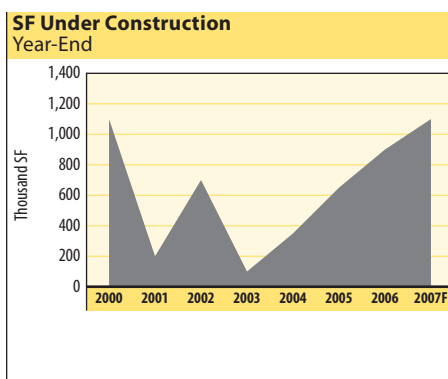
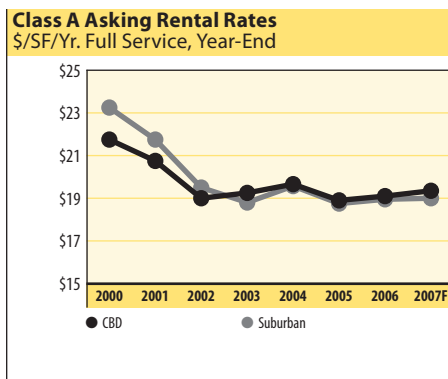
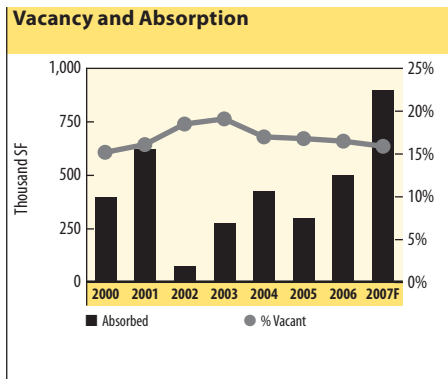




Vacancy rates fell through most of 2006, but ended with an upward tick due to Simon Property Group's move from the rented space it occupied in National City Centre to its own, newly constructed 325,000-square-foot tower in the third quarter of 2006.



Even with the former Simon space hitting the Central Business District (CBD) submarket, absorption remained positive for 2006. The year brought stabilization to the Indianapolis office market in most statistical categories, with solid gains in the suburban markets and the relative health of the overall CBD submarket offsetting the Simon move. The vacancy rate for the entire Indianapolis office market ended the year with a slight decrease from the beginning of 2006, while average rental rates shown no significant change; ending the year with less than a 0.5 percent increase.

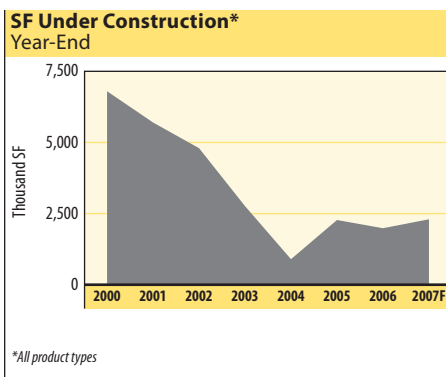
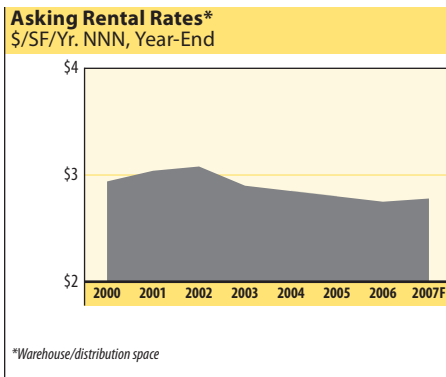
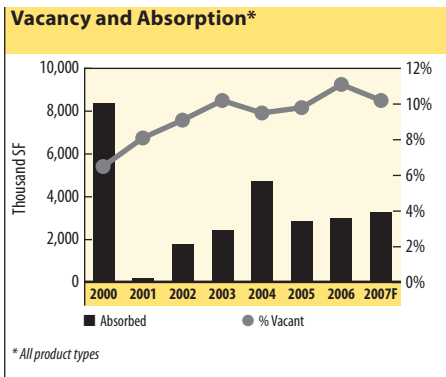
Both leasing activity and velocity are on the increase and should continue to show improvement into 2007. Office construction activity remains focused in the North Meridian Corridor, highlighted by the 2006 deliveries of Lauth Property Group's 135,000-square-foot Meridian Corporate Plaza II and Opus North Corporation's Landmark at Meridian I, containing 106,000 rentable square feet. Notable transactions during 2006 included Ingersoll Rand's purchase of 116,000 square feet in the North Meridian Corridor, Liberty Mutual Insurance's lease of 40,000 square feet (also in the North Meridian Corridor), and the lease by

