



PERSPECTIVE Q2 2020

METROPOLITAN DETROIT COMMERCIAL REAL ESTATE



COVID-19 and the Detroit Commercial Real Estate Investment Market

DeVon Jackson, Senior Associate | P.A. Commercial

The COVID-19 pandemic has had tremendously detrimental effects on our local economy, unemployment rates, politics, and public health. These effects have been felt not only in metro Detroit and across the United States, but around the World. The global impact has also impacted the commercial real estate industry.

While it is still too early to comprehend what lasting effects the COVID-19 pandemic will have on Detroit's Commercial Real Estate market, there are some hopeful indicators. The local commercial real estate market was flourishing before the crisis, and it was not overleveraged. Additionally, the government stimulus aid to offset the shutdown, which has been helpful, was massive and came very quickly.

Real estate economists and analysts feel that the COVID-19 recession will impact commercial real estate markets and values less severely *than the Great Recession* – except for the retail and hospitality sectors. These projections also indicate that there will be more debt financing available when compared to the financial crisis of 2008.

WHAT CAN DETROIT CRE INVESTORS EXPECT?

Industrial

Industrial property rents in the Detroit area rose 3.2% in the fourth quarter of 2019 when compared to the same quarter just one year earlier. This was taking place while developers delivered 3.5 million square feet of industrial space. We are confident that Detroit's Industrial market will remain strong well into the future because of major investments from automakers and the need for warehouses and distribution centers to support ecommerce.



PERSPECTIVE Q2 2020

METROPOLITAN DETROIT COMMERCIAL REAL ESTATE

Multi-Family

The annual report by *Apartment Guide* analyzes apartment rental rates in the 100 most populous cities in the US by using a weighted average formula based on unit availability at the beginning of each month. In Detroit, this report found that rents rose an average of 13.2% since the beginning of 2019. That was the 10th highest increase in the nation. Throughout the state, Michigan saw rental rates increase by 15.6% on average. From an investment standpoint, there's still more demand for multifamily than there is supply, as substantiated by the above annual rent increases. The Multifamily market will remain viable and provide good returns for investors.

Office

Office vacancy in Detroit was hovering near the 12-year low early in 2020. Strengthening demand for office space, amid a lack of speculative construction, and the conversion of vacant office buildings into alternative uses was holding vacancy tight. Although deliveries will climb in 2020, heavy pre-leasing will lessen the impact on vacancy and push rent higher. However, the onset of the virus has substantially increased the uncertainty in this area. What will the density in office spaces look like long term? How many jobs will permanently shift to work-from home positions? With this uncertainty, the number of purchase

transactions is expected to decrease from the over 400 in the last 12 months.

Retail

Amid the myriad of store closings, the Detroit retail market registered a robust, yet cautious year in 2019 with signs of slowing growth. The annual sales volume for 2019 closed out at \$563 million, spread out across almost 1,200 deals, at an average price of \$78 per SF. At the half-way point of 2020, there have been less than 300 transactions year-to-date. Meanwhile, Michiganders spent \$18.5 billion annually on out-of-state vendors, such as Amazon.

Will the COVID-19 pandemic have a significant impact on the metro Detroit commercial real estate market? Definitely. But it's not all bad news. The industrial and multifamily property types will fare very well. Office not so much, but there is a long way to go regarding the deployment of the office-based workforce. Retail will face many challenges; however essential retailers will remain strong.

Even after being hit by a global pandemic, Detroit will continue to be a place where innovative ideas and businesses come to life. Detroiters are creative, hard-working, and resourceful. The overall CRE market will resurface again, but even stronger.

Featured Investment Listings



AUTO REPAIR | STERLING HEIGHTS



2-BUILDING OFFICE | WESTLAND



2-BUILDING MEDICAL | WARREN

OFFICE MARKET REPORT

METRO DETROIT

2Q
2020

LEASING

In the first six months of 2020, over 1.8 million SF was absorbed by office using tenants, across nearly 500 new leases. The coronavirus pandemic has resulted in an increase in rent discounts and is now approaching almost 2%. The average rental rate for office space, all classes, is \$20 per SF, but is expected to decrease more than \$1 p/sf over the next few quarters as the pandemic stunts any rent growth until 2021. Vacancy rates in Q2 are at about 9.9% which is a slight increase since Q1 2020.

