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THE FEDERAL RESERVE & THE MICHIGAN MARKET!

On June 3, I was one of about 100 people who attended the Federal Reserve System Series titled "Addressing the financing Needs of Michigan's Small Businesses" hosted by the Federal Reserve Bank of Chicago, Detroit Branch. As I listened to speaker after speaker, I realized that there should have been 1,000 people in the room given the importance of the topic and the depth in which it was being discussed. At the end of the presentations, Chief Ben Bernanke spoke briefly and spent most of his time listening. The following is my interpretation of a summary of what some of the speakers addressed.

Ray Bacon, VP, Supervision and Regulation, Federal Reserve Bank of Chicago – Of the 128 banks in Michigan, 1 of every 3 is in trouble. According to a survey by the National Federation of Independent Businesses, 30% reported that their financial needs are met but #1 problem is decline in sales. A new policy statement on lending is that collateral should not be main concern, lenders should look at capacity of borrower to pay back. Recommended that borrowers should seek help before they get in financial trouble.

Terrence McHugh, CEO, Commercial Alliance – There are 335 credit unions in Michigan. Most loans are SBA 504. Do not have legacy costs of banks. Starting to venture in business loans. Real problem is that money is available but need credit worthy borrowers. Word is starting to get out that credit unions are lending. Experienced an 18% increase in lending from previous year. Need relief from regulators by raising the 12.25% cap on credit unions which will allow them to increase lending and better meet customer needs.

Kevin Watters, CEO, Business Banking, JP Morgan Chase – Role of banker is going back to basics. Becoming a financial advisor, introducing clients to potential customers and developing plan on how best to help the customer in diversifying their income stream. In their survey, 35% reported that sales were down and only 4% sighted lending as a major problem. They are #1 ARC loan provider.

Karl Bell, Senior Vice President, Detroit Investment Fund – Historically was privately funded and covered gap financing. Outlined several funds including Lower Woodward Housing Fund (Book Cadillac), Urban Retail Loan Fund (for housing areas that lack retail services), First Step Fund (does not have geographic restrictions), Pre-Development Fund (covers start up costs, due diligence and land acquisitions), and New Market Tax Credits (for low to moderate housing).

Ben Bernanke, Chairman, Board of Governors Federal Reserve System – Credit worthy borrowers should get loans without unrealistic restrictions. Working with lenders to facilitate lending; for example, assisting in eliminating artificial barriers and red lining of distressed industries. Encouraged alternative funding. Reliance on collateral should not be mechanical. Should analyze loans based on performance. Supports second look when loans are denied.

Interagency statement on Meeting the Credit Needs of Creditworthy Small Business Borrowers – Issued by FDIC, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Office of Thrift Supervision, and the National Credit Union Administration the statement is excellent reading on the official position of these agencies as it pertains to lending. The entire statement can be found at <http://www.federalreserve.gov/newsevents/press/bcreg/20081112a.htm>.

An institution should understand the long-term viability of the borrower's business, and focus on the strength of a borrower's business plan, including its plan for the use and repayment of borrowed funds. The institution should have an understanding of the competition and local market conditions affecting the borrower's business and should not base lending on decisions solely on national market trends when local conditions may be more favorable. Further, while the regulators expect institutions to effectively monitor and manage credit concentrations, institutions should not automatically refuse credit to sound borrowers because of a borrower's particular industry or geographic location. To the maximum extent possible, loan decisions should be made based on the creditworthiness of the individual borrower, consistent with prudent management of credit concentrations.

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OFFICE MARKET

Total Office Market Statistics

2nd Quarter 2010

Market	Existing Inventory		Vacancy			YTD Net Absorption	Deliveries	Under Cost SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Bloomfield	740	16,984,694	2,429,039	2,639,232	15.5%	58,024	16,000	61,718	\$21.76
Detroit/The Pointes	719	40,619,877	7,449,616	7,492,344	18.4%	(427,376)	0	0	\$19.25
Dow nriver	266	2,536,219	598,354	611,704	24.1%	30,284	0	0	\$16.44
Livingston/W Oakland	536	7,716,525	1,141,678	1,160,061	15.0%	101,824	0	120,000	\$20.82
Macomb	1,277	13,540,950	2,185,354	2,212,031	16.3%	14,012	0	27,000	\$17.65
North Oakland	689	17,611,889	3,343,233	3,502,964	19.9%	(268,361)	0	15,762	\$18.47
Royal Oak	438	4,475,366	679,694	691,469	15.5%	51,823	0	0	\$16.28
Southfield	527	24,203,435	5,249,873	5,393,493	22.3%	(99,511)	0	5,992	\$18.54
Troy	309	17,738,412	5,349,317	5,535,286	31.2%	(25,433)	0	0	\$18.66
Washtenaw	737	13,282,476	1,383,773	1,450,199	10.9%	21,555	0	10,370	\$19.84
West Wayne	1,054	22,042,386	3,049,956	3,200,545	14.5%	46,872	0	166,107	\$17.56
Totals	7,292	180,752,229	32,859,887	33,889,328	18.7%	(496,287)	16,000	406,949	\$18.90

