

**REAL ESTATE MARKET
ANALYSIS AND LAND USE
FIRST DRAFT**

MARKET ANALYSIS AND LAND USE

Novi is recognized as a thriving market in southeast Michigan. The Novi Road/I-96 interchange is a destination shopping area that includes Twelve Oaks Mall along with other “big-box” retail shopping, dining, and entertainment opportunities. Beyond offering diverse retail and entertainment prospects, the city is an employment hub for a wide variety of industries, including financial services, health care, and manufacturing. Novi also has one of the most unique event operations in the entire country in the form of the Suburban Collection Showplace—a 55 acre privately owned exposition, conference, and banquet center—drawing large numbers of people to the city. This diverse economy coupled with a distinguished school district makes Novi an attractive place to live across generations. While the city is known for its large homes in a traditional single-family neighborhood setting, it also offers many opportunities for smaller-scale multi-family dwellings.

To continue to remain an attractive and vibrant place to work, live, and shop, the city seeks to recognize how the population and economy are changing, which will holistically inform key policy decisions around housing and redevelopment. To this end, this section of the Master Plan analyzes regional and local residential, commercial, office, and industrial markets and land use trends to project the future changes to the city’s taxable value of existing and vacant property. The future projected revenue is compared against the projected cost of public services base to calculate the gap between revenues captured and services provided. In addition to projecting the changes to existing property, the later portion of this section also projects the future taxable value of the future land use plan to highlight how the zoning changes recommended in the Master Plan will impact future taxable value and revenues.

WHAT IS A MARKET ANALYSIS AND WHY IS IT USEFUL?

The real estate market interchangeably referred to as “the market” in this chapter is an overarching term to collectively address buying, selling, and redevelopment of properties either in the form of buildings or land. The market may be further subdivided into several submarkets based on varying the base criterion; for example, from an economic standpoint, it may be subdivided into the buyers’ market and the sellers’ market; from a land use standpoint, it may be broadly subdivided into the residential, commercial, and industrial markets, etc.; and from a tenure perspective, it includes homeowners’ and renters’ market.

A market analysis thus examines past, present, and future real estate data and trends to understand the demand and preferences of a community and helps cater supply accordingly. It is a valuable tool to:

- » Demonstrate demand for a particular type of development and/or redevelopment.
- » Provide input and comparable data for financial feasibility of a project.
- » Market the available resources to attract developers and investors.
- » Build community support through targeted placemaking.¹

This market assessment draws on data and trends gathered through a variety of methods including:

- » An analysis of data obtained from the city and the Census.
- » A review of secondary data and independent research.
- » A review of data obtained through proprietary modelling and mapping software.
- » A survey of residents of the Novi area.

This market analysis will subsequently serve as the foundation for identifying the “highest and best use” of the selected redevelopment sites, and it will holistically guide future development in Novi.

CONTEXT

Regional Framework

Real estate trends in any community are not isolated events; market trends constantly change and evolve in response to the local and regional socioeconomic shifts. Therefore, to fully comprehend the current and emerging trends in Novi’s market, this assessment studies trends in the larger regional context of Oakland County, Metro Detroit, and Southeast Michigan to accurately capture and predict the future land use patterns in the city.

The COVID-19 Pandemic

The COVID-19 pandemic has disrupted real estate markets all over the world, and the United States in no exception. Owing to lockdown and social distancing mandates, in the months following March 2020, offices, malls, restaurants, and public spaces became insignificant while simultaneously, homes fulfilled the functions of all these spaces; E-commerce became the predominant way to shop, and barring essential workers, Work from Home (WFH) emerged as the “new normal.” However, “confounding initial expectations of a protracted recession and then recovery spanning several years,

¹ Brett, Deborah L. Real Estate Market Analysis: Trends, Methods, and Information Sources, 3rd ed. Washington, DC: Urban Land Institute, 2019.

the economy began to bounce back almost as quickly as it shut down,” and economic output has reverted to pre-COVID measures.² Mirroring the elasticity of the economy, some markets such as retail and offices experienced a temporary hiatus while industrial and residential markets witnessed a dramatic increase on the demand side. Through all these changes one theme that emerges the strongest is the need for flexible spaces.³ As the lines between home, work, retail, and entertainment blur, real estate that can easily adapt has become exceedingly valuable. Therefore, in addition to reviewing past and current market trends specific to Novi and the surrounding region, this assessment focuses on emerging trends in the COVID-19 pandemic context to predict future investment avenues.

RESIDENTIAL MARKET

Novi’s regional location—about 25 miles northwest of Metro Detroit—combined with an exceptional school district and a flourishing economy make the city a sought-after place to live. It is third-fastest growing housing real estate market in 2022 and has been ranked in the top ten best places to live in Michigan.^{4,5} Additionally, as a northern suburb of Metro Detroit—and given Detroit’s unemployment rate has fallen under the national averages after nearly two decades—the city has also been the secondary beneficiary of Detroit’s economic recovery.⁶ With suburbs gaining additional significance in the post-pandemic world, Novi can expect to see an accelerated demand for housing caused by the ripple effect of this regional growth.

Demographic Trends Impacting the Residential Market

Demographic trends profoundly influence the housing market; therefore, it is essential to closely monitor the population and the community’s preferences to predict future trends in housing and strategize housing supply appropriately. Novi’s local and regional demographic trends are discussed in detail in **chapter xx** of this plan, but several pointed trends that directly impact the housing market are listed below:

² PwC and the Urban Land Institute: Emerging Trends in Real Estate® 2022. Washington, D.C.: PwC and the Urban Land Institute, 2021.

³ PwC and the Urban Land Institute: Emerging Trends in Real Estate® 2022. Washington, D.C.: PwC and the Urban Land Institute, 2021.

⁴ Aceable. Michigan’s Fastest Growing Markets and 2022 Trends, 2022.

