
The Real Estate Appraisal of:

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

Prepared for:

Mr. Tom Crawford, CFO
City of Ann Arbor
100 North Fifth Avenue
Ann Arbor, Michigan 48107

Effective Date of Valuation: January 1, 2009
Prepared on: January 15, 2009



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

January 15, 2009

Mr. Tom Crawford, CFO
City of Ann Arbor
100 North Fifth Avenue
Ann Arbor, Michigan 48107

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

Dear Mr. Crawford:

The City of Ann Arbor has contracted Alcock & Williams 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.

224 Buena Vista Ave., Ann Arbor, MI 48103 Phone (734) 747.7400 Fax (734) 747.7350
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 January 1, 2009 is

Four Million Six Hundred Seventy-Five Thousand (\$4,675,000) Dollars.

This market value opinion includes the extraordinary assumption that the entire site is rezoned to the proposed D1 District and sold with a 700% FAR site plan approval contingency or guarantee. If underground public parking were developed on the subject site and were to reduce this density assumption, the market value would be significantly less than the given market value conclusion. This assumption assumes building density is above ground exclusive of any parking area. 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 written over a light-colored rectangular background.

Jay T. Alcock, Member

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Exhibit

Market Data

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 area is presently rife with increasingly dense mixed-use development proposals.

- 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: Former YMCA undergoing demolition at the time of inspection.
- Site: Rectangular shaped 35,640± net square feet or 0.82± net acre double-corner site; 264± feet on William, 132± feet on Fifth, and 138± feet on Fourth; very gradual slope down to the west.
- Utilities: Municipal water and sewer, DTE Energy electric and gas, AT&T telephone, and Comcast cable and VoIP services are at the site. According to the DDA, two six-inch water mains are at the subject site.
- Zoning: Currently C2A/R, Commercial/Residential District; assumed to be rezoned entirely to the proposed D1, Core District, and sold with a 700% FAR site plan approval contingency or guarantee.
- 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: FEMA Zone X, area of minimal flooding, Community-Panel 260213 0008 D revised January 2, 1992 for the City of Ann Arbor, Washtenaw County, Michigan (See text for map).

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: \$4,675,000 'as is' on January 1, 2009, subject to the Assumptions and Limiting Conditions noted at the eponymously titled section of this report. This market value opinion includes the extraordinary assumption that the entire site is rezoned to the proposed D1 District and sold with a 700% FAR site plan approval contingency or guarantee. This assumption assumes building density is above ground exclusive of any parking area.

PHOTOGRAPHS OF SUBJECT AND SURROUNDING AREA



Elevated view of the subject looking east



Looking east at the subject from Fourth Avenue

Taken on November 7, 2008 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

Taken on November 7, 2008 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 7, 2008 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 7, 2008 by Jay T. Alcock

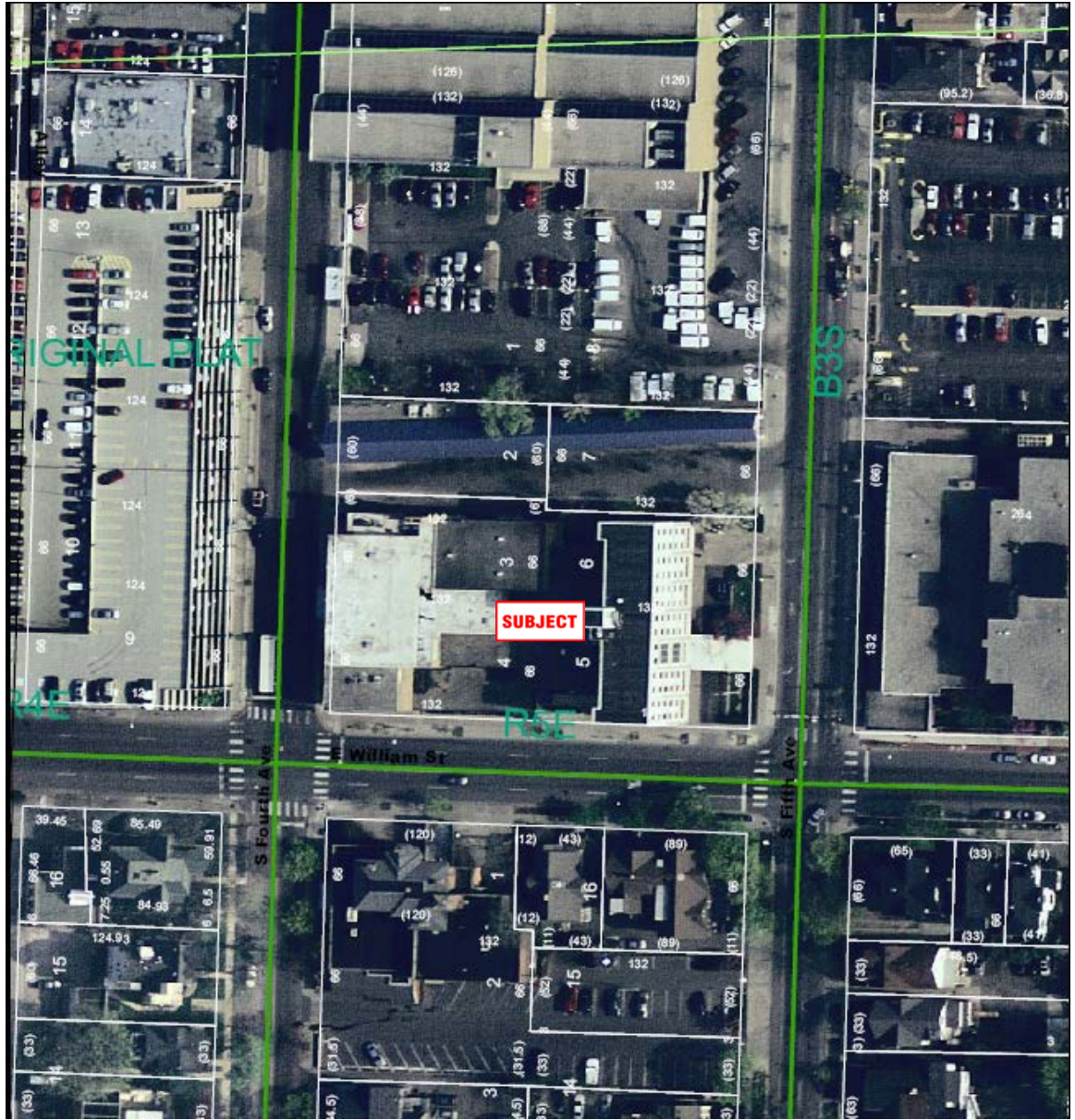


Looking north at Fifth near the subject



Looking south at Fifth near the subject

Taken on November 7, 2008 by Jay T. Alcock



Source: Washtenaw County GIS and 2005 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:

S 6 FT LOT 2 & ALL LOTS 3 4 5 & 6 B3S R5E ORIGINAL PLAT OF ANN ARBOR

There are no known easements, encroachments or deed restrictions; however, an ALTA survey was not reviewed.

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) is paying a reported \$1,250,000 to abate asbestos and demolish the old YMCA facility. At the time of first inspection, the asbestos had been abated and the demolition was underway.

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. Building demolition was underway at the time of inspection. 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.

Extraordinary Assumption

The Uniform Standards of Professional Appraisal Practice (USPAP) 2008-2009 Edition definition of extraordinary assumption is:

An assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser's opinions or conclusions.

USPAP further comments that “Extraordinary assumptions presume as fact otherwise uncertain information about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or the integrity of data used in an analysis.”³

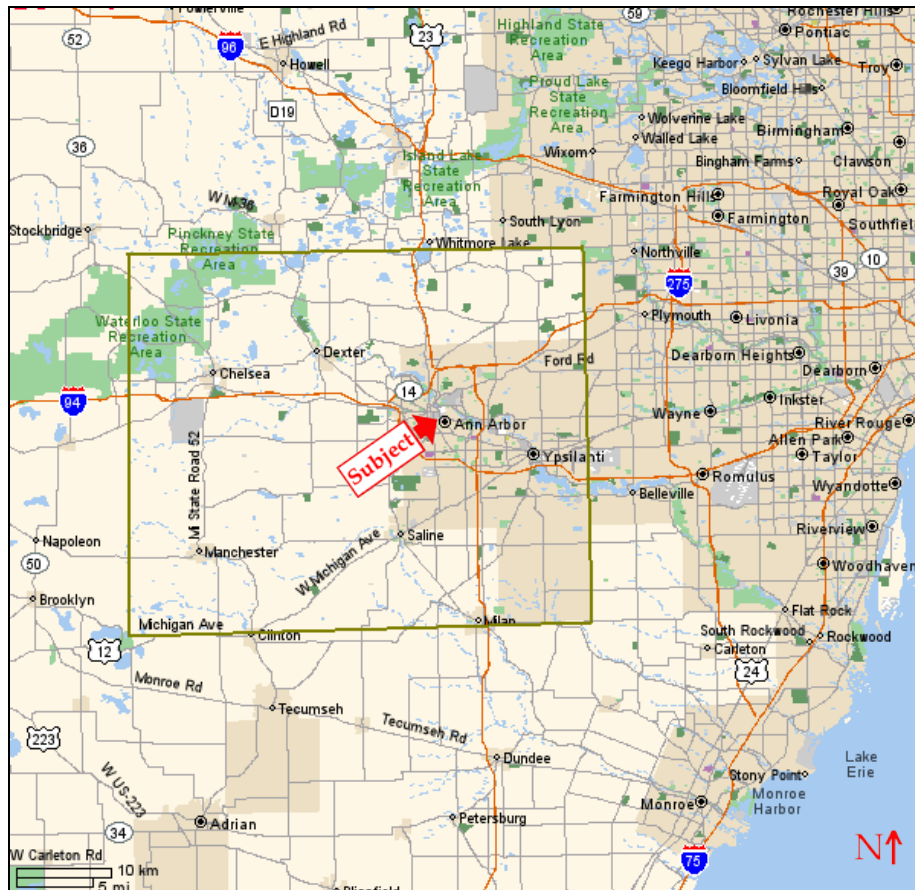
³ Uniform Standard of Professional Appraisal Practice: 2008-2009 Edition, Appraisal Foundation, Washington D.C.

DESCRIPTION OF PROPERTY

AREA ANALYSIS

As depicted on the location map in Figure 1, the appraisal property is in the south 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, which surrounds 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) 2005 *Survey of Buying Power*, shows Detroit, with an estimated year 2005 population of 4,496,100, as the 10th largest metropolitan Core Based Statistical Area (CBSA) in the country exceeded in order by New York, Los Angeles, Chicago, Philadelphia, Dallas, Miami Houston and Washington CBSAs.

Figure 1, Washtenaw County Area Map



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 and 2000 Census data, related projections from the 2030 SEMCOG Regional Development Forecast printed January 2008 and SEMCOG reported residential building permit data is provided within Figure 2. Where appropriate, these characteristics for the greater SEMCOG Region have been included in order to provide continuity and a broader perspective of the area.

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 2000 population of 322,770, with 125,232 households, 130,974 housing units and an average of 2.41 persons per households. The county experienced a 14.1% increase in population between 1990 and 2000, with the number of households increasing by 19.8%, the number of housing units increasing by 17.7% and the number of persons per household decreasing by 3.6%. An overall decrease in number of persons per household is a regional trend. As of January 2008, SEMCOG estimates the county population to be 349,021, with 139,672 households, 147,610 housing units and 2.34 persons per household.

As indicated in the profile, continued increases in both population and households and relative stasis in persons per households for both the Washtenaw County and the city of Ann Arbor are projected by SEMCOG through the 2030 time frame reviewed.

In 2000 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 fastest growing areas in Washtenaw County are generally those communities located along the periphery of the cities of Ann Arbor and Ypsilanti, along the I-94, US-23 and M-14 transportation corridors and following the expansion of municipal service lines.

