MICHIGAN REAL ESTATE TRENDS REPORT 2014

Urban Land Institute

Michigan

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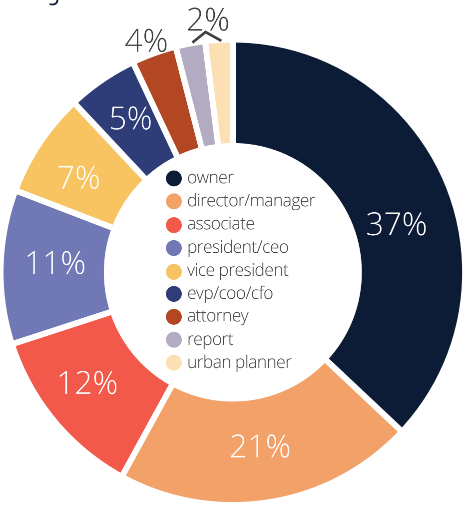
INTRODUCTION

Overall, the real estate markets in Michigan have experienced steady, but uneven, growth over the past year. There have been some bright spots, such as in and around Detroit, Grand Rapids and Ann Arbor, but there are a wide range of stories from markets around the state, from Marquette to Monroe, as the overall economy improves and the state diversifies. More importantly, it is still clear that this growth in real estate, and its future potential, continue to be undervalued by analysts and pundits outside of Michigan. In an attempt to describe the real estate opportunities in the state, and begin a new conversation on the state of real estate, this report combines an online survey, interviews with real estate professionals, census data, and data on real estate activity, to highlight state-wide trends.

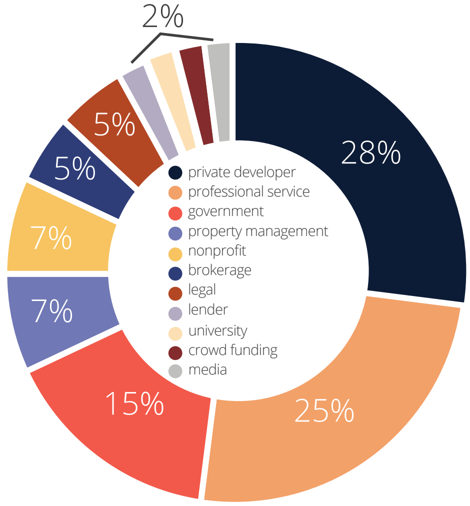
This is the second annual report on emerging real estate trends in Michigan. Prepared by the University of Michigan/Urban Land Institute Real Estate Forum, this report is intended to supplement the National Urban Land Institute Emerging Trends in Real Estate report by focusing on local markets. This year the report adds real estate data generously donated by Costar, includes an expanded list of cities, and reviews data by Prosperity Regions [see map].

For the survey portion of the report, 56 responses were collected. This is down slightly from last year, but represents a wider cross section of real estate sectors. The typical respondent profile was an owner [37%] of a private development company [28%] specializing in commercial real estate (retail or residential rental) [39%]. Professional service providers [25%] and government sector [16%] rounded out the top three sectors, similar to last year's survey. Unlike last year, over 50% of the respondents were from the retail [21%], residential-rental [18%], and office [16%] categories.

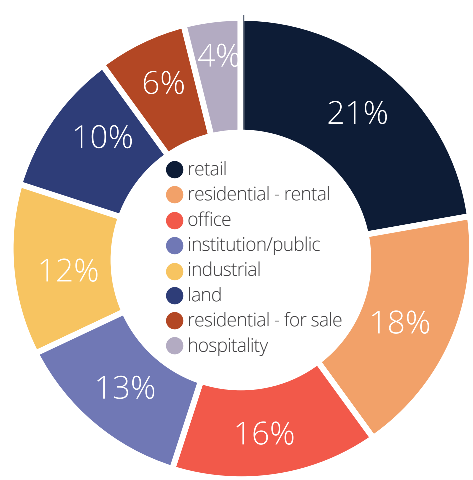
RESPONDENTS
BY JOB

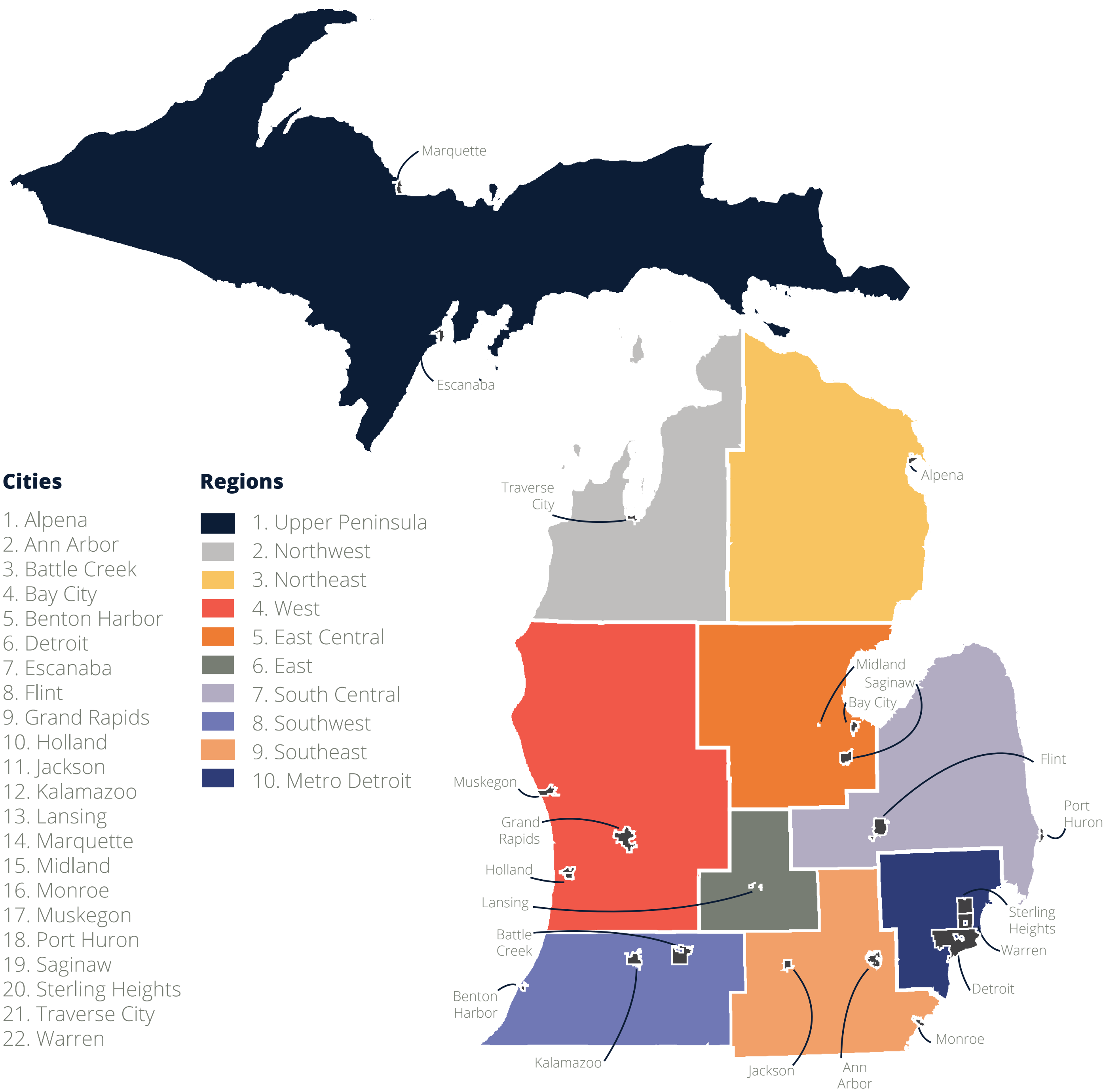


RESPONDENTS
BY SECTOR



RESPONDENTS
BY CATEGORY





Cities

1. Alpena
2. Ann Arbor
3. Battle Creek
4. Bay City
5. Benton Harbor
6. Detroit
7. Escanaba
8. Flint
9. Grand Rapids
10. Holland
11. Jackson
12. Kalamazoo
13. Lansing
14. Marquette
15. Midland
16. Monroe
17. Muskegon
18. Port Huron
19. Saginaw
20. Sterling Heights
21. Traverse City
22. Warren

Regions

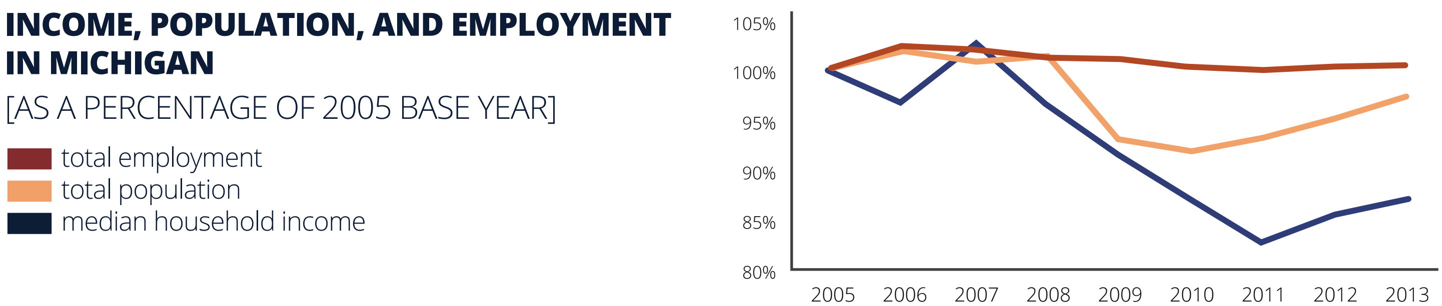
1. Upper Peninsula
2. Northwest
3. Northeast
4. West
5. East Central
6. East
7. South Central
8. Southwest
9. Southeast
10. Metro Detroit

BACKGROUND EMPLOYMENT GROWTH

"Economic growth continues for second straight year, yet to reach pre-recession heighs."

INCOME, POPULATION, AND EMPLOYMENT IN MICHIGAN

[AS A PERCENTAGE OF 2005 BASE YEAR]



The economic health of the state of Michigan [considered here as income, population, and employment] has improved for the second straight year. The three measures reached a recessionary bottom in 2010 or 2011, and though they have shown continued improvement, none have yet to make up for all of the losses sustained.

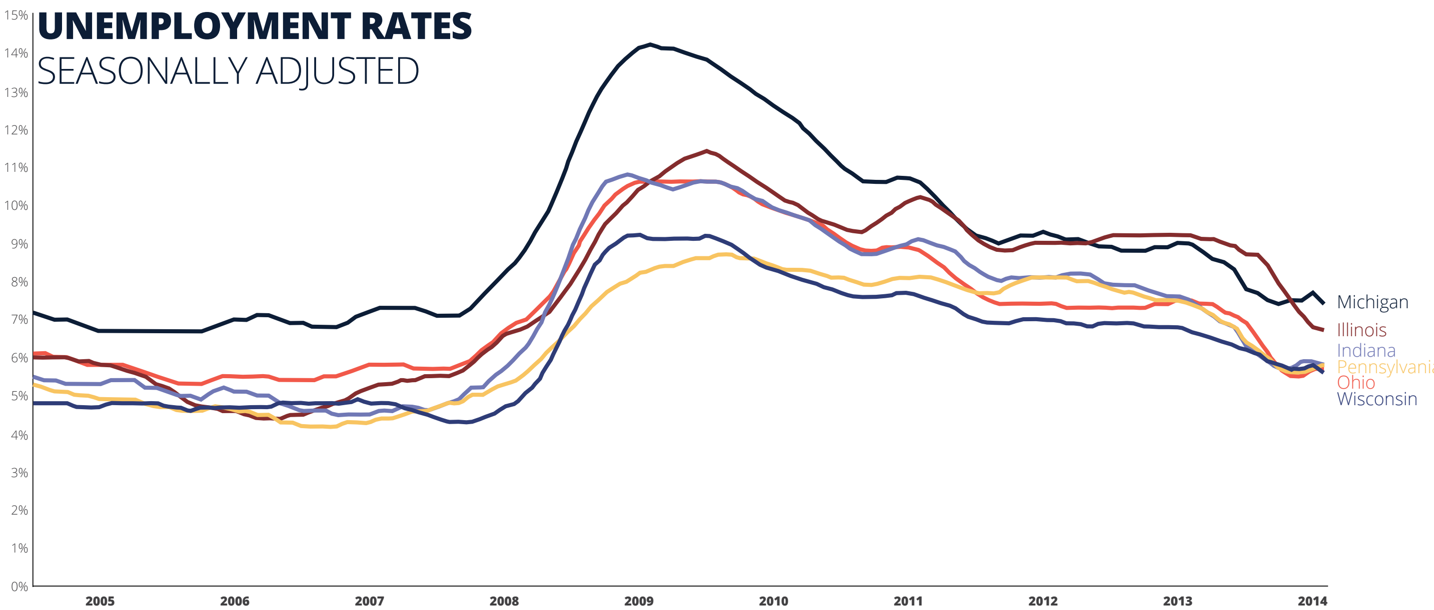
Following five straight years of population loss, the state has posted two consecutive years of net gain, though it has been modest at 19,435. There are now 9,895,622 Michiganders in the state, ranking it as the ninth most populated. Over time Michigan's population has been incredibly stable, typically hovering somewhere between 9 and 10 million for the past 40 years. The total number of households has improved, climbing a total of 1.6% after bottoming in 2011.

Inflation-adjusted median household income increased by 1.8% over the previous year. Household income, which was measured at $49,929 in 2013, was devastated during the recession, falling from roughly $59,000 in 2007 to $48,000 in 2011 [in 2013 dollars], falling 19%. This fact is even more disappointing, however, when one considers that median household income was measured at $62,691 in the year 2000.

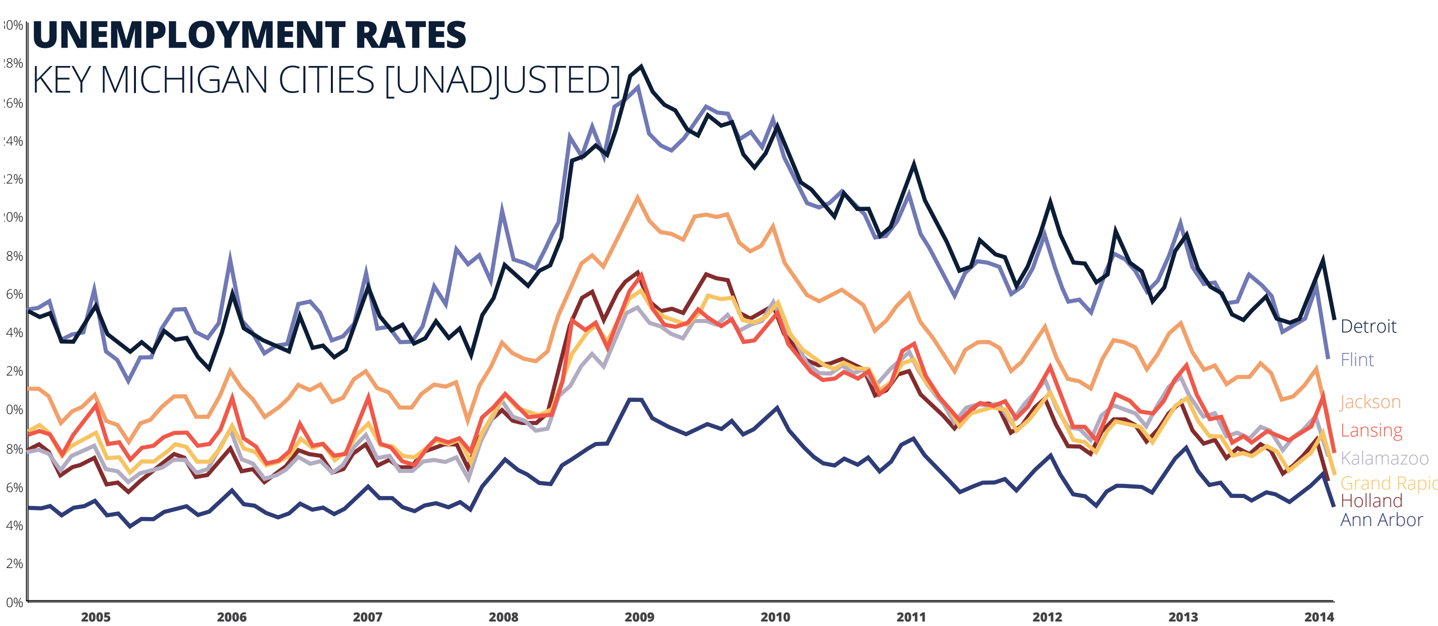
Total employment in the state performed well over the previous year, increasing by 2.0% to 4,369,787 jobs. The state has added 232,277 jobs [or 4.3%] since the recessionary low in 2010. The story here is similar to that of statewide income: though there have been post-recession improvements, the state not only has yet to completely rebound to that near-term highpoint, but it is also more than 10% off its all-time high from the year 2000.

The Bureau of Labor Statistics preliminary seasonally adjusted unemployment rate reading for September 2014 is 7.2%, ranking the state 44th. And though Michigan's unemployment rate is disappointing when compared across the country, it is decidedly remarkable when compared across time: Michigan's unemployment rate has not been lower since March 2008. It's been more than six years since we've looked this good. And while Michigan still lags behind its Midwest peers, it has been slowly closing the gap since 2009.

The story of employment in Michigan's cities is relatively upbeat as well, as just four of the 16 identified "ACS Cities" [Flint, Kalamazoo, Lansing, and Sterling Heights] registered decreases in total employment over the last year. The graphs included illustrate how the unemployment rate in some of Michigan's most important cities has been generally decreasing since 2009, in addition to being down year-over-year.



