



Detroit

Vol. 39

Third Quarter 2003

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*

METRO MARKET FACTS

Detroit

Vol. 39



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.

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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

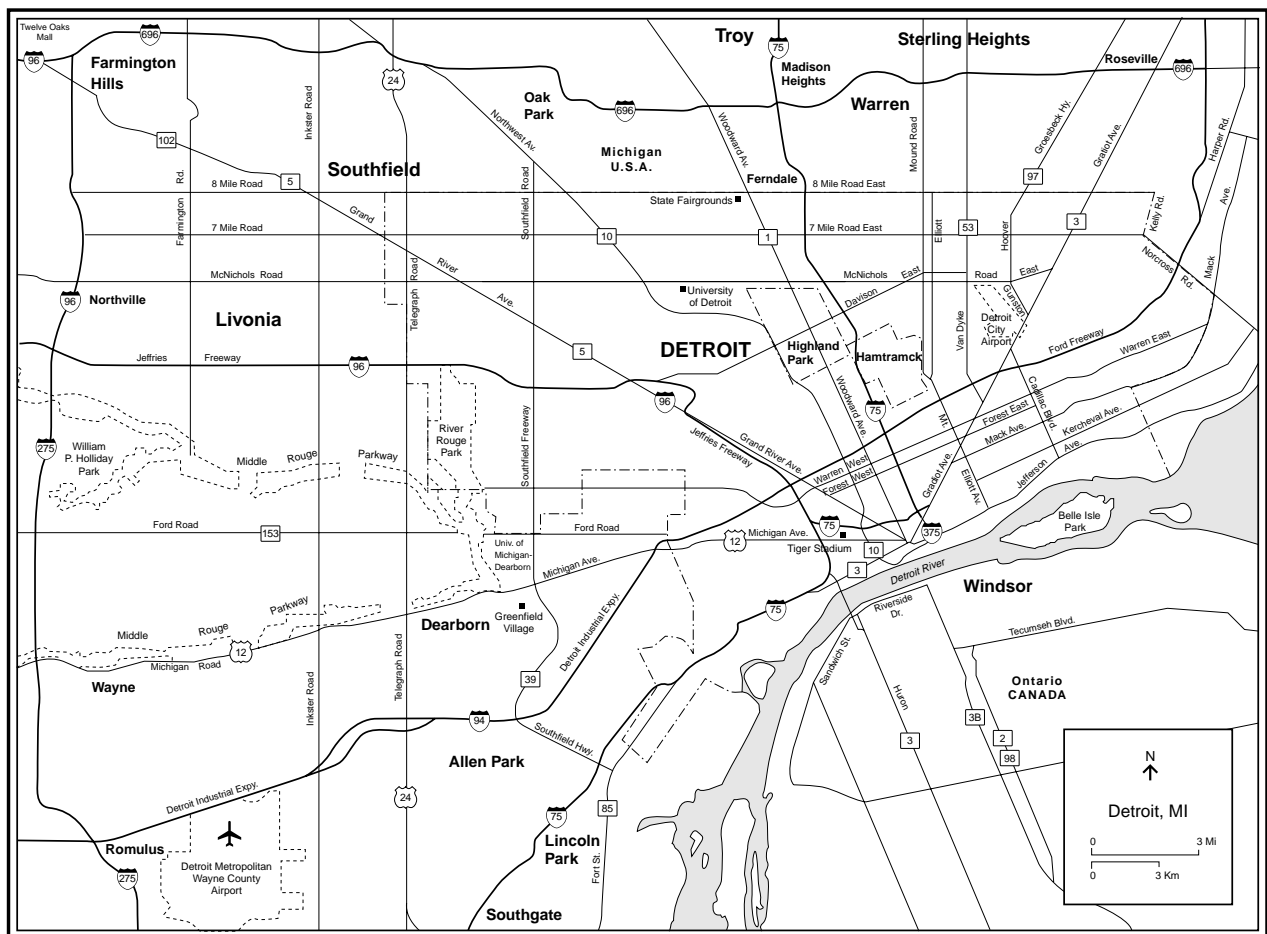


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I. Detroit: Snapshot

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

Job Growth (Loss) 12 Months (Ending in September 2003):	(1.2%)
Unemployment Rate (September):	7.1%
Metropolitan Population Growth (Loss), 1990–2002:	4.6%
Total Metropolitan Population, 2002	4.5 million

B. Third Quarter 2003 Property Price and Rent Trends

	CBD Office			Suburban Office			Warehouse			Retail			Apartment		
	AVERAGE			AVERAGE			AVERAGE			AVERAGE			AVERAGE		
	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
3rd Q. '03	\$112.41	\$18.67	9.2%	\$144.69	\$20.46	7.9%	\$40.96	\$5.18	9.4%	\$121.48	\$16.81	9.0%	\$80.08	\$10.74	8.4%
2nd Q. '03	112.13	18.98	9.3	144.32	20.87	8.0	41.20	5.24	9.4	120.30	16.85	9.1	79.70	10.69	8.4
3rd Q. '02	114.19	20.54	9.5	143.98	21.94	8.2	41.24	5.59	9.7	116.50	16.89	9.4	79.87	10.95	8.5

Source: National Real Estate Index's *Value Monitor* and *Rent Monitor*.