<https://www.aceableagent.com/blog/michigans-fastest-growing-markets-and-trends/>

⁵ Niche. 2022 Best Places to Live in Michigan, 2022. <https://www.niche.com/places-to-live/search/best-places-to-live/s/michigan/>

⁶ PwC and the Urban Land Institute: Emerging Trends in Real Estate® 2022. Washington, D.C.: PwC and the Urban Land Institute, 2021.

- » Novi's population and households grew by nearly 20% in the last decade; the city is growing at much faster pace than predicted and has already surpassed the SEMCOG population projections for 2025.
- » The population growth rate of Novi outpaced that of Oakland County (6%) and other similar-sized communities including Farmington Hills, Rochester Hills, Royal Oak, Southfield, Troy, and West Bloomfield Township, suggesting that the city is rapidly growing in the regional context also.
- » The growth of housing units in Novi also outpaced that of other similar-sized communities likely due to an increasing number of new builds; with housing supply being a major contributor to housing shortage statewide and nationwide, an array of ongoing and proposed new builds in the city is indicative of a market where supply responds to demand.
- » With a median age of 39.2 years, Novi's population is aging; the 45-64 years age cohort is the largest (28.4%) and nearly 40% of the population is above 45 years of age, establishing Novi as a place for mature families while also creating a demand for diverse housing typologies allowing the citizenry to age in place.
- » The combined decrease in the school-age cohort and 35-44 age cohort, despite the city's exceptional school district, suggests that families with young kids may be migrating out. A likely explanation is Novi's housing may be inaccessible for families seeking "starter homes" and is housing typology that needs more supply.
- » Deviating from the state and national trends, the average household size in Novi increased from 2.46 to 2.49 over the last decade, potentially creating a demand for larger homes for bigger families as well.






These demographic trends together indicate a need for housing of varied typologies—from starter home to senior housing—at various price points to cater to the needs of different demographic groups.

Novi's Residential Market

Novi's housing market is distinctly competitive in Southeast Michigan; Redfin, a popular real estate brokerage, rates Novi 88 on a scale of 100 for competitiveness. Homes get multiple offers and often standard contingencies are waived, and the most popular listings go "pending" in about five days

and sell for approximately 7% over the list price.^{7,8} In real estate terms, Novi is a “seller’s market” where demand outpaces supply.

Fig xx: Residential Market Snapshot

	Novi ⁱ	Southeast Michigan ⁱⁱ
 Median Sales Price (June 2022)	\$475,000	\$312,725
 Median Sales Price Change (June 2021–2022)	18.8%	10.4%
 Days on Market (June 2022)	10 days	15 days
 Homes Sold Change (June 2021–2022)	-7.9%	-13.7%
 Median Gross Rent (2020)	\$1,352*	\$976*

⁷ A pending sale in real estate means that the seller has accepted an offer on their home, but the deal is yet to be finalized.

⁸ Redfin. Novi Housing Market, 2022. <https://www.redfin.com/city/15385/MI/Novi/housing-market>



5%*

9%*

Sources:

ⁱ Redfin. Novi Housing Market, 2022. <https://www.redfin.com/city/15385/MI/Novi/housing-market>

ⁱⁱ Remax of Southeast Michigan. SE Michigan Housing Snapshot. <https://www.remax-detroit.com/blog/wp-content/uploads/sites/145/2022/07/Jun-22-Snapshot.jpg>

*SEMCOG Housing Data. <https://semcog.org/housing>

With nearly 1.5 times the median sales price and median gross rent, and low vacancy rates, Novi's housing market is growing exponentially compared to the Southeast Michigan region (Fig xx). This trend can be expected to continue, given the rate at which the population and economy is growing, and may have the following outcomes:

- » On the upside, the city can expect an influx of investment in the housing sector which can boost supply, is a proven solution to address the rapidly increasing housing demand/housing shortage.
- » On the downside, with rising construction and labor costs, it is likely that new builds will be accessible only to certain higher-income households; in an already competitive market, if new builds also cater to the affluent, the working-class households are likely to be priced out of the homeownership tenure.
- » As a result, the working-class households are forced into renting; however, with an average rent of \$1,413, even the rental market is also unaffordable to nearly 35% of Novi's households.^{9,10}

Therefore, while there is no doubt Novi will continue to attract investment in residential development, and high-end ownership and rental properties will remain lucrative prospects, to advance equitable and sustainable growth in this market, the city should consider incentivizing affordable and market-rate housing for developers.

⁹ City of Novi. Average Rents, 2022.

¹⁰ American Community Survey. 2016-2020 5-Year Estimates

What's selling in Novi?

Novi boasts a healthy mix of housing typologies ranging from single-family units to large multi-family developments. Table xx records the housing sales data in Novi over the last decade. Given the population and household growth in Novi, it is not surprising that the number of units in the city has increased in multitude. Except for 2012, the average home size decreased between 2010–2018 and subsequently increased between 2019–2021. While the increasing average household size is a plausible explanation, it is also likely that with the onset of the pandemic (March 2020), households started seeking larger homes to accommodate additional spaces such a home office, gym, children's play area, etc. Table xx also shows that homes with an area of 3,000-5,000 square feet, probably detached single-family units, were the top choice during the pandemic, thereby increasing the average sales price for this type of housing by 20%.¹¹ Homes with offices and basements are most popular in Novi and are integral features in nearly 60% of the listings with a sale-to-list ratio of 102.5%.^{12,13}

It can also be noted that as demand for larger homes increased between 2020 and 2021, and as average sale price per square foot increased, there was a causal increase in the number of mid-size homes (1,500-2,000 square feet) sold in 2021 (19.3%). In other words, people who cannot afford to enter the competitive market of larger-sized homes seek out mid-size housing typologies like condos, duplexes etc. in pursuit of more affordable options. Alternatively, as the population of Novi ages, empty nesters (45-64 years) and seniors (65+ years) perhaps gravitate towards smaller homes from both an affordability and maintenance standpoint. It can thus be deduced that there is a demand for both larger traditional single-family homes and "smaller lot" homes.

