

DETROIT INDUSTRIAL MARKET

NEW INDUSTRIAL CONSTRUCTION PICKS UP ONCE AGAIN ACROSS METRO DETROIT

The Metro Detroit industrial market vacancy rate fell 10 basis points to 4.1% during the second quarter of 2019, as just over 780,000 square feet was absorbed. Year-to-date absorption totaled just nearly 2.0 million square feet, compared with 2.7 million square feet during the same period last year. As vacancies continue to dwindle, the bulk of absorption has come from new construction. Limited supply continues to spur new construction activity across Metro Detroit, particularly for large modern manufacturing facilities. Just in the second quarter, new construction starts increased 20.0% from the previous quarter to nearly 4.2 million square feet, while completions totaled 360,000 square feet. In Southeastern Oakland County, where the vacancy rate is just 2.6%, developers are demolishing The Palace of Auburn Hills, former home of the Detroit Pistons, to add new supply where demand has been the strongest in Metro Detroit.

SOUTHEAST OAKLAND COUNTY

The Southeast Oakland County industrial vacancy rate fell 40 basis points to 2.6% during second-quarter 2019, as just over 352,000 square feet was absorbed. The city of Auburn Hills is Metro Detroit's hottest industrial market, with a vacancy rate of just 0.09%. Since 2017, companies including Wescast Industries, Inc., Mahindra, Esys Corporation, AM General Corporation, Incoe Corporation, Cooper Standard and Samsung SDI America, Inc. have each taken more than 100,000 square feet of industrial space in the city. Demand remains high, as Allison Transmission leased 108,000 square feet on Luella Lane during the second quarter. Other parts of the submarket also continue to see strong leasing activity: Valiant International, Inc. leased 90,000 square feet on Highwood in Pontiac, and Navistar, Inc. took 20,000 square feet on Enterprise Drive in Rochester Hills. Limited supply and persistent high demand have resulted in 3.2 million square feet of new construction completions since 2015. Nearly one-third of those completions were in Auburn Hills. The latest construction completion in Auburn Hills was a 108,000-square-foot speculative development that was completed in 2018 and is now 100% leased. In order to continue to meet market demand for new industrial space, developers are demolishing obsolete structures, as available vacant land is just as scarce.

CURRENT CONDITIONS

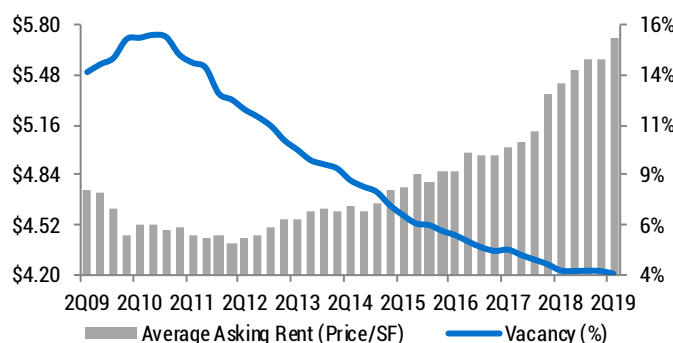
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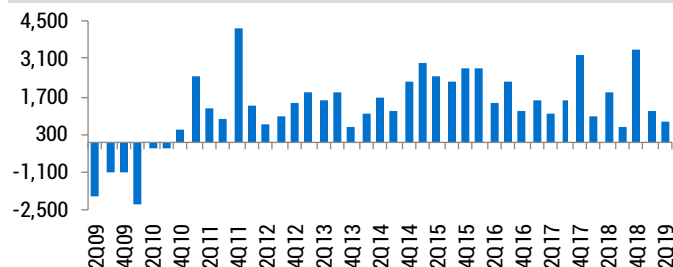
New construction starts increased 20.0% from the previous quarter to nearly 4.2 million square feet.