II. **Detroit: Demographics**

A. **Metro Population**

	<u>Detroit</u>	<u>United States</u>
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**

County	2002 Population	% Growth 1990-2000	% Growth 2000-2002
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**

	2002 Population	Actual % Growth 1990-2002	Ranking*	Projected % Growth 1995-2025**	Ranking*
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	2002 Population	% Growth 1990-2000	% Growth 2000-2002
Canton*	81,300	35.2	5.7
Clinton*	96,000	11.5	0.2
Dearborn	97,800	9.8	0.7
Dearborn Heights	58,000	(4.0)	(0.5)
Detroit	925,100	(7.8)	(2.4)
Farmington Hills	81,400	10.1	(0.8)
Livonia	100,300	(0.3)	(0.2)
Macomb*	59,500	125.8	15.9
Pontiac	66,100	(6.5)	(0.5)
Redford*	51,300	(5.1)	(0.7)
Rochester Hills	68,600	11.4	(0.5)
Royal Oak	59,200	(6.5)	(1.4)
Shelby*	66,900	34.7	2.1
Southfield	77,900	3.5	(0.6)
St. Clair Shores	62,700	(7.6)	(0.6)
Sterling Heights	126,100	5.8	1.2
Taylor	65,900	(6.9)	0.0
Troy	80,900	11.2	(0.2)
Warren	137,700	(4.7)	(0.5)
Waterford*	73,600	10.0	0.4
West Bloomfield*	65,300	19.2	0.5
Westland	86,300	2.6	(0.4)

*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:	36.4	35.8
% 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	UNITED STATES	15.9
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	Detroit	4.6
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
Detroit	93.8	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	Detroit	(272.8)
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 September):	(1.2%)
Total Number of Net New Jobs, 12 Months (Ending in September):	(25,600)
% Unemployed, September 2003:	7.1%
% Unemployed, 12 Months Before:	5.8%

National

Employment Growth (Loss)—% 12-Month (Ending in September):	(0.4%)
% Unemployed, September 2003:	5.8%
% Unemployed, September 2002:	5.4%

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

Sector	12-Month % Growth		% of Total Employment	
	Metro	National	Metro	National
Services	(0.8)	0.4	26.2	28.6
Business Services	(0.3)	0.7	18.0	12.5
Financial Activities	0.5	1.7	5.6	6.1
Government	(2.3)	(0.6)	11.2	16.3
Retail Trade	1.1	(0.3)	11.1	11.4
Wholesale Trade	(1.4)	(1.5)	4.7	4.3
Transportation/Public Utilities	(5.3)	(1.8)	3.1	3.6
Manufacturing	(3.4)	(4.2)	15.7	11.2
Construction	(1.7)	1.7	4.6	5.4

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".

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

C. Metropolitan Total Employment Gain (Ten-Year)

Job Growth			
(% Gain/Loss, September 1993-September 2003)			
Las Vegas	78.7	Portland	18.4
Phoenix	49.2	Minneapolis-St. Paul	17.1
Riverside-San Bernardino	46.4	Seattle	17.0
West Palm Beach	46.2	Memphis	16.8
Austin	44.3	UNITED STATES	16.5
Orlando	41.6	Miami	15.1
Atlanta	35.8	Kansas City	14.4
Tampa-St. Petersburg	35.7	Nassau-Suffolk	13.9
Sacramento	32.7	Baltimore	13.8
Fort Lauderdale	32.3	Indianapolis	13.5
Raleigh-Durham	31.8	Philadelphia	13.2
San Diego	29.3	Cincinnati	13.1
Jacksonville	28.4	Boston	11.4
Dallas-Ft. Worth	28.2	Greenville-Spartanburg	10.6
Salt Lake City	27.0	Newark-No. New Jersey	10.6
Charlotte	26.4	Chicago	9.5
Houston	25.9	Detroit	8.5
Orange County	25.2	St. Louis	8.1
Denver	25.1	Los Angeles	7.7
Albuquerque	23.9	New York	7.6
Nashville	23.9	San Jose	7.5
Washington	21.2	San Francisco	6.7
Oklahoma City	20.8	Milwaukee	5.3
Oakland	19.2	Cleveland	5.2
Columbus	18.8	Honolulu	2.7
Central New Jersey	18.8	Hartford	2.0

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

	Average Annual Wage*	National Rank	% Workers in Union	National Rank
Michigan	\$34,800	3	21.1%	4
U.S. Average	\$28,190	--	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 (2002); 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—
(2003)

	<u>Rate*</u>	<u>Index**</u>	<u>2003 Rating***</u>	<u>2002 Rating</u>
Michigan	\$3.94	1.123	33	26

*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 \$3.51.

***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: U.S. Department of Labor.

IV. **Detroit: Education**

A. Educational Levels

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

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

B. Educational Expenditures and Salaries

	Per-Pupil Expenditures	Rank	Teacher Salaries	Rank	Student: Teacher Ratio	Rank
Michigan	\$8,343	15	\$52,676	4	17.3	10
U.S. Average	\$7,548	--	\$44,683	--	15.9	--

These figures represent statewide (and national) averages and are based on actual enrollment. 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 2002*.

IV. Education (Cont.)

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.

D. University R&D Expenditures

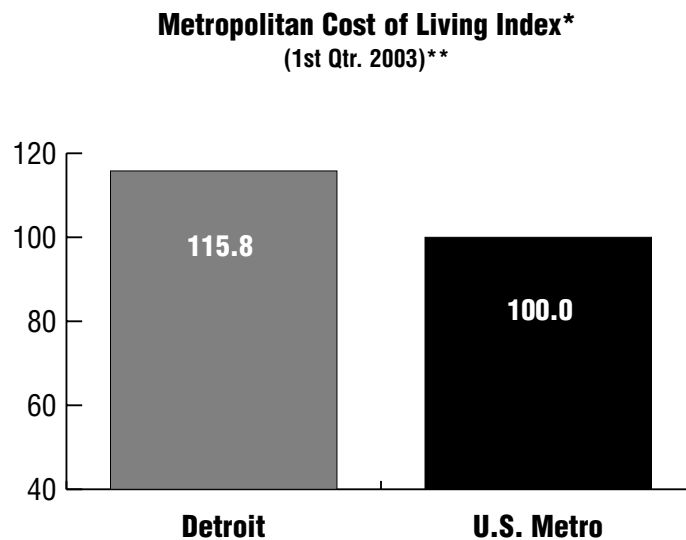
	Federal R&D Expenditures (\$\$ in mil.)	% of Leading School*	Total R&D Expenditures (\$\$ in mil.)	% of Leading School*
Oakland Univ.	\$2.5	1.2	\$4.2	1.6
Wayne State Univ.	\$23.2	10.8	\$51.5	19.2