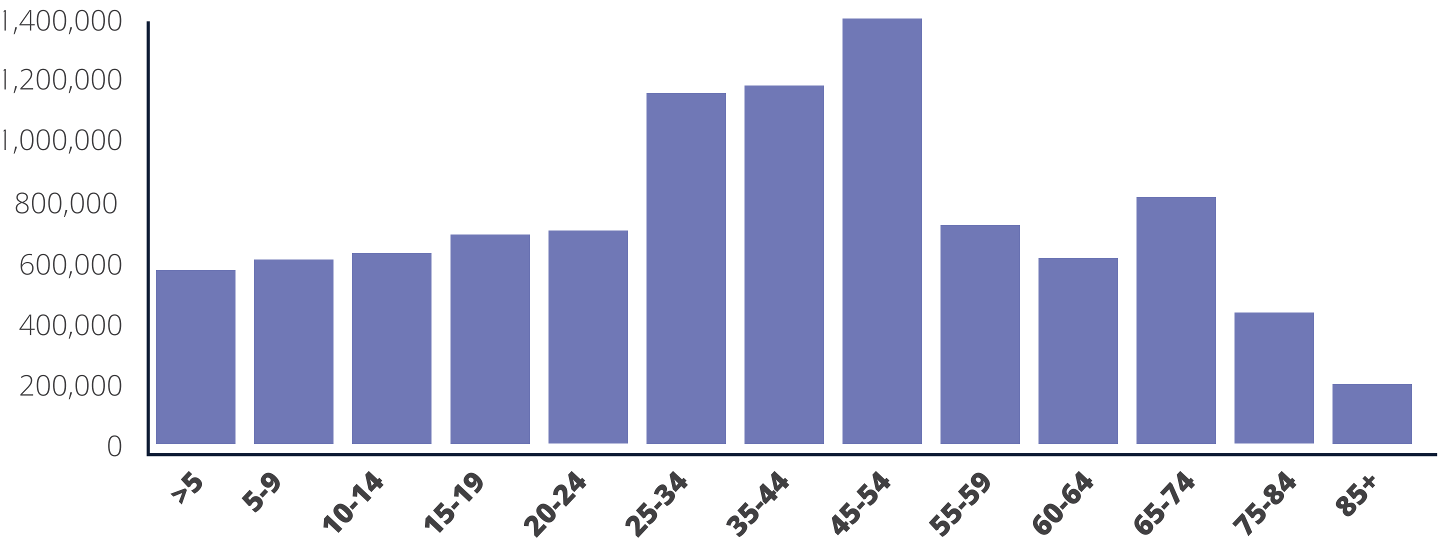
"Unemployment rates have been falling since 2009, though the state lags behind Midwest peers."



BACKGROUND HOUSING + POPULATION

"Distribution of state population continues to shift older"

MICHIGAN POPULATION
BY AGE

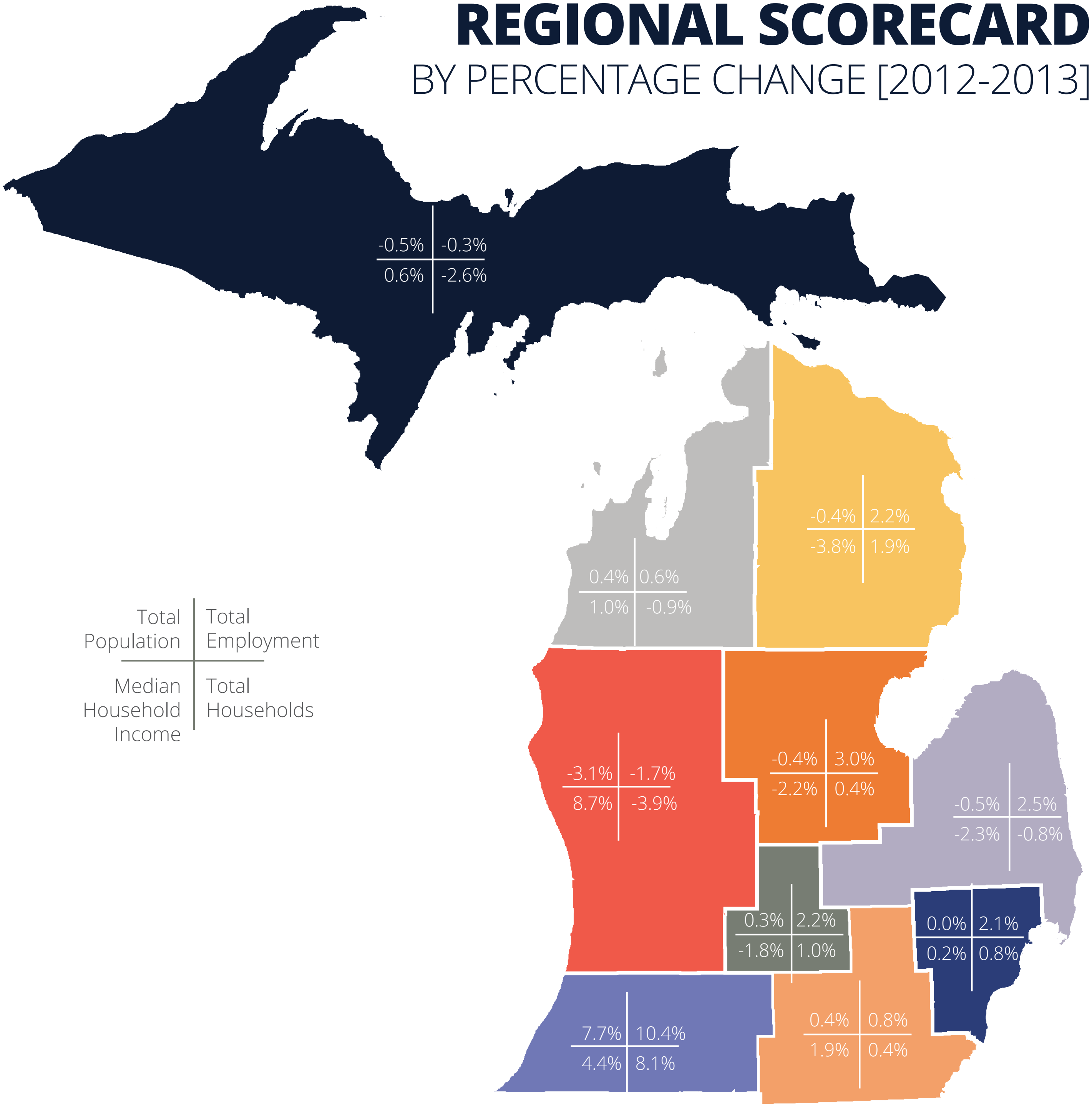


Looking at economic indicators by region, we see an interesting mix of results. First, Southwest Michigan [Region 8] had a remarkable year, with total employment growing by 10.4% and median household income growing by 4.4%. In absolute terms, the increase in employment in Southwest Michigan accounted for nearly half of statewide employment increases. We would love to know what is going on there. Only the Upper Peninsula and West Michigan decreased in total employment.

Other readings of note include median household income, which increased by 8.7% in West Michigan, but declined by 3.8% in the Northeast Lower Peninsula. Metro Detroit, the state's economic engine fared well: gaining in total employment, total households, and median household income, and as importantly, stable in total population.

A breakdown of Michigan's population shows, overall, a "generational" balance. Approximately 32.9% of the population is 0-24 years old, 38.5% is 25-54 years old, and 28.6% is 55 and older. And while this general distribution has not gotten a lot older since 2005 [when the 55+ crowd was 22.7% of the population], a look at the absolute change from 2012 paints a clearer picture. Between 2012 and 2013, the population of those aged under 55 dropped by 56,000, while the population of those aged 55 and up grew by 68,000.

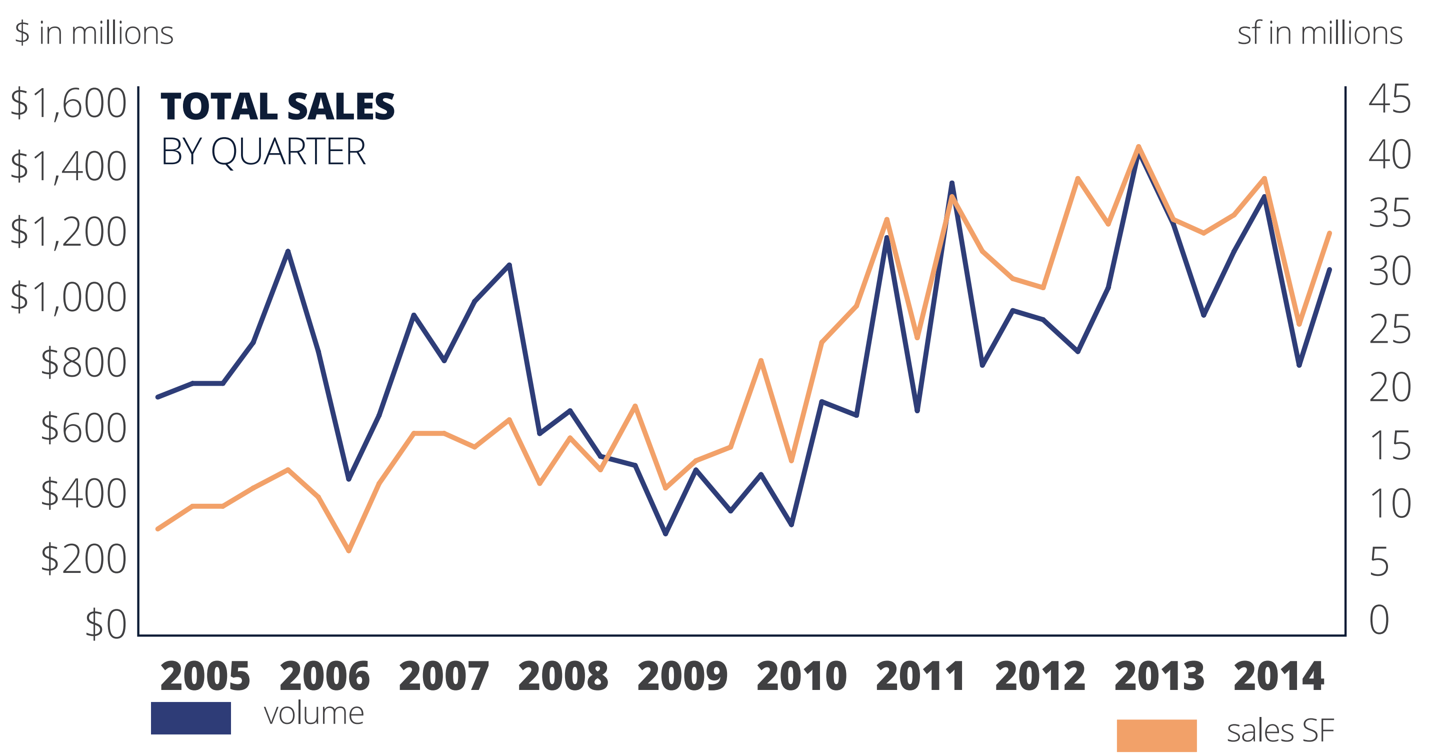
REGIONAL SCORECARD
BY PERCENTAGE CHANGE [2012-2013]

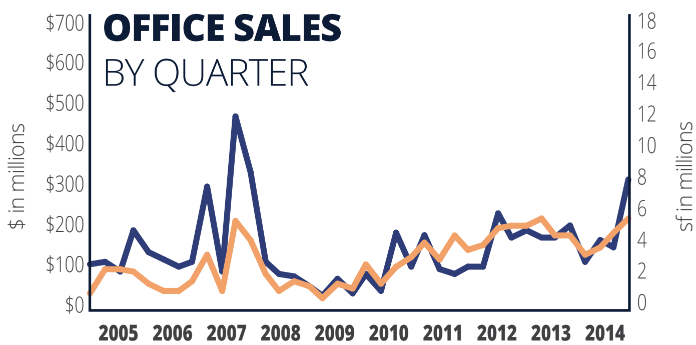


MARKET SEGMENTS

Sales volume [in millions of dollars] and total square feet sold [in millions of SF], have improved quarterly since their low in 2009-2010, but have declined slightly since the first quarter of 2013. Total sales volume has improved above levels reached in 2006-2008, while square feet sold have continually improved to levels that are more than twice those reached in the same period.

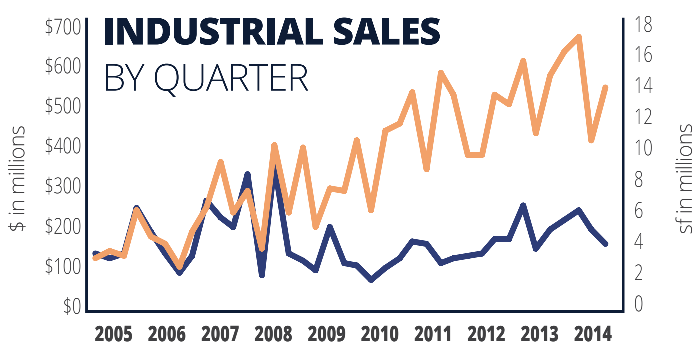
For the industrial, retail, office and multi-family segments, total square feet sold have exceeded levels prior to 2009-2010 in each segment. Industrial sales have experienced strong improvement in square feet sold, more than doubling the amount since 2009. But total square feet sold for retail, office and multi-family each have more than tripled since 2009.

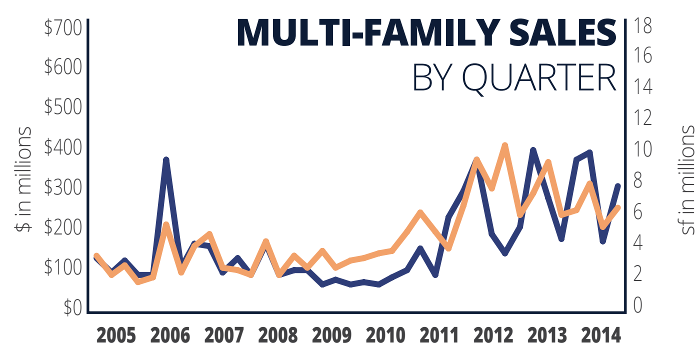




Sales volume for the multi-family segment made a quick recovery from the low of 2009-2010, but has been uneven, yet steady, since 2012. Sales volume in industrial, retail and office segments have improved to levels reached in 2005-2006 [with the exception of a major peak in retail sales in the first quarter of 2006]. Growth in sales volume has been steady for industrial, retail and office. While industrial has been steady for the past two years, retail sales volume reached a peak in 2013 and has declined, and the office segment is showing a significant increase in 2014.

However, on the basis of average volume per square foot, only the multi-family segment has achieved a recovery from the lows of 2010 and 2011, and has almost recovered to levels reached in 2005-2006. All four segments experienced declines in average volume per square foot starting in 2006, bottoming out in 2010 or 2001. Industrial, retail, and office have been on a slight increase since then, with industrial and retail showing a recent decline in 20114, while office shows a somewhat stronger recovery in 2014. Since these are state-wide averages, what is not evident in this data is the stratified pricing based on location and class of building, which is driving much of the good news about Michigan real estate.





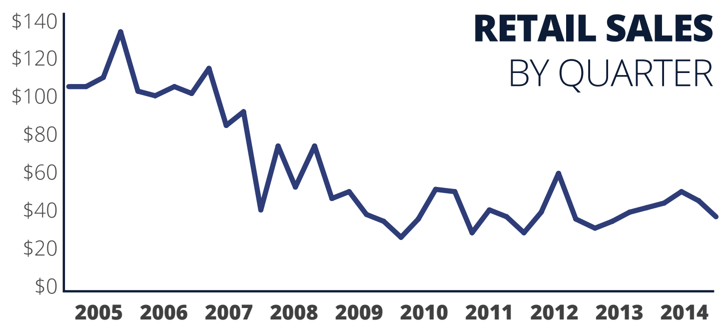
As indicated by the graphs at the beginning of each of the segment chapters, and the maps at the end of each chapter, sales volume by region varies based on segment. Sales occurred throughout the state, with all ten regions recording sales in industrial, office and retail segments for 2013. For industrial, office and retail buildings, the largest, and dominant, sales in both volume and total square feet were in Metro Detroit [Region 10], with the second largest region for each segment being thirty to forty percent of both that sales volume and square feet sold.

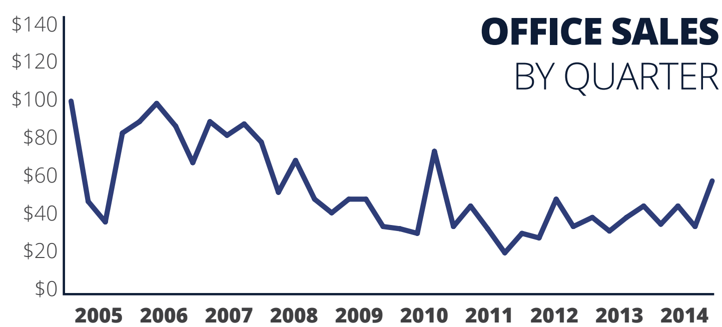
The region with the second largest industrial building sales was the West [Region 4]. The remaining sales concentrated south of Clare [Regions 5, 6, 7, 8, and 9] were each region had five to ten percent of the largest region.

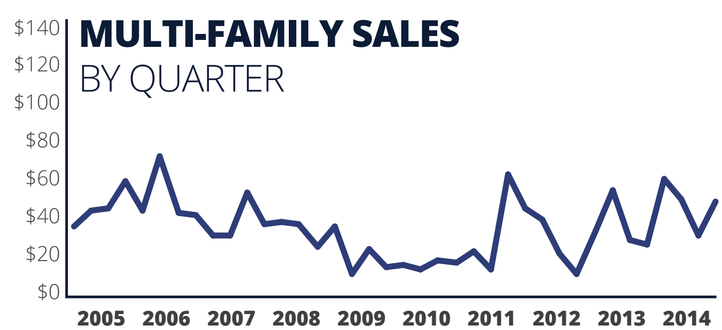
The region with the second largest volume for office building sales was in the Southeast [Region 9], followed closely by the West [Region 4], each with about a third of the highest volume. The South Central [Region 7] and Southwest [Region 8] were the next largest, with about a tenth of the highest volume each.

