

OfficeResearch

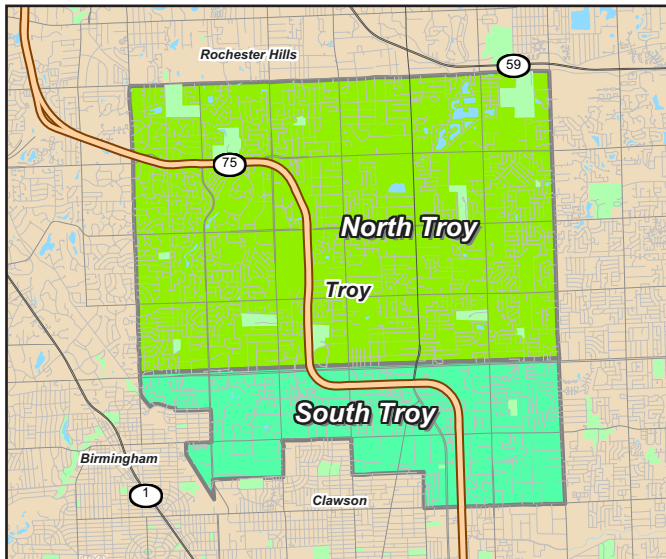
SUBMARKET REPORT

Marcus & Millichap

Troy Submarket, Detroit MSA

First Quarter 2009

SUBMARKET MAP



SUBMARKET FACTS

	Submarket	Metro
Population	82,573	4,489,048
Avg. Annual Five-Year Chg.*	0.1%	0.2%
Total Households	30,606	1,693,928
Avg. Annual Five-Year HH Chg.*	0.1%	0.2%
Bachelor's Degree and Above	54.3%	27.5%
White-Collar Employment	67.0%	59.2%
Employment	104,988	2,268,625
Vacancy Rate (4Q08)	28.2%	24.6%
Avg. Asking Rent (4Q08)	\$19.59	\$19.38

* 2008-2013 Forecast

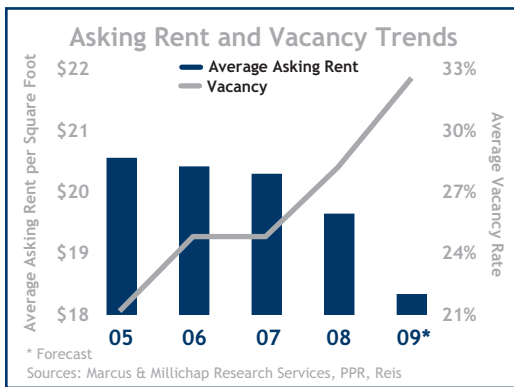
SUBMARKET VACANCY RANKING

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

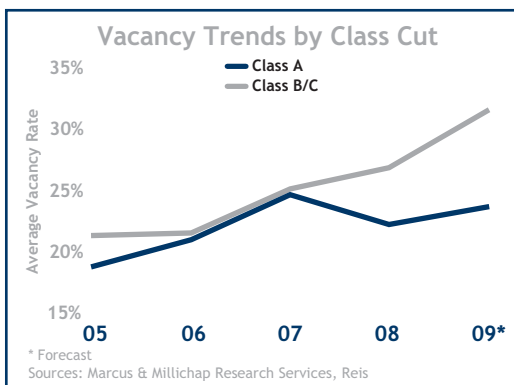
The Troy submarket is positioned to outperform the metro over the long term, although office fundamentals are expected to weaken further this year. The area remains susceptible to a decline in office-using jobs due to the concentration of financial and automotive companies, though some bright spots have emerged recently. During the first half of 2009, Motor Information Systems and Beaumont Hospital are anticipated to move into 123,000 square feet of competitive space, or nearly 1 percent of the area's stock. The addition of these major companies and the area's well-educated work force could result in healthy absorption in early 2010.

In the investment area, transaction velocity slowed to a trickle last year, and a rebound in deal flow is not forecast to emerge until the credit markets thaw, which may come later in 2009. The first buyers who return to the market are expected to target well-tenanted assets in prime locations. As investor confidence grows into 2010, however, some deals involving heightened risk should materialize as cash-heavy buyers seek above-average returns. With aggressive tax incentives offered by the state and several large blocks of Class A space available in Troy, owners willing to purchase at a discount now and hold until a rebound could see significant returns on their investments.



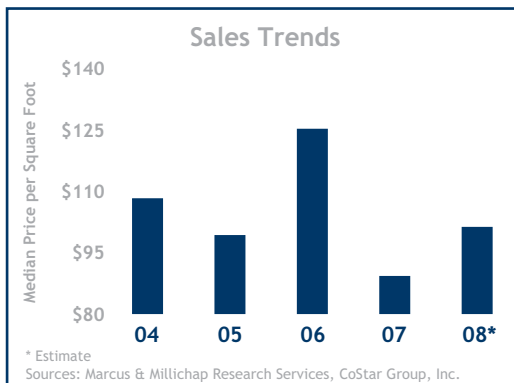
RENT AND VACANCY TRENDS

- ♦ Weakness in the local economy resulted in a 340 basis point rise in office vacancy to 28.2 percent last year. Vacancy fell 60 basis points in the fourth quarter, however, as BAE and Smith Barney moved into 55,000 square feet of space in the submarket. Despite some impressive leasing commitments for 2009, vacancy is expected to climb 430 basis points by year end to 32.5 percent.
- ♦ Owners have reacted to softening occupancy rates by widening concessions and slashing rents. Asking rents finished 2008 at \$19.63 per square foot, and effective rents slipped to \$15.66 per square foot, declines of 3.2 percent and 4.3 percent, respectively.
- ♦ As the local economic forecast remains dim, owners will continue to adjust rents to attract tenants. Asking rents are expected to fall 6.7 percent this year to \$18.32 per square foot while effective rents retreat 8 percent to \$14.41 per square foot.



CLASS CUT TRENDS

- ♦ Class A vacancy jumped 150 basis points to 23.6 percent in 2008 as several financial and auto-related firms contracted their space needs. A few major move-ins during the second half of the year limited the increase to 70 basis points.
- ♦ In the market's Class B/C segment, vacancy finished the fourth quarter at 31.4 percent, a 460 basis point annual rise. As Class A owners dramatically widen concessions, lower-tier space will become more difficult to backfill in the coming months, placing further upward pressure on vacancy.
- ♦ Rent declines have persisted across all tiers of office space in the past 12 months. Top-tier asking rents have fallen 2.7 percent to \$21.19 per square foot, while Class B/C rents have decreased 3.5 percent to \$18.50 per square foot.



SALES TRENDS

- ♦ Transaction velocity fell 80 percent in the most recent 12-month period, as investors shied away from the area due to its reliance on some of the hardest-hit segments of the national economy.
- ♦ The few properties that changed hands last year had a median sales price of \$101 per square foot, 13 percent higher than in the previous period.
- ♦ Average cap rates were in the high-8 percent to low-9 percent range in 2008, relatively unchanged from the previous year. The assets that traded, however, were mainly stabilized properties.