Figure 2. Washtenaw County Profile

Population, Households & Household Size	1990	2000	%	Jan. 2008	%	2030	%
	CENSUS	CENSUS	Change	SEMCOG	Change	Forecast	Change
Population	282,937	322,770	14.08%	349,021	8.13%	448,020	28.36%
Households	104,528	125,232	19.81%	139,672	11.53%	187,253	34.07%
Housing Units	111,256	130,974	17.72%	147,610	12.70%	n/a	n/a
Household Size	2.50	2.41	-3.60%	2.34	-2.90%	2.27	-2.99%
Population By Age	1990	% Total	2000	% Total		2030	% Total
Age 0-4	19,160	6.8%	20,130	6.2%		26,985	6.0%
Age 5-17	41,936	14.8%	51,158	15.8%		66,884	14.9%
Age 18-34	11,602	4.1%	108,812	33.7%		122,577	27.4%
Age 35-64	89,013	31.5%	116,524	36.1%		158,943	35.5%
Age 65+	21,226	7.5%	26,271	8.1%		72,631	16.2%
Households	1990	% Total	2000	% Total		2030	% Total
With Children	33,383	31.9%	39,140	31.3%		54,463	29.1%
Without Children	71,163	68.1%	86,192	68.8%		132,790	70.9%
Income Quartile 1 - Low	23,009	22.01%	25,455	20.33%		32,092	17.14%
Income Quartile 2	26,893	25.73%	29,624	23.66%		39,173	20.92%
Income Quartile 3	25,808	24.69%	31,476	25.13%		51,377	27.44%
Income Quartile 4 - High	28,836	27.59%	38,777	30.96%		64,611	34.50%
Household Income Analysis	1990	% Total	2000	% Total			
Less than \$10,000	12,017	11.5%	9,960	8.0%			
\$10,000 to \$14,999	7,737	7.4%	5,715	4.6%			
\$15,000 to \$24,999	15,638	15.0%	12,388	9.9%			
\$25,000 to \$34,999	15,204	14.5%	13,577	10.8%			
\$35,000 to \$49,999	18,765	18.0%	18,493	14.8%			
\$50,000 to \$74,999	20,732	19.8%	24,139	19.3%			
\$75,000 to \$99,999	8,133	7.8%	16,365	13.1%			
\$100,000 to \$149,999	4,738	4.5%	15,960	12.7%			
\$150,000 or more	2,150	2.1%	8,868	7.1%			
Median Household Income (1999 \$'s)	\$48,655		\$51,990				
Households in Poverty	12,140	11.6%	13,520	10.8%			
Persons in Poverty	31,777	11.2%	33,450	10.4%			
Housing	1990	% Total	2000	% Total			
One-Family Detached	57,186	51.4%	71,200	54.4%			
One-Family Attached	6,316	5.7%	8,794	6.7%			
Two-Family Duplex	3,817	3.4%	4,039	3.1%			
Multi-Unit Apartments	38,877	34.9%	41,458	31.7%			
Mobile Homes	4,037	3.6%	5,538	4.2%			
Other Units	987	0.9%	40	0.0%			
Owner-Occupied Units	57,787	51.9%	74,830	57.1%			
Renter-Occupied Units	46,741	42.0%	50,497	38.6%			
Vacant Units	6,728	6.0%	5,742	4.4%			
Median Housing Value (in 2000 \$'s)	\$126,749		\$174,300				
Median Contract Rent (in 2000 \$'s)	\$647		\$633				
Specified Owner-Occupied Housing Values	1990	% Total	2000	% Total			
Less than \$50,000	5,398	12.0%	910	1.5%			
\$50,000 to \$99,999	18,714	41.5%	7,563	12.5%			
\$100,000 to \$149,999	11,274	25.0%	13,800	22.7%			
\$150,000 to \$199,999	5,002	11.1%	15,227	25.1%			
\$200,000 to \$299,999	3,225	7.2%	14,329	23.6%			
\$300,000 to \$499,999	1,224	2.7%	7,115	11.7%			
\$500,000 to \$999,999	220	0.5%	1,567	2.6%			
\$1,000,000 or more	incl. 45,057	0.0%	219	0.4%			

Compiled by Alcock & Williams, LLC, from 1990 & 2000 Census, SEMCOG reported bldg. permits & 2030 SEMCOG RDF printed January, 2008

Figure 2, Washtenaw County Profile (Continued)

	1990		2000	%	2030	%
	CENSUS		CENSUS	Change	Forecast	Change
Employment						
Total Employment	213,895		232,175	8.55%	289,969	24.89%
Ag. Min Natural Resources	4,550		4,549	-0.02%	5,074	11.54%
Manufacturing	37,363		34,517	-7.62%	44,308	28.37%
T.C.U.	6,912		8,916	28.99%	11,068	24.14%
Wholesale Trade	6,177		6,618	7.14%	9,903	49.64%
Retail Trade	33,166		38,888	17.25%	49,573	27.48%
F.I.R.E.	10,970		10,729	-2.20%	14,319	33.46%
Services	110,208		119,998	8.88%	144,626	20.52%
Public Administration	4,549		7,960	74.98%	11,098	39.42%
Educational Attainment - Population Age 25 or Older						
Did Not Graduate High School	21,387	12.9%	16,716	8.5%		
Graduated High School	32,406	19.5%	33,752	17.2%		
Some College, No Degree	33,027	19.8%	40,063	20.4%		
Associate Degree	10,379	6.2%	11,857	6.0%		
Bachelor's Degree	35,249	21.2%	48,034	24.5%		
Graduate or Professional Degree	34,766	20.9%	46,992	23.9%		
Total*	166,406		196,408			

Total shown may not equal sum of sample data.

Land Use	1990		2000	
	Acres	% Total	Acres	% Total
Single-Family Residential ¹	51,723	11.2%	67,064	14.5%
Multiple-Family Residential	2,703	0.6%	3,480	0.8%
Commercial & Office	3,929	0.8%	4,600	1.0%
Institutional	4,718	1.0%	5,356	1.2%
Industrial	7,527	1.6%	8,656	1.9%
Trans., Commun. & Utility	5,114	1.1%	5,160	1.1%
Cultural, Outdoor Rec. & Cemetery	6,318	1.4%	7,779	1.7%
Active Agriculture	221,266	47.8%	191,140	41.3%
Grassland & Shrub	49,765	10.8%	59,040	12.8%
Woodland & Wetland	95,020	20.5%	93,366	20.2%
Extractive & Barren	1,339	0.3%	1,617	0.3%
Water	10,062	2.2%	10,133	2.2%
Under Development ²	3,049	0.7%	5,141	1.1%
Total Acres³	462,533		462,532	

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	Units Demo'd	Net Total
1991	946	44	0	84	1,074	25	1,049
1992	1,078	48	0	74	1,200	38	1,162
1993	1,415	32	0	247	1,694	29	1,665
1994	1,646	80	0	353	2,079	36	2,043
1995	1,676	72	0	281	2,029	22	2,007
1996	1,953	28	0	715	2,696	24	2,672
1997	1,784	48	0	817	2,649	51	2,598
1998	2,040	62	50	893	3,045	24	3,021
1999	2,209	20	166	292	2,687	25	2,662
2000	1,725	14	240	80	2,059	61	1,998
2001	1,734	34	334	287	2,389	48	2,341
2002	1,842	12	441	120	2,415	43	2,372
2003	1,966	16	565	86	2,633	47	2,586
2004	1,782	20	499	519	2,820	55	2,765
2005	1,189	6	517	28	1,740	67	1,673
2006	518	16	168	4	706	46	660
2007	362	6	92	0	460	31	429
Total Over Period	25,865	558	3,072	4,880	34,375	672	33,703

Compiled by Alcock & Williams, LLC, from 1990 & 2000 Census, SEMCOG reported bldg. permits & 2030 SEMCOG RDF printed January, 2008

Housing Characteristics

Based on 2000 Census figures, single-family detached housing accounted for 54.4% of all housing in the county, 6.7% are attached single-family dwellings, 7.7% are two- to four-family structures, 10.2% are five- to nine-unit structures, 16.9% are 10 unit structures or larger and 4.2% are mobile homes, trailers or other structures.

Based on the 60,730 specified owner-occupied housing units in the county, the 2000 median housing value was \$174,300. The 2000 median contract rent for the 49,947 specified renter-occupied housing units was \$633.

The 2000 homeowner vacancy rate was 1.1% and the rental vacancy rate was 4.2%.

A 17-year history of residential construction based on authorized new dwelling permits for the county is given in Figure 2. These figures are charted and discussed later under ‘Growth and Development.’

The national sub-prime mortgage 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 just over 2,000 students since 2003 to a total enrollment of 41,028 in 2008-09. A total of 1,790 units have been approved in recent years but now look to be mothballed. The city has increased zoning densities near the central campus and continues to debate a comprehensive rezoning of the downtown. The university is constructing a 460-bed North Quad at the corner of the central campus and extensively refurbishing several of its large dorms here.

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, and Trinity Health. The number 15 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 decade. In January 2006, Ford announced that it will 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 has also recently pledged to shed a similar number of jobs over the next four years. Through the spin off of 51% of its GMAC financial unit to Cerberus Capital Management, industry analysts expect further cutbacks from the automotive giant. Recent quarterly financial losses in the billions at Ford and GM have been unprecedented and put all three Detroit manufacturers on the brink of outright failure without the on-going controversial bailout from the U.S. Government.

On May 14, 2007, DaimlerChrysler announced the sale of 80.1% of Chrysler Group to Cerberus Capital Management. This transaction took the No. 3 Detroit automaker private while restructuring an estimated \$18 billion in unfunded United Auto Workers union pension obligations. Many former autoworkers are transitioning into health care jobs.

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 roughly 700 employees at the end of 2005, will be 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, 2008. The top 20 of these employers are listed in Figure 3 on the following page. Large reduction or elimination of all jobs in the county has been announced by Ford, GM, ProQuest, and Pfizer. Employment is down among the county's top 20 employers.

The 2005 figures on industry employment for Ann Arbor from *SEMCOG* shows 18% of the labor force in health care 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 emphasis on manufacturing and increase in service sector jobs, coupled with the large percentage of labor

Figure 3, Washtenaw County's Largest Employers, January 2008

<u>Rank</u>	<u>Company Name</u>	<u># Full-time Employees</u>	<u>Type of business</u>
1	University of Michigan	25,004	Public university/Health care
2	Trinity Health	4,802	Health care
3	Ford Motor Co.	3,838	Automobile manufacturer
4	General Motors Corp.	3,264	Automobile manufacturer
5	Ann Arbor Public Schools	3,200	Public school district
6	U.S. Government	2,189	Federal government
7	Eastern Michigan University	1,937	Public university
8	State of Michigan	1,628	State government
9	Washtenaw County	1,383	County government
10	Borders Group Inc.	1,331	Book, music, movie retailer
11	IHA	892	Health care
12	City of Ann Arbor	803	City government
13	Chelsea Community Hospital	709	Community hospital
14	DTE Energy Co.	610	Energy company
15	Ypsilanti Public Schools	591	Public school district
16	Washtenaw Community College	566	Higher education
17	U.S. Postal Service	535	Federal government
18	Saline Area Schools	531	Public school district
19	Lincoln Consolidated Schools	524	Public school district
20	Chrysler L.L.C.	497	Automobile manufacturer

force in government and education, lend economic stability to the area. Because General Motors, Ford, and Visteon 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 September 2008 out of all 50 states plus the District of Columbia in highest unemployment owing to automotive industry layoffs. 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 Border's Group and Edwards Group. The sprawling Chrysler Chelsea Proving Grounds and General Motors Powertrain employ thousands 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 several years. 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 now their local demise.

The National Science Foundation/SRS reports that the University of Michigan ranked third in total research dollars spent by public universities in fiscal year 2004 at \$769 million (latest available), with much of these funds devoted to biomedical developments. In January 2009, the University of Michigan purchased the entire 174-acre Pfizer research campus. The \$103 million purchase will come from the U/M Health System reserves. We speculate that the University is targeting the massive government reflation dollars as a way to fund uses 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.

