



Troy market may signal stabilization



The Sheffield Plaza deal is said to be worth about \$40 million. Photo by Bill Cowger

Clues in the recent flurry of office sales in the Troy market are found less in what's selling than in who is buying: If the theory holds up that rock-bottom purchase prices bring out Michigan buyers, then the scenario in Troy may be telling Oakland County's commercial real estate market that it will stabilize in 2008.

"When the locals are buying, that's a good indicator that things have hit the bottom. That gives me hope," said Bruce Morrison of Signature Associates.

The deal that prompted his outlook was the December transaction in which Southfield-based NAI Farbman purchased the Sheffield Plaza, a 520,000-square-foot, three-building office portfolio in Troy, from Texas-based Crow Holdings and New York-based Broadway Partners.

The deal was said to be worth about \$40 million, and was the second buy of its kind by Farbman in the past year. Early in 2007, the company was also the lead investor in Oakland Commons, a two-building Southfield office portfolio with 320,000 square feet.

Farbman's buy grabbed attention after a year that saw multiple large-scale transactions:

- California-based American Realty Advisors sold Wilshire Plaza to Summit Property Management.
- The Hayman Company bought Troy Technology Park, a 10-building portfolio at Technology and Ring roads from ARCap.
- A group of local investors bought Liberty Center on Big Beaver from Liberty Property Trust.

Andy Farbman, CEO and co-president of NAI Farbman, said his investment isn't necessarily a sign that the market has bottomed out. The purchase was more about him getting a crack at the buy of a lifetime, he said.

"I believe Michigan - and especially hot areas like Troy and Southfield - are vastly undervalued," Farbman said. "Most of my competitors are making the biggest mistake they can make, which is to sit on their hands and wonder what to do in this market, which is the best buyer's market I've ever seen."

Certainly, Farbman said, occupancies are not what they once were. And there is less attractive valuation in the market. But the asking prices are too good to ignore, he said.

"This building traded for \$56 million seven years ago, so I think I got it at about a 40 percent discount," Farbman said.

Brokers see similar discounts in the other deals.

"I hadn't seen prices like what we saw on the Sheffield property before. That was about \$70 per square foot, and the Wilshire property was reported to have gone for \$100 per square foot," Morrison said. "Those are outrageously good prices."

While the Big Beaver corridor and the north Troy market are moving, the south Troy market is a totally different animal, said Dave Miller, also of Signature Associates.

"South Troy is more of a user market, with lots of companies wanting to own their property. The change that has occurred is really a function of the fortunes of those businesses," he said, noting the three-building, 285,000-square-foot former Collins & Aikman buildings that were purchased by three buyers in 2007.

"The good news is that people saw value in those buildings," he said. "The bad news is that they went at a deep discount. But if you're looking for really good news, it's that there are a lot of people still doing commerce in the Troy market."

Miller added that the December sale of the eight-building, 1.2 million-square-foot North Troy Corporate Center is probably the final brick in the Troy market's road to stability, at least for now.

"There really aren't any other large portfolios listed right now. There are pockets of property here and there, but nothing like that," Miller said.

Values attract attention

The corporate center drew first-time Michigan investor Emmes & Co. LLC to the market when it purchased the property from New Jersey-based Gale Real Estate Services Co.

Joe Anthony, once with CB Richard Ellis's Southfield office, brokered the deal from the Oakbrook, Ill., CB Richard Ellis office, where he has been stationed since March of last year.

Even though it was an out-of-state buyer that purchased the center, the property drew plenty of local attention.

"We got 10 offers for the property. There were a number of those offers from national investors, based in New York, Chicago and Los Angeles, which created a nice pool of interest," Anthony said. "But there were a fair amount of local investors; it came down to those who were most competitive were outside Michigan." He added that six of the 10 offers were from outside Michigan and four were from local investors.

Emmes had been looking for a Michigan property for more than a year, Anthony said. What drew the investors to Michigan was the discounted property.

"A lot of investors have become interested because we're at the bottom of the market and they really view Michigan as a good value, relative to many of the other markets that have been over-bought for a number of years," Anthony said.

At the same time, the suburban Detroit market, has its strengths, which are recognized by investors - both locally and nationwide.

"The property has to have a good story. If the property doesn't have a good story and there isn't some level of security, people just aren't interested," Anthony said.

Troy offers the attributes investors look for: attractive housing stock, ample shopping, proximity to Detroit and to Chrysler, and the nearby city of Birmingham. At the same time, office properties are much less expensive than in Birmingham and Bloomfield Hills, Anthony said.

"Decision makers will gravitate toward lower rents as long as it's not far from their homes. If rents are \$17 in Troy instead of \$25 per square foot in Birmingham, but it's close enough to drive to easily, they'll take Troy," he said.

Miller believes that the Troy market will stabilize and recover, which is welcome news to a market that last year was hit hard by consolidations and large vacancies as companies like Delphi consolidated Troy operations in Auburn Hills, and EDS vacated 475,000 square feet in Troy to move to Pontiac.

"But it looks like the consolidations are done for now, which should make the market much more stable," Miller said.

"There's always a building here or there on the user side. But nothing that signifies to me that there is anyone throwing in the towel," he said. "The general indication is that for every business out there that's shrinking there are more that are growing. At least that's the sense I get right now. At this point everyone has already been focused on shrinking and consolidating so that's out of the way and over and now there seems to be some stability in the market."

Next in Troy

There are talks of re-tenanting the vacant 750 Stephenson Highway, and Miller said he expects news on that very soon. The same goes for the Maple Road location of Entertainment Publications Inc., which is now "about two-thirds empty, but there has been a lot of talk of new tenants there too."

And Troy doesn't have the same kind of obsolescence issues that some of the older properties in other markets like Southfield may have.

"By and large, these are good, functional, attractive buildings. I can't think of any properties with a wrecking ball aimed at it besides the Kmart headquarters building," which is being redeveloped as a mixed-use project, Morrison said.

Building ownership is still an attractive venture, thanks mainly to low interest rates, Morrison added.

"We're actually in good shape compared to the last time this happened in 1992. In the last few years, everyone and their brother have had financing for 5.5 or 6 percent. That's lowered the break-even point for occupancy to about 70 percent.

"Of course some properties are at 95 percent and some are at 65 percent, but most are above that even in slower parts of the market," he said.

"In 1992 when interest rates were 10 percent, occupancy rates had to be 85 or higher to break even."

According to Grubb & Ellis data, vacancies in Troy's office market are 26.1 percent, and Class A asking rents are \$24.21 per square foot. Class B asking rents are \$20.34.

"I think there will be more opportunities (in the Troy market). The question mark now is the mortgage market. We're going to see a slow down. But the interest in Michigan and in the Troy market is still there," Anthony said. "It's not a broad interest, but it's a highly interested group of investors."

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