Retail building sales were more varied with the Southeast [Region 9] having the second highest, followed by West [Region 4], and East [Region 6] at about 20% of the highest volume each. Unlike the other two sectors, additional retail sales occurred in

"Student housing, high tech worker housing, and empty nester housing had the greatest level of activity this year"





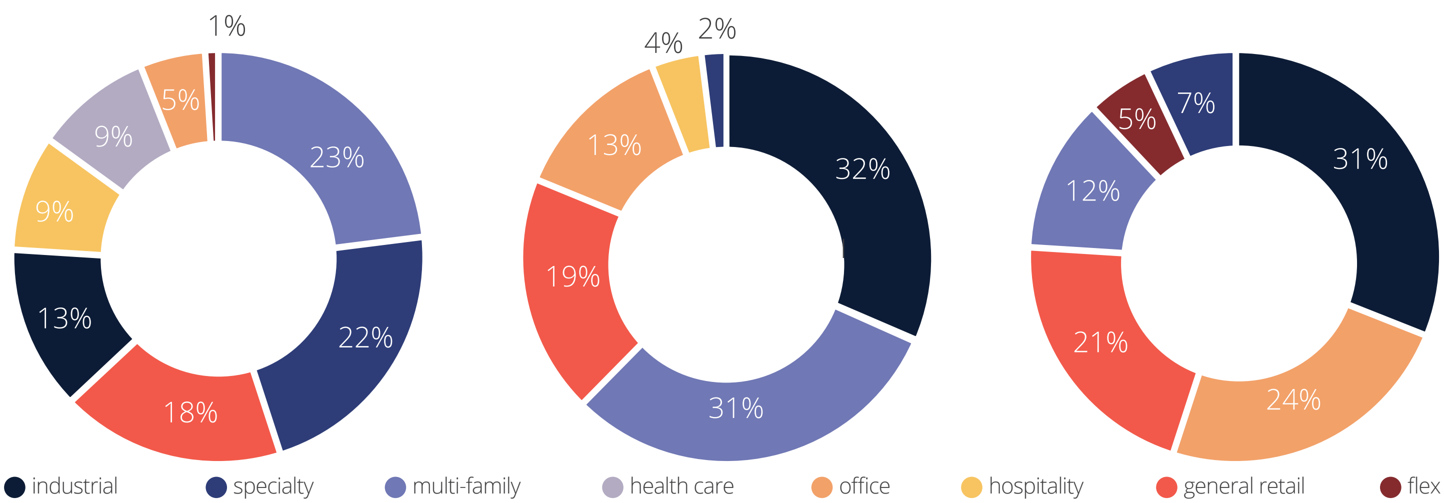


PIPLELINE REPORT

PIPELINE COMPLETED

PIPELINE UNDER CONSTRUCTION

PIPELINE PROPOSED



A selected pipeline of the largest projects in all market segments provides an insight into the product mix in Michigan. This pipeline report provides the top fifty projects by rentable building area [RBA] in each of three categories: completed [7,479,273 RBA], under construction [5,997,312 RBA], and proposed [14,437,915 RBA]. The graphs at right illustrate the percentage of total RBA for each segment in each of the three categories.

The pipeline report indicates an increase in the average size of these projects from 149,000 average RBA constructed, to 289,000 average RBA proposed, driven by increases in the number of industrial and office projects represented in the pipeline. The mix of pipeline projects suggests a shift in focus from multi-family and specialty, to industrial and office while general retail remains steady.

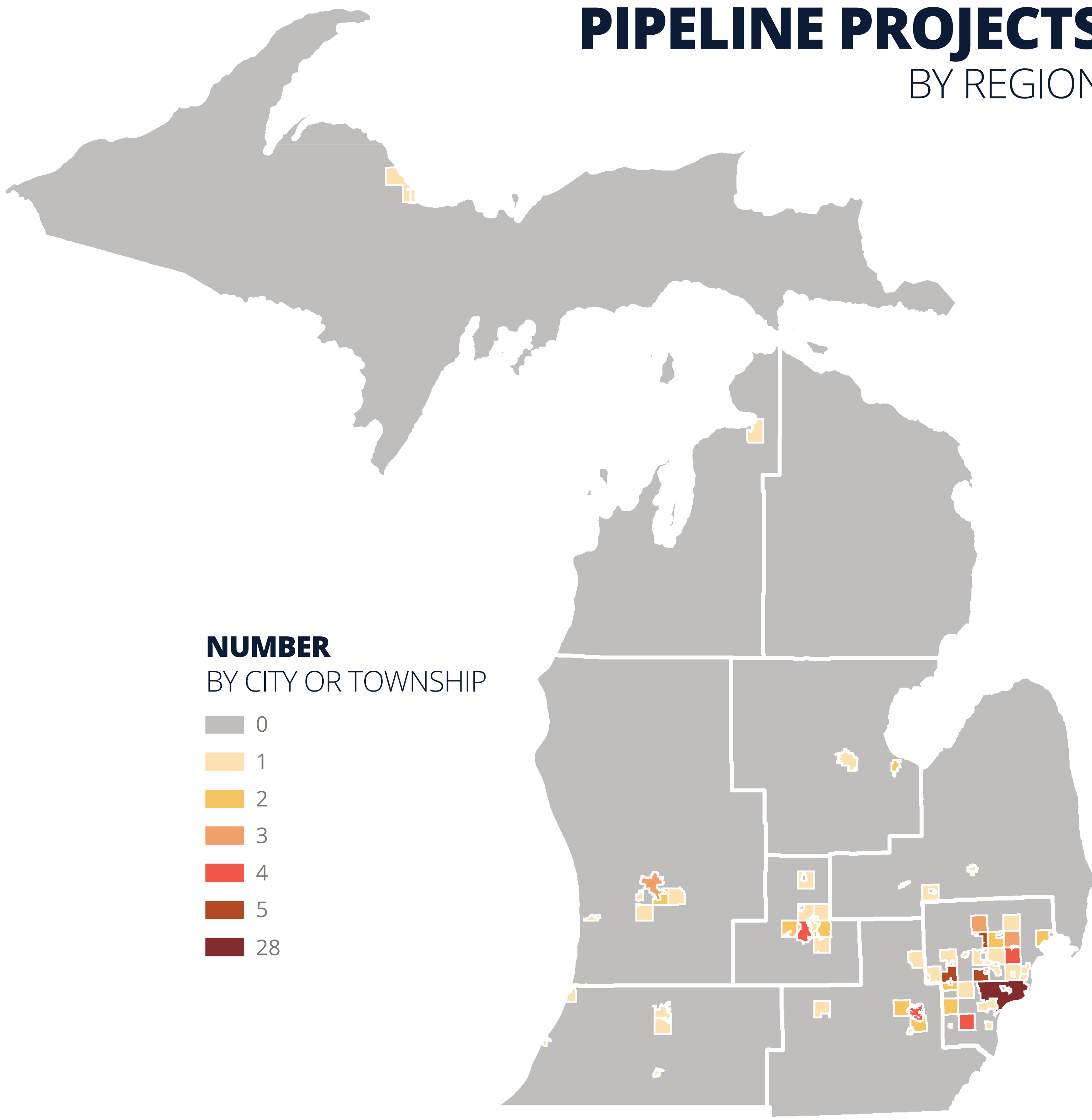
Multi-Family construction projects in the pipeline are expected to remain steady in terms of total construction at around 1,8000,000 RBA, but to decrease from 23% of the completed pipeline [1,743,406 RBA for 13 projects], to 31% of the under construction pipeline [1,835,250 RBA for 15 projects], to 12% of the proposed pipeline [1,813,496 RBA for 7 projects].

Industrial construction projects in the pipeline are expected to remain strong and to increase significantly both in number and size from 13% of the completed pipeline [948,315 RBA for 5 projects], to 32% of the under construction pipeline [1,945,105 RBA for 12 projects], to 31% of the proposed pipeline [4,736,100 RBA for 14 projects].

Office construction projects in the pipeline are expected to increase significantly both in number and size from 5% of the completed pipeline [419,085 RBA for 3 projects], to 13% of the under construction pipeline [754,024 RBA for 6 projects], to 24% of the proposed pipeline [3,636,604 RBA for 13 projects].

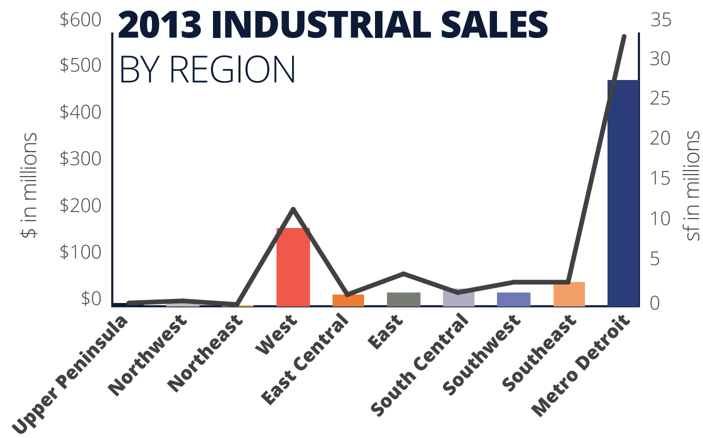
General retail remained steady as a percentage of pipeline projects, but is expected to increase in total RBA from 18% of the completed pipeline [1,351,466 RBA for 10 projects], and 18% of the under construction pipeline [1,113,485 RBA for 13 projects], to 21% of the proposed [3,182,975 RBA for 11 projects].

PIPELINE PROJECTS
BY REGION



INDUSTRIAL

In 2008, the CEO's of General Motors, Ford, and Chrysler, along with the head of the United Auto Workers, all sat before Congress, asking hat-in-hand for a tax-payer funded bailout of their industry. While the automotive companies were on the rocks, Michigan's industrial real estate market was effectively sunk. Companies were jettisoning their portfolios at bargain basement prices, and landlords struggled—often resorting to aggressive concessions and incentives to keep tenants. At the time the industrial market, especially in automotive focused regions, was effectively left for dead.



Six years later, the market has changed dramatically for the better. The market has posted positive trends over the past four years, with positive absorption, rent growth, and climbing sales prices, but only in select markets. In top-tier submarkets, quality buildings with modern column spacing, necessary clear heights, and good truck access are difficult to find. Brokers and site location professionals are now advising clients to move quickly because quality properties are spending significantly less time on the market, and the bargain basement prices of three years ago are no longer the case.

With the market firming up, expect more bifurcation across submarkets, and more importantly, across class of buildings. Quality assets will continue to appreciate in value, while run down, obsolete buildings in low-quality submarkets will continue to languish on the market. With the market getting hotter by the year, the sense in the market is one of recovery and optimism, and industry professionals are waiting for the final sign of recovery, new construction and build to suits, to take off.

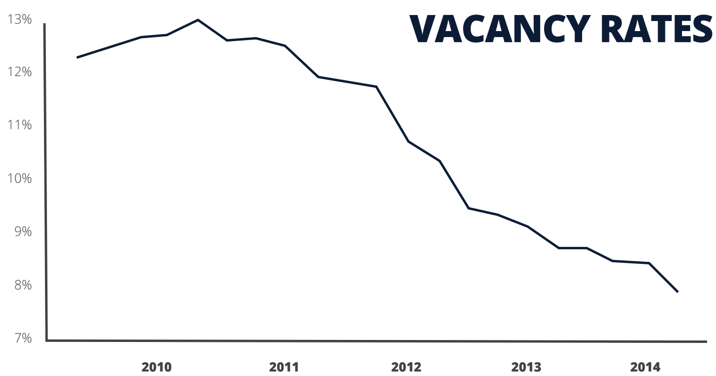
In both sales and leasing, the key demand generator for industrial real estate in Michigan is the auto industry, which is now back on track. Ford, General Motors, and Chrysler have strong balance sheets, a new sense of cooperation with organized labor, a stronger dealer network, and a more competitive product line. The overall automotive market is approaching pre-recession levels of production. Beyond the auto industry, a healthier national economy is giving industrial users of all types the confidence to make decisions again—real estate moves that were held up by the recession are now back on the table.

Fortunately, the recovery in Michigan is no longer purely tied to the auto industry. Michigan's industrial market is following a national trend of revitalization and recovery, as industrial real estate has been a hot commodity across the United States. Part of the recovery is due to the market conditions specific to the industrial sector—nationally, the economic recovery is driving positive absorption. Vacancy rates and cap rates are decreasing, while rents and sales prices are increasing.

The other facet of this recovery, however, is the challenges faced by other sectors. The office sector is dealing with reduced headcounts, telecommuting, and more efficient, open office layouts—all of which significantly reduce the square footage used per employee. Retail is now in competition with online retailers such as Amazon, and must deal with technology changes that put credit tenants out of business all-together [remember Sam Goody Records and Blockbuster Video?]. Industrial has not faced these challenges, and is drawing interest from real estate investors accordingly.

ASKING RENT
PER SF

VACANCY RATES



RENTAL RATES

Rent growth in Michigan, since the first quarter of 2013, has been positive. The market's rental rate bottomed out after the second quarter of 2012, and has steadily increased year by year. Since bottoming out at $3.62, the state's average asking rent per square foot has increased to $3.75 by the end of the third quarter of 2015.

Rents remain remarkably bifurcated by submarket. For example, the quoted rental rate in the 1-96 Corridor, an area known for newer, high tech buildings, came in at $6.45 in the third quarter of 2014. In contrast, in the City of Detroit and nearby areas, a market known for old and obsolete buildings, quoted rents in the third quarter of 2013 were just $3.45. This disparity between submarkets is expected to increase as the market for quality product improves.

VACANCY

The statewide industrial market vacancy rate is its lowest in years, posting a 7.2% vacancy rate in the third quarter of 2014. This compares favorably to the 8.8% vacancy rate of the third quarter or 2013, and the 12.8% vacancy rate posted during the fourth quarter of 2010—an impressive decrease of 560 basis points.

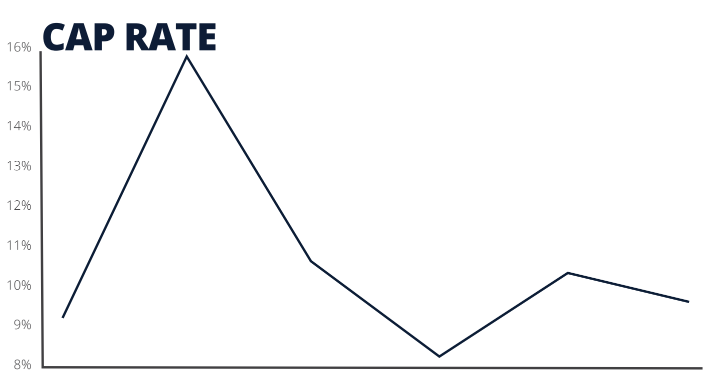
While bad news for contractors, the lack of new construction in Michigan was healthy for the overall market. With little product added to the market during and following the great recession, landlords were given some breathing room, and a chance to recover. Now that the market is picking up steam, landlords are finally beginning to see negotiations turn in their favor.

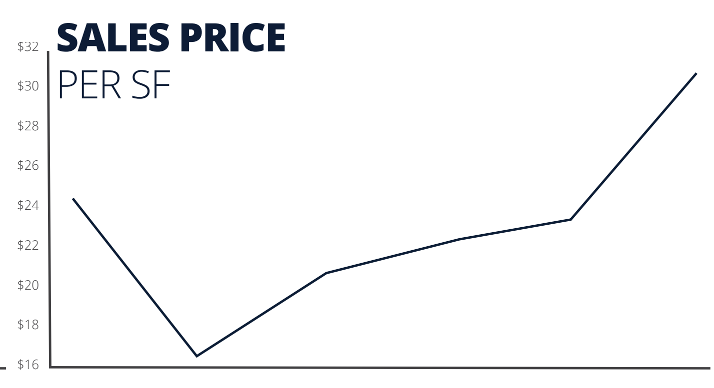
Much like rental rates, vacancy rates vary significantly by product type and by submarket, and the industrial sector remains a market of contrasts. For example, while industrial property in Western Washtenaw County posted a 6.8% vacancy rate, Eastern Washtenaw County's vacancy rate was 34.7%, mostly due to a glut of old and obsolete former automotive facilities.

NEW CONSTRUCTION

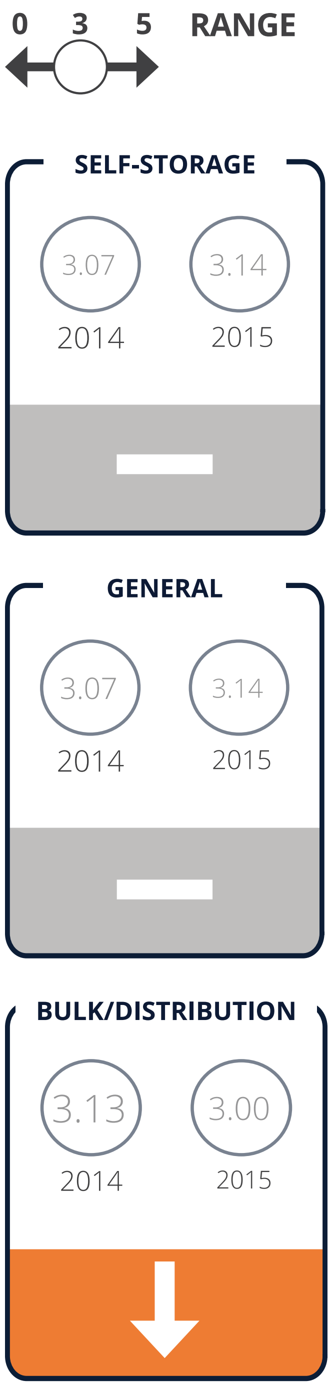
While healthy for the market as a whole, the lack of new construction in Michigan has been an unpleasant surprise for many in the commercial real estate industry. The numbers are not strong. Against a market of 937,360,203 square feet, just 2,412,861 square feet of new space has been delivered in 2014. This number represents a significant improvement, however, from the previous year's total of 862,448 square feet. The obvious reason is a gap in the marketplace between market rents and the rents required to finance a new building, combined with enough available space to satisfy market's industrial user's requirements.

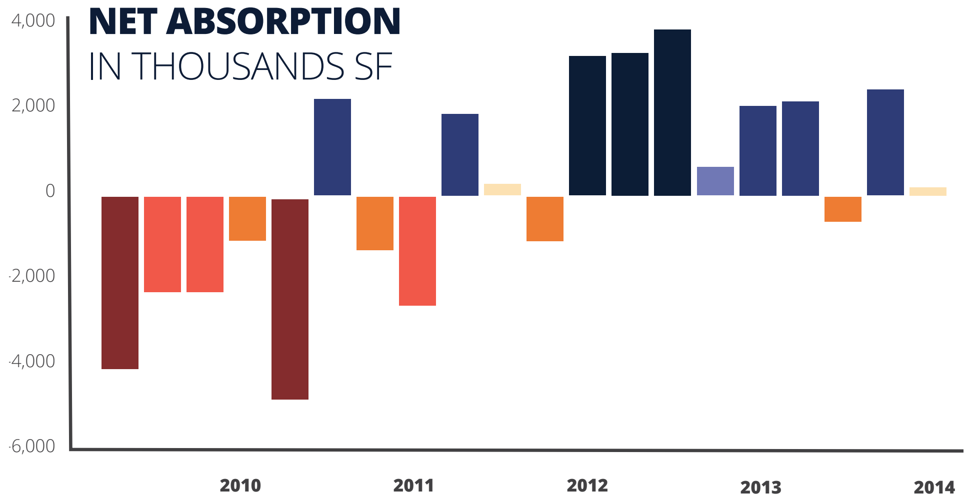
However, amongst industry professionals, the quiet rumor around the state's industrial brokers is more nuanced—tenants and users became accustomed to the bargain prices of two and three years ago, and simply come down with a bad case of sticker shock when they see the price of new construction, despite the many long-term advantages a build-to-suit may offer.





