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Magic Time

CAN VC FIRMS FILL DOWNTOWN DETROIT?

Brian Hermelin, Josh Linkner, Dan Gilbert, Earvin "Magic" Johnson



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» **DETROITSCOPE** The 34-story Broderick Tower at Woodward and Witherell will offer 125 apartments, three lower office floors, and ground- and lower-level restaurants and bars like the Sportstown Grill when completed in fall 2012.



MAGIC - TIME -

*CAN MAGIC JOHNSON AND DOZENS OF
OTHER VENTURE CAPITALISTS SEED
AND MENTOR ENOUGH ENTREPRENEURS
TO FILL DOWNTOWN DETROIT?*

By R.7. King // Photographs by Justin Maconochie // Illustrations by Sean McCabe

Detroit was the Silicon Valley of its day. The automotive, aviation, film, and medical industries complemented a landscape rich with engineers, scientists, inventors, and researchers. There seemingly was nothing the city couldn't manufacture on a global scale.

Prior to V-E Day, Detroit produced more cars, planes, parts, machinery, film, and drugs than any other place on the planet. But in the summer of 1945, with the official end of World War II, the city's mercurial growth streak succumbed to the economic laws of supply and demand.

Detroit, the "Arsenal of Democracy," was left with too many factories, too many workers, and not enough jobs. Compounding the problem was the fact that the plants that had generated hundreds of thousands of planes, tanks, trucks, weapons, and ammunition occupied large swaths of land within residential neighborhoods. During the war, smart urban planning had taken a backseat to arming soldiers on the front line.

After the war ended, Ford Motor Co., the world's largest producer of aircraft, quickly withdrew from the aviation sector. The automaker was nearly on life support, due to mismanagement — Henry Ford's security chief, Harry Bennett, was effectively running the company, while the patriarch's grandson, Henry Ford II, had yet to prove he could assemble a team to realign the conglomerate's prodigious manufacturing operations to the production of cars and trucks.

General Motors, Chrysler, Packard, and the

other automakers quickly followed suit. The aviation industry soon consolidated on the West Coast. The pattern was repeated with the film industry (automakers no longer sought to create their own commercials) and drug manufacturers (bigger players took over). Parke Davis in Detroit, which developed the modern medical laboratory and produced millions of pills and medications, was eventually folded into Pfizer Inc.

In hindsight, the city and region should have done more to maintain economic diversity, but demand for consumer goods didn't perk up until the 1950s. As time went on, rising family wealth, combined with racial tensions exaggerated by real estate agents, saw the great migration of Detroit residents to the suburbs. Left behind were empty factories, empty homes, empty stores, and a fairly unskilled workforce. Some say Detroit went from 1.0 to 0.0.

"Detroit really led as a city to show how people go to work every day, how to build incredible cars, and on, and on, and on — and we've got to get back to being that leader once again," says Lansing native Earvin "Magic" Johnson, chairman and CEO of Magic Johnson Enterprises, and a general partner of Detroit Venture Partners in downtown Detroit. The latter group is investing heavily in an innovative business incubation laboratory that seeks to generate enough high-paying jobs to fill 1 million square feet of downtown office space in the next 10 years.

Setting the stage for a comeback in the mid-'70s, city and business leaders embarked on an urban transformation that is now entering its fourth — and perhaps most exciting — phase. In



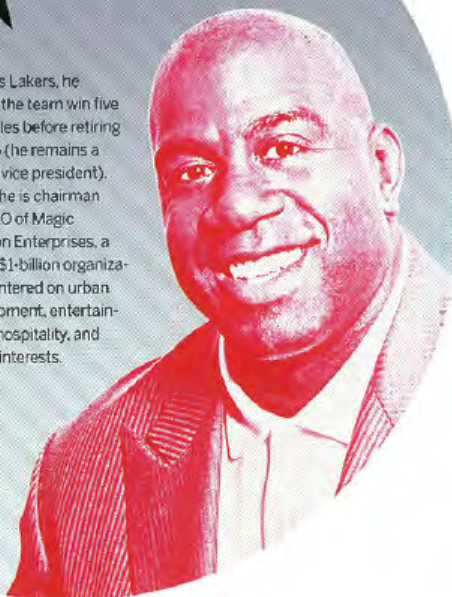
DETROIT VENTURE PARTNERS // COACHES AND MENTORS

**Earvin
"Magic"
Johnson,**
GENERAL
PARTNER

"We need more Michigan companies like Quicken Loans that take a real hard, long look at how they can make Michigan better, and how they can make Detroit better. I signed up with Quicken Loans because this is a company that is not only successful in terms of driving revenue, but also it's a company that has a heart and soul. It wants to make sure Detroit is a better city."