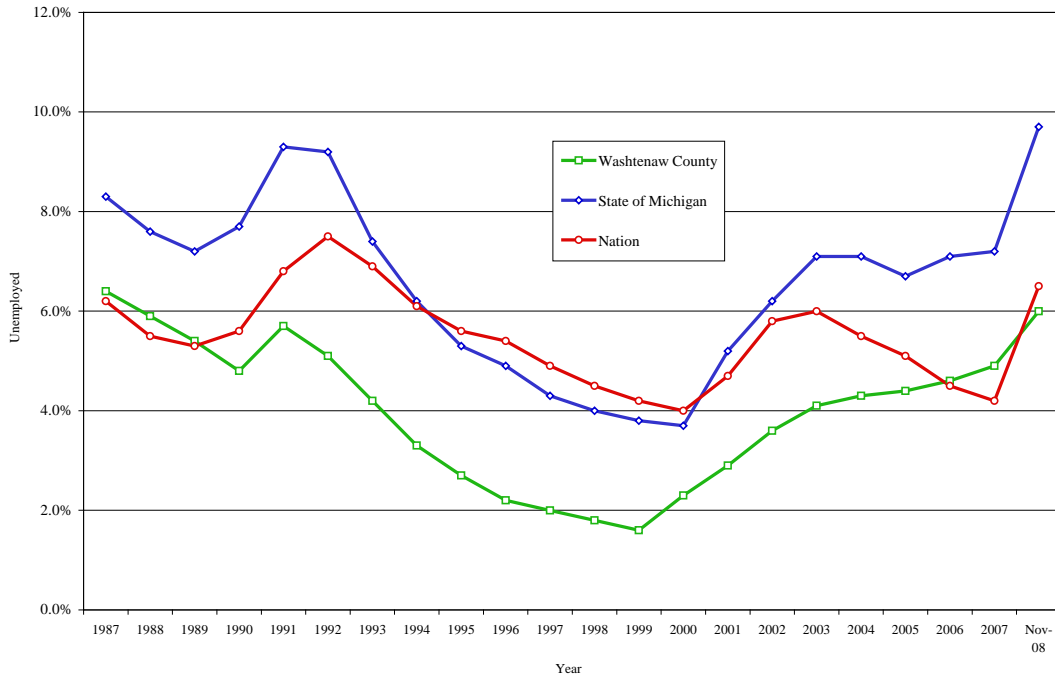
There is a long history of fledgling research companies started in Ann Arbor by entrepreneurs with ties to the University of Michigan. Four currently noteworthy examples include:

- 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 170 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.
- Mechanical Dynamics, Inc. (Nasdaq nm: MDII), also headquartered in Ann Arbor, has 332 employees worldwide. Started by a University of Michigan engineering professor and taken public in 1997, this company markets and supports virtual prototyping software to big industry and was sold in the second quarter of 2002 to MSC.Software (NYSE: MNS) for \$120 million.
- Ardesta, LLC, founded in 1998 by former adjunct assistant professor of accounting at the University of Michigan and former President and COO of Gateway, Inc., (the well known leader in personal computer retailing) this new privately held company based in Ann Arbor is an “industry accelerator for the small-tech MEMS, microsystems and nanotechnology industries,” as stated by the company. In other words, it is a venture-capitalist firm focused on technology up-starts.
- 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, 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. The Pfizer layoffs are factored into the data.

Figure 4, Annual Average Unemployment Rates



According to MDCD figures, the November 2008 average labor force for Washtenaw County is 184,939. The November 2008 labor force for the Michigan is 4,917,000. The pattern of an increasing labor force and decreasing unemployment rates for the 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.

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 7.2% as of December 2008 and is expected to go higher as the global financial crisis now affects all job sectors. Michigan should have double-digit unemployment using these metrics very soon.

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 expanding foreign automotive manufacturers and technology companies here. The Pfizer departure will be off-set by the entrance of Google Inc., Grupo Aernnova, and others entering the county as well as the University of Michigan's numerous expansion plans over the next two 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 three major facilities in 2006: the \$199-million Cardiovascular Center, the \$68.5 million School of Public Health expansion, and the \$41-million Ambulatory Psychiatry & Depression Center. Construction has just started for the replacement for the C.S. Mott Children's & Women's Hospitals with a projected budget of \$523 million and 1.1 million square feet in nine- and 12-floor towers. Also, construction has started for the expansion of the Kellogg Eye Center and Brehm Center for Type 1 Diabetes

Research and Analysis with a projected budget of \$121 million 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. Starting in late 2004, the Sisters of Mercy broke ground at the main hospital on a new 11-story patient tower and will demolish an old patient tower and replace it with a second new tower and entrance/chapel by 2011. The project budget is \$258 million for 660,000 square feet of hospital area.

Chelsea Community Hospital, an independent non-profit acute care provider, collaborates extensively with UMHS and Saint Joseph Mercy physicians. 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) *2005 Survey of Buying Power*, was consulted for information on retail sales and effective buying income in the SEMCOG Region Counties. As shown in Figure 5, households with an effective buying income of \$50,000 or more represent the largest EBI group in all counties. Livingston County has the highest percentage of all SEMCOG Region 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 2005 median household effective buying income is estimated to be \$45,957.

According to SM&M, Washtenaw County had the highest average retail sales per household (\$45,934) for the entire SEMCOG Region in 2005, with Oakland County a close second and Macomb County a somewhat distant third.

Figure 5, Sales & Marketing Management 2005 Survey of Buying Power

Households Effective Buying Income Groups

County	2005 Households	\$20,000 to \$34,999	\$35,000 to \$49,999	\$50,000 or more	Median HH EBI
Livingston	64,300	14.4%	17.5%	59.3%	\$57,240
Macomb	330,000	20.8%	19.2%	44.2%	\$44,998
Monroe	57,300	20.0%	19.6%	43.7%	\$44,676
Oakland	484,800	16.8%	16.9%	53.8%	\$53,484
St. Clair	65,600	21.7%	20.8%	38.6%	\$40,871
Washtenaw	135,400	19.2%	17.2%	46.0%	\$45,957
Wayne	752,800	22.4%	17.7%	34.8%	\$36,851

Compiled by the Alcock & Williams, LLC from Sales, Marketing & Management "2005 Survey of Buying Power"

The Census 2000 household income analysis profile for Washtenaw County shows the largest percent of households, 31%, in the highest income quartile, with 25.1% in the second highest income quartile, roughly 24% in the second lowest income bracket and the balance of just over 20% in the lowest income bracket. The SEMCOG area income quartiles upon which the projections are based (which are 1990 figures) are as follows: income quartile 1 - less than \$16,717; income quartile 2 - \$16,718 - \$34,302; income quartile 3 - \$34,303 - \$55,585; and income quartile 4 - \$55,586 and above. The 2000 median household income was \$51,990, the median family income was \$70,393 and the per capita income was \$27,173 (all in 1999 dollars).

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.

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 bachelors 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 *Census 2000 Supplementary Survey*, one-quarter of Washtenaw County's residents have a graduate or professional degree. A full 92% 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.

Shopping

The largest and most extensive retail facilities in the 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.

Economic Condition

One reflection of the economic health of the region can be the number of authorized new residential building permits issued. Information on building permits for the 17-year period from 1992 to 2008 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.

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 through 2008.

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

Figure 7, SEMCOG Region Authorized New Dwelling Permits& Demolitions, 1992-2008

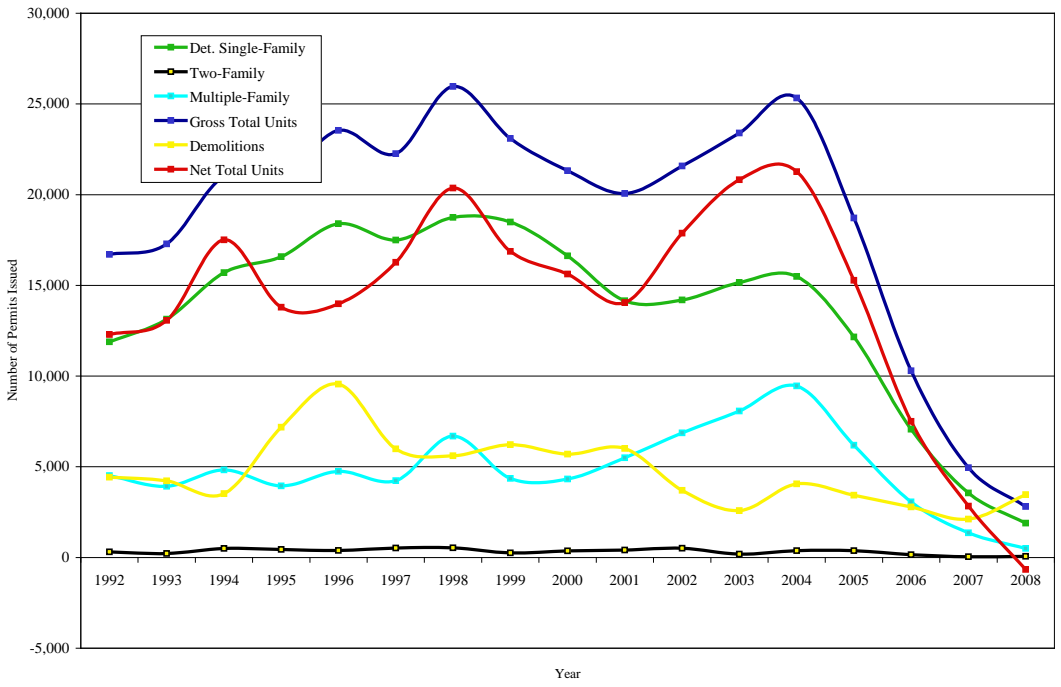
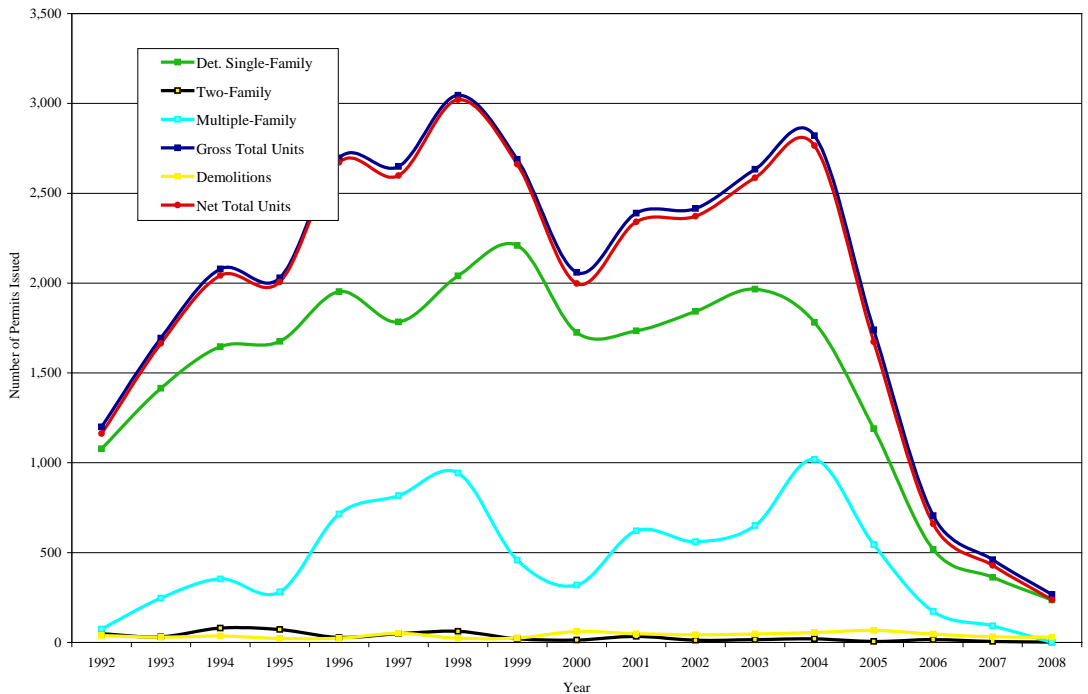


Figure 8, Washtenaw County Authorized New Dwelling Permits& Demolitions, 1992-2008



that school. This project, along with 34 other major projects on the Ann Arbor campus, is outlined in Figure 9.

