

Detroit Industrial, Q1 2018

Low supply and high demand: lease rates rise as market tightens

Vacancy Rate
1.95%

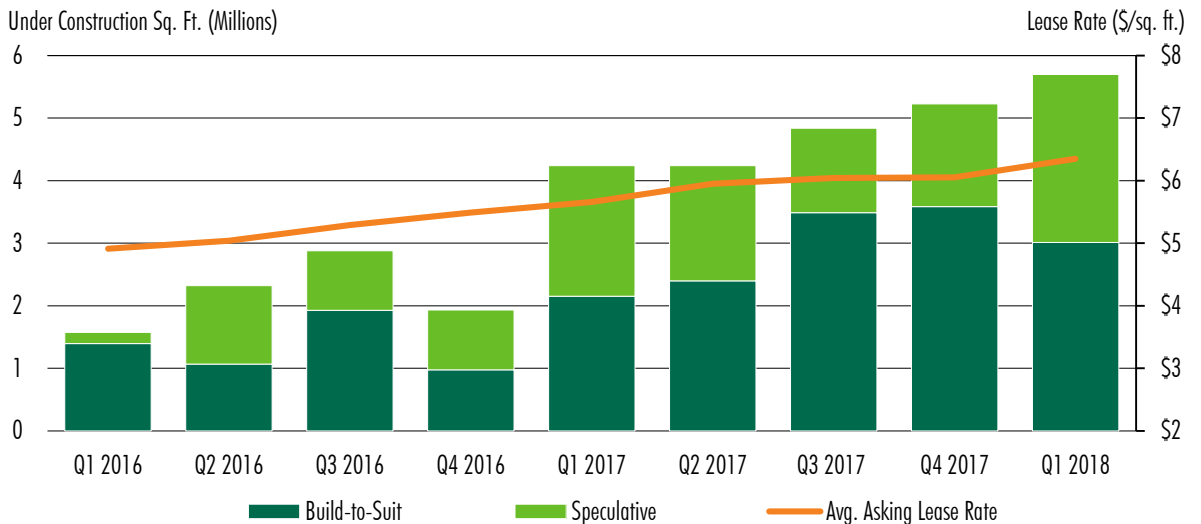
Asking Lease Rate
\$6.35 PSF

Availability Rate
3.81%

Net Absorption
1,603,008 SF

*Arrows indicate change from previous quarter.

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



Source: CBRE Research, Q1 2018.

- For the 28th consecutive quarter, net absorption remained positive. There was over 1.6 million sq. ft. of positive absorption in Q1 2018.
- The average availability rate decreased slightly from 4.0% to 3.82% quarter-over-quarter. This is the 5th straight quarter it has been below 5%.
- 8 Buildings delivered during Q1 2018, accounting for over 1.6 million sq. ft. of space added to the market.
- The average vacancy rate dropped four basis points (bps) below 2.0%. This is the first quarter that the vacancy rate has fallen below 2.0%, an all time low for the metro Detroit market.

In Q1 2018, Detroit's industrial market continued to demonstrate strength and expansion. Absorption and average asking lease rate grew while vacancy and availability rate declined. Net absorption for the quarter was 1,603,008 sq. ft. Total absorption over the last four quarters was an impressive 5 million sq. ft. Quarter-over-quarter, the average asking lease rate rose from \$6.05 to \$6.35. Vacancy declined from 2.0% to 1.9% and availability followed suit, decreasing from 4.0% to 3.8%.

Due to the lack of available space many users in the market have considered build-to-suit construction. At the end of Q1 2018, there were 27 projects under construction, expected to deliver over 5.6 million sq. ft. of industrial space to the market.

CONSTRUCTION

CONSTRUCTION CONTINUES TO INCREASE IN Q1 2018

8 construction projects completed during Q1 2018, accounting for over 1.6 million sq. ft. of product added to the market. The speculative Livonia Corporate Center (“LCC”) in the Western Wayne submarket was the most notable completion of Q1 2018. Buildings #1 and #2 of the LCC delivered warehouse space of 172,000 sq. ft. and 742,000 sq. ft., respectively. Other notable completions included a 360,000 sq. ft. build-to-suit manufacturing space delivered for Grupo Antolin North America in the Macomb submarket, and a 137,560 sq. ft. warehouse available for lease in the I-75 Corridor submarket.

