

# PERSPECTIVE Q3 2020

## METROPOLITAN DETROIT COMMERCIAL REAL ESTATE



## 6 Months into the Coronavirus Pandemic, Where is the Metro Detroit CRE Market Headed?

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*The following report is based on a comparison of industrial, office, retail, and multi-family sales in Wayne, Oakland, and Macomb counties for the calendar months of May, June, and July of 2020 to sales during the same date range in 2019. (CoStar, the world's leading commercial real estate database was used to generate the report)*

### Industrial

	Sale Price/SF	Avg. Sale Price	Sales Volume	Sale vs. Asking \$	Months to Sale
2019	\$41	\$1.1 M	\$99.1 M	-14.0%	8.1
2020	\$36	\$912 K	\$22.8 M	-15.0%	9.3

This strongest segment of commercial real estate was least impacted by the early stages of the pandemic. Aside from the 69% reduction in sales transactions, other indications show no major shift from the same period of the previous year. We were not surprised to see the reduction in average size, but it was interesting to see the largest sale decreased from \$16 M in 2019 to just \$4 M in 2020.

One data point that was unexpected is the sale discount from listing price. One sale in 2019 was at a 61% discount while the averages for 2019 and 2020 were -14% and -15%, respectively.

The property size for closed industrial sales was 36% less (23,300 vs 36,300 SF), but we do not see this as an indication of market impact by the pandemic.

### Office

	Sale Price/SF	Avg. Sale Price	Sales Volume	Sale vs. Asking \$	Months to Sale
2019	\$97	\$1.9 M	\$141 M	-15.9%	12.2
2020	\$87	\$1.1 M	\$15.8 M	-13.6%	9.4

Office buildings remain close to empty or at least at reduced capacity, so we expected to see a fall-off of sales. However, we found some positive reinforcement for office building owners; Office sale prices on a per sq ft basis were just 10% lower in 2020. Therefore, we conclude this was a "discount" for selling during the early stages of the pandemic.



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It's interesting to see that the discount of sale price to asking price improved from 2019 to 2020 from -15.9% to -13.6%, respectively. Sales in 2019 also took an average of 12.2 months to close, while 2020 sales were much faster, with an average of 9.4 months to close.

We conclude owners/sellers withdrew from the market and are waiting for better market conditions before placing their office investments for sale.

### Retail

	Sale Price/SF	Avg. Sale Price	Sales Volume	Sale vs. Asking \$	Months to Sale
2019	\$190	\$3.5 M	\$1.6 B	-12.2%	13.8
2020	\$60	\$989 K	\$113 M	-13.9%	16.8

Sales volume reduced 93% from \$1.6 billion to \$113 million, but the transaction count only reduced 6.6% from 777 sales in 2019 to 257 sales in 2020.

Looking closely at the results, we see portfolio sales (multi-property transactions) and larger property sales (shopping centers) were most impacted as their percentage of the overall sale market was reduced. This period averaged only \$60/sf (compared to the prior years \$190/sf), and these properties were on the market for an average of 16 months, which shows that many of these sellers "could not wait any longer" and likely agreed to price reductions by purchasers looking to capitalize on this opportunity.

During 2019, the difference of sale price vs asking price was 12.2%. Therefore, in the "normal time" the sale closed at 88% of listing price. During this initial phase of the pandemic, the sale prices closed at 86% of listing price.

### Multi-Family

	Sale Price /Unit	Avg. Sale Price	Sales Volume	Sale vs. Asking \$	Months to Sale
2019	\$70,724	\$3 M	\$120 M	-16.0%	6.7
2020	\$43,446	\$893 K	\$8 M	-14.7%	15

The apartment market has been the most sought-after category because of the steady cash flow and conditional monetary values. With the stay at home order and eviction moratoriums (legal or not), this may be the most challenged category of real estate in the short term. The impact of the pandemic was dramatic, but the results on long-term value will not be known for many months.

Our investigation of the initial 90 days shows sales dropped from 62 to 20 closings during the same period the previous year. Well-positioned apartment investments usually sell quickly, and the 2019 average time on the market was 6.7 months from listing to close. We see the sales in the corresponding 2020 period were 15 months, and so conclude these sales were the less attractive of the inventory, and the sellers were not willing to hold out to "wait and see" how the pandemic would affect apartment values. This view is supported by looking closely at the average price per unit which was \$70,729 in 2019 and \$43,446 in 2020 - indicating those investments sold were at the lower end of the market.

We hope you found this information useful and insightful. P.A. Commercial uses the full suite of Costar data and services and can prepare targeted research reports as required by our clients. Please contact your agent if you have an interest in a specific product report.



