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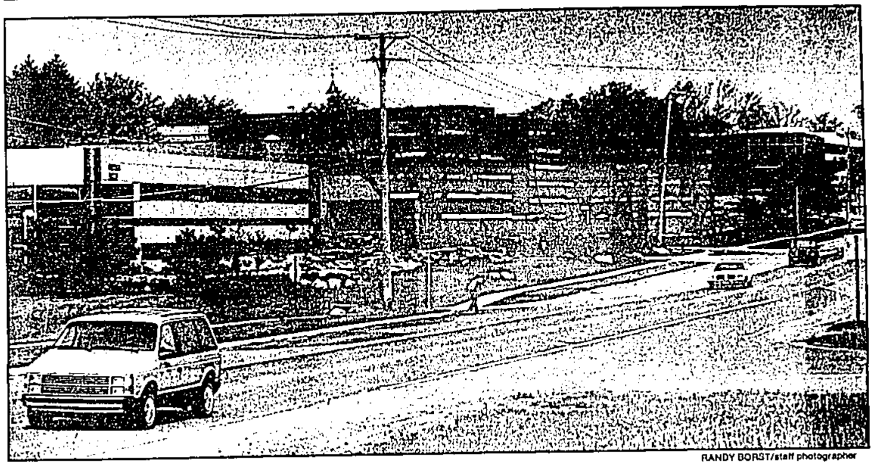


RANDY BORST/staff photographer

The burgeoning office development in southeast Michigan has caused some to question whether the area is becoming overdeveloped.

Crested?

Office occupancy depends on marketing efforts

By Philip A. Sherman
staff writer

Southeastern Michigan's office construction market may have peaked and soon could post higher vacancy rates unless builders observe basics "while the market is good," according to the speaker at Tuesday's Builders Association of Southeastern Michigan meeting.

William Smolkin, head of a New Orleans marketing and feasibility consulting group, told the meeting that while he personally is not familiar with the Detroit area's office market, he is knowledgeable about national trends. Smolkin said Oakland County, particularly Southfield, is one of the few places in the country still in good shape with high occupancy rates.

"In 1960, only 40,000 square feet of office space was on the market north of Eight Mile. Today, there is more office space in Southfield than in the central business district in Detroit," he said.

Citing a September report from Coldwell Banker, Smolkin said that not including Detroit, 34 major downtown areas are experiencing average vacancy rates of 16 percent. Of 42 suburban markets, 27 have vacancy rates higher than 20 percent, he added.

"It shows signs of some slight weakening, but is still twice as good as other suburban markets," Smolkin said in reference to this area. Staying on top without pitching, however, will be difficult without backing up to basics.

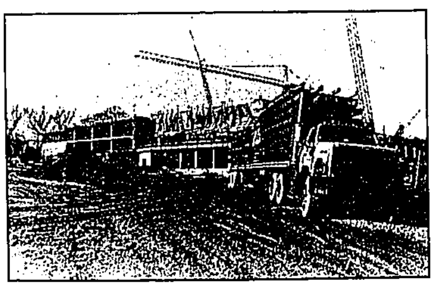
"I know of one building that was offering 20 percent to 33 percent discounts, or a year's free rent, on a five-year lease. This is the kind of thing that's happening in extremely distressed markets," he said. Some of those markets include Hartford, midtown Manhattan, Boston and Toronto, according to Smolkin.

AVOIDING DECREASING occupancy means assessing space situations now, Smolkin said. He proposed:

- Intensifying all marketing efforts while the business is healthy and analyzing tenants by finding out why they're in a certain building and what incentives would keep them as tenants.

'When the going gets tough, you have to change tactics.'
— William Smolkin

- Compiling a tenant data base of everyone in in the area. That way builders will know, for example, when someone's lease is up and whether they can be talked into moving to another office complex.
- Canvassing and networking. "The tenants you've got will lead you to tenants you can get," Smolkin said.
- Offering promotions, such as an increase in tenant improvement allowances.
- Trying niche marketing, which Smolkin said is a series of small executive offices served by a common secretarial pool. "This is the highest dollar per foot for the owner, but it seems cheap to the tenant," he said.
- Adapting buildings for other uses — the warehouse-to-office-complex permutation. Smolkin said a new national trend is to build the office space fronting a landscaped office park, with light industrial space in back.



"When the going gets tough, you have to change tactics," Smolkin said. In addition to the basics, he said rent concessions are becoming increasingly popular. Other tactics are more expensive but necessary to compete in an overbuilt market.

"Lease buyouts for the right tenant are not unheard of," Smolkin said. He added that the package of incentives includes paying a tenant's moving expenses, offering monetary concessions on parking arrangements or preferential spaces.

Other considerations to draw tenants include club memberships; putting a health club on the premises or both; an executive dining room; absorbing the cost of reconnecting the tenant's phone system; offering transportation services to make less appealing sites more attractive; and bumping up improvement allowances, in some cases, doubling them, he said.

1988 economic forecast: so-so

By Philip A. Sherman
staff writer

The automotive industry can expect continued sales declines and even stiffer competition next year. But finance, retail and construction industries will remain healthy or show modest surges, according to panelists at the Economic Club of Detroit's "What's Ahead for 1988" luncheon held Monday.

