

# DETROIT INDUSTRIAL MARKET

## PRE-COVID-19 INDUSTRIAL MARKET STRONG, CHALLENGES AHEAD

Metro Detroit's industrial vacancy rate held steady at 4.0% during the first quarter of 2020. New construction completions accounted for nearly half of the quarter's 780,000 square feet of overall absorption. These pre-COVID-19 statistics provide one last look at the industrial market before the virus made its presence felt. The trend for the first quarter indicated a continuation of the industrial market's ten-year long stretch of strong performance. Most submarkets continued to see falling vacancies and quick re-leasing time. Construction is also robust: A little more than 605,000 square feet of construction was completed, and another 4.6 million square feet is underway. However, the halt in the production of automobiles and automotive parts will likely last several weeks, leading to a drastic rise in unemployment and a great financial burden for suppliers and connected companies down the line. Looking ahead to the coming quarters, the repercussions of the virus on the industrial real estate market are likely to be a halt to new construction starts, as manufacturing comes to a standstill; a decrease in leasing activity; downward pressure on rents, as tenants become financially burdened; and increased vacancies.

### SOUTHEAST OAKLAND COUNTY

The Southeast Oakland County industrial vacancy rate held steady at 2.3% during the first quarter of 2020, although just over 366,000 square feet was absorbed. The bulk of the submarket's absorption came from new construction completions. The most notable construction completion was the 288,000-square-foot Marijuana Business Park in Orion Township. The legalization of marijuana has created great demand, but stringent zoning laws and the need to acquire local approval have created limited location options for users in the industry. The Marijuana Business Park was approved for multiple marijuana growers, processors, secure transporters and safety compliance tenants. Meanwhile, Edward W. Duffy & Company, a distributor of mechanical tubing and pipe, also completed construction on a 34,000-square-foot build-to-suit on Stephenson Highway in Madison Heights. As a result of the submarket's very low vacancies and strong demand, more buildings are being re-leased before they become vacant. Examples include Virginia Tile Company, LLC taking 46,000 square feet on Maple Road in Troy, Midland Tool & Supply taking 16,000 square feet on Capital Street in Oak Park and K6 Holdings, LLC leasing 14,000 square feet on Stephenson Highway in Madison Heights. Two major construction projects completed during the quarter, and four additional developments totaling more than 1.1 million square feet are currently under construction. The largest of these developments remains Ashley Capital's Tri-County Commerce Center III, which will total 926,000 square feet. This is Ashley Capital's third bulk warehouse development in Hazel Park over the past three years and was begun following the success of the first two buildings, which have both reached 90% occupancy.

## CURRENT CONDITIONS

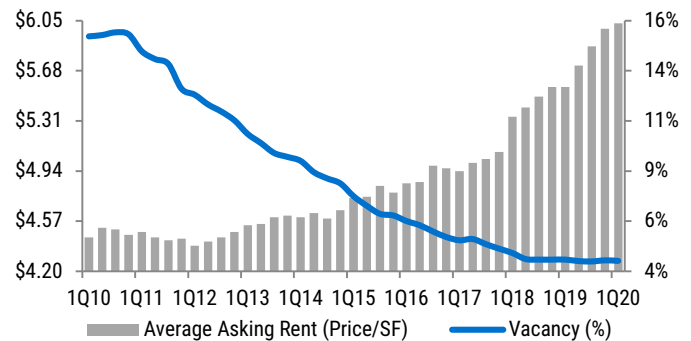
Pre-COVID-19 statistics show Metro Detroit's industrial vacancy rate held steady at 4.0% during the first quarter of 2020.

New construction completions accounted for nearly half of the quarter's 780,000 square feet of overall absorption.

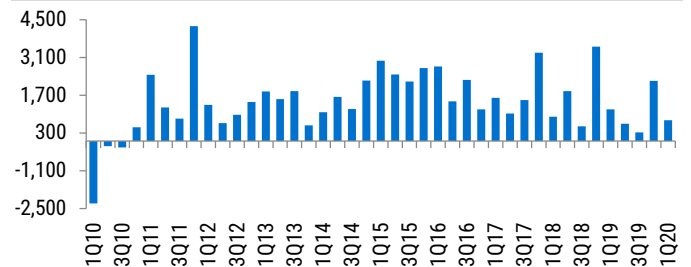
Virus to have negative effects on the industrial real estate market in coming quarters.

