

Detroit Industrial, Q2 2018

Metro Detroit industrial construction continues to stay hot

 Vacancy Rate
1.96%

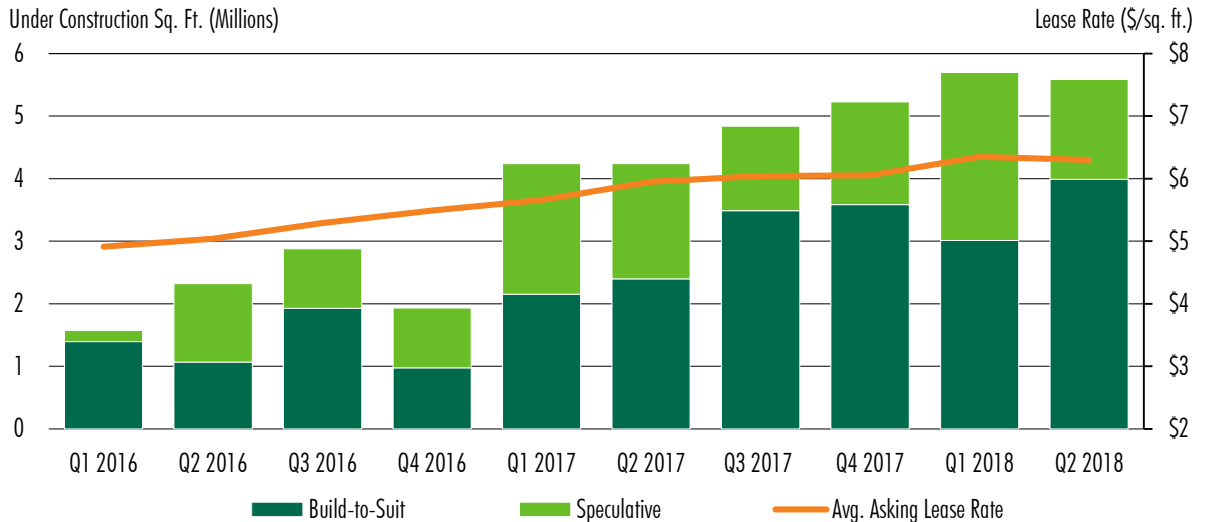
 Asking Lease Rate
\$6.30 PSF

 Availability Rate
3.78%

 Net Absorption
881,681 SF

*Arrows indicate change from previous quarter.

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



Source: CBRE Research, Q2 2018.

- For the 29th consecutive quarter, net absorption remained positive. During Q2 2018, the industrial market experienced over 881,000 thousand sq. ft. of positive absorption.
- Average availability rate decreased slightly from 3.82% to 3.78% quarter-over-quarter. This is the 2nd straight quarter it has been below 4%.
- This is the second consecutive quarter that the vacancy rate has fallen below 2.0%, an all time low for the market.
- 5 buildings delivered during Q2 2018, accounting for over 339,000 thousand sq. ft. of industrial space added to the market.

In Q2 2018, Detroit's industrial market continued to demonstrate strength and expansion. Absorption and average asking lease rates remained high, while vacancy and availability rates declined. Net absorption for the quarter was 881,681 sq. ft. Total absorption over the last four quarters was an impressive 5.8 million sq. ft. Quarter-over-quarter, the average asking lease rate dropped minimally from \$6.35 to \$6.30. Vacancy stabilized at 2.0% and availability followed suit, stabilizing at 3.8%.

Due to the lack of available space, many users in the market turned to build-to-suit construction. At the end of Q2 2018, there were 26 projects under construction, expected to deliver over 5.5 million sq. ft. of industrial space to the market.

CONSTRUCTION

CONSTRUCTION CONTINUES TO INCREASE IN Q2 2018

Five construction projects completed during Q2 2018, accounting for over 339,000 sq. ft. of product added to the market. The built-to-suit Fiat Chrysler Automotive (FCA) building in the Macomb submarket was the most notable completion of Q2 2018, delivering 130,000 sq. ft. of manufacturing space in Sterling Heights. Other notable completions included a 79,401 sq. ft. build-to-suit manufacturing space delivered for Oerlikon Metco in the Western Wayne submarket, and a 60,000 sq. ft. warehouse building for Forward Air, Inc. in the Downriver submarket.