Panelists included Kenneth A. Macke, chairman and CEO of the Dayton Hudson Corp.; Thomas R. Ricketts, chairman of the board and president of Standard Federal Bank, based in Troy; Keith E. Crain, vice chairman, Crain Communications; and Fred J. Auch Jr., president of the George W. Auch Co. and the Associated General Contractors of America, Detroit chapter.

Low interest rates, the trade deficit, last month's stock market crash, the national debt and consumer confidence figured heavily into each speaker's predictions. One speaker said he moved to a more generalized forecast after the stock market plunged.

Following are more specific predictions from each sector.

Retail: "cautious optimism"

"Over all, we're cautiously optimistic about the long-term economy, Macke said. Almost as proof, he cited six new Target and eight new Mervyn's stores that opened in Michigan this year. Both stores are owned by Dayton Hudson Corp.

Consumer confidence dropped after the market crashed but consumers still aren't sure how it will affect them, Macke said, quoting the October survey of consumers by the Michigan Survey Research Center.

That confusion has "softened" consumer spending throughout the latter half of this year, specifically since July, Macke said. Even though he said early November figures were also "soft," Macke added most economic indicators are solid.

"While consumers are wary about the long-term prospects for the economy, they have more disposable income today than they did a few years ago," Macke added. "With few exceptions, even those one in five Americans who 'play' the stock market are no worse off now than we were a year ago."

Another reason Macke saw for caution is middle America's perception of arbitrageurs, the Wall Street specialists who speculate on margins, takeovers and almost anything that can be traded.

"Middle America thinks there's something very wrong in an economic system that allows people to make millions without ever creating a product, rendering a service or providing jobs. I couldn't agree more."

'We have saved too little, spent too much, borrowed too much, imported too much and loaned too much. This must begin to change if we want continued economic growth.'
— Thomas R. Ricketts

Value still will remain high on the consumer's list, and Macke said he sees an "ongoing consumer movement" in that direction, largely because of economic uncertainty. He added any growth in the high-fashion, high-service area certainly will benefit his main company, Hudson's.

Fast work means no recession

Quickly alleviating budget and trade deficits and recouping problem loans to developing countries are three key areas that, if addressed, will keep the United States from falling into a recession, Ricketts, chairman of Standard Federal Bank, said.

"I'm optimistic and positive about our economic future . . . but let's be honest with ourselves. We have saved too little, spent too much, borrowed too much, imported too much and loaned too much. This must begin to change if we want continued economic growth," he said.

Ricketts noted the current economic expansion began in November 1982 and is the longest in the post-war era. He said the stock market plunge should be viewed as a warning signal that investors do not approve of current economic policies. Ideally, Ricketts proposed a three- to five-year plan to avoid a recession.

To approach a healthy economy, Ricketts advocated developing ties with trading partners, continuing the dollar's devalua-

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Last chance to save on taxes

practically speaking

It's beginning to look a lot like tax time. Although April 15th is a few months off, wise tax planners are checking their lists twice for any overlooked items that might help them save money when the IRS comes calling.

Here are some tips provided by the Michigan Association of CPAs, based in Farmington Hills; Plante & Moran, Southfield, and Grey & Trepeck, Birmingham. While it may be too late to take advantage of all the tax breaks, there are a few things you can do to save money on your taxes.

- Contribute to your retirement plan. Both 401(k) plans and IRAs retain their tax-deferred status — with some new limitations. If a 401(k) plan is offered where you work, you can contribute up to a maximum of $7,000 per year. That's down from $30,000, but still represents a tidy deduction. If you're in the 28-percent bracket, you could save up to $1,960 on your tax bill and generate tax-deferred interest income.

The IRA fared a bit worse under tax reform, but can still offer a way to shelter income from taxes. If neither you nor your spouse (if married) are covered by a company pension plan, the rules remain the same: You can contribute (and deduct from your taxable income) up to $2,000 of your earnings if single, $2,250 if married and your spouse doesn't work, or $4,000 if married and both you and your spouse earned at least $2,000. If you are covered by a retirement plan at work but your adjusted gross income (AGI) is $25,000 or less if single or $40,000 or less if married, you can still take advantage of the full contribution and deduction.

BUT IF ONE or both of you are covered by a retirement plan at work, and earn more than $25,000 if single or $40,000 if married, new rules apply. For every $1,000 above those amounts, you lose $200 in IRA deductions. So, if you are single, have an adjusted gross income of $30,000 and contribute $2,000 to an IRA, you can deduct $1,000. If your adjusted gross income is $35,000 and you are single, or $50,000 and you are married, you lose the IRA deduction completely.

Your best bet is to take a look at what you will probably earn for the year and base your contribution on the deductibility. Keep in mind that a married couple with an AGI of $40,000 could shave $1,120 off their tax bill with a $4,000 IRA contribution.

- Accelerate deductible expenses. Certain expenses are still deductible under tax reform and it may be to your benefit to prepay some of those expenses.

Interest expense is a good example. "Personal" interest deductions are being phased out over the next four years. If you have an auto loan, you may want to pay at least a part of it early. The interest on such loans is only 65-percent deductible this year, but the deduction drops to 40 percent next year. And the tax rates are lower next year so the deduction will be worth even less.

Tax reform eliminated the deduction for state and local sales tax, but if you pay your local income taxes before year end, your deductions will be worth more under 1987's higher rates. Property taxes on your home remain fully deductible. If it can help reduce your federal tax bill, you may want to pay at least a portion of next year's property taxes this year.

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