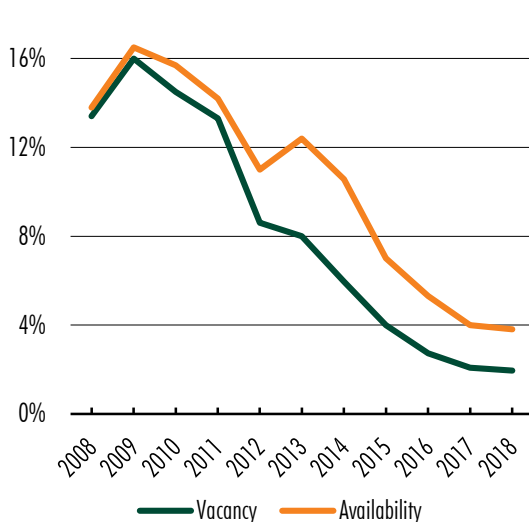
In metro Detroit, under construction square footage reached 5.6 million sq. ft. in Q1 2018, the largest amount of industrial product underway since 2002. The most significant projects in progress at the end of Q1 2018 included the following: a build-to-suit warehouse and distribution space comprising 855,000 sq. ft. in Romulus; Penske’s 606,000 sq. ft. distribution center in Romulus, 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. At the end of the quarter, build-to-suit construction totaled approximately 3.0 million sq. ft., and speculative construction was just over 2.6 million sq. ft. The Western Wayne County and Downriver submarkets saw the most construction, totaling 2.2 million sq. ft. and 1.5 million sq. ft., respectively. Active developers in the market included Amson Development, Ashley Capital, General Development, Titan Group, Schostak Brothers, Burton Katzman, Kirco, Northern Equities, and Dembs Group.

LEASING

NOTABLE LEASE TRANSACTIONS

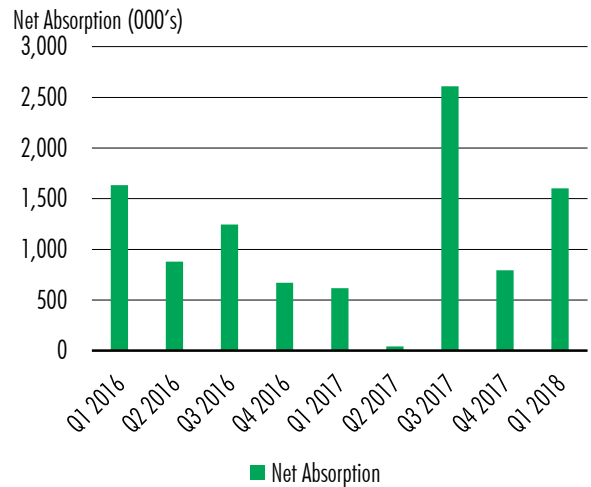
The 915,000 sq. ft. speculative LCC delivered in Q1 2018, which provided two significant leases--742,000 sq. ft. signed by Penske Logistics, and 172,000 sq. ft. signed by Experi-Metal Inc. Brookwood Capital Partners Inc. purchased 124,584 sq. ft. of warehouse space in the Downriver submarket. Additionally, Veritiv Operating Company and TR Livonia Property II LLC signed new leases in the Western Wayne County submarket for 86,257 sq. ft., and 80,230 sq. ft., respectively. In the I-75 submarket, ESYS Automation pre-leased 124,473 sq. ft. at a proposed building planned to break ground next quarter.

Figure 2: Historical Vacancy & Availability Rates



Source: CBRE Research, Q1 2018.

Figure 3: Overall Net Absorption



Source: CBRE Research, Q1 2018.

AVAILABILITY

Availability continued to follow the trend from 2017, decreasing from 4.0% to 3.8% quarter-over-quarter. The vacancy rate declined as well, tightening slightly from 2.1% to 2.0%. This represents an all time low for metro Detroit’s industrial vacancy rate. Overall, low vacancy and availability are signs of a healthy market. However, due to limited supply and high demand, some tenants have been pushed into the remaining lower quality product. As new construction continues to deliver, with supply and demand reaching equilibrium, availability and vacancy metrics should return to normalized ranges.

