



METRO DETROIT

2022 MIDYEAR RETAIL REPORT

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MARKET AT A GLANCE (H1 2022)

H1 2022
243.3MM ▼
H2 2021 - 244.9MM | H1 2021 - 244.8MM
Market Size

H1 2022
\$16.73 ▲
H2 2021 - \$15.55 | H1 2021 - \$15.23
Avg Asking Rental Rate

H1 2022
94.9% ■
H2 2021 - 94.9% | H1 2021 - 94.6%
Overall Occupancy

H1 2022
264K ▼
H2 2021 - 1.4MM | H1 2021 - 1.1MM
Half Year Net Absorption

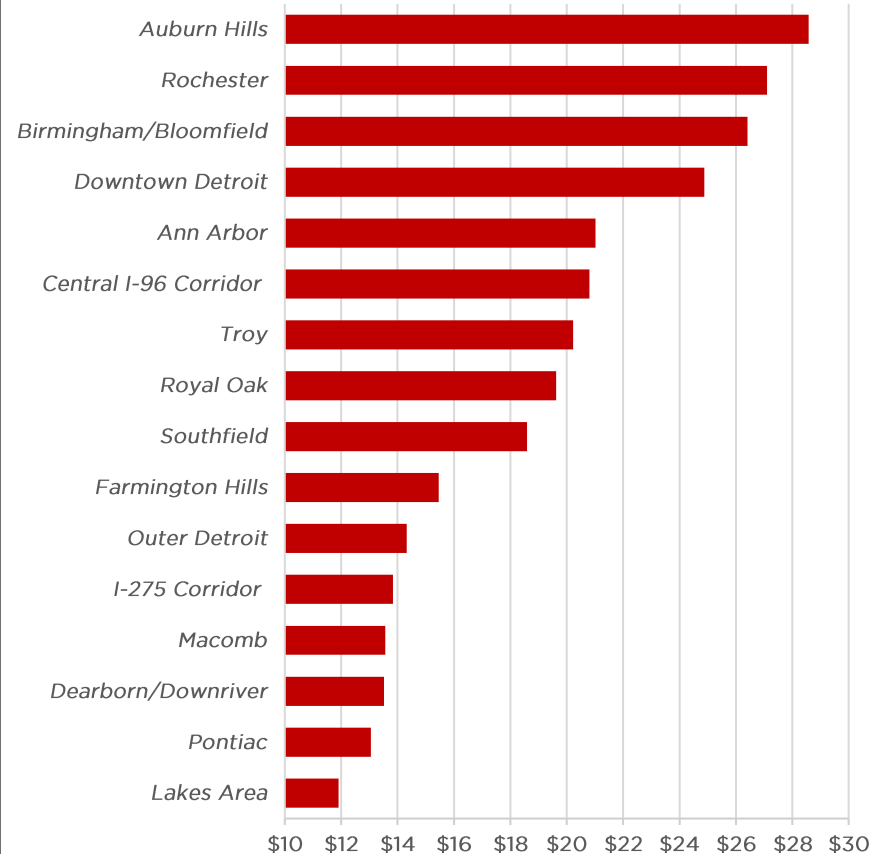
H1 2022
\$294MM ▼
H2 2021 - \$319MM | H1 2021 - \$266MM
Half Year Sales Volume

H1 2022
781K ▼
H2 2021 - 863K | H1 2021 - 652K
SF Under Construction

Note: ▲ or ▼ or ■ indicates change compared to H2 2021.

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

AVERAGE NNN ASKING RENTAL RATES BY SUBMARKET



MARKET OVERVIEW

In the first half of 2022, the Metro Detroit retail market has continued strengthening following the COVID-19 pandemic induced demand shock with continued positive net absorption, stable occupancy, and increased average asking rents. The high inflation and interest rate environment has yet to realize a significant material impact on retail market fundamentals, but this remains ambiguous and will become clear in the second half of 2022.

SUPPLY AND DEMAND

Occupancy remains stable at record high levels (94.9%) exceeding the pre-pandemic level of 94.4% in H2 2019 due to sustained demand and constrained supply. Submarkets with more affluent demographics typically have the lowest vacancy levels including Auburn Hills (3.4%), Birmingham/Bloomfield (3.8%), and Rochester (3.8%). Notably, multi-tenant shopping centers continue to have lower occupancy (91.3%) compared to more stable grocery anchored shopping centers (95.9%) and single tenant retail (97.3%). Despite this, occupancy in multi-tenant shopping centers increased 1.4% from H2 2021. During 2022, we continue to see non-traditional retail tenants (gyms, healthcare, and entertainment) lease traditional retail space, which broadens the overall tenant pool.