SALES

The average sale price for Detroit Office as of Q2 2020 is \$107.00 per SF, which is a slight increase from Q1. Since the coronavirus pandemic started, more than 50 office properties have traded hands, with the largest transaction being for the Pace Southeast Michigan Office Building in the Macomb East Submarket that sold for \$3.45 million.

CONSTRUCTION

One major project nearing completion is Hudson's Tower, a 366,000-SF office and residential tower in the central business district and the One Campus Martius Expansion; both by Bedrock Development. The new headquarters for Cooper-Standard Automotive, a 110,000-SF office building being developed by Schostak Brothers & Company, will be completed by Q2 2020.

NOTABLE OFFICE TRANSACTIONS IN Q4 2019 - Q1 2020:

- Sale of Summit Centre in Troy, a 36,000 SF building for \$3.7 M
- 21,221 SF of office space leased at 31440 Northwestern Hwy

FEATURED OFFICE LISTINGS IN THE METRO-DETROIT AREA



FOR LEASE | FARMINGTON HILLS



FOR SALE | MILFORD



FOR SALE/LEASE | SOUTHFIELD

Metro Detroit's Office Market Statistics

Market Area	Inventory SF	% of Market	Vacancy %	Market Rent p/SF	SF Under Construction
The Pointes/Harper Woods	1.4 M	0.7%	8.9%	\$22.91	0
CBD	29.2 M	14%	8.0%	\$24.27	1,098,000
Detroit - W of Woodward	4.8 M	2.5%	18.9%	\$20.69	458,000
Detroit - E of Woodward	5.6 M	2.9%	12.9%	\$21.47	0
Southfield	23.7 M	12%	15.5%	\$18.12	55,000
Farmington	9.6 M	5%	9.4%	\$20.18	200,000
Southern I-275 Corridor	12.0 M	6.2%	6.8%	\$19.17	157,000
Central I-96 Corridor	6.2 M	3.2%	10.1%	\$22.91	210,000
Troy North	5.3 M	2.8%	13.5%	\$20.67	0
Troy South	13 M	6.7%	21.2%	\$21.05	0
Macomb West	9.0 M	4.7%	4.7%	\$17.62	0
Macomb East	8.1 M	4.2%	9.0%	\$17.54	73,000
Airport District	3.0 M	1.6%	5.8%	\$19.17	5,000

For additional market information, contact P.A. Commercial. Source: CoStar.

INDUSTRIAL MARKET REPORT

METRO DETROIT

2Q
2020

LEASING

At 3.7%, Detroit's industrial vacancy rate is near the lowest level ever recorded. With over 35% of annual net new delivery being absorbed and close to 6.5 million SF under construction, it's unlikely that local industrial vacancies will be able to go below 3% in the years ahead. Average market rents have rose to an average of \$7.01 per SF, which is a slight increase from Q1 2020 and the highest CoStar has recorded in the last 20 years.

SALES

Detroit's industrial market is one of the largest, and strongest, markets in the Midwest and the nation. Over the past 12 months, \$563 million worth of inventory has traded hands, with an average market sale price of \$58/SF. Cap rates have been holding steady at just below 8.5% for the entire year and are likely to stay around this average for the foreseeable future.

CONSTRUCTION

There are 47 properties under construction, totaling 6.4 million SF, with less than half of that being pre-leased. The Crossroads Distribution Center in the Airport District, at 1.6 million SF, is the largest project under development and dwarfs all the other projects threefold.

