
The Real Estate Appraisal of:

The Former YMCA Lot at 350 South Fifth Avenue
(09-09-29-404-001), Ann Arbor, Michigan

Prepared for:

Ms Mary Fales, Attorney
City of Ann Arbor
100 North Fifth Avenue
Ann Arbor, Michigan 48107

Effective Date of Valuation: November 27, 2012

Prepared on: December 1, 2012



ALCOCK & WILLIAMS, LLC

224 Buena Vista Avenue, Ann Arbor, Michigan 48103 • Telephone (734) 747-7400



ALCOCK & WILLIAMS, LLC
Real Estate Appraising and Counseling

Jay T. Alcock
Member

Kirsten Williams
Member

December 1, 2012

Ms. Mary Fales, Attorney
City of Ann Arbor
100 North Fifth Avenue
Ann Arbor, Michigan 48107

Re: Appraisal of the development site at 350 South Fifth Avenue (tax code 09-09-29-404-001), Ann Arbor, Michigan.

Dear Ms. Fales:

The City of Ann Arbor has contracted Alcock & Williams, LLC, to appraise the referenced property. The purpose of this appraisal is to estimate the market value of the fee simple title to the appraisal property as of a current valuation date in 'as is' condition. This is a self-contained report format.

This valuation is subject to the conditions and limitations stated in this report. Further, this valuation is intended to conform to the requirements of the Code of Professional Ethics and Uniform Standards of Professional Appraisal Practice of the Appraisal Institute and the appraisal standards regulations of the Appraisal Foundation.

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email: alcockwilliams@comcast.net

It is our opinion that the market value of the subject in 'as is' condition as of a current date on November 27, 2012 is

Five Million Three Hundred Ninety Thousand (\$5,390,000) Dollars.

For a complete disclosure, refer to the Assumptions and Limiting Conditions set forth in the eponymously titled section of the report.

Respectfully submitted,
Alcock & Williams, L.L.C.

A handwritten signature in black ink, appearing to read "Jay T. Alcock", is positioned above the printed name.

Jay T. Alcock, Member

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EXECUTIVE SUMMARY

INTRODUCTION

The subject is a large development site just east of Main Street in downtown Ann Arbor. City officials are contemplating the sale of this site for redevelopment by the private sector. The downtown and central campus areas are presently rife with dense apartment developments and proposals following a rezoning of the downtown and a national trend to fund and develop urban apartments.

- Location: The subject property is bounded by East William Street and South Fourth and South Fifth Avenues in downtown Ann Arbor, Washtenaw County, Michigan.
- Current Use: Public surface parking lot.
- Site: Rectangular shaped 34,954± net square feet or 0.80± net acre double-corner site; 264± feet on William, 132± feet on Fifth, and 132± feet on Fourth; very gradual slope down to the west.
- Utilities: Municipal water and sewer, DTE Energy electric and gas, AT&T and Comcast broadband internet-television-VoIP are at the site. According to the DDA, two six-inch water mains are at the subject site.
- Zoning: D1, Core District
- Traffic Counts: A 24-hour traffic count at the subject at William east of Main was 8,150 in November, 2001, the latest available. No counts are available on South Fourth and Fifth at the subject. Pedestrian foot traffic is high at the subject.
- Flood Hazard: Zone X area of 0.2% annual chance of flood according to the FEMA flood insurance rate map; Panel 263 of 585, Map No. 26161C0263E, effective April 3, 2012.
- Environmental Conditions: Unknown but appraisal is subject to change if any environmental conditions are found. Asbestos abated prior to demolition of the former YMCA. See 'Assumptions and Limiting Conditions' for a complete disclosure.

Highest and Best Use: As a dense mixed-use development.

Market Value: \$5,390,000 'as is' on November 27, 2012, subject to the Assumptions and Limiting Conditions noted at the eponymously titled section of this report.

PHOTOGRAPHS OF SUBJECT AND SURROUNDING AREA



Elevated view of the subject looking east



Looking east at the subject from Fourth Avenue

Taken on November 8, 2012 by Jay T. Alcock



Looking northwest at the subject from the corner of Fifth and William



Looking west from Fifth at the subject's north line and contiguous public bus station soon to be redeveloped

Taken on November 8, 2012 by Jay T. Alcock



Looking northeast at the Federal Building from Fourth near the subject



Looking south at Fourth from near the subject

Taken on November 8, 2012 by Jay T. Alcock



Looking west at William Street from near the subject



Looking northeast from William Street at Ann Arbor's Main Public Library across from the subject

Taken on November 8, 2012 by Jay T. Alcock

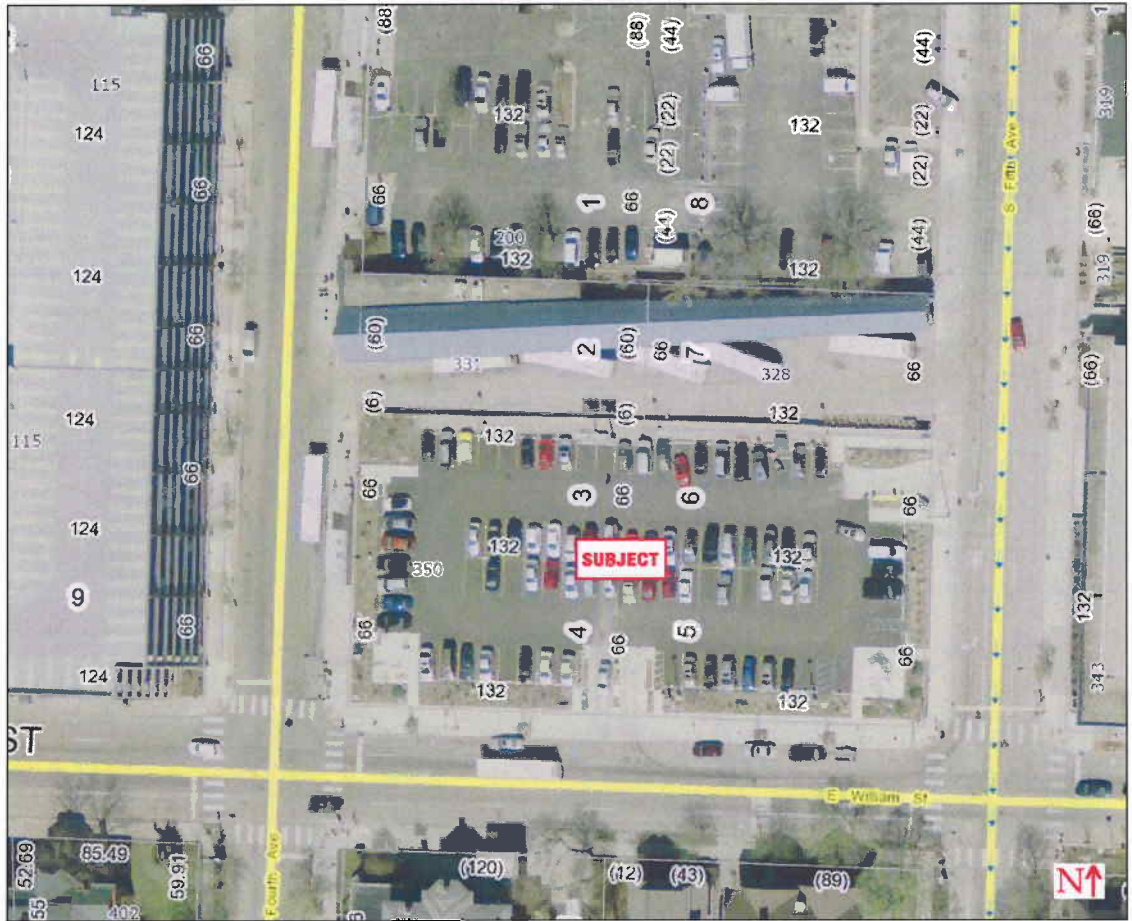


Looking north at Fifth near the subject



Looking south at Fifth near the subject

Taken on November 8, 2012 by Jay T. Alcock



Source: Washtenaw County GIS and 2010 Aerial Overlay

IDENTIFICATION OF PROPERTY

COMMON NAME AND MAILING ADDRESS

Former YMCA
350 South Fifth Avenue
Ann Arbor, Michigan 48104

LEGAL DESCRIPTION, EASEMENTS, ENCROACHMENTS, AND DEED RESTRICTIONS

The legal descriptions for the subject are taken from the city assessor's records as follows:

LOTS 3 4 5 & 6 B3S R5E ORIGINAL PLAT OF ANN ARBOR

There are no known encroachments or deed restrictions.

The Detroit Edison Company has an variable-width easement covering a narrow strip along the north line of the subject site as recorded in Liber 4763, page 963, Washtenaw County Records. The easement is dated December 9, 2009. This restriction runs with the land and allows the utility company to run electrical and communication services across, on, and under the subject and indemnify and hold the property owner harmless from liability related to Edison's use of the property. No buildings or other permanent structures are allowed without Edison's written consent. Edison (now DTE Energy) presently utilizes the easement for the designated purposes.

INTEREST APPRAISED

Fee simple estate

SIDWELL NUMBER

09-09-29-404-001

OWNERSHIP AND SALES HISTORY

The City of Ann Arbor purchased the subject from YMCA for a \$3,500,000 consideration on December 16, 2003 (Warranty Deed 4349/365). After the sale, the City paid a reported \$1,300,000 to relocate displaced residents living in the facility over a two-year period. The Ann Arbor Downtown Development Authority (DDA) paid a reported \$1,250,000 to abate asbestos and demolish the old YMCA facility.

The subject was initially optioned for sale to HDC LLC in 2005 with later extensions for a \$3,500,000 consideration plus a pledge to reimburse the City \$1,100,000 for the cost to house the displaced residents of the subject. HDC LLC had received \$17,000,000 in tax credits for the subject's development project in 2006. The City approved the \$77,000,000 William Street Station proposal, which included a subsidized housing tower and a hotel on the subject, but the City denied an extension renewal of the purchase option in late 2007.

No other sales history is known.

SCOPE OF WORK AND CORE DEFINITIONS

SELF-CONTAINED REPORT

This report is classified as a Self-Contained Appraisal Report under the Uniform Standards of Professional Appraisal Practice (USPAP) of the Appraisal Foundation, Standards Rule 2-2(a). Broadly defined, a Self-Contained Appraisal Report gives the contents of the report in a descriptive form and connotes a comprehensive level of detail in the presentation of information.

SCOPE OF WORK

The scope of this appraisal encompasses the necessary research and analysis to prepare a report in accordance with its intended use as set forth in the following subheading and with the *Uniform Standards of Professional Appraisal Practice* of the Appraisal Foundation. In the appraisal of the subject property, we employed the following data sources:

Physical Data

The subject property was personally inspected by Appraiser Jay T. Alcock. In addition, we used the following sources to provide data pertaining to the subject property such as site dimensions, current and historical assessments, special assessments, zoning data pertinent to the subject property, and environmental hazards:

City of Ann Arbor
Washtenaw County
Michigan Department of Environmental Quality

Area and Neighborhood Data

We conducted physical inspections of the area surrounding the subject to obtain area and neighborhood data. Additionally, governmental sources were contacted in order to obtain information pertaining to such things as adequacy of infrastructure, availability of utilities, demographics, and demographic trends.

Market Data Sources

Physical data for each comparable property is detailed in the 'Market Data' exhibit of this report. The sources of this data are cited at the exhibit. Each comparable property was, at a minimum, inspected from the exterior. The owner, corporate-owner representative, and real estate agents were interviewed regarding area sales, lease rates, inventory, terms, and trends. Sources of additional general market data are listed as follows:

City of Ann Arbor
Washtenaw County Register of Deeds
Marshall Valuation Service

The steps we used to develop the market value estimate stated herein proceed from the Highest and Best Use analysis set forth at the 'Analysis of Value' section of this report.

The Assumptions and Limiting Condition to which this report and its market value conclusion are subject are set forth in the section bearing that title and must be thoroughly read and understood by anyone using this report.

INTENDED USE AND USERS OF REPORT

This appraisal is to be used to assist the City of Ann Arbor, the client, in estimating the market value of the subject property for sale. It is not intended for any other use.

This report has been prepared for our client, the City of Ann Arbor. It may be used or relied upon for sale purposes only by the City of Ann Arbor, or with the consent of the City of Ann Arbor and Alcock & Williams, L.L.C., by another entity.

TYPE AND DEFINITION OF VALUE USED

This appraisal is intended to estimate the current 'as is' *market value* of the *fee simple* title to the appraisal property, identified in the foregoing section of this report, subject to any and all general or specific limitations and conditions stated herein. Core definitions applicable to this report are as follows:

Market Value

The definition of market value, as used in this appraisal report, is as follows:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. buyer and seller are typically motivated;
2. both parties are well informed or well advised, and acting in what they consider their best interests;
3. a reasonable time is allowed for exposure in the open market;
4. payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.¹

Fee Simple

As defined by the Appraisal Institute, the definition of fee simple title is:

Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.²

Fee simple property is typically owner-occupied or rented on a month-to-month basis without a lease.

¹This definition is from regulations published by federal regulatory agencies pursuant to Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 between July 5, 1990, and August 24, 1990, by the Federal Reserve System (FRS), National Credit Union Administration (NCUA), Federal Deposit Insurance Corporation (FDIC), the Office of Thrift Supervision (OTS), and the Office of Comptroller of the Currency (OCC). This definition is also referenced in regulations jointly published by the OCC, OTS, FRS, and FDIC on June 7, 1994, and in the *Interagency Appraisal and Evaluation Guidelines*, dated October 27, 1994.

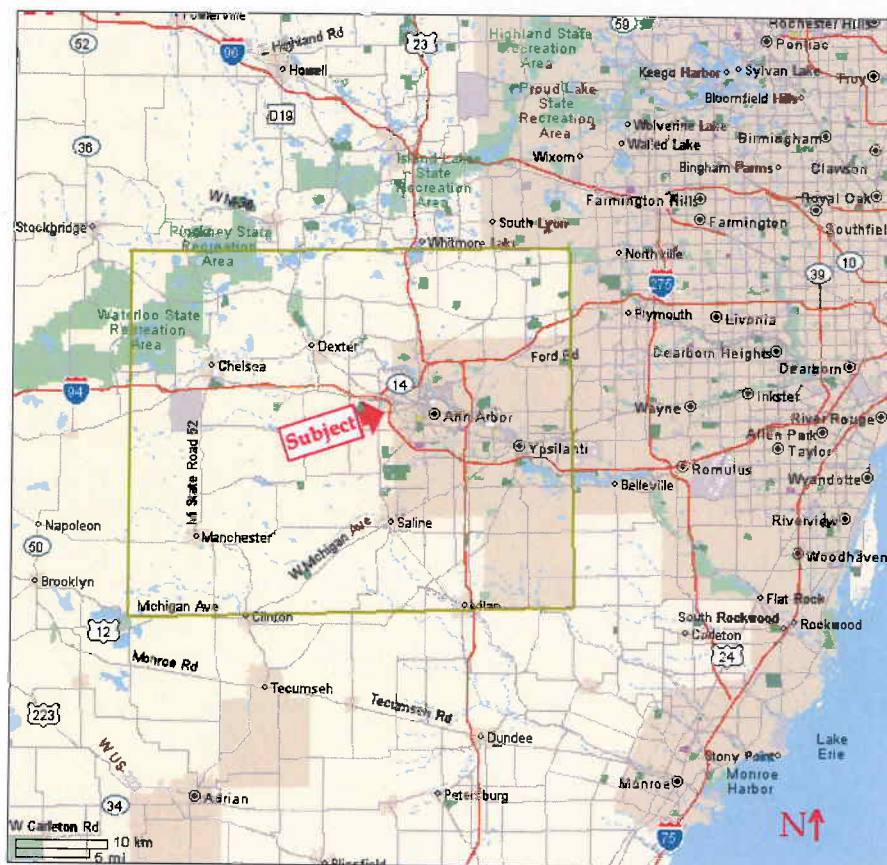
²The Appraisal of Real Estate, Thirteenth Edition, 2008, Appraisal Institute, Chicago, Illinois, p. 114.

DESCRIPTION OF PROPERTY

AREA ANALYSIS

As depicted on the location map in Figure 1, the appraisal property is in the central area of the city of Ann Arbor, in central Washtenaw County, Michigan. Washtenaw County is located in the southeastern part of the State of Michigan just west of Wayne County, and is part of area surrounding the metropolitan center of Detroit, the state's largest city. Southeastern Michigan, hereinafter referred to as the SEMCOG (Southeast Michigan Council of Governments) Region, is comprised of Livingston, Macomb, Monroe, Oakland, St. Clair, Washtenaw and Wayne Counties. Wayne County includes the city of Detroit and the balance of the county. The Sales and Marketing Management (SM&M) 2009 *Survey of Buying Power*, shows Detroit, with 2010 Census population of 713,777, as the 11th largest metropolitan Core Based Statistical Area (CBSA) in the country exceeded in order by New York, Los Angeles, Chicago, Dallas, Philadelphia, Houston, Miami, Atlanta, and Washington CBSAs.

Figure 1. Washtenaw County Area Map



The city of Detroit experienced an alarming population exodus of 25% while the Southeast Michigan Region lost only 2.7% and the U.S. population grew 9.7% over this last decade. Other major U.S. cities lost population including Chicago, down 7%, and Cleveland, down 17%.

The following discussion provides an overview of the pertinent features of the area including population, households and housing, the economic base, employment and income characteristics, educational opportunities, recreational amenities, transportation availability, and growth and development trends. Separate discussions are provided for Washtenaw County and the city of Ann Arbor. A data summary chart for Washtenaw County which includes select 1990, 2000, and available 2010 Census data, related projections from the 2030 SEMCOG Regional Development Forecast and SEMCOG reported residential building permit data is provided within Figure 2. Where appropriate, these characteristics for the region have been included in order to provide continuity and a broader perspective to the county demographic data.

WASHTENAW COUNTY PROFILE

Washtenaw County contains approximately 709 square miles, consists of four cities, four villages and twenty townships and is the sixth largest of Michigan's 83 counties. The city of Ann Arbor is the county seat. Ann Arbor and Ypsilanti are adjacent, full service cities and together comprise the largest urban area in the county.

Population, Households and Household Formation

Washtenaw County had a 2010 Census population of 344,791, with 137,193 households, and 147,573 housing units. The county gained 22,021 persons for a 6.8% increase between 2000 and 2010, with the number of households increasing by 9.6%, and the number of housing units increasing by 12.7%. The seven-county SEMCOG area lost 128,625 persons or 2.7% while the national population grew an astounding 9.7% over the same period.

As indicated in the profile, aggressive increases in both population and households are projected for both the Washtenaw County and the city of Ann Arbor by SEMCOG through the 2030 time frame. In 2000 and 2010, the largest percentage of the County population was between the ages of 35 and 64 years old with this bracket maintaining the lead at the 2030 forecast.

