

Detroit Industrial, Q4 2018

Several build-to-suit completions lead to record absorption

Vacancy Rate
1.9%

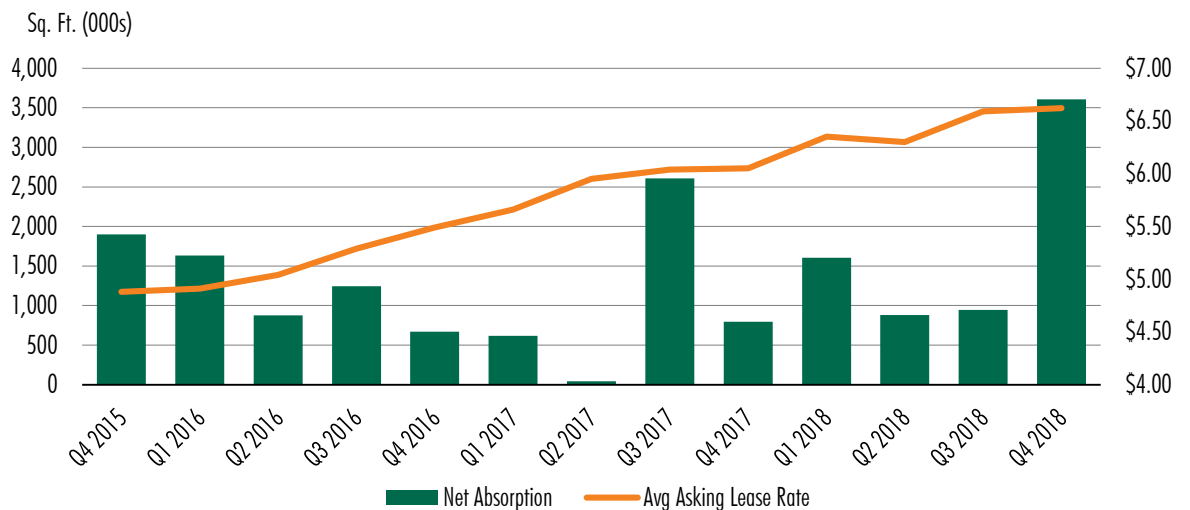
Asking Lease Rate
\$6.62 PSF

Availability Rate
3.1%

Net Absorption
3.6 MSF

*Arrows indicate change from previous quarter.

Figure 1: Overall Net Absorption vs. Average Asking Lease Rate



Source: CBRE Research, Q4 2018.

- During Q4 2018, the industrial market experienced over 3.6 million sq. ft. of positive absorption. This is the largest amount of net absorption in Metro Detroit since 2012.
- Average availability rate decreased from 3.3% to 3.1% quarter-over-quarter, resulting in the fourth straight quarter it has been below 4.0%.
- This is the fourth consecutive quarter that the vacancy rate has fallen below 2.0%, an all-time low for the market.
- 13 buildings delivered during Q4 2018, accounting for over 4.1 million sq. ft. of industrial space added to the market.

In Q4 2018, Detroit's industrial market continued to demonstrate strength and expansion. Absorption saw a substantial increase and average asking lease rates remained high, while vacancy and availability rates declined. Net absorption for the quarter was an impressive 3.6 million sq. ft., and total absorption over the last four quarters was 7.0 million sq. ft. Quarter-over-quarter, the average asking lease rate rose slightly from \$6.59 to \$6.62. Availability reduced to 3.1%, while vacancy stabilized just below 1.9%

Due to the lack of available space, many users in the market turned to build-to-suit construction. At the end of Q4 2018, there were 36 projects under construction, expected to deliver just under 4.0 million sq. ft. of industrial space to the market.

CONSTRUCTION DECREASES IN Q4 2018

Thirteen construction projects were completed during Q4 2018, accounting for 4.1 million sq. ft. of product added to the market. Despite more projects being underway than in the previous quarter, under construction square footage dropped to 4.0 million sq. ft. in Q4 2018. At the end of the quarter, build-to-suit construction totaled just over 1.7 million sq. ft., and speculative construction was just under 2.3 million sq. ft. The Western Wayne County and Southeast Oakland submarkets saw the most construction, totaling 1.2 million sq. ft. and 716,366 sq. ft., respectively.

