Office Trends Report—Fourth Quarter 2009
Madison, WI

GRUBB & ELLIS Oakbrook

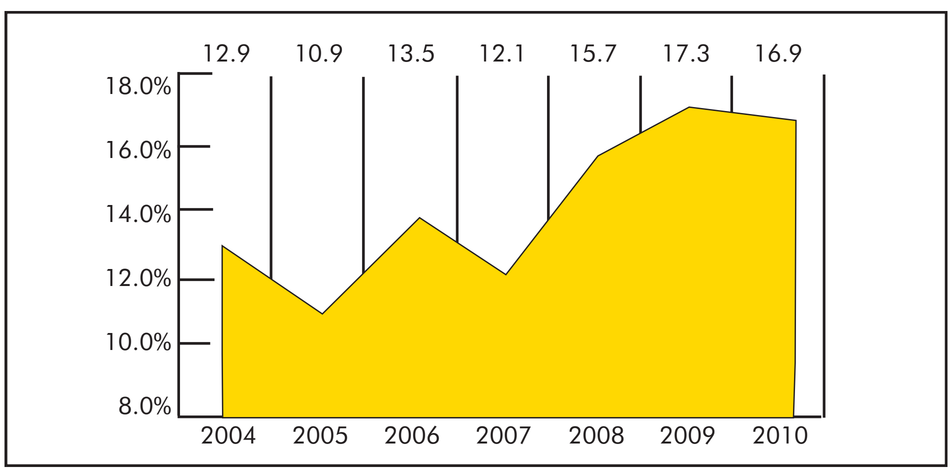
Wounded Market Will Begin to Heal in 2010

The resiliency of Madison's office market was put to the test in 2009 as increased unemployment and overall uncertainty wreaked havoc throughout the area. Fundamentals weakened the Office sector as vacancy jumped to 17.3 percent and asking rents remained largely unchanged. Landlords provided unprecedented levels of concessions as negotiating power swayed significantly towards tenants. Despite the increase in vacancy and the headwind of the recession, absorption was, remarkably, still a positive 56,000 square feet.

The outlook for 2010 is more upbeat. Developers, reacting swiftly to the downturn, put many new office developments on hold. The lack of new construction is healthy for the market and if absorption returns to average levels as we expect, vacancy will fall, albeit slowly. We do not expect much fluctuation in asking rents, but the gap between asking and effective rents should lessen as leasing activity increases and vacancy levels subside.

For the second consecutive year an iconic downtown property traded hands. In 2008, Urban Land Interests purchased the U.S. Bank building and this past year it acquired Tenney Plaza for $17.8 million. Overall, building sales activity plummeted in 2009 as owner-occupants and investors were reluctant to buy. Those that were in the market experienced falling prices across all classifications.

In 2008, office land was predominantly purchased for alternative uses, like hotels and car dealerships, inflating the average price per square foot to record levels. This past year, the location of the land sales combined with the effects of the recession led prices to a seven-year low of $5.39 per square foot. The American Center on Madison's east side was the most active, accounting for all but two land transactions in 2009.



Overall Madison Office Vacancy Rate*
** All Types of Space*

In This Issue...

Madison Office Market Trends
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Chris Richards
Research Analyst
Phone: 608.443.1016
E-mail: crichards@oakbrookcorp.com

Christian D. Caulum, CCIM, SIOR
Director of Research
Phone: 608.443.1040
E-mail: ccaulum@oakbrookcorp.com

Grubb & Ellis|Oakbrook
2 Science Court, P.O. Box 45530
Madison, WI 53744-5530
Internet: www.oakbrookcorp.com

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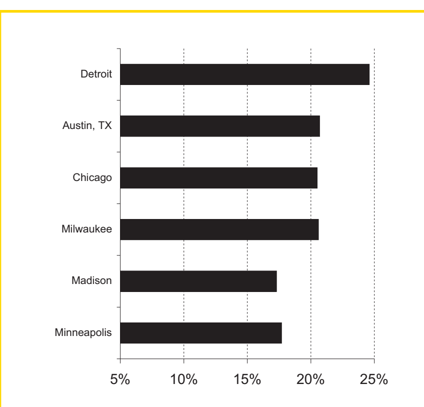
Madison may not be recession proof but its resiliency should not be questioned as its office market fared much better than its peers in 2009.

