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# The road to recovery has signs pointing in the right direction.

For a city that has at times been portrayed as emblematic of the kind of economic fallout left in the wake of the recent recessionary cycle, Detroit is actually responding quite well. The current state of the Detroit office market is just one data point — but it's a promising one. In greater Detroit — and across Southeast Michigan — there are tentative signs that things are moving in the right direction for the first time in several years. Not everything is positive by any stretch of the imagination, but the progress, while tentative, looks genuine.

Since the city's office market bottomed out in the summer of 2010, it has been slowly and steadily recovering. There were a few low points in August and September of last year, but the market began absorbing some space toward the end of the year, and that trend has continued in the first part of 2011. As you might expect, however, the progress has been uneven. Consolidation areas like Southfield, where there is a lot more activity in the marketplace, have generally done slightly better than destination-focused markets like Dearborn and Livonia, which had taken a more significant initial blow and subsequently have not recovered as quickly.

With plenty of vacancies still out there and the lowest effective rates since the 1980s, sophisticated tenants have been trying to lock in long-term deals. From the landlord perspective, there are generally two camps: those who are overleveraged and for whom it doesn't make sense to do deals at the current market rates, and others who are at the new basis and have been more active in absorbing properties. As far as the transaction market goes, the difference between 2010 and 2011 is even more pronounced. Once it became clear that the market had found the bottom, trading activity picked back up fairly quickly. With lots of transactions hitting the market, this year has seen a big spike in activity. While there are typically lower per-foot numbers, we are seeing a huge volume of transactions, leading some to speculate that 2011 might set records by the time it's all said and done. Sales have been led by the foreclosures that continue to make their way through the market right now, and that's a healthy part of any recovery process.





When it comes to market trends, alternative energy is definitely a growing presence across the Southeast Michigan marketplace. The resurgence of Chrysler has also been a big story, and the growing health of the automotive industry in general is a boost for Detroit. The associated growth and expansion that is likely to result from a sales volume projected by some to reach 15 million units by next year (up from 11.8 million in 2010) is significant. In Dearborn, Ford has also been active as a landlord. When it comes down to it, this is still a car town and new automotive technologies and advances in vehicle production and manufacturing will be a significant driver for “The Motor City” in the years ahead.

Quicken Loans — Michigan’s largest mortgage company — moving to downtown Detroit has been a huge boost. Combined with Blue Cross moving downtown from Southfield, the result is a recent surge of energy to the heart of the city that has added about 4,000 to 5,000 daytime employees. Those firms have been purchasing additional properties downtown for other ventures as well. As a result, industry professionals are fairly bullish on the urban core surrounding Campus Martius.

While there are plenty of positive signs for the current office market, there are still significant challenges facing commercial developers. While the long-term impact of the recession is uncertain, at the moment, developers are not active. There is still existing supply that needs to be absorbed before the market is healthy enough for development. Occupancy rates are currently in the mid 70 percent range, and we will likely need to get up into the mid to high 80s before we see demand for new development.

While the impact of the recession was severe, and the recovery is still in its early, fragile stages, going forward there is another bright spot that provides additional reason for optimism: the recent removal of the oft-criticized Michigan Business Tax (MBT), a move that seems likely to encourage ongoing activity in the marketplace. The MBT was generally perceived to be vague, poorly implemented and confusing, and with newer, clearer and more competitive policies in place, entrepreneurial energy and creativity in business creation is likely to surge. At a time when other states in the region — perhaps most notably Illinois — are raising taxes, Michigan is getting a lot of positive attention for its tax policies; something that seems destined to help spur ongoing business growth and keep Detroit and Southeast Michigan’s office market moving in the right direction.



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