Figure 9, University of Michigan Development Projects

<u>Project</u>	<u>Estimate Cost</u>	<u>Completion Date</u>
Motts Children's Hospital replacement	\$523 million	Architects hired
Michigan Stadium renovation	\$175	Being studied
Biomedical Science Research Building	\$220	December 2005
Cardiovascular Center	\$212	Spring 2007
Stephen Ross School of Business	\$145	Architects hired
North Quad Residential and Academic Complex	\$137	Architects hired
School of Public Health addition/renovation	\$68.5	Fall 2006
Undergraduate Science Building	\$61	December 2005
Walgreen Drama Center/North Campus Auditorium	\$42.8	Architects hired
Rachel Upjohn Depression Center	\$41	2006
Computer Science & Engineering Building	\$40	Winter 2006
Alumni Memorial Hall Museum of Art expansion	\$35.4	Design approved
Weill Hall at Ford School of Public Policy	\$35	August 2006
Ambulatory Surgery and Medical Procedures Center	\$30	2006
Solid State Electronics Laboratory expansion	\$28	Design approved
Literature Science & Arts Building renovation	\$26	July 2006
Hill Dining Center	\$21	Architects hired
Advanced Technology Laboratory addition	\$20	June 2005
South Thayer Building	\$18	Architects hired
Perry Building addition	\$15.7	Summer 2006
Ann Street Parking Structure	\$13	Design approved
Athletic Department. Academic Center	\$12	December 2005
Cyclotron relocation/addition Medical Science Unit	\$8.7	Winter 2005
Kelsey Museum expansion	\$8.2	Architects hired
Junge Family Champions Center	\$4.5	October 2005
Total	\$1,940.8 million	
<u>Completed in 2002-2005</u>		
Life Sciences Institute	\$96 million	September 2003
Hill Auditorium Renovation	\$38.6	January 2004
Mason and Haven Hall Renovations	\$35	July 2003
Palmer Drive Commons Building	\$33	November 2003
Palmer Drive Parking Structure	\$27	July 2003
Rackham School of Graduate Studies	\$24.2	January 2003
Dana Building Phase II renovations	\$17.7	February 2003
West Hall renovation	\$15	August 2003
Carl Gerstacker Building	\$12.6	November 2002
Perry Building addition and renovation	\$12	June 2002
Total	\$311.1 million	

Source: U/M Plant Extension

Another indication of the University of Michigan's prominence is its ever increasing endowment. For FY 2007, U/M moves up from FY 2006 to 8th position to remain one of the top ten largest university endowments as summarized in Figure 10. Considering the \$7.09 billion in its coffers, the U/M's ability to expand and improve on its local infrastructure is not in doubt.

Figure 10, Top Ten University Endowments in FY 2007

School	FY 2007	Change from 2006
Harvard	\$34.63 billion	19.8%
Yale	22.53	25.0
Stanford	17.16	21.9
Princeton	15.79	21.0
U. Texas	15.61	18.0
MIT	9.98	19.3
Columbia	7.15	20.4
<i>U. Michigan</i>	7.09	25.4
U. Pennsylvania	6.64	24.9
Texas A&M	6.59	16.8

Source: NACUBO

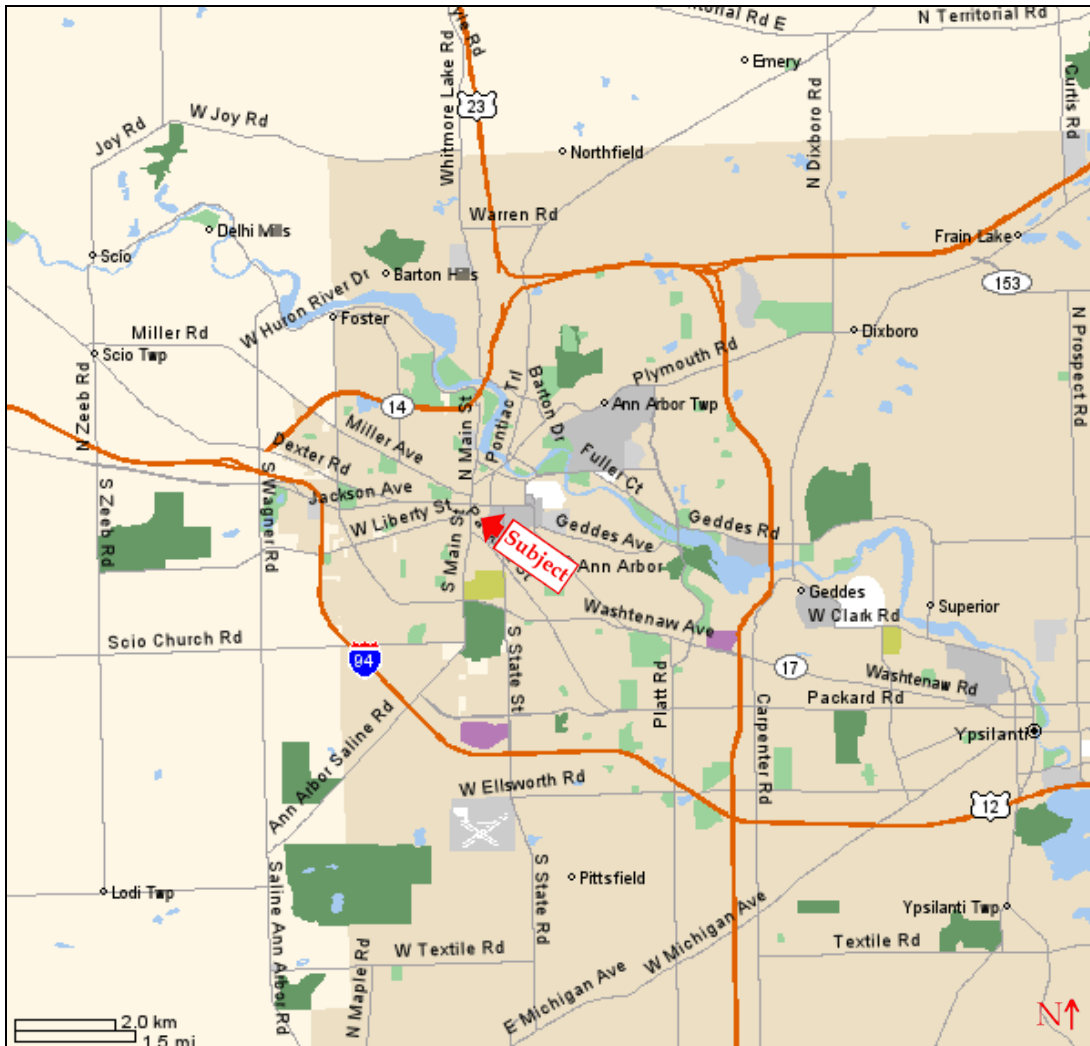
In recent years, Washtenaw County has been in a period of strong growth, evidenced by numerous residential, commercial, institutional, research, office, and industrial developments in and around the Ann Arbor/Ypsilanti area and the surrounding communities. This growth, now tempered by the region’s automotive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

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 is in the path of continued 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 felt in 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 their presence will provide stability to existing real estate here.

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 on the following page 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 1990 and 2000 Census data, related projections from the 2030 SEMCOG Regional Development Forecast printed December 13, 2003, and SEMCOG reported residential building permit data, is provided within Figure 12.

Population, Households and Household Formation

The city of Ann Arbor had a 2000 population of 114,024, with 45,693 households, 47,218 housing units and an average of 2.22 persons per households. The city experienced a 4% increase in population between 1990 and 2000, with the number of households increasing by 9.7%, the number of housing units increasing by 7.3% and the number of persons per household decreasing by 4.7%.

Figure 12, City of Ann Arbor Profile

Population, Households & Household Size	1990		2000	%	Jan. 2008	%	2030	%
	CENSUS		CENSUS	Change	SEMCOG	Change	Forecast	Change
Population	109,608		114,024	4.03%	113,709	-0.28%	116,270	2.25%
Households	41,660		45,693	9.68%	47,101	3.08%	53,213	12.98%
Housing Units	44,013		47,218	7.28%	49,181	4.16%	n/a	n/a
Household Size	2.33		2.22	-4.72%	2.14	-3.60%	1.94	-9.35%
Population By Age	1990	% Total	2000	% Total			2030	% Total
Age 0-4	6,357	5.8%	5,744	5.0%			4,746	4.1%
Age 5-17	12,554	11.5%	13,365	11.7%			10,703	9.2%
Age 18-34	52,662	48.0%	51,358	45.0%			46,129	39.7%
Age 35-64	30,138	27.5%	34,540	30.3%			34,374	29.6%
Age 65+	7,881	7.2%	9,017	7.9%			20,318	17.5%
Households	1990	% Total	2000	% Total			2030	% Total
With Children	10,810	25.9%	11,110	24.3%			9,900	18.6%
Without Children	31,696	76.1%	35,003	76.6%			43,313	81.4%
Income Quartile 1 - Low	10,763	25.84%	11,975	26.21%			13,928	26.17%
Income Quartile 2	11,033	26.48%	10,134	22.18%			9,574	17.99%
Income Quartile 3	9,112	21.87%	9,858	21.57%			11,546	21.70%
Income Quartile 4 - High	11,598	27.84%	14,146	30.96%			18,165	34.14%
Household Income Analysis	1990	% Total	2000	% Total				
Less than \$10,000	5,656	13.6%	4,724	10.3%				
\$10,000 to \$14,999	3,527	8.5%	2,543	5.6%				
\$15,000 to \$24,999	6,566	15.8%	5,221	11.4%				
\$25,000 to \$34,999	6,095	14.6%	4,894	10.7%				
\$35,000 to \$49,999	6,395	15.4%	6,873	15.0%				
\$50,000 to \$74,999	7,255	17.4%	8,046	17.6%				
\$75,000 to \$99,999	3,139	7.5%	5,024	11.0%				
\$100,000 to \$149,999	2,157	5.2%	5,129	11.2%				
\$150,000 or more	1,095	2.6%	3,290	7.2%				
Median Household Income (1999 \$'s)	\$44,684		\$46,299					
Households in Poverty	6,025	14.5%	6,856	15.0%				
Persons in Poverty	15,624	14.3%	16,922	14.8%				
Housing	1990	% Total	2000	% Total				
One-Family Detached	17,728	40.3%	19,725	41.8%				
One-Family Attached	4,123	9.4%	5,065	10.7%				
Two-Family Duplex	2,044	4.6%	2,194	4.6%				
Multi-Unit Apartments	19,577	44.5%	20,104	42.6%				
Mobile Homes	59	0.1%	126	0.3%				
Other Units	479	1.1%	0	0.0%				
Owner-Occupied Units	17,996	40.9%	20,685	43.8%				
Renter-Occupied Units	23,661	53.8%	25,008	53.0%				
Vacant Units	2,353	5.3%	1,525	3.2%				
Median Housing Value (in 2000 \$'s)	\$153,683		\$181,400					
Median Contract Rent (in 2000 \$'s)	\$750		\$696					
Specified Owner-Occupied Housing Values	1990	% Total	2000	% Total				
Less than \$50,000	536	3.4%	161	0.9%				
\$50,000 to \$99,999	5,443	34.6%	1,176	6.4%				
\$100,000 to \$149,999	5,163	32.8%	4,087	22.3%				
\$150,000 to \$199,999	2,353	14.9%	5,647	30.7%				
\$200,000 to \$299,999	1,584	10.1%	4,560	24.8%				
\$300,000 to \$499,999	567	3.6%	2,076	11.3%				
\$500,000 to \$999,999	99	0.6%	642	3.5%				
\$1,000,000 or more	incl. abv.	0.0%	16	0.1%				
	15,745		18,365					

Compiled by Alcock & Williams, LLC, from 1990 & 2000 Census, SEMCOG reported bldg. permits & 2030 SEMCOG RDF printed January, 2008

Figure 12, City of Ann Arbor Profile (Continued)

	1990		2000	%	2030	%
Employment	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 show n 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 Acres ³	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 2000-07	410	92	1,163	284	1,949
Total Over Period	647	128	1,365	527	2,667

Compiled by Alcock & Williams, LLC, from 1990 & 2000 Census, SEMCOG reported bldg. permits & 2030 SEMCOG RDF printed January, 2008

As of January, 2008, SEMCOG estimates the city population to be 113,709, with 47,101 households, 49,181 housing units and 2.14 persons per household.

As indicated in the profile, continued 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 2030 time frame reviewed.

The largest percentage of the Ann Arbor City population were between ages of 18 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 18-34 age bracket reflects the presence of University of Michigan in Ann Arbor.

Housing Characteristics

Based on 2000 Census figures, single-family detached housing accounted for 41.8% of all housing in the city, 10.7% are attached single-family dwellings, 10.6% are two- to four-family structures, 14.4% are five- to nine-unit structures, 22.3% are 10 unit structures or larger and 0.3% are mobile homes, trailers or other structures.

In 2000, 43.8% of all housing units in the city were owner-occupied, with 53% renter-occupied and an estimated 3.2% vacant. Based on 18,365 specified owner-occupied housing units, the 2000 median housing value was \$181,400. The median rent for the city was \$696.

The 2000 homeowner vacancy rate was 1.0% and the rental vacancy rate was 2.6%.

A 12-year 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. The 2006 figure of 117 total new permits is the lowest number issued in the entire period profile. Prolonged national housing cost inflation has resulted in an abrupt slowdown in new housing construction here and across the nation.

