

REAL ESTATE

MSU bid to control Fisher Building expands Detroit footprint

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Detroit — Michigan State University is expanding its footprint in Detroit with an agreement to acquire a majority stake in the iconic Fisher Building, Sparty's latest move to bolster its presence in the city as its Ann Arbor rival plans an innovation center nearby.

The East Lansing school's roughly \$4 billion endowment will pay \$21 million for a 79% stake in Detroit's historic Fisher Building, a parking garage and two surface parking lots in the city's New Center district — a complement to MSU's recently inked partnership with Henry Ford Health System's \$2.5 billion development in New Center.

Under both deals, MSU and affiliated entities will become major investors in the city's New Center district, a base for what it describes as educational, administrative and community-based functions. And the Fisher will become home to a business start-up incubator founded by the MSU Research Foundation.

"For decades, MSU has been working with partners in Detroit to support economic development, advance the arts, transform schools, improve health and sustain the environment," said Teresa Woodruff, MSU's interim president, in a statement. "This new investment signals our continued intent to be part of Detroit's storied history and vibrancy."

MSU acquired its stake in the building through its endowment fund, the school said, confirming that the MSU Federal Credit Union is the lender. When asked about financial expectations for the transaction, a spokesperson for the university, Daniel Olsen, said: "We don't share any information on projected or actual investment revenues or returns on individual investments."

Under the deal, MSU also is investing in three nearby properties: two adjacent surface parking lots and the nearby Baltimore Garage parking structure. MSU will control nearly 80% of the entity that owns the four properties. The remaining 21% is owned equally by Detroit-based land developer The Platform and Michigan State University Federal Credit Union.

"Today's exciting announcement highlights MSU's strong commitment to and partnership with Detroit," Rema Vassar, chair of the MSU board of trustees, told The Detroit News. "Our presence in Detroit has led to \$20.6 million spent with local businesses. Together with our partners, we are committed to enhancing the growth and prosperity of this dynamic city and its communities through diverse programs, from urban agriculture to health care collaborations."

The Platform, the building's owner, will remain managing partner and oversee building operations and leasing. The company put the building up for sale in 2021 after more than \$30 million in improvements. The Platform, along with co-owners New York-based firms HFZ Capital Group and Rheal Capital Management, purchased the Fisher Building at auction in 2015.

Peter Cummings, executive chairman and CEO of The Platform, said the firm had been in talks with MSU for about a year regarding the Fisher Building. He described the university as both a financial and strategic partner.

"They have a perspective that's long-term," he said. "They'll want to do and support doing the right work in the building to finish up the physical restoration of the building. They'll also have — and I think they've demonstrated that already — more of a perspective on the neighborhood at large. This is really a commitment by them to the greater New Center area. So they're a perfect partner for this asset."

Now that the entity is in place, Cummings said the next step would be for MSU to determine how it will use the building. Its occupancy rate hovers between 65% and 70%.

With the university's arrival, Cummings expects interest to grow among prospective large-scale tenants. Current tenants include Strategic Staffing Solutions, Detroit Public Schools Community District and WJR-AM (760).

“We think that we should achieve our stabilized lease up within the next two, three years,” he said, adding an ideal percentage ideally would be between the mid- to high 80%.

'Long-term expandability'

The deal comes a little more than four months after Henry Ford Health announced a \$2.5 billion development plan in the New Center Area over the next decade with the Detroit Pistons and Michigan State University. It would create a new hospital and a medical research facility, as well as residential and commercial space.

“It certainly seems to coincide well with the stuff that they're doing with Henry Ford and the focus that they seem to be making in New Center,” said James Becker, principal and managing director of Avison Young Commercial Real Estate's Detroit office. “It gives them long-term expandability. They can bite off whatever they want to bite off in terms of space needs with the vacancy that's there.”

The move mirrors the \$250 million development by the University of Michigan Center for Innovation in District Detroit in collaboration with real estate billionaire Stephen Ross, Becker added, saying it's good for MSU to continue to expand outside of its main campus in East Lansing. The university operates medical campuses in the state, including in Grand Rapids, Traverse City and Flint.

Alex Calderone, managing director of the Calderone Advisory Group in Birmingham, said he would like to see more details on how MSU plans to use the building and how it fits into its long-term plans.

“Time will tell whether or not this investment makes sense,” he said. “And I say that because right now, commercial real estate has fallen heavily out of favor with many investors out there, and that's because interest rates are at historical highs at least recently. And with kind of hybrid work models and work-from-home arrangements, commercial real estate has just really has a black eye across the investment community right now.”

Company officials said MSU's investment will help to preserve the Fisher Building's iconic status for generations to come. And they said they consider the investment to be a strategic bet on New Center and Detroit.

"Acquiring a majority stake in a large 'footprint' (both horizontal and vertical) that sits within that path of growth was viewed by the endowment as strategic despite the uncertain future of demand for traditional office space," said Philip Zecher, MSU's chief investment officer. "The endowment took an opportunistic approach in pursuing this investment in a 'down' market."

Added Cummings, CEO of The Platform: "MSU's recent investments show the depth of their commitment to the city of Detroit and the New Center neighborhood in particular. We welcome them as stewards of the Fisher Building, a national treasure."

The Fisher is the MSU endowment fund's second joint venture investment in Detroit. Its first was the Piquette Flats affordable housing project, announced last month. The \$38.2 million redevelopment of the former Studebaker building in Detroit will be converted into a 161-unit apartment complex.

Designed by the legendary Albert Kahn in 1928, the Fisher Building is a National Historic Landmark. The 635,000-square-foot building is known for its marble exterior, three-story arcade with hand-painted barrel-vaulted ceiling, spectacular mosaics and extensive brass detailing.

"If Detroit becomes a lively city again ... then it's a really good investment, you will also see value appreciation in the real estate," said Tom Geurts, a professor of real estate and finance at Bucknell University in Lewisburg, Pa. "From a more opportunistic viewpoint within the portfolio, this is an opportunistic place."

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