



# OFFICE MARKET

## ANN ARBOR

The slow economic recovery continued to be the story in both the office and hi-tech markets in Ann Arbor. With more concessions being offered, in a tenant/buyer's market, more firms continued to explore opportunities. However, this substantially increased activity proved to be a false indicator of the strength of the market. Unfortunately, with many firms proving to be only tire kickers, lease rates fell and vacancy rates increased in 2009 as landlord's competed hard for the deals that would attract new tenants or renew existing tenants.

The second half of 2009 did find Colorbök expanding into 21,000 sq. ft. office at 110 Parkland Plaza. The last quarter of 2009 shows Rovi Corporation (formerly All Media Guide) renewed it's lease at the Valley Ranch Business Park. Also, the break-up of National Archive Publishing Corporation resulted in the new entities, NA Publishing leasing 14,672 sq. ft. in the Runway Plaza Worksenter and Crowley Micrographics leasing 32,000 sq. ft. at 6564 S. State Road. Both deals were completed at lease rates that are indicative of deals in today's market.

## BIRMINGHAM/BLOOMFIELD

The office submarket in Birmingham and Bloomfield remains a desirable location for companies. Though lease rates have decreased slightly, there is still a strong demand for lease space in this market.

Several deals of note were completed during the second half of 2009. DSM Engineering Plastics

leased 5,300 sq. ft. at 735 Forest in Birmingham while the 20,000 sq. ft. building 294 Brown was sold. Several small office buildings in Birmingham were sold such as 925-975 E. Maple Road and 34122 Woodward Avenue.

A new 55,000 sq. ft. mixed-use building is under construction at Woodward Avenue and East Maple Road. The Greenleaf Trust building will house its Southeast Michigan office, an Italian restaurant, Class A office space, and luxury apartment. The building is scheduled to be completed in the summer of 2010. With plentiful activity in the submarket, we expect this to remain one of the most sought-after areas for office users.

## DEARBORN

Ford Motor Company, the major corporation in this submarket, appears more stable which has helped the market psychology. Financing continues to be difficult to secure though. Foreclosures have and will continue to occur though less space is being vacated now.

Lease rates have begun to stabilize after significant decreases, and an uptick in activity is helping the submarket. Two larger leases occurred with Sanford Brown leasing approximately 36,000 sq. ft. and ACS Commercial Solutions leasing just over 18,500 sq. ft.

There was a major sale completed at 5200, 5250 & 5300 Auto Club Drive. Together, these buildings totaled approximately 450,000 sq. ft. A 24,000 sq. ft. building on Fairlane Drive also sold during the second half of the year.

While there continues to be uncertainty, there are positive trends emerging. The Dearborn submarket experienced 139,000 sq. ft. of positive absorption in the second half of 2009. While a couple of leases up to 30,000 sq. ft. were made, the smaller deals are helping the market to move forward in an encouraging direction.

## OFFICE RENTAL RATES

(Gross plus electric)

	CLASS A	CLASS B	CLASS C
Ann Arbor	\$19.00 to \$28.00	\$12.00 to \$24.00	\$8.00 to \$19.00
Birmingham/Bloomfield	\$25.50 to \$32.00	\$20.000 to \$25.00	\$15.00 to \$19.00
Dearborn	\$21.00 to \$24.00	\$14.00 to \$20.00	\$10.00 to \$14.00
Detroit	\$23.50 to \$30.00	\$19.50 to \$23.00	\$10.00 to \$14.00
Farmington/W. Bloomfield	\$19.75 to \$23.50	\$16.00 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	\$18.00 to \$21.00	\$16.00 to \$18.00	\$12.00 to \$15.00
Southfield/Bingham Farms	\$19.50 to \$22.00	\$14.00 to \$17.50	\$9.00 to \$13.00
Troy	\$19.00 to \$23.00	\$16.00 to \$19.00	\$12.00 to \$15.00
	<b>TOTALS</b>		

## CLASS A OFFICE SPACE AVAILABLE

(Excluding Subleases)

CLASS A AVAILABLE	CLASS A VACANCY
477,079 SF	12.81%
354,868 SF	14.02%
574,120 SF	28.21%
1,962,595 SF	26.06%
619,887 SF	20.49%
815,894 SF	22.18%
227,853 SF	19.97%
396,998 SF	28.25%
1,597,062 SF	23.80%
958,740SF	21.19%
<b>7,985,096 SF</b>	<b>22.09%</b>

## ...OFFICE CONTINUED

**DETROIT**

Like most large metropolitan office markets, 2009 was a very challenging year for Detroit. Landlords continue to pursue the relative few large users in the market offering unheard of transactions, both to retain existing tenants as well as attracting new prospects. Rent concessions are at an all-time high; however, tenant improvement dollars are scarce.

Detroit, at year end, had an overall vacancy rate of 18.59% which is a slight increase from 3<sup>rd</sup> Quarter. However, the Class A market has been hit especially hard with an overall vacancy rate of 27.00%, including the sublease market. Unfortunately, more is on the way with Comerica's decision to vacate One Detroit Center by January 2012, freeing up an additional 273,000 sq. ft. at that time.

On a positive front, General Motors' emerged from bankruptcy and has decided to keep the RenCen as their global headquarters. Additionally, Quicken Loans will relocate from Livonia to the Compuware Building (250,000 sq. ft.). However, until the market stabilizes and has some additional positive absorption, short-term renewals will remain the lease type of choice for many. Examples of this include both Plunkett Cooney's renewal at the Buhl Building for 27,000 sq. ft., as well as Barris Sott's renewal for 28,000 sq. ft. at 211 W. Fort.

