



Third Quarter 2006

E-Newsletter

# JUDEH & ASSOCIATES

Real Estate  
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## Topics covered in this issue:

- |                        |                       |
|------------------------|-----------------------|
| ◆ Appraisal Report Q&A | ◆ Cap and Yield Rates |
| ◆ Office Market        | ◆ Employment Growth   |
| ◆ Industrial Market    | ◆ Related Links       |

## What you have always wanted to know but were afraid to ask about appraisal reports . . .

- **To whom can I give appraisal assignment results and/or a copy of the report?** According to the Ethics Rule of USPAP and the Appraisal Institute's Code of Professional Ethics, the appraiser may only disclose confidential information about a file to the client and persons that the client has given consent. The appraiser is also able to give information to state enforcement agencies and other third parties that are authorized by the due process of law. Not all of the report includes confidential information.
- **Can I accept a new assignment covering the same property for another client?** Yes, but you may not disclose any confidential information from the previous client. You may give the same valuation if the value opinion is still relevant; however, you are not allowed to inform the second client that you appraised the property before for X amount of dollars.
- **Can I readdress a report, or change the name of the client, but otherwise give the same report to another client?** No. It is against USPAP to "readdress" a report because the report may contain confidential information that you are not permitted to disclose, you cannot change the original appraiser-client relationship, and you need to be engaged by the client and the intended user who must be identified at the time of the assignment or engagement, not after the report is completed.
- **What should you do if you're asked to "readdress" a report?** You should proceed as if you were engaged in a new assignment. The appraiser should be careful, because this extends your liability to the new client. Note for lenders – According to FIRREA a report that was prepared for a client that is a financial service institution may be used by another client, without any additional intended users.
- **Can I reassign a report to another party?** Reassigning is an ambiguous word. Make sure you know exactly what the client is asking for. If the client would like to sign over the rights and obligations of the report to another party, this can not be done by the appraiser. The report no longer belongs to the appraiser. If a client wishes to pass over the rights to another party they must do so.
- **Can I recertify a report to another client?** Because it is often used in lieu of update, a recertification of value does not change the effective date of the original value opinion. When a client seeks a more current value, this is not an extension of the old report but rather a new assignment.
- **Can I sign or issue a "reliance letter" that says another party (not identified in the report as the client or an intended user) can rely on a report I previously prepared?** No. Such a letter would, in effect, adds that party as an intended user after the completion of an assignment, and you cannot do that.

Excerpts from the original article which appeared in **Valuation Insights & Perspectives**, 3<sup>rd</sup> Quarter 2006  
Readdressing, Reassigning, Reappraising: Do's and Don'ts. By Stephanie Coleman, MAI, SRA, Appraisal Institute, Dir., Screening

**Office Market**

The office market for the Greater Detroit Metropolitan area remained unchanged over the previous quarter. This quarter ended with a vacancy rate of 16.9% as compared to last quarter which ended at 16.6% and the first quarter which ended with the same vacancy rate. Cap rates have been lower in 2006, averaging 8.36% compared to the same period in 2005 when they averaged 9.34%. On the construction front, 12 buildings total 459,320 sf were completed as compared to 6 totaling 218,463 sf in 2Q 2006, 13 totaling 719,886 sf completed in 4Q06 and 11 totaling 259,598 sf in 4Q05.

| Total Office Market Statistics |                    |                    | Third Quarter 2006 |                    |                  |                |                |
|--------------------------------|--------------------|--------------------|--------------------|--------------------|------------------|----------------|----------------|
| Market                         | Existing Inventory |                    | Vacancy            | YTD Net Absorption | YTD Deliveries   | Under Const SF | Quoted Rates   |
|                                | # Blds             | Total RBA          |                    |                    |                  |                |                |
| Bloomfield                     | 538                | 16,352,691         | 15.8%              | (47,086)           | 53,651           | 112,680        | \$23.32        |
| Detroit/The Pointes            | 490                | 35,769,260         | 18.9%              | 86,583             | 355,000          | 0              | \$19.19        |
| Downriver                      | 151                | 2,016,436          | 15.9%              | 41,153             | 20,000           | 0              | \$18.87        |
| Livingston/W Oakland           | 308                | 5,595,717          | 20.4%              | 184,300            | 411,728          | 176,103        | \$22.58        |
| Macomb                         | 734                | 9,873,859          | 13.5%              | 1,247              | 10,073           | 26,163         | \$19.43        |
| North Oakland                  | 412                | 14,336,912         | 12.8%              | (69,381)           | 0                | 0              | \$19.26        |
| Royal Oak                      | 306                | 3,440,869          | 14.5%              | 127,885            | 45,440           | 28,424         | \$18.17        |
| Southfield                     | 418                | 23,885,541         | 17.5%              | 48,614             | 0                | 15,200         | \$20.02        |
| Troy                           | 295                | 17,548,171         | 22.8%              | 70,743             | 0                | 0              | \$20.44        |
| Washtenaw                      | 413                | 10,311,095         | 16.1%              | 219,534            | 354,501          | 215,360        | \$23.21        |
| West Wayne                     | 723                | 18,369,456         | 12.0%              | (125,424)          | 139,276          | 52,680         | \$20.41        |
| <b>Totals</b>                  | <b>4,788</b>       | <b>157,797,007</b> | <b>16.9%</b>       | <b>538,168</b>     | <b>1,397,669</b> | <b>626,610</b> | <b>\$20.48</b> |