NOTABLE INDUSTRIAL TRANSACTIONS DURING Q1 - Q2 2020:

- Jing-Jin Electric North America purchased a 86,700 SF industrial building in Farmington Hills
- Mobility Transportation purchased a 101,089 SF industrial building in Livonia
- Lease of 125,000 SF of Detroit industrial space to Gallagher-Kaiser Corp

FEATURED INDUSTRIAL LISTINGS IN THE METRO-DETROIT AREA



FOR LEASE | LIVONIA



FOR SALE | WARREN



FOR SALE/LEASE | TROY

Metro Detroit's Industrial Market Statistics

Market Area	Inventory SF	% of Market	Vacancy %	Market Rent p/SF	SF Under Construction
Airport District	52 M	8.8%	2.5%	\$6.87	2,305,000
Detroit East	44.2 M	7.7%	4.7%	\$5.20	724,000
Detroit West	45.7 M	7.5%	8.7%	\$5.18	0
Groesbeck Central	15.6 M	2.6%	3.7%	\$6.97	95,000
Groesbeck South	19.2 M	3.3%	2.3%	\$6.25	10,000
Groesbeck North	31.6 M	5.3%	2.5%	\$7.23	296,000
W of Van Dyke/Macomb	63.5 M	10.7%	2.3%	\$7.50	428,000
Royal Oak	14.8 M	2.5%	3.1%	\$6.99	911,000
Livonia	42.1 M	7.1%	3.4%	\$7.28	29,000
Central I-96 Corridor	34.1 M	8.1%	4.6%	\$9.22	294,000
Southern I-275	18.1 M	3.2%	5.1%	\$6.90	385,000
Southfield	6.1 M	1%	7.5%	\$8.55	0
Farmington/Farmington Hills	11.5 M	1.9%	5.7%	\$8.73	0
Troy Area East	12.5 M	2.1%	2.7%	\$7.74	0

For additional market information, contact P.A. Commercial. Source: CoStar.

PERSPECTIVE Q2 2020
P.A. COMMERCIAL

DEALS AND DOINGS FOR THE P.A. COMMERCIAL TEAM!

2Q
2020



FROM THE HEADLINES | RE JOURNALS

P.A. COMMERCIAL SELLS FORMER DUNKIN' DONUTS IN STERLING HEIGHTS

April 1, 2010 - A local investor plans to convert this 3,400-square-foot building into an independent fast-casual concept and maintain the drive-thru for call-ahead orders. With the help of Dan Blugerman, he was able to purchase this asset before it was offered on the market.

[READ MORE](#)

