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# Detroit

Vol. 37

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First Quarter 2003

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**Analyzes:**

CBD Office  
Retail  
Apartments  
Suburban Office  
Industrial  
Local Economy

**Reports:**

Property Prices  
Property Rents  
Sector Forecasts  
Demographic Highlights  
Job Formation Trends  
Economic Base Profile  
Educational Achievement  
Tax Structure  
Quality of Life Factors

A publication of the *National Real Estate Index*

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# Detroit

Vol. 37



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## Report Format

This report is organized as follows. Section I provides a snapshot that highlights the key economic, demographic and real estate-related findings of the study. Sections II through IX provide an in-depth look (generally in a tabular format) at the key economic, demographic, public policy, and quality of life factors that can affect the demand for real estate.

In Section II, recent population trends are reported. Section III analyzes the local economic base and current labor force and job formation trends. Various educational costs and parameters are provided in Section IV. Local living costs are explored in Section V.

A series of other important factors, including retail sales trends and international trade, are reported in Section VI. Local and state fiscal policies, including taxes and federal spending, are highlighted in Section VII. Several key quality-of-life considerations are summarized in Section VIII.

In Section IX, local market price, rent and capitalization rate trends for the preceding 12 months are reported. Section X provides a quarterly review, including analysis of the local economy, as well as analyses of the office, light industrial, retail, apartment, and hospitality sectors.

# NATIONAL REAL ESTATE INDEX

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# Detroit: Metropolitan Map/Market Definition

## Detroit PMSA:

Lapeer County  
Macomb County  
Monroe County  
Oakland County

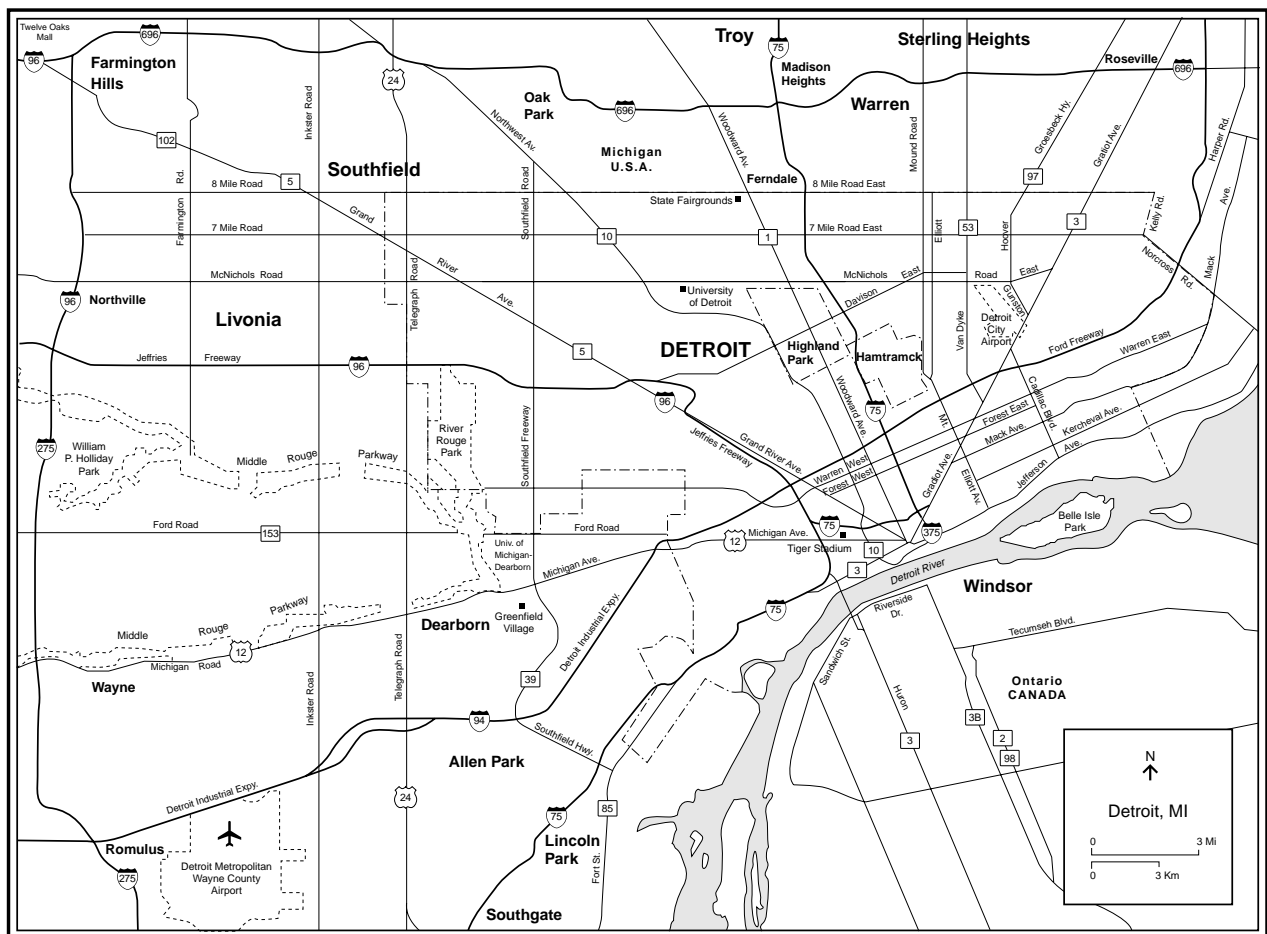
St. Clair County  
Wayne County

## Land Area of Detroit MSA:

4,465.6 sq. miles

## Population Density (2002):

1,000 people per sq. mile



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## I. **Detroit: Snapshot**

### A. **Economic Summary (See Sections II & III.)**

Job Growth (Loss) 12 Months (Ending in March 2003):	(1.9%)
Unemployment Rate (March):	7.2%
Metropolitan Population Growth (Loss), 1990–2002:	4.6%
Total Metropolitan Population, 2002	4.5 million

### B. **First Quarter 2003 Property Price and Rent Trends**

	<b>CBD Office</b>			<b>Suburban Office</b>			<b>Warehouse</b>			<b>Retail</b>			<b>Apartment</b>		
	<b>AVERAGE</b>			<b>AVERAGE</b>			<b>AVERAGE</b>			<b>AVERAGE</b>			<b>AVERAGE</b>		
	Price sf	Rent sf	Cap Rate	Price sf	Rent sf	Cap Rate	Price sf	Rent sf	Cap Rate	Price sf	Rent sf	Cap Rate	Price sf	Rent sf	Cap Rate
<b>1st Q. '03</b>	\$110.69	\$19.71	9.6%	\$143.34	\$21.22	8.1%	\$41.27	\$5.37	9.5%	\$118.47	\$16.74	9.2%	\$79.85	\$10.82	8.4%
<b>4th Q. '02</b>	111.31	19.93	9.6	142.74	21.56	8.2	41.03	5.42	9.6	117.53	16.83	9.3	79.63	10.79	8.4
<b>1st Q. '02</b>	118.24	22.04	9.5	143.41	22.99	8.5	41.36	6.00	9.9	115.56	16.89	9.5	79.36	10.93	8.7

Source: National Real Estate Index's Market Monitor.

## II. **Detroit: Demographics**

### A. **Metro Population**

	<b><u>Detroit</u></b>	<b><u>United States</u></b>
Population — 2002:	4,464,500	288,368,700
% Growth—2000–2002:	0.4%	2.2%
% Growth—1990–2000:	4.2%	13.4%
% Growth—1980–1990:	(2.8%)	9.8%

### B. **County Population Growth**

<b>County</b>	<b>2002 Population</b>	<b>% Growth 1990-2000</b>	<b>% Growth 2000-2002</b>
Lapeer	90,800	18.1	2.8
Macomb	808,500	10.2	2.2
Monroe	149,300	9.6	1.9
Oakland	1,202,700	10.4	0.5
St. Clair	167,700	13.1	1.8
Wayne	2,045,500	(2.5)	(0.7)

### C. **State Population Growth**

	<b>2002 Population</b>	<b>Actual % Growth 1990-2002</b>	<b>Ranking*</b>	<b>Projected % Growth 1995-2025**</b>	<b>Ranking*</b>
Michigan	10,050,400	8.1	39	5.5	48
United States	288,368,700	15.9	N/A	35.1	N/A

\*Ranking of all 50 states, plus the District of Columbia, with the #1 ranking representing the highest state population percentage growth.

\*\*The projected growth rate was last estimated in 1997. Some states are close to or have already exceeded those projections. New estimates will be released in 2003.

**Source:** U.S. Census Bureau.



## II. Demographics (Cont.)

### D. Area Cities With At Least 50,000 Residents

City	2000 Population	% Growth 1990-2000
Canton*	76,400	34.0
Clinton*	95,600	11.3
Dearborn	97,800	9.7
Dearborn Heights	58,300	(4.0)
Detroit	951,300	(7.5)
Farmington Hills	82,100	10.1
Livonia	100,500	(0.3)
Pontiac	66,300	(6.7)
Redford*	51,600	(5.1)
Rochester Hills	68,800	11.2
Royal Oak	60,100	(6.5)
Shelby*	65,200	33.9
Southfield	78,300	3.4
St. Clair Shores	63,100	(7.6)
Sterling Heights	124,500	5.7
Taylor	65,900	(7.0)
Troy	81,000	11.1
Warren	138,200	(4.7)
Waterford*	73,200	9.7
West Bloomfield*	64,900	19.1
Westland	86,600	2.5

\*These communities are technically defined as townships.

