

Downtown rentals gain more attention

Detroit Condos still selling, but investors starting to shift their gaze

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DETROIT - When Jon Grabowski is trying to sell a downtown Detroit condominium at the Book Cadillac development or the Watermark, the east riverfront project led by Dave Bing, he has much better luck when the potential buyer already lives in a downtown apartment.

Often, a buyer will test the waters in Detroit by renting an apartment for a year before committing to a purchase through Grabowski, president of **Esquire Properties**, or another broker.

In parts of downtown, there's a race among developers to get mid-priced and luxury condos up to attract prospects before demand wanes. But investors also are paying more attention to the rental market with some condominium conversion plans being put off because of stronger demand for apartments.

Citywide, Detroit in 2006 led Southeast Michigan in permits for new residential units with 739. However, that was down from 1,056 permits the previous year, a 30 percent decline that mirrored statewide trends, according to the **Southeast Michigan Council of Governments**.

One example of shifting attitudes toward condos and rentals shows up in the planned sale of Riverfront Towers' 100 and 200 Towers, announced in February. Mark Rohr, **Hendricks & Partners** associate partner, the listing broker marketing the Riverfront Towers' 555 units for sale or recapitalization, said while the sales process is just getting started, it's logical that a potential buyer would buy the properties and keep Tower 200 a rental, at least initially. The 300 Tower is in the midst of a condominium conversion and the Riverfront Tower properties developed by Alfred Taubman and Max Fisher also have received about \$15 million in upgrades. About 75 percent of the Tower 300 units are sold. Tower 200 already has its Neighborhood Enterprise Zone designation that would give property-tax breaks to buyers, which will be valuable when the market is ripe, Rohr said.

On West Lafayette, rehabilitation of the Pick-Fort Shelby into a Doubletree Suites Hotel has already shelved the idea of condos on the top floors — for now. Instead, said developer Emmett Moten Jr., CEO of **The Moten Group of Detroit**, there will be 63 “condo-ready” apartments above the 204 hotel suites. He

said the 1,200- to 1,400-square-foot apartments could be converted in about five years. "It's too early to do condos under current market conditions," Moten said.

Nationally, the condominium conversion trend is over, with a sharp decline throughout 2006 in the number of projects tracked by data companies like New York City-based **Real Capital Analytics**. Metro Detroit has only had a few large examples of condominium conversions in recent years, but as the overall housing market has declined, so has interest in launching new conversion projects. Meanwhile, the rental market is on the upswing. Dan Fasulo, associate at Real Capital Analytics, said while there are always going to be properties that make sense for conversions, he's seeing deals nationally where investors are giving up on condo sales and turning developments back into apartments.

In downtown Detroit, Grabowski called the rental market "low-hanging fruit" with a steady supply of younger renters who can afford \$1,200 a month rental payments but aren't quite ready for ownership. Downtown's rental inventory includes newer developments like the Kales Building and Merchant's Row as well as large older developments such as Riverfront Towers and Millender Center. Hendricks & Partners estimates downtown Detroit apartment occupancy at more than 93 percent.

"We need that mix of condo owners and the rental pool," Grabowski said. Esquire, in fact, plans to open a new Woodward Avenue office that will promote both for-sale housing and rentals. Besides acting as a selling agent, the company works as a consultant to developers to determine direction for projects. At the Book Cadillac, being developed by Cleveland-based **Ferchill Group**, all but four units are sold.

Some recent downtown projects were built with tax incentives for remaining apartments for a minimum of five years before converting to condominiums. Lofts at Woodward Center, 61 rental units in three converted buildings, is to become condominiums next year. David Blaszkiewicz, president of the **Detroit Investment Fund**, is cautious, but said he thinks there is still room for condo development. Created by Detroit Renaissance Inc. in 1995 as a source of private-sector financing for a variety of businesses and startups in the city, the investment fund three years ago refocused on real estate ventures, especially residential projects. The fund manages the Lower Woodward gap financing fund created by Detroit Renaissance in 2003 to take up the slack between development costs and projected revenue streams on rehabilitated downtown buildings. Blaszkiewicz defines Greater Downtown as the area from New Center to the Detroit River between the expressways, plus along East Jefferson Avenue. "The market here is going to dictate where developers spend their time," he said. And while interest rates may push toward rentals, especially if the Federal Reserve were to make adjustments, there is still opportunity to develop more condos, Blaszkiewicz said.

Steven Johnson, COO of **1001 Woodward L.L.C.**, the development group that plans to convert 1001 Woodward into residential space, said that plans have been evolving. While the plan calls for condominiums starting at 1,100 square feet and up, it may make sense to include rentals, he said. The

project started with plans to convert the 13th floor up into condos. Gradually, redesigns have moved toward more residential and less office space. The current plan calls for Manhattan-style condos from the third floor up, which means substantial engineering changes for the building. The first two floors would house office and service retail space. The group also has had conversations with other developers about adding an equity partner on the project, but so far nothing is signed. Johnson added while there is no specific construction timetable, the project should be complete during the next few years.

According to a fall 2006 housing study by **Katherine Beebe & Associates**, there is demand for 1,700 additional market-rate residential units during the next five years. The pace since 2000 has been above 400 units annually; 2006 was expected to bring 470 units.

Stacy Fox of **The Roxbury Group**, now working on a new condominium complex called The Griswold Capitol Park, said she and partner David DiRita believe demand for condos will outstrip supply downtown for the near future. "In the short term, the next three years or so, 1,000 units will not be over-reaching," Fox said. The Griswold will have 80 condo units atop a 528-space parking garage being built to serve the Westin Book Cadillac Detroit and its condos. With riverfront projects not expected to be ready until 2009 or later, Fox said, and rental buildings such as Kales and Merchants Row still several years from "going condo" after history tax credits expire, condos will be in demand. "With downtown getting better, the holes filling in, it all adds to enthusiasm about living downtown," she said. "Since the Book sold 63 of their 67 units, we'll have the 68th condo on the market." DiRita said that several hundred people have registered on The Griswold Web site, with inquiries not only from Detroiters and suburbanites, but also "from exurbia, like Sanilac, Lapeer and Lenawee counties, and as far away as Japan."

And, inquiries continue to flow into the DIF offices, Blaszkiewicz said, about specific locations and about the general market. "Folks want to know how for-sale condos are going to do, and whether to invest now," Blaszkiewicz said. Traditionally, 98 percent of housing in the central business district had been rental, "but projects now on the books or in the pipeline will change that," he said. The Midtown area of Detroit, from south of the Wayne State University campus and Cultural Center to the New Center area, has had more diversity of product for years, Blaszkiewicz said.

Grabowski said depending on market conditions, some landlords in certain pockets of the city may decide to keep developments as rentals for a longer period. "Rents will increase in the city," he said. "Longer-term real estate holders are going to take notice."

Brian Holdwick, vice president for business development at the **Detroit Economic Growth Corp.**, sees no glut of housing, either rental or for-sale, anytime soon downtown. It's not uncommon for an urban core to have 7,000 to 10,000 condos and apartments, he said, noting that a recent study showed Minneapolis with 10,000 units. "Detroit now finally is seeing an increasing demand for urban living," he said. "More and more, young professionals and empty nesters want to be downtown."