

RECESSION EFFECTS ALONG THE GREAT LAKES Part One: Illinois, Wisconsin, Minnesota and Indiana

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Look for Part Two of The Great Lakes in the Jan/Feb 2010 issue to read about New York, Pennsylvania, Ohio and Michigan.

A common view about the Midwest is that during an economic expansion, the highs don't get too high, and during a recession, the lows don't get too low. This appearance of relative stability in states like Illinois, Wisconsin, Minnesota and Indiana during rocky economic times has always made the Midwest attractive to many investors.

Take Illinois, for instance. The latest unemployment figure for the state is at 9.9 percent, as manufacturing across the area continues to take a pounding. Foreclosures continue to increase and real estate investment activity remains weak. In Chicago, unemployment is even higher at 10.5 percent, slightly more than the national rate. The rising unemployment throughout the state is reducing demand for office and retail space.

But even under these struggling economic conditions, some exciting development continues. CB Richard Ellis, AMO®, reports the Wilson Yards Shopping Center in Chicago's City North neighborhood, which will feature 190,000 square feet of retail, is scheduled to open in late 2009. The company also has 325,000 square feet of suburban office space under construction in Illinois.

"Financing has become so difficult that it is hampering economic recovery in the real estate market," said Geoffrey Ruttenberg, a Chicago real estate developer and CEO of the Brixton Group. "But we've seen an increase in activity in the last 6 months."

Ruttenberg is near completion of phase one of CA23, a 36,000 square foot residential development in Chicago's West Loop. CA23 consists of 48 units from 2 to 4 bedrooms ranging from 2,000 to 4,000 square feet. There's private elevator access, a 600 square foot outdoor terrace

and a center atrium design to provide extra sunlight.

QUALITY IS JOB #1

When new development slows down, developers must focus on operations for their existing properties, and Ruttenberg said it is critical that his property managers be diligent, responsible and pro-active toward running his properties.

"We try to build a more sophisticated product," Ruttenberg said. "The properties need to be in pristine condition. I want somebody to care for it as if they are living there themselves."

Joe Learner, a vice president with real estate services firm, Studley, agrees that during times of decreased development activity, investors need an experienced and expert hand in running operations on their existing properties.

"Everybody who owns a property is looking for ways to become more efficient," Learner said. "But sometimes a short-term fix becomes a long-term problem."

Learner thinks a common mistake inexperienced property managers make is to cut costs in ways that affect the tenants. If cost-cutting causes the quality of the building to go down or the quality of tenant services to suffer, then you've created more problems for yourself than you have solved.

"Good, experienced property managers know how to trim costs without it affecting the tenants," Learner said. "That's the kind of expertise you need when you are focusing on enhancing the value of your properties."

IN DEVELOPMENT

Ninety miles north of Chicago, Milwaukee is

struggling with a depressed office market and a dampening of real estate development overall. Some development is still getting done, however. A new 126,580 square foot Target at the Shoppes at Fox River opened this year, along with a 61,000 square-foot Pick 'N Save. Construction of the 275,000 square foot 8200 Tower at Normandale Lake Office Park in Bloomington was also recently completed.

Still, many developers in the area complain that new development is having a hard time finding equity sources and construction is coming to a crawl.

“Money is on the sidelines,” said Bill Levy, CPM®, CEO of Madison, Wis.-based student housing management company BMOG, Inc. “Meanwhile, investors and developers are holding on to their properties longer than they traditionally would.”

Minnesota is experiencing a similar squeeze on new development financing, but some projects are still getting done in the area. In Hopkins, Minn., phase three of the 255,000 square foot built-to-suit Excelsior Crossings office campus is under construction. Also under construction is phase one of the 110,000 square foot built-to-suit Crest Ridge Corporate Center in Minnetonka.

“What’s occurring here are long-term build-to-suit leases which are getting financing,” said Bill Katter, a vice president for commercial real estate developer United Properties.

At around 9 percent back in May 2009, the unemployment rate in Minneapolis/St. Paul was nearly double that of late 2008. As a result, Katter believes the real estate market will continue to be plagued by distress until 2011. But United Properties’ sister company, NorthMarq, which provides property management services, has been seeing healthy business due to foreclosures and receiverships.

“Large properties need experienced property managers,” Katter said. “Commercial projects—30,000 square feet or greater [are where] you need professionals. We’re still getting calls for these assignments.”



INDUSTRIAL DE-EVOLUTION

Statewide unemployment in Indiana reached 10.6 percent in May 2009, higher than the national average but improved to 9.9 percent in August. High unemployment, along with lagging consumer spending, has resulted in very little new construction in the region.

“Big box spaces are empty as retailers close stores because people are terrified of losing their jobs and are saving their money,” said Biff Ruttenberg, co-founder of real estate consulting firm, Atlas Partners. “Manufacturing in the area is in the dumps and financial services are cutting people. General business conditions are poor, so demand for office space is off, also.”

Despite the down market conditions, Atlas recently acted as real estate advisors to PVC Compounds in the sale of its manufacturing facilities in Texas and Kendallville, Ind. While Ruttenberg also believes that it may well be 2011 before overall economic conditions turn upward, he thinks the industrial market has not been hit as hard and will rebound first, followed by retail and then office as employment typically is the lagging factor in a recovery.

“Until unemployment figures start dropping and spending increases, we won’t see much activity in office anytime soon,” Ruttenberg said. “If you can’t sell widgets, you don’t need widget office space.” ■

CONSTRUCTION WAS RECENTLY COMPLETED ON 8200 TOWER AT NORMANDALE LAKE OFFICE PARK, A 275,000 SQUARE-FOOT BUILDING IN BLOOMINGTON, MINN.

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