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Detroit Office Market Gains Momentum with Influx of High-Tech Workers

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This week two major corporations served as examples why Detroit's office market, once the worst performing major market in the country, is now on a strong path toward resurgence.

Amazon and Lear Corp. both announced plans to expand in the city's Central Business District (CBD). Southfield, Mich.-based automotive supplier Lear Corp. has purchased a historic 50,000-sq.-ft. building at 119 State St., and Amazon is adding multiple floors to its existing leased space at 150 W. Jefferson. Both firms said they are bringing hundreds of high-tech workers to the downtown area, matching a trend happening in many primary office markets across the nation.

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Matt Simoncini, president and CEO of Lear, said in a statement that his firm will work with students from Detroit universities on new automotive designs.

"We are very excited to be opening a new Innovation and Design Center in downtown Detroit," he said. "We plan to leverage the rapidly developing infrastructure in the CBD as well as the concentration of arts, science and technology assets in the Capital Park area to take our seating and electrical businesses to the next level."

Amazon said it has a long-term plan to grow its presence in Michigan, and also bring more high-tech jobs to Detroit.

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“Michigan is a rapidly growing technology corridor,” said Peter Faricy, vice president for Amazon Marketplace. His firm did not elaborate on Amazon's exact future space needs, but plans to bring several hundred new workers to the Detroit downtown area.

Amazon and Lear Corp. are joining a number of other firms that have announced recent moves into Detroit, including Fifth Third Bank, Northwestern Mutual and Varnum LLP. Earlier this year, automotive lender Ally Financial Inc. said it will consolidate

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1,300 Michigan employees into a new 321,000-sq.-ft. space at One Detroit Center. Local developer Redico LLC partnered with New York City-based HFZ Capital Corp. to purchase the historic Fisher and Albert Kahn office buildings, with plans to redevelop it for office, retail, residential and entertainment

uses, Redico said in a statement.

The activity is eating up available space in the downtown area, says John Latessa, managing director with the local office of real estate services firm CBRE. He says CBRE plans to release third quarter data soon that lists Detroit class-A office vacancy at about 15 percent, a vast improvement over the more than 30 percent vacancy rate the city registered during the recession. Overall, vacancy dipped below 20 percent in the first half of 2015, for the first time since 2002.

Latessa says class-A office space is scarce, especially for tenants looking for big-block spaces. The city is enjoying the same movement that's happening in most major U.S. markets, with Millennials wanting to live, work and shop in a major urban area, and the establishment of a hub for high-tech workers, he says.

Add in the new Detroit Red Wings stadium being built in the New Center area and an especially strong multifamily market and Latessa says the city is beginning to look much different.

“Detroit’s market is as healthy as it’s ever been,” he says. “Ten years ago, downtown Detroit was not on the C-suite thought process. Today, every company we talk with will at least ask the question, they want to know what’s happening, to put it into their decision matrix.”

The city’s resurgence can also be attributed to the efforts of Dan Gilbert, the founder and owner of Quicken Loans. Gilbert’s move of thousands of high-tech workers to the downtown area and the efforts of his spin-off firm Bedrock Real Estate Services have served as the catalyst for Detroit’s growth, with Bedrock and its affiliates investing more than \$1.8 billion in acquiring, renovating and developing more than 80 properties. Rock Ventures, another Gilbert firm, bought the One Detroit Center for \$100 million, specifically for the Ally lease.

Real estate services firm Colliers International confirmed in a recent market report that class-A space has become scarce in Detroit, partly from the lack of new construction.

“While there are spaces available, the large blocks of space necessary to lure blue chip tenants are all but gone,” the company said. “The general feeling in town is that quality space in quality buildings is more difficult to obtain than it was two years ago, and is also a lot more expensive.”



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