

MarketView Greater Lansing Office

Quick Stats

	Current	Change from last	
		Year	Period
Vacancy	17.7%	↑	↑
Lease Rates		↓	↓
Net Absorption*	-159,062	↓	↓
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

- Greater Lansing is saturated with Class B and C space.
- Class A space is strong, especially in the CBD.
- The CBD is undergoing significant renovation, largely due to the insurance industry.
- Businesses continue to do more in less space.
- Tenants are driving tougher deals, renegotiating utilizing the blend and extend method.
- Landlords prefer to renegotiate a lease with a struggling tenant rather than have a vacancy.
- Financing for tenant improvements is very difficult to obtain, giving those landlords with access to capital a distinct advantage.
- With IBM's new Global Delivery Center and MSU's future Rare Isotope Beams facility, Greater Lansing is poised for a brighter future.

The national office vacancy rate has continued its upward climb to 17.2% from 16.5% in 2Q09 and 14.0% one year ago, according to CBRE Econometric Advisors (CBRE-EA). With the increase in office vacancy, one would think that tenants would be scrambling to secure long term leases at lower rents. However, many tenants are negotiating short term leases and focusing on renewals mainly due to the uncertainty of the business climate, while focusing on cost containment and deferring capital expenditures. As a result, most tenants that have leases nearing expiration are negotiating, and leasing activity remains low as companies remain tentative with their real estate decisions.

The Greater Lansing office market is no different, and is saturated with available space. Vacancies range from 14.8% in the CBD to 26.1% in the North Submarket, and average 17.7% throughout the market. Average suburban vacancies rose from 17.6% in 2Q09 to 19.1% in 4Q09, with the South and West Submarkets being hit the hardest. On a positive note, vacancy in the CBD fell slightly this period – from 14.9% in 2Q09 to 14.8% in 4Q09. Furthermore, Class A space in the market is strong, averaging 8.9% (6.1% in the CBD). Class B space is 20.7% vacant and Class C space is 55.0% vacant.

Office space in the Greater Lansing Area totals over 9.7 million square feet of space. The largest concentrations of office space are found in the Central Business District (CBD) and the East Submarket, which comprise 33% and 41% of the market, respectively. 40.3% of this space is Class A, 54.6% is Class B and 5.1% is Class C.

The State of Michigan, Michigan State University and General Motors are the Greater Lansing Area's three largest employers. Other stabilizing factors for the region include the fields of

education (MSU, Cooley Law School and Lansing Community College), the insurance industry (see below) and healthcare (two major hospitals and emerging home health care businesses).

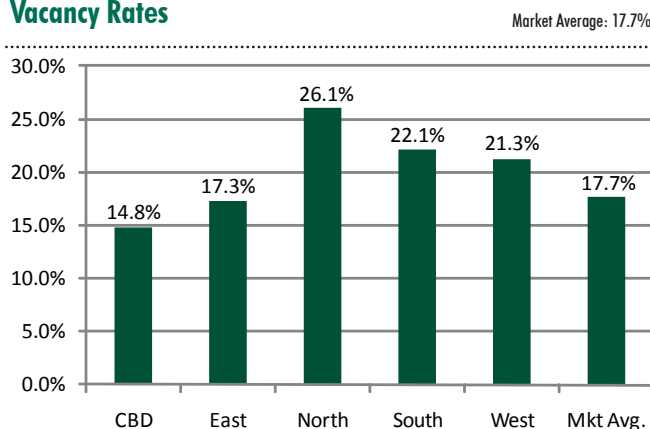
Businesses continue the trend of doing more in less space, and with the level of available square footage, tenants are finding opportunities in the market to relocate, downsize and/or renegotiate utilizing the blend and extend method. Institutional landlords with access to capital have the definite advantage in luring tenants, as landlords without access to capital cannot provide leasehold improvement packages. Nonetheless, significant concessions are available in most all buildings, often in the form of free rent. Furthermore, although advertised rental rates have not dropped to any great degree, it is common for landlords to negotiate deals 10-15% less than the list rate. In some cases, deals are up to 25% lower than list if the tenant leases the space "as is" and the landlord has little investment upfront.

Overall, leasing activity declined approximately 159,000 square feet during 2009 and is expected to slow further throughout 2010. Despite this rather bleak short-term outlook, recent activity in the insurance industry is expected to positively impact the leased office market – most notably in the CBD, which is being revitalized. The former Ottawa Power Plant is under renovation (turning an obsolete asset into a landmark) and an adjacent Class A office building and parking complex is under construction to accommodate the relocation and expansion of the Accident Fund Insurance Company to over 330,000 square feet in 2011. Blue Cross & Blue Shield of Michigan, currently occupying a signature building in the West Submarket, will relocate and expand into the 140,000 square feet to be vacated downtown by the Accident Fund. Finally, Auto-Owners Insurance Company, based in Delta Township,

has purchased the BCBS building to further expand its operation.

The Greater Lansing Area is primed to benefit from other activity as well. IBM has opened their Global Delivery Center near MSU in East Lansing, which is projected to create up to 1,500 new direct and indirect jobs in Michigan over the next five years. The Facility for Rare Isotope Beams

Vacancy Rates



Continued on page 2.