BIO: While Johnson was growing up in Lansing, his parents worked in the automotive industry. His father also operated a trash hauling service. Magic led Michigan State University to an NCAA basketball championship as a sophomore in 1979. Drafted by the Los

Angeles Lakers, he helped the team win five NBA titles before retiring in 1996 (he remains a Lakers vice president). Today, he is chairman and CEO of Magic Johnson Enterprises, a nearly \$1-billion organization centered on urban development, entertainment, hospitality, and media interests.



1977, Henry Ford II, along with numerous corporate partners, opened the Renaissance Center. A decade later, Mike and Marian Ilitch were the harbingers of an entertainment revival. And in 1996, GM traded its corporate home in Detroit's New Center for an address at the RenCen.

"The city had been in an economic freefall for years, and it wasn't a question of when things were going to get better, but rather how bad it was going to get," says Matt Cullen, president and COO of Rock Ventures, part of the Quicken Loans empire now centered in downtown Detroit. Cullen, GM's former manager of economic development, was the catalyst of the automaker's \$500-million acquisition and development of the RenCen for its international headquarters.

"Detroit will never be what it once was — the global epicenter of design, manufacturing, and

production — due to changing economic conditions. But we've been witness to enormous progress over the last 15 years," Cullen says. "The GM move created the confidence for many other things to occur, like Compuware Corp. (moving from Farmington Hills to a signature downtown commercial center), the stadiums, the revitalization of the riverfront, the Book Cadillac hotel, and the casinos."

INCENTIVIZE THIS

In August 2010, Tim Smith was in a sour mood. He had recently acquired a majority stake in Skidmore Studio and was anxious to move the creative design group from Royal Oak to Detroit. He was tired of the resistance and of experiencing what has become a common practice among real estate brokers (and has been verified by

businesses and residents, especially transplants) since the 1967 riots: purposely bypassing Detroit. Low property values, after all, lead to low commissions.

"The common refrain was: 'Do you really want to do that?'" Smith, president and CEO of Skidmore Studio, recalls from a conversation with a broker. "That kind of attitude just made me more determined to do something."

Walking around downtown, he noticed a "For Lease" sign on the Madison Theatre Building, situated across Broadway Street from the Detroit Opera House and a short walk from Comerica Park. Dan Gilbert, founder and chairman of Quicken Loans Inc., was in the process of acquiring the ornate, five-story structure. Built in 1917, the commercial building and a neighboring movie palace were the forerunner to the central business district's entertainment industry.

The 1,800-seat classical revival theater was torn down in mid-2000 as the adjoining office building, complete with a marquee, underwent a slow, yet steady, renovation. The challenge with the Madison — like most every property downtown — was that the city and its nonprofit development agency, Detroit Economic Growth Corp., were required to contribute funding to every restoration. Without financial incentives, high renovation costs couldn't be overcome.

"Before I knew of any incentives, I was already looking to move downtown," Smith says from his corner office overlooking Grand Circus Park. "The incentives made it easier for me to justify the move, but I would have been downtown regardless. There's a vibe here, a sort of raw energy, that's contagious. In downtown Royal Oak, we were at the back end of the whole hipness and cool thing."

Moving 24 employees into the fourth floor of the Madison last September, Smith set out to preserve everything. That means exposed steel beams, brick walls, and terra cotta tiles in the ceiling. A 700-pound Cinema Scope camera that was bolted to the floor is being refurbished. The slate surface of a table in the kitchen came from a pool table. There's even a metal staircase that once led to the fifth floor (the opening was covered over for privacy reasons). "It was cool, so we kept it," Smith says.

If downtown Detroit is ever to become a thriving urban metropolis, incentives such as those provided by the New Economy Initiative for Southeast Michigan to lure businesses like Skidmore Studio must eventually subside. "You can never [completely] eliminate incentives, as they are needed whether you're in Paris or London. But once you see them reduced, it will show that the downtown district is a success," says George Jackson, president and CEO of Detroit Economic Growth Corp. "It means we've turned the corner

»**BONJOUR!** The elevator lobby at the David Broderick Tower will be restored to its 1927 glory. Original features include black marble walls and vaulted coffered ceilings.

on revitalizing the urban core.”