# OFFICE MARKET REPORT

## METRO DETROIT

3Q  
2020

Vacancies are expected to rise throughout 2020 and 2021, amid weakening demand for traditional office space and high unemployment in the office sector. Since the pandemic began, 70,000 jobs that operate in the office sector have been lost. With companies adopting social distancing measures and eschewing traditional floor plans that maximize productivity over free space, watch for a possible exodus from the urban core to suburbs.

### LEASING

Coronavirus and the resulting economic fallout have turned the leasing market on its head, but there are still bright spots that should not be overlooked. Rent has fallen by almost \$2/SF for leases signed during the second quarter versus the first, and the potential for additional regression is legitimate.

### SALES

Only \$12 million in transactions were made inside the second quarter. Compared to the first quarter, the number of individual transactions fell by 80%, and the discount on asking prices increased to close to 15%.

### CONSTRUCTION

Since the year began, over 226,000 SF has been delivered, with the largest being the 110,000-SF build-to-suit to serve for Cooper-Standard Automotive's new Headquarters in Northville.

### NOTABLE OFFICE TRANSACTIONS IN Q2 2020:

- Shinola leased 82.2 K of office space at Center for Creative Studies
- Faurecia USA leased 42.5 K of office space on Northwestern Hwy
- Sale of 550 Stephenson Hwy for \$6.1 M

## Metro Detroit's Office Market Statistics

Market Area	Inventory SF	Vacancy %	Market Rent p/SF	Market Sale p/SF	SF Under Construction	Market CAP Rate
The Pointes/Harper Woods	1.4 M	7.3%	\$22.78	\$106	0	9.8%
CBD	27.2 M	8.4%	\$24.66	\$122	1.1 M	9.7%
Detroit - W of Woodward	4.8 M	20.7%	\$20.38	\$95	485K	9.8%
Detroit - E of Woodward	5.7 M	12.9%	\$21.51	\$96	0	10%
Southfield	23.8 M	17%	\$18.25	\$88	55K	9.5%
Farmington	9.7 M	9.4%	\$20.35	\$113	200K	9.3%
Southern I-275 Corridor	12.4 M	6.9%	\$19.62	\$112	29.8K	9.3%
Central I-96 Corridor	6.2 M	10.5%	\$23.15	\$132	220K	9.1%
Troy North	5.4 M	13.5%	\$20.77	\$97	0	9.4%
Troy South	13 M	22.4%	\$21.11	\$97	0	9.5%
Royal Oak	5.4 M	7.5%	\$20.09	\$103	245K	9.3%
Macomb West	9.1 M	4.9%	\$17.87	\$99	0	9.6%
Macomb East	8.1 M	9%	\$17.54	\$101	72.9K	9.5%
Airport District	3.1 M	5.9%	\$19.82	101	0	9.7%

### FEATURED OFFICE LISTINGS IN THE METRO-DETROIT AREA



FOR LEASE | MOUNT CLEMENS



FOR SALE | FARMINGTON HILLS



FOR LEASE | WARREN

# INDUSTRIAL MARKET REPORT

## METRO DETROIT

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2020

### LEASING

Even with the ongoing pandemic and economic downturn, Detroit's industrial vacancy rate is near the **lowest level ever recorded**. It's unlikely that local industrial vacancies will be able to go below 3% in the years ahead. Rents for industrial properties hover near \$7.00/SF, the highest rental rate in the past 20 years

### SALES

The Coronavirus pandemic severely disrupted the continuing trend where \$100 million in sales were exchanged annually. Investments effectively collapsed in the second quarter as only \$35 million changed hands during the pandemic - the worst quarter in over ten years. Despite all the economic uncertainty, Detroit is still the automotive capital of the world and attracts many automotive suppliers to the region which contributes to the increased demand in the market.

### CONSTRUCTION

Demand for new industrial facilities has not wavered from trade tensions between the United States and her allies and the economic downturn from the Coronavirus pandemic. Expansions of new projects, specifically near the Detroit International Airport and on the east side of Detroit, will push the envelope in terms of how much new supply the market can handle in a post-coronavirus economy.

### NOTABLE INDUSTRIAL TRANSACTIONS DURING Q2 - Q3 2020:

- Amazon leased 569,532 SF of distribution space on Mound Road
- Hawthorne Gardening Co leased 254,625 SF of space in the Airport District
- Sale of 6401 W Fort Street in Detroit for \$21.3 M
- Sale of 201 S Waterman Street in Detroit for \$13.3 M

### FEATURED INDUSTRIAL LISTINGS IN THE METRO-DETROIT AREA



FOR LEASE | CLINTON TWP.