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

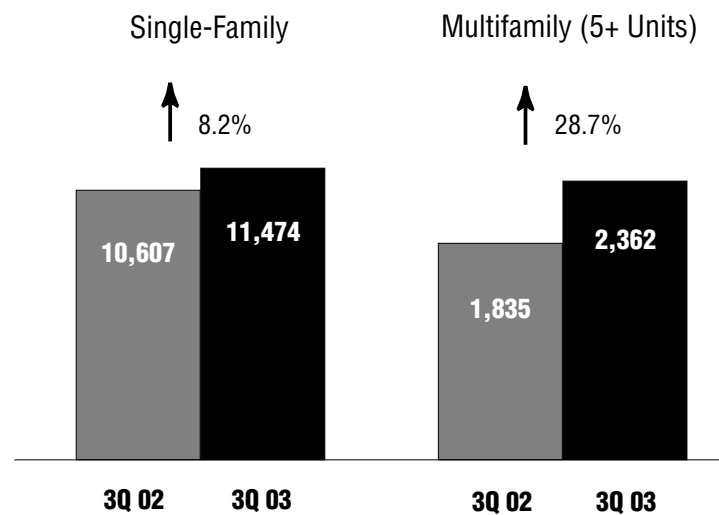


*The ACCRA Cost of Living Index measures relative prices for consumer goods and services in participating areas. Housing is an important component of the Index. The average for all participating areas is 100. Each area's number is read as a percentage of that average.

**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



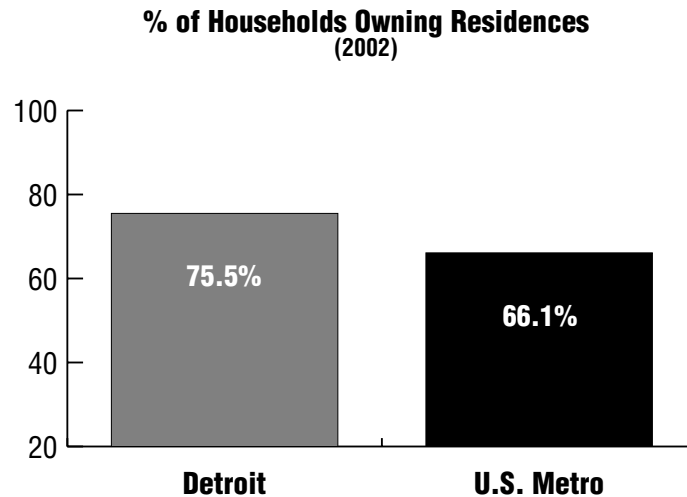
Local Data: Figures represent total permits granted year-to-date in the Detroit PMSA.

U.S. Data: The percent changes in single-family and multifamily permits nationwide were 7.8% and (1.6%), respectively.

Source: U.S. Census Bureau.

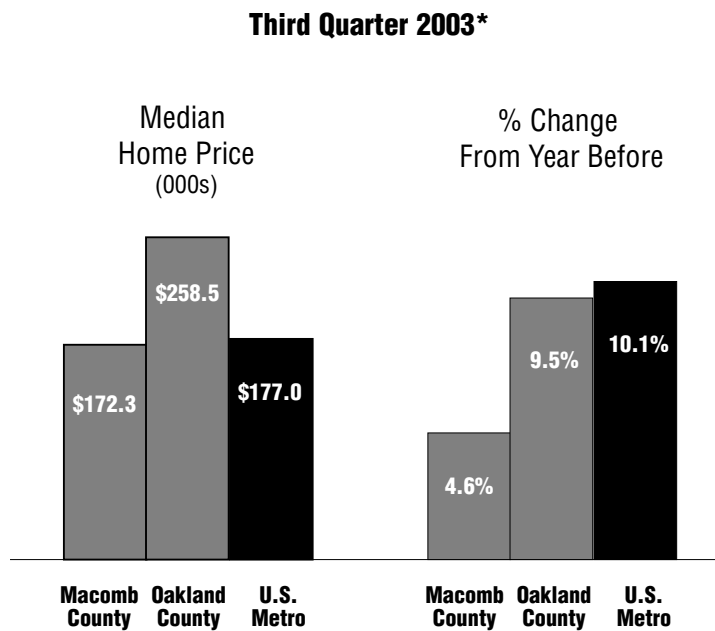
V. **Housing & Related Costs (Cont.)**

C. **Homeownership**



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

D. **Single Family Home Costs**



*Local data is year-to-date through September 2003; U.S. metropolitan data is for the third quarter.

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

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

E. **Local Utility Costs**

	<u>Commercial Electric</u> (10,000 kwh per mo.)	<u>Industrial Electric</u> (650,000 kwh per mo.)	<u>Residential Total</u> (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.

F. **Health Insurance Coverage & Costs**

	<u>% of Pop. Covered by Health Insurance</u>	<u>Rank</u>	<u>Annual Per Capita Health Care Expenditures</u>	<u>Rank</u>
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).

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

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.

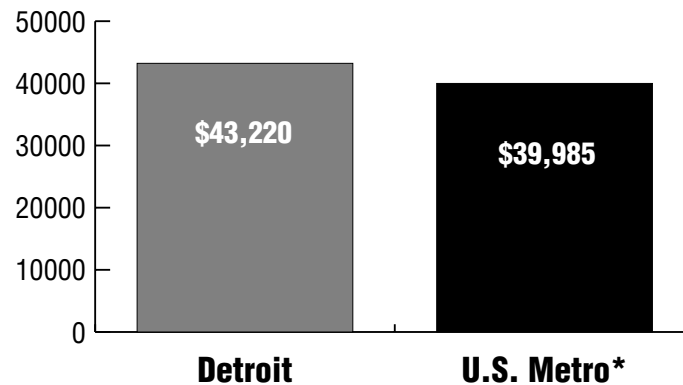
*This is the basic rate. It does not include applicable surcharges.

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

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

VI. Detroit: Other Economic Indicators

A. Metropolitan Median Household Income



*The U.S. Metro figure represents the median income of 323 metropolitan areas; \$38,035 is the median income nationwide.