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	394 MSF	393 MSF	387 MSF	↑
Vacancy Rate	4.1%	4.2%	4.2%	↓
Quarterly Net Absorption	780,356	1,176,358	1,848,056	↑
Average Asking Rent	\$5.72	\$5.56	\$5.42	↑
Under Construction	4,189,950	3,443,548	5,800,590	↑
Deliveries	360,000	964,318	1,185,769	↑

Developers Schostak Brothers & Company and Tom Gores recently announced plans to demolish the former Detroit Pistons arena, the Palace of Auburn Hills. The redevelopment of the 110-acre site has the potential to add nearly 1.0 million square feet of industrial and hi-tech/office space to the metro area. Meanwhile, Ari-El Enterprises Inc. is currently demolishing the former Summit Place Mall in Waterford, which will provide the firm with enough land to also build nearly 1.0 million square feet of industrial/commercial space. In terms of active construction projects around the submarket, FANUC America Corporation is currently constructing a 461,000-square-foot build-to-suit on W Entrance Drive in Rochester Hills. The company's new facility is expected to be completed by fourth-quarter 2019. The balance of Southeast Oakland's 1.2 million square feet of active construction projects is Ashley Capital's 695,000-square-foot speculative development in Hazel Park. This development follows the developer's highly successful 575,000-square-foot Tri-County Commerce Center speculative development in Hazel Park, which is 90.0% leased.

SOUTHWESTERN OAKLAND COUNTY

The Southwest Oakland County's industrial vacancy rate stood at 7.5% during the second quarter, as just over 52,000 square feet was absorbed. The bulk of the submarket's absorption came from Veoneer, Inc.'s move into its 180,000-square-foot build-to-suit on American Drive in Southfield. Overall leasing activity was strong during the quarter. Notable deals include Future Pak Ltd.'s 31,000-square-foot deal on Cartier Drive in Wixom; RM Motorsports Inc.'s 26,000-square-foot lease on Wall Street in Wixom; and Leo & Kevin Enterprises, LLC's 23,000-square-foot deal on Eight Mile Road in Southfield. Meanwhile, Century Sun Detroit Distribution and PM Tech each took 10,000 square feet of new space in Wixom. New construction activity jumped 56.0% during the second quarter with the start of Metro Detroit's largest active build-to-suit project. Hans Power and Water began construction on a 500,000-square-foot facility on Grand River Avenue in Lyon Township, where the company will assemble water filtration devices.

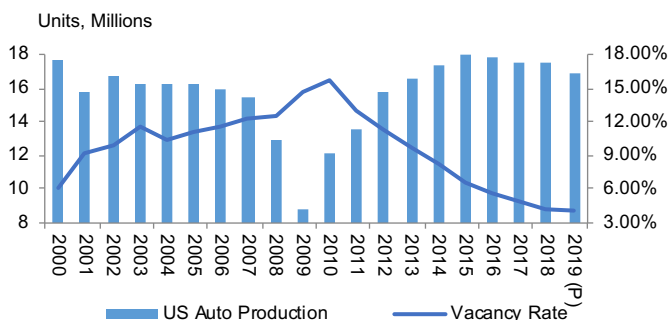
Meanwhile, the submarket has three other major BTS projects under construction in Novi: A123 Systems' 128,000-square-foot facility on Twelve Mile Road; Berkshire E-Supply's 211,000-square-foot building on Fourteen Mile Road; and Hexagon AB's 67,000 square feet on Nadlan Court. Like Auburn Hills, Novi has one of the highest levels of construction activity as the result of demand for large modern industrial facilities. Since 2017, just over 965,000 square feet of mostly build-to-suit industrial facilities greater than 100,000 square feet have been built in Novi. However, Auburn Hills has a 0.9% vacancy rate, compared with 7.3% for Novi. The bulk of Novi's available inventory comprises R&D/flex space of less than 30,000 square feet, with the product type having a vacancy rate of 11.0%. On the speculative construction front, four projects ranging from 24,000 to 90,000 square feet of general industrial and warehouse space are currently under construction in Novi, Wixom and New Hudson, which are expected to be completed by the end of the year.