Property values will steadily rise, as well. In a twist of irony, one of the primary reasons Gilbert purchased the Madison, along with six other downtown office structures — including the First National, Chase, and Dime buildings — was because of their cost. Real estate values have dropped to such low levels that vacant buildings are now becoming less expensive to renovate and lease than more modern commercial centers in the suburbs (as long as the city of Detroit and others offer incentives).

The other factor driving Gilbert, Smith, and dozens of other businesses and residents to locate downtown is changing tastes. Authenticity is in, especially among creative and younger office workers, entrepreneurs, and people simply tired of a suburban environment.

According to a commercial office market forecast by PwC US and the Urban Land Institute, urban employment is driven by energy, high-tech, and health-care-related industries, as well as nearby universities. Downtown Detroit, along with the Midtown District to the immediate north, has a solid footing in those three business



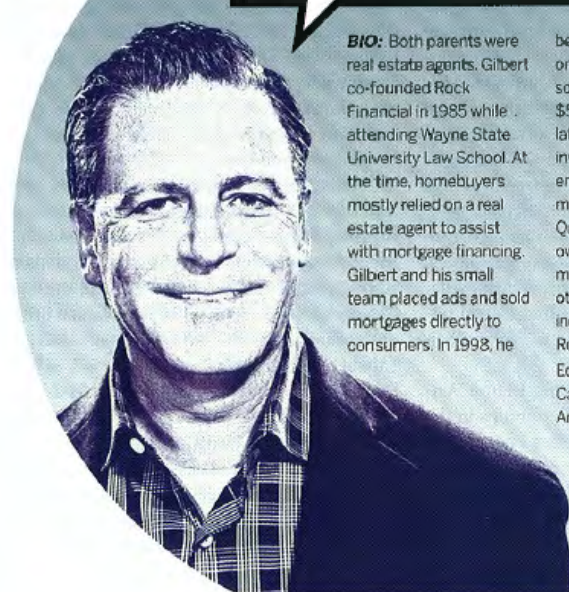
sectors, while Wayne State University has more than 32,000 undergraduate and graduate students. Wayne County Community College operates a Detroit campus, as do the University of

Michigan and Michigan State University. Grand Valley State University, meanwhile, is looking to open a scholastic center downtown.

**Dan
Gilbert,**
GENERAL
PARTNER

“After one year, Detroit Venture Partners is humming on all cylinders. We have made 11 investments to date, continue to see extraordinary deal-flow, and have built an exciting team.

In the coming years, we expect DVP to positively impact Detroit by funding and growing new economy start-ups. We’re just getting started.”



BIO: Both parents were real estate agents. Gilbert co-founded Rock Financial in 1985 while attending Wayne State University Law School. At the time, homebuyers mostly relied on a real estate agent to assist with mortgage financing. Gilbert and his small team placed ads and sold mortgages directly to consumers. In 1998, he

began selling mortgages online. A year later, he sold the company for \$529 million. Three years later, he and a group of investors bought the entity back for \$64 million and renamed it Quicken Loans. Gilbert owns or has an interest in more than two-dozen other companies, including Fathead, Rockbridge Growth Equity, the Cleveland Cavaliers, Quicken Loans Arena, and Stylecaster.

VC IN THE “D”

One of Josh Linkner’s favorite places is the original Menlo Park laboratory where Thomas Edison and his team of inventors created the incandescent electric lamp, the phonograph, the printing telegraph, photographic film, and numerous other innovations. The lab, which Henry Ford purchased in the 1920s and relocated to Greenfield Village in Dearborn from New Jersey, resonates with Linkner, a serial CEO.

Linkner, founder and chairman of ePrize, a fast-growing interactive promotions and loyalty solutions company in Pleasant Ridge, spends most of his professional time as CEO and managing partner of Detroit Venture Partners. The concern is one of a dozen venture capital firms in downtown Detroit, including Compuware Ventures, Ludlow Ventures, and Huron Capital Partners (most have set up shop in the last two years).

