

# News & Views

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## COMPLIMENTS OF



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## Market Update

### Year-end 2008

Despite the turmoil in the financial market and uncertainty with the auto industry, Detroit's commercial real estate market remained fairly stable during the fourth quarter of 2008. The Detroit area's office market saw positive net absorption while its industrial market remained unchanged.

### Office

The Detroit area's office vacancy rate decreased from 17.2% at the end of the third quarter 2008 to 16.9% at the end of 2008, with a positive net absorption of 146,098 square feet. The average lease rate decreased, however, from \$19.83 at the end of the third quarter to \$19.59 per square foot. The amount of sublease vacancy in the area continues to increase. Office sales figures fell during the fourth quarter and average cap rates fell from 8.68% in 2007 to 6.14% in 2008.

### Industrial

Detroit's industrial vacancy rate remained unchanged at 11.7% at the end of 2008 with positive net absorption of 52,275 SF in the fourth quarter. Average rental rates decreased slightly back to \$5.05/sf from \$5.07/sf. Sales activity for industrial transactions also fell in 2008, while average cap rates increased to 9.37% from 9.19%.

	Office Vacancy Rate	Average Lease Rate	Industrial Vacancy Rate	Average Lease Rate
Detroit CBD	17.7%	\$18.53	19.7%	\$3.22
Livonia/West Wayne	13.3%	\$18.30	12.0%	\$4.81
Southfield	20.3%	\$19.11	13.8%	\$8.44
Bloomfield/Birmingham Area	12.1%	\$25.59	NA	NA
Royal Oak Area	14.1%	\$18.08	7.5%	\$5.16
Troy Area	29.7%	\$19.54	10.7%	\$5.49
Farmington Area	14.4%	\$21.21	9.4%	\$7.89
I-75 Corridor /N Oakland Area	13.2%	\$20.34	11.1%	\$5.78

## Early Renewals Offer Opportunities in Stumbling Market

While in Michigan the vacancy rates over the last 18 months have been fairly stable, there is no hiding the fact that the majority of the country is in a full-blown tenant's market with lease rates continuing to decrease. And that means tenants are in a prime position to capitalize on a declining market through early lease renewal.

Property owners are scrambling to maintain the value of their buildings in the midst of plummeting rents and listless expansion plans. Therefore, a recently renewed and extended lease with an existing tenant means a more secure future for an anxious landlord. Working with your tenant representative, begin the process by engaging the market. Find out what else the market has to offer that would fit your firm. This action alone, especially when underway substantially ahead of your original expiration, will provide leverage when your new lease talks come down to actual numbers.

Early renewal in these market conditions can also provide you with the chance to address any unfavorable terms that were components of the original lease. Or more specifically, you can execute a "blend and extend" strategy. This method of renegotiation of the lease offers the landlord a longer lease term in exchange for lower per square foot costs for the remainder of the term. This strategy blends the current costs of your lease with current market rates and most importantly, allows you to begin paying the new lower rates immediately.

Remember though, with an extension, you're committing to your current space for the long term. That is not to be taken lightly; so be sure the extension of term is worth the savings.

Blend and extends can be used in situations that call for a reconfiguration of space as a result of growth or even a contraction in the amount of space needed. The key factor in successfully carrying out a blend and extend is the state of the local market. Is the landlord in a position to gain from longer terms? Are rates declining and vacancies rising in the building? Clearly, today's market is ideal for a blend and



extend strategy and landlords may be willing to be very open with any credible tenant seeking an early renewal.

The concessions and willingness to negotiate being communicated by landlords today cannot be overstated. Rampant development over the last several years has only augmented the current conditions, leaving many markets with countless speculative properties sitting vacant. And as more companies suffocate under the blanket of recession, more sublease space finds the market. All of these factors (and many more) are churning a perfect market storm that should be easily navigable for opportunistic tenants and their tenant representatives.

*Source: Alliance of Tenant Representatives*

## Client Spotlight



### Experience and Local Knowledge Helped Fortune 500 Client Secure Rate Significantly Below Their Budget

GVA Detroit has a long-standing relationship with a non-automotive Fortune 500 company headquartered in metropolitan Detroit. During the fourth quarter of 2008, GVA Detroit was hired to work closely with the client's in-house real estate department to secure 32,000 sf of additional office space so the client could better serve a prime international client. The new office space had to meet specific requirements unique to their client's needs that were not readily found.

Confidentiality was required and at the time GVA was hired, our client already had a list of buildings in Troy that they felt were satisfactory. Due to in-depth knowledge of the Troy market and respectful relationships with many landlord institutions, GVA Detroit was aware of two additional buildings who had potential suites that fit the client's requirements but were not yet on the market. Of the three final suites selected, two were the suites not yet on the market.

Because of the significant vacancy in the area, there was tremendous interest among landlords. Despite the need for confidentiality, GVA persuaded our client to disclose their name. GVA knew that the client's credit and strong reputation would increase the interest. GVA Detroit created a formal competition through the RFP process. The end result was lease terms significantly lower than our client's budget. In addition, GVA Detroit used the client's reputation to leverage flexible lease terms including early termination or contraction without penalty. GVA Detroit also worked as a team with the client's in-house real estate department to negotiate an attractive turn-key tenant improvement package and ensure an on-time move-in date.

For more information on GVA Detroit's Tenant Representative services, visit [www.gvadetroit.com](http://www.gvadetroit.com) or contact Mike Ziecik at 248-331-0203.

#### GVA Detroit Menu of Services

- Brokerage
- Tenant Representation
- Strategic Planning
- Budgets
- Site Selection/Location Consulting
- RFP Preparation
- Finance
- Project Management
- Workplace Strategies
- Warehouse Logistics
- Lease Audit
- Lease Administration
- Tax Appeal
- Tax Engineering
- Move Management

**GVA Detroit** is the local office of **GVA Worldwide**, an international organization of real estate industry leaders serving key markets in 20 countries. The organization comprises more than 3,750 real estate professionals in 95 markets worldwide. In 2007, GVA Worldwide partners collectively completed \$35 billion in transactions and managed more than 165 million square feet of office, industrial, retail and specialized property.

A leading advisor in commercial real estate, GVA Worldwide optimizes client portfolios locally and around the world. It serves the real estate needs of clients including multinational corporations, major space users, developers, owners, institutions, lenders and investors.

For more information, visit [www.gvaworldwide.com](http://www.gvaworldwide.com)