

Market Research

OFFICE | FIRST QUARTER | 2009


 ★ Indianapolis

INDIANAPOLIS OFFICE MARKET AT A GLANCE

	CHANGE FROM LAST QUARTER	CHANGE FROM SAME QUARTER ONE YEAR AGO
OVERALL VACANCY RATE	↑	↑
OVERALL ABSORPTION	↑	↓
CLASS A VACANCY RATE	↑	↑
CLASS A ABSORPTION	↓	↓

OFFICE HIGHLIGHTS

Vacancy in the Indianapolis multi-tenant office market increased by 0.3% from year end 2008 to the end of 1Q 2009. Approximately 5.8 MSF of vacant space existed in the market at the end of first quarter 2009. The vacancy rate in Class A space increased by 0.9% from the fourth quarter of 2008 thru the first quarter 2009, and 2.9% from 1Q 2008 to 1Q 2009.

The market experienced 59,000 SF of negative net absorption in the first quarter compared to negative 128,000 SF of absorption for fourth quarter 2008. Class C office space had the largest increase of absorption in the first quarter with 24,000 SF.

The effects of the economic downturn continued to impact the local Indianapolis real estate market and consumer spending. Consumer expenditures, the bulk of GDP, were down, thus putting pressure on corporate profits. In response, companies cut costs and reshaped budgets, thus eliminating positions, and in some cases delaying real estate decisions.

The Office Market Continued to Grow in 2009

THE U.S. ECONOMY

The U.S. financial crisis, fueled by the bursting of a credit and real estate bubble, triggered a global panic and now an economic slump. U.S. stocks trended downward amid volatility as nervous investors focused on deteriorating corporate earnings and the shaky financial system. The economy is in for sluggish economic growth as the effects of the current recession is flushed out of the system.

Gross Domestic Product (GDP) decreased in the fourth quarter of 2008 by a rate of 1.6% from the previous quarter (figure 1). According to the Bureau of Economic Analysis, the decrease was due in large part to negative contributions from exports, personal consumption expenditures, equipment and software, and residential fixed investment that were partly offset by a positive contribution from federal government spending and a decrease in imports. As the unemployment pool of candidates grew, personal expenditures decreased from the third quarter to the fourth quarter. Understandably, corporate profits decreased by \$254 billion during the fourth quarter of 2008 (figure 2).

The Federal Reserve Board discussed the following in its summary of the January 14, 2009 edition of The Beige Book, which is compiled using reports and interviews from bank and branch directors and various other sources:

Overall economic activity continued to weaken across almost all of the Federal Reserve Districts since the previous reporting period. Reports indicate that retail sales were generally weak, particularly during the holiday season, and deep discounting in sales was noted. Manufacturing activity decreased in most Districts and declines were also experienced in the Services sector. Additionally, several Districts noted weaker conditions in Transportation services and slowed or decreased demand in Tourism activity. Districts also reported a general weakening of labor market conditions. Lower energy prices and declining input prices were reported and wage pressures remained largely contained by pay freezes or reductions in compensation.

Conditions in real estate markets continued to worsen in most Districts. Reduced home sales, lower prices, or decreases in construction activity were noted in the residential real estate market. Commercial real estate markets deteriorated in most Districts, with weakening construction noted in several Districts.



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Overall lending activity declined, with tight or tightening lending conditions reported in most Districts.

THE INDIANAPOLIS ECONOMY

The Seventh District Beige Book of January 14, 2009 discussed economic trends in the District, which includes the Indianapolis MSA. The Beige Book said the following:

Economic activity in the Seventh District declined further in December, with contacts noting lower consumer and business confidence. Consumer spending decreased despite heavy discounting. Retailers reported declines in sales, particularly for clothing and big-ticket and luxury items such as electronics, appliances, and jewelry. However, discount stores fared better than their higher-priced counterparts. Construction declined, and manufacturing activity moved lower. Credit conditions remained tight, but

improved in some markets. Contacts reported increased concern with expenses given declining economic activity and rising uncertainty over the economic outlook.

The pace of business spending declined further from the previous reporting period. Several contacts reported scaling back or putting on hold capital spending plans given the uncertainty surrounding the economic outlook. Labor market conditions also weakened. Layoffs were reported in financial services and several manufacturing industries, including a number of automotive suppliers.

