INVESTMENT FORECAST

Retail

Detroit

IPA INSTITUTIONAL PROPERTY ADVISORS

2022

Retail Sector Poised to Fully Recover from Pandemic; Compelling Returns Attract Out-Of-State Capital

Limited development aids retail fundamentals. The injection of government stimulus provided residents with excess savings, while strong performance in the housing and stock markets improved consumer sentiment, contributing to a surge in retail sales last year. Home goods, fitness and discount retailers have been active in leasing space across the metro, which helped boost net absorption to the highest annual total since 2016, and contract vacancy to within 20 basis points of the market's pre-pandemic rate entering 2022. This momentum is expected to continue into this year as the declining rate of store closures, coupled with elevated leasing activity, should keep demand robust in future quarters. Additionally, employment and household income growth are projected to outpace the national average, supporting a further rise in retail spending. Property fundamentals are improving at a time when development activity remains well below the historic average. Only 340,000 square feet is scheduled to deliver this year, with most of this space already pre-leased. The diminished pipeline will allow metrowide vacancy to fall to a 15-year low and asking rents to reach a cycle high in 2022.

Attractive yields expand the metro's buyer pool. The potential for high first-year returns, relative to other major metros, is stimulating sales activity in Detroit. Out-of-state investors, particularly from California and Texas, were active in the market, helping lift transaction velocity back to pre-pandemic levels in 2021. Investors are focusing on locales with a strong residential component. Properties in West Wayne County are highly sought after, due to the large population in the submarket, while assets in Macomb County are generating buyer interest, due to sustained population growth over the past few years. Deal flow was also strong in Downtown Detroit, where vacancy is the lowest in the metro. Investors are targeting single-tenant, net-leased assets to mitigate risk, with cap rates averaging in the low-7 percent span. Buyers are also interested in grocery-anchored neighborhood centers, generating yields in the 6 percent to 7 percent range.

2022 Market Forecast

Employment up 3.0% — Employers will add 58,000 workers to payrolls in 2022, building on the 112,000 positions added last year.

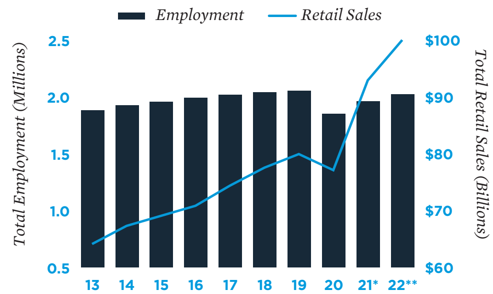
Construction 340,000 sq. ft. — Annual deliveries fall short of 1 million square feet for the third consecutive year. Developers will expand the metro's retail inventory by 0.2 percent in 2022.

Vacancy down 30 bps — Limited development and elevated leasing activity allow vacancy to decline for the second straight year. The rate will fall to 5.6 percent by year-end, following a 60-basis-point drop last year.

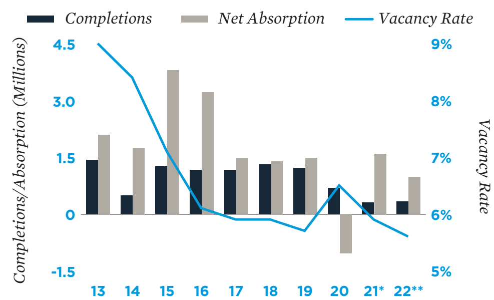
Rent up 4.1% — The pace of rent growth accelerates this year, with the average asking rate rising to $15.10 per square foot by year-end. In 2021, a 0.8 percent increase was registered.

Investment — Community centers should draw heightened buyer interest this year. The closing of many malls will prompt tenants to move into these assets, making them more desirable to investors.

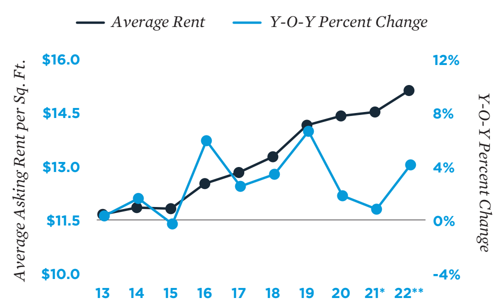
Economic Trends



Supply and Demand



Rent Trends



* Estimate; ** Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics; RealPage, Inc.

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