¹¹ Redfin. Novi Housing Market, 2022. <https://www.redfin.com/city/15385/MI/Novi/housing-market>

¹² Redfin. Novi Housing Market, 2022. <https://www.redfin.com/city/15385/MI/Novi/housing-market>

¹³ sale-to-list ratio measures how much above or below the seller's asking price buyers are paying for homes.

Table xx: Housing Sale Data 2010–2021

Sale Year	Number of Units Sold	Average of Floor Area (sq. ft)	Average Sale Price	Average Sale Price/Sq.ft.
2010	174	2,304	\$254,384	\$99
2011	752	2,260	\$251,935	\$101
2012	783	2,320	\$280,729	\$110
2013	766	2,283	\$307,485	\$126
2014	960	2,207	\$315,587	\$65
2015	1,007	2,169	\$316,739	\$139
2016	1,021	2,194	\$338,424	\$147
2017	912	Data not available	\$320,544	Data not available
2018	964	2,183	\$368,105	\$165
2019	919	2,260	\$389,720	\$168
2020	1,028	2,262	\$394,533	\$172
2021	997	2,292	\$457,440	\$192

Source: City of Novi

Table xx: Percentage Units Sold by Area 2010–2020

Floor Area (sq. ft.)	2019	2020	2021
Under 750	0.4%	0.6%	0.3%
750 - 1,000	4.2%	3.8%	4.4%
1,000 - 1,500	22.9%	20.5%	17.5%
1,500 - 2,000	15.1%	16.2%	19.3%
2,000 - 2,500	17.6%	19.2%	18.7%
2,500 - 3,000	19.7%	19.5%	15.0%
3,000 - 5,000	18.8%	20.0%	22.6%
Over 5,000	1.2%	0.2%	1.3%
Vacant	-	-	1.0%

Source: City of Novi

What does the community want?

Only one third of respondents of the master plan survey agreed or strongly agreed that there are sufficient housing options in Novi to meet their future housing needs, implying that the current housing supply is not tailored to the community’s preferences. When asked what housing options respondents would like to live in 10 years from now, the responses for each housing type were higher than the number of people currently living in that housing type, indicating demand for more diverse housing types. The most popular housing type remained the detached single-family home, followed by townhomes, and senior living apartments. Two of the more uncommon housing types (accessory dwelling units and mixed-use units) received 9% interest among respondents. The table titled “Housing Preferences by Age” illustrates the interest in housing unit type varied by age. Understandably senior living apartments were most popular among older populations. Courtyard apartments and accessory dwelling units were also popular housing choices, and younger generations tended to prefer mixed-use and live/work buildings compared to the older generations. However, detached single-family homes remained the strong preference in all age groups.

Table XX: Housing Preferences by Age

Housing Type	25-34	35-44	45-54	55-64	65+	Total
Detached single-family home	87%	94%	91%	76%	65%	82%
Townhouse	14%	20%	25%	24%	20%	22%
Mid-rise apartment/condominium	14%	7%	8%	22%	13%	12%
Senior living apartments	3%	1%	6%	23%	45%	17%
Accessory dwelling unit	6%	4%	10%	10%	13%	9%
Mixed-use	20%	10%	11%	7%	3%	9%
Live/work unit	10%	4%	2%	4%	2%	4%
Bungalow court	1%	5%	7%	9%	8%	7%
Duplex	8%	7%	6%	6%	7%	7%
Triplex/Quadplex	4%	4%	3%	3%	4%	4%
Courtyard Apartment	7%	6%	4%	3%	12%	6%
High-rise apartment/condominium	4%	7%	4%	3%	2%	4%
Manufactured/mobile home	3%	0%	1%	1%	2%	1%

Source: Novi Master Plan Survey: 842 Responses

Residential Market Trends

Missing Middle Housing

The effects of the statewide housing shortage are felt in most of Southeast Michigan. With most communities emerging as sellers' markets with dramatically raising rents, there is an obvious gap between supply and demand. Cities have an added challenge of low availability of land to increase supply through new builds. Therefore, increasing density becomes an obvious solution, but one which doesn't always gain the communities' acceptance. Under such circumstances, Missing Middle housing typologies such as Duplex, Triplex, Quadplex, Bungalow Courts, Multiplex, Live/Work units etc., have gained traction as they effortlessly weave density and diversity into the fabric of traditional single-family residential neighborhoods. The missing middle ethos also paves the path towards equitable housing by addressing two very important aspects of housing: housing availability and housing affordability. Missing Middle characteristics include:

- » Medium density but lower perceived density
- » Smaller well-designed units
- » Reduced lot sizes
- » Walkability and multi-modal

Fig xx: Missing Middle Housing Typologies



With over 40% higher-density multi-family units, Novi’s housing inventory already includes many of these housing typologies, including duplexes, townhomes, and multi-family apartments.¹⁴

Flexible Homes

Homes have been transformed into multipurpose spaces in response to the pandemic, and having flexible spaces within homes has become a necessity. More time spent at home calls for evolved flex-space design and greater-square-footage floor plans, with a programming deemphasis on indoor common amenity spaces like fitness centers in favor of outdoor living and recreation space.¹⁵ Homes with office spaces, basements, flexible common areas, patios, and decks are receiving the most competitive offers.^{16,17}

Build to Rent

Housing markets often tend to focus heavily on ownership, and while the ownership tenure is vital for overall economic wellbeing, renting is becoming a preferred options in cities due to high housing costs and inventory shortage associated with homeownership. Additionally, young adults, even some empty nesters and seniors, and immigrants prefer to rent due the convenience and flexibility it offers. With this growing demand for rental units, many developers are building to rent in Southeast Michigan, spread over an array of housing typologies, typically more spacious than apartments and include shared amenities.¹⁸

Mixed-Use Residential in Suburbs

With the flexibility that WFH offers, people are choosing to move to less dense suburbs. However, the pandemic also reemphasized the advantage of having everyday goods and service within walking distance; mixed uses are thus becoming a highly popular option. Especially in the metro Detroit region where the suburbs have diverse communities and economic opportunities, mixed-use properties may be easily integrated along denser corridors. Mixed-use residential properties also tend to have smaller footprints, and not only add diversity, but serve as affordable housing options in highly competitive

¹⁴ City of Novi

¹⁵ PwC and the Urban Land Institute: Emerging Trends in Real Estate® 2022. Washington, D.C.: PwC and the Urban Land Institute, 2021.