The population growth areas in Washtenaw County are those communities located at the periphery of the cities of Ann Arbor and Ypsilanti.

Figure 2. Washtenaw County Profile

		1990	2000	%	2010	%	2030	%
Population, Households & Household Size		CENSUS	CENSUS	Change	Census	Change	Forecast	Change
Population		282,937	322,770	14.08%	344,791	6.82%	448,020	29.94%
Households		104,528	125,232	19.81%	137,193	9.55%	187,253	36.49%
Housing Units		111,256	130,974	17.72%	147,573	12.67%		
Household Size		2.50	2.41	-3.60%	2.38	-1.24%	2.27	-4.62%
Population By Age		1990	2000	% Total	2010	% Total	2030	% Total
Age 0-4		19,160	20,130	6.2%	19,138	5.6%	26,985	6.0%
Age 5-17		41,936	51,158	15.8%	40,162	11.6%	66,884	14.9%
Age 18-34		11,602	108,812	33.7%	89,804	26.0%	122,577	27.4%
Age 35-64		89,013	116,524	36.1%	130,244	37.8%	158,943	35.5%
Age 65+		21,226	26,271	8.1%	34,951	10.1%	72,631	16.2%
Households		1990	2000	% Total	2010	% Total	2030	% Total
With Children		33,383	39,140	31.3%	79,138	57.7%	54,463	29.1%
Without Children		71,163	86,192	68.8%	55,023	40.1%	132,790	70.9%
Income Quartile 1 - Low		23,009	25,455	20.33%	22,549	16.44%	32,092	17.14%
Income Quartile 2		26,893	29,624	23.66%	35,066	25.56%	39,173	20.92%
Income Quartile 3		25,808	31,476	25.13%	50,689	36.95%	51,377	27.44%
Income Quartile 4 - High		28,836	38,777	30.96%	25,857	18.85%	64,611	34.50%
Household Income Analysis		1990	2000	% Total	2010	% Total		
Less than \$10,000		12,017	9,960	8.0%	10,261	7.5%		
\$10,000 to \$14,999		7,737	5,715	4.6%	6,310	4.6%		
\$15,000 to \$24,999		15,638	12,388	9.9%	11,956	8.7%		
\$25,000 to \$34,999		15,204	13,577	10.8%	12,439	9.1%		
\$35,000 to \$49,999		18,765	18,493	14.8%	16,649	12.1%		
\$50,000 to \$74,999		20,732	24,139	19.3%	23,377	17.0%		
\$75,000 to \$99,999		8,133	16,365	13.1%	17,089	12.5%		
\$100,000 to \$149,999		4,738	15,960	12.7%	20,446	14.9%		
\$150,000 or more		2,150	8,868	7.1%	15,634	11.4%		
Median Household Income		\$48,655	\$51,990		\$59,065			
Households in Poverty		12,140	13,520	10.8%	17,565	12.8%		
Persons in Poverty		31,777	33,450	10.4%	44,059	12.8%		
Housing		1990	2000	% Total	2010	% Total		
One-Family Detached		57,186	71,200	54.4%	83,117	56.3%		
One-Family Attached		6,316	8,794	6.7%	8,187	5.5%		
Two-Family Duplex		3,817	4,039	3.1%	4,242	2.9%		
Multi-Unit Apartments		38,877	41,458	31.7%	50,346	34.1%		
Mobile Homes		4,037	5,538	4.2%	5,915	4.0%		
Other Units		987	40	0.0%	0	0.0%		
Owner-Occupied Units		57,787	74,830	57.1%	83,483	56.6%		
Renter-Occupied Units		46,741	50,497	38.6%	53,710	36.4%		
Vacant Units		6,728	5,742	4.4%	10,380	7.0%		
Median Housing Value (in 2000 & 2010 \$'s)		\$126,749	\$174,300		\$190,600			
Median Contract Rent (in 2000 & 2010 \$'s)		\$647	\$633		\$839			
Specified Owner-Occupied Housing Values		1990	2000	% Total	2010	% Total		
Less than \$50,000		5,398	910	1.5%	5,749	7.0%		
\$50,000 to \$99,999		18,714	7,563	12.5%	9,943	12.1%		
\$100,000 to \$149,999		11,274	13,800	22.7%	11,791	14.3%		
\$150,000 to \$199,999		5,002	15,227	25.1%	16,666	20.2%		
\$200,000 to \$299,999		3,225	14,329	23.6%	19,256	23.4%		
\$300,000 to \$499,999		1,224	7,115	11.7%	14,127	17.1%		
\$500,000 to \$999,999		220	1,567	2.6%	4,302	5.2%		
\$1,000,000 or more		incl. abv.	219	0.4%	557	0.7%		
		45,057	60,730		82,391			

Compiled by Acock & Williams, LLC, from 1990, 2000, 2010 Census, SEMCOG reported bldg, permits & 2030 SEMCOG RDF

Figure 2, Washtenaw County Profile (Continued)

Employment	1990		2000		2010		
	CENSUS		CENSUS	Change	CENSUS	Change	
Total Employment	213,895		232,175	8.55%	168,393	-27.47%	
Ag. Min Natural Resources	4,550		4,549	-0.02%	619	-86.39%	
Manufacturing	37,363		34,517	-7.62%	19,132	-44.57%	
T.C.U.	6,912		8,916	28.99%	4,630	-48.07%	
Wholesale Trade	6,177		6,618	7.14%	3,118	-52.89%	
Retail Trade	33,166		38,888	17.25%	15,248	-60.79%	
F.I.R.E.	10,970		10,729	-2.20%	7,896	-26.41%	
Services	110,208		119,998	8.88%	103,667	-13.61%	
Public Administration	4,549		7,960	74.98%	4,288	-46.13%	
Educational Attainment - Population Age 25 or Older							
Did Not Graduate High School	21,387	12.9%	16,716	8.5%	13,601	6.9%	
Graduated High School	32,406	19.5%	33,752	17.2%	35,124	17.9%	
Some College, No Degree	33,027	19.8%	40,063	20.4%	40,730	20.7%	
Associate Degree	10,379	6.2%	11,857	6.0%	14,337	7.3%	
Bachelor's Degree	35,249	21.2%	48,034	24.5%	51,888	26.4%	
Graduate or Professional Degree	34,766	20.9%	46,992	23.9%	55,191	28.1%	
Total*	166,406		196,408		210,871		
Total shown may not equal sum of sample data.							
Land Use	1990		2000		2008		
	CENSUS	% Total	CENSUS	% Total	SEMCOG	% Total	
Single-Family Residential ¹	51,723	11.2%	67,064	14.5%	189,513	41.0%	
Multiple-Family Residential	2,703	0.6%	3,480	0.8%	2,897	0.6%	
Commercial & Office	3,929	0.8%	4,600	1.0%	9,981	2.2%	
Institutional	4,718	1.0%	5,356	1.2%	13,560	2.9%	
Industrial	7,527	1.6%	8,656	1.9%	15,317	3.3%	
Trans., Commun. & Utility	5,114	1.1%	5,160	1.1%	19,105	4.1%	
Cultural, Outdoor Rec. & Cemetery	6,318	1.4%	7,779	1.7%	35,031	7.6%	
Active Agriculture	221,266	47.8%	191,140	41.3%	165,587	35.8%	
Grassland & Shrub	49,765	10.8%	59,040	12.8%	0	0.0%	
Woodland & Wetland	95,020	20.5%	93,366	20.2%	0	0.0%	
Extractive & Barren	1,339	0.3%	1,617	0.3%	0	0.0%	
Airport	0	0.0%	0	0.0%	649	0.1%	
Water	10,062	2.2%	10,133	2.2%	10,608	2.3%	
Under Development ²	3,049	0.7%	5,141	1.1%	0	0.0%	
Total Acres³	462,533		462,532		462,248		
¹ Includes SFR, manufactured housing, farmsteads and portions of developing SFR							
² Includes 1) undeveloped acreage in developing projects, and 2) areas of ground breaking where no use could be determined.							
³ 1990 & 2000 total acres may not be the same due to rounding errors and precision differences in 1990/2000 GIS layers.							
Residential Building Permits	New & Demolished Units Permitted						
	Single-Family	Two-Family	Attach. Condo	Multiple-Family	Manf Housing	Other	Net Total
Census 1990	57,186	3,817	6,316	38,877	4,073	987	111,256
Census 2000	71,200	4,039	8,794	41,458	5,538	40	131,069
Change 1990-2000	14,014	222	2,478	2,581	1,465	-947	19,813
New Units Permitted 2000-2011	11,712	140	3,007	1,271	1,282	-616	16,796
Compiled by Alcock & Williams, LLC, from 1990, 2000, 2010 Census, SEMCOG reported bldg. permits & 2030 SEMCOG RDF							

Housing Characteristics

Washtenaw County contains a highly diversified housing base that was broadly expanded during the global housing boom peaking in 2007. Housing affordability is reviewed here for Washtenaw County using the *Median Multiple* which measures the ratio of the median house price to the median annual household income. The ratio historically below 3.0 indicates a balanced housing market. Based on data compiled by the Wall Street research firm of Ned Davis Research (NDR), the national *mean* indicator is an elevated 3.5 from 1982 through to the end of the first quarter 2011 with an indicator of 3.6 at the end of the period. The multiple illustrates a bubble period beginning in 2000 in a range from 3.2 to 3.3 and peaking in mid-2006 at 4.2, tumbling down to 3.5 in late 2009 and finally doggedly starting a climb back to 3.6 to the present period. Washtenaw County shows a 3.4 ratio based on 2010 Census figures and is essentially unchanged from a 3.5 ratio based on the 2000 Census figures but remains well above the 2.6 ratio based on the 1990 Census figures.

The deleveraging process will ultimately align incomes with housing prices at the historically affordable ratio below 3.0 albeit with increased volatility in the years ahead.

Growing volatility can be found in the widely observed S&P/Case-Shiller Home Price Index for the 10-City and 20-City Composite which includes Detroit in its broader composite and shows U.S. city home prices rising from 1996 into a peak in 2005 with a precipitous 40% drop into 2009 (largest on record) and then a sharp recovery of roughly 20% into the present period. In its October 25, 2011, *S&P Indices* press release, the firm stated "Detroit and Washington DC were the only two cities to post positive annual returns of +2.7% and +0.3% respectively." Even with this specter of hope, we believe interest rates must eventually rise from these current low levels and will serve to lower home prices to put them further in line with the income ratio. According to official U.S. Government data, 1987 was the last year wages exceeded inflation with the 2010 data showing a continued deterioration in both jobs and pay on the national level. Add to this the common observation that the U.S. Bureau of Labor Statistics (BLS) has understated inflation (CPI) and unemployment figures for over a decade by modification of the indicators to exclude essential fuel and food prices, using dubious seasonal adjustment methods, and nuancing those who qualify as unemployed and it all suggests to us that the median multiple ratios remain even more elevated than the figures indicate.

We dismiss the broadly observed National Association of Realtors (NAR) Housing Affordability Index which integrates mortgage data because the national chart fails to show even a single month in which housing was over-priced through the boom period from 1985 to 2008. Excessive credit conditions skew this index.

The median multiple is known to rise in areas with restricted housing development growth associated with limited development land. A 17-year history of residential construction based on authorized new dwelling permits for the county is given in Figure 2 showing housing starts were strong until the recent collapse even though the median multiple was elevated through the expansion period. Excessive credit rather than

restricted housing development growth is more likely to be the cause of the elevated median multiple in the county. The authorized new dwelling permits are charted and discussed further under the 'Economic Condition' to follow.

The financial crisis of late has severely slowed housing starts to the lowest levels in decades. The city, private developers and University of Michigan Regents, however, have recently identified the University of Michigan student population as a long neglected dweller of poor-quality housing. Numerous public and private projects are proposed and under construction in Ann Arbor that will add up to 1,260 units even though University of Michigan enrollment has increased only 3,025 students since Fall 2007 to a full-time equivalent enrollment of 41,185 for Fall 2011. A total of 1,790 units have been approved in recent years. The city has increased zoning densities near the central campus. The university has recently completed the 460-bed North Quad at the corner of the central campus and is extensively refurbishing several of its large dorms here in phases.

Economic Base and Employment

Employment opportunities within Washtenaw County are concentrated primarily in the greater Ann Arbor/Ypsilanti area.

The largest employers in Ann Arbor include the University of Michigan and the University of Michigan Hospital System. The largest employers in Ypsilanti include Eastern Michigan University, General Motors (closing at the end of 2010), and Trinity Health. Former top employer in the county, Visteon Corporation, was Ford Motor Company's largest supplier until ownership was recently reverted back to Ford in lieu of bankruptcy. The U.S. automakers have gradually lost market share of units sold for the past several decades. In January 2006, Ford announced that it would shed 28% of its workforce or 34,000 jobs in North America over the next six years and will close 14 North American factories including three and possibly a fourth in and around Washtenaw County. GM and Chrysler entered into Chapter 11 bankruptcy in mid-2009 and are now in the process of selling off brands, operations, and closing plants and dealerships. These bankruptcies are the fourth and seventh largest in U.S. corporate history. Vehicles sales have recently plummeted precipitating the collapse. Many autoworkers are transitioning into healthcare jobs and migrating out of Michigan.

A further transition to the area's automotive woes comes, in part, directly to Washtenaw County through two foreign automakers. First, the quietly expanding Toyota Technical Center USA in Ann Arbor, with 1,100 employees in 2009, is supported by a recently completed \$150 million 350,000-square-foot research and development center on 690 acres in York Township just south of Washtenaw County. Second, the completion in 2005 of the Hyundai-Kia America Technical Center, a \$117-million facility in Superior Township has added 140 jobs to the county and was expanded in 2007.

Crain's Detroit Business published its most recent survey of the largest public and private employers in Washtenaw County ranked by full-time employees as of January, 2012. The

top 25 of these employers are listed in Figure 3 below. We added Nos. 9 and 17 – Toyota North America and Lincoln Consolidated Schools – which the publication overlooked. Large reduction or elimination of all jobs in the county was announced in 2009 by Ford, GM, Borders Group, ProQuest, and Pfizer. Employment in 2012 is mostly static. Ford dropped to 823 from 2,280 employees in the county in 2009 and slide to an 805 level in 2012. Borders Group, headquartered in the county, failed in 2011 and took 895 employees in the county with it.

Figure 3. Washtenaw County’s Largest Employers, January 2012

<u>Rank</u>	<u>Company Name</u>	<u>Full-time Employees</u>	<u>Type of business</u>
1	University of Michigan	27,766	Public university/Health care
2	Trinity Health	5,456	Healthcare
3	Ann Arbor Public Schools	3,200	Public school district
4	U.S. Government	2,773	Federal government
5	Eastern Michigan University	1,951	Public university
6	Thomson Reuters	1,816	Healthcare
7	State of Michigan	1,458	State government
8	Washtenaw County	1,314	County government
9	Toyota North America	1,100	Vehicle design & engineering
10	Ford Motor Co.	805	Vehicle manufacturer
11	City of Ann Arbor	710	City government
12	Ypsilanti Public Schools	640	Public school district
13	IHA	627	Medical doctor group
14	DTE Energy Co.	605	Energy company
15	U.S. Postal Service	596	Federal government
16	Washtenaw Community College	561	Higher education
17	Lincoln Consolidated Schools	550	Public school district
18	Domino’s Pizza Inc.	550	Fast food
19	Edwards Bros. Inc.	425	Book manufacturer
20	Chrysler Group LLC	393	Vehicle manufacturer
21	General Motors	378	Vehicle manufacturer
22	Chelsea Milling Co.	301	Baking goods
23	Con-way Inc.	297	Trucking
24	Chelsea School District	242	Public school district
25	Black & Veatch	242	Engineering

The 2005 figures on industry employment for Ann Arbor from *SEMCOG* shows 18% of the labor force in healthcare and social assistance, 17% in education services, 16% in professional, scientific, and technical services, 10% in leisure and hospitality, 8% in retail trade, 6% in administrative, support, and waste services, 6% in financial activities, 5% in other services, 4% in public administration, 4% in information, 2% in wholesale trade, and nominal percentages in management of companies and enterprises, transportation and warehousing, and manufacturing. The decrease in manufacturing and increase in service sector jobs, coupled with the large percentage of labor force in government and education, follow national trends. Because Ford and General Motors (departed end of 2010) have manufacturing plants in the immediate vicinity, the city of Ypsilanti and the surrounding area population are heavily dependent on manufacturing jobs, by contrast to the city of Ann Arbor’s population which depends heavily on research and university jobs.

Historically, the Ann Arbor MSA has the lowest unemployment rate by MSAs in the State of Michigan. The state of Michigan, on the other hand, ranks first as of June 2009

out of all 50 states plus the District of Columbia in highest unemployment owing to the automotive industry collapse. The state's labor force declined by 40,000 in 2007 from 2006 and had been increasing since 2003.

Economic stability is provided, to a great extent, by the county's two universities - The University of Michigan in Ann Arbor and Eastern Michigan University in Ypsilanti. These facilities are major employers which are not as economically sensitive to fluctuations in automotive demand as are industries found in the greater Detroit area. In recent times, an emphasis has been put on high technology research and development expansion through the creation of numerous research and development parks. The universities, because of their human resources, have attracted a variety of companies in these industries over several decades. Among the dozens of research-oriented high technology firms in the area are the NSF International, ProQuest Company, General Dynamics, National Oceanic & Atmospheric Administration, Google, Terumo Cardiovascular Systems (formerly a division of 3M), National Vehicle and Fuel Emissions Laboratory, Honda, Mercedes, Nissan, Suzuki, and Mazda Emissions Laboratories, UBE Machinery, Hyundai America Technical Center and Toyota's Technical Center, all located in or on the periphery of Ann Arbor.

Other major corporations headquartered in the county include Edwards Brothers Malloy, the sixth largest book manufacturer in the country, and several other smaller book binderies. The sprawling Chrysler Chelsea Proving Grounds employ hundreds here.

In January 2007, Pfizer Inc. announced that it would close its sprawling 174-acre research campus with two million square feet of building area on Ann Arbor's northeast side by the end of 2008. There were 2,100 persons employed locally by this firm. A Fortune-500 company and leading international pharmaceutical, it completed a hostile takeover of Warner-Lambert in June, 2000. Warner-Lambert's Parke-Davis research lab in Ann Arbor, established decades ago by University of Michigan alumni, became one of Pfizer's primary research facilities. Both companies physically expanded the campus in Ann Arbor at a feverish pace over the past decade. Concern regarding Pfizer's desire to further expand its nearly maximized campus within the city resulted in the Regents of the University of Michigan reluctant sale in 2001 of 55 acres of vacant land contiguous to the Pfizer campus, the largest undeveloped non-residential land tract within the city, to ensure Pfizer's contentment. Pfizer initially pledged an \$800-million budget for expanding here within the next decade. This pledge was billed by the press as the largest corporate commitment in the country in 2001; however, Pfizer's \$53-billion merger with Pharmacia in April, 2003 put a halt to this local expansion and ultimately its exit from the community.

