



Retail vacancies fell in metro Detroit during 2011

January 29, 2012



This Borders Books and Music sits closed on Lohr Road next to Dick's Sporting Goods in Ann Arbor. Borders liquidated and closed its 26 Michigan stores this summer and fall, but most are in prime locations and are expected to be snapped up quickly, a commercial real estate broker said. / Photos by ANDRE J. JACKSON/Detroit Free Press

By **Greta Guest**

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Retail vacancies were down in metro Detroit last year, despite a wave of fresh Borders store closures and still-vacant spots from other national retailers that ran aground during the recession.

Vacant retail space in malls, strip centers, power centers and stand-alone locations started 2011 at 10.4% and gradually fell to end the year at 10%, according to CoStar, a commercial real estate data firm based in Bethesda, Md.

Borders liquidated and closed its 26 Michigan stores this summer and fall, but most are in prime locations and are expected to be snapped up quickly, said Cynthia Kratchman, a broker with Landmark Commercial Real Estate Services in Farmington Hills. A Traverse City Borders outlet

was filled last fall by Books-A-Million. And Walgreen's is awaiting city approval next month to convert the Birmingham Borders into a store with a drive-through prescription pickup window.



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A Borders Books and Music store sits closed next to this Dick's Sporting Goods in Ann Arbor. Borders liquidated and closed its 26 Michigan stores this summer and fall. / Photos by ANDRE J. JACKSON/Detroit Free Press



An empty former Borders store in Ann Arbor.

"It's almost humorous from where we were. Now we have retailers competing for space. Who would have thought?" Kratchman said. "This is all driven by the fact that Michigan has improved its economy. It all comes from the fact that the retailers' sales have been excellent here in Michigan."

Unemployment dropped during the year and home prices rose, ending 2011 on a positive note for consumers. Still, don't expect any new malls to be built in Michigan this year. The area wasn't overbuilt in the boom, unlike some areas in the South and West Coast, said Nate Forbes, managing partner of Forbes Co., owners of Somerset Collection in Troy.

"I never felt that Michigan suffered as much as was reported nationally," Forbes said.

New shopping center construction is unlikely

Retailers moved into more vacant space in metro Detroit last year, but there's enough left with recent and impending closures by Borders, Sears and Kmart to stall new shopping center construction for awhile.

Retail vacancies were down to 10% in the five-county metro Detroit area at the end of 2011 from 10.4% a year ago, according to a report from CoStar, a commercial real estate data firm based in Bethesda, Md. That compares with an 18% vacancy rate in office space and a 12% vacancy rate in industrial space, according to the Southeastern Michigan Council of Governments.

One of the largest office vacancies is the former Kmart headquarters on Big Beaver Road in Troy just across Coolidge from Somerset Collection, in the top 10 most successful malls nationally. Even with its proximity to a mall that rarely has vacancies, redevelopment of the nearly 1 million square feet of vacant space in the former Kmart office complex will take time.

"We don't really see anything for 2012 popping up," said Nate Forbes, managing partner of the Forbes Co., which owns both properties. "We are not actively in a development phase. We are looking for options and opportunities. We will not build something for the sake of building something."

The building of new retail space was at an all-time low in 2011 for metro Detroit with 300,000 square feet finished. That's a fraction of new space that was delivered in previous recessions in 1982, when 700,000 square feet of new retail space came on the market and in 1991, when 1.6 million square feet opened in our market, according to CoStar data.

Still, Forbes said retailers and consumers are feeling better about Michigan as the economy improves. And retail vacancies aren't all bad.

"It opens up good opportunities for retailers who are expanding to get great properties for a fraction of building new," he said. "There is a good feeling about what is going on with the car companies. Consumers are feeling good about themselves and what is going on with the local economy."

It's been more than four years since the area saw a new mall. The last one built was the 640,000-square-foot Mall at Partridge Creek in Clinton Township, which opened in October 2007.

The average rent charged for retail space fell 1% to \$11.94 in the fourth quarter of 2011, CoStar said.

Tenants moving into large blocks of space in the fourth quarter include Dick's Sporting Goods, which leased 42,000 square feet in Ann Arbor, Emagine Royal Oak movie theater, moving into 36,500 square feet in Royal Oak and retailer buybuy Baby, which moved into 35,241 square feet in Farmington Hills.

Vacancy rates were higher in certain segments including the shopping center, which includes strip centers. CoStar found a 15.6% vacancy rate, from 15.5% at the end of the first quarter. Power centers, typically occupied by a big box store, had a vacancy rate of 6.3%. The lowest vacancy rate was in the specialty centers category, which includes outlet centers, airport retail and theme/festival centers. The rate was at 4.9% in the fourth quarter.

The report found vacancy rates higher in North Oakland, Bloomfield, Macomb, Downriver and Western Wayne. Lower vacancy rates were reported in Detroit and the Grosse Pointes, Royal Oak, Troy, Livingston and West Oakland and Washtenaw.

Even though overall vacancies in Troy were low at the end of 2011 at about 7.5%, according to the CoStar data, there are still numerous office vacancies along the major artery of Big Beaver.

"The Big Beaver corridor is really trying to level itself out with available space," Forbes said. "There needs to be demand again."

Cynthia Kratchman, a broker with Landmark Commercial Real Estate Services in Farmington Hills, said there's a flurry of activity behind the scenes to fill some vacancies. For example, she notes the Kmart in Brighton that is slated to close has a lot of interest.

"We're seeing things that have been vacant for a long time moving now," she said. "They'll be absorbed. There isn't even a question."

Paul Tait, executive director of the Southeast Michigan Council of Governments and a member of the Urban Land Institute's Michigan board, said he wonders whether the big box vacancies in some older suburbs of Detroit will be filled anytime soon.

"It is particularly difficult in the older, urban areas. The market may not be as strong for that kind of big box retail," he said. "The urban areas have experienced the greatest loss of population and the oldest population and that changes our buying habits significantly."

Tait said communities won't have the luxury of expecting another retailer to take the space. They will likely need to get creative with zoning and land use or face "empty eyesores for a long time."

Ken Dalto, a Farmington Hills-based retail and turnaround consultant, said he views the overall vacancy rate as a weighted average so some areas are doing fine, while others are not.

"A 10% vacancy means 90% occupied. It's not bad. It's below normal, but it's pretty good for what we've been through," he said. "And surprisingly malls are holding their own. That is the surprise."

Still, not everyone is doing so well. He noted strip malls are vulnerable. Many are owned by families and don't have the same level of management and leasing prowess that a regional mall would have. He said some of the strip centers are 40% vacant and that makes it hard for anyone left to succeed.

"You will find some alarming vacancy rates in some of the strip centers ... not just Detroit, but older suburbs that are alongside Eight Mile Road such as Ferndale, Harper Woods, Southfield," Dalto said.

James Bieri, principal at Stokas Bieri Real Estate in Detroit, who represents retailers looking for space, said he doesn't think Michigan is "completely off the radar screen" for retailers.

"In general, people are not overly anxious to take stores. If you are blessed with a client that is active like a TJ Maxx then you are looking around trying to see how to make old buildings work because there is little new development," Bieri said.

Novi Town Center is an example of an existing center that's being redeveloped to make way for a new Walmart store. It is anchored by TJ Maxx, Men's Warehouse and Performance Bike.

Those looking include retailers such as Menard's, dollar stores, Performance Bike and Charming Charlie's. Eateries expanding include Bagger Dave's, Olga's and Chipotle, he said.

"The good stuff is scooped up by people right away; the bad stuff will sit there," Bieri said.

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