¹⁶ Redfin

¹⁷ RE/MAX of Southeastern Michigan

¹⁸ Alexandra Ciuntu. Built-to-Rent Homes Expected to Hit All-Time High in 2022, Fueled by Need for Space and Privacy. Rent Café, 2022. <https://www.rentcafe.com/blog/rental-market/market-snapshots/built-to-rent-single-family-homes-double-in-2022/#:~:text=Built%2Dto%2Drent%20communities%20are,have%20a%20direct%2Daccess%20garage.>

markets. Furthermore, in communities which don't have a downtown, mixed-use developments create "community hubs" and encourage alternative modes of commuting including walking and biking, which is beneficial to reduce traffic on the major thoroughfares.¹⁹

Future Residential Market Avenues in Novi

Given all the above demographic trends, sales trends, demand-supply market dynamics, and community preferences, the burning question is what type of housing should be developed in Novi? The recommendations are as follows:

- » Continue to build larger (3,000-5,000 square feet) detached single family units with flexible spaces or multi-use spaces to cater to the new normal in the COVID-19 era of live, work, and shop from home.
- » Channel new investment towards mid-size (1,500-2,000 square feet) homes constituting the missing middle typologies to improve housing diversity and affordability; the city may also work with developers to tap into the proposed \$12.6 million gap funding under the Michigan State Housing Development Authority's (MSHDA) Missing Middle Housing Program.²⁰
- » Incentivize smaller-footprint mixed-use residential units along the Grand River Corridor.
- » Encourage the development of Accessory Dwelling Units in traditional single-family neighborhoods to provide more housing options for young adults, the elderly, or residents in transition to homeownership.
- » Identify specific areas in the city in proximity to healthcare and recreational facilities for developing senior living facilities to enable the population of Novi to age in place.
- » Invest in "build for rent (BTR)," "single-family rental (SFR)" and "single-family-built-to-rent (SFBR)" to increase the rental housing stock.
- » Improve affordability by offsetting high costs of construction and labor by developing market rate units—ownership and rental—in combination with upscale units.

¹⁹ Shelby Tankersley. Livonia, Farmington Hills look at walkable real estate trends to attract younger residents. Hometown Life, 2022. <https://www.hometownlife.com/story/news/2022/02/25/mixed-use-developments-latest-metro-detroit-trend-new-housing/9242398002/>

²⁰ Missing Middle Housing Program. <https://www.michigan.gov/mshda/developers/missing-middle#:~:text=The%20Missing%20Middle%20Housing%20Program,of%20employees%20by%20providing%20cost>

- » Incentivize affordable housing in infill redevelopment where feasible to supply housing to the low- and moderate-income population of Novi.

COMMERCIAL MARKET

The COVID-19 pandemic has transformed the face of the commercial real estate market forever. In response to a global public health catastrophe, and with the arrival of socio-economic shutdown and social distancing mandates, the commercial market was entirely disrupted. Semi-public and public spaces such as offices, shopping malls, restaurants, convenience stores, gyms, entertainment venues that once provided a sense of community become obsolete, and all these uses found ways into peoples' homes or backyards. WFH and e-commerce became a lifestyle for most, raising questions on the future of commercial real estate. But the market showed surprising resilience; with faster than anticipated economic recovery and a renewed need for flexible and open social spaces, the commercial markets around the United States bounced back. This analysis will broadly focus on three commercial markets: Retail, Office, and Industrial.

Socioeconomic Trends Impacting the Commercial Market

Local and regional socioeconomic trends drive commercial real estate. The citizenry's income, spending potential, and preferences impact the type of commercial investments funneling into a community. Novi's local and regional economic trends are discussed in detail in [chapter xx](#) of this plan, but several pointed trends that directly impact the commercial market are listed below:

- » The city's median household income decreased from \$95,131 in 2010 to \$93,943 in 2020, likely an effect of the COVID-19 pandemic.
- » However, the surrounding cities of Walled Lake and Wixom recorded only about 60% and the southeast Michigan region about 70% of Novi's median household income in 2020, indicating the city's economic stature in the region.
- » With a strong presence in the auto sector, Novi is beneficiary to international immigrants and business visitors, which creates a market for niche commercial real estate.
- » Manufacturing is still the leading industry driving Novi's economy, followed closely by "Professional, scientific, and management, and administrative, support, and waste disposal and remediation services," and "educational services, healthcare, and social assistance;" SEMCOG regional forecast also predicts that while the former will see a decline, the latter two industries will witness growth by nearly 50% and 30% respectively. Since the two

growth industries typically require office and/or retail spaces, Novi can expect an increase in demand for commercial real estate, especially small to mid-sized offices.²¹

- » Roughly 26,000 people live in Novi and commute outside to adjacent communities, and roughly 41,000 people from adjacent communities commute into the city for work; these daily work commuters regularly tend to use food and drinking establishments, parks, entertainment options, etc. in their place of work, adding additional demand for more such spaces.²²
- » Simultaneously, data from the National Association of Realtors (NAR) recorded that Oakland County had the highest work from home score in 2020 statewide, indicating that retail and office markets will have to be flexible to accommodate the changing work patterns.^{23,24}
- » The pandemic evoked a surge in e-commerce, and the demand for industrial spaces and warehouses has skyrocketed.

