

MARKET REPORT

Retail
Detroit Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

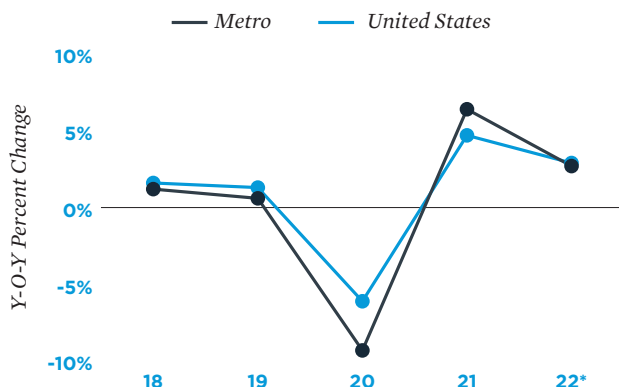
2Q/22

Net Absorption Surging as More Consumers Demand Experiential Retail

New vendors enter the metro. As the city reopens, the demand for social and interactive retail destinations has grown. Entrances into the market include the indoor skydiving company iFLY in Novi, the company's first location in Michigan. Other large leases recently signed include an art exhibit near downtown and indoor golf simulators, one in the core and one in Rochester Hills. At the same time, the local vendor Art Van Furniture filed for bankruptcy during the recent economic shock, but national chains like Ashley Furniture have filled many of the vacated properties, with other buildings undergoing redevelopment. Entrants and revitalizations like these aided a net absorption swell during 2021. Nearly 3 million square feet of space was taken off the market, eclipsing the losses recorded in the first year of COVID-19 by more than 500,000 square feet.

Cluster of developments to reinvigorate downtown. Multiple mixed-use projects are underway in and near Central Detroit, headlined by the redevelopment of the former Hudson's department store. The project will feature apartments, office, hotel and retail space, creating a true live-work-play environment in the core. Additionally, a mixed-use office and retail facility called SOMA Detroit is under construction in Midtown, with Target secured as an anchor tenant. The area of Woodward Avenue between these two projects is being built up rapidly. Professional sporting venues, access to the QLINE and high-end apartments have sparked nearby signings from F45 Training, Whole Foods Market and others in this area.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**54,000
JOBS**
will be created

EMPLOYMENT:

Job creation equating to a 2.7 percent expansion to local employment will leave the metro 20,000 roles short of the pre-pandemic level by year-end. Leisure and hospitality employment is lagging, but loosening travel and gathering rules will aid this segment.



**450,000
SQ. FT.**
will be completed

CONSTRUCTION:

Developers will complete more space in 2022 than they did in 2021. However, this year's delivery schedule falls well short of the trailing five-year average of 1.1 million square feet. Multiple years of subdued building bodes well for existing space.



**20
BASIS POINT**
decrease in vacancy

VACANCY:

The vacancy rate is set to drop 20 basis points to 5.6 percent, building on last year's 110-basis-point retreat. This will put vacancy in the metro at the same level it was recorded at in the final month of 2019, before the economic disruption in 2020.

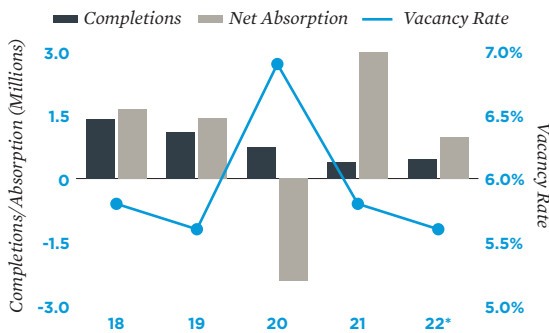


**5.4%
INCREASE**
in asking rent

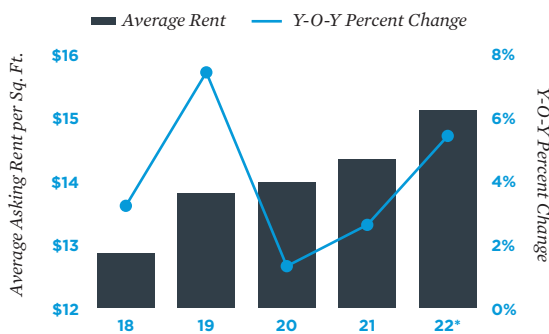
RENT:

The average marketed rent will advance to \$15.11 per square foot by the end of this year, augmenting the 2.6 percent lift observed last year, and marking the 10th consecutive year of annual rent growth in Detroit.

