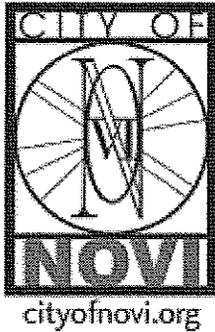


MEMORANDUM



TO: MASTER PLAN & ZONING COMMITTEE
FROM: MARK SPENCER, AICP, PLANNER *Mark Spencer*
SUBJECT: CITY OF NOVI RETAIL CENTER VACANCY RATE REVIEW
DATE: MARCH 25, 2009

Introduction

Many different local, regional and national market factors affect the demand and supply for retail floor space. One factor typically evaluated to help gauge the strength of the retail market at any given time is the retail floor space vacancy rate. Vacancy rates can be reviewed at a national, regional, local and individual property level. Since different types of retail establishments behave in the market differently, retail vacancy rates are also often reviewed by development size and product type. National and regional vacancy rates are published for stand-alone retail establishments, shopping centers, malls, lifestyle centers and power centers.

The local retail floor space vacancy rate, when compared with regional and national vacancy rates, can provide some insight into the status of the local retail floor space supply. Local vacancy rates that are considerably higher than regional vacancy rates can indicate a local surplus of floor space supply and local vacancy rates considerably lower than regional vacancy rates can indicate that the market may be able to absorb more retail floor space. Local and regional vacancy rates that are higher than the national vacancy rates can indicate a regional or local retail market that is weaker than the national retail market. In general, lower vacancy rates indicate a higher demand for retail floor space and thus a more profitable market. When retail properties are more profitable, owners continue to invest in the existing and new properties. A significant caveat for all of this is that retail **rent rates** for any given space within local, regional, and state vary significantly and are also an important factor in assessing retail markets. During economic fluctuations, it can be assumed that retail spaces on the higher and lower end of the cost of land will be affected differently. Finally, the quantity of space should be factored into the equation. In other words, large retail center communities may have differing occupancy percentages than a small community with only ancillary retail.

Since many factors affect the success of retail centers, the retail center vacancy rates depicted in this review should be **viewed for general consideration only**.

Methodology

The following review looks at vacancy rates in retail centers within the city of Novi as of February 2009. Retail centers are defined as multiple tenant building(s), or multiple building sites, including adjacent commercial lot(s), occupied by retail businesses, banks, restaurants, and similar uses that are perceived as one destination area. These centers typically, but not necessarily, share driveways, parking systems, and utilities. Excluded from this definition are hotels, convention facilities, automobile sales lots, and gasoline filling stations that are not

located on an outlot for the central development, and stand-alone businesses (such as Walgreen's, NAPA Auto Parts, etc.).

Retail centers described in this report include the following types of shopping destinations:

- **Local Serving Shopping Centers** (neighborhood and strip retail centers often anchored by a drug store or super market and usually containing less than 100,000 sq. ft. of floor area);
- **Community Serving Shopping Centers** (community and strip centers usually containing more than 100,000 sq. ft. of floor area);
- **Malls** (retail centers with covered common connecting walkways);
- **Lifestyle Centers** (commercial developments that combine the traditional retail functions of a shopping mall with leisure amenities oriented towards upscale consumers); and
- **Power Centers** (retail centers primarily occupied by "category killing" big box tenants).

In order to better compare City of Novi vacancy rates with regional and national rates, the data for mall, lifestyle center and power center were combined to reflect the categories used by the CoStar Group's (a national commercial real estate information company) retail floor space vacancy reports and so as to not reveal the status of individual properties. The balance of the retail centers were considered shopping centers. Since malls, life style centers and power centers tend to cater to regional shopping and services, and the southeast Michigan vacancy rates were similar, it was logical to combine the data for these categories. Using these definitions, the City of Novi has one mall (Twelve Oaks Mall), one power center (High Pointe Shopping Center), and three Life Style Centers (Twelve Mile Crossing at Fountain Walk, West Oaks I and II, and Novi Town Center). Since retail centers account for 85% of retail floor space in the City of Novi, vacancy rates for retail centers is likely to be close to the overall retail floor space vacancy rate.

The base information on the size of the retail centers came from the City of Novi Community Development Department, Planning Division's 2009 "City of Novi Commercial Land Use Facts" report updated on February 6, 2009.

The vacancy rate data was collected for this analysis by two methods. First, data was collected from surveys sent to the property managers of 31 retail center properties located in the City. Eighteen (58%) of the property managers responded. Second, vacant retail space was estimated for 13 (42%) of the properties by the City's Planning Division Staff. Four of these 13 properties were 100% occupied. To produce the estimates, the Planning Staff used available occupancy information from the property's web pages and personal property tax records, conducted visual inspections and interviewed the City's Building Division's building inspectors assigned to these properties. It should also be noted that three out of the five properties that make up the regional serving category of retail centers was estimated. This category represents 72% of the total retail center floor space listed in this review.

After collecting and estimating the data, the City of Novi retail floor space vacancy data was analyzed by retail center type. The survey results and vacancy estimates were totaled and sorted by the type of retail center. It should be noted that this review does not consider retail floor space that serves the residents of Novi but is located outside of the City.