### E. Household & Population Composition

	<u>Detroit Metro</u>	<u>U.S. Metro</u>
Median Household Size:	2.6	2.7
Median Age:	35.8	35.2
% of Population Under 5	7.0	7.5
% of Population 35 - 54	29.6	28.0
% of Population Over 64	11.9	12.8

## II. Demographics (Cont.)

### F. Metropolitan Population Gain (1990-2002)

#### Population Growth (% Gain/Loss, April 1990-July 2002)

Las Vegas	102.0%	Greenville-Spartanburg	18.9%
Austin	59.4%	Columbus	17.7%
Phoenix	56.4%	Oakland-East Bay	16.9%
Atlanta	48.2%	Central New Jersey	16.7%
Raleigh-Durham	47.7%	San Diego	16.4%
Orlando	43.1%	<b>UNITED STATES</b>	<b>15.9%</b>
West Palm Beach	37.9%	Oklahoma City	15.7%
Dallas-Ft. Worth	37.4%	Kansas City	15.5%
Denver	37.0%	Memphis	15.2%
Charlotte	36.4%	Chicago	14.0%
Ft. Lauderdale	36.1%	San Jose	12.4%
Riverside-San Bernardino	35.8%	Los Angeles	10.6%
Houston	33.1%	Cincinnati	10.6%
Portland	32.4%	New York	10.1%
Nashville	29.0%	Baltimore	9.2%
Sacramento	28.1%	Newark-No. New Jersey	8.0%
Salt Lake City	28.0%	Nassau-Suffolk	7.4%
Jacksonville	27.4%	Honolulu	7.1%
Albuquerque	25.2%	San Francisco	6.9%
Washington, DC	22.2%	Milwaukee	6.0%
Orange County	21.9%	St. Louis	5.7%
Seattle	21.4%	Boston*	5.5%
Tampa-St. Petersburg	20.4%	<b>Detroit</b>	<b>4.6%</b>
Miami	20.4%	Philadelphia	4.6%
Minneapolis-St. Paul	20.3%	Hartford*	2.2%
Indianapolis	19.9%	Cleveland	2.2%

\*Updated populations are not yet available for Boston and Hartford. For these markets, changes are based on 2000 data.

**Source:** U.S. Census Bureau.

## II. Demographics (Cont.)

### G. International Immigration to Metropolitan Areas

#### Total International Immigration: 1992–2002 (in 000s)

New York/Nassau-Suffolk	1,178.2	Minneapolis-St. Paul	68.6
Los Angeles	1,019.9	West Palm Beach	65.2
Chicago	468.6	Orlando	62.5
Miami	404.9	Las Vegas	60.3
Newark-No. NJ	315.4	Tampa-St. Petersburg	59.6
Washington DC	304.0	Honolulu	47.3
Houston	286.2	Austin	46.9
Dallas-Ft. Worth	270.8	Baltimore	42.6
Orange County	268.4	Salt Lake City	36.0
San Jose	194.0	Raleigh-Durham	34.8
Boston*	187.4	St. Louis	34.4
San Diego	186.2	Charlotte	31.5
San Francisco	182.5	Hartford*	30.6
Oakland-East Bay	167.8	Kansas City	25.9
Riverside-San Bernardino	145.5	Cleveland	25.3
Atlanta	140.3	Columbus	21.3
Ft. Lauderdale	119.9	Oklahoma City	21.1
Phoenix	118.3	Milwaukee	20.6
Philadelphia	111.6	Nashville	20.6
Seattle	105.4	Jacksonville	18.4
<b>Detroit</b>	<b>93.8</b>	Albuquerque	17.8
Central New Jersey	91.9	Indianapolis	17.0
Denver	81.9	Cincinnati	14.5
Sacramento	78.7	Memphis	12.0
Portland	69.2	Greenville-Spartanburg	10.8

\*Migration/immigration data is not currently available for the Boston PMSA or the Hartford MSA. For these markets, the larger NECMA designations are used.

**Source:** U.S. Census Bureau.

## II. Demographics (Cont.)

### H. Domestic Migration to Metropolitan Areas

#### Total Domestic Migration: 1992–2002 (in 000s)

Atlanta	535.7	Oklahoma City	15.3
Phoenix	479.8	Cincinnati	11.7
Las Vegas	433.5	Memphis	6.0
Dallas-Ft. Worth	269.7	Salt Lake City	(13.6)
Riverside-San Bernardino	218.5	Central New Jersey	(29.1)
Tampa-St. Petersburg	202.5	Baltimore	(47.2)
Orlando	197.3	Hartford*	(68.2)
Austin	188.3	St. Louis	(68.7)
Charlotte	173.4	Oakland-East Bay	(76.5)
Denver	170.5	Washington DC	(83.0)
Raleigh-Durham	169.4	Milwaukee	(83.2)
Portland	168.6	Honolulu	(111.2)
Ft. Lauderdale	156.6	Cleveland	(118.3)
West Palm Beach	141.5	San Diego	(136.3)
Nashville	107.3	Boston*	(161.2)
Sacramento	91.5	Orange County	(199.8)
Jacksonville	78.1	San Francisco	(202.2)
Minneapolis-St. Paul	62.0	San Jose	(240.3)
Greenville-Spartanburg	59.7	Philadelphia	(260.7)
Indianapolis	49.7	<b>Detroit</b>	<b>(272.8)</b>
Houston	48.6	Miami	(280.8)
Kansas City	45.8	Newark-No. NJ	(398.6)
Seattle	40.2	Chicago	(587.5)
Columbus	29.3	Los Angeles	(1,499.9)
Albuquerque	25.9	New York/Nassau-Suffolk	(1,592.9)

\*Migration/immigration data is not currently available for the Boston PMSA or the Hartford MSA. For these markets, the larger NECMA designations are used.

**Source:** U.S. Census Bureau.

### III. **Detroit: Job Trend Formation and Labor Costs**

#### A. **Job Formation**

##### **Metropolitan Area**

Employment Growth (Loss)—% 12-Month (Ending in March):	(1.9%)
Total Number of Net New Jobs, 12 Months (Ending in March):	(39,000)
% Unemployed, March 2003:	7.2%
% Unemployed, 12 Months Before:	6.6%

##### **National**

Employment Growth (Loss)—% 12-Month (Ending in March):	(0.3%)
% Unemployed, March 2003:	6.2%
% Unemployed, March 2002:	6.1%

#### B. **Economic Base—Employment By Sectors**

<b>Sector</b>	<b>12-Month % Growth</b>		<b>% of Total Employment</b>	
	<b>Metro</b>	<b>National</b>	<b>Metro</b>	<b>National</b>
Services	(1.1)	0.8	26.1	28.5
Business Services	(1.7)	(0.2)	17.5	12.2
Financial Activities	(2.8)	1.3	5.5	6.1
Government	(1.1)	0.5	11.9	17.0
Retail Trade	(1.1)	(0.6)	11.1	11.4
Wholesale Trade	(1.2)	(1.3)	4.8	4.3
Transportation/Public Utilities	(7.0)	(1.6)	3.2	3.6
Manufacturing	(2.5)	(3.7)	16.1	11.5
Construction	(4.9)	(0.7)	3.9	4.9

Note: The Department of Labor recently revised the industry classification system (from SIC to NAICS). One of the most significant changes was the establishment of "business services" as a separate category (instead of a sub-set of the "services" sector). In addition, the "FIRE" sector is now known as "financial activities".

The 12-month percent growth is updated every quarter; the percent of total employment is updated every 6 months (last update: 1Q 2003).

### III. Job Trend Formation and Labor Costs (Cont.)

#### C. Metropolitan Total Employment Gain (1992-2002)

<b>Job Growth</b>			
<b>(% Gain/Loss, December 1992-December 2002)</b>			
Las Vegas	82.8	Minneapolis-St. Paul	20.9
Austin	53.4	Greenville-Spartanburg	20.7
Phoenix	53.2	Miami	20.5
Riverside-San Bernardino	46.0	Oakland	20.4
Orlando	43.6	Memphis	20.3
West Palm Beach	42.3	Washington	19.8
Tampa-St. Petersburg	39.4	<b>UNITED STATES</b>	<b>19.5</b>
Raleigh-Durham	38.9	San Jose	18.9
Dallas-Ft. Worth	35.2	Indianapolis	17.9
Atlanta	33.9	Nassau-Suffolk	17.6
Jacksonville	33.7	Seattle	17.6
Charlotte	32.8	Boston	16.1
Salt Lake City	32.5	Baltimore	15.2
San Diego	32.3	Cincinnati	14.9
Denver	31.6	San Francisco	12.6
Sacramento	31.4	<b>Detroit</b>	<b>12.5</b>
Nashville	30.9	Philadelphia	12.0
Fort Lauderdale	30.6	Chicago	11.8
Houston	28.3	Milwaukee	11.6
Albuquerque	27.7	Newark-No. New Jersey	11.4
Orange County	25.7	New York	10.5
Portland	25.6	St. Louis	10.1
Kansas City	23.9	Cleveland	9.1
Oklahoma City	23.4	Los Angeles	7.5
Central New Jersey	22.8	Hartford	1.8
Columbus	22.2	Honolulu	(2.1)

Source: U.S. Government, Bureau of Labor Statistics.

### III. Job Trend Formation and Labor Costs (Cont.)

#### D. Metropolitan Average Wages—Select Occupations

Position	Average Annual Wage
Accountant	\$57,306
Secretary	\$33,156
Computer Systems Analyst	\$65,951
Computer Programmer	N/A
Industrial Engineer	\$67,263
Machinist	\$51,174

Source: U.S. Dept. of Labor, *National Compensation Survey*, Detroit-Ann Arbor-Flint metropolitan area, April 2002.