Leasing volume (1.5MM SF) increased 90K SF from H1 2021 (6.1%), but represents a 511K SF (24.7%) reduction from H2 2021 and is well below the pre-covid historic half-year levels (2.1MM SF), indicating an overall decrease in activity due to overall constrained supply rather than declining demand. Four submarkets accounted for 58.7% of total leasing activity: Macomb (434K SF / 27.8%); I-275 Corridor (186K SF / 11.9%); Royal Oak (150K / 9.6%); and Dearborn/Downriver (146K / 9.4%).

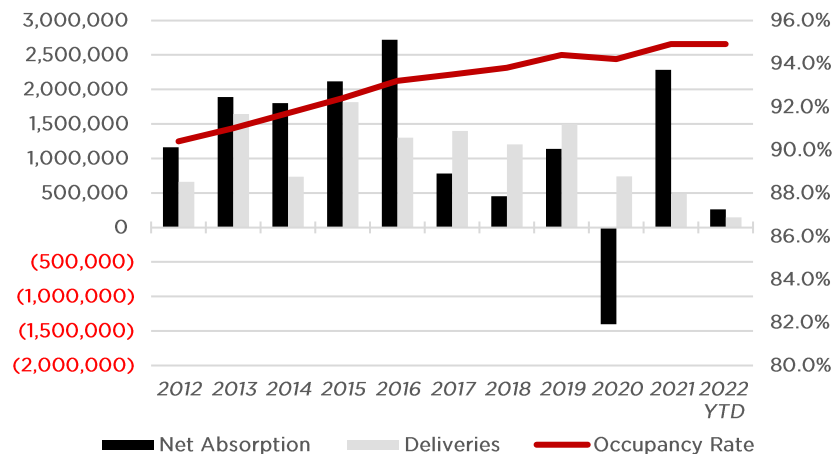
Decreased leasing volume, increased vacancy in some submarkets, and overall constrained supply resulted in net absorption of 275K SF. Submarkets with negative net absorption include Downtown Detroit (-118K SF) and Outer Detroit (-67K SF), which is concerning since Downtown/Outer Detroit account for a majority of retail inventory under construction. Despite this, Gucci announced they would open their second Michigan location Downtown this summer, which will optimistically act as a catalyst to attract other national retailers to the area as multi-family developments are delivered and employees continue their return to the office. By contrast, suburban submarkets recorded 484K SF of net absorption indicating a stark suburban vs. urban divide as, on average, retail users prefer suburban locations.

As the proportion of e-commerce sales compared to total retail sales continue to grow (14.3% vs. 11.1% in H2 2019), physical retailers are carrying less inventory and thus are favoring smaller footprints. The average lease area has decreased from 3,800 SF in H2 2019 to 3,100 SF, with retailers such as Target and Burlington opening stores with 70% smaller footprints (40K SF & 25K SF). 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.

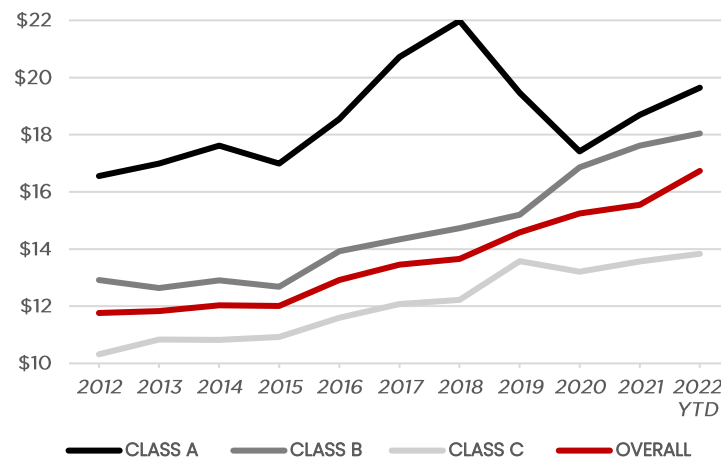
SALES AND INTEREST RATES

Total sales volume (\$294MM) increased 10.4% from H1 2021 and is well above the \$180MM historic pre-pandemic half-year levels, indicating retail has become a favorable product type with investors. Single tenant retail properties accounted for 58.5% (\$172MM) of total sales volume, demonstrating a disproportionate level of investor interest for lower-risk single tenant assets. Notably, 41.0% of these sales occurred in Q2 2022 after the initial interest rate increases, representing the lowest quarter of volume since 2018. The decreased Q2 sales volume is largely due to sellers pricing their assets at 2021 levels rather than decreased investor interest in single tenant assets.