Source: CoStar

Construction Activity Markets Ranked by Under Construction RBA

2nd Quarter 2010

Market	Under Construction Inventory				Average Bldg Size	
	# Bldgs	Total RBA	Released SF	Released %	All Existing	U / C
West Wayne	1	166,107	132,886	80.0%	20,913	166,107
Livingston/W Oakland	1	120,000	60,000	50.0%	14,397	120,000
Bloomfield	2	61,718	2,238	3.6%	22,952	30,859
Macomb	1	27,000	13,500	50.0%	10,604	27,000
North Oakland	1	15,762	15,762	100.0%	25,562	15,762
Washtenaw	1	10,370	0	0.0%	18,022	10,370
Southfield	1	5,992	0	0.0%	45,927	5,992
Royal Oak	0	0	0	0.0%	10,218	0
Troy	0	0	0	0.0%	57,406	0
Detroit/The Pointes	0	0	0	0.0%	56,495	0
All Other	0	0	0	0.0%	9,535	0
Totals	8	406,949	224,386	55.1%	24,788	50,869

Source: Costar

Historical Office Market Statistics

2nd Quarter 2010

Period	Existing Inventory		Vacancy			Net Absorption	Deliveries		UC Inventory		Quoted Rates
	# Bldgs	Total RBA	Direct SF	Total SF	Vac %		# Blds	Total RBA	# Blds	Total RBA	
2010 2q	7,292	180,752,229	32,859,887	33,889,328	18.7%	167,720	1	16,000	8	406,949	\$18.90
2010 1q	7,291	180,736,229	32,874,326	34,041,048	18.8%	(664,007)	0	0	7	368,079	\$18.90
2009 4q	7,292	180,805,856	32,161,139	33,446,668	18.5%	(1,418,368)	6	128,719	6	248,079	\$18.99
2009 3q	7,286	180,677,137	30,755,554	31,899,581	17.7%	(441,487)	5	37,649	12	376,798	\$19.23
2009 2q	7,282	180,642,188	30,398,885	31,423,145	17.4%	(246,892)	3	25,545	15	323,340	\$19.34
2009 1q	7,280	180,617,379	30,041,338	31,151,444	17.2%	(371,171)	7	154,521	15	205,667	\$19.50
2008 4q	7,273	180,462,858	29,439,267	30,625,752	17.0%	(105,111)	6	175,300	20	335,188	\$19.60
2008 3q	7,267	180,287,558	29,274,147	30,345,341	16.8%	(4,909)	6	106,901	20	407,992	\$19.83
2008 2q	7,265	180,189,037	29,319,669	30,241,911	16.8%	(49,782)	3	25,575	22	468,476	\$19.89
2008 1q	7,262	180,163,462	29,142,499	30,166,554	16.7%	(693,497)	11	302,726	21	434,146	\$20.16
2007	7,251	179,860,736	28,175,651	29,170,331	16.2%	1,542,502	68	1,782,935	23	603,844	\$20.06
2006	7,189	179,092,514	28,065,012	28,944,611	16.3%	814,462	84	2,351,235	57	1,742,135	\$20.10
2005	7,106	175,744,454	26,566,603	27,411,013	15.6%	969,013	95	1,925,613	76	2,667,628	\$20.25
2004	7,012	173,868,841	25,299,084	26,504,413	15.2%	1,159,888	91	2,740,175	83	1,855,050	\$20.34
2003	6,922	171,887,371	23,829,794	25,682,831	14.9%	1,374,002	75	3,124,329	84	2,869,759	\$20.05
2002	6,849	168,780,162	21,666,601	23,949,624	14.2%	(2,337,349)	95	2,328,703	70	3,613,525	\$21.06

