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2012 Economic Forecast for Design and Construction

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The Global Picture – we are INFLUENCED by it!

- Fears regarding the U.S. and world economic growth.
- Europe – currency union between member states with differing economic structures and productivity rates.
- Fears that the book value of major banks doesn't reflect perhaps fragile financial states.
- Nervousness that a highly leveraged China can't sustain its reported growth rates.

The U.S Picture

- The recession has been much more severe than previously thought.
- The recovery has been less impressive than expected.
- Double dip recession –chances are greater than 50%.
- Unemployment remains high –where is the job creation?
- Little hiring is going on –yet corporations are sitting on approximately \$1.7 trillion in cash.
- The federal deficit has finally recognized as out of control.
- Politically, has our country ever been more divided?

The “Good” News

- Michigan’s unemployment rate has dropped to 11%.
- The Big Three are performing, despite the slow economy.
- Energy prices are no longer heading up.
- We have had no terrorist incidents.
- Michigan’s business tax environment has improved. Detroit is getting positive press.
- 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”.**
- **Significant 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**
- **The federal deficit and unprecedented divide on fixing it –”politics rule”.**
- **The credit crunch – is Michigan still 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 28%. Values have plummeted.
- Expect a continued shakeout in ownership.
- No speculative development expected in 2012.
- Creative approach to deals required. Tenant's expectations are unlimited and in many cases don't "pencil out". Tough time to be a Landlord.
- Opportunities are "DPO's", 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 improved – 13.6% 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

- Little interest from outstate investors in our markets.
- Unemployment continues to run about 2% 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 Borders and Blockbuster examples.
- 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.

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 and retention. 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.