Source: CoStar

| Total Office Market Statistics |                    |             |            |            |       | Third Quarter 2006 |            |           |              |
|--------------------------------|--------------------|-------------|------------|------------|-------|--------------------|------------|-----------|--------------|
| Period                         | Existing Inventory |             | Vacancy    |            |       | Net Absorption     | Deliveries |           | Quoted Rates |
|                                | # Blds             | Total RBA   | Direct SF  | Total SF   | Vac % |                    | # Blds     | Total RBA |              |
| 2006 3q                        | 4,788              | 157,797,007 | 25,787,585 | 26,593,862 | 16.9  | 22,148             | 12         | 459,320   | \$20.48      |
| 2006 2q                        | 4,776              | 157,337,687 | 25,312,773 | 26,156,690 | 16.6  | 50,573             | 6          | 218,463   | \$20.42      |
| 2006 1q                        | 4,770              | 157,119,224 | 25,150,557 | 25,988,800 | 16.5  | 465,447            | 13         | 719,886   | \$20.43      |
| 2005 4q                        | 4,757              | 156,399,338 | 24,855,556 | 25,734,361 | 16.5  | (426,910)          | 11         | 259,598   | \$20.33      |
| 2005 3q                        | 4,746              | 156,139,740 | 24,130,814 | 25,047,853 | 16.0  | (146,653)          | 15         | 243,069   | \$20.37      |
| 2005 2q                        | 4,731              | 155,896,671 | 23,608,875 | 24,658,131 | 15.8  | 790,895            | 15         | 211,759   | \$20.39      |
| 2005 1q                        | 4,717              | 155,734,912 | 24,231,827 | 25,287,267 | 16.2  | 59,799             | 21         | 478,843   | \$20.33      |
| 2004 4q                        | 4,696              | 155,256,069 | 23,590,353 | 24,868,223 | 16.0  | 265,205            | 21         | 800,318   | \$20.36      |
| 2004 3q                        | 4,676              | 154,494,011 | 23,041,958 | 24,371,370 | 15.8  | 2,859              | 12         | 271,310   | \$20.54      |
| 2004 2q                        | 4,664              | 154,222,701 | 22,568,589 | 24,103,919 | 15.6  | 496,417            | 16         | 505,081   | \$20.35      |
| 2004 1q                        | 4,648              | 153,717,620 | 22,298,652 | 24,095,255 | 15.7  | (411,021)          | 18         | 402,095   | \$20.50      |
| 2003 4q                        | 4,631              | 154,074,230 | 22,152,188 | 24,040,844 | 15.6  | 569,273            | 17         | 579,219   | \$20.59      |
| 2003 3q                        | 4,614              | 153,495,011 | 22,011,460 | 24,030,898 | 15.7  | 815,113            | 17         | 1,420,120 | \$20.93      |
| 2003 2q                        | 4,598              | 152,089,891 | 21,512,551 | 23,440,891 | 15.4  | (529,339)          | 5          | 96,236    | \$20.63      |
| 2003 1q                        | 4,594              | 151,995,775 | 20,487,597 | 22,817,436 | 15.0  | (209,445)          | 20         | 592,810   | \$20.78      |
| 2002                           | 4,574              | 151,402,925 | 19,719,000 | 22,015,181 | 14.5  | (2,414,185)        | 69         | 2,085,642 | \$20.93      |

Source: CoStar

## Industrial Market

The Greater Detroit Metropolitan area industrial market for the third quarter of 2006 ended with a higher vacancy rate of 11.5%. The vacancy rate was 11.2% at the end of the second quarter 2006, 11.4% at the end of the first quarter which was also the same for the end of the fourth quarter 2005. Rental rates indicated a slight rise from last quarter but down from where it was a year ago when rental rates were at \$5.44. On the construction front, 7 buildings totaling 1,032,933 sf were completed as compared to 11 totaling 446,942 sf in 2Q06, 12 totaling 278,482 sf in 1Q06 and 7 totaling 629,105 sf in 4Q05.