Income

The Census 2000 household income analysis profile for Ann Arbor shows the largest percent of households, 31%, in the highest income quartile, with 22% in

the second highest income quartile, roughly 22% in the second lowest income bracket and the balance of just over 26% in the lowest income bracket. The SEMCOG area income quartiles upon which the projections are based (which are 1990 figures) are as follows: income quartile 1 - less than \$16,717; income quartile 2 - \$16,718 - \$34,302; income quartile 3 - \$34,303 - \$55,585; and income quartile 4 - \$55,586 and above.

The 2000 median household income was \$46,299, the median family income was \$71,293 and the per capita income was \$26,419 (all in 1999 \$'s).

Economic Base and Employment

The last nine years 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>
Nov-08	63,720	6.4%
2007	65,097	5.2
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
2000	62,288	2.5

Source: Michigan Dept of Labor & Economic Growth

As indicated, the 2008 labor force through November is 63,720 and the unemployment rate is 6.4%. The labor force has continued to grow after a 3.4% decline in 2002. The unemployment rate is often the lowest in the state (which is 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 is 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, Growth and Development

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.

Growth and development of all types has been occurring steadily in the city of Ann Arbor. Construction of both retail and office uses boomed in the mid to late 1980s, followed by a building surge in both single- and multiple-family residential construction. This pattern has been repeated in the late 1990's and early 2000's. With limited land within the city boundaries, growth of the city, while expected to continue, will be limited. Most of this growth will likely be dense multiple-family residential. There are numerous projects in the city's central business district proposed or under construction at present that will combine residential and commercial/office uses. Growth on the periphery of the city, particularly in Scio, Pittsfield and Ypsilanti Townships has been significant over the last few years.

The city has a diverse economic base and labor force, and offers a wide variety of shopping, employment, educational, recreational, and medical facilities in the immediate and near vicinity, all of which serve to continue to attract residents to the area.

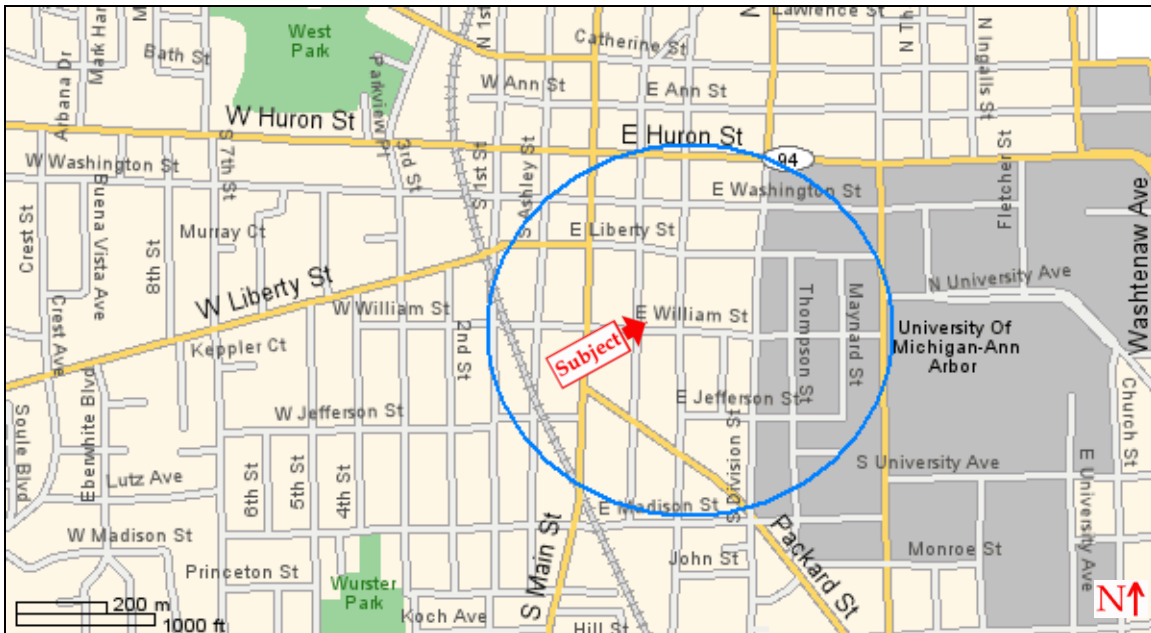
In summary, Ann Arbor is a community in a gradual growth stage, as is evidenced by the amount of recent and proposed development. Given its location along major transportation routes and all the area amenities, including the presence of the University of Michigan, the city is likely to continue to experience 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 combined with its more rural feel. On-going expansion, by way of infill projects, redevelopment and annexation can reasonably be expected given projections for the area of increasing population and households, coupled with relative static household size, increasing 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 heart 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 housing in the downtown is an expanding trend.

Neighborhood:

Location:	Urban
Built-up:	100%
Growth Rate:	Stable
Property Values:	Increasing
Demand/Supply:	Under supplied
Exposure Time:	6 months
Predominate Occupancy:	Office
Estimated Vacancy:	Less than 10%

Present Land Use:

Agricultural/Recreational:	0%
Residential:	25%
Industrial:	0%
Commercial:	25%
Public:	50%

This fully developed neighborhood is in the processes of rapid 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 tax plat map 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 with a total 35,640± net square feet or 0.82± net acre according to the tax plat.

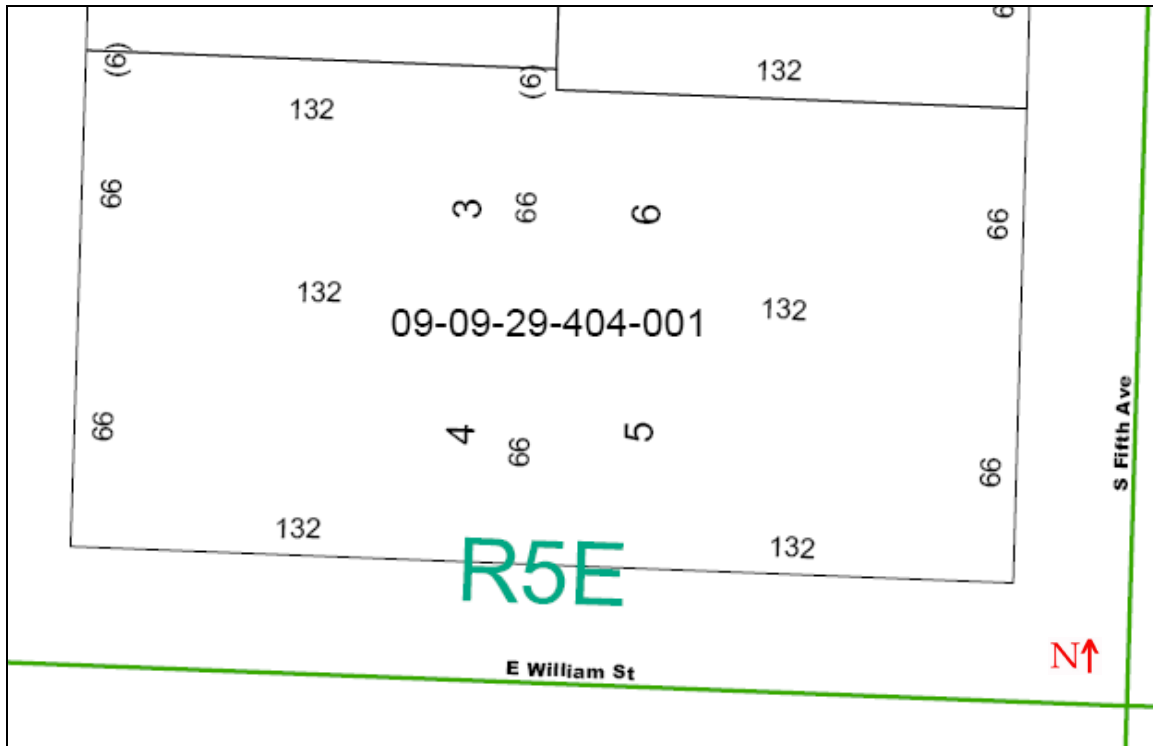
The site has a very gradual slope down to the west and is at street grade with storm drainage. There are 264± feet on William, 132± feet on Fifth, and 138± feet on Fourth giving ample visibility and road frontage.

Utilities

Municipal water and sewer, DTE Energy electric and gas, AT&T and Comcast broadband internet-television-VoIP are available at the subject.

The subject has two six-inch water mains to the site.

Figure 15, Tax Plat of the Subject Site



Source: Washtenaw County GIS

Ingress/Egress

Curb cuts are on Fourth and Fifth Avenues.

Easements, Deed Restrictions, and Encroachments

All public roadways are owned in fee by the municipality. There are no known encroachments or deed restrictions.

Flood Plain

The subject site is in a FEMA Zone X area of minimal flooding as shown by the Community-Panel #260213 0008 D revised January 2, 1992 for the City of Ann Arbor, Washtenaw County, Michigan, as set forth in Figure 16 on the following page.

PERSONAL PROPERTY

Not applicable.

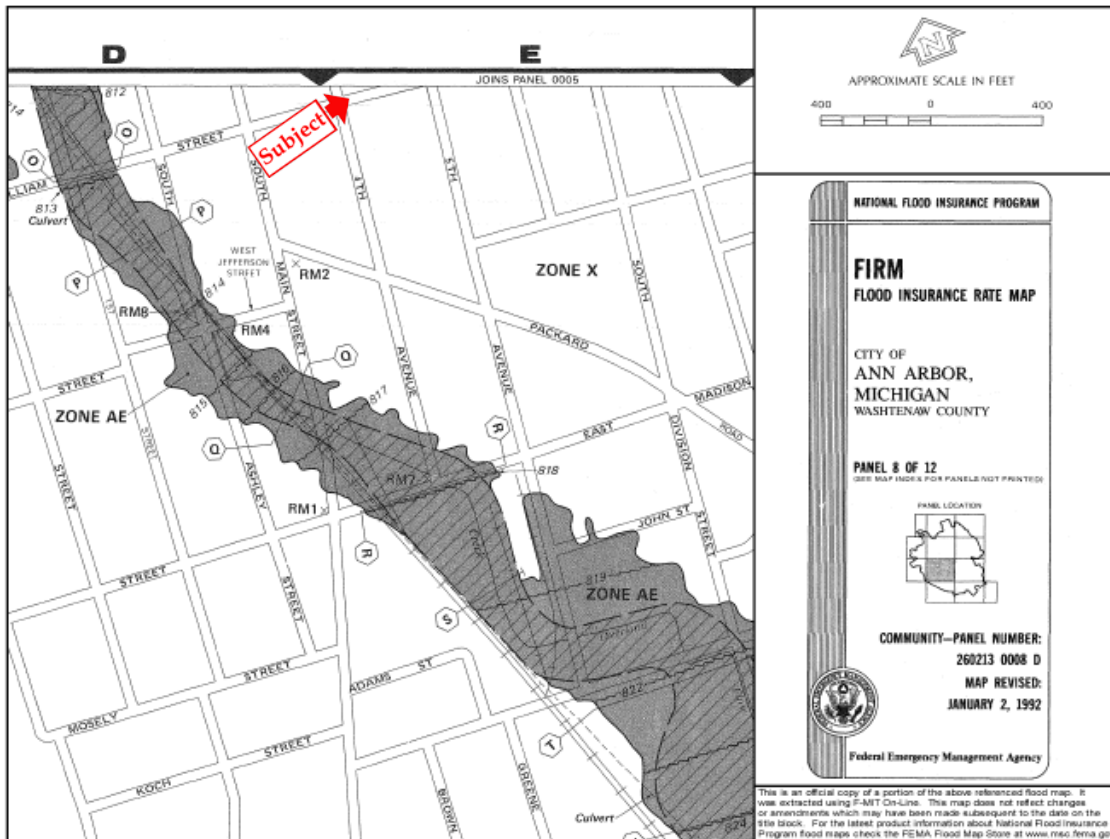
ENVIRONMENTAL CONDITIONS

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.

Figure 16, FEMA Flood Rate Map



ZONING ANALYSIS: PROPOSED

The subject is presently zoned C2A/R, Commercial/Residential District. The entire downtown area is to be rezoned into two districts – D1 and D2 – in an effort to improve the downtown’s urban design and development. These two districts will replace a broad array of commercial, office, parking, public land, PUD and residential districts in place today.

The subject is expected to be rezoned D1, Downtown Core District, upon final approval by the Ann Arbor City Council later this year. We make an extraordinary assumption that the subject will be entirely rezoned to the proposed D1, Downtown Core District, to allow for development into common uses by the private sector. We further make an extraordinary assumption that the D1, Downtown Core District, will not be significantly altered from its present form as presented here as follows.

