CBRE

MarketView
Greater Lansing Office

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Second Quarter 2012

Quick Stats

		Change from last	
	Current	Year	Period
Vacancy	18.6%	↓	↑
Lease Rates		↔	↔
Net Absorption*	-98,272	↓	↓
Construction	0 SF	↔	↔

* The arrows are trend indicators over the specified time period and do not represent a positive or negative value. (e.g., absorption could be negative, but still represent a positive trend over a specified period.)

Hot Topics

- Most major companies in Mid-Michigan are bullish about the U.S. economy.
- There is an increase in new inquiries among small and large users, and limited activity among mid-sized users.
- New office construction remains non-existent.
- Quality Class A space is commanding strong rental rates.
- Class B and C space is plentiful in the Greater Lansing area, creating fierce competition between landlords.
- Most significant users have right sized their operations since 2008.

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According to the latest analysis from CBRE Econometric Advisors, national office vacancies average 15.7%, down from 16.0% in 4Q11. The U.S. office market continues to improve modestly, but with wide variations in fundamentals between markets.

Markets with high exposure to the federal and state governments are under pressure, and the contraction in the public sector is leading to greater office space efficiencies. The trend toward consolidation of office space for major law firms is also negatively impacting office landlords across the country.

Among office users, there remains a notable flight to quality across major markets, and the lack of new supply is leading to shortages of larger contiguous quality office space. Office landlords continue to pull back on concessions, signaling the first stage of market tightening. As effective office rents rebound, there is anecdotal evidence of speculative construction being contemplated in a handful of markets across the U.S., but this supply trend is not yet widespread.

The Greater Lansing office market continues to challenge most local landlords. Local office vacancies rose from 18.0% in 4Q11 to 18.6% in 2Q12, with all submarkets reporting no or negative absorption.

Similar to national occupiers, local tenants have taken advantage of low office rents and increased concessions to lease better quality space throughout the market. This may be typified by the following:

- Higher quality finishes throughout;
- On-site amenities (food options, exercise facilities, etc.);
- Access to daylight;
- Low carbon footprint (LEED certification, active recycling program, use of renewable energy sources, etc.); and
- Proximity to public transportation.

Although waning locally, the trending flight to quality has led to a significant bifurcation of the local office market. Class A space, which represents 42.6% of market space, averages 7.3% vacant, while vacancies within Class B and C space average 24.3% and 57.9%, respectively.

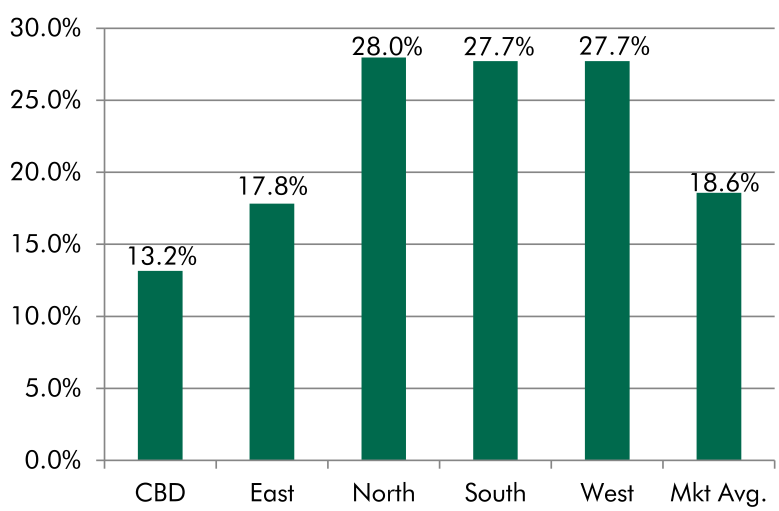
Accordingly, owners of Class A space are willing to wait for longer-term lease deals. As such, Class A tenants are losing some degree of negotiating leverage, which is creating a certain level of urgency for those seeking to secure premises at lower rents. Landlords continue to offer concessions for Class B and C space in an effort to stay aggressive.

Finally, although brokers report an increase in new space inquiries among small and large space users, recent national economic data suggest a deceleration in the labor markets, consumer spending and business investment, and CBRE anticipates office leasing momentum to moderate in the short run.

Projected employment gains in office-using services over the next two to five years will benefit U.S. office market fundamentals in the future.