Cingular Wireless of 38,000 square feet at Duke Realty Group's recently completed Parkwood Nine building (again, in the North Meridian Corridor).

The outlook for 2007 is positive, easily the most positive outlook for the Indianapolis office market since 2001. Construction activity will remain brisk and will be concentrated in the suburban markets. Of the suburban markets, the North Meridian Corridor will dominate new construction starts due to strong leasing activity. There, Duke Realty and Lauth Property Group are moving swiftly to add another 400,000 square feet by the summer of 2007. Even so, vacancy rates will continue to fall throughout the year—both in the suburban markets and downtown, where limited new construction and moderate leasing activity will maintain pace. A notable increase in absorption is expected in 2007 as employment growth and lease rollovers drive decisions. Absorption will be more pronounced in the suburban markets, where nearly 80 percent of overall absorption is expected to take place. Rental rates are forecast to increase by 3 to 4 percent in the CBD, and by roughly 2 percent across the suburbs.

Indianapolis Industrial

The Central Indiana industrial market experienced a rock-solid 2006. With construction, leasing activity, and absorption all significantly ahead of 2005 levels, the market continues to gain notoriety as one of the nation's leading industrial markets.



Modern bulk distribution product led the way, accounting for nearly 90 percent of all construction that took place in 2006. This is the continuation of a major trend in the market, as the inventory of modern bulk product has increased dramatically in recent years to just over 45 million square feet. Meanwhile, Type I Flex product persists in proving difficult in all submarkets, with manufacturing and medium distribution experiencing varying levels of occupancy growth.

Another trend was the maintained dominance of the Southwest/Plainfield submarket. During 2006, 65 percent of all construction activity in the metropolitan area occurred in this submarket and it saw an even higher percentage of occupancy growth through the first three quarters of the year.

The Southwest/Plainfield submarket will gain even more importance as several new projects begin construction in 2007. Highlighting those will be the 900-acre AllPoints Midwest project. Developed by a joint venture of Browning Investments and Duke Realty Group, it will comprise 11 million square feet of space upon completion. Also, Lauth Property Group will begin development of its proposed, 7.5 million-square-foot Westpoint Business Park, seven miles west of Plainfield along I-70.

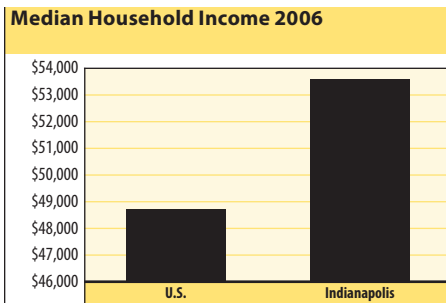
Looking forward, the local industrial market in 2007 will likely be impacted by several recent, significant commitments to the State of Indiana from major manufacturers, including: Honda, Nestlé, Cummins, and Subaru (Toyota). The biggest of those commitments is in Greensburg, Indiana (45 minutes southeast of Indianapolis), where Honda Motor Company will build a manufacturing facility that will employ approximately 2,000 workers. Construction is set to begin immediately. In addition to Honda's announcement, Subaru (Toyota), Cummins, and Nestlé Corporation will all build new production facilities in the Central Indiana region and hire an estimated 2,100 workers. These facilities will become operational in 2008 and should create additional industrial demand from suppliers and manufacturing partners.