MarketView (Cont'd.)

(FRIB) to be constructed at MSU is expected to bring \$1 billion in economic activity and 400 jobs to Michigan over the next 10 years, including jobs in the construction, high tech and research industries. In addition, state tax incentives have

provided alternative energy a promising future in Michigan, and the area's large manufacturing workforce is primed to make the most of these opportunities.

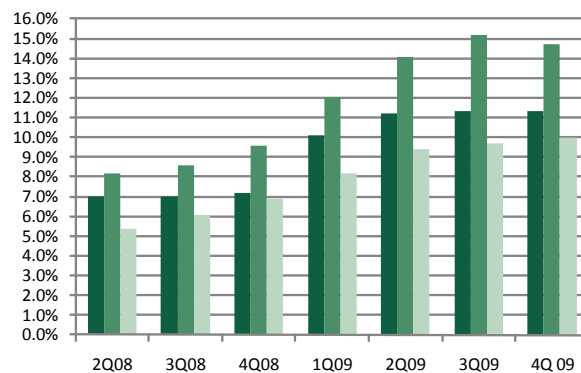
Market Statistics

Market	Rentable Area	Vacancy Rate %	2009 Net Absorption	Under Construction SF	Asking Lease Rates - \$ SF/YR Full Service
CBD	3,200,452	14.8%	-57,811 SF	—	\$8-23.00
Class A Space	1,991,834	6.1%	-1.8%		
Class B Space	890,862	19.2%			
Class C Space	317,756	57.5%			
East	3,992,077	17.3%	-45,998 SF	—	\$8-21.00
I-96/Jolly Road	922,398	21.1%	-1.2%		
US-127/Lake Lansing	583,648	11.5%			
Class A Space	1,715,787	12.9%			
Class B Space	2,233,944	19.7%			
Class C Space	42,346	69.4%			
North	154,379	26.1%	-11,891 SF	—	\$13-16.00
Class A Space	NA	NA	-7.7%		
Class B Space	154,379	26.1%			
Class C Space	NA	NA			
South	1,405,468	22.1%	-29,324 SF	—	\$5-16.00
Class A Space	130,000	7.5%	-2.1%		
Class B Space	1,187,875	21.0%			
Class C Space	87,593	58.5%			
West	1,010,009	21.3%	-14,038 SF	—	\$8-17.00
I-96/West Saginaw	212,356	26.0%	-1.4%		
I-496/St. Joe/Creyts	480,677	22.4%			
Class A Space	99,723	8.9%			
Class B Space	859,589	23.8%			
Class C Space	50,697	20.9%			
Market	9,762,385	17.7%	-159,062	—	\$5-23.00
Class A Space	3,937,344	8.9%	-1.6%		
Class B Space	5,326,649	20.7%			
Class C Space	498,392	55.0%			

Unemployment Rate

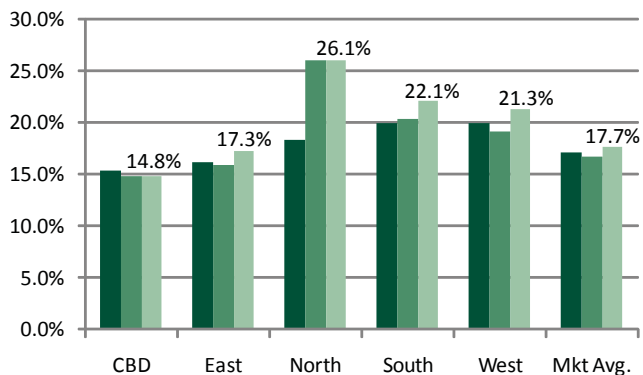
■ Lansing: 11.3%
■ Michigan: 14.7%
■ U.S.: 10.0%

According to the U.S. Bureau of Labor Statistics, Greater Lansing's unemployment rate remained steady at 11.3% this quarter. Over the same period, the Michigan unemployment rate decreased from 15.2% in 3Q09 to 14.7% in 4Q09, while the national rate edged up to 10.0% this quarter from 9.7% in 3Q09.



Market Vacancy

4Q 08
2Q 09
4Q 09



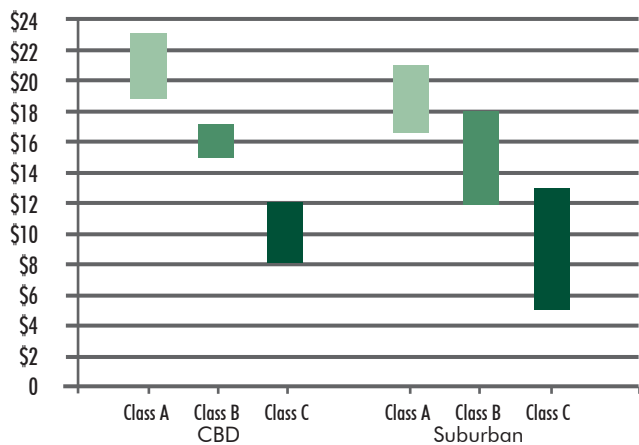
Greater Lansing office space is 17.7% vacant, up from 17.2% charted year-end 2008.