#### E. Production Wages & Union Membership

	<u>Average Annual Wage*</u>	<u>National Rank</u>	<u>% Workers in Union</u>	<u>National Rank</u>
Michigan	\$34,170	3	21.1%	4
U.S. Average	\$27,600	--	13.2%	--

\*Average annual wage is for production workers only. The #1 ranking represents the highest average wage and the largest percentage of unionized workers.

Source(s): U.S. Dept. of Labor/wage figures (2001); U.S. Census Bureau/union membership (2002).

### III. Job Trend Formation and Labor Costs (Cont.)

#### F. State Workers' Compensation Costs

**Workers' Compensation Costs**  
—The average cost per \$100 of payroll—  
(2002)

	<u>Rate*</u>	<u>Index**</u>	<u>2002 Rating***</u>	<u>1999 Rating</u>
Michigan	\$3.28	1.031	26	37

\*This is the rate for a prototypical manufacturer, based on the manual rate, taxes and assessments, payroll distribution, premium discounts, experience rating, and any other weighted adjustments that were made in order to produce a non-biased countrywide comparison.

\*\*The base rate (or national average) for this Index is \$3.18.

\*\*\*The rating is based on an analysis of 45 states with #1 representing the lowest average rate.

Source: Actuarial & Technical Solutions, Inc. (516) 471-8655.

#### G. Minimum Wage/Overtime Status

Current Minimum Wage*	\$5.15
State Overtime Standard**	40-hour week

\*The federal minimum wage increased to \$5.15 in September 1997. The federal rate sets the floor under which states cannot go. Some states, however, have lower rates for a minority of workers who are not covered by the Fair Labor Standards Act. Some states also have temporary lower rates and "subminimum wages" for certain groups of workers, e.g., minors and/or beginning employees.

\*\*Federal law stipulates the payment of overtime to all private employees except supervisors, salaried professionals and unionized workers after 40 hours of labor in a given week.

Source: Bureau of National Affairs, *Payroll Administration Guide*.



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## IV. **Detroit: Education**

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### A. Educational Levels

	<b>% of Adults Who Graduated From High School</b>	<b>% of Adults Who Graduated From 4-Year College/University</b>
Detroit	86.2	24.3
U.S. Average	84.1	26.7

Source: U.S. Census Bureau, March 2002.

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### B. Educational Expenditures and Salaries

	<b>Per-Pupil Expenditures</b>	<b>Rank</b>	<b>Teacher Salaries</b>	<b>Rank</b>	<b>Student: Teacher Ratio</b>	<b>Rank</b>
Michigan	\$7,458	20	\$50,694	5	17.6	10
U.S. Average	\$7,161	--	\$43,335	--	16.1	--

These figures represent statewide (and national) averages. The rankings include all 50 states, plus the District of Columbia. For expenditures and salaries, #1 represents the highest dollar amount; #1 also represents the highest student–teacher ratio.

Source: National Education Association, *Rankings of the States 2001*.

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## IV. Education (Cont.)

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### C. Graduate Education

#### Academic Rankings of Local Graduate Programs

University	Biological Sciences	Engineering	General Sciences/Other
--	--	--	--

**Source:** National Academy of Sciences, *Research-Doctorate Programs in the United States*, 1995 (this report is updated every ten years). The NAS reviewed more than 3,600 doctoral programs in 41 fields at 274 universities for the 1993 academic year. Criteria included the academic quality of each school's faculty, the effectiveness of the school's teaching, and the level of its research. For programs that were ranked at 100 or more schools, we have listed the top 20 universities; for programs that were ranked at fewer than 100 schools, we have listed the top 10. The top universities are shown with their respective national ratings for each discipline. We have included 21 of 41 fields. Please note that the NAS did not include graduate business programs in its study.

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### D. University R&D Expenditures

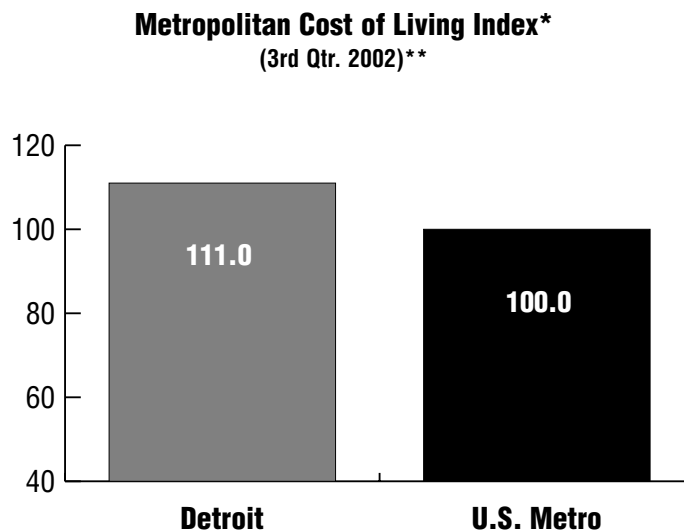
	<b>Federal R&amp;D Expenditures (\$\$ in mil.)</b>	<b>% of Leading School*</b>	<b>Total R&amp;D Expenditures (\$\$ in mil.)</b>	<b>% of Leading School*</b>
Oakland Univ.	\$2.5	1.2	\$4.2	1.6
Wayne State Univ.	\$23.2	10.8	\$51.5	19.2

**Source:** National Academy of Sciences, *Research-Doctorate Programs in the United States*, 1995 (this report is updated every ten years). These amounts reflect the average annual expenditures from 1986 to 1992 (based on 1988 dollars).

\*The percentage column reflects the amount spent by the local institution(s) relative to the amount expended at the top spending institution in each of the two categories.

## V. Detroit: Housing & Related Costs

### A. Overall Cost of Living

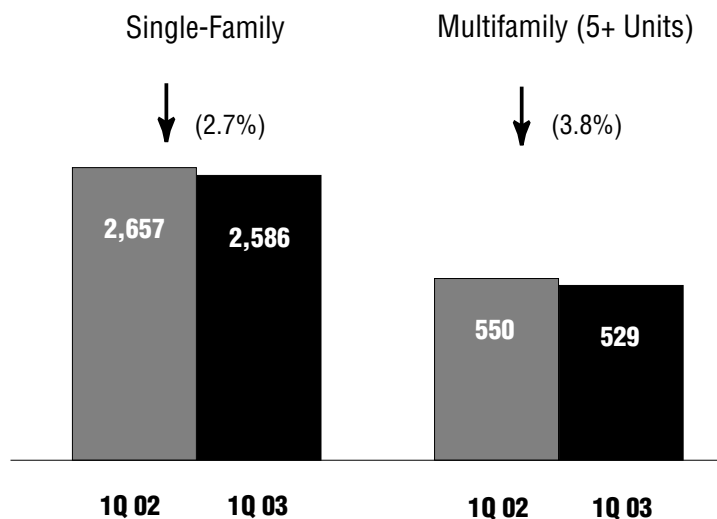


\*The ACCRA Cost of Living Index measures relative prices for consumer goods and services in participating areas. Housing is an important component of the Index. The average for all participating areas is 100. Each area's number is read as a percentage of that average.

\*\*This is the most recent data available for this metropolitan area.

**Source:** ACCRA Cost of Living Index, Louisville, KY, (502) 897-2890.

### B. Metropolitan Housing Permits



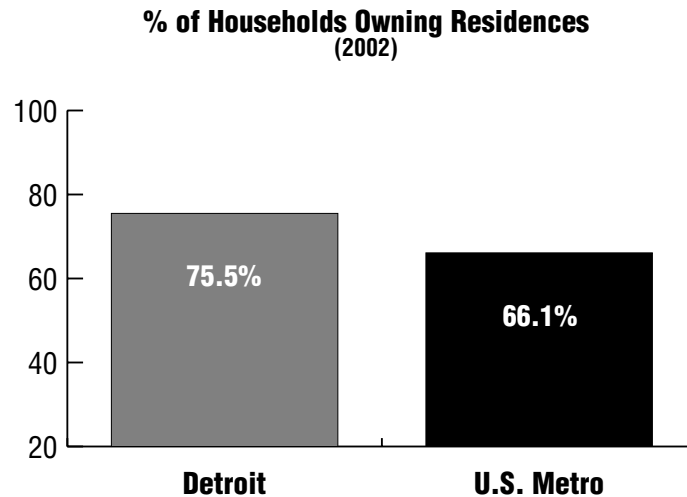
**Local Data:** Figures represent total permits granted year-to-date in the Detroit PMSA.