ASKING LEASE RATES

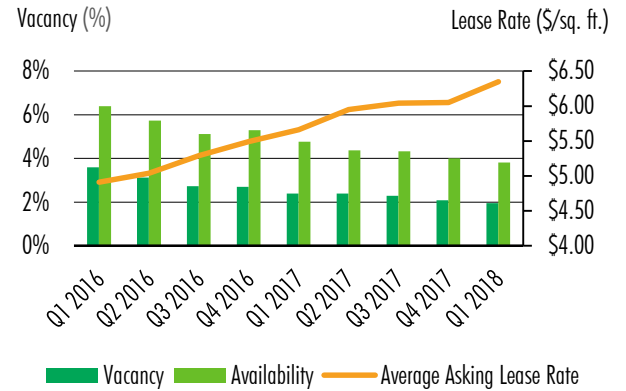
Q1 2018 saw a 5% increase in average asking lease rate quarter-over-quarter, resulting in a \$.30 increase to \$6.35 NNN. The high rate can be primarily attributed to a lack of available inventory, resulting in a landlord-favorable market. New speculative construction also contributed to increasing average asking lease rate. Year-over-year, the average asking lease rate for increased by \$0.69.

Quarter-over-quarter, the Washtenaw submarket witnessed a significant jump in average asking rate, an increase of \$1.83, or 22%. The Macomb submarket rate increased by \$0.59, 11%, and the Detroit submarket rate increased by \$0.56, or 12%.

EMPLOYMENT

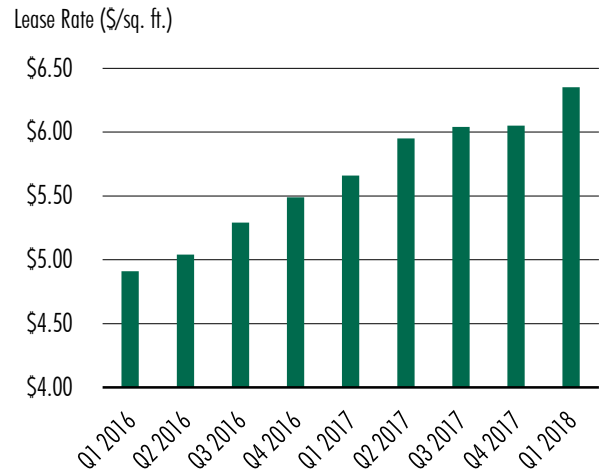
Q1 2018 included several recently completed or under construction developments, with each development estimated to create 700 to 1,000 jobs. According to the Bureau of Labor Statistics, the unemployment rate in Michigan decreased from 5.0% to 4.7% year-over-year. Excluding data from 2016, the last time unemployment levels were below 5% was June 2001. This metric indicates a healthy economy throughout metro Detroit and the state of Michigan.

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



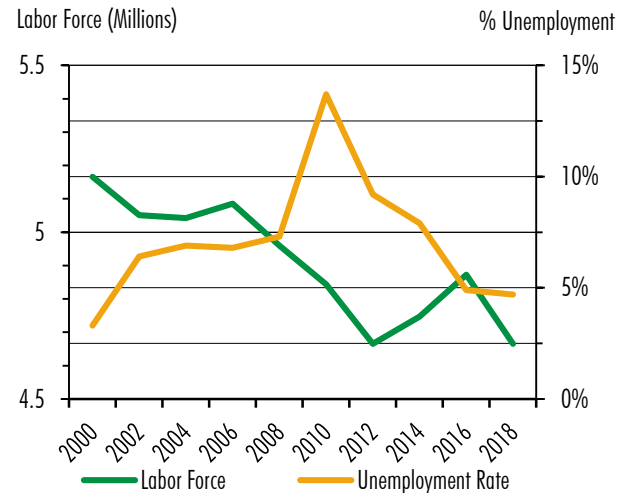
Source: CBRE Research, Q1 2018.

Figure 5: Direct Asking Lease Rate



Source: CBRE Research, Q1 2018.

Figure 6: Michigan Labor Force and Unemployment Rate Since 2000



Source: Bureau of Labor Statistics, Q1 2018.

Figure 7: Q1 2018 Market Statistics

Submarket	Total Inventory (sq. ft.)	Total Availability (%)	Total Vacancy (%)	Q1 2018 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	6.6	4.0	(34,000)	209,271	560,000	5.39
Downriver	63,284,431	3.8	1.3	89,788	727,682	1,551,000	5.05
I-75 Corridor	80,001,661	4.1	2.5	(11,970)	171,140	195,500	7.34
Macomb	103,121,639	1.5	0.7	576,836	700,291	658,240	6.12
NW Suburbs	54,278,786	3.6	2.2	(27,853)	461,088	400,635	7.52
SE Oakland	14,800,306	3.4	1.8	(10,387)	492,435	128,686	5.66
Washtenaw	22,046,030	1.4	0.7	69,916	181,223	0	9.99
Western Wayne	89,330,407	4.3	1.6	950,678	2,106,109	2,203,239	6.53
Total	512,040,845	3.8	2.0	1,603,008	5,049,239	5,697,300	6.35

*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, Q1 2018.