Historic Vacancy Rates
Madison

	2007	2008	2009
All	12.1%	15.7%	17.3%
Class A	8.2%	12.3%	15.3%
Class B	15.0%	17.0%	16.9%
Class C	22.3%	24.2%	24.8%
Downtown	10.0%	12.7%	12.8%
East	18.0%	18.9%	19.9%
Far West	9.8%	15.9%	17.2%
Near West	19.1%	19.4%	16.9%
South	9.8%	14.0%	21.6%

Vacancy vs. Other U.S. Cities
Madison



VACANCY & RENT

Market Fundamentals Crumble Under Stress of Recession

The severity of the global recession took its toll on the Madison office market as vacancy climbed to 17.3 percent, two percentage points higher than the peak of the previous recession in 2001. Limited leasing activity, a glut of new construction in 2008, and a couple of large companies departing the area left the market saturated with available space. The weakened fundamentals forced landlords to cut asking rents by five percent throughout the market. While the cut in asking rents might seem substantial, it pales in comparison to the decrease in contract rents some landlords have offered to keep or attract coveted tenants.

Submarkets: Downtown & Near West Mostly Unscathed

The Near West submarket improved in 2009 as vacancy fell 2.5 percentage points to 16.9 percent; a step in the right direction for a submarket where vacancy has languished near 20 percent over the last two years. The lack of available land sites has kept supply in check as only 33,000 square feet of new construction has entered the Near West submarket since 2006. Vacancy in the Downtown submarket was mostly unchanged for the fourth year in a row, hovering around 13 percent. Government agencies like Wisconsin Government Accountability Board at 212 East Washington and healthcare organizations like Meriter at Capitol West helped buoy downsizings in the CBD.

For the second consecutive year the South submarket regressed as vacancy skyrocketed eight percentage points to 22 percent. The submarket welcomed 170,000 square feet of office space as Arbor Gate opened in early 2009. Successful preleasing at this Class A facility resulted in 84,000 square feet of absorption this past year. Unfortunately the remaining space at Arbor Gate accounted for 5.5 percent of the overall vacancy in this relatively small submarket.

The struggles continue for the East submarket as vacancy escalated to around 20 percent. Class C properties strongly contributed to the submarket's poor performance as nearly one-third of its square footage sits vacant, the highest of any class throughout the market. FEMA's short-term occupancy of 25,000 square feet drove Class A vacancy to a short-term low of 6.4 percent in 2008 but their departure, along with Durrant's exit from the marketplace, pushed Class A vacancy to 14.8 percent in 2009, its highest point in five years. On a more positive note, Class B vacancy fell three percentage points to 17.2 percent this past year. The Madison East Business Center, comprised of three new single-story buildings in The American Center, contributed greatly to the decline, adding three new tenants in 2009.

The Far West submarket was unable to bounce back from its poor performance in 2008 as vacancy ticked upward 1.3 percentage points to 17.2 percent. MATC's backfilling of 55,000 square feet in the former Famous Footwear building combined with limited new construction helped slow the submarket's pace of deterioration.

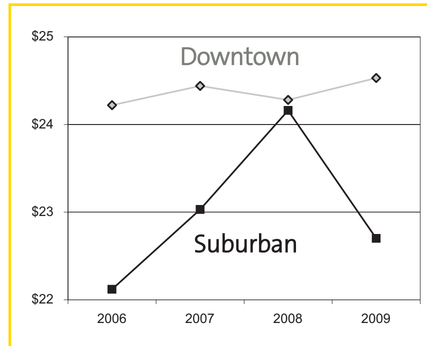
We expect vacancy to decline in the Far West next year as the economy gains traction, supply remains static, and as several large tenants negotiate leases for 2010 occupancies.

The Downtown submarket was the only submarket in which rent increased across all classes of space.

Rents Fluctuate Throughout Market; Class A Rent Gap Widens

Suburban Class A asking rents had been edging closer to Downtown Class A rents for the last several years, but the flood of new construction in the suburbs and significantly less demand sent Suburban Class A rents spiraling down to $22.70 per square foot, a six percent drop from the previous year. Slight increases in Downtown Class A rents furthered the separation, as prices hit a five-year high of $24.53 per square foot. The landlocked nature of the Downtown submarket makes new office development a costly and time consuming endeavor, which inevitably controls competition. In Suburban submarkets, tenants seeking Class A office space have significantly more options and much greater negotiating power when dealing with landlords.

