

Detroit Industrial, Q4 2017

Metro Detroit's industrial construction continues to spike



Vacancy Rate
2.1%



Asking Lease Rate
\$6.05 PSF



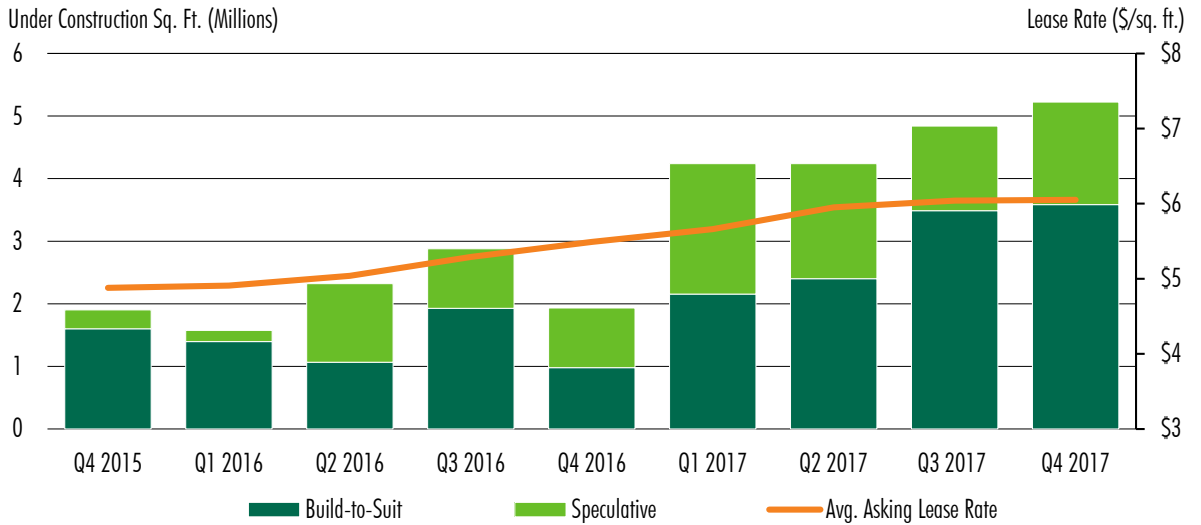
Availability Rate
4.0%



Net Absorption
793,416 SF

*Arrows indicate change from previous quarter.

Figure 1: Detroit Build-to-Suit and Speculative Construction with Average Asking Lease Rate



Source: CBRE Research, Q4 2017.

- For the 27th consecutive quarter, net absorption remained positive. There was over 793,000 sq. ft. of absorption in Q4 2017.
- The average availability rate decreased slightly from 4.3% to 4.0% quarter-over-quarter. This is the 4th straight quarter it has been below 5%.
- With the availability rate so low, speculative construction projects grew to 1.6 million sq. ft.
- The average vacancy rate dropped to 2.1%. This is the fourth quarter in a row that the vacancy rate has remained below 3%, an all time low for the metro Detroit market.

Detroit's industrial market continued to exhibit various signs of a healthy market. Metrics such as absorption, vacancy rate, availability rate, and average asking lease rate all enjoyed a positive performance. Net absorption for the quarter was 793,416 sq. ft. Total absorption over the last four quarters was 4 million sq. ft. The average asking lease rate rose from \$6.04 to \$6.05. Vacancy declined from 2.3% to 2.0%, while availability followed suit, decreasing from 4.3% to 4.0%.

Due to the lack of available space many users are considering build-to-suit construction. There are currently 28 projects under construction, expected to deliver over 5.7 million sq. ft. of industrial space to the market.

