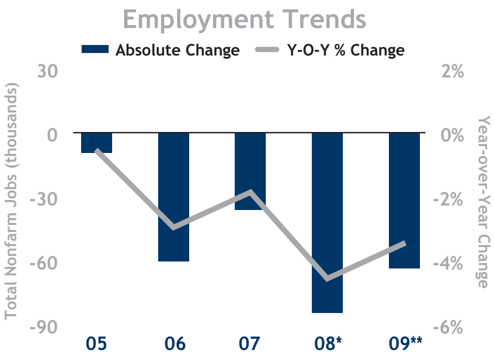
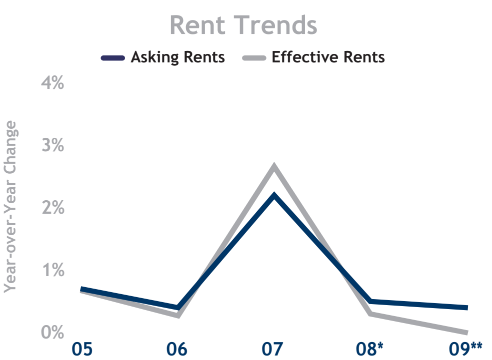
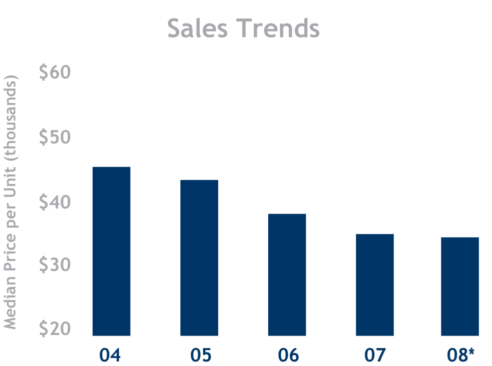
Cap Rates Drawing Investors to Strong Submarkets, Despite Auto Industry Concerns







* Estimate ** Forecast

Although Detroit's economy will continue to struggle through the downturn, apartment fundamentals are expected to remain fairly steady this year due to ongoing weakness in the area's housing market and minimal construction activity. Foreclosures and falling home prices will persist, increasing the renter pool while keeping many potential homebuyers on the sidelines. In addition, residents concerned about downsizing at their companies are unlikely to commit to homeownership until the local manufacturing sector stabilizes. As consumer spending wanes nationwide, auto sales will continue to be a major threat for the metro's short- and long-term outlooks. Additionally, a merger or bankruptcy in the auto industry could lead to drastic job cuts in 2009. On the supply side, few apartment developments can command rents to justify construction costs, limiting the potential competitive threat from new units.

Investor sentiment will remain mixed for Detroit's apartment properties in 2009, with yield-seeking buyers staying the most active. Cap rates, which are approaching 9 percent, are among the highest in the country, attracting buyers but also illustrating the long-term uncertainty in the market. Limited reinvestment opportunities for current owners, however, have kept the number of listings restricted in recent quarters. As such, competition among buyers will hold prices fairly steady, though the heightened cost of capital could force some sellers to modify their expectations. Properties will remain in high demand in Ann Arbor, where the University of Michigan provides a consistent renter base. Additionally, in Wayne County, tenants have few housing alternatives, so stabilized properties should produce predictable cash flows for buyers upon purchase.

2009 Market Outlook

- **2009 NAI Rank: 36, Up 6 Places.** Limited construction activity pushed Detroit up six spots in the ranking, despite ongoing economic uncertainty, significant job cuts and rising vacancy.
- **Employment Forecast:** After eliminating 84,800 positions in 2008, employers are expected to cut 64,000 jobs this year, a 3.4 percent decline. A bankruptcy in the auto industry could alter this forecast dramatically.
- **Construction Forecast:** Approximately 250 units are projected to come online in 2009, a 0.1 percent increase in stock.
- **Vacancy Forecast:** Despite a lack of significant new construction, deep job cuts will result in a supply/demand imbalance. As such, vacancy is expected to push up 50 basis points this year to 7.1 percent, following a 40 basis point rise in 2008.
- **Rent Forecast:** In 2009, asking rents are forecast to gain 0.4 percent to $841 per month, while effective rents remain flat at $773 per month.
- **Investment Forecast:** Buyers searching for long-term investments may want to target the Macomb County submarket. Annual population growth in the county of 0.7 percent over the next five years will outpace the metro, while the disparity between the area's rents and mortgage payments indicates the potential for future rent growth.

Market Forecast Employment: 3.4% ▼ Construction: 48% ▼ Vacancy: 50 bps ▲ Asking Rents: 0.4% ▲