



PERSPECTIVE Q3 2023

METROPOLITAN DETROIT COMMERCIAL REAL ESTATE



UNLOCKING OPPORTUNITY: WHY DETROIT'S CRE MARKET IS ONE OF THE BEST INVESTMENT DESTINATIONS IN THE U.S.

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The Detroit commercial real estate market offers investors promising opportunities to purchase property with potentially high ROI. Detroit has experienced a resurgence in recent years, with new businesses and developments popping up throughout the city.

This trend makes Detroit an ideal place to invest in CRE as prices are still relatively low compared to other markets, making now a great time to get involved in the Detroit market.

Despite several economic challenges including the Central Bank's interest rates increase, the Covid-19 Virus, climate change, and multiple supply chain issues, Commercial Real Estate offers historically higher returns than other investments.

Why should CRE Buyers continue to look at Detroit?

As the largest city in Michigan, Detroit benefits from years of urban revitalization and is now ripe with opportunity for CRE investing. Detroit is unique due to its proximity to the Canadian Border, strong, diverse economy, vibrant cultural scene, and as home to the 'big three' car manufacturers: General Motors, Ford, and Stellantis.

Detroit real estate investing has attracted many new investors, especially those who know where to look and prioritize quality property management. With high-end retailers like Whole Foods moving in, and high-tech giants like Microsoft, Google, and Pinterest opening offices here, Detroit's future is looking bright.



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Perhaps the biggest reason to invest in Detroit CRE is the comparative performance, i.e., Return on Investment. Detroit ranks very high among the top 40 most populated markets in the country. When looking at Cap Rates for sold properties in these populated markets, Detroit is in the top 1/3 across all property types.

In the Detroit Office market, Cap Rates are running at 10.2%, which is 2.2% above the national average of 8% and the third highest when compared to the other 39 markets.

The areas with the highest sales volumes are Bloomfield West, Troy North, and Troy South, with \$80.8 million, \$77.6 million, and \$67.1 million in sales, respectively. There were also other active areas, such as suburbs surrounding the urban core, including the Southern I-275 Corridor, Farmington/Farmington Hills, and Southfield submarkets.

For the Industrial sector, Cap rates are running at 6.9%, which is the same as the average across the 40 most populated markets. Sales transactions were spread throughout the metropolitan area, with some of the top submarkets for sale transactions including the Airport District, Detroit West, Auburn Hills, Pontiac, Rochester, and W of Van Dyke/Macomb as investors zeroed in on geographic areas best situated for logistics facilities.

The average cap rate for retail properties across the 40 most populated markets is 6.7%, which just like Industrial properties, is the same for Detroit. The Detroit area has been a frequent target for retail buyers in recent years, and over the past 12 months, \$914 million has changed hands, coming in above the five-year average of \$691 million. With continued investor interest, pricing has been increasing, averaging \$137/SF, with the market cap rate compressing slightly by about 10 basis points as of 23Q2.

Over the past few years, **investors have been targeting Detroit multifamily assets**, with some national investors looking to diversify geographically. The Cap Rate for the Multifamily, which is way below the Market Cap Rate, was impacted by a couple of large transactions that are around a 4% Cap Rate. Since hitting an all-time high annual sales volume of \$2.3 billion in 22Q3, transactional pacing and volume have steadily tapered off as buyers and sellers continue with price discovery. Even with softening demand, over the past 12 months, about \$534 million worth of assets changed hands, aligning with the 10-year annual sales volume average of \$551 million.

So why Detroit? As of today, there are 227 investment properties for sale in Metro Detroit with an average cap rate of 7.9%. If you're a savvy investor who likes to come in at a prime location with an opportunistic environment, now is the time to consider investing in Detroit real estate!

OFFICE MARKET REPORT

METRO DETROIT

Q3
2023

Although the demand for office space has decreased overall, lease renewals are still occurring and companies are still relocating. But much of this activity reflects downsizing firms looking for smaller suburban spaces. This office construction boom during the 1980's has left a large pool of aging properties in the Detroit area that are increasingly less attractive to businesses seeking a talented workforce that expects amenities to be offered on-site.

LEASING

Suburban submarkets have shown modest leasing increases over the past 12 months, with positive absorption in only in a handful of submarkets over the past year. Although some major companies downtown, such as GM have started reintegrating employees into the workplace, it's uncertain how this will affect the need for office space in the central business district as hybrid schedules are still being utilized.

SALES

Sales of office properties in the Detroit area have declined over the past 12 months, with the annual sales volume at \$634 million as of 23Q2. This number still comes in well above the historical long-term averages for the area. The areas with the highest sales volumes are Bloomfield West, Troy North, and Troy South, with \$80.8 million, \$77.6 million, and \$67.1 million in sales, respectively.