Leading the way through sleek blue-and-green workstations framed by large windows, a 150-seat auditorium, a spacious reception area, and a rooftop patio equipped with multimedia offerings and a catering kitchen, Linkner says the Madison is the epicenter of Detroit 2.0. While tenants like Stub Hub, Angelina Italian Bistro, and Skidmore Studio occupy the first and fourth floors of the Madison, the remaining levels house Detroit Venture Partners and its budding portfolio of startup firms (the interior space was designed by Gilbert’s wife, Jennifer, an entrepreneur in her own right).

One such concern is Detroit Labs, a Quicken Loans company that creates Web, iOS, and Android applications for a range of businesses. At Detroit Labs, patterned after Edison's laboratory, a team of software developers and engineers spend 20 percent of their time "tinkering" on side projects that hopefully will become full-time companies. Detroit Labs also supplies apps and other technology needs to Detroit Venture Partners' portfolio of startups.

"We're generating creative energy in a hub of entrepreneurial fire," Linkner says. "As the startups grow, they will move to other places downtown so that we can bring in new startups. The

PLAYERS: DETROIT VENTURE PARTNERS

ARE YOU A HUMAN?
DETROIT LABS
FLUD
GUMSHOE
HIRED MY WAY
OWN POINT OF SALE
UP TO
SHOP WITH IT
SOCIOCAST
STYLECASTER

DOWNTOWN VCS

ARIA VENTURES
 Early stage development services
COMPUWARE VENTURES
 Early stage IT firms
DETROIT DEVELOPMENT FUND
 Small businesses
DETROIT VENTURE PARTNERS
 Early stage IT firms
FONTINALIS PARTNERS
 Transportation innovations
GM VENTURES
 Automotive-related technologies
HURON CAPITAL PARTNERS
 Lower middle-market firms
INVEST DETROIT
 Business expansion and real estate
LUDLOW VENTURES
 Early stage IT firms.
ORACLE CAPITAL VENTURES
 Emerging businesses
RENAISSANCE VENTURE CAPITAL FUND
 Emerging innovations
ROCKBRIDGE GROWTH EQUITY
 High-growth, later-stage firms

Josh Linkner, MANAGING PARTNER, CEO

"We have to transform Detroit and Michigan from brain drain to brain gain. Three years ago, downtown Detroit was not even considered as a destination once you graduated from college or looked for a place to open a business. Now I get calls every week from people who moved from Detroit to work elsewhere, and want to return. The downtown residential market is near 100 percent occupancy, which is a great sign. New product is coming on line. Detroit 2.0 has left the station and is gaining momentum every single day."



BIO: A serial CEO, Linkner founded three technology companies before opening ePrize, a large interactive promotion agency that provides digital marketing services for several dozen major brands, including Coca-Cola, Microsoft, and Nike. The author of a

New York Times best-seller, "Disciplined Dreaming: A Proven System to Drive Breakthrough Creativity," Linkner is chairman of ePrize and spends most of his professional time as CEO and managing partner of Detroit Venture Partners, a venture capital firm housed in the Madison Building in downtown Detroit.

incubation process will take six months or less, and then we want the (entrepreneurs and their businesses) to grow as quickly as possible."

If the startups have one thing in common, they are all centered on technology. For example, *HiredMyWay.com* offers a payment model that people use to post their resume — sort of a digital version of a career coach. Other groups include Gumshoe, a digital game patterned after the popular board game "Clue"; UpTo, which allows users to share social events with their circle of friends; and Own, an online point of sales system.

Linkner, along with his general partners — Gilbert, Johnson, and Brian Hermelin — say they are picking up where Detroit left off in 1945. In their bid to diversify Detroit's economy, they're leaving investments in manufacturing to others. Their new enterprise seeks to generate, in a decade's time, 3,000 high-paying jobs and \$1 billion in combined revenue, and to fill 1 million square feet of office space.

The competition is fierce. While Detroit Venture Partners works with similar groups in the region such as TechTown and Next Energy, both in Midtown, along with Automation Alley in Troy, Spark in Ann Arbor, and various state and local agencies, the rest of the world isn't sitting idly by.

New York Mayor Michael Bloomberg, for example, has announced plans to create a large applied sciences and engineering campus, either on Roosevelt Island or at the Brooklyn Navy Yard. Currently, proposals from 17 universities and research institutions, including a team from Stanford and Cornell, are being reviewed. The city is offering up to \$100 million in capital, along with a large swath of land, to establish the campus. Meanwhile, Silicon Valley, Boston's Route 128, and North Carolina's Research Triangle Park have long offered entrepreneurial assistance and development services.

