MARKET FORECAST

RETAIL

Detroit Metro Area

IPA INSTITUTIONAL PROPERTY ADVISORS

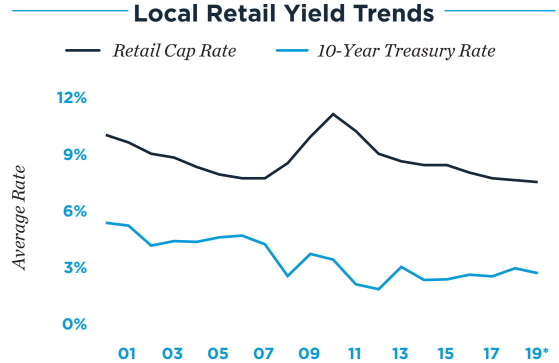
Q2/19

National Retailers Filling Space in Downtown Detroit; More Investors Favoring Strip Centers

Inventory expands in both city and suburbs. The city of Detroit's renaissance continues to bolster retail options as more national stores open downtown. H&M is one of the latest to announce plans to debut this year along Woodward Avenue. Nearby, the Columbia Street project in District Detroit will provide 40,000 square feet of new space in a blocklong strip. Tenants include M Den, Sahara Restaurant & Grill and Frita Batidos. Retail developers are also busy in the suburbs. The largest development due this year is Woodward Corners by Beaumont in Royal Oak, which is a transformation of the former Northwood Shopping Center. Roughly half of the center's 117,000 square feet will be completed during 2019 with the remainder due in 2020. Marketwide, most of the buildings slated for completion in 2019 are less than 35,000 square feet and many are outlots of existing shopping centers.

Metrowide vacancy continues to tighten. The slowdown in deliveries coupled with the demolition of empty malls and the repurposing of obsolete space has decreased the amount of available storefronts throughout the metro. Vacancy sits at a 12-year low, down 550 basis points from the cyclical peak in 2010. This year, population and income gains are helping to attract new and expanding retailers. Aldi, Tim Hortons, Hobby Lobby and Bob's Discount Furniture are among the many stores that will open additional locations. Increased leasing activity will push net absorption higher than completions in 2019, holding vacancy in the 5 percent range and boosting rent gains.

Local Retail Yield Trends



** Cap rates trailing 12 months through 1Q19; 10-year Treasury up to March 29*

Sources: CoStar Group, Inc.; Real Capital Analytics

Retail 2019 Outlook

800,000 SQ. FT.
will be completed

CONSTRUCTION:

Deliveries will fall below 1 million square feet for the first time in four years. Macomb County will receive the largest portion of this year's completions at roughly 117,000 square feet.

20 BASIS POINT
decrease in vacancy

VACANCY:

Following last year's 10-basis-point gain, a slowdown in construction amid strong tenant demand will result in vacancy ending the year at 5.7 percent.

2.6% INCREASE
in asking rents

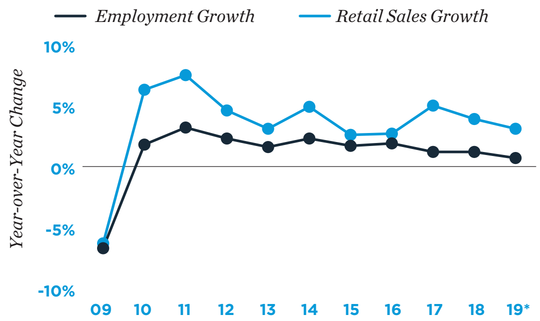
RENTS:

The average asking rent ends 2019 at $13.98 per square foot. This is a larger rise than last year's 2.3 percent climb, although rent is still 1.9 percent below the mid-2008 peak.

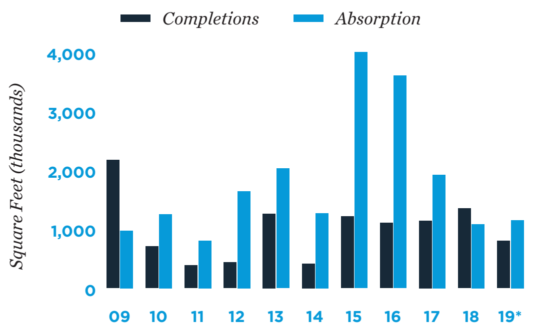
Investment Trends

- Over the past four quarters, one of the most actively traded retail segments was small suburban strip centers with national service-oriented tenants. If new and positioned in quality locations, these facilities exchanged hands above $500 per square foot at cap rates in the mid-5 to mid-6 percent range. Additional inventory completed during the past several years is providing more buying prospects.
- Cap rates in the 8 to 9 percent range are drawing increased attention from opportunistic buyers to well-located big-box or junior-box anchored centers. Malls located along major traffic corridors are most often sought after.
- Non-traditional retail tenants, including medical clinics and fitness facilities signed to long-term leases, are increasing the attractiveness of retail centers to investors. Many of these tenants are significant traffic generators for the malls.

