



Second Quarter

E-Newsletter

JUDEH ASSOCIATES

**Real Estate
Valuation
and
Consulting**

**Business
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**Real Estate
Development**

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USPAP

USPAP 2006 is here and many are wondering how it will affect their work. The new rules incorporate certain prominent revisions. Specifically, these revisions include the new Scope of Work and the deletion of the Departure Rule and all of its related terminology, such as “binding” and “specific” and “complete” and “limited” appraisals.

While the Scope of Work concept is not new to USPAP, there is a greater emphasis on the appraiser’s process of problem identification and development of an appropriate scope of work. The appraiser must determine an appropriate scope of work that should be performed to produce “credible assignment results.”

In addition, the appraisal report must contain sufficient disclosure to allow the intended user to clearly understand the scope of work performed and the reasons thereof. Reporting requirements do not change and will allow the appraiser to continue to label reports as Self-Contained, Summary or Restricted use.

Specific information regarding the changes can be found at the links for the Appraisal Institute or the Appraisal Foundation listed at the end of this newsletter.

Office Market

The office market for the Greater Detroit Metropolitan area remained unchanged over the previous quarter. The second quarter ended with a vacancy rate of 16.7%. Total office building sales activity in 2006 so far has been up compared to 2005. This year has also been the beneficiary of higher cap rates in the office market average 9.06% compared to the same period in 2005 which include cap rates of 8.80%.

Total Office Market Statistics

Mid-Year 2006

Market	Existing Inventory		Vacancy	YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Bldgs	Total RBA	Vac %				
Bloomfield	531	15,969,373	15.8	(46,058)	53,651	75,300	\$23.40
Detroit/The Pointes	467	35,504,056	19.1	41,990	355,000	0	\$18.93
Downriver	144	1,975,882	17.3	(3,053)	0	0	\$18.87
Livingston/W Oakland	280	5,550,652	20.1	202,052	631,596	286,143	\$22.02
Macomb	706	9,746,297	12.9	44,367	12,218	5,900	\$19.37
North Oakland	406	14,256,638	11.1	130,231	0	27,000	\$19.09
Royal Oak	302	3,401,660	15	55,629	5,440	28,424	\$18.37
Southfield	420	23,966,754	17.2	92,747	0	15,200	\$20.14
Troy	293	17,856,076	23.8	(54,369)	0	0	\$20.28
Washtenaw	398	9,965,348	15.2	82,632	77,724	530,260	\$23.37
West Wayne	716	18,246,148	11.7	(52,684)	120,366	52,680	\$20.40
Totals	4,663	156,456,884	16.7	493,484	985,995	1,020,907	\$20.43

Source: CoStar

Construction Activity Markets Ranked by Under Construction RBA

Market	Existing Inventory				Average Bldg Size	
	# Bldgs	Total RBA	Preleased SF	Preleased %	All Existing	U / C
Washtenaw	9	530,260	111,684	21.1%	25,039	58,918
Livingston/W Oakland	6	286,143	99,500	34.8%	19,824	47,690
Bloomfield	1	75,300	0	0.0%	30,074	75,300
West Wayne	2	52,680	11,628	22.1%	25,509	26,340
Royal Oak	1	28,424	25,013	88.0%	11,264	28,424
North Oakland	1	27,000	2,970	11.0%	35,115	27,000
Southfield	1	15,200	7,600	50.0%	57,064	15,200
Macomb	1	5,900	5,900	100.0%	13,805	5,900
Detroit/The Pointes	0	0	0	0.0%	76,026	0
Troy	0	0	0	0.0%	60,942	0
All Other	0	0	0	0.0%	13,721	0
Totals	22	1,020,907	264,295	25.9%	33,553	46,405

Source: Costar

Industrial Market

The Detroit area industrial market for the second quarter of 2006 indicated lower vacancy rates than the previous quarter which was also combined with lower rental rates. Inventory of buildings under construction is at its lowest since 2001. Uncertainty of the future plans for Ford and GM, have impacted this market. Sales activity of properties measuring 15,000 sf plus fell during the first quarter 2006 in terms of dollar volume from fourth quarter 2005. Cap rates have been lower in 2006, average 8.25%, compared to the first three months of last year when they averaged 10.35%.