Market Rank: 23*

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

Source: Sales & Marketing Management: 2003 Survey of Buying Power.

B. Metropolitan Retail Sales Trends

Metropolitan Retail Sales -- % Change (FYTD September 2003)

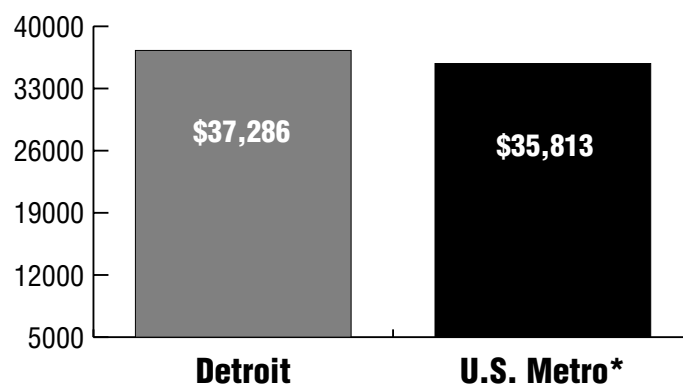
Detroit-Ann Arbor-Flint	(3.5%)
National	(3.0%)

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.

VI. Other Economic Indicators (Cont.)

C. Metropolitan Average Retail Sales



*The U.S. Metro figure represents the average retail sales per household of 323 metropolitan areas; \$34,036 is the average retail sales per household nationwide.

Market Rank: 28*

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

Source: Sales & Marketing Management: 2003 Survey of Buying Power.

D. E-Commerce Retail Sales

Second Quarter 2003 (\$\$ in billions)

	Total Retail Sales	E-Commerce Retail Sales	% of Total
U.S.	\$858.8	\$12.5	1.5
Prior Quarter	\$772.2	\$11.9	1.5
Year Ago	\$818.6	\$9.8	1.2

Source: U.S. Department of Commerce.

VI. Other Economic Indicators (Cont.)

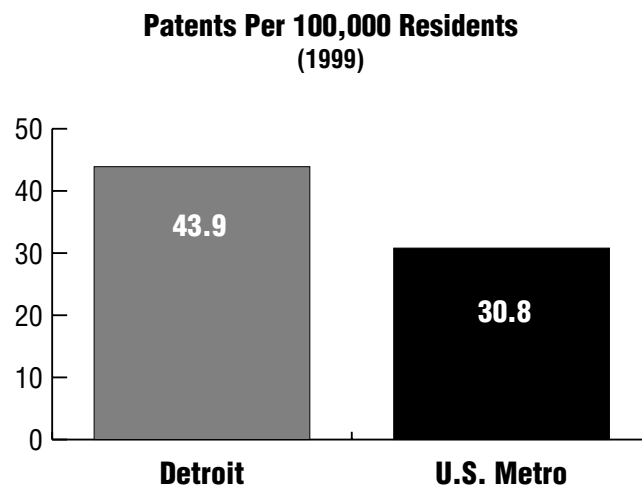
E. High-Tech Industry Employment

	Number of Establishments (2000)	Rank	Number of Employees (2001)	Rank	High-Tech Employment Growth (2000-2001)	Rank
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.

VI. Other Economic Indicators (Cont.)

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 132 national and 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.

H. International Trade

International Trade Volume

	<u>Import</u>	<u>Export</u>	<u>Total</u>
Detroit Customs District			
January-August 2003 (\$\$\$ in billions)	\$64.2	\$58.2	\$122.4
% Change (from year ago)	4.1%	2.6%	3.4%
Total U.S.			
January-August 2003 (\$\$\$ in billions)	\$817.5	\$469.7	\$1,287.2
% Change (from year ago)	8.3%	2.4%	6.0%

Source: Dept. of Commerce, Foreign Trade Division.

VI. Other Economic Indicators (Cont.)

I. Gross State Product

	<u>1991</u>	<u>2001</u>	<u>% Change 1991-2001</u>
Michigan Ranking*	9	9	--
Michigan Total (\$\$\$ in billions)	\$219.8	\$297.5	35.3%
U.S. Total (\$\$\$ in billions)	\$6,615.7	\$9,335.4	41.1%

*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.

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.

VI. Other Economic Indicators (Cont.)

K. Fortune 500 Companies

	<u>2000</u>	<u>2001</u>	<u>2002</u>
# of Fortune 500 Firms in Metro Area	15	17	17
Ranking*	7	5	6

*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, © 2003, Time Inc. Metro area totals compiled by Property & Portfolio Research, (617) 426-4446, www.ppr-research.com.

VII. Detroit: Taxes and Expenditures

A. State Tax Rates/Employer Expenses

Tax	Rate
Business Taxes:	
Corporate Income/Franchise	1.9%*
Unemployment Insurance	2.7%
Individual Taxes:	
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 2002-June 2003 (\$\$ in millions)

	<u>Personal Income</u>	<u>Corporate Income</u>	<u>Sales</u>	<u>Total*</u>	<u>% Change from Year Ago</u>
Michigan	\$5,916	\$1,898	\$7,745	\$20,068	0.1%
U.S.	\$180,967	\$27,515	\$176,396	\$455,096	2.3%

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*.

VII. Taxes and Expenditures (Cont.)

E. Federal Spending Per Capita

	<u>Total Federal Spending</u>	<u>National Rank*</u>	<u>% Change from Year Ago</u>
Michigan	\$5,563	45	7.1%
Macomb County	\$5,946	--	(4.1%)
Oakland County	\$3,910	--	4.4%
Wayne County	\$6,232	--	6.4%
U.S. Average	\$6,527	--	4.1%

*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 2002*.

VIII. Detroit: Quality of Life

A. Crime Rate

Crime Per 100,000 Inhabitants—2002

	<u>Violent</u>	<u>% Change from 2001</u>	<u>Property</u>	<u>% Change from 2001</u>
Detroit	705.0	(5.2)	3,592.9	(6.6)
U.S. Metro Average	545.6	(2.6)	3,863.5	(1.3)

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

B. State Livability Index

	<u>2003 Index Rating*</u>	<u>2003 Rank**</u>	<u>2002 Rank**</u>
Michigan	24.79	28	23

*The livability index rating reflects an average of ratings for 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 scale is 1 to 50, with 50 being the best possible.