Vacancy Rates - Market Average

Market Average: 18.6%

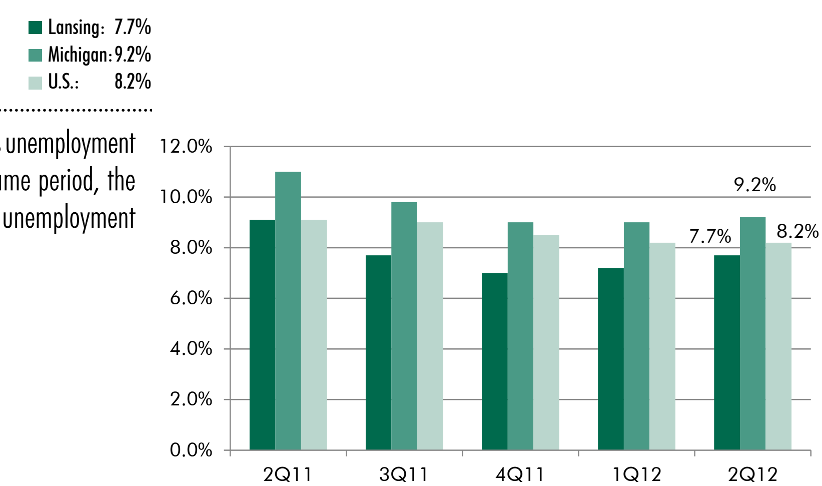


Market Statistics

Market	Rentable Area	Vacancy Rate %	Absorption - Last 6 Months	Under Construction SF	Asking Lease Rates - $ SF/YR Full Service
CBD	3,463,339	13.2%	-51,916 SF	—	$8-21.00
Class A Space	2,321,834	5.0%	-1.5%		
Class B Space	882,362	17.9%			
Class C Space	259,143	69.8%			
East	3,964,101	17.8%	-4,869 SF	—	$8-21.00
I-96/Jolly Road	870,398	23.8%	-0.1%		
US-127/Lake Lansing	585,950	15.2%			
Class A Space	1,629,787	11.6%			
Class B Space	2,291,968	21.5%			
Class C Space	42,346	33.9%			
North	154,379	28.0%	0 SF	—	$13-16.00
Class A Space	NA	NA	0%		
Class B Space	154,379	28.0%			
Class C Space	NA	NA			
South	1,224,993	27.7%	-20,071 SF	—	$5-16.00
Class A Space	130,000	0%	-1.6%		
Class B Space	1,034,833	29.5%			
Class C Space	60,160	57.0%			
West	1,000,677	27.7%	-21,416 SF	—	$8-17.00
I-96/West Saginaw	212,356	36.2%	-2.1%		
I-496/St. Joe/Creyts	471,345	30.3%			
Class A Space	99,723	0%			
Class B Space	850,257	31.5%			
Class C Space	50,697	18.7%			
Market	**9,807,489**	**18.6%**	**-98,272**	—	**$5-21.00**
Class A Space	**4,181,344**	**7.3%**	**-1.0%**		
Class B Space	**5,213,799**	**24.3%**			
Class C Space	**412,346**	**57.9%**			

Unemployment Rate

According to the U.S. Bureau of Labor Statistics, Greater Lansing's unemployment rate rose from 7.2% in 1Q12 to 7.7% in 2Q12. Over the same period, the Michigan rate also rose from 9.0% to 9.2%, while the national unemployment remained at 8.2%.



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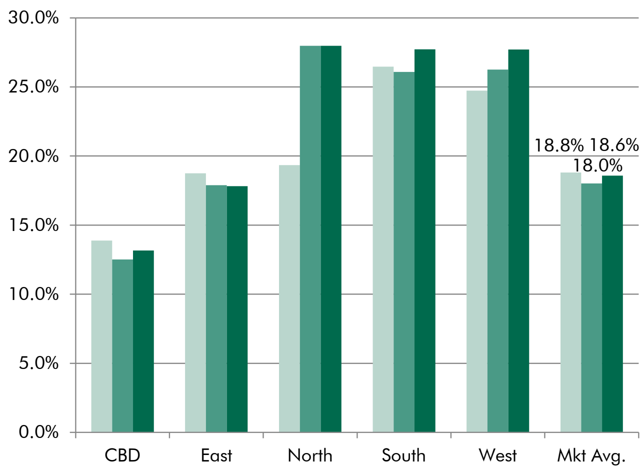
Market Vacancy