TRENDS IN CAP RATE



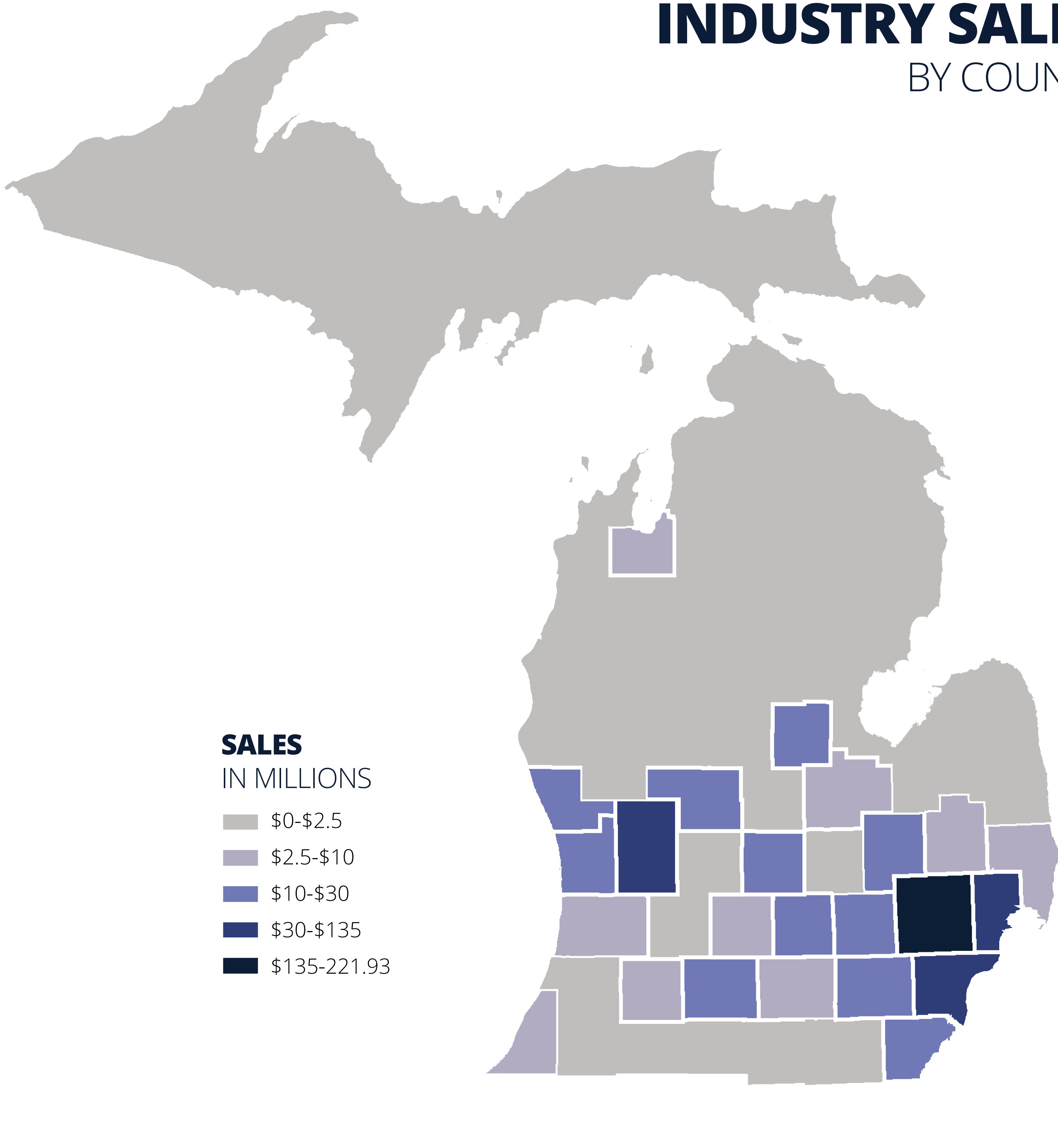


SALES

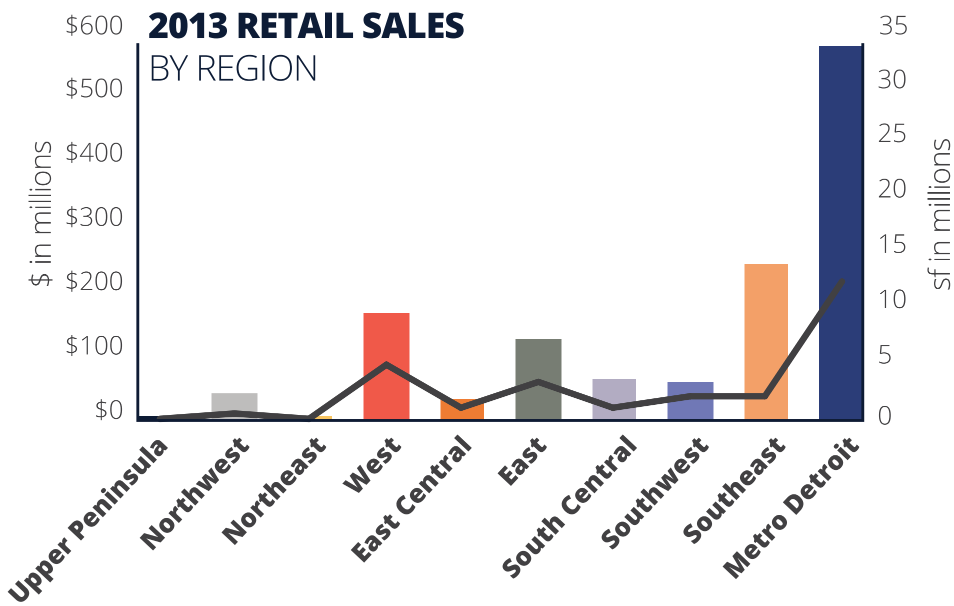
One of the best stories in Michigan's industrial market has been the overall recovery of the sales market. While buildings still trade below replacement cost, potential buyers looking for the bargain prices of 2011will be greatly disappointed. The average price of industrial property throughout Michigan has increased handsomely from the previous year. From a low point of $16.61 per square foot in 2010, to $23.85 per square foot in 2013—the 2014 sales market is posting average sales prices of $31.26 per square foot. This is a 31% increase from 2013, and 88% increase from 2010.

As a sign of the market's vitality, quality industrial buildings in quality submarkets are trading for higher prices per square foot than their nearby office counterparts. This scenario, which would have seemed unthinkable five years before, is demonstrative of both the economic recovery in Michigan, and the market challenges facing the sector. Not surprisingly, the majority of the state's sales activity has occurred in the State's largest industrial markets of Detroit and Grand Rapids.

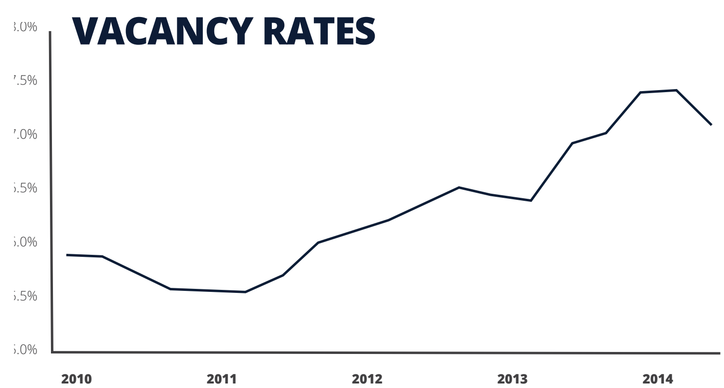
INDUSTRY SALES
BY COUNTY



RETAIL

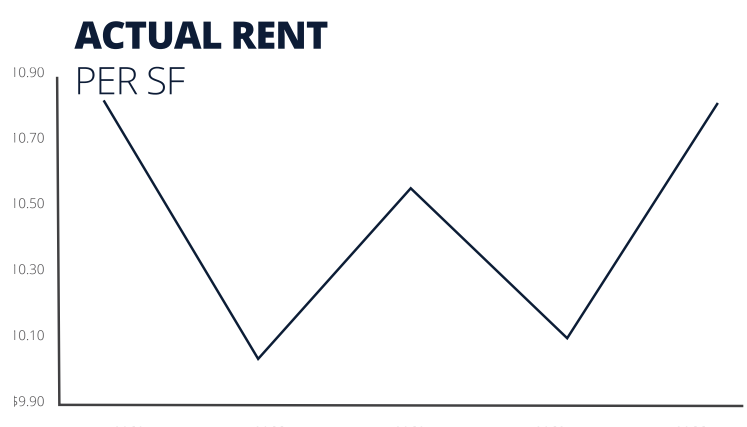


The Michigan retail market has been uneven and recently slowing. Although it experienced some growth since the lows of 2009 -2010, in the past two years it has been contracting in volume and total square feet sold, but sales per square foot have improved. Vacancy rates have been climbing and cap rates have steadily reduced from 11% to around 8%.



RENTAL

Overall, rental rates are sporadic, fluctuating between $10.90 and $10.10 per SF over the past five years. At the same time, vacancy rates have risen from a low of 5.5% to a recent high of over 7%, although the most recent quarter has indicated a slight decrease. Bloomfield and Washtenaw County have the highest average retail rental rates [based on eighteen quarters] at $16.88 per SF and $15.48 per SF respectively, with Troy ranked third at $14.82 per SF, compared to an overall average of $10.49.

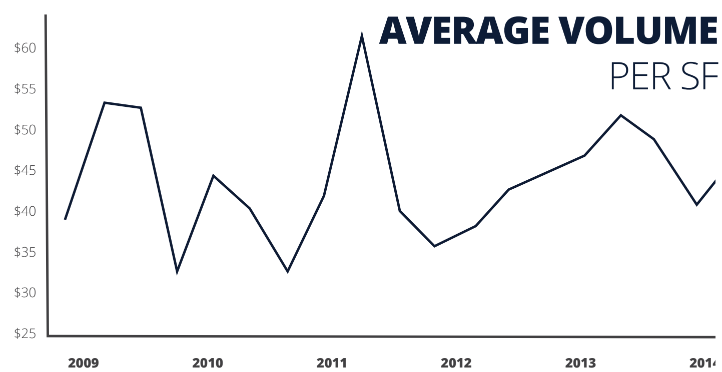


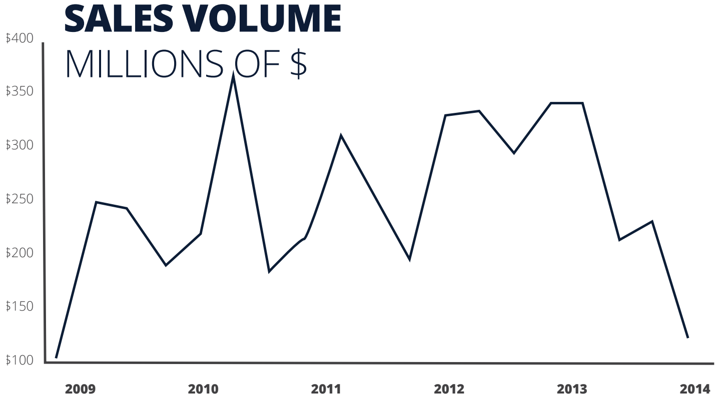
"With three Targets closing, and Kmart and Sears, there is a consolidation in retail that will impact real estate. But I am predicting a surge in new retail in 2017 lead by food and beverage."

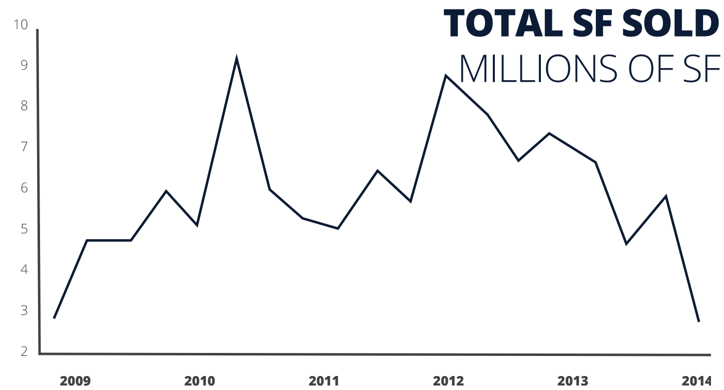
SALES

Sales of retail buildings have been steady but uneven between 2011 and 2013. Sales volume increased significantly in 2010, and more gradually between 2012 and 2013, but has decreased in each of the past four quarters. Similarly, total square feet sold increased significantly in 2011, but has decreased in each of the past seven quarters. During this same period, the average sale price per square foot has steadily, but slowly, increased since 2011.

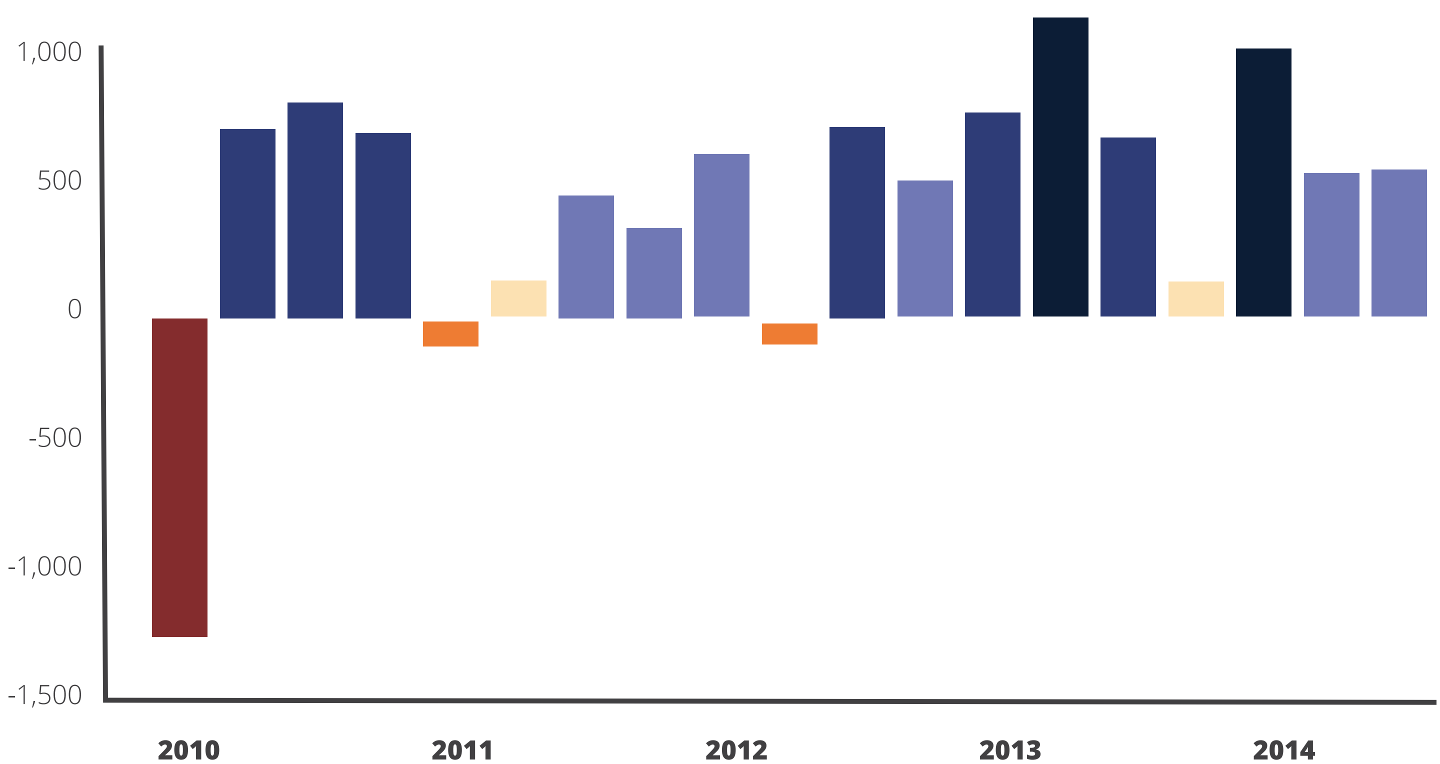
After negative adsorption in the first quarter of 2010, absorption has been positive, with two minor exceptions.





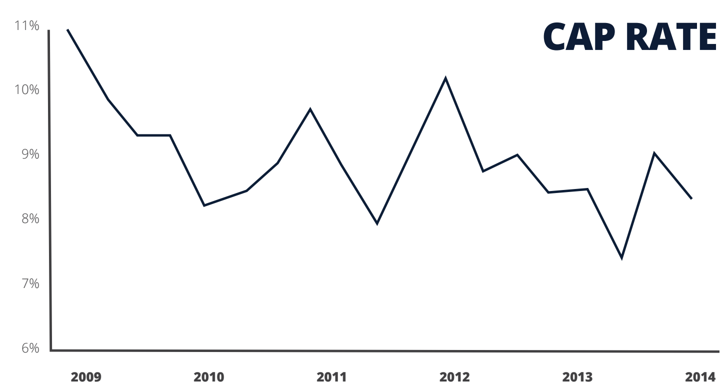


NET ABSORPTION
THOUSANDS SF



CAP RATES

Overall, cap rates for retail product continued a steady decline from 11% in 2010, to 8.3% in 2014. During the same four year period, cap rates for retail in Metro Detroit, the largest region for sales of retail buildings, averaged 8.8% [Wayne County], 8.7% [Oakland County], and 9.8% [Macomb County]. For 2013, retail cap rates for that market were 7.9% [Oakland County], 8.1% [Wayne County], and 10% [Macomb County].



