OFFICE MARKET

ANN ARBOR

Both the Ann Arbor office and hi-tech markets remain in transition as a result of the loss of Pfizer in early 2007 and the overall downturn in the world economy, but there are signs the recovery has begun.

The overall vacancy rate for the Ann Arbor office market has decreased slightly to 13.75%. The decrease in vacancy reflects the aggressiveness of the landlords in the market who have decreased both asking rates and actual deal rates. The actual effective deal rates has declined faster than asking rates as the result of the use of free rent to close deals.

While the scoreboard does not reflect it, there has been a marked increase in activity in the first half of 2009 compared to 2008. There have been more showings and deals proposed as the alternative fuels and renewable energy companies have expressed interest in opening operations in the Ann Arbor area. Hopefully, the just announced General Electric wind turbine research and manufacturing venture at the Visteon Village, in nearby Van Buren Township, will be the springboard to the entrance into the Ann Arbor area of suppliers to support General Electric's operations.

A further indication things are moving in a positive direction was the actual signing of deals in the first half of 2009. Xoran Technologies expanded its operations and leased 45,000 sq. ft. office and hi-tech space at the State Street Executive Park.

Downtown Ann Arbor saw the expansion of Barracuda Networks, a California transplant, with its leasing of approximately 13,000 sq. ft. at the new office complex at 201 Depot Street. Also in Downtown Ann Arbor, Akasha Crystals relocated to a new 15,000 sq. ft. office at 101 N. Main Street to accommodate the growth in its operations. The Briarwood market saw Thomson Reuters expand by 28,000 sq. ft. at 777 Eisenhower Parkway.

Last, but certainly not the least, the biggest news in Ann Arbor during the first half of 2009 was the University of Michigan's acquisition of the former 177-acre Pfizer complex. This includes the massive 2,000,000 sq. ft. plus world class office and research facility that Pfizer finally closed in late 2008. The complex has already been renamed the North Campus Research Complex and will be used by the U of M Medical School and Hospital; as well as, to be used as a platform by the University to reach out to the private sector to attract new ventures to Ann Arbor.

BIRMINGHAM/BLOOMFIELD

The Birmingham/Bloomfield submarket remains a desirable location for companies. Morganroth & Morganroth, a law firm formerly located in Southfield, recently leased space at 344 N. Old Woodward. We are seeing a trend of companies moving into this submarket to take advantage of the opportunities in the area.
Other notable news in the area is the closing of the Oakland Athletic Club which occupied 48,000 sq. ft. in Birmingham. There is ample activity involving this space, and we expect it to be leased in the near future.
A major new 55,000 sq. ft. office building has begun construction in the area of Woodward Avenue and East Maple Road. Greenleaf Trust is building a site to house its Southeast Michigan office, an Italian restaurant, Class A office space, and luxury condos. With plentiful activity in the submarket, we expect this to remain one of the most desirable areas for office users.

OFFICE RENTAL RATES

(Gross plus electric)

	CLASS A	CLASS B	CLASS C
Ann Arbor	$22.00 to $28.00	$19.00 to $24.00	$15.00 to $19.00
Birmingham/Bloomfield	$26.00 to $32.00	$23.50 to $26.00	$18.00 to $23.00
Dearborn	$21.00 to $24.00	$16.00 to $18.00	$8.00 to $15.00
Detroit	$23.50 to $30.00	$19.50 to $23.00	$10.00 to $14.00
Farmington/W. Bloomfield	$19.75 to $23.50	$17.00 to $21.00	$14.00 to $17.50
I-275 Corridor	$20.00 to $25.50	$17.00 to $20.00	$12.50 to $16.00
Macomb County*	$20.00 to $25.00	$16.00 to $19.00	$12.00 to $16.00
Rochester Hills/Auburn Hills	$20.00 to $23.00	$18.00 to $20.00	$14.00 to $17.00
Southfield/Bingham Farms	$20.00 to $24.00	$16.00 to $19.50	$11.00 to $15.00
Troy	$21.00 to $25.00	$18.00 to $21.00	$14.00 to $17.00
			TOTALS

*Macomb County includes: Clinton Twp., Macomb Twp., Mt. Clemens, Shelby Twp., Sterling Heights, Utica and Warren.

CLASS A OFFICE SPACE AVAILABLE

(Excluding Subleases)

CLASS A AVAILABLE	CLASS A VACANCY
466,863 SF	12.54%
313,345 SF	12.38%
560,757 SF	27.56%
1,700,894 SF	22.59%
647,027 SF	21.39%
808,418 SF	22.35%
218,344 SF	18.89%
351,719 SF	25.01%
1,507,309 SF	22.46%
895, 049 SF	20.50%
7,469,725 SF	20.69%

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DEARBORN

Dearborn remains a very active submarket despite the challenges of the current economy. The vacancy rates have declined for Class A and C space but have risen slightly for Class B.

The asking rental rates have remained basically unchanged from the end of last year. The direct rate for Class A space ranges from $21.00 to $24.00; Class B space ranges from $16.00 to $18.00 and Class C space ranges from $8.00 to $15.00.

DETROIT

Detroit has fared relatively well over the first half of the year even with the bankruptcies' of General Motors and Chrysler. The vacancy rates of Class A and Class B space in Detroit have decreased slightly to 22.59% and 14.74% respectively. The possible move of Quicken Loans from Livonia to Detroit would help the vacancy rates improve further in the future.

The asking lease rates have remained stable with Class A asking rents between $23.50 and $30.00 and Class B rates between $19.50 and $23.00. We expect deals to continue to be signed as Detroit faces this challenging time.

