

Suppliers beating The Street?

They suddenly are attracting investors again

BY APRIL WORTHAM
CRAIN NEWS SERVICE

If you're a major North American automotive supplier that has avoided bankruptcy, Wall Street has taken a shine to you this year.

Supplier stocks have hit new highs in recent weeks, buoyed by investors following the lead of private equity and encouraged by stabilizing raw-material prices and cooperative labor unions.

It's a stark change from a year ago, when the domestic supply chain was buried beneath an avalanche of bankruptcies. Many are still digging their way out — among them **Delphi**

INSIDE

Change is constant in world of suppliers. See supplier outlook story, **Page 18.**

Corp., Dana Corp., Dura Automotive Inc., Tower Automotive Inc., Collins & Aikman Corp. and Federal Mogul Corp.

Despite the bankruptcies — even because of them — suppliers left standing suddenly are attractive to investors again. And with the second-quarter earnings season hitting full steam this week, many analysts expect major suppliers to meet or beat earnings estimates.

"What has happened is you've had private equity come in and buy those

assets on the cheap and reorganize the business," says Jack Lake, a research analyst with the investment advisory firm **Victory Capital Management Inc.** in Cleveland.

"So now you have a little more rational competition, you don't have as much incremental pressure from rising raw-material prices, and you have the unions seeming to be a little more conciliatory."

Signals from the **United Auto Workers** that it is ready to cooperate on labor and health care issues is one of the major reasons auto analyst **Brett Heselton** at Cleveland-based **KeyBanc Capital Markets** says he is "cautiously optimistic" about the outlook for

both automakers and suppliers.

In a note to investors last month, Heselton also highlighted 2006 production cuts made by automakers in 2006 that he says have returned inventories to a healthy level. The industry's overall supplier pricing structure appears to be improving, too.

"Numerous suppliers noted that they are pushing back on pricing with automaker customers by requesting smaller annual price concessions," Heselton wrote.

These and other factors have contributed to a consensus on Wall Street that the worst of the storm has passed. But investors aren't ready to put away their umbrellas yet.

"No one thinks that's it — that's

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Ficano, landlord dispute lease rate

County pays \$45 per square foot — or \$16; who's right?

BY DANIEL DUGGAN
CRAIN'S DETROIT BUSINESS

Depending on who's asked, Wayne County was either getting one of the better deals in town — or one of the worst — on its lease at the Old County Building at 600 Randolph St.

NEW OFFER

Owners of County building issue counter-proposal, **Page 28.**

The price of \$45 per square foot for the lease wound up plastered on a poster board next to Wayne County Executive Robert Ficano during a Wednesday news conference to announce the county's plans to purchase the Guardian Building for \$14.5 million.

"I think the last 25 years have been a total fleecing of the people of Wayne County," said Wayne County Commissioner Burton Leland during the press conference.

Later that day, another price of \$16 per square foot for the county's lease was given by Michael Layne, a partner with Farmington Hills-based **Marx Layne & Co.**, acting as spokesman for **Old Wayne County Building L.P.**, the partnership that owns the building.

And both sides were equally forceful about the accuracy of their numbers.

Of the \$45-per-square-foot figure, Layne said: "That is a total fabrication."

So who's right?

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OWNERSHIP OF THE OLD COUNTY BUILDING

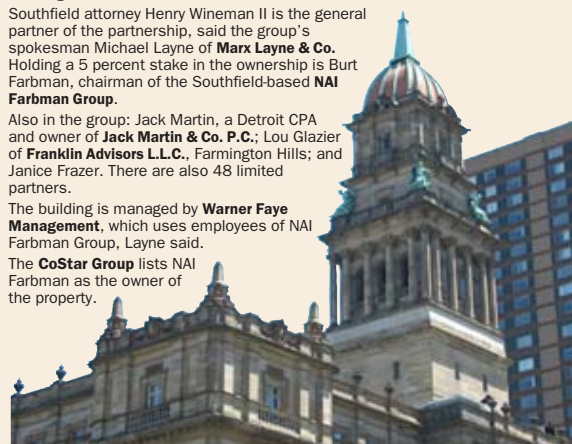
The Old County Building at 600 Randolph St. is owned by **Old Wayne County Building L.P.**

Southfield attorney Henry Wineman II is the general partner of the partnership, said the group's spokesman Michael Layne of **Marx Layne & Co.** Holding a 5 percent stake in the ownership is Burt Farbman, chairman of the Southfield-based **NAI Farbman Group**.