Nonresidential development and construction continued to decline. Developers remained cautious to expand inventory levels given persistent weakness in showroom traffic and elevated cancellations rates. Mortgage applications rose significantly, particularly for

refinancing, spurred by declining mortgage rates. Nonresidential construction also declined. The availability and cost of financing continued to be of concern for commercial developers, with additional cancellations and project delays reported. Contacts noted elevated vacancy rates, increases in sublease space, and continued downward pressure on commercial rents.

Credit conditions in the District remained tight. The demand for liquidity continued to be high while credit risk concerns persisted and borrowing spreads remained elevated. Banking contacts reported continued weakness in loan demand, as nonfinancial firms reevaluated capital spending plans given the uncertainty surrounding the economic outlook. Liquidity in the secondary residential mortgage market was noted to have improved after the Federal Reserve's announcement of its intent to purchase

The Signature Building came online in the first quarter in the South submarket. The 44,000 SF building was developed by Alderson Commercial Group, Inc.



agency debt and mortgage-backed securities. Loan quality continued to be of concern for residential real estate loans. In addition, several contacts in commercial real estate finance pointed to further deterioration in quality as variable interest rate loans come due for refinancing this year.

As a whole, employees in Indiana continued to experienced layoffs into 2009. According to the Bureau of Labor Statistics, the Indianapolis/Carmel metropolitan area had a decrease in overall employment of 21,900 jobs from January 2008 to January 2009. In the office sectors of Information, Professional and Business Services, and Financial Activities employment decreased by 16,400 jobs.

The unemployment rate in the Indianapolis metropolitan statistical area (MSA) remained below the state and national rates for several quarters. As of February 2009, the unemployment rate in the Indianapolis MSA was 8.2%, compared to 9.4% for the state and 8.5% for the nation.

THE INDIANAPOLIS OFFICE MARKET OVERVIEW

The Indianapolis multi-tenant office market is comprised of 31.4 million square feet (MSF) of space in 410 buildings. The Central Business District (CBD) consists of the Downtown and Midtown submarkets, which encompasses 82 buildings and 11.6 MSF. The eight suburban submarkets, comprised of 328 buildings and 19.9 MSF, continued to grow in the first quarter as one 44,000 SF building completed construction.

Companies continued to lease or purchase space throughout the first quarter 2009. Economic factors have not diminished day-to-day business for some companies, especially those with greater capital. Notably in the first quarter, 27,000 SF of space was occupied in Claypool Court and 18,000 SF of space

in Meridian Corporate Plaza Two.

As local companies continue to be affected by the recession, some office tenants are requesting shorter leases when renewing. Many of the renewed leases range from one year to three years, which is a slight difference from the standard five-year leases landlords are used to seeing.

Overall Vacancy

Over the past five years vacancy rates have not differed greatly from one year to the next and quarter to quarter (figure 3). In the first quarter of 2009, the office vacancy rate was 18.5%, a slight increase of 0.3% increase from the previous quarter. These increases in vacancy rates were enough to be statistically significant and aid in substantiating statistical trends.

In the first quarter of 2009, the difference in the vacancy rate in Class B buildings was slight with a 0.1% decrease. Class C buildings also experienced decreased

vacancy by 0.9%. Alternatively, Class A vacancy increased by 0.9%.