CITY OF DETROIT

The Detroit industrial vacancy rate fell 20 basis points to 12.3% during the second quarter, as 218,000 square feet was absorbed. This follows the previous quarter's increased vacancies in old, third-generation buildings on West Fort Street and Cadieux Avenue. A growing number of companies are building new industrial facilities in the city. Wolverine Packing Company just completed construction on an 180,000-square-foot build-to-suit at 1800 East Canfield Street. Meanwhile, Waymo LLC, an affiliate of Google, Inc. and manufacturer of self-driving car systems, is upgrading the former American Axle plant in Hamtramck. Automotive supplier Tiberina Group plans to build a new manufacturing facility near that location. In addition, Dakkota Integrated System plans to build a 600,000-square-foot manufacturing plant in the city. All of this comes on the heels of Fiat Chrysler beginning construction on a new, \$1.6 billion production facility at the Mack Engine complex. The new production facility is scheduled to be completed in late 2020.

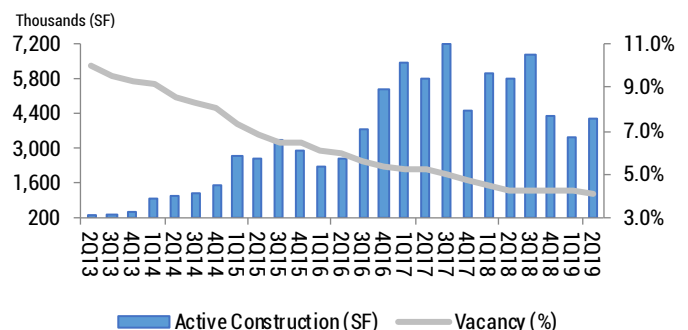
US AUTO PRODUCTION TREND

Vacancy Rate (%)



ACTIVE CONSTRUCTION PROJECTS

Vacancy Rate (%)



MACOMB COUNTY

The Macomb County industrial vacancy rate edged up 10 basis points to 2.3% during the second quarter, as just over 33,000 square feet of net vacancies were added to the market. The bulk of negative absorption came from a 130,000-square-foot vacancy at 7000 Nineteen Mile Road in Sterling Heights. Despite the uptick in vacancy, demand in the submarket remains brisk, with many building being re-leased or sold before going vacant. A few notable deals include MMI Engineered Solutions Inc.'s purchase of an 80,000-square-foot facility on Stephens Road in Warren; Weaver & Lipke, LLC's purchase of a 42,000-square-foot building on Lipke Street in Clinton Township; and Frank Bacon Machinery Sales Company's purchase of a 29,000-square-foot building on Ryan Road in Warren. Active construction activity rose 20.0% during the quarter to just over 1.0 million square feet. The latest project is a 110,000-square-foot production facility for SAPA Transmission in Shelby Township. Macomb has two other build-to-suits under construction, one for HTI Cybernetics Inc. in Sterling Heights and the other for Kroll International Inc. in Shelby Township. Active speculative construction includes: Ashely Capital's 569,000-square-foot Liberty Park facility on Mound Road in Sterling Heights; Niko's 65,000-square-foot building on Regency Center Drive in Macomb Township; and C&D Building Company LLC's 18,000-square-foot facility on Central Industrial Drive in Shelby Township.

WESTERN WAYNE COUNTY

The Western Wayne County industrial vacancy rate fell 20 basis points to 2.5% during the second quarter, as just over 116,000 square feet was absorbed.

Accounting for the bulk of absorption was XPO Last Mile, Inc.'s 40,000-square-foot expansion on Michigan Avenue in Canton; Anderson Process's 35,000-square-foot lease on Concept Drive; and Powers And Sons, LLC's 27,000-square-foot deal on Galleon Drive in Plymouth. On the construction front, automotive supplier Webasto Roof Systems Inc. started construction on a 300,000-square-foot manufacturing facility at Schoolcraft & Haggerty Roads in Plymouth. Since 2017, just over 2.6 million square feet of industrial space has been completed in Western Wayne. The bulk of new construction, 2.4 million square feet, has been for bulk warehouse users, including Amazon, Inc., Republic National Distributing Co, Experi-Metal Inc. and Penske Logistics LLC. Webasto's new facility will be the submarket's fourth significant manufacturing facility built in the past two years. The other three facilities were built for Oerlikon Metco, CW Bearing USA Inc. and Marimba Automotive.

