

Industrial Market Trends Southwest Michigan

Grubb & Ellis|Paramount Commerce Research
Second Quarter 2008



“We have seen more activity and absorption in the last six months than we have seen in three years, despite the overall economy in Michigan”

*- Jodi Milks, CCIM
Managing Director
Real Estate Advisory Services*

Southwest Michigan Industrial Market Trends

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Gary Albrecht

Research Analyst
E-mail: gary.albrecht@gepc.com

Grubb & Ellis|Paramount Commerce
125 S. Kalamazoo Mall
Suite 203
Phone: 269.978.0245
Internet: www.gepc.com
www.focusproperties.com
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Positive Absorption

Executive Summary

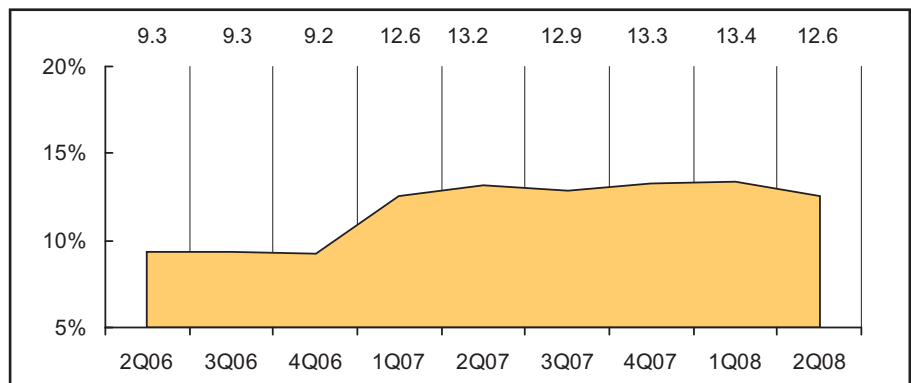
Southwest Michigan's Industrial market saw more activity during the first half of 2008 than it has in the past three years. Struggling with a high vacancy rate of 32 percent at year-end 2007, the Kalamazoo submarket ended the second quarter with a 21.7 percent vacancy rate. This dramatic decrease in vacancy was attributed to two buildings and three users.

The 1,600,000 square foot Mid-Link Business Park attracted two major users, Kaiser Aluminum (454,400 square feet) and Polymer Solutions (107,078 square feet). Now 68.5 percent occupied, the Park absorbed 500,000 square feet of inventory available since year-end 2007.

Michigan's Brownfield incentive program helped spearhead the former Mead building sale. Vacant for over five years, the 387,360 square foot building sold to Kalamazoo's Fabri-Kal Corporation to expand its food packaging product line, leaving their former 165,000 square foot facility on the market.

Battle Creek's Fort Custer Industrial Park vacancy rate increased from 5.2 percent year-end 2008 to 7.2 percent. This 200 basis point increase was attributed to 280,000 square feet of vacancy in one 320,000 square foot building.

Pricing pressure will continue on buildings less than 50,000 square feet due to small businesses consolidating as a result of Michigan's current tax structure and high fuel cost. With the absorption in the largest buildings over the last six months and the projected sale of several larger buildings by year-end, demand is expected to remain for additional users, resulting in the long-anticipated need for new construction in the market.



Industrial Vacancy Rate*

* All Product Types

Industrial Market Snapshot Southwest Michigan Second Quarter 2008

By Submarket (All Property Types)	Total (1)	Vacant (2)		Net Absorption		Under Const. (3)	Asking Rent (4)	
	SF	SF	Vacant %	Current Qtr	Year To Date	SF	WH/Dist	R&D/Flex
Battle Creek - FCIP/Airport	14,223,016	1,025,011	7.2%	-	(279,896)	-	\$3.31	\$5.95
Kalamazoo	6,941,335	1,507,813	21.7%	2,164	832,402	-	\$3.19	\$8.80
Kalamazoo CBD	1,532,013	526,762	34.4%	-	-	-	-	-
Portage	3,091,429	179,765	5.8%	23,146	6,074	-	\$3.11	-
Suburban Total	25,787,793	3,239,351	12.6%	25,310	558,580	-	\$3.22	\$8.27
Totals	25,787,793	3,239,351	12.6%	25,310	558,580	-	\$3.22	\$8.27

By Property Type (All Submarkets)	Asking Rent							
General Industrial	15,817,927	1,701,835	10.8%	30,648	177,067	-	\$3.05	
R&D/Flex	1,736,587	424,730	24.5%	-	-	-	\$8.27	
Warehouse/Distribution	8,233,279	1,112,786	13.5%	(5,338)	381,513	-	\$3.22	
Totals	25,787,793	3,239,351	12.6%	25,310	558,580	-	\$3.16	

* Grubb & Ellis statistics are audited annually and may result in revisions to previously reported quarterly and final year-end figures.

Industrial Market Terms and Definitions

Inventory: *Industrial Inventory* includes all multi-tenant, single tenant and owner-occupied buildings with size thresholds from 7,500 square feet.

Construction Type: *Speculative* ("spec") construction is designed to attract tenants likely to be in the market when the project is leasing. Build-to-suit construction is designed for a specific tenant.

Industrial Product Types: Industrial buildings are categorized as *warehouse-distribution*, *general industrial*, *R&D/flex* and *incubator* based on their physical characteristics including percent office build-out, clear height, typical bay depth, typical suite size, type of loading and typical uses.

Vacancy and Availability: The *vacancy rate* is the amount of physically vacant space divided by the inventory. Vacant space includes both vacant direct and vacant sub-lease space. The *availability rate* is the amount of space available for lease divided by the inventory.

Net Absorption: The net change in *physically* occupied space over a period of time.

Asking Rent: The dollar amount asked by landlords for available space expressed in dollars per square foot *per year*. Industrial rents are expressed as *triple net* where all costs including, but not limited to, real estate taxes, insurance and common area maintenance are borne by the tenant on a pro rata basis.

Average Weighted Asking Rent: Average market rent where the asking rent for each building in the market is weighted by the available space in the building.