**Table 1 – Vacancy Rate Comparison for
City of Novi,
Regional and National,
Local and Community Serving and Regional Serving Retail Center**

Area	Local & Community Serving Shopping Centers Combined		Regional Serving Malls, Lifestyle Centers and Power Centers		All Retail Centers	
	Total Floor Space (sq. ft.)	Vacant Floor Space (sq. ft.)	Total Floor Space (sq. ft.)	Vacant Floor Space (sq. ft.)	Total Floor Space (sq. ft.)	Vacant Floor Space (sq. ft.)
	Percent of Total Retail Center Floor Space	Vacancy Rate	Percent of Total Retail Center Floor Space	Vacancy Rate	Percent of Total Retail Center Floor Space	Vacancy Rate
City of Novi (2/09)	1,344,100	146,200	3,928,500	365,000	5,272,600	511,200
	25.5%	10.9%	74.5%	9.3%	100%	9.7%
Southeast Michigan (6/30/08)	69,700,000	9,967,000	43,361,000	1,711,000	113,061,100	11,678,000
		14.3%		3.9%	100%	10.3%
United States (12/31/08)	n/a	9.7%	n/a	Malls & Lifestyle Centers = 4.0% Power Centers = 6.4%	n/a	n/a

Source: City of Novi & CoStar Group Inc.

**Table 2 – Vacancy Rate Comparison for
City of Novi, Regional and National Retail Center**

Area	All Types of Retail Centers (local, community and regional serving)	All Retail (including stand alone retail businesses)
City of Novi (2/09)	9.7%	N/A
Southeast Michigan (6/30/08)	10.3%	12%
United States (12/31/08)	N/A	6.7%

Source: City of Novi & CoStar Group Inc.

Vacancy Rate Comparisons

The local retail floor space vacancy rates were compared to regional and national vacancy rates. February 2009 Southeast Michigan and national data was not available for comparison. Therefore, this report used the best available data including Southeast Michigan data from the end of the second quarter 2008, published by the Oakland Business Review August 8, 2008, and based on data from the CoStar Group, Inc. National end of the year data was published by the CoStar Group on its web page on January 28, 2009. For this comparison, City of Novi local and community serving shopping center data was combined.

A comparison of the City of Novi's February 2009, Southeastern Michigan's June 30, 2008 and the end of 2008 United States retail center vacancy rate data (Table 1 and Table 2) indicates the following:

- Data for all shopping centers shows that Novi had a lower vacancy rate (10.9%) than shopping centers in Southeastern Michigan (14.3%) but the City's rate is close to the national rate of 9.7%. This comparison indicates that the current balance between the demand and supply of shopping center retail space in the City of Novi is similar to the national market, whereas shopping centers as a whole in Southeastern Michigan are having a harder time leasing their space.
- The retail floor space vacancy rate in the City of Novi for malls, lifestyle centers and power centers combined (9.3%) was much higher than the rate for Southeast Michigan (3.9%) and the estimated national rate (5%). Although a combined national rate was not available, the combined average national vacancy rate is likely to be near 5% since the national vacancy rate for malls and lifestyle centers was 4.0% and for power centers 6.4%. If one City of Novi lifestyle center property, that has a very high vacancy rate due to losing one of its anchor tenants, is eliminated from the City data, the City vacancy rate would decline to 4.8% which is close to the regional and national rate. These rates indicate that the City currently has a surplus of retail floor space for malls, lifestyle centers and power centers as a whole.
- Retail centers in the City of Novi as a whole (all categories) currently have a similar retail floor space vacancy rate (9.7%) compared to the rate for Southeastern Michigan (10.3%). This indicates that as a whole, retail centers in Novi are about or a little more successful at balancing the supply and demand for retail floor space as retail centers as a whole in Southeastern Michigan.
- The vacancy rate for retail centers in the City of Novi (9.7%) is higher than the national average for all retail floor space (6.7%). This indicates that the demand for retail floor space is lower for retail center properties in Novi than the national average for all retail properties.

In 2005, the assessing department conducted a survey and found that retail centers had a vacancy rate of 7.8%, which is lower than the current 9.7% rate. The national rate for shopping centers was 12.7% at the end of third quarter 2003 which is higher than the 9.7% at the end of second quarter 2008.

Summary

Overall, the current vacancy rate for retail center floor space for the City of Novi is lower than the rate in Southeastern Michigan and thus, the balance between supply and demand for retail center floor space in the City is better in Novi than in Southeast Michigan. The current vacancy rate for local serving and community serving shopping center floor space in the City is considerably lower than the Southeast Michigan rate and a little higher than the national rate. The current vacancy rate for regional serving malls, lifestyle centers and power centers combined is considerably higher in Novi than Southeast Michigan's and the nation's vacancy rates. Thus, the balance between supply and demand for local and community serving shopping centers in the City of Novi is better than Southeastern Michigan's but somewhat worse than the nation's and the balance between supply and demand for regional serving malls, lifestyle centers and power centers retail floor space in the City is worse than the rate in Southeastern Michigan and the nation.

References

Pardy, Sasha M., "U.S. Retail Property Market Bracing For A Long Year In 2009," Costar Press Release, January 2009.

Marshall, Carol, "Power Centers Are Bright Spots For Southeast Michigan's Retail," Oakland Business Review, August, 2008.