

DETROIT INDUSTRIAL MARKET

CONSTRUCTION ACTIVITY REBOUNDS

The Metro Detroit industrial vacancy rate held steady at 4.3% during the third quarter of 2018, as just over 482,000 square feet was absorbed. Five build-to-suit construction completions accounted for the bulk of absorbed space during the quarter. As a new deal to revamp and modernize the North American Free Trade Agreement (NAFTA) takes form, developers are betting on renewed confidence and demand in the market. This was evident as construction activity rebounded with five new projects totaling 1.3 million square feet breaking ground during the third quarter. Just over 60% of those new starts are speculative. Developers have seen success in past speculative development projects. Occupancy levels of the nearly 5 million square feet of speculative development built since 2013 is near 90%. Meanwhile, overall active construction totaled 6.5 million square feet during the second quarter, up from 5.6 million square feet during the previous quarter.

MACOMB COUNTY

The Macomb County industrial vacancy rate fell 60 basis points to 2.2% during the third quarter, as just over 609,000 square feet was absorbed. FCA Group (Fiat Chrysler Automobiles) completed construction and took occupancy of its 128,000-square-foot build-to-suit on Metropolitan Parkway in Sterling Heights. Other notable deals around the county include Ultimate Hydroforming's 73,000-square-foot lease at 42605 Van Dyke Ave in Sterling Heights and Federal Resources Supply Company's 86,000-square-foot lease at 24680 Mound Road. Ashley Capital is the latest development firm to begin a speculative development project in Macomb County. The county's most recent speculative developments have mostly been a success. In 2017, D'Agostini Land Company immediately leased a three-building speculative development totaling 266,000 square feet in the Cherry Creek Corporate Park in Shelby Township. Mancini Enterprises, LLC also recently leased its newly constructed, 73,000-square-foot speculative development at 42605 Van Dyke Avenue in Sterling Heights. While those developments were geared to general industrial users, Ashley Capital's Liberty Park development will feature high dock density that will cater to bulk warehouse/logistics users. Bulk warehouse facilities are largely absent from the Macomb County market. In fact, the project type accounts for less than 10.0% of the county's overall industrial inventory. Of the existing bulk warehouse facilities, most are completely leased and are often third-generation buildings. Lipari Foods recently constructed a 260,000-square-foot facility to accommodate a space requirement. Meanwhile, Amazon is currently building a 1.0 million-square-foot distribution facility in Shelby Township. Upon completion in 2019, Ashley Capital's Liberty Park development will give bulk warehouse users additional existing space options.

CURRENT CONDITIONS

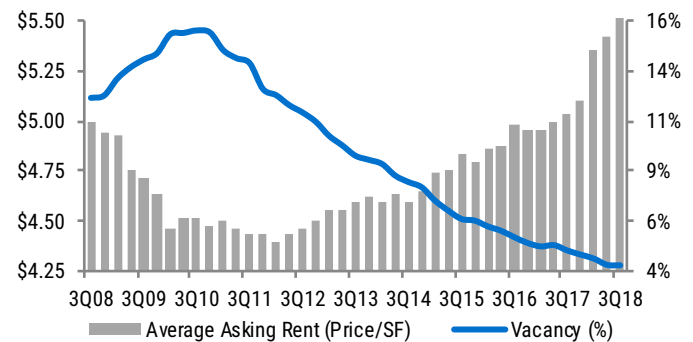
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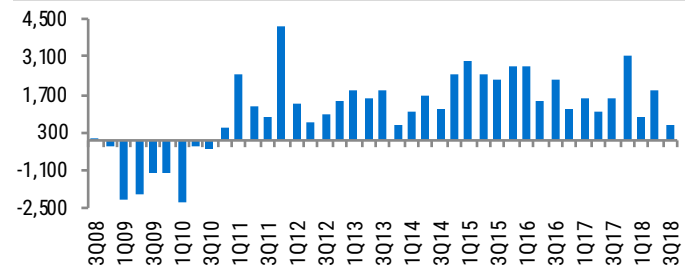
Occupancy levels of the nearly 5 million square feet of speculative development built since 2013 is near 90%.