Asking Gross Rents
Class A

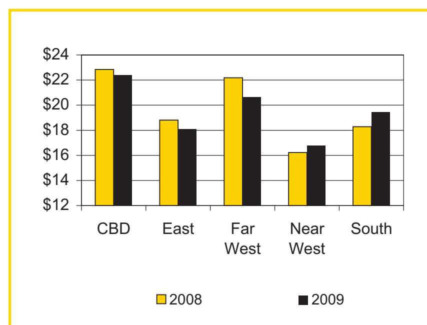


Class B and C asking rents were largely unchanged this past year, each increasing by less than 150 basis points. Given that building operating expenses typically escalate around three percent annually, the net rent received by landlords for these two classifications likely declined in 2009. The Far West and Downtown were the only submarkets in which both Class B and C rents improved. Any significant increase in Class B and C asking rents is unlikely as vacancy hovers around 17 and 25 percent, respectively.

The Real Story: Asking Rents vs. Effective Rents

The decline in asking rents only tells part of the story of the market's downfall. The gap between the rents landlords are asking and the effective rents they are agreeing to has never been greater. Effective rent accounts for concessions like increased tenant improvement dollars, free rent, and moving allowances. Concessions have always been a part of the leasing process but it was the level of concessions that truly distinguished the 2009 office market. It was not uncommon over the last 12-16 months for landlords to provide one month of free rent for each lease year, higher tenant improvement allowances, and in some cases free office furniture. In good economic times, creativity and flexibility allow landlords to thrive. In recessions like the current one, creativity and flexibility allow landlords to endure.

Asking Gross Rents
by Submarket



The outlook for 2010 is considerably more optimistic. The area's unemployment rate appears to have peaked at 6.5 percent in March 2009. Historically, the office market lags the job market by 12-18 months and, should this trend continue, Madison's office market will begin to improve in the second half of 2010. We do not expect any significant increases in asking rents but the spread between asking and effective rents should diminish as demand increases and vacancy trends lower.

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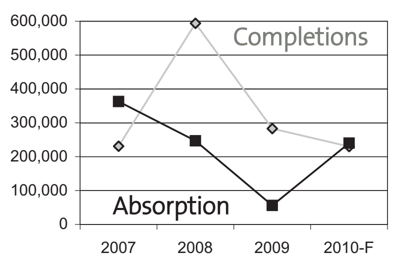
Completions & Absorption
by Year



The deliberate pace of construction should continue well into 2010.

CONSTRUCTION & ABSORPTION

After inundating the market with nearly 750,000 square feet of speculative space last year, developers paused in 2009, adding just 283,000 square feet to the market. Two South submarket properties, Arbor Gate and New Venture Center II, accounted for more than two thirds of the overall completions. Arbor Gate, a 215,000-square-foot office and retail development on the Beltline, leased more than half of its office space and a portion of its retail space since its completion in early 2009. New Venture Center II, in the Fitchburg Technology Campus is home to The Alliance and The Madison Group.

The mixed-use office/retail development in the Suburban submarkets have gained popularity in the last three years thanks in large part to planners and governing bodies strongly encouraging it. However, for every one project that has worked such as 8333 Greenway Boulevard, about four projects have struggled. Three such projects were completed in 2009, with varying results. Broadway Station, across from the WPS Campus on Broadway, has leased all of the office space while the retail sits mostly vacant. City Center Junction, on Junction Road on Madison's far west side, has a portion of the retail leased but the office space remains vacant. Watertower Plaza, on Monona Drive, has leased most of the retail space while only leasing a small portion of the office space. In rare situations where a mixed-use office/retail development works, it is typically due to a superior location where either product type, exclusively, would be successful.

For the third consecutive year the Near West submarket went without a completion, however the submarket will buck the trend in 2010 as 800 University Bay is set to open in the beginning of the year. Major tenants in this 74,600-square-foot Class A building include Christensen Associates, offices for UW Hospitals and Clinics, and Flad Affiliated Corporation.

In the coming year only three projects, totaling 230,000 square feet, are expected to enter the market; almost all of which has been preleased. In late 2009, Meriter Health Services joined the Novation Campus, moving 250 employees into their 110,000-square-foot administrative offices. The other two properties, the aforementioned 800 University Bay and 5201 East Terrace in The American Center, will welcome tenants in the first quarter of 2010.

