

# Office Market Trends Southwest Michigan

Grubb & Ellis|Paramount Commerce Research

Third Quarter 2007



## Flight to Value

### Executive Summary

The "Flight to Quality" trend in the beginning of the year has increasingly been replaced by a "Flight to Value" for perspective office users. Movement in the Portage office market appears to be slowing, while the downtown Kalamazoo market is increasingly active due to this perceived value. Increased downtown activity has created more value for local businesses. While large office users were absent during the third quarter, transactions picked up in the 1,000 to 7,000 square foot range.

*"Activity is picking up for downtown office space as people seek value."*

*Jodi Milks, CCIM*

The Miller Canfield building still expects a January, 2008 delivery date and will offer two 16,000 square foot floors for lease with dedicated covered parking. Following Miller Canfield's lead, we expect to see more firms expanding their operations into Kalamazoo's central business district within the next year.

For users in the health and medical industry with high interior build-out costs in the 2,500 to 5,000 square feet range, the cost to build and own a building in this market remains competitive. Land prices and construction costs for owner-occupied, freestanding buildings remain in check. As a result, this segment of the office market is growing, which puts pressure on larger office buildings to reduce base rent pricing or increase build-out allowances to attract tenants.

The completion of the Trade Center II, at Westnedge and I-94, added over 108,000 square feet to the Portage submarket during the third quarter. With an 80 percent vacancy rate, this building provides opportunity for larger Class "A" users.

### Southwest Michigan Office Market Trends

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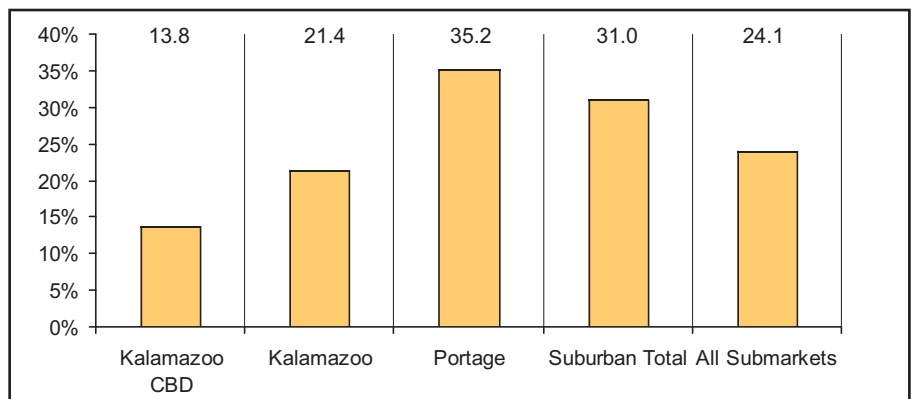
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**Vacancy Rate by Sub-Market\***

\* All Classes of Space

## Office Market Snapshot Southwest Michigan Third Quarter 2007

By Submarket (All Classes)	Total (1)	Vacant (2)		Net Absorption		Under Const. (3)	Asking Rent (4)	
	SF	SF	Vacant %	Current Qtr	Year To Date	SF	Class A	Class B
Kalamazoo CBD	1,804,959	248,526	13.8%	9,222	19,332	64,000	\$17.39	\$14.96
<b>CBD Total</b>	<b>1,804,959</b>	<b>248,526</b>	<b>13.8%</b>	<b>9,222</b>	<b>19,332</b>	<b>64,000</b>	<b>\$17.39</b>	<b>\$14.96</b>
Kalamazoo	830,083	178,035	21.4%	3,890	18,908	3,724	\$17.71	\$16.18
Portage **	1,880,214	661,939	35.2%	14,630	(94,516)	13,559	\$18.07	\$13.80
<b>Suburban Total</b>	<b>2,710,297</b>	<b>839,974</b>	<b>31.0%</b>	<b>18,520</b>	<b>(75,608)</b>	<b>17,283</b>	<b>\$17.94</b>	<b>\$14.67</b>
<b>Totals</b>	<b>4,515,256</b>	<b>1,088,500</b>	<b>24.1%</b>	<b>27,742</b>	<b>(56,276)</b>	<b>81,283</b>	<b>\$17.78</b>	<b>\$14.79</b>
<b>By Class (All Submarkets)</b>							<u>Available for Sublease</u>	
							CBD	Suburban
Class A	1,527,200	353,160	23.1%	16,932	(79,087)	67,724	-	-
Class B	2,384,147	611,822	25.7%	4,700	26,092	-	-	4,555
Class C	603,909	123,518	20.5%	6,110	(3,281)	13,559	-	-
<b>Totals</b>	<b>4,515,256</b>	<b>1,088,500</b>	<b>24.1%</b>	<b>27,742</b>	<b>(56,276)</b>	<b>81,283</b>	<b>-</b>	<b>4,555</b>

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

\*\*1901 Romence (Quads Complex) and 950 Trade Center Way account for 70.5% of this market's vacancy.

## Office Market Terms and Definitions

**Inventory:** Office inventory includes all multi-tenant and single tenant buildings with a minimum size threshold of 5,000 square feet. Owner-occupied, government, and medical buildings are not included.

**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.

**Office Building Classifications:** Grubb & Ellis adheres to BOMA guidelines. Class A properties are the most prestigious buildings competing for premier office users with rents above the average for the area . . . Class B properties compete for a wide range of users with rents in the average range for the area . . . Class C buildings compete for tenants requiring functional space at rents below the average area.

**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. We report all office rents as full service/gross where all costs of operation are paid by the landlord up to a base year or expense stop.

**Average Weighted Asking Rent:** An average market rent where the asking rent for each building in the market is weighted by the building size.