Class A buildings remain relatively strong with a 8.9% vacancy rate (6.1% in the CBD), while the Class B vacancy rate is 20.7% and Class C space is 55.0% vacant.

From a geographic perspective, the strongest sectors are the CBD and East Submarket, averaging 14.8% and 17.3% vacant, respectively.

Asking Rental Rates*

Class A: \$16.50-23.00 Full Service
Class B: \$12.00-18.00 Full Service
Class C: \$5.00-15.00 Full Service



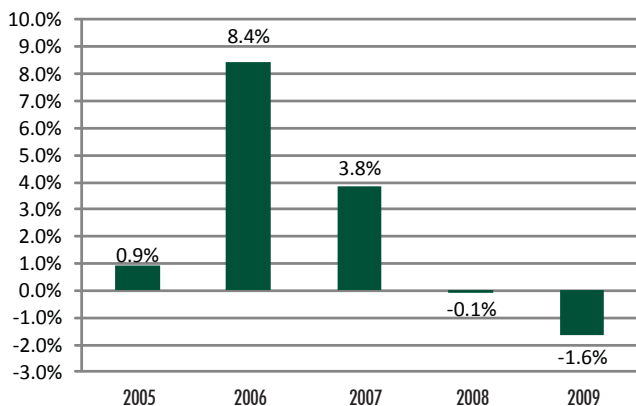
*Per SF per year, full service

Full service asking rental rates for Class A space range from \$18.50-23.00 per square foot in the CBD and \$16.50-21.00 per square foot in the suburbs. Class B space ranges from \$15.00-17.00 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 have not dropped to any great degree, although it is common for landlords to negotiate deals 10-15% lower than the list rate. In some cases, deals are up to 25% lower than list if the landlord has little investment upfront.

The CBD and East Submarkets continue to have the highest average lease rates, while the South Submarket remains at the bottom of the scale. These asking rates typically include operating expenses, which average \$7.50-8.50 per square foot for Class A space and \$7.50-9.00 per square foot for Class B space. Significant 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

2009: -159,062 SF (-1.6%)



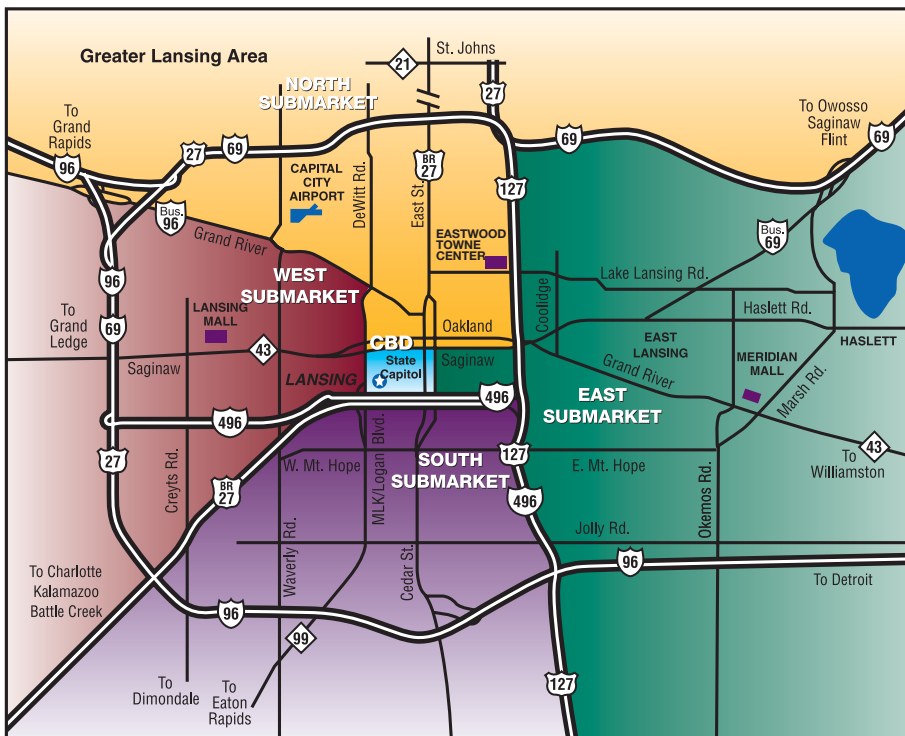
The Greater Lansing office market absorbed a negative 112,055 square feet (-1.2%) over the past six months, and -159,062 square feet (-1.6%) throughout 2009, down from the -5,467 square feet absorbed in 2008.

No submarket experienced positive absorption this year. The sector losing the most ground was the CBD, which saw a negative absorption of 57,811 square feet (-1.8%).

Top Lease Transactions

Size (SF)	Tenant	Address
8,615	CareSource Mgmt. Group	2900 West Road, E. Lansing (East)
6,151	Franklin Energy Services, LLC	3965 Okemos Road, Okemos (East)
6,100	Prison Health Services, Inc.	6452 Millennium Drive, Lansing (West)

Submarket Map



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MARKET COVERAGE

This analysis is based on information gathered in December 2009 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.

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