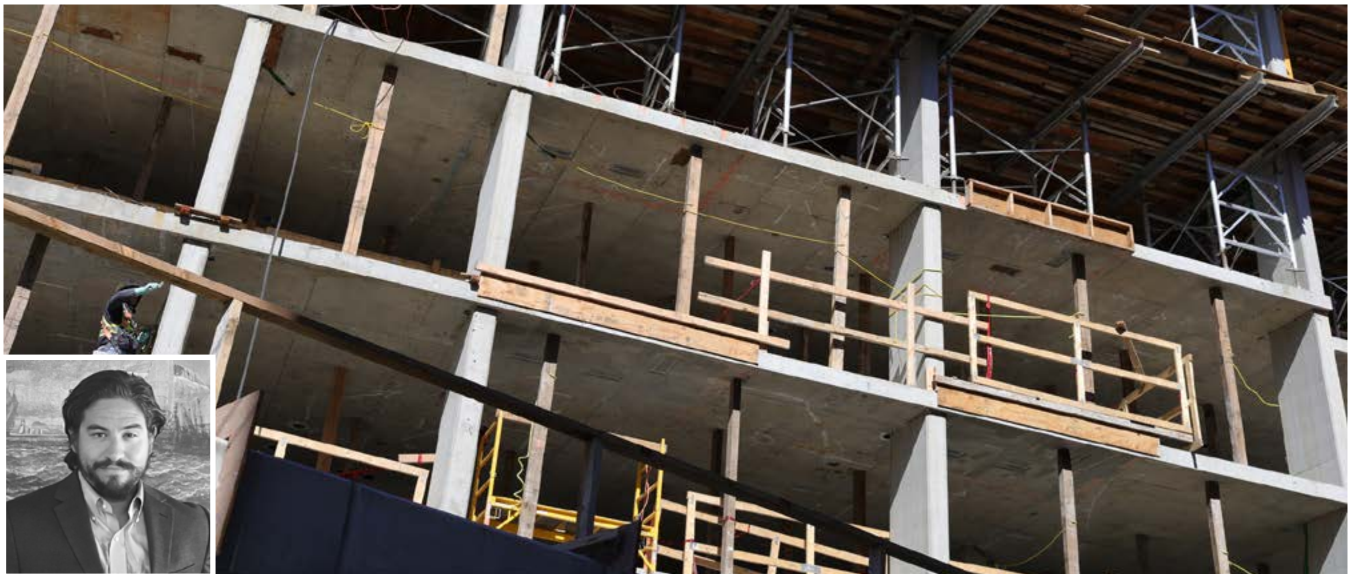
P.A. COMMERCIAL
Corporate & Investment Real Estate

PERSPECTIVE Q2 2022
METROPOLITAN DETROIT COMMERCIAL REAL ESTATE



OPPORTUNITY ZONES IN YEAR-5 AND ANTICIPATED ADJUSTMENTS

Anthony J. Pellegrino | Senior Associate | P.A. Commercial

Four years ago, we published an article on the structure of the Opportunity Zone (OZ) program and how to take advantage of it. In year five, we will reflect on how this program has advanced and what we can expect moving forward with newly proposed adjustments.

The OZ is a capital gain deferment program similar to a 1031 exchange but with new allowances on funding sources, a differing exit strategy, and limited geography designated by the Governor of each state. Opportunity Zones are designed to incentivize investment into the country's existing and shifting needs. It connects industrial trade zones, housing, urban clean-up, and innovation needs to a high level of private capital. It also allows small investors to participate and take the ten-year benefit for themselves or future generations. **The program's main benefit is a zero capital gains tax on the sale of your investment any time after year 10.** As a result, the program has caught the eye of funds and investment dollars actively in application across the country.

The last four years have proven successful for the opportunity zone in the areas of self-storage, multi-family, single-family, affordable housing, industrial-warehousing, renewable energy business, student housing, community development, and more. In 2021 a Brookings Institute Report cited 780,862 new jobs were created in Opportunity Zone tracts related to the impact of OZ investments. By early 2020, it was reported that 75 billion dollars had been invested into Opportunity Zones through the program. OZ's have a typical capital stack ratio of 4:1, which brings the total investment much higher.

PERSPECTIVE Q2 2022

METROPOLITAN DETROIT COMMERCIAL REAL ESTATE

The economy and country have development needs that have not slowed down. Industrial, housing, technology, and energy innovation are key sectors for our nation and continue to mechanize our economic growth. Current market challenges such as rising construction costs, interest rates, and inflation are directly challenging development proformas in our growth sectors. The incentives of the OZ combined with capital deferment needs are a feasible way to pick up the slack moving forward with these new market challenges. Let's not forget, requirements under the United States-Mexico-Canada-Agreement (USMCA) are also nearing and continue to call for more United States production minimums in auto and other industries. Certainly we can expect more industrial, housing and energy innovation development in or designated Opportunity Zones.