TRENDS IN CAP RATE

REGIONAL MALLS

3.17 — 2014
2.92 — 2015

POWER CENTERS

3.00 — 2014
3.00 — 2015

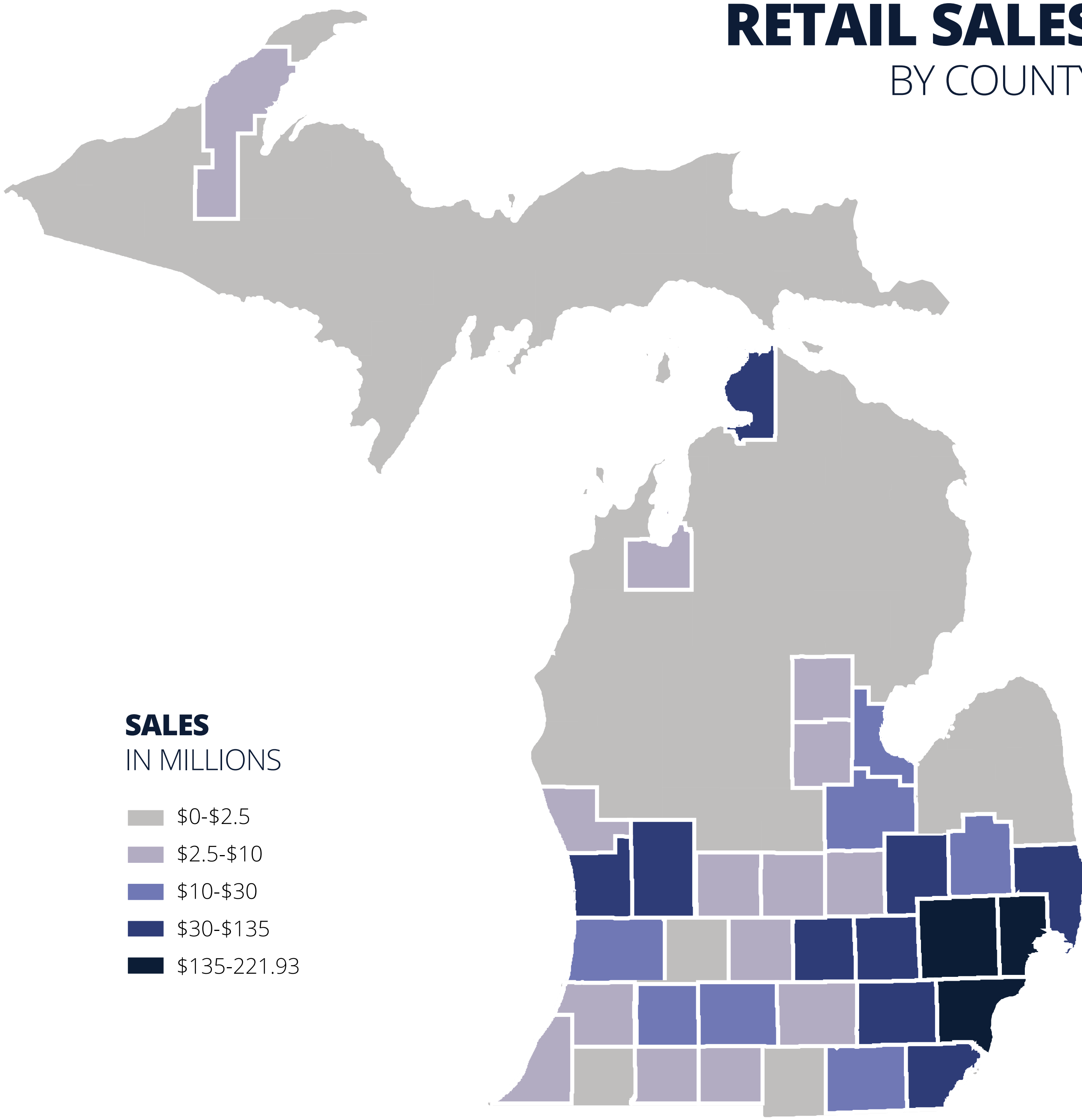
NEIGHBORHOOD SHOPPING CENTERS

3.08 — 2014
2.92 — 2015

RANGE

0 3 5

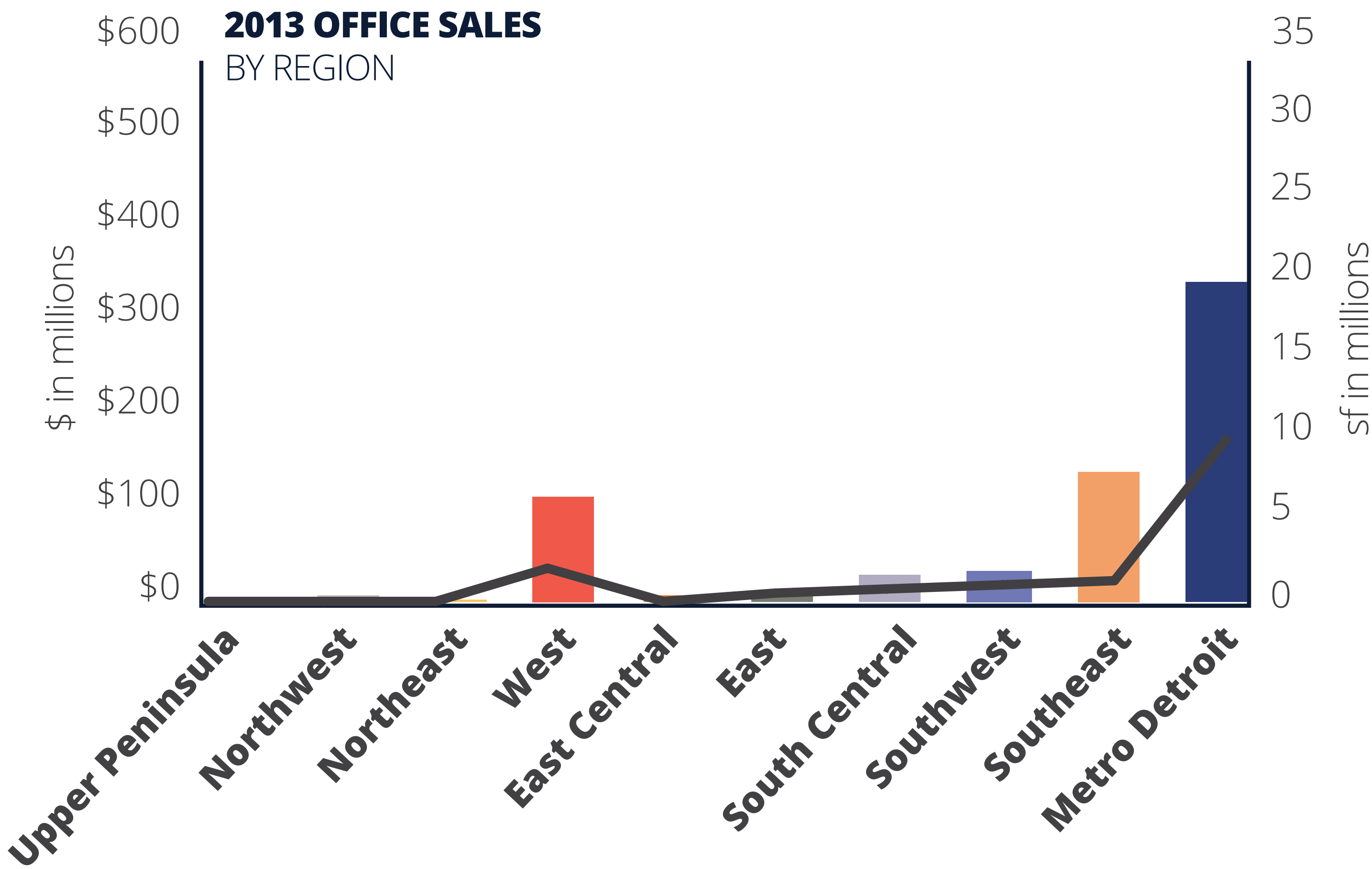
RETAIL SALES
BY COUNTY



SALES
IN MILLIONS

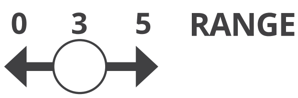
- $0-$2.5
- $2.5-$10
- $10-$30
- $30-$135
- $135-221.93

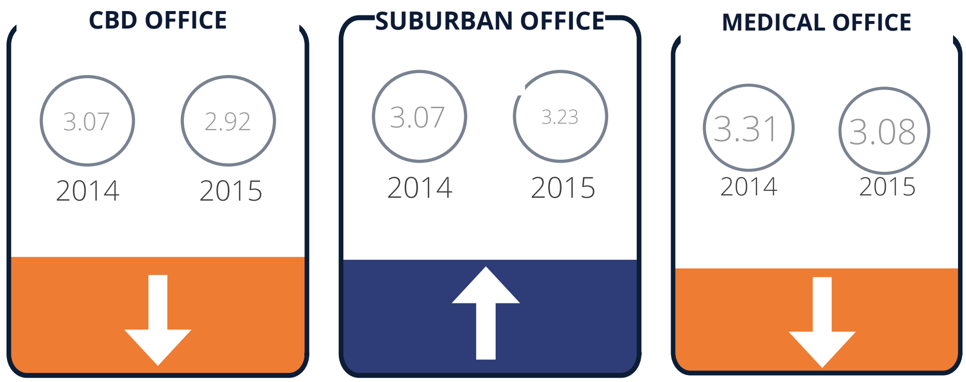
OFFICE

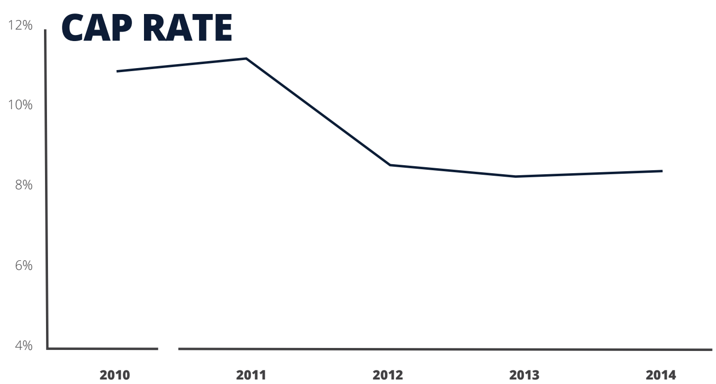


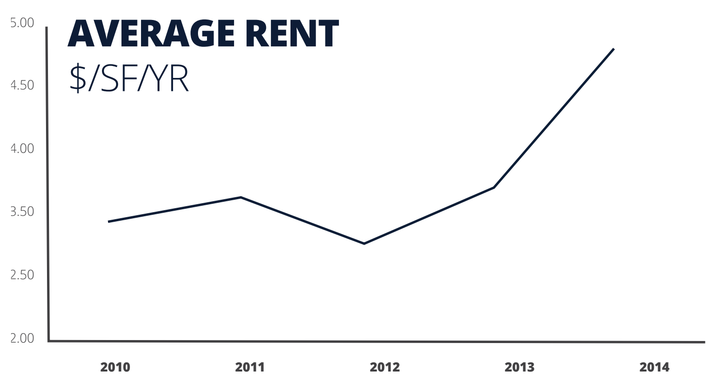
Overall, the Michigan office market has displayed positive trends in 2014. The office leasing market experienced significant growth in the past year, while the for-sale market showed mild growth. Market-wide vacancy rates continued to decline, while cap rates continue to hover around 8%. The market is showing promising signs of a healthy recovery, and there is no major reason to believe these general trends could not continue through the next year.

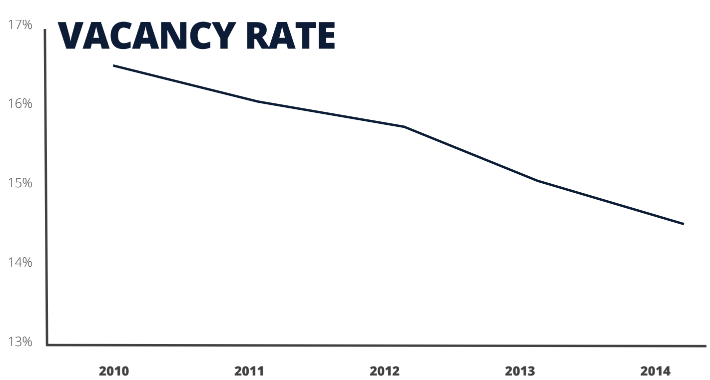
TRENDS IN CAP RATE











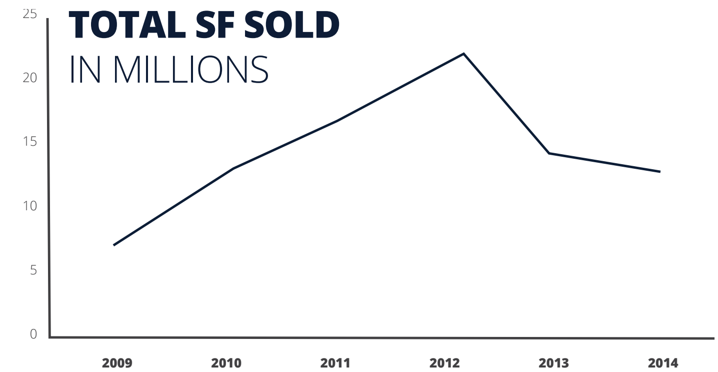
CAP RATES

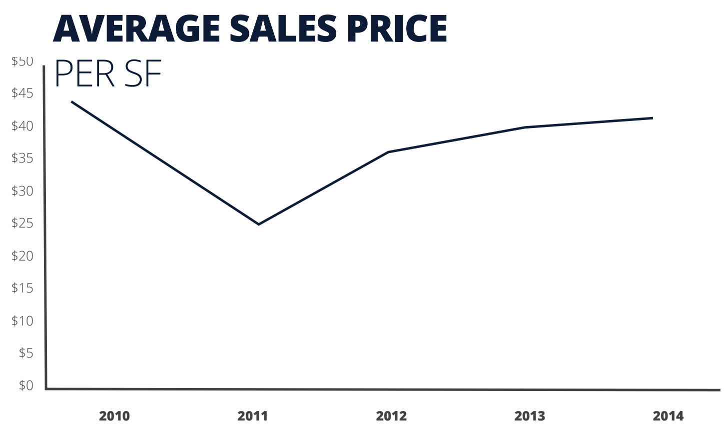
Cap rates showed a mild increase of 0.13% from 8.2% in 2013 to 8.33% in 2014. While our data available for cap rates is limited, this change could be attributable to the gap between lease rates increasing by 8.24% and sales rates increasing by only 6.6%. Assuming that overall operating expenses did not increase significantly, this gap could explain the slight growth in cap rates due to a slight boost to income per dollar of property value.

RENTAL

Michigan's main business hubs continued to command higher rates, with Detroit taking Bloomfield's spot as the highest rate market in 2014. Detroit commanded an average rental rate of $21.10 SF/yr in 2014 – 43% above the state average of $14.72 SF/yr. This shift is likely the result of the consistently growing interest and business momentum in Detroit and the resurgence of business in the area.

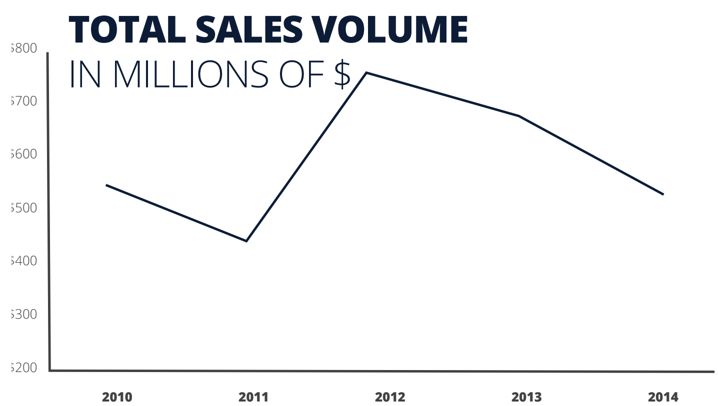
Overall, Michigan's vacancy rates over the last five years have declined. While the rates have declined less than 1% year-to-year, the declining vacancy rates are heading closer to a healthy rate that can accommodate growth. However, despite declining vacancy rates, the available rentable area has increased, potentially due to an influx of new development. Although the increased available space is slight [less than 1%], this is a trend that should be monitored to ensure the market doesn't create an over-supply of available rentable space which may result in increased vacancy rates.