"Name any prosperous region in the world, and they will have business incubation centers," says Ray Waters, president of Detroit Development Fund, which in 2011 closed on \$6 million in commercial and residential loans in the city. "The great thing about our venture capital firms and incubation centers is that everyone is talking [about us]. Detroit Venture Partners will refer a smaller company to us, while we will refer a company that has larger capital needs. It's that kind of synergy that will bring Detroit back."

There's nothing quite like star power. Detroit Venture Partners attracted its fair share of budding entrepreneurs eager for financial and management guidance after it formed in 2010. But

when Magic Johnson became a general partner last spring, after a splashy news conference held on a basketball court inside Quicken Loans' headquarters, more than 500 separate business opportunities came forward.

GET IN THE GAME

"We're bringing our business expertise to the table, and people are responding," Johnson says. "It's not only going to be good for us, but think about all the mom-and-pop businesses downtown and all of the restaurants that will be affected. All of the new workers downtown will have to spend their disposable income somewhere. Then you have new housing opportunities coming downtown, and now people will be in a position to buy a home or rent an apartment."

Hermelin, a partner of Rockbridge Growth Equity, a Quicken Loans company that invests in and helps operate later-stage companies, says a technology ecosystem is starting to take root. "You've got Compuware, Quicken Loans, GalaxE.Solutions, Strategic Staffing Solutions, General Motors, GM Ventures, and on it goes," he says. "When you have that kind of synergy, technology people get together to share ideas and resources. It attracts other companies that want to be part of the ecosystem. Add in world-class colleges and universities, and companies from the outside want to tap into that synergy rather than be alone somewhere else."

Tim Bryan, chairman and CEO of New Jersey-based GalaxE.Solutions, says he established a health care IT center in downtown Detroit's 1001 Woodward building, across from Compuware's headquarters, because the cost of doing business in Motown was nearly competitive with traditional outsourcing markets like India. More than 100 people have been hired, with a goal of hiring another 200 people by 2014. To highlight the movement, Bryan draped a large mesh sign on the north side of 1001 Woodward. The message: "Outsource To Detroit."

In similar fashion, Cindy Pasky, president and CEO of Strategic Staffing Solutions, an information technology-staffing firm inside the Penobscot Building, established an IT application development office called the Detroit Development Center. The effort, which seeks to retain work that could go overseas, supports organizations like Blue Cross Blue Shield of Michigan, which recently moved 3,000 workers to the RenCen and to its campus near Greektown.

"Manufacturing, as we once knew it, is not coming back," says Larry Gardner, president of Lawrence Gardner Associates, a managerial financial consulting firm in Troy, "so it's critically important that we keep as many college graduates in our state as possible. Downtown Detroit is becoming a mini-Silicon Valley. We

need to keep investing in the restoration of historic buildings because that's where young people, especially those in the technology sector, want to live, work, and play."

If there's a challenge downtown and in Midtown, it's that the demand for historic lofts has nearly outpaced the supply, says Matt Clayson, director of the Detroit Creative Corridor Center, which works with the College for Creative Studies and Business Leaders for Michigan, among other organizations, to accelerate the growth of creative talent and entrepreneurs via mentorship programs, partnerships, and networking events.

"What you're seeing is digital, media, and marketing people centered largely in the downtown district between Grand Circus Park and Capitol Park," Clayson says. "The Midtown District is mostly drawing designers, architects, artists, and people who work with their hands. To the outsider, it can be hard to navigate because Detroit has all of these little warrens you have to discover. But once you learn how to tap

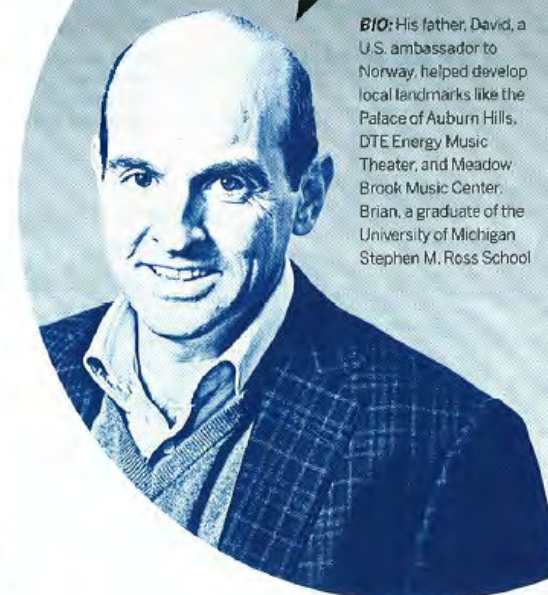
into that energy, you don't really have to look far for resources."