MARKET ANALYSIS

Asking Rent and Vacancy Rate



Net Absorption (SF, Millions)



MARKET SUMMARY

	Current Quarter	Prior Quarter	Year Ago Period	12 Month Forecast
Total Inventory	389 MSF	388 MSF	381 MSF	↑
Vacancy Rate	4.3%	4.3%	5.0%	↓
Quarterly Net Absorption	522,728	1,843,056	1,521,070	↑
Average Asking Rent	\$5.52	\$5.42	\$5.04	↑
Under Construction	6,582,001	5,607,514	7,190,975	↑
Deliveries	565,790	1,185,769	582,500	↑

SOUTHWESTERN OAKLAND COUNTY

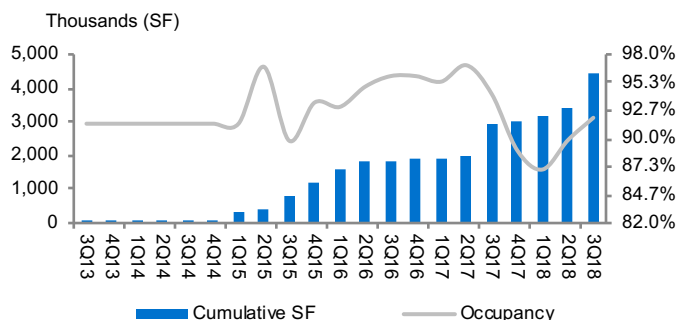
The Southwest Oakland industrial vacancy rate increased 80 basis points to 6.2% during the third quarter, as just over a net 151,000 square feet became vacant. The bulk of the submarket's vacancy came from the 203,000-square-foot former Thai Summit America Corporation facility at 30240 Oak Creek Drive in Wixom. That company had opened a new operation in Howell in 2017. Other vacancies were created across the submarket, as companies relocated out of older facilities and into newly constructed space. Kentucky Trailer was the latest company to upgrade, as it moved out of space in Walled Lake and Lyon Township and into its newly completed 135,000-square-foot facility at 48282 Frank Street in Wixom. Other vacancies are being created, as Tata Technologies and Hino Motors relocate operations. The bulk of Metro Detroit's industrial construction resides in Southwest Oakland County. Autoliv ASP is the latest company to build in the submarket, as the automotive supply company is constructing an 180,000-square-foot build-to-suit on American Drive in Southfield. Twelve other buildings are under construction for a total of 1.3 million square feet. The submarket has the largest number of speculative developments with eight projects currently under construction for a total of just over 437,000 square feet. Burton-Katzman Development Company has the largest with an 85,000-square-foot and up to 110,000-square-foot facility on Beck Road in Wixom. Meanwhile, Lyon LLC is developing a 95,000 and a 61,000-square-foot speculative development on Automation Blvd. The balance of the speculative developments are geared toward mid-market-size users requiring 20,000 to 40,000 square feet. On the build-to-suit front, five large developments for companies such as A123 Systems, Hino Motors, Berkshire eSupply, Autoliv and Orotex Corporation will add 848,000 square feet of occupied inventory by mid-2019.