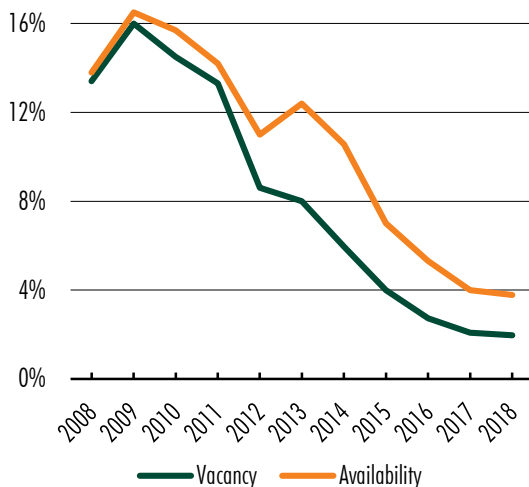
Under construction square footage reached 5.5 million sq. ft. in Q2 2018. The most significant projects in progress at the end of Q2 2018 included the following: a build-to-suit warehouse and distribution space comprising 855,000 sq. ft. in Romulus; Penske’s 606,000 sq. ft. distribution center in Romulus, Flex-N-Gate’s built-to-suit 500,000 sq. ft. in Detroit, and Sterling Enterprise Park’s speculative 187,000 sq. ft. building with the ability to construct upwards of 1 million sq. ft. in the Macomb submarket. At the end of the quarter, build-to-suit construction totaled approximately 3.9 million sq. ft., and speculative construction was just over 1.6 million sq. ft. The Western Wayne County and Downriver submarkets saw the most construction, totaling 2.1 million sq. ft. and 1.5 million sq. ft., respectively. Active developers include Amson Development, Ashley Capital, General Development, Titan Group, Schostak Brothers, Burton Katzman, Kirco, Northern Equities, Dembs Group, and J.B. Donaldson.

LEASING

NOTABLE LEASE TRANSACTIONS

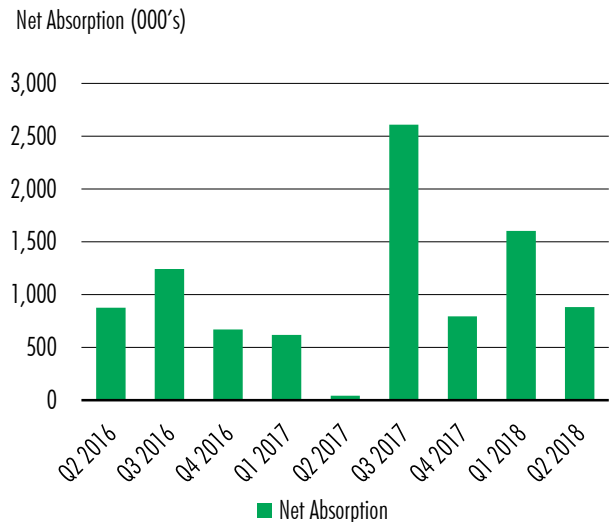
During Q2 2018, 601 Piquette Holdings LLC purchased a 445,000 sq. ft. building in New Center, part of the Detroit submarket. Medline Industries, Inc. signed a new lease for 422,604 sq. ft. of distribution space in the Downriver submarket. Tranor Industries signed a 220,000 sq. ft. lease, doubling the size of their previous space located next door in the Detroit submarket. Mahindra North America purchased 151,200 sq. ft. of manufacturing space in Auburn Hills, located in the I-75 Corridor submarket. Additionally, outside of Detroit’s strong automotive presence, the area has recently garnered attention from industries such as 3PL, e-commerce, robotics, energy, information technology, and medical products.

Figure 2: Historical Vacancy & Availability Rates



Source: CBRE Research, Q2 2018.

Figure 3: Overall Net Absorption



Source: CBRE Research, Q2 2018.

AVAILABILITY

Quarter-over-quarter, availability remained low, stabilizing at 3.8%. Vacancy rate steadied as well, remaining at 2% the previous two quarters. This represents an all time low for Metro Detroit’s industrial vacancy rate. However, because the availability of quality product does not exist, tenants have been pushed into the remaining lower quality product. Record low availability has caused the price of lower quality product to increase, which in turn has increased the amount of speculative development.

ASKING LEASE RATES

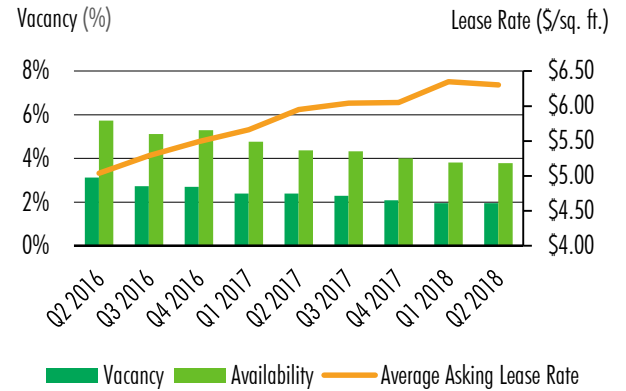
Q2 2018 saw a slight decrease in average asking lease rate quarter-over-quarter, resulting in a \$.05 decrease to \$6.30 NNN. The high rate can be primarily attributed to a lack of available inventory, resulting in a landlord-favorable market. New speculative construction also contributed to increasing average asking lease rate. Year-over-year, the average asking lease rate increased by \$0.35.