Novi's Commercial Market

Novi is a regional hub for commercial activity. Novi's economy includes international corporations with local and regional offices as well as owner-operated businesses serving the local area. While Novi is recognized for its large concentration of retail businesses clustered at the Novi Road and I-96 interchange—including the regional 12 Oaks Mall—there are several large retail centers in the city as well as many individual retail businesses.²⁵ Auto showrooms are integral to the city, with several luxury auto brand venues along Haggerty Road and Grand River Avenue. The city's industrial and office parks are home to companies in high tech research and development, health care, transportation and logistics, manufacturing, and domestic and foreign automotive-related suppliers. As the city reopens, the demand for social and interactive retail destinations has grown, paving the way to new market entrants such as Michigan's first indoor skydiving company iFLY.²⁶

²¹ SEMCOG 2045 Regional Development Forecast

²² United States Census Bureau, OnTheMap, 2019

²³ NAR's Work from Home Score encapsulates factors that reflect the current fraction of workers already working from home and factors that are expected to support the trend to work from home or work remotely—internet connectivity, the fraction of workers that work in industries that have normally been heavy occupiers of office space, home affordability, and a county's population growth.

²⁴ National Association of Realtors (NAR), Work From Home Counties, 2020.









<https://www.nar.realtor/research-and-statistics/research-reports/work-from-home-counties>


²⁵ Wikipedia contributors. Novi, Michigan. Wikipedia, The Free Encyclopedia. Wikipedia, The Free Encyclopedia, 2022. https://en.wikipedia.org/wiki/Novi,_Michigan

²⁶ Marcus & Millichap. Detroit Retail Market Report, 2022.

<https://www.marcusmillichap.com/research/market-report/detroit/detroit-2q22-retail-market-report>

Fig xx: Commercial Market Snapshot

	Tenure	Value ⁱ
 Total Listings (August 2022)	For Sale	39
 Average Sale Price (August 2022)	For Sale	\$2.3 Million
 Average Price/Sq. Ft. (August 2022)	For Sale	\$192
 Median Cap Rate (August 2022)	For Sale	7%
 Total Spaces (August 2022)	For Lease	178
 Average Rent/Sq.Ft. (August 2022)	For Lease	\$19.5*
 Vacancy (2021)	Combined	7% ⁱⁱ
 Commercial Permits Issued	Combined	124 ⁱⁱ

(2018–2019)		
 Value of Issued Permits (2018–2019)	Combined	\$129 Millionⁱⁱ
Notes: * Not all listings include rent/sq.ft. Source: ⁱ Crexi, Novi Market Overview ⁱⁱ City of Novi Website		

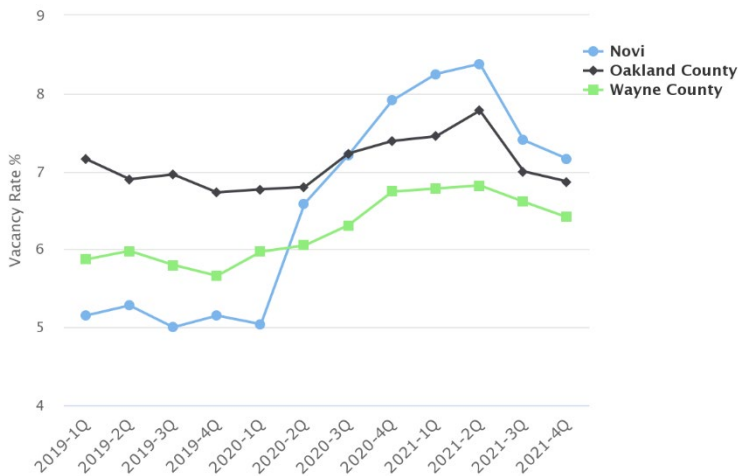
The city of Novi offers an array of commercial properties for sale and for lease. The average price per square foot in Novi (\$192) is on par with that of Oakland County (\$193.5), indicative of a competitive regional commercial market.²⁷ The average rent per square foot on commercial properties in Novi is around \$19.5. Fig xx below shows the change Novi’s commercial property vacancy rate in comparison to Oakland County and Wayne County; it is evident that Novi’s market experienced a significantly greater extent of disruption than the counties during the pandemic; however, in the second half of the 2021, the market swiftly restabilized. Although the vacancy rate in the last quarter of 2021 in Novi (7.1%) is slightly higher than that of both counties (Oakland: 6.8%; Wayne: 6.4%) the rapid decrease paints a promising picture of the market’s future.

The City of Novi undertakes rigorous efforts to attract large-scale business, which increases taxable values and creates jobs for its residents. These active business development endeavors distinguish Novi’s commercial market from the rest of the region. Additionally, the city also extends several types of property tax abatements to developers and offers one of the lowest city property tax rates (10.2 mills) among comparable communities, while providing exceptional services and prime locations that are foremost in attracting investment in competitive commercial markets.²⁸

²⁷ Crexi, Oakland County For Sale Market Overview

²⁸ City of Novi, <https://www.cityofnovi.org/services/economic-development/resources/incentives/propertytaxabatementspolicy.aspx>

Fig xx: Vacancy Rates, March 2020



Source: City of Novi

Novi's Retail Market

In the aftermath of the pandemic, the retail market has been completely redefined. As e-commerce become an integral characteristic of most businesses, retail spaces had to quickly adapt to accommodate the transition. "Retailers immediately had to scale up their home delivery and curbside pickup services while overhauling their supply chains to meet shifting consumer demand and overcome severe shortages."²⁹ However, as communities reopened post pandemic and economies bounced back, retailers in the suburbs are benefiting the most.³⁰ Novi can thus expect to see a spike in the demand for retail spaces.

As of August 2022, Novi's retail inventory constitutes 255,846 square feet across 27 active listings.³¹ Fig xx shows that the retail vacancy rate between the third and fourth quarter of 2021 dramatically

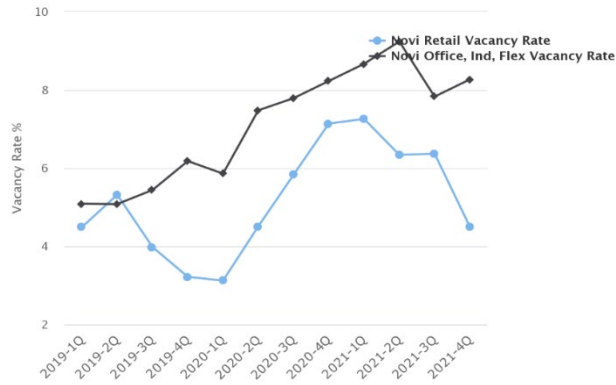
²⁹ PwC and the Urban Land Institute: Emerging Trends in Real Estate® 2022. Washington, D.C.: PwC and the Urban Land Institute, 2021.