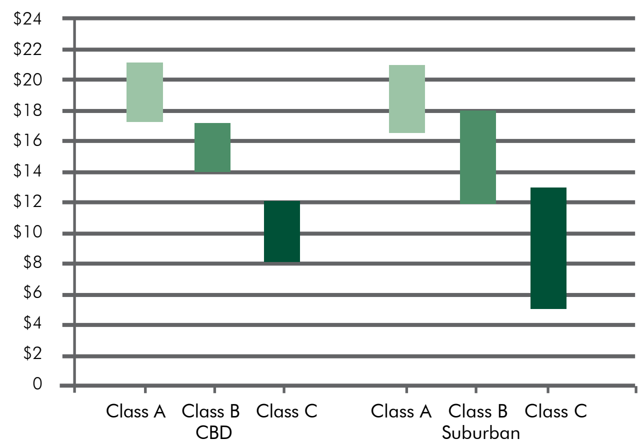
Leased office space in Greater Lansing totals over 9.8 million square feet. The largest submarkets are the CBD (35.3% of the market) and the East Submarket (40.4% of the market). The smallest sector is the North Submarket (1.6% of the market).

Vacancies across the GLA average 18.6%, up from 18.0% in 4Q11 yet down from 18.8% charted in 2Q11. From a geographic perspective, the strongest sector is the CBD, averaging 13.2% vacancy, and the weakest is the North Submarket, averaging 28.0% vacant.

Class A space, which represents 42.6% of the market, is strong, with an average vacancy rate of 7.3%, up from 6.5% in 4Q11. Class B space, which represents 53.2% of the market, continues to struggle, with an average vacancy rate of 24.3%, down slightly from the 24.7% charted in 4Q11. Class C space is 57.9% vacant.

Asking Rental Rates*

Class A: $16.50-21.00 Full Service
Class B: $12.00-18.00 Full Service
Class C: $5.00-13.00 Full Service



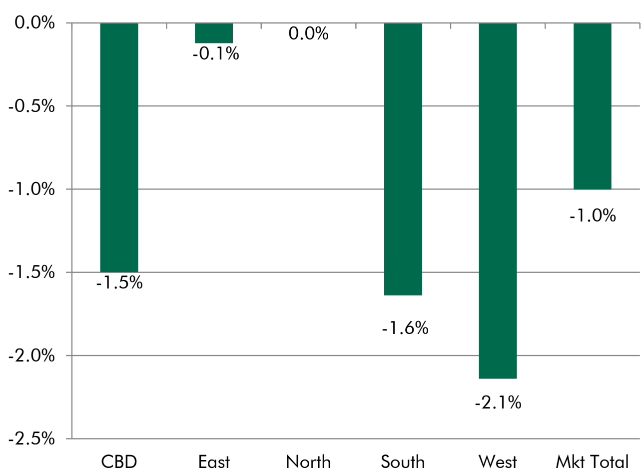
*Per SF per year, full service

Full service asking rental rates for Class A space range from $17.50-21.00 per square foot in the CBD and $16.50-21.00 per square foot in the suburbs. Class B space ranges from $14.00-17.00 per square foot in the CBD and $12.00-18.00 per square foot in the suburbs; and Class C space ranges from $8.00-12.00 per square foot in the CBD and $5.00-13.00 per square foot in the suburbs. Advertised rental rates continue to decline for Class B and C space, although it is still common for landlords to negotiate deals 10-15% lower than the list rate.

The CBD and East Submarkets continue to have the highest average lease rates, while the South Submarket remains at the lower end of the scale. These asking rates typically include operating expenses, which average $7.50-8.50 per square foot for Class A space and $6.00-8.00 per square foot for Class B space. Concessions are available in most all buildings, often in the form of free rent. The average parking allowance is 4:1,000 square feet in the suburbs and none in the CBD. Average monthly cost for parking in the CBD is $150 per space for reserved parking and $100 per space for unreserved.