The D1 District’s intent, as presently proposed and defined, is as follows.

These base districts, in coordination with the downtown character overlay 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 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 proposed to be within the D1’s Midtown Character Overlay District. This character district is presently defined as follows:

The Midtown Character Area is framed by other downtown contexts. The Main Street Character Area lies to the west, State Street Character Area to the east, East Huron Character Area to the north and Liberty/Division Character Area to the south. Over the years, this part of downtown has served a variety of functions but has evolved into a place that offers some of the greatest infill opportunities in the commercial core. At present, this area lacks a strong sense of identity and is a place where a new context, based on urban design principles outlined in this document, should occur. Higher density development can be accommodated here and it will help energize downtown as a whole.

A key objective is to establish a more strongly defined street edge that is a combination of buildings set close to the sidewalk and active open spaces. Forming inviting pedestrian ways that connect Midtown with the flanking character areas is also a key objective. This can be achieved through linking civic corridors such as 5th Avenue with

public spaces as described in Chapter 1: Urban Design Concepts. Providing sheltered sidewalks with canopies and awnings will help to accomplish this, as will providing storefronts and other pedestrian-friendly architectural treatments at the street level.

Key principles for sustainability will also be important in this area, including considerations of how mid- and high-rise towers are positioned such that they can frame views and respect active outdoor areas in the vicinity. There also may be opportunities to introduce additional mid-block passageways and even arcades that help invite circulation through this area.

Because Midtown is framed by other contexts, there will be some edges that require sensitive treatment where sites abut other character areas that have a lower scale. This new emerging context will be best served with well-designed “background” buildings that work together to create a sense of continuity and consistency in context. At the same time, creatively conceived accents in the urban fabric, such as active courtyards and plazas and signature building elements, should be welcomed.

Site Planning Design Guidelines for Midtown Character Area. The arrangement of buildings should respond to views and solar access. The use of mid block passages is encouraged.

- MT1. Provide a defined street edge with a variety of active open spaces.
The majority of building fronts should align at the sidewalk edge. Setbacks are appropriate where they provide positive outdoor space to activate the streetscape.
- MT2. Enhance links to adjacent areas.
Provide convenient access to public sidewalks.
Establish internal connections among properties.
Establish continuity in the walking experience; provide sheltered streets with awning and canopies.
Enhance the variety of street and mid-block connections.
- MT3. Design sites to allow for pedestrian access to sun, air and views.
Site buildings to allow solar access to active outdoor areas.
Arrange taller building portions to frame rather than block views from active public spaces.
- MT4. Design outdoor spaces and walkways to encourage pedestrian activity.
Provide wide sidewalks, courtyards and plazas that can accommodate street furniture and plantings.
Provide inviting street furniture, public art and other pedestrian amenities.

Building Massing Design Guidelines for Midtown Character Area. Building masses should provide a sense of continuity along a street front. The use of creative accent features and open spaces is encouraged.

- MT5. Provide a sense of visual continuity in building massing.
Reflect a similar rhythm, scale and orientation in building street walls.
Align primary building masses and floor heights with others on the block.
- MT6. Provide building height transitions to adjacent character areas.
Step down taller building masses where a site abuts lower scaled character areas.

Building Element Design Guidelines for Midtown Character Area. Architectural elements and details should help to establish a sense of scale and provide visual interest.

- MT7. Provide for active street fronts.
Maintain a high percentage of transparency at the street level.
Use details to convey interest and scale to pedestrians.
Integrate storefronts into overall design of a building where appropriate.
The use of canopies and awnings along street fronts is encouraged.

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; museum; and conference center.

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

Commercial: Bank or credit union; retail sales (street level); restaurant or bar (street level); personal or business services (street level); permanent and temporary outdoor sales; theater (street level); entertainment – general (street level); entertainment – adult; funeral services; and veterinary services.

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

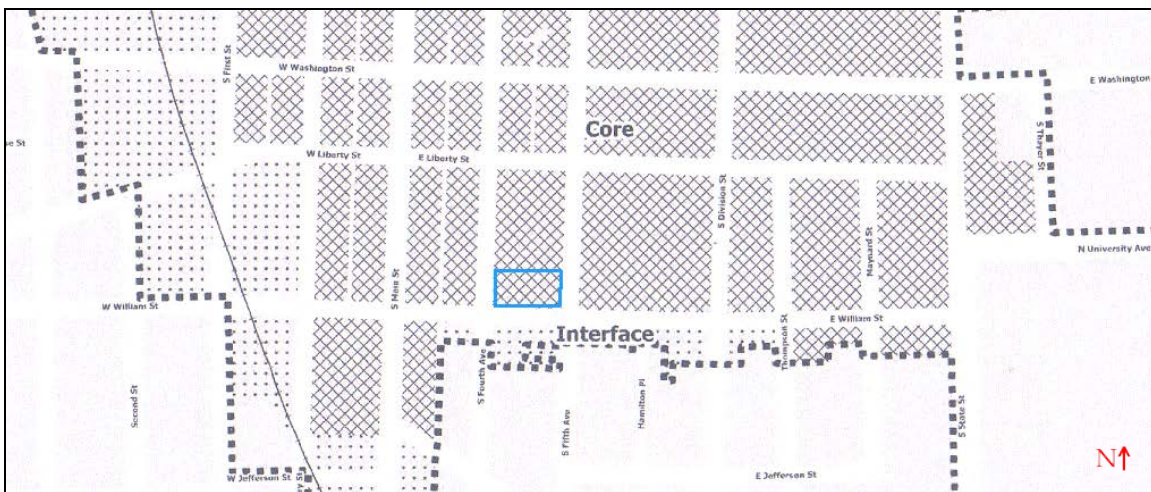
Special exception uses include the following:

Commercial: 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.

A zoning map is provided in Figure 17 as follows.

Figure 17, Ann Arbor Zoning Identification for the Subject



Source: City of Ann Arbor *The Downtown Plan Ann Arbor, Michigan April 2008*

Density and setback requirements are defined as follows in Figure 18 on the following page.

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	700% Guarantee
Front Setback	none	-
Rear Setback	none	-
Side Setback	none	-
Minimum Height	24 feet; 2 story	-
Maximum Height	none	-
Minimum Lot Coverage	none	35,640 square feet
Minimum Open Space	none	-

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

Parking for vehicles and bicycles in the amount specified in this section shall be provided on the same parcel as the principal use or on a separate parcel within 500 feet of the principal building if zoned "P" or zoned for the same uses as allowed on the property of the principal use. No lot zoned other than "P" shall have parking as its principal use, excepting lots containing approved parking lots or structures in the D1 or D2 districts. An off-site permanent parking easement must be recorded if required parking is provided on another lot. An off-site parking easement may not include parking spaces or bicycle parking spaces required to keep the other owner's property in compliance with this chapter. Any fraction of a required parking space or bicycle parking space shall be considered a full space.

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 or for a low-emitting or fuel-efficient vehicle, as identified by the public services area administrator or designee, may count as four (4) required parking spaces. Electric car spaces shall include a power outlet for use by the parked car.

This new district should allow for a dense mixed-use development on the subject site similar to that proposed in 2005 as the William Street Station with two towers up to 14 stories.

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 new values have been 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. For 1995, the taxable value was the property's 1994 SEV plus the mandated capped increase. It is only the taxable value which has a capped increase; the SEV will continue to increase, or decrease, in accordance with the market. The SEV will be used again 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 2008 overall non-homestead millage rate of \$59.2935 per \$1,000 of taxable value for our 2009 projection.

The tax records have the subject identified as 09-09-29-404-001 through -006 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 \$4,675,000, we assume its 'as is' assessed value would be half of this estimate or \$2,337,000. An estimated tax liability for the subject's 'as is' real property, if sold to the private sector, is calculated in Figure 19 on the following page.

Figure 19, 'As Is' Estimated 2009 Property Tax Liability

<u>Est. 2009 Assessed Value</u>	<u>2008 Non- Homestead Millage</u>		<u>1.0% Service Charge</u>		<u>Est. 2009 Tax Liability</u>
\$2,337,000	x .0592935	x	1.01	=	\$139,955

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

The venerable Value Line Investment Survey put it this way on January, 2009, “The United States and other countries are caught in the grip of what will likely be a long and painful recession. This nation’s economic difficulties-which have been apparent in housing for more than a year and in other areas for a shorter span of time-worsened noticeably last quarter. That period, which ended with one of the poorest holiday shopping seasons on record, may have seen U.S. gross domestic product tumble by 5%, or so.”

The current market conditions affecting local property values include the following:

- Area automotive plant closings and substantial layoffs by the big three U.S. automotive manufacturers and their subsidiaries as well as Pfizer with consequential oversupply of the existing housing stock, rising unemployment, and other related setbacks;
- Google initiative to locate 1,000 jobs in downtown Ann Arbor over the next four years;
- Local multiple-phased expansions of Toyota and Hyundai-Kia technical centers;
- Continued multi-billion dollar expansions and physical revitalization of the University of Michigan Central Campus, North Campus, and hospital system;
- Pending overlay rezoning of downtown Ann Arbor resulting from the recent Calthorpe Associates urban planning report allowing both higher-density and purpose directed development.
- Global banking crisis and the highly restrictive credit conditions.

These market influences go from local to global in nature with the U.S. automotive industry, based in this region, now bordering on failure or nationalization. Although the automotive manufacturing transition is a calamity affecting this region, the diverse rise of corporate operations drawn to this highly educated population holds promise for an eventual economic recovery. This expanding diversity includes bio-technology with the newly developed University of Michigan life sciences institute; foreign automotive and aviation design and research through Toyota, Hyundai-Kia, and Spain’s Grupo Aernnova; and internet advertising and search through Google and many others.

In addition to several city-owned parcels under development consideration, there are several major private-sector downtown development projects in the planning process or underway that are targeting student and now ‘workforce’ housing as previously outlined in the ‘Area Analysis’ discussion. Nearly 1,000 residential units are presently under construction with roughly one-quarter of that in newly proposed projects in 2009. Just under 1,800 units with site plan approvals have been tabled due to economic conditions in general and lack of construction financing in particular in the community.

The University of Michigan renovated or expanded 911,000 square feet of space at a cost of \$336 million in 2008 alone and has a total of 2.61 million square feet with a total budget of \$1.57 billion either currently underway or scheduled to begin construction in 2009. The pace of these capital expenditures is expected to moderate in the coming years; however, as noted, the University also just purchased the sprawling Pfizer Campus (174 acres; two million square feet of building area) adjacent to its North Campus and its future use may depend on economic incentives more than endowment funds. In any case, the expansive improvements to the university will benefit this community through this current recession.

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.⁴

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.

⁴ The Appraisal of Real Estate, Thirteenth Edition, 2008, Appraisal Institute, Chicago, Illinois, p. 278.

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.

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. We assume it is entirely rezoned to D1 to allow for mixed uses including retail, office, and residential.

Physically Possible: The surrounding existing improvements prove that redevelopment is physically possible. Municipal water and sewer are in place. The topography for the building will be 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.”⁵

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 for parking.

Several developers mention a *price per potential bedroom or ‘bed’* as a consideration when purchasing land for dense student 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

⁵ The Appraisal of Real Estate, Thirteenth Edition, 2008, Appraisal Institute, Chicago, Illinois, pp. 297-298.

development density equation. For instance, as summarized in Sale No. 2 set forth in the exhibit section of this report, the site was sold 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, is presently petitioning 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. 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 C2A, C2A/R, and C2B/R districts found for recent land development sales in Ann Arbor's downtown vary from 546% to 615% with premiums and exclusive of parking floors both above and below 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 appears to be financially feasible starting above 600% FARs with nine stories on up (partial site coverage to exceed six stories) for sites around one-quarter to three-quarters acre. The site sales provided here are proposed for or are under construction with 15 to 18, 9, 10, and 9 stories using Class 'A' steel-frame construction.

According to the widely respected Marshall Valuation Service, an average Class 'A' apartment building costs 39% more per square foot of above-ground area than an average Class 'C' apartment building nationally today with a 0.5% premium paid for each story, over three, above ground. Financial feasibility is the relationship of cost to revenue. It can be said that a maximum density over 600% FAR using the higher cost Class 'A' construction is presently a marginal formula for financial feasibility when using the private-sector projects proposed, under construction, and delayed in the downtown as a guide. Extremely tight financial conditions and the rapid deflation of materials cost, especially steel, are key components to financial feasibility in the current market.