The U.S. National Science Foundation reports that the University of Michigan ranked first in total research dollars spent by public universities in fiscal year 2010-2011 at \$1.28 billion, with more than half of these funds devoted to life sciences. This is the third year it has topped its peers in this category and the spending has increased 8.0% from the previous period. In January 2009, the University of Michigan purchased the entire 174-acre Pfizer research campus. The \$103 million purchase came from the U/M Health

System reserves. We speculate that the University is targeting the massive government reflation dollars as a way to fund the rapid growth of incubator companies within this sprawling facility.

In July 2006, Google, the internet search-engine giant with \$7.55 billion in 2008 revenue and based in Mountain View, California, announced its intention to locate a substantial satellite office in Washtenaw County. The company opened offices near the University of Michigan Central Campus and plans 1,000 employees over the next four years, budgeting \$20 to \$50 million for an estimated future total of 200,000-square-feet of office space. Google now operates its primary advertising product AdWord here.

One of the company's founders, Larry Page, is a 1995 University of Michigan engineering graduate. Mr. Page is currently in partnership with the University of Michigan to scan and digitize the Harlan Hatcher Graduate Library's nearly seven million volumes, the 14th largest collection in the U.S. according to LibrarySpot. For comparison, the Library of Congress is the largest in the world with 24 million volumes. Google and the U/M are in the process of creating the first substantial virtual library available over the internet.

As the fastest growing public company in the country in terms of employees and revenue, Google is now a major new economic and cultural contributor to the Ann Arbor landscape.

There is a long history of fledgling research companies started in Ann Arbor by entrepreneurs with ties to the University of Michigan with three examples as follows:

- Sakti3, developer of solid-state rechargeable lithium-ion battery technology for electric drivetrain vehicles, was incorporated in 2007 by CEO Ann Marie Sastry, the former Arthur F. Thurnau Professor of Mechanical Engineering, Biomedical Engineering, and Materials Science and Engineering at the University of Michigan, who left the faculty position in 2012 to concentrate on the start-up venture. Sakti3 has secured \$5 million in funding through its partners GM, the State of Michigan, and Khosla ventures.
- Genomic Solutions, Inc. (Nasdaq nm: GNSL), a developer of human genome analysis software and support services that went public in March, 2000, was sold in the third quarter of 2002 to Harvard Bioscience Inc. (Nasdaq: HBIO) for about \$26 million. Headquartered in Ann Arbor, Genomic Solutions has 156 employees worldwide including 65 workers in Ann Arbor. Amongst others, its current president and CEO has an MBA from the University of Michigan and Pfizer Inc. as a primary client.
- Veridian ERIM International Corporation, spun off from the non-profit Environmental Research Institute of Michigan in 1997, was a for-profit closely held corporation with 1998 revenues of \$81.7 million and has 459 local and 600 worldwide employees. The non-profit was started by a group of University of Michigan professors decades ago. ERIM International develops imaging systems, information extraction and knowledge generation and dissemination mostly and

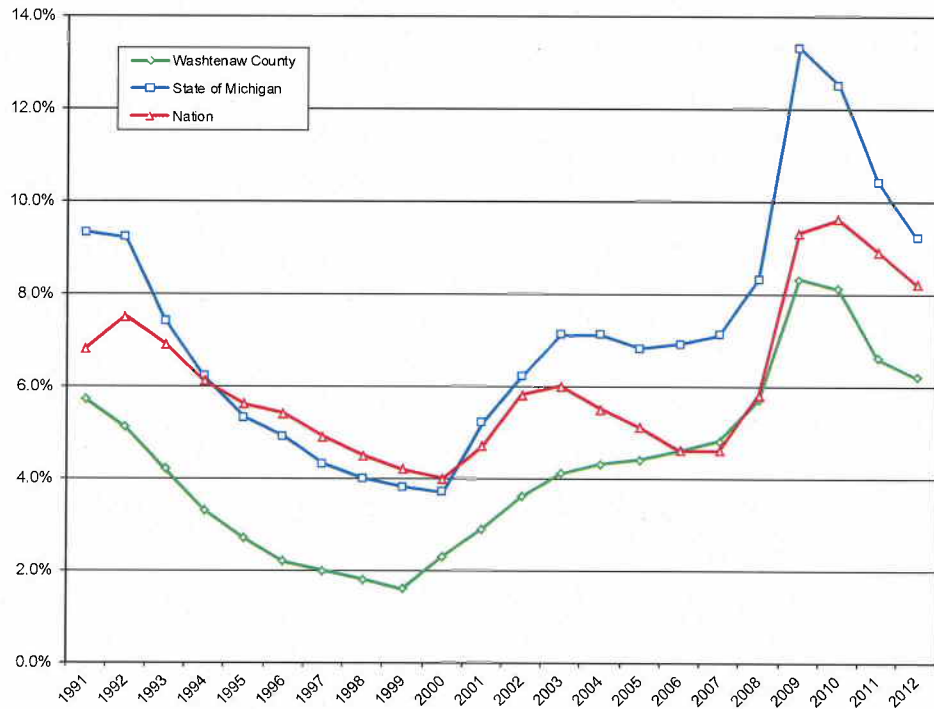
historically as the non-profit for the U.S. government and recently relocated a large corporate campus in Ann Arbor. It was purchased by General Dynamics in 2003 and now occupies a new headquarters in Ypsilanti Township.

The annual average unemployment figures for the last two decades for Washtenaw County (through August 2012), the state, and the nation, compiled from the *Michigan Department of Career Development (MDCD) Employment Service Agency Office of Labor Market Information*, are set forth in Figure 4 on the following page.

According to MDCD figures, the August 2012 labor force for Washtenaw County is 181,399. The August 2012 labor force for the Michigan is 4,701,000. The recent trend of modest recovery from a rapidly increasing unemployment rate for Washtenaw County has followed the pattern of both the state of Michigan and the U.S. Washtenaw County presently has the highest per capita of engineers in the country owing to the universities and automotive manufacturers here.

Along with the recession of the early 1980's came high unemployment rates. Unemployment rates across the country began increasing in 1990 owing to economic recessionary trends and fluctuating consumer confidence. Unemployment rates in the area and regionally rose considerably by 1991. In early 1992 unemployment rates were still high but began dropping and remaining lower as the decade progressed.

Figure 4. Annual Average Unemployment Rates



Today, as the American automotive industry capitulates to market forces, we expect state and county unemployment to continue to rise into the foreseeable future from the lows of 2000. GM, Ford, and Chrysler have business models that are burdened by what financial analyst Philip Guziec of Morningstar identifies as “huge fixed costs, strong unions, onerous regulation, intense competition, and volatile demand.” As mentioned, major layoffs are underway since 2006. National unemployment has jumped to 9.1% for December 2010, not seasonally adjusted, and is expected to remain elevated as the global financial crisis now affects all job sectors. Michigan recently led the nation with double-digit unemployment but has moderated since the bankruptcies of GM and Chrysler.

Washtenaw County is expected to remain below the state unemployment, as shown historically in Figure 4, owing to the economic strength and influence of the universities and emerging foreign automotive manufacturers and technology companies here. The Pfizer departure is off-set by the entrance of Google Inc., Grupo Aernnova SA, Thomson Reuters and others as well as the University of Michigan’s numerous expansion plans over in the coming years.

Medical Systems

Washtenaw County is home to four major hospital campuses: the University of Michigan Health System (UMHS), the Veterans Administration Ann Arbor Healthcare System (VAAAHS), both in Ann Arbor, and Trinity Health’s Saint Joseph Mercy Health System which encompasses the Saint Joseph Mercy Hospitals just north of Ypsilanti and in Saline. Trinity Health is sponsored by the Catholic Health Ministries. Finally, Chelsea Community Hospital is in Chelsea.

The University of Michigan Hospital was founded in 1848 and is today UMHS, a major teaching hospital system with 865 beds and 5,568,090 square feet of hospitals, research labs, lecture halls, and classrooms. UMHS is world renowned for vast research into diseases and treatment. Notable divisions are the C.S. Mott Children’s Hospital, the Burn Center, the Kellogg Eye Center, and the Cancer Center. The general hospital was most recently replaced in 1986 with several major specialty hospitals built since that time.

Along with Dr. Thomas Francis’ human trials confirming a reliable vaccine for Polio in 1955, University of Michigan doctors performed the first successful lung removal, introduced iodine to common table salt thereby eliminating goiter in the U.S., discovered the genes responsible for cystic fibrosis, muscular dystrophy, sickle cell anemia, and prostate cancer, and created the gene therapy protocol for AIDS, discovered the two classes of diabetes, introduced standards for interpreting EKG results, and the emergency use of angioplasty. UMHS established one of the first trauma burn centers in the U.S. as well as the first human genetics program that has now grown into the Life Sciences Institute.

The University of Michigan completed four major facilities in 2006-07: the \$215.5 million Cardiovascular Center, the \$68.5 million School of Public Health expansion, and the \$41-million Ambulatory Psychiatry & Depression Center. Construction has just

completed for the replacement for the C.S. Mott Children's & Women's Hospitals with at a \$523 million project cost and 1.1 million square feet in nine- and 12-floor towers. Also, construction is now complete for the expansion of the Kellogg Eye Center and Brehm Center for Type 1 Diabetes Research and Analysis with a \$132 million project cost and 222,000 square feet on eight floors.

The VAAAHS provides primary and secondary care for U.S. veterans in the region with 143 beds and was extensively expanded circa 1995. This VA hospital is affiliated with UMHS in that all its physicians are employed by the latter. VAAAHS has an annual research budget of \$10.6 million plus NIH funding.

Saint Joseph Mercy Hospital is noted for its maternal care, cancer, cardiovascular, orthopedics, neurosciences, emergency medicine, senior health, and surgical services and is also a teaching hospital with many of its physicians affiliated with UMHS. This facility contains 529 beds along with several specialty clinics on a 527-acre campus and with an additional 82-bed hospital in Saline. The Sisters of Mercy completed two 11-story patient towers in 2011 for \$258 million and 660,000 square feet of new hospital area.

Chelsea Community Hospital, an acute care provider, was purchased by Saint Joseph Mercy in 2009. This hospital has 113 beds on a 119-acre campus. The 148-bed Oakwood Hospital Beyer Center in Ypsilanti closed in 2000 and is now a bariatric surgery clinic operated by Forest Health Services.

There are few places in the world that could provide more comprehensive medical care than Washtenaw County. These hospital systems provide a major economic component to the community.

Income and Retail Sales

Retail sales and effective buying income (EBI) are a general measure of a community's economic vitality. The Sales and Marketing Management (SM&M) *2009 Survey of Buying Power*, was consulted for information on retail sales and effective buying income in the Detroit CBSA Counties. As shown in Figure 5 on the next page, households with an effective buying income of \$50,000 or more represent the largest EBI group in all counties which follows the national trend. Livingston County has the highest percentage of all these counties in the \$50,000 or more EBI group, followed by Oakland County and then, in third place, Washtenaw County.

As indicated, Washtenaw County's 2009 median household effective buying income is estimated to be \$48,295 which is 11.4% above the region and 14.2% above the nation.

The Buying Power Index (BPI) is defined by the survey as follows and is the last item identified in the chart.

A weighted index that converts the Survey of Buying Power's three basic elements-population (the demographic factor), Effective Buying Income (the economic factor), and retail sales (the distribution factor)-into a measurement of a market's "ability to buy," expressing it as a percentage of the national total (100.0000%). The county's (or other market's) share of the U.S. total of each of these elements is multiplied by a fractional weight: .5 times the percent of U.S. Effective Buying Income, .3 times the percent of U.S. retail sales, and .2 times the percent of U.S. population. The sum of these weighted percents is the BPI.

Figure 5. Sales & Marketing Management 2009 Survey of Buying Power

Households Effective Buying Income Groups

County	2009 Households	\$20,000 to \$34,999	\$35,000 to \$49,999	\$50,000 or more	Median HH EBI	Buying Power Index
United States	115,306,103	20%	18%	43%	\$42,303	100.0000
Detroit CBSA	1,923,767	20%	18%	42%	\$43,354	1.7288
Wayne	721,174	22%	18%	33%	\$36,128	0.5099
Oakland	484,898	17%	17%	54%	\$53,479	0.5036
Macomb	337,195	21%	20%	43%	\$45,095	0.2810
Washtenaw	138,261	18%	17%	48%	\$48,295	0.1204
Livingston	68,243	15%	18%	58%	\$56,369	0.0677
St. Clair	65,749	22%	22%	35%	\$39,420	0.0476
Monroe	58,526	20%	20%	43%	\$44,738	0.0436

Compiled by the Alcock & Williams, LLC from Sales, Marketing & Management "2009 Survey of Buying Power"

A higher index reading indicates superior relative buying power. Washtenaw County ranks surprisingly low within the given group when considering its strong median household effective buying income. Given the presence of the large University of Michigan, it is commonly speculated that the high level of education within the population does not induce excessive consumerism; however, Livingston County runs counter to that notion with median household effective buying income above Washtenaw County with a less educated population and even lower BPI. Both Washtenaw and Livingston are distinctly less urban than the communities that rank above them in BPI.

The largest and most extensive retail facilities in Washtenaw County are located in the Ann Arbor/Ypsilanti area. Shopping for daily and other provisions is provided by numerous individual retailers throughout the area, many neighborhood centers and nine community shopping centers situated throughout the greater Ann Arbor/Ypsilanti area. The Briarwood Mall, the county's regional shopping facility, is located on the south side of Ann Arbor at the southwest corner of State Street and Eisenhower Parkway. There are several other regional shopping facilities in the greater Detroit Metropolitan area and large discount malls within a 30- to 60-minute drive from Ann Arbor.

Transportation

The primary mode of transportation within Washtenaw County and the region is by private automobile. Transportation for the region and Detroit PMSA is extensive

including all types of aviation and railroad services, both passenger and freight, one of the largest and busiest fresh water ports in the country, as well as an extensive network of highways and freeways. Washtenaw County residents and businesses benefit from the ready availability and easy accessibility to all area modes of transportation.

A foundation was established to study the development of a rapid transit system from Ann Arbor through Metro Airport to Downtown Detroit in an attempt to garner funds from the U.S. Congress for its development. A study was submitted in 2006 indicating that a light rail was not financial feasible but that heavy existing rail or bus systems remain as possibilities. Amtrak is experimenting with a commuter train at this time.

According to the *Census 2000 Supplementary Survey*, conducted in 700,000 households nationwide in communities with 250,000 people or more, Washtenaw County commuters average 21:06 minutes one-way, well below the other Detroit Metro counties of Oakland and Macomb with averages of almost an hour. A total of 216 counties were surveyed nationwide with Washtenaw County ranking 158 in average commuter time. Richmond County, New York, ranked first with an average 43:54-minute commute while Polk County, Iowa, ranked last with an average 16:30-minute commute. The survey also reported that 81% of Washtenaw County's workforce drove to work alone, 6.0% carpooled, 3.7% worked at home, and 2.0% used public transportation. Washtenaw County commuters fare much better than other populous communities. For example, suburban New York and Washington, D.C., driver commute times are double that of the Washtenaw County driver time.

Figure 6 indicates distances to other major metropolitan areas.

Figure 6. Distance To (Miles)

Chicago	230
Cleveland	160
Detroit	40
Indianapolis	250
Lansing	60
Toronto	280

The freeway network within Washtenaw County includes I-94, M-14 and US 23. I-94 and US 23 serve as primary east-west and north-south thoroughfares, respectively, both in the area as well as the state. I-94 provides access to the greater Detroit Metropolitan area to the east and Jackson, Battle Creek, Kalamazoo and on to Chicago to the west. US 23 provides access to Flint, Saginaw, the Bay City area, and more generally to the northern part of the state, and to Ohio and the southern states. M-14 serves as a connection between I-94 and US 23 and I-696 and I-275 to the east. I-94, M-14 and US 23 all tie into the Detroit PMSA freeway system.

Passenger air travel is available from a number of municipal general aviation airports, including the Detroit Metropolitan International and City Airports, approximately 30 and 40 miles east, respectively. These airports both provide flights to almost all U.S. destinations, while Detroit Metro also has numerous international flights available.

Detroit Metro is the hub of Northwest Airlines. Ann Arbor has a small general aviation airport and Ypsilanti is home to Willow Run Airport, which was built during World War II for production of the B-24 bomber. The Ann Arbor and Willow Run Airports are tower controlled. Neither Willow Run nor Ann Arbor Airports are served by major passenger carriers: Willow Run is used primarily for corporate flights and cargo service and Ann Arbor is used primarily for recreational flying. Charter services are, however, available from Willow Run.

The county is serviced by Conrail, Norfolk & Western, and the Tuscola & Saginaw Railroads, providing freight service to area industry. Passenger rail service is available through Amtrak, which provides service to most major metropolitan areas across the country. The nearest passenger stations are located in Ann Arbor, Ypsilanti and Dearborn.

The city of Detroit is home to one of the world's busiest international waterways, with full U.S. customs, warehouse availability and a free trade zone.

Public transportation in the area includes the Ann Arbor Transportation Authority (AATA), which provides service to greater Ann Arbor, parts of Ypsilanti and some outlying areas. This service also includes Dial-A-Ride, providing specialized services for the elderly and handicapped. Greyhound Bus operates a national service which stops both in Ann Arbor and Ypsilanti.

Educational Facilities and Attainment

Washtenaw County is served by 18 public school districts and a number of private schools located primarily in the Ann Arbor area. The area also has many full and part-time preschool and child care facilities.

The State of Michigan has 29 public community and junior colleges, 55 independent colleges and universities, and 15 public four-year universities. Two of these four-year public universities are located in Washtenaw County, the University of Michigan's Ann Arbor campus and Eastern Michigan in Ypsilanti. Cleary College and Washtenaw Community College in Ypsilanti and Concordia Lutheran College in Ann Arbor also offer opportunities for higher education. The University of Michigan is a nationally renowned facility which is widely recognized for its outstanding engineering, law, medical and business schools. Enrollment at the University of Michigan is typically over 35,000 students and Eastern Michigan University has approximately 23,600 students.

Eastern offers bachelor degrees in art education, business, fine and liberal arts, music, nursing and science. Masters degrees are offered in business, education, fine arts, liberal studies, public administration and science. The only doctoral program offered is for education. The school offers a less expensive alternative university education than the University of Michigan and is well known for its undergraduate business school.