SOUTHERN WAYNE COUNTY

The Southern Wayne County industrial vacancy rate fell 20 basis points to 2.1% during the second quarter, as nearly 73,000 square feet was absorbed. Demand for bulk warehouse remains strong, as tenants quickly refilling new availabilities. Beaumont Health recently moved into 124,000 square feet in the Crossroads Distribution Center in Belleville. Elsewhere in the submarket, Uncle Ray's LLC leased 90,000 square feet at 20509 Sibley Road in Brownstown, and Mattress Firm, Inc. took 47,000 square feet in the Van Buren Commerce Center. Southern Wayne's bulk warehouse inventory remains very limited. Notably, the submarket's 13.0 million-square-foot inventory of Class A bulk warehouse space is 100% occupied. Moreover, just 2.8% of the submarket's 13.5 million-square-foot inventory of Class B bulk warehouse space sits vacant.

LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	City	Square Feet
Valeo, Inc.	13000 Oakland Ave	Detroit	Highland Park	150,000
Allison Transmission	4120 Luella Ln	SE Oakland	Auburn Hills	108,344
Uncle Ray's LLC	20509 Sibley Road	Southern Wayne	Brownstown	90,850
Valiant International, Inc.	1500 Highwood E	SE Oakland	Pontiac	90,315
Mattress Firm, Inc.	41133 Van Born Rd	Southern Wayne	Van Buren	47,040

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
Amazon Regional Distribution Ctr	Western Wayne	\$86,750,000	\$86	1,009,292
Morning Calm Management, LLC Portfolio	Metro Detroit	\$83,683,243	\$60	1,381,847
3950 Pinnacle Ct	SE Oakland	\$7,550,000	\$61	123,352
12700 Stephens Rd	Macomb	\$4,400,000	\$55	80,000
44500 Reynolds Dr	Macomb	\$2,050,000	\$49	42,084

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	5,402,213	44,525	6.7%	(116)	5,105	\$9.50	\$11.27	\$5.27
Detroit	45,392,113	180,000	12.3%	218,000	74,128	\$3.13	\$5.74	\$4.55
Livingston County	13,487,727	40,000	2.9%	2,500	50,995	\$5.61	\$8.24	\$6.31
Macomb	81,916,394	1,005,402	2.3%	(33,341)	81,222	\$5.59	\$8.07	\$5.14
SE Oakland	85,920,468	1,202,237	2.6%	352,211	604,109	\$5.82	\$8.81	\$5.70
Southern Wayne	56,544,250	150,000	2.1%	72,950	136,371	\$5.10	\$8.58	\$4.79
SW Oakland	37,144,996	1,234,125	7.5%	52,032	220,332	\$5.97	\$8.94	\$6.40
Western Wayne	68,772,040	513,661	2.5%	116,120	784,452	\$5.95	\$10.65	\$5.46
Totals	394,580,201	4,189,950	4.1%	780,356	1,956,714	\$4.83	\$9.22	\$5.72

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	215,251,062	2,329,435	4.4%	544,102	914,680	\$5.23
Incubator	1,917,930	X	5.3%	(2,200)	(2,200)	\$6.41
R&D/Flex	43,174,048	144,525	5.7%	144,969	61,703	\$9.22
Warehouse/Distribution	134,237,161	1,715,990	3.2%	93,485	982,531	\$4.83
Totals	394,580,201	4,189,950	4.1%	780,356	1,956,714	\$5.72