## MARKET ANALYSIS

### Asking Rent and Vacancy Rate



### Net Absorption (SF, Thousands)



## MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	398 MSF	397 MSF	393 MSF	↑
Vacancy Rate	4.0%	4.0%	4.1%	↓
Quarterly Net Absorption	780,068	2,230,281	1,176,358	↑
Average Asking Rent	\$6.03	\$5.99	\$5.56	↑
Under Construction	4,606,469	5,043,765	3,443,548	↑
Deliveries	605,188	2,538,385	964,318	↑

The three-building complex will total more than 2.1 million square feet. Other ongoing construction projects include Schostak Brokers' 138,000-square-foot development at 2150 Executive Hills in Auburn Hills and Kemp & Peyer's 46,000-square-foot facility on Lapeer Road in Lake Orion. In addition, Holistic Industries is building a 65,000-square-foot build-to-suit on Stephenson Highway in Madison Heights.

## MACOMB COUNTY

The Macomb County Industrial vacancy rate fell 20 basis points to 2.8% during the first quarter, as just over 190,000 square feet was absorbed. The purchase of 7000 19 Mile Road by Burton- Katzman and simultaneous 134,000-square-foot lease to Ground Effects' accounted for the largest share of overall absorption. The city of Sterling Heights was very active during the quarter, where Ricardo Defense, Inc. leased 35,000 square feet on Beattie Drive, Des-Claw, LLC leased 24,000 square feet on Nineteen Mile Road, and Northern Plastics took 14,000 square feet on Mound Road. There were also a few notable sales in the submarket, including Tarpon Automation & Design Company's purchase of a 53,000-square-foot building on Macomb Industrial Drive in Clinton Township, Canfield Equipment Services Inc. purchase of a 52,000-square-foot facility on Groesbeck Highway in Warren, and Dynasty Fab's acquisition of a 34,000-square-foot building on Groesbeck Highway in Roseville. On the construction front, Nikos Import Export LLC completed construction of a speculative building at 51280 Regency Center Drive in Macomb Township that added 65,000 square feet of available space to the market. Additional space will come on the market when Hillwood Investment Properties' speculative, 296,000-square-foot bulk warehouse on Dequindre Road in Warren is completed, which is scheduled for the end of 2020. Two major build-to-suit projects are expected to be completed later this year: Crown Development Inc.'s 451,000-square-foot parts distribution center, which is being built for FCA at Nine Mile & Hoover roads, and Aperam's 100,000-square-foot steel processing facility on Eighteen 1/2 Mile Road in Sterling Heights.

## SOUTHWEST OAKLAND COUNTY

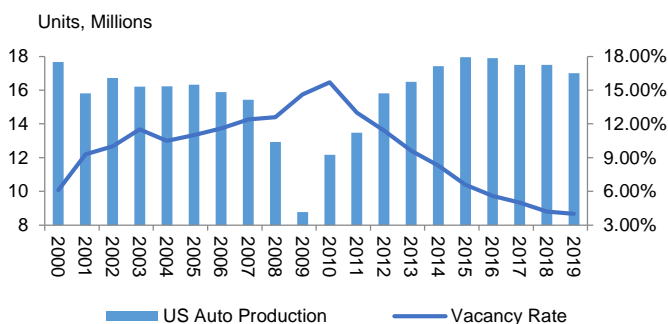
The Southwest Oakland County industrial vacancy rate fell 90 basis points to 6.1% during first-quarter 2020, as just over 419,000 square feet was absorbed. Accounting for the bulk of absorption was Bluewater Technologies' 102,000-square-foot lease on Beck Road in Wixom. The company previously planned to construct a new facility on Twelve Mile Road in Novi before opting to take existing space. Zeiss Industrial Metrology, however, completed construction and moved into its 82,000-square-foot facility on Lyon Oaks Drive in Wixom. OXID Corporation also completed a 35,000-square-foot build-to-suit on Regency Drive in Novi. Meanwhile, DLG International, Inc. leased 67,000 square feet of existing space on Industrial Park Drive in Farmington Hills. The submarket has three major construction projects underway, two build-to-suit developments for Hans Power and Water in New Hudson and one for Berkshire E-Supply in Novi, totaling just over 813,000 square feet. In addition, developer Amson Nassar is prepping land for a potential 137,000-square-foot speculative development on Twelve Mile Road in Novi.