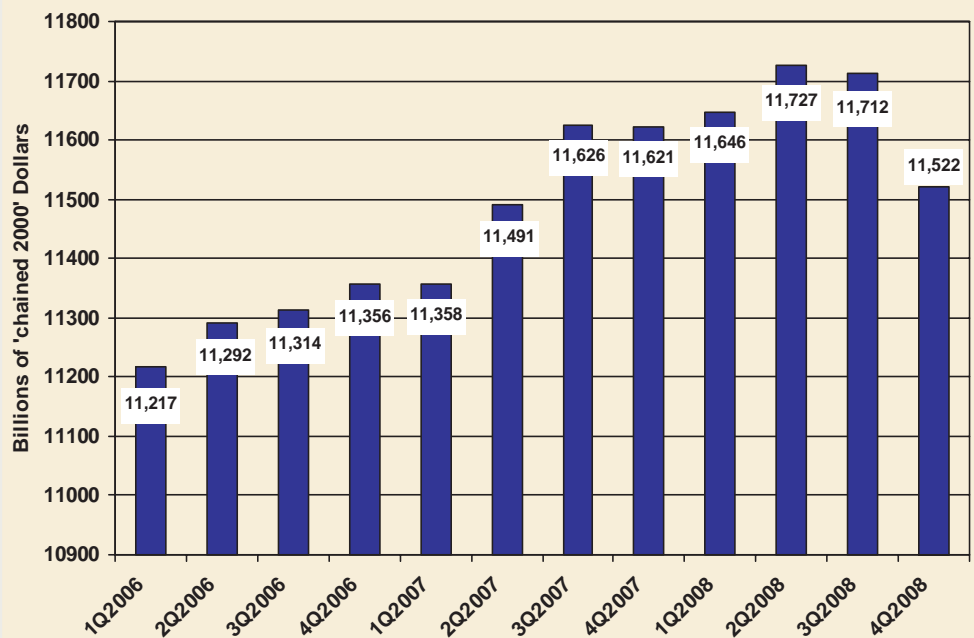
Overall Absorption

The first quarter's negative net absorption is attributed to economic factors, specifically unemployment increases and stringent financing. Net absorption increased by 69,000 SF from the previous quarter, from negative 128,000 SF in the fourth quarter 2008 to negative 59,000 SF at the end of the first quarter 2009.

The CBD experienced positive absorption of 17,000 SF led by activity in Class B and C office space. Although the suburban market experienced negative absorption of 75,000 SF, several submarkets experienced positive absorption during the first quarter. The South submarket welcomed the addition of the Signature Building to the office inventory and led in absorption with 40,000 SF. The West, East, and Fishers submarkets also had positive absorption of 25,000 SF collectively.

REAL GROSS DOMESTIC PRODUCT (GDP)

FIGURE 1



Source: Bureau of Economic Analysis

Analysis by Submarket and Class

The following is an analysis by submarket and class, which will explain changes throughout the market in the first quarter.

By Submarket

The Indianapolis MSA is dissected into 10 geographical submarkets. The CBD is a combination of the Downtown and Midtown submarkets.

The suburban submarkets are comprised of eight individual submarkets: North/Carmel, Northwest, Northeast, Fishers, Keystone, East, West and South.

Vacancy

Overall vacant space totaled 5.8 MSF in the combined CBD and suburban submarkets with an 18.5% vacancy rate (figure 4). Vacancy rates in some submarkets increased slightly from the previous quarter. For instance, the vacancy rate in the Northeast submarket changed from 24.8% to 26.4%, an increase of 1.6%. Similarly, the Northwest submarket experienced an increase of 1.4%, changing from 20.7% in the fourth quarter 2008 to 22.1% in the first quarter 2009.

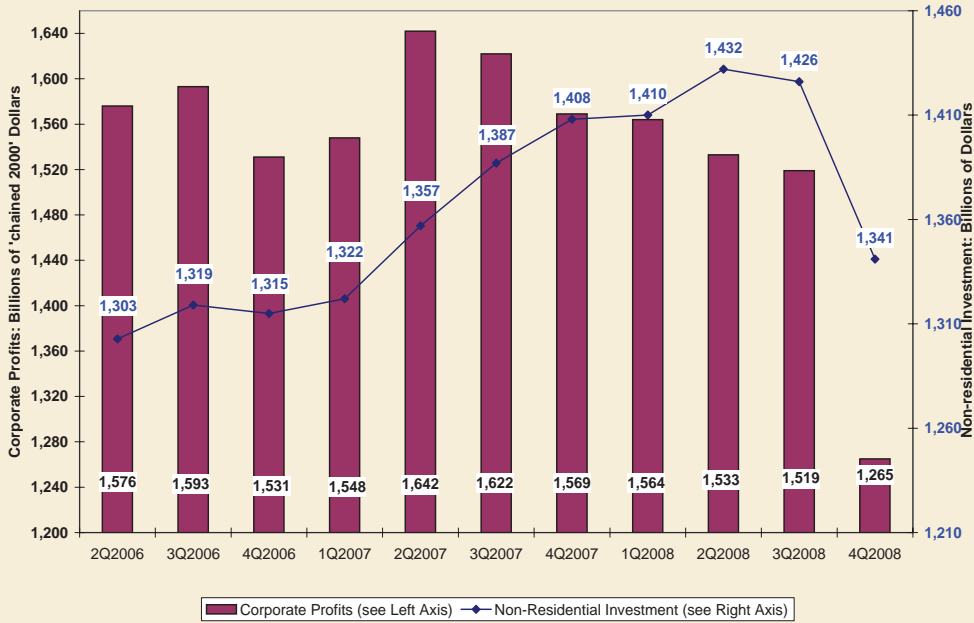
Five of the ten submarkets experienced decreasing vacancies. Midtown led with a vacancy rate of 3.8%, followed by Fishers with 8.2%. Fishers also had the greatest change in vacancy with a 2.0% decrease. The Downtown submarket remained unchanged at 15.5% for the first quarter.

