

## LAYOFFS WEIGH HEAVILY ON NEAR-TERM RETAIL OPERATIONS

Although the near-term effects of downsizing in the auto industry will negatively impact the Detroit retail market through 2009, restructuring of the Big Three bodes well for the long-term health of the metro. The emergence of Chrysler and General Motors from bankruptcy will allow both automakers to eliminate less profitable product lines and plants and focus on becoming more competitive on a national and global scale. While these changes will help to stabilize the metro's future auto-related employment base, they also will fuel further layoffs in the coming quarters, though an anticipated increase in third and fourth quarter production driven by the "Cash for Clunkers" program could limit the job cuts. The immediate impact of elevated unemployment, reduced household incomes and ongoing struggles in the local housing market, however, will continue to drive down retail spending, which fell an estimated 12 percent year over year in the second quarter. As a result, weakened retail operations are expected to persist metrowide, forcing more owners to be flexible with lease terms.

Although retail sales activity in the Detroit market has dropped off considerably during the past year, some seasoned local investors have begun to emerge, targeting well-located single-tenant properties. Second quarter closings for freestanding assets increased by 75 percent from the first three months of this year and should remain relatively steady through the remainder of 2009. Trading of multi-tenant properties, on the other hand, has come to a near standstill, due largely to investors' concerns over acquiring assets at a time when tenants are increasingly folding or requesting rent reductions. Going forward, the Macomb County and North Oakland submarkets will garner the most interest from buyers, given years of healthy population growth and elevated income levels that are currently supporting relatively tight operations. With conditions in these areas expected to soften further and leasing activity continuing to slow, investors may be able to purchase recently built distressed assets at attractive prices.

### 2009 ANNUAL RETAIL FORECAST



**Employment:** Job losses will remain steep in 2009, though the pace of cuts will ease in the second half of 2009. Employers are projected to eliminate 142,000 workers this year, a 7.8 percent decline, after 112,500 positions were lost in 2008.



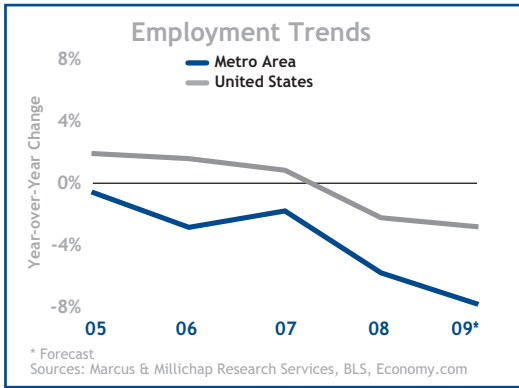
**Construction:** After 990,000 square feet of retail space was delivered last year, 520,000 square feet is scheduled to come online in 2009, expanding inventory by 0.3 percent. During the past five years, builders have added an average of 2.1 million square feet annually.



**Vacancy:** Suppressed consumer spending will force more retailers to shutter. By year end, vacancy is expected to increase 210 basis points to 12.8 percent. In 2008, vacancy rose 90 basis points.



**Rents:** Asking rents are projected to reach \$16.71 per square foot in 2009, down 3.9 percent from last year, while effective rents are forecast to decline 5.9 percent to \$14.77 per square foot. In 2008, asking rents receded 0.6 percent, and effective rents fell 1.6 percent.