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	256,631,135	739,204	0.8	486,781	1.2	3,276,002	2.5	1.7
R&D/Flex	50,036,602	597,413	3.3	545,352	4.9	537,142	2.4	3.1
Whse/Distribution	185,432,339	702,272	1.1	790,429	2.5	3,487,369	3.6	2.1
Other	19,940,769	5,040	0.1	96,550	3.0	172,612	3.0	1.4
Totals	512,040,845	2,043,929	0.7	1,919,112	2.0	7,473,125	2.9	2.0

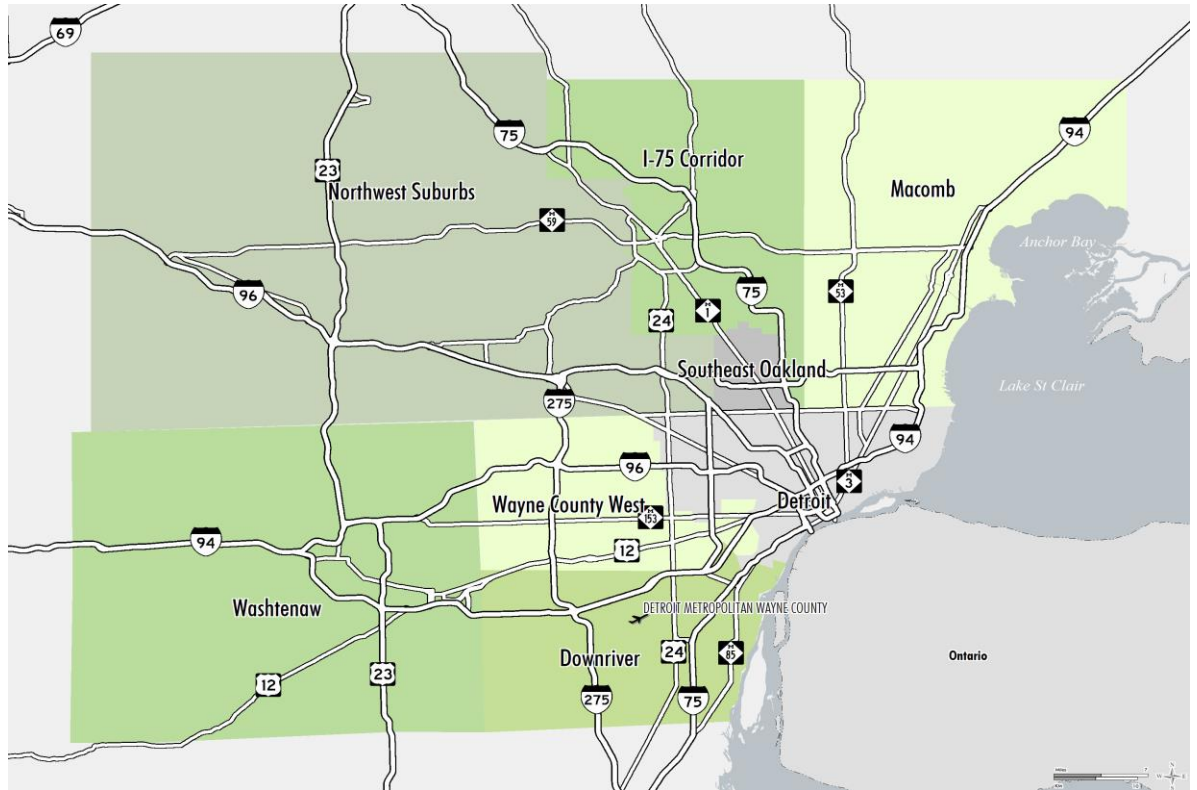
*Property types in the 'Other' category include: Cold Storage, Self-Storage, Showroom, Special Purpose, Truck Terminal & Other Industrial.

Source: CBRE Research, Q1 2018.

Figure 9: Key Q1 2018 Transactions

Tenant / Buyer	Location	Sq. Ft.	Industry
Penske Logistics	28201 Schoolcraft Rd, Livonia	742,000	Transportation
Experi-Metal Inc	28101 Schoolcraft Rd, Livonia	173,000	Manufacturing
ESYS	1000 Brown Rd, Auburn Hills	124,473	Automotive
Veritiv Operating Company	12200 Middlebelt Rd, Livonia	136,500	Distribution
Empire Today LLC	12000 Tech Center Dr, Livonia	133,830	Service

Source: CBRE Research, Q1 2018.


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