**U.S. Data:** The percent changes in single-family and multifamily permits nationwide were 4.0% and 5.3%, respectively.

**Source:** U.S. Census Bureau.

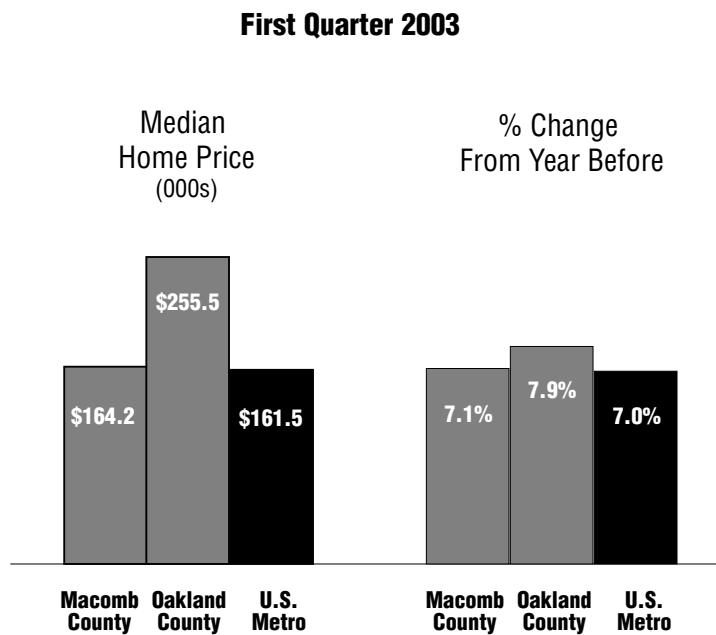
## V. **Housing & Related Costs (Cont.)**

### C. **Homeownership**



**Source:** U.S. Census Bureau. Homeownership rates represent metropolitan averages as of year-end 2002.

### D. **Single Family Home Costs**



**Source:** National Association of Realtors® and Michigan Association of Realtors.

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## V. **Housing & Related Costs (Cont.)**

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### E. **Local Utility Costs**

	<b><u>Commercial Electric</u></b> (10,000 kwh per mo.)	<b><u>Industrial Electric</u></b> (650,000 kwh per mo.)	<b><u>Residential Total</u></b> (1,000 kwh per mo.)
Detroit	\$950	\$33,929	\$94
U.S. Average	\$812	\$34,657	\$84

These numbers reflect the bundled rates (i.e., the combined cost of generation, transmission, delivery, and any transfer fees) that were in effect in January 2003. The kwh per mo. figures are based on consumption rather than demand.

**Source:** Edison Electric Institute, *Typical Bills and Average Rates Report*, Winter 2003.

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### F. **Health Insurance Coverage & Costs**

	<b><u>% of Pop. Covered by Health Insurance</u></b>	<b><u>Rank</u></b>	<b><u>Annual Per Capita Health Care Expenditures</u></b>	<b><u>Rank</u></b>
Michigan	89.6	17	\$3,676	26
U.S.	85.4	--	\$3,759	--

The #1 ranking represents the highest percentage of population covered by health insurance and the highest per capita personal health care expenditures.

**Source:** Health Insurance: Bureau of Labor Statistics and U.S. Census Bureau (2001). Health Care Expenditures: Centers for Medicare and Medicaid Services (1998).

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## V. **Housing & Related Costs (Cont.)**

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### G. **Tourism & Entertainment Taxes**

#### **Local Hospitality Taxes**

	<u>Hotel Tax</u>	<u>Restaurant Tax</u>	<u>Car Rental Tax*</u>
Detroit	15.00%**	6.00%	17.50%**
Average of 50 Surveyed Cities	12.36%	7.29%	8.40%

The above data reflects our best efforts. All recent changes at the local/state level may not have been captured.

\*This is the basic rate. It does not include applicable surcharges.

\*\*These taxes were recently increased to help fund two new sports facilities.

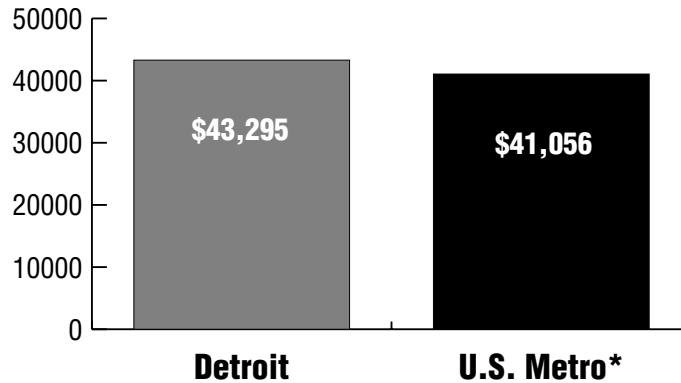
**Source:** Travel Industry Association of America, Washington, DC and INDEX Research.

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## VI. **Detroit: Other Economic Indicators**

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### A. **2001 Metropolitan Median Household Income**



\*The U.S. Metro figure represents the median income of 323 metropolitan areas; \$38,365 is the median income nationwide.

#### **Market Rank: 28\***

\*Ranking of 57 metropolitan areas, with the #1 ranking representing the highest median household income.

**Source:** Sales & Marketing Management: 2002 Survey of Buying Power.

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### B. **Metropolitan Retail Sales Trends**

#### **Metropolitan Retail Sales -- % Change (FYTD March 2003)**

Detroit-Ann Arbor-Flint	(6.5%)
National	(7.6%)

This data reflects same-store sales at major department stores during the fiscal year to date compared to the same period one year ago.

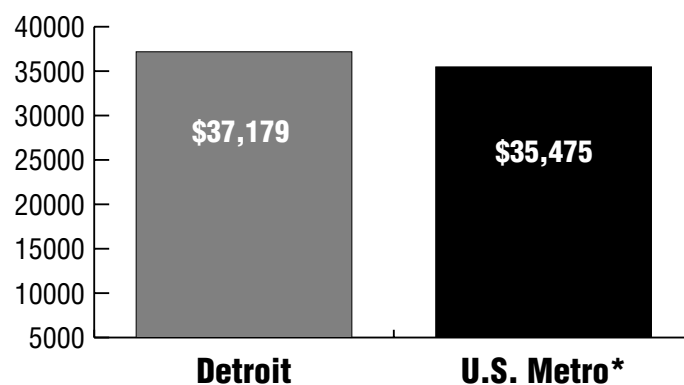
**Source:** International Council of Shopping Centers, New York, NY.

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## VI. Other Economic Indicators (Cont.)

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### C. 2001 Metropolitan Average Retail Sales



\*The U.S. Metro figure represents the average retail sales per household of 323 metropolitan areas; \$33,662 is the average retail sales per household nationwide.

**Market Rank: 29\***

\*Ranking of 57 metropolitan areas, with the #1 ranking representing the highest amount of retail sales per household.

Source: Sales & Marketing Management: 2002 Survey of Buying Power.

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### D. E-Commerce Retail Sales

#### Fourth Quarter 2002 (\$\$ in billions)

	Total Retail Sales	E-Commerce Retail Sales	% of Total
U.S.	\$869.6	\$14.3	1.6
Prior Quarter	\$827.5	\$11.1	1.3
Year Ago	\$856.3	\$11.2	1.3

Source: U.S. Department of Commerce.



## VI. Other Economic Indicators (Cont.)

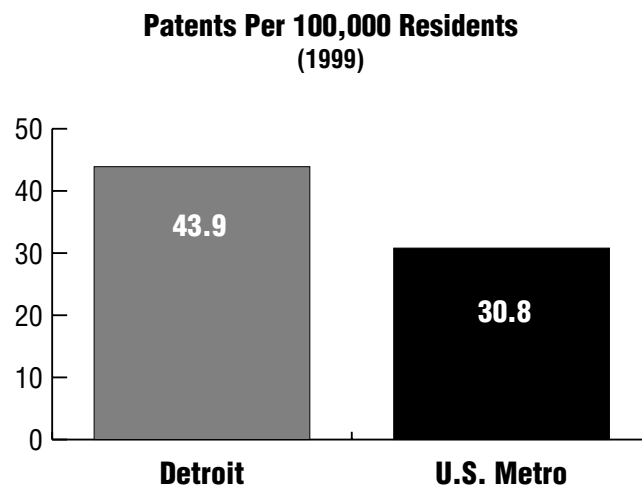
### E. High-Tech Industry Employment

	<b>Number of Establishments (2000)</b>	<b>Rank</b>	<b>Number of Employees (2001)</b>	<b>Rank</b>	<b>High-Tech Employment Growth (2000-2001)</b>	<b>Rank</b>
Michigan	6,214	15	110,050	17	2.0%	10

The #1 ranking represents the highest amount in each category.

Source: *Cyberstates 2002*, American Electronics Association.

### F. Metropolitan Area Patents



**Market Rank: 16\***

\*Ranking of 52 metropolitan areas, with the #1 ranking representing the largest number of per capita patents.

Source: Dept. of Commerce, Patent & Trademark Office, April 2000.

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## VI. Other Economic Indicators (Cont.)

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### G. Major Airport Activity

#### Detroit – Wayne County Metropolitan

	<u>Total</u> <u>(2002)</u>	<u>% Change</u> <u>from 2001</u>	<u>National</u> <u>Rank*</u>	<u>World</u> <u>Rank*</u>
Passengers (in millions)	32.4	(0.5%)	10	17
Cargo (in thousands–metric tons)	232.9	(3.3%)	29	70

\*Ranking of 747 international airports, with the #1 ranking representing the largest number of passengers and the largest amount of cargo.

Source: Airports Council International, Geneva, Switzerland.

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### H. International Trade

#### International Trade Volume

	<u>Import</u>	<u>Export</u>	<u>Total</u>
Detroit Customs District			
January-February 2003 (\$\$\$ in billions)	\$15.4	\$13.9	\$29.3
% Change (from year ago)	6.2%	6.2%	6.2%
Total U.S.			
January-February 2003 (\$\$\$ in billions)	\$191.3	\$110.6	\$301.9
% Change (from year ago)	13.0%	4.5%	9.8%

Source: Dept. of Commerce, Foreign Trade Division.

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## VI. Other Economic Indicators (Cont.)

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### I. Gross State Product

	<u>1990</u>	<u>2000</u>	<u>% Change 1990-2000</u>
Michigan Ranking*	9	9	--
Michigan Total (\$\$\$ in billions)	\$225.1	\$305.9	35.9%
U.S. Total (\$\$\$ in billions)	\$6,630.7	\$9,314.3	40.5%

\*Ranking of all 50 states (including the District of Columbia), with the #1 ranking representing the highest dollar amount.