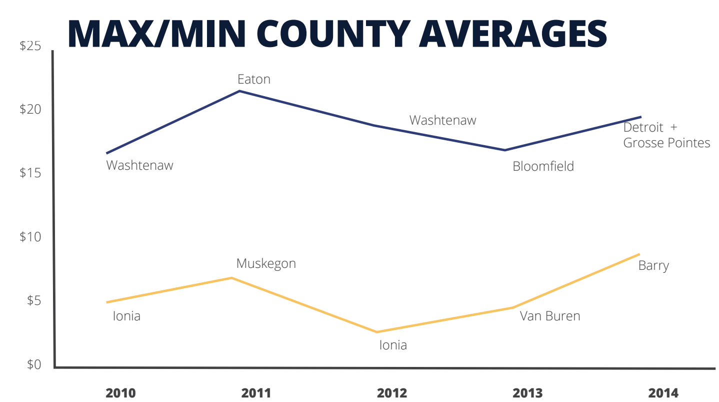




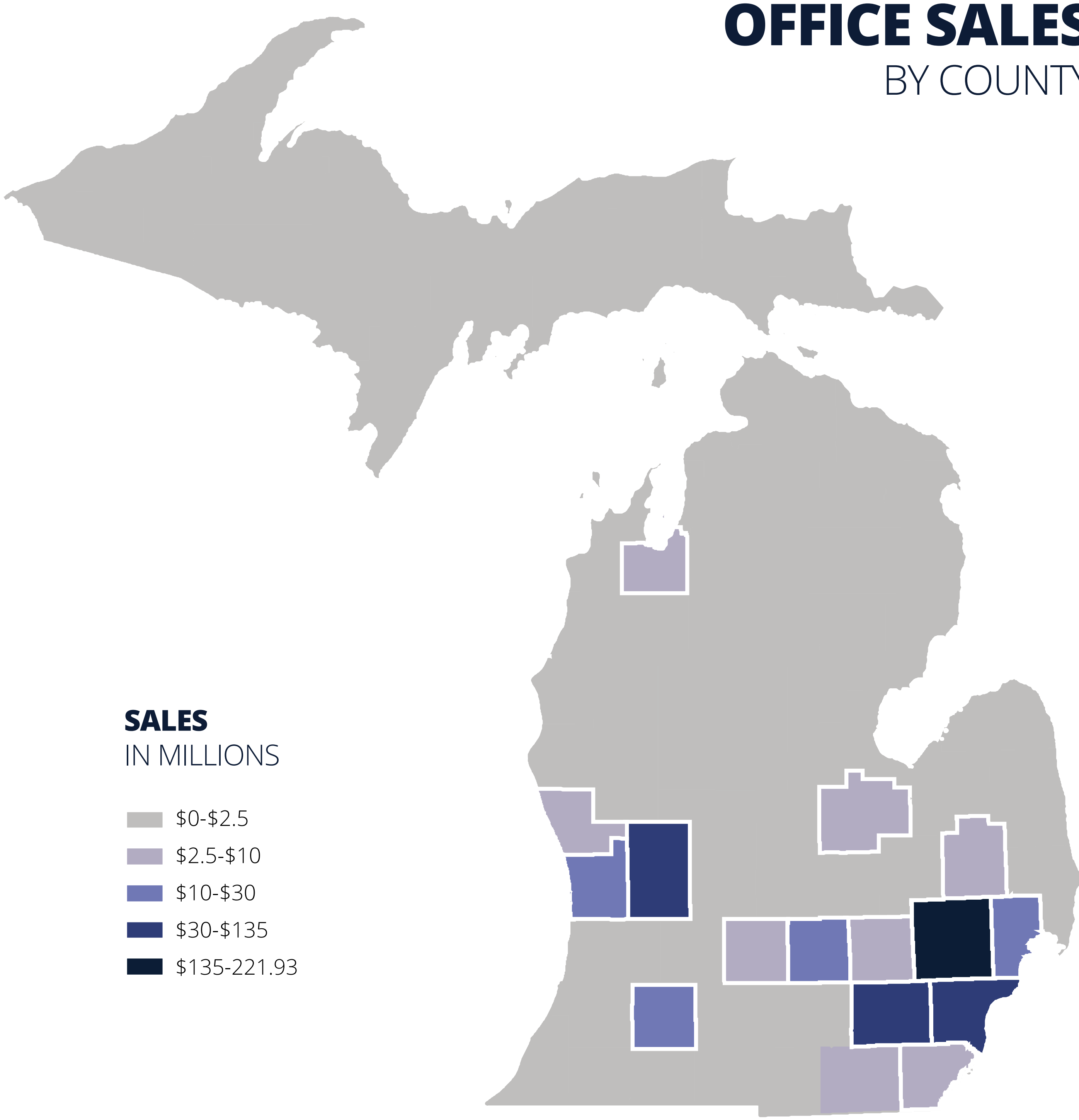
SALES

Average sales per square foot increased 9.57% from $38.57 in 2013 to $42.26 in 2014. The Michigan market overall witnessed a decline in total square footage sold, but also saw a slight increase in total sales dollars.





OFFICE SALES
BY COUNTY



BUSINESS PROSPECTS IN MICHIGAN

"This year has been very busy, volume is way up, development projects are way up, refinancing way up, all categories are way up.,..this trajectory should continue till 2015."

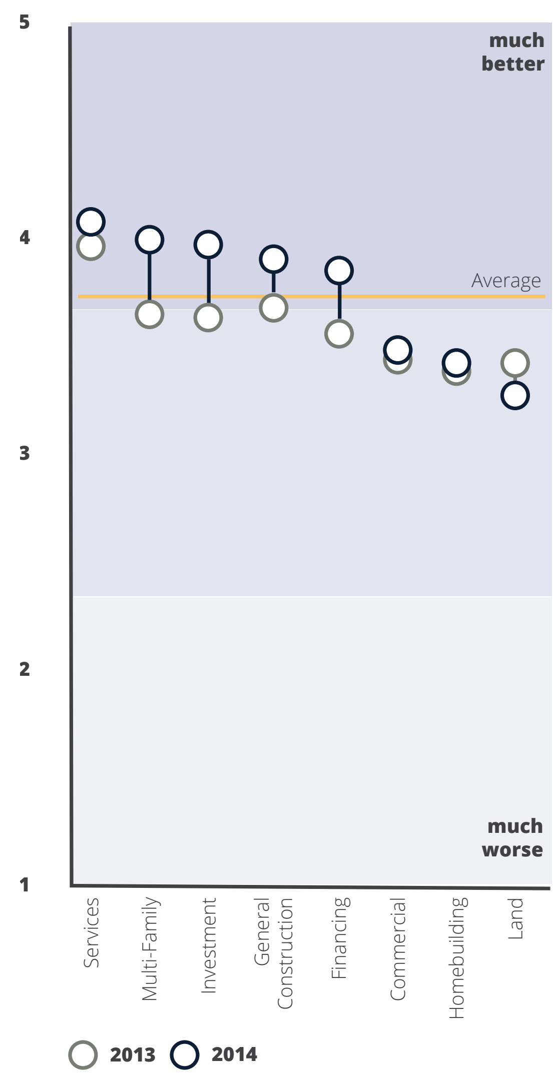
When asked to look forward and predict business conditions, the majority of the respondents expect their own business sector to be solidly fair in 2015. The exceptions are home building and land development, which are expected to not do as well, ranking as good to fair. This is not a shinning endorsement, but it possibly reflects the steady but slow overall improvement in real estate, or maybe continuing shell shock from the recession.

For all segments except land development, these predictions are more optimistic than last year. Land development is not only expected to do slightly worse than last year, but is also expected to do worse in Michigan than other markets, where it is expected to be stuck at about the same level. The real estate service segment continues to be the most optimistic, but the largest improvement in outlook was from the investment segment [+7% increase over last year].

Services, investment and multi-family top the list, but general construction and financing are close behind. The ranking is almost identical to last year, with only general construction falling from second to fourth, behind investment and multi-family.

Similar to last year, the respondents generally feel that Michigan is a good place to continue to do business,

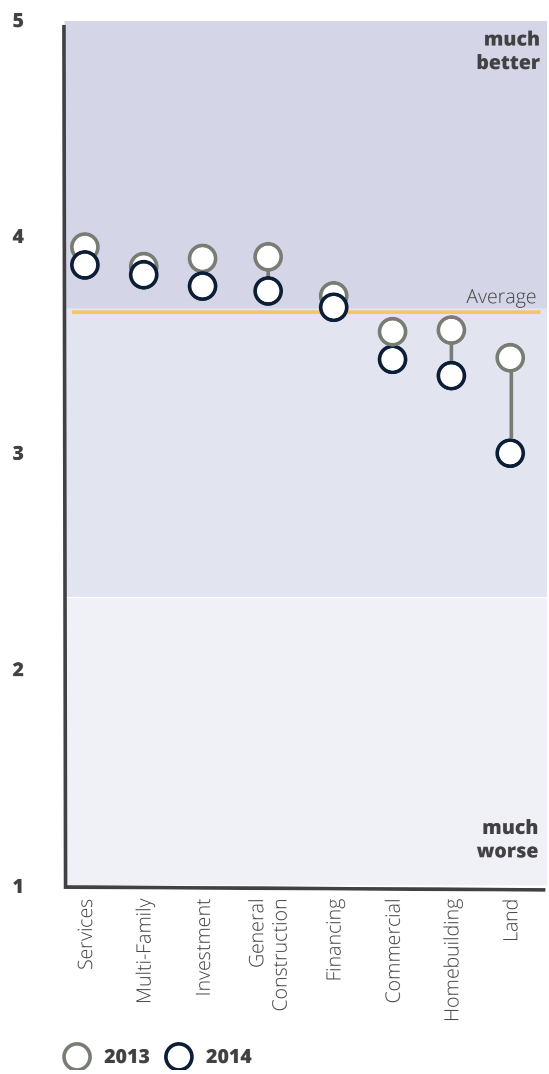
BUSINES PROSPECTS IN MICHIGAN
BY INDUSTRY



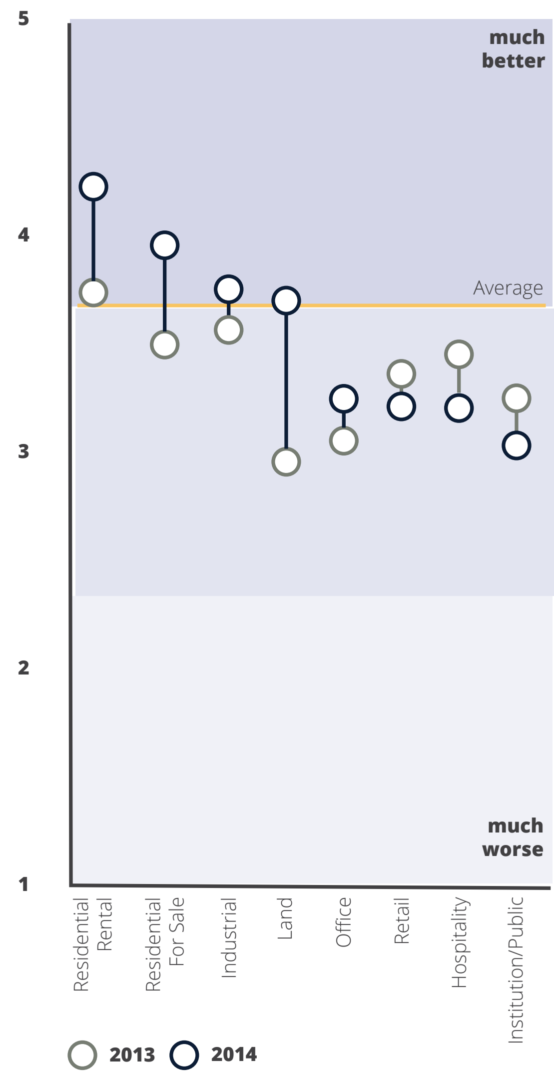
when compared to other markets. For most segments, they expect their business to do somewhat better here than they would in other markets. The exceptions are commercial, home building and land, which are expected to be about the same compared to other markets. Their enthusiasm is down slightly from last year in all segments except the real estate service industry, which continues to not only be the most optimistic, but is also the only segment to be more optimistic about Michigan compared to other markets than last year. As predicted last year, this may suggest the service sectors expectation of continued improvement across all segments served.

By product type, residential rental is expected to do best, being solidly "somewhat better" than other markets, the same position as last year. Residential for sale, industrial and land are also expected to be somewhat better, but all other types are expected to be about the same as other markets. Respondents

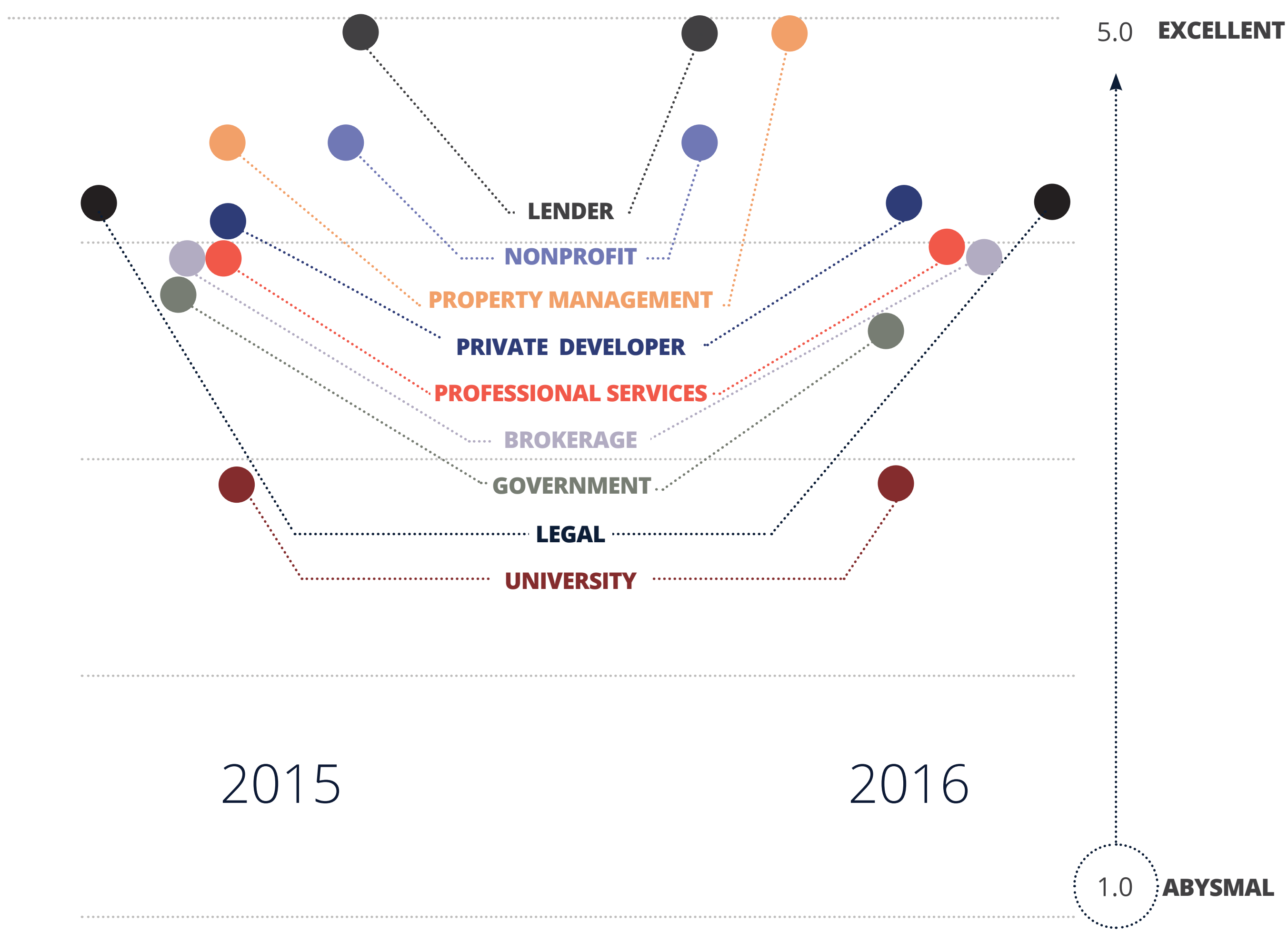
BUSINES PROSPECTS VS OTHER MARKETS
BY INDUSTRY



BUSINES PROSPECTS VS OTHER MARKETS
BY SECTOR



2014 + 2015 BUSINESS PROFITABILITY
BY CATEGORY



were more optimistic than last year for all product types except retail, hospitality and public, which continue to rank at the bottom. The largest increase in ranking was for land [+23%], which moved from last place last year to fourth this year, and from being about the same as other markets to being somewhat better. The difference between this response for land and the response provided by industry sector may be that land is being purchased for other types of uses.

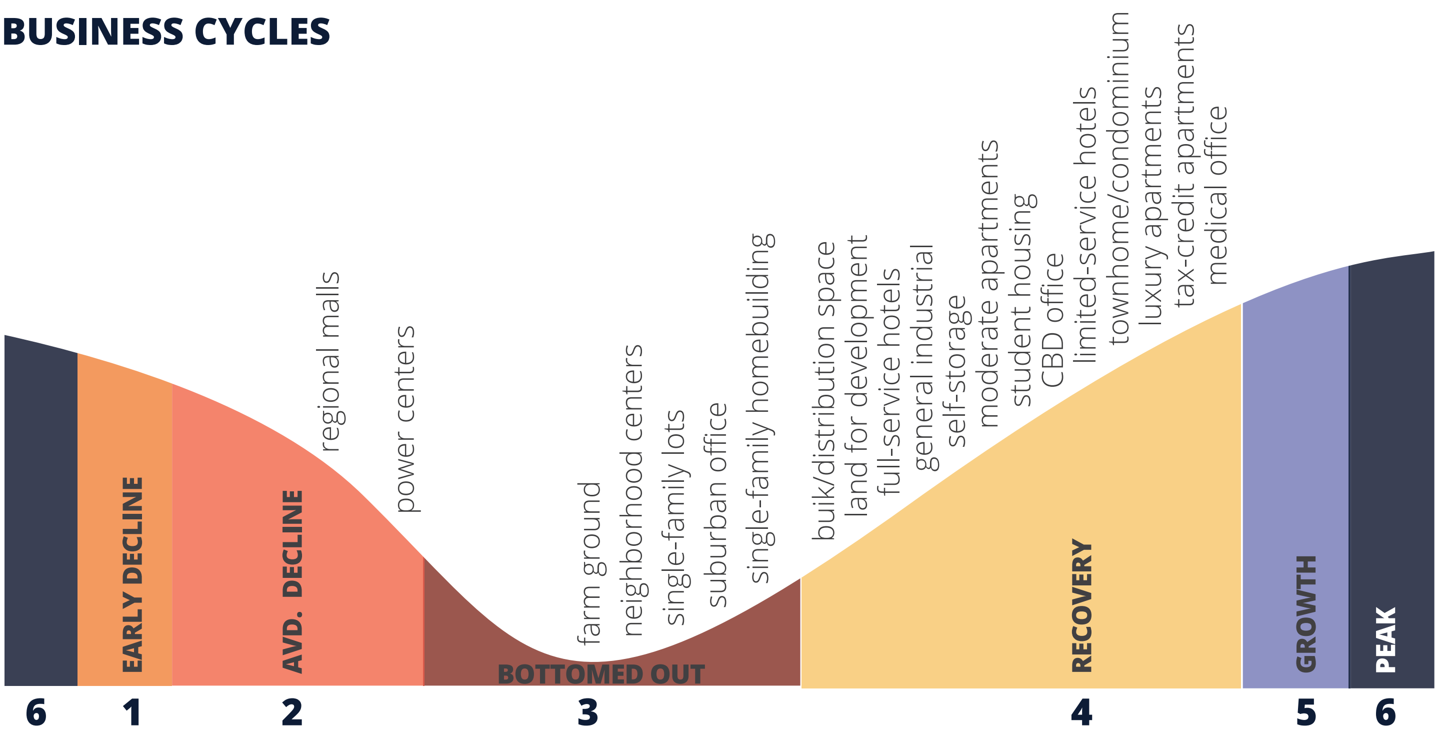
The most optimistic segment for profitability in both 2015 and 2016 are lenders and property managers. Lenders indicated that profits should be a solid "excellent" in both years, while property managers predicted fair to excellent in 2015 and excellent in 2016. However, the overall prediction from last year and this year is consistent, indicating profits to be fair on the average in 2015. For 2016, the overall assessment is for profits to be fair to excellent, a very positive trend, and generally more optimistic by segment than responses last year.

