

News & Views

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COMPLIMENTS OF



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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.

Market Update

Third-quarter 2008

As we end the third quarter of 2008, the market continues to remain stable. There was a slight decrease in the overall vacancy rate during the second quarter going from 17.4% to 17.3%. That trend continues as the rate settled back down to what it was at the end of 2007. Despite the stabilization in vacancy rates, average lease rates continue to fall due to competition for tenants.

Office

The Detroit area's office vacancy rate decreased from 17.3% at the end the second-quarter 2008 to 17.2% at the end of the third quarter, with a positive net absorption of 49,695 square feet. The average lease rate decreased, however, from \$19.86 at the end of the second quarter to \$19.83 per square foot. Class B office space continues to see negative absorption, while Class A and C gain.

Industrial

Detroit's industrial vacancy rate also decreased slightly from 11.9% to 11.7% at the end of the third quarter with positive net absorption of 954,001. Average rental rates increased slightly from \$5.06 per square foot last quarter to \$5.07 at the end of the third quarter.

	Office Vacancy Rate	Average Lease Rate	Industrial Vacancy Rate	Average Lease Rate
Detroit	17.7%	\$18.81	19.8%	\$3.22
Livonia/West Wayne	13.8%	\$18.64	11.9%	\$4.78
Southfield	20.0%	\$19.06	17.2%	\$8.62
Royal Oak Area	14.5%	\$17.82	8.4%	\$5.28
Troy Area	29.9%	\$20.42	10.9%	\$5.48
Farmington Area	15.6%	\$21.31	8.7%	\$8.11
I-75 Corridor /N Oakland Area	13.0%	\$20.62	10.4%	\$5.77

Source: CoStar

Subleases Offer Benefits But Require Careful Consideration

"Sublease" became a popular term in the leasing malaise that followed the tech meltdown in the early 2000s. Thankfully, the chances of the market ever seeing as much

sublease space as the dot.com crash provided are remarkably slim. Slowly though, the word is creeping back into commercial agents' marketing vernacular. And if you're listening

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Subleases Cont'd

closely to the market, you may hear about some really affordable space.

Moving into a sublease isn't as simple as taking advantage of below-market rates. In fact, a sublease can be more complicated than a direct lease because of the additional layers of approval and agreement inherent to negotiations that involve three parties. Add to this the very real possibility that the original tenant will not be in good standing with the landlord, and discussions about sublease terms could get uncomfortable in a hurry. Know going in that a sublease carries with it the risk of the original tenant defaulting, which would trigger the cancellation of your sublease as well. Relative to costs, understand completely how utilities and other operating cost pass-throughs are handled. A full service lease is easier to deal with from an operating cost perspective but be sure to understand your obligations to reimburse the landlord for operating costs, if any.

There is rarely a tenant improvement allowance granted to a subtenant, so it's critical that your employees can function in the of-

fice or cubicle plan already in place. Given that most sublease terms are shorter than direct leases, some companies try to "make-do" until the sublease expires. If you're in that camp, give serious thought to that compromise. Your business depends on it.

If you decide to accept equipment or furniture as part of a sublease, be sure you know who is responsible for its upkeep during the sublease and who gets possession when the term expires. What about telecom equipment and mission-critical technology? If facilities are shared, make sure that all parties are in agreement in terms of access, maintenance and possession during and after the expiration of the sublease.

To many companies, an attractive rent can be a powerful driver of occupancy decisions. Subleases, however, can have several additional layers of complexity.

Source: Alliance of Tenant Representatives

Client Spotlight



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

Thorough Research Strengthens Johnson Matthey's Position During Lease Renewal

GVA Detroit was hired by Johnson Matthey, a world leader in automotive engine testing, to negotiate their lease renewal with Johnson Matthey's existing landlord. They had made a lot of expensive improvements over the years which provided the landlord leverage. The landlord knew Johnson Matthey couldn't relocate because of the multi-million dollar expense. However, the tenant suspected that the landlord was asking for an above-market renewal rate, based on a CPI of the lease rate they currently paid.

GVA Detroit researched the last 10 transactions consummated in the nearby vicinity. They examined the negotiated lease rates as well as the attributes of the buildings. Per the original lease, Johnson Matthey had the ability to renew at Fair Market Value. Not only did GVA Detroit convince the arbitrator that the CPI was too high, they were able to argue that market rates have gone down by 10 percent. GVA Detroit provided the absorption, occupancy, vacancy and completed transaction data to support their market opinions.

GVA Detroit can act as your representative in lease renewals, working in your best interest rather than the interest of the landlord. Best of all, the landlord often pays GVA's commission.

For more information on GVA Detroit's Tenant Representative services, visit www.gvadetroit.com or contact Mike Zieck at 248-331-0203.