

## VISION

### **C**ommercial real estate

# Office deals on the move

BY PAULA GARDNER  
pgardner@bdwbiz.com

A rebound in the region's commercial real estate market is forecast for 2004, with many area brokers predicting that the increased activity late this year will continue and that next year's business could climb by as much as 20 percent.

Fueling those gains will be an uptick in corporate capital expenditures and continued expansion at the University of Michigan. Yet troubling to some brokers is the erosion in leasing rates and a net absorption rate that may not be as robust as the gains among individual brokerage companies.

Still, there's reason for optimism in commercial real estate. That sentiment is shared among the largest local brokers — including McKinley Alliance Commercial and Swisher Commercial — and regional and national firms that do business in the area.

"We're in a steadily improving environment," said Neal Warling, senior vice president at Grubb & Ellis, who works out of an office in Ann Arbor. "There's an increase in companies considering increasing their space — companies that were really keeping their heads down, waiting for an increase in contracts and their business.

"They're seeing the promise of new business, so they need to find new quarters to expand."

Metro Detroit vacancy rates continue to show the effects of the economic downturn. Some communities have office vacancies that have topped 20 percent, according to many reports. Among the hardest hit: Novi, Troy and Southfield. Livingston County has topped 30 percent, according to some reports, as spec projects competed with other available space, leaving the market soft.

Meanwhile, class B space showed a negative absorption rate of over 1 million square feet across market areas mid-year, according to a report by Colliers International.

But the greater Ann Arbor area shows more resiliency. At the end of second quarter 2003, a Co-Star vacancy report prepared for McKinley Alliance showed that available direct and sublet space totaled:

- 15.9 percent flex;
- 4.7 percent industrial;
- 13.9 percent office;
- 6.6 percent retail.

Dave Hamilton, CEO of Swisher Commercial, said his company was on pace to double its leasing total over 2002, when it generated \$30 million through leases. Much of that was through subleases.

But the climate also shifted from leases to sales, thanks to historically low interest rates. As rates rise, Hamilton expects that to level off in 2004, with sales and leases performing equally well.

Financing commercial projects in the Ann Arbor market also has been strong and that should continue in 2004, said Aaron Klein of Northpoint Capital, which has offices in Southfield and Ann Arbor. Particularly hot: apartment financing and retail. Less so are hotels and senior housing, both of which have been overbuilt.

"There's a lot of interest in financing (Ann Arbor deals)," Klein said. "You have all the demographics you could want as a lender, including a community that's constantly renewing itself."

Ann Arbor's exposure to the high-tech fallout affected leasing in this market but that could be turning around, said Mitchell Lipton, executive vice president of brokerage services at Friedman Real Estate Group of Farmington Hills.

"The areas of biotech and technology seem to be picking up," Lipton said. "I see those both as industries that should provide some reasonable demand in the future for Ann Arbor because of its location and the proximity to the University of Michigan."

Warling predicts the office vacancy rate will get back into single digits by the end of 2004.



ROBERT RAMEY

Bart Wise has doubled his full-year 2002 output.

Rents have been discounted 10-15 percent, but that could tighten up, too.

Bart Wise, vice president at Swisher Commercial, said he doubled his 2002 output by the end of September.

"When businesses are optimistic, they're leasing space," he said. "That's significant because they're making three- to seven-year commitments to their future."

Paula Gardner covers real estate for Business Direct Weekly. ■