Figure 2: Key Q4 2018 Construction Projects

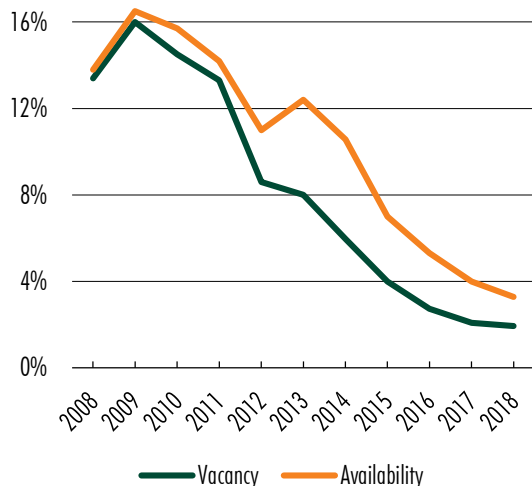
Q4 Status	Building	Location	Sq. Ft.	Completion Date
Completed	Confidential	50500 Mound Rd, Shelby Twp	1,000,000	Oct 2018
Completed	Confidential	32801 Ecorse Rd, Romulus	855,000	Oct 2018
Under Construction	Crossroad Distribution Center North	42000 Ecorse Rd, Van Buren Twp	660,000	Jan 2019
Under Construction	Tri-County Commerce Center Building 2	1400 E 10 Mile Rd, Hazel Park	651,610	Jul 2019
Completed	Penske Distribution Center	15520 Wayne Rd, Romulus	606,000	Nov 2018
Completed	National Wine and Spirits Manufacturing Facility	13000 Eckles Rd, Livonia	500,000	Nov 2018
Under Construction	Fanuc America Distribution Facility	1100 Entrance Dr, Auburn Hills	400,000	Nov 2019

Source: CBRE Research, Q4 2018.

NOTABLE LEASE TRANSACTIONS

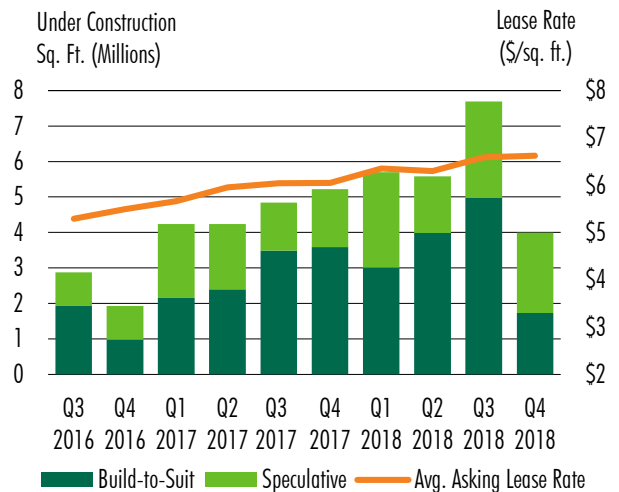
During Q4 2018, Fanuc America leased a 400,000 sq. ft. distribution facility in Auburn Hills. The Salvation Army signed a new lease for 324,545 sq. ft. of warehouse space in Detroit. Additionally, outside of Detroit’s strong automotive presence, the area has recently garnered attention from industries such as 3PL, e-commerce, robotics, energy, information technology, and medical products.

Figure 3: Historical Vacancy & Availability Rates



Source: CBRE Research, Q4 2018.

Figure 4: Build-to-Suit and Speculative Construction vs Average Asking Lease Rate



Source: CBRE Research, Q4 2018.

LIMITED AVAILABILITY

Quarter-over-quarter, availability remained low, declining slightly to 3.1%. 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.

AVERAGE ASKING LEASE RATES RISING

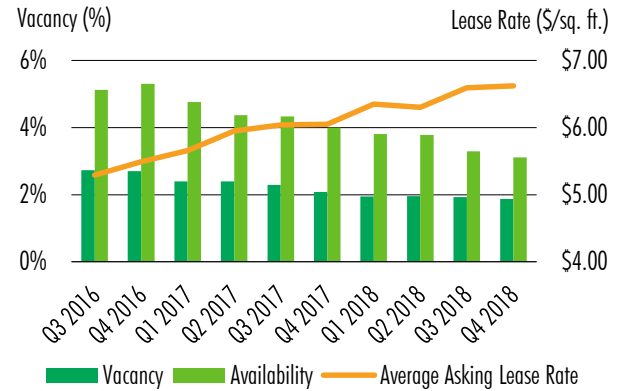
Q4 2018 saw a \$0.03 increase in average asking lease rates quarter-over-quarter, pushing the overall average asking lease rate to \$6.62 NNN. The stable, yet high rate can be primarily attributed to a lack of available inventory, resulting in a landlord-favorable market. New speculative construction also contributed to increasing average asking lease rates. Year-over-year, the average asking lease rate increased by \$0.57.