CONSTRUCTION

CONSTRUCTION INCREASES IN Q4 2017

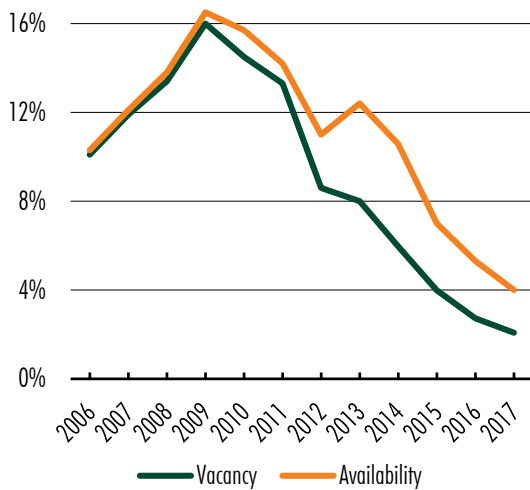
During Q4 2017, one speculative project delivered 109,395 sq. ft. of manufacturing space located in the I-75 Corridor submarket. Under construction square footage reached 5.7 million sq. ft. in Q4 2017. One of the most significant projects currently underway includes a 855,000 sq. ft. build-to-suit warehouse and distribution space located Downriver, expected to deliver Q4 2018. Secondly, the nearly complete 742,000 sq. ft. speculative Livonia Corporate Center, which is expected to deliver in Q1 2018. Followed by Penske’s 606,000 sq. ft. distribution center in Livonia, Flex-N-Gate’s built-to-suit 500,000 sq. ft. in Detroit, and the Republic National Distribution Company’s 500,000 sq. ft. distribution center in Livonia. Build-to-suit construction is at approximately 3.6 million sq. ft. and speculative construction is just over 1.6 million sq. ft. This was the most industrial product under construction in the Metro Detroit market since 2002. The Western Wayne County and Downriver County submarkets saw the most construction with 1.8 million sq. ft. and approximately 1.5 million sq. ft., respectively. Active developers in the market include Amson Development, Ashley Capital, General Development, Titan Group, Schostak Brothers, Burton Katzman, Kirco, Northern Equities, and Dembs Group.

LEASING

NOTABLE LEASE TRANSACTIONS

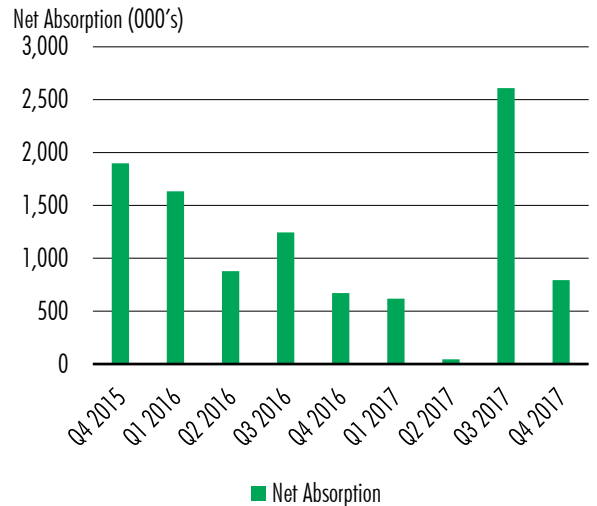
During Q4 2017, the most significant lease was signed by a confidential government entity for 235,137 sq. ft. of distribution space in the Western Wayne County submarket. Piston Automotive, Crane Worldwide Logistics, and CMAC Transportation all signed new leases in the Downriver submarket for 155,000 sq. ft., 136,500 sq. ft., and 133,830 sq. ft., respectively. Roush Performance signed 85,076 sq. ft. of warehouse space in the Western Wayne County submarket. Lastly, a confidential service provider has signed a 151,676 sq. ft. in the I-75 Corridor submarket. Outside of Detroit’s strong automotive presence, the area has recently garnered attention from industries such as 3PL, e-commerce, media entertainment, robotics, information technology, and medical products.

Figure 2: Historical Vacancy & Availability Rates



Source: CBRE Research, Q4 2017.

Figure 3: Overall Net Absorption



Source: CBRE Research, Q4 2017.

AVAILABILITY

Availability continued to follow trend, decreasing slightly from 4.3% during Q3 2017 to 4.0% during Q4 2017. The vacancy rate tightened slightly as well, from 2.3% to 2.1%. This is an all time low for metro Detroit’s Industrial vacancy rate. Overall, the low vacancy and availability is a sign of a healthy market, although it has forced tenants into the remaining lower quality product. As new construction continues to deliver, availability and vacancy metrics should begin to return to more normalized ranges as supply and demand reach equilibrium.