Note: While the dollar amounts are no longer inflation-adjusted, they are “chain-weighted” to make them comparable to the specified 1996 base period.

Source: Dept. of Commerce, Bureau of Economic Analysis.

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### J. Gross Metropolitan Product

	<u>GMP</u> (\$\$ in billions)		
	<u>2002</u>	<u>Rank</u>	<u>% Change (from 2001)</u>
Detroit	\$161.9	10	2.2%

\*Ranking of 100 metropolitan areas, with the #1 ranking representing the highest dollar amount.

Source: U.S. Conference of Mayors.

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## VI. Other Economic Indicators (Cont.)

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### K. Fortune 500 Companies

	<u>1999</u>	<u>2000</u>	<u>2001</u>
# of Fortune 500 Firms in Metro Area	15	15	17
Ranking*	5	7	5

\*Fortune 500 companies are those with the highest annual revenue in the U.S. The ranking shows how this metropolitan area compares to others across the country, with the #1 ranking indicating the metro with the largest number of Fortune 500 firms.

**Source:** FORTUNE 500, © 2002, Time Inc. Metro area totals compiled by Property & Portfolio Research, (617) 426-4446, [www.ppr-research.com](http://www.ppr-research.com).

## VII. Detroit: Taxes and Expenditures

### A. State Tax Rates/Employer Expenses

Tax	Rate
<b>Business Taxes:</b>	
Corporate Income/Franchise	1.9%*
Unemployment Insurance	2.7%
<b>Individual Taxes:</b>	
Sales/Use	6.0%
Maximum Local Levy	--
Food Exemption	Yes
Cigarette Tax (per package)	\$1.25
Personal Income Rates	4.0%**
State Taxes Paid in 2001 Per \$1,000 Personal Income:	
Local:	\$76
United States:	\$66

The above data reflects our best efforts. All recent changes at the local/state level may not have been captured.

\*This is the single business tax rate for 2002 and 2003. This tax is scheduled to be repealed in tax year 2010.

\*\*This is the rate for 2003. This tax is being lowered by 0.1% annually through 2004, when it will be 3.9%.

Source(s): Tax Foundation; Federation of Tax Administrators; and INDEX research.

### B. Local Residential Property Taxes

#### 2002 Residential Property Tax Rate (Per \$100 Valuation)

<u>Location</u>	<u>Effective Rate</u>	<u>Ranking*</u>
Detroit CMP	\$1.53	39

\* The residential property tax ranking is based on a comparison of 58 metropolitan areas analyzed by the National Real Estate Index. Markets are rated in ascending order. (Number 58 denotes the highest tax rate in the study.)

Source: Runzheimer International, Rochester, WI. Runzheimer International, a management consulting firm specializing in transportation, travel and living costs, provided the effective residential property tax rate. In large cities where a range of residential tax rates is applied, we have used Runzheimer's composite tax rate (CMP). For more information on employee relocation, moving costs, and travel expenses, contact Runzheimer at 1-800-558-1702.

Important: Please be aware that because of the wide disparities in tax rates, assessment ratios, and assessment periods from jurisdiction to jurisdiction (even within some metropolitan areas), the rates reported represent approximations only.

## VII. Taxes and Expenditures (Cont.)

### C. Local Commercial Property Taxes

#### 2002 Commercial Property Tax Rate (Per \$100 Valuation)

<u>City</u>	<u>Basic Rate</u>	<u>Effective Rate</u>	<u>Ranking**</u>
Detroit*	\$8.26	\$4.13	80
Troy*	\$4.73	\$2.37	53

\*Taxes on intangible property were completely phased out in January 1998.

\*\*The commercial property tax ranking is based on a comparison of 85 communities analyzed by the National Real Estate Index. Markets are rated in ascending order. (Number 85 denotes the highest tax rate in the study.)

**Source:** Basic tax rates (and assessment ratios) were provided by Vertex Inc., Berwyn, PA, (800) 355-3500. The “effective” rates factor in the proportion of property value assessed for taxation purposes, and were calculated by the National Real Estate Index staff. Where a range of basic rates applied, the median was utilized.

Except where noted, inventory and intangible property are completely (or largely) exempt from taxation, and tangible personal property is taxed at rates and assessment ratios comparable to those for real property.

**Important:** Please be aware that because of the wide disparities in tax rates, assessment ratios, and assessment periods from jurisdiction to jurisdiction (even within some metropolitan areas), the rates reported represent approximations only. Actual tax assessments could vary substantially, depending on property class, age and location.

### D. State Tax Revenue

#### State Tax Revenue July-December 2002 (\$\$ in millions)

	<u>Personal Income</u>	<u>Corporate Income</u>	<u>Sales</u>	<u>Total*</u>	<u>% Change from Year Ago</u>
Michigan	\$3,353	\$981	\$4,039	\$10,647	0.9%
U.S.	\$86,366	\$10,903	\$87,087	\$215,397	2.2%

The fiscal year begins on July 1 for all 50 states except Alabama (Oct 1), Michigan (Oct 1), New York (April 1), and Texas (Sept 1).

\*Figures reflect total tax revenue reported for the state’s general fund.

**Source:** Nelson A. Rockefeller Institute of Government, *State Revenue Report*.

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## VII. Taxes and Expenditures (Cont.)

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### E. Federal Spending Per Capita

	<b><u>Total Federal Spending</u></b>	<b><u>National Rank*</u></b>	<b><u>% Change from Year Ago</u></b>
Michigan	\$5,195	46	10.3%
Macomb County	\$6,203	--	24.5%
Oakland County	\$3,746	--	8.1%
Wayne County	\$5,856	--	5.3%
U.S. Average	\$6,268	--	9.2%

\*Ranking based on all 50 states, plus the District of Columbia, with the #1 ranking representing the highest dollar amount.

**Source:** U.S. Census Bureau, *Consolidated Federal Funds Report for Fiscal Year 2001*.

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## VIII. Detroit: Quality of Life

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### A. Crime Rate

#### Crime Per 100,000 Inhabitants—2001

	<u>Violent</u>	<u>% Change from 2000</u>	<u>Property</u>	<u>% Change from 2000</u>
Detroit	743.5	(1.3)	3,846.5	(2.2)
U.S. Metro Average	504.4	(0.4)	3,656.1	1.0

Source: Federal Bureau of Investigation, *Crime in the United States*.

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### B. State Livability Index

	<b>2002 Index Rating*</b>	<b><u>2002 Rank</u></b>	<b><u>2001 Rank</u></b>
Michigan	25.51	23	27

\*The livability index rating is based on 43 categories including crime rate, unemployment rate, hazardous waste sites, quality of infrastructure (e.g., roads, bridges, etc.), high school graduation rate, spending on the arts, and tax burden. The best ranking is 1.

Source: The Morgan Quitno Press, (800) 457-0724.



## VIII. Quality of Life (Cont.)

### C. Climate

#### Average Temperature (Fahrenheit)

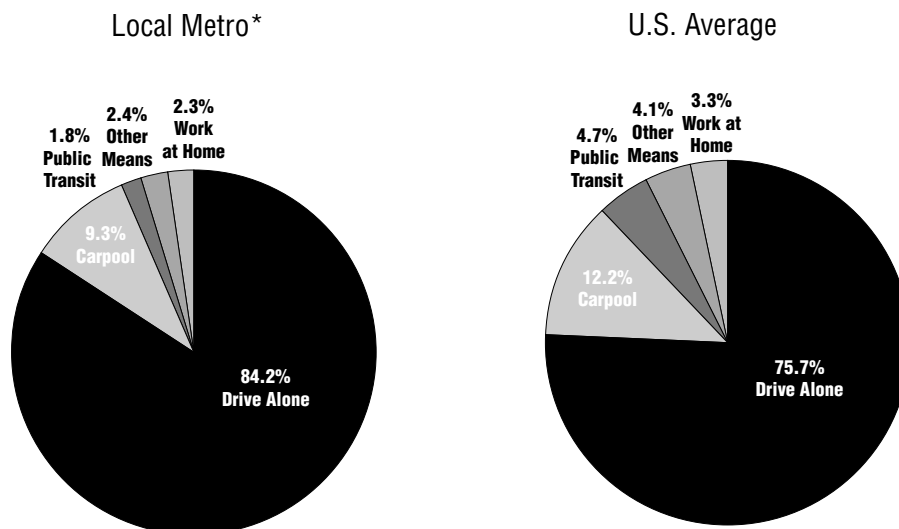
	<u>High</u>	<u>Low</u>
Winter	31	16
Spring	58	37
Summer	82	59
Autumn	63	41

Average Annual Precipitation: 31 inches

Elevation: 664 ft

% of Sunny Days Per Year: 53%

### D. Mode of Travel to Work



\*Data is for the Detroit-Ann Arbor-Flint CMSA.

Source: U.S. Census Bureau, American FactFinder: Journey to Work, 2000.

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## VIII. Quality of Life (Cont.)

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### E. Congestion Index

	<b>Congestion Cost Total</b> (\$\$ in millions)	<b>Congestion Cost Per Person</b>	<b>Wasted Fuel Per Person</b> (gallons)	<b>Delay Per Person</b> (hours)
Detroit	\$1,905.0	\$475	41	25
Current Ranking*	8	20	19	19
Previous Year's Ranking	8	16	12	14

\*The ranking compares this city to the 74 others in the study, with the #1 rankings representing the highest cost, largest amount of fuel wasted, and longest delay. All data is annual and is for the year 2000. The "congestion cost" includes the value of the extra travel time as well as the wasted fuel costs. Significant ranking changes can occur due to the tight "bunching" of values among some metropolitan areas.