Absorption

In the first quarter of 2009, the Indianapolis market as a whole experienced negative absorption of 59,000 SF. This was the result of negative absorption of 75,000 SF in the suburban market offset by 16,000 SF of positive absorption occurring in the CBD. Six submarkets experienced positive occupancy growth in the first quarter of 2009 (figure 5). The South submarket had the largest increase in net absorption with 40,000 SF, which included 22,000 SF at the new Signature Building. This was followed by Midtown with 16,000 SF of absorbed space and Fishers with 14,000 SF. The West submarket posted 10,000 SF of absorption as the result of Class B office space activity. The Downtown and East submarkets each experienced 1,000 SF of absorption in the first quarter of 2009.

CORPORATE PROFITS AND NON-RESIDENTIAL INVESTMENT LEVELS, BY QUARTER

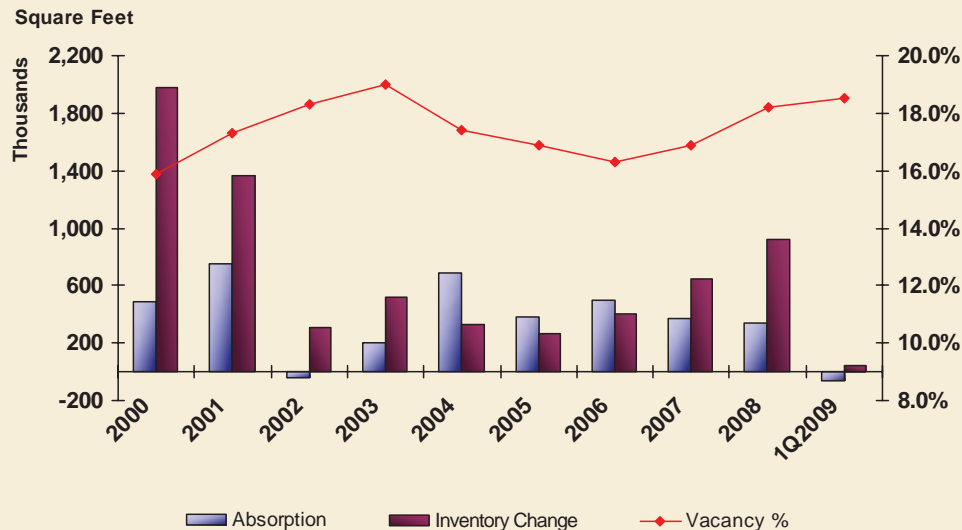
FIGURE 2



Source: Bureau of Economic Analysis

INDIANAPOLIS MULTI-TENANT OFFICE MARKET OVERALL CHANGE IN INVENTORY, ABSORPTION & VACANCY 1ST QTR 2009

FIGURE 3



Source: Colliers Turley Martin Tucker Research Department

By Class

The Indianapolis office market is segregated by class. Class A buildings are newer structures with spacious lobbies and various amenities for tenants. Class B buildings are slightly older structures of smaller size than Class A with fewer amenities for tenants. Class C buildings are older structures, small in size, and lack amenities for tenants.

In the first quarter of 2009, Class A buildings totaled 16.5 MSF and had a vacancy rate of 19.4%. Class B buildings totaled 12.3 MSF and had a vacancy rate of 17.5%. Lastly, Class C buildings totaled 2.6 MSF and had a vacancy rate of 17.7%.

Vacancy

In the first quarter, office buildings in the Indianapolis market had a vacancy rate of 18.5%, a 1.6% increase from the first quarter of 2008. The overall vacancy rate in the CBD increased from 14.2% at the end of the first quarter 2008 to 14.4% in the first quarter of 2009, while the suburban submarkets increased from 18.5% to 20.8% during the same period. Midtown had the largest decrease in vacancy rate in a year's time with a change of 8.2 percentage points, from 12.0% to 3.8%; the primary reason was Class B vacancy decreased substantially from 28.9% in the first quarter of 2008 to 0.0% in the first quarter of 2009.