ASKING LEASE RATES

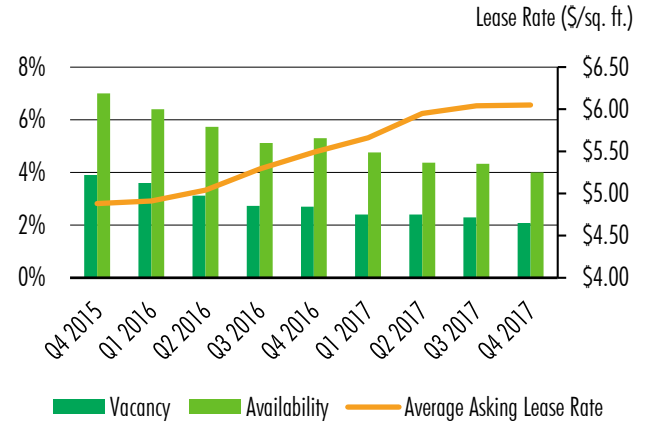
Q4 2017 saw a minimal increase in average asking lease rate quarter-over-quarter, resulting in a \$.01 increase to \$6.05 NNN. The high rate can be primarily attributed to a lack of available inventory which results in a landlord favorable market. New speculative construction has also contributed to increasing average asking lease rates. The average asking rate for Q4 2017 is \$0.56 higher, year-over-year.

The Western Wayne County submarket witnessed a significant jump in average asking rate, an increase of \$0.44 or 7%, quarter-over-quarter. The Northwest Suburbs and Southeast Oakland submarkets increased by \$0.20 or 3%, and \$0.15 or 2%, respectively.

EMPLOYMENT

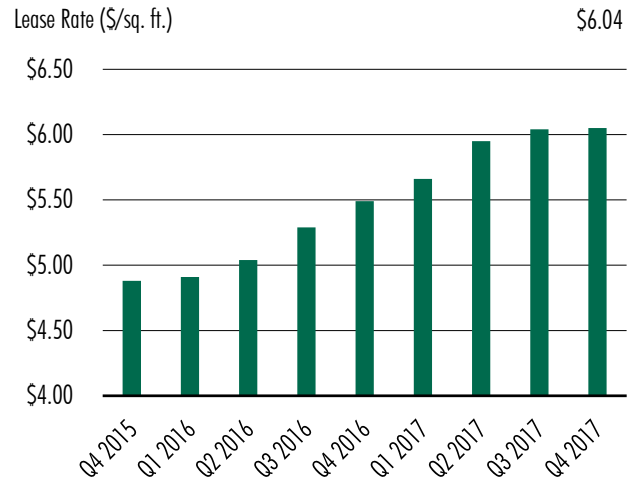
According to the Bureau of Labor Statistics, the unemployment rate in Michigan decreased from 5.0% at Q1 2017 to 4.6% in November 2017. Excluding employment figures from 2016, the last time unemployment levels were below 5% was June of 2001. This indicates a healthy economy throughout metro Detroit and the entire state of Michigan. Several of the recently completed and under construction projects have announced estimated jobs created to be several hundred to 1,000 jobs per development.