We have documented three sales and one sales option of vacant land along with a proximity map as set forth in the “Market Data” exhibit section at the back of this report. The data for comparison to the subject are summarized in Figure 20.

Figure 20, Summary and Adjustment of Development Land Sales

	Subject	Sale No. 1	Sale No. 2	Sale No. 3	Option No. 4
Common Name	Fmr YMCA Site	-	Metro 202	4 Eleven Lofts	AA City Apts
Location	350 S 5th Ave Ann Arbor	425 E Wash Ann Arbor	202 S Division Ann Arbor	411 E Wash Ann Arbor	NWC 1st & Wash Ann Arbor
Option Expiration/Sale Date	-	Oct-07	Mar-08	Oct-07	Mar-09
Sale Price	-	\$3,200,000	\$1,000,000	\$2,500,000	\$3,300,000
Net Acreage	0.82	0.73	0.20	0.50	0.56
Net Square Footage	35,640	31,798	8,763	21,780	24,673
Corner	Multiple	No>Db1 Frntage	Yes	Yes	Yes
Zoning	C2A/R>D1	C2A/R>D1	C2A/R>PUD>D1	C2A/R>PUD>D1	C2A>PUD>D1
Approv Site Plan Incl	No	No	Yes>Modified	No	Contingent
FAR Assum (excl prking areas)	700%	600%	610%	615%	546%
Mun. Sewer & Water	Yes	Yes	Yes	Yes	Yes
Unadj. Price/Sq.Ft. FAR	-	\$16.77	\$18.71	\$18.66	\$24.50
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%	-24.0%
Physical Characteristics					
Demolition	-	6.0%	0.0%	0.0%	0.0%
Site Size	-	0.0%	0.0%	0.0%	0.0%
Location/Corner	-	5.0%	0.0%	0.0%	0.0%
		11.0%	0.0%	0.0%	-24.0%
Adjusted Price/Sq.Ft. FAR	-	\$18.62	\$18.71	\$18.66	\$18.62

We assume the subject site is entirely rezoned to the proposed D1 and sold with a 700% FAR site plan contingency for an optimal Class ‘A’ construction of nine or more stories. If this FAR contingency is increased above a 700% FAR using Class ‘A’ construction, the market value of the site should increase significantly prior to a sale. If no site plan approval contingency is in place, a 300% FAR may be assumed and the market value should decrease significantly based on a ‘safe harbor’ development assumption. If significant required on-site parking to support a high density development were to be deferred, the cost savings to the developer should impact the site’s market value upward at least in theory.

These sales represent the most current transactions available. They have all been negotiated since the start of the national 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 wealthy 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 a larger site like the subject and was purchased by local developers just as the financial crisis initiated. This and Sales #2 and #3 are one block west of the U/M Central Campus and across from the new Google AdWare offices. The purchaser is confident a high-density development will be approved without requiring zoning code exceptions (no PUD) and therefore purchased it outright without a site plan approval contingency. We assume an added cost of \$200,000 or 6.0% adjustment up under Demolition to reflect the developer estimate for removal of the low-density older office building on the site. The on-site single-family residence conversion to multiple family is historically designated and will remain but its supporting site is seen as a significant contribution to the future redevelopment building density. The entire site fronts onto two city streets but lacks a corner and we make a 5.0% adjustment up using paired sales to reflect this deficiency by comparison to the subject and all other data used.

Sale #2 is the most current sale and included a high-density site plan approval as a part of the transaction. The purchaser, an affiliated hotel developer to Hyatt Hotels, purchased the site outright and is only now petitioning the City for a modification from apartments to hotel rooms. Although smaller in site size, this is a significant high-density proposal for the downtown. No adjustments are found.

Sale #3 was sold by the same seller as Sale #2, McKinley, Inc., owner of the facility housing the Google offices across the street. This property was purchased by a Chicago developer with two other developments in Ann Arbor's downtown. This property was site plan approved after the sale after the seller failed to obtain its desired very high-density site plan approval. The development, a dense retail and student apartment building, is nearing completion. No adjustments are found.

Sale #4 is a recently demolished public parking structure under option for sale by the City pending construction financing approvals. It has been site plan approved for apartments with some excess parking to be purchased by the DDA upon completion. This site is west of Main Street in the downtown away from the Central Campus. The developer is from the Detroit area. Building density, exclusive of the four stories of parking, is lower than the other data projections and approvals. We adjust this potential sale down 24% under Market Conditions to reflect its unfulfilled obligation contingent upon obtaining financing in an extremely tight credit market. The cost to extend this option is reflected in its potential sale price and may rise further. This adjustment is based on paired sales. Lower density approval of 546% FAR may also be a contributing factor to the higher indicator. No other adjustments are found.

The indicator's adjusted range is very narrow from \$18.62 to \$18.71 per square foot of building area for land only. 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 west of 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 250,000 gross square feet (35,640± square foot site x 7.0 [700% FAR assumption] = 249,480 square feet, rounded). It is our opinion that the subject site has a market value of \$18.70 per square foot of potential building area based on the given data and assumptions.

$$250,000 \text{ gross sq.ft.} \times \$18.70 = \underline{\$4,675,000} \text{ (rounded)}$$

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 January 1, 2009 is

Four Million Six Hundred Seventy-Five Thousand (\$4,675,000) Dollars.

subject to the Assumptions and Limiting Conditions noted at the eponymously titled section of this report. See extraordinary assumptions on the next page for key assumptions related to this market value conclusion.

ASSUMPTIONS AND LIMITING CONDITIONS

EXTRAORDINARY ASSUMPTIONS

This market value opinion includes the extraordinary assumptions that the entire site is rezoned to the proposed D1 District and sold with a 700% FAR site plan approval contingency or guarantee. If underground public parking were developed on the subject site and were to reduce this density assumption, the market value would be significantly less than the given market value conclusion. This assumption assumes building density is above ground exclusive of any parking area.

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, and are not based on survey. Sizes and dimensions not shown should not be scaled from the sketches.

Revised: Dec 2008

REQUIRED STATEMENTS

LICENSURE

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

USPAP COMPETENCY PROVISION

This appraisal complies with the Competency Provision of the USPAP.

NARRATED DATES

Date of Appraisal Report:	January 15, 2009
Dates of Inspection:	November 7, 2008 January 1, 2009
Date of Valuation:	January 1, 2009

APPRAISER'S CERTIFICATIONS

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. my 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 the Standards of Professional Appraisal Practice of the Appraisal Institute and the Uniform Standards of Professional Appraisal Practice;
9. I have made a personal inspection of the property that is the subject of this report;
10. no one provided significant professional assistance to me;



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

- 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
- Building in Michigan and the Appraiser, 1995
- Highest and Best Use Applications, 1997
- Non-Residential Demonstration Appraisal Report Writing Seminar, 1997
- Standards of Professional Practice, Part C, 1999
- Appraisal of Nonconforming Uses, 2000
- Partial Interest Valuation—Undivided, 2000
- Advanced Sales Comparison & Cost Approaches, 2001
- Business Practices and Ethics, 2004

BUSINESS EXPERIENCE

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

1992– 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

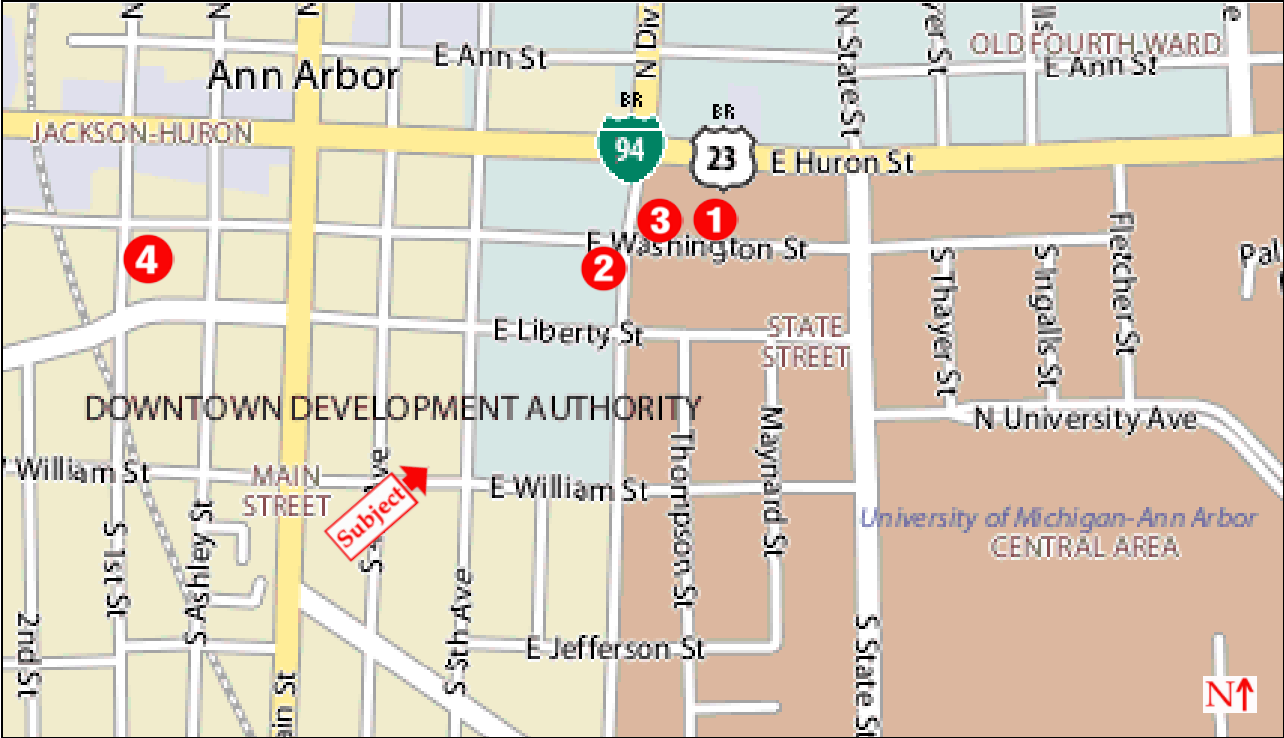
CLIENT LIST FOR JAY T. ALCOCK

Acco/Babcock Industries, Inc.
AIG Mortgage Finance Company, Inc.
American Enterprise Life Insurance Company
Ann Arbor Commerce Bank
Ann Arbor Chamber of Commerce
Ann Arbor News
Associated Spring
Auto-Owners Insurance Company
Warren Avis
Bank of Ann Arbor
Bank One
Barclay, Great Britain
Book Inventory Systems (Border's Books)
BookCrafters, Inc.
Cameron Balloons
Chelsea Community Hospital
Citicorp
City of Ann Arbor
City of Ypsilanti
Citizens Banking Corporation
Comerica Bank
Crown Life Insurance
Delta Life & Annuity Company
Draw Tite, Inc.
Domino's Pizza
Env. Research Institute of Michigan (ERIM)
Farmers' Home Administration (FmHA)
Federal Deposit Insurance Corp. (FDIC)
Federal-Mogul Corporation
Fingerle Lumber Company
Fifth Third Bank
First of America Bank
First Federal Savings Bank & Trust
First Martin Corporation
First National Bank of Howell
Flying Dutchman
Franklin Life Insurance Company
GT Products
The Gage Company, Pittsburgh
GalCorp
Great Lakes Bancorp, FSB
Household Finance Corporation
Howard Cooper, Inc.
Huntington Bank
IDS Financial Corporation
Independent Order of Foresters, Canada
KeyBank
McMullen Company
Manufacturers Bank of Detroit
Market Development Corp. (Spartan Food)
MAV Development Company
Michigan National Corporation
NBD Bank
National Center for Mnfg Sciences
National City Bank
New Liberty Bank
Northern Telecom, Canada
Old Kent Bank
Park-Davis/Warner Lambert Company
PPG Industries
Republic Bank
Resolution Trust Corporation (RTC)
Royal Neighbors of America
The Selective Group
St. Joseph Bank of Indiana
Standard Federal Bank
State of Michigan
- Department of Management and Budget
- Department of Military Affairs
- Department of Natural Resources
- Department of Transportation
- Department of Treasury
Sterling Bank & Trust, F.S.B.
Suzuki Motor Corporation
Sweepster Jenkins Equipment
Thomson-Shore, Inc
TCF National Bank
United Bank & Trust – Washtenaw
The University of Michigan
University Bank
W.A. Foote Memorial Hospital
Washtenaw County
Wood Motors, Inc.
WPZA Radio

EXHIBIT

Market Data

Market Data Location Map



Market Data
Development Land Sale



Source: Washtenaw County GIS

Location: 425 East Washington and 416 East Huron Streets,
Ann Arbor, Washtenaw County, Michigan

Tax Codes: 09-09-29-107-006 and -013

Grantor: Stockton & Twanmo I, LLC

Grantee: Michael Concannon, et al., d/b/a Huron &
Washington, LLC

Sale Date: October 26, 2007

Sale Price/Terms: \$3,200,000, cash to seller

Conditions/Rights: Arm's length / Fee simple

List Price/DOM: Private sale

Site Size: 31,798 net sq.ft. or 0.73 net acre

Zoning: C2A/R District with 300% to 600% FAR

Shape/Frontage: Parallelogram; 116 feet on Huron & 128 feet on Washington

Topography/Cover: Level with low density older buildings

Easements/Deed Restrictions: Typical utility

Improvements: A 14,518-square-foot two-story masonry medical office building built in 1961 and a 2,484-square-foot single-family conversion to apartments and office built circa 1880 and historically designated.