## WESTERN WAYNE COUNTY

The Western Wayne County industrial vacancy rate edged up 10 basis points to 2.7% during the first quarter of 2020, although absorption remained positive. Tenneco's completion of its 100,000-square-foot build-to-suit facility on Technology Drive in Northville accounted for the bulk of the absorption in an otherwise slow quarter for the submarket. New vacancies of existing space led to the increase in the overall vacancy rate. The largest vacancy was created at 12825 Ford Road in Dearborn, which added 61,000 square feet to the market. Net vacancies were also partially offset by Williams Industries' 16,000-square-foot lease on Industrial Road in Livonia as well as leasing activity on Abruzzi Drive in Westland and Galleon Drive in Plymouth. Despite the submarket's low vacancy rate, no speculative developments are underway to add addition supply for potential users in the market. The submarket's 13.8 million square feet inventory of bulk warehouse is 99% occupied.

## US AUTO PRODUCTION TREND

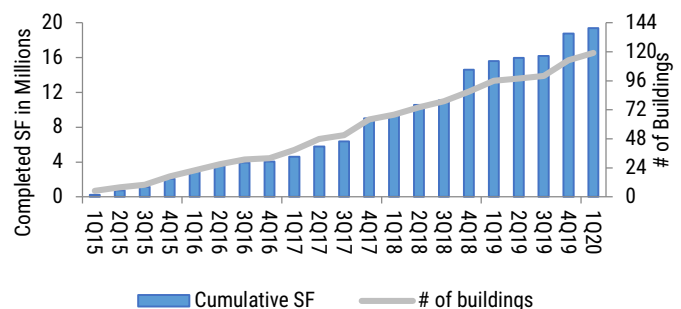
### Vacancy Rate (%)



Source: Wards Auto, NKGf

## CUMULATIVE CONSTRUCTION DEVELOPMENTS

### Vacancy Rate (%)



Although the submarket has no speculative projects under development, several sizable build-to-suit facilities are currently under construction. Webasto Roof Systems Inc. is building a 300,000-square-foot building at Schoolcraft & Haggerty roads in Plymouth, and Cooper Standard is constructing an 110,000-square-foot facility at Seven Mile & Haggerty roads in Northville.

## SOUTHERN WAYNE COUNTY

The Southern Wayne County industrial vacancy rate fell 10 basis points to 1.9% during the first quarter of 2020, as just over 58,000 square feet was absorbed. One of the largest deals during the quarter was Shcalo Group Corporation's 98,000-square-foot lease at the Romulus Business Center. New vacancies at the Airport Business Center and Airport Park in Romulus partially offset absorption. Southern Wayne County is metro Detroit's bulk warehouse/distribution hub because of its proximity to Metro Airport and Major Freeway that connect to Canada and the greater Midwest. Just 1.0% of the submarket's bulk warehouse inventory of more than 26 million square feet is vacant. The scarcity of space has led to speculative development. Ashley Capital is adding additional bulk warehouse inventory with the construction of Crossroads Distribution Center buildings #4 and #5.

The two developments will add nearly 1.0 million square feet of Class A bulk warehouse space to the submarket by the third quarter of 2020. Meanwhile, Subaru Research and Development Inc. continues to construct a 70,000-square-foot build-to-suit research facility on Michigan Avenue in Van Buren Township.