**The ranking is based on all 50 states, with the #1 ranking representing the highest livability rating.

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

VIII. Quality of Life (Cont.)

C. Climate

Average Temperature (Fahrenheit)

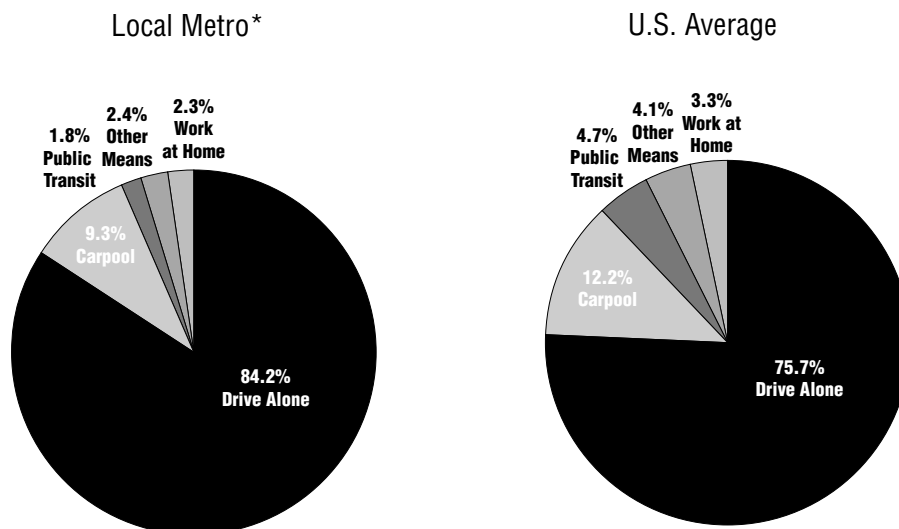
	<u>High</u>	<u>Low</u>
Winter	31	16
Spring	58	37
Summer	82	59
Autumn	63	41

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.

VIII. Quality of Life (Cont.)

E. Congestion Index

	Congestion Cost Total (\$\$ in millions)	Congestion Cost Per Person	Wasted Fuel Per Person (gallons)	Delay Per Person (hours)
Detroit	\$2,107.0	\$523	43	27
Current Ranking*	8	19	17	18
Previous Year's Ranking	8	18	16	19

*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 2001. 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, *2003 Urban Mobility Report*, (979) 845-1713, <http://mobility.tamu.edu>.

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 Rates¹

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

	CBD Office AVERAGE			Suburban Office AVERAGE			Warehouse AVERAGE			Retail AVERAGE			Apartment AVERAGE		
	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
National	\$211.55	\$28.41	7.6%	\$179.49	\$22.13	7.8%	\$45.46	\$5.20	8.5%	\$131.07	\$17.47	8.3%	\$111.01	\$14.00	7.3%
Midwest Region	152.56	22.92	8.2	146.12	19.70	8.2	39.67	4.80	8.9	113.87	15.58	8.7	86.08	11.31	7.4
3rd Q. '03	\$112.41	\$18.67	9.2%	\$144.69	\$20.46	7.9%	\$40.96	\$5.18	9.4%	\$121.48	\$16.81	9.0%	\$80.08	\$10.74	8.4%
2nd Q. '03	112.13	18.98	9.3	144.32	20.87	8.0	41.20	5.24	9.4	120.30	16.85	9.1	79.70	10.69	8.4
3rd Q. '02	114.19	20.54	9.5	143.98	21.94	8.2	41.24	5.59	9.7	116.50	16.89	9.4	79.87	10.95	8.5

B. Other Property Classes – Most Recent Period

Property Sector	Price Per SF	Property Sector	Price Per SF
Class B Warehouse	\$32.31	Class A Flex/Business Campus	\$86.54
Class B Apartment	\$52.38	Class B Flex/Business Campus	\$65.28

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

IX. Detroit: Current Prices, Rents, and Cap Rates¹

C. Local Market Rankings

3rd 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	46	29	27	30	30	33
Rents	44	27	20	27	27	28

*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.

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>
<u>Metro</u>						
Prices	(1.6%)	0.5%	(0.7%)	4.3%	0.3%	0.6%
Rents	(9.1%)	(6.8%)	(7.3%)	(0.5%)	(1.9%)	(2.6%)
<u>National</u>						
Prices	(1.2%)	(0.5%)	3.3%	7.0%	4.1%	4.8%
Rents	(7.1%)	(7.0%)	(4.1%)	0.3%	(2.3%)	(1.4%)

¹ **Source(s):** NREI *Value Monitor* and *Rent 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

Job Drain Continues

Metropolitan Detroit's employment base continues to erode. Approximately 13,900 net jobs were eliminated during the 12 months ending in June 2003. However, this is significantly lower than the 39,000 positions that were cut during the previous 12-month period. The unemployment rate increased from 6.6% in June 2002 to 7.6% in June 2003.

Manufacturing and TPU Sectors Lead Overall Decline: The manufacturing and transportation/public utilities (TPU) sectors experienced the largest decreases in employment, both shedding 5,900 jobs. Ford set a goal to reduce costs by \$500 million this year, but has already surpassed that figure. Its new target is \$2.5 billion. In August, the automaker announced plans to cut around 21,000 jobs from its blue-collar workforce, reducing it to 73,000 from the current 94,000.

Collins & Aikman, a manufacturer of cockpit modules and automotive floor and acoustic systems, is cutting 750 jobs, many of them white-collar jobs in Michigan. The Dow Chemical Company, based in Midland, plans to cut 415 more jobs on top of the 854 it has eliminated since late 2002. Baxter International will close a Rochester plasma processing facility, eliminating 225 jobs. Takata-Petri, a Port Huron manufacturer that makes steering wheels and safety mechanisms, will close two assembly facilities and shed up to 50 jobs by the end of the year.

