



Research &  
Forecast Report

# DETROIT & ANN ARBOR RETAIL Quarter 3 2016

## RETAIL MOVING IN THE RIGHT DIRECTION

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The Metro Detroit and Ann Arbor retail markets posted a positive but relatively sleepy third quarter for 2016. Quoted rental rates checked in at \$12.54 per SF, a small increase from \$12.50 in the second quarter. The market also reported 837,594 SF of positive absorption, and ended the quarter with a 7.4% vacancy rate—a 20 basis point improvement from the previous quarter’s 7.6% vacancy rate.

The third quarter reflects a longer-term trend in Metro Detroit’s overall retail market. While the trends have been positive, the gains have been slow and incremental, with the exception of a few hot submarkets. Similar to Big Ten Football—the market has opted for three yards and a cloud of dust as opposed to big gains on flashy passing plays. The upshot is that new developments are well thought out, and are not hitting the market with competition that simply cannibalizes sales. This careful approach will serve the Detroit area well when the market cools off.

Moving forward, expect Metro Detroit’s retail market to continue the positive momentum in the final quarter of 2016. Michigan’s signature automotive industry continues to perform, and overall consumer confidence remains positive. As 2017 approaches, expect the slow-but-sure approach to growth to continue, and expect more national tenants to expand into the Metro Detroit market.

### Market Indicators

	Quarter 2 2016	Quarter 3 2016
VACANCY	↓	↓
NET ABSORPTION	+	+
CONSTRUCTION	↓	↓
RENTAL RATE*	↑	↑
*Asking Rents		

# Notes on the Market

## ALL SECTORS

The overall retail vacancy rate in the Metro Detroit market area decreased to 7.4% at the end of the third quarter of 2016, an incremental improvement from the previous quarter's 7.6% vacancy rate. The highest vacancy rates were found in the Downriver area at 10.3%, and the Southfield market with 28.5% (mostly related to Northland Mall). The lowest vacancy rates were in Troy at 4.2%, and Ann Arbor at 4.0%. At \$21.45 per SF, the Bloomfield submarket reported the highest rents.

## SHOPPING CENTERS

In the Metro Detroit market area, the average quoted rental rate for shopping centers, all classes (community centers, neighborhood centers, and strip centers) was \$12.75 per SF at the end of the third quarter of 2016. Since January of 2016, the sector has absorbed 933,404 SF of space. The vacancy rate declined from 11.5% in the previous quarter to 11.0%, which points to greater confidence in the sector and the market. The affluent Bloomfield submarket quoted the highest rents for the quarter at \$17.21 per SF.

## POWER CENTERS

Metro Detroit's power center market improved slightly from the previous quarter. The vacancy rate decreased to 5.8%, an improvement from the previous quarter's 6.2%. The third quarter reported \$11.58 per SF in rents. Broadly, power centers have become developer's "weapon of choice" when redeveloping old product in Metro Detroit's inner ring suburbs, and even within the City of Detroit itself.

## GENERAL RETAIL

For general retail, which includes all freestanding retail buildings that are not contained within a shopping center, the market has posted a year to date total of 1,330,962 SF of absorption, with 453,239 SF of absorption coming in the third quarter. This is a continuation of a positive absorption trend in the market, which will have a positive long-term effect for the market. Across the entire market, average quoted rents are reported at \$12.76, a modest increase over the previous quarter's rents of \$12.69.

## SALES REPORT A QUIET QUARTER

The third quarter remained quiet for investment sales, repeating a trend from the previous quarter. 226 buildings sold for a total volume of \$70,453,171 and a median sales price of \$69.85 per SF, and an average cap rate of 8.06%. The largest sale reported in the market was the sale of Broadway Plaza in Farmington Hills for \$6,150,000.