## CITY OF DETROIT

The city of Detroit's industrial vacancy rate rose 50 basis points to 12.1% during the first quarter, as net vacancies totaling just over 314,000 square feet were added to the market. The largest space to hit the market was 300,000 square feet at 2030 Howard Street. Another large block of space is set to hit the market, as Sakthi Automotive Group is set to vacate its 618,000-square-foot manufacturing plant. Fortunately, other major investments are underway. The city's largest development is Fiat Chrysler's new, \$1.6 billion production facility at the Mack Engine complex. The new production facility is scheduled to be completed in late 2020. Additional plans are underway for two new plants in the city of Detroit. Dakkota Integrated Systems LLC is moving forward with plans for a \$40 million, 300,000-square-foot plant to supply parts to FCA's new Mack Avenue assembly plants, and Italian automaker Tiberina Group recently acquired land to construct a plant near Hamtramck.

## LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	City	Square Feet
Ground Effects	7000 Nineteen Mile Road	Macomb	Sterling Heights	134,000
Bluewater Technologies	30303 Beck Road	SW Oakland	Wixom	102,000
Shcalo Group Corporation	Romulus Business Center	Southern Wayne	Romulus	98,000
DLG International, Inc.	23240 Industrial Park Dr	SW Oakland	Farmington Hills	67,000
Virginia Tile Company, LLC	900 W Maple Rd	SE Oakland	Troy	46,000

## SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
47440 Michigan Ave	Western Wayne	\$29,460,000	\$61	480,982
27027 Mound Road	Macomb	\$22,750,000	\$73	311,000
1400 Rochester Road	SE Oakland	\$14,000,000	\$68	205,659
7000 Nineteen Mile Road	Macomb	\$6,350,000	\$60	134,000
34150 Nine Mile Road	SW Oakland	\$1,555,000	\$66	23,566

## SUBMARKET STATISTICS

	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	WH/Dist Asking Rent (Price/SF)	R&D/Flex Asking Rent (Price/SF)	Gen Ind Asking Rent (Price/SF)
Ann Arbor	5,300,453	44,525	6.8%	(11,548)	(11,548)	\$7.71	\$10.68	\$5.77
Detroit	45,943,160	300,000	12.1%	(314,500)	(314,500)	\$3.63	\$5.74	\$5.03
Livingston County	13,493,639	40,000	3.3%	2,390	2,390	\$5.45	\$9.56	\$6.24
Macomb	82,793,141	846,510	2.8%	190,359	190,359	\$6.52	\$7.55	\$5.25
SE Oakland	87,229,950	1,160,437	2.3%	366,633	366,633	\$5.98	\$9.03	\$5.91
Southern Wayne	56,800,765	990,887	1.9%	58,513	58,513	\$5.24	\$8.30	\$5.28
SW Oakland	38,084,915	814,110	6.1%	419,559	419,559	\$6.00	\$9.65	\$6.52
Western Wayne	69,318,187	410,000	2.7%	68,662	68,662	\$6.46	\$10.48	\$5.70
<b>Totals</b>	<b>398,964,210</b>	<b>4,606,469</b>	<b>4.0%</b>	<b>780,068</b>	<b>780,068</b>	<b>\$5.30</b>	<b>\$9.35</b>	<b>\$5.53</b>

## SUBMARKET STATISTICS BY SUBTYPE

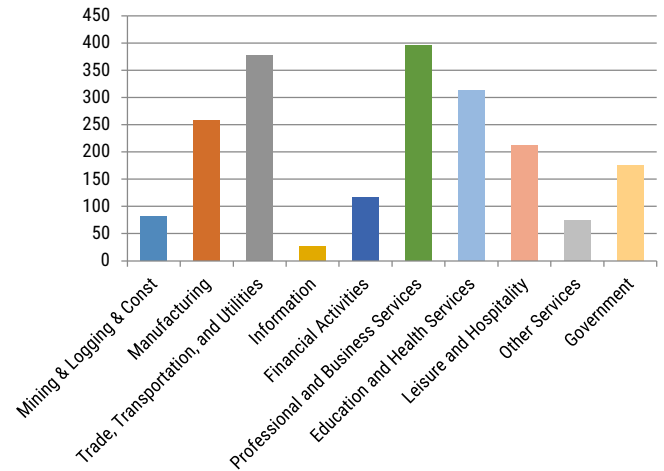
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Price/SF)
General Industrial	217,013,753	1,501,937	4.1%	374,865	374,865	5.53
Incubator	1,917,930	X	5.1%	(2,000)	(2,000)	\$6.47
R&D/Flex	42,957,221	224,525	5.2%	364,464	364,464	\$9.35
Warehouse/Distribution	137,075,306	2,880,007	3.4%	42,739	42,739	\$5.30
<b>Totals</b>	<b>398,964,210</b>	<b>4,606,469</b>	<b>4.0%</b>	<b>780,068</b>	<b>780,068</b>	<b>\$6.03</b>