SOUTHEASTERN OAKLAND COUNTY

The Southeast Oakland County vacancy rate jumped 20 basis points to 3.4% during the third quarter, as a net 149,000 square feet became vacant. This is the first time the submarket's vacancy rate has increased since the second quarter of 2012. The uptick was largely due to a 303,000-square-foot warehouse vacancy at 537 Bradford Street in Pontiac. However, there are some signs the market may be softening. Whereas space that had come on the market in past quarters was quickly reabsorbed, often as soon as the previous tenant had vacated, buildings in this submarket are now sitting vacant for longer periods. This was evident during the third quarter, as several buildings posted negative absorption in the usually hot corridors of Auburn Hills, Troy and Madison Heights. New vacancies were somewhat offset by the completion of two build-to-suit construction projects in Auburn Hills: Incoe Corp.'s 135,000-square-foot facility at 2700 High Meadow Circle and Hutchinson's 60,000-square-foot building at 3201 Cross Creek Parkway (which Hutchinson subsequently occupied). Other notable deals during the quarter were White Corners LLC's purchase of the 115,000-square-foot building at 4444 Giddings Road and Automation Services' 30,000-square-foot lease at 1195 Centre Road in Auburn Hills. FANUC America Corporation's 461,000-square-foot build-to-suit on Entrance Drive in Rochester Hills was the only new construction start for the submarket during the third quarter. Two other build-to-suit construction projects are underway. Esys Corporation's 124,000-square-foot facility on Brown Road and WABCO Holdings Inc.'s new, 102,000-square-foot American headquarters on Pacific Road in Auburn Hills are scheduled to be completed by year-end. Another sign of a softening market is the number of active construction projects. Over the past five years, the submarket has had an average of five active projects under construction. Upon the completion of these two projects, the submarket will have one active construction project.

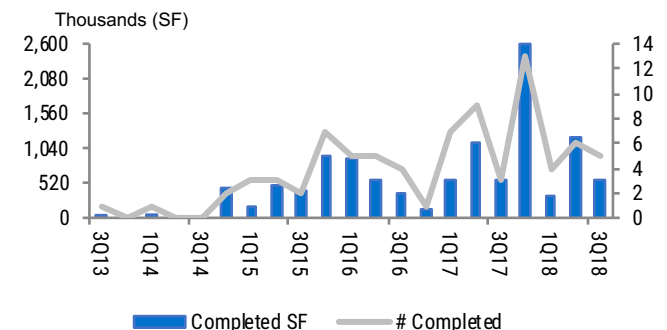
SPECULATIVE CONSTRUCTION PERFORMANCE

Occupancy of Spec Construction Built 2013 - Present



OVERALL CONSTRUCTION COMPLETIONS

By Quarter



WESTERN WAYNE COUNTY

The Western Wayne Industrial market vacancy rate fell 10 basis points to 3.2% during the third quarter, as just over 145,000 square feet was absorbed. Marimba Automotive's move into the company's newly completed, 107,000-square-foot built-to-suit on Van Born Road in Canton accounted for the bulk of overall absorption. Two other build-to-suit projects are ongoing: Republic National Distributing Company is building a 500,000-square-foot bulk warehouse facility on Eckles Road in Livonia, and Tenneco Inc. is close to finishing a 100,000-square-foot facility on Technology Drive in Northville. Meanwhile, Loc Performance Products, Inc. is expanding its Plymouth plant by 60,000 square feet for a total of 304,000 square feet. On the speculative front, Frankel Associates is building two facilities called the Haggerty II Corporate Park in Canton that will accommodate either a 67,000- or a 46,000-square-foot user. With strong demand pushing vacancies ever lower, development company Metro Opportunities LLC is planning a bulk warehouse development called the Canton Business Park.

SOUTHERN WAYNE COUNTY

Southern Wayne County's industrial vacancy rate held steady at 2.2% during the third quarter. Bulk warehouse remains a scarcity in this prime logistics market. The Class A and Class B bulk warehouse inventory has a vacancy of just 2.0% and 2.2% respectively, and the largest vacant contiguous block available is under 50,000 square feet.

The submarket has recorded vacancy rates of less than 3.0% for nearly three years, leaving users struggling to meet space requirements. The result has been a spike in large bulk warehouse build-to-suit projects near Metro Airport: Amazon is building an 857,000-square-foot fulfillment center on Ecorse Road; Penske Logistics is constructing a 606,000-square-foot bulk warehouse on Wayne Road; and ProTrans is building a 150,000-square-foot logistics center on Van Born Road. With the high likelihood that vacancy will remain below 3.0%, developers are prepping new sites for development. Development firm Wildamere is planning a 311,000-square-foot bulk warehouse development known as the Airport Logistics Center on Cogswell Road in Romulus. Ashley Capital is also planning an addition to its Crossroads Distribution Center in Van Buren Township that could total up to 660,000 square feet, while Spartan Real Estate Group LLC is planning a 416,000-square-foot development on Ecorse Road in Romulus.