### Total Industrial Market Statistics

Third Quarter 2006

| Market                   | Existing Inventory |                    | Vacancy      | YTD Net Absorption | YTD Deliveries   | Under Const SF | Quoted Rates  |
|--------------------------|--------------------|--------------------|--------------|--------------------|------------------|----------------|---------------|
|                          | # Blds             | Total RBA          |              |                    |                  |                |               |
| Airport/I-275 Ind        | 2,862              | 113,976,247        | 11.6%        | 456,431            | 17,457           | 0              | \$4.98        |
| Detroit Area Ind         | 1,118              | 64,331,680         | 18.1%        | (125,966)          | 0                | 200,000        | \$3.27        |
| Downriver Ind            | 608                | 39,032,084         | 8.6%         | (272,955)          | 0                | 7,200          | \$5.00        |
| East Area Ind            | 3,595              | 107,356,214        | 8.0%         | 342,620            | 135,888          | 94,755         | \$5.39        |
| I-96 Corridor Ind        | 1,627              | 49,073,122         | 12.2%        | 145,165            | 412,423          | 255,648        | \$6.90        |
| Oakland County NW Ind    | 1,054              | 47,303,530         | 10.2%        | 609,575            | 1,139,712        | 0              | \$6.34        |
| Royal Oak/Southfield Ind | 1,141              | 20,309,936         | 11.0%        | (375,007)          | 0                | 0              | \$6.67        |
| Troy Area Ind            | 1,475              | 33,250,801         | 13.2%        | (778,450)          | 40,877           | 0              | \$6.28        |
| Washtenaw Ind            | 592                | 19,797,608         | 12.0%        | 148,449            | 12,000           | 7,500          | \$7.44        |
| <b>Totals</b>            | <b>14,072</b>      | <b>494,401,222</b> | <b>11.5%</b> | <b>149,862</b>     | <b>1,758,357</b> | <b>565,103</b> | <b>\$5.34</b> |

Source: Costar

### Total Industrial Market Statistics

Third Quarter 2006

| Period  | Existing Inventory |             | Vacancy    |            |       | Net Absorption | Deliveries |           | Quoted Rates |
|---------|--------------------|-------------|------------|------------|-------|----------------|------------|-----------|--------------|
|         | # Blds             | Total RBA   | Direct SF  | Total SF   | Vac % |                | # Blds     | Total RBA |              |
| 2006 3q | 14,072             | 494,401,222 | 56,088,887 | 56,679,274 | 11.5  | (326,867)      | 7          | 1,032,933 | \$5.34       |
| 2006 2q | 14,065             | 493,368,289 | 54,316,268 | 55,319,474 | 11.2  | 1,013,783      | 11         | 446,942   | \$5.30       |
| 2006 1q | 14,055             | 493,004,757 | 54,677,376 | 55,969,725 | 11.4  | (537,054)      | 12         | 278,482   | \$5.37       |
| 2005 4q | 14,043             | 492,726,275 | 54,277,954 | 55,154,189 | 11.2  | 3,272,644      | 7          | 629,105   | \$5.42       |
| 2005 3q | 14,037             | 492,137,660 | 56,703     | 57,838,218 | 11.8  | (165,001)      | 9          | 256,227   | \$5.44       |
| 2005 2q | 14,030             | 492,389,519 | 56,574,370 | 57,925,076 | 11.8  | 769,751        | 13         | 367,486   | \$5.55       |
| 2005 1q | 14,017             | 492,022,033 | 56,580,459 | 58,327,341 | 11.9  | 253,390        | 23         | 968,517   | \$5.58       |
| 2004 4q | 13,994             | 491,053,516 | 58,179,714 | 59,891,214 | 12.2  | 2,644,192      | 19         | 959,252   | \$5.66       |
| 2004 3q | 13,976             | 490,106,514 | 59,852,363 | 61,588,404 | 12.6  | (524,131)      | 17         | 1,138,053 | \$5.45       |
| 2004 2q | 13,960             | 488,988,881 | 57,941,208 | 59,946,640 | 12.3  | (1,858,774)    | 3          | 13,720    | \$5.57       |
| 2004 1q | 13,958             | 488,990,270 | 56,074,427 | 58,089,255 | 11.9  | 1,514,092      | 14         | 420,051   | \$5.56       |
| 2003 4q | 13,946             | 488,835,884 | 57,456,615 | 59,448,961 | 12.2  | (482,468)      | 24         | 839,699   | \$5.57       |
| 2003 3q | 13,923             | 488,003,444 | 56,079,745 | 58,134,053 | 11.9  | (836,053)      | 22         | 695,672   | \$5.53       |
| 2003 2q | 13,902             | 487,343,270 | 54,432,910 | 56,637,826 | 11.6  | (1,808,767)    | 13         | 565,907   | \$5.56       |
| 2003 1q | 13,889             | 486,777,363 | 52,029,152 | 54,263,152 | 11.1  | (439,450)      | 22         | 1,531,550 | \$5.09       |
| 2002    | 13,868             | 485,915     | 49,961,860 | 52,320,254 | 10.8  | (3,000,427)    | 92         | 3,625,498 | \$5.13       |

