

Detroit Industrial, Q3 2018

Metro Detroit's industrial asking lease rates hitting record highs

 Vacancy Rate
1.93%

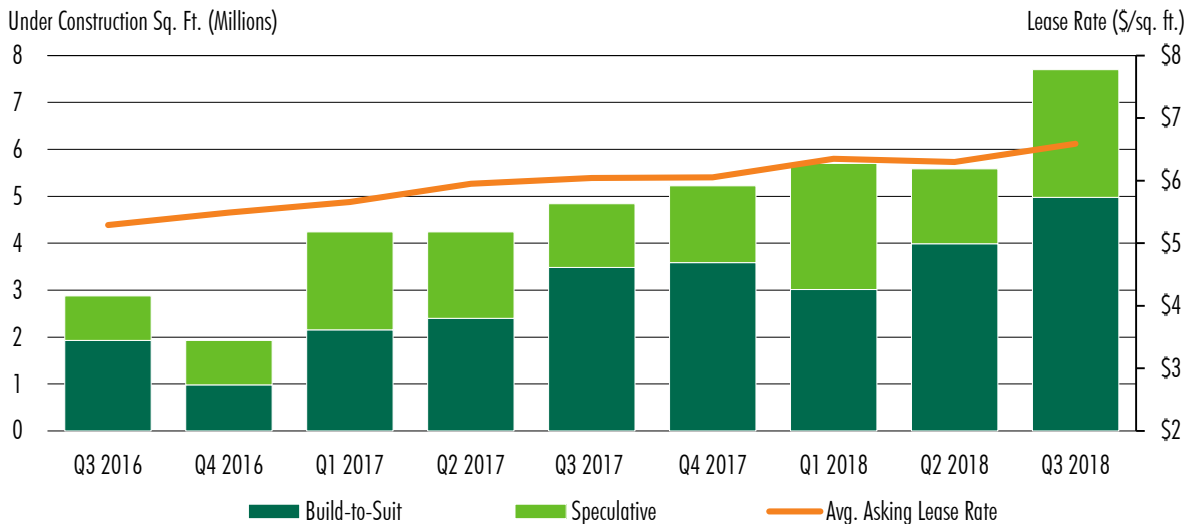
 Asking Lease Rate
\$6.59 PSF

 Availability Rate
3.29%

 Net Absorption
953,739 SF

*Arrows indicate change from previous quarter.

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



Source: CBRE Research, Q3 2018.

- For the 30th consecutive quarter, net absorption remained positive. During Q3 2018, the industrial market experienced over 943,000 sq. ft. of positive absorption.
- Average availability rate decreased from 3.78% to 3.29% quarter-over-quarter, resulting in the 3rd straight quarter it has been below 4%.
- This is the third consecutive quarter that the vacancy rate has fallen below 2.0%, an all time low for the market.
- 3 buildings delivered during Q3 2018, accounting for over 290,000 sq. ft. of industrial space added to the market.

In Q3 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 943,739 sq. ft. Total absorption over the last four quarters was an impressive 4.2 million sq. ft. Quarter-over-quarter, the average asking lease rate rose from \$6.30 to \$6.59. Availability reduced to 3.3%, while vacancy stabilized just below 2.0%

Due to the lack of available space, many users in the market turned to build-to-suit construction. At the end of Q3 2018, there were 31 projects under construction, expected to deliver over 7.6 million sq. ft. of industrial space to the market.

CONSTRUCTION

CONSTRUCTION CONTINUES TO INCREASE IN Q3 2018

Three construction projects were completed during Q3 2018, accounting for over 290,000 sq. ft. of product added to the market. The build-to-suit Marimba Auto, LLC building in the Western Wayne County submarket was the most notable completion of Q3 2018, delivering 130,000 sq. ft. of warehouse space in Canton. Other notable completions included a 100,000 sq. ft. speculative manufacturing space delivered in the Western Wayne County that Wabsco North America pre-leased in Q1 2018, and a 60,000 sq. ft. R&D/Flex building for Hutchinson North America Head Quarters in the I-75 Corridor submarket.