The Indianapolis industrial market is positioned to grow even stronger in 2007. Coupled with the positive forces at work within the market, rising construction and land costs will put upward pressure on rental rates. Some attention will shift to the I-65 corridor in Boone County where joint venture partners Duke Realty and Browning Investments will deliver the first building at AllPoints Anson. AllPoints Anson will provide more than 9 million square feet of space and anchor the rapidly growing corridor as it evolves into a primary distribution hub.

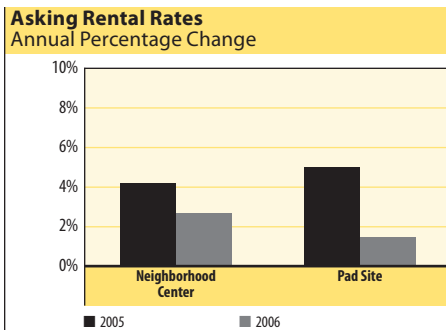
Indianapolis

Retail

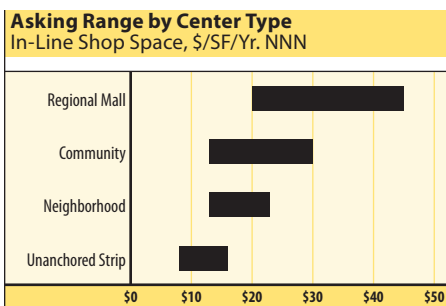
Retail maintained pace in Central Indiana during 2006 amid growing signs of concern. Activity ranged from discount anchor openings, to the opening of the second phase of the Metropolis lifestyle center, to the delivery of several shared-pad retail buildings.



Median household income, U.S. versus local market
Source: Claritas



Asking rental rates, neighborhood centers and pad sites, 2005 versus 2006
Source: North American Retail Market Trends



Rent range by center type
Source: Grubb & Ellis, CoStar

For retail landlords, 2006 was a case of the haves and have-nots. Well-positioned centers were able to push the rental envelope (in some cases north of the \$30 per-square-foot barrier) with multiple retailers or restaurants competing for the same sites; however, poorly positioned centers were not nearly as fortunate—often having difficulty moving space. Average rental rates did climb; however, as positive influences in the market outweighed negative ones.

The flow of retailers entering the market has slowed in recent years, though the activity from existing retailers has increased. Among the more active recent market entrants, LA Fitness began its Indianapolis expansion program with construction of a site across from the Glendale Mall. As many as seven other locations are planned locally. Famous Dave's BBQ and Weber Grill were among the restaurants that made commitments for their first Central Indiana units during the year.

Kroger, Wal-Mart, Starbucks, Chase, Walgreens, and FedEx Kinko's were particularly active in expanding their existing store counts. Other banks also persisted in their aggressive acquisition of high-profile intersection sites. Expectations call for more of the same in 2007, with the dominant retailers and restaurants seeking to broaden their market share at the expense of smaller competitors.

2007 will provide for many interesting story lines. First, Kite Realty Group should move ahead with plans to redevelop its struggling Glendale Mall project. By de-malling the site, Kite will look to bring in a freestanding Target store and position small shop buildings between Target, the existing Macy's store, and a Kerasotes' Theater.

Second, Simon Property Group recently broke ground on its Hamilton Town Center lifestyle project in suburban, Noblesville. A joint venture with Gershman Brown & Associates, the site, a full 10 miles outside of the I-465 beltway, signals a further evolution in the Indy retail market.

Third, The Bon-Ton Stores will enter the market with its acquisition of the downtown Parisian store from Belk Department Stores, immediately on the heels of Belk's acquisition of the Parisian chain. Bon-Ton will signal the return of the moderate-priced department store to the downtown area.