³⁰ Marcus & Millichap. Suburban Retail Outlook, 2022. <https://www.marcusmillichap.com/research/market-report/detroit/detroit-2q22-retail-market-report>

³¹ Yardi Matrix, <https://www.commercialcafe.com/commercial-real-estate/us/mi/novi/?CoworkingWorkspaceTypes=0&Zoom=10&Viewport=->

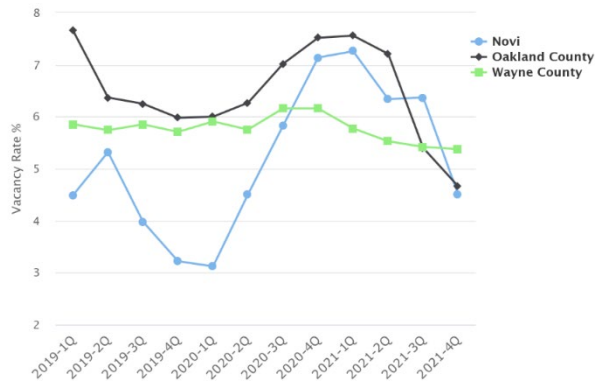
dropped (4.5%) in comparison to other commercial uses (8.4%) and both counties (Oakland: 4.6%; Wayne: 5.3%), indicating the market is following the trajectory of anticipated suburban retail growth.

Fig xx: Retail Vacancy Rates, March 2020



Source: City of Novi

Fig xx: Retail Vacancy Rates: Novi, Okaland County, and Wayne County, March 2020



Source: City of Novi

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How Do Residents Spend Their Money?

A useful demand indicator in the retail market is measuring how and where households spend their money. ESRI's proprietary software uses the "Spending Potential Index" to measure the amount spent on a variety of goods and services by households that reside in the area relative to a national average of 100. In addition to the spending potential index, **table xx** also captures the total dollar value and average amount spent by households as annual figures per retail category.³² Housing emerges as the top expenditure followed by health care. Residents of Novi exhibit a higher spending potential than the national average in all categories, especially under the travel and education categories.

Specifically relating to the retail market, households in Novi spent the most on food. With restaurants closing dine-in services during the pandemic, grocery stores boomed as did outdoor dining. Outdoor recreation areas were among the few safe places to socialize during the pandemic. Additionally, coming out of a pandemic, the demand for entertainment opportunities surged explaining the expenditures on "Entertainment/Recreation" and "Household Furnishings & Equipment" was another common expenditure nationwide as households began improving their gardens, installing new entertainment centers, and converting closets and dead space into home offices."³³ It is expected that these retail sectors will continue to grow, and Novi's retail market should be prepared to cater to this demand.

Table xx: Consumer Spending, 2022

	Total Spent	Average Spent	Spending Potential Index
Shelter	\$861,818,368	\$31,859.02	139.00
Health Care	\$252,956,697	\$9,351.10	132.00
Food at Home	\$225,211,601	\$8,325.44	134.00
Food Away from Home	\$162,019,956	\$5,989.43	139.00
Entertainment/Recreation	\$134,613,946	\$4,976.30	136.00
Travel	\$110,300,965	\$4,077.52	142.00
Support Payments/Cash Contributions/Gifts in Kind	\$100,775,654	\$3,725.39	137.00

³² ESRI Market Profile

³³ PwC and the Urban Land Institute: Emerging Trends in Real Estate® 2022. Washington, D.C.: PwC and the Urban Land Institute, 2021.

	Total Spent	Average Spent	Spending Potential Index
Household Furnishings & Equipment	\$ 96,141,592	\$3,554.09	139.00
Apparel & Services	\$ 90,783,745	\$3,356.02	139.00
Education	\$ 77,549,553	\$2,866.79	146.00
Vehicle Maintenance & Repairs	\$ 45,637,940	\$1,687.11	134.00
Personal Care Products & Services	\$ 38,334,462	\$1,417.12	139.00

Note: Consumer spending Expenditures are shown by broad budget categories that are not mutually exclusive. Consumer spending does not equal business revenue.

Source: ESRI Market Profile

What Retail Does the Community Want?

The Master Plan survey asked respondents several questions on commercial and retail development in Novi, and the detailed responses are presented in **chapter xx**. A few pointed trends impacting retail demand are listed below:

- » Survey respondents demonstrated the highest demand for more recreation /public space, with 61% indicating that there was not enough in Novi.
- » The greatest demand for retail goods was in the sporting goods, hobby, book & music store sector, with 28% of respondents indicating that there was not enough of this sector in Novi.
- » When asked if there were any specific businesses/establishments survey takers would like to see operate/open in Novi, food/grocery stores and general retail businesses were most listed.
- » When asked about commercial redevelopment, about 77% of respondents support a “downtown type” development, 51% support hybrid shopping venues, and 19% support strip malls. Only 13% support regional mall as a redevelopment venture.

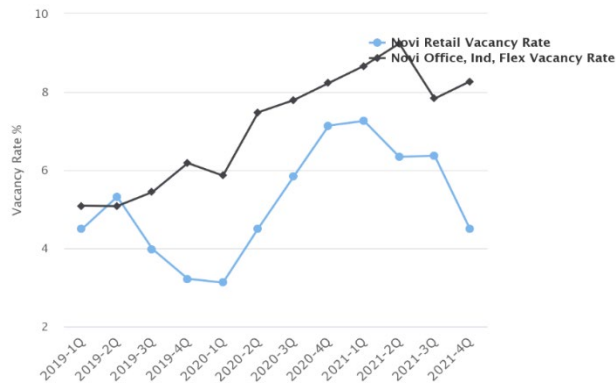
It is clear from these responses that the residents of Novi seek more neighborhood-walkable-scale retail businesses and outdoor recreation options.