Total Industrial Market Statistics

Mid-Year 2006

Market	Existing Inventory		Vacancy	YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Bldgs	Total RBA	Vac %				
Airport/I-275	2,872	113,305,238	11.7%	211,609	0	420,289	\$5.00
Detroit Area	1,083	60,953,503	19.1%	(27,880)	0	200,000	\$3.34
Downriver	607	38,895,905	9.4%	(489,315)	0	7,200	\$5.00
East Area	3,583	106,713,716	8.6%	(27,657)	123,332	244,755	\$5.26
I-96 Corridor	1,614	48,901,032	11.8%	195,621	267,512	350,587	\$6.93
Oakland County NW	1,051	46,409,685	8.9%	618,312	397,880	27,312	\$6.54
Royal Oak/Southfield	1,136	19,859,883	10.4%	(136,334)	0	0	\$5.88
Troy Area	1,470	33,273,987	11.4%	(109,895)	40,877	0	\$6.05
Washtenaw	583	19,314,747	12.8%	5,054	12,000	0	\$7.49
Totals	13,999	487,627,696	11.5%	239,515	841,601	1,250,143	\$5.29

Source: Costar

Construction Activity Markets Ranked by Under Construction RBA

Market	Existing Inventory				Average Bldg Size	
	# Bldgs	Total RBA	Preleased SF	Preleased %	All Existing	U / C
Airport/I-275	3	420,289	100,000	23.8%	39,452	140,096
I-96 Corridor	7	350,587	256,378	73.1%	30,298	50,084
East Area	7	244,755	150,000	61.3%	29,783	34,965
Detroit Area	1	200,000	200,000	100.0%	56,282	200,000
Oakland County NW	1	27,312	13,929	51.0%	44,158	27,312
Downriver	1	7,200	7,200	100.0%	64,079	7,200
Washtenaw	0	0	0	0.0%	33,130	0
Royal Oak/Southfield	0	0	0	0.0%	17,482	0
Troy Area	0	0	0	0.0%	22,635	0
Totals	20	1,250,143	727,507	58.2%	34,833	62,507

Source: Costar

Additional Stats

	Regional Mall		CBD Office		Warehouse		Apartment	
	1st. Qtr.	4th Qtr.	1st. Qtr.	4th Qtr.	1st. Qtr.	4th Qtr.	1st. Qtr.	4th Qtr.
	2006	2005	2006	2005	2006	2005	2006	2005
Discount Rate (IRR)*								
Range	7.00% - 11.00%	7.00% - 11.00%	7.00% - 10.00%	7.00% - 10.00%	7.00% - 11.50%	7.00% - 11.50%	6.00% - 13.00%	6.00% - 13.00%
Average	8.95%	9.04%	8.48%	8.65%	8.47%	8.58%	8.89%	8.97%
Overall Cap Rate (OAR)*								
Range	5.50% - 9.50%	5.50% - 9.50%	4.50% - 9.50%	4.50% - 9.50%	5.50% - 9.00%	5.50% - 9.00%	4.25% - 8.00%	4.25% - 8.00%
Average	7.13%	7.12%	7.29%	7.35%	7.26%	7.29%	6.07%	6.13%
Residual Cap Rate								
Range	6.25% - 10.00%	6.50% - 10.00%	6.75% - 10.00%	7.00% - 10.00%	6.00% - 10.00%	6.00% - 10.00%	5.50% - 9.00%	5.50% - 9.00%
Average	7.86%	7.93%	8.16%	8.23%	7.98%	8.04%	7.26%	7.31%

* Rate on unleveraged, all-cash transactions

Definitions

b.p. basis points

Discount Rate (IRR). Internal rate of return on all-cash transaction, based on annual year-end compounding

Overall Cap Rate (OAR). Initial rate of return in an all-cash transaction.

Residual Cap. Rate. Overall capitalization rate used in calculation of residual price; typically applied to the NOI in the year following the forecast.

Source: *Korpacz Real Estate Survey*. Personal survey of a cross section of major institutional equity real estate market participants conducting during January 2006 by PricewaterhouseCoopers LLP. For complete information on results of these and other markets covered in the Survey, contact PricewaterhouseCoopers LLP, 615 Franklin Turnpike; Ridgewood, NJ 07450, 201-689-3130.

State of Michigan Unemployment Rate

January	2006	6.2
February	2006	6.6
March	2006	6.8
April	2006	7.2
May	2006	6.0

National Unemployment Rate

March	2006	4.7
June	2006	4.6

National Prime Rate 8.25

Related Links

Judeh & Associates	www.judehonline.com
SEMCOG	www.semco.org
Appraisal Institute	www.appraisalinstitute.org
Appraisal Foundation	www.appraisalfoundation.org
State of Michigan	michigan.gov
Korpacz Real Estate	www.pwcreval.com
CoStar Group, Inc.	www.costar.com

Comments

Please feel free to email us with any suggestions you may have to allow us to better serve you at jumanaj@judehonline.com