Quarter-over-quarter, the Detroit submarket witnessed a significant jump in average asking rate, an increase of \$0.42, or 7%. The Macomb submarket rate increased by \$0.05, or 1%, and the Southeast Oakland submarket rate increased by \$0.05, or 1%.

EMPLOYMENT

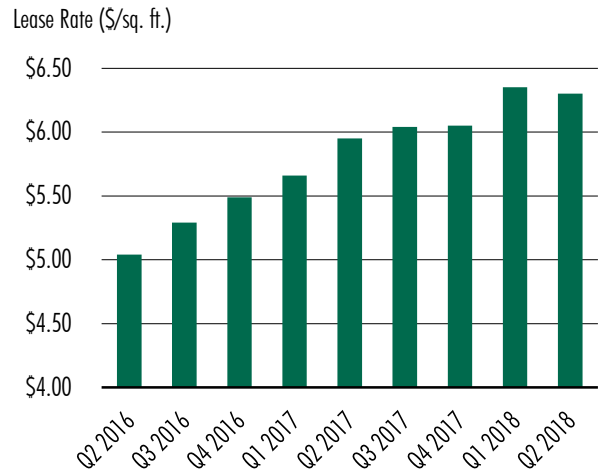
Q2 2018 included several recently completed or under construction developments, with each development estimated to create 700 to 1,000 jobs. According to the Bureau of Labor Statistics, as of April 2018, the unemployment rate in Michigan was 4.7%. Excluding data from 2016, the last time unemployment levels were below 5.0% was June 2001. This metric indicates the economic health of Metro Detroit and the State of Michigan.

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



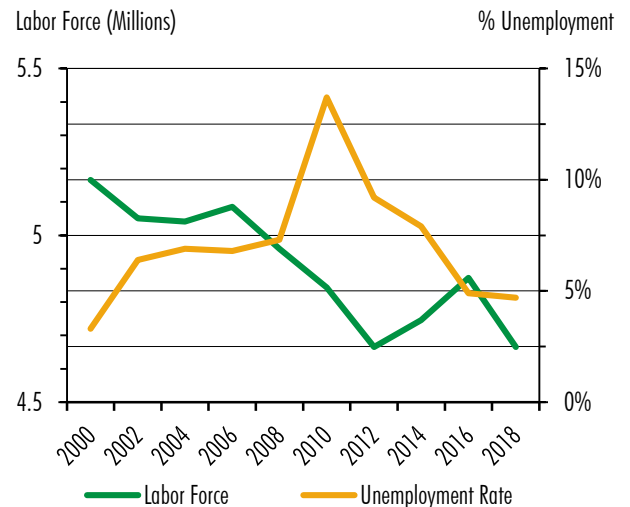
Source: CBRE Research, Q2 2018.

Figure 5: Direct Asking Lease Rate



Source: CBRE Research, Q2 2018.

Figure 6: Michigan Labor Force and Unemployment Rate Since 2000



Source: Bureau of Labor Statistics, Q2 2018.

Figure 7: Q2 2018 Market Statistics

Submarket	Total Inventory (sq. ft.)	Total Availability (%)	Total Vacancy (%)	Q2 2018 Net Absorption (sq. ft.)	Last 4 Qtrs Net Absorption (sq. ft.)	Under Construction (sq. ft.)	Average Asking Lease Rate (\$/sq. ft./Yr)*
Detroit	85,228,199	6.0	3.6	336,850	387,035	560,000	5.81
Downriver	63,435,296	5.3	2.1	(157,006)	737,071	1,551,000	5.07
I-75 Corridor	80,001,661	3.8	2.3	178,320	287,608	195,500	7.03
Macomb	103,321,574	1.5	0.9	95,147	838,838	439,996	6.17
NW Suburbs	54,465,020	3.3	1.9	237,888	639,612	585,574	7.35
SE Oakland	14,806,906	3.2	1.5	35,808	445,184	128,686	5.71
Washtenaw	22,046,030	1.1	0.9	53,508	117,931	0	9.87
Western Wayne	89,272,308	4.3	1.6	101,166	2,434,011	2,123,838	6.56
Total	512,576,994	3.8	2.0	881,681	5,887,290	5,584,594	6.30