What should investors expect next?

In early April, a group of bipartisan senators introduced the first substantial adjustments to the OZ. Some are welcoming this as an opportunity for Governors to reconsider the geography of their OZ districts. We can expect more people to take advantage of the program as it is popularized, especially if we experience a capital gains increase.

With the new adjustments, we could expect:

- Extension the deferment date until 2028
- Removal of OZ designations for Median Family Income Tracts (MFI)
- Reinstatement and expansion of reporting requirements and oversight.
- Allowing Opportunity-Funds to invest in other Opportunity-Funds. (O-Funds)
- Creation of a 1-billion-dollar fund for the territories of the District of Columbia.

Before investing your funds into a 1031 Exchange or Opportunity Zone, always consult a tax professional. We appreciate you taking the time to read our update on Opportunity Zones and we enjoy serving as a resource to our client base.

OFFICE MARKET REPORT
METRO DETROIT

Q2 2022

Many Detroit area businesses have continued utilizing hybrid working arrangements heading into 22Q2. As a result, office demand in the Detroit area dropped sharply last year, with just under 600,00 SF being returned to the market. This trend continued through the early months of 2022, with roughly 330,000 SF being returned to the market, with vacancy now at 11.6%.

LEASING

The subdued pace of leasing that finished off last year continued early in 2022, but during the past few months, there was a spike in demand for office space in the Detroit area. During 22Q2, just under 400,000 SF of space was absorbed, the most significant amount since the pandemic hit. Recent demand improvements are occurring as businesses debate the best return to work policies. Detroit falls in the middle of the pack when assessing affordability as compared to other Midwest markets, with average asking rents of $21/SF as of 22Q1

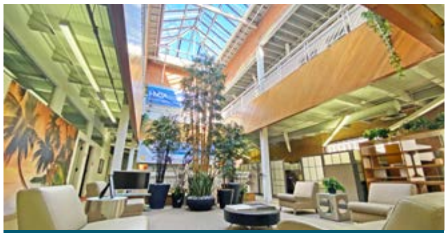
SALES

Investment activity in 2021 started gaining some momentum, with 21Q4 seeing over $200 million in assets changing hands. Top submarkets for investor interest included Macomb West with $118 million and the Southern I-275 Corridor with $91 million in sales. Pricing has picked up recently to $167/SF during 22Q1 from closing out last year during 21Q4 at $107/SF. Meanwhile, the market cap rate has compressed slightly to 9.3%

CONSTRUCTION

Roughly 2.2 million SF of space is underway, representing 1.1% of the market's inventory. Of the space underway, about 62% is already pre-leased.

FEATURED OFFICE LISTINGS IN THE METRO-DETROIT AREA



UP TO 14,630 SF FOR LEASE | DETROIT'S CBD

OFFICE INVESTMENT| FARMINGTON HILLS

2,600 SF OFFICE/RETAIL | MADISON HEIGHTS

Metro Detroit's Office Market Statistics

Market Area	Inventory SF	Vacancy %	Market Rent p/SF	Market Sale p/SF	SF Under Construction	Market CAP Rate
The Pointes/Harper Woods	1.4 M	5.7%	$23.30	$111	0	9.9%
CBD	27.1 M	9.1%	$24.44	$139	855 K	9.3%
Detroit - W of Woodward	4.9 M	21.8%	$21.88	$113	472 K	9.4%
Detroit - E of Woodward	5.8 M	16.5%	$22.47	$112	0	9.7%
Southfield	23.7 M	18.3%	$18.54	$112	0	8.7%
Farmington	9.8 M	13.3%	$20.77	$142	0	8.7%
Southern I-275 Corridor	12.4 M	11.4%	$19.80	$132	27.1 K	9%
Central I-96 Corridor	6.2 M	11%	$23.76	$166	48.6 K	8.5%
Troy North	5.5 M	18%	$20.88	$127	0	8.6%
Troy South	13 M	25.6%	$21.36	$122	0	8.8%
Royal Oak	5.6 M	9.8%	$20.95	$122	190 K	9.1%
Macomb West	9.6 M	6.2%	$18.35	$114	35.6 K	9.4%
Macomb East	8.5 M	7.8%	$17.92	$107	67.3 K	9.7%
Airport District	3.1 M	4.2%	$19.40	$110	0	9.7%

For additional market information, contact P.A. Commercial. Source: CoStar.

