Auto Sector to Weigh on Industrial Space; Warehouse Product Still in Demand

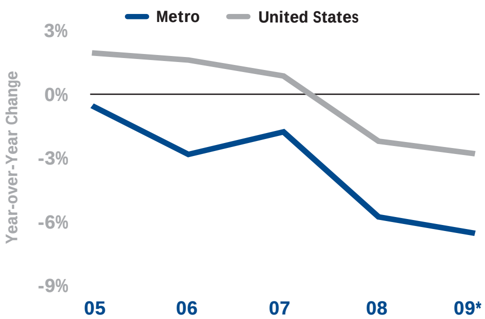
Detroit's exposure to the automotive industry will be the primary factor behind a weaker industrial market this year, though fundamentals in unrelated industrial space should hold up fairly well. With the metro ranking as the nation's 11th largest as of the end of 2008, large corporations will maintain a significant presence, especially retailers that occupy warehouse and distribution facilities. Population-serving companies have accounted for a considerable portion of new leases over the past six months, including a combined 200,000 square feet of warehouse/distribution space from Anheuser-Busch and Comcast. Going forward, tenants will have greater negotiating power when renewing leases due to the oversupply of space placed on the market from manufacturing companies. As a result, rents are expected to fall this year while concessions widen. The threat of new supply will be mitigated, however, as few projects pencil out in the current economic climate.

Investment activity in Detroit is projected to remain suppressed this year, as nearly all of the major lenders are hesitant to place capital in the metro. Some local banks will make funds available for industrial purchases, though deals involving auto-related tenants are unlikely to materialize if significant financing is required. Highly capitalized buyers still can find opportunities to acquire properties with national credit tenants at some of the highest cap rates in the nation. First-year yields are above 11 percent, and further upward momentum is anticipated through the end of 2009. In addition to tenancies, location will be an important contributor to demand; assets in prime locations are expected to generate competitive bids, while some infill properties may face significantly longer list times.

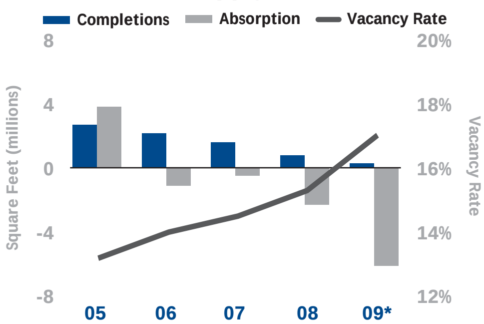
2009 Market Outlook

- **2009 NII Rank: 28, No Change.** Intensifying weakness in the auto industry is expected to weigh on industrial fundamentals in Detroit, pushing the metro to the bottom of the index.
- **Employment Forecast:** The local employment market continues to deteriorate. After cutting 113,000 jobs last year, employers are expected to reduce payrolls by 120,000 positions in 2009, a 6.6 percent decrease.
- **Construction Forecast:** Very few developments can obtain financing in Detroit. As a result, only 300,000 square feet of space is projected to come online this year.
- **Vacancy Forecast:** The marketwide vacancy rate is forecast to climb 170 basis points to 17 percent by year-end 2009, after an 80 basis point rise in 2008.
- **Rent Forecast:** Asking rents are expected to fall to $4.47 per square foot this year as effective rents retreat to $4.07 per square foot, losses of 7.3 percent and 8.7 percent, respectively.
- **Investment Forecast:** Investors who have a lower risk tolerance and are willing to pay a premium for assets may want to target Ann Arbor. Although yields are still elevated compared to those in most submarkets, the local economy is more diversified than the rest of the metro.

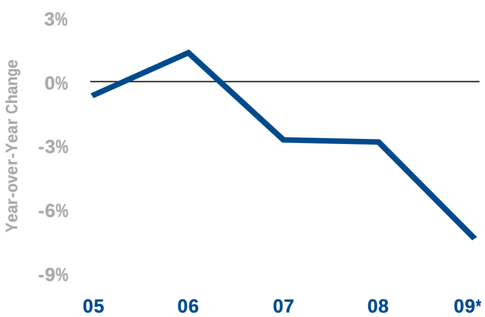
Employment Trends



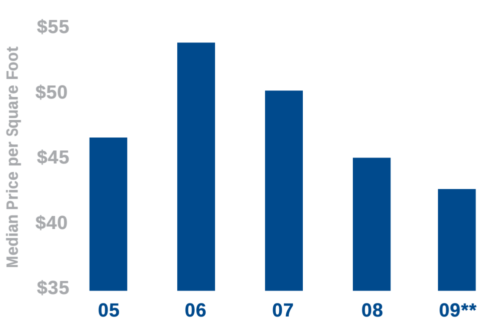
Industrial Supply and Demand



Asking Rent Trends



Sales Trends



* Forecast ** Trailing 12-Month Period

Market Forecast	Employment: 6.6% ▼	Construction: 63% ▼	Vacancy: 170 bps ▲	Asking Rents: 7.3% ▼