Together, these institutions offer ready access to a comprehensive diversity of programs for both undergraduate and graduate studies, including liberal arts, general, teacher preparatory and professional programs such as law, engineering, medicine, and business.

According to the *Census 2000 Supplementary Survey*, conducted in 700,000 households nationwide in communities with 250,000 people or more, Washtenaw County ranked fourth out of the 216 most populous counties nationwide and first in the state of Michigan for people who hold a bachelor's degree or higher, at 52.6% of the county's population. Montgomery, Maryland, Fairfax, Virginia, and Boulder, Colorado, were the top three but so close as a percentage to Washtenaw County to be deemed statistically insignificant by the Census officials.

Also, according to the *2010 Census*, 20.9% of Washtenaw County's residents have a graduate or professional degree. A full 87% of the residents over 25 are high school graduates.

In summary, the area offers a wide variety of educational opportunities and facilities including a public community college, whose open-door admissions policies and lower costs make higher education more readily accessible to area residents while the University of Michigan ranks among the top public universities in the country. Not surprisingly, the Washtenaw County population ranks among the top in the U.S. for educational attainment.

Culture, Attractions, Events and Recreation

The Ann Arbor/Ypsilanti area offers a wide variety of cultural events and attractions. Ann Arbor has its own public library, several of its own museums and numerous facilities, museums and libraries associated with the University of Michigan to which the general public has access. These include the Ann Arbor Hands-on Museum, Cobblestone Farm, Kelsey Museum of Ancient and Medieval Archeology, Kempf House Center for Local History, the Matthei Botanical Gardens, U-M Exhibit Museum and Museum of Art, Ruthven Planetarium, U-M Harlan Hatcher Graduate Library, and several special purpose libraries. Neighboring Ypsilanti points of interest include Depot Town, with its renovated 19th Century shopping district housing both antique stores and eating establishments and the annual Frog Island Music Festival, held at Frog Island Field near Depot Town. The Yankee Air Force Museum, featuring old airplanes, bombers and training aircraft, is located at Willow Run Airport.

Both Detroit and Ann Arbor attract world famous musicians, artists and scholars owing to the extensive availability of performance and educational facilities and general support. There are numerous recreational and cultural attractions within the greater Detroit Metropolitan area. These include the Henry Ford Museum, Greenfield Village, Belle Isle Aquarium, Detroit Historical Museum, Detroit Institute of Arts, Fisher Mansion, Museum of African American History, Music Hall Center for the Performing Arts, Renaissance Center, Joe Lewis Arena, Tiger Stadium and the Michigan State Fair Grounds.

With an abundance of state and public parks and lands and the changing seasons, southeast Michigan offers a wide variety of year-round outdoor recreational opportunities. These include many state parks with hiking and biking trails, lakes for water sports and private facilities for skiing, golfing, skating, and so forth. Public lakes in Washtenaw County and the near surrounds include Ford Lake, Whitmore Lake and the Chain of Lakes (Portage, Baseline, Whiteford, Gallagher, Strawberry, Zukey and Bass Lakes), which offer all types of water sports activities. Within the county and in its vicinity, public state-operated recreation facilities and areas include the Hudson Mills, Dexter-Huron and Delhi Metroparks, Huron Meadows and Kensington Metroparks (the latter with public golf course), Chelsea State Game Area, and the Island Lake, Highland, Proud Lake, Brighton, Pinckney and Waterloo State Recreation Areas. There are also public campgrounds, public and private golf courses, and skiing at the Mount Brighton Ski Area. The city of Ann Arbor has 122 public parks, indoor and outdoor skating and pool facilities.

There are numerous worship facilities for those of all faiths located in the area.

Economic Condition

One reflection of the economic health of the region can be the number of authorized new residential dwelling permits issued. Information on building permits for the 17-year period from 1995 to 2011 for SEMCOG region counties (Metro Detroit) and Washtenaw County is presented through line graphs in Figures 7 and 8 on the following page.

National recessionary trends of the early 1990's affected this region, though not to the extent found elsewhere in the country. Overall decreases of the early 1990's in most of the area counties were reflective of an enormous building surge from the mid to the late 1980's. The upward trend commenced in 1991, with the number of total new housing unit permits issued peaking in 1998 for the SEMCOG Region at 25,968, declining steadily through 2001, with an equal steady upward trend through 2004. This prolonged national inflationary housing boom, exacerbated by an aggressive federal monetary policy, has clearly come to an end as of late 2006 and indicates nominal housing growth of all types.

The City of Detroit is known as the automobile manufacturing capital of the world. Detroit leads the country in the manufacture of automobiles, trucks and metals, as well as in non-electrical machinery and pharmaceuticals. The regional economy is to a large degree dependent upon the health of the automotive industry. We have previously reviewed the employment issues tied to the area's automotive industry. The big three's monetary performance remains volatile with severely contracting global vehicular sales now rebounding in China.

Figure 7, SEMCOG Region Authorized New Dwelling Permits& Demolitions, 1995-2011

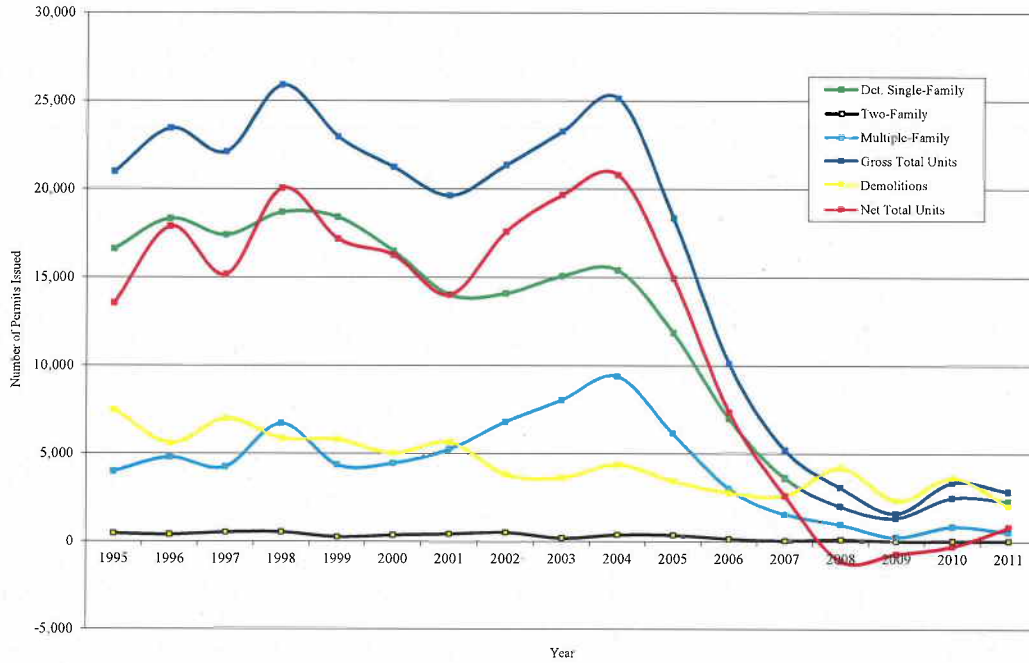
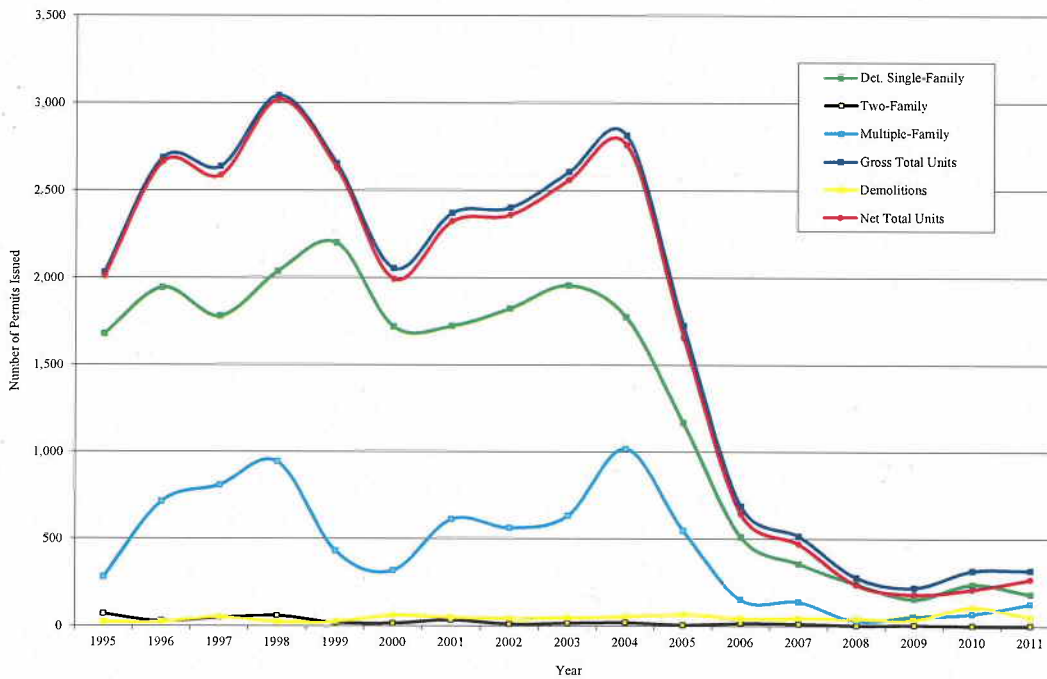


Figure 8, Washtenaw County Authorized New Dwelling Permits& Demolitions, 1995-2011



Toyota's purchase of 690-acre tract of land along US-23 just southeast of Ann Arbor from the state of Michigan to develop a large research and development center and other large projects include the previously mentioned University of Michigan Central Campus and Medical System which continue to rebuild and expand with, for example, the 939,000-square-foot Life Sciences Institute laboratories and classrooms give strength to the local employment record. The University has committed over two billion dollars to life sciences research and education following the recent mapping of the human genome as well as to other major physical upgrades to its Ann Arbor campus.

In September of 2004, the University of Michigan announced its largest donation in history: An alumnus, Stephen M. Ross, has gifted \$100 million to the business school with much of that money being used to build an iconic anchor building for that school. Major projects on the Ann Arbor campus are outlined in Figure 9 on the following page. For less than a decade so far projected into 2014, the University of Michigan has spent or committed \$3.09 billion in capital projects within Ann Arbor and is now the state's second largest employer behind Ford Motor Company following the 2009 bankruptcies of GM and Chrysler.

Another indication of the University of Michigan's prominence is its large endowment. For 2011, U/M remains at the 7th position from 2010 to remain one of the top ten largest university endowments as summarized in Figure 10 below. Considering the \$7.83 billion in its coffers, the U/M's ability to expand and improve on its mostly modernized local infrastructure is secure.

Figure 10. Top Ten University Endowments in 2011

School	2011	Change from 2010
Harvard	\$31.73 billion	15.1%
Yale	19.37	16.3
U. of Texas	17.15	22.0
Princeton	17.11	18.9
Stanford	16.50	19.1
M.I.T.	9.71	16.8
U. of Michigan	7.83	19.4
Columbia	7.79	19.5
Northwestern	7.18	20.8
Texas A&M	7.00	22.0
U. of Pennsylvania	6.58	16.1
U. of Chicago	6.58	18.6

Source: NACUBO, published 2012

In recent years, Washtenaw County has been in a period of strong growth, evidenced by numerous apartment, commercial, institutional, research, office, and industrial developments in and around the Ann Arbor/Ypsilanti area and the surrounding communities. This growth, now tempered by the region's automotive industry woes, Border's Books bankruptcy and the recent exit of Pfizer, is expected to continue albeit at a tempered pace in the near term.

Figure 9. University of Michigan Major Projects 2005-2014

<u>Project</u>	<u>Estimate Cost</u>	<u>Completion</u>
Biomedical Science Research Building	220+	2005
Stephen M. Ross Academic Center	12.0	2005
Undergraduate Science Building	61.0	2005
Palmer Drive Commons Building	33.0	2005
Life Sciences Institute	96.0	2005
Junge Family Champions Center	4.5	2005
Medical Science Unit 1 Cyclotron	8.7	2005
Ann Street Parking Structure	13.0	2006
Weill Hall-G. Ford School of Public Policy	35.0	2006
LSA Building Renovation	26.0	2006
Perry Building Addition	15.7	2006
Computer Science & Engineering Building	40.0	2006
Upjohn Ambulatory Psychiatry & Depression Center	41.0	2006
East Ann Arbor Ambulatory Surgery Center	30.0	2006
202 South Thayer Building	18.0	2006
School of Public Health Buildings	68.5	2006
Lurie Biomedical Engineering Building Lab	20.0	2006
Solid-State Electronics Lab Addition	28.0	2007
Observatory Lodge Renovation	11.5	2007
Cardiovascular Center	215.5	2007
Michigan Memorial Phoenix Lab	9.5	2008
Student Activities Building Renovation	8.5	2008
Kelsey Museum Renovation & Addition	9.2	2008
Mosher Jordan Renovation & New Dining Center	65.1	2008
Walgreen Drama Center & Stamps Auditorium	42.8	2008
Ross School of Business Facility	145	2008
Alumni Memorial Hall Museum of Art	41.9	2008
Wilgon Complex & Fisher Stadium	9.0	2008
North Campus Research Project (Pfizer Purchase)	108	2009
Michigan Wrestling Center	5.5	2009
Towsley Center for Children Replacement	8.0	2009
Stockwell Hall Renovation	39.6	2009
Al Glick Field House (Football)	26.1	2009
Michigan Stadium Renovation & Expansion	226	2010
Intercollegiate Soccer Stadium	6.0	2010
North Quad Residential & Academic Building	175	2010
Kresge Complex Demolition	9.7	2010
Engineering Programs Building Addition	4.8	2010
Brehm Tower (Kellogg Eye Center Expansion)	132	2010
Thompson Street Parking Structure Addition	15.7	2010
C.S. Mott Children's & Women's Hospital	523+	2011
Couzens Hall Renovation	49	2011
North Campus Chiller Plant Exp	8.7	2011
Engineering Programs Addition	4.8	2011
Stadium and Arena Scoreboard Replacements	20	2011
Wolverine Tower Renovation	6.3	2011
Crisler Arena Renovation	23	2011
Player Development Center for Basketball	23.2	2011
University Hospital Central Sterile Supply Exp	6.9	2011
Law School Academic Building & Hutchins Hall	102	2012
University Hospital Medical Procedure Unit Exp	6	2012
Alice Crocker Lloyd Hall Renovation	56	2012
North Campus Building 16 Renovation	13.7	2012
Parkview Medical Center Demolition	5	2012
University Hospital Emergency Dept Expansion	17.7	2012
University Hospital Kitchen Renovation	8.5	2012
Crisler Arena Expansion	52	2013
Institute for Social Research Addition	23	2013
Michigan Memorial Phoenix Lab	11.1	2013
George Granger Brown Memorial Labs	46	2014
Total	3,090.7	

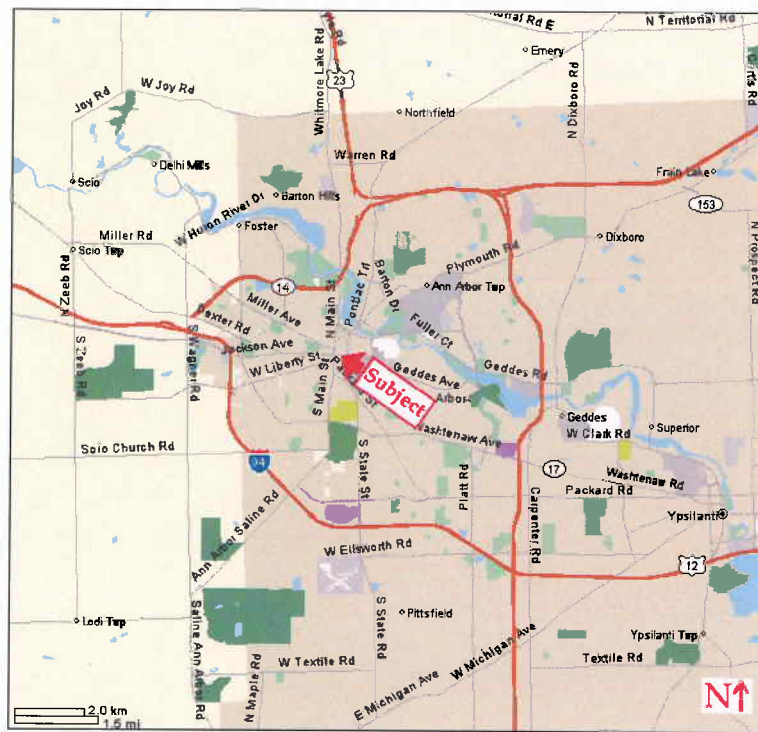
Source: U/M Plant Extension

In summary, the area has a diverse economic base and labor force, and offers a wide variety of employment, educational, recreational, shopping, and medical facilities in the immediate and near vicinity, all of which serve to stabilize the local economy. Extensive opportunities and amenities are available to area residents. Washtenaw County has historically been in the path of outward growth from the greater Detroit Metropolitan area and is within easy commuting distance, via an extensive network of local highways and freeways, to many other employment centers and all other amenities of the greater metropolitan area. The presence of the University of Michigan in Ann Arbor and Eastern Michigan University in Ypsilanti serve to buffer the local economy from the fluctuations endured by other communities more heavily dependent on the automobile industry. Research and development firms have continued to locate in the area owing to the presence of the universities and a highly educated workforce.

CITY OF ANN ARBOR PROFILE

The city of Ann Arbor covers approximately 27.4 square miles or 17,015 acres and is located in central Washtenaw County. It is the county seat. The city is bordered by Ann Arbor Township to the north and east, Scio Township to the west, Lodi Township to the southwest and Pittsfield Township to the south. The city of Ann Arbor is a full-service community which has extended municipal utilities to areas in some of the neighboring townships. Figure 11 illustrates major routes in and around the city.

Figure 11. City of Ann Arbor



Some of the more pertinent characteristics of the community are discussed below. A data summary chart for Ann Arbor, which includes select U.S. Census data, related projections the SEMCOG Regional Development Forecast, and SEMCOG reported residential building permit data, is provided within Figure 12.

