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# 2011 Economic Forecast for Design and Construction

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## Is it just me or is something wrong with this picture?

- The government announced the recession ENDED summer 2009.
- Banks were given BILLIONS, yet won't lend but a fraction of that.
- We are about to get a TAX INCREASE during perhaps the slowest recovery in history.
- We passed health care reform after decades of failed attempts and now there is a movement to REPEAL it.
- 2010 was a clear referendum for the Democrats – 21 months later there are predictions of a Republican LANDSLIDE in November.
- We're on track to earn the dubious distinction of being the FIRST generation to hand our children a lower standard of living.
- The cost of TWO wars is \$1,091,933,454,000.
- The federal DEFICIT is \$13,636,025,596, 595.

**VOTE NOVEMBER 2<sup>nd</sup>!!!**

## The “Good” News

- We have edged off the cliff.
- There will be no “double dip recession”.
- The stock market is responding positively.
- We have had no terrorist incidents.
- We can attract industries if we commit to it –  
(i.e. the film industry, alternative energy.)
- Energy prices have been relatively stable.
- In the worst of times, new opportunities will  
rise to the surface.

## The “Bad” News

- Recovery will continue to be very slow to develop and will to be in “stops and starts”.
- The stimulus package fell down in its execution.
- Job growth will not occur in the near term and the flight of young talent will continue.
- There is no easy way out and economic restructuring is a painful and slow process.
- Tax increases –really?
- The federal deficit.
- The credit crunch – is Michigan off the radar completely for outsiders?

**What is the state of the office, retail  
and industrial sectors?**

## Office Sector

- Still a tenant's market – more free rent, lower rates. Vacancy is over 30%. Values have plummeted.
- Expect a continued shakeout in ownership.
- No speculative development in 2011.
- Creative approach to deals required - incentives are critical and they work. Tenant's expectations are unlimited and in many cases don't "pencil out".
- Opportunities are medical and redevelopment of obsolete product, purchased at the right price.
- "Questionable" product on the increase.

## Retail Sector

- Will continue on a path of little or no growth.
- We are not a “growth market”, but a “shifting market”. Example –Great Lakes “Outlet Mall”.
- The “high” and “low” ends are holding there own – the “middle” is struggling.
- Credit is extremely tough to come by.
- Wal-Mart, Target and Kohl’s are active –others are still on the sidelines.
- Out of state investment interest is weak.

## Industrial Sector

- Vacancy rates have stabilized –over 16.5% currently.
- We are seeing positive absorption.
- Rental rates continue to decline. Sales activity is also down significantly.
- Logistics and distribution sectors are slightly stronger, but inevitably tied to automotive fortunes.
- Opportunities – Somewhat limited, perhaps specialized corporate build-to-suits.

# **“That’s only part of the story”**

**Facing up to the Challenges and Trends  
which impact our economy**

## The Challenges

- We continue to lose jobs –approximately 500,000 manufacturing jobs this past decade.
- Unemployment continues to run about 4% above the national average.
- Intellectual capital and our young people are in fact continuing to leave the state, creating a serious void.
- Production is requiring less labor.
- Our local economy still lacks diversification.
- Embedded corporate psychology of “We can do more with less”.

What are the TRENDS that we can identify and create opportunities from?

## Trends

# Corporate America is redefining the Office environment.

- Densities are increasing.
- Parking requirements are increasing.
- Worker mobility and the virtual workplace are here to stay.
- Space utilization is changing (hoteling and collaborative environments)
- Technology requirements are increasing.
- Some existing product is becoming obsolete.

## Trends

### **Consumer demand is redefining Retail .**

- The Blockbuster example.
- Internet shopping has chipped away at need for “bricks and mortar”.
- Target and Wal-Mart will create velocity wherever they go.
- “Big Box” rules. “De-malling” will continue.
- “Free standing” is preferential.
- Lifestyle centers will continue to gain in popularity.
- There is a place for specialty retailers.

## Trends

# The customer, not the tenant, is redefining the Industrial market.

- This has been in process for awhile.
- Largely contract driven.
- Customer dictates:
  - Location
  - Building requirements
  - Lease terms
- If energy prices increase, we can expect a shift to rail. This will reverse the trend of fewer and bigger distribution centers.

## Trends

### Sustainability

- Energy and Sustainability are getting ranked as major concerns by corporate real estate directors.
- The movement to incorporate green features into new buildings is clearly underway.
- The incremental cost is still difficult for many to get their heads around.
- The multi-national corporations may lead the way.

# Trends

## Lease Accounting

- Changes coming in how leases are accounted for.
- Will turn operating leases into capital leases.
- Will affect the lease vs. own decision.
- Will reshape decision making on sale-leasebacks and build to suits.
- Will impact the length of leases.

# So what can be done to improve economic conditions?

- State and local government must focus on economic diversification by offering incentives.
- State and local government must remove impediments to business attraction. Michigan is an expensive place to do business.
- A concerted effort to keep our young people here.
- Leverage Michigan's greatest resources – intellectual capital, fresh water and resilient residents.
- Continue efforts to revive downtown.

## *How can you survive and prosper in the current environment?*

**“Life is 10% what happens to us and 90% how we react to it”**

- **Believe that the greatest opportunities are created in turbulent times**
  - Identify them.
  - Build a business plan around them.
- **Diversify Geographically**
  - Form strategic alliances and follow your customers as an entrée into new markets.
- **Follow 20/80 Rule**
  - 20% effort on understanding economic conditions.
  - 80% effort on becoming an expert on changing trends and capitalizing on them.