



# METRO DETROIT

2023 OUTLOOK &

2022 REVIEW

RETAIL

REPORT

**FRIEDMAN HQ**

**34975 W. Twelve Mile Rd.**

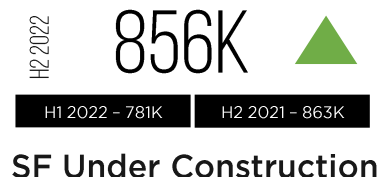
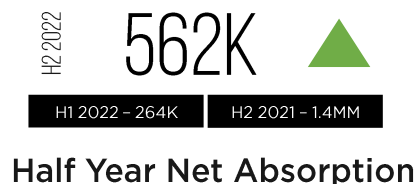
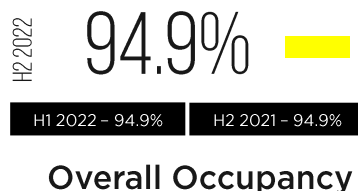
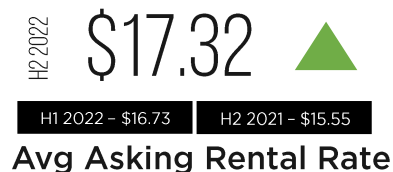
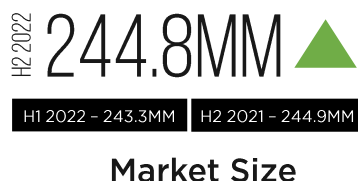
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## MARKET AT A GLANCE (H2 2022)



Note: ▲ or ▼ or ■ indicates change compared to H1 2022.

Note: H1 = Q1 & Q2 ; H2 = Q3 & Q4

## 2023 MARKET OUTLOOK

**CONSTRUCTION TO MIRROR MULTIFAMILY:** Retail development is expected to be located where multi-family development and population growth is most evident (i.e. Downtown Detroit, Outer Detroit, and Central I-96 Corridor). Development in more infill locations is primarily mixed-use apartments with ground floor retail suites or multi-tenant retail on shopping center out-parcels.

**CAP RATE ADJUSTMENTS:** Despite strong fundamentals and sustained investor interest, we expect a moderate increase to cap rates due to the rising interest rate environments direct impact on acquisition pricing.

**INCREASED RENTAL RATES:** We expect moderate overall asking rent growth to continue due to constrained supply, high inflation environment, and increased development costs (i.e. construction & labor).

**CORKTOWN DETROIT RESURGENCE:** Significant 2023 retail net absorption and development in the Outer Detroit submarket is expected following the delivery of Ford's \$350MM renovation of Michigan Central Station, the 227-room Godfrey Hotel, and several mixed-use developments.

**DOWNTOWN DETROIT RECOVERY:** We expect significant retail net absorption in the Downtown Detroit submarket as employees return to the office and the robust multifamily development pipeline is delivered. Notably, hotel occupancy (64%) improved to approximately 87% of 2019 levels as business travel slowly resumes and Detroit increasingly hosts national conventions.

**RECESSION IMPACT:** Due to the recent rampant inflation and looming recession, consumer discretionary spending may decrease, which will likely result in decreased spending on luxury goods and discount retailers expanding footprints. This effect on the Metro Detroit retail market remains ambiguous, but we expect occupancy to remain stable due to the existing constrained supply and diversification of the retail tenant pool.

## MARKET OVERVIEW

In the second half of 2022, the Metro Detroit retail market has continued to strengthen despite the economic downturn with continued positive net absorption, stable occupancy, and increased average asking rents. The high interest rate environment and potential recession has not yet had a significant material impact on retail market fundamentals.

## SUPPLY AND DEMAND

Occupancy remains stable at record high levels (94.9%) due to sustained demand and constrained supply. Submarkets with more affluent demographics typically have the lowest vacancy levels including Troy (3.40%), Ann Arbor (3.60%), Royal Oak (4.10%), and Rochester (4.20%). Notably, multi-tenant shopping centers continue to have the lower occupancy (92.60%) compared to more stable grocery anchored shopping centers (96.60%), and single tenant retail (96.80%). Despite this, occupancy in single tenant retail decreased 0.40% from H1 2022. During the second half of 2022, we continue to see non-traditional retail tenants lease traditional retail space (gyms, healthcare, entertainment, schools, and call centers), which broadens the overall tenant pool and diversifies retail demand.