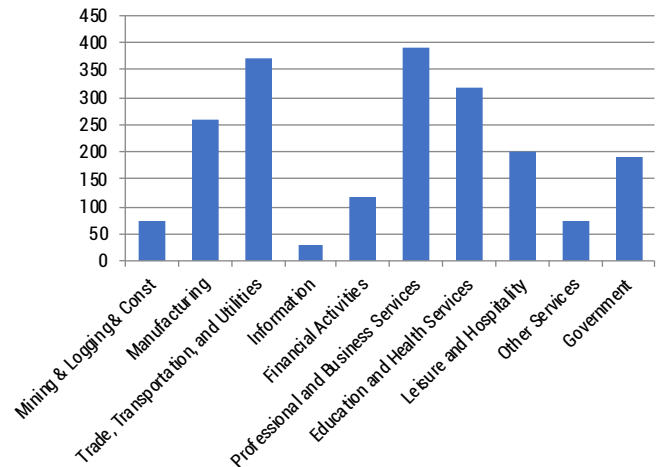
ECONOMIC CONDITIONS

Metro Detroit unemployment levels trending downward once again with rate falling to 3.90% in latest April 2019 figures compared 4.4% at the beginning of the year. However, the rate is up compared to April 2018 level of 3.5%.

Payroll employment for Metro Detroit in April showed a .30% gain over the previous year. Those gains were comparatively lower than the national figure of 1.7%.

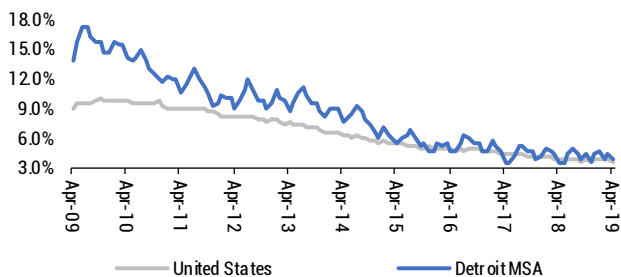
EMPLOYMENT BY INDUSTRY

Detroit MSA, June, 2019



UNEMPLOYMENT RATE

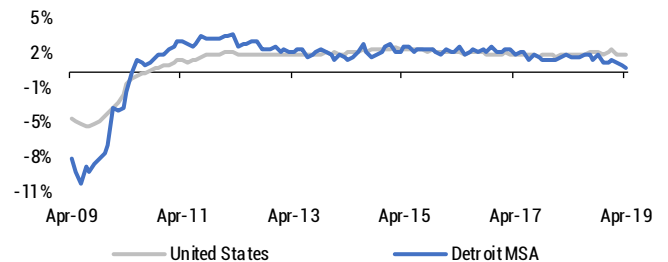
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

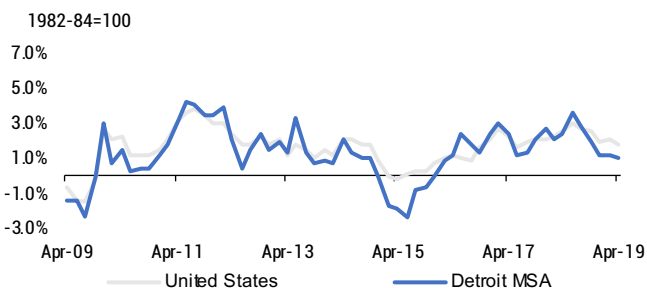
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

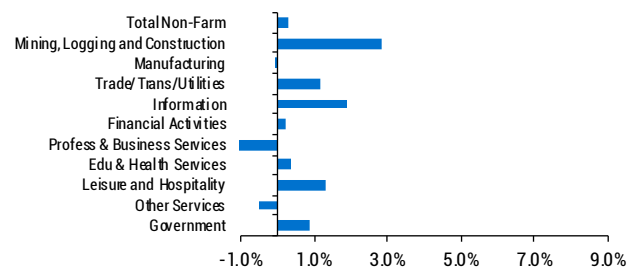
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