Also in the group: Jack Martin, a Detroit CPA and owner of **Jack Martin & Co. P.C.**; Lou Glazier of **Franklin Advisors L.L.C.**, Farmington Hills; and Janice Frazer. There are also 48 limited partners.

The building is managed by **Warner Faye Management**, which uses employees of NAI Farbman Group, Layne said.

The **CoStar Group** lists NAI Farbman as the owner of the property.



ARON HARRIS

Added stores make Kroger bigger target

Market-share battle could be ahead

BY SHEENA HARRISON
CRAIN'S DETROIT BUSINESS

The **Kroger Co.** stands to benefit from its recent acquisition of 20 **Farmer Jack** stores. But the purchases also will make Cincinnati-based Kroger the target of several grocery chains that will fight the company for market share.

That's according to restaurant and grocery consultant **Kenneth Dalto** of Farmington Hills-based **Kenneth J. Dalto & Associates**. Dalto said Kroger chose **Farmer Jack** locations that will increase the company's sales and make the chain a leader in local market share.

The 20 stores that Kroger acquired likely made



Dalto

the company No. 1 in metro Detroit, according to the February issue of *Market Scope*, a semiannual publication of Westport, Conn.-based **Trade Dimensions International Inc.**

Kroger controlled about 23.1 percent of the metro Detroit market in that report. The chain was a close second to Walker-based **Meijer Inc.**, which had 24.3 percent. **Farmer Jack** was in third with 15.9 percent.

Taking the bulk of **Farmer Jack's** business would put Kroger on top and put the company in **Meijer's** line of fire, Dalto said. But smaller competitors also will be gunning for Kroger's business, particularly chains that have gourmet goods and loyal customers, he said.

That includes Southfield-based **Hiller's Markets**

Inc., which bought a **Farmer Jack** store in Commerce Township; Ann Arbor-based **Busch's Inc.**, which bought two stores in South Lyon and Novi; and Fenton-based **VG's Food & Pharmacy**, which bought three stores in Fenton and Shelby Township.

Kroger also will need to be wary of chains such as **Trader Joe's**, **Whole Foods Market** and **Papa Joe's Gourmet Market**, which opened its new 48,000-square-foot "gourmetrion" store in Rochester in April.

"If they (Kroger) just look at Meijer, they're going to make mistakes," Dalto said. "They have to look at every community now that they serve."

Kroger will have to differentiate itself from its competitors by providing fresh food and cheap prices, and catering to customers looking for gourmet goods and healthy foods, such as low-fat and organic items, Dalto said.

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Kroger: New stores put on pressure

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Independent grocers are in negotiations to buy about 15 Farmer Jack stores from **Great Atlantic & Pacific Tea Co. Inc.** Montvale, N.J.-based A&P put 66 Farmer Jack stores up for sale earlier this year because of "unsatisfactory operating trends."

Jane Shallal, president of the Farmington Hills-based **Associated Food and Petroleum Dealers of Michigan**, expects the acquisitions will bolster the visibility and reputation of independent grocers in the metro Detroit.

"Our independents, when they go into the larger supermarkets, they renovate them, remodel and upgrade them," Shallal said.

Dalto predicted some independent grocers could have trouble making the transition from operating smaller stores into running larger Farmer Jack locations. It's difficult to "make every square foot productive" with larger stores, he said.

"I'm concerned about their profitability," Dalto said.

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Altarum: Leads effort

■ From Page 1

tember 2008, said President and CEO Linc Smith.

By 2010, patient information would be available to local health care providers granted access by the patient, he said.