Projects Completed in 2009

Bldg. Name	Submkt.	Sq.Ft.
Arbor Gate	S	170,000
New Venture II	S	40,000
610 Junction Rd.	FW	13,780
Broadway Station	E	16,534
6430 Bridge Rd.	E	13,945
Watertower Plaza	E	12,750
US Bank Expansion	D	16,425
		283,434

Construction Watch

Year to Date 2009 (in Square Feet)

	Completions & Conversions				*Under Construction*	*Proposed*
	Construction Completions	Conversion to Speculative Office	Conversion From Speculative Office	Net Change in Market Size	Under Construction	Office Construction Proposed in 2009
CBD	**16,425**	**0**	**0**	**16,425**	**0**	**55,000**
Suburban	**267,009**	**0**	**(20,318)**	**246,691**	**229,600**	**103,500**
Total	**283,434**	**0**	**(20,318)**	**263,116**	**229,600**	**158,500**

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The abundance of available space combined with slow leasing activity will likely shelve most speculative construction over the next 12 months. The slower pace of construction, while unfortunate for the building industry, is healthy for an office market that is saddled with vacancy above 17 percent.

We expect absorption to outpace new construction in 2010, lowering the vacancy rate to under 17 percent.

Absorption Remains Positive (Barely)

Absorption in the Madison market fell to just 56,000 square feet in 2009, well below the five-year average of 231,000 square feet and its lowest point this decade. The level of absorption might appear somewhat lackluster in comparison to years past, but the market's ability to maintain positive absorption throughout the longest and deepest recession since the Great Depression is a testament to the area's resiliency.

The South submarket led the way with 94,000 square feet of absorption thanks in large part to the leasing at Arbor Gate and New Venture Center II. Canceling out the positive was the Far West submarket, posting 90,000 square feet of negative absorption. Offsetting the occupancy of MATC in the former Famous Footwear building was the departure of Novagen in the University Research Park and Fidelity at Esser Place. We expect absorption in the Far West to bounce back into positive territory led by CareFusion occupying 65,000 square feet at Esser Place and an MATC expansion at the former Famous Footwear building, but these gains will be tempered by Epic Systems vacating 100,000 square feet on Westfield Road.

Occupancy gains in Class B and C properties pushed the East and Downtown submarkets to 24,000 and 12,000 square feet of positive absorption, respectively. The Near West was the only submarket in which all classes of space posted positive absorption, totaling 17,000 square feet.

We expect absorption to rebound in 2010 and slightly exceed the five-year annualized average of 231,000 square feet. The trend of healthcare organizations, like Meriter and UW Hospital, moving their administrative offices off-site in favor of expanding their clinical services nudged absorption into the black in 2009 and should provide a much needed boost to the market in 2010.

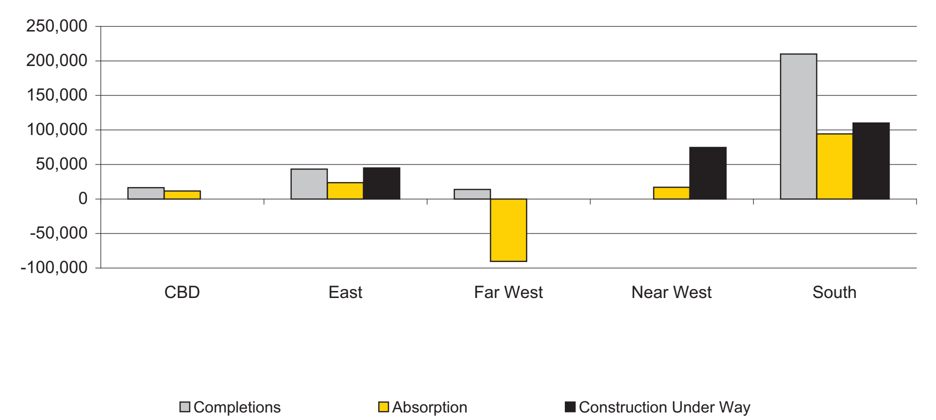
Under Construction in 4Q 2009

Building Name	Sub-market	Office Sq. Ft.
Meriter Health Svcs.	S	110,000
5201 E. Terrace	E	45,000
800 University Bay	NW	74,600
Total		229,600

Absorption as Percentage of Total Square Footage

	2007	2008	2009
Downtown	2.6%	0.5%	0.4%
Far West	2.7%	3.8%	-1.6%
Near West	-2.7%	-2.6%	2.5%
East	2.3%	1.9%	0.9%
South	9.7%	-1.0%	6.1%
Grand Total	3.0%	1.9%	0.4%
Suburban	3.1%	2.3%	0.4%

Supply & Demand 2009
Square Feet



Healthcare organizations and secondary education institutions are driving forces in the overall health of Madison's office market.