Absorption

Past Six Months: -98,272 SF (-1.0%)



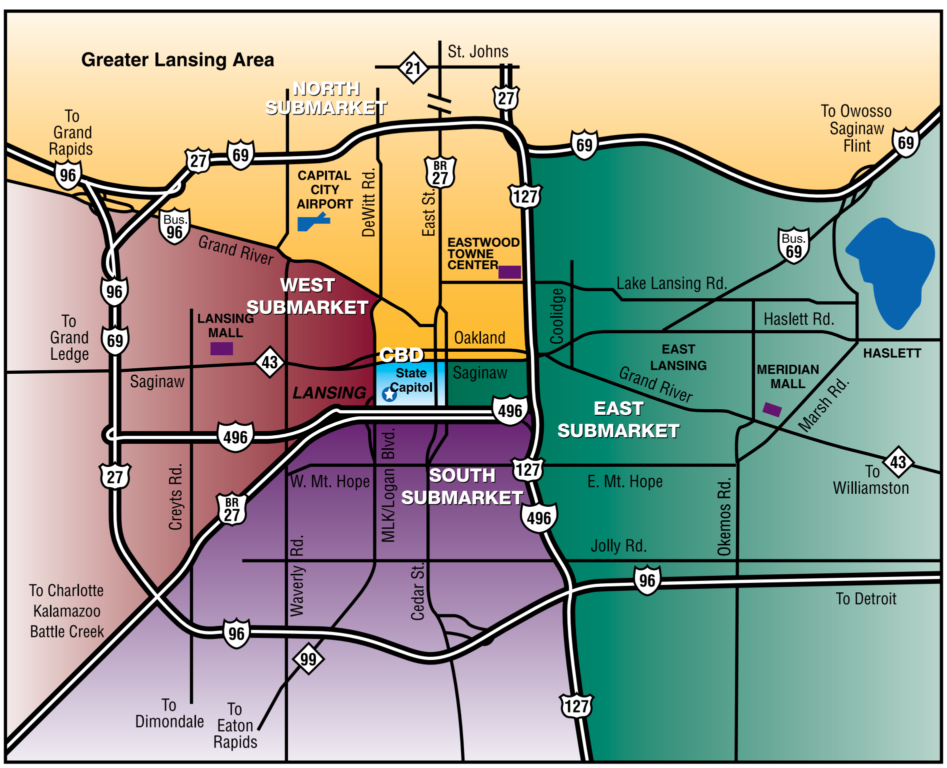
Absorption in the Greater Lansing office market was a negative 98,272 square feet (-0.1%) during the first two quarters of 2012, down from the positive 345,348 square feet (+3.5%) absorbed during the last two quarters of 2011. This comparison is somewhat misleading, however, as the majority of absorption (+330,000 square feet) that occurred during the last two quarters of 2011 was due to the new build-to-suit Accident Fund headquarters building coming on-line.

Top Lease Transactions

Size (SF)	Tenant	Address
29,526	Davenport University	Grandview Center (CBD)
18,144	State of Michigan - Department of Licensing and Regulatory Affairs	Holiday Office Park (South Submarket)
15,000	Connections Education	University Commerce Park (East Submarket)
12,523*	Mid-Michigan Orthopaedic Institute	808 W. Lake Lansing (East Submarket)
9,976*	University of Phoenix	Park Place (East Submarket)

*Renewal

Submarket Map



MARKET COVERAGE

This analysis is based on information gathered in July 2012 and is limited to completed private sector buildings with 5,000+ rentable square feet.

CLASS A SPACE

Prominent buildings with excellent location, high level of amenities, high quality tenants and high quality finish, which are well maintained and professionally managed. Class A buildings are usually new, but can be older buildings that are competitive with new buildings.

CLASS B SPACE

Buildings that have a good location, professional management, and fairly high quality construction and tenancy. Class B buildings may show slight functional or economic obsolescence.

CLASS C SPACE

Older buildings that have functional or economic obsolescence and lower quality tenancy.

AVERAGE ASKING LEASE RATE

Figures presented are dollars per square foot per year, gross plus electric.

UNDER CONSTRUCTION

Buildings which have begun construction as evidenced by site excavation or foundation work.

PLANNED

Any planned or proposed building or assemblage that has not yet begun excavation and will consist of at least 5,000 rentable square feet.

VACANT SQUARE FEET

Existing Building Area which is physically vacant or immediately available.

VACANCY RATE

Space available divided by the inventory (space proposed or under construction is not included).

ABSORPTION

The net change in occupied square feet from one period to the next.

NORMALIZATION

Due to a reclassification of the market, the base, number and square footage of buildings of previous quarters have been adjusted to match the current base. Availability and Vacancy figures for those buildings have been adjusted in previous quarters.

For more information regarding the MarketView, please contact:
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