Source: CoStar

## Additional Economic Indicators

|                                | Regional Mall  |                | CBD Office     |                | Warehouse      |                | Apartment      |                |
|--------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                                | 2nd. Qtr.      | 1st. Qtr.      | 2nd. Qtr.      | 1st. Qtr.      | 2nd. Qtr.      | 1st. Qtr.      | 2nd. Qtr.      | 1st. Qtr.      |
|                                | 2006           | 2006           | 2006           | 2006           | 2006           | 2006           | 2006           | 2006           |
| <b>Discount Rate (IRR)*</b>    |                |                |                |                |                |                |                |                |
| Range                          | 7.00% - 11.00% | 7.00% - 11.00% | 7.00% - 10.00% | 7.00% - 10.00% | 6.75% - 11.50% | 7.00% - 11.50% | 6.00% - 12.50% | 6.00% - 13.00% |
| Average                        | 8.88%          | 8.95%          | 8.43%          | 8.48%          | 8.29%          | 8.47%          | 8.60%          | 8.89%          |
| <b>Overall Cap Rate (OAR)*</b> |                |                |                |                |                |                |                |                |
| Range                          | 5.00% - 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                        | 7.09%          | 7.13%          | 7.23%          | 7.29%          | 7.04%          | 7.26%          | 6.01%          | 6.07%          |
| <b>Residual Cap Rate</b>       |                |                |                |                |                |                |                |                |
| Range                          | 6.25% - 10.00% | 6.25% - 10.00% | 6.75% - 10.00% | 6.75% - 10.00% | 6.00% - 10.00% | 6.00% - 10.00% | 5.50% - 9.00%  | 5.50% - 9.00%  |
| Average                        | 7.82%          | 7.86%          | 8.05%          | 8.16%          | 7.74%          | 7.98%          | 7.13%          | 7.26%          |

\* Rate on unleveraged, all-cash transactions, 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. b.p. -- basis points

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.

### Total Employment Growth

#### Cumulative Growth in Jobs Over the Past 5 Years

| Market                     | Employment Growth | Inventory Growth | Difference |
|----------------------------|-------------------|------------------|------------|
| Atlanta                    | 8.10%             | 6.90%            | 1.20%      |
| Chicago                    | 4.40%             | 5.70%            | -1.30%     |
| Dallas/Ft Worth            | 8.00%             | 4.70%            | 3.30%      |
| Denver                     | 9.50%             | 3.60%            | 5.90%      |
| Detroit                    | -2.70%            | 2.10%            | -4.80%     |
| Houston                    | 7.90%             | 4.70%            | 3.20%      |
| Inland Empire (California) | 13.40%            | 22.70%           | -9.30%     |
| Los Angeles                | 5.60%             | 2.90%            | 2.70%      |
| Northern new Jersey        | 4.10%             | 2.70%            | 1.40%      |
| Pittsburgh                 | 0.30%             | 2.20%            | -1.90%     |

Source: CoStar

### Related Links

|                      |  |
|----------------------|--|
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**Comments --** Please feel free to email us with any suggestions you may have to allow us to better serve you at [jumanaj@judehonline.com](mailto:jumanaj@judehonline.com).