DETROIT

The city of Detroit's industrial vacancy rate held steady at 12.3% during the third quarter, although just over 20,000 square feet was absorbed. Two major build-to-suit projects underway moved closer to completion. Flex-N-Gate's 350,000-square-foot facility between Huber Street and Georgia Street is slated for completion near the first of the year while Wolverine Packing Company's 180,000-square-foot cold storage facility is set to be completed during the first quarter of 2019.

LEASE/USER TRANSACTIONS

Tenant	Building	Submarket	City	Square Feet
Fanuc America Corporation	1100 Entrance Dr	SE Oakland	Rochester Hills	461,000
Autoliv	26545 American	SW Oakland	Southfield	180,000
Testek	28320 Lakeview Dr	SW Oakland	Wixom	87,000
Federal Resources Supply Co	24680 Mound Rd	Macomb	Warren	86,000
Ultimate Hydroforming	42605 Van Dyke Ave	Macomb	Sterling Heights	73,000

SELECT SALES TRANSACTIONS

Building	Submarket	Sale Price	Price/SF	Square Feet
29700 Commerce Blvd	Macomb	\$15,500,000	\$50	312,000
51251 Fogg Industrial Ct	Macomb	\$9,571,666	\$87	109,000
164 Indusco Ct	SE Oakland	\$6,875,000	\$50	136,000
1708 Northwood Dr	SE Oakland	\$3,550,000	\$80	44,000
12163 Globe	Western Wayne	\$3,300,000	\$60	55,000

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	6.6%	6,437	40,583	\$9.09	\$10.76	\$5.53
Detroit	44,669,161	530,000	12.3%	20,793	446,474	\$3.21	\$5.74	\$3.25
Livingston County	13,510,481	40,000	3.3%	(44,746)	(51,019)	\$5.51	\$8.31	\$6.17
Macomb	80,160,732	1,807,488	2.2%	609,192	861,028	\$5.35	\$8.07	\$5.15
SE Oakland	85,745,278	687,473	3.4%	105,417	375,107	\$5.71	\$8.70	\$6.14
Southern Wayne	55,344,942	1,613,173	2.2%	2,517	42,108	\$5.09	\$8.08	\$4.77
SW Oakland	35,898,919	1,145,681	6.2%	111,307	196,490	\$5.97	\$8.53	\$6.42
Western Wayne	68,336,857	713,661	3.2%	145,259	1,334,009	\$5.20	\$10.43	\$5.15
Totals	389,068,583	6,582,001	4.3%	522,728	3,244,780	\$4.78	\$9.02	\$4.82

SUBMARKET STATISTICS BY SUBTYPE

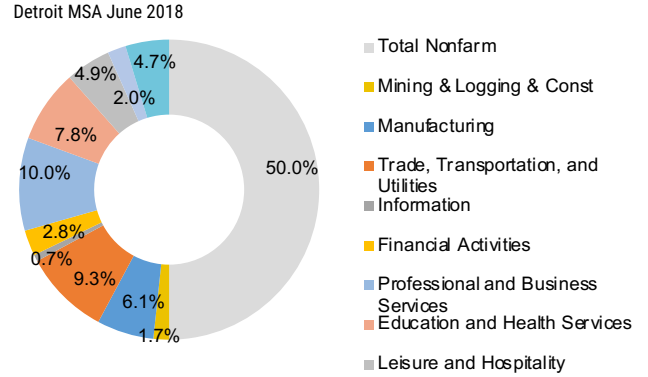
	Total Inventory (SF)	Under Construction (SF)	Total Vacancy Rate	Qtr Absorption (SF)	YTD Absorption (SF)	Total Asking Rent (Price/SF)
General Industrial	213,168,936	2,261,313	4.5%	800,966	1,528,892	\$5.02
Incubator	1,917,930	X	4.9%	2,250	14,250	\$6.49
R&D/Flex	42,874,557	426,525	5.4%	193,285	629,089	\$9.02
Warehouse/Distribution	131,107,160	3,894,163	3.5%	(473,773)	1,072,549	\$4.78
Totals	389,068,583	6,582,001	4.3%	522,728	3,244,780	\$5.52