Figure 4: Total Availability & Vacancy vs. Average Direct Asking Lease Rate



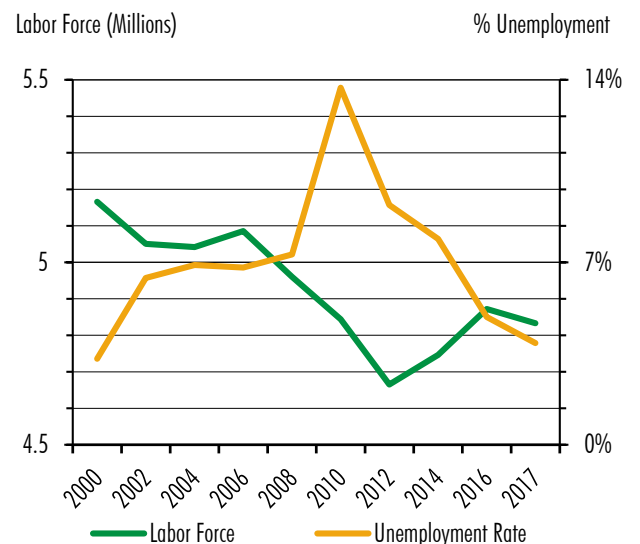
Source: CBRE Research, Q4 2017.

Figure 5: Direct Asking Lease Rate



Source: CBRE Research, Q4 2017.

Figure 6: Michigan Labor Force and Unemployment Rate Since 2000



Source: Bureau of Labor Statistics, Q4 2017.

Figure 7: Q4 2017 Market Statistics

| Submarket | Total Inventory (sq. ft.) | Total Availability (%) | Total Vacancy (%) | Q 2017 Net Absorption (sq. ft.) | Last 4 Qtrs Net Absorption (sq. ft.) | Under Construction (sq. ft.) | Average Asking Lease Rate (\$/sq. ft./Yr)* |
|---------------|---------------------------|------------------------|-------------------|---------------------------------|--------------------------------------|------------------------------|--|
| Detroit | 85,177,585 | 6.95 | 4.16 | 5,301 | 348,334 | 560,000 | 4.83 |
| Downriver | 63,284,431 | 5.19 | 2.45 | 155,189 | 723,497 | 1,551,000 | 4.59 |
| I-75 Corridor | 79,839,517 | 4.06 | 2.14 | 125,122 | 176,219 | 198,060 | 7.29 |
| Macomb | 102,655,829 | 1.77 | 0.76 | 164,625 | 290,515 | 1,136,710 | 5.53 |
| NW Suburbs | 54,216,286 | 3.48 | 2.07 | 175,210 | 606,417 | 52,500 | 7.83 |
| SE Oakland | 14,800,306 | 3.55 | 1.83 | 6,457 | 596,601 | 308,686 | 5.75 |
| Washtenaw | 22,001,505 | 2.17 | 1.52 | 16,459 | 129,561 | 44,525 | 8.16 |
| Western Wayne | 88,230,855 | 3.67 | 1.49 | 145,053 | 1,191,048 | 1,882,585 | 6.73 |
| Total | 510,206,314 | 4 | 2.1 | 793,416 | 4,062,192 | 5,734,066 | 6.05 |

*Rates include R&D/Flex, warehousing, manufacturing, and other industrial properties. They are not completed transactions.

*Certain adjustments were made to more accurately reflect the current state of the market.

Source: CBRE Research, Q4 2017.

Figure 8: Vacancy by Development Type & Size

| Development Type | Total Inventory (sq. ft.) | 0-50k Vacant (sq. ft.) | 0-50k Vacancy (%) | 50-100k Vacant (sq. ft.) | 50-100k Vacancy (%) | 100k + Vacant (sq. ft.) | 100k + Vacancy (%) | Total Vacancy (%) |
|-------------------|---------------------------|------------------------|-------------------|--------------------------|---------------------|-------------------------|--------------------|-------------------|
| Manufacturing | 256,100,789 | 657,624 | 0.7 | 457,034 | 1.2 | 3,625,455 | 2.9 | 1.9 |
| R&D/Flex | 49,829,933 | 570,220 | 3.2 | 582,977 | 5.5 | 384,232 | 1.8 | 3.1 |
| Whse/Distribution | 184,344,823 | 910,216 | 1.4 | 541,460 | 1.8 | 2,598,906 | 3.0 | 2.2 |
| Other | 19,930,769 | 22,599 | 0.4 | 96,550 | 11.0 | 172,612 | 4.1 | 1.5 |
| Totals | 510,206,314 | 2,160,659 | 1.2 | 1,678,021 | 2.0 | 6,781,205 | 2.8 | 2.1 |