Figure 12, City of Ann Arbor Profile

Population, Households & Household Size						
	2000		2010	%	2035	%
	CENSUS		CENSUS	Change	Forecast	Change
Population	114,024		113,934	-0.08%	115,218	1.13%
Households	45,693		47,060	2.99%	48,436	2.92%
Housing Units	47,218		49,789	5.44%	n/a	n/a
Household Size	2.22		2.17	-2.25%	2.09	-3.69%
Population By Age						
	2000	% Total	2010	% Total	2030	% Total
Age 0-4	5,744	5.0%	4,868	4.3%	4,746	4.1%
Age 5-19	22,982	20.2%	21,961	19.3%	10,703	9.3%
Age 20-34	41,741	36.6%	43,369	38.1%	46,129	40.0%
Age 35-64	34,540	30.3%	33,124	29.1%	34,374	29.8%
Age 65+	9,017	7.9%	10,612	9.3%	20,318	17.6%
Households						
	2000	% Total	2010	% Total	2030	% Total
With seniors 65+	6,559	14.4%	8,020	17.0%	9,900	20.4%
Without seniors	39,134	85.6%	39,040	83.0%	43,313	89.4%
2+ persons without children	18,457	40.39%	20,018	42.54%	13,928	28.76%
Live alone, 65+	3,017	6.60%	3,695	7.85%	9,574	19.77%
Live alone, under 65	13,209	28.91%	13,901	29.54%	11,546	23.84%
With children	11,010	24.10%	9,446	20.07%	18,165	37.50%
Household Income Analysis						
	2000	% Total	2010	% Total		
\$0 to \$10,000	4,724	10.3%	4,864	10.3%		
\$10,000 to \$14,999	2,543	5.6%	2,436	5.2%		
\$15,000 to \$24,999	5,221	11.4%	4,253	9.0%		
\$25,000 to \$34,999	4,894	10.7%	4,292	9.1%		
\$35,000 to \$49,999	6,873	15.0%	5,601	11.9%		
\$50,000 to \$74,999	8,046	17.6%	7,665	16.3%		
\$75,000 to \$99,999	5,024	11.0%	4,631	9.8%		
\$100,000 to \$149,999	5,129	11.2%	5,917	12.6%		
\$150,000 or more	3,290	7.2%	5,507	11.7%		
Median Household Income (2010 dollars)	\$46,299		\$52,625			
Households in Poverty	6,856	15.0%	8,004	17.0%		
Persons in Poverty	16,922	14.8%	20,318	17.8%		
Housing						
	2000	% Total	2010	% Total		
One-Family Detached	19,725	41.8%	20,416	41.0%		
One-Family Attached	5,065	10.7%	4,779	9.6%		
Two Family Duplex	2,194	4.6%	2,535	5.1%		
Multi-Unit Apartments	20,104	42.6%	22,043	44.3%		
Mobile Homes	126	0.3%	98	0.2%		
Other Units	0	0.0%	0	0.0%		
Owner-Occupied Units	20,685	43.8%	21,078	42.3%		
Renter-Occupied Units	25,008	53.0%	25,982	52.2%		
Vacant Units	1,301	2.8%	2,470	5.0%		
Median Housing Value (in 2010 dollars)	\$235,520		\$240,400			
Median Contract Rent (in 2010 dollars)	\$913		\$946			
Specified Owner-Occupied Housing Values						
	2000	% Total	2010	% Total		
Less than \$50,000	161	0.9%	468	2.2%		
\$50,000 to \$99,999	1,176	6.4%	1,032	4.9%		
\$100,000 to \$149,999	4,087	22.3%	1,770	8.4%		
\$150,000 to \$199,999	5,647	30.7%	3,531	16.8%		
\$200,000 to \$299,999	4,560	24.8%	7,120	33.9%		
\$300,000 to \$499,999	2,076	11.3%	5,227	24.9%		
\$500,000 to \$999,999	642	3.5%	1,572	7.5%		
\$1,000,000 or more	16	0.0%	256	1.2%		
	18,365		20,976			

Compiled by Alcock & Williams, LLC, from U.S. Census and SEMCOG

Figure 12, City of Ann Arbor Profile (Continued)

Employment	1990		2000	%	2030	%
	CENSUS		CENSUS	Change	Forecast	Change
Total Employment	113,309		124,378	9.77%	132,305	6.37%
Ag. Min Natural Resources	780		626	-19.74%	441	-29.55%
Manufacturing	7,119		7,165	0.65%	8,368	16.79%
T.C.U.	2,559		2,743	7.19%	3,334	21.55%
Wholesale Trade	2,884		2,863	-0.73%	3,462	20.92%
Retail Trade	18,704		19,412	3.79%	19,906	2.54%
F.I.R.E	7,494		7,336	-2.11%	7,026	-4.23%
Services	71,487		79,965	11.86%	84,264	5.38%
Public Administration	2,282		4,268	87.03%	5,504	28.96%

n/a indicates data blocked due to confidentiality concerns of ES-202 files.

Educational Attainment - Population Age 25 or Older						
Did Not Graduate High School	3,718	6.1%	2,794	4.3%		
Graduated High School	6,001	9.9%	5,812	9.0%		
Some College, No Degree	9,075	14.9%	8,727	13.6%		
Associate Degree	3,076	5.1%	2,529	3.9%		
Bachelor's Degree	17,245	28.4%	19,302	30.0%		
Graduate or Professional Degree	22,007	36.2%	25,508	39.6%		
Total*	60,743		64,380			

Total shown may not equal sum of sample data.

Land Use	1990		2000	
	Acres	% Total	Acres	% Total
Single-Family Residential ¹	6,389	36.6%	6,803	38.9%
Multiple-Family Residential	1,346	7.7%	1,560	8.9%
Commercial & Office	1,304	7.5%	1,321	7.6%
Institutional	1,768	10.1%	1,805	10.3%
Industrial	923	5.3%	1,047	6.0%
Trans., Commun. & Utility	428	2.5%	432	2.5%
Cultural, Outdoor Rec. & Cemetery	1,339	7.7%	1,438	8.2%
Active Agriculture	369	2.1%	160	0.9%
Grassland & Shrub	1,520	8.7%	911	5.2%
Woodland & Wetland	1,352	7.7%	1,224	7.0%
Extractive & Barren	0	0.0%	0	0.0%
Water	573	3.3%	577	3.3%
Under Development ²	157	0.9%	190	1.1%
Total Acres³	17,468		17,468	

¹ Includes SFR, manufactured housing, farmsteads and portions of developing SFR
² Includes 1) undeveloped acreage in developing projects, and 2) areas of ground breaking where no use could be determined.
³ 1990 & 2000 total acres may not be the same due to rounding errors and precision differences in 1990/2000 GIS layers.

Residential Building Permits	New & Demolished Units Permitted				
	Single-Family	Two-Family	Attach. Condo	Multiple-Family	New Units
Annual Ave 1995-99	168	22	30	189	409
Annual Ave 2000-04	69	14	172	54	309
Annual Ave 2000-11	451	108	1,228	388	2,175
Total Over Period	688	144	1,430	631	2,893

Compiled by Alcock & Williams, LLC, from 1990, 2000, and 2010 Census, SEMCOG reported bldg. permits & 2030 SEMCOG RDF

Population, Households and Household Formation

The city of Ann Arbor has a 2010 population of 113,934, with 47,060 households, 49,789 housing units and an average of 2.17 persons per households. The city experienced a nominal decrease in population between 2000 and 2010, with the number of households increasing by 3.0%, the number of housing units increasing by 5.4% and the number of persons per household decreasing by 2.3%. SEMCOG estimates by 2035 the city population to be 115,218, with 48,436 households, and 2.09 persons per household.

As indicated in the profile, continued modest increases in both population and households and relative stasis in persons per households for the city of Ann Arbor is projected by SEMCOG through the 2035 time frame.

The largest percentage of the Ann Arbor City population are between ages of 20 and 34, with the next largest percentage that from 35 to 64 years. The percentage population in the 18-34 age bracket is projected to decrease as the population ages. The larger percentage in the 20-34 age bracket reflects the presence of University of Michigan in Ann Arbor.

Housing Characteristics

Based on 2010 Census figures, single-family detached housing accounted for 41.0% of all housing in the city with multiple-unit apartments accounting for 44.3%. There is a construction boom in student apartments at this time with should increase this sector as a percentage of total considerably within the next decade.

In 2010, 42.3% of all housing units in the city were owner-occupied with 52.2% renter-occupied with the trend toward more renter-occupied units going forward. The 2010 median housing value was \$240,400 while the 2010 median rent for the city was \$946 with both little changed from the previous decade once adjusted for inflation.

A history of residential construction based on authorized new dwelling permits for the city is given in Figure 12. As is evidenced by these figures, the number of permits issued has varied. There was a huge drop between 1990 and 1991, following overbuilding of the late 1980's, a steady increase thereafter until 1994, a drop in 1995, again increasing until the period high of 525 permits issued in 1997, with a steady decline until 2001. There was a jump again in 2002, steady through 2003 and declines since then. Prolonged national housing cost inflation has resulted in an abrupt slowdown in new housing construction here and across the nation.

Income

The 2010 median household income is \$52,625, down 13.2% from the 2000 Census, and the per capita income is \$30,498, down 11.8% from the 2000 Census (all in 2010 dollars).

Economic Base and Employment

The past decade's annual average labor force and unemployment rates for the city of Ann Arbor are as follows in Figure 13.

Figure 13. Labor Force & Unemployment Statistics

<u>Year</u>	<u>Labor Force</u>	<u>Unemployment Rate</u>
2011	61,930	6.9%
2010	62,879	8.6%
2009	63,441	9.1
2008	65,039	6.1
2007	65,440	5.1
2006	67,081	4.7
2005	66,370	4.6
2004	64,761	4.6
2003	63,705	4.3
2002	63,684	3.8
2001	65,822	3.1

Source: Michigan Dept of Labor & Economic Growth

As indicated, the 2011 labor force is 61,930 and the unemployment rate is 6.9%. The labor force has continued to contract since 2006. The unemployment rate is often the lowest in the state but in the state which is often the highest in the country and may moderate sooner than the nation and state owing to new employment opportunities offered by Google and others. Unemployment was on the rise in the area owing to major losses within the U.S. automotive industry and the departure of Pfizer's 2,100 employees in 2008 as previously discussed.

As the largest city in the county and the county seat, much of the local industry and economic base is located within the city itself or in the immediate vicinity. See the discussion of Washtenaw County for a list of the largest area employers.

Transportation

Access to the local freeway network, which includes I-94, US 23 and M-14, is available via a number of interchanges on the periphery of the city. The city is essentially completely encapsulated by the local freeway system.

The Detroit Metropolitan Airport, one of the largest in the Midwest with carriers serving most national and international destinations, is located approximately thirty miles east of the subject. Limited public transit is available to area residents from the Ann Arbor

Transportation Authority (AATA), which services the cities of Ann Arbor, Ypsilanti and some nearby outlying communities.

Education

Area youths in public schools attend the Ann Arbor Schools. Public transportation is available for area school children. A third public high school is presently under construction within the city.

A number of institutions of higher education, both public and private are located in the near vicinity of area residents. These facilities include the University of Michigan and Eastern Michigan University in Ann Arbor and Ypsilanti, respectively, and Washtenaw Community College in Ypsilanti.

The 2000 Census data indicates that 39.6% of city residents have a graduate or professional degree, 30% have a bachelor's degree, 3.9% have an associate's degree and the remaining group is split between those with some college but no degree, high school graduates and non-graduates.

Medical

Proximate medical facilities include the University of Michigan and Veterans Administration Medical Centers in Ann Arbor and St. Joseph Mercy Hospital in neighboring Ypsilanti. There is also the Catherine McAuley Health Care System, an extensive network of facilities which includes numerous smaller out-patient clinics located throughout the area and St. Joseph Mercy Hospital. These facilities provide comprehensive health care to area residents ranging from acute and emergency care to long-term disease prevention and treatment.

Land Use

Land uses in the city are primarily residential with single-family residential accounting for 38.9% of land use and multiple-family residential accounting for 8.9%. Institutional land use is 10.3% of the total, reflecting the presence of the University of Michigan. Commercial and office uses account for 7.6% of land use, while industrial land uses account for 6%. A total of 24.6% of land is a combination of outdoor recreation, parks, water, woods, cultural and cemetery. Transportation, communication and utilities account for 2.5% of the land use with the remaining 1.1% under development.

In summary, Ann Arbor is a community in a gradual growth stage, as is evidenced by the amount of recent and proposed development. Given its location along major transportation routes and all the area amenities, including the presence of the University of Michigan, the city is likely to

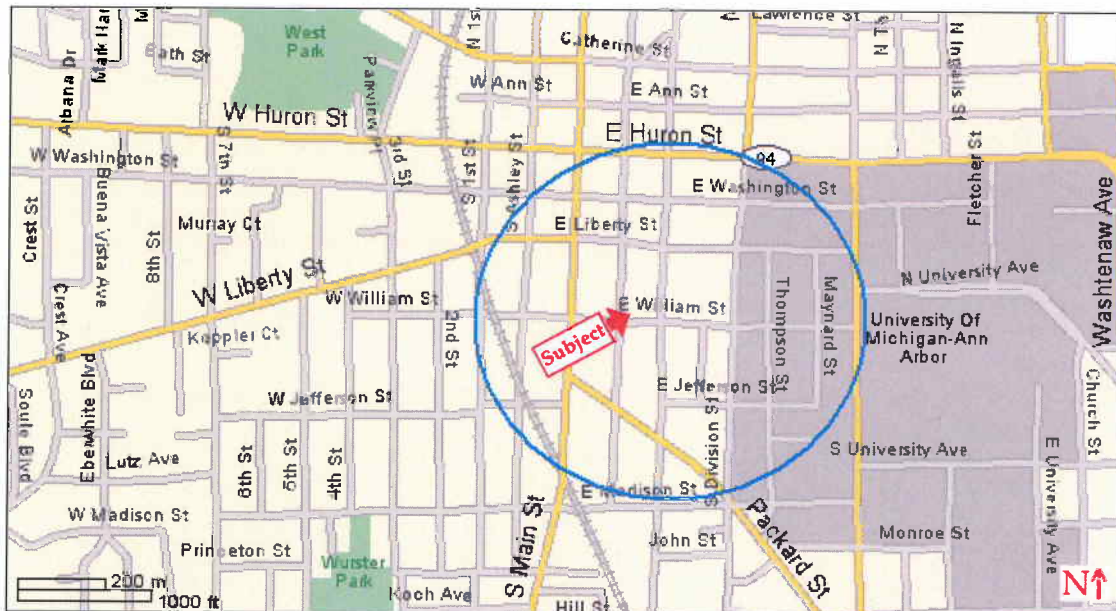
continue to experience growth and development pressure. The area appeals to prospective area residents owing to its ready accessibility to area employment centers and all area amenities, including shopping, recreational, medical and educational facilities, cultural centers, and area expressways. On-going expansion, by way of infill projects, redevelopment and annexation is expected given projections for the area of increasing population and households, coupled with relative static household size, stable income and the proximity to all area amenities.

NEIGHBORHOOD ANALYSIS

The subject property is bounded by East William Street and South Fourth and South Fifth Avenues at the center of downtown Ann Arbor one block east of Main Street in a neighborhood of older commercially zoned residences, the public library, municipal parking, the Federal Building, and a public bus station. The subject's neighborhood location map, highlighted by the blue oval, is illustrated in Figure 14 on the following page.

The subject property fronts onto publicly maintained asphalt roadways with concrete curbs and sidewalks, storm systems, and lighting. William and Fourth at the subject are two-way two lanes with parallel metered street parking. Fifth is one way heading south at the subject with four lanes and no street parking. Main, Huron, Liberty, and Packard are the primary streets in the neighborhood.

Figure 14, Neighborhood Map



According to the Washtenaw Area Transportation Study (WATS), a 24-hour traffic count at the subject at William east of Main was 8,150 in November, 2001, the latest available. No counts

are available on South Fourth and Fifth at the subject. Automotive traffic is limited by the streets' two lanes and traffic light stops at each block. The foot traffic in this location is high.

Most of the century old buildings have been rehabilitated along Main Street in the downtown over the past decade. Primary users include restaurants, banks, law firms, and small retailers. A growth of loft-style and mid-rise apartment housing in the downtown is an expanding trend.

Neighborhood:

Location:	Urban
Built-up:	100%
Growth Rate:	Stable
Property Values:	Stable
Predominate Occupancy:	Office
Estimated Vacancy:	Less than 10%

Present Land Use:

Public Park:	1%
Residential:	29%
Industrial:	0%
Commercial:	20%
Public:	50%

The 744 space four-story underground public parking structure contiguous to the public library and just northeast of the subject was completed in 2012. The Blake Transit Center contiguous to the north of the subject is now under construction for a 12,019-square-foot replacement building for the public bus station. This fully developed neighborhood is in the processes of on-going renewal.

SITE DESCRIPTION

Information pertaining to the site is based on our observations during inspection, review of government data, and conversations with representatives of relevant local governmental departments.

The subject site is shown in the survey at Figure 15 on the following page. Further details are described as follows.

Past and Present Use

The subject site was formerly used as the community's YMCA and included low-income housing until being demolished in 2008. The subject is presently improved with a public surface parking lot.

Size, Shape, and Topography

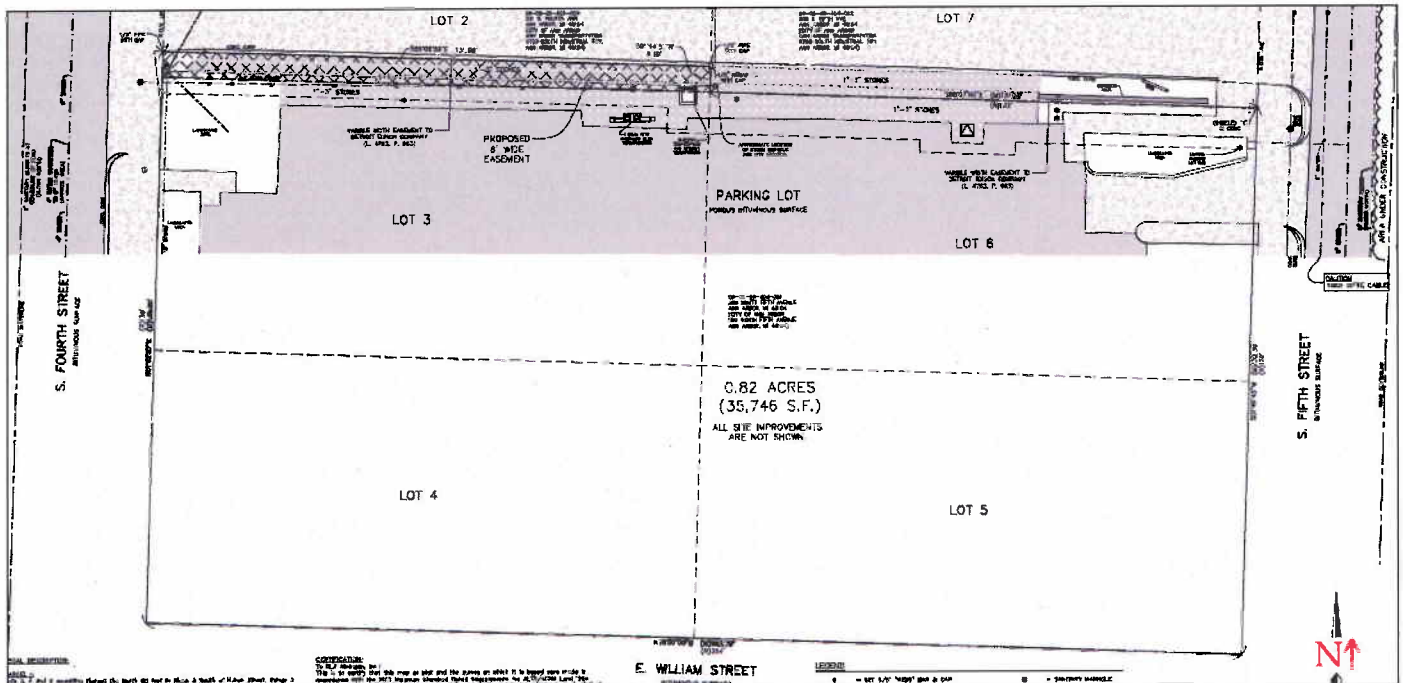
The subject site is a rectangular shape double-corner site contiguous to a public bus depot planned for redevelopment. The subject contains a total 34,954± net square feet or 0.80± net acre according to the survey.

