

# CRAIN'S DETROIT BUSINESS

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## Banking on flex space: Ann Arbor developers plan large speculative project

KIRK PINHO  

Hobbs + Black

The first phase of the project near I-94 and State Street in Ann Arbor is expected to cost \$20 million, while the overall project is \$60 million to \$70 million with an anticipated 250,000 square feet of speculative space.

Cameron McCausland and Joe Vig have formed a new real estate development company planning a 230,000-square-foot speculative project in Ann Arbor costing \$60 million to \$70 million.

The two longtime real estate professionals — McCausland had been a broker with Plante Moran CRESA and Colliers International Inc. for nearly three decades and Vig has his own construction company, J.S. Vig Construction Co. — met at Colliers early in their careers and were doing acquisition and development deals on the side for years before teaming up to form Portage Capital Partners LLC.

"It was just somewhat in the shadows of my day-to-day job that we were accumulating a pretty sizable portfolio in Ann Arbor, primarily in the life sciences and tech business," said McCausland, who registered the company in Plymouth in May.

The first property the pair plans to tackle is a "kidney-shaped" site that's part of the Ann Arbor Research Park near I-94 and State Street, where about 79,300 square feet of flex space would be speculatively built in the first phase followed by another roughly 150,000 square feet in a second phase across three buildings comprising what they are calling The Tech Loop @ Ann Arbor Research Park.

Speculative building is generally considered riskier because a tenant isn't already secured, compared to build-to-suit, in which a user or users is already signed on.

McCausland said they bought the first 5.6-acre property from Southfield-based Federal-Mogul for \$965,000 with plans to tear down the 28,000-square-foot industrial building on the site to make way for the new speculative building. A second chunk of land totaling 10.8 acres is under contract with Qubit Group for an undisclosed price, McCausland said.

The pair, who already have about two dozen buildings totaling about 400,000 square feet in the Ann Arbor area, say their portfolio is practically full and their tenants and others are in need of new, modern space.

"If you have somebody that needs a 50,000 or 100,000-square-foot life sciences campus or tech campus in Ann Arbor, that product, that assembled land doesn't exist, per se, and it's a bit of a challenge," Vig said. "We're trying to kind of address that challenge. Because the alternative, if you can't accommodate that growth, is they just consolidate into a campus somewhere else."

Neal Warling, an Ann Arbor real estate expert who is managing director for the JLL brokerage firm's local office there, said the life sciences/R&D market challenge is finding companies, often startups, with good credit that are able to afford costly lease rates that come with highly specialized and technical space.

"That very seldom meshes," he said. "In my opinion, there is room for new build, absolutely, but I don't know how deep the market is at that point. You have the TI (tenant improvement) part of the equation and then the risk of a startup that might not be there in a year."

But Vig and McCausland say the demand is there,.

"We just had a sublease come up," McCausland said. "The tenant hasn't even moved, and we have two prospects for that subleased space. That, to me, is wind at your back."

Phil Santer, senior vice president and chief of staff for Ann Arbor Spark, said developers have been successful filling speculative buildings recently. There was Promanus, which built Park Place Five at 2373 Oak Valley Drive for \$11.25 million, and others.

He said filling in the Ann Arbor Research Park area is key to the city for business attraction.

"This is another sort of node, to be able to have additional product for companies that are expanding instead of having to look over our market," Santer said.

Bart Wise, agent/broker for Swisher Commercial, said it's likely that McCausland and Vig will be able to fill the new space.

"That said, I would often remind people that Ann Arbor is a small market, so it will often take time to find the right tenants to match a vacant or planned space," Wise said. "A building or suite that is designed to meet the demand of this market and is priced right will eventually be successful."

Data from the real estate brokerage Swisher Commercial in Ann Arbor says that at the end of 2018, the city's southern submarket where the project would be located has 49 flex buildings totaling 2.34 million square feet, and 5.3 percent of that space is vacant. That's up 1.1 percentage points from 4.2 percent at the end of 2017. The vacancy rate was 5.6 percent at the end of 2016 and 13.1 percent at the end of 2015.

If all goes well with planning approvals, construction on the first phase could begin by the early summer next year.

Southfield-based Signature Associates Inc. is marketing the property for lease. Vig's construction company is the contractor and Hobbs + Black is the architecture firm.

Ann Arbor Spark, the economic development nonprofit, was awarded a \$100,000 site readiness grant from the Michigan Economic Development Corp. last month for the Ann Arbor Research Park project, primarily for demolition of the existing building on the site.

Paul Krutko, president and CEO of Ann Arbor Spark, said in a statement at the time the grant was announced that "the proposed tech park along the south State Street corridor fills a significant need and will help realize the long unmet potential of this area in the city of Ann Arbor: Companies that want to expand currently struggle to find space in our extremely tight market for office space."

Vig said Spark and the University of Michigan view the area as a growth opportunity.

"It has a lot of political importance, because in their mind, I-94 and State Street, this would be the gateway to the university," he said. "And it's kind of a broken park right now."

Opportunity Zone funding is also part of the capital stack, although McCausland and Vig declined to say how much and from whom it is coming. Brownfield financing is also anticipated.

Inline Play

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