At the end of the first quarter, Class A office space in the MSA had a 19.4% vacancy rate, an increase of 2.9% since the first quarter of 2008. This is attributed primarily to the addition of nine buildings to the Class A inventory in 2008 for a total of 835,000 SF. Class A vacancy rate increases year-to-date occurred in Fishers (1.6% to 5.4%), Keystone (20.4% to 23.4%), Northeast (24.2% to 36.9%), West (18.1% to 22.5%), and Downtown (16.0% to 18.5%). Over 35% of all Class A buildings reside in Downtown with a total of 5.9 MSF of space.

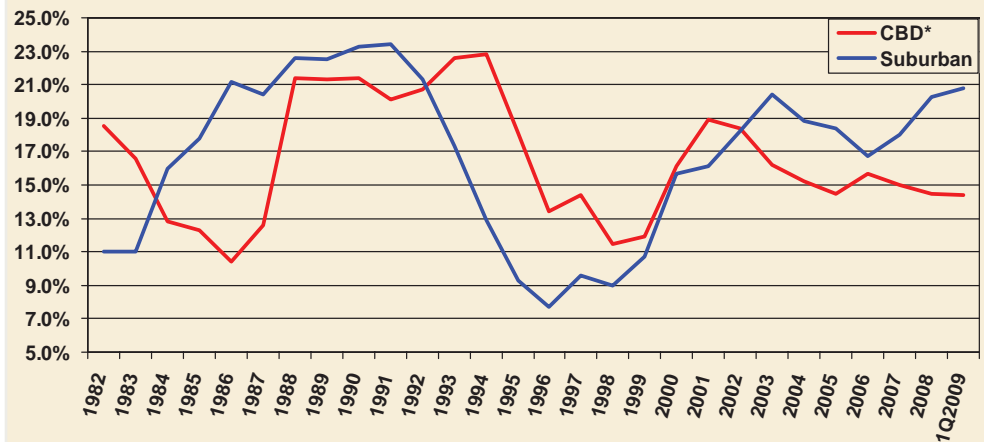
Overall, the vacancy rate in Class B space remained in the range of 17% from the previous quarter, and increased by 0.4% from the first quarter of 2008. Rates varied among submarkets as there were significant decreases and increases in Class B space. Year-to-date increases occurred in Downtown (9.8% to 10.0%), North/Carmel (14.0% to 20.3%), Northeast (22.4% to 24.1%), and West (29.0% to

27.6%). Decreases occurred in Fishers (19.7% to 11.1%), Northwest (25.6% to 23.7%), East (25.6% to 25.2%), and Midtown (28.9% to 0.0%).

Overall, Class C vacant space was 17.7% of the total 2.6 MSF of inventory for 465,000 SF. This represented a 0.1% decrease in all vacancy rates from the previous quarter. The

INDIANAPOLIS MULTI-TENANT OFFICE MARKET, HISTORICAL VACANCY RATES 1ST QTR 2009

FIGURE 4

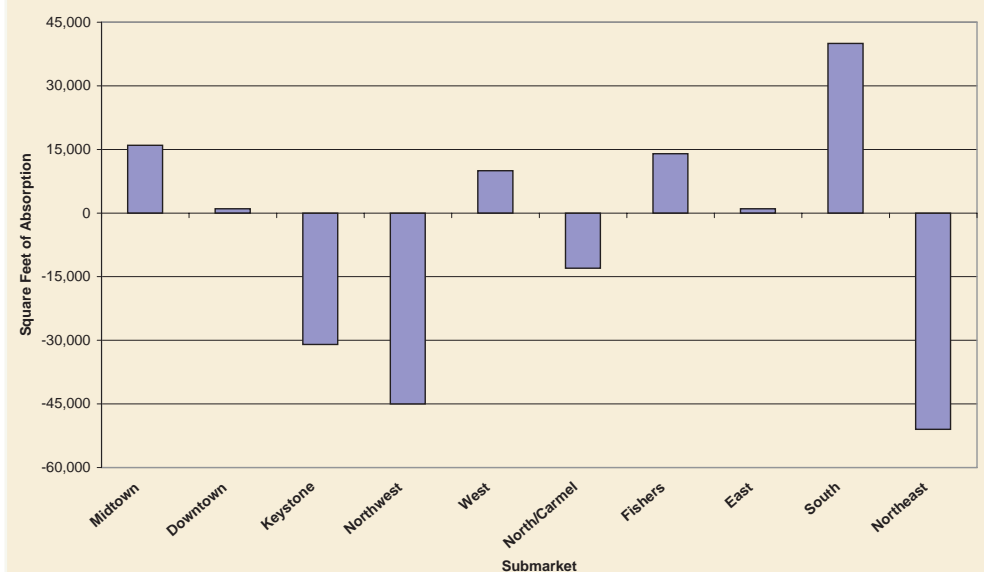


*The CBD is comprised of the Downtown and Midtown submarkets.

