

PERSPECTIVE Q1 2022

METROPOLITAN DETROIT COMMERCIAL REAL ESTATE



THE 2021 CRE MARKET: ALL ABOUT SUPPLY & DEMAND

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“Real estate is all about supply and demand.....”
Said Samuel Zell, an American billionaire and founder/chairman of Equity Group Investments, in a CNBC interview.

Zell is correct. The supply and demand levers are like hot and cold spigots on a bathtub and the volume of these levers are controlled by factors such as unemployment, consumer confidence, and technology, among others. Of late, COVID-19, supply chain challenges, a disjointed political environment, the jobs market, and most recently, inflation, have impacted the commercial real estate market's supply and demand even more.

The Detroit CRE market is slowly getting back on track from the Coronavirus Pandemic; however, the rise of Omicron variant cases is casting a shadow on the path to recovery. The multifamily, industrial, and retail property markets will continue to recover more quickly than the office market where vacancy rates will likely remain elevated in 2022 compared to the pre-pandemic level.

Let's take a look at each of these markets to see how they performed in 2021 and where they might be headed this year.

MULTI-FAMILY

Detroit's multifamily sector has experienced continued strength throughout the past year. While supply has ramped up noticeably, it hasn't been able to keep up with the demand, resulting in a multi-year low vacancy rate of 4.5%. Concessions in downtown and suburban areas have significantly decreased and currently sit at the lowest levels the Detroit market has seen in years.

From an investment perspective, there have been 395 closed Multifamily transactions since 2019 with a Sales Volume of over \$900M. In 2021 there were 151 transactions (38%) with a Sales Volume of \$291M. The CAP Rates for these transactions are 8.5% and 8.9% respectively.

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INDUSTRIAL

At 611 million SF, Detroit has the eighth-largest industrial inventory of any market in the U.S., and current projects under construction represent only 1.5% of this inventory. Heading into 2022, market conditions continue to work in Detroit landlords' favor. Detroit's industrial leasing is at a five-year high, and the vacancy rate of 4.3% is sitting near an all-time low. E-commerce-related tenants serving the local population such as Amazon and third-party logistics providers like FedEx are increasingly expanding their local footprint, as are manufacturers like Century Plastics, Lear, and Integrated Manufacturing & Assembly. This has benefited properties near key logistics and manufacturing nodes spread across the Detroit metro, like the Detroit Metropolitan Wayne County International Airport, Detroit's east side, and Pontiac/Auburn Hills. While development activity has been turning up, there's little risk that new supply will tilt the market dramatically in tenants' favor during 2022–23.

Like the Multifamily market, the Detroit Industrial market is relatively hot for investors. Since January 2019, there been \$1.2B in Sales over 595 transactions, with a Cap Rate of 8.5%. In 2021, the respective numbers are \$429M in Sales over 230 transactions, with a 7.9% Cap Rate.

RETAIL

Detroit's retail sector struggled to regain its footing amid challenges on multiple fronts, including prolonged state government-mandated closures and the recent surge in cases related to the Omicron variant. However, retailers have reassessed operational conditions and continue to seek out advantageous locations. While recent leasing activity is slightly below pre-pandemic levels, resumption of activity across Detroit leaves reason for optimism.

From an investment perspective, there have been 1,166 closed transactions since 2019 with a Sales Volume of over \$1.3B. In 2021 there were 442 transactions (38%) with a Sales Volume of \$394M. The CAP Rates for these transactions are 8.1% and 7.4% respectively.

OFFICE

With the repercussions from 2020's lockdown still echoing, and just as businesses were planning to have employees return to the office, new variants of the coronavirus have continued emerging as significant threats in recent months. With this level of uncertainty, many companies have opted to hold off and push back the projected deadlines for workers to return to the office. Office demand in the Detroit area dropped sharply throughout the last year, with over 2M square feet of space being returned to the market.

While the pandemic weighed on investment activity, the Office Market should not be ignored. Since 2019, there have been 534 transactions worth \$991M with 196 transactions valued at \$316M in 2021. The respective Cap Rates are 9.1% and 8.5%.

WHERE TO INVEST IN 2022?

Unlike multi-family or industrial, where supply is limited, there are currently 26,619 retail properties and 9,866 office properties available in Metro Detroit. With a vacancy rate of 5.2%, the retail segment is performing well. The sales volume for retail properties for the past 3 years is also higher than any other market segment. In addition, the office segment is also performing well with a 11.8% vacancy rate.

Happy investing in 2022!

OFFICE MARKET REPORT

METRO DETROIT

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Office demand in the Detroit area dropped sharply last year, with over 2 million SF of space being returned to the market. This pushed vacancy up to 10.9% over the course of the year. This trend has continued through the reopening of Michigan's economy, and into the winter, with just under 800,000 SF being returned to the market in 2021. Vacancy is now 11.8%, while availability is 15.5%.

LEASING

A subdued pace of leasing has continued as businesses continue to debate the best return to work strategies. Weakness is concentrated in the urban submarkets of Detroit, as the surrounding suburbs saw a modest increase in the amount of leasing activity by square footage. Detroit falls in the middle of the pack when assessing affordability as compared to other Midwest markets with average asking rents of \$21/SF as of 21Q3.

SALES

Investment activity picked back up in 2021, with \$321 million in assets trading as of late September. Institutional and private equity investors drove the bulk of activity, concentrated in the Southern I-275 Corridor, Central Business District, Southfield, and Farmington Hills submarkets.