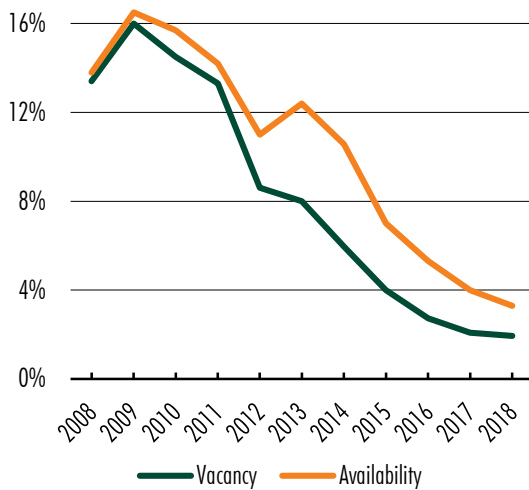
Under construction square footage reached 7.6 million sq. ft. in Q3 2018. The most significant projects in progress at the end of Q3 2018 included the following: a confidential fortune 500 company build-to-suit warehouse and distribution space comprising 1,000,000 sq. ft. in Shelby Twp, an additional site of 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 4.9 million sq. ft., and speculative construction was just over 2.7 million sq. ft. The Macomb and Downriver submarkets saw the most construction, totaling 2.0 million sq. ft. and 1.6 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

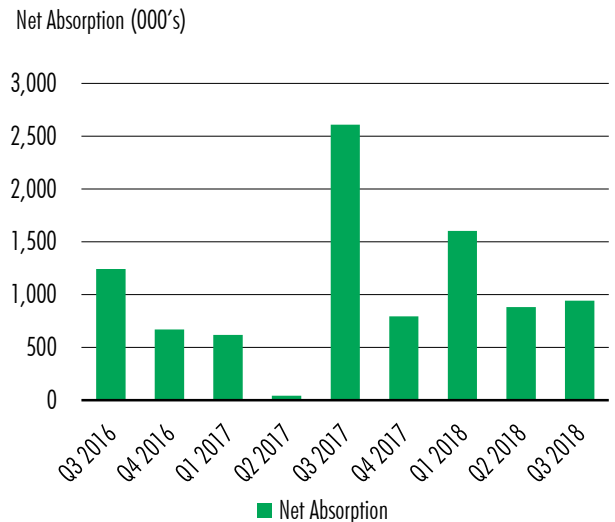
During Q3 2018, Progressive Distribution leased 638,236 sq. ft. building in the Detroit submarket. Westrock Corrugated signed a new lease for 272,228 sq. ft. of distribution space in the Downriver submarket. Caraco Pharmaceuticals signed a 137,000 sq. ft. lease. White Corners LLC purchased 115,208 sq. ft. of flex R&D 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, Q3 2018.

Figure 3: Overall Net Absorption



Source: CBRE Research, Q3 2018.

AVAILABILITY

Quarter-over-quarter, availability remained low, declining to 3.3%. Vacancy rate was stable, remaining at 1.9% since the first quarter of 2018. 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

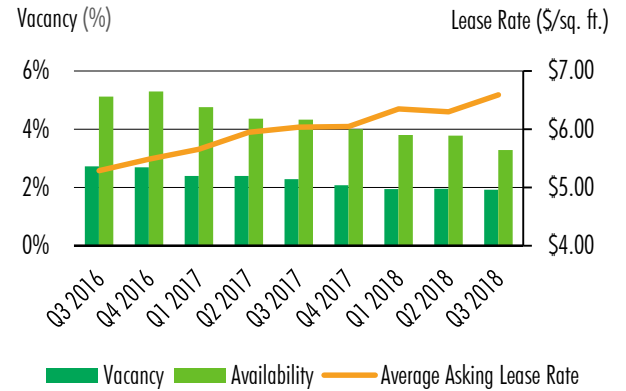
Q3 2018 saw an increase in average asking lease rate quarter-over-quarter, resulting in a \$0.29 increase to \$6.59 NNN. The high rate can be primarily attributed to a lack of available inventory, resulting in a landlord-favorable market. New speculative construction also contributed to increasing average asking lease rate. Year-over-year, the average asking lease rate increased by \$0.55.

Quarter-over-quarter, the I-75 Corridor submarket witnessed a significant jump in average asking rate, increasing \$1.13, or 14%. The Northwest submarket rate increased by \$0.37, or 5%, and the Western Wayne submarket rate increased by \$0.21, or 3%.