Leasing volume (1.75MM SF) increased 250K SF from H1 2022 (16.7%), but remains well below the pre-covid historic half-year levels (2.1MM SF), indicating an overall decrease in activity due to constrained supply rather than overall declining demand. Notably, five submarkets accounted for 69.0% of total leasing activity: Macomb (359K SF / 20.5%); Dearborn/Downriver (260K SF / 14.9%); Ann Arbor (220K SF / 12.6%); I-275 Corridor (205K SF / 11.8%); and Central I-96 Corridor (161K SF / 9.2%).

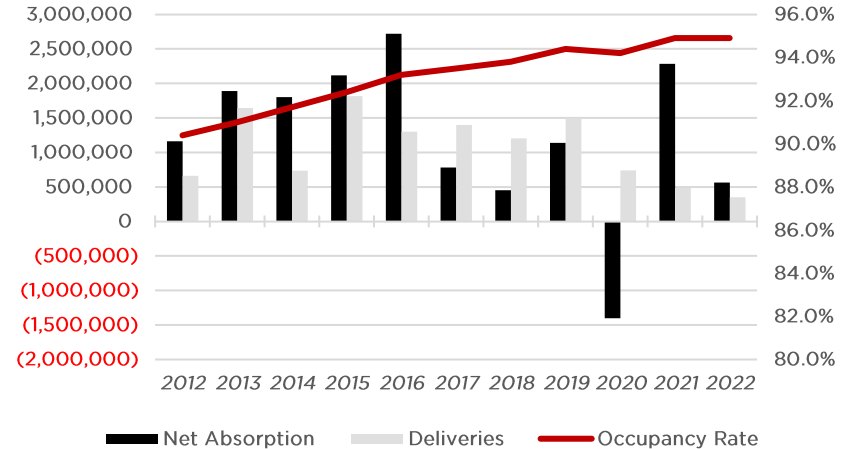
Sustained demand and an overall constrained supply resulted in net absorption of 562K SF. Submarkets with population growth, existing affluent demographics, and/or significant development activity recorded the highest positive net absorption including Rochester (180K SF), Southfield (148K SF), Central I-96 Corridor (102K SF), and Macomb (87K SF). Notably, Downtown Detroit recorded 85K SF of net absorption, which is a positive sign as the submarket accounts for 23.7% (203K SF) of retail under construction. By contrast, suburban submarkets recorded 445K SF of net absorption indicating a stark suburban vs. urban divide as, on average, retail users prefer suburban locations in Metro Detroit.

As the proportion of e-commerce sales compared to total retail sales continues to grow at approximately 2.0% annually (14.8% in H2 2022), physical retailers are carrying less inventory and thus are typically favoring smaller footprints. Alternatively, many retailers are maintaining their current footprints, but reallocating more space for backroom inventory and less for showroom to accommodate greater demand for products bought online and picked up in-store. Although big-box and junior-box users are typically opening in smaller footprint (Burlington, Ross, Target, etc.), the average lease area has increased 400 SF from H1 2022 to 3,500 SF, but is still below 3,800 SF recorded in H2 2019.

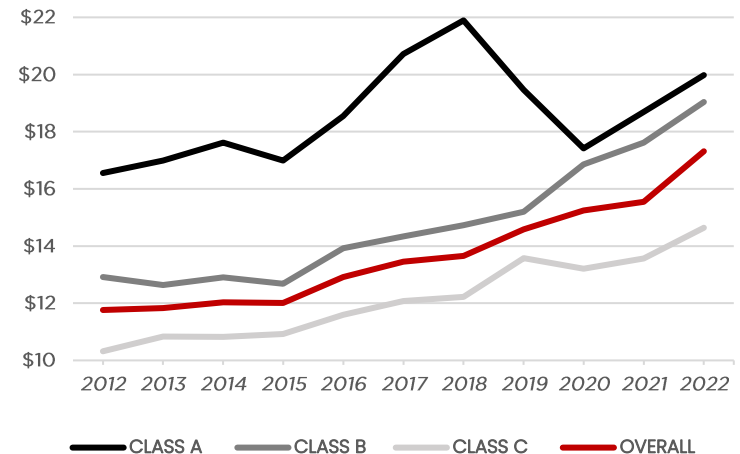
## SALES AND INTEREST RATES

Total sales volume (\$558MM) has increased 89.7% from H1 2022, and remains well above the historic pre-pandemic half-year levels (\$180MM), indicating retail continues to be a favorable product type for investors. Despite significant investment volume, increased interest rates (4.25% YOY increase) have resulted in downward pressure on pricing and increased the spread between sale and asking price (8.10% vs. 5.90% in H1 2022) as many owners continue to price their assets based upon the 2020/2021 lending and retail acquisition environment. Notably, single tenant retail properties accounted for 55.6% (\$310MM) of total sales volume, demonstrating a disproportionate level of investor interest for lower-risk single tenant assets.