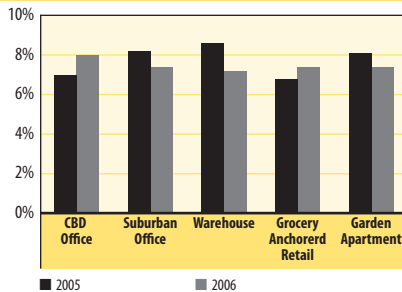
Finally, growing signals of oversupply are appearing in some markets and product types. While the growth rate of the Indianapolis metropolitan area has exceeded that of any other metro area in the upper Midwest since 2000, the amount of retail space added to the market continues to test the limits of that growth.

Indianapolis

Investment and Land

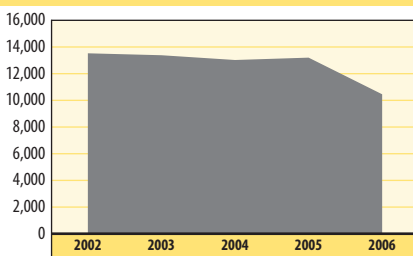
2006 was a banner year for investment real estate. Records were set in multifamily sales, in spite of a slow recovery for the fundamentals of that sector. Chief among activity drivers were the exit of AMLI from Central Indiana and the closeout of Century Realty Trust.

Average Capitalization Rates
Mid-year 2005 to Mid-year 2006



Cap rates current quarter versus year ago quarter by property type

Indianapolis New Home Permits



Construction permits
Source: Market Graphics, Grubb & Ellis

Buyers across all property types were from overseas, both coasts, and the Sunbelt as Midwest property cap rates attracted interest from overheated markets. TIC investors continued their inroads, snapping up medical office, office, and industrial assets, setting record prices in some instances. Of note, a substantial portion of the suburban office market has changed hands in the past two years (7.125 million square feet sold out of an 18.8 million-square-foot total).

2007 should see solid activity across all property types as local buyers compete with those out of the region for a reasonable supply of product. Indy's stable growth is tightening the fundamentals for office, industrial and multifamily. Retail, meanwhile, is riding the crest of several strong years and may have some pullback in the fundamentals due to looming oversupply in certain submarkets. Absent an oil shock or a worsening of the residential construction market, 2007 will see another solid performance.

A significant pullback by most of the largest homebuilders in the Indianapolis area had a pronounced effect on the land market in the second half of 2006. Multiple transactions were terminated and new activity ground

nearly to a standstill. This dramatic reaction could also be seen in the number of new housing permits issued through the first three quarters of 2006, as the market saw a 22 percent reduction. This marks the first time in five years that the housing market will significantly contract at the local level. The lone bright spot in the residential land market remained the need for sites suitable for townhome development, often as part of a mixed-use project.

Counter to this, increased office activity and dramatically increased industrial construction fueled rising demand for land among those property segments. Industrial land demand, driven by the bulk distribution market and the need for enormous building sizes, is shifting ever further from the I-465 beltway.

2007 will see mixed results in the land market, with industrial sites in the highest demand. For all of the turmoil in the residential sector, solid job and population growth fundamentals, coupled with the dramatic nature of the current contraction, may allow the pullback to be short-lived. Still, residential land activity will not bounce back until at least the fourth quarter of the year.

Key Investment Transactions 2006

Buyer	Seller	Property Type	Property Name	Size	Sale Price (millions)
Core Realty Holdings	Amli Res Holdings/Tuckerman	Multifamily	AMLI at River Bend Apartments	996 Units	\$70.0
Triple Net Properties	Prudential R.E. Investors	Office	Anthem Insurance Campus	562,000 SF	\$101.0
Hanning & Bean Enterprises	Chrysler Meridian Corp.	Office	500 North Meridian Street	436,000 SF	\$47.5
NTS Realty Holdings LP	AMLI Res Holdings	Multifamily	AMLI at Castle Creek & Lake Clearwater	492 Units	\$50.0
Cogdell Spencer Inc.	Lillibridge Health Trust	Office	Methodist Prof. Center	171,755 SF	\$39.9
Bianco Properties	PK Partners LLC	Retail	North by Northeast Shop. Cnt.	56,560 SF	\$16.0
Inland Real Estate Group	The Kroger Company	Retail	Glenlake Plaza	102,549 SF	\$12.7



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