EMPLOYMENT

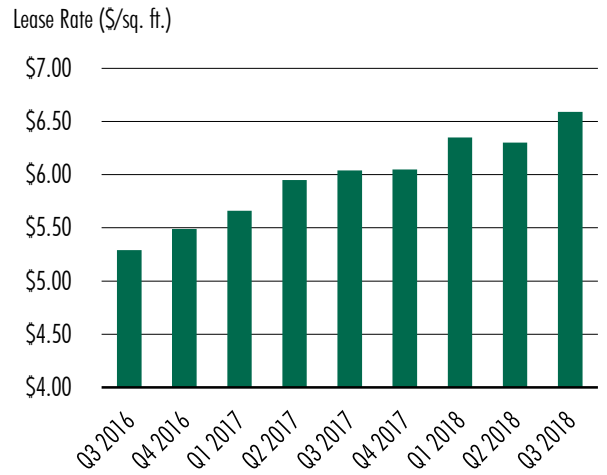
Q3 2018 included several recently completed or under construction developments, with each development estimated to create 700 to 1,000 jobs. According to the Bureau of Labor Statistics, as of August 2018, the unemployment rate in Michigan was 4.1%. Excluding data from 2016, the last time unemployment levels were below 5.0% was June 2001. This metric is indicative of the economic health of Metro Detroit and the State of Michigan.

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



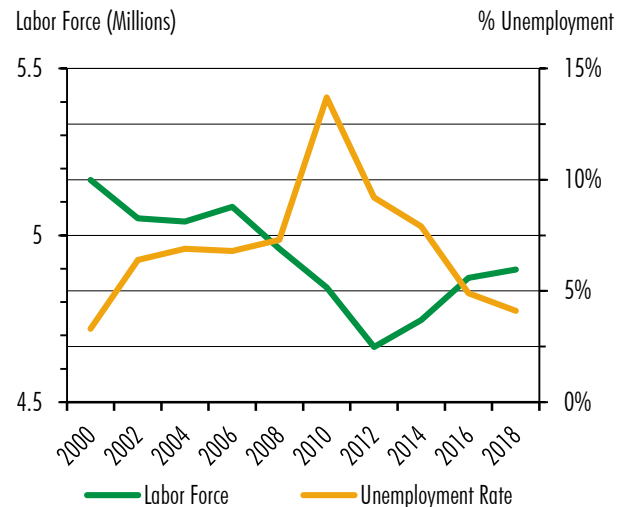
Source: CBRE Research, Q3 2018.

Figure 5: Direct Asking Lease Rate



Source: CBRE Research, Q3 2018.

Figure 6: Michigan Labor Force and Unemployment Rate Since 2000



Source: Bureau of Labor Statistics, Q3 2018.

Figure 7: Q3 2018 Market Statistics

Submarket	Total Inventory (sq. ft.)	Total Availability (%)	Total Vacancy (%)	Q3 2018 Net Absorption (sq. ft.)	Last 4 Qtrs Net Absorption (sq. ft.)	Under Construction (sq. ft.)	Average Asking Lease Rate (\$/sq. ft./Yr)*
Detroit	85,268,199	5.5	4.2	(111,728)	196,423	740,000	5.63
Downriver	63,487,326	3.61	2.1	307,628	395,599	1,610,000	5.06
I-75 Corridor	79,450,569	2.9	1.7	183,004	474,476	259,473	8.16
Macomb	103,486,457	1.5	0.9	103,178	939,786	2,045,926	6.25
NW Suburbs	54,531,040	3.3	1.9	123,386	508,631	765,574	7.72
SE Oakland	14,906,906	2.6	1.3	113,719	145,597	680,296	5.71
Washtenaw	22,046,030	1.3	1.2	0	139,883	0	8.93
Western Wayne	89,402,308	4.0	1.5	224,552	1,421,449	1,593,838	6.77
Total	512,578,835	3.3	1.9	943,739	4,221,844	7,695,107	6.59