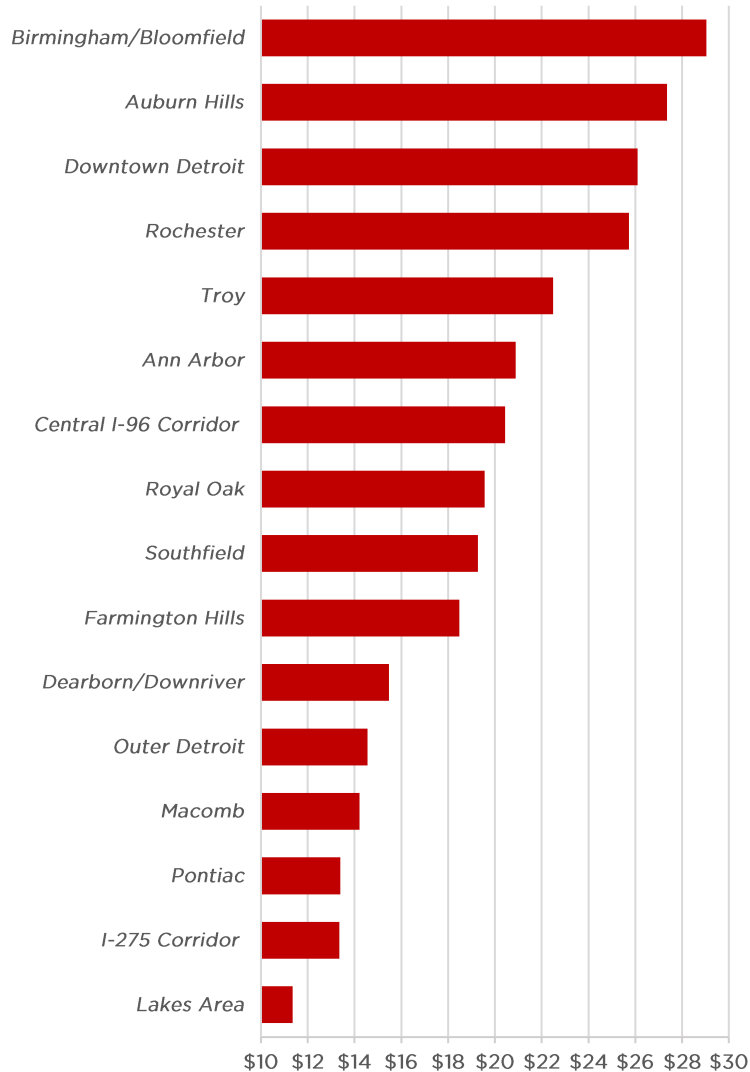
## OCCUPANCY AND ABSORPTION



## AVERAGE NNN ASKING RENT BY CLASS



## AVERAGE NNN ASKING RENTS BY SUBMARKET



## TOP SALE TRANSACTIONS (BASED ON SALES PRICE)

PROPERTY NAME	CITY	SF	SALE PRICE	PRICE/SF
Tel Twelve	Southfield	161,381	\$45,000,000	\$278.84
Life Time Fitness	Commerce Township	128,868	\$40,177,239	\$311.77
Life Time Fitness	Troy	93,579	\$31,326,166	\$334.76
High Point Shopping Center	Northville	117,157	\$23,025,000	\$196.53
Gardner White	Canton	80,000	\$20,000,000	\$250.00

## TOP LEASE TRANSACTIONS (BASED ON SQUARE FEET)

TENANT	PROPERTY NAME	CITY	SF
Gabe's	Shores Shopping Center	Saint Clair Shores	60,368
*N/A National Grocer	Commerce Towne Center	Commerce Township	55,534
**TJX Companies	30830 Orchard Lake Rd	Farmington Hills	45,600
Robert Montwaid's Food Hall	The Mosaic Detroit	Detroit	40,000
Burlington	Maple Village Shopping Center	Ann Arbor	33,582

\*Indicates sublease / \*\*Vacant Best Buy box demised for Home Goods & Marshalls who will both occupy ±22,800 SF.



