

RECESSION EFFECTS ALONG THE GREAT LAKES

Part Two: Michigan, Ohio, Pennsylvania and New York

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THANKS TO THE RECESSION, TOWER 31, A 42-UNIT RENTAL HIGH RISE IN MIDTOWN, N.Y., IS THE LAST LARGE PROJECT SIMON DEVELOPMENT GROUP HAS COMPLETED. IT WAS FINISHED IN 2006.

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The Great Lakes states of Michigan, Ohio, Pennsylvania and New York have not been immune from the effects of the U.S. economic downturn and credit and crisis. The region has not hit the lows that many other areas across the country have reached, but economic progress has been sluggish, at best.

In New York, the greater metropolitan area (the populated areas in the states of New Jersey, New York and Pennsylvania that are within a typical commuting distance of Manhattan, N.Y.) is laboring under a nearly 10 percent unemployment rate. The state government is enduring its own fiscal challenges, further slowing down development in the state, especially in Albany and other upstate markets where the state government, as well as vendors and service providers, is a prime tenant of office space.

Yet, activity in the real estate markets has begun to pick up recently. September was the

fourth consecutive month of one million square foot plus leasing activity in Midtown Manhattan, according to CB Richard Ellis, AMO®. And the decline in asking rents has slowed significantly.

Still, major new real estate developments have been mostly on hold as the credit markets remain stingy with financing. Matthew Baron, a principal with Simon Development Group, owns \$300 million of property in the New York metro area. His last large new development was a 42-unit rental high rise in Midtown named Tower 31, which was completed in 2006—just before the economic recession hit.

"The problem is leverage today," Baron said. "You can't get construction financing. When you don't have it, you wipe out 95 percent of the people out there who are going to be doing development."

In this environment, the focus is on tenant retention, according to many real estate experts. Re-leasing is an expense most owners can't afford right now, so property managers must be proactive in the area of customer service to keep tenants from moving.

"It's a tough environment out there," Baron said, "so you can't be the grumpy landlord who is not responsive to tenants. Understanding that is very important."

LACK OF FINANCING

Pennsylvania's real estate markets did not undergo the huge buildups that occurred in other regions, so the area is not enduring as big a shakeout. Still, the metro areas of Pittsburgh and Philadelphia are struggling with rising unemployment rates. And while smaller banks are starting to lend money to local businesses, large-scale financing for major developments is still proving difficult to obtain.



“Construction financing is pretty impossible to get,” said IREM Region 2 Vice President Jesse Holland, CPM®, and president of property management firm, Sunrise Management & Consulting, AMO. “A number of projects have started and then stopped midstream. The old model is not working.”

Despite the difficult market conditions, a few developments are still making it through. In Philadelphia, 777 South Broad, the city’s first LEED-registered residential mixed-use building began leasing in October and is scheduled for completion in March 2010.

Carl Dranoff, president of Dranoff Properties, owns 777 along with several other residential properties in Pennsylvania and New Jersey.

“[Our building] 777 proves that financing is still available, even if not as readily as in the past,” Dranoff said. “Dranoff Properties’ strong track record of successful urban redevelopment, finished on time and on budget, allowed us to secure the financing necessary to move forward with this project.”

AUTO EROSION

Michigan has felt the brunt of the recession more than any other state, thanks to the continual deterioration of the automobile industry. Earlier this year, unemployment in the state topped 15 percent, while the Detroit area nearly reached 18 percent. Home values continue to sink, and many economists believe the state won’t see economic gains until 2011.

Of course, some activity is always abound in even the most depressed areas. General Electric signed a lease for 240,000 square feet in Van Buren Township in southeast Michigan, according to CB Richard Ellis. And two green energy companies agreed to purchase Ford Motor Company’s 320-acre Wixom Assembly Plant.

“A little development is starting again, but there are several big developments on the drawing board and they’re not moving forward at all,” said IREM Region 6 Vice President Sheila Austin, CPM, and president of Wedgewood



Property Management and Consulting in Southfield, Mich.

To survive in Michigan’s economy, Austin said property managers need skills in two important areas—resident services and marketing.

“You have to make people feel you want them there,” she said. “You have to know how to provide amenities to people to keep the clientele you have. And you need the marketing skills to bring more people in to the properties.”

IN A STALLED STATE

The downturn in the automobile industry has hit the state of Ohio hard as well, due to a high concentration of auto vendors supplying Detroit. Unemployment in the state is currently hovering around 11 percent. The office market is saturated with available space, and new development is pretty much stalled across the state.

“This is a strange psychological recession,” said Carla Crabtree, CPM, vice president at industrial real estate company IDI, in Covington, Ky. “Every seven to eight years we have one of these—a big flush. There are no new plans for any big development for the next two years.”

Crabtree said the interest in the market right now is in spec buildings already available. That means the market needs property managers who understand the marketing and brokerage end of the business.

“Facilities experience is not at a premium right now,” Crabtree said. “We need property managers with an asset manager mind set, who understand the market as well as any broker; who understand the value-add we have.” ■

777 SOUTH BROAD, PHILADELPHIA’S FIRST LEED-REGISTERED RESIDENTIAL MIXED-USE BUILDING IS SCHEDULED FOR COMPLETION IN MARCH 2010.

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