ECONOMIC CONDITIONS

Metro Detroit unemployment levels fell to 4.2% in August from 5.0% in July. Metro Detroit unemployment levels are slightly higher than the national level of 4.0%. Payroll employment for Metro Detroit in August showed a .90% change over the previous year. Those gains were comparatively lower than the national figure of 1.7%.

EMPLOYMENT BY INDUSTRY

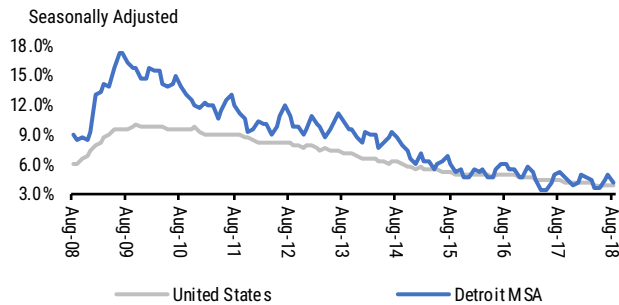
Detroit MSA, June 2018



Source: U.S. Bureau of Labor Statistics

UNEMPLOYMENT RATE

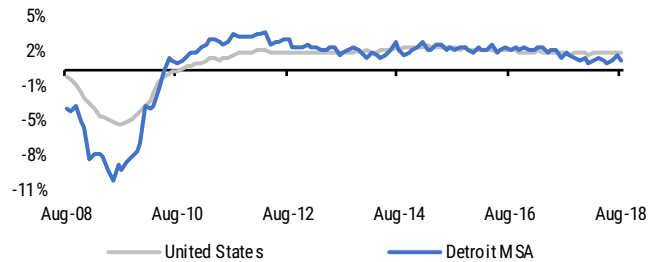
Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

PAYROLL EMPLOYMENT

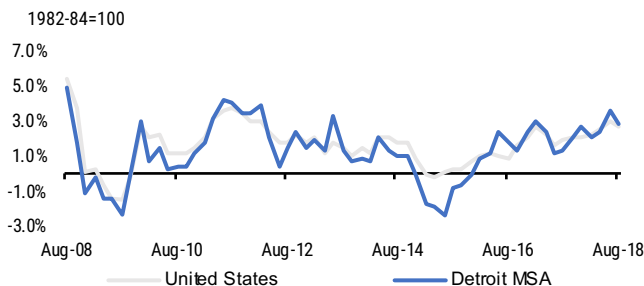
Total Nonfarm, Not Seasonally Adjusted, 12-Month % Change



Source: U.S. Bureau of Labor Statistics

CONSUMER PRICE INDEX (CPI)

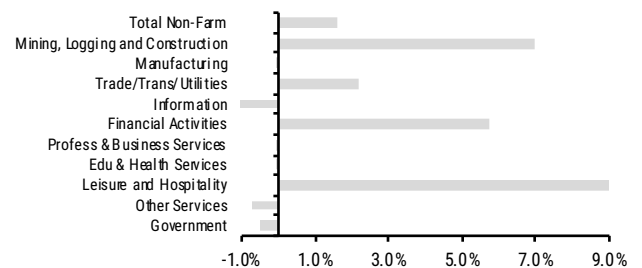
All Items, 12-Month % Change, Not Seasonally Adjusted