**Top Sale:**  
**Tel Twelve - Southfield, MI**  
**Sale Price: \$45,000,000**



**Top Lease:**  
**Gabe's - Shores Shopping Center, MI**  
**Square Footage: 60,368**

# 2023 OUTLOOK & 2022 REVIEW RETAIL REPORT - METRO DETROIT

SUBMARKET	# BLDGS	INVENTORY (SF)	NET ABS. (SF)	SF UNDER CONST	TOTAL VAC. (%)	TOTAL AVAIL. (%)	OVERALL OCC. (%)	AVG ASKING RENT (NNN)	TOTAL SALES VOLUME	SALES PER SF
Ann Arbor	1,933	19,006,190	62,077	74,972	3.60%	4.30%	96.40%	\$20.89	\$36,932,584	\$272.06
Auburn Hills	100	1,562,166	(4,584)	11,811	3.70%	4.80%	96.30%	\$27.35	\$0	-
Birmingham/Bloomfield	401	5,359,364	(19,121)	-	4.80%	5.30%	95.20%	\$29.04	\$18,531,500	\$265.23
Central I-96 Corridor	907	14,140,444	102,466	31,460	4.60%	7.10%	95.40%	\$20.43	\$91,975,009	\$250.83
Dearborn/Downriver	4,150	36,699,700	84,983	37,902	5.10%	6.80%	94.90%	\$15.47	\$52,636,148	\$128.58
Downtown Detroit	352	3,410,230	49,931	203,160	7.00%	8.70%	93.00%	\$26.10	\$8,099,000	\$563.65
Farmington Hills	461	5,314,388	(7,192)	-	8.20%	9.80%	91.80%	\$18.48	\$2,637,500	\$334.06
I-275 Corridor	2,527	27,800,813	(16,729)	126,935	6.50%	8.40%	93.50%	\$13.35	\$53,556,536	\$152.98
Lakes Area	908	8,405,575	(40,251)	14,825	8.00%	11.10%	92.00%	\$11.35	\$22,011,580	\$86.98
Macomb	4,510	52,577,559	87,006	67,917	5.70%	6.70%	94.30%	\$14.22	\$84,648,280	\$152.25
Outer Detroit	5,218	29,360,686	(65,871)	99,589	4.30%	6.50%	95.70%	\$14.55	\$19,123,000	\$76.13
Pontiac	594	8,216,695	(14,129)	-	2.80%	4.00%	97.20%	\$13.39	\$15,822,800	\$89.00
Rochester	352	5,665,602	180,320	48,940	4.20%	6.10%	95.80%	\$25.73	\$12,610,000	\$245.02
Royal Oak	1,823	12,115,648	(25,815)	9,920	4.10%	5.30%	95.90%	\$19.56	\$32,105,465	\$185.68
Southfield	406	6,618,806	147,786	118,800	6.30%	12.30%	93.70%	\$19.27	\$63,819,086	\$114.91
Troy	394	8,519,302	41,585	10,000	3.40%	6.50%	96.60%	\$22.49	\$43,093,666	\$268.54
<b>TOTAL</b>	<b>25,036</b>	<b>244,773,168</b>	<b>562,462</b>	<b>856,231</b>	<b>5.10%</b>	<b>6.90%</b>	<b>94.90%</b>	<b>\$17.32</b>	<b>\$557,602,154</b>	<b>\$153.83</b>



## TOP RETAIL PROPERTIES DELIVERED (H2 2022)

PROPERTY NAME	CITY	RETAIL SF	DELIVERED	OCCUPANCY	PROPERTY TYPE	ASKING RATE PSF (NNN)
25245-25249 Meadowbrook Ave	Novi	28,707	Q3 2022	100%	Auto Dealership	N/A
300 S Maple Rd	Ann Arbor	24,654	Q3 2022	66%	Storefront	\$35.00
Ford Plaza	Dearborn Heights	21,565	Q4 2022	0%	Storefront	\$35.00
6771 23 Mile Rd	Shelby Township	20,638	Q3 2022	100%	Storefront	N/A
Gateway Crossing II	Hazel Park	17,218	Q3 2022	100%	Storefront	N/A
Menards Outlot	Wixom	15,600	Q3 2022	100%	Storefront	N/A