OCCUPANCY AND ABSORPTION



AVERAGE NNN ASKING RENT BY CLASS



MARKET OUTLOOK

CONSTRUCTION TO MIRROR MULTIFAMILY: Retail development is expected to be located where multifamily 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.

INCREASED RENTAL RATES: We expect moderate overall asking rent growth to continue due to constrained supply, rising inflation, 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 (60%) improved to approximately 80% of 2019 levels (75%) 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. This effect on the Metro Detroit retail market remains ambiguous, but we expect occupancy to remain stable due to the existing constrained supply and continued pent-up consumer demand from COVID-19 lockdowns for restaurants and entertainment-oriented retail.

TOP SALE TRANSACTIONS (BASED ON SALES PRICE)

PROPERTY NAME	CITY	SF	SALE PRICE	PRICE/SF
The Shops at Shelby	Shelby Township	158,700	\$15,650,000	98.61
Hatherly Commons	Sterling Heights	103,000	\$11,500,000	111.65
Bel-Mark Lanes	Ann Arbor	34,950	\$8,500,000	243.20
Sportsman Warehouse	Troy	50,000	\$7,000,000	140.00
22431-22533 Michigan Ave.	Dearborn	52,000	\$10,500,000	201.92

TOP LEASE TRANSACTIONS (BASED ON SQUARE FEET)

TENANT	PROPERTY NAME	CITY	SF
Gabe's	Utica Park Place	Macomb	61,094
N/A National Grocer	22332 E 9 Mile Rd	Macomb	55,000
N/A National Grocer	Plymouth Towne Center	Southern I-275 Corridor	44,600
Hollywood Supermarket	Royal Madison Plaza	Royal Oak	38,500
Burlington	Fairlane Green	Dearborn	28,000



Top Sale:
The Shops at Shelby - Shelby, MI
Sale Price: \$15,650,000



Top Lease:
Gabe's - Macomb, MI
Square Footage: 61,094

2022 MIDYEAR 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	1,929	18,913,571	(19,097)	42,586	3.80%	5.20%	96.20%	\$21.02	\$31,848,128	\$172.25
Auburn Hills	101	1,552,325	5,707	11,811	3.40%	4.20%	96.60%	\$28.58	\$0	N/A
Birmingham/Bloomfield	402	5,331,518	17,027	-	3.80%	5.70%	96.20%	\$26.41	\$7,638,000	\$174.00
Central I-96 Corridor	901	14,073,345	47,506	40,967	5.10%	8.20%	94.90%	\$20.80	\$8,045,500	\$152.22
Dearborn/Downriver	4,148	36,684,443	(24,901)	43,059	5.30%	7.10%	94.70%	\$13.52	\$45,783,659	\$110.84
Downtown Detroit	350	3,375,953	(117,924)	203,160	7.80%	10.30%	92.20%	\$24.88	\$273,500	\$115.00
Farmington Hills	460	5,302,895	13,714	-	8.10%	9.60%	91.90%	\$15.46	\$4,105,000	\$135.32
I-275 Corridor	2,526	27,764,359	347,243	77,009	6.50%	8.50%	93.50%	\$13.84	\$39,325,831	\$119.95
Lakes Area	911	8,388,682	42,938	5,698	6.20%	11.10%	93.80%	\$11.91	\$7,427,499	\$119.73
Macomb	4,500	52,074,693	(95,100)	44,440	5.90%	7.20%	94.10%	\$13.56	\$81,869,580	\$131.30
Outer Detroit	5,187	29,185,035	(66,782)	91,589	4.10%	6.30%	95.90%	\$14.32	\$32,055,454	\$105.52
Pontiac	598	8,208,630	(8,120)	-	2.70%	4.00%	97.30%	\$13.05	\$7,981,350	\$127.32
Rochester	351	5,594,891	20,641	48,940	3.80%	5.48%	96.20%	\$27.10	\$2,980,000	\$148.00
Royal Oak	1,833	12,063,686	99,160	21,610	9.20%	10.80%	90.80%	\$19.62	\$8,384,500	\$143.80
Southfield	406	6,315,758	25,893	150,000	8.90%	11.30%	91.10%	\$18.59	\$8,695,000	\$147.14
Troy	394	8,520,847	(23,381)	-	3.90%	7.00%	96.10%	\$20.23	\$7,850,000	\$160.32
TOTAL	24,997	243,350,631	264,524	780,869	5.10%	7.20%	94.90%	\$16.73	\$294,263,001	\$131.12

TOP RETAIL PROPERTIES DELIVERED (H1 2022)

