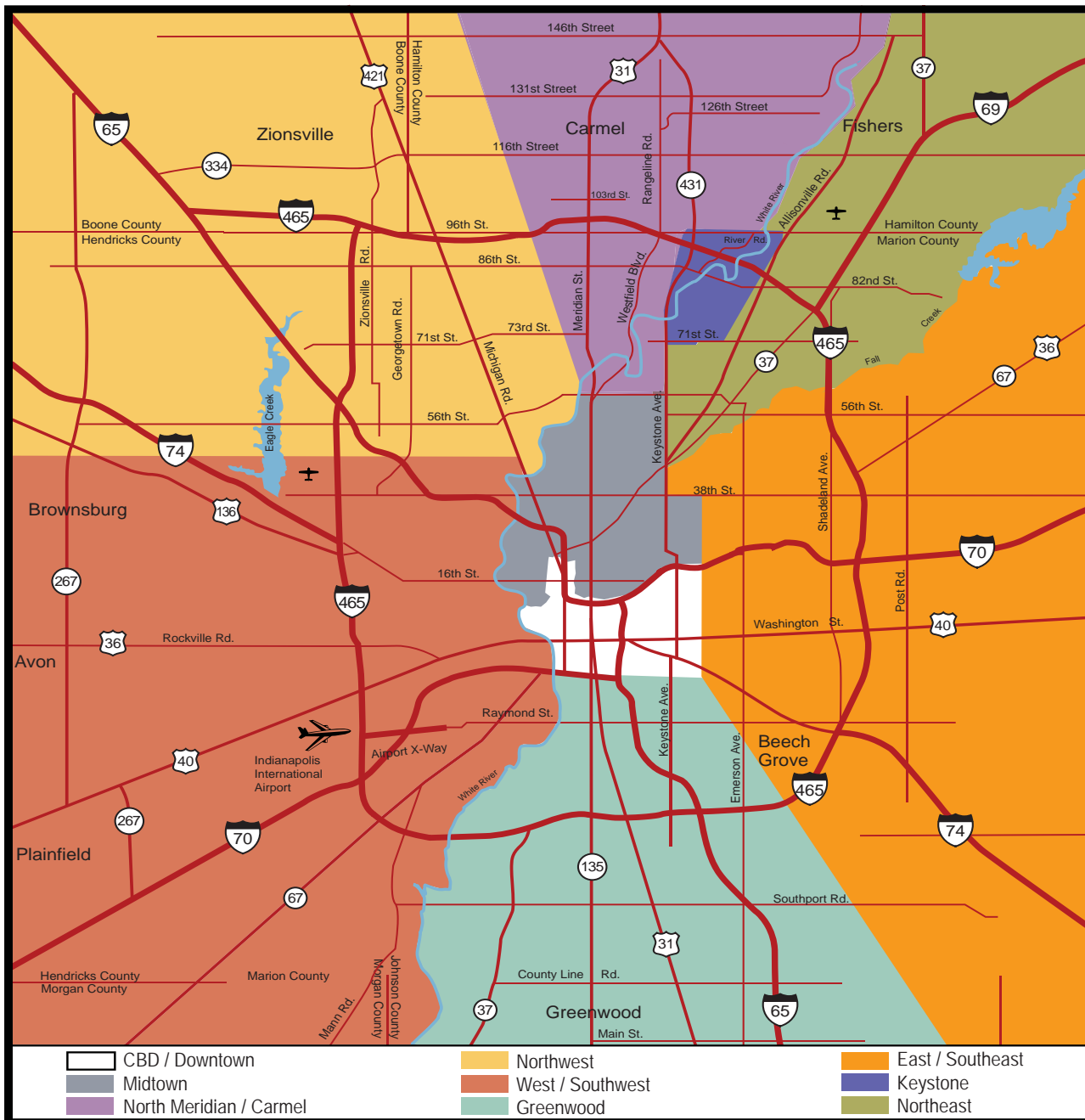
### AVAILABLE SPACE VS. AVERAGE ASKING RENT

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



# 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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