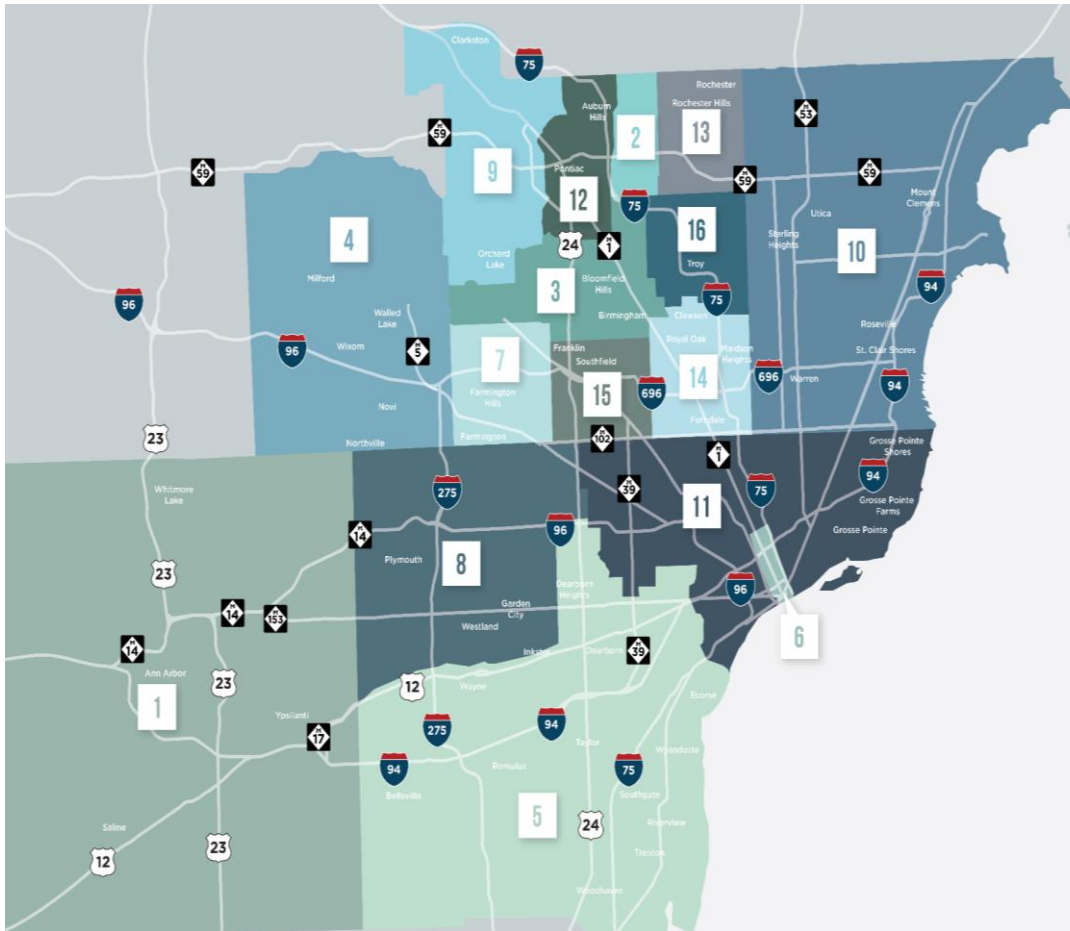


## TOP RETAIL PROPERTIES UNDER CONSTRUCTION (H2 2022)

PROPERTY NAME	CITY	RETAIL SF	DELIVERY	OCCUPANCY	PROPERTY TYPE	ASKING RATE PSF (NNN)
Northland Center - Phase 1	Southfield	150,000	Q4 2023	33%	Mixed Use	Withheld
Floor & Décor	Ypsilanti	64,528	Q1 2023	100%	Freestanding	N/A
Plymouth Towne Center	Plymouth	54,200	Q2 2023	82%	Storefront	Withheld
155 Haggerty Rd	Commerce Township	22,781	Q2 2023	0%	Storefront	\$35.00
990 W Auburn Rd	Rochester Hills	20,000	Q1 2023	8%	Storefront	\$35.00
The Gateway II	Rochester Hills	17,064	Q1 2023	9%	Storefront	Withheld



## RETAIL SUBMARKET MAP



1	ANN ARBOR	9	LAKES AREA
2	AUBURN HILLS	10	MACOMB
3	BIRMINGHAM/BLOOMFIELD	11	OUTER DETROIT
4	CENTRAL I-96 CORRIDOR	12	PONTIAC
5	DEARBORN/DOWNRIVER	13	ROCHESTER
6	DOWNTOWN DETROIT	14	ROYAL OAK
7	FARMINGTON HILLS	15	SOUTHFIELD
8	I-275 CORRIDOR	16	TROY

Friedman Research separates the Metro Detroit retail submarkets in the manner shown to better reflect the way users, tenants, and brokers view our market. We believe this provides a more accurate statistical picture of each submarket which allows our clients to make better informed decisions.

Friedman's 2023 Outlook & 2022 Review Retail Market Report provides our clients with a snapshot of pertinent market data and information to help them make informed commercial real estate decisions. The information contained in this report is gathered from multiple sources believed to be reliable.