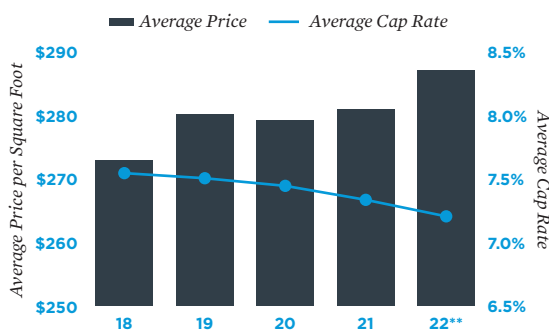
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 1Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

Daniel Taub

Senior Vice President, Director

Tel: (212) 430-5100 | dtaub@ipausa.com

For information on national retail trends, contact:

John Chang

Senior Vice President, Director | Research & Advisory Services

Tel: (602) 707-9700 | jchang@ipausa.com

Price: \$250

1Q 2022 - 12-Month Period



CONSTRUCTION

359,000 sq. ft. completed

- Less than 500,000 square feet was finalized over the past four quarters, the first time this has happened since at least 2000.
- The largest quantity of construction in the 12 months preceding April was completed in Detroit proper. Macomb County and the Northern Outlying submarkets also recorded inventory growth of at least 60,000 square feet.



VACANCY

90 basis point decrease in vacancy Y-O-Y

- Muted supply growth aided a vacancy ease to 5.7 percent in March, after slipping below 6 percent for the first time since early 2020 late last year
- Detroit proper and higher-income suburbs to the north, like Royal Oak and Sherwood Forest, are showing the sharpest vacancy decline since 2019. Vacancy has dropped at least 200 basis points in both locales as of March.



RENT

6.6% increase in the average asking rent Y-O-Y

- Tightening vacancy in 10 of the metro's 11 submarkets contributes to the average asking rent rising to \$14.93 per square foot entering April.
- Six consecutive quarters of positive net absorption for single-tenant space buoyed the 5.8 percent gain in asking rents, while new multi-tenant space downtown assisted the 13.4 percent annual rise for such space.

Investment Highlights

- Recovering fundamentals contributed to a return in investor confidence during the 12-month period ended in March, with sales volume rising more than 80 percent when compared to the previous yearlong stretch. One of the areas garnering greater attention is Troy. Despite some of the highest entry costs, the area has seen an ascent in investment activity, as vendors look to be near higher-income households.
- Investors have been actively targeting single-tenant assets in the metro's most populous suburbs, with West Wayne County and Macomb County seeing the highest number of trades. The average sale price for single-tenant buildings here is in line with the metro mean of \$360 per square foot, but can climb above \$500 per square foot for buildings with well-capitalized tenants. As more investors targeted assets with stable leasing, the average cap rate on single-tenant trades has fallen to 6.7 percent.
- The multi-tenant trades taking place in the metro have increasingly involved assets at least 90 percent leased, with very few redevelopment or value-add transactions occurring in the 12 months ended in March. Investors have been most active in suburbs like Royal Oak and Birmingham, and activity is rising sharply near the lakes west of Pontiac.

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Metro-level employment growth is calculated based on the last month of the quarter/year. Sales data includes transactions sold for \$1 million or greater unless otherwise noted. This is not intended to be a forecast of future events and this is not a guaranty regarding a future event. This is not intended to provide specific investment advice and should not be considered as investment advice. Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Real Capital Analytics

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