To boost the supply of historic-style offices and residences, the past is catching up with the present. For more than three decades, Michael Higgins, president of Witherell Corp., the controlling entity of the David Broderick Tower, a 34-story neoclassical structure that opened in 1927 at Woodward and Witherell, has tried to renovate the Detroit landmark. The long-vacant structure, adorned with painted whales by local artist Robert Wyland, finally turned the corner toward revitalization in 2006, when Higgins and Fred J. Beal, president of J.C. Beal Construction Inc. in Ann Arbor, assembled a complicated financing plan to make it feasible. The effort included Bank of America, Chase, Invest Detroit (a nonprofit financial entity set to occupy three floors in the Broderick in fall 2012), the Michigan Historic Preservation Network, and more than 20 other partners.

The \$53-million renovation, now more than

Brian Hermelin, GENERAL PARTNER

"Dan and I talked about setting up a venture capital firm with a focus on emerging technology companies. One of our main goals is to see as many of these enterprises base their business in downtown Detroit, nurture them, and see them grow. Dan and I are significant investors in ePrize, where we got to know Josh Linker. He was a natural fit to come on board as the managing partner of DVP. Dan had known Magic for many years and learned about Earvin's deep interest in urban centers like Detroit. Needless to say, things are going better than expected."



BIO: His father, David, a U.S. ambassador to Norway, helped develop local landmarks like the Palace of Auburn Hills, DTE Energy Music Theater, and Meadow Brook Music Center. Brian, a graduate of the University of Michigan Stephen M. Ross School

of Business, was CEO of Active Aero Group, an airfreight company in Ypsilanti (he became non-executive chairman after Tom Gores, owner of the Detroit Pistons, acquired the company earlier this year). He serves as a partner and chairman of Rockbridge Equity Partners and helps oversee numerous other companies, including ePrize, Veritix, Connect America Holdings, and Northcentral University (online).

halfway completed, includes 125 apartments (25 percent have been pre-leased), office space, and three commercial projects: Sportstown Grill, a 175-seat restaurant on the main floor; The Cave, a wine bar on the lower level; and a yet-to-be-named German-style beer garden that will feature more than 30 draft beers, also to be located in the lower level.

To the south, at Woodward and Grand River, Higgins is moving forward on a renovation of the six-story Elliott Building, where Stanley S. Kresge started his retail discount empire in 1899. The plan is to add retail space and 25 loft-style apartments by 2013. "There's incredible demand for apartments," Higgins says. "Nearly all of our expensive units are leased (\$3,500 to \$5,000 per month)."

Other projects are in the works, as well. Across Woodward from the Broderick, Detroit-based Roxbury Group has partnered with Trans Inns Management Inc. in Farmington Hills to renovate the neo-Renaissance David Whitney Building, designed by famed Chicago architect Daniel Burnham. The effort will include 108 apartments, an Aloft



brand hotel, and commercial space.

In Capitol Park, an urban district located at State and Griswold east of the Westin Book Cadillac Hotel, Detroit Economic Growth Corp. and

» **DIGITAL SPHERE** Employees from Are You a Human?, a Web security services company and part of the Detroit Venture Partners portfolio, at work inside the Madison Theatre Building.

other agencies are marketing three historic office structures to residential and commercial developers. Framing the recently renovated triangular park, Jackson says the buildings had no shortage of qualified offers. Even the most challenging structure, the Farwell Building — the interior was designed by Louis Tiffany — will be restored, despite years of weather damage.

"When you assess the future development landscape of downtown Detroit, Dan Gilbert will be the first to point out how quickly e-commerce and Internet-based companies can grow into huge operations," says Larry McLaughlin, chair of the real estate department at Honigman — one of the state's largest law firms — in Detroit. "If I had to speculate, given Dan's commitment and staying power, he will

not fail. He doesn't have a short-term mentality. He's in it for the long haul, and that's where you drive value." db

(Paul W. Smith contributed to this report.)