Source: U.S. Bureau of Labor Statistics

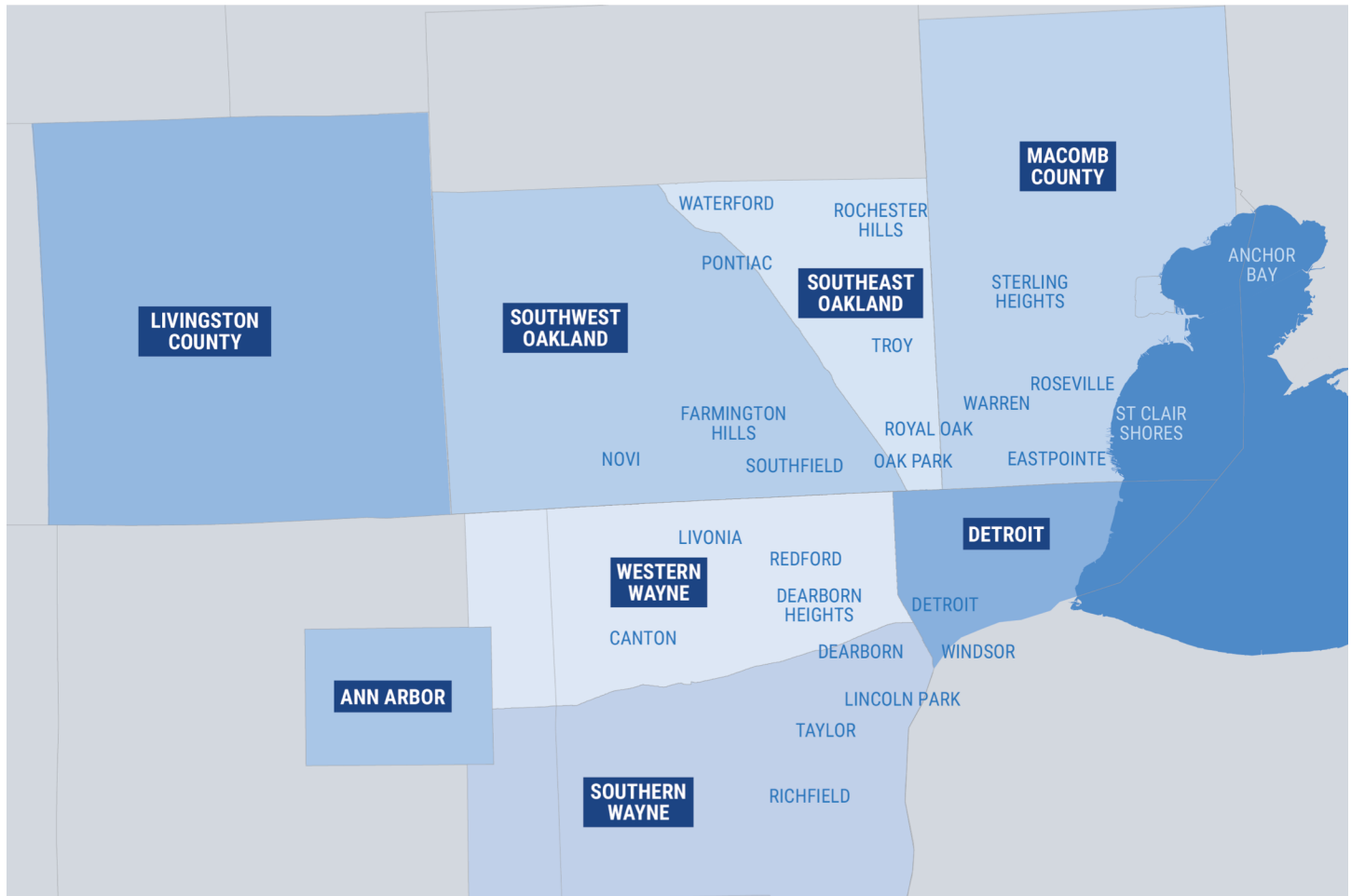
EMPLOYMENT GROWTH BY INDUSTRY

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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