*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, Q2 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	256,710,536	762,052	0.8	468,657	1.1	3,047,002	2.3	1.6
R&D/Flex	50,081,602	554,272	3.1	529,542	4.7	488,140	2.2	3.1
Whse/Distribution	185,671,387	701,055	1.1	799,723	2.5	3,838,067	4.0	2.7
Other	20,113,469	48,928	0.6	96,550	3.0	172,612	3.0	1.6
Total	512,576,994	2,066,307	1.1	1,894,472	2.1	7,545,821	2.9	2.2

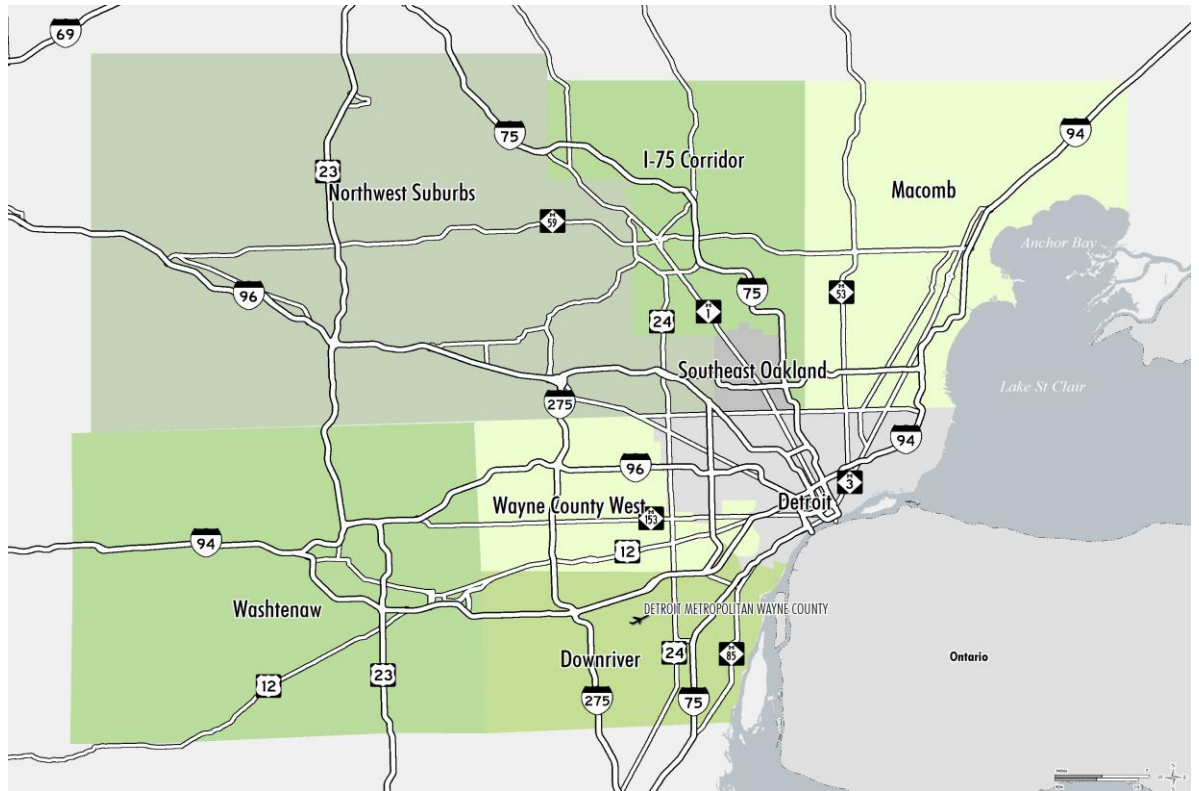
*Property types in the 'Other' category include: Cold Storage, Self-Storage, Showroom, Special Purpose, Truck Terminal & Other Industrial.

Source: CBRE Research, Q2 2018.

Figure 9: Key Q2 2018 Transactions

Tenant / Buyer	Location	Sq. Ft.	Industry
601 Piquette Holdings LLC	601 Piquette St, Detroit	445,000	Unknown
Medline Industries	36445 Van Born Rd, Romulus	422,604	Medical Supplies
Tranor Industries	19451 Sherwood St, Detroit	220,000	Automotive
FCA US	6100 Benore Rd, Toledo	187,828	Automotive
Mahindra Automotive	275 Rex Blvd, Auburn Hills	151,200	Automotive

Source: CBRE Research, Q2 2018.


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