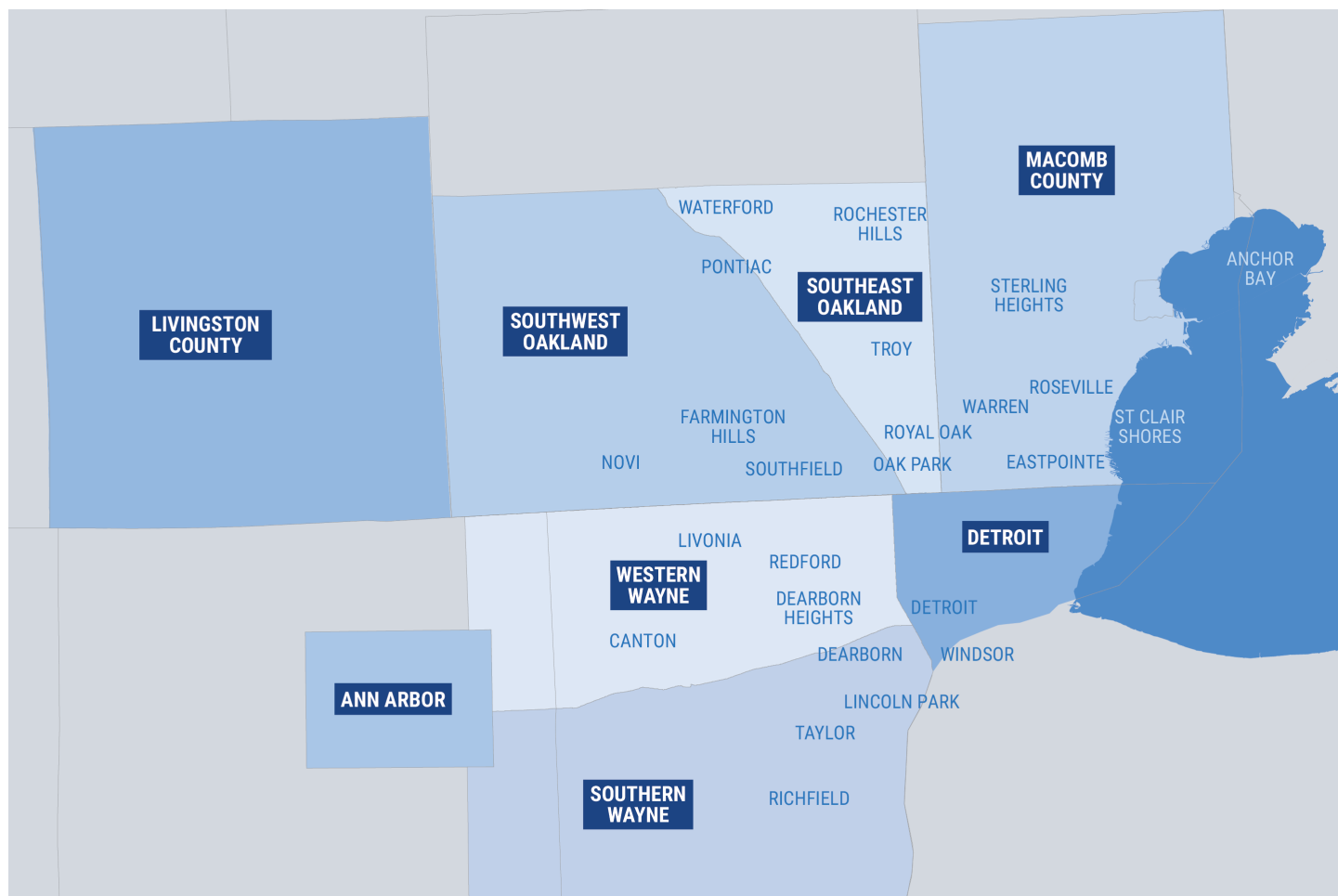
EMPLOYMENT GROWTH BY INDUSTRY

Detroit June, 12-Month % Change, Not Seasonally Adj.



Source: U.S. Bureau of Labor Statistics

DETROIT INDUSTRIAL SUBMARKET LOCATIONS



Farmington Hills

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Southfield

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Newmark Knight Frank has implemented a proprietary database and our tracking methodology has been revised. With this expansion and refinement in our data, there may be adjustments in historical statistics including availability, asking rents, absorption and effective rents. Newmark Knight Frank Research Reports are available at www.ngkf.com/research

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