The grant to Altarum caps more than a year of conversations about the need for such an exchange among the nonprofit, the state and others including **Blue Cross Blue Shield of Michigan**, **Henry Ford Health System**, **Oakwood Health System**, **Trinity Health**, and **St. John Health System**, the Wayne and Oakland county medical societies, the **Greater Detroit Area Health Council** and the Detroit 3 automakers.

"Our mission statement is to provide high-quality care to the patients and community we serve. There's a real belief that by participating in these types of exchanges, that we can improve the quality of care we are providing to the patients," said Paula Smith, chief information officer at Oakwood.

Development of the exchange comes several years after President Bush called for electronic medical records to provide better care and lower health care costs, she said, adding that federal legislation is pending to incentivize the systems.

The exchanges provide the ability to streamline processes and eliminate redundant tests, she said.

All of the major stakeholders in the region "have a belief that with the exchanges, ultimately we'll be able to see a reduction in health care costs," Paula Smith said.

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County: What is actual lease rate?

■ From Page 3

Wayne County, in a memo written to the building's owners, said it spends an average of \$5.5 million per year to occupy the building. It reached the \$45-per-square-foot figure by dividing the \$5.5 million by the 199,770 square feet it uses in the 252,000-square-foot building.

In addition to rent, the county included in its calculations money spent on operating expenses, ranging from \$943,000 to \$2.2 million annually since 1988, and capital expenditures, such as repairs on the tower on the building, totaling \$4.8 million in that same period.

Layne said his \$16 figure is based on the entire square footage of the building and includes operating costs. He declined to elaborate further.

Real estate brokers typically slice figures in different ways based on who asks for them.

A price per square foot is based on the number of square feet in a lease, said Ray Husband, senior vice president in the Southfield office of Illinois-based **Grubb & Ellis**.

If a company leases 500,000 square feet but only uses 300,000 square feet, a tenant is effectively paying more per square foot, but the lease rate is calculated according to the total number of square feet contained in the lease, not just what the tenant is occupying.

"In the next lease negotiations, I'd advise them to lease the amount of space they're going to use, not the whole building, or to sublease the surplus," Husband said.

County officials and building owners left a wide spread on the cost of renting the building.

For between \$16 and \$45 per square foot, a Detroit office tenant could find space in just about every major office building in the city.

The average asking rental rate, excluding taxes and operational costs, which vary from building to building, is \$23.08 per square foot for Class A space, \$17.61 for Class B and \$15.21 for Class C, according to the Maryland-based **CoStar Group**.

However \$45 is beyond the top of the market, said Jeffrey Bell, first vice president in the Southfield office of California-based **CB Richard Ellis**.

"With one exception, you can get anything you want in the market for \$30 per square foot, all-in," he said.

The office component of the 325 North Old Woodward Ave. development in Birmingham has set a high end for the office market and would likely cost roughly \$40 per square foot including all costs of taxes and operations, he said.

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A LATE PROPOSAL

Old Wayne County Building L.P., owner of 600 Randolph St., issued a proposal late Friday with the hopes of resolving ongoing tension with its tenant, Wayne County.

Public-relations firm **Marx Layne & Co.** of Farmington Hills issued the proposal to media outlets at 4 p.m., before the document was sent to its intended recipient, Deputy County Executive Azzam Elder.

The building's owners offered a deal in which the county would pay \$1 per square foot per year, assume responsibility for the \$7.75 million mortgage and be responsible for maintaining the building.

Elder responded to the owners' proposal by e-mail.

"We have not received any new offer from the owners. As of Monday, they wanted \$52 million to purchase the building, or \$5 million a year to lease it. Judging by the letter (from the partnership) *Crain's* has forwarded to the county for our review, their apparent new offer would save taxpayers millions of dollars. However, many issues remain outstanding, including the \$31 million balance the owners owe to the county for the purchase of the building in 1986 and over billing discrepancies that can only be resolved by full disclosure of their books and records," Elder said. "Hopefully we can resolve these issues for our taxpayers."