INDUSTRIAL MARKET REPORT
METRO DETROIT

Q2 2022

Almost halfway through spring 2022, market conditions continue to work in industrial landlords' favor. Leasing for this type is just below the all-time high, set at the start of 2022, and the vacancy rate of 4.5% is sitting near an all-time low. Continued growth is expected in the Central I-96 Corridor as these areas adjacent to the intersection of interstates 275 and 96/696 have more space for development than submarkets closer to the urban core.

LEASING

Detroit's industrial market has been operating at nearly full capacity for almost half a decade, with availabilities running below the U.S. average throughout most of 2015–21. The West of Van Dyke Submarket possesses the largest industrial inventory in the Detroit area, representing 10% of the metro area's industrial space. However, the Airport District, the second-largest submarket, accounted for the most significant amount of leasing into 2022, taking in 36% of activity.

SALES

Sales activity over the past year marked a turnaround, with sales topping out at $1.1 billion. Sales transactions were diffused throughout the metropolitan area without a clear focal point of investor interest. The submarket with the highest sales, West of Van Dyke/Macomb, only represented 14% of total volume.

CONSTRUCTION

Since the start of the pandemic, there has been an uptick in construction activity, with just more than 7.2 million SF under construction as of 2022q2, but this represents about 1.2% of inventory, compared to 3.4% for the U.S.

FEATURED INDUSTRIAL LISTINGS IN THE METRO-DETROIT AREA

HIGH-BAY INDUSTRIAL FOR SALE | WARREN

12,721 SF FOR LEASE | STERLING HEIGHTS

95,000 SF, OPPORTUNITY ZONE| REDFORD

Metro Detroit's Industrial Market Statistics

Market Area	Inventory SF	Vacancy %	Market Rent p/SF	Market Sale p/SF	SF Under Construction	Market CAP Rate
Airport District	55.3 M	2.1%	$7.98	$64	1.8 M	8.7%
Detroit East	46.3 M	12%	$6.40	$56	0	8.7%
Detroit West	47.9 M	8.5%	$6.11	$52	1 M	9%
Groesbeck Central	15.7 M	2.3%	$7.95	$68	0	9.4%
Groesbeck South	19.2 M	3.8%	$7.23	$63	0	9.2%
Groesbeck North	32.6 M	1.3%	$8.35	$76	310 K	8.9%
W of Van Dyke/Macomb	64.1 M	2%	$8.79	$72	1.6 M	8.5%
Auburn Hills, Pontiac, Rochester	54.9 M	5.9%	$9.13	$90	872 K	8.5%
Royal Oak	15.7 M	3%	$8.04	$81	0	9.0%
Livonia	42.2 M	2.7%	$8.28	$72	365 K	8.5%
Central I-96 Corridor	35.7 M	6.2%	$10.27	$95	494 K	8.6%
Southern I-275	19.5 M	3.8%	$7.92	$66	602 K	8.8%
Southfield	6.2 M	3.5%	$9.25	$82	0	9%
Farmington/Farmington Hills	11.7 M	5.2%	$9.55	$82	0	8.8%
Troy Area East	12.6 M	3.1%	$8.66	$81	0	9.2%
Troy Area West	9.2 M	5.3%	$9.72	$81	0	8.8%

For additional market information, contact P.A. Commercial. Source: CoStar.

RECENT TRANSACTIONS
OFFICE | INDUSTRIAL | RETAIL | LAND

Q2 2022

Below is a sample of property listings that the P.A. Commercial brokerage team have sold or leased during Q1 - Q2 2022.

For a full list of office, industrial, retail, land, and other investment opportunities - please visit www.pacommercial.com

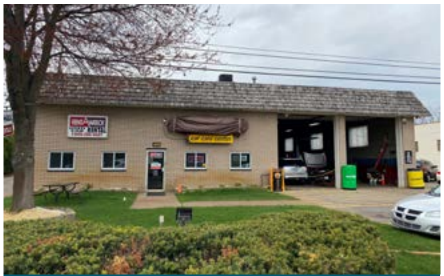
OFFICE SALE - ST. CLAIR SHORES

OFFICE LEASE - DETROIT

FLEX LEASE - LIVONIA

FLEX SALE - HAZEL PARK

OFFICE LEASE - CLINTON TWP.



INDUSTRIAL SALE- COMMERCE TWP.

RETAIL LEASE - NORTHVILLE

LAND SALE - ST. CLAIR SHORES

INDUSTRIAL LEASE - SHELBY TWP

MEDICAL OFFICE SALE - CLINTON TWP.

INDUSTRIAL SALE - HARRISON TWP.

LAND SALE - CLARKSTON