Retail trade cut 3,200, wholesale trade shed 2,300 positions, and government eliminated 800 jobs. Professional/business services (newly established as a separate labor category) and financial activities both lost 300 positions.

Two major employment categories posted net gains for the 12-month period. The broader service sector grew by 3,800 jobs and construction added 1,000 to its payroll.

Ford, General Motors, and DaimlerChrysler are the largest employers in the region. Fourth and fifth on the list are the Henry Ford Health System and Detroit Medical Center. However, the latter plans to eliminate 1,000 of its 13,000 current jobs.

OFFICE

Metropolitan Detroit's office market saw its vacancy rate tighten from 17.2% to 16.6% between the first and second quarters of 2003, according to Paragon Corporate Realty Services. Year-over-year, the current rate represents an increase of 1.5 percentage points. Downtown Detroit had the highest vacancy rate (21.5%). Dearborn posted the lowest rate at 6.6%. Net absorption for the first half of 2003 totaled 36,000 square feet. Most analysts estimate sublease space at about two million square feet.

Space Flows Back into Farmington Hills: In June, the new one million square foot Compuware headquarters celebrated its grand opening. The software maker moved 4,100 employees from Farmington Hills to the new campus at Woodward and Monroe. As a result of the move, 235,000 square feet were returned to the Farmington Hills submarket. Also, CitiMortgage plans to vacate 260,000 square feet in Farmington Hills with its move to Southfield. Kojaian delivered a 325,000 square foot complex overlooking I-696 at the Farmington Hills Corporate Center. Earlier in the year, Allstate Insurance signed for 100,000 square feet in the building. The Farmington Hills submarket has seen its vacancy rate jump from 12.4% one year ago to its current rate of 18.8%.

Downtown Detroit continues its renewal efforts. General Motors is in the process of upgrading the Renaissance Center through a \$500 million overhaul. It recently convinced EDS to consolidate many of its operations 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.

Banking Moves: 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. MBT Financial, the parent company of Monroe Bank & Trust, a commercial and retail bank with 23 branches, plans to build a headquarters for its Downriver operations on the site of the

X. Market Analysis

A. Market Snapshot (continued)

former Coca-Cola bottling plant in Wyandotte. The establishment of a headquarters Downriver should further the company's plans to expand into southern Wayne County and compete with larger banks. The 10,000 square foot building is scheduled for completion in mid-2004.

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.

In leasing activity, CitiMortgage soaked up 113,000 square feet in the Galleria Officecentre 100 in Southfield, State Farm Insurance committed to 30,000 square feet in the Troy Grande Office Centre, and International Transmission took 23,000 square feet in Orchard Hill Place in the I-275 Corridor.

INDUSTRIAL

The industrial market in greater Detroit saw availability drop from 10.7% to 10.1% between the first and second quarters of 2003, according to CB Richard Ellis. The current rate represents an increase, though, from 9.4% one year ago. Detroit posted the highest vacancy (13.5%). Washtenaw had the lowest rate (5.3%). Sales and leasing activity totaled 3.2 million square feet, a huge decrease from the 12.1 million square feet of activity posted in 2002's second quarter. The Macomb and Western Wayne submarkets saw the most transaction activity. Construction totaled 1.9 million square feet at the end of the second quarter of 2003, compared to 4.5 million square feet one year ago.

Large Warehouse Completed in Detroit:

Developers are proceeding with caution. One of the largest new projects, a 500,000 square foot warehouse on East Jefferson Avenue in Detroit, was delivered in April. Work continues on a 176,000 square foot mini-storage facility on West Marshall Street in Ferndale, about a half mile north of the Detroit border. The Nolan Brothers of Texas paid \$527,000 to clean up pollution on the site. The original building, which housed Excelda, a packager of lubricants and other automotive products, was later used as a warehouse for carnival toys. It is one of the first redevelopment projects in Ferndale in decades.

Nissan Expands: Nissan Technical Center North America (NTCNA) has 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.

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.

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. Recently, a deal was struck with a residential real estate developer to buy about half the land, with part of the proceeds used to create a green space. Ford donated up to 14 acres to the Packard Motor Car Foundation, which plans to convert the original plant into a 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.

Energy Center Underway at Wayne State: The development of a 40,000 square foot NextEnergy Center at the University Research and Technology Park, owned by Wayne State University, is the first step in an ambitious plan to 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.)

A. Market Snapshot (continued)

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 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.

Fifteen developers have shown interest in renovating an old Eaton Corp. plant on the outskirts of downtown Ann Arbor. Eaton, a manufacturer of fluid power systems, is closing the 128,000 square foot facility next year and plant employees are being relocated to different facilities. The developers are being asked to include the original building in their new plans. The most likely plan is for residential, although the property is now grandfathered in as light industrial. The city of Ann Arbor wants to continue residential development nearby.

Tecumseh Products, a manufacturer of small engines, bought a 32,000 square foot high-tech building on Research Park Drive in Ann Arbor and Custom Stoneworks purchased a 23,000 square foot industrial property in Livonia, both for undisclosed prices.

Exports/Imports Up: The value of exports handled by the Detroit Customs District rose 5% to \$41 billion during the first five months of 2003 compared to the same period in 2002. Imports also increased 5% to \$38 billion.

RETAIL

Greater Detroit's vacancy rate for retail space increased just one-tenth of a percentage point from the end of last year to 8.4% in early 2003, according to Marcus & Millichap. Vacancy is expected to drop to 8.2% later this year.

Leases Signed for Compuware Space: Along with high hopes for increased business generated by Compuware's campus, the new facility is also creating shopping opportunities with 600,000 square feet of retail space. Borders will be one of the first retailers in the new facility with an 8,000 square foot bookstore. The store will be about one-third the size of a typical Borders Books & Music. Also,

Compuware announced that it had signed a lease with the Hard Rock Cafe, which is slated to open an 8,200 square foot restaurant next year. The company is working on bringing at least 11 other retailers into the complex.