Wayne County Executive Robert Ficano hedged his bets on remaining at 600 Randolph by announcing a plan on Wednesday to buy the Guardian Building from Detroit-based **Sterling Group** for \$14.5 million, plus the four-story Detroit Savings and Loan Building at 511 Woodward for \$2 million and the 1,450-space First Street Parking Garage for \$17 million.

The county's current lease at 600 Randolph St. expires Oct. 31, and Ficano said he needs to be ready to move some 250 administrative workers if a deal can't be reached.

Even if the county ultimately chooses to remain at 600 Randolph, vacant space in the Guardian Building could be leased to other tenants, generating revenue for space not being used.

The purchases would need **Wayne County Commission** approval.

— Daniel Duggan

DOWNTOWN LEASE RATES

Wayne County has been paying either \$16 or \$45 a square foot, depending on whether you talk to the building's owners or the county. The difference in price depends on whether the entire square footage of the building or just the space Wayne County is using is counted.

Here are lease rates for three other downtown buildings, including taxes and operating expenses.



150 W. Jefferson Ave.: \$16.50



One Detroit Center: \$16 to \$30



One Kennedy Square: \$17.50 to \$25
Source: CoStar Group, *Crain's* research

BRIEFLY

Feds change visa deadlines

Thousands of skilled workers from overseas and their employers, who were dumfounded by recent federal government visa deadline switches, have finally won out, Carol Friend, immigration lawyer at **Honigman Miller Schwartz and Cohn L.L.P.**, said.

In June, the **U.S. Department of State** announced July 2 as the deadline to file I-485 adjustment of status petitions for workers, a last step before securing the "green card" that means permanent resident alien status.

"Thousands probably arrived on July 2, the first business day in the month, and then the **U.S. Homeland Security Department's** Citizenship and Immigration Services said they weren't accepting any more petitions," Friend said.

Outcries by the **American Immigration Lawyers Association** and U.S. Rep. Zoe Lofgren, D-San Jose, drew White House attention to the problem, and on July 17,

CIS agreed to accept applications through Aug. 17, Friend said.

Meanwhile, on July 30, fees for filing such petitions jump from \$395 to \$1,010, while fees for initial immigrant petitions (Form I-140) go from \$195 to \$475.

— Robert Ankeny

UM Hospitals makes profit

The **University of Michigan Hospitals and Health Centers** finished fiscal year 2007 in the black, marking the 11th consecutive year the nonprofit health system has done so.

The system reported an operating margin of \$61.7 million on revenue of \$1.57 billion. That compares with an operating margin of \$79.4 million on revenue of about \$1.44 billion for fiscal 2006. The health system's fiscal year ends June 30.

The health system reported the financial results to the **University of Michigan Board of Regents** Friday.

In addition to receiving the report for fiscal 2007, the regents

approved the budget for fiscal year 2008. The budget includes an operating margin goal of 3 percent, or \$52 million, on revenue of \$1.7 billion.

— Andrew Dieterich

Borders hires 2 vice presidents

Ann Arbor-based **Borders Group Inc.** has named two new vice presidents.

Teresa Wright has been named vice president of merchandising for the company's **Paperchase** U.S. Division. Paperchase is a stationery retailer acquired by Borders in 2004.

Wright, who starts at Borders on Monday, was previously operating vice president of planning for women's ready-to-wear clothing at **Macy's Inc.**

Myles Romero has been named vice president of strategic marketing and entertainment alliances, starting July 31. He previously worked as **Ford Motor Co.'s** director of Ford global branded entertainment.

Both are new positions within Borders Group.

— Sheena Harrison

Wilson closes PR firm, takes job

Shaun Wilson has closed his public-relations firm to become vice president/marketing manager for Southeast Michigan for Troy-based **National City, Michigan**.

Wilson had been managing partner of Detroit-based **Wilson PR**, whose clients included **The Bing Group**, **The Bar-tech Group**, **Music Hall Center for the Performing Arts** and the Detroit branch of the **NAACP**. Previously he was with Troy-based **John Bailey & Associates**. He was named to *Crain's* 40 under 40 in 2002.

— Tom Henderson



Wilson