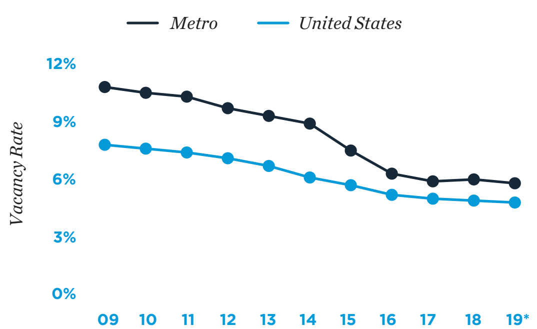
Employment vs. Retail Sales Trends



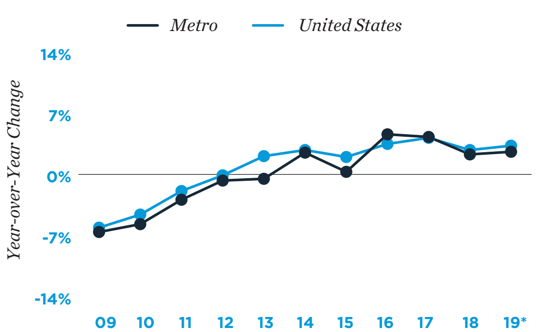
Retail Completions



Vacancy Rate Trends



Asking Rent Trends



*Forecast

Sources: CoStar Group, Inc.; Real Capital Analytics

1Q19 – 12-Month Trend

EMPLOYMENT

0.6% increase in total employment Y-O-Y

- Employers added 12,500 workers to payrolls during the past four quarters, down from 31,500 jobs one year earlier. In the most recent 12 months, job growth was led by trade and transportation with nearly 7,400 positions.
- Unemployment hovering around 4 percent is making it harder for organizations to find qualified employees, contributing to a slower pace of hiring.

CONSTRUCTION

1.4 million square feet completed Y-O-Y

- Following the finalization of 845,000 square feet one year ago, deliveries ramped up to 1.4 million square feet in the past four quarters. Developers also have 800,000 square feet underway.
- The former Northwood Shopping Center at Woodward Avenue and 13 Mile Road is being redeveloped into the Woodward Corners by Beaumont. Tenants include Brown Iron Brewhouse, a fitness center and Woodward Corner Market.

VACANCY

30 basis point decrease in vacancy Y-O-Y

- Strong leasing and the repurposing of vacated space reduced vacancy to 5.5 percent during the past four quarters. In the prior annual period, the rate posted a 20-basis-point decline.
- The largest vacancy improvement was registered in multi-tenant properties. Vacancy fell 150 basis points year over year to 5.5 percent in the first quarter. This follows a 90-basis-point drop one year earlier.

RENTS:

2.5% increase in the average asking rent Y-O-Y

- Tightening vacancy and the renovation of older properties helped boost the average asking rent to $13.88 per square foot in the opening quarter of 2019, building on the prior year's 4.7 percent surge.
- The average asking rent in multi-tenant space vaulted 6.7 percent over the past four quarters to $12.96 per square foot, while single-tenant rent moved up 2.1 percent to $14.00 per square foot during the same time.

Demographic Highlights

2019 Job Growth*

Metro **0.7%**
U.S. Average **1.3%**

Five-Year Population Growth**

-3,800 *or* **0.0%** *Annual Growth*
U.S. **0.6%** *Annual Growth*

Five-Year Household Growth**

50,500 *or* **0.6%** *Annual Growth*
U.S. **1.0%** *Annual Growth*

1Q19 Median Household Income

Metro **$61,478**
U.S. Median **$64,259**

1Q19 Retail Sales per Month

$3,672 *Per Household*
U.S. **$3,971**

$1,499 *Per Person*
U.S. **$1,544**

Retail Sales Forecast**

Metro **13.8%**
U.S. **16.9%**

** Forecast ** 2018-2023*

SUBMARKET TRENDS

Lowest Vacancy Rates 1Q19

Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Average Asking Rent	Y-O-Y % Change
Troy	2.4%	50	$19.90	-4.5%
Southfield	3.5%	-20	$16.17	1.3%
Detroit-The Pointes	4.4%	0	$14.19	10.2%
Downriver	4.4%	-40	$12.80	5.7%
Northern Outlying	5.1%	-60	$9.99	-16.6%
Livingston-W. Oakland	5.5%	-30	$14.83	1.5%
Macomb	5.7%	-10	$13.94	9.6%
Royal Oak	5.8%	-80	$15.23	-1.4%
North Oakland	6.2%	-20	$12.89	-11.1%
Bloomfield	6.3%	70	$17.73	-4.4%
Overall Metro	**5.5%**	**-30**	**$13.88**	**2.5%**