Source: CoStar

INDUSTRIAL MARKET

Total Industrial Market Statistics

2nd Quarter 2010

Market	Existing Inventory		Vacancy			YTD Net Absorption	Deliveries	Under Const SF	Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %				
Airport/I-275 Ind	3,008	113,147,889	16,709,872	18,242,196	16.1%	(22,996)	0	0	\$ 4.79
Detroit Area Ind	1,462	86,703,192	16,460,056	17,122,056	19.7%	(51,017)	0	0	\$ 3.01
Dow nriver Ind	649	42,542,502	5,497,746	5,590,797	13.1%	(287,858)	0	0	\$ 3.80
East Area Ind	4,109	117,936,719	11,618,525	11,889,379	10.1%	346,573	0	21,633	\$ 4.26
I-96 Corridor Ind	1,907	56,820,228	7,231,846	7,471,970	13.2%	(253,645)	60,523	0	\$ 5.82
Oakland County NW Ind	1,346	52,635,934	5,730,404	5,979,977	11.4%	(487,716)	0	240,000	\$ 5.36
Royal Oak/Southfield Ind	1,162	19,584,216	2,110,279	2,140,479	10.9%	(178,728)	0	0	\$ 5.30
Troy Area Ind	1,454	32,021,342	4,218,959	4,264,414	13.3%	402,476	0	0	\$ 5.00
Washtenaw Ind	760	25,887,498	3,444,642	3,526,258	13.6%	281,797	0	20,257	\$ 6.10
Totals	15,857	547,279,520	73,022,329	76,227,526	13.9%	(251,114)	60,523	281,890	\$ 4.61

Source: Costar

Construction Activity Markets Ranked by Under Construction RBA

2nd Quarter 2010

Market	Under Construction Inventory				Average Bldg Size	
	# Bldgs	Total RBA	Preleased SF	Preleased %	All Existing	U / C
Oakland County NW Ind	1	240,000	0	0.0%	39,105	240,000
East Area Ind	1	21,633	21,633	100.0%	28,702	21,633
Washtenaw Ind	1	20,257	10,129	50.0%	34,062	20,257
Dow nriver Ind		0	0	0.0%	65,551	0
Royal Oak/Southfield Ind	0	0	0	0.0%	16,854	0
Troy Area Ind	0	0	0	0.0%	22,023	0
Airport/I-275 Ind	0	0	0	0.0%	37,616	0
I-96 Corridor Ind	0	0	0	0.0%	29,796	0
Detroit Area Ind	0	0	0	0.0%	59,305	0
Totals	3	281,890	31,762	11.3%	34,513	93,963

Source: Costar

Historical Industrial Market Statistics

2nd Quarter 2010

Period	Existing Inventory		Vacancy			Net Absorption	Deliveries		UC Inventory		Quoted Rates
	# Blds	Total RBA	Direct SF	Total SF	Vac %		# Blds	Total RBA	# Blds	Total RBA	
2010 2q	15,857	547,279,520	73,022,329	76,227,526	13.9%	913,059	1	21,000	3	281,890	\$4.61
2010 1q	15,856	547,258,520	73,606,051	77,119,585	14.1%	(1,164,173)	1	39,523	2	42,633	\$4.69
2009 4q	15,856	547,239,237	72,762,657	75,936,129	13.9%	(2,694,442)	1	45,000	2	60,523	\$4.77
2009 3q	15,856	547,203,774	70,111,319	73,206,224	13.4%	(1,423,564)	2	39,390	3	105,523	\$4.81
2009 2q	15,854	547,164,384	68,812,722	71,743,270	13.1%	(3,384,357)	2	67,555	4	123,913	\$4.95
2009 1q	15,853	547,125,454	65,688,060	68,319,983	12.5%	(2,833,381)	5	351,019	6	191,468	\$5.05
2008 4q	15,849	546,784,239	62,471,585	65,145,387	11.9%	(2,635,437)	3	366,934	11	542,487	\$5.08
2008 3q	15,847	546,722,930	59,670,869	62,448,641	11.4%	3,955,384	2	23,416	12	845,771	\$5.11
2008 2q	15,845	546,690,514	63,630,199	66,371,609	12.1%	(4,594,395)	3	901,441	9	585,142	\$5.09
2008 1q	15,842	545,789,073	58,423,048	60,875,773	11.2%	5,042,660	11	532,493	9	1,367,564	\$5.17
2007	15,831	545,256,580	63,099,232	65,385,940	12.0%	3,526,780	54	1,835,911	15	1,453,707	\$5.25
2006	15,778	543,425,725	66,540,301	67,081,865	12.3%	(3,477,580)	58	2,348,901	45	1,208,879	\$5.46
2005	15,721	541,160,234	60,485,889	61,338,794	11.3%	7,794,967	82	4,519,803	48	2,010,337	\$5.46
2004	15,641	536,712,517	63,071,286	64,686,044	12.1%	3,416,705	73	2,719,936	76	4,251,196	\$5.66
2003	15,571	534,023,140	63,579,182	65,413,372	12.2%	(2,296,779)	88	3,728,460	49	1,867,187	\$5.64
2002	15,486	530,336,034	57,128,336	59,429,487	11.2%	(1,675,214)	114	4,192,002	77	3,317,710	\$5.12