Source: Texas Transportation Institute, Texas A&M University, *2002 Urban Mobility Report*, (979) 845-1713, <http://mobility.tamu.edu>.

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### F. Major Professional Athletic Franchises

#### National Football League

Detroit Lions

#### Major League Baseball

Detroit Tigers

#### National Basketball Association

Detroit Pistons

#### National Hockey League

Detroit Red Wings

## IX. Detroit: Current Prices, Rents, and Cap Rates<sup>1</sup>

### A. Class A Property Sectors—National, Regional, Local

	<b>CBD Office AVERAGE</b>			<b>Suburban Office AVERAGE</b>			<b>Warehouse AVERAGE</b>			<b>Retail AVERAGE</b>			<b>Apartment AVERAGE</b>		
	Price sf	Rent sf	Cap Rate	Price sf	Rent sf	Cap Rate	Price sf	Rent sf	Cap Rate	Price sf	Rent sf	Cap Rate	Price sf	Rent sf	Cap Rate
<b>National</b>	\$210.86	\$29.35	7.4%	\$178.71	\$23.02	7.3%	\$44.24	\$5.31	8.5%	\$124.40	\$17.37	8.7%	\$107.35	\$14.06	7.6%
<b>Midwest Region</b>	159.39	23.75	8.5	144.13	20.66	8.1	39.26	4.94	8.9	110.20	15.39	9.1	82.70	11.45	8.1
<b>1st Q. '03</b>	\$110.69	\$19.71	9.6%	\$143.34	\$21.22	8.1%	\$41.27	\$5.37	9.5%	\$118.47	\$16.74	9.2%	\$79.85	\$10.82	8.4%
<b>4th Q. '02</b>	111.31	19.93	9.6	142.74	21.56	8.2	41.03	5.42	9.6	117.53	16.83	9.3	79.63	10.79	8.4
<b>1st Q. '02</b>	118.24	22.04	9.5	143.41	22.99	8.5	41.36	6.00	9.9	115.56	16.89	9.5	79.36	10.93	8.7

### B. Other Property Classes – Most Recent Period

<b>Property Sector</b>	<b>Price Per SF</b>	<b>Property Sector</b>	<b>Price Per SF</b>
Class B Suburban Office	\$110.96	Class B Apartment	\$52.06
Class B Anch. Shopping Ctr.	\$86.65	Class B Flex/Business Campus	\$65.20

<sup>1</sup> **Source(s):** NREI *Market Monitor*. For more information on this or other INDEX-surveyed metropolitan areas, contact the National Real Estate Index, (800) 992-7257.

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## IX. **Detroit: Current Prices, Rents, and Cap Rates<sup>1</sup>**

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### C. **Local Market Rankings**

#### **1st Qtr. 2003 – Rankings\***

	<u>CBD Office</u>	<u>Suburban Office</u>	<u>Warehouse</u>	<u>Retail</u>	<u>Apartment</u>	<u>Class B Apartment</u>
Prices	48	28	25	28	29	34
Rents	43	25	17	27	27	30

\*Local market ranking among the 58 metropolitan areas (plus Manhattan Downtown and Midtown for CBD office) analyzed by the National Real Estate Index, with the #1 ranking in all cases but Class B Apartment representing the highest Class A price and/or rent per square foot for the noted time period.

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### D. **Price and Rent Growth**

#### **% Change from Year Ago**

	<u>CBD Office</u>	<u>Suburban Office</u>	<u>Warehouse</u>	<u>Retail</u>	<u>Apartment</u>	<u>Class B Apartment</u>
<b><u>Metro</u></b>						
Prices	(7.8%)	6.3%	(1.3%)	4.0%	(1.8%)	(4.2%)
Rents	(7.2%)	(9.1%)	(5.0%)	(1.7%)	(2.0%)	(1.3%)
<b><u>National</u></b>						
Prices	(2.3%)	(0.3%)	(3.0%)	0.6%	(1.2%)	0.0%
Rents	(9.2%)	(8.4%)	(4.4%)	(0.5%)	(1.8%)	(0.1%)

<sup>1</sup> **Source(s):** NREI *Market Monitor*. For more information on this or other INDEX-surveyed metropolitan areas, contact the National Real Estate Index, (800) 992-7257.

## X. Detroit: Market Analysis

### A. Market Snapshot

#### Fourth in Job Losses

Metropolitan Detroit ranked fourth nationwide for job losses during the 12 months ending in March 2003. It slashed a phenomenal 39,000 jobs. This is the same number of positions cut here in 2002. The unemployment rate increased from 6.6% in March 2002 to 7.2% in March 2003.

**Manufacturing Takes Biggest Hit:** The manufacturing sector experienced the largest decline in employment, losing 8,600 jobs. Ford plans to decrease production by 16.6% in the second quarter of 2003 in response to slumping sales and lagging consumer confidence. The auto giant expects to produce 980,000 vehicles at its North American assembly plants during the second quarter or approximately 200,000 fewer than it produced during the same three months last year. General Motors plans to cut its production by 10.5% for the same period.

Professional & business services (recently established as a separate employment category) lost 6,000 positions. The broader service sector was next, shaving 5,900 employees, followed by the transportation/public utilities sector (which includes telecommunications), which slashed 4,900 jobs. Construction cut 4,100, financial activities shed 3,200, government lost 2,700, retail trade eliminated 2,400, and wholesale trade cut 1,200 from its payroll.

Kmart plans to lay off some workers at its corporate headquarters in Troy. Although specific numbers were not released, between 25% and 30% (or 1,000 positions) of the senior staff at the Troy office could lose their jobs this year. There is some good news for the Detroit metro, though. Champion Foods is creating a new food manufacturing facility in Huron township that is expected to create up to 411 jobs.

Ford, General Motors, and DaimlerChrysler top the list for the largest employers in the region. Fourth and fifth on the list are the Henry Ford Health System and Detroit Medical Center.

#### OFFICE

Metropolitan Detroit's office market was saddled with more empty space in the first quarter 2003 as the vacancy rate climbed from 16.1% in the fourth quarter 2002 to 17.2%, according to Paragon Corporate Realty Services.

The CBD continues to register the highest vacancy rate (21.5%), while Dearborn posted the lowest rate (6.5%). The Farmington Hills vacancy rate jumped seven percentage points to 18.6%, due largely to Kojaian's delivery of the 325,000 square foot Farmington Hills Corporate Center. The overall suburban vacancy rate remained in the double digits (15.9%) at the end of March, an uptake from 13.5% at the close of 2002. Several corporations have downsized or consolidated locations. This has dumped blocks of sublease space back onto the market, forcing landlords to offer incentives such as free rent and larger tenant improvement packages. No new speculative construction got underway during the first quarter.

Prices and rents continued to slide as a quick recovery slipped further out of reach. National Real Estate Index data shows that prices for CBD office space fell 6.4% from the first quarter of 2002 to \$110.69 per square foot in the first quarter of 2003. Rental rates dropped 10.6% to \$19.71 per square foot. Values and effective rents fell in the suburbs as well.

Net absorption fell from a positive 19,000 square feet in the fourth quarter 2002 to a negative 321,000 square feet in the first quarter 2003. Southfield experienced the largest decline with 162,000 square feet of negative absorption. This submarket sports the second-highest vacancy rate in the metropolitan area at 20.9%. Market-wide construction fell from 481,000 square feet to just 170,000 square feet.

#### Compuware Campus Set to Complete in June:

Compuware's one million square foot headquarters building is almost on schedule. It will complete in June (instead of early Spring) and be fully operational by August. About 4,100 workers are slated to relocate to the new space in stages from Farmington Hills. It is located at 1 Campus Martius on the site of the former Kern's department store in downtown Detroit. The company is also considering expanding the back of the building to house another 1,500 workers, but that will depend on improvements in the economy. Compuware plans to sell its 235,000 square foot headquarters on Northwestern Highway and Middle Belt Road in Farmington Hills.

General Motors continues to upgrade the Renaissance Center through a \$500 million overhaul. It recently convinced EDS to consolidate many of its operations

## X. Market Analysis

### A. Market Snapshot (continued)

into the Tower 500 section as part of a six-year lease agreement. In addition, GM is about to get underway on a large mixed-use development dubbed River East that includes retail, restaurants, lofts, and condominiums. As exciting as these developments are, they have yet to have a positive effect on the city's vacancy rate.

#### **Companies Relocate to Newer Digs:**

TRW Automotive plans to relocate its corporate functions from Cleveland to a new 120,000 square foot building in Livonia. The move will create 165 new jobs over the next several years. PricewaterhouseCoopers intends to move from the Renaissance Center to a new 100,000 square foot building adjacent to Ford Field. The firm is expected to take up to 80,000 square feet of the new building in 2005. Covisint, an automotive Internet exchange, has pushed back its plans to move into a new world headquarters in Southfield until Summer 2003. The company will occupy about 70,000 square feet at Southfield TechnoCenter II, now under construction at Eight Mile and Lahser. In Ann Arbor, ABN AMRO Mortgage Group (AAMG) signed a deal with Avis Farms Development to construct a 255,000 square foot build-to-suit project to accommodate current and future expansion initiatives. AAMG is a subsidiary of Standard Federal Bank, the nation's fifth-largest loan originator and seventh-largest loan servicer.