*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, Q3 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	256,263,360	673,730	0.8	573,185	1.4	2,488,498	2.0	1.6
R&D/Flex	50,198,982	452,752	3.1	476,684	4.4	505,763	2.3	2.1
Whse/Distribution	185,864,364	683,129	1.1	670,048	2.1	3,174,198	3.6	2.8
Other	20,252,109	48,928	0.6	96,550	3.0	172,612	3.0	1.6
Total	512,576,994	1,858,539	1.0	1,816,467	2.1	7,545,821	2.6	2.1

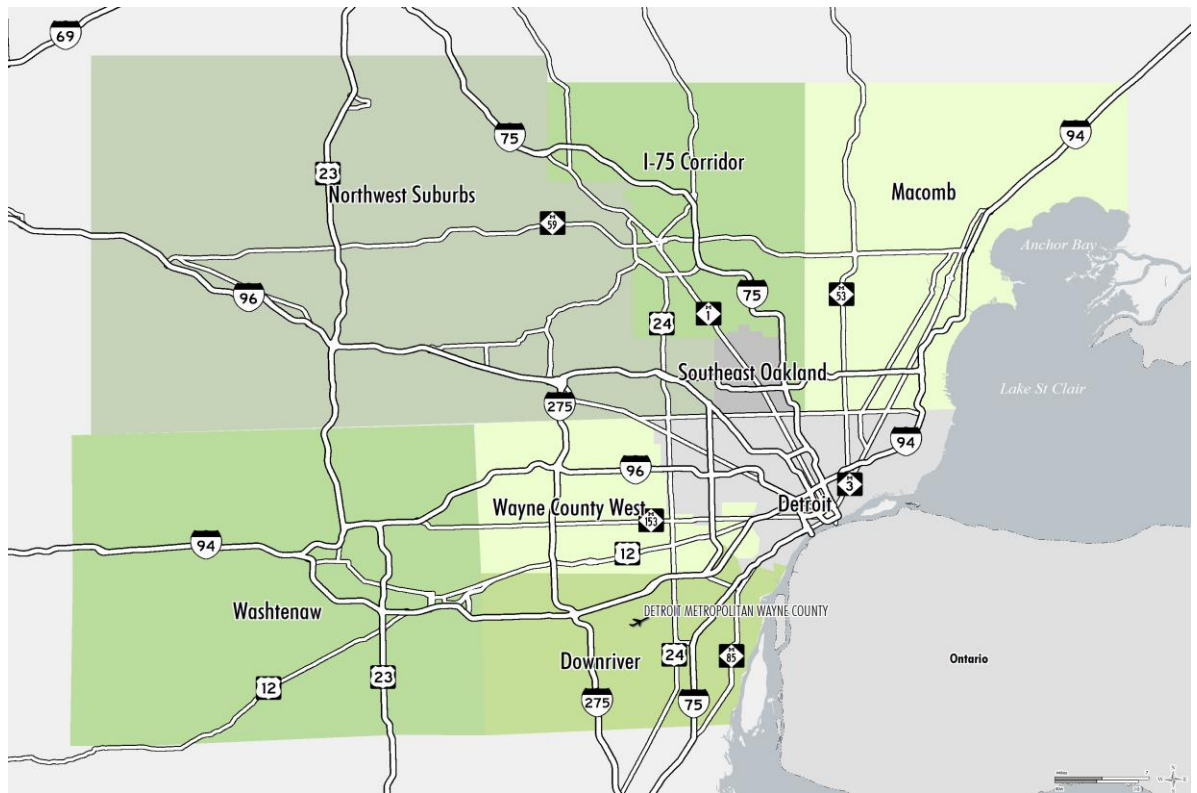
*Property types in the 'Other' category include: Cold Storage, Self-Storage, Showroom, Special Purpose, Truck Terminal & Other Industrial.

Source: CBRE Research, Q3 2018.

Figure 9: Key Q3 2018 Transactions

Tenant / Buyer	Location	Sq. Ft.	Industry
Progressive Distribution	6307 Fort St, Detroit	638,236	Distribution
Westrock Corrugated	19661 Brownstown Bus Ctr, Brownstown	272,228	Automotive
Caraco Pharmaceuticals	31060 Oak Creek Dr	137,000	Medical
White Corners LLC	4444 Giddings Rd, Auburn Hills	115,208	Unknown
Federal Resources Supply Co	24680 Mound Rd, Warren	75,800	Distribution

Source: CBRE Research, Q3 2018.


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