Novi's Office Market

The pandemic scaled up the “Work from Home” (WFH) model to an inconceivable scale. Excluding essential workers, emergency responders, and physical laborers, almost all employers were pushed to authorize employees to WFH, which disrupted the office real estate. But in the hopes that the shutdown would be temporary, firms around the nation did not want to give up their office spaces, and vacancy rates were at an all-time high.³⁴

Novi's economy includes international corporations with local and regional offices as well as owner-operated businesses serving the area. The city is also an industry leader in Healthcare and Research and Development (R&D) which tends to use large swaths of office and laboratory spaces. Consequentially, the vacancy rate in the “Office, Industry, and Flex” markets jumped from 5.8% in early 2020 to 9.2% by mid-2021 (Fig xx) and remained higher than both Oakland and Wayne Counties (7.9% and 7.1% respectively). Due to the slump in demand for office real estate, as of August 2022, Novi's retail inventory constitutes 1,231,639 square feet across 58 active listings.³⁵

Fig xx: Office, Industry, and Flex Vacancy Rates, March 2020

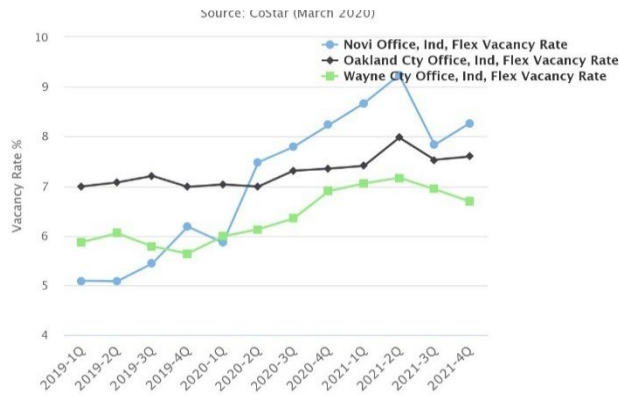


Source: City of Novi

³⁴ PwC and the Urban Land Institute: Emerging Trends in Real Estate® 2022. Washington, D.C.: PwC and the Urban Land Institute, 2021.

³⁵ Yardi Matrix, <https://www.commercialcafe.com/commercial-real-estate/us/mi/novi/?CoworkingWorkspaceTypes=0&Zoom=10&Viewport=-84.18437682442553,42.20422399069918,-82.88936339669115,43.00978335018946&GeopickerType=viewport>

Fig xx: Office, Industry, and Flex Vacancy Rates: Novi, Okaland County, and Wayne County, March 2020



Source: City of Novi

Nevertheless, Novi’s office market is on the path to recovery, ending 2021 at an 8% vacancy rate. Considering the office vacancy rate in the Detroit-Warren-Dearborn metro area during the same period was 11%, Novi’s office market still stands out regionally.³⁶ This may be in part due to the growing investment in owned corporate headquarters in the metro region. In 2021, Magna International Inc.'s four-year-old headquarters sold for \$322.22 per square foot for a total of \$58 million.³⁷

What Office Spaces Does the Community Want?

A quarter of survey respondents wished that Novi had more coworking spaces. Coworking space is a business service model where individuals working independently or collaboratively in a shared office space and use common facilities; such as conference rooms, telecommunication facilities, and printer equipment.

³⁶ National Association of Realtors. NAR Commercial Real Estate Metro Market Report | 2022.Q1. <https://cdn.nar.realtor/sites/default/files/documents/2022-q1-commercial-metro-market-reports-mi-05-09-2022.pdf>

³⁷ Kirk Pinho. Magna Seating's new Novi headquarters fetches pandemic-era high for office building: Crain’s Detroit Business, 2021. <https://www.crainsdetroit.com/real-estate/magna-seatings-new-novi-headquarters-fetches-pandemic-era-high-office-building>

Retail and Office Market Trends

Suburbs are the “new hubs”

The pandemic in many ways invigorated suburbia. WFH and e-commerce provided flexibility to households to move further away from their jobs in cities into the suburbs, thus, shifting the demand for commercial spaces to the suburbs from the cities.³⁸ Retail spaces also had to be reconfigured to accommodate physical changes such as curb-side pickup and space for delivery vehicles that feed e-commerce. Such retrofitting and reengineering can be accommodated in suburbs more efficiently than in a downtown or Central Business District (CBD).

Smaller Square Footage and Shorter-Term Leases

The trend of WFH and online shopping is here to stay. According to a recent survey, most employees prefer a hybrid work model, but both employers and employees believe that a physical space is necessary to foster collaboration and to foster a healthy work culture.³⁹ Given the uncertainty, most companies have not been signing long-term leases.⁴⁰ Additionally, even with the healthcare sector and with “tele-health” gaining prominence, many prefer to operate out of smaller clinics without the need for large waiting rooms. Therefore, flexible office and flexible retail is the future which can be achieved by offering smaller footprints and short-term leases. Smaller spaces with shared facilities provide more financial incentives for businesses and companies to invest in physical spaces, and short-term leases offer flexibility to reassess needs on a continual basis.

Functional Outdoor Spaces

Outdoor areas facilitated safe social interaction during the pandemic, and the demand for functional outdoor areas has been on the rise since. Restaurants with outdoor seating before the pandemic

³⁸ Marcus & Millichap. Suburban Retail Outlook, 2022. <https://www.marcusmillichap.com/research/market-report/detroit/detroit-2q22-retail-market-report>

³⁹ PwC. PwC Pulse Survey: Next in work,

⁴⁰ Kirk Pinho. Real Estate Insider: Looking back at the biggest commercial real estate stories of the year: Crain’s Detroit Business, 2021. https://www.crainsdetroit.com/voices-kirk-pinho/detroit-areas-biggest-commercial-real-estate-news-2021?adobe_mc=MC MID%3D11355890269123693461960042579836828225%7CMCORGID%3D138FFF2554E6E7220A4C98C6%2540AdobeOrg%7CTS%3D1661938102&CSAuthResp=1%3A%3A622407%3A1745%3A24%3Asuccess%3A069D362F93AE8DBF8664E57F02F811F6

were a luxury, but now outdoor space is necessary. Designing commercial retail and office spaces with flexible outdoor spaces will encourage people to leave their homes more.