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Class A Sales	
No. of Sales	1
Avg. Bldg. Sq. Ft.	115,260
Avg. Sale Price/ Sq. Ft.	$154.07
Price Range/ Sq. Ft.	$154
Buyer Type	1 Investor
	0 Occupants
Class B Sales	
No. of Sales	7
Avg. Bldg. Sq. Ft.	19,051
Avg. Sale Price/ Sq. Ft.	$84.70
Price Range/ Sq. Ft.	$64 - $110
Buyer Type	0 Investors
	7 Occupants
Class C Sales	
No. of Sales	5
Avg. Bldg. Sq. Ft.	8,280
Avg. Sale Price/ Sq. Ft.	$59.08
Price Range/ Sq. Ft.	$43 - $120
Buyer Type	2 Investors
	3 Occupants
Totals	
No. of 2009 Sales	13
Total Bldg. Sq. Ft.	290,018
Total Dollar Volume	$31.5 Million

BUILDING & LAND SALES

Prices Decrease Across all Subtypes, Activity Hits Rock Bottom

The uncertain economic times and difficult lending atmosphere limited activity as building sales fell nearly 35 percent to just 13 sales. The average sales price fell across all classifications, confirming a stronger than normal buyer's market in 2009.

For the second consecutive year, only one Class A building traded hands. In late December 2008, Urban Land Interests purchased Tenney Plaza for $17.8 million. The 115,000-square-foot iconic property is connected to the US Bank building, which was also acquired by Urban Land in 2008. These recent acquistiions bolstered Urban Land Interest's portfolio, which now accounts for more than half of the Downtown Class A square footage.

The average price for Class B office buildings fell 28 percent to just under $85 per square foot. The largest of the seven Class B sales was the purchase of the former UW Medical Foundation building at 8007 Excelsior. The 48,000 square foot property, located in Old Sauk Trails Business Park, was bought by UW Hospitals and Clinics for $4 million.

Activity and prices declined for Class C properties in 2009 as five buildings traded hands at an average of $59 per square foot compared to 12 transactions and $66 per square foot a year earlier. Owner occupants paid an average of $73 per square foot, a 30 percent premium over the average purchase price investors were willing to pay for Class C properties.

Investor-driven sales declined for the fifth year in a row, accounting for one-quarter of the market's transactions this past year compared to one-third in 2008. The appetite for real estate investment was subdued this past year as credit markets tightened and vacancy ballooned. As growth in the job market returns and uncertainty dissipates, we expect the increase in investment sales to mirror the strengthening fundamentals.

OFFICE MARKET TERMS AND DEFINITIONS

Inventory: Office inventory includes all multi-tenant and single tenant buildings at least 10,000 square feet. Owner-occupied, government-owned 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 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 area average.

Vacancy and Availability: The vacancy rate is the amount of physically vacant space divided by the inventory. The amount of physical vacant space will differ from available space, which may or may not be vacant.

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. Office rents are reported as full service 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.

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Price Per Square Foot Plummets, Acreage Sold Jumps 60%

Office land sales increased in 2009 as seven transactions totaled just over 32 acres. Despite the increased activity, prices fell to $5.37 per square foot, its lowest point since 2002. For the second consecutive year Globe University was active in the Madison market, purchasing seven acres in The American Center for $1.6 million. T. Wall Properties purchased three acres in The American Center and began construction on a 45,000-square-foot speculative office building. The facility will be home to Johnson Bank and Horizon Construction.

Office land prices fell 58 percent in 2009 from its peak of $12.71 per square foot in 2008. The year-over-year decline is somewhat overstated due to the outlier nature of 2008 prices. Prior to 2008, the five-year annualized average for land prices was $6.52 per square foot. Compared to this figure, the average sales price still declined however to a much lesser extent, falling 18 percent.

The American Center Thrives in Tough Climate

The American Center, strategically located at the corner of Highway 151 and Interstate 90, thrived in 2009 accounting for more than three-quarters of the acreage sold in the Madison market. UW Hospitals and Clinics closed on their third and final land parcel this past year. Over a five-year period, UW Hospitals and Clinics has acquired roughly 37-acres within The American Center. The Center for Oral and Maxillofacial Surgery and Children's Dental of Madison also purchased land in the Center.