More retail opportunities are surfacing along the downtown riverfront in The Renaissance Center. The Riverfront Shops will add 230,000 square feet of retail space consisting of approximately 12 retailers. The latest newcomer to the city will be 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, expected to break ground this Fall, calls for about 20 stores and restaurants, a virtual reality experience, a fitness center, and outdoor JumboTron monitors. Over 500,000 residents live within a five-mile radius of the planned 120,000 square foot retail center. Grand River Place hopes to open its doors to the public in Spring 2004.

Speaking of the river, SmithGroup, the local architectural firm that created some of the Detroit area's most prominent structures, has been chosen to design a network of parks lining the riverfront called Tri-Centennial Park. The 527-acre development area is two-thirds the size of New York's Central Park. If all goes well, construction is expected to get underway next year, targeting a 2006 completion date. 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.

Big Boxes on the Move: 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. 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

A. Market Snapshot (continued)

the stores. The other stores will be split up between the two remaining retailers. Lowe's is also expanding in the metro. It is building a 174,000 square foot store in Clinton township, a 160,000 square foot location in Sterling Heights, and another 174,000 square foot store in Harper Woods.

Farmer Jack is spreading its wings with a 50,000 square foot supermarket in Dearborn Heights and a 48,000 square foot store in Milford. In April, the grocer opened a 70,000 square foot location on East Jefferson and St. Jean in Detroit.

Von Maur, a high-fashion department store chain, plans to open two area stores this Fall in former Jacobson's space at Briarwood mall in Ann Arbor (100,000 square feet) and in Laurel Park Place mall in Livonia (150,000 square feet). Jacobson's filed for bankruptcy in January and decided to liquidate in July.

Investors Remain Interested, but Closings have Slowed: Certain submarkets within Detroit continue to outperform. But while transaction velocity has remained steady, the ratio of properties listed to properties sold has increased dramatically. One of the recent transactions to make it off paper was Ramco-Gershenson Properties Trust's purchase of the Clinton Point shopping center (247,000 square feet) for \$11.5 million.

Retail Sales Decrease: Same-store retail sales in the Detroit-Ann Arbor-Flint area fell 5.5% fiscal year-to-date (February-June 2003), according to the International Council of Shopping Centers. This was slightly worse than the national decline of 5.1%.

APARTMENT

The vacancy rate for apartments in metropolitan Detroit stood at 6.8% in the second quarter of 2003, up 1.1 percentage points from the second quarter of 2002, according to Marcus & Millichap. The rate is projected to rise to 7.2% by mid-2004. Despite the softening, construction is on the rise. There were 1,400 multifamily permits (in structures with 5+ units) issued in the metro area during the first half of 2003, an 18% increase compared to the same period in 2002. Single-family permits rose 6% to 7,000 during the same timeframe.

City Raises Funds for Residential Construction:

A total of \$38 million in two separate funds has been raised to help finance multifamily and commercial projects in Detroit. The \$20 million housing fund is designed to facilitate residential development and significantly increase downtown Detroit's full-time population. Some market observers question whether the demand level is high enough for all of the planned units, though. Unlike cities such as Chicago, Detroit's downtown (with the exception of a few areas) shuts down after 5 pm. This is mostly due to Detroit's image problems following several years of high crime rates and a lack of retail and restaurants to entice new residents. But the winds of change are blowing, prompting some investors to embark on conversions of vacant, crumbling buildings into loft projects, while others are constructing 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.

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, and phases I & II of the 120-unit Woodbridge Estates apartments. The latter two projects are in downtown Detroit.

Massive Condominium Project Proposed for St.

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

Former Ford Facility Set for Residential Space:

As mentioned in the Industrial section, Ford Motor Land has yet to decide whether it will sell the

X. Market Analysis

A. Market Snapshot (continued)

remainder of the Packard site in Shelby township or work with a development team to create a mixed-use project. In the meantime, a deal has been struck with a residential real estate developer to buy about half the land, with part of the proceeds to be used to create green space.

HOSPITALITY

The hotel occupancy rate in greater Detroit was a dismal 53% in the second quarter of 2003, down from 54.7% during the second quarter of 2002, according to PKF Consulting. The average daily room rate remained the same at \$82.

Downtown Stocks up on Hotels: Detroit has two and a half years to prepare for Super Bowl XL at Ford Field. Millions of public and private dollars will pour into an effort to reverse years of deterioration and improve Detroit's look before the big event. One pressing need is to bulk up on the number of hotels 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. Plans have also been unveiled for the redevelopment of the historic Book Cadillac hotel in the CBD. Literally saved from the wrecking ball, the new hotel will be renamed the Renaissance Book Cadillac. An upscale version of the Marriott International, it will feature 483 rooms and 76 high-end apartments, plus a parking garage. Other projects in the planning stages in the metro include a 125-room hotel/office complex at I-696 and Woodward Avenue in Royal Oak and a 140-room hotel in Rochester.

Greektown Casino Comes Off the Starting Block: Plans to build a permanent Greektown Casino moved closer to reality in June when the Detroit City Council sold an unused Public Lighting Department building to the gambling hall's owners. It means Greektown Casino can begin

demolition, allowing it to catch up to the MGM Grand and MotorCity casino developments. Greektown plans to build a permanent 26-story casino, 400-room hotel, 1,500-seat theatre, and additional restaurants on a seven-acre site bounded by I-375, Gratiot, St. Antoine, and Clinton. The casino calls for 100,000 square feet of gaming space, about a third more space than at its current building on Lafayette Boulevard. Construction cannot begin until a six-year-old lawsuit filed by the Lac Vieux Desert Band of Lake Superior Chippewa Indians is resolved, though. The suit challenges the constitutionality of the Detroit Casino Competitive Selection Process and the Michigan Gaming Control Revenue Act, and the issuance of the casinos' suitability certificates.

The power outage that struck New York City and parts of Detroit, Cleveland, and Canada in August shut down Detroit's casinos for the first time in their four-year history. They are not likely to make up for the missed business. The three casinos each take in about \$1 million a day.

Passenger Traffic Increases: Detroit Metropolitan Wayne County Airport handled 15.8 million passengers in the first half of 2003, up 1.5% from the first half of 2002.

