



September 28, 2011 - Market Reports: Detroit Retail

Southeast Michigan follows its “first-in, first-out” recessionary pattern.



It is no secret that, like much of the State of Michigan, the Motor City has not exactly been motoring along with regard to retail performance during the last few years. Southeast Michigan has been struggling, and since the beginning of the national recessionary cycle a few years ago, the state has been held up as an example of taking a retail roundhouse right on the chin from a faltering economy. A more nuanced view, however, reveals some more interesting — and in some cases more positive news — with regard to where southeast Michigan stands today, and how the region seems to be setting up for future growth.

In a macro sense, it is accurate that Michigan was more challenged than the rest of the country by the initial economic downturn. There was a perception, real or not, that the struggles in the auto industry would substantially exacerbate the impact of the recession. The state's unemployment rate was higher than the national average and Michigan was bleeding population. While some of those difficult circumstances and dire predictions seemed to be holding up two or three years ago, the state has made a pretty significant recovery in the last 10 to 12 months. While things are certainly not back to what retailers would like to consider “normal,” Michigan has essentially “caught up” to the rest of the country. Today, Michigan is presented with roughly the same level of challenges and opportunities as other markets around the nation. Retailers are as willing to talk about Michigan sites as they are anywhere else across the Midwest, and that represents a positive change from three years ago.

While there was a definite surge of activity last November that persisted into May of this year, the recent debt crisis seems to have tapped the brakes on any hopes of an accelerating recovery, an unwelcome development that has really hit hard with a lot of retailers, particularly with respect to their plans for new national and regional expansions. While that is a national event and not unique to Michigan, the ripples have certainly been felt across southeast Michigan.

As far as the “hot” local markets go, Ann Arbor continues to maintain its status as one of the most successful pockets of retail performance in southeast Michigan. The combination of The University of Michigan, nearby Eastern Michigan University, University of Michigan Hospital and related U of M medical facilities, along with the depth of incomes and population dynamics, are all significant assets. In fact, as far as rates go, Ann Arbor has actually held its own better than much of the rest of the country. The balance of activity across the region is generally dispersed across the tri-county area. Oakland, Macomb and Wayne Counties are seeing some infill real estate activity, but nothing dramatically out of the ordinary with regard to broader state or national rate patterns.





As far as what retail categories seem to be thriving in southeast Michigan, it is somewhat of a smorgasbord, with the most vigorous activity in bargain retailers and emerging brands. We are seeing an increase in the number of retailers actively seeking sites in the region, with some recognizable national and regional in the mix as well. Menards Home Improvement is currently trying to secure sites in the Tri-County area, and sporting goods retailers remain active. Auto retailers like O'Reilly Auto Parts and AutoZone are also out there. Gordon Food Service, Ulta Cosmetics, and value retailers like Dollar Tree and Dollar General are also active in the marketplace. Smaller retailers like Five Below, Dress Barn and Performance Bicycle are on the prowl. A number of restaurants are making moves, including Olive Garden, Red Lobster, Logan's Roadhouse, Bob Evans, McDonald's, Taco Bell, Five Guys Burgers and Fries, Tim Hortons, Subway and Firehouse Subs, a new name looking to enter the market.

We also continue to see the trend where a number of "mid-box" retailers are actually looking to downsize. With Circuit City out of the picture, you might think that Best Buy would hold firm, but they, along with some of the office retailers, are going to a smaller footprint. We are seeing a similar dynamic with other retailers. Big Lots, for example, remains active, and is one of a number of retailers in Southeast Michigan who have seized this opportunity to upgrade their locations and take advantage of low rates to leverage strategic sites/opportunities. Rent-sensitive value retailers have been especially enthusiastic about working the upgrade angle.



As far as the remainder of 2011 and beyond, we are going to see a continuation of a few key trends. Value retailers will continue looking for better locations and great deals. Rent per square foot has been steadily declining, and, in a general sense, the sales price on retail assets has also declined. That has stabilized, if not turned around, but unfortunately, my sense of it is that the debt crisis lull might stick with us for the near future and the regional economy is probably going to follow the election cycle. Any kind of uncertainty impacts the bottom line and political uncertainty is definitely no exception. We remain slightly under-retailed per capita in Michigan, which is not necessarily a bad thing with regard to future performance. The upshot is that the landscape is gradually shifting from one of challenge to one of opportunity. Savvy retailers are beginning to understand that they have an opportunity to get into markets that have historically been fully leased with barriers to entry, and to do so at rates that are 20 to 30 percent, and even up to 50 percent lower than historical highs. Southeast Michigan is flush with some really solid demographic communities and appealing retail rates; a combination that seems likely to keep the state moving in the right direction going forward. When it comes to recessions, Michigan has always been "first-in and first-out," and we seem to be following that pattern today. The auto industry looks to be well positioned for the near to mid-term, another factor that will help drive spending and accelerate the state/regional economic recovery. Retailers have to follow their model of course, but the takeaway message is clear: do not underestimate the ability to make money in Michigan.

