

HEARTLAND SNAPSHOTS

Heartland Real Estate Business provides a look into the varying landscapes of midwestern office, industrial, retail and multifamily markets.

DETROIT OFFICE

For a city that has at times been portrayed as emblematic of the kind of economic fallout left in the wake of the recent recession, Detroit is actually responding quite well. Not everything is positive, but the progress looks genuine.

Since the city's office market bot-

tommed out in the summer of 2010, it has been slowly and steadily recovering. However, as you might expect, the progress has been uneven. Consolidation areas like Southfield have generally done slightly better than destination-focused markets like Dearborn and Livonia.

With plenty of vacancies and the lowest effective rates since the 1980s, sophisticated tenants have been trying to lock in long-term deals. There are generally two types of landlords: those who are overleveraged and others who are at the new basis and have been more active in absorbing

properties.

The difference between the transaction market in 2010 and 2011 is even more pronounced.

Once it became clear that the market had found the bottom, trading activity picked up fairly quickly, with this year seeing a big spike in activity. However, deals are getting done, typically at lower per-foot numbers. Sales have been led by foreclosures, but that's a healthy part of any recovery process.

Downtown Detroit has been a huge boost for Quicken Loans and Blue Cross' recent relocations, and the resulting surge of energy has added about 4,000 to 5,000 daytime employees. 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 including the existing supply that needs



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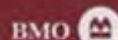


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Overall Vacancy (%)



Source: The CoStar Office Report - 4th Quarter 2010

to be absorbed before the market is healthy enough for development.

The recent removal of the oft-criticized Michigan Business Tax (MBT) is also a positive event for the market and will likely encourage ongoing activity in the marketplace. 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 — 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.

— Andy Farbman is the president and CEO of Farbman Group.