## ECONOMIC CONDITIONS

The Metro Detroit unemployment rate fell 20 basis points from the previous month to 4.0% in latest January figures. In comparison, the US unemployment rate rose 10 basis points to 3.6% during the same period. In Metro Detroit, employment in the construction industry showed the largest gains with a 3.8% year-over-year increase. Employment in manufacturing, transportation, financial, education and health services industries also saw strong year-over-year growth.

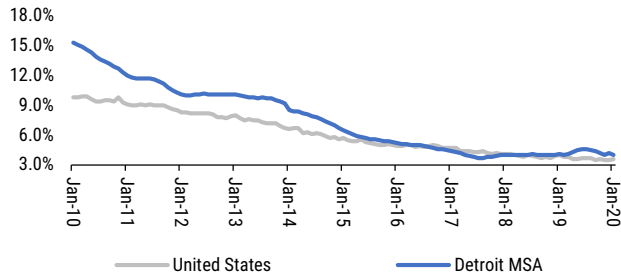
## EMPLOYMENT BY INDUSTRY

Detroit MSA, Jan, 2020



## UNEMPLOYMENT RATE

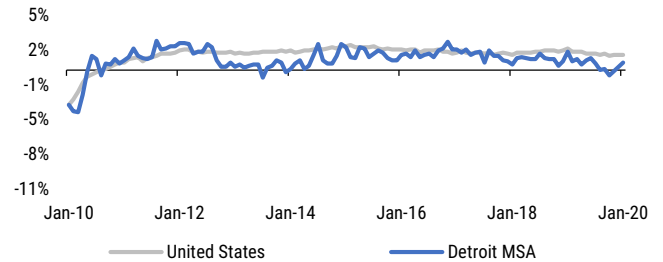
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

## PAYROLL EMPLOYMENT

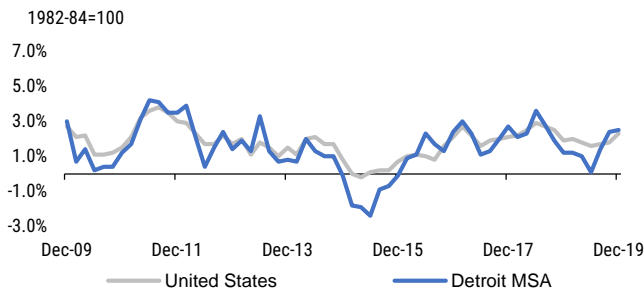
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

## CONSUMER PRICE INDEX (CPI)

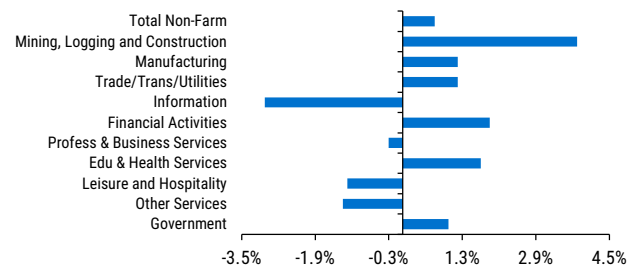
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