Utilities: All available.

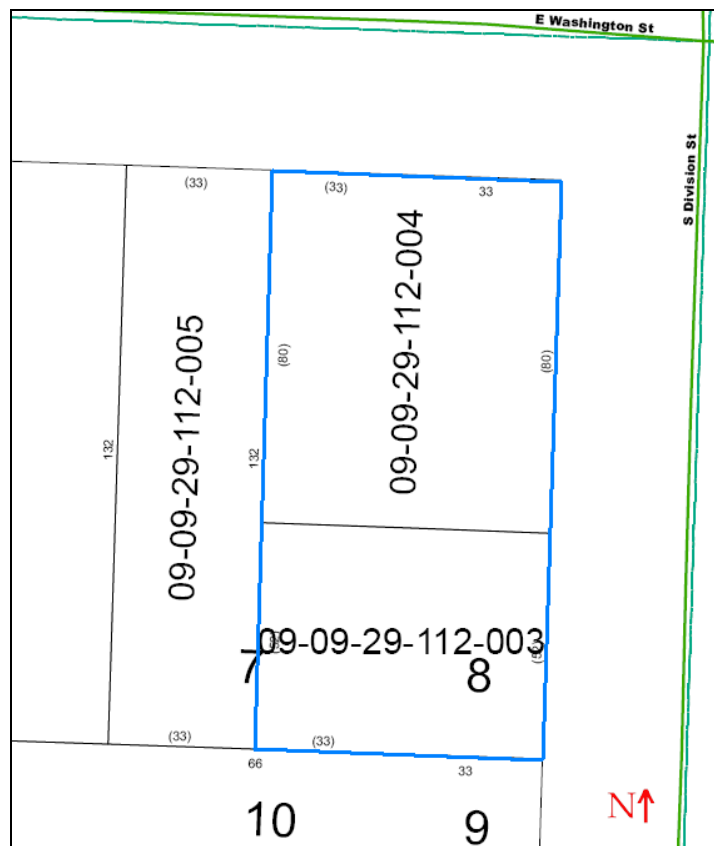
FEMA Flood Zone: X outside of a floodway

Economic Indicators: \$16.77 per square foot of potential building area for land only (600% FAR estimate)
\$6,226 per estimated bed

Comments: Purchaser intends to develop a 15- to 18-story building with 514 beds (student apartments) and potentially 200,000 square feet under the current zoning regulations without exceptions. The historic house will remain with its supporting site contributing to the overall development density.

Sources: Purchaser Michael Concannon; Warranty Deed, Liber 4653, Page 430, Washtenaw County Records; Ann Arbor Assessor's records; inspection.

Market Data
Development Land Sale



Source: Washtenaw County GIS

Location: Metro 202 at 202 South Division Street at East Washington Street, Ann Arbor, Washtenaw County, Michigan

Tax Codes: 09-09-29-112-003 and -004

Grantor: McKinley Inc. d/b/a Division Street Parking, LLC
Grantee: First Hospitality Group, Inc. d/b/a First ADT, LLC

Sale Date: March 10, 2008
Sale Price/Terms: \$1,000,000, cash to seller
Conditions/Rights: Arm's length / Fee simple
List Price/DOM: Private sale

Site Size: 8,763 net sq.ft. or 0.20 net acre
Zoning: C2A/R District with 300% to 600% FAR
Shape/Frontage: Rectangular; 66 feet on E Washington & 132 feet on S Division.

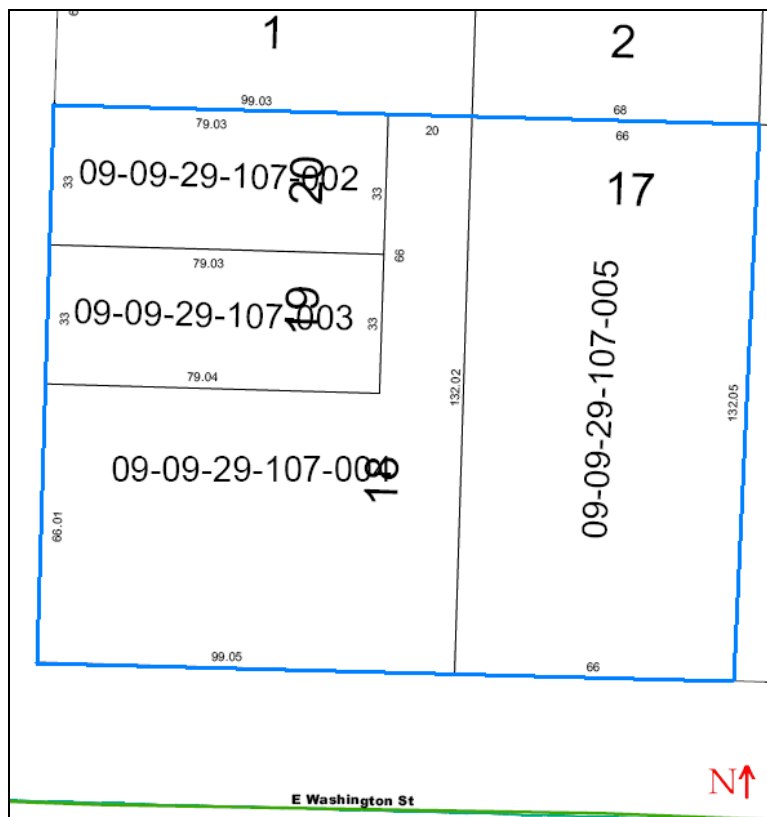
Topography/Cover: Level at street grade
Easements/Deed Restrictions: Typical utility
Improvements: Surface parking lot with hut.
Utilities: All available.
FEMA Flood Zone: X outside of a floodway

Economic Indicators: \$18.71 per square foot of approved building area for land only (610% FAR as approved exclusive of non-contiguous parking arrangement)
\$13,514 per estimated bed

Comments: Sold with site plan approval for a nine-story 53,454-gross-square-foot apartment and retail development configured for 30 two-bedroom and 14 studio units. The 6,955-gross-square-foot ground floor will contain retail uses. The purchaser, a Hyatt affiliated hotel developer, has petitioned the City to allow for 88 hotel units. The original plan calls for 44 parking spaces in the nearby Liberty Square structure.

Sources: Seller Royal Caswell, Executive Vice President, McKinley Properties; Warranty Deed, Liber 4669, Page 532, Washtenaw County Records; Ann Arbor Assessor's records; site plan review; inspection.

Market Data
Development Land Sale



Source: Washtenaw County GIS

Location: 4 Eleven Lofts (formerly Citi Centre Lofts or Washington Terrace) at 401 East Washington, Ann Arbor, Washtenaw County, Michigan

Tax Codes: 09-09-29-107-002, -003, -004 and -005

Grantor: McKinley Inc. d/b/a Washington Division Holdings
Grantee: Joseph Freed & Co. d/b/a 4 Eleven Lofts, LLC

Sale Date: October 31, 2007

Sale Price/Terms: \$2,500,000, cash to seller
Conditions/Rights: Arm's length / Fee simple
List Price/DOM: Private sale

Site Size: 21,780 net sq.ft. or 0.50 net acre

Zoning: C2A/R District with 300% to 660% FAR

Shape/Frontage: Rectangular; 132 feet on Division and 165 feet on Washington

Topography/Cover: Level with dirt cover after razing and relocating existing structures.

4 Eleven Lofts
Page Two

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

Economic Indicators: \$18.65 per square foot of gross building area for land only (615% FAR as approved exclusive of the two-level underground parking)
\$7,310 per bed

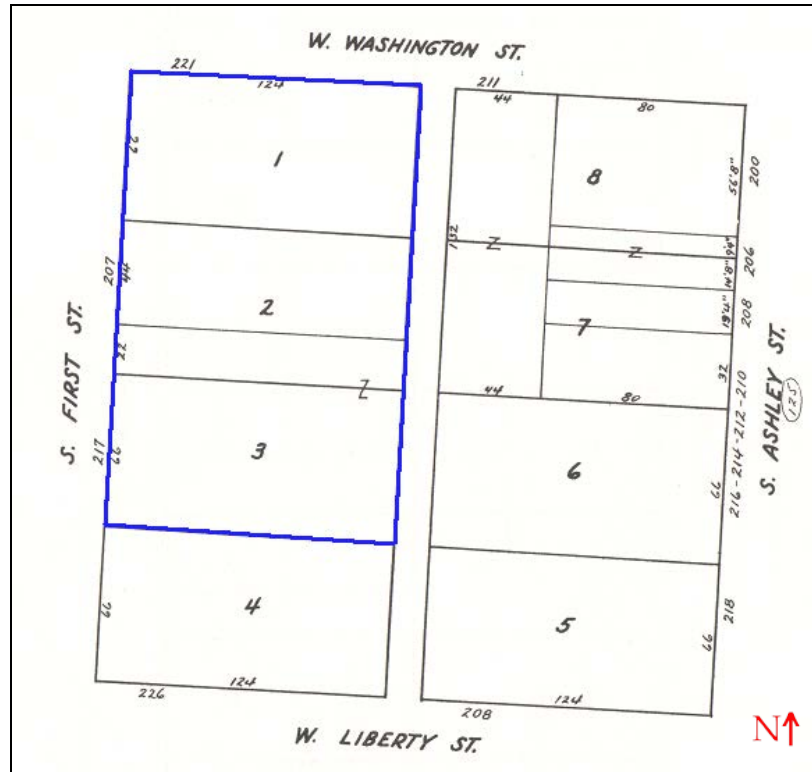
Comments: Relocation of an historic home cost the seller \$350,000 and influenced the sales price higher.

The property sold without a site plan approval.

The site is nearing completion of a 10-story 106-unit 342-bed student apartment complex with 134,022 gross square feet above grade plus 77 parking spaces in two underground levels containing 34,065 gross square feet.

Sources: Seller Royal Caswell, Executive Vice President, McKinley Properties; Warranty Deed, Liber 4669, Page 532, Washtenaw County Records; Ann Arbor Assessor's records; site plan review; inspection.

Market Data
Development Land Sale Option



Source: Historic City of Ann Arbor Tax Plat

Location: Ann Arbor City Apartments at the northwest corner of First and Washington Streets, Ann Arbor, Washtenaw County, Michigan

Tax Codes: 09-09-29-224-001 and 09-09-29-244-009

Grantor: City of Ann Arbor
Grantee: Silverman Properties

Option Closing Date: March, 2009
Sale Price/Terms: \$3,300,000, cash to seller
Conditions/Rights: Arm's length / Fee simple
List Price/DOM: RFP to highest bidder

Site Size: 24,673 net sq.ft. or 0.56 net acre
Zoning: P, Parking District, to C2A to PUD Approval

Ann Arbor City Apartments
Page Two

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: \$24.50 per square foot of potential building area for land only (546% FAR estimate excludes all parking areas)
\$22.29 per square foot of potential building area for land only (600% FAR estimate excludes DDA parking share)
\$17,098 per bed

Comments: The purchaser has an option to extend another three months for an estimated additional \$300,000.

Purchaser has obtained site plan approval to develop a nine-story building with 156 units or 193 beds, and 134,641 square feet over a 33,386-square-foot parking garage containing 244 spaces. The Ann Arbor Downtown Development Authority is to purchase 98 parking spaces for \$36,000 to \$38,000 per space upon completion. 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%.

The project is called Ann Arbor City Apartments.

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