PROPERTY NAME	CITY	RETAIL SF	DELIVERED	OCCUPANCY	PROPERTY TYPE	ASKING RATE PSF (NNN)
Schoenherr South	Shelby Township	38,207	Q1 2022	25%	Freestanding	Withheld
42300-42302 Van Dyke Ave	Sterling Heights	13,900	Q2 2022	100%	Freestanding	N/A
900 Dexter St	Milan	10,640	Q1 2022	100%	Freestanding	N/A
City Life Plaza	Rochester Hills	10,250	Q1 2022	50%	Freestanding	\$30.00
The Learning Experience	Northville	10,000	Q1 2022	100%	Day Care Center	N/A
40451 Groesbeck Hwy	Mount Clemens	8,000	Q1 2022	80%	Freestanding	Withheld

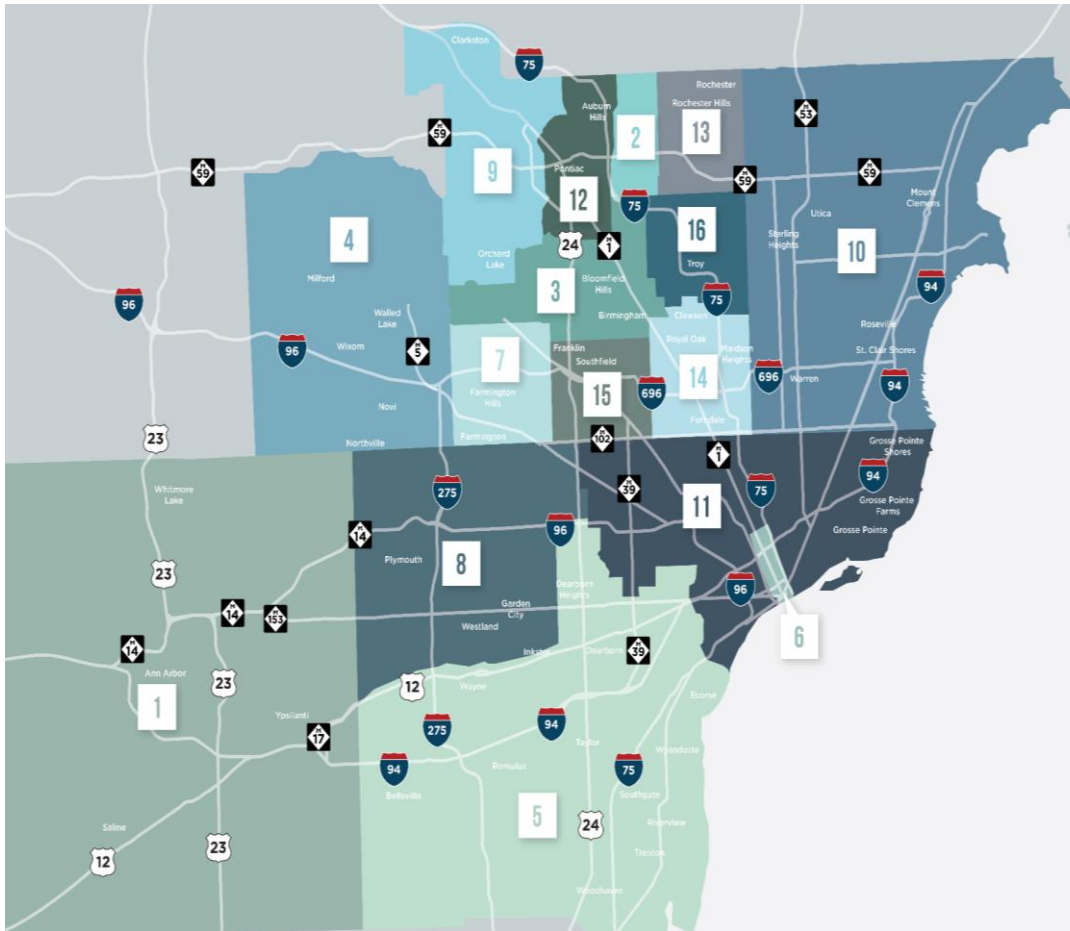


TOP RETAIL PROPERTIES UNDER CONSTRUCTION (H1 2022)

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
15075 N Beck Rd	Plymouth	40,000	Q3 2022	0%	Freestanding	Withheld
Gateway of Rochester Hills	Rochester Hills	28,940	Q3 2022	60%	Storefront	\$35.00
Westgate Shopping Center	Ann Arbor	24,654	Q3 2022	47%	Storefront	\$35.00
Ford Plaza	Dearborn Heights	21,565	Q1 2023	0%	Storefront	\$35.00
444 Peterboro St	Detroit	21,500	Q3 2023	96%	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 MIDYEAR 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.