FARMINGTON HILLS/WEST BLOOMFIELD

The Farmington Hills/West Bloomfield submarket has experienced limited fluctuation in market conditions in the first half of 2009. The vacancy rate has decreased from 18.5% at year end 2008 to 18.3% currently. Lease rates have remained largely stable, although concessions are still high as buildings must compete to attract and retain Orchard Ridge Office Park on the Twelve Mile/I-696 corridor.

Class A asking rental rates range from $19.75 to $23.50 plus electric. This submarket continues to see small and large tenants actively searching for space, to benefit from its good location and supply of quality buildings.

I-275 CORRIDOR

The I-275 Corridor continues to struggle as do other submarkets in Southeast Michigan. The vacancy rate has risen steadily and currently is 22.35% for Class A space.

Construction activity has been relatively slow as in other markets. The asking rental rates have decreased slightly as owners continue to make concessions to attract tenants.

The major news story in the submarket is Quicken Loans possible move to downtown Detroit. This would bring another large vacancy to this submarket.

MACOMB COUNTY

The Macomb county submarket includes the cities of Clinton Twp., Macomb Twp., Mt. Clemens, Shelby Twp., Sterling Heights, Utica, and Warren. The vacancy rate for Class A space was 18.89% for the first half of the year.

In Macomb Twp., a 41,955 sq. ft. medical building completed construction and offers condo units available for sale or lease.

AVAILABLE SPACE AND VACANCY RATES – CLASS A, B & C (Buildings above 20,000 sq. ft.)

	TOTAL MARKET SQUARE FEET	AVAILABLE DIRECT SPACE	AVAILABLE W/SUBLEASE	VACANCY % DIRECT SPACE	% CHANGE 4TH-2ND QTR	VACANCY % W/SUBLEASE
Ann Arbor	7,121,340	886,175	978,970	12.44%	-1.60%	13.75%
Birmingham/Bloomfield	5,192,775	738,744	812,792	14.23%	1.26%	15.65%
Dearborn	4,334,708	1,423,955	1,429,033	32.85%	0.72%	32.97%
Detroit	24,706,410	4,378,398	4,444,027	17.72%	-4.02%	17.99%
Farmington Hills/W. Bloomfield	7,424,189	1,360,609	1,620,204	18.33%	-0.24%	21.82%
I-275 Corridor	7,349,679	1,382,674	1,524,145	18.81%	1.14%	20.74%
Macomb County	4,206,915	536,999	559,499	12.76%	N/A	13.30%
Rochester Hills/Auburn Hills	2,155,137	521,549	543,892	24.20%	1.89%	25.24%
Southfield/Bingham Farms	17,507,583	4,879,876	5,414,927	27.87%	1.91%	30.93%
Troy	13,732,769	4,053,006	4,355,297	29.51%	2.71%	31.71%
Totals	93,731,505	20,161,985	21,682,786	21.51%	-0.62%	23.13%

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ROCHESTER HILLS/AUBURN HILLS

The direct Class A vacancy rate increased over 3% from year-end 2008 in the Rochester Hills/Auburn Hills submarket. Class B space saw a slight decrease in vacancy rates and the submarket as a whole experienced a vacancy rate increase.

Asking lease rate range from $20.00 to $23.00 for Class A space to $14.00 to $17.00 for Class C space in the submarket. Owners continue to seek deals to fill buildings while waiting for the market to rebound and the larger deals to return.

SOUTHFIELD/BINGHAM FARMS

At Mid-Year 2009 the Southfield/Bingham Farms market stood at an overall vacancy rate of 30.93% with the largest category of B space at 35.18%. Asking rates have remained relatively unchanged with an average of $20.00 to $24.00 for Class A space. Significant activity consisted of a new lease at the First Center Office Plaza in Southfield with United Healthcare Services of 46,000 sq. ft., AAA's extension at Southfield Crossing of its 90,000 sq. ft., and a 24,000 sq. ft. lease with Arden at 30400 Telegraph in Bingham Farms. Landlord's remain very motivated to do new leases with quality credit worthy tenants and are offering short term rent concessions to extend existing tenants beyond lease expirations in the next 12-24 months.

There is no new construction activity currently underway or any activity even being discussed. Kirco continues to pursue pre-lease tenant options for the second phase of the Meadowbrook Insurance project on I-696 west of Franklin Road. Other than that, most new activity will consist of building modifications and upgrades and obviously tenant improvement projects when new leases or long-term extensions are secured.

Building values have declined precipitously over the past 18-24 months with older user buildings trading in the $40-$60 per sq. ft. range and even newer more modern buildings trading below $100 per sq. ft. Investment activity has also ground to a halt as there is little interest in Michigan area investment real estate from other parts of the country and little to no credit available locally for anything other than strong credit user type lending.

TROY

For the first part of 2009, the Troy market has been relatively static. Automotive suppliers are waiting out the storm and corporate offices are still analyzing the changing landscape. Consolidations that occurred in 2008 were finally realized when Bank of America took over the original Standard Federal headquarters, downsizing both there and at 320/340 E. Big Beaver. Although new vacancies came on the market, there were no surprising move outs or cross-market relocations.

Rents for the most part have remained even with 2008 levels. No new construction or build-to-suits. One notable sale occurred – Long Lake Crossing, a 170,000 sq. ft. Class A building at 1301 W. Long Lake, sold to The Sovereign Group (a NY based firm) for a reported $12.3 Million.

The former Kmart headquarters remains undisturbed while the future redevelopment into "The Pavilions" now falls victim to the credit crisis. No speculation as to when or if the new development will occur.

In the final analysis, Troy remains as a solid community with great schools, housing, shopping and continues its reign as the 3rd largest office market in southeast Michigan. It continues to attract inward migration by tenants in the region.