Quarter-over-quarter, the Southeast Oakland submarket witnessed a significant jump in average asking rate, increasing \$0.68, or 11.9%. The Detroit submarket rate increased by \$0.20, or 3.6%, and the Western Wayne submarket rate decreased by \$0.34, or -3.0%.

LOW UNEMPLOYMENT

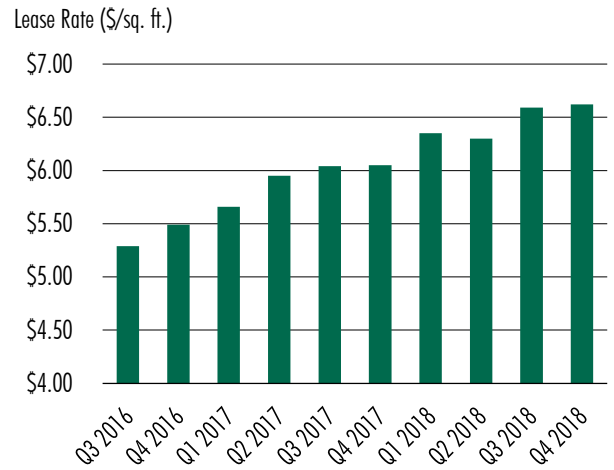
Q4 2018 included several large recently completed or under construction developments, with each development estimated to create 700 to 1,000 jobs. According to the Bureau of Labor Statistics, as of November 2018, the unemployment rate in Michigan was 3.9%. This marked the first time the Michigan unemployment rate was below 4.0% since October 2000—indicative of the economic health of Metro Detroit and the State of Michigan.

Figure 5: Total Availability & Vacancy vs. Average Direct Asking Lease Rate



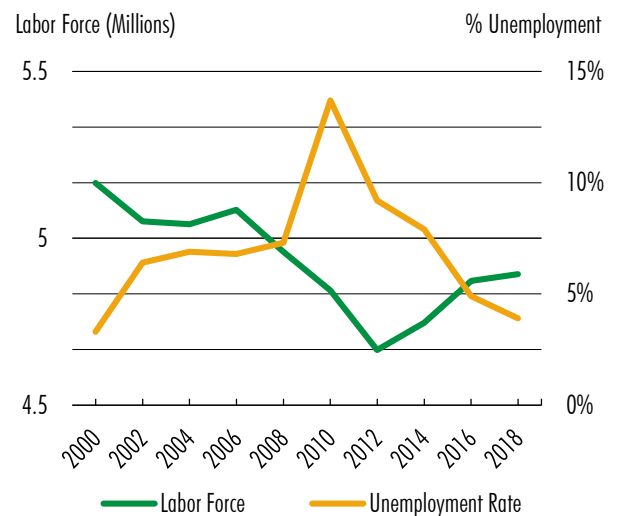
Source: CBRE Research, Q4 2018.

Figure 6: Average Direct Asking Lease Rate



Source: CBRE Research, Q4 2018.

Figure 7: Michigan Labor Force and Unemployment Rate Since 2000



Source: Bureau of Labor Statistics, Q4 2018.

Figure 8: Q4 2018 Market Statistics

Submarket	Total Inventory (sq. ft.)	Total Availability (%)	Total Vacancy (%)	Q4 2018 Net Absorption (sq. ft.)	Last 4 Qtrs Net Absorption (sq. ft.)	Under Construction (sq. ft.)	Average Asking Lease Rate (\$/sq. ft./Yr)*
Detroit	85,618,199	4.6	3.7	70,159	261,281	240,000	5.83
Downriver	65,034,223	3.7	1.9	1,684,195	1,924,605	59,000	5.18
I-75 Corridor	79,733,852	3.0	1.7	153,010	502,364	659,484	8.05
Macomb	104,659,313	1.4	0.8	1,161,699	1,936,860	536,064	6.31
NW Suburbs	54,854,189	3.6	2.1	(10,091)	323,330	549,297	7.82
SE Oakland	14,874,835	2.7	1.5	(16,916)	122,224	716,366	6.39
Washtenaw	22,046,030	1.3	1.2	3,500	126,924	50,000	8.89
Western Wayne	89,900,435	3.5	1.6	559,120	1,835,516	1,187,981	6.43
Total	516,721,076	3.1	1.9	3,604,676	7,033,104	3,998,192	6.62

*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 2018.