The majority of the respondents this year indicated that profitability will remain the same from 2015 to 2016, but that government revenues would be somewhat less. Private developers, services, and property managers all anticipate slightly improved profitability over the next two years. Property managers have the most improved outlook for profitability [+10%] between 2015 and 2016.

TRENDS BY REAL ESTATE SECTOR

"Detroit is an entrepreneurial, wide-open platform of opportunity. Grand Rapids is also very entrepreneurial and the quality of life is very appealing. Bookended generations want place based downtowns"

BUSINESS CYCLES



Based on the survey, most of the market sectors [65%] are in recovery [averaging a score of 4.80 on a scale of 1-6]. These range from early recovery for distribution space and land, to solid recovery for medical office and tax-credit apartments. About a quarter of the sectors have bottomed out [average score of 4.13], ranging from farm ground to single family homebuilding. Two segments are in advanced decline: regional malls and power center [average score of 3.30]. This is significantly different from last year, when no segments were in decline, and the range was smaller: 3.69 to 5.00 in 2014 compared to 3.14 to 5.31 in 2014.

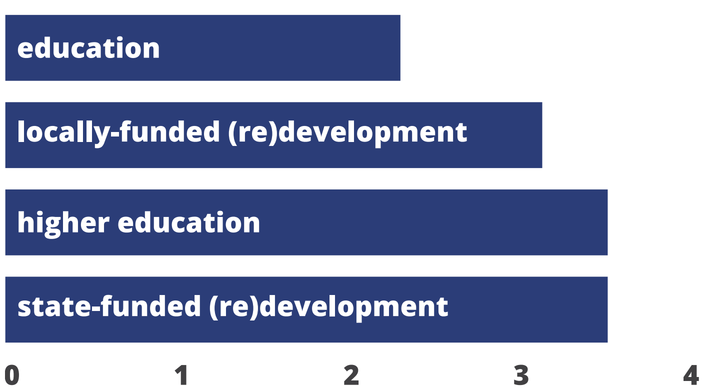
Overall, the most significant improvement is in medical offices [35% change in ranking], which moved from bottomed out to advanced recovery, followed by self-storage [26% change] that also moved from bottomed out to early recovery. The most significant declines were in regional malls [-23% change] and power centers [-14% change] that both moved from bottoming out to advanced decline.

HOUSING rental categories are clearly in recovery [average 4.90]. Of the four categories, luxury and low income apartments are trending toward growth stages. Low income apartments ranked second as an solid recovery last year [4.93] as well as this year [5.13], but luxury apartments indicate an improvement from very early recover [4.56] to solid recovery [4.93]. Student housing and moderate housing remain largely the same as last year, in solid recovery.

The three categories of for-sale housing are in very different stages [average 4.44]. Townhouses and condominiums are in solid recovery [4.91], very similar to last year [4.88]. However, single family lot [4.10] and single family home building [4.30] are bottoming out, sliding slightly from being in early recover last year [4.31 and 4.44, respectively].

HOSPITALITY sectors are all in recovery [average 4.70], but have switched positions. Limited service hotels have moved to strong recovery [4.83] this year from bottoming out [4.17], while full service hotels have moved to early recovery [4.57] after being in full recovery [4.83] last year.

INSTITUTIONAL + PUBLIC CONSTRUCTION



RETAIL sectors are in advanced decline or have bottomed out [average 3.56]. Regional malls [3.14] and power centers [3.45] rank at the bottom of the survey, each in the late stages of advanced decline. These are down significantly from last year where they both were solidly in recovery [4.09 and 4.00, respectively]. Neighborhood centers are only slightly better, indicating solid bottoming out [4.08], very similar to last year [4.00].

OFFICE is tending toward full recovery [4.77 average], but the three segments are in very different stages. Suburban office has bottomed out [4.19], but that indicates an improvement from last year [3.83]. CBD office is in solid recover [4.81], but down a little from last year [5.00]. Medical office, however, tops the ranking with a solid recover trending toward growth [5.31], which is a significant improvement over last year when it had bottomed out [3.92].

INDUSTRIAL sectors are in early recover [4.61 average], with the three segments in similar stages. Bulk distribution is in early recovery [4.53], with the same ranking as last year. General industrial is also in early recovery [4.65], with no change from last year [4.64]. However self-storage has improved significantly to early recovery [4.67], improving from last advanced decline last year [3.69].

CONSTRUCTION ACTIVITY - PUBLIC MARKETS, measured by expected construction activity rather than business cycle expectations, is expected to be low to fair, but generally better than last year. K-12 Education construction is anticipated to be low, and down somewhat from last year [at 2.33]. Locally-funded redevelopment is expected to be fair, an improvement over last year's low to fair rating [2.67]. Higher education and state-funded development will see the most construction activity at fair to moderate, which is also an improvement over last hear [3.07 and 3.13, respectively].

TRENDS IN CAPITAL MARKETS

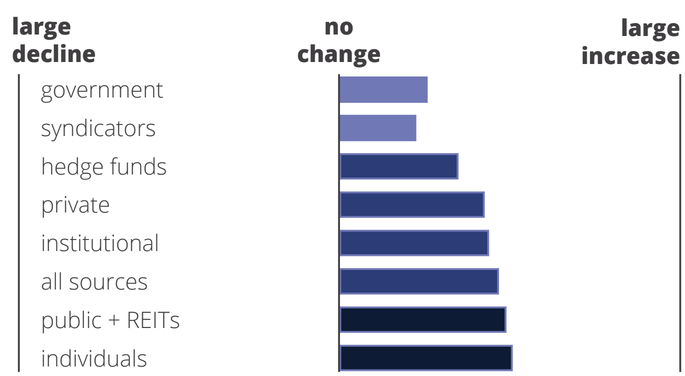
"Low interest rates and stable development costs are creating an environment with exceptional opportunity, especially with the demand from the past few years of no development."

Capital market indicators show improvement in all categories. While inflation and interest rates are expected to increase slightly in 2015 and moderately over the next five years, respondents also indicate that they expect a moderate increase in all sources of equity and debt to be available for projects. Equity capital from all sources is expected to improve moderately [3.96], a slight increase from last year [3.62].

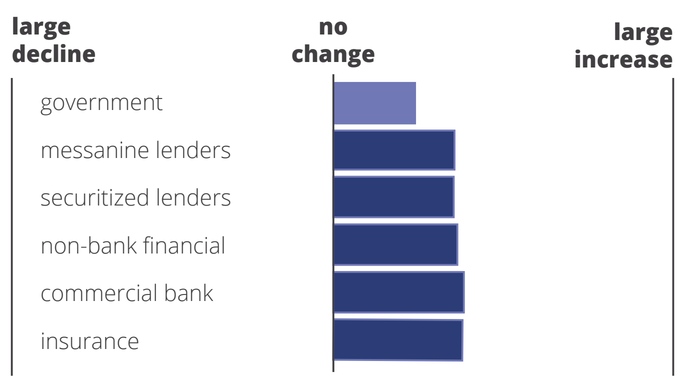
EQUITY CAPITAL
Public REITs and individual investors are most expected to lead the changes in available equity in 2014, with a moderate increase in available capital. Overall, respondents were optimistic that more capital will be available for real estate ventures from all sources, suggesting a moderate increase. This is an improvement from last year for all sectors except private companies, which decreased slightly. The largest improvement over last year was in the government sector [20% increase in availability]. This also represents a more even availability of equity sources.

DEBT CAPITAL
Similar to equity capital, respondents expect to see a moderate increase in availability of debt capital from all sources. No one sector is a clear leader, but while government sources are not expected to increase as much as other sectors, they are the most significant improvement over last year [21% increase in availability]. This is an increase in all sectors over last year, and represents a represents a more even availability of debt sources.

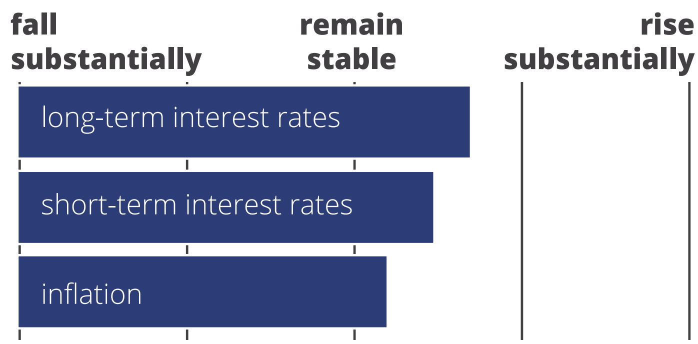
EQUITY CAPITAL



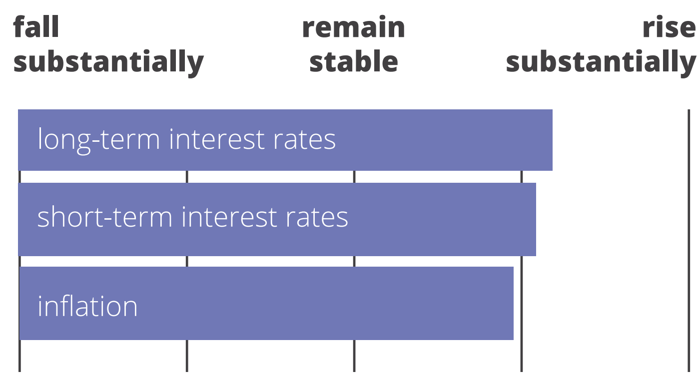
DEBT CAPITAL



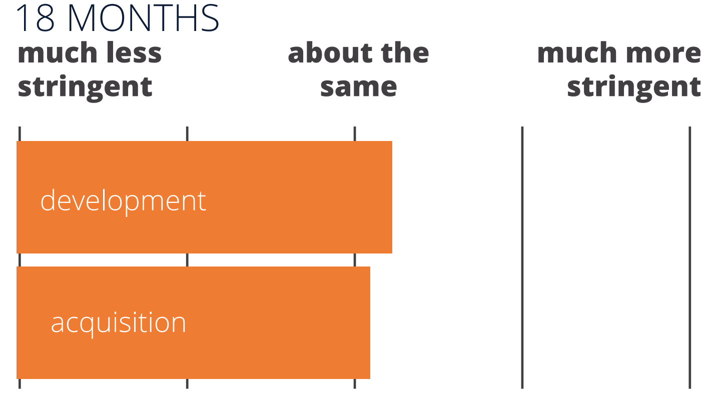
CHANGE IN INTEREST + INFLATION
2015



CHANGE IN INTEREST + INFLATION
FIVE YEARS



UNDERWRITING STANDARDS
18 MONTHS



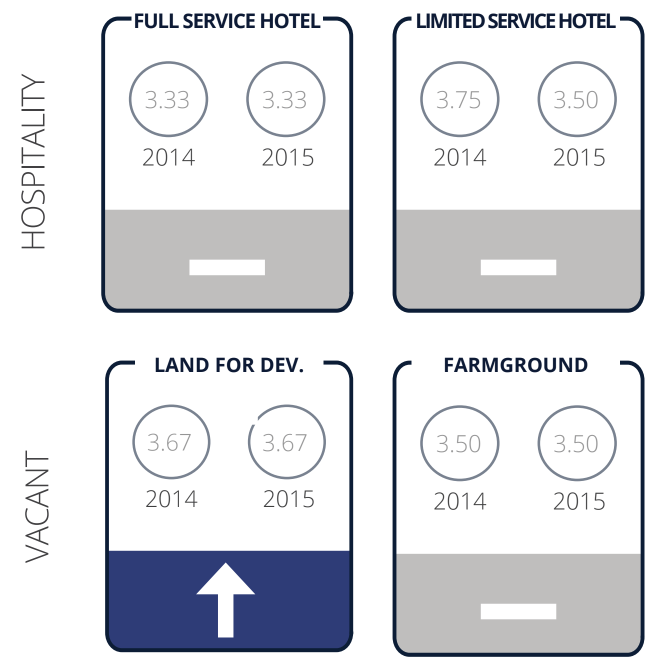
NFLATION + INTEREST RATES
Inflation is expected to remain stable in 2015 and then to moderately increase over the next five years. Both short- and long-term interest rates are expected to increase more than inflation in 2015, but increase only slightly to moderately in 2015. In the long-term, interest rates are expected to increase moderately over the next five years, along with short-term interest and long-term rates. This is similar to expectations last year, but puts more emphasis on long-term increases.

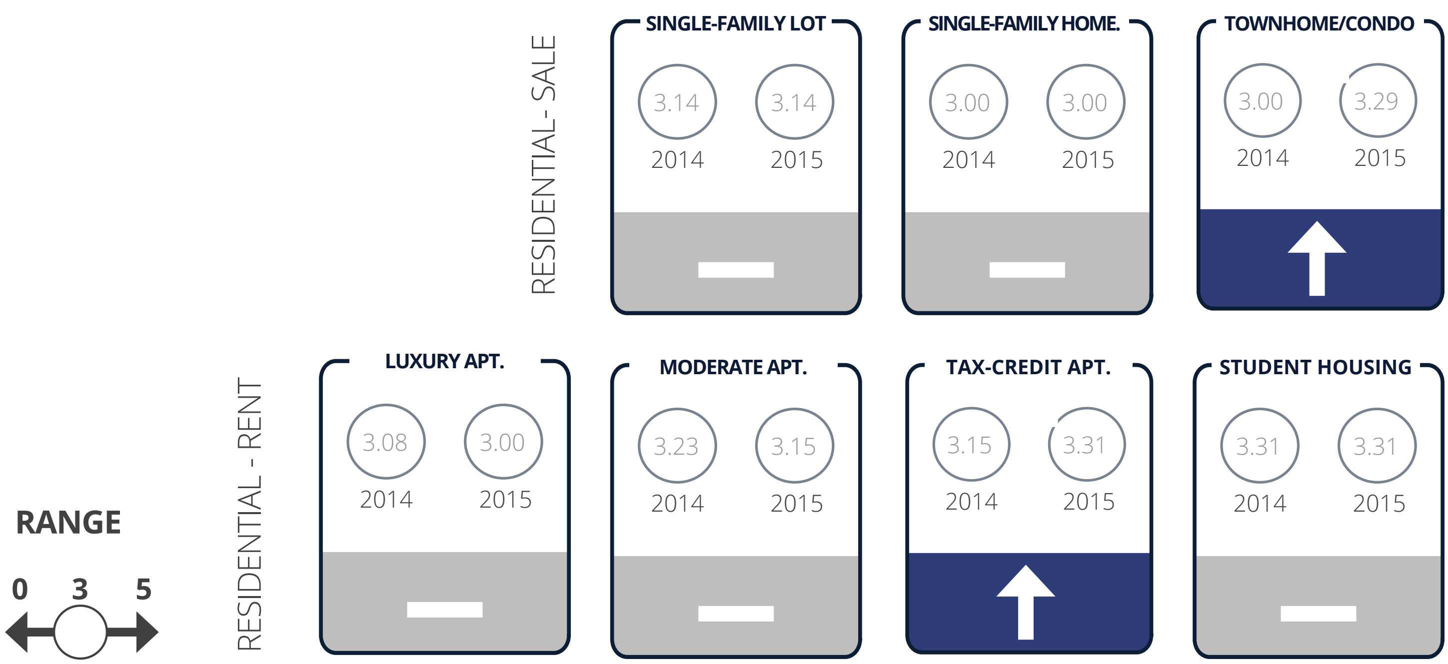
UNDERWRITING STANDARDS
Underwriting standards are expected to remain about the same over the next eighteen months for both real estate development and acquisition [3.18 and 3.05, respectively]. This is slightly more stringent than last year.

CAP RATES

In general, cap rates in 2014 were perceived as solidly stable, with only minor changes from the previous year [average score 3.21 out of 5]. As illustrated in the report sections on individual market segments, and in the graphics in this section, cap rates in both 2014 and 2015 are expected to range from stable to moderate increases [range 2.92 to 3.75]. Only the suburban office, low-Income apartments, townhouses/condominiums, land for development segments are expected to move toward moderately increasing cap rates. The bulk distribution space, CBD office, medical office, regional malls, and neighborhood shopping centers segments are expected to move toward moderately decreasing cap rates. The highest increase for 2014 is expected to be for limited-service hotels [3.75], and in 2015 it is expected to be for land for development [3.67].

TRENDS IN CAP RATE

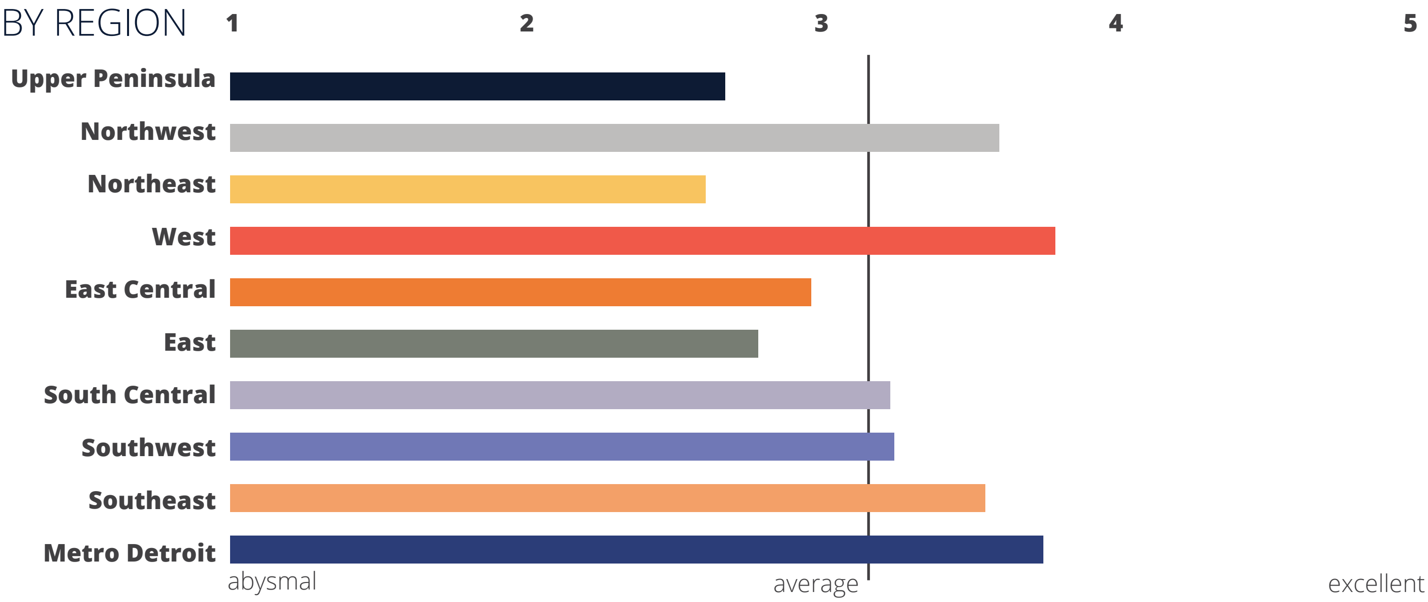




TRENDS IN SUBMARKETS

"If one person moving into Detroit will justify a 600 SF apartment, a 150 SF office, and all the related needs such as retail, sports, museums, etc for another 250 SF, this translates to $150,000 per person in bricks, sticks and mortar, plus spin-off spending. Dan Gilbert brought 10,000 employees to Detroit which could translate to $1.5 Billion in real estate development. Now let's get them to live, play and shop there."