Source: Costar

RETAIL MARKET

Total Retail Market Statistics

2Q10

Market	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Bldgs	Total RBA	Direct SF	Total SF	Vac %				
Bloomfield	552	4,551,458	273,420	389,700	8.6%	34,206	0	0	\$14.02
Detroit/The Pointes	2,199	13,835,068	1,721,185	1,743,511	12.6%	(23,190)	0	0	\$10.49
Downriver	681	5,818,952	599,759	608,477	10.5%	(65,995)	0	6,200	\$10.84
Livingston/W Oakland	824	6,181,657	426,679	426,679	6.9%	17,110	0	0	\$15.60
Macomb	2,341	18,091,150	1,668,474	1,763,529	9.7%	109,213	0	0	\$10.73
North Oakland	1,144	8,564,932	896,274	904,774	10.6%	(49,733)	0	10,067	\$12.62
Royal Oak	799	5,029,236	482,192	522,765	10.4%	135,074	45,000	0	\$13.72
Southfield	145	1,689,503	116,369	142,930	8.5%	20,271	0	0	\$13.48
Troy	119	1,762,685	104,091	105,091	6.0%	4,458	0	0	\$11.53
Washtenaw	979	7,346,609	523,476	595,026	8.1%	(40,495)	5,000	13,000	\$16.64
West Wayne	1,522	15,170,487	1,698,700	1,862,479	12.3%	33,561	7,000	15,333	\$10.88
Totals	11,305	88,041,737	8,510,619	9,064,961	10.3%	174,480	57,000	44,600	\$12.08

Source: CoStar

Construction Activity Markets Ranked by Under Construction RBA

2nd Quarter 2010

Market	Under Construction Inventory				Average Bldg Size	
	# Bldgs	Total GLA	Preleased SF	Preleased %	All Existing	U / C
West Wayne	8	264,997	206,772	78.0%	17,850	33,125
Washtenaw	1	13,000	13,000	100.0%	12,618	13,000
North Oakland	1	10,067	4,127	41.0%	15,434	10,067
Downriver	1	6,200	6,200	100.0%	14,087	6,200
Royal Oak	0	0	0	0.0%	9,874	0
Bloomfield	0	0	0	0.0%	14,453	0
Macomb	0	0	0	0.0%	14,103	0
Southfield	0	0	0	0.0%	28,980	0
Troy	0	0	0	0.0%	36,557	0
Livingston/W Oakland	0	0	0	0.0%	16,722	0
All Other	0	0	0	0.0%	8,345	0
Totals	11	294,264	230,099	78.2%	14,204	26,751

Source: Costar

Historical Retail Market Statistics

2nd Quarter 2010

Period	Existing Inventory		Vacancy			Net Absorption	Deliveries		UC Inventory		Quoted Rates
	# Bldgs	Total GLA	Direct SF	Total SF	Vac %		# Bldgs	Total GLA	# Bldgs	Total GLA	
2010 2q	11,305	88,041,737	8,510,619	9,064,961	10.3%	280,989	1	5,000	6	44,600	\$12.08
2010 1q	11,305	88,039,737	8,743,505	9,343,950	10.6%	(106,509)	2	52,000	6	39,533	\$12.26
2009 4q	11,303	87,987,737	8,580,280	9,185,441	10.4%	(278,111)	4	60,000	4	63,900	\$12.09
2009 3q	11,299	87,927,737	8,224,237	8,847,330	10.1%	(294,181)	1	17,690	6	112,000	\$12.32
2009 2q	11,299	87,951,291	7,943,729	8,576,703	9.8%	(374,818)	5	58,322	5	79,690	\$12.45
2009 1q	11,298	87,940,406	7,564,622	8,191,000	9.3%	428,224	9	384,726	7	83,012	\$12.73
2008 4q	11,289	87,555,680	7,631,788	8,234,498	9.4%	580,372	12	249,781	15	460,739	\$13.20
2008 3q	11,279	87,312,066	8,011,488	8,571,256	9.8%	211,021	6	69,072	26	697,069	\$13.26
2008 2q	11,276	87,256,566	8,198,847	8,726,777	10.0%	623,930	13	248,771	23	640,053	\$13.29
2008 1q	11,263	87,007,795	8,573,199	9,101,936	10.5%	176,887	21	392,081	24	567,593	\$13.14
2007 4q	11,242	86,615,714	8,427,024	8,886,742	10.3%	488,773	7	60,833	36	706,542	\$12.99
2007 3q	11,235	86,554,881	8,898,206	9,314,682	10.8%	286,282	11	156,937	32	641,367	\$13.30
2007 2q	11,225	86,400,444	9,089,151	9,446,527	10.9%	1,673	6	43,066	22	537,782	\$13.40
2007 1q	11,219	86,357,378	9,120,180	9,405,134	10.9%	1,299,719	33	556,807	19	253,571	\$12.87
2006 4q	11,186	85,800,571	9,880,066	10,148,046	11.8%	(190,840)	9	135,810	41	653,441	\$12.71
2006 3q	11,179	85,676,017	9,571,272	9,832,652	11.5%	(403,035)	11	113,856	42	692,617	\$12.50

Source: CoStar

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