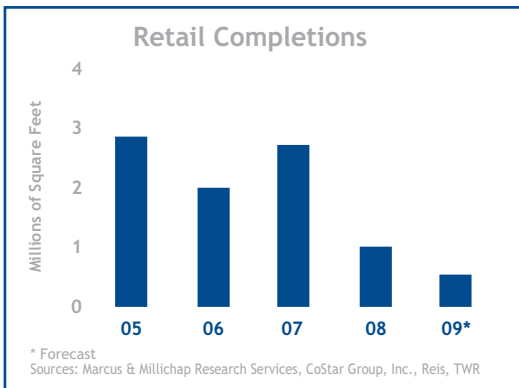


## ECONOMY

- ◆ General economic weakness and major restructuring within key industries have led to deep payroll cuts in the Detroit metro. Approximately 177,400 workers have been laid off during the past year, thinning head counts by 9.3 percent. Since the start of 2009, roughly 96,400 jobs have been let go.
- ◆ The local manufacturing industry has been hit hard over the past year, with employers shedding 63,000 positions, or 26.2 percent, including 42,700 spots in the last six months.
- ◆ The local professional and business services sector also has struggled with diminished corporate profitability. With businesses attempting to rein in expenses, payrolls in this segment have contracted by 15.4 percent, or 52,500 jobs, year over year.
- ◆ **Outlook:** Job losses will remain steep in 2009, though the pace of cuts will ease in the second half. Employers are projected to eliminate 142,000 workers this year, a 7.8 percent decline, after 112,500 positions were lost in 2008.

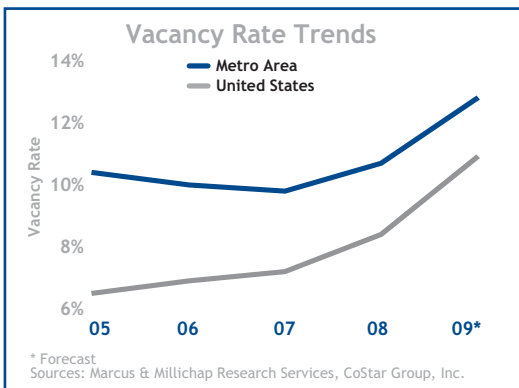
## CONSTRUCTION

- ◆ Economic strains have prompted a slowdown in retail construction activity. During the past 12 months, developers have added 932,000 square feet of retail space to the market, an increase of 0.6 percent to inventory. In the previous year, 1.9 million square feet came online.
- ◆ Roughly 40 percent of all completions in the last year have been neighborhood/community centers. Neighborhood center deliveries have accounted for 133,000 square feet, while new community center space totals 239,000 square feet.
- ◆ Developers have approximately 900,000 square feet of retail space under way across the metro, with an additional 4.9 million square feet proposed.
- ◆ **Outlook:** After 990,000 square feet was delivered last year, 520,000 square feet of new retail product is scheduled to come online in 2009, expanding inventory by 0.3 percent. During the past five years, builders have added an average of 2.1 million square feet annually.



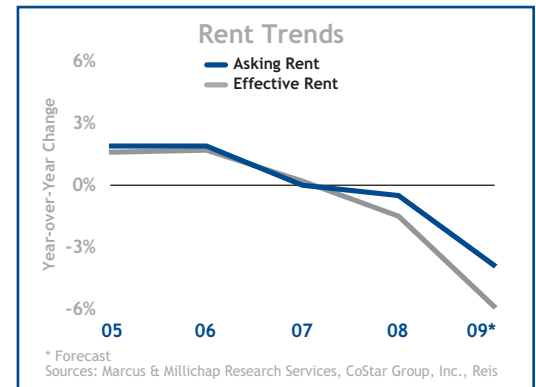
## VACANCY

- ◆ Following a 100 basis point increase in the preceding 12-month period, the average retail vacancy rate in Detroit has climbed 160 basis points during the past year to 12 percent. Since the start of 2009, vacancy has risen 130 basis points.
- ◆ Stock additions and weaker tenant demand have caused vacancy within neighborhood/community centers to push up 170 basis points over the last year to 11.5 percent.
- ◆ As of the second quarter, vacancy in the South Detroit/Downriver submarket was a metro-high 27.2 percent, up 320 basis points from one year prior. The increase was driven by a nearly 6 percent contraction in tenant demand within the area's community center operations that caused vacancy in this property type to spike 410 basis points to 28.9 percent.
- ◆ **Outlook:** Suppressed consumer spending will force more retailers to shutter. By year end, vacancy is expected to increase 210 basis points to 12.8 percent. In 2008, vacancy rose 90 basis points.