OUTLOOK
BY REGION



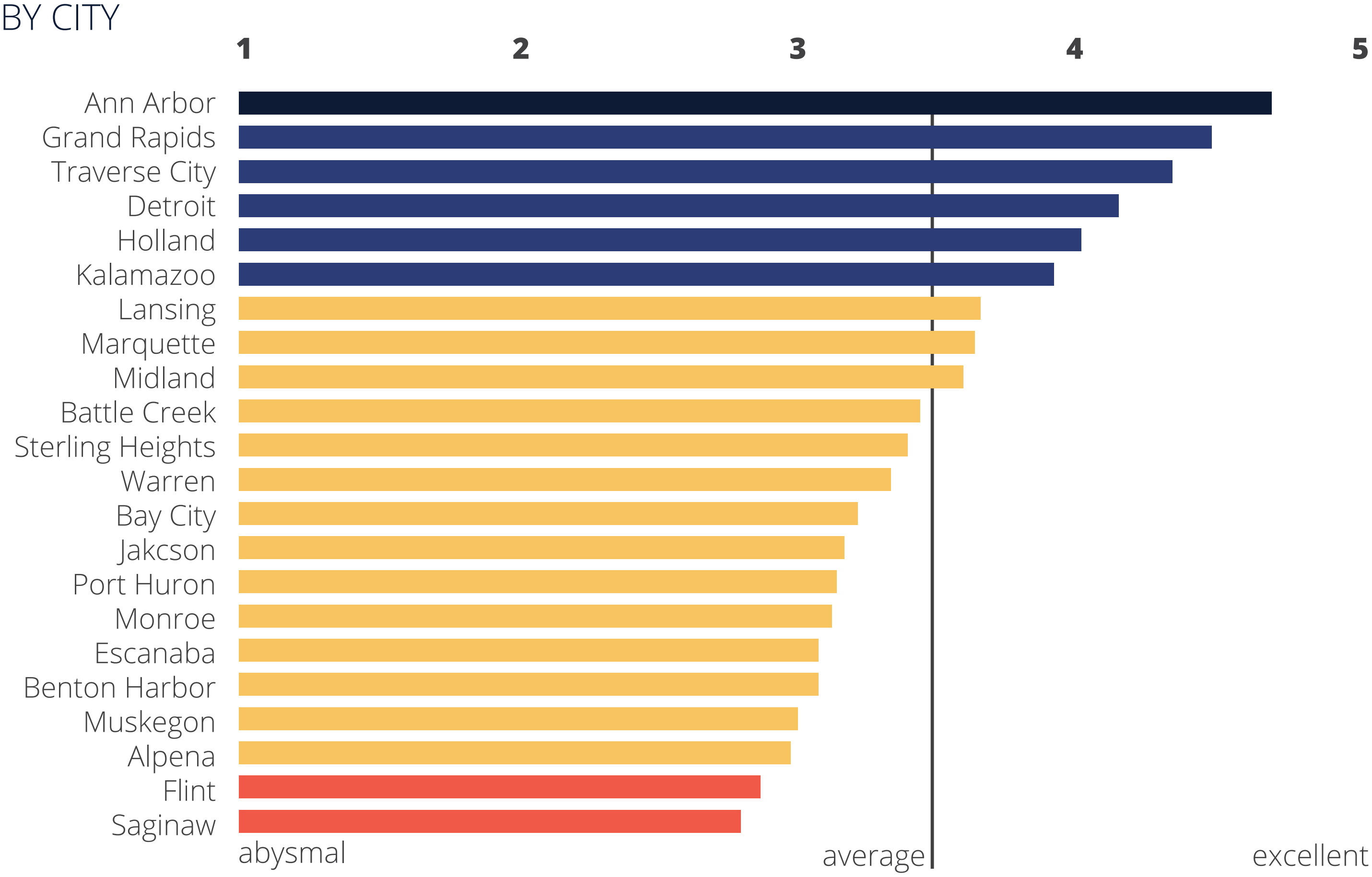
Whether ranking by regions or cities, the respondents consider development in Michigan to be just slightly better than fair [average 3.32 by region and average 3.22 by city]. The range of outlooks was similar whether ranked by city [2.31 to 4.75] or by region [2.40 to 4.17], indicating a wide range of recoveries and redevelopment opportunities, but suggesting that regional opportunities are largely perceived as opportunities for cities with those regions.

Regionally, the best outlook was for the West [4.17], with Metro Detroit [4.11] just slightly behind. Four regions along the coasts were ranked as fair redevelopment outlooks, the highest for any region in the state: West, Metro Detroit, Northwest and Southeast. Three of these regions contain five of the six largest cities by population in the state. The exception is the Northwest region, whose major city is not in the top 100 for population, but ranked third for redevelopment potential. Two of the regions, the Upper Peninsula and Northeast, ranked poor for redevelopment outlook, even though Marquette was listed as one of the top ten cities for redevelopment in both the 2013 and 2014 reports.

Ninety percent of the cities in the survey were ranked good or higher as real estate opportunities. Over twenty seven percent of the cities in the survey were ranked in the highest categories of fair or excellent. Ann Arbor, with an almost perfect score of 4.75 [out of 5], tops the list of best prospects for real estate with the only ratting of excellent, although Grand Rapids [4.48] is very close as the second ranked city. Traverse City [4.29] rounds out the top three, the same top three as last year. Completing the list of the top six, all fair investments, are Detroit [4.05], Holland [3.88] and Kalamazoo [3.75]. Flint and Saginaw continued to rank last, perceived as being a poor real estate opportunity, although the Flint score did improve by 10%.

Detroit showed the largest improvement [20%], moving from eighth [3.38] to fourth [4.05], and from good to fair. Muskegon had the largest drop in scoring [-19%], moving from ninth [3.20] to nineteenth [2.57], but continued to be ranked as a good opportunity. Both Lansing and Bay City also had drops in scoring of about 10%.

OUTLOOK
BY CITY



WALKABILITY

One oft-cited criticism of Michigan development is the lack of walkability. Although walkability is not directly measured in the survey, many of the questions, such as the impediments to development, measure the impact of various modes of transportation on development. If walkability is a consideration in the development of urban areas, and if urban areas are a focus of development in Michigan, then it is important to point out that some of the metropolitan areas included in the survey rated well when compared to the most walk able urban areas in the country.

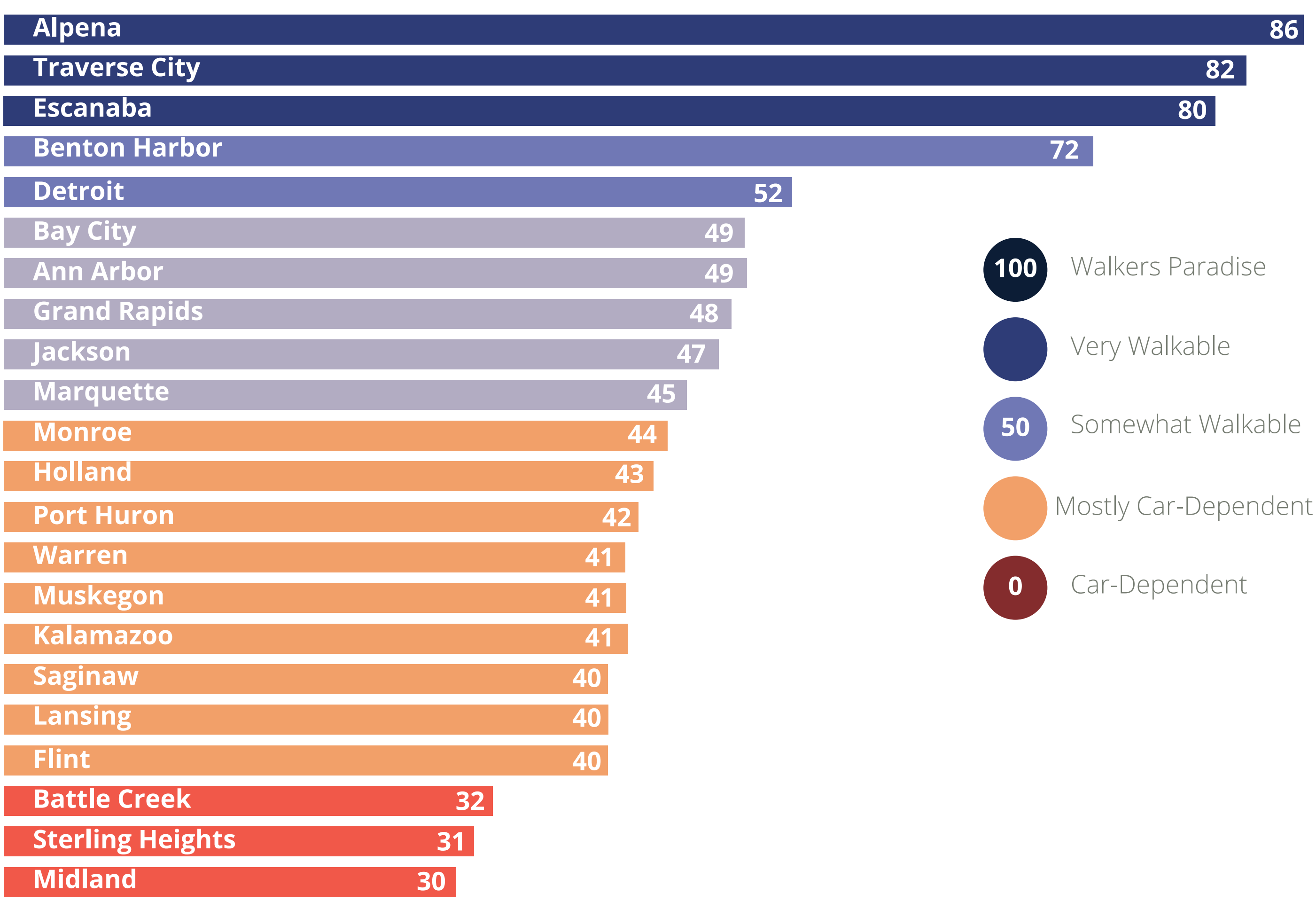
A review of the 2014 walk score [from www.walkscore.com] for the cities included in the survey, indicate that three rank at, or above, the top five walkalble major cities in the country: New York [88], San Francisco [84], Boston [80], Philadelphia [74], and Miami [76]. Alpena [86], Traverse City [82], Escanaba [80], and Benton Harbor [72] each rank as very walkalble. Five of the twenty-two cities in the survey [23%] rank as somewhat walkalble or higher, including Detroit. The remainder of the cities, ranked as mostly care dependant.

For Michigan in general, and Detroit in specific, this is a significant improvement over the perceptions of the national media. With a positive outlook for real estate opportunities in seven key regions and twenty cities around the State, real estate professionals in Michigan consider the state a better investment opportunity than has been described by others. Key opportunities exist in regions along the east and west coasts, and in cities across the southern and western parts of the state, not just in Detroit. While it is still true on a regional level that what happens in Metro Detroit affects the rest of the state, it is also becoming true for real estate that what happens in Ann Arbor, Grand Rapids, Traverse City, Detroit, Holland, Kalamazoo, and the other key cities affects the rest of the state.

Considering the origins of this report, it seems appropriate to mention one last time the ranking of Detroit, and by extension all of Michigan, in the national ULI Emerging Trends in Real Estate Report. As mentioned last year, this report was, in part, a response to the previous national rankings in that report that listed Detroit in last position each year from at least 2004 to 2013, often listing it as abysmal.

This year, the ULI changed the method for creating the rankings, and opened the process up to all full members. As a result, additional cities are now included in the report, and the ranking includes input from professionals in the heartland, closer to the opportunities in cities not on the coasts. As a result of this new process, Detroit ranked in the middle of the list in 2014 for overall real estate prospects, even earning a top tier rating for investment. Although some of that rating is a result of the real estate activity and opportunities in and around the city, some of it is that other voices are now being heard, and the Detroit story is beginning to be told. Detroit may indeed be "greatest real estate opportunity in the country" [right Peter Allen?].

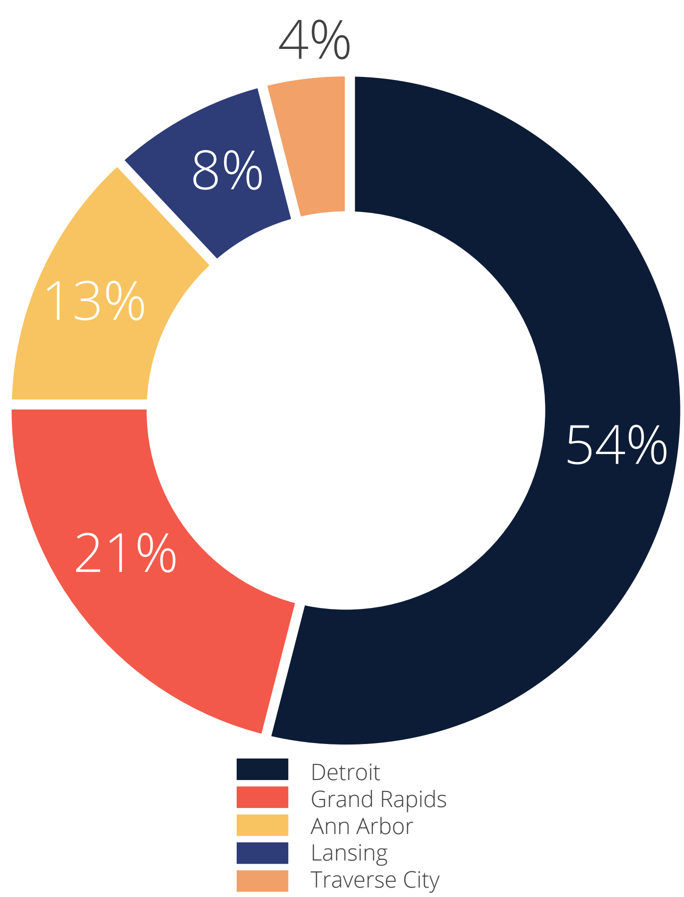
WALKSCORES
BY CITY



MOST EXCITING OPPORTUNITIES

Detroit [54%] again tops the list of most exciting development opportunities. This year the question focused on 20-35 year olds, but the outcome was similar. Following Detroit were Grand Rapids [21%], Ann Arbor [13%], Lansing [8%] and Traverse City [4%], in similar order to last year. This year's question was open ended, and as such, may not have captured some of the exciting redevelopment potential in smaller cities such as Holland, Grand Haven and Jackson that were listed last year.

MOST EXCITING CITIES
FOR 21-35 YEAR OLDS



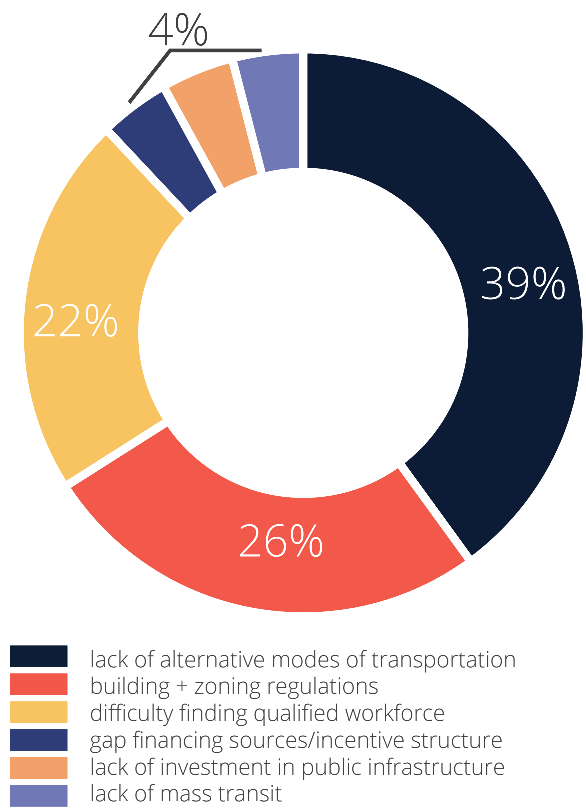
IMPEDIMENTS

The lack of alternative modes of transportation continues to be cited as the number one impediment to real estate development in Michigan. In 2013 35% percent of respondents ranked if first, compared to a similar 39% this year. Detroit and Grand Rapids, with their light-rail and fixed-wheel public transportation initiatives, continue to be a model of the Michigan cities, but regional and city-wide transportation challenges remain. It may be that this is not so much an impediment, but an opportunity, as urban areas in the state are increasingly desirable locations for redevelopment.

Unlike last year, building and zoning regulations [26%] were listed as the second most frequently mentioned impediment. This is up from last year [17%] when it ranked third behind lack of financing, which was not mentioned this year.

Finding a qualified work force moved from fifth [7%] to fourth [22%] this year, possibly illustrating a lack of skilled trades following an exodus during the great-recession. Gap financing, lack of public infrastructure and lack of mass transit all finished the same.

IMPEDIMENTS



"The last three years have been an extremely positive for Mid-Town, and the demand in there. Now we need the development to follow"

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