Figure 9: 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	257,057,166	598,105	0.7	516,629	1.2	2,603,359	2.0	1.5
R&D/Flex	50,214,691	554,367	3.1	532,349	4.8	496,938	2.3	3.2
Whse/Distribution	189,187,034	688,743	1.0	673,506	2.1	2,768,802	3.0	2.1
Other	20,262,185	48,928	0.5	96,550	2.7	172,612	2.9	1.6
Total	516,721,076	1,890,143	1.0	1,819,034	2.0	6,041,711	2.6	1.9

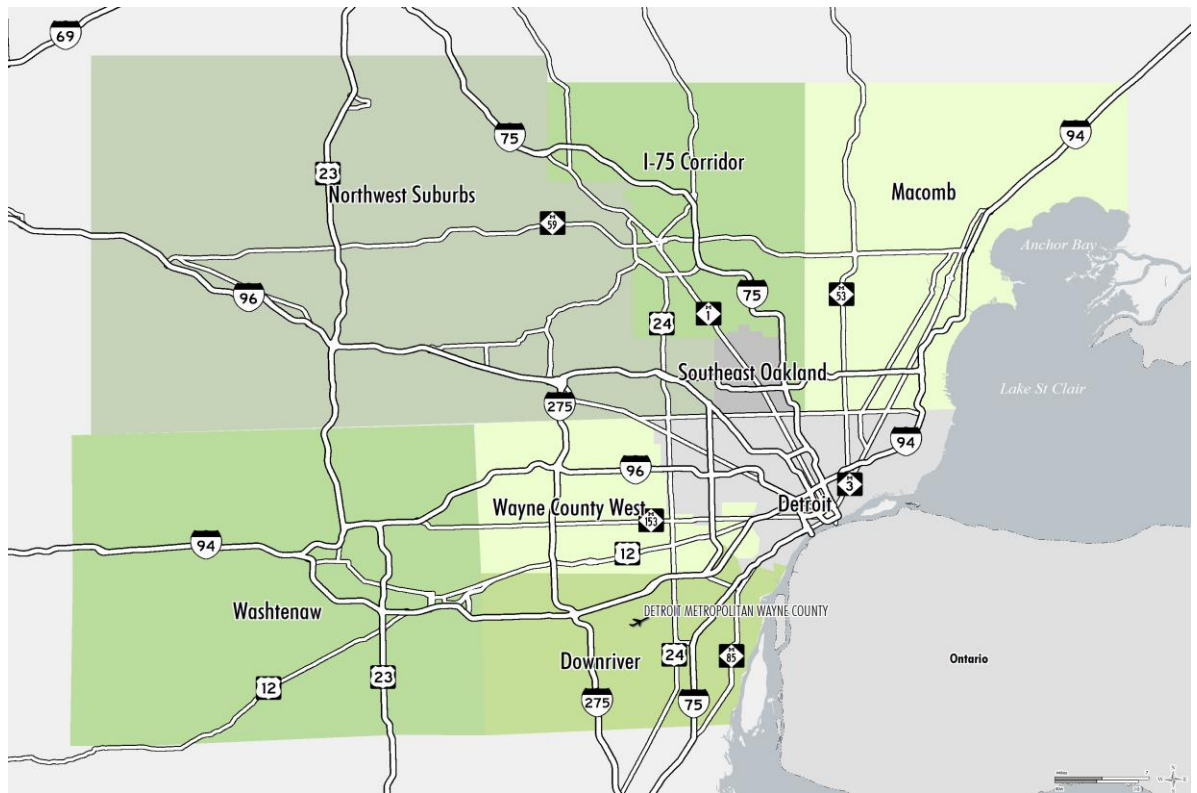
*Property types in the 'Other' category include: Cold Storage, Self-Storage, Showroom, Special Purpose, Truck Terminal & Other Industrial.

Source: CBRE Research, Q4 2018.

Figure 10: Key Q4 2018 Transactions

Tenant / Buyer	Location	Sq. Ft.	Industry
Fanuc America Corp	1100 Entrance Dr, Auburn Hills	400,000	Computer Manufacturing
The Salvation Army	4815 Cabot St, Detroit	324,545	Non-Profit
Confidential	41873 Ecorse Rd, Belleville	276,346	Confidential
Thai Summit America Corp	30240 Oak Creek Dr, Wixom	202,500	Metal Manufacturing
ERAE AMS US Manufacturing	2001 Centerpoint Pkwy, Pontiac	156,950	Automotive

Source: CBRE Research, Q4 2018.


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