

Industrial Market Trends Southwest Michigan

Grubb & Ellis|Paramount Research

Second Quarter 2006



Vacancy Decreasing

Executive Summary

The Kalamazoo-Battle Creek industrial market continues to move through the recovery mode in the second quarter of 2006. The area has seen positive absorption since the end of last year, but no new spec industrial construction has taken place to date. Most of the big box vacancies that have been problematic to the area's vacancy rate are either beginning to fill or have been taken off of the market. The Battle Creek segment of the Southwest Michigan market is continuing along at a healthy pace and reporting a 4.3 percent vacancy rate without much change since last year.

"The market still has opportunities for landlords with existing space, although our big box vacancies are beginning to fill up."

*Bob Deal,
Commercial Real Estate Advisor*

As reported at the end of 2005, the historically troubled Midlink Business Park continues to see an increase in leasing, as well as retail development of the park's out-lot parcels. Another key transaction in the past four months was the lease of 150,000 square feet of general industrial space inside the former Mead Converting Plant, dropping the vacancy in that building by approximately 40 percent. Primary warehousing corridors in Kalamazoo have also noted an increase in leasing of smaller space to local tenants.

Kalamazoo continues to see a surge in popularity of flex and engineering space. This sector of industrial space has virtually no vacancy, and the existing buildings in Western Michigan University's BTR Park are completely occupied. This trend is expected to continue as young companies begin to mature and expand into traditional industrial space in Southwest Michigan. As the current inventory of vacant buildings fills up, the Kalamazoo-Battle Creek industrial market moves closer to expansion.

Southwest Michigan Office Market Trends

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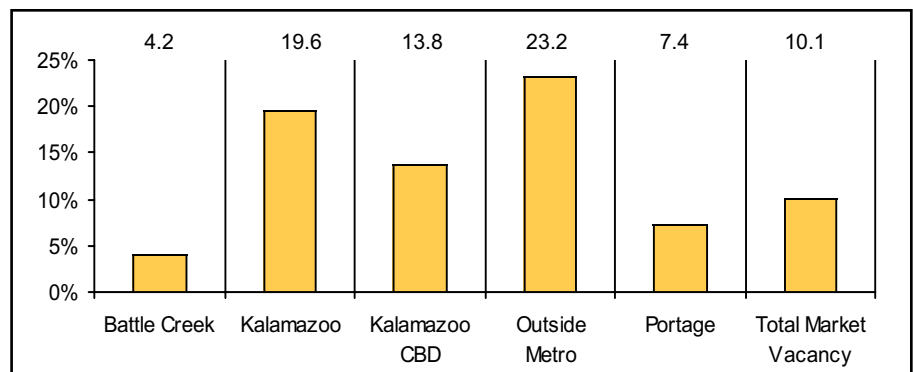
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Industrial Vacancy Rate*

* All Product Types

Industrial Market Snapshot Southwest Michigan Second Quarter 2006

By Submarket (All Product Types)	Total SF	Vacant SF	Vacant %	Net Absorption		Under Construction	Asking Rent	
				Current	Year-to-date		WH/Dist.	R&D Flex
Battle Creek	13,333,311	555,381	4.2%	14,400	(15,999)	-	\$3.20	-
Kalamazoo	6,832,952	1,336,261	19.6%	259,652	629,734	-	\$3.42	\$3.04
Kalamazoo CBD	882,013	121,762	13.8%	-	-	-	-	-
Outside Metro Area	1,335,611	310,091	23.2%	19,000	138,135	-	\$2.74	\$4.25
Portage	2,331,525	171,398	7.4%	(4,575)	508,464	-	\$4.04	-
Total	24,715,412	2,494,893	10.1%	288,477	1,260,334	-	\$3.26	\$3.07

By Product Type (All Submarkets)	Asking Rent By Product Type							
General Industrial	14,373,283	713,609	5.0%	77,330	229,535	-	\$3.54	
R&D/Flex	2,202,970	514,650	23.4%	19,000	315,070	-	\$3.07	
WH/Dist.	8,139,159	1,266,634	15.6%	192,147	715,729	-	\$3.26	
Totals	24,715,412	2,494,893	10.1%	288,477	1,260,334	-	\$3.30	

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. 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.