The site has a very gradual slope down to the west and is at street grade with storm drainage. There are 264± feet on William, 132± feet on Fifth, and 132± feet on Fourth giving ample visibility and road frontage.

Utilities

Municipal water and sewer, DTE Energy electric and gas, AT&T and Comcast broadband internet-television-VoIP are at or near the site. According to the DDA, two six-inch water mains are at the subject site.

Figure 15. Survey of the Subject Site



Source: KEBS, Inc. Alta/ACSM Land Title Survey Job No. 83785, Marshall, Michigan, no date

Ingress/Egress

Curb cuts are on William Street and Fifth Avenue.

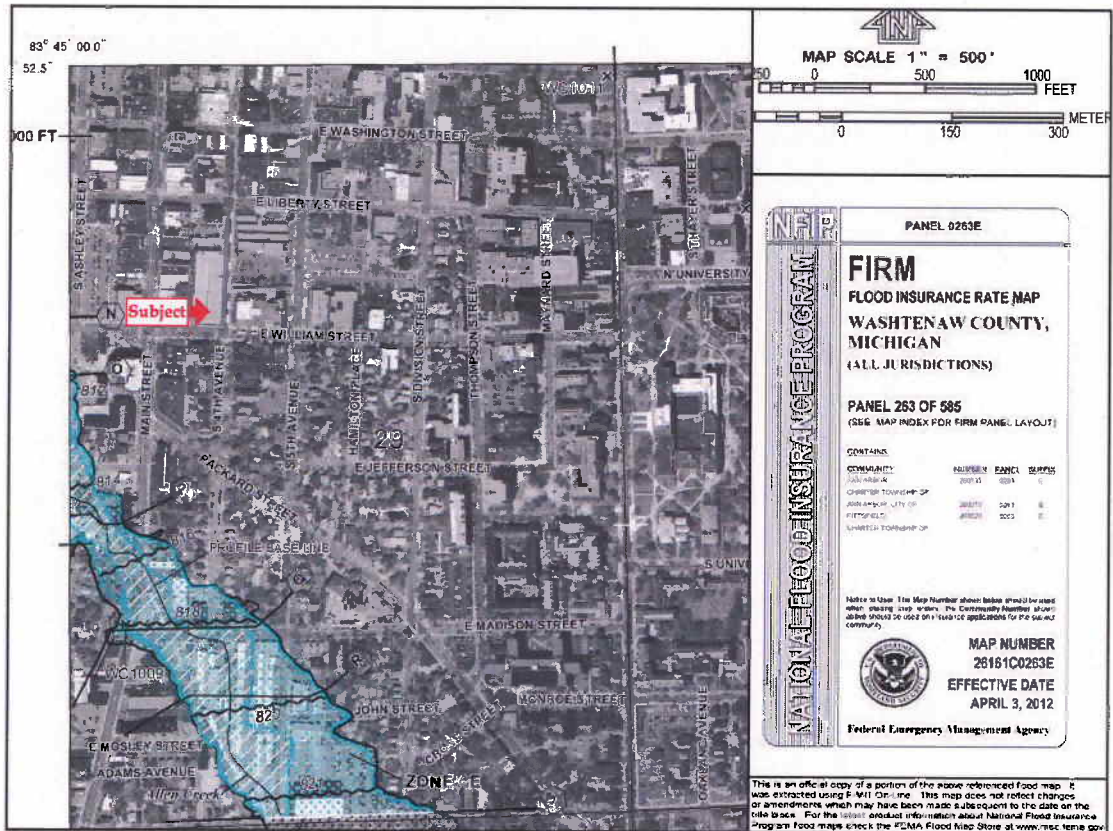
Easements, Deed Restrictions, and Encroachments

All public roadways are owned in fee by the municipality. There are no known encroachments or deed restrictions. DTE Energy has a narrow variable-width easement along the north property line.

Flood Plain

According to the Federal Emergency Management Agency's (FEMA) flood insurance rate map, the subject is in a Zone X of 0.2% annual chance of flood according to the FEMA flood insurance rate map, Panel 263 of 585, Map No. 26161C0263E, effective April 3, 2012. This rate map has just replaced a 20-year-old rate map. The new map is shown in Figure 16.

Figure 16. FEMA Flood Rate Map for the Subject Area



PERSONAL PROPERTY

Not applicable.

ENVIRONMENTAL CONDITIONS

The market value estimate is predicated on the assumption that there is no contaminated material on or in the property that would cause a loss in market value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them.

Asbestos was abated from the building prior to its recent demolition.

The client or any person or company reading this report is urged to retain an expert in the environmental contamination field to ascertain the subject's environmental condition. See Assumptions and Limiting Conditions for a complete disclosure.

ZONING ANALYSIS

The entire downtown area now contains two districts – D1 and D2 – in an effort to improve the downtown's urban design and development. These two districts expand and unify the broad array of commercial, office, parking, public land, and residential districts as adopted in late 2009.

The subject is within the D1, Downtown Core District. The D1, Downtown Core District, is summarized as follows.

The D1 District's intent is as follows.

These districts, in coordination with the downtown character overlay zoning districts, are designed to support the downtown as the city's traditional center. The downtown serves both the region and local residents as a place to live, work, and take advantage of civic, cultural, educational, shopping, and entertainment opportunities. The downtown districts are intended to allow a mixture of land uses, dense urban development, pedestrian orientation, unique residential opportunities, and a compatible and attractive mix of historic and contemporary building design. Development in these districts is designed to be accessible by a variety of modes of transportation.

(a) D1 – Downtown Core District. This district is intended to contain the downtown's greatest concentration of development and serves as a focus for intensive pedestrian use. This district is appropriate for high-density mixed residential, office and commercial development.

(b) D2 – Downtown Interface District. This district is intended to be an area of transition between the Core and surrounding residential neighborhoods. This district is appropriate for medium density residential and mixed-use development.

The subject is within the D1's Midtown Character Overlay District. This character district is defined as follows:

The Midtown Character District is framed on all sides by other downtown character districts and contains the Fifth Avenue civic corridor. At present, this district lacks a strong sense of identity and is a place where creation of a new context should occur. The intent for this district is higher density development with a strongly defined street edge and active open spaces.

Primary permitted uses are extensive and include the following:

Residential: Single- and two-family dwelling; multiple-family dwelling; fraternity, sorority or student cooperative; rooming or boarding house; emergency shelter; and convalescent or nursing home.

Lodging: Hotel or motel and bed & breakfast.

Civic and Institutional: Religious assembly; educational services; day care center; community center; social or service club; library; government office; courthouse; park or plaza; and museum.

Office: General or business, medical or dental office; veterinary; and medical laboratory.

Commercial: Bank, credit union, or financial services; restaurant or bar; personal or business services; permanent and temporary outdoor sales; theater; entertainment – general; and funeral services.

Industrial & Transportation: Printing or publishing; transit center or station; broadcasting facility; utility substation; and railroad.

Special exception uses include the following:

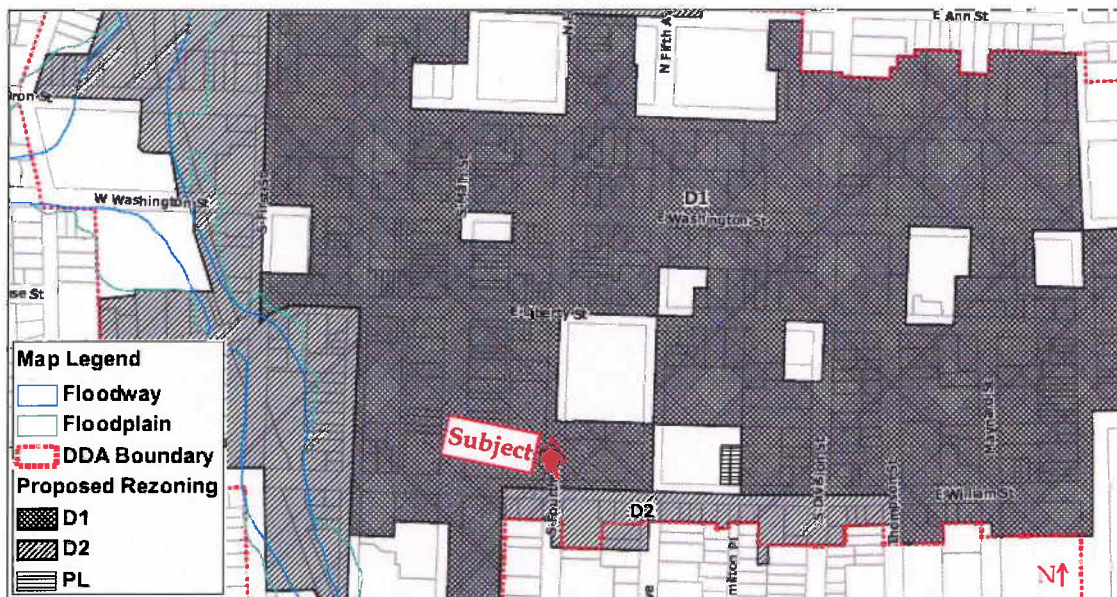
Commercial: Conference center; drive-through facility; vehicle fueling station; vehicle sales or rental; vehicle repair or storage; and vehicle wash.

Industrial & Transportation: Assembly or manufacturing; parking structure; and parking lot – principal use; and wireless communications facility.

Adult entertainment, warehouse, building materials wholesale, construction/trade contractors, and fabrication – metal & canvas are specifically prohibited.

A zoning map is provided in Figure 17 as follows.

Figure 17, Ann Arbor Zoning Identification for the Subject



Source: City of Ann Arbor June 22, 2009

Density and setback requirements are defined as follows in Figure 18.

Figure 18, Zoning Code Density and Setback Requirements

	<u>D1 Code</u>	<u>Subject</u>
Maximum Usable Floor Area in Percentage of Lot Area	400% w/o premiums 700% w/ premiums 900% with affordable housing premiums	0%; project 700%
Front Setback	none	-
Rear Setback	none	-
Side Setback	none	-
Minimum Height	24 feet; 2 story	-
Maximum Height	180 feet	-
Maximum Building Coverage	none	-
Minimum Open Space	none	-
Minimum Gross Lot Size	none	34,954± square feet

On-site parking requirements are presently defined within the D1 District as follows:

Lots located in the D1 or D2 downtown zoning districts are considered a special parking district and are subject to the following standards:

- (1) No off-street motor vehicle parking is required in the special parking district for structures which do not exceed the normal maximum permitted usable floor area or for structures zoned PUD with usable floor area which does not exceed 300 percent of the lot area. Structures which exceed the normal maximum usable floor area by providing floor area premiums, or PUD-zoned structures that exceed 300 percent of lot area, shall provide parking spaces for the usable floor area in excess of the normal maximum permitted. This parking shall be provided at a rate of 1 off-street parking space for each 1,000 square feet of usable floor area. Each parking space reserved, signed and enforced for a car-sharing service may count as four (4) required motor vehicle parking spaces.
- (2) Off-street bicycle parking is required for residential uses in the special parking district at a rate of 1 off-street bicycle space for each 2,500 square feet of usable floor area and shall be provided in compliance with the requirements of Section 5:168.1 for Class A spaces. Off-street bicycle parking is required for non-residential uses in the special parking district at a rate of 1 off-street bicycle parking space for each 10,000 square feet of usable floor area and shall be provided in compliance with the requirements of Section 5:168.1 for Class C spaces.
- (3) The required bicycle or motor vehicle parking shall be provided on-site, off-site as described in this section, or by the payment of a contribution in lieu of required parking consistent with the formula adopted by city council, or any combination thereof, consistent with the requirements of this section. The per-space payment shall be that required by Council resolution at the time of payment. Approval of a contribution in lieu of required motor vehicle or bicycle parking shall be conditioned upon the execution of a development agreement. Payment of the contribution in lieu for required parking shall be made prior to the issuance of a certificate of occupancy.
- (4) The applicant may request, as part of a site plan, to meet all or a portion of the bicycle parking requirements by installing bicycle parking spaces in the public right-of-way and/or a public parking structure. City council may approve this request if there is sufficient space in the right-of-way and/or parking structure and the location is convenient to bicycle users.

- (5) Parking structures that are available solely to residents or employees of the building are not subject to the stall and aisle standards of Section 5:168.

Application of the zoning district requirements to the subject size regarding building density and on-site parking requirements are discussed and analyzed later under Highest & Best Use in the Analysis of Value section of this report.

HISTORIC AND DOWNTOWN DEVELOPMENT AUTHORITY DISTRICTS

The subject is outside of an historic district within the downtown.

The subject is within the Downtown Development Authority District as shown in Figure 17. This district advocates public parking renewal and expansion in the downtown and provides some relief for on-site parking requirements on private parcels.

TAX ANALYSIS

In the State of Michigan, tax law requires that real property be assessed at 50% of market value. The assessed value (AV) is then multiplied by a state equalization factor to determine the state equalized value (SEV). Prior to 1995, the real property taxes were then determined by multiplying the SEV by a millage rate levied by the local municipality to pay for various public expenditures, including school funding and municipal services. Through the passage of Proposal A in March of 1994, the property assessment and taxation system was changed. The primary purposes of Proposal A was to reduce real property taxes through the establishment of a state school aid fund, change the assessment and taxation method on real and tangible personal property, and increase the retail sales tax from 4.0% to 6.0%. The effect of the establishment of the state school aid fund has been that millage rates levied locally for the funding of the public school systems have, in most areas, decreased. Local municipalities do retain the right, however, to levy additional mills for the school system through a local vote.

Two values were introduced in the new taxation system: taxable value and the capped value. While the SEV and AV will be maintained and calculated as in the past, beginning in 1995 property taxes were calculated using the taxable value. The taxable value is the lower of the SEV or the capped value. The capped value equals last year's taxable value, increased by 5.0% or the consumer price index (CPI), whichever is lower, plus the value of additions or losses. It is only the taxable value which has a capped increase; the SEV continues to increase or decrease in accordance to the market. The SEV is used when a property transfers or is significantly altered, at which time the cap is lifted on the taxable value and the property's taxable value should equal the SEV in the following tax year.

The taxable value is multiplied by the overall millage rate to give total annual tax liability. Each mill represents one dollar of tax per \$1,000 of taxable value. A property in the state of Michigan

is taxed based on a partial millage applied to the current taxable value in the summer and then winter of each year and billed during those periods. We use the 2011 overall non-homestead millage rate of \$58.8939 per \$1,000 of taxable value for our 2013 projection.

The tax records have the subject identified as 09-09-29-404-001 for the real property. The subject is owned by the City of Ann Arbor and is therefore exempt from property taxation. If sold for our estimated market value of \$5,390,000, we assume the 'as is' assessed value would be half of this opinion or \$2,695,000. An estimated tax liability for the subject's 'as is' real property, if sold to the private sector, is calculated in Figure 19.

Figure 19, 'As Is' Estimated 2013 Property Tax Liability

<u>Est. 2013 Assessed Value</u>	<u>2011 Non- Homestead Millage</u>	<u>1.0% Service Charge</u>	<u>Est. 2013 Tax Liability</u>
\$2,695,000	x .0588939	x 1.01	= \$160,306

Personal property taxes are not considered in this analysis. There are no special assessments or delinquent taxes owed since the subject is presently exempt.

ANALYSIS OF VALUE

CURRENT MARKET CONDITIONS AND TRENDS

Given the unstable economic conditions, the national apartment market has emerged as a prime commercial real estate safe haven for large capital flows. Apartment stability is being attributed to a confluence of factors from the deleveraging of government-backed housing debt via Fannie Mae and Freddie Mac to college graduates with high tuition debt unable to afford homes. Both commercial mortgage-backed securities (CMBS) and life insurance funds are consequently flowing into the prime apartment market.

In Ann Arbor, invigorated by the late-2009 rezoning of the entire downtown and perimeter central campus areas to allow for greater building density, 2,000 student apartment beds were added in the past five years with 1,662 more apartments under construction or planned. Figure 20 summarizes this activity.

Figure 20. Central Ann Arbor Apartment Development

<u>Completed in 2008-2012</u>			
Zargon Place	10 stories	66 units	248 bedrooms
Sterling 411 Lofts	10	106	342
U/M North Quad	10	460 students	460
Zargon West	14	99	200
Landmark	14	175	606
City Place	4	<u>24</u>	<u>144</u>
		930	2,000
 <u>Under Construction</u>			
The Varsity	13 stories	181 units	415 bedrooms
Ann Arbor City Place	9	<u>155</u>	<u>194</u>
		336	609
 <u>Site Plan Proposal</u>			
618 South Main (approved)	8 stories	189 units	231 bedrooms
Pizza House	14	83	181
NE Huron & Division	14	216	537
Metro 202 (hotel; expired)	9	<u>104</u>	<u>104</u>
		592	1,053
 Totals	 <u>11 average</u>	 <u>1,858 units</u>	 <u>3,662 bedrooms</u>

Several projects are being built and planned in the downtown away from the central campus targeting young professionals as large development sites at the central campus perimeter become scarce. Developers of this new apartment inventory are targeting rents in excess of \$800 per

month per bedroom up to \$1,700+ per bedroom in hopes to capture the predominantly affluent student population through superior product amenities.

Given a total student enrollment of 43,426 at the university in the Fall 2012 with the regents intending to reduce the undergraduate population by some 2,500 in the near future while continuing to gradually grow the graduate population, enrollment is expected to level off after five years of 2.0% or less annual growth. New bed inventory since 2008 is 8.4% of the total current student enrollment but includes projects not yet in place as well as Ann Arbor City Place with a downtown location away from the central campus and the university's own dormitory development. This projected static enrollment along with the substantial on-going apartment inventory growth will undoubtedly result in the low-grade housing further from the campus to be repurposed to an alternative demographic in the coming years.

