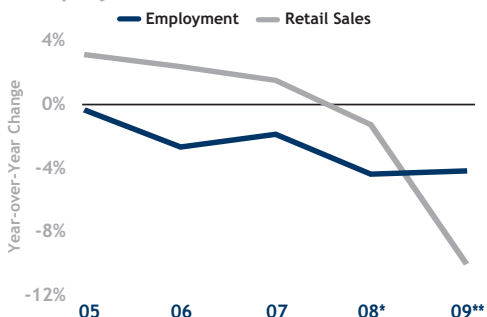


## Auto Woes Creating Opportunities for Yield-Seeking Investors; Risks Elevated

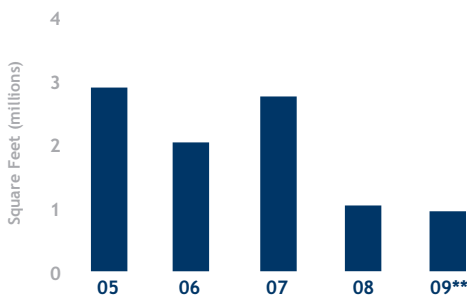
The recession will weigh on retail fundamentals in Detroit more than in most other metro areas this year. Auto sales have plummeted to 25-year lows, forcing automakers to seek significant assistance from the federal government. With the local unemployment rate approaching 10 percent and additional deep job cuts forecast, retailers in Detroit will struggle again in 2009. Properties near major manufacturing facilities could face the most pressure if a significant number of plants close as the Big Three restructure. In the affluent suburbs of Oakland County, however, fundamentals are projected to outperform, with population growth and consumer spending supporting a vacancy rate in the low-11 percent range. Assets near the University of Michigan in Ann Arbor also are expected to post fairly stable fundamentals in the coming year, as enrollment remains healthy.

Retail investment opportunities are projected to emerge in Detroit, despite the current economic turmoil. Private investors will make up the largest portion of the buyer pool as institutions and REITs shy away from the perceived risk associated with the local economy. As such, aggressive yield-seeking investors face little competition when acquiring assets, allowing them to target properties with national-credit tenants offered at some of the highest cap rates in the country. Marketwide, single-tenant properties are expected to trade at initial yields above 8 percent in 2009, while multi-tenant cap rates should approach 9 percent. Risk-averse buyers, meanwhile, can find opportunities with strong returns in high-wealth suburbs such as Farmington Hills and West Bloomfield.

Employment Growth vs. Retail Sales



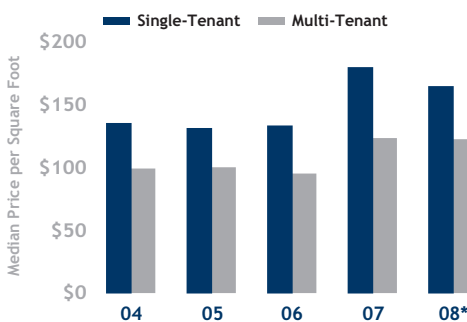
Retail Completions



Asking Rent and Vacancy Trends



Sales Trends



\* Estimate \*\* Forecast

### 2009 Market Outlook

- ◆ **2009 NRI Rank: 38, Up 4 Places.** Detroit rose four spots in the ranking, despite forecasts for continued job losses. Deliveries are expected to remain modest, which should limit the rise in vacancy. The metro's weak economic outlook, however, kept it near the bottom of the NRI.
- ◆ **Employment Forecast:** Local employers are forecast to trim payrolls by 4.3 percent with the elimination of 80,000 positions this year, following the loss of 88,000 jobs in 2008. The risk is to the downside, and a bankruptcy by one of the major automakers could result in thousands of additional layoffs.
- ◆ **Construction Forecast:** Retail development will be limited to 900,000 square feet in 2009 as builders delay projects due to economic uncertainty. Last year, 990,000 square feet was delivered.
- ◆ **Vacancy Forecast:** Following a 90 basis point increase in 2008, vacancy is expected to rise 160 basis points this year to 12.3 percent.
- ◆ **Rent Forecast:** Asking rents are forecast to finish 2009 at \$16.77 per square foot, a 3.7 percent decline. Effective rents are expected to fall 4.1 percent to \$15.06 per square foot as owners increase concessions.
- ◆ **Investment Forecast:** In Macomb County, population growth over the next five years is anticipated to approach 1 percent annually, exceeding the metro average and creating opportunities for investors with extended buy and hold strategies.

Market Forecast

Employment: 4.3% ▼

Construction: 9% ▼

Vacancy: 160 bps ▲

Asking Rents: 3.7% ▼