Notable sales during the first quarter include downtown Detroit's 150 West Jefferson office building (505,000 square feet), bought by Atlanta-based Wells Real Estate Investment Trust for \$98.3 million; the purchase of the 496,000 square foot New Center One building in Detroit for \$17.3 million; and Lexington Corporate Properties Trust's purchase of the 125,000 square foot Motorola Automotive headquarters in Farmington Hills for more than \$32 million.

#### **INDUSTRIAL**

The availability rate (which includes sublease space) for industrial properties in greater Detroit fell slightly from 10.9% at the end of 2002 to 10.7% at the close of 2003's first quarter, according to CB Richard Ellis. Detroit posted the highest

availability rate (13.6%). Southeast Oakland had the lowest rate at 6.8%. Absorption (which represents sales and leasing activity) totaled 2.7 million square feet. This is down significantly from the robust level of activity (nine million square feet) recorded last quarter.

Despite a slight increase in construction from last quarter to 1.7 million square feet, developers are proceeding with caution as reflected by moderated year-over-year activity (more than four million square feet were underway in 2002's first quarter). Crown Enterprises completed construction in April on a 500,000 square foot warehouse on East Jefferson Avenue in Detroit. In January, developers broke ground on a 176,000 square foot mini-storage facility in Ferndale, about a half-mile north of the Detroit border. Dirt is still being moved in preparation for the installation of the three-story building on West Marshall Street. The Nolan Brothers of Texas paid \$527,000 to clean up pollution on the site. The original building, which was torn down at the end of 2002, housed Excelda Corp., a packager of lubricants and other automotive products, and was later used as a warehouse for carnival toys. It is one of the first redevelopment projects in Ferndale in decades.

Nissan Technical Center North America (NTCNA) announced in February that it had chosen a general contractor for a 100,000 square foot expansion project at its R&D center in Auburn Hills. Construction of a new engineering building, the largest part of the NTCNA project, is to be completed by the end of this year. Nissan is in the midst of an unprecedented product-introduction program in the United States. Also in Auburn Hills, a 1.5 million square foot light industrial R&D park is in the early planning stages. In Romulus, Liberty Property Trust is preparing to build a 250,000 square foot facility on Cogswell and Ecorse Roads and Burton-Katzman continues to work on a 74,000 square foot facility on Warhman Road.

**Mixed-Use Projects in the Pipeline:** Ford Motor Land has yet to decide whether it will sell the remainder of the Packard site in Shelby township or work with a development team to create a technology park, offices, and retail space. It will donate up to 14 acres to the Packard Motor Car Foundation, which plans to convert the original plant into a

## X. Market Analysis

### A. Market Snapshot (continued)

tourist attraction, and 34 acres to the township for use as a recreation area. The complex includes a two-and-a-half mile oval test track along with research and engineering facilities. In Macomb, a court decision last Fall cleared the way for a mixed-use development at Hayes and 22 Mile Roads, currently the site of the small Berz-Macomb Airport. Plans call for a 700,000 square foot industrial park, a grocery-anchored retail center, and office/medical space. The development will also include about 500 single-family homes. Meanwhile, site work has begun on a new 164-acre technology and industrial park on the border of Orion and Auburn Hills.

**Research & Technology Park Breaks Ground at Wayne State:** Construction got underway in January on the 40,000 square foot NextEnergy Center at the University Research and Technology Park, owned by Wayne State University. It is hoped that this initiative will bring scientists to the area to research and develop alternative fuel sources. The 88-acre park is located in the Woodward Technology Corridor Smart Zone (Smart Zones are a state-wide collection of properties that earn tax credits for future development). Wayne State won the bid for the facility because it was more cost-effective to the state than the originally-planned site near Ann Arbor. The plans for the park are ambitious. The first phase calls for a 40,000 square foot collaboration center, 34,000 square feet of technology incubator space, and 11,000 square feet of space for business assistance agencies. There would also be 73,000 square feet of multi-tenant space. Other Michigan communities are competing for Smart Zone funds. For instance, Kalamazoo and Lansing are aggressively pursuing companies to locate in their Smart Zones.

**Exports/Imports Up:** The value of exports handled by the Detroit Customs District rose 6% to \$14 billion during the first two months of 2003 compared to the same two months in 2002. Imports also increased 6% to \$15 billion.

#### RETAIL

At the close of 2002, metropolitan Detroit had a retail vacancy rate of more than 9%, according to Marcus & Millichap. Although the market put in a

lackluster performance, it remains relatively stable and is being buoyed by recent investments. Our data shows that retail values increased 2.5% to \$118.47 per square foot between the first quarters of 2002 and 2003. However, rents fell slightly to \$16.74 per square foot during the same period.

#### Shopping Opportunities Blossom Downtown:

The opening of two new sports stadiums—Comerica Park for baseball and the Ford Field football stadium—plus the redevelopment of Rivertown have encouraged retail projects in the city. Ford Field, for instance, offers 100,000 square feet of retail space. Compuware's campus is generating shopping opportunities as well, with 600,000 square feet of retail space underway. The Renaissance Center will add 230,000 square feet of retail, with approximately 12 new retailers in what has been dubbed the Riverfront Shops. The latest urban newcomer, soon to break ground, is a \$20 million, three-level retail mall in a landmark but boarded-up department store on Grand River Avenue and Greenfield Road in northwest Detroit. Grand River Place mall calls for about 20 stores and is slated for completion by the end of this year.

**Wal-Mart Makes its Move:** Aside from the projects above, big-box development accounts for most of the remaining retail space under construction in metro Detroit. Wal-Mart is taking advantage of the opportunity created by Kmart's bankruptcy and subsequent closure of stores by planning nine stores here. The retail giant was previously dissuaded by the stronghold that Kmart, Target, and Meijer's had on the market. The Sterling Heights Super Kmart on Van Dyke and 14 Mile is the latest closure, joining eight other empty buildings there that had once been home to major retailers. In May, bankruptcy court Judge Susan Sonderby approved a plan to allow the transfer of leases and titles to Kmart stores, including one in Detroit, to a consortium comprised of Home Depot, Wal-Mart, and Kohl's. Twenty-four Kmart stores were included in the deal. Home Depot is expected to take over 15 of the stores. The other stores will be split up between the two remaining retailers.

Von Maur, a high-fashion department store chain, plans to open two area stores by Fall 2003—one in former Jacobson's space at Briarwood mall in Ann

## X. Market Analysis

### A. Market Snapshot (continued)

Arbor; the other in Laurel Park Place mall in Livonia. Jacobson's filed for bankruptcy in January and decided to liquidate in July.

A 165,000 square foot Lowe's home improvement store opened in February at Tel-Twelve shopping center in Southfield. This marks the completion of the first phase of the center's redevelopment, which includes an expanded 25,000 square foot DSW Shoe Warehouse, which opened in May of 2002, as well as two 13,000 square foot multi-tenant buildings.

**Big O Tires Expands its Territory:** Big O Tires, a local tire store chain, took advantage of the split between Penske Auto Parts and Kmart by opening six stores in the Detroit metropolitan area in March. By May, another six Big O stores had opened throughout the state in former Penske-Kmart locations. The affected communities include Warren, Rochester, Port Huron, Ann Arbor, Monroe, Waterford, St. Clair Shores, Sterling Heights, and Ypsilanti. Penske pulled its 600 auto repair stores out of Kmart after the company declared bankruptcy last year.

**Retail Sales Decrease:** Same-store retail sales in the Detroit-Ann Arbor-Flint area fell 6.5% fiscal year-to-date (February-March 2003), according to the International Council of Shopping Centers. This was better than the national decline of 7.6%. However, these numbers reflect department store sales only. Nationwide, overall consumer spending rose 0.4% in March, fueled largely by the purchase of big-ticket items like automobiles.

MI-Center Management bought the 260,000 square foot Shelby Town Center, located on Hall Road between Schoenherr and Hayes for \$26 million. This location has seen a resurgence in the last five years due to the expansion of Hall Road and hundreds of new homes built in the north Macomb County area. Ramco-Gershenson Properties Trust acquired Livonia Plaza shopping center (134,000 square feet) in January for \$13 million.

#### APARTMENT

Detroit's apartment sector ended 2002 with a 5.8% vacancy rate, according to Marcus & Millichap. With construction subdued, the overall vacancy rate

is projected to decline to about 5% in 2003. The multifamily market has managed to remain relatively stable, in spite of the out-migration of residents (the area has lost some 273,000 residents over the past decade) and a minimal 0.4% increase in the overall population between 2000 and 2002.

However, the Motor City remains a single-family market with a 2002 homeownership rate of 75.5% compared to the U.S. rate of 66.1%.

There were 530 multifamily permits (in structures with 5+ units) issued in the metro area during the first three months of 2003, a 4% decline compared to the same period in 2002. Single-family permits fell 3% to 2,600 during the same timeframe.

**Serious About Urban Living:** Detroit Renaissance Inc. is in the process of raising more than \$20 million to help developers finance condominiums and apartments in downtown Detroit. The loan fund is expected to spark the renovation or construction of 1,000 housing units with total private investment of \$160 million. The loans are expected to start later this year. They will be used for gap financing, which takes up the slack between development costs and projected revenue streams on rehabilitated downtown buildings. Some market observers question whether the demand level is high enough for all of the planned residential units, though. Detroit can't compare to cities like Chicago, where downtown doesn't shut down after 5 pm. Downtown Detroit has been saddled with image problems for several years due to high crime rates and a lack of retail and restaurants to entice new residents.