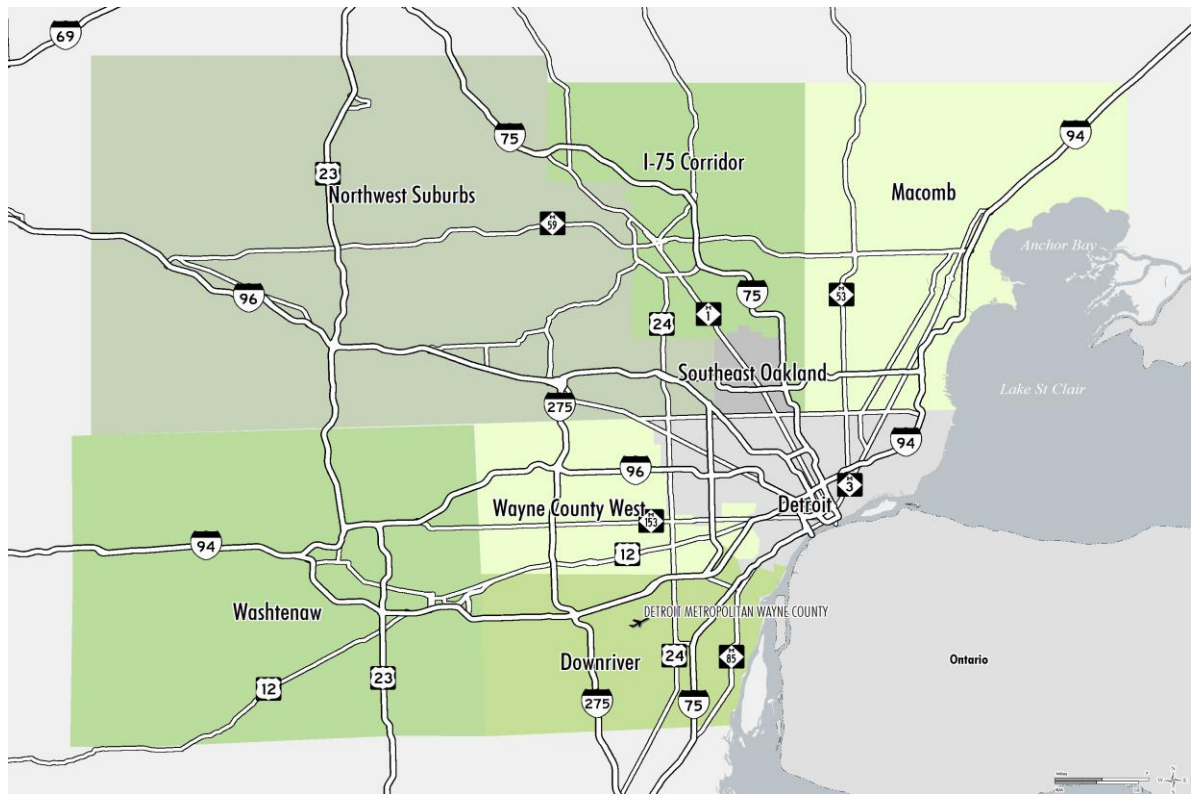
*Property types in the 'Other' category include: Cold Storage, Self-Storage, Showroom, Special Purpose, Truck Terminal & Other Industrial.

Source: CBRE Research, Q4 2017.

Figure 9: Key Q4 2017 Transactions

| Tenant / Buyer | Location | Sq. Ft. | Industry |
|---------------------------|----------------------------------|---------|--------------------|
| Confidential | 2500 Enterprise Dr, Allen Park | 235,137 | Postal Service |
| Piston Automotive LLC | 8500 Haggerty Rd, Van Buren Twp | 155,000 | Automotive |
| Confidential | 3000 University Dr, Auburn Hills | 151,676 | Technology |
| Crane Worldwide Logistics | 10725 Harrison Rd, Romulus | 136,500 | Freight Forwarding |
| CMAC Transportation | 17950 Dix Toledo Rd | 133,830 | Transportation |

Source: CBRE Research, Q4 2017.


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