CONSTRUCTION

The 1.4 million SF of space currently underway should have a minimal impact on market fundamentals, as it represents less than 1% of the area's inventory. Over the past 12 months, roughly 53,000 SF of construction starts have occurred, representing a sizable downward shift in development activity.

FEATURED LISTINGS FOR SALE IN THE METRO-DETROIT AREA



511 FORT ST, PORT HURON | 70,968 SF



209 E WASHINGTON, JACKSON | 348,661 SF



MOB PORTFOLIO | 18,040 SF

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	1.4M	6.9%	\$23.95	\$123	0	10.6%
CBD	27.8M	10.3%	\$24.93	\$132	568K	10%
Detroit - W of Woodward	5M	6.8%	\$21.66	\$112	472K	10.4%
Detroit - E of Woodward	6M	16.4%	\$23.04	\$115	0	10.5%
Southfield	23.5M	22.3%	\$18.87	\$104	0	9.9%
Farmington/Farm Hills	9.7M	15.4%	\$21.13	\$132	0	9.9%
Southern I-275 Corridor	12.7M	11.3%	\$19.90	\$128	9.5K	10.1%
Central I-96 Corridor	6.3M	12.2%	\$24.59	\$151	0	9.8%
Troy North	5.7M	16.5%	\$21.11	\$112	0	10.1%
Troy South	12.2M	18.7%	\$21.21	\$107	0	10.3%
Royal Oak	5.7M	10.1%	\$21.21	\$109	18.7K	10.5%
Rochester	2.9M	10.6%	\$22.49	\$119	13.3K	10.7%
Macomb West	9.7M	7.1%	\$18.00	\$100	35K	11%
Macomb East	8.5M	8.6%	\$18.09	\$99	0	11.2%
Airport District	3.1M	7%	\$19.19	\$134	0	10.3%

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

INDUSTRIAL MARKET REPORT

METRO DETROIT

Q3
2023

Heading into late 2023, Detroit's industrial market continues to be relatively insulated from near-term economic pressures as the level of industrial space under construction remains very limited compared to most large U.S. markets, and what little space is underway maintains relatively high preleasing rates. Vacancy has also compressed with a diverse array of manufacturing and distribution tenants solidifying demand for space.

LEASING

Detroit's industrial sector is still the leader in rent growth as rents have averaged 5.9% annual growth over the past five years, but the pace of gains has pulled back to 3.7% as of 23Q3. Leasing momentum has been most robust at the outer fringes of Detroit's sprawling suburbs along critical transportation routes for logistics properties in submarkets like the Airport District and Central I-96 Corridor.

SALES

As of 23Q3, the pace of activity has decelerated slightly, as investors have appeared to adopt a wait-and-see approach amid interest rate uncertainty. While investing activity has been diffused throughout metro Detroit, the Airport District Submarket, captured the most sales volume at about 18% and the Detroit West Submarket captured the second-largest at just over 13%.

CONSTRUCTION

Although developers in the Detroit area haven't overbuilt over the past few years, there's been an uptick, with just more than 6.2 million SF under construction as of 23Q3. The amount underway in the Detroit area represents roughly 1% of the area's inventory, compared to 3.1% for the U.S.

FEATURED LISTINGS FOR SALE IN THE METRO-DETROIT AREA



70 HOMER, COLDWATER | 39,474 SF



331 GRAHAM, IMLAY CITY | 186,000 SF



23201 BLACKSTONE, WARREN | 9,592 SF

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	56M	1.6%	\$8.26	\$61	1.1M	10%
Detroit East	42.9M	4.1%	\$6.81	\$57	1M	10%
Detroit West	47.9M	11.8%	\$6.35	\$51	118K	10.3%
Groesbeck Central	15.8M	1.7%	\$8.30	\$67	30.2K	10.7%
Groesbeck South	19.7M	2.9%	\$7.51	\$63	0	10.5%
Groesbeck North	33.7M	2.3%	\$8.75	\$79	17K	10%
W of Van Dyke/Macomb	65.2M	1.4%	\$9.11	\$74	1M	9.7%
Auburn Hills, Pontiac, Rochester	55.7M	3.9%	\$9.49	\$91	1.9M	9.6%
Royal Oak	15.8M	3.2%	\$8.52	\$79	0	10.3%
Livonia	42.9M	2.8%	\$8.56	\$70	17.2K	9.8%
Central I-96 Corridor	36.6M	5.4%	\$10.59	\$94	581K	9.8%
Southern I-275	19.8M	1.6%	\$8.31	\$64	74.3K	10.1%
Southfield	6.3M	4.9%	\$9.50	\$79	45K	10.3%
Farmington/Farmington Hills	11.7M	4.1%	\$9.77	\$81	79K	10%
Troy Area East	12.5K	3.4%	\$9.03	\$80	0	10.3%
Troy Area West	9.2M	5.3%	\$10.18	\$86	0	10%