Some investors are banking on the city's resurgence, though by turning vacant, crumbling buildings into loft projects, while others construct new complexes. The largest apartment complex underway downtown is the 126-unit Heritage at Riverbend, next to Riverbend Plaza. Also, the Kales building at 76 West Adams Street is being transformed into 119 loft apartments and the Sterling Group is planning to convert two vacant buildings on Woodward Avenue into 90 residential units plus retail space. In May, Related Capital provided equity financing to the Preservation of Affordable Housing Inc. for the rehabilitation of two senior affordable housing complexes—the 280-unit Bell Maison East in Detroit and the 297-unit Oakland Park Towers in Troy.



## X. Market Analysis

### A. Market Snapshot (continued)

Other multifamily developments underway in the metro area include the 336-unit Cider Mill Village in Rochester Hills, the 180-unit Stratford Place in Brownstown, the 157-unit Merchants Row in downtown Detroit, and phases I & II of the 120-unit Woodbridge Estates apartments in downtown Detroit.

#### **Large Condo Project Planned for St. Clair**

**Shores:** A plan for a 900-unit luxury condominium complex is percolating for the Jefferson Beach Marina in St. Clair Shores. The massive project is part of an even larger development called City Place on the Shore, which calls for office buildings and retail space.

#### **HOSPITALITY**

The occupancy rate for hotels in greater Detroit was 56.2% in the first quarter of 2003, according to Smith Travel Research and Property & Portfolio Research. This is down from the 57.4% rate posted during the same period in 2002.

**Hotels Loom Large in the City:** The Hilton Garden Inn (198 rooms), which is under construction on Gratiot Road in Detroit, is fueling hopes for the addition of at least six other hotels in the downtown area over the next four years. Proposals being considered include 400-room hotels for each of the three casinos, a 350-room hotel in the Campus Martius district at Woodward and Monroe, 234 rooms at the vacant Pick Fort Shelby hotel at Lafayette and First, and a 230-room hotel at Ford Field. The city is also working with HUD to convert the vacant Book-Cadillac hotel into a 478-room lodge.

Other projects in the planning stages include a 125-room hotel/office complex at I-696 and Woodward Avenue in Royal Oak and a 140-room hotel that just received approval from the downtown Rochester planning commission.

**Network of Parks to Line the Riverfront:** At the close of 2002, the city of Detroit announced plans for a \$500 million development project along the Detroit River. A network of parks will be constructed along the river by 2006. The first phase, Tri-Centennial Park (the first urban park to be opened in the state in over 100 years) is already

underway. Two other parks will be connected with a network of bike and jogging trails. In addition to the "greening" of the riverfront, a new harbor for cruise ships and pleasure boats will open at the current St. Aubin Marina site. This phase will complete a three-mile network of parks that stretch from the Belle Isle bridge to Joe Louis Arena.

Detroit Metropolitan Wayne County Airport handled 32.5 million passengers in 2002, basically unchanged from 2001. However, this is down 9% from the record-breaking total (of 35.5 million) in 2000.

## X. Market Analysis

### B. Submarket Inventory/Vacancy

OFFICE*				
SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
<b>Downtown Detroit</b>	<b>12,009,484</b>	<b>21.5%</b>	<b>(61,229)</b>	<b>0</b>
<b>SUBURBAN</b>				
Farmington Hills	4,140,092	18.6%	4,037	0
I-275 Corridor	3,335,627	14.6%	27,938	33,000
Southfield	10,559,402	20.9%	(162,029)	44,400
Troy	11,556,351	18.5%	(46,101)	0
Birmingham/Bloomfield/ Bingham Farms	4,928,060	8.9%	(48,441)	0
Auburn Hills	1,339,745	14.1%	(4,946)	0
Dearborn	2,870,130	6.5%	(4,503)	0
Ann Arbor	2,692,282	8.3%	(26,627)	93,000
<b>Suburban Total</b>	<b>41,421,699</b>	<b>15.9%</b>	<b>(260,672)</b>	<b>170,400</b>
<b>MARKET TOTAL</b>	<b>53,431,173</b>	<b>17.2%</b>	<b>(321,901)</b>	<b>170,400</b>
*Reported as of first quarter 2003.				
<b>Source:</b> Paragon Corporate Realty Services (Farmington Hills).				

INDUSTRIAL *				
SUBMARKET	INVENTORY	AVAILABILITY	ABSORPTION	CONSTRUCTION
Macomb	90,959,173	8.2%	498,771	217,946
I-75 Corridor	75,455,848	8.1%	423,421	361,688
Southeast Oakland	13,405,030	6.8%	34,086	0
Northwest Suburbs	51,591,947	12.9%	420,700	440,193
Western Wayne	80,882,584	10.1%	526,595	82,460
Downriver	65,297,097	12.9%	369,667	608,300
Detroit	114,468,869	13.6%	248,726	0
Washtenaw	19,228,861	8.2%	195,008	0
<b>MARKET TOTAL</b>	<b>511,289,409</b>	<b>10.7%</b>	<b>2,716,974</b>	<b>1,710,587</b>
*Reported as of first quarter 2003. Availability includes sublease space. Absorption figures reflect sales and leasing activity.				
<b>Source:</b> CB Richard Ellis (Southfield).				

## Methodology

Metro Market Facts is based on property transaction and supplemental data compiled by the National Real Estate Index.

### Property Prices, Rents, and Cap Rate Data

The National Real Estate Index (INDEX) reports data on large income-producing properties bought and sold nationwide. The primary market makers include pension plans, real estate investment trusts, banks, savings and loans, commercial real estate brokers, appraisers, and investment program sponsors. The properties analyzed in the INDEX include office buildings, warehouse/distribution properties, retail centers, apartments, and hotels.

**Mean Prices:** The INDEX *Market Monitor* compiles and reports average transaction prices, rents, capitalization rates for Class A properties in local and regional markets throughout the United States, as well as prices for lower quality properties in many markets. All transactional data is calculated at the point of purchase/sale, reflecting values based on arm's length negotiations.

**Effective Gross Rents:** Except for retail, stated rents reflect all occupancy costs. Because reported rents include rent concessions and operating cost chargebacks, if any, reported rents are therefore **effective gross rents**. Reported *retail* rents include in-lying small shop space only and are *triple net*. *Warehouse rents* reflect lease rates for *warehouse space only*.

**Capitalization Rates:** Cap rates are determined from reported **actual net operating income**, either from property sales or from representative properties.

**Important:** Please note that because the rent figures represent quoted rates (after concessions) on space currently available (rather than the total rental income for all buildings surveyed), prices, rents, and cap rates may not always appear “internally” consistent. Reported price and rent trends are moderated by independent market surveys conducted by the INDEX research staff. Where there are too few transactions to constitute a statistically-significant sample or the underlying data for the transactions are incomplete, the performance of prototype properties is used to supplement the transaction data in deriving average values and cap rates.

**BUILDING NORMS:** In order to maintain quality data and monitor rental rate trends, specific “prototype” or “tracked” properties that conform to the norms discussed below have been identified in each market.

All tracked properties have no leases that are significantly higher or lower than the market rates for similar space. Buildings are of high quality, have current construction materials and techniques, and are aesthetically modern and attractive. The buildings are representative of local conditions, stabilized with modest vacancy, and ten years old or less. *Norms* for specific property types (and local market *prototypes*) reported in the INDEX are as follows:

**Office:** Ten stories or greater size, steel frame (or other high quality) construction, and a high quality modern exterior finish and glass application. Properties are located in the Central Business District (CBD) or, where noted, a submarket recognized as a primary office location.

**Warehouse/Distribution:** The INDEX employs space originally designed and used for true warehouse/distribution or storage as the property norm. Buildings are usually of tilt-up concrete construction, with flat roofs and a clear space span of at least 18 feet. No more than 20% of the total space is office build-out. The buildings have a minimum of 50,000 square feet and are located in a quality industrial park or other superior location.

**Retail:** A “neighborhood” or small community center, rather than an enclosed mall, is the property norm for shopping centers. The typical center is 75,000–225,000 square feet and contains at least one major anchor tenant, usually a high quality national or regional grocery store. Generally, 30%–50% of the space in prototype retail centers is occupied by anchor tenants. All construction is single story and of modern design, with a 3.5:1 parking-lot-to-developed-space ratio. Properties are located in established neighborhoods.

**Apartment:** Apartments are garden- or campus-style. Construction is standard stud frame with a stucco or other high quality exterior. Some decorative facia is applied, usually of brick, and the peaked roof is built on prefabricated trusses of material other than blacktop buildup. There is quality landscaping with some mature trees and shrubbery. Prototype apartment communities contain 100–300 units and have amenities appropriate for the geographic region. Amenities usually include a pool, tennis courts and/or health/fitness rooms. Tenants have covered parking for at least one car per apartment unit. Class B apartments are defined as properties built or substantively renovated from ten to twenty years ago.

**Note:** As for most statistical data services, previously-reported data is revised as needed to reflect the receipt of new data. Specifically, because a number of property transactions for any given quarter are reported too late to be included in that quarter's issue of the *Market Monitor*, the INDEX revises data released in prior issues if the values previously reported have changed significantly. We believe this approach helps assure the most reliable data over the long-term.

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## Nonproprietary Data Sources

**Sources:** In reporting property transaction prices, rents, and cap rates, the National Real Estate Index relies primarily on proprietary data sources, including an extensive property database.

The publishers supplement the proprietary property transaction data with non-proprietary information and background material in the areas of property stock, absorption, and vacancy trends. The National Real Estate Index recognizes the following distinguished firms, publications, and individuals for their contributions in these areas.

*CB Richard Ellis* (Industrial)

*Marcus & Millichap* (Retail, Apartment)

*Paragon Corporate Realty Services* (Office)

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## Other Metro Market Facts Reports

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