

RETAIL MARKET



The first half of 2008 saw Southeastern Michigan's retail market flatten out as the effects of cautious consumer spending and continued struggles in the housing market caught up to developers and retailers. The news deteriorated in the second half of the year with very few new retail developments planned and even one major development, Bloomfield Park in Bloomfield Hills, halting construction altogether. Developers and retailers are being more cautious across the board; however, some well established retailers and developers will continue to look for opportunities in 2009 in hopes of being well positioned for the eventual turnaround in the market.

A major issue in 2008 was the constriction of the commercial credit market which negatively impacted all facets of commercial real estate from the casual investor to major mall owners. For example, General Growth has struggled for the past year to refinance the \$27 billion debt load it amassed during many years of large acquisitions that made it the second-largest U.S. mall owner behind Simon Property. Centro Properties Group, the owner of 794 shopping malls in the U.S., Australia and New Zealand, has said it may be forced to seek bankruptcy protection from its creditors as it struggles to refinance more than \$4.5 billion of borrowings.

Major developers were also impacted as Developers Diversified Realty suspended the construction of Bloomfield Park, a 600,000 square foot mixed-use

lifestyle center in Bloomfield Hills, since its joint venture partner did not fund the additional capital required to complete the \$350 million development.

A handful of local developments, however, are still moving forward. In Hartland, Ramco-Gershenson is proceeding with their new 500,000 square foot development located at the northeast corner of M-59 and US-23, a joint venture in which the company has a twenty percent interest. Known as Hartland Towne Square, Meijer has purchased a 21-acre parcel and has commenced construction of a 192,000 square foot store. They also have 16.8 acres of land under contract to be sold to Menard's for a 162,000 square foot home improvement store expected to close in the first quarter of 2009. Three outlots have also reportedly been leased or are under contract for sale. Across the street, Wal-Mart is currently under construction.

In Livonia, Livonia Phoenix, LLC – a partnership between Konover South, Lormax Stern Development Company and Grand/Sakwa – is preceding with its plans to redevelop the outdated Livonia Mall at the northwest corner of Seven Mile and Middlebelt Roads.

Around Metro Detroit markets, mid-box tenants continue, albeit at a much more cautious pace, to look for new or infill sites. This has fueled the continuation of redevelopment sites in these particular markets with older buildings being demolished in favor of centers anchored by tenants such as Best Buy, PetSmart, Kohl's, Dick's Sporting Goods, etc. The Canton market is a prime example of this with plans to demolish a few older buildings on Ford Road in favor of a new Best Buy and Ulta. A bit further west on Ford Road, JFK Investment Company's Canton Corners shopping center has recently completed and continues to construct outlot buildings housing tenants such as AT&T, Gamestop and Potbelly Sandwich Works. The center itself was re-worked to make room for buybuy Baby and Home Goods with a possible third mid-box retailer to be added to the mix.

AVERAGE RETAIL RENTAL RATES

	BIG BOX	COMMUNITY	NEIGHBORHOOD
Ann Arbor	\$10.00 to \$18.00	\$18.00 to \$40.00	\$17.00 to \$28.00
Dearborn	\$10.00 to \$14.00	\$17.00 to \$25.00	\$15.00 to \$26.00
Livonia	\$10.00 to \$15.00	\$15.00 to \$22.00	\$12.00 to \$22.00
Novi	\$12.00 to \$16.00	\$18.00 to \$26.00	\$15.00 to \$25.00
Southfield	\$8.00 to \$16.00	\$16.00 to \$25.00	\$16.00 to \$23.00
Sterling Heights	\$6.00 to \$9.00	\$12.00 to \$16.00	\$10.00 to \$14.00
Taylor	\$8.00 to \$12.00	\$15.00 to \$25.00	\$12.00 to \$22.00
Troy	\$10.00 to \$15.00	\$20.00 to \$25.00	\$16.00 to \$25.00
Warren/Roseville	\$6.00 to \$9.00	\$11.00 to \$15.00	\$9.00 to \$14.00
Westland	\$6.00 to \$10.00	\$16.00 to \$20.00	\$12.00 to \$17.00

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In the grocery segment, Whole Foods opened a second store in the Ann Arbor market and Westborn Market closed on the purchase of an adjacent building in Dearborn to expand their current store. The area's traditional grocery tenants, Kroger in particular, have slowed their growth plans.

In banking and casual dining, growth is slower than it has been in many years, if not at a standstill. However, tenants such as Panera Bread, Chipotle, Biggby Coffee, Jimmy John's, etc. continue to look for new sites at a very controlled pace.

The metro area has experienced an influx of smaller health clubs moving in, including Snap Fitness, Anytime Fitness and Powerhouse. These gyms are attempting to gain a share of this segment from the big-box fitness centers such as Lifetime Fitness, Bally's and L.A. Fitness. Expected to open in 2009, are at least two new Lifetime Fitness centers.

2008 also saw retailers such as Starbucks, Lonestar Steakhouse, Pier 1 Imports, Ethan Allen, Rite-Aid and numerous others announce the closing of stores around the country and still others, such as Circuit City, Steve & Barry's and Linens 'n Things file for Chapter 11 bankruptcy protection.

As a whole, the Metro Detroit market remains flat as the major manufacturers continue to restructure, jobs are being lost and the housing market continues to struggle, all of which has created a negative perception in the eyes of many retailers. While this trend is having a short-term negative impact on the retail landscape, opportunities remain and landlords and developers alike hope to be well-positioned for the eventual turnaround in the market.