

News & Views

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COMPLIMENTS OF



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Market Update

With Chrysler successfully emerging from bankruptcy, we only can hope GM gets there quickly also.

Last month, the Center for Automotive Research in Ann Arbor, Michigan, projected job loss from various scenarios of contraction from the Detroit 3 companies (see www.cargroup.org).

Scenario 1: Best Case

The best scenario captures the effects of quick and successful bankruptcy filings by GM and Chrysler. For each corporation, we assume the bankruptcy filings and settlement with debtors are concluded in 60 to 90 days. It is assumed the court will arrange and accept final agreements with organized labor and credit-holders at all levels without delay. It is also assumed the court will approve a re-emergence plan with sufficient funding to create a new company (in part, at least) with a new ownership structure. Declines in employment and production occur according to planned plant closures, as indicated in the filed corporate restructuring plans.

Table 1: *Employment Impacts for the United States*

Scenario: Best Case—Loss of Jobs U.S.	End of 2009	End of 2010
Direct	9,700	29,000
Intermediate	24,000	69,600
Spinoff	29,500	80,800
TOTAL	63,200	179,400

Scenario: Best Case—Loss of Jobs Michigan	End of 2009	End of 2010
Direct	6,159	15,400
Intermediate	4,136	13,957
Spinoff	2,741	6,338
TOTAL	13,036	35,695

The estimated job loss in Michigan over the next 18 months is approximately 48,000, which is approximately one (1%) percent, added to the current fourteen (14%) percent unemployment which makes estimated unemployment fifteen (15%) percent, projected as of December 31, 2010. This does not adjust for job gains in other sectors. If this can happen, then we would see the job loss bottom occurring sometime in the 3rd quarter of 2010, and that truly would be good news for all of us sitting on the sidelines waiting for some good news and confidence to make decisions and to spend money.

Early Renewals Offer Opportunities in Stumbling Market

Michigan vacancy rates continue to grow and 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 rent 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

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