CPM Marketing Group, a healthcare relationship and data management technology firm, purchased seven acres in the Far West submarket for $5.96 per square foot. The parcel was acquired in conjunction with CPM's purchase of Emerson Network Power's former facility at 8310 Excelsior Drive in the Old Sauk Trails Business Park. This transaction was one of only two parcels purchased outside of The American Center in 2009. The other parcel, located in a small office park off Sprecher Road on Madison's eastside, was bought by the City of Madison with plans for a fire station.

We expect office land sales activity to be below average in 2010 as developers and speculators remain on the sidelines. Prices aren't likely to rise significantly until the economy gains strength.

Office Land Inventory - East

Park Name	Will Sell	Acres
The American Center	Yes	138
High Crossing	No	43
Dane County Air Park	Lease	34
Innovation Springs	Yes	21
Total Inventory		236
Available for Sale		159

Office Land Inventory - West

Park Name	Will Sell	Acres
Middleton Corp. Ctr.	No	73
Silicon Prairie	Yes	21
Discovery Springs	No	16
Greenway Center	No	6
Old Sauk Trails	No	23
Univ. Research Park	Lease	6
Total Inventory		145
Available for Sale		21

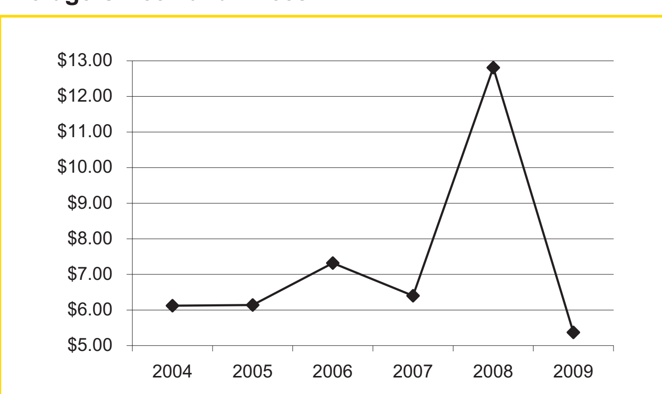
Office Land Inventory - South

Park Name	Will Sell	Acres
Fitch Research Park	Yes	12
Fitch Tech. Campus	Yes	17
Novation Tech. Campus	No	36
Total Inventory		65
Available for Sale		29

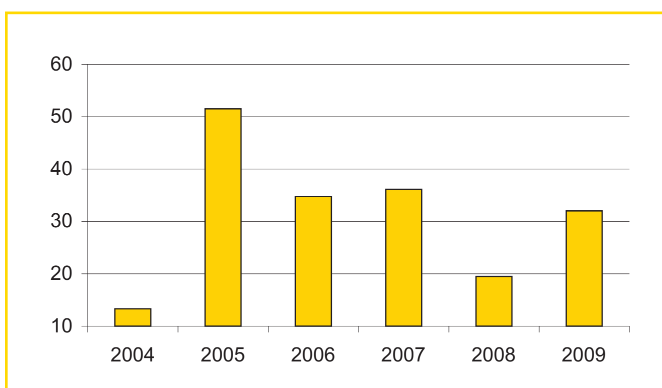
Office Land Inventory - Overall

	Acres
Total Inventory	446
Total Available For Sale	209

Average Office Land Prices



Acres Sold/Leased in Office Parks



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MAJOR TRANSACTIONS

Grubb & Ellis|Oakbrook is pleased to announce that it represented the following companies in 2009 transactions:

LDC-1117 Deming Way, LLC Landlord Representation 13,775 sq. ft. Office Lease 1117 Deming Way, Madison	**Park West 1** Landlord Representation 4,356 sq. ft. Office Leases 406 Science Dr., Madison	**American Family Insurance** Office Land Sales 21 Acres The American Center
WPS Landlord Representation 8,007 sq. ft. Office Leases South Towne Office Park	**Fairview Ridge III, LLC** Landlord Representation 5,150 sq. ft. Office Lease 1 Science Ct., Madison	**Mead & Hunt** Tenant Representation 3,100 sq. ft. Office Lease 6515 Watts Rd., Madison
Nat'l Conf. of Bar Examiners $2.2 Million Sale 19,950 sq. ft. Office Building 402 W. Wilson St., Madison	**Charles G. Stevens Company** Landlord Representation 20,594 sq. ft. Lease 6400 Enterprise Dr., Madison	**M3 Insurance Solutions, Inc.** Tenant Representation 7,549 sq. ft. Office Lease Pewaukee, WI

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