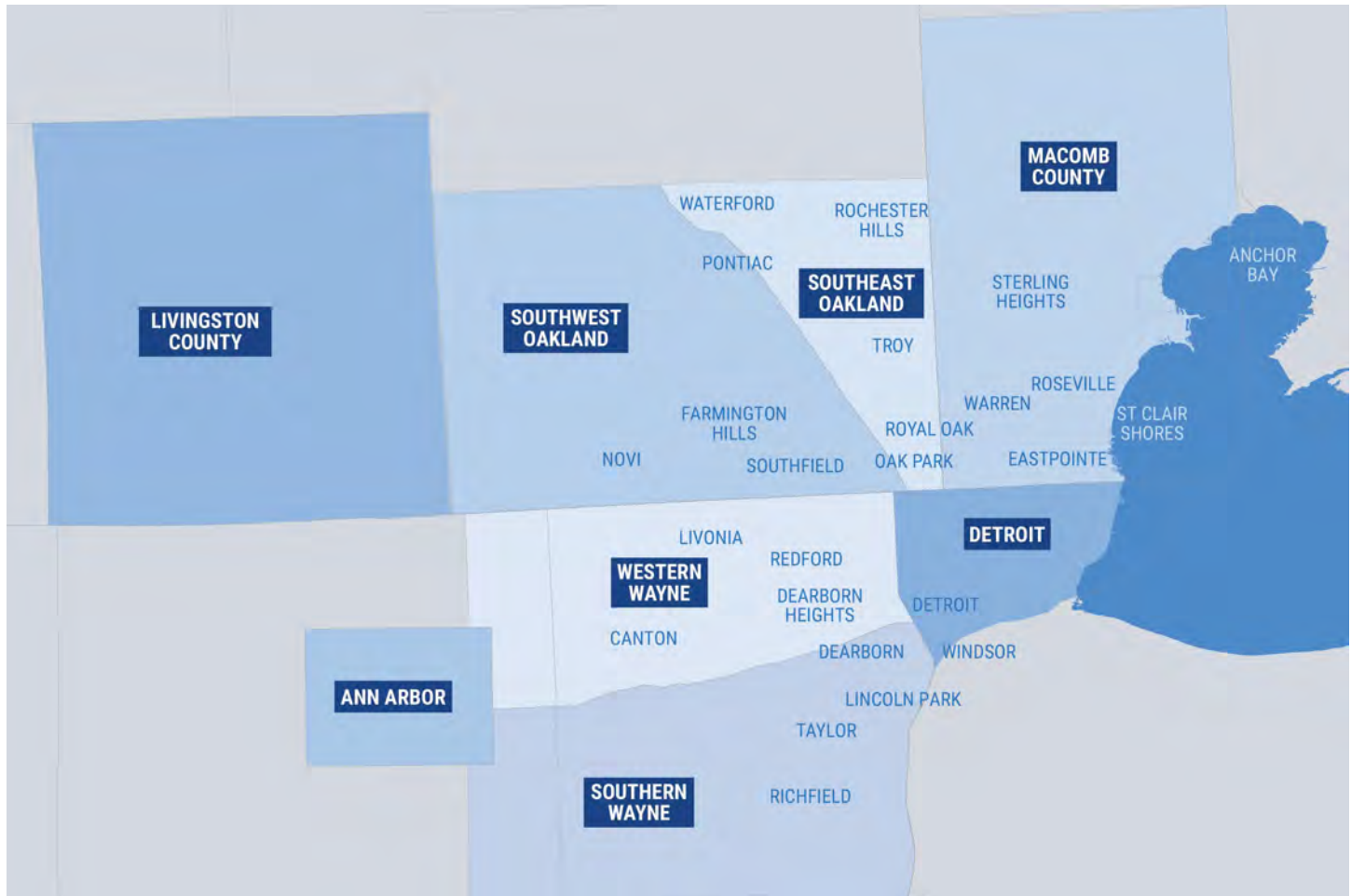
## EMPLOYMENT GROWTH BY INDUSTRY

Detroit Jan 2020, 12-Month % Change, Not Seasonally Adj.



Source: U.S. Bureau of Labor Statistics

## DETROIT INDUSTRIAL SUBMARKET LOCATIONS



### Farmington Hills

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 248.350.9500

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