Source: Colliers Turley Martin Tucker Research Department

INDIANAPOLIS MULTI-TENANT OFFICE MARKET, NET ABSORPTION (YEAR-TO-DATE) BY SUBMARKET 1ST QTR 2009

FIGURE 5



Source: Colliers Turley Martin Tucker Research Department

Downtown submarket accounted for the majority of this decrease as Class C vacancy dropped from 19.9% in the fourth quarter of 2008 to 17.6% at the end of the first quarter 2009. The 1.9% decrease in total CBD vacancy rates was offset by a slight increase of 0.2% in the vacancy rates for the suburban market.

Absorption

The Indianapolis market experienced negative absorption of 59,000 SF in the first quarter 2009. Class A office space fell into negative growth with 99,000 SF of negative absorption for the quarter, a sign that national economic issues continue to affect the Indianapolis MSA. Meanwhile Class B and C buildings experienced positive absorption for the quarter as tenants sought lower cost alternatives, with 16,000 SF of Class B office space and 24,000 SF of Class C office space absorbed (figure 6).

Absorption was lowest in Class A buildings with 99,000 SF of negative net absorption

for the first quarter. Over 16.5 MSF make up Class A buildings throughout the MSA with 10 MSF in suburban submarkets alone. Absorption in the first quarter among Class A buildings in the suburban submarkets was negative 81,000 SF. Class A office space in the Downtown submarket experienced negative absorption of 18,000 SF. Population growths increased the most in the Northeast and North/Carmel, thus making those submarkets attractive to employers.

Class B office space realized positive net absorption of 16,000 SF in the first quarter of 2009. During the first quarter six of the ten submarkets experienced positive absorption. Leasing activity increased the most in Class B space in the Midtown submarket with 16,000 SF of absorption. Other submarkets with positive absorption were West (11,000 SF), South (9,000 SF), Fishers (9,000 SF), Northwest (8,000 SF), and North/Carmel (2,000 SF).

Class C office space had positive

absorption of 24,000 SF for the first quarter of 2009. This is an increase from negative 30,000 SF experienced in the first quarter of 2008. Downtown, East, Keystone, and South submarkets had positive net absorption during the first quarter. Over 48% of Class C space in the MSA resides in these submarkets.

New Construction

The Signature Building added 44,000 SF to the Indianapolis inventory in the South submarket during the first quarter of 2009. This Class A office space, developed by Alderson Commercial Group, Inc., had 22,000 SF of available space for lease at the end of the first quarter.

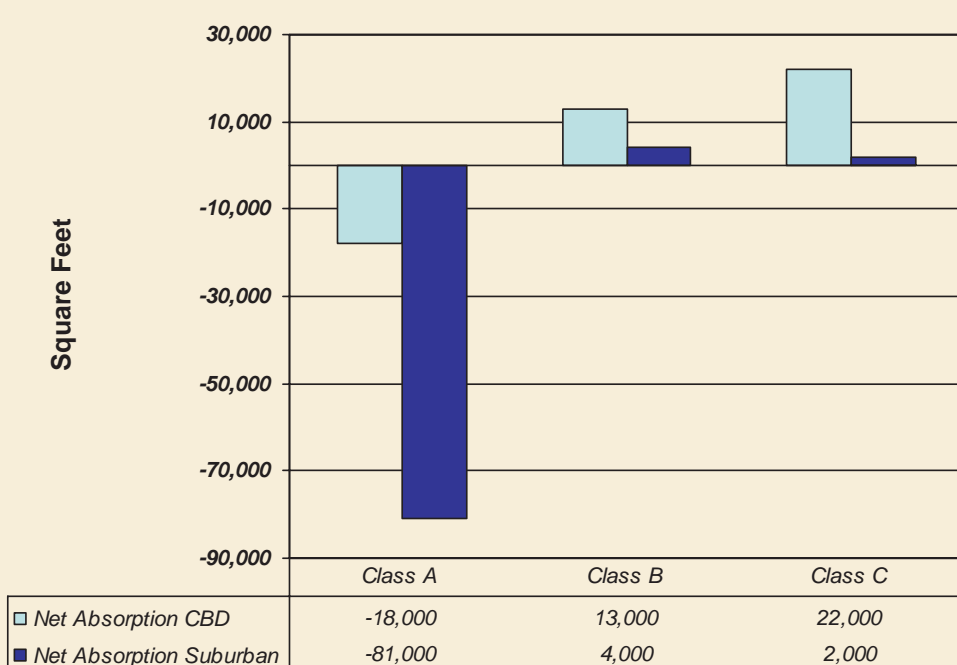
Over 25 buildings and 1.7 million SF are currently proposed for construction in the Indianapolis MSA for 2009. Of this proposed new construction, the Fishers and North/Carmel submarkets account for a total of 18 new buildings and 1.2 million SF. Class A office space leads all types of proposed office construction with 1.5 million SF, while 245,000 SF of Class B and C office space are also in the construction pipeline.