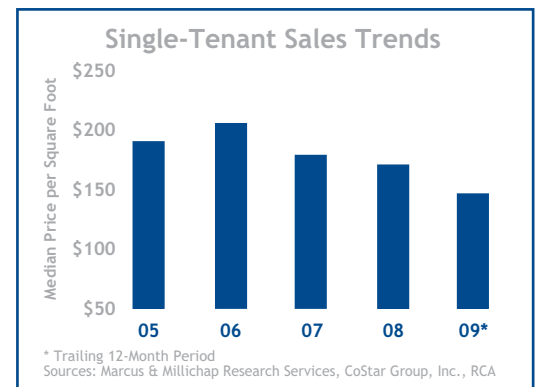
## RENTS

- ◆ As vacancy trends higher, owners are aggressively reducing rents and offering greater concessions. Year over year, asking rents have decreased 2.4 percent to \$17.17 per square foot, while effective rents have dropped 4 percent to \$15.30 per square foot. Over the past six months, asking and effective rents have fallen 1.3 percent and 2.5 percent, respectively.
- ◆ With neighborhood centers in the Detroit/West Wayne submarket posting a vacancy rate of 15 percent during the second quarter, concessions for this property type are the highest in the metro at 14.2 percent of asking rents.
- ◆ Increases to vacancy and significantly lower effective rents have caused metro-wide revenues to retreat 5.7 percent during the past 12 months.
- ◆ **Outlook:** Asking rents are projected to reach \$16.71 per square foot in 2009, down 3.9 percent from last year, while effective rents are forecast to decline 5.9 percent to \$14.77 per square foot. In 2008, asking rents receded 0.6 percent, and effective rents fell 1.6 percent.



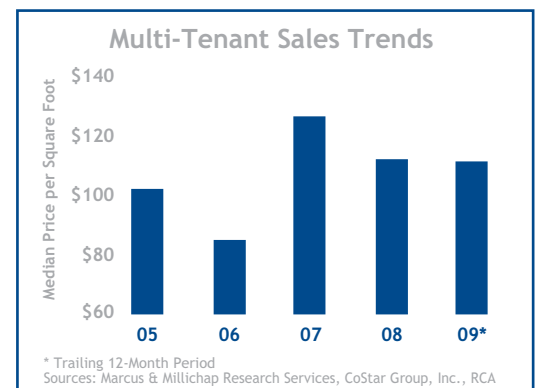
## SINGLE-TENANT SALES TRENDS\*\*

- ◆ During the most recent 12-month period, single-tenant transaction velocity declined 21 percent. Sales involving drugstores fell by 60 percent, as more owners elected to hold onto the relatively stable assets.
- ◆ Over the last year, the median price for the metro's single-tenant product has retreated 14 percent to \$146 per square foot.
- ◆ Since the start of 2009, cap rates for sold single-tenant assets have averaged above 8 percent. For properties coming to market within the next few months, first-year returns are expected to average in the mid- to high-8 percent range.
- ◆ **Outlook:** Necessity-based retailers such as convenience stores and drugstores will likely capture the most investor interest in the near term due to their generally higher foot traffic. With few reinvestment opportunities available, however, some owners may opt to hold rather than sell and compete with bargain-level pricing.



## MULTI-TENANT SALES TRENDS\*\*

- ◆ Investors remain wary of multi-tenant properties, given the current level of distress in the local employment market and its subsequent impact on retail operations. Year over year, multi-tenant deal flow has plummeted 65 percent, with a significant drop in activity since the start of 2009.
- ◆ Based on a limited number of closings, the median price for the metro's multi-tenant properties has decreased 6 percent during the past year to \$111 per square foot.
- ◆ Cap rates for anchored multi-tenant assets on the market currently average in the low-9 percent range, though initial yields on unanchored strip centers are generally 50 basis points higher.
- ◆ **Outlook:** Multi-tenant deal flow will remain modest due to greater caution among lending institutions and potential buyers. Although many investors are reluctant to acquire multi-tenant properties, assets in Ann Arbor may entice some buyers due to the area's dense student population.



