

Building Scene

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Office market still soft, but conditions ease

By Doug Funke
staff writer

The office market in suburban Detroit continues to remain soft with a vacancy rate hovering near 20 percent.

Cushman & Wakefield of Michigan, a commercial real estate firm headquartered in Southfield, and the Society of Industrial Office Realtors reached that same conclusion in separate surveys.

Improvements are on the horizon, brokers in the industry maintain, although it may take several years for demand to catch up with supply.

"Good news for the market is that new construction has dropped off. That should help the vacancy rate," said Keith D. Sant, vice president and branch manager for Cushman & Wakefield. "We're still talking a few years before we see a resumption of spec building."

"I'm starting to see in the last six months resistance from some landlords to give concessions," said David N. McNabney, a Bloomfield Hills commercial Realtor. The survey identified only a couple of office buildings currently under construction in Observer & Eccentric communities — Oakland Towne Square, 485,000 square feet in Southfield, and the Webster Building, 74,110 square feet in Birmingham.

The Cushman & Wakefield survey included only leased space. The SIOR survey also included owner-occupied offices.

AS BAD AS things seem here, they're worse elsewhere, according to SIOR. Suburban Dallas, Chicago, Minneapolis, Long Island, Boston, Phoenix and sections of Los Angeles

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had slightly higher vacancies.

Cushman & Wakefield identified a suburban office inventory of some 43.5 million square feet primarily north and west of Detroit's central business district. The vacancy rate of 20.3 percent last year was exactly the same as 1990.

The weighted average asking rent for the suburban market slipped slightly to \$18.88 from \$17.14 per square foot, according to Cushman & Wakefield.

Quoted rents for the suburban market ranged from \$8.50 to \$25.05 per square foot. There were fairly wide variations within each submarket.

Many of the new leases here represented a move up for tenants into fancier buildings with more amenities in better locations, the SIOR report indicated.

"While we say there's a 10-year supply in the metro area, when you get down to specific needs of a tenant — maybe 50,000 feet on one floor — you're limited," said Jerome L. Reiss, a Realtor with the Southfield firm of Burland, Reiss, Murphy and Rembelska.

Reiss compiled local suburban figures for SIOR.

"LARGE BLOCKS of available space in quality buildings isn't scarce yet, but it's getting limited," McNabney added.

Sant disputed the word mediocre to describe the local market.

"It continues to be soft," he said. "I think we've hit a bottom of the cycle. It's a matter of recessionary times plus an overbuilt marketplace. We'll come out of it slowly, but I think we'll come out. There's still a lot of activity out there."

Sant's predictions for 1992 include more absorption of existing space, a decline in vacancy rate and a firming of rents.

It remains difficult to get financing for office projects here with 8.3 million square feet of vacant existing space and another half million under construction, SIOR reported.

"No matter how solid you are, you still can't get money from lenders," said Richard E. Danckaert, a Realtor with Burger, Easton, Mercier, Hildeout & Co. of Southfield and president of the Michigan SIOR chapter.

"The only money available is for user-occupied buildings," said John R. Boyd, a Realtor with Signature Associates of Southfield.

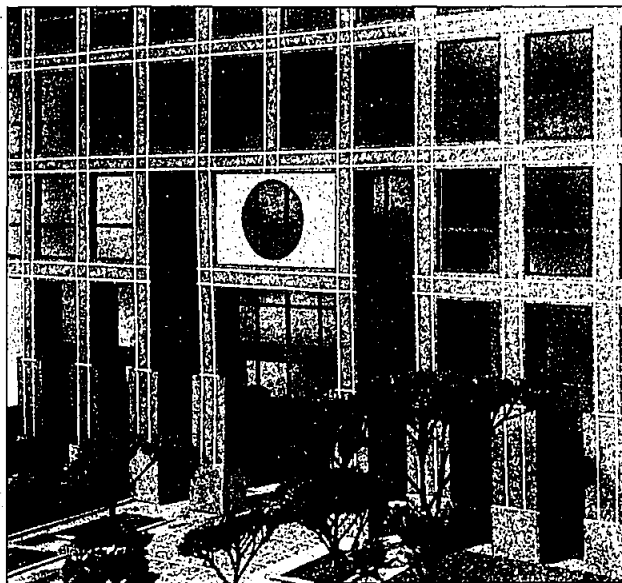


Illustration of the exterior main entry to the first phase of Oakland Towne Square, Southfield, one of only two office buildings under construction in the area.

