

MARKET REPORT

Retail
Detroit Metro Area

IPA
INSTITUTIONAL
PROPERTY
ADVISORS

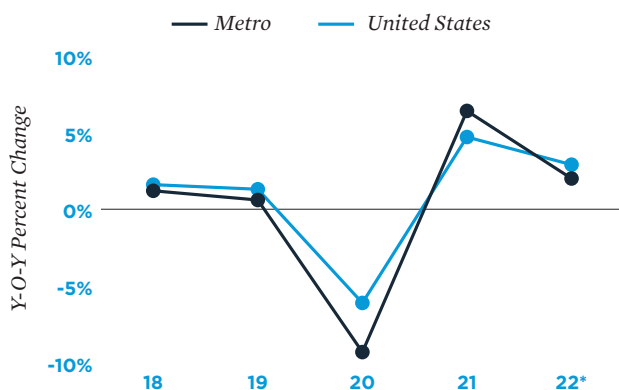
3Q/22

Tourist Travel and Truck Traffic Between Canada and Detroit Aid Tight Urban Availability

International traffic a tailwind for space along the border. June 2022 ended with Detroit noting a sixth straight quarter of positive net absorption. This consistent retailer demand, paired with a small construction pipeline by historical standards, has enabled vacancy to fall below 6 percent. Detroit-The Pointes, Downriver, Macomb and the Northern Outlying submarkets accounted for nearly 70 percent of space absorbed on a net basis in the trailing 12-month period ended in June. These submarkets are home to the major highways connecting Detroit to Ontario and Windsor. The Windsor-Detroit border is the busiest international crossing in North America, and amid the easing of COVID-19 travel restrictions, areas between Michigan and Canada have seen an uptick in commuter, tourist and truck driver traffic. Rising travel is drawing retailers to submarkets containing major highways or those along the border.

Sparse construction downtown aids already low availability. Single-tenant properties led net absorption in the yearlong span preceding July. Availability in this segment ended the second quarter at 5.4 percent, the lowest rate since at least 2007. The neighboring submarkets — Royal Oak and Detroit-The Pointes — recorded the tightest rates in the second quarter. Both submarkets are expecting limited deliveries by year-end, with Royal Oak slated to receive less than 15,000 square feet, and Detroit-The Pointes expecting a mixed-use project in addition to around 91,500 square feet. Limited proposals will sustain this trend and tighten medium-term vacancy.

Employment Trends



* Forecast

Sources: BLS; CoStar Group, Inc.

Retail 2022 Outlook



**40,000
JOBS**
will be created

EMPLOYMENT:

Total employment in Detroit will expand by 2.0 percent this year. As of July, the metro's unemployment rate had sunk to 4.1 percent, a notable compression from double-digit pandemic highs, but a rate with room for further improvement.



**620,000
SQ. FT.**
will be completed

CONSTRUCTION:

The metro's inventory will grow by 0.3 percent this year. Over half of the projects slated for delivery in 2022 will come online in the Detroit-The Pointes, Macomb and West Wayne submarkets as multi-tenant space.



**20
BASIS POINT**
decrease in vacancy

VACANCY:

Vacancy compression has been aided by six quarters of positive net absorption. This year is expected to end with availability at 5.6 percent, following the net absorption of over 1.1 million square feet of space.

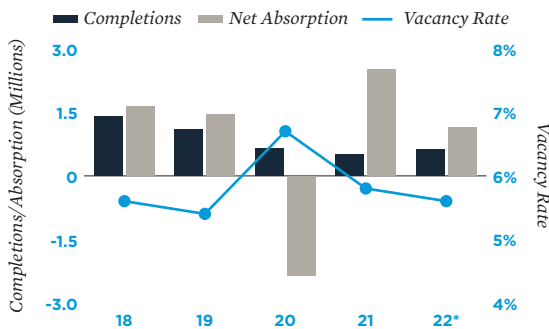


**5.0%
INCREASE**
in asking rent

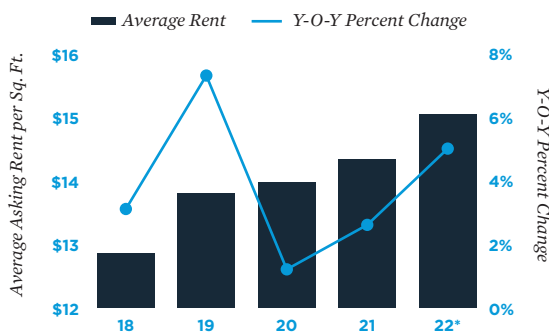
RENT:

The average asking rent in Detroit will end 2022 at \$15.05 per square foot, further building on the 2.6 percent gain witnessed last year. This marks the metro's 10th consecutive year of annual rent growth.

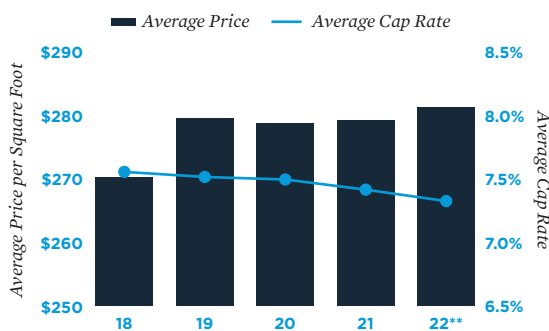
Supply and Demand



Rent Trends



Sales Trends



* Forecast ** Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

IPA Retail

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Price: \$250

2Q 2022 - 12-Month Period



CONSTRUCTION

360,000 sq. ft. completed

- In the trailing 12 months ended in June, Detroit-The Pointes received the greatest volume of completions at around 120,000 square feet.
- Single-tenant properties accounted for nearly 80 percent of deliveries that came online during the period. The Macomb and Northern Outlying submarkets accounted for the bulk of single-tenant deliveries.



VACANCY

90 basis point decrease in vacancy Y-O-Y

- The second quarter ended with a vacancy rate of 5.6 percent. The annual compression was driven by nearly 2.5 million square feet of net absorption over the yearlong interval, a half-decade high.
- All but one of Detroit's 11 submarkets recorded year-over-year vacancy compression in the 12-month span preceding July.



RENT

6.9% increase in the average asking rent Y-O-Y

- The average asking rent in Detroit rose to \$14.95 per square foot in June. Multi-tenant centers led this gain, with a 16.2 percent surge in the mean asking rent to \$15.91 per square foot.
- North Oakland experienced the starkest advance in overall marketed rents. Here, the average grew 18.1 percent to \$17.80 per square foot.

Investment Highlights

- In the trailing 12 months ended in June, multi-tenant transaction velocity nearly doubled from the previous period. The average sale price for these assets rose accordingly by more than 2 percent to \$190 per square foot, but still recorded the second-highest mean cap rate in the nation at 8.0 percent. Single-tenant facilities matched the previous period's deal flow. The average sale price for these assets remained consistent at \$360 per square foot, although the mean cap rate dropped 20 basis points to 6.7 percent.
- Investors predominantly targeted the Macomb and West Wayne submarkets during the first six months of the year. In Macomb, properties typically traded in the low- to mid-\$200 per square foot range, with a few exceptions for single-tenant assets. West Wayne experienced a similar trend. Both areas reported cap rates mostly in the mid- to high-6 percent band. This signals investor interest in Detroit locales near the lake with lower entry costs and generally higher first-year returns.
- A sizable percentage of trades taking place in the first half of the year involved fully-leased properties. The multi-tenant centers that changed hands, in particular, were highly leased as investors sought out assets with a stable tenant roster in areas with high traffic.

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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