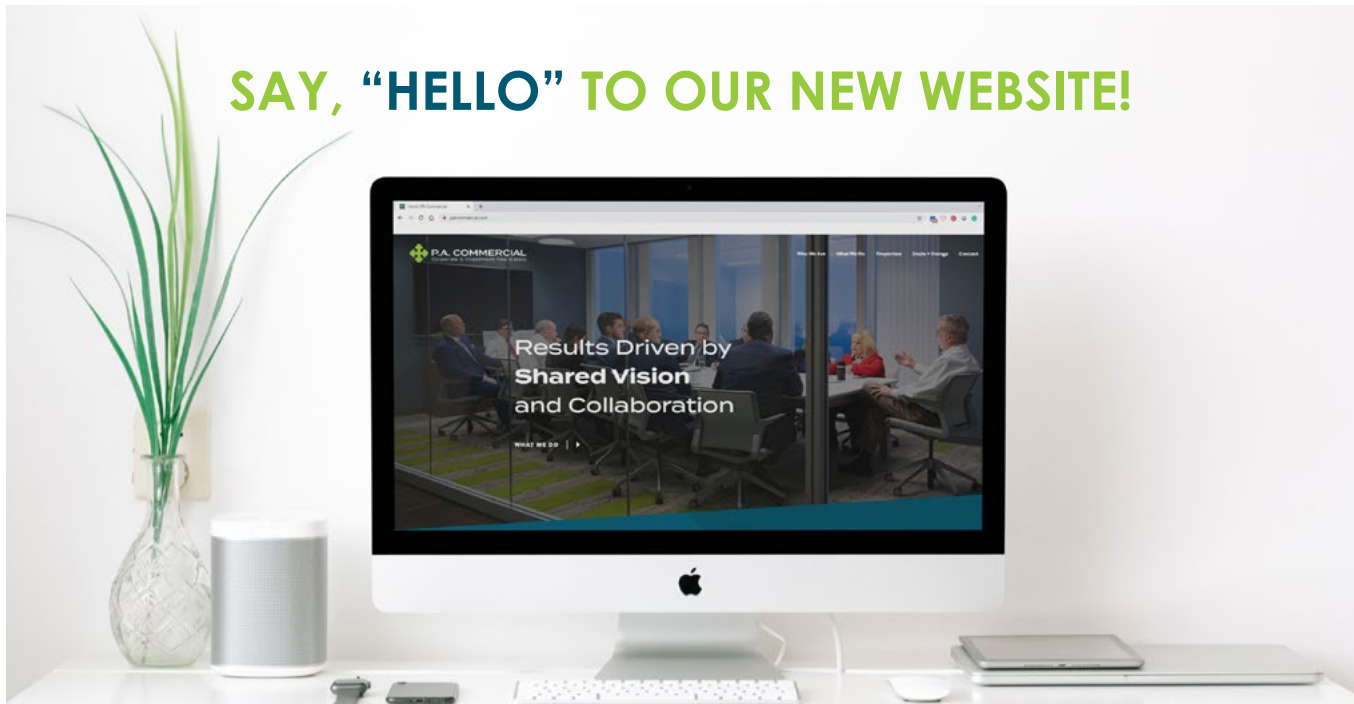


FROM THE HEADLINES | COSTAR

FEDEX CORP RENEWS LEASE AT WESTWOOD OFFICE PARK

May 21, 2020 - Logistics Giant, FedEx Corp renewed its 10,000 SF lease at Westwood Office Park in Livonia Michigan. Peter Ventura and Matthew Schiffman represented the landlord in negotiations. All parties involved were able to secure the deal while working remotely.

SAY, "HELLO" TO OUR NEW WEBSITE!



After five months of hard work and collaboration, we are delighted to officially announce the launch of our new website! Our goal with this new website was to provide our clients and visitors an easier way to learn about our available listings, services, and brokerage team while also being able to check up on recent deals and company news. As a result, the new website is now faster, mobile-optimized, easier to navigate, user-friendly, and a perfect representation of the P.A. brand.

Check it out at www.pacommercial.com

RECENT DEALS | SALES

OFFICE | INDUSTRIAL | RETAIL

2Q
2020

Below is a sample of office and industrial listings that the P.A. Commercial brokerage team have sold or leased during Q1 - Q2 2020!

For a full list of industrial, retail, land, and other investment opportunities - please visit www.pacommercial.com



OFFICE SALE - FARMINGTON HILLS



OFFICE SALE - LIVONIA



RETAIL SALE - ST. CLAIR SHORES



INDUSTRIAL SALE - PORT HURON



RETAIL SALE - FARMINGTON



OFFICE SALE - HIGHLAND



INDUSTRIAL SALE - FRASER



INDUSTRIAL SALE - WARREN



RETAIL SALE - ST CLAIR SHORES

RECENT DEALS | LEASES

OFFICE | INDUSTRIAL | RETAIL

2Q
2020



OFFICE LEASE - FARMINGTON HILLS



INDUSTRIAL LEASE - FRASER



OFFICE LEASE - CLINTON TWP



INDUSTRIAL LEASE - SHELBY TWP



OFFICE LEASE - FARMINGTON



OFFICE LEASE - LIVONIA



RETAIL LEASE - GRAND BLANC



INDUSTRIAL LEASE - STERLING HIGHTS



OFFICE LEASE - BELLEVILLE



P.A. COMMERCIAL
Corporate & Investment Real Estate

26555 Evergreen Road, Suite 1500 | Southfield, MI 48076
O: 248.358.0100 | F: 248.358.5300
pacommercial.com

PERSPECTIVE Q2 2020
P.A. COMMERCIAL