



Indianapolis, Indiana

Tenant's Guide ▪ North American Markets ▪ First Quarter 2012

Overview

Most industry experts agree that the commercial real estate market continued its sluggish trend in the first quarter of 2012. In fact, analysts have confirmed that commercial deals are taking longer to complete, are fewer in number, and are requiring an increasing number of concessions. The cumulative effect has been to cause vacant space to remain on the market for an average of two years.

The Indianapolis metropolitan office market saw only a slight improvement in its first quarter vacancy rates, continuing the steady trend downward since reaching a high in the fourth quarter of 2010. This steady decline was accompanied, however, by a steady reduction in average rents. Clearly, savvy tenants capitalized on the soft market, demanding reduced rents and increased concessions, making the first quarter a bright spot for those tenants who chose to capitalize on market conditions.

Market Trends

- Indianapolis will see a continued soft office market in 2012.
- Office deals are taking twice the time to complete.
- Rental rates are bottoming out in 2012.
- Vacancy rates remain steady as lack of development is offset by shrinking space needs of corporate America.

Tenant's Perspective

While tenants will likely continue to benefit from the soft market conditions in 2012, favorable fundamentals and absorption dynamics coupled with record-low construction activity could result in improved rent and vacancy trends for landlords in the coming year. However, it is likely that changing demographics resulting in a younger workforce, coupled with an increased reliance on teamwork, will cause a continuation of the trend towards shrinking office requirements, offsetting any projected increase in rents. While this trend may be a source of concern for landlords with significant office holdings, tenants will likely benefit by transitioning to newly configured, modern work environments.

Evidence of this evolving trend can be found in the recent sale of Indianapolis-based Duke Realty's suburban office building portfolio. While Duke representatives claim that they are not getting out of the office market, it is clear that they are adjusting their portfolio mix. Their move hints at a belief that the near term trend in the office sector will be somewhat bumpy for landlords. This evolution, however, will create opportunities for savvy tenants, interested in optimizing space in an environment that is rich with opportunity.

Major Transactions

| Tenant/Buyer | Size | Type | Lease/Sale |
|------------------------|---------|------------|------------|
| Anderson Merchandisers | 703,000 | Industrial | Lease |
| Smart Warehousing | 190,440 | Industrial | Lease |
| Lauth Property Group | 180,000 | Office | Sale |
| KYB America | 153,748 | Industrial | Lease |
| Ogletree Deakin | 36,113 | Office | Lease |
| Wells Fargo Advisors | 33,998 | Office | Lease |
| T2 Systems | 17,801 | Office | Lease |
| Wells Fargo Bank | 17,218 | Office | Lease |
| State of Indiana | 15,315 | Office | Lease |
| BC Forward | 12,502 | Office | Lease |

Vacancy Rate



Average Rental Rates

| CBD | Q3 2011 | Q4 2011 | Q1 2012 |
|----------------|---------|---------|---------|
| Class A Office | \$21.00 | \$21.00 | \$21.00 |
| Class B Office | \$15.00 | \$15.00 | \$15.00 |
| Suburban | Q3 2011 | Q4 2011 | Q1 2012 |
| Class A Office | \$20.00 | \$19.50 | \$19.50 |
| Class B Office | \$15.00 | \$15.00 | \$15.00 |
| R&D | \$14.00 | \$14.00 | \$14.00 |

