

Detroit's Contrarian Condo Builders Sense Opportunity Downtown

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BY MIKE RAMSEY – BLOOMBERG.COM

BLOOMBERG - Bob Bartlett is buying a million-dollar condominium atop a historic hotel in Detroit -- the U.S. city with the highest unemployment rate, the worst violent-crime rate and thousands of abandoned houses.

It's a city that outsiders underestimate, he says.

"It is a viable place to live, and I think investment in the city of Detroit is a smart move," said Bartlett, a Michigan native who owns ReviewWorks, an insurance cost-containment company.

Bartlett is leaving the affluent suburb of Birmingham for a 3,900-square-foot (360-square-meter) penthouse in the downtown Book-Cadillac Hotel, renovated after sitting vacant and decaying for more than 20 years.

Only a handful of the 66 condos remain to be sold in the building, which also will house a 455-room Westin hotel. Nearby, more luxury condos and three casinos with hotels are under construction.

Bartlett represents a counterintuitive wave of investment in Detroit, where years of economic decline caused by racial divisions and a struggling auto industry eroded the population and left acres of homes selling for less than \$10,000.

Downtown growth comes while the rest of the city, suburbs and state are struggling with rapidly falling real estate values. The median price for single-family homes sold in the Detroit area fell 7.4 percent in 2006, a bigger drop than in any other metropolitan area, according to the National Association of Realtors. The metropolitan area led the nation in foreclosures.

The city issued 739 residential building permits last year, almost all for neighborhoods near downtown, leading Michigan for the third consecutive year. Still, 1,357 homes were torn down. It was the 38th straight year that more homes were destroyed than built.

Investors in Detroit's downtown include retired professional athletes.

Jerome Bettis, who grew up in the city and was a star running back for the Pittsburgh Steelers, is developing a condominium and retail complex on the Detroit River.

Dave Bing, a former Detroit Piston and Hall of Fame basketball player, is offering condos priced as high as \$1.2 million in his \$60 million Watermark Detroit project. It will sit between the Renaissance Center skyscraper -- General Motors Corp.'s headquarters -- and the renovated Stroh Brewing Co. building.

Downtown lacks some niceties taken for granted in the suburbs. Shopping, for example, is limited, despite recent additions from companies like bookseller Borders Group Inc. Empty skyscrapers tower over side streets. Many neighborhoods outside the central core are hollowed out.

'Tipping Point'

The urban lifestyle does offer distinctive architecture, river views, cultural venues such as the art museum, and easy access to professional sports events, enthusiasts say.

"I think the Book-Cadillac is a tipping point" for the downtown residential market, said Gideon Pfeffer, 27, who is buying two condos in the building that he will combine.

The Westin Book Cadillac Detroit is being developed by Cleveland-based Ferchill Group, which owns the Hilton Garden Inn a few blocks away. The company secured \$18 million in government loan guarantees for the \$180 million project, which is already under construction and expected to be finished in late 2008.

People have "wanted to live in the central business district forever, but there was never a property that met their wants," said Chris Ferchill, vice president. "The Book- Cadillac will provide a niche in the marketplace that's been missing."

When it was built in 1923, the Book-Cadillac was the tallest building in Detroit, the tallest hotel in the world and the premier hotel for the city. Entertainers Frank Sinatra and Sammy Davis Jr. are said to have met for the first time in the hotel lobby. Presidents who stayed there include Herbert Hoover and John F. Kennedy.

Permanent Casinos

Detroit's three temporary casinos are making good on their promise to expand and add hotels, a condition of their approval to open in 1999.

Las Vegas-based MGM Mirage is building a \$765 million casino and 400-room luxury hotel near Detroit's convention center, Cobo Hall, that is to open in November. It's already booking conventions, said John Hutar, vice president of hotel operations. Rooms are filling for the North American International Auto Show in January, Detroit's largest convention and an opportunity to showcase the city to hundreds of foreign journalists.

The MotorCity Casino, owned by a private partnership, is building a 400-room hotel and casino to open in 2008.

The GreekTown Casino, near the park where Major League Baseball's Tigers play, is building a 30-story, 400-room hotel to open in late 2008. It's owned by the Sault Ste. Marie Tribe of Chippewa Indians.

Quick Sales

David Di Rita is convinced of Detroit's potential. The former mergers and acquisitions executive at Van Buren, Michigan-based auto-supplier Visteon Corp. quit his job in late 2004 to create a development company called the Roxbury Group.

Roxbury is building 80 condos atop a parking garage that will serve the Book-Cadillac. On March 24, customers attending a sales event made deposits on half of the \$200,000 to \$750,000 units.

“What you are seeing now is that even in a struggling metro economy, there is a baseline level of demand for downtown living that is so unsatisfied, so unmet, we are able to take advantage,” Di Rita said.

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