## NEW CONSTRUCTION SLOW

2016 continued another quarter of slow construction trends in Metro Detroit. Just eleven buildings totaling 286,344 SF were completed in the third quarter. With 1,040,831 SF of space in the pipeline, new construction continues to be an afterthought in the Metro Detroit market.

## Key Takeaways

- > Rent growth continues to be slow but steady.
- > Troy continues to be one of the strongest markets in Metro Detroit
- > New construction is still slow in Metro Detroit, repeating the trends from previous quarters.
- > Downtown Ann Arbor and Downtown Birmingham are the most expensive submarkets in town.

## Looking Forward

- > Areas outside of Downtown Detroit will begin to see rents climb, and see better quality tenants.
- > The last two quarters have been slow for investments sales. Next quarter should see some larger sales.
- > Development rumors again surround the former K-Mart Headquarters in Troy.
- > The slow and steady rates of growth are not going anywhere. Expect more of the same next quarter.

# THE NUMBERS > QUARTER 3 > RETAIL

## General Retail Market Statistics

Submarket	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total GLA	Direct SF	Total SF	Vac %				
Bloomfield	670	5,075,678	198,993	204,106	4.0%	66,566	8,058	0	\$25.25
Detroit/The Pointes	4,602	24,412,922	1,119,666	1,139,029	4.7%	399,305	8,970	21,244	\$10.07
Downriver	1,464	8,897,816	681,617	682,843	7.7%	51,401	156,000	0	\$10.73
Livingston/W Oakland	1,420	10,102,051	191,964	206,592	2.0%	111,980	65,086	13,916	\$13.15
Macomb	3,293	22,620,969	811,616	826,186	3.7%	277,565	88,942	64,745	\$10.73
North Oakland	1,548	10,444,641	325,064	342,355	3.3%	112,834	4,500	123,128	\$14.51
Royal Oak	1,625	8,227,654	284,877	295,799	3.6%	104,602	8,102	16,153	\$15.03
Southfield	303	2,987,159	137,904	137,904	4.6%	4,372	0	9,439	\$13.67
Troy	252	2,163,389	50,881	50,881	2.4%	(8,881)	0	5,100	\$22.82
Washtenaw	1,638	10,593,867	145,651	150,447	1.4%	54,350	32,027	47,778	\$17.19
West Wayne	3,884	23,798,876	1,023,492	1,030,739	4.3%	156,868	40,608	49,133	\$11.35
Totals	20,699	129,325,022	4,971,725	5,066,881	3.9%	1,330,962	412,293	350,636	\$12.76

## Shopping Center Market Statistics

Submarket	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total GLA	Direct SF	Total SF	Vac %				
Bloomfield	95	4,527,585	309,185	344,962	7.6%	87,809	4,760	22,413	\$17.21
Detroit/The Pointes	151	4,796,799	571,022	593,285	12.4%	48,823	12,440	0	\$13.10
Downriver	126	4,480,440	763,184	763,184	17.0%	109,556	0	0	\$11.28
Livingston/W Oakland	170	6,737,523	726,242	781,911	11.6%	66,130	31,453	0	\$13.55
Macomb	471	18,625,389	1,914,923	1,954,593	10.5%	209,647	68,408	400,300	\$12.54
North Oakland	167	6,330,191	537,706	629,797	9.9%	113,702	6,930	0	\$12.68
Royal Oak	103	3,343,612	316,005	464,220	13.9%	19,474	7,200	155,366	\$12.10
Southfield	60	1,859,407	192,852	192,852	10.4%	32,947	0	0	\$13.55
Troy	55	2,253,704	148,689	148,689	6.6%	24,713	12,985	0	\$16.55
Washtenaw	124	6,131,773	588,334	588,334	9.6%	44,517	25,878	0	\$14.30
West Wayne	425	15,363,645	1,657,909	1,737,810	11.3%	176,086	39,817	98,512	\$11.62
Totals	1,947	74,450,068	7,726,051	8,199,637	11.0%	933,404	209,871	676,591	\$12.75