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

RETAIL MARKET REPORT

METRO DETROIT

Q3
2023

Resilience in Detroit's retail sector continues amid economic headwinds and uncertainty surrounding future rate hikes. The pacing of store closure announcements has decreased nationally, offering a sense that tenant demand may continue to stabilize.

LEASING

There has been steady leasing activity for retail space and over the past year, 3.8 million SF has been leased. The Macomb East & West submarkets accounted for roughly 740,000 SF of leasing over the past 12 months as retailers appear to be zeroing in on Macomb County, which has the most extensive inventory of apartment units in the Detroit area, providing plenty of consumer demand.

SALES

The Detroit area has been a frequent target for investors in recent years, and over the past 12 months, \$914 million has changed hands, coming in above the five-year average of \$691 million. With continued investor interest, pricing has been increasing, averaging \$137/SF, with the market cap rate compressing slightly. The most significant transaction this year occurred in April 2023, when the Kohan Retail Investment Group purchased the Fairlane Town Center in Dearborn for \$52 million.

CONSTRUCTION

Developers have added 400,000 SF of retail over the past 12 months, with general retail space composing the most significant portion. Geographically, the Southfield Submarket has the most space in the pipeline, with 250,000 SF underway, followed by Rochester, with 92,000 SF underway.

FEATURED LISTINGS FOR SALE IN THE METRO-DETROIT AREA



1052 W HURON ST, WATERFORD | 20,764 SF



750 N CEDAR, LANSING | 5,964 SF



14000 GRAND RIVER, DETROIT | 13,469 SF

Metro Detroit's Retail 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	2.3M	3%	\$19.73	\$167	0	7.8%
CBD	1.3M	3.6%	\$18.24	\$120	0	7.8%
Detroit - W of Woodward	15.4M	6%	\$13.41	\$109	148K	7.9%
Detroit - E of Woodward	12M	5%	\$14.50	\$107	0	8.2%
Southfield	5.7M	8.3%	\$21.59	\$166	1.2M	6.9%
Farmington/Farm Hills	5.3M	7.7%	\$18.61	\$150	0	7.3%
Southern I-275 Corridor	28.2M	5.4%	\$18.09	\$144	26.3K	7.1%
Central I-96 Corridor	14.2M	4.5%	\$22.92	\$163	13.5M	7.2%
Troy North	1.2M	6.4%	\$22.65	\$184	0	7.1%
Troy South	7.7M	2.4%	\$33.37	\$168	4.8K	7.1%
Royal Oak	12.1M	5.4%	\$18.82	\$156	5K	7.3%
Rochester	5.6M	3.1%	\$25.22	\$161	92.6K	7.2%
Macomb West	27.3M	6%	\$18.98	\$141	35.3K	7.4%
Macomb East	26M	7.9%	\$18.09	\$141	46.1K	7.4%
Airport District	8.3M	5.8%	\$15.38	\$132	6.9K	7.5%

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

RECENT TRANSACTIONS

OFFICE | INDUSTRIAL | RETAIL | LAND

Q3 2023

Below is a sample of property listings that the P.A. Commercial brokerage team have sold or leased during Q2 - Q3 2023.

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



MEDICAL LEASE | FARMINGTON HILLS



INDUSTRIAL SALE | WESTLAND



FLEX LEASE | FERNDALE



RETAIL LEASE | DETROIT



OFFICE SALE | ROSEVILLE



RETAIL LEASE | FARMINGTON



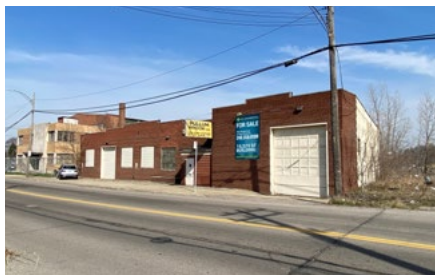
INDUSTRIAL LEASE | FARMINGTON



RETAIL SALE | FARMINGTON



RETAIL LEASE | FERNDALE



INDUSTRIAL SALE | DETROIT



OFFICE LEASE | NORTHVILLE



SPECIAL PURPOSE SALE | SHELBY TWP