

DETROIT

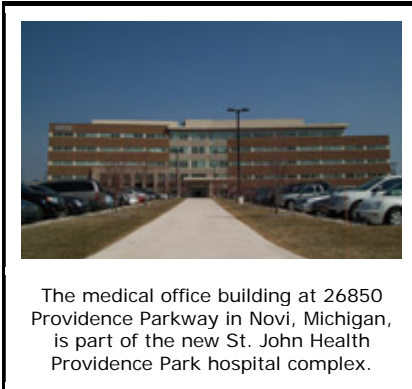
CITY

HIGHLIGHTS

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Detroit Office Market

In the wake of the collapsing auto industry, Detroit continues to strategically position itself as the destination of choice for businesses in emerging sectors. As in many major markets across the country, though, a number of office development projects have been tabled because of the current national economic downturn. Users and owners with capital are following a more cost-effective trend by purchasing existing office buildings rather than developing new ones.



The quoted average rental rate for office space in the Detroit market is \$19.53 per square foot, representing a 0.5 percent decrease in quoted rental rates from fourth-quarter 2008. On average, medical office rates command approximately \$5 to \$7 more per square foot than general office space. The overall vacancy rate for general office space in Detroit measured 17.5 percent with a net absorption totaling negative 541,668 square feet in the first quarter.

Presently in the metropolitan Detroit market, there exist more than 6,600 general office buildings comprising a total inventory of approximately 178 million square feet. Nearly 31.27 million square feet of that space is now vacant. Development projects such as Developers Diversified Realty's Bloomfield Park, a 120,000-square-foot, Class A Office development located in affluent Bloomfield Hills, Michigan, have been put on hold, casualties of the sluggish market. The former Volkswagen Group of America Headquarters, located in Auburn Hills, is now vacant after the company relocated to Herndon, Virginia, in April 2008, leaving 120,000 square feet of space empty.

Foreclosure and bankruptcy practices are familiar to Michigan's brokers. The recent wave of foreclosures is a national epidemic with roots in Detroit — the region has a history of being hit first and hardest during economic downturns. Despite this challenging economic landscape, some commercial real estate firms in the Detroit market have created new business opportunities. Recognizing marketplace realities, NAI Farbman, among other brokerage firms, has been participating in receivership work to turn around properties in default, improve curb appeal, build stronger rapport with current tenants and reduce operating costs, among other initiatives. These Detroit brokers are now sharing their expertise with companies, many of which believed that a foreclosure crisis would never happen to them, on a national level.

The medical office sector is where the majority of development is occurring in the Detroit area. Several large medical developments located in Oakland County have been completed in the last 12 months. Among them is McLaren Health Care Village in Clarkston, a project of McLaren Health Care in collaboration with the Clarkston Medical Group. This three-phase development includes a 135,000-square-foot Medical Office Building, a 42,000-square-foot Cancer Institute, and a 5-acre Garden of Healing and Renewal. However, with metro Detroit residents losing jobs and, subsequently, healthcare benefits, medical office properties are also in less demand. Some developments that were under way have been tabled, while several healthcare corporations have chosen to lease existing space as opposed to embarking on new construction efforts.

Following the northward residential migration, the demand for office space is strong in northern Oakland County, a Detroit submarket. Anticipating enrollment to increase to as many as 1,000 students, the Thomas J. Cooley Law School in Auburn Hills, Michigan, recently completed a 62,000-square-foot addition to its 67-acre campus. The area's growing population also will eventually require additional retail, banking, restaurant and healthcare services to support the expanding community.

— *Laney Cavazos is the director of corporate services and vice president of Southfield, Michigan-based NAI Farbman.*