CONSTRUCTION

Through 21Q4, there's been significant activity deceleration, with only 239,385 SF breaking ground, an 85% decline in new projects being initiated. As of 21Q4, there is 2.5 million SF under construction, with the city of Detroit representing almost half. Approximately 37% of the square footage underway is available.

FEATURED OFFICE LISTINGS IN THE METRO-DETROIT AREA



10,466 SF MULTI-TENANT | FARMINGTON HILLS



10,238 SF FOR SALE/LEASE | ST. CLAIR SHORES



UP TO 5,678 SF OF MEDICAL | W. BLOOMFIELD

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	6.4%	\$23.02	\$111	0	9.8%
CBD	27.4 M	9.4%	\$24.65	\$136	788K	9.3%
Detroit - W of Woodward	4.9 M	18.7%	\$21.45	\$107	458K	9.5%
Detroit - E of Woodward	5.8 M	14.8%	\$23.73	\$113	0	9.7%
Southfield	23.6 M	18.2%	\$18.50	\$100	0	9.1%
Farmington	9.8 M	13.1%	\$20.96	\$134	0	8.9%
Southern I-275 Corridor	12.3 M	11.4%	\$19.69	\$131	154K	8.9%
Central I-96 Corridor	6.2 M	13.7%	\$23.54	\$158	0	8.6%
Troy North	5.5 M	17.1%	\$21.06	\$102	0	9.5%
Troy South	13 M	24.6%	\$21.92	\$104	0	9.5%
Royal Oak	5.6 M	9.6%	\$21.18	\$109	140K	9.4%
Macomb West	9.6 M	5.6%	\$18.56	\$104	10.6K	9.7%
Macomb East	8.4 M	9.3%	\$18.07	\$102	67.3K	9.8%
Airport District	3 M	7.2%	\$19.38	\$109	8K	9.6%

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

INDUSTRIAL MARKET REPORT

METRO DETROIT

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Just like we saw in 2020, the Detroit industrial market has been the most resilient among the commercial real estate sectors in 2021. Continued growth is expected in the Central I-96 Corridor, particularly within Novi and Wixom as these areas have more space for development compared to mature submarkets closer to the urban core and continue to attract interest from developers, investors, and tenants.

LEASING

Detroit's industrial market has been operating at nearly full capacity for almost half a decade, with vacancies and availabilities running below the U.S. average throughout most of 2015–21. In recent months, leasing reached a five-year quarterly high market wide, indicating growing demand from tenants. The Airport District - the second-largest submarket, at 55 million SF, accounts for the largest amount of leasing as of 21Q4, soaking up 30% of all 2021 leasing activity.

SALES

Recent activity has stabilized and appears on pace to match last year, with \$455 million changing hands at mid-year, driven by several large acquisitions made by industrial REITs.

CONSTRUCTION

Since the start of the pandemic, there has been an uptick in development activity, with just over 9.9 million SF under construction as of 21Q4, but this represents about 1.6% of inventory, compared to 2.9% for the U.S. Over the long term, the corridors along I-96 and I-275 in the west of the metro are also where Detroit's largest projects in planning are located.

FEATURED INDUSTRIAL LISTINGS IN THE METRO-DETROIT AREA



MARIJUANA PROPERTY FOR SALE | WARREN



12,721 SF FOR LEASE | STERLING HEIGHTS



UP TO 65,979 SF FOR LEASE | WARREN

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	54.9 M	3.8%	\$7.57	\$64	2.1M	8.5%
Detroit East	46.1 M	10.9%	\$5.90	\$55	0	8.5%
Detroit West	47.9 M	8.1%	\$5.79	\$53	1.3 M	8.8%
Groesbeck Central	15.6 M	2.8%	\$7.59	\$64	0	9.4%
Groesbeck South	19.5 M	3.7%	\$6.94	\$60	0	9.2%
Groesbeck North	32.3 M	1.5%	\$7.92	\$72	375 K	8.9%
W of Van Dyke/Macomb	63.7 M	2.7%	\$8.33	\$69	1.6 M	8.5%
Auburn Hills, Pontiac, Rochester	54.1 M	4.4%	\$8.69	\$85	1.5 M	8.5%
Royal Oak	15.8 M	2.0%	\$7.59	\$77	73.2 K	9.0%
Livonia	42.2 M	2.7%	\$7.88	\$74	741 K	8.2%
Central I-96 Corridor	34.6 M	4.0%	\$9.81	\$88	1.5 M	8.7%
Southern I-275	19.4 M	4.7%	\$7.55	\$66	652 K	8.6%
Southfield	6.2 M	4.2%	\$8.99	\$79	0	8.9%
Farmington/Farmington Hills	11.8 M	4.6%	\$9.21	\$77	0	8.8%
Troy Area East	12.6 M	4.6%	\$8.28	\$76	0	9.2%
Troy Area West	9.2 M	2.9%	\$9.24	\$82	0	8.8%

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

RECENT TRANSACTIONS

OFFICE | INDUSTRIAL | RETAIL

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Below is a sample of property listings that the P.A. Commercial brokerage team have sold or leased during Q4 2021.

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



INDUSTRIAL SALE - VAN BUREN TWP



RETAIL SALE - FARMINGTON



MULTIPLE OFFICE LEASES - DETROIT



MULTIPLE RETAIL LEASES - FARMINGTON



OFFICE SALE - WARREN



OFFICE LEASE - SHELBY TOWNSHIP



INDUSTRIAL SALE - WARREN



RETAIL SALE - WARREN



MEDICAL OFFICE SALE - LIVONIA