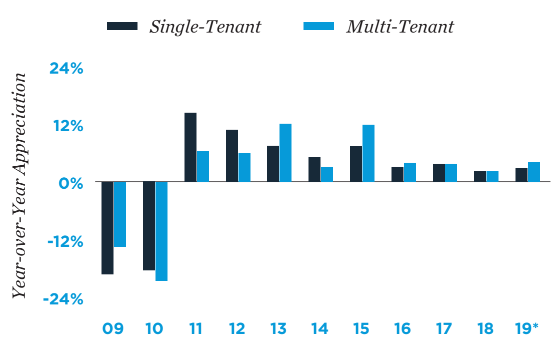
SALES TRENDS

Wider Range of Buyers Boost Single-Tenant Transaction Activity, Push Prices Higher

- **Multi-Tenant:** Fewer quality assets listed for-sale slowed transaction activity 22 percent in the past four quarters. The average price rose 4 percent to $163 per square foot during this period.
- **Single-Tenant:** Deal flow jumped 19 percent year over year in March as more buildings were marketed, while the average price per square foot reached $265, a 2.9 percent advance.

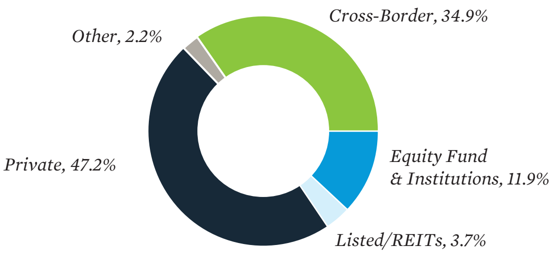
Outlook: The potential for higher returns at lower entry costs than are available in many other major metros will continue to draw out-of-state buyers to Detroit. Cap rates for multi-tenant assets average in the low-8 percent span and they are roughly 100 basis points lower for single-tenant properties.

Price Per Square Foot Trends

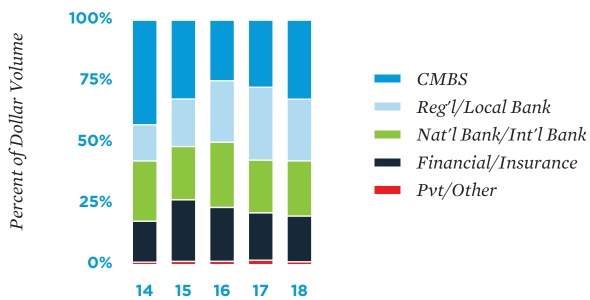


** Trailing 12 months through 1Q19 over previous time period*
Pricing trend sources: CoStar Group, Inc.; Real Capital Analytics

1Q19* Retail Acquisitions By Buyer Type



Retail Mortgage Originations By Lender



* Trailing 12 months through 1Q19

Include sales $2.5 million and greater

Sources: CoStar Group, Inc.; Real Capital Analytics

CAPITAL MARKETS

By DAVID G. SHILLINGTON, President,

Marcus & Millichap Capital Corporation

- **International pressures weigh on domestic outlook; Fed remains patient.** Amid ongoing trade disputes between the U.S. and China and slowing growth throughout the European economy, the global economic outlook has become more cautious. Market volatility, combined with muted sentiment, has sponsored a flight to the safety of Treasurys, pushing the 10-year yield below 2.6 percent. While domestic growth has moderated recently, the waning impact of the tax cut stimulus will likely trim forward estimates further. As a result, the Fed decided to cease reducing its balance sheet reduction through quantitative tightening by September and removed the potential for rate increases through the remainder of the year. The bond market has begun to price in a much more dovish Fed, with flattening interest rates reflecting more caution. Fed officials will likely focus on the intersection of a global growth slowdown and continued labor market strength to refine their plans moving forward, keeping interest rates stable for the foreseeable future.
- **Malls, legacy big-box players cloud otherwise optimistic retail landscape; underwriting remains conservative.** Uncertainty surrounding legacy retailers and the ongoing shift of consumer purchasing preferences to online sources have begun to weigh on retail sentiment, with lenders proving more cautious and conservative than in prior years of the cycle. Active lenders include local, regional and national banks, and insurance companies, with a primary lender focus on net-leased assets and premier mixed-use structures being highly desirable. Meanwhile, outlying malls and non-credit tenants will undergo much more scrutiny. This has created a two-tier market structure, with loan-to-value (LTV) ratios in the 55 to 75 percent range depending on borrower, asset and location factors. Mezzanine and bridge loan structures have been more frequently used in this environment, with owners undertaking capital improvements at higher leverage ratios on the short-term debt before seeking long-term financing options once their operations have been proved.

National Retail Group

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Price: $250

Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Experian; Moody's Analytics; Real Capital Analytics; TWR/Dodge Pipeline; U.S. Census Bureau