X. Market Analysis

B. Submarket Inventory/Vacancy

OFFICE*				
SUBMARKET	INVENTORY	VACANCY	ABSORPTION	CONSTRUCTION
Ann Arbor	3,881,135	10.0%	(18,124)	94,000
Auburn Hills	941,906	20.0%	(2,500)	0
Birmingham/ Bloomfield	3,728,872	18.2%	(4,821)	0
Dearborn	3,488,413	16.7%	(144,135)	0
Farmington	5,758,327	20.9%	7,689	33,000
I-275 Corridor	4,581,901	16.3%	65,254	82,750
Rochester	676,261	18.4%	16,891	0
Southfield	15,908,836	25.1%	80,177	44,400
Troy	13,797,218	21.4%	(16,041)	300,000
Macomb	1,152,296	9.6%	3,452	48,768
Other	1,967,521	20.9%	(17,703)	0
Detroit	14,098,868	24.5%	316,235	0
MARKET TOTAL	69,981,554	21.2%	286,374	602,918
*Reported as of third quarter 2003. Absorption figures reflect sales and leasing activity.				
Source: CB Richard Ellis (Detroit).				

INDUSTRIAL *				
SUBMARKET	INVENTORY	AVAILABILITY	ABSORPTION	CONSTRUCTION
Macomb	91,048,988	6.5%	668,080	194,844
I-75 Corridor	75,698,604	8.4%	461,319	307,438
Southeast Oakland	13,428,297	5.9%	112,118	0
Northwest Suburbs	52,906,222	14.1%	392,523	653,698
Western Wayne	81,848,763	11.7%	728,081	262,464
Downriver	68,111,291	13.6%	221,746	297,551
Detroit	114,709,631	14.2%	66715	0
Washtenaw	19,228,922	4.9%	76,699	115,000
MARKET TOTAL	516,980,718	11.0%	2,727,281	1,930,995
*Reported as of third quarter 2003. Availability includes sublease space. Absorption figures reflect sales and leasing activity.				
Source: CB Richard Ellis (Detroit).				

Methodology

The National Real Estate Index (INDEX) maintains proprietary databases and reports benchmark averages for large income-producing properties leased, bought and sold nationwide.

Property Prices, Rents, and Cap Rate Data

The price, rent, and cap rate data that appear in *Metro Market Facts* are from the INDEX's *Value Monitor* and *Rent Monitor* publications.

The INDEX *Value Monitor* compiles and reports average sale prices and capitalization rates for Class A properties in 58 local and seven regional markets throughout the United States. Prices and capitalization ("cap") rates for the Class A CBD (i.e., "downtown") office, suburban office, warehouse/distribution, anchored unenclosed shopping center, and apartment sectors are reported. In addition, Class B apartment values and cap rates are compiled in all markets as well. The INDEX *Rent Monitor* compiles and reports average rents in the same market areas and property sectors as its *Value Monitor* counterpart.

Value Monitor Property Prices: Generally, the average property prices that appear for each of the 58 regularly-reported local markets in the *Value Monitor* (and *Market History Report*) are derived from current or historical property sales transactions in the underlying local markets. Nationwide, the National Real Estate Index typically compiles more than 1,500 transactions of large improved properties each period, many of which are utilized to formulate local market benchmark prices. In any given period, a number of local market property prices are derived solely from property sales. Typically, in such cases, benchmark prices will reflect activity over more than one period (i.e., a "rolling quarter" average).

In those markets and property sectors where there is inadequate current investment activity to justify reporting a pure transaction-based price, the benchmark value is formulated based on historical sales data and current market factors, including the operating performance of "like-kind" properties within the respective market and property sector. We realize, of course, that this necessitates an element of "informed judgment" but disparities in local market size and liquidity over time sometimes dictate a modified, "hybrid" approach.

Value Monitor Cap Rates: Like the prices, the market benchmark capitalization rates are based on current or historical property sales. The cap rate data reported in the *Value Monitor* is intended to reflect recent operating income, rather than forward-looking (i.e., "pro forma") performance. Where the data are available, the cap rates incorporate property-level operating income on consummated sales within the respective market-places. However, in many instances, these data either are not available, or the "robustness" of the reported income data is questionable. In those cases, cap rates are derived from the average benchmark property price (which is based on current period or historical transactions) and a representative market-wide operating income proxy for that property type. Because of these data-based qualifications, the cap rates are the most volatile of the data reported by the INDEX and, therefore, are perhaps most useful in determining market directions and trends.

Rent Monitor Gross Rents: Except for retail, stated rents reflect all occupancy costs. Because reported rents exclude rent concessions, 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*.

In essence, the INDEX *Rent Monitor* attempts to formulate a "same store" rent and free rent benchmark for each local market and property type reported. In order to monitor rental rate trends, the INDEX surveys "prototype" or "tracked" properties that conform to certain standards that are discussed in greater depth in each *Rent Monitor* publication. In general, however, these properties are high quality, have current construction materials and techniques, and are aesthetically modern and attractive. The buildings are representative of local market conditions, and have stabilized operations. Most Class A survey properties are 15 years old or less.

Note: As for most statistical data services, previously-reported data is revised as needed to reflect the receipt of new data. We believe this approach helps assure the most reliable data over the long-term. In particular, *all* data reported in the current period should be considered preliminary.

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 sometime modified by independent market surveys conducted by the INDEX research staff. As noted above, 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.

For Additional Price, Rent and Cap Rate Information: The INDEX *Value Monitor* and *Rent Monitor* publications report price, rent and cap rate benchmarks each quarter for 58 leading U.S. markets, as well as property values in many other local markets and property sectors (in the *Value Monitor*). For more information on these publications, please see our website (www.nrei.info) or phone (800) 992-7257.

Other Data

To provide a more comprehensive picture of the current market conditions in each local market, *Metro Market Facts* reports a wide range of real estate, demographic and economic data. These data are selected from a variety of secondary sources. Please see the citation that accompanies each chart for the source of the data employed.

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 (Office, Industrial)

Marcus & Millichap (Retail, Apartment)

PKF Consulting (Hospitality)

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