Addition competition to the private sector apartment growth comes from the university itself. The institution expanded its central campus dormitory capacity by adding 460 undergraduate beds through its newly completed North Quadrangle. This is the first dormitory expansion by the university since 1967. The university president has also undertaken a \$500 million renovation of seven of its existing dormitories on the central and north campuses, known as the Residential Life Initiative, in since 2004. The University operates one of the larger student housing programs in the country. Nearly 40 percent of the undergraduate population lives *on campus* and demand for on campus housing is likely to rise with the increased quality and competitive rental rates that includes a meal plan. A total of approximately 9,700 students live on campus of which 6,000 are freshman. Dormitory vacancies are historically rare but for the 2012-15 academic years, there will be a reduction of roughly 400 residence hall beds as dorms are renovated in phases.

The University of Michigan has a total budget of \$1.0 billion either currently underway or scheduled to begin construction through 2014. The pace of these capital expenditures is expected to continue in the coming years. As noted, the University also recently purchased the sprawling Pfizer Campus (174 acres; two million square feet of building area) adjacent to its North Campus with various schools occupying its buildings with an expanding research budget.

According to the University of Michigan Housing Department, privately-owned apartment rental rates have increased by a cumulative total of 4.4% over the last three fiscal rental cycles. Vacancies stand below 4% for a typical unit. This data is collected from thousands of registered units within the university's system and is updated as landlords submit data. We expect inflation adjusted apartment rents to flatten for quality units as new inventory comes online for the first time in decades. Low quality or poorly maintained units, on the other hand, may be forced to lower rents or upgrade to draw occupants in an expanding and more competitive student housing environment. Given the severe economic downturn, however, we also expect lower-rent units in lower-quality older apartments with superior location to remain popular with the budget-conscious student.

HIGHEST AND BEST USE ANALYSIS

As defined by the Appraisal Institute, highest and best use is:

... the reasonably probable and legal use of vacant land or an improved property that is legally permissible, physically possible, appropriately supported, financially feasible, and that results in the highest value.³

By determining the highest and best use of the subject property, the appropriateness of the existing improvements can be analyzed and data can be properly selected and applied in the valuation process.

The four criteria of highest and best use are legal permissibility, physical possibility, financial feasibility, and maximum profitability. A brief description of each of these criteria follows.

Legally Permissible

Legal considerations are private restrictions, including easement and deed restrictions, or a long-term lease, zoning and building code limitations, historic district controls, and environmental regulations.

Physically Possible

This aspect considers all physical characteristics of the site, with special consideration for any features which might preclude or enhance development of the subject for a particular type of use.

Financially Feasible

All uses that are expected to produce a positive return, equal to or greater than the amount needed to satisfy operating expenses, financial obligations and capital amortization, are considered to be financially feasible alternative uses.

Maximally Productive

This criteria of highest and best use requires comparison of all financially feasible uses for a determination of that which is the most profitable use or the use which produces the highest return.

³ The Appraisal of Real Estate, Thirteenth Edition, 2008, Appraisal Institute, Chicago, Illinois, p. 278.

We offer the following considerations in determination of the subject's highest and best use.

Highest and Best Use

We determine the subject's highest and best use as vacant using the four criteria defined previously as follows.

Legally Permissible: The site is an adequate size and shape for mixed-use high-density development. It has adequate road frontage at two corners, excellent visibility, and meets the city's size and density requirements for such a development.

Physically Possible: The surrounding existing improvements prove that redevelopment is physically possible. Municipal water and sewer are in place. The topography for is level and drainage is adequate outside of a floodplain.

Financially Feasible: This site location exhibits high developmental pressure based on similar site development sites under construction in the downtown.

Maximally Productive: See the 'Market Comparison Approach' to follow for a detailed discussion of floor-area ratios (FARs) as they relate to the subject's market value. Our FAR assumptions translate directly into market value.

Based on the given discussion, the highest and best use of the subject is for a dense mixed use similar to those currently proposed in the downtown.

METHODS OF VALUATION

The three generally recognized approaches to valuing real property are the cost approach, the income approach, and the sales comparison approach.

The cost approach pertains to valuing improved property. The subject has no site improvements of long-term value. Thus, this approach is not used as a valuation technique in this report other than to discuss demolition cost for the parking structure on the property.

The income approach is used as a method for valuing improved income producing property. Since this property will be vacant and not income producing, this approach does not have application to the appraisal problem.

A variation of the income approach is the land residual technique. In this technique, the return on a theoretical building is deducted from its estimated net operating income. The residual amount is then capitalized to indicate the market value of the land. We have not used this

technique in this report because the many estimates necessitated by its use make the resulting value speculative and susceptible to considerable inaccuracy.

The appropriate approach to valuing the subject land is the sales comparison approach. The sales comparison approach is defined as “The process of deriving a value indication for the subject property by comparing similar properties that have recently sold with the property being appraised, identifying appropriate units of comparison, and making adjustments to the sale prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison. The sales comparison approach may be used to value improved properties, vacant land, or land being considered as though vacant when an adequate supply of comparable sales is available.” Where sufficient sales data is available, this approach is considered very reliable as it reflects the actions of buyers and sellers in the open market. The Appraisal Institute further states that “the concepts of anticipation and change, which underlie the principles of supply and demand, substitution, balance, and externalities [positive and negative external economic forces like the financial crisis], are basic to the sales comparison approach.”⁴

The unit comparison is the most widely used form of market comparison because it is simple and based on investor motivations. We use a *price per square foot of potential building area* because it is commonplace. This indicator is for land only and omits area below grade and, in most cases, for parking.

Several developers mention a *price per potential bedroom or ‘bed’* as a consideration when purchasing land for dense housing proposals in downtown Ann Arbor. We found this indicator to be inconsistent and to produce an added layer of uncertainty to the ‘potential building area’ assumption by projecting an optimal unit layout into the development density equation. For instance, a downtown site known as Metro 202 was sold in early 2008 with an approved site plan for 30 two-bedroom units and 14 studio units (74 total beds) for student apartment housing. The site purchaser, a hotel developer, petitioned the City to allow 88 hotel units without affecting approved building density. This is a 19% increase in bed density without modification to the approved building density. The site plan was just recently allowed to expire. We therefore reject this indicator as inferior to the *price per square foot of potential building area*.

The sales comparison approach is applied to the subject property as follows.

SALES COMPARISON APPROACH

Prime commercially-zoned property with the potential for dense floor-area ratio (FAR) development often sells based on a *price per square foot of potential building area*. The FAR assumption is therefore critical to the market value of the property site.

FARs for the D1 and D2 districts found for recent land development sales in Ann Arbor’s downtown vary from 386% to 694% with premiums and exclusive of parking floors below

⁴ The Appraisal of Real Estate, Thirteenth Edition, 2008, Appraisal Institute, Chicago, Illinois, pp. 297-298.

ground. Each property's FAR varies based on physical attributes, buyer/seller assumptions prior to site plan approval, rezoning, final site plan approvals, on and off site parking provisions, and final site plan revisions.

Construction limitations also influence density. Lower cost Class 'C' construction of masonry or concrete exteriors with wood/light steel infrastructure is used in low-rise projects up to four stories with a fifth-floor wood-frame penthouse for roughly a 450% FAR maximum while anything higher typically requires a more costly Class 'A' construction of fireproofed structural steel frame. Class 'A' construction in Ann Arbor is presently financially feasible with 9 to 14 stories for sites around one-quarter to three-quarters acre. The site sales provided here are in various stages of development with 8, 14, 9, and 14 stories using Class 'A' steel-frame construction.

Many of the newer high-density apartment developments in the downtown and at the perimeter of the central campus have FARs near 700% which is the maximum building density allowed under the D1 district with physical premiums. By adding low-income housing, a developer may achieve a maximum FAR of 900% but this has not been attempted, to the best of our knowledge, by any of the project developers summarized in Figure 20. Premiums for low-income housing were available before the D1/D2 districts were established. We believe an informed developer would target the 700% FAR maximum above grade within the D1 district based on this given data.

Because of FEMA restrictions, residential uses are not allowed within a floodplain and sites in the floodplain are therefore being passed over by developers targeting apartment development at this time. The subject is outside of a floodplain.

We have documented four sales of downtown development land along with a proximity map as set forth in the "Market Data" exhibit section of this report. The data for comparison to the subject are summarized in Figure 21 on the following page.

These sales represent the most current transactions available. They have all been negotiated since the start of the global financial crisis in the fourth quarter of 2007. Student housing on and surrounding the University of Michigan Central Campus had become dated and poorly maintained over the past four decades. Developers are increasingly focused on the affluent student market for housing since the economic downturn. This particular population is seen by some to be unfettered by current economic conditions.

Sale #1 is nearly one acre along South Main Street within the D2 district. The developer indicates a target of non-students for the apartment project proposed and now site plan approved with a lower density of 386% FAR than found in the new projects within the D1 district owing to D2 district restrictions. The property sale was negotiated in the Fall 2011 but has not yet closed owing to contingencies for final site plan approval and financing. The project density may be reduced to accommodate HUD financing limitations. The developers have received large public subsidies in support of its development. This sale came as the result of the seller's failing health. No consideration is made for the removal of the one-story service building existing on the site.

Figure 21. Summary and Adjustment of Development Land Sales

	Subject	Sale No. 1	Sale No. 2	Sale No. 3	Sale No. 4
Common Name	Fmr YMCA Site	Fox Tent & Awning	-	AA City Apts	Zargon West
Location	350 S 5th Ave Ann Arbor	617-621 S Ashley 618-634 S Main Ann Arbor	401 & 413 E Huron Ann Arbor	221 W Washington Ann Arbor	500 E William Ann Arbor
Option Expiration/Sale Date	-	Pending	May & Oct 2012	Nov-2011	Sep-2008
Sale Price	-	<u>\$3,250,000</u> \$3,000,000	\$6,000,000	\$3,200,000	\$4,100,000
Net Acreage	0.80	0.91	0.92	0.56	0.32
Net Square Footage	34,954	39,640	40,075	24,552	13,939
Corner	Multiple	Yes	Yes	Yes	Yes
Zoning	D1	D2	D1	P>C2A>PUD	C2A>PUD
Approv Site Plan Incl	-	Yes; Contingent	No	Yes; Contingent	Yes; Contingent
FAR Assum (excl prking areas)	700%	386%	678%	548%	694%
Mun. Sewer & Water	Yes	Yes	Yes	Yes	Yes
Unadj. Price/Sq.Ft. FAR	-	<u>\$21.22</u> \$19.59	\$22.08	\$23.77	\$42.41
Property Rights	Fee Simple	Fee Simple	Fee Simple	Fee Simple	Fee Simple
Financing Terms	Cash	Cash	Cash	Cash	Cash
Conditions of Sale	-	0.0%	0.0%	0.0%	0.0%
Market Conditions	-	0.0%	0.0%	0.0%	0.0%
Physical Characteristics					
Demolition	-	0.0%	0.0%	0.0%	0.0%
Site Size	-	0.0%	0.0%	0.0%	0.0%
Location/Corner	-	0.0%	0.0%	0.0%	0.0%
Adjusted Price/Sq.Ft. FAR	-	<u>\$21.22</u> \$19.59	\$22.08	\$23.77	\$42.41

Because it is not closed, the selling broker could only provide a range for the sale price as shown in the chart. No adjustments are found.

Sale #2 is an assemblage of nearly an acre of land near the campus along the densely developing Huron Street corridor. This was two transactions totaling \$6,000,000 cash with no contingency for site plan. A site plan is presently working its way through city hall and is proposed for a 678% FAR for student apartments, ground floor retail, and underground parking. This assemblage was negotiated in 2012. There are older low-density improvements on the site and no consideration is made for their removal. No adjustments are found.

Sale #3 is a former public parking structure now under construction with a larger replacement parking structure and apartment complex above it. It has been site plan approved for apartments with the parking structure portion to be purchased by the Ann Arbor Downtown Development Authority upon completion. This site is west of Main Street in the downtown away from the central campus and will target non-students for its units. This project was approved under a PUD

prior to the D1/D2 districts being created and shows a 548% FAR for the apartment portion sans the parking. This sale, contingent upon site plan and joint public parking structure buy-back, closed in November, 2011, shortly after a modest sale price concession given the purchaser. This site was vacant with former parking structure retaining walls in place at the time of sale. No adjustments are found.

Sale #4 is the site sale for the recently completed Zargon West, a high-density student apartment complex with ground floor retail and above/below ground parking decks. This is an older sale in late 2008 and is only 0.32 acre, the smallest of the four sales provided. This sale is the closest in proximity to the central campus just two blocks away. It was approved with a PUD prior to the creation of the D1/D2 districts and was developed with the highest density of 694% FAR above grade of all four sales inclusive of the two parking decks above grade. It shows an indicator that is roughly double the other indicators. We believe this high indicator can be attributed to its smaller site size and close proximity to the central campus. It was improved with a low density older bank with basement vault at the time of sale. No adjustments are attempted for site size and location. We believe this sale may represent a peak in the high-density apartment land values for some time to come while illustrating potential upside to these land values if these projects outperform expectations.

The indicator range is narrow from \$19.59 to \$23.77 per square foot of building area for land with the exception of the high sale of \$42.41 for Sale #4 which we consider an outlier for this analysis. The data is the most current available and shows a range from projected density assumptions to realized density by the purchasing developers. The data also is located near the U/M Central Campus and near Main Street in the downtown while the subject is located between the Campus and downtown.

The potential building area for the subject is estimated at 700% of the site area or 245,000 gross square feet (34,954± square foot site x 7.0 [700% FAR] = 244,678 square feet, rounded). It is our opinion that the subject site has a market value of \$22.00 per square foot of potential building area based on the given data and assumptions. Most weight is given to Sale #2 owing to its similarities to the subject site. The market value calculation is as follows:

$$245,000 \text{ gross sq.ft.} \times \$22.00 = \underline{\underline{\$5,390,000}}$$

SUMMARY AND CONCLUSION OF VALUE

The market value indicated by the sales comparison approach is the only dependable indicator available and is given full weight by us. It is thus our opinion that the market value of the subject in 'as is' condition as of November 27, 2012 is

Five Million Three Hundred Ninety Thousand (\$5,390,000) Dollars.

subject to the Assumptions and Limiting Conditions noted at the eponymously titled section of this report.

ASSUMPTIONS AND LIMITING CONDITIONS

IDENTIFICATION OF THE PROPERTY

The legal description given to Alcock & Williams is presumed to be correct by correspondence to the given source and it has not been confirmed by a survey. Alcock & Williams assumes no responsibility for such a survey or for encroachments or overlapping that may be revealed thereby.

Alcock & Williams renders no opinion of a legal nature, such as to ownership of the property or condition of title.

Alcock & Williams assumes that title to the property is marketable and that the property is an unencumbered fee.

UNAPPARENT CONDITIONS

Alcock & Williams assumes that there are no hidden or unapparent conditions of the property, subsoil or structures which would render it more or less valuable than otherwise comparable property. Alcock & Williams assumes no responsibility for such conditions or for engineering which may be required to discover such things.

HAZARDOUS MATERIALS

No toxic materials or environmental impact studies were either requested or made in conjunction with this appraisal, and Alcock & Williams, Jay T. Alcock, and Kirsten Williams hereby reserve the right to alter, amend, revise or rescind any of the market value opinions based upon any subsequent or subsequently revealed toxic materials or environmental impact studies, research or investigations.

Unless otherwise stated in this report, the existence, whether suddenly or over a long period of time, of hazardous material, which may or may not be present on the property, was not observed by Alcock & Williams, Jay T. Alcock, or Kirsten Williams. Alcock & Williams, Jay T. Alcock, and Kirsten Williams have no knowledge of the existence of such materials on or in the property. Alcock & Williams, Jay T. Alcock, and Kirsten Williams, however, are not qualified to detect such substances. The presence of bacteria, mold, mildew, spores, fungi, any other growth or organic matter of any kind whatsoever, asbestos, urea-formaldehyde foam insulation, radon gas, PCB's, lead-based paint, lead, contaminants such as petroleum products including gasoline or hazardous chemicals escaping from underground storage tanks, radioactive or nuclear material, or other potentially hazardous materials may affect the market value of the property. The market value estimate is predicated on the assumption that there is no such material on or in the property

that would cause a loss in market value. No responsibility is assumed for any such claim directly or indirectly relating to the actual, potential, alleged or threatened presence of the aforementioned hazardous material, or for any expertise or engineering knowledge required to discover them. The client or any person or company using this report is urged to retain an expert in this field, if desired.

INFORMATION AND DATA

The information and data supplied to Alcock & Williams, by others, which have been considered in the valuation, are from sources believed to be reliable, but no further responsibility is assumed for their accuracy.

DISABILITIES ACT OF 1992

The Americans with Disabilities Act (ADA) became effective January 26, 1992. No specific compliance survey or analysis of this property was made by Alcock & Williams to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the market value(s) of the property. Since Alcock & Williams has no direct evidence relating to this issue, possible non-compliance with the requirements of the ADA is not considered in estimating the market value(s) of the property.

GENERAL RESTRICTION UPON DISCLOSURE AND USE OF THE APPRAISAL

Disclosure of the contents of this appraisal report is governed by the By-Laws and Regulations of the Appraisal Institute. Neither all nor any part of the contents of this report, especially any conclusions as to value, the identity of appraiser, or Alcock & Williams or any reference to the Appraisal Institute, shall be disseminated to the public through advertising media, public relations media, news media, sales media, or any other public means of communication without the prior written consent and approval by Alcock & Williams.

The appraisal report may not be used for any purpose except substantiation of the value estimated without written permission from Alcock & Williams. All valuations in the report are applicable only under the stated program of use. The valuation of a component part of the property is applicable only as a part of the whole property.

Any party who uses or relies upon any information in this report, other than the intended user, without written consent from Alcock & Williams, does so at their own risk.

RESTRICTION ON USE OF THE APPRAISAL FOR REAL ESTATE SYNDICATION OR REAL ESTATE INVESTMENT TRUST PURPOSES

The names Alcock & Williams, Jay T. Alcock, the report, nor any material contained in the report, may be included in any prospectus, or used in offerings or representations in connection with the sale of securities or participation interests to the public without the express written permission of Alcock & Williams.

Neither the appraisal report nor any part of it may be submitted to the Securities and Exchange Commission nor to any state securities regulatory agency without the express written permission of Alcock & Williams.

RESTRICTION ON USE OF THE APPRAISAL FOR ACTIVITIES OR TRANSACTIONS SUBJECT TO THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974 AS AMENDED

The names Alcock & Williams, Jay T. Alcock, the report, nor any material contained in the report may be used for activities or transactions that are subject to the Employee Retirement Income Security Act of 1974 as amended without the express written permission of Alcock & Williams.

