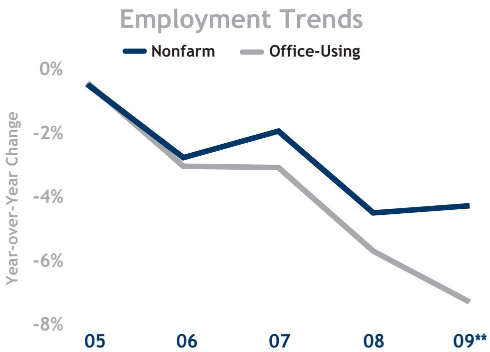

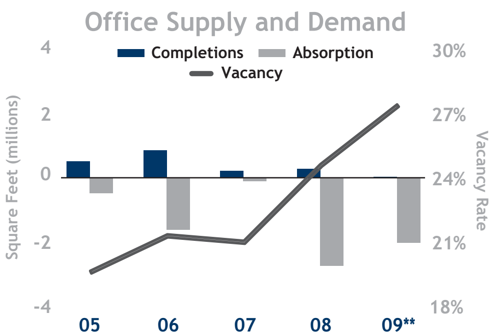

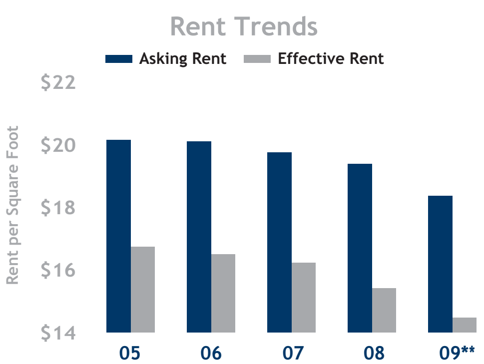

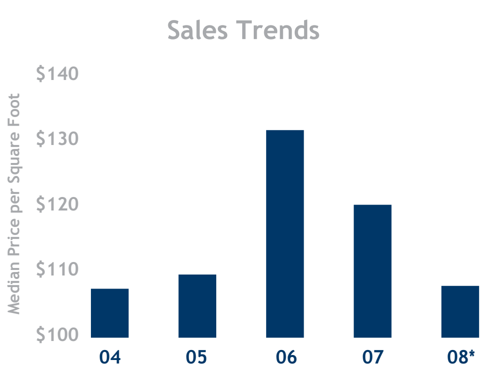

* Estimate ** Forecast

Economic Woes Increasing Risk, Supporting High Cap Rates for Detroit Office Properties

Weakness in the manufacturing sector will remain the largest detriment to office fundamentals in Detroit this year, especially as automakers restructure in an attempt to stave off bankruptcy. Office-using companies with ties to the auto industry are facing significant challenges, despite far-reaching government intervention designed to prop up the ailing Big Three. A prolonged recession, combined with tighter credit markets, could dramatically change the structure of the large auto companies. Chrysler received a boost when Fiat purchased a 30 percent stake in the company, while Ford indicated some short-term strength by refusing government aid. With tenant demand weakening and an abundance of vacant space available for renovation, developers will bring minimal new construction to the metro in 2009 and in the coming years.

Investment activity in Detroit will persist at a measured pace during 2009 with yield-seeking investors remaining present and out-of-state capital continuing to dissipate. Some recent deals have been off-market transactions, as companies are moving assets in expectation of a potential auto industry restructure. General Motors, for example, recently purchased its 5.5 million-square foot headquarters from GMAC. For arms-length deals, average cap rates in the high-8 percent range are among the highest in the nation, which could attract buyers. Recent sales have included smaller and newer properties that typically are easier to lease; this trend has been prevalent in Macomb County, the center of the local housing crisis. Despite registering vacancy 300 basis points below the metrowide rate, the area recently posted first-year returns as much as 100 basis points higher than the market average.

2009 Market Outlook

- **2009 NOPI Rank: 43, Down 1 Place.** Detroit fell to the bottom of the index due to a forecast for the nation's highest vacancy rate.
- **Employment Forecast:** After 88,000 jobs were shed in 2008, 80,000 positions are forecast for elimination this year, decreasing total employment by 4.3 percent. Approximately 34,200 office-using workers are expected to be cut, a 7.3 percent decline.
- **Construction Forecast:** Only 27,000 square feet of new office space is projected to come online in 2009; the removal of outdated inventory will outpace construction for the fourth consecutive year.
- **Vacancy Forecast:** Falling demand will result in a 280 basis point rise in vacancy to 27.4 percent this year. During 2008, the metrowide vacancy rate climbed 360 basis points.
- **Rent Forecast:** Asking rents are forecast to slip 5.2 percent to $18.37 per square foot by year end, while effective rents are expected to decline 6.2 percent to $14.47 per square foot.
- **Investment Forecast:** Risk-averse buyers may want to target assets in the affluent suburbs of Birmingham and Bloomfield. Population-driven office-using firms in the areas are supporting vacancy in the mid-teens, and cap rates are in the low-7 percent range.

Market Forecast	Employment: 4.3% ▼	Construction: 90% ▼	Vacancy: 280 bps ▲	Asking Rents: 5.2% ▼