FOR SALE | HARRISON TWP.



FOR SALE/LEASE | OAK PARK

## Metro Detroit's Industrial Market Statistics

Market Area	Inventory SF	Vacancy %	Market Rent p/SF	Market Sale p/SF	SF Under Construction	Market CAP Rate
Airport District	52 M	3.9%	\$6.90	\$53	2.5 M	8.9%
Detroit East	44.2 M	4.6%	\$5.27	\$43	674 K	9.0%
Detroit West	47 M	9.1%	\$5.17	\$39	0	9.7%
Groesbeck Central	15.6 M	3.4%	\$7.03	\$57	95 K	9.6%
Groesbeck South	19.4 M	2.6%	\$6.27	\$54	10 K	9.4%
Groesbeck North	31.8 M	2.2%	\$7.29	\$64	250 K	9.0%
W of Van Dyke/Macomb	63.5 M	1.5%	\$7.56	\$65	428 K	8.5%
Royal Oak	14.9 M	3%	\$7.02	\$68	911 K	9.3%
Livonia	42.1 M	3.7%	\$7.30	58	28 K	8.9%
Central I-96 Corridor	34.1 M	4.9%	\$9.22	\$80	162 K	8.8%
Southern I-275	18.9 M	5.5%	\$6.91	\$54	385 K	9.0%
Southfield	6.1 M	7.8%	\$8.43	\$70	0	9.1%
Farmington/Farmington Hills	11.5 M	6.1%	\$8.68	\$70	0	9.0%
Troy Area Central	9.2 M	2.9%	\$7.34	\$66	0	9.4%
Troy Area East	12.6 M	3.9%	\$7.73	\$68	0	9.6%
Troy Area West	9.2 M	3.5%	\$8.51	\$71	0	9.0%

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

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

3Q  
2020



## P.A. ASSOCIATES ENJOY ANNUAL FALL GOLF TOURNAMENT

Our brokerage team participated in our annual fall golf tournament on September 24<sup>th</sup> at TPC Michigan Golf Course in Dearborn. In its seventh year, this annual outing is a great way for our agents to enjoy each others' company outside of the office. This year, the green team, comprised of Matt Schiffman, David Plumley, Anthony Pellegrino, and John T. Arthurs took home the trophy!



## OVER 120 DEALS CLOSED DURING PANDEMIC

Congratulations to our brokerage team for closing on 120 listings in the metro Detroit area in the last 6 months, 80 of those transactions were closed since the distribution of our last newsletter! Regardless of unfavorable market predictions due to Covid-19, our brokerage team has continued to meet their client's goals safely and efficiently.



## FROM THE HEADLINES | DETROIT FREE PRESS

### PANDEMIC COULD PUT HIGH-PROFILE DETROIT PROJECTS AT RISK

What will the office landscape of downtown Detroit look like after the dancer of the Coronavirus subsides? P.A.'s own Matt Schiffman weighs in with other local experts in this article published by the Detroit Free Press.

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 CoStar™  
**POWERBROKER™**  
QUARTERLY DEALS | WINNERS

2020  
**Q2**  
DEALS



**Peter Ventura**  
MANAGING PARTNER/CEO



**Matt Schiffman**  
SENIOR ASSOCIATE

CoStar Group, Inc., announced in August the Power Brokers Quarterly Deals winners for the second quarter of 2020. Peter Ventura and Matthew Schiffman of P.A. Commercial came out on top in the list of winners for metro Detroit office leases.

This CoStar Power Broker Quarterly Deal award was given for their work inking a 10,000 SF lease renewal for FedEx Corporation, located at 36131 – 36141 Schoolcraft Rd in Livonia, Michigan, also known as Westwood Office Park. Peter and Matt represented the landlord in the transaction.

**Congratulations to Matt & Pete  
on this accomplishment!**



# RECENT TRANSACTIONS

## OFFICE | INDUSTRIAL | RETAIL

3Q  
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Below is a sample of office and industrial listings that the P.A. Commercial brokerage team have sold or leased during Q2 - Q3 2020!

For a full list of industrial, retail, land, and other investment opportunities - please visit [www.pacommercial.com](http://www.pacommercial.com)



OFFICE SALE - WARREN



INDUSTRIAL LEASE - LIVONIA



5-ACRE LAND SALE - NOVI



INDUSTRIAL SALE - MADISON HEIGHTS



OFFICE LEASE - ST CLAIR SHORES



INDUSTRIAL LEASE - HARRISON TWP



RETAIL LEASE - WARREN



OFFICE LEASE - FERNDALE



RETAIL LEASE - GROSSE POINTE