INEFFECTIVENESS OF REPORT CONCLUSIONS THROUGH THE PASSAGE OF TIME

The market value(s) estimated herein may change in the future because of changing local or national economic conditions or capital of money market changes. The market value opinion(s) therefore should not be considered accurate and current after 120 days after the date of valuation unless the report has been updated in writing by the author in association with Alcock & Williams.

SKETCHES AND MAPS

The sketches included in the report are only for the purpose of aiding the reader in visualizing the property. Sizes and dimensions not shown should not be scaled from the sketches.

Revised: Dec 2012

REQUIRED STATEMENTS

LICENSURE

Jay T. Alcock is required to be licensed and is regulated by the Michigan Department of Licensing and Regulatory Affairs, P.O. Box 30018, Lansing Michigan 48909. Jay T. Alcock is currently and properly licensed as a certified general appraiser.

USPAP COMPETENCY PROVISION

This appraisal complies with the Competency Provision of the USPAP.

NARRATED DATES

Date of Appraisal Report:	December 1, 2012
Dates of Inspection:	November 8 and 27, 2012
Date of Valuation:	November 27, 2012

APPRAISER'S CERTIFICATION

I certify that, to the best of my knowledge and belief:

1. the statements of fact contained in this report are true and correct;
2. the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions and conclusions;
3. I have no present or prospective interest in the property that is the subject of this report, and no personal interest with respect to the parties involved;
4. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
5. my engagement in this assignment was not contingent upon developing or reporting predetermined results;
6. the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives;
7. my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal;
8. The report analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice;
9. the reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute;
10. I have made a personal inspection of the property that is the subject of this report;
11. no one provided significant real property appraisal assistance to me.
12. I have performed a previous appraisal of the subject property involving the subject property within the three years prior to this assignment.



Jay T. Alcock, Member
Alcock & Williams, L.L.C.

APPRAISER'S QUALIFICATIONS

Jay T. Alcock

EDUCATION

University of Michigan

- Bachelor of Arts in History, 1983

Appraisal Institute (Partial List)

- * Real Estate Principles, 1984
- * Basic Valuation Procedures, 1985
- * Capitalization Theory and Techniques, Parts A and B, 1987
- * Case Studies in Real Estate Valuation, 1987
- * Report Writing and Valuation Analysis, 1989
- * Standards of Professional Practice, Part A (USPAP), 1994
- * Standards of Professional Practice, Part B, 1994
- * Highest and Best Use Applications, 1997
- * Standards of Professional Practice, Part C, 1999
- * Appraisal of Nonconforming Uses, 2000
- * Partial Interest Valuation—Undivided, 2000
- * Advanced Sales Comparison & Cost Approaches, 2001
- * Apartment Appraisal: Concepts and Applications, 2006
- * Office Building Valuation: A Contemporary Perspective, 2008
- * Business Practices and Ethics, 2009
- * Commercial Appraisal Engagement and Review, 2009
- * Preparing Appraisals for Michigan Tax Tribunal Appeals, 2009
- * Green Buildings: Principles & Concepts, 2011
- * USPAP Update, 2011
- * Analyzing Operating Expenses, 2011
- * Analyzing Distressed Market Conditions in Michigan, 2012

BUSINESS EXPERIENCE

1983–91 Employed by Gerald Alcock Company, Ann Arbor, Michigan, as a commercial real estate appraiser.

1992–Current Member of Alcock & Williams, L.L.C., Real Estate Appraising and Counseling, Ann Arbor, Michigan.

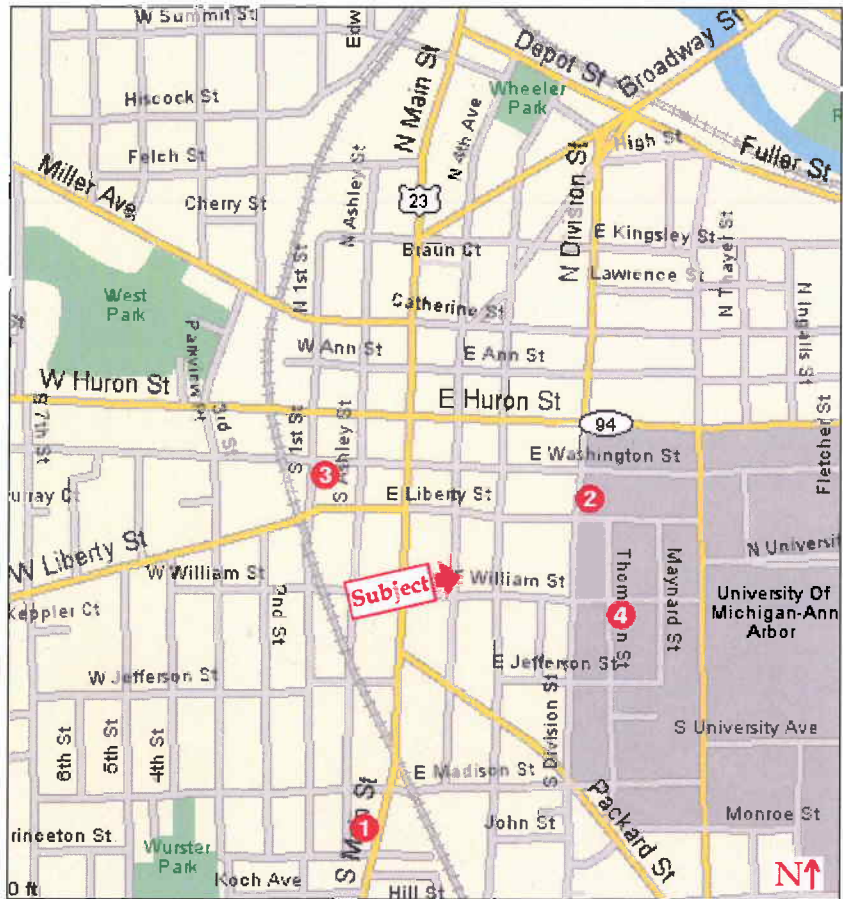
PROFESSIONAL AND TRADE AFFILIATIONS

- Certified General Appraiser, State of Michigan, No. 1201000229
- Licensed Real Estate Broker, State of Michigan, No. 6501198056
- Licensed Builder, State of Michigan, No. 2101079652
- Associate Member, Appraisal Institute, No. M89-1868

EXHIBIT

Market Data

Market Data Location Map



Market Data Development Land Sale



Source: Washtenaw County & City of Ann Arbor GIS

Location: Former Fox Tent & Awning at 617 and 621 South Ashley Street and 618, 624, 626, and 634 South Main Street, Ann Arbor, Washtenaw County, Michigan

Tax Code: 09-09-29-415-004

Grantor: Dave & Becky Fox

Grantee: Dan Ketelaar representing Urban Group Development Company

Former Fox Tent & Awning Site, Ann Arbor, Michigan
Page Two

Sale Date: Negotiated Fall 2011; pending close
Sale Price/Terms: In a range from \$3,000,000 to \$3,250,000 cash to seller
Conditions/Rights: Arm's length / Fee simple
List Price/DOM: Briefly offer on the market.

Site Size: 39,640 net sq.ft. or 0.91 net acre
Zoning: D2; site plan approved for a 386% FAR
Shape/Frontage: Irregular; 273 feet on S Main, 264 on S Ashley & 116 feet on Moseley.

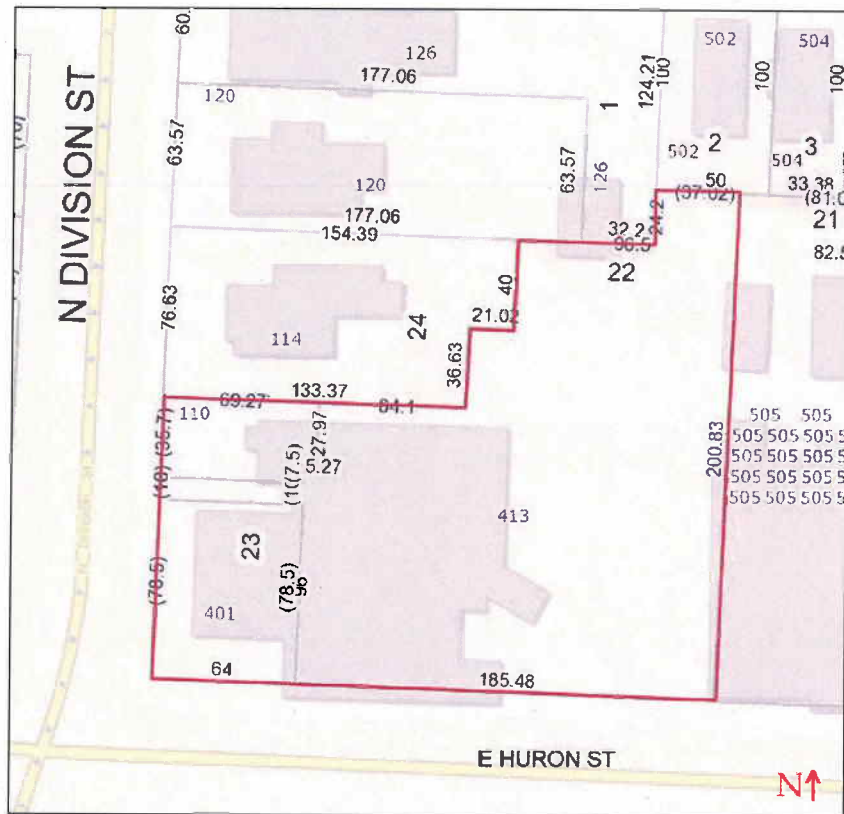
Topography/Cover: Level at street grade
Easements/Deed Restrictions: Typical utility
Improvements: An 18,224-gross-square-foot one-story service building on slab and built in 1930.
Utilities: All available.
FEMA Flood Zone: X outside of a floodway

Economic Indicators: \$19.59 to \$21.22 per square foot of approved building area for land only (386% FAR above grade)
\$12,987 to \$14,069 per proposed bedroom (231)
\$15,873 to \$17,196 per proposed unit (189)

Comments: Purchaser intends to develop an eight-story building with 231 bedrooms and 189 units (non-student apartments) with underground parking; recently approved site plan shows a 153,133-gross-square-foot building above grade with no retail use on the ground floor. This sale was contingent upon site plan approval which is now in place. A reliable source indicates that the building density may be reduced as part of a HUD financing requirement.

Sources: [REDACTED] Ann Arbor Assessor's records; confidential; site plan review; inspection.

Market Data
Development Land Sale



Source: Washtenaw County & City of Ann Arbor GIS

Location: 401 and 413 East Huron Street at the northeast corner of East Huron and North Division Streets, Ann Arbor, Washtenaw County, Michigan

Tax Codes: 09-09-29-106-003, -004, and -005

Grantors: Zahn Family Trust (residence and corner parcels) and Thompson Family Trust (larger parcel)

Grantee: Connecticut-based Greenfield Partners d/b/a Ann Arbor Green Property Owner, LLC

Sale Dates: May 8, 2012 for 0.74 acre
October 4, 2012 for 0.18 split corner acre

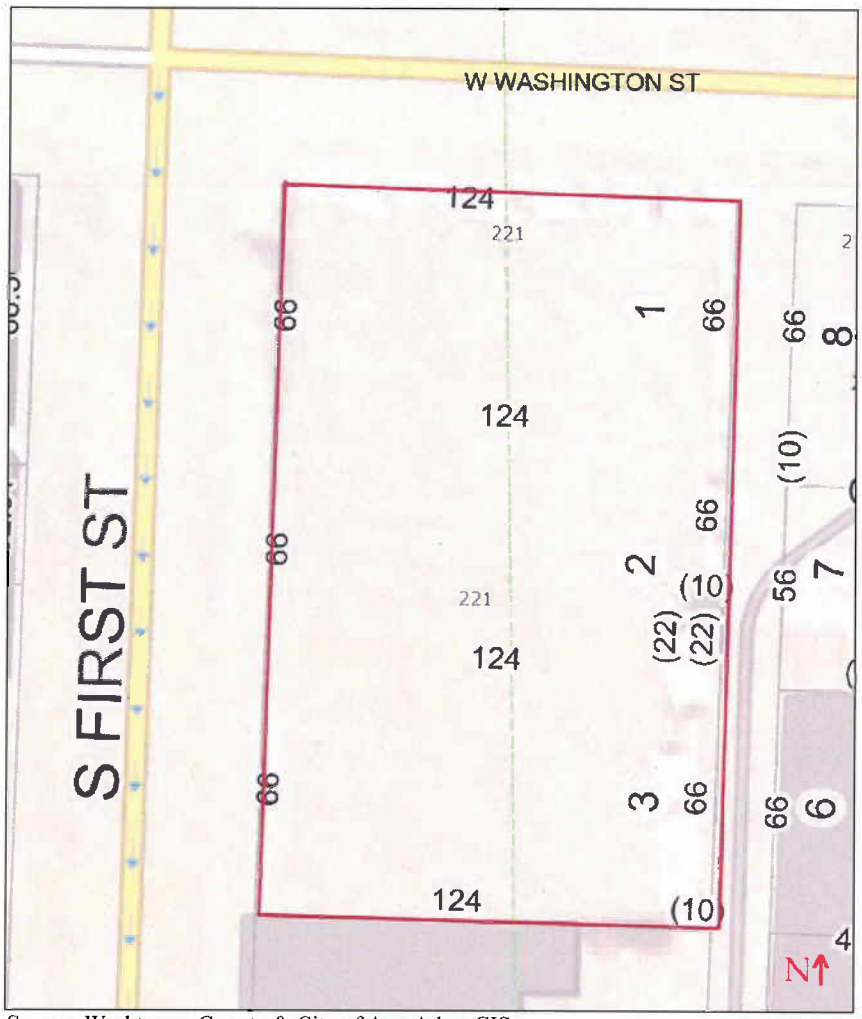
Sale Price/Terms: \$6,000,000, cash to sellers; assembled in two transactions of \$1,500,000 for the corner and residence parcels and \$4,500,000 for the larger parcel

Conditions/Rights: Arm's length / Fee simple

List Price/DOM: Private sales

Site Size: 40,075 net sq.ft. or 0.92 net acre
Zoning: D1; proposed 678% FAR after the sales
Shape/Frontage: Irregular; 250 feet on Huron & 128 feet on Division
Topography/Cover: Level with low density older buildings and house
Easements/Deed Restrictions: Typical utility
Improvements: A converted 1930 A&P grocery store containing
10,100 sq.ft., small corner strip center and modest
residence will be razed after the sales.
Utilities: All available.
FEMA Flood Zone: X outside of a floodway
Economic Indicators: \$22.08 per square foot of potential building area for
land only (678% FAR proposed)
\$11,173 per proposed bedroom (537)
\$27,778 per proposed unit (216)
Comments: Purchaser intends to develop a 14-story building with
537 bedrooms and 216 units (student apartments)
with ground floor retail and underground parking; site
plan presently under review shows a 271,855-gross-
square-foot building above grade. These sales are not
contingent upon site plan approval.
Sources: Covenant Deed, Liber 4905, Page 655, Washtenaw
County Records; Ann Arbor Assessor's records;
inspection.

Market Data
Development Land Sale



Source: Washtenaw County & City of Ann Arbor GIS

Location: Ann Arbor City Apartments at 221 West Washington Street at the southeast corner of First and Washington Streets, Ann Arbor, Washtenaw County, Michigan

Tax Code: 09-09-29-224-001

Grantor: City of Ann Arbor
Grantee: Village Green

Sale Date: November 10, 2011, approved by city council
Sale Price/Terms: \$3,200,000, cash to seller
Conditions/Rights: Arm's length / Fee simple
List Price/DOM: RFP to highest bidder started in 2007

Ann Arbor City Apartments
Page Two

Site Size: 24,552 net sq.ft. or 0.56 net acre
Zoning: P, Parking District, to C2A to PUD Approval
Shape/Frontage: Rectangular; 124± feet on Washington and 198± feet on First
Topography/Cover: Level and partially below grade with gradual off-site slope down to the west
Easements/Deed Restrictions: Typical utility
Improvements: Surface parking lot and retaining walls
Utilities: All available.
FEMA Flood Zone: X outside of a floodway

Economic Indicators: \$23.77 per square foot of approved building area for land only (548% FAR excludes all parking areas)
\$16,495 per approved bedroom (194)
\$20,645 per approved unit (155)

Comments: Purchaser has obtained site plan approval to develop a nine-story building with 155 units or 194 bedrooms, and 134,641 square feet over a 33,386-square-foot parking garage containing 244 spaces. There will be four levels of parking with two and one-half of those stories underground and seven levels of residential housing. The floor-area ratio, with all of the parking area included, is 681%.

Land optioned and then sold to Village Green. City will purchase the entire 244-space parking deck condominium upon completion in 2013 and provide first access based on a formula of ½ space per resident at the Downtown Development Authority's market rate thereafter.

Land sale was contingent upon site plan approval and construction is now underway.

Sources: Seller City CFO Tom Crawford; Washtenaw County Records; Ann Arbor Assessor's records; site plan review; inspection.

Market Data
Development Land Sale



Source: Washtenaw County & City of Ann Arbor GIS

Location: Zargon West at 500 East William Street, Ann Arbor, Washtenaw County, Michigan

Tax Code: 09-09-29-424-015

Grantor: 500 East William LLC

Grantee: Democritus Associates, LLC

Sale Date: September 15, 2008

Sale Price/Terms: \$4,100,000, cash to seller

Conditions/Rights: Arm's length / Fee simple

List Price/DOM: Private sale

Site Size: 13,939 net sq.ft. or 0.32 net acre

Zoning: C2A District with 694% FAR

Shape/Frontage: Irregular; 83 feet on E William and 132 feet on Thompson

Topography/Cover: Older one-story bank with basement and vault.

Zargon West at 500 East William Street, Ann Arbor, Michigan
Page Two

Easements/Deed Restrictions: Typical utility
Utilities: All available.
FEMA Flood Zone: X outside of a floodway

Economic Indicators: \$42.41 per square foot of gross building area for land only (694% FAR as existing exclusive of the underground parking)
\$20,500 per completed bedroom (200)
\$41,414 per completed unit (99)

Comments: Purchaser developed a 14-story building with 200 bedrooms and 99 units (student apartments) with ground-floor retail and above-ground and below-ground parking; completed in Fall 2012, the building contains 96,685 gross square feet above. Project was approved under the C2A District prior to the creation of the D2 District now in place

Sources: Covenant Deed, Liber 4699, Page 595, Washtenaw County Records; Ann Arbor Assessor's records; site plan review; inspection.