Future Avenues for Retail and Office Markets in Novi

Through all the ebbs and flows of the pandemic, Novi's retail and office markets have shown resilience. The challenge that lies ahead for the city now is to redevelop the existing inventory and vacant commercial properties to cater to the changing demand. The recommendations are as follows:

- » Develop commercial and retail office spaces to have smaller footprints with shared facilities.
- » Expand neighborhood-scale retail to include everyday uses such as local grocery stores, food establishments, gyms, etc.
- » Incentivize mixed-use infill development in Novi's town center to create a walkable destination in the city with storefronts and pedestrian amenities.
- » Redevelop office spaces as coworking spaces to allow for maximum flexibility and to provide opportunities for firms to set up satellite offices in Novi.
- » Wherever feasible, encourage functional outdoor spaces, especially with primary uses such as restaurants, bars and taverns, cafes, etc.

Novi's Industrial Market

The industrial market is the only real estate that boomed from the e-commerce wave that the pandemic stirred, and the market has never been stronger. "Robust demand, acute scarcity of supply, and rising replacement costs have accelerated rents across the board, reaching historic double digits in many markets, while the vacancy rate fell to a record low."⁴¹ Closely following the trend in retail and office, and pushed by a shortage of larger parcels of land for industrial and warehouse uses, this market is expanding in the suburbs. In the Detroit Metro region, the total area of industrial/warehouse space under construction in 2021 jumped from 6.69 million square feet in the second quarter to 7.58 million square feet in the third.⁴²

⁴¹ PwC and the Urban Land Institute: Emerging Trends in Real Estate® 2022. Washington, D.C.: PwC and the Urban Land Institute, 2021.

⁴² Kirk Pinho. Real Estate Insider: Looking back at the biggest commercial real estate stories of the year: Crain's Detroit Business, 2021. https://www.crainsdetroit.com/voices-kirk-pinho/detroit-areas-biggest-commercial-real-estate-news-2021?adobe_mc=MCMID%3D11355890269123693461960042579836828225%7CMCORGID%3D138FFF

Manufacturing is still the largest industry in Novi, and the city has a strong automotive presence regionally and globally; these industries continue to advance Novi’s industrial real estate. The booming industrial market likely stabilized the rapidly increasing vacancy rates, which reached an all-time high of 9.2% by mid-2021. As of August 2022, Novi’s industrial inventory constitutes 254,276 square feet across a total of 14 active listings.⁴³ As Novi’s Lineage Logistics, a global temperature-controlled real estate investment trust (REIT), acquires facilities globally, the city can expect expansions in the industrial market. There is also a booming market in the suburbs of Southeast Michigan to supply warehousing and logistics as “developers like Ashley Capital, NorthPoint Development LLC and Flint Development” undertake large-scale projects in the metro region.⁴⁴ Novi is also powering ahead in increasing supply in this sector with Schalo Group Corporation—an operation and warehousing service solution provider—leased a 110,000 sq. ft. building in the city.⁴⁵

Regional Industrial Market Trends

Demand for Infill Warehousing and Logistics Spaces is Increasing

As the backbones of e-commerce, the demand for warehousing and logistics continue to grow in the Detroit metro region. In all five counties (Wayne, Oakland, Macomb, Washtenaw or Monroe), mammoth buildings are under construction near freeways.⁴⁶ In many instances, these spaces are being developed as “flex” spaces without an actual buyer or tenant lined up. However, with demand

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⁴³ Yardi Matrix, <https://www.commercialcafe.com/commercial-real-estate/us/mi/novi/?CoworkingWorkspaceTypes=0&Zoom=10&Viewport=-84.18437682442553,42.20422399069918,-82.88936339669115,43.00978335018946&GeopickerType=viewport>

⁴⁴ Kirk Pinho. Real Estate Insider: Looking back at the biggest commercial real estate stories of the year: Crain’s Detroit Business, 2021. https://www.crainsdetroit.com/voices-kirk-pinho/detroit-areas-biggest-commercial-real-estate-news-2021?adobe_mc=MCMID%3D11355890269123693461960042579836828225%7CMCORGID%3D138FFF2554E6E7220A4C98C6%2540AdobeOrg%7CTS%3D1661938102&CSAuthResp=1%3A%3A622407%3A1745%3A24%3Asuccess%3A069D362F93AE8DBF8664E57F02F811F6

⁴⁵ JLL. United States Industrial Outlook - Q2 2022, 2022. <https://www.us.jll.com/en/trends-and-insights/research/industrial-market-statistics-trends>

⁴⁶ Kirk Pinho. Real Estate Insider: Looking back at the biggest commercial real estate stories of the year: Crain’s Detroit Business, 2021. https://www.crainsdetroit.com/voices-kirk-pinho/detroit-areas-biggest-commercial-real-estate-news-2021?adobe_mc=MCMID%3D11355890269123693461960042579836828225%7CMCORGID%3D138FFF2554E6E7220A4C98C6%2540AdobeOrg%7CTS%3D1661938102&CSAuthResp=1%3A%3A622407%3A1745%3A24%3Asuccess%3A069D362F93AE8DBF8664E57F02F811F6

outpacing supply, with regulatory barriers to new construction, and with raising construction costs, large-scale “new builds” for warehousing are becoming an increasingly unsustainable solution. As a result, smaller-scale infill industrial development is gaining traction as a potential solution in largely urbanized areas.

Future Avenues for Industrial Markets in Novi

How best can Novi capitalize the industrial sector? The recommendations are as follows:

- » Focus on smaller industrial footprints (30,000 to 60,000 square feet) that cater to research and development, technology, and specialized engineering.
 - » Provide flex-space and multi-tenant buildings.
-