Vacancy rates by community

Following is a brief summary of office markets as prepared by Cushman & Wakefield of Michigan. The commercial real estate firm is based in Southfield.

SOUTHFIELD

With the largest inventory of office space among O&E communities, 15.3 million square feet, Southfield had a vacancy rate last year of 21 percent, down from nearly 23 percent in 1990.

An additional 160,000 square feet became available with the completion of Raleigh Office Centre II. Oakland Towne Square, 485,000 square feet, is under construction now.

Southfield ranked highest among all area markets last year in leasing activity — new leases signed including moves and renegotiations — with 1.2 million square feet.

The Southfield market also led the way in absorption with 569,000 more square feet occupied last year than in 1990.

Asking rents ranged from \$8.50-\$25.05 per square foot compared to \$8-\$25.70 during 1990. Weighted average quoted rental rate slipped slightly to \$15.87 from \$16.28.

TROY

The Troy market, 11.3 million square feet, had the largest drop in absorption last year among markets. Some 252,500 square feet of space occupied at the beginning of year was vacant at the end.

The big reason — Volkswagen of America moving out of 280,000 square feet in the City Center Building to Auburn Hills.

The loss also boosted the vacancy rate in Troy to 22 percent from 20 percent. Leasing activity dropped to 605,000 square feet from 766,000 and the weighted average quoted rent slipped to \$17.36 from \$17.62 per square foot.

Quoted rents ranged from \$11.55 to \$21.80, down substantially at the high end from 1990.

BIRMINGHAM

A 35-percent increase in leasing activity to 488,000 square feet almost totally offset the effect of the Benjamin K. Pierce Building coming on line during the year.

The net absorption loss during the year was only 14,000 square feet following a loss of 108,000 square feet in 1990. The vacancy rate of 19.2 percent remained virtually unchanged.

But a continued decline in absorption and competition drove the weighted average asking rent down 6 percent — to \$18.28 from \$19.46. Rents for the inventory of 5.5 mil-

lion square feet ranged from \$11.66 to \$24.50. That compares to \$13-\$23.50 last year.

FARMINGTON HILLS

This market of 4.1 million square feet had a vacancy rate last year of 20 percent up from 17 percent in 1990.

But weighted average rental increased to \$16.53 from \$16.20 and the rental range jumped to \$12-\$19.50 from \$10-\$15.50.

Leasing activity, nearly 283,000 square feet, increased 31 percent. Some 40,000 square feet became vacant with the move out of town of Vlastic Foods.

Downsizing and consolidation by other tenants also contributed to a rather small net absorption of 6,700 square feet.

LIVONIA/NOVI

Net absorption of 117,842 square feet and leasing activity of 216,000 square feet both were down from 1990 figures. The vacancy rate dipped one-half percentage point to 19%.

Total inventory at the end of the year was 5.8 million square feet. Rental range of \$10 to \$19.30 remained flat but the weighted average rental rate moved up to \$16.86 from \$16.45.

Webster Place II in Novi was half pre-leased at the end of the year as construction continued.

ROCHESTER HILLS

AUBURN HILLS & Most of the activity in this market of 1.1 million square feet, took place in Auburn Hills.

The opening of a single building, 46,000 square feet leased by Volkswagen, severely impacted the figures.

Vacancy rate plummeted to 17.7 from nearly 33 percent and net absorption, which had been minus 35,600 square feet in 1990 soared to nearly 391,000 square feet last year.

Weighted average quoted rents, following a trend in several neighboring suburban markets, slipped to \$16.46 from \$17.32. The rental range of \$12.60-\$18.25 was down slightly at the low end, up slightly at the high.

WEST BLOOMFIELD

The smallest individual market surveyed with an inventory of 523,700 square feet consists mostly of law firms, accounting firms and other service industries that tend to lease space in small increments. West Bloomfield had the highest vacancy rate in the metro area last year, 23 percent, compared to 20 percent in 1990.

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Birmingham Club Estates is a second-level single-family subdivision tucked away in the woods bordering Oakland Hills Country Club and the Birmingham Athletic Club. Residents enjoy access to Bloomfield Hills schools and other distinct advantages. Model offers opportunity for fast occupancy. Walk out homesites available for custom design. Priced from the mid \$400's.



Whispering Pines

The ancient pines and thick woods off Long Lake Rd. and Lahser Rd. in Bloomfield Township provide an impressive background for these stunning homes. All are meticulously designed with enormous master suites, vaulted ceilings, gourmet kitchens and other outstanding custom features. Spectacular homes from \$730,000. Model nearing final stages of construction.



Lahser Homesite

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