**FARMINGTON HILLS/WEST BLOOMFIELD**

The Farmington Hills/West Bloomfield submarket remained relatively stable throughout the second half of the year. The vacancy rate has risen slightly to 18.39% not including sublease space. Lease rates have decreased as landlords price their buildings competitively, offering concessions and rental rate discounts.

Land sales have stopped as the economics of development precludes new projects from being started. Land must be discounted in order for it to sell. While there is no new construction, 28552 Orchard Lake Road will be redeveloped and expanded.

Employee Benefit Concepts signed a lease at 28800 Orchard Lake Road for 6,000 sq. ft. There was limited activity throughout the market with foreclosure activity occurring, however the number of tenants shopping has increased.

Economic issues, plus frozen financial markets have caused a drop in values, especially for larger properties. Leasing remains competitive for landlords and tenants can take advantage of great opportunities.

**I-275 CORRIDOR**

The I-275 Corridor office market continues to struggle as do other submarkets in Southeast Michigan. The market is challenging for both owners and lenders though the end of 2009 saw a noticeable increase in leasing activity. The vacancy rate decreased slightly to 22.18% for Class A space.

As in other submarkets, construction activity has been virtually non-existent. The asking rental rates have continued to fall as owners make a great effort to fill their buildings. Two notable leases occurred with Workforce Software and InfoTronics each leasing 30,000 sq. ft. of space in Livonia.

**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 2 <sup>ND</sup> -4 <sup>TH</sup> QTR	VACANCY % W/SUBLEASE
Ann Arbor	7,077,350	910,846	1,053,294	12.87%	-0.06%	14.88%
Birmingham/Bloomfield	5,324,163	858,403	964,915	16.12%	1.79%	18.12%
Dearborn	4,424,949	1,374,701	1,498,291	31.07%	-1.11%	33.86%
Detroit	25,506,095	4,649,251	4,742,478	18.23%	0.85%	18.59%
Farmington Hills/W. Bloomfield	7,715,218	1,419,084	1,675,834	18.39%	0.40%	21.72%
I-275 Corridor	7,862,878	1,433,569	1,599,138	18.23%	-0.03%	20.34%
Macomb County	4,567,212	683,234	715,824	14.96%	1.38%	15.67%
Rochester Hills/Auburn Hills	2,274,993	547,104	590,454	24.05%	0.01%	25.95%
Southfield/Bingham Farms	18,120,252	4,989,213	5,352,340	27.53%	0.35%	29.54%
Troy	14,048,901	4,205,642	4,732,938	29.94%	0.70%	33.69%
<b>Totals</b>	<b>96,922,011</b>	<b>21,071,047</b>	<b>22,925,506</b>	<b>21.74%</b>	<b>0.53%</b>	<b>23.65%</b>

### MACOMB COUNTY

The Macomb office market continues to be challenged by underperforming real estate loans and a recovering automotive market. Class A space has been the hardest hit with nearly a 20% vacancy rate.

Education, defense and medical sectors appear to be particularly active even in the current economic climate. Lease rates appear to be stabilizing as tough competition for tenants has resulted in strong landlord incentives.

We are optimistic that as automotive inventories diminish and profits increase we will see Macomb County benefit for a more profitable and prosperous 2010. This is a fantastic opportunity to purchase a building with unusual discounts.

### ROCHESTER HILLS/AUBURN HILLS

In the Rochester Hills/Auburn Hills submarket, lease rates and land prices have decreased. The drop in land prices has been dramatic with no buyers currently in the market. More sq. ft. has become available in the submarket with the significant downsizing of Chrysler.

There were no significant deals or new construction projects in the last six months. Some buildings and vacant land parcels are being foreclosed on and are being sent to the auction block. That was the primary activity in the market.

There are many challenges in the market. With Chrysler's bankruptcy and uncertain future, suppliers are downsizing which in turn reduces building values and lease rates. The financial sector is further inhibiting any commercial real estate activity. We look forward to 2010 and increased activity and prices.

### SOUTHFIELD/BINGHAM FARMS

At year-end the Southfield/Bingham Farms market stood at an overall vacancy rate of 29.54 % with the largest category of B space at 32.05%. Asking rates have remained relatively unchanged since mid 2009 with average effective rate range of \$19.00 to \$22.00 for Class A space and \$14.00 to 18.00 for Class B space. Significant activity consisted of the Oakland Edison Public School Academy leasing 78,000 sq.ft. at 23777 Southfield Road, ACC leasing 33,000 sq.ft. at Evergreen Atrium, Atwell-Hicks subleasing 23,000 sq.ft. at Two Towne Square and Gail & Rice leasing 20,000 sq.ft. at 21301 Civic Center.

Landlord's remain very motivated to do new leases with quality credit worthy tenants, and are offering short term rent concessions in order to extend existing tenants with leases expiring 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, which continued through the second half of 2009. Older user buildings are trading in the \$25-\$40 per sq. ft. range and even a good quality Class B investment building like Riverside Center on Telegraph sold for only \$27.00 per sq.ft., which set a new low for the investment market. There are a few opportunistic buyers considering investing at current price levels, but we do not anticipate dollar values beginning to increase until late 2010.

### TROY

For the second half of 2009, the Troy market has continued to be relatively static. Automotive suppliers are waiting out the storm and corporate offices are still analyzing the changing landscape. Although, deals are still being signed. Allegra Direct, Beaumont Hospital and Shermeta all signed deals in the past six months.

Rents have fallen below the levels of 2008. No new construction activity has commenced during the second half of the year.

The former Kmart headquarters has changed hands to a partnership which includes the owners of the highly successful Somerset Mall for approximately one-third of what the previous purchaser paid. The proposed redevelopment into "The Pavilions" fell victim to the credit crisis.

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