

OfficeResearch

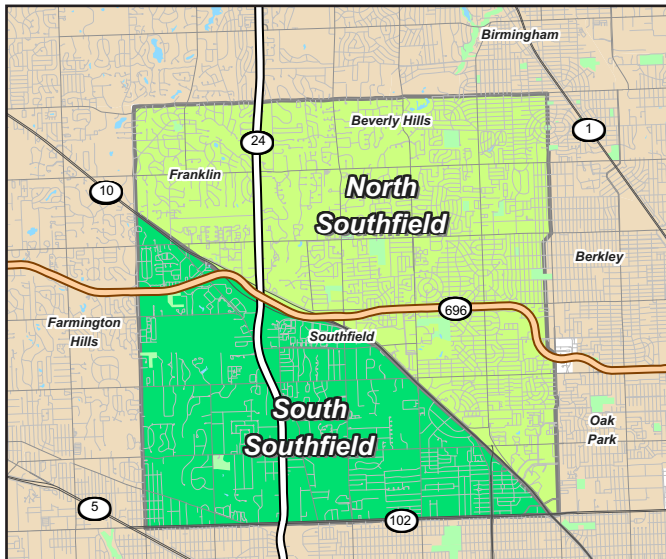
SUBMARKET REPORT

Marcus & Millichap

Southfield Submarket, Detroit MSA

First Quarter 2009

SUBMARKET MAP



SUBMARKET FACTS

	Submarket	Metro
Population	91,588	4,489,048
Avg. Annual Five-Year Chg.*	-0.5%	0.2%
Total Households	38,785	1,693,928
Avg. Annual Five-Year HH Chg.*	-0.6%	0.2%
Bachelor's Degree and Above	47.6%	27.5%
White-Collar Employment	69.2%	59.2%
Employment	112,684	2,268,625
Vacancy Rate (4Q08)	9.6%	24.6%
Avg. Asking Rent (4Q08)	\$20.34	\$19.38

* 2008-2013 Forecast

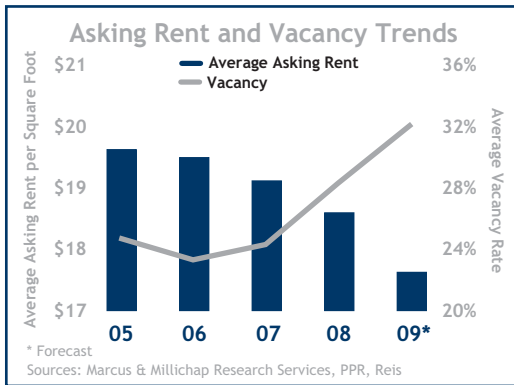
SUBMARKET VACANCY RANKING

Submarket	4Q08 Vacancy	4Q08 Asking Rents
Birmingham/Bloomfield	13.9%	\$24.28
West Wayne County	15.8%	\$19.00
Ann Arbor	16.8%	\$21.82
Royal Oak/Oak Park	17.7%	\$13.63
Farmington Hills/Novi	19.9%	\$20.26
Macomb	22.6%	\$18.06
Troy	28.2%	\$19.63
Southfield	28.3%	\$18.59
Detroit/CBD	28.4%	\$18.02
North Oakland	29.0%	\$19.38

SUBMARKET HIGHLIGHTS

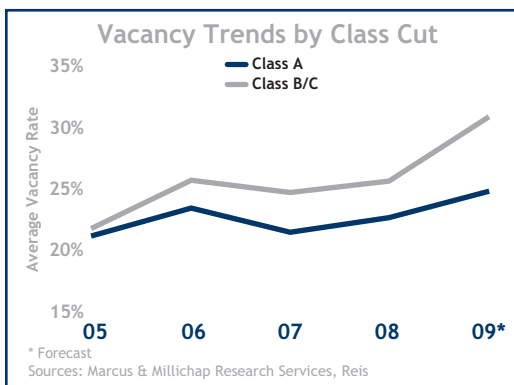
Despite Southfield's status as the premier office market in Detroit outside of the CBD, fundamentals will soften this year as local companies consolidate operations and sublease space becomes available. Some businesses have moved positions outside of the area to less expensive submarkets. CitiMortgage, for example, recently announced plans to relocate 450 jobs to its Pittsfield Township office. As companies vacate space in the submarket, owners have had difficulty securing new tenants. In fact, most of the large leases signed in the last year have been renewals by health care companies. On the supply side, no new competitive space is projected to be completed this year, and the planning pipeline is empty, which should help to expedite an improvement in fundamentals when the local economy regains traction.

Investor sentiment for the Southfield submarket is expected to remain reserved in 2009. Cap rates are below the metro average, however, which indicates that buyers perceive less risk in Southfield than in the metro as a whole. As such, a resurgence of the Detroit office market will likely emerge in the area, following improvement in the nearby Birmingham/Bloomfield and Farmington Hills/Novi submarkets.



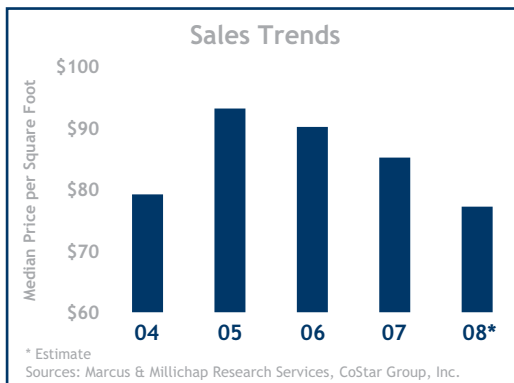
RENT AND VACANCY TRENDS

- ♦ Vacancy in the Southfield submarket climbed 400 basis points in 2008 to 28.3 percent. Much of the increase occurred during the first quarter, when demand for office space fell 2.2 percent. As companies consolidate operations in 2009 to maintain operating costs, vacancy in the area is projected to rise 380 basis points to 32.1 percent.
- ♦ As owners reacted to softer conditions, rents declined last year. Asking rents finished 2008 at \$18.59 per square foot, while effective rents decreased to \$14.53 per square foot, losses of 2.7 percent and 7.4 percent, respectively.
- ♦ As vacancy continues to rise this year, property owners are expected to further widen concessions. Asking rents are forecast to slip 5.2 percent to \$17.62 per square foot as effective rents retreat 6.2 percent to \$13.63 per square foot.



CLASS CUT TRENDS

- ♦ In the submarket’s Class A segment, vacancy has climbed 220 basis points over the past 12 months to 24.7 percent. As the year wears on, vacancy in the area’s top tier is projected to continue to increase as sublease space becomes available.
- ♦ Class B/C properties had an average vacancy rate of 30.7 percent at the end of last year, an annual increase of 520 basis points. Several smaller companies that have struggled in the weak economy have abandoned lower-tier space.
- ♦ Asking rents in Class A properties have fallen an average of 3.7 percent to \$21.83 per square foot during the past 12 months. Class B/C rents, meanwhile, have posted a 1.8 percent decline to \$16.40 per square foot.



SALES TRENDS

- ♦ Transaction velocity fell 75 percent in 2008, as buyers shied away from unstable properties and few prime assets were listed due to the lack of reinvestment opportunities.
- ♦ During the past year, the median price has decreased 9 percent to \$78 per square foot. Properties that changed hands were significantly smaller and newer than in the previous 12-month period, indicating buyers’ aversion to risk.
- ♦ Average cap rates inched up 40 basis points last year to the low-8 percent range. First-year yields remain well below the metro average, suggesting a favorable long-term outlook.