

Detroit Retail, Q3 2015

Vacancy falls again as retail market improves steadily

▼ Vacancy Rate
6.7%

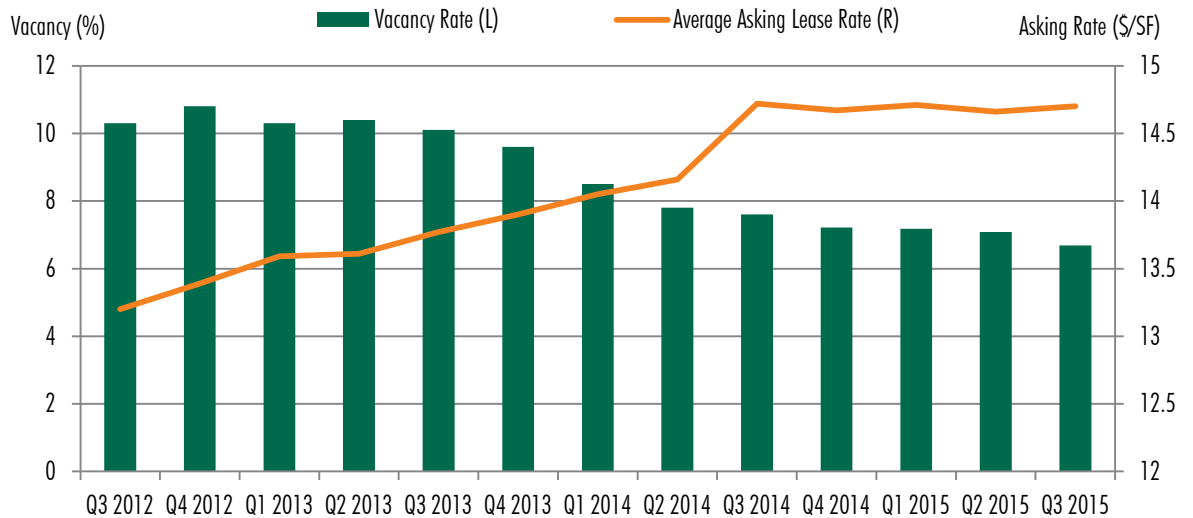
▼ Availability Rate
9.1%

▼ Construction
294,649 SF

▲ Lease Rate
\$14.70

*Arrows indicate change from previous quarter.

Figure 1: Vacancy vs. Average Asking Lease Rate



Source: CBRE Research, Q3 2015.

- The Metro Detroit vacancy rate fell 40 basis points (bps) to 6.7% in Q3 2015. Year-over-year, the vacancy rate has decreased 90 basis points (bps), and is currently at its lowest level in five years.
- The Metro Detroit average asking lease rate increased \$0.04 to 14.70 NNN in Q3 2015. The asking lease rate has risen \$2.74 since Q3 2010.
- Notable retailers that have announced new locations in Metro Detroit this year include Whole Foods (46,000 sq. ft.), Saks Fifth Ave OFF 5th (34,338 sq. ft.), and Nordstrom Rack (32,550 sq. ft.), just to name a few.

METRO DETROIT

MARKET FUNDAMENTALS IMPROVE IN Q3 2015

The Metro Detroit retail market improved steadily in Q3 2015, as the vacancy rate decreased 40 bps to 6.7%. The vacancy rate has decreased in eight of the last nine quarters, and is down 360 bps in the past three years. The average asking lease rate increased \$0.04 in Q3 2015 to \$14.70 NNN. While the lease rate has stabilized over the past few quarters, it has risen \$2.74 over the past five years in response to declining vacancy and increased demand for quality space.

STATE OF THE MARKET

LEASE RATE RISES AS VACANCY FALLS

At 6.7%, the Metro Detroit vacancy rate is currently at its lowest level in at least five years. Over the past five years, the vacancy rate has fallen 6.5%. As a result of declining vacancy and rising demand, the average asking lease rate has increased nearly three dollars since the beginning of 2010. Notable retailers that have announced new Metro Detroit locations in 2015 include Whole Foods (46,000 sq. ft.), Saks Fifth Avenue OFF 5th (34,338 sq. ft.), and Nordstrom Rack (32,550 sq. ft.), among others.

Due to the historically low vacancy rate, proposed and under construction retail developments are generating a lot of interest from tenants. As a result, most new retail developments are predominately pre-leased. Due to demand from retailers and increased construction costs, new developments are commanding high rents.

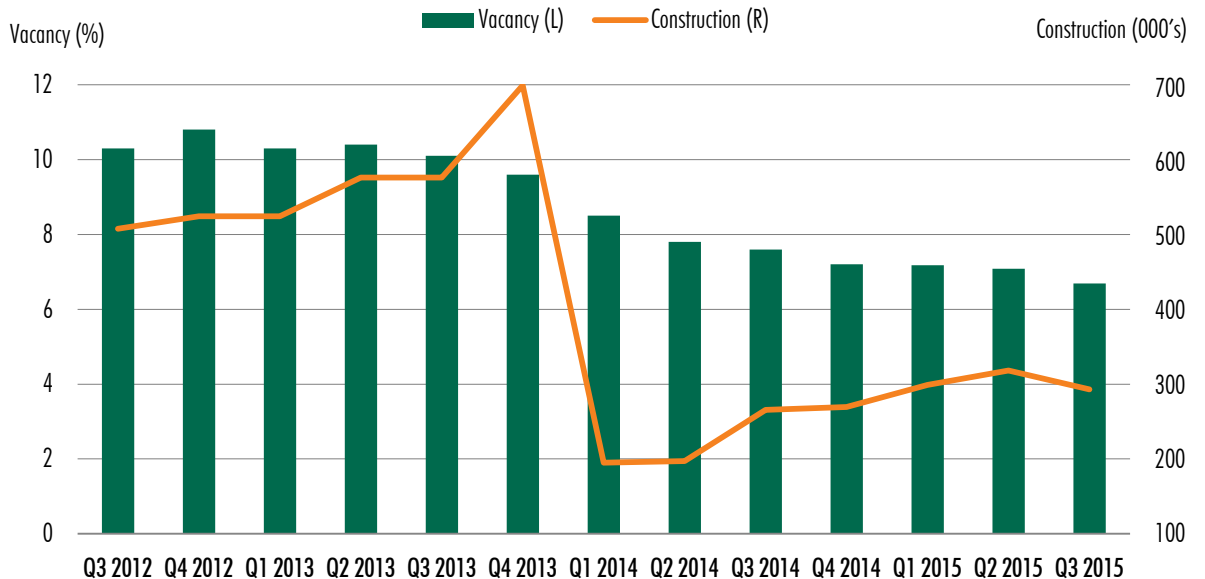
RETAILERS' OUTLOOK

Despite a sales dip in August, retailers' sales forecasts remain positive. Looking ahead, 59% of retailers expect sales during September-November to increase over the same period last year. That puts the seasonally adjusted outlook index at 68.0, down slightly from 69.7 in July. Further declines in gasoline prices and increases in employment should help to increase retail sales in the coming months. For the remainder of 2015, we can expect retailers' positive outlook to continue generating leasing activity, especially at quality retail centers.

EMPLOYMENT

Michigan's unemployment rate was 5.1% in August, which represents a decrease of 170 bps year-over-year. Total nonfarm employment has increased 220 bps year-over-year. Michigan had the highest unemployment rate in the nation in 2009. Since then, Michigan's unemployment rate has fallen almost 10%, and is equal to the nation's.

Figure 2: Vacancy vs. Construction



Source: CBRE Research, Q3 2015.

Figure 3: Detailed Market Statistics

Submarket	Market Size (SF)	Vacant (SF)	Vacancy Rate (%)	Available (SF)	Availability Rate (%)	Average Asking Lease Rate (\$/SF/Yr)
Auburn Hills	2,785,858	16,373	0.6	24,173	0.9	29.49
Birmingham	385,339	153	0.1	3,153	0.8	26.50
Bloomfield-West Bloomfield	1,695,125	60,812	3.6	73,329	4.3	21.96
Central Oakland County	1,687,987	94,208	5.6	113,608	6.7	9.54
Central Wayne County	1,348,206	35,244	2.6	44,378	3.3	13.50
Dearborn	1,552,940	137,622	8.9	223,807	14.4	14.88
Detroit	2,302,108	420,612	18.3	465,612	20.2	10.92
Eastern Macomb County	1,449,889	115,038	7.9	134,218	9.3	14.02
Farmington Hills	1,203,722	123,407	10.3	133,103	11.1	16.33
Genesee-Lapeer County	3,909,020	279,434	7.2	402,206	10.3	10.86
Livingston County	1,668,611	39,100	2.3	132,711	8.0	19.75
Livonia	1,651,307	280,998	17.0	338,212	20.5	12.25
NE Wayne County	1,391,939	52,809	3.8	213,216	15.3	22.50
Northern Macomb County	2,097,486	92,022	4.4	183,848	8.8	14.34
Novi	1,326,599	9,340	0.7	27,504	2.1	15.00
Out of Area	177,176	16,744	9.5	16,744	9.5	11.50
Rochester Hills	2,370,229	125,884	5.3	148,403	6.3	22.81
Saginaw-Bay County	1,854,713	139,183	7.5	206,772	11.2	7.51
SE Oakland County	2,705,167	234,844	8.7	248,167	9.2	13.49
SE Wayne County	1,350,752	154,804	11.5	179,927	13.3	21.05
Shelby Township	1,784,921	123,424	6.9	145,777	8.2	12.79
Southern Macomb County	1,723,971	23,691	1.4	33,802	2.0	12.71
Southfield	921,450	45,133	4.9	51,133	5.6	13.80
Sterling Heights-Warren	3,237,918	339,778	10.5	457,956	14.1	16.59
Taylor-Southgate	1,662,509	45,929	2.8	72,929	4.4	13.81
Troy	2,114,315	52,663	2.5	56,343	2.7	13.93
Washtenaw County	2,923,020	276,887	9.5	399,802	13.7	14.43
Western Oakland County	1,134,027	49,278	4.4	76,853	6.8	15.27
Western Wayne County	1,642,454	96,245	5.9	126,479	7.7	14.20
Metro Detroit Total	52,098,758	3,481,659	6.7	4,734,165	9.1	14.70

Source: CBRE Research, Q3 2015.

*Data based on property set of 50,000 SF+ multi-tenant buildings.

VACANCY RATE

The Metro Detroit vacancy rate decreased 40 bps quarter-over-quarter to 6.7%, and has decreased 90 bps year-over-year. Strip/In-Line centers have performed especially well over the past year, as the vacancy rate has fallen 5% to 15.2%.

The Birmingham submarket recorded the lowest vacancy rate in Q3 2015 at 0.1%. The Detroit submarket has the highest vacancy rate at 18.3%. However, the Detroit submarket's vacancy rate has decreased nearly 17% in the past five years.

AVERAGE ASKING LEASE RATE

The average asking lease rate for retail space in the Metro Detroit market increased \$0.04 in Q3 2015 to \$14.70 NNN. Furthermore, the Metro Detroit lease rate has risen \$1.58 in the past three years.

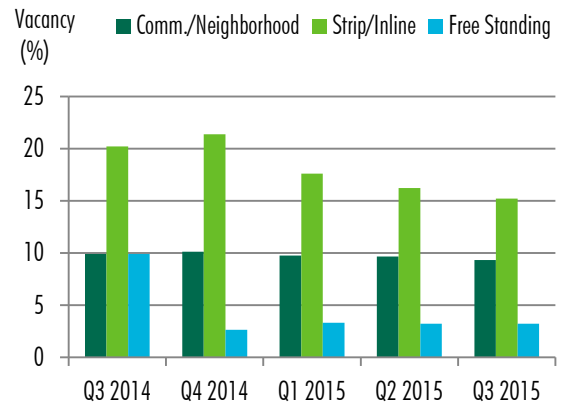
The Auburn Hills and Birmingham submarkets recorded the highest asking lease rates in Metro Detroit, averaging \$29.49 NNN and \$26.50 NNN, respectively.

The lease rate for Strip/In-Line centers increased \$0.02 to \$17.46 NNN in Q3 2015, while the lease rates for Community/Neighborhood centers and Free Standing buildings both decreased slightly to \$13.24 NNN and \$11.48 NNN, respectively.

CONSTRUCTION

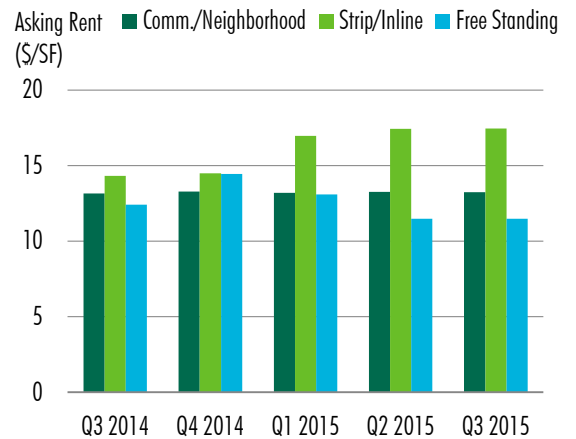
The Metro Detroit retail market recorded 294,649 sq. ft. of construction in Q3 2015. The majority of the construction activity consists of smaller projects in the 8,000-20,000 sq. ft. range. Many of these smaller projects are strategically located on the out-lots of big box developments, as the smaller tenants hope to take advantage of the activity generated by the larger retailers. Due to high demand from retailers, as well as increased construction costs, newly constructed buildings are commanding rents around \$28-30 NNN.

Figure 4: Vacancy Rate



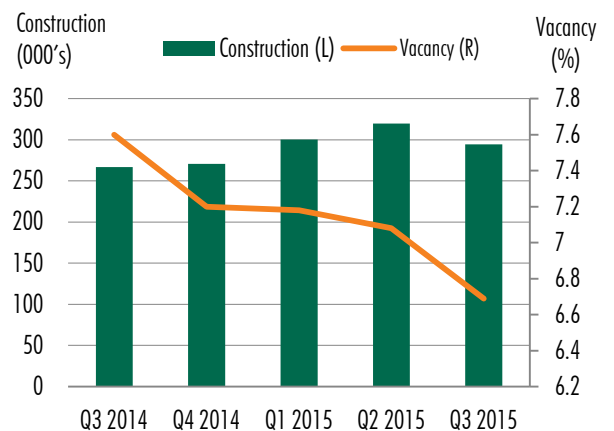
Source: CBRE Research, Q3 2015.

Figure 5: Average Asking Lease Rate

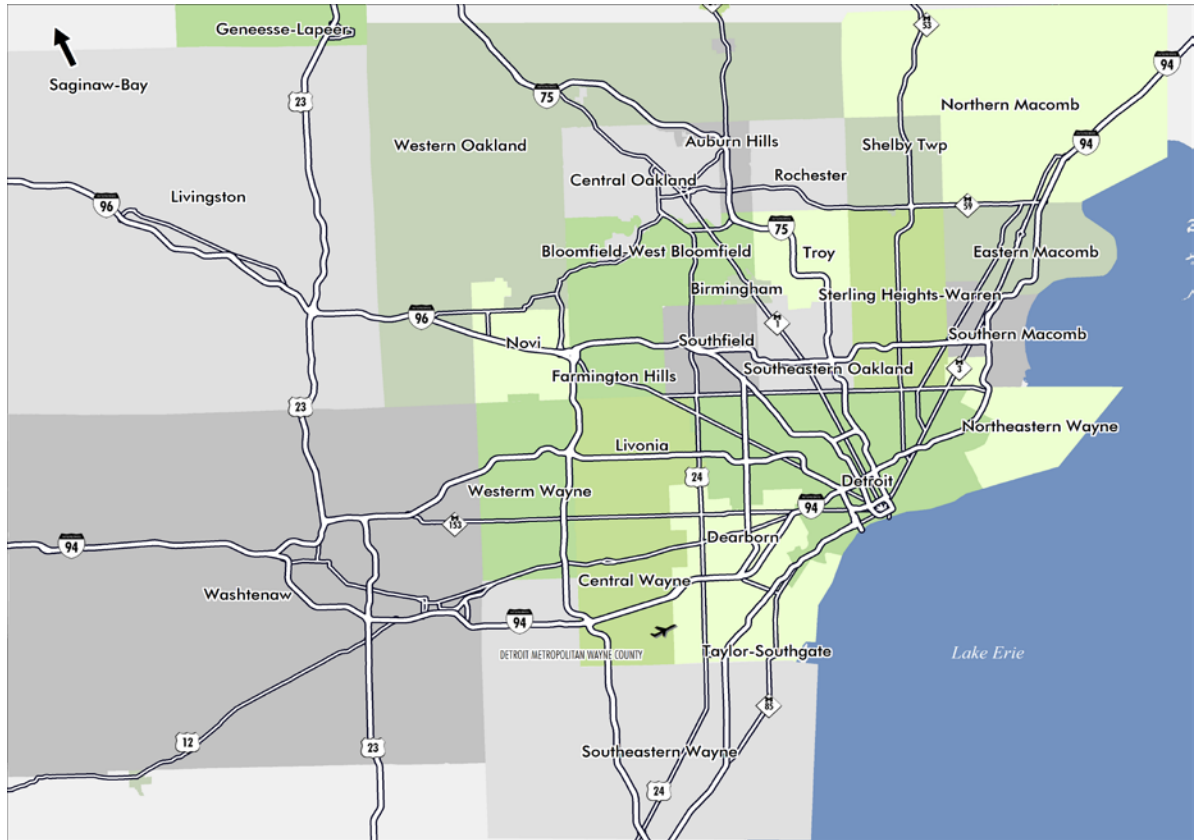


Source: CBRE Research, Q3 2015.

Figure 6: Construction vs. Vacancy



Source: CBRE Research, Q3 2015.


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