Rents

In the market as a whole, the average rental rate was \$16.74 per square foot (psf) among all classes of spaces. The average annual quoted Class A rent was \$19.67 psf. In the CBD, which combines the Downtown and Midtowns submarkets, Class A space had an average asking rate of \$20.25 psf at the end of the first quarter. Downtown available space had an average of \$20.37 psf, and Midtown available space had an average of \$18.63 psf. In the suburban submarkets, Class A space had an asking rate of \$19.53 psf. North/Carmel had the highest average with \$20.44 psf, followed by the Keystone with \$20.29 psf.

**YEAR-TO-DATE NET ABSORPTION BY BUILDING CLASS
4TH QTR 2009**

FIGURE 6



Source: Colliers Turley Martin Tucker Research Department

The View Ahead

Undoubtedly, current economic conditions have taken their toll on both consumers and businesses and will continue to do so in 2009. Financial markets are engaged in the slow process of rebuilding and employment losses continue to grow. As banks purge debts and repair devastated balance sheets, lending will be curbed which will be painful for businesses and consumers. Businesses will continue to lower expenses in 2009 to protect cash flows because financing is uncertain.

There are some hopeful signs for 2009. The collapse of energy prices, as a result of declines in the price of oil and many other commodities, are taming inflationary pressures which will help keep interest rates low. The rates of housing foreclosures are decreasing in some markets and property values are starting to stabilize. The positive impact of the U.S. Department of Treasury's financial rescue package should begin to be felt in 2009. Once bank activity resumes and financial liquidity returns to the market, the beneficial effects of the Federal Reserve Board's dramatic interest-rate reductions should start to ripple through the economy. While the timing of these developments impact on the market is unclear, it is clear that these forces will positively impact the commercial real estate office market.

Without signs of immediate improvement on the economic front, the overall office demand remained weak in the first quarter 2009. Even though the economy has begun to negatively impact the services sector and some office using jobs have been lost, the office market as a whole continues to be steady. CTMT office brokers report businesses agreeing to new leases with little if any downsizing, or modest growth.

Although the Indianapolis office market had three straight quarters of negative

absorption at the end of the first quarter of 2009, Indianapolis experienced positive absorption of 69,000 SF from the previous quarter. It is expected that absorption will not fluctuate much from quarter to quarter. Leasing velocity will increase as the economy improves but it will likely be flat for most of 2009. Sublease opportunities will increase throughout the year.

The bulk of the activity in the marketplace was lease renewals. Landlords have been increasingly flexible in negotiations with their tenants, however, they will continue to scrutinize tenant credit before granting concessions, like abated rent and above standard tenant improvements. The market incentive to offer attractive concessions in order to keep cash flow in tact will remain. There will likely be more involvement of lenders in decisions to approve lease terms and conditions. Thus, expenses involved in lease transactions will also be scrutinized. Net rents will slightly decrease due to increased real estate taxes.

The MSA can expect to see little movement on the construction front in 2009. Most developers will continue to display caution in the construction of speculative office space as demand will be low, credit will be tight, and debt will continue to be elusive. Although these factors will slow construction, private developers with good credit and strong lending relationships will continue to be in good positions in 2009.

267 OFFICES IN 57 COUNTRIES ON 6 CONTINENTS

129 (United States, Canada, Latin America)
85 Emea
53 Greater Asia

\$63.5 billion in transactions
672,945,918 million sf under management
10,171 professionals

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