## Total Retail Market Statistics

Submarket	Existing Inventory		Vacancy			YTD Net Absorption	YTD Deliveries	Under Const SF	Quoted Rates
	# Blds	Total GLA	Direct SF	Total SF	Vac %				
Bloomfield	841	10,632,047	574,920	615,810	5.8%	188,713	12,818	22,413	\$21.45
Detroit/The Pointes	4,816	31,141,381	2,044,968	2,086,594	6.7%	399,692	21,410	21,244	\$11.33
Downriver	1,672	15,399,733	1,589,166	1,590,392	10.3%	235,957	156,000	6,570	\$10.75
Livingston/W Oakland	1,856	23,584,621	1,074,974	1,145,271	4.9%	222,382	96,539	20,950	\$13.38
Macomb	4,124	49,803,567	3,260,944	3,470,328	7.0%	437,615	157,350	465,045	\$12.10
North Oakland	1,871	23,401,924	2,069,203	2,178,585	9.3%	270,411	11,430	123,128	\$10.26
Royal Oak	1,786	12,053,455	631,682	790,819	6.6%	124,076	15,302	171,519	\$13.47
Southfield	403	8,125,067	2,318,639	2,318,639	28.5%	156,759	0	9,439	\$13.62
Troy	356	8,183,792	344,103	344,103	4.2%	(117,442)	12,985	5,100	\$20.00
Washtenaw	1,915	18,647,858	744,722	749,518	4.0%	99,196	57,905	47,778	\$15.38
West Wayne	4,702	48,444,371	3,012,621	3,099,769	6.4%	370,944	80,425	147,645	\$11.48
Totals	24,342	249,417,816	17,665,942	18,389,828	7.4%	2,388,303	622,164	1,040,831	\$12.54

## Trend to Watch: Eastern Market As A Retail Hub

The long-time home of food wholesalers, butcher shops, and a farmer's market, Detroit's Eastern Market is becoming a hot market for residential and local retail alike. Always busy during the Saturday farmer's market, the greater Eastern Market area has come alive with a new distillery, coffee shops, and restaurants that are getting rave reviews from the local press and diners alike. What is driving the trend? The proximity to Downtown Detroit—which is experiencing a boom of its own? The walkable street pattern with plenty of historic buildings? The development of more residential nearby creating greater demand for entertainment of any sort? The answer is a complex combination of all of the above.

Stepping back, Eastern Market as a food district is a relative rarity amongst cities Detroit's size. Many cities have lost their historic food districts due to highway construction in the 1960s. Rising rents and gentrification have pushed out food users in favor of lofts and martini bars, or sometimes just urban decay. Eastern Market stands out for both its size and its quality as a food district. The core of Eastern Market's appeal is its focus on food. In today's retail environment, when customers can buy anything online, the experience for the customer is far more important than the price. Eastern Market offers that unique, authentic experience that can get the shopper out of bed, and down to the corner of Gratiot and Russell.

With new businesses such as Detroit City Distillery, La Rondinella, Beyond Juice, Thomas McGee's Sporting House, Antietam and other businesses opening up within the last few years, Eastern Market is becoming a key component of Detroit's burgeoning restaurant and nightlife scene. Combined with neighborhood stalwarts such as Germack Nut Company and Vivios, the new restaurants and businesses have created a positive feedback loop beyond the food scene.

Eastern Market is now a hot market for apartments and lofts, and businesses that have nothing to do with food, such as Signal-Return Press, Detroit Kung Fu Academy, and Detroit Mercantile Company. As the neighborhood continues to transition, expect the infrastructure that is currently in place to continue to draw boutique retailers and restaurants alike. The real question over time becomes how many of the neighborhood's food businesses stay in the area as property values begin to climb.

### Rise of Eastern Market



Eastern Market, a long-time home to food businesses, has now become a home to a growing retail scene

#### FOR MORE INFORMATION

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