

Building Scene

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Thursday, February 21, 1991 O&E

Economy fails to put brakes on development

By Gerald Frawley
staff writer

Slow-growth/no-growth groups couldn't do it. Wetlands and woodlands preservation boards couldn't do it. Lawsuits, public outcries, citizens groups, environmentalists, referendums, traffic congestion — every circumstance and obstacle that manifested itself before the building industry has failed to prevent development.

But the economy — now that's a worthy opponent.

The souring economy hasn't stopped development — many projects ranging from simple residential ventures to high-tech research and development projects continue — but it has given the building industry reason to pause and reconsider.

The hard and fast rule is that if it's under construction, or financed, pre-leased and permitted, it will probably be built. If it's still in the early planning stages where the land is still vacant, many builders will sit back and wait until the economy strengthens — which could be tomorrow, later this year or 1992.

Some projects have already been affected by the economy. THE ORIGINAL plans for Chestnut Hills, a \$60-million office, hospital, medical complex in northwest Livonia have been set aside and construction delayed until new plans are adopted because of a slowdown in the restaurant and hotel industry.

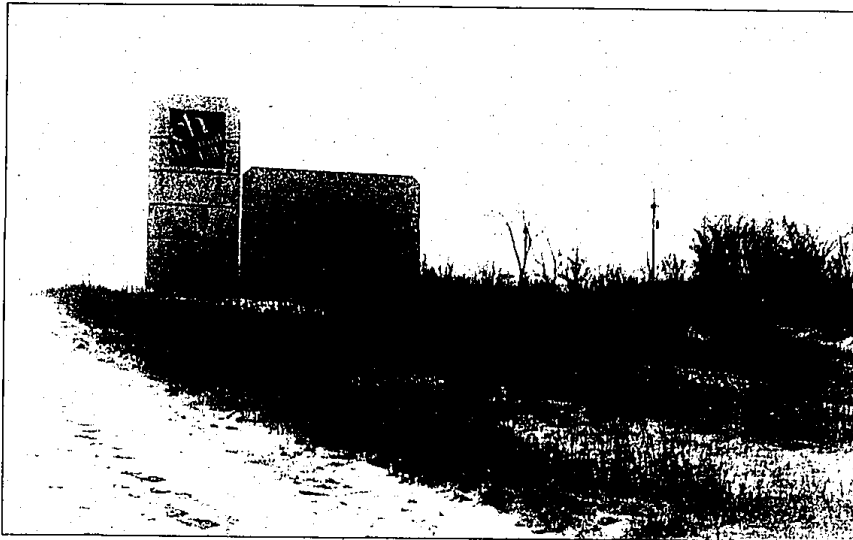
But developers are still seeking tenants for office parts of the development.

Phase II of the Chrysler Technology Center in Auburn Hills, which includes a 40-acre automotive supplier technical park has been postponed indefinitely. The remainder of the facility is on schedule and is due to open later this year.

Victor Corporate Park in northwest Livonia at Seven Mile Road and I-275, had a major tenant — the Digital Corp. — postpone construction of a new corporate office center, but plans for construction of other office space — as well as a restaurant — are still proceeding.

Still other projects seem untouched by the economy's capricious whims.

Volkswagen of America headquarters in Auburn Hills is nearing completion.



A slowdown in the restaurant and hotel industry has forced construction at Livonia's Chestnut Hills to be delayed until new plans are developed.

ART EMANUELE staff photographer

Auburn Mills, a 2-million square foot outlet mall, has gained financing, settled all of its legal disputes and now seems poised to begin construction in hopes of a 1992 opening.

ALLIED CENTER, a major office development in Southfield, has cleared all major hurdles and has begun construction.

David Johnson, a vice president of Victor International, the company building Victor Corporate Park in Livonia, said he doubts any builders will cancel projects already under construction.

Many of the projects are already pre-leased so current economic con-

ditions won't have an impact on them. Also, once construction begins, a builder has too much invested to stop construction.

Things would have to be far worse than they are to stop a project under construction, he said.

Another factor having an impact on a developer's decision to go ahead with a development is its location. Much of the metropolitan office market has stalled, so a developer of office buildings in the overbuilt sections of Southfield would probably be wise to hold off on new construction.

But developers in the I-275 corridor in western Livonia could still

proceed cautiously with projects, thanks to favorable leasing rates and occupancy levels.

"That corridor in general has done really well," Johnson said. It's difficult to find a building with 5,000 consecutive square feet.

"I think you'll see a lot of projects put on hold and some will be altered, but developers who have staying power realize this is only a temporary thing."

SOME OF THE NEWER office buildings with higher vacancies have reason to be optimistic, Johnson said, because the five-year leases signed in the first wave of the build-

ing boom are beginning to expire. Those tenants will be looking for office space.

Joel Feldman, president of Feldman Real Estate Consulting Services, said many projects — those still in the planning stages — have already been canceled or postponed.

It can take years to get all the permits and planning approval for a large project, Feldman said, so projects in the very early stage can be canceled or postponed without much hardship for the builder.

"Supply and demand are completely out of whack," Feldman said. The speculative building of the mid-

to late 1980s has created a glut of office space, he said, and until it is filled, builders are going to have a difficult time getting financing.

The only way an office builder can get financing today is if he substantially pre-leases a project, Feldman said.

Jason Horton, executive vice president of the Troy-based REDICO, which is building the Allied Center in Southfield, said builders will postpone, rather than cancel projects outright.

"No one makes a threshold decision to cancel a project."

MOST BUILDERS will then sit on the land and wait until times get better, rather than sell, Horton said.

Few investors are going to buy property during a down time unless they can get a good deal on it. So it's better for the builders to forgo large land inventories and just wait out the rough times.

Horton said he's not even certain things should be considered "bad."

"I wouldn't be surprised if I saw a big project started now," he said. True, certain areas of the building industry are down — particularly office — but commercial and residential construction continue at a slowed pace.

Southfield director of community development Don Gross said he's just as busy now as he ever was, but it's not difficult to envision a slowdown.

There are a lot of projects already under way that will be finished, he said, but which way the economy goes will dictate if projects still on the drawing board ever get off the ground.

What it all boils down to, he said, is that unless the economy makes a fairly quick turnaround, there's not going to be a lot of new construction. "They (builders) probably aren't going to start construction if they haven't already."

But a lack of new construction does not mean an end to economic development. Builders may be hard pressed to get financing, but there will be development of a slightly different kind.

New construction is taking a back seat to redevelopment, he said. Aging structures are going to have to be remodeled if they are going to retain current tenant, he said.

"That's where the opportunities are," he said.

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