



Weathering the Storm

BY KYLE OLSON, REAL ESTATE FREELANCER

It is not news to anyone that Michigan faces some of the most challenging economic conditions of any state in the country.

Much of the direct impact for the last several years sidestepped the real estate industry until recently. But the job losses, company closures, and general uncertainty have begun to take their toll on real estate industry in the form of long listing times and significant concessions in both selling prices and commissions. Add to that an apparent indifference to businesses and individuals shown by the legislature in passing tax increases. That particular indifference was underscored by the repeal of the service tax and replacement of the “lost” revenue with a “surcharge” in the new Michigan Business Tax.

Many commercial REALTORS® have been critical of the new tax, and adding a “surcharge” as an easy way to bring more taxes into the government just adds insult to injury. “... the new instability created by the new Michigan Business Tax (MBT) is a real impediment to progress and growth. Users are cautious to commit as they wait to see the impact of the new tax,” said Chris Beckering, a member of the Office Group for Grubb & Ellis Paramount Commerce in Grand Rapids.

The seasoned REALTOR®,

whether residential or commercial, will tell you that there are cycles in every industry and if you can survive these times, you can be successful at any time. Instead of bemoaning the situation, successful professionals find ways to turn the situation to their advantage.

The impact of MBT on commercial real estate means vacant warehouses and factories, a glut of empty office space, and low demand for new development. So how do those who are in the business for the long haul make it through the down times? It depends on who you ask and the makeup and dynamics of their local economy.

“Real estate is a cyclical business. This is nothing new. We are past the lowest point and I see a slow but steady increase in industrial users. The next peak in our market should be in 5 to 7 years,” predicts Rick Birdsall, a sales associate in the Industrial Properties division of Signature Associates in Southfield.

Rolling with the times means being flexible. “I have expanded my business into other areas of commercial real estate,” Birdsall also stated. “Success has been made in industrial redevelopment and urban infill sites.” He is currently working with a robotics manufacturing user, a number of small start-up companies,

and a LEEDs green development.


Jim Olsen, an associate broker with Signature Associates in Muskegon, said, “We continue to work smarter and take a different tack than in a good market. You have to be more aggressive in finding buyers, and the sellers have to be educated on the market. Sellers and landlords are making concessions that are not made in a strong market, so we have to structure deals to fit the times.

Chris Beckering believes perception has become reality when it comes to the economic conditions of Michigan. “The Grand Rapids office market continues to experience modest net absorption despite the closing of mortgage companies, user hesitance due to a negative tax environment for businesses and completion of new construction projects,” he said.

When asked how his area is adapting, Beckering said, “Community stewards are teaming strategically with generous benefactors, developers, and local units of government to facilitate creative and visionary public/private partnerships. The continued private investment, philanthropic support and growth of the life sciences industries drives growth on the west side of the state.”

Grand Rapids is fortunate to have several benefactors that are investing in projects to revitalize the downtown





area. Beckering also touched on an element that Michigan must attract to invigorate its economy: people just entering the work force. "As young professionals stay and move to the urban core, we will reach the long awaited critical mass to support a vibrant downtown retail market. Continued development and expansion along the riverfront and into the near neighborhoods will create a variety of cultural, dining, shopping and entertainment options needed to attract and retain the talent that will drive our economy in the coming decade," he said.

Other communities have economic development agencies that work to spur economic growth. "We still have many thriving businesses in Southwest Michigan, and Southwest Michigan First continues to keep in contact with them to make sure we are doing everything in our control to meet their needs," said Jodi Milks, a managing director for Grubb & Ellis Paramount Commerce in Kalamazoo.

Bill Milliken, owner of Milliken Realty, is a member of the Ann Arbor economic development agency's board. SPARK now has a list of about 75 companies from around the country that are interested in the Pfizer site. It is going to take some work to resolve it, but we are encouraged by the discussions that are underway," he said.

A forecast presentation by Senior Vice President of Research and Client Services of Grubb & Ellis, Robert Bach, called 2007 "just right." Previous years were either "too hot" or "too cold", the presentation said. It slowed vacant office space leveling out, with Grand Rapids at approximately 17 percent, Detroit slightly over 20 percent, and Kalamazoo at over 22 percent. The national average was about 14 percent.

The percentage of vacant industrial property was also above the national average (7 percent). Of Michigan statistics, Grand Rapids had 9.5 percent vacancy, Detroit 13 percent, and Kalamazoo was also the highest at 19 percent.

As far as a forecast for 2008, an article in Crain's Detroit Business

summed it up fairly well. "There are signs of life in a few corners of the Michigan economy, but the question mark in 2008 is whether those sectors can offset slow manufacturing and real estate or stem the exodus of jobs and talent," the article said.

The new business tax will also be a factor on Michigan's economy and at this point, its impact can only be predicted. At the "Outlook 2008 Breakfast" held at the Gem Theatre in Detroit in November, Amy Lane, a reporter for Crain's, said, "but it's also true that the MBT is an unknown quantity when it comes to how it's going to perform and how it will really impact business."

When asked how he personally has adapted to Michigan's economy, Michael Cagen, Senior Associate at Marcus & Millichap in Grand Rapids said, "We try to be more tuned in to our clients needs, positioning ourselves as market experts, supported by timely research, so that when it is decision time for our clients, we're positioned to be on the short list of brokerage service providers that will have the opportunity to present a proposal."

Bill Milliken's home of Ann Arbor gained headlines over the last couple years because of some high profile happenings. "The January 22, 2007 announcement by Pfizer that it was closing its Ann Arbor research laboratory was a rude, psychological blow to our economy. But it is also a rallying point for Ann Arbor SPARK and the region," Milliken said.

Economic development efforts over the last couple of years have landed Google's Ad-Words division (projected to employ 1,000 people) in Ann Arbor and aerospace engineering Grupo Aernnova's North American headquarters office (400 employees). The result of these and other efforts is that the Ann Arbor region has very nearly offset the job losses that will result for the Pfizer closing.

"The economy has made my buyer/tenant clients more conservative. In this type of economy you have to get creative. Sometimes, just getting back to basics is more creative

than your competition," Milks said. "Calling people back vs. just emailing, visiting clients at their offices, sending a written note," she added.

Milks doesn't believe we're out of the woods yet. "I think you will see a significant number of properties take a hit in price upon sale vs. list. Our commercial pricing has held its own for some time, but the 'big guys' are not here to bail us out anymore..." she said.

Like Birdsall, Cagen goes back to his longer perspective: "This isn't the first recession I've worked in. U of M forecasters are currently predicting positive job growth in Michigan in 2009."

Birdsall does see an upside to the challenging times. I find more investors outside of Michigan looking at opportunities in Michigan, than Michigan investors. The outside investors feel there is a much greater upside in potential equity as the market returns over the leaner investments elsewhere, he said.

Cagen stays optimistic as well. "Our business, through August 31st, was up 33 percent over last year, when we did \$850,000,000 in investment property sales in Michigan. I have newly executed letters of intent on a 3.1 million and 8.6 million dollar investment property deals. We'll be here, stronger and even more dominant than we are today," he said.

Milks agrees. If you can survive the next couple years, you may just find you're a good REALTOR®! Also, for many thinking about getting into the business, now might be a good time. Things that don't kill you, only make you stronger!

These times are good for customers. Adds Milliken, "our business is a service business, and the secret to success is providing better service...and working a longer day."

Creativity, optimism, personal service, and hard work are key attributes to surviving in Michigan's economy today. Those are also attributes that will keep buyers and sellers coming back to use REALTORS®, no matter the shape of the economy. **MAR**