\*\* Data reflect a full 12-month period, calculated on a trailing 12-month basis by quarter.

# Marcus & Millichap

## NATIONAL RETAIL GROUP

Visit [www.NationalRetailGroup.com](http://www.NationalRetailGroup.com) or call:

**Bernard J. Haddigan**

Senior Vice President, Managing Director

National Retail Group

Tel: (678) 808-2700

[bhaddigan@marcusmillichap.com](mailto:bhaddigan@marcusmillichap.com)

# Marcus & Millichap

## Real Estate Investment Services

Prepared and edited by

**Michael L. Brown**

Research Analyst

Research Services

For information on national retail trends, contact

**John Chang**

National Research Manager

Tel: (602) 687-6700 ext. 6803

[john.chang@marcusmillichap.com](mailto:john.chang@marcusmillichap.com)

*Detroit Office:*

**Steven Chaben**

Managing Director

[schaben@marcusmillichap.com](mailto:schaben@marcusmillichap.com)

28411 Northwestern Highway

Suite 750

Southfield, Michigan 48034

Tel: (248) 415-2600

Fax: (248) 352-3813

**Price: \$150**

© Marcus & Millichap 2009

[www.MarcusMillichap.com](http://www.MarcusMillichap.com)

## CAPITAL MARKETS

By WILLIAM E. HUGHES, SENIOR VICE PRESIDENT, MARCUS & MILLICHAP CAPITAL CORPORATION

- ◆ Lenders remain concerned about multi-tenant property fundamentals, while a lack of transactions in most markets makes pricing difficult to determine. Loan-to-value (LTV) ratios of 55 percent or 60 percent on shopping center loans are common, with a maximum LTV of 65 percent possible for grocery- or drugstore-anchored properties. All-in rates start at about 7 percent for three- to five-year loans and range from 7.5 percent to 8.3 percent for 10-year deals. Debt-service coverage ratios seldom fall to less than 1.4x.
- ◆ Commercial banks are the most active lenders. No new CMBS have been issued this year, but spreads on mortgage bonds have narrowed, a promising sign. In addition, retail REIT Developers Diversified is assembling a CMBS issue utilizing the government's Term Asset-Backed Securities Loan Facility, or TALF. A successful execution of this deal may help to restore momentum in the CMBS market.
- ◆ Loan terms on single-tenant, net-leased assets can vary widely, but lenders typically prefer properties with corporate leases rather than leases with franchisees. Lenders remain focused on limiting their exposure to single retailers, even national brands with high credit ratings.

## SUBMARKET OVERVIEW

- ◆ Wal-Mart will build a 180,000-square foot Supercenter as part of the redevelopment of the Livonia Mall into the Livonia Marketplace. The company plans to break ground this fall and open the store late in 2010, which will help to boost traffic at the Seven Mile and Middlebelt roads center.
- ◆ In the South Oakland submarket, city officials are considering two plans for the shuttered Wixom Assembly Plant. One proposal calls for a 450-room hotel, a 1,500-seat arena and a commercial district. The redevelopment would help to bolster local demand for area retailers.
- ◆ Meijer is currently engaged in talks to open its first store in Detroit at the Shoppes at Gateway Park development, located at Woodward Avenue and Eight Mile Road in the Detroit/West Wayne submarket. The grocery chain would become the first in the metro since the closure of Farmer Jack in 2007.

## SUBMARKET VACANCY RANKING

Rank	Submarket	Vacancy Rate	Y-O-Y Basis Point Change	Effective Rents (psf)	Y-O-Y % Change
1	North Oakland	8.3%	90	\$19.17	-5.8%
2	Macomb County	9.7%	40	\$13.04	-2.0%
3	South Oakland	11.7%	360	\$17.92	-4.0%
4	Detroit/West Wayne